

Review Paper on Black Money in India & its Effect

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INTRODUCTION

ABSTRACT

Black money is not only the problem of Indian economy, but it also transcends the borders and has become a global dilemma. Recently, various studies have taken place under the Government of India to tackle the problem of black money in India. Those studies have revealed some astonishing facts about the black money market in India. In the last decade alone, India has lost approximately \$125 billion in illegal money. A study has revealed that the black money even exceeds 10% of our Gross Domestic Product. This paper represents the framework, policy options and strategies that Indian Govt. should adopt to tackle with this issue and also describes the future challenges to be faced by Govt. in this context. It also studies the one of the main reason behind the generation of black money i.e. corruption. It shows up to what extent, the corruption leads to its generation which has considerable impact on various sections of the society. At last but not least, conclusion of this paper is provided representing the ongoing issue of black money in our country and its future course of action. Hopefully, this would contribute to an informed approach on this issue as we move forward in this context.

The *underground economy*, which I will also refer to as the “illegal economy” (or “underground markets” or “illegal markets”),

is that part of the economy where goods and services are produced, exchanged or consumed illegally. These activities are illegal either because the production or consumption of the goods or services is forbidden by law (recreational drugs or some prostitution services, for example) or because legal goods or services are exchanged under illegal conditions (construction services by unlicensed workers, smuggled goods or illegally-sold goods that would otherwise be legal). I refer to the first subcategory (transactions in illegal goods or services) as *black markets*, and to the second (transactions in legal goods or services, notably labour, under illegal conditions) as the *irregular economy*. Black money may be defined as the money that is generated by activities that are kept secret in the sense and not reported to the authorities. This money is also not accounted to the fiscal authorities or you can say that taxes are not paid on this money. A

white paper on black money by the Government of India suggested that there are two possible ways of generating black money in India. The first source of earning black money includes those activities which are not permitted by the law, such as crime, drug trade, terrorism, corruption and all of which are not legal in India. The second, more probable source is that the black money may have been generated through a lawful activity but accumulated by failing to declare income and pay taxes. Some of this black money ends up in illicit financial flows across international borders, such as deposits in Swiss accounts.



Black Money in India

According to a report released by Global Financial Integrity (GFI) in December 2012, India is among the top 10 developing countries in the world with a black money outflow of \$1.6 billion (Rs. 8,720 crore) in 2010. Total outflow of black money from India since independence until 2010 was \$232 billion, generally in the form of corruption, bribery and kickbacks. The cumulative value of illicit assets held by Indians during the same period is estimated to be \$487 billion. The BJP, in a 2011 report, had estimated India's black economy being worth around \$500 billion and \$1.4 trillion or about between Rs. 27.5 lakh crore and Rs. 74 lakh crore, while US think-tank Global Financial Integrity had estimated India had lost \$123 billion (Rs. 6.76 lakh crore) in "black money" in 2001-10. This is money that is earned and transferred

illegally abroad in tax havens, such as the Cayman Islands, typically to avoid taxes.

Now let us look at the picture of Black Money in India

Almost every sector in our country generates and uses black money for its survival in the market, society....etc. It includes Real estate, financial market, bullion & jewellery market, non-profit organizations, external trade and so on.

Apart from this, in India black money persists due to the existence of ***Demonstration Effect*** i.e. the way to live a life in terms of others point of view or we say live a life by looking at others livelihood. People of India are very much affected by the lifestyles of other people of the society who are maintaining considerable high status, and in turn want to be like them. For this, they want to generate money by any means. Therefore to fulfil these desires or to maintain their status in society they force themselves to generate and use black money. Another reason for the existence of black money is the presence of ***Corruption*** in every field of the economy. For example,

1. if any common man wants to get a job in any public institution like in a bank, or any transport or educational institution etc., then he will have to pay adequate consideration to the authority of that respective institution i.e. Bribe 148 have to be paid. For this, common man is forced to generate money by illegal means. In this way, we can say that, both, the public authority and common man generate and use black money in a considerable manner.

2. Likewise, if a student wants to get admission in any big and reputed institution, he will have to pay some

extra money other than fees in the form of Donations etc.

3. Also in some Educational institutions, more fees are charged for examination forms or for practical's which is considerably higher than the quoted fees. In this way, black money is generated and used in big and reputed educational institutions. Another aspect of black money is very astonishing for society from which significant amount of black money is generated and used and that is *the spirituality*.

Look at the cases of **NIRMAL BABA** and **RADHE MAA**:

If anyone wants to meet *Nirmal Baba* personally then he shall have to pay such heavy amount which may be out of one's pocket. Similarly, to listen to his teachings in "Nirmal Darbar", one has to pay a minimum amount of around Rs. 2000/- per seat at the back rows, which increases as we move towards the front rows of the auditorium, with a validity of a day only. Also his bank accounts are being credited regularly by many hidden donors. In this way, this one person is earning a lot of money by fooling innocent people by camouflaging himself as a spiritual leader, and uses such money for unofficial purposes, hence, generating a lot of black money.



Radhe Maa, who calls herself as avatar of „Maa Durga“, wears heavy jewelery and bridal dress and heavy makeup. Her jewellery and bridal dress are never repeatedly worn. This shows her earnings which are officially concealed i.e. it is all Black Money. In India people are very emotional towards spirituality and many such „BABAs“ & „MAAs“ make misuse of their emotions and sentiments and referring themselves as spiritual leaders generate a significant amount of black money. Another sector which generates and uses significant proportion of black money is the *Indian Political System*. The Leaders/Ministers of this system focus only on their personal growth instead of the economic development of the country.



At the time of elections, they spend a significant amount of money to win or, as is said, to get a chair and after winning they just focus on earning large amounts of money by taking bribes, even nfor small activities. Such Black Money is either deposited in foreign banks like SWISS BANK or invested in Real-Estate in other countries like Dubai etc. According to 3rd report published in May, 2012 SWISS NATIONAL BANK estimates total deposits as below:

Country Money Deposited

INDIA \$ 1,456 billion
RUSSIA \$ 470 billion

UK \$ 390 billion
 UKRAINE \$ 100 billion
 CHINA \$ 96 billion

Impacts of Black Money on Indian Economy

The flow of black money can seriously affect the entire economic system of India. Some important impacts are discussed here:

1. Less Tax for the Government
2. Uncontrollable Inflation
3. Leads to Mass Poverty
4. Lack of Technology
5. Impact on Growth by moving investments on Gold, Stones and
6. Corruption
7. Inflated Real Estate
8. Transfer of Indian Funds Abroad to Safe Heavens
9. Encourages Anti-Social Activity

RECOMMENDATIONS & SUGGESTIONS

After studying the concept of black money & its various sources of generation in our country, it's time for some Recommendations & Suggestions that may help to control black money in India. These are as follows:

- Our Government should make its foremost objective to control black money in our country.
- E-Governance should be started by the Government i.e. the use of technology be made as far as possible like ERegistration with Revenue Authorities, E-Filing of Returns, etc. because more the involvement of human beings, more is involvement of corruption, ultimately generating Black Money.

- Black money revolves around in cash only so the Government should put restriction on cash transactions wherever possible and instead should increase the use of Plastic Money like Debit Cards, Credit Cards, etc. and by other such means.
- Agriculture income should be taxed for those who have both the agricultural as well as non-agricultural income.
- The Government should not give absolute power of work to any one person as it creates monopoly and instead should segregate the work among many persons.
- All the aspects of its generation should be looked into and stopped.
- Competitive bids should be motivated.

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