ArthaKranti

Our Mission:

India’s Economic Rejuvenation
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An Appeal to the Reader

Dear Citizen,

You are reading this because of some basic assumptions that have been made about you. These are:

1. You are an Indian Citizen.
2. You are gainfully employed in a perfectly legal job or profession whereby you earn your livelihood through sincere application of your knowledge and skills and an honest effort of mind and body.
3. You are reasonably proud of our Country, its good traditions, the better parts of our culture and feel connected physically and in spirit to its past, present and future.
4. You are a socially active person, living with a family and therefore, genuinely concerned about the state of the society that we live in.
5. You are acutely or sub-consciously aware that all is not well with our Country. You feel that a lot of issues need to be addressed and those entrusted with this responsibility have become ‘morally handicapped’, and therefore incapable of discharging their duties honestly.
6. You know, and the knowledge is distressing, that this corruption of minds has crossed epidemic proportions and our future generations are going to have to live and struggle with a system distorted beyond recognition.
7. You are not a cynic, and believe deep in your heart that you can make a definite, if small, difference to the system around you.
8. You are probably already doing something in your own chosen manner, at whatever scale, regularly or occasionally, something that you feel will contribute to the betterment of our society. It could be a charity, or helping someone needy in whatever manner possible.
9. In short, YOU CARE, which means that you DARE to HOPE, and DREAM of a better future – you don’t dismiss the entire country and its future as ‘gone to the dogs’ and you don’t desperately want to migrate to a foreign country!
10. If you think that the description given above fits you, this is of utmost importance – so read very carefully. Your future, the future of your country and the future of our descendants could depend on this…
Current Economic Reality
The entire world today acknowledges the tremendous potential that India has. India has all the makings of an economic Superpower, they say. We have a vibrant and fully functional Democracy, a huge, thriving middle class which is driving the Economy through its aspirations, a massive English-speaking, technically trained workforce and so on and so forth…

What then, is the hitch, why are these possibilities not translating into concrete achievements, why are we still in the realm of ‘potential’ and not passing real milestones? What prevents us from striding across the international scene as a giant, and from having our word unchallenged and respected by the rest of the world? What makes our best brains want to escape abroad, instead of working for the solution of our own problems?

We have all, at some time or the other, pondered and debated on such issues. We even catch fleeting glimpses of solutions for small parts of the problem. But the scenario looks so impossibly complicated with each passing day that we finally excuse our confusion with the homily – ‘It’s a terribly complex country, so its problems are equally complex. Therefore, there are no simple solutions. God help us all…’

The future poses even greater challenges. The progressive implementation of the GATT agenda is going to inexorably mount pressure on the economy, and thereby society as never before.

What follows is a brief look at the socioeconomic reality of our country, with reference to the interests of various segments of our population.
Farmers and Industrial Workers

- 70% of our populace lives in rural areas and therefore finds its existence directly or indirectly dependent on the agricultural industry. The vast majority of these people are small farmers or landless agricultural labourers.

- The firm grip of a deeply entrenched caste-based feudal system, the near total dependence on timely monsoons and constantly decreasing individual land-holdings due to the rise in population has forced most of these farmers into subsistence farming.

- The lack of capital has ensured that our small farmers remain deprived of technological advances, which would help conserve and apply resources efficiently and increase productivity.

- Due to their electoral compulsions, Politicians of all hues have always looked upon farmers as vote-banks of uneducated, needy people who can be easily swayed by pre-election promises of freebies. There have been a host of such superficial measures like the distribution of very small ‘loans’ with no intention of recovery, forcing banks to lend, with the unstated promise of writing these loans off in the future, providing free electricity etc.

- Excessive political interference in the Agricultural sector has led to utter mismanagement of every aspect of this industry. Be it the management of resources, measures to increase productivity, adequate infrastructure to enable efficient and timely off-take, transportation and storage of farm produce, the freedom to set prices and choose markets, the setting up of efficient distribution networks and so on. The arbitrary opening and closing of export opportunities and such other man-made calamities render the scenario hopelessly entangled and complex.

- These shortsighted measures have only hurt the real interests of the farmer. They have succeeded in crippling him mentally by convincing him that he is forever going to be the government’s responsibility. They have crippled him physically by destroying his credibility irreparably in the eyes
of the banking system. The average Indian farmer has never been allowed to even realise that he is an entrepreneur.

- The farmer is hence doomed to borrow from private moneylenders at unrealistic rates of interest, and some day collapse under the burden of debt. His natural inborn desire for a life with a modicum of self-esteem and dignity then drives him to the only viable option – suicide. The major and vitally important chunk of our population thus remains vulnerable to the whims of social, environmental and political forces.

- In the continuing suicides of farmers (which nobody seems to be able to stop), are the seeds of a chaos filled future. We could be just a few years away from the collapse of agriculture, a general exodus from rural areas to overcrowded urban slums and a nation sliding towards food shortages and dependency on food imports. Instead of cooperative farming, Corporate farming will become the order of the day, resulting in the concentration of resources in a few hands.
- This will also pave the way for land grabbing and indiscriminate destruction of our environment by a few powerful groups with brute financial backing.

- In a nation of a billion people, an extraordinarily tiny percentage, about 3% belongs to the organised sector. What this means is that a huge bloc of people are living and working, producing and adding value outside the ambit of the organised, and therefore documented sector. When we speak of industrial workers, we shall therefore take into account all those employed for their physical skills in every possible kind of industry, enterprise or household, ‘organised’ or otherwise.

- Industrial workers are primarily migrants or descendants of migrants from rural areas. The emergence of strong labour movements and unions provided a good degree of protection to those in the organised sector, but it was never available to those in the un-organised sector.
- Local and global competition has heated up with the gradual withdrawal of governmental controls. With the entry of more and more international players in all sectors, the emphasis has shifted from manipulation to efficiency, quality and competitiveness.

- A weak rural economy means lack of purchasing power, which in turn means low demand. This is an important cause of poor industrial growth. Thousands of units across the country have folded up due to poor demand, weak management and lack of resources to cope up with the changing environment. This has resulted in ever-increasing unemployment. Working for wages has become as risky and insecure a profession as running a business.

- As import duties and thereby the protection to local industry comes down (courtesy-GATT), it will become viable and more profitable for large local industrialists to actually move their production bases abroad to countries with low taxation and export to India. The result? More unemployment in India. This process has already begun.

- Lay-offs and Voluntary retirement schemes have come to stay. The question is, are we even aware of the disastrous social implications of hundreds of thousands of able-bodied people with a newfound short-lived spending capacity and a blank future thereafter? In the absence of a strong Social Security system, laid-off workers are often pushed directly out on the streets, fighting for survival.

- Agriculture and Industry are the two engines of our economy. Millions of farmers and workers are actively and productively involved in driving these engines. It is extremely tragic and dangerous that they are suffering a painfully unstable existence. Can a prosperous minority afford to sleep in peace while the vast majority is insecure and teetering on the brink of survival?
Businessmen, Industry and Trade, Self Employed and Professionals

- When our country adopted the socialistic economic model after Independence, the Government entered business of all kinds – from operating mines to running hotels. This was the single most powerful factor influencing industrial growth in India for almost forty years thereafter.

- The presence of these inefficient monopolistic giants owned by the Government coupled with the License-permit-quota Raj made complete mockery of free enterprise in the country. Only those with a strong capital base could survive and those who mastered the art of manipulating the system could thrive.

- Over the years, India became established as one of the poor, developing Asian countries, which was perpetually starved for goods of all kinds. Quality was unheard of. On one hand there were millions of people employed in the textile industry, and on the other, the smuggling of cloth into the country was a profitable business.

- A bloodthirsty System of Taxation would result in evasion and dwindling revenues. The leadership would panic and increase taxes, and will thus drive more people towards evasion. This vicious downward spiral continues till date.

- The resources engaged in Tax Management do not add any value to the product or services sold by Business and Industry. The burden of maintaining Excise and Taxation departments diverted precious resources from R & D and Quality enhancement. All creativity and innovation were directed towards inventing new means of tax evasion, rather than product development and excellence.
- Local industry as a whole is globally uncompetitive – but for a few notable exceptions - in the global arena. A succession of economically feeble governments resulted in the lack of infrastructure, which has proved disastrous for industrial growth.

- As Government owned enterprise sunk into the red and the private sector struggled to exist against all odds, foreign companies circled our skies, swooping down and grabbing every opportunity that they could.

- With the signing of the GATT, foreign companies will not have to even knock at our doors any more. They have the whole market, cheap labour, incentives of all kinds theirs for the asking. They see eager and welcoming governments, state and central, pushing and shoving each other for attention, and begging for investment. And as their competition, these companies usually have the harassed and frustrated and crippled local industry.

- Professionals and self-employed individuals are essentially entrepreneurs who employ intellectual capital, creative faculties or physical skills. This class of people has its own unique set of problems. They do not have the support base of a business organisation, a large number of them live from one day to the next and cannot create substantial assets over a lifetime of working. They have no pension plans, no social security to take care of them when they can no longer work.

- With the opening up of our markets, there is every kind of competition coming in from other countries. Professionals and self-employed people will have to upgrade their skills and compete or perish. Without easy access to cheap capital, they do not stand a chance in the difficult times ahead.

- The gradual implementation of GATT is irreversible. It is bound to influence our entire existence. The question is, are we equipped to withstand those stresses and come through alive?

**Senior Citizens and Weaker Sections of Society**

Whether one likes it or not, Globalisation is here. It is deemed desirable for some reasons and hated for some. The reason that evokes the strongest feelings of hatred is invariably the cultural and thereby social impact of Globalisation. The pressures of survival increasingly uproot people and send them to distant places in search of jobs and business.

- This has a direct impact on the traditional structure of our society. The ‘joint family’ breaks up and young couples go ‘nuclear’. One greatly important and tragic casualty in this process is the dignity of the old and the infirm.
- Those who have retired from their jobs and business due to old age and poor health, those who worked at home all their lives but are incapable of working any more, those who are not fortunate enough to have an adequate lifelong pension and even those who could never work all their lives in the mainstream because they were handicapped in some way. All these people form a large chunk of our population.

- Then there are the vast multitudes of rural poor, landless labourers working in the unorganised sector, the rural and urban unemployed, the widows and orphans, the victims of natural calamities, riots and disastrous accidents. There are desperately poor and malnourished tribals whose traditional life-support systems are fast vanishing, the fishermen who are fighting a losing battle with the brutal forces of ecological disturbance and pollution. There are victims of diseases ranging from leprosy to AIDS who society refuses to accept, but are here to stay anyway. All these and the rest of the citizens who are economically backward for various reasons are struggling from one day to the next without hope. We seem to have the ingredients of a full-scale civil war here. Indeed, it is a miracle of sorts that it has not already broken out.

- A recent study showed that India is currently one of the ‘youngest’ countries in the world, meaning a large chunk of our population is between 25 and 45 years of age. This is considered to be ‘lucky’ and is of great economic importance. The flip side is that due to the current social trends of late marriages and family planning, after say the next twenty years, we will have one of the world’s largest ‘old’ populations, like some European countries today. At that time, the support systems provided by the traditional joint family will have practically disappeared. The big question that looms upon us is how will all these people fend for themselves in their old age?

- Most developed countries have put in place Social Security systems of varying efficiency. In India, there is no such system. Even the Pension paid to retired Government Servants (a minute fraction of the population) is an unbearable burden on the treasury. There is no provision of a ‘Survival allowance’ for the unemployed. There is no assured and adequate income to enable a physically/mentally/economically handicapped person live with bare minimum dignity.

**It is nothing but a paucity of funds and resources that stands between such a comprehensive Social Security system and our Society.**
**Youth and Women**

- The reason for clubbing these two groups of people together is that barring a few exceptions both are not directly involved in economic activity of any kind. Both are affected by malfunctioning of the Economy, as greatly or more than other segments of the population, without even knowing it. Both are unorganised, extremely vulnerable and have no tools or weapons to safeguard their interests. And lastly, both are dependent on others for their basic survival needs.

- Youth are the future of the nation and therefore it is crucial that they are looked upon as the most important segment of our society. All expenditure made for the betterment of youth is an investment in the future of the country.

- Every person up to the age of 18, irrespective of caste, creed or economic background deserves as a matter of right, an assured access to food, clothing, shelter, healthcare and education up to high school level. Facilities for higher education, vocational courses and training for alternate careers in the creative arts or sports etc. should be easily accessible and affordable thereafter.

- Unfortunately, our youth have been the most neglected lot. One of the best indicators of this fact could be India’s tally of medals in the Olympics and other International sport competitions. The absence of good infrastructure for all-round development of youth for all these years has resulted in campus politics getting firmly entrenched as the number one extra-curricular activity. The very nature of this activity takes a heavy toll of the moral values, social attitudes and academic achievements of the young people involved.

- The ever widening chasm between the ‘haves’ and the ‘have nots’ results in thousands of poor children and youngsters dropping out and working in terrible conditions to earn for their survival. We have the world’s largest number of child labourers. It is obvious that the primary and secondary schooling system is hopelessly inadequate.

- At the graduation level, it is evident that those who design and regulate the system have lost their sense of direction completely. Year after year, hundreds of Degree colleges churn out thousands of ‘graduates’ with useless certificates, utter misfits in the real world. They are ill-equipped for the job market and have only two options – to keep acquiring more degrees and qualifications if they can afford them or join the swelling ranks of the unemployed.

- Engineering and Medical education has become a tortuous ordeal for those who aspire for it. Every step of the way is laden with uncertainty. The scene is one of Donations, bribery, nepotism, leaking question papers, arbitrary rulings by Authorities which directly affect the future of thousands of
students and a helpless, economically disabled government watching as ‘Education Barons’ make hay.

- Thousands of our brightest brains compete for entering the IITs and IIMs every year. Only a few hundred get through – and soon after passing out, most of them leave the country in exchange for a fat pay packet. They see no future for themselves in the circumstances prevailing in their country. Millions of rupees of taxpayers’ money therefore subsidises the education and training of the best young minds in the country, for the sole use of multinational corporations in other countries. Those who manage to cross all the hurdles and scrape through to the ‘finish’ line, find themselves face to face with a monster called Unemployment. The rate at which the numbers of employable youth is added every year is much more than the rate at which jobs are created. The non-availability of capital and absence of infrastructure effectively extinguishes any sparks of entrepreneurship that may exist. In the midst of an ever shrinking job market, difficult and risky business environment and inexorable buildup of the pressure to start earning, migration begins to look like panacea for our youth. Day and night, they dream of escaping, and disconnect from the country and its future. Those unable to migrate are a moment’s frustration away from addiction, crime, prostitution and general unrest. This segment is part of the pool of talent from which the society’s leadership of tomorrow will invariably emerge.

- Women have been enshrined in our culture as eternal symbols and sources of motherhood, love and care. Unfortunately, as a nation we have an extremely poor record of recognising and upholding women’s rights.

- Women’s education took off barely fifty or sixty years ago and a huge gap exists between the actual and the ideal. Meanwhile, due to the lack of empowering education and awareness, the majority of women continue to directly bear the brunt of every possible malfunctioning of the Economy, Society and Family.

- The traditional responsibility of women in the family is that of management of the family and household. Because of her upbringing, she is programmed to automatically address the needs of other family members and ends up neglecting her own physical and emotional needs. The majority of Indian women are anemic, deficient of several important nutrients, suffering from all kinds of physical and emotional disorders without even knowing it.

- The lack of basic infrastructure affects a woman directly when fulfilling her day-to-day responsibilities. In rural areas, it is common for women to walk for miles in the hot desert sun for half a bucket of water. The same scarcity of water is equally common in urban areas too. So here we have
housewives waiting in long queues for the taps to yield the daily quota. People getting killed in slums over ‘tap water disputes’ is not unheard of.

- The lack of infrastructure hits business and industry from the other direction and the resulting closure and unemployment affects the woman indirectly when the earning member of the family loses his job. She then has to move out of the house and do her bit to earn as income. This could be by working at domestic jobs, working as farm laborers, gathering and selling firewood etc. No matter what economic strata a woman belongs to, her problems are essentially the same. The worst part is that she is unorganised and has no means to change her circumstances. She remains trapped in a painful and vulnerable existence, at the mercy of the people around her.

- The powerful influence of the parallel economy has strengthened criminal elements and their gangs. Women are the direct sufferers of the resultant poisoning of the social environment.

- The worst tragedy is that the tremendous amount of work and value addition that a woman puts in at home all her life, the sacrifices that she silently makes and the financial and human management skills that she develops and uses so unassumingly remain hidden from the limelight. Nothing is accounted for or appreciated nor is it taken into consideration for calculating economic indicators. And that is why she is nowhere in the picture when there are discussions on Social Security schemes or Old Age pension schemes. The fact is that Woman is the stabiliser, the sheet anchor of society at the micro level and therefore a prime candidate for Social Security.

- Instead, we see woman being exploited, blackmailed, raped, widowed, bought, sold, forced to beg, forced into prostitution and abandoned when they have ceased being desirable. The darkest hour in the entire history of our glorious civilisation is upon us – because we do not think twice before killing unborn females. Why do we do it? Purely because a girl is seen as an ‘economic liability’!

- A well-known slogan goes - “If you educate a boy, you educate a man. If you educate a girl, you educate a family….” Surely a female can get education in our country today. But that is only if she can manage to take birth without getting killed, then overcome all kinds of social obstacles and discrimination, financial difficulties, domestic priorities and find a system of education and employment which will empower her. And all she can do about it today is hope that a handful of NGOs can tackle the whole mountain of problems.
Salaried Employees

- The middle class has always looked at business as a risky and stressful proposition. They are also convinced that one needs to be very cunning and manipulative to succeed at business. These people turned to salaried jobs as an occupation mainly because it was perceived as a stable and secure profession. The other attractive points were the facility to live an honest, stress-free and risk-free life.

- Life for salaried people was traditionally defined as ‘nine-to-five’ and they were also seen to enjoy all weekly and government holidays. It meant a pre-determined career path defined by the employer organisation followed by a decent retirement package, which one either planned and saved for or got automatically if working in the government.

- Unfortunately, the Government began to impose one tax after the other. People began evading tax by all means possible. All those who could conceal income, did so. One day, the salaried class woke up and found itself quite alone. Almost everyone else had slipped out of the system – partly or fully. The salaried class remained trapped helplessly in their ‘secure’ jobs.

- Every year, at the budget presentation, the salaried class cringes in terror for the latest taxes unleashed by the government. They know that they have no place to hide. All taxes finally affect only those who live in the white economy, namely the salaried class.

- With the advent of globalisation, the traditional concepts of ‘job security’ and ‘risk free life’ have changed forever. In these times of mergers, buyouts, closures and disinvestment, no job is secure. Working in a salaried job has become as risky and stressful as running a business.

- Employment opportunities are reducing because of various factors like advanced technology (automation) and skills getting redundant. This has led to tremendous competition in the workplace and outside it. The ‘nine-to-five’ job is a thing of the past. Regular weekly holidays are history.

- Is the salaried employee ever going to be freed from this slowly tightening noose of taxation?
The Government and Our Political Leadership

All that a citizen expects from his government and leadership is:
- A stable environment to live and work.
- Affordable access to food, clothing, shelter, healthcare, education and capital.
- A clean and transparent political system, which will respond to citizen's aspirations.
- A strong and fair law-enforcement system and prompt judiciary.
- Reliable 'safety net' of a social security system to take care of the old, underprivileged, the unemployed, and all affected citizens in times of natural calamities.

- When India got Independence in 1947, we adopted a democratic system of government. The real windfall however, were the Administrative Systems, Stock Exchanges, Reserve Bank and the Banking System, the Railway Network, disciplined and non-political Armed Forces and a host of other Institutions that we inherited. The Indian Constitution is considered to be one of the best in the world today.

- In keeping with the Socialistic model of Economy that was adopted, the Government spent billions of rupees and established itself as a monopoly or the largest player in almost all segments. The principle behind this was to plough back the profits by way of infrastructure development etc. and ensure the general upliftment of the weaker sections of society without excessively taxing the affluent.

- Unfortunately, the leaders who envisaged this scheme had overlooked the small possibility of the PSUs being mismanaged, making huge losses or ridiculously low profits, becoming burdens on the exchequer rather than contributing to it. That is what happened in almost all but a few cases.

- The revenue deficit refused to go away, and the government resorted increasingly to taxation as a means of generating revenue. The original socialistic dream soon got derailed. The PSUs became drains on the economy while the public suffered with the introduction of every new tax.

- Large scale tax evasion followed. This created black money, which in turn gave birth to the Parallel Economy. All citizens, taxpaying or non-tax paying, honest or dishonest are today never more than a step away from the ever-lengthening shadow of the Parallel Economy.

- Thanks to the Movement for Freedom, our country got great leaders to head its government in the initial years. They were eminent people with great strength of character. There were lawyers,
educationists, social workers and activists. Unfortunately, when economic power passed to the Parallel Economy, all kinds of people with very poor credentials began to get attracted to politics from the outer fringes of respectable society. These elements had the clout of black money at their disposal and gradually good citizens were left with the options of getting pushed out of the political process or sourcing funds from the parallel economy in order to survive.

- Political Leaders today have lost their credibility in the eyes of the citizen. This has a direct bearing on the public standing of the Government and its various arms. The single biggest factor that strikes terror in the heart of a citizen is the knowledge that even departments like the Police etc. which are critically important for Social Security can be easily influenced by those with enough money.

- Because of the fiscal deficit, the Government has had to rely excessively on external borrowings and as is currently fashionable, FDI. It is only natural for the lender to influence our spending policies to ensure timely debt servicing. This influence is seen in the repeated attempts to curtail subsidies. This in most cases has a very painful social consequence.

- Inadvertent promotion of Anti-social businesses and industries like Liquor, Cigarette, Tobacco, Lottery etc.: The very high Excise duties levied on these products make them guaranteed sources of revenue and therefore important for the government despite terrible social consequences.

- The lack of Government spending in infrastructure has rendered local Industry incompetent.

- The disparity between haves and have-nots grows at a frightening pace. The inability of the Government to fulfill the most basic of needs of the common man is fuelling a general feeling of insecurity like never before.

- Socio-political problems that are essentially rooted in economic backwardness eventually transform into full-blown law-and-order problems, e.g. the Naxalite movement, the insurgent movements in the North Eastern states.

- Though it seems logical to blame the leadership for all that goes wrong with society, the fact is that we still have some very good political leaders in this country. It is the mechanism of governance that has ceased to be effective for the reasons given above. No matter how good the leaders are the flawed system leaves them with very little ability to address the concerns of the common man.
- The challenges thrown up by the process of globalisation call for great foresight, astute financial management and efficient marshalling of our resources. Do we have the strong leadership, vision and necessary mechanism to face these challenges successfully?

- The emotional and mental secession of honest citizens from this country is the first step to a full-scale exodus. Anarchy will no longer be something that exists in distant African or Latin American dictatorships. It is closing in on us with each passing moment and will explode in our faces when we are at our weakest.
**ArthaKranti Proposal**

**THIS PROPOSAL CONSISTING OF A FIVE POINT STRATEGY WILL HAVE TO BE ACCEPTED AND IMPLEMENTED IN TOTO WITHOUT ANY FUNDAMENTAL CHANGES OR DILUTION.**

1. **Withdrawal of existing Taxation System Completely* (except Customs/Import Duties)**
   * All Central, State and Local Government Taxes – Direct and Indirect

2. **Every Transaction routed through a bank will attract a certain deduction in appropriate percentage (say 2 %) as a Bank Transaction Tax [BTT] [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

**PLEASE NOTE THAT THIS BTT RATE OF 2% AND ITS BREAKUP FOR FURTHER DISTRIBUTION IS PURELY NOTIONAL AND HAS BEEN GIVEN TO FACILITATE A CLEAR UNDERSTANDING OF THE CONCEPT. IT WILL BE THE RESPONSIBILITY OF THE FINANCE MINISTRY AND THE RESERVE BANK OF INDIA TO DETERMINE THE FINAL RATES ETC. THE ACTUAL RATE WHEN IMPLEMENTED IS EXPECTED TO BE LESS THAN 1% ALL INCLUSIVE.**

3. **Cash Transactions will NOT attract any tax**

4. **Withdrawal of High Denomination Currency (say above Rs. 50)**

5. **Government should make legal provisions to restrict cash transactions up to a certain limit (say Rs. 2000)**
   This means, Cash Transactions above this limit will NOT enjoy any legal protection.
Implementation of the Proposal –
Some Recommendations

After giving some thought to the proposal, it will be seen that this system can be brought into force without any major change in the Constitution. It is also a truly benevolent and fair system, in line with the basic socialistic philosophy of the nation. Since this is the first time such a system will come into existence anywhere in the world, the course of action for the Government will need to be carefully planned in a phased manner. A clear timeframe will have to be determined and conveyed to all for the phases of implementation. It has been proved over the past that the present Banking System is quite reliable and has maintained reasonably efficient operating standards, cultivated and trained human resource. They have a ‘least corrupt’ status among financial institutions. They have widespread networks and operate effectively throughout the country. They have displayed the potential and strength to adopt and develop the latest modernized techniques of modes of operation.

However, to play a key role in the proposed B.T.T. [Bank Transaction Tax] system, the present Banking System has to upgrade its operating standards comparable to world standards. This can be done by modernizing or adopting sophisticated ways of transactions like Credit Card Transaction, ATM Installation, Internet Banking etc. To achieve this, the Bank has been recommended a share per transaction to meet its financial needs. Also, it may be felt necessary for all Banks and Clearing Houses to work round the clock (say, in 4 shifts of 6 hours each).
The Preparatory Phase

- A comprehensive study will need to be carried out to understand the effects of the proposal on the micro level, on all segments of Society and the Economy. Only the Government has the wherewithal and the resources necessary for conducting such an exercise.

- Banks will have to invest in technology for efficient management and infrastructure for deeper penetration into areas of low presence. This will be a long-term process and Banks will have to plan their strategies accordingly.

- Citizens will have to be informed about the new system over a certain period through the use of every possible means and media.

- A nationwide effort will have to be made using all existing administrative network to issue unique P.A. Numbers / Social Security nos. and cards to each and every citizen. This process has already been initiated by the Central Government under the Unique Identification Number scheme.
The Implementation Phase

- Abolition of the existing Tax system will have to be done with effect from a single predetermined date. Simultaneously, the deducting of Bank Transaction Tax from all bank transactions will commence.

- Currency notes of denomination higher than Rs. 50/- will be phased out in a time-bound manner. All this money will attract the standard deduction of Bank Transaction Tax and the balance will be treated as a legitimate wealth thereafter. Regulations governing Cash transactions will also come into force.

- The magnitude and time of revenue generation by this system needs to be anticipated. Initially there will be huge deposits of cash of high denomination into banks, and there will be huge inflows of revenue throughout the phase of currency compression.

- The day when currency compression is completed and 50 rupees is the highest denomination in force, all currency money can be assumed to have come back into the system. Thereafter, all subsequent bank transactions will yield Bank Transaction Tax and the Government will receive revenue in a continuous stream, round the clock, round the year.

- The effects of these steps will need to be carefully monitored and fine-tuning action will have to be taken as and where required. Tools of monetary governance will have to be judiciously used to control inflation.

- Post implementation, a strict watch will have to be maintained on Government spending. The highest degree of transparency will have to be brought into all Government spending decisions.
THE EQUITY, SIMPLICITY AND ECONOMY OF THIS SYSTEM ARE SELF EVIDENT AT THE CONCEPTUAL LEVEL ITSELF.

SOME CALCULATIONS ARE GIVEN BELOW TO DEMONSTRATE THE PRODUCTIVITY, CERTAINTY AND ELASTICITY OF THE PROPOSED SYSTEM.

Revenue of Center and States taken together

<table>
<thead>
<tr>
<th>2009-2010 Budgetary Estimates</th>
<th>Probable Tax Collection as per ArthaKranti Proposal [@ 0.7 % Share of the Center + 0.6 % Share of the States]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue Receipts *1</td>
<td>13,95,000 20,93,000 27,91,000</td>
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<tr>
<td>10,26,460</td>
<td>20 30 40</td>
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<tr>
<td>% of Total Narrow Money in Daily Bank Transactions</td>
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</tr>
<tr>
<td>Currency Money</td>
<td>Demand Deposits</td>
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<tr>
<td>8,32,414</td>
<td>6,38,373 14,70,787</td>
</tr>
</tbody>
</table>

Considering a Total Narrow Money of Rs. 14,70,787 *2 Crores - with a moderate assumption of 20 to 40 % of this amount to be active in daily bank transactions.

Note: All values are in Crore Rupees unless otherwise specified.


Another Vindicating Data

For the Year 2009-10 as per Budget Estimates,
Combined Total Tax Receipts of the Central and All the State Governments = **Rs. 10,26,460 Crores** *1

Considering (say) Rs. 75,000 Crores as the Total Tax Revenue of all the Local Governments like Municipal Corporations; the Combined Total Tax Revenues of the Central, State and the Local Governments = **Rs. 10,26,460 Crores + Rs. 75,000 Crores = ~ Rs. 11,00,000 Crores.**

**On a typical day,** RTGS handles about 60,000 transactions a day for an approximate value of Rs.2,700 billion, that is, Rs. 2,70,000 Crores. *2

To make a conservative estimate, considering per day RTGS transactions of Rs. 2,50,000 Crores only and that too for only 300 days in a year, the Total Bank Transaction Tax [BTT] Collected (at 2 %) as per the ArthaKranti Proposal will be:

\[ 2,50,000 \times (2/100) = Rs. 5,000 Crores \text{ per day} \]
\[ 5,000 \times 300 = Rs. 15,00,000 Crores \text{ per year.} \]

Thus, with BTT Rate of 2 %, Total Tax Collection as per the ArthaKranti Proposal exceeds Current Combined Total Tax Collection of All Governments (Central, State and the Local) by ~ Rs. 4,00,000 Crores.

*1 Same as mentioned on the previous page.

From FAQs on RTGS in RBI Website.
The Tomorrow of our dreams…

The implementation of this theory is nothing short of a revolution. It will result in the transformation of the very pattern of economic existence as we know it today. Resistance to change is natural, but with understanding and awareness, it will give way to heartfelt support. This effect will be seen in all categories of people – all except certain cases who are attuned to ‘other income’, and who will not want to even imagine an existence without it.

This system is in the best interests of every citizen of this country, who wants nothing more than a good standard of living, all essentials of life provided for and a fair chance of realising his potential honestly, without discrimination of any sort.

This is what the tomorrow of our dreams will look like…

For the Government, it will mean an exponential jump in revenues, generated separately for and at each level, from the Center to the State to the Municipality to the Panchayat. This is in tune with the concept of "Panchayat Raj". It will mean the permanent banishing of the budgetary deficit. It will mean a budget with no Revenue Plan, only an Expenditure Plan!

It will mean an abundance of funds for all Governmental spending on:

- Repayment of foreign and high cost internal debt. With reduced dependence on external sources, the defence and external affairs ministries can operate with confidence at the international level. This will help establish a powerful image of the country on the international platform.

- Increasing the reach and strengthening of Government machinery to far-flung areas for better administrative control.
- Strengthening Defence Forces, resolving long-standing international disputes in Border States.

- Upgrading and revamping of Police forces to boost their morale and restore internal law and order.

- Addressing long-standing social problems, which have deteriorated into insurgent movements.

- Basic infrastructure like roads, railways, bridges, power, dams and gigantic projects for the welfare of the nation. (e.g. Ganga-Cauvery scheme - this scheme proposes to connect Ganga to Cauvery, which is a possible solution to floods in the northeast and the draught in the south-eastern states.)

- Because of this system, under-developed regions of the country can be developed without burdening the developed regions. This can be achieved by proper allocation of the Central government’s share of Bank Transaction Tax. The tax share allocation dispute of the Eleventh Finance commission can be resolved effectively under the new system.

- Subsidies, which are essential in the interest of social stability and for the benefit of the economically weaker sections, can be given.

- The effective handling of internationally dependent trade like oil imports without passing on fluctuations to the citizens will be possible.

- These steps will greatly promote social harmony and the public image of the Government.

- **The introduction of a comprehensive Social Security scheme, which will ensure social stability and a dignified existence to the weakest of our citizens. The social impact of this proposal is as great and wide-ranging as its financial impact.**

- With currency notes of high denomination no more in operation, the printing and induction of high valued fake currency notes by anti-national elements can be effectively encountered.

- Since transactions are the only source of tax collection, industrial recession and such other conditions will not hamper government revenue. Thus, the government machinery can operate effectively even in such adverse conditions.

- A Corruption-free society will no longer be a utopian dream. We could well be on our way to it.
- When the entire black money presently in existence merges with the legal economic stream, the huge money resource available will boost the purchasing power of the nation manifold. The tremendous purchase potential that exists today together with this boosted purchasing power will stimulate and kick-start trade and industry. It will open many doors for creative ideas and will result in the overall upgradation of the socio-economic standards of the nation.

- Since Democracy is our accepted and favoured system of government, it is the need of the country to hold periodic elections. The government can allocate adequate funds / loans to all candidates contesting elections, whereby they will not need to look to sources of ‘cash’ for their election campaigns.

- When revenue is being independently generated for and at each level of government – local, state and central, citizens will no longer have to vote for a party merely because it is in power at the higher level. Development will no longer be a hostage to whims of the Political parties and the citizen will be able to exercise his fundamental right to vote freely.

- MPs and MLAs who are supposed to be doing a very responsible and difficult job of representing the interests of hundreds of thousands of citizens are paid very poorly compared to equivalent positions in the private sector. Paying them handsomely could reduce their dependence on funding from other sources. The cleansing of the political system will begin and some day we shall see good, honest and socially inclined people coming back to politics.

- The correct image of the Government as ‘of the people, for the people and by the people’ will be restored. The political class will be able to show real achievements to the people rather than unviable promises which need to be broken soon after election. They will have a chance to establish their standing as genuine and efficient leaders of society.

- It will leave the Government and the Political Leadership free to concentrate on Good Governance.

**For the farmer:**

- Efficient marshalling of natural resources by the government will gradually lessen the dependence on monsoons and weather conditions. Increased investment by the Government in large infrastructure projects, good roads, transportation, distribution and storage facilities will improve the efficiency of the Agriculture sector manifold.

- Easy access to credit at low rates of interest will be available to him because of the restoring of his credibility in the banking system. Access to capital will enable access to the latest technology, which
will propel him out of the trap of subsistence farming. His efficiency of production will increase, he will be able to save for the future and even explore different avenues of growth.

- Some day soon, he will discover the entrepreneur within. He will be sufficiently strong to stand up to foreign competition.

- At last, the most important man in the land will see a life of prosperity and self-esteem.

For the businessman:

It will mean a benign business environment where:

- Capital is freely available, because the credibility of a person will be clearly established by the transactions in his account. Banks may no longer need to demand excessive collateral, and credentials for lending.

- Corruption is practically eliminated because the currency and networks of the parallel economy have been destroyed. The transparent and corruption-free taxation system will encourage foreign investment. Businesses, which are beneficial to the nation, can be allowed and the government can prevent those deemed harmful. This foreign investment would prove to be a booster to the national development.

- With uniform taxation throughout the country, price levels throughout the country can be virtually equal. The distorting influence of local taxes is removed so we will have a common market in this country for the first time in history.

- The domestic manufacturing industry would get inspired to compete in the international market. This will make up the import-export imbalance, earn foreign currency and ultimately result in strengthening of the national currency.

- Industry can chalk out long-term policies for the growth of business, without fear of government policies abruptly changing and affecting investment decisions.

- Because of sufficient money supply, the velocity of money circulation will accelerate, ultimately stabilizing the ‘floating money’. The existing credit payment terms of 30, 60, 90 days would eventually be replaced by immediate payment. This would end the common risk of over-extending due to floating money transactions.
- There will be no taxes, direct or indirect, to distort and destroy profitability and viability.

**For the blue-collar worker, it will mean:**
- Vastly increased opportunities of employment in the private sector because of the unprecedented expansion of industry triggered by the growth in purchasing power and in the public sector due to increased Governmental spending in infrastructure projects.
- Industry shifting emphasis from desperate profit making ‘at any cost’ to competing through quality and excellence. This means that the employers will have to shift emphasis from exploitation to welfare measures and incentives for retention of good employees.
- A stable work environment due to the strengthening of local industry. This will facilitate a secure and honest life and eventual prosperity.

**For the salaried class, it will mean:**
- The generation of plenty of employment opportunities as the economy grows. This will reduce insecurity and the stresses arising out of it.
- The rising demand for employees will make employers more caring and benevolent.
- There will be vastly improved savings due to abolition of all taxes. The increased purchasing power will improve standards of living and the spending will drive the economic growth of the country. The salaried employee will realise his objective of an honest, secure and stable life. He can then achieve prosperity through savings and investments of his choice.

**For the Banking system, it will mean:**
- A brand-new business model, which will replace the traditional source of income (from interest rate arbitrage) with income from its share of the Bank Transaction Tax. This will end the excessive importance of lending rates and banks will be able to freely compete globally.
- The major responsibility for implementation and operation of this system. This will call for an unprecedented expansion at all levels and a corresponding increase in investment in infrastructure and technology.

- A major role in credit expansion at the micro level and the resultant stimulation of economy. Banks will be the engines of economic growth and thereby social welfare.

For the senior citizens and economically weaker sections:
- A Social Security system will translate into a dignified and independent existence. This will have a major impact on inter-personal relations and the manner in which old people are treated.

- The availability and accessibility of affordable healthcare to each citizen will mean that the old and the infirm will not be seen as household burdens anymore.

- Economically weak sections of society, the masses of self employed and unemployed people, those who are unable to work due to physical or mental handicaps will all get their rightful place as less fortunate citizens who are the responsibility of society.

For the Youth:
- An economically strong government will be able to make adequate investments for the future, by way of a comprehensive policy for youth. No citizen below 18 will suffer for want of food, clothing, shelter, healthcare and primary education. It will be the policy of the government to provide these as a matter of right to all youth who do not have access to it.

- The setting up of many more Institutions for advanced education in all fields will be possible. This, some day will put an end to donations and capitation fees. All students could be entitled to loans from banks for pursuing higher education of their choice, irrespective of their financial backgrounds and credentials. These would be paid back as and when they start working.

- Due to the availability of ample resources and a corruption-free atmosphere, creative brains will find attractive opportunities within the country to build their career. This would check and even reverse the problem of brain drain.

For Women:
- Women will be direct beneficiaries of the overall development of the economy. The abolition of all taxes, the overall decline in prices and the resulting savings will boost the purchasing power of the
family. Easy availability of drinking water, healthcare, housing and primary education will be ensured by the government. This will improve the living and working conditions of most women dramatically.

- With the destruction of the parallel economy, criminal elements at all levels of society will have to look for legitimate means of survival. As law and order is restored, the social environment will improve and the harassment of women will cease. A strong Social security system will ensure that a woman in adverse circumstances is not forced out on the streets to fend for herself. She will then be given the respect due to her.

- Some day it will be clearly established that woman is not dependent on anyone, that she is not an economic liability. Only then will she come into this world without fear of getting killed!

Some Frequently Asked Questions

1. Because of high illiteracy, is it possible that general public will transact through banks?

Such people can transact in currency of face value less than or equal to Rs.50/-. Since the volume of such transactions is quite less, this is convenient and it is also feasible to waive any tax on such cash transactions. This is in tune with the socialistic philosophy of our country.

2. A vast majority of our population does not use the banking system. How can this proposal work effectively in this situation?

It is estimated that 30% of the country’s population is concentrated in urban areas but uses 70% of the banking system, and vice versa. In the initial period after implementation, this will ensure adequate revenues through urban bank transactions alone. Later, as banks spread out in the rural areas, additional revenues will start coming in and could actually result in the reduction of Bank Transaction Tax Rate.

3. What will be the fate of manpower engaged in present the tax collection mechanism, which may prove to be redundant because of introduction of Bank Transaction Tax?

A well thought out Voluntary Retirement plan will have to be offered to all Government Officials presently involved in the collection of Revenue. Full salary payment upto retirement and above that, all retirement benefits can be offered to such employees. Since there will be a direct curtailment in all expenses except human resource cost being paid presently, this is quite feasible/practicable.
4. Does ‘ArthaKranti’ propose to demonetize Indian economy?

‘ArthaKranti’ does not propose to demonetize the economy. It proposes to limit currency to face value of Rs.50/-. It further proposes not to tax any cash transactions, which will in effect free the weaker sections of society who will transact in low denomination currency, from all tax liability. The affluent class (transactions of which are considerably large) will have no substitute but to go for bank transactions, since it is inconvenient to transact high value transactions in low denomination. A salient feature is that every large transaction will have accountability, which will check corruption.

4. Will Bank Transaction Tax cause a price hike of commodities/services because of multifold tax effect?

In comparison to the existing tax pattern Bank Transaction Tax will have little effect on price rise of commodities/services; rather, Bank Transaction Tax is in tune with accepted principle of Value Added Taxation (VAT) by government, which is now implemented. Bank Transaction Tax has a merit that, it does not require any administrative work or paperwork on account of tax payment. Moreover, in the ‘open market’ era, the price structure of commodities and services is determined largely by natural competition. This will ultimately lead to a shift from ‘affordability’ to ‘quality’.

5. Does Bank Transaction Tax follow principles / canons of taxation?

Yes, the way in which it is proposed here, it does. Please refer to the section *An Ideal Tax System*.

6. How will ‘ArthaKranti’ affect hand loans and small amount dealings?

‘ArthaKranti’ does not restrict any cash transaction within the frame of the decided legal cash transaction limit and denominations.

7. What will be the effect of ‘ArthaKranti’ on Stock / Capital market?

When ‘ArthaKranti’ comes into effect, the Stock / Share market will need to take into consideration the fixed rate of Bank Transaction Tax while dealing. The greatly improved business environment can only mean well for the Capital Markets.
8. Why has the ‘Bank Transaction Tax’ concept not been implemented by economically developed countries so far?

The ‘ArthaKranti’ [Bank Transaction Tax] concept has been designed for India, in India, by an Indian. Nevertheless, looking at the superlative merits of this proposal over all existing tax systems, it is likely that, most countries in the world may adopt Bank Transaction Tax system. It is interesting to note that the father of Tennis superstar Steffi Graff was also penalized for evasion of tax in Germany, indicating that to evade tax is a general tendency all over the world.

Recently, similar proposal has been adapted by a US Senator and has been put up for a feasibility study in the U.S. (Ref - www.theorator.com and http://www.heartland.org/custom/semod_policybot/pdf/15849.pdf.) Another similar-sounding proposal has been put up by an American Professor, primarily aimed at reducing complexities of the taxation system. (www.aptax.com) It is clear that thinkers across nations are beginning to acknowledge the necessity of designing a fresh and radically different method of revenue collection for the Twenty first century.

The most important thing to remember here is that while a developed country like the US will benefit from the simplification of taxation systems, a country like India will undergo a complete transformation because of the eradication of the parallel economy and boost to capital formation process.

9. Will Bank Transaction Tax force people turn to barter exchange, since it is a normal tendency to evade tax?

In the twenty first century, there is a very remote possibility of people turning to barter exchange. It is not only tedious, but merely impossible to establish exact barter exchange standards, because of the variety of range of products and services to be exchanged. However, in a small spectrum barter exchange is possible even today.

The most important part is that the unbelievably small tax rate and painless method of collection hardly leaves an incentive for tax evasion.

10. What will be Bank Transaction Tax's effect on bank interest while disbursing loan to the loan account?

The Bank Transaction Tax will have an effect of certain deduction when loan amount is credited to loan account. To avoid this, loan can be disbursed directly to debtor's expenditure account. It means that capital/term loan will have to be disbursed like cash credit disbursement procedure. However, bank may
have an effect of Bank Transaction Tax when loans are being recovered. It means, except bank share, rest three allocations of Bank Transaction Tax will automatically have debt effect to particular bank account that will be a net revenue loss to the bank. To avoid this, RBI has to consider this effect while deciding prime money lending rate or Bank rate considering 2 % or 3% (the Bank Transaction Tax Rate) as a reference.

11. Trading of all kinds is an important and widespread economic activity. Usually the volumes here are high and the margins low, at times a fraction of 1%. There is almost no value addition happening. Will the Bank Transaction Tax (BTT) on all receipts increase the tax burden on traders?

The BTT effect will be factored automatically into sales price by businesses since it is only natural and logical to protect one’s margins. So for a particular product, there could be a downward revision of say, 30% due to abolition of all current taxes and an upward revision of 2% (notional BTT factored into selling price). This means a net reduction of 28% anyway. And then there is no income tax to be paid at the end of the year.

12. In the present system, loss-making companies do not pay any Income tax. But according to the ArthaKranti Proposal, all receipts will be taxed, irrespective of whether a company is loss-making or profit-making. Is this fair?

It is true that BTT will not distinguish between loss making and profitable companies, just as it will not distinguish between tax-paying entities on any other grounds. It proposes taxing money – not people.

- A thought will have to be given on why companies make losses. Burdensome and complex taxation, unequal markets, corruption, lack of infrastructure, lack of capital are some very valid reasons of business failure. Will it be wrong to imagine that the very phenomenon of real business failure would reduce significantly post-implementation of AK?
- A poorly managed company will fail anyway – despite everything else being in its favor. Since BTT can be easily passed on to the customer, the issue of specifically taxing a loss-making company does not arise.
- Then there is the question of how many companies really make losses and how many show losses to evade tax. Manipulating depreciation and expenses is a routine method to show losses on paper. This is pure evasion, and can only be triggered by high rates of Income Tax and nothing else. Why on earth would a businessman willingly push his Balance Sheet into the Red? Post implementation of the ArthaKranti Proposal, the incentive for tax evasion disappears totally. We could very well see this phenomenon becoming a history.
13. Is it possible to overcome resistance from the current political establishment which is itself steeped in corruption?

Parliamentary democracy is India's accepted form of government. In order to survive and achieve power in this system, it is necessary for political parties to maintain large mass communication apparatus and full time office bearers and workers for expanding and nurturing their popular support bases. These parties also need huge funds for election canvassing and running other campaigns of public interest in order to mobilise as many votes as possible. This 'demand' for political funding extends from the top, to the grassroots level and every leader with political aspirations has to constantly strive to ensure enough funds to keep the party machinery well oiled and ensure survival in the race for political survival and success.

Unfortunately, though Democracy is our chosen method of governance, there is no provision of government funding for it. (e.g. Huge expenditure is incurred on maintaining the Armed forces, Police etc. though they do not generate any revenue. This is done purely because we recognise the need for having strong and well equipped Armed forces.) So while we have a massive, ever present demand for funding to keep our democracy going, the absence of an official funding for the process leaves a gap, which will be filled one way or another.

On the other hand, the lethal combination of a failed taxation system and abnormally high currency denomination drives generation of black money through tax evasion. This black money usually has limited avenues for investment and is forever on the lookout for 'opportunities'. Aspiring politicians know that once in power, they can easily use their office and manipulate the system to dispense favors. Therefore they welcome funds from the parallel economy, and if they come to power, they spend their tenure in repaying their shady benefactors, in cash or kind. This is how demand and supply come together.

This partnership of convenience between the political class and funds from the parallel economy has now 'progressed' to the next step. All kinds of muscle men and figures from the underworld have discovered the benefits of occupying political office and not content with being in the shadows any longer, they have directly taken the plunge and entered politics. And that is how we see the deplorable sight of known criminals sitting in our hallowed houses of legislature.

Permanent resolution of this problem calls for two steps:
1. Eradicating Black Money and
2. Ensuring adequate official funding for the democratic process

It is obvious that implementation of the ArthaKranti Proposal will lead to a complete merger of the 'white' and 'black' economies and eliminate the root causes of black money. The most important outcome is that the generation of more black money in the future will end. It will also be impossible to conduct high value
cash transactions thereafter, and equally impossible to hide shady transactions passing through the banking system.

What remains now is the funding gap - and that provision will have to be made from the National expenditure plan. Fortunately, with the abundant revenues available post-implementation, this will not be difficult at all. The projected calculations are given in detail in the secondary proposal from ArthaKranti which covers 'Political Funding'. Please see The Empowering Democracy Proposal on page 79.

Let us look at some obvious benefits of implementing the ArthaKranti Proposal for Political Funding.

1. Once the Government puts this system in place, serious political parties are assured of official (white money) funding in proportion to the votes which they poll. These funds will enable establishment of professionally managed structures and processes in political parties. This would in turn work to attract genuinely concerned and talented youth to take up politics as a career.

2. According to our proposal, a party which polls less than the minimum limit will not get any funds. This should effectively put an end to frivolous or casual attempts and bring the correct element of seriousness and dignity to the electoral process.

3. The political parties will now have a powerful incentive to actually start addressing genuine issues of the people and garner the maximum number of votes. This is exactly how democracy is meant to work.

4. As the dependence of the political class on the underworld comes to an end, it will be possible to take firm legal action against anti-social and criminal elements, using the correct government mechanisms and laws.

5. The undesirable stranglehold of small local parties on national politics will reduce drastically and it will be possible to have stable governments at the Center which serve full terms and can actually act for the good of the people.

6. Since the funding payout is linked to number of votes polled, it will be in the interest of political parties to maximise poll turnout. High voter turnout is an extremely desirable achievement and a positive step towards a genuine, healthy and vibrant democracy.

14. What will be the effect on the phenomenon of corruption? Can it be tackled effectively?

ArthaKranti Proposal attempts to address the motive behind the corruption and tools for the same (high denomination notes). Implementing the ArthaKranti Proposal will deal lethal blows to the parallel economy by bringing it back into the fold of the Banking System and removing its favored currency of high denomination. Strong governance and the traceability of transactions coupled with these factors will ensure very unfavorable conditions for corruption at the macro level.
Corruption at the micro level is likely to take some time to disappear since it is also linked with moral standards of society. However, a number of steps can be recommended to introduce an element of deterrence and ensure accountability:

- Every bank account could be linked to a unique identification number like P.A.N.
- It can be binding by Law on all Banks in the system to carry out Transaction Audits of all accounts in each branch and submit them periodically to the Government, duly certified by Accounting Professionals.
- Every individual could be required to disclose the source of receipts above a pre-determined limit once a year to the Government, duly certified by Accounting Professionals as required by law.

Through such means, all dishonest and anti-social elements can be effectively tracked and charged under strict laws of the land.
The Role of a Citizen in ‘ArthaKanti’

All that a citizen expects from his government and leadership is:

- A stable environment to live and work.
- Affordable access to Food, clothing, shelter, healthcare, education and capital.
- A clean and transparent political system, which will respond to citizen’s aspirations.
- A strong and fair law-enforcement system and prompt judiciary.
- Reliable ‘safety net’ of a social security system to take care of the old, underprivileged, the unemployed, and all affected citizens in times of natural calamities.

Deep inside, it does not really concern the citizen which political party fulfils his expectations. The purpose of ArthaKanti Pratishthan is to spread awareness of this Proposal horizontally among the people of India and vertically to the uppermost levels of the Government, with the express intention of getting it implemented. Our primary aim therefore is to ensure that this proposal is discussed and debated widely on every possible forum and finally becomes the core of the election manifesto of every political party. Our final objective will be fulfilled only when the Government of India takes up this proposal and conducts an exhaustive study with a view to implement it within a definite timeframe.

We firmly believe that this proposal is a viable, logical and powerful solution to most of India’s socioeconomic problems. We are convinced that there are absolutely no harmful side effects of this proposal on any segment of society. We are sure that it will transform India into a superpower before our eyes, within our lifetime. Most importantly, we are convinced of the need for the honest citizen of India to get involved in this movement and take his destiny in his own hands. It is now or never. If we don’t do this for ourselves, nobody else is going to do this for us.

If you have any queries and suggestions after you have read and understood thoroughly this booklet, you can call up and meet any of the volunteers who are part of this initiative. If you are convinced of the need for this movement, and are willing to join it, WELCOME!
You can do your bit at your chosen level...

**Level 1** - All you have to do is talk about this proposal and its implications for our future to all your friends, relatives, colleagues at work and all those who you feel will be interested in it. You can recommend our website for more details.
**Level 2** - You can get in touch with the nearest volunteers and obtain our books and other material for further distribution. You can help us organise live presentations on this subject at a forum of your choice – it could be your college, your workplace, your club or cultural organisations…

**Level 3** - You can meet us and after sufficient interaction and comprehension begin to conduct live presentations. You can also become an active volunteer and share some responsibility in this movement.

**Level 4** - You can help our vertical thrust by putting us in touch with the most influential people you know – Political Leaders, Industrialists, Businessmen, Media Persons and Journalists, NGOs and Social Activists.

**Level 5** – You can help our effort by raising funds or simply donating whatever you can through the proper channels.

The most important thing that each of us can and must do, is to forward this proposal to our elected representatives at all levels – Local, State and National, at the first possible opportunity. And after they have read and understood this proposal, we must tell them clearly that this is what We, the citizens of India want to happen. We have a vote, and it will only go to the candidate who will work for the implementation of ‘ArthaKranti’.

As is obvious, the purpose of this movement is not to sell soap and make money. Only those who understand the concepts of ‘social responsibility’ and ‘selfless work’ will gravitate towards it and drive it to successful implementation.

That is why we are sure that you will be with us in this endeavour. We await your response eagerly.

Thank You!

“JAI HIND!”
What Every Citizen Must Know…

Banking and Capital Formation, the System of Taxation and Black Money. All these are extremely important aspects of the economic scenario in our country today. Through the following three short modules, let us try to understand them clearly.

The System of Banking in India

What is Capital?
The term ‘Capital’ denotes a resource or a combination of resources deployed for ‘Creation of assets / wealth.

What are the various Forms / Sources of Capital?
Money, Human Resources (Skills, Concepts, Labour etc.), Natural Resources (Land, Material etc.) are examples of various forms of Capital.
In the modern economy, Money has assumed greatest importance because it has evolved as the universally accepted medium of exchange, measure of value and store of wealth.

What are the various Forms of Money?
Money can be broadly classified as follows:
M1 or Narrow Money – This has two components, Currency Money and Demand Deposits (withdrawals by cheques). This is the money that can be exchanged without loss of value and time, i.e. Money with the highest liquidity.

\[ M_2 = M_1 + \text{Saving Deposits with Post Office} + \text{Time Deposits} \]

\[ M_3 \text{ or Broad Money} = M_2 + \text{Medium and Long Term Time (Fixed) Deposits with Banks} \]

\[ M_4 = M_3 + \text{Total Deposits with Post Office and Banks} \]

How is Narrow Money generated?
Coin Money: Coins of up to Rs. 5 are minted by Government treasuries as per government directives. This does not need any security.
**Currency Money:** The Reserve Bank of India determines the quantity required based on market demand and brings into circulation currency notes backed by security in the form of either Central Govt. Securities or Foreign Exchange Reserves.

**Bank Money / Demand Deposits:** Money generated due to credit expansion is Bank Money. Bank money is created from Currency Money circulating through the mechanism of credit expansion in the Banking System. The ratio of Bank Money to Currency Money is also the best indicator of Capital formation taking place in the economy.

**How is Bank Money created?**

Let us try to understand credit expansion via an example:

Suppose a Bank "A" has a deposit in the name of a person P. Assuming a minimum cash reserve ratio of 10%, the bank will keep Rs. 200 towards this cash reserve requirement and create derivative deposit to the extent of Rs. 1800, which represents the excess reserves with the bank. It is these excess reserves the bank uses to give loans and advances to its customers.

Let us say the borrower, Mr. M, in repayment of some business obligation gives the cheque of Rs. 1800 to Mr. N who has a deposit account in a bank "B". Bank B now receives Rs. 1800 and can give Rs. 1620 as loan/advances.

Continuing the process likewise, we can see with the help of the table below, that the original primary deposit of Rs. 2000 results in creating a derivative deposit of Rs. 18,000, which is ten times of the original excess reserve of Rs. 1800.
Table: Credit Expansion through Banking System

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<th>Cash Reserves</th>
<th>Loans (Derivative Deposits)</th>
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<td>.</td>
</tr>
<tr>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Eventually</td>
<td>20000</td>
<td>2000</td>
<td>18000³</td>
</tr>
</tbody>
</table>

1 – Original Primary Deposit in the Currency Form  
2 – Original Excess Reserves  
3 – Total Capital Formation through Credit Expansion with original Primary Deposit of Rs. 2000

Credit Multiplier = Volume of Derivative Deposits / Original Excess Reserves  
In our example this would be 18000/1800, i.e. 10  
A higher cash reserve ratio would lead to a lower Credit Multiplier and vice versa.

Current Scenario: A Statistical Look  

Currency Money = Rs. 8,32,414 Crores  
Bank Money = Rs. 6,38,373 Crores  

The figures clearly tell that the Bank Money is less than the Currency Money. Because Bank Money is scarce; money itself has become the most valued commodity. The economy forever faces a scarcity of money.
**Why is Bank Money important? What is the importance of Capital formation?**

The role of a banking system can be compared to the blood circulation system within the human body. Just as blood vessels carry essential nutrients to all the parts of the human body, the banking system is expected to supply "money capital" to all eligible and needy individuals and the institutions.

The role of Capital in the economy is analogous to that of the blood in the human body. Just as the blood carries the required nutrients to the individual cell, capital promotes productivity in the economic system.

Any disorder in the circulation system, that is, an undesirable change in the quality and quantity of blood, leads to manifestation of a disease in the entire body.

Similarly, a flawed capital creation and distribution system has an equally debilitating effect on the economic system.

It is a widely held belief that the currency printed by the Government is equivalent to/backed by the gold reserves and securities held in the Treasury. The surprising truth is that this practice has been discontinued since 1956 and the decision to print more currency is since based on the budgetary deficit and statistical models involving various indices like the Wholesale Price Index, Consumer Price Index etc. (developed by the R.B.I.) which connote the demand for money in the economy.

There is a fundamental difference in the effect of these two types of money – Money that is backed by Credible Reserves and Money created on the basis other factors. In that sense, money that has come into existence merely on the strength of the statutory powers of the Government is less credible than say, a cheque backed by an adequate deposit in the account, or a loan granted against a tangible asset. When money is printed without the blocking and backing of equivalent assets, it has a direct inflationary effect on the economy.

**Why is there inadequate Capital Formation in the Indian Economy?**

- The proportion of banking transactions to cash transactions in India is 20:80 approx. as opposed to a ratio of 85:15 in the developed nations. This naturally leads to inadequate capital formation.
- The number of customers having Credit History is very small.
- Very low penetration of banking practices in vast rural areas due to various reasons such as illiteracy, complexities and a traditional preference for cash transactions.
- To address the growing menace of NPAs, banks adopt a more cautious approach. They demand more security. Hence the common man cannot get access to loans, which leads to scarcity of capital. This then leads to the reduction in capital formation.
- It is clear that the Banking System in India is grossly underused and therefore weak.
Why is the Banking System in India underused?

- Ease of cash transactions due to the availability of high denomination currency notes.

The table below displays the disparity between India and Top World economies as regards ratio of Per Capita Income to Highest Denomination.

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita Income (approx.) (A)</th>
<th>Highest Denomination (B)</th>
<th>A÷B</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>$ 30,000</td>
<td>$ 100</td>
<td>300</td>
</tr>
<tr>
<td>UK</td>
<td>20,000 £</td>
<td>50 £</td>
<td>400</td>
</tr>
<tr>
<td>Japan</td>
<td>40,000,000 ¥</td>
<td>10,000 ¥</td>
<td>400</td>
</tr>
<tr>
<td>India</td>
<td>Rs. 37,000</td>
<td>Rs. 1,000</td>
<td>37</td>
</tr>
</tbody>
</table>

Not just the high denominations but also their distribution leads to lesser and lesser use of the Banking System. Please see the pie chart shown below. Because of the easy availability of High Denomination Currency in abundance, the trend in India is to avoid bank transactions. This practice has a very adverse effect on Credit Expansion Capability of economic system and is a major hindrance in adequate Capital formation.

- Frequent changes in policy like interest rates, taxes etc. lead to everyone preferring cash transactions rather than banking transactions.

Pie Chart showing the Currency Denomination Distribution in terms of Contained Value. Data for the Year 2009-2010.
The System of Taxation in India

It is the primary duty of a Government to provide a stable, peaceful and secure social and economic environment to its citizens. Every Government needs a source of revenue to enable it to discharge its duties of governance effectively. The logical source of this revenue is the citizens of the country that receive the benefit of the efforts of the Government. This is why the System of Taxation has been accepted over the centuries as a tried and tested method of raising revenue for the business of governance.

The Indian civilisation is considered to be one of the oldest on the earth. There exists in our country a storehouse of knowledge and thought on a wide range of subjects, written thousands of years ago. There are a number of highly respected works on the art and science of Governance, Public Administration and Management of society. Here is what one of them says about a System of Taxation:

यथा मधु समादते रक्षान् पुष्पाणि षटपदः ||
तद्दर्शान्मनुष्येष्य आद्यादविहिस्या ||
**Vidur Niti (the Mahabharata)**

*Meaning – “Just as a honeybee extracts the precise amount of nectar that it needs from a flower without hurting or damaging it, a fair system of taxation should be able to collect revenue without causing pain or violence to the taxpayer citizen.”*

In recent history, eminent economic thinkers from the USA and Europe have contributed significantly to this subject and what they have to say goes hand in hand with what is stated in the Sanskrit verses mentioned above. Given below are the Canons of Taxation as laid down by Western experts and a brief analysis of how the Indian System of Taxation compares with them.

**An Ideal Tax System**

**An Ideal Tax System is based on the canons of - equity, productivity, simplicity, certainty, elasticity and economy.**

**A. The Canon of Equity:**
Every person should have to pay the taxes to government in proportion to his "ability to pay". This means the rich should be taxed more than the poor. In accordance with this canon, the taxation gets divided into direct tax (tax on income) and indirect tax (tax on consumption). Canon of Equity implies that the direct tax should always be more than the indirect tax.

**The Indian System of Taxation:**
The current taxation system has a ‘Direct Taxes: Indirect Taxes’ ratio of ‘34%: 66%’ in terms of contribution to revenue. We can say that taxes on income and wealth are direct taxes while those on commodities and services are indirect taxes.

Direct taxes contributed 29% of all the tax revenue of Union and State governments in 1960-61. By 1990-91 the proportion had fallen to 16%. The new economic policy led to rise in this proportion to 34% in the budget for 2007-2008.

Faced with rampant evasion of Income Tax and Wealth Tax, successive desperate Governments resorted to the levying of more and more Indirect Taxes on commodities and services for revenue generation which is regressive in nature. This has led to an extremely unjust and backbreaking burden on every citizen irrespective of his capacity to earn and pay. This is a direct violation of the Canon of Equity.
The Effect:
Taxing commodities of all types – raw materials, semi-finished goods, spare parts, components and finished goods resulted in a high cost of production and subsequent high prices. Therefore local industry is rendered uncompetitive in global competition.
Inequitable Taxation System
B. Canon of Productivity:
According to this canon, the tax should yield sufficient income to government.

The Indian System of Taxation:
There are many direct taxes levied in India. But the Union taxes remain restricted to non-agriculturists and non-agricultural income, wealth, inheritance or capital gains. As the States also, do not levy any significant taxes on agricultural incomes, direct taxes are restricted to a few non-agriculturists. Services were not taxed till recently and taxation is restricted to a few services. There is thus a very narrow base of taxpayers, which is unable to yield adequate revenue.

The persistently growing revenue deficit of all levels of government - central, state and local, over the last few years, is a clear indication that the current taxation system has failed miserably in its purpose of productivity.

The Effect:
A feeble Government is incapable of inspiring respect and cooperation among its citizens because it fails to address their basic concerns. A Government perpetually starved of funds resorts to desperate and dangerous policy decisions which compromise the short and long term interests of its citizens and places the country in an economically vulnerable situation.

C. Canon of Simplicity:
According to this cannon, every tax should be simple so that the taxpayer can understand its purpose and implication without the help of experts.

The Indian System of Taxation:
The current revenue requirements of three levels of governance, i.e. center, state and local, are collected via taxes at these three levels.

The Union Taxes as laid down in List I, Seventh Schedule of the Constitution, are as under
1. Taxes on Income Other Than Agricultural Income
2. Corporation Tax
3. Customs Duties
4. Excise Duties except on Alcoholic Liquors and Narcotics Not Contained in Medical or Toilet Preparations
5. Estate and Succession Duties other than on Agricultural Land
6. Taxes on the Capital Value of Assets Except Agricultural Land; of Individuals and Companies
7. Stamp Duties on Financial Documents
8. Taxes Other Than Stamp Duties on Transactions in Stock Exchanges and Future Markets
9. Taxes on Sale or Purchase of Newspapers and on Advertisements therein
10. Taxes on Railway Freight and Fares
11. Terminal Taxes on Goods and Passengers Carried by Railways, Sea or Air
12. Taxes on the Sale or Purchase of Goods in the course of Inter-State Trade
13. Tax on Services

Taxes within the jurisdiction of the States as given in List II of the Seventh Schedule are as follows:
1. Land Revenue
2. Taxes on the Sale or Purchase of Goods Except Newspapers
3. Taxes on Agricultural Income
4. Taxes on Land and Building
5. Succession and Estate Duties on Agricultural Land
6. Excise on Alcoholic Liquors and Narcotics
7. Taxes on Entry of Goods into a Local Area
8. Taxes on Mineral Rights subject to any limitations imposed by Parliament
9. Taxes on the Consumption and Sale of Electricity
10. Taxes on Vehicles, Animals, Boats
11. Stamp Duties except those on Financial Documents
12. Taxes on Goods and Passengers Carried by Board or Inland Waterways
13. Taxes on Luxuries including Entertainment, Betting and Gambling
14. Tolls
15. Taxes on Professions, Trades, Callings and Employment
16. Capitation Taxes
17. Taxes on Advertisements Other Than those Contained in Newspapers
ArthaKranti Proposal
Taxes at the Local Level:
Octroi, Property Tax, Other Local Taxes and Duties
The complex nature of tax laws gives more powers to the tax authorities. They can issue orders interpreting the tax laws differently in different cases. This leads to litigation and delays in collecting taxes. The taxpayer is treated with suspicion and honest taxpayers suffer. Even if the orders of tax authorities prove wrong, they (authorities), lose nothing. The taxpayer loses time and money in litigation. After the government has levied a tax, changes become necessary to plug loopholes or to create desirable incentives or disincentives. For example, Income has to be defined unambiguously for tax purpose. Exemptions, deductions and rebates are to be prescribed, and surcharges are to be introduced for specific purposes. A schedule of tax rates is to be prescribed. Because of all this, it becomes difficult to know how much tax a person is supposed to pay. This is a direct violation of the Canon of Simplicity.

Problems faced by the Revenue Collection System:
Due to the complex nature of the tax system, validation of the information furnished by the taxpayers becomes impossible. Assessment gets delayed due to increased workload on the staff, thereby restricting detailed scrutiny to a small proportion of assessees. This encourages understatement of income or non-filing of tax returns.

The Effect:
The current taxation system is complex beyond comprehension and makes it a must for the taxpayer to seek assistance of experts to understand its implications. It arouses fear in the minds of citizens and is the single largest factor that drives honest people away from the White Economy. This system is the root cause behind the generation of Black Money and the rise and establishment of the Parallel Economy. This complicated tax structure has also led to corruption in the Revenue collection systems and mountains of tax-related litigations piling up and overloading the judicial system. There are about 30,00,000 IT related cases pending before the courts today.

D. Canon of Certainty:
This means tax payable should be certain and not arbitrary. It means the tax payer should know in advance how much tax he has to pay, at what time and in what form. If the tax is "Certain", the tax official cannot exploit the taxpayer in any manner. Because of this the taxpayer as well as the government benefit, as the taxpayer can make the provision for tax in advance and the government also will be able to estimate accurately the amount of revenue, which is going to accrue to it from the tax.
The Indian System of Taxation:
The current taxation system produces a state of permanent confusion in the minds of the taxpayer due to a multitude of tax points, multiple tax rates, multiple exemptions and the ever-shifting governmental policies. A person earning income from more than one source may be subjected to Union Personal Income Tax, State Agricultural Income Tax and Profession Tax. If he holds property, he may be subjected to Union Wealth Tax, State Agricultural Wealth Tax, Land Revenue and Local Property Tax. The goods, which we buy, may have reached us after paying Customs Duty, Excise Duty, Sales Tax and Octroi. It is doubtful whether even a tax consultant will be able to tell us the NUMBER of taxes levied in India, let alone naming them all.

Every budget adds some provisions and deletes some. Tax rates are frequently changed. New concessions are added and existing concessions are withdrawn. New taxes are levied and existing taxes are abolished. Long term planning becomes impossible under such conditions. This is a clear violation of the Canon of Certainty.
The Effect:  
This state of affairs is a direct fallout of the periodic bouts of tinkering with the Taxation System by the Government. It is the uncertainty of not knowing what one’s liabilities are which drive individuals away from the system.

E. Canon of Elasticity:  
The taxation system should provide government with an increased income with the increase in national income of a country. The taxation system should also yield more income when the government expenditure goes up at a time of emergency or crisis. It should be possible then, to obtain more income with slight increases in the rates of taxes. By implication, elasticity also implies that the tax rate should be capable of being revised in the downward direction when the economy is confronted with recession and decline in economic activity.

The Indian System of Taxation:  
The current tax regime due to its complexity and painfully high levels of tax rates has lost its elasticity. All further hikes in tax rates merely result in more people finding means of evasion and slipping out into the parallel economy. The system has become so inelastic that even a large change – if that can be imagined at all – in the tax rates will not yield much in case of a National Emergency. This is a contradiction of the Canon of Elasticity.

The Effect:  
The inelasticity of the system is one more reason that forces the Government to resort to Indirect Taxation for revenue generation.

F. Canon of Economy:  
According to this canon, the tax collection system should be able to bring the maximum possible part of the collected revenue into government treasuries. In other words, the cost of tax collection should be minimum.

The Indian System of Taxation:  
The cost of collecting Taxes forms a large percentage of the amount collected itself! The unwieldy revenue collection machinery is a waste of infrastructure and clearly violates the Canon of Economy.

Examples of Tinkering of the Taxation System  
In addition to all these violations, there are completely irrational and arbitrary decisions taken from time to time, which further confuse and complicate the process of taxation. A new tax might be introduced without studying whether it is consistent with the existing tax system. For example, a tax on bonus issues was levied to supplement the tax on dividends. It continued after the latter was abolished. The Gift Tax
was supplementary to Estate Duty, but continued after the Estate Duty was abolished. It is now withdrawn. Tax concessions are given to encourage savings, but wealth accumulated out of savings is taxed. Concessions for savings result more in diverting savings from one form to another rather than increasing total savings. When investment in National Savings Certificates was made eligible for tax concessions, bank deposits of same maturity and paying equal or even less interest were not considered for tax concessions. Further, concessions for savings benefited more, the richer persons subjected to higher rates of taxes; until the government introduced tax rebate in place of deduction.
CONCLUSION

It is clear from the brief analysis given above that Tax System in India remains limited in scope, irrational in design and ineffective in collecting sufficient revenue. The biggest reason for this is that the system is not designed to suit our requirements. It has evolved over decades of Governmental Tinkering and the Utter Lack of Comprehension of its Results.

The tax revenue of the Union Government formed about 10% of the GDP in 1990-91 and a little more than 8% in 1998-99. A significant part of this goes to the states by way of share in Union taxes, which leaves very little for the Center. It is the crying need of the hour to reform the System of Taxation in India.
Imbalanced Tax System
**Understanding Black Money**

A number of Commissions have been constituted from time to time to study the phenomenon of the black money-based parallel economy. The various suggestions put forth in their reports like - VDIS, demonetisation, seizure of wealth and more harsh legal provisions to ensure compliance - have proved ineffective. Unfortunately, no viable and permanent solution has emerged.

Let us try to understand quickly the basic concepts of Black Money and the Parallel Economy that it spawns.

**What is Black Money? How is it created?**

Money that has been diverted out of the Legal Economy is called Black Money. Money gets diverted out of the Legal Economy from three streams: Government Revenue (Taxes), Government Power (Licenses and Permits) and Government Expenditure (Subsidies). Out of these, the flawed taxation system is the biggest cause of generation of black money, today.

**Who needs and uses Black Money?**

Individuals who want to conceal all or part of their income primarily for tax evasion, and other reasons like the illegitimate/immoral/criminal nature of their occupation or a perceived requirement of ‘cash’ for transactions with similar persons, create the demand for ‘Black Money’ or ‘cash’, as it is generally called. For example, a builder demanding part payment for a flat in ‘Cash’, a government Official demanding ‘Cash’ in lieu of favors granted out of turn, a Politician collecting election ‘funds’ for his Party etc. The irony here is that both honest and dishonest people contribute to the relentless growth of the parallel economy. ‘Black Money’ is created by honest people struggling for their survival and used by dishonest people for all kinds of unlawful activity.
How is Black Money stored?
‘Black Money’ or undisclosed wealth can be stored in the form of Land, residential property, gold etc. held by proxy (Benami), but the most liquid form is hard currency or undisclosed bank accounts. High denomination currency notes are the most popular and preferred form for hoarding ‘Black Money’ for the obvious convenience.

How and why is Black Money bad for the economy – in the short term and in the long term?
There is no real difference in the purchasing power of a ‘White’ and a ‘Black’ Hundred rupee note. However, White Money leaves footprints in Banking and other legitimate systems of economic governance. Black Money is invisible. Since it has no record, it can move freely outside the system without fear of accountability. Because of its ability to appear and disappear without leaving footprints, Black Money is the perfect vehicle for all illegal and immoral transactions. It is the official currency of the Politico-Criminal nexus, the corrupt Bureaucracy, businessmen of all sizes struggling to compete and survive in an extremely uncertain business environment. It is the preferred commodity for extortion, kidnapping ransoms, bribery, purchase of arms etc. for terrorist or criminal activities. These uses of Black Money simply denote the obvious and short-term impact on the White Economy.
The really dangerous long term effect is the creation of a ‘Parallel Economy’. This is an entirely independent, self-sustaining economy, which has all the paradigms of the real, that is, ‘White’ economy, except it uses ‘Black Money’ as its currency. As more and more taxes are slapped on the helpless taxpayers, more and more people are forced out of the ‘White’ economy into the ‘Black’ or Parallel economy. The Parallel Economy thus grows constantly and the White Economy shrinks simultaneously. The Government falls short of revenue and increases more and more taxes in desperation, finally turning to indirect taxation as the only viable ‘answer’ to non-compliance. The terrible debilitating effect of Indirect Taxes on essential commodities and services turns up the heat on all segments of society and they turn to the Parallel Economy in increasing numbers for survival.
At some point many years ago, the Parallel Economy overtook the White Economy and today is estimated to be many times larger and growing. Today it has overwhelmed all legitimate systems of governance. It is nearly impossible to get anything done in a government office by legitimate means and channels. The same office moves with great efficiency as soon as ‘Cash’ is flashed.

Figures in 1998:
Black Money: 11 lac crores increasing at 13 %
White Money: 8.5 lac crores increasing at 7.5 %
Source: “Indian Economy”, By Ruddar Datta

The all-pervading influence of Black Money has a disastrous impact on the social fabric of the country. Hard-working citizens are forced to compromise on their natural urge to be honest and some day, to disconnect emotionally from our country. They start looking at migration as the only solution to all their
woes. Those who do not have that option, decide that they have to be realistic and ‘join the trend’ in order to survive. As seen above, the parallel economy does not distinguish between honest and dishonest citizens. Instead, it forces everyone to his/her knees and makes them play to its own set of rules. Moral degradation results in a painful increase in stresses and leads to an atmosphere of general insecurity and inadequacy.

**Can Black Money be eliminated? How?**

There have been several half-hearted efforts based on half-baked theories, by various governments in the past. The notable ones being the attempts to phase out high denominations of currency. The “ArthaKranti Proposal” on the other hand, is a Comprehensive and Designed System that can effectively eliminate the entire Parallel Economy at one stroke and rejuvenate the White Economy beyond recognition. **For the first time in the history of Independent India, a logically designed, custom-made system of Taxation, which completely adheres to the canons of taxation and promises far reaching social impact, is available.** The question before us is not ‘How can Black Money be eliminated?’ The real question is ‘How soon?’
Empowering Democracy

Current Reality

- To run a democracy effectively, there is a need to have a healthy multi-party system, which focuses on the truly relevant issues and solutions to them. This needs dedicated talent, effective leadership, and adequate funds.
- Unfortunately today the parallel economy is the main source of manpower, leadership and funding for the political system. Hence the Indian Democracy, at all levels, is at the mercy of black money power.
- It is convenient but incorrect to say that, “This is the state of affairs because all politicians are corrupt”
- The fact of the matter is that even after 60 years our political independence, we have not found ways to fund the political system through legal, governmental resources
- The increase of criminalization of politics is also a direct consequence of this state of affairs. Politics is not looked upon by Most of the Talent Pool of the Country as a vocation of choice due to this reality. This makes a bad situation worse.
- A Vitiated Political System has direct negative impact on the law & order, social security and governance systems of the country.

The Empowering Democracy Proposal

- Implementation of the ArthaKranti Proposal will lead to the government having enough revenues to make legal/ budgetary provision of funds for the political system.
- Implementation of the ArthaKranti Proposal by its very design leads to eradication of black money
- Provision for funding the political system by funding the political parties on one hand and giving healthy monthly allowances to the elected representatives on the other hand
- The proposal for funding the political parties:
  - Provision for funding of the political parties based on a per person amount for the entire population for a five year period. Say Rs. 100 per person.
  - Total population is to be considered while making this provision as the political system should cater to the needs of the entire population and not just the voters
  - The actual fund availability will be in proportion to the actual voting percentage
  - This funding will be available only to Registered Political Parties securing more than a certain minimum percentage of votes cast
- Sample Calculations for Funding of Political Parties
Consider for example, the Case of Central Government. The provision of Rs. 11,500*0.6 = 6900 Crores should be distributed among political parties in proportion to the votes cast as shown below:

<table>
<thead>
<tr>
<th>Political Party</th>
<th>Percentage of Votes Cast</th>
<th>Government Fund Allocated for a Certain Period (Five Years) (Crore Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>30</td>
<td>6900 * 0.30 = 2070</td>
</tr>
<tr>
<td>B</td>
<td>25</td>
<td>6900 * 0.25 = 1725</td>
</tr>
<tr>
<td>C</td>
<td>20</td>
<td>6900 * 0.20 = 1380</td>
</tr>
<tr>
<td>D</td>
<td>15</td>
<td>6900 * 0.15 = 1035</td>
</tr>
<tr>
<td>E</td>
<td>10</td>
<td>6900 * 0.10 = 690</td>
</tr>
<tr>
<td>F</td>
<td>Less than 5 %</td>
<td>NO Allocation</td>
</tr>
</tbody>
</table>

- The proposed allowance for elected representatives
  - For MPs: Rs. 10 Lakh per month
www.arthakranti.org  Our Mission: India’s Economic Rejuvenation

- For **MLAs**: Rs. 5 Lakh per month
- For **Corporators**: Rs. 1 Lakh per month
- For **Village Development Officers**: Rs. 10,000 per month

The expenditure as per the above provision will be:

<table>
<thead>
<tr>
<th>Government Level</th>
<th>Computation Details</th>
<th>Total Provision</th>
<th>Provision as a % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central</strong></td>
<td>785 (MPs) <em>10L</em>12</td>
<td>942 Crores</td>
<td>(942/6,14,500) *100 = <strong>0.15</strong></td>
</tr>
<tr>
<td><strong>State</strong> (e.g. Maharashatra)</td>
<td>366 (MLAs) <em>5L</em>12</td>
<td>220 Crores</td>
<td>(220/50,000) *100 = <strong>0.44</strong></td>
</tr>
<tr>
<td><strong>Local</strong> (e.g. Aurangabad)</td>
<td>100 (Corporators) <em>1L</em>12</td>
<td>12 Crores</td>
<td>(12/250)*100 = <strong>4.8</strong></td>
</tr>
</tbody>
</table>

**Effects of the Empowering Democracy Proposal**

- **Assured clean funding will mean decreased dependence on black money.** This will lead to decreased dependence on criminals.
- **Politics can be truly professionalized** as people with the talent and dedication will take it up. This will in turn mean that politics will be focused on real issues & national interests.
- Since the funding to a political party is determined by the percentage share of votes cast, and there is a minimum cut-off limit, there will be a decrease in importance of local parties in national politics. This will lead to increased stability of government. This will lead to improved functioning & decision making.
- Improved governance and improved law & order will be a natural outcome.
- Percentage of votes determines the funding therefore political game playing will decrease & focus will be on national issues. This will lead to an empowered democracy.
- Increased presentation of issues and policy choices will have to be done by all political parties. As a result the general population will get educated of real issues and cast votes accordingly. This will lead to an empowered democracy!
Restoring Social Security

Effect of the ArthaKranti Proposal and Social Security Allowance

Current Reality

- While a limited section of the population is enjoying the opportunities and benefits of globalization, a huge mass is unable even to survive with dignity

- There is the undeniable chasm between the Haves and Have-nots, being widened by the pressures on the national economy due to globalization.

- The consequences of this extreme socio-economic disparity are on the rise (farmers’ suicides, naxalism, terrorism, divisive tendencies, weakened law and order, rampant corruption)

- The governance at any level is unable to take care of the real downtrodden, primarily due to lack of revenue

- Noble intentions of Social Welfare, even well-meaning laws (for e.g. Child employment related) can not be brought into reality

- At the bottom of the socio-economic pyramid, there is a very limited purchasing power available. The various subsidies do not reach the intended beneficiaries. All such Social Welfare schemes tend to get bogged down by corruption. And these indirect schemes do not address the crippling reality of inadequate capital/credit supply to the poor class of the economy.
The Social Security Allowance (SSA) Proposal

- A Social Security Identification (SSID) is issued to every Indian Citizen

- To begin with, the beneficiaries of the Social Security Allowance Scheme will be all adult citizens of India beneath the poverty line

- For every deserving adult, a fixed amount (as per DA), Social Security Allowance, will be credited every month into a unique bank account linked to the SSID
  - Say Rs. 2,000/- pm -- Based on Food (Rs. 900/-) + Shelter (Rs. 500/-) + Clothing (Rs. 300/-) + Health (Rs. 300/-)

- Government will remove all non-merit subsidies thus freeing up revenue to pay the Social Security Allowance to the deserving citizens

- All Social Security Allowance beneficiaries can get a credit of up to Rs. 50,000/- from the banks

- Uniform implementation throughout the country

- Restrictions to ensure correct usage
  - No rights to SSA beneficiaries on income from hereditary property
  - SSA amount can not be used as a security against any other loan

Calculations

In the first phase, SSA Scheme will be implemented for people below poverty line.
Number of people below poverty line (monthly income below Rs. 300/-) is 30 Crores
Total monthly expenditure = Rs. 2,000 * 30 Crores
= Rs. 60,000 Crores
Total yearly expenditure = Rs. 60,000 Crores * 12
= Rs. 7,20,000 Crores
Excluding current expenditure of the Government on account of subsidies of Rs. 1,50,000 Crores, additional yearly expenditure will be Rs. 5,70,000 Crores. Considering current national income of Rs. 40,00,000 Crores, SSA Scheme outlay comes out to be ~15% of the national income.

**Effects of the SSA Proposal**

- Immediate answer to farmers’ suicides
- An end to the fight for existence, leading to decreased rebellious tendencies, extremism, increased peaceful creativity
- Decreased opportunities for corruption will mean that the Benefits of Social Welfare Schemes reach the Intended/Targeted Population
- Increased credit availability to last citizen – this is the real availability of micro-credit
- Increased use of banking system and increased credit registration and establishment of credibility of every citizen
- Increased money through banking system across the nation
- Increased purchasing power implies increased demand for goods. At the first instance, more than 30 Crore consumers of basic needs added to marketplace. This will lead to increase in demand and hence increase in the employment
- Increased Purchasing Power and funds in rural households will mean increased desire for and ability to build better homes. There will be a boom in the rural construction leading to benefits like decreased homelessness, increased demand for steel, cement and increased employment.
- This will decrease the disparity of growth rates in rural and urban areas
- Decreased migration to cities from hinterland, increased opportunities in rural area. This implies decreased pressure on urban areas and will in turn also lead to increased quality of life in the cities.
- This will lead to a balanced development of the entire nation
- Basic quality of life is assured for every citizen. Hence India can truly be called a Developed Nation
- Effective implementation of child welfare laws and schemes
- Overall wellbeing will be the focus leading to reduction in social / religious tensions
## Contact Information - Office Bearers and Volunteers of ArthaKranti Pratishthan

### AURANGABAD

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<th>Contact Information</th>
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### PUNE

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### MUMBAI

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### NAGPUR
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<td>ASHOKRAO RANE</td>
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