

## **THE SUBTERRANEAN ECONOMY**

**By Dr. M.N. Buch**

The word “hawala” was coined in India to cover an alternative financial system whereby illegally earned money is either spirited away abroad in undisclosed accounts or is converted into white money by illegal means. The size of this subterranean financial world is supposed to be at least as large as, if not larger than the legal economy. How does the system function? When money is earned through outright criminality, by business deals which are not declared for tax purposes, by extortion and bribery, by foreign exchange dealings which bypass the banking system and the money converted to a mode whereby it is no longer available to India for investment, consumption or for any useful purpose that constitutes the underground economy.

One example of this underground world is the real estate business in India. It is a fact of which we may almost take judicial notice that the vast majority of transactions in land and buildings are paid for partially from declared sources of income but fairly substantially from undeclared income which is not reflected in either the receipts of payment or in the stamp duty and other taxes paid on the transaction. Not only is the State deprived of revenue, but there is a flourishing parallel system which funds the hidden cash to pay for the purchase. Anything between thirty to fifty percent of the price of real estate is paid by such underground means. This parallel payment in black money is generally done with funds obtained through bribery and worse.

Whereas the sum total of black money fuelling the real estate market is very large, individual cases represent a relatively small sum per head. Much of this money circulates within India. However, so far as very large business deals in which foreign exchange is involved are concerned, in multi-crore transactions in which purchase, acceptance of tenders, giving of work orders, etc., is involved, each transaction runs into thousands of crores of rupees. A substantial amount of this money is stashed away in undisclosed accounts in countries which are reluctant to share information about bank accounts with India. Switzerland is one such a destination. The amount being large the tax authorities are bribed to ignore the crime. A nexus develops between businessmen, officials and politicians which, in turn, is bidding fair to wreck the economy. What is more, with the expanding economy and the enormous scales of the orders being placed abroad for equipment, machinery, materials, etc., the existence of a parallel economy is creating a state within the state which could well destabilise our democracy.

In the United States in the twenties of the last century, thanks very largely to Prohibition, an entirely new economy grew up based on gangsterism and crime. The Federal Bureau of Investigation (FBI) was specially created to deal with this situation. Al Capone was perhaps the biggest gangster that the criminal world has ever produced and there was no crime which was beyond him. He was guilty of several murders, but because no one was prepared to give evidence against such a powerful person even the FBI did not succeed in its effort. However, the audit of various accounts of Al Capone revealed tax evasion. The U.S. government amended the Income Tax Act to provide for life imprisonment for evasion on account of money earned through crime, Al Capone was convicted for tax evasion and sentenced to life imprisonment. He died in prison. I give this example because a democracy must show the flexibility whereby when dealing with a situation in which normal circumstances do not permit the action needed to correct it, then necessary legislative change must arm the executive with appropriate weapons. Sir Gerald Templar as Governor and High Commissioner of Malaya amended the Arms Act to provide a mandatory death penalty for a person from whom illegal weapons were recovered. A number of insurgents were tried and convicted under this provision of law and after a few persons had

been hanged legally the supply of weapons to the insurgents dried up. This was a major contributing factor in bringing the Communist led insurgency to a close.

We know the names of many of the persons who are guilty of parking huge quantities of ill-gotten wealth in foreign banks. We should amend the Income Tax Act to provide for very harsh punishment for specified acts of tax evasion. The penalty may include the death sentence also. The guilty persons should be hauled up for any tax evasion, however trivial and be given a really harsh sentence. There should then be given the option of bringing the ill-gotten wealth in totality back to India in which case the sentence could be reviewed. Failing this the person concerned might have to spend rest of his life in jail. In a way this will be legal black mail and most welcome it would be, too. One need have no mercy or pity for these vultures who are eating up the body of India while the country is still alive. If the menace of subterranean economy is to be eliminated we have to prepare to:-

- (1) Enact harsh laws
- (2) Ensure that the laws are enforced ruthlessly
- (3) Publicly humiliate the perpetrators of heinous economic crime, including handcuffing, being marched through the streets to the lock up and being treated as the criminals that they are. The high position occupied by the accused should not be the excuse for handling them with kid gloves. Let us recognise these people for what they are, common criminals, anti-social elements and traitors to India. Let us put the fear of the law up these people because that is the only way that we can cure this disease.

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