

Government must take strong steps against corruption. But citizens should also speak out and stand up against the corrupt.

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Global Financial Integrity, an international organisation which aims at curtailing cross-border flow of illegal money, has in its latest report, which was published in December 2011, states that nearly six lakh crore rupees were siphoned out of India between 2000 and 2009. The GFI has estimated this illicit flow by examining the data on two aspects of the economy. In the first instance, it has compared foreign funds generated by external borrowings and foreign direct investments with the uses to which these funds could be put to — bridging the country's current account deficit or adding to its foreign exchange reserves. According to the GFI, if the official data shows that the use of foreign direct investment is less than the funds generated, then there must be an illicit outflow. The GFI report estimates that over \$6.8 billion (about Rs 33,000 crore) was lost in India in this manner over the past decade.

The second category of illicit flows is based on trade mispricing. If an importer declares an import value to the Customs Department higher than the value of goods recorded by the exporting partner country, it creates an illicit outflow. Similarly, if an exporter understates the value of goods actually exported in relation to the imports recorded in the importing partner country and keeps the balance of funds abroad, that too is an illicit outflow.

The GFI has examined international trade data which reveals such mispricing by comparing data from partner trading countries. It is this type of financial jugglery that accounts for the bulk of illicit outflows from India which is over \$121.65 billion (Rs 5.8 lakh crore).

This is a peculiar kind of circular flow of funds called 'round-tripping'. In this trick of high finance, money illegally flows out and then illegally flows in, to be invested underground or in the black economy. This not only causes huge tax losses to the public exchequer but also bolsters the illegal domestic economy.

Apart from this, corruption, kickbacks, theft and bribery are other conduits for the unrecorded transfer of capital. According to a Swiss Banking Association Report of 2006, "India has more black money than the rest of the world combined." Indians have stashed almost \$1.5 billion in black money in Swiss banks, according to some reports that were later denied.

Nonetheless, the fact remains that more black money is being generated almost on a daily basis. No property deal or any other major transaction is ever complete without a major component of black money. An ordinary person cannot buy any property without paying a minimum of 50 per cent as black money.

A colleague of mine who retired as an Ambassador told me that he had to convert his white money into black to buy a house. My own estimate is, and it is only a guess on the lower side, that at least Rs 10,000 crore of black money is generated every day. The money is generated not only through tax-evasion, which is very common, but also due to massive corruption in the bureaucracy. This is despite the Prime Minister giving a certificate of integrity and honesty to the bureaucracy in his statement on the Lokpal Bill in the Lok Sabha on December 27, 2011.

In 2009-2010, the Income Tax Department seized assets worth Rs 786.27 crore during search and seizure operations; the figure has steadily increased over the past few years. It was pegged at Rs 427.82 crore during 2007-2008 and at Rs 550.23 crore during 2008-2009. However, there is no official estimate of the extent of unaccounted income or wealth in the country or stashed abroad.

If we are to end the black money menace, it should be made a cognisable offence with severe punishment that should also include the confiscation of all illegally-acquired wealth and assets as well as penalty amounting to three times the value of wealth stolen. Government employees should be summarily dismissed from service. But this black money menace cannot be ended in one large sweep. It can be controlled, but not with the kind of soft laws we have in the country. Senior BJP leader LK Advani has gone on record saying that “the Swiss Ambassador to India has said if the Indian Government shows the political will, the Swiss Government is willing to cooperate.” He also added that in a majority of cases, black money is the product of crime and corruption.

Countries like the US, Germany, France and the UK have entered into agreements with Switzerland which have helped them extract information. The US has secured information on 4,000 account holders from UBS. It is important to reiterate that the US has been able to pressure UBS to not only provide information about American citizens illegally hoarding money in that bank, but to also pay a fine of \$780 million that was lost to the exchequer by way of taxes. Other countries have also managed to get similar substantial information, if not compensation.

The nature of the agreement which India has signed is so conveniently worded that the Government can even use it as an excuse to refuse to extract any information at all. This also gives defaulters the scope to withdraw their money and save it elsewhere.

The extent of corruption that leads to the generation of black money can be gauged from the fact that in December 2011, the Chief Minister of Uttar Pradesh dismissed 10 of her Ministers on charges of corruption, including the misuse of their position. There is reason to believe that this must be the situation across the country. The only difference is that Uttar Pradesh has shown the political will to act against graft. With abysmal poverty made worse by rampant corruption, our country cannot flourish. Our democracy is half-rich, half -poor, as it is half-free, half-enslaved. As citizens, it is our responsibility to keep the Government on the right track. Everybody wants to eat, but nobody wants to do the dishes. In other words, nobody wants to speak out and stand up against corruption. Mahatma Gandhi had rightly said: “Be the change you want to see.”

No problem, including that of black money and corruption, is insurmountable. The law for seizure of ill-gotten gains is an imperative, and this must be the first step. Also, the approach of treating economic crime as no more than a petty traffic violation must stop.