

Demonetisation: A surgical strike on black money

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Abstract

At the stroke of midnight on 8th Nov 2016 our PM Sh. Narendra Modi demonetized the Rs 500 and Rs 1000 as a legal tender. Since then much has been said about the pros and cons of demonetisation. Primarily our PM has followings things in mind to achieve through demonetisation

- 1) To wipe out black money in the economy.
- 2) To lower the cash circulation in the country which "is directly related to corruption in our country," according to PM Modi.
- 3) To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.

Meaning: Demonetization of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. In the current context it is the banning of the Rs 500 and Rs 1000 denomination currency notes as a legal tender.

Objective: 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. Finally, it is an attempt to make a cashless society and create a Digital India.

Keywords: surgical strike, black money

Introduction

Blueprint of demonetisation has been chalked much earlier

There is a background to the current decision of demonetization of 500 and 1000 rupee notes. The government has taken few steps in this direction much before its November 8, 2016 announcement.

As a first step the government had urged people to create bank accounts under Jan Dhan Yojana. They were asked to deposit all the money in their Jan Dhan accounts and do their future transaction through banking methods only.

The second step that the government initiated was a tax declaration of the income and had given October 30, 2016 deadline for this purpose. Through this method, although the government was able to mop up a huge amount of undeclared income. However, there were many who still hoarded the black money, and in order to tackle them; the government announced the demonetization of 500 and 1000 currency notes.

The demonetization policy is being seen as a biggest financial reform in the country but this decision is fraught with its own merits and demerits.

Merits of Demonetisation

The demonetization policy will help India to become corruption-free. Those indulging in taking bribe will refrain from corrupt practices as it will be hard for them to keep their unaccounted cash. This move will help the government to track the black money. Those individuals who have unaccounted cash are now required to show income and submit PAN for any valid financial transactions. The government can get income tax return for the income on which tax has not been paid.

The move will stop funding to the unlawful activities that are

thriving due to unaccounted cash flow. Banning high-value currency will rein in criminal activities like terrorism etc.

The ban on high value currency will also curb the menace of money laundering. Now such activity can easily be tracked and income tax department can catch such people who are in the business of money laundering.

This move will stop the circulation of fake currency. Most of the fake currency put in circulation is of the high value notes and the banning of 500 and 1000 notes will eliminate the circulation of fake currency.

This move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan Dhan Yojana. The accounts which were lying almost dormant before demonetisation witnessed huge surge in bank deposits. They can now deposit their cash under this scheme and this money can be used for the developmental activity of the country.

The demonetization policy will force people to pay income tax returns. Most of the people who have been hiding their income are now forced to come forward to declare their income and pay tax on the same. In general we are not tax compliant nation and only 3 % of the population pays tax whereas about 22% population is actually under tax net but they use all scrupulous means in avoiding the tax liability.

Even though deposits up to Rs 2.5 lakh will not come under Income tax scrutiny, individuals are required to submit PAN for any deposit of above Rs 50,000 in cash. This will help the income tax department to track individuals with high denominations currency.

The ultimate objective is to make India a cashless society. All the monetary transaction has to be through the banking methods and individuals have to be accountable for each penny they possess. It is a giant step towards the dream of

making a digital India. If these are the merits, there are demerits of this policy as well.

Demerits of Demonetisation

The announcement of the demonization of the currency has caused huge inconvenience to the people. They are running to the banks to exchange, deposit or withdraw notes. The sudden announcement has made the situation become chaotic. Tempers are running high among the masses as there is a delay in the circulation of new currency.

It has deeply affected business. Due to the cash crunch, the entire economy has been made to come to a standstill. Many poor daily wage workers are left with no jobs and their daily income has stopped because employers are unable to pay their daily wage.

The government is finding it hard to implement this policy. It has to bear the cost of printing of the new currency notes. It is also finding it difficult to put new currency into circulation. The 2000 rupees note is a burden on the people as no one likes to do transaction with such high value currency. Some critics think it will only help people to use black money more easily in future.

Further, many people have clandestinely discarded the demonetized currency notes and this is a loss to the country's economy.

Prime Minister wanted to give a tough outlook and send a strong signal that he can take bold decisions. He affirmed that the honest will be protected and the frauds will be prosecuted. Though the presumption was that the 3 lakh crores out of 15.4 lakh crores will not come back, 14 lakh crores has already found their way to the banking system. The black money hoarders played really well aligning with banking officials paying them up to 30% commission of the amount deposited. Central Government has instructed IT department and CAG team to conduct audits and sue the people who have cheated the country. Though many economists supported the move, few famous economists said that the move was a catastrophe in Indian economy.

Conclusion

Economists are busy in listing out many more merits and demerit of this policy. The government is saying that there are only advantages of demonetization policy and this will be seen in the long term. Former Prime Minister Manmohan Singh who is a noted economist, former RBI governor and former Finance Minister of the country, dubs the demonetization move as an 'organized loot and legalized plunder'. However, if we compare the merits verses demerits, it will be safe to conclude that the former outweighs the latter. Even though there was suffering and agony among the masses but the forecast is that its benefits will be seen in the long run. The government has taken and taking all the necessary steps and actions to meet the currency demand and soon the trial and tribulations of the people will be over with the smooth flow of the new currency. In nutshell we can conclude this move of demonetisation can be called as a surgical strike on black money and corruption and time will unfold in future how this step will help India in becoming corruption free and tax compliant nation.

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