

It's painful and disorganised. However, demonetisation will transform India

Demonetisation: Wake Up & Smell the Revolution



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Will demonetisation be a success or a failure? The answer depends on the criteria that one sets to define success or failure. The self-evident criterion is that demonetisation will be a success if there is a significant move of economic activity from the black economy to white.

There are also a number of non-criteria that are floating around. One is the idea that demonetisation will be a success if a significant part of the currency with the public disappears. That is, the holders decide to absorb the complete destruction of its value, rather than deposit it in a bank. Why anyone should choose to do so now is not clear, since there is an amnesty scheme available that eventually leaves the holder with what is effectively about 35% (after taking into account the four-year lock-in of 25%) of the value. Of course, this is a kind of forced amnesty because the money expires if not deposited.

There is also the idea that one of the prerequisites for demonetisation to be declared a success (or concluded) is a complete replacement of the cash that was in the economy earlier. This is also a thoroughly misguided idea. Far from complete replacement, I would say one of the central goals of demonetisation is to leave the country with less cash, and cash of smaller denominations, than it was using earlier. Of course, no one knows how much less cash than earlier can the economy get by with, so that will have to be figured out dynamically.

At some point, probably within 2-3 weeks, as the worst shortages cease, the government should reduce or stop feeding ₹2,000 and ₹500 notes into the system and then replenish only with ₹100 notes. Bulk usage of cash for transactions is hugely more cumbersome and detectable if ₹100 notes have to be used.

At this point, the success of demonetisation is visible in two phenomena. One is the large amount of bulk cash that has been detected around the country. Amusingly, this has led to widely believed rumours that there is some high-tech wizardry like an RFID chip or that 'isotope doped' paper from the

Mission Impossible 4 movie in these new notes. The truth is more prosaic, but just as much of a problem for those who are trying to handle the new currency in bulk.

The best or the most lethal thing about demonetisation is that practically all the cash in the country will have to be cycled through a bank account by December 30.

With cooperative banks excluded from this activity, by that date, every single one of the 15 odd lakh crore value of large notes will have a trail in what is effectively a single web of interlinked computer systems.

This is 'BigData' with a vengeance and those who understand the implications know that this is the real brahmastra in the war against the black economy.

You could be a wise guy who has rented a dormant account from an unscrupulous bank manager (which is certainly happening) but such activities are questionable and detectable in bulk. This tracing is what

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is starting now and will become much intensive in the months to come. It'll be impossible to hide large amounts of cash when it has been through the system so recently.

The second huge impact will be from the forced shift of retail and trade activities to cashless transactions. This shift is a one way street, for the same reason. It leaves a data trail. Talk to any businessman who is being forced to go cashless. He has understood that once he has generated a data trail of a certain sales volume from November to January, he will never be able to shift back to cash like old times.

Anyone who is not a prisoner of the 'demonetisation-is-failing' echo chamber, and is interacting with real businesses, knows well that there will be, there already is, a massive shift from the black economy to white. This is a revolution and you have to be blind and deaf (or pretending to be so) to not see it around you. And we haven't even discussed real estate, which is, in many ways, the real story.

Oh yes, it's painful, and disorganised, and will be for a while, and there's a lot more to be done. But is the pain worth it?

In six month's time, the answer will be so blindingly obvious that it'll feel ridiculous that anyone ever asked that question.