

## ECONOMIC AND SOCIAL IMPACT OF WHITE-COLLAR CRIMES IN INDIA

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**BEST CITATION** – MALAY TANNA, ECONOMIC AND SOCIAL IMPACT OF WHITE-COLLAR CRIMES IN INDIA, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (7) OF 2026, PG. 530-534, APIS – 3920 – 0001 & ISSN – 2583-2344.

### ABSTRACT

White collar crimes are so disruptive to the national economy that they have repercussions that go past localized harm that is normally linked to the conventional crimes. In contrast to conventional crimes that tend to create damages within a particular community, white collar crimes have a way of causing massive financial losses that have an overall economic impact. Such crimes impact economic efficiency, stability of finances, and long-term growth opportunities of a country, shaking the very basis on which a booming economy is founded.

In India, there have been notorious financial scandals such as the Harshad Mehta scam and the Punjab National Bank scam which have caused astonishing losses of thousands of crores of rupees. This type of fraud is not only depleting public and privately owned resources, but is also proving a heavy burden on the government, forcing them to put in place measures to correct the affected financial institutions. This government reaction may shift attention and resources out of productive investments in infrastructure, health, and education, which are essential elements needed to build a healthy national economy.

Additionally, white collar crimes pervert the distribution of resources by diverting essential financial resources off productive areas towards criminal activities. The problem of misallocation leads to high levels of inefficiency in the economy that may not support sustainable development initiatives. The combined effects of these crimes cannot be described as less than a grossly debilitated economic fabric that can barely keep pace in the competitive global economy.

#### Loss of Investor Confidence.

One of the pillars of an effective and healthy economy is investor confidence. When white collar crimes have been committed—particularly in cases of corporate frauds and securities scams, they greatly undermine the confidence that international and local investors are having on financial markets. There is reluctance caused by perceptions that markets are run by manipulation or that corporate disclosures are not reliable and thus force investors to re-evaluate their interactions with these markets.

A very obvious case in point is the Satyam scandal, popularly called the India Enron, that

led to a massive loss of investor confidence both in the local and in the foreign front. The integrity of corporate governance systems was questioned when investors suffered huge losses, raising the question of whether the current laws are sufficient to safeguard stakeholders.

Regulatory and governance standards are of great concern to foreign investors. White collar crime can serve as a major deterrent to foreign direct investment (FDI) in repeated cases and this could have a negative effect on the path of economic growth. Moreover, lack of investor confidence leads to more volatility in the market and consequently decreases the amount of capital inflows which leads to a vicious cycle of

mistrust which can inhibit the ability of an economy to grow and innovate.

Financial Market and banking industry impact.

The financial market and the banking industry are directly and immediately impacted by the implications of white collar crimes. Frauds, such as insider trading, market manipulation and accounting frauds, interfere with the smooth operation of a stock market, which forms artificial price movements that mislead investors, causing panic selling or irrational bullishness.

The consequences are no better in the banking industry. Fraudulent transactions on non-performing assets (NPAs), loan defaults and embezzlement cases are some of the key strategic issues of financial institutions. The Nirav Modi fraud, whereby the Punjab National Bank issued fake letters of undertaking, exposed some of the most critical vulnerabilities in the internal controls and risk management systems that the bank has.<sup>960</sup>

These episodes not only cause huge financial losses to the banks but also damage their reputation and stability in their operations. An increase in NPAs directly limits the lending capacity of the banks, thus suffocating economic activity, a phenomenon which can then be translated into a wider slowdown in economic growth. Furthermore, the government having to step in with recapitalization projects, creates an extra burden on the state budget, at the expense of other socioeconomic needs.<sup>961</sup>

To conclude, white collar crimes, investor confidence and the stability of financial markets and banking systems represent a complex network that can either strengthen or deconstruct the fabric of the economy of a country and this is when it is quite important to consider tight regulatory controls and effective law enforcement strategies to prevent these vice activities.

Black Money and Parallel Economy.

White-collar crimes are critical in the creation of black money which is a phenomenon that does not take place within the formal economy. The practices that are normally related with this illegal wealth creation are tax evasion, money laundering and systemic corruption- all of which are grave offenses to the existing laws that are meant to enforce financial integrity. In view of tax evasion, especially, the basics of the state fiscal policies are at stake, with the government being denied the much-needed resources that can be invested in social welfare programs and development of vital infrastructure. In addition to creating an atmosphere of inequality, this opposition of legal economic activity not only contributes to a significant stifling of national progress, but also leads to it.

This is made worse by the fact that there is a parallel economy, which thrives on such violations of the law. One of the main elements in this topography, money laundering is a tool to introduce the illegal money into the legal economy, in effect cloaking its suspicious roots. This is not only defaming the fabric of legitimate financial dealings but also facilitates a chain reaction of other crimes that may spread into other industries thereby polluting the economic ecosystem. Furthermore, the falsification of economic statistics and consequent policymaking procedures depict the inaccurate connotations of uncontrolled black money, which affects all aspects, including inflation rates, employment rates, and so on. The mixing of legal and illegal wealth is bound to cause inflation and increased income inequality as wealth is concentrated into the hands of an elite group at the expense of most people.

Effect on Economic Development and Economic Growth.

White-collar crimes are a significant challenge to the economic growth and sustainable development, which is a cumulative effect of such crimes. Such crimes breed a culture of uncertainty and inefficiency which in turn

<sup>960</sup> Reserve Bank of India, *Fraud Monitoring Reports* (2018).

<sup>961</sup> RBI, *Financial Stability Report*.

discourages much-needed investment and kills innovation in many fields. Legal consequences of corporate fraud can be especially disastrous, and can even result in the downfall of large companies. This does not only cause massive job losses but also brings havoc to complex supply chains hence trickle downs to the overall economy and slows down the overall growth rates.

Furthermore, the funds which the governments allocate in the investigation and prosecution of white-collar crimes is another strain to the economy. Enforcement agencies and other regulatory bodies need substantial funding to help fight these crimes at the expense of other essential services in society that would have helped in development of the society.

White-collar crime is also insidious, which diminishes the efforts of inclusive growth and creates cycles of inequality and fewer opportunities to compete on an equal footing. When companies resort to unethical conducts, like bribery or fraud, they put a skewed level of competition that eventually affects the legitimate companies working towards complying with the law.

Therefore, white-collar crimes are not only a legal necessity to stabilize the economy, but also a need to have a self-sustainable and fair environment in which sustainable development can be achieved. Enforcement vigilance, coupled with an overhaul of our legal systems is the best way to break the chains of black money that are poisoning our economy and opening the door to a more equitable and better society.

#### Impact on Society and Public Trust

The importance and influence of white collar crimes within the society are so great and extensive that their direct financial consequences are only a small part of the whole as it undermines the societal trust in institutions and the governing system that is supposed to maintain justice and fairness. As opposed to the traditional crimes, which are

open and apparent, white collar crimes are carried out in a more undertoned and subtle way, as they quietly and silently sabotage the pillars of social order and the rule of law. Such crimes, which are marked by falsehood and manipulation that is most of the time perpetrated by people in authority, form an invisible net of mistrust that can permeate societies.

When corporate leaders, bankers, and government officials engage in serious fraudulent practices, it creates an impression that the system is corrupt in nature. Such an image undermines the sense of legitimacy of the processes and lawfulness of the regulatory institutions, it cultivates a feeling of injustice in the citizens, and this state of disillusionment can amuse the citizens to abandon their civic responsibilities and perceive the legal systems as instruments of the privileged class as opposed to the just mechanisms of justice.

The growing question of corporate governance and regulatory control in the context of India and is heightened by a series of financial scandals. The people are increasingly doubting the uniformity of laws and are particularly doubtful when influential people appear to get away with their crimes despite committing crimes. This destruction of trust has far-reaching consequences on institutions because it is breaking down social solidarity and faith in the rule of law, which results in a vicious circle of disillusionment that may take years to recover.

#### 4.6 Inequality and Exploitation

White collar crimes play a major role in social and economic inequality and they exist in the realm of privilege and exploitation. Such crimes are usually committed by people of higher social-economic strata of the population who use their position and take advantage of the opportunities to gain personal profit, often to the disadvantage of the less fortunate.

The ramifications of such crimes are disproportionately shouldered by ordinary citizens. The common outcome of financial

frauds, banking scandals and corporate bankruptcies is the heartbreaking loss of personal savings, jobs and economic security of the masses to the hands of greedy and corrupt managers who often employ such institutions to defraud unsuspecting investors and depositors of their financial futures. In the meantime, the offenders of these crimes often have sources of finances and legal skills to escape punishment or postpone the legal process indefinitely, which only enhances the sense of helplessness in the population in question.

This difference highlights one of the deepest feelings of injustice, which adds to the social inequalities. It highlights the absence of balance of power between corporate bodies, usually with vast amounts of legal means and influence, and one individual citizen, and suggests a great need to have more robust regulatory frameworks and legislative protections to safeguard the vulnerable and to provide just due process.

#### Corporate Ethics and Moral Degradation.

White collar crimes are a worrying sign of moral degradation in the corporate culture, and they shed some light on how the uncontrollable urge to gain profits at any expense can result in the neglect of ethical values and social responsibility. When the financial performance is valued as the highest priority, an environment that supports unethical conduct may be developed accidentally. Workers and executives can justify frauds as necessary to meet organizational objectives or keep a competitive advantage.

This acceptance of unethical behavior is not only affecting the immediate stakeholders; it is also adding up to a greater degradation of morality in society. Once it becomes a common and even an acceptable practice, it creates a bad precedent that is not only relevant to the present corporate culture but also the future generations and damages the moral principles that are the foundation of the responsible business.

In addition, the presence of high-profile corporate scandals often reveals underlying weaknesses in the system, including a deficiency in transparency, inadequate internal control, and accountability. To tackle these essential problems, it will be required not only to undertake extensive legal changes, but also to have a cultural change in corporations towards ethical governance and corporate responsibility. Businesses should reconsider their mission statements and business ways to regain the confidence of the people and align their business with the need to adhere to ethical conduct and the rule of law.

#### Victimization of ordinary citizens.

The victimization of ordinary citizens is one of the most important social effects of white collar crimes, a phenomenon which requires immediate attention and measures. Unlike traditional crimes where victims can be easily identified and are usually painted in a black and white light, white collar crimes cause harm in a more covert way, impacting masses of people at once and not showing them the victimization until no one can help them repair the damage.

Middle-class and lower-income people are often victims of banking frauds, insurance scams, and investment schemes—demographics that do not generally have the resources or expertise to adequately guard against such advanced types of trickery. The schemes tend to take advantage of the susceptibility of these groups, through fraudulent means that capitalize on their needs of economic security and wealth gain.

As an example, the notorious Ponzi schemes, which are also fraudulent investment schemes, offer unsuspecting individuals incredible investment returns. The temptation of easy riches may be too strong and most people have fallen into the trap of using their hard-earned savings and end up losing a lot of money as these programs are bound to fail. Equally, corporate frauds including the falsification of financial statements and the provision of

misleading accounting information may end up in loss of jobs, crippling not only those employed, but also their families and whole societies that depend on local businesses to make a living.

Victimization in white collar crimes is indirect and as a result, the crimes go unreported and a general ignorance of the populace. Lots of victims might not even know that they have been defrauded until it is too late and they find themselves in the trap of deception that has irreparably changed their financial position and personal lives. This mass victimization highlights the importance of raising awareness to more people, increasing financial literacy training and well-established consumer protection systems that are legally enforced with effective legislative systems.

#### Media Effect and civic opinion.

It is a fact that the media has a significant role to play in influencing the way people perceive the white collar crimes, as a source of information and as a driver of change. With investigative journalism and extensive reporting, the media reports on corporate fraud and financial scandals to the attention of the masses.

High-profile cases are likely to have widespread media attention not only affecting the opinion of the population but also leading to a regulatory response. Case in point, the notorious 2G spectrum case and the Satyam scandal were mostly brought into the limelight courtesy of the investigative skills of the media and this has involved accountability and question to the institution that would otherwise have gone under the carpet.

Nevertheless, it is also necessary to admit that the media coverage may also have both positive and negative consequences. Although it creates awareness and brings some accountability, it runs the risk of sensationalism and biased reporting which can distort the facts and lead to biased accounts. The media presentation of white collar criminals can also

have a powerful impact on the attitude of society; it can even result in popular frenzied outrage and the urge to tighten the corporate conduct regulations. Simultaneously, the uneven coverage can lead to the unequal attention given to some cases, whereas no, not less serious violations are noticed.

Thus, the media is a very significant watchdog in the LAW and ethics arena, however reporting responsibly is vital in the process of proper representation and discourse among people. A balanced strategy, as defined by hard work in conducting researches and reporting in a fair manner is essential in creating a better informed citizenry that is capable of responding and reacting to the intricacies of white collar crime favorably. This, on the other hand, tempts legislators and regulators to come up and implement policies that would shield the common people against the remnants of exploitation of which these highly organized crimes are created.