

India drained of billions by illicit cash dealings

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MUMBAI, India - India has lost hundreds of billions of dollars over the past six decades as companies and the rich stashed cash overseas to avoid taxes and hide ill-gotten gains, widening inequality and depriving the poor of crucial resources, a new report shows.

The flood of illegal cash has swelled to ever greater heights since the early 1990s, and averaged \$16 billion a year from 2002 to 2006, as India's opening of its economy created more wealth and opportunities to move it across borders, according to the study by Dev Kar, a former International Monetary Fund economist.

Kar, now senior economist at Global Financial Integrity, a Washington D.C. group that researches the flow of illicit money, said India's black money — at least \$462 billion since the late 1940s — could have paid for its entire infrastructure needs and much else.

"We could have had better schools, better health programs, better nutrition programs for the poor. Children could have been vaccinated and given access to fresh drinking water. Many areas don't have electricity," he said.

The gap between India's rich elite and the poor who number in the hundreds of millions has widened amid rapid economic growth over the past two decades, adding to social tensions, and the report says the funneling of wealth overseas has contributed to that inequality.

"The high net worth individuals are the ones driving illicit flows," Kar said. "The average Joe Bloke is eking out a living. He's not connected to the global world and even if he were, he doesn't have enough money."

The Ministry of Finance and spokespeople for the ruling Congress Party did not respond to requests for comment on the report.

Other analysts aren't taking issue with Kar's research methods but question whether the blame should be pinned on companies and privately wealthy individuals. They argue the government and corrupt politicians are the main culprits.

Kar used a World Bank model to measure the gap between the nation's recorded sources of funds, like borrowing and foreign direct investment, and its recorded use of funds, like financing the current account deficit and foreign currency reserves. Illicit outflows are considered to exist when a country's recorded source of funds exceeds its recorded use of funds.

Kar supplemented that by looking at differences between the value of what India says it exports and what other nations say they import from India. This captures practices such as understating the value of export contracts to hide money overseas.

Adjusted for inflation, that all added up to \$213 billion missing since 1948, the first full year of India's independence from British rule. Using the short-term U.S. Treasury bill rate to estimate a conservative investment return, Kar calculated that money would be worth, at minimum, \$462 billion today.

The figure could be understated by half, Kar said, partly because it doesn't cover harder to track activities including smuggling and cash transfers outside of the financial system.

Nishith Desai, founder of Nishith Desai Associates, an international tax and corporate law firm based in Mumbai, argues that corrupt officials and government agencies have more to do with illicit money than tax avoidance in the private sector, which he says is more transparent than in the past.

As individual tax rates dropped — from as high as 97.5 percent in the 1970s to about 30 percent today — the major motivation for tax avoidance evaporated. In its wake however, is a cultural habit of evasion, which is only now beginning to erode, he said.

Desai said officials, who face public scrutiny when they accumulate wealth while on a low government salary, have more motivation to stash illicit money overseas than company executives, and the government, as India's biggest trader, likely indulges in more manipulation of export and import contracts.

Much private-sector corruption is also done under government compulsion, he said. Though economic liberalization ended the so called License Raj — during which New Delhi kept tight, lucrative control of business permits — many opportunities for corruption remain.

Private players pouring into sectors like telecoms and banking still need licenses. This week, the telecom minister resigned over alleged licensing irregularities that may have cost the treasury 1.76 trillion rupees (\$39 billion).

The government is also the major intermediary in land deals. Desai and others say bribes are common in land sales, which are proliferating as India's growth spurs the development of mines, factories, buildings and special economic zones.

Regardless of debate about who is most to blame, the report shows the tide of money has been unrelenting even as India makes some efforts to clamp down on the hidden economy.

The government has ramped up tax collection efforts and renegotiated its tax treaty with Switzerland to give it greater access to information for investigations of tax fraud.

It already has good access to information from Mauritius, a major offshore financial center for rich Indians and companies. Many hope the government's ambitious plan to give every citizen a unique identity number will also widen the tax net and make evasion harder.

And under pressure from opposition politicians, the Congress Party in recent weeks forced three high-ranking officials including the telecoms minister to step down amid corruption allegations.

But critics say such gestures are cosmetic and will do little to stem growing popular frustration at India's elite.

"Catch some of those high profile guys, Bollywood fellows and cricket stars and make an example out of them," Kar said. "If they don't address this now, they're going to be stuck with a much bigger problem which will tear at the heart of India. Mark my words. People are losing patience."

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