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Demonetization

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Demonetization is the art of stripping a currency unit of its status as a legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

The opposite of demonetization is remonetisation, in which a form of payment is restored a legal tender.

There are multiple reasons why nations demonetize their local units of currency :-

- To combat inflation
- To combat corruption and crime
- To discourage a cash dependent economy
- To facilitate trade

Demonetization in India

In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denominations in its currency system, these notes accounted for 86 percent of the country's circulating cash with little warning, India's prime minister mr narender modi announced to the citizens on november 8 that those notes were worthless, effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Chaos ensued in the cash dependent economy (some 78 % of all Indian customer transactions are in cash), as long, snaking lines formed outside ATM S and banks , which had to shut down for a day. The new rupee notes have different specifications, including size and thickness requiring re-calibration of ATMS: only 60% of the country's 200,000 ATMS were operational. Even those dispensing bills of lower denominations faced shortages. The government's restriction on daily withdrawl amounts added to the misery, though a waiver on transaction fees did help a bit. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The rupee fell sharply against the dollar.

The government's goal was to combat india's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities; and to promote cashless economy .

Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owned amount was imposed.

Alternative Funds:-

Soon after the announcement, people rushed to buy gold, a demand that drove prices up, in some cases even to a 60% premium, prompting the tax authorities to conduct surveys, according to the business standard newspaper. The government emphasized the need to furnish PAN card details on purchases for accountability purposes, and many jewelery shops that were flouting the norms came under crack downs. Simultaneously, rumors of gold ban started to float, which led to agencies ramping up the volume of gold imports.

Long term effects:-

Over 3 trillion rupees in old currency was deposited with Indian banks in just the first week after the demonetization. There was concern that the uncertainty and short term liquidity squeeze would take some momentum off the Indian economy, the fastest growing in the world, in particular sectors like real estate, notorious as a harbor for cash dealings and black money, were expected to take a hit.

But experts believed any slowdown would only be short lived. Once the systems adjusted to the new normal, especially if the government heeded calls to lower interest rates by groups like the federation of Indian chambers of commerce and industry (FICCI). Credit rating agency india ratings and research maintained its GDP growth forecast for india at 7.8% for FY17, albeit with a downward bias.

The impact of demonetization on the common man:

The impact of this move on the common man includes

a.) Financial / Buisness Impact:

- People with large amount of black money are using uncrupulous means to cover it into legitimate currency.
- A Tax payer has to stand in queues to withdraw his hard earned money
- Online compnies are having the last laugh as most of the white income class is resorting to online .
- Small / Medium sized Buisness relying on cash transactions are seeing a total demand collapse.
- Gems and Jewelery buisness will be hard hit
- Real Estate prices will fall and transacions volume will drop.
- Second hand car market wil crash badly
- Banks will be having a tough time . They will be flooded with cash.

b.) Political Impact:

- BJP will gain tremendously . Modi's Potrait could replace Gandhi's Potrait in coming time on the walls of Govt. Offices.
- All parties will joim hands to to pain the demonetization scheme as a big scam.
- Normal life may be impacted because of Demonetization
- BJP may do Resonably well in Punjab and UP Elections.
- No cash doles out in Elections . Whole Electioneering will change forever.

c.) Social Impact

- Low Income People have been Impacted as their payments are delayed.
- Cashiers and Bankers will get due respect in Society.
- Death of Drug Maffia and Terror Networks.

d.) Impact on Indian Economy

- GDP will be impacted as consumption will fall - Indirect Tax collection may be lower.
- Disorganised work to move to organised sector.

Demonetization may Benefit India in long Term:-

1. Income Taxes rates may come down
2. Loans will become Cheaper
3. Housing will become affordable
4. Asset Classes
 - a) Bonds Prices to increase in the near future
 - b) Real Estates to fall
 - c) Gold rates to fall
 - d) Equity markets to gain in next 6 to 12 months
5. Impact on Economy
 - a) Fiscal Deficit will come down
 - b) Currency to become stronger
 - c) Industry will become more productive
 - d) Inflation will come down as housing prices will drop and food inflation will come down
 - e) Tax rates will come down as more People will be in Tax Net
 - f) Buisness will be able to Borrow at cheaper rates.
6. Social Impacts
 - a) The society will become more equitable with lesser class distinction
 - b) Prosecution for people who are engaging in black money
 - c) Some Slum dwellers may actually have to pay taxes and loss their BPL Status
 - d) Politics may change forever.

Demonetization, how a proven failure:-

Demonetization as a means of truckling the black economy was destined to fail. It was thought that if cash was squeezed out, the black money would be eliminated. But cash is only one component of black wealth: about 1% of it. It has now been confirmed that 98.8% of demonetized currency has come back to the reserve bank of India. Further, of the Rs.16000 crore that is still out, most of it is accounted for. In brief, not even 0.01% of black money has been extinguished.

Black money is a result of black income generation. This is produced by various means which are not affected by the one shot squeezing out of cash. Any black cash squeezed out by demonetization would then quickly get regenerated. So there is little impact of demonetization on the black economy, on either wealth or incomes.

The govt. is highly embarrassed and to cover it up, it has again changed the goalpost. It now argues that it is good that black money has been deposited in the banks because those depositing it can now be caught .but govt.had tried to prevent people from depositing demonetized currency by changing rules during the fifty day period.it is now fighting hard in the supreme court against giving one more chance to deposit the demonetized notes that may have been left with the old and the infirm.

The govt changed the goal post earlier in November,2016 when it suggested that the real aim of demonetization was a cashless society.Now it says that idle money has come into the system,the cash to GDP ratio will decline,the tax base will expand,and so on.But none of these required demonetization and could and should have been implemented independently.

The big failure of demonetization is that it was carried out without preparation and caused big losses to the unorganized sector. This has not been factored into the recent data on growth rate, so the loss to the economy would be in lakhs of crores of rupees. Farmers, traders and the youth are all agitating.

The black money need to be tracked, but demonetisation is not the way. The brunt of this move has been borne by those who never had any black money.

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