

# The modern day Tukhlaqs of India



Posted on November 15, 2016 by WHN

At 8 p.m. on 8th November, 2016, 500 Rupee and 1000 Rupee notes were demonetised by the Indian Government with riders. It could be used to buy petrol, air-tickets and railway-tickets. It could be paid at hospitals and the Government would accept taxes in demonitised notes. This itself is self contradictory. The Government had to take several steps before the decision was to be implemented. They had to tweak the software of the ATM's of all Indian and foreign banks to disable dispensing Rs. 500 and Rs. 1000/- notes. So third party contractors, cash loading agents of banks and bank employees knew of the move in advance. New currency at a higher denomination were printed by these modern day Tukhlaqs, alerting the printing press employees, their suppliers and this led to the release of the proposed new note on social media far before the actual announcement. Temples could deposit demonitised notes into banks from donations received including anonymous donations!

On the day the demonitisation was announced, it continued to be legal tender from 8 p.m. to 12 p.m. Millions of tons of gold were sold by jewellers at inflated prices and backdating invoices and these jewellers pawned off the old currency by paying salaries in demonitised notes to their daily wage earners. Some hospitals and even large corporates paid three months salaries in advance to their staff in cash. The result of this cash disbursal resulted in Indian citizens spending millions of man days queuing up to exchange unaccounted cash of their employers into smaller denomination notes. Banks started running out of currency and fights ensued. Police had to leave their regular duty and were deployed at petrol pumps where tempers flared. Petroleum companies added to the chaos by filling only Rs. 500 and Rs. 2000 worth petrol in cars and two-wheelers. In their haste many vehicle owners were forced to pay twice the price of petrol as their tanks were filled up for either Rs. 500 or Rs. 2000/- as even the banks had no 100 Rupee notes left within a few hours of demonitisation. Prices of gold shot up to twice the international price. Exchange rates soared.

Then, there was a new announcement that Rs. 1.5 lakhs (US 2000) in demonitised notes would be accepted by banks till December 31<sup>st</sup> 2016. This led to another scramble, where millions of daily wagers, hawkers and agricultural workers who had no bank accounts started to starve. There were several individuals who committed suicide due to the whimsical decisions of the rulers. Even one life lost is a tragedy. But in India, it was touted as a sacrifice for change! Prices of all commodities shot up as all vendors were short of smaller denomination currency. The biggest joke of all was that this move was planned to weed out the fake currency in the system. However, bank cashiers who were overworked due to the kilometre long queues outside ATM's and Automated cash deposit machines and for depositing the old currency notes that they had no time to check for counterfeit notes as using counterfeit currency detection machines could have angered the impatient customers who had to wait a minimum of 12 hours to deposit small amounts ranging from 100 US\$ to 1000 US\$ in old currency notes. Banks were hungrily accepting all old notes, as they wanted to call it a day at the earliest.

There were several instances where 90 year old women had to wait for 8 hours to exchange a single Rs. 500/- note. Hospitals started turning away patients who had old notes and several patients, including new born children had to lose their lives due to the stubborn refusal of hospitals to accept old notes. However, the proprietors of the same hospitals had no shame in paying their nursing staff, employees, daily wagers and even doctors in old notes, asking them to queue up at their banks and deposit the old notes into their accounts.

The biggest giveaway of all was the immediate printing of new currency with a denomination of Rs. 2000/- (US\$30), which were dispensed by banks in exchange for the old demonitised currency. A few bundles of genuine fake currency were burnt and thrown into rivers to create an impression that the elite in India were getting cornered, while the opposite was true. All those who were forewarned about the demonitisation quietly deposited their yet to be demonitised notes into banks when it was still legal tender. All banks ran out of smaller denomination notes and shut down their ATM's and armed guards scared away the crowds thronging the bank, as police stood guard outside banks.

What is going to be the result of this demonitisation. The unorganized sector in India which includes millions of small businesses which depend on daily cash collections for survival, will be affected by the lack of currency notes of smaller denominations especially Rs. 100/- (U.S. \$ 3). Agriculture will be hit hard as farmers will not get adequate cash for continuing their farming cycle. The poorest of the poor, who have no access to a bank account will continue to live a hand to mouth existence. The percolation of riches will stop and the benefits of our country's bountiful harvests will not reach the younger generation and the still to be born. Cost of living will rise and the present day Tukhlaqs will be forced to print higher denomination currencies as hyperinflation will result and the liquidity crunch will force small traders, grocers, barbers, restaurants and new start-ups to shut shop.

The digital economy is not insulated from the cash led one and banks cannot create digital currency without having printed currency in their reserves, as if all bank account holders want to withdraw their digital money through ATM's, it can create more chaos than we have seen in the last five days in India. One thing they have made in India is chaos. There is chaos at Railway stations where millions of Indian's are queuing up to buy Railway tickets, they never intend to use but would cancel it and get the refunds in smaller denomination notes. This inconvenienced genuine travellers who could not get confirmed berths in all the Air-conditioned coaches. The same was the case with air-tickets.

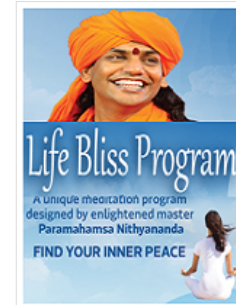
Fly by night, unscrupulous e-wallet companies started advertising their electronic wallets by first page ads, the next day after this whimsical move, which is an indication of how one can fool some of the people all of the time. But for every action there is an equal and opposite reaction!

There was unnecessary panic and stress created all over the country. Every Indian was searching for ingenious ways to palm off old currency notes known as "jugaad" in local parlance. Rulers are remembered till they rule. Scholars are remembered till they die. It is the malady of this information age that our rulers are so busy teaching others that they have no time left to learn. The multitude of books on economy and finance are making our economists and bankers ignorant.

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Murli Menon is the author of "ZeNLP – Learning through Stories" and can be contacted over email at [ceo@tips4ceos.com](mailto:ceo@tips4ceos.com)

Source: World Hindu News (WHN)

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