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# Demonetisation: Reality and Rhetoric

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## Abstract

*Demonetisation, often hyped to be one of the radical steps in the history of Independent India, aimed at bringing forth black money; removing fake currency notes from the market; stopping terror funding; rooting out corruption etc; proved to be a brazen disaster, at least during the past one year. If economists and political commentators are to be believed, it would have caused inconceivable damage to Indian political economy by the time we would look back and evaluate it after a few years from now. No amount of tall talk can justify demonetisation till date in the face of ground realities and countless sufferings of the common people of India.*

**Key words:** Economy, Demonetisation, Black Money, Corruption, Hyperactive Policy

On the crucial evening of November 08, 2016, the Prime Minister of India announced demonetisation through television and radio channels[1]. He gave about four hours time to the people of India i.e. till the midnight , to transact business with the existing currency notes of Rs. 1000/- and Rs. 500/- denominations which would cease to be legal tenders in the country thereafter. The bewildered citizens could not believe the news at the first instance. But slowly and steadily, Demonetisation, often hyped to be one of the radical steps in the history of Independent India, aimed at bringing forth black money; removing fake currency notes from the market; stopping terror funding; rooting out corruption etc proved to be a brazen disaster, at least during the past one year. If economists and political commentators are to be believed, it would have caused inconceivable damage to Indian political economy by the time we would look back and evaluate it after a few years from now. No amount of tall talk can justify demonetisation till date in the face of ground realities and countless sufferings of the common people of India.

A few countries have tried their luck with some kind of monetary moves which may be termed loosely as demonetisation. During the regime of Muhammadu Buhari in 1984, the African nation of Nigeria introduced new currency and banned the old notes. However, the debt-ridden and inflation hit country could not take the change well and the economy suffered heavy loss. In 1982, Ghana withdrew the

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50 cedis note to curb tax evasion and deal with excess liquidity in the economy. This move made the people of the country support the black market and they started investing in physical assets which eventually made the economy weak.

Pakistan decided to phase out the old notes in December 2016 as it would bring in new designs. Pakistan legally issued the tender before a year and a half. So, the citizens had enough time to exchange the old notes and get newly designed notes. Zimbabwe used to have $100,000,000,000,000 notes. In fact, it was one hundred trillion dollar note! The Zimbabwean economy went deep down when President Robert Mugabe issued orders to ban inflation through laughable value notes. After demonetisation, the value of trillion dollars dropped to a paltry $0.5 dollar and were also put up for sale in many online sites as something like show piece. The demonetisation that happened in North Korea in 2010 resulted in horrific outcomes and left people with no food and shelter. Kim-Jong II introduced the monetary reform that took off two zeros from the face value of the old currency notes along with smile from the face of many citizens. Mikhail Gorbachev, the man known for Glasnost and Perestroika in the then Soviet Union, ordered to withdraw high denomination Rubles from circulation in 1991 to deal with the menace of the black market. The move didn't go well with the citizens. It resulted in a coup attempt which reportedly brought down his authority and led to the collapse of the Soviet system[2].

Australia became one of the first countries to release polymer or plastic notes to stop widespread circulation of counterfeit notes. Since the purpose was to replace paper with plastic and only the material changed. And the process had very little impact on the Australian economy. In 1987, Myanmar's military junta leaders quashed around eighty p.c. currency notes in circulation with a view to curbing the menace of black money. The decision headed to serious economic disorder which in turn led to mass protests that resulted in loss of life of many innocent citizens. Mobutu, the ruler of Congo, tried to make changes with the prevailing currency of Congo for better management of economy during 1990s. However, these changes didn't give any better result of it in economy. Resultant prices of necessity goods increased and share market crashed. The reform was not well received by the public and resulted in increasing economic disruptions. Mobutu lost power in the year 1997.

During the colonial regime in India, currency notes of Rs. 500 and Rs. 1000 denomination were circulated in the year 1934. The Government of the day also introduced currency notes of Rs 10,000 denomination in 1938. So far where the history of attempts at demonetisation in India are concerned, the currency note of Rs. 1,000 and Rs. 10,000 were removed from circulation in 1946. This move by the British authorities who had almost made up their minds to leave India in a few months, in effect, did not had much bearing, as the currency of such high denomination was not accessible to most of the people. The Government of India brought back such currency notes in 1954 with further introduction of currency notes of Rs. 5,000 denomination.

In the year 1977, a great change took place in the political history of modern India. For the first time after Independence, a non-Congress coalition government was formed at the Centre. Prime Minister of India Morarji Desai announced in 1978 that all the currency notes of Rs 1000, Rs 5000 and Rs 10,000 denomination would be out of circulation. The major objective of the ban was to control black money and its circulation in the country which was sought to be implemented by a Presidential ordinance. In an analysis of the move, Jay Dubashi commented that the ordinance had a wrinkle effect on the markets, particularly on gold and diamond prices that collapsed by five to ten p.c. within a week. At the same time, due to the uncertainties in the money market, the old currency notes were being traded at a discount of seventy p.c. in Bombay, India's financial capital.

The political and economic experts widely believed that the move was mostly political in nature. The Government came to power on an anti-incumbency wave that also put emphasis on curbing black money. But they expressed the view that such a move did not contribute to lessening of black money. The reasons given in favour of the argument included , among others, lack of credible data and information on the nature and extent of black money; type of transactions that attracted or involved; and absence of proper mechanism to define and identify the sources or channels of black money etc.

Mr. I.G Patel[3] was the Governor of the Reserve Bank of India in 1978 when the ordinance was promulgated by the President. A parallel may be drawn in relation to the move in 2016 wherein it is widely believed that the present or some of the past functionaries have expressed surprise and even have written about the inadequacy of such a move in achieving the stated objectives given the complexities of Indian economy. Mr. Patel has written in his memoirs that such an exercise seldom produces striking results. Most people who accept illegal gratification or are otherwise the recipients of black money do not keep their ill-gotten earnings in the form of currency for long. The idea that black money or wealth is held in the form of notes tucked away in suit cases or pillow cases is naïve. And in any case, even those who are caught napping—or waiting—will have the chance to convert the notes through paid agents as some provision has to be made to convert at par notes tendered in small amounts for which explanations cannot be reasonably sought. But the gesture had to be made, and produced much work and little gain. Even though the situation and the context of 2016 demonetisation could be different, the experience does not give us reason to be optimistic as opined by many former Governors of RBI including Mr Subba Rao and Mr . Raghuram Rajan[4].

The currency ban by Mr. Moraji Desai aimed at driving away black money out of circulation in Indian economy. So, his Government decided to bring about the High Denomination Bank Notes (Demonetisation) Act of 1978. Mr. Narendra Modi , the present Prime Minister, announced the currency ban in an address to the nation on Novembeer 08, 2016 which was broadcasted across all news channels in television and radio. Mr. Desai in fact, proclaimed the ban over All India Radio after which all the banks were locked the next day. However, the striking similarity is that in both the cases reported only a few functionaries in the Central Government knew about the move which was largely kept as a closely guarded secret.

If reports in the media are to be believed, PM Mr. Desai did not have the support of the then Governor of RBI Mr. I.G. Patel who later on vehemently criticised this move of the government as only a political tool in the hands of the ruling dispensation to outwit the opposition parties. Even that move had little impact on the bulk of the common people of India as very few rich and influential individuals, business concerns and organizations had with them currency notes of such high denominations. But the demonetisation exercise of November 2016 went on to cover almost the entire population of India and instantly affected their life, living and activities, the effects which are here to stay for quite a longer time.

We may need to have a relook at the entire exercise in the light of the manifest failures and mistakes that are visible today. Black money could not be traced and rather generated (as evident by the reports of the RBI that if almost all the notes have come back to the Banks, then where is the so-called black money; rather some black money became white in the process). It is an open secret now that much of the black money could be in the form of valuables like gold; amount kept in some foreign lands or banks in valuables or other internationally acceptable currencies; investment in the stock market; in the form of real estate, mega housing projects, shopping malls, landed property etc. So , targeting only the hard cash in hand did not yield any tangible results.

Corruption could not be checked as Rs. 2000/- notes breed more corruption ( someone demanded a bribe of Rs.1000/- and got Rs.2000/- actually in the event of unavailability of currencies of smaller denominations)! Mega purchases, contracts, tenders, deals and allotments by the Government etc are some of the areas that could generate ill-gotten money through bribes etc. Lack of transparency and openness in these fields add to our corruption graph. Demonetisation has little impact on such practices. So corruption continues to thrive in the country.

Fake currencies are still to be found. Let us just look at the cases of rampant availability of fake notes of the new varieties ; fake notes coming out of ATMs across the country; fake or genuine notes coming from Banks that have no photos of Mahatma Gandhi etc. The individuals, organizations or even countries in our neighbourhood who are responsible for printing, circulating, distributing and spreading of fake Indian currency notes have done it in the past; are still doing ; and will continue to do the same irrespective of our continuing with or dissociating from the old currency notes and printing new notes of different denominations. It is vast network with multiple partners who have found no reason to discontinue the practice of preparing and dealing with the fake currencies in the event of demonetisation or introduction of new currency notes with different denominations. It is because of that the criminals and anti-national elements normally outsmart the law-enforcing agencies on many occasions.

Terror funding could not be curbed. A number of reports of Home, Defence, External Affairs and independent media and think tank sources reveal that there has been significant increase[5] in the number of terrorist and extremist violence in the country during 2016-17 in comparison to two previous years. The recent incidents of cross border infiltrations, terror strikes on Indian military establishments within our territorial boundary, broad day light bank robberies etc in the state of Jammu and Kashmir point towards the fact that there has been a significant increase in the number as well as nature of terror strikes in India which obviously imply terror funding. Some of the critics also point out that purchase of arms, ammunitions and sophisticated communication devices by the terror groups may not necessarily involve Indian currencies directly. So, demonetisation or otherwise does not make a difference to these groups in the context of their anti-Indian activities.

The informal sector of Indian economy that caters to almost 90 p.c. of the work force in the country which primarily deals with small cash transactions was the hardest hit sector due to demonetisation. Instances are many. But let us pick and choose only a few of them. In one city, namely, Surat, Gujarat, the textiles and handloom business saw five lakh workers losing their bread and butter and another five lakh workers are on the verge of switching over to somewhere else in search of livelihood. About eight lakh handlooms are offered for sale as industrial scrap. In Dharabhi, the largest slum cluster in Mumbai, thousands of petty traders, shop keepers and workers have lost their livelihood due to cash crunch arising out of demonetisation. In the National Capital Territory of New Delhi alone, thousands of small and micro industrial units have been forced to close down in the aftermath of demonetisation. The story is the same throughout the length and breadth of our country. The so called national media have not depicted the true picture of Indian economy which has suffered unimaginable and irreparable loss while millions of the poor and unorganized labour force have been put through devastating hardships.

The health of Indian economy and GDP growth went backward and downward due to demonetisation. We just have to look at the repeated revisions of the rate of growth of the economy in general and that of various sectors in particular. Another fact that could not escape the attention of the experts is the helplessness of the Reserve Bank of India, which was reduced to a mute spectator in the entire process of demonetisation and had to issue as many as seventy four notices, orders and revised orders within a span of fifty days , ie the time span given by the Central Government to the people to exchange their old currencies. It is a stated principle or rather practice that the Reserve Bank is the agency that declares any change in the monetary policy, interest rate, repo rate etc. But it was evident that the announcement of demonetisation revealed the glaring lack of preparedness by the central bank and all other banks in the country to deal with the issues, problems and challenges arising out of this massive exercise which has affected the life of the entire population of India in an unprecedented magnitude.

Cost of printing new notes, calibrating, recalibrating, replacing, transporting and distributing notes is huge in comparison to the benefits (may be the conservative estimate is that it could well pass the figure of Rs. 30,000 crores or even more). Price rise and hoarding of currency are in the rise (of late within less than one year of demonetisation, traders, businessmen and shop owners across the country have gone back to cash transactions in a big way for avoiding payment of multiple taxes and fees which they conveniently pass on to the unsuspecting common people who are compelled to collect, store and pay by cash and at the same time pay all types of fees, fines, taxes etc).

Unscrupulous middlemen and wallet companies are looting the people day in and day out (it is an open secret that the so-called facilitators of e-payment are actually looting the common people in broad day light by taking hefty commissions on our transactions as they neither produce anything; nor sell anything; nor give any service , but only take commission which all of us can do without by going straight to our respective net banking facilities; and if experts are to be believed such wallet companies have got commission to the tune of Rs.2.50 lakh crores during ten months from the declaration of demonetisation). The justification is that one Rs100/- currency note is normally circulated 10,000 times and has the same value and in online transactions it attracts a minimum of 2.5 % commission / fee/ fines.

Banks are creating more hardships for the customers by charging fees and fines for deposits, withdrawals, online payments, non- maintenance of minimum balance in accounts which precisely means that we have to pay money for whatever we do or don't do with bank accounts. But actually the customers of the Banks are entitled to get interests; not punishment for helping the Banks. There is a very serious issue which affects ALL the savings bank account holders with all the Banks in India today. If the customers do not maintain a minimum balance in their accounts, then the Banks can deduct some fee or fine by themselves through their computer systems.

It is a known fact that more than 80 p.c. of the customers who have savings accounts are subsistence level customers who face great hardships to have a little surplus which they put in their accounts. As many as 97 p.c. of the customers transact within Rs. 3 lakh at any given point of time with their accounts and obviously remaining 3 p.c. may deal with transactions above Rs. 3 lakh. So, the minimum balance rule affects and hits hard the group of 97 p.c. customers who come from the lower class, lower middle class, and marginalized sections.

The amount of money kept in the savings bank accounts by the customers may be Re.1, Rs. 10, Rs. 100, Rs.1000, Rs.10000 or more depending on the surplus available with them. But the greatest fact is that ALL these amounts actually help the banks to get their capital and also to improve their liquidity. So the major question is –How can the banks penalize ANY customer for keeping some amount of money in the accounts? The customers only deserve to get interests (more or less) depending on their respective amounts; never punishment nor penalty.

All the customers deposit their money in the savings accounts after paying multiple taxes including income tax, property tax, transaction tax, CGST, SGST, professional tax and host of other taxes. But now they are forced to pay fees/ fines/ commission charges/ taxes etc on the amount kept in the Banks for –

Online payments
Cash withdrawals
Card payments
Wallet related payments
Less Balance in their accounts etc

This may be regarded as levy and payment of fees, fines, commissions and taxes just for keeping some money in the Banks. Imagine for a minute. All these atrocious fees, fines etc are being paid by all of us just because we help the Banks and the banking system! How can we press for everything online / card based and internet based transactions when nearly 25 p.c. of people are illiterate; 60 p.c. are computer illiterate; 4.5 lakh villages have no electricity, no post office, no bank branches, no internet connection and smart phone users are still below 70 p.c. of the total mobile users?

If everything related to the process of demonetisation is all right, what are the reasons for an emergency meeting of central ministers to look at Indian economy; to create an Economic Advisory Council even when we have something called Niti Ayog; to pump in Rs. 50,000 Crore during the current quarters of the economy by the Central government?

Many financial experts and keen observers of Indian economy ask as to what are the reasons for so many emergency, impromptu and unscheduled meetings and media conferences[6]

## Notes

[1] Announcement by the Prime Minister on all the TV and radio channels by way of suspending regular telecast and broadcast on November 08, 2016 at 8 p.m. considered as prime time

[2] It is often discussed that sudden ban of currency notes was both a contributing factor and precursor of the imminent fall of the then Soviet Union

[3] Mr. I G Patel was a renowned economist who was also the Director of London School of Economics

[4] Mr. Raghuram Rajan has recently published a book titled *I Do What I Do* (2017) and writes that he advised the government against the move and has opined that the benefits of demonetization may have been negligible in comparison to the negatives

[5] Annual Reports of Ministry of Home Affairs, Defence, External Affairs, 2014-15, 2015-16, 2016-17, Govt. of India

[6] One such media briefing took place on October 23, 2017 in New Delhi in which the Finance Minister and a number of senior Secretaries of the central government participated

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