

## ASIA PACIFIC

# Modi's Cash Ban Brings Pain, but Corruption-Weary India Grits Its Teeth

By GEETA ANAND JAN. 2, 2017

MUMBAI, India — It was a bold and risky gamble by Prime Minister Narendra Modi of India that quickly seemed to backfire.

The announcement of a ban on the largest currency bills circulating in India, which came into full effect at midnight Friday, the last day for depositing the old notes at banks, set off cash shortages that have hit the country's most vulnerable people hard and prompted worries about the economy.

But despite those concerns, as well as doubts about whether the currency ban will reduce corruption as it is designed to do, for the moment, at least, Mr. Modi's bet appears to be paying off in the public arena.

Even as the poorest Indians have struggled, many have continued to voice support for the prime minister's initiative to target the vast amounts of untaxed money, known as "black money," flowing through the country's economy, in hopes that it will combat an endemic culture of corruption. Mr. Modi, analysts say, has successfully tapped into deep frustration with the corruption that pervades almost every public interface with government.

"Even though the cash ban has produced enormous hardship for me and my family, I support what Mr. Modi is doing for our country," said Hem Raj Chechi, 39, a taxi driver in New Delhi, the capital, who said business had been down 50 percent since the ban was announced.

Mr. Chechi has not been able to pay his children's school fees or send money back to his village to support them for nearly two months. But, he said, "We need to fight black money, even though it is hurting little people like me."

Mr. Modi came to power as a disruptive force pledging to overturn the status quo in New Delhi, bring jobs and fight corruption. Indians have repeatedly taken to the streets in recent years to demand an end to corruption, widely seen as being most detrimental to the poor and powerless.

Declaring war on corruption, Mr. Modi announced on Nov. 8 that 500 and 1,000 rupee bills, worth about \$8 and \$15, would be banned the next morning.

With the currency ban, Mr. Modi has managed to convince many disaffected Indians that he is on their side. He has also used his powerful skills as a communicator to persuade people like Mr. Chechi that the pain stemming from the ban is for the long-term good.

That frustration with a political and business elite viewed by many as corrupt is what drove many Americans to vote for President-elect Donald J. Trump last year, said Eswar S. Prasad, an economics professor at Cornell University who is a native of India.

"Trump made the case that only he could effect change by blowing up the system," Mr. Prasad said in an interview. "Modi, in the same way, did have a persuasive narrative that small changes at the margins can't tackle deep-rooted problems like corruption. We needed big and painful changes, really disruptive ones."

Mr. Modi appeared on television on New Year's Eve to tell Indians he understood their pain and urge them to bear with him in the aim of creating a better nation.

He compared his cash ban to the freedom struggle led by Mohandas K. Gandhi, a battle of good versus evil. "Today Mahatma Gandhi is not among us, but the path that was truth that he showed us is still most appropriate," Mr. Modi said, using the honorific for Gandhi.

“As we begin the centenary year of the Satyagraha,” he said, referring to Gandhi’s nonviolent resistance movement, “let us recall the Mahatma and resolve to follow his message of truth and goodness.”

Mr. Modi was presiding over one of the fastest-growing major economies in the world when he announced the ban on the rupee notes, which made up 86 percent of the money in circulation.

“It’s a little bit crazy,” said Geng Xiao, a professor of finance and public policy at the University of Hong Kong. “When I first read the news, I couldn’t even figure out if it was true.”

The government said that people depositing large amounts of old currency — more than 250,000 rupees, or about \$3,670, could be asked to prove that they had paid taxes on it. Some saw vast amounts of untaxed holdings suddenly rendered worthless.

Whether Mr. Modi’s far-reaching move will actually reduce corruption is a matter of debate. Some economists believe it could pave the way for other measures intended to discourage bribery or restructure the economy.

But others say the currency ban is unlikely to result in a significant reduction in corruption, even as it has inconvenienced hundreds of millions of people who have struggled to get enough cash to meet their daily needs while the government tries to print enough new notes to replace the banned ones.

And a country short of cash has been unable to spend it, which is likely to reduce economic growth in the short term, economists say. People living on the edge of poverty have been hit hard, their diets and livelihoods severely affected.

Many in India see Mr. Modi, who has also had success persuading Parliament to clear the way for a unified goods-and-services tax to make it easier to ship and sell things across state lines, as living up to his promise to be a reformer of India’s ossified and bureaucratic economy.

But in the process, he has placed the Indian economy and his political future at risk. Many economists believe that the Indian economy will take at least a short-

term hit because of a dire shortage of cash, and that the future impact is uncertain. If the effects are prolonged, the public support for Modi could wane.

“If this move damages the economy, he’s in for a rough ride,” said Harsh Pant, the head of strategic studies at the Observer Research Foundation, a New Delhi think tank.

Mr. Xiao said that in a system in which the informal sector is substantial, the economy could be expected to experience a shock when so much cash is suddenly taken out. “You need offsetting stimulus policies to keep the economy growing,” he said.

Mr. Modi was elected by an overwhelming majority in 2014, defeating the government, led by the Indian National Congress party, that had ruled for most of the country’s post-independent life, on the promise of bringing development and jobs and reducing corruption.

“In 2014, he had presented himself as the big disrupter,” Mr. Pant said. “He was the precursor to what’s happening in the West.”

Mr. Modi was then the chief minister of the state of Gujarat, where he had a reputation for tearing away the country’s red tape so businesses could set up shop and expand.

But during his first two years after winning national election, Mr. Modi, whose party did not control the upper house of Parliament, struggled to achieve a significant economic overhaul.

Mr. Modi changed the political narrative in 2016 as he successfully fought to get Parliament to clear the way for the simplified goods-and-services tax.

He cast the opposition as “people who don’t want change, who don’t want reform,” Mr. Pant said, forcing them in August to support the changes.

But the challenges facing Mr. Modi remain considerable. Seven weeks after the cash ban began to be put in place, the currency shortage remains acute, leading to a sharp drop in demand for services and earnings, many providers said.

Nagender Tiwari, 42, a rickshaw driver in East Delhi, said he was earning only 60 percent of the 1,000 rupees, or about \$15, that he used to take home daily before the cash ban. As a result, his family, which includes two children in 11th grade, has reduced its consumption of fish and meat. They have been unable to pay the rent on their home, he said.

He said he was skeptical about whether the ban was reducing corruption, noting that he continued to be stopped by traffic police officers who extorted bribes.

“So if bribery is not stopped, how can black money be stopped?” he asked.

Raj Kumar Bindal, 65, a paper trader in New Delhi, said sales that plummeted to nearly nothing in the days after the cash ban had returned to about half of what they were before.

“We can't shift to a cashless mode overnight,” he said.

Surjit Bhalla, a New Delhi-based economic adviser for the Observatory Group in New York, said he believed Mr. Modi was likely to enact several other major changes in the coming months, possibly including a move to a simplified personal income tax.

India needs to reduce the incentives for taxpayers to cheat, Mr. Bhalla said. In the United States, for every \$100 collected in income tax, an estimated \$20 owed is not paid, he added. In India, for that same \$100 in taxes paid, \$200 more is owed, he said.

Collectively, the cash ban and other anticorruption initiatives have the potential to transform India, Mr. Pant and others said.

But doing so depends on Mr. Modi's continuing to command the political narrative of the country, as he has so successfully done since instituting the cash ban.

“So far, he has taken control of the narrative and the people are with him,” Mr. Pant said. “He thinks he can continue to do it, but we really don't know. There are so many unknowns.”

Hari Kumar contributed reporting from New Delhi.

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