



ANIL BOKIL'S VISION AND NARENDRA MODI'S ACTION A CRITICAL ANALYSIS

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ABSTRACT

As the world knows, Indian currency of 500 and 1000 denominations enjoyed their last legal tender on 8th, November 2016. Known for his leadership qualities, the 66 years old renowned honourable Indian Prime Minister Narendra Modi announced this strong move at the strike of clock around 8 pm IST on 8th, November. This move led to loss of 86% of Indian monetary base. India being obsessed with the menace of black money, terrorism, counterfeit and corruption, led the PM to take this action. This paper discusses about the ideas proposed by Anil Bokil of Arthakranti Pratishthan, the views and counterviews, its impact in different ways in different sectors, the possible positive outcomes, near term challenges and the plans of actions of Modi's Government. A light of the possibilities and further steps that can be taken are also discussed. As every action has a positive and negative result, we hope for the best positive outcome for the betterment of the nation and its economy.

KEYWORDS: Indian currency, corruption, parallel economy, counterfeit currency.

INTRODUCTION

On November 8, Indian Prime Minister **Narendra Modi** in a surprise move announced demonetization of 500 and 1,000 rupees notes, leading to India losing **86% of its monetary base**. Prime Minister has been reportedly destroying the base of corruption in India and this move is expected to clean the formal economic system and discard black money. In this single move, the Government has attempted to tackle all the **three issues affecting the economy i.e., a parallel economy, terror financing and counterfeit currency in circulation**. Prime Minister by this move has pulled out a major coup and substantially enhanced his reputation as a strong and effective leader.

The total value of old Rs.500 and Rs.1000 notes in the circulation is to the sum of Rs.14.2 trillion (about 85% of the total value of currency in circulation). This implies that the total cash must pass through the formal banking channels to get legitimacy. The World Bank in

July 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 & rising to 23.2% in 2007. Assuming there is no change in this figure & the cash component being proportional, the estimated unaccounted value of the currency could sum up to Rs.3.3 trillion.

VIEWS AND COUNTERVIEWS

The idea of demonetization is good. The fact that most of the **black money is kept in the form of land, buildings or gold or kept abroad** has to be taken into consideration. The cash constitutes only 4% of the total amount on which the taxes are not being paid. Among this, a lot of money is in circulation in everyday transaction. Eg. If someone is building a house, and the bill is not paid through banks for sand, bricks etc., the money goes into the other systems though it has been drawn from bank. Such consequences will come under control.

Long term benefits can be assured for the economy by this move. A major proportion of unaccounted money being extinguished would lead to reduction of the liabilities of the Government and would add to its finances. This can lead to the Government to get money to spend without borrowing from the market; while interest rates can be low, the Government spending on large infrastructure projects would kick-start.

This move in the Indian population is also likely to have a habit changing impact such as increased belief of keeping cash in the banks rather than stashing at home and using formal banking channels for the spending needs. With a large section of the cash moving through the banking channels, the banking sector is likely to be flooded with funds in the near term, leading to the reduction of cost of funds for such period. Also, the medium to long term Current Account and Savings Account (CASA) ratio of the banks can be improved with more money being kept in the banking channel.

Another aspect is the reduction in cash transactions in real estate. This move is likely to reduce the real estate prices, making it affordable to some extent. This may be visible more in the rural belt, where many non-farming entities do purchase fertile farmland (not for farming but for money parking purpose). The demand for such farm lands could come down with the demonetisation and consequent reduction in shadow economy.

A better tax compliance, raise in the Tax to GDP ratio and improved tax collection can be possible; leading to lower borrowing & better fiscal management. Inflation may see downtrend in the near term with lower cash transactions. The Government may also get enough headroom to reduce the income tax rates with higher tax to GDP ratio, which can lead to higher disposable income with people, improving consumption demand in the medium to long term.

The stock of the black economy constituting a major part of the GDP is significant. Even if 50% of this amount is withdrawn, the kind of relief that RBI will get on its liabilities and the sort of deposits commercial banks will get will lead to a rise in the deposit and **later on there will be decrease in lending rates plus fiscal deficit.** The black money in circulation is like a steroid in the economy which keeps the demand going and gives a feeling that everything is working well. **The problem is that investment is not taking place in the economy and the rate of growth of capital formation is down. The only way to bring this up is to divert more funds into investments which will happen when the cost of capital comes down.**

Now, post the announcement of demonetization by the Government this money would have to either account for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting extinguished as the tax rate and subsequent legal issues could be prohibitively high for such money.

ANIL BOKIL will be remembered as a man who had a direct hand in one of the most powerful financial decisions of the Indian Government in the history of India. He is an Indian social activist from Aurangabad and Mechanical engineer by profession and is one of the key members of Arthakranti Pratishtan who was given time to share to PM Modi. He was given 9 minutes for sharing but Mr. Modi heard him for 2 hrs.

ARTHAKRANTI PRATISHTHAN

It is a Pune (Maharashtra) based Non-Governmental Organization that advocates various financial reforms in India. It is an Economic Advisory body constituted by a group of Chartered Accountants and Engineers. **'Arthakranti'** is a five-point action plan, designed by a team of the same name, to eradicate corruption from its roots. The **'Arthakranti Proposal'** is an effective and guaranteed solution of Black Money Generation, Price rise and Inflation, Corruption, Fiscal Deficit, Unemployment, Ransom, GDP and industrial growth, terrorism and good governance.

Important Points to note:-

1. As on today total banking transaction is more than 2.7 lakh crores per day say more than 800 lakh crores annually.
2. Less than 20% transaction is made through banking system as on today and more than 80% transaction made in cash only, which is not traceable.
3. 78% of Indian population spends less than 20/- rupees daily. Why they need Rs.1000 note?

Some of the more powerful proposals of ANIL BOKIL:-

(1) Scrap all 56 Taxes including income tax excluding import duty:

This idea given by the Pratishtan is one of the most interesting step which yields us effective results. Some of the outcomes are that the salaried people will bring home more money which will increase purchasing power of the family. Prices of goods and services will be freed from Current Heavy Burden of both - Costly Capital and Heavy Taxes. Along with this, due to the availability of Cheaper Capital at ease post Arthakranti Implementation, the Effective



Purchasing Power of the Individuals and therefore the Society will increase. All commodities including Petrol, Diesel, FMCG will become cheaper by 35% to 52%. There will no question of Tax evasion. Hence, no black money generation will occur. One of the major outcomes will be that the Business sector will get boosted leading to the self-employment of the population. This will cause the industry sector to grow rapidly.

(2) Recall and scrap high denomination currencies of 1000, 500 and 100 rupees:

Eradication of all the high value denomination currencies may seem virtual, but this has a high-end result. This can be substantiated by the third point mentioned in the important note. The outcomes will be as followed. The corruption through cash will be stopped totally. Black money will be either converted to white or will vanish as billions of 1000/500/100 currency notes hidden in bags without use will become simple pieces of papers (Merger of the existing Black Money into White Money). The unaccounted hidden huge cash is sky-rocketing the prices of properties, land, houses, jewellery, etc., and the hard earned money is losing its value. Scrapping of high denomination currencies will stop this trend immediately.

The menace of **Kidnapping** and ransom, "**Supari killing**" will stop. **Terrorism** supported by the cash transaction will stop. Also the root causes of terrorism, namely, insecurity, poverty, disparity will be addressed through Social Security Allowance and an Empowered Governance. Coming to the real estate sector, buying of high value property in cash showing very less registry prices will be no more possible. Also, circulation of "**Fake Currency**" will stop because fake currency printing for less value notes will not be viable.

(3) All high value transactions must be made only through legal and transparent banking system like electronic transfer, cheque and DD:

Limiting all the high value transactions to the transparent window of banking system will lead to the flow of only white money. Be it 1000 rupees, 500 rupees or 100 rupees denomination, when channelized through legal routes, it would be ensured that black money will not have any way to get through. Generation of Black Money is "**Technically Impossible**".

(4) Fix limit of cash transaction and no taxing on cash transaction:

As all the high value transactions will be done through banking system, there can be a limit fixed over the cash transactions, subsequently allowing to the feasibility of expelling the taxes on it.

(5) For Govt. revenue collection introduce single point tax system through banking system– Banking Transaction Tax (2% to 0.7%) on only Credit Amount [A Single Point Tax Deducted at Source]:

This deduction is to be effected on receiving/credit account only. This deducted amount will be credited to different Government levels like Central, State and Local (as say, 0.7 %, 0.6 % and 0.35 % respectively). Transacting Bank will also have a share (say 0.35 %) in the deducted amount as the bank has a key role to perform.

As on today if Banking Transaction Tax (BTT) is implemented, the Government can fetch $800 \times 2\% = 16$ lakh crore whereas current taxing system is generating less than 14 lakh crore revenue. When 50% of total transaction will be covered by BTT sizing 2000 to 2500 lakh crores, Government will need to fix BTT as low as 1% to 0.7% and this will boost again banking transaction many fold. A separate entity such as "**Income Tax**" department will not be needed and tax amount will be directly deposited in State/ Central/ District administration account immediately. As transaction tax amount will be very less, public will prefer it instead paying huge amount against directly/ indirectly FIFTY SIX taxes. There will be no tax evasion and the Government will get huge revenue for development and employment generation. For any special revenue for special projects, the Government can slightly raise the BTT, say from 1% to 1.2% and this 0.2% increase will generate 4,00,000 crores additional fund.

These recommendations made by the Arthakranti Pratishtan helps to be momentous. Truth to be told, numerous financial specialists additionally have recommended the scrapping of wage duty totally which will evacuate the weight of the persevering white collar class and salaried individual. Surplus revenue to the Govt. for effective health/ education/ infrastructure/ security/ social works can be obtained. Tendency of society will change from scarcity to quantity. The country need not export beef to cover up trade deficit. Sufficient fund for research and development and the society will be free from "**Bad elements**".

MODI GOVERNMENT'S PLANS AND ACTIONS

Prime Minister Narendra Modi is been one of the visionary leader in India. In his tenure of two and a half years, he has undertaken a revolutionary decisions in many aspects. Some of them being Jan Dhan Yojana,

Implementation of GST, foreign affairs, rural electrification Swach Bharath etc. keeping Artha Kranti proposals as foundation principles, Narendra Modi has initiated significant and path breaking changes in Indian economy.



So there is a probability that the nation in future will pay only two sorts of taxes:

1. Direct Tax as BTT (Banking Transaction Tax) and
2. GST (Goods and Service Tax) as Indirect Tax.

FURTHER STEPS

The Government is in the best position to bring in reforms to cleanse the system, while the benefits will be reaped in long run and pain may be felt immediately. Some of the following steps as suggestions that can be implemented:

- ⇒ Considering the farm holding as a basis for tax on agricultural income, due to which the marginal farmers will not be affected.
- ⇒ Linking PAN/ Aadhar numbers to all land and property records to mandate the digitalization.
- ⇒ Assisting from the government to the farmers by lending loans if they have any debts taken from local money lenders at no interest. This would be a one-time assistance. Keeping record of these transactions to avoid misusing the scheme by others will be necessary. Such lands can be kept rid of mortgage facility from other sources except for government banks and other public sector banks.
- ⇒ Plastic money should be promoted on a large scale. For instances where large amount of money is required to be withdrawn, some amount of taxes considering the benchmark can be charged.
- ⇒ Monthly settlement cycle must be reduced to fortnightly settlement cycle in order to increase the usage of credit cards and debit cards and to gain a healthy competition.
- ⇒ PAN and DEMAT account should be used for linking to calculate the capital gain tax on traded security. For any exemptions, assessee can be filed.
- ⇒ Income tax and RTI authorities must have the account of funding of the political parties. Each and every movement of the money should be

traced as into where, why and how much money is being spent. Both, the ruling as well as the opposition parties must take care that they are being included in the vigilance of the authorities. Funding for the elections can be also further done from state.

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