

ArthaKranti

'Developed India' NOW via Re-Design of the Economic System

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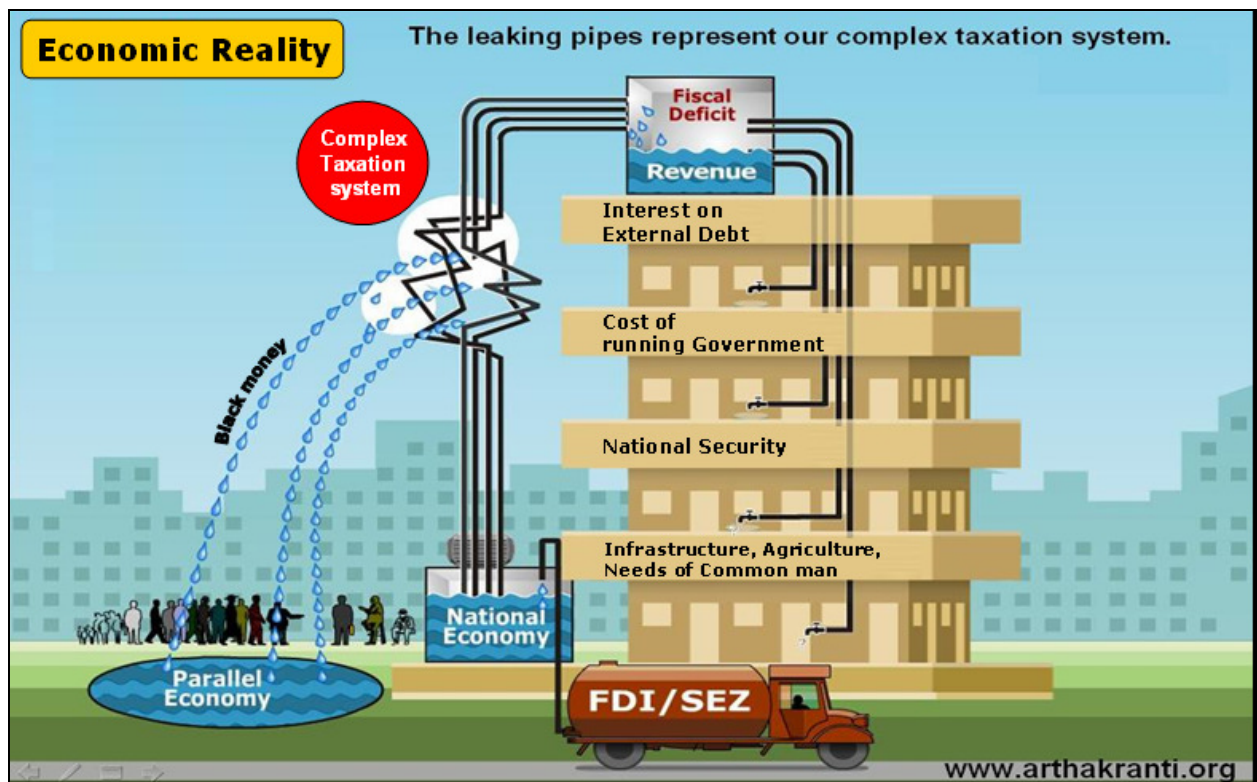
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Current Reality, Related Facts and Figures

- The urban “haves” are certainly getting richer in the liberalized, global economy! However, there is a sharp **economic disparity**, where all this “isolated” growth leaves the masses – in cities and in rural areas – even worse off than before.
- The “have-nots”, for the **sake of survival** are forced into illegal activities. The desperation serves as an ideal fuel for the fires of *terrorism, naxalism*, and all kinds of socially divisive activities. This in turn leads to an increasingly difficult law and order situation.
- There is a **thriving parallel economy** fuelled by black money. There is a related issue of **rampant corruption**.
- There is a **fiscal deficit** at the Centre and in all States. No matter how many new taxes are added, the Governments at all levels are forever short of revenue.
- As a consequence, there are little or no funds to run any real development programs or to address even the subsistence needs of the “have-nots”



- **The Political System, due to lack of Government Funding, is at the mercy of the Parallel Economy and Black Money.** This inevitably leads to increased criminalization of the politics.
- Government seems to be locked into a single point program to generate capital – **“Attract Foreign Direct Investment”**. Thus the policies tend to favour these investments and end up making the local industry even more un-competitive.
- In the Indian economy, cash transactions far outweigh transactions through the banking system – as much of *80 % of the economy is cash based* leading to an Unhealthy Development of the Banking System, the backbone of any modern day economy. **Natural effect is inadequacy, rather, scarcity of Credit Supply for one and all.** Alarmingly enough with every passing year this percentage is growing rather than shrinking!
- Due to the minimal use of the banking system, there is ***inadequate capital supply and capital formation***. The “have-nots” remain outside the banking system and never get a chance to establish their credibility. This keeps them at the mercy of the “cash / parallel economy”.

Following tables and images clearly show the result stated in the previous two points, which in turn is a result of – **The Flawed Taxation System as depicted and described above + the **Irrationally High Denomination and its Irrational Distribution.****

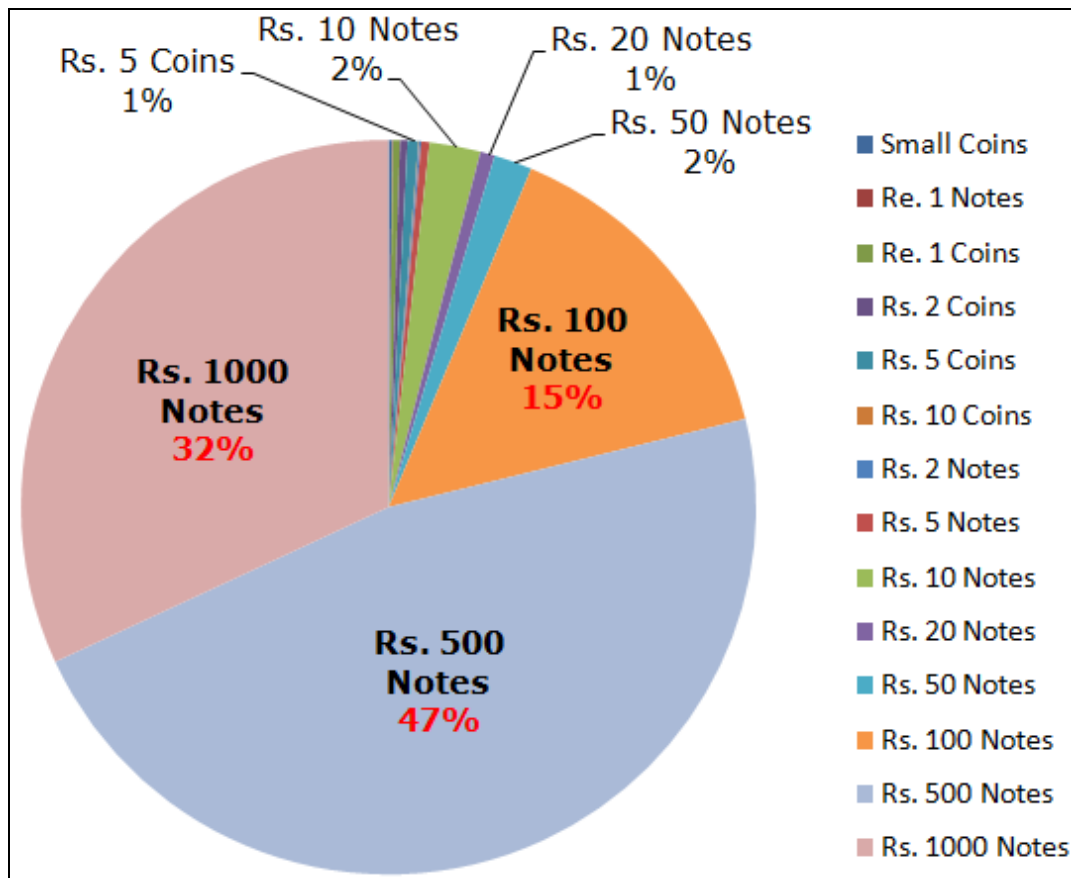
Irrationally High Denomination

The table below highlights the disparity between India and some other World Economies as regards ratio of Per Capita Income to Highest Denomination.

Country	Per Capita Income [A]	Highest Denomination [B]	A ÷ B
USA	\$ 40,000	\$ 100	400
UK	£ 20,000	£ 50	400
Japan	¥ 40,00,000	¥ 10,000	400
India	Rs. 46,000	Rs. 1,000	46

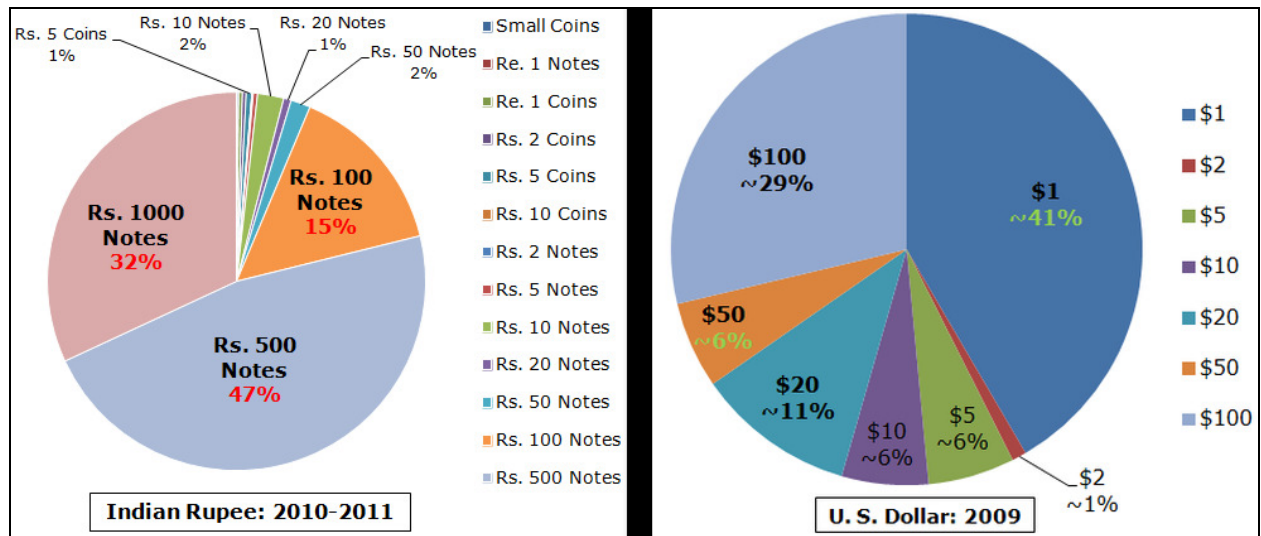
Irrational Distribution of the Irrationally High Denomination

Pie Chart showing Distribution of Currency Denomination For the Year 2010-2011



Note: **Notes of 100, 500 and 1000 Rupees account for 94 % of the Total Currency Money. As per Suresh Tendulkar Committee report (2009), more than 37 % of India's Population is below Poverty Line with less than 20 rupees a day as the Poverty Line.** The above distribution of Currency Denomination thus reveals the Stark Contrast.

Comparison of Currency Denomination Distribution: Indian Rupee & U. S. Dollar



Note: Absence of Denominations Larger Than \$ 100 in U. S. and the fact that considerable part of the U. S. Currency (in \$ 100 and \$ 50 Bills) is in use outside U. S. it being an International Currency.

Bank Money, Currency Money and their Ratio in Different Countries:

Country	Unit	Transaction Money M1			Bank Money ÷ Currency Money (B ÷ A)
		Currency Money (A)	Bank Money OR Demand Deposits (Withdrawable by cheque) (B)	M1 (A+B)	
Australia	Billion Australian \$	50	222	272	4.44
China	Trillion Yuan	5	24	29	4.80
Japan	Trillion Yen	75	443	518	5.91
South Korea	Trillion Won	38	98	136	2.58
New Zealand	Billion New Zealand \$	3.74	27.84	31.58	7.44
Singapore	Billion Singapore \$	24	105	129	4.37
EURO AREA	Billion Euros	847	3,942	4,789	4.65
UK	Billion £	54	1,055	1,109	19.54
USA	Billion US \$	1,000	1,170	2,170	1.17
India	Billion Indian Rupees	10,200	7,100	17,300	0.70

The above-described Current Reality is nothing but the effect of the following
System Level Technical Flaws which are described above:

- **Flawed Taxation System**
 - **Irrationally High Denomination and its Irrational Distribution** and
 - **Underdeveloped Banking Practice**
-

Solution in the form of the ArthaKranti Proposal

- **Withdrawal of existing Taxation System Completely* (except Customs/Import Duties)**
** All Central, State and Local Government Taxes – Direct as well as Indirect*
- **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
- **Cash Transactions will not attract any tax**
- **Withdrawal of High Denomination Currency (say above Rs. 50)**
- **Government should make legal provisions to restrict Cash Transactions up to a certain limit (say Rs. 2,000)**
This means, Cash Transactions above this limit will not enjoy any legal protection.

Productivity of the ArthaKranti Proposal

For the Year **2010-11** as per Budget Estimates,

Central (Gross) Total Tax Revenue

= **Rs. 7,46,651 Crores**

States - Total Tax Revenues [Excluding States' Share in Central Taxes]

= **Rs. 4,14,590 Crores**

So, Combined Total Tax Revenue of the Central and All the State Governments

= **Rs. 11,61,241 Crores** ^{*1}

Considering the Total Tax Revenue of all the Local Governments like Municipal Corporations as ~ Rs. 85,000 Crores, the Combined Total Tax Revenue of the Central, State and Local Governments

= **Rs. 11,61,241 Crores + Rs. 85,000 Crores = ~ Rs. 12,50,000 Crores**

On a typical day, RTGS alone handles Transactions worth ~ Rs. 2,000 billion, that is, ~ Rs. 2,00,000 Crores. ^{*2}

Considering per day RTGS Transactions of Rs. 2,00,000 Crores and only for 300 days in a year, the Total Bank Transaction Tax [BTT] Collected (at 2 %) as per the ArthaKranti Proposal will be:

2,00,000 * (2/100) = Rs. 4,000 Crores per day and

4,000 * 300 = Rs. 12,00,000 Crores per Year

Thus, with BTT Rate of 2 %, Tax Collection as per the ArthaKranti Proposal almost equals the Current Combined Total Tax Collection of All Governments (Central, State and Local) considering today's RTGS Transactions alone.

Considering other types of bank transactions, currency denomination compression and a limit set for the Cash Transactions to enjoy legal protection, BTT Rate is expected to be less than 1%.

^{*1}: Source: RBI Website: www.rbi.org.in

Table 115: Receipts and Disbursements of Central and State Governments

^{*2} Source: RBI Website: www.rbi.org.in

Effects of the ArthaKranti Proposal

- There would be **Adequate Revenue** with Governments at All Levels to spend on developmental activities [Please see previous page]
- Adequate funds for execution of projects of national, global importance will be available. Schemes for social security like **Social Security Allowance** can be successfully implemented to ensure Social Security for one and all.
- Generation of Black Money is **Technically Impossible**
- Merger of the existing Black Money into White Money [thanks to withdrawal of Higher Denominations]
- Government, Administration, Law and Order Maintaining Systems Freed from the Influence of the Parallel Economy
- Opportunities for Corruption in the taxation system eliminated plus an automatic check applied on Corruption thanks to: currency denomination compression and inherently traceable Bank Transactions
- Budgetary [White Money] Provisions for the Political System, freeing it from its dependence on the Parallel Economy
- Tax incidence shifted to Bank Transactions/the Flow of Money replacing all other incidences of taxation. Entire Tax Collection System functioning will be Automatic, Producing Daily Collection of Revenues at each Government Level, thus helping realize Decentralized Governance.
- No Filing of Returns, Challans etc. → Industry Focus can Shift from Manipulation to Innovation. Same true of resources engaged in Tax Compliance in the present system.
- Effective control over Terrorism possible by way of withdrawal of High Denomination Currency, thereby, reigning - their - currently uncontrolled, untraceable transactions and activities. Also the root causes of terrorism, namely, insecurity, poverty, disparity will be acted upon via provision of Social Security Allowance and an Empowered Governance.
- Enhancing the Capital Formation Process. Capital will be available easily and at cheaper rates.
- The prices of goods as well as services will be freed from Current Heavy Burden of both - the **Costly Capital and the Heavy Taxes**. Along with this, due to the availability of Cheaper Capital at Ease post ArthaKranti Implementation, the Effective Purchasing Power of the Individuals and therefore the Society will increase.
- A Principled, Prosperous and a Peaceful Living for Every Individual Enabled

Please Visit: www.arthakranti.org