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‘The Government Seems to Have Disregarded the Immense Dislocation That Demonetisation Caused’

BY ATUL K. THAKUR ON 26/04/2017 • 2 COMMENTS

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C. Rammanohar Reddy speaks to *The Wire* about his recent book *Demonetisation and Black Money*, the impact of the policy on the masses and the government's shifting narrative towards digitalisation.



In his recent book, C. Rammanohar Reddy argues that whichever way one looks at it, demonetisation was not a good idea. Credit: Reuters

Prime Minister Narendra Modi's **November 8 announcement** declaring that Rs 500 and Rs 1000 notes would cease to be legal tender was a move unanticipated in the annals of financial history. The Reserve Bank of India was left powerless and red-faced. Forced to amend the rules over 60 times in next two months, the RBI – in effect – demonstrated how poorly planned and shoddily executed the move was. Furthermore, the shocking empowerment of PayTM, at the expense of the National Payments Corporation of India, an umbrella organisation for all retail payments system, was a clear case of private players benefitting at the expense of national systems. The front-page ads by the company with **Modi's photograph** gave the image of a country fully in the grips of crony capitalism, a country where companies were making money out of policy decisions skewed in their favour rather than good design or better service.

There was a brief flurry of justification that this was a move to help India become a “cashless” society. This too has been laid to rest, not least because the new Rs 2,000 note makes it even easier to store large amounts in cash. The continuing ads on television about “remonetisation” make it clear that the economy has not yet bounced back from the body blow.

In his recently released book *Demonetisation and Black Money*, senior journalist and former editor of *Economic and Political Weekly* C. Rammanohar Reddy argues that whichever way one looks at it, demonetisation was not a good idea.

One, very little of the black money is held in the form of cash, so demonetisation has not destroyed much of the unaccounted wealth.

Two, even if the government did want to track down unaccounted cash, demonetisation itself was not the best way to go about it since it hurt the entire population while trying to ensnare a small number of holders of illicit cash. An alternative would have been to collect, analyse and follow-up on the information on large cash withdrawals from banks and thereby identify possible flows of unaccounted cash.

Three, if in spite of all the risks and limited chances of success, the government still wanted to go ahead with demonetisation, then the manner in which the decision was designed and implemented was neither the only option nor the best one. There were other less destructive options available.

Reddy spoke with *The Wire* on the central theme of his latest book. Excerpts from the interview:

Why cause a dislocation in the first place?

It was expected that demonetisation and then remonetisation will cause inconvenience. The prime minister himself said so in his first speech. However, the government seems to have under-estimated – or disregarded – the immense dislocation that the scale of the decision and poor prior planning caused.

When assessed in terms of the objectives of demonetisation 2016, the outcome has been unclear. What then was the purpose of all the disruption and distress?

As of now we still do not know how much of black money held as cash has been neutralised. It seems to be that most of such cash has been placed in the banking system, deposited in the banks. It is now up to the government to identify which of the large deposits placed in the banks are illegal. In spite of queries that have been made of account holders, three months after the closing date for surrender of the demonetised notes, we still do not have a single case of such illegal cash deposited in the banks being unearthed (or identified as such).

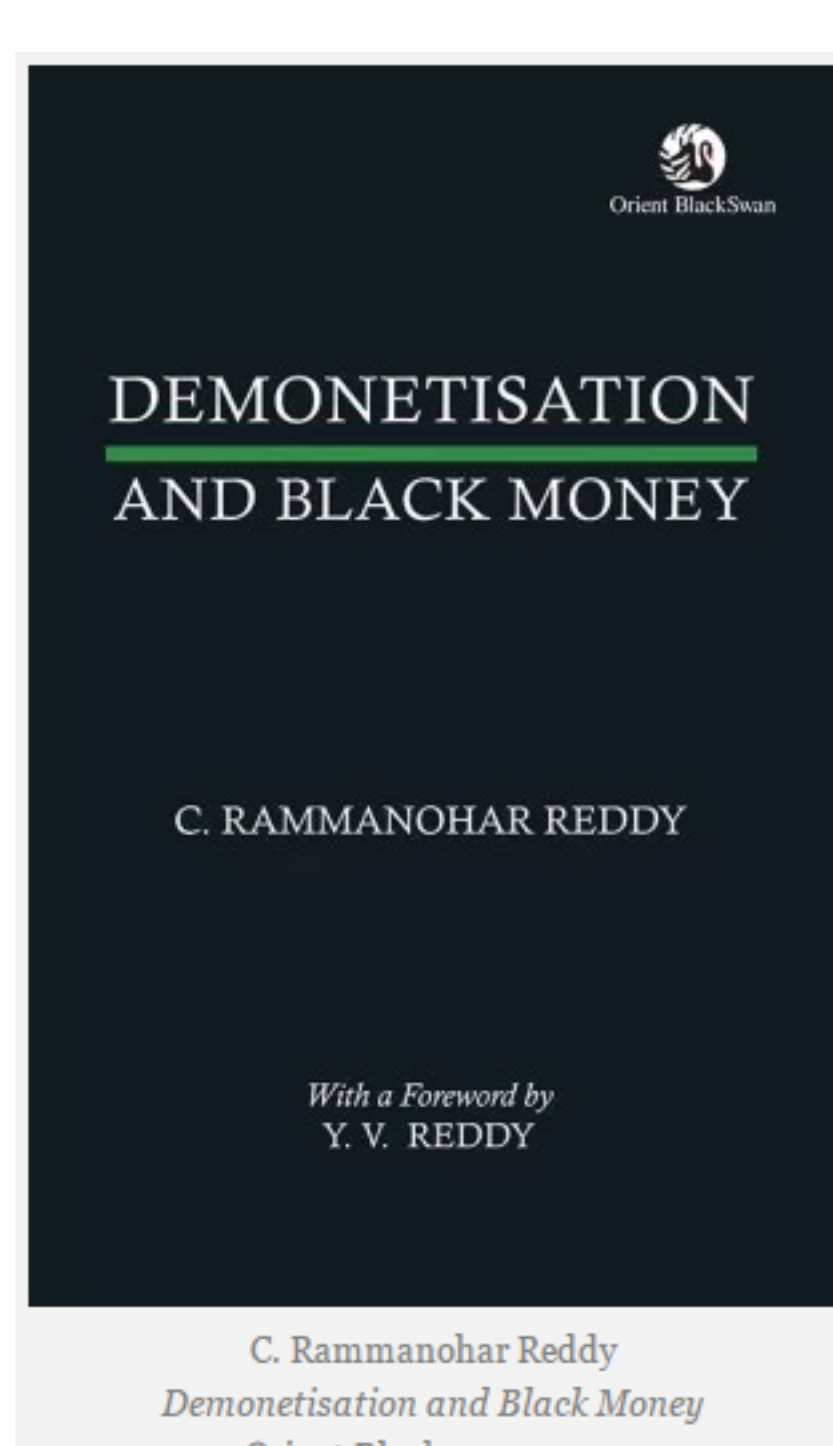
Can you share the overview of suffering for masses, caused by unusually shifting processes of demonetisation, digitalisation and remonetisation?

A compilation of the reports of the suffering people went through forms one chapter of the book *Demonetisation and Black Money*. The impact was felt almost by the entire informal or unorganised sector, where people are the most vulnerable. It took the form of loss of business, non-payment or delayed payment of wages of labour, return migration, etc. There were also social impacts, like on women who had put away savings in cash, hidden from abusive husbands. So there were many and different kinds of impacts.

Also read: [How Demonetisation Wrecked Those It Was Supposed to Serve](#)

The government said that demonetisation was neither the first nor the last measure to be taken to destroy black money. More steps were to follow in what was promised would be a larger war but there was little of that kind to be seen since November, little seems to have happened.

Yes, there has not been much of follow-up action, other than a few isolated measures. Some action has been initiated against shell companies – those used to launder money by manipulating share prices. Some high-profile raids have been made across the country by the IT authorities. But nothing really, even three months after the end of demonetisation. The so-called reforms to clean up election funding are really a bit of a sham.



In the event, a much larger amount than expected seemed to have been deposited in the banks and much sooner than expected.

This just shows the power of those with illegal wealth being able to circumvent the system. It also shows that they are not worried about doing this so openly. They are confident that they will be able to manage the system even if they are subsequently questioned. It also explains why the disclosures in the second amnesty scheme of 2016, announced after demonetisation, are reportedly very small (official numbers are yet to be announced.)

What does your book say on money laundering and the return of the taxman?

I suggest that the IT department will carry out some high profile cases of investigation in order to show symbolically that it is serious about unearthing black money. These will be essentially symbolic but will lead to harassment. The government has also expanded the powers of the IT department.

How has this effort helped/impacted private entities such as Paytm? What do you think will be the long-term impact?

Of course the shortage of cash in November-December and then the drive to digitalisation has helped mobile wallets, credit card/debit card companies etc. There is an overall drive to digitalisation which will help companies working in the sphere of digitalisation. But I don't think demonetisation was carried out to further the interests of such companies.

How has this affected the banking sector?

In the immediate term, banking staff was put under a lot of strain trying to meet the demands placed on them by the government and the RBI. In terms of funds, the large deposits made in the banks made them flush with funds. Even after a large part of this money has been withdrawn, the banks still have large deposits which they can use for lending. Of course, they have to find avenues to lend.

You have written in chapter eight of your book that the prime minister's speech on November 8 made no mention of electronic forms of monetary transactions (more commonly referred to as 'digitalisation'). The gazette notification on demonetisation also did not mention digitalisation. However, soon the narrative changed, and digitalisation became the mantra. Why this dramatic shift in narrative towards digitalisation?

Immediately after the announcement on demonetisation, when there was huge criticism of the pointlessness of demonetisation as an instrument to unearth black money, the government came up with this new objective of digitalisation to rationalise the (forced) turn to digital payments. It was also later touted as part of the “formalisation” process which it was said, would reduce tax evasion.

In the aftermath of the announcement, how would you view the losses in terms of macroeconomic setbacks and job losses?

The first estimates of GDP for the third quarter of 2016-17 and the advance estimates for 2016-17 show limited or almost no impact on GDP growth. However, since the output of the informal sector which bore the brunt is not easily measured, one expects that as more data comes in we will see a revision of the GDP growth figures.

How has the credibility of RBI been affected with the government's direct interference in its matters? Do you think that the finance ministry was in the loop before demonetisation took off?

Yes, the credibility of the RBI was affected with the interference of the government in the matter. But being a strong organisation it is possible that it will rebound from the impact of government interference. I have no information about whether the finance ministry was aware or not. Some members of the ministry must have been aware otherwise even the limited planning that was done could not have been carried out. The interesting question is which officials and up to what level were aware and who were they reporting to.

Atul K. Thakur is a New Delhi-based journalist and public policy professional. His latest book is *India Now and in Transition*, he can be reached at summertickets@gmail.com.