

# Does Demonetisation affect on Black Money in India?

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## Abstract

Demonetisation withdraw high currency notes a challenging task for the government. This move by the government is likely to have long term benefits for the economy. Consumption oriented sectors, which witness a sizable magnitude of cash transaction, jewellery, retail, travel and tourism and trade are likely to be most affected in the short run. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc. Over the past 60 years, the government has at various times announced several schemes offering opportunities to bring black money overboard but the result are not so effective. This paper discusses the impact of demonetization on different sectors of the economy. The present paper helps to know about present status of black money in INDIA and impact of demonetisation on economy.

**Key Words:** Black Money; Corruption; Demonetisation; Indian Economy

## Introduction

The PM surgical strike of November 8, 2016 is the policy enacted by the government of India on Black economy. The demonetisation of 500 and 1,000 banknotes was a policy decision by the Government of India on 8 November 2016, ceasing the usage of all 500 and 1,000 banknotes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016. The demonetization process is estimated to mop up 86 percent of India's currency in value terms. Indian Economy is the highest producer and consumer of currency notes after china around 90 billion banknotes were circulating in India till March 2015.

The announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all 500 and 1,000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new 500 and 2,000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. The banknotes of 100, 50, 20, 10 and 5 of the Mahatma Gandhi Series and 2 and 1 remained legal tender and were unaffected by the policy.

The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was also described as an effort to reduce corruption, the use of drugs, and smuggling.

However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages with severe detrimental effects on a number of small businesses, agriculture, and transportation. People seeking to exchange their notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. Also, following the announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.

Historically, previous Indian governments had demonetised bank notes. In January 1954, banknotes of 100 and 1,000 rupees were withdrawn and new notes of 100, 500 and 1000 rupees were introduced in 1954. The Janata Party coalition government demonetised banknotes of 1000, 5000 and 10000 rupees on 16 January 1978 as a means of curbing counterfeit money and black money.

In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or economy, which is largely held in the form

of benami properties, bullion and jewellery". According to data from income tax probes, black money holders keep only 6% or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy.

On 28 October 2016 the total banknotes in India was Rs. 17.77 trillion (US\$260 billion) in circulation. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs. 16.42 trillion (US\$240 billion) of which nearly 86% (around Rs. 14.18 trillion (US\$210 billion)) were 500 and 1,000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90266 million banknotes were in circulation.

The Reserve Bank of India laid down a detailed procedure for the exchange of the demonetised banknotes with new 500 and 2,000 banknotes of the Mahatma Gandhi New Series and 100 banknotes of the preceding Mahatma Gandhi Series. A window of fifty days until 30 December 2016 was stipulated to deposit the demonetised banknotes as credit in bank accounts. For immediate cash needs, the banknotes could be exchanged over the counter of bank branches up to a limit that varied over the days:

- Initially, the limit was fixed at 4,000 per person from 8 to 13 November 2016.
- This limit was increased to 4,500 per person from 14 to 17 November 2016.
- The limit was reduced to 2,000 per person from 18 November 2016.

All exchange of banknotes was abruptly stopped from 25 November 2016.

Cash withdrawals from bank accounts were restricted to 10,000 per day and 20,000 per week per account from 10 to 13 November 2016. This limit was increased to 24,000 per week from 14 November.

Initially, all ATMs were dispensing banknotes of only 50 and 100 denominations and cash withdrawals from ATMs were restricted to 2000 per day. From 14 November onwards, ATMs recalibrated to dispense new 500 and 2000 notes allowed a maximum withdrawal of 2,500 per day.

However, exceptions were given to petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state-government recognised dairies and ration stores, and crematoriums to accept the old 500 and 1,000 banknotes until 11 November 2016, which was later extended to 14 November 2016 and once again to 24 November 2016. International airports were also instructed to facilitate an exchange of notes amounting to a total value of 5,000 for foreign tourists and out-bound passengers.

Under the revised guidelines issued on 17 November 2016, families were allowed to withdraw 250,000 for wedding expenses from one account provided it was KYC compliant. The rules were also changed for farmers who are permitted to withdraw 25,000 per week from their accounts against crop loan.

### Criticism

Many Economists has criticized demonetization for short run. Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. As the cash shortages grew in the weeks following the move, the demonetization was heavily criticised by prominent economists, such as Kaushik Basu, Paul Krugman, Amartya Sen and Steve Forbes.

Nobel laureate Indian economist Amartya Sen, severely criticised the demonetisation move calling it a "despotic action" among other things.

Prof Arun Kumar a former professor of economics at the Jawaharlal Nehru University, Delhi describes how this hasty drive will adversely impact demand, employment and investment.

Former Senior Vice-President and Chief Economist of the World Bank, Kaushik Basu, called it a 'major mistake' and said that the 'damage' is likely to be much greater than any possible benefits.

Pronab Sen, former Chief Statistician and Planning Commission of India member, called it a "hollow move" since it did not really address any of the purported goals of tackling black money or fake currency.

Prabhat Patnaik, a former professor of economics at the Jawaharlal Nehru University, Delhi called the move 'witless' and 'anti-people'. He criticised the simple way in which black money was assumed as "a hoard of cash", saying that it would have little effect in eliminating "black activities" while "causing much hardship to common people."

Noted economist and journalist, T. N. Ninan wrote in the Business Standard that demonetisation 'looks like

a bad idea, badly executed on the basis of some half-baked notions'. Deepak Parekh (Chairman of HDFC) had initially appreciated the decision to ban the Rs. 500 and Rs. 1000 notes, but later said that the move had derailed the economy, and expressed skepticism about its outcome.

Chief Ministers of several Indian states like Mamata Banerjee, Arvind Kejriwal and Pinarayi Vijayan have criticised and led major protests against the decision in their states and in parliament. Initially, the move to demonetise and try to hinder black money was appreciated, Several government ministers had declared before the demonetisation that they were holding large amounts of cash, including Arun Jaitley, who had more than 65 lakh rupees in cash. This led to speculation about whether and when the ministers had deposited the cash they held.

Many Economists said that the note ban can affect largely the retails, manufacturing and leads to economic recession.

Steve Forbes described the move as 'Sickening and Immoral'. He stated that "What India has done is commit a massive theft of people's property without even the pretense of due process—a shocking move for a democratically elected government." Nobel laureate Paul Krugman said that it is difficult to see gains from demonetisation, while there may be significant costs to it.

### **Black Economy in India**

'Black Money' There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or 'unofficial' economy. All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate per se, like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption. In its 1985 report on Aspects of Black Economy, the NIPFP defined 'black income' as 'the aggregates of incomes which are taxable but not reported to the tax authorities'. Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of

other economic controls and relative motives' (Ministry of Finance, 2012). 'black money' can be defined as assets or resources which comes from uncounted sources not reported and disclosed to public authorities at any point of time. Any sum which is undisclosed to tax authorities, generated through smuggling, act of corruption and by other illegal means. Black money spoiling the prospects of the country's true economic growth (Economic Times 2016).

Rajni Arora (2012) research paper discusses the status of black money in INDIA & its future challenges. It discusses sources from where black money is generated and its uses in the country at different levels. It also studies the one of the main reason behind the generation of black money i.e. corruption. The corruption leads to its generation which has considerable impact on various sections of the society. This paper presents the different aspects of black money and its relationship with policy and administrative measures in our country. It also reflects the policy and strategies that the Government has been pursuing in the context of recent initiatives, or need to take up in the near future, in order to address the issue of black money and corruption in public life. There is no doubt that existence of black money has a significant impact on social, economic and political levels of our lives which has a significant effect on the institutions of governance and conduct of public policy in the country.

Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which he focused on the existence of causes and impacts of black money in India. According to him, the main reason behind the generation of black money is the Indian Political System i.e Indian govt. just focused on making committees rather than to implement it. So, he concluded that laws should be implemented properly to control black money in our economy.

Kumar, A (1999) wrote a book on The Black Economy in India and discuss the various aspect of Black economy in India.

Kavita Rani and Sanjiv Kumar discuss the how Black Money causes the prices of commodities to increase to a level beyond normal. People with black money are able to give bribes to the administrators and politicians for getting whatever they want. To control the generation of black money there should be a strong and appropriate legislative framework.



Atul Sood, Ashapura Baruah (2017) discusses in his paper on "The New Moral Economy Demonetisation, Digitalisation and India's Core Economic Problems" digitalisation is a panacea for the country's growth challenges and a solution to its core economic problems requires constructing a new moral economy, and a "different" imaging of India in the minds of the people.

About the estimation of Black Economy in India, there are various research papers on estimation on black economy in India. But these sources are not reliable because it's uncounted economy.

The Direct Taxes Enquiry Committee (Wanchoo Committee) followed the method adopted by Kaldor with some modifications. It estimated assessable non-salary income for the year 1961-62 at ' 2686 crore and non-salary income actually assessed to tax to be of the order of ' 1875 crore. Accordingly the income which escaped income tax was of the order of ' 811 crore. After making rough adjustments for exemptions and deductions, the Wanchoo Committee found that 'the estimated income on which tax has been evaded (black income) would probably be '700 crore and 1000 crore for the years 1961-62 and 1965-66 respectively'. 'Projecting this estimate further to 1968-69 on the basis of percentage increase in national income from 1961-62 to 1968-69, the income on which tax was evaded for 1968-69 was estimated as '1800 crore.' Rangnekar's estimate: Dr D.K. Rangnekar, a member of the Wanchoo Committee, dissented from the estimates made by the Wanchoo Committee. According to him, tax-evaded income for 1961-62 was of the order of ' 1150 crore as compared to the Wanchoo Committee's estimate of ' 811 crore. For 1965-66, it was ' 2,350 crore against the ' 1000 crore estimated by the Wanchoo Committee. The projections for 1968-69 and 1969-70 were ' 2833 crore and ' 3080 crore respectively. Chopra's study estimated unaccounted income to have increased from ' 916 crore in 1960-61, i.e. 6.5 per cent of gross national product (GNP) at factor cost, to ' 8098 crore in 1976-77 (11.4 per cent of GNP). The NIPFP study suggested with some degree of confidence that black income generation in the Indian economy in 1983-84 was not less than 18 per cent of GDP at factor cost or 16 per cent of GDP at market prices.

### **Impact of Demonetisation on Different Sectors**

Economist said it was too early to predict the impact of demonetization on different sectors. It has longrun impact on growth rate of the economy. It has both positive as well as negative impact on different sector of the economy.

### **Positive Effects**

#### **Human Trafficking Halted**

This announcement will go a long way in fighting exploitation of children and corruption in an organized manner. It is a positive step towards creating a more prosperous India for the future generations", as said by Satyarthi a day ateri maa ki fter demonetisation, who won the 2014 Nobel Peace Prize jointly with Pakistani schoolgirl Malala Yousefzai. A month later The Guardian reported that "India currency note ban sparks 'dramatic fall' in sex trafficking".

#### **Tax Collection**

The government gets the benefits of demonetization. Undisclosed cash that comes into bank accounts will enable the income tax department to collect taxes. The fear of losing it, all, increase revenue for the government. The tax collection by local bodies have surged over 260% and more than 15000 crore mare after 14 days of demonetization. The government allowed to pay taxes in the form of old banknotes, which was welcomed by people as well as defaulters to pay up their taxes. The total indirect tax collection rose to 14.2% only in the month of December according to Finance Minister Arun Jaitley. This move is likely to lead to better tax compliance, raise the Tax to GDP ratio and improved tax collection. This could lead to lower borrowing and better fiscal management. Also with lower cash transactions in the near term, inflation may see downtrend in the near term. Also with higher tax to GDP ratio, the government may also get enough headroom to reduce the income tax rates, which can lead to higher disposable income with people and can improve consumption demand in the medium to long term.

#### **Maoist and Naxalites Surrenders**

The Demonetization has badly hit Maoist and Naxalites as well. The Demonetisation has broken the backbone of Naxals to a great extent. With their current finances largely in demonetized notes, they will not be able to buy weapons. The surrender rate has reached its highest since the demonetization is announced. It is said that the money these organizations have collected over the years have left with no value and it has caused them to reach to this decision. The demonetization destroys the Naxal's war chest. Extortion money collected over the years will go waste. In an interview between Chhattisgarh CM Raman Singh and The Economic times told that "the ban on old 500 and 1000 notes will result in most of

the 400-500 crore that naxals extort annually in Chhattisgarh becoming dead money”

### **Terrorism**

The withdrawal of existing high denomination bank notes will curb funding of terrorists. It will eliminate black money which casts long shadow of the parallel economy on our real economy. Transborder terrorism, Left wing extremism and domestic terrorism are being funded by black money. High denomination notes have been misused by terrorists and are known to facilitate generation and hoarding of black money.

### **Real Estate**

The Real Estate sector directly hit by the demonetization. There is excessive use of cash in the real estate sector due to large cash transaction in purchase of land and housing property. The real estate prices get pushed up artificially by the dealer in the market. This reduces the availability of affordable housing for the middle and lower income group. Greater over the board transaction will lead to a decline in real estate prices making affordable to all.

### **Negative Effects**

#### **Cash Shortage**

As money supply has been severely contracted, certain sector badly hit and people are facing problems in their transactions. People make long queue outside banks to deposit and exchange old Rs. 500 and Rs.1000 banknotes after 09 November 2016 upto 30 December 2016. Even after January 10, 2017 the problem of cash is not sorted out in remote areas. There were still long queues at banks and ATMs.

The scarcity of cash due to demonetisation led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the Rs.500 and Rs.1000 banknotes since 9 November. ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was reported in New Delhi, but there were no reports of any grievous injury, people attacked bank premises and ATMs, and a ration shop was looted in Madhya Pradesh after the shop owner refused to accept Rs.500 banknotes. It has already been pointed out that demonetisation by creating a shortage of currency has impacted the money supply through the money multiplier. It has also affected the velocity of circulation so that the

transactions in the economy have been forced to contract leading to an impact on production and income generation (Kumar, 2017).

### **Deaths**

Several people were reported to have died from standing in queues for hours to exchange their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old banknotes by hospitals. As of 15 November 2016, the attributed death toll was 25. and 33 deaths as of 18 November. In an interview, Chief Minister of Delhi Arvind Kejriwal lashed out at a BBC reporter who asked him to justify his 19 November claim that 55 deaths were linked to demonetisation. By the end of the year, opposition leaders claimed that over 100 people had died due to demonetisation.

### **Stock Market Crash**

As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading section on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday. The government's move to demonetize in a bid to eliminate has begun to raise red flags. Investors are concerned about the impact it could have on small and medium size businesses which largely run on cash.

### **Transportation Halts**

After the demonetisation was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes.

Nitin Gadkari, the Minister of Transport, subsequently announced a suspension of toll collections on all national highways across India until midnight of 11 November, later extended until 14 November and again until midnight of 18 November, and again till 2 December.

### **Agriculture**

Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of 500 and 1,000

banknotes. It is the sowing seasons for the rabi crop in some part of the country. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilisers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Kharif crops are also coming in market. Most purchase and sale made in cash. Farmers and their unions conducted protest rallies in Gujarat, Amritsar and Muzaffarnagar against the demonetisation as well as against restrictions imposed by the Reserve Bank of India on district cooperative central banks which were ordered not to accept or exchange the demonetised banknotes.

### Banking

Due to demonetization, banks get the liquidity in terms of old notes. Their bad loans recovery increase and flow of currency also increase. It reduces interest rates and expand credit and business. In the first four days after the announcement of the step, about Rs.3 trillion (US\$45 billion) in the form of old Rs.500 and Rs.1,000 banknotes had been deposited in the banking system and about Rs.500 billion (US\$7.4 billion) had been dispensed via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking system has handled about 180 million transactions. The State Bank of India reported to have received more than Rs. 300 billion (US\$4.5 billion) in bank deposit in first two days after demonetisation. A spike in the usage of debit card and credit card post demonetisation was also reported.

Between November 10 and November 27, banks reported exchange and deposits of demonetised banknotes worth Rs. 8.45 trillion (US\$130 billion) (exchange of Rs. 339.48 billion (US\$5.0 billion) and deposits of 8.11 trillion (US\$120 billion)). During this period, an amount of Rs. 2.16 lakh crore (US\$32 billion) had been withdrawn by people from their accounts.

### Business

By the second week after demonetisation of Rs. 500 and Rs. 1,000 banknotes, cigarette sales across India witnessed a fall of 30–40%, while E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Business worst hit where the cash transaction is held. Several e-commerce companies hailed the demonetisation decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs.

Peoples are struggling to do routine transaction as these notes constituted 86 percent of currency in circulation. Realty, gold and informal sectors have been hit the hardest since they relied heavily on cash. The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and PayUMoney has also seen a rise. According to data of Pine Labs, the demand for its POS machines doubled after the decision. Further it states that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

### Income Tax Raids and Cash Seizures

The Finance Ministry instructed all revenue intelligence agencies to join the crackdown on forex traders, hawala operators and jewellers besides tracking movement of demonetised currency notes. It was reported that the Prime Minister's Office (PMO) and the Prime Minister Modi himself were directly coordinating the raids conducted by the Income Tax, Enforcement Directorate (ED) and other agencies. As of 23 December, PMO received around 700 calls giving information about black money and it directly forwarded the information to various law enforcement agencies for further action.

Income Tax departments raided various illegal tax-evasive businesses in Delhi, Mumbai, Chandigarh, Ludhiana and other cities that traded with demonetised currency. The Enforcement Directorate issued several FEMA notices to forex and gold traders. Large sum of cash in defunct notes were seized in different parts of the country. In Chhattisgarh liquid cash worth of Rs. 4.4 million (US\$65,000) was seized.

As of December 28, official sources said that the Income Tax department detected over Rs. 4,172 crore of un-disclosed income and seized new notes worth Rs. 105 crore as part of its country-wide operations. The department carried out a total of 983 search, survey and enquiry operations under the provisions of the Income Tax Act and has issued 5,027 notices to various entities on charges of tax evasion and hawala-like dealings. The department also seized cash and jewellery worth over Rs. 549 crore out of which the new currency seized (majority of them Rs. 2000 notes) is valued at about Rs. 105 crore. The department also referred a total of 477 cases to other agencies like the CBI and the Enforcement Directorate (ED) to probe other financial crimes like money laundering, disproportionate assets and corruption.



### Seizures of 2000 Notes

Huge amounts of cash in the form of new notes were seized all over the country after the demonetisation. As of December 2016, over 4 crore in new banknotes of Rs.2000 were seized from four persons in Bangalore, Rs. 33 lakh in Rs. 2000 notes were recovered from Manish Sharma, an expelled BJP leader in West Bengal, and Rs. 1.5 crore was seized in Goa. 900 notes of the new Rs. 2000 notes were seized from a BJP leader in Tamil Nadu. Around Rs.10 crore in new notes were seized in Chennai.

It was announced by the government that the seized notes will be brought into the mainstream as soon as possible to ease out the cash problem. Earlier, agencies kept all seized material, including cash seizures, in their strong rooms as evidence till the case was adjudicated by the courts. The seized money was then deposited into the Consolidated Fund of India. Sometimes, income tax cases took years to resolve, still all seized material was kept in safe lockers of the tax department.

### Insurgent Groups

The move also reportedly crippled Communist guerrilla groups (Naxalites) financing through money laundering. On 10 November the police arrested a petrol pump owner at Ranchi when he reportedly tried to deposit Rs. 2.5 billion, belonging to a person affiliated with the banned Communist Party of India (Maoist). According to Chhattisgarh Police demonetisation has affected the Naxalite activities. It is reported that insurgents have stashed more than Rs. 70 billion in the Bastar region. Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Jammu and Kashmir Police reported the effect of demonetisation on hawala transactions of separatists. While Manohar Parrikar claimed that the move has also helped in reducing the incidents of stone-pelting in valley, his claim has been disputed.

### Railways

As of November 2016, Indian Railways did not have the option to make payment with cards at the counters. After the demonetisation move, the government announced to make card payment options available at railway counters in the country. Many people book their tickets in old currency and after they cancelled and got new currency.

### Evasion Attempts

#### Gold Purchases

In Gujarat, Delhi and many other major cities, sales of gold increased on 9 November, with an increased 20 to 30% premium surging the price as much as Rs. 45,000 (US\$670) from the ruling price of Rs. 31,900 (US\$470) per 10 grams (0.35 oz). Holders of black money tried to re-invest their money in gold. People having cash start buying gold on the late night on 8 November 2016.

Income Tax officials raided multiple branches of Axis Bank and found bank officials involved in money laundering acts, exchanging old notes for gold.

#### Donations

The donation boxes of the temple are filled by the old currency notes. Authorities of Sri Jalakanteswarar temple at Vellore discovered cash worth 4.4 million (US\$65,000) from the temple hundi, or cash collection box.

#### Multiple Bank Transactions

There have also been reports of people circumventing the restrictions imposed on exchange transactions and also attempting to convert black money into white by making multiple transactions at different bank branches. People were also getting rid of large amounts of banned currency by sending people in groups to exchange their money at banks. Many firms send their staff to get the note exchanged. In response, the government announced that it would start marking customers with indelible ink. This was in addition to other measures proposed to ensure that the exchange transactions are carried out only once by each person. On 17 November, the government reduced the exchange amount to Rs. 2,000 (US\$30) to discourage attempts to convert black money into legitimate money.

#### Railway Bookings

As soon as the demonetisation was announced, it was observed by the Indian Railways authorities that a large number of people started booking tickets particularly in classes 1A and 2A for the longest distance possible, to get rid of unaccounted cash. A senior official said, "On November 13, 42.7 million passengers were nationally booked across all classes. Of these, only 1,209 were 1A and 16,999 for 2A. It is a sharp dip from the number of passengers booked on November 9, when 27,237 passengers had booked tickets in 1A and 69,950 in 2A."

The Railways Ministry and the Railway Board responded swiftly and decided that cancellation and refund of tickets of value Rs.10,000 and above will not be allowed by any means involving cash. The payment can only be through cheque/electronic payment. Tickets above Rs.10,000 can be refunded by filing ticket deposit receipt only on surrendering the original ticket. A copy of the PAN card must be submitted for any cash transaction above Rs.50,000. The railway claimed that since the Railway Board on 10 November imposed a number of restrictions to book and cancel tickets, the number of people booking 1A and 2A tickets came down.

### Municipal and Local Tax Payments

As the use of the demonetised notes had been allowed by the government for the payment of municipal and local body taxes, it led to people using the demonetised 500 and 1,000 notes to pay large amounts of outstanding and advance taxes. As a result, revenue collections of the local civic bodies jumped.

### Backdated Accounting

The Enforcement Directorate raided several forex establishments making back dated entries. Money laundering using backdated accounting was carried out by co-operative banks, jewellers, sellers of iPhones, and several other businesses

### Conclusion

The immediate consequences of the demonetization of 500 and 1000 rupee notes and their replacement by new currency of 500 and 2000 rupee notes have been widely discussed. This has less obvious intermediate and long term consequences. Demonetisation is a revolutionary step made by the government to curb the black economy, counterfeit currency, terror financing and corruption. In its submission to Parliament's standing committee on finance, RBI said the decision to demonetize came in the background of the central bank, in consultation with the government, working on new notes with improved security features. The introduction of new series of notes could provide an opportunity to tackle counterfeiting terror financing and black money. It can catalyse long term economic reform. Low Inflation, more affordable real estate and possibility of lower tax rates as the net could become wider are among the fruits of demonetization which reap in the longrun. Black money places an unfair burden on honest citizens of the country. Many scheme announced by the government has impact on the direct and indirect taxes.

It reduces the risk of tax evasion, widens the tax base and curbs the black economy in many aspects. There are many other sources of black money available in the market e.g Real estate, Gold etc. Experts said that most people with large amount of black money donot keep in cash.

Many Business activities in rural and urban areas neither paid tax not registered. Their earnings were spent on buying luxurious items and increase prices and direct money to wasteful consumption rather than investment. By sucking money out of the economy, demonetization would help control in inflation.

A trust has been made for increasing the digital payments in the economy through debit and credit cards, internet banking, mobile apps and e-wallets. It also increases the digitalization of the economy through using of technology in transaction activities. The government believes that this will hasten the shift to a cashless economy, making life both easier and more transparent.

All these impact are good for the economy in the long run. But the government should start a series of economic reform to achieve the double digit growth rate of the economy.

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