***Colours of Money***

***Colour Changer***

It is not whether black money exists, but what can be done to weed it out and how soon. It is fair to say that monetary system itself has perpetuated it, so much so that it has become a necessity for survival and living, and not just for business. Understanding its track would be illuminative.

Considering that inflation\*\* –albeit manageable- is one of the cornerstones of modern economics, in a way allowing value of money to decrease; by increasing supply and `de’-valuing it both in terms of availability and affordability- it itself is one of major causes of black money proliferation, especially for a large population base chasing scare resources in a rapid growth phase.

Taxation is also a root cause, as differentials in tax planning provisions and permissiveness in cross border trades, are further enticingly tempting to exploit. Let Transfer pricing be left alone, so as not to cloud the issue. By permissiveness, what is implied is the laxity –lack of certainty and speed- and force with which rules are enforced by tax authorities and courts, and whether bans/fines/penalties handed out are nominal, marginal –that can be lived with, or damaging reputation and accounts.

When discretion and corruption are added to the cauldron they make potpourri of black money. And when corruption is endemic, rule of law and dispensing of justice are affected, dispensations become the norm. It impacts health care, education, employment, wages, enterprises, profits, savings *et al*, right from cradle to grave. India is in such pathetic situation that it is not easy to see light at the end of the tunnel. Of course, it can be, if we try harder with commitment and alacrity.

Hope across the global spectrum is UN Convention against Corruption that India has ratified and the Bribery Act of UK that holds UK principals responsible for corrupt acts/practices of their agents globally; similar ones in many trading and developed economies too; e.g. Singapore, Hong Kong…

Indian dark-black story isn’t different from that of most developing countries; but it is difficult in the sense that it exists with wide variations side by side, with diversity, which is typical of India given our wide ranging variations in customs, cultures, spirituality, religion, food, clothing and everything else; like the money lenders fleecing the poor with usurious rates –charging only interest and not wanting the principal back! It is considered as a given in all walks of life and we are ready to live with it, even if we can’t afford it, be it in real estate, school/college admission, civic services and what not. Now that Right to Services through an Act is being pursued, let us prefix it with `clean’ and `not corrupt’.

Like our basic behavioural characteristics black money vide corruption is embedded in our psyche, such that we expect, provide, budget, prepare for it, haggle a bit and shell out on supply-demand equations. Unless and until such imbalances and economic disparities are corrected, we will remain enslaved by it. Population control perhaps is the key; faster growth with better trickle down too. In the interim proper implementation of all (1258 per <http://india.gov.in/my-government/schemes>) well-meant social schemes with least leakages –if not free of stealth- may improve matters manifold.

\*\*Whether Cost of Living/WPI or Capital Gains Index is considered, the truths that emerge are that salaries and compensations haven’t kept pace with inflation. A decent living that civil servants have had prior to the ’71 war and liberalisation later in ‘91, cannot be maintained with today’s pay scales. Pay commissions do come and go –invariably late- with their arrears earmarked to pare down debts.

Considering Capital gains indexation is 100 for 81-82, 199 in 91-92, 426 in ‘01-02 and 785 in ’11-’12, means that one is to have eight times the money of thirty years ago to buy same thing or of similar value. If WPI/CPI is applied to earnings and net saving to appreciate along lines of capital indexation, difficult pictures to make both ends meet, emerge. (As a ten year old, I used to settle joint family’s monthly provision bill in under 100Rs in the ‘60s; now it is not less than 3000 for nuclear families in cities: 30 times plus)! Simpler/higher tax slabs conceded in the wake of post liberalisation higher mop-ups is to minimise incidence and tax management costs; but there is room for yet more.

After spending on essential items, net savings after taxation and deductions would be small. Cost of housing, car etc as multiplier of one’s earnings/savings/creditworthiness is beyond reach of most. So ideas for black money are incubated, as fear factor of getting caught and retributive punishment are ignorable. Avenues for investing ill-gotten money are aplenty and thus it is a cycle of loss of values. As such, what used to be a bad apple in a team is now situation earlier is replaced with scarce good apples. Thus fatal flaw of cost recovery risks is reduced by hounding the ‘good’. The challenge and cure is to minimise opportunities introducing newer technology like in IRCTC, IT filing etc.

It is but natural that those in employment, business or enterprise work well and hard with hopes and aspirations for a better future for themselves and families. Apt question then is whether the residual savings after meeting costs at least at same standard of living permits them to invest in children’s education, buying a house, providing for retirement/health care etc. (A plausible comparison is with raises MPs have granted themselves to cope up with inflation and related falling values all around). Unfortunately, a sad and pitiful scenario is the truth. Hence given the limitation, corruption –earning black money that is tax free- is resorted to, be it in the public or private sector or private/public life.

This is not to justify corruption, but to underscore its cause, not forgetting that getting a job, posting, promotion etc cost quite a bit -those having to be recovered with interest and margins, as politicians and their cronies have infiltrated the government mechanism in every which way imaginable and control everything in all aspects; the opposition playing a sharing game and not correcting. **A vigilant and clean citizenry monitoring through civil society groups would make a big difference.**

Corruption is seen impacting domestic budgets at about 30-40%. Starting with *haftas* (weekly protection money) extracted by goondas, mafiosi and para-government crooks ( *baksheesh* for ignoring unlicensed operations) and avoidable mark-ups/middlemen, prices can be brought down substantially (as demonstrated for vegetables in Tamil Nadu Amma Fair Price shops).

Imagine the savings, spending power and improved living standards if corruption can be eradicated. Earning-spending-salaried-wage-workers should be driven by such motives to root out corruption; governments too, for improved tax realisation to pursue egalitarian developmental goals. But both the givers and takers have to follow clean paths with commitment –as taught to us through various morals of stories right from young age- for, as long as demand exceeds supply, the serpent’s hydra headed existence would continue to be beyond trampling even by gods.

Taking real estate costs alone, reveals a more disastrous picture: that it is beyond the reach of most, even after taking loans –having to pay it off over a life time at high interest rates and then be left with an old building due for demolition calling for fresh loans for rebuilding near retirement, prior reverse mortgage - it is not affordable. Thus people are forced to shift farther away, travel more –with time/fuel wastage, dropping productivity, health hazards and incur more costs on all fronts. The real estate price –which for most Indians is the final savings fall back- that unlike other countries have not crashed or seen major downward correction, seems to be driven by inward remittances, exchange rate and global currency flow patterns. How can an Indian earning only in India cope save to for the nest egg if the dream home gets distant and beyond every year?

On the supply side, manufacturers -of everything- pay up to get licenses, permits, renewals and please all and sundry inspectors. Al these are passed on with interest and margins to the consumer. At every stage cash is king for lubrication. That justice system can be bought and lawyers-judges in nexus are amenable to trade-offs is another handicap. From elections onwards it is cash based economy, said to be at least at 50%. The revenue loss to governments –all direct and indirect taxes including income tax- is not at all small; if correctly collected, it could probably wipe off the deficit. The wealth stashed ashore should suffice to rebuild and modernise the country with infrastructure and solar power from Kanykumari to Kashmir and Kandla to Kohima. Can we speed up please?

As illustrated above, it is not only about under/over invoicing to stash funds abroad/offshore in tiny isles/countries; why after such information is available in public domain, nothing much has been done to repatriate and possess such funds remains unanswered ? Failure is to implement systems and laws, using blackmail and disproportionate asset cases as tools to make the erring comply with political whims. Questioning of source of money for conducting a daughter’s wedding of a manager in the ‘80s in a large hall, is recalled. Comparing with the recent dragging and dropping of excessive unaccounted asset cases for political convenience and jugglery, fails the basic modicum of justice.

*Aaam aadmi’s* plight is worse; having no source for black money white is converted to black in grey market. Remaining marginalised, hopes and dreams of better living standards for next generation too remains bleak at current cost and systems loaded against him. Can they be blamed for taking to arms and turning terrorists, when they are displaced without compensations and livelihood? Not to be frustrated! Participations at *gram* level for projects affecting their landscape is an Indian first! Caveat but, if all our –well informed and committed activists’- efforts come to a naught in the short and medium terms, a revolution is already in the making for the long run. Isn’t almost half of our country said to be affected by naxals, terrorists, ultras and those seeking changes through violence?

The rot had set in in the ‘70s after the wars, drought, bank nationalisation, populist schemes etc. What savings was left, after government had per force taken away the little there was through Compulsory Deposits? The mass migrations of the educated, intellectuals and industrious is yet to be reversed through friendlier policies and opportunities. Though power of liquid cash in vote/booth capturing was well known, cash in Parliament against a non-confidence motion of ’08, perhaps was the inflection point that has catapulted many a right thinking and self- respecting citizen into action.

Forget kickbacks, equity shares, facilitation fees, Diwali gift list, paid vacation etc, demand for payments to keep silent and not obstruct rightful permission/license has become the norm. Yes, P Note is the channel for investing in equities after dividends have been made tax free. The accusation that the tax free IT industry has been in collusion with politicians and real estate developers (IT firms investing heavily in custom-suited office buildings/spaces) and thus driving up prices, asset values and creating a boom on top of the pent up demand of both-partners-earning youth brigades remains unsubstantiated to a large extent. Nonetheless, the collapse of an IT major –very well resuscitated by government arms though-because of accounting frauds, has left trails of suspicion but.

In a globally flattened world with no boundaries, trade barriers with tariffs -implying countervailing duty etc too- and quotas have become meaningless. And when capital is chasing best returns, fleeing from least returns and max controls –exchange rates set by speculators by velocity of circulation and migration of hot money, governments, trade blocks, IMF/WB and even gold reserves have lost their balancing acts. The *raison d’etre* is profit motives with greed in the name of social development.

On the trade and forex/reserves front, linking to Green-back (itself without gold or other reserves) seems to be heading for disaster; perhaps we should revive *panchseel* and pursue *bhai-bhai* with neighbours. Index adjusted returns on bonds is a new idea whose time has arrived, it appears.

The democratic dividend with youth going to tilt the decisions in polls, savings, spending, life styles and demanding clean governance is the wave we have to ride on.