

Demonetization: An Effort to Curb Black Money in India

“On this earth there is enough for everyone’s need but not for their greed” -M.K. Gandhi

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ABSTRACT - Demonetization of higher denomination notes is one of the major steps of the Government to disclose black-money in India. Demonetization in India is also known as surgical strike on black money. The above statement is apt to describe the present situation of humans that the greed of humans cannot be satisfied and that is a reason why they evade tax or indulge in corruption which promotes parallel economy. Before demonetization government of India took various other steps to curb illegal activities. Demonetization in India was aimed at curbing illegal activities as well as on other related activities that were not disclosed to the tax authority’s. This paper is an attempt to understand the concept of demonetization with some new dimensions, and to study its impact on black money and other sectors of the Indian economy.

KEYWORDS – Demonetization, Black Money, Government, Indian economy.

I. INTRODUCTION

According to oxford dictionary the word “demonetization” means the “withdrawal of a coin, note, or precious metal from use as legal tender”. Demonetisation is a fundamental monetary step in which a currency unit is stated as an invalid legal status. This is usually done whenever there is a change in the national currency of a nation. Another focus area in this paper is black money, it is income illegally obtained or not declared for tax purpose. Black money or parallel economy and false currency lead to increase in terrorism, , crime and corruption.

Recently in India this word was like a buzz, as on 8th November 2016, Prime Minister of India announced that all currency notes of denominations Rs. 500 and Rs 1000 together comprising 86 percent of all the cash in circulation were to lose legal tender .Fifty days times was given to exchange the old notes in bank/post offices were given. Currency notes of Rs. 500 are re-issued and Rs. 1000 currency notes are completely ended. It has to be a sudden and surprise act.

India is not the only country which used demonetization process to deal with black money, corruption, inflation or tax evasion .In Europe, when they introduced the euro as European Union currency old currency was demonetized. It must also be noted that it is not for the first demonetization took place in India, in year 1946,1854,1978,1987,1995,2000,2011 it took place in many forms.

The main objective of demonetization was to flush out the large amount of black money hoarded in cash. It should be

noted that Black money is not synonyms with corruption; it is rather one of the several symptoms of corruption. It is strongly evident that corruption is rampant in economy as the amount of demonetised notes which consequently returned to the Reserve Bank of India (RBI) between November 8 and December 31, 2016. The abolition of corruption is not only a social necessity but also has strong economic rationale. The battle against the corruption and black money has to go beyond a series of surgical strikes and needs clear-cut planning, situational analysis, and then faultless implementation. Corruption in India is a phenomenon that one has to face practically at every level and in every walk of life. It is anti-economic development. The negative consequences of corruption are well known.

Demonetization in India has both pros as well as cons. The short term negative impact of demonetization are like; a lot of people struggled, died as direct and indirect effects of demonetization .Hospitals, clinics, and sellers were not accepting the old money in the transition period .Some of them exhausted in the long que under the hot sun, some injured in agitations. There are many positive impact of demonetization, some of which are -reduced volume of black money, increase in transparency and promotion of less cash economy.

II. REVIEWS OF LITERATURE

There have been several studies on demonetization, black money and its problems in India which provide valuable inputs to this research.

1. (Joshi, 2018)-This study focused on the effects of demonetization in India. According to the author the main

drawback in flourishing of our country is the dissemination of black money which caused debilitating effect on the public policies and the institutions of our country. Black money and false currency lead to increase in terrorism, crime and corruption. As of 2015-2016 statistics shown by Reserve Bank of India rulebook, a total of Rs. 16.42 lakh crore worth of currency was in circulation as at end April 2016. Out of this, Rs. 14.18 lakh crore was in form of Rs. 500 and Rs 1,000 denomination notes represent about 2300 crore notes, which were about 26 percent of total notes in circulation.

2.(Shaikh & Deshpande, 2017)-The Authors focused mainly on the recent demonetization of 2016 and the study covered the period from 8th November 2016 till 31st March 2017. The study was secondary data based. They analysed the history of demonetization in India & in different countries, need for demonetization in 2016, major efforts by the government to execute demonetization policy and its overall impact on Indian economy. The authors concluded that demonetization alone is not sufficient to counter black money and corruption in the country; rather other measures are more crucial like bringing the offshore tax evaders to book whose names figure in the Panama papers, raid on benami properties, making donations to political parties open to public scrutiny and making it mandatory for all donations above Rs 2000 to political parties and religious places to be through digital means only.

3. (Walia & Walia, 2017)-The researchers highlight the extent of black money in India and analysed the efficacy of demonetisation to curb black money. The researcher also analysed some positive impact of demonetization, according to the researchers one of the biggest benefits of this move is that it is going to drastically affect the malpractices of the economy and now people are alert and they have fear that their corrupt practices are not going to survive any long. The smuggling of arms and dealing with the terrorist will not sustain further as all of the money will be on record now and demonetization has wiped out black money accumulated over many years within India. Negative impact of demonetization were also discussed by the researchers like daily wage earners have affected the most due to standing in queue to banks and ATMs, there is creation of short-term unemployment and small business affected due to liquidity crunch, it has also affected the Micro nance institutions and its clients. The researcher concluded that black money assets created and parked in real estate, gold, diamonds, foreign currency, art objects overtimes, as demonetisation can only affect the liquid asset. So there in no such enormous blow of this move.

4. (Zaidi, Wang, Iqbal, Ahmad, Rehman, & Muhammad, 2017)In this paper the researcher discussed the impact of demonetization policy of India on socio-economic scenario and they also focused on success and failure of this policy in many other nations. Success of

demonetisation was in countries like USA, United Kingdom, Australia, European Union, Zimbabwe, Philippines and Pakistan. As far as failure is concerned Ghana, Nigeria, Zaire, North Korea and Venezuela are some countries where demonetization failed. The researcher discussed both short-term as well as long term impact of demonetization in India. Some recommendations like enforcement of severe punishment against people who are promoting bribery and there should be encouragement given to less- cash economy.

5. (Financial Intelligence Unit-India(Annula Report), 2017-18)- The report consists of information regarding cash transaction reports, suspicious transaction reports, and Counterfeit Currency Report. He main findings of the report was that during the year of recent demonetization in India over 14 lakh suspicious transaction reports (STRs) were received by FIU-IND, which is 3 times than the STRs received in the last year.

6. (Patel, 2017)-The author tried to analyse the impact of demonetization on black money. According to the author demonetization was one of the biggest steps to address the problem of black money .He also compare the significance of demonetization in India as well in other countries.

OBJECTIVES OF THE STUDY-

The objectives of this study are as follows-

- To understand the basic concept of demonetization.
- To study the current status of black money in India.
- To analyse earlier efforts of government of India to curb black money.
- To study impact of demonetization on counterfeit currency in India.
- To study the impact of demonetization on various sectors in India.

III. RESEARCH METHODOLOGY

- **Nature of Research** -It is a descriptive or ex post facto research as there is no control over the variables. Demonetization was an event of which present study is an attempt to report its impact on black money and other sectors of the economy with some new dimensions.
- **Collection of Data** – This research secondary data has been collected from government reports, economic survey, journals, articles, newspapers and magazines which provide a valuable input for the research study.
- **Analysis of the Data**-The collected data has been analysed using tables and graphical representation.

BLACK MONEY IN INDIA-Several committees had been formed to estimate the amount of black money in Indian economy which is given below:

TABLE No-1 Extent of Black Money in India

Estimates	YEAR	Black Money (In Rs.)	% of GDP
Kaldor's Estimates	1953-54	600 Crores	6%
Wanchoo Committee's Estimates	1961-62	700 Crores	4.40%
Wanchoo Committee's Estimates	1965-66	1000 Crores	4.20%
Rangnekar's Estimates	1965-66	2350 Crores	-----
O.P. Chopra's Estimates	1976-77	8098 Crores	11.40%
Poonam Gupta and Sanjay Gupta's Estimates	1978-79	46867 Crores	48.80%
National Institute of Public Finance and Policy	1980-81	20362 to 23678 Crores	18 to 21%
	1983-84	31584 to 36786 Crores	18 to 21%
Arun Kumar's Estimates	1995-96	-----	35%
Global Financial Integrity (GFI) Report 2010	2008	\$ 640.7 billion	50%

Source- (Walia & Walia, 2017)

From the above table it is clear that the trend of black money is increasing over the period as several estimates conducted by different agencies and researchers. According to a report prepared by GFI in 2010 the amount of black money was \$640.7 billion which is 50 % of GDP. So it was really important for the government of India to take some major step for curbing such bad practices which ultimately resulted in demonetization of Indian currency

Some New Dimensions - Unaccounted Income

According 12th Annual Report of FIU-IND (Financial Intelligence Unit of India) 2017-18 “During the year the reporting entities inter-alia continued to examine the transaction during demonetization and as a consequence over 14 lakh Suspicious Transaction Report (STRs) were received by FIU-IND, during this year. This increase is almost 3 times than the STRs received in the last year and 14 times than the STRs received prior to demonetization.”¹ Feedback received through the Virtual Office² revealed that during 2017-18, based on the STRs disseminated by FIU-IND, CBDT detected unaccounted income of Rs. 11440.38 crores; ED seized unaccounted assets of Rs. 984.98 crores.

Table no.2- Unaccounted income detected by various agencies

Agency	2014-15	2015-16	2016-17	2017-18	Total
CBDT	4471.65	154.89	3561.07	11440.38	19627.99
ED	25	107.47	-	984.98	1117.45
CBEC	21.59	-	27	-	48.59
DRI	-	300	-	-	300

¹ 12th Annual Report of FIU-IND (Financial Intelligence Unit of India) 2017-18

² <https://fiuindia.gov.in/pdfs/downloads/AnnualReport2017-18.pdf>

Source- (12th Annual report of FIU-IND (Financial Intelligence Unit of India) 2017-18)

In the above table it can be clearly seen that during the last four years (2014-15, 2015-16, 2016-17 and 2017-18), based on the information in STRs³, the increasing value of the unaccounted income detected by CBDT was Rs 19627.99 crore; by ED Rs. 1117.45 crore, by CBEC Rs. 48.59 crore and by DRI Rs. 300 crore. Considering that FIU-IND receives feedback in only about 5% cases, the data shows the significance of FIU-IND’s contribution to the strengthening of the country’s AML/CFT regime. These figures will only go up, as the feedback from the agencies improves.

Earlier efforts of government of India to curb black money- Following are the efforts initiated by the government to reduce black money in India:

1. Special Investigation Team (SIT) in the 2014-15 budget-

The Special Investigating Team (SIT) was appointed by the Government of India in order to execute the decision of the Supreme Court for investigating into the large amounts of money stored in abroad by evading taxes or generated through illegal activities. This team has the responsibility and duties of investigation, initiation of proceedings and prosecution in cases involving unaccounted money. The SIT gives periodic reports about black money.

2. The Black Money Act, 2015-This act deals with making of provisions to deal with problems of black money that is undisclosed foreign income and assets, the procedure for dealing with such income and assets and to provide for imposition of tax on any undisclosed foreign income and asset held outside India. The act extends to the whole of India and came into force on the 1st day of April, 2016

3. The Benami Transaction Act of 2016 – This act is an amendment of Benami Property Transaction Act of year 1988. This act came into force on 1st of November, 2016. Benami transaction means where a person buys a property in the name of another person or gratuitously transfers property to another person without an intention to benefit that another person.

4. Income Disclosure Scheme 2016- The income disclosure scheme, 2016 came into effect from 1st June, 2016. It provided an opportunity to person who had not paid full taxes in the past to come forward and declare their domestic undisclosed income and assets. “As a consequence 64275 declarations were filed upto the midnight of 30th sep, 2016 with an aggregate of Rs.65250 crore worth of hitherto undeclared incomes in the form of cash and other assets being declared.”⁴

³ Suspicious Transaction Reports

⁴ Ministry of finance (GOI) ,CBDT Press release on 1st October ,2016 New Delhi

5. Promotion of cash less economy- As per to promote cashless transactions and converting India into less cash society ,various modes of digital payments are available under digital India programme of government of India like- mobile wallets, mobile banking ,internet banking micro ATMs, banking cards etc.

According to Counterfeit Currency Reports (CCRs) received by FIU-IND through Reporting entities which are required to report all cash transactions, where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place.

Counterfeit Currency and Demonetization-

Table no. 3

Year	09-Oct	10-Nov	11-Dec	Dec-13	13-14	14-15	15-16	16-17	17-18
No. Of CCRs Received	1,27,781	2,51,448	3,27,382	3,62,371	3,01,804	3,53,837	4,10,899	7,33,508	3,53,795

Source-12th Annual Report of FIU-IND (Financial Intelligence Unit of India) 2017-18

From the above table there is a growing trend of details of CCRs received during the past ten years. The no. of reports increased from just 8,580 in 2007-08 to 251,448 in 2010-11 and 3, 53,795 in 2017-18. From this trend it is clear that in the year of demonetization there is huge amount of fake currency reports by the authorities. This is clearly represented in the graph below:

Graphical representation

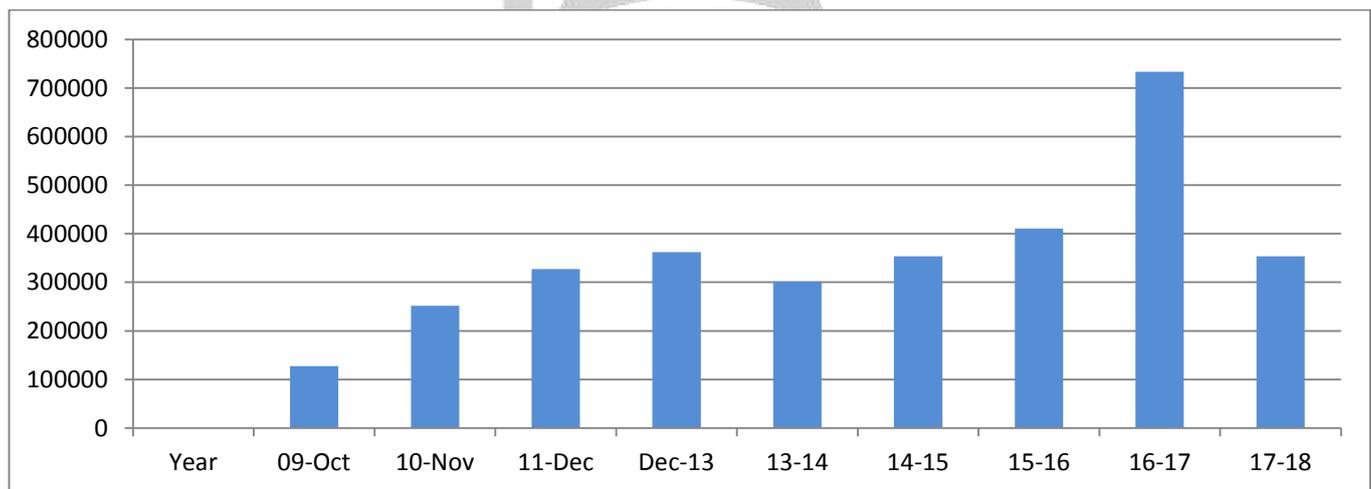


Figure 1

From the above graph which shows a clear picture that in the year 2016-17 the year of demonetization, the no. of reports of counterfeit currency is highest throughout the period in which recent demonetization took place which shows a positive impact of demonetization on it.

Impact of Demonetization on Various Sectors- Demonetization has impacted almost all the sector in Indian economy. According to data released by Economic survey in 2016-17 shows that the impact of demonetization on various sectors of Indian economy differ from short term effect to long term effect.

Table no.4

SECTOR	IMPACT	
	Effect through end-December	Likely longer-term effect
Money/interest rates	Cash declined sharply	Cash will recover but settle at a lower Level
	Bank deposits increased sharply	Deposits will decline, but probably settle at a slightly higher level
	RBI's balance sheet largely unchanged: return of currency reduced the central bank's cash liabilities but increased its deposit liabilities to commercial banks	RBI's balance sheet will shrink, after the deadline for redeeming outstanding notes

	Interest rates on deposits, loans, and government securities declined; implicit rate on cash increased	Loan rates could fall further, if much of the deposit increase proves durable
Financial System Savings	Increased	Increase, to the extent that the cash-deposit ratio falls permanently
Corruption (underlying illicit activities)		Could decline, if incentives for compliance improve
Unaccounted income/black money (underlying activity may or may not be illicit)	Stock of black money fell, as some holders came into the tax net	Formalization should reduce the flow of unaccounted income
Private Wealth	Private sector wealth declined, since some high denomination notes were not returned and real estate prices fell	Wealth could fall further, if real estate prices continue to decline
Public Sector Wealth	No effect.	Government/RBI's wealth will increase when unreturned cash is extinguished, reducing liabilities
Formalization/digitalisation	Digital transactions amongst new users (RuPay/ AEPS) increased sharply; existing users' transactions increased in line with historical trend	Some return to cash as supply normalises, but the now-launched digital revolution will continue
Real estate	Prices declined, as wealth fell while cash shortages impeded transactions	Prices could fall further as investing undeclared income in real estate becomes more difficult; but tax component could rise, especially if GST imposed on real estate
GDP	Growth slowed, as demonetisation reduced demand (cash, private wealth), supply (reduced liquidity and working capital, and disrupted supply chains), and increased uncertainty	Could be beneficial in the long run if formalization increases and corruption falls
	Cash-intensive sectors (agriculture, real estate, jewellery) were affected more Recorded GDP will understate impact on informal sector because informal manufacturing is estimated using formal sector indicators (Index of Industrial Production). But over time as the economy becomes more formalized the underestimation will decline. Recorded GDP will also be overstated because banking sector value added is based (inter alia) on deposits which have surged temporarily	Informal output could decline but recorded GDP would increase as the economy becomes more formalized
Tax collection	Income taxes rose because of increased disclosure Payments to local bodies and discoms increased because demonetised notes remained legal tender for tax payments/clearances of arrears	Indirect and corporate taxes could decline, to the extent growth slows Over long run, taxes should increase as formalization expands and compliance improves

Source – (Economic Survey, 2016-17)<https://www.indiabudget.gov.in/budget2017-2018/es2016-17/echap03.pdf>

From the above table we can say corruption could decline in long run, if incentives for compliance improve and in case of unaccounted money- stock of black money fell, as some holders came into the tax net in short run and Formalization should reduce the flow of unaccounted income if we talk about long run. GDP declined due to reduced demand in short term but in long term there will be positive effect. There is a positive impact on tax collection as demonetised notes remained legal tender for tax payments

IV. SUGGESIONS AND CONCLUSION

Black money is one of the biggest hurdles in the growth and development of Indian economy as there is a huge amount of black money in the economy. Demonetization is not the final and ultimate solution for, curbing black money, counterfeit currency and corruption but it removed existing fake notes from India for time being .It is obvious that fake currency of newer notes will be again in the market but the government tried to make it difficult for them to counterfeit it by adding more security features in currency notes

Needed actions include: implementation of hard punishments for those who breach the tax laws and other related laws, reduction in high tax rates and stamp duties ,promotion of digital India and less cash economy. Although demonetization is one of the major steps of the government of India, but still this is not an ultimate solution. Government has to take even more major steps to fight from this evil and that also very soon.

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