Organised Loot and Legalised Plunder

Looking Back at One Year of Demonetisation

November 2017

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Centre for Financial Accountability

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All India Bank Officers' Confederation

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Compiled by

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All India Bank Officers' Confederation

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Address: **Centre for Financial Accountability,** R–21, South Extension-2, Delhi – 110049
Phone: +91-11-49123696 Email: info@cenfa.org Website: www.cenfa.org
All India Bank Officers' Confederation, No. 86, Rajaji Salai, Chennai – 600001
Phone: +91-44-25227170 Email: aiboc.sectt@gmail.com Website: www.aiboc.org

Compilation: Madhavi Bansal & Priya Dharshini
Cover Design: Joe Athialy

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Index

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Introduction

It has been one year since the fateful day of 8 November 2016, when demonetisation of Rs. 500 and Rs. 1000 notes was announced by the National Democratic Alliance (NDA) government. According to the Gazette Notification No 2652[1] dated November 08, 2016:

> "in exercise of the powers conferred by sub-section (2) of section 26 of the Reserve Bank of India Act, 1934 (2 of 1934), the Central Government hereby declares that the specified bank notes shall cease to be legal tender with effect from the 9th November, 2016…"

It was generally made to understand that this move would rid the country of black money, fake currency and destroy terror funding, which was also the objective of demonetisation. Disruption to people's lives and the economic turmoil, were expected to last only for a few days. However, the bitter truth is that the black money is still there, counterfeiters are counterfeiting new Rs. 2000 notes and terrorists are still getting funds. There were also reports of more than a 100 people dying due to demonetisation, for reasons including shock of demonetisation, not receiving medical care due to lack of new notes, etc. Some died while standing in bank queues and some committed suicide. It is important to note that the people have still not recovered from the aftermath of the ban and the Indian economy is still in jeopardy from the twin shock of demonetisation and introduction of the Goods and Services Tax (GST).

The purpose of this booklet is to throw light on this lingering impact of demonetisation on the people. This booklet is a compilation of various articles on demonetisation, previously published in various journals and online news portals.

It starts with a thought provoking idea that the actual reason behind demonetisation was not the objectives stated by the government, but was a part of the discourse on war on cash post 2008 economic crisis. Even though the government's initial objective did not talk about "cashless economy" and eventually when it was clear that the initial objective of destroying black money, fake currency and terror funding was not going to be met, the government shifted their goalpost to "cashless economy" and when even that turned out to be a failure, they changed their narrative to "less-cash economy". In short, demonetisation's war on cash was unsuccessful.

[1] https://goo.gl/CGvGH1

Even though people had to forcefully shift to digital payments for a while, they swiftly shifted back to cash as soon as it was available. According to the National Payments Corporation of India (NPCI), the total number of new digital payment users in banking went up from around 40 million to 100 million in the first two months of demonetisation. However, according to them, by April, only 25 million stuck around.

Demonetisation in India has been a continuous story of shifting goalposts. It was being said that lakhs of crores of black money will not come back to the system. However, the RBI's Annual report released on 30 June 2017 declared that 98.96% of the Rs. 15.44 lakhs crore of the demonetised cash came back to the banks and only Rs. 16,000 crores did not return, which includes the old notes received by Indian cooperative banks and banks of Nepal and Bhutan that hadn't been counted by then. Once it was clear that almost all the money had come back, government declared that confiscating money was never the objective of the exercise.

According to the Economic Survey's Volume 2, as one of the articles in the booklet argues, demonetisation has hit both the formal and informal sector and the economy is still reeling under its impacts.

International financial institutions like International Monetary Fund (IMF) and the World Bank (WB) have reduced the economic growth projections for India with demonetisation as one of the reasons behind it. Recently, IMF projected 6.7% growth rate for 2017-18 and 7.4% for 2018-19, which are 0.5 and 0.3 percentage points less than the projections earlier this year, respectively. Demonetisation has not only led to decrease in economic growth but the fiscal cost of demonetisation exercise itself has exceeded the benefits. Reserve Bank of India's dividends paid to the Central Government for the year 2016-17 reduced to Rs. 30,659, which is less than half of what was paid in 2015-16 and much of it because of the cost of demonetisation including increased cost of printing notes and interest payment to account holders for deposition of additional money in their accounts.

It has hit the informal economy the hardest. While another one of government's shifted goal was to change informal economy to formal economy, as one of the articles argues, demonetisation has in fact increased informalisation. Moreover, various sectors that have felt the heat include the ones that rely mostly on cash, for instance agricultural sector, traditional artisans, small and medium industries, etc. Its impact on the general population has been no less. Life of migrant labourers has still not come back on track and many of them have yet not gotten back their jobs, which they lost due to demonetisation.

Bankers were made to work overtime to meet the hectic demands of demonetisation. They had to deal with angry customers in queues, make do with limited cash from currency chests and forgo year-end leave.

There has been dissent against demonetisation. Opposition parties have raised their voices in parliament. There have also been protests by various people and organisations- by the opposition party shortly after the announcement of the ban, by farmers dumping their produce on streets, by people standing in queues threatening to down the shutters of the bank, by villagers against shortage of notes, by civil society organisation marking 100 days of demonetisation, etc. More protests are scheduled on 8 November 2017 to mark the anniversary of demonetisation.

One cannot but despair at how ill conceived the decision was and what catastrophe it brought on the people and the economy.

The title of the book has been derived from the phrase "organised loot and legalised plunder" which has been famously used by the former Prime Minister Manmohan Singh when he reflected on demonetisation in the Rajya Sabha on 24 November 2016.

Thomas Franco
All India Bank Officers' Confederation

Madhavi Bansal & Priya Dharshini
Centre for Financial Accountability

Understanding demonetisation: Why there's a war on cash (and you are in the middle of it)

We can't understand demonetisation and its aftermath if we don't locate it within the global offensive against cash.

-Tony Joseph

Demonetised Rs. 1000 note

There *is* a global war on cash.

What we have seen in India in the last couple of months is part of that war. This is a difficult point for many opponents of the demonetisation exercise to accept because it interferes with the narrative that demonetisation is a story of political malice marrying incompetence. Suggesting that there were other motives too, whether good or bad, is seen as diluting the charge of incompetence. But we have to take facts as they come. If we do not do that, we will not be able to grapple with the real issues or understand what is going on.

The timing and reasoning for demonetisation may have been shaped by political

opportunity and the schedule of the Assembly elections, but the move towards cashless economy was happening anyway. And demonetisation did give it a big push. At a very high human cost, of course. (Please go to this link[2] for an explanation of how different threads/initiatives came together to cause an explosion on November 8.)

Who is waging the war?

But who is waging the war, and why? And thereby hangs a long tale. For ease of articulation, first the summary, and then the substantiation.

The war on cash is being waged by four major groups. One, existing financial services providers such as banks and credit card companies. Two, technology companies, including start-ups, with financial services ambitions (known as Fintechs in current terminology). Three, governments. And four, Central banks. It is difficult to imagine a more powerful combination of forces.

It is *not* that they have the same objectives. In fact, they have different objectives that sometimes conflict. But their interests are complementary when it comes to driving cash out of existence. For example, new start-ups like PayTM may take away business from existing financial service companies and ruin some of their business models, but for both groups, physical currency is either a mortal enemy or is of little use. There is little profit to be made from it and, for banks, it costs money to count, manage, store and move cash. But the moment currency turns into digital bits, two opportunities present themselves – one, to charge tiny little fees on every single transaction and two, to create a data trail of income and expenditure of customers that would come in handy to sustain new services and business models. So it makes sense for banks and fintechs to join hands to chase cash away.

India is right in the middle of this battleground, for two main reasons. One, India is seen as having the basic infrastructure in place – in terms of bank accounts and mobile penetration – to be able to take the jump to a cashless economy. Two, it has also been identified as a country with very large potential gains from the war.

But as in all wars, the question arises: how will the booty from this war be distributed? The summary answer is that while the gains for the initiators of the

[2] https://goo.gl/PK

war on cash are tangible and immediate (think of the video of the PayTM chief executive officer's celebratory dancing), for others caught in it, the gains are amorphous. So how do we weigh the overall costs and benefits, and equally importantly, how do we know how the pain and the gain are going to be distributed?

The best way to understand the war and to find answers to the questions raised above is to see how the idea of a cashless economy developed. Such a chronology will allow us to grasp how the war was conceived and who joined the battle when and why.

We know that plastic has been replacing cash worldwide in a slow and steady manner for decades, causing many to predict the death of cash prematurely. Cash today forms only 22% to 68% of transactions by volume in advanced economies. Norway, Australia and Denmark lead the digital pack while Japan, Germany and South Korea are among those who still prefer cash to cashless, with the United States falling somewhere in between, with a figure of 49%. But the theoretical scaffolding and reasoning for eliminating cash altogether began being put together only after the financial crisis of 2008.

The Great Recession

As we know, the Great Recession that began in 2008 pushed advanced economies into a long-term situation of low growth, low investment and low inflation, and central banks in these countries began to cut interest rates down to zero to stimulate investment and spending. But they found to their horror that zero or near-zero interest rates were not enough to get their economies humming again. In fact, some countries went even marginally lower than Zero, with Denmark being the first in 2012, followed by several of Europe's central banks in 2014 and Japan in 2016.

Interest rates are the single most powerful tool that Central banks have, to control inflation or stagnation. If the economy is heating up and inflation is going beyond the targeted rate, central banks raise interest rates thus cooling down investment and consumer spending. People save more and spend less, bringing down inflation and along with it, growth. But if the economy is stagnant and inflation is lower than targeted, with not enough investment or consumer demand, central banks reduce interest rates to stimulate demand. Economic theory suggests that pushing interest

rates significantly below zero might have been necessary to pull many advanced economies out of the funk they have been in since 2008.

A negative interest rate means that if you keep Rs 100 with your bank for a year, instead of getting back, say Rs 105 including a 5% interest, you may get back only Rs 99.90 – the rest being taken as, say, 0.1% negative interest rate. The expectation is that negative interest rates will force banks, businesses and individuals to lend, invest or spend their money rather than keep it idle, because there's a cost to keeping it idle.

The lower a negative interest rate is, the higher the stimulus to spending and growth, just as the higher a positive interest rate is, the greater the restraint on spending. Now this is great in theory, but there is a practical problem. Central banks can take interest rate as high as they want without limit, but they cannot take it into seriously negative territory for a simple reason: if it goes there, everyone would just take their cash out of the banks and keep it in safe deposit boxes. No spending happens, and the central bank objectives are not met. In other words, economists argue that there is an asymmetry in the way central banks can use interest rates. They have immense power to cool down an overheating economy, but only limited power to stimulate a stagnant economy by bringing down interest rates sufficiently.

The technical term economists use to describe this situation is Effective Lower Bound, or ELB – the negative interest rate below which people will just withdraw their money from banks. Since there is a convenience to keeping money in the bank, the ELB is usually not exactly zero, but a little below zero – say, - 0.5% or -1%. People don't mind keeping their money in the bank if the negative interest rate is a minor annoyance, because there is a convenience to operating with a bank account and say, a debit card.

After the Great Recession, this is the situation that central banks found themselves in: operating close to ELB. And it is in this situation that some economists started pushing a new idea that sounded horrendous to many: eliminating cash altogether. If there is no cash, people cannot take their money out of banks, and central banks can take interest rates as much below zero as needed. In other words, eliminating cash will improve the ability of central banks to fight stagnation and improve growth. Of course, this is like a forced appropriation of people's savings and many would find it outrageous. But the economists would counter: so what's new? People today hold

cash even when there is inflation, knowing that the value of their holding is decreasing every day, and this is merely the opposite situation: there is no inflation or very low inflation, and instead there is a negative interest rate on your savings that you can't escape.

Tony Joseph *is a financial analyst and a former Editor of Business World.*

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Demonetisation: RBI says 99% banned notes are back; where is the black money?

- Dinesh Unnikrishnan

Nearly 10 months after Prime Minister Narendra Modi announced demonetisation, the Reserve Bank of India (RBI) has finally come out with provisional figures on the count of old Rs 500, Rs 1000 notes that were returned to the banking system. Evidently, the number would make neither the government, nor the central bank happy. It shows nearly all money has returned.

Subject to future corrections based on verification process when completed, the estimated value of SBNs (specified bank notes) received as on 30 June 2017 is Rs 15.28 trillion, the RBI said in its annual report released on Wednesday evening. The total value of invalidated Rs 500 and Rs 1,000 notes at the time of demonetisation was Rs 15.44 lakh crore or around 86 percent of the currency in circulation. This means 99 percent of the demonetised currency has found its way back to the banking system. Only a little over Rs 16,000 crore of Rs 15.44 lakh crore was not returned.

And, let's not forget, this is not the final number. The RBI is yet to count old notes received at cooperative banks and old notes submitted by citizens an institutions of Nepal. By the time these numbers too gets added up, the likelihood is that the final figure will be much closer to 100 percent mark. There are other interesting details about demonetisation in the RBI report. It says, RBI's cost of printing currency post demonetisation (mainly on account of the new Rs 2,000 and Rs 500 notes), escalated to Rs 7,965 crore, more than double the figure in the previous year when it stood at Rs 3,421 crore.

The number of counterfeit notes or fake notes detected during the exercise is only minuscule, just about 7.6 lakh pieces, as compared with 6.3 lakh pieces in the year ahead.

With the figures finally out, it is now safe to conclude that on a cost-benefit analysis, the RBI has only losses due to the demonetisation exercise it 'recommended' to the Modi government. No big black money in cash got perished outside the banking system as the government expected initially. On the contrary, both the RBI and government had to take a hit as far as the cost of this humongous exercise is concerned -- one of the major reasons why the RBI's dividend to the government fell by half this time.

Crowd at a bank branch to exchange currency. Source: Monito *(www.monito.com)*

The RBI transferred just Rs 30,659 crore as dividend to the government for the year ended June 2017, less than half the previous year's levels. Last year, it transferred Rs 65,876 crore to the government. This year, the expectation was Rs 74,901 crore will flow into the government exchequer, partly due to the demonetisation gains.

Did demonetisation fail?

The answer will depend on who you ask the question to.

On 8 November, the originally stated goals of demonetisation were mainly three--a major clampdown on the black money in the system, cash-based corruption and terror funding. There are ample evidence to understand that demonetisation hasn't impacted corruption and terror (read a report on demonetisation impact on corruption here[3]).

With all the Rs 500 notes follow the Rs 1,000 notes returning to bank counters, the theory of black money stashed in cash outside the formal system (that isn't accounted in any manner) getting extinguished falls flat. That leaves us with only two scenarios.

First, there was no significant black money in cash in India contrary to what a section of top economists had said.

[3] https://goo.gl/qqqmKV

In a jointly authored article written for *Mint* newspaper on 27 December (read here[4]), renowned economist and Columbia university professor Jagdish Bhagwati, resident senior fellow at the IDFC Institute Vivek Dehejia and Chung Ju Yung distinguished professor of international economics at Johns Hopkins University and deputy director of the Raj Center on Indian Economic Policies at Columbia University Pravin Krishna had accepted this assumption when they defended the Modi government's demonetisation move.

"Clearly, at least from the perspective of its effectiveness in dealing with the black money issue, success has to be measured by the sum of tax revenue generated and black money destroyed. Suppose we accept the estimate that one-third of the approximately Rs 15 trillion in demonetised notes is black money," Bhagwati and his co-authors said in the piece.

Based on this assumption, they also worked out the gains the Modi government would have had if demonetisation exercise is successful — around Rs 2,5 lakh crore. Here's how they arrived at this figure.

"Roughly speaking, the revenue that would have been generated had that income been taxed in the first place is 30% of that (so, Rs 5 trillion times 0.3 = Rs1.5 trillion). Perfect detection of black money should now yield 50% as tax revenue (so Rs 5 trillion times 0.5 = Rs 2.5 trillion), if all black money is returned and identified as such."

Both the assumption on black money by Bhagwati and his team and the likely gains out of it to the government do not sound convincing if one purely goes by the RBI figures. To begin with, the government never had an estimate of black money in cash in the system. Perhaps, it was poorly advised. The flawed implementation of the programme only worsened the situation.

Demonetisation pain

Demonetisation-resulted cash crunch hit the common man hard, businesses suffered and the economic growth was hit by a significant margin.

The fourth quarter GDP fell to 6.1 percent from 8 percent from the year-ago quarter. The fall in GVA (gross value added) was even sharper to 5.6 percent in the fourth quarter from 8.7 percent in the Q4 period of previous year. Jobs in informal sector were particularly hit. Even the Rashtriya Swayamsevak Sangh

(RSS) affiliated Bharatiya Mazdoor Sangh (BMS) blamed the Modi government for this[5].

“Under the new government, 1 lakh and 35 thousand job opportunities have been created so far but 20 lakh people have lost their jobs," Baij Nath Rai, BMS President, told the Kolkata-based daily, *The Telegraph*. "We have reports of job losses in the unorganised sector because of demonetisation, but how deep the impact is has to be ascertained," Rai was quoted as saying.

Now, the second scenario is that black money holders used demonetisation as a big opportunity to whiten their ill-gotten wealth directly to bank counters either directly or through benamis or in other ways (purchases/refunds/political donations etc). They now face the risk of getting caught by the taxman and possible punitive actions. But, the tax cheats would have thought that it is anyway better to face the risk of paying penalty rather than burning the loot or throwing it down the sewage. Besides, the hopes that an over-burdened tax department would take ages to lay their hands on the guilty, too, would have emboldened the crooks.

Arguably, there are some positives to demonetisation. The Modi government showed its intent to fight against black money. Also, the government and demonetisation supporters have defended the government's massively disruptive move citing widening tax base, increased compliance, push for digital economy, and asserting that a significant amount of black money in bank accounts post demonetisation is black money. But, until now, no substantial amount of black money has been unearthed from such deposits.

In his Independence Day speech, Modi said Rs 2-3 lakh crore black money has been brought to the banking system post-demonetisation. But, in August, Minister of State for Finance Santosh Kumar Gangwar told Parliament that the income tax department detected undisclosed income worth Rs 13,715 crore in fiscal year 2016-17. Income tax raids at 5,102 places yielded undeclared income of Rs 15,496 crore, the minister said in a written reply to Parliament. These figures are confusing and somewhat contradictory.

Both the government and its tax department will have to work overtime and dig out black money from these accounts to salvage the idea of demonetisation. If the exercise to weed out black money from bank accounts fails to deliver, history would remember demonetisation as a state-sponsored once-in-a-life time

[5] https://goo.gl/n1n9yn

opportunity given to crooks to convert their black money into white and get away with lighter penalties.

Dinesh Unnikrishnan *is presently the Financial Editor of news analysis website, Firstpost.com in Mumbai and has a decade's experience in journalism. He is the winner of 2011 Ramnath Goenka Award for business journalism.*

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(Data support from ***Kishor Kadam****)*

Demonetisation Post-Truths

-Prasenjit Bose

A close examination of the finance ministry's claims of meeting the stated objectives of demonetisation, reveals that they are mostly false and deceptive. Official data show that even the fiscal costs of demonetisation have far surpassed its benefits, let alone its impact on the rest of the economy and the people.

On the day when the Reserve Bank of India (RBI) finally reported that almost 99% of the proscribed currency notes of Rs 500 and Rs 1,000 denomination had returned to the banking system by 30 June 2017, the finance ministry also issued a formal statement[6] seeking to explain how demonetisation has been "immensely beneficial to the Indian economy and people."

The statement begins by enumerating the objectives of demonetisation: "(i) flushing out black money, (ii) eliminate Fake Indian Currency Notes (FICN), (iii) to strike at the root of financing of terrorism and left wing extremism, (iv) to convert non-formal economy into a formal economy to expand tax base and employment and (v) to give a big boost to digitalization of payments to make India a less cash economy." The Prime Minister's speech on 8 November 2016 needs to be recollected in this context:

> So, in this fight against corruption, black money, fake notes and terrorism, in this movement for purifying our country, will our people not put up with difficulties for some days? I have full confidence that every citizen will stand up and participate in this 'mahayagna'.

There was no mention of the words "non-formal" or "formal economy," "expand tax base," "digitalization," and "less cash economy" either here or anywhere else in the Prime Minister's speech.

Points (iii) and (iv) mentioned in the finance ministry's statement, therefore, were clear afterthoughts, added as an attempted face-saver through shifting of the

[6] https://goo.gl/U8wCak

goalposts. Moreover, a closer examination shows that the ministry's claims of meeting the above-mentioned objectives are mostly false and deceptive.

On Cash Returning to the Banking System

The statement says:

> The Government had expected all the SBNs [specified bank notes] to come back to the Banking system to become effectively usable currency.

This, however, is not borne out by the actual sequence of events since 8 November 2016. In a signed article appearing on 14 November, the chief economic advisor of the State Bank of India (SBI) had argued that since 25% of the proscribed currency notes did not return to the banking system during the 1978 demonetisation episode, it is reasonable to assume that 25%–50% of the proscribed currencies will not be exchanged in the present instance. He wrote, "there would be around Rs 2,482–4,800 billion money that will not be converted and remain outside the banking system. To that extent, cash in the system may decline" (Ghosh 2016).

Defending the demonetisation decision in the Supreme Court, the then attorney general argued on 15 November 2016 that the government estimated black money size to be Rs 15 to Rs 16 lakh crore and expected people to deposit Rs10–Rs11 lakh crore in banks. He said, "Rest Rs 4–5 lakh crore were being used in northeast and J&K to fuel trouble in India. That will be neutralised" (Times of India 2016).

On 23 November 2016, the chief economic advisor of the SBI once again wrote that there was no doubt over the fact that between Rs 2.4 and Rs 4.8 lakh crore would not return to the system and hence the RBI's liabilities will "get extinguished" to that extent, and that differences were only on how the consequent capital gain by the RBI was to be handled. He argued: "We reiterate that the best possible move should be the first one and the government must spend the funds on activities like infrastructure development or as it deems fit. There is nothing wrong in it, as is being claimed in several circles" (Ghosh 2016a).

Following this, several former governors and deputy governors of the RBI publicly reacted, questioning the rationale of "extinguished liability" of the RBI and windfall gains. It was only on 7 December, that the RBI officially reported in a press conference that Rs 11.55 lakh crore had already returned to the banking system, with the RBI governor ruling out the possibility of any part of the RBI's liability getting "extinguished" or any special dividend being paid to the government. Even then, the

SBI Research Division publicly questioned the veracity of the RBI's data on currency notes which had returned to the system due to double counting (Times of India 2016a).

It is more than clear that the government's demonetisation decision was motivated by expectations of a windfall, on the lines proposed by the chief economic advisor of the SBI. That is why the Prime Minister asked people to give him 50 days for the war against black money in his 13 November speech in Goa, after which he even offered to submit himself to punishment. Once those expectations were belied by subsequent events—with currency exchange and bank deposits surpassing official expectations—the government changed its narrative to the promotion of digital payments and formalising the informal economy.

This is further borne out by the severe shortage of new currency notes till the end of December 2016, which implies that the government initially expected the demand for new currency to be much less than it turned out to be, and new notes were therefore not printed in adequate numbers. For the finance ministry to now claim in an official statement that the government had expected 99% of the cash to return to the system at the very outset is both disingenuous and disgraceful, because the cash-using public had to undergo many travails in the post-demonetisation phase, with over a hundred people dying in bank queues.

"Flushing out Black Money"

The finance ministry's statement, while acknowledging that a significant proportion of cash deposited in bank accounts post-demonetisation could be black money, also claims that a fiscal windfall will eventually come through the mining of big data by the income tax department, which could be collated because of demonetisation. However, the mention of 18 lakh accounts involving Rs 2.89 lakh crore under the income tax department's scrutiny is of little fiscal relevance, since neither does one know what the revenue outcome of that scrutiny may be, nor is there any time frame for its materialisation.

The finance ministry's statement has reproduced the data on the increase in the number of income tax assessees following demonetisation in the recently released Economic Survey 2016–17 Volume–2. However, it fails to mention that while the number of income tax assessees in 2016–17 has grown by 5.4 lakhs over that of 2015–16, the average taxable income reported by the possible additional taxpayers is

only around Rs 2.7 lakh annually, barely above the Rs 2.5 lakh income tax threshold. The Economic Survey has projected the possible additional revenue from this income tax base expansion to a modest Rs 10,587 crore.

The data provided in the finance ministry's statement also show that between November 2016 and May 2017, the total amount of undisclosed income unearthed is Rs 17,526 crore, out of which only Rs 1,003 crore was seized. The crackdown on benami transactions so far has yielded another Rs 600 crore. Revenue department data show that since 2013–14, the income tax department has annually unearthed undisclosed income of around Rs 10,000 to Rs 11,000 crore, with seizures of around Rs 700 to Rs 800 crore. It is clear from the finance ministry's statement that there has not been any significant rise in such seizures of illicit wealth, post-demonetisation.

The statement avoids mentioning the second income disclosure scheme of 2016–17 (Pradhan Mantri Garib Kalyan Yojana) announced after demonetisation, which has turned out to be damp squib, with declarations of unaccounted wealth barely touching Rs 5,000 crore, half of which accrued as revenues to the government (Indian Express 2017). Taking this together with the revenue gains reported in the finance ministry's statement, the concrete revenue gain of the government due to demonetisation has not exceeded Rs 4,000 crore so far.

The projections of income tax collections in 2017–18 made in the last budget suggest a growth of around 25% over last year, compared to 22.7% tax collection growth in 2016–17. If this projection comes true, the income tax to gross domestic product (GDP) ratio will inch up from 2.3% in 2016–17 to 2.6% in 2017–18. Moreover, the finance ministry's statement throws around figures of increased income tax returns and advance tax collections, but fails to clarify whether the projections would take income tax collections beyond the budget estimates for the current financial year, suggesting a mere 0.3 percentage points of GDP increase in income tax collections over the previous year.

Can this be construed as a tax bonanza in any sense? And is this touching even the tip of the iceberg as far as the stock of black money in the Indian economy is concerned, which by various estimates ranges from 20% to 50% of India's GDP? More importantly, is all the pain undergone by the people worth an income tax collection gain of 0.3% of GDP?

To put things in perspective, the union government's total expenditure in 2017–18 is projected to be around 12.7% of GDP and the fiscal deficit, 3.2% of GDP. The gross

non-performing assets (NPAs) of 38 listed banks in India have crossed 4.6% of GDP by March 2017, and the public sector banks (PSBs) had written off NPAs worth 0.5% of GDP in 2016–17. Even if the post-demonetisation income tax projections for 2017–18 turn out to be accurate, it would imply nothing more than drawing out a few droplets from an ocean, let alone flushing out black money.

Elimination of Fake Currency and Terror Financing

The finance ministry's statement claims:

> As a result of demonetization of SBNs, terrorist and naxalite financing stopped almost entirely. No high quality FICN was found/seized by intelligence operations, including at the Indo-Bangladesh Border since demonetisation. Further, it also adversely affected the hawala operators and dabba trading venues.

Table 1: Fatalities in Terrorism Related Violence in India

	India				Jammu and Kashmir				North East				Left-wing Extremism			
	C	SP	T	Total	C	SP	T	Total	C	SP	T	Total	C	SP	T	Total
2015	181	155	386	722	20	41	113	174	62	49	162	273	93	57	101	251
2016	199	179	515	893	14	88	165	267	61	17	82	160	123	66	244	433
2017*	139	132	270	541	43	54	142	239	27	10	39	76	69	68	88	225

Note: *Data till August 27, 2017.

C – Civilians, SP – Security Personnel, T – Terrorist

Source: South Asia Terrorism Portal

However, such assertions fly in the face of facts. Data from the South Asia Terrorism portal (Table 1) show that total fatalities in terrorism related violence in India have hardly seen any significant decline in 2017 (data till August 2017) compared to the two previous years, with violence in Jammu and Kashmir actually witnessing an escalation. While there are several complex reasons for the rise and fall in terrorism related violence anywhere, there is hardly any sign of a decline in such violence in major conflict zones in India, post-demonetisation. It can rather be argued that demonetisation has had no impact on the financing of terror, unless the finance ministry is suggesting (without evidence of course) that the perpetrators of such

violence are now suddenly being able to carry on their activities free of any cost.

As far as fake currency is concerned, the evidence is even murkier. The affidavit filed by the government in the Supreme Court estimated Rs 400 crore worth of fake currencies circulating in the Indian economy, on the basis of data from a 2016 study conducted by the Indian Statistical Institute (ISI) (commissioned by the Ministry of Home Affairs or MHA). The RBI annual report states that total counterfeit currency notes of Rs 500 and Rs 1,000 denomination detected till March 2017 were worth only Rs 41.5 crore, which is around one-tenth of the ISI–MHA estimate for 2014–15. This implies that only a miniscule 0.003% of the Rs 15.28 lakh crore worth currency notes returned to the banking system post-demonetisation, were found to be fake.

Therefore, the FICN estimates that drove the demonetisation decision were over-the-top and alarmist. There was absolutely no justification for nullifying 84% of the economy's currency in circulation in one stroke just to neutralise Rs 41.5 crore worth of fake currency. Moreover, the RBI's annual report shows that Rs 13.75 lakh worth of counterfeit in the newly issued Rs 2,000 and Rs 500 currency notes were detected by March 2017. Thus, the infrastructure of counterfeiting Indian currency notes appears to have remained untouched by demonetisation.

Impact on the Economy

The finance ministry's statement defiantly observes:

> Some people had expected a very large shock to economic growth on account of demonetization. Their expectations have been belied. India has continued to be on path of one of the strongest growths in the world.

This is yet another instance of the finance ministry's state of denial. The quarterly growth rate of the economy (gross value added or GVA at basic prices) came down from 6.8% in the second quarter of 2016–17 (July–September) to 6.7% in the third quarter (October–December) and 5.6% in the fourth quarter (January–March). The recently released data on the first quarter of 2017–18 (April–June) show the growth rate of GVA at 5.6%, down from 7.6% from the first quarter of 2016–17 (Figure 1).

Not only has the overall economy slowed down considerably in the post-demonetisation period, growth in sectors like manufacturing, agriculture, mining and construction have fallen sharply. Had it not been for higher growth in service sectors like “public administration, defence and other services” and “trade, hotels,

Figure 1: Quarterly Estimates of GVA at Basic Prices (at 2011–12 prices)

Source: Central Statistics Office, Government of India

transport & communications" over the past two quarters, the economy would already have slid into a recession (Table 2).

Two figures from the Economic Survey 2016–17 Volume–2[7], sharply bring out the adverse impact of demonetisation on economic activity. Figure 9 (p 12) shows how growth in real investment (gross fixed capital formation or GFCF growth) plummeted to negative territory in the fourth quarter (January–March) of 2016–17. Figure 22 (p 23) shows how manufacturing (Index of Industrial Production or IIP) growth and the real growth rate of industrial credit collapsed in the last two quarters (October to March) of 2016–17, following demonetisation. The latest data on the first quarter (April–June) of 2017–18 show continued deterioration in investment and manufacturing activity.

An analysis undertaken in Economic Survey 2016–17 Volume–2 based on data from 23 emerging economies has shown that no other such economy has experienced 7% growth rate in the last 25 years with such low levels of growth in investment, exports and credit that India has witnessed over the past two years. This raises fundamental

[7] https://goo.gl/rtrDtT

Table 2: Sectoral Quarterly Estimates of GVA at Basic Prices at 2011-12 prices

Categories	2015–16 Q1	2015–16 Q2	2015–16 Q3	2015–16 Q4	2016–17 Q1	2016–17 Q2	2016–17 Q3	2016–17 Q4	2017–18 Q1
Agriculture, Forestry & Fishing	2.4	2.3	-2.1	1.5	2.5	4.1	6.9	5.2	2.3
Mining & Quarrying	8.3	12.2	11.7	10.5	-0.9	-1.3	1.9	6.4	-0.7
Manufacturing	8.2	9.3	13.2	12.7	10.7	7.7	8.2	5.3	1.2
Electricity, Gas, Water Supply & Other Utility Services	2.8	5.7	4	7.6	10.3	5.1	7.4	6.1	7
Construction	6.2	1.6	6	6	3.1	4.3	3.4	-3.7	2
Trade, Hotels, Transport & Communication and Services Related to Broadcasting	10.3	8.3	10.1	12.8	8.9	7.7	8.3	6.5	11.1
Finance, Real Estate & Professional Services	10.1	13	10.5	9	9.4	7	3.3	2.2	6.4
Public Administration, Defence & Other Services	6.2	7.2	7.5	6.7	8.6	9.5	10.3	17	9.5
Gross Value Added at Basic Price	7.6	8.2	7.3	8.7	7.6	6.8	6.7	5.6	5.6

Source: Central Statistics Office, Government of India

questions regarding India's GDP growth rate itself, which several economists have long held to be grossly overestimated. Even that overestimated growth data has shown a considerable slowdown following demonetisation, contrary to the assertions made in the finance ministry's statement.

Digitisation of Payments

The finance ministry's statement cites the decline in cash circulation in the economy and the increase in digital payments as the successes of demonetisation:

> [T]he effective currency in circulation today is only 83% with full remonetisation having taken place ... Digital payments have increased by 56% from 71.27 crore transactions in October 2016 to 111.45 crore transaction till the end of May, 2017.

The Economic Survey 2016–17 Volume–2 had already noted the fall in the cash–GDP ratio from 11.3% in 2015–16 to 9.7% in 2016–17. However, two questions remain unanswered in this regard. First, whether "full remonetisation" has indeed taken place, in terms of currency supply being fully reflective of the demand

for cash in the economy. Unlike the assertion made in the finance ministry's statement, it is not possible to conclude on the basis of available data, how much of the shift to digital payments is a result of the currency shortage induced by demonetisation, and hence transient, rather than a permanent and voluntary shift to digital payments. Data on debit and credit card transactions at point of sale (POS) for both less affluent (RuPay card holders) and affluent consumers provided in the Economic Survey show a sudden spike in such transactions following demonetisation till December 2016, after which they fell significantly, although to levels higher than the pre-demonetisation period. It is too early to arrive at strong conclusions on that basis.

The more important issue, however, is whether a massive shock like demonetisation was at all necessary to shift cash-users to digital payments. While higher profits accruing to a handful of digital payment service providers are obvious, the gain to the larger economy and the people from such a shift should not be exaggerated. Digitisation may enhance the convenience and transparency of transactions, but it can also increase transaction costs as well as possibilities of misuse, given India's abysmal levels of financial and digital literacy and the deeply unequal socio-economic structure. A case in point is the Pradhan Mantri Jan Dhan Yojana. The finance ministry's statement says:

As on 16 August 2017, the number of Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts stands at 29.52 crore with rural accounts comprising 60% of it. Thanks to demonetization led efforts, zero balance accounts under PMJDY declined from 76.81% in September 2014 to 21.41% in August 2017.

Several media reports suggested that the Jan Dhan Yojana (JDY) accounts were utilised across various states to launder illicit cash hordes (India Today 2016; Shankar 2016). The fact that 99% of demonetised currency found its way back into the banking system is itself proof that much of the black money stored in cash was deposited in the banks.

The search and seizure statistics of the revenue department data show that around 6%–8% of undisclosed income has been found to be stored in cash and other liquid assets. However, the rapid decline in zero-balance JDY accounts post-demonetisation, which the finance ministry's statement has cited as a success story, may actually reflect their misuse for post-demonetisation money laundering. The decline in cash-use and the increase in digital payments after demonetisation had had no deterrent impact whatsoever on such money laundering channels.

Demonetisation Costs Exceeded Benefits

While the benefits of demonetisation as claimed in the finance ministry's statement are either meagre or illusory, where the statement remains entirely silent is on the costs of demonetisation. Economic Survey 2016–17 Volume–1 (Chapter 3) recognised at least the following fiscal costs of demonetisation:

- Costs of printing new notes over and above normal replacement.
- The costs of sterilising the surge in liquidity into the banking system through the issuance of Market Stabilisation Scheme bonds.
- Loss in corporate and indirect tax revenues of the centre in the case of decline in economic growth.

The annual report of the RBI has informed that the surplus paid by the RBI to the central government came down from Rs 65,876 crore in 2015–16 to Rs 30,659 in 2016–17. The reduction in RBI's surplus was because of reduced earnings and higher expenses in 2016–17, much of which were a direct outcome of demonetisation. The cost incurred on printing notes increased from Rs 3,421 crore in 2015–16 to Rs 7,965 crore in 2016–17, that is, an increase of Rs 4,544 crore. This significant additional expense was incurred because supply of new currency notes rose by 37% over the previous year, with the supply of higher denomination notes rising by 160%, alongside higher freight and forwarding expenses. RBI suffered a whopping loss of Rs 18,004 crore in 2016–17 compared to last year on account of interest payment expenditure due to absorption of surplus liquidity in the banking system post-demonetisation. Therefore, RBI lost Rs 22,548 crore in 2016–17 compared to the previous year due to demonetisation related costs.

Even if we make a conservative estimate of a reduction in the real GVA growth rate in 2016–17 by 1% due to demonetisation, the loss in GVA comes to approximately Rs 1 lakh crore. Assuming a tax–GVA ratio of 9% (same as Central Statistics Office's estimates for 2016–17), the tax revenue loss of the government would amount to another Rs 9,000 crore.

In sum, the central government lost at least Rs 31,500 crore in revenues on account of demonetisation, by conservative estimates, while it has so far gained only around Rs 4,000 crore in tax revenues in return, going by the information provided by the finance ministry. Therefore, there has been a net loss of Rs 27,500 crore so far, to the government alone. There are of course other significant costs that were inflicted on

the private sector, which led to losses in earnings and jobs in both the formal and informal segment of the economy.

The fact that the finance ministry has chosen to officially educate the Indian people on the "immensely beneficial" impact of demonetisation on the same day when the RBI reported that 99% of the currency notes has returned to the banking system, is symptomatic of the post-truth world that we live in today, where the establishment has turned its back towards the concerns of factual accuracy and credibility. Despite the smog of misleading official propaganda, however, the fact remains that even the fiscal costs of demonetisation have far surpassed its benefits, let alone its impact on the rest of the economy and the people.

Prasenjit Bose *is an economist based in Kolkata.*

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Economy yet to recover from the body blow of demonetisation, admits Economic Survey

The Economic Survey stated that long term benefits of the exercise are yet to materialise.

- Mayank Jain

A closed ATM in Karnataka, Source: Agastya Chandrakant, Wikimedia Commons

It is now over nine months since the government suddenly withdraw 86% of India's currency in November but India's Chief Economic Advisor Arvind Subramanian remains unsure if this note ban or demonetisation actually helped any sector of the Indian economy, the latest volume of Economic Survey tabled in Parliament on Friday suggests.

The Chief Economic Advisor is always the leading author of the Economic Survey but it is a joint effort of the government led by key writers in the finance ministry. It often goes through reviews of select parts because it is meant to provide a critical view of the past as well as project the economic and development direction for government to follow in near and long-term future. This iteration of the report was keenly awaited as it provided the first chance for Arvind Subramanian to take stock after a series of data on the impact of demonetisation has already been revealed.

While this latest edition of the Economic Survey was supposed to come with more macro-level data and evidence to make conclusions about the efficacy of the move, the only conclusion Subramanian seems to have drawn is a confirmation of economists' worst fears that demonetisation jeopardised both the formal and informal economy and even after nine months, recovery is not yet complete.

In the mid-term Survey, Subramanian stated that demonetisation hit the informal sector hard even as there is a lack of data to quantify the amount of stress those in the informal economy had to bear because of the move.

Informal sector hit

Maintaining that the demonetisation exercise will result in short-term costs, the Economic Survey stated that most sources of data capture the formal sector, which was largely insulated from the demonetisation shock. The Survey looked at two-wheeler sales as a proxy for the health of the informal sector.

> "A proxy for informal sector effects is two-wheeler sales which showed a rapid decline following demonetization but has, after more than six months, almost returned to pre-demonetization levels. The cumulative shortfall between actual sales and the trend lines is a proxy for the short-run informal costs"
>
> — *Economic Survey of India, Volume II*

A closer look at the chart provided in the Survey suggests that while two-wheeler sales are almost back to the level seen in October 2016 (pre-demonetisation), they are yet to match even the levels seen in September – indicating a prolonged recovery phase rather than growth in income levels of people.

At the same time, the Survey also analysed the demand for insurance – as households facing a cash crunch would have asked for insurance post demonetisation as their income sources dried up. Insurance implies formal social sector welfare funds as well as informal transfers from family and friends.

The Economic Survey studied district-level data for the Mahatma Gandhi National Rural Employment Guarantee Scheme and concluded that there was indeed increased demand for work in the demonetisation period, especially in the lesser developed states.

> "There is suggestive evidence of increased demand for insurance over the demonetization period (early November 2016-March 2017). This is especially strong for the less developed states, comprising Bihar, Chattisgarh, Rajasthan, Jharkhand, West Bengal, and Odisha which witnessed about a 30 percent increase in mandays worked."
>
> — *Economic Survey of India, Volume II*

No impact on the housing sector

When demonetisation was announced, it was hoped that it would rein in corruption by bringing more areas of the economy into the formal sector and prevent black money from being parked in real estate projects, which leads to artificially high prices in the housing industry. The withdrawal of high-value currency was seen as a step towards this aim that could bring down housing prices by removing black-money components in these transactions.

The Economic Survey tabled on Friday stated that this doesn't seem to have happened at all. It said that the rate of rise in housing prices was coming down even before the demonetisation exercise even as it reduced further post demonetisation. However, it noted that prices have started rising again, thus reversing what was earlier being seen as a demonetisation-linked achievement by some.

> "Even prior to demonetization, there was a deceleration in house price inflation, and there was a further reduction in prices post demonetization. The decline has since been reversed, and prices appear to be rising again."
>
> — *Economic Survey of India, Volume II*

Tax base widens but collections unlikely to rise

The first volume of Economic Survey tabled in Parliament had called it a "radical, unprecedented move" which would tackle the problem of corruption, counterfeit currency and bring more people under the tax net. While the updated version released on Friday says that an additional 5.4 lakh people came under the tax net after demonetisation, it added that actual tax collections may not increase by a large amount.

> "It is, however,interesting that the average income reported of the new taxpayers-Rs. 2.7 lakh- was not far above the tax threshold of Rs. 2.5 lakh, so

the immediate impact on tax collections was muted. The full effect on collections will materialize gradually as reported income of these taxpayers grows."

— Economic Survey of India, Volume II

Industry continues to bleed

On Friday, Economic Survey's second volume was released which pointed out that demonetisation did lead to a slowdown in the industrial growth in the third and fourth quarters of the last financial year. By evening, however, a more worrying statistic was released by the government which showed that factory output in the country shrunk for the first time in four years in June this year, as shown by the index of industrial production.

While it was assumed that there would only be short term pains for industry due to lower demand by consumers, the IIP numbers proved that the impact of demonetisation continues to linger on for Indian manufacturing companies, economists said[8].

The Economic Survey, however, took note of the industrial slowdown as well while admitting[9] that achieving the projected gross domestic product growth target of 7.5% could be difficult. At the same time, it took note of the new index of industrial production series which showed a slowdown of the industry in the last two quarters of the financial year ended March 2017.

"The new series captured the slowdown in industrial growth in Q3 and Q4 post demonetisation, while the old series showed an acceleration in growth in the same period," the survey said.

Mayank Jain *is a reports with* scroll.in.

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[8] https://goo.gl/d7EK8q
[9] https://goo.gl/xeAEAg

The ghost of demonetisation

In rural Marathwada, where the agrarian trade chain is cash-based, farmers are still reeling from the effects of the November 2016 demonetisation – with bounced cheques, poor access to banks, and falling crop prices.

- *Parth M.N*

Ten months after currency notes of Rs. 500 and Rs. 1,000 were scrapped on November 8 last year, the ghost of demonetisation continues to haunt Deepak Badavne.

In early November, Badavne had harvested 31 quintals of cotton from his 2.5 acre farm. He expected good returns on it. "The trader arranged for the truck and loaded the cotton from my house," he says. But just then, the demonetisation-induced cash crunch hit the farm sector. The payment for Deepak's cotton didn't materialise. 'The trader is now saying he will pay by Diwali [by mid-October 2017]," he says.

The trader owes Badavne Rs. 178,483 for his cotton yield. A cheque he received for this amount on March 24 bounced– thrice. "I am not the only one," says Deepak, 31, sitting under a tree in Karajgaon village on the outskirts of Aurangabad city in Marathwada, Maharashtra. "There are others in my village who have been similarly duped."

Badavne, who lives in a joint family and has two children, has gathered some of them in this village of 1,300 people – people who are also waiting for their dues or have received cheques that bounced. In April, nearly six months after the demonetisation, Deepak's brother Jeetendra, 38, got a nearly two lakh rupees for 34 quintals of cotton. That too bounced. "What am I supposed to do with this if I cannot have cash in hand?" he asks. "I need cash to buy inputs for the cropping season [that started in mid-June]."

On the morning of our visit in June, the trader in question had left the village to avoid reporters. So he was unavailable to give his version of the events, and is therefore not named in this story.

When the angry group barged into his house, his mother threatened that they would be responsible if her son committed suicide. "The trader said the cash crunch was responsible for the delays in payment," says Deepak, "but the sowing season does not wait for us. We have filed an FIR [at the Karmad police station, around four kilometres away, on charges of cheating]."

Annie Raja (National Federation of Indian Women) on stage during protests on 100 days of demonetisation, photo credits: Joe Athialy

In Hasanabadwadi village on the Aurangabad-Jalna highway, Atul Antarai, 28, was also struggling in June, months after the demonetisation. He has 1,000 mosambi trees on five acres. "I have a private well and borewell," he says, "so I manage to water the orchard better than many farmers cultivating mosambi around me."

In the first week of November, a trader had approached Antarai and offered him Rs. 6.5 lakhs for the entire produce. "I had planned on harvesting around February," he says. "And going by the rate of Rs. 30-35 per kilo, I expected to make Rs. 10 lakhs from the crop. I told the trader I would get back to him."

On November 8, however, after the government's 'notebandi' order, the same trader did not have the cash anymore, and rates plummeted. "I eventually got Rs. 1.25 lakh for the entire yield," says Atul. "Where I had expected Rs. 30–35 a kilo, I ended up selling the fruit at Rs. 3 a kilo."

Watch video[10]: 'I got 3 rupees a kilo instead of 30-35 for my mosambi' after the demonetisation last November, says Atul Antarai of Hasanabadwadi village.

[10] https://goo.gl/H1UWWb

Every year, the transactions for crops in Marathwada are made in cash. Relatively larger amounts than those for food crops get exchanged for cotton and mosambi – so after the demonetisation, when cash was in short supply, the impact on cotton and mosambi farmers was especially severe. November is when Marathwada's farmers harvest cotton, and it's just a few months before the year's first mosambi harvest of February-March (the second one is usually in August-September).

The rates plummeted and traders did not have cash to buy stock from farmers. The cashless future that demonetisation promised never came, and many in rural Marathwada scoff at the idea. “ATMs are concentrated in cities,” says Ashok Yedhe, a farmer in Anjanvati village of Beed district, who cultivates soyabean and jowar. “Just to get to a bank or an ATM takes kilometres of travel for us.”

ATMs in rural areas are few and far between. Of the 222,762 ATMs in the entire country, according to Reserve Bank of India (RBI) data (till June 2017) only 40,997 are in rural centres – this means less than 20 per cent of the ATMs in India are available for the 69 per cent of the population that is classified as rural (by Census 2011).

Devidas Tuljapurkar, joint secretary of the All India Bank Employees Association, points out that it is also important to note the run time of ATMs. "In cities, the cash is replenished almost every day," he says. "That is not the case in rural areas, where the run time of ATMs is about 20 per cent what it is in cities."

Besides, Yedhe points out, online transactions cost more, and a farmer cannot afford to pay extra money for every such transaction. In any case, he explains, cash is central to any transaction in a rural economy. “We cannot Paytm 250 rupees to an agriculture labourer,” he laughs. “Most of the time, a farmer gets cash and uses it immediately to buy inputs or rations or fodder. The entire trade chain in rural India is cash-based.”

To add to the cash crunch after November 2016, banks in rural areas were the last to get the new currency notes. For months, the RBI did not even accept the old notes deposited with the district cooperative banks, where most farmers have their accounts. Hanumant Jadhav, managing director of the Latur District Cooperative Bank, says, “For 7-8 months we continued to struggle, when district banks were not remonetised and all our ATMs were dry.”

Watch video[11]: 'A farmer can't go cashless', insists Deepak Badavne of Karajgaon village.

In Karajgaon too, farmers say the push towards a cashless economy is city-centric, ignoring the majority living in the villages. “We usually use cash the same day we get it from any source,” says Deepak. “If we start going to the bank to withdraw cash for each transaction, can you imagine the amount of money and time we would be spending? Cashless sounds fine in Mumbai and Delhi, but it is a farce in rural India.”

Deepak has been unable to repay the 2016-17 agricultural season's bank loan. “I owe the Bank of Maharashtra in Karmad Rs. 1.5 lakhs,” he says. “I have been repaying every year, so I am eligible for a new crop loan. But this year, I have been a defaulter.”

Deepak has now borrowed Rs. 240,000 from a private moneylender at 3 per cent interest per month. He already has a debt of Rs. 2 lakhs from a private moneylender. He has used the new loan for the ongoing kharif season and repaid a part of his bank loan. But he remains worried. “The harvest does not look promising this year due to intermittent rainfall,” he says.

And in Hasanabadwadi village, Atul is wondering if he will have to phase out his mosambi orchard. “The well has run dry. Rainfall has not been great. The harvest [the year's second, of August-September] could be mediocre. And because I lost a lot of money after demonetisation, it is difficult to purchase water to keep the plants alive."

Parth M.N. *is a 2017 PARI Fellow. He is a special correspondent for India with the 'Los Angeles Times' and freelances at various online portals.*

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[11] https://goo.gl/5VaQMe

Demonetisation Has Broken Bundelkhand's Labour Migration Cycle

While those in the villages cannot afford the bus trip that takes in the city, people who had migrated earlier are coming back to the village after being unable to work.

- Ajoy Ashirwad Mahaprashasta

Chhatarpur: An hour's drive on a rugged highway from Madhya Pradesh's Chhatarpur – home to the famous early medieval Khajuraho temples – and another hour-long sluggish, bumpy ride on a broken *kuccha* road will get you to Bhagwan village. Flanked by hillocks on one side and a flooded river on the other, the remote village's unfriendly terrain makes commuting in the area difficult. People in and around Bhagwan plan their work around one minivan to Chhatarpur town that goes past the village twice a day.

It almost sounds unimaginable that a privately-operated 45-seater bus, which runs daily from Bhagwan to the national capital of Delhi (approximately 650 km), has become the lifeline for thousands of people living in the area. But for this one mode of transport, many here would have been bereft of any form of employment.

For many decades, landless Dalits, Adivasis and a section of economically backward classes (EBC) of the area – more than 25 % in Bundelkhand – have been migrating to work in brick kilns, factories and construction sites. Delhi and other adjoining areas have been their favourite destinations. In every village of Chhatarpur, a part of Bundelkhand, thousands leave their homes with families for around eight months in a year. They return in the monsoons, when labouring in cities is generally hit by rain.

According to various estimates[12], around 50-70% of rural households living under the poverty line in Bundelkhand have at least one member who migrates annually or has migrated permanently. A survey[13] last year pegged the number of people migrating to Delhi at around 18 lakh. Seasonal migration for work has become a routine part of life here.

Due to the nature of this constant traffic, private bus operators run daily buses from remote villages in Bundelkhand to Delhi.

[12] https://goo.gl/L23Lfz
[13] https://goo.gl/YnWKDd

“The bus from Bhagwan never carries less than a 100 people, all packed into this 45-seater, every day. Since this bus is the easiest and cheapest way to reach Delhi, most prefer it at the cost of their comfort,” said Jitendra Thakur, a forest officer posted in Bhagwan.

However, the usually over-crowded bus, which never had a shortage of passengers during this season, now finds it difficult to even fill all the seats. The shortage of cash in the area because of the ban of Rs 500 and Rs 1000 notes has disrupted migration patterns and have left this floating population in a state of despair.

“Most of them do not even have Rs 600 (the cost of one-way travel) to purchase a ticket. Around this time of the year, the traffic is so high that we start to reserve seats. This year, we are desperate for passengers. It is difficult for us to meet our costs,” said Dhan Singh, the driver of the bus.

Families which migrate earn substantially more than the wages given in their villages. For the landless poor, agricultural labour or sharecropping is the only way to survive. However, a feudal economy and larger agrarian distress have intensified their exploitation at the hands of 'upper' caste landed peasants over the last few decades.

Thus they prefer to work in cities for higher wages. A chain of labour contractors – extending right from the village level to the cities – operating on the basis of commissions ensures that work in cities in sustainable, however exploitative it may be.

“For every thousand bricks, a labourer is paid Rs 500. If every member of the family, including the children work, a family of five can make Rs 2,500 per day. Despite the high cost of living in cities, each family saves at least Rs 10,000 a month. However, to cast 1,000 bricks out a day, each would have to put in at least 14 hours every day,” said Ravi Tomar, an activist with Parmarth, a water rights advocacy group.

Similarly, their incomes in factory work or construction sites also fetch them a higher wage than agricultural work in their villages. Although their children's studies are badly affected because of migration, the assurance of a permanent income is enough for the poor in the region to migrate.

People protesting on 100 days of demonetisation, photo credits: joe athialy

Impact of demonetisation

While people are struggling to go to cities, many who had already migrated are rushing back home.

Usually, people migrate after a labour contractor arranges work at particular sites. In the last one month, however, none of the labour contractors could fulfil the demand for work in Chhatarpur and the adjoining Tikamgarh district. As a result, many who migrate during the November-December cycle are stranded without work in their respective villages.

"The labour contractor keeps saying that he is looking for work. It has been 15 days he has not got back to me. *Notebandi* has affected work in cities too, he says," Dhaniram Raikwar of Bada Mallaya village in Chhatarpur told *The Wire.*

Those who found work are struggling to arrange money for travel and other minor expenses required to migrate. "No one in our community has any money right now that we can borrow. Usually, the contractor gives us money for initial expenses but he has asked to arrange the cash on our own this time. This has made things really difficult," said Puran Kumar of Bhagwan.

"The only option left now," he added, "is to borrow money from the *bania* (moneylender). Many have already done that. That is better than staying here without any income."

Debt cycles have deepened in the area as, left with no other alternative, many have sourced their initial expenses on interest or are contemplating to do so. Lack of agricultural work because of intensified agrarian distress[14] ushered in by the note ban has left the poor in an unpredictable situation.

Reverse migration

The other visible evident trend is a sort of reverse migration. Many who had migrated after Diwali, in the month of October, have come back to their respective villages. In the normal cycle, once people leave after Diwali, they return only before the next monsoon.

"*Ek time khana bhi nahin mil raha tha* (I wasn't being able to afford even a single meal a day)*,"* said Pancham Sour of Kaudiya village in Tikamgarh.

Sour's family and, along with ten others, had migrated to a constuction site in Bhiwani, Haryana. The cash crunch induced by demonetisation derailed payments so much that they were forced to return.

"Labour contractors said they did not have cash. Some of us were offered old notes, which no one was ready to take. Then he (the contractor) asked us to work on credit or take only Rs 150 as *dehari* (daily wage), which is generally Rs 300," said Lakhan Lal of Kaudiya, who had migrated with Sour.

Reduced wages and delays in payments have created a huge labour deficit in cities, with most people returning to their villages[15]. This has affected both the labourers and contractors alike. In at least ten villages of the two districts, which *The Wire* visited, scores of people have come back from cities, precipitating a reverse migration-like situation.

"At least in our village, people help each other. If I do not have *atta* (wheat flour), I can ask someone. But in cities, you have to buy everything. Initially, we used some savings there but if we did that for some more time, we would have risked finishing everything that we had. So we thought, coming back is a better option," said Lal.

[14] https://goo.gl/4GEC5j
[15] https://goo.gl/ZUd7V6

Most expected the disruption caused by demonetisation to end soon, so that they can go back to cities.

"*Jo jaana chahta hai woh ja nahin pa raha, jo gaye woh wahan rahna nahin chahte* (People who want to go out can't go, and those who had already left can't stay there)," said Om Prakash Sour, a Mahatma Gandhi National Rural Employment Guarantee Act (NREGS) activist in Kaudiya village. Sour said that the village has been demanding NREGS work since mid-November but the Madhya Pradesh government remains unmoved.

Dhan Singh, the bus driver, is perhaps the biggest witness to this dismal state of affairs. He started feeling the pinch of demonetisation soon after November 8. "Usually, in each trip from Bhagwan, we made around Rs 24,000. Since *notebandi,* we are struggling to get past even the Rs 10,000 figure. But the traffic has swelled in trips from Delhi. There is a huge rush while coming back, and that has saved us until now, " he said.

Ajoy Ashirwad Mahaprashasta *is Deputy Editor at The Wire, where he writes on the realpolitik and its influences. At his previous workplace, Frontline, he reported on politics, conflicts, farmers' issues, history and art.*

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While Destroying Delhi's Informal Markets, Demonetisation Also Lead to Rising Informalisation

Beside job losses, demonetisation had hardly any impacton formalising the regulatory process of cash-based transactions across identified market arrangements in Mayur Vihar and Old Delhi bazaars.

- *Deepanshu Mohan and Richa Sekhani*

Vendors in Dilli Haat. Credit: Deepanshu Mohan

The conceptualisation of formality and informality in understanding the market dynamics of the exchange of merchandise (or visible goods) and its role as a source of livelihood for billions of people living in the developing Global South (particularly in major cities within South Asia and Southeast Asia) continue to invoke interesting academic discourses across social sciences.

In India, the widespread existence of the informal sector within cities like Delhi is seen in commercial exchanges of merchandise in the form of street vending activities and local weekly markets operating as *tehribazaars* and *haats*.

Post the announcement of the demonetisation of the Rs 500 and Rs 1000 currency notes in November 2016, the worst impact of the shock announcement was seen in these cash-run informal *bazaars* across Delhi. Some key empirical trends can be observed from interviews of merchants and vendors operating in the weekly market in Mayur Vihar (East Delhi) and the old markets of Chawri Bazaar, Chandni Chowk and Meena Bazaar (old Delhi).

The empirical observations highlighted here are drawn from a six-month field study (undertaken by the Centre for New Economic Studies at O.P. Jindal Global University). The objective of the study was to understand the governing dynamics of market activities in a few local markets in Delhi, in a post-demonetisation context.

Observations from Mayur Vihar

In Mayur Vihar, there were approximately 13 weekly markets around a decade ago, now increased to around 280 in number. One of the largest markets here is a weekly bazaar set up every Wednesday near D-Park, Pandav Nagar. This weekly market came into existence some 30 years ago, with a few merchants selling garment products through street vending.

However, most traders in the market came to the area to sell a wider basket of products only a decade ago, after the establishment of a Mother Dairy plant in the vicinity (less than 100 m from the market area), triggering residential expansion and consumer demand in the neighbourhood. The stalls in this market are set up across footpaths on small wooden planks (for the display of goods) and have minimal infrastructural support. The market is operational between 4-9 pm every Wednesday.

The table below lists the main merchandise sold in the market. Post-demonetisation, we observed an increase in the number of garment sellers who claimed to be a part of migrating groups from rural parts of Uttar Pradesh and Rajasthan.

Figure 1: Products sold in Mayur Vihar weekly market

Products for which multiple sellers exists (more than four)	Products with few sellers (less than three)	Products exclusively sold by a single seller
Cotton apparel with winter wear and women's Indian wear	Bakery items	Mirrors
Hosiery and inner wear	Pasta, spaghetti, fryums, etc.	Mouth fresheners
Plasticware: buckets, tumblers, cups, children's toys and plastic utensils	Packed pickles	*Diyas*
Steel utensils	Wooden combs	Watches and clocks
Mats, doormats, small carpets and blankets	Rare fruits like kiwis, strawberries and jackfruits	Remote controls for set-top boxes

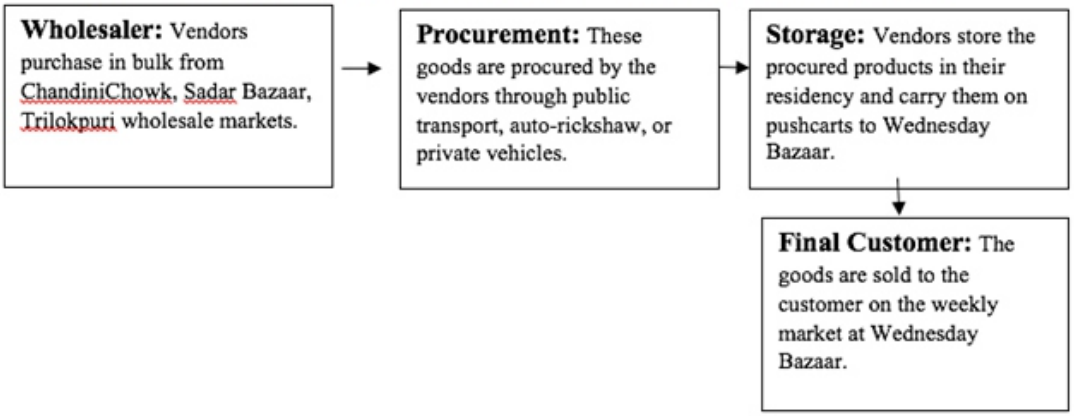
Some key findings from our interviews of vendors operating in the market include:

- Most merchants operating in the market are part of migrated communities from rural parts of Uttar Pradesh, who often sell their products on different days of the week across different weekly markets across Delhi. In the study report, we call them the *floating vendors*. Vendors selling garment products often purchase these goods from the old Delhi markets of Chandni Chowk and Chawri Bazaar, and maximise sales on a minimal profit margin.
- Post-demonetisation, the street-vending business for most vendors was wiped out for a month almost, during which the weekly market was closed, with limited cash available for purchase or sale. However, after March 2017 (three months after the announcement), market activity flourished with the increased presence of vendors. In the absence of lower-denomination currency notes (Rs 20, Rs 50 and Rs 100), some vendors used products with a

lower price as barter (so to give customers their change). A similar observation was noted in a previous study conducted in the India-Bhutan border area (in December 2016).

- The number of merchants selling a similar product basket (say cotton apparel, plasticware or steel utensils) shape the bargaining power for consumers in influencing a floating price range. No one seems to know the actual price of the product sold and most purchases are dependent on a classical supply-demand framework (the number of sellers vs the willingness of the consumer to buy the product) with no role for indirect taxing, the price ceiling in the price quoted.
- The chart below offers a social network analysis map detailing the chain process of inventory management for products procured to be sold by merchants at the market.

Figure 2: Inventory chain of goods sold by merchants in weekly Wednesday bazaar



The process of inventory management, which includes market aspects such as the inventory procurement of goods, inventory distribution of goods and inventory management and sales, is a key subject area in the business scholarship of supply chain management. However, most studies, in capturing supply chain processes and effects, remain centred on formal, regulated sectors of the economy (like manufacturing, fast-moving consumer goods or e-commerce).

In trying to assess the market impact of demonetisation, one of the biggest challenges faced by economists in depicting the impact of the cash crunch in the cash-run parts

of the economy stemmed from an inability to realistically estimate the statistical short-term impact with the limited data available on the governing dynamics and scale of informal markets. The short-term impact on inventory management of goods sold in Mayur Vihar reflected a deep loss of market activity (during the cash crunch), but this was time bound for a period of 6-8 weeks. In the medium term, however, (eight weeks after the announcement), we observed how the informal market base, including its agents (the merchants present), in eastern Delhi rapidly expanded.

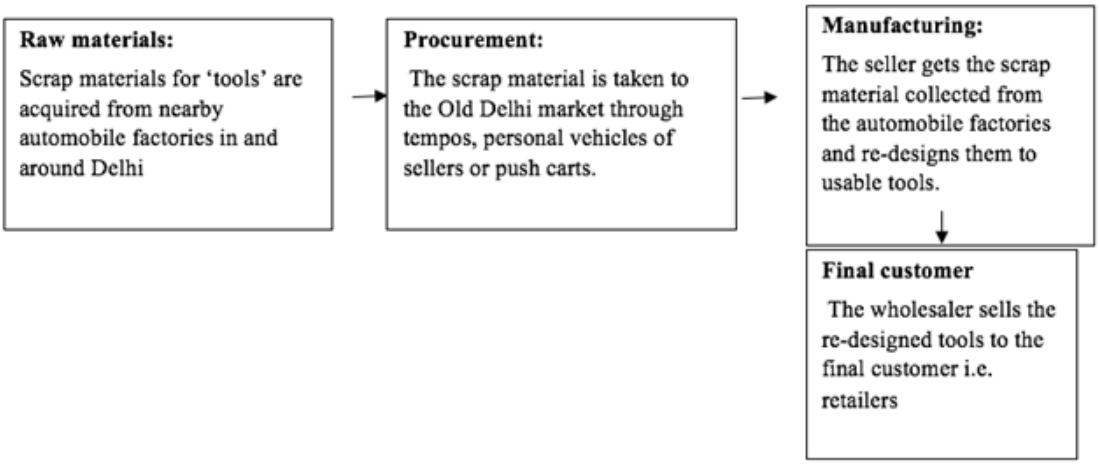
One of the key reasons supporting this observation is the rapid scale of migration into the city of people (with relatively low skills) who are absorbed by the shadow economic system in the absence of any opportunities within the organised sector.

Observations from old Delhi

During our study of markets of old Delhi (Meena Bazaar, Chandni Chowk and Chawri Bazaar), we interviewed around 30 merchants selling a wide basket of products, ranging from imitation brass jewels, used books, garments and plasticware to second-hand machinery goods. The spatial positioning of the markets in the old Delhi region is based on the strong historical importance of the area from the Mughal era, when the Jama Masjid was constructed during the reign of Shah Jahan. Markets such as the book market in old Delhi (located near Chandni Chowk) has been operational for the past 100 years and witnessed a major influx of merchant and booksellers after Partition in 1947.

Most vendors interviewed in Meena Bazaar set up their shops when they shifted to the city in the 1970s and still have unregistered stalls running entirely on a cash-based business model.

Below is a supply chain matrix on the inventory management of scrap tools and second hand machinery products sold near the Jama Masjid area of Motor Market.



Some of the vendors in old Delhi procure their tools from various parts of India like Pune, Bangalore and Gandhinagar, and also from abroad from countries like Germany, the US and the UK. Similarly, the brassware and imitation jewelry vendors in Chawri Bazaar procure their goods from Agra and villages around it, transporting the goods using tempos, which costs them approximately Rs 40-50 per kg. These goods are then sold to retailers, who buy them in bulk.

Another interesting aspect of studying markets in old Delhi is seen in the operational dynamics of the second-hand book market, where customers, usually students, sell their books to the retailers at a cheaper price, which is then re-sold (and is outside the formal accounting systems). The volume of revenue from second-hand book sales is huge and remains growing here. The selling price of books sold to the retailers depends on the edition of the book, the author of the book and the demand for the book. These factors help in determining the retail price. The retailers or book sellers in the market then sell it to the customers at a minimum of 50% profit margin.

Of course all these transactions and activities in the old Delhi markets remain part of an informal, unregulated set up. In a post-demonetisation scenario, some of the following observations were made during our study:

- Most markets located in the old Delhi region were the worst impacted after demonetisation. Almost all economic transactions in Chawri Bazaar, Chandi

Chowk, Meena Bazaar, Motor Market, Flower Market and Book Market are cash-based and it took months for merchants to resume their market operations on a day-to-day basis.

- Unlike the case of Mayur Vihar, markets reported loss of business in the medium term (between 8-12 weeks after the announcement). The loss of economic livelihood for some of the merchants, especially those doing business in perishable goods (like fruits, eatables and bakery items) was severe.
- It was only after mid March that businesses with a smoother flow of cash (in form of new Rs 2,000 and Rs 500 currency notes) resumed with a reasonable consumer demand. However, most merchants complained of not having enough small-denomination currency notes for change, which forced them to barter certain goods in exchange (similar to the Mayur Vihar case).
- The scale of business in terms of merchants selling goods across these markets have increased over the last six months, with more merchants operating as floating vendors selling garment products, plasticware and steel utensils. Most of these floating vendors are part of migrant trading communities, with members of the group selling products across the city on different days of the week. In old Delhi, we saw most of these vendors positioned outside metro stations to provide easier access to consumers.

Towards an inclusive view on urban informality

From the observations made, it was evident that in spite of the shock effect of demonetisation on commercial trade in these informal markets, the lack of employment opportunities within the formal sector is consequentially linked to an increasing degree of informalisation in market activities, which is visible for both migrating communities and the traditional trading communities.

In the context of informal markets, demonetisation had hardly any impact in formalising the regulatory process of cash-based transactions across the identified market arrangements. On the contrary, the short- to medium-term impact of the announcement caused a massive drop in market activity, affecting the economic livelihoods of most trading merchants. As a radical economic reform intended to curb the black economy, demonetisation can be seen as a major epistemic failure with no evidence on the extent to which there was any positive impact on the formal

economy structure of India. While on the other side, there is enough evidence on the negative effects and externalities caused by this impromptu macroeconomic experiment. The results of our study helps in reaffirming this view.

Most bazaars across Delhi operate on a large informal scale, engaging more than 60% of the people living in the city area with little infrastructural support (in terms of land allocation, essential utilities like power, water and so on). A lack of robustness in urban planning methods and existing policy discourse from the side of the state remains responsible for this. At the same time, in times of poor job creation (across formal sector groups), an ineffective skill development process and a widening gap between skills attained from an academic degree and the skills demanded by industries, one is likely to see a prophetic rise in informalisation of occupational activities across cities in the years ahead.

In terms of policy prescriptions, there is an urgent need for policymakers (particularly studying urban spaces and planning), to view urban informality in an inclusive way rather than use a dualistic policy lens in viewing such market spaces outside the formal, organised market set up. The use of subjective, ethnographic research methods, going beyond traditionally-used econometric tools, is required in policy assessment. Public policy analysis incorporating the greater use of mixed research methods, accommodating for a larger sample of survey-based interviews along with quantitative data (wherever available in secondary form) is critical for understanding the nature and differentiating form of urban informality.

Deepanshu Mohan *is Assistant Professor of economics and Executive Director, Centre for New Economic Studies at OP Jindal Global University, and* ***Richa Sekhani*** *is a former researcher at ICRIER, New Delhi.*

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Organised Loot and Legalised Plunder

A Retrospection of One Year of Demonetisation

One cannot but despair at how ill conceived the decision of demonetisation was and what catastrophe it brought on people. It has been one year since the fateful day of 8 November 2016, when demonetisation of Rs. 500 and Rs. 1000 notes was announced by the National Democratic Alliance (NDA) government. The past one year has unravelled the gruesome impacts one by one – on different sections of the people, mostly poor and marginalised and also, on the economy.

The occasion of one year is a good time to look back at some of them. The purpose of this booklet is to throw light on this lingering impact of demonetisation on the people. It starts with the thought provoking idea that the actual reason behind demonetisation was a part of "war on cash" post 2008 economic crisis and also looks at how the Demonetisation in India has been a continuous story of shifting goalposts. It then moves on to debunking the myth of demonetisation success and looks at its impact on agriculture sector, migrant labourers, informal economy and economic growth of India.

The bitter truth is that the black money is still there, counterfeiters are counterfeiting new Rs. 2000 notes and terrorists are still getting funds. Most importantly, people have still not recovered from the aftermath of the ban and the Indian economy is still in jeopardy from the twin shock of demonetisation and introduction of the Goods and Services Tax (GST).

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