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Effects of Black Money on Indian Economy

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Abstract: Black money is one of the hot topics of discussion now a days in our country. The black economy represents not less than one fifth of the aggregate economic transactions. Black money results in the functioning of a parallel economy. In India, black money refers to funds transacted in the black market, on which income and other taxes have not been paid. It practices those activities which are contrary to the principles of economic policy pursued in an economy. Therefore it is called illegal economic operation. It is well-known that there is a large quantity of money, income and wealth which has been unaccounted in our tax system and therefore, has not suffered tax. Black money can also be termed as production of goods and services whether done legally or illegally but which is not taken into account for the official estimation of the country's Gross Domestic Product (GDP) because it is neither detected by the authorities nor is declared by its creators.

Keywords: Black money, Parallel Economy, Income and Wealth, Tax system, GDP.

I. INTRODUCTION

Black money in economic terms means 'unrecorded gains'. Black money refers to funds earned on the black market, on which income and other taxes have not been paid. This underground, unrecorded and irregular hoarding of wealth in any form is what is said to be running a shadow economy or Black money in a country. In other words, it is income which has escaped taxation. Government does not know about this money. According to the Wanchoo Committee Report,

“Black money denotes not only unaccounted currency which is either hoarded or is in circulation outside disclosed trading channels but also its investment in gold, jewellery and even precious stones made secretly, and in land and buildings and business assets over and above the amounts shown in the books”

There is no reliable source for estimating the black economy generated in India or held outside. Raja Chelliah has estimated that black money is generated at the rate of 20 percent of the country's GDP. National Institute for Public Finance and Policy which was commissioned by the UPA government estimated that there is a parallel Black economy functioning, though the size is nearly 75 percent of the 2013 GDP.

Foreign banks especially the Swiss Banks which do not disclose the particulars of the account holders have become a safe haven for the people who want to hide their income without paying the taxes. Indian people have deposited huge amount of black money in Swiss banks. The total black money of the people of all other countries is less than the black money deposited by Indians. As per the information provided by Swiss bank, India is on the top of the list of black money deposits in their banks. Here is the list of black money deposits by people of various countries.

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|----------------|-----------------|
| India | \$1500 billions |
| Russia | \$470 billions |
| United Kingdom | \$390 billions |

| | |
|---------|----------------|
| Ukraine | \$100 billions |
| China | \$96 billions |

We can bring back the black money deposited in Swiss banks back to our country. So much can be done for the development of the country if we bring back the black money and use it for productive activities. If the total black money is brought back, India will be able to clear all the foreign debts within 24 hours. By using this black money Indian Government can maintain the country for another 30 years even if all the taxes are abolished. The major effects of black money are discussed below

II. HUGE LOSS OF REVENUE TO THE GOVERNMENT AND RUNNING OF PARALLEL ECONOMY IN COUNTRY

There is a huge loss to the income tax revenue for the Government. Black money is largely attributed to tax evasion. The circulation of black money has a deep impact on the economy resulting in a decrease in government revenues. 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. There is also interaction between the reported and unreported activities such that it is difficult to identify black money from the white money in economy. Such a Parallel Economy will ruin the entire economic development of the country.

III. FALSE AND INCORRECT ESTIMATION OF ECONOMY, NATIONAL GROWTH, GDP ETC

The most important effect of black money is providing false information about the actual economy because it remains outside the purview of the economic policies. It is not possible to make correct analysis of our economic system and formulate right policies due to circulation of black money. A large underground economy and growth of black income lead to under estimation of the true size and incorrect picture of the economy by the officially compiled national income data. It adversely affects the economic and social planning of the country. The presence of a sizeable black money casts doubts on the validity of the data on national income estimates, per capita income, and distribution of income, consumption, savings and investment.

IV. BLACK MONEY CAUSES DIFFICULTY IN THE FORMATION OF MONETARY AND FISCAL POLICY

Evasion of taxes has serious consequences for the economy's fiscal system. Since the government cannot take into account the black money in circulation in the economy while forming its monetary and fiscal policies, the policies so formed by the government cannot be realistic. The black money enhances the stock of 'black liquidity'. The stock of 'black liquidity' is defined as the accumulation of black savings in the form of cash and other readily convertible instruments. It is the 'black liquidity' which creates a lot of problems for monetary authorities to regulate the economy.

V. BLACK MONEY AFFECTS REAL PER CAPITA INCOME AND NATIONAL INCOME OF COUNTRY

Black money in economic terms means 'unrecorded gains'. This underground, unrecorded and irregular hoarding of wealth in any form is what is said to be running a shadow economy or Black money in a country. Since the black money circulating in the country is not recorded in the government's books of accounts, the assessment of real per capita income of the people and the national income of the country is affected.

VI. CREATE INEQUALITIES IN THE SOCIETY

The black money creates inequalities among people. When the Government resorts to progressive direct taxation to maintain equity in the distribution of the tax burden, the tax evasion and growth of black money affect the very concept of social justice by not allowing equitable distribution of wealth and income. When the black money grows faster, rich becomes richer and the poor become poorer. By way of concentration of income and wealth in few hands, the black money widens the gap between the rich and the poor.

VII. AVERAGE EFFECT ON PRODUCTION AND LAVISH CONSUMPTION

The black money has altered the choice coefficients in the market in favor of luxuries, which lead to the diversification of productive resources from essential goods to the non-essential goods. A rise in overall consumption leaves fewer resources for investment in priority areas, having an adverse effect on production. Black money distorts resource allocation in the economy and often leads to wasteful use of money. It leads to conspicuous consumption and in turn results in the diversion of large funds to unproductive channels which ultimately put the economy out of order.

VIII. DETERIORATE THE ETHICAL AND MORAL STANDARDS OF THE SOCIETY

Black money is largely responsible for the deterioration of general moral standards of the society. Black income generation implies a deviation from the accepted norms in society and from the point of view of the society is unethical. Socially, we can say that the structure and ethos of a society undergoes a massive change. Social values of honesty, hard work, thrift and simplicity get eroded.

IX. BLACK MONEY RESULTS IN INCREASED CRIMINAL ACTIVITIES

The black money is used to support terrorist activities which undermine even the security of the country. It is used to get illegal weapons in the hands of the groups of unsocial elements. The illegal money is squandered on large scale in clubs and hotels on all types of illegal activities including drug trafficking.

X. CORRUPTION FORM A VICIOUS CIRCLE

Since most of the transactions done in black money are illegal, it adds to already existing high levels of corruption. This vicious circle of corruption generating black money and black money generating corruption will never come to an end, unless some serious steps are taken by the government to curb this evil practice.

XI. CONCLUSION

Black money is a socio-economic evil. The existence of rapidly growing black money in our economy has grave and disastrous repercussions. In India amount of black money is increasing continuously which badly impacts the economic growth of the nation. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc. The most important aspect is that the lessons of nationality and love for our nation must be taught to our children from their basic educational system. Many steps have been taken by the Government from time to time to check the generation of black money and tax evasion. The government should take appropriate measures to prevent the creation of black money.

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