

DEMONETIZATION: A BIG ALTERATION IN INDIAN ECONOMY FOR WAR AGAINST BLACK MONEY

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ABSTRACT

The paper discusses about the move of demonetization step taken by Central Government of India on 8th November 2016. With respect to its reasons and effects on different sectors in India and reaction or views by political persons. The paper is based on secondary data collected from different newspapers and online sources, mentioned in references.

INTRODUCTION

All major decisions so far as Indian Prime Minister, the move to outlaw currency notes worth ₹.1000 and ₹.500 with immediate effect from Nov 8 (2016) mid-night would be regarded as Narendra Modi's most significant decision in the war against black money. The five hundred and thousand rupee notes hoarded by anti-national and anti-social elements will become just worthless pieces of paper.”

The whole country is stunned. This decision caused sensation in the whole country. Social Media is flooded with messages and information. People started counting the trash they had accumulated for years legally or illegally. Rumours became rife. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in this miserable hour. People could get only ₹.4000/- of old denomination exchanged with the new one. Big queues before the banks and ATMs became the order of the day.

Here we try to make an evaluation of demonetization in war against black money, step taken by Central Govt. of India an unexpected, game changer and earth-shattering announcement. On the same day that Donald Trump is elected president of the United States, India also received an unexpected, earth-shattering announcement. The main objective of this move is to curb the black money, corruption and fake money menace.

The new currency which replaced the old one is of denomination of ₹.500/- and ₹.2000/-. Though the people faced a lot of inconvenience owing to shortage of funds, they did not criticize the govt for the move. Even they lauded the Modi govt for this big move. Prime Minister also addressed the people many times telling the people that it is a *mahayajna* (महायज्ञ) and they must offer their own *ahuti* (आहुति) in it.

The most interesting thing regarding the demonetisation is that people are devising various unique methods for transforming their black money in to white one. Some of these methods are as follows –

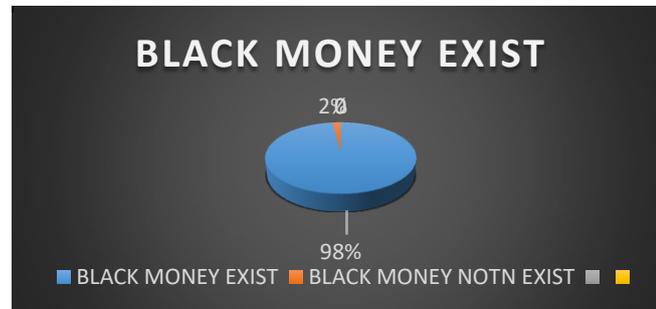
- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labours for some Rupees ranging from ₹ 500/- to ₹.700/- for becoming the part of long queues in front of banks/ ATMs.
- Paying a few months' salaries in advance. Etc.

DEMONETISATION: MODI GOVT IS BETTING ITS FUTURE ON DIGITAL INDIA.WILL IT BEAR GOOD RESULTS?

Analysis of survey reports made by Govt. of India after demonetization:

More than 93% people support the move to demonetization the old 500 and 1000 rupee notes. Over 5 lakh responses so far. only 2% have rated the move as very poor or one star the statement added.

98% say Black money exists in India



99% say corruption black money needs to be fought and eliminated

90% say government's moves to tackle black money is brilliant/ nice

92% say Modi government's efforts against corruption are very good

90% support Modi government's demonetization move

92% think demonetization will have an impact on curbing black money

Sample size of around 5 lakhs from 2000 location across the world as on 15:30 hrs of Nov. 23, 2016, 93% from India rest from other country 24% in Hindi rest in other

REACTIONS AND VIEWS BY POLITICAL PARTIES ON DEMONETIZATION STEP TAKEN BY GOVT. OF INDIA

BSP chief said that the government earlier brought in a legislation of land acquisition which is an anti-farmer move and passed multiple ordinance in that regard. But the ordinance lapsed and they never got the support for the bill in Parliament. Demonetisation is also one such anti-farmer moves.

Not only the opposition but BJP's ally in Maharashtra, **SHIV SENA** also disapproved the government's move.

The **Congress, TMC, RJD, JD(U), CPI, CPI(M)** and some other opposition parties are holding a strategy meeting ahead of parliament session to raise the issue in the Parliament.

SP, BSP and AAP opposed the decision with given statement here:

- "Poor will not suffer, but some political parties have become poor,"
- Countering allegations that the decision is taken in view of the upcoming UP Assembly elections.
- Taking a dig at Mayawati for calling the decision an economic emergency

Demonetization: What Rahul Gandhi has said:

13 Dec. 2016 "He (Modi) said he will make the economy cashless. He has made it cashless indeed, with the poor having no cash,"

10 Dec. 2016 "Modiji, people are tired of monologues. I urge you to honestly face the Parliament and answer our questions," Gandhi tweeted

22 November 2016 "He can speak on TV, he can speak in pop concerts, then why not in Parliament?"

Always tried to make personally target to PM Narendra Modi but Don't have sufficient words for criticizing demonetization

HERE ARE TEN FACTS ON THE EFFECTS OF DEMONETISATION ON TERRORISM FUNDING AND LEFT-WING EXTREMISM.

1.A 'surgical strike' on terrorism funding: Union Defence Minister Manohar Parrikar called demonetisation the Prime Minister's "surgical strike" on black money, terrorism funding and drug money.

2.'Hawala' cash transfers hit: 'Hawala' cash transfers to terrorists and separatists in Kashmir, which were mostly made using the defunct bills, have dried up, an intelligence officer tracking terrorism funding in Jammu and Kashmir said earlier this month. That has made it harder for them to pay young people to stage violent protests.

3.New notes recovered from terrorists: However, two freshly-minted. ₹ 2,000/- notes were recovered last week from the bodies of two terrorists, who'd been gunned down in an encounter with security forces in Bandipora, Jammu and Kashmir.

4.Terrorism mostly funded through digital means: While some ministers have asserted that funding for terrorists has taken a hit after the currency ban, Congress leader Digvijaya Singh took exception to that idea last week. Bitcoin, a digital currency that's "impossible to trace", is widely used for funding terrorists and by drug-peddlers, he claimed. "Can the Prime Minister, Government of India and particularly the NSA be so naive to believe, that terrorism can be erased by simply demonetisation?"

5.Curbing terrorism funding from 'hostile intelligence agencies' The government on Friday told the Supreme Court that demonetisation - in addition to stamping out black money in India - would make void fake Indian money printed by "hostile intelligence agencies" - an obvious reference to Pakistan's Inter-Services Intelligence - and used to finance terrorist activity in India. Prime Minister Narendra Modi, too, had mentioned terrorism funding provided by "enemies from across the border" when he announced the currency ban on November 8.

6.Left-wing extremism: According to intelligence inputs, Left-wing extremism has been hit hardest by the currency ban. Up to 584 Maoists have surrendered in the last 28 days, and 469 of them did so on or after November 8 - the day on which the ₹.500 and ₹.1000 notes were demonetised.

7.Maoists strapped for cash: Union Home minister Rajnath Singh on Friday hinted that Maoists, strapped for cash, are now running from pillar to post to swap their devalued cash. "They are trying to exchange their old notes through local contractors, businessmen and sympathisers,"

8.Evidence from conversation intercepts: Intercepts of recent conversations between Communist Party of India (Maoist) leaders from Bihar and Jharkhand show that they fear losing the money they've extorted or 'levied'.

9. Extortion and "levies": 'Maoists collect 'levies' from road contractors and big industrial houses carrying out mining activities in states such as Chhattisgarh and Jharkhand, and extort - according to estimates from experts and intelligence agencies - up to. ₹.1.500 crore every year.

10. Increased surveillance in Naxal-infested areas: Government agencies have now increased surveillance of financial transactions in Naxal-infested regions, and security forces are on alert after receiving intelligence inputs that Maoists may target banks and cash vans.

CONCLUSIVE RESULTS OR IMPACT OF DEMONETIZATION OVER THE VARIOUS SEGMENT OF INDIAN ECONOMY:

Immediate Impact: Heavy Deflation

Initially there will be heavy deflation as people who have earned money through illegal means such as smuggling, corruption would be afraid to declare the money as they might be prosecuted by Govt/Income Tax Dept. on the legitimacy of their income.

This will reduce the total currency circulation in the economy - leading to deflation. Deflation increases the value of money that we have because the total money supply goes down but the commodities and things available in the market have not gone down. Gold prices, stocks & commodities will drop.

This will also lead to Inflation (not overnight)

There will be a lot of people who have a lot of cash, legally earned, which they will deposit it in the bank. Now the bank with more deposits can do more lending. Credit (loans) will become easier and interest rates may come down. More loans given out increases broad money supply and creates inflation. But this will happen slowly, not over-night.

Deflation and Inflation will balance out each other in the future.

SOME OF THE BENEFITS OF THIS MOVIE ARE: (PROS)

- It helped the government to fight Black money, corruption, terrorism and counterfeit currency with one single decision.
- Arms smuggling, espionage and terrorist related activities will be choked due to lack of funding.
- Counterfeit currencies are being used for financing terrorism which is being run by the enemy in India. Now Govt has taken a bold move which enables them to fight counterfeit currency/terrorist funding activities.
- With the new limits on ATM withdrawals is being restricted to ₹.2000/- per day, withdrawals from bank accounts limited to ₹.10000/- a day and ₹.20000/- a week, it would drive the card payments across the country (**In simpler words card transactions will slowly replace the cash transactions in daily activities**).
- It is being easy for the Government to track the money being exchanged as exchange can only be done by producing a valid government identity cards like PAN, Aadhaar and Election Card from 10 to 24 November with a daily limit of ₹.4000/- There is no limit on the amount as long as it is legal.

- During that period, banks would take extra precaution. Banks will share info with Income Tax dept. as deemed fit. **(So now it is difficult to get rid of the black money which is mostly in 500 and 1000 notes)**
- The traditional benami transactions have already received a big blow as the new legislation has a provision for seven-year imprisonment and fine, replacing the three-year jail term, or fine, or both.
- Thaw's dissuasion helped institutionalize the real estate sector bringing more transparency in the Indian real estate industry. This is a step that would give the Indian real estate sector more credibility making it more attractive to the foreign as well as domestic investors.
- Housing prices could witness downward pressure, helping revive demand in the sluggish housing segment (thaw's will give much needed bloodline to the sector)
- It helped the common man by putting an end to the artificial increase in Real Estate, Higher Education and Healthcare transactions bringing them within the reach of the common man.

THE LOOPHOLES AND DISADVANTAGES

1. Most of the black money would have already been converted into non-monetary assets (land, real estate, gold, foreign currency, foreign bank accounts, etc.).
2. Counterfeiting the notes again is not impossible.
3. The demonetization didn't affect the black money in foreign accounts.
4. The demonetization didn't affect the black money presently held in stock markets and bank accounts.
5. Again, the money stacked in form of cash with the thieves who would also be fools, only a minuscule part of their tainted possession could be attained as not all the money is going to be in 500's and 1000's denomination.
6. The illicit wealth will only be destroyed, neither would it be retrieved or confiscated, nor their owners be punished.
7. The move may end up in increasing the proportion of non-monetary assets which can diversify the money laundering process via these assets which are more difficult to trace and detect.
8. Why replace 1000 with 2000? It will be even easier to build fresh stocks of black money!
9. What about the black money already in N number of bank accounts? There are student accounts that are not tracked or taxed because they are not associated with PAN numbers. Such accounts are a blessing to black money
10. About curbing black money (cash) flowing in for terrorism, yes, that'll be curbed for a short period of time, but it can't be altogether stopped.
11. Gold is over-rated in India, and Indians have an indescribable love for gold. To avoid the hassle of exchanging money again, they'll most probably give in to the desire of buying gold.

12. Birth of a short lived black market of the now useless notes. ₹ 500 note exchanged for ₹400 and ₹.1000/- notes exchanged for Rs 800.
13. Politicians and businessmen holding black money in huge amounts have easy way around to avoid losing their money.

CONCLUSION

Demonetization though it had created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

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