

Demonitisation that Burdens the People

Narendra Modi's decision to demonitise Rs.500 and Rs 1000 currency notes came as a bolt from the blue for common man. It disrupted their life as 84 per cent of the total value of currency in circulation was withdrawn. Daily wage-earners lost their income standing in queues; they cut down on milk and vegetables; the cardless poor are turned out from hospitals; petty job works stopped for want of cash; small businesses and trade disrupted.

The impact on rural India is devastating. The demonitisation move came in the middle of hectic agrarian activity – that too after two consecutive years of drought – with farmers either wrapping up kharif harvests or sowing rabi crops. Rural India left cashless as 90 per cent villages are unbanked. The peasants are left with no option than go to usurious money lenders. The government after much dithering raised the withdrawal limit for farmers to Rs.25,000, allowed 16-day grace period to pay crop insurance premium and to use old currency notes to buy seeds. But these measures are too little too late to alleviate the rural distress.

The NDA government claimed that the demonitisation is aimed at curbing black money, fake notes, corruption and finances to terrorists. Demonitisation will have little effect on the black economy is a well-known fact. It is obvious that most of the illegal wealth is not held in the form of currency notes. It will not exceed 5 per cent of the currency, which already found ingenious means to turn into white.

Black money is generated mainly and mainly out of three major types of transactions (i) commodity trading which includes high sea sales – the domestic and international norms to check quality of material and adequacy of pricing is almost impossible to arrest the leakage. These transactions are highly prone to “over-invoicing “ and “under-invoicing “ , especially considering counterfeit documents, shell company shipments, easy financial structures available ; (ii) Non-authentication of Capital deployment – this ensures hiking capital cost of heavy equipment and projects where capital can be flown to a contractor abroad conveniently ; (iii) tax evasion – hushing up financial transactions and evading excise, sales and income tax is another major source of black money. And, none of these can be controlled by “demonitisation “.

In the run up 2014 Lok Sabha elections, Modi had repeatedly claimed that if elected his government would bring back black money from abroad to distribute a sum of Rs. 15 lakh to each and every poor Indian family. Without taking any measure to seal off these loopholes in the system that generates black money, the talk about curbing black money will be nothing more than theatrics. Definitely Narendra Modi aims to gain political mileage in the coming assembly elections.

As the costs imposed on the economy becoming evident and as the people are becoming restive with the inability of the government to provide them with cash which they legitimately own, The propaganda machinery of the of the government, BJP and RSS swung into action propagating that there will be more benefits, some immediate and some in long term, than the difficulties now faced by the people. They claim that Indian economy will soon turn into cashless economy are singing the virtues of such an economy how it could uplift the people from poverty. Another benefit they claim is that as the banks flooded with deposits, they lend more and cut the interests rates that gives an impetus to the economy improving employment.

It's only a ploy to dupe the gullible people that India would turn into cashless economy. Nearly 90 per cent of villages have no banks and more than 80 per cent of the people depend upon the cash transactions for their daily life. The talk of a government which cannot even foresee the need for recalibration of ATMs to disburse new currency notes, is at the most laughable.

The money deposited with the banks will soon be withdrawn. But even 10 per cent of them to stay with banks, there will be more liquidity and the banks cut their lending rates, which in turn boosts the economy, claims the supporters of the government. As this propaganda is going on, the Reserve Bank of India on November 26 ordered the banks to park all the deposits they got in the period from September 16 to November 11 with RBI at zero rate of return. This means that the Banks liquidity positions continues to remain precarious. RBI will use to stabilize the foreign exchange market as the foreign portfolio investments started to flow out of the country. The outflow of FPI rose from Rs.4004 crore in 2015-16 to Rs.12,842 crore

up to November 26 this fiscal year. The remaining will be invested in Government securities, which means that the people's money is being diverted to cover the budgetary deficit. Knowing well that deposits made by the people in need of exchange for new currency notes would be appropriated through bureaucratic methods, the propaganda machinery is creating false illusions among the middle classes about the declining lending rates and real estate prices.

In contrast, the Modi government assured those who looted the economy that they need not lose their sleep over their ill-gotten wealth. Before the demonitisation, it gave an opportunity to them through Income Disclosure Scheme, which asks no questions if 50 per cent of the disclosed income paid as tax. The government got declarations from 64,275 individuals worth Rs65,250 crore from the scheme. According to IT act, they should have been paid full tax, penalty as 45 per cent surcharge. The declarants were provided with immunity from the law.

Last year, the government had come out with a similar scheme for those holding undisclosed assets abroad. Under this scheme, disclosures were charged with total tax and 60 per cent penalty. This scheme yielded Rs2,428 crore from disclosures of Rs 4,147 crore.

Now after the demonitisation the government came out with another disclosure scheme albeit in the name of amendments to IT Act. The latest disclosure scheme – *Pradhan Mantri Garib Kalyan Yojana* – will allow those depositing money in banned currency notes to enjoy immunity from taxation laws by paying a 50 per cent income tax, comprising 30 per cent income tax, 10 per cent surcharge and 10 per cent penalty, on the undisclosed income. The declarants will have to deposit a fourth of the undisclosed income for four years without interests. These funds will be utilized by the government for poverty alleviation programmes. A perfect cocktail for money laundering in the name of poor. While allowing those who illegally looted the economy were allowed to go scot free, Modi's demonitisation is not allowing the people to withdraw their legitimate hard earned money from the banks.

What does it mean? By hook or crook earn black money flouting the laws of land; disclose some of it as you like without any strings; live peacefully to earn more black money until another 'amnesty' scheme is announced. This assurance is legalized by amending the IT Act. This may appear strange to a novice, but to those who were veteran observers of Indian polity it reveals that the government of any colour will stand to serve the interests of exploiting class- that is, big bourgeoisie and land lord class in India.

The declared objectives of curbing black money, fake notes and corruption, along with false propaganda about the notional benefits that will be accrued by the economy are only a disguise to conceal from the people the real intentions – covering up its failure in economic front, bail out of banking system that is facing liquidity crisis, and obtaining political mileage. It is yet another measures to lay the burden of crisis on the backs of people and saving the real culprits – big bourgeoisie, big business, money-launderers etc.
