

Asking the right questions

Bibek Debroy | The Hindu | December 12, 2016

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Just as non-cash shouldn't mandatorily be imposed, neither should cash. Why has this not figured on a reform agenda between 2004 and 2014, or much earlier?

“The road to hell is paved with good intentions”, mentioned Dr. **Manmohan Singh in his article, “Making of a mammoth tragedy”**, published on December 9 in this newspaper. If we don't go back to Virgil, but treat this as a proverb, there is an alternative version too: “Hell is full of good meanings, but heaven is full of good works.” Some people, at least those who are economists and policymakers, are familiar with the 1971 Direct Taxes Enquiry Committee (Wanchoo Committee). This recommended demonetisation, and in Madhav Godbole's autobiography, *Unfinished Innings: Recollections and Reflections of a Civil Servant*, there is an anecdote about what transpired when Y.B. Chavan took the idea to Prime Minister Indira Gandhi. She asked, “Chavanji, are no more elections to be fought by the Congress Party?” Eventually, in 1978, the Janata Party government, not a Congress one, demonetized Rs. 1,000, Rs. 5,000 and Rs. 10,000 notes. There may have been “good meanings” in what the then Congress Party intended, but it wasn't “good works”. When demonetisation was implemented in 1978, the then Finance Secretary must have approved of the decision to declare some high denomination notes illegal overnight. The then Finance Secretary did not think it was a mammoth tragedy. Circumstances and contexts may have changed, but what was logical in 1978 should continue to be logical in 2016.

Bank account penetration

Have circumstances and contexts truly changed? In two doses, banks were nationalised in 1969 and 1980. Policymakers and economists within the government supported the idea. Bank nationalisation was meant to spread banking services. Is it true that more than 600 million Indians live in a town or a village with no bank? Forty-seven years after 1969, that can't be right. We have had responsible people as Chief Economic Advisers; Finance Secretaries; Reserve Bank of India Governors; Deputy Chairmen, Planning Commission; Finance Ministers; and Prime Ministers. They must have ensured that the good intention behind bank nationalisation wasn't a road leading to hell. I prefer to believe

the country's Prime Minister. "Just 10 years back only three out of every 10 households in our villages were benefiting from banking services. Today more than half of the rural households get the benefit of bank accounts. It will be our endeavour to ensure that all households benefit from bank accounts in the next two years." This is from the then **Prime Minister's Independence Day speech in 2012**. The speech doesn't mention towns because there was no need to. All towns have bank branches. Financial inclusion, if interpreted as opening bank accounts, is primarily a rural problem. In 2012, the then Prime Minister told us more than half of rural households have bank accounts and the rest would have bank accounts in the next two years, that is, by 2014.

Even if there was some slip up, this is 2016, not 2014. There has been the **Pradhan Mantri Jan-Dhan Yojana initiative**, with 257.8 million accounts, 139.5 million of them Aadhaar seeded. Though I mentioned bank nationalisation, some things have changed since then. To spread banking services, you don't necessarily need branches. There is the Bank Mitra infrastructure, which caters to almost four times the number of sub-service areas addressed by bank branches. Thus we have the PRICE (People Research on India's Consumer Economy) survey in August 2016, with more than 3,00,000 households. This shows 98.7 per cent of households have bank accounts (98.9 per cent urban, 98.6 per cent rural), a fact worth remembering when citing dated data on households with bank accounts, such as from Census 2011. Incidentally, if one has financial inclusion in mind, total population is irrelevant. After all, below an age threshold, one can't open independent bank accounts (more than 40 per cent of the population is less than 18.)

I do not recall anyone in government having said anything about black money being only in the form of cash. That's the reason the Benami Transactions (Prohibition) Amendment Act of 2016, covering both moveable and immovable property, was notified from November 1. To refresh our memories, this was introduced in Lok Sabha in May 2015. To refresh our memories again, the Benami Transactions (Prohibition) Act was passed in 1988. But successive governments, presumably because they did not want to tread a road paved with good intentions, didn't frame rules. Only one logical conclusion is possible. To fight elections, you need black money, irrespective of whether it is held in the form of cash or property.

Cash and non-cash modes

Nor do I recall anyone in government having said all cash is black money. However, there are inefficiencies associated with using cash, which is not the same thing as saying that cash should become illegal. 86.6 per cent of transactions (this is a 2012 figure) in India are cash-based, correlated

with the informal or unorganised nature of the economy. Such a share of notes and coins to GDP is excessively high, not in comparison with developed countries alone, but also with developing economies, including a few in South Asia. There have been disincentives against using non-cash modes. Even if one forgets incentives, did earlier governments do anything to remove disincentives? I read speeches by former Prime Ministers and couldn't find a mention of this issue anywhere. Indeed, that is the real tragedy: talking about the poor is not the same as doing something for the poor. It has been that way since the stroke of the midnight hour on August 15, 1947. If people voluntarily use cash, there is no issue. But just as non-cash shouldn't mandatorily be imposed, neither should cash. There is a piece of legislation known as Payment of Wages Act, 1936. Unless an employee voluntarily opts out, Section 6 of this mandatorily requires wages to be paid in coin or currency notes. If compulsion is bad, why has this not figured on a reform agenda between 2004 and 2014, or much earlier?

Yes, questions should be asked. But I am not sure of whom.