



IMPACT OF BLACK MONEY ON INDIAN ECONOMY

Rajeev Kumar , Assistant Professor

Department of BBA

Karamchand Bhagat College, Bero, Ranchi, Jharkhand

A Constituent College of Ranchi University, Ranchi

Abstract

Black money influence on the nation's institutions and public policies is widely acknowledged, given its prevalence in the social, economic, and political domains of our lives. A systematic corruption and a dysfunctional government disproportionately affect the poor. A large number of scams involving public property are manifestations of the nation's issues, which are all caused by black money. It is imperative to establish a link between the new economic strategy and black money and to take the necessary action. As is the case with many other countries, black money is a serious challenge for an Indian-led government. In India, this is not a new issue; rather, it has been a long-standing one. To understand this problem, one must realise what it really means. "Money earned through any illegal activity regulated by the laws of the country" is the definition of "black money." Cash earnings of this kind are usually obtained through a range of activities and are not reported to the government for taxation purposes.

It is commonly acknowledged that the presence of black money in our social, political, and economic spheres has a crippling impact on the nation's institutions of governance and public policymaking. The impoverished are disproportionately affected by systemic corruption and failures in governance. All of the nation's problems stem from black money, of which numerous scams utilising public property are a manifestation. It is necessary to investigate the relationship between new economic policies and black money and to implement appropriate actions.

The black marketers have obstructed the nation's progress out of personal greed, while in fact the government would have established more industries, roads, schools, hospitals, and other facilities. In addition to gaining large profits for themselves, the politicians and bureaucrats who took bribes also promoted favouritism by giving allocations to those who didn't deserve them. Society does not benefit from this. The best democracy in the world is



found in our nation. It preserves the principles of justice and excellence. Democracies forbid such partiality and pick-and-choosing for bribes and personal gain.

Keywords: Black money, Social, Economic, Political, Corruption, Public policy

Introduction

Black money is one of the major problems in many nations, and it is particularly significant in a nation like India. This is not a recent issue for India; rather, it has been ongoing for a very long time. It is necessary to comprehend the true significance of this topic before delving into its essence. "Money obtained through any illicit activity subject to national regulations is known as black money." These funds are typically earned in cash through a variety of activities and are not reported for tax purposes. The phrase "black money" first appeared in print in the early 1920s. Black money came to light after the nation began to develop, i.e., during the post-independence era. However, in the present era, black money has taken centre stage in shaping national policies, dictating new business ventures, and occasionally influencing national legislation.

Black money is defined as unreported income, riches obtained unlawfully, or other assets obtained by accepting bribes or engaging in other immoral behaviour. It goes beyond simple cash kept in benami accounts or in secret areas of the property. It can take on multiple forms, such as stocks, bonds, securities, or other types of financial instruments. It could take the shape of real estate, such as homes, businesses, plots of land, or other assets like vehicles. It could take the shape of jewels, gold, silver, or diamonds. Due to the lack of billing, thousands of millions of rupees in sale tax are avoided. The sales tax that is collected from clients by many sellers is not deposited with the sales tax authority. This is a sales tax evasion. Value-added tax, or VAT, is a system that the government implemented that levies taxes on goods sellers based on the value added. Even so, nevertheless, the dealers' displayed actual sale amount is far less than the actual amount.

Black money is a big part of the political landscape in India. The majority of them possess assets valued at crores of rupees, which exceeds their reported revenue sources. Many of them are the subject of ongoing judicial proceedings alleging that they obtained these assets illegally. While in office, the ministers amass wealth, primarily from large corporations, for the purpose of allocating gas stations, commercial land parcels, licences to conduct certain business, such as liquor contracts, the creation of Special Economic Zones,



etc. Over the course of their tenure, they amass several crores of rupees. Everyone knows they are there, but no one checks. The lawsuits brought against them are unsuccessful. The other group of those who have amassed black money through accepting bribes are members of the executive classes, which includes bureaucrats. Several bureaucrats who evaded income tax authorities were discovered to own homes and other valuables, including cash worth millions of rupees. Hundreds of crores of rupees are also considered black money in the hands of our executives and officials. The majority of it is tax evasion. Black marketers' personal accounts receive thousands of millions of rupees that should have gone to the government coffers.

In a nation the size of India, which may be classified as semi-developed, statistics indicate that it is still developing because of the parasite that has severely damaged its economy. Yes, I am referring to corruption, which poses the biggest threat to the political, social, and economic systems of any nation. The main source of black money in India is mainly corruption. Corruption can take many forms, such as expensive gifts, properties, or other assets given by business class people to high-ranking officials as a way to keep the noose around their heads loose. All of these things contribute, either directly or indirectly, to the rise in black money in a nation like India. It goes without saying that the owner of these items also has value. Therefore, he is in possession of property or an asset that, according to the law, originated from an unknown source, blatantly breaking the rules for legitimate or acknowledged money. There are many more significant sources of black money in India; this is just one example pertaining to a particular segment of the system where corruption and black money coexist.

Origin of black money

There are two main types of power that are produced by black money. Illegal actions include smuggling, accepting extra fees when renting out flats or opening storefronts, selling goods without a licence or quota, paying covert commissions or bribes, and stealing foreign currency are the main sources of black money. Funds obtained from, and profits generated from, the illegal trade of specific products subject to government regulation, etc.

The second kind of black money is earned in a manner akin to the first, but due to the individual behaviours of the earners, it either assumes the form of black money or is not reported to the appropriate tax body. Another way to make black money is to engage in "tax



evasion," which is the concealment of income and avoidance of taxes. To lower his tax liability, for example, if a person's annual income is subject to income tax, he deducts tax income from his actual income. The difference between claimed and actual income will be referred to as "black money." There are, in fact, ties between tax avoidance and black money.

While tax evasion generates black money, tax evasion is also encouraged when black money is used covertly to boost profits in businesses. We may argue that the main reason illegal monies being created is because of the current tax system. Both high tax rates and a convoluted tax law encourage tax avoidance. Prior to a few years ago, India's highest marginal income tax rate was 97.75 percent. Right now, he has a 50% marginal rate. The increasing trend of tax evasion pertaining to both direct and indirect taxes is contributing to the growth of black money. Parallel to this, the rationing system also produced a significant quantity of black money. In our country, a large number of industrial and consumer goods are created, priced, and distributed under government supervision.

Foreign exchange, import, and export are also subject to a number of restrictions. A unified licence and quota structure exists for multiple commodities. The price difference between the market price and the government-set price is used to increase profits by breaking these laws, and the products with restricted prices are subsequently sold for more money on the black market. In addition, bribes are paid by businesspeople and the general public to employees and officials in order to get licences, quota permits, and to perform any illicit work. In this sense, a profusion of black money results from delays in decision-making and control. Inflation in the economy and a scarcity of readily available goods are some causes of black money. Due to price increases, dealers hide or hoard goods, which they subsequently resell on the black market for a larger profit. In a similar vein, excessive rates of sales tax and other taxes, the ineffective implementation of tax laws, restrictions on business expenses and their non-allowance, unscrupulous business practices, etc., are all important factors that contribute to the creation of a sizable amount of black money.

Impact of Black Money Country's Economic Growth

The largest effect of black money is that it stops the GDP growth of the nation because the government cannot afford it. Tax revenue determines how much money the government makes. The government cannot provide funding to a certain sector that need it for



improved operations if the public refuses to pay taxes to the government. The government is forced to take out loans from other nations or the World Bank due to a lack of funding. Which will make the government's foreign debt heavier.

Raise the Rate of Inflation: As more black money enters the market, inflation increases. Due to a decrease in market production and a rise in the supply of illicit money, the price of food and other items has increased. As a result, those with more money in the market offer higher prices. in contrast to other individuals on the market.

Removing the national resources: Black money has a significant negative influence on the nation's resources. Our country's resources are being depleted, but not for official government objectives. Because a dishonest individual is exploiting a national resource for personal gain.

Rise in societal corruption: Corruption in society rises as a result of black money. The owner of the dark money will bribe politicians and other public servants for their businesses or personal projects. These individuals can have anything they desire from society. Thus, the issue affects others. In that instance, a competent and eligible candidate will need to put in more effort to obtain the job or business from the government or another source. Because they are not allowed to offer bribes in exchange for contracts, jobs, etc. When they are dissatisfied with his efforts, they are forced to bribe politicians and other prominent government figures for a certain duty. Therefore, they are similarly corrupt.

Effects on Income distribution system: The personal financial disparity in society is widened by black money. The individual who pays taxes on a regular basis does not make the same amount of money as someone who does not. Thus, it causes the social income disparity to widen.

India's global reputation and its impact: India's credibility has been severely damaged by black money and corruption around the world. Large global businessmen are withdrawing their support from India. Because of this corruption, they are not interested in doing business with India. It affects the Indian economy as well. Out of 178 countries, India is placed 87th in the Corruption Perceptions Index (CPI). Because of major frauds like the 2G and popular wealth game scams.

Unable to forecast the main economic indicators: Because the government was not informed of the existence of this illegal money in the market. The government is unable to



provide precise data on national GDP growth, the saving income ratio, India's national income by sector, etc.

Funding of terrorism: It is astonishing, but it is true that black money funds terrorist activities in our nation, which leads to a variety of anti-social and black acts, including bomb blasts, shootings, and other incidents. Generally speaking, the terrorists maintain tabs on all the ministers who obtain their wealth by corruption and criminal means. If these ministers do not receive funding for their actions, they will use blackmail to force them to divulge their personal accounts and hidden funds. There is nothing left for the ministers to do but give in to their demands. In exactly the same manner that it finances illicit international transactions, the hawala market also contributes to the financing of terrorism. Comparatively speaking, China and other comparable nations have more permissive restrictions regarding the Hawala system than do other nations. It follows that a large portion of the terrorists' funding must come from these nations.

Measures taken to curb black money

Demonetization: I'm sure the majority of you are familiar with this phrase, which is frequently employed to reduce black income and in situations of excessive inflation. It was among the first weapons that the government ever had. Since the majority of people conceal their illicit funds in the shape of these notably valuable notes, the government begins withdrawing denominations of Rs. 1000 and above under this initiative. Since 1946, high denomination notes have been demonetized. It is significant to note that the value of the demonetization in 1946 was Rs 148 crore, compared to the Rs 1235 crore of the circulating currencies at the time. Therefore, it was not going to be a huge success at that time.

Schemes for voluntary disclosure: The government launched the voluntary disclosure scheme, which requires individuals to visit the income tax department and admit the full value of their assets and black money, after realising that tax evasion encouraged by a high marginal tax rate system was the primary factor in the creation of black money in the Indian economy. The tax evaders received two perks from the government in exchange for their confession: First of all, it will protect the guilty from any inquiry into where the black money comes from and how much they are spending on it. Second, their black income will be taxed at a rate that is 10% less than that of regular taxpayers. As a result, since tax evaders were



guaranteed no inquiry, this strategy encouraged them to dodge taxes and avoid any sort of legal action. They could now exchange their black money for "white" thanks to it. This programme was updated over a number of years.

1981, Special Bearer Bond Scheme: Under this programme, the government permitted tax evaders to own special bonds with a face value of Rs. 10,000 and a 10-year maturity period. In lieu of the face value of Rs. 10,000, the holder of these unique bonds will be entitled to receive Rs. 12,000 per bond when these ten years have passed. The ability to transfer these bonds will not result in the transferor's bad reputation. Therefore, the only rights that will be transferred are ownership rights, and the following bond holder won't have their right to possession questioned. As a result, it gave black wage earners two benefits. Since black money amounting to Rs. 10,52 crore was removed from the market via this scheme, it was the most successful one to that point in the year.

Raids: This was the method most frequently used to apprehend the guilty and tax evaders and immediately place them in jail. The government got intelligence reports about black income earners, which led to the immediate capture and detention of these individuals. In order to find the documents that were withheld at the time of asset declaration, raids were carried out on the homes and residents of these individuals, as well as on corporate offices and premises. These attacks were quite beneficial, but when the ministers were targeted, they resulted in a widespread rebellion. It not only uncovered black money, but also black assets that were bought with that money.

Gold bond scheme of 1993: This programme was a lot like the voluntary disclosure programme from the past years, with the exception that its goal was to legalise "black gold" and "silver," or more specifically, gold and silver acquired with "black money." The populace was given the assurance that inquiries concerning the procedure for obtaining gold or silver would not be permitted under this approach. Additionally, it was stipulated that the purity of the gold and silver must be greater than 0.995 and that the 500 grammes of deposited gold of the aforementioned purity must be deposited in order to obtain the gold bond. While jewellery and ornaments can also be offered, they need to be melted in order to become 0.995 pure. For around three months, this plan was in place. About 100 to 200 tonnes were thought to have been legalised in total for gold and silver.



Impact of black money on Indian economy

The emergence and spread of black money have a major detrimental impact on the economy since they reduce government revenue. Because black money is so widespread, it is thought to be operating in a separate sector of the Indian economy concurrently with the present one. Even if only a tiny percentage of the black money in circulation could have been sent to the government in the form of taxes, the Indian economy would have profited immensely nonetheless.

It's no secret that there are already a lot of corrupt practices prevalent in India. Black money has been introduced to this corruption through illegal transactions that were done to hide black money. The quantity of black money in society rises as a result of bribes that citizens pay to bureaucrats, government officials, etc. in order for them to do their duties; these payments are never documented in the books as revenue. Therefore, black money is a result of earlier corruption as well as current corruption, feeding a vicious cycle that won't stop unless the government takes strong action. Black money results from people not paying taxes on all of their income, which lowers the income of the country. If the amount of black money is encouraged in the national economy, the nation's income will rise dramatically. As a result, the country's general standard of living will also improve.

There is a shaky link between this and the persistent corruption in the nation. The general public will ineluctably obtain better goods and services than individuals who bribe the manufacturers, marketers, or service provider; after all, they won't get the same things and will suffer from lower-quality services. A real-world example that almost everyone can understand is this: if someone pays a bribe to a government official to get a work done, they will get it done faster than the one who doesn't pay anything and has to wait.

The fundamental purpose of taxes is to generate revenue for government expenditures that are required to keep the budget balanced. Therefore, it follows that if the quantity of black money that the public is hiding from the government is revealed and included in the government budget, the tax rate will surely drop in proportion to the revenue that the government hopes to raise from the general population. The government would already be in charge of enacting new taxes. Rising prices are the outcome, just like when too much money is spent on specific products on the market.



Conclusion

The government cannot solve this issue in society entirely on its own. All citizens must work together to implement these rules and policies; passing other laws, actions, and legislation won't be enough. Individuals must quit making black revenue and concealing their assets. They must also understand the importance of filing taxes. Each and every person should make a contribution to the advancement of the country by paying taxes.

To effectively coordinate investigations into suspects, the tax agencies must cooperate with one another. All the elements that go into making black money will be successfully eliminated in this way. Consequently, "black money" would be rapidly eradicated and provide minimal risk to our economy. The truth is that illicit money is booming in India. The large people aren't receiving the proper penalty. This is primarily due to the decline in our moral and social norms. Thus, ethics instruction and application are anticipated at all levels. In my view, the issue of black money needs to be resolved in a practical and thoughtful way right now. The following actions are beneficial since the poor people in the nation are the ones affected by this issue. The issue must be handled morally first. It is necessary to increase people's moral standards in society. Politicians and top civil servants can have a significant impact on society. They can set an example for society by paying their fair share of taxes since they are role models for the community.

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