

Corruption Creates Black Money -An Approach

Abstract

"If the Parallel economy poses serious threat to stability and growth of the official economy ,surely it stems from the fact that the magnitude of "black money is large and rigged deals are growing in volume and complexity at an alarming rate and breeding a new class of "black" rich in a society which is already harshly stratified"
D.K.Ragnekar

(In the present scenario the black economy become the main problem of the almost all the countries. India is facing a crucial problem of black money. Corruption is the root cause of this problem. It creates black economy by producing black money. The objectives of Parallel or Black economy is contradictory to the objectives of welfare economy. Inflation, diversion of resources, promote terrorism, loss of revenue, misdistribution of income, etc. are the ill effects of the black money. Government has taken various policy initiatives to control black economy by combating black money. Yet not the situation under control of Indian govt.This paper is a modest attempt to highlight the relationship of Black economy and corruption, impact of these factors on Indian economy and suggest some measures to get rid of the problem).

Keywords: Corruption, Black Economy, Black Money, SIT, Parallel Economy,

Introduction

Corruption is a global phenomenon .World bank defines corruption as "Corruption is a misuse of public property for private gain. It ranges from embezzlement of public money to abuse of power". Corruption in India is so much present in politics as people really believed that it is a natural or inborn feature of the Indian democracy. It is huge market place where citizen exchange their votes for favours. To get a permit, affidavit, certificate, register something as birth, death, and marriage, family give bribe and get everything .It is perfectly normal mechanism of the democratic life another wheel of bureaucracy.

Objectives of the Study

The specific objectives of the proposed study are as.

1. To assess the relationship of corruption and black economy.
2. To find out various threats of black economy to Indian Economy
3. To assess the role of govt. to control and combat black money.
4. To find out some measure to meet out the challenges before Indian economy.

Review of Literature

The studies and researches carried out by eminent scholars and there ports of various commissions and enquiry committees appointed by the Government, having direct relationship with the research topic, form the part of survey of existing literature. Some review of existing literature, researches and reports directly concerned with research topic is as Datta and Sundaram explains the working of Parallel or Black economy. Sukanta sarkar conducted a study on the parallel economy in India in which he focused on the causes and impacts of black money. Indian political system is the root of black income and it should be properly controlled. Rajini arora highlighted the facts about black income and suggest come measures to combat black money. Rashmi patil and many others comments on the affects of black money on Indian economy. Dr.M.U.Qureshi emphasis on corruption .He consider it as a evil for the India and concentrate on various measures .In some article released by Press trust of India thrust on Swiss banks policies .It highlighted that Switzerland govt. is ready to share information about the bank accounts on Indians.

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Research Methodology

Data collected for the work through various secondary sources as published books, journals, magazines, and internet. Corruption grows naturally as cities and societies grown with development and become more and more complex. Intermediates' between the govt. and the common man become increasing day by day. The treasury fraud scandal, the Hawala scandal, The animal husbandry scam. The telecommunication department scandal, etc are various examples of corruption. In ancient time India is known as "Golden Bird" today we have same resources but because of corruption we are developing nation at world map. In 2012 India ranked 94 out of 176 countries in Transparency International corruption perception index. It reported that about 40% Indians paid bribe to get a job in public sector. Bribe sucks a significant share of poor's income. Only 15% of govt. released fund of antipoverty programmes reach to poor. BPL share of food 30% disappear and to be sold later on in the black market.

Causes of Corruption

They may be categorized as--

Economic

It includes craze for higher living standards, inflation, license system, profiteering tendencies, lack of morality in business community.

Social

It includes materialistic outlook of life, erosion in social values, illiteracy, acquisitive cultural traits, feudalistic hangover, people's toleration, public indifference, and exploitative social structure.

Political

It includes political patronage, ineffective political leadership, political apathy, political immorality, election funding, nexus with politician, and political subculture.

Legislative Factors

It includes inadequate legislation, loopholes in law, and callousness in implementation of laws

Judicial Causes

It includes expensive judicial system, judicial indifference, lack of commitment among judges and frequent acquittals of the accused on technical ground.

Corruption Creates Black Economy

Corruption hindered the economic development by creating violence, lawlessness, casteism, lingusim, communalism, indiscipline, adulteration of eatables, spurious drugs. It diminished morality and credibility of officials. It has destabilized the govt. and most harmful create Black Economy by increasing black money.

Black Economy

Black economy is referred to as Parallel economy, Unaccounted economy, Illegal economy, Subterranean economy, or Unsanctioned economy. The Black economy connotes the functioning of an unsanctioned sector in the economy whose objective run parallel rather in contradiction with the avowed social objectives. The term "Parallel" economy emphasizes a confrontation between the objectives of the legitimate and illegitimate sectors. The emergence of the black sector or economy started during the Second World War when due to shortages experienced in certain essential goods because of hoarding. Urgently control and rationing had to be introduced. With the expansion of economic activity in post-independence period, the magnitude of the black sector has grown and

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proliferated to that extent it begun to play a dominant role in molding state policies, in changing the structure and composition of output in promoting a class which derives its maximum source of power from black money

Meaning of Black Money

Black money is that income which is taxable but not reported to authorities. Black money circulating in the black economy or parallel economy is a big menace to the economy.

Magnitude of Black Income or Money

Several attempts have been made to identify or quantify black money in India since independence as Kaldors estimates, Wanchoo committees estimate, Rangrekar's estimate, Chopra's estimates, Gupta's study of black income using Feige's method of transaction income ratio and recently National Institute of public finance and policy (NIPFP) conduct a study to estimate the Black income. The study included six areas—

1. Factor income received either openly or covertly while participating in the production of goods and service.
2. Black income generated in relation to capital receipts on sale of assets.
3. Black income generated in relation to private corporate sector.
4. Black income generated in relation to exports.
5. Black income generated in relation through over invoicing of imports by the private sector and sale of import licenses.
6. Fixed capital formation in the public sector.

Black income which was less than 10% of GNP up to 1975-76 began to grow at a much faster rate thereafter. According to NIPFP estimates in 1983-84 it was in the range of 18-21% of GNP which increased by 130% of GNP in 1994-95. Global Financial Integrity reported that in Dec 2012 that in India outflow of black money in \$123 billion from 2001-2010. According to third report published in May 2012 Switzerland publish the top five countries as ---India-\$1456 billion, Russia-\$ 470 billion, U.K--\$ 390 billion, Ukraine--\$100 billion, China--\$96 billion. Recently finance Minister Mr. Arun Jaitley said that independent studies that the value of black money is between \$ 462 billion and \$1.4 trillion.

Factors Responsible for Emergence of Black Economy

Some principal factors are responsible for the generation of black economies

1. The difference between the acceptable net rate of return and legally permissible rate of return creates the black sector.
2. High rate of tax and complex tax structure .
3. Higher control and licensing system
4. Donation to political parties.
5. Ineffective enforcement of tax law.
6. Huge investment in public sector have big potential for black economy.
7. Illegal activities like smuggling of gold, diamond, drug trafficking .
8. Declining moral practice to pay tax.

Impact of Black Economy on Indian Economy

Growing proliferation of black money in every sector of economy result creation of black or parallel economy, which has very serious and pernicious influence on the working of the Indian economy as---

Loss of Revenue

The direct effect of black income is loss of revenue as a consequence of tax evasion both from direct as well as indirect taxes.' Black 'rich keeps two accounting books to evade tax.

Crippled Income Distribution

It has enormously worsened the income distribution .On the other hand fixed income salary class find itself ever be the lower rung of the income ladder while the class of black rich become more and more rich.

Demonstration Effect

Easley obtained money spends on conspicuous consumption as precious stones, jewellery, and bullions etc. because of demonstration effect of (Ragner Nurksey). Consumption pattern is tilted in favour of elite classes. It results a high investment of resources in non essential consumption besides the production of articles of mass consumption. It leads a skewed growth.

It Leads Inflation

It has been excoriated that to greater extent black money hoarded in the coffers of tax evaders and black marketers encourages exuberant spending which in turn creates excessive demand and price hiking in comparison to supply .It leads to effecting spikes of inflation in the economy.

Diversification of Resources

It tends to resources in purchase of real estate and investment in luxurious housing .By undervaluing of property lot of black money is made white. It has pushed up price of land because of speculative purchase of land by black money.

Channelizing Funds in to Foreign Countries

A country having scarce resources of foreign exchange becomes a lender of aid and capital to economically advanced or wealthier nations. Swiss bank is popular haven for illicit income .80000 people travel to Switzerland every year of which 2500 travel very frequently.

Emergence of Touts and Intermediates

Black money required for its proliferation a service organization composed of touts or brokers to combat the forces of law and order. Income tax adviser or chartered accountants in the pay of black money operators. This has developed a new black money culture in the business world.

Venomous Circle of Corruption and Bureaucracy

At various Levels MLAs,MPs,Ministers party functionaries openly and shamelessly go on collecting funds .The politics of Black money thus has corroded the more fiber of Indian polity . National policies being bent in favour of big business this black money creates the black economy which runs through back seat driving.

Influencing Terrorism

Terrorist activity requires huge amount of funds black money is easily accessible to the terrorist since India is a secular country .SIMI and Indian Mujahedeen and outfit that has been held accountable for the bomb blast in Ahmedabad ,Jaipur and Delhi in 2008 acquires funds from Pakistan and they have been holding accounts in the ;banks in rural and urban areas in India.

Policy Initiative to Unearth Black Money

Direct tax enquiry committee 1971 identify the loopholes in tax evasion. In 1978 government attempted

demonetization to combat black money but it was not successful because all the black money was not in liquid form. Voluntary disclosure schemes introduced from time to time having various proposals to relaxation in penal provisions, and 60:40 bases (tax rate income), 'Block scheme' having flat tax rate of 60% etc .In 1997 Mr.P. Chidambaram announced a Voluntary disclosure scheme in which irrespective of the year or nature of source of funds, the discloses amount (cash, securities, assets) would be charged 30% for individuals and 35% for corporations. Besides this govt. Introduced in 1981 a Special bearer bonds scheme in which investor is exempted from the prosecution as well as disclosure of the source of the money invested .Recently Central board of Direct taxes (CBDT) has begun its operation of trailing stashed bank accounts of Indians in the tax heavens. It assigns criminal punishment on the basis of evidence even without assessment. The new direct taxes code makes it compulsory for both individuals and corporations to disclose their foreign bank accounts in their combined wealth and income tax return. India has signed up ratification known as Tax information Exchange Agreements (TIEA) with various countries .Mr.Arun jaitly reformed the Special investigating team (SIT) which will provide whole report to Supreme Court of India. Recently Modi govt has introduced social sites to the common man to remove the touts between govt.and people. Switzerland has also agreed to share information on funds held in its bank to fight tax evasion and concealment of illicit funds.

Conclusion and Suggestions

In the end we can say that Black economy is making our Indian economy black .Government has taking various steps to control it .some measures are suggested to remove the evil---

1. Rationalization of tax structure.
2. Removal of unnecessary control.
3. Appropriation of the gains of investment of black income in real estates.
4. Electoral reforms stop the donations to political parties.
5. Improve the efficiency of the public sector to curb the black income from the sector.
6. E-governance can check the black income.
7. To inculcate the moral values in the child effort must be made at primary level.
8. Anti-corruption laws and their supporting agencies should have power and work independently.
9. Invest the black money in agriculture and industries only.
10. Tobacco and petroleum products must be included in G.S.T.
11. NGOs and religious trusts must be maintained and audited their accounts.
12. The body of tax collections institutes must be honest.

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