

DEMONETIZATION: IMPACT ON BLACK MONEY

Dr. Diwas Kant Samadhiya
Assistant Professor
Department of Political Science
Government P G College Jalaun (Uttar Pradesh)

ABSTRACT:-

The Indian government recently demonetized high-value notes, such as the 500 and 1000, in an effort to find hidden funds and combat corruption, monetary fraud, and the financing of terrorism. This choice was regarded as the biggest .the most successful campaign against black money in Indian economic history. However, different specialists have different opinions on demonetization, with some arguing that it will hurt the illegal market.

With a population of over 1.25 crore, India is the largest democracy in the world and must meet the needs of a very diverse nation. Since independence, many administrations have implemented policies in an effort to boost economic growth. The actions done in this direction have had a muted impact. This research put a lot of attention on separating black money from undisclosed revenue in order to examine the effects of the procedure. It also attempted to respond to the crucial question of whether the black money was actually found or destroyed during the entire process. It was noted that the procedure had varying effects on the various social groups and had not been able to live up to the government's lofty expectations. But this has undoubtedly raised awareness of and caution about the buildup of black money in India. corruption in the society and population growth. To combat the scourge of black money that is pervasive in society, the BJP government, led by Prime Minister Mr. Narendra Modi, made a significant step by demonetizing the two biggest currency notes, the 500 and 1000 rupee notes. This essay tries to examine both the advantages and disadvantages of the full demonetization procedure.

Demonetization aimed to eradicate black money in the country and stop the usage of the current banknotes, which are reportedly used to finance terrorists. To combat black money, demonetization is a well-established strategy in monetary policy. The amount of black money now in circulation represents a sizable portion of the GDP. To lessen black money, it may be claimed that this is a historical step that needs to be supported by everyone. Demonetization is the process of removing a monetary unit's legal tender status.

KEY WORDS – Demonetization, Corruption, Black money, finance terrorists, GDP, illegal market.

I. INTRODUCTION:-

Every time the national currency is changed, demonetization is required. A new currency unit must be introduced to replace the previous one. Nations demonetize their domestic currency for a variety of reasons. Combating inflation, battling corruption, and discouraging the use of cash are a few of the reasons.

The two largest denomination notes in India, the 500 and 1000 rupee notes, were demonetized in November 2016. 86% of the country's cash was in the form of these notes. The government sought to combat tax evasion, get rid of black money obtained from money laundering and terrorist financing schemes, and encourage a cashless society.

The demonetization, according to the administration, was an effort to stop the country's black money as well as the suspected counterfeiting of the present banknotes used to fund terrorists. The action was cited as a means of reducing smuggling, drug usage, and corruption.

Although it was criticized by members of the opposition parties, the demonetization received support from a number of bankers and some international commentators. This sparked debate in both houses of parliament as well as organized protests against the current government in front of the parliament and elsewhere in India.

Demonetization was regarded as the largest anti-black money campaign in the country's economic history. Numerous reports from experts claim that it will affect black money.

The nation's citizens had just celebrated Diwali, the festival of lights, and had prayed to Laxmi, the goddess of wealth, and they had no idea what was in store for them a few days later. November 8 marked the The country's Prime Minister, Mr. Narendra Modi, declared that after midnight, the most widely used notes in the denominations of Rs. 500 and Rs. 1000 would be regarded as illegal money. The residents were informed that the action would be helpful in reducing the threat of black money in the nation. A significant problem of terrorism that the nation is currently facing in the form of Inter Services Intelligence of Pakistan and the naxalities movement will also be effected due to the demonetization of the major currencies, it was further stated that a significant amount of fake currency that is in circulation is in the form of 500 and 1000 currency notes, and making these currency illegal tender will also affect their circulation making them obsolete.

The country's residents responded to the policy in a variety of ways. others saw it as a revolution in how the nation was run, others saw it as the start of a new age, and some saw it as a risky move that would endanger the country. The government also started implementing some corrective steps to make it easier for citizens to use the money they have in 500 and 1000 rupee denominations. The government announced that the old currency notes will be accepted for emergency services including hospitals, gas stations, and train reservations along with setting December 31, 2016, as the deadline for cash deposits at banks. The government also periodically announced initiatives to ease people's suffering till December 31, 2016. Foreign nationals were allowed to exchange up to Rs. 5000 worth of money each week. They made the necessary notation in their passports to that effect. Senior citizens, Divyang people, clients with bank accounts, and people looking to exchange notes all had separate lines set up. The weekly withdrawal cap from bank accounts was raised from Rs 20,000 to Rs 24,000 per week. The daily cap of Rs 10,000 was eliminated.

Businesses with current accounts that have been open for at least three months are permitted to withdraw up to Rs 50,000 every week. ATM For ATMs that were calibrated, the daily withdrawal cap was raised to Rs 2,500. Only farmers with accounts that complied with KYC requirements were allowed to withdraw up to Rs 25,000 in cash each week. Families attending weddings were allowed to withdraw up to Rs 2,50,000 in cash from their personal bank accounts if KYC requirements were met. The directive to adopt e-payments as much as feasible was given to all central government departments and public sector organizations.

II. IMPACT ON BLACK MONEY

Black money is a term used to describe funds that are obtained illegally or via evading the tax system. Creating dark money in the social .The conduct of public policy and the nation's institutions of governance are negatively impacted by economic and political space. Along with counterfeit money, black money is linked to both crime and terrorism.

As of the end of March 2016, there was money in circulation worth a total of Rs. 16.42 lakh crore, according to the RBI handbook on statistics of the Indian economy for 2015–16. Out of this, Rs. 14.18 lakh crore was in the form of notes in the denominations of Rs. 500 and Rs. 1000, totaling roughly 2200 crore notes, or nearly 26% of all notes in circulation.

Digital or cashless transactions are the greatest long-term solution for illegal money. There are more opportunities to hide it when it becomes more physical. Cashless transactions such as credit/debit cards, digital wallets, checks, etc. offer numerous benefits. Given that the user is cautious and is knowledgeable about it, all of these transactions are far safer than other methods of transaction. India is a fairly big country, thus educating the populace about cashless transactions may take some time.

Experts have differing opinions on demonetization; some believe it will hurt the black market, while others disagree.

III. THE UNFOLDING ADVERSE IMPACT

This section focuses on the second line of criticism, which criticized the demonetization of currency and the harm it would do to both the economy and the populace. Three phases made up this strand. The measure's flaws and the potential harm they could create by the way it was administered, which led to a breach of public confidence, were highlighted in the first phase.³ The prime minister's assertion that "the amount of cash in circulation is directly linked to the level of corruption" was criticized for being unfounded. For instance, it was discovered that Japan, Hong Kong, and Switzerland, with their respective currency-GDP ratios of 18%, 15%, and 11%, had very low corruption perception ranks of 11-18, whereas Turkey and Mexico, with their respective very low currency-GDP ratios of 5-6%, had extremely high corruption perception ranks of 66 and 95, respectively .It was suggested that India's currency-to-GDP ratio of approximately 11% could not account for its high corruption perception score of 76. Further, it was noted that the demonetization of high value currency notes ('1,000, '5,000, and '10,000 notes') carried out by the then-prime minister, Morarji Desai, in 1978 was not comparable because the demonetized currency notes at the time represented a negligible fraction of 0.6% of the total currency in circulation, in contrast to the 2016 decision, which involved 86% of the currency in circulation. The misery caused to citizens by the protracted money scarcity was mentioned.. These were based on careful calculations showing that, given the capacity of the current security presses, it would take 5–6 months to replace old notes with new ones instead of the claimed 50 days by the prime minister. Predictions of a slowdown in economic activity that would have the greatest negative effects on agriculture and the informal sector, particularly on the employment and well-being of workers employed in these sectors, would result in GDP growth of only about 1%, or a decline in growth of more than Rs. 1 lakh crore .Numerous reports from various regions of the nation and the economy served as the foundation for the second wave of criticism directed at the demonetization process. Inadequate and frequently dysfunctional ATMs, numerous and growing restrictions on cash withdrawal from both ATMs and banks for months at a time, and nearly a hundred reported deaths as a result of these ordeals were all reported as the process of demonetization was implemented. According to studies, the loss of labor and pay had a negative impact on older people, women, self-employed people, and casual daily workers. The informal sector suffered a great deal as a result. The marketing issue with kharif's (monsoon crops) yield and the ensuing cash shortage had an impact on rabi's (winter) agriculture.

The honest Indian who receives wages in cash will suffer severe harm as a result of the decision to demonetize. The thieves who hoard black money will only receive a little slap on the knuckles. When the Supreme Court heard a public interest lawsuit over demonetization, it was noted that it was a "carpet bombing" of currency rather than a "surgical strike" against black money.⁵ Early on, the government's response was to deny the impact on the economy. However, towards the end of August 2017, official data from the Economic Survey 2016-2017 (Part II), the RBI Annual Report 2016-2017, and the Central Statistics Office's (CSO) GDP projections were all accessible as unflinching proof that the criticisms were correct.

99 percent of the demonetized money had returned as deposits by the end of July 2017, according to the RBI Annual Report 2016-2017. Once the demonetized cash from the district central cooperative banks and the deposits of Nepali citizens in India were ultimately accounted for, even the final 1% was questioned. Exaggerated estimations were made by the government, which claimed that "3-4 lakh crore of the money held as black money would not return to the banking system and would instead end up as profit of the RBI that would flow to the government as dividend and be used for welfare of the people." In opposition to this, the data made it seem likely that at least 0.15 lakh crore, or 1%, of the demonetized currency would be kept back and rendered invalid. Consumer durables saw a decrease in demand. Due to the pressured state of the discoms and the decreased demand for energy, thermal power plant capacity utilization fell for the seventh year in a row. The year saw rising deposits but the slowest rise in credit in the previous 20 years. Bank stressed advances (NPAs), which measure the quality of a bank's assets, increased, reaching 12.1% by March 2017.

The first quarter of 2017-2018 (January–March 2017) GDP growth estimates provided by the CSO reveal a consistent fall in growth rate over the course of the previous five quarters, from 7.6% in the first quarter of 2015–2016 to 5.6% in the first quarter of 2016–2017. The overall industrial production fell, which was reflected in a reduction in manufacturing's pace of growth. Mining remained in the negative zone as construction lagged. Trade played a major role in the reduction in service sector growth. And the most recent projections revealed a 2% decrease in food grain production. The concealed income that was discovered to be '17,526 crore barely generated '1,000 crore in revenue. There were numerous allegations that the decline in the percentage of Jan Dhan accounts with zero balances—which fell from 76.81 percent in September 2016 to 21.4 percent in August 2017—was actually the consequence of black money hoarders exploiting users of Jan Dhan accounts to launder some of their stock. It is hardly surprising if one group of thieves outsmarts the other. The RBI clearly suffered additional costs totaling Rs 22,548 crores as a result of the production of new money, its quick distribution, and the increased interest costs associated with the inflow of deposits.

At a tax-to-GDP ratio of 9%, the loss in taxes due to even a 1% drop in GDP growth amounted to \$9,000 crore. Even after 10 months of demonetization, independent evaluations by firms like McKinsey indicated that corruption had not decreased. Nevertheless, the Ministry of Finance stated in August 2017 that "some people expected a very large shock to economic growth on account of demonetisation" despite the existence of these data. Their hopes are disappointed. India has persisted in having one of the world's strongest growth rates.

However, the reality is that counterfeit goods are just as prevalent as new money and cannot be completely eliminated. In addition, the Ministry of Finance made a further assertion that one of the goals of demonetization was to move economic activity from the informal to the official sector in order to broaden the tax base and greatly accelerate digitization (Ministry of Finance, Government of India 2017). This led to charges that the administration was trying to pass off a gigantic failure as a spectacular accomplishment while changing the goalposts away from eradicating black money and combating corruption.

IV. HOW IT WILL CURB BLACK MONEY :

- 1- In India, cash transactions are commonplace across all societal segments, and some negative social elements slyly abuse this tendency. Due to this practice, even those who had money in an account began using cash transactions for large-value transactions.
- 2- It has paralleled unaccounted money and is even greater than the normal economy. black money, corruption, fake currency, and funding for terrorism in the parallel economy. These problems prevented the economy's expansion and growth.
- 3- In light of this context, demonetizing the Rs. 500 and Rs. 1000 notes strikes many as a genius move because it will enable the economy transition to a digital economy while also addressing problems like corruption and black money.
- 4- The action will either force to destroy the unaccounted currencies or uncover the black money that was cut out in the form of cash. Demonetization will significantly reduce the threat of black money and aid in preventing money stashing.
- 5- Similar to that, it has a significant impact on India's corruption and financing of terrorism. Hence it was considered as courageous step in the fight against unaccounted money.

V. SOME ARGUES AGAINST OF IT:-

- 1- 86% of the currency in circulation in India is in the form of high value currency notes.
- 2- Even if more than 50% of the currency in use is illicit, the majority of it will eventually return to the banking system and be recycled into new notes.
- 3- Some analysts claim that the sheer logistics involved prevent those who possess black money, tax evaders, and corrupt officials from concealing it in their residences as cash.
- 4- Many people believed that the demonetization wouldn't harm them because tax-evaded money was typically invested in businesses and real estate.
- 5- Demonetization may not have the desired impact on the black market; instead, it annoys the broader populace.
- 6- Some estimates place the amount of black money in India between 20% and 60% of GDP and beyond, while the amount of cash in circulation is just 12% of GDP.

VI. SUGGESTION:-

The government has implemented a number of steps to combat the threat posed by black money, both at the policy level and on the ground. Among the significant actions lately done are:

- 1- Creating a special inquiry team, leading it with a former Supreme Court judge, and putting some of its suggestions into action
- 2- 'The Black Money and Imposition of Tax Act, 2015' is a new law that was passed to address black money that was hidden abroad.
- 3- enhancing information sharing and interaction with overseas counterparts, and actively participating in international efforts to combat tax evasion and the black market
- 4- Presenting the 2016 Income Declaration Scheme.
- 5- PAN numbers being required for high value transactions, etc.
- 6- Utilizing enforcement organizations to take action against hoarders
- 7- Establishment of a multi-agency group including the CBDT as a member (investigation) to facilitate quick investigations of Indian citizens who may have unreported foreign assets.

VII. CONCLUSION:-

One of the key measures towards the eradication of dirty money in India was the central government's recent decision to demonetize the high value currency. The general populace will be impacted by the demonetization push to some extent, but such measures are unavoidable for the country's overall interests. Although it may not completely stop the flow of black money, it undoubtedly has a significant influence.

The main results of the entire demonetization process have been that it has raised people's knowledge of black money and instilled a sense of terror in them when it comes to carrying about hard currency. Although efforts are currently being made to raise awareness of cashless payment methods in metropolitan areas, people in rural areas are still hesitant to use them. While this method has undoubtedly eliminated the black money that individuals have amassed, the economy has not benefited greatly because the money was not detected but rather destroyed. The legal and legislative procedures will continue to determine how the country's dark money will develop in the future.

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