

Indian government's demonetisation causes mass hardship and economic chaos

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At 8PM on Tuesday November 8, the Hindu-supremacist BJP government led by Narendra Modi made a shock “demonetisation” announcement invalidating all Rupee (Rs.) 500 and 1000 currency notes (approximately \$US7.50 and \$15) as of midnight that day.

The government set a December 31 deadline for depositing the withdrawn currency bills into bank accounts and fixed a daily Rs. 4,000 limit for the exchange of old notes for new currency. This limit was later decreased to 2,000 rupees per day.

The social impact has been immediate and widespread with lengthy lines forming outside banks across the country. Tens of millions of people, many of them on a daily basis, are being forced to spend hours at a time to either deposit their old bills or exchange them, severely disrupting daily life and economic activity.

Bank ATMs all over the country have repeatedly run out of lower denomination currency as people desperately try to obtain money to spend on everyday purchases.

In rural areas and in small towns where banks or even an exchange mechanism do not exist the effect has been nothing less than catastrophic, with people unable to purchase daily necessities such as food and fuel. In addition, small farmers have been unable to sell their perishable produce to middle-men, since these transactions are almost always conducted in cash.

The greatest impact has been on the working class, other toilers and the poor who comprise the overwhelming majority of India's 1.2 billion people. On the morrow of the November 8 announcement, many were unable to eat as they did not have valid currency for making food purchases. Others were unable to obtain urgent health care.

According to press reports, at least 55 deaths since November 8 are attributable either directly or indirectly to the disruption caused by demonetisation. The Modi government has maintained a stony silence on the reported deaths, undoubtedly viewing them as inconvenient but acceptable “collateral damage.”

So contemptuous is the Modi government of the suffering

masses, that Urban Development Minister Vankaiiah Naidu claimed that any disruption and hardship was “temporary pain for long term gain.”

Such callous political indifference brought a caution from the Supreme Court. At a hearing on an emergency motion for the demonetisation to be suspended, India's highest court warned the government that if it does not take immediate steps to allieviate the mass distress there could soon be riots.

Donning the guise of a corruption fighter, Modi, a self-styled Hindu-strongman and unabashed political agent of big business, has presented the government's shock demonetisation as a “surgical strike” against “black-money,” tying it metaphorically to the unprecedented, illegal and highly provocative military strikes India carried out inside Pakistan in late September.

“For years,” declared Modi in a nationwide televised address, “this country has felt that corruption, black money and terrorism are festering sores, holding us back in the race towards development. To break the grip of corruption ... we have decided that the currency notes presently in use will no longer be legal tender from midnight tonight.”

The pliant and sycophantic corporate print and television organizations have fallen over each other to hail this move as a “masterstroke” against what is termed as black money, i.e., monies that are undeclared to tax authorities and kept hidden in the form of real estate, gold, cash hoards and overseas or even domestic bank accounts.

The vast majority of India's “black money,” as is commonly known, is held by the most privileged sections of Indian society: businessmen, rural moneylenders, politicians and the upper middle class. This was effectively admitted in an *Indian Express* column by the businessman and neo-liberal economist Surjit S. Bhalla. He argued that the rise of “black money” was an understandable, even laudable, response to the high-tax rates imposed on the rich and well-to-do by Indira Gandhi's Congress Party government in the late 1960s and the regulatory powers of government bureaucrats.

Modi's "demonetisation" scheme will have little to no impact on these layers and their illegal fortunes.

The posturing about cracking down on corruption is a smokescreen. The government's real aim is to further shift the burden of the capitalist crisis onto the masses—to prop up India's banking system at their expense; and increase, as with the BJP government's push for a new nationwide 18 percent Good and Services Tax, the tax bite on working people's incomes.

Not surprisingly, Indian and international big business have hailed Modi's demonetisation.

"We support the measures to fight corruption and illicit financial flows in India," declared an IMF spokesperson.

"Demonetising high denomination notes can be an effective means of checking accumulation of wealth in cash," said Confederation of Indian Industry (CII) President Naushad Forbes.

Federation of Indian Chambers of Commerce and Industry (FCCI) President Harshvardhan Neotia congratulated Modi and his government for "an extremely bold move." It "will have," claimed Neotia, "a debilitating impact on the parallel economy in the country as well as deal a body blow to terror financing."

Far from being "high-value," as the cheerleading corporate media and business spokespersons claim, the targeted currency notes make up the overwhelming majority of all currency in circulation and are indispensable for daily transactions. The demonitised 500 rupee notes comprised 47.8 percent of all currency in circulation and the 1,000 rupee notes a further 38.4 percent.

The first aim of the government's demonetisation scheme is to inject desperately needed cash into India's mainly state-owned banking sector. The Public Sector Banks (PSBs) are hobbled by mounting "Non-Performing Assets" (NPA), primarily business loans that are not being repaid or paid only sporadically. Because the threat from their NPAs is so large, India's banks have cut back their lending to India's capital-starved and already overstretched business houses. The paucity of lending threatens in turn to gut economic growth, which has already declined sharply in key sectors including industrial production, IT, and merchandise export.

As of June 2016, the banks' total NPS stood at Rs. 6 trillion (\$90 billion), but these figures probably grossly understate the problem.

In any event, by November 14, just 6 days after demonetisation, total new Indian bank deposits already exceeded Rs. 4 trillion (\$60 billion). Although most of these deposits are expected to be withdrawn for spending, the head of the giant State Bank of India, Arundhati Bhattacharya, estimates that about 10-15 percent of these deposits will be retained within the banking system.

By compelling cash-holders to deposit their funds into the bank, the government is also hoping to collect a tax windfall so as to help plug its large fiscal deficit. The government has warned that if the total of demonetised-currency deposited in an account exceeds Rs. 250,000 (\$3,700) before December 31 and there is a "mismatch" between income and deposits, the account-holder may be subject not only to paying additional tax, but also to penalties of up to 200 percent.

It is also estimated that about Rs. 3 trillion (\$45 billion) out of the Rs. 14 trillion of the Rs. 500 and Rs. 1,000 notes that were in circulation prior to November 8 will not be deposited or exchanged for new bills. This sizeable sum can be marked as a credit on the balance sheet of the Reserve Bank of India, then transferred to the government exchequer as a "dividend."

A third benefit, from the standpoint of the avidly pro-big business BJP government and the ruling elite, is that the demonetisation scheme will compel greater popular participation in the banking system. Large numbers of people in India do not have a bank account. This either because they do not have easy access to a bank—banks do not exist in many rural villages—or because they are so poverty stricken that they have little if anything to deposit.

As a result, most economic activity, even in urban areas, is carried out in cash. By forcing people to open bank accounts the Modi regime is trying to "modernize" India's historically belated, backward capitalist economy by strengthening the Indian bourgeoisie's banking system and its reach. The BJP government has already made clear that one of its principal goals moving forward will be to privatize large parts of the banking system.

To what extent the BJP government and India's elite will realize the true, surreptitious goals of their demonetisation scheme remains to be seen. Whatever palliative impact it has on the Indian banking system and government finances in the short-term, demonetisation is further fueling mass popular discontent and under conditions where India's economy, notwithstanding Modi's claims of a high-growth rate, is being battered by the world capitalist crisis. Last week Indian President Pranab Mukherjee admitted that India, whose labour force is growing by 10 million people per year, added less than 150,000 jobs in all of 2015.



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