

Demonetisation has Left India's Food Markets Frozen - and the Future Looks Tense

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As demonetisation enters its second week, traders in Patna's Maroofganj mandi are seeing something unprecedented.

In the last seven days, the supply of new stocks in this wholesale market, which supplies cooking oil, spices, rice, wheat and pulses to shopkeepers across Patna, has plummeted. The supply of cooking oil, for instance, is down by 80%.

Talk to traders selling spices, grains or pulses and you hear similar numbers. "Do you see how quiet this market is?" said an accountant at a rice shop. "Till 10 days ago, you would not have been able to walk down this street."

In the same period, orders from shopkeepers have fallen steeply as well. Most of them cannot buy as much stock as before, said Abhijit Kumar, who runs a wholesale shop for spices, because they have only Rs 500 and Rs 1,000 notes - both derecognised as legal tender by the government.

The strange thing is: despite the contraction in both supply and demand, commodity prices are stable.

Himanshu Kumar, a wholesale trader in cooking oil, said prices have not changed in the last one week. In rice and dal, said Vikas Kumar, a rice merchant who was overseeing the loading of sacks onto cycle rickshaws when this reporter met him, "demand is 80% down". But prices, he said, have not changed.



The empty streets in Patna's Maroofganj mandi. Photo: M Rajshekhar

Travel down to the fruit and vegetable market near Gandhi Maidan in Patna, and you will see something similar.

One of the biggest fruit and vegetable markets in Bihar's capital, it occupies a handful of streets between the south bank of the river Ganga and a busy thoroughfare which runs east, heading out of Patna. This mandi gets its fruits and vegetables in multiple ways – traders travel to nearby villages early in the morning to buy vegetables which they later sell at the mandi, others go to a nearby wholesale market locally known as the *Bazaar Samiti*, and yet others get their vegetables from the wholesale market at Mithapur, near the train station.

Here too, volumes are down. Arrivals have fallen by half, said Sachidanand Singh, a wholesaler who supplies to vegetable sellers in this mandi.

On Wednesday morning, Sohan Kumar, a fruit seller, sat cross-legged on his cart at one end of the mandi with a heap of no more than 30 papayas in front of him. Usually, eight trucks arrive at the wholesale market every day, he said. "Right now, only two are coming."

A liquidity crisis

Going by newspaper reports, Patna is not the only place in India seeing such changes. The vegetable market in Sonapat, Haryana, is seeing a [lull](#), as is the grain mandi in [Ghaziabad](#).

At Delhi's largest agricultural market, Azadpur mandi, there were hardly any farmers on Tuesday morning. People at the mandi said farmers who bring produce to sell from the

neighbouring districts of Panipat and Sonapat in Haryana, and from parts of Uttar Pradesh, have stopped their trips since November 13.

Prices, as [this](#) news report from Hyderabad says, are stable in some other parts of the country as well.

The reasons are simple, but the result is disturbing.

Take the mandi at Gandhi Maidan. According to Shiela Devi, a vegetable seller in her mid-30s who had arranged her baskets of brinjals, ladies' finger and other vegetables near Sohan Kumar's push-cart, farmers are not accepting Rs 500 and Rs 1,000 notes.

A similar payment crisis is playing out at Maroofganj. At Abhijit Kumar's store, the wholesaler was talking to Jallandhar Kumar, a shopkeeper who buys from him. The latter only had Rs 1,000 notes and wanted to buy provisions for his shop, but the wholesaler was loath to take the notes. His suppliers do not accept those notes, he said.

Internet banking does not work here. Partly because, as a wholesaler in the grain business said, most businessmen do not know how to do internet banking. Many do not even have current accounts. "They did not want to show their transactions," he said.

Instead, most participants in this chain operate largely in cash. But, with demonetisation, they cannot use a large part of the currency they own. Getting the same amounts in new denominations from banks is impossible, given the caps on withdrawals.

This liquidity crisis could have been mitigated if customer spending was high. But customers are spending more cautiously as well. Shopkeepers said families were spending only on essentials, like vegetables like cauliflowers while cutting back on fruits.

"The market is frozen," said Abhijit Kumar. "The note circulation is slow. Retailers cannot give me new notes. And I cannot pay my suppliers."

The failure of a market

This construct is responsible for that curious stability in prices.

If there was enough cash, said IIM-Bangalore professor MS Sriram, the mandi would have seen "a new equilibrium between supply and demand". But right now, in the absence of cash, nobody can read the market. "We do not know how supply and demand will move," he said.

Listening to him, it seemed the market had frozen at the last price it knew. This is something that Abhijit Kumar alluded to as well. "Yeh normal market nahin hain." This is not a normal market.

It is not clear what happens next. At some point, Sriram said, these food markets will find a new equilibrium and prices will adjust to demand and supply. What is not clear is when that will happen, or what the new equilibrium will be.

In these initial days, the impact of a drop in supply is not too palpable. In the vegetable market, the initial brunt has been borne by the sellers of vegetables like tomatoes, which are trucked in from afar. In foodgrains, as the accountant of a rice trading firm said,

wholesalers, retailers and families have buffer stocks. But if those stocks run out before the money supply improves in the market, there will be a shortage.

A paper published by the National Institute of Public Finance and Policy on November 14 said: "If supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise."

If that happens, the government will face the ire of people. At this time, however, opinion in the mandis is divided about demonetisation. Small traders like Sohan Kumar are angry. Kumar's daily turnover has fallen from Rs 4,000 to Rs 1,000. So are workers whose daily incomes have been nearly wiped out. Ram Balak, a labourer in his 50s, who works in Maroofganj, made Rs 400 a day before demonetisation. Now, he barely makes Rs 50.

But there is support for demonetisation among bigger traders who believe it will reduce inflation. "*Bilkul theek kiya*. They did well," said Sachidanand Singh, a wholesaler who supplies vegetables like cauliflower to the traders in this mandi. "If black money reduces, prices will come down."

However, if normalcy takes longer, even businesses like his will be affected.

That is the clock this government is racing against.

Demonetisation and food

Take a closer look at all this and you see how demonetisation is disrupting the markets which supply us with our food. The government's surprise announcement might damage the country's food stocks, even if money supply improves dramatically in the days ahead, and mandis like Maroofganj and Gandhi Maidan pick up.

This is because the government embarked on the demonetisation drive at a time when the freshly harvested *kharif* or monsoon crop was arriving at the mandis and the *rabi* or winter crop was being planted in the fields.

Farmers, who need money to purchase inputs for the *rabi* sowing, find themselves strapped for cash. At the grain mandi in Karnal in Haryana, commission agents who buy the *kharif* harvest of paddy have told farmers that they can either collect a full payment in old denominations now or in new notes after 2-3 months.

For a farmer, both are terrible options. On Tuesday, Ramveer Pal, a farmer from Shamli in Uttar Pradesh, had sold around 20 quintals of basmati rice in Karnal mandi. The trader paid him Rs 40,000 in old denominations. "I have to take it as I cannot afford to keep the amount pending for three months," he said.

But, to convert the old notes, he will have to visit the bank several times, which will be a problem because banks are marking people who are coming for an exchange of notes with indelible ink.



Grains waiting to be sold in Karnal mandi.

That said, the consequences of announcing demonetisation in November go beyond the inconvenience borne by farmers. As traders tried to scrounge up money, the sowing cycle has been delayed. Farmers will have to plant varieties which grow fast, said Rajnish Chaudhary, district president of the Anaj Mandi Association at Karnal. Such varieties have a 10%-15% lower yield, he added.

Some farmers were able to buy seeds, fertilisers and pesticides from commission agents on credit, who in turn got supplies from dealers on credit. Others, however, were struggling to make the purchases, with agents and dealers refusing to take the old Rs 500 and Rs 1,000 notes. Ishaq Garg, who runs a store called Ishwar Prem Seeds and Fertilizers in Karnal, said sales have dropped by at least 60%.

This too will affect the *rabi* yields.

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