

Demonetisation : A Critical Analysis

Dr. Shakti Jain

Professor - Economics

Govt. Auto. Girls PG College of Excellence, Sagar (M.P.)

Indians are a resilient a lot. By nature, we Indians, maybe have it in our blood to bounce back from shocks natural and get on with things. At the stroke of midnight hour, as the world sleeps, on 8th Nov 2016, the Prime Minister of India, by declaring the overnight cancellation of 86% of the currency of world's third largest economy took the boldest move to curb black money. In a surprise address to nation he said that Rs 500 and Rs 1000 would cease to be a legal tender. This move of demonetisation is said to be one of the biggest economic reform in the Indian history.

Demonetisation of currency means discontinuity of the particular currency from circulation and replacing it with new currency. In the current context, as per the govt of India, demonetisation was done with certain objectives, which are mainly, to make India corruption free, to curb black money to control escalating price rise, to stop funds to flow to illegal activity, to prevent tax evasion and finally, to make a cashless society and create a Digital India.

By this move though the entire country was in stun, but resilience prevailed. Political parties agitated, showed anger and protest, however, it was not the case with Indian citizens they were still resilient in such massive cash crisis, showing faith in the decision of their elected government with the hopes, that the result of such operation will bring some good to them. The initial days after the announcement were chaotic, as expected, long queues outside banks and ATMs, insufficiency of cash in market, slow business, and number of obstruction in execution of functions of ordinary day to day life of a common people. However, more than a year past those queues are mostly a faded memory, the country has been remonetised adequately and in furtherance of demonetisation, other economic policies like GST are also in progress.

Initially, this move was criticised on the ground that, the step of demonetisation is a hasty one and taken without any adequate planning. But it is not completely true, through even the important people of this field was unaware about this move or it was taken without any advice of our economists of India, but steps is furtherance of demonetisation can be traced down way back, as firstly the STI meeting held in 2014,

than amendment in Benami transaction laws further, Jan-Dhan Yojna and deadline by govt regarding disclosure of true income till September 2016 and then finally declaration of demonetisation in November 2016.

The demonetisation policy is being seen as a financial reform in the country but this decision is fraught with its own merits and demerits. One of the important goal behind this policy is to trace black money. Black money is cancer to any economy, and demonetisation will help to weed black money as those individuals who have unaccounted cash required to show income and submit PAN for any valid financial transaction and the government can get income tax return for the income on which tax has not been paid. But these goals are not met. 97% of the demonetisatized notes were turned in, which means very little black money were tracked because India black market is a dynamic one and here people rarely stores money in cash for long term but mostly in form of jewels, property etc.

In terms of dealing counterfeiters i. e. to curb the fake currency demonetisation was quite successful as it wiped out the fake notes from circulation.

Another goal of demonetisation was to create a cashless society and fulfill the deccan of digital India. As a result of this, lack of cash in market ultimately compel people to make transaction in different manner i. e. online payment method. With the time, changes in method of transaction can be clearly seen in business, small venders, started accepting money through Paytm etc. People started using net banking and card payment etc and that is how ultimately people are started adapting digitalization through demonetisation. It is also resulted in less corruption and less tax evasion as it makes people accountable for their money.

The ban on high value currency will also curb the menace of money laundering. It will stop funding to the unlawful activities that are thriving due to unaccounted cash flow.

This policy made people to pay taxes, which ultimately resulted into more cash in the banks, and lessor interest rates imposed by banks, ultimately it will decrease the value of property and people can have easy access to loans and real estate. Regular payment of tax and also tax on unaccounted money, will increase the revenue obtained by the govt such revenue can be used for providing better infrastructures, public services and facilities, ultimately economic and social development of the country.

But as it is rightly said, every coin has two sides. So demonetisation had some disruptive impacts also. It may have eliminated over a million jobs which certainly made our economic growth slower for weeks, thousands of small business struggled to find

capital, agriculture prices crashed, resulted into protest by farmers. It was also not completely successful in striking out black money and tax evasion. It also lowered down the GDP growth of the country.

However, critics were quick down off the gun, and said this was the 'last nail in the coffin of demonetisation. At very minimum that is misleading.

To begin with, the withdrawal of large demonetisation notes was suppose to be one time strike on black money. That exercise is not yet over. As mentioned by the Finance Minister, the number of other alternative are still open like scrutiny by tax officials, data mining method etc. The main problem with the people critising this move is that, they look at demonetisation in isolation. However it should be look as only a step in a series meant to reform the Indian economy and make our country corruption free and transformed into digital India.

Recently Kenneth Rogoff professor of public policy at Harvard University, in his book titled "The curse of cash" he imposed a question "will India's demonetisation yield long term benefits". The answer of course. depends on the implementation of other govt policies to fight back black money corruption and how well it succeeds in accelerating progress towards financial inclusion.

Here again perhaps suprisingly, demonetisation no matter how much criticized by economists, has been broadly popular, where people are deeply frustrated by endemic corruption and appreciate the govt broad efforts to fight it. So if we compare the merits verses demerits, the former out-weight the latter. Impact of demonetisation must not be seen in isolation but with the other steps in the direction of economic reform of our country.

References

1. www.openthemagazine.com
2. www.forbes.com
3. www.internationaljournalsrsg.org