

## **DEMONETIZATION: A STRONG STEP TO CURB THE MENACE OF BLACK MONEY**

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### **Abstract:**

It was a masterstroke by Modi government and its success highly depended on its implementation. The decision by the Indian Government to demonetize 500 and 1000 rupee notes was a great step for curbing black money (acquired legally but tax not paid) and dirty money (acquired through illegal source) in India. The move was so unexpected that people had no time at all to remove their black money, so this became simply a waste of paper for them. I can't imagine any better move than this to eliminate black money from the country. However, its immediate impact had adverse on the stock market and the sectors like real estate where lot of black money is used.

### **Introduction:**

Demonetization is a very bold decision taken by Indian government for curbing all Black Money in India. Major aim of Demonetization is making India 'A Cash less' Society. It is a transformational decision taken by the government to ban Rs.500 and Rs.1000 notes from circulation in the market. The decision was taken to minimize the black money and corruption. The RBI issued Rs.500 and Rs.2000 notes from that day onwards. They had released a statement by saying that all the Rs.500 and Rs.1000 notes are to be deposited at nearby banks or post-offices. This will be a regular currency circulation all throughout India. All those people who panicked with this move by the government need not worry at all as the government has assured that 'Your money will be yours. You will not lose anything so there is no point in being scared. There will be no restrictions on non-cash payments by cheques, demand drafts, and electronic fund transfer.

### What Is Demonetization?

- Demonetization is a process by which a series of currency are declared not be legal tender. The series of currency will not be acceptable as valid currency. The same thing happened with the Rs.500 and Rs.1000 note demonetization.

### What are the causes of Demonetization?

There can be many causes of Demonetization in any economy. Some of them are:

- Introduction of New Currency,
- Black Marketing,
- Currency Storage,
- Corruption,
- Excess fake currency in the economy is the main reason of present demonetization

### Reasons of Demonetization

- We knew terrorism is a frightening threat, but who funds these terrorists? Our enemies use the fake currency to sponsor terror- this was proven many a times.
- Corruption and black money are the major obstacles in our country. It is weakening the efforts to remove poverty. Our country is rapidly increasing in terms of growth and we are in No.1 position in terms of growth but we are ranked 76 in Global Corruption Perception ranking. It clearly shows how corruption and black money have spread their tentacles.

### What Happened on Demonetization?

- On 8th November 2016, Government of India had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender.
- This means that 500 and 1000 rupee note will not be accepted by anyone except the organization declared by government.
- They can change the currency from the banks and post offices till 30th December 2016.

## Demonetization History and Background in India

- This is not the first time when Indian Currency is demonetized in India.
- The first instance was in 1946 and the second in 1978 when an ordinance was promulgated to phase out notes with denomination of Rs 1,000, Rs 5,000 and Rs 10,000.
- The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.
- Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination bank notes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.
- The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation.
- However, this is the first time that Rs 2,000 currency note is being introduced.

## Important Facts about Indian Currency and Demonetization

- Bank notes in **Ashoka Pillar watermark series** in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979.
- The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.
- In the year 1980, the legend **Satyameva Jayate — ‘truth alone shall prevail’** — was incorporated under the national emblem for the first time.
- In **October 1987**, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000).
- The **Mahatma Gandhi Series** – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series.

- The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

### **Impact of Demonetization**

- There is huge impact of Demonetization on Indian Economy. These 500 And 1000 Notes contributed more than 84 % of money circulation .This decision had a direct impact on money circulation.

### **Positive impact of Demonetization on Indian Economy:**

#### **Effects on Parallel Economy**

- The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to – remove black money from the economy as they were blocked since the owners were not be in a position to deposit the same in the banks
- Temporarily restricted the circulation of large volume of counterfeit currency
- It would curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

#### **Effects of Money Supply**

- With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 rupees notes get widely circulated in the market, money supply is expected to reduce. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

#### **Effects on Demand**

- The overall demand was expected to be affected to an extent. The demand in following areas was impacted particularly:
  - Consumer goods

- Real Estate and Property
- Gold and luxury goods
- Automobiles (only to a certain limit)

### **Cash Deposits in Banks:**

- A lot of cash which was legally earned was deposited in the banks and now the banks with more deposits will be able to do more lending.

### **Easy Loans:**

- Loans will become easier and interest rates may come down. As banks will have more money so more loans will be given out which will increase the money supply in the market and it will treat inflation.
- Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be choked.
- The government had proposed the new limits on ATM withdrawals being restricted to Rs.2000 per day, withdrawal from bank account is Rs.10000 a day and Rs.20000 a week. It indicates that card transactions will slowly replace the cash transactions in our daily prone activities.
- Exchange of money in banks could only be done by producing a valid identity cards like PAN, aadhar card and electoral card from 10 to 24 November with a daily limit of Rs.4000. By doing so it was easy for the government to track the money which is being exchanged in banks. There is no limit if the amount which was exchanged was legal amount.
- Financial Intelligence Unit will track all details of the transactions from the banks. So now it is really difficult to get rid of the black money.
- Real estate industry is totally corrupted and now by this stringent decision the real estate sector will bring in more transparency. By doing it in this way we will have more credibility, making it more attractive to the foreign investors as well as domestic investors.

- Reduce in corruption for few months:- Shameless corrupt traitors will find other methods but it will take sometime. Like in other countries bitcoins, online loopholes are used for corruption money but it will take sometime.
- Fair Election:- we all know how much black money is used by political parties. Atleast for upcoming 5 state elections it will be very tough task to use trucks of money in election like EC caught in Tamil Nadu.

### **Negative impact of Demonetization on Indian Economy:**

#### **Rush at Banks**

- Banks were extremely over-crowded by people.
- People forgot everything else and throng to the places where the banned notes were being officially exchanged leading to a tremendous chaos.

#### **Shortage of Money to Common People**

- Reduction in Monetary Circulation: This lead to reduction of money circulation in the economy leading to deflation. Value of money increased which we have because the total money supply went down but the commodities and things available in the market have not gone down. It will lead to inflation slowly but not overnight.
- There was shortage of money for common people.

#### **Stock Market**

- Due to currency being sucked out of the market coupled with Trump's victory, the mood at the stock market was completely bearish.
- Sensex lost 1600 points at open. This adversely had a negative effect on trade in general.

#### **Problem for House Wives**

- Many Indian housewives store money secretly so that they could be of help during times of financial crisis in their households.

- The accumulated money of our respected Indian housewives is of no use now until they exchange in the banks and post-offices.

### **Short Term Inflation**

- It caused deflation in the market as people who had earned money through illegal ways were afraid to declare the money as they might be prosecuted by the Income tax department on the legitimacy of their income.
- Due to shortage of money in the market, a short-term cost push inflation occurred.
- The price of gold already became sky high.
- Prices of vegetables and fruits had also soared burdening the common man.
- It had caused great inconvenience to common man who had to run to bank to exchange Rs.500 and Rs.1000 notes.
- The replacement of all the Rs.500 and Rs.1000 denomination notes, as ordered by the government, could cost the RBI at least Rs.12000 crore.
- It had been very difficult for half of the population who were not well versed with the card transactions.
- The major problem was that big fishes were left out whose black money is in the form of foreign currency, gold and property and stashed in tax havens.

### **Marriage Season**

- Was difficult for those families those have weddings

### **Conclusions**

It was a masterstroke by Modi government and it's success highly depended on it's implementation.

The decision by the Indian Government to demonetize 500 and 1000 rupee notes was a great step for curbing black money (acquired legally but tax not paid) and dirty money (acquired through illegal source) in India.

The move was so unexpected that people had no time at all to remove their black money, so this became simply a waste of paper for them. I can't imagine any better move than this to eliminate black money from the country.

However, its immediate impact had adverse on the stock market and the sectors like real estate where lot of black money is used. Its impact on the other sectors were as following.

1. The sale of gold and diamond jewelry drastically declined. This means less outgoing foreign currency, hence a better balance of payment situation.
2. Corruption would be reduced drastically.
3. Credit card and other legal transactions would go up.
4. Taxes (Income Tax, Excise, Service tax and Sales Tax) would go up substantially since more transactions would be in white.
5. Criminal activities would reduce.
6. Use of illegal money in elections would be reduced drastically.
7. Property rates would reduce drastically.

The advantages are much dominating and it will be in the long term interest of our country comfortably outweighing the disadvantages. Government needed to take all the necessary steps so as to ensure that there will be a smooth flow of currency exchanges. It would turn into chaos if government did not take necessary steps to circulate money correctly. It will make a massive change in our economy. We congratulate the entire government and those hidden brains of our democracy who brought this decision.