

SOCIAL AND ECONOMIC EFFECTS OF BLACK MONEY

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Abstract: In the present era, issue of *BLACK MONEY* has come into forefront of the society. The consequences of black economy in India have been widespread as well as far-reaching. The harm caused by them is not merely superficial but goes deep into the socio, political, and economic structure. In this context of current status, it includes sources from where black money is generated and its uses in the country at different levels. This paper represents the framework, policy options and strategies that Indian government should adopt to tackle with this issue and also describes the social and economic effects of black money. 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 effects on various sections of the society. Lastly, conclusion of this paper is provided representing the ongoing issue of black money in our country and its future course of action. To control the generation of black money there should be a strong and appropriate legislative framework. The present paper helps to know about present status of black money in INDIA & its effects on social and economic condition.

Keywords: Black Money, Social effects, Economic effects.

Introduction

In Ancient times the ways to generate money as well as its usage was very transparent i.e. everyone knew the sources of money and its application, which may be referred as *WHITE MONEY*. So, in the past, White Money was in use but now the color of Indian money has changed to Black. Black money has been a major problem of all spheres of the economy. It has active operations in the areas of real estate, gold, jewelry and precious metals, money markets, government transactions and nonprofit able organizations. Smuggling, illegal transport of drugs and corruption are also major fields in which black money can be seen. The black money is

illegally acquired money. A large part of it is avoided tax. Thousands of crores of rupees which should have gone to the government capitals go to the personal accounts of black marketers. If the government had received this money it would have used it to take up new projects of development or would have completed the ongoing projects in shorter time. Black money is docile money. It does not play any economic function. Thousands of crores of rupees lie idle in lockers and benami accounts making no contribution to the development of the country. India, at the threshold of fast economic development, needs huge amount of capital. The government funds are short because of tax avoidance and other corrupt practices by the hoarders of black money. If the black money reaches the government, there will be faster development. Before discussing the social and economic effects of black money one must know what Black Money is.

What is Black Money?

There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including ‘unaccounted income’, ‘black income’, ‘dirty money’, ‘black wealth’, ‘underground wealth’, ‘black economy’, ‘parallel economy’, ‘shadow economy’, and underground’ or ‘unofficial’ economy. ‘Black money’ can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.

Black money is the money earned but not shown in the accounts for the purpose of tax evasion. Such money can be earned through legal, illegal and extra legal means. For example- Most of the traders and businessmen never reveal their actual incomes, many government doctors are making by private practicing allowance or advocates charging much higher fees than shown in their account books and so forth.

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:

- To evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc.);
- To evade payment of other statutory contributions;
- To evade compliance with other laws and administrative procedures.

Objectives of the Study

1. To know the present status of black money in INDIA.
2. To Study the main reason behind the generation of black money.
3. To understand the social and economic effects of black money.

Methodology

The present paper is prepared based on secondary data. The relevant data are collected through books and personal observations.

Summary of the Paper

This paper makes an attempt to examine the constraints that social and economic effects of black money. 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 & jewelry 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.

Corruption in India is a major issue that adversely affects its economy. In 2014 India ranked 85th out of 175 countries in Transparency International's Corruption Perceptions Index, compared to its neighbors Bhutan (30th), Bangladesh (145th), Myanmar (156th), China (100th), Nepal (126th), Pakistan (126th) and Sri Lanka (85th).

Inflation and black money is in the form of parallel economy. The eradication of black money for a viable economy of the Country is required for a healthy structure on all its front. The factors responsible for the generation of black money are required to be spotted just to provide a curve over the evil activities of the politicians and other bureaucrats in the society which is responsible for compelling the 60% of the population to live below a poverty line. The judicial institutions have partly realized the ideals of the constitution to develop through judicial activism in the form of a revolution for providing a check over the shameful conduct of the people to accumulating enormous well through any means. "Fair or Foul" at the cost of Nation. Price rise to the fantastic levels and velocity or liquidity of money circulation

became huge. One of the main feature of inflation is that money loses its value. This is virtually in confrontation with the aimed social objectives of legitimate expectations of the citizens. The factors responsible for the generation of the black money.

(a) Disagreement between acceptable rate of return and legally permissible rate of return.

(b) Consequences of controls, licensing system, quotas, permits of commodities.

(c) In effective enforcement of tax laws like Income-Tax. Wealth Tax, Estate Duty, Sale Tax, Stamp Duty, Excise Duty, Control Duties etc.

(d) A considerable part of black money has encouraged diversification of resources in the purchase of real state estate and investment of such money in constructing "Luxury Houses". Precious stones, jeweler and other venerable land situated in posh society.

(e) Unrestricted powers wasted in the ministers.

(f) Fear of laws of power by our Bureaucrats.

Thus, black money is very important route cause of urban value which deprives the Government its legitimate dues by way of taxes to the exchequer and induces dishonesty in the individuals trying to get more & more accommodation beyond his means. Transactions involved and element of black money. No individual possess adequate white account of money to buy a flat, thus this has ultimately resultant to the creation of black money as the parallel economy in the nation.

The idea of inflation accounting mooted during the second world war which became the topic of active discussion and ultimately attained momentum and due to the rapid universal inflation is persisting upon as a major problem in the country which has the effect of the almost crippling the entire economic structure of society in all sphere. Inflation and black money has become threat to Indian Society and its economic structure in all its spheres. It has become necessary to have a rethinking in all the monetary policies of the Government and their administration in all sectors as to how incorporate the effect of inflation accounting to eradicate black money from the society. This requires a strong Government and a high morality in living pattern of society. It needs fighting with all statutory powers wasted in Government. Inflationary tendencies have to be contained within a tolerable limits

Government expert economics and planners with eminent public men requires the determination of inflationary trends which is dashing in nature and very difficult being tricky and onerous, to tackle by ordinary process. Time is free-fold present as we experience it the past as the present memory and future as a present expectation. The expectations cannot be the same and as anticipation. It is different from a wish, a desire or a hope nor can it amount to claim or demand on ground of a right. A moral hope even leading to dishonorable obligation cannot amount to a legitimate expectation in the strict sense. The protection of such legitimate expectation does not require the fulfilment of the expectation where an overriding public interests require otherwise.

Thus, even if substantive production of such expectation is contemplated that does not grant and absolute right to a particular person. the protection is limited to the extent of judicial review. To strike down the expectation of an individual adrift to the pragmatism. Thus millions of people belonging to the deprived and venerable section of the humanity were looking to the courts for improving their life conditions and making back human rights meaningful for them.

Effects of Black Money on Indian Socio-Economic System.

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

1. Less Tax for the Government—Many times, the Indian Government has failed to collect the estimated amount of tax from the people of our country and for this, credit has to go to the black money driven underground economy. Recently, a report was submitted to the Finance Ministry of India that divides the spread of black money in different sectors like real estate, mining, telecom etc. The study, headed by NIPFP chief P. Kavita Rao, explains how illicit wealth is likely to exceed 10% of GDP.

2. Uncontrollable Inflation—When black money is out in the market, the amount of money in the system is higher than the Government expects. This causes the prices of commodities to increase to a level beyond normal. This is a direct result of people having more money offering more money on specific items. Even if the Government tries to control the credit flow in the market by taking necessary measures, the amount of black money present upsets the move, resulting in some sort of pressure on the economy.

3. Leads to Mass Poverty—The distribution of wealth and income in our country has been severely affected by the growth of underground economy. The common people get affected

indirectly in so many ways. The tax evaders are keeping the money away from the deserved. If all the black money in the tax havens is recovered and used by the Indian government, all the outstanding liabilities of the country could be paid off and money would still be left for spending.

4. Lack of Technology–Due to the existence of black money, India is facing the problem of shortage of capital. This has the direct impact on the up gradation of technology in all sectors. The major reason behind such backwardness is the parallel economy.

5. Impact on Growth by moving investments on Gold, Stones and Jewelry–People who are looking to turn black money into white money are largely investing in precious metals like Gold and other jewelry. There are people who believe that almost 70% of the total gold investment in our country is black money. One reason for people to invest in gold is that it is hard to trace. People in black market may buy gold bars, coins, jewelries etc. because one can buy gold easily and can be converted back to money anytime. This flow of underground money has caused Indian economy to stall on its growth. It is estimated that if all the money in the underground economy could be diverted to our main economy, our economy would grow by more than thrice in no time.

6. Corruption-While corruption creates black money in the economy, it can also be a result of the growing underground market. People with black money are able to bribe the administrators and politicians to get what they want. By doing this, they are able to get what they want and others are pushed down the stack.

7. Inflated Real Estate –When people with deep pockets are ready to pay more for a piece of land, the price of surrounding land also tends to increase; thus artificially inflating the prices of an entire area. Generally, people involved in black money market are always ready to pay more for a piece of land as this helps in converting their colored money to legal money.

8. Transfer of Indian Funds Abroad to Safe Heavens–The black money generated in India is kept in foreign tax havens. For this, money has to be transferred from India to other countries through secret channels. Under-invoicing of exports and over-invoicing of imports are two of the main methods used by black money holders for transferring money overseas.

9. Encourages Anti-Social Activity–It is no doubt that black money is a curse to any country. Black money is always promoting anti-social activities in the society. Bribery, mentioned earlier,

is only one example. The anti-social effects of black money include activities like terrorism, a huge threat already to our country.

Recommendations and 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 E-Registration with Revenue Authorities, E-Filing of Returns, etc.
- The involvement of human beings more is involvement of corruption, ultimately generating Black Money.
- Agriculture income should be taxed for those who have both the agricultural as well as non-agricultural income.
- 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.
- 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.
- The tax rates should be made helpful to some extent in solving this problem. For this purpose, tax rates should be lowered
- Tax evasion should be checked by plugging loop-holes in tax system.
- All the aspects of its generation should be looked into and stopped.
- Competitive bids should be motivated.

Conclusion

The propagation of the black money in India has serious economic and social consequences. It has led to huge loss of revenue, growing inequity, flight of capital, fiscal crisis, social unrest, environmental degradation, growing criminalization of the society, threat to national security and so on. Therefore, the sooner the menace of the black economy is rooted out, the better it is for the country. It would be appropriate to quote here the Direct Taxes Enquiry Committee (1971) (Wanchoo Committee) which says, "It is, therefore, no exaggeration to say that black money is

like a cancerous growth in the country's economy which, if not checked in time, is sure to lead to its ruination.

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