

AN ADMINISTRATIVE TRAGEDY CALLED DEMONETISATION

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(English Version)

The fact that India's GDP fell to a 3-year low of 5.7 % in the first quarter of this year is no cause for celebration and it hardly bothers most who have neither capital nor shares, as they await the next fix of spell binding oratory. What is worrisome is RBI's confessional report that 99% percent of the 15.44 lakh crore rupees of demonetised 500 and 1000 rupee notes has come back into circulation. Surely, we now deserve a 'bite' from the PM, whichever part of the planet he is, about what need to do now. He was good enough to confide in the nation on 8th November 2016 that "the magnitude of cash in circulation is directly linked to the level of corruption. Inflation becomes worse through the deployment of cash earned in corrupt ways." Within a week of the 'big bang', the whisperatti of Delhi and Mumbai, who know everything, were gossiping about a massive cleansing operation that was converting dark notes to white, and whether more money would return than what was in circulation. While the masses who had no bank account or access to Cards and ATMs suffered and so did their cash market, that led later to police firings on cash strapped farmers in MP, the middle class went through pain for the first few weeks and then plonked proxies to pick up cash on their behalf. The rich and the lords of back money employed smarter techniques by getting a section of bank employees to connive in accepting without question wads of black money and to convert them to legitimate notes and for a cut, of course. While it has surely secured a dubious niche for Narendra Modi, whose single minded obsession has been to ensure his position in history, it is also a case study in compounded administrative lapses.

Banks bore the brunt of public anger and were totally flummoxed in complying with unheard of procedures but the poor banking secretary chose complete silence, as all the talking was done by the revenue secretary who was Modi's chosen bureaucrat from Gujarat. If neither knew of the new crop of currency brokers that had suddenly mushroomed, it is tragic. If they knew and neither Modi nor the rest

of his crusade-team could do nothing to stop them, that is worse. While a certain amount of groping in the dark is quite understandable, the sheer harassment that millions of honest citizens had to go through is really unforgettable. RBI's revelation rubs salt in our wounds as we learn that instead of being caught, the black money gang has actually become lily white. In simple language, all that this disastrous policy of demonetisation managed was to legitimise a few lakh crore rupees of black money that even earns interest. Critical national decisions may call for some secrecy but to keep everyone in the dark, except very few who are trusted, is largely responsible for this fraud in the name of crusade against black money. Now that UP elections are won, can the people know why a fixed date could not be declared after which every person would need to explain how he possessed whatever 500 and 1000 rupee notes he had, without going through so much drama?

The national government is not a pocket state that can be run by secrecy or coteries: it needs teamwork and trust in critical officials at all layers. Now that crores of productive man days have been lost in unnecessary cash queues, where over a hundred have died, can we fix responsibility on who was responsible for ensuring that all the much announced black money becoming legitimate currency? And all fears that the possessors of black money had in the past appears to have been replaced by comfort. The regularity with which rules were changed displayed a total unpreparedness and floundering that is so unprofessional. Paradoxically, the mess now provides a perfect alibi to bankers who are now likely to be pinned down, as they can surely claim that x and y happened when rules a and b were in operation, before rule c came, and then complicate it beyond redemption. This explains why such a gigantic operation has hardly been carried out in recent memory anywhere, as a path that "angels have feared to tread". Frankly, the very choice of 'demonetisation' appears to have been too brash it was just one of the several options dished out to new masters, quite routinely, by economists and babus who hardly knew the possible consequences. There is a remarkable absence of seasoned counsel that has been directly discouraged by the leader, but a dose of contrary advice from those experienced in administration and finance could at least have broken the monotonous platitudes of his hand-picked courtiers.

We need to understand seriously whether the RBI's remonetisation and government's demonetisation were in perfect sync, and whether the RBI's normal 'peace time' mop up measures served equally well during the war time excess cash floods. From all available reports, RBI treated the whole operation under its normal rules and the benchmark was that on March 31, 2016, the currency with the public was ₹15.97 lakh crores, while just 3 days after Modi's lightning, it was down by ₹70,000 crore. RBI's annual report for 2016-17 says that by January 6, 2017, currency in circulation came down by ₹ 8.99 lakh crores "which resulted in a large increase in surplus liquidity with the banking system". Among the steps that the RBI took, for instance, was to absorb ₹ 5,24 lakh crores by November 25, through 'reverse repo', i.e, sucking money away from cash-flushed banks; then mopping up another ₹4 lakh crores immediately thereafter by doubling the Incremental Cash Reserve Ratio (ICRR) and then using Cash Management Bills (CMBs) to take another ₹7.96 lakh crores till 4th January 2017. Now that we are totally re-monetised after all this theatrics, what happens to Modi's primary argument, which was that the system has just too much money that benefits only corrupt tax evaders and terrorists? We need to know with computer figures the exact role of the much touted Jan Dhan accounts, as stories are heard.

But now, the FM has informed us that "the object of demonetisation was not confiscation of money" but to tackle the excessively high cash economy that surely needs to move to a cash-less economy or less-cash one. This could surely have been done without recourse to so much sensationalism and pain, with due notice and a 'cut off' date. We are now plagued by contradictory official claims that speak of an abysmal lack of coordination at the top layers of administration. Thus, while the PM says ₹1.75 lakh crore is highly suspicious, his Income Tax boys say that actually ₹ 2.89 lakh crore deposited by 9.72 lakh persons that stinks. Gone are those earlier calculations that at least ₹4 to ₹5 lakh crore of currency is tainted and could never be remonetized as we are now given much lower estimates. It takes just a nod to fix NDTV for a matter that really does not relate to government's banks but people are still waiting for almost a year to see who goes to jail in this demonetisation drama. Or is this Act 2 Scene 2 being saved for the just before the 2019 elections?