

The Parallel Economy of India: Impact on Economic and Social System

Harshit Rajesh Sheth*

Professor, Department of Arts and Mass Media Communication, Reena Mehta College, Mumbai, India

Abstract: The Study has made an attempt to analyze the Parallel Economy in India, which is an illegal sector and what made an impact on the economic and social system of the country. Though the Parallel economy in India is expanding rapidly since the early Independence, the government has made various commissions to eradicate the factors responsible for the generation of black income. Thus, the paper discusses the impacts laid by the Parallel Economy and also a review of various estimates of Black Income.

Keywords: Black money, illegal, parallel economy, India

1. Introduction

Parallel Economy also known as unsanctioned sector, illegitimate sector, unaccounted economy and much more; is an economy where it is about promoting economic activities where conspicuous consumption and corruption are the typical spending pattern. It's a form of obscure transactions world. Parallel Economy is an informal version of the formal economy, wherein the economic activities are carried out which are not included in that of government's Gross National Product (GNP). The term "black economy" which is a correct and abstract synonym to Parallel Economy, accentuates conflict between the goals of the legitimate and illegitimate sectors. In simple terms, Parallel economy's objectives run parallel, rather than in contradiction with the open social objectives. This causes a big menace on the economy, albeit creating a big loss in the tax and non-tax revenues for the legitimate government. As such, this needs to be curbed, and its elimination will provide social security, welfare and be advantageous to the economy than one way.

According to Global Financial Integrity Study of 2009, \$ 1.4 trillion belongs to Indians, in abroad. The number is equivalent to 70 lakh crore, to be equated finds to be more than the National Income of India which is around 50 lakh crore. The emergence of this sector flourished during the World War-II, when the shortage of essential commodities, controls and rationing went for a toss. Post the Independence, both the public and private sectors envisaged with the opportunity of economic infrastructure, investment and output. Private economies focused completely on railways, roadways hydro-electricity, etc. creating a large sum of employment. With the expansion of economic activity in post-independence period, the rate of black sector too has multiplied itself and burgeoned to an extent

Which dominates in molding state policies, in promoting a class which derives its maximum source of power from black money. And according to D.K. Rangnekar (cited by Datta and Sundharam, 2004, 381). "If the "Parallel economy" poses a serious threat to stability and growth of the official economy, surely it stems from the fact that the magnitude of "black money" is large and rigged deals are growing in volume and complexity at an alarming rate. Apart from the wide ramifications of the "parallel economy", one might also be alive to the fact that "black income" are accentuating the inequalities in income and wealth and breeding a new class of "black" rich in a society which is already harshly stratified."

2. History of Parallel Economy in India

As India is still considered to be a developing nation, and Black Economy is juxtaposing on the heavier side. The condition that of Parallel economy being only in India, is a partial truth. Parallel Economy is present with its roots not only in developing countries but, also in the most developing nations too. Sledging back to World War- II, the presence of black income can be seen there, when commodities, essentials went for a stake and earning for a livelihood was toilsome. On attaining its Independence from the British government; newly freed India had to establish its own set up of an Independent government. Being, inexperienced and liable to glitterati society a weak democracy was in the hands of unaccountable leaders. And, as the political leaders started to corrupt the system, in its juxtaposition black money was commenced to be in check for more resource development by those leaders. By the passage of time, the citizens understood the entire system of trade and economic policies to be manipulated under the political system within the country. It was the start of a squid game, where black income was the end price. Businessmen and Industrialists would endow the political parties so they could monopolize the economic system as a whole.

A. Impact on economic and social system in India

Today every sector in India is proliferating in black money, which is consequential and malignant on the working of the Indian economy. So, what could be the impact on the economy and on the social system?

The initial and direct effect would be a deficit creation in the

*Corresponding author: sheth.harshit07@gmail.com

revenue generation of the country, from both internal and external sectors. Tax evasion becomes the prima-facie to the state exchequer as a consequence from both indirect and direct taxes. Generation of illegal and illegitimate activities are unrecognized and are alarming, since the Government is inadequate to circuit the escape of this tax evasion.

Due to black income the taxes were increased, so that the outside help can be reduced for the internal development of the country. For an example; to reduce the International trade the taxes on Imports and Exports were raised.

As Agriculture is the largest and finest economic sector in India, investing in big lands have become a common agenda. This is a silhouette to acquire black income, so that the black money can be transformed into white by agricultural returns. As in Politics, it's always a win-lose situation, and it becomes very evident that people certainly would source in to ruling government, so to get their fraudulent and felonious work approbated. Concluding that, as long as unsanctioned, unscrupulous misconduct are assisted and aided, eliminating parallel economy comes to a never possible equation.

Moreover, factors which gives a kick start to this venomous parallel world is to earn more and more black money which is followed by every unethical activities including smuggling, bribing which can expunge the truthful trade. The enormous amount of black income from India gives us an evidence that parallel black income activities are in a green signal with no halt since ages.

The demonstration effect, wherein black money gives a back support in investment in precious stones, jewellery, etc. The Direct Taxes Enquiry Committee in this connection mentions: 'Monetary policy involving severe restrictions or a curb on disbursement of credit comes straight in face of a parallel economy functioning outside the purview of the authorities. When a dear money policy is pursued or the Government desires to impose selective control on disbursement of finance to certain sectors the black money economy can frustrate this by opening up alternative sources of credit at 'free market rates'. It is our view that black money and tax evasion are even otherwise encouraging over-financing of business which is as dangerous as under-financing. These trends add further to inflationary pressures in the country".

The black income creates a diversion of resources for purchasing the real estate, and venturing luxury construction that creates a low valuation of the property; converting black money into white instinctively. Due to such inefficiency and push in the land pricing, it goes up to whopping rates. The nation gets slackened, as only the resources gets used up only in the construction of such luxury housing. And at times such resources are conferred too, as a result the Government loses its stake over it, creating a deficit. Furtive route of transferring and sourcing the black money from India to other foreign nations by violating the regulations through under-over invoicing the imports and exports. The country is in an incomprehensible phase here, where the country's wherewithal and most importantly the foreign exchange is at a stake. It has been worsening over the years. "The politics of black money thus has corroded the moral fibre of Indian polity. Ministers dole out

favors of crores by accepting black money donations of a few lakhs from businessmen. Musclemen and criminals are fed by political parties to capture booths and thus elections are becoming more and more a farce. National policies are, therefore, being bent in favour of the big business under the pressure of black money. Thus, it is the parallel economy which does the backseat driving, while the political leadership only acts as the mouth-piece of big business to justify the abolition of controls or introduction of a dual system of prices in the name of productivity or national interests. It was due to the pernicious impact of black money on the Indian economy and polity that the Wanchoo Committee concluded: "It is, therefore, no exaggeration to say that black money is like a cancerous growth in the country's economy which, if not checked in time, is sure to lead to its ruination." (Direct Tax Committee, Final Report, Dec 1971, p.9)

As per a confidential analysis performed by the Finance Ministry in 2014 presented that about 90% of unsanctioned wealth or what we say as black money was kept beyond the country's boundaries. This report provided the necessary inputs to the Modi government to step up with 2016 November's decision of refuting or demonetizing, approximately 85% of nations currency circulation.

On November 8, 2016, night when PM Modi delivered the demonetization announcement, he had said that the move would help weed out black money. The said "secret" government report, is actually assimilation of studies conducted by three premier economic Institutions. This report on black money was ready by December 2014 but its existence had been kept under wraps. (Time of India, Aug 13, 2020). Between the years 1997 until 2009 by The National Institute for Public Finance and Policy (NIPFP) – concluded the illegitimate flow of money sent from India to foreign land grew from 0.2 per cent to 7.4 per cent of India's Gross Domestic Product (GDP). The National Council of Applied Economic Research (NCAER) provided a report that in the span 1980 and 2010 the amount accumulated in terms of black money, beyond India's capital boundaries were 2.8% of its total GDP (approximately Rs. 27 lakh crore at the exchange rate). National Institute of Financial Management (NIFM) announced that between 1990 and 2008 the accumulation was Rs 9,41,837 crore, or \$217 billion, being a 10% structural part of the total GDP of the Indian Economy.

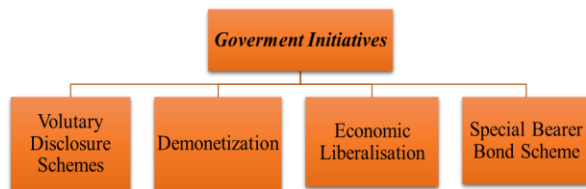
3. Government Initiatives

To curb the spread of black money, its trade and transfers the government has taken various initiatives to scrutinize the taxes and have also made the necessary amendments in the Finance Act 2004. Various other initiative have been given an attempt by the government for the smooth functioning of the economy, few are mentioned in the chart;

- i. To get a hand over black money, the government came up with Voluntary Disclosure Schemes. A total disclosing amount of Rs.78 billion by the closing year 1997.
- ii. 3 demonetizations have happened in India so far, wherein all the attempts were unsuccessful. In 1946, Rs. 1,235.93 crores were only demonetize, following

by January 26, 1978 demonetizing the amount of Rs.146 crores, of which the notes tendered to the Reserve Bank of India were Rs. 125 Crores (Lekhi, 2003, 195). And the most recent demonetization that was ventured in 2016 under the BJP Government which announced that existing Rs. 500 and Rs. 1000 banknotes would no longer be accepted as legal tender with a view to curb counterfeiting, tax evasion and the parallel economy. A target of extinguishing 3-4 lakh crore of Black money, with a result of generating 1.31 lakh crores of black money recovery; which resulted in a serious failure.

- iii. By the liberalization policy, liberalization detached the regime of controls and regulations and thereby the extent of black economy reduced regularly (Lekhi, 2003, 196)
- iv. To enjoy freedom from investigations and prosecutions for tax evasion in 1981, a Special Bearer Bond Scheme was introduced wherein which allowed people to invest their black money in these bonds.



4. Concluding Observation

The people, the society and the entire globe have had certain initiatives and are focusing on how to get rid of “Black Economy”. As a result, as many as 648 disclosures involving undisclosed foreign assets worth Rs 4,164 crore were made in the one-time three months' compliance window closed on September 30, 2015 under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, Minister of State for Finance Pankaj Chaudhary said in a written reply in Rajya Sabha. (Economic Times, Dec 14, 2021). The present status of the Black money is increasing uninterruptedly, which drops a scar of unhealthy economy and drops the growth rate. Wanchoo, Rangekar, Chopra, Kaldor, and Gupta such commissions were set up by the Government of India, for gauging the black economy. Inept Inflation, Enforcement of Tax Laws, etc has hampered the growth so far. Though, the initiatives like demonetization, voluntary disclosure schemes, special bearer bonds have eased the situation a little.

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