

The Effects of Black Money on Indian Economy

काळ्या पैशाचे भारतीय
अर्थव्यवस्थेवरील परिणाम



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one line I would say that black money impact has broken our economical and social values badly. It may be pointed out that many more measures be taken which might have been left out in writing this article. There are many genius and intelligent persons in our country including economists of eminence who can suggest measures to the government to do away with the menace of black money afflicting our country. Conversion of black money into white money is only a short term measure, but it is the preventive measures which can root out this evil permanently. The most important aspect of nationality and love for once nation in all aspects must be taught to our children from their basic educational system. It should start from their earlier school education because whatever the child learns in his / her formative years is carried forward towards the later stages in his or her life.

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27) THE EFFECTS OF BLACK MONEY ON INDIAN ECONOMY

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Indian economy has come a long way since India's independence in 1947. Even though a rapid development is being made in many important areas, the major problems of poverty, unemployment, unequal distribution of wealth, inadequate infrastructure still continue to persist. Black money is a major problem among these.

The term 'parallel' has connotation of functioning on unsanctioned sector of economy but having objectives quite contrary to social objectives. It is based on the unaccounted money. It is variously known as 'black money', 'unaccounted economy', 'illegal economy', 'subterranean economy', or 'unsanctioned economy'.

In a general way we can define black money as the money that is generated by activities that are kept secret in the sense that these are not reported to the authorities. As such this money is also not accounted to the fiscal authorities i.e. taxes are not paid on this money. Such money is also often paid as bribes to persons to get some advantage such as quick or favourable disposal of the file or work. It is a big threat to Indian economy and cause of confrontation between the legitimate and the illegitimate sectors. It creates roadblocks in the path of achieving the social objectives of establishing a welfare state as enshrined in the constitution of India. It is a challenge for the goals of planned development which aim at promoting greater social welfare.

The history of the emergence of the black money goes back to the Second World War. As the economic activities grew and expanded during the post-independence period, this unsanctioned sector of economy also grew and expanded to such an extent that it began to play a dominant role in moulding the state policies. The operators of black money grew so strong that they established a parallel economy.

The well-known economist professor Arun Kumar estimates black money generations in India to be currently 50 percent of the GDP. The growth of black money has shown proportional alarming increase in recent years from 20 percent in the 1980s to 45-50 percent at the turn of the century. A 2006 report of the Swiss Banking Association claims Indians are the biggest depositors of black money in banks located in Switzerland. Many Indians regard this money as public loot. It is argued that once this huge amount of black money and property comes back to India, the entire foreign debt can be repaid immediately, still leaving a huge surplus amount of foreign exchange reserves in India. In total, India has about \$50 billion of black money as of June 2008. This means 2 trillion rupees.

The growing proliferations of black money in every sector of economy has very serious impact on the economy as well as social system of the country. They are - Misdirection of precious national Resources, Increase in Economic Inequality, Constraint in formulating proper policies for Govt, Threat to price stability, Transfer of funds, Emergence and spread of anti social elements, Corruption in political system, Erosion in the value system. Thus there are many evils associated with the operations of black economy. It calls for certain measures to get rid of it and make the economy function in a healthy manner. Following concrete measures suggested can

be of great help in controlling the parallel economy of black money in India. Rationalization of tax structure, Tax reforms, Removal of unnecessary controls, Voluntary discloser scheme, Issue of special bearer bounds, Issue of special bearer bounds, Expansion and improving the efficiency of the public sector as a countervailing power, curbing generation of black money.

The package of measures discussed above are all steps in the right direction within the socio-economic framework of the mixed capitalist economy. Their success depends on the sincerity and vigor with which they are implemented. The internal and external contradictions of the system frustrate the measures taken half-heartedly by the Govt. If a symbolic relationship develops between the capitalist classes and political structure in the country, the chances of controlling the threat of parallel economy appear to be bleak. The crucial issue, therefore, is the nature of state structure, its attitude towards black money, the degree of tolerance and connivance with black money operators. If this short-term solution is not allowed to succeed, the fundamentalist solution will be the ultimate answer.

Indian economy has come a long way since India's independence in 1947. Even though a rapid development is being made in many important areas, the major problems of poverty, unemployment, unequal distribution of wealth, inadequate infrastructure still continue to persist. Black money is a major problem among these. Therefore, in this paper an attempt is made to examine the impact of black money on Indian economy.

OBJECTIVES:

This paper is mainly focuses on the following objectives:

- 1) To study the origin and various estimates of black money in India.

- 2) To study the impact of black money on Indian economy as well as social system of the country.
- 3) To suggest some measures to control black money in India.

METHODOLOGY:

The information for the present study is obtained through secondary source. The secondary data is collected from various reference books related to Indian economy.

I. THE CONCEPT OF BLACK MONEY:

The term 'parallel' has connotation of functioning on unsanctioned sector of economy but having objectives quite contrary to social objectives. It is based on the unaccounted money. It is variously known as 'black money', 'unaccounted economy,' 'illegal economy', 'subterranean economy', or 'unsanctioned economy'.

In a general way we can define black money as the money that is generated by activities that are kept secret in the sense that these are not reported to the authorities. As such this money is also not accounted to the fiscal authorities i.e. taxes are not paid on this money. Such money is also often paid as bribes to persons to get some advantage such as quick or favourable disposal of the file or work. It is a big threat to Indian economy and cause of confrontation between the legitimate and the illegitimate sectors. It creates roadblocks in the path of achieving the social objectives of establishing a welfare state as enshrined in the constitution of India. It is a challenge for the goals of planned development which aim at promoting greater social welfare.

II. ORIGIN OF BLACK MONEY:

The history of the emergence of the black money goes back to the Second World War when controls and rationing had to be introduced due to shortages of certain essential goods. It was expected that the phenomena would end with the second world war.

However, with the attainment of Independence and the advent of planning, more avenues of investment in a large number of industries were opened. In the concept of mixed economy there were the provisions of co-existence of public sector and private sector. The public sector was mainly concerned with the social cause, therefore it concentrated on the development of infrastructure. Such as roads, railways, ports, irrigation facilities education, health facilities ect. The remaining sector of economy was left to be development by the private sector. This provided space to those having black money to carry on their business.

As the economic activities grew and expanded during the post-independence period, this unsanctioned sector of economy also grew and expanded to such an extent that it began to play a dominant role in moulding the state policies. The operators of black money grew so strong that they established a parallel economy.

This development contributed towards widening the economic inequalities in society. It also led to the breeding of a new class of rich having abundance of unaccounted wealth.

III. VARIOUS ESTIMAKS OF BLACK MONEY:

The money involved in black secret transactions is very large indeed. According to one estimate, over a trillion dollars (roughly the size of our GDP may be lying in undisclosed, offshore bank accounts held by Indians. According to IMF survey on the unaccounted sector of the economy (1982-83) the estimated black money in India stands at 50 percent of Gross National product (GNP).

In 2006, the most recent Global Financial Integrity study showed that the average amount stashed away from India

annually during 2002-06 is \$ 27.3 billion (about Rs. 1,36,466 crores).

The well-known economist professor Arun Kumar estimates black money generations in India to be currently 50 percent of the GDP. The growth of black money has shown proportional alarming increase in recent years from 20 percent in the 1980s to 45-50 percent at the turn of the century. A 2006 report of the Swiss Banking Association claims Indians are the biggest depositors of black money in banks located in Switzerland. Many Indians regard this money as public loot. It is argued that once this huge amount of black money and property comes back to India, the entire foreign debt can be repaid immediately, still leaving a huge surplus amount of foreign exchange reserves in India. In total, India has about \$50 billion of black money as of June 2008. This means 2 trillion rupees.

IV. IMPACT OF BLACK MONEY ON INDIAN ECONOMY:

The growing proliferations of black money in every sector of economy has very serious impact on the economy as well as social system of the country.

1) **Misdirection of precious national Resources:**

Black money causes great loss to the state exchequer. It adversely affects the direction and momentum of valuable national resources. A major portion of black money is kept in such forms which contribute little to the productive activities. It is used for tax evasion-directly or indirectly. Thus the dishonest taxpayer is able to get away and then use the evaded income in luxurious and ostentatious consumption.

1) **Increase in Economic Inequality:**

Black money has widened the gap of economic inequality, which has an adverse impact on the fabric of the society. Capitalists and big businessmen have larger amount of money at their disposal. Easy money as it is

obtained, finds ready outlets in nonessential items of conspicuous consumption. This has an adverse impact on the consumption pattern of society which is tilted in favour of the rich. This also affects the production pattern. The items of luxuries and those which are used by this class of society are produced in large amount at the cost of the production of articles of mass consumption.

2) **Constraint in formulating proper policies for Govt.:**

The huge unaccounted money is a big problem for the policymakers as they fail to make a correct analysis of the situation. It is also a big hurdle in monitoring the developments of economy with precision and accuracy. Hence, it is a big constraint in formulating proper policies in the absence of correct data.

3) **Threat to price stability:**

Black money leads to the accumulation of abundance of liquidity as a major portion of it is kept as cash, gold, silver, property, assets etc. These are unproductive assets which are not used for the welfare of society. Thus, all attempts of Govt. to control excess demand with the help of measures of credit control or rationing meet with no success as huge liquidity is provided by black money. This liquidity results in heavy inventory build-up, it becomes a challenge to establish price stability.

4) **Transfer of funds:**

A big portion of black money is transferred to foreign countries through clandestine channels. For this, foreign exchange regulations are violated through under-invoicing of exports and over-invoicing of imports. This leads to the emergence of a paradoxical situation where capital, particularly foreign exchange reserves are scarce but the country becomes infact a lender of aid.

5) Emergence and spread of anti social elements:

Black money contributes to the emergence and spread of anti-social elements like musclemen, touts and brokers who are required to protect the black money. They are used to fight against the forces of law and order. This has provided a favorable atmosphere for the flourishing of a black money culture in the country.

6) Corruption in political system:

Black money has corrupted our political system in a most vicious manner. At various levels, MLAs, MPs, Ministers, Party, functionaries openly and shamelessly go on collecting funds. Those who raised black money for the party were able to raise other funds to strengthen their power.

7) Erosion in the value system:

Black money has caused erosion in the value system of the country. Black money is mostly acquired from illegal means. Hence it is spent in undesirable and very often an illegitimate manner. Such money gives rise to a tendency of ostentation among the people. Black money promotes malpractices in society. It is used to get the work done through bribing it etc. which are not good for society.

Thus there are many evils associated with the operations of black economy. It is argued that to get over the delays and difficulties implied in the controls, the black money has been used as an instrument to get things done expeditiously. In part this may be true. But this does not explain the entire range of activities of the parallel economy. Nor does it explain how and why these sorts of dealings have become all-pervasive.

V. MEASURES TO CONTROL BLACK MONEY:

Black money is big evil. It calls for certain measures to get rid of it and make the economy function in a healthy manner. Following

concrete measures suggested can be of great help in controlling the parallel economy of black money in India.

1. **Rationalization of tax structure :**
The economists have a unanimous opinion regarding the rationalization of tax structure since tax evasion is basic to the phenomenon of black money generation. Efforts need to be made to devise such taxes that prevents taxable income, goods and services from escaping the tax net.

2. Tax reforms:-

Another major step includes reforms in tax structure. Reduction in tax rates will dampen the urge for concealing income to evade taxes. Large tax revenue following tax reductions in direct taxes means that larger amounts of incomes have been declared. Simplification of tax laws and tax procedures will also help in this regard.

The structure of indirect taxes need to be rationalized so as to cover goods and services which are escaping tax.

3. Removal of unnecessary controls:

Controls and licensing procedures are all unnecessary, they hinder productivity, obstruct the free play of market forces and should, therefore be withdrawn.

4. Voluntary discloser scheme :

This scheme was adopted in 1951 and then twice in 1965 and again in 1975. The scheme envisaged a voluntary discloser of concealed income by the persons. Under those schemes those declaring their income were not to be punished some success was achieved. The amount disclosed came to be about Rs 1000 crores. But this obviously was a very small amount of the black money.

5. **Issue of special bearer bonds:**
Special bearer bonds on a nominal rate of interest were issued, the people with black money will buy them and thus intensity of this

problem will become low.

6. **Expansion and improving the efficiency of the public sector as a countervailing power :**

The efficiency of the public sector units should be improved and it should enter into areas of mass consumptions. If the public sector can become a countervailing power, the extent of black income generation will get reduced.

7. **Curbing generation of black money:**

The basic remedy, of course, lies in uprooting the base of black transactions. In this connection three sets of steps are essential in the first place, the penalty for unreported transactions, which fall within the tax net, be made more severe. Secondly and more importantly the opportunities for corruption should be eliminated. This necessitates an overhaul of the control/ licensing/ permit system. The current efforts at dismantling this system will help a lot in curbing the generation of black money. At the same time proper remuneration be paid to the administrative functionaries dealing with these matters so as to eliminate any temptation for the same. Thirdly and most importantly, there is the need for a radical change, rather reversal of the attitudes of the people. The present situation has degenerated to such a low level that businesses see much advantages in dealing in cash, and no stigma attaches to tax-evasion and black transactions. The need is to educate the people and to change their very work-ethos.

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