

A Book PM Modi Should Read Now

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"The idea that black money or wealth is held in the form of notes tucked away in suitcases of pillow cases is naïve. And in any case, even those who are caught napping - or waiting - will have the chance to convert the notes through paid agents...But the gesture had to be made, and produced much work and little gain." This might sound like the private thoughts of Urjit Patel, Governor of the Reserve Bank of India (RBI). In fact, it is IG Patel, one of his predecessors, reminiscing - in his memoirs - about India's demonetisation experience in 1978. But Urjit Patel could do worse than copy-paste these lines into his own memoirs.

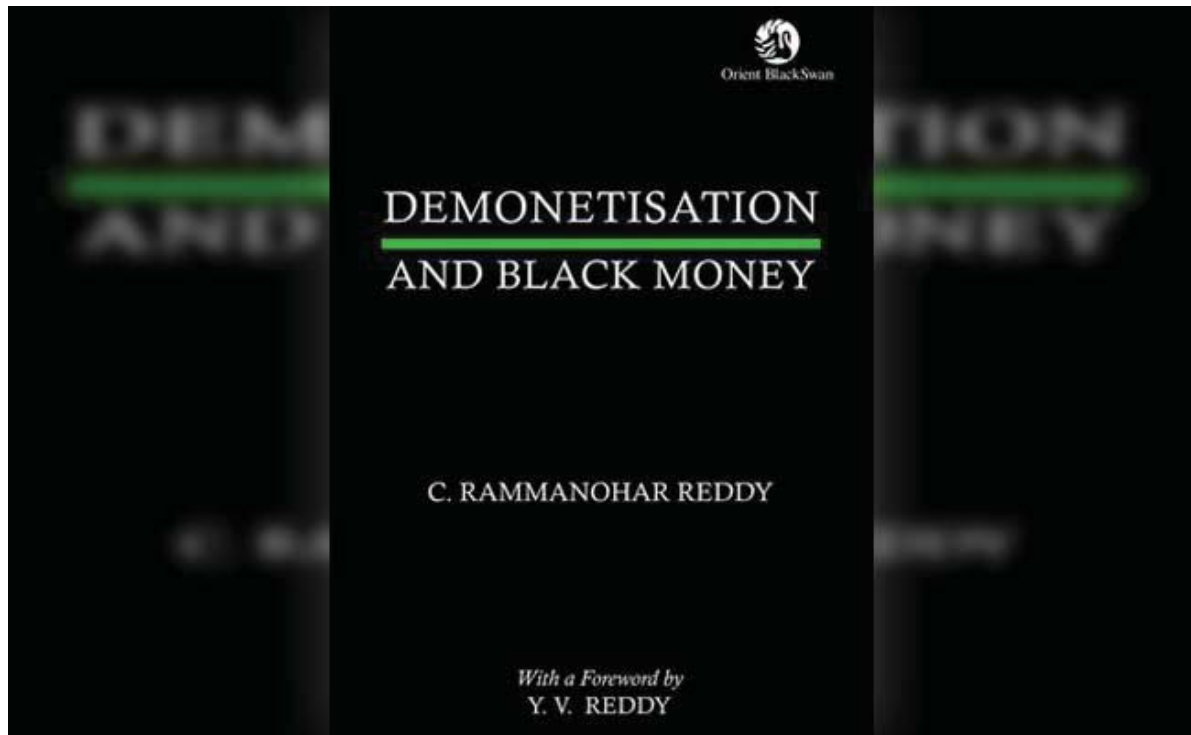
This striking parallel is one example of the wealth of insights that emerge from Rammanohar Reddy's new book on Demonetisation 2016 (as he calls it). The book (*Demonetisation and Black Money*) is, in effect, a concise survey of what we know so far on this subject, along with a fair amount of background - on the economics of black money, the global experience with demonetisation, the role of gold in Indian society, among many other topics. Considering that it was completed at breakneck speed, this is a remarkably thorough and wide-ranging study.

The book is highly readable. Aside from fourteen short chapters, it includes seven appendixes with valuable reference material such as the text of the Prime Minister's speech of 8 November 2016, extracts from the 2012 White Paper on Black Money, and a short introduction to the Reserve Bank of India. Among the most informative parts are those relating to the process aspects of Demonetisation 2016. A strong impression emerges that the RBI ended up being a bit of a scapegoat. The task inflicted on it by the government was stupendous, and in retrospect, the chaos could have been worse. In the circumstances, perhaps the RBI did a reasonably good job after all.

The book's longest chapter, on "distress and despair", presents a useful overview of the impact of demonetisation on people's lives across the country. With most of the informal economy off the statistical radar, the evidence is inevitably patchy and the author is constrained to make heavy use of media reports. The picture that develops from available sources is very grim. Just to cite one telling fact, "the All-India Manufacturers' Organisation concluded in early January, based on a study among its members, that in the first 34 days after demonetisation its members from the micro and small-scale segment saw a 50 per cent drop in revenue and shed 35 per cent of their workforce". Alarming as it is, this assessment is broadly consistent with the long stream of media reports cited in this chapter, and also with whatever small-scale surveys were conducted in specific locations in the aftermath of demonetisation.

The question remains why there is so little reflection of this crisis in economic statistics. One possible answer is that the media reports give an exaggerated view of the crisis. Quite likely, there is a grain of truth in this: journalists and editors have a knack for horror stories. However, we are not just talking about media stories, and the consistency between different types of ground reports seems compelling. Another answer is that the statistical system is failing us. That is certainly true in some respects: as of now, for instance, we have little evidence on what happened to employment and wages in the post-demonetisation period. Similarly, growth

estimates for the post-demonetisation period are still highly speculative. Nevertheless, one would expect some economic statistics at least to capture the dislocation that occurred. A third answer is that there is, in fact, no tension between the ground reports and the growth estimates, because the crisis was short-lived and largely confined to the informal sector. If an economy growing steadily at seven per cent per year is stopped in its tracks for two months, and then resumes its normal pace, that would translate into a reduction of about one percentage point in the annual growth rate. This is well within the range of available estimates of the growth impact of Demonetization 2016. Hopefully, things will become clearer as more information becomes available. Given the shortcomings of the statistical system, however, it is also possible that we will never know the real extent of the damage.



Cover of C. Rammanohar Reddy's book *Demonetisation and Black Money*

The bulk of Reddy's book focuses on the facts, surveyed in a scholarly manner. In the last chapter, the author presents his views on Demonetisation 2016. Like most sensible economists, he feels that the objectives of demonetisation as stated in the Prime Minister's speech of 8 November 2016 (in particular, flushing out black money) were neither based on sound economics nor attained in any significant measure. Other objectives that were invoked later on, such as accelerated digitalization of payments and formalization of the informal sector, also fail to justify the costs and risks of Demonetisation 2016. The author concludes that "whichever way one looks at it, Demonetisation 2016 was not a good idea".

The book ends with a short discussion of alternative measures that might have been considered to curb black money, in the broad sense of illegal income. Aside from other points, the author draws attention to two neglected sources of black money: the interface of politics and business, and malpractices in financial sector transactions. Some specific recommendations are presented, but the reader wishes they had been expanded. And the parting statement that "root and branch overhaul in the society is then required to defeat black money" sounds a little rhetorical. Nevertheless, there are many useful ideas in this brief conclusion.

At the end of the day, what is striking is how little we know about Demonetisation 2016 (YV Reddy's thought-provoking Foreword, symptomatically, includes thirty-seven question marks). It is still not clear, at least to the public, who was party to this decision and how it was taken. The real objectives of the exercise remain a matter of speculation. The impact on economic growth is still anyone's guess. And most importantly, we do not have a clear view of how demonetisation affected the lives of working people.

Nevertheless, this book is a most valuable compendium of what we do know about the context, process and impact of Demonetisation 2016. It is essential reading for anyone interested in this issue, from the Prime Minister down.

(The author is Visiting Professor at the Department of Economics, Ranchi University.)

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