

After the demonetisation tsunami

A lucid analysis of the note ban's economic effects, and why the Opposition was unable to take on the Government

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On November 8, 2016 Prime Minister Narendra Modi scrapped the old ₹500 and ₹1,000 denomination notes to fight black money, counterfeit currency and terror financing. The move, by far the most 'disruptive' one in recent times sucking out 86 per cent of the currency in circulation, received both bouquets and brickbats. Former Prime Minister Manmohan Singh called demonetisation "organised loot and legalised plunder" in a speech in the Rajya Sabha, Amartya Sen called it a "despotic action that struck at the root of economy based on trust", while Jagdish Bhagwati called it a "courageous and substantive reform that, despite the significant transition costs, has the potential to generate future benefits".

So, after more than five months, has demonetisation achieved its objectives? And were its achievements, if any, worth the pain, disruption and despair caused to so many millions of this country? Especially now that there are reports that most of the scrapped notes have found their way into bank accounts?

Clarity and analysis

These are the questions that veteran journalist C Rammanohar Reddy tries to answer in his slim book, *Demonetisation and Black Money*. The book, as the author says, is "neither a research-based piece of academic work nor is it a journalistic analysis. It is an attempt, at short notice, to first clarify and then analyse this immensely complex subject".

The book is divided into four

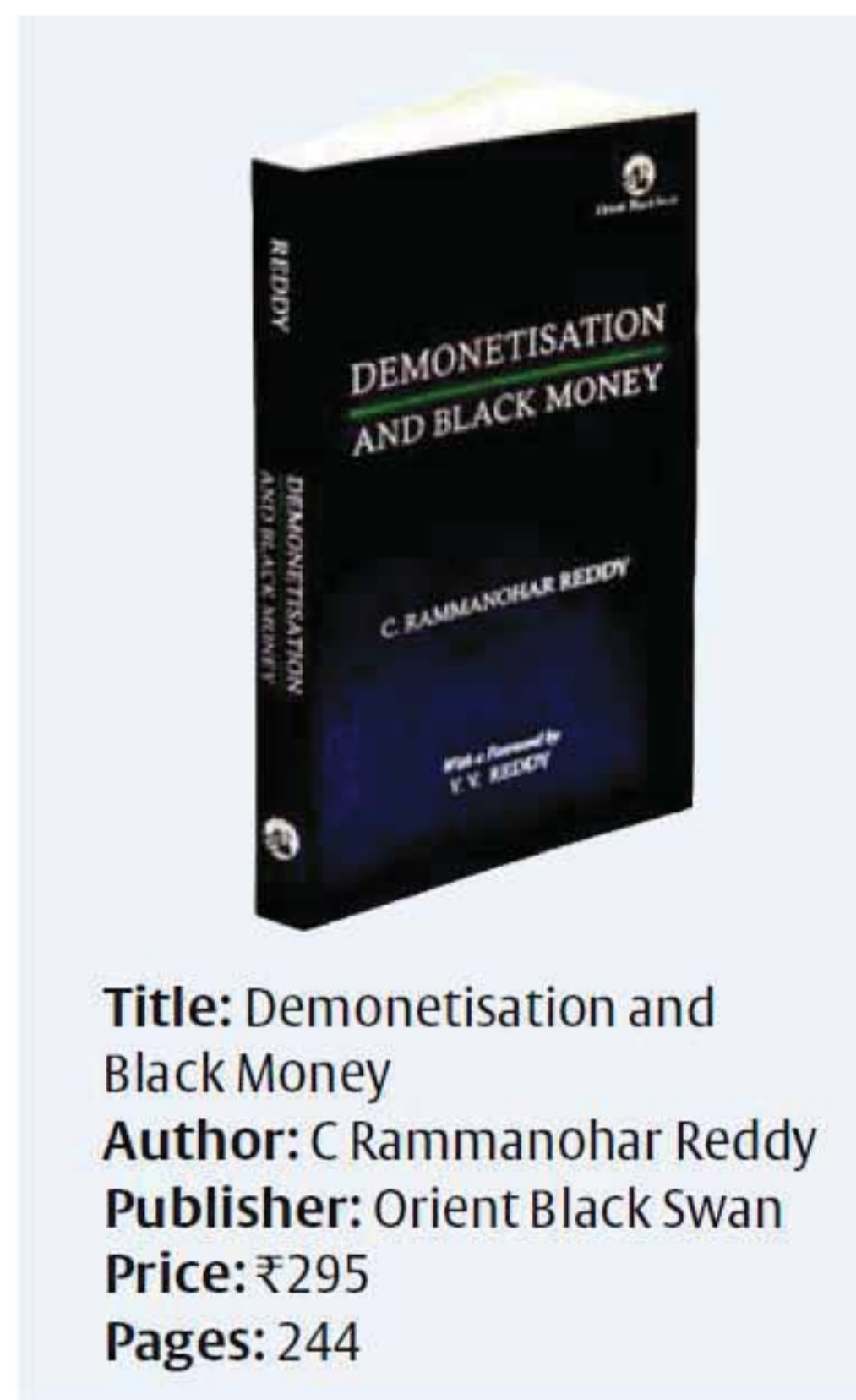
sections and has fourteen chapters and a last one titled 'What Next', where Reddy lists out measures that need to be complemented with demonetisation to combat the black money menace. Interestingly the author has, in the annexures, included the Prime Minister's November 8 speech to the nation, the Gazette notification on demonetisation, Manmohan Singh's speech in the Rajya Sabha, and an extract from the 2012 White Paper on black money.

In the first section Reddy provides conceptual clarity on black money and the black economy, the size of the black economy in India and 'shadow' economies from a global perspective. He explains how black money is generated and how the black and the 'white' economies are intricately linked with black money moving seamlessly into the 'white' part and vice versa.

Earlier, gold trade was seen as the major conduit for black money but now "real estate, financial market transactions, corruption in public procurement and practices in non-profit sector (education institutes and hospitals run by trusts) have become more important for black money generation".

In the second section, Reddy begins by talking about the various measures taken to tackle the black economy prior to the 2016 demonetisation exercise, and their failures and achievements. Interestingly, the author says, "the gazette notification makes no mention of dealing with corruption as one of the reasons for demonetization".

Though cash plays an import-



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ant role in the generation of black money, "it is not so as a store of value of black money" as the illicit money earned is invested in assets such as gold or real estate or laundered through shell companies and benami accounts. Despite cash being only "1.73 per cent and 7.3 per cent" of undeclared incomes, Reddy argues that attacking the cash component is crucial as "an attack on black cash could have a disruptive effect on the market value of the stocks in the black money". But then attacking cash may be a necessary "but not a sufficient condition for a successful attack on the black economy".

Critical assessment

Reddy makes a crucial observation of how the Government disregarded the 2012 White Paper's reservations about demonetisation. Reddy is critical of this: "The almost casual manner in which announcements and arrangements were made, changed, withdrawn and freshly imposed in November and December 2016 hardly measure up to sound management." What is more galling was that no one in government

seems to have thought it necessary to recalibrate ATMs to dispense the new notes.

Sometime in December the narrative decisively shifted towards promoting digital payments and a 'cashless economy', later appropriately termed 'less cash' economy. The objective here was to bring the informal sectors of the economy into the formal. This Reddy says "was based on the questionable assumption that the informal sector was an important source of black money generation".

But despite the official narrative, India's cash-GDP ratio is not too high when compared with the developed world. Besides, the digitalisation drive by the Government and the RBI has been on for a decade now. Reddy lists out the infrastructural constraints that have to be met for making digital payments more widespread. Despite the digital drive, "cash will remain an important means of transaction".

The media comes in for praise for the detailed and painstaking reports it carried on the hardship endured by the common people on account of the acute currency shortage. But the hardship was unequally distributed and those at the bottom of the ladder were worse-hit. Reddy analyses demonetisation's impact on agriculture, industry, labour retail trade and women and states that all of them were affected in varying degrees. The most affected were workers in the informal sector which includes agriculture, small industries and services in both rural and urban areas. As Reddy sums up, "the wealthy and the criminal as usual did not experience any of this pain. It was those who had the least capacity to cope who bore the entire burden".

The most interesting chapter in the book is 'Black Money and Politics'. The reason why the political

opposition's criticism against demonetisation carried no weight, argues Reddy, is due to its reluctance to talk about black money and politics. Also, over the years the greater use of black money in politics has been linked with wealthier candidates contesting as they have a greater chance of winning. Reddy also makes a perceptive point of the winning candidates' exponential growth in assets while in office. Coalition partners jockey for more 'lucrative portfolios' as the money 'invested' fighting the elections has to be recouped while in office. The interface between business and politics and the new trend of 'political-cum-business' entrepreneurship is a fertile field for research for both academics and the media.

Thankless task

In the last section Reddy talks about the thankless task the RBI was entrusted with in remonetising the economy. He says "the task assigned to the RBI was such that great pain was, perhaps, inevitable". The way the whole exercise was designed and implemented put the RBI's reputation at great risk — "RBI's image has been dented, but not beyond repair".

In conclusion, Reddy says that the benefits of this mammoth exercise are not yet visible and they are likely to be played out over the long term. After all, the lack of protest in no way undermines the people's suffering. The book raises the crucial question of whether the disruption was worth the effort. The author's answer to this question is a categorical no.

Reddy has done a good job of bringing out a book at short notice on a difficult and complex subject. The style is lucid, shorn of jargon, and is aimed at the general reader. The book's understated tone is one of its major pluses.

MEET THE AUTHOR

C Rammanohar Reddy is an economist who has been writing on economic policy since the 1980s. He was editor of the *Economic Political Weekly*, and is now Reader's Editor, *Scroll.in*.