

Parallel economy and economic growth (Analysis of the relationship between unaccounted income and economic development in India)

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Abstract—Accumulation of black money is increasing day by day due to bribery, corruption, smuggling, high tax rate, and complex tax structure. This black money creates unessential demand in market which leads to inflation in the market. Through study of literatures, books, journals and survey it is find out that accumulation of black money hinders the economic growth of country. A huge revenue loss incurred to government, so the government has limited income to curb poverty and infrastructure development. Findings reveal that to ensure healthy economic growth, the menace of black money should be eradicated from the economy. Ultimately this study focuses on amendment of old policies and implementing new strategies to deal with this problem.

Index Terms—Black money, Economy, Corruption.

I. INTRODUCTION

The unaccounted or undisclosed income linked as black money which forms the part of parallel economy. The black money creates artificial demand in the market, leading to inflation in the economy. The parallel economy hinders GDP growth as the government fails to collect sufficient revenue. People utilize black money in the unorganized sector, where informal employment prevails, and employees do not receive adequate benefits from government schemes. Corruption, extortion, smuggling, non-compliance, and income concealment are the root causes of the parallel economy. A larger black money economy minimizes GDP growth. Moreover, the government cannot accurately calculate the country's GDP and growth. The prevalence of black money also has a psychological impact on society, as taxpayers feel unfairly treated compared to those who evade taxes and disobey tax laws.

II. LITERATURE REVIEW

Black money, which is unaccounted income and undisclosed assets, will pose a serious setback for country's economic development as well as global economy (Kumar,2017). Black money causes huge loss to government revenue, which leads to shortage of funds for public expenditure and infrastructure development (Schneider & Enste, 2000). Black money causes inequality in the society and feel of unfair among the people who abide laws and rules (Piketty, 2014).

The formation of black money driven by various factors like very complicated tax structure, high tax rates and corruptions like bribery and embezzlement (Tanzi,2000). People use this accumulated black money in the market leads to formation of parallel economy, which is very tough to control and investigate (Kumar, 2017).

To edge against black money requires well formed strategies and planning. Which includes simplification of tax structure, reduce tax rate, transparency in financial dealings and property' ownership (Slemrod, 2007; Financial Action Task Force, 2020). In spite of this international collaboration is essential to deal with this menace of tax evasion and money laundering (OECD,2020).

III. RESEARCH METHODOLOGY

Primary Data – This research will be based on primary data, where questionnaire based on likert scale

Secondary Data- This will also look into secondary data, like journals and books.

- Research Objective-

To find out methods to eradicate the parallel economy and its impacts.

- How black economy disturb the GDP growth
When people don't pay taxes, the government loses revenue, which reduces the money available for economic development, infrastructure development, and public services development. Tax evasion, through concealing income or showing artificial expenditures in accounts, can lead to unfair competition in the market. Those who evade taxes gain a cost advantage since they don't incur huge costs on research and development or expensive inputs. This puts compliant competitors at a disadvantage, as they have limited surplus compared to those who don't pay taxes. As a result, businesses that comply with tax laws may struggle to compete and could even face shutdown due to limited capital resources.

Furthermore, the money saved by not paying taxes is often held in cash rather than being deposited into the formal banking system. This reduces credit availability and investment proposals, ultimately affecting the economy. By not contributing to the tax pool, tax evaders not only deprive the government of revenue but also create an uneven playing field for businesses that follow the law.

- Action taken by Government to eradicate the parallel economy:

1. Black money (undisclosed foreign income and assets) and imposition of tax act,2015 (w.e.f. 01/07/2015)- This act introduced in India by government to eradicate the black money in abroad in the form the form of assets(investment in stocks, real estate etc) by Indian residents. This act imposed tax rate at 30% with 90% of penalty on the total amount of tax. This act opens a single time compliance window (01/07/2015-30/09/2015) for people to disclose their unaccounted income and assets. During the compliance window around 64275 people declare the unaccounted assets worth Rs. 41800 crore on which approximate Rs. 25000 crore of tax was collected.

2. Enactment of the Benami Transaction (Prohibition) Amendment act,2016 (01/11/2016)- Benami transactions are conducted during purchase and sale of property (real estate, building, land, stock,

bonds or other financial instruments) to hide the true owner's identity. This act clarify about benami transactions and what constitute benami property. This act imposes imprisonment of 6 months to 7 years and fine up to 25% of the fair market value of the property involved in this transaction. The government can also seize benami property without any compensation and can also auction it. This act does not get much success because it is much complex to identify any benami transactions. There are lots of pending cases on benami transaction which need a lot of time to solve.

3. Constitution of the Special Investigation Team (SIT) on black money in May,2014- SIT actively working on the curbing of black money in India and unaccounted income in abroad by Indians. This team provides multiple of reports to Supreme court on black money. SIT identify Rs. 54000 crore of black money in India and Rs. 16000 black money hidden in abroad. Lots of recommendations are made by SIT for government on which some are accepted and implemented too.

4. Enforcement Directorate (ED)- This organization established on 01/05/1956 to investigate on the money laundering activities and violation of foreign exchange laws. The government has collected total of tax amounted to Rs. 2655 crore till June 2024 and seize Rs. 10000 crore of black money that had been transferred to abroad through bank accounts. Instead of this success some critics give argument that ED has low conviction rate due to long legal process and insufficient evidence.

5. Fungitive Economic Offenders Act,2018- A persons will declare a Fugitive Economic Offender (FEO) if any arrest warrants are issued on him due to money laundering, counterfeiting or defrauding creditors at least Rs 100 crore, leave India to avoid prosecutions or refuse to return also. The act allows government to confiscate the FEO's property in both India or abroad. A special court constituted under the Prevention of Money Laundering Act, 2022 declare individual as FEOs and also deal their applications. A person will declare FEO when he involve in fraudulent activities of Rs. 100 crore or more, but people can escape themselves by committing multiple small frauds below this threshold limit. For confiscating properties in abroad, lot of cooperation requires with foreign governments, which lead to a challenge.

6. Pradhan Mantri Garib Kalyan Yojna,2016(PMGKY)- This scheme was initiated by government, which allowing people to avoid prosecution by paying 49.9 percent of fine (including tax, surcharge and penalty) on undisclosed income in the form of cash or bank deposits only. People who have wealth in other forms like immovable properties, jewellerys and or foreign assets, can not avail the benefit of this scheme. It was only a single compliance window scheme which was active from 17/12/2016 to 31/03/2017 only. After this period no any applications are accepted. In this scheme 25 percent of undisclosed income had to be deposit in the Pradhan Mantri Garib Kalyan Deposit Scheme, with lock in period of 4 years which does not qualify any interest.

IV. MEASURES TO BE TAKEN TO ERADICATE THE PARALLEL ECONOMY

1. Use of Digital platform for government services- Digital platforms can dehumanize many processes, that will reduce face to face interaction among many agents or mediators, which will help in reduce bribery and corruption. By following algorithm, if any suspected frauds exist, it can be identified. Here in government offices cash payments should be prohibited and follow digital payments only. By using digital government platforms, government can increase transparency, accountability and efficiency. UMANG (Unified Mobile Application for New-age Governance), My Gov, GeM (Government e-marketplace), digital ration, online tax filing, e-passports etc. are example of government digital platforms.

2. Use smart technology- In government offices and public area CCTV cameras should be strategically placed, which help to deterring corrupt activities. Use of biometric identification may ensure authenticity of individuals and any transactions. AI (Artificial Intelligence) can automate many tasks, which will help to increases in efficiency in anti-corruption efforts. AI can supervise government transactions, projects over the corruption. Now China discovering AI tools to help Africa to enhance their AI capabilities which can be used to identify and predict corruptions and frauds.

3. International Cooperation- Despite of signing on Tax Information Exchange Agreements (TIEAs) with 13 countries, India still not got important and more relevant information on black money which is parked in foreign banks. India need to address money laundering cases which are pending in courts, so anti-money laundering measures effectively implemented. India needs to strengthen it relation with other countries to share information and adopt effective anti-money laundering measures. According to Swiss National Banks, Indians have around Rs. 37600 crore in Swiss Banks. Switzerland, Mauritius, Singapore, Hong Kong are the main hub for stashing black money. So the Indian government needs to enter into multiple agreements with foreign governments to effectively tackle black money black money, because black money not only impacts the country's economy and international trade but also provides funding for terrorism.

4. Educate citizens about corruption- India should provide its citizens with a concise explanation of corruption and its impact on the economy. Citizens should be educated about how corruption affects the country's progress and its people. The government should empower citizens to directly report black money and corruption. To encourage whistleblowers, the government must ensure their identities remain confidential, allowing citizens to report issues without fear. India should formulate robust laws to safeguard whistleblowers and offer incentives, such as rewards, to encourage them to come forward and expose corruption and wrongdoing.

5. Transparency in government contracts- Most contractors offer bribes to government officials to secure contracts and avoid scrutiny. They also misuse government funds by generating fake invoices. To ensure these activities do not exist, government needs to take concern on it. Government must to ensure fair, competitive and transparent bidding process. Regular audits and monitoring should be conducted in key areas. An efficient framework is required to allow whistleblowers to report suspicious activities directly to the government. The government should utilize an advanced e-procurement system, which is an electronic platform where all bidding processes, payments, and other activities are conducted electronically, strategically monitored, and

transparency is ensured. Example: GePNIC which was developed by National Informatics Centre (NIC), Ministry of Electronics & Information Technology, Government of India,

6. Independent Media- An independent media not only simplifies the government's policies for the citizens but also exposes corruption and illegal activities happening in the country. Independent media continuously conducts research and investigations to identify corruption in the country. If there are any suspicious activities, then they investigate and uncover the truth.

Independent media provides a platform for those who want to raise their voice against corruption or have information about it, while keeping their identity confidential. If there's corruption in any government project or program, or if there are secrets that the public should know, independent media holds authorized officials accountable by questioning them.

7. Digital payments- The government should promote digital payments. The use of digital payments is increasing day by day due to its convenience and accessibility. In India, the government has taken several commendable efforts for its success. Digital payments are more traceable than cash transactions, which helps minimize tax evasion. Black money often circulates due to cash transactions, but digital payments promote transparency, which helps eradicate corruption in the economy.

8. Incentives for Transparency- If companies maintain transparency in their dealings and decisions, it can significantly reduce corruption. To promote transparency, the government can offer incentives such as tax relief or subsidies to companies that prioritize transparency. This transparency not only helps reduce corruption but also builds trust with customers and investors.

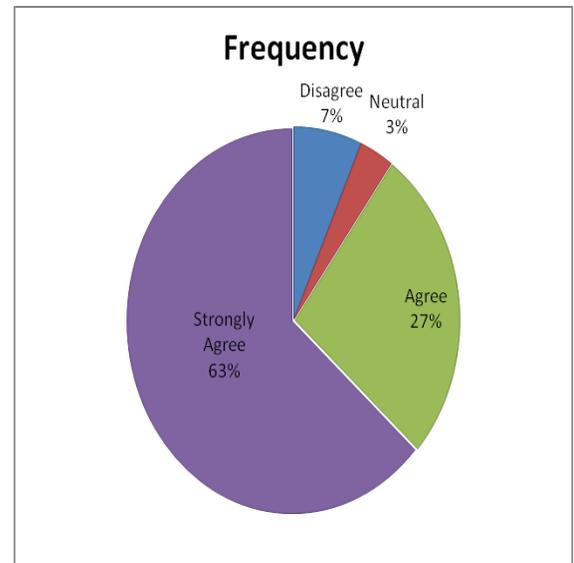
9. Simplified Tax structure- The current tax structure still tough to understand for common person. Lot of efforts is needed to make them simpler or more understandable.

Here we asked to 35 respondents (includes only Employees, Shop Owners) through Google Forms to know how much complex current tax structure.

Question- Do you feel that the current tax structure is highly complicated?

The answer of all respondents are illustrated through table and graphically-

Likert Scale	Frequency in No.	Frequency in %
Strongly Disagree	0	0%
Disagree	2	7%
Neutral	1	3%
Agree	8	27%
Strongly Agree	19	63%
Total	35	100%



V. ANALYSIS & INTERPRETATION

This pie chart shows present tax structure is highly complicated, Where 0% of respondents are strongly disagree,7% are disagree,3% are neutral 27% are agree and 63% are strongly agree. The government should have to take initiative to simplify tax structure. Corruption cannot be eradicated solely by the government's efforts. To eliminate it, the public must also join hands with the government. The public needs to be vigilant. Whatever policies the government introduces to combat corruption, the public must understand and follow them. The government should learn from countries where corruption is minimal or non-existent and adopt similar policies. To tackle the growing problem of

corruption, the government should also leverage new technologies.

VI. RESULT & CONCLUSION

The amount of black money in India's economy is substantial, which has a severely adverse impact on India's progress. Government policies aimed at strengthening the country are not being implemented effectively due to this issue. The parallel economy has emerged due to various factors such as corruption, bribery, smuggling, excessive taxation, and a complex tax structure. The government should eradicate these root causes, and the public should need to support this effort.

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