

DEMONETIZATION: P.M MODI'S TOOL TO ROOT

OUT BLACK MONEY, TERRORIST ACTIVITIES

FROM INDIAN ECONOMY

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ABSTRACT

*The demonetization drive of Modi is neither new in content nor in form. In India, it has been done earlier by Morarji Desai; the initial conversion to Euro in the European Union happened within a month's span. Currency is routinely taken out of circulation. What is significant about Modi's demonetization is the amount of sensation he has generated out of an otherwise insignificant move. What is routinely done through phasing out denominations is being done in an extremely abrupt manner. He is dressing up a withdrawal and issuing of currency notes as a revolutionary move, and it is being executed in the manner more suited to currency change. Let us state the obvious things first: demonetization will do next to nothing to the so-called 'black money', which are routinely converted into fixed assets or foreign currency. This move dis-incentivizes hoarding of cash, but not speculation, all sorts of accounting practices that can produce the so-called 'black money' while bypassing the level of cash transaction altogether. Demonetization is simply an old-school, brute-force monetary policy to curb hyperinflation. The Head of European Central Bank in Europe and Larry Summers, US treasury secretary, has proposed demonetization of their high-currency notes this year. But none of them dream of doing it within a notice of 4 hours. Modi's demonetization does not affect people universally, but in a class-determined manner. One of the real aims of Modi's demonetization is **social Engineering**. Modi's demonetization is a device of surveillance*

Key Words: Black Money, Demonetization, Surveillance, Social Engineering

I. INTRODUCTION

Demonetization is a mandatory part of change from one currency to another. Before going through the whole topic we must have clear understanding of the concept of Demonetization. What is it? **Demonetization** is the act of stripping a currency unit of its status as legal tender. **Demonetization** is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.8 November 2016, an announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address to the nation at 20:15. In the announcement, Modi declared circulation of all ₹ 500 and ₹ 1000 banknotes of the Mahatma Gandhi Series as invalid effective from the midnight of the same day, and announced the issuance of new ₹ 500 and ₹ 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. After the official announcement by Prime Minister Modi, the Governor of the Reserve Bank

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of India, Urjit Patel, and Economic Affairs secretary, Shaktikanta Das explained in a press conference that while the supply of notes of all denominations had increased by 40% between 2011 and 2016, the ₹ 500 and ₹ 1000 banknotes increased by 76% and 109% respectively in this period owing to forgery. This forged cash was then used to fund terrorist activities against India. As a result the decision to eliminate the notes had been taken. This decision had been made about six months ago, and the printing of new banknotes of denomination ₹ 500 and ₹ 2000 had already started. However, only the top members of the government, security agencies and the central bank were aware of the move. But media had reported in October 2016 about introduction of ₹ 2000 denomination well before the official announcement by RBI. This statement has led to much debate, because the Reserve Bank governor six months before the announcement was Raghuram Rajan, while the new banknotes have the signature of the newly appointed governor, Urjit Patels.

1.2 Positive and Negative Impacts of Demonetization on the Indian Economy

At the stroke of the hour on midnight of 9th November 2016, India lost 86% of its monetary base. The print, electronic and social media has been praising Prime Minister's masterstroke by which he has reportedly destroyed the base of corruption in India. In this single move, the Government has attempted to tackle all the three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing. There is no doubt that Prime Minister has pulled out a major coup and substantially enhanced his reputation as a strong leader. The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants, daily wage laborers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad. Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100% corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries. People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels. It is also being said that what is being attempted is replacement of currency and not demonetization itself which was unnecessary. This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector investment and stagnant industrial

growth. If we look at the farm sector, this is the harvest time. Farmers generally deal in cash and India is also largely a cash economy. The cash transactions in this economy are far more than the total number of electronic transactions done on a daily basis. In the tribal heartland of the country, the poor people through middlemen are getting their currencies exchanged for Rs.300 or Rs.400 because of lack of proper information which is hitting them. The stock of the black economy constitutes a major part of the GDP is significant. Even if 50% of this amount is withdrawn, the kind of relief that RBI will get on its liabilities and the sort of deposits commercial banks will get will lead to a rise in the deposit and later on there will be decrease in lending rates plus fiscal deficit. The black money in circulation is like a steroid in the economy which keeps the demand going gives a feeling that everything is working well. The problem is that investment is not taking place in the economy and the rate of growth of capital formation is down. The only way to bring this up is to divert more funds into investments which will happen when the cost of capital comes down.

II. EFFECTS OF DEMONETIZATION

Of course P.M Modi has taken the decision of demonetization to root out the black money from Indian economy. As a matter of fact it helps a lot, but instead of this some legal activities are also tracked Money Laundering, terroring, Cash seizure etc.

2.1 Evasion

Black Money holders are trying their best to convert their black money into white money. They are adopting following methods to do so which came into the scene:

2.2 Gold Purchases

In Gujarat, Delhi and many other major cities, sales of gold increased on 9 November, with an increased 20 to 30% premium surging the price as much as ₹ 45,000 from the ruling price of ₹ 31,900 per 10 grams (0.35 oz).

2.3 Dumping

A bag of burnt notes was found in Uttar Pradesh following demonetization. Old ₹ 500 and ₹ 1000 notes were also found floating in the Ganga river near Mirzapur

2.4 Donations

Authorities of Sri Jalakanteswarar temple at Vellore discovered cash worth ₹ 4.4 million from the temple Hundi

2.5 Multiple Bank Transactions

There have also been reports of people circumventing the restrictions imposed on exchange transactions and also attempting to convert black money into white by making multiple transactions at different bank branches. People were also getting rid of large amounts of banned currency by sending people in groups to exchange their money at banks. In response, the government announced that it would start marking customers with indelible ink. This was in addition to other measures proposed to ensure that the exchange transactions are carried out only once by each person. On 17 November, the government reduced the exchange amount to ₹ 2000 to discourage attempts to convert black money into legitimate money.

2.6 Railway bookings

As soon as the demonetization was announced, it was observed by the Indian Railways authorities that large number of people started booking tickets particularly in classes 1A and 2A for the longest distance possible, to get rid of unaccounted cash. A senior official said, "On November 13, 42.7 million passengers were nationally booked across all classes. Of these, only 1,209 were 1A and 16,999 for 2A. It is a sharp dip from the number of passengers booked on November 9, when 27,237 passengers had booked tickets in 1A and 69,950 in 2A." The Railways Ministry and the Railway Board responded swiftly and decided that: cancellation and refund of tickets of value \square 10,000 and above will not be allowed by any means involving cash. The payment can only be through cheque/electronic payment. Tickets above \square 10,000 can be refunded by filing ticket deposit receipt only on surrendering the original ticket. A copy of the PAN card must be submitted for any cash transaction above \square 50,000. The official claimed that since the Railway Board on 10 November imposed a number of restrictions to book and cancel tickets, the number of people booking 1A and 2A tickets came down.

2.7 Municipal and local taxes

The use of the demonetized notes had been allowed by the government for the payment of municipal and local body taxes. This led to people using the banned \square 500 and \square 1000 notes to pay large amounts of outstanding taxes, and also advance taxes. As a result, revenue collections of the local authorities have jumped due to the demonetization.

III. CONCLUSION

So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened. Modi's demonetization does not affect people universally, but in a class-determined manner. One of the real aims of Modi's monetization is **social engineering**. The one that is very interesting effect of this demonetization is that is boost the Indians to make use of digitalization. Even the small sellers are using paytm to accept the small payements. It may become the starting point to convert the dream of Digital India into reality.

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