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The X files

The surge of black money through our economy is hard to track, hard to tally. We have only vague outlines of how much there is, and how it moves and grows. We think of it as a parallel economy, but it isn't. Not really. It is twisting housing prices out of shape, driving luxury goods markets. It mangles our sense of how the pyramid of wealth is shaped, and distorts our sense of our place within it. Are you really upper-middle-class? Kashyap Kompella does the math to show you where things stand

Kashyap Kompella
kashyap.kompella@gmail.com

In Delhi, bookings for a new set of luxury residential towers open in the morning; by lunchtime, the developer declares they are sold out. Elsewhere, a government employee celebrates his daughter's wedding with gifts of luxury cars. In election season, enforcement agencies seize stashes of unaccounted-for wealth being ferried about in cash.

These are not separate stories.

They are the story of how black money moves through India, keeping a chunk of the country's wealth outside the official economy, even as it shapes prices, behaviour, and inequality.

Understanding India's black money system involves: understanding how it is generated (and why it resists measurement); how it is converted into durable assets; and how those processes distort our measurements and understanding of inequality.

That last bit is the reason upper-middle-class Indians cannot afford homes in prime metros; or luxury goods in the malls; or the kinds of aspirational cars we see on the streets.

To be sure, this isn't a problem unique to India. Black money surges through the economies of Russia, China, Mexico, as well as a number of African and Asian countries.

Such wealth negatively impacts growth and infrastructure; mangles our sense of the size of our economy; and distorts our sense of our place within it.

Here's how the story goes.

Defining hidden income

"Black money", or income deliberately concealed from taxation and regulation, typically includes underreported business profits, bribes, opaque political financing and the proceeds of illicit activities.

What it doesn't include is the informal economy, which consists of legitimate economic activity operating outside formal regulation, such as unregistered small businesses, casual labour and small self-employment firms.

These are simply part of the same parallel economy (operating outside the official economy). Black money forms the bulk of that parallel economy.

How does one measure black money?

There's a distinction here between flows and stocks.

Flows refer to hidden income generated in a given year. Stocks refer to the assets accumulated from such flows over time: property, gold, corporate holdings, offshore wealth. Measurement relies on indirect indicators: Currency demand and unusually high cash use; studies of reported income and expenditure; the sales trends of luxury goods.

The truth is there is no way to tell how much black money India generates, or holds. In the absence of data, estimates vary widely.

One widely cited study by German economist Friedrich Schneider places the shadow economy at roughly 23% of GDP in India, measuring hidden value added in a single year. Other studies have produced estimates ranging from the single digits to more than 40% of GDP. And this is just the flows, not the stocks.

How large is this pie, in absolute terms?

Research by the Washington DC-based think tank Global Financial Integrity suggests that cumulative illicit financial outflows from India exceeded $100 billion during the first decade of this century alone. This is in line with studies that place offshore illicit assets associated with India in the hundreds of billions of dollars.

But offshore assets of this kind form only a small slice of the illegal wealth pie.

Concealment most frequently occurs in industries and activities here at home, with those who hold such wealth parking it in sectors where valuation is opaque, administrative discretion is high, and audit trails are weak.

Real-estate is a prime example. Property transactions have historically been recorded at government "circle rates" that are often a fraction of market prices, creating space for unrecorded payments. Buying real-estate with black money thus easily conceals the origins of the funds, helps legitimise the wealth, and helps that wealth grow.

Gold and business assets offer similar opacity and opportunity.

So does political finance. Estimates of campaign spending routinely exceed official spending limits. "Investing" here has the added advantage of access to a network where wealth merges with power.

Cross-border trade offers similar opportunities, with global price benchmarks difficult to establish precisely, and mis-invoicing an easy way to hide wealth and help it grow.

READ: Who's rich? Who's poor? Who's middle-class? By Kashyap Kompella

Where does it all go?

Cash, in today's India, is only a temporary stage. It doesn't preserve or accrue value over time (though illicit markets continue to rely heavily on physical currency). It can be hard to store, and harder to explain than the alternatives. So most of India's black money is tucked away in...

• Real estate; the largest absorber of concealed wealth

The construction industry accounts for roughly 8% of India's GDP, and property transactions involve large values and complex regulatory approvals that can be used to convert cash into a legally registered asset.

Taxes on subsequent resale are based only on the recorded transaction value, thus offering a long-term strategy of storage and growth for concealed incomes.

• Gold; a portable store of wealth

India is one of the world's largest consumers of gold, with annual demand at 700 to 800 tonnes. The precious metal compresses high value into small, dense blocks that can be traded with limited documentation. There are still no formal registries for gold holdings, making them difficult to trace or link to financial records.

• Trade mis-invoicing

International trade can be a convenient way to move money across borders.

Suppose an exporter ships goods worth $1 million but invoices the buyer for $1.3 million. The extra $300,000 can be routed back to India as "export earnings". A similar logic works for imports.

Such transactions are hard to police because there is rarely a standard rate, since pricing varies with quality, timing, contract terms and delivery conditions.

• Farmland

Agricultural land is another place where black money can be parked. Agricultural income is not taxed by the Centre, and farm revenues are often harder to verify than salaried or business incomes. This creates a convenient boundary: cash from non-agricultural sources can be converted into land, or later "explained" through inflated claims of crop income.

• Corporate structures

Shell companies with limited operational activity can generate invoices, route payments and obscure beneficial ownership. Transactions between related firms such as loans, management fees and royalty payments allow profits to be shifted across entities, often tax-free.

India has periodically removed large numbers of inactive firms from the corporate registry. Nevertheless, layered corporate structures remain a common method for obscuring the origins of funds.

• Informal transfer systems and cryptocurrencies

Some transactions bypass the formal economy entirely. Informal settlement networks often referred to as hawala operations allow off-the-books transfers across locations. A broker receives funds in one place and instructs a counterpart elsewhere to pay the recipient.

This occurs across borders, within families or closed networks, allowing wealth to be stored and invested in ways that are simple, contained, but remain outside the official economy.

Cryptocurrencies can similarly be used to transfer or store value outside the banking system, although KYC requirements, blockchain tracing and regulated exchanges can limit how effectively they conceal ownership.

• Some of it, of course, is spent

As of 2024, India sells 50,000 luxury cars a year, with entry prices typically starting at Rs 50 lakh. Luxury housing has been a consistently booming segment, even amid economic downturns.

Luxury homes (those priced at over Rs 4 crore) account for a growing share of transactions in metropolitan real-estate markets. According to the consultancy CBRE, such sales across seven major cities rose by 53% year-on-year in 2024. Ninety percent of these homes were in Delhi-NCR, Mumbai and Hyderabad.

Map these spending patterns against income data and the gap is clearly visible.

How black money hurts us all

Once concealed income is converted into assets it begins to influence markets.

The effects are perhaps most keenly felt in the housing sectors of our prime cities. Undeclared funds entering a market of restricted supply and arbitrary pricing tilts things out of balance. Prices begin to lose connection with reality.

They no longer need to reflect the earning and buying capacities of those in the official economy. Prices rise and rise until even those in the top 10% of India's earners may find buying impossible, and rental rates hard to fathom.

In a recent feature (Scan the QR code alongside to read: Where is all your money going?, from the Wknd edition of November 2), I wrote about why earnings don't seem to go very far. That was a story on inflation; but black money contributes heavily to this effect too.

When we talk about the real-estate bubble bursting, this is often what we mean: Will the supply of black money dip enough for house prices to fall, and be within reach of the middle class in the official economy?

• Think about the legacy issues this creates. Tax-paying families, unable to buy a home, are left out of one of the fastest-growing asset classes in the country.

Those in the illegal alleys of the economy, meanwhile, accrue fast-appreciating assets they can pass on to their children and grandchildren, who parallelly benefit from similar headstarts in education, travel, exposure, and the many intangibles these bring: confidence, networks, ready capital to explore interests and business ideas or

How does black money affect where you stand?

	Top 10% of earners in India	Top 1% of earners in India	Top 0.1% of earners in India	Top 10% of wealthiest Indians (in assets and savings)	Top 1% of wealthiest Indians (in assets and savings)	Top 0.1% of wealthiest Indians (in assets and savings)
Cut-offs in the official economy	₹2.9 lakh pa	₹21 lakh pa	₹82 lakh pa	₹22 lakh	₹82 lakh	₹5.3 crore
Cut-offs factoring in estimates of hidden income / hidden wealth	₹4.1 lakh pa	₹37 lakh pa	₹2.2 crore pa	₹37 lakh	₹1.7 crore	₹15.4 crore