

Shadow Economy In Indian Context: A Critical Review

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Abstract

A shadow economy is not something that just happens. It is a widely acknowledged result of flaws in the economic system and inadequate economic policies. While there are many and complex factors that contribute to the development of a shadow economy, literature identifies the following as being the most significant: an excessive tax burden, excessive government regulation of business, and performance by governmental agencies in the area of tax, judiciary, police, and other authorities. Designing effective tools and legislative solutions to address a shadow economy requires first determining its underlying causes. The purpose of this study was to comprehend the significance of India's shadow economy and how it affected the country's formal economy.

Keywords: Shadow Economy Formal economy Employment Indian shadow economy

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I. INTRODUCTION

The term "shadow economy" refers to any employment and commercial activity that takes place "below the radar"—economic activity that is not reported and for which taxes ought to be paid. The shadow economy, also referred to as the informal sector, the black economy, the underground economy, or the grey economy, comprises both illegal activities like narcotics trafficking and smuggling and legal employment like gardening, construction labour, or slights. The term "underground economy" refers to any economy where transactions take place covertly, or out of sight of the authorities. It is often referred to as the informal sector, black economy, or shadow economy. Taxes are not paid by those who work in the shadow economy. Typically, they have low-paying, unstable jobs. Those who are employed in the shadow economy. Selling goods to cars at traffic lights is one of the key reasons why the activities and/or

Transactions that take place in the underground economy are unlawful.

An otherwise legal transaction violates the reporting obligations of the government.

- The good or service is forbidden.
- This sector of the economy also includes instances in which people are made to work as slaves for no compensation or in exchange for something other than money.

II. OBJECTIVES

- 1. To identify the concept of shadow economy
- 2. To analyse the features of shadow economy
- 3. To evaluate the reason and suggest solution to reduce impact of shadow economy

III. RESEARCH METHODOLOGY:

It's a conceptual study and no data required therefore no hypothesis and testing can be applied.

IV. TYPE OF DATA

Secondary data used for the study

V. DISCUSSION

MEANING OF SHADOW ECONOMY

Transactions of goods or services not disclosed to the government and consequently out of the reach of tax collectors and regulators are referred to as the "underground economy," sometimes known as the "shadow economy." The phrase can be used to describe either unlawful activity or typically legal activity carried out

without the necessary licences or tax payments. Unreported earnings through barter or self-employment are two instances of lawful activities that take place in the underground economy. Drug trafficking, the sale of stolen items, smuggling, unlawful gambling, and fraud are examples of illegal activity.



In countries where the shadow economy is large in proportion to total GDP, government revenue is low. This means that either public services are poor, or formal economy are taxed at a higher rate



This map grades the shadow economies of countries according to shades from black to white

CHARACTERISTICS OF THE SHADOW ECONOMY:

The shadow economy has the following traits: -

Entry is simple. Most people who desire to join can find employment.

- Sizing: Everything is carried out on a little

scale. Contrary to the multinational pharmaceutical firms that develop legal medications and receive tonnes of raw materials in a single shipment and have manufacturing runs that result in tens of millions of units, illegal drug dealers purchase and exchange commodities on a far smaller scale.

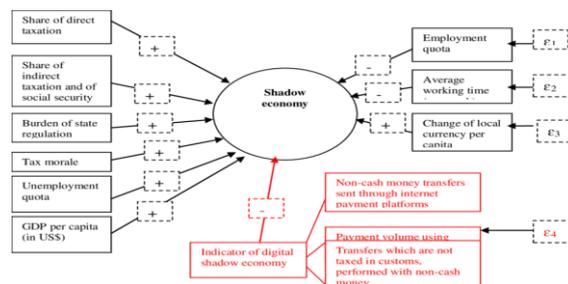
Skills: The majority of the labour is unskilled and doesn't require formal training. In most cases, the necessary abilities are acquired without a formal education.

Instable: There is no job stability in the shadow economy. No long-term employer-employee relationship exists. The majority of those who operate businesses or work in the shadow economy are not—

Deliberate strategy: These individuals engage in deliberate strategy because they want to. It is the logical action of businesspeople who do not want to pay taxes and who do not want to abide by state laws. In addition to income, sales, and corporation taxes, they wish to stay away from governmental and labour laws.

Coping mechanism: People must use this coping mechanism in order to survive. There is no other option for hundreds of millions of people around the world. They work in an economic environment that lacks opportunities. These include temporary jobs, unpaid jobs, casual jobs, subsistence farming, etc. In many cases, the worker is holding several jobs simultaneously.

The shadow economy plays both a controversial and important role in society. It provides hundreds of millions of people with employed. In the vast majority of cases, work is low-paid and job security is non-existent.



The variables of shadow economy estimation by MIMIC method updated with the indicator of digital shadow economy

SHADOW ECONOMY IN INDIA

The Size of India’s Informal Economy

The informal sector is thought to make up 53% of the Indian economy and close to 90% of the labour force. According to data from the Enterprise Survey, which is conducted every five years, major industries including agricultural (97% informal), construction (75% informal), and trade repairing and foundation (87% informal) nearly entirely depend on informal contracts and payments. Both on the demand side and the supply side, this informal sector is closely linked to India's formal economy.

Proportion of Indian Formal Economy and informal Economy



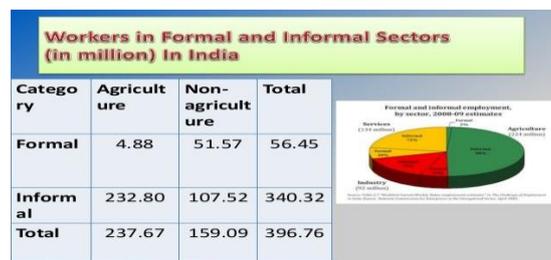
source :Central Statistics Office

Supply and Demand in the Informal Economy of India

Agriculture serves as a good illustration of how the supply side of the economy affects the informal sector. Food is produced on farms, which are nearly entirely unofficial, and then enters the system through primarily unofficial retailers. The entire economy suffers if distributors raise their costs or if stores raise their prices, especially the urban informal workers because food makes up a large portion of monthly expenditures. Another connection to the formal sector is the availability of migrant labour, notably in the construction and other service industries.

Look to the construction sector for evidence of the effect of demand, where enterprises, contractors, and subcontractors operating in the informal economy spend money on pricey, durable commodities in order to engage in formal market activities like Given that most of the work is low-skilled and the firms are mom-and-pop shops, it can be said that the jobs people can find in these informal structures operate as a sort of safety net. Unskilled, transient, and migrant workers have opportunities thanks to the informal sector, which also saves many families from starvation and extreme poverty.

The government of India has implemented a number of social welfare programmes to address issues including poverty, joblessness, and job retraining. Relief may be more expensive from a public investment standpoint and less preferable than creating long-term jobs, but it is still important to satisfy the informal sector's growth demands. Growth rates for any industry can be slowed by a persistent issue of increasing income disparity.



In 2020, the informal economy accounted for 90% of all employment in low-income nations, with over 2 billion workers (or around 62% of all people working globally) making their living there

Causes of shadow economy in India

- Immediate loss of revenue
- Expansion of the informal economy followed by the collapse of formal MSME's, triggering an unprecedented surge in unemployment and under-employment

- Uneven impact that triggered a large-scale restructuring
- High unemployment rate
- Challenges created by the rise of new technologies, such as Bitcoin
- Avoiding paying taxes and all social security contributions
- Avoiding governmental bureaucracy or the burden of regulatory framework
- Corruption law, the quality of political institutions and weak rule of law

Probable solutions to reduce impact of shadow economy

- Building universal social protection and strengthening health systems to ensure access and financial protection for all
- Supporting the recovery of productive economic units, stepping up their productivity and facilitating their transition to formality, so as to enhance formal job opportunities
- A long term government vision to increase productivity by equipping all informal workers with technical and business skills, training, and finance and enterprise support to compete in the markets
- Prioritise equity consideration in the post fiscal crisis responses keeping the economic and political vulnerability of the informal sector in mind
- Establishing means of effective identification, and proper usage of UIDAI and PAN Card to help expand welfare schemes towards the SME's registering to the formal sector

II. CONCLUSION

Overall, if the government can effectively harness the results after the pandemic eases, the growth of the Shadow Economy might not necessarily be a negative thing. The existing state of affairs might quickly deteriorate into an increase in lawlessness, an increase in the use of illegal substances, and exorbitant pricing for essential medical supplies, leaving only the wealthy able to afford the rights to a basic lifestyle as the poor are systematically eliminated. The opposite could also be true, and we could still witness a stunning improvement in the state of the economy. Simply wait to see if the results are a 9% increase at the conclusion of the fiscal year. To conclude a recent study reveals that currently Indian 'shadow economy' represents 17.22 per cent of GDP it will shrink to 13.6 per cent of GDP by 2025.

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