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**Demonetisation 2016
(A Narrative of Political Economy and Beyond)**

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Demonetisation 2016

(A Narrative of Political Economy and Beyond)

Dr. Bhaskar Sarmah

Abstract

When the Prime Minister Narendra Damodardas Modi made an announcement at 8.15 pm on 8th of November 2016 about demonetisation of the high denomination notes, viz., the Rs 500 and Rs. 1000 currency notes, people had a very mixed response. They initially supported the move thinking that this would help the economy to become clean: the black money would be wiped out, terrorism would be controlled and fake notes would be removed from the economy. However, the trouble people had to undertake, reported deaths in the media and the resultant outcome of demonetisation: all led to diminishing support from the masses. As the basic objectives of demonetisation were found not to be convincing, the Government came out with a grand narrative which included objectives like removing corruption, digitalisation of the economy, formalisation of the economy, increased tax returns, increased tax revenue earning etc. This paper is an attempt to analyse demonetisation as a process, with particular emphasis on the demonetisation undertaken in November 2016. This paper starts with the basic meaning of demonetisation, and then proceeds to discuss why it is undertaken, whether other countries across the world have succeeded or failed with demonetisation, what is India's experience with demonetisation, how was demonetisation planned in 2016, followed by an overall assessment, including the grand narrative that has come up over time.

Key Words: Black money, Digitalisation, Formal economy, Grand narrative

1.0 Introduction :

'Demonetisation' refers to the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. In demonetisation, the current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

2.0 Why is Demonetisation Undertaken? :

While the objectives of demonetisation varies from country to country, the following broad objectives can be underlined:

- 1) To make a changeover from an existing currency system.
- 2) To replace old currency with new currency of same or different denomination.
- 3) To introduce new security features in the existing currency.
- 4) To implement state policy like fighting with corruption, tax evasion, black money etc.

3.0 Historical Underpinnings :

3.1 Successful Cases

Some of the successful cases of demonetisation (Pimputkar, S, November 8, 2017 (a)) include the following:

United Kingdom (1971 and 2018)

To introduce the decimal-based currency system, UK established the Decimal Currency Board and run a public information campaign for two years since 1969 to switch over to the new currency system in February 1971. Just before the currency changeover on 15th of February, the banks remained closed for four days. Currency converters were available for everyone, and prices in the shops were shown in both currencies. Again, in 2018, the country had demonetised its existing 10-pound currency note to introduce polymer-based currency note of the same denomination.

Australia (1996)

Australia undertook demonetisation in 1996 with the primary objectives of curbing black money and improving the security features of

the currency notes. Replacement of paper-based currency notes were done with polymer currency notes of same denominations. In fact, Australia was the first country to introduce polymer currency notes. The exercise did not make any adverse effect on the people or the economy. Rather, it made Australia a business-friendly destination.

European Union (2002)

Though the context is different, the demonetisation drive undertaken by the European Union offers an excellent example of thorough planning in the execution of demonetisation. When the European Union undertaken the currency changeover on January, 2002 affecting its 12 member nations, the European Central Bank undertook preparations for 3 years to distribute 8 billion notes and 38 billion coins via banks, post offices and sales outlet. For that purpose, the European Central Bank started printing new notes since 1998.

Pakistan (2016)

Following India, Pakistan in December 2016, in order to improve security and durability of the bank notes, State Bank of Pakistan (SBP) issued new designs' bank notes. The move was applicable to 10, 50, 100 and 1,000-rupee notes' older design. The country issued a tender 18 months back and gave citizens enough time to exchange their old notes for the newly design notes. Earlier, Pakistan had demonetised 5 and 500 Pakistani rupee notes.

Zimbabwe (2015)

Zimbabwe is one the countries that had experienced hyperinflation at its worst. At a point of time, Zimbabwe used to have one hundred trillion dollar note. In 2015, in order to stabilise its economy, which had seen hyperinflation at 2,31,000,000 percent, the Zimbabwean government replaced the Zimbabwe dollar with the American dollar. This demonetisation drive took the country three months to make US dollar as her legal tender. The move was also criticised by wealth holders as it caused a huge decline in their savings.

3.2 Unsuccessful Cases (Pimputkar, S, November 8, 2017 (b))

North Korea (2010)

In order to tighten control of the economy and get rid of the black economy, North Korea undertook demonetisation under the then dictator Kim Jong Il. In that demonetisation drive, a measure was undertaken to knock off two zeroes from the face value of the old currency. This resulted in widespread severe food shortage, increase in the price of necessary goods in the economy and left the people with no shelter.

Soviet Union (1991)

During the reign of Mikhail Gorbachev, the then Soviet Union government in January 1991 withdrew 50 and 100-ruble notes from circulation. The basic policy objectives were to tackle the black economy and increase the currency value. At that time, the 50 and 100 ruble notes comprised about one-third of the money in circulation. That almost collapsed the economy; which further led to loss of the citizens' faith in the government. Many historians argue that that demonetisation drive fuelled the eventual break-up of the USSR.

Myanmar (1987)

In order to curb black money, the then military government of Myanmar in 1987, invalidated around 80 percent of the value of money in circulation. The move had severe repercussions: it resulted in first student demonstrations, caused economic crisis and led to mass protests across the nation followed by a government crackdown leading to the killing of thousands of people. The country also faced severe international criticisms.

Nigeria (1984)

With an aim to fix the debt-ridden economy, the military government under Muhammadu Buhari in 1984 issued new currency notes with new colours to make old notes outdated. However, that demonetisation drive failed miserably as Buhari was eventually ousted in a coup the following year.

Ghana (1982)

In 1982, Ghana got rid of its 50-cedi notes to curb tax evasion, mop up excess liquidity and get rid of corruption. The move was highly unsuccessful as the citizens started supporting the black market by investing in physical assets and turning to foreign currency, making the economy weak. Citizens in rural areas had to face many hardships: they had to walk miles to exchange the demonetised money and after the deadline, there were accounts of notes abandoned as worthless.

4.0 Demonetisation in India :

The talk about demonetisation got a new blood in India since 8th November 2016 when the present Prime Minister Narendra Damodardas Modi announced at 8 pm that the currencies in the denominations of Rs 500 and Rs 1,000 would be invalid post midnight. However, the lower denomination-Rs 10, Rs 20, Rs 50, Rs 100 and coins-will be valid. He further announced that new notes of Rs 500 and Rs 2,000 would be introduced shortly. This sudden move left more than 100 crore citizens with a panic attack.

However, prior to November 2016, the country had undertaken demonetisation twice: in 1946 and in 1978.

4.1 The Demonetisation of 1946 :

After the establishment of the Reserve Bank of India (RBI) in 1934, the bank had introduced Rs 500 and Rs 1000 currency in 1934. Later, in 1938, Rs 10000 currency was also introduced. The demonetisation drive of 1946 removed those high value currency notes from circulation. The ban had very little impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency.

Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced (Pimputkar S, December 16, 2016).

4.2 The Demonetisation of 1978 :

On January 16th 1978, the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

Later, it was found that the move of demonetisation was not successful. The major reasons cited for the failure (Pimputkar S, December 16, 2016) include the following:

- (a) Lack of a broad vision and proper strategy: As experts argue, the most crucial factor leading to the failure of the demonetisation drive was the lack of a broad vision and prerequisites and mainly, insufficient groundwork.
- (b) No support from the RBI Governor in 1978: It was noticed that at the time of demonetisation, the then Prime Minister Desai did not have the support and fortification of the then RBI Governor Indraprasad Gordhanbhai Patel. In fact, Governor Patel believed that the ban was implemented simply to immobilise the funds of the opposition party. Patel also believed that people never store black money in the form of currency for too long.
- (c) Low quantum of higher denomination notes: In 1978, at the time of demonetisation, the quantum of Rs. 1000, 5000 and 10,000 notes in the total economy was only 10 per cent. This meant that large section of the people had access to high denomination notes.
- (d) High purchasing power: In the 1970s, a currency note of Rs 1000, on an average, could buy household commodities for about two months. Again, as the circulation of the high value notes was very limited, this had very limited effect on peoples purchasing.
- (e) Insufficient secrecy: The drive of 1978 lacked secrecy. One week before the announcement of demonetisation, the 1000-rupee notes were already out of circulation. According to a number of reports, huge amounts of high denomination notes were sent to several Gulf countries, especially to Dubai and Kuwait a few days before the ordinance was announced.

- (f) Very small fraction of black money holders turned up: The drive of demonetisation also failed because most of the holders of high denomination notes did not turn up at the bank to exchange their notes. It was found that they sold them to others (mainly to the poor labourers) who could present them at the bank with less suspicion. The value of the high denomination notes in circulation on January 17, 1978 was estimated to be Rs 180 crore. Of these, notes worth only Rs 20 crore were immobilised.

4.3 Demonetisation 2016 :

When the Prime Minister Narendar Damodardas Modi made the live announcement of demonetisation of Rs 500 and Rs 1000 notes at 8.15 pm on November 8th 2016, he talked about three basic objectives, viz., (a) to break the back of black money, (b) to end the circulation of fake currency, and (c) to end terrorist financing. The major highlights of the demonetisation drive are as follows : (Demonetisation: Success & Failures)

- The demonetisation announcement made the use of Rs.500 and Rs.1000 banknotes invalid past midnight of November 8.
- At the time of demonetisation, the total amount of high denomination currency circulating in the system was estimated at Rs 15.44 lakh crore of which Rs 8.58 lakh crore was in old Rs 500 notes and Rs 6.86 lakh crore in Rs 1,000. Those two high denomination notes (HDNs) constituted nearly 87 percent of money in circulation.
- It was also announced that the new Rs.500 and Rs.2000 would be introduced in exchange for the old banknotes.

4.4 Implementation Strategies followed in 2016 :

Former Deputy Governor R. Gandhi in an article written in the Economic Times (November 8, 2017) had outlined the strategies adopted by the RBI to implement the demonetisation drive. Some of the major aspects of the implementation strategy include:

- *A planned strategy:* Contrary to the criticism raised as the drive being an whimsical, unplanned one, the strategy was a totally planned one. As a part of the game plan, it remained confined only within a core group. It was sudden and totally unexpected. Even the introduction of new series of banknotes was also part of the grand plan: whether be it the size, look, colour, design and orientation.
- Introduction of the 2000 Rupee currency note: If the RBI were to exchange the demonetised currencies of Rs 500 and Rs 1000 on 'one-to-one' basis, the bank would have needed to print 4 billion 1000-rupee notes and 21 billion 500-rupee notes. Due to the introduction of Rs 2000 currency note instead of the old 1000 Rupee note, RBI could readily save printing of 2 billion notes extra, even if we assume that the 500 rupee note were to exchange on an one-to-one basis.

However, if the banks were to keep such volume of currencies ready beforehand, the entire process would have needed some 15 months' time to complete the tasks of designing, procuring paper, printing etc. Then, it could be termed as a 'note withdrawal programme' and not demonetisation. The objectives of the Government would not have served at all.

- Printing and distribution of currency notes on war footing: Printing of the new currency notes were undertaken on war footing: only the new currencies were printed in all the presses, a three-tier distribution system was followed. All the presses were used to their fullest capacity. The currency management wings of the Reserve Bank and the banking system were geared up for long hours on weekdays and to work on holidays. Additional manpower was deployed, including contracting retired personnel. The presses also enhanced their labour force; worked on long shifts and on holidays as well.
- Distribution channel enhanced: Direct touch points for cash delivery were trebled in number. Turnaround period of logistics were shortened. Airlifting of currency was adopted to rush stocks to needy locations. Daily monitoring of production, supply, delivery,

demand, withdrawal and stock were intensely monitored at multiple levels. Lower denomination notes were issued in plenty.

- Tackling the aberrations: Aberrations like money mules getting employed to exchange the old notes, Jan Dhan Yojana accounts being misused, involvement of bank personnel in abetting inappropriate exchange, etc., were actually foreseen. To address the money mules problem, use of voting ink to identify the persons exchanging the notes was adopted and it had a good deterrent effect.

5.0 Titbits of Demonetisation 2016 :

The drive of demonetisation had taken all general citizens of the country aback. In fact, it had to be such, if its objectives were to be achieved in its true letter and spirit. The implementation strategy that was initially planned had to be adapted to mitigate various emerging issues. However, it also caused severe crisis both to individuals and to different sectors of the economy. Reports came up that some 100 persons (Worstell, T., December 8, 2016) had died while maintaining long queue in front of the banks, post offices. However, the Government had summarily rejected occurrence of such deaths due to demonetisation, on the ground that no such incidents has been reported (Ibid).

5.1 RBI's Views on the Drive to Demonetisation: The Observations made in the 561st Meeting Minutes of the RBI Board of Directors

In a hurriedly convened meeting just a few hours before PM announced demonetisation of the HDNs, RBI's Central Board issued approval to the scheme but also rejected the justification that note ban exercise would tackle black money and counterfeit notes (Financial Express, November 9, 2018). The board termed the demonetisation move by the government as 'commendable' even as it warned it "will have a short-term negative effect on the GDP for the current year," the minutes of the 561st meeting revealed.

The minutes were signed by RBI Governor Urjit Patel on December 15, 2016, five weeks after the meeting was held. In all, six objections,

described as "significant observations", were recorded in the minutes by the RBI Board. The major objections raised by the RBI board were:

- Short-term negative effect on GDP.
- Rs 400 crore fake notes not very significant share of total cash.
- Most black money not held in cash, but real estate or gold.
- Adjusted for inflation, the difference between economic growth and cash available not so stark.

The minutes ended with the RBI's resolution for the withdrawal of Rs 1,000 and Rs 500 notes with these lines:

[The Board was assured that the Government will take mitigating measures to contain the use of cash... the Board considered the memorandum and after detailed deliberations concluded that in larger public interest, the balance of advantage would lie in withdrawal of legal tender status of Rs 500 and Rs 1,000 currency notes currently in circulation...] (Financial Express, November 9, 2018).

5.2 Evaluation of the Basic Objectives of Demonetisation

As we have already said, demonetisation was undertaken with three basic objectives:, viz., (a) to break the back of black money, (b) to end the circulation of fake currency, and (c) to end terrorist financing. Now, as two years have passed, let us evaluate the attainment of the objectives.

- (a) *Break on black money:* On the issue of demonetisation, the former RBI Governor, Raghuram Rajan had advised the Government that demonetisation would not achieve its objectives of unearthing black money because, among other things, the tax evaders would find ways to launder their holdings (Reddy, C. R., November 6, 2018; Sarin, R., November 9, 2018). Again, as we have already mentioned, the RBI Board of Directors' Meet on 8th of November, 2018 also summarily rejected the Government's views that demonetisation would help tackle black money.

In late November 2016, the attorney general told the Supreme Court, which was hearing a petition against

demonetisation, that the government expected a quarter to a third of the HDNs in circulation not to return to the banking system, i.e., this would be the amount of black money destroyed (Reddy, C. R., November 6, 2018).

Leaving the Modi Government in utter discomfort, the RBI Annual Report for 2017-18 has stated: "The total SBNs [specified bank notes] returned from circulation is ₹ 15,310.73 billion." Alternatively, as the newspapers put it so well, this was 99.2% of the ₹15,440.5 billion of the HDNs in circulation on 8 November 2016.

Thus, just to recover only less than 1 per cent of black money just Rs 10,720 crore, (Reddy, C. R., November 6, 2018) held in the form the total HDNs, the cost incurred to the economy as a whole and the citizens in particular seems far from justified. However, newspaper reports also suggest in Nepal, individuals and informal sector still holds Rs 950 crores of Indian demonetised notes (Reuters, April 5, 2018). In the similar way, such demonetised currency notes might also be in Bhutan.

- (b) *To end the circulation of fake currency:* As we have already mentioned, prior to demonetisation, RBI projected the total circulation of fake notes in the economy at Rs 400 crores. Less than one year after demonetisation, RBI came with a report that as many as 7,62,072 pieces of counterfeit notes were detected in 2016-17, a 20.4% increase over the previous year 2015-16. During 2015-16, 6.32 lakh pieces of fake currency notes had been detected. The report of RBI also mentioned that that barring Rs 100, the detection of counterfeit notes increased across denominations, viz., Rs 500 and Rs 1,000 during 2016-17 (Hindustan Times, Aug 30, 2017). Another report published by RBI also

mentions that counterfeit notes detected in the new Rs 500 and Rs 2,000 notes during 2017-18 were 9,892 and 17,929 as against 199 and 638, respectively, during the previous year. However, the total value of these fake currency notes amounts to a meagre Rs 43 crore (livemint, Aug 31, 2017).

Another important issue is that though the Government had set the objective of tackling the menace of fake notes through demonetisation, yet the new HDNs issued after demonetisation did not have any advanced security features, leaving those detrimental to wrongdoers.

- (c) *To end terrorist financing:* This third objective is closely linked to the second objective. Even when some studies (Reddy, C. R., November 6, 2018) have rejected the view that demonetisation had any impact in reducing terrorist activities, other study (IANS, November 1, 2018) have come up with reports that there has been some decline in terrorist activities due to demonetisation. In a field study report compiled by Public Policy Research Centre, it has been claimed that there was a 20 percent decline in naxal incidents, mainly because of the demonetisation, which came down from 466 in 2015 to 373 in 2017. The number of naxal arrests, during the same period, it said, increased from 512 to 796. The report further claimed other than Chhattisgarh, in Jammu and Kashmir as well; the impact of demonetisation was seen. The report states, "There was reduction in the incidents of stone pelting, as was reported in the media". However, the report also has made the observation that the problem of counterfeit currency from Pakistan and Nepal needs to be tackled." (IANS, November 1, 2018).

6.0 The Grand Narrative: Reading the Political Economy of Demonetisation :

Post demonetisation, the Government faced severe criticisms from some of the well-known economists, the opposition parties and media.

The people of India, though initially supported the Government, but with the passage of time, such support gradually declined. The major reasons for such decline in support may be attributed to: the hardships faced by the common people, its adverse impact on agriculture and employment, numerous changes in the policy of RBI oft and while, and the reported deaths in the media among others. Again, just after a few month of demonetisation, when the Government moved with yet another big reform measure like the Goods and Service Tax (GST), it initially received flak from critics; not because the benefits of GST were not foreseen, but because the economy was yet to recover from the brunt of demonetisation.

With the passage of time, as the basic objectives of demonetisation seemed to have lost its ground, the Government came up with the 'grand narrative', i.e., it highlighted some other benefits of demonetisation, which were not foreseen. Thus, the grand narrative included 'an extended net' of demonetisation, which includes: (a) digitalisation of transaction, (b) expanding the tax net, and (c) to put a halt on corruption. To quote C. R. Reddy,

[When, soon after November 2016, the aim of destroying black money looked to fail, the government's attention shifted to creating new objectives and to then arguing that the deposits of the HDNs in banks was a positive development because this gave the government information that it could use to track down the money-launderers. To take the second first, it is revealing that more than 18 months after the Union finance minister announced in the February 2017 budget speech that his ministry would harness the powers of "data analytics" to track down the crooks, we are yet to see a single press release about the success in even a single case.]

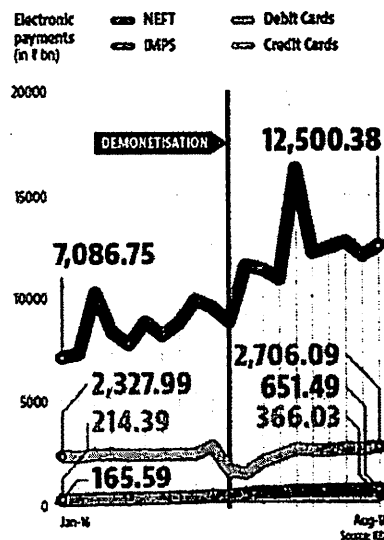
The big shift in objectives was of course to talk about digitalisation, better tax compliance, "formalisation" of the economy, the goods and services tax (GST) and demonetisation as inter-connected parts of one giant mosaic of a modern and clean economy in which the success of the announcement on 8 November 2016 was crucial. Unfortunately, the reality says otherwise.] (Reddy, C. R., November 6, 2018)

6.1 Narratives vs Counter-Narratives of Demonetisation

Let us review some of the narrative (claims made by the Government) and counter-narrative (counter argument against the claims of the Government) of demonetisation.

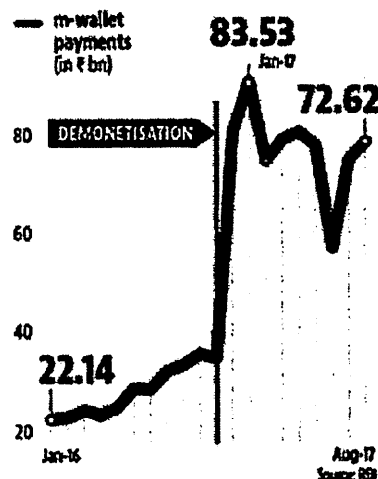
(a) *Demonetisation helped in digitalisation of the economy:* On the second anniversary of demonetisation, Finance Minister highlighted the following statistics:

- Visa and Mastercard are losing market share in India to indigenous developed payment systems of UPI and RUPAY Card "whose share have reached 65 per cent of the payments done through debit and credit cards".
- The Unified Payment Interface (UPI), which was launched in 2016 have grown from Rs 50 crore in October 2016 to Rs 59,800 crore in September 2018.
- The value of transactions of the Bharat Interface for Money (BHIM) app has gone up from Rs 2 crore in September 2016 to Rs 7,060 crore in September 2018. The share of BHIM transactions in overall UPI transactions was about 48 per cent in June 2017 and is currently being used by 1.25 crore people.
- RuPay card transactions through Point of Sale (PoS) have increased from Rs 800 crore before demonetisation to Rs 5,730 crore in September 2018. For e-commerce purchases, it has gone up from Rs 300 crore to Rs 2,700 crore.



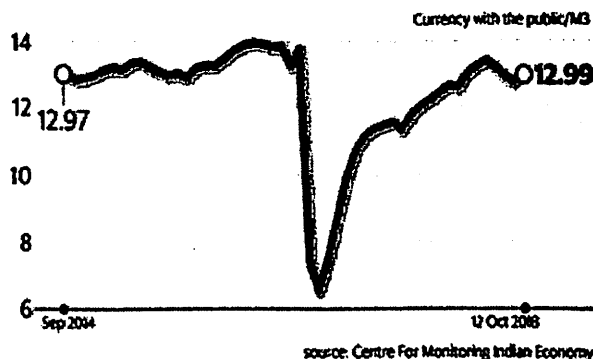
The Counter-narrative: In India, digitalisation has been a gradual process, which has started since the early 2000s. It is true that demonetisation did accelerate the process (which subsequently slowed but has since remained at a higher level of adoption). However, the use of demonetisation to achieve digitalisation is not beyond criticism (Reddy, C. R., November 6, 2018)

- (b) *Moving towards a cashless economy:* One of the claims of the Government has been that in the post-demonetisation phase, the economy has moved towards a cash less economy, which has been portrayed as an indicator of a clean economy. The digitalisation of the economy has helped in achieving this. The cash-GDP ratio post demonetisation is now about 1.5 to 2 percentage points lower than before.



The Counter Narrative: RBI data suggest that at the end of October 2016, just before demonetisation, currency held with the public was 13.77 per cent of M3 (a broad measure of money supply in the economy). In the initial phase of demonetisation, a sharp decline was noticed: in December 2016, M3 currency with the public was 6.55 per cent of M3.

Two years later, as on 12 October 2018, the currency with the public (M3 metric) stood at 12.99 per cent. Though the figure seems to be well below the level at the



end of October 2016, yet it stands at a similar rate when compared to October 2015 data. In fact, the level of M3 in October 2018 is slightly higher than in October 2014. The trend of M3 during October 2014 till October 2018 has been shown in the above Figure (live mint, November, 8, 2018).

The claim that post demonetisation, lower cash-GDP ratio has been achieved and it is a good indicator for the economy may not always hold good. Generally, it is always assumed that a less cash intensive economy is a mark of progress. Yet, Japan and Switzerland have much higher cash-GDP ratios than India and no one sees them as being backward. It is true that the use of cash can mask an audit trail and facilitate tax evasion. However, we should not be blind to the fact that the larger part of black money generation now takes place inside and not outside the circuits of the banking system. Nirav Modi and Mehul "Bhai" Choksi looted the banks and transferred wealth through banking channels; they did not do so with suitcases of cash (Reddy, C. R., November 6, 2018).

- (c) *Entire demonetised currencies that has returned into the banking system was a part of the Government's broad objective:* Jaitley termed the criticism of almost the entire cash getting deposited in banks post-demonetisation as "ill-informed", adding that 17.42 lakh suspected accounts have come under the scanner. "Getting it into the formal economy and making the holders pay tax was the broader objective. The system required to be shaken in order to make India move from cash to digital transactions. This would obviously have an impact on higher tax revenue and a higher tax base," he said (The Week, November 8, 2018).

The Counter-narrative: This statement is completely opposite to the statement the attorney general made in the Supreme Court in November 2016 while defending the Government on demonetisation. As we had already mentioned, the attorney general said: '....the government expected a quarter to a third of the HDNs

in circulation not to return to the banking system, i.e., this would be the amount of black money destroyed' (Reddy, C. R., November 6, 2018).

- (d) *Decrease in corruption:* In a response to criticisms levelled against demonetisation raised by the former Prime Minister Dr. Manmohan Singh, Finance Minister Arun Jaitley had argued that demonetisation was a "watershed moment for the Indian economy". According to him, demonetisation has not only changed the agenda but also made corruption difficult. Thus, in his opinion, it was not only a "morally and ethically correct" step but also "politically correct" (The Week, November 8, 2018).

The Counter-narrative: No study is available to assess the impact of demonetisation on decrease in corruption. Interestingly, critics point out that even when the Government is talking about that it wants to root out black money, one of its actions after demonetisation has only the opposite interpretation. With reference to its move relating to the funding/donation to the political parties, critics like C. R. Reddy points out:

[...it is quite surprising to note that a government that said it wanted to root out black money has actually taken steps to facilitate the greater use of black money. Its system of electoral bonds (introduced in 2017 after demonetisation) in which the donor is anonymous-and can therefore call in favours after an election-is designed for corruption.](Reddy, C. R., November 6, 2018).

- (e) *Increase in the filing of tax returns:* Jaitley pointed to the increase in number of tax returns, which rose by 25 per cent over the previous year to 6.86 crore in 2017-18 while 86.35 lakh new filers were added this year. Till October 31 2018, 5.99 crore returns have been filed, an increase of 54.33 per cent from the previous year (The Week, November 8, 2018).

The Counter-narrative: Filing of tax returns has increased because under GST, all vendors have to register with a PAN and tax returns (Reddy, C. R., November 6, 2018).

- (f) *Increase in direct tax collection:* Data reveals that direct tax collection registered a growth rate of 6.6 per cent in 2014-15 over the previous financial year. In 2016-17, it accelerated with a growth rate of 14.5 per cent, which further recorded a growth rate of 18 percent (unaudited) in 2017-18 (The Week, November 8, 2018).

The Counter-narrative: Though sounds quite impressive, yet available data indicates growth in direct tax collection over 15 per cent is not unusual. For example, in 2010-11 as well, direct tax collection witnessed a growth rate of 18 per cent; but in the subsequent period, the growth rates receded. Another reason for the increase in direct tax collection is that the money launderers have made one-off payment of income tax (Reddy, C. R., November 6, 2018).

As such, long-term study will be needed to establish any specific positive correlation between demonetisation and increase in direct tax collections.

- (g) *Increased indirect tax-GDP ratio:* Another point highlighted by Jaitley is that with the implementation of GST, it is now increasingly difficult to evade the tax system and that the indirect tax to gross domestic product (GDP) ratio has gone up to 5.4 per cent post-GST, from 4.4 per cent in 2014-15.

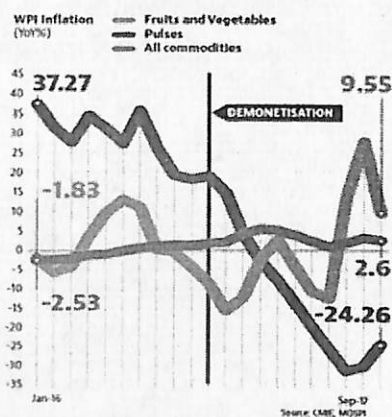
The Counter-narrative: Mahesh Vyas, head of the Centre for Monitoring Indian Economy (CMIE) has noted, there's no glory to be obtained in a quest for a generally higher tax-to-GDP ratio. He referred to the Economic Survey 2016-17 in this regard. The Economic Survey 2016-17 had argued that after controlling for the level of economic development, India neither under-tax nor

under-spends. Therefore, there is no argument in favour of raising the tax-to-GDP ratio. Since the GST accounts for most of the indirect taxes and almost a third of all taxes in 2018-19, its eventual decline should see the tax-GDP ratio fall in due course (Reddy, C. R., November 6, 2018).

6.2 Is Demonetisation a Total Failure? A Critical Assessment on Select Macro Fronts

Even when demonetisation has become a subject of intense criticism, and even when demonetisation seems to have failed in fulfilling the basic objectives, there are certain areas in which demonetisation has made some positive impact. Some of the areas where demonetisation has made some positive impacts include the following:

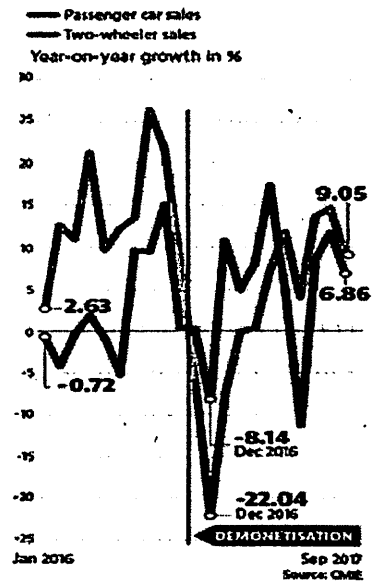
- (a) *Rate of inflation goes down:* In the aftermath of demonetisation, prices of commonly consumed commodities like pulses, fruits, vegetables had substantially gone down. Accordingly, it brought down the rate of inflation during the months that followed demonetisation. The image showed alongside based on data from Centre for Monitoring Indian Economy (CMIE) and Ministry of Statistics and Programme Implementation (MOSPI) shows the impact of demonetisation on the different categories of commodities.



- (b) *Stock market gets bullish:* After demonetisation, stock market in India got bullish. While BSE index which was 27,459 on November 7, 2016 rose to 33680.92 on November 6, 2017, the NSE rose from 8497 to 10,443. The figure shown below based on data from Bloomberg reflects the trend.



(c) *Banks' lending to small businesses increases:* In the pre-demonetisation period, banks' finance to small business was going down. In fact, a negative growth was recorded in the preceding short period. As on November 25, 2016, a negative growth of -7.71 per cent was recorded in Banks' lending to small business. It went to -8.16 per cent as on December 23, 2016. However, post demonetisation, as RBI data reveals, as on September 29, 2017 a positive growth of 1.65 per cent in lending to small business by the banks were recorded.



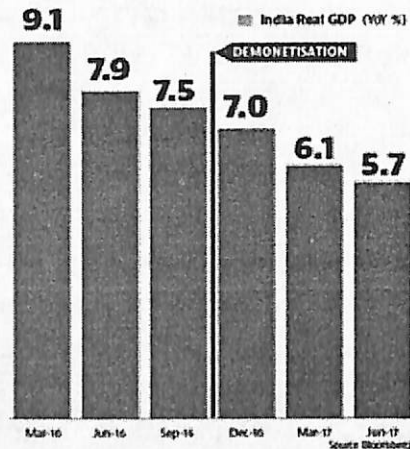
(d) *Automobile sales picked up:* Sale of two wheelers and four wheelers was showing a negative growth in 2016. In 2017, it went up substantially and recovered from the impact of negative growth to high positive growth as reflected in the report.

The major concerns of demonetisation: Demonetisation had adversely affected the macro economy and a few key sectors. These include:

(a) *Adverse effect on economic growth:* Post demonetisation growth of Indian Economy slowed down from 9.1% to 5.7% in less than one year. Month-wise GDP growth chart for the period March 2016 to September 2017 as shared by Bloomberg explains the fact. Studies have projected the output loss of GDP due to demonetisation at a little over Rs 1 lakh crore (Arun, T. K., September 2, 2018).

(b) *Adversely effect on agriculture:*

India is an agriculture-based economy. Due to the cash crunch, the farmers especially small and marginal who largely depend on cash to buy seeds, fertilizers and to pay for sowing, borrowing water for irrigation and for other related agriculture equipments remained worst affected and could not complete the crop related activity.



Since small branches of the banks were also not supplied with adequate cash within time of sowing season of the crop, farmers could not get their crop loans disbursed. This added to the woes of the farmers leading to a weak agriculture production in the succeeding crop season.

- (c) *Adverse effect on employment:* The former Prime Minister, Dr. Manmohan Singh has said, "the scars and wounds from 2016 are only getting more visible with time, adding that the consequences of the note ban are still unravelling.' He explained that as small and medium businesses are yet to recover, it has had a direct impact on employment for youth, financial markets and infrastructure lenders and non-bank financial services firms.

7.0 Instead of a Conclusion :

Demonetisation adversely affected the lives of billions of people in India. There is no denying the fact that to succeed in the objectives set by the Government it had to be a surprise one. However, the objectives were questionable. Interestingly, even when the Board of Directors of the RBI raised major concerns on the move just a few hours before its announcement, it also viewed it as a commendable effort. Two years later, many changes have occurred. People are convergent with digital

way of life: but the level of cash supply in the economy today is at par what it was three-four years back. What was worrying, and still is, is the plight the farmers had to bear with.

Even when the Government had to make the move a surprise one, certain pre-planning could have made the process smoother. There was scope for introduction of certain low denomination currency notes, say Rs 75 or Rs 200 at least one year ahead. Supply of such currencies in good quantity could have eased the people with liquidity. If such a move were taken at least a year before, people could not have sense demonetisation, but it could have left the people with sufficient amount of cash in hand. Secondly, the timing of the move perhaps was not very appropriate. The economy was already being prepared for the implementation of GST for a long period of time. Hence, another major decision like this, which affected all the citizens' lives, could have been timed and implemented in a better way.

It is not clear what made the Government move hastily with demonetisation. At least, the urgency of the action is not comprehensible. In a country like India, where a huge developmental agenda could have been on the cards, such a haste act is far from being a top priority. The counter-narrative presented here weighs more compared to the grant narratives the Government presented on demonetisation. The real benefits that demonetisation delivered seems to be 'political' in nature, rather than anything the Government had outlined on November 8, 2016. As Arun, T. K. (September 02, 2018), has argued: rather than any achievements like big jump in the number of tax filers or increased tax collection (these benefits should be attributed to GST and not demonetisation), demonetisation has made a political impact. Demonetisation projected Prime Minister Modi as 'a champion of the poor who takes on the filthy rich on their behalf, and invites them to participate in this epic battle of redemption by standing in endless lines in front of banks'. In his words:

The people of India bought that story, by and large. Even those who complained of the hardship they had to suffer on account of

demonetisation praised the PM for his courage, in taking on the rich and the powerful, and accepted their suffering as a price worth paying for it.

This expanded the BJP's support base. The poor and the not so poor, in whose breast class antagonism can be stirred, turned supporters, even as sections of the petty-trader support base suddenly experienced an unexpected improvement in their clarity of vision, as rose tinted glasses dropped off.

Critics also linked demonetisation with the agenda of the ruling BJP to sail through the Assembly Election of Uttar Pradesh in 2017 and the forthcoming General Election in 2019. To conclude this narrative on demonetisation, let us read between the lines what Reddy, C. R. (November 6, 2018) had to say:

[Illegal cash flows continue to flood elections like water. There has been no change in the splurge of money in elections since the Uttar Pradesh elections of 2017. We should expect a huge spurt ahead of the 2019 elections in illegal expenses, which are always made more by the ruling party since it usually has access to more funds. In some respects, a government that said it wanted to root out black money has actually taken steps to facilitate the greater use of black money. Its system of electoral bonds (introduced in 2017 after demonetization) in which the donor is anonymous-and can therefore call in favours after an election-is designed for corruption.]

However, garnering any significant political milieu out of demonetisation is not beyond risks. The outcome of Assembly Elections in most of the states in the post-demonetisation period at least seem to suggest so.

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