

SPEECH BY SHRI RAJEEV CHANDRASEKHAR, MP
DURING THE DISCUSSION ON DEMONETISATION ON CURRENCY
IN RAJYA SABHA
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Thank you very much for allowing me to speak on this issue today sir and I rise in support of the Governments recent decision to demonetize high value currency notes

Sir, History tells us that most reforms are met with political opposition and so I have read and heard the criticism of many in the opposition with interest.

Sir, lets start with a few clear facts on which I believe most of us here and most in this country are in agreement.

1. Black money and Corruption is the biggest threat to our nation and our democracy – with its tentacles having spread to Politics, Government and Government Institutions, Democracy, Judiciary, Media, Crime and Terrorism
2. Black money and the attendant corruption has spread its tentacles into all areas and has corroded and continues to corrode our Politics, Government, Democracy, Judiciary, Media and is fuel for criminal enterprise and Terrorism.
3. This black economy fuelled by Black money has only grown and grown and depending various estimates is almost 20-30% of the size of our GDP – which could be between 30 Lac crores and 50 Lac Crores which means our Black economy is larger than the real economies of many nations like Argentina and Thailand etc.
4. That almost to a man and woman – Indians want to rid us of this shameful legacy of corruption and Black money.

On these four issues there cant be any disagreement – I believe the Cong and other leaders will agree with me on this.

I heard Anand sharma ji say about how he and his party are also opposed to Black money, Counterfeiting and terror etc. But sir, its one thing to just say it, and another to have the courage and determination to do something about it and that

the crux of the issue, because everyone knows Governments in the past have made little or no effort at addressing this issue at all – as a matter of fact there is ample evidence that during the UPA governments tenure, the black economy expanded significantly and 500/1000 Rupee notes in circulation increased. So when the former FM Shri Chidambaram says he opposes demonetization because there was no economic gains - it highlights the fundamental differences in approach to black money by UPA and NDA. UPA believed in a status quo/tokenist to Black money and NDA govt believes in doing something about it.

Ridding black money is not about measuring gains or losses. Its like a disease that just needs to be removed. The argument that a festering disease will be allowed to grow and spread because some economists are quibbling about the cost of surgery is to put it respectfully to miss the point. That is probably the reason why black money has been allowed to grow like this, because it was seen through these years through a distorted prism of so-called pragmatism instead of a more clear distortion free right and wrong.

I I also heard with interest yesterday him say he believed how Raghu Rajan our former RBI governor wasn't in favour of demonetization. With greatest of respects to Raghu Rajan and his impressive International credentials – Blackmoney is more than a issue for an economist – It is as much a issue of morality and soul of our democracy thatn academic economics. It touches on criminality, National security, corporate and political corruption etc. Raghu Rajan has demonstrated with his supervision of Banks which has since morphed into a fullblown banking crisis – that he didn't quite stray from the narrow focus of monetary economics. That fairly simply disqualifies from commenting on the issue of fight against black money and so using him that as an endorsement of your political position also fails.

Sir, This Black economy uses three asset classes of Cash, Land and Gold as havens. Sir there are various estimates on how much of the currency in circulation of 16odd lac crores is really in the black, regardless of quantum cash that is most important catalyst because it is the rawmaterial/fuel of Illegal economy that helps translate it assets of Land and bullion.

That is why any serious fight against Black money had to start with cutting off the domestic Black money. For those that are complaining that overseas cash are being let off, even for this channel of hawala etc – cutting off and compressing

our local cash economy is a first step and so Demonetization at this time is a significant follow on step, to the Sept 30 disclosure window offered by the Government to those with undeclared Income.

Sir, demonetization is never an easy process especially when it comes to voiding 86% of circulated currency by value and disruptions in the short term were to be expected, which is why the Prime Minister has requested citizens to bear with inconvenience for the sake of larger reform. The secrecy and confidentiality requirements also made sure that no advance preparations could be done because it would have meant involving more people. The mismatch of our banking infrastructure and the scale of withdrawing 86% of our currencies was always going to be under challenge.

That the Government was concerned that this should be a soft landing is evidenced the currency swap windows, the easy deposits of upto 10 lacs etc. But the disruptions are clearly worse for those in the small and informal sector, poor and those that remain unbanked or live in underbanked regions. As we know sir, 50% of our GDP and 90% of employment is provided by this country's Informal sector. The informal sector has for decades been shut out of the organized formal sector And so Sir, I say with this all responsibility – the disruption and problems that they suffer today are to a large respect a direct consequence of both - the years of neglect of the informal sector and allowing black money to expand by successive Governments and RBI governors.

Sir, I am aware the Government is walking a fine line between minimizing problems for common man and plugging loopholes that can be exploited. But I would suggest to the Government to consider following suggestions

1. Allow regular receipted transactions in our trade and services like Health, Schools, Food, Transport sector where payers are identified and allow this till Dec15th. Move the burden on IT and Government to scrutinize the deposits rather than the poor. This will ease the pressure around the informal sector.
2. To direct all Government departments and PSUs to give salaries in cash for next two – three months to their employees to ensure that lines in ATMs and banks by Govt employees are reduced.

3. I also urge government and RBI to communicate better and more frequently during this process to ensure that political and vested interest rumor mongering do not create panic and make a difficult situation worse.
4. Sir, I would urge the Government to clarify the issue of taxation and penalties on deposits that my friend Naresh also raised. Many tax lawyers are opining that there is no case for penalties under IT act for disclosed income. Regardless of if its true or not, what surely must not happen is increased litigation due to ambiguities. That's not a desirable situation
5. The armed forces and Paramilitary forces that are serving in far off places may require special attention and dispensation. I have written to the FM already and I urge him to look into this.

Sir, unfortunately the discussion so far has been on focussed on the short term disruptions. In reality, demonetization is also a big structural step for our economy that is part of a larger process of transforming our economy into one that is Growing, efficient, transparent and clean. The next steps to move the Black economy to the formal real economy must be to target benami land and assets like bullion. Reduction in Direct tax rates is almost a must as follow up to this to prevent fresh black money by incentivize Tax compliance.

There will be significant benefits to Economy and indeed to the poor and middle classes that have not been discussed or explained. Government will benefit significantly both from the taxation on the deposits that are and also the a monetary surplus in the RBI that would then reach the Government. We are talking of a one-time gain for the Government of 4-6 Lac crores. This additional spending of the Government must and can be directed at investments, jobs and expand welfare spending for the poor and needy.

Banks will benefit from this surge of deposits and from the progressive formalization of transactions. Increased deposits will moderate Interest rates as a direct benefit – with added indirect benefit from businesses restarting investment cycle. Other definite benefits will the price correction and reforms in the real Estate sector. Along with RERA, the sector will now be under additional pressure to change its cash-based business model and move to a more transparent ,

consumer friendly system like in other businesses. This along with lower Interest rates can potentially restart the home buying.

Sir, let me end with another important fallout of this demonetization – the continued impetus to the formalization of the informal sector. Formalizing the informal sector has widespread positive implications for country, people and economy. This Government has made a step with Mudra Bank. Demonetization and attacking black money will mean that Informal sector will be nudged into the formal sector and be allowed to avail formal sources of money – almost always at easier rates than the cut throat rates and risks associated with informal economy.

Sir, this Government had a mandate to change the status-quo. The fight against Black money is a decisive serious kind of change. Change is never smooth or orderly despite the best of intentions and those that are heavily invested in the status quo will expectedly be shrill in their opposition. But most Indians desire this clean up and so I support this fully, strongly and urge the Government to take all steps necessary to ensure a softer and more sensitive landing for the poor and middle class. Sir I also want to on behalf of this house and all of us, thank the many thousands of bank employees for their service during this period.

Thank you Sir

Jai Hind.