



“We need to move forward as a pragmatic industry and adapt quickly to the changed environment if we want to survive and thrive, by opening bank accounts for our workers, vendors and other stakeholders.”

President's Communiqué

Dear Fellow Foundrymen,

The world is certainly unpredictable. One day Britain is part of the EU, the next day it's out. Right till the end Clinton seemed to be the eventual choice in the US presidential elections, and all of a sudden Trump is in the hot seat. Blink for a moment and you'll miss the world moving by. And most of us must have blinked really hard in disbelief on the morning of November 9th when we woke up and found that our Rs 500 and Rs 1000 notes had been demonetised. For us in the foundry fraternity, this action has had a direct impact on the operations of many units. Let's leave the political angle out of this and look at it purely from an economic and business standpoint for a bit.

The issue is not just about demonetisation, with its accompanying reasons of shrinking the black economy, stopping counterfeit currency and drying up funding to terror networks, but also in parallel about the move to electronic payments and less dependence on physical cash as the basis for commercial transactions.

For thousands of smaller foundries across India in the less-organised sector, cash has been the lifeblood of operations. Casual labourers are paid their wages in cash, transporters need cash to keep their trucks running, raw materials are often purchased in cash, and cash is the lubricant that facilitates the running of the machinery of administration, inspections, clearances and everything else that we have come to accept over the past forty years as a way of life.

The problem is that all of this doesn't get taxed, plain and simple. And the net result is a country in which 5% of the population constitutes the tax base and pays the taxes that provide amenities and growth for the balance 95% of the population. That leads to higher tax rates to generate enough revenue, which leads to people avoiding payment of tax, and we have a downward spiral.

By moving to electronic payments, the tax net widens and more people come into the tax base. But this also means that everyone can pay fewer taxes to generate the same tax revenue, and this is what we hope to see in the upcoming Budget. It's a self-feeding positive cycle – a wider tax base leads to lower taxes, and lower taxes lead to less inclination to hide money from taxes, leading to an even wider tax base.

But that's not all. The massive inflow of demonetised and/or undeclared cash into bank accounts means that the country suddenly has a lot of money ready for spending on infrastructure, large projects, freight corridors, smart cities and all those wonderful things we've been hearing about which are supposed to spur our growth and vault India to superpower status. While Keynes did indeed utter the famous phrase about all of us being dead in the long run, he was also the unflinching champion of government spending to crank up the flywheel of the economic engine and push countries into a growth cycle.

So what does this mean for us as foundries? Yes GDP may contract temporarily in the next few months as a result of smaller foundries scaling down operations or running out of cash temporarily. But the situation is gradually normalising, and the writing is on the wall. We are heading towards a cashless (or at least a less-cashful) economy in the next few months and years, whether we choose to resist it or not. As an apex industry body, IIF has a duty and responsibility to promote the move to electronic payment and transition foundries through this turbulent time.

We need to move forward as a pragmatic industry and adapt quickly to the changed environment if we want to survive and thrive, by opening bank accounts for our workers, vendors and other stakeholders. There will no doubt be more changes in the months ahead, and we need to be prepared to deal with them, adjust to them as they come and prosper in the “new normal”.

Anil Vaswani

President, 2016-17

The Institute of Indian Foundrymen