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Surgical Strike of Demonetization: A Game Changer for Indian Society / Economy

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ABSTRACT

The demonetization is not a new concept for India. It simply means withdrawal of particular currency unit from circulation and retired or replaced with newnotes or coins. In the past demonetization has been implemented twice, in the years 1946 and 1978.And now third time in 2016 when Modi on 8th of Nov 2016 announced the biggest-ever demonetization exercise in India that is withdrawing Rs 500 and Rs 1,000 notes from public use immediately from 9th Nov 2016 in a bid to clamp down on black money, fake currency menace, terror funding and corruption. In this paper an attempt has been made to find out some positive impacts of demonetization on Indian society/economy.

Keywords: demonetization, black money, inflation, financial inclusion and tax returns.

INTRODUCTION

Demonetization simply means withdrawal of particular currency unit from circulation and retired or replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. In other words, it is the act of stripping a currency unit of its status as legal tender.

In India the concept of demonetization is not new. In the past demonetization has been implemented twice, in the years 1946 and 1978.In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation but did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 .

Again in 1978, the P M Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

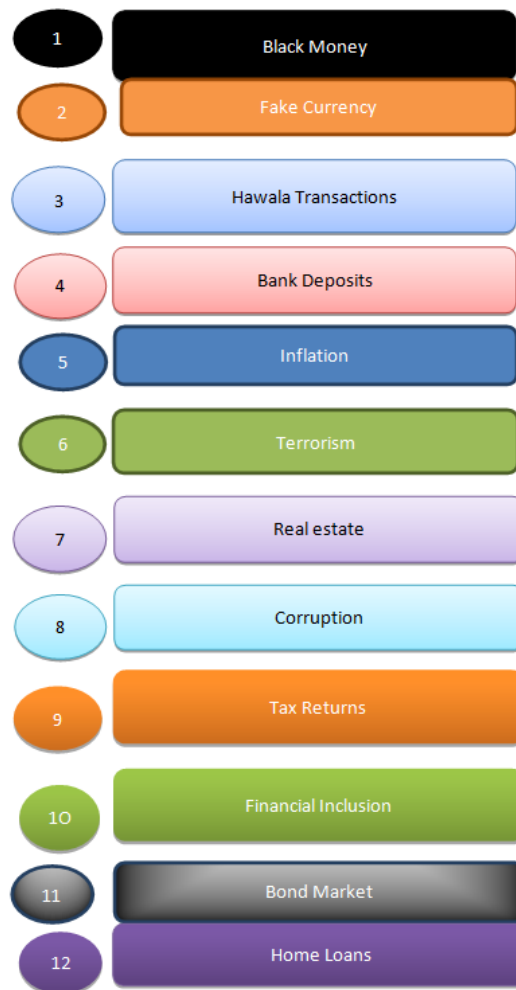
And now third time in 2016.In india PM Modi on 8th of Nov 2016announced the biggest-ever demonetization exercise in India that is withdrawing Rs 500 and Rs 1,000 notes from public use immediately from 9th Nov 2016 in a bid to clamp down on black money, fake currency menace, terror funding and corruption. The main objective of this move was to curb the black money, corruption and fake money and terror funding. To some extent demonetization has been successful in many aspects which are seriously discussed in this paper.

OBJECTIVE : To analyze the positive impacts of demonetization on Indian society/economy?

IMPACT OF DEMONETIZATION ON INDIAN SOCIETY/ ECONOMY

The demonetization move, which is now considered as the mother of all reform in India, has started showing its positive impacts in very short time.

The positive impacts of demonetization have brought many-fold impacts on country and society which are shown below:



Black Money

It is estimated that in India, the total amount of black money is Rs. 3 lakh crore. However, the total money in circulation is only Rs.17 lakh crore. With this surgical strike of demonetization, all the black money will either come to bank accounts or will be destroyed. As the extent of black money circulation in the real estate industry is huge .However, the demonetization move will helpful to curb the flow of black money into the real estate sector.

Fake Currency

According to the Indian Statistical Institute, the circulation of the total amount of fake currency in India is Rs.400 crore at any given point of time. It is also estimated that around Rs 70 crore fake currencies are being injected into India every year. With the demonetization all such fake curriencies especially 500 and 1000 denomination notes are become useless. Thus we can say that demonetization played important role to curb the fake currency.

Hawala Transactions

One of the positive effects of demonetization of high currency notes of high valuation is that hawala rackets in many Indian States have become jobless. The hawala business has come to a halt as no transaction is likely to take place.

According to CIA, the call traffic between hawala agents in India dropped almost by half post demonetization. As the Hawala route is mainly used as a means to ease money laundering and terror financing but With black money suddenly being wiped out of the market due to demonetization resulted hawala operations have come to a constant halt.

Bank Deposits

The demonetization of 500 and 1000 currency notes made people deposit their money into the banks. About 86 percent currency circulation in India was composed of 500 and 1000 currency notes. According to some economic experts the deposit of money can boost Indian GDP by 0.5 to 1.5 percent.

Inflation

Demand and supply conditions are responsible for Inflation i.e. the demand for and supply of money or demand pull and demand for and supply of goods and services or cost push.

Let assume, demand for money remains the same and supply of money reduced, prices will come down as people cannot demand goods and services in the absence of money. There may be increase in digital transactions, but given the fact that nearly half of the population of India don't have bank accounts it is unlikely that demand for cash will fall. So, the prices of goods and services will fall in the absence of demand. So it is expected there will be less inflation.

As far as the demand for and supply of goods and services are concerned. It is expected that there will be good harvest this year following a good monsoon. So supply of goods will increase.

Overall, there will be positive effect of demonetization on inflation. Inflation will go down. It will cause deflection in the market as people who have black money will be afraid to declare it or will not declare it at all (may be try to destroy it). This will lead to decrease in the circulation of money in the market hence value of money will increase as quantity of commodities available in the market will not go down.

Terrorism

The demonetization of high denomination notes of 500 and 1000 has hit terror fundings by sucking out a sizeable chunk from their parallel economy. It has broken the backbone of Naxals to a great extent. Now with their current finances largely in demonetized notes, they are not be able to lure villagers or buy weapons.

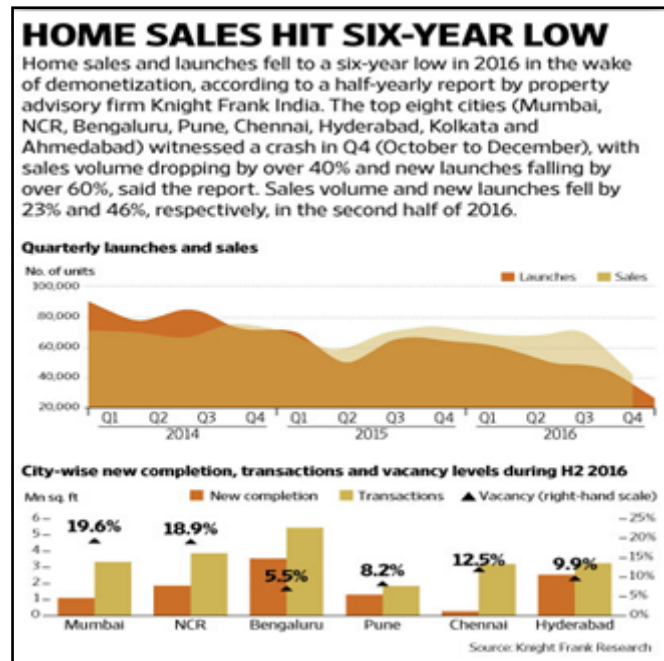
The Northeast insurgent groups and CPI (Maoist) are the worst hit, and stand to lose out on close to Rs 780 crore that they had amassed through extortion of government companies, mining corporate, businesses and private contractors.

Terror funds are mostly sourced in counterfeit currency, comprising high-quality fake notes that are printed at the Pakistan government printing press in Quetta and its security press at Karachi. After demonetization, terror groups reportedly finding it difficult to fund activities of its mass organizations. Pakistan based terror outfits such as the Lashkar-e-Toiba, Jaish-e-Mohammed and Hizb-ul-Mujahedin and other smaller terror groups may also take a hit of close to Rs. 20 crore. Since November 8, not a single instance of FICN smuggling has been reported from Pakistan, Nepal or Bangladesh border.

However, the terrorism related violence in J&K dipped by 60% post the cash ban. It is due to drop in hawalatransactions, demonetization has dried up funds used for organised stone-pelting in Kashmir and paying over ground terror supporters in the state. There is no doubt that Hawala transaction and Cross Border counterfeit notes supplied through the terror nation Pakistan suffered a lot after demonetization.

Real Estate

Real Estate is arguably the most affected due to demonetization. The demonetization has some immediate effects on the real estate market. It will bounce back eventually but whether it will be a legal come back or an illegal come back will depend on how the government will take this forward. Due to demonetization millions and millions of rupees will become useless and dumber in trash. So now there will be very few buyer left in primary and secondary market of real estate who have to do payment through bank means. As per supply and demand statistic, if buyers will be less in the market then the prices will forced to come down and it will be a big opportunity for working middle class to buy their homes.



Source :Knight Frank Research

Demonetization move pulled down the last quarter sales across all cities. The fall in Q4 was intense. It is likely to see whether buyers capitalize on the opportunity of various reforms and change their status quo position of 'wait and watch'. However, the demonetization move could prove to be a boon for those who have been looking for deals in the high-end or luxury housing segment.

Corruption

Large volumes of liquid cash are a big source of corruption and black money. However, the demonetization can lead India towards cashless transactions and cash less transaction may help to reduce corruption. As corruption slows down growth and takes a toll on the dreams of the poor and middle class. After demonetization, the cash less transactions through various means i.e. mobile banking, mobile wallets, paytm, debt and cards have been increasing. These methods of cash less transactions are especially becoming popular among educated youths of India. After demonetization new bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce and digitally focused sectors like the online grocery business have started booming. Even small vendors on the streets have opened up Paytm accounts. This is a big revolutionary movement and can lead India corrupt free in long run.

Tax Returns

R. Jagannathan, in his *Swarajyamag* explains the Indian mindset. "In the Abrahamic system, it is criminal to evade tax. Thus you are a good guy if you pay tax, and a bad guy if you don't. The outcome is binary. In the Dharmic mindset that most Indians operate in, we both pay taxes and attempt to evade them, depending on what we think is just and acceptable. Tax is a matter of individual judgment and negotiation. Punishment for not paying tax is karmic – outside the ambit of the state."

However, according to the government data for fiscal year ended on 31 March 2012-13, only one percent of all Indians pay income tax. According to a PTI report, a total of 2.87 crore individuals filed income tax returns for that year, but 1.62 crore of them did not pay any tax – leaving the number of taxpayers at just about 1.25 crore which was close to one percent of the country's total population of about 123 crore at that time.

While this is one part of the problem, the other part is plain dishonesty. Ever since the high-value notes were decommissioned, some duplicitous bank officials have conspired with the rich and corrupt to launder their existing black money and almost simultaneously create a pool of fresh black

wealth even as the honest majority stood for hours on end in fruitless queues to get access to their daily quota of own legitimate cash.

Financial Inclusion

The inflow of cash into the bank accounts will enable banks to offer subsidized loans and other facilities to account holder. The demonetization drive of higher denominated notes might propel cash deposits in Jan Dhan accounts. And this move will also make Jan Dhan Account holders to be accustomed to Banking system.

Bond Market

The ban on currency notes will enhance the demand for government bond in the market. As we know, it will improve cash deposits in the Banks which will eventually lead to higher statutory liquidity ratio demand.

Home Loans

Due to demonetization, a large amount of cash in circulation is brought within the purview of the formal banking system through low-cost current account and saving account deposits. Since this will reduce the dependence of banks on higher cost borrowings .This will accelerate the fall in home loan interest rates.

CONCLUSION

The concept of demonetization is not new for India. In the past demonetization has been implemented twice, in the years 1946 and 1978 and now third time in 2016. The PM Modi on 8th of Nov 2016 announced the biggest-ever demonetization exercise in India that is withdrawing Rs 500 and Rs 1,000 notes from public use immediately from 9th Nov 2016 in a bid to clamp down on black money, fake currency menace, terror funding and corruption. The main objective of this move was to curb the black money, corruption and fake money and terror fundings .With the surgical strike of demonetization, all the black money will either come to bank accounts or will be destroyed. As the extent of black money circulation in the real estate industry is huge .However, the demonetization move will helpful to curb the flow of black money into the real estate sector.All the black money will either come to bank accounts or will be destroyed. As the extent of black money circulation in the real estate industry is huge .However, the demonetization move will helpful to curb the flow of black money into the real estate sector.The hawala business has come to a halt as no transaction is likely to take place.Overall, there will be positive effect of demonetization on inflation. Inflation will go down. In addition to this,the demonetization of high denomination notes of 500 and 1000 has hit terror fundings by sucking out a sizeable chunk from their parallel economy .

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