



Impact Analysis of Demonetization in India

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Demonetization is the act of stripping a currency unit of its status as legal tender. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. There can be many causes of Demonetization in any economy some of them are : Introduction of New Currency ,Black Marketing, Currency Storage, Corruption and others. There will be excess fake currency in the economy is main reason of demonetization.

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed. 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. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.

Even in other countries like In 2015, the Zimbabwean government demonetized the Zimbabwean dollar as a way to combat the country's hyperinflation that was recorded at 231,000,000%. The 3-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar. Another example of demonetization occurred when the nations of the European Monetary Union adopted the euro in 2002. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into euros for a while so that a smooth transition through demonetization would be assured.

Impact: Social and Economic

There is a great impact of this move of the Central Govt on Indian Society and Economy. The government's stated objective behind the demonetization policy are as follows; first, it is an attempt to make India corruption free. Second it is done to curb black money, third to control escalating price rise, fourth to stop funds flow to illegal activity, fifth to make people accountable for every rupee they possess and pay income tax return. The main objective of this move was to curb the black money, corruption and fake money menace. Somewhere in the background, this move towards turning into a cashless economy has shown its effect on the social set up too.

1. Demonetization has brought the trafficking of women and girls for sex work to a stop. It has been estimated that this has been a Rs 20 trillion industry. The process of trafficking of women is usually completed by November, after which trafficked women and girls are transported to various parts of the country to be sold to brothels, placement agencies and as child brides. Post demonetization and the withdrawal of the Rs500 and Rs1000 currency notes, this trade, is said to have suffered a significant blow. Typically, the sex trafficking is carried on from Guwahati in Assam, Jharkhand in the North and Chennai, Bangalore and Hyderabad in the south. There hasn't been any record of even one girl being trafficked in the past one month. Transactions related to this trade were carried out in cash. With the supply of notes in the economy reduced, people were suddenly left with no liquidity to pay to the middlemen.
2. Cash payments dominate the category of prostitution too. There have been many media reports of sex service workers asking clients for digital payments – something that could prove to both awkward and arduous for people who indulge in these services.
3. One of the major impacts of the demonetization process has also been felt in the Narcotics Trade. This has been another huge section of trade, and most marketing takes place through Afghanistan and other ports. Black money rules this business. In Maharashtra and Himachal, drug trade came to a virtual standstill after the government announced demonetization. Drug peddlers found it difficult to sell their stock after high-value currency went missing from the economy. Even small transactions were affected – with most of the drug players having gone into hiding till the market gets into revival mode. Supply of narcotics from Jammu & Kashmir and Himachal Pradesh into Maharashtra and other states has also gone down. The Narcotics Bureau has found that while the drug detection rate might be the same

as before demonetization, the quantity of drugs seized from the peddlers now is much less than earlier.

4. With all this, is also the effect on one of the key objectives of the demonetization process namely, terrorism. The idea was to make fake notes flowing in from Pakistan, mostly in 500 and 1000 rupee denominations, useless. In doing so, black money, a significant source of terrorist funding, would dry up.

Although people with black money obviously stands the most affected, there are several implications that have to be faced by the average middle class person, farmers, banks and the economy as a whole. Although there will be an apparent inconvenience to the common man initially, given the short span of time to get these currency notes exchanged or deposited in banks and post offices, but he/she is expected to adapt to the new currency system in a reasonable time. Rural area farmers faced slightly more inconvenience. Also, in rural areas the exchange and deposit system can be expected to take a long time in case there is a bank in the village and inconvenience in terms of transportation, additional expenses and time is easily foreseeable in case there is no bank in the village and the people have to go to the city for this purpose. In terms of the impact on the economy, there has been speculation about deflation in the economy by one set of people due to expected fall in corruption and black money while the other expects inflation to take place due to speculated increase in investment of Gold, real estate and foreign currency.

Big question: will it work?

Given the fact that black money is stored in various forms such as Gold, real estate, overseas tax havens and cash, demonetizing currency notes of Rs. 500 and Rs. 1000 will only curb black money that is in the form of physical/ hard cash. But since this form of black money, after this step, is the only form we can tackle right now, there does not seem to be a reason why we shouldn't. In other words, if the plan does not seem to address all facets of the problem, it does not necessarily mean that it is an inadequate solution. This is all the more legitimate in the face of lack of alternatives. According to the World Bank 2010 report, black money formed about 23.2 percent of India's GDP in 2007. Given such a state, we cannot afford to wait for a better comprehensive solution. However, it is essential to note here that although it is an excellent move towards curbing corruption, the plan can by no means be a conclusive step. The government has initiated a war against corruption and black money but this must be treated as a beginning and further steps should

be taken to stop generation of black money and the need to do so. Only then will this decision of demonetising high denomination currency hold the significance the government has intended it to.

Conclusion

The main objective of this move was to curb the black money, corruption and fake money menace. In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run. Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run. Short term fall in real estate prices might benefit middle class citizens. This move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient.

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