
Black Money, Corruption and Moral fabric of Indian Polity

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Abstract

The paper has raised issues relate to Black Money that are debated currently in all forums. The available estimates of Black money for India is astonishingly high out of which US \$ 1500 billion lying in Swiss banks. The issue of Black Money and Corruption has been taken up by Baba Ramdev and Anna Hazare. The related issues are how Black Money is generated, impact of Black Money on the economy and its social and moral fabric of the Society, methods of reducing its volume if not wipe out and checking its generation in future are taken up in details for analysis in this paper. The analysis finds that the existing nexus of politicians and civil servants is making it difficult to construct meaningful framework for dealing with the issue.

Black Money is earned from illegal activities or earned by questionable and dubious means and not reported to the government for tax purposes. According to data provided by the Swiss bank (2006), India has more *Black Money* than rest of the world combined. India tops the list with almost \$1500 Billion *Black Money* in Swiss banks followed by Russia \$470 Billion, UK \$390 Billion, Ukraine \$100 Billion and China with \$96 Billion. As per report, the financial net worth of the powerful dynastic Nehru-Gandhi family is between \$9.41 billion and \$18.66 billion, most of it is in the form of illegal laundered monies. The money which belongs to the nation and its citizens is stashed in the illegal personal accounts of corrupt politicians, IRS, IPS officers and industrialists. This amount which is 13 times larger than the nation's foreign debt is increasing at a rapid speed every year but Indian Government seems to be silent over this matter for a very long time. By bringing *Black Money* back to the country a lot can be done for the development of the nation and the people who live below poverty line. India will also be able to clear all her foreign debts in 24Hrs. Even if all the taxes are abolished, the government can maintain

the country easily for 30 years. In other words, we can confidently say that if all the *Black Money* comes back to the country then that could result in huge growth burst for India.

The curtailment of *Black Money* is the most current problem being addressed by Baba Ram Dev and Anna Hazare. Nobody should belittle this menace and its repercussions on Indian Economy and the man on the street. The basic demand of Baba Ram Dev is

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“that black money stashed away in tax havens should be brought back. Corruption should be made an offence as serious as sedition and “the government should bring an ordinance without delay declaring the black money stashed in tax havens as national asset.” Baba went on fast at Ram Lila grounds along with thousands of his followers to highlight the problem and asked for ‘a process of time-bound and phased implementation of measures that are required as promised by the Government. The Government deputed two senior ministers to persuade him not to go on fast. It would be futile to go into the question of what happened after that. The barest minimum that the government could have done, was to constitute a committee which would have taken the help of some economists and some research institutions like National Council of Applied Economic Research (NCAER) which could have spent time in finding the extent of black money and unaccounted money in foreign countries and suggested measures to contain the problem.

Anna Hazare recently went on ‘fast’ at Ram Lila grounds after a big drama organized by the Government of India. The overwhelming response which he got from all sections of the society within India from all corners and equally from Indians stationed abroad is the testimony of the fact that everybody is really concerned about both problems i.e. corruption and the black money. It would not be wrong to say that the movement was like ‘1942 Quit India Movement’ where there was no leader but the movement against the British Raj went on uninterrupted. Similarly people came in full force to support the cause for which Anna was fighting namely Corruption. Government had to yield to his demand and unanimously the parliament had to pass a resolution supporting Jan Lokpal Bill before he broke his thirteen days fast. The most remarkable feature of the movement was that there was no violence reported anywhere and people demonstrated in most disciplined manner. Let it be known that finding the extent of black money is not a fruitful exercise because ‘Elephant is an Elephant, is an ELEPHANT’, one does not have to measure the size of ears or weight etc. to identify an elephant. The most important problem to be addressed is how to bring the existing black money in the ambit of ‘White money’ and the steps to be taken so that future generation of black money is made next to impossible.

HOW BLACK MONEY IS GENERATED?

The sources of black money are very well known to most of the people but it is better to put them systematically which will help us to analyze critically and hence suggest measures to be taken not only to control it but also check its regeneration in the future.

In the subsequent paragraphs, we have made an effort to study the possible sources of generation of Black Money under some broad categories.

1. Tax Evasion:

- a. Dishonest Industrialists generate Black Money by over stating the expenses and under stating the revenues so that the burden of taxes imposed on them is reduced and the surplus money is pocketed by them to be used for black transactions as required. These firms are able to make clever usage of the income tax rules, arrange bogus documentation to save taxes as well.
- b. The individuals/Professionals generate Black Money by not disclosing the whole of their incomes. For illustration, take the case of teaching community, normally the incomes earned by them by doing tuitions or earned by way of royalties on published books are either not disclosed at all or only partially disclosed for taxation purposes. Similarly doctors, lawyers and other service providers or shop keepers do not declare their income in full for taxation purposes.
- c. Exporters/Importers generate black money in foreign exchange by under invoicing of exports and over invoicing of imports or by adopting some other illegal practices.

2. **Corrupt Practices:** Other source of black money is the resultant of corrupt practices adopted by MCD officials, Police Personnel, Law enforcing authorities, Licensing authorities, Tax collection authorities and Politicians for doing favours of any sort or other.

Corruption at police level is quite rampant. Police, at lower ranks, pay hefty sums of money to senior officers to get posting of their choice in those

police stations where there are ample chances to make more black money.

3. **Donations:** The existence of black money is reflected in donations accepted by political parties to fight elections and it is collected from corporations/industrial houses or even individuals.
4. **Black Marketing:** Another source of *Black Money* is black marketing which means charging a higher price for the product or service for which a price has been fixed by the State Authority for supplying a fixed quantity of the product or service.
5. **Illegal Activities:** Extortions, gambling, hawala transactions and dubious foreign exchange deals are other major source of black money. All these activities are illegal in nature. Similarly, Arms' deals, smuggling of narcotics, drug trafficking or things of that sort are also one of the sources of generation of *Black Money*.
6. **The sale and purchase of assets:** This also lead to generation of black money. The value of the property is shown to be very low in the documents whereas it has a very high value in the actual transaction.
7. **The system of controls, permits, quotas and licenses** lead to generation of *Black Money*. The Wanchoo committee, explaining these factors as a source of black money observed "In spite of the vigilance exercised by the government, controls and regulations are used by the unscrupulous, scandalous politicians and corrupt IAS, IRS, IPS officers for amassing money for themselves. Considerable discretionary powers in the hands of those who administered controls, have provided them with enough scope for corruption". *Speed Money* for turning a blind eye to the violation of controls, gave rise in trading of permits, quotas and licenses, malpractices in distribution and the result is generation of sizeable sum of *Black Money*.

Due to deficiencies in its monitoring mechanism for exports, India's central bank has been inadvertently abetting the creation of black money outside the country. These *deficiencies of*

Reserve Bank of India (RBI) were first pointed out in July by the Karnataka anti-graft agency's report on illegal iron-ore mining in the state but had gone unreported. We feel similar shortcomings could exist in other sectors of India's \$252-billion export of goods.

8. **Scandals:** The recent cases of common wealth games' scandal or 2- G telecommunications' scam cannot be forgotten as a lot of wealth has been amassed in banks in foreign countries.

In short, it is the 'Babu-Neta' collusion which generates the maximum of *Black Money* in various situations. It is this section of society which tends to park their ill-gotten money in banks in foreign countries. Over the past four decades, the Indian state has suffered enormously as taxpayers' money has been funneled to various tax havens around the world – funds that could have been used to bolster this country's growth and development. It is really a shameful state of affairs that so much wealth is being stashed overseas particularly when India is one of the few countries in Asia that has a budget deficit.

Though figures of black money and its measurement are not the real issue, yet it would not be out of place to state that very recently the National Institute of Public Finance Policy has estimated that the sum involved is as much as about 40,000 crores which is 20% of GDP. Some Other estimates put the size of black money at over 50% of GDP (at Factor cost). Moreover the annual rate of growth of black money is said to be more than that of GDP of India.

Before coming to the package of steps which should help in annihilating the menace of black money, it would be important for each one of us to have an idea about the impact of *Black Money* on the economy and social/moral fabric of India.

Impact of Black Money on the economy and social/moral fabric of India.

To begin with, the existence of black money leads to the misdirection of precious national resources from productive to non productive activities and may also start giving higher value to anti social activities by generating demonstration effects among people.

The menace of *Black Money* has increased the rich poor divide. The poor families are unable to afford even the square meals whereas the rich and the neo-rich are enjoying the luxuries of life. The Indian society has become poorer year after year. Only a few sections of the society which account for hardly fifteen percent of the total population, have been able to enjoy the highest standards of living in this subcontinent. Therefore, the real poverty has increased and not decreased over a period of fifty years. The black money menace started during the seventies and it is now at its peak. Masses have been suffering due to inflation, poor exports and industrial recession alongwith accumulation of black money. The rich few, however, have not felt the heat and continue to lead luxurious lives at the cost of their poor countrymen. Many highly placed officials and honest employees earn much less than an average small shopkeeper in big cities like Mumbai or Delhi. The social unrest gets a boost which starts getting reflected in more than one ways. The existence of a big-sized unreported segment of the economy is a **big handicap** in making a correct analysis and formulation of right policies. It is not possible, for example, to accurately calculate savings to income ratio, sectoral composition of national income etc. Nor it is possible to monitor the developments in the economy with precision and hence more guesstimates rather than estimates are made to monitor the developments in the economy.

Black Money results in transfer of funds from India to foreign countries through clandestine channels. Such transfers are made possible only by violation of exchange regulations through the device of under-invoicing of exports and over-invoicing of imports. This leads to a paradoxical situation, where capital and more particularly foreign exchange resources are scarce, the country becomes a de facto lender of aid to economically advanced and wealthier nations with the concealed outflow of funds.

Black Money is based on protection, proliferation and expansion of service organizers composed of musclemen, touts and brokers to combat the forces of law and order on one hand and income tax advisers or chartered accountants on the other hand in the pay list of *Black Money* operators. Then there are contact men better known as liaison officers who negotiate favors from top bureaucracy and political

bosses through bribes of *Black Money*. **This has developed a new *Black Money* culture in the business world.** It is this *Black Money* which is not only flowing in Indian economy but also posing a big threat to national security of India since anti social elements use this black money to finance purchase of arms and ammunition for terrorist activities.

***Black Money* has corrupted our political system in a most vicious manner.** These days, at various levels of the Government, MLAs, MPs, Ministers and party functionaries openly and shamelessly go on collecting funds. It will not be wrong to say that the politics of *Black Money* has eroded the moral fabric of Indian polity. Ministers dole out favors of crores of Rupees by accepting donations of a few lakhs from businessmen as black money. Musclemen and criminals are fed by political parties to capture booths and thus elections are becoming more and more a farce. National policies are being bent in favour of big business houses under the pressure of black money.

It is the **parallel economy of *Black Money*** which does the back seat driving while the political leadership only acts as the mouth piece of big businesses to justify the abolition of controls and or retention of dual system of pricing in the name of productivity or national interests.

The Wanchoo Committee concluded "It is therefore no exaggeration to say that Black Money is like a cancerous growth in the economy which if not checked in time, is sure to lead to its ruination".

The Need of the Hour?

The Need of the Hour is to formulate / modify existing policies and devise the action to be taken and the procedures to be adopted for their implementation, monitoring and control so as to bring *Black Money* to the main stream of Indian economy to prevent its regeneration in future.

It may be mentioned that methods suggested below are to be explored and the legal opinions have to be sought along with the political will to be exercised to annihilate the menace of *Black Money* in the economy. It may be stated, at the outset, that the steps suggested are to be taken as a package. Any step taken in isolation will not result into desired expected

outcome rather the effort will go waste and would sound an eye wash.

To begin with, **introduce amnesty** which means forgetting or overlooking of any past offences. Translating it to black money implies that persons or institutions should be allowed to declare their black money by paying tax dues at the prevalent rates of income, corporate or wealth taxes. In fact, preferably, specially designed tax structure has to be worked out for this purpose. Date has to be specified by which this amnesty scheme can be availed by the offenders. This scheme, obviously, is relevant for a specified period of time. The main drawback of this step is that it does not act as a deterrent to persons or institutions from generating black money in the future since they will wait for the next amnesty to be announced to declare their newly acquired black funds. Therefore by itself it is not a sufficient step. There is a real need to make provision of absolute harsh punishment to avoid the misuse of amnesty enjoyed earlier.

Linked with the first step is the scheme to be worked out to allow persons or institutions to declare their money parked abroad in foreign banks. For this, allow them to pay specially designed income and wealth tax rates for the funds deposited in foreign exchange abroad, extended to cover the property owned by the Indian nationals in foreign banks. Again, the date has to be specified to avail this offer. This scheme has to be extended to cover the property owned by the Indian nationals staying in India. It has to be combined with the fact that any undeclared wealth by the specified date, will automatically become the property of the State which can be used for infrastructural and development projects. It is a very bold step and legal aspects of this need to be worked out and more than this the political courage has to be shown.

Another bold step which is being recommended is demonetization of 1000 and 500 hundred rupee notes. Under this step, the procedure to be followed is to announce that within a stipulated period (which should be sufficiently long) by which people are allowed to convert their 1000 and 500 notes into notes of lower denominations and beyond the specified date the circulation of higher denomination notes will be legally prohibited as was done in the case of 25 paisa coins. As stated earlier, it is a bold step. The legal aspects of this step have to be meticulously worked out.

The existence of black transactions is most rampant in property deals. It is an open secret that anybody buying property say worth Rs.1 crore has to give 40 to 50% of the value of the property in the form of *Black Money*. The solution to this is that circle rates in various localities have to be enhanced sufficiently taking into account the prevalent black money component. It will undoubtedly increase the stamp duty revenues of the state and at the same time force the people to register the property at the circle rate fixed by the government.

Corruption which is a major source of *Black Money*, at the lower as well as at the higher levels, has to be contained. When it comes to curbing corruption, the State can only initiate steps but the implementation is feasible only with the cooperation of people at large. The whole education system needs to be revamped. Values have to play a crucial role in imparting education. The real crisis in India is the loss of character and loyalty towards the Nation. The high inflation rate and some of the government policies have aggravated the problem. People are desperate to make easy money. They want to make more money by hook or crook in a short period unconcerned by the methods adopted, whether legal or not, to achieve that goal. Education, at present, has emphasis only on skill formation and values in education are completely lost. There is no easy way to regain national character but strong steps have to be taken to introduce values in education from the very childhood.

Obviously, parents and teachers have to act as the role model. The quality of teachers has to be improved. At present teaching as a career is taken up by the present generation after he/she has exhausted all other avenues of employment in the government and corporate sector. Children at home, if they see parents adopt double standards in practicing and preaching different things, it has an invisible impact on their moral values. Values in education cannot be introduced merely by having an additional subject of 'Moral values'.

When it comes to corruption, the government should think of some fool proof methods to see that corrupt practices are eliminated but the real solution to this is the social and family disapproval of this act at home front and in social setup.

Arising from the above is the current debate initiated by Anna Hazare, namely inclusion of everybody - Prime Minister and Chief Justice under the purview of Lokpal Bill. We endorse his view point of including all politicians and others irrespective of the positions at which they are working whether in government / non government organizations or other governing bodies. Political parties amass huge sums in different forms to fight elections. Therefore, electoral reforms have to be worked out more seriously though some steps have already been taken in this direction but the enforcement remains the main issue.

Tax authorities are equally involved in corrupt practices. The easiest solution to this is that it should be made mandatory for everybody to file up their direct or indirect tax returns only online so that these are transparent, the taxation officer should send objections, if any, on-line. The compliance report should also be equally transparent.

It is important to reiterate that all the steps suggested to eradicate black money and check its future regeneration have to be taken as a package and they have to be time bound. This requires announcing of policies, procedures to be adopted with the time frame for implementation, monitoring and control. Unfortunately, it is at the enforcement level India lags behind. Political courage and willingness come in the way of enforcement of laws. It would not be wrong to say that this is the price India has to pay to be democratic. No doubt, India should be proud of being a democratic country and at the same time it has to pay a price where political parties adopt populist measures to be in power.

Measures Already taken/to be taken by the Government of India to curb Black Money Generation:

The Centre has recently submitted before the Supreme Court in April 2011, that it has not been sleeping over the problem of black money being stashed away by Indian citizens in foreign countries on a PIL petition filed by former Law Minister and reputed jurist Ram Jethmalani and five others who had alleged that the Government was not taking appropriate action in bringing back black money deposited by rich Indians in Swiss and other foreign banks. eminent persons.

- I. India has signed a revised Double Tax Avoidance Agreement (DTAA) with Switzerland which is expected to be effective from January 1, 2012, for Switzerland and April 1, 2012, for India.

The government is required to consider amending the income tax law to bring in following provisions:

- i. Taxpayers with un-explained investments to face heavy penalty of 500% of the tax avoided on the investments made, interest on the tax payable and prosecution.
 - ii. Permission should be granted to Taxmen for re – opening of the assessment cases for up to 16 years (as against of 6 years at present), of those having accounts in Swiss Banks.
- II. The government should come up with a plan of action that provides procedures to bring tax evaders and money launderers to book within a stipulated time frame. The loop holes need be blocked and interests of the common man must be protected.
 - a. Recently, the Government has constituted a committee under the chairmanship of Chairman, CBDT, to examine ways to strengthen laws to curb the generation of black money in the country, its illegal transfer abroad and its recovery.
 - b. It is highly recommended that provision be made to declare wealth generated illegally as national asset, enact or amend laws to allow confiscation and recovery of such wealth and assets generated. Also offenders be awarded with an exemplary punishment against its perpetrators.
 - c. Ensure full protection and anonymity to whistle blowers who might come forward to help in identifying the culprits having amassed wealth illegally.
 - d. The Government should improve upon the monitoring mechanisms of its various sectors such as exports and imports of goods by looking into the deficiencies contained therein.

- e. People have to be encouraged not to make any cash transaction involving more than five thousand rupees, i.e. it should to be made through cheques or credit cards so that it becomes mandatory for them to declare it for taxation purposes. If Rs. 5000 is too harsh a step, make it a little higher but not too high to make the step meaningless.
- III. License and inspector raj has to be completely wiped out. Most of the bureaucrats take bribes to avail of weaknesses in the licensing procedures to favor selected persons or institutions. In other words, privatization has to be adopted in full-fledged manner where the question of favors is ruled out by definition.
- VI. Black Money, whether generated by tax evasion or corruption, is largely invested in property, especially in metro and 10-15 other important cities. So, this area needs special attention of the Government. Following action is recommended:
- a. Fixation of Market Rates of Land/Flats by the concerned Authority zone wise.
 - b. Fixation of Circle Rates based upon the prevailing market rates zone wise.
 - c. Making available Market Rates/Circle Rates on website of Income Tax Department.
 - d. Fixation of Circle Rates for the purpose of Income Tax and Stamp Act
 - e. Lowering of Stamp Duty , if necessary, to offset increase in Circle Rates
- V. A strong Lokpal (Ombudsman) bill must be introduced and passed by both the houses to make the bill a reality over the next few months. This will be the real contribution of the Government to help curb corruption in India.

To sum up, *Black Money* can be curbed only through the strict efforts of the state. We should disclose our real incomes and must pay taxes regularly. We should avoid unhealthy / illegal means of making money. The nation must get out of the evil net of black money. **Remember Only the honest Indians can save the nation.**

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