



Demonetization and black money

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Abstract

Because India is the largest democracy in the world and has a population of more than 1.25 crores, it is responsible for meeting the needs of a nation that is extremely varied. Since the country's independence, several administrations have instituted policies and procedures in an effort to attain high rates of economic growth. The ever-increasing population together with the pervasive corruption in the society have both served to undermine the progress that has been made in this area. Demonetizing the two major currency notes of rupees 500 and rupees 1000 was a big action that was taken by the BJP Government lead by Prime Minister Mr. Narendra Modi in order to combat the problem of black money that is widespread in the society. This measure was taken in order to reduce the threat of black money. The purpose of this study is to investigate both the good and the negative effects that the entire process of demonetization has had. In order to analyze the effects of the procedure, this research placed a significant amount of attention on distinguishing between black money and undisclosed income. Additionally, the authors attempted to provide a response to the essential issue of whether or not the black money was uncovered or lost during the course of the process. It was seen that the process had diverse effects on the various parts of society and that it was unable to live up to the high expectations set by the government. This was a problem because the government had stated that it would be able to achieve these goals. However, as a result of this, people in India are more aware of the risks associated with the buildup of black money, and they are taking those risks more seriously.

keywords: Black, Money, Demonetization

INTRODUCTION

The citizens of the nation had just finished celebrating Diwali, also known as the Festival of Lights, during which they honored the Goddess of Wealth, Laxmi, but they had no idea what was going to happen to them in the next few days. Mr. Narendra Modi, the Prime Minister of the country, made the announcement on November 8 that the denominations of Rs. 500 and Rs. 1000, which are the most commonly used currencies, will be declared illegal currency after midnight. The reasoning that was offered to the people of the country was that the legislation will act as a remedy for the problem of black money that exists in the country. It was also stated that the majority of the counterfeit money that is currently in circulation is in the form of 500 and 1000 note currency, and that rendering these currencies illegal tender will also affect their circulation, rendering them obsolete. Along with this, it was stated that the major problem of terrorism that the country is facing in the form of Inter Services Intelligence of Pakistan and the naxalities movement will also be affected as a result of the demonetization of the major currencies. The residents of the country reacted in a variety of different ways to the measure. Some people saw it as a revolutionary change in the way the government operates, others saw it as the beginning of a new age, and yet others saw it as a risky action that will ruin the economy of the country. Some corrective actions have been taken by the government in order to make it more easier for the people to use the quantity of cash that they have in denominations of 500 and 1000 rupees. The government has established the 31st of December, 2016 as the deadline for depositing cash at banks. In addition to this, the government has declared that older currency notes would be accepted for payment of emergency services such as hospitals, gas stations, and train reservations. The date for this change was set by the government. The Government also announced certain steps to decrease the misery of the people periodically up until the 31st of December, 2016. These actions are expected to be

implemented. The Foreign citizens were allowed to exchange up to 5000 rupees worth of foreign cash once every seven days. An appropriate notation to this effect was written into each of their passports. consumers having accounts at the bank, consumers wanting to exchange notes, and senior citizens and divyang individuals were all sent to separate lines. The previous weekly withdrawal restriction of 20,000 rupees from bank accounts was raised to a maximum of 20,000 rupees each week. The daily cap of Rs 10,000 has been eliminated as an option. It was permitted for commercial enterprises with Current Accounts that had been active for the preceding three months or longer to withdraw up to Rs 50,000 every seven days. ATM The daily withdrawal limit for ATMs that were recalibrated was raised to Rs 2,500 from their previous level. Only farmers who had bank accounts that complied with KYC regulations were allowed to make cash withdrawals of up to Rs 25,000 per week. Families who were attending weddings were given permission to withdraw up to Rs. 2,50,000 in cash from their personal bank accounts provided that the accounts complied with KYC regulations. It has been ordered that all departments of the Central Government and all public sector enterprises make use of the electronic payment system to the greatest degree that is feasible.

BLACK MONEY AND DEMONETISATION

To begin, black money is a symptom of a more widespread problem in society, and demonetization is just one component of the larger effort to combat black money. Both "black money" and the "black economy" are distinct concepts in their own right. In addition to "black economy," the phrases "shadow economy" and "underground economy" are also often used as synonyms for "black economy." The currency used in the underground economy is known as "black money." It is a term that refers to money that has been generated illegally through unlawful sources and has not been revealed to the authorities. The benefit of using illegal funds is that they may function inside the lawful economy and take use of its opportunities without being required to contribute to the expenses of doing so.

PRINCIPLES OF TACKLING BLACK MONEY

The first step is to alleviate the suffering caused by the underlying system, which is the primary motivation for the production of illegal funds in the first place. The department of taxes is to blame for this. Black money is simply money that is earned via normal transactions but kept concealed from the government in order to circumvent having to pay the transaction costs (often tax) that are associated with legitimate economic activity.⁷ Utilizing actual cash is the typical method for accomplishing this. After that, this currency needs to go through some sort of processing so that it may be spent or invested. The term "black economy" refers to a variety of operations, transactions, and other activities that assist in the processing of physical currency, the creation of returns on this cash, the facilitation of consuming using this cash, and other similar activities. The second guiding concept is divided into two sections. To begin, not every single transaction involving cash is certainly a transaction using illegally obtained funds. Only if they are kept secret from the economy that is legally sanctioned can they qualify as black money transactions. Therefore, the proprietor of a store who does not provide a receipt but nonetheless reports the transaction as having taken place does not engage in the creation of illegal funds. On the other hand, a black money transaction is created when a store owner issues a receipt but simultaneously shows the tax authorities other receipts from the store's ledger. This occurs often. Second, the illegal funds eventually have to find their way into the formal economy in some form or another. Therefore, it is not possible to do it using user-created currency because such currency cannot be swapped for the native currency. So it relies on legal tender. This implies that somewhere along the line of distribution there must be a person who receives a portion of this illegal currency as legal cash income, which he is then able to utilize for his own personal consumption through legitimate channels. Typically, this will be a construction worker or another person who is among the lowest of the poor who will provide specific services while keeping his salary hidden from the government. It is also possible for unlawful merchants in precious metals and stones, such as gold and diamonds, to turn this into valuable objects that have a status similar to that of legal money. The third and last takeaway is that the underground economy is kept afloat by segments of the legal sector that operate in the shadows. Even if they oppose the practice, a sizeable number of individuals continue to participate in it. They are either forced to do so by another party, such as a developer who demands immediate payment from a purchase or a government official looking to receive bribes in cash. Therefore, the first step

is to find a way to keep white money from turning into black money. Several approaches are outlined in the report's recommendations, which are called "Measures to tackle Black Money in India and Abroad." The fundamental idea is to make it more expensive to change legal currency into cash, which would result in the government losing its power to monitor its circulation. At the same time, lowering the fees associated with electronic transfers should be done to encourage their use. Money that is not legally accounted for travels through a second route. This channel possesses the necessary infrastructure to handle illegal funds. The truth is that illegal funds almost never stay in monetary form. The focus then shifts to high-value assets such as real estate, diamonds, gold, films, and so on. The persons who are involved in these industries have developed sophisticated ways to take in illegal funds. Establishing cash-only value chains across the board is one approach that may be taken. It is simple in industries like construction and film production, where most workers and suppliers are independent contractors and not organized into unions. Eliminating black money will need the implementation of systematized policies that simplify the process of accepting electronic payments by the many actors in the value chain. The black economy is dependent on the financiers of black money. These are individuals who lend money for the purpose of financing operations in industries that are amenable to black money and receive a monthly return of around 2% on their investments. Film funding, building financing, retail financing, financing for dance clubs, alcohol, and so on are all examples of this. These funders also require some sort of enforcement mechanism to guarantee the security of their money. They have little choice but to form alliances with criminal elements. The notorious Chicago gangster Al Capone started out as an enforcer but subsequently transitioned into the role of a financier. The decision of whether to invest or spend is available to black money just as it is to legal money. When it comes to investments, it looks for industries that are amenable to the use of illegal funds. People who acquire several flats from developers with the intention of the developer subsequently reselling those units for a profit are seen to be contributing to the investment side of the market because their agreements are not registered and they do not pay stamp duty on the transactions. Jewelers and other merchants who deal in precious stones also make valuable contributions to this sector. On the consumption side, black money seeks to buy three things: legitimate goods that can be consumed openly (i.e. normal things in abnormal amounts – say many shoes, many suits etc.), illegitimate goods that can be consumed secretly (banned or imported exclusive foods – caviar or expensive wines, expensive furnishings, home decorations etc.), or stored secretly (high-end safes, etc.). Black money seeks to buy legitimate goods that can be consumed openly (i.e. There are paths that may be followed inside these industries to reach the individuals who are hoarding the money. There are also perfectly legal investments that are made with illegal funds. The importance of foreign outlets cannot be overstated. Significant amounts of money that are invested in P-Notes are, in reality, laundered through a third country. The most important feature of these tools is their capacity to generate anonymity by being outside of the reach of the legal systems of the countries from where revenue can be transferred to lawful hands. In these kinds of situations, the source of income is unethical. Because of this, there are a lot of enterprises in tax havens like Mauritius and the Cayman Islands and other places that turn illicit money into legal money. A significant number of these investments can be categorized as forms of money laundering. Providing incentives for the use of electronic transactions helps reduce the need for the usage of cash. To encourage the use of electronic transfers, taxpayers might deduct a portion of their purchases made using credit cards or online payments, subject to a certain cap. The OECD has deemed the South Korean government's experiment in deducting revenue from credit card purchases a success.

WHY ATTACK THE CASH?

To begin, who is in possession of illegal funds in cash form? People who are mostly corrupt. Their profits are stashed away in luggage and under mattresses in their homes. These are balances that are being kept until the target investments can be located. Gold and real estate are the two primary assets that are most commonly used to store illicit money. Cash, often known as "black money," is the currency that is used in the dark economy, as was previously mentioned. If illegal currency is allowed to exist alongside legitimate currency, the government will be powerless to do anything to combat the problem. To change the cost-benefit ratio of corruption, however, the government must first eradicate its legitimacy in the eyes of the public. The practice of demonetization disrupts the flow of cash into the shadow economy. However, eliminating the cash that might be used to acquire these gold items will have an effect on the supply networks used in

the underground market. When the flow is disrupted, the cost of committing corruption rises, while the payout suffers a significant decrease. This kind of activity undermines the system that deals with illegal funds. It is probable that as a result of this, both the price of land and the price of gold will decrease. If the price of land continues to decline, more people in the middle class will be able to afford it. The foreign exchange pressure on the Indian Rupee (INR) will lessen a little bit if gold purchases are cut back. Therefore, legally earned income, which was previously priced out of the market, now has the option to participate. In addition, it stops the processes that turn white money into black money from turning white money into black money.

BLACK MONEY IN REAL ESTATE GOLD ETC

Gold, precious metals, valuable stones, real estate, high-end consumer goods, high-end booze, narcotics, and entertainment are the most common things that are purchased with black money. Other common purchases include high-end consumer goods. It is uncertain what the overall quantity of gold, other precious metals and stones, some high-end consumer goods, liquor, and other luxury items on the market that are declared and may be purchased is. Their cost is rather easy to determine. The government is aware of the amount of things like real estate and entertainment, but they are unaware of the costs of these things. Both the amount and the pricing of high-end booze, narcotics, and other things remain unknown to the authorities. This kind of consumption, which is fuelled by black money, falls outside the jurisdiction of the legal and lawful economy. The implementation of demonetization will have a beneficial impact on consumption patterns like these. Either this spending will stop, which will result in a reduction in the illicit importation of gold, precious metals, stones, booze, narcotics, and certain forms of entertainment (like dance clubs, for example), among other things. Other components will be brought into the official system, and as a result, legitimate money for the government will be generated through increases in the costs of real estate and entertainment. To summarize, there won't be much of an impact on demand for these products in the short term, and there certainly won't be any in the long run. There is no way around the fact that the shadow economy will give way to the formal economy in terms of how demand is shaped.

Review Of Literature

Tandon and Kulkarni (2017) conducted research and found that there is no assurance that there would not be any creation of illegal funds in the foreseeable future. It is alleged that the workers of the political party leaders are flooding the lines of people waiting in front of the banks to deposit the money in their accounts, which causes the lines of people waiting to become extremely long. In only three days, a total of Rs. 170 crore was put into Jandhan Accounts that had initially been formed with empty balances.

Express Web Desk (2016). Reported the news from the Sydney Morning Herald, which noted that the measure by Modi, who is reaching the half-way mark of his tenure, is an attempt to fulfill his electoral pledge of limiting tax evasion and reclaiming unlawful revenue, sometimes known as black money, hidden overseas. This promise was made during the election campaign. The extraordinary measure that Modi is taking comes on the heels of a similar step that has been taken by the European Central Bank, which is terminating the usage of 500-euro notes to prevent their use in "illicit activities."

The Economics Club Of Imi (2016,) came to the conclusion that this measure is an important step toward reducing the circulation of counterfeit notes and illegal money in the economy. Despite this, India has a long way to go before it can create a digital infrastructure, which, in turn, would give a framework to monitor the country's unreported revenue. There is also the possibility that the two-thousand rupee note may once again initiate the never-ending cycle of black money, but at a pace that is far greater this time.

Patnaik, Prabhat (2016) summed up their argument that the move to demonetize the Rs. 500 and Rs. 1000 notes was ill-conceived and will not solve the problem of black money.

Zong, Raymond, And Singh, Karandeep (2016) made the observation that the sudden scarcity of paper money is being felt most sharply distant from India's megacities as authorities try to replace the more than 20 billion notes that are being ripped out of the system to punish cash- hoarding tax evaders. The authorities are doing this to punish cash- hoarding tax evaders.

Results And Discussion

THE ECONOMICS OF BLACK MONEY BEING DISCOVERED OR DESTROYED: As an economy in the process of development, India has a challenge. Black money creates a significant roadblock in the process of its growth, but it is necessary to consider whether the black money should be exposed or eradicated in order to go forward. During the current process of demonetization, illegal forms of currency have been eradicated. An illustration is all that is required to grasp its meaning. Let's say Mr. X has an unreported income of Rs. 100,000 in the shape of Rs. 500 and Rs. 1,000 cash notes. Now, in order to get rid of that cash, he has three alternatives available to him. Option 1 is to place the funds in a bank account. The outcome of choosing Option 1 is that the money is placed in the bank. In the future, the government may levy an income tax on that money, the rate of which may be as high as 10% or even more. The fact that 90% of Mr. X's money is now white money is an advantage for him, but the fact that the government got Rs. 10,000 in illegal tender money means that this money cannot be utilized in the economy. Eventually, it will have to be destroyed and replaced with the new currency. Mr. X reaps the benefits of this situation. Now the economic burden that has been placed upon the government is to shoulder the expense of printing new currency worth 10,000, and for that it is only obtaining the money in the form of income tax from Mr. X. Therefore, it represents a significant cost to the government with just a marginal advantage for the economy. Option 2 is to lose or throw away the money. Even if Mr. X decides to throw away Rs. 100,000 all by himself, that money is gone forever and cannot be put to productive use for the sake of the economy. Option 3: Attempt to make changes to the money via unethical tactics. If Mr. X chooses to take advantage of unfair means, such as purchasing a train ticket for Rs. 100,000 and then canceling it afterward because the railways accepted the illegal tender money even after demonetization as per the instructions of the government, then the money that the government is receiving from the purchase of tickets will eventually have to be destroyed and it will not be able to be used for the benefit of the economy. If the measures had been taken in such a way that the black money could have been discovered, such as through legal measures or income tax raids instead of demonetization, then this Rs.10000, which is legal tender money, could have been used for the benefit of the economy, and it could have been said that the black money has been discovered. However, since the measures taken were not such that the black money could be discovered, demonetization was the only option.

FORWARD AND BACKWARD EFFECT OF DEMONETIZATION PROCESS. Both forward and backward impacts should be included as crucial components of any strategy aimed at reducing the flow of black money. The entire process of demonetization had the impact of going in the other direction since it led to the destruction of the illegal funds that had already accumulated in the country. It only had an effect on the hard cash that had been amassed in the denominations of 500 and 1000 rupees respectively. It never established a procedure for putting a halt to the production of illegal funds in the economy.

STATUS OF CURRENCY DEPOSITED DURING DEMONETIZATION IYER VAIDYANATHAN P (2017) wrote an article that was published in the Indian Express on January 10, 2017, stating that the government had received Rs. 14 lacs crores worth of old currency notes, while only Rs. 75,000 crores were missing. According to a written reply given by Minister of State for Finance Arjun Ram Meghwal in the Rajya Sabha, "the approximate cost of printing each note of new Rs 500 currency is in the range of Rs 2.87 to Rs 3.09 and for a Rs 2,000 note is Rs 3.54 to Rs 3.77," Therefore, in order to give a replacement for about 14 lacs crores of old money, the government will need to expend around 21 lacs crores of rupees in order to supply the same amount of cash to the Indian Economy. The final advantage of the demonetisation process is only a backward impact, which means that it has no limitation on the fresh accumulation of black money in the nation. This is despite the fact that the procedure cost a significant amount of money and caused widespread fear in the country.

STATUS OF CASHLESS MODE AS SUGGESTED BY THE GOVERNMENT

STATUS OF CASHLESS MODE AS SUGGESTED BY THE GOVERNMENT The government decided to go through with a plan to transition the economy away from a cash economy and toward a cashless economy, with the goal of encouraging digital payment methods. This was done both to address the problem of a lack of cash in the economy and to forestall the creation of black money in the future. KHOSLAN SAKSHAM (2016) asserts that the cashless india initiative is a significant distance from its intended destination. Opening bank accounts does not provide individuals the ability to conduct digital financial transactions any more than expanding the number of schools does anything to boost the literacy rate. There are still key demand-side and supply-side gaps: 23% of PMJDY accounts are dormant at this time. A recent inquiry that took place in September discovered that 10 million accounts had only one rupee in them. This was due to the fact that bank staff had taken matters into their own hands in order to lower their branch's proportion of accounts with zero balances. A financial inclusion firm carried out a study of clients of the PMJDY program, and their findings revealed that just 33 percent of the recipients were prepared to use their Rupay cards. The other individuals were unable to comprehend the intricate PIN and activation processes. Customers' faith in ATMs and POS machines has been further weakened as a result of inconsistent energy and occasional internet connection. It just takes one unsuccessful transaction for a whole community to renounce the use of official financial institutions. This is a structural limitation in addition to being a logistical barrier. The infrastructure necessary for card acceptance is having trouble keeping up with India's rapidly expanding population: in 2014, there were only 18 ATMs and 13 commercial bank branches for per 100,000 individuals, whereas in Brazil those numbers were 129 and 47, respectively. Between the years 2013 and 2015, the use of debit cards increased at a rate that was twice as fast as the number of point-of-sale machines and at a rate that was one and a half times the number of automated teller machines. The majority of the new infrastructure was established in metropolitan centers. The contemporary banking system in India is a perfect fit for the country's socioeconomic and spatial imbalances. In rural India, just 18% of all ATMs are now operational. According to studies conducted by the RBI itself, states with a larger proportion of residents living in rural areas and a higher proportion of women had lower rates of financial inclusion. The significance of mobile wallets in accelerating the move away from a cash-based economy has been grossly overestimated. barely 26 percent of the population in India has access to the internet, and barely 200 million people make use of digital payment systems. According to the Global Findex conducted by the World Bank, people in India have a far more limited understanding of digital banking than their counterparts in middle-income countries do. This includes the usage of credit or debit cards, the ability to conduct transactions using mobile phones, and the utilization of the internet to pay bills.

Conclusions

The most significant effect of the entire process of demonetization has been to raise people's levels of knowledge regarding the existence of black money and to instill a sense of terror in them regarding the practice of carrying around money in the form of hard cash. This is the primary upshot of the procedure. In metropolitan regions, efforts are still being made to raise awareness about cashless modes of payment; but, in rural areas, individuals are still hesitant to switch to cashless payment methods. Insofar as the elimination of shadow economies is concerned, this procedure has unquestionably resulted in the eradication of the shadow economies built up by the people; yet, the economy has not benefited greatly from this as the money was not uncovered but rather destroyed. It is still the case that the legal and legislative actions that the government decides to take at various points in time will determine what the future holds for "black money" in the country.

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