

## **Strategy of Black Money in Current Scenario**

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### **INTRODUCTION**

By the term parallel money and economy we mean working of an unofficial or unsanctioned economy parallel to the parent economy of the country. The objectives of such unsanctioned or black money/economy run parallel to the parent economy of the country but in contradiction with the declared social objective.

This type of economy is called as 'black economy', 'illegal economy', 'unaccounted economy', etc. According to Prof. J. C. Sandesara, "In popular parlance the unofficial economy goes by the name of black money and white money. Black and white are also variously substituted by number and number one, unaccounted and accounted, unreported and reported, unrecorded and recorded and so on."

Multi-dimensional problems are experienced under parallel economy. This type of economy has political, commercial, legal, industrial, and social aspects. There are wide confrontations between the objectives of legitimate and illegitimate cases under parallel economy.

The basic objectives of economic planning in India, i.e. establishment of socialistic pattern of society are very much disturbed with the existence of parallel economy. This parallel or black economy had started to operate during the second world war when the country had to face serious shortages in essential items and the government resorted to system of control and rationing of items.

With the growth of the economy in the post independence period the extent of the parallel or black economy has been magnetized and now it is playing a dominant role in determining the trend of economic activities as well as to mould the national policies to change the compositions and structure of the output and also to promote a powerful class having huge black money.

This increasing number of black money operations has been able to establish a parallel economy to suit their own interest which is very much in contradiction with the national interest of the country. D. K. Ragnekar has observed, "If the 'parallel economy' poses a serious threat to stability and growth of the economy, surely it stems from the fact that the magnitude of 'Black money' is large and rigged are growing in volume and complexity at an alarming rate ... black money are accentuating the inequalities in income and wealth and breeding a new class of black rich in our society which is highly strategized. The inequalities are no longer below the surface. The conspicuous consumption of the new black rich their vulgar display of pomp opulence, their nest-eggs in various places and countries their influence in important places, all these are now common knowledge".

D. R. Pendse is of the opinion that there are two possible sources of black money. Firstly it may originate from illegitimate sources of income arising or illegal gratification such as payment of 'Selami or Pagri' or income from smuggling, bribing, and other resources.

Secondly, it may originate from legitimate and legal sources of income but concealed from the authorities out of tax evasion. In big towns and cities, professionals like Doctors, Engineers, Lawyers, etc. usually conceal a large amount of their income although they earn income through legitimate sources.

### **CAUSES OF BLACK MONEY**

#### **1. Prohibition causes Black Money**

Certain activities are usually forbidden by law such as gambling, production of illicit liquor, smuggling, trafficking, illegal drugs, etc. When some individuals wish to undertake these activities, these will apparently go unreported and

Income so earned would be totally black.

## 2. Quota System

The import quota, the export quota and the foreign language exchange quota are generally misused by selling them at a premium. Unrealizable controls spawn a culture which encourage corporate to break the tax laws, particularly FERA law.

## 3. Inadequacy of power creates Black Money

The inadequacy of the powers given to the tax enforcing authorities is another important cause of black money.

## 4. Public Expenditure

The NIPFP report mentions that the Government itself lives in the glass house,

As rapid growth of its spending over the last two decades has been a major contributory factor in generating black money.

## 5. Political Funding encourages Black Money

Political Funding in India also causes a significant amount of black income. Our election laws and behavior of political parties are primarily responsible for this. Today contesting of elections has become a very costly affair.

The NIPFP Report thus holds that "a close relation between political funding and black income is extremely dangerous as it places public policy on auditioner's block". But in recent elections, such political funding is considerably reduced.

## 6. 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 price, which generates black money.

## 7. 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 government, conspicuous consumption indulged by people with unaccounted money, diverting resources from production to speculation- all these causes inflation which in turn creates black money.

## 8. Agricultural Income

The unwillingness of rulers on political grounds to bring agricultural income in the ambit of income tax has also contributed to generation of black money. The Black money assured from other source is sought to be converted into white by showing it on the agricultural income account.

## EFFECTS OF BLACK MONEY

Black money is a socioeconomic evil. The existence of rapidly growing black money in our economy has grave and disastrous consequences. The major effects of black money are:

### 1. Dual Economy

The increase in the amount of black money in India over a period of time lead to the perpetual growth of economic dualism which consists of Parallel Economy (black money economy) operating side by side with the Official or Reported economy of the country.

### 2. Under Estimation

A large underground economy and growth of black money income leads to under estimation of the true size and incorrect picture of the economy by the officially compiled nation income data.

### 3. Loss of Revenue to the Government

Black money is largely attributed to tax evasion. Its direct impact is the loss of the Government Revenue. Since the government fails to get sufficient tax revenue due to large scale tax evasion, it is forced to restore high taxation and deficit financing which again carry their ill-economic effects.

### 4. Undermining the Equity

When the government restores to progressive direct taxation to maintain equity in the distribution of tax burden, the tax evasion and growth of black money affect the very concept of social justice by not

allowing the desirable reduction in inequalities of incomes. Again, when underground activities like smuggling, etc. could not be taxed, the government will impose higher taxes on officially sanctioned activities.

#### **5. Average Effect on Production**

As a consequence of the consumption pattern is tilted in favor of the rich and elite, at the cost of encouraging production of articles of mass consumption. A rise in overall consumption leaves fewer resources for investment in priority area, having an adverse effect on production.

#### **6. Widening of Gap between the Rich and the Poor**

Growth of the black economy causes regressive distribution of income in the society. When the black money grows faster, rich becomes richer and poor becomes poorer. By way of concentration of income and wealth in few hands, the black money widens the gap between the rich and the poor.

### **CONCLUSION**

It is very well said that demonetization process is like a 2 faces of same coin because on one side it benefits the nation, but on the other hand it is going to create some temporary and long term problems too.

On further close analysis, it is seen that:

#### **ADVANTAGES**

1. **Transparency** - Bringing Transparency in the system by moving towards digital economy.
2. **Easy Monitoring** - Digital payment easy to monitor cash flow.
3. **Black Money** - Taking out of illegal money from holder
4. **Reduce Terrorism** - Possible to stop currency used by terrorists for illegal purpose.

#### **DRAWBACKS**

1. Losses to small vendors trade because of hiking prices.
2. Direct effect on common man as prices of goods and daily essentials are increased.
2. Causing of unemployment of workers and labors as well.
4. Leading to frustration and disgrace.
5. Functioning of government is not smooth and transparency in the system is not maintained.
6. Widening the gap between rich and poor.
7. Undermining equity
8. Reduction of resources available for people and supplying to only few handful rich class.

#### **SUGGESTIONS AND SOLUTIONS**

It is a well established fact that India's parallel economy is well more than 50% and the money earned from such tax evasion is parked in Real estate. Also the Real estate sector is about 88% of India's wealth and acts as the most legitimate way of parking black money or money earned through corruption or illegal activities. The ease and lucriveness of being able to park such money influences the investments in favour of real estate and away from legitimate businesses that create jobs and products in the economy. This is not only leads to slower expansion of businesses but also resulting in India's unusually persistent high inflation. It sets a chain reaction of tighter monetary policies and high interest rates and further reducing the incentive to invest in business (due to high payback periods) and making real estate the most favoured options.

Efforts so far from government like reducing stamp duty and capital gains tax has resulted in no results. Even the best deterrent in form of 37 I (Chapter 20c) was further removed in 2002 to let the situation completely loose.

It is proposed that all the properties that get registered are opened for next 14 days with 10% increments by anybody. It would make black money transactions in real estate impossible. It is by far the most comprehensive and yet a simple policy change with far reaching immediate effects and benefits by putting a stop on black money.

To restore our falling economy it is imperative to divert investments to businesses, job creations and stop our persistent inflation. It will also increase tax and all other taxes. It will reduce budget deficits and strengthen the rupee and help reduce the interest rates. A double digit growth is easily achievable before we loose the shining India completely.

It is now further proposed to file a PIL for the discrimination suffered by a pure 'white man' and 'white companies' in real estate transactions in India.

### CONCLUSION

Globalization has increased the level, proportion and risk of corruption but no expected growth in changes and opportunities.

There are many corruption scams in India like 2G spectrum, common wealth scam, Telgi, IPL and Satyam scam. These scams are the part of lacunas and loopholes in government and administration process.

India is a developmental country therefore to stop corruption is a need of time. Bribes fraud, extortion, nepotism, grand, petty corruption should be traced and eradicate completely from India. Now a day's corruption deeply rooted in the society. It becomes the part of system like India. It has been spread all over the world. Means corruption is common in developed and non-developed countries. Hence corruption is problem requiring urgent attention at highest level.

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