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**Business**

Budget

## **Black, white and compromised grey**

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We are muddling excessively with 'white' and 'black' money without pondering over the failures in governing transactions that give rise to the so-called black money. If one is strictly legalistic and defines 'black' to include any excess of tangible and non-tangible assets over and above that recorded in a taxpayer's wealth statement; there is possibly no country in this world with zero black money. One may also cite examples where taxpayers have less than what they have on record. The reason for the latter is simply because our tax assessors have allowed us to record lower expenditure than actually incurred by an individual or a household.



**AMA Muhith**

If there was no other anomaly in the system, I would have proposed a trading of the white for the black -- that is, those with 'black' money can 'whiten' their money by buying a coupon from those with excess white money. Such a transaction would take care of the 'disincentive' problem of whitening black money since holders of 'white' money would be rewarded and holder of black money would have to pay a price. Sounds similar to carbon trading the global agencies are talking about?

Activating such a market would however require limited regulatory reforms and authorising some agents to operate in this market of new products (coupons) where equilibrium prices will have to clear the market -- white money owners will get extra rent when there is excess supply of black money till more and more people join the side of white money. Unfortunately, there is a problem with such a trading scheme.

Most commentators appear to agree that -- be it white or black -- most money and assets are in circulation. No-one however clearly states where these are in circulation. If it is in the domestic economy, a given regulatory regime may favour a set of sectors or sub-sectors where the black money finds a safe haven. In an integrated world, some countries may provide such a safe haven; and we have seen some institutions (functioning on global plane) to act as conduits for such outlets and leaks. One should note that such leaks may also explain why there may be excess 'white' money with some people. Thus, the hypothetical proposition of trading in coupons may unduly put the 'smugglers of money/assets' into an advantageous position. Even if no smuggling is involved, the fact that excess white money arises due to understatement of 'expenditure' needs to be acknowledged -- and the society may find that to be lesser of an evil, which will eventually whither out.

Turn to the dilemma of policymakers. Finance Minister (FM) AMA Muhith is confronting several problems:

1. The FM recognises that the countries in the world are competing for the 'black' money, which has real purchasing power. Thus, incentives should be sufficient to ensure that this money remains inside; and if possible, attract such money from outside. Think of the 'Second Home Programme' launched by a country in the Southeast Asia, to which many of us enrolled. Or, of the immigration policy of some of the so called 'civil' countries (as opposed to corrupt economies ridden with black money) who require us to transfer a large sum of money to make their country our 'homeland' -- and no-one really questions how such transfers are done.

2. The 'black' money in circulation within the economy may be confined to one or two sectors/activities, mostly for reasons to do with rules and regulations. In current period of global crisis, the FM must be searching for ways to divert such money to more productive sectors that will generate employment and income for our workforce.

3. Moral part is possibly the most important dilemma for the FM as well as for the party in power, particularly given the backdrop of anticorruption

drive and the election pledges. It is actually a time for change; and the mandate for change had been bestowed upon the elected government. Rather than elaborating on the dilemma and searching for an optimal solution, it was sad to hear the FM sideline the dilemma in the name of 'political compromise'.

On the side, I believe, the FM is informed that the urban property developers are not keen on incurring a loss and sell their apartments cheap (particularly in cases where the landowners got a higher price out of them); and that the valued properties are likely to be bought by people with 'black money'. Thus, there has been a demand to relax clause 19B, which requires no declaration of source if a tax per square feet at prescribed rates is paid. It is also quite possible that the FM is aware that monitoring of banking transactions is not foolproof, giving opportunities for the black money to remain in the system. There are surely other areas of concerns pertaining to black money -- but I consider these two to be important where governance issues need to be critically revisited.

Addressing those issues may be the first step towards freeing us from the impositions of black money and generate sufficient information to get a closer shot at the root causes. All these are not to be solved in one budget period, but the policymakers need to exhibit sufficient awareness and reveal more explicit commitments toward a less-corrupt economy and society if the 'imposed compromise' has to be rationalised. A minimum first step towards that is to make information revelation on all these transactions mandatory; and undertaking of IT-based initiative to crosscheck all the relevant information on a real time basis by multiple government agencies as well as civil society onlookers and citizens' groups.

A final remark on the 'political compromise' is worth mentioning. A compromise among political partners to get a decision through is not unlikely -- but that is likely to have involved the choice of three years during which period the 'whitening' process is considered 'legal' (rather than one year beyond which an annual budget does not have a mandate). But conceding to the power of 'black money' because of the potentially good things it can do to our economy is a compromise in economic space where trade-offs in choices are involved. The FM would have done a better job by pointing at those trade-offs and seeking solutions that would bind the black money to deliver those good things.

This would clarify the rationale for the move toward limited 'whitening'; and the short-term compulsions faced by the FM would then be better appreciated. I do however expect that the incentive policies to make good

use of the 'black money' need to account for the followings: (i) an annual budget should not commit anything beyond one year; (ii) there has to be a price paid for conversion which should be at least equal to that paid by an honest taxpayer; (iii) the price cannot be too high to force the money into underground or be smuggled out of the country, and (iv) relative incentives or disincentives to investments in various sectors should be conducive for productive use of the money.

The government could have initiated this discussion ahead of the budget and identify a route with greater consensus that would pave the way for less corrupt society in the coming years. Yet, it is better late than never. The debate that has been initiated with earnest remarks from the FM may be reflected upon to find acceptable solutions in the coming days. And to that, my best wishes to the FM.

**The author is a director of Economic Research Group. Views expressed here are his own.**