

## IMPACT OF DEMONETIZATION ON THE BLACK MONEY AND SOCIETY IN INDIA

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### ABSTRACT

*Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is the act of stripping a currency unit of its status as legal tender. In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. This study explores the advantages and disadvantages of demonetization in India.*

*In the present era, issue of Black money has come into forefront of the society with active participation of our youth and parliament. In the context of current status it includes sources from where black money is generated and its uses in the country at different levels. This paper represents the framework, policy options and strategies that Indian government should adopt to tackle with this issue and also describes the Impact on economy in this context. It also studies the one of the main reason behind the generation of black money i.e. corruption. It shows up to what extent, the corruption leads to its generation which has considerable impact on various sections of the society. At last but not least, conclusion of this paper is provided representing the ongoing issue of black money in our country and its future course of action. To control the generation of black money there should be a strong and appropriate legislative framework. The present paper helps to know about present status of black money in INDIA & its Impact on economy. Demonetization is one of the big steps initiated by Government in addressing the various issues like black money, corruption, terrorism, issues and challenges of demonetization etc.*

**Keywords:** *Demonetization, Indian economy, Black money, Tax evasion, corruption*

### INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as 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. There are multiple reasons why nations demonetize their local units of currency:

- To combat inflation.
- To combat corruption and crime (counterfeiting, tax evasion)
- To discourage a cash-dependent economy.
- To facilitate trade.

### HISTORY OF DEMONETIZATION

**World-wide:** In the world history, one can see several instances of the demonetization which were implemented in various countries of the world. Many of these countries accepted the policy of demonetization which was targeted to make the country's failing economy strong. The following segment discusses some of the countries which underwent the purge of demonetization.

The following table simplifies the list of countries demonetization.

S.No	Country	Year
1.	Britain	1971
2.	Ghana	1982
3.	Myanmar	1987
4.	Nigeria	1984
5.	Congo	1990
6.	North Korea	2010

**DEMONETIZATION IN INDIA**

Demonetisation has been implemented twice -1946 and 1978 – in the past.



**The first currency ban:** In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency. Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced.

**The second:** That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

**Similarities in 1978 and 2016 ban:** The note ban by Morarji Desai also aimed to drive away black money out of circulation in the economy. Hence, The High Denomination Bank Notes (Demonetisation) Act was implemented. Narendra Modi announced the currency ban is an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day. Both the affairs were kept confidential.

The Indian rupee is the legal tender currency in India. The Indian rupee used to be an official currency of other countries, including the Straits Settlements (now Singapore and parts of Malaysia), Kuwait, Bahrain, Qatar, and the Trucial States (now the UAE). In 1837, the Indian rupee was made the sole official currency of the Straits Settlements, as it was administered as a part of India. In 1845, the British replaced the Indian rupee with the Straits dollar after administration of the Straits Settlements separated from India earlier in that same year. After partition of India and Pakistan in 1947, the Pakistani rupee came into existence, initially using Indian coins and Indian currency notes simply over stamped with the word "Pakistan". New coins and banknotes were issued in 1948.

On November 8, 2016, Prime Minister Narendra Modi announced that existing INR 500 and INR 1000 banknotes would no longer be accepted as legal tender with a view to curb counterfeiting, tax evasion and the parallel economy. War on corruption by tackling Benaim properties, black money, cash through demonetization and crackdown on the money network of the Hurriyat leaders in Jammu & Kashmir could have been possible under the strong and decisive leadership Of Modi. The Reserve Bank of India outlined a scheme for holders of such banknotes to either deposit them into their bank accounts for full, unlimited value, or to exchange the banknotes for new, subject to a cap.



**OBJECTIVES OF THE STUDY**

- To understand the history of demonetization in India.
- To analyze the impact of demonetization on country’s GDP.
- To know the effects of demonetization on black money.
- To Study the issues and challenges of demonetization.

**RESEARCH METHODOLOGY**

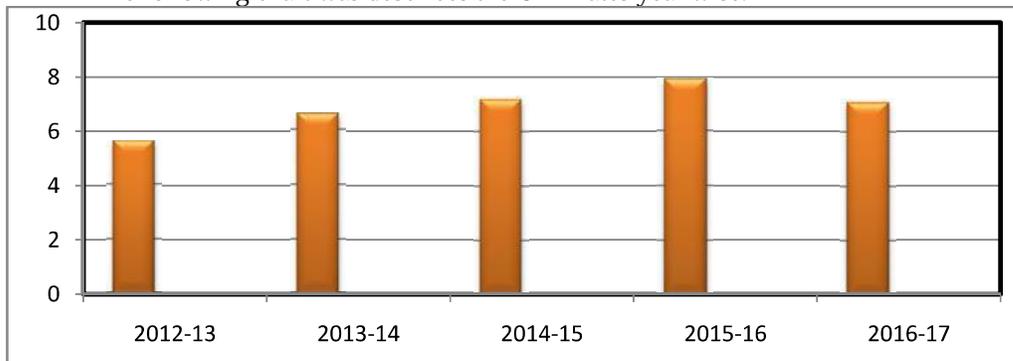
The data for the present study is collected mostly from the secondary sources. Various published reports, and other selected official websites, books, magazines, journals, newspapers / unpublished articles, and internet websites are used for the purpose of the Research paper.

**IMPACT OF DEMONETIZATION ON COUNTRY GDP**

Here GDP means Gross Domestic Product of the country. Gross domestic product is the best way to measure a country's economy. GDP is the total value of everything produced by all the people and companies in the country. It doesn't matter if they are citizens or foreign-owned companies. If they are located within the country's boundaries, the government counts their production as GDP. India has carried out demonetization exercises twice before, in 1946 and 1978. In January 1978, 1.7% of total notes in circulation were demonetized. In 1946 the first demonetization took place and Rs. 1000 and Rs. 10000 notes were demonetized. Later in 1978, Rs. 1000, Rs. 5000 and Rs. 10000 were demonetized.

The value of demonetization was very small in 1978 and that is only 0.1% of GDP. However in 2016 demonetization efforts covers 86% of total currency in circulation (11% of GDP). This is the third time demonetization has taken place. 78% Indian customer’s transactions are in cash. In this conditions bank line outside ATM and bank increase. New currency is different in size or specification so re-calibration of ATM is required. Government also restricted withdrawal limit, create problems for some days to the civilians. It is affecting more to the small business and daily wages workers.

The following chart was describes the GDP rates year wise.



**Description:** In the year 2012-13 the GDP of India was 5.6, in the year 2013-14 increased to 6.6, in the year 2014-15 GDP was increased to 7.2, in the year 2015-16 the GDP was increased to 7.9, and finally the GDP was decreased in the year 2016-17 to 7.1

**EFFECT OF DEMONETIZATION ON BLACKMONEY**

Black money is money which is earned through any illegal activity controlled by country regulations. This money is usually received in cash and this income is not taxed. Recipients of black money must hide it; spend it only in the underground economy. Addressing the media after demonetization finance minister ArunJaitley said that the aim of government is to get rid of black money. Over the past decades Indian economy is facing growing challenge related to black money. India’s black economic currency could be up to 75% of the GDP, as per a confidential report submitted by NIPFP in December, 2013, which is accessed by the Hindu. In common, black money can be define as assets or resources that have neither been reported to the public authority at the time of their generation nor disclosed at any point of time. NIPFP in its report of 1985 defined black income as the aggregates of incomes which are taxable but not reported to the public authorities.

According to National Institute of Public Finance and Policy (NIPFP) defines- “Black Money is the aggregate of incomes which are taxable but not reported to authorities.” Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:

- To avoid payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- To avoid payment of other statutory contributions;
- To avoid compliance with other laws and administrative procedures.

According to Report published by SWISS NATIONAL BANK estimates total deposits as below:

Table-1

S. No	Country	Money deposited
1	INDIA	\$ 1,456 billion
2	RUSSIA	\$ 470 billion
3	UK	\$ 390 billion
4	UKRAINE	\$ 100 billion
5	CHINA	\$ 96 billion

From the table analysis it is clear that India has a Top Position in case of black money with \$ 1,456 billion deposits, Russia has \$470 billion, United States has \$ 390 billion, Ukraine has \$100 billion, china with \$96 billion.

The current measures by the government to withdraw high value notes are likely to destroy about Rs 4 lakh crore worth of cash held in black money and fake currency, which constitute about 12% of the black economy in India, leaving 88% of the black money to remain in the system, India Ratings and Research has estimated. The economic cost of the de-legalization will be Rs 1.5 lakh crore for 2016-17 (FY17), the agency, which has lowered its GDP (gross domestic product) growth forecast for the fiscal to 6.8%, 0.97% lower than its earlier projection. India followed the de-legalization route twice in the past, first in 1946 and then 1978."It is unlikely that fiscally the government will benefit from Rs 4.004 trillion (Rs. 4.004 lakh crore) worth of cash destroyed in the de-legalization process," the agency stated. "On the contrary, government may face lower tax collections in the second half of FY17, due to the slowdown in economic activity," it said.

Although there are various estimates available about the size of the black economy in India, the World Bank had estimated the size of the black economy to be 23.2% of the GDP in 2007. "Assuming that this proportion has now gone up to 25%, the size of the black economy for FY16 works out to be Rs 33.9 trillion (Rs 33.9 lakh crore) (GDP for FY16 was Rs 135.76 trillion (Rs 135.76 lakh crore)," India Ratings said.

Already, several analysis projects that demonetization will bring several long-term besides netting black money deposited in the form of banned notes. Hence, it is logical to classify the black money fighting effect of demonetisation as (a) direct or immediate and (b) long term.

**(A) Direct or immediate effects**

Immediate effect of demonetisation comes through the netting of black money deposited in the banking system in the form of banned Rs 500 and Rs 1000 notes from November 10 onwards. Around Rs 12 lakh crore of the Rs 15.44 lakh crore demonetized currency is with banks now and the

extent of black money identified out of this will be the direct effect. Here, it is believed that an estimated Rs 1.5 to 2 lakh crore may be identified as black income. Out of this, around Rs 1.2 lakh crores may be collected as taxes at 50% to 85% tax rate.

If Rs 2 lakh crore is revealed as black money out of demonetisation, it will amount to around 1.75% of India's GDP. According to National Institute of Public Finance and Policy (NIPFP), black income amounts to nearly 40% of the country's GDP.

**Direct effect depends upon two steps:** The Benami Act and the Pradhan Mantri Garib Kalyan Cessa recent case study on black money front is the non-acceptance of tax from a Gujarati trader -Mahesh Sha and Mumbai family by the Tax Department. In both these cases, the Tax Department refused disclosure under Income Declaration Scheme (which was closed on September 30, 2016) to accept 45% taxes. Instead, the Department invoked provisions of the newly enacted Benami Prohibition Act by waiting till November. The Act prescribes imprisonment up to seven years for having Benami property besides confiscation of the property.

The same procedure will be repeated in the case of big accounts parked with banks under demonetisation. This shows how effective will be demonetisation when combined with a built-in Income Disclosure Scheme in the name of Pradhan Mantri Garib Kalyan Yojana and the sharpened Benami Prohibition Act.

### **(B) Long term effects of demonetisation on black money**

The long-term effect will be much impactful and depends considerably upon how government deploys more measures to depress the shadow or black economy.

1. **Shadow vs. formal economy:** A high proportion of the economic transaction happens in the shadow economy and hence is unaccounted. The real estate sector is the most important example. Reducing the size of the shadow economy by enlarging formal economy is the way out. Here, transactions should be recorded. To be recorded, disclosure about the buying and selling people by quoting their financial ID or PAN card is mandatory especially for big transactions. The real estate sector amounts to nearly 45% of India's parallel economy.
2. **The process of formalization:** Formalization means under the monitoring of the government. Here, two formalization options are needed: recording (a) high value transactions and (b) low value transactions.
3. **A social shake up against black money:** Awareness against black money and consciousness about legal and punitive measures is an intangible positive effect of this demonetisation. It will change the mind-set of the people to keep away from black income. This shakeup of Indian society will be a big outcome though it may not be measurable.

### **IMPACT OF DEMONETIZATION ON SOCIETY**

There is a great impact of demonetization in the Indian society and economy. And most important is that people will have lower expenditure power and they cannot purchase luxurious things and expenditure on marriage and other celebration decreases. Indian economy will see a big boom and booming real assets sector shall fall on the ground. The things become cheaper and Indian currency shall get respect in the international market. Innovative publication and corruption are down to a considerable extent. Thus it will bridge a gap between haves and have nots.

#### **Advantages**

1. The biggest advantage is that it helps the government to track people who keep unaccounted money in cash on which no income tax has been paid; they kept this money at their houses and in some secret place. This money does not value after demonetization.
2. Illegal activities like terrorism funding, gambling these black money are used, so indirect war against terrorism and other illegal activity.
3. Black money inflating the price of major assets like real estate, gold etc. due to demonetization demand of these assets decrease result into decreasing price.
4. Good amount of tax is received which can be used by the government towards betterment of society.

#### **Disadvantages**

1. As everyone is in rush to change their money there is a situation of Chaos which lead to law and order problem and chaotic situation as these money can be exchanged from banks and ATMs only.
2. Destruction of old currency and printing of new currency involve costs, this cost has to be born the government, if the cost is higher than benefit, and then there is no use of demonetization.
3. If black money is not kept in terms of liquid cash and it will be kept as real estate or gold then there will be no use of demonetization.

### **Challenges Of Demonetization**

1. Highly affected by the savings economy
2. No clear idea about money withdrawals
3. To curb small business sectors
4. No permanent and alternative solution of demonetization.
5. More roles for commission agents to exchange old and new currencies.
6. Lack of New Five hundred rupees currencies
7. Tribal and hill area people were highly affected for transaction.
8. No clear idea about Participatory Notes.

### **FINDINGS**

According to the above statements we can find out the corruption status of the country. Checking value of GDP and policies of India. Mostly find out the black money position levels like increased or decreased. The main thing was poor and middle people were suffered a lot with the exchanging the money at banks. And also some inconvenience had done by the bankers like issuing the new currency with more restrictions of attaching PAN, Aadhar cards to bank account and limitation of issuing the money per day.

### **SUGGESTIONS**

As per the above discussion we can say that the main objective of demonetization making India digitalize. Like using Electronic payments, E-commerce, ATM cards, mobile payments. But it was not reached the poor like villagers. Because of the no awareness of it, so the government was take serious action of awareness programs for business people and villagers about digital payments and using internet via computer and mobile. And also take an action on baking sectors which are done the fraud transactions of money, fake deposits. There is only 20% of black money was exchanged so, the government make a policy against black money holders very strictly at all sectors.

### **CONCLUSION**

The above decision in on the recent decision of our Prime Minister Mr. Narendra Modi on demonetization of Rs. 500/- and Rs. 1000/- notes. This decision is not new it has done before in 1946 and 1978. Other countries like Europe, Germany, France and Italy demonetize their currency in the past. Various definitions have declared that demonetization is just to eradicate black money from the economy. This also reduces terror funds and fake notes. More Indian transactions are done in cash, although cash transactions are not bad but it destroys economy. This decision also helps to encourage projects like digital India or case less India. It is also found that although many inconveniences people do not criticized government decision. This affects adversely to the daily wages worker and small business. But all most people stand by the government decision. It is also found that people who own black money find various methods to convert this money into white. And at last but not least as „every coin has two sides“ this decision also do have their own positive and negative impact. So the paper concluded by identifying various pros and cons of demonetization.

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