



Corruption and Black Money in India Judicial and Administrative Measures

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Abstract

In this paper, I have discussed about the corruption and black money in India with respect to judicial and administrative measures. The vision of India has to be a long run one in which the short run is integrated. It has to be all-inclusive and not sectarian. It has to be innovative and- based on India's needs. The elite has to stop copying from other successful nations and give indigenous ideas a chance. The problems India faces are mostly the creation of the elite even though they portray a contrary picture. The black money has discredited social action and reduced society's capacity to solve its problems. The nation is buffeted by a sequence of events and not governed by any well laid-out plan. Even if the black money exists all over the world, given its repercussions that cannot be an excuse to tolerate it here. The attempt to contain/eliminate the black money would be a fight to re-establish the rule of law and for enabling the citizens to live in dignity. In brief, it would be a fight to 'build a dynamic and civilized society.

Keywords: Black Money, Corruption, Black money control, black money in India.



Introduction

Black money has two inter-connected dimensions-domestic and global. Domestic illicit money is associated with corruption and tax evasion. But all black money is not due to corruption even though all corruption leads to black money. For example, you may visit a doctor and pay him cash of 500 rupees as consultation fees. If he or she does not show it in his or her income, then in a sense it is black money. Generally, the money, which is earned by means of illegal methods, is considered as black money, and the money earned by legal methods but hidden for paying income tax (also called tax evasion), is also called black money.

It is also to be noted that all income on which taxes are not paid is also not black money. For example, agriculture income in India is not taxed. Agriculture constitute nearly eighteen to twenty percent of our Gross Domestic product (GDP) and so the entire agriculture income cannot be termed as black money since it is untaxed. “India’s black economy is estimated to be 62 per cent of GDP-generating (at 2016-2017 prices) about 93 lakh crore of revenue (\$1.4 trillion) (Kumar, 2017)”. Kumar further argues, Its larger than the size of government (centre and States) spending, which is about 27 per cent of GDP.

The last time the black money occupied everyone’s attention before the 2016 demone-tization was in 2011 when a succession of scams appeared and Anna Hazare and Arvind Ke-jriwal fronted a movement to root out corruption in the country.

Another movement with the same objective was consequently led by Baba Ramdev. In the 2014 general election this became central, with the BJP promising to bring back the black money held abroad by wealthy, corrupt Indians. The party’s leaders promised that when all this money was brought back, every Indian family would be getting 15 lakh rupees. That has not happened, nor has been there been any cessation in the growth of the black money. The black money is never eliminated by black assets as is the popular belief. It merely changes hands (Black Money, 2012).

Black Money: Definitions, Origins, and Growth

There is no uniform definition of black money in the writing or economic theory. “Infact, several terms with similar implications have been in trend, including ‘unaccounted income’, ‘black income’, ‘dirty money’, ‘black wealth’, ‘underground wealth’, ‘black money’, ‘parallel money’, ‘shadow money’, and ‘underground’ or ‘unofficial’ money” (Rishi & Boyce, 1990). All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from law-ful activities or activities which are unlawful like trafficking, illegal trade in banned constitu-ents, fake currency, arms trafficking, terrorism, and corruption. For the purpose of this docu-ment, ‘black money’ can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession (Ministry of finance, 2009). Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:



- To evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc.);
- To evade payment of other statutory contributions;
- To evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factory Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or
- To evade compliance with other laws and administrative procedures.
- To be able to analyze the black money, it is important to comprehend the phenomenon most of the economist is talking about. Different people have different ideas about the black money. Thus, often there is cross talk and agreement becomes difficult.

Black money occurring from illegitimate accomplishments such as crime and corruption has an underlying antisocial element (Knack, 2007). The ‘criminal’ constituent of black money may include progresses from a range of activities including racketeering, smuggling in reproduction and illegal imports goods, trafficking, production and trade of tranquillizers, counterfeit, banned mining, illegal chopping of forests, illicit alcohol trade, robbery, kidnapping, human Trafficking, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money, bank deceptions, and illegal trade in arms (Kumar, 2002). Some of these offences are included in the schedule of the Prevention of Money Laundering Act 2002 as well.

History of the Black Money

The black money and illegality have existed in all societies at some point. In India, it became systematic during World War II, when shortage of essential items became critical. Rationing of food was introduced but black-market activities also emerged. To escape detection, perpetrators bribed the bureaucracy and the police. Inflation led to increase in the price of property, meaning that those without property found it difficult to get housing. The government introduced rent control laws, which later on became a source of corruption in the courts (Rahang, 2017).

The British set up a civil service to administer (keep control of) India. The public servant became in effect the public master with enormous power over the people--this was used to extract bribes. However, as bulk of the population was poor self-employed, worked in agriculture, civil servants had few dealings with the public, so the level of corruption and the black money was negligible. Moreover, the civil service was accountable to the colonial masters. Because they were interested in efficient control of the country, they did not allow corruption to grow they also paid the civil service servants high salaries as compared to the per capita incomes of locals, and gave them many privileges so they were less tempted to be corrupt.

There was a landlord class ruling over the peasantry that extracted rent from the farmers on behalf of the colonial masters. They were a part of the tiny colonial ruling elite and had substantial powers, which were misused to collect money from the people they ruled. In real terms, however, their depredations did not affect the money too much as their numbers were not significant.

After Independence, an Indian political class came to power. They started the task of development in a very poor country. They depended on the civil service on the govern to govern



the country and did not transform it into a public service that was accountable to the people. The political class emerged from the national freedom movement was democratic in its aspirations, but its members came from the country's elite class and had feudal inclinations. They thought of themselves as rulers and not as true representatives of the people. Consequently, independent India started with high aspirations but a weak democracy because the power was transferred from the colonial masters to a relatively unaccountable political class and a civil service that was accountable mostly to the ruling elite. "As the democratic aspirations of the national movement weakened, the political class became more corrupt" (Kaldor, 1956). The Government of India report of 1956 argued for the need to keep the black money in check so that more resources could be raised for development. It found businesses generating profits from black market activities in all sectors of the Indian national movement understood that colonial rule was responsible for not only impoverishing the common man but was also the reason he was unable to better his lot. Therefore, it was decided that society as a whole had to overcome these basic problems (poverty, education, health and soon) of the people and the State was given a large role in economic matter. The optimum utilization of resources required, among other things, central planning, which required the licensing of capacity in industries. This reinforced the role of the State in the money.

Due to deindustrialization in India during colonial rule. Indian capitalists were too small to generate the capital necessary for the creation of the essential infrastructure for transportation and power, for example. They lacked the technology and capital to invest in basic goods like metals and petroleum, or in capital goods manufacturing. The corollary was that a large public sector was needed to support both the growth of the private sector and the planning process. This required the mobilization of savings in a country that was poor. Consequently, consumption had to be restrained through taxation and limiting the production and importation of luxury goods. Imports were limited so as to conserve the foreign exchange required to import capital goods for development. A strategy of Import substitution was adopted to boost industry and high customs duties were introduced for this purpose (Dental & Formulary, 1983).

As India developed, the size of the middle class increased and the shortages of basic goods (e.g. food, scooters, cement) or basic services (e.g. telephone and railway reservations), appeared. Queues formed for each of them, and soon thereafter black 'markets developed. Businesses took advantage of these black markets and corruption spread to, the lower levels of society. Big business in India realized that the manipulation of trade and economic policies required close proximity to political power. It started exercising direct control over the political process by financing political parties and individual candidates for legislatures. It also increasingly interfered in appointments at the senior levels of the bureaucracy in key ministries.

There was growth in illegal business practices in India during the oil crisis and a sharp increase in the petro goods prices in the 1970s. The sudden wealth generated by the oil-exporting countries, especially in West Asia, led to large-scale economic activities there, but as they lacked the necessary skilled labor (carpenters, plumbers drivers, teachers, engineers, doctors), they imported it from South Asia on a large scale. These migrants started sending money back



home to their families. This encouraged the spread of Hawala internationally because the Hawala operators provided cheap services and a premium on the money sent through them. Simultaneously, this service also allowed Indian businesses to send their capital abroad.

National Income Accounts and the Black Money Most analysts ignore the black money. This is so either because they have not developed the required analytical framework and/or because they argue that the data is not available (or is unreliable). But this misses the point that even the statistical basis of data on the white money is often only a little firmer than that relating to the black money. The implications of underestimation of the size of the money and specially of the service sectors, for calculating the growth rate of the money since at least the seventies, has been serious as it has resulted in misconceptions about the trends prevalent in the money. The money is divided into the primary, the secondary and the tertiary sectors. These are further divided into nine sectors. The contributions of each of these sectors to output are estimated by different methods and are affected differently by the black money. In certain sectors, the method used for estimation does not utilize taxreported data. Hence, existence of the black money does not affect the determination of the size of these sectors. Agriculture and construction fall in this category. The contribution of certain other sectors to the National Account Statistics (NAS) is incorrect not because of the existence of the black money, but due to a lack of reliable data sources, for example, in the unorganized sectors.

Remedies for Curbing the Black Money

As above it was argued that the major macroeconomic problems since the seventies have been integrally linked to the growing black money, and it was shown that the black money has systemic consequences and affects all aspects of the citizen's life. Hence, it should have been a significant factor of analysis in the medium money. Its non-inclusion in analysis resulted in a partial understanding of the Indian money and often to incorrect policy pronouncements (Kumar, 2012). The need to incorporate the black money was not simply an empirical matter but a theoretical necessity. The circular flow of incomes changes with the black money. The theoretical analysis yields counter-intuitive results with regard to tax evasion, investment and savings, subsidies, BOP5 and so on.

Capital is able to raise its share in national income using the black money but paradoxically hurts its own interest. It reduces its own capacity to grow rapidly (by narrowing its markets). While this makes it more dependent on the State to generate demand in the money, it also reduces the effectiveness of the State to do so because of policy failure. It blunts the instruments available to it for its own rapid growth for the sake of short-term gains.

Prior to 1991, it was widely argued that to curb the growing black money, controls needed to be reduced and tax rates lowered. Since 1991, many of the controls are gone and direct tax rates have been drastically reduced but from available indicators the black money has continued to grow.

Decision-making in the public sector is different from what it is in the private sector. It requires commitment and understanding. Often a decision may seem all right in the macro



context but may seem to be bad viewed in a limited context. For instance, if to develop a backward area, an industry has to be set up at a great infrastructural expense, the decision at the micro level is irrational since it could be.

Public-sector managers and bureaucrats tend not to take Clear decisions since if proved wrong, they would face flak. They try to spread the risk around by not taking decisions and by ensuring that blame cannot be pinpointed. Accountability is the victim. The privileged character of the bureaucracy, a residue from the colonial times, and its incorporation in the triad are responsible for non-responsiveness to the common man. To change this, its perks and privileges must be reduced substantially. In a national perspective, its status must be brought down to that of the common man and certainly in relation to other more important tasks facing the nation, like, R&D. Today the world has become so complex that it is not easy for a generalist to understand the technicalities and decide on the correct course of action. To deal with this complexity, the practice of appointing generalists for important jobs must end. Policy-making powers must be with committees consisting of specialists. Further, there is a need to promote institutional functioning with wide delegation of responsibilities.

Conclusion

The system has become weak but the country does not lack well-intentioned people. As argued earlier, those substantially involved in the black money are no more than 3% of the population. In other words, 97% are either not involved or marginally involved (Kumar, 2017). The numbers of those who aspire to make illegal incomes may be substantially larger but they are at its fringe and if shown a way may never get involved in it. In essence, the vast majority of people is honest or can give up their expectations of involvement in illegality. Hence countering the black money is feasible. Electoral reform will not take place since the vested interests would not allow it. Movements, which change the consciousness of people and make them strong enough to resist the temptations, are needed for a turn around. The hands of the vested interests would have to be forced before they give up. Movements by changing consciousness strengthen the positive. The nation is witnessing changing consciousness localized movements all over but they do not yet add up to a decisive factor. There would have to aggregate to form a bigger one around a common theme namely, the subversion of the popular will. Social sciences cannot prove anything conclusively—they provide a guide to action.

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