

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available online at: www.ijarcsms.com

Black Money in India: Present Status and Future Challenges and Demonetization

Nikita Gajjar

Assistant Professor,
N N.R.V.I.B.M.S,
Junagadh – India

Abstract: In the present era, issue of BLACK MONEY has come into forefront of the society with active participation of our youth and parliament. The main aim of this research paper is to know the present status of black money in INDIA & its future challenges. In the context of present status it includes sources from where black money is generated and its uses in the country at different levels. This paper represents the framework, policy options and strategies that Indian Govt. should adopt to tackle with this issue and also describes the future challenges to be faced by Govt. in this context. It also studies the one of the main reason behind the generation of black money i.e. corruption. It shows up to what extent, the corruption leads to its generation which has considerable impact on various sections of the society. At last but not least, conclusion of this paper is provided representing the ongoing issue of black money in our country and its future course of action. Hopefully, this would contribute to an informed approach on this issue as we move forward in this context.

Keywords: Corruption, Demonstration Effect, Present Status, Future Challenges, and their effects, SIT (Special Investigation Team).

I. INTRODUCTION

As we know that in Ancient times our country, INDIA, was popularly known as “*Golden Bird*” because people of our country were more civilized in terms of coordination and co-operation, worked in a very enthusiastic & honest manner so as to provide fruits of their work to everyone

Without any selfishness and/or jealousy i.e. they were not concerned about their earnings as compared to others. They focused on the welfare of the nation as a whole. So it could be redacted at that time that our country will become one of the greatest economies in the world and be at the top as regards developed country very soon, but sadly it didn't happen. There are many reasons behind it but the basic reason is the “*Use of BLACK MONEY*” to a large extent in our country.

In Ancient times the ways to generate money as well as its usage was very transparent i.e. everyone knew the sources of money and its application, which may be referred as WHITE MONEY. So, in the past, White Money was in use but now the color of Indian money has changed to Black. Before discussing the use of black money one must know what Black Money is.

II. OBJECTIVE

- To understand the sources of black money.
- To analyze the solution for decrease black money.
- To get idea about demonetization.
- To show the flow of black money in market.
- To know the problems of laymen with reference to black money.

III. REVIEW OF LITERATURE

- ✚ 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.
- ✚ CA lalit Mohan Aggarwal (2012) edited the White Paper on Black Money studied that violation of laws by central and state government leads to criminal activities which in turn leads to generation of black money in Indian economy.
- ✚ Arpit Guru and Shruti Kahanirow (2010) researched on is black money income? Need for amendment in DTAA & ITEA analyzed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. They also studied how black money had caused menaces in our economy and in what ways it is used.
- ✚ Vijay Kumar Singh presented a paper on controlling money laundering in India- problems & perspectives that to control black money in India is very difficult task only due to the existence of one reason i.e. poor implementations of laws which leads to sophisticated crime in the economy and thus generates black money.

What is Black Money?

As we know that in the present times, black money is used in our country up to a large extent so it is not possible for us to define it in a very clear terms .Different people defines it in a different way with different terms such as unaccounted income, black income, black wealth, underground wealth, or at economy level it is known as black economy, parallel economy, shadow economy, and unofficial economy. Therefore, all in all these terms usually refers to an income on which the taxes are imposed by government but have not been paid.

Black Money refers to that money which is not fully legitimate property of the owner. It is normally received in terms of cash from economic activities. I.e. Individuals who received it must hide it, spend it on for the fulfillment of their needs.

According to National Institute of Public Finance and Policy (NIPFP) defines-

“Black Money is the aggregate of incomes which are taxable but not reported to authorities.”

Apart from this, the term black money would also include legal income that is concealed or hide from public authorities:

- To evade payment of taxes which includes - income tax, excise duty, sales tax, stamp duty, etc
- To evade payment of other governmental or statutory contributions
- To evade compliance with the provisions of various industrial laws which exists such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1965, Factories Act 1948
- To evade compliance with other laws and administrative procedures applicable in India

From where is it generated?

It is generated through main two activities or means – Illegal means and Legal means

- It is earned through **Illegal means** such as drug trafficking, weapons trading, terrorism, selling counterfeit or stolen goods etc.
- By **Corruption** which includes bribe given to and by public officers

- Hiding income through **Legal activities** i.e. not reported to public authorities or we say to the govt. for the purpose to evade taxes.
- Even commercial classes generate black money through **Trade**.

From where is it used?

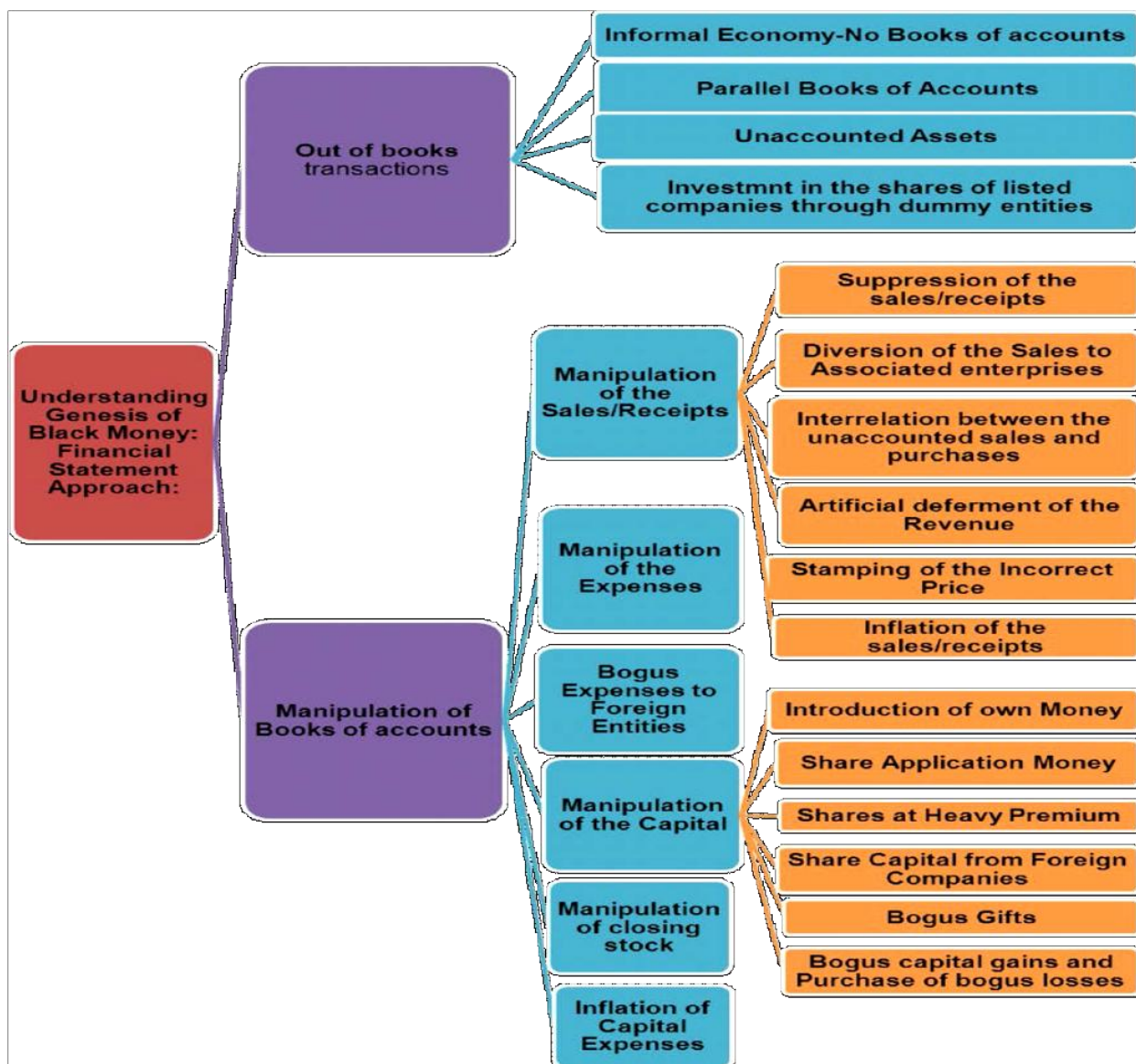
In INDIA it is mainly used by ministers in Elections to promote their own interests. It is also used in air travel, land, jewellery etc.

Who is involved in it?

List is never ending but to name few are Ministers, Liquor Traders, Top Industrialists, Senior Officers, Chief Ministers, etc.

Effects of Black Money

- It leads to increase in inequalities of income which widens the gap between the rich and the poor people of our country.
- It leads to wasteful consumption in our economy i.e. money which should be used for investment but wasted at consumption.
- It leads to decrease in working efficiency of people as they get used to earn Black money by easy means and they start preferring leisure to work.



Source: white paper on black money analysis

IV. PRESENT STATUS OF BLACK MONEY IN INDIA

As we know, in the recent times the issue of black money and corruption has come into being with participation of our civil society and parliament institutions. In this context two main issues have come into being-

- Firstly, without any adequate factual basis, a large magnitude /amount of black money and unaccounted wealth stashed abroad every year.
- Secondly, Govt. Response to address this issue has been inadequate or we say considerably negligible.

Now let us look at the picture of Black Money in India

Almost every sector in our country generates and uses black money for its survival in the market, society....etc. It includes Real estate, financial market, bullion & jewellery market, non-profit organisations, external trade and so on.

Apart from this, in India black money persists due to the existence of **Demonstration Effect** i.e. the way to live a life in terms of others point of view or we say live a life by looking at others livelihood. People of India are very much affected by the lifestyles of other people of the society who are maintaining considerable high status, and in turn want to be like them. For this, they want to generate money by any means. Therefore to fulfil these desires or to maintain their status in society they force themselves to generate and use black money.

Another reason for the existence of black money is the presence of **Corruption** in every field of the economy. For example,

1. if any common man wants to get a job in any public institution like in a bank, or any transport or educational institution etc., then he will have to pay adequate consideration to the authority of that respective institution i.e. Bribe have to be paid. For this, common man is forced to generate money by illegal means. In this way, we can say that, both, the public authority and a common man generate and use black money in a considerable manner.
2. Likewise, if a student wants to get admission in any big and reputed institution, he will have to pay some extra money other than fees in the form of Donations etc.
3. Also in some Educational institutions, more fees are charged for examination forms or for practicals which is considerably higher than the quoted fees. In this way, black money is generated and used in big and reputed educational institutions.

Another aspect of black money is very astonishing for society from which significant amount of black money is generated and used and that is **the spirituality**. Like the cases of NIRMAL BABA and RADHE MAA.

Another sector which generates and uses significant proportion of black money is the **Indian Political System**.

The Leaders/Ministers of this system focus only on their personal growth instead of the Economic development of the country. At the time of elections, they spend a significant amount of money to win or, as is said, to get a chair and after winning they just focus on earning large amounts of money by taking bribes, even for small activities. Such Black Money is either deposited in foreign banks like SWISS BANK or invested in Real-Estate in other countries like Dubai etc. According to 3rd report published in May, 2012 SWISS NATIONAL BANK estimates total deposits as below:

Country	Money Deposited
INDIA	\$ 1,456 billion
RUSSIA	\$ 470 billion
UK	\$ 390 billion
UKRAINE	\$ 100 billion
CHINA	\$ 96 billion

From above analysis it is clear that India has a Top Position in case of black money deposits.

Even our Prime Minister „Dr. Manmohan Singh“ lives in a house which has 365 rooms whereas a common man with an average income lives in a simple house containing only 2 to 3 rooms. But many are not even getting this and they are the people living below poverty line and live in slums.

This data shows that our ministers only know about Generating and using Black Money and instead of Developing they are Deteriorating India.

Another aspect through which significant amount of black money is generated is by **Manipulation of Accounts** in which the accounts are manipulated to misrepresent the authorities which help to generate large amount of black money. Accounts may be manipulated by following ways:

Maintenance of Out of Books

Transactions: It is one of the most widely adopted methods for generation of black money which is generally used by grocery shops. I.e. transactions that may result in taxation of receipts or income are recorded out of the books of accounts. In mostly cases the taxpayer does not maintain books of accounts.

Maintenance of Two (Parallel) Books of Accounts: This is one of the methods which are usually adopted by those who are obliged under the law to maintain books of accounts. In order to evade taxes, these people may resort to maintaining two sets of books of account – one for their own consumption with the objective of managing their business and the other one for the regulatory and tax authorities such as the Income Tax Department, Excise Department etc.

Under-report of Production figure: In this production figure is manipulated in order to evade taxes which in turn help to generate black money at industrial level in an economy.

All these aspects only affect the middle income persons who earn their livelihood by end means. But according to some research, to some extent, **common man** is also responsible for generation of black money like for saving tax he may produce fake bills, or by producing fake travelling bills for claiming TA, giving bribes to builders to reduce stamp duty etc.

In this way, every citizen of our country is responsible for generation of black money.

V. FUTURE CHALLENGES OF BLACK MONEY

Above we have studied a comprehensive analysis of factors leading to generation of black money in our country. At the same time, it is not possible to curb, control and finally prevent the generation of black money in near future as well as repatriation of black money. It is possible only if a comprehensive mix of well defined strategies and policies is pursued with patience and perseverance by the central and state government and put into practice in a very co-ordinate manner. There are some challenges which might be faced by the government as explained below:-

To control criminal activities

As we know, in country like India there are many illegal activities and crimes that lead to generation of significant amount of black money incomes. It includes counter fiat currency, drug

Trafficking etc. Each of them is a major source of unaccounted or black money. So to control them is one of the greatest challenges before the society as well as for the govt... Therefore, it requires all agencies of both central and state government to actively make strategies to bring them to a halt.

Repatriation of black money stashed abroad:-

I think it is the one of the biggest challenge of our government of India to bring back money from abroad. However; it is a goal that cannot be achieved by government action alone as it requires coordination and co-operation of other countries as well

as authorities to achieve this. So, government needs to evolve an environment & create legal mechanism through global consensus, co-ordination & by making specific bilateral treaties.

Special Investigation Teams:-

In order to control and curb prevalence of black money in India, govt. has made a team which is known as Special Investigation Teams to investigate on the issue of black money. So, at present

in India, it works under the chairmanship of retired SC Judge B. P. Jeevan Reddy. But its success depends upon the team members of committee as it requires a significant effort to work on this issue. So, government must take quick action in setting SITs, then potential black money holder will definitely reduce. It is big challenge in front of government to properly implement the special SIT which helps to bring back stashed black money in the country.

Less formation of Committees:

I think this is one of the biggest challenges which are going to be faced by Indian govt. to form fewer committees. i.e. Ministers in Indian Political System are just focus on setting up new committees even for a very small issue in order to rot the issues i.e. our politicians only know how to delay the process of action and thereafter, making lame excuses rather than providing solutions for a problem i.e. Corruption and black money. So, we can say that the Indian Government is just forming committees to make fool of the people of India and not for the sake of the nation. So, it's a very big challenge for our Government to properly form committees and run them in a very efficient & effective manner

Reduction in the Cost of Compliance and Administration:

As we know that the transaction cost associated with compliance and Administration is one of the major disincentives for generation of black money in a very large amount. It includes cost of compliance, administration, maintenance of books of accounts etc. which is being borne by the citizens of our country, or we say tax payers who are in turn compelled to evade taxes. In this way black money is being generated in our country. Therefore it must be reduced which again proves to be a challenge for the Government of our economy.

To control corruption:

As all know that there is only one major reason behind the generation of black money is – corruption. It is perceived as one of the biggest challenges faced by our country which is almost impossible to counter. As we study above all the factors that lead to generation of black money are directly related to corruption. So to control black money it is essential to curb and control corruption which requires multipronged strategies with assigned the responsibility to prevent it.

For this the government has introduced the Public Procurement Bill 2012 which intends to regulate public procurement by all Ministries and Central Government Departments. This bill aims to ensure transparency, fair and equitable treatment of bidders, promoting competition, and enhancing efficiency and economy in the public procurement process.

Therefore at last, I want to say that if govt. really wants to control corruption, then there should be proper implementation of Public Procurement Bill 2012.

To Strengthen the Social Values:

I think to control the generation of black money in our economy requires a combined effort by all citizens of a country. Or it needs to be fought by every citizen at various levels which includes political, economical and administrative levels etc. At ethical level, we have to reinforce our moral education in the school curriculum particularly highlighting the ills of black money which in turn leads to tax evasion.

At economic level, there must be a reduction in wasteful consumption or expenditure, and to encourage savings, frugality and simplicity which in turn reduces the gap between the rich and the poor. So, to strengthen the value system of our country at individual level is proving to be a challenge for an economy.

VI. RECOMMENDATION AND SUGGESTION

After studying the concept of black money & its various sources of generation in our country, it's time for some Recommendations & Suggestions that may help to control black money in India. The current remedy is demonetization which is very much effective. Let's see some aspects of demonetization.

VII. DEMONETARIZATION

- Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. Money can be replaced with new currency.
- The demonetization of the 500 rupee note and the 1,000 rupee note; the two highest currency denominations available in India will likely hit the economy hard in the short term. This move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.
- The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices.
- **Loan burden will also fall from this step.**

Other recommendations are as follows:

- Our Government should make its foremost objective to control black money in our country.
- E-Governance should be started by the Government i.e. the use of technology be made as far as possible like E Registration with Revenue Authorities, E-Filing of Returns, etc. because more the involvement of human beings, more is involvement of corruption, ultimately generating Black Money.
- Black money revolves around in cash only so the Government should put restriction on cash transactions wherever possible and instead should increase the use of Plastic Money like Debit Cards, Credit Cards, etc. and by other such means.
- Agriculture income should be taxed for those who have both the agricultural as well as non-agricultural income.
- The Government should not give absolute power of work to any one person as it creates monopoly and instead should segregate the work among many persons.
- All the aspects of its generation should be looked into and stopped.
- Competitive bids should be motivated.

VIII. CONCLUSION

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.

So we can't say that India is a poor nation. Infact, India is amongst the Richest Nations if Stashed Black Money is brought back & converted to White Money and fresh generation of Black Money is put to an end.

References

1. Gupta, S.B. (1982), Monetary Economics-Institutions, Theory & Policy, S.Chand and Company, New Delhi.
2. Ahuja, R. (2007). "Social Problems in India" (2nd Ed). Jaipur: Rawat Publications. Nafees.A.Khan, P.T.Chaudhary, "Black Money: Its Impact on the Indian Economy," Tax Reforms in India (Ed.), Srinawas Publications, Jaipur,pp. 150-155,2003.
3. Sukanta Sarkar (2010). "The parallel economy in India: Causes, impacts & government initiatives". *Economic Journal of Development Issues*, Volume 11-12 no.(1-2) p.124-134.
4. Vijay Kumar Singh, (January 2009) "Controlling money laundering in India – problems & perspectives" To be presented at the 11th Annual Conference on Money and Finance in the Indian Economy- At the Indira Gandhi Institute of Development Research
5. CA Lalit Mohan Agarwal(2012), edit. "White Paper On Black Money", *Journal of Securities Academy & faculty for e-education*, vol.72.
6. businesstoday.intoday.in/story/white_paper_on_black_money_features/1/185177.html_24_jan_2012.
7. bharatkalyan97.blogspot.in/2012/05/junk_paper_on_rs_24_lakh_crore_black.html.
8. currentaffairs.appsc.blogspot.in/2012/05/white_paper_on_black_money_a_few_suggestions_should_be_dropp/
9. economictimes.indiatimes.com/opinion/blackmoney_rerouted_intoindia_via_realestate_deals_articles/13386465/www.financialexpress.com/news/columns_black_money_white_paper/957949/5_june_2012/
10. fimmin.nic.in/reports/whitepaper_black_money/2012.pdf.
11. www.indianexpress.com/new/white_paper_on_black_money_soon_no_mps_in_list_of_evaders_pranab/888048
12. www.moneylife.in/article/white_paper_on_black_money_hide_and_i_cant_see_game/25883.html
13. www.studymode.com/subjects/corruptions_and_black_money_page3.html
14. www.swamyassociates.in/swamyuserfiles/file/may%202012/editorial_blackmoney.pdf
15. en.wikipedia.org/wiki/Indian_black_money
16. http://www.bjp.org/images/pdf/feb_08_bjp_task_force_report_ii.pdf.Indian.blackmoney Abroad a 2008 report by BJP

Website:

17. <http://www.investopedia.com/terms/d/demonetization.asp>
18. <http://www.indiaspend.com/making-sense-of-breaking-news/how-demonetisation-will-boost-cashless-economy-85591>
19. <http://www.indiaspend.com/special-reports/india-demonetizes-currency-after-36-years-75606>
20. <http://ijbssnet.com/journals/20.pdf>