

Demonetization: Major Impacts And Effect On Black Money

Abstract

Whenever there is a change of national currency demonetization occurs. It is an act of stripping a currency. The current money in circulation is retired and replaced with new notes and coins. In some cases a country completely replaces the old currency with new currency. Its biggest mission is to fight black money. When demonetization occurs people deposit their cash in banks rather than storing more physical currency at home. In the months following the November 2016 demonetization, approx 99 % banned currency notes were deposited in different- different banks. It made people financially aware regarding various spending options.

Keywords: Financially, Demonetization, Stripping, Currency.

Introduction

Impact of demonetization on Indian Economy

Scheme of demonetization was introduced by the government for eliminating black money and counterfeiting. It was not the first instance of demonetization in India, earlier also in 1946, the Reserve Bank Of India had demonetized Rs. 1,000 and 10,000 currency notes. New currency notes of Rs. 1,000 , Rs. 5,000 and Rs. 10,000 were introduced by the Government in 1954. These notes were demonetized in 1978. Its objective was to plug financing to terrorists, unearth black money, and formalize India's informal economy.

Effects of Demonetization on Black Money

Money earned through illegal means is black money. Note ban has proved a key step in a chain of vital decisions adopted by the government in formalizing the economy. The effectiveness of demonetization against black money depends upon the follow up as well as the supportive measures. Demonetization is a currency side step that itself will not curb black money. The most crucial policy should be tax administration , where the tax authorities can keep a watch on expenditure and match it with the income of the respective individuals ,effect of demonetization for removal of black money can be classified as-

1. Direct or immediate effects
2. Long term effects

Direct or Immediate Effects

Demonetization comes through the blocking of black money deposited in the banking structure in the form of Rs 500 and Rs 1000 notes from November 10 onwards. Atleast Rs 12 lakh crore of Rs 15.44 lakh crore demonetized currency is now reaches with banks and with extent of black money identified with out of this will be the direct effect. Here it is believed that an estimated near about Rs 1.5 to 2 lakh crore may be identified as black income. Out of all this near about 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 demonetization this will amount to around 1.75% of India's GDP as per the recent studies conducted by The National Institute of Public Finance and Policy (NIPFP) the black income amounts to nearly 40% of the country's income of GDP. Direct effect depends upon two steps first is the Benami Act and second Pradhan Mantri Garib Kalyan Cess.

A recent study on black money front is the non-acceptance of tax from a Gujarati trader -Mahesh Shah and Mumbai family by the Tax Department. both these cases, the Tax Department refused disclosure under Income Declaration Scheme (which was closed on September 30, 2016) to accept 45% taxes. the Department



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invoked provisions of the newly regulated Benami Prohibition Act. This Act prescribes imprisonment up to seven years for having Benami property besides blocking of the property.

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

Long term effects of Demonetization on Black money

Efforts of demonetization led by PM Modi in India is appreciable but follows both positive and negative aspects. The aim is to wash the black money out of the economy and get it banked. Now transactions will move to white economy by banking system which will lead to surge in bank deposits .savings in terms of deposits are also expected to go up.

Shadow vs Formal Economy

Shadow economy refers to the informal sector. It includes criminal activities such as drug dealing, smuggling etc. . What goes on in the shadow economy is not include in the GDP i.e. GROSS DOMESTIC PRODUCT. Whereas, the activities which are taxed and monitored by the government and are included in the GDP i.e. GROSS DOMESTIC PRODUCT come under the formal sector.

Unscrupulous Charitable Trusts and Societies

Including religious institutions manipulate the funds of the institutions run and managed by them and create black money. A stark example of this has come to light when crores of rupees in hard cash and several more crores of rupees worth jewellery, diamonds and other valuables have been taken over when the personal chambers of the late Satya Sai Baba were opened recently at Puttaparthi in Andhra Pradesh . Many discussions are in process to clear out that whether the money found at Satya Sai Baba's Ashram is accounted or unaccounted money. Exact decision would be possible by the serious decisions and investigations undertaken by the government. Still many more are likely to exist , this is just one example which has come to light because such institutions are exempted from submitting the income and expenditure reports. It is feared that a big amount of black money is being generated by the religious, social and educational trusts throughout the country.

The Transactions of Cash made through the Hawala

Transactions of cash made through the hawala route are also one of the greatest sources of creation and use of black money. Several hawala rackets were busted by the police on many occasions

but the hawala operations are still going on. Transactions through hawala route are thought to be the south Asia's biggest money transactions system. The hawala transactions are common across our national and international borders where money changes hands through non-banking channels and thus goes unrecorded and becomes black money.

Objective of the Study

1. To find the effects of demonetization on Indian economy.
2. To study the effects of black money over Indian economy.
3. To find the relevant methods for removing the drawbacks of demonetization.
4. Methods taken over by Government for improving economy from such drawbacks.
5. To know about the income tax collections.
6. To study the effect of demonetization on increase of digital payments.
7. To study about the decrease in the terror activities and attacks by Maoist and Naxalite radical groups which was attributed to lack of finance following demonetization.

Conclusion

An awareness against black money and consciousness about legal and punitive measures is an intangible positive effect of this demonetization. It will change the mindset 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. It will help to achieve a cleaner society with low crime rates because it would be difficult for terrorists, smugglers etc. to operate through banking channels. The Prime Minister of India Shri Narendra Modi claimed that the action would curtail the shadow economy and reduce the use of illegal cash .

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