

A month into demonetisation, hope gives way to despair

Our Bureaus

Shadow of pain inflicted by disorganised implementation hangs over radical move



December 8:

A month after Prime Minister Narendra Modi announced the demonetisation of high-value currency notes, the hope on the streets that the move would prove to be a “surgical strike” against black money is giving way to despair.

The despair is born of the huge inconvenience inflicted on common folks in the absence of adequate new notes in the banking system to replace the ₹ 14.5 lakh crore that was sucked out by the demonetisation.

A creeping realisation that the “shock to the system” will dramatically slow down the economy in the short term has also dampened popular sentiment. The effects of the slowdown are already being felt in the real estate, agriculture, jewellery, automobiles and consumer durables sectors.

Arguably the most visible symbols of the inconvenience caused to laypeople are the throngs of customers at banks and the queues outside ATMs for much of this month. The compulsions of having to cope with the realities of a predominantly cash-based economy sparked a frenzied scramble in cities and towns across India.

In the first few days following the November 8 demonetisation announcement, even those who were put to inconvenience were willing to accept it for the “greater common good”. But that mood has since given way to impatience, and even anger, directed at bank officials and policymakers.

It hasn't helped that the RBI and the Finance Ministry have tweaked the rules for the exchange of demonetised currency notes and the withdrawal of new notes over 40 times in these 30 days.

FinMin officials claim that they were merely responding to unfolding evidence that the exchange and withdrawal provisions were being abused by black money hoarders and tax dodgers.

The initial expectation that up to 25 per cent of the ₹ 14.8 lakh crore withdrawn from circulation may not come back into the system has been belied by more recent estimates of bank deposits. This has prompted the government to shift the goalpost and manage people's expectations of the demonetisation.

FinMin officials now claim that even if all the money comes back into the system, it amounts to a good thing, since the government can levy tax and penalties on the deposits that cannot be reasonably accounted for as being proportionate to known sources of income.

A series of raids and cash seizures across India have reinforced the notion that all efforts are being made to go after the dodgers. But tellingly, Prime Minister Modi's rhetoric about the demonetisation has shifted its emphasis away from cracking down on black money. The recurring theme these days is more about nudging the economy to move towards “less cash.”

There is, of course, anecdotal evidence of a behavioural change among small retail establishments, which are embracing digital payments. But political analysts note that while the *aam aadmi* may be willing to bear the pain of a cash crunch in the objective of combating black money, that tolerance may be less forthcoming if that goal is not met.

More than half way into the 50-day time-frame for deposit of old notes, the jury is still out on whether the demonetisation move will prove a success.

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(This article was published in the Business Line print edition dated December 9, 2016)

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