

Black Money

Black money is both an economic and a social problem. In the latter context, it is perceived as a problem with adverse sociological effects on society, like social inequalities, social deprivations, etc.; in the former context, it is perceived as a parallel economy, an underground economy or an unofficial economy that is the consequence of the economic policies of the government and has damaging effects on country's economy and nation's socialist planning development. When problem like poverty affects those people who are poor, unemployment affects those who are unemployed, alcoholism and drug abuse affect those who consume them, black money is a problem which does not affect those who have black money but it affects the common man in the society. No wonder, it has been described as a problem with a difference

The Concept

Black money is tax-evaded income. It can be earned both through legal and illegal means. Its legitimate source is that the income-earners do not reveal their whole income for tax purposes. For example, government doctors earning money by private practice even when they get non-practising allowance, teachers earning money through examinations and book royalty and not including it in income-tax returns, advocates charging much higher fee than shown in their account books, and so forth. Its illegitimate source is bribe, smuggling, black-marketing, selling commodities at prices higher than the controlled prices, taking 'pugree' for house, shop, etc., selling house at

a high price but showing it at a much lower price in the account books, and so forth.

It is possible to convert black money into white money and vice versa. For example, when a person manages to get the receipt from the shopkeeper by paying the sales-tax for a commodity but does not purchase it actually, his black money is converted into white money. In such case, the shopkeeper sells the same commodity to other person without giving him any receipt for it. On the other hand, if a person purchases something (say a scooter, or VCR, etc.) and pays Rs. 15,000 for it out of white money but gets a receipt of only Rs. 10,000, the balance of Rs. 5,000 becomes black money for the seller. In this case, the white money becomes the black money.

Magnitude of Prevalence

It is not easy to calculate the magnitude of black money in any society. The economists in the United States, United Kingdom, Norway, Sweden and Italy adopted different measures but could not estimate the amount involved in black money. Norway and Sweden used questionnaire method for eliciting answers from persons whether they had participated in illegal activities as buyers or sellers. Italy attempted to estimate the underground economy by finding out the difference between the size of the labour-force officially reported and actually employed. This enabled to determine the productivity in the underground sector. The United Kingdom tried to assess parallel economy by comparing the official estimates of the Gross National Product (GNP) made from the consumption side with those made from the income side. In the United States, Guttman assumed that only cash is used in illegal transactions. He tried to find out the difference between currency required for economic transactions in a fixed period and actual currency held outside banks in the same period.

In spite of the varied methods used, it is not possible to estimate the magnitude of the black money in a society, even though it is described as a world-wide phenomenon. It is said to be in operation not only in the developing countries but also in the developed countries like United States, United Kingdom, USSR, Japan, Canada, France, Germany etc.

A study conducted by the IMF a few years back (Vito Tangani : *The Underground Economy*, December 1983: 13) showed that in regard to the size of the underground money, India holds the first rank followed by the United States and Canada having the second rank.

In India, the black money or the unaccounted wealth estimated by Prof Kaldor in 1953-54 as Rs. 600 crore was estimated by Wanchoo Committee as Rs. 1,000 crore in 1965-66 and Rs. 1,400 crore in 1969-70. Rargrekar placed the figures of black money at Rs. 1,150 crore for 1961-62, Rs. 2,350 crore for 1964-65, Rs. 2,833 crore for 1968-69, and Rs. 3,080 crore for 1969-70. Chopra's estimate (*Economic and Political Weekly*, Vol.XVII, Nos. 17 & 18, April, 24 and May 1, 1982) showed that the black money in 1960-61 was Rs. 916 crore which increased to Rs. 8,098 crore in 1976-77. According to Gupta (*Economic and Political Weekly*, January 16, 1982: 73), the amount of black money in our country was Rs. 3,034 crore in 1967-68 and Rs. 40,867 crore in 1978-79. According to his estimate, the black money which constituted 9.5% of the GNP in 1967-68 swelled to nearly 49% in 1978-79. In 1981, black money was estimated by one source as Rs. 7,500 crore (6.8% of the national income at current prices) and by other source as Rs. 25,000 crore (22.7% of the national income at current prices).

The National Institute of Public Finance and Policy estimated the quantum of black money in economy in 1985 at around Rs. 1,00,000 crore or about 20.0% of the national income. The Planning Commission study, however, has now estimated it to be in the range of Rs. 70,000 crore. Further, it is generated at the rate of Rs. 50,000 crore per year (*The Hindustan Times*, 2 August, 1991: 11). The flight of capital has resulted in an overseas stash which government officials conservatively place at \$50 million (about Rs. 1,30,000 crore).

The scholars have also pointed out that of the total black money in the society, about one-fourth (26.0%) is from the tax-evaded income. In the United States, the black money in the society is expected to be about 8.0% of its Gross National Product (GNP). While in India, the black money is more from the illegal sources, in the United States it is more (about 75.0%) from the legal sources.

Causes of Generating Black Money

1 Unrealistic Tax Laws

The increase in taxes and duties compel some people to evade them. The present rules (1991) prescribe the limit of Rs. 22,000 as free income for levying income tax. Can a person exist within this limit in this age of inflation? A mason or a carpenter earns about Rs. 60 to Rs. 80 per day in a city and Rs. 80 to Rs. 100 per day in metropolitan areas. Even a good 'gol-gappa' seller or a 'pan' shopkeeper earns more

than Rs. 100 a day. Assuming that these people work for 300 days in a year, their income will exceed the prescribed income tax limit. And how many of these workers pay income tax ? A film actor getting Rs. 20 lakh per picture has to pay about three-fourth of his income as income tax. Instead of paying such a huge tax, he maintains 'double' accounts and evades paying tax and possesses more black money. A doctor with a private practice of more than Rs. 500 per day, a surgeon charging a fee of Rs. 5,000 per operation and doing at least ten operations a month, an advocate charging Rs. 2,000 per hearing, a shopkeeper doing a business of more than Rs. 5,000 per day, a contractor with a turnover business of Rs. 1 crore per year, an industrialist with a profit of millions of rupees per year—all are bound to hide their real income to escape paying income tax between 50% to 70% of the total income. Indirect taxes, like excise duty, custom duty, sales tax and octroi, etc. also encourage evasion of taxes and increase in black money.

If income tax rate is reduced, there is more likelihood of hiding less and increasing revenue. This was demonstrated in 1985-86 when the maximum rate of income tax was lowered from 61.9% to 50.0%. As a result, incomes declared by the self-employed increased almost three times to Rs. 9,654 crore by 1988-89.

2. Different Rates of Excise Duty

Within similar products, there are different rates of excise duty. For instance, in textiles and cigarettes, this leads to tax evasion through mis-classification of output. In textiles, separate rates of excise are charged for cloth of different varieties. Manufacturers regularly downgrade a product to pay lower rates of excise. This alone generates Rs. 1,000 crore a year in black money. For the entire manufacturing sector, including steel, evasion in excise, custom and sales taxes accounts for over Rs. 50,000 crore in black money every year.

3. Control Policy

Another cause of black money is the price-control policy of the government. In selecting commodities for control and in determining their prices, the government fails to take into account the elasticities involved in demand and supply. For example, according to the report of the National Council of Applied Economic Research (NCAER) for the year 1981, black money worth Rs. 840 crore was created in the Indian economy over the period of nine years from 1965-66 to 1974-75 as a

result of the operation of price controls in six commodities, viz., cement, steel, paper, vanaspati, automobile tyres and fertilizers. Similarly, as a result of control on sugar, about Rs. 400 crore of black money were generated in the year 1979-80. Regulation of foreign exchange also leads to over-invoicing of imports and under-invoicing of exports and black-marketing of currency. Thus, more stringent the measures of control and more regulated an economy, more will be the effort to violate it, which will increase hoarding, fraud, artificial scarcity and the resultant black money.

4. Quota System

Yet another source of black money is the quota system. The import quota, the export quota and the foreign exchange quota are generally misused by selling them at a premium

5. Scarcity

Black money is also caused by scarcity and defective public distribution system. When essential goods become scarce, people have to pay higher than the controlled prices, which generates black money. The scarcity of kerosene oil, sugar, refined oil etc. have always resulted in illegitimate transactions and black money.

6. Inflation

The increase in prices of commodities like petrol, etc. in international market, increase in prices of commodities due to high increase in duties and taxes imposed by the government, the conspicuous consumption created by the people with unaccountable money, diverting resources from production to speculation—all these cause inflation which in turn creates black money.

7. Elections in a Democratic System

Each election in the country involves thousands of crores of rupees. For contesting Lok Sabha election, a candidate normally spends more than one million rupees and for contesting Vidhan Sabha election, one spends more than Rs. 5 lakh in the present times. Since the expenditure allowed by law for a candidate is limited and the companies are not allowed to give donations to political parties for elections, the elections are generally financed by the black money holders. These people expect political patronage and economic concessions which are obtained with the consent and the connivance of political elites in

power in the form of artificial controls on commodities, laxity in the means of distribution, etc. All these methods create black money.

8. Real Estate Transactions

Estate transaction is an important source of generating black money. In these days, purchasing a house and/or land is considered to be not only very profitable but too. There is a growing tendency of transforming the rural agricultural land to urban residential land due to the paucity of building sites in the urban areas. Establishing unapproved colonies on agricultural land is illegal. The transaction value shown by the colonisers in registration deeds is much less than the actual amount or the market value. This enables the seller of the land to evade capital gain tax. According to an estimate, the illegal transaction of property alone generates about Rs. 2,000 crore of black money in a year, assuming that there are about 50 lakh transactions in urban property every year.

The high rates of stamp duty—ranging between 14.5% and 28.0% in different states—are a major cause for under-valuation of property and unreported deals, or both. The suggestion is that if duties are reduced to 2% to 3%, it will prevent evasion. Another hurdle is the Urban Land Ceiling Act, which reduces the supply of land and creates a black market. Roughly over Rs. 13,000 crore a year are generated through the real estate route

Social Effects

Besides the economic effects, there are many social consequences of black money also. In economic terms, black money robs the exchequer of its due share, increases economic inequality and hampers programmes of economic development. Socially, it increases social inequality, creates frustrations among honest people, increases crimes like smuggling, bribery, etc. and adversely affects social services programmes for the uplift of the poor and the weaker sections of society. It also distorts the measurement of true rates like growth rate, inflationary rate, unemployment rate, poverty, etc. which in turn affects the government policies for containing these problems.

Measures of Control

Over the past 40 years, the government has at various times announced seven schemes offering opportunities to bring black money overboard.

Some of these schemes are : introducing the scheme of special Bearer Bonds, demonetising high denomination currency notes, stringent raids and scheme of voluntary disclosures. In July, 1991, the Union Finance Minister proposed a new scheme—National Housing Bank Scheme—to woo black money back into the legitimate operations of the national economy. The scheme offers possessors of unaccounted money an opportunity to deposit any amount of money (with a minimum limit of Rs. 10,000) with NHB without disclosing the source of funds. The offer remained open for seven months and closed on January 31, 1992. It permits the account holders facility to withdraw 60% of their deposits from the account while the remaining 40% are impounded to be used for projects such as slum clearance and housing for the poor. The withdrawals are to be made after stating the purpose for which the money is proposed to be used. These people are taxed at the rate of 40% while the balance amount is channeled back into the open economy.

The demonetisation of 1,000 rupee notes in 1978 brought out currency worth Rs. 29 crore. Voluntary Disclosure Scheme of 1951, 1955 and 1975 yielded Rs. 249 crore of disclosed account. The Disclosure Scheme launched in 1986 brought in just Rs. 67 crore. The 1991 scheme is open till March 31, 1992. About 375 raids in 1978 yielded assets worth Rs. 217 lakh.

Some scholars have maintained that all these measures have touched only the tip of the iceberg. All the schemes have hardly fetched Rs. 5,000 crore over a period of forty years. The main drawback in these schemes is that they touch the problem of black money already created but they do not go into the root cause of generation of black money and that why a person is prepared to take the risk of keeping black money despite so many problems. Unless this problem is tackled, the menace of black money will continue to increase.

It has been suggested that the problem of black money and parallel economy can be contained by reducing taxes in some areas, giving incentives for voluntary disclosure of income, overhauling the economic intelligence unit, curbing administrative corruption at various levels, exempting tax on money spent on house construction, doing away with control policies, and so forth. Isolated attempts may not yield much but a package of mutually reinforcing measures along with a strong political will and the commitment of political elites may prove to be successful to a large extent.

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