

On the money

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An excellent book that presents a cogent discussion on the various facets of demonetisation

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DEMONETISATION IN INDIA has probably been one of the most controversial steps ever taken and, given the top-down approach, has elicited a cautious response from critics. While economic implications were more forthright from critics, the release of latest data on growth by the Central Statistics Office vindicates the government's stance that the impact was negligible.

Rammanohar Reddy, a well-known economist who headed the prestigious *Economic and Political Weekly*, takes a rather dispassionate view of the move and presents a cogent discussion on the subject. A significant part of the demonetisation drive was that while almost the entire country was inconvenienced by its implementation, there were no protests of any significant variety. Therefore, if the government looks back on this move, it could always claim that the nation was in support of it—this can be buttressed by state government elections results, where the electorate was agnostic to this move.

Reddy starts off with the definition of black money and covers both the aspects of white money—not accounted for through the tax system, as well as dealings in illicit activity. He highlights how some of the activities of former Tamil Nadu chief minister J Jayalithaa—the case had come up in courts, leading to the conviction of a close associate—were all done through the banking system, not cash. Hence, linking all black money to cash would be a spurious conclusion to draw.

The question really is, how much of the 86% currency that was demonetised actually resided in this form? As there has been little information provided by the government or the RBI on how much money has moved out of the system, we will never know if the assumption that black money would be unearthed by demonetisation was founded on firm ground. Neither will we know the exact impact on growth, as



A file photo of people standing in queues outside a bank in Chandigarh

there are time lags in effect. Also, as the re-induction of currency has taken the economy towards normalcy, the direct impact has gotten blurred. Hence, the answer to this question will remain open-ended.

What is clear and unequivocal, however, is that the implementation was quite unsatisfactory, and this can't be defended on any ground. Here, the author takes us on a tour to see the impact on different sectors. *Mandis* came to a standstill, as there was no cash. Sowing got delayed, as wages could not be paid. The manufacturing sector, too, had a similar affliction, where units could not pay labour. While credit facilities and bank transfers helped make payments to various parties, wages could not be disbursed. This was true for the retail trade as well, which saw some agonising months of sharp decline in business. As a large part of the population earns a livelihood selling goods on streets, absence of cash made life difficult for them too.

At the theoretical level, Reddy gives a detailed analysis of the RBI balance sheet and surpluses. This is insightful, as the issue was raised very often in the course of

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the debate, where there were arguments and counter-arguments on how money—which disappears from the system—can or can't lead to transfers to the government. Reddy also gets into the trauma faced by banks, where two months were spent only dealing with currency and irate customers, a cost that can't be measured. Banks also had to face other problems like surplus deposits and the accompanying cost, which dented their income statements. This led to measures by the RBI in terms of increasing the cash reserve ratio and, subsequently,

bringing in market stabilisation scheme bonds to absorb the surplus liquidity.

Two interesting issues that merit some mention relate to the digitalisation theory and the 50-odd regulatory changes made along the way. The first one is that the government was not sure why it was implementing demonetisation. As Prime Minister Narendra Modi never mentioned digitalisation in his speech on November 8, it appeared to be more an afterthought argument provided to save face when it appeared that all the currency in the system was going to return in the form of deposits. The author feels that, in this respect, the scheme was not really well thought out. Reddy also provides statistics to show that some of the poorer states in India have very bad connectivity and, hence, asking for such a transformation might be quite meaningless.

The frequent changes in regulation during these two months on 'what can and can't be done' were another manifestation of the absence of a well-planned strategy. While defenders of these changes have argued that this was the best way to get at the dodgers, the number of regulatory changes



Demonetisation and Black Money

C Rammanohar Reddy
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was still quite high.

At the ideological level, an issue that the author raises and which has also been emphasised by former RBI governor YV Reddy in the foreword of the book, pertains to counterfeit currency. A fundamental question is, why do we have to import paper from outside to print currency and, as a corollary, why can't we have such a facility within the country? Reddy also warns that in case this measure turns out to be a failure—which we will never know—the entire war against black money will get diluted and people will lose faith in the system.

Demonetisation and Black Money is an excellent book that will appeal to the common man, as well as the professional. It has been researched thoroughly and the references provided in the discourse provide proof of that. While one can see a tilt in Reddy's inclination towards the scheme being a failure, he is willing to keep an open mind and has presented the government's view as well. This makes the book an excellent treatise on the subject.

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