

Demonetisation: Was it a flash in the Pan, or something more?

Updated: November 08, 2021 8:55 AM

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By M S Sriram,

As we come to the fifth anniversary of demonetisation, an anniversary that need not be celebrated, much less debated. The argument is settled that it did not achieve any of its professed objectives, including the ones that were added on the run. It is good to look back a

bit with amusement and loads of introspection. However, we also need to interrogate the discourse of formalisation. demonetisation, demonetisation anniversary,

Irrespective of the objectives of demonetisation – the policy actions of the government after the current dispensation assumed power in 2014 have led to greater formalisation of the economy. This is highlighted by the fact that there has been greater registrations in the Employee Provident Fund Office, including payment of first time contributions; The registration on the E-Shram portal through which formalisation of jobs is sought to be done; the registration on the Udyam Aadhaar portal for accessing bank finance for micro, small and medium enterprises and finally the requirement of paper work to access many of the post covid relief packages. All these allow us to believe that the formalisation is on the rise.

This is read as good news.

Is this indeed good news? From the perspective of having more people on the databases, more analysis and more informed policy – yes, it is. However, this process of formalisation – or adding more people into the formal sector, as has been traditionally understood is to be interrogated. The natural process of formalisation is a usually a result of the growth of a business or a household enterprise – that it grows to a limit that brings it into the tax bracket, requires it to register and pay provident fund because it comes into the regulatory bracket, from the largely unregulated (but legal) informal sector. One way of formalisation is in forcing the existing informal sector to enter the formal sector by mandatory registrations. Another is to by expanding the large formal sector by moving downwards and deeper to compete with what was exclusively or predominantly informal sector in the past. This accelerates formalisation and gives a false sense of fulfilment, not backed by growth or natural formalisation by the informal sector. It is similar to applying the growth in the stock market indices as a barometer to the performance of the economy. We know that these indices have large lag effects and therefore it would be a policy fallacy to use the stockmarket data to formulate economic policies. Similarly, using formalisation data to celebrate growth in economy does not pass the smell test.

Here is what we know: We know that the economy is not growing. We know that the tax collections are getting better, but possibly because of better compliance and greater spread of the tax net. We know that large corporations have become extremely profitable, without a concomitant increase in turnovers. We know that the unemployment rate is growing and the labour participation rate is falling. We also can sense that the large e-commerce platforms have increased access to markets, significantly reduced information asymmetry and drawn people into the formal sector – largely as employees and agents. This has happened at the cost of small informal trade. While we know what we have gained, we really do not know what we have lost. The demonetisation shock started this process, and the saga continues through GST and Covid seasons. What looked like episodic shocks may result in a structural change of pushing people to the margins. Edmund Phelps in his book *Mass Flourishing* had indicated that the economic success can be easily measured by data; but the collaterals are always found in literature – the writings of Dickens, Zola, Blake. We need to read the literature of our times to understand these stories.