

## Demonetisation: A way to pump out black money in India

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### Abstract

Demonetisation refers to deprive of value for official payment. On 8<sup>th</sup> November 2016, the Demonetisation of Rs. 500 and Rs 1,000 currency denominations was taken by the Government of India. This is because of corruption and black money is the major obstacles in our country and we knew terrorism is a frightening threat, but who funds these terrorists? Our enemies they use to produce and circulate fake currency to sponsor terror and this was proven many times. In order to this, the Government of India took demonetisation factors to eradicate corruption in India. The advantages are much dominating and it will be in the long term interest of our country comfortably outweighing the disadvantages. Demonetisation effects on Indian economy for shorter term in terms of Liquidity crunch, deflation, etc. The government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency. So as to ensure that there will be a smooth flow of currency exchanges.

**Keywords:** corruption, demonetisation, demonetisation in India, government of India, Indian economy

### Introduction

Demonetisation is the act of stripping a currency unit of its status as legal tender. Demonetisation is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. On 8 November 2016, the demonetisation of Rs500 and Rs 1,000 currency notes was a step taken by Government of India so this leads to cease the usage of all Rs500 and Rs 1,000 currency notes of the Mahatma Gandhi Series as form of legal tender in India from 9 November 2016. The announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address to the nation at 20:15 Indian Standard Time the same day. However, the banknote denominations of Rs 100, Rs 50, Rs 20, Rs 10 and Rs 5 of the Mahatma Gandhi Series continued to remain as legal tender and were unaffected by the policy. The government claimed the demonetisation move as an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move is also aimed at reducing corruption, drug menace and smuggling.

Similar demonetisation of currency notes has been taken in the past. In January 1946, currency notes of 1,000 and 10,000 rupee were withdrawn and new notes of 1,000, 5,000 and 10,000 rupee were introduced in 1954. The Janata Party coalition government under Prime Minister Morarji Desai had again demonetised banknotes of 1,000, 5,000 and 10,000 rupee on 16 January 1978 as a means to curb counterfeit money and black money. According to reports, gold, commodity and diamond prices had slumped between 5% and 10% within a week of the announcement. Parliament had enacted the High Denomination Bank Notes (Demonetisation) Act in 1978 to cease the circulation of the currency notes. In 1998, the NDA government had amended the law to reintroduce the Rs 1,000 note.

### Methodology

#### Nature of study

The study is mainly descriptive in nature. Secondary data are used for the purpose of the study

#### Secondary Data

Secondary data was collected from websites, various articles and journals

#### Limitation of the study

- Lack of primary data
- Time consuming
- As the research mainly depends on secondary data, it may not be hundred percent accurate.
- The study is limited to India only

#### Advantages of demonetisation

- **Eradicate black money:** This move will help the government to track unaccounted black money or cash on which income tax has not been paid. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest anywhere as they would be required to show income or submit PAN for any valid financial transactions. They would hide it somewhere and use it as and when necessary.
- **Prevention in illegal activity:** Since black money is used for illegal activities like money laundering, terrorism funding, gambling and also inflating the price of major assets classes like real estate, gold and due to demonetisation all activities will get reduced for some time. Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be choked.
- **Tax payment:** Another advantage is that people disclosing their unaccounted black money by depositing money in

their bank accounts and from this government gets a good amount of tax revenue which can render for betterment of society by providing of best infrastructure, education, hospitals, etc. This enables country to build strong asset and helps to grow standard of living of people.

#### Disadvantages of demonetisation

- **Inconvenience at initially days:** It will cause great inconvenience to common man will start running to bank to exchange denomination Rs 500 and Rs 1,000 notes. People in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants get new denomination notes by replacing old notes.
- **Cost of new currency:** Destruction of old currency units and printing of new currency is not an easy task in terms of efforts and money. Printing of new currency involves costs which have to be borne by the government.
- **Eradicate only black money which are in terms of cash:** Demonetisation targeted towards black money but if people have not kept cash as their black money and kept in form of gold, real estate and so on then there is no guarantee that demonetisation will help in catching corrupt people.

#### Impact of demonetisation in Indian economy

Demonetisation affects the economy through liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Demonetisation leads to sudden stop in terms of currency availability, as a result of it jams in consumption, investment, production, employment, etc. The following are the main impacts on Indian Economy

- i) **Liquidity crunch (short term effect):** Liquidity crunch means people are not able to get sufficient volume of popular denomination for their transaction especially Rs 500. This currency unit is the favourable denomination in daily life. When higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. As per recent statistic data reveals that all security printing presses can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 million Rs 500 notes were in circulation as on end March 2016. Some portions of this were filled by the new Rs 2000 notes. Towards end of March approximately 10000 million units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.
- ii) **Decrease in consumption level:** The level of consumption decreases because of liquidity crunch. People in the country need money to transaction process since demonetisation leads decrease in the cash flow as a result of it, the level of consumption decreases. This adversely affects the production level. As a result of decreases in consumption level directly effects on production level then production level directly effect on employment and then employment to tax revenue.
- iii) **Inflation:** It will cause deflation in the market as people who earned money through illegal ways would be afraid to declare the money as they may be prosecuted by the Income tax department on the legitimacy of their income.

- iv) **Impact on bank deposits and interest rates:** A lot of cash which are legally earned will be deposited in the banks. Deposit in the short term may rise, but in the long term, its effect will come down and now the banks with more deposits will be able to do more lending. They saved this money into banks just to convert the old notes into new notes. This means that new savings with banks is only transitory or short-term deposit. Loans will become easier and interest rates may come down.

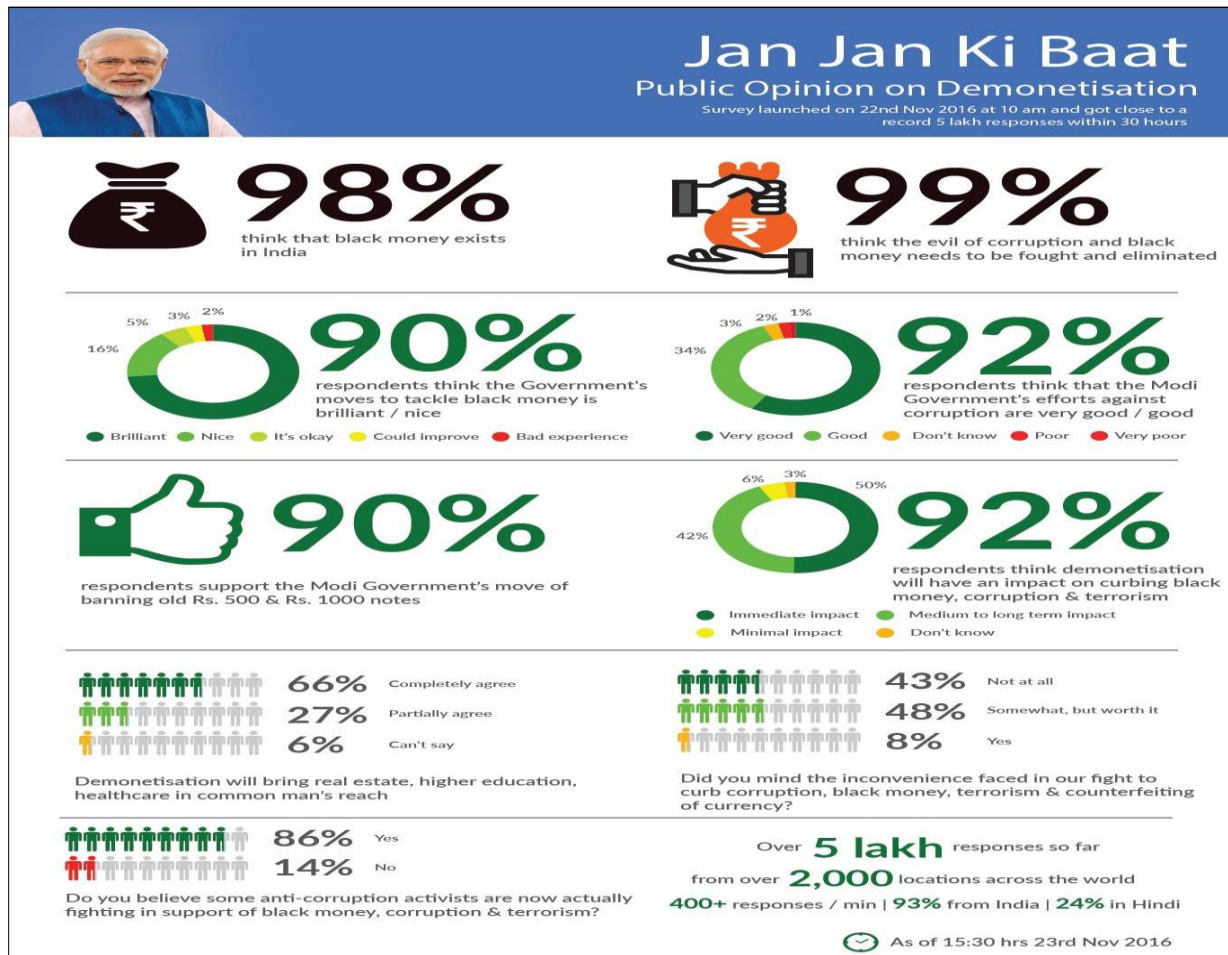
#### Favourable evidence that ends corruption

Prime Minister Narendra Modi announced the demonetisation of old Rs 500 and Rs1, 000 notes on 8<sup>th</sup> November 2016. PM invites views from the people, on decision taken regarding currency notes of Rs 500 and Rs1, 000. Prime Minister Narendra Modi tweets as “I want your first-hand view on the decision taken regarding currency notes. Take part in the survey on the NM App”. Jan Jan Ki Baat public opinion on demonetisation survey launched on 22<sup>nd</sup> November 2016 at 10AM and got close to a record 5 Lakh responses within 30 hours. In this survey the following ten questions were asked: Here are the 10 questions through which the government aims to gauge public reaction on demonetisation:

1. Do you think that black money exists in India?  
Results: 98% of public opinion thinks black money exists in India
2. Do you think the evil of corruption and black money needs to be fought and eliminated?  
Results: 99% of public opinion thinks the evil of corruption and black money needs to be fought and eliminated
3. Overall, what do you think about the government’s moves to tackle black money? There are five parameter to rate this question such as Brilliant, Nice, It is okay, Could Improve, Bad experience  
Results: 90% of public respondent think the government’s moves to tackle black money are brilliant/nice
4. What do you think of the Modi government’s efforts against corruption so far?  
There are five parameter to rate this question such as Very good, Good, Don’t Know, Poor, Very Poor  
Results: 92% of public respondent think the Modi Government’s efforts against corruption are very good/good
5. What do you think of the Modi government’s move of banning old Rs. 500 & Rs. 1000 notes?  
Results: 90% of public respondent support the Modi Government’s move of banning old Rs. 500 and Rs.1, 000 notes
6. Do you think demonetization will help in curbing black money, corruption & terrorism? There are four parameters to rate this question such as Immediate Impact, Medium to long term impact, Minimal Impact, Don’t know.  
Results: 92% of public respondent think demonetisation will have an impact on curbing black money, corruption and terrorism.
7. Demonetization will bring real estate, higher education, and healthcare in common man’s reach. There are three parameters to rate this question such as completely agree, partially agree, cannot say  
Results: 66 % of public opinion says completely agree, 27% partially agree, 6% cannot say.

8. Did you mind the inconvenience faced in our fight to curb corruption, black money, and terrorism and counterfeiting of currency? There are three parameters to rate this question such as not at all, somewhat but worth it, yes  
Results: 43 % of public opinion says not at all, 48% somewhat but worth it, 8% yes.
9. Do you believe some anti-corruption activists are now actually fighting in support of black money, corruption & terrorism? There are two parameters to rate this question such as yes, no.

- Results: 86 % of public opinion says yes, 14% says no
10. Do you have any suggestions, ideas or insights you would like to share with PM Narendra Modi?  
Results: The last question on the survey requested people to share their unique ideas, suggestion or insight that they had.  
Over Rs 5 Lakh response so far from over 2,000 locations across the world 400+ responses per minute.  
**Note:** All above result as of 15:30 hours 23<sup>rd</sup> November 2016



Source: Narendra Modi Application

Fig 1

**Findings of the study**

In this study on demonetisation, result in favourable move towards economic growth. But initially there will be bad impact on economy in terms of liquidity crunch, deflation, bank lending and its rate, etc. This affects only for short term. Demonetisation act as positive note towards growth of economy by eradicating the corruption in India. In the survey, it express that 98% of public opinion think that black money exists in India and 99% of public opinion think the evil of corruption and black money needs to be fought and eliminated and also survey reveals that 90% of public opinion respondents support the Modi Government's move of banning old Rs.500 and Rs.1,000 notes

**Conclusion**

The advantages are much dominating and it will be in the long

term interest of our country comfortably outweighing the disadvantages. The government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency. So as to ensure that there will be a smooth flow of currency exchanges. It would turn into chaos if government takes no necessary steps to circulate money correctly. It will make a massive change in our economy. This survey reveals that 90% of public respondents think the Government's moves to tackle black money are brilliant / nice. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

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