

Demonetization: A Triumph or a Breakdown

Dr. Sangeeta Jauhari¹, Prof. Vijay Kant Verma²,

¹HoD, Dept. of Management, AISECT University, Bhopal (M.P.) India.

²CRG Convener, AISECT University, Bhopal (M.P.) India.

ABSTRACT

The word Demonetization has created strong buzz in recent times. Observing the mixed effects of it, the present research article is a small attempt to understand the genesis of it and the effect it has produced so far on the economy and masses. The data used for this purpose is purely secondary in nature and the type of research is descriptive in nature. So far the situation of demonetization has not proved as a significant step for the overall Indian economy, the statement wait and watch suits for giving any concluding remarks.

Keywords: Demonetization Indian Economy, Buzz

I THE GENESIS OF THE SHOCK WAVE

8th November 2016, has been registered as a historic day in the Indian economy. It is the date on which Prime Minister Shri Narendra Modi made an announcement to demonetize 500 and 1000 bank notes with effect from the midnight. The rationale for this decision put forward by the government, was mainly to crack down black money in the country, to curb terrorism, to reduce smuggling and other ways of corruption. Demonetization has been considered as an effective tool from ancient time. Right from Kautilya's 'Arthshastr' to modern days economic doctrines all economists accept that demonetization can be a powerful tool to curb corruption. However it is cautioned that it may lead to political chaos therefore needs strong political will. That's why this tool has never been tried on a big scale as this time. In the year 1946 the banknotes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 were introduced in 1954. Again in year 1978 to curb black money, Janata Party coalition government had demonetized banknotes of 1000, 5,000 and 10,000. However on these occasions all these bigger notes formed less than 5% of total money circulation which did not make any impact. This time it is almost 85% of the cash in circulation which is affected. More over this time it is without prior notice by Prime Minister himself where as on earlier occasion it was with knowledge of Parliament. That is why on earlier occasions there was almost nil effect on the ongoing economical system. This time it has created turmoil, for which the Prime Minister cautioned in his address to the nation. If the tool of demonetization has to succeed it required many things. First the date of demonetization has to be kept as close guarded secret till applied. Second it needs political will as well as political risk, Third this needs a very responsive and dedicated administrative, banking and law enforcing process to deal with changing

situation. Lastly it needs a motivating leadership to convince the masses for putting up with inconveniences. It seems the government was sure to meet all the prerequisites.

II THE PROCESS AND THE OUTCOME

An incident which an individual is not prepared is always carrying mixed reactions. The incident of demonetization is one of the sudden kind of such incident which has produced shattering effect on the community on one side and the on the economic structure on the other. Looking from the angle of an ordinary man, the process of demonetization has shooed troubles mainly like cash crunch and difficulty in business and other transactions. Parallel to this for the black marketers and for those who had piled illegal money with them the biggest worry for them is how to manipulate it. The first reaction towards this action if being summarized in totality was an utter chaos. However speech of the PM gave a national color and impressed by it common men appeared happy and ready to sacrifice. Crash in stock market, cutting down of business volumes, delay in delivery mechanism are few more facts supporting the aforesaid word "Chaos". Looking on to all the shattering effects demonetization has produced, the Government is taking up the initiatives and providing alternatives to minimise the troubles of common man. The Government continuously monitored the situations and made changes in rules of exchange as per the need. Encouraging use of plastic money, use of digital alternatives for paying cash and for other cash transaction is another big outcome. Although this system of going cash less prevailed in the Indian economy long back, still it required lot of awareness to be generated in the masses as they are not frequent users of such kind of systems of paying cash and perform transaction and moreover they are not well equipped to do so. From the western world and European countries

economic and political experts have praised the prime minister for a bold decision and for taking a big political risk which may have long term benefits but short term inconveniences and difficulties. The opposition parties are highlighting the short term difficulties for political gains and the Prime Minister is trying to overcome it by a direct dialogue with common man through public meetings. Both ruling parties and opposition have disrupted parliament proceedings for politician gains. However the immediate effect of demonetization on terrorist funding appears to be positive as it has resulted in opening up of schools and bazaars in Kashmir and lessening of terrorist activities. There is a huge reduction of Naxalite activities. However the question on recovery of black money can be answered only after 31 December when legality of deposits in bank goes through legal checks to find out how much of the deposited 12 lakh crores plus is black money. Large number of Raids and recovery of black money to the tune of Rs 3000 crores plus is also a positive outcome. The process has revealed two other major factors. One is that it has restarted the discussion on black money in election funding and need for election reform. The Election Commission has delisted 250 bogus. Political Parties and recommended reducing limit from Rs. 20,000/- to Rs. 2,000/- of political donation which required disclosure of source. This has put the ball back to political parties. ED's and Income Tax raid on political accounts says a lot and exposes double standards of Political Parties. The second is that it has shown the strength of democracy and proved maturity of Indian citizens and no major incident has taken place despite lot of provocation.

III CONCLUSION

This special review paper is actually analyzing both good and bad effects of demonetization; therefore it is too early to pass any final judgmental on it. The process of demonetization which has been performed in the past so far has not recorded any remarkable positive and radical changes in Indian economy. Surprisingly the quantum of black money and illegal measures has registered tremendous unchecked growth, also shows growth of total corrupt system. So can it be stated that it is merely a step to divert the attention by Indian government or to show that serious efforts has been put on to make a transparent business system or really is it to make a lasting impact on black money? A tough question to answer yet at the moment. although observing the present waves in the country towards this decision, skewing more on to the positive effects of this, it can be hypothesized that if the masses support the changes brought out by the government, will keep patience for a while, look for the long term benefits then

certainly the process of demonetization will be taken purely as a "Triumph" However demonetization alone cannot achieve the objective of unearthing the black money as we have seen that our systems is so prone to corruption that it finds loop holes quickly, too like in this case where some bank and even Reserve Bank Officers helped in adjusting black money. Also black money has been siphoned in to gold and benami properties. However demonetization has served some of the following impressive gains-

- (a) Curbing terrorist and Maoist activities
- (b) Establishing the Indian Prime minister as a strong and bold politician in the world getting him close to nomination as person of the year and praise from all quarters.
- (c) Creating fear in the minds of people with black money
- (d) Exposing the weak systems and loopholes in our age old economics and political systems
- (e) Giving a positive inputs to digitalization, cashless system and significant expansion of Tax Base
- (f) Reviving national feeling in the masses where they have with stood two months of ordeal hoping for betterment in long terms and waiting for end of those hard 50 days as promised by the PM

From the posture the Prime Minister has taken, some more surprises are expected like striking on gold and benami properties which can only give a long term benefit for Indian Economy. The common man is therefore still adopting the policy of wait and watch hopefully for a very bright future with double digit economy, easy home loans and low inflation rate in the coming years as a byproduct of demonetization and subsequent operations. 2016 had two major disruptions i.e. demonetization and GST. If they succeed then we can say it was the best gamble for triumph. The judgment on this major event cannot be passed just on completion of 50 days but only when budget is presented on Feb 01, 2017 because that is the mirror which will give the image of India in coming years.

REFERENCES

- [1] <http://www.examweb.in/short-essay-article- demonetization-impact-5443>
- [2] www.wsj.com/articles/indias-demonetization-debacle-1481851086
- [3] www.moneycontrol.com News Articles published in Economic Times