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A year of demonetisation

The demonetisation of high value currency notes almost a year back has miserably failed in curbing the black money

THE NDA-government's decision to demonetise the high value currency notes of Rs 1000 and Rs 500 almost a year back was perhaps the worst in developing country like India, which was still coming to grips with slowdown affected by both the internal as well as the external factors. The tall claims of the union finance minister Arun Jaitley that withdrawal of high value currency notes striking a severe blow to the militancy related activities in Kashmir particularly stone-pelting and incidents of attacks on para-military and security forces in other parts of the country have fallen flat. In fact, the figures and assessments of the security experts on Kashmir have pointed out to continued incidents of stone-pelting particularly when cordon and search operations and the encounter sites. Besides this, the claim that there has been 75 percent decline in stone-pelting incidents is also surprisingly found to be hollow. The security experts have been voicing their concern over the increasing number of incidents during the past one and a half years particularly in post-Burhan Wani's killing. Aply so, the assessment of security agencies is more and more youth joining ranks of militants after the last year's disturbances which witnessed total disruption in normalcy for almost six months since July 8, 2016. The number of militants in the last one and half years is more compared to any corresponding period of previous years in Kashmir. Even at the height of militancy in the mid-1990s, the killing of militants and attacks on the security and para-military forces was not matching the killings of the past one year. The attacks on the army and other forces carrying out counter-insurgency operations in Jammu and Kashmir have increased over the years. Similarly, it is unfortunate that attacks on the political beings have also witnessed an increase during this period. The number of civilian killings has registered an unprecedented increase for the reasons best known to the security agencies of those watching the situation from a different angle. How far the claims of Arun Jaitley are worth taking serious note of are before the people to judge. The year 2017 has witnessed the highest number of attacks on para-military and police forces in other parts of the country where disturbances have been witnessed by tribal population. How demonetisation has affected them is yet to be seen.

Apart from these failures, the desired effects of demonetisation to curb black money could, unfortunately, never be achieved because of poor implementation in pouring out the new currency into the market to overcome the panic created among the common masses. After this announcement of declaring high value currency notes in valid, whole lot of common masses were queuing up before the banks, post offices and other financial institutions for exchange of invalid currency notes with the newer ones. The opinion of the economic and financial experts is that printing and circulation of Rs 2000 currency notes could have been avoided. In fact, availability of sufficient new currency notes should have been made before such a decision is announced. The higher denomination currency note of Rs 2000 further added to the woes of the common masses as around over one hundred died in queues outside the banks. The rich and those having hordes of high value currency notes were sitting pretty in their homes or offices without any risk of loss of their money in the process when tensions were running high among the people on streets. The shortage of small currency notes further hit the economy and made the small and medium sized businesses cash starved. The decision played havoc with the rural and agriculture economy of the country with farmers forced to throw their produce on the roads or allow it to rot in the fields. This was mainly due to the reason that the farmers were not getting even the minimum price for their products. At one point of time, the ministers of the NDA-government while trying defend the demonetisation decision argued that prices of essential commodities have come down and inflation has been lowest. Even when the whole economic slowdown set in, the prices of food stuffs have continued to rise during the past one year adversely hitting the farmers. Another decision of the centre of raising the limit for jewellery purchase from Rs 50,000 to Rs 2 lac without Income Tax PAN cards reversed the gains of checking black money while the same is required for depositing and withdrawing Rs 50,000 from the bank accounts of individuals. The ill-planned decisions of making digital India succeed for monetary transactions without proper infrastructure in place has further played havoc with the economy when internet facilities and those required for online payments. Anyhow, the nonsensical demonetisation will be remembered by the common masses in the years to come for the havoc it played with financial autonomy of Indians.

OPINION

Decoding the great demonetization puzzle

No escape from adverse effect on economy

By Nilanjan Banik

NOVEMBER 8 marked the one-year anniversary of the great Indian demonetization move. India's demonetization move should not be looked in isolation. One can find instances of demonetization elsewhere as well. In October 2014, Singapore got rid of its 1000 dollar note; in 2011 Canada stopped issuing 1000 dollar notes, and in 2013 Sweden did the same with the 1000-Krona note, all as a way to stop financial crimes. Economists Larry Summers and Kenneth Rogoff also suggested doing away with high denomination 100 dollar notes to prevent money laundering and tax evasion.

However, in India, economists were widely divided over the efficiency and the impact of the move on the black money, which is variously estimated at 25 percent to 75 percent of India's GDP. Unlike most of the developed economies, which mostly rely on cashless transaction, for India a majority of the population was dependent on cash for day-to-day transaction, and hence there was greater hardship from demonetization.

Demonetization was intended to flush out black money and encourage the move to a cashless state and bring the parallel sector into the mainstream economy. Data from the Ministry of Finance reveals that during 2014-2015, only a meagre 4 percent Indians paid tax, with the government losing anything between Rs 6 lakh and Rs 9 lakh crore on account of people evading paying tax. Demonetization was also seen as a way to tackle counterfeit currencies. A study undertaken by Indian Statistical Institute, Kolkata, estimates the number as Rs 4 billion, with the old Rs500 and Rs1000 accounting for three quarters of these counterfeit notes. Finally, the demonetization move was seen as a nudge strategy for a greater financial inclusion. Financial exclusion obviously imposes a high cost on the people. In India, 98 percent of people use non-banking channels, such as hawala, and pay exorbitant costs to remit or receive money from their family members living in other regions. A survey of Indian migrant workers shows average commission of 4.6% when transferring money through informal routes, whereas transfer through formal banking system comes at no cost. Importantly, the demonetization move has operationalized the Jan-Dhan accounts, which were seldom operational.

However, critics point out that

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demonetization is unlikely to bring out much black money, since the bulk of it is held in illiquid assets such as land or gold and jewelry. Without taking supplementary policy measures to track these stock of undeclared wealth, the fight against black economy deserves little merit. In fact, 98.96 percent of the scrapped Rs 1000 and Rs 500 notes returned back to Reserve Bank of India by the end-June 2017. Also, only 3.4 percent of all notes that came back to the system post-demonetization were fake. And most of the financial inclusion that happened thanks to demonetization was because otherwise poor people merely started depositing unaccounted money of the rich and corrupt into their own bank accounts for a commission (with a promise to pay back at a later date). Meanwhile, the common man has had to bear the economic hardship as 90 percent of all transactions are paid in cash. The brunt of the impact fell on those associated with the informal sector, which accounts for 80 percent of all jobs, where 85 percent of the workers are paid in cash.

Although each one of these above arguments deserves merit, we need to understand the path through which demonetization has affected the economy. A way to examine the effect of demonetization is to use the famous Milton Friedman's Quantity theory of money equation. The 1976 Nobel laureate, Professor Milton Friedman argued that inflation is a monetary phenomenon and he depicted the money market (that is, demand and supply of money) through the equation: $MV=PY$ (1) where, M is the money stock in the economy, V is velocity of money

(number of times currency changes hands) amount of nominal GDP that money supply can generate), P is price level, and Y the real value of output.

Going by equation (1), when demonetization happens, the first thing that occurs is a reduction in money supply. Indeed, there has been a fall in currency in circulation, and commercial banks lending to businesses. Concomitantly, there was an increase in bank deposits. People were busy depositing money mostly in their Jan-Dhan accounts.

Two other things have also happened. Compared to other emerging economies such as Brazil, China, Russia and South Africa, in India we have a higher currency-to-GDP ratio. With a reduction in currency in circulation, there is therefore a likelihood of V also falling. What then follows from the quantity theory of money equation is, with a fall in M, there will also be a fall in P and Y.

What is interesting to note, the price of vegetables, eggs, foods and beverages all fell during the period following demonetization. The price of less income inelastic items such as education, healthcare, pan, tobacco and intoxicants, did not fall. This is quite natural: whether people have more income or less income, if they fall sick they will have to visit doctors. Similarly, for the sin-items such as pan, tobacco, and intoxicants, the addicted do not care whether they have more income or less income. What is, however, surprising is that the price of meat items is showing an increase post-demonetization. The causal relation of Uttar Pradesh meat ban (leading to less supply of meat in the market and hence a

higher price) is yet to be scientifically validated, but that can be a possibility.

With prices falling, as predicted by equation (1), the demand will also fall. In fact, during the following quarters, India's GDP growth rate fell from 7.3 percent to 7 percent (Feb-28, 2017); 6.1 percent (May 31, 2017); and 5.7% (Aug 31, 2017). Economists, not favouring demonetization move are using these numbers, and saying India could have realized 8 plus percent growth rate, with government not undertaking demonetization. According to International Monetary Fund, the size of Indian economy is \$2.54 trillion (nominal, 2017) and \$ 9.48 trillion (Purchasing Power Parity, 2017). Hence, this 2.5 percent difference (what GDP could have grown without demonetization and how it has grown with demonetization) is indeed a big number.

In fact, the reduction in GDP growth rate will belittle the government success story of tracking down black money and shell companies. Finance Minister Arun Jaitley in a press interview announced that between November 2016 and the end of May 2017, income tax authorities detected a total of Rs 17,526 crore in undisclosed income and seized Rs 1,003 crore. As a result of the demonetization drive, there had been a substantial increase in the number of Income Tax Returns (ITRs) filed. The number of returns filed on August 5 registered an increase of 24.7 percent compared to a growth rate of 9.9 percent in the previous year. The government has identified more than 37,000 shell companies that were engaged in hiding black money and hawala transactions. The income tax department has identified more than 400 benami transactions up to May 23, 2017 and the market value of properties under attachment is more than Rs 600 crore.

There is a good possibility that India's GDP growth will crawl back to its long-run structural level. Having said that, one cannot still deny the loss in interim GDP that India experienced because of demonetization. In all fairness, one has to give credit to the government when it says that more people are now paying taxes. Whether this nudging strategy will eventually help the government collect more taxes in the future in comparison to GDP lost at present, only time will tell.

—(DPA Service)
(The writer is Professor, Bennett University, Greater Noida.)

The police, government and Airline storyteller.!

WITH the acquittal of the Talwar, new findings in the murder of the murdered Delhi schoolboy, and the astounding reply given by the airlines after their employees mercilessly bashed up a passenger, I've now come to believe we are a master fiction writer in our country who writes tales stranger than fiction!

"That's his house" said a local to me. "And that room right on top is where he writes his stories!" I climbed up the steps of the fiction writer's fancy home and waited in his living room. I didn't have long to wait, as the storyteller greeted me with folded hands, "Welcome!" he said. "I'm just doing a piece on Nov 8th being Anti-Black Money Day: Bit of a difficult piece though!"

"Who hires you?" I asked curiously.

"Mostly government, quite often the police," he said. "But they are bad pay masters so I don't put too much masala into their stories, and within five years or so, the plots crack up!"

"Like the Talwar case?" I asked, and the fiction writer nodded. "Silly plot!" he said. "Took me five minutes to write, but strangely held for a while. Even got them into jail. The inspector managed to tell it well in front of the cameras, till this high court judge realized it was mere fiction!"

"But your plots get the wrong people in jail," I said crossly.

"I'm paid to write stories," said the writer, "it's you guys who

believe every word I write!"

"That Delhi schoolboy murder was not a nice thing," I said.

"Blaming that poor bus driver?"

The police came running to me," I laughed the fiction writer, "asked me to cook up a story that had them off the hook. I was in a bit of a take the heat off them, and I did just that!"

"And now for this airline you write a rejoinder about the beating up of a passenger?" I asked. "You've mentioned that the sacked whistleblower, the person shooting the video was actually egging the employees on to bash the poor man! How can you expect people to believe that?"

"They will!" cried the storyteller

chucking. "I find the public swallow whatever I write. You people have become such fans of my fiction that I don't have to think too hard about most convincing police, private or government plots anymore; anything is believable! Half the innocent people in jail are there, because of my stories!"

"While the real culprits roam free!" I whispered.

"Like I said, it's my bread and butter to write!"

"And ours to believe!" I said bitterly as I walked down the steps and out of the house. Outside, I saw Whatsapp groups and online readers nodding as they believed fictitious stories and fake news, made up by such storytellers for the gullible people of our nation, who have not yet learned to separate fact from fiction."

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Taaragan playing a significant role

Dear Editor,
KUDOS to Bank of India's in-house Journal "TAARANGAN" for being conferred with international award for Branch Excellence in House Journals by CMO Asia Award at Singapore. For more than 50 years, BOI's in-house journal "Taaragan" has been playing a significant role in internal communication in the Bank. It is also one of the mediums of promoting employee engagement in the Bank. "Taaragan" is applauded at many platforms and is constantly receiving appreciation in

the form of Acolades and Certificates from ABCI. The modular layout of Taaragan, the soothing colours and the changes in the editorial and messages from Top Executives of Bank of India are nostalgic one. Taaragan - House Journal is classy, with a style of its own. The overall get-up and the language used are indeed elegant, stylish and contemporary. The colour palette is very trendy. The use of white space and the landscape in blue is pleasing to the eye.

Taaragan looks really cool. It is continuing

doing the best possible efforts to make it content wise richer and more readable.

Presentation is an important ingredient. And the new presentation after "The Teller" is really contemporary as it has flamboyantly and fashionably introduced the new title with new design. Change cannot be avoided; it provides the opportunity to innovate. It is aesthetically very appealing. The selection of the font is yet another hallmark. Taaragan is one of its class. Incomparable to all other

House Journals of peer Banks. The Title "Taaragan" itself is on the lips of each and every employee of BOI and has made a potent effect on each staff. "Taaragan" has today become the enjoyment of listening and seeing things happening before our eyes & has brought to the notice of all BOI staff members. Today "Taaragan" is not just in-house journal for BOI staff but it has become a part of their family.

—Vinod G. Dixit,
Society, Jodhpur Tekra, S. M. Road, Ahmedabad.



Letters to the Editor



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