Reflecting on India's Black Money Problem

What is the issue?

- India's black money problem was largely misdiagnosed.
- The ensuing legislative measures in addressing the black money problem have fallen short of constitutional and economic rationale.

What are the shortfalls in black money laws?

- Being high on populism and low on constitutional wisdom, the Black Money Act was a draconian law that was bound to fail.
- The Act aimed at bringing back a few lakh crore of unaccounted money parked as overseas assets.
- Sadly, it was able to accomplish only 5 to 10% of what was expected of it.
- At minimum tax rate of 60%, it gave only marginal incentive for the hoarders to come clean.
- Lawmakers overestimated the writ of international laws and made no economically persuasive case.
- Resultantly, as of May 2019, the total untaxed foreign assets mined was Rs. 12,500 crore.
- Wholly recovered, this would not even pay Prasar Bharati's bills for 4 years.
- Even this recovery was aided greatly by international exposes such as the Panama Papers in which the government's legislation had no role to play.
- In comparison, Indonesia recovered about Rs. 25 lakh crore under similar schemes.
- Instead of doing course correction, the government passed an even more confiscatory law, the Fugitive Economic Offenders Act.
- Demonetisation was among the government's purported measures to fight the black money menace.
- However, the international media called demonetisation as a 'massive theft of people's property'.
- Similarly, the announcement that Rs. 15 lakh will be deposited in each citizen's account was found to be nothing more than a political bait.

What is the limitation?

- No clear estimate of black money owned by Indians and stashed abroad is available.

- Between 2008 and 2012, various reports quoted anywhere between $500 billion and $1.5 trillion.
- However, these turned out to be false.
- In March 2019, National Institute of Financial Management reported that the estimate is about $216 billion-$490 billion.
- This is just one-seventh the estimate quoted ahead of the 2014 elections.
- In essence, India's foreign black money problem was misdiagnosed and unverified.
- Consequently, the exaggerated numbers went into satisfying Parliament that draconian financial laws are justified.

What is the key concern?

- Any fiscal system must have not just legality but also legitimacy.
- A system loses legitimacy when there is a breach of faith on the part of the government in its dealings with the taxpayer.
- A democratic state cannot unjustly enrich itself by making citizens pay for what is not rightly owed.

What does this call for?

- The true intent of both the Black Money Act and Fugitive Economic Offenders Act could have been achieved by a few tweaks in the existing laws as the Income Tax Act.
- The government should give up the belief that being an intrusive, pressurizing confiscator enriches Indians. This, clearly, does not work.
- This approach is only impoverishing the country into an economic depression.
- The draconian fiscal laws must at once be repealed.
- Increased international cooperation, technological advances and banking penetration would address the black money concern better.
- India's war on black money can only be won through democratic, persuasive and economically-sound means.

Source: The Hindu

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