

Article Title: "Now reform political funding: If we have the will, here's how to make a lasting impact on black money"

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The two weeks old demonetisation tsunami is still reverberating through the nation's socioeconomic fabric. It will be months before its impact can be fully understood, but the economic and political landscape has already been rearranged. Political bickering over long bank and ATM queues dominated media reports for the first two weeks. Now there is increasing coverage on the expected benefits – or lack thereof, depending on which side you are on – as well as various short and long term effects on the economy. This column will focus on how to cleanse politics of illicit, tax-evaded, 'black money'.

It is bizarre that some otherwise reasonable people have said demonetisation will not impact black money. Sure, the currency portion of illicit assets is relatively small, with much more held in gold, real estate etc. But being by far the most fungible, cash is the most crucial part of the black economy. And it is by no means insignificant, with an estimated Rs 3 lakh crore and perhaps more now expected to be extinguished. This one-time flushing of a chunk of black money is a significant blow to its users, but a lasting impact requires several other steps. It would be good for the government to tackle head-on such whispered allegations that agents are arranging to rehabilitate some of this cash, supposedly through Jan Dhan accounts and suchlike. Quick disapproval, or punitive action if true, would add to the credibility of demonetisation. The good news is that unlike 1978, when the last demonetisation saw black money get hit but come roaring back, the ground realities are very different now. Mandatory linkage to PAN and Aadhaar cards for most transactions will be one of the fundamental ways to check the re-generation of black money. But the single biggest step would be to start cleaning up political funding. Some years ago the Law Commission of India had sought public suggestions on electoral reforms, whereupon I had given written recommendations to it and to the Election Commission. Though the Law Commission's subsequent 2015 report contained many laudable ideas for electoral transparency, its chapter on 'election finance reform' stopped short of anything truly radical or transformative. The most important aspect of election finance reform is to shift the focus from limiting campaign expenses to rigidly enforcing the legitimacy and traceability of the money trail. Our decades' long, utopian thrust on capping campaign expenses has not worked, it has only pushed money under the carpet. This is the root cause, the motivation for black money, and for the mechanisms that generate it. The fear that allowing higher campaign expenses would somehow undermine democracy is unfounded, and there are better ways of ensuring a level playing field than expense caps. In any event, for all practical purposes the caps are meaningless, and have only

incentivised the use of unsavoury funds from dubious sources. The reality is that money is a necessary but far from sufficient ingredient for electoral success. Ironically, even billionaire Donald Trump's successful campaign relied on a budget that was half of his opponent's! Rather than expense caps, it is far, far more important to ensure that campaign funds are from traceable, tax-compliant sources. Thus, the floor of Rs 20,000, below which political contributions can be received anonymously, must be drastically lowered. This is the single greatest window of abuse, with huge sums of black money being transacted without any traceability.

Though i had earlier favoured a floor of Rs 5,000, i now believe it needs to be Rs 1,000 or even Rs 500. That would allow genuine on-the-spot donations, say at political rallies, but make it far harder to channel large amounts of illicit funds via countless 'nameless donors'.

Next, there must be state funding to help level the playing field between the wealthy and the popular. Like elsewhere, our state funding should be given as matching funds to candidates and parties, equivalent to the amount of traceable, tax-compliant funds that they raise.

In fact, small donations must be further incentivised over big ones, say with five-times matching funds for every individual Rs 1,000 of tax-compliant funds raised. Together, all this will be a boon to non-wealthy but popular candidates and parties. Finally, audits of candidates' and parties' accounts must be made mandatory, and the tax exemptions they now receive be limited to funds that are traceable and tax-compliant. Most importantly, the EC's powers must be enhanced to enforce such audits, along with punitive powers ranging from mild penalties all the way to disqualifications. It is amazing that the EC, arguably India's most credible institution, does not have these powers. The past three months have been momentous, with passage of the previously intractable GST bill, then surgical strikes across the LoC, and now demonetisation. Like its policies or not, it is undeniable that after a period of drift, the Modi government seems to be on a roll.

This new, no-longer-business-as-usual scenario is aptly described by an aphorism from The Wizard of Oz, "We're not in Kansas anymore." So, how out of the box is the PM prepared to be? As it happens, he reportedly mooted the idea of state funding of elections at last week's all-party meeting. Irrespective of our political leanings, that deserves support and championing by thinking citizens.