

# Black Money and Demonetization in India: Effect

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## 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 introduced a major change in the economy by demonetizing Rs.500 and Rs.1000 notes. Government declared that the 500- and 1000-Rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue new currency of Rs. 500 and Rs. 2,000 notes which will be placed in circulation from 10th November 2016. Notes of 100, 50, 20, 10, 5, 2 and 1 Rupee will remain legal tender and will remain unfazed by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money at the same time. 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.

## What is Demonetization?

Demonetization is a process of stripping a currency unit of its status as a legal tender. In simple words, demonetized notes are no longer valid as legal currency. Usually, a new currency replaces the old currency units. Removing the legal tender status of a unit of currency is a drastic intervention into an economy because it directly effects the medium of exchange used in all economic transactions. It can help stabilize existing problems, or it can cause chaos in an economy, especially if undertaken suddenly or without warning.



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### **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 fulfil 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. 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. 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”.

### **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.

### **Objectives and benefit of the Demonetization –**

The objectives and Benefit of the Demonetization scheme in 2016 were:

- To plug financing to terrorists.
- To help unearth black money. The unearthed black money will expand the fiscal space of the government.
- To help reduce interest rates in the banking system
- To help formalize India’s informal economy. It will reduce the extent of cash transactions and help in the creation of a less-cash economy.



- Increased Savings
- With currency demonetization, money moves from people to banks and financial institutions. Thus, there is a better circulation of money. This will lead to a lower cost of funds which translates into lower lending rates.
- Better economy
- Curbing anti-social activities

#### **Effect of the Demonetization-**

- The amount of old 500 and 1000 notes that could not be deposited with the banks is considered as black or concealed money.
- Assets in the form of Cash or Gold and Silver seized during demonetization period i.e. November and December through raids.
- 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.
- Rising Digital payments are due to demonetization.

#### **Conclusion-**

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 surely proved the exit of large amount of unaccountable money from the system and source of demotivation for wrong practices and black money. The act of demonetization is arbitrary but done with peculiar purpose to curb the corruption and black money from the society, which require the secrecy, prior disclosure or making law on demonetization or discussion in the parliament would have defeated the purpose of demonetization.

