

Benefits of Demonetization: Rich and Poor

Mrs.S.Sangeetha,

Assistant Professor, Nandha Arts And Science College

Abstract: *The government of India has implemented a major economic decision of demonetizing high value current notes of rs.500 and rs.1000. The rationale given behind this is that it would curb black money and its flow as most of it would get invalidated. This proposition however, is not backed by any evidence or proof and therefore portends district long term, medium term and short term complications. This makes it imperative to assess the challenges such a shock is expected to have on functioning of the Indian economy, which may vary according to the extent of re monetization that follow up. This paper tries to explain of benefits of demonetization rich and poor, particularly in India. The research conducted has a descriptive and analytical nature to it. The paper also seeks to elucidate the implications of demonetization economics like India.*

I. Introduction

Demonetization is the process in which a particular currency or valuable mineral tender degraded as a legal tender. This happens when a certain currency of origin, or when a newer currency comes into circulation. There are multiple reasons why nations demonetize their local units of currency. Some reasons include combating inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest demonetization notes. These notes accounted for 86% of the country cash supply. The government 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 could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owned was imposed.

Meaning Of Demonetization:

“**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”.



Objectives Of Demonetization:

- ✓ Remove black money from the system
- ✓ Tackle MEANCE of CONTERFEIT currency
- ✓ Stop terror funding
- ✓ Reduce corruption

Benefits Of Demonetization:

✓ **Rise Of The Cashless Economy:**

Spread of the digital payment culture will start the 'formalization' process in the economy. It will reduce the use of physical cash as well. Once bulk of the economic transactions is digitalized it will result in revealing the expenditure made by individuals to the tax authorizes especially big transactions.

✓ **Growth Of The Formal Economy Will Be Another Associated Long Term Gain:**

If additional measures like cleaning the real estate sector and brining all traders under the digital payment system, the unorganized sector transaction will be made accountable. Even if it is a slow process, bringing the informal sector into the formal economy will reduce black money.

✓ **Social Shake Up:**

Black money can be eliminated only if we eliminate the deep rooted social mentality that dealing with black money is economically rewarding and legally feasible. Demonetization may bring a social shake up in the country by destroying this mentality. It will spread an attitude against black money. People will be averse to deal with black money if they know that they are easily traceable and harder legal steps are initiated against them. Such an awareness and conscience can reduce the area available for the activation of black money.

✓ **Demonetization Will Reduce The Circumference Available Of Parallel Economy:**

Demonetization is not an isolate arm or not only one against black money. It may be complemented by several other steps. One such supportive step is making PAN compulsory for high value transactions up to Rs. 10000. Similarly, PAN documentation should be made compulsory against all investment in physical assets like gold, land etc., if these happens, parallel economic activities can be reduced substantially.

✓ **Large Number Of New Tax Payers May Appear With Demonetization:**

This is because demonetized money will reveal their income size and tax officials may check them in future, compelling to pay tax.

✓ **Cleaning Of The Real Estate Sector Will Be Associated Long Term Gain Of Demonetization:**

Modification of stamp duty structure is badly needed to provide energy to the sector at the same time, making it accountable.

✓ **Rise In Financial Savings:**

At present, more than 50% of household savings are in physical savings like gold and land. Significant portion of these are in black money. Now with the low reward in the real estate and gold holdings, people may tempt to save in financial forms like bank deposits, mutual funds etc., As krugman suggested, demonetization is a highly disruptive way to fight black money and it is only a one time effort to flush out hoard money. We cannot do it always. Similarly, only a fraction of black money is stored in liquid cash. All these indicate that fight against black money will be successful in the long term only if the other measures suggested here are adopted. Above all, the legal system should be prudent to prevent people to invented new ways of hoarding and dealing with black income.

II. Conclusion

The benefits are much dominating and it will be in the long term interest of our country. Government need to take all the necessary steps so s to ensure that there will be a turn into chaos if government takes no necessary steps to circulate in our economy. We congratulate the entire government and those hidden brains of our democracy that brought this decision.