

## **The Golden “Diwali Gift”\***

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The Modi government made its supposed determination to end corruption in India its signature theme. The massive damage done by demonetisation as well as the continuing chaos produced by the flawed introduction of the Goods and Services Tax have all been justified on the grounds of reducing possibilities of corruption and tax avoidance. Similarly, the imposition of Aadhaar requirements on the population for access to all manner of publicly provided goods and services is regularly justified on the grounds of reducing “leakages” and misappropriation of benefits. The Prime Minister has sought to burnish his image of anti-corruption crusader through emotional appeals and dramatic public claims that he is willing to be sacrificed for the larger good of “cleaning up” the country.

Yet, like so many other policy initiatives of this government, the heavily publicised anti-corruption moves also were mostly about optics and hype rather than substantive change, since the quiet, careful and systematic measures that could have dented various types of corrupt practices at different levels were rarely undertaken. This is a government that has sought to push many more aspects of government policy and implementation under a shroud of secrecy, regularly denying requests under the Right to Information Act. It has aggressively gone after dissenters and NGOs that seek to bring some accountability into official functioning, denying them space and seeking to dry up their sources of funding. More than three and a half years into its tenure, it has yet to appoint a Lok Pal. And so on. Nevertheless, through all this, the drama being enacted of a government determined to end corruption has been given prime billing in all public statements.

But now it is clear that even this carefully cultivated image is taking a battering. The most obvious example of this is the almost hysterical reaction of government Ministers and other important official functionaries to the publication of some of the surprising financial dealings of a company owned by a private citizen, albeit one who happens to be the son of a BJP President. The excessively aggressive and intimidating response of filing civil and criminal defamation cases on weak grounds – accompanied by silence on the part of the otherwise tweet-prone and speech-happy Prime Minister – suggest a party and a government on the back foot.

And along with this, we have the unravelling of even the most halting and minor attempts to curb the use of “black money”. The recent decision of the government to allow purchase of gold above the limit of Rs 50,000 (and up to Rs 2,00,000) without a PAN card or any other identification beggars belief. It is well known that the purchase of gold and precious jewellery is one of the easiest, most popular and obvious forms of money laundering. So there can be absolutely no justification for going back on a move that would have at least out some curbs on such laundering.

It is not just that this makes a complete mockery of the all the government’s claims that it wishes to target money laundering and storing of wealth and secretive and unproductive ways. This is also a bizarre move given the likely implications on India’s balance of payments.

India has long been a “sink of precious metals” with a voracious appetite for the yellow metal, which is dominantly chosen by people inside the country for its properties as store of value. This has also meant that India has remained one the largest importers of gold in the world and other forms of personal saving have remained low in comparison. Demonetisation has perversely added to scepticism about financial savings that can be affected by a government that has shown itself to be irresponsible, abrupt and unexpected in its policy moves. While the initial impact of demonetisation was to dampen gold demand through the absence of liquidity, once some remonetisation occurred and currency came back into the system, the demand for gold surged.

As a result, gold imports surged from early 2017 onwards, to the point that the value of gold imports over April to August 2017 were more than the value and volume for the entire fiscal year of 2016-17. Over the first half of the financial year, gold imports amounted to nearly \$17 billion. A declining proportion of such imports contributes to the gems and jewellery export sector; a significant proportion is actually hoarded and trade as final demand within the country.

However, domestic demand for gold purchases by final consumers, which surged between January and June, declined in July as the impact of the higher duty rate under the GST made itself felt. This was further compounded by the notification of 13 August 2017, requiring KYC identification of purchasers of gold jewellery above the value for Rs 50,000. Both domestic sales and imports of gold slumped in September.

In principle, and in macroeconomic terms, this should be seen as a good thing. Storing gold (quite apart from the link with dubious transactions and parallel/shadow incomes) is the most unproductive channel for savings, contributing nothing at all to much-needed domestic investment and not allowing financial intermediation to that extent. But obviously it's not such a great thing for gold and jewellery traders, who were able to mobilise and demand the rescinding of this rule.

So, on 6 November, the Ministry of Finance issued a new notification: “The government has received representations from various associations in the gems and jewellery sector with respect to certain incongruities in the August 23, 2017 notification wherein dealers in precious metals, precious stones and other high-value goods were notified as persons carrying on designated business and professions under the PMLA (Prevention of Money Laundering Act). After considering various aspects of the issue, the government has decided to rescind the said notification.”

Consider: that's all it took, a few representations from a few bullion dealers and jewellery retailers! Contrast this with the situation of at least several hundred thousand poor people who have been denied their wages, food rations, access to social services, ability to open bank accounts – all because they have been either unable to produce Aadhaar identification or because their numbers and biometric data did not match, for no fault of their own. Representations have been made by them and on their behalf, their plight has been highlighted by several in the media and even raised in Parliament – but the Government has been deaf to their pleas of the grounds of the over-riding importance it purportedly places on “reducing corruption”. Cases of extreme denial and suffering, like that of the young 11 year old girl in Jharkhand dying of starvation after her family had been denied their rations because their ration

card had not been linked to Aadhaar, are obviously not enough to move the people who matter.

What is worse, this was part of the package that the Prime Minister presented as a “Diwali gift” to the people: the ability to evade identification while purchasing large quantities of gold and other precious jewellery! It is truly hard to think of a worse example of double speak in recent times, or a move so blatantly in favour of some relatively richer groups while denying ordinary people their basic socio-economic rights.

All this makes it truly extraordinary that this government is still able to project itself as “pro-poor” and “anti-corruption”. The narrative may be changing to some extent, but surely it has still not changed as much as is warranted by these truly unbalanced and unjust moves.

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