



BLACK MARKETS

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ABSTRACT

The paper investigates conceptually the effects and emergence of black market activities that might be controlled for the growth of the economy. The paper analyses the reasons behind the overspreading of these activities and the actions that have to be taken to make the economy white. The practice of black marketing is at the alarming stage that thrives unregulated and untraceable, provides profits and growth in the short run but if not controlled will give a better sense of threat that will not only severely affect the business but also the economy of the country.

KEYWORDS : Black marketers, smuggling, government restrictions, taxes, inflation.

INTRODUCTION

The successful economy is that economy which is functioning under the legitimate rules and regulations setup by the government. But in the present era no business is working under the eye of law. When a government attempts to maintain the mandatory pricing policy but finds the demand and supply imbalance, there are the chances of emergence of black marketing. The 'black market' is the market where the goods and services are sold and bought in such a way that is illegal or punishable. The parties engaged in all these unofficial or prohibited activities are punishable by law. The black market isn't a market in physical structure it can be through digital media also where collective transactions take place between buyers and sellers. It works in secrecy. It involves all the illegal transactions on which income and other taxes are not paid. It can also be termed as 'under the table' or 'underground market'. There are obviously some goods and services that flow through black market like- illegal purchase of guns, narcotic drugs, arsenic or nuclear material, illegal currency transactions, etc. The trading of all these items is illegal and strictly prohibited. The economy suffers a lot because of these transactions. Nowadays, black marketing is seen in almost every sector, whether it is government or private, national or international. The common motives for black markets are to trade contraband, avoid taxes and regulations, or skirts price controls or rationing. The black market is distinct from the grey market, in which commodities are distributed through channels which, while legal, are unofficial, unauthorized or unintended by the official manufacturer. The black markets have online counterparts consisting of dark net market websites such as the Silk Road, Individual websites, forums and chat rooms. Black market especially targets places with high organized crimes and poverty and places with low resources and high tax rates. Here all the prohibited items are traded. Weapons, narcotic drugs, tobacco, etc are one of the biggest things sold in the black market. People want these things so they try their best to sell them as long as the demand is high. Most people, when they think of the black market, think of things like drug deals or fencing stolen items. But technically, bartering goods or services with your neighbor or anyone is a black market activity, because the transaction occurs without regulation or taxes.

REVIEW OF LITERATURE

Various studies have been reviewed to study the effects of black marketing. Michaely (1954), in his classical analysis of black market behavior, also recognized the role of legal activity in hiding illegal activity. He commented that 'increase in production for black market will often be accompanied by some increase in the amount offered legally, since it is difficult to hide the additional product completely from the authorities, some of it must be offered legally'. Mohsen Bahmani-Oskooe and Gour G.Goswami in Southern Economic Journal 2005, 71(3), 483-493 investigates that in many developing nations, because of government restrictions on capital and trade flow,

there exists a black market for foreign exchange.

ITEMS SOLD ON BLACK MARKETS

Different types of underground activities are omnipresent that are willingly excluded from the institutional system of rules and regulations. Major items that are being traded under black market economy are:

1. Smuggling of drugs.
2. Illegal currency transfer
3. Human parts and organs
4. Weapons and bombs
5. Computer Software
6. Crude oil
7. Animals skin, ivory, etc.
8. Child laborers
9. Diamonds and Gold item
10. Fake clothing and cosmetics

EMERGENCE OF BLACK MARKETING

The presence of black markets all over the world is evidence that the laws of supply and demand are virtually defy .The primary reason for black market growth is weak economic system .Black markets develop when the Government places certain limitations on the production or provision of goods and services. During such situations, black markets take advantage and buy and sell these prohibited commodities illegally. The transactions are done under hush-hush conditions, necessarily in the dark, hence the name black market. The people handling these transactions are very clever and will do anything to save their faces if caught in a scam. The main reasons behind the emergence of black marketing are given below:

1. Heavy tax rates- Every person tries to escape himself from heavy taxes. In order to ignore it, people engage in various activities like hoarding, theft, evasion, etc. The stricter the government regulations in a country, the great the chances of black economy.
2. High regulations on trade and commerce- The numerous restrictions that government puts on various activities indulges people to evade them. Black markets will continue to exist as long as we have regulations and taxes. Laws that prevent people from buying and selling the goods and services they desire and taxes that prevent people from keeping what they feel is their fair share of income will always cause people to hide their activities from law enforcement agencies, tax authorities and other regulators.
3. High demand goods that are short for supply- Black markets can provide legal necessities that are short in supply. The perpetual shortages tend to increase the market value of the commodity and thereby encourage the manufacturer and trader to trade the product from the official to the unofficial channels and thereby make a fast buck.
4. Inflation- The genesis of black money can also be found in

the persistent inflation in the country, which has enhanced incentives and opportunities to earn such incomes. Inflation inevitably leads to growth of parallel markets and strengthens evaders to hide incomes and to evade taxes. Since inflation causes capital erosion, there is always a temptation to maintain dual accounts for tax evasion by diverting portion of inventories and output from white channels to black channels of deployment. As the matter of fact, inflation is both the cause as well as consequence of the growth of black money in the Indian economy.

5. Political funding- Political funding in India also causes a significant amount of black income. Our election laws and behavior of political parties are primarily responsible for this. Today contesting of elections has become a very costly affair. The candidate has to spend much in excess of the officially sanctioned amount. This has to be arranged somehow in black money. The politicians largely resort to industrialists and trading community for the help — the funds are raised in terms of black money.
6. Goods at high cost- Usually the buyers have two motives for their purchases. First, they want to obtain a legal good or service at a lower price. For example- the cost of stolen or smuggled goods is lower than the cost of manufacturing the goods. There are no taxes involved. Often they are sold on the street corner. Second, some want to obtain a legal good or service in short supply. In these cases, the good or service will cost more in the black market, but it is readily available.
7. High unemployment- High unemployment can give rise to black markets. When workers cannot find jobs in the above-ground economy, they may turn to jobs in the underground economy, which obviously will lead to generation of black marketing.

REMEDIAL MEASURES FOR BLACK MARKETING

The black economy has become so powerful that even an incorruptible official of government is often helpless to control it. It has been argued that if the black savings accumulated overtime, it could be channelized into white economy then at least it could contribute to the development of the economy. The various measures are undertaken to overcome the problem of black marketing. These are -

1. Easing legal restrictions- With the increase in government restrictions, black market prices for relevant products rise, as restrictions represent a decrease in supply and increase risk in the supply of these products. Black markets can be reduced or eliminated by removing legal restrictions, thus increasing supply and quality.
2. Increase availability of goods -The other reason for the existence of black markets is the shortage of production and distribution of legal goods and services. To avoid this loophole, the goods that are excessive in demand should be produced or made available in the legal market.
3. Strict actions- Strict actions against hoarding and black marketing under Essential Commodities Act, imposition of stock holding limits, buffer stock of articles are the steps taken by government to curb black marketing.

CONCLUSION

Black marketing is not only the reason for inflation in the country but other factors like demand- supply mismatch, price trend in global market are also responsible. It also has active operations in the field of real estate, gold, government transactions, smuggling, illegal transportation, etc. The adoption of this practice creates serious damage in all our economic policies, thus results in adverse effect to the fiscal and monetary management of the economy. The diversion of the commodity into black market channels results in the government and local bodies losing all the revenue in the form of excise, sales tax, etc. The growing illegal service includes stolen personal and financial information. It is used to gain

access into black accounts and credit cards or to establish new lines of credit. The buyers and sellers could be exposing themselves to violent consequences. They cannot appeal to government for any protection. Both buyers and sellers risk punishment, including fines and jail time for engaging in illegal activities. If the good or service itself isn't illegal, then the evasion or theft is. In June 2014, the then Finance Minister Arun Jaitley on behalf of the Indian government requested the Swiss government to handover all the bank details and names of Indians having unaccounted money in Swiss banks. The elimination of black markets cannot be achieved by government action alone, but rather involves an agreement on the part of the people and government as to which goods or services may be traded by ethical and legal aspects of trade. It is a matter of shame that some industrialists are hoarding their products to be sold at a much higher price than their actual cost. We also see black marketers selling fuel in bottles by the road side without hindrance and, thereby, making a huge profit. Here we should not only blame the black marketers for what is happening. People who buy such items are also encouraging these illegal practices, though they are doing so under a kind of compulsion. In the meantime, the country's economy is taking a severe beating while the general people are in a pitiable plight. Essentials like fuel should be made available through rationing by ensuring that its distribution is fair. This means, except for some bodies providing essential services, fuel should be rationed and sold in a fair manner. Black marketers should be discouraged and made to face stern punishment which is not the case now. The government is now facing a serious challenge to provide the essentials to the public by ensuring fair distribution.

It is the duty of the government to bring these illegal activities to a halt. Black marketers should be discouraged and made to face stern punishment.

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