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ILLEGAL ECONOMY Vs. SOCIALIST SOCIETY

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ABSTRACT

*"Black Money" is a global issue, but for India, it is a bigger challenge to the existence of our socio-economic society. During transition period from under-developed stage to present developing stage there were rampant increase of Black Money with galloping speed. The volume of Indian Black Money in India and in other Tax Heaven Countries is so vicious that a "Parallel Economy" stage is created in India. Among Reasons for its cancerous growth in India, huge Public Expenditure in Five Year Plans, Tax Evasion, Real Estate, Control and licencing system, Existence of Tax Heaven Countries, Political Donations, Bribes, Corruptions and wrong Invoicing of Import, Export Bills, are important reasons for our Parallel Economy. Its impact is adverse on our Socio-Economic Society. Rich have become more richer. Honest-Tax Payers are over burdened with tax structure. Government's popularity is also affected. So in order to meet this **National Challenge** and **Save Socialist Society** strong political will, effective, speedy and forceful emphasis on execution of various laws to minimize corruption and unearth black money are immediate need of the hour. However, the door of more research and suggestions to eradicate this National menace is always left open.*

KEYWORDS

black- rich, subidha shulk, tax heavens, material – welfare, public – exchequer.

ABBREVIATION

G.N.P. :	Gross National Product	N.I.P.F.P. :	National Institute of Public Finance and Policy
I.P.O. :	Initial Public Offer	V.D.S. :	Voluntary Discloser Scheme
G.S.T. :	Goods and Service Tax.	T.J.N. :	Tax Justice Net work
A.C.B. :	Anti Corruption Bureau	C.B.D.T. :	Central Board of Direct Taxes.

INTRODUCTION

Existence of Black Money and its temptation to have has corrupted the whole society. It poses an Economic Threat to the Govt. Elections are won or lost on the issue of Black Money though black money is used in Elections from Grass root to Parliamentary Elections. Hence reasons for its accumulation and steps for its control with further suggestion, more research papers will always be a welcome stage.

OBJECTIVES OF THE PAPER

In India "Democratic Socialist Society" was adopted with the long term objectives of full employment and removal of disparities of income and wealth providing equality of opportunity to all. It is irony of fact that in our Mixed Economy during the last 70 years of our independence rich became more richer. In the words of **D. K. Rangnekar** black incomes are accentuating the inequalities in income and wealth and breeding a new class of **Black Rich** in society. The gap between haves and have-nots are more widened because of speedy generation of "Black Money and Parallel Economy" in India. The volume of Indian Black Money in India and in other Tax Heaven countries is so vicious that we also call it by – Illegitimate Economy, Parallel Economy, Underground Economy. Unrestricted Economy and Unaccounted Economy.

Undoubtedly black money is a global issue, but India is its one of the major victims due to larger corruption and weak political will for some vested reasons. Out of three 'M' factors (Men, Muscle, Money) black and unaccounted money play dominant role in elections right from grass-root to Parliament. Indians are returned to the age of Father of Economics – Adam Smith who advocated Money is all, be all and end all. People are accumulating wealth by any means fair or foul. National welfare and social welfare at Macro Level are ignored. The temptation of Black money forcing people in their **Micro Material Welfare** only. The objective of the paper is to highlight some important Cancerous reasons for Parallel Economy, its impact on the socialist society with constructive suggestions for its eradication.

HISTORICAL PERSPECTIVE

India got independence in 1947 behind this nationalism and nationalist feelings among the Leadership and people were the pivotal factors. At that time the slogan of freedom fighters was "**Do what I do**". Now after 70 years of independence the slogan of political Leaders is changed to- '**Do what I say in place of do what I do**'. Before Independence the concept of Black Money was almost foreign to the masses of India. Our Economy was underdeveloped and India lived as an agricultural country. But, with the start of Five Year Plans from 1st April 1951, Money started taking its "Black Culture". Weak Institutional Policy and Weak Political will have led to rampant increase in corruptions. Dr. Ram Manohar Lohia, the senior most and vocal Socialist Leader had thundered in the Parliament on the point of accumulation of black money. **Indira Gandhi** had to take a scapegoat saying – "**Corruption is global**" Rajiv Gandhi as a Prime minister had once said "Only 13 paise in a rupee of Public Expenditure reaches the people. Many nationalist leaders and elderly citizens time without number tried to make aware the Govt. and public on the galloping speed of increasing trend of unreported economy in India. Presently the oppositions outside and inside Parliament attack the B.J.P. Govt. to act on the promise made to unearth black money during its Parliamentary election campaign 2014.

It will not be an exaggeration to say that creation of parallel economy is the result of huge public expenditure on taking India from underdeveloped country to a developing Country through Five year plans without a strong check on generation of Black Income. It also added fire to the fuel by Illegitimate economic activities not permissible under law like crimes, drug trade, trade- based money laundering, I.P.O. manipulation and option of converting Black Money to Gold etc. Rich became richer with paper slogan by political Leaders – "Garibi Hatao". The objective of Socialist Society started receding, because of faster growth rate of black money generation than the real growth rate of Gross National Product.

REASONS

1. PUBLIC EXPENDITURE

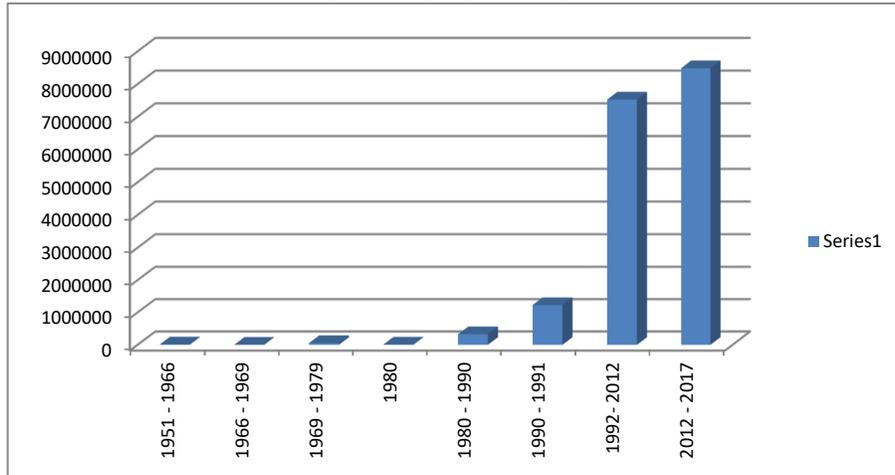
On the eve of independence India was an underdeveloped economy. Our Nationalist Government adopted Socialist pattern of Five Year Plans' for sustainable development which started from 1951. During the 1st 62 years of Economic Planning there were huge Public Expenditure to achieve Socialist Goal:

TABLE 1: PUBLIC EXPENDITURE 1951- 2017

Plan	Period	(In Rs. Crore)
1 st , 2 nd , 3 rd	1951 to 1966	15209
Three one Year Plan	1966 to 1969	6625
4 th & 5 th Plan	1969 to 1979	55205
One Year Plan	1980	12177
6 th & 7 th Plan	1980 to 1990	328022
Two one year Plan	1990- 1991	1231121
8 th ,9 th & 10 th Plan	1992- 2012	7527232
12 th Plan	2012 to 2017	8486226 (Proposed)

Source: Five Year Plan Documents

GRAPH 1: PUBLIC EXPENDITURE



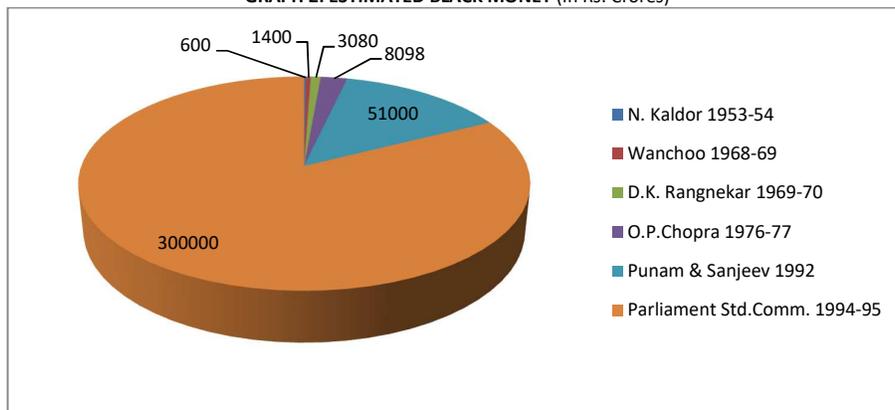
If closely analysed the above public expenditure with actual ground realities and achievements, the hard core truth is – riches became richer giving rise to a new class “Black Rich” Unemployment remained at increasing trend and Tax Heaven Countries became flooded with Indian Black Money: Goods and Services were not produced to the extent required by public expenditure. The pace of growth rate was far and far behind because of speedy generation of unaccounted and underground money and ‘Political Loot’. Various Agencies and Persons Estimated Black Money:

TABLE 2: ESTIMATED BLACK MONEY

Name	Year	Estimated (In Rs. Crores)
N. Kaldor ¹	1953-54	600
Wanchoo Committee ²	1961-62	700
	1965-66	1000
	1968-69	1400
Dr. D. K. Rangnekar ²	1961-62	1150
	1965-66	2350
	1968-69	2833
	1969-70	3080
O.P. Chopra ³	1974-75	8611
	1975-76	7292
	1976-77	8098
Punam Gupta & Sanjeev Gupta ⁴	1992	51000
Parliamentary Standing Committee	1994-95	300000

Sources: 1. N.Kaldor: Indian Tax Reform; 2. Wanchoo Committee - Dr. Rangnekar, Direct Taxes Enquiry Committee – 1971, 3. O. P. Chopra: Unaccounted Income some Estimates – Economic and Political weekly. April - May 1982; 4. Punam Gupta & Sajeev Gupta: Estimate of unreported Economy in India

GRAPH 2: ESTIMATED BLACK MONEY (In Rs. Crores)



The above figures said to be not only estimated figures but also under estimated which excludes black incomes generated by illegal activities like Smuggling, Black Marketing, Bribes and Kickbacks. Agricultural output incomes are also not covered. **The estimated figures though differ with each other but with one unanimity that generation of black money went on increasing in geometric progression like population of India.** Black income which was less than 10% of G.N.P. up to 75-76 reached to 18-21 percent of G. N.P. by 1983-84 as estimated by N.I. P.F.P. amounting 4,68,67 Crores which has now reached to 23-26 percent of National G.D.P. approx. The Quantum of black money in India never receded rather appreciated under the umbrella of rampant corruption. Globalisation and liberalization of trade added fire to the fuel of black money accumulation.

2. TAX EVASION

Direct Taxes Enquiry Committee in its final report Dec 1971 quoted – “Black Money and Tax Evasion go hand in hand”. There can be no two opinions on the point that tax evasion in India is one of the major causes of Black money. The level and structure of taxation is highly responsible for the parallel economy. Multiple system of taxation on Goods and Services, Stamp Duty on transfer of property and Excise Duty have been a flood-gate for accumulation of unreported incomes. On G. S. T. Act, it will be too early to predict.

As regard Direct Taxes particularly Income Tax the Govt. had not been fair to masses. There was a time when Income Tax slab rate exceeded 80%, but now it is up to 30% only Salaried class people are penalized but small or big Business Houses, Industrialists, Capitalists, all Professionals like –Doctors, Lawyers, Actors, Builders & Political Persons are resting in their Home Heavens or in any “Tax Heaven Country.”

Black Income is the aggregate of income which are taxable but are not reported to Tax Authorities. It is beyond arguments that except service holders majority of earners enjoy tax evasion by keeping their savings in Cash, Gold, Silver and Bullions which are unreported to tax authority. Black liquidity is in abundance leading to black economy as a threat to price stability and survival of inflation. With the object of reducing tax evasion and unearthing unreported incomes the Govt. of India time to time announced ‘Voluntary Discloser Scheme’ to make Black Money to white Income.

TABLE 3: DECLARATION UNDER V.D.S. SCHEMES

Year	Income Declaration (In ₹)	Tax Collected (In ₹)
VDS 1951	70.2 Crores	10.9 Crores
VDS 1965	52.11 Crores	29.0 Crores
VDS 1976	746.1 Crores	249.0 Crores
VDS 1985	2940.4 Crores	388.0 Crores
VDS 1997	33695 Crores	10500.00 Crores
V.D.S. 2016	65250 Crores	30000.00 Crores approx

Source – Ministry of Finance Govt. of India

Voluntary Discloser Scheme is very simple to understand. In one sentence disclose unreported liquid cash, Securities or assets held in India or abroad to make them white by paying 30-35 percent income tax. 30% was for individuals and 35% for Corporate which increased to 45% in V.D.S. of 2016. The Govt has declared total immunity from all penalties and prosecution under Income Tax, Wealth Tax and FERA with utmost secrecy of identity of individuals or corporate. The above V.D.S. figures are simply an indicator that only a tip of the iceberg could be unearthed out of estimated Black money Rs. 3,00,000 Crores by “**Parliamentary Standing Committee on Finance and Black Money**” The discloser made also included the names of minors, ladies and benamidars. **Mr. Hasmukh Adhia Union Revenue Secretary** Stated that – During 2014-15 and 2015-16 Income Tax Department unearthed undisclosed income of Rs. 43000 Crores. Rs. 13000 crores have also been discovered in Foreign Bank Accounts which may be taxed at the rate of 120 percent.

However, it is very difficult to estimate the amount of black money held by Indians within India and in other parts of World either banked or held in assets as stated by Sri Arun Jaitley, Finance Minister of India. Senior Economist R. Baidhnatham has estimated 7,280,000 Crores as black money where as FICCI in its Twelve point Programme estimated 45 lakh crores as black money deposited in Foreign Banks which is nearly 50 percent of our G.D.P. **Swiss National Bank in its White Paper Published in 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, USD 2.1 Billion)

3. TAX HEAVENS

A Research by **Global Financial Integrity** brought out the fact that there was huge outflow of illicit monies from developing nations to Tax Heaven countries who impose very low or nil taxation for foreigners with utmost full proof secrecy regarding their wealth and accounts. Such countries have very liberal regulatory authority within whose jurisdiction any business unit can be registered or incorporated only for the name sake, even without a genuine corporate house. Such opaque deposit environment attracted Indians (Tax evaders) to take millions of crores of rupees to such countries unaccounted and untaxed through various “**Black Routes**”. There are as many as 80 Tax Heaven Countries in the World.

Global N.G.O. Tax Justice Network (T.J.N.) highlighted that developed nations like U. S. and U. K. offer secrecy which make non-citizens of those countries to keep their illicit money in cash form and also as investments or stashed away off shores in tax heavens which laundered back as genuine investments in various nations. In India there is inflow of black money from Tax Heavens in the form of investment which again attracts tax concessions from Govt. in various forms. Our own black money coming back to India as investment with prestige.

4. REAL ESTATE

Due to heavy rise in urban population and increased demand for houses or apartments, India developed “**Builder Culture**” To-day even small cities are flooded with builders engaged in constructing multistory apartments or working on re-development schemes. Such builders get various subsidies on building materials by Govt. but they sale flats on high price mostly taking money in 60-40 ratio. That is 40% in black and 60% in white. It benefits both ways builders of real estate earn black money and the buyers save a lot in the form of stamp duty and other legal charges. Black money at the hands of buyers shifts to the hands of builders Transaction price of real estate properties are seldom truly recorded. Over 90% properties are undervalued on papers to save taxes and to hide black money. Real Estate Industry is in reality playing a bigger role as Black Money Heavens.

5. CONTROL AND LICENCING SYSTEM

After 2nd world war Control, Permit, Licencing and Quota like systems were adopted for control on production and distribution of commodities in India giving rise to **Inspector Raj** Which became a good source of generation of Black Money. Thanks to the present Govt. scenario that control, licencing and Inspector Raj are abolished.

6. POLITICAL DONATIONS

Basically no political party in India is clean on the point of political Fund and Donations. Elections are fought with money power. Such huge political donations and funds are from persons having plenty of Black Incomes earned by undue favour under the shell of their political God- Father. Political Parties never account actual election expenses before Election Commission. Black Money became black donations spent on voting blackmailers. Black money is virtually life-blood of political survival.

7. SMUGGLINGS

Dr. Suraj Gupta speaks of smuggling as a “**Growth Industry**” in India. It is a major direct source of black income and evasion of custom duties, Sales tax and black gains through Hawala transactions. Smuggling of Gold in crores are detected and thousand crores go undetected in India.

8. BRIBE / SUBIDHA SHULK

Bribe is for doing undue favour or for doing illegal work where as subidha shulk is for both doing actual duty or for undue favour without loss of time and harassments. Inflation has reduced the purchasing power at the hands of fixed income group who are forced to accept “Subidha Shulk.” Higher the Post bigger is the amount of Bribe. Various reports of C.B.I. and A.C.B. establishes the history of collection of bribe in Crores which has become a part of our parallel economy. The practice of coercing people for bribe and subidha shulk by police personnel in India is not at all a hidden fact.

9. WRONG INVOICING OF EXPORTS / IMPORTS

Black money is also generated by grossly under invoicing traditional exports and over invoicing of imports and also by mis-invoicing of non- traditional exports. A study assures a minimum of 10 percent of F.O.B. value of traditional export to be the amount of black income generated. Through the play of under and over invoicing of export and import there were **Capital Flights** which affected foreign exchange reserves of India adversely and created "Black Money Deposits" in Tax Heavens of the World.

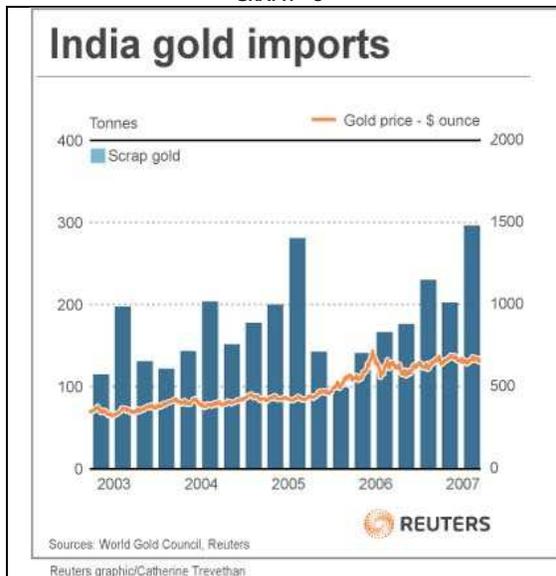
10. OTHER FACTORS

Besides above, black money generation in India was also caused in the sale of immovable property, purchase of defence equipments, under reporting of output in public sector units, agricultural income, kickbacks from contractors and suppliers, tax evasion at the hands of upper middle class rich people, misuse and manipulation of funds by non- profit organizations, unbanked and under banked areas contribute to large cash economy in India. Hawala transaction also account for significant volume of Parallel Economy in India.

IMPACT ON SOCIETY

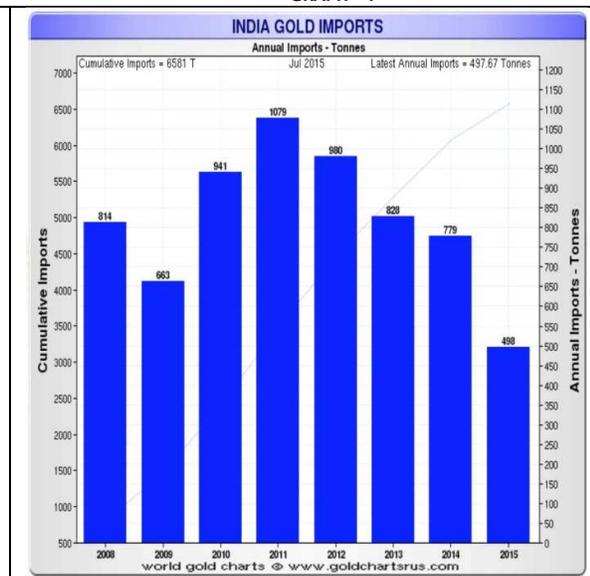
Black money operates as a bridge between Law- Makers, Law Keepers and Law Breakers The impact of this unholy nexus has very serious adverse effect on society at large. Growing proliferation of black money in every sector of economy has caused economic inequalities and concentration of wealth in the hands of a few. There are huge losses to Public Exchequer due to tax evasion. Equity concept of taxation is also lost. Honest tax payers are more and more burdened by tax over tax developments. In order to meet increased expenditure, Govt. resort to revise tax structure and dishonest tax payers are left free to roam in parallel economy. Black money also distorts investment in economy by spending in high end and in Luxury goods. It breeds corruption which corrupt A to Z in the society. Morality, Nationality and even Peace Mentality of people are at stake. Black money is used to operate terror networks. Black money is also used in hoarding of food grains. This man made scarcity of food not only create price- rise but also many evils and immoral acts in the society. It is detrimental to social and economic health of the nation. India is said to be world's second largest consumer of gold, next only to China. For centuries Gold fascinated Indians particularly for Jewellery purposes. During last a few decades the demand for Gold increased tremendously for easy store of value. As it is easily monetize-able and is available in reasonably small unit sizes having big values. Black money holders in India preferred to invest in gold as a hedge against currency depreciation. Indians have managed to accumulate 22000 tons of gold directly or indirectly which has negatively impacted country's economy.

GRAPH - 3



Source: World Gold Council Reuters

GRAPH - 4



Source : World Gold Charts@www.goldchartsurs.com

However, in recent past import of gold has decreased due to punitive governmental steps on black money.

Indians spent nearly ₹ 18 lakh crores on buying gold last decade, mostly consumed by retail buyers for Hoarding & Jewellery – indicate that a vicious gap is created in between Haves and Have-nots in the society which is against national objectives of socialist society. Therefore, all efforts should be made at all levels from P to P (Public to Prime Minister) to control future generation of black money and unearth generated and kept black money inside and outside India.

CONCLUSION WITH SUGGESTIONS

Black money is a global issue but it has become a National Challenge in India. Corruption, the mother of black money, is deeply penetrated in all walks of life with difference in degree. It appears that corruption has corrupted us all. It cannot be rooted out, but steps can effectively be taken to minimize. Under legislative frame work India enacted various stringent Laws like Prevention of Money Laundering Act 2002, Benami Transaction Prohibition Act, 1988 Lokpal and Lokayukta Act & Prevention of Corruption Act 1988 with institutions like C.B.D.T. (Central Board of Direct Taxes) Enforcement Directorate, NIA, C.B.I., A.C.B. and Police Authorities but they failed to do total justice particularly with big fishes. Black money in parallel economy is proving a huge hurdle in the way of India attaining greater economic prosperity for masses. Thanks to awareness of Public that after more than half a century a Govt. with strong Political will and sincere motive to unearth Black Money and minimize corruption is elected at Centre. Generation of Black Money in lakhs through corrupt practices is morally and somewhat economically bad but its generation in thousands of crores are certainly a matter of great concern to all. It spoils the whole economic fabrics of society. Therefore, Government must now speedily and forcefully emphasis the executions of laws to curb black money – with more power to CBDT, CBI and ACB. It is a welcome step that in 2015 the Parliament has passed the "Undisclosed Foreign Income and Asset Bill. Our Government has entered into agreements with other countries for the exchange of information, recovery of tax and avoidance of double taxation. Following Switzerland has made key changes in its local laws governing assistance to foreign Nations in their pursuit of black money. Switzerland has also disclosed certain names of Bank account holders to Indian Authorities. Besides the Govt. has appointed "Special Investigation Team" (SIT) in 2014 on the direction of the Supreme Court on black money. The N.D.A. Govt. has appointed a "Lokayukta to deal with corruption and corrupt practitioner" The office of the Prime Minister is also within his Jurisdiction. Every member of parliament, and legislators must mandatorily declare their assets & liabilities every year. All government servants, Personnel of Public Sectors, Contractors, Suppliers, Professionals, Private Educational Institutions must report correctly, their financial status every year failing which penalties be imposed. Launching of sovereign Gold Bonds and imposition of extra tax on purchase of Jewellery are welcome steps.

In orders to limit the scope of corruption in Public Procurement, appropriate legislative steps be taken, cash less transaction be activated & motivated in large perspective. Whistle blowers be given more protection and secret reward. Minimum Income slab for Income Tax be increased to Five lakhs for motivating even

lower middle class earners to happily joining Income tax net. Income Tax slab for higher income groups be more on higher progressive side so that honest tax payers don't feel cheated at the time of Voluntary Discloser Scheme. The **Direct Taxes Inquiry Committee** had categorically opposed to V.D.S. quoting "It places a premium on fraud and unfair to honest tax payers" V.D.S. be not made practice for unearthing black money, because it lead to a general feeling among tax evaders that non compliances of tax law will be one day rewarded with immunity by getting cleared through V.D.S. For Real Estate Handlers and Brokers appropriate laws be legislated and strictly executed.

All National Political Parties have to come on one stage and pledge firmly with equal passion to up-root the menace of black money. Domestic Black Money is easier to unearth provided conventional, timid, ineffective and inadequate steps are avoided. Govt. may go to the extent of partial or full demonetization of currency. Strict measures be taken to stop generation of black money by the ordinary citizens of India in their day-to-day life. The retail usually bills on purchase are not genuinely given to hide profits on sales. This hidden profit figure in crores of rupees every day resulting in black money.

The financial activities of all Private Schools, Coaching Centres, Colleges, Medical Colleges, Engineering Colleges, Charitable Trusts and Doctors who roll in black money be checked without any political or financial vested interests. Resolute approach of political parties, Iron hand of Govt. and Public Pressure will certainly lead the campaign against black money to a Logical end. **At this stage of inflation pension upto Six Lakhs be exempt from Income Tax for Senior Citizens so that they can live a moderate living being ignored by their own 'Nuclear family' member. People of India must be made aware of the hard core truth that whatever black money is unearthed cannot be directly gifted in cash to the citizens, but certainly this will increase the fund with Public Exchequer which ultimately reduce the tax burden of tax payers and the amount spent on welfare schemes for poor and masses at Macro level will create workable infrastructure to achieve the goal of real socialist society.**

SCOPE FOR FURTHER RESEARCH

Corruption is the mother of Black Money accumulation. There can be no denial from the fact that corruption is deeply penetrated to the soul and body of our society. Hence there exist scope for further and further research till it is completely routed out.

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