

**BLACK MONEY
AND SPECIAL BEARER
BONDS SCHEME**

by

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**“Free Enterprise was born with man and
shall survive as long as man survives.”**

—A. D. Shroff

1899-1965

**Founder-President
Forum of Free Enterprise**

I

RESPECTABILITY FOR BLACK MONEY

By

VADILAL DAGLI*

The basic fact of the existence of the Indian citizen is that both in economic and political fields he is ruled by black money. Black money is not on the periphery of his existence. It is in the centre itself. The organisation of the economy as well as political activity are based on the availability and use of black money. It is not the Prime Minister of the country or Chief Minister of a state or the chief of a large industrial house, but it is the black money baron who is the most powerful man in our society.

A few years ago a black money king used to exercise his power furtively. But during the past few years he has become audacious and has come into the open. The fact that a politician now collects not a few thousands or lakhs of rupees, as it happened during Pandit Nehru's time, but tens of crores of Rupees has provided black money barons a lever which they use almost every day, to multiply their wealth and increase their visible power.

Black money is a phenomenon which came into prominence during the Second World War. There were scarcities of basic goods and essential commodities and the then British Government wanted to divert maximum resources to the war effort. So they imposed controls and along with it the prevalence of black money became prominent in our

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economic life. Gandhiji saw the danger of this phenomenon and warned the country. But our new rulers after Independence equated controls with socialism and continued them because they gave them tremendous economic power.

During the Second World War, the country also experienced the onslaught of inflation which also contributed to the generation of black money. So, for the past 40 years we are more or less in a situation in which we have still with us old time controls, an unacceptable rate of inflation and black money. If controls were used as a temporary economic necessity and if an inflationary strategy of planning had been rejected, the power of black money would not have assumed monstrous proportions which it has done today. We have thus become a black money society.

Since Independence, the Government of India has been making attempts to bring out black money into the open and curb its speculative power. The first such attempt was by the Government as long ago as in 1951 when a voluntary disclosure scheme was introduced. Under the scheme an income of Rs. 70 crores was declared which attracted Rs. 11 crores by way of taxes. The Government came out with two more such schemes in 1965 and detected about Rs. 200 crores and collected taxes to the extent of about Rs. 60 crores. Yet another voluntary disclosure scheme was announced in October 1975 for unearthing unaccounted money which led to a disclosure of more than Rs. 1,500 crores: Rs. 738 crores under income tax and Rs. 791 crores under wealth tax. The Government exchequer benefited to the extent of Rs. 200 crores to Rs. 250 crores by this disclosure. According to one estimate declarations under the 1975 scheme amounted to 2,40,000. Thirteen persons declared income and wealth of over rupees one crore each and the maximum declared by an individual was a staggering Rs. 2.4 crores. Two years later the Government resorted to a demonetisation scheme in January 1978. Under the scheme higher denomination currency notes of Rs. 1,000, Rs. 5,000, and Rs. 10,000 were demonetised. Although the estimates of black money that was immobilised through

demonetisation varied, the fact remains that the scheme met with a limited success.

So this is the fifth attempt to curb black money with the Government of India announcing the Special Bearer Bonds Scheme, 1991. These are the salient features of the latest scheme:

- (i) From February 2, the Government will issue Special Bearer Bonds of the face value of Rs. 10,000 at par with a maturity period of 10 years. The holders of the bonds would receive Rs. 12,000 for every bond on maturity;
- (ii) There would be no limit on investments in such bonds;
- (iii) The original subscriber or possessor of these bonds would not be asked any question about the source of money from which the bonds are acquired;
- (iv) The scheme would be completely independent of the tax system. The premium payable on the redemption of the bonds would be free from income tax and the value of the bonds will be exempt from wealth tax. Transfer of the bonds on resale would not attract capital gains tax and a similar transfer by way of gifts would be exempt from gift tax;
- (v) The holder of the bonds would not be liable to any penalty or prosecution for any offence under the Indian Penal Code or any other Central Act for time being in force on the ground merely that such a person has subscribed to the bonds;
- (vi) Commercial banks would sanction advances against the collateral security of the bearer bonds within the framework of credit control. The banks will, however, not be permitted to purchase the bearer bonds and such bonds will not form part of the government securities statutorily required to be held by them.

A noteworthy feature of the latest scheme of 'Special Bearer Bonds, 1991' is that it provides for the first time a premium on tax evasion. Not only that, it also gives respectability to black money barons which they had not received in any other scheme for unearthing black money in the past. In earlier schemes, black money disclosures were subject to income tax or wealth tax. Special bearer bonds will also earn interest, although at the simple rate of two per cent per annum. Since these bonds will also be valid as collateral security for bank advances, the liquidity of black money operators would be protected to some extent. It is true that this provision will encourage some businessmen to invest in bonds. But the provision of extending bank credit against the security of bonds could perhaps be inflationary also. Unlike other disclosure schemes, the source of black money now will remain secret. In short, the latest black money bonds give an assurance to potential black-marketeters that they need not worry about the safety of their funds.

Who will benefit from the latest scheme of bearer bonds? It appears that the greatest beneficiaries of this scheme might be politicians, officials and professionals who might not have invested their unaccounted funds in the parallel market. During the past decade or so politicians and officials have collected cash funds in staggering proportions, but they have not been able to invest these funds in commodities or construction industry and other such 'businesses'. There is also a delicate problem for politicians and officials of going back to the same businessmen and give their money to them for investment! So they were waiting for an opportunity to invest their funds and the Government has provided an outlet quite generously. The main subscribers to these bonds are likely to be collectors of political funds, takers of bribes who expedite official work or other officials in such departments as excise, customs and police. This Government has thus given considerable relief to the new class of black money collectors who are mainly responsible for corruption in our public life. Only recently the Finance Minister, Mr. R. Venkataraman, had

told Parliament: "While demonetisation may result in the public losing confidence in the currency, legitimatisation of black money may encourage people more and more in the accumulation of black money." Mr. Venkataraman was quite right. No civilised government can legitimatise black money. This is exactly what this Government has done. Were the forces that finance political power in this country more powerful than the Finance Minister?

How much money will these bonds attract from the financial underworld? Even if it collects Rs. 1,000 crores as expected, it would not solve the problem of black money. Those who pleaded for demonetisation or voluntary disclosure schemes or bearer bonds for black money should understand the fundamental fact that black money is not the stagnant stock of money but a steady flow of unaccounted money. Demonetisation or bonds may hypothetically even wipe out the stock. But if the flow is not checked, black money problem will again assume the same sinister proportion after a few years. Inflation, controls which have outlived their utility and punitive personal taxation keep the flow of black money going. This is why if the causes of black money are not tackled effectively, its area of operation will become wider and wider year after year.

Inflation and controls are the major engines of the generation of black money. Price stability is an effective check to the flow of black money. When prices rise at the rate of more than 20 per cent and if prices of certain commodities rise even faster than the general price level, black money operators find it more profitable to invest in these commodities to earn quick and handsome profits. Black money helps them to hoard such scarce commodities as sugar, pulses, cement, paper and steel. It is in this sense that black money aggravates an intolerable inflationary situation. It is, therefore, advisable to decontrol the prices of these commodities and permit the producer to make accountable profit which, in turn, would generate surpluses in those industries which require capacity expansion. The

case of cement and paper is a classic example of how controls put crores of black money in the hands of all manner of people except the shareholders of the companies producing these goods.

There is also a gigantic incentive for the generation of black money because of the present system of financing of our elections. Like educational reform every political party speaks about the electoral reform but both the ruling party and the opposition continue to accept incredible amount of black money to finance not only the elections but the operation of normal political activity. Our public life has become so rotten that the small voluntary contributions from followers of a particular political party have now become a foolish idealism of the past in the eyes of the politicians.

So to tackle the problem of black money, a beginning should be made from the highest political authority of the country. Once the Prime Minister declares that he or she would not accept cash for political activity or election campaigns, there would be an electrifying impact on the under-world of politicians, bureaucrats, professionals and businessmen who may find that it is not worthwhile to amass unaccounted funds to have political influence or an industrial licence. If we are serious to deal with the problems of black money a national consensus should be evolved for implementing the following few steps:

(a) A convention should be laid down that money supply in a particular year would not exceed 3 to 4 per cent more than the growth rate of national income. This is necessary because of our experience of the past thirty years. Between the period 1950-51 and 1979-80 while our real national income increased at the annual rate of $3\frac{1}{2}$ per cent, money supply expanded by nearly 11 per cent per annum. It is this imbalance between the growth of real national income and money supply that was largely reflected in the steady increase in the prices during this period. For certain basic necessities which are in short supply, the Government

should arrange for their import under OGL as a strictly short-term measure and announce a three-year plan of investment to increase the production of these commodities. This would help remove the supply constraint in that particular area.

(b) All controls which are on the statute book for more than three years should automatically lapse. If the Government wants to continue any particular control, it should go to Parliament and make a statement as to why this particular control should remain in operation. This is in line with the unanimous recommendation of the Government of India's Committee on Controls and Subsidies whose report is lying with the Government since May 1979.

(c) Like West Germany and the United States, the Government should enact a legislation in the budget session itself which should ensure public financing of elections of recognised national and regional political parties. Public financing should include not only election expenditure but normal political activities so that the link between high finance and political leadership of the country is snapped. While arranging for public financing of election campaigns and political activities, the proposed legislation should also lay down that political parties should publish their accounts annually and these accounts should be audited by independent auditors.

(d) Personal taxation in India has curbed enthusiasm in those sections of professionals who are given tremendous incentives in both capitalist and communist societies. But in the name of socialism personal taxation has been raised to such absurd levels that an incentive to work more is blunted. So it is necessary that income tax on individuals should be reduced from the present level of 66 per cent to 50 per cent.

These four measures are by no means revolutionary. Almost all political parties have accepted the fact that inflation is an enemy of social growth and that long-term controls create distortions in the economy and generate black money and that the link between political parties and big business should be loosened and that high personal taxation should not curb professional initiative. What is now required is a modicum of political honesty to implement these suggestions. Black money is a man-made phenomenon and it is only the ruling classes who should show a foresight to take measures to curb black money power so that political convulsions could be avoided.

II

THE PROBLEM OF BLACK MONEY

by
D. R. PENDSE*

Black money is totally free from all problems of controls, delays, shortages and taxes—direct or indirect! Once black money enters an economy, it flourishes with a frightening momentum. In contrast, howsoever fast the white money sector of the economy may attempt to progress, being handcuffed by all the restrictions, it can never hope to catch up with the black money sector. Black money, unless checked in time, has, therefore, capacity to engulf and ruin the entire economic system of a nation. That is why it is very rightly called the cancer of the economy, and that is why the current nation-wide concern about this problem is not a day too soon.

THE ANATOMY OF BLACK MONEY

Our country is struggling with many serious economic problems. But black money is a problem with a difference. When we talk about the problem of poverty or unemployment, it is the poor or the unemployed who suffer from the problem. Medically, when we talk about the problem of diabetes, it is the diabetic who suffers from it. Not so in case of black money. Persons who have the black money never have any problems themselves! They create problems for those that do not have black money, i.e. to the poor, to the common man, even to the Government itself!

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The term 'Black Money' is often used rather loosely. It is a phenomenon which can be divided into two broad categories. First, there is money which becomes 'black' because it is earned from a source which itself is illegal. The pugri taken for 'selling' a standard rent flat in places like Bombay; prices higher than the statutorily controlled prices received for scarce commodities like cement or steel; vast fortunes made from foreign exchange fiddles, from smuggling, gambling, matka, or from taking bribes, are all covered in this category.

The second category of black money is what is earned from perfectly legal and legitimate sources, but what becomes "black" simply because the income earner conceals his income in order to evade payment of (usually a high rate of) tax on it. High incomes earned by professionals like lawyers, and doctors will all come under this category of 'black money' to the extent that they are not disclosed in their tax returns; because the services which these professionals render are otherwise perfectly lawful and legitimate. In short, the two main categories of black money are: (i) earned from illegal sources and (ii) earned from legal sources.

Incidentally, money earned from thefts and robberies, though of course illegal, is excluded from the first category of black money mentioned above, or indeed from all discussions on black money, because of an important distinction. The difference between thefts, robberies and such like on the one hand and the illegal-source black money on the other is that the robber gets the money by force or against the wishes of the person whose money is being stolen; but the person who gives pugri or the person who pays the illegal high market prices for the statutorily controlled commodities, does so voluntarily. Thus the illegal-source black money transactions are in a sense a result of free choice on both sides.

ESTIMATES OF BLACK MONEY :

Various economists and other commentators have ventured to give their own estimates of the current magnitude

of the flow of black money in the Indian economy. Dr. D. K. Rangnekar, a member of the former Wanchoo Committee on Direct Taxation, had actually worked out a formula to estimate black money; and in a recent article had suggested that black money to the extent of at least Rs. 7,500 crores existed at present (i.e. 6.8 per cent of India's national income at current prices which is about Rs. 110,000 crores). There are various other estimates put forward, ranging right up to Rs. 25,000 crores (or 22.7 per cent of national income).

By the very nature of black money, it is not really possible to make anything like an estimate of its magnitude. It will be reasonable to assume a lower than middle of the above range of estimates, at, say, roughly 10 per cent of national income, which would be equal to about Rs. 11,000 crores of black money.

Such astronomical figures do not mean much for the ordinary citizen. For him, it would perhaps be of interest to note that Rs. 11,000 crores per year work out to be approximately Rs. 1.25 crores per hour on the basis of round the clock working during 365 days in a year. Yet another way of looking at the figures is that this **hourly** figure exceeds the **annual** income of at least 125 honest tax payers, each one of whom having reached the income of Rs. one lakh per year, which is highest income tax-slab.

Like the aggregate size of black money, it is also difficult to indicate how much of the black money comes from the first category mentioned above, viz. illegal source income, and how much from the second, viz. the legal source (or tax-evaded) income. Some studies with reference to the U.S.A. suggest that the second category accounted for about 75 per cent of the black money there. To offer nothing better than a hunch, in India, the first category is likely to be more important than the second.

NOT A PARALLEL ECONOMY :

The black money economy is often called a 'parallel economy'; the presumption apparently is that the white

money economy and the black money economy do not meet each other. This presumption is not correct. Black money and white money are perpetually inter-locked and conversion of black money into white money or **vice versa** takes place constantly. When a retired salaried employee purchases a small flat, he usually pays for it from his savings from Provident Fund, Gratuity, etc., all of which is white money. But that part of the price of the flat for which he does not get a proper receipt, represents to that extent conversion of his white money into black money in the hands of the builder. On the other hand, if a black moneyholder spends lavishly at a five-star hotel, for which the hotel gives a receipt, his black money is converted into white at the hands of the hotel. Several such instances can be given, which all go to show that the black money economy is not really parallel to, but is closely interlocked with the white money economy.

SITUATION IN OTHER COUNTRIES :

Black money is not a phenomenon restricted to India. Far from it, several developed countries as well as third world countries are living with it and suffering from it. It is variously known as 'under-ground money', 'subterranean money', 'un-official money', etc. In the last few years, there has been an increasing awareness among economists and policy-makers around the world about the serious impact of black money. In the U.S.A., particularly, this concern is very clearly seen. Mr. Vito Tanzi in a recent article estimated that in the U.S.A. in 1976 black money was generated to the tune of about U.S. \$ 135 bn. This was roughly equal to 8 per cent of the U.S. GNP at market prices. Out of this, about U.S. \$ 100 bn. were from legal sources income, i.e. tax-evaded income on self-employment, wages and salaries, interest, dividend, pension, annuities, capital gains and others. The remaining 35 bn. dollars came from 'illegal source income', e.g. from illegal drugs, book-making, numbers, gambling, and prostitution. Another study ("The Invisible Enterprise" by James Cook) argued that apart from the oil business, which has revenue of over U.S. \$ 365 bn. last

year, 'organised crime' which includes all 'black money transactions' is the largest single industry in the U.S. with revenue of more than U.S. \$150 bn. In the U.K. also, black money is referred to as 'fraud that Government ignores' and there is a growing criticism that Government's actions against black money only result in punishing petty evaders like waitresses, plumbers, baby-sitters and the like. In the U.S.S.R., unlike the open societies of U.S.A. or U.K., nobody talks about black money; but in view of the wide-spread reported shortages of day-to-day consumption goods, and in view of the price controls, it is believed that a large number of under-the-counter transactions are taking place.

UNDERLYING CAUSES :

(1) **Controls:** Among the manifold factors responsible for the ever-increasing generation of black money, stringent controls is perhaps the most important. The phrase 'controls' includes not only the statutory controls, but also the bureaucratic and administrative controls and the delays, the procedural wrangles, and all the rest of it.

It was during the Second World War that wide-ranging controls were imposed on various economic activities and black money for the first time assumed serious proportions. Most Western countries, though directly affected by war, demolished controls after the war as fast as possible. But India persisted with them. It was Gandhiji who saw the great dangers in the situation and warned the nation time and again against controls and black money. For example, on the 3rd November, 1947, during his prayer meeting, Gandhiji said, "Controls give rise to fraud, suppression, intensification of black money and to artificial scarcity". Thirty-three years after the Mahatma said these prophetic words, we see that Gandhiji knew his people best and yet he continues to be ignored.

Several illustrations can be given in support of this point. For example, the statutorily controlled price of cement remains at the ridiculous level of Rs. 28 per bag, while con-

sumers perforce buy it at anything around Rs. 100 per bag in the 'open', i.e. the black market. These transactions go on under the eyes of everyone from top to bottom in the Government or outside it. The entire difference between Rs. 100 and Rs. 28 has to be paid in black money. People who purchase cement at such fancy prices again receive black money and the chain reaction continues.

The National Council of Applied Economic Research, a Government financed research body, which is not known for making exaggerated statements, concluded in a recent report that on modest estimates, during the period 1965-66 to 1974-75 black money to the tune of Rs. 840 crores was created as a result of the operation of price controls in respect of just the six following commodities.

Commodity	Black Money Created (Rs. crores)
Urea	35
Cement	70
Paper	10
Automobile. tyres	100
Vanaspati	125
Steel	500
TOTAL	840

The Dagli Committee on controls in its report published in May 1979 also said without mincing words that, "price and distribution controls have in the past led to the generation of black money on a significant scale."

As was said earlier, 'controls' include also the bureaucratic controls and the innumerable delay mechanisms, these again involve the creation of black money, for giving bribes to the people concerned. Black money of this type is commonly known as 'peace money', 'speed money', or 'paper weights'.

The more stringent the controls operating in an economy at any given time, the higher will be the share of the 'illegal-source black money' as compared to the 'legal source' or 'tax-evaded black money'.

(2) Scarcities and also Abundance! An environment of scarcities and inflation is an ideal breeding ground of black money. More so, if people expect the scarcities to aggravate or prices to continue to rise at the same or faster rates, because shortages make hoarding profitable; then there is a mad scramble to get possession of the scarce-goods, even by paying 'on money' (another common phrase for black money); or by borrowing money in the black market, to finance hoarding operations.

While on this point it must be conceded that even when goods or services are in abundant supply, black money may have an important 'role' to play! This is because when there is a buyers' market, it is the producers or sellers that may have to bribe their likely clients to place their orders with them, in preference to other competitors; by paying some under-the-counter discounts — i.e. black money — to the clients.

As illustrations, as to how black money (or in effect a black discount) is received by buyers or their agents, let us turn for a moment to the rural sector of our country.

It is commonly said that unscrupulous contractors of public works pay to rural unorganised workers much less as wages than what they (i.e. the contractors) claim from Government. It is equally commonly said that when farmers bring their produce to the market for selling to the Government agency, the 'graders' insist that the farmers accept a price for a lower grade than what graders bill the Government for. Thus the rural worker or the farmers sign (or place their Thumb impression) for receiving a higher amount than what they actually do; and the contractors and the graders make substantial black money in the process.

(3) High Tax Rates: This is the principal cause underlying the generation of 'legal-source black money'. To give a striking example, it may be mentioned that until 1972-73 the maximum marginal rate of income-tax was 97.75 per cent for incomes exceeding Rs. two lakhs. At that time, for, say, a surgeon having already a declared income of more than Rs. two lakhs, there were two alternatives. If he performs another tonsils operation and earns Rs. one thousand as his net fees, he could either disclose that additional income and pay Rs. 977 as additional tax to the Government and keep or earn for himself Rs. 23. At this rate, in order to be able to keep or earn for himself Rs. 1,000 he had to earn an additional Rs. 44,445 on which the tax at 97.75 per cent would be Rs. 43,445 so that he is left with Rs. 1,000 for himself. The other alternative, of course, was to earn that extra Rs. 1,000 and not disclose it to the income-tax authorities! In other words, this surgeon had to spend his time, energy and labour to perform forty-four similar operations to stay honest; or alternatively save all that botheration by performing just one single operation and not disclose this income. In all professions, this was the sort of story being repeated, and the absurdity of high tax rates was driving intelligent, educated professionals possessing rare skills in high demand, to become dishonest citizens and tax evaders. If the tax rates were reasonable the situation would have changed radically. For example, in the above case, in order to be able to keep another Rs. 1,000 to himself, the surgeon would have had to earn only Rs. 2,000 more, if the maximum marginal income tax rate were a sensible 50 per cent.

It is sometimes argued that it is human nature to evade payment of taxes irrespective of whether the tax rates are high or not. There may or may not be some truth in this argument, but it is very difficult to verify it. Two points, however, seem clear: The higher the tax rates, higher will be the number of instances of tax evasion. Secondly, as in case of all crimes, once an assessee evades taxes and gets away with it, he gets used to it, and it becomes increasingly difficult to convert him again to be an honest-tax

payer. Good government should, therefore, think twenty times before raising rates of taxes which drive honest people to dishonesty.

Incidentally, the process of generation of black money by tax evasion is by no means restricted to income-tax, wealth tax and other direct taxes. It is known to be widespread in respect of excise duties, sales taxes and the rest. As was once said, "An excise inspection is only an excise inspector."

(4) Changing Social Attitudes: During the Second World War and soon thereafter, the few people who started indulging in black money felt guilty about it; society at large looked down upon them with the contempt that they deserved. They were also afraid of the machinery of law. So they generally remained in a low key, and tried to keep their activities away from the public gaze. Days have changed now. Not only there is no social stigma attached to making black money now-a-days, but the social attitudes have become so perverted that conspicuous consumption expenditure and lifestyles which are obviously supported by masses of black money, have become almost a status symbol. People who earn and spend such black money are not at all criticized, most such people in society are almost admired and envied. The few innocents and the patriotic-minded close their eyes, but can do no more.

(5) Interference with Traditional Values: Indian culture and civilization have accepted and cherished certain values and traditions for thousands of years. Providing for one's wife and children, and other close relatives or friends adequately and wishing that they should continue to be able to enjoy the fruits of one's own success, were among these. In the name of socialistic ideology, we now try to interfere with these values by imposing penal taxes on income, savings, wealth or estates. Rightly or wrongly, people resent such interference and try to find various ways of getting around it, either by evading taxes and/or by making provisions in black money.

(6) Low Salaries of Government Servants: The importance of this factor, as a possible source of corruption and black money was discussed at length as early as in 1956 by Prof. Nicholas Kaldor in his report on the Indian Tax Reform. He said: "I have a feeling that it is fundamentally wrong to pay officers, on whose attitude and conduct very large sums of money may depend, at extremely meagre rates."

If anything, the situation has become much worse since then because the salaries of Government servants have failed to keep up with the inflation and also because of the rapid change in the social environment, where government servants, with vast powers, are surrounded by a world of high conspicuous consumption, all supported by black money, without an iota of social stigma.

(7) Election Laws & Political Parties: This is the last but by no means the least important underlying cause, for the generation of vast amounts of black money which needs to be mentioned. Last year's Lok Sabha election can be considered as an illustration.

In all 4,633 candidates contested the Lok Sabha election in 1980. We may assume that perhaps about one thousand of them were not serious about the contest, which still left 3,633 serious contestants. According to the current law, not more than Rs. 35,000 can be spent by any particular candidate for his election, nor are limited companies allowed to contribute to election expenditure of any candidate or political party.

We all know, that the actual expenditure of any serious candidate must have been far in excess of this limit of Rs. 35,000. This unrealistic law however remains on paper and all the expenditure, which candidates incur in their contest, over and above the legally prescribed limit, has to be generated or found in black money. I talked to some knowledgeable people and they all assure me that the expenditure of every candidate seriously contesting an election

would not have been less than one rupee per voter, *i.e.*, not less than Rs. five lakhs per candidate for every average Lok Sabha constituency of five lakh voters. Every such candidate must therefore find an amount of at least Rs. 4,65,000 from black money to finance his contest. Many candidates, of course, are believed to have spent several times this amount. Even ignoring such extravagant expenditure, it seems clear that black money equal to Rs. 168.9 crores or say Rs. 170 crores must have been spent during elections by the 3,633 serious candidates.

The cold logic about this situation has further implications: Some unscrupulous sections of society must earn black money at least of this magnitude to enable them to donate this amount to the candidates so as to finance their elections. If they have to part with black money substantially in excess of Rs. 170 crores, they would probably not do so unless they are, in the first instance enabled to earn black money in yet higher amounts. For, these sections of society are not charitable institutions; they have an extraordinary sense of money (if of nothing else). They would incur this expenditure by way of donation in black money only if they consider it to be a good future investment. Making allowance for both these 'multipliers', economists and others are now led to speculate that black money of the magnitude of at least Rs. 400 crores must have been 'obliged' to be generated in the system just to finance the Lok Sabha elections, because of the present framework of law. I am aware that this estimate is based inevitably on a series of assumptions. I consider them to be reasonable, but would welcome a more informed discussion about the matter.

This list of underlying causes of black money is by no means complete. But the overall impact is disastrous. Black money robs the Government of hundreds of crores of tax revenues year after year. A quick and crude estimate suggested that loss of tax revenue is perhaps over Rs. 2,500 crores per year at present, which is more than twice the gross yield of income-tax on non-salaried individuals. The whole planning process is brought to naught and several

economic policy decisions go awry, because they are based on macro-economic indicators which ignore the large black-money component. Finally, black money means, in effect, that fewer and fewer honest citizens are paying for the misdeeds of the more and more numerous dishonest citizens indulging in black money transactions. The perilous effects of black money on the nation's character are long-lasting, but they are broadly well-known and need not be repeated.

REMEDIES TRIED SO FAR :

Four types of remedies have been tried so far: viz.: (1) Demonetisation, (2) Voluntary Disclosure Scheme, (3) Raids, and (4) Special Bearer Bonds. The results regarding the last mentioned are not yet completely known, but the other three remedies have been considered as failures, if not an eye-wash.

(1) Demonetisation: As regards demonetisation, the latest experiment was made in 1978, when currency notes of denomination of Rs. 1,000 and above were demonetised. At that time such high denomination currency notes of the value of about Rs. 145 crores were in circulation. Of these, about Rs. 124 crores worth of notes were tendered to the authorities for conversion, and out of these, notes worth Rs. 116 crores were passed by the banks for conversion into lower denomination notes. In other words, currency (all of which is presumed to be black money) worth Rs. 29 crores (Rs. 145 crores minus Rs. 116 crores) went out of circulation, as it was not tendered for exchange. This cannot be considered to be a very spectacular result considering that the total currency with the public at that time was about Rs. 8,300 crores.

(2) Voluntary Disclosure: There have already been three Voluntary Disclosure Schemes, viz. in 1951, 1965 and 1975. The most recent, i.e., the 1975 V.D. Scheme, yielded only Rs. 248.7 crores by way of income and wealth tax on the disclosed amount. The time interval between two successive schemes is becoming shorter and by and large the

terms of each successive V.D. Scheme seem to be becoming more liberal, from the point of view of owners of black money.

(3) Raids: From time to time, raids are conducted on the premises of people who are suspected of possessing black money. After the raids, wide publicity is usually given to the amount of money or other assets (deemed to be black) that were seized during such raids. A more correct criterion, to assess their impact would be to ascertain as to how many of these raids resulted in court cases and conviction of the guilty, and how much black money was ultimately unearthed in this manner. This is important because it is said that in several cases money and the documents that are seized during the raids are returned afterwards, presumably for want of evidence. Statistics are not readily available to indicate as to how much black money is thus finally unearthed. The figures available relate to the number of raids conducted and the currency and other assets seized during these raids:

Raids	April-	April-
	December	December
	1977	1978
(i) Number of cases	687	377
(ii) Assets seized (Rs. lakhs)	119	217

Thus during April-December 1978, only a paltry amount of Rs. 2.17 crores was seized, only a portion of which would have ultimately been proved in the courts to be black money. Thus the general impression left in society is (a) that raids are for the most partly conducted on premises of small parties or of those who have no influence in the right quarters and (b) in many of even such cases, a good portion of cash and assets seized is in the end returned to the parties. Government should at least come forward and

publish full statistics as to the number of cases in which court convictions were secured and the names of the parties and the punishment meted out to them as well as the amount of black money unearthed finally as a result of raids.

(4) Special Bearer Bonds: Lastly, the Special Bearer Bonds scheme (S.B.B. scheme). From the point of view of the owners of black money, the S.B.B. scheme is considered to be more attractive than all other schemes so far. It will not be surprising if the rules regarding this scheme as contained in the Ordinance, are further liberalised to make it even more attractive to the black money owners than at present. As was anticipated, it is now clear that one of the considerations with the Finance Minister as regards the particular timing of the scheme was to enable the Government to assume credit for subscriptions of sizable amounts by way of S.B.Bs. during the months of February and March 1981 and to that extent reduce the revised estimates of the Budget deficit for 1980-81. The Budget for 1981-82 thus shows that the Government expects subscriptions of Rs. 200 crores during the year 1980-81. Surely the Finance Minister was hoping to take credit for a much larger amount, say about Rs. 500 crores or so, but could not do so because of the poor initial response to the scheme, which in turn was because of conflicting interpretations of some of the clauses in the scheme, and because certain constitutional aspects of the scheme were referred to the Supreme Court.

The Finance Minister has, of course, been bold enough to take credit for as much as Rs. 800 crores from the S.B.Bs for the next year, i.e. 1981-82. It is too early to say as to how far his hopes will be translated into reality. However, as far as the current year, i.e. 1980-81, is concerned, it is clear that the S.B.B. scheme, like the others

discussed earlier has failed as a possible remedy to tackle the problem of black money.

WHY DID THESE 'REMEDIES' FAIL?

I cannot claim to have the full answer to this question, but some points are worth indicating.

In the first place, most of the remedies adopted have been of a cosmetic nature. While a massive flow of black money kept on flushing all sectors of the economy, the remedies were directed mainly to take away some tit bits of this flushed black money, without any effective attempt to stop the flow itself. In this context, the rationale of the S.B.Bs. becomes even more doubtful. The S.B.Bs. do not take away black money at all; they bring it in the economy. The Finance Minister himself justified the S.B.Bs. in his Budget speech on the ground that they helped direct the flow of black money into the financial system and into the public exchequer. In other words, the financial system and the exchequer will increasingly stand to benefit from the flow of black money and will soon have a vested interest in hoping that there is a sufficient flow of black money as a resource to them. I hope the inherent contradiction between this logic of the S.B.B. and 'checking the generation of black money'—about both of which the Finance Minister talked in the same paragraph will not be lost on students of economics.

Secondly, in the world of black money, something like the theory of 'the show must go on' seems to operate. A particular person making black money may be penalised, may go to jail or may even die, but somebody else takes over and thus the process of generating black money goes on. Black money is more than the people who make black money. As a recent article put it aptly, "It is an outfit, a syndicate, an organisation, a combination; and it's designed

to perpetuate itself. 'We go and indicate everybody', says one investigator, 'and put everybody in jail, and the next day somebody else is right there to take over'. We really do not achieve anything. We punish people who are guilty of a crime, but we do not resolve the situation. The organisation still remains."

Thirdly, the very approach of tackling black money was not correct. Remedies like the V.D. scheme and S.B.B. scheme, far from penalising the people concerned, actually pamper them, and honest citizens increasingly keep on feeling sorry that they are honest, and that they have no 'opportunity' for making black money! Such an environment is not conducive to the elimination of black money.

Fourthly, people seem to be losing confidence in the Government's ability to protect them against various problems and, therefore, they start building their own protective walls to preserve themselves. With far-flung and wide-ranging controls, whatever they do for this purpose, seems difficult without black money. For example, to escape inflation, to escape high tax burden, or to escape take-over of private property without compensation, they turn to black money. Some sort of a law of self-preservation thus seems to become operative.

Finally and most importantly, black money prospers in a society because numerically a tiny but structurally a very powerful section of the society starts benefiting from the black money and thus develops a vested interest in perpetuating an environment which helps it make black money. The unscrupulous among the politicians, bureaucrats, businessmen, or professionals are among those that seem to be thus benefiting. As long as they remain powerful, such remedies cannot tackle the problem of black money.

A total and permanent elimination of black money may perhaps be impossible to be achieved, at any rate in the near future. Similarly, several countries where some of the underlying causes of black money, which we discussed above, do not operate or operate much less harshly, are not free from the evil of black money. However, it would be wrong to brush aside the problem under the carpet with such excuses. Effective action on a wide front is necessary, so that, to borrow a phrase from the Budget Speech, 'this social evil is progressively eliminated from our society'. A few suggestions in this direction are, therefore, made in the following concluding section, which contains, what may be called a Five-Point Plan to tackle black money.

A FIVE-POINT PLAN

The Government should without delay appoint a high powered Commission to examine this problem in all its aspects and make recommendations. No doubt, the problem has received attention in the past by different expert bodies: Kaldor Report (1956), Mahavir Tyagi Report (1956-59), Wanchoo Committee Report (1971), and the Dagli Committee Report (1979), to name a few. However, most of them examined it with reference to tax evasion and that too with reference to the evasion of direct taxes. The Dagli Committee discussed it only as a consequence of the operation of controls. In fact, the problem has much wider dimensions. That is why, I think there is an urgent need to appoint a Commission to examine the question, **in all its aspects**. Unlike some of the earlier Commissions, this Commission has to have quasi-judicial powers, particularly powers to take evidence on oath, to conduct proceedings in camera, and to assure secrecy of evidence tendered before it.

The appointment of a Commission has been a favourite game played by many governments in the past, particularly

when they wish to buy time and pacify public wrath. Far too often, the country's best experts agree to be appointed on such commissions, but their recommendations, made after great labours, are treated with scant respect, and are rarely acted upon in the spirit and in the totality in which they are made. The time has come when experts should refuse to work on government commissions unless they are given some sort of an assurance that their recommendations will be acted upon truly and promptly. As regards the proposed commission on black money, no useful purpose will be served unless the government makes a firm public commitment to accept and act upon its recommendations. This commission should examine the growth of black money in the Indian economy, and its underlying causes, try to benefit from the experience of other countries and should suggest wide-ranging reforms, i.e. economic, political, social and others, to tackle the problem.

The second point is that, **with one sweep**, Government should show the courage to dismantle as many controls as possible. Since our experience with controls has been so disastrous, our experience with such massive decontrol operation cannot possibly be much worse. It is worth giving decontrol a chance. For once let us take the advice of the Father of our Nation seriously.

Thirdly, tax rates should be reduced drastically to sensible levels and the procedure for collection of taxes should be simplified considerably with a further assurance that there will be no tampering with these at least for four years, the term of the present Government.

Fourthly, it is high time we started planning for plenty and not for shortages as we have been doing in the past. This may sound like a cliché or a slogan, but it is not.

Anybody familiar with the planning process would agree that it works in such a way that the physical targets are almost impossible to be achieved even normally, and more so in an environment of inflation.

The final point is to make fundamental changes in the election laws and practices.

This five-point plan will not work unless we execute our policies fairly and firmly and we devise an adequate system both of substantial rewards and of effective deterrents to the bureaucracy, on whom the task of implementing the policies will ultimately fall.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

“People must come to accept private enterprise not as a necessary evil, but as an affirmative good.”

— **Eugene Black**

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