

The difference between a moral man and a man of honor is that the latter regrets a disreputable act even when it has no effect and he has not been caught.

H. L. Mencken

A Dismal Economic Scenario

As the winter sets in, vegetable prices instead of coming down are shooting up. According to data released by the Ministry of Statistics and Programme Implementation, inflation increased rapidly from 3.92 per cent in September to 7.47 per cent in October, mainly because of rise in food prices. The reason is known to all – manipulation by the intermediaries who buy vegetables from the peasants and bring to the urban markets for sale. The remedy is also known – taking deterrent action under the provisions of the Essential Commodities Act. Why no action is being taken by the Centre and the State Governments is also known to all – the nexus between the intermediaries and the political parties. As this nexus is not going to be broken, the suffering people, the consumers, will have to suffer silently – they are doomed forever.

The same report also says that retail inflation rose to 3.58 per cent in October, driven mainly by the sharp rise in vegetable prices. The Reserve Bank's Monetary Policy Committee has predicted that retail inflation will accelerate by 4.2 to 4.6 per cent in the next six months. Global crude prices are also rising and will further worsen the already worrying inflation trend. Grudgingly, it is being admitted in a roundabout way that demonetization and introduction of the GST have had a disrupting effect on the economy. By September or by the end of the first six months of the current fiscal, budget deficit had reached 4.99 trillion rupees or over 90 per cent of the full year target. It is only to be expected that by the end of the fiscal the actual deficit will far overshoot the target, throwing the economy into old drums.

The Centre is trying to have recourse to a remedy that will be worse than the disease. It has asked twelve public sector undertakings to pay the Government between 30 and 100 per cent of 2016-17 or 2017-18 net profit in dividends. Common sense would tell that if the companies are forced to pay through their noses, they are likely to become unviable or 'sick'. This will then be a facile argument to sell them to private sector giants at a throwaway price. The Union Government's revenues have already been hit by the public sector banks paying lower dividends. The latter are helpless in the face of lack of demand for borrowing. Not just the next year but the next few years will reveal how much damage the double whammy of demonetization and introduction of GST has done to the economy.

Decoding the great DeMO puzzle

REFLEX ACTION

Nilanjan Banik

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

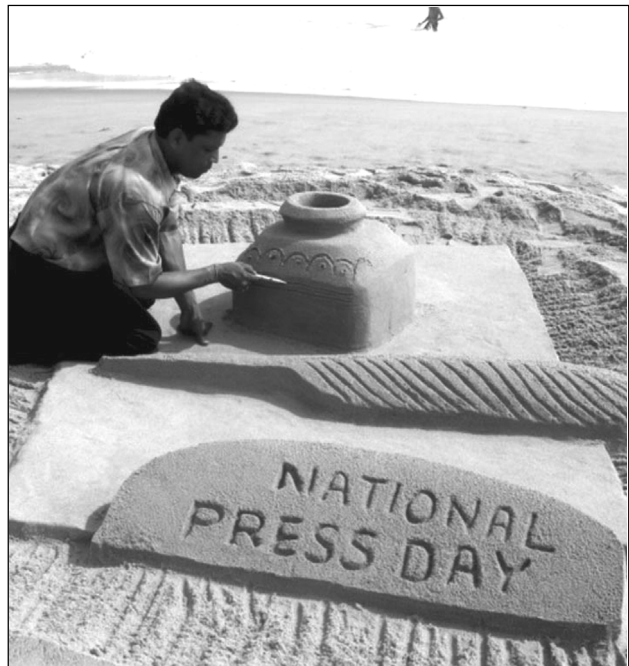
However, in India, economists were widely divided over the efficiency and the impact of the move on the black money, which is variously estimated at 23 percent to 75 percent of India's GDP. Unlike most of the developed economies, which mostly rely on cashless transaction, for India a majority of the population was dependent on cash for day-to-day transaction, and hence there was greater hardship from demonetization. Demonetization was intended to flush out black money and encourage the move to a cashless state and bring the parallel sector into the mainstream economy. Data from the Ministry of Finance reveals that during 2014-2015, only a meagre 4 percent Indians paid tax, with the government losing anything between Rs 6 lakh and Rs 8 lakh crore on account of people evading paying tax. Demonetization was also seen as a way to tackle counterfeit currencies. A study undertaken by Indian Statistical Institute, Kolkata, estimates the number as Rs 4 billion, with the old Rs500 and Rs1000 accounting for three quarters of these counterfeit notes. Finally, the demonetization move was seen as a nudge strategy for a greater financial inclusion. Financial exclusion obviously imposes a high cost on the people. In India, 98 percent of people use non-banking channels, such as hawala, and pay exorbitant costs to remit or receive money from their family members living in other regions. A survey of Indian migrant workers shows average commission of 4.6% when transferring money through informal routes, whereas transfer through formal banking system comes at no cost. Importantly, the demonetization move has operationalized the Jan-Dhan accounts, which were seldom operational. However, critics point out that demonetization is unlikely

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

Although each one of these above arguments deserves merit, we need to understand the path through which demonetization has affected the economy. A way to examine the effect of demonetization is to use the famous Milton Friedman's Quantity theory of money equation. The 1976 Nobel laureate, Professor Milton Friedman argued that inflation is a monetary phenomenon and he depicted the money market (that is, demand and supply of money) through the equation: $MV = PY$ (1) where, M is the money stock in the economy, V is velocity of money (number of times currency changes hands/amount of nominal GDP that money supply can generate), P is price level, and Y the real value of output. Going by equation (1), when demonetization happens, the first thing that occurs is a reduction in money supply. Indeed, there has been a fall in currency in circulation, and commercial banks lending to

businesses. Concomitantly, there was an increase in bank deposits. People were busy depositing money mostly in their Jan-Dhan accounts. With prices falling, as predicted by equation (1), income will also fall. In fact, during the following quarters, India's GDP growth rate fell from 7.3 percent to 7 percent (Feb 28, 2017), 6.1 percent (May 31, 2017), and 5.7% (Aug 31, 2017). Economists, not favouring demonetization move are using these numbers, and saying India could have realized 8 plus percent growth rate, with government not undertaking demonetization. According to International Monetary Fund, the size of Indian economy is \$2.54 trillion (nominal, 2017) and \$ 9.48 trillion (Purchasing Power Parity 2017). Hence, this 2.5 percent - 3 percent difference (what GDP could have grown without demonetization and how it has grown with demonetization) is indeed a big number.

In fact, the reduction in GDP growth rate will belittle the government success story of tracking down black money and shell companies. Finance Minister Arun Jaitley in a press interview announced that between November 2016 and the end of May 2017, income tax authorities detected a total of Rs 17,526 crore in undisclosed income and seized Rs 1,003 crore. As a result of the demonetization drive, there had been a substantial increase in the number of Income Tax Returns (ITRs) filed. The number of returns filed as of August 5 registered an increase of 24.7 percent compared to a growth rate of 9.9 percent in the previous year. The government has identified more than 37,000 shell companies that were engaged in hiding black money and hawala transactions. The income tax department has identified more than 400 benami transactions up to May 23, 2017 and the market value of properties under attachment is more than Rs 600 crore. There is a good possibility that India's GDP growth will crawl back to its long-run structural level. Having said that, one cannot still deny the loss in interim GDP that India experienced because of demonetization. In all fairness, one has to give credit to the government when it says that more people are now paying taxes. Whether this nudging strategy will eventually help the government collect more taxes in the future in comparison to GDP lost at present, only time will tell. (IPA)



Sand Artist Ranjan Kumar Ganguly creating sand sculpture on the occasion of National Press Day, at Puri Beach on Wednesday.

Conventional Crossword					
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	7				
8	9		10		11
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28			29		

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|----------------------------|----------------------------------|
| ACROSS | DOWN |
| 1 Procession | 1 Kitchen utensil |
| 5 Digit | 5 Male sheep |
| 8 Meddle | 8 Stubborn |
| 11 Mineral spring | 4 Judge |
| 12 Sends out | 6 Sharp struggle |
| 14 Amused look | 6 Slip fly |
| 16 Raw hides | 2 Land measure |
| 18 Separates with violence | 10 Tear |
| 20 Lake | 13 Fear of worship |
| 21 Take unjustly | 14 Fruit |
| 23 Equality in value | 15 Acustomed |
| 24 Fertilising powder | 17 Faithful |
| 27 Briny | 19 Eat or drink small quantities |
| 28 Unhappy | 22 Fragrant bloom |
| 29 Save | 25 Resinous substance |
| | 26 Born |

SUDOKU : 2026								
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				3		1		
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7	3		6	9			2	

Yesterday's Solution 2025								
5	7	9	6	4	1	2	3	8
2	1	6	8	9	3	4	7	5
4	8	3	7	2	5	6	1	9
3	4	5	2	1	9	7	8	6
6	2	7	4	3	8	9	5	1
8	9	1	5	7	6	3	2	4
1	3	4	9	5	2	8	6	7
7	5	8	3	6	4	1	9	2
9	6	2	1	8	7	5	4	3

Yesterday's Cross Word Solution 034								
A	C	T	O	R	R	A	K	E
D	A	D	O	N	I	S	O	
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G	L	A	D		L	I	B	R
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The 'Solar Bomb' explosion

It is well and truly the moment of truth for the Congress in Kerala. The party is literally gasping for political life with the submission in the Assembly of the Solar Judicial Commission Report. The report, which contains damning revelations against top Congress leaders, including former chief minister Oommen Chandy, will have far-reaching implications for the future of the Congress in Kerala's bipolar politics. First the details of the commission's findings.

The Pinarayi Vijayan Government, which tabled the report in the Assembly, has ordered an investigation against Oommen Chandy, his close confidants, cabinet colleagues, and top United democratic front (UDF) leaders, whose names figure in the Commission's report. Ironically, the Commission was set up by the Oommen Chandy Government. Its task was to probe allegations that Chandy, his office and cabinet colleagues had helped the prime accused in the solar scam, Saritha Nair and Biju Radhakrishnan, who ran the Kochi-based Team Solar Renewable Energy Solutions Pvt.

Ltd., amass money by duping many people with the promise to set up solar power projects. The Chief Minister, who presented the report, said the Commission had found the allegations against Chandy and others to be valid. The CM has sought further investigation into the allegations that Chandy and others had also extracted sexual gratification from Saritha.

Sexual favours, the Commission said, came under the ambit of illegal gratification pointed out in the Prevention of Corruption Act. In her letter to the Commission, Saritha had named top leaders who sexually exploited her. Among them were Oommen Chandy himself, former ministers Aryadan Mohammed, AP Anil Kumar, Adoor Prakash, Congress MLAs, AP Abdulla Kutty and Hibi Eden, besides Congress MP KC Venugopal and Kerala Congress (M) MP Jose K. Mani. Former Union Minister of state SS Palanimanickyan and a few top Kerala police officers also figure in the list. The Commission also found that there was proof of Chandy having accepted a Rs 2.16 crore bribe from Saritha.

FOCUS

P. Sreekumar

Chandy's claim that he did not know Saritha before her arrest was also wrong as the Commission confronted him with evidence of his having met her thrice. It also disproved Chandy's contention that the scam did not cost the exchequer at all. The money spent on the Commission – Rs seven crore – was a drain on the state exchequer. The only relief for Chandy and Co is the LDF Government's decision not to file cases against him and others immediately contrary to the CM's earlier stance that cases would be registered against Chandy and others. The Advocate General and the Director of Prosecution had advised him to do so. But the Government sought a second opinion – rightly so – from former Supreme Court judge Arijit Pasayat, who counselled restraint. First order an investigation; and

file the case only if the team felt it was necessary. If cases had been filed immediately, Chandy and his colleagues would have found them behind the bars. That possibility has been averted, at least for the time being. Which, in other words, means a protracted political-legal war between the LDF Government and the UDF. The Congress's charge that the Government's decision smacks of political vendetta sounds hollow against the backdrop of the Government seeking a second opinion from the former SC judge. The shell-shocked Congress and UDF leaders are struggling to put up a credible defence. True, the party and the UDF have decided to move the court, questioning the very credibility of the Commission, which they themselves had set up! The sordid episode presents another

opportunity to the Congress High Command to set things right. All is still not lost for the Congress in Kerala. But tinkering won't do. It is a drastic situation. And the serious situation requires nothing short of a major surgery. Time for 'tablet treatment' is over. The High Command must, therefore, act fast by first removing all 'tainted' leaders and injecting fresh blood if it wants the Congress to remain politically relevant in Kerala. Needless to say, it is of utmost importance that the Congress stays relevant. For, the withering away of the party would mean a big gain for the BJP, which is trying its best to occupy the opposition space in the state. Of course, it will not be easy for the BJP to do so, given the strong secular foundation of the state. But still, the danger is very much there. That makes it all the more important for the High Command to intervene and apply the correctives fast. Failure to do so would see pundits busy writing the political obituary of the Congress in Kerala, one of the few states where the party is still a force to reckon with. And BJP, which is bent on a Congress-mukt Bharat, will have the last laugh. (IPA)