

## CONCEPTUAL OVERVIEW OF SHADOW ECONOMY: SOCIOECONOMIC IMPACT AND RAMIFICATION ON THE SUSTENANCE OF A NATION

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### ABSTRACT

Shadow economy or informal economy is a crucial issue faced by the country in the present economic scenario. A prospering parallel economy makes the official statistics regarding unemployment, income, consumption, etc., inappropriate. Even a casual worker driving an unlicensed taxi at night as a second job comes under the parallel economy.

**Keywords:** Shadow economy, Unemployment, Income, Consumption, parallel economy, statistics

### INTRODUCTION

Shadow economy or parallel economy is a critical issue being faced by a developing country like India. There are several issues which aggravate the existence of an economy. Parallel economy, in short is the generation of black money through illegitimate means. This research paper depicts an understanding on the term parallel economy and its impacts and effects on a developing nation.

#### Objectives of the study

1. To understand the term "shadow economy" and its effect on a growing economy
2. To know the present status of black money in India
3. To study the main reason behind the generation of black money
4. To suggest certain measures to narrow down the impact of parallel economy on the growth of a nation.

### LITERATURE REVIEW

#### Shadow economy

Shadow or parallel economy, based on the black money or unaccounted money, is a big menace to the Indian economy. It is also a cause of big loss in the tax revenues for the government. As such, it needs to be curbed. Its elimination will benefit the economy in more than one way.

Shadow economic activity is problematic for several reasons. One of the purposes of government is to provide the legal framework within which economic activity takes place; and societies with good institutions prosper. However, when it comes to shadow work, those legal institutions are bypassed: Contracts can often be unenforceable; economic relationships can become marred by violence; it can become very difficult for businesses to expand because they then come to the attention of the authorities. A large shadow economy also means that tax rates are higher for those working in the formal economy [2].

#### Definition

According to National Institute of Public Finance and Policy defines that "Black money is the aggregate of incomes, which are taxable but not reported to authorities [3]."

Apart from this, the term black money would also include legal income that is concealed or hide from public authorities: (a) To evade payment of taxes which includes - Income tax, excise duty, sales tax, and stamp duty; (b) to evade payment of other governmental or statutory

contributions; (c) to evade compliance with the provisions of various industrial laws which exists such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1965, and Factories Act 1948; (d) to evade compliance with other laws and administrative procedures applicable in India [4].

#### Effects of parallel economy

The economic development has been adversely affected in several ways through the circulation of black money.

- Basically, the misdirection of precious national resources. A part of black money is kept in a form that contributes nothing/little to productive activities. Again, much around half to two-third is squandered away on ostentatious consumption of goods and services
- It has immensely aggravated the income distribution, thereby undermined the fabric of the society
- The existence of a large confidential sector of the economy is a big drawback in making a proper scrutiny and formulation of suitable policies. Nor it is able to monitor the development in the economy with rigor
- The unaccounted money has destroyed the social values of the society. Such income is "earned" by unlawful means, and the same is spent in unsavory and vulgar ways[1].

#### Reasons of generating black money

There are many sources of earning the illegitimate money in India. The reasons can be summarized as follows:

- Black money, money which is earned illegally, or on which the necessary tax is not paid. In India, the amount of black money is increasing day by day due to reasons such as of improper controls, permits, quotas, and licensing policies.
- Huge taxation imposed on the people has resulted in a growing tendency of tax evasion among the taxpayers. This problem of tax evasion is a common issue faced by the economy in the case of income tax, corporate tax, corporation tax, union excise duties, custom duties, sales tax, etc.
- In India, the enforcement of tax laws in respect of the different taxation policies is fragile. This has forced to unrestricted evasion of taxes and piling up of black money.
- There is an upward tendency of supporting of political parties with the help of black money. Big trade houses are donating an enormous amount of black money to the political parties, especially the ruling party with the sole objective to tame the political leadership for deriving undue profit by manipulating policy decisions [9].
- Second World War after influence: During the time of Second World

War, a lot of the Indian industry found circumstances favorable for black marketing. Supply industrial goods from the traditional supplies of the West were cut-off, which resulted severe shortages in many essential fields. This formed the sentiment of making of marketing money out of shortages and not out of the extension of the business activities.

- Inflation: The addition in prices of commodities such as petrol in international market, boost in prices of commodities due to high increase in duties and taxes imposed by the government, the conspicuous utilization created by people with unaccountable money, diverting resources from manufacture to speculation - All these are the root of inflation which, in turn, creates black money.
- Agricultural income: The reluctance to bring agricultural earnings in the realm of income tax has also contributed to the creation of black money. Big industrial houses, over the past few decades, have entered the agriculture sector in a big way by acquiring big farms. The black money accrued from other sources is sought to be transformed into white by viewing it on the agricultural returns account.
- Privatization: Privatization has opened up a new area to the private sector as well as to ministers and bureaucrats for making black money. It is expected that many scams come to light for making black money through privatization.
- Transactions in urban real estates: Real estate transaction is a significant source of generating black money in India.
- Other factors: Generation of black income in a country like India also results from other different activities such as smuggling, property deals, bribery, kick-backs, commissions, concealment of income by professionals, and artists. In this way, an enormous amounts of black income incessantly results in enhancement of the area and activities of parallel economy [9].

#### REVIEW OF LITERATURE

Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts, and government initiatives, in which he focused on the existence of causes and impacts of black money in India. According to him, the main reason behind the generation of black money is the Indian Political System, i.e., Indian government 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 [5].

Aggarwal (2012) edited the white paper on black money studied that violation of laws by central and state government leads to criminal activities which in turn leads to the generation of black money in Indian economy [6].

Guru and Kahanijow (2010) researched on is black money income? Need for amendment in DTAA and ITEA analyzed that black money is spread everywhere in India up to a large extent which continuously

stashed toward abroad in a very large amount. They also studied how black money had caused menaces [7].

Vijay Kumar Singh presented a paper on controlling money laundering in India - Problems and perspectives that to control black money in India is a very difficult task only due to the existence of one reason, i.e. poor implementations of laws which lead to sophisticated crime in the economy and thus generates black money [8].

#### CONCLUSION

Parallel economy is an upcoming warning for the Indian economy. In India, parallel economy is widening its face. Several commissions were introduced under Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta for the estimation black money. There are several criteria such as control and licensing system, excessive taxation, inefficient implementation of tax laws, cost-pull inflation, and capitulation of political parties, which influence the growth of parallel economy in any country, especially India. Black money is a new threat for the Indian economy. India is affected by black money in a pathetic way as it is underestimating gross domestic product, increasing inequality, worsening illegal activities, etc. Over the past 50 years, the government has at various times announced several schemes offering opportunities to bring black money overboard, but the result is not so effective among them are the introduction of Special Bearer Bonds, demonetizing high denomination currency notes, rigorous raids, and methods of voluntary disclosures. These instruments are expected to reduce the volume of the black economy over the period [10].

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