

Swiss Bank Fiasco

It is futile to try to keep filling a broken pot. It is similarly futile to try bringing back Indian black money from Swiss Banks when more amounts are being sent regularly.

The money stashed away in Swiss Banks mostly belongs to Indian politicians and high officials. The Government had made a Voluntary Disclosure Scheme to unearth black money a few years ago. The highest disclosure of Rs 274 crore was made by a politician from Andhra Pradesh. The Bofors and Hawala scams also point to the involvement of top politicians in sending abroad large amounts of money. The fate of investigations in these scams indicates it is futile to expect the investigative agencies appointed by the politicians to take action against their masters just as the bullock cannot investigate the wrongdoings of the farmer. It will be difficult, therefore, to bring back Indian money from Swiss Banks through administrative measures.

It is safer to store black money away from the Indian shores. But it may be a smaller reason. It is almost equally safe to hold black money in India in form of property or gold. There is another incentive for sending black money abroad which merits attention. There has been continuous devaluation of the rupee in the past. One US dollar could be purchased in 15 rupees in 1991. Today it takes 50 rupees to buy the same dollar. This decline in the value of rupee is beneficial for those who have sent their money abroad. Say, a person had bought 100 dollars in 1991 by paying Rs 1,500 and deposited it in a Swiss Bank. That same 100 dollars will be converted into Rs 5,000 today should he bring this money back. His investment of Rs 1,500 has spontaneously tripled. Interest was earned on the deposit additionally. The politicians have remitted their black money to make profit from this secular decline in the rupee. Conversely, it will become beneficial for the politicians to bring back the money deposited in the Swiss Banks if the rupee begins to appreciate. A large number of NRIs are heading back to India because wages are now declining in the developed countries. The money stored in Swiss Banks will similarly make way to India if the rupee revalues.

The reason for the continued decline of the rupee is now is due to export of capital by the Government of India. The Government has been sending huge amounts of money abroad to build unnecessary foreign exchange reserves. Normally, foreign exchange reserves equal to six months' imports are considered adequate. But the NDA government initiated, and the UPA government continued to follow, the policy of building these reserves much beyond this level. Indian fonex reserves now stand equal to about 3 years' imports.

The Government has to sell rupees and buy dollars for building these reserves. This leads to increase in supply of rupees and demand for dollars in foreign exchange market. In turn, this leads to decline in the price of rupee and increase in the price of dollar.

The way to bring back Indian money stashed away in Swiss Banks is to make it profitable for the politicians to bring it back. This can be done by securing an increase in the price of rupee which can be done by bringing back unnecessary foreign exchange

reserves. The rupee will start rising once the Government embarks on this policy and politicians will toe the line. The Government must make a scheme of amnesty akin to the Voluntary Disclosure Scheme. Say, a 30-percent tax can be imposed on the returning black money. This tax receipt can be used to rebuild the foreign exchange reserves.

Return of the black money will not deliver economic progress, however. India desperately needs more investment in highways, ports and other infrastructure. But the main impediment to this investment is not unavailability of money. The main impediment is the huge leakage from such expenditures. □□□ *[contributed]*