

IMPACT OF BLACK MONEY ON INDIAN ECONOMY

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INTRODUCTION

It is well known that manifestation of black money in social, economic and political space of our lives has a debilitating effect on the institutions of governance and conduct of public policy in the country. Governance failure and corruption in the system affect the poor disproportionately. Black money is the source of all ills in the country; many scams involving public property is an expression. The linkage between new economic policy and black money needs to be explored and adequate measures need to be taken.

The government would have built new hospitals, schools, colleges, roads, set up more industries, etc. thus, the black marketeers have blocked the country's development for their personal greed. The bureaucrats and politicians who have accepted bribes have made huge money for them, and they have encouraged favouritism, making allotments to undeserving people. This does not work well for society. Our country is the greatest democracy in the world. It upholds the values of fairness and quality. Such favouritism and pick and choose for bribery and gratification is against the principles of democracy.

OBJECTIVE of the present paper is to study on following points

- Black money and its sources
- Effect of Black money on Indian Economy
- Recent Policies of Government
- Measures taken to curb black money

BLACK MONEY AND ITS SOURCES

Black money is unaccounted money, illegally acquired wealth or other assets made through accepting bribery or other morally depraved acts. It is not just cash stashed at hidden places in the house or in benami accounts. It is in various forms like shares, bonds, securities, or other forms of instruments. It may be in the form of real estate-houses, shops, plot or other assets like cars. It may be in the form of gold, silver, diamonds or jewellery. Thousands of crores of rupees in sale tax is avoided because of absence of billing. Many dealers do not deposit the sales tax collected from the customers with the sales tax authorities. This is evasion of sales tax. The government has introduced the system of Value Added Tax (VAT) whereby the sellers of goods are taxed for the value added. But even here, the actual sale shown by the dealers is much less than what actually is.

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The other means through which large amount of black money is created is through illegal trades. All income that is received because of smuggling of gold, brown sugar, narcotics and other goods which cannot be sold is black money. .

Politicians in India have a large amount of black money. Most of them have assets worth crores of rupees-much more than their known sources of income. Cases are pending in courts against many of them on charges of having acquired these assets by illegal means. The ministers while in power collect money, mainly from big businessmen for allotment of petrol pumps, plots of commercial land, licenses for doing particular business like liquor contracts, setting up Special Economic Zones, etc. In their tenure they accumulate several crores of rupees. Nobody checks them though everybody knows it. The cases filed against them yield no result. The executive classes including the bureaucrats are the other class of people who have accumulated black money by taking bribes. Some of the bureaucrats who have been under the radar of income tax authorities were caught with properties and other assets, including cash of crores of rupees. Our executives and bureaucrats are also having hundreds of crores of rupees as black money. A large part of it is avoided tax. Thousands of crores of rupees which should have gone to the government coffers go to the personal accounts of black marketeers.

In such a large country as India which may be called semi-developed while stats say that it's still developing due to the parasite that has stuck its economy very badly. Yes, it's the corruption that I'm talking about, the largest threat to any country's financial, political as well as social structure. This corruption only is the major source of black money in India. While corruption maybe in any form viz. properties, assets, costly gifts (mostly linked with high ranked officials and provided by the business class personalities for keeping the noose around their heads loose). All these forms are directly or indirectly responsible for increasing the black money of a country such as India. The person who possesses these things obviously possesses their worth as well. So, he has a property or asset in his possession that came from some unknown source (as considered by the law) clearly violating the terms for valid or recognised money. While this is just a specific example concerning a particular category of the system where corruption and black money join hands, there are many more such major sources of black money in India.

Common man: Prey as well as predator of black money

Though the common man's contribution is the **generation of black money** is considered to be quite insignificant and small, yet it forms a major part of the tax evasion. Common man, knowingly or unknowingly evade taxes of the government. There are various ways by which common man performs the above said task. Some of the ways by which the common man also becomes a contributor to the total black money in the country are:

- Capitation fees is a very common term used in the context of admissions in big educational institutes and universities. Capitation fess if another term used for the donations given to these universities for the purpose of seeking admissions when the students fails to secure the minimum cut off percentage required. Generally, the money raised by these colleges and institutes through these methods are not revealed to the income tax departments. They are also called the hidden income of these educational

temples. Moreover, the amount of capitation fees for big institutes ranges in lakh and not just in thousands.

- Unawareness of the consumers rights and duties is also another cause for the generation of black money. For example, the consumers fail to take a proper invoice from the shopkeepers so as to evade the tax to be paid on the purchase of that goods. There are more of such instances where the shopkeeper too fool the consumers. Sometimes, they charge more that mentioned as MRP on the packet. They even paste false stickers on the packets to hide the real value of the good. The extra money charged above the MRP is kept by them as black money. They do not pay taxes in such income.
- Donations to charitable trusts and temples trusts are another source of black income. There are various issues related to the income of these trusts. It is generally the ignorance of the devotees that prompt such a large amount of donations to these temples.
- Paying bribes to the government officials

EFFECTS ON INDIAN ECONOMY

Parallel economy in India

Parallel economy connotes the functioning of an unsanctioned sector in the economy whose objectives run parallel, rather in contradiction with the aroused social objectives. This is variously termed as 'black economy', 'unaccounted economy', 'illegal economy', 'subterranean economy', 'unsanctioned economy' or 'hidden economy'. A hidden economy in its broadest sense may consist of - a) illegal economy, such as money laundering, smuggling, etc; b) unreported economy including tax evasion; c) unregulated economy, ie economic activities outside regulations.

The money laundering is a lack of transparency standards in bilateral and multilateral trade with flourishing offshore banking in tax havens has allowed it to grow unabated in past couple of decades.

Experts estimate that around 50 per cent of GDP—or about Rs 33 lakh crore of black money—is generated every year through corruption at various levels. While black money which operates within the country can be productive, what goes overseas is seen as non-productive.

Impact of Black Money Country's Economic Growth

The biggest impact of black money is that it halts the country GDP growth due to lack of funds from government. Government earning is depends upon the **tax revenue**. If the public will not pay the tax to government, Government cannot fund to particular sector which needs the funds for their better operation. Due to lack of funds government force to have take loan from World Bank or other's countries. Which will increases the burden of foreign debit on the government.

Increase the Inflation

The inflation rises while the black money circulates in the market. The price of eatable /others goods are increased to supply of that black money and less production of things in the market. So people which have that money they offer more price in the market. As compared from other person in the market.

Eliminating the national resources

The impact of black money heavily putts on the national recourses of the country. Our national resources are eliminating not for the sake of our government purpose. Because some corrupt person are using the national resource for his own profit.

Increase corruption in society

Black money leads to increase the **corruption in the society**. The person who has the black money they will give bribes to politician, government officials for their business or for their personal work. These people can get everything what they want from the society. So other people face the problem. In that case qualified and eligible person have to do more hard work to get that job or business from government or from other source. Because they cannot give bribes for getting the job, contract etc. When they will get disappointed from his effort then they have force to gives bribes for particular task to politician, high profile government person. So they also involves in corruption.

Effects on Income distribution system

Black money increases the personal income difference in the society. The person who is paying his tax regularly, his income didn't match with other person who is not paying tax. So it widens the income gap in the society.

Ill legal transfer funds from India to other countries

Black money is transfer to foreign country through secret channel. This transaction of black money to foreign country violates the law of exchanges regulations.

Impact of India's reputation on the world

This Black money and corruptions put a very bad impression in India reputation on the world. Many big businessmen in world are pulling their hand back from India. They are not interested in to do business with India due to this corruption. It's also effect on Indian economy. In **corruption perceptions index** (CPI) India is ranked 87 numbers out of 178 countries. Due these big scams like 2G scam, common wealth game scam.

Cannot predict the key indicators of economy

Due to the presence of this black money in the market, which was not reported to the government. Government cannot give the exact figure of country GDP Growth, saving income ratio, sector wise national income of India etc.

Terrorist financing

It is surprising but it is true that the black money results in the financing of the terrorists activities in our country that results in various black and anti-social attacks such as the bomb explosions, firing and various other activities. The terrorists generally keep a track of all the ministers earning money illegally and through corruption. They blackmail such ministers to reveal their personal accounts and their black money if they do not finance their activities. The ministers have not way left but to surrender to their demands. Hawala market also leads to the financing of the terrorism much in the same way as it finances illegal international transactions. China and other similar countries have various relaxed laws as compared to the other countries with respect to the Hawala system. Thus, it is imperative that the terrorists receive much of their finance from these countries.

PRESENT GOVT. POLICIES

After a series of ongoing demonstrations and protests across India, the government appointed a high-level committee in June 2011 to study the generation and curbing of black money. The committee finalized its draft report on Jan 30, 2012. Its key recommendations were:

1. The two major national parties (an apparent reference to [Indian National Congress](#), BJP) claim to have incomes of merely Rs 500 crore and Rs 200 crore. But this isn't "even a fraction" of their expenses. These parties spend between Rs 10,000 crore and Rs 15,000 crore annually on election expenses alone.
2. Change maximum punishment under [Prevention of Corruption Act](#) from the present 3, 5 and 7 years to 2, 7 and 10 years rigorous imprisonment.
3. Taxation is a highly specialized subject. Based on domain knowledge, set up all-India judicial service and a National Tax Tribunal.
4. Just as the USA [Patriot Act](#) under which global financial transactions above a threshold limit (by or with Americans) get reported to law enforcement agencies, India should insist on entities operating in India to report all global financial transactions above a threshold limit.

The three institutes picked to attempt the research are **National Institute of Public Finance and Policy**, **National Institute of Financial Management** and **National Council of Applied Economic Research**. The finance ministry statement said the three institutes had launched their study in March and are expected to complete the project within 18 months. The study is anticipated to reveal the character of pursuits which promote money laundering and its implications on national policy.

The study will even look into the type of activities which encourage money laundering and determine crucial areas of the economy in which black money is generated and factors and circumstances that lead to the generation of unaccounted money. It will also look at strategies put to use in generating black money and transformation of such resources for legit activities.

The three institutions have also been expected to suggest options for uncovering as well as blocking unaccounted money and bring it into the general economy. They have also been provided the requirement to suggest strategies to be used for taxing black money stashed in overseas countries. The study will also estimate the quantum of non-payment of tax due to evasion by registered corporate bodies.

MEASURES TAKEN TO CURB BLACK MONEY

Demonetization

I think most of you shall be well aware of this term, often used in the case of high inflation and to curb black income. It has been one of the oldest weapon in the hands of the government. Under this scheme, the government starts withdrawing the denominations of Rs.1000 and above as most of the people hide their black money in the form of these noted of high value. Demonetization of high denominations came into the system since 1946. It is important to state that demonetization in the year, 1946 was of the value Rs 148 crore as against Rs.1235 crore of the denominations that were in circulation at that time. Hence, it could not be a grand success at that point of time.

Voluntary disclosure schemes

When the government found that the most important cause for the generation of the black money into the Indian economy was the tax evasion guided by a high rates of marginal tax system, it started the voluntary disclosure scheme under which the people themselves shall go to the income tax department and confess the total worth of the black money and the assets. In return of this confession, the government granted the tax evaders two benefits: Firstly, it shall immune and shield the guilty from any kind of investigation regarding the sources of the black income and their indulgent in it. Secondly, the rate of taxation on their black income shall be 10% lower than that of the normal tax payers. Thus, this policy acted as an encouragement to the tax evaders to escape from any kind of legal prosecution as well as save tax since they were assured of no investigation. It gave them the chance of converting their black money into "white". This scheme was revised in various years. Let us have a glimpse of the scheme and its enforcement since independence:

- Voluntary disclosure scheme of 1951 Under this scheme, the total amount of black income withdrawn from the economy amounted to Rs.70 crore. The government was successful in its first attempt to recover the tax upto the tune of Rs.10 crore.
- Voluntary disclosure scheme of 1965: At first, the scheme was redefined as to the rates of marginal taxation of the black disposable income of the people. After much argument, the

government fixed it at 60% on the total income of the tax evaders. It gave the government a revenue of Rs.30 crore from the total amounts of Rs.52 crore revealed by the tax evaders.

Another scheme called the "black scheme" was introduced under which there was not fixed rate of taxation. Just like the present progressive rate of taxation, various slabs were fixed based on the total amount of black income held by the people.

- Voluntary disclosure schemes of 1981: A separate National Housing bank was opened for the tax evaders to give them a chance of earning the income from the conversion of their black money into white. They could deposit the required amount into the bank and they shall not be asked about the sources of raising such funds. It promised them a complete immunity from any sort of enquiry from any of the branches of investigation of the government. In this scheme, the government made it a rule that 60% of the total deposits of the tax evader shall be payable to them in the legalized form. Thus, indirectly the rate of taxation was almost 40% on the black disposable income. This scheme proved to be quite beneficial for the government and yielded Rs.120 crore.

Special bearer bond scheme of 1981

The government under this scheme allowed the tax evaders to hold special bond of face value of Rs.10000 each with the maturity period of 10 years. After the expiry of these ten years, the holder of such special bonds shall be entitled to receive Rs.12000 per bonds as against their face value of Rs.10000. These bonds shall have the right of transfer without the bad name of the transferor. Thus, only the ownership rights shall be transferred and the subsequent holder of these bonds shall not be questioned as to the means of possession of such bonds. Thus, it provided dual benefits to the black income earners. Under this scheme, the black money up to Rs.1052 crore was eliminated and withdrawn from the market and hence, it made it the most successful scheme till that year.

Raids

This was the most common means to catch the guilty and the tax evaders and put them behind bars on the spot. The black income earners were caught and arrested on spot on the basis of some intelligence reports received by the government regarding such people. The raids were conducted on the houses and the residence of such people, the business offices and premises to search for the documents that were not revealed at the time of asset declaration. Such raids were quite useful though it led to mass uprising when the ministers came under these raids. It not only unearthed the black money but also the black assets that were purchased on the basis of such income.

Gold bond scheme of 1993

This scheme was very similar to the voluntary disclosure scheme of the previous years with the exception that it was aimed at legalizing the black gold and silver or in other words the gold and silver that were purchased with the help of the black money. Under this method, the people were assured that no questions shall be asked about the process of acquisition of gold or silver. Moreover, a condition was put forward that the gold and silver must be more than 0.995 purity

and to acquire the Gold bond, the deposited gold of the above mentioned purity must not be less than 500 grams. Ornaments and jewellery can also be tendered but they must be melted to make them 0.995 pure. This scheme was in operation for about three months. It was estimated that the total amount of gold and silver legalized was about 100 to 200 tons.

Various measures undertaken to eliminate black money from the Indian economy

Till the year 1993, the government has been trying to legalize the black money in the form of various bond and voluntary disclosure schemes rather than thinking of a process and mechanism to eliminate it completely from the country. I have tried to mention some of the measures that were undertaken in the past and need to be re-implemented in the present.

Preventing the inflow of the smuggled gold

Since the prices of the gold and silver in the international market is lower than that prevailing in our economy, it served as an encouragement to smuggle the gold or illegally import the gold in India. This smuggling was an important source of generation of black income. In the year 1993, the government of India tried to liberalize the import of gold in the Indian market through various concessions, customs duty relaxation, duty free imports in exceptional cases etc. Thus, the prices of gold in the Indian market became more or less equal to that of the international market. It prohibited the smugglers to take sufficient risk in importing the gold illegally. They found it more profitable to buy the gold from the Indian market itself. Under this method, the NRIs were allowed to import 5 Kg of gold per passenger with an import duty of only Rs.220 per 10 grams. Similarly, silver imports up to 100 kg per passenger with an import duty of Rs.500 per kg has been allowed. However a restriction was placed for the above imports. No one can import articles worth more than Rs. 1.5 lakh.

Policy of LPG model of growth

LPG growth of model meant Liberalization, Privatization and Globalization. Under the liberalization policy of the government, the licensing system, permits, quotas and other restrictions imposed on the private sector was abolished. Thus, it reduced the amount of donations to be given to the civil servants by the business class to get the license easily. Under the privatization policy of the government, the new sectors that were previously exclusively reserved for the public sector were opened for the private sector. Only three industries namely railway, atomic power and defense requirements were reserved for the public sector. This made the establishment of the private industries more profitable so that the private sector need not indulge in corrupt and malicious acts. In short, liberalization would abolish unearned rent as black incomes. Along with these reforms, the tax reforms were also introduced. There was a moderation of tax rates and improvement in tax compliance.

Policy against the black money stored in the Swiss banks

Much of the credit for the black money in India and the safety of those black income earners goes to the policies of the Swiss banks. The Swiss banks have a policy of not disclosing and revealing the bank account information of their customers to any authority for any purpose

whatsoever. It has made the source of attraction for the corrupt ministers, IPS officers and industrialists. However, recently the government of India has urged the other nations to put pressure on the Swiss banks to disclose the accounting details of the Indian account holders. As per their reports submitted by the Swiss bank, there is a total of \$1.4 trillion of black money related to the Indian accounts. This makes India rank first in the list of the black money account holders followed by Russia, Ukraine, USA and China. This value is 13 times the total foreign debt that the country owes to other nations. A vast amount of money is taken as loan from other countries to improve infrastructure, capital and technical know-how. If the black money in the Swiss banks can be unearthed, not only India can clear its foreign debt but also the government shall be able to run the country without any collection of tax for 25 long years. Think of the improvements and the development India can make with the titanic amount of black money hidden in various forms and in various parts of India and the world. India should find alternative methods of finding the details of the customers. For example, it can monitor the visits of all the VIPs to Switzerland. It is estimated that 80 thousand people visit this beautiful nation every year out of which 40% visit regularly. Thus, there must be a definite purpose for which they are making these frequent visits. These visits can be monitored and then, a proper investigation carried out for such tourists.

Ratification of UN conventions against corruption

India has recently ratified the UN conventions against black money and corruption. Though there has been a delay, it is believed to be a politically clever and good way as the signatories to this convention shall require to lend each other the mutual help for tracing and freezing the accounts of the black money earners and if found, to be prosecuted. The convention came into force in 2005 and has been ratified only once since then.

Five-tier policy of the finance minister

Pranab Mukherjee, the central finance minister of India has formulated **five ways to tackle black money** both in India and that hidden in the foreign nations. These five policies are now at initial stage and may take long time to be implemented due to the involvement of various countries. There are more bilateral issues involved in the implementation of these policies.

- India has decided to create a proper legislative framework for the elimination of black money. Presently, due to the absence of any such legal framework, Government of India is not able to get any information about the black money holders from the foreign banks. After the formulation of this and if it is approved by UN, it shall be easier to prosecute the guilty.
- Government of India has also decided to set up autonomous institutions for tracing, investigating and freezing the accounts of these "black people". It shall be responsible for tracing illicit funds and more than that, it shall trace the sources of such funds that have been a long issue since history of evolving of black money. It shall also inquire into the uses where the black money is put to such as money laundering, terrorist financing etc.

- It has also decided to adopt Double Taxation Avoidance Agreement (DTAA) and Exchange of taxation information system agreement with the mutual agreement of other countries to get the information from the other banks. It has already been agreed by 23 countries.
- The finance ministers also suggested the implementation procedure of these policies and also the training of the human capital in the country so that they can be more ware of these international issues. he asked the people to take some remedial measured rather tan pressurizing the government through fasts and other riots.

CONCLUSION

Black money is big black hole in **Indian economy**. Overall the entire burden comes to the shoulder of common people of India. These scams broke the backbone of Indian economy and common people. These common people are fight for their bread and butter and these. These scams were done by politician and other high profile person but common people of India have to pay that scam in society. To stop this corruption, we all people of India have to come forward like Anna Hazare and Baba Ramdev for fight against the corruption. So that government of India has to take some strict steps to stop this corruption in India. The government has commissioned research to be carried out by three best economic think tanks to calculate the magnitude of black money or unaccounted money produced both inside and beyond the country, a finance ministry assertion said on Sunday. On Saturday 4 June 2011, the government had designated a high tier panel of tax authorities to recommend steps to make tighter regulations to suppress the creation of black money.

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