

## **A STUDY ON PARALLEL ECONOMY OF INDIA – CAUSES AND EXTENT**

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### **ABSTRACT**

The term parallel economy emphasizes a confrontation between the objectives of the legitimate and illegitimate sectors. For instance, in the broad long term objectives of planning to establish a socialist pattern of society, we include full employment, removal of disparities of income and wealth, avoidance of conspicuous consumption so that more resources are available for a large volume of savings, the removal of poverty, the attainment of self reliance and provision of equality of opportunity. The inequalities are no longer below the surface. The conspicuous consumption of the en w 'black' rich, their vulgar display of pomp and opulence, their unlimited accessibility to finance, their nest eggs in various places and countries, their influence in important places, all these are now common knowledge". In this present study made an attempt to know the policy measures taken by the government and the extant of black economy in India.

**Key Words:** Black Money, Corruption, Parallel Economy, Illegal Economy

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## 1. Introduction

Parallel economy connotes the functioning of an unsanctioned sector in the economy whose objectives run parallel, rather in contradiction with the avowed social objectives. This is variously, to 'black economy', unaccounted economy', illegal economy', subterranean economy', and unsanctioned economy. The term parallel economy emphasizes a confrontation between the objectives of the legitimate and illegitimate sectors. For instance, in the broad long term objectives of planning to establish a socialist pattern of society, we include full employment, removal of disparities of income and wealth, avoidance of conspicuous consumption so that more resources are available for a large volume of savings, the removal of poverty, the attainment of self reliance and provision of equality of opportunity. The attainment of independence and the advent of planning, more avenues of investment in a large number of industries were opened. The concept of the mixed economy envisaged the co existence of a public sector and a private sector. The criterion in the public sector was social gain and thus in concentrated on the creation of economic infrastructure. The rest of the economy was left to be developed by the private sector.

D.K. Ragnekar rightly mentions: "If the "Parallel Economy" poses a serious threat to stability and growth of the official economy, surely it stems from the fact that the magnitude of 'black money's large ad rigged deals are growing in volume and complexity at an alarming rate. To understand the impact of black economy, it is essential to have an estimate of black income over a period of time. In this present study made an attempt to know the policy measures taken by the government and the extant of black economy in India.

## 2. Objectives of the Study

This paper seeks to study the following issues in Indian economy

1. To study the policies measures taken by the government to control corruption and black money.
2. To study the existence and extent of black money
3. To know the causes of black money
4. To study the measures taken by the government to check the black money and corruption in India.

### **3. Review of Literature**

Guptas. J.C. Sandesara criticized that the value of total transactions is affected by several factors the degree of monetization, the extent of vertical integration if the economy, the rate of introduction of technical change, etc. It would be advisable to disaggregate the effect of these factors. To that extent, there would be over estimation. An upward adjustment on this account has to be made and it may be noted that the number and size of such transactions is quite large.

Kaldor's method of concentrating attentions on official GNP seriously underestimates the size of black income generated in the economy. There is a serious under reporting of production and there is enough evidences about it. By corrupting excise department officials, the capitalist classes are able to evade the reporting of a significant proportion of total production.

### **4. Methodology**

The present study primarily based on Secondary information. The required secondary data were collected from various sources such as Journals, published books, research papers and internet, etc. The collected data were arranged in the tabular form and the simple mathematical tools such as percentage and average has been utilized for analysis.

### **5. Results and Discussion**

This section includes three parts. The first part briefly explains the existence and extant of black money in India, second part includes the causes of black money and in the third part analyse the measures taken by the government to check the black money and corruption in India.

#### **Part I: Extant of Black Money in India**

Several attempts have been made to quantify the black incomes in India. Broadly speaking, the various estimates of back incomes made so far follow two approaches: (i) Kaldor's approach of quantifying non salary incomes above the exemption of limit of income tax and (ii) Edgar L. G Fege's method of working out transaction income on the basis of currency deposit ration and from it deriving the black income of the economy. Kaldor's method has been direct taxes enquiry committee with some modifications. D K. Rangnekar, former Editor, Economic Times, used the same technique with some more modifications and later MR. O.P. Chopra developed a series of

black income by further modifying the Wanchoo Committee's assumptions. Feige's method has been used by Poonam Gupta and Sanjeev Gupta.

### **Corruption and Development in India**

Transparency international has been preparing corruption perception index. It was noted that India rank in CPI slipped to 71 among 102 countries surveyed in 2002 whereas it was 88 among 158 countries surveyed in 2005. Its score declined from 2.9 in 1998 to 2.7 in 2002 and rose again to 2.9 in 2005 and further to 3.5 in 2007. For the year 2009 this index has declined to 3.4. For the year 2010 this index has further declined to 3.3. This is not a healthy development.

**Table: 1**

#### **India's Rank in Corruption Perception Index (CPI)**

<b>Year</b>	<b>No. of Countries</b>	<b>Corruption perception Index</b>	<b>Rank</b>
1995	41	2.78	35
1996	54	2.63	46
2000	90	2.80	69
2001	91	2.70	71
2005	158	2.90	88
2009	180	3.4	84
2010	178	3.3	87
2011	182	3.1	95
2012	176	3.6	94
2015	168	--	76
2016	79	--	79
2017	81	--	81

Source: Corruption Perception Index, Transparency International Berlin.

A close perusal of the data in Table reveals that India has been at the bottom and ranked as a highly corrupt country and that no serious effort has been made by the Government to improve its position in CPI. This fact was highlighted by Mr. K.R. Narayanan, the then President of India in his address to the Lok Sabha in 1997. Sheer Opportunism and valueless power politics have taken over the place of principles and idealism, relationship between the people, groups and parties ... and corruption is corroding the vitals of politics and our society.

Transparency international has estimated that by way of corruption a sum of Rs.. 26768 crores is extracted by officials at various levels in India from citizens in the following sectors – education , health, power, telephone, railways land and building administration, judiciary and the public distributions system (P.D.S).

The dismantling of the system of controls initiated in 1991 Industrial Policy has resulted in a slight improvement in level of corruption. The demand for transparency as a result of Right to Information Act is also activities positively in reducing the level of corruption but we have miles to go before we reach the levels of least corruption societies like New Zealand.

**Table: 2**

**Corruption Perception Index (CPI) among Different Countries**

Country	Corruption perception Index	Rank Among 180 countries
New Zealand	9.3	1
Sweden	9.2	4
Switzerland	8.7	8
Canda	8.9	6
Germany	7.9	15
United Kingdom	7.6	20
Japan	7.8	17
United States	7.1	22
Malaysia	4.4	56
China	3.5	78
Brazil	3.7	69
India	3.3	87
Indonesia	2.8	110
Pakistan	2.3	143
Bangladesh	2.4	134

Source: Transparency international report (2010)

Note: CPI score 10 (highly clean) and 0 (highly) corrupt. The lower the CPI, greater the degree of corruption.

The data given in the above table reveal that the index of corruption in India is 3.3 and thus, it is far behind the levels of achievement by New Zealand, Sweden and Switzerland with CPIs above 9. At the other end of the spectrum, Pakistan, Indonesia and Bangladesh can be performed somewhat better than this latter group of countries, the Indian government should initiate measures to improve its CPI closer to the levels achieved by countries such as New Zealand and Sweden. Decline in corruption perception index for India in recent years is a matter of concern.

## **Part II: Causes of Black Money and Corruption in India**

There are several factors responsible for the generation of black money and Corruption. It would be relevant to discuss those factors so that a correct understanding about the genesis, growth and expansion of black money can be made. The principal factors are:

### **1. Divergence between the Acceptable Net Rate of Return and Legally Permissible**

**Rate of Returns:** There is a school of thought which believes that the chief factor responsible for generation of black incomes is that individuals expect a higher net rate of return than the legally permissible rate of return.

However, there is another school of thought led by economics of the left who believed that the argument of high marginal tax rates is over-played. They assert that actually paid rates on declared incomes are not as high as determined by the officially prescribed marginal rates of taxation, would not result in reduction in tax evasion but is only grants more relief to the tax evaders

**2. Consequence of Controls, Licensing System:** There is a school of thought which firmly believes that the system of controls, permits, quotas and licenses which are associated with misdistribution of the commodities in short supply results in the generation of black money. Dagi committee pointed out rent control and subsidies concurring with DTEC observed. "Price and distribution controls have in the past led to the generation of black money on a significant scale.

**3. Donations to Political Parties:** Ever since the government decided to ban donations to political parties in 1968, it prompted businessmen to fund political parties, especially the ruling party, with the help of black money. Ostensibly, this decision was taken to reduce the influence of big business on the electoral process. But in practice what happened was precisely the opposite.

Big business, in the process, has been able to tame the political leadership and thus, the latter has started speaking the language of big business, etc.

**4. Ineffective Enforcement of Tax Laws:** Whereas the government has an armory of tax laws pertaining to income tax, sales tax, stamp duties, excise duty etc. their enforcements in very weak due to widespread corruption in these departments. The high rates of these taxes induce businessman to avoid recording of these transactions. This evasion largely goes unchecked and thus sets in a chain reaction for the generation of black money at the wholesale, retail as well as production levels.

**5. Generation of Black Money in the Public Sector:** Every successive five year plan planned for a larger size of investment in the public sector. The projects undertaken by the public sector have to be monitored by the bureaucrats in Government departments and public sector undertakings. Thus, a symbiotic relationship develops between the contractors, bureaucracy and the politician and by a large number of devices, costs are artificially escalated and black money is generated by underhand deals. Instability of the political system has given a further momentum to this process.

**6.** Wherever there is a scarcity of goods and services, corruption raises its head and these scarce goods are made available to the needy at the price which includes a premium.

**7.** The system of controls and licenses provided bureaucrats opportunities to force the people to pay hush money. It becomes a major cause of corruption in the post-independence development model of the country.

**8.** Complex laws and procedures which are prescribed by the state for certain approvals and sanctions provide dishonest bureaucracy enough scope to harass the public and this force it to pay the officials.

**9.** Low salaries of public servants, especially at the lower levels. Bribes act as incentive payments to clear files.

**10.** Bribery of politicians buys influence, and bribery by politicians helps to buy votes.

**11.** Higher education's of bureaucracy acting as intermediaries to get kickbacks from the public and share them with the politicians.

**12.** Regularization of 'illegal colonies'. The regularization of violation of building bylaws, political protection given to slum dwellers to use water, electricity without any charges, has also been a source of corruption for both government officials and politicians.

**13.** Protection provided to industrialist and businessmen to steal power also led to corruption by department officials and in some cases, connivance of politicians was also found for receiving kickbacks.

**14.** High costs of election campaigns and contesting of elections also is responsible for corruption. The business firms finance the politicians to fight elections and in turn, the politicians grant various kinds of favours to businessmen.

**15.** Increasing tolerance in the Indian society about corruption, treating it as a way of life also perpetuates the growth of corruption. Failure of the society to create institutional structure to tackle cases a feeling of helplessness about corruption among the masses.

### **Part III: Measures taken by Government to Check Black Money and Corruption**

The Government has taken different measures to control the extent of black money and corruption in Indian economy. They are as follows;

**1. Measure to Check Tax Evasion:** One of the basic causes of black income generation and then its conversion into either white money by various measures or into black wealth tax evasion. Therefore, plugging loopholes in tax evasion by a large number of legal and administrative measures was undertaken. Most of these measures were based on the recommendations of various committees and commissions, viz. the Taxation Enquiry Commission (1953). Nicholas Kaldor's proposals for Indian Tax reforms (1956), the Direct Taxes Administrative Enquiry Committee (1958), Recommendations by the Administrative Reforms Commission (1969), the Direct Tax Enquiry Committee (1971). Most of these recommendations pertained to improvement in tax laws. But more important than that, the various committees felt that tax administration was too weak and ineffective. The Penalties imposed under the tax laws were not deterrent enough and the tax administration machinery was not able to bring to book the tax evaders.

**2. Demonetization:** In 1946, demonetizations were resorted to but the direct taxes enquiry committee in its interim report admitted. "Demonetization was not successful then, because only a very small proportion of total notes in circulation were demonetized. And another demonetization was attempted with effect from January 16, 1978 of high denomination notes. Obviously, demonetization failed to make a serious dent on unearthing black money. Demonetization assumes that all black incomes are held in the form of cash balances, but the fact

of the matter is that it is only a small part of the total black income which is held in liquid form. The rest are in circulations. Secondly, businessmen invent a number of clandestine ways to circumvent demonetization. So the net effect of these limited and partial measures to destroy black incomes is too insignificant.

**3. Voluntary Disclosure Schemes:** From time to time, various voluntary disclosure schemes were floated by the government. These schemes were nothing but a camouflaged version of reduction in tax rates at higher income levels. The Direct Taxes Inquiry Committee, therefore, categorically opposed the introduction of any further voluntary disclosure schemes since they placed a premium on fraud and are unfair to the honest tax payer. The DTEC mentioned. "They were more or less schemes for converting black money into white on payment of what turned out to be in most cases, a small amount of conscience money (emphasis added). Ignoring the recommendations of the Direct Taxes Enquiry Committee, the government again introduced a voluntary Disclosure Scheme of Income and Wealth in 1975.

**4. Special Bearer Bond Schemes.** Special bearer bonds scheme (1981) was intended for canalizing unaccounted money for productive purpose. Complete immunity was granted to the original subscriber or possessor of the bonds from being questioned about the possession of bonds or about the sources of money from which the same were acquired.

**5. Voluntary Disclosure Scheme (1997):** In the year 1997-98 announced a Voluntary Disclosure Scheme (VDS). The scheme is very simple. Irrespective of the year or nature of the source of funds, the amount disclosed either as cash, securities or assets, whether held in India or abroad would be charged to tax at 30 per cent for individuals and 35 per cent for corporations.

## Conclusion

Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. Indian Government has introduced commissions under Kaldor, Chopra and Gupta, Rangnekar for estimation of black money. Factors like high rate taxes, inflation, funding to the political parties, etc. In India, amount of black money is increasing rapidly which is a bad impact to the economy growth for our country. The government has at various times announced several schemes offering opportunities to bring black money overboard but the result is not up to the mark. Government introduced various scheme of special bearer bonds, demonetizing high

denominations currency notes, stringent raids and schemes of voluntary disclosures. These instruments are expressed to reduce the volume of the black money.

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