

# Pioneer

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Ever since he came to power in May 2014, there has been a fierce debate on the political nature of the Narendra Modi Government. His supporters have stressed the charismatic and even inspirational role of the Prime Minister. At the same time, they have appeared hesitant in signalling whether his Government is merely blessed with integrity and efficiency or is indeed transformational. This uncertainty has also been a feature of the many critics who, more than his policies, have loved to loath the man. At one point they berated him for pursuing an incrementalist approach and at other points they suggested that he was reshaping the very “idea of India” — whatever that may mean.

After November 8 evening, following the broadcast that led to the demonetisation of Rs500 and Rs1,000 banknotes, the debate appears to have become far more crystallised. It is now clear that Modi is just not yet another plodder who takes a cautious small step at a time. The sheer magnitude of a move that has ended up recalibrating some 86 per cent of the entire cash in circulation is far too dramatic to be called an incremental measure. Whether they approve or disapprove of a measure that affects every Indian, the demonetisation exercise is radical. When the history of the Modi years is written in some distant future, the November 8 announcement will be seen as a landmark.

Today, the immediate concern is with the management of the shift to the new currency notes and the deposit of the obsolete notes in banks. Predictably, the dislocation of economic life this abrupt decision has created is a source of bother, irritation, exasperation and, occasionally, rage. There have been suggestions that it will take India nearly a year to get back to normal life. In the meantime, economists are forecasting a sharp fall in the annual growth rate. Political pundits too are divided between those who see an electoral windfall for the National Democratic Alliance and sceptics who feel that Modi has shot himself in the foot. The debate is likely to be inconclusive for some time.

However, it is clear that the impact of this measure will be extremely far-reaching. In his broadcast, the Prime Minister stated that he was driven to this drastic measure by two considerations. First, there was the growing problem with fake currency notes, a subversion that is understood to have been masterminded by a neighbouring country. Secondly, it is believed that by forcing people to surrender their high denomination cash wealth to the banks, the Government has forced those with a stash of unaccounted cash to come into the open. Even if many of such people choose to forego a part of

their dirty money by dumping cash into the nearest water body, it will be a net gain for the exchequer. Given that Indians are also innovative dodgers who know how to circumvent the law, it is also likely that a significant portion of the black economy will be redistributed to those who have been dubbed 'cash coolies' — a move that, while illegal, is certainly not socially reprehensible.

When the dust settles, it is likely that many more Indians will gauge the consequences of relying disproportionately on their cash reserves, stashed away in trunks or under the mattress. Maybe the tax net will enlarge and Indians will start paying more direct taxes — gains that could lead to tax rates being frozen at their present levels. In any case, the emergence of a larger body of honest, tax paying Indians will have a wholesome effect on the moral health of society. It may, however, make life a little problematic for those political parties that depend exclusively on cash collections. Whether this counts as an act of political intolerance — as some over-anxious liberals have suggested — is a matter of debate.

Looking to the future, the impact of the demonetisation and the associated cash shortages is certain to be revolutionary. Economists and politicians have stressed the importance of cash in India's traditional businesses, particularly trade and commerce in the rural and semi-urban areas. It is undeniable that this cash-based economic activity has been seriously disturbed after November 8. It is also true that many other economic activities are semi-cash transactions. These include property sales and purchases, professional fees to lawyers and doctors, transportation, etc. Then there is the informal sector and very small businesses that do business entirely through cash transactions.

To believe, as Bill Gates tangentially suggested, that India will move to a highest levels of e-business is an untested proposition. However, demonetisation is calculated to move a much more significant percentage of economy into the non-cash orbit. A greater expansion will depend on how quickly and how efficiently the banking sector can move to cater to the new demands. The outcome will have to be closely monitored and encouraged. But there is no doubt that this disruption will have a revolutionary impact on society. It is calculated to take the economic shifts that began in 1991 to a higher level. As the Finance Minister remarked recently, demonetisation has created a 'new normal'.

Politically, the consequences are more difficult to gauge. Will Indians who have had to adjust to the new realities react with anger or will they seize the new opportunities enthusiastically? The age profile of India suggests that embracing modernity will not be slow. But then, political behaviour doesn't always follow an economic logic.

India is witnessing a revolution of monumental proportions. The change promises to be exciting.