

Address

By
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I am Anil Bokil and I call myself R.K. Laxman's "common man". Today I will speak on demonetization, the philosophy behind it, and the reason why the government took this decision. I will also speak on climate change — a very serious subject today. Some of you may be aware of the Doomsday Clock. A conceptual clock, it was installed in the University of Chicago in 1948, after World War II. When the exhibition of Atomic energy took place, its destructive power was witnessed by everyone, and for the first time man realized that he could be eliminated from the earth in a second. That was the reason for the installation of this conceptual clock. The character of the clock is such that when man works positively with his intellect in relation to nature and society, the clock moves backwards. But when he works against nature, the clock moves forward. When the clock strikes twelve, it will be the end of man's existence.

If you read the editorial about Doomsday Clock, there are a lot of signals on climatic change and the present global warming in it. This editorial has been written by nuclear scientists from different countries who are working on ecology, nature and physics, and the future they have shown is so grave that it is imperative we take it seriously. I feel that since we have taken up this theme of climate change in today's conference, we

have acknowledged its gravity. The pattern of climatic change is no longer the same and we are all experiencing it. I will first explain how today's ecology is connected to economics, because then you will see its relation to demonetization. Today, the most powerful resource in man's life is money. The world has become monetized. But this most powerful resource is not connected to any source. The world's most powerful currency, around whose center the entire world's economy is revolving, is the American Dollar. The dollar was disconnected from gold in the year 1971. Today none of the world's currency is connected with gold or any other source.

The cost of the ₹ 2000 notes being printed in our country is 3 rupees and 60 paise. The Reserve Bank has created an exchangeable value of 2000 for ₹ 3.60. I am putting the grievousness of this before you, because the cost of printing the most powerful currency in this world, a \$100 note is only 12 cents. In 12 cents the U.S. is making that piece of paper which becomes \$100 worth. In exchange of that \$100 piece of paper, we give America the value of \$100 of basmati rice, the real value. And in return what we get is a piece of paper which has only a value of 12 cents.

Money is a medium of exchange, it is not a commodity. This material value, this exchange value, we have converted into a commodity value and kept in our



pockets. We are neither using it nor allowing others to use it. This is a physical value and should always be in circulation. It has no value of its own, it only carries value when it is used.

In the barter system, there was a real value exchange system. There was no medium there. Today we are in a market economy. In a market economy there are only two commodities. One is the market and the second without which the market cannot run, i.e. the consumer. Customer is God. The market cannot run without the customer. And the lowest one in the market, the one that the market loathes is the beggar. The entire system runs on these two poles of customer and beggar. Both the customer and the beggar have needs. The only difference is that the customer has purchasing power, the beggar does not.

The function of banks is to keep the money in circulation so that the purchasing power trickles down and reaches below. Unfortunately, in our country this does not happen. This was one of the big reasons for note-ban. When we make transactions with this piece of paper it does not leave a footprint. If I take out a 500 rupee note and give it to you, no one can establish from where this note came from. The owner is the one in whose pocket the money is. It does not leave a footprint. All such transactions are non-transparent and unaccountable. But if I give you money through the medium of a bank, either by debit card, or electronic exchange, or by cheque, both the accounts get registered in my debit and your credit account. The footprint is established and the transaction is transparent. It becomes accountable.

In the entire black trade, there is no trail or footprints of transactions. It could involve organ trafficking, human trafficking, or any other entity.

Unfortunately, we cannot live without money, because it has become the most important resource of life, giving us a monetized lifestyle. And this money is not available as it is not going around in society. Hence everyone starts running after money. Today's money system is in such a bad plight, no one knows what will happen tomorrow. Whenever there is an uncertainty in a given situation, the natural corollary is insecurity. Whenever there is insecurity, the reflex action is precaution and provision for what is scarce. Today the biggest fear among men is whether they will get money tomorrow or not, so they keep running after money.

If this root problem has to be addressed it is necessary

that the wealth created in our country should reach in liquid form to the lowest level. Till it doesn't come into public domain, it will not reach down. That is why note-ban was necessary. Corruption has increased so much in our country — we have all experienced it. It was difficult to control corruption till our transactions did not become transparent and accountable, hence the reason for demonetization.

What is the economic condition of our country? It is a big country with 130 crore people. I will explain with the help of an analogy. Our country is like a huge skyscraper. This entire building is being supplied water by an overhead tank. But there are some floors which are not receiving water as the water level has fallen in the overhead tank. This level of water, the upper level is like the government's treasury, which is called Revenue/fiscal strength. Although there is water in the reservoir and the pump is also working, the water is not reaching the top. The water level is low with many pipes not getting water and we are not able to figure out why. The pipes in between are rotten and broken, and this entire system can be likened to our tax system, the government's taxation. The resource is taken, the government takes from its own revenue and distributes it for social welfare. But like the water analogy, it is not reaching the top, it is leaked before that. That is called black money. The evasion of tax is because of the leakage. It has not reached the top but is still there. That is why black money is unaccountable.

When our President was the Finance Minister, he had submitted a white paper to the Parliament as to how much black money there was in the country. But he was not able to tell the size, since it is unaccountable. It becomes like a parallel economy, which is out of everyone's control. On one side is the government's revenue. And on the other is the expenditure of the government. But there is leakage, which is corruption. The leakage on expenditure side is corruption. Corruption is accountable but it is non-traceable. If 100 crores was given for the road, but only 60 crores was spent in making the road, where did the remaining 40 crores go, nobody knows. Corruption is accountable but it is non-traceable. Black money is unaccountable. Continuing the water analogy, the government has to give water to this building anyhow, as it is a budgetary commitment. So it brings water from outside with a tanker. This is called FDI. The government thinks that it will naturally

come down, so the water will go up. And many times, this tanker takes water from this pond of parallel economy itself and puts it in. This is called money laundering.

Through the process of money laundering, black money is once again converted into white. And the brokerage is taken from this white money. How much is put in, that much more is being leaked out. Now what is the result of this? Both these ponds of parallel economy, are now being converted into an underground economy. It is completely invisible and no one can understand what is going on. Completely non-transparent. And the first thing that connects to it, is our country's politics. Our country runs on elections, but there is no provision for white money to be used in elections in our country. There is no budgetary provision for elections. And we all know how much expenditure is incurred during elections. This comes from the underground economy. We call it the corrupt bureaucracy.

We all know that our country's white economic system is growing by $\pm 7\%$, — this is called GDP growth rate. And the parallel underground economy has a growth rate of $\pm 15\%$.

How we can change it? If both these leakages are stopped, then these two ponds will not be made, they will dry out — there will be no underground economy. If there is no underground economy, there will be no leakage all the water will reach the overhead tank. There will be no need of a tanker. If the tank is full, then a common man as well as the election ballot box, both can get new connections. If we make the transactions traceable and make tax compliance accountable, then both these leakages can be controlled.

In other words the more you adopt digital economy, the more transparent it will become. It will be easier to trace any unlawful activities. With currency notes this is not possible.

So here is an effective solution. Arthkranti recommends the following proposals:

- Withdrawal of existing taxation system completely. Apart from custom and import duties, all central, state and local government taxes should be withdrawn.

- Every transaction routed through a bank will attract a certain deduction in appropriate percentage as bank transaction tax. i.e. Single Point Tax Deduction at Source (for ex. 2%). This deduction will be effected on the receiving/credit account only.

- The deducted amount will be credited to different government levels like the Central, State and Local levels (say .7%, .6% and .35% respectively).
- Transacting bank will have its share in this deducted amount (say 0.35%), as bank has a key role to perform.
- Cash transactions will not attract any tax.
- Withdrawal of high denomination currencies (say above Rs. 50/-)

Government should make a legal provision to restrict cash transactions up to a certain limit (say Rs. 2000). This means transactions above this limit will not enjoy any legal protection.

Results

This ideal proposal will lead to the following:-

- High value cash transactions will not be practical or possible any more.
- Adequate revenue will come to government.
- Tax collection is simplified
- Corruption and black money eliminated
- Anti social and anti-national activities addressed
- Social security will be restored.
- Increase in bank commission/transaction, therefore banking revenue increases
- There will be globally competitive interest rates
- Cheap and easy capital
- Market demand will be boosted
- Commodities and services will be free from tax because of cheap and easy capital, prices will drop.
- Focus will shift to innovation rather than tax manipulation.
- More employment opportunities will be available for our youth.
- There will be a globally competent agricultural segment
- There will be budgetary provision for elections leading to a cleansed political system

When we see the government's measure to demonetize the economy in the above context, we can appreciate how a digital and cashless society can usher in greater transparency and economic prosperity for our nation.