

# Impact of Black Money on Indian Economy

## Abstract

In the present era, issue of BLACK MONEY has come into forefront of the society with active participation of our youth and parliament. In the context of current status it includes sources from where black money is generated and its prevalence in the country at different levels. It studies that corruption is the main reason behind the generation of black money. With the help of strong and appropriate framework generation of black money can be control. It shows upto what extent corruption leads to its generation which has considerable impact on various sections of the society. The present paper helps to know about present status of the black money in INDIA & its impact on economy.

**Keywords:** Corruption, Black Money, Tax, Government, Parallel Economy, Bribery, Cash Transaction

## Introduction

As we know that in Ancient times our country, INDIA, was popularly known as "Golden Bird" because people of our country were more prosperous and worked in a very diligently to provide fruits of their work to everyone without any selfishness and jealousy i.e. they were not concerned about their selfish interest and were generous philanthropist. They focused on the prosperity of the nation as a whole. So it could be predicted at that time that our country will become one of the greatest economics in the world and be at the top developed country very soon, but sadly it did not occur. The main reason is the "Use of Black Money" to a large extent in our country.

## Aim of the Study

Its main aim is to make people know about what is black money and it's impact on the Indian economy? What are the suggestions regarding the elimination of the black money.

## What is Black Money

Black money is money which is the proceeds of criminal activity such as corruption, and bribery. It is usually received in cash and the total amount of black money is deposited in foreign banks by people. Taxes have not been paid on such type of income. Spend it only in the Underground Economy, or attempt to give it the Appearance of Legitimacy through money Laundering.

## Definition

According to National Institute of Public Finance and Policy (NIPFP) defines-

"Black Money is the aggregate of incomes which are taxable but not reported to authorities". "Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities".

## Black Money in India

India Ratings and Research has estimated that the current measures by the government to withdraw high value notes are likely to destroy about Rs 4 Lakh crore worth of cash held in black money and fake currency. Which comprises 12% of the black money in India and leaving 88% of the black money to remain in the system.

The economic cost of the de-legalization will be Rs. 1.5 Lakh crore for 2016-17, the agency, which has lowered its GDP growth forecast for the fiscal to 6.8%, 0.97% lower than its earlier projection.

India Ratings, which is part of the Fitch Group said, "While there are no two opinions about the need to root out black income, the method chosen and its execution have inflicted unwarranted damage to the India Economy".



**Anil Kumar**

Assistant Professor,  
Deptt.of Economics,  
S.D. College, Lahore  
Ambala Cantt,  
Haryana

## Anthology : The Research

"It is unlikely that fiscally the government will benefit from Rs. 4.0004 trillion (Rs. 4.004 Lakh crore) worth of cash destroyed in the de-legalization process", the agency stated. "On the contrary, government may face lower tax collection in the second half of FY17, due to the slowdown in economic activity," It said. India followed the de-legalization route twice in the past, first in 1946 and then 1978. "Global experience, including that of India, in the past have shown that the impact of such measures have been fairly short-lived as it does not attack the mechanism that give rise to black income," It said.

India Ratings said, "Assuming that this proportion has now gone up to 25%, the size of the black economy for FY16 works out to be Rs. 33.9 trillion (Rs 33.9 Lakh Crore) (GDP for FY 16 was Rs. 135.76 trillion (Rs. 135.76 lakh Crore)".

The agency stated "Therefore, how much of the black money will come out into the system is still difficult to assess. Moreover, there is doubt on whether Rs 4 Lakh crore worth of cash destroyed in the de-legalization process could firstly become part of the RBI balance sheet and secondly become available to the government for spending".

### Impact of Black Income on the Indian Economy

Black money has an impact on the social and economic system of the country and thereby it effects the economy to a great extent.

1. This results in establishment of parallel economy of the country which belongs to the unaccounted sector. As a result, there is underestimation of Gross domestic Product (GDP) as a large percentage of income is diverted to a unaccounted sector. This deteriorates the economic status of the our country.
2. When the income is not declared (Black Income) the revenue is less as there is tax evasion.
3. Black money holders invest more in real estate & luxury housing which leads to diversion of resources.
4. Transfer of Indian currency to foreign countries has increased by illegal means.
5. This results in widening inequality of income among the people of our country as the funds are in the hands of unaccounted sector.
6. Black income is increasing as well as held in cash as well as in terms of gold, silver etc. Thereby there is abundance of liquidity.
7. Hard work and honesty are not valued and illegal ways flourishing which leads to increase in black money.

### What are the Causes and Remedies of Parallel Economy in India ?

#### What is Parallel Economy ?

Black money may be defined as the money that is generated by activities that are kept secret in the sense that these are not reported to the authorities. As such this money is also not accounted to the fiscal authorities i.e., taxes are not paid on this money. The biggest challenge that our Indian economy is facing today is the existence of parallel economy. It shows the circulation of black money which leads to loss in tax revenues and thus loss to

the government and the country. Black money is the hidden money being generated from illegal resources and is thus unaccounted. As a result, Fiscal authorities is facing a challenge to stabilize the Indian economy. Our government has taken steps to eliminate Parallel economy. So as to generate more revenue and thus enhance the economic development of our country.

The evil of black money is big indeed with very bad consequences for the economy. It is therefore necessary that we find out its causes, and discuss the steps taken by the government to curb it.

#### Major Causes

There are various factors that have led to the emergence and the spread of black money. Some of the main factors are-

#### Shortages during war

At the time of second world war, Indian Industries started black marketing. Supplies of industrial goods from the traditional suppliers of the west were cut off. Industries earned huge profits in respects of goods that were in short supply.

#### Several Controls

As the country resources are limited, the control regulation of the economy was planned to use of scarce resources. But the control were exercise and inadequately implemented. The result was twofold.

Firstly these controls caused shortages, which were often artificially created. The prices on such controlled goods are relatively high than the official prices. The excess prices, called 'premia' have swelled the black money. Secondly, there was corruption.

#### Faulty Taxation

Black money also arises due to defects in the tax structure. Till recently the tax on income and on wealth was very high to invite evasion. The corporate tax rate too, was very high.

The excise evasion is rampant in such sectors as copper, cotton fabrics and plastics. In these circumstances, the temptation gain from tax evasion was substantial. Even in the case of indirect taxes, the situation is no better.

#### Large Public Expenditure

The National Institute of Public Finance and Policy has stated that the large increase in public expenditure, as pointed out in the black money. This factor started fuelling the phenomenon of black money after the cautious budgetary position, prevalent during the early sixties was given a go by.

#### Impact of Recent Demonetization on Black Money in India

Recently Indian government has taken up a major action by demonetized the high value currencies i.e. currency notes of 500 and 1000 with the aim to unearth the black money to control the corruption counterfeit currency as well as terror financing. The decision of Prime Minister Narendra Modi was considered as biggest cleanliness drive against the black money in the history of Indian economy. But there is various view of experts on demonetisation as some argues that it will hit the black money and other argued in negative.

**Anthology : The Research****How it Will Control Black Money**

1. In this background demonetization of Rs. 500 and Rs 1000 currency notes was a master stroke, as the move will address issues like black money and corruption and also help the economy become more digital.
2. Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the first against unaccounted money.
3. In India all sections of the society was accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society, such habit resulted is even people with accountable money using cash transaction for high value transactions.
4. It results into parallel economy with unaccounted money, even much stronger than regular economy the parallel economy black money, corruption, counterfeit currency and terror financing. These issue hamper growth and development of the economy.

**Ways To Control Black Money**

The generation black money can be control by the government by making efforts in following ways.

1. First is by minimizing cash transactions. As per company rules, Companies should stop purchasing in cash and all payment above value of Rs 20000 should be through cheque. In developed countries like USA, 99 percent of sale and purchase take place through cards or bank cheques and after giving acceptable identity only.
2. Secondly, all income should come under in tax domain whether it is earned by servicemen, traders or manufacturers. Government should stop all types of reliefs, concession, exemptions. Chartered accountants and tax consultants guide Income tax payees how to avoid tax payment and save tax. They know very well how to convert black money into white money. Servicemen are excluded from tax payment if the tax exemption limit should be upto ten lakh and in this way tax authorities will have controllable numbers of assesses to scrutinize.
3. Thirdly, the IT official should thoroughly checked all purchases of house, lands and commercial property where the sale value shown in far less than prevailing market rate, they should be purchased the property on behalf of the government or either cancel the deal and can distribute amount poor and middle class servicemen.
4. Corrupt officers humiliate honest officers and reject them in promotion processes or post them at the most critical places. Cause of all corruption is dishonesty in promotion, recruitment, posting and transfer of staff working in government officers.
5. Doctors who are earning money through medicine manufacturers and owners of Pathological laboratories should be punished by the government. Doctors prescribe costly

medicine or doing unwarranted surgical operation to earn illegal money like antibiotics are available in Rs. 3.00 and Rs 300 also.

6. Lawyers should be taught a lesson who in nexus with judges twist the direction of judgment. Judges should be punished who deliver judgment only after taking bribe or go on postponing decision in collusion with advocates.
7. Expenses incurred on all types of election should be banned, No rally, no pamphlets, no car rally, no procession, no banners, no show business, no temptation and in brief no expenses either on nomination or on campaigning.

**Conclusion**

To stop corruption which creates black money, we the people of India have to come forward to fight against corruption. Black money is affecting Indian economy is non stop corruption. Due to this, there is unequal distribution of income. The black money deposited by the Indian people in swiss bank should be brought back to India, so that it can be used for the development of country. People should pay taxes timely to the government so that the generation of black money can be minimized. If the level of black money will be brought down, them Indian economy can be on the path of growth and development.

**Referneces**

1. *Abstract on Black Money in India. Current status and impact given by [www.abhinavjournal.com/journal/index.../635](http://www.abhinavjournal.com/journal/index.../635)*
2. *Introduction given by Manpreet Kaur, Assistant professor, and Akridi student of Shri Guru Teg Bahadur Khalsa College, Anandpur Sahib, India on 4, April 2015.*
3. *Parallel economy by <https://www.black2white.money.wordpress.com>*
4. *Impact of recent demonetisation on Black Money in India by [www.drishtiias.com/editorial, analysis on 14 Nov 2016](http://www.drishtiias.com/editorial_analysis_on_14_Nov_2016).*
5. *Cause and Remedies of Parallel economy in India by Kunal Vasani, [www.indiastudychannel.com](http://www.indiastudychannel.com)*
6. *Impact of black money on the Indian Economy by the Sukanta Sarkar, Lecturer of economics, department of Management, ICAI University, Tripura, Agartala.*
7. *Ways to control Black Money by blogs [www.siliconindia.com](http://www.siliconindia.com) by Denendra Jain.*
8. *Black money eliminated from the Indian economy after demonetisation on 3 Dec 2016 given by [www.Indiatimes.mindiatimes.com//india/](http://www.Indiatimes.mindiatimes.com//india/)*
9. *Conclusion of black money by gjimt2011 account managers on 26 Aug 2011. [gjimt2011 account managers on 26 Aug 2011. \[www.managersblogspot.com\]\(http://gjimt2011accountmanagers.blogspot.com\)](http://gjimt2011accountmanagers.blogspot.com)*