

**Title:** India's Black Economy: Origins, Obstacles, and Opportunities.

**Faculty mentor's name:** Dr. James P. West; **Rank:** Professor of Economics and Management;

**Department:** Economics and Business.

**Name of student on the project:** Vishu Solanki.

**Start date of the project and length in weeks:** May 31, 2016 - August 9, 2016, 10 weeks.

**Provide a succinct and non-technical description of the project. The audience for the proposal is a committee of inter--disciplinary faculty.**

After India gained independence on August, 15th 1947, India's economy embraced a predominantly socialist economic model, however there were some elements of capitalism. In addition, India adopted a Soviet Union--like centralized and nationalized economic program known as five--year plans. Five-year plans, also known as FYPs, are centralized and integrated economic programs. They are most often implemented by communist states and capitalistic countries. India launched its first FYP in 1951, immediately after they gained independence from Great Britain. The first FYP program was administered under Jawaharlal Nehru, the first prime minister of India. The first FYP was considered to be of vital importance as it helped India launch development after they gained Independence. India continues to use FYPs to this day.

However, the structural economic problems inherited when India gained independence, were exacerbated with costs that were associated with the division of British India. The government was assigned an important role to reduce poverty. As stated before, the FYPs were a vital tool in helping to solve these issues. Although there was a great deal of growth in the 1950s, the long term rates of real growth were not where India's politicians expected they would be. Toward the end of Nehru's term as prime minister, India continued to face serious food shortages. The country also ran into a great deal of trade deficits that increased in the 1960s. India had a budget deficit problem and therefore could not borrow money from other nations, or from the private sector. As a result, the government issued bonds to the Reserve Bank of India (RBI), which increased money supply and ultimately led to inflation.

Throughout this time, India's black economy is believed to have emerged. Corruption, one of the main reasons India's black economy emerged, stands today as a huge issue in the country. Higher-up government officials, such as politicians, take bribes from foreign companies and invest them in places abroad, also considered tax--havens. They transfer the "black money" to India when needed. There is a round--tripping process involved in transferring the money back to India so it is not detected. The majority of "black money" is believed to be amounting over 16.4 trillion dollars, India's black money exists in swiss accounts, and has established India as the fifth largest exporter of illicit money.

The goal of this project is to examine and investigate this large "black money" market in India. The different areas of India's black economy which will be targeted are the origins, the obstacles, and the opportunities. India is facing many obstacles in today's world. The project will take a look at these obstacles and connect how they relate back to India's black economy. In addition, the opportunities which arise, or disappear from the presence of such a large black economy will be examined. This will include taking a look at the positives and negatives through

previous crisis which have occurred. It will also include opportunities which can arise if India didn't have such a large black economy. Ultimately, all different areas of India's black economy will be thoroughly researched and examined. The different areas will be connected to one another and suggestions will be made according to the findings. The project will show how India may have the tools to drastically improve the country, if this black economy, or corruption minimized.

**Enumerate the roles and responsibilities of the student(s) and faculty mentor, and include a timetable of expected milestones.**

The faculty mentor's roles and responsibilities are to help provide the student with a clear path to organize the research and to collect appropriate information to analyze. In addition, the faculty mentor will meet with the student on a regular basis and provide vital feedback on each given area of the research project. The faculty mentor will also help the student to understand more of the complex material involved with the research project. The student will work diligently towards their research. The student will ask questions to the faculty mentor as they arise. The student will also ask for insight and suggestions on how to improve their work.

**Time table of expected milestones:**

**Week 1:** Create and revise a literature review as it pertains to India's black economy.

**Week 2:** Read *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* and *The Other Path: The Economic Answer to Terrorism*, both by Peruvian economist Hernando DeSoto. Understand why India and other Western countries have leaned toward a capitalistic structure. Connect this understanding to India's economy as a whole.

**Week 3:** Read *The Black Economy in India*, by Arun Kumar. Understand and examine the specifics of the complex black market which has such a strong impact in India.

**Week 4:** Gather scholarly resources discussing the origins of India's black economy. Write up a detailed report discussing findings.

**Week 5:** Gather scholarly resources discussing the obstacles of India's black economy. Write up a detailed report discussing findings.

**Week 6:** Gather scholarly resources discussing opportunities of India's black economy. This will include the positives and the negative of having such a large black economy. Write up a detailed report discussing findings.

**Week 7:** Read *An Economist in the Real World: The Art of Policymaking in India*, by Kaushik Basu. Understand India's political system and how it connects to India's black economy.

**Week 8:** Examine all findings in each area of research. Link them to one another and to India's black economy as a whole. Discuss the impact of India's Black Economy in the present and possible future outcomes.

**Week 9:** Thorough discussion of the project's outcomes. Begin writing up a final report.

**Week 10:** Complete writing up of final report.

**Describe how the student will be engaged in discipline--appropriate research.**

Vishu will undertake an historical and institutional approach to investigating the appearance, growth and consequences of the 'black' or underground economy in India. He will review the literature on development economics and in particular he will study the economy of India referring to the work of Indian development economists and social scientists and particularly at the work of Dr. Arun Kumar, of JNU University in New Delhi, who led the pioneering investigation into India's black economy. Using concepts of both micro and macro economics and descriptive statistics, Vishu will identify the good but particularly the bad aspects of underground economies especially as they relate to increasing transaction costs, uncertainty, externalities, the institutionalizing patterns of corruption, and inefficient and counter-productive public policy, that inhibits sustainable economic and social development. Finally, Vishu will be required to make a summary assessment of his findings and to suggest both private and public policies to mitigate the existence of the black economy.

**Describe how the work of the student will contribute to the discipline and opportunities the student will have to share his or her work with other students, faculty, and the community.**

The black economy, while in some countries seems to be the only path for the expansion of entrepreneurship, innovation and diffusion of economic benefits, it is in the end a counterproductive phenomenon. The black economy along with its equally problematic sibling, 'crony capitalism' affect all economies, but given India's particular history, including colonialism and Soviet--style state socialism, the problem of the 'black economy' has moved from the dark corners of the economy, to a major public policy issue for India in the national and state politics and policy making. Vishu's contribution can be an important one as he assesses the extent of the black economy in India and identifies policy options that impact micro and macro outcomes. Vishu will write a paper, prepare a poster and powerpoint and will make presentations both in the context of the SOAR programs but also by presenting his findings to my ECON class 'Morals, Markets and Managers' in the Fall semester. He will also apply to present his work to ODE the economics honor society of the Economics and Business Department.

**Bibliography**

- Basu, Kaushik. *An economist in the real world: The art of policymaking in India*. MIT Press, 2015.
- Basu, K. (n.d.). How 'black money' saved the Indian economy - BBC News. Retrieved March 07, 2016, from <http://www.bbc.com/news/world-asia-india-35610332>
- De Soto, Hernando. *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else*. Basic books, 2000.
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- Kumar, Arun. *The black economy in India*. Penguin Books India, 2002.

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**Student's name:** Vishu Solanki; **Major:** Economics; **Expected date of graduation:** May 2017.

**Faculty mentor's name:** Dr. James P. West

**Yes, on campus housing is requested during the project.**

**Rationale to participate in this project:**

As a first generation born in the United States from Indian parents, I have taken a great interest in my cultural heritage. My parents immigrated to this country in search for equal opportunity in hopes of living out "The American Dream". It is evident that the country of India is still impoverished and still part of the developing world. Even though much progress has been made since my parents left, India is still part of the developing world. But why? During my current semester (Spring 2016) my Intermediate Macroeconomics class presented me with an assignment where I was tasked to make a brief presentation on a current macroeconomic topic at a high level. During my research for this assignment, I stumbled upon an article by Kaushik Basu entitled, "How Black Money Saved the Indian Economy" and the article immediately caught my interest. The article discussed the current role of "black money" and how it is affecting the Indian economy. I was keen and diligent when creating my presentation on the subject matter. However, after the conclusion of my presentation, I was not satisfied. I felt a sense of disconnection and was not feeling content. There was much more information which needed to be found. I was still eager and curious to find out more on the subject and took it upon myself to read more about India's Black Economy. The results were not only overwhelming, but startling. As an Indian American, it was awe-inspiring to find such information. I found that the black economy in India is a very complex, mind-boggling, macroeconomic subject matter. India is reported to have 16.4 trillion dollars in "Black Money". The reasoning behind such a large sum of "Black Money" could be for many reasons. These reasons can include implementation of certain policies and even corruption factors. It is difficult to fathom that there is such a high amount of "black money" present in a developing country such as India. However, it does make sense for why India as a country has not progressed at a pace such as the other world leaders.

As an economics major, and sociology minor, I find this topic to be very interesting. Not only that, but the fact that I'm of Indian descent plays a role in my decision. I believe the iterative process when conducting this research topic, will be exciting as I will be able to connect basic principles and theories that I have learned through my major's curriculum. I am sure there are many challenges that await me, but I am predicting that the entirety of the process will be rewarding and enlightening. Finding out how this particular black economy emerged, the obstacles which are faced, and the opportunities which arise will help me not only better understand black money markets, but also better prepare me for my future goals which is to hopefully be in the field economic crime investigation.

**Expected outcomes for the project:**

I expect a variety of outcomes from this project. First, after thoroughly examining India's Black Economy, I expect I will find that there is a great deal of corruption involved from government officials. I expect this corruption to also lie within some of India's implemented

policies. I expect to find that the black economy in India has emerged due to these reasons and has been growing ever since. Second, I expect that there will be a great deal of obstacles present due to the black economy in India. India could be using the money to create more resources within the country itself. This will also touch on the area of opportunities. Although, India's black economy has helped with some financial crises in the past, such as the subprime crisis in 2008, I expect the positives of not having such a large black economy will greatly outweigh the positives of having one. Ultimately, I expect there to be a good amount of connection between the different areas of India's black economy. There must be a great deal of corruption involved in the creation and growth of the black economy in India. I also expect to learn more about economic research and analysis. I will be able to challenge myself through such a complex and exciting topic. In doing so, my problem solving and critical thinking skills will greatly be enhanced throughout the research process. The research project will also help me to gain more insight on how to do independent research in the future. In addition, I will complete an original research paper and participate in the Scholars Day Program. I will also present at SOAR progress and final project forums during the summer.