



Black Money in India: Impact on Indian Economy

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Abstract

Black money circulating in the underground economy in India is a big menace for the Indian economy. This paper presents the different aspect of black money, causes of generating black money and also discussing its impact on various organs of Indian economy. In the age of globalization black money is not only problem of Indian economy but it also transcends the borders and has become a global problem. There is no doubt that the existence of black money has a significant impact on social, economic and political levels of our lives which has significant effect on the institutions of governance and conduct of public policy in the country. To control the generation of black money there should be a strong and legislature framework, implementation of concerned laws with strong will power. Government try maximum efforts to bring back black money stashed abroad.

Keywords: Black Money, Corruption, Indian Economy, Underground Economy

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1. INTRODUCTION

Mostly Indian citizens of ancient period were giving preference of national interest in their economic behavior. They were concerned about their earning on fresh and popular medium of earnings. Those days Indian economy was the one of the strongest economies of the world, at that time our country India was popularly known as 'Golden Bird', but now a days Indian economic environment is completely different from those days. Today the financial activities of most citizen are not remain transparent. Tradition of increased income, enhance though illegal and tax evasion medium of earning, Due to all this circumstances Indian economy affected adversely.

Black money may be defined as the money that is generated by activities that are kept secret and not reported to the authorities, nor disclosed at any point of time during their possession. This money is also not accounted to the fiscal authorities or we can say that taxes are not paid on this money. There is no uniform definition of black money in the economic literature till date. Several terms with similar connotations have been in vogue, including unaccounted income, dirty money, black wealth, black income, underground wealth, black economy, shadow economy, parallel economy, underground economy, unofficial economy etc. According to National Institute of Public Finance and Policy (NIPFP) "Black Money is the aggregate of income which are taxable but not reported to authorities". We can say that addition to wealth earned through illegal means, the term black money would also include such type of legal income that is concealed from public authorities like, evade payment of any type of taxes, evade payment of other statutory contributions and evade compliance with other laws and administrative procedure.

A white paper on black money by the Govt. of India suggested that there are two possible ways of generating black money in India, illegal means and legal means. The illegal source of earning black money including those activities which are not permitted by the law, such as Crime, Drug trade, Human trafficking, Weapons trade, Terrorism, Bribe, Corruption, Selling counterfeit, Sale of stolen goods & property and all others which are not legal in India. Legal source of earning black money including those activities which are permitted or lawful activities but accumulated by failing to declare income and evasion of taxes, such as Hiding income through legal bodies, not reported to public authorities for the purpose of tax evasion. Corporate sector also generate black money through non cash trading transactions, fictitious deals. Generally, black money generated by above means ends up in illicit financial flows across the world mainly deposited in Swiss and other nation's bank accounts.

2. PURPOSE OF STUDY

The broad objectives of the present study are to analyze the impact of black money on various aspects of Indian economy and society. The specific objectives of the study are as follows:

- To study the causes of existence in Black Money in Indian economy;
- To know the present status of Black Money in India;
- To study the impact of Black Money on entire organs of Indian economy and
- To discuss the challenges among India's economy because of the existence of Black Money.

3. RESEARCH METHODOLOGY AND COLLECTION OF DATA

The present study is based on the objectives like, how the black money is generated, different impact of black money on economy; give the suggestions to Indian policy makers to close the doors of black money generation in India. To fulfill the all above said objectives, data has been

collected from secondary resources like reports and journals and paper published on black money in earlier period. Due to the nature of black money authentic factual information is not available so far. So we used the data which is published by different semi-government and private agencies.

4. REVIEW OF LITERATURE

Sukanta Sarkar (2010) conducted a study on the 'parallel economy in India: causes, impacts and government initiatives', in this study he discussed causes and impact of black money in India. He found that, the main reason behind the generation of black money is the Indian political system. Indian Government just focused on making committees rather than to implement it. So, he recommended that laws should be implemented properly to control black money in Indian economy.

CA Lalit Mohan Agarwal (2012) edited the white paper on black money studied that violation of laws made by center and state government leads to criminal activities which is turn leads to generation of black money in Indian economy.

Kavita Rani and Sanjiv Kumar (2014) conducted a study on 'black money India: A Conceptual Analysis'. In this study they found that per capita income of Indian masses has not been growing in line with the other advanced countries despite liberal measures taken by the Indian govt. since 1990's because of the existence of black money in Indian economy. They concluded that elimination of black money from Indian economy is needed and it will benefit the economy in more than one way. It will also help in creating more revenues for the Government.

5. SCENARIO OF BLACK MONEY IN INDIA

Black Money and corruption become a debatable issue in Indian socio-economic scenario in past few years. Mr. Anna Hazare & Baba Ramdev launch a nationwide movement on the issue of corruption and return of black money respectively in the period of UPA Government. Both of them succeeded to mobilise general people and intellectuals to discuss in this debate and agitate on these particular issues. All relevant agitators requested to Government that government should play an effective role to stop outflow of black money and money stashed abroad should be brought in to India as soon as possible. They create pressure on Central Government behaved toughly with those people who involve in black money generating activities and to discourage the mindset of black money earning.

Another reason behind black money becomes an important point of discussion that presence of black money and tranquil application of black money's examples are visible each and every sector (Real State, Jewellery & Gold Market, Financial Market, Non-profit organization, Teaching organization, Stock Market and Agriculture Farms and Baaghan) of Indian economy. In the past two decades, Indian middle class and upper middle class shows their interest progressively in black money generating activities with high class society. Every person of every class wants to upgrade their life living standard. To fulfill this aim, he wants to earn more and more money despite the legal status of money earning medium. Increasing trends in consumer culture in Indian society by the pressure of western culture is an another important reason behind this social trend.

Black money generated by corruption and other means in India is a major issue that affected our economy adversely. According to a survey conducted by Transparency International Corruption Perceptions Index India's ranked, 84th out of 175 countries in 2014, compared to its neighbors Bhutan (30th), Pakistan (126th) Srilanka (85th), Bangladesh(145th), Myanmar(156th), China(100th) and Nepal(126th). In the post reform period deregularization and liberalization accelerated the outflow of illicit money from the Indian economy. Approximately one third of black money from the Indian transactions is believed to be in real estate in India, followed by Manufacturing and Shopping for Gold.

According to a report released by Global Financial Integrity in December 2012, India is among the top ten developing countries in the world with a black money outflow of \$1.6 billion (Rs.8,720 crore) in 2010, Total outflow of black money was \$232 billion, Generally in the form of Bribery, Corruption and Real Estate business. The cumulative value of illicit assets held by Indian's during the same period is estimated to be \$487 billion. Another report by opposition in 2011, had estimated India's black economy being worth around \$500 billion to \$1.4 trillion or about between Rs.27.5 lac crore to 74 lac crore. United States think-tank Global Financial Integrity had estimated India had lost \$123 billion (Rs.6.16 lac crore) in black money in 2001-2010. This all black money earned and transferred illegally abroad in tax havens, such as the Cayman Islands to avoid Indian Government taxes. According to an estimate of hidden income of Rs. 25 lac crore were be disclosed and taxed at 40%, it would generate 10 lac crore, this amount is enough to build a huge infrastructure which accelerate speedily our economy.

An article in 'The Hindu' in 2010 revealed that unofficial estimates indicate that Indian's had over \$1456 billion in black money stores in Swiss banks, Swiss Banking Association Reports (2006) showed India has more black money than the rest of the world combined. Another Report said that Indian-owned Swiss bank accounts assets are worth 13times the countries national debt. India has slipped to 70th position in terms of foreign money lying with Swiss banks and accounts for a meager 0.13 percent of total global wealth held in the country's banking system. The share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 percent in 2006 to 0.13 percent in 2010. In 2011, According to the data provided by Swiss Bank, India is topping the list almost \$1,456 billion of its black money deposited with them, followed by Russia \$470 billion, United Kingdom \$390 billion, Ukraine \$100 billion and China \$ 96billion. Data shows that a very huge amount of black money stashed in Swiss bank.

In an another study by Global Financial Integrity reveals that, "media reports circulating in India that Indian nationals held around \$1.4 trillion in illicit external assets are widely off the mark compared to the estimates found by their study." The report claims that the amounts are significantly smaller, only about 1.5% of India's GDP on average per annum basis, between 1948-2008. This Includes corruption, criminal, bribery and kickbacks, trade mispricing and efforts to shelter wealth by Indians from India's tax authorities. According to a report, published in May 2012, Swiss National Bank estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were \$2.1 billion. The Swiss Ministry of External Affairs has confirmed these figures upon request for information by the Indian Ministry of External Affairs. This amount is about 700 fold less than the alleged \$1.4 trillion in some media reports.

6. IMPACT OF BLACK MONEY ON INDIAN ECONOMY

- Government regularly tries to control the credit flow in the economy by taking necessary measures; presence of black money upsets the efforts, resulting some sort of pressure on the economy.
- Indian Government has failed to collect the proper and real amount of tax due to black money driven underground economy.
- People having black money mostly buy gold bars, coins, jewelries etc. because one can buy gold easily and can be converted back to paper money any time. This has caused economy to stall on its growth.
- Corruption also a main cause of the growing underground parallel economy. Corrupt people are able to get what they want and other people are pushed down due to lack of desired money.
- Sometimes unexpected black money come out in the market, the amount of money in the economy is higher than the Government expectation. This causes uncontrollable inflation.
- The distribution of wealth and income towards poor people has been severely affected by the growth of black money. The tax evaders are keeping the money away from the desired masses.
- India has facing the problem of shortage of revenue due to the existence of black money. This has negative impact on the entire planning of technology and other infrastructure up gradation.
- Black money having people are ready to pay more for a piece of land. Resulting the price of land also tends to increase, thus existence of black money create artificial inflation in the real state sector.
- Black money generators wants to kept his black money outside of India. For this, black money has to be transferred from India to other countries through secret channels. The main methods use by black money holders for transferring money overseas are under-invoicing of exports and over-invoicing of imports.
- Black money is always promoting anti-social activities like Terrorism, Kidnapping, and Murder etc. in the society.

7. MEASURES TAKEN BY THE GOVERNMENT OF INDIA

- High tax rates encourage people to be involved in tax evasion process. Government took steps to reduce the tax rates comparatively.
- Government introduced commodities transaction tax, hoping it will be help in controlling black money. Now TDS is compulsory on all transactions involving immovable assets above Rs 50 lac.
- The Government has introduced compulsory reporting in case assets held abroad, also started tax collection at source in cash purchases in gold.
- Government announced self disclosure scheme time to time to bring black money into regular economy. Black money holder can convert their money into white money by paying a certain percentage as tax. According to CBDT, "there were 644 declaration made in One Time Compliance Window Scheme under new Anti Black Money Act. It has Rs. 4,164 crore black

money declared through these declaration up to 31 September 2015. Indian Government collects Rs. 2,428.4 crore up to 31 December 2015 by tax and penalty on this declared black money.

- Black money holder also converts their money to Special Bearer Bonds. It carries 2% interest and had a lock of 10 years. These schemes help government to raise more taxes and bring huge amount to legal money back into the economy.
- Present NDA Government constituted a Special Investigation Team (SIT) as mandated by the Hon'ble Supreme Courte to look into black money matters. Government announced certain measures to deal with, the generation of black money and its concealment effectively and forcefully.
- According to the Finance Minister Major Achievement has been made with the Swiss Authorities and certain critical and actionable information obtained from such authorities regarding black money.
- Introduction of new laws & new regulation is necessary to control black money. Indian Government announced a new legislation with following key features:
 1. Punishment of 10 years rigorous imprisonment in case of evasion of tax in relation to foreign assets besides penalty of 300 percent with no resource to income tax settlement commission.
 2. Non-filing of IT returns with inadequate disclosures to result in 10 years rigorous imprisonment.
 3. Concealment of income/evasion of income in relation to a foreign assets to be made a predicate offence under the Prevention of Money Laundering Act [and that can attract a separate prison term].
 4. Foreign Exchange Management Act is amended to endure punishment in such castes too.

8. CONCLUSION & SUGGESTIONS

Government should make its foremost objective to control black money specially bring black money stashed abroad. Advanced technology for maximum transparency should be used in financial transaction as far as possible to avoid mediator in financial activities. Agriculture income should be taxed for those who have agriculture and non-agriculture income both, big farmers and baaghaan owners. It is some loopholes in our tax system which tax evader's takes advantage. Tax evasion should be checked by plugging loop-holes in tax system. Tax rate should be lowered because higher tax rate motivated people to tax evade. Government should put restriction on cash transaction wherever possible because black money revolves around in cash form only.

There is no doubt that black money not only affected our social life but also our countries economical, political and social environment. Black money is a big threat for the Indian economy. Public welfare plans of government and adversely effected due to the existence of black money. The lawmakers and administrators in the country have to come forward with better and strict laws to control of flow of black money. That is the need of hour that black moneys underground parallel economy found every corner of the country should be routed over. Corruption should be eliminated. It is estimated that if all the money flows in the parallel economy could be diverted to our main economy our economy would grow by more than thrice very quickly. If we are successful in doing so India will join the ranks of developed nation ahead from developing

countries very soon. We will easily capable to pay the public debt. So that our economics contribution will be even make much more important role in the global economy.

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