

you in this difficult time. Hope you get better very soon," he said.

last two years to fast-track the case. BJP MLAs in Haryana have met the Punjab Governor and asked him to not allow Punjab to take any step to deny Haryana its

VOICE OF PUNJAB

<http://bit.ly/2dxcjdv>

omy. We cannot... home and give water to others. People should not defame Punjab -- first everyone should recognise

Haryana Chief Minister M L Khattar

THE STATE'S NEXT MOVE

SYL is built? Sampia said.

Will PM Modi Drive The Stake into India's Black Heart?

The Needle's Eye



Chaitanya Kalbag

It was ironical but fitting, with the rising belligerence around us, that the best thing Prime Minister Narendra Modi could do for India was the electric-shock treatment he administered on the evening of November 8.

You could not have asked for a better drill in disaster preparedness. People rushed out late that night to fill their cars with fuel. Many woke up their friendly neighbourhood jewellers so they could buy gold. Over the next few days, thousands of people bought humongous quantities of rations at government shops, stocking up for the next six months. Hospitals were swamped by rich patients suffering suddenly incurable diseases. Banks sent out streams of text messages urging calm and offering debit-card and fixed-deposit blandishments. People clutching their lives' savings stood stoically for long hours in queues. It was an emergency all right. All it took was for one man to speak to the nation in Hindi and English for about 48 minutes. It was a sledgehammer blow aimed at the evil money, the fake money, the terror money squirmed

away in countless dark spaces across this vast land.

Sadly, the people at the bottom of the economic pyramid are cannon fodder in this war. The unorganised sector, from the 95% small businesses to the nation's blacksmithies, and the farmers, the daily-wagers, and the millions of housewives who, distrustful of banks, have stashed their household leavings in biscuit tins – they are the ones lining up, terrified they will lose their working capital, their wherewithal.

The rich (and they include our politicians) do not seem to be overtly in panic. Here in India, when the going gets tough, the corrupt get going. The adroit Indian is Mr Fixit: he quickly conjures up ways to cope. In the first few days after demonetisation, businessmen scrambled to rid themselves of their huge banknote stocks. Funnily enough, the discounts of up to 40% many businessmen were said to have paid to launder their worthless piles of ₹500 and ₹1,000 banknotes equalled the income taxes they would have paid if they had been legitimate in the first place. Unquestionably, at least a third or more of the illicit money in India will be permanently erased. The thought of mountains of banknotes being incinerated boggles the mind. Day by day, the government improvised, announcing new steps to either try and mitigate the torture for those trapped in the queues – 25 people were reported to have died – or outsmart the crooked. A week after Modi's speech, even indelible ink used to mark voters' fingerprints in elections was requisitioned, to prevent people from sending their poor employees back again and again to queue up for the paltry ₹4,500 (\$66) limit on exchanges of old notes. One ingenious trick involved the 255 million Jan Dhan zero-balance bank

accounts the government has opened for the country's unbanked poor. Nearly a quarter of the accounts were still empty on November 9, and the remainder each had average deposits of ₹1,788. The limit on funds in each Jan Dhan account is ₹50,000. Suddenly, many of those dormant accounts swelled with deposits of up to ₹49,000. The poor account-holders were being used as conduits. No problem: the government set up another task force to monitor Jan Dhan.

what will happen if Donald Trump, who also revels in shock and awe, demonetises 100-dollar bills. There are an estimated \$70 million in fake dollar bills.

The Reserve Bank of India says a total of 632,926 counterfeit rupee bills were detected by banks in 2015/16; this is just 0.0000070% of the total.

The numbers are numbing. On March 31, when the last fiscal year ended, a total of 90,266,000,000 banknotes were in circula-



ANIRBAN BORA

This is not India's first demonetisation. There have been two earlier: High-denomination notes banned in 1946 were reintroduced in 1954. In 1978, banknotes of ₹1,000, ₹5,000 and ₹10,000 were banned. New ₹500 notes were introduced in 1987 and ₹1,000 notes in 1998. Modi's ministers have cited these precedents, but those were different Indias. In 1978 India's population was 667 million; it is exactly double today. The ₹500 note has become the denomination of choice for transactions. Yes, they are counterfeited, but so are U.S. dollars. Think of

tion in India. The RBI says there were 6.33 billion 1,000-rupee notes and 15.7 billion 500-rupee notes. Together, the two denominations accounted for 86.4% of the total value of ₹16,415 billion in circulation. The value of banknotes with the public had gone up to 17,013 billion rupees by October 28, ten days before the demonetisation. Between 2011 and 2016, the number of ₹500 and ₹1,000 notes rose by 76% and 109% respectively. This was way too high. India has a long journey to a cash-less society. That goal is possible. When I lived in Japan in the 1990s we had to

pay cash for everything; opening a joint bank account with my wife was impossible. Today 95% of transactions are cash-less in Japan, and stored-value cards like PASMO can be used to buy bus and train tickets, groceries and coffee from vending machines, and pay for taxi rides and magazines and theatre tickets. In India, you can now pay for nearly everything using mobile wallets, debit cards, or electronic fund transfers. I have been amazed at the number of lower-income people willing to receive money in their bank accounts; they have nothing to hide – and that also means the government has enormous room to widen its tax net (currently only 3% Indians pay income tax).

Dev Kar, chief economist at Global Financial Integrity, a Washington D.C. based re-

RBI ESTIMATE

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search organisation, which estimates that illicit outflows from India total over \$50 billion annually, told me the size of India's black/unaccounted/untaxed economy (take your pick) is more than \$1 trillion, or about half of its gross domestic product. India's rank on Transparency International's Corruption Perception Index improved to 76 in 2015 among 168 countries from 85 in 2014.

Kar said Modi's demonetisation, although a huge and bold step, would at best have a transitory effect and temporarily chill illic-

it transactions in the pipeline. Although demonetisation would be disinflationary in the short to medium term, India's long history of inflation, high fiscal deficits, illegal offshore flows, and growing income inequalities would combine to keep the informal economy alive and kicking for a long while.

Take the World Bank's Worldwide Governance Indicators, which rank countries on six parameters. For 2015, India ranked better than China on Voice and Accountability and Rule of Law; it fared worse on Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption.

When Parliament's winter session opened on Wednesday, Opposition leaders led by the Congress's Anand Sharma fiercely attacked the demonetisation. Gory pictures were drawn of empty markets, bankrupt shops, and suddenly penniless widows. There were no takers for Modi's push for state funding for elections and simultaneous elections to parliament and state assemblies, two steps that would cause a huge dent in black money. Parties, including Modi's, continue to refuse to publish details of donations; one estimate put parties' expenditure on the 2014 general election at Rs 30,000 crore (\$4.5 billion). Lest we forget the political underpinnings of Modi's action, we were reminded that it was important to be patriotic and not question authority. Ram Madhav, the Bharatiya Janata Party's general secretary, had this to say in a tweet: "Test of patriotism is in difficult times only. We see it abundantly these days. Otherwise everyone is an armchair-patriot in normal times." This is the colour of the new money.