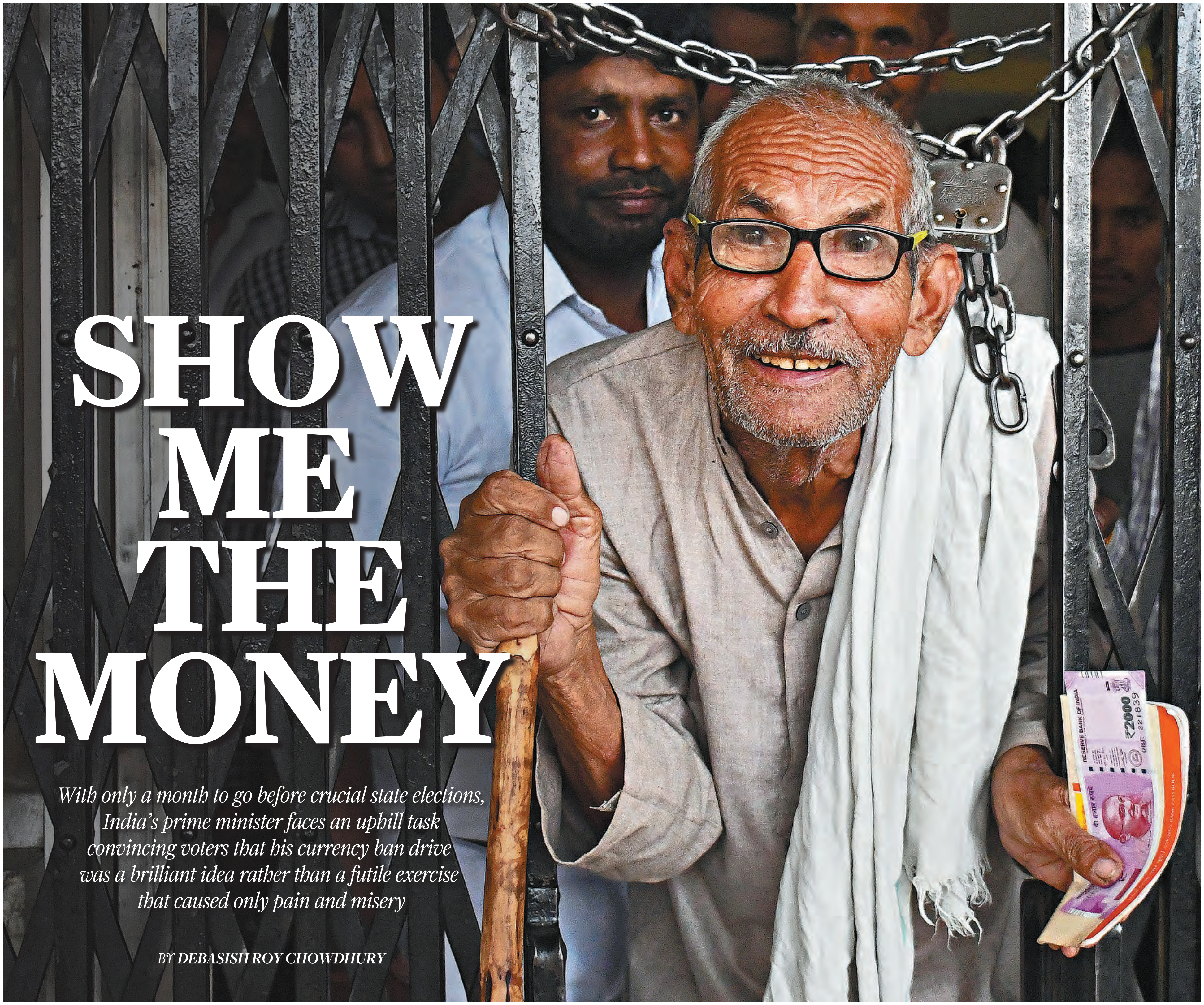


SHOW ME THE MONEY

With only a month to go before crucial state elections, India's prime minister faces an uphill task convincing voters that his currency ban drive was a brilliant idea rather than a futile exercise that caused only pain and misery

BY DEBASISH ROY CHOWDHURY

A FARMER LEAVES A BANK WITH A NEW TWO THOUSAND RUPEE BANKNOTE IN UTTAR PRADESH. Photo: Bloomberg

MAHATMA GANDHI HAD a simple solution for moments of indecision. "I will give you a talisman. Whenever you are in doubt…Recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step you contemplate is going to be of any use to him," famously wrote the "father of the nation", whose face is printed on every Indian banknote.

If Narendra Modi had to remember the faces of all the poor and the weak he has encountered in the course of 45 years of public life in a country with 224 million people under the international poverty line, he would have little time to run India. But if he had ever met Madhukar Lahnu Devle, he might not have rushed into his decision to ban high-denomination banknotes.

On November 8, Prime Minister Modi announced the withdrawal of 500 and 1,000 rupee banknotes as he declared war on "black money", as unaccounted wealth is called in India. These high-value notes, he said, needed to be flushed out of the system to end the country's endemic corruption and widespread counterfeiting. But while these notes had constituted 86 per cent of the cash in circulation, the new notes they were replaced with amounted to just a fraction of this value (the 1,000 rupee note has been discontinued altogether). The disruption has been painful, made worse by poor implementation that saw repeated changes in cash exchange and withdrawal limits, causing over 100 deaths, widespread inconvenience, and paralysing large segments of India's mostly cash-driven economy.

REALITY CHECK

A casual labourer in the nondescript village of Hirve, 150km from Mumbai, Devle's world – shaky at the best of times – has crashed around him since Modi's call to arms. With little agricultural work available locally, Devle used to travel 50km every day to the bustling city of Nashik to seek work as a construction labourer, earning about 200 rupees (HK$25) a day.

Not any more.

"The developers have put their projects on hold. They need cash to pay wages and buy raw materials. As there's no cash, there's no work in Nashik now, we have all stopped going," Devle says, pointing to a dozen of his friends congregating at his shack. It's late morning in the middle of the week and Hirve's young and able have nothing to do.

"I've never had any land, and now I don't have a job. I have two kids, one six and the other four, I've no idea how I'll support them. My wife is now the only one in the family who has a job but even she doesn't get paid any more," he says.

His wife, Rohini, is among the dozen stitchers in the village who make blouses for a Mumbai company that sells their products to a bigger retailer. As the company hasn't been getting any payments itself since the currency ban, it has deferred paying Rohini and her colleagues until things return to normal.

Normal would be a nice idea. Ever since the note ban, or demonetisation, was announced two months ago, things have been anything but. Hailed at first as a decisive strike on the scourge of corruption, public opinion began to split as the queues at banks lengthened, with people waiting for hours to access their own money, often in vain.

To make matters worse, the central bank introduced a new 2,000 rupee note to bridge the sudden gap in currency supply. But even though banks prefer to pay using the 2,000 note, it is mostly unusable as the dearth of small notes means no one is willing to break it.

"What am I supposed to do with these big notes?" says Gopal Shivram Chauhan, who grows rice and lentils on his nine-hectare plot in Hirve. He employs 20-25 farmhands during the sowing and harvesting seasons, and pays his workers a daily wage of about 100 rupees. Since agricultural workers are desperately poor, they all expect to be paid daily. A lack of smaller notes means Chauhan is now often paying in kind with crops, relapsing into a barter economy, while his prime minister is spiritedly espousing hi-tech cashless

ALTAF SHEIKH AT THE DHARAVI SLUM, LEFT; LABOURER DEVLE AND HIS FAMILY IN HIRVE. Photos: Debasish Roy Chowdhury

transactions made through digital platforms and banks.

Modi has urged people to use cheques, rolled out a bouquet of incentives to encourage buying online, launched a biometric e-wallet app, and even organised a lottery to reward digital transactions.

Devle is unimpressed. "What are we going to do with banks? What'll we put in? And cashless? Well, there's not much cash around these days anyway," he quips.

THE IMPACT

It's only a four-hour drive from India's heaving financial capital, where signs for e-wallet services like Paytm and FreeCharge are becoming more common as more and more people embrace cashless methods, but Hirve is a world apart. The town is a microcosm of the country, in which 70 per cent of people still live in villages, and 73 per cent of those villages do not have a bank within 5km. For Hirve, the nearest bank is 25km away in the town of Mokhada.

Electricity, when available, is erratic. There is often no power for months on end. Some 304 million people in India have no access to electricity, and that's not including areas such as Hirve that are, officially, electrified. There's no mobile connectivity either (my phone was on the blink for the better part of my stay there.) It's not for nothing that 70 per cent of Indians with mobile internet access live in cities, and only 17 per cent of Indians own a smartphone.

"Most people here can't operate smartphones. Even if they could, most of the time you can't charge your phone. And even if you can, there's no internet access. In most villages nearby, they don't even have running water. Cashless, seriously? Why is it even a priority when there's so much else to fix?" fumes Chauhan.

Back in Mumbai, economist Praveen Chakravarty is equally flummoxed. A senior fellow at Mumbai-based think tank IDFC Institute, Chakravarty says a cashless economy wasn't really a priority and that the government clutched at it almost as an afterthought, after first framing the currency ban as an attempt to erase counterfeiting, terror financing and "black money".

"The cash-to-GDP ratio is 12 per cent in India, while in Japan it's 18 per cent," he says. "No one is saying the Japanese society is corrupt and its economy needs to be cleaned up. Why is cash suddenly such a big problem in India?

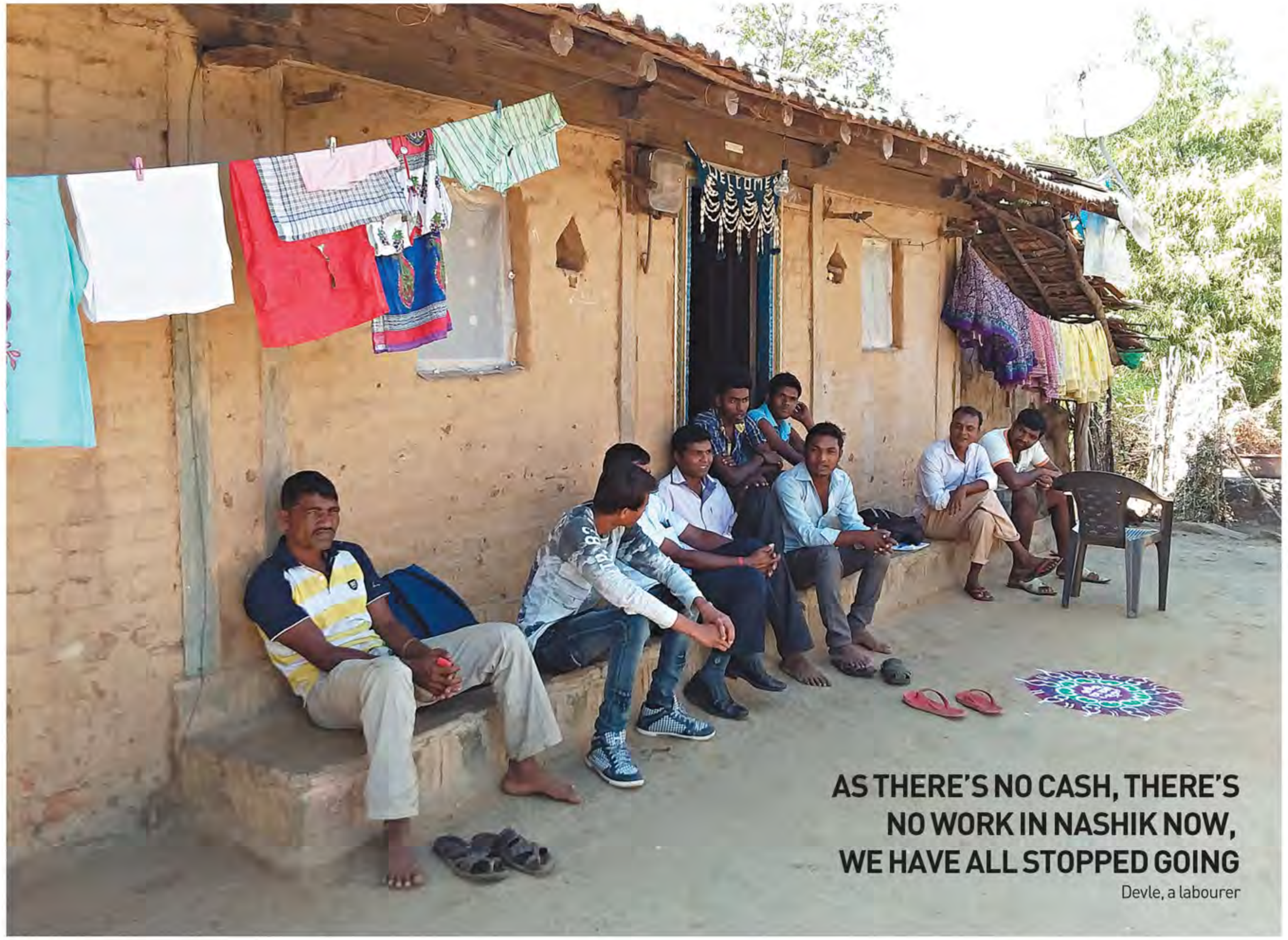
"This disruption will have a mammoth effect on the economy. Do we even know if the supposed gains we'll make as a result of this drive will outweigh the costs?"

The costs currently appear staggering, with India set to lose its tag of the fastest-growing major economy in the near term. Retail sales have plunged, small factories have ground to a halt and crop prices have collapsed. Coming right at the start of the sowing season, when farmers need cash to buy seeds, fertilisers and diesel for irrigation, it has come as a severe shock, especially to the 800 million Indians who depend on the rural economy.

"The sectors we have tracked have all seen a hit of 30 to 70 per cent," says Govindraj Ethiraj, founder of IndiaSpend. India's first data journalism initiative, IndiaSpend has been studying the impact of the cash crisis on the agricultural sector, small industrial units, tourism and health, among others.

"Since entire business lines operate on cash, it doesn't matter if individuals along the way have bank accounts. One person refuses to pay by cheque and the

A CHILD WAITS IN A QUEUE OUTSIDE A BANK IN MUMBAI. LONG QUEUES HAVE BEEN COMMON SINCE THE NOTE BAN. Photo: EPA



LABOURER DEVLE'S FRIENDS CONGREGATE AT HIS SHACK IN HIRVE. Photo: Debasish Roy Chowdhury

whole chain stops. If there's no cash, there's no business."

President Pranab Mukherjee has warned of a temporary slowdown. The central bank has reduced India's annual economic growth forecast to 7.1 per cent from 7.6 per cent. An HSBC report says the economy is likely to have grown at just 5 per cent in October to December and may grow 6 per cent in the following quarter. Brokerage Ambit predicts "significant deceleration", with the possibility of contraction in the last quarter. For the first time since June 2015, services contracted in November and then again last month. Manufacturing shrank in December, after a sharp slowdown in November.

Sumant Kasliwal's fashion start-up is an example of how these numbers are playing out across the value chain. His four-year-old 20Dresses.com, a personalised fashion portal, was on course for turnover of US$4 million this year, until demonetisation hit. Kasliwal is now looking at US$3 million. Worse, he has no idea how sales will hold up in the next three months.

"Seventy per cent of our orders are paid for by cash on delivery," says Kasliwal. "This is very unique to India, where people may order online but prefer to pay by cash. All deliveries we made after the currency ban have been returned. November itself saw a drop of 40 per cent. We have to sell our winterwear inventory at a huge discount."

He predicted the drop in demand to persist for at least two quarters. Bracing for harder times, he recently laid off a quarter of his staff. "This will have a massive cascading effect on our suppliers, who all pay their workers by cash," he said.

When Kasliwal stops buying, so do his suppliers, the likes of which employ Rohini Devles, back in Hirve. Modi wants small businesses to formalise their operations by paying their staff by cheque or digital platforms, but there's good reason why 90 per cent of India's workforce is still in the cash-driven informal sector.

"If a worker has to be paid by cheque, the employer would have to cover for health, retirement, etc., increasing the cost by a quarter," Kasliwal says. "This, the employer will try to make up by slashing the basic pay, and the worker would look for better, cash wages elsewhere. Without altering the existing labour laws, you can't affect such fundamental changes."

India has some of the most complex labour laws in the world, with 144 central government laws and 160 state ones. Cumbersome rules on hiring and firing workers, and closing and opening plants, mean small employers prefer to remain outside the tax scope by staying small, which helps them dodge labour laws, minimum wage requirements and trade unions.

20Dresses can take a hit for a couple of quarters, even if that means laying off some of its staff. But many of these small suppliers, with 10 to 12 workers, can't. "They can't continue to pay their staff with no orders in hand. Many of them will die in the process," Kasliwal predicts.

That fear is echoed by labour lawyer Vinod Shetty, who works with ragpickers in Mumbai's Dharavi, one of the world's biggest slums. Home to more than a million people, Dharavi is also a buzzing hub of all manner of small enterprises, fuelled by cheap migrant workers, most of whom are choking on the cash ban.

"Many of the people involved in the businesses in Dharavi are from the most vulnerable sections of society," says Shetty. "Take for example the recycling industry. This is where the discarded waste of 20 million Mumbaikars are sold, sorted, bundled, recycled and sold again.

"The scale of these businesses is small and the labour force is primarily drawn from the sections of the population that have been relegated to the margins of India's growth story: untouchables; destitutes; tribals; and poor Muslims. They are vulnerable to the slightest of disruptions, and this one is anything but slight. Many livelihoods may be lost for ever."

Across the road from the 215-hectare slum, Altaf Sheikh is braving the afternoon blaze and stench over the sprawling mangrove dump where many of the city's sewers drain, diligently separating the copper from the tangle of wires he has bought. For this back-breaking work, he used to make 700-800 rupees a day by selling the copper to a trader in Dharavi, barely enough to support his family and survive in India's most expensive city. These days he isn't even hitting half of that.

"I've never had it this bad. The traders are saying they can't pay as they don't have enough money, and are demanding hefty discounts. I have a bank account but they are refusing to pay by cheque. And even if they do, I'll have to skip a day's work to get the money out of the bank," says Sheikh, alluding to the long queues.

His hand-to-mouth existence naturally precludes that option. Scrap prices, he says, have crashed as a result. Copper scrap now fetches him 260 rupees/kg, compared with 380 rupees/kg earlier. Brass scrap has plummeted from 250 to 160 rupees/kg and iron scrap from 20 to 4 rupees/kg.

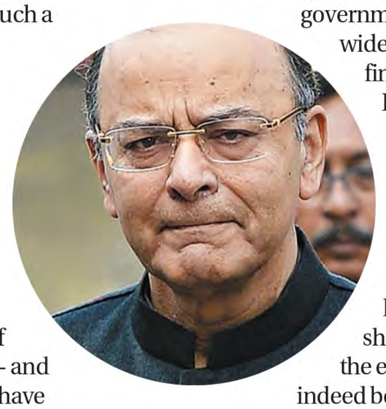
Further up the value chain, and deeper into Dharavi's labyrinthine heart, Hanumanthi Devi and her two employees are busy sorting scrap into separate containers at her 10ft by 3ft shop. The gritty 60-year-old, who started out as a ragpicker 35 years ago and graduated to trading along the way, is among those who

A POSTER ADVERTISING ELECTRONIC PAYMENTS IN MUMBAI. Photo: AFP

buy scrap from Sheikh. Asked why she isn't paying the old rates, she in turn blames her client, a bigger vendor. He doesn't have enough cash and won't write cheques, she says. Why won't he? "He would have to pay tax."

A GREAT IDEA?

That is exactly why demonetisation is such a great idea, says Deepak Morada, vice-president at conglomerate Larsen & Toubro, as we chase fried prawn with beer at a Tony's Seafood Restaurant on a different planet, 15km from Dharavi. The restaurant is among the scores of exclusive dining joints downtown, in an area dotted with colonial-era buildings, including a synagogue.



"India has a very large population of self-employed professionals and small- and medium-sized businesses who clearly have taxable income but have never, ever paid taxes," says Morada.

"Take all these small businesses in Dharavi, they do so well. Why shouldn't they pay their fair share of tax? Imagine what that can do for India."

His excitement about the immense fiscal possibilities as a result of Modi's cashless drive is well founded. He is channelling economists' estimates that the Indian government gets less than a third of the tax revenue due to it because the informal sector accounts for about 40 per cent of the economy. Only 1 per cent of the country's 1.3 billion people pay direct taxes, and the Modi government has been trying to find ways to widen the tax base to improve public finances and raise state capacity.

Finance Minister Arun Jaitley (left) last month announced a net increase in tax collection of nearly 15 per cent as proof that demonetisation was working.

Modi has been labouring the point that the cash ban is aimed at long-term structural changes, not short-term gain. And bringing a chunk of the economy out of the shadows could indeed be the lasting legacy of his move.

But his critics are implacable. Nobel laureate Amartya Sen calls the move to annul legal tender a "despotic action" striking "at the root of economy based on trust". Manmohan Singh, the former prime minister, has termed it "organised loot and legalised plunder". Steve Forbes, editor of the magazine of the same name, sees it as "sickening and immoral" and calls India the "most extreme and destructive example of the anti-cash fad sweeping governments and the economics profession".

But this fad, argue economists like Jagdish Bhagwati of Columbia University, is what will deliver a "long-term beneficial impact" despite the "hardships". Bhagwati hails Modi for showing the courage and political will to tackle India's black money problem.

BLACK MONEY

At one point during my conversation with the waste handlers in the mangrove dump overlooking Dharavi, the topic turns from their inconveniences following the cash ban to the issue of black money. Sheikh laments that people who had hoarded cash did not abandon their now-useless stash for people like him. Wouldn't that be nice! But his friend Adil swears he has heard of instances of rich people dumping bagsful of cash by the roadside.

"Have you yourself ever seen this money?" ask Sheikh. No one in the group has, but they have all heard about it. "Then where is this black money, brother?" Sheikh asks. "Modi set out to catch the thieves but has ended up nabbing the public."

Apart from the difficulties caused by the currency shortage, the most common complaint against Modi's drive is its manifest ineffectiveness against black money. First, not all cash is black money – many Indians simply prefer to keep their legitimate earnings in cash – and not all black money is cash. In fact, most black money is converted into assets like land and gold that deliver returns, as opposed to mattresses stuffed with cash. And the really big fish ship their money out of India, either parking it in foreign banks through shell companies or finding ways to launder it back into India through other means, such as over-invoicing imports, or through unique financial instruments such as "participatory notes" that allow foreign entities to invest in Indian markets anonymously.

India is a major player in *hawala*, an honour-based system of cross-country money transfers through non-bank channels, through which billions of dollars can be moved with a simple phone call.

Press your ear to the ground and Mumbai is replete with stories of cab drivers and daily wagers approached by money-laundering agents asking to use their accounts for temporary deposits in return for a cut. Hundreds of thousands of bank accounts opened by the government for the poor, to promote financial inclusion, have seen a sudden spurt of deposits in past weeks. In many cases, poor people with nearly dormant accounts with barely anything in them have woken up to find millions of rupees in their bank. And almost every other day there are reports of raids finding huge stashes of new currency notes even as banks struggle to find even the rationed daily allotment (now 4,500 rupees) for clients. The black marketeers that Modi has vowed to put out of a job have been working overtime since demonetisation was announced.

So, many like Sheikh are unconvinced about the black money angle of the cash ban. The scepticism is also rooted in Modi's past performance. During the election campaign in 2014, Modi claimed he would bring back the money Indians had parked abroad, which he said worked out to about 2 million rupees for every Indian. Through its amnesty window, the government has managed to bring in about 25 billion rupees, about 20 rupees per person. Neither has New Delhi taken any action against Indians who have kept money abroad, even though hundreds of such names have been revealed in data dumps like the Panama Papers.

MODI AT THE CROSSROADS

In the early days of demonetisation, the central bank gave out data on the money being deposited in banks. But it has refused to provide the final figure after the year-end deadline for cash conversion. By the time it last declared the numbers, some 90 per cent of the money in circulation had returned to the banks. Bloomberg last week reported that 97 per cent had returned, reinforcing the view of Modi's critics that either there wasn't that much black money in cash to begin with, or those who held black money had managed to wash most of it clean. In other words, it was essentially a pointless exercise.

Halfway through his term, Modi needs to put an end to such criticism quickly, as five states will hold elections next month, including India's biggest and most politically important, Uttar Pradesh. The results would be seen as a mini-referendum on demonetisation and its author. One of the poorest states, Uttar Pradesh is a source of cheap migrant workers, who have been returning home from industrial powerhouses like Mumbai in their thousands, jobless. The election result here will largely depend on how Modi manages to contain their backlash and that of the farmers and agrarian traders who have been hit the hardest.

According to Paranjoy Guha Thakurta, editor of India's prestigious *Economic and Political Weekly* magazine, the political damage could be as severe as the late prime minister, Indira Gandhi, suffered when she declared a state of emergency in 1975, suspending democratic rights. In the following couple of years, her government took extreme measures to enforce the sterilisation drive to limit population growth. This proved to be a major factor in Gandhi's defeat in the election when the state of emergency was lifted. In fact, the note ban is colloquially referred to as "notebandi" in India, echoing *nasbandi*, the Hindi word for sterilisation.

"Make no mistake, notebandi is as coercive as *nasbandi*, in which the government forced people into vasectomies," says Guha Thakurta. "Indira was confident she would win in 1977. She failed to read the mood. Modi and his advisers are similarly blind to the resentment his shocking decision has caused, especially for the underprivileged, those who deal in perishables, the senior citizens, and women, who save more than men. It's an amazingly self-destructive decision."

But even if he erred in rushing into what has proven to be poorly conceived policy, his impeccable political instinct means Modi is unlikely to have failed to take the pulse in the aftermath of his decision. In a surprise address to the nation on New Year's Eve, he lamented the "hardships" the people had to endure but praised them for their "sacrifice" and "restraint" in this war against corruption. In the absence of any dramatic announcement of major gains from the whole exercise, he threw in a few sops like assured high interest rates for seniors, handouts for poor pregnant women and cheap housing loans. And he did not even once utter "*mitron*", the Hindi word for "friends", his favourite salutation for his people, that once had the crowds at his rallies chanting his name in response.

An ace communicator with unusual social media savvy for an Indian politician – with 26 million Twitter followers – Modi has clearly got wind of the sarcasm that word now provokes. The posts on #mitron running up to his New Year's Eve speech centred on the calamity his new address to the nation might unleash even as the pain caused by the last one lingers.

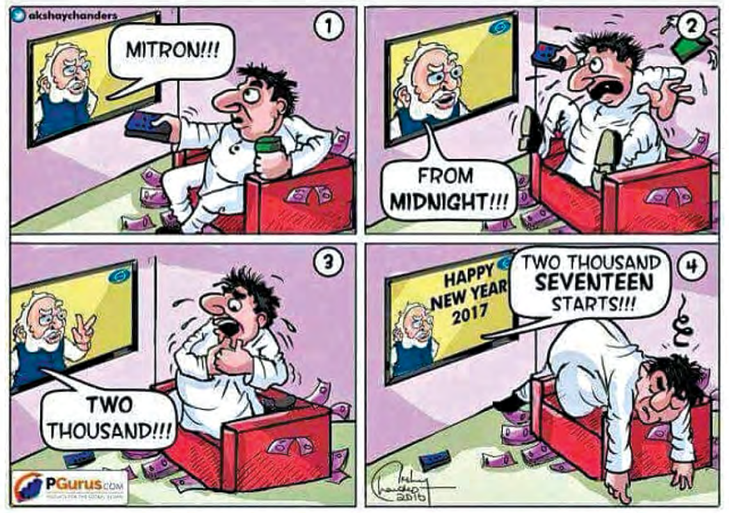
While not one to take kindly to jokes at his expense, Modi is smart enough to see these for what they really are: early signs of discontent that can portend a bigger threat. So far, a fractured and rudderless opposition has failed to mobilise a mass movement against demonetisation. Neither has there been a large eruption of violence or protests despite the war-like crisis the public has had to endure.

After a decade of a Congress-led government marked by unprecedented corruption, Modi's war against black money still resonates somewhat, more so because he is seen as personally incorruptible. With no immediate, tangible benefits as a result of demonetisation, he is now concentrating on keeping up the war rhetoric against corruption. He has promised investigations into suspiciously big deposits and unusual cash movements in the wake of the currency ban, and the coming days may see more arrests and busts.

"Let's assume that we go into a downturn as a result of this, maybe for six months or a year. Then what? We stop paying bribes? All companies start paying taxes? Corruption vanishes? Since nothing has been done to root out the structural factors of corruption, we have to ask ourselves: what are the costs of this exercise?" says Chakravarty of IDFC Institute.

With all the talk of "benefits in the long run", it's too early to objectively conclude a cost-benefit analysis of demonetisation on the lines that economists like Chakravarty would like to see. None of the perceived positives – such as a wider tax base and greater investments as cashed-up banks cut interest rates – will happen overnight, if at all.

Not the negatives, though. They are playing out on live TV across homes every day. If the currency shortage drags on, no major headway is seen against corruption, incomes plunge and jobs continue to be lost, all under the watch of a man who won on the promise of turning the economy around, and Uttar Pradesh is half as angry as Hirve, the deceptively silent but unforgiving Indian voter won't wait for the long run to exact revenge. ■



CARTOONS DEPICTING MODI'S NEW YEAR'S EVE ADDRESS, TOP, AND THE PERCEIVED EFFECTS OF THE BAN. Source: PGurus, Times of India

PROTESTERS AGAINST THE CURRENCY BAN BURN AN EFFIGY OF NARENDRA MODI IN CALCUTTA. Photo: AFP

A NOTICE ON A SHUTTERED CURRENCY EXCHANGE STORE IN NEW DELHI. Photo: Bloomberg

FLIP-FLOP

BY DEC 28

RULES FOR CASH EXCHANGE HAD **CHANGED** — **7 TIMES**

RULES FOR WITHDRAWAL LIMITS HAD **CHANGED** — **6 TIMES**

RULES FOR THE USAGE OF OLD NOTES HAD **CHANGED** — **10 TIMES**

NARENDRA MODI

‘REVERSE BANK OF INDIA’: NOTE BAN MAKES INSTITUTION A JOKE

The way PM Modi pushed through demonetisation and the chaos that followed expose a key weakness – India’s hallowed central bank has no real autonomy

*BY **DEBASISH ROY CHOWDHURY***

FORMER BANK OF England governor Mervyn King would say boring is the ultimate quality of central banks.

The wild excitement of demonetisation now makes one pine for the Reserve Bank of India’s stellar, boring old days.

Through India’s socialist years and then through its reluctant transformation into a market economy, India’s central bank came to symbolise to its people a repository of knowledge, wisdom and stability, its corridors walked by technocrats from the rarefied world of finance whose econospeak might have sounded abstruse but created an aura of competence. Men in suits – and they were always men, and always in suits – who seemed to have a lock on matters of high finance. But ever since Prime Minister Narendra Modi announced the withdrawal of 500 and 1,000 rupee notes from circulation in early November, this once steady hand on the tiller has looked unnervingly wobbly.

The currency ban, which Modi said was aimed at removing “black money” – as unaccounted wealth is called in India – removed 86 per cent of the money in circulation in one go. First hailed as a decisive strike against India’s endemic corruption, public anger began to mount as it became clear that the central bank had not arranged for enough notes to replenish the old stock. Even the ATMs had not been recalibrated to dispense the new 2,000 rupee note. As a result, banks have witnessed serpentine queues, small cash-run businesses have ground to a halt and farmers have struggled to find the cash to buy seeds and fertiliser in sowing season.

One of the biggest victims of the resultant chaos has been the RBI itself; its reputation as one of the most respected institutions in India – right up there with the Supreme Court and the armed forces – lying in tatters. Standard & Poor’s director Kyran Curry last month said demonetisation had “cast a shadow over the RBI’s competence and independence”. The opposition Congress party now calls it the “Reverse Bank of India” for constantly making new rules and then withdrawing them under public pressure.

The spectacle of this once proud institution being turned into a joke has been too much for some of its past governors to bear, with two of them last week airing concerns about the steady erosion of autonomy. While former governor Y.V. Reddy said the RBI was facing “reputational risk” and its “institutional identity” had been damaged”, his predecessor Bimal Jalan said the autonomy of the RBI was “fundamental” and needed to be maintained.

But Dhruba Narayan Ghosh, former chairman of the State Bank of India, India’s biggest bank, said the issue was far greater than central bank autonomy. Demonetisation, according to him, has dealt a near death blow to the institutional integrity of the RBI. “The central bank is the custodian of the entire banking

RBI GOVERNOR URJIT PATEL, LEFT, AND HIS PREDECESSOR, RAGHURAM RAJAN. Photos: Reuters

system. It is its fundamental responsibility to preserve the payment and settlement system. The RBI has basically abdicated this responsibility,” he said.

“Can such an institution, so thoroughly incompetent, even talk about independence? When the regulator itself becomes the disruptor, God save the country.”

India’s Public Accounts Committee has sought from RBI Governor Urjit Patel along with top finance ministry officials an explanation on the central bank’s exact role in the decision to withdraw legal tender of high-value notes and its serial flip-flops in the wake of demonetisation. Among the many unanswered questions is whose idea was it, exactly.

While Modi announced the move in a televised address on November 8 and his party hailed it as a masterstroke, some government members have subsequently suggested the idea originated from the RBI. On its part, the RBI refuses to make public the minutes of its hurriedly called meeting that approved the currency ban just hours before Modi announced it.

In a note responding to a query by a parliamentary panel, the RBI said it recommended a note ban at this meeting on November 8, a day after the government sent its recommendation. As confusion persists as to who recommended whom, Nobel Laureate Amartya Sen waded into the debate last week saying he didn’t think it was the RBI’s decision. “This must be the prime minister’s [decision] ... I don’t think the RBI decides anything anymore,” he said.

Ghosh blames Patel, a low-key bureaucrat who took over from rockstar-like Raghuram Rajan in September, for this crisis of credibility: “He is the worst governor the RBI has ever had. He should resign immediately.”

Jon Thorn, director of India Capital Find, however, is reluctant to lay it all at the governor’s door. “Patel is as a good as any central banker. Demonetisation was ultimately a political decision,” he says, implying that Patel couldn’t have resisted if Modi really wanted it.

Ghosh agrees there is no institutional mechanism for the central bank to push back against the government. The word “autonomy” does not even figure in the RBI Act that led to its creation in 1934. A veteran banker, Ghosh has no illusions about the boundaries between the government and the central bank. The RBI is, after all, owned by the government, which also has the sole power to appoint its governor. “That’s a design failure. It is the personality of the governor that has traditionally played a big role in buffering the institution from political interference,” he says.

And this is where Patel may have failed most miserably compared with his predecessor. Rajan’s status as a public intellectual forced his political bosses to treat him with more respect. In fact, his active public engagement could very well have been designed as an insurance policy against political interference. Media-shy and rarely seen outside the RBI, Patel is more in the old-school, bureaucrat-regulator mould.

Rajan fought a running battle with the government, refusing to lower interest rates even as the finance ministry wanted him to. Finally he decided to bow out and return to academia as the confrontation with elements within Modi’s Bharatiya Janata Party got progressively nastier, even personal.

A month before leaving office, Rajan said in a public lecture that he didn’t think much of demonetisation. “Black money hoarders find ways to divide their hoard into smaller pieces … It is not that easy to flush out black money,” he had then said.

“Obviously demonetisation was under discussion then,” says economist Praveen Chakravarty, a senior fellow at Mumbai-based think tank IDFC Institute. “Rajan is now looking like an even bigger rockstar. It’s now clear why he had to leave. He would not want to be party to a disruption like this with so little preparation and no cost-benefit analysis whatsoever.” ■

POLICE DETAIN CONGRESS PARTY WORKERS AS THEY STAGE A PROTEST AGAINST THE BAN ON HIGH-VALUE CURRENCY NOTES. Photo: EPA