

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.

35 The withdrawn notes made up to 86% by value of cash in circulation (MoF, 2017a). There was
36 an enormous challenge that was in fact crucial to reinstate such a considerable amount of cash
37 was the fact that a noteworthy percentage of fresh notes needed to be printed at the time of
38 announcement creating a extensive shortage of cash which led to significant government
39 mandated restrictions on cash withdrawals from bank (Hosain, 2019; Chowdhury & Hosain,
40 2018). As a big country, India is mostly depends on the agriculture and farmers especially living
41 in villages predominantly uninformed about virtual currency such as credit card or online
42 transfer, where approximately 90% transactions are carried out in cash (D'Monte, 2016).

43
44 The history of demonetization in India can be traced back to pre-independence period in year
45 1946. After independence, the notes of 1000, 5000 and 10000 was demonetized to pin down
46 forged and black money in 1978 (Hosain, 2019; Chowdhury & Hosain, 2018).

47
48 The aim of this policy review paper is to make an attempt to evaluate the demonetization
49 initiative undertaken by the Indian Government on 2016. As a much unexplained phenomena,
50 such economic decision should be debated and discussed on the light of theoretical points and
51 previous arguments. The paper will hopefully contribute to theory and practice of policy making
52 on monetary economy and economic decision making to find a better alternative of cash. The
53 later sections of the paper highlights the demonetization initiative taken in different countries
54 briefly with their impact, the causes of such initiative in India and positive & negative effects
55 that the Indian economy experienced.

56 57 **2. History of demonetization around the world:**

58
59 The demonetization experience in India is not only the recent one in 2016. Earlier in 1938, under
60 British rule, Reserve Bank of India (RBI) printed the highest denomination notes of 10000
61 rupees. After a few years, the British Indian Government ruled out 1000 and 10000 rupee
62 banknotes in 1946. Once again, higher denomination banknotes of 1000, 5000 and 10000 rupees
63 were reintroduced in 1954 until they were demonetized in 1978 to hold back unaccounted money
64 (Jangid & Sohini, 2017).

65

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

71
 72

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
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

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

74
 75 It is evident from Table-1 that most of the countries undertaking this policy have been
 76 unsuccessful in getting aimed results. A number of countries like Nigeria, Zaire and former
 77 USSR had experienced negative growth rate and a fall down in economy after demonetization
 78 was in effect (Jangid & Sohini, 2017). On the other hand, countries like the USA and the UK had
 79 a bit slowdown in economy while demonetization was in effect but afterwards they grew yet
 80 again whereas only Australia's economy was stagnant on pre and post demonetization periods
 81 (Jangid & Sohini, 2017). The effects of demonetization in some countries will be discussed
 82 briefly at later section.

83

84 **3. Demonetization policy: Experience from some countries**

85

86 India is not the only country to experience demonetization. This section of the paper contains a
 87 brief discussion on the demonetization impact experienced by some countries other than the

88 recent one happened in India. Due to the limitation of space, cases of three countries: Russia,
 89 Australia and Zimbabwe will be analyzed.

90

91 3.1 Russian demonetization experience

92

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

100
 101

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

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

103

104 The value of Russian Rouble has continuously declined (currently in 2019 it is 69 Roubles
 105 equals a dollar) since the demonetization as seen in first column. Even if the Rouble crisis
 106 intensified in 1998, the preliminary downward trend can be blamed on the demonetization of
 107 1991. In the sense of stabilizing the value of the currency, therefore, the demonetization has not
 108 helped the Russian republic. Major part of the declining Rouble value is also explained by the
 109 careless monetary policy which has forced the money supply in Russia to increase from 23
 110 billion in 1993 to 1499 billion in 2002 (Kulkarni & Tapas, 2017).

111

112 However, the growth of GDP (in nominal terms) has been impressive for Russian case. While
 113 the GDP was only 19 billion in 1992, it has increased to 10,863 billion Roubles in 2002. A large
 114 part of it was in-between 1999 to 2002, although the early years are not that bad either. The
 115 most impressive is the behavior of price level index (CPI, column 4) that has steadily declined
 116 over these years despite the increase in money supply. One reason for this is the controlled prices
 117 by the governmental policies that have not reflected on availability of goods and services. The
 118 oil price increase has helped Russia to show the positive balance of trade and also stabilized
 119 interest rate over these years. Budget deficit is not a troublesome problem as the tax revenues
 120 and the revenues from the oil exports as well as other exports were very high. In general,
 121 therefore the Russian case is an indication of mixed economic performance for Russia after
 122 demonetization. While the money supply has been allowed to grow exceptionally the currency
 123 value has declined enormously the Russian economy has somehow tugged along after ten years
 124 of its demonetization (Kulkarni & Tapas, 2017).

125 3.2 Australian demonetization experience

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

133 **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	-

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

136
 137 The economic growth was not held back by any means, as the nominal GDP increased from
 138 Australian \$497 billion in 1996 to 710 billion in 2002. Even the trade balance fluctuated heavily
 139 in those years the inflation (as measured by CPI movement) did not get inferior and the interest

140 rate stayed very low. In general, the economic performance was encouraging for the Australian
141 economy after demonetization of 1996. Thus, considering the Russian case as one of economic
142 hardships, Australian case was quite impressive due to or regardless of the demonetization
143 attempts of the respective government (Kulkarni & Tapas, 2017).

144

145 **3.3 Zimbabwe demonetization experience:**

146

147 Zimbabwe went through hyper-inflation in 2008 following which its currency lost value
148 severely. In June 2015, the Reserve Bank of Zimbabwe said the country had “adopted the
149 multiple currency system or dollarization in 2009 and it is therefore necessary to demonetize the
150 Zimbabwe \$ unit to replace it with the multiple currency system. Demonetization was critical for
151 policy consistency and for enhancing consumer and business confidence, its central bank had
152 said.

153

154 According to Zimbabwe Independent (2015), a national daily in Zimbabwe, inflation peaked at
155 over 790000000000%, that's 98% a day. That means that prices doubled every 24 hours!
156 Zimbabwe recorded the second highest rate of inflation in history. Previously, only Hungary in
157 1946 recorded a higher rate of inflation where inflation reached $4.19 \times 10^{\%}$ or 207% per day
158 whereas, in the case of Hungary prices doubled every 15 hours (Kulkarni & Tapas, 2017). By a
159 continuing process of inflation, a substantially major part of the wealth of citizens in a country is
160 systematically and undetectedly taken away from them. Through this method, not only is their
161 wealth destroyed but obliterated arbitrarily; and, while the process impoverishes the majority, it
162 enriches a selected few. The sight of this arbitrary re-arrangement of riches strikes not only at
163 security but also at confidence in the equity of the existing distribution of wealth. Hyperinflation
164 saw the transfer of wealth in Zimbabwe. It did this in a latent way that very few people realized.
165 Those who were smart enough to invest in properties and shares preserved the real value of their
166 savings (Kulkarni & Tapas, 2017).

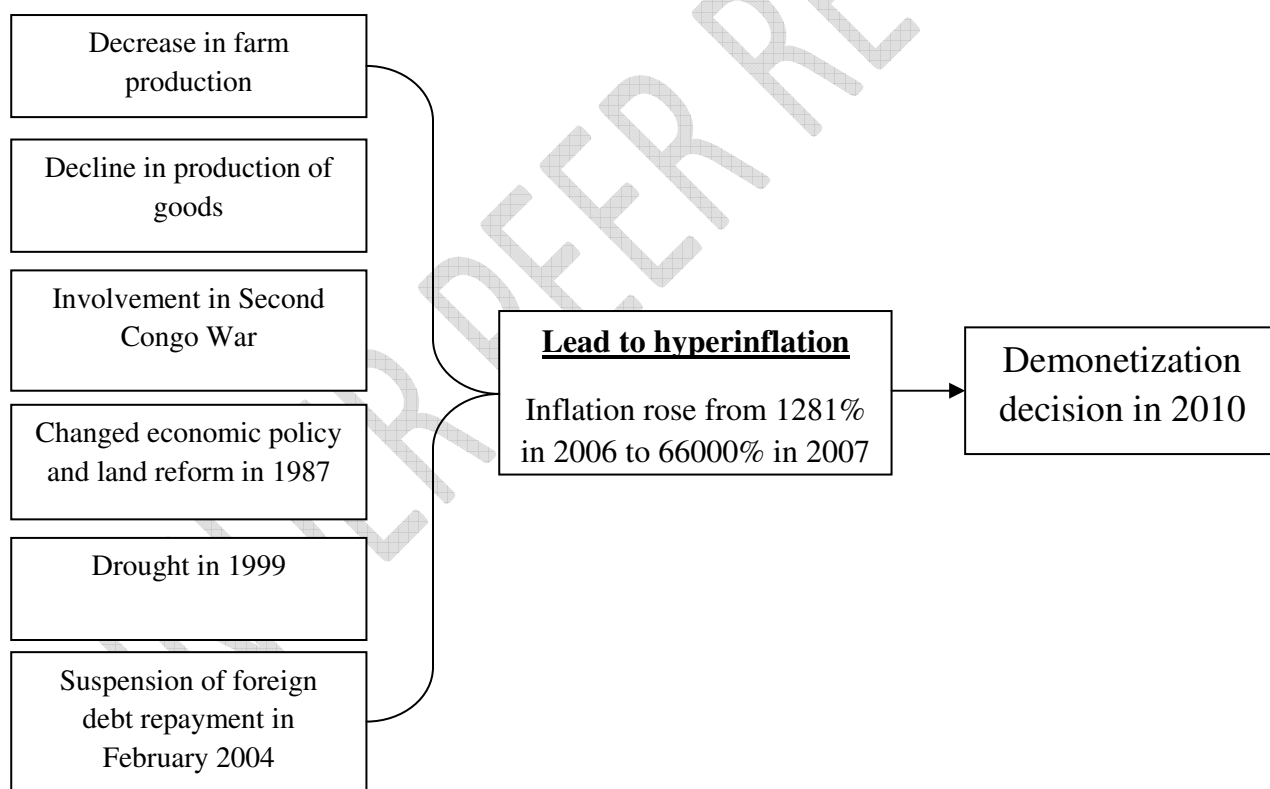
167

168 For the most part, people kept their money in savings accounts whose value was eventually
169 destroyed by hyperinflation. Overnight people found themselves with their life savings wiped
170 out. Demonetization spells the end of this period and heralds a new beginning for Zimbabwe.

171 (The Independent, 2015). The factors that led to demonetization in Zimbabwe are depicted on the
172 following chart.

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174
175
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177
178
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181

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



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

199 However, the case of Zimbabwe has been unique in many different ways. The Zimbabwean
200 economy from 2000 to 2014 witnessed inflation rate that created records in the world. With

201 probably exception of World War I period in Germany, the world has not ever seen such a
202 relentless printing of domestic currency and the extent of irresponsible monetary policy
203 (Kulkarni & Tapas, 2017).

204

205 **3. Demonetization in India: The policy makers**

206

207 In India, the financial policies are formulated and governed by two top authorities: The Ministry
208 of Finance (MoF) and Reserve Bank of India (RBI). In principle, demonetization notifications
209 specified how this process was to be synchronized, including over the counter exchanges of old
210 notes and daily and weekly limits for cash withdrawals at bank counters and ATMs (Beyes &
211 Bhattacharya, 2017).

212

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

222

223 A major issue in Indian national debate on this policy was its time period of execution (8
224 November to 30 December, 2016). On the final day of exchanging or depositing the cancelled
225 currency; the RBI issued 50 notifications to guide and regulate the process and to remind all the
226 banks of their legal obligations where some of those were suggestive in nature but a large
227 quantity was about substantive changes to the workings of the policy (Beyes & Bhattacharya,
228 2017). During the same time, the MoF issued 19 notifications, some reflecting RBI notifications
229 and others introducing additional policy change (Beyes & Bhattacharya, 2017). The
230 modifications made by RBI were very large compelling to create a another separate website

231 entitled “All you want to know from RBI” referring 57 notifications and 27 press releases
232 (March 1, 2017) issues by the Central Bank on demonetization (RBI, 2017).

233
234 From the public viewpoint, the most apparent changes to the policy mechanisms of
235 demonetization was the unease of exchanging and depositing of old notes, as well as limitations
236 on the availability of new notes (Beyes & Bhattacharya, 2017). By the end of 2016, the RBI had
237 issued 9 notifications on the exchange and deposit process; and five on cash withdrawal limits. A
238 significant proportion of RBI and MoF notifications distressed Indian agricultural sector where
239 near about half of the population is employed (World Bank, 2013), addressing allegations that
240 farmers were unable to buy the supplies for the current sowing season (Hosain, 2019;
241 Chowdhury & Hosain, 2018)..

242

243 **4. Connecting cash with corruption?**

244

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

252

253 A further paper that provides some lights into the persistence of Indian government’s argument
254 on the relationship between cash and corruption is “Economic Survey”, an annual manuscript
255 issued by the Ministry of Finance (MoF), India that provides a summary on the standing of the
256 Indian economy and discusses relevant government programs (Beyes & Bhattacharya, 2017).
257 Published in February, 2017, the paper devoted a full chapter quoting “Demonetization: To
258 Deify or to Demonetize”, once more took the pre-assumption as the original point that the higher
259 amount of cash in the flow, the larger amount of corruption (MoF, 2017a). The survey revealed
260 the observation that 11% of 1000 and 22% of 500 rupee note are returned to the RBI every year
261 as damaged while the corresponding rate for lower denomination notes is 33% acknowledging

262 the lower “soil rate” may be the result of the fact that there are more lower value than higher
263 value transactions among which, a fraction of the notes are not being used for transactions are
264 being used but for storing black money (Beyes & Bhattacharya, 2017).

265
266 Although the Indian administration and the Economic Survey both properly identified the
267 relationship between cash and corruption has attracted attention over the last few decades and
268 possibly more and more in recent years, both failed in addressing the issue that cash is widely
269 perceived as making up only a small part of Indian shadow economy, which includes, but not
270 limited to, income from corrupt practices (Beyes & Bhattacharya, 2017). Kohli & Ramakumar
271 (2016) argued citing the former RBI governor Patel that the idea that black money or wealth is
272 held in the form of notes tucked away in boxes or pillow is immature, rather, they approximated
273 that the majority of unaccounted income in India is accumulated and transferred using real estate,
274 stocks, gold and other form of undeclared investments in home and abroad (Hosain, 2019;
275 Chowdhury & Hosain, 2018).

276
277 Therefore, the need of references to either of these modes of corruption within government
278 communication and demonetization indicates that administration represents corruption primarily
279 as a cash based phenomenon (Hosain, 2019; Chowdhury & Hosain, 2018). By creating a plot that
280 primarily focuses the role of cash, demonetization may switch attention from future anti-
281 corruption strategies taking a wider approach, such as strengthening the legislation, building and
282 empowering the capacities of anti-corruption tools further; and above all, creating public
283 awareness through print, electronic and social media (Hosain, 2019; Chowdhury & Hosain,
284 2018).

285
286 **5. Challenges and responses:**

287
288 It will not be unwise to comment that demonetization debate has rocked India and even the
289 discussions regarding its effects are on air and peoples’ mouths. There were some obvious
290 challenges and responses from different areas to this policy. In this section, we have tried to
291 highlight some of the notable ones based on newspapers, articles and academicians.

292

293 **5.1 Distress in rural banking system:**

294

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

303 .

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

312

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

318

319 Regrettably, the timing of this decision coincided with the peak agricultural season of harvesting
320 summer crops and sowing winter crops disrupting cultivation and severely affecting the sale and
321 marketing of agro products as traders were unable to pay in cash particularly creating keen
322 problems for the produces to perishable products like vegetables and fishes. Further, many

323 farmer were unable to buy seeds and other inputs or to pay agricultural workers for farming
324 activities (Alliance for Sustainable and Holistic Agriculture, 2017).

325
326 The decision created deep shakeup of rural banks and prominent farmer groups representing over
327 20 million farmers around the country. The protests were rigorous in the states like Maharashtra,
328 Kerala, Uttar Pradesh, Gujarat, Tamil Nadu, Karnataka and West Bengal led by Krishi Swaraj, a
329 coalition of 400 farmer groups drawn from more than 20 states across India; Bharatiya Kisan
330 Union (BKU) and the Consortium of Indian Farmers' Association (CIFA); All India Kisan Sabha
331 (AIKS) and All India Agricultural Workers' Union (AIAWU) (Beyes & Bhattacharya, 2017).
332 Protests and demonstrations lasted from mid-November to January and were well supported
333 particularly in the southern states of Kerala and Tamil Nadu, where the largest cooperative
334 banking system is in operation (National Federation of State Cooperative Banks, 2016).

335
336 Cooperative banks moved to regional first to high courts and later to the Supreme Court of India
337 challenging the government order and the protesting farmer groups appealed to the Prime
338 Minister to exempt the farming transitions, particularly sale of harvested crops and purchase of
339 agricultural input from the decree of demonetization policy (National Seed Association of India,
340 2016). The intensity of demonstration in some states was so powerful that the key representatives
341 at the local level were supposedly separating themselves from demonetization in the course of
342 fears that the policy move would weaken their political campaigns prior to the state elections in
343 2017 (The Economic Times, 2016b).

344
345 Ultimately, as condemnation from the rural sector becoming intense, the government launched a
346 series of policy recommendations to relax the extremity on the rural economy (Beyes &
347 Bhattacharya, 2017). On November 2016, immediately 9 days following the declaration of
348 demonetization policy and only 3 days after the government had barred DCCB and PACS to
349 exchange or take old notes, the MoF issued a further announcement allowing the RBI to alter the
350 cash withdrawal limit for farmers (MoF, 2016b). After 4 days of this instruction, farmers were
351 authorized to withdraw up to 25000 rupees from loan or deposit accounts (RBI, 2016b). On
352 November 20, 2016, in reply to the second major point of protesters, it approved another notice
353 that added the purchase of seeds from government-affiliated bodies to the rising list of activities

354 (such as payments to government hospitals; purchases of railway, bus and plane tickets; and
355 settling of bills issued by central, state, local and municipal bodies) for which previous 500 rupee
356 notes could be used (MoF, 2016c).

357

358 **5.2 Disturbance in MSMEs:**

359

360 Along with stern blow on the farming sector, demonetization also had a significant effect on the
361 unofficial business enterprises that presently employing more than 80% of the workforce through
362 micro, small and medium enterprises (MSME) (Hosain, 2019; Chowdhury & Hosain, 2018).
363 Such enterprises are profoundly cash dependent, often managed by individual (normally one or
364 two) proprietors, small turnovers, limited reserve and inadequate access to financial sectors. The
365 policy created harsh disruptions to such enterprises when many of which were previously in
366 trouble due to the steady decline in credit flows and an increase in non-performing assets in rural
367 banking system (Beyes & Bhattacharya, 2017). The net outcome was the reported considerable
368 turn down in production capability, loss in earnings, wages and last of all, unemployment (India
369 Today, 2017).

370

371 Although the long term consequences of demonetization on the MSME sector have not been
372 completely exposed until now, a number of sovereign studies and industry surveys
373 acknowledged and captured some imminent economic challenges (Hosain, 2019; Chowdhury &
374 Hosain, 2018). An outlook survey by the Indian Development Foundation, a private, non-profit
375 research organization estimated that more than 74% of the provisional jobs in urban small scale
376 industries across 9 northern states were missing and apparent reverse migration to the villages
377 (India Today, 2017). Another study by the All India Manufacturers' Organization found a loss of
378 53% of temporary jobs in MSMEs across the country and 50% decline in revenue during the first
379 34 days of demonetization declaration (Business Standard, 2017). Similar observations were also
380 reported by Edelweiss (2017), a diversified financial services firm, estimating a more than 70%
381 decline in MSME business operation during the first few weeks further predicting a lasting
382 negative impact on 20% to 30% MSME businesses and a significant reduction in employment
383 growth for non-skilled workers in the near term (Hosain, 2019; Chowdhury & Hosain, 2018).
384 Finally, the Associated Chambers of Commerce and Industry of India, one of the India's primary
385 trade organizations, stated that the policy had a depressing impact on rural consumption and job

386 creation in the MSMEs in the immediate run in a national survey on the impact of
387 demonetization on small enterprises in January, 2016 (Beyes & Bhattacharya, 2017).

388
389 All the previous references lauded demonetization and suggested the necessity to move away
390 from cash economy to more translucent one. Considering the poor financial infrastructure of
391 India; the result cannot be expected in a very shorter period. Instead, they rather argued for a
392 more incremental and steady approach towards creating a digital transformation (Hosain, 2019;
393 Chowdhury & Hosain, 2018).

394
395 After realizing the enormous pressure on MSMEs, the Indian administration determined to make
396 this sector a priority in the budgetary allocations for 2017-18. Keeping the consistency with that
397 decision, tax brackets were introduced, which included the decrease in corporate tax and
398 presumptive tax for companies with an annual turnover of less than half a billion rupees and
399 business entities with a turnover of less than 20 million rupees correspondingly (MoF, 2017a). In
400 addition, credit guarantees to MSMEs were raised from 10 million to 20 million rupees and
401 considerably improved investment support to develop digital infrastructure in this sector.

402
403 **5.3 Issue of political favouritism:**

404
405 In Indian political economy, nepotism, clientelism, corrupt electoral are almost funding quite a
406 common phenomenon (Beyes & Bhattacharya, 2017). As a result, as soon as the demonetization
407 announcement was made in public, it did not take time to become a center of political debate and
408 hot issue about electoral advantages.

409
410 Numerous opponent parties, central and regional, exclusively targeted the ruling party
411 complaining that the policy was largely aimed at undermining opposition funding and in turn,
412 benefitting the ruling party in upcoming state level elections (Beyes & Bhattacharya, 2017).
413 They also came up with the allegation that the information regarding this forthcoming policy had
414 been leaked selectively to the key members of the ruling and also their affiliates in the corporate
415 sector (Gupta, 2016; The Hindu, 2016).

416

417 However, the proof that was brought forward by the opposition parties to embrace the above
418 allegations in parliamentary debate was primarily subjective and seemed to aimed at gaining
419 political advantage rather than making a reasonable argument regarding political integrity in
420 formulating policy and good governance (Beyes & Bhattacharya, 2017). For example, a number
421 of political parties quoted one local daily where an article was published on demonetization six
422 months before it was actually announced. Afterwards, the newspaper clarified that the report that
423 was published on April 1, 2016 had been April Fool's Day prank (ABP, 2016). A further
424 example is Ganashakti Patrika, a local newspaper affiliated with Communist Party in West
425 Bengal, published another report claiming to have confirmation of bank deposits and transfers of
426 10 million rupees in old currency made by the local BJP unit on November 8, just hours earlier
427 to demonetization declaration (Gupta, 2016). Later, local BJP unit assured that the transaction
428 was legitimate and claimed they had donation receipts and others proofs. Similar allegations of a
429 political conspiracy theory dominated in Indian social media even months after the
430 announcement though none of them have been verifies so far (Beyes & Bhattacharya, 2017).

431
432 The administration was largely quiet on this issue. Even demands for parliamentary enquiry into
433 intractable defaulters and significant purchases of gold and foreign exchange in last six months
434 before demonetization had been dismissed by the ruling party (Beyes & Bhattacharya, 2017).
435 However, in the long run, it seems that the government actually put some concentration to such
436 allegations demands and made an announcement on electoral funding reform, including a decline
437 in permissible amounts of undetermined political offerings from 20000 rupees to 2000 rupees
438 (MoF, 2017b).

439
440 Such measures to formalize the political funding were long outstanding recommendations of the
441 Indian Election Commission (EC) to deal with corruption in the electoral process. Although, the
442 government did not accept all the suggestions made by EC, the declaration at least sent a positive
443 message as well as the integrity of demonetization commitment to weed out the corruption
444 (Hosain, 2019; Chowdhury & Hosain, 2018).

445 .

446

447 **5.4 A sovereign decision?**

448

449 Around a month after demonetization was in action, public opinion on this policy became
450 increasingly reversed (Hosain, 2019). While during commencement, a large part of the ordinary
451 people supported the initiative hoping that it would penalize the rich criminals and the owners of
452 unlawful cash; intellectuals, academicians, economists, industrialists and the opposition parties
453 branded the policy as ill-timed, ill-conceived, poorly implemented and miserably failed creating
454 economic turmoil and tremendous hardships for rural India (Iyengar, 2016). One acute criticism
455 was that the Central Government had acted on its own regarding taking this decision without
456 adequate consultation with all stakeholders and did not consider the gap between urban financial
457 system and agro-economy, reflecting a lack of proper knowledge and understanding about the
458 life of rural India at large (Beyes & Bhattacharya, 2017).

459
460 The civil society groups also commented the issue “war on black money” was being used to
461 forcibly and impulsively integrating rural India into techno-financial systems, not to fight
462 corruption (Pandit, 2016). Others raised their suspicions on the effectiveness of the policy,
463 stating demonetization would not touch the holdings those assets residing in tax heaven, gold or
464 real estate (Iyengar, 2016).

465
466 The allegations were pointed also to RBI, the curator of Indian monetary policy, arguing that a
467 very small group of people were involved in planning where technical clearances from the
468 Ministry of Law were obtained immediately the night before and the formal official approval by
469 the Board of Governors of RBI was apparently obtained in a short session on the day before
470 announcement (Beyes & Bhattacharya, 2017). The President and Cabinet Ministers were also
471 kept uninformed until shortly before Prime Minister’s speech (Kapoor, 2016).

472
473 In response to such allegations, the government representatives argued that such policy had to be
474 planned on a need to know basis to keep secrecy and avoid leaks. The Prime Minister also
475 argued that secrecy and the decisiveness was the key to success of such policy and he is a strong
476 leader to take bold and courageous decisions aimed at societal change (Beyes & Bhattacharya,
477 2017). He even put an additional powerful argument appealing to patriotic sentiment,
478 highlighting that the people of India had made the whole world stand up and notice the

479 historically inherent qualities of sacrifice, discipline, understanding and commitment to the
480 nation (Chengappa, 2016)

481

482

483 **6. Concluding comments:**

484

485 Money (cash notes) is to serve the purpose of conducting regular small transactions and meet
486 emergencies. A logical and literate person would not hold a lot of cash on his trunk or bed
487 pillow. He/she usually keep that money at the banks or invest it into businesses. Obviously, the
488 money kept cash or invested on informal sectoral business will be unaccounted to the formal
489 economy and official records hence avoid tax.

490

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

503

504 However, the Government and Central Bank (RBI) portrayed that they are willing to take
505 decisive, and if necessary, drastic measures to tackle bribery, money laundering and leasing the
506 hoarding of unaccounted money by passing the formal mechanisms. Although, the long term
507 impact is yet to be revealed, the policy illustrates that the government presented the corruption as
508 a cash based issue. While the intention was clear and precise such as to curb illegal money and
509 corruption, the method and implementation (e. g. lack of preparation from the Government and
510 RBI) process has been questioned by many. By creating more controversial narrative on

511 corruption that emphasizes only on cash, demonetization might divert attention from future
512 attempts at anti bribery and corruption policies taking a more holistic approach. The policy may
513 be seen as the continuation of larger steps towards the hard stand against anti-corruption of the
514 government. At least, it has put some illumination into corruption, political bribery, hoarding
515 undeclared money and money laundering.

516

517

518

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