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Demonetisation- War Against Corruption

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Demonetisation is the withdrawal of a particular form of currency from circulation." Through demonetisation the old currency is replaced by the new currency or a currency circulation is blocked. There are multiple reasons why a country demonetised its currency, some reasons include to check the inflation, to curb the corruption and to promote the cashless transactions.

On 8th November, 2016 Prime Minister Modi's announcement was the breaking news across India. Rs. 500 and Rs. 1000 notes are made illegal from a stroke of midnight. One might think, why it's been done? Indian government's goal was to remove all counterfeit (fake) currency from the market which is used in tax evasion, corruption and even in funding terrorist activities. These two currency notes are the most used currency in the Indian market, it has 86% share in the market. This was a very big and risky decision and as some aptly said it is a "Masterstroke" some even say it is a "Surgical Attack" on black money. In simple words, old Rs. 500 and Rs. 1000 notes are worthless now, they are just piece of paper.

The most interesting thing regarding the demonetisation was that people had devised various unique methods for transforming their black money into white one. Some of these methods were as follows.

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with save 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 Rs. 500 to 700 for becoming the part of long queues in front of banks/ATMs.
- Converting black money into Gold.
- Paying a few months salary in advance.
- Paying back loans forcibly.

Background

This is not the first time, when Indian currency is demonetised.

- 1) Earlier it was done in 1946 with the complete ban of Rs. 1000 and Rs. 10,000 notes to deal with the unaccounted money i.e. Black Money.
- 2) Second time, it was done in 1978 by government headed by Moraji Desai when Rs. 1000, Rs. 5000 and Rs. 10,000 notes were demonetised.

Demonetisation has been embraced in the past by several other countries. They include

Country	Year	Demonetisation
1) US	1969	\$10,000 and \$ 1000
2) Australia	1996	Full series of polymer bank notes
3) Zimbabwe	2010	One hundred trillion dollar.

Advantages of Demonetisation

- 1) **Attack on Black money holders:-** People, who possess huge amount of black money in hard cash, are at a complete loss now. Their black money in hard cash is now a pile of trash. If a black money holder want to deposit money in bank a/c then he/she has to show ID.
- 2) **End of terrorist funding:-** Huge sums of money, especially in hard cash, in the demonetisations of Rs. 500 and Rs. 1000 was used to fund islamic terrorists, nexalites now these organisations will suffer from shortage of funds. Most of these terrorists, naoist organisations used these funds for buying arms and weapons but buying arms is extremely difficult after this ban.
3. **Transperancy:-** Online transaction = more transperancy = financial intelligency unit will tack all online transactions. As more and more transactions become cashless, it will improve the transperancy of the economy.
4. **End of huge donations:-** Huge amount of donation that is taken in the private education and health care sectors would be stopped. Schools, engineering and medical colleges and hospitals used to take huge amount of money as donations especially in the form of hard cash in the demonetisation of Rs. 500 and Rs. 1000. These money minded people running these institutions would not be able to make any easy money now.
5. **Towards a cashless economy:-** While it is practically impossible to have a 100% cashless economy, the proportion of hard cash in the economy will decrease and our economy will get more digitilized. This will result in greater transperancy. Now government has put some limitations for cash withdrawl from bank a/c. People will go for online payments.
- 6) **Hawala Transations end:-** Most hawala transactions used to be carried out in the demonetisation of Rs. 500 and Rs. 1000 notes. With this ban, Modi Ji has delivered a fatal blow to the unethical hawala traders as they can't trade anymore using demonetisations of Rs. 500 and Rs. 1000.

Disadvantages of Demonetisation

- 1) **Rush at Banks:-** Banks will be extremely over crowded by people. People will forget everything and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.
- 2) **Little cash in circulation:-** Cash cruch is a major disadvantage of demonetisation due to the unavailability of small currency denominations, an issue which make it difficult to make small purchases.
- 3.) **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.
- 4) **Problem for house wives:-** Many Indian house wives store money secretly so that they could be of help during times of financial crisis in their household. The accumulated money of our respected Indian house wives is of no use now until they exchange in the banks and post offices.

Will demonetisation slow down India's growth?

Yes, demonetisation will slow down growth rate in short term and medium term because people have less money in hands. So demand is low, that is why it is hampering our growth rate. But as soon as people get money, market will be back on track.

Conclusion:-

The advantages are much dominating and it will be in the long tern interest of our country comfortably outweighing the disadvantages. Government need to take all the necessary steps so as to ensure that there will be a smooth flow of currency exchanges. We appreciate the entire government and those hidden brains of our democracy who brought this decision.

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