

# **MACRO ASPECTS OF THE BLACK ECONOMY IN DEVELOPING COUNTRIES**

*A CASE STUDY OF INDIA*

1. Why consider the Black Economy in the Indian context?

- a. Significant size compared to other major sectors or the size of the government.
- b. White economy cannot act as a proxy for the total economy.
- c. Economic laws applicable to the totality of the economy and not a part of it.
- d. Sectoral implications.
- e. Failure of Policy linked to it.
- f. Has led to a change in the Economic Policy paradigm.

## 2. Why it is a macroeconomic phenomenon?

- a. Need to see the unity in its different aspects. Not just anecdotal.
- b. Affects macro variables. Like,  $Y$ , Employment,  $I$ ,  $S$ ,  $X$ ,  $M$ , Growth rates, etc.
- c. Policy works at different levels. Macro comes first.

### 3. Definitional aspects of the black economy.

- a. Lack of analytical clarity in the literature.
- i) Black Income vs. Black Money.
- ii) Accounted and Unaccounted or Black and White.
- iii) Factor and Transfer incomes.
- b. Should be based on the institutional factors of the economy considered.
- i) Black income generated in illegal or legal activity.
- ii) Involves illegality. So Black economy implies illegality. Raises the issue whether illegal activity should be counted in the national accounts statistics? Changing laws and perceptions about illegality.
- iii) In India and most Developing world it would be factor incomes property incomes not reported to tax authorities.
- c. Differences with the advanced nations. Little research in this field in the advanced nations.

## 4. Macroeconomic impact.

- a. Failure of Planning and resource mobilisation.  
Contradiction amongst other policies
- b. Growth and Stagnation. Income distribution effect.
- c. Investment, Unemployment and the multiplier.
- d. Inflation
- e. Forces a change in the Fiscal Policy Regime.
- f. Various Budgetary Deficits and Debt Trap.
- g. Raises Transactions costs and leads to a high cost economy in spite of a low wage.
- h. Savings and Investment rates. Consumption propensity falls.
- i. Export, Import and BOP. Import propensity rises.
- j. Monetary Policy. Velocities of circulation and stability properties of the multipliers.

## 5. Microeconomic impact.

- a. Aspects of Policy Failure.
- b. Social Sectors. Poor left at the mercy of the markets.
- c. Criminalization of society.
- d. Impact on National Security.
- e. Social Waste. Like 'digging holes and filling holes'.
- f. Impact on the work ethic.
- g. Impact on the quality of products and exports.
- h. Reduces the individual's faith in state intervention.
- i. Increases the alienation of the individual from society. Reduces faith in social actions. The 'usual is the unusual and the unusual the usual'.

## 6. Debating wrong questions

- Ideological biases to the fore since nothing can be conclusively proved with partial data and analysis.

## 7. Causes of existence of the black economy.

- a. High Tax Rate Hypothesis.
- b. Degree of Controls and Regulation
- c. Political Economy. Conflict model.
- d. Existence of the Triad. Link between corrupt politicians, bureaucrats and businessmen.  
Criminals have entered the nexus.



## 8. Remedies (What will not work)

- a. Technical solutions not the remedy. Many Reports and hundreds of suggestions. Some:
  - i) Demonetization. Tried. Theoretically incorrect.
  - ii) Voluntary Disclosure. Many schemes tried.
  - iii) Decreased tax rates. Post 1971 experience.
  - iv) Reduced controls and regulations. Post 1991 experience.
  - V) State Funding of Elections.

## 9. Remedies. (What is needed)

- b. Need to check the continuation of the Triad
- i) Accountability and Transparency required at every level.
- ii) Right to Information is the way to it.
- iii) Need to impact businesses, bureaucracy and politicians.
- iv) Electoral Reform.
- v) Inner Party Democracy.
- vi) In brief, strengthen Democracy. It is a process.