

## BLACK MONEY- A CANCER TO INDIAN ECONOMY

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### Abstract

Black money is cancer to the economic growth of nation. India inherited truncated economy from her colonial ruler with wide spread regional imbalance, illiteracy, unemployment and poverty. Black money refers to funds earned on the black market, on which income and other taxes have not been paid. The total amount of black money deposited in foreign banks by Indians is unknown. The Herculean responsibility there fore vested on the planner to ensure socio economic welfare of the people through the proper planning. Since 1991 the process of liberalization adopted to attain overall economic growth of the country. India now can celebrate with her number of successes in terms of growth of GDP, comfortable foreign exchange reserve, transformation economy from the agrarian economy to service and industry oriented economy and more over it has emerged as one of the driving forces in every international negotiation forum. Amongst all genes, most embarrassing factor is that India becomes one of the top black money holders in the world. Data provided by the Swiss Bank, India has more black money than rest of the world. It is topping the list with almost \$1500 billion in Swiss bank followed by Russia \$470 billion (The Telegraph, 2010). The spread of black money causes great losses for the nation's treasurer. Listed here are most of the alternative methods whereby black money can make a difference to any nation's monetary and societal development.

Keywords: Black Money, Social Development, Industrialization, Transformation, Foreign Exchange Reserve.

### **Introduction:**

Black Money is the cash received from underground economic activity or black market on which tax is not been paid to government. As per Wanchoo committee\* report "Black money is 'Tainted money'" which means dirty money. Black Money in Economic terms is regarded as unaccounted money or unrecorded gains. The abundance of black money has given rise to parallel economy which is operating concurrently and competing with official economy. It is estimated that parallel economy accounts to almost 50% of India's total economic activity. As we know that in Ancient times our country, INDIA, was popularly known as "*Golden Bird*" because people of our country were more civilized in terms of coordination and co-operation, worked in a very enthusiastic & honest manner so as to

provide fruits of their work to everyone without any selfishness and/or jealousy i.e. they were not concerned about their earnings as compared to others. They focused on the welfare of the nation as a whole. So it could be predicted at that time that our country will become one of the greatest economies in the world and be at the top as regards developed country very soon, but sadly it didn't happen.

Most of the political parties in India conduct their election campaign and other party activities through donations received by them. These donations neither enter into books of accounts nor are disclosed to Income Tax office. Thus instead of fighting against the parallel black economy politicians of India support the growth of Black money. Black money refers to funds earned on the black market, on which income and other taxes have not been paid. The total amount of black money deposited in

foreign banks by Indians is unknown. Some reports claim a total exceeding US\$1.4 trillion are stashed in Switzerland. Other reports, including those reported by Swiss Bankers Association and the Government of Switzerland, claim that these reports are false and fabricated, and the total amount held in all Swiss banks by citizens of India is about US\$2 billion.

In February 2012, the director of the Central Bureau of Investigation said that Indians have \$500 billion of illegal funds in foreign tax havens, more than any other country. In March 2012, the Government of India clarified in its parliament that the CBI Director's statement on \$500 billion of illegal money was an estimate based on a statement made to India's Supreme Court in July 2011.

## Review of Literature

1. Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which he focused on the existence of causes and impacts of black money in India. According to him, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. Just focused on making committees rather than to implement it. So, he concluded that laws should be implemented properly to control black money in our economy.
2. CA Lalit Mohan Aggarwal (2012) edited the White Paper on Black Money studied that violation of laws by central and state govt. leads to criminal activities which in turn leads to generation of black money in Indian economy.
3. Arpit Guru and Shruti Kahanijow (2010) researched on is black money income? Need for amendment in DTAA & ITEA analyzed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. They also studied how black money had caused menaces in our economy and in what ways it is used.

4. Vijay Kumar Singh presented a paper on controlling money laundering in India-problems & perspectives that to control black money in India is very difficult task only due to the existence of one reason i.e. poor implementations of laws which leads to sophisticated crime in the economy and thus generates black money.

## Objectives of the Paper

1. To analyze the causes of Black Money causing cancer to Indian economy.
2. To study the measures of Black Money.
3. To examine the impact of Black Money on Indian economy.
4. To suggest some measures for curbing the generation and spread of Parallel economy of Black Money.

## Myths about Black Money

1. Black money or Black economy increases production of goods and services, since lots of goods and services are purchased using black money.
2. Black money helps poor people by generating jobs in informal sector.
3. India sustained worst blows of global recession in 2008, on the back of additional demand generated by the large amount of black money that was in India.

## Reasons That Led to Birth of Black Money

Black economy originated in India during World War II when India was facing acute shortage of daily necessities. This was the time government adopted rationing as a remedy measure to resolve the demand supply mismatch. By rationing government introduced a system of control where prices of goods were no longer decided by Interaction of market demand and supply. This led to the beginning of unauthorized sale goods at higher price. This control over the price continued post 1947 promoting black marketing in India and once government institutionalized price control, it

grew enormously.

1. **RATIONING SYSTEM:** - Tax rate were abnormally high during initial tax regime of India. Tax rate applicable to an individual were as high as 97.50%. Such high Tax rates probed individuals to evade tax as much as possible resulting in huge accumulation of Black Money.
2. **HIGH TAX RATE:** - Tax Laws in India are so complicated that even honest tax payer fails to file correct Income Tax returns. This compels the individuals to evade tax to avoid long complicated procedures involved in paying tax.
3. **COMPLICATED TAX LAWS:** - Bribe is one of the main sources for generation of Black money as this money is not disclosed to Income tax office. Bribe is used as means to get work done at a faster pace by all kinds of people from peon of a company to the owner of a company and is used for all kinds of work i.e. from getting admission in school to getting a job in a company, from getting birth certificate of a new born baby to the pension of a retired person. Even Entertainment industry has leveraged the concept of bribe to make their scripts juicy, they have used this topic over and over to make famous movies like Special 26 and serials like movie "Kala Bajar" and serial "Office Office" since bribing is dirty yet common activity in day to day life of a common man.
4. **TRAVELLING ABROAD:** - Government had capped the salary of top executives of big companies, as result of which a part of the salary was paid to them in form Cash (Unaccounted money). This further boosted the growth of Black economy in India.
5. **CAP ON SALARY:** - Political parties use to receive Black money to fund their election expense and enhance their party funds.

6. **POLITICAL REASONS:-** One of the major reasons behind rise black money is illegal activities like smuggling, drug peddling and prostitution.

### Measures Taken by the Government

Since black money is a big evil, it is of utmost urgency that we get rid of it, and make the economy function in a healthy manner. In this regard certain measures have already been adopted by the Government. They are:

1. **Measure to Check Tax Evasion:-** Tax evasion is the source of generation of black money. Therefore, plugging loopholes in tax laws 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. Most of the recommendations pertained to improvement in tax laws.
2. **Demonetization:-** In 1946, demonetization was resorted but it was not successful then, because only a very small proportion of total notes in circulation was demonetized. Another demonetization was attempted with effect from January 16, 1978 of high demonetization notes, i.e. Rs. 1000, Rs. 5000, Rs. 10000. But this time also demonetization failed to make a serious dent on unearthing black money.
3. **Voluntary Disclosure Income Schemes:-** This was adopted as far back as 1951 and their thrice in 1965, 1975 and again in 1997. The scheme envisaged a voluntary disclosure of concealed income by the persons. Under these schemes these declaring their income were not to be punished & they need not declare the source of income. Some compared to the black money. The new voluntary Disclosure Income Scheme which netted tax collections estimated to exceed Rs. 10,000 crores.
4. **Special Bearer Bond Scheme:-** This

Scheme was introduced in 1981 to channelize unaccounted money for productive purpose. They carry an interest of 2% p.a. Complete immunity has been granted to the original subscriber of the bonds from being questioned about the possession of bonds or about the sources of money from which the same have been acquired. The amount subscribed to this scheme is very meager amount of Rs.960 crores.

The Government measures described above have indeed achieved something. But this is too little considering the big size and complex nature of the problem. The sources of black money remain as before, and the flow of such money continues.

### Measure Taken by Real Life Heroes

When government consistently and severely failed to take an effective action against growing black economy, that is when the social leaders of the country decided to take some serious steps to curb corruption and black economy in India.

1. **ANN SHAN MOVEMENT:** -Anti corruption activist Anna Hazare' on 5 April 2011 at Jantar Mantar in Delhi started hunger strike to uproot corruption in India through the Jan Lokpal Bill. Ann Shan movement of Anna Hazare marked the beginning of '2011 Indian anti corruption movement'
2. **SATYAGRAHA AGAINST CORRUPTION:** - Yoga guru 'Baba Ramdev went on indefinite fast on 4 June 2011 to protest against Black money and Corruption. Religious leaders from Sikh, Jain and Muslim communities joined Baba Ramdev to support him in his protest. These anti corruption movements were marked as one of the most important events in Indian history, as this is first time after Independence of the country when the whole country rose for a common cause keeping aside their caste and language

differences, however this attempt made by the masses was overpowered. From this one can imagine the power of Black money which has not only been successful in overruling various attempts made by government and Indian heroes, but has also successfully created a parallel economy - which is now competing with Indian economy.

### Eye Opening Facts

1. Swiss banks have \$1.4 Trillion India's Black Money in their Banks – an amount which is 13 times larger than the nation's foreign debt and 40% of GDP of India.
2. Black Money of India > Black money of rest of the world.
3. Every year 80,000 people travel to Switzerland from India of which 25 thousand people are frequent travellers.
4. Starting 1930 India could have been growing at 5% faster rate if there was no Black Money. Thus India would have been an \$8-trillion economy which is second largest in the world, accordingly per capita income would be seven times larger than the present one.
5. The government had completed negotiations for the Tax Information Exchange Agreement (TIEA) with 10 countries — Bahamas, Bermuda, the British Virgin Islands, the Isle of Man, the Cayman Island, the British island of Jersey, Monaco, St Kitts and Nevis, Argentina and the Marshall Islands — where money was believed to have been stashed away.
6. It is been said Black Economy is the game of politicians , business men and high officials like CEO, IPS and IAS officers , however this myth was proved wrong when a peon of small town (Ujjain, MP) was found with property and gold worth Rs 40Cr . Hence if a peon is capable of owning un-accounted asset of 40Cr, one can only guess the capability and creativity of politicians and high officials.

## 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:

1. 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.
2. Black money encourages investment in precious stones and jeweller. This has an adverse effects on growth via its demonstration effect.
3. 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 a consequence, the middle classes are priced out in the purchase of land for house.
4. 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.
5. 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.
6. 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.
7. 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.

## Conclusion:

Black money is not a unique Indian phenomenon. It is observed all over the world, sometimes in equivalent local language such as *le travail au noir*, *schwarzarbeit* or *svarta* sector, and sometimes by different names such as: underground money or economy, grey, cash, dual, covert, hidden, illegal, informal, irregular, marginal, parallel, moonlight, second, shadow, bootleg, subterranean, twilight, under-the-table, unobserved, unofficial, unrecorded, or unreported. Other than Japan and Switzerland where the black money economy has been estimated to be less than 5%, scholars report that the black money in developed economies ranges between 10 to 25% of each nation's GDP. In case of certain economies such as Greece, the estimates for black money range between 25 to 55%. These estimates suggest an annual underground economy in the range of US\$100 billion to over US\$1 trillion per developed country. The ratios of undeclared and declared economic transactions are higher in nations or commodities with high taxes (tobacco), excessive regulations or opaque bureaucracy. Schneider estimates, using the dynamic multiple-indicators multiple-causes method and by currency demand method, that the size of India's black money economy is between 23 to 26%, compared to an Asia-wide average of 28 to 30%, to an Africa-wide average to 41 to 44%, and to a Latin America-wide average of 41 to 44% of respective gross domestic products. According to this study, the average size of the shadow economy (as a percent of "official" GDP) in 96 developing countries is 38.7%.

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