

## A study on Demonetization and its Impact on Corruption and Black Money

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**Abstract:** Demonetization is the valorous step taken by the government of India. Disastrous issues in India are corruption and terrorism and the root cause of these problems are black money. So the black money is playing lead role in deprivation of our country. Various reports of reliable institution depicted the worsen situation of black money such as according to a report of “NIPFP the existence of black money in Indian economy was 31,584 in 1983 which has risen up to 10,00,000 in 2012”. It was the requirement of the moment to unearh a audacious step to tackle the various problem regarding black money (such as corruption and terrorism) in one major stroke. So government of India has decided to introduce demonetization of RS.500 and RS.1000 notes on 8<sup>th</sup> November 2016. The reason behind demonetization of these high denominations notes was, Rs.500 and Rs.1000 notes constitute 86.9% of total currency. This paper is throwing light on the position of black money in India and the effect of demonetization on black money.

**Keywords:** Demonetization, Black Money, Corruption, Depraved Economy

### INTRODUCTION

India was a prosperous nation and the reason of this prosperity was the high moral values and love for the mother land, citizens of that time try to develop their nation by their effort and contribution. The money generation sources and uses were transparent but now the scenario has changed and the existence of black money in the economy has worsened the situation of development.

To remove the black money curse from the society, Government has introduce a major change in the economy by demonetizing Rs.500 and Rs.1000 notes. These ceased to be legal tender from midnight 8 November 2016. People have been given time up to 30 December 2016 to exchange the notes held by them. The reasons given in support of demonetization are to control counterfeit notes which are contributing terrorism and to eliminate the black money. This study will help to understand whether the demonetization can be taken as a revival mechanism for curbing the black money in the economy or not.

Since major part of black money is invested with financial institutions outside the country, demonetisation may not be a sufficient step for removing black money. But it is considered as a useful tool to make black money valueless in the economy. It is also true that black money used in buying of land, housing property, gold and jewellery are not affected by the demonetisation. However, it may hammer on such practice in future. Therefore, there is a need for detailed

study to evaluate the result of demonetisation on controlling corruption and black money.

### OBJECTIVES

There are two basic objectives behind this study:

- Firstly to understand the situation of black money in Indian economy and
- Secondly, to investigate the effect of ‘Demonetization-November 2016’ on controlling of black money in India.

### LITERATURE REVIEW

#### Black Money

Black money meant for those incomes on which there was an obligation to pay tax but the holder of that income failed to fulfill that obligation. This income may be generated from legal or illegal sources like counterfeit currency, smuggling, arms trafficking, terrorism and corruption. So black money may be those money on which tax has been evaded.

It has been defined by the National Institute of Public Finance and Policy (NIPFP) as “the aggregates of incomes which are taxable but not reported to the tax authorities. Further, black incomes are ‘the extent to which national income and output goes downward because of false reporting of incomes, output and transactions for reasons of tax evasion, and relative motives’[1]

The term black money would also include legal income that is concealed from public authorities with the purpose of evasion of payment of taxes and statutory contributions and to avoid the compliance of the provision of industrial laws and other laws which bound for any kind of compulsory payment.

**Black Money in India**

The problem of black money in Indian Economy has always been a serious problem as thirteen years ago, the Wanchoo Committee Report refers black money as "cancerous growth in the country's economy which, if not checked in time, will surely lead to its ruination"[2]. In November 2010, "The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008," a report released by Global Financial Integrity (GFI), says "that tax evasion, and corruption have removed gross illicit assets from India worth US\$462 billion" [3]. The GFI study, titled "Illicit

Financial Flows from Developing Countries: 2001-2010," ranks India as the decade's 8<sup>th</sup> largest victim of illicit capital flight. This report further illustrated that Indian economy has suffered US\$1.6 billion in illicit financial outflows in 2010, in which the world's largest democratic country experienced loses US\$123 billion in black money [4].

A report by Rishi and Boyce 1990 [5] has highlighted abnormal flow of capital (flight of capital) from India during the period 1971-86; the estimated amount was US\$20-30 billion, or every year this flow has been of US\$1-2 billion. A report published by NIPFP in 1984 shows estimated black money generated in India is 19 to 21 percent of GDP[6]. Another report published by NIPFP in Dec 2012 presents estimated black money at above INR 10 lakh crore or 10 percent of the GDP[7].

**Table 1:**

Year	Estimates for Black Money (INR Crore)	Percent of GDP
1975	9,958 to 11,870	15 to 18
1980	20,362 to 23,678	18 to 21
1983	31,584 to 36,784	19 to 21
2012	>10,00,000	10

Source: NIPFP Report Dec 2012[8].

Government of India is initiating various steps to deal with issues which are described in the White Paper on Black Money by Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, New Delhi[9] such as simplifying the taxation, tariffs transfer through UID based electronic interface, expansion of information exchange network at the international level to avoid cross border flow of illegal money.

**Corruption**

According to Transparency International India Corruption is "the abuse of entrusted power for private gain" [10] Corruption is multidisciplinary and dispersed phenomenon with multiple causes and effects. It is a root problem of politics and economics or it may also generate from moral decay of society. This complex problem is prevalent in many society very deeply that is why the solution of this problem is also a matter of deep concern.

**Link between corruption and black money:**

Corruption has prevailed badly at every stage in India. After independence most political leaders are involved in corrupt activities for self-interest which results in the encouragement of bribes in administrative officers because they pay the share of this bribes to politicians. Gradually corruption has paralyzed the whole country and its system. Black money is a threat for country because it hinders the growth of various

projects which may accelerate the development and employment in the economy.

**Demonetization and its objectives:**

"Demonetisation is an act of stripping a currency unit of its status as legal tender" [11]. The PM Mr. Narendra Modi has given the following reasons behind the demonetisation Nov2016[12].

- To deal with black money in the economy
- To reduce the cash circulation in the country which will discourage the corruption
- To eliminate fake currency which supports terror groups to fund terrorism in India

According to the Gazette of India published on 8th November, 2016 reflected the following three basic reasons behind demonetization of Rs.500 and Rs.1,000 notes[13].

- (1) Fake specified bank notes were largely in circulation and it was difficult to identify genuine bank notes from the fake ones and that the use of fake currency notes was causing adverse effect to the economy;
- (2) High denomination bank notes were used for storage of unaccounted wealth as evident from the large cash recoveries made by law enforcement agencies;
- (3) Fake currency are giving promotion to terrorism and drug smuggling.

## **ANALYSIS OF IMPACT OF DEMONETIZATION ON BLACK MONEY**

### **Depositing of Old currency**

Indian Express report [14] dated 10 Jan 2017 States that Rs 500 and Rs 1,000 notes amounting to Rs 14.50 lakh crore have been deposited with banks till date. As per the Times of India news dated 05 Jan 17, 97% of the scrapped 500 and 1000 notes have been deposited with the banks[15]. The same news also tells that RBI and Government of India had expected that nearly Rs 3 lakh crore scrapped currency would not be coming back to the system.

### **Raids in search of Black Money**

The demonetization was supported by official raids in search of black money. During the period of 08 Nov to 30 Dec 16, there were large number of raids by the Government agencies. Chief of CBDT (Central Board of Direct Taxes) Mr. Sushil Chandra informed to India Today that they have seized Rs. 120 crore hard cash and detected 1500 crore of undisclosed income upto first week of December 2016[16].

In these raids black money not only in the form of cash but also in the form of huge amount of Gold was captured. On 01 Dec 16 at Bengaluru, Chennai and Erode (Tamil Nadu) and captured 7 Kg Gold and 5 Kg New and old currency was captured[17]. On 09 December 16, total assets worth Rs. 142 Crore were seized in Chennai which included 127 Kg of Gold[18].

### **Rise of Digital Transaction after Demonetization:**

Hitting the black money transactions during the demonetization process, the Government of India announced schemes to motivate digital payments. It announced 0.75% discount on digital purchase of petrol and diesel. Economic Times report dated 11 Jan 2017 says that digital payments at petrol pumps has raised from 10% of total sales before demonetization to 30% of total sales after demonetization[19]. Not only in petrol pumps but across all commercial ventures the digital payments have increased.

### **Action on 'Benami' Properties:**

The black money is mostly invested in properties to escape from the Government agencies. Prime Minister Mr. Narendra Modi on his last "Man Kee Baat" of the year 2016, announced to initiate action on "benami Properties" to check the black money and corruption. It is a move seen as strong support for demonetization in fighting against the black money. Government has already enacted the "Benami Transactions (Prohibition) Amendment Act, 2016" which is effective since 01 Nov 2016[20].

### **Pradhan Mantri Garib Kalyan Deposit Scheme:**

"Pradhan Mantri Garib Kalyan Deposit Scheme (PMGKDS)" was announced by the Government of India on 16 December 2016. It was announced to declare the undisclosed income. The amount was to be declared from 17 Dec 16 to 31 March 2017. The designated Reserve Fund in the Public Accounts of GOI was created where RBI would transfer the declared amount[21]. Under this scheme the depositor has to pay 30% tax + 33% PMGK Cess surcharge for the declared income apart from 10% penalty amount.

### **FINDINGS OF THE RESEARCH:**

On the basis of above analysis and discussion the following findings are identified:

#### **Direct Effect of the Demonetization**

- (1) The amount of old 500 and 1000 notes that could not be deposited with the banks is considered as black or concealed money. This is the direct effect of demonetization on black money. From the above discussion it is clear that it is less than expected as the Indian Express report says "The government is resigned to the prospect of only about Rs 75,000 crore in demonetised Rs 500 and Rs 1,000 notes not returning to the formal banking system"[22].
- (2) Amount deposited under "Pradhan Mantri Garib Kalyan Deposit Scheme" can also be considered as due to direct effect of demonetization.

#### **Indirect Effect of the Demonetization**

- (1) Assets in the form of Cash or Gold and Silver seized during demonetization period i.e. November and December through raids.
- (2) Action on "Benami Property" under the "Benami Transactions (Prohibition) Amendment Act, 2016" is expected to take place which will be the toughest attack on black money and corruption in India.
- (3) Rising Digital payments are due to demonetization. During the period of November and December 2016, people faced cash-crunch and they found the digital payment problem solving.
- (4) After 08<sup>th</sup> November 16, the RBI, Income Tax department and other Central Government departments have announced different rules and restrictions on cash transaction. This has positively affected the mindset of people in India against accumulation of Black money through corruption and other unfair means. This can be termed as 'Psychological effect of demonetization on Black Money'.

### **SUGGESTIONS**

Government has initiated all necessary steps to curb the accumulation of black money in India. There are two suggestions with respect to the objectives of this research paper:

- Sincere efforts need to be initiated against “Benami” properties under “Benami Transactions (Prohibition) Amendment Act, 2016”, this will have long term effect against the black money.
- Minimizing the cash transactions in the economy. Digital/Cheque/Draft payments should be made compulsory for amount above Rs. 50,000/- .

## CONCLUSION

Above reports and data concluded the positive effect of demonetization on black money. Demonetization has drastically affected the black money existence in Indian economy and has proven a courageous step to slash various illegal sources and activities in the country. Exact calculation of black money is not possible but this analysis surely proved the exit of large amount of unaccountable money from the system and source of demotivation for wrong practices and black money. Although it is not the solution of all related problem but it is a successful step to drain the black money and fake currency from the system and to put a check on black money related practices in India.

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