

The amount of black money in india economics essay



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Several attempts have been made for estimating the amount of black money in India but it is almost next to impossible to account for the same in a fair and transparent manner. The main difficulty arises on account of the fact that the 'black' economy exists in the shadows. There is, therefore, wide variation in the figures reported as estimates are required to be made in indirect ways. Various individual methods like input/output method, monetization approach, fiscal approach, survey approach, etc. are used by the following committees for quantifying the black income.

I. Kaldor's Estimate: Although the Taxation Enquiry Commission had examined the structure of Indian Taxation, a review by Prof. Nicholas Kaldor was desired by the Government in late 1955 "in view of the larger dimensions assumed by the problems of resources for the plan since the commission reported (Important Events 1946-61)." Prof. N. Kaldor in his report on Indian Tax Reform estimated the non-national income (i) wages and salaries (ii) income of self-employed and (iii) profit, interest and rent. After making the rough adjustments, according to Wanchoo Committee, "the estimated income on which tax has been (black income) would probably be Rs. 700 crores and Rs. 1000 crores for the years 1961-62 and 1965-66 respectively. Projecting this estimate further to 1968-69 on the basis of percentage increase in national income from 1961-62 to 1968-69, the income on which tax was evaded for 1968-69, the income on which tax was evaded for 1968-69 can be estimated at a figure of Rs. 1800 crores".

II. Wanchoo Committee's Estimate: Shri K. N. Wanchoo, retired Chief Justice of the Supreme Court of India, as chairman explained what the term black

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money meant in its final report submitted in December, 1971. This committee estimated non-taxable salary income for 1961-62 of amounting Rs. 2686 crores and non-taxable salary income actually assessed to tax as Rs. 1875 crores, thus, tax escaped for Rs. 811 crores. Therefore, in 1961-62, black money was of amounting Rs. 700 crores which rose to Rs. 1000 crores in 1965-66 and further Rs. 1400 crores in 1969-70. Very lately it was accounted to be 4.4 percent of GNP.

III. Rangnekar's Estimate: D. K. Rangnekar as a member of the Wanchoo Committee submitted his report in 1982 (India Today, 2005). According to Rangnekar, tax evaded income for 1961-62 was the order of Rs. 1,150 crores, as compared to the DTEC estimate of Rs. 850 crores. For 1965-66, it was Rs. 2,300 crores, as against Rs. 1,216 crores estimated by DTEC. The projections of black money for 1968-69 and 1969-70 were Rs. 2,833 crores and Rs. 3,080 crores respectively.

IV. Chopra's Estimate: A Committee under O. P. Chopra was formed in 1982 for measuring black money in India (India Today, 2005). O. P. Chopra prepared a series of estimates of black income where it increased from Rs. 916 crores (6.1 percent of GDP) in 1961-62 to Rs. 8098 crores (10.5 percent of GDP) in 1976-77 (Dhar, 2003). The study showed that a buoyant economy offers more opportunities for unaccounted income. During periods of recession, it may be difficult for producers to exact unaccounted money. Chopra also corroborates the hypothesis that tax evasion is more likely the higher the rate of tax. His findings also support the hypothesis that increase in prices leads to an increase in unaccounted income. Further, he

found that funds are diverted to agriculture to convert unaccounted (black) income into legal (white) income.

V. Gupta's Estimate: Government of India formed a committee under Poonam Gupta and Sanjeev Gupta in 1981 for calculating black money in India. They used Feige's method of transaction income ratio to estimate black money in a country. They used average of three years viz.

1949-50, 1950-51 and 1951-52 as the bench mark for estimating black money for the year of 1967-68 to 1978-79. They estimated that it was 19.8% of GDP at market price. The black money increased for Rs. 3034 crores in 1967-68 to Rs. 46867 crores in 1978-79. The main findings of studies on black money were: (a) A buoyant economy offers more opportunities for unaccounted income; (b) The ratio of unaccounted income to assessable non-salary income has gone up after 1973-74; (c) Increase in prices leads to an increase in black money; (d) Funds are diverted to agriculture to convert black money into white money; and (e) One per cent increase in overall taxes leads to more than 3 percent increase in the black economy relation to the official economy.

VI. NIPFP Study on Black Economy in India

National Institute of Public Finance and Policy (NIPFP) conducted a study under the guidance of Dr. S. Acharya. The study defines 'black' money as aggregate of incomes which is taxable but which is not reported to tax authorities. The study, however, gives a broader definition of 'black' income and calls it as "unaccounted income" for purposes of clarity. As there is lack of sufficient data, the NIPFP study follows "the minimum estimate approach" that is to say, not being able to ascertain the most probable degree of under-

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declaration or leakage, the study uses a degree of under-declaration which could safely be regarded as the minimum in the relevant sector. In several cases the study has also made use of a range rather than a single figure of under-estimation.

While preparing the estimate of 'black' income, the study excludes incomes generated through illegal activities like smuggling, black market transactions, acceptance of bribes, kickbacks, etc. To prepare a global estimate of black income, the study confines itself briefly into six areas:-

(i) factor incomes received either openly or covertly while participating in the production of goods

and services;

(ii) 'black' income generated in relation to capital receipts on sale of asset;

(iii) 'black' income generated in fixed capital formation in the public sector;

(iv) 'black' income generated in relation to private corporate sector;

(v) 'black' income generated in relation to export; and

(vi) 'black' income generated through over-invoicing of imports by the Private sector and sale of import

licenses.

After aggregating the different components of 'black' income the study quantified the extent of 'black' money for different years as under:-

Year Estimate for black money (Rs in Crore) %age of GDP

75-76 9, 958 to 11, 870 15 to 18%

80-81 20, 362 to 23, 678 18 to 21%

83-84 31, 584 to 36, 784 19 to 21%

NIPFP study concludes that “ total black income generation of Rs. 36, 784 crore or in round numbers Rs. 37, 000 crore out of a total GDP at factor cost of Rs. 1, 73, 420 crore seems to be on the high side, although it turns out to be less than 30 per cent of GDP as against some extravagant estimates placing it at 50 or even 100 per cent of GDP. Taking out lower estimate, what we would say with some degree of confidence is that black income generation in the Indian economy in 1983-84 cannot be placed below 18 per cent of GDP at factor cost or 16 per cent of GDP at market prices.”

While the NIPFP Report estimates the extent of ‘ black’ economy (not counting smuggling and illegal activities) at about 20% of the GDP for the year 1980-81, Shri Suraj B Gupta, a noted economist, has pointed out some erroneous assumptions in NIPFP study. He estimated ‘ black’ income as 42% of GDP for the year 1980-81 and 51% for the year 1987-88. Shri Arun Kumar in his book has pointed out certain defects in NIPFP study and Gupta’s method. He estimated the extent of ‘ black’ income to be about 35% for the year 1990-91 & 40% for the year 1995-96.

Thus, it can be said that though ‘ black’ money exists to a substantial extent in our economy, its quantum cannot be determined exactly.