

## **IMPACT OF BLACK MONEY ON INDIAN ECONOMY**

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### **Abstract**

Black money's presence in the social, economic, and political spheres of our lives is well documented to have a detrimental impact on how the nation's institutions and public policies are run. The poor are disproportionately impacted by systemic corruption and failed governance. All of the country's problems stem from black money, and many frauds utilising public property are an expression of this. Finding the connection between the new economic strategy and black money is essential, and appropriate action must be done. One of the major difficulties when it comes to a nation like India is black money, which is a huge problem in many nations. This problem is not a recent one for India; rather, it is a problem that has existed for a very long time. One must comprehend this issue's true meaning in order to grasp its essence. Black money is defined as "money earned through any illegal activity regulated by the laws of the country." This type of money is typically earned in cash through a variety of activities without being declared to the government for tax purposes. Black money was first used in the early 20th century. After the nation evolved, namely after independence, black money came to light. However, in current times, black money has become a key issue in determining new economic activity, shaping national policies, and occasionally determining the law of the land.

**Keywords:** Black Money, Economy, Governance, Income, Property, Policy

### **Introduction**

Due to the parasite that has severely afflicted India's economy, a sizable nation that can be considered semi-developed yet according to statistics is still in the process of development. The financial, political, and social structures of any nation are most at risk from the corruption I'm referring to. Black money in India is primarily a result of this corruption. Corruption, however, can take on any shape. World War II exposed the dark market and black money. Various

restrictions on the sale and distribution of commodities at the time created an underground market where products were offered but at prices greater than those controlled. When referring to money received or transferred on the "black market," the term "black money" has become common. Black money expanded far faster than the black market throughout time. Rani, K., & Kumar, S. (2014).

Black money develops an underground economy, which makes it challenging to precisely assess GDP and national income estimates and paints an inaccurate picture of the economy. This hinders the accuracy of policymaking. Tax evasion occurs as black money is created, which results in a loss of revenue for the government. As a result, the government is forced to impose greater taxes and engage in "deficit financing," which is bad for the economy. Black money is used for gambling, luxuries, corruption, election financing, and other illegal activities, which both encourages crime and corruption and worsens the way that scarce resources are used, resulting in resource waste. Samuel, Y., & Saxena, A. K. (2017).

Black money in India still exists as a result of the Demonstration Effect, which is the practice of viewing one's own life from the perspective of others. The lifestyles of other members of the society who maintain high status have a significant influence on Indians, who aspire to live similar lives. By any means necessary, they want to make money for this. They so compel themselves to create and use illicit money in order to satisfy their cravings or to uphold their social status.

In India, corruption is a serious problem that has a negative impact on every area of the economy. Another factor that contributes to the creation of black money, particularly in India where people are very fervent about it, is spirituality. Many of these people abuse their feelings and emotions to make a lot of illicit money. The production of black money also benefits from account rigging. Due to the black money generated by the underground economy, the Indian government has frequently failed to collect the expected amount of tax from the populace. Muthulakshmi, E. K., & Kalaimani, G. (2017).

### **Concept of Black Money:**

Nowadays, the term "black money" is typically used to describe unreported, secret, or undisclosed revenue as well as funds that are fully or partially invested in illegal activities. Black wealth or black income are other terms for black money. Black income is the collective term for all the illicit

benefits and receipts that were obtained through tax fraud, the use of hidden funds, and other illegal means within a given year.

Similar to black wealth, black wealth is defined as black revenue that has already been spent, saved, or appropriated; for example, a person may transform their black income into assets like gold, silver, diamonds, jewelry, precious stones, real estate, homes, businesses, etc. The aforementioned procedure is utilised to protect this black money from taxation by the government or income tax officials.

As a result, we can see that the term "black money" refers to more than just money that has been obtained through breaking the law or even social standards; it also refers to money that has been stored in secret and for which there is no accounting. Jaiswal, L. B., & Mishra, R. S. (2016).

### **Origin of black money:**

Black money primarily produces two different kinds of power. The primary source of black money is obtained through illicit activities, such as smuggling, taking extra payments when renting out apartments and opening stores, selling goods without a licence or quota, paying secret commissions or bribes, and stealing foreign currency. Money received from, and money made from, the black market sale of particular goods that are regulated by the government, etc.

Similar to the first type, the second type of black money is earned by just and legal ways, but because of the earners' individual behaviors, it takes the shape of black money or does not report its income to the tax authority. Black money can also be created through hiding income and avoiding taxes, or by engaging in "tax evasion." For instance, if an individual's annual income is subject to income tax, he deducts tax income from his actual income in order to reduce his tax liability. This gap (real income against claimed income) will be referred to as "black money." In actuality, there are connections between black money and tax evasion.

Whereas tax evasion creates black money, tax evasion is again encouraged when black money is discreetly employed in business to increase income. We may say that the current tax structure is primarily to blame for the creation of illicit funds. High tax rates and the complexity of the tax code both support tax evasion. The top marginal income tax rate in India up until a few years ago

was 97.75 percent. His marginal rate at the moment is 50%. Black money is growing as a result of the rising tendency of tax evasion related to both direct and indirect taxes. In a similar vein, a substantial amount of black money is also a product of the rationing system. Many consumer and industrial items are produced, priced, and distributed in our nation under the supervision of the government.

Additionally, there are several limitations on import, export, and foreign exchange. For several commodities, there is a common licence and quota system. These regulations are violated in order to increase profits due to the price differential between the government-set price and the market price, and the products with controlled prices are then sold on the black market for a higher price. Additionally, businesspeople and regular people pay bribes to personnel and officials to obtain licenses, quota permits, and to do any illegal work. Delays in decision-making and control lead to an abundance of black money in this way. Black money is also a product of economic inflation and a shortage of available commodities. The rise in pricing causes traders to hoard or hide products, which they then sell on the black market for a higher profit. Similar to this, unethical business activities, limitations on business expenses and their non-allowance, high rates of sales tax and other taxes, the inefficient application of tax laws, etc., are all significant elements that contribute to the production of a significant quantity of black money.

### **Black money and its sources**

Black money is money obtained unlawfully or other assets produced by taking bribes or engaging in other unethical behaviour. Not merely cash is stored away in benami accounts or secret locations around the house. It may take on different shapes, including that of shares, bonds, securities, or other kinds of instruments. Fixed assets like homes, businesses, plots of land, or other assets like cars can be used for this. It could take the shape of jewelry, gold, silver, or diamonds. Due to non-billing, thousands of millions of rupees in sales tax are saved. Many retailers fail to pay the sales tax authorities the money they receive from customers. Illegal trade is another method by which a significant amount of black money is produced. Black money refers to all earnings from the smuggling of illegal goods such narcotics, brown sugar, gold, and other items that cannot be sold. Potnuru, B. (2017).

Corruption is one of the main causes of the creation of black money in our nation. Black money is created by unethical activities such accepting or offering bribes, dealing in black money by officials, politicians, public employees, and prominent businesses. The high profile back-up makes it difficult to detect black money transactions, which prevents the government from ever apprehending the offenders. Everyone is involved in the production of black money, from low-level employees to senior government officials. Jaiswal, L. B., & Mishra, R. S. (2016).

- **High Taxes:** This is also another main driver of illegal currency. The earning segment of the population has been compelled by high tax rates to withhold that portion of their income unlawfully and avoid paying taxes, which is afterwards referred to as black money. In India, tax evasion has produced a significant amount of black money. Due to the high tax rates, it is impossible for a middle-class individual to exist, which is why tax fraud is fairly widespread.
- **Foreign Banks:** Black money depositors choose foreign banks as safe havens. The safest area for persons who do not want to pay taxes and want to conceal their income from the government has become Swiss banks, in particular, because they do not divulge any information about their customers who have accounts with them. Are. Additionally, these institutions have encouraged an increasing number of people to produce black money.
- **Election Campaign:** Elections are important to launch the by-election campaign because India is a democracy. Another significant source of the creation of dark money is election campaigns. The campaigns run by the candidates for the parliamentary elections, assembly elections, or any other municipal elections have brought in millions of dollars in black money.
- **Donations or Funds:** Another significant source of black money is the enormous gifts made to educational institutions in exchange for admittance. Such donations are never made with a check, and neither the institutions nor the organisations receiving them provide any formal receipts or record the transactions in their books. Nowadays, practically all educational institutions manage their quotas by fixing seats for admission.

### **Impact of black money on Indian economy**

Because it lowers government revenue, the rise and spread of black money have a significant negative effect on the economy. Black money is so prevalent that it is believed to be functioning in parallel to the current Indian economy in its own distinct sector. The Indian economy would have benefited greatly even if only a small portion of the black money in circulation in the economy could have been remitted to the government as taxes.

It is a well-known fact that India already has a lot of corrupt activities going on. Illegal transactions carried out to conceal black money have added black money to this corruption. Bribes paid by citizens to bureaucrats, government officials, etc. in order to do their task are never recorded in the books as revenue, increasing the amount of black money in society. Black money, then, is a byproduct of both corruption and prior corruption, which feeds a vicious cycle that will never be broken until the government takes drastic action. People not reporting all of their income to the government while paying taxes leads to black money, which lowers the nation's income. The country's national income will significantly increase if the amount of black money is supported in the national economy. Additionally, the overall quality of life in the nation will rise as a result.

This has a tenuous connection to the country's ongoing corruption. The general population, who will not receive the same items and will experience lower-quality services, will inevitably receive better products and services than those who bribe the producers, marketing personnel, or the service provider. Example from real life that practically everyone can relate to: if one goes to a government official to get some job done, the person who pays a bribe will have their task completed more quickly than the person who does not pay anything and must wait.

Taxation is primarily used to raise money to pay for government spending necessary to maintain a balanced budget. So it is obvious that the tax rate will undoubtedly decrease as the revenue that the government wishes to gain from the public if the amount of black money being hidden from the government by the people is disclosed and included in the budget of the government. It would already be the government's responsibility to impose additional taxes. Similar to how too much money is being used to buy particular goods on the market, increased prices are the result. The Reserve Bank of India has acknowledged that there is a lot more money in the Indian economy than is represented on paper.

This is a clear consequence of the government's inability to determine the precise national income when creating these policies due to the existence of concealed black money, which renders such programmes unworkable. Only if these policies are developed with precise calculations, taking into account the repercussions and requirements of the populace, can they have some effect on the Indian economy?

- **Widespread Poverty:** The rise of the black market has had a significant impact on how wealth and income are distributed in our nation. Numerous techniques have an indirect impact on common people. Tax evaders are withholding funds from qualified recipients. The government of India can pay off all existing debts and still have money left over for investment and development if it is able to retrieve and use all the black money hidden in tax havens.
- **Runaway Inflation:** The amount of money in the system exceeds what the government needs when black money is removed from the market. As a result, consumables are now more expensive than usual. People with greater money are directly responsible for this because they are willing to pay more for particular things. The amount of black money present makes it difficult for the government, despite efforts, to manage the flow of credit in the market by taking the appropriate steps. This puts pressure on the economy.

#### **Steps taken to tackle black money:**

**Demonetization:** Demonetization is the process of removing a monetary unit's legal tender status. Demonetization is the removal of money from circulation in an effort to battle money on the illicit market and unaccounted for funds. Demonetization has failed horribly twice before; less than 15% of high-denomination cash was exchanged, and more than 85% of it was left untouched because owners believed government agencies would punish them.

**Raids:** The powers of the Income Tax Department should be greatly enhanced and it should be empowered to raid the premises and properties of taxpayers or any other person and seize unaccounted income and wealth and take necessary legal action against tax evaders.

**Prevention of Money Laundering Act, 2002:** The Prevention of Money Laundering Act of 2002 (PMLA) was passed to combat money laundering, provide for the confiscation of property derived

from or connected to money laundering, and address other issues that may arise in the process. The Political Declaration and Global Program of Action to Prevent Money Laundering, which were endorsed by the United Nations General Assembly, were also addressed by the Act. According to the Act, anyone convicted of money laundering faces a sentence of three to seven years in solitary confinement. Additionally, he could face a five lakh rupee fine. Lahiri, A. (2016).

## Conclusion

A prerequisite for creating a fair, open, and effective economy is the prevention and control of black money. Black money will cripple the economy, which is a country's lifeblood, and put the nation in danger. It prevents the economy from expanding and will undoubtedly cause it to collapse.

As a result, if the government wishes to decrease tax evasion, it should lower the high marginal rates of income tax, direct taxes, and other taxes in the context of the nation's rapid inflation as well as implement strong penalties for tax evaders. Economic control measures like permits, quotas, and licences should be kept to a minimum and only used when absolutely necessary. To do this, tax administration can be made more effective and quick by raiding more frequently and meaningfully, producing more consumer goods, and supporting political parties during election seasons. Only by stopping the donations that the NGOs get will the black money issue be thoroughly and successfully addressed.

To address the problem of black money, the government has already taken a number of actions. Demonetization was the Modi administration's biggest and most recent action. Many people opposed the change, especially those who would be most negatively impacted. Leaving aside all the criticisms, demonetization has, to some extent, assisted in the eradication of black money. Even though it was very challenging to achieve this step, there is still more that has to be done to address this issue. Black money, which amounts to billions, leaves the country. India's economy trails other nations in terms of overall GDP because of black money. It is also known as the opportunity cost of not belonging to one of the largest and most developed economies in the world and instead being a developing economy.

Government cannot totally eradicate this problem from society on its own. The implementation of these laws, policies will require the cooperation of all citizens; enacting various policies, laws, acts, and legislation will not suffice. People need to cease hiding their money and should stop producing black income. They also need to realize the significance of paying taxes. By paying taxes, every citizen should contribute in some way to the nation's progress.

It is crucial that all tax authorities' work together properly to coordinate investigations into suspects. In this way, all the factors that contribute to the production of black money will be successfully eradicated. As a result, "black money" would pose little of a threat to our economy and would be quickly eliminated. In reality, India is experiencing a black money boom. The big individuals are not being subjected to the appropriate punishment. The underlying reason for this is the deterioration of our social and moral standards. As a result, ethics education and practice are expected at all levels.

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