

# Demonetisation: an economist's analysis

A new book by former editor of EPW, looks at the logic of the move and whether it has achieved its goals

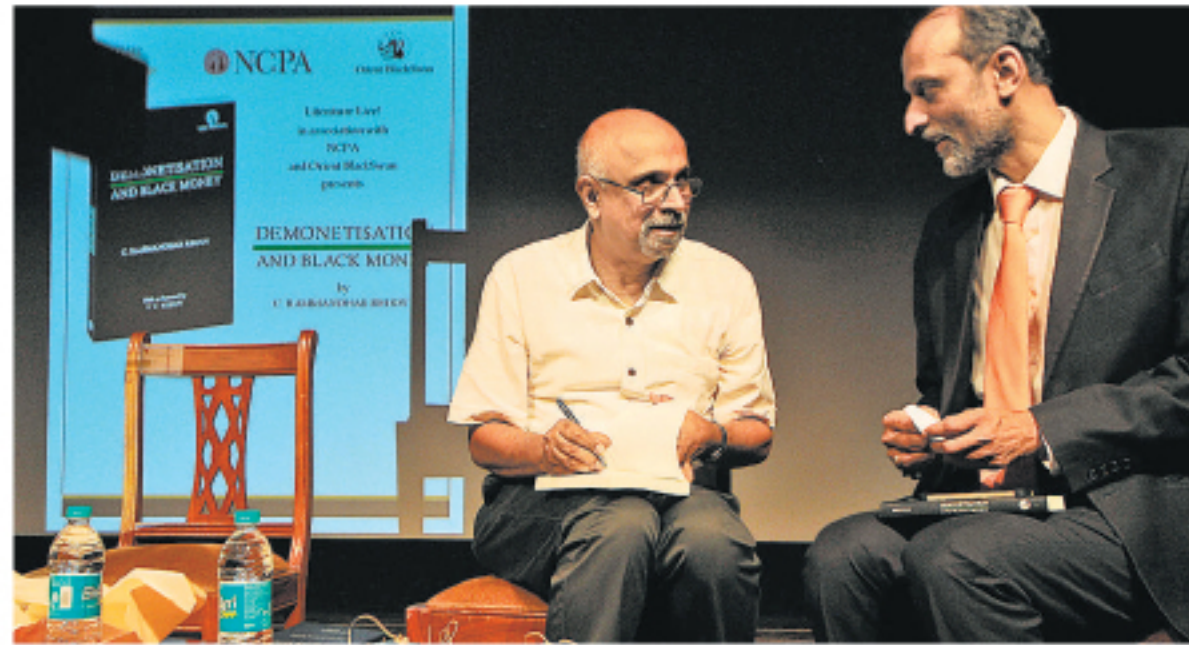
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Since the announcement of demonetisation in November 2016, commentary around the move has gone through a number of cycles. From initially being hailed, particularly on television, as a master stroke, the next two months saw reports from around the country on the hardships it caused to the common man, before the tide turned again in the aftermath of the Uttar Pradesh election results, with several commentators then opining that the concerns around it have been proven wrong.

## Was it effective?

Despite the deluge of opinion pieces, though, there has been little proper analysis of the economic logic around demonetisation and whether it was actually an effective way to combat 'black money.' *Demonetisation and Black Money*, a new book by economist C. Rammanohar Reddy, a former journalist with *The Hindu* before a 12-year stint as editor of *Economic and Political Weekly*, who is currently Reader's Editor of Scroll.in, seeks to address this gap.

At an event to release the book at the National Centre for the Performing Arts here on Thursday, Mr. Reddy said



Noted economist Dr. C. Rammanohar Reddy (left) with economist and political analyst Dr. Ajit Ranade at the launch of the former's book *Demonetisation and Black Money* at NCPA in Mumbai on Thursday. ■ ARUNANGSU ROY CHOWDHURY

that despite his training as an economist, the day the move was first announced, he didn't have a framework in which to understand why such a sweeping move was implemented. "The writing of the book started that day itself, and I exchanged ideas about demonetisation with Y.V. Reddy, a former governor of the RBI, who was also in Hyderabad where I was living." While discussing the issue, he said, they each had very different perspectives and it eventually led to an idea for a book.

Mr. Reddy said the book deals with, first, whether demonetisation was a great move and whether it could have been done differently. It then explains the idea of black money, which demon-

etisation was first supposed to be all about, and then the idea of digitalisation of all transactions, which later found its way into the explanatory narrative. The book, which he says is written for the common reader and does not contain a lot of economic jargon or mathematics, then asks readers to make their own choices about the merits – or otherwise – of demonetisation. "The book does have an opinion and a viewpoint, but it is not stated very stridently."

Economist and political analyst Ajit Ranade, who discussed the book on stage with Mr. Reddy, said he had been advocating a policy of demonetisation for a few years previously, though he

said he thought it would work differently. "I had written about the discontinuation of high [value] currency notes and the idea was that you could give people a year or 18 months to wind down the use of, say, a thousand-rupee note." He said that when he first heard of the move he was very happy, but was later less enthusiastic when he found that it was not quite the policy he had advocated and found that both ₹500 and ₹1,000 notes would be stopped: "It was not actually demonetisation but a currency swap. The notes were not actually discontinued."

## On black money

One of the issues that the book seeks to demystify is the concept of black money. Mr. Reddy said that while most people tend to think of black money as a kind of subterranean economy that exists in shady parts of cities, in reality black and white money are very much intertwined. "For instance," he said, "if I pay a policeman a bribe from legally earned money it becomes black. If he then goes to a restaurant and uses that money to buy something and gets a receipt for it it becomes white again." What a lot of people don't realise, he said, is that

a lot of black money is, in reality, generated within the formal financial system, using means like under-invoicing exports or over-invoicing exports; it is generated at an intersection of politics and economy and is not all of it is about hoarding currency notes.

Mr. Ranade agreed that it is not clear that black money was the only reason for demonetisation; figures declared from various raids by the Enforcement Directorate and other agencies showed that of the total confiscated illegal wealth, only 7% is in the form of cash. The question, he said, is whether it was worth subjecting a billion people to hardship if it was only to unearth a small percentage of illegal wealth. He also countered that himself, saying that the demonetisation decision appeared to be vindicated by the overwhelming support the move seems to have received – as evidenced by positive electoral outcomes for the BJP in recent state elections – despite the hardships caused. He also said that the impact on Gross Domestic Product in the third quarter, when the demonetisation effect became measurable, is also now shown to have been only a point 3% to 4% change.