
Impact of Black Money on Indian Economy

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Black money, also described as tainted money, has seeped into every walk of life and is posing a great threat to the stability of our real economy. The most unfortunate aspect is that it has come to be accepted as normal fact of life. People hardly feel concerned while dealing with it. In their view, black money is highly attractive and alluring.

The problem of black money cannot merely be looked upon as an anti-social activity or an unlawful activity. It is rather, like a cancer in the country's economy which, if not checked in time, will ruin the country's economy. One of the worst consequences of black-money is its pernicious effect on the moral value of our society which puts a premium on dishonesty and shatters the faith of the common man in the dignity of honest labour and lawful living. Black-money results in the functioning of a parallel economy in the country. The problem, therefore, needs immediate attention.

Black money in economic terms means 'unrecorded gains'. In other words, it is income which has escaped taxation. It may be hoarded in cash, but eventually gets itself converted into various assets like property, jewellery and durable consumer goods.

Various estimates have been made regarding the quantity of black-money in circulation. It is estimated that the amount of black-money has reached over Rs. 20,000 crores. The black-money has now assumed vast dimensions and creates menace. It has been engaging the attention of the Government and the public.

Black-money arises due to various reasons. Some of those reasons are:

- (1) The main cause of black-money is unrealistically high rates of taxes which strain human nature. India is today one of "the highest taxed nation", one eminent authority put it, "in so far as the rates of taxes are concerned, because no country in the world penalizes honest work and endeavour as ruthlessly as India does."
- (2) Tax-laws in country are so complicated that a layman fails to understand it. Even honest assesses are unable to file correct returns. This encourages people to evade tax.
- (3) Corruption prevailing in the tax collection department is also one of the causes of generation of black money. The high rates of taxes induce businessmen to falsify their accounts and they are successful in doing so by bribing the concerned authorities.
- (4) Another cause of black-money is numerous controls, licenses and other governmental regulations. It is no exaggeration to say that the controls, licensing and permit system has made black money indispensable to businessmen.
- (5) Black money also arises from political activities such as elections where candidates spend well above the ceiling prescribed by the Election Commission. There is a growing tendency of funding of political parties with the help of black money. Big business houses are donating a huge amount of black money to the political parties, especially the ruling party with the sole intention to tame the political leadership for deriving benefits by manipulating policy decision.
- (6) Black money also arises from illegal activities like smuggling, drug-peddling and Government is still not in a position to control it.
- (7) Perhaps the most important reason of tax-evasion and black-money is the general deterioration in the moral and civic standards of our people. Demonstration effect that induces people to copy superior lifestyle is also responsible for creation of black money.
- (8) The various projects in public sector are monitored by the bureaucrats in government departments and public sector undertakings. Tenders are invited and are awarded by the bureaucracy in consultation with the political leaders and involve large scale black money in underhand dealings.

(9) Growing inflationary pressure in the country also encourages generation of black money.

(10) Another factor responsible for widespread growth of black money is urban real estate transactions. As we all know that no property can be purchased without making the payment in black money.

(11) The reluctance to bring agricultural earnings in the realm of income tax has also contributed to creation of black money. Big industrial houses, over the past few decades have entered the agriculture sector in a big way by acquiring big farms. The black money accrued from other sources is sought to be transformed into white by viewing it on the agricultural returns account.

(12) Privatization has opened up a new area to the private sector as well as to ministers and bureaucrats for making black money. It is expected that many scams come to light for making black money through privatization

Our businessmen employ very ingenious methods to generate black-money. Large amounts of black-money can be generated through the sale of fixed assets and scrap. Sometimes influential firms obtain quotas or import licenses in excess of their actual requirements and sell them at cash premiums. Industrial manufacturing licenses are similarly obtained through influences and sold to a second party at an enhanced value. Purchase bills are over-invoiced or dummy bills are prepared. Large-scale smuggling of gold and various luxury items is an important source of black-money. Sometimes, relatives whose income is not taxable are kept on the payrolls of a company; they are paid their salary which is taken back in the forms of black-money.

The laws governing the motion of black money exhibit peculiar trends. Returns on white money investments are discouraging poor and slow. But black-money multiplies at a fantastic rate. Returns on black-money investments are often to the order of 200 to 300 percent. Since money thus generated is re-invested in such activities as hoarding and smuggling, it fetches still higher returns. Once black-money is converted into black wealth it is very difficult to track it down.

Impact of Black money:

The creation of parallel economy as a consequence of the growing proliferation of black money in every sector of the economy has very serious influences on the working of the Indian economy. Impact of black money on the Indian economic and social system is explained as follows:

- i. The direct effect of black money is the loss of revenue to the state exchequer as a consequence of tax evasion. Tax evasion does not include loss of revenue resulting from illegal economic activity.
- ii. Black money encourages investment in precious stones and jewellery. This has adverse effects on growth via its demonstration effect.
- iii. Black money has encouraged diversion of resources in the purchases of real estate and investment in luxurious housing and lot of black money is made white. This is also pushed up prices of land to astronomical heights. As consequences, the middle classes are priced out in the purchase of land for house.
- iv. Black money results in transfer of funds from India to foreign countries through clandestine channels. Such transfers are made possible by violations of foreign exchange regulations through the device of under invoicing of exports and over invoicing of imports. The country thus finds itself in a paradoxical situation.
- v. Black money and Tax evasion are even otherwise encouraging over financing of business which is as dangerous as under financing. These trends add further to inflationary pressure in the nation.
- vi. Black money with businessmen and capitalists and the consequent inequalities of income place of a large amount of funds at their disposal easy money as it obtains, finds ready outlets in non-essential articles of conspicuous consumptions. This has a demonstration effects on all classes of people.
- vii. Black money has corrupted our political system in a most vicious manner and at various levels; MLAs, MPs, Ministers and party functionaries openly go on collecting funds. At the local levels, the local leaders receive money from small traders and businessmen. It is therefore, no exaggeration to say that black money is like a cancerous growth in the country's economy which, if not checked in time, it sure to lead to its ruination
- viii. Black income has been causing underestimation of GDP in India as an enormous volume of income is diverted to this unaccounted sector resulting in growing continuation of parallel economy of the country.

- ix. The direct effect of black income is the loss of revenue to the state exchequer as a tax evasion.
- x. Black money has resulted in the diversion of resources for the purchase of real estate and luxury housing.
- xi. Black money has resulted in transfer of funds from India to foreign countries through clandestine channels.
- xii. The availability of black incomes with businessmen and capitalists and the consequent inequalities of income place a large amount of funds at their disposal.
- xiii. A part of the black incomes is held in cash and as a result there is abundance of liquidity which becomes available through the addition of savings held in the form of cash, bullion, gold, silver, etc.
- xiv. Money evaded by illegitimate way is spent in undesirable and vulgar manner. Virtues like hard work and honesty are underestimated. Thus the existence of parallel economy has totally distorted and disrupted the planning of the economy of the country.

Measures taken by Government to check generation of black money

Many steps have been taken by the Government from time to time to check the generation of black money and tax-evasion. Following Wanchoo Committee's recommendations the Government enacted the Taxation Laws (Amendment) Act, 1975. This act has brought on the statute various provisions for preventing tax-evasion and proliferation of black-money. Deterrent punishments have been, provided for tax-evasion. The other committees were—the Dangli Committee on Controls and Subsidies (1980), The Rajah Chelliah Committee, and the National Institute of Public Finance and Policy (1985).

With a view of bringing about simplification and rationalization of the direct tax laws, the Government appointed a committee of experts known as the “Direct Tax Laws Committee” in June 1977. The recommendations of the Committee are being processed for implementation.

In 1976 the Government imposed a statutory obligation on the management to carryout physical verification of its assets for the satisfaction of the auditors to ensure that no money is created through the sale of fixed assets. Management is also obliged to maintain a proper record of the sale of scrap. Another step taken by the Government to unearth black-money was the launching of the voluntary disclosure scheme in 1975, No penalties were imposed on the persons disclosing black-money voluntarily. Demonetization of the notes of higher denomination has also been one of the recent steps of the Government to unearth black-money. Curbing of the smuggling activities in the country has been the main concern of the Government, The conservation of Foreign Exchange and Prevention of Smuggling Activities Act was passed for this matter on 19th December, 1974.

The Government announced on 12th January, 1981 a new scheme of issuing a ten-year bond of the face value of Rs. 10,000 each. An ordinance for this purpose was issued by the President. The bonds will be known as 'Special Bearer Bonds.' The scheme gives immunity to the investor from prosecution as well as disclosure of the source of the money invested. Several other series of such bonds have been released in recent years.

The Wanchoo Committee recommended a check on tax-evasion and proliferation of black-money. However, one aspect of tax-evasion was neglected by the Committee and it was simplification of tax laws. Unless the tax laws are simplified and rationalized, tax-evasion cannot be checked. Moreover, simple filing return procedure should be laid down so that even a layman could file it without resorting to the help of lawyers and experts.

Some of the recommendations of the Wanchoo Committee have been implemented by the Government. But a great deal of work still needs to be done in this matter. If the recommendations of the committee are implemented in the right earnestness, they would mitigate the magnitude of tax-evasion to a considerable extent. However the problem cannot be solved unless we, the people of India, realize our moral responsibility of contributing our efforts in the building of nation. This can be done only if hard work and honest enterprise become truly rewarding. Something more effective and meaningful should be done to stop the generation and proliferation of black-money.

Most of India's black money estimated to be about US\$1 trillion is believed to be parked in bank accounts in Switzerland. According to the Swiss Bankers Association, Swiss law and tax agreements prohibit third countries from general

There have been two amendments of the Voluntary Disclosure of Income Scheme (VDIS) under which black incomes and assets could be declared, the tax paid at current rates and amnesty availed from penalty and prosecution. For the smooth functioning of the economy, the following measures are suggested to combat the menace of the parallel economy:

i. Demonetization: In 1946, demonetization was resorted to but the Direct Taxes Enquiry Committee in its interim report observed, “Demonetization was not successful then, because only a very small proportion of total notes in circulation were demonetized in 1946 and its worth was Rs.1,235.93 crores.” On January 16, 1978 demonetization of high demonization notes was introduced. The high demonetization rates as on that day amounted to Rs. 146 crores. Notes tendered to Reserve Bank of India amounted to Rs. 125 crores as per data available till August 1981.

ii. Voluntary Disclosure Schemes: The Government has floated various voluntary disclosure schemes to determine the black money. In 1951, a voluntary disclosure scheme with relaxation in panel provision was introduced. It resulted in total disclosures amounting to Rs. 71 crores and tax collection of Rs. 11 crores only. Up to 1968 a total concealed income of the order of Rs. 519 crores was declared on which Rs. 131 crores were paid as tax; this further highlights the failure of the Government to unearth black incomes. The wealth disclosed under the scheme will attract income tax, but not wealth tax. Under the scheme, previously undisclosed income reported by the declarant, will be subject to tax at the rate of 30% for individuals and 35% in other cases. Further, the Finance Minister has announced that the declarant will not be liable to pay interest or penalties and will be granted immunity from prosecution under the Income tax Act 1961, Wealth tax Act, 1957, Foreign Exchange Regulation Act, 1973 and Companies Act, 1956. This scheme will remain in force till December 31, 1997 (Highlights of Union Budgets, 1997).

iii. Special Bearer Bond Scheme: Bonds that are owned by whoever is holding them, rather than having registered owners like most other securities. Like most other bonds, they have a stated maturity date and interest rate, but coupons representing interest payments are generally physically attached to the security and must be submitted to the company for payment (Bernfeld, 2010). Special Bearer Bonds Scheme (1981) was intended for canalizing unaccounted money for productive purposes. The Special Bearer Bonds, 1981 of the face value of Rs. 10,000 each were issued at par with a maturity period of 10 years.

iv. Measures to Check Tax Evasion: Dealing with tax evasion has always been one of the most difficult challenges for governments all round the world. Tax evasion is done by individuals belonging to different strata of the society in different ways. As per the surveys and reports, there are many people who provide false income details to the tax authorities to reduce the amount of liability. The income tax evasion penalties can help the government recover maximum amounts in the form of tax and utilize the money for the benefit of the common public. Tax evasion is one of the basic causes to generate the black income. Therefore, various measures were undertaken to plug the loopholes in tax evasion. Most of these measures were based on the recommendations of various committees and commissions viz Taxation Enquiry Commission (1953), Administrative Reforms Commission (1969), Direct Tax Enquiry Committee (1971) etc. Most of these recommendations were an upgrading in tax laws.

v. Economic Liberalization: Introduction of economic liberalization has detached the regime of controls and regulations and thereby the extent of black economy would be reduced regularly

vi. Voluntary Disclosure Scheme: Finance Minister Mr. P. Chidambaram while presenting 1997-98 budgets announced a Voluntary Disclosure Scheme (VDS). Voluntary Disclosure Scheme which was extensively advertised yielded tax revenue of Rs.10, 500 crores an unprecedented revenue gain from any VDS scheme launched since the independence.

vii. Other Measures: The Government has also introduced some measures to contain the growth of black income in the country which includes Deposit in the National Housing Bank in 1991, NRI foreign exchange remittance, issuing National Development Bonds in US dollars, controlling the election expenses incurred by the candidates, conducting searches, seizures, raids and other steps to plug loopholes in the tax administration etc.

The Prevention of Money Laundering Act, 2004 came into effect on 1 July 2005. Section 3 of the Act makes the offense of money laundering cover those persons or entities who directly or indirectly attempt to indulge

or knowingly assist or knowingly are party or are actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property, such person or entity shall be guilty of offence of money laundering. Section 4 of the Act prescribes punishment for money laundering with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and shall also be liable to fine which may extend to five lakh rupees and for the offences mentioned [elsewhere] the punishment shall be up to ten years (Money Laundering, 2010). Money laundering networks have and continue to provide avenues to siphon money between individuals, groups, and nations across national borders and across the world for legitimate and illegitimate purposes

In July 1991, the Union Finance Minister projected a new scheme National Housing Bank Scheme to persuade black money back into the legitimate operations of the national economy. The scheme offered possessors of unaccounted for money an opportunity to deposit any quantity of money (with a maximum limit of Rs. 10000) with NHB without disclosing the basis of funds. Some scholars have maintained that all these measures have touched only the tip of the iceberg. All of schemes have hardly fetched Rs. 5000 crore over a period of fifty years. The main drawback in these schemes is that they touch the problem of black money already created but they do not go into the root cause of generation of black money. Unless this problem is tackled, the menace of black money will continue to increase. India has tried to combat tax evasion by requiring an identification number for all major financial deals. The permanent account number (PAN) is a compulsory 10 character number issued to taxpayers by the tax department. But many transactions, especially those related to property, are conducted in cash and are unlikely to be reported. In the fiscal year 2007- 2008, the country's high value transactions amounted to more than 55.7 trillion rupees, according to India's Annual Information Return filed with the government. But nearly one third of the 3.3 million transactions were conducted without a PAN. In many other transactions, PAN numbers were fake.

Concluding Observation

Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. Government of India introduced commissions under Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta for estimating black economy. There are many factors like Controls and Licensing System, Higher Rates of Taxes, Ineffective Enforcement of Tax Laws, Inflation, Funding of political parties etc. that influence its growth.

In India amount of black money is increasing continuously which badly impacts the economic growth of the nation. Such money is a new challenge for Indian economy. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc. Over the past 50 years, the government has at various times announced several schemes offering opportunities to bring black money overboard but the result are not so effective. Some of these schemes are: introducing the scheme of Special Bearer Bonds, demonetizing high denomination currency notes, stringent raids and scheme of voluntary disclosures. These instruments are expected to reduce the volume of the black economy.

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