

Demonetisation - Problems and the Way Forward

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ABSTRACT

Demonetisation, announced by Hon. Prime Minister of India Sri. Narendra Modiji on November 8, 2016 was primarily aimed at eliminating black money and counterfeit notes in the economy. However, the way in which it has been implemented has caused severe hardships to the millions of people, across the socio-economic circles. It has evoked mixed reactions among economists and politicians. Also, it is doubtful whether the existing framework is adequate for curbing black money that may arise in future. If not, the numerous difficulties suffered by the citizens of the country will be worthless. Because the famous Nobel laureate economist Mr. Paul Krugman said, 'the move might only force the corrupt to become more careful the future'. It is in this context, the paper looks at the demonetisation scenario in India, along with the way forward.

Key Words: Demonetisation, Black money, Counterfeit notes, digital, ATMs, India.

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I. INTRODUCTION

On November 8, 2016, Hon. Prime Minister of India, Sri. Narendra Modiji has declared that currencies of ₹500 and ₹1000 are ceased to legal tenders. As a result, it will lead to demonetisation of currency of value of 86% in circulation. Currency notes worth ₹15.4 crore is scrapped. This move was initiated primarily due to the existence huge extent, about 23.5% of official currency, black money in the economy. The Govt., has allowed the exchange of demonetised currency for equivalent valid legal tenders or deposit them into the bank accounts on or before December 30, 2016.

In order to avoid sudden huge demand for currency several restrictions were placed on bank transactions. Initially 2.5 lakhs ATMs in the country were closed for a few days. They had to recalibrated for dealing with new type of notes. As a quick relief, currency notes of denomination of ₹2000 is issued. Payment at certain institutions like hospital, railways stations etc., were permitted to be made in currency notes of ₹500 and ₹1000 for certain number of days. However, the Govt., could not provide necessary currency of any denomination to banks or treasuries. As a result almost all the ATMs in the country remained closed or remained not functioning well. Since only ₹24000 was permitted to withdraw per week, standing in long queues in front of bank branches has become a regular event.

II. THE PROBLEMS

The following are the major problems caused by demonetisation in Indian economy ;

1. There is severe shortage of currency in the hands of people to use even for basic necessities. Paying for medical bills, meeting expenses of marriage like social ceremonies etc., became difficult.
2. Across all the sectors in the economy faced a standstill. For instance, farmers were not able to purchase inputs for cultivation. The traders were reluctant to purchase available produce from farmers due to lack of currency to pay. Wholesalers and retailers were not able to sell goods and services. Workers in lost several job days. Sectors like hotels, SMEs, plantations etc., struggled. Thus the unorganised sector consisting, constituting 45% of country's GDP and 80% of the employment has suffered its worst. Reserve Bank of India (RBI) has already cut growth forecast for current fiscal from 7.6% to 7.1% due to pressures of demonetisation.
3. In order to exchange or deposit demonetised currencies, millions of people had to be in long queues in front of bank branches. This has resulted in loss of precious time and energy of citizens, which otherwise could have invested in productive activities. Hence it has opportunity loss.
4. Bank employees had to minimum 3-4 hours overtime daily even without breaks. At times they even had to face verbal and physical attacks from public especially when they had shortage of currency notes to disburse.

5. Co-operative sector remained standstill due to the denial of permission to receive notes of `500 and `1000 after November 8th. They had no enough currency to disburse for lending activities. Cooperative banks remained frozen due to lack of currency to operate.

6. Staff in Govt. note printing press had to engage serious work hours for several weeks in order to print necessary currency notes. RBI has issued more amount of currency between November 10 to December 5, 2016 than it issued over the last three years. Govt., had to spend a lot of money to print new currency notes and supply them at different locations in the country. ATM service companies also had to work all the 2.5 lakh machines to recalibrate them on a war footing basis.

Thus it shows that demonetisation has caused a lot of problems across the socio-economic circles.

III. THE WAY FORWARD

The Hon. Prime Minister of India seems to very confident of curbing the menace of black money in Indian economy. Since the intention behind the decision is good and reversal of demonetisation is unthinkable, it is the time to decide and implement a set of short term and long term measures for attaining the greater objectives of the move. The following are the suggestions in a reactive and proactive manner in this direction.

1. As a first step, the Govt., of India must ensure availability of enough currency in banks and ATMs on a war footing basis. Though 'cashless economy is proposed, in country like India, immediate implementation of digital modes of payments on a mass scale will be difficult. Out of her 125 crore population, one third are illiterate. Though 100 crore mobile consumers are available, only 35 lakhs are smart phone users. Though 1.2 crore persons are using debit cards, only 5.2% are using debit cards in swiping machines. Only 78 lakhs are having credit cards. Though in 2004, high denomination notes were only 34%, by 2015, it increased to 87%. According to World Economic Forum's Global Information Technology Report 2016, among 139 countries in the world, India stands at 91st position in Networking Availability Index. Technology is available only for 15% of households. Thus, though the initiatives towards cashless economy are good, results can be materialised only in longer tenure. Hence the authorities need to initiate intensive measures to expand and enable use of digital payments on a mass scale.

2. A thorough scrutiny and examination of all the 'unusual' deposits into the banks and large volume transactions in real assets are needed. It is reported that almost all the Jan Dhan accounts which were hitherto had one rupee deposits are filled with huge amount of deposits. Several inactive accounts for decades are filled with deposits.

Also heavy purchase of gold and other assets, sudden repayment of loans in large amounts, booking of railway tickets for highest possible charges and subsequent cancellation etc., are also reported. Tracking source of money of these instances will provide vital clues relating to black money in the economy. However man power available with the income tax department may not be sufficient for such a mega intervention. Thus a special department of financial investigation may be set up by drawing staff from other departments where there is excess or insignificant staff allocation. Training should be imparted on cyber and financial investigation for them.

3. In order to implement digital payment platform across the sectors, an appropriate law should be enacted for covering issues of safety and responsibility aspects. Developing simplified procedure of payment network, setting responsibility at various points, punishment fraudulent practices and protection for innocents etc. should be ensured. Timely settlement of disputes and legal cases also needed

4. Technologically, cost effective, easily usable but safe and secure machines should be made available. Govt. should provide subsidies and tax incentives for installing or purchasing digital payment machines for MSMEs and other intermediaries.

5. As a long term proactive measure, causes of black money should be seriously dealt with. Though corruption and other causes of black money are not legally permitted in India, historical evidences show that several factors kept wrongdoers fearless. Undue political support, money and muscle power, long delays in judicial procedures, influence of anti-social elements/mafia etc., have provided a safe path for illegal transactions in money. This has been used for antinational activities like terrorism also. Thus strengthening judiciary, simplifying legal provisions, ensuring fastest disposal of legal cases, promoting and protecting whistle blowers, bringing transparency in dealings, compelling mandatory digital money payments etc., may prevent causes of black money a lot.

6. Due to shortage of currency notes to deal with, almost all the sectors in the economy have suffered heavy decline in transactions. Sectors like hotel, retail and MSMEs, agriculture, construction industries experienced decline to the extent of 30-40% in activities. Hence appropriate economic stimulus packages along with fiscal incentives should be offered.

7. It is reported that 250 out of every million bank notes are fake in India. Hence surprise raids and random checking of currencies circulating in different sectors should be done. Timely strict action should be initiated against the persons/agencies behind them.

IV. CONCLUSION

The paper has examined the demonetisation drive in India initiated on November 8 2016 by Govt. of India, the problems it has caused and the reactive and proactive measures needed in this regard. It is true that demonetisation is aimed at good objectives. But the way in which it was implemented, has led to a lot of difficulties for millions of people. Thus it should be ensured that the hardships suffered by millions of people are not wasted. Hence a set of well planned, fool proof, proactive measures are needed for achieving the objectives of demonetisation. The policy initiatives, along with their well throughout implementation in the future should be on these lines

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