



Demonising Demonetization: Economic Truth or Political Game

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I feel that the demonetization of high denomination currency notes by the government of India on 8th November 2016 was an Economic plunder of epic proportions. I concur completely with journalist Arun Shourie who calls it “the greatest money laundering schemeorchestrated completely by the government of India.”

Let us first establish the reasons for demonetization, as outlined by the prime minister in his infamous November 8th speech. He said that it was being carried out to wipe out black money, break the back of terrorism and fake currency, and increase digitalized payments: transforming India into a less-cash economy. Unfortunately, none of these goals materialized.

The total value of demonetized currency stood at 1600000 crores. The government hoped that of this, 4-5 lakh crore would not return to the banking system, hence defining it as black money. However, an RBI report on 31st August 2017 stated that 99% of this amount had returned. Moreover, this amount was not inclusive of currency lying in cooperative banks or in countries like Nepal and Bhutan. Therefore, not only has the government converted black money into white, it has also legitimized fake currency notes by accepting and converting them into new, valid currency. Hence, the primary goal of demonetization has failed.

Demonetization has also caused a wide array of negative effects. It has caused a slowdown in the growth rate from 7.1% in September 2016 to 6.1% in June 2017 to the current 12 quarter low of 5.7%. The widespread job losses are just one example. The micro and small-scale industries, which are the largest employment generator after agriculture, reported a job loss of 35% and a year on year revenue dip of 65% (as reported by A.I.M.O). The newspaper “The Wire” reported a job loss of 1.5 million jobs in the unorganized sector alone; this at a time when India needs to generate 30,000 jobs per day to absorb its expanding workforce.

Agriculture, the largest employment generator by far, did not fare much better. Demonetization literally removed the money from the market, killing demand for freshly harvested crops. This crippled prices and caused the unprecedented burden on the government's minimum support price program. As a result, the government was forced to overspend and thousands of kilograms of grain rot in government godowns every day. An absence of cash meant that necessary inputs were unavailable, leading to a drastic increase in retail inflation now.

The government's pipedream of a cashless economy is far from a reality. As we re-monetize, people have made the shift back to cash. Paytm reported a 38% reduction

in payment past January. During demonetization, and consequently after it, there has been a drastic increase in cost doing business. This has reflected in the earnings of

middle and large-cap companies. Pre-demonetization, the cost of printing a Rs.1000 note was approximately Rs.3. It could be circulated up to 10 times before being rejected due to poor condition. Hence, the resultant cost per transaction was 0.03% of 1000 ($3/1000 * 1/10 = 0.0003 * 100$). However, credit card and debit card fess is 1.5-3% of the transactional value. This indicates an increase in cost by over 100 multiples.

Demonetization has led to a massive loss of face for India on a global level. Foreign Institutional investors have lost confidence in the Indian market, for if a prime minister can declare authorized currency invalid in a 45-minute address, what respect would he have for his debt instruments? This is illustrated by the fact that billions of dollars of foreign funding have been wiped out of the NSE and the BSE, and it is the retail investor who is keeping the market running. Not only this, the RBI has lost credibility as an autonomous body, with the prime minister's whims and fancies being carried out with blatant disregard for economic fundamentals. Governors who oppose the government are not given term extensions and puppets are promoted.

The prime minister had claimed that demonetization would break the back of terror funding, which is far from true. His assumption was made on the false premise that terror is fully funded by fake currency. In fact, the objective of terror is not to kill, but to scare. Attacks like 26/11 forced the government to guard every public place, diverting billions of dollars to an already ballooning defense budget. Hence, terrorism aims to strike fear into the hearts of people and distract economic resources. Demonetization was unlikely to have a great effect, and it has not. Believe it or not, Naxal terror has actually increased, with the month of April 2017 is the deadliest in terms of security personnel killed since May 2011. In the span of January to October 2017, the number of security personnel killed in action stands at 58, as compared to 62 in the entire year of 2016. In fact, in the span of January to March, the number of soldiers killed has doubled on a year on year basis.

As illustrated above, every single premise on which demonetization was implemented fails to hold ground. In my opinion, the primary purpose of demonetization was the increased deposits in bank accounts, flushing them with adequate liquidity to write off thousands of crores of politically connected Non Performing Assets, and helping them secure new loans without any security for the bank.

The leading economists of the world have spoken up against this politically motivated move. Nobel laureate Amartya Sen called the scheme "a despotic act by an authoritative government" while Cambridge economist and former prime minister Manmohan Singh, an otherwise quite observer, described it as "organized loot, legalized plunder." Richard Thaler, behavioral economist and winner of the Nobel Prize in

Economics in 2017, praised the scheme but has now cast doubt after seeing the outcomes it has produced.

To conclude, I would like to say that demonizing demonetization is essential, for a government which faces no opposition for its failed schemes transforms into an authoritative, autocratic, and tyrannous government, much like the one in power today. The economic truth behind demonetization is proof enough for this action.

DEMONISING DEMONITISATION – A POLITICAL GAME OR AN ECONOMIC TRUTH

BY KABIR SINGH

November 8th, 2016 was considered a dark day in the history of the Indian Economy. Demonetisation was announced by our respected Prime Minister, Narendra Modi and all Rs500 and Rs1000 notes were to be demonetised. Before we dwelve into the aspects of this topic, we must understand what a political game is and what an economic truth implies. A political game is an act/measure by a party where the party sees an end goal of them being re-elected and hence is a sly move of politics while an economic truth is only seen when everything is transparent in the economy and all is expected and all is “just how we aimed”. Through the course of this essay, as an Indian citizen, one shall realise that this act of demonetisation is a failure in terms of a political game and may eventually lead to the downfall of Mr Modi and his beloved BJP and on the same line is in no way an economic truth.

“Those who say that demonetisation is a good move in the long run, should remember the phrase that, “In the long run, we are all dead.” This quote by ex-finance Minister and Prime Minister of India, Dr Manmohan Singh tells us the true and hard-hitting fact of this economic move. At the outset, it is essential to understand that all Black Money is not cash. Black money comprises of money in Real Estate, Gold, Jewellery, Stocks and Foreign Accounts. As a result, we need to realise that cash is only 6% of the entire black money that exists in India today. Therefore, there is a problem-solution mismatch. On one hand the Government is trying to eradicate this Black money and on the other hand they are only tackling this 6% out of a whole. Even if Modiji’s government was to tackle this 6% successfully, they have failed to do so due to poor implementation of this policy. Before moving onto the aspect of the Idea V/S Implementation, we must understand a concept of Economics which is known as the Laffer Curve. This is essentially the concept of obtaining high tax collection due to low tax rates which acts as an incentive to disclose the amount of black money an individual has. It suggests that moral fabric is ruined with high taxes. Now, one must be asking why this is relevant? The reason it is important is primarily elicited through an example. Many critics say that the idea of demonetisation is wrong in the first place but that is false primarily based on the example of Indonesia where demonetisation was a success. Essentially, post this policy all Indonesian citizens were told to declare their black money and in turn would be granted a lower tax rate of 10% as compared to 25%. Hence, this Amnesty scheme was successful based on the principle of the Laffer curve. The point that is trying to be made is that it COULD HAVE been a success in India too but the Government is to blame.

As a citizen of democracy, I believe that the idea was a great one but its implementation was miserable. If we ran the world based on ideas, the world would be an amazing place however reality is yet to hit the BJP Government. Firstly, the Government (Modiji) states that India must go digital and cashless as soon as possible but this is a utopic belief. Out of 130 crore people in India, less than 3.75cr people have credit/debit cards or money in the form of online banking primarily proving that the decision was not well thought out. Secondly, due to this another 8 people died across the country and the Bank lines would spread over a kilometre causing chaos within cities. We ask the

Government, should we live in a country where after the proposal of an economic policy, 8 people die?? Narendra Modi and his “efficient” Government proposed this idea to help the “poor” but they are in fact the worst affected. Moreover, Jan Dhan Yojana Bank accounts were manipulated by the rich with many of them adding loads of money into the accounts by exerting their power and influence on the poor. The political failure is evident as with such disasters in a country, nobody will want another tyrannical and authoritarian rule.

One month after demonetisation, the government announced that all political parties will be allowed to deposit as much black money as want, without questions being asked. This move in its essence was absolutely absurd and nobody seemed to really understand the government’s stance on this move. This is problematic as majority of the political parties in India are large holders of black money and hence we can clearly see that the government is indecisive. Beyond economics this move is deemed is unconstitutional. Article 300 A of the Indian constitution states that “no person should be deprived of his or her property by law.” Is cash property? Yes of course. Is depriving the people of the money a restriction? Yes. This clearly elicits the act of the despotic and authoritarian government as said by renowned economist, Amartya Sen. The note displays a statement – “I promise to be the bearer” does not uphold anymore as the government does not allow us to. Moreover the trust between citizens and government is essential for successful economy and hence this demonetization is a grave mistake.

The Government is evidently not being honest about this policy and hence it is necessary that the economic truth is displayed. Moreover 97% of the rupees 15.4 lakh crore have been pumped back into the economy signifying that the move was just symbolic in its essence and not substantial. The government in all honesty realizes their mistake and is scared of the consequences in the near future. While the government is in power for two more years, they have tried to change their stance and have shifted their goals because of their indecisive nature. To sum it up, to light a candle, Demonetization lit up the whole house.

Tomatoes and Onions: Tanking the Indian Economy

Suhana Gupta

Every year during June to September, the rates of tomato and onion go up due to off season. This year, July saw a rise in inflation at the wholesale level to 1.88% from 0.9% in June. According to the Centre for Monitoring Indian Economy, tomatoes saw a sharp inflation of over 209.5% in July against the 29.4% in June.

The sharp increase in prices, this year, can be attributed to a number of reasons. Prices have increased owing to a large disparity between demand and supply, a steep drop in production because of unfavorable weather, a rise in transport costs, seasonality and supply chain constraints.

This year there is a large shortage of supply of both onions and tomatoes. Onions are primarily grown in southern states and in Rajasthan and Madhya Pradesh. According to the National Horticulture Board data the onion supply has fallen to 2.8 lakh tons in July, from the 3.04 lakh tons in June. The tomato crop is mainly grown in Maharashtra, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh and Karnataka. These areas have also been impacted by heavy rains that damaged the crops and transport system.

Pritam Kalia, an emeritus scientist from the Indian Agricultural Research Institute (IARI) said, "The government has not developed infrastructure to help farmers producing perishable vegetables. This is one of the reasons why you see glut-and-shortage situations at regular intervals." This perfectly showcases the next contributory factor to rise in prices due to short supply – bad transportation system.

India's current cold storage facility is of 35 crore tons; this means that the current cold storage facility is 30-40 lakh tons short and still requires major upgradation to achieve optimum efficiency. The government of India needs to promote and enforce use of low-cost refrigerated trucks and freight (bulk transport) subsidy. India currently has 7000-8000 refrigerated trucks circulating within its borders, but these trucks are mainly used to transport pharmaceutical and dairy products, whereas perishable vegetables are suffering.

The fall in supply can also be attributed to imperfections in the marketing channel. The marketing channel consists of three parts – consumers, producers and middlemen. Consumers want to purchase vegetables at low costs. Producers want to sell vegetables at maximum costs and the middlemen want to maximize their profits. The cost of vegetables increases as the cost of packaging, grading, transporting, various fees and the margins of the middlemen get added along the way from the producers to the consumers. India is an exporter of tomatoes to Pakistan, Nepal and Bangladesh. Traders fulfil these pre-arranged orders first thus adversely impacting domestic distribution.

Mismanagement in the supply chain can be avoided and reduced via the creation of cooperatives, this helps minimize the marketing channel. Cooperatives, this helps minimize the marketing channel. Cooperatives can work across States so that regions with surplus produce can supply the produce to areas where it is in demand. In India, 85% of the farmers are small farmers (i.e. they have less than 2 hectares of land). Shortage of land makes cultivation unviable. But cooperatives can help by creating a culture of consolidation. This helps increase the supply and stabilizes the prices, thus benefitting the consumers and producers.

Tomatoes and Onions are the basis of many Indian dishes and delicacies. Homemakers are forced to cut their daily usage. The Indian Hotel and Restaurant Association (AHAR) have

decided to hike the prices of dishes by at least 20-25%. This shows that the prices of onions and tomatoes are impacting big industries as well as homemakers.

Officials at Apex Bank claims that sustenance of food inflation at higher levels can lead to an uptick in EMI's of home loans, as interest rates start to rapidly increase to cool down inflationary pressure.

Inflation of prices of vegetables hence leads to general inflation. General flavor hurts the poor and vulnerable sections of society the most. Hindustan Times said, "Tomatoes and Onions have the power to bring down the government in a democratic county like India."

Higher food prices, leads to a major reduction of economic activity. Inflation reduces the consumption, savings and investment capabilities of all citizens and hence leads to a great slowdown in the general aggregate demand of commodities.

Due to this rapid increase in inflation, the RBI has tightened its monetary policy, this leads to high interest rates. This again reduces the general aggregate demand and leads to an economic slowdown. This reduces the employment opportunities and adversely impacts the poor section of society, especially creating problems for women and children.

Rise in prices can worsen the nutrition status of the citizens. Especially among infants (aged between 0-2 years) and pregnant and lactating women.

An optimistic approach to inflation is that farmers have an opportunity to increase agricultural production therefore increasing employment opportunities and benefitting women and children.

Demonetisation

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The main objective of demonetisation was the revelation and recovery of black money however the implementation and ultimate results can be compared to draining all the water from a pond to kill the crocodiles, however the crocodiles can survive on land too but all the small fish die in the process. While the initial critics could be accused of political affiliation, almost a year later the facts that have come to light paint a picture more bleak than the worst fears of the initial critics.

Demonetisation is the act stripping a currency unit of its status as legal tender. In India it refers to the ban on 500 and 1000 rupee notes. On 8th November, Prime Minister Narendra Modi announced his decision and the entire country went into frenzy since 86.4% of the nation's currency in circulation was rendered useless.

The idea of demonetisation to eradicate black money was flawed to begin with and thus failed to meet its initial objective. According to income tax probes, people keep only 6% of their ill-gotten wealth in terms of cash. Even the Central Board of Direct Taxes in 2012, didn't recommend using demonetisation as a method since majority of the black money is in terms of benami properties, bullion and jewellery.

Furthermore, identification of this so-called black money is an issue, since money is never black or white, money just changes hands. For example, a salaried employee uses his money to bribe a police officer, so the money turns black however the police officer uses the money to buy a shirt from a shopkeeper and the money is white again. In this way actually trying to identify and capture this black money becomes tedious and difficult.

Keeping political opinions aside, demonetisation was bound to negatively affect the economy due to the 'Quantity Theory of Money' that states $MV=PT$, where M is the quantity of money, V is the velocity of money, P is price level and T is the number of transactions. When the majority of the money in circulation is reduced the quantity of money (M) falls. It is nearly impossible for the velocity (V) to increase 7 fold thus PT also has to fall. This means that both the price level and the number of transactions taking place in economy is reduced, which has adverse impacts on the GDP.

Demonetisation has resulted in the current sorry state of Indian economy where the GDP growth rate of our country has fallen from being the fastest growing country in the world to a 5.7% in April-June 2017. The rural sectors and the informal economy has been affected the most since they largely run on cash. The agricultural sector bore the brunt of demonetisation as it took place between the Kharif harvest and the Rabi sowing season. Thus the farmers had nobody to buy their harvest, and didn't make enough money to buy seeds and other inputs for the Rabi season.

The small, micro and medium industries were hit hard as people had no cash to pay suppliers, transporters, labours etc. Anil Bharadwaj, the secretary general of the Indian

Federation of small, micro and medium industries stated that 80% of these industries were negatively impacted since they run on the basis of cash. The brass industry of Moradabad is just one of the several industries that was unable to run in the midst of a cash crunch.

The economic truth of this country lies in the fact that private investment has shrunk, industrial production has collapsed, agriculture is in distress, the construction industry is in the doldrums and exports have dwindled.

Dr Manmohan Singh stated that demonetisation was “an organised loot” and “legalised plunder”. While he was part of an opposition party, it would be incorrect to label the critics of demonetisation as being politically inclined as senior members of the ruling party itself had expressed alarm over the situation.

Arun Shourie compare demonetisation to suicide and referred to it as, “the biggest money laundering scheme.” Yashwant Sinha also stated that it created a mess of the economy and private sector investment has collapsed and the economy is running on just one engine of public spending. Subramaniam Swamy was also critical of the government policy and the way it was implemented stating that, “the economy is in a tailspin” and “on a large scale banks might start collapsing and factories will shut”.

It was Modi who used demonetisation as a political game, deeming himself the “messiah of the poor” even though 98.6% of the 15 lakh crore rupees has been deposited back in the bank, rendering his move useless. But then again wasn't the objective a digital economy or curbing terrorist groups or increasing the tax payer base? I guess we'll just have to wait and see the next new objective they come up with while the economy is drowning with no signs of recovering.