

Demonetization Impact on Black Money, Counterfeit Currency and Corruption

Syed Mahmood Ali¹, Fahmeeda Faiyaz², Prof. Badiuddin Ahmed³

¹Assistant Professor at Ethames Degree College, Panjagutta, Hyderabad, INDIA

²Department of Second Author, INDIA

³Head, Department of Commerce, Maulana Azad National Urdu University, Hyderabad, INDIA

ABSTRACT

It's been about 6 months since the decision of Demonetization of higher denomination notes of Rs 500 and 1000 withdrawn from the circulation and new currency notes of Rs. 500 and 2000 issued for means of exchange. The decision to withdraw 86 per cent of the cash in circulation has thrown India into peril. Such a big and unexpected policy change naturally carries with it a large collateral damage at least in the short run where in India large section of the economy is comprised of the informal or unorganized sector which runs on cash.

The aim of this paper is to throw light on how, demonetization decision show impact on Black money, Counterfeit currency and Corruption in the country. In this paper it will be analyzed to see whether the said objectives by the Prime minister of India Mr. Narendra Modi are getting accomplished after the decision.

Keywords-- Demonetization, Black money, Counterfeit currency and Corruption

up with daily standing in the lines outside the banks putting aside important economic activities.

In a New York Times op-ed, Indian economist and World Bank Vice-President Kaushik Basu strongly criticized the policy, rightly pointing out that it's "mostly hurting people who aren't its intended targets." he further added "but demonetization is a ham-fisted move that will put only a temporary dent in corruption, if even that, and is likely to rock the entire economy."

II. AIMS OF THE STUDY

On 8th November, 2016, in his address to the nation about the objectives of Demonetization the prime minister of India said there are three major aim i.e. elimination of Black money, Counterfeit currency and Corruption from the country. In this paper it will be analyzed to see whether the said objectives are getting accomplished after the decision.

I. INTRODUCTION

The sudden decision of demonetization taken by the prime minister of India, Narendra Modi, made all the Indians to stand in the lines outside the Banks for getting the new currency notes for their basic requirement. This decision made innocent people who are no way connected with the 3 major aim told to ban the 86 per cent of circulating currency are, to drain out the black money, terrorism funding through counterfeit currency sent by neighboring countries and Corruption in India. In the beginning this decision was welcomed by the country people and they want to bear the pain of standing in the lines for the sake of country development and prosperity. As the time passes and situation not getting normalized people's patience was decreasing and they are getting fed

III. FAKE CURRENCY CIRCULATION IN INDIA

One of the reasons of Demonetization is Fake currency circulation in India and it is used for funding the terrorist activities. Here it is required to understand what is the quantity in terms of number of notes and its value is in circulation in the Indian economy.

According to the RBI data for the year 2015-16 out of the 90.26 billion currency notes in circulation not more than 0.63 million are fake, which equals to 0.0007 per cent of number of currency notes. In terms of value, out of the total 16.41 lakh crores in circulation only 0.2964 Billions is fake, which is equals to 0.0018 per cent.

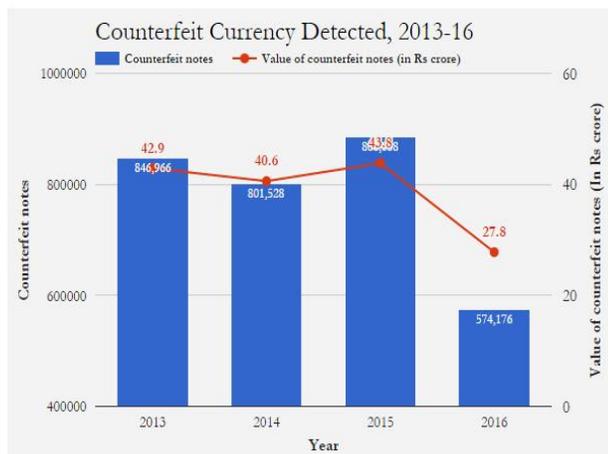
Counterfeit Currency Detected, 2015-16					
Denomination	Counterfeit Notes	Notes in Circulation	Counterfeit (%)	Counterfeit Value	Total Value
2,5	2	11,626 million	0	Rs 7	Rs 4,069.1 crore
10	134	32,015 million	0	Rs 1,340	Rs 32,015 crore
20	96	4,924 million	0	Rs 1,920	Rs 9,848 crore
50	6453	3,890 million	0.000017	Rs 322,650	Rs 19,450 crore
100	221447	15,778 million	0.000014	Rs 2.21 crore	Rs 1,57,780 crore
500	261695	15,707 million	0.0000167	Rs 13.09 crore	Rs 7,85,350 crore
1000	143099	6,326 million	0.0000226	Rs 14.31 crore	Rs 6,32,600 crore

Source: Reserve Bank of India, Note: Assuming number of Rs 2 and Rs 5 notes to be equal

The above data does not include the notes seized by the police and other enforcement agencies.

On November 18th 2016, the National Crime Records Bureau submitted a report to Lok Sabha on fake currency notes seized by police and other enforcement agencies for the year 2013 to 2016 (up to 30th September)

Year	Total no. of pieces of notes (for all denomination)	Total value (in millions)
2013	846966	429.02
2014	801528	405.80
2015	886058	438.34
2016 (30th Sep.)	574176	277.94



Source: Lok Sabha It is clear from the above data in the year 2015, 0.88 million currency notes with the value of 438.3 million is fake and for the year 2016 (up to 30th September) 0.57 million currency notes with the value of 278 million is seized.

According to "Estimation of the quantum of FICN in circulation", the joint study by the Indian Statistical Institute and National Investigation Agency conducted in the year 2015, to analyze fake-currency trends, especially those originating across India's borders it is clear that out of every 1 million note in circulation in India 250 notes are fake i.e. 0.00025 per cent. At any given point out of 16.41 lakh crores in circulation only 4 billion are fake notes i.e. 0.00025 per cent. This study even reveals that Rs. 0.7 billion fake currency infused every year in the Indian market and the agencies only being able to intercept one third of them. The study said that "the detection of FICN is carried out primarily by commercial banks. However, their reporting is irregular too and only three banks - Axis, HDFC and ICICI report about 80 per cent of the detection".

The report concluded that "the existing systems of seizure and detection are enough to flush out the quantum of FICN being infused". The institute says that if detection can be improved, the value of FICN in circulation can be reduced by at least 20 per cent annually.

IV. BLACK MONEY IN INDIA

On 16th May 2012, a white paper submitted to the Parliament by then Finance Minister and now President of India Pranab Mukharji stated that, there is no uniform Definition of Black money in the theory of Economics. 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. 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 like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption.

From the above information provided in the White Paper by the Finance Minister it can be concluded that there are two ways of black money

1. Income earned legitimately but not taxed
2. Income earned illegitimately (smuggling, corruption, etc.)

Here the question arises, either of the way how much black money lies with people in the form of cash and how does the demonetization will prevent the accumulation of black money. one of the primary reason for demonetization is to wipe out the black money from the economy hence, it is necessary for us to understand

what government was thinking while demonetizing and what are the facts.

On 15th November 2016 Attorney-General Mukul Rohatgi submitted in the Supreme Court that, 3.25 Million Trillions in Rs. 500 & 1000 notes was deposited out of 15 or 16 Million Trillions in circulation. At least, Rs. 10 to 11 Million Trillions is expected to come in. It is clear from the Attorney General statement that, At the time the decision to demonetization was announced, the view within the government was that, roughly Rs 5 Million Trillions of the scrapped currency would not come back into the system. There was also a view within a section of the government that this money, once legally extinguished, would constitute windfall gain for the RBI and could be transferred to the Centre as special dividend.

According to Bloomberg news services Nearly 97 per cent of the demonetized Rs. 500 & 1,000 notes has been deposited with banks as on December 30, , the process is not over yet. The window for majority public to deposit their old Rs 500 and Rs 1,000 notes got over by the 31 December but those Indians who were abroad during 9 November to 30 December have been given a three-month period till 31 March to deposit the banned notes, while for non-resident Indians (NRIs), the window is actually open for the six months until 30 June.

It is quite clear from that expectations of the Government and the reality is different. There are two possibilities. One, there was very little or no black money in cash in the system and most of it is already converted into assets such as real estate, gold or overseas financial investments. The second, tax cheats have found a way to infuse nearly all the black money in cash to bank accounts through several own accounts or through Anonymous (benami) channels including those Jan Dhan accounts owned by the vulnerable low-income people. The public has validated all that was invalidated by PM Modi on the evening of 8 November.

V. CORRUPTION IN INDIA

The most common word 'Corruption' we find in India. Everyone talks about it, hates it, wants to eliminate from system. According to Transparency International Corruption defined as "the abuse of entrusted power for private gain" In India it has even crossed the alarming stage. From the officials of the highest rank to a peon, everyone is involved in corruption. Many big problems such as unemployment, poverty, illiteracy, pollution, underdevelopment, external threats etc. are posed in front of the Indian government. Having a glimpse at all these problems faced by India, one might notice that corruption plays an important role in making these problems even bigger. India is still facing poverty due to corruption. Most of the governments and its employees are corrupt so the schemes initiated by the government for the betterment of poor are not properly implemented and just because

corruption comes into play the grant advanced to the poor does not reach them and they remain the same and so does the problem of poverty.

(i) Causes of Corruption

Once we understand what is corruption and its evils, it is important to understand the Causes for corruption. Some of them are Low pay scale in public sectors, the tax collection system, less job opportunities in the country, lack of accountability in public sectors, lack of enough powers to the judiciary system, lack of transparency in public sector, unhealthy competition in business organizations.

(ii) Classification of Corruption.

Corruption can be classified into four types

Petty corruption: Government or public servants abuse their power by accepting benefits for regular approvals and transactions. The victim of this type of corruption is only an individual.

Grand Corruption: when the public officers in high positions (Political, administrative and financial) abuses the power while making the policy and its implementation. This is a most dangerous type of corruption as entire nation will become the victim of these corruptive and compromised decision made at such a higher levels.

Business Corruption: Often the big corporate houses engaged in corruption mainly tax evasion, money laundering, accounting and financial irregularities and insider trading.

Political Corruption: It refers to greed of power makes the political parties to indulge corruptive practices such as purchasing voter (cash, alcohol and gifts), favoring relative and friends by providing jobs, dividing the people in the name religion, cast and creed and payment of journalist for favorable coverage.

After analyzing the causes and classification of corruption, it is highly difficult to understand how Demonetization will influence or stop corruption whereas we can say that non availability of cash (new currency) will reduce corruption for a short period at petty levels, once the currency remonetized business as usual. Whereas the demonetization gave chance to the some crook bank employees to get involved in corruption for converting demonetized currency with new currency. What about the most dangerous types of corruptions at Grand, business and political levels, dose this require cash availability to operate.

VI. CONCLUSION

The present study made to understand the reality of 3 major reasons i.e. elimination of Black money, Counterfeit currency and Corruption told by Prime Minister Narendra Modi while demonetizing the higher denomination notes of Rs. 500 and 1000. It is observed that none of these objective can be achieved with one single decision of demonetization. This decision seems to

be more political than economical and made to divert the attention of nation's people from his promise to bring back the black money from abroad. We need to wait for the report of C&AG on the cost of demonetization on account of printing and transportation of currency in the nation for further analysis.

REFERENCES

- [1] <https://scroll.in/article/822390/only-16-of-every-250-fake-notes-were-detected-in-india-in-2015-16>
- [2] <http://timesofindia.indiatimes.com/india/Fake-notes-worth-Rs-400-crores-in-circulation/articleshow/52214965.cms>
- [3] <https://www.rbi.org.in/Scripts/Publications.aspx?publication=Annual>
- [4] <https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIA R2016CD93589EC2C4467793892C79FD05555D.PDF>
- [5] <http://164.100.47.190/loksabhaquestions/annex/10/AS41.pdf>
- [6] <http://www.thehindu.com/todays-paper/tp-national/Govt.-expects-Rs.-11-lakh-crore-from-demonetisation/article16445957.ece>
- [7] <http://timesofindia.indiatimes.com/toi-features/business/97-of-scrapped-notes-deposited-with-banks-as-on-dec-30-report/articleshow/56344692.cms>
- [8] <http://www.transparency.org/what-is-corruption/?gclid=COSi9fKjqtMCFQkkaAodaAoOnA#define>
- [9] <http://iosrjournals.org/iosr-jhss/papers/Vol20-issue5/Version-7/A020570106.pdf>
- [10] <http://www.mindcontroversy.com/causes-of-corruption-in-india/>
- [11] http://www.huffingtonpost.com/cleopaskal/corruption-in-india_b_1065822.html
- [12] http://www.karmayog.org/anticorruption/anticorruption_868.htm
- [13] <http://www.ndtv.com/india-news/government-plans-to-change-security-marks-of-banknotes-every-3-4-years-1676264>