

## End bickering over demonetisation

Forget the usual debates about demonetisation being a hit or a miss. It has achieved its stated objective, the formalisation of the Indian economy, in large measure

NAVNEET ANAND



In the wake of the demonetisation brouhaha over its alleged failures, one is reminded of Sweden which once suffered a spate of robberies. So much so that many questioned the cash flow reduction in the economy. Unions of various organisations, including bank employees, bus drivers and cab drivers, raised demands for a cashless society. If there would be no cash, the argument went, the risks of robberies would go down and so would the threat to the lives of those who had to deal in cash while in transit. This and many other factors steered this Scandinavian country into taking a series of reforms to become a cashless economy. And if Jonas Hedman, Associate Professor at the Department of Digitalisation at the Copenhagen Business School, is to be believed, in less than four years from now, by March 24, 2023, Sweden would become the world's first cashless society.

In an interview with *Knowledge@Wharton*, Hedman said: "Cash had been decreasing in Sweden since 2007. From 100 billion Swedish cash in circulation in 2007, it came down by about 50 per cent to stand at 45 billion today. When we look at cash in circulation compared to gross national product, we are below one per cent in Sweden. In the US, it's around five per cent to seven per cent. In the UK, it's around three per cent. Countries in South America have around 30 per cent. Sweden is unique in the rapid decrease of cash in circulation." In India, the cash-to-GDP ratio is about 11.3 per cent, which is much higher than that of the US and the UK.

One of the stated objectives of demonetisation was the formalisation of the Indian economy and encouraging the use of digital transactions or less reliance on cash transactions. Also, as Union Finance Minister Arun Jaitley, in a recent Facebook post wrote, "The larger purpose of demonetisation was to move India from a tax non-compliant society to a compliant society." Non-believers and critics have been on a rampage talking about how demonetisation has failed. The debate is not whether demonetisation has failed or succeeded, but whether it has met its objectives. To me, even if this experiment was unable to achieve its objectives in full, we should not be indulging in criticism for the sake of it.

What the Finance Minister said is very simple and that doesn't require deep understanding of macro economics to comprehend it. More formalisation of the economy ensures that more money is being pumped into the system, which in turn results in higher tax revenue, higher expenditure, and higher growth. The growth of Gross Domestic Product (GDP) to 8.2 per cent for April-June quarter demonstrates just this.

Jaitley has listed down factors that buttress his claims of the formalisation of the Indian economy — money is being accounted for and is being put into the banking framework. Besides black money has received a blow. He wrote, "When cash is deposited in the banks, the anonymity about the owner of the cash disappears. The deposited cash is now identified with its owner giving rise to an inquiry, whether the amount deposited is in consonance with the depositor's income. Accordingly, post demonetisation about 1.8 million depositors have been identified for this enquiry." Is that not meeting the objective, if not a runaway success?

In 2014, only 3.8 crore people filed their income tax returns — the number had gone up substantially to 6.86 crore in 2017-18. Income tax collections have grown from ₹6.38 lakh crore to ₹10.02 lakh crore in the same period. In last two years alone, I-T returns have grown by phenomenal 19 per cent and 25 per cent respectively. The Finance Minister points to some interesting data and how could this be linked to demonetisation: "The number of New Returns filed post-demonetisation increased in the past two years by 85.51 lakhs and 1.07 crore."

Jaitley further informed that the implementation of the Goods and Services Tax (GST) on July 1, 2017, nine months after demonetisation, exhibited definitive results: "In the very first year, the number of registered assesses has increased by 72.5 per cent. The original 66.17 lakh assesses has increased to 114.17 lakhs." Do these facts don't meet the objectives of demonetisation? Indeed they do.

Those still worried can take solace from the reports of the world's three best agencies — the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB) — guess no *bhaktis* dictate terms there. The IMF said, "With growth picking up after falling sharply in the second quarter of 2017 due to "one-off factors", India in 2018 and 2019 would re-emerge as one of the fastest growing major economies." The World Bank said India had recovered from the impact of twin policies while ADB said that the new regime of GST mitigates geographic fragmentation and improves productivity.

The structural reforms are for good and shows promising results. We certainly can't blame Prime Minister Narendra Modi and the Finance Minister for having taken a calculated risk and a bold decision.

*(The writer is a strategic communications professional)*