



## DEMONITIZATION AND BLACK MONEY

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### ABSTRACT

The reasons behind the Central Government of India's decision to demonetize on November 8, 2016, as well as their effects on various Indian sectors, are discussed in this paper. Microbusinesses, E-Wallet businesses, online retail stores, and so on are included in the sectors. The references in the paper refer to secondary data gathered from various newspapers and online sources. The Modi government anticipated that demonetization would wipe out at least Rs 3-4 lakh crore worth of illegal cash. However, RBI data indicate that 99 percent of the invalidated funds were reinstated into the banking system. In the meantime, new black money seizures continue. India, the world's largest democracy with more than 1.25 billion people, must meet the needs of a very diverse society. Since independence, various governments have taken steps to achieve a high rate of economic growth. The rising population and widespread corruption in society have dampened efforts in this direction. Demonetizing the two major currency notes of rupees 500 and rupees 1000 was a significant action taken by the Government, which was led by Prime Minister Mr. Narendra Modi, to reduce the threat of black money in society. The purpose of this paper is to examine both the benefits and drawbacks of the entire demonetization process. This paper attempted to answer the crucial question of whether the black money was discovered or destroyed throughout the process in order to study the impact of the process. It also placed a significant emphasis on distinguishing between undeclared income and black income. It was discovered that the process has had varying effects on various segments of society and has not fulfilled the ambitious promises made by the government. However, this has undoubtedly raised concerns about the accumulation of black money in India and prompted caution.

**KEYWORDS:** Demonetization, Reasons of Demonetization, Sectors in India

## **INTRODUCTION:**

The removal of a currency unit from its status as legal tender is known as demonetization. The act of removing a currency from widespread use or circulation in a nation is known as devaluation. Demonetization is the process of retiring an old currency and replacing it with a new one. The birth of a paper currency in India Before we begin the discussion of demonetization, which took place on November 8, 2016, we will look at the history of the birth of paper currency and how the use of paper currency had begun in India. People in India used to make everyday purchases with gold and silver coins until the 18th century. However, later on, a number of European businesses established their own banks in the region to conduct business, such as the Bank of Hindustan in Calcutta. They introduced the very first Indian paper notes, which helped spread the use of paper notes even more. The Bank of Bengal then issued notes with the bank's name and denomination written in three scripts, as well as a small image of a female figure meant to symbolize the concept of "commerce." Bengali, Urdu, and Nagri

However, the British colonial government really got involved in the production of money only after the Paper Currency Act of 1861, which established the paper currency we know today. The state alone would now issue money, not banks. India's demonetization prior to November 2016 the act of demonetization in India in 2016 is not the first time it has been done. In fact, it was done twice before in 1946 and 1978. The Rs1,000, Rs5,000, and Rs10,000 banknotes were demonetized once more in January 1978, but the Rs1,000, Rs5,000, and Rs10,000 notes were reintroduced in January 1954. The Janata Party administration implemented the second demonetization in 1978. It had decided to issue an ordinance on the morning of January 16 of that year to remove the Rs1,000, Rs5,000, and Rs10,000 notes.

The common reduction of black money, corruption, and counterfeit currency is the goal of all previous and recent demonetization measures. The nation's people had just celebrated Diwali, the festival of light, and had worshipped Laxmi, the Goddess of Wealth. They had no idea what lay ahead for them a few days later. The country's Prime Minister, Mr. Narendra Modi, made the announcement on November 8 that after midnight, the most widely used currencies in the denominations of Rs. 500 and Rs. 1000 would be considered illegal tender. The citizens were informed that the measure will be beneficial in reducing the threat posed by black money in the country. It was also stated that there is a significant amount of counterfeit currency in circulation in the form of 500 and 1000 currency notes. Making these notes illegal tender will also affect their circulation, rendering them obsolete. In addition, the country will face a significant problem with terrorism in the form of the Inter Services Intelligence of Pakistan and the Naxalites movement as a result of the demonetization of the major currencies.

The nation's citizens responded in a variety of ways to the measure. Some people saw it as a change in how the country works, others saw it as the beginning of a new era, and still others saw it as a risky move that would kill the country's economy. The government also initiated a number of corrective measures to make it easier for people to use the 500- and 1000-rupee denominations of their currency. The deadline for cash deposits at banks was set by the government for December 31, 2016, and the government also said that old currency notes would be accepted for emergency services like hospitals, gas stations, and railway reservation. Up until December 31, 2016, the government also made periodic announcements of measures to alleviate people's suffering. Foreigners were permitted to exchange up to Rs in foreign currency. 5,000 weeklies. In their passports, the necessary entry to this effect was made. Customers with accounts in the Bank, Divyang individuals, customers wishing to exchange notes, and senior citizens were separated by queues. The weekly withdrawal limit from bank accounts was raised to Rs. 24,000 from Rs. 20,000. The daily cap of Rs 10,000 was lifted. The weekly withdrawal limit for business accounts that have been open for at least three months was Rs 50,000. Recalibrated ATM withdrawal limits were raised to Rs 2,500 per day. Cash withdrawals of up to Rs 25,000 per week were allowed only from farmers' KYC-compliant accounts. Wedding-goers' families were allowed to withdraw up to Rs 2,50,000 from their KYC-compliant bank accounts. Instructions were given to all Central Government Departments and Public Sector Businesses to make full use of e-payments.

### **REASONS OF DEMONETIZATION**

The Reserve Bank of India claims that the rise in counterfeit currency and the presence of black money in the economy were the primary factors that led to the demonetization of the 500- and 1000-rupee notes. Anti-nationalists like terrorists are using the fake notes for illegal activities, and since India has a cash-based economy, the distribution of fake currency remains a threat. However, the government has ensured that those who change their high-value cash will receive exactly the same amount in lower denominations.

### **EFFECTS OF DEMONETIZATION**

Demonetization had varying effects on various sectors, resulting in booms for some, such as E-Wallet businesses, and temporary slowdowns for others, such as microbusinesses like vegetable vendors or some small seasonal businesses where most transactions are done in cash. The study has included a few sectors that, in my opinion, may have significant effects from demonetization.

**a) Online retail stores temporarily stopped cash on delivery facility**

Flipkart, Amazon, Snapdeal, and other well-known Indian online retailers have either temporarily stopped providing cash on delivery services. A research company called Redseer Management says that cash is still used to pay for about 70% of e-commerce orders. According to industry experts, the most common method of payment for customers in India is cash on delivery, so such a move may have a temporary impact on business volume. According to statements, Flipkart Ltd., Snapdeal, and Shopclues have capped the maximum value of cash-on-delivery transactions, while Amazon India has temporarily suspended cash on delivery. Instead, the businesses are encouraging customers to use debit and credit card payments made possible by point-of-sale devices carried by delivery personnel. Experts in the field say that the lack of cash on delivery or a maximum amount may cause cancellations or clog logistics networks. There are a lot of orders that need to be delivered and can be paid for with cash on delivery. However, unless a new model is developed in which wallet transactions replace cash on delivery, many of them may not be carried out or significantly delay delivery.

**b) Disbursement Rate Microfinance Institutes slow down**

Important institutions that offer microbusinesses financial assistance are micro finance institutions (MFIs). After the government decided to demonetize the Rs 500 and Rs 1,000 notes, these MFIs' disbursement rates have decreased. The move has been acknowledged by the MFIs as having the potential to delay client installment collection in the near future. Disbursement, particularly cash disbursement, can also be affected by demonetization and cash shortages.

**c) Effect on Micro Businesses**

The Indian Micro, Small, and Medium-Sized Enterprises (MSME) sector makes a significant contribution to India's GDP. However, of the three, medium-sized businesses have a roughly one percent share and typically accept payments and receipts online. However, due to the fact that many individuals lack the necessary education and technological know-how, small and medium-sized businesses, particularly micro businesses, face a lot of challenges because the majority of transactions are conducted in cash. As a result, the demonetization move has negatively impacted micro businesses, which has led to a slowdown in the microbusiness industry.

**d) E-wallet firms could gain good business**

A digital wallet is a piece of technology that lets you pay bills or book online, among other things, through electronic commerce. The digital wallet can also be linked to a person's bank account. Paytm, PayU India, MobiKwik, and Freecharge are a few examples of Indian wallets.

The most likely beneficiaries of the central government's decision to demonetize are these electronic wallets.

### **STATUS OF CASHLESS MODE AS SUGGESTED BY THE GOVERNMENT**

The government moved forward with converting the economy from a cash-based economy to a cashless economy by encouraging digital payments in order to address the economy's cash shortage and prevent the accumulation of black money in the future. KHOSLAN SAKSHAM (2016) says that the cashless India project is a long way from reaching its goal. In the same way that expanding the number of schools does not raise literacy rates, opening accounts does not give citizens the ability to conduct digital financial transactions. Key gaps on the supply and demand sides persist: 23 percent of PMJDY accounts are void. Ten million accounts contained only Re, according to a September investigation. 1, as bank employees took matters into their own hands to cut down on the number of zero-balance accounts held by their branch. A financial inclusion consultancy surveyed PMJDY customers and found that only 33% of all beneficiaries were ready to use their Rupay cards. The complicated PIN and activation procedures baffled the others. Customers' trust in ATMs and POS machines was further eroded by intermittent internet access and inconsistent electricity; one failed transaction was sufficient to drive an entire village to abstain from formal financial institutions. This is not only a logistical but also a structural constraint. India's card acceptance infrastructure is unable to keep up with the country's expanding population: There were 18 ATMs and 13 commercial bank branches per 100,000 adults in 2014, whereas in Brazil, there were 129 and 47. Debit cards grew at a rate that was twice as fast as the number of POS machines and one-and-a-half times faster than the number of ATMs between 2013 and 2015. The majority of the new infrastructure that was built took root in urban centers. The contemporary banking system in India corresponds precisely to social and spatial disparities. In rural India, only 18% of all ATMs are in use. According to its own research, states with a greater proportion of rural residents and a higher proportion of women have lower levels of financial inclusion. It is overstated that mobile wallets will accelerate the transition to a cashless economy. Only 26% of India's population has access to the internet, and only 200 million people use digital payment services. According to the Global Findex of the World Bank, Indians are significantly less familiar with digital banking than their peers in middle-income nations, such as using the internet to pay bills, making purchases with mobile phones, and using credit or debit cards.

### **SOURCES OF BLACK MONEY IN INDIA**

Some of the chief sources of black money are described below.

- Black money is created by sellers or traders who do not provide receipts or bills.
- A lot of people invest in jewelry or bullion to hide their real income from the government.
- To avoid paying the proper tax, many people in the real estate industry undervalue their real assets. They defraud the government of the correct property tax amount.
- Some trusts and Self-Help Groups (SHGs) do not provide appropriate sources for the money and donations they receive.
- Safe havens: Most of the time, tax havens are small nations where foreigners don't have to pay taxes. Large corporations take advantage of the generally liberal regulatory frameworks found in these nations. They establish shell companies there and transfer all of their profits to this entity, allowing them to significantly reduce their tax obligations.
- The Hawala Hawala is a non-bank method of transferring funds. This works without any paperwork at all through codes, contacts, and trust.
- Black money can also be hidden by investing in innovative derivative instruments like participatory notes.

### **EFFECTS OF BLACK MONEY IN INDIA**

A country's economy is seriously impacted by black money. Below, we'll go over a few of them.

- It has an effect on the country's financial system. Inflation rises because the economy's money supply cannot be controlled by the central bank. The currency's value will decrease as a result.
- A nation's credibility suffers as a result of black money.
- The majority of illegal activities, including drug and narcotics dealing, terrorism, and others, are funded by black money. which is harmful to the nation's health.
- Black money results in significant tax losses for the government.
- A completely underground parallel economy is established in the nation through the use of black money. For instance, the illegal trade in drugs has created a flourishing parallel economy in Mexico. Problems with governance result from this.
- Black money can also raise property prices, which could result in an asset bubble.

### **MEASURES WERE TAKEN BY THE GOVERNMENT TO CURB BLACK MONEY**

The government has undertaken many measures to curb black money. They are discussed below.

- In order to combat black money, tax reforms have been initiated. Rates have been lowered while the tax base has grown. In order to incorporate tax deductions at the source, reforms are being implemented.
- The government has made it possible to report black money generated by tax evasion within a certain time frame thanks to the Black Money Bill.
- In 2016, the primary goal of the demonetization of Rs. 500 and Rs. 1000 was to render black money useless. Click on the article that is linked to learn more about demonetization.
- To increase transparency, the government is promoting digital and cashless transactions.
- Black money is also a target of electoral reforms because much of it is used in elections in India.

#### **MEANING:**

Because black money is used in our country to a very large extent right now, it is impossible for us to properly or accurately define it. As a result, there is no economics definition for black money. Unaccounted income, underground income, black wealth, or, at the economic level, parallel economy, black economy, shadow economy, or unofficial economy are all ways that various individuals define it.

Money that has been acquired through illegitimate means or money that has not been accounted for, i.e., for which tax has not been paid to the government, can be broadly defined in layman's terms. Black money can come from illegal drug trade, terrorism, or corruption, or it can come from legitimate failure to pay taxes, which results in unaccounted wealth.

#### **METHODS TO GENERATE BLACK MONEY:**

The crude strategy of not declaring or reporting income or the activities that led to it is one way that black money can be made. In every instance of illegal, criminal, or unconstitutional behavior, this is the most likely strategy. In cases of noncompliance with regulatory obligations or tax evasion on income from legitimate activities, another strategy could be to avoid declaring or reporting activities and the income they generate. However, complete evasion or noncompliance may expose such earnings to authorities' scrutiny and result in negative outcomes for the generator. As a result, more sophisticated methods that involve accounting and financial record manipulation are frequently used to generate this kind of black money.

### **BLACK MONEY IN INDIA:**

Black money is created and used by every sector in our nation for its survival in the market, society, etc. Real estate, the financial market, the bullion and jewelry market, non-profit organizations, and so on are all included. Black money persists in India as a result of the Demonstration Effect, also known as living one's life by considering how others make their living. People in India are greatly influenced by the lifestyles of others in society who are maintaining a significant amount of social status, and as a result, they want to be like them. They want to make money in any way they can for this. As a result, they force themselves to generate and utilize black money in order to satisfy these desires or to maintain their status in society.

### **IMPACT OF BLACK MONEY ON INDIAN ECONOMY:**

The existence of black money or parallel economy has disrupted the planning of the economy of the country. And its flow is seriously affecting the entire economic system of India. Some important are as follows:

#### **MASS POVERTY:**

The expansion of the underground economy has had a significant impact on the distribution of wealth and income in our nation. There are numerous ways that common people are affected indirectly. The money is being diverted away from those who deserve it by tax evaders. The Indian government could pay off all of the country's outstanding debts by recovering and using all of the black money in tax havens, leaving money for investment and development.

#### **UNCONTROLLABLE INFLATION:**

The amount of money in the system is greater than what the government anticipates when black money is on the market. The prices of commodities rise to a level that is higher than normal as a result. This is because people have more money and are willing to pay more for certain things. The amount of black money present disrupts the movement, putting some kind of pressure on the economy, even if the government attempts to control the flow of credit in the market by taking the necessary measures.



### **LOSS OF REVENUE TO THE STATE EXCHEQUER:**

The underground economy driven by black money is to blame for the numerous instances in which the Indian government has failed to collect the estimated tax of \$439 from the people. A report on the spread of black money in various industries, including real estate, mining, telecom, and others, was sent to India's Finance Ministry. P.Kavita Rao, chief of the NIPFP, is in charge of the study, which explains how illicit wealth is likely to exceed 10% of GDP.

### **BLACK MONEY**

One of our country's major issues is black money. The term "black money" refers to the sum of money obtained by engaging in unethical activities. In order to avoid paying legal taxes on their earnings, those who earn black money prioritize concealing their source of income and income amount. The economy is significantly impacted by this black money, and as more black money is collected, more corruption will occur. Depositing black money overseas, i.e., is one of the most common methods used to conceal it. in banks overseas. It is anticipated that black money deposited in the Swiss Bank in India generates approximately \$1 trillion in revenue. Most of the time, people keep their black money hidden in gold and silver jewelry, diamonds, gems, land, real estate, luxury cars, vehicles, buying shares, putting money in the name of relatives, etc. instead of moving it to a foreign country.

The salaries of government employees account for nearly half of the government's revenue. Additionally, these salaries are constantly rising. However, government employees engage in a significant amount of corruption. Scams like Bofors, Spectrum, Commonwealth, and others are leaking money from the government. As a result of having control over black money, more tax revenue should be used to pay for government employees' luxuries. The economy is unquestionably harmed by black money. Because it comes from illegal activities, this black money can only be used for underworld business. In other nations, this money is used for this reason. False information provided to the tax department does not constitute payment of tax. This makes the government less money and makes it harder to do a lot of the things it was supposed to do to help the economy grow.

### **CONCLUSION**

Although demonetization has had some positive and negative effects on various sectors, it will unquestionably have a positive effect on the control of black money and fake money in the long run. The primary effect of the entire demonetization process has been to raise people's awareness of black money and their fear of hard cash. While efforts are still being

made to raise awareness of cashless payment options in urban areas, rural residents continue to be resistant. This process has certainly destroyed the people's accumulated black money in terms of effecting black money, but not to the economy's great advantage because the money was not discovered but destroyed. The government's periodic legal and legislative actions will still determine what the country's future holds for black money. The primary effect of the entire demonetization process has been to raise people's awareness of black money and their fear of hard cash. While efforts are still being made to raise awareness of cashless payment options in urban areas, rural residents continue to be resistant. This process has certainly destroyed the people's accumulated black money in terms of effecting black money, but not to the economy's great advantage because the money was not discovered but destroyed. The government's periodic legal and legislative actions will still determine what the country's future holds for black money. One of the country's major issues is black money. It acts as a parasite that consumes the nation internally. because government officials make up the majority of those involved in the collection of black money. In addition, the amount of money gathered or accumulated through illegal means is referred to as "black money." Black money cannot be used on the open market because it is illegal revenue; instead, it is used in the underground economy.

Black money hinders many projects that were supposed to be completed with the assistance of the money that is now deducted from the fund in the form of illegal revenue, which has a negative impact on the nation's overall growth. However, a number of laws and policies are being implemented to stop black money from harming the nation.

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