

Demonetization: Positive Impacts on Indian Economy

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Abstract – This paper throws light on some of those areas which are mostly ignored while criticizing the move of government of India taken on November 8th, 2016. Yes the topic concerned is Demonetization. As every coin have two sides, so every move also. Through this stroke of Demonetization our government has proved its strong and bold decision making. It has shown its supremacy over every syndicator, attacking their selfish motives. In this paper some of those areas have been discussed which are most positively affected by demonetization. This paper studies the aspects where no solution than Demonetization was helpful. The effect can be seen in decreasing criminal activities, improving reputation of our country all over the world and loss of syndicators' economy. The present work explains why government demonetized only big denomination currency.

Keywords: Demonetization, Naxalite Areas, Parallel Economy, Indian Economy.

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INTRODUCTION

Demonization is a process in which the old currency is replaced by a new currency. Generally, this step is taken by the government keeping in mind various objectives. In the process of Demonetization, the currency prevailing by the government is declared invalid for legal tender and in place new currency is introduced.

India is among the countries having highest level of currencies in circulation with a level of 12.1 per cent of its gross domestic product. Currency in hand estimated to be around 3.2 Per cent of household assets which is at a higher level than investment in equities approximately \$220 billion. Of the total cash, 87 per cent was in the denomination of Rs 500 and Rs 1,000 notes and approximately Rs 14.87 lack crore.

Currency is the life blood of any economy. When junk is mixed in this blood throw syndicators in form of fake currency, an injection is needed to wipe out the junk from circulation. This is not first time this injection is used for remedy of junk. The technical shock of this type has been given to these syndicators two times before this move. The First one was on January 12th 1946. In 1946, currency notes in form of Rs.1000, Rs. 5000 and of Rs.10000 were taken out from circulation. The note of highest denomination in India is of Rs. 10,000 which was introduced in 1938. But all these notes were reintroduced in 1954. The estimated amount of currency was Rs. 1,234.92crore, that was

demonetized. And the second was on January 16th 1978, phasing out notes of higher denomination.

Currency is introduced in any country for the convenience of people, but when some corrupt people use it for their selfish it needs some bold decisions to take by authorities. In the country like India, which has a robust digital infrastructure, the move of demonetization not created much chaos. The banking system, through their network of branches, availability of good infrastructure like ATMs other customer serving technology helped in success of this move. The hard work and favor of banking system can't be ignored

OBJECTIVES:

To highlight those areas where no other policy can be successful, only demonetization was the only solution.

To study the areas, where success of this move can be seen.

To see areas where its positive impact on our economy is worth noting.

RESEARCH METHODOLOGY:

This work is based on secondary sources from media reports and other web sites of scholarly articles. Findings are based on reports of concerned institutions and research work that has already been done.

Data is taken from newspaper articles, government sites, NIC, world economic Forum report, Global competitiveness Report 2017-18 and police reports. All the study is conducted from facts and findings originally to reveal the bright side of this move.

STUDY DETAILS:

Soil rate of currency:

Soil rate is the rate at which a currency is kept out of circulation by central authorities due to damage and returned. A currency mainly performs two functions for transaction purposes and for store of value. When these two functions of currency are ceased, it can be named as demonetization.

If a currency is used more for transaction purposes then its soil rate will be more. Both run in the same direction. On the other hand if any currency is used for storing purpose then its soil rate will be less. According to figures of RBI, the soil rate of small denomination notes (Rs.100 and Rs. 50) was 33%. And for Rs.500 note it was 22% and for Rs1000 note it was 11%. This clearly shows that notes of denomination of 500 and 1000 were used for storing purpose.

Naxalite Areas :

In India the activities of these naxalites is biggest problem. Their activities can't be controlled by police force and crime branch alone. They use only hard currency. They use totally black money by means of extortion, kidnapping, and blackmailing. They use single currency note.

They get this money in denomination of big currency notes, and only in form of Rs. 1000 note. They find it convenient to store big denomination notes. They hide this hard currency in drums or bags or in another way in forests. This money can't be kept in bank accounts, and not in that place where they live in, obviously.

After demonetization their stored money is totally junk now. Their route of channelization of black money has been closed. Their activities have been stopped for a long time. The effect of this can be seen in form of less criminal activities.

According to Bastar Police:

From November 8th to march of this year the police in Bastar have caught more than Rs. 1.6crore in cash from 21 people, according to Bastar police.

We can't have any exact idea of Naxals total yearly turnover. According to an interview of Chief Minister of Chhattisgarh the estimated figure to be as high as 500crore.

After Demonetization, the Naxalists lured contractors and other people of their favor in depositing scrapped notes in banks accounts. They get some of these notes get changed with the help of their well-wishers in the area nearby Maharashtra, Odisha, Telangana and Andhra Pradesh according to Police.

Hawala traders:

There are few percentages of people who were involved in hard cash illegally. After demonetization the Hawala business that was running on the foundation of black money has been stopped for some time. Hawala traders are now jobless. One of the Hawala operators destroyed many thousands of notes.

Speaking to media; one of the Hawala operators who were arrested previously by cops said their business is badly affected. The money was extensively used in Betting, gold and other smuggling purposes.

Impacted Angadias :

Angadias are people act as a parallel banking system for businessmen. They charge 0.2-0.55 per cent for transferring money from one city to another. They had gone underground and stopped their activities.

Parallel currency note economy:

In India, RBI has the sole authority to print currency. But there is chain working in printing fake notes. These notes have zero accountability. There was no other way to curb these fake currency notes from systems.

This move resulted in detecting highest ever amount of fake currency notes.

Scrutiny of suspected 17.9 lakhs of accounts has been done.

Deposits of Rs.2.88 lack crore is under investigation.

Around 5 lacks of suspicious transactions have been detected.

Hidden income of Rs.29, 213 lacks detected and admitted too.

Rise in requests of PAN from 23.6lakh in October 2016 to 55.4 lacks in October 2017.

Reputation in world economy:

The reputation of our country has increased worldwide with effect of this bold move. This move is giving to us title of worlds' most fastest and emerging economy. According to the report of World

Economic Forum our economy has made progress in strengthening overall business sentiments.

The Ambassadors gave presentation of this bold action of Indian government against black money worldwide. The reputation of India has increased in a very surprising way. According to a study of World economic forum our economy has made progress in strengthening overall business sentiments. It ranked 40th out of 137 countries on the organization of Global competitiveness ranking.

The ranking improved in many areas of competitiveness –

In higher education and training to 75th by 6 ranks.

In technological readiness 107th by 3 ranks.

In infrastructure 66th by 2 ranks.

As per World Economic Forum, ranking of India in the Ease of Doing Business has improved.

Common man:

It was a hard decision to execute. But it was a very important move for middle class people as the good impact will be seen after some time. The decision was slight painful but only as painful only as an injection that is injected to protect them from an epidemic. As we all know injection of BCG is injected to cure oneself from tuberculosis, in the same way injection of Demonetization is injected to cure the economy from a long term epidemic.

Fake currency note syndicators:

People involved in the activities of printing fake currency notes by spending millions on printing these notes. These fake notes have been wiped out instantly. This hard black money forms major chunk of terrorist funding, that has become worthless now. In a report of Times of India, One of the RBI's report stated that 98.8% of the demonetized cash had come back to the banking system.

Increase in tax compliance:

- Personal income tax grew at 34.25% over the same period of the last year.
- 56 lakh new tax payers increases

Commodity market:

The illegal activities in this market are in black money to a large extent. Activities of illegal nature have been attacked by this move. The reason being that payments in this market are mainly in form of credit based due to time duration fixed by government the system of credit based installment has been hacked

by this move. All the illegal activities have been stopped for a time being. The ill-will in this market has been abolished out. At the time of demonetizations, the price of gold increased suddenly many times of prevailing price. But as government's set time limit of depositing money came, prices came to previous level. This shows the ill-will in commodity market.

Non-operational Accounts gets Operational:

The accounts which were not operated for a long time suddenly start operating. Millions of these accounts are under scrutiny now.

Increased digital transactions:

The digital infrastructure of our economy is improving. Throw this move our digital infrastructure will get a further boost. The data of increased digital transactions and their money value giving its proof. Even small shopkeepers started using these sources. Now not only in metropolitan cities but in small towns we can see people getting aware of this reform of digital method of payment. The next motive will be of boosting this platform. Digital payments increase by 56 per cent from 71.2crore transactions in October 2016 to 111.45crore transaction in May, 2017.

CONCLUSION:

From the above study it is clear that the move of demonetization was a success. Its impact can be seen in less criminal activities as the business of naxalites have been ruined to a great extent. All the fake currency printed by the syndicators and their well-wishers has been wiped out completely. The effect of which can be observed from least terrorists' attacks as their foundation has been channeled out.

The number of accounts opened and the amount of money deposited shows India's financial condition is very excellent. With the effect of this our image on international level has been improved. This is the step which any government thinks many times before execution, the reason being the chaos in economy and falling of government. But our government has taken this move without any fear of losing its power in country. If demonetization was not a right step than the situation of our country would not be peaceful like it is. It is fairly in a better position at national as well at international level. Some economies fail handling the situation after this step taken by them, but our economy manages very finely as it was a necessary policy measure.

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