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28
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It is now more than two weeks since 8/11, and the government has stopped exchanging notes for cash. Politicians and analysts alike are worried about the short-term costs to the economy, and especially the effects on the poor, and more importantly the effects on agricultural economy. Former prime minister Manmohan Singh believes that the cost to the economy maybe as much as a 2% drop in GDP growth rate this year; he also described demonetisation as “organised loot, legalised plunder of the common people”.

Let me first put the list of agreements shared by both supporters and critics of demonetisation (hereafter DM). The known-knowns are three; first, that DM was a bold, radical and unprecedented move, i.e., there is no template with which to analyse the short-run effects of DM. Second, implementation could have been better, possibly much better. A known-unknown is the fact that secrecy was of the essence for the DM policy to have any chance of

in implementation (like the indelible ink requirement for exchange of cash). Third, and possibly most importantly, no one believes (including myself) that the demonetisation will do much to stop the creation of future **black money**. To be sure, there will be a mild deterrent effect, but one whose amplitude will quickly fade in a few years—unless accompanied by additional economic reforms.

Many believe that besides the inconvenience, the short run costs to the economy are considerable and will even feed into significant negative effects over the next few years. Politicians (especially of the **Mamata Banerjee** and **Arvind Kejriwal** kind, though the **Congress** is not too far behind) have shouted themselves hoarse as to the costs that the poor are paying because of DM. Some brokerage firms (especially the small ones) see this as their Andy Warhol moment—a few days of fame (later ignominy?) can be garnered by making forecasts that are out of the ballpark, if not out of the universe, i.e., one brokerage/investment firm has forecast that over the next five months, GDP will register a negative GDP growth rate of -2%! The economy grew at 7.5% for seven months (April-October) and will need to “grow” at -2% to register the Ambit Capital “forecast” of 3.5 % for this fiscal year. (As comparison, the Lehman crisis quarters, 2008Q4 and 2009Q1, registered a growth rate of 1.9% and 0.8% respectively).

Some other forecasts are equally dire; we see newspaper headlines that the important Rabi crop is in trouble, deep trouble, because of demonetisation. The rural economy is primarily cash dependent and The Times of India (November 24) front-page story stated that job losses (among poor daily wage labourers) were mounting and that prices of essential vegetables had dropped significantly between November 16 and 22. For example, potato prices were down 25%, onion prices were halved, and tomato prices were down “only” 11%, but is that indeed the reality of the situation? See the accompanying table for all-India estimates.

When poor people lose their jobs, and when land is idle, and/or produce is unmarketed, there could be riots in the streets. There are two short-run indicators of how the public is “feeling”—by-elections held on November 18, some 10 days after the “**earthquake**”, and the pattern of food prices since November 8.

Voters reaction to demonetisation: Surprisingly, the voting public is not that angry with the **BJP**. In bye-elections in five constituencies (both Lok Sabha and Assembly) across four states in which the BJP was a contender (Madhya Pradesh, Assam, Arunachal Pradesh and

than previously. This partial and incomplete evidence is not supportive of the great DM negativity observed among the media and the politicians.

Status of rural India—Impact on rabi crops: The DM induced cash crunch is expected to considerably slow down the sowing for the rabi crop. Fortunately, and surprisingly, this has not happened. As of November 18, 241.7 million hectares (Mha) had been planted in 2016-17, compared to 243.4 Mha in the previous year. But shouldn't the acreage be more, given this year was a much better rainfall year than the previous two years? No, because acreage varies little for individual crops and responds to changes in relative prices. Acreage under pulses and oilseeds has increased significantly and under wheat has stayed the same. Furthermore, yield (output) is most affected by rainfall; so, a decline is unlikely to be much affected by DM.

Food prices: One important source of information about the effects of DM is the pattern of food prices subsequent to November 8. The DM-induced cash crunch is expected to have two short-run effects on food output and consumption. First, is demand destruction in urban and rural India as consumers just don't have the (cash), i.e., means to buy food. This would suggest that food prices should decline. If supply is really affected (supply destruction), then we should expect prices to shoot up. It is impossible to identify which effect is dominant.

But attempt to infer we must. Hence, the presentation of detailed price pattern data for food items. For the last six years, the average November price change is reported for identical days across the years. The percent change reported is between the average price observed across about 15-25 cities in India for each item i.e. brinjal, potatoes, apple, grapes, milk, etc. (price data from the ministry of consumer affairs). These data are collected daily, and we have taken the median price for each day and for each item. The average price for November 1-8 is the reference price; the percent change reported is between the average median price between November 9 and 24 and this "reference price". [If the mean is used rather than the median, there is little difference in the results].

The reader can make her own inference from the results presented—all of the relevant data has been provided for her to do so. The conclusion we reach is that the net effect of the supply and demand destruction is very little on the price of food observed in urban markets.

healthy double-digit inflation, vegetable prices fell 7.9%; last year, vegetable prices were up 2.8%. Fruit prices (a discretionary “luxury” food item) show a marginal increase of 1%; overall food (with consumption weights as in the CPI) prices are down just 0.6% in November.

The strong result is that there is no “juice” for inference about destruction in the rural food economy. This result is not surprising for most agricultural experts—but the noise politicians don’t want to hear that which is not convenient to their political ideology!

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