Black Money Criminals — Who will Catch the Big Fishes?

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Introduction

The ghost of “Black Money” stashed in Swiss banks continues to haunt the Government of India. The recent disclosure that more than 100 Indians have deposited their ill-gotten money in these banks and the consequent uproar had forced the government to announce, on January 25, 2011, the appointment of a multi-disciplinary committee to look into the matter. However, the Finance Minister (FM) has refused to disclose the names citing legal problems entailing international treaties which “prohibit disclosure of names” as the reason. The FM further said that the experts, who are part of the committee, are from the National Institute of Public Finance and Policy (NIPFP), the National Council of Applied Economic Research (NCAER), and the Institute of Financial Planning (IIFP). This is likely to be an exercise in futility, considering the fate of the recommendations made by several commissions appointed by the government earlier.

The object of this write-up is to present (1) a working definition of the term “black economy”; (2) the methodologies adopted by economists to make an estimate of the size of the hidden wealth; (3) estimates of the Indian situation; (4) factors, consequences, remedies and policy implications; and (5) concluding remarks.

The growing concern for the unaccounted economy is reflected in the numerous popular articles and scholarly papers published in newspapers and professional journals, respectively. There are at least 12 books on the subject. Conferences had been organised to discuss the problem, for example, International Conference on the Unobserved Economy (Institute of Advanced Studies, Netherlands, June 1982), Annual Conference of the Indian Economic Association (Jabalpur, December 28-30, 1982).

This article is based on selected essays, notably the one titled “Unaccounted Economy in India—A Critical Review of Some Recent Estimates” by Dr Shankar Acharya, a distinguished economist specialising in public finance. The problem exists not only in India but also in several developed and developing countries. A collection of essays relating to the status in America and several countries written by experts had been edited by V. Tanzi*. He was then with the International Monetary Fund. The book is titled: The Underground Economy in the United States and Abroad (1982).
The Government of India had earlier appointed a number of Commissions and Committees to look into the matter. Appendix II gives a list. It includes a report prepared by a distinguished economist Nicholas Kaldor* who was invited by the then Prime Minister, Jawaharlal Nehru, to make an assessment of the Indian situation. Kaldor submitted the report in 1956. However, it is the Wanchoo Committee Report (1971)+, which got wide publicity because of the persistent criticism of the CPI-M MP, Jyotirmoy Bosu, in Parliament of the total failure of the government to implement the recommendations of the earlier Commissions and Committees.

Black money is known by various names, such as black economy, parallel economy, underground economy, subterranean economy, unaccounted economy, and unobserved economy.

1. Definitions

The definitions range from a restricted one involving the quantum of tax revenue to a wide one covering all economic activities which, because of accounting conventions, non-reporting or under-reporting, escapes the GNP system of accounts or other social measures. The existing literature on the subject is sometimes bedevilled by the careless use of concepts. A basic source of the problem is the failure to distinguish between what the economists call “flows” and “stocks”. There is the flow of black income, that is, the income which is earned in the process of evading indirect taxes and/or the part of income, however earned, which is not declared for direct taxes, on the one hand, and there is also the black wealth, a “stock”, that arises from the cumulation of the savings out of black income, on the other.

The Board of Internal Revenue (UK) defines black money “as economic activity generating income which are concealed from the revenue collecting authorities with the intention of evading tax”. The Central Statistical Organisation (UK) characterises the phenomenon as activities that are not reported in the national income accounts. Unreported activity has been defined as the activity that generates “factor income which cannot be estimated from the regular statistical sources used to compile the income measures of gross domestic product,” observed Makafee*. Feige* also considered unaccounted economy (“unobserved economy”) as those economic activities that go unreported or are unmeasured by the society’s current techniques for monitoring economic activity. Another definition in the same vein has been offered by Tanzi*: “it is gross national product that because of unreporting and/or under-reporting is not measured by official statistics”.

2. Methodological Issues and Estimates

The methodologies used by various economists may be grouped in several ways. Acharya identifies five approaches:

(a) Fiscal Approaches;

(b) Monetary Approaches;
(c) Physical Input Approaches;

(d) Labour Market Approaches; and

(e) National Accounts Approaches.

He had provided the salient features of those methodologies and critically reviewed four estimates of the size of the unaccounted economy of India—(i) Chopra*; (ii) Gupta and Gupta*, (iii) Gupta and Mehta*, and (d) Ghosh, et al.*, using four methodologies, namely, (a), (b), (c), and (e), respectively. He had also examined two other estimates—(i) Kabra*; and (ii) Rangnekar*, which implicitly uses the “Fiscal Approach”.

Gupta and Gupta* had reviewed the methodologies employed by researchers in several developed countries in order to identify the most “appropriate” one suitable for India. They had been grouped into six approaches:

(a) National Accounts Method;

(b) Performance Rate Measures (or Labour Market Approach);

(c) Tax Evaluation Method (or, Fiscal Approach);

(d) Survey Method;

(e) Naïve Method; and

(f) Monetary Approach (Currency Demonitisation and Transaction Approach).

Apart from giving brief methodologies, Gupta and Gupta* had also presented the recently available estimates based on such methodologies in respect of several countries. They had concluded that the Transaction Approach developed by Fiege* “is at present the most comprehensive in terms of its coverage of unrecorded activities not necessarily all illegal”. Their own exercise, made in 1982 and based on Fiege’s* method, had been critically reviewed by Sandesara and Acharya*.

Tanzi* in his paper on the annual estimates (1930-1980) of the unaccounted economy in the US based on the variants of monetary approaches, had listed the various methodologies as under;

(a) Direct Measurement (Fiscal Approach);

(b) Questionnaire Method (or, Survey Method);

(c) Employment Statistics Method (Participation Rate Measure of Labour Market Approach);
(d) National Accounts Method as well as Income-Consumption analysis of the Household Studies; and

(e) Monetary Approach (the Fixed Ration, Currency Denomination, and the Currency Equation variants).

3. Estimates of the Indian Situation

SEVERAL Indian economists have also tried to put together the Indian estimates to facilitate easy reference and comparison, for example, Acharya*, Prasad*, Datt*. Acharya compared Wanchoo+, Chopra*, Gupta and Gupta*, (1983), Gupta and Mehta*, Ghosh et. al*, and Rangnekar*. Prasad* had compared his own (based on his own “model”) with those of Wanchoo Rangnekar*, Anita, Kaldor*, Datt* had dealt with Kaldor*, Wanchoo+, Rangnekar*, Chopra*, and Gupta and Gupta* (1982).

4. Factors, Consequences, Remedies, and Policy Implications

MOST of the non-methodological papers have generally focussed on the above issues. It may be worthwhile to document the wide range of views, some based on the analysis of the current situation and several facts expressed and suggestions made. The factors contributing to the growth of the unaccounted economy that recur in many articles predictably include (a) unrealistic and irrational structure (including sales taxes, customs and excise duties); (b) proliferation of regulations (controls); (c) prohibition relating to underground activities (drug trafficking, illegal gambling); (d) political (and electoral) corruption; and (e) bureaucratic corruption. Some authors have mentioned changing social attitudes and erosion of traditional values as the causes of the accumulation of black money.

As regards remedial measures and their evolution as a policy package, Datt* had grouped the various suggestions under two categories:

(a) within the framework of the mixed economy, black money can be limited and its size can be brought within manageable limits so that it does not pose a threat to the very objectives of national economic policies; and

(b) the mixed economy is only a euphemism for the capitalist system and it is not possible to control the black money within this framework.

Notwithstanding such divergent views, the remedial measures suggested are aimed at counteracting the causes listed in the relevant literature and include (a) rationalisation of the tax structure and regulatory measures; (b) demonitisation; and (c) stringent penal measures to curb illegal activities. Since tax evasion is considered as the major source of generating black money, issues like rationalisation of the tax structure, efficient tax administration, and the recommendations of the Wanchoo Committee+ report dominate the literature.
The readers will find Kabra* and Datt* useful in having a reasonable overview of the various suggestions and opinions contained in the literature.

5. Concluding Remarks

As described in the previous sections, most of the studies had been related to methodologies for assessing the size of the black money expressed both in terms of the actual amount and also as per cent of the official GNP. As of now, the data are available for nine fiscal years—1969-70 to 1978-79. Further studies will certainly show manifold increase of the amount. But so far, no steps have been taken to implement the recommendations of the economists and the Commissions and Committees irrespective of the political parties in power. Even the mandate of the newly appointed multi-disciplinary committee is to go into the size of the black money and a new “amnesty scheme”. The other name of the “amnesty scheme” is “voluntary disclosure”. Does a thief voluntarily admit that he has stolen money? Similar schemes floated earlier did not yield much. Voluntary disclosure schemes are ways to reward culprits. In contrast, the honest taxpayers, primarily the salaried persons, are harassed. How long will the government try to hide itself behind the fig-leaf of “international treaties”? What prevents it from going ahead without signing such treaties? The main culprits are the corrupt officials of three high-profile government departments, namely, the Board of Direct Taxes (Income Tax), Board of Indirect Taxes (Customs and Excise Duties), and Export-Import authorities (Under-invoicing and Over-Invoicing). The crackdown should begin with these organisations. Who will catch the big fishes? All political parties are not at all interested in such action because of the prevailing corrupt electoral compulsions. The FM must ponder over the matter.

APPENDIX I

References cited with text (Names are asterisk marked)

Bibliography


APPENDIX II

Reports of Commissions


2. India. Taxation Enquiry Commission (1953-54); Report: Delhi, Manager of Publications, 1955. 3 volumes (Chairman: Dr John Matthai).


The author is a former Librarian and Member of Faculty, Administrative Staff College of India. He was also the Chief of Research, Eenadu daily, Hyderabad.