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# The exponential rise of corruption

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Nothing has changed with reforms. Vested interests enjoy more immunity than ever before

Corruption with the connivance of government functionaries has ballooned since Independence. In 1948, it was the “jeep scandal” involving VK Krishna Menon, then High Commissioner in the UK. It was ignored by Prime Minister Nehru who made Menon his closest Advisor and in 1959 appointed him Defence Minister.

The Jagmohan Mundra scandal in 1959 in contrast was investigated in public by a commission headed by a reputed retired Judge MC Chagla.

Its findings led to a 22 year jail sentence for Mundra, and resignation of TT Krishnamachari, the finance minister and HM Patel, the finance secretary. The matter had been repeatedly raised in Parliament by Feroze Gandhi, a prominent Parliamentarian and Nehru’s son-in-law.

The first scandal involved purchase of 200 jeeps for which ₹80 lakh was paid in full but only 155 jeeps were delivered.

The government was cheated of 45 jeeps, for which around ₹20 lakh had been paid. The Mundhra scandal was about LIC paying Rs. 12.4 million for shares in sick companies without approval of the investment committee.

**Rising thefts**

Since then the size of such thefts from government have risen manifold. Practically none has led to Commissions of Enquiry and severe punishment to businessmen, bureaucrats and politicians.

However, a Parliamentary uproar did lead to resignations (in the UPA) of ministers (A Raja and Kanimozhi of the DMK, and Ashwani Kumar of the Congress). The investigations by the CAG, a Constitutional body, have yet to lead to convictions in courts.

Other alleged scams include Air India purchasing with borrowed funds more than double the number of planes it had estimated it needed. Possibly illegal commissions were paid. Around that time in Praful Patel’s tenure, valuable routes with Air India were given to private airlines. Air India is now burdened with over ₹35,000 crore debt and unsustainable losses.

Welfare schemes also have been sources of much diversion of national resources to private hands. The public distribution scheme is said to have made rich men of many officers of the Food Corporation of India.

By creating millions of bogus ration cards to divert subsidised grains to the market, many bureaucrats and traders made big money.

It is estimated that 40 per cent of subsidised kerosene for the poor is diverted for adulteration with diesel for trucks. Money from the MNREGA scheme is said to reach perhaps 50 per cent of the desired beneficiaries.

Most government projects and welfare schemes divert resources illegally to private parties, low and high level bureaucrats, politicians, ministers and intermediaries. These have not led to any arrests, trials or punishments.

The message is clearly that thefts are tolerated, especially when the proceeds are shared at all levels. State ownership and control over enterprises, most financial institutions, infrastructure, and giveaway welfare schemes, require a complex web of institutions, procedures, rules, approvals for design and execution.

Administration specialists were the ones who knew about all this and offered the service. Such complexities were replicated at State government and local authority levels. A breed of specialist brokers both from within and without government undertook the work for a fee.

Indira Gandhi nationalised banks and insurance companies in 1969. The stated intentions -- easy credit for the rural poor and for agriculture. Medium and small enterprises were also to benefit.

**Falling along the way**

In practice, rural banking and bank accounts for the poor did not take off, nor did credit expand for those who were not getting it. More opportunities for the “insiders” to make extra incomes were created and the misuse of bank funds subsequently reached astronomical amounts.

‘Socialism’ required promotion of equality. Taxation was almost confiscatory and prevented large accumulations of capital. Tax evasion, or “hawala”, to accumulate capital illegally in overseas banks became a common practice for many businesses, intermediaries and government functionaries.

Rigid licensing led to under invoicing of exports and over invoicing of imports so that funds could be illegally accumulated abroad.

Rajiv Gandhi in the 1980s, and Narasimha Rao in the 1990s began unshackling the economy and enterprise from “license-permit raj”.

These relaxations in license-raj and taxation, however, left intact the bureaucratic institutions and control structures of government departments and officers. Control raj remains.

The difference is that the pickings are now much larger as evidenced by the many scams and the financial condition of state owned banks.

Many things that had little value in “socialist” India became far more so (like coal, telecom spectrum, iron ore, airline routes, some road projects, toll ways). Much of the investments were through credit from nationalised banks, leaving room for “crony” lending for a fee. The investigative process of past years remains unchanged.

Not geared for this scale of theft, government employees found it very profitable to collude. The judicial process was too slow and tended after many years of meandering trials to either acquit for lack of enough evidence, or to let off the accused with nominal fines.

**Missing in action**

Statutory regulators were created to enforce the rules on issues such as sale of natural resources, which could lead to large profit. However, they had limited penal powers, no authority to punish government servants, and in any case were themselves retired bureaucrats who were reluctant to punish anyone, especially their tribe.

Means were created to siphon illegal earnings to overseas shores. This was through a thriving market that would smuggle Indian funds overseas through *hawala*. Foreign institutional investments primarily in Indian stock markets became popular.

Mauritius became the largest FII in India because of tax benefits — Mauritius unlike India has no capital gains tax. This enabled Indian stock markets to act as ‘laundries’ for money from Mauritius to become “clean” and go back to legal overseas accounts. Similarly overseas banks, for example in Singapore, were permitted to invest without disclosing investor names, through “participatory notes”.

Corruption in government needs opportunity to make large profits. Complex procedures and processes need to be handled, willing intermediaries to help, a means for depositing illegal money overseas (*hawala*), safe means for bringing it back to be laundered to legality, and sent back.

Can anyone believe that this complex mechanism was not deliberately created, refined and protected by many governments?

The present government is clearly wedded to the control raj created by the Congress. It has no intention of changing it or moving to a genuine market economy.

It speaks against corruption but will not dismantle the systems and procedures that enable it to persist.

No government (this one as well) has added the required numbers of judges and courts to speedily handle the large number of cases in courts. Investigative agencies are not independent and can be told to suppress facts.

Anti-corruption drives, or against black money in India, seem to be purely rhetorical.

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