

Asian Resonance

Estimate, Impact and Control of Black Money in India

Abstract

The objective of paper is to analyse the estimates, impacts and Government initiatives of black money in India and its macro economic implications. The study is based on secondary data collected from white paper on black Money in India, Global Financial Integrity Report and various research studies. The average size of the black money of 76 developing countries was 34.9% in 1999 and modestly increased to 35.2% in the year 2005-06 and to 38 % in 2014-15. Average black money as percentage of GDP in India is 23.7 % but it has increasing trend from 1999 to 2014. The black money has significant impact on the entire economic system of India in the form of Less Tax revenue, Corruption, Uncontrollable Inflation, higher investments in Jewellery.

Keywords: Black Money, Corruption, Illegal Income, Tax Evasion, Transaction

Introduction

Black money is defined as assets or resources which have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession. It includes money earned from crime such as drug trafficking, smuggling, arms trafficking, sexual exploitation and prostitution etc, corruption and commercial tax evasion such as under reporting revenues and inflating expenses (Ministry of Finance, Government of India, report 'White Paper on Black Money', 2012). In India, Black money refers to funds earned on the black market, on which income and other taxes have not been paid (Chopra, 2010). The first source of black money includes activities which are not permitted by the law, such as crime, drug trade, terrorism, corruption and all of which are not legal in India. The second source of black money are those which may have been generated through a lawful activity but accumulated by failing to declare income and pay taxes. Some of this black money ends up in illicit financial flows across international borders, such as deposits in Swiss accounts (Sarkar, 2010).

According to a report on black money by the Central Board of Direct Taxes, the focus of the black money in India has been mainly on corrupt money. The main method for generation of black money in India is through commercial tax evasion by under reporting revenues and inflating expenses adopted by a range of business entities. The estimation of the scale of illicit or black economy in the country is extremely difficult. Some attempts have been made to measure approximate black money globally. According to Global Financial Integrity (GFI), developing countries lost US\$ 5.9 trillion to illicit outflows from 2002 to 2011. The highest populated country, China leads the list with a loss of US\$ 1.08 trillion from 2002 to 2011. India was the fifth largest country with cumulative outflows worth US\$ 343.9 billion from 2002 to 2011. Global Financial Integrity (GFI) also estimates that for every \$1 that poor nations receive in foreign aid, \$10 in illicit money flows offshore. The total amount of black money deposited in foreign banks by Indians is unknown. Some reports claim a total exceeding US\$1.4 trillion are stashed in Switzerland. Indians have \$500 billion of illegal funds in foreign tax havens, more than any other country (CBI, Feb, 2012).

Aim of the Study

The aim of study is as follows.

1. To analyse the sources, estimates and impacts of black money in India.
2. To highlights the percentage of black money to gross domestic product in selected countries of the world and the initiatives of Government of India to check and control black money.



Sudhakar Patra

Professor,
Deptt.of Economics,
Berhampur University,
Ganjam, Odisha

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Literature Review

There is very scanty literature available on Black money. Some important literature are reviewed briefly. Simha, S.L.N.(2012) stated that the link between black money and inflation. He examines to what extent black money contributes to inflation or whether in fact it is a result of inflation. The phenomenon of black money is, by and large, the result of inflation and not its cause. Hence black money is the cause of inflation and presents the proposition that black money is a result of inflation which is caused largely by wrong fiscal, monetary and economic policies, and aggravated by administrative inefficiency, poor planning, lack of a sense of discipline and austerity.

Lalit Mohan Aggarwal (2012) mentioned that violation of laws by central and state Government leads to criminal activities which in turn leads to generation of black money in Indian economy. Vijay Kumar Singh (2012) presented a paper on controlling money laundering in India-problems & perspectives and stated that control black money in India is very difficult task only due to the existence of one reason i.e. poor implementations of laws which leads to sophisticated crime in the economy and thus generates black money.

Global Financial Integrity (2012) in their study mentioned that Indian nationals held around US\$1.4 trillion in illicit external assets are widely off the mark compared to the estimates. The report claims that the amounts are significantly smaller, only about 1.5% of India's GDP on average per annum basis, between 1948–2008. This includes corruption, criminal activities bribery and kickbacks, trade mispricing and efforts to shelter wealth by Indians from India's tax authorities.

Swiss National Bank in a report (May 2012) estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were CHF 1.95 billion (INR 92.95 billion, US\$ 2.1 billion). This amount is about 700 fold less than the alleged \$1.4 trillion in some media reports. Total deposits held by citizens of India constitute only 0.13 per cent of the total bank deposits of citizens

of all countries. Further, the share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 per cent in 2006 to 0.13 per cent in 2010. As per data provided by Swiss Bank, India is topping the list almost \$1500 billion of its black money deposited with them, followed by Russia \$470 billion in 2011. The amount of black money is increasing day by day at very rapid speed.

Sukanta Sarkar (2010) highlighted on the existence of causes and impacts of black money in India. The main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement it .So, he concluded that laws should be implemented properly to control black money in our economy.

Black Money in Selected Countries

There are many attempts to estimate black money in different countries. Friedrich Schneider and Andreas Buehn in 2009 estimated the size of black money by using Dell'Anno and Schneider method for 120 countries of the world. The average size of the black money of 76 developing countries was 34.9% in 1999 and modestly increased to 35.2% in the year 2005-06. The lowest size of the shadow economy average of the period 1999 to 2006 have again Singapore, China and Vietnam; the middle position now have Egypt, Bangladesh and Trinidad and Tobago with 35.1, 35.5 and 35.7 %. The highest black money now have Peru, Panama and Bolivia with 60.1, 64.2 and 67.3 %. The average of the black money of 19 Eastern European and Central Asian countries was 35.8% in 1999 and increased to 36.9% in 2006. The Czech,Slovak Republic and Hungary with an average size over the period 1999 to 2006 of 17.2, 18.0 and 23.4 percent of shadow economy. Albania, Bulgaria, and Romania with 34.1, 35.4, and 36.2 percent have middle positions. The highest shadow economies have the countries Moldavia, Ukraine and Georgia with 48.2, 54.3 and 67.8 percent. The highest black money among 25 high income OECD countries have Mexico with 31.5, Korea with 26.6 and Greece with 25.3 percent. Table-1 presents black money in few selected countries from 1999 to 2006.

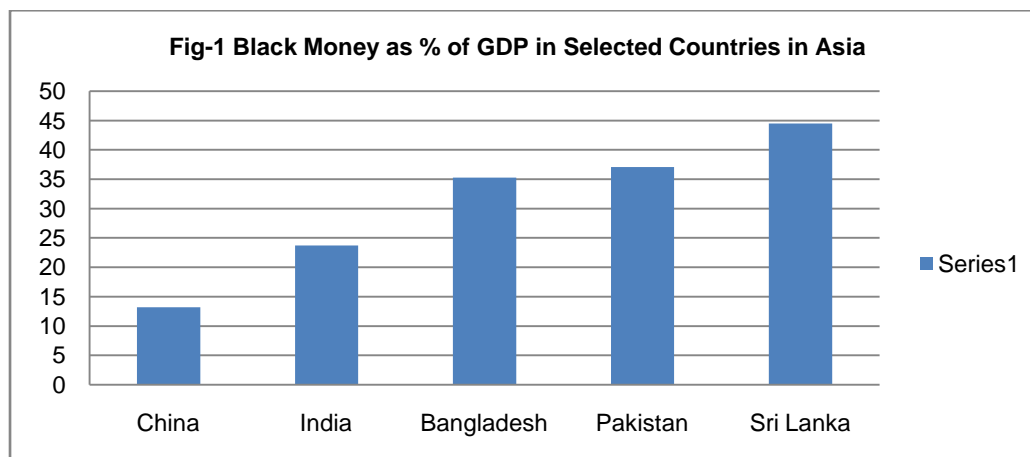
Table-1
Black Money as percentage of GDP in Selected Countries

Country	1999	2000	2001	2002	2003	2004	2005	2006	Annual Average
China	13.0	13.1	13.0	12.9	13.1	13.4	13.6	13.9	13.2
India	23.1	23.1	23.3	23.5	23.7	24.0	24.4	24.6	23.7
Bangladesh	35.6	35.6	35.4	35.2	35.0	35.2	35.4	35.4	35.3
Pakistan	36.7	36.8	36.9	36.9	37.1	37.4	37.7	37.6	37.1
Sri Lanka	44.6	44.6	44.6	44.3	44.6	44.6	44.6	44.8	44.5

Source- Schneider F. and Buehn A. (2009): Shadow Economies and Corruption
All Over the World: Revised Estimates for 120 Countries, Open Access Journal
"Economies"Vol-1, P-15 & based on MIMIC estimations

Average black money as percentage of GDP in India is 23.7 % but it has increasing trend from

1999 to 2006. China has average black money 13.2 5 of GDP but Sri Lanka has 44.5 % black money.



Estimates of Black Money in India

Tax Justice Network, an international coalition of researchers mentioned that the global super-rich have at least \$21 trillion hidden in secret tax havens at the end of 2012. Government of India had commissioned three national-level institutes, National Institute of Public Finance and Policy (NIPFP), National Institute of Financial Management (NIFM) and National Council of Applied Economic Research (NCAER), to assess and provide estimates of the extent of black money in India in 2011. While the methodology and data from different studies can certainly be debated for their accuracy, there is no denying the magnitude and importance of addressing the issue. It is especially significant in developing countries where there is a substantial need to expand public revenues to meet the growing needs for developmental expenditure. A Business Standard report in January, 2013 estimated the black money as 30 percent of GDP, or INR 28 lakh crore. NIPFP in its report in December 2012 estimated black money at above INR 10 lakh crore or 10 percent of the GDP. The NIPFP report in 1984 had estimated black money generated in the country to 19 percent to 21 percent of GDP or INR 36,000 crore. Various attempts have been made to assess the black money in India from time to time. Major estimates are as follows.

Kaldor's Estimate

Prof. N. Kaldor submitted his report on Indian Tax Reform in which he estimated the non-national income (i) wages and salaries (ii) income of self-employed and (iii) profit, interest and rent. After making the rough adjustments, according to Wanchoo Committee, "the estimated income on which tax has been (black income) would probably be Rs.700 crores and Rs. 1000 crores for the years 1961 - 62 and 1965 - 66 respectively.

Wanchoo Committee's Estimate

K. N. Wanchoo committee estimated non - salary income for 1961 - 62 of amounting Rs.

2686 crores and non - salary income actually assessed to tax as Rs. 1875 crores, thus, tax escaped for Rs. 811 crores. Therefore, in 1961 - 62, black money was of amounting Rs.700 crores which rose to Rs. 1000 crores in 1965 - 66 and further Rs. 1400 crores in 1969 - 70. It was accounted to be 4.4 percent of GNP.

Rangnekar's Estimate

Rangnekar estimated that tax evaded income for 1961 - 62 was the order of Rs. 1,150 crores, as compared to the DTEC estimate of Rs. 850 crores. For 1965 - 66, it was Rs.2,300 crores, as against Rs. 1,216 crores estimated by DTEC.

Chopra's Estimate

A series of estimates of black income was prepared by O.P. Chopra where it increased from Rs. 916 crores (6.1 percent of GDP) in 1961 - 62 to Rs.8098 crores (10.5 percent of GDP) in 1976 - 77.

Gupta's Estimate

In 1981, Poonam Gupta and Sanjeev Gupta used Feige's method of transaction income ratio to estimate black money in a country. They used average of three years viz. 1949 - 50, 1950 - 51 and 1951 - 52 as the bench mark for estimating black money for the year of 1967 - 68 to 1978 - 79. They estimated that it was 19.8% of GDP at market price. The black money increased for Rs. 3034 crores in 1967 - 68 to Rs. 46867 crores in 1978 - 79.

NIPFP's Estimate

In 1985, The National Institute of Public Finance and Policy estimated that amount of black money in India was nearly Rs. 1,00,000 crore, which is approximately 20 percent of the national income. In 1996, the estimated black money was believed to be more than Rs. 4, 00,000 crore (The Hindustan Times, January 20, 1997). Most of India's black money estimated to be about US\$1 trillion (Dh3.67tn) and it is believed to be parked in bank accounts in Switzerland.

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Table-2 Different Estimates of Black Income in India (As percent of GDP)

Year	Chopra "Wanchoo Method"	Chopra "Own Method"	Gupta & Gupta's	Gupta & Mehta's	Ghosh et al	Ragnekar
1970-71	4.8	5.2	22.3	--	7.6	--
1971-72	5.1	3.2	28.7	--	7.8	--
1972-73	4.0	3.8	31.9	--	7.8	--
1973-74	4.9	8.1	27.1	--	7.4	9.9
1974-75	5.9	12.4	20.9	13.8	8.1	9.3
1975-76	5.6	9.9	25.0	--	8.4	10.0
1976-77	5.7	10.2	37.6	--	8.7	11.3
1977-78	--	--	38.4	--	8.7	12.1
1978-79	--	--	48.1	19.8	--	13.5
1979-80	--	--	--	--	--	14.4

Source- Aspects of the Black Economy in India – Shankar Acharya (NIPFP)

Schneider's estimates

Using the dynamic multiple-indicators multiple-causes method Schneider estimated using by currency demand method that the size of India's black money economy is between 23 % to 26%, compared to an Asia-wide average of 28 % to 30%, to an Africa-wide average to 41 to 44%, and to a Latin America-wide average of 41% to 44% of respective gross domestic products. According to this study, the average size of the shadow economy (as a percent of "official" GDP) in 96 developing countries is 38.7%.

National Institute of Public Finance and Policy (NIPFP) submitted report on black money in 1985 which estimated black money in India as 18 to 21 % of GDP.(Table-3)

Table-3 Estimate for black Money in India from 1975 to 1984

Year	Estimate for black money (Rs in Crore)	% age of GDP
1975-76	9,958 to 11,870	15 to 18%
1980-81	20,362 to 23,678	18 to 21%
1983-84	31,584 to 36,784	18 to 21%

Source- NIPFP Report submitted in March, 1985

The important conclusion of NIPFP study is that "total black income generation of Rs. 36,784 crore or in round numbers Rs. 37,000 crore out of a total GDP at factor cost of Rs. 1,73,420 crore seems to be on the high side. It can be said taking out lower estimate with some degree of confidence is that black income generation in the Indian economy in 1983-84 cannot be placed below 18 per cent of GDP at factor cost or 16 per cent of GDP at market prices." While the NIPFP Report estimates the extent of 'black' economy (not counting smuggling and illegal activities) at about 20% of the GDP for the year 1980-81, Suraj B Gupta, a noted economist, has pointed out 22 some erroneous assumptions in NIPFP study. He estimated 'black' income as 42% of GDP for the year 1980-81 and 51% for the year 1987-88. Arun Kumar in his book has pointed out certain defects in NIPFP study and Gupta's method. He estimated the extent of 'black' income to be about 35% for the year 1990-91 & 40% for the year 1995-96. Thus, it can be said that though 'black' money exists to a substantial extent in

our economy and its quantum cannot be determined exactly.

Black Money of India in Swiss Accounts

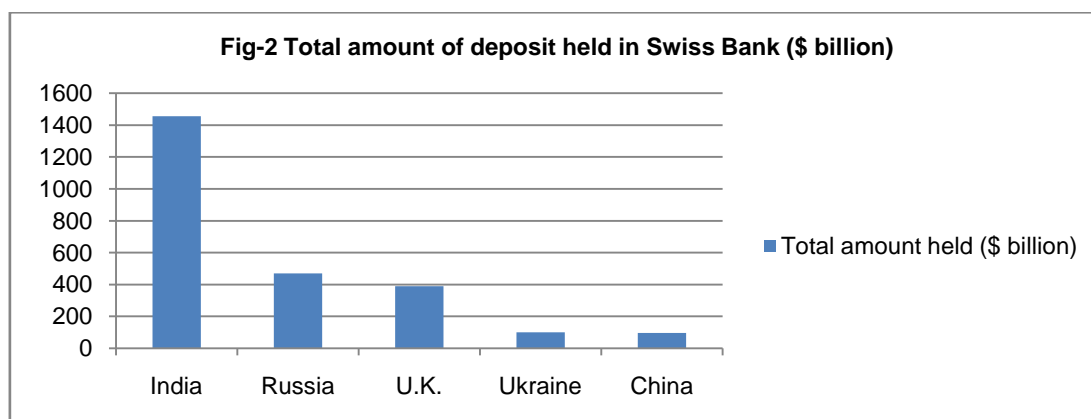
Swiss National Bank in a report, published in May 2012, estimated that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were CHF 1.95 billion (INR 92.95 billion, US\$ 2.1 billion). Ministry of External Affairs, Switzerland has confirmed these figures upon request for information by the Indian Ministry of External Affairs. A comparison was also provided in the report out of the deposits held by Indians and by citizens of other nations in Swiss banks. Total deposits held by citizens of India constitute only 0.13 per cent of the total bank deposits of citizens of all countries. Further, the share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 per cent in 2006 to 0.13 per cent in 2010. As per the data provided by Swiss Bank in 2011, India is topping the list almost \$1500 billion of its black money deposited with them, followed by Russia \$470 billion. The amount of black money is increasing year by year significantly. (Table-4)

Table-4 Total Deposit of Selected Countries in Swiss Bank in 2006

Country	Total amount held (\$ billion)	Amount in Rs crore INR (1 \$ =60 INR)
India	1456	8,73,600
Russia	470	2,82,000
U.K.	390	2,34,000
Ukraine	100	60,000
China	96	57,600

Source- Swiss Bank Report

Evidently, India with \$ 1,456 billion or \$ 1.46 trillion(8,73,600 Crore INR) has more money in Swiss Banks than the rest of the world put together.



Tax Evasion and Black Money in India

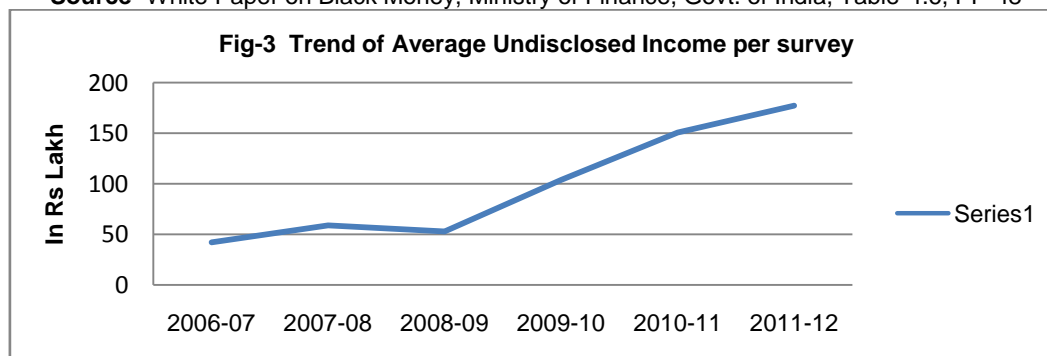
The Surveys under section 133A of Income Tax Act are important tools for ensuring that businesses are carried out according to the rules and taxes are paid in time, particularly in the micro, small and medium enterprises (MSME) and unorganized

sector. The Income Tax Department has detected under-reporting of income to the tune of 11,800 crore in surveys, and collected due taxes thereon Since April 2009. Table-5 indicates the number of surveys conducted and under-reported income detected over the last few years.

Table-5 Number of Surveys and Undisclosed Income detected in India 2006-2012

Financial Year	No. of Surveys Conducted	Undisclosed Income Detected (In Crore)	Average Undisclosed Income per survey (In Rs Lakh)
2006-07	6,207	2,612.77	42.09
2007-08	6,071	3,581.77	58.99
2008-09	5,777	3,059.89	52.96
2009-10	4,680	4,857.10	103.78
2010-11	3,911	5,894.44	150.71
2011-12	3,706	6,572.75	177.35

Source- White Paper on Black Money, Ministry of Finance, Govt. of India, Table-4.6, PP-48

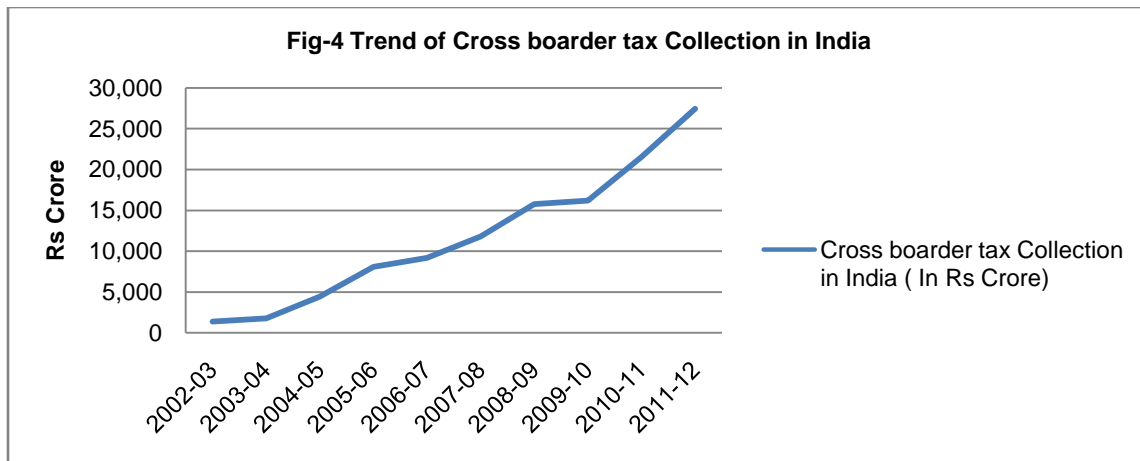


The Directorate of International Taxation has collected taxes of Rs 48,951 crore from cross-border transactions in the last few financial years. The average undisclosed income per survey is Rs 177.35 lakh in 2011-12 which is substantially high. The tax from cross boarder transaction is also increasing over time as shown in Table-6. Tax collected from cross boarder transaction is Rs 27442 crore in India in 2011-12 which was only Rs 1356 crore in 2002-03. These taxes can be evaded easily through illegal transfer of good through boarder (White Paper, Govt of India,2012).

Table-6 Tax from Cross Boarder Transaction in India in 2012

Financial Year	Cross boarder tax Collection in India (In Rs Crore)
2002-03	1,356
2003-04	1,729
2004-05	4,418
2005-06	8,049
2006-07	9,147
2007-08	11,790
2008-09	15,740
2009-10	16,198
2010-11	21,509
2011-12	27,442

Source- White Paper on Black Money, Ministry of Finance, Govt of India, Table-4.6, PP-48



Impacts of Black Money on Indian Economy

The black money has significant impact on the entire economic system of India. Some important impacts are as follows.

Less Tax revenue

Government of India has failed to collect the estimated amount of tax from the people of our country due to the black money driven underground economy.

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.

Uncontrollable Inflation

Black money 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. It becomes difficult for Government to control inflation due to large flow of black money.

Investments in Gold, Stones and Jewellery

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. This flow of underground money has caused Indian economy to stall on its growth.

Inflated Real Estate

People with black money are ready to pay more for a piece of land for which 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 black money to legal money.

Transfer of Indian Funds Abroad

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.

Encourages Anti-Social Activity

Black money is always promoting anti-social activities in the society. The anti-social effects of black money include activities like terrorism, a huge threat already to our country.

Initiatives in India to Control Black Money

Control of Black money is very difficult. The government of India has taken a number of steps to curb black money. Searches, seizures, surveys, and scrutiny of income tax returns are being done by the Income Tax Department. Amendments in the Finance Act 2004 include prosecution for falsification of books of accounts and taxing of gifts worth more than Rs. 25,000 to unrelated persons. There have been two amendments of the Voluntary Disclosure of Income Scheme (VDIS) under which black incomes and assets could be declared, the tax paid at current rates and amnesty availed from penalty and prosecution. For the smooth functioning of the economy, the following measures are suggested to combat the menace of the parallel economy:

Demonetization

Demonetization was resorted to but the Direct Taxes Enquiry Committee in its interim report in 1946 which observed, "Demonetization was not successful then, because only a very small proportion of total notes in circulation were demonetized in 1946 and its worth was Rs.1,235.93 crores." On January 16, 1978 demonetization of high denomination notes was introduced. The high demonetization rates as on that day amounted to Rs. 146 crores.

Voluntary Disclosure Schemes

The Government has floated various voluntary disclosure schemes to determine the black money. In 1951, a voluntary disclosure scheme with relaxation in penalty provision was introduced. It resulted in total disclosures amounting to Rs. 71 crores and tax collection of Rs. 11 crores only. Later on, a total concealed income of the order of Rs. 519 crores was declared on which Rs. 131 crores were paid as tax.

Measures to Check Tax Evasion

Dealing with tax evasion has always been one of the most difficult challenges for governments all round the world. The income tax evasion penalties can help the

government recover maximum amounts in the form of tax and utilize the money for the benefit of the common public. Tax evasion is one of the basic causes to generate the black income. Therefore, various measures were undertaken to plug the loopholes in tax evasion. Most of these measures were based on the recommendations of various committees and commissions viz Taxation Enquiry Commission (1953), Administrative Reforms Commission (1969), Direct Tax Enquiry Committee (1971).

Voluntary Disclosure Scheme

Government of India in budgets, 1997-98 announced a Voluntary Disclosure Scheme (VDS). Voluntary Disclosure Scheme which was extensively advertised yielded tax revenue of Rs.10, 500 crores.

Other Measures

The Government has also introduced some measures to contain the growth of black income in the country which includes Deposit in the National Housing Bank in 1991, NRI foreign exchange remittance, issuing National Development Bonds in US dollars, controlling the election expenses incurred by the candidates, conducting searches, seizures, raids and other steps to plug loopholes in the tax administration etc.

Conclusion

Black money circulating in the parallel economy is a big menace for the Indian economy. It is also an originator of big loss in the tax-revenues for the government of India. Even after several decades of economic planning and push in the right direction, India still continues in the same state as an underdeveloped economy in terms of per capita income and the reason behind it is the existence of black money. The elimination of black money from Indian economy is needed and it will benefit the economy in more than one way. It will also help in creating more revenues for the government. It is now time for active citizenship, to create awareness and raise its voice against the relentless menace of black money and evil manifestation in Swiss Bank accounts. This means citizens must demand action from Parliament, judiciary, executive and civil society organizations. Quick

action from administration is necessary to resolve the problem of black money forever.

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