Impact of Black money on Indian Economy
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Abstract
In order to get the complete picture of India's parallel economy, the study looked at origins, consequences, and government activities. An developing parallel economy exists in India and other rising countries according to the study. India has already set up several committees to examine the black economy, but their findings are not entirely consistent, according to a study. An rising number of commissions have been established in India's government to deal with the parallel economy, but so far they've had mixed success. So the report proposes that commissions or regulations be implemented in order to prevent the negative influence of black economy on people's lives.

Key words: Inflation, real estate and black money India

INTRODUCTION
An economy is the sum total of all the factors that go into creating, distributing, and consuming tangible goods and non-tangible services in a particular region or nation. As a result of the variety of employment available, the economy benefits from a variety of economic actors and activities. As long as the economy has an equitable distribution of consumption, saving, and investment, it won't become unbalanced. Economic activities that are not subject to government regulation or taxes are referred to as "informal" in this context. Thus, the government's gross domestic product excludes the unorganized sector (GNP). Economic and social theory are heavily used in the informal sector, which has a high degree of adaptation and dynamism.

Those areas of the economy that are not regulated or sanctioned are referred to as "parallel economies" (Rajaram, 2006, 577). Regardless of what you want to call it — the "illegal economy," the "subterranean economy," or anything else — According to D.K.Rangnekar, "black money" and "rigged transactions" threaten the stability and development of the official economy because of the number and complexity of their massive and large-scale transactions (as cited by Datta & Sundharam, 2004, 376). In a society already divided along racial lines, "black revenues" may be seen as an indication of a new "black wealthy" class emerging...
Objective of the study
- To investigate the causes of the parallel economy
- To determine the economic impact and
- To evaluate the Indian government's numerous attempts aimed at resolving this issue.

INTERNATIONAL EXPERIENCE
In both rich and poor countries, there is a parallel or "black economy." Measurement and estimation methods for parallel economies have a long history of research to back them up. The results seem to be quite diverse when a broad variety of procedures were used. Table 1 summarizes the information presented here.

<table>
<thead>
<tr>
<th>Country</th>
<th>Parallel Economy (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece, Italy, Spain, Portugal and Belgium</td>
<td>24-30%</td>
</tr>
<tr>
<td>Sweden, Norway, Denmark, Ireland, France, The Netherlands, Germany and Great Britain</td>
<td>13-23%</td>
</tr>
<tr>
<td>Japan, USA, Austria and Switzerland</td>
<td>8-10%</td>
</tr>
</tbody>
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Table 1: Estimates of the Parallel Economy in Developed Countries

Source:
http://www.crisil.com/younghostleader/winners/topic4_Jyoti_Agarwal_IIm_CAL.PDF

Table 1 shows that a parallel economy survives in several developed countries despite the governments' numerous endeavours.

Table 2 shows estimates of parallel economy in the context of a number of developing countries.

<table>
<thead>
<tr>
<th>Country</th>
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<tbody>
<tr>
<td>Country</td>
<td>Parallel Economy (as % of GDP)</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
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<tr>
<td>Nigeria and Egypt</td>
<td>68-76%</td>
</tr>
<tr>
<td>Tunisia and Morocco</td>
<td>39-49%</td>
</tr>
<tr>
<td>Central and South America</td>
<td></td>
</tr>
<tr>
<td>Guatemala, Mexico, Peru and Panama</td>
<td>40-60%</td>
</tr>
<tr>
<td>Chile, Costa Rica, Venezuela, Brazil, Paraguay &amp; Colombia</td>
<td>25-35%</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
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<tr>
<td>Thailand</td>
<td>70%</td>
</tr>
<tr>
<td>Philippines, Sri Lanka, Malaysia &amp; South Korea</td>
<td>38-50%</td>
</tr>
<tr>
<td>Hong Kong &amp; Singapore</td>
<td>13%</td>
</tr>
</tbody>
</table>

Table 2: Estimates of the Parallel Economy in Developing Countries for the Years 1990-1993

Source:
http://www.crisil.com/younghostleader/winners/topic4_Jyoti_Agarwal_IIm_CAL.PDF
In a lot of developing countries, the quantity of money that has gone missing is fast increasing. All levels of government, civil society, the judicial system, major and small enterprises, the military, and other governmental institutions are involved.

**INDIAN EXPERIENCE**

There have been a number of efforts to analyze India's dark money throughout the years. Among the many examples are the following:

I. Although the Taxes Enquiry Commission had examined the structure of Indian taxation, the government sought a review from Prof. Nicholas Kaldor in late 1955 "the resource issues for the plan have gained greater proportions in light of the findings of the commission (Important Events 194661). " According to Professor N. Kaldor's research, non-national income is

(i) wages and salaries,
(ii) self-employment income, and
(iii) profit, interest, and rent in his study on Indian tax reform.

The Wanchoo Committee projected black income in 196162 and 196566 to be Rs. 700 billion and Rs. 1000 billion, respectively. An estimated Rs. 1800 crores in tax income went unnoticed by the government between 1961 and 1968 while national wealth increased " (Datt and Sundharam, 2004, 378379). In a 2004 publication, Datt and Sundharam (378379) make the following claim:

The Wanchoo Committee has come to a consensus. Former Indian Supreme Court Chief Justice Shri K.N.Wanchoo used his last report, given in December 1971, to define the phrase "black money. Tax evasion was assessed in 1961-62 at Rs. 811 crores by this committee, based on projected non-salary income of Rs. 2686 crores, while tax revenue was actually calculated at Rs. 1875 crores. What happened in 1961–62 was that Rs 700 crores of illicit currency flooded into the country, which was followed by Rs 1 billion in 1965–66 and Rs 1400 billion the following year. The GDP share is presently estimated at 4.4%. According to the sources listed in (Dhar, 2003).


In 1982, O.P. Chopra is said to have built a black-money hoard of more than $1 trillion in India (India Today, 2005). According to O.P.Chopra's estimates, black income grew from Rs 916 crores (6.1 percent of GDP) in 1961 to Rs 8098 crores (10.5 percent of GDP) in 197677. It is based on Dahr's (2003). Unaccounted money is more likely to occur in a strong economy, according to the study. During a recession, manufacturers may find it difficult to recover income that has been lost. Tax evasion, says Chopra, is on the rise as rates rise. Unexpected gains in revenue have been observed to accompany price rises, according to the results of his investigation. Smuggling cash into the agriculture industry to be converted to lawful (white) earnings was another scheme he stumbled upon (Datt and Sundharam, 2004, 379).
In 1981, the Indian government appointed Poonam Gupta and Sanjeev Gupta to lead a panel to examine the country's black money supply. Estimates of hidden wealth were made using Feige's transaction income ratio. Between 1967 and 1978, rolling averages were used to estimate the overall amount of unaccounted for cash in the United States. They estimated that it represents 19.8% of GDP, based on current market prices. During the period 1967–68 to 1978–79, Rs. 3034 crores of black money was generated. The following are the findings of the black money investigations:

Unreported income is more likely in a thriving economy.

From 1973 to 1974, the share of income that was derived from sources other than wages increased gradually.

When the cost of products rises, so does the amount of undeclared money in circulation.

By diverting agricultural funding, the goal is to convert black money into white cash.

The illegal market is likely to grow by more than three percentage points for every one percent increase in overall taxes (Lekhi, 2003, 192).

In 1985, illegal financial transactions amounted for 20 percent of India's GDP, according to the National Institute of Public Finance and Policy. As recently as 1996, it was estimated that as much as Rs. 4,00,000 crore of black money existed. The Hindustan Times, a leading news source in India (January 20, 1997) According to reports, most of India's estimated $1 trillion (Dh3.67 trillion) illegal money is being stored in Swiss bank accounts. Individuals who may be tax evaders are not subject to thorough searches under Swiss law and international tax treaty provisions. In the event that India amends its bilateral tax agreement with Pakistan, this problem should improve.

POSSIBLE CAUSES OF ILLEGAL MONEY GENERATION

Due to a combination of factors, India was able to recover its losses. Here are a few examples of what I mean:

Licenses and permissions, as well as quotas and restrictions, all contribute to the development of India's black economy.

Tax evasion is on the rise as a result of rising tax rates. Some instances of tax evasion include those committed by individuals, businesses, labor unions, customs, and sales.

Many different taxes are imposed by the Indian tax enforcement system, including sales, excise, and stamp taxes. Because of this, tax evasion has increased, as has the amount of unreported money in the financial system.
On the rise of secret funding, political parties have become increasingly reliant on it. Large corporations are increasingly paying political parties, especially the ruling party, large quantities of black money in order to influence political decision-making (Lekhi, 2003, 193).

The Second World War had a significant impact on Indian companies' capacity to participate in black marketing. Western suppliers shut off a number of important industries, leading to a shortage of manufacturing materials. Consequently, the corporation and its clients both profited.

Irregular forms of money arise as a result of all of these circumstances. Taxes levied on agriculture have also helped fuel the increase of unaccounted funds. Corporations of all sizes have invested extensively in agriculture since the 1970s. The idea has been floated that agricultural profits may be used to convert other forms of illicit money into legal tender.

Government employees may now profit unlawfully more easily thanks to the privatization of public services. Scams associated to privatization should not come as a surprise.

In India's metropolitan centers, real estate transactions are a key source of unlawful money.

Besides smuggling and property acquisitions, bribery and bribe and commissions and income concealment by professions and artists contribute to India's black money. Consequently, the parallel economy is always increasing due to the enormous black income it generates (Lekhi, 2003, 194).

The Economic Impact of Black Income in India We've built a "parallel economy" to deal with the social and economic turbulence produced by the rise of "black income." That's why the illicit economy in India is growing. As a result of the large amount of money that ends up on the black market, India's GDP has been overstated.

A significant portion of the state's budget has been depleted as a result of illicit revenue. Real properties and extravagant houses have been purchased with illegal cash, diverting resources away from more essential needs.

Indian money has been inhibited by the existence of black money in other countries (Dhar, 2003, 721). The discrepancy in wealth between white and black company owners may play a role in this. In the most heinous manner imaginable, illegal funds obtained via swindling are squandered. It's a positive thing that the economy has greater liquidity thanks to cash, gold and silver bullion, and other deposits. Hard work and honesty are overlooked by too many people. Due to a parallel economy, the country's economic aims have been utterly disrupted.

GOVERNMENT INITIATIVES
To combat the influx of illegal finances, the government has developed a number of programs. The Income Tax Department often audits taxpayers' tax returns. To combat unlawful money flows, improvements have been made to the 2004 Financing Act. Those who falsify their books
of account or make charitable gifts totaling more than $25,000 may be subject to taxation. Taxes are paid at the current rate and prosecution is waived under the Voluntary Disclosure of Income (VDIS) program. The following precautions should be done in order to prevent a parallel economy from developing:

Only a "relatively minuscule proportion of the notes in circulation were demonetized in 1946, and the aggregate value was Rs.1,235.93 crore," according to the study of the Direct Taxes Enquiry Committee (DTEC). The first high demonization notes were demonetized on January 16, 1978. The country demonetized Rs 146 crore at such excessive prices on that particular day. Reserve Bank of India notes totaled Rs. 125 crore as of August 1981. The author Lekhi (2003, p. 195) states that

In an attempt to discover illegal funds, the government has launched voluntary disclosure schemes. This method was first utilized in 1951, when panel rules were loosened. Despite the declaration of Rs. 71 crore, only Rs. 11 crore was collected in taxes. There were 519 crores in unreported income and 131 crores taxed by the government up until 1968, suggesting a lack of effectiveness in tracking down illegal cash, according to the authorities. A tax will be imposed on earnings, but not wealth, under the new tax structure. Taxes will be levied at a 30 percent rate, compared to 35 percent for individuals in other instances. Finance Minister Jaitley also ruled that the declarant will be free from interest and penalties as well as prosecution under various tax statutes. Until the end of 1997, this policy will stay in effect.

After the American Civil War, bearer bonds may have been used to pay for reconstruction. Bearer bond schemes are the fourth in a series. Due to the lack of a single owner, bonds differ from most other investments in that they are not tied to any one individual or organization. With these bonds, the firm receives the interest payments as vouchers linked to the security, which are then redeemed for the principal. A fixed interest rate and a predetermined maturity date are included in the contract (Bernfeld, 2010). As a way to employ uncertain funds, Special Bearer Bonds (1981) were designed. In 1981, the government issued Rs. 10,000 Special Bearer Bonds with a 10-year maturity.

Governments throughout the world have waged a long-running war against tax evasion. People from all areas of life engage in some type of tax evasion, which may take many different forms. In order to avoid paying taxes, many people purposely underreport their income, according to polls and reports. The penalties for tax evasion are a positive thing since they help the government collect more money. Unreported income is typically the result of tax evasion. Many groups have made an effort to close tax evasion loopholes throughout the years. As a result of these commissions and committees' efforts, several reforms were implemented. The great majority of these suggestions focused on reforming the country's tax code (Charlie, 2010).

Economic liberalization has resulted in the extinction of some of the shadow economy (Lekhi, 2003, 196).
Finance Minister P. Chidambaram proposed the Voluntary Disclosure Scheme in the 1997 and 1998 federal budgets (VDS). The well-known Voluntary Disclosure Scheme (VDS) has been the most successful VDS program since independence (VDS).

NRIs were prohibited from bringing their overseas cash back to Pakistan, National Development Bonds were created in the United States, and spending on elections was limited. In 1991, the government also set up the National Housing Bank.

A year ago, on July 1, 2005, the first anti-money laundering regulations entered into force. In order to be in breach of Section 3 of the MLPAC, an individual or organization must engage in any activity that contains the proceeds of crime and portrays them as clean property. Under Section 4 of the Act, money laundering is punishable by up to seven years in prison and a fine of up to Rs. 5 lakh, while successive offences are punishable by a maximum of ten years in prison (Money Laundering, 2010). Cash has been transported across national borders and throughout the world via transnational money laundering networks for both legal and illegal reasons (Lambert, 1996).

National Housing Bank Scheme was proposed in July 1991 by Union Finance Minister in an effort to bring the nation's unlawful black money back into normal banking. Deposits to the National Housing Bank (NHB) may be made anonymously.

As far as some observers are concerned, these efforts have just just begun. No prior project has ever raised more than Rs. 5000 crores in the previous fifty years. Fundamentally flawed, since they only deal with already existing black money, rather than addressing what led to its development. Illegal money flows will only become worse if we don't deal with them.

In order to combat tax evasion, all large financial transactions in India must now include a unique identification. The term "PAN" refers to the unique identification number that taxpayers get when they submit their tax returns each year. Numerous transactions, particularly those involving real estate, are carried out using just money as a medium of exchange. According to India's Annual Information Return submitted to the government, high-value transactions in India amounted to around 55.7 trillion rupees in the fiscal year 2007-2008. According to estimates, there were 3.3 million transactions that did not have PANs. There were countless such transactions using PANs (Chopra, 2010).

Conclusion
The "parallel economy" has put India's economic future in risk. India's shadow economy is expanding at an alarming rate. The Indian government named Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta as the heads of committees investigating the black market sector. Increased tax rates, poor enforcement of tax rules and other variables such as inflation and political party funding all contribute to its expansion. Unlawful funds are hurting India's economic growth. This has never happened before in the history of India's economy. The impact of black money on the Indian economy may be summarized as follows: GDP is underestimated, economic disparity
increases, and criminal activity is stimulated. At various points in the previous half-century, governments have sought to smuggle illicit funds into Canada. Demonetization of large-denomination currency notes, bank raids and voluntary disclosures are only a few examples of methods that have been used. To put it another way, the illegal economy is expected to diminish.

References