Demonetisation, Corruption and Black Money:
The Unfolding Dangers of Opportunistic Politics in the Era of Post-Truth

Com. P.V. Raju Memorial Lecture

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I am grateful to the P.V. Raju Memorial Trust, especially to Mr. G. Krishnamurthy garu, for inviting me to deliver P.V. Raju Memorial Lecture. I learn that several eminent scholars have delivered lectures before me, and I deem it, in all humility, as an honour to be associated with them. I have to begin with a couple of apologies. One is, not being able to write and deliver this lecture in Telugu, which would have been much more appropriate here. Second, I have chosen a topic which is likely to sound too familiar and risk of not being of much interest to hold your attention. My effort is to try and succeed, at least to some extent, in translating my belief that this lecture is not all that familiar as the title may mislead.

The Announcement of Demonetisation

On the evening of November 8, 2017, the Prime Minister went on all media channels to announce that his government had decided to demonetize five hundred rupee and thousand rupee currency notes is use "to break the grip of corruption and black money" and announced that the "five hundred and thousand rupee notes hoarded by anti-national and anti-social elements will become just worthless pieces of paper". It is not that demonetisation as a monetary measure is not resorted to by other countries. In fact the Economic Survey 2015-16 does refer to over twenty countries resorting to demonetisation with different purposes, with different rationale and with varying results. But the manner in which Prime Minister Modi made the announcement had brought certain sensationalism to this measure of the government. 'Demonetisation' is a financial or monetary measure, and normally involves the central bank or finance ministry. But in this case neither the RBI Governor nor the Finance Minister came to announce it, raising serious doubts whether they were involved at all in the decision making. The Prime Minister took upon himself to personally announce the decision for almost forty minutes in Hindi, and another forty minutes in English. The speech did not stop with the policy decision and soliciting the people's support for it but goes on to list as many as over twenty points of procedural detail which would normally be part of any

* The announcement of the action of demonetization by the Prime Minister of India on 8th November 2016, brought extensive response or reaction in both popular press and academic writings from all over the country, and even from abroad. Also there has been extensive literature on corruption and black money over the last several decades. I have benefitted from these writings and also made use of many of them. I am grateful to all of them, and also sorry for not referencing them here.

government notification. But choice of such a method of announcement was obviously well designed strategy to make people believe the priority that the Prime Minister was according to wiping out the past evils. As many behavioural psychologists or even behavioural economists would know that the less one knows about the reality behind the numbers or the procedures, the more awe and respect people would develop for them and for those using them! Such political strategies are increasingly in evidence from across the world. There was no sign of any financial or economic crisis. On the contrary, the Prime Minister began his speech by describing as to how when he took over, there was a feeling that “I” in the BRICS was shaky, that how under the new government India became strong and emerged as an economy with the highest GDP growth. True, the magnitude of the measure of withdrawing almost 86 percent of currency in circulation was an extraordinary measure that needed convincing the people. But more than that, much of the speech was devoted to whip up people’s anger against corruption and black money, and build on people’s imagined notion of black money stashed in cash that could be wiped out! There was an emphasis that whatever ‘pain’ people were likely to face would be short-lived, and wiped out by the gains of unearthing black money and wiping out corruption.

The Bouquets and Brick-Bats

The demonetisation decision evoked two extreme responses. Apart from the corporate sector and the political parties in the National Democratic Alliance, (NDA) there was support, at least initially, by much of the media and many of the so-called ‘committed’ economists. There was muted support from some liberal economists as well, to the effect that though it might cause difficulties to the public initially, its long-term effects would be positive. Initially, there was even widespread jubilation among common people who had contempt for the corrupt, and believed that much of the money accumulated through corruption was stashed in cash, and demonetisation would destroy it.

But the initial shock and the unfolding events brought more extensive criticism than appreciation. The criticism against demonetisation may be grouped into two broad strands viz. one which saw it as a diversionary tactics or that which was externally prompted, and the second which considered demonetisation as draconian and inappropriate measure to control corruption and black money, and that instead of the desired effect, it would cause immediate dislocation and distress to the common people. Also it would hurt the economy, especially the informal sector, severely causing slow down of economic growth, and in the long run undermine well established institutional processes. Those criticizing demonetisation as a diversionary strategy drew attention to the government’s failure to bring back black money stashed abroad, the growing agrarian distress, industrial stagnation, rising unemployment, intolence of alternative points of view, the growing people’s perception of the government as anti-Dalit and anti-Muslim, and, of course, the upcoming Uttar Pradesh Assembly elections in which black money of non-BJP parties was anticipated to play a major role. In a similar vein was the accusation that there were ulterior motives in the form of aligning with the interests of American fintech companies. It was pointed out that American fintech (read as digital money) companies suffered heavy losses due to the regulations imposed by the US Congress in 2011, that these companies were bent on expanding their operations abroad, and that Prime Minister Modi brought India under the ‘Better Than Cash Alliance’ (BTCA) in September 2015, and in November 2015 an MoU between the Ministry of Finance and the USAID was executed towards expansion of digital payments in India!

The Unfolding Adverse Impact

But, it is the second strand of criticism, which pointed out the inappropriateness of demonetisation and the hardship that it would cause to the economy and the people, that saw vast intellectual energies expended in analytical as well as speculative estimates of the adverse consequences. One could see this happening in three phases. The first phase of criticism was on pointing out as to what was wrong with the measure and the manner in which it was implemented would be harmful to the people, society and the economy. The second phase of criticism was on the actual hardships that were unfolding, as the weeks followed the announcement. And the third phase is based on the solid evidence on the negative effects as revealed by the none other than official statistics. The first wave of criticism, following immediately after the announcement, pointed to its despotic nature in violating the promise the currency held, and thus resulting in the breach of trust of the people. It was shown that the Prime Minister’s speech which said that the “magnitude of cash in circulation is directly linked to the level of corruption” was not true. For instance, it was shown that the currency GDP ratio which was as high as 18% in Japan, 15% in Hong Kong and 11% in Switzerland, had only very low corruption perception ranks of 11 to 18, while Turkey and Mexico with very low currency-GDP ratios of 5 to 6% had a very high corruption perception ranks of 66 and 95 respectively. Thus, India’s currency-GDP ratio of about 11% could not be a factor in high corruption perception rank of 76. Further it was also pointed out that earlier demonetisation of high value currency notes (Rs. 1000, Rs. 5,000 and Rs. 10,000 notes) in 1978 by Morarji Desai was not comparable because, the demonetised currency notes at time accounted for a minute fraction of 0.6% of the total currency in circulation, unlike the 2016 decision which involved 86% of the currency in circulation. Then, of course, there was reference to the suffering inflicted on people due to shortage of currency that was likely to be prolonged one. These were based on meticulous estimates that even if half of the currency notes withdrawn were to be replaced by the new notes, given the capacity of the available security presses, that it would take at least five to six months, not fifty days as counseled by the Prime Minister. There were predictions of slow down of the economic activity with worst impact on agriculture and informal sector and especially on the employment and livelihoods of the workers engaged in these sectors, resulting in the growth of GDP by at least 1%, meaning a decline in the growth by over Rs. 1 lakh crore.

The second wave of criticism against demonetisation was based on the extensive reports from different parts the country and different sectors of the economy, as the process of implementation of demonetisation unfolded with severe shortage of cash for circulation, inadequate and often dysfunctional ATMs, and with several and growing restrictions on cash withdrawal from both ATMs and banks for months on end. The more visible were the long queues before ATMs and bank branches, and reports of almost hundred deaths resulting from these ordeals. What was important to note was that many, in spite of their own hardships, responding that demonetisation was good because they hoped it would hit the corrupt who had huge stocks of cash. Reports poured in showing how the casual daily workers, women, self-employed and elderly were worst affected because of loss of work and wages. The reports of the adverse effect on informal sector were extensive. Agriculture was affected because of marketing problem of Khariff output and resulting cash crunch affected Rabi operations. Migrant rural labour had to return without work, and work in brick kilns was not forthcoming because the agents had no cash to advance. Leather, textiles, garments, beedi making, and automobile part making, especially two wheeler parts, were affected because of shortage of working capital as much as decline in demand.

Micro, small and medium enterprises, some in the organized sector as well were hit severely. In the last quarter of 2016 (October-December), the All India Manufacturers Organisation reported that demonetisation had resulted in 50% drop in revenue, and 35% decline in workforce in micro and small-scale industries. Reports also showed that during this period retail trade contracted by 30%. And, of course, the former Prime Minister, Manmohan Singh spoke like an Oracle: “The decision to demonetize will cause grievious injry to the honest Indian who earns wages in cash. The dishonest black money hoarders will get away with a mere rap on the knuckles”. The Supreme Court, hearing a public interest litigation (PIL) on demonetisation, observed that it was not a ‘surgical strike’ on black money, but ‘carpet bombing’ on cash. Early on, the reaction of the government was one of denial of the effect on the economy. The government came out with the data that Rabi sowing had actually increased and the temporary setback in cash supply and the hardship was all over, and the economy would record higher growth.

But by the end of August 2017, the official data from the Economic Survey 2016-17 (Part II), the RBI Annual Report 2016-17, and the Central Statistical Organisation’s GDP estimates were all available as incontrovertible evidence to prove the critics right. The RBI Annual Report 2016-17 revealed that by the end of July 2017, 99% of the demonetised currency had come back as deposits, and even the remaining 1% remaining out was doubtful once the demonetised Indian currency deposits of Nepali citizens in Nepal and the demonetised currency from the district central cooperative banks were finally accounted for. The government projected exaggerated estimates of Rs. 3 to Rs. 4 lakh crore of the currency held as black money would not come back to the banking system, and thus would end up as profit of the RBI that would flow to the government as dividend that would be used for welfare of the people. Against this, it is doubtful now whether at least Rs. 0.15 lakh crore or 1% of the demonetised currency would be held back and thus nullified!

The adverse impact on the economy was available in more details. Demand for consumer durables declined. Capacity utilization in thermal power plants declined for the seventh year in succession due to stressed health of the Discoms and lower energy demand. The year experienced increasing deposits but declining credit growth, the lowest in the past two decades. The asset quality of banks deteriorated with bank stressed advances (NPAs) reaching 12.1% by March 2017. The CSO’s estimates of the GDP growth for the first quarter of 2017-18 (Jan-March 2017) shows that there was decline in the rate of growth continuously for successive five quarters from 7.6% in the first quarter of 2015-16 to 5.6% in the first quarter of 2016-17. The fall was led by decline in the rate of growth of manufacturing, reflected in the decline of overall industrial output. Construction slowed down and mining continued to be in the negative zone. The decline in the growth of service sector was led by trade. And the latest estimates show that there was 2% decline in foodgrain production. The Economic Survey 2016-17, Vol.II showed that there was a modest increase in the income tax assesses by about 5.4 lakhs but the average income of the tax payer was only Rs. 2.7 lakh, a marginal increase from Rs. 2.5 lakh in the previous year. The undisclosed income that came to light was Rs. 17,526 crore which yielded a revenue of only Rs. 1003 crore. The zero balance Jan Dhan accounts decreased from76.81% in September 2016 to 21.4% in August

2017, but there were widespread reports that it was actually the result of black money hoarders using Jan Dhan account holders to launder some of their stock! There is no wonder that one set of crooks outsmart the other! There was clear additional expenditure of Rs. 22,548 crore incurred by the RBI for printing new currency, its rapid distribution and the additional interest burden on the inflow of deposits. The loss in taxes by way of decline in GDP growth even by 1% meant Rs. 9000 crore at the tax-GDP ratio of 9%.

Independent assessments by agencies like McKinsey found that even after ten months of demonetisation there was no dent on corruption. But none of these facts did deter the Ministry of Finance to claim in August 2017 that "some people expected a very large shock to economic growth on account of demonetisation. Their expectations are belied. India has continued to be on one of the strongest growth in the world". There were some farcical claims on terror money: "…stone throwing in Kashmir has come down because terror money has vanished due to demonetisation"! And Naxalite activities and extremism in North East suffered because fake currency was neutralized! The fact is that fakes are as much a flow as new currency and not a stock to be extinguished in one stroke. And then, the MoF went on to make a new claim that the objectives of demonetisation included shifting of the economic activities from the informal to formal to increase the tax base, and to give big boost to digitization. There was ample justification for the criticism that the government was shifting goal posts away from flushing out black money and controlling corruption, and trying to sell a monumental failure as a flying success, which, as we shall see, has become a characteristic feature of the present times and more so the present regime.

The Questions on Demonetisation Strategy

These facts clearly bring out that demonetisation did more harm to the economy, and certainly did not make a big dent on corruption or black money. This leaves us with several questions: Why did the Prime Minister Modi choose demonetisation as an instrument to demonstrate his commitment to flush out black money and control corruption? What made him to decide on demonetisation as a measure that would shore up his image as a leader with a will to deliver his promises? Or was he totally oblivious of the ineffectiveness of demonetisation and the adverse consequences it was likely bring about?

It is difficult to believe that the Prime Minister Modi was not aware of the limitations of demonetisation in dealing with corruption and black money or its adverse effects on the economy and people at large. The available evidence shows he was aware of these consequences. For instance, the former RBI Governor has broken his silence, and informs us in his latest book 'I do, What I do', that in February 2016, he was orally consulted on the advisability of demonetisation to reign in black money. But his advice was that demonetisation was not an appropriate measure, that whatever its long-term benefits would outweigh short-term economic costs, and that there were potentially better alternatives to achieve these goals. A written note was asked by the government. The RBI put together these views and also outlined the preparations needed and the time that would take. Besides, the RBI note also flagged what would happen if the preparation was inadeuqte. He also writes that the government (possibly PMO) subsequently set up a committee to consider the issue and a deputy governor of the RBI also attended the meetings of the committee. It is clear that the Prime Minister's decision was taken with the full knowledge of the limited impact that demonetisation would have on black money and corruption, and also about the adverse consequences it would have on the economy and people. Of course, there were also wide speculation in the media that the Prime Minister also lent his time to a Pune Group of Chartered Accountants passing as Economic Advisors with special knowledge of the Indian economy in contrast to "Western" knowledge.

This raises a critical question: Why did the Prime Minister with such an awareness choose demonetisation to demonstrate his commitment to handle black money and corruption? To answer this question one may have to pay more attention to the nature of transformation in the public imagination about the notions of black money and corruption. Somehow the enormous intellectual energies spent on critically debating demonetisation did not pay adequate attention to contextualizing the images constructed around black money and corruption, and the effective way in which these images were put to political use by the Prime Minister Narendra Modi. One explanation is that the critics were overly obsessed with the financial and economic impact of demonetization and neglected to pay adequate attention of political design underlying it. And the other explanation is that just as the larger public was mesmerized to believe, the critics also were trapped in the belief that the Prime Minister was setting an agenda to unearth black money and check corruption through demonetization! The following sections are an attempt to contextualize corruption and black money, and then to understand how the changing images of these phenomena have been congenially turned to subserve the political ambitions of the Prime Minister.

Neoliberal Regimes and Metamorphosis of the Images of Corruption and Black Money

What follows is the proposition that the emergence of neoliberal regimes across the world are not only at the root of the widespread eruption of corruption and black money, but also instrumental in raising them to phenomenal magnitudes, so as to shift public attention and imagination of these transactions to 'scam' scale that is associated with piles of cash stashed away. For the public unearthing this cash also requires a strong and determined leadership of virtue against the forces that perpetuated the evil. Riding on this public imagination needs a strategy that appeals to their imagination and could rouse their emotions along with building up of self-image of leadership of virtue and unwavering strength to cleanse the evil.

Transformed Image of Corruption

Let us first have a quick overview of the metamorphosis of the concept of corruption and the shifts in the imagery and in the popular imagination. Corruption has an antiquity dating back to ancient times, and Kautilya's *Arthasastra* indeed discusses its pervasiveness extensively as a social aberration with a long history even by that time. Notwithstanding the history, for quite some time even after the Second World War, it was not politically correct or not fashionable in social science research to work on corruption. But all that has changed. By mid-1980s there was a surge in "corruption studies" in social sciences. This surge is not accidental, but rooted in the developments that followed the unfolding of the effects of the 'Washington Consensus'. It was not a mere coincidence that 'Liberalisation, Privatisation and Globalisation' (LPG), and the global interest in corruption research emerge from mid-1980s. In 1986 a separate international research journal, *Corruption and Reforms* was launched. By mid-1990s three reputed social science journals, the *International Social Science Journal* (149 September 1996), *IDS Bulletin* (Vol. 27, No. 2, 1996) and *Third World Quarterly* (Vol. 20, No. 3) have brought out special issues on the subject of corruption. Nearer home, "…research on corruption in the Asia-Pacific countries has mushroomed into a growth industry since the 1990s … Indeed, globalization of corruption has generated tremendous interest among many international organisations on finding effective measures to curb corruption in Asia-Pacific region and other parts of the world". The World Bank established an <u>Anti-Corruption Knowledge Centre</u>. The UN Convention Against Corruption (UNCAC) was adopted in October 2003, and its provisions have legally binding international anti-corruption instruments for countries that ratify the Convention. It was signed by 140 countries. India signed the Convention in 2005, and ratified the same in 2011. Broadly corruption is understood and defined in two ways. One is in the <u>narrow</u> sense of the term viz. corruption that is 'petty', 'street-level', 'day-to-day', or 'retail'. It is widely associated with 'bribes'. The other is 'Grand' corruption associated with large monetary sums or transfer of resources generally involving high level political leaders, bureaucrats and big business. The widely used definition of corruption, “misuse of public office for private gain” has been largely associated with narrow sense of corruption that is familiar since the times of Kautilya’s *Arthasastra,* which shows its pervasiveness even in those times: “Just as it is impossible not to taste the honey (or the poison) that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king’s revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, so government servants employed in the government work cannot be found out (while) taking money (for themselves)”. It is in this ‘narrow’ sense that corruption was understood for a long time, and most of the time, and when people talked about corruption it related to the bribes associated with departments like police, revenue, commercial taxes, forest; public utilities like water, electricity, etc.

But during the past three decades there has been a gradual change in the corruption perception of the public from concerns of ‘petty’ corruption to that of ‘Grand’ corruption. The push and spread of Structural Adjustment Programmes (SAPs) rolled out across the countries at the behest of ‘Washington Consensus’ and the resulting restructuring of development strategies from state-led process to corporate-driven agenda that ripped open the natural resources and the key industrial and infrastructural sectors to privatization is at the root of this ‘gestalt’ in corruption from what people encountered as ‘petty’, ‘day-to-day’, ‘retail’, ‘street level’ notion to that of ‘grand’ scams. In the name of ‘competition’ and ‘efficiency’, liberalization and privatization were extensively pursued as the core of economic reforms. It is ironical that what emerged out of the economic reforms was neither competition nor efficiency but ‘crony capitalism’ that could acquire hugely valuable natural resources dust cheap in the name of priority allotments; access to contracts for infrastructure projects like highways, airports, and ports; and privatization of public utilities like power projects including hydroelectric projects and telecommunications. Socially critical public goods like education and health became most sought after avenues for private profit.

It may sound paradoxical that the entire theoretical foundation for liberalization and privatization was based on the proposition that the commanding heights of the State or public sector in the economy results in excessive regulation and controls like licensing that leads to ‘rent seeking’ i.e. corruption in the form of bribes to get licenses, permissions and clearances resulting in ‘directly unproductive profit seeking’, and hence, it was argued, state should withdraw from direct economic activities and create a regulatory system that would govern the private sector. But in reality, neoliberal reforms gave birth to extensive ‘crony capitalism' with powerful self-interested actors gaining control over state to their advantage, a process that has come to be known as 'state capture' or 'regulatory capture'. The capital can create policy strategies like 'Special Economic Zones' (SEZs). 'Crony Capitalism' gains ability to get the laws consciously 'adjusted' to their advantage and to the detriment of the public good. When the business interests succeed in shaping the legal, political or regulatory environment to suit its own interests and distort public policies, then it would provide unlimited opportunities for corruption. Thus economic reforms and the resulting 'crony capitalism' is at the root of eruption of corruption as 'grand scams' that has come to occupy the public notion of corruption, and revulsion to those associated with it.

It is very difficult to objectively measure corruption. Most corrupt transactions transpire out of public view and the parties involved have incentives to keep it that way. But the 'grand' scams are often hard to hide, and media often, to sensationalize, focuses on scams involving billions of rupees worth of sleaze. In the post-liberalization era many such scams did come out in public in India. One inventory of the biggest public corruption scandals covered from the beginning of the 21st century (since 2000 A.D) includes 28 scams involving hundreds of thousands of crores. The average value of these scams was Rs. 36,000 crore and the median value Rs. 12,000 crore. Of course, these scams include the ones both at the state and union government level, and also involve different political parties in power. But one regime that was in power at the centre for the longest time during this period was the United Progressive Alliance (UPA). Perhaps, never in the recent history of neoliberal regime, corruption scandals reached such a meteoric peaks, nor was there such an amount of media attention that provoked extensive public revulsion against the Congress Party that headed the UPA regime. Here are a few select scams under UPA which could be seen as text-book cases of the unfolding of economic reforms (L.P.G) that unveiled the emergence of crony capitalism. It was shocking to the conscience of the nation to be a witness to the blatant mortgage of the primordial natural resources like earth (land and coal), water (hydel projects), air (2G) and sea (offshore oil) as the sources of amassing wealth by the corporate and political interests. With the Coal scam (2012), the government was estimated to have borne a loss of Rs. 1.86 lakh crore. The CAG presented a report and stated the irregularities involved in the auctioning of 194 coal blocks. The government decided not to auction coal blocks between 2004 and 2011. The coal blocks were then sold to different firms. Many of these firms were owned by or closely linked with sitting politicians. This decision led to huge loss in terms of revenue.

In the name of development of hydroelectric power (water) in Arunachal Pradesh, between 2013-15 about 160 MoUs were undertaken between the Union, state and big capital in the form of Public Private Projects (PPP). Clearances were obtained flouting all reports from feasibility, environmental impact and public hearing, through the collusion between political leaders, big business and bureaucrats.

The 2G Spectrum Scam (Air) of 2008 was one of the biggest scams in India in which the telecom minister was charged for issuing 2G licenses to private telecom players at a very cheap rates. No rules and regulations were followed but only favouritism was preferred while issuing the licenses. The CAG estimated that the scam caused a loss of 1.76 lakh crore to the government.

The offshore allotment of oil blocks and the manipulation of payments due from the Reliance offshore has been a continuing saga of several hundred crore rupees of loss to the government, often caught up in unending litigation. Even events of organization of international sports to boost the image of the regime was turned into a source of ‘grand’ misappropriation. The Commonwealth Games Scam (2010) involved an estimated amount of several thousand crores of rupees, involving Congress politicians, bureaucrats and corporate bigwigs. The charges involved payments made to non-existent parties and inflated prices while purchasing equipment. By the end of UPA regime in 2014, the ‘gestalt’ or the steep shift in the public perception of corruption being seen in narrow, day-to-day retail, local bribes to that of ‘grand’ scams got crystalised. The shift from ‘retail’ bribes based corruption to ‘grand’ kickbacks was not confined to the parties in power at the national level but spread to the states as well. And in this spread what is noteworthy is that the more reform oriented the state, the more seems to be the progress in the direction of scams. The model is that parties in power would avoid extraction of rents from government programmes especially welfare programmes. They would also go a step further and introduce more populist welfare programmes with better vigilance, but go all out for mega projects, land allotments and big contracts that would spin more money. “For instance, one hypothesis about why retail corruption has declined in states such as Andhra Pradesh and Tamil Nadu compared to Bihar is that in the former states, the ‘bribes’ politicians (and bureaucrats) used to extract from service delivery or entitlement programs have been replaced with kickbacks (often larger in magnitude and less cumbersome to collect) from infrastructure projects or contracts”. The authors of this observation were aware that such hypotheses were difficult to test, but confirm that this view of shift in corruption was backed up by multiple conversations the authors had with bureaucrats, politicians, and academies (The reference on A.P. here is to the ‘AP Land

Scam" in which the Comptroller and Auditor General (CAG) alleged that the allotment of almost 90,000 acres of land, valued at Rs. 1784 crore, by A.P Government during 2006-11 was characterized by grave irregularities involving allotment in an *ad hoc*, arbitrary and discretionary manner to private persons and entities at very low rates in exchange for investments in companies owned by the son of the then Chief Minister. And the T.N. case refers to amassing of wealth by former C.M., Jayalalitha.)

It is not that the 'retail' corruption had vanished from the daily experience of the larger public. On the contrary, there are estimates that suggest that the total extent of bribes forced from the public continues to be as large or even more than the total sum involved in 'grand' corruption. But the public anger and revulsion has turned entirely against the latter with far reaching political implications. The mobilization against corruption was largely based on the reaction of the middle class and the poor against the scams. The India Against Corruption (IAC) movement, launched by Anna Hazare, Arvind Kejriwal and their colleagues and supporters, shot to prominence in 2010 following revelations of massive corruption scandals in the final years of the UPA-2 government.

<u>This extensive anti-corruption mood of the nation was an opportune moment for the prime parties like the Bharatiya Janata Party (BJP) to capitalize in the political arena. It needed a political leader who could capture this public imagination by creating a belief that he or she could clean the nation from the scourge of corruption. There is an element of remarkable political magic in this whole design of constructing the weapon of demonetisation to destroy corruption and black money. The magical deception is in keeping the public at large in dark on the root cause viz. economic reforms, since the launch of which corruption exploded, and making them believe that all corruption was the deed of a political party and all proceeds of corruption were in black money stashed up in cash!</u> And this in spite of all evidence to the contrary. How are corruption spoils held? For example, let us look at a real life case of monumental amassing of wealth through corruption by a political leader, and how the illegal wealth was held by him. The former CM of Jharkhand, Madhu Koda was arrested in 2009 and successfully prosecuted. The case revealed that his illgotten wealth was invested in 700 shell companies, in mines, in an island offshore of India, in real estate, sponge iron plants, private colleges in his constituency, transport and trucking as far away as Punjab and Haryana, hotels in New Delhi and Puri, a theme park, distilleries, print media and TV channels. Much of the corrupt black money amassed thus flows out as white. <u>And where is the cash for the demonetisation to unearth</u>?

Black Money Image: The Myth of Seeing a Flow as a Stock

Let us turn to the basic known facts about the nature of black money, sources of its generation, the forms in which it is held and the means of mitigating it. In simple terms ‘black money’ is that which escapes taxation. <u>An equally important simple fact is that black money is a flow, not a stock, meaning that it cannot be captured, accounted and eliminated in one stroke</u>. The existence of ‘black money’ in the Indian economy is not a new phenomenon but the magnitude of it has reached phenomenal proportions with the unfolding of the economic reforms since 1990s. There have been estimates of black economy and the black money generated in the country from time to time. Like the national income the estimates of ‘black money’ refers to the sum generated in an accounting year. Since it is not a stock, black money generated in one year may find ways of investment or use as white money in the successive transactions. Since accounting all the shadow activities is by certain attributed values, the estimates could vary widely. According to the World Bank, India’s black money in 2007 was about 23% of the GDP. Since there were no “reliable” estimates of black money generated in India, and held within and outside the country, the UPA government commissioned the National Institute of Public Finance and Policy (NIPFP) to estimate black money. Though report was submitted to the Finance Ministry in December 2013, the then Finance Minister did not place it in the parliament. Nor had his successor, Arun Jaitley done so. But unofficial sources reveal that the estimated black money in 2012 was of the magnitude of 75% of the GDP. And much of it is held in the form of gold, real estate, land, shares and stocks and offshore accounts.

According to some estimates, only about 6% of the black money is held in the form of cash. Black money is a continuous flow as a part of the illegal and legal activities that are part of socio-economic system. Illegal sources of black money that escape the tax network include smuggling, bootlegging, trafficking in drugs and sex and crime related extortions. Estimates suggest that criminal and illegal sources account for only a fraction of the total black money flow in the economy, while almost three-fourths are generated from the legal production, service, financial and trade activities. Cost manipulation, manipulation of wage data, under reporting of production, lead to unreported income or profits from privatized public goods like education and health services has also emerged as a large source of black money flow through unreported capitation and other charges. Corruption in state services like revenue, police, forest, etc. are the familiar sources of the so called bribes. Apart from these retail type of corruption, there has been, as observed earlier, a growing ‘grand’ corruption through allotment of access to natural resources like land, mines and infrastructure contracts. But relatively less known in the popular perception is the 'black money' generated through international trade and financial transactions. These transactions are not only the largest channel for capital flight of the black money generated in this sector but also the main conduit for outflow of black money abroad.

International Trade 'misinvoicing' and Black Money

Since in the debate following the demonetisation, the international trade as the major source of black money and also asthe mechanism for siphoning of resources abroad, and often to offshore tax havens, did not receive as much attention as it deserved, I spend some time in placing before you some academically and administratively well known facts. Besides hawala transactions and illicit hot money through balance of payments, deliberate trade misinvoicing (or transfer pricing) constitutes almost 80% of the 'illicit financial flows' from developing countries. For quite some time, because of the complexity in obtaining the data on the comparable actual and reported prices of thousands of goods traded, estimating the black money generated through mispricing (over-invoicing of imports and under-invoicing of exports) was rather difficult. But with more detailed data flowing from IMF on trade transactions enabled the Global Financial Intelligence (GFI) to come out with fairly reliable estimates of 'illicit financial flows' from developing countries since 2003.

'Illicit financial flows' refers to the movement of money that is illegally earned, transferred or utilized. This encompasses a broad range of activities. Official corruption, laundering of criminal proceeds, terrorist financing and tax evasion. 'Trade misinvoicing', i.e. as mentioned earlier, by over-invoicing of imports and under-invoicing of exports, which involve falsifying the values listed on commercial invoices. This is an extraordinarily common tool by which corporations and individuals in developing countries avoid import or export tariffs, alter their income tax positions, evade foreign exchange controls or simply move their wealth to developed countries or tax havens. Trade misinvoicing is also a common method of shifting the proceeds of crime or corruption and is typically referred to in these cases as trade-based money laundering.

Deliberate 'mispricing' or 'misinvoicing' takes two forms viz. 'under-invoicing of exports' which hides part of the export earnings which are retained in undisclosed foreign accounts and in addition under-reporting of export earnings shows lower profits resulting in tax avoidance in domestic country. Similarly, 'over-invoicing of imports' would show inflated domestic cost of production and reduced profits in the balance sheet, evading domestic taxes to that extent. In addition, inflated payments shown for imports are retained in undisclosed foreign accounts. According to one report, in 2014 India accounted for half of global 'mispricing' disputes.

The available estimates by the Global Financial Integrity (GFI) show that between 2003 and 2012, in a matter of ten years, developing countries lost $ 6.6 lakh crore in illicit outflows. The top five exporters of illicit capital over this period were China, Russia, Mexico, India and Malaysia. There was surge from India in 2009 and the country moved from the fifth to fourth rank in this activity. India, during this period, accounted for a cumulative illicit outflow of about $ 440 billion or about Rs. 30 lakh crore, which works out to an average annual outflow of about $ 44 billion or Rs. 3 lakh crore. All this is what is described as 'black money', and none of it is in Indian currency nor in Indian accounts. To understand the transactions in trade 'mispricing', even at the risk of sounding as an academic exercise, it may be useful to exemplify the process by an actual case under investigation. A typical case of mispricing, in this instance over-invoicing of imports, as a means of generating abnormal margin of profits that escape tax network and end up as black money in offshore accounts of the corporate entities could be illustrated by a live case of the Adani Group companies. This is about the contract to develop two electricity transmission networks in the north-east of Maharashtra. This could also be used as a textbook case to illustrate as to how as a part of structural adjustment programme (SAP) in the name of reforms in the public utilities, power sector faced liberalization in the form of unbundling into segments of generation, transmission and distribution, and privatization of these segments ending up as fertile sources of black money. But for the present, let us confine to this story of the contract for development of transmission network to illustrate 'transfer pricing' or over invoicing of imports. Based on a 97-page file of the Directorate of Revenue Intelligence (DRI) investigation, which it could access, *The Guardian* (15 August 2017) has reported in all its forensic details of the process of generating profits through over-invoicing that escape taxation and end up as black money.

Here is the simplified version of the case. In 2010, an Adani company (AC, to be brief) was awarded a contract to develop two electricity transmission networks in the north-east parts of Maharashtra. This company (AC) used another Adani subsidiary (PMC projects) to source equipment it needed to build the network. The PMC in turn sub-contracted the work to a company in Dubai (EIF). The EIF procured equipment from South Korea and China, and sold it in turn to PMC in India. The Dubai company (EIF) made about 26 orders from Hyundai Heavy Industries and procured equipment paying US $ 65 million and sold the same to the Indian company (PMC) for US $ 260 million, with a clear mark up of more than 400%. The EIF also purchased equipment from three Chinese companies and sold to same to PMC with a mark-up of 860%. The total assessable value of the marked-up invoices at which the Dubai Company (EIF) sold to the Indian company (PMC) was estimated at Rs. 1500 crore! All this is paid by the Indian company by huge borrowings from the Indian banks. Possibly this forms part of the stressed accounts of banks in India. While this will end up as a clear profit of the company in Dubai, where profits are nominally taxed, the cost of the transmission project in Maharashtra gets inflated and to that extent people end up paying inflated charges for electricity. Well, what do Adani Company (AC) in India get? The Dubai Company (EIF) was directly controlled by the Adani Group, since it was owned by another Company (EIH) of the Group which in turn is owned by Asankya Resources Family Trust based in Mauritius headed by one of the Adani brothers.

What is important to note here is that those involved in the illicit financial outflows that get parked abroad are not content with the 'black money' that hardly earns any returns in the tax havens. They would like to 'round route' it as white money for making profits in the domestic financial markets or stock exchange. In 1983, the Government of India entered into Double Taxation Avoidance Agreement (DTAA) with Mauritius, by which if a registered company in Mauritius pays taxes in that country on profit or capital gains from investments in India, it need not pay taxes in India. In early 1980s when DTAA was signed with Mauritius, the financial markets or stock exchanges in India were hardly open for foreign investments, and the profits earned on these transactions were insignificant. But with the launch of the liberalization and economic reforms, the Government of India opened up the financial markets (stock exchange) for foreign institutional investors (FIIs), and the economy for foreign direct investment (FDI) on liberal terms. As a part of promoting the FIIs in the stock market, the government in 1990s extended Mauritius-type of Double Taxation Avoidance Agreements (DTAA) to Singapore and Cyprus. With the opening up of financial markets, opening up of offshore accounts and shell companies of those trading in the Indian stock markets boomed. Round routing of the spoils of illicit financial earnings made by misinvoicing, hawala or other routes of money laundering found the Indian financial markets as 'white money' through shell companies in several tax havens including Mauritius, Singapore and Cyprus.

The decade of 1990s also saw the invention of Participatory Note (PN). PNs were not registered to trade in Indian domestic capital markets, and the nature of beneficial ownership or identity of the investor remains unknown. The result is no one can identify the ultimate holder of the PN. Unlike the stringent Know Your Customer (KYC) norm that applied to domestic investors, the KYC norms for PNs were criminally lax. Those pushing their illegal wealth back into India took huge advantage of the PN tool. Most of the money was funneled through the PN route by opening sub-accounts with foreign institutional investors (FIIs). Much of the black money held abroad was round routed into the Indian stock exchanges through PNs bought in Mauritius through front shell companies. According to certain estimates substantial proportion of FII investments were made through the PN route. And almost all FIIs were running sub-accounts for dubious clients was well known but repeated RBI warnings against it were ignored. In all this, there is hardly any hard cash involved, nor is the accumulation in the Indian banks but in offshore. Well what does demonetisation do to this?

Since trade misinvoicing accounts for substantial part of illicit financial flows, curbing it should be the major focus of measures of controlling black money. It requires cooperation between trading countries in sharing information on country specific information on goods trades and their prices. Much more important is to boost customs enforcement by equipping and training officers to better detect the international misinvoicing of trade transactions. Trade transactions involving tax havens should receive highest scrutiny by customs, income tax and law enforcement departments.

Politics of the Era of Post-Truth

As shown earlier, it is difficult to believe that the Prime Minister was not fully aware of the limited effect of demonetisation on corruption and black money, and about the adverse effects on the people and the economy. The criticism against the demonetisation is not based on any special knowledge but that which could have been available as advise to the Prime Minister, and there is evidence that he did get such advice. Possibly there might have been some overestimation of the extent of demonetised currency not reaching the banks and certain underestimation of the adverse impact. But it is certain that the Prime Minister had adequate information on the possible impact to a substantial extent. But then, why did he venture into this demonetisation measure that, as some people feel, has taken some shine out of his image. For an answer to this question we may have to go beyond conventional economic explanations to the nature of politics in this era of post-truth.

The Oxford English Dictionary comes out every year with its 'International Word of the Year', and its choice for 2016 was 'post-truth'. 'Post-truth' is defined as "…relating to or denoting circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief". In this context, truth – meaning a description of the world as it really is – has ceased to be important. Once corruption has evolved in the imagination of the people as big scams, and once people are made to believe corrupt accumulations of black money are hidden in piles of currency, the truth of describing that spurt in corruption scams were sparked by the neoliberal reforms under LPG, and that much of what is accumulated as black money is hardly kept in cash does not seem to matter much to the people at large. It is on this post-truth 'reality' that Prime Minister Modi has built up his political strategy of the grand narrative of destroying corruption and black money with demonetisation.

Ever since the big corruption scams occupied the political space and mobilization of the public opinion against the corrupt regime by the movements like India Against Corruption (IAC) offered ideal conditions for exploiting people's images by whipping up their emotions, Modi saw a great political opportunity in building up a grand narrative against corruption and black money from the early days of the campaign for the 2014 Lok Sabha elections. The BJP Election Manifesto 2014 made corruption and black money as prime part of the "imminent" agenda. It began with the accusation: "All pervasive corruption under the Congress-led UPA has become a 'National Crisis'". And went on to add that by "minimizing the scope for corruption, we will ensure minimization of the generation of black money". It also stated that the BJP was "committed to tracking down and bringing back black money stashed in foreign banks and offshore accounts. We will set up a Task Force for the purpose, and recommend amendments to existing laws or enact new laws". The space and priority accorded to corruption and black money in the manifesto was to match the anger of the people against these issues. Narendra Modi launched a nation-wide campaign trail on the plank of fighting corruption. Though it was a different matter that his whirlwind campaign by chartered planes and helicopters across the country was supposed to have been funded by the likes of Adanis, his major theme of campaign was telling people that the Congress Party stood for the "ABCD of corruption" – A for Adarsh, B for Bofors, C for Commonwealth Games, and D for 'demand ka karobar', son-in-law. He wanted to demonstrate that fight against corruption was on the top of his government's agenda, and on the very first day, 28th May 2014, of his office, announced the constitution of Special Investigation Team (SIT) headed by a retired judge of the Supreme Court to go into the black money abroad.

It was rather pathetic and also the reality of the Post-truth era, that Congress manifesto 2014 which carried a long list of 'Land Mark Legislations' of the UPA-II (2009-2014) that included issues ranging from food security, land acquisition, sexual harassment, Lokpal and Lokayukta, RTE, NGT, street vendors and abolition of manual seweraging were overwhelmed the dead weight of the corruption image! The corruption narrative was designed to keep alive people's anger against the previous regime, as much as their hopes on the salvation in the present regime. As the months passed, the party agenda gradually took the shape of one man-agenda i.e. that PM Modi. On August 15, 2015, from the ramp parts of the Red Fort, the Prime Minister announced: "I want to reaffirm that this nation will get rid of corruption … we have to start from the top … corruption is like termite, it spreads slowly, reaches everywhere but it can be beaten with timely injection … there is work to be done … with your support, I pledge a corruption-free India". There were also measures like the New Black Money Act with provisions for strict penalties, new Income Disclosure Scheme for domestic black currency, as a part of the 2015 budget the Prevention of Money Laundering Act was amended with provisions for confiscation of domestic assets if illegal assets are located abroad, and renegotiation and revision of the Double Taxation Avoidance Agreements (DTAAs) with Mauritius, Singapore, Cyprus and Switzerland were initiated. Even the notorious P-Notes through the foreign private financial institutions was regulated through SEBI intervention. Though these measures in themselves were important steps, none of them got as much public attention as to raise intensity of feeling of public that the government was doing something that would effectively bring the corrupt to book and black money to confiscation. Added to this was the growing public feeling that the government drew near blank in bringing back black money hoarded abroad. If these feelings were allowed to pass, all the political gains that were designed on the wave of anti-corruption were in danger of vanishing. It was to stem this danger of popularity downswing there came the demonetisation measure with all the mythological refurbishments to bolster the grand narrative of fighting corruption and black money.

When the Prime Minister went on to personally announce the demonetisation decision on November 8, 2016, he was trying to build moral binaries by painting the previous regime as all evil, and the task of the present regime was to cleanse it. In the process what unfolds is not as much as the regime or the government, but Modi himself with a sacred mission. In this, full advantage was taken not only of the corruption syndrome associated with the UPA but also its images of indecision, weak leadership and 'policy paralysis'. Modi began by saying that "there comes a time in the history of a country's development when a need is felt for a strong and decisive step", and that step was demonetisation to break the grip of corruption and black money. He went on to say that "time and again, I have seen that when the average citizen has to choose between accepting dishonesty and bearing inconvenience, they always choose to put up with inconvenience. They will not support dishonesty". Even as he appealed to their image of black money as cash, he turned rhetorical: "which honest citizen would not be pained by reports of crores worth of currency notes stashed under the beds of government officers? Or by reports of cash found in gunny bags? … So, in this fight against corruption, black money, fake notes and terrorism, in this movement for purifying our country, will our people not put up with difficulties for some days? I have full confidence that every citizen will stand up and participate in this 'mahayagna'". He went on to appeal: "…after the festivity of Diwali, now join the nation and extend your hand in this *Imandari ka utsav,* this *Pramanikata ka Parv,* the celebration of integrity, this festival of credibility". The entire speech was also replete with morality binaries with him as the honest, clean, credible, and of unimpeachable integrity, while the other regime he succeed was all indecisive, immoral and dishonest.

Within weeks, as the adverse effects of demonetisation unfolded and even as people were complaining about the inconveniences suffered, instead of addressing them, he tried to show that criticism was by evil forces against him. "I know what kind of forces and what kind of people are against me now ... They will not leave me alive. They will destroy me". He was alluding to his earlier narrative "…those who looted the country for seventy years" and to contrast, he claimed, "I am a fakir – they are out to destroy". And went on to add, "They thought if they pull my hair, I will stop and do nothing. I will not stop doing these things, even if you burn me alive". And the rhetoric seemed to have worked, emotions roused, beliefs both in the leader and his determination to do 'shuddhi', cleansing, of the nation strengthened. What puzzled many was that even as they suffered, people seemed to have been carried away by his rhetoric than the factual analysis of the critics.

A group of cultural anthropologists raised the question: "why the experience of suffering across the nation did not manifest in mass protests or mobilization but in fact brought BJP back to power in 2017 in Uttar Pradesh?" The suggested answer is that in the wake of economic liberalization since 1991 there has been "erosion and slow death of civil society" and the resulting "passive conditions of citizenship". Perhaps not. The truth may be close to 'post-truth' era in politics which is also a product of neoliberalism which brought a great divide among the people – with vast majority being "left behinds" of the economic liberalization, while a few including those in scams and those outside in the corporate world, had most of the share of growing wealth. For the people what counted was their own perception and imagine 'reality' that was perpetuated by the popular media and exploited by opportunist politics, rather than harboured intellectual analytics. It was, to repeat post-truth, objective facts which were less influential in shaping their opinion than appeals to emotion and personal belief. It has been happening to the imagination of ‘left behind people’ elsewhere - in the US and in the Brexit. And it happened for Modi. Even if a superior narrative called him a failure, by the popular perception he was acceptable because he tried. Even if he failed he won the hearts of the ‘left behind people’, (who were often the butt of ridicule as people waiting for Jan Dhan Accounts to be filled by the black money unearthed), because of the sick venality all around! As a perceptive political commentator pointed out, there are three significant aspects one could observe in the Modi political narrative. One is moralization of politics, the second is infusion of emotion into policy debates and the third, the reduction of all debate into a single question – whether one is in support of him or not? Any policy criticism is likely to be brushed aside as criticism of the leader, the emerging strong, determined leader. Ironically, it is this success by perpetuating false belief and rousing as a great threat to the democratic fabric of the country exposing to the dangers of a tendency towards fascism. The vulnerability, lies in the possible parallel that ‘demonetisation story’ holds to the ongoing ‘nationality story’ of the present regime. It may be instructive to recall what an incisive political commentator, G. Sampath, had drawn attention to. To see whether the nationalist ideology espoused by the present regime has anything in common with the ideology of fascism, he suggested going back to Benito Mussolini and his seminal work, *The Doctrine of Fascism*, published in 1935, which identifies five central principles of fascist ideology. The first and most fundamental is the primacy of the state’s interest over an individual’s interest. (In the present context let us read state and leader interchangeably). “The fascist conception of life stresses the importance of the state and accepts the individual only in so far as his interests coincide with those of the state”. To understand what it means under the present regime, we cannot have a better authority than Amit Shah who recently stated that “… NDA regime believed in taking decisions that were good for people, not those that people would like”! Those who know better, like Arun Shourie, call it “A Pyramidical Mafia State”! The second principle of fascism is the primacy of the state over nation: “It is not the nation which generates the state …rather it is the state which creates the nation”. Since we are reading state and leader interchangeably this does not require any authority to explain!

The third is the rejection of democracy. “In rejecting democracy, fascism rejects the absurd conventional lie of political equalitarianism”. Though it is heard that some of the supporters of the present regime think that the Indian constitution is based on Western ideas, the discourse has not yet reached the heights of denying democracy, certainly, systematically but denigrating it to clientilism. After all our democracy is already as hallow as the proverbial 'carrot plant' that Arundhati Roy talks about. It appears when she was going to school, along with friends would steal the carrot from an old lady's garden, eat the carrot and plant the leaves back in their place so that old lady by seeing the leaves would feel the carrots were safe! Already there are several descriptions of the Indian democracy as "authoritarian populism", "oligarchical democracy" etc.

The fourth principle of fascism is the state's non-secular character: "The Fascist state sees in religion one of the deepest of spiritual manifestations and for this reason it not only respects religion but defends and protects it". And which religion, by what means and with what effect the present regime promotes, again, needs no explanation. And the fifth principle is a combination of all the four - that the state as the repository of all virtue, and the state (here the leader) is "the conscience of the nation"! There is no greater political danger than constructing an image, making the people believe in it and ride on those beliefs – nothing short of reducing citizen to subjects. One is reminded of the proverbial Telangana leader Kaloji's apt description of make believe politics. He used to say that it was like the sheep's <u>belief</u> that the wool on their skin was from the Sheppard's woolen rug due to his generosity. So much for the citizenship!

The looming danger is more imminent particularly with the opposition parties almost without any promise of a leadership that could challenge the present regime nor with strategies to capture the imagination and confidence of the people. The moral bankruptcy of the main opposition party was exposed when it failed to link corruption and black money to the economic reforms, since it was its own sin. The opposition parties together have failed to provide any comprehensive agenda for eradication of corruption and black money. Nor are they ready for electoral reforms, one of the main causes perpetuating corruption and black money. I would like to close by recalling one of the perceptive observations on what the 'demonetisation' episode has thrown as a challenge before us. "History will tell if demonetisation proves to be the thin edge of the wedge that sets back India's institutions, creates a brotherhood of elite "experts", who feel compelled to validate post-truth policies, and which bypass the citizen while pretending to minister to his or her true needs".
