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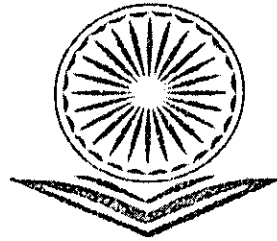
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## 4. Demonetization: Effect on Black Money

Mrs. Pratima Rajendra Kumbhare

### Introduction

Demonetization means discontinuity of particular currency from circulation and replacing it a new currency. It also be considered as a withdrawal of specific currency of from the market. November 8, 2016 would be remembered as a watershed moment in the history of Indian economy . It was the third time when demonetization was announced in India by our honorable Prime Minister Shri Narendra Modiji through which Rs. 500 and 100Rs .Notes were scrapped from the economy earlier demonetization was done in 1946 and 1978 but with no success. Demonetization on 8 November 2016 perhaps was the single most decision after independence that affected every single person of India is it politicians, businessmen, laborer, housewife etc. The objectives that were told by the government to reduce corruption and black money from the economy bring transparency and greater formalization in the economy.

These is not first time demonetization has been implemented in India. In 1936. Rs. 10,000 which was the highest denomination of note, was introduced but was demonetized in 1946. Though, it was reintroduced in 1954 but later, in 1978. the then prime minister morarji Desai in his intensive move to counter the black money introduced the high denomination banks Act (Demonetization) and declared Rs. 500, Rs. 1000, and Rs. 10,000notes illegal

### Objectives of the study

To analyze and find out whether government objectives of demonetization to reduce black money has been fulfilled.

### Research methodology

The present study is descriptive nature. It uses analytical approach based on secondary data taken from various government report, newspaper, websites, research paper and journals etc.

### Effect of demonetization on black money

The effectiveness of demonetization against black money depends upon the follow up and supportive measures were made by the government. for example , the enactment of the modified benami transaction act from November 1, 2016 will be a big associated tool in the hand

of the government to tackle black income. Thus to assess the effectiveness of demonetization, we should examine how these steps are complementing each other to fight black money

### **1. Direct or immediate effect**

Immediate effect of demonetization 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 crore may be collected as taxes at 50 % to 85 % tax rate.

If Rs 2 lakh crore is revealed as black money out of demonetization, it will amount to around 1.75% of India's GDP. According to national institute of public finance and policy, black income amounts to nearly 40% of country's GDP.

A 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 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 account 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 the sharpened benami prohibition act

### **2. Long term effects of demonetization 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

A high proportion of the economic transaction happens in the shadow economy and hence are unaccounted the real estate sector is the most important example. Reducing the size of shadow economy by enlarging formal economy is the way out. Here transactions should be recorded, disclosure about the buying and selling people by quoting their financial ID or PAN

card is mandatory especially for big transaction. The real estate sector amounts to nearly 45% of India's parallel economy

### The process of formalization

Formalization means under the monitoring of the government here two formalization options are needed: recording a) high value transaction b) low value transaction

Formalizing high value transaction: post demonetization legal steps should be made to ensure mandatory PAN quoting for high value physical assets – gold land etc. though this measure is still prevailing, fragmentizing transaction into small helps black money. to avoid this every small physical asset transaction should be made with aadhar ID proof when each money is to be reported and recorded. Land deals will become atomically white.

Formalizing small value transaction here, digitalizing transactions in the form of prepaid payment instrument, debit and credit cards and online payment will reduce black money. Several post demonetization steps were made by the government to promote digital payments

A social shake up 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 shake up of Indian society will be big outcome though it may not be measurable.

### Criticism

The decision to demonetize Rs. 500 and Rs. 1000 notes is misconceived and will not address the problem of black money for following reason

Demonetization will affect those who conduct transaction in cash are not a part the formal banking system or have not asset.

Black money is generated through evasion of taxes on income from lawful activities and money generated from illegal activities. in the absence of step to curb the generation of black money, demonetization is a futile exercise, as it proved to be in 1978

As per the Indian statistical institute Kolkata study done on behalf of the national investigation agency Rs. 400 cores worth of fake currency is in circulation in the Indian economy. This is only 0.28 of Rs. 14,180 billion worth currency demonetized in Rs. 500 and 1000

Two of the most vulnerable sectors that have traditionally been exploited for parking crime proceeds and black money is the property and gems and jeweler market these sectors have

also been used for the temporary investment of terror funds. Unless transactions are made transparent and reflect real market value, black money and terror funds will continue to find their way into these business.

#### Conclusion

Demonetization provides an opportunity to encourage a shift to a digital economy this is an essential requirement to not only reduce corruption but also create an electronic trail for transactions this will help bring transparency into the financial transactions of individual and organizing there by constraining corruption, criminal proceed, money laundering and the finance of terrorism which are all linked given the transferring funds. While demonetization is likely to encourage it. Incentives by the government for payment of bills can further encourage it incentives by the government for payment of bills can further encourage people to take up plastic and e-money option. This is also likely to be enhanced by the forces of market economy which are already offering money back option.

Demonetization is an important step in the fight against the finance of terrorism. However it should neither be the first nor the last if the interlinked threats of corruption crime and the finance of terrorism have to be controlled. these must also not be addressed simply within departmental and ministerial soils instead an all of government approach is imperative if each of these challenges is to be met.

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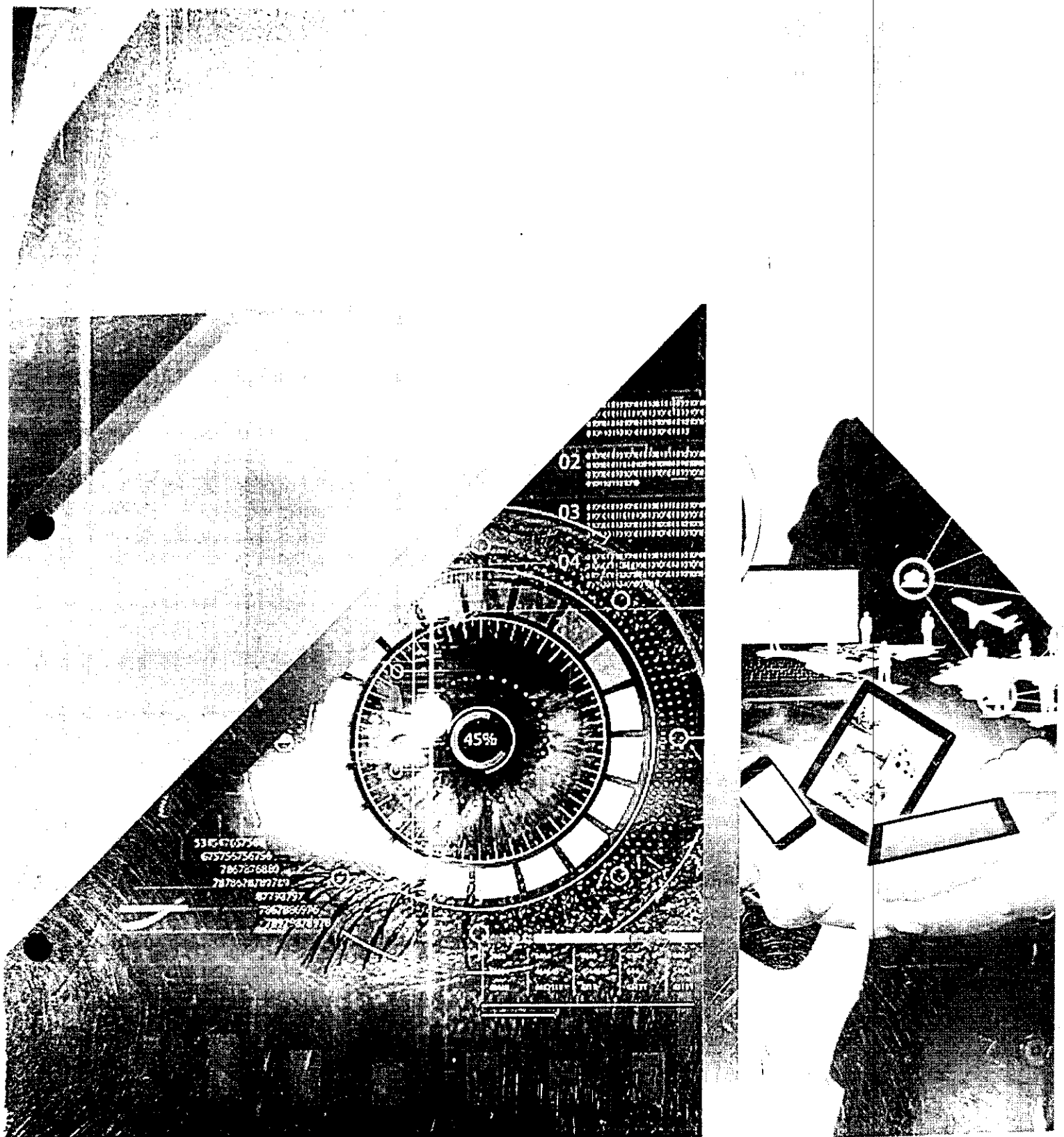
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