Aiming high, looking far

A young person at a recent job fair in Uttar Pradesh told me “Paanch hazaar ki naukri toh hum sab ke paas hai; hum barah hazaar ki naukri ke liye aaye hain” (we all have jobs at Rs 5,000; all of us came for jobs that pay Rs 12,000). This person clearly understood India doesn’t have a jobs problem — our unemployment rate of 4.9 per cent is not a fudge — but a wages problem. This diagnosis is important. If the problem is jobs, we should throw money from helicopters and bust the government budget. But if our problem is wages then India needs the higher productivity that comes from structural change: Formalisation, industrialisation, urbanisation, skilling and deep financial
markets.

I’d like to make the case that demonetisation made India a better habitat for formal job creation for five reasons: Rs 18 lakh crore new lending capacity, 7.9 crore new monthly digital transactions, 3 lakh crore new financial savings, 2 per cent lower interest rates, and permanent damage to our sense of humour about the rule of law (1.5 lakh people deposited Rs 5 lakh crore, that is, 0.00011 per cent of India’s population deposited 33 per cent of total cash demonetised). Let’s look at each in more detail.

First, Rs 18 lakh crore new lending capacity. Demonetisation has reduced cash with citizens; bank deposits have increased by somewhere between Rs 2.8-4.3 lakh crore (detailed logic in Mint Street Memo #1 on the RBI website). Assuming Rs 3 lakh crore and applying an accepted 6 multiplier, demonetisation has created new lending capacity of Rs 18 lakh crore (36 times India’s Central government allocation to primary education). Today banks are lazily lending this liquidity to the RBI but when they start doing their jobs well, this dry powder will boost investment and formal job creation.

Second, 7.6 crore new monthly digital transactions. Demonetisation exploded the number of digital payments on UPI/Bhim from 1 lakh in October 2016 to 7.7 crore in October 2017. Prohibiting salary payments by cash and 50 lakh new bank accounts for labourers will fuel further adoption; digitisation is important for formalisation because it makes regulatory arbitrage and tax evasion difficult. But the bigger upside of payment digitisation lies in its creation of the information infrastructure for cash-flow based lending; economist Ridham Desai estimates that over 10 years digitisation could grow lending by Rs 243 lakh crore (largely to consumers and MSMEs) and e-commerce sales from $15 billion to $200 billion.

Third, 3 lakh crore new financial savings. Demonetisation has catalysed a savings shift away from gold (imports are down 20 per cent over the last year) and real estate (the toxic gap between rental yields and borrowing rates is finally narrowing). The eight months after demonetisation saw mutual fund inflows of Rs 1.69 lakh crore (up 1700 per cent) and the three months after demonetisation saw Life Insurance Premiums rising by 46 per cent (details in Mint Street Memo #2). Greater financialisation of savings creates a virtuous cycle for formal job creation because they deepen and broaden domestic capital markets whose institutions are more likely to fund entrepreneurs who create babies (companies that are small but will grow) rather than dwarfs (companies that are small and will stay small).

Fourth, 2 per cent lower interest rates. Expensive loans are better than no loans but the cost of money has been crippling for India’s entrepreneurs. Lowering interest rates is a policy priority and banks had been only passing on 50 per cent of lower policy rates to customers; in the year after demonetisation this has risen to 100 per cent. India’s economic trajectory suggests interest rates could reduce another 3 per cent over time; sustained formal job creation needs the lower interest rates that come from macroeconomic stability, fiscal discipline, muted inflation expectations and

an Independent Monetary Policy Committee.

Fifth, permanent damage to our sense of humour about the rule of law. Demonetisation targeted a less-cash society because cash is the primary tool of corruption. Corruption enables transmission losses between how the law is written, interpreted, practised and enforced while India's move to high productivity enterprises needs moving from deals to rules. First generation entrepreneurs don't have connections or money; they only offer the sweat of their brow, the courage in their hearts and the strength of their back. A less corrupt India is a more meritocratic India.

Demonetisation did not end corruption but raised its costs. And ending our sense of humour about the rule of law that bred a riskless view of cash is an important pre-condition for sustained, formal, high-wage job creation.
In 1942 Pandit Jawaharlal Nehru wrote from Ahmednagar jail "Whether we are successful or not, historians of the future will judge. But we aimed high and looked far". India was a risky political experiment in 1947 — poor countries were not supposed to give everybody the right to vote at birth — but that experiment has worked out spectacularly.

But India was a nutty economic experiment after the 1955 Avadi Resolution; we became a hostile habitat for formal non-farm job creation because of regulatory cholesterol, primitive finance, foreigner hostility, confiscatory taxation, and much else. Demonetisation is one of 20 arrows in a quiver of reforms — GST, bankruptcy code, RERA, FDI liberalisation, ease-of-doing business, competitive federalism, etc — that are restoring the romance of policy by making India a fertile habitat for formal, non-farm, job creation. The problem for India's youth is not jobs but wages and that's why a 10-year plan cannot be 10 one-year plans (the last time we tried to raise wages by rigging them — NREGS — we converted a high growth low inflation economy into a low growth high inflation economy).

As India completes a year of demonetisation, it's early for conclusions but the early results are encouraging. As Karl Marx said "Philosophers have tried to describe the world in thousands of ways. The point, however, is to change it".
The writer is chairman, Teamlease Services. He serves as a director on the Board of RBI. Views are personal

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