

“ARTHAKRANTI PRATISHTHAN”
MISSION: INDIA'S ECONOMIC REJUVENATION

An Economic Revolution Like a miracle

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Background of Revolution

One more budget has come and gone. The public mind is still reeling under the month long bombardment of hectic financial reporting, endless debates in the media and press about the impact of this tax or the other, and learned articles by the kilo written by the cream of our economic intelligentsia.

The Government, the supreme ruling body is the poorest and most debt-ridden organization in this country. The lack of resources is crippling the entire legislative, administrative and judicial apparatus. The fiscal deficit refuses to go away and the gap between revenue and expenditure continues to widen.

Fifty-eight years after Independence, the number of people and business entities with PAN numbers is less than *four* percent of the population. The complex taxation system has frustrated everybody from the layman to Taxation experts. Every attempt to scrape up some more revenue by imposing new taxes is driving more and more honest citizens to the conclusion that 'Evasion equals Survival'.

This perceived need for evasion is encouraging dishonesty and breeding contempt for the law of the land. The damage caused to the moral fabric of society is frightening. What we see around ourselves is the result of a widespread, all encompassing epidemic of corruption, across social divides of every kind, afflicting all, sparing none.

What can be done to arrest this downside? How can we ever regain the strength of character that our forefathers had? Most importantly, how can we nourish and build our economy to a position of solvency and self-sufficiency? Can Malaria be treated with a cold tablet? Can Cancer be cured with an antacid? Why then are we still trying to tackle new diseases with outdated medicines?

I believe that it is possible to devise a solution fundamentally different, starting afresh from the ground upwards, based on a clear vision of the world as it stands *today*. It is necessary to design a solution keeping in view *our* society, *our* economy and *our* present.

Banking, Capital Formation, the System of Taxation and the existence of Parallel Economy

These are extremely important aspects of the economic scenario in our country today. It is all very well known that deposit in a bank has a multiplier effect and the entire banking system is based on the concept of credit creation with appropriate safeguards. The statistical data and other relevant information however proves that credit creation in our country is very poor

Current Scenario: A Statistical Look

As per the data available on the money supply, from www.rbi.org.in,
Currency Money = Rs. 3,35,844 Crores
Bank Money = Rs. 2,40,658 Crores

The figures clearly show 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.

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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. It is observed and can be proved with tangible figures that the banking infrastructure in India is very poor in terms of effective operations. Even the cooperative banking net in taluka and district levels have taken the role of the erstwhile money lender and the availability of risk capital is very poor. The bank loans are available mostly against a tangible security rather than the credibility of the customer.

Reason for the under utilization of the Banking System in India:

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

Country	Per Capita Income (approx.) (A)	Highest Denomination (B)	A÷B
USA	\$30000	\$100	300
UK	18000 pounds	50 pounds	360
Japan	40,00,000 yen	10,000 yen	400
India	Rs. 22000	Rs. 1000	22

Because of the easy availability of High denomination currency, 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.

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:

SOURCE – “VIDUR NITI”(The Mahabharata)

“Yathaa Madhu Samaadatte rakshan pushpaani shatpadaaha;
Tadvadarthaan Manushyebhya Aadadyada vihimsayaa !”

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. Unfortunately none of the canons of taxation have been properly fulfilled although periodical

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attempts have always been made. It is not my intention to go into these details which are very well known to the professionals.

The complex nature of tax laws enacted by the Central Government, State Governments and the local authorities give more powers to the tax authorities who have been issuing orders interpreting the tax laws differently in different cases, leading to litigation and delays in collecting taxes. The taxpayer is treated with suspicion and honest taxpayers suffer. The taxpayer loses time and money in litigation.

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.**

CONCLUSION

One has therefore to come to a conclusion that the present system of taxation in India remains limited in scope, irrational in design and ineffective in collecting sufficient revenue. It is the crying need of the hour to reform the System of Taxation in India.

Remedies which would be effective.

Can there be effective remedies to materially alter the present situation? Or we have to suffer in the present system for generations together? I believe that a change is necessary and it should be made urgently. My submissions for a radical change in the present system are put forward for your considerations, critical examination and a debate. Such proposals are as under:

1. Abolition :

Withdrawal of all Direct and Indirect Taxes (*except Customs and Import duties*).

2. Single Tax on Transactions:

- Every Transaction routed through a bank will attract certain deduction in appropriate percentage as Transaction Tax i.e. Single Point Tax deducted at source.
- This deduction is to be *effected on receiving/credit account only*.
- This deducted amount could be credited to different Government levels like Central, State and Local and transacting Bank (as Commission) as follows :-

e.g. a 2 % Transaction Tax can be distributed as:

0.70 % of transacted amount to Central Government Account

0.60 % of transacted amount to State Government Account

0.35 % of transacted amount to Local Government (Municipal Corporations) Account

0.35 % of transacted amount to Transacting Bank Account

KINDLY NOTE THAT THIS TAX RATE OF 2% AND ITS BREAKUP IS PURELY NOTIONAL AND HAS BEEN GIVEN TO FACILITATE A CLEAR UNDERSTANDING OF THE CONCEPT. Ultimate rate could be even lower and its break up based on needs could be a subject matter of high level discussion.

3. Currency Compression:

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- In a given time frame, Currency notes of denomination higher than Rs. 50/- could be abolished from circulation. The highest denomination thereafter will be Rs. 50/.

4. Cash Regulation:

- Cash transactions will not attract any transaction tax.
- Cash transactions above a certain limit, say Rs.2000 will be deemed illegal. This also implies that cash transactions below this limit will be tax-free and legal.

5. Control and Verification systems:

- Every bank account must be linked to a unique identification number like P.A.N.
- It must 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 Chartered Accountants.

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.

Table 1 - Revenue of Center and States taken together

2003-2004 Budgetary Estimates	Probable Tax Collection as per present Proposal [@0.7 % Share of the Center + 0.6% Share of the States]				
Total Receipts	8,16,507	8,20,651	10,94,201	13,67,751	16,41,301
Revenue Receipts	5,21,691	At 30 %	At 40 %	At 50 %	At 50 %
Capital Receipts	2,94,816	Transaction Ratio	Transaction Ratio	Transaction Ratio	Transaction Ratio
		Currency Money	Demand Deposits	Narrow Money	
		3,35,844	2,40,658	5,76,502	
	Considering a Total Narrow Money of Rs. 5,76,502 Crores - with a moderate assumption of 30 to 60 % of this amount to be active in daily transactions.				

Revenue of Maharashtra State

2003-2004 Budget	Probable Tax Collection as per ArthaKranti Proposal [0.6% Share of the States]	
Total Revenue	37000	49,200
Tax Revenue	29000	Given that in Mumbai alone cheque clearances worth Rs. ~82,00,000 Crores took place in 2001-02, 0.6% of this amount itself [share of state] would surpass the Maharashtra Government Revenue.
Capital Revenue	8000	
		0.006*82,00,000 = 49,200

Revenue of Mumbai Municipal Corporation

2003-2004 Budget	Probable Tax Collection as per ArthaKranti Proposal [0.35% Share of Local Body]	
3000		28,700
		Cheques worth Rs. ~82,00,000 Crores were cleared in Mumbai in the year 2001-2002.
		0.0035*82,00,000 = 28,700

Source: www.rbi.org.in, www.goidirectory.nic.in

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

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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.

- **The introduction of a comprehensive Social Security scheme, which will ensure social stability and a dignified existence to the weakest of our citizens.**
- A Corruption-free society will no longer be a utopian dream. We could well be on our way to it.
- 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.
- **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.**

The primary aim of this article is to generate discussion and study of the proposals very critically. The improvement can take place by positive inputs from all concerned. I have however a firm belief that in case these things are considered in right earnest, it would be an economic revolution of the 21st century and India could be a very strong economy and world leader not only in economy but also in economic thought . I am giving as an annexure to my article some of the frequently asked questions and the answers which I thought could be appropriate.