

BLACK IS HIDDEN BUT HUGE: ACKNOWLEDGING THE PRESENCE OF HIDDEN ECONOMY IN INDIA

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Abstract: - The black economy is a hidden and untraceable sector of the economy, and therefore totally untaxable. It remains unreported and unmeasured by the taxation system of the country. India's black economy accounts for approximately sixty-two percent of the Gross Domestic Product (GDP) of the country which is a staggering ninety-three lakh crore rupees. The annual rate of growth of black money in our country is quite higher than the annual growth-rate of GDP. The reasons for generation of black money in India are the high taxes and duties, corruption, quota system, price controls, inflation, real estate transactions, and others which is steadily eating up India's fair income. This is making the country's economic system weaker. Parallel economy is putting a burden on honest tax payers, harming the integrity of the country, and the Government has never enough revenue for the development of infrastructure and bettering the welfare schemes. Voluntary Disclosure of Income Scheme (VDIS), Income Disclosure Scheme (IDS), Demonetisation, Permanent Account Number (PAN), digital payment, and several other schemes were introduced to curb the black economy in India. The schemes had their own pros and cons. Nevertheless, the Government of India has realised the importance of curbing the black economy so that the black money can be channelized to the mainstream which will improve India's GDP, per capita income, and help in providing a better standard of living to the citizens of the country.

Keywords: - Black Economy, Black Money, Gross Domestic Product (GDP), Voluntary Disclosure of Income Scheme (VDIS), Income Disclosure Scheme (IDS), Demonetization, Permanent Account Number (PAN), Goods and Services Tax (GST)

I. INTRODUCTION

The slice or rather a major chunk of the economic activity of a country which has gone astray from the official data of that country is known as 'black economy'. The other interesting but all appropriate terms for the same are 'underground economy' or 'parallel economy' and of course, the 'shadow economy'. It is a hidden and untraceable sector of the economy, and therefore totally untaxable. Everyone, from the tax authorities to the top brass of the government of India, all are aware about its existence but taming the black economy is a herculean task, and all attempts of different governments under different regime failed miserably in their attempts. In a developing country like India, transactions still happen majorly in cash which has a great chance of being unreported. This parallel economy is huge but estimating its size is just not possible.

Since, such business dealings go unreported and involves cash or kind transactions, they do not reflect in the Gross Domestic Product (GDP) of a country. Black economy includes in its umbrella the black money generated in an economy.

We presume that this type of black economy has its presence in only developing and underdeveloped economy. But

in reality it is omnipresent, whether an out an out developed capitalist country or a totally centrally planned socialist country. The interesting and more disheartening part is that while the honest tax payers have to bear the brunt of high taxes, draconian tax laws; the dishonest are getting rich day by day and none of the legal tax rules ever touch them. Hence, the 'number two accounts' and the secret account books remain hidden and are difficult to unearth.

Taxes are a major source of revenue for any Government. The revenue collected so is largely spent for the betterment and welfare of the citizens and also on defense and infrastructural development of the nation. The quality of government funded healthcare facilities, education system and the social security measures depends on the revenue collected by the government and the corresponding spending.

Black money is among the foremost concern for the growth of the Indian economy. Many scams, one after another, were detected, revealing governance deficit. Corruption is embedded in every sphere of India whether corporate or political or bureaucratic or at individual level. This is a major concern for the thinkers and the visionaries.

II. OBJECTIVE OF THE STUDY

The present study is focused on one form of black economy, i.e., the ‘unreported economy’, where income is unreported or under-reported to evade taxes. The objective of the study are as follows:

1. To understand the concept of ‘black economy’.
2. To comprehend the possible reasons for its generation and its impact on an economy.

III. RESEARCH METHODOLOGY

The study has been conducted with the help of secondary data. The sources of data are newspapers, journals, books, and relevant websites.

IV. BASIC CONCEPTS

An economy is an area or the state of a country or region in terms of the production, distribution or trade, and consumption of goods and services by different agents and the supply of money.

The black economy is the production and distribution of goods and services, which do not form an entity of the authorized economy of a country. Largely, they are illegal activities, like dealing in drugs, arms, and counterfeit currencies, human trafficking, etc., but also incomes, which are under-reported or un-reported to evade taxes.

In order to further understand black economy, it is imperative to understand the different types of market with respect to the legality of their transactions.

A black market, also popularly understood as underground or shadow economy. It is a characterized by concealed market or transactions which are illegal or some form of defying the tax rules of the country. On the other hand, white market is characterized by a lawful, and authorized trading of goods and services.

A more confusing term is the ‘grey market’, where the merchandises are circulated through unofficial channels other than the authorized manufacturers.

Now the biggest barometer of the presence of black economy in a country is the amount of black money generated in that economy as a result of black economy. As mentioned earlier, again it is difficult to measure and hence, figures are based on estimates only. Black money is disbursements originating from unlawful transactions, usually acknowledged in cash with no accounting or audit trail, and hence remain untaxed [1].

V. TYPES OF BLACK ECONOMY

The major forms of black economies are economies are as follows:

A. Informal Economy

Unlike the formal economy, this economy goes un-taxed and un-monitored by the government. In a country like India, huge number of people are working in unorganized sector and hence, informal economy signifies employment which goes unreported and hence, not included in the gross national product (GNP). Obviously, however small or big the income generation is there in this economy, it falls beyond the purview of taxation [2].

B. Unreported Economy

As the name suggest, if any income generated through an economic activity is not reported as per the tax laws of a country with an intention to evade taxes, this will form part of the unreported economy. Naturally, there will always be a ‘tax gap’, that is, the gap between tax revenue collected on the income disclosed and the amount due to the fiscal authority had there been a full reporting of income.

C. The Illegal Economy

Wherever and whenever any economic activity takes place and income is generated violating the law of the land that is the legal statutes applicable at the place where such activity takes place, that income becomes part of an illegal economy. Hence, if someone is doing business of prohibited goods like, drugs and arms trafficking or indulging in terrorist activities or dealing in counterfeit currency or income generated through prostitution, all are part of illegal economy [3].

D. The Unrecorded Economy

This is most confusing to understand and is a rare phenomenon. This type of problem ‘unrecorded income’ arose during the transition of countries which swapped from a socialist accounting system to United Nations (UN) standard national accounting, where the economic activities of such countries failed to follow the requirements of reporting for government statistical agencies. This may lead to un-recording of national income.

VI. INDIA AND ITS BLACK ECONOMY

According to a study the parallel economy or the black economy accounts for approximately sixty-two percent of the Gross Domestic Product of the country which is a staggering

ninety-three lakh crore rupees (or \$1.4 trillion). Kumar (2002) has estimated that the black economy has resulted into a sacrifice of GDP growth by almost five percent per annum since last thirty years, otherwise the size of the Indian economy would have touched \$ 9 trillion. This would have ensured a faster growth of the Indian economy by about five percent since then, and our country could have been a much larger economy securing the top positions the world in terms of GDP with a high per capita income [4].

The Government of India has from time to time, taken several measures to curb the black economy and bring the black money into the mainstream to boost the growth of the country. One of the most common manifestations of black economy is evading taxes by underreporting of incomes or money holdings and hence generating the 'black money' in the process. As evasion of taxes is considered as illegal, the evaders conceal such activities from the regulatory authorities by transacting in cash and leaving no trail.

The share of black economy in the national economy was about 35 per cent in 1991 [5]. The share reached around sixty-two percent by 2013. The reason being a whopping rise in illegal activities and the mounting corruption during the entire period.

VII. REASONS FOR GENERATION OF BLACK ECONOMY

Man by nature is greedy and the greed is of course insatiable, and this is probably the reason for the generation of a black economy. The specific reasons for its generation are as follows:

A. High Taxes and Duties:

Higher the taxes and duties, more will be the tendency among the people to evade them. They fear that the taxes will eat up a major chunk of their income. Interestingly the high earners tend to evade taxes by either not reporting at all or underreporting their income. Similarly, when the import duties on a commodity is higher, people will tend to smuggle that commodity. For example, smuggling of gold to India is still carried on because of higher import duties [6].

B. Increasing Conflicts and the Collapsing Social Structure

The rich and powerful have all the resources and they manipulate the system and use their influence to make economic gains, which is much larger than what they could have gained in a legal way. The rich get richer and this leads to fragmentation of

society and increases corruption in the entire system. All this furthers the generation of black economy [7].

C. Quota System and Regulation of Foreign Exchange

The quota system thrived in India since independence, and for a long period of time till the economic liberalization and globalization took place during the second generation reforms of 1991. Before that there was all types of quota especially affecting the foreign trade like the foreign exchange quota to the import and export quotas. These quotas resulted in black money being generated the quotas were sold at a premium, exports were over-invoiced to enjoy import benefits and tax setoffs, black-marketing of currency, and also money laundering and 'hawala' transactions. Hence, quota and control regime led breaking of the tax laws by individuals.

D. Price Control by the Government

Besides imposing quotas, the Government of India has tendency to impose price controls on different commodities with a view to equal distribution of such commodities and thus intervened in their market demand and supply. During the 1960s and 1970s, price controls on commodities like, cement, fertilizers, steel, paper, etc. led to the generation of crores of black money in the Indian economy. This phenomenon continued in early-1990s with price control on sugar. Such price controls were considerably reduced after the liberalization of the Indian economy.

E. Scarcity of Commodities

Because of its huge population and low purchasing power, India has witnessed scarcity of the commodities in the market time and again. Moreover, the public distribution system ailed since the very beginning and scarcity of cement, cooking gas, groceries was quite common. Whenever there is scarcity, black marketing and hoarding are bound to occur and this led to generation of black money.

F. Liberalization and Privatization

Though liberalization and privatization has led to competition and better services to the people, it has furthered corruption and generation of black money. In their race to win the government contracts and favors, the corporates do not hesitate to bribe the bureaucrats and ministers. Scams and kick-backs have become a way of life, and black money continues to float in the Indian economy.

G. The Grey Real Estate Deals

This is another major generator of black money in India. In deals related to real estate, under-reporting of deal amount is quite common so as to enable the buyer to evade stamp duty and the seller to evade capital gain tax. Besides, 'benami' property is also quite common where properties are bought in the name of others who do not fall in the tax net. Also, agricultural land is transformed into urban residential land.

H. Inflation

Inflation leads to speculation, hoarding, and black marketing. Also, those with excess unaccounted money indulge in conspicuous consumption with more of cash purchasing. And hence, inflation further generates black money [8].

I. The Un-taxed Agricultural Income

The ruling political parties in the past were all reluctant to bring agricultural income under the tax net. The celebrities to politicians to corporate houses own acres of land and generate huge income which go un-taxed. Also, the black money earned from other sources is being converted into white by presenting it as agricultural income. All these leads to generation of black economy and black money.

VIII. IMPACT OR CONSEQUENCES OF BLACK ECONOMY

India is still considered as a developing economy or a poor country because of its low GDP and per capita income, which could have been very high if India could have tamed the black economy. Black economy not only hinders the development of a country but also has an impact on its citizens.

The black economy levies a substantial cost on the economy as well as on the society. The government does not get enough to build the infrastructure and spend on welfare schemes. The divide between the haves and have-nots increases.

The honest taxpayers are penalized as they bear the brunt of taxation. While, the high earner dishonest people keep on evading the taxes on the one hand, and enjoy a lavish life.

When it comes to the corruption list, our country is among the top rank holders. A black economy undermines the integrity of a country's tax and questions its welfare system.

Such an economy fails to provide a level playing field to honest small businesses and makes it difficult for them to survive which further leads to uneven distribution of wealth.

Even if there is enough resources in the economy, it will always face a resource shortage in the presence of a black

economy. Those with black money hold unproductive assets like, gold and benami properties, and in that process wasting the resource which could have used in building the infrastructure and providing welfare services to the society, had it been channelized in the economy of a country in a legal way.

Besides, the exploitation of workers is quite common in the countries where there is a parallel economy. People are ready to slog for meagre income. Also, the employers show they are paying more as they get the workers sign on a higher wages than what is being given to them.

All kind of government policies, whether, macro level or micro level, monetary or fiscal policy, or five-year plans fall flat when there is an existence of black economy. Moreover, black economy creates inequality as Kumar (2002) pointed out that the concentration of black income in the hands of 3 percent of Indian households is affecting 97 percent of people in India [9].

Black economy is both a cause and effect of inflation. Hence, it further increases the prices or inflation in the economy. The projects get over-invoiced, commodities are hoarded and black marketed, and hence further increasing the prices. In such an economy the common man suffers.

Hence, it is imperative for any country to keep a check on the black economy and endeavor to curb the menace. If nothing is done in this direction for a long period of time, then it becomes the culture of that country and will legitimize the practices of a black economy. The honest will suffer in such an economy and will bear the higher tax burden since the government of such a country will increase the taxes to mitigate the fall in revenues. This will further lead to tax evasions and generation of black money. Though poverty eradication has been the goal of successive governments in India, but that became impossible in the presence of a huge black economy. In last twenty years, measures were taken to curb the generation of black money and black economy.

IX. MEASURES TO CURB BLACK ECONOMY

Economies whole over the world have time and again tried to deal with the black money and black economy through different measures like, raids by tax authorities, random tax audits, penalties, and stringent disclosure requirements. Some of the measures undertaken in India to curb black economy are as follows:

A. Voluntary Disclosure of Income Scheme (VDIS)

This scheme was announced in India by the Congress led government in 1997. It gave a chance to the income tax or wealth tax nonpayers to reveal their unrevealed income at the

then prevalent tax rates. As per the order, any person with undeclared assets (gold, currency and property) would pay a tax of 30 per cent and no fine [10]. The scheme was successful to a limited extent and was criticized since it was in favor of the dishonest tax-evaders who enjoyed the black money for years without paying the taxes and now have to pay only 30 percent of that amount without any penalty.

B. Income Disclosure Scheme (IDS)

On the lines of VDIS, the National Democratic Alliance (NDA) government came out with a new scheme in 2016. Under this scheme, those with undisclosed income and assets can come clean by paying a tax of forty-five percent. This plan provided immunity from prosecution, though it was not considered as an amnesty scheme like VDIS. The scheme failed to get a good response because of a higher taxation rate.

C. Demonetization

Demonetization is another weapon in Government's arsenal to curb black money, whereby government withdraws certain denomination bank notes (generally bigger bank notes) from circulation and bans their further use. The Government of India had demonetized bank-notes in the years 1946 and 1978. Again in 2016, the NDA government announced the demonetization of ₹500 and ₹1000 bank notes. In place of these notes new bank notes of ₹500 and ₹2000 were issued. This brought hardships to the public and also the businesses. The failure and success of the move is well debated till now.

D. Digital Payments Monitoring and Limiting Cash Transactions

The practice of payments in cash was always a favored medium of exchange in unlawful transactions, as it leaves no trail. The government is promoting more and more use of digital payments. Digital payments got a major boost in India after demonetization. PayPal, Paytm, and other app based digital payment modes became very popular during this phase. Such transactions leave a trail and stops using of cash. Hence, digital transactions can be easily monitored and it helps in plunging the cash transactions, thus reducing the generation of black money.

E. Monitoring Sale and Purchase of Fixed Assets and Gold

One gateway used usually by the tax evaders is benami transactions or underreporting while buying fixed assets and also buying gold in cash. Now the government is vigilant and is monitoring such transactions and also the buyers are required to

give PAN details. Also government servants are required to file property returns every year. The Gold Purchase 2016 rules, made it mandatory to furnish PAN card details for gold purchase for transactions valued at rupees two lakhs and above.

F. Permanent Account Number or PAN Card Requirements 2016

It is a unique 10-digit alphanumeric code, issued by the Income Tax Department to the taxpayers. From 1st January 2016, the Government of India made it mandatory for different financial transactions to give PAN card details. This has twin advantage – curbing the flow of black money and widening of the taxpayer base. Some of the important transactions, for which PAN card details are essential are the 'purchase and sale of immovable property' if the value of property exceeds rupees ten lakhs; 'term deposits' over rupees fifty thousand or rupees five lakhs in a year; 'cash payments' for foreign travel exceeding rupees fifty thousand; 'purchase of gold jewellery' worth rupees two lakh, and so on.

G. Good and Service Tax (GST) curbing Black Money

GST came into effect from July 1, 2017. It is an indirect tax enforced in India on the supply of goods and services. It is a kind of consumption tax. Five different tax slabs (0%, 5%, 12%, 18% and 28%) were formed for the purposes of collection of taxes on different types of goods and services which were demarcated for these five slabs. In India two bill system was prevalent since long – the 'kacha bill' and 'pakka bill' systems. While, the buyer needs to pay tax on a pakka bill and the transaction is shown in the books of account of the seller; a kacha bill does not reflect on the books of account of the seller and the consumer does not pay tax on it. Kacha bill generated huge black money especially in case of high value transactions like, purchase of gold, as also all day-to-day transactions taken together. Consumers, in order to avoid paying taxes, used to demand kacha bill, traders in turn used to purchase merchandises on kacha bill from wholesalers and the progressive tax evasion chain continued. GST requires generation of pakka bill and uploading of invoices on the GSTN site, at the end of each month. The traders credential in maintaining GST records are rated through a rating system. Defaults lead to a poor rating and hence a loss of business for the trader as buyers will avoid him. Also, GST system ensures information exchange between various government departments. For filing the GST returns, PAN and Aadhar are required which helps the tax authorities to systematically track transactions. Besides, the twin checking structure of GST by state as well by central government has

improved co-operation between the different agencies and in reducing manipulation. Another benefit is that GST has simplified the indirect taxation, and also harmonized and broadened the tax base. GST envisages fostering a seamless Indian market, growth of the Indian economy, and also reduction of black money.

X. CONCLUSION

Human mind is fertile as was held by one of the judges years ago, and hence, as the government and tax authorities come out with a measure to curb black money and black economy, tax evaders find out the loopholes and newer ways to evade taxes. Nevertheless, the Government of India has realised the importance of curbing the black economy so that the black money can be channelised to the mainstream which will improve India's GDP, per capita income, building of infrastructure, providing welfare services, and a better standard of living to the citizens of the country.

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