

Calcutta Notebook

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Good black money, bad black money. Black money is unquestionably harmful for the economy. It is used more for luxury and conspicuous consumption. It is sent away to foreign banks. Tax is not paid by businesses on these activities. This leads to less generation of revenues by the government and less creation of infrastructure such as roads. However, the same black money has an opposite effect if character of the Government is corrupt and exploitative. Almost 45 percent of the revenues of State Governments are today being used to pay huge salaries to the government bureaucrats and employees. These employees have acquired an exploitative character. They are being paid huge salaries so that they suppress the people's movements against corruption and extortion by politicians. Indian politicians have spawned a huge welfare mafia to co-opt and quieten the voice of disgruntled majority. Government teachers get five times the salaries of private teachers only so that double the numbers of students fail in the exams. Revenue is being leaked through scams such as Bofors, Spectrum and Commonwealth Games. In this situation, black money provides relief to the people from exploitation by the government.

It is commonly believed that black money leads to slower growth of the economy. But the situation is exactly the opposite today. Partaking of ghee by a healthy man is good but taking of the same ghee by a sick man is harmful. Similarly, control of black money in clean governance is good but control of the same in corrupt governance is harmful. Presently about 11 percent of the national income is collected by the government as taxes. Increase in this is good if the money is being utilized for the welfare of the people. The same increase is harmful if revenue is being utilized for corruption.

This writer started running a strawboard factory in the eighties. The business was in white in the first two years. Tax rates were stiff. On a sale of Rs 100, the business had to pay Rs 25 as excise duty, Rs 12 as sales tax and Rs 3 as other levies. Strawboard produced by the factory was costly because of the burden of these taxes. So the enterprise incurred huge loss and had to change the ways. Strawboard was then made available by the company to the consumers at a lower price.

This was when tax rates were high and most black money was generated by businessmen. The situation has changed dramatically today. Tax rates have been reduced. Businesses are generating less black money. More black money is being generated by politicians and officials as in the Bofors, Spectrum and Commonwealth Games scams. Impact of this black money is altogether different. The Swedish Company manufacturing Bofors guns gave commission to certain politicians. The Company increased the price of the guns to meet this expense. Or, say, commission was given in allotment of spectrum. The burden of this commission ultimately fell on the mobile phone user. Or, the fruit vendor on the train gives weekly hafta to the GRP policeman. He has to sell the fruit at a higher price to recover this money. The consumer has to pay more due to black money generated by the politicians. In contrast, he has to pay less due to black money generated by the businessmen.

Businessmen spend less money in vulgar and conspicuous consumption. Businessmen buy less gold and send lesser amount for deposit in Swiss Banks because these deployments provide lower returns. There are businessmen who buy land, bricks and cement with black money and establish factories. Politicians and officials, on the other hand, invest hugely in gold, property and send monies to Swiss Banks. The reader can confirm this

by speaking to any jewelry shop or property dealer. This corruption would be less harmful if politicians would use the money for building their party. One politician correctly declared that it is not possible to run a party without black money. The problem arises when politicians and businessmen use the black money for unproductive purposes like buying gold or depositing in Swiss Banks.

There are three types of black money. Best situation is that government is clean and black money is wholly eliminated. Second situation is that politician uses black money for party building and businessmen use it for investment. The worst situation is when government is corrupt and businessmen, politicians and officials send the black money to Swiss Banks. This black money is mostly generated by politicians and officials. This is the main problem today. The problem is not of bringing back the money lying in the Swiss Banks. The problem is of continual generation of Black money by the politician-official nexus.

Strangely, people are expecting the politicians to bring back the money from stashed away by the politicians themselves in Swiss Banks. This is like asking the thief to do the policing. Perhaps, it is for this reason that Prime Minister is saying that names of Swiss Bank accountholders cannot be made public. This will not do. A solution has to be found outside the ambit of government. Well, an agency like Transparency International in every district to expose corruption among the politicians and officials may serve the purpose, partially though. □□□