

# WHITENING THE BLACK MONEY: UNFOLDING OF A FIASCO

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Reference to be provided by Prof. Khurshid

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The way finances of the country are being handled cannot be allowed to go unchallenged. An allegedly novel way was devised through what has been described as 'Whitening the Black Money'. Three types of interest-bearing bonds have been issued to capture the illegally acquired wealth to meet the budgetary deficit of Rs. 5 billion. As the dateline for the sale of bonds is approaching it is worth reflecting how those responsible for managing the economy have gambled.

That a parallel economy, operating on black money exists and thrives is beyond any shadow of doubt. The Finance Minister is on record saying that the minimum estimates he has received of the size of this parallel economy are around 10 percent of the GNP. This, on the basis of the GNP data for 1983-84, would mean some 41.3 billion rupees. The Finance Minister has also surmised that it could even be in the range of Rs. 70 billion. Other estimates suggest a figure exceeding Rs. 82 billion.

Of this huge lake of Black Money the Finance Minister has tried to bottle some Rs. 5 billion through the lucrative bait of the three bonds. Even if he succeeds this would affect only 6 percent of the total black money rolling into the economy.

This is not the first effort to whiten the black money. The country has seen three earlier attempts, the last two of which were simple failures. On all those occasions a straightforward tax of 30% was charged to induct the black money into the regular economy. This time the Finance Minister, ignoring all moral scruples or long period economic considerations dashed for their interest-bearing loans.

The black money owners are being pampered and terrorized at the same time with a more and more attractive carrot and an awesome stick. Instead of punishing the wrongdoers and raising taxes from them they have not only been given a complete amnesty but also the following privileges:

- a) A tax and Zakat free handsome return on investment;
- b) Right of borrowing from banks upto 75 percent of the face value of the Bonds with the rare privilege of such borrowings being treated outside the banks' credit ceilings;
- c) Right to borrow from banks against assets in which the black money is invested, for putting the borrowed money in the Bonds;
- d) Free import and export of Foreign Exchange Bearer Certificates;
- e) Several amendments in the Income Tax Ordinance to give various facilities to investors in these Bonds:

- i. In pending assessments, the tax-payers would be entitled to claim set-off against income purposed to be assessed upto the amounts invested in the Bonds;
  - ii. In case any sums or properties are formed not to have been offered for taxation by a tax-payer, set-off against income would be allowed for the amount invested by such tax payer in the purchase of Bonds;
  - iii. Assessments already finalized and cases pending in appeal would remained unaffected; and
  - iv. The investment in the Bonds would itself have no adverse bearing on the processing of returns of the tax payers for the assessment year 1985-86 or thereafter'.
- f) No action to be taken in cases where any amount has been evaded upto 30th June,1984 under Central Excise and Sale Act, Sales Tax Act, Gift Tax Act and Customs Act on account of the fact that Bonds have been purchased by any person.

As far as the stick is concerned the Finance Minister in one of his recent Press Conference has war that those owners of black money who do not avail of the opportunity to whiten it through purchase of the Bonds would be dealt with severely and they would not only be punished under the law but would be black-listed for bank borrowings and their existing borrowings would be recalled by banks. The IDBP and PICIC would also cancel their industrial sanctions. Lists of tax evaders would be supplied to banks and financial institutions for necessary action in this regard. He has also revealed that in these connection lists of tax-evaders have already been forwarded to the Central Board of Revenue for eventual action against delinquents in September, 1985 through summary proceedings. This leaves the question open that if adequate information about tax evaders was available, why direct action was not taken against them under the law instead of offering them all sorts of rewards of their misdeeds. Does it not show that the Ministry of Finance and the Board of Revenue have been accomplices of some sort in this sordid game of tax evasion? For, if this information was there why no action was taken? If all this is a bluff, is not the Government stooping to black-mail?

From the economic viewpoint the most disturbing aspect of the whole exercise is that current and not-so-current Governmental expenditure are proposed to be met by mobilizing a resource that is in the nature of short-period liability. The Bonds would have to be paid back in two-to- three years and there is not an iota of evidence to suggest that within the next two to three years Government's capacity to pay back these loans with interest would be enhanced. Moreover, the way Banks have been brought into the game is extremely shocking. Banks have been asked to put their own surplus funds into these Bonds, as if banks were also involved in playing the game of black money. Banks are advancing money to the owners of black money to buy Bonds and if the

information from the market is correct the running rate is at 9 to 14 percent. That is with only 9 to 14 rupees from the real black money, a bond worth Rs. 100/- can be acquired. But does this not mean a simple substitution of its assets with another without any real black money. After all a number of avenues for keeping black money were already provided in the economy, some explicitly by the Government in the form of bearer bonds, NIT bearer units. Prize bonds, Khas deposits, etc. Now a switch-over from one form to the other is taking place with the mid-wifery of banks without really augmenting resource- mobilization in the country. Since the banks are not bound by their ceiling for financing those new bonds, this means real creation of money in the economy. Is this not deficit financing through the back door?

The whole exercise has turned sour. There is no possibility that this scheme would even make a slight dent on the black money. No real new resource mobilization is going to take place. If the Finance Minister is not prepared to further reduce Government expenditure the country is heading towards deficit financing, both through the commercial banking sector via enhanced loan- ceiling and also through resort to the printing press in the last months of the financial year. And above all the whole effort towards eliminating riba (interest) from the economy has been disrupted.

The Government must realize that the scheme of so- called laundering has turned out to be a fiasco. No amount of peppering is going to cover up this failure. Let the leadership show greater statesmanship by confessing the failure in search for alternatives that are morally sound and economically viable. Seeking extensions of datelines and furthering the game of fails carrots and sticks is not going to deliver the goods.

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