

# 'Demonetisation transformed mindsets'

Venkaiah Naidu responds to P Chidambaram's criticism of critical decisions taken by the Government



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I normally would prefer not to join issue with my political rivals if there is an element of sincerity or a ring of veracity to their claims. But the record has to be put straight when sweeping and unsubstantiated comments are made on critical decisions taken by the NDA government in the larger interest of the nation.

The hollowness in some of the claims becomes all the more glaring when there is a wide gap between precept and practice. The Goebbelsian charge by former finance minister, P Chidambaram, that the "RBI stands diminished" after November 8 falls in the realm of conjecture, to say the least.

## Not an isolated decision

In the first place, the Government had repeatedly stressed that the decision to demonetise high value currency was not taken in isolation, and a series of important measures ranging from constituting an SIT headed by a former Supreme Court judge to trace black money stashed abroad to the Income Declaration Scheme preceded the game-changing decision as part of the war against black money, corruption and terror-funding.

Secondly, Prime Minister Narendra Modi had asserted that the decision was not sudden and was not taken to derive any political mileage. He pointed out how the Congress government headed by former Prime Minister Indira Gandhi had shied away from demonetising high value currency for selfish political gains driven by a fear of losing the elections.

In the context of the charge that the RBI stands diminished, it would be relevant to recall some of the comments made by former RBI governor, Duvvuri Subbarao, in his book *Who Moved My Interest Rate*. He narrated in detail how P Chidambaram interfered in the functioning of the RBI and how the UPA government went to the extent of not giving extension to two of his deputies because of differences with him. D Subbarao mentioned that both P Chidambaram and the then finance minister were piqued by the "Reserve Bank's tight interest rate policy on the ground that high interest rates were inhibiting investment and hurting growth".

During his reply to the debate on the motion of thanks for the President's address, the Prime Minister quoting from Subbarao's book mentioned how Chidambaram overstepped his limit to form a liquidity management committee, which was the exclusive domain of the RBI. In the book, Subbarao said, "Chidambaram had clearly overstepped into the RBI turf as liquidity management is a quintessential central bank function." After having had run-ins with the then RBI governor on setting interest rates during the UPA regime, it is ironic that Chidambaram now seems to be greatly concerned about the RBI's autonomy and accountability.

Admitting that there was pressure from the then government, the former RBI governor said: "I have been asked several times if there was pressure from the government on setting interest rates. There certainly was, although the precise psychological mechanics of pressure would vary depending on the context, setting and personalities." Isn't that a stark revelation of the treatment meted out to the central bank?

On the other hand, the NDA government under Prime Minister Narendra Modi never tried to under-



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mine the autonomy of the RBI. It is unfair on the part of Chidambaram to malign the NDA government by giving credence to hearsay about a note purportedly sent by the RBI to the PMO against demonetisation. Having held Cabinet positions, he is well versed with the procedures and functioning of the Government.

In fact, Finance Minister Arun Jaitley informed the Rajya Sabha the other day that a series of consultations on demonetisation were held with senior RBI functionaries since February 2016 before the board of the central bank formally took a decision and recommended it to government. In May 2016, the RBI took a decision on the printing of currency of higher denomination to replace the demonetised currency. After a proposal was sent by the finance ministry, the RBI applied its mind independently, took a decision, and conveyed the same to the Government.

## What the facts say

Even as re-monetisation is continuing at a fast pace and the objective of the Government to curb black money and corruption is making a huge positive impact among the

masses, the blind critics of demonetisation are still not able to come to terms with such telling facts as a 38 per cent increase in the filing of personal income tax returns post-demonetisation, significant growth in both direct and indirect taxes, integration of parallel economy with formal economy, and enlarged revenues to the coffers of the Centre and various State governments. As had been stated on numerous occasions earlier, the increase in revenues would enable the governments hike spending on social welfare and development schemes and give a huge fillip to economy-driving sectors such as housing.

With more cash flowing into the banking system post demonetisation, the banks are now in a position to step up lending and reduce interest rates. Would not the common man and a range of sectors get benefited from all this?

While having a totally cashless society is a utopian ideal, the measures taken towards building a less-cash society will greatly reduce corruption. Jaitley had also pointed out that the white paper brought out during the UPA regime had stated that cash is the biggest facil-

itator of all crimes. With India's cash to GDP ratio at 12.2 per cent being higher than several other countries, including emerging economies, the drive towards a digital economy would benefit all — from government (prevent leakage of revenues) to individuals — because of the virtual nature of transactions.

## Points to ponder

The Congress and its leaders would do well to answer what prevented them from notifying the Benami Properties Act for 26 years after it was enacted in 1988 when Rajiv Gandhi was Prime Minister. Also, why did the previous UPA regime fail to appoint an SIT to bring back black money stashed abroad in spite of getting rapped on its knuckles by the Supreme Court?

While the RBI will be in a position to come out with details of the unaccounted or black money that has come back into the formal economic system, the very fact that analysts and experts are speculating that some lakhs of crores of black money has been deposited in banks shows that the demonetisation exercise indeed was a success and had a salutary effect. It not only ripped off money's mask of anonymity, but most importantly promoted an ethical way of handling cash. This itself shows a path-breaking transformation in the mindset of the people.

No doubt, people had to face hardship for a temporary period. However, the gains in the long run are expected to outweigh the short-term problems as the GDP clocks a growth of 7.1 per cent in 2017-18, the formal economy expands, digital transactions increase, and the twin menaces of black money and corruption are dealt a huge blow.

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