Editorial

Demonetization: A Strong Intervention to Restructure the Economy

Demonetization of high denomination notes of Rs.1, 000 and 500 to curb black money, eliminate counterfeit currency, weed out corruption and uproot terrorism and also to facilitate greater financial inclusion of masses in the country has been well received by all sections of the society. Within a span of 52 days, almost 86% of the currency held by 1.32 billion population, spread into 4041 towns and 6 lakh villages of the 707 districts of the country has got smoothly deposited in the banks, whereas only 27% of the villages in the country have a bank branch in a radius of 5 kilometers. The foremost achievement of this bold initiative has been the success scored in terminating three decades old Pakistan-sponsored terrorism in Kashmir and five decades old violence of the Maoists and Naxalites, spread in several states. Besides, the hawala network, facilitating transfer of funds for terror outfits as well as for unscrupulous and unaccounted transactions has also come to an end. This would now put an end, upto a considerable extent, to the unaccounted transactions generating black money in the country, since 1950s.

Though, a question is also being raised that where has the black money gone, when 97% of the banned currency, amounting to Rs 15 trillion, out of a total of Rs 15.5 trillion in circulation has been deposited into the banks. But, it is also an open fact, that the black money held by the people is never confined to cash alone. Instead, a large majority of people hold their black wealth mostly in kind-as real estate, gold, corporate securities and so on. Besides, people holding black money in cash are also being reported to have generated cash in their books of accounts by invoicing fake sales in back date, in the current financial year. Instances are also legion across the country, when bank accounts of non income tax payees have been used as surrogate accounts to deposit black cash.

Indians were earlier reported to be holding the highest quantum of black money stashed in the Swiss Banks and other tax havens. As per an erstwhile controversial report of the Swiss Banks' Association, which was later disowned by the association as well, a figure of USD 1.4 trillion (equal to Rs. 94 trillions at today's exchange rate) out of total USD 2.2 trillion stashed in Swiss banks alone was attributed to Indians. Had it been so, the additional money stashed in other tax havens and within India could not therefore, be less than Rs. 50 trillion. Huge sums of money have also been reported to have been brought as export income via round tripping the black money, since FY 2011. But now, even after completion of two rounds of income disclosure schemes in 2015 and 2016, the amount disclosed as unaccounted income has hardly touched Rs. 80,000 crores, against a belief of Rs. 150 trillion. On the other hand, USD 80 billion, equivalent of Rs 5.6 trillion and USD 379 billion, equivalent of INR 25.4 trillion respectively have come to surface in Argentina and Indonesia, under their respective income disclosure schemes, as both had much lower tax and penalty rates. The income disclosure scheme of 2015 was meant for disclosing the black money stashed abroad, at a tax liability of 60% with penalty, wherein mere Rs. 4174 crore i.e. little more than half a billion USD were declared. In the second phase of 2016, money stashed within India was to be disclosed at a tax rate with penalty of 45%, but the scheme got a paltry sum of only Rs.65,250 crore, hardly touching an equivalent of USD 10 billion. All these declarations made so far are less than 15% of the declarations made in Argentina and less that 3% of the declarations made in Indonesia, concurrently. The Indian economy is 4 times larger than Argentina and 2.5 times larger than Indonesia. So the black money of Indians cannot be so less. Although, as a result of searches and seizures, a sum of Rs. 87,300 crores was also unearthed additionally. But, even after adding this amount as well, the total black money unearthed does not exceed Rs. 1.7 trillion equal to mere USD 25 billion. This figure is less that 2% of what was being alleged to be with Indians in the Swiss banks alone. In case of Indonesia, around $ 140 billion out of a total declaration of $ 379 billion was declared as the wealth stashed abroad and it has come back. Seventy percent of it was stashed in Singapore followed by

Cameron Islands and Hongkong. The black money holders in India might be holding a large part of their unaccounted wealth in the form of real estate,gold, corporate securities and benami properties, which they may have also adjusted clandestinely. But, everyone understands well that in the ensuing era of less-cash, generation of black money would become altogether difficult, because the black money can be generated only through cash transactions. Moreover, after the advent of Goods and Service Tax (GST), in the coming financial year, unaccounted transactions might turn to be a story of the past. The footprints of most of the unaccounted transactions would invariably become visible sooner or later in the downstream or front end value chain of the tax evader after the advent of GST.

The pace of shifting to non-cash or digital transactions is also very rapid in the country, after the demonetization drive. The BHIM app (Bharat Interface for Money) launched by the Prime Minister Narendra Modi has already been downloaded by 10 million people, within a span of ten days. Other cashless transaction options like internet banking, debit / credit card, USSD, PAALVP, mobile wallet, bank prepaid card, point of sales mobile banking, micro ATM, and other kinds or modes of payments are gaining fast popularity. Thus, black money generation would be much difficult now in the new era dominated by digital and online transactions. Moreover, the velocity of money in this emerging less-cash era may become swifter, to add more value to the GDP through faster turnovers.

Therefore, despite all the pain, demonetization may usher the country into an era of faster transactions for bigger turnovers and greater prosperity.

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