

BLACK MONEY : An Unsolved Riddle in India

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Abstract

'Black Money' , 'Black Income' , 'illegal economy' , 'underground wealth' , 'Parallel Economy' are terms which are used interchangeably in economic literature. The problem of Black money is one of the serious burning problems of Indian economy. It is a multi-dimensional problem with dire economic consequences. Black money is a complex phenomenon. Black money is used to refer to money that is not fully legitimate in the hand of the owner. Such money can be generated either through illegal means like – racketeering, smuggling, trade of narcotics, forgery, illicit liquor trade, robbery, kidnapping, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money etc., or legal means like – manipulation of accounts, real estate, the jewellery market, financial market, public procurement, non-profit organizations, external trade, international transactions involving tax havens, and the informal sector. Thus there are many alternative approaches in viewing the black money. The Government of India is keenly aware of the disgusting problem endangering the social and economic stability of the country. In the post-independence period, the size of the black money has increased considerably in India giving immense in their favour and marginalize the common and poor people. This article will explore meaning, methods estimates, causes, consequences and government policy to curb black money."

Keyword: *Economy, Embezzlement, Exploitation, Legitimate*

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Introduction

“The black money income is the sum total of transactions deliberately kept out of books of accounts by households and business in the economy.”

-Dr. Raja J.Chelliah

“The term black money is generally used to denote unaccounted money or concealed income and or wealth as well as money involved in transaction wholly or partly suppressed.”

- The Wanchoo Committee

Black money is assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession. National Institute of Public Finance and Policy had defined black income as “the aggregate of Incomes which are taxable but are not reported to tax authorities” Further, black income or unaccounted incomes are “the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives.” Thus black money include tax evaded income and unaccounted income.

Methods of Estimating Black Money:

Among the estimates made so far, there is no uniformity, or consensus about the best methodology or approach to be used for this purpose. But the main methods adopted for estimating the quantum of black money in India are as follows:

- i) Input / Output method: It estimates black money as the difference between the declared output and the output expected on the basis of the input / output ratio.
- ii) Monetary approach: This is based on the fact money is needed to circulate income in both the ‘black’ and accounted sectors of the economy. As the accounted sector of the economy known, the difference between the amount used in this sector and the money in circulation could be assumed to be circulating in the black economy.
- iii) Survey approach : In this method, sample surveys are carried out. They may be on the consumption patterns of a representative population sample, which is then compared to the total consumption of the country.
- iv) Fiscal Approach: The economy is comprising several sectors, each having its own sets of practices. The contributions of these sectors to black money generation is separately worked out, which when added would give the size of black money

The Estimate of Black Money:

A number of individual and institutional efforts have been directed towards measurement of size and growth, but accurate or absolutely reliable estimate can

hardly be claimed by anybody. Indeed, it is very difficult to the exact holding the black money. But from the several guess work and estimates, it is evident that black money is of a high magnitude in the Indian economy and had been expanding at a rapid rate over the last four decades. Though the problem is not uncommon in other countries of the world, it is certainly more alarming and of serious consideration in our country.

Dr. J.C. Sandesara of the opinion that the black money in India constitutes over 10 percent to 15 percent of the reported Gross National Product. It is commonly observed that the annual growth rate of black economy is 5 to 6 times higher than that of the GNP. The amount of black money in 1975-76 was approx. Rs. 10,000 crores and has crossed more than Rs. 1,00,000 crore in 1985-86. Further, it is generated at the rate of Rs. 50,000 crore per year.

The Causes of Black Money:

There are several causes operating together in the creation of black money in the country. The major contributory factors in this regards are as follows:-

- a) **High Rates of Taxation :** Till 1974-75, the structure of direct taxes in India was unduly progressive and regarded as one of the highest in the world. This provided a strong incentive to tax evasion which in turn, generated considerable black money. The logic of this argument is that a higher tax resulting in a higher net gain from tax evasion would lead to a larger, size of the black economy.
- b) **State, Controls and Regulation:** There has been statutory controls combined with the bureaucratic and administrative controls. These all-pervasive economic control are no less responsible for the intensification of black money attuned evils alike corruption procedural wrangles, delays, artificial scarcity, fraud, suppression etc. corruption and black money are inter-linked, corruption makes it easy to enjoy black money.
- c) **Public Expenditure:** Due to rapid rise of public spending for multiple governmental programmes and activities across the length and breadth of the country. The nexus between contractors, bureaucrats and politicians results in the generation of a large amount of black money as the costs are often artificially escalated and under hand dealing are quiet common.
- d) **Prohibition:** Certain activities are usually forbidden by law, such as gambling, production of illicit liquor, smuggling, traffic in illegal drugs, lending at exorbitant interest charges, illegal prostitution etc. when some individuals wish to undertake these activities, these will apparently go unreported and income so earned would be totally black.

e) Land and property deals : One of the important sources of black money in India is the sale and purchase of land and property in urban areas. The actual registered value of land and building is generally much less than the value agreed upon. In most cases as much as 60 percent payment is in black money while white component is merely 40 percent of the actual value.

f) Political Funding : Today's contesting of election have become a costly affair. Political parties frequently require large sums of money to fight elections and a substantial chunk of this money is provided by big business in the form of donations which are not accounted or black money. The entire purpose behind these donations by business is to influence the economic policies in its favour.

g) Inflation: The genesis of black money can also be found in the persistent inflation in the country which has enhanced incentive and opportunities to earn such income. As a matter of fact, inflation is both the cause as well as consequences of the growth of black money in Indian economy.

h) Weak Deterrence : Despite adequate legal provision to curb the growth of black economy in India, it has persisted because of weak deterrence against tax evasion in practice. No serious action has been taken against detected cases of tax evaders. The search and seizure provisions have not been effectively implemented in practice by the corrupt tax administration.

i) Deteriorated Public Morality : Standard of moral values and social attitude of people in India have declined during recent years. In today's society black marketers, smugglers, corrupt politicians and public officials, tax evaders etc. are not condemned, but rather admired and envied for possessing black money. We have "degenerated in one single generation from being honest society into a dishonest one".

In short, deteriorated public morality has facilitated the growth of black economy in our country.

Consequences of Black Money:

(1) Loss of Revenue to the Government :- Black money is largely attributed to tax evasion, its direct impact is the loss to the govt in its due share of the tax revenue. Since, the govt. fails to get sufficient tax revenue due to large scale tax evasion, it is forced to resort to big taxation and deficit financing which again carry their own ill-economic effects.

(2) Unproductive Investments : A large amount of black money finds its way into unproductive channels like gold, jewellery, gems precious stone etc. Thus, resources that could have been utilized for productive purposes are wasted. As a

result economic growth suffers.

(3) Under-estimation : Since unreported economy is apparently excluded from the official record of the GNP, the estimates of saving and consumption ratio of the national income and measurement of other macro-economic variable would be biased and misleading for accurate policy making.

(4) Lower the effectiveness of Monetary and Fiscal Policies: When black economy is rising faster than the growth of GNP, then the rate of monetary expansion or contraction, estimates of impact of fiscal measures etc. based on the official records will not produce the correct results.

(5) Unequal distribution of Income : - Growth of black money causes regressive distribution of Income in the society, it obstruct trickling down effects of planning in providing larger benefits to the underprivileged section of the society. So the government miserably fails in realizing its egalitarian goals of equity and social justice.

(6) Corrupts the Political System : Black money breeds corruption. As various reports released over the years have shown, black money is used unashamedly in funding political parties and in horse trading to buy the support of MPs in Parliament at centre and MLAs at the level of state legislature.

(7) Criminalization : Deteriorating law and order is a consequence of the growing black money. This is due to the reason that there is a close nexus between illegality and criminalization. As illegal transactions spread in the economy and as the money power of the people engaged in such activities increases, the respect for law declines – Laws are systematically flouted and ‘might becomes right’. Thus black money is largely responsible for present deterioration of social ethics and public moral.

(8) Dual Economy : The growth of black money over a long period of time has given rise to the perpetual growth of economic dualism – comprising ‘Parallel’ or ‘unsanctioned’ economy or ‘reported’ economy in the country. The former representing at least one-fifth of the aggregates economic transaction. There is also interaction between the reported and unreported activities such that it is difficult to identify black economy from white economy.

Remedial Measures:

The menace of ever rising black money in Indian economy is very high. It obviously requires frontal attack with a package of policy measures to scale down the generation of back income. The Government of India has introduced some steps in the post – independence period to tackle the problem of Black money but the actual success achieved has been too little. Below we consider some of the important measures taken by the government to check / curb the growth of black money :-

A) Voluntary Disclosures Scheme (VDS) : The Govt. of India has floated various VDS from time to time. One of the important and highly publicized scheme was announced in the 1997-98 budget. In this scheme, irrespective of the year of nature of the source of funds, the amount disclosed either as cash, securities or assets, whether held in India or abroad was charged to tax at 30 percent for individuals and 35 percent for corporations. But these has been not much response to the scheme, only a meager amount Rs. 10,000 crore was collected under VDIS.

B) Tax Reforms: The Govt have undertaken various measures to check the tax evasion by plugging loophole in tax based on the recommendation of various commissions and committees appointed over a period of time like Kaldor's proposals for India Tax Reforms (1956), Recommendations of the Administrative Reforms committee (1969), Direct Tax Enquiry committee (1971) etc. However, not much could be achieved there was a total lack of commitment to implement the tax laws with fully honesty and determination.

C) Special Bearer Bond Scheme (SBBS) : In January 1981, the Govt. of India had introduced a scheme of SBBS to drag black money in to the treasury's coffer. The total amount collected under the scheme was Rs. 964 crores Today these SBBS are transacted on premium among the money holders and it serves as a parallel currency. So instead of punishing the black money owners the scheme rewarded them to convert their black money into white free of cost.

D) Demonetization : Demonetization of large demonetization currency notes has been suggested from time to time as a restrictive measure. The Govt. of India attempted demonetization first time in 1978. When it demonetize Rs. 1000 and Rs. 5000 notes. This measure had marginal affect as only Rs. 165 crores worth of these notes were in circulation at that time. On 8th November 2016, India's PM, Narendra Modi announced to demonetize Rs. 500 and Rs. 1000 notes. But this did not carry any impact on the underground economy. Further, demonetization may perhaps succeed in reducing the magnitude of black liquidity but it can not prevent the generation of black money altogether.

E) Preventing of Money Laundering Amendment Act 2012: According to section 3 of PMLA, whosoever direct or indirectly attempts to indulge or knowingly assists or is actually involved in any process or activity connected with the proceeds of crime including its concealment possession, acquisition or use and projecting or claiming it as untained property shall be guilty of offence of money laundering. As per section 48 & 49 of PMLA, the officers of Directorate of Enforcement have be given powers to investigate case of money laundering. The officer have also been authorized to

initiate proceedings for attachment of property and to launch prosecution in the designated Special Court for the offence of money laundering.

F) Right to Information Act 2005 : RTI Act seeks to empower the citizens, promote transparency and accountability in the working of the government, contain corruption and make the democracy work for people in real sense. The Act gives all the citizens the rights to seek information held by any authority or body or institution of self-govt establishment or constituted by or under the constitutions central, state or local govt. or by any law made by Parliament of a state Legislature; or by notification issued or order made by the central government or state govt.

G) Lokpal and Lokayukta Bill 2013 : Lokpal and Lokayukta Bill, 2011 was passed by the Parliament in Dec. 2013. the Bill seeks to establish an anti-corruption watch dog that will have within its preview even the office of the Prime Minister. The Bill incorporates provisions for attachment and confiscation of property acquired by corrupt means, even while prosecution is pending, the Bill provides for setting up of special courts and A mandate for setting up of the Institutions of Lokayukta through enactment of a law by the state Legislature within a period of 365 days from the date of commencement of the Act.

Conclusion

It may be said that like the weather, black money is lot easier to talk about than to do something about. In any economy, controlling black money is not an easy since its – existence is possible under a variety of methods and circumstances. Strong will and drastic to strike at the very root are needed on the part of the government to deal with this intricate problem of black money. It is also necessary to boost up public morals by demonstration of high level character by our administrators. Curbing of black money needs to given a top priority in our macro economic goals. And, the problem will not be solved, unless high moral values and spiritual consciousness of all the people in the society are established. Indian politicians have to improve their image boost public confidence in their parties fair election.

So we can't say that India is a poor nation, Infact, India is amongst the richest nations if stashed black money is brought back and converted to white money and fresh generation of black money is put to an end.

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