Demonetization in India: An evaluation

Abstract:

The aim of this paper is to discuss the motives and after effects of demonetization decision taken by the Indian Government on November 10, 2016. In addition, it has tried to highlight the demonetization effects in some other countries. The opinions of economists, financial analysts and intellectuals have been highlighted on this paper based solely on published information collected from previous articles, newspapers and books related to the subject matter. The paper will hopefully come to the help of those academicians seeking to investigate more and the policy makers who want some academic references.

Keywords: Demonetization, Rupee notes, Policy, Black money, Cash, Corruption, RBI, MoF.

1. Introduction

Demonetization can be termed as the change (withdrawal of entire or a part of) of its existing currency notes into another format. In other words, demonetization is the act of either replacing some/all the old currencies by new ones or introducing new notes/coins of the same currencies (Uke, 2017). The Indian Government made a very astonishing and unanticipated declaration to cease the specified banknotes (SBN) to be legal tender with instant effect on November 8, 2016. According to the ruling, fifty days were given to the public to deposit their 1000 and 500 rupee notes into banks to for removing those notes out of circulation (Nageswaran & Natarajan, 2017). Instead, a redesigned 500 rupee note and a new 2000 rupee note were circulated. The Ministry of Finance (MoF) of India necessitated the strategy highlighting three major goals in its language: handling corruption, discouraging counterfeiters and punishing the hoarders of undeclared income, commonly known as “black money” (Beyes & Bhattacharya, 2017). While interactions regarding the justification behind the policy was limited to highlighting the extent of cash in circulation is directly correlated to the corruption level and accordingly, reducing the cash in circulation would reduce corruption.

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The withdrawn notes made up to 86% by value of cash in circulation (MoF, 2017a). There was an enormous challenge that was in fact crucial to reinstate such a considerable amount of cash was the fact that a noteworthy percentage of fresh notes needed to be printed at the time of announcement creating a extensive shortage of cash which led to significant government mandated restrictions on cash withdrawals from bank (Hosain, 2019; Chowdhury & Hosain, 2018). As a big country, India is mostly depends on the agriculture and farmers especially living in villages predominantly uninformed about virtual currency such as credit card or online transfer, where approximately 90% transactions are carried out in cash (D'Monte, 2016).

The history of demonetization in India can be traced back to pre-independence period in year 1946. After independence, the notes of 1000, 5000 and 10000 was demonetized to pin down forged and black money in 1978 (Hosain, 2019; Chowdhury & Hosain, 2018).

2. History of demonetization around the world:

The demonetization experience in India is not only the recent one in 2016. Earlier in 1938, under British rule, Reserve Bank of India (RBI) printed the highest denomination notes of 10000 rupees. After a few years, the British Indian Government ruled out 1000 and 10000 rupee banknotes in 1946. Once again, higher denomination banknotes of 1000, 5000 and 10000 rupees were reintroduced in 1954 until they were demonetized in 1978 to hold back unaccounted money (Jangid & Sohini, 2017).

India is not the only country to adopt demonetization. Many countries in the world adopted this policy at different times in the past century and earlier in the present century. All the countries that implemented such policy had some common objectives such as to restrain corruption & black money and to tackle inflation (Hosain, 2019; Chowdhury & Hosain, 2018). Table-1 shows the list of countries that had adopted demonetization policy:

Table-1: List of countries that had demonetization with objectives and after effect (Excluding India)

Country	Year	Objective (s)	Result
Germany	1923	To prevent inflation	Inflation fell
USA	1969	To resist black money	Successful
UK	1971	To bring uniformity in currency	Successful in the UK but failed in other countries
Ghana	1982	To control black money	People turned to foreign currency

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Myanmar	1987	To resist black money	Led to political dispute and thousands of people died
Nigeria	1984	To fix debt burden and inflation ridden economy	Economy collapsed
Zaire	1990	To withdraw obsolescent currency from the system	Partly successful
Former Soviet Union	1991	To fight against unearned income, smuggling and corruption	The overall economic system eventually crushed
Australia	1996	To curb black money and improve security features on the notes	Successful
North Korea	2010	To lower down the market of black money	Miserably failed
Zimbabwe	2010	Sliding out from hyperinflation	Failed
Pakistan	2015	To get rid from the black money and counterfeit currency	Messed up
Philippines	2016	To preserve the integrity of currency	Yet to be known

Source: Jangid, R. & Sohini, S. (2017, p. 3)

It is evident from Table-1 that most of the countries undertaking this policy have been unsuccessful in getting aimed results. A number of countries like Nigeria, Zaire and former USSR had experienced negative growth rate and a fall down in economy after demonetization was in effect (Jangid & Sohini, 2017). On the other hand, countries like the USA and the UK had a bit slowdown in economy while demonetization was in effect but afterwards they grew yet again whereas only Australia's economy was stagnant on pre and post demonetization periods (Jangid & Sohini, 2017). The effects of demonetization in some countries will be discussed briefly at later section.

3. Demonetization policy: Experience from some countries

India is not the only country to experience demonetization. This section of the paper contains a brief discussion on the demonetization impact experienced by some countries other than the recent one happened in India. Due to the limitation of space, cases of three countries: Russia, Australia and Zimbabwe will be analyzed.

3.1 Russian demonetization experience

Immediately before the separation of USSR into different countries, in 1993, Russia as a solidified country had to carry out demonetization in 1991. Economic state was in complicated point as the decision was made in a hurry and the impact of that decision is visible on Table-2. That particular Russian case unfortunately does is not any encouragement for demonetization as a panacea. Russians selected barter exchange as the better alternative as Abdelal (2003) mentions

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the disorder that initiated the demonetization step sustained further culminating in the division of the Republic.

Table-2: Macroeconomic Data of Russia; 1993-2002

Year	Exchange rate	Money supply	GDP	Trade balance	CPI	Budget interest	Deficit
	Roubles per Dollar	Billions of Roubles for all three columns			% change in billion Roubles		
1992	0.41	-	19	-	-	-	-
1993	1.24	23.8	172	-	874.6	-	-
1994	3.55	68.54	611	16.92	307.6	160	-69.5
1995	4.64	151.2	1540	19.81	197.4	48	-147.6
1996	5.56	192.4	2146	21.59	47.73	28	-150.4
1997	5.96	298.28	2479	14.07	14.74	60	-126.95
1998	20.65	342.81	2741	12.37	27.67	55	-56.64
1999	27.0	526.71	4767	9.07	85.68	25	173.46
2000	28.16	879.3	7306	9.5	20.75	25	275.31
2001	30.14	1192.6	9041	10.7	21.49	21	187.3
2002	31.78	1499.16	10863	13.4	15.79	24	179.22

Source: Kulakarni, K. G. & Tapas, P. (2017, p. 10)

The value of Russian Rouble has continuously declined (currently in 2019 it is 69 Roubles equals a dollar) since the demonetization as seen in first column. Even if the Rouble crisis intensified in 1998, the preliminary downward trend can be blamed on the demonetization of 1991. In the sense of stabilizing the value of the currency, therefore, the demonetization has not helped the Russian republic. Major part of the declining Rouble value is also explained by the careless monetary policy which has forced the money supply in Russia to increase from 23 billion in 1993 to 1499 billion in 2002 (Kulkarni & Tapas, 2017).

However, the growth of GDP (in nominal terms) has been impressive for Russian case. While the GDP was only 19 billion in 1992, it has increased to 10,863 billion Roubles in 2002. A large part of it was in-between 1999 to 2002, although the early years are not that bad either. The most impressive is the behavior of price level index (CPI, column 4) that has steadily declined over these years despite the increase in money supply. One reason for this is the controlled prices by the governmental policies that have not reflected on availability of goods and services. The oil price increase has helped Russia to show the positive balance of trade and also stabilized interest rate over these years. Budget deficit is not a troublesome problem as the tax revenues and the revenues from the oil exports as well as other exports were very high. In general, therefore the Russian case is an indication of mixed economic performance for Russia after

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demonetization. While the money supply has been allowed to grow exceptionally the currency value has declined enormously the Russian economy has somehow tugged along after ten years of its demonetization (Kulkarni & Tapas, 2017).

3.2 Australian demonetization experience

If Russian economy is a case of mixed results, the Australian economy (and essentially the policy makers) has handled the scenario much better as can be seen on Table-2. It is exceptional to notice that demonetization of 1996 has no effect on the value of Australian dollar; which has, in fact, appreciated with respect to US dollar. In 1996 the exchange rate was 0.79 but the value of Australian dollar increased to 0.56 per US dollar in 2002.

Table-3: Macroeconomic data of Australia; 1996-2002

Year	Exchange rate	MI	GDP	Trade balance	CPI	Interest rate	Budget deficit
	AD per USD	In Billion Australian Dollars			% change in Billion Australian Dollars		
1996	0.79	95.64	497.89	-635.0	102.6	7.2	4.80
1997	0.65	108.35	526.8	1849	102.9	5.5	+2.02
1998	0.61	114.79	589.3	-5332	193.7	4.99	-
1999	0.65	125.83	579.3	-9730	105.3	4.78	-
2000	0.55	137.62	631.6	-4699	110.0	5.9	-
2001	0.51	166.94	671.18	1874	114.8	5.06	-
2002	0.56	151.34	710.42	-5428	118.2	4.55	-

Source: Kulakarni, K. G. & Tapas, P. (2017, p. 11)

The economic growth was not held back by any means, as the nominal GDP increased from Australian $497 billion in 1996 to 710 billion in 2002. Even the trade balance fluctuated heavily in those years the inflation (as measured by CPI movement) did not get inferior and the interest rate stayed very low. In general, the economic performance was encouraging for the Australian economy after demonetization of 1996. Thus, considering the Russian case as one of economic hardships, Australian case was quite impressive due to or regardless of the demonetization attempts of the respective government (Kulkarni & Tapas, 2017).

3.3 Zimbabwe demonetization experience:

Zimbabwe went through hyper-inflation in 2008 following which its currency lost value severely. In June 2015, the Reserve Bank of Zimbabwe said the country had "adopted the multiple currency system or dollarization in 2009 and it is therefore necessary to demonetize the

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Zimbabwe $ unit to replace it with the multiple currency system. Demonetization was critical for policy consistency and for enhancing consumer and business confidence, its central bank had said.

According to Zimbabwe Independent (2015), a national daily in Zimbabwe, inflation peaked at over 79000000000%, that's 98% a day. That means that prices doubled every 24 hours! Zimbabwe recorded the second highest rate of inflation in history. Previously, only Hungary in 1946 recorded a higher rate of inflation where inflation 16 reached 4.19 x 10 % or 207% per day whereas, in the case of Hungary prices doubled every 15 hours (Kulkarni & Tapas, 2017). By a continuing process of inflation, a substantially major part of the wealth of citizens in a country is systematically and undetectedly taken away from them. Through this method, not only is their wealth destroyed but obliterated arbitrarily; and, while the process impoverishes the majority, it enriches a selected few. The sight of this arbitrary re-arrangement of riches strikes not only at security but also at confidence in the equity of the existing distribution of wealth. Hyperinflation saw the transfer of wealth in Zimbabwe. It did this in a latent way that very few people realized. Those who were smart enough to invest in properties and shares preserved the real value of their savings (Kulkarni & Tapas, 2017).

For the most part, people kept their money in savings accounts whose value was eventually destroyed by hyperinflation. Overnight people found themselves with their life savings wiped out. Demonetization spells the end of this period and heralds a new beginning for Zimbabwe. (The Independent, 2015). The factors that led to demonetization in Zimbabwe are depicted on the following chart.

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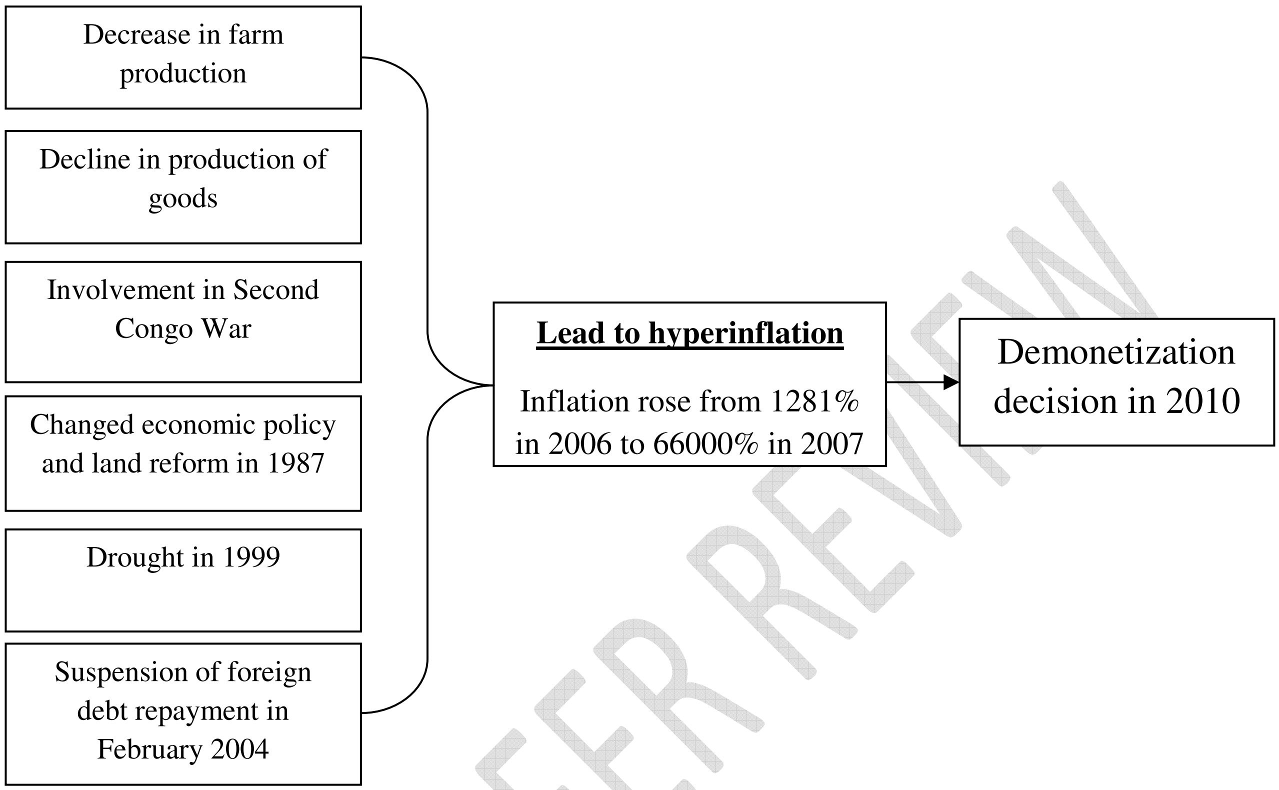
Figure-1: Factors that led to demonetization decision in Zimbabwe



Source: Kulakarni, K. G. & Tapas, P. (Slightly changed) (2017, p. 12)

However, the case of Zimbabwe has been unique in many different ways. The Zimbabwean economy from 2000 to 2014 witnessed inflation rate that created records in the world. With probably exception of World War I period in Germany, the world has not ever seen such a relentless printing of domestic currency and the extent of irresponsible monetary policy (Kulkarni & Tapas, 2017).

3. Demonetization in India: The policy makers

In India, the financial policies are formulated and governed by two top authorities: The Ministry of Finance (MoF) and Reserve Bank of India (RBI). In principle, demonetization notifications specified how this process was to be synchronized, including over the counter exchanges of old

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notes and daily and weekly limits for cash withdrawals at bank counters and ATMs (Beyes & Bhattacharya, 2017).

It is worth mentioning that there was a shortfall of proper logic the government bodies presented reasoning behind it (Hosain, 2019; Chowdhury & Hosain, 2018). For example, the RBI notification did not offer any realistic arguments validating demonetization; rather it had just formally suggested the policy (RBI, 2016a). The role of RBI in this regard raised a momentous post-discussion, such as allegations that the role of RBI was in this case merely to carry out the order from the higher and some experts have argued that such decision has damaged the image of RBI as an independent body and may further violated the law (Kapadia, 2016; Kumar, 2016). The information provided by MoF also lacked disconnected remarks and apparently definite policy goals (MoF, 2016a).

A major issue in Indian national debate on this policy was its time period of execution (8 November to 30 December, 2016). On the final day of exchanging or depositing the cancelled currency; the RBI issued 50 notifications to guide and regulate the process and to remind all the banks of their legal obligations where some of those were suggestive in nature but a large quantity was about substantive changes to the workings of the policy (Beyes & Bhattacharya, 2017). During the same time, the MoF issued 19 notifications, some reflecting RBI notifications and others introducing additional policy change (Beyes & Bhattacharya, 2017). The modifications made by RBI were very large compelling to create a another separate website entitled “All you want to know from RBI” referring 57 notifications and 27 press releases (March 1, 2017) issues by the Central Bank on demonetization (RBI, 2017).

From the public viewpoint, the most apparent changes to the policy mechanisms of demonetization was the unease of exchanging and depositing of old notes, as well as limitations on the availability of new notes (Beyes & Bhattacharya, 2017). By the end of 2016, the RBI had issued 9 notifications on the exchange and deposit process; and five on cash withdrawal limits. A significant proportion of RBI and MoF notifications distressed Indian agricultural sector where near about half of the population is employed (World Bank, 2013), addressing allegations that

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farmers were unable to buy the supplies for the current sowing season (Hosain, 2019; Chowdhury & Hosain, 2018)..

4. Connecting cash with corruption?

The declaration of demonetization in early November concerned three prime goals: dipping corruption, gruelling hoarders of "black money" and dispiriting counterfeits. In the early hour interactions by the RBI and the MoF jointly stated these goals without providing necessary details on the rationale behind them (Beyes & Bhattacharya, 2017). As an example, it was just declared that the policy had been undertaken for the those reasons, but particularly, in any discussion, the relationship between cash and corruption and repeatedly, the anti-corruption credentials of demonetization were missing (Hosain, 2019; Chowdhury & Hosain, 2018).

A further paper that provides some lights into the persistence of Indian government's argument on the relationship between cash and corruption is "Economic Survey", an annual manuscript issued by the Ministry of Finance (MoF), India that provides a summary on the standing of the Indian economy and discusses relevant government programs (Beyes & Bhattacharya, 2017). Published in February, 2017, the paper devoted a full chapter quoting "Demonetization: To Deify or to Demonetize", once more took the pre-assumption as the original point that the higher amount of cash in the flow, the larger amount of corruption (MoF, 2017a). The survey revealed the observation that 11% of 1000 and 22% of 500 rupee note are returned to the RBI every year as damaged while the corresponding rate for lower denomination notes is 33% acknowledging the lower "soil rate" may be the result of the fact that there are more lower value than higher value transactions among which, a fraction of the notes are not being used for transactions are being used but for storing black money (Beyes & Bhattacharya, 2017).

Although the Indian administration and the Economic Survey both properly identified the relationship between cash and corruption has attracted attention over the last few decades and possibly more and more in recent years, both failed in addressing the issue that cash is widely perceived as making up only a small part of Indian shadow economy, which includes, but not limited to, income from corrupt practices (Beyes & Bhattacharya, 2017). Kohli & Ramakumar

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(2016) argued citing the former RBI governor Patel that the idea that black money or wealth is held in the form of notes tucked away in boxes or pillow is immature, rather, they approximated that the majority of unaccounted income in India is accumulated and transferred using real estate, stocks, gold and other form of undeclared investments in home and abroad (Hosain, 2019; Chowdhury & Hosain, 2018).

Therefore, the need of references to either of these modes of corruption within government communication and demonetization indicates that administration represents corruption primarily as a cash based phenomenon (Hosain, 2019; Chowdhury & Hosain, 2018). By creating a plot that primarily focuses the role of cash, demonetization may switch attention from future anti-corruption strategies taking a wider approach, such as strengthening the legislation, building and empowering the capacities of anti-corruption tools further; and above all, creating public awareness through print, electronic and social media (Hosain, 2019; Chowdhury & Hosain, 2018).

5. Challenges and responses:

It will not be unwise to comment that demonetization debate has rocked India and even the discussions regarding its effects are on air and peoples' mouths. There were some obvious challenges and responses from different areas to this policy. In this section, we have tried to highlight some of the notable ones based on newspapers, articles and academicians.

5.1 Distress in rural banking system:

The decision of RBI to restrict District Cooperative Central Bank (DCCB) and Primary Agricultural Credit Society (PACS) from accepting or exchanging the previous notes was possibly the most contentious one as these two institutions only provide the access to banking service for a huge majority of India's rural population, including small farmers and lower income groups (ADB, 2013). While farmers in general depend on DCCB and PACS a lot to purchase seeds and fertilizers, suddenly, a large proportion of rural population was required to move to larger villages or cities to exchange or deposit the old notes (Hosain, 2019; Chowdhury & Hosain, 2018).

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Although, RBI did not highlight any official reasons for putting these restrictions in place, it was speculated that the government was anxious with what was evident to be unusually huge cash deposits at DCCB and PACS right away after the announcement (Hosain, 2019; Chowdhury & Hosain, 2018). Between 8 to 14 November, DCCB in 17 Indian states received around 90 billion rupees as deposits (Fernandes & Sukhi, 2016). The RBI unconditionally questioned the source of wealth of depositors belonging primarily to the marginal agricultural sector, supposedly raising concerns that DCCBs were used to park unaccounted funds and launder undeclared income (The Economic Times, 2016a).

Based on the circular of RBI, operations at 372 DCCBs and over 93000 PACS were reported to come to an effective standstill (Beyes & Bhattacharya, 2017). A lot of such institutions temporarily stopped operating as they were unable to carry out banking activities vital to the rural sector, including loan payment collections, disbursing cash, paying interests and dividends, distributing fertilizers and running public distribution shops for the poor (Matthew, 2016).

Regrettably, the timing of this decision coincided with the peak agricultural season of harvesting summer crops and sowing winter crops disrupting cultivation and severely affecting the sale and marketing of agro products as traders were unable to pay in cash particularly creating keen problems for the produces to perishable products like vegetables and fishes. Further, many farmer were unable to buy seeds and other inputs or to pay agricultural workers for farming activities (Alliance for Sustainable and Holistic Agriculture, 2017).

The decision created deep shakeup of rural banks and prominent farmer groups representing over 20 million farmers around the country. The protests were rigorous in the states like Maharashtra, Kerala, Uttar Pradesh, Gujarat, Tamil Nadu, Karnataka and West Bengal led by Krishi Swaraj, a coalition of 400 farmer groups drawn from more than 20 states across India; Bharatiya Kisan Union (BKU) and the Consortium of Indian Farmers' Association (CIFA); All India Kisan Sabha (AIKS) and All India Agricultural Workers' Union (AIAWU) (Beyes & Bhattacharya, 2017). Protests and demonstrations lasted from mid-November to January and were well supported

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particularly in the southern states of Kerala and Tamil Nadu, where the largest cooperative banking system is in operation (National Federation of State Cooperative Banks, 2016).

Cooperative banks moved to regional first to high courts and later to the Supreme Court of India challenging the government order and the protesting farmer groups appealed to the Prime Minister to exempt the farming transitions, particularly sale of harvested crops and purchase of agricultural input from the decree of demonetization policy (National Seed Association of India, 2016). The intensity of demonstration in some states was so powerful that the key representatives at the local level were supposedly separating themselves from demonetization in the course of fears that the policy move would weaken their political campaigns prior to the state elections in 2017 (The Economic Times, 2016b).

Ultimately, as condemnation from the rural sector becoming intense, the government launched a series of policy recommendations to relax the extremity on the rural economy (Beyes & Bhattacharya, 2017). On November 2016, immediately 9 days following the declaration of demonetization policy and only 3 days after the government had barred DCCB and PACS to exchange or take old notes, the MoF issued a further announcement allowing the RBI to alter the cash withdrawal limit for farmers (MoF, 2016b). After 4 days of this instruction, farmers were authorized to withdraw up to 25000 rupees from loan or deposit accounts (RBI, 2016b). On November 20, 2016, in reply to the second major point of protesters, it approved another notice that added the purchase of seeds from government-affiliated bodies to the rising list of activities (such as payments to government hospitals; purchases of railway, bus and plane tickets; and settling of bills issued by central, state, local and municipal bodies) for which previous 500 rupee notes could be used (MoF, 2016c).

5.2 Disturbance in MSMEs:

Along with stern blow on the farming sector, demonetization also had a significant effect on the unofficial business enterprises that presently employing more than 80% of the workforce through micro, small and medium enterprises (MSME) (Hosain, 2019; Chowdhury & Hosain, 2018). Such enterprises are profoundly cash dependent, often managed by individual (normally one or two) proprietors, small turnovers, limited reserve and inadequate access to financial sectors. The

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policy created harsh disruptions to such enterprises when many of which were previously in trouble due to the steady decline in credit flows and an increase in non-performing assets in rural banking system (Beyes & Bhattacharya, 2017). The net outcome was the reported considerable turn down in production capability, loss in earnings, wages and last of all, unemployment (India Today, 2017).

Although the long term consequences of demonetization on the MSME sector have not been completely exposed until now, a number of sovereign studies and industry surveys acknowledged and captured some imminent economic challenges (Hosain, 2019; Chowdhury & Hosain, 2018). An outlook survey by the Indian Development Foundation, a private, non-profit research organization estimated that more than 74% of the provisional jobs in urban small scale industries across 9 northern states were missing and apparent reverse migration to the villages (India Today, 2017). Another study by the All India Manufacturers' Organization found a loss of 53% of temporary jobs in MSMEs across the country and 50% decline in revenue during the first 34 days of demonetization declaration (Business Standard, 2017). Similar observations were also reported by Edelweiss (2017), a diversified financial services firm, estimating a more than 70% decline in MSME business operation during the first few weeks further predicting a lasting negative impact on 20% to 30% MSME businesses and a significant reduction in employment growth for non-skilled workers in the near term (Hosain, 2019; Chowdhury & Hosain, 2018). Finally, the Associated Chambers of Commerce and Industry of India, one of the India's primary trade organizations, stated that the policy had a depressing impact on rural consumption and job creation in the MSMEs in the immediate run in a national survey on the impact of demonetization on small enterprises in January, 2016 (Beyes & Bhattacharya, 2017).

All the previous references lauded demonetization and suggested the necessity to move away from cash economy to more translucent one. Considering the poor financial infrastructure of India; the result cannot be expected in a very shorter period. Instead, they rather argued for a more incremental and steady approach towards creating a digital transformation (Hosain, 2019; Chowdhury & Hosain, 2018).

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After realizing the enormous pressure on MSMEs, the Indian administration determined to make this sector a priority in the budgetary allocations for 2017-18. Keeping the consistency with that decision, tax brackets were introduced, which included the decrease in corporate tax and presumptive tax for companies with an annual turnover of less than half a billion rupees and business entities with a turnover of less than 20 million rupees correspondingly (MoF, 2017a). In addition, credit guarantees to MSMEs were raised from 10 million to 20 million rupees and considerably improved investment support to develop digital infrastructure in this sector.

5.3 Issue of political favouritism:

In Indian political economy, nepotism, clientlelism, corrupt electoral are almost funding quite a common phenomenon (Beyes & Bhattacharya, 2017). As a result, as soon as the demonetization announcement was made in public, it did not take time to become a center of political debate and hot issue about electoral advantages.

Numerous opponent parties, central and regional, exclusively targeted the ruling party complaining that the policy was largely aimed at undermining opposition funding and in turn, benefitting the ruling party in upcoming state level elections (Beyes & Bhattacharya, 2017). They also came up with the allegation that the information regarding this forthcoming policy had been leaked selectively to the key members of the ruling and also their affiliates in the corporate sector (Gupta, 2016; The Hindu, 2016).

However, the proof that was brought forward by the opposition parties to embrace the above allegations in parliamentary debate was primarily subjective and seemed to aimed at gaining political advantage rather than making a reasonable argument regarding political integrity in formulating policy and good governance (Beyes & Bhattacharya, 2017). For example, a number of political parties quoted one local daily where an article was published on demonetization six months before it was actually announced. Afterwards, the newspaper clarified that the report that was published on April 1, 2016 had been April Fool's Day prank (ABP, 2016). A further example is Ganashakti Patrika, a local newspaper affiliated with Communist Party in West Bengal, published another report claiming to have confirmation of bank deposits and transfers of

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10 million rupees in old currency made by the local BJP unit on November 8, just hours earlier to demonetization declaration (Gupta, 2016). Later, local BJP unit assured that the transaction was legitimate and claimed they had donation receipts and others proofs. Similar allegations of a political conspiracy theory dominated in Indian social media even months after the announcement though none of them have been verifies so far (Beyes & Bhattacharya, 2017).

The administration was largely quiet on this issue. Even demands for parliamentary enquiry into intractable defaulters and significant purchases of gold and foreign exchange in last six months before demonetization had been dismissed by the ruling party (Beyes & Bhattacharya, 2017). However, in the long run, it seems that the government actually put some concentration to such allegations demands and made an announcement on electoral funding reform, including a decline in permissible amounts of undetermined political offerings from 20000 rupees to 2000 rupees (MoF, 2017b).

Such measures to formalize the political funding were long outstanding recommendations of the Indian Election Commission (EC) to deal with corruption in the electoral process. Although, the government did not accept all the suggestions made by EC, the declaration at least sent a positive message as well as the integrity of demonetization commitment to weed out the corruption (Hosain, 2019; Chowdhury & Hosain, 2018).

5.4 A sovereign decision?

Around a month after demonetization was in action, public opinion on this policy became increasingly reversed (Hosain, 2019). While during commencement, a large part of the ordinary people supported the initiative hoping that it would penalize the rich criminals and the owners of unlawful cash; intellectuals, academicians, economists, industrialists and the opposition parties branded the policy as ill-timed, ill-conceived, poorly implemented and miserably failed creating economic turmoil and tremendous hardships for rural India (Iyengar, 2016). One acute criticism was that the Central Government had acted on its own regarding taking this decision without adequate consultation with all stakeholders and did not consider the gap between urban financial

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system and agro-economy, reflecting a lack of proper knowledge and understanding about the life of rural India at large (Beyes & Bhattacharya, 2017).

The civil society groups also commented the issue "war on black money" was being used to forcibly and impulsively integrating rural India into techno-financial systems, not to fight corruption (Pandit, 2016). Others raised their suspicions on the effectiveness of the policy, stating demonetization would not touch the holdings those assets residing in tax heaven, gold or real estate (Iyengar, 2016).

The allegations were pointed also to RBI, the curator of Indian monetary policy, arguing that a very small group of people were involved in planning where technical clearances from the Ministry of Law were obtained immediately the night before and the formal official approval by the Board of Governors of RBI was apparently obtained in a short session on the day before announcement (Beyes & Bhattacharya, 2017). The President and Cabinet Ministers were also kept uninformed until shortly before Prime Minister's speech (Kapoor, 2016).

In response to such allegations, the government representatives argued that such policy had to be planned on a need to know basis to keep secrecy and avoid leaks. The Prime Minister also argued that secrecy and the decisiveness was the key to success of such policy and he is a strong leader to take bold and courageous decisions aimed at societal change (Beyes & Bhattacharya, 2017). He even put an additional powerful argument appealing to patriotic sentiment, highlighting that the people of India had made the whole world stand up and notice the historically inherent qualities of sacrifice, discipline, understanding and commitment to the nation (Chengappa, 2016)

6. Concluding comments:

Money (cash notes) is to serve the purpose of conducting regular small transactions and meet emergencies. A logical and literate person would not hold a lot of cash on his trunk or bed pillow. He/she usually keep that money at the banks or invest it into businesses. Obviously, the

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money kept cash or invested on informal sectoral business will be unaccounted to the formal economy and official records hence avoid tax.

In India, a large number of its population are illiterate and not much aware of non-cash transactions like credit cards, ATM machines or bank cheque transactions. Majority of these type of people are either live in rural villages or slums in big cities. For example, at the time of demonetization in 2016, a vast number of farmers and small shopkeepers complained that they cannot pay for buying seeds and raw materials needed. As a result, although these people primarily congratulated the demonetization decision led by the Indian Government, later they suffered a lot and came out protesting against. The main complaint against demonetization raised the opposing parties and some economists was that policy launched by the Government did not explicitly target non cash corrupt activities like illegal property transfers, hoarding of gold or other precious metals or money laundering outside India. Rather the poor and marginal people suffered without boundary because of the implementation problems and lack of preparation of tackling the after effects that might have come out as a result of such big step.

However, the Government and Central Bank (RBI) portrayed that they are willing to take decisive, and if necessary, drastic measures to tackle bribery, money laundering and leasing the hoarding of unaccounted money by passing the formal mechanisms. Although, the long term impact is yet to be revealed, the policy illustrates that the government presented the corruption as a cash based issue. While the intention was clear and precise such as to curb illegal money and corruption, the method and implementation (e. g. lack of preparation from the Government and RBI) process has been questioned by many. By creating more controversial narrative on corruption that emphasizes only on cash, demonetization might divert attention from future attempts at anti bribery and corruption policies taking a more holistic approach. The policy may be seen as the continuation of larger steps towards the hard stand against anti-corruption of the government. At least, it has put some illumination into corruption, political bribery, hoarding undeclared money and money laundering.

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