



## Parallel economy's impact on various domains

Dr. Balbhadra Prasad Dewangan

Principal and Head, Department of Economics, Ashoka College, Sarangarh, Chhattisgarh, India

### Abstract

India's economy, ranked fourth globally in terms of PPP and twelfth globally in nominal value, has experienced rapid growth since the 1990s. However, the country faces challenges such as population, illiteracy, unemployment, poverty, infrastructure, and the parallel economy. The parallel economy, which includes both lawful and illicit operations, grows more in areas constrained by corruption, regulations, or legal monopolies. Black money, created through covert operations, is often kept hidden by the prospect of paying taxes or facing penalties and sanctions. The parallel economy influences various aspects of the Indian system, including sports, college admissions, government employment, and transfers. The parallel economy contributes to national development and raises the standard of living for the average citizen. To manage black money, India should switch from black to white, use the Mauritius Route, implement amnesty schemes, demonetize currency, use e-money, have a proper tax structure, have straightforward norms and regulations, use identity proofs and PANs, and eliminate corporate income taxation.

**Keywords:** Economic development, parallel economy, black money, challenges, economic growth.

### Introduction

One of the most important societal challenges facing humanity today is economic growth or development. India has taken several efforts toward economic growth, just like many other emerging nations. As of right now, India's economy ranks fourth globally in terms of purchasing power parity (PPP) and twelfth globally in terms of nominal value. India's economy began to expand rapidly in the 1990s after economic reform from the socialist-inspired post-independence economy, as markets opened to foreign investment and competition. India is a rising economic force in the twenty-first century with an abundance of natural and human resources as well as a massive body of knowledge. According to economists, India's economy would rank among the world's most powerful by 2020. The majority of the current economic issues affecting the Indian economy are related to or directly result from issues with economic development.

Indian economic challenges include: India has continuously faced and overcome a variety of economic obstacles since gaining independence in 1974. India's economic development and growth patterns are varied. The Indian economy is now confronted with the following challenges:

1. Population
2. Illiteracy
3. Unemployment
4. Poverty
5. Infrastructure
6. Parallel Economy

It will be quite difficult to concentrate on just one of the aforementioned concerns if they are all examined and the underlying causes of each issue are identified. These issues create a vicious cycle, which is why this occurs. One cannot stop issues from one end since they are caused by one another.

### Introduction to parallel economy

One of the most significant issues that requires careful consideration and well-thought-out solutions is the parallel economy. "The underground economy or parallel economy" encompasses both lawful and illicit operations, including prostitution and drug selling, as well as those that are frequently found in the construction and service sectors where taxes are not deducted and paid. The subterranean economy encompasses a wide range of activities in contemporary countries. It is often the lowest in nations with the highest levels of economic freedom and grows steadily greater in places where economic activity in different commodities, services, or trade groupings is constrained by corruption, regulations, or legal monopolies. Known as "Black Money," this type of money is created by a variety of illicit and criminal activities, such as mishandling the accounts of businesses, individuals, or corporations, and is kept hidden by the prospect of paying taxes or facing penalties and sanctions. One way to characterize black money is as the money made through covert operations that are not disclosed to the government. As a result, taxes are not paid on this money, and it is also not reported to the fiscal authorities. The white money that appears in pertinent accounts and any taxes paid, if any, stand in contrast to this. This untraceable black money, which may or may not be utilized for public good, powers the parallel economy. Every element of the Indian system—social, political, literary, religious, and economic—is influenced by the parallel economy. Sports, college and university admissions, government and private employment, and transfers are all subject to its bitter lash today. Although having black money is not regarded as valuable or a sign of shame in society, it is used with great pride and publicly displayed.

### Current Incidents Associated with the Black Money Scandal:

Two well-known examples that can support the aforementioned claim have been identified in the last 12 months. They're:

- Satyam Scandal
- Madhu Koda Scandal

According to a report on the Satyam scandal: After alerting members and the Securities and Exchange Board of India (SEBI) to Satyam's faked financial statements, company chairman Ramalingam Raju resigned on January 7, 2009. Raju acknowledged that Satyam's September 30, 2008, financial statement included:

- The cash and bank balance estimates were inflated to Rs. 5,040 crores (US\$ 1.04 billion), whereas the records showed Rs. 5,361 crore (US\$ 1.1 billion).
- A nonexistent interest amount of Rs. 376 crore (US\$ 77.46 million) was accumulated.
- He planned for an underestimated liability of Rs. 1,230 crore (US\$ 253.38 million) due to funds.
- A disproportionately high debtor's position of Rs. 490 crore (US\$ 100.94 million) compared to the books' Rs. 2,651 crore (US\$ 546.1 million).

In the same letter, Raju asserted that the exaggerated revenues had not produced any financial gains for him or the managing director. He asserted that none of the board members were aware of the circumstances behind the company's placement.

**Madhu koda scandal:** Regarding the Madhu Koda Scandal, the report cited: Delhi, New Delhi: Investigators from the Enforcement Directorate and Income Tax have struck gold in their hunt for former Jharkhand Chief Minister Madhu Koda. They have discovered information concerning Koda's associates sending at least \$110 million (about Rs. 550 crore) to a frontman in Dubai for foreign acquisitions and investments. The results are a blow to Koda, who has denied any wrongdoing and contested the accusations against him. The discovery occurred after authorities confiscated the records of Mumbai-based Balaji Bullion and Retailers, which were allegedly used to transfer at least \$10 million to Abdul Bhai, a frontman in Dubai. Investigators believe the company may have transferred up to Rs. 990 crore.

**The parallel economy's constituents include:** The parallel economy is made up of several different parts. The more well-known and discussed types include tax evasion, smuggling, bribery, and foreign exchange racketeering. India has a robust parallel economy for a variety of reasons. One must look back at the past in order to understand something from the proper perspective. Corruption has not always been seen as a serious issue in India that may have harmed social cohesion and progress. Many individuals then (and still do) thought that corruption improved productivity and served as a lubricant in government agencies that were overworked and employed low-wage workers. It also plays a role in redistribution, as people with cash on hand transfer it to others with less. Some people have even gone so far as to claim that corruption is a normal step of growth.

#### Effects of parallel economy on

**1. Development of Economy:** The system of production, distribution, and consumption is what we mean when we discuss a nation's economy. The labor, capital, and land resources of a nation or other region, as well as the economic actors who socially engage in the production,

exchange, distribution, and consumption of local products and services, make up an economy. An economy's technical development, history, and social structure, as well as its geography, ecology, and natural resource endowment, all have a major role in its final outcome. In the past, the Indian economy has encountered several obstacles, and the government has been working tirelessly to confront these obstacles, overcome them, and advance the Indian economy. Economic growth contributes to national development and raises the level of living for the average citizen. Capital generation and the most efficient use of the money created are critical to economic growth. In order to do this, the government must levy taxes through a variety of methods. The country's currency is also impacted by the parallel economy. India's currency has been steadily declining in the global economy as the parallel economy expands.

**2. Business and industry:** Both large and small company units may be found in India. Each of these components supports India's social and economic well-being. Individuals, partnerships, HUF businesses, firms, etc. are examples of these business units. They operate in order to expand their markets and generate a profit. Globalization has led to fierce rivalry in both the Indian and global economies. Many new units enter the market, while many older ones leave because of significant losses or a lack of technical advancement. Business units sometimes falsify their records in order to compete in the market and avoid the taxes imposed by the Indian government. Additionally, business units engage in adulteration, stockpiling, and black marketing. All of these actions result in a fictitious rise in company sectors, which generates fictitious revenue and keeps the money in the hands of upper management. All of the aforementioned actions result in financial losses for businesses and the creation of illicit funds, which fuels the growth and expansion of the parallel economy. The parallel economy's difficulty is that it keeps expanding on its own. It is a vicious cycle that is becoming stronger and stronger every day.

**3. Society and culture:** The general public and society are immediately impacted when the parallel economy expands and large-scale operations like the ones mentioned above rise. The interests of the average person are more likely to shift toward the parallel economy than the national economy. Because it is a short-term benefit and eventually hurts the entire economy, including consumers, businesses, and the government, it is a highly risky position. Illegal and criminal activity in the economy rises as a result of the parallel economy. Bribery, smuggling, pirating, prostitution, adulteration, inciting terror, covertly manufacturing explosives, drug trafficking, human trafficking, and other activities are all carried out with the unexplained money. India's culture and society have suffered because of the parallel economy. The world's idorking society is suffering and India is crippled as a result of all the criminal and unlawful actions that are currently ruining India's reputation. The government employees who really labor for the nation's welfare suffer greatly as a result of all of this.

#### 4. Administration of the republic and election

**administration:** When discussing states, countries, policies, principles, constitutions, etc., the term "politics" should be used. However, these days, politics is just another word for brutality, meanness, dishonesty, corruption, and red tape. In India, the government is in charge of running the republic. Since India is a democratic nation, the people must form the government. Voters select their preferred candidates, who are expected to use public finances obtained from government taxes and duties as well as other small sources, to work for the nation's growth. The republic's management gets harder and harder. The funds intended for development are instead spent to defend the nation against these antisocial factors and occurrences. It is employed in defense maintenance and the development of new weaponry for use in conflicts. India's budget is in deficit as spending exceeds income. Since India is borrowing money from the World Bank, IMF, and other institutions, it has become one of the world's biggest borrowers. The money is spent through the parallel economy and is thus not accounted for. Instead of being used for its intended purpose, this money is once more being turned into black money, which benefits only the wealthy while further impoverishing the poor. Developing the underprivileged and establishing equality are essential to the administration of a republic. Success in management is contingent upon this. This sincere Indian scholar need to consider how poorly our country is currently regarded by the world community. Our lack of national character, inadequate standards of value adherence, and stagnating position in international trade cannot be made up for by success in IT.

5. **Servcie sector:** The first report to highlight India's shadow economy was the Wanchoo Committee Report. They called it a "Cancerous growth in the country's economy which if not checked in time will, surely lead to its ruination." In its report on the self-removal of excise taxes, the Venkatappiah Committee also felt "free to confess that we are not prepared for, and are threfore, painfully surprised at, the range, diversity, and in certain segment of production, almost the universality of the evasion, which is practiced by those who produce the goods". The Dagli Committee Report (1979) emphasized that in addition to taxes, the degree of economic regulation, such as import and industrial licensing, price controls, and credit distribution channels for goods and services, among other measures, can promote the growth of the hidden economy.

#### How can the black money be managed?

- By switching from black to white;
- By using the Mauritius Route;
- By amnesty schemes (VDIS);
- By demonetizing higher denomination currency;
- By using e-money;
- By having a proper tax structure (GST, VAT);
- By having straightforward norms and regulations.
- Using identity proofs and PANs.
- Effective and strong IT and security division.
- Eliminate corporate income taxation.

#### References

1. Sukanta Sarkar. "The Parallel Economy in India: Causes, Impacts and Government Initiatives", *Economic Journal of Development*, 2010:11-12(1-2):124.
2. "Black Money: Where is the Strategy", *Business Standard*, New Delhi (2.12.2004).
3. Arun Kumar. *The Black Economy in India*, Penguin Publications New Delhi, 1991, 198.