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The Indian 2016 Demonetization: A Colossal Mistake

India is a country with an economy based in cash. This fact opens a large Pandora's box of problems, the black economy being one of them. According to Mayank Jain, an estimated twenty-six percent of the country's gross domestic product is made up of the black market, meaning that over one-fourth of the Indian economy is untaxed and unaccounted for. Though government officials have long been half-heartedly attempting to strike a blow to the shadow economy, its large size and role in the economy have prevented any real action. Nonetheless, on November 8, 2016, Prime Minister Narendra Modi announced the demonetization of the 500 and 1000 rupee notes with the aim to target the shadow market. However, despite his intentions being good, Modi's ban of the 500 and 1000 rupee notes is not a smart economical move and harms India more than it helps it.

The Suffering Of The People

One of the most important reasons Modi's move is ill-made is the huge impact the new rule has on the large lower class. As written by Nikhil Kumar, eighty-six percent of all circulating Indian cash is made up of the 500 and 1000 rupee notes. Ninety percent of all Indians rely exclusively on cash and pay for goods and services using these 500 and 1000 rupee notes. Roughly 233 million do not even have bank accounts on which they can lean on. Because of Modi's sudden announcement, many Indians are facing financial crisis and struggling to get by.

Even for those who do have bank accounts and can exchange their cash via ATM, accomplishing this is no easy feat. Though officials claim they have enough new currency, "...across India, ordinary citizens have been struggling to get their hands on the new cash, with long queues forming outside banks and ATMs up and down the country. The picture is the same at many post offices where cash can be deposited and exchanged" (Kumar). In addition, "many ATM machines simply aren't working, and when they are, [they] often run out of cash within hours of replenishing. And in the days after Modi's speech, it emerged that the new replacement bank notes were of a different size to the old ones, meaning country's roughly 200,000 ATMs will need to be reconfigured. (The government says it could not have made the changes public beforehand, as the cash swap plans had to be kept secret to avoid giving those with illicit funds the time to launder their cash hoards)" (Kumar).

All throughout the madness created by the ban, good leadership on the part of the government is nowhere to be seen, "with officials repeatedly tweaking regulations about who can withdraw how much money and in what circumstances, and where the old notes can still be used. The upshot is widespread public confusion in an already chaotic situation. Modi's announcement, for example, made clear that Indians could exchange up to 4,000 rupees (\$58) in old notes over the counter at banks and post offices until Nov. 24. Thereafter, Modi said, "the limit will be increased" until Dec. 30. But on Nov. 24, the government changed its mind: India's Finance Ministry said it was stopping over the counter exchanges, leaving the hundreds of millions of Indians without bank accounts in the lurch." Simply put, the government made a move without a clear plan of execution, making the already derogatory move even worse for the people. A ban on the use of the majority of the people's money was enforced on the country

without any way set for the innocent lower class to be able to make a living. There is no doubt that the move to demonetize was not for the benefit of the people.

An Economical Loss

The sudden ban did not only have a negative effect on the population but on the economy as well. Many businesses are suffering as a result of the move. ““All business, all industry, whether white or black, requires cash. When you [remove] such a large percentage [(about 86%)] of the cash, it’s like from a patient you’ve taken out [86%] of the blood [from a person],’ says Arun Kumar, a Delhi-based economist and author of *The Black Economy in India*... ‘It is already clear that discretionary spending is being affected, as people put off purchases because they don’t know if they can get cash’” (Kumar). Due to the limiting purchase habits people are taking on, all businesses are seeing drops in their sales. Anis Chakravarty, Lead Economist, Deloitte, quoted by Jain, says ““People are likely to only shop for necessities and hold back on other cash purchases till the situation improves or eases so there will be a big impact on the erstwhile informal economy which was running on cash.”” Because of this, Chakravarty analyzes that “...luxury commodities like gems and jewellery, automobiles and high-end branded products will see a drop in sales” (Jain). India is home to many businesses that sell goods that fall into these categories, so the sale drops here hurts the economy a noticeable amount.

These cutbacks also impact those employed in industries being harmed from the ban, such as “...an industrial hub that produces nearly 15 million bicycles a year. As cash-strapped customers stop or put off buying bicycles, factories are said to be cutting back on production and purchases of raw materials such as iron and steel. Workers’ shifts have been reduced, with many migrant workers forced to return to their home states” (Kumar). Employees and people with jobs

in other industries affected by the ban have also been suffering in a similar manner as those in the bicycle factory. Trade upon which the lower class depend on is seizing up. One such example is one of the country's largest fish markets in West Bengal. The crippled industry has put the lower class traders there on the very brink of poverty (Kumar). Overall, Modi's movement against the black economy, though unintentional, greatly hurt the white economy.

A Lack Of Efficacy

A very important point to note when determining the usefulness of Modi's ban is how potent the intended effect actually was. While the demonetization did hurt the black economy somewhat, it did not have nearly enough of an impact to be considered a successful move. This is due to the fact that the majority of black wealth is not stored as cash. "Only a tiny proportion of undeclared wealth is held in cash. In an analysis of income-tax probes, the highest level of illegal money detection in India was found to be in 2015–2016, and the cash component was only about 6%. The remaining was invested in business, stocks, real estate, jewelry, or "benami" assets, which are bought in someone else's name" writes Bhaskar Chakravorti, Senior Associate Dean of International Business & Finance at The Fletcher School at Tufts University and founding Executive Director of Fletcher's Institute for Business in the Global Context. Rarely is black money ever in the form of cash that the criminal hold onto, as they usually purchase property or gold (or something else of immense value that they can use as a medium for carrying the worth of their black money) or move it abroad by using foreign bank accounts. This means that the actual percentage of black wealth holders who suffer through this policy is very low.

Also, rather than the truly criminal and corrupt, it is the innocent who will be caught by Modi's policy. "... Hundreds of thousands of ordinary people (including farmers who do not

even have bank accounts) who hold cash but not black money will get caught out and the fear of harassment by officials could trap them in a bureaucratic net they don't know how to deal with,” writes Soutik Biswas. While there may be a few criminals who come to justice through the ban, the large majority of those caught holding the illegal cash will be those who have always lived their lives in a legal manner.

Another point to be made is the fact that whatever effects the ban did have on the black economy are only temporary “as people will simply begin to accumulate black money in the new currency as soon as that becomes available” (Biswas). ““This targets some stocks of black wealth that are in cash, not the mechanisms that generate black income in the first place. Next year, you’ll still generate the same amount of black income. So it’s not achieving the purpose of stopping the growth of the black economy”” (Kumar). Essentially, all the move is targeting is petty corruption, not the larger and much more important corrupt societies that are responsible for the accumulation of black money in the country.

In the end, the point made is the undoubtable fact that the bar against the 500 and 1000 rupee notes has done immense harm to India, and will continue to do so. Both the people and the economy suffer while the true culprits guilty of black trade elude the government once again. Perhaps, were the movement organized better, it might be more effective and do more good than bad. However, the poorly thought out plan, though intended to be a force against crime, has handicapped the country, making it a colossal mistake on behalf of the prime minister.

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