

Demonetisation: Lessons Learnt & Way Forward

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Abstract

The announcement of demonetisation by the Prime Minister Narendra Modi on the evening of 8th November 2016 took everyone by surprise which in turn caused a lot of inconvenience and hardships especially in the initial days. However, given the grand plan of ruling dispensation to clean up our economy of prevailing economic illegalities in the form of corruption, existence of huge parallel economy, counterfeit Indian currency notes etc. readily drew support of masses behind the move. Moreover, the expectations of a prosperous and strong economy in future in the form of better fiscal health of government finances, higher GDP growth, transformation into digital economy, sustainable and increased job opportunities, formalisation of economic activities etc. made people and business entities to support the government despite economic loss in terms of joblessness, under compensation, dwindling sales etc.

The research paper is an attempt to draw lessons from the present event and to suggest measures to streamline whole process in order to better the probability of achieving desired goals and on the other hand reduce the possible negative consequences.

Key Words: Demonetisation, Lessons Learnt, Survey, Consequences

Introduction

The event of 2016, which rendered 86% of currency in circulation worthless owing to the decision of government to withdraw legal backing provided to the Rs 1,000 and Rs 500 bank notes, is still fresh in collective memories of people even after more than 3 years. The sheer quantum and scope of move cemented the event in our mind space amidst varied set of emotions attached to same.

In the light of present economic realities, where fiat money is reality, indicates the existence of a currency note is at the mercy of government as the notes practically have no intrinsic value.

The decision of demonetisation is considered as the measure of last resort given its overreaching consequences and possible negative impacts, which run deep into future. The global experience across various countries where demonetisation has been opted for in the past has suggested that there tend to be collateral damage, the reach and intensity of which varied from country to country.

Most of the countries that have opted for demonetisation were facing existential economic threats like hyper-inflation, unbridled corruption, huge prevalence of black money, high instances of counterfeiting of currency notes etc. like Myanmar, North Korea, and Zimbabwe. Although some countries opted for demonetisation as a positive tool to streamline their economic system, adopt a new currency and transform into a digital and cashless economy like Australia, Euro zone.

India is not alien to the idea of demonetisation as recent demonetisation in 2016 was third such incident after 1946 and 1978 when Rs 1,000; Rs 5,000 and Rs 10,000 currency notes were demonetised. On both the previous occasions the results were not very encouraging and both fell short of achieving the major intended objectives of checking corruption and unearthing of black money.

As far as report card of 2016 event is considered, the picture does not seem to be pretty rosy as decision did well on some dimensions while failed miserably on others. The event beyond an iota of doubt took one and all by surprise. However, it is alleged that rich were able to beat the system through various means at their disposal (influence, bribing, money power). On the other hand, poor were invariably beaten by the system and pushed to the brink, being reduced as mere spectator in the grand game.

Review of Literature

Meera H Sanyal (2018)² “The Big Reverse: How Demonetisation Knocked India Out”, in her book pointed out that the demonetisation decision shall be taken only after analysing all the possible benefits and cost which in turn is possible with appropriate degree of discussion, consultation and pondering with all stakeholders especially the institutions and specialised bodies involved in the same.

The author mentioned that Raghuram Rajan, former Governor of RBI never favoured the idea of demonetisation for it being not suitable of India. Moreover, the possible long term benefits would be far too less in comparison to short term cost. The author criticised RBI for its lack of spine to hold on to its reputation in front of the government pressure and resultantly fell from the grace.

The much talked about claim of demonetisation dividend, in terms of black money to the tune of Rs 3-4 lakh crore would not return, was put to rest with 99.3% of demonetisation notes came back to system worth only around Rs 10,000 crore extinguish in the process. The farmers, daily wage earners and small businessmen were subjected to disproportional sufferings and inconveniences on the account of cash crunch, which resulted into them

getting back into hold of the moneylenders due to their inability to get access to formal channels of borrowing.

C. Rammanohar Reddy (2019) “Demonetisation and Black Money”, the author argued that government failed to achieve the stated goals of demonetisation, especially the goal of rooting out black money from our economy which is apparent from the fact that only 0.8% of demonetised bank notes could not return against expectation of 25-30%. There is no relationship between the prevalence of the cash and the size of black economy. The government kept shifting the goal post to show the demonetisation decision in good light and came up with strange justification to put its weight behind the move despite data showing the reality otherwise.

The move was sort of disaster, inflicted on our economy and its people, in terms of its conceptualisation, design and implementation. The unorganised sector paid a huge price especially in the short run in form of job loss, dwindling of revenue, closing down of business units etc. The move caused denial of livelihood opportunities and resultant suffering & deprivation without any fault at their end.

The author drove home the point that there would be long term damages if issue of black money is not tackled with follow up actions.

M S Verma (2017) “Demonetisation: Lessons for Mobile Wallet Companies”, the researcher emphasised that the move has presented a silver lining to e-wallet companies in form of unprecedented opportunities. Resultantly, companies in this domain are adding the latest technologies to their profile thereby revamping and revitalising themselves in order to leverage on opportunities thrown up by demonetisation.

The e-wallet companies are focusing on serving their customers through better efficiency, impenetrable security architecture and wider reach. These companies are going the distance to corner as much market share as possible and capture the mind share of the potential target audience.

The researcher concluded that future is, without an iota of doubt, pregnant with numerous opportunities and as well as corresponding challenges. The sustainable and holistic engagement with customers in virtual domain hinges largely on the pillars of trust and confidence.

Nimit Gupta (2017) “Demonetisation: From the Lens of Indian Retail Sector”, the author examined the impact of demonetisation on online as well as offline domain of retail sector. The move has brought about many changes in various realms of the economy. It is highlighted that the economy has made major inroads in its journey to become a digital economy and retail sector has followed the suite.

It is pointed out that the retail sector in India is overwhelmingly cash dependent. The retail sector, which stood at 818 billion USD in 2015 is most likely to reach to level of 1,519 billion USD. Within that, the organised sector account for just 8% while unorganised sector commands an overwhelming 92%. In e-commerce segment, by 2020 it is expected that the B2B vertical would reach 700 million USD while B2C would touch 100 billion USD mark.

It is concluded that demonetisation has subjected the economy to a volatile and unpredictable situation. This in turn has tested the mettle of retail sector to operate in such uncertain business environment and in process reflecting their resolve and capabilities to withstand the adverse situation. The move has not impacted the organised and unorganised retail sector in a consistent and uniform manner. Nevertheless, the decision was a good one and would play an instrument role in ensuring a desired future.

Zoya Hasan (2017)¹⁷ “Demonetisation and the Wages of Nationalism”, the researcher did a scathing attack on demonetisation decision which caused inconvenience, pain, joblessness and deaths. Moreover, the unorganised sector, which contributed tremendously in terms of its contribution to employment opportunities and GDP share, was undone in an unfair manner. Similarly, the poor especially in rural areas, owing to lack of access to banking services and huge cash dependence got raw deal.

The demonetisation decision shall not be administered upon an economy in the normal times and shall be used only as last resort due to its possible overreaching ramifications. The global instances of demonetisation suggest that the move is opted for in dire economic situations like unprecedented price volatility, black marketing, unmanageable corruption etc. none of which were the case in India at the time of going demonetisation way.

The Indian media is heavily criticised for their lack of spine to take on the government for causing damage of unimaginable proportion rather they propagated the agenda of government. There were some instances of protest but owing to the lack of strong leadership could not able to achieve substantial size and scope. The ruling dispensation has flawlessly woven demonetisation narrative and successfully gave a nationalist flavour to it.

Anil Bokil (2017)¹⁸ “Demonetisation: The Arthakranti Perspective”, the researcher identified the move as an e-monetization drive against widespread perception of assuming it as demonetisation. The researcher pointed out that high value bank notes (Rs 1,000 and Rs 500) are used as carrier in undertaking illegal activities like corruption,

terror funding etc. They are not medium of exchange in a true sense.

The government should ensure that the cash should be allowed to take transaction within a given threshold limit and beyond which cash should not be accepted to effect a transaction. The possible way to ensure it is by withdrawing legal protection to such cash transactions which are above the set limit.

The researcher concluded that the move was primarily a correctional step to set right the economy rather than a developmental step. The ruling dispensation should focus on cashless and digital economy with tax free economy model.

Objectives

To study the consequences of demonetisation with the specific reference to 2016 in India.

To analyse the consequences of demonetisation in a comprehensive manner along with the possible lessons from the same.

Research Methodology

The research study is heavily based on secondary data along with survey results which was conducted by the researcher to interpolate opinion of the public with the findings of various research studies.

Analysis

The decision of demonetisation taken in 2016 was unprecedented in many ways which took away the legal status of Rs 500 and Rs 1,000 bank notes and rendering them worthless. The move had all the ingredients of making of an unparalleled event in the history of independent India and resultantly, it will remain in collective memories of the people in foreseeable future for different reasons. It touched upon all the people and economic activities without any exception. People lost access to their own money at the drop of hat. However, the effects of same were not uniformly distributed by any stretch of imagination. The effects were rather disproportional as some section of people and sectors faced the major blunt that aroused from move and on the other hand lucky few got away unscathed.

It was rated as unprecedented, revolutionary, bitter medicine and silver bullet which was necessary given the economic state of affairs at that point of time.

But, were the conditions actually that dire to go for such a drastic step? We were registering handsome economic growth, inflation was within tolerable limits, no one was absolutely sure about the quantum of black money to go for

the decisive kill, proportion of Fake Indian Currency Notes (FICN) was not alarming enough etc. which suggests against such spectacular and sensational step.

That is where the jury is polarized. There is one school of thought that points out that the step was not a sensational or hugely surprising one as it was in line with steps taken by the government since coming into power in 2014 which chiefly includes setting up of Special Investigation Team (SIT) to unearth black money stashed abroad, amended Benami Property Act, window to disclose the black money by 30th September 2016 under Income Disclosure Schemes and effecting treaties with various countries (like Malaysia, Switzerland, Singapore, Cyprus) for streamlining the economic co-operation in domain of avoiding double taxation and sharing of tax payment information.

If we see the scheme of things in a holistic manner we would realise that the decision to go for demonetisation to clean up economic mess, with the major focus on black money, came much later once all other measures were resorted to. Not only does that, government piloted the Goods and Services Act which came into force from July, 2017.

Furthermore, the larger than life and nationally imperative goals of checking corruption, elimination of fake currency, checking black money, cashless and digital economy, checking anti-national activities (naxalism, terrorism, stone-pelting etc.), formalisation of economy etc. worth all the tough measures and resultant inconvenience in the short-run.

On the contrary, other school of thought labeled it as an unnecessary, reactionary, devoid of thoughtfulness, illogical and absolutely callous to say the least. The striking feature of move was the romance of the ruling dispensation with sensation and throwing an unpleasant surprise to the common people which caused unexplainable pain, misery and inconveniences.

Thousands of people found themselves out of job overnight, many small and micro industries collapsed miserably, both the agricultural seasons- khariff and rabi- did not go as per the expectations of farming community in spite of good monsoon, daily workers and migrant workers were worst hit due to demonetisation, traditional money lenders again started calling the shots especially in the rural areas etc.

What an irony, banks were overflowing with the money but poor and needy had no access to the same. The move was sort of double whammy for Indian economy as now banks will end up paying interest on the money deposited during

demonetisation (some of it would be black in nature) and on the other hand financially less fortunate people and business units would invariably find themselves in the clutches of money lenders.

It was also claimed by Ms. Mamta Banerjee, Chief Minister of West Bengal that more than 100 people died owing to demonetisation. Moreover, the dream of long term benefits and prosperity actually remained that only- a dream. They claimed that we can see that after more than 3 years since demonetisation the economic indices are going from bad to worse like rate of economic growth, growth of key sectors, unemployment rate etc.

What is even more disturbing, as claimed by political conspirators, that the ruling dispensation could not afford to lose Uttar Pradesh (UP) state assembly elections (and other four state assemblies) especially given its size & importance in national politics and after losing the Bihar state elections recently. Once securing their financial position, the government ruthlessly sucked the liquidity available with other parties in opposition through demonetisation.

It is an open secret that in India cash (chiefly black money) plays a decisive role in greasing the whole election campaign of political parties. In reference to elections in India, money and muscle power still rule the roost. If there is any grain of truth in this conspiracy theory, then same would be having wider ramifications in the political landscape of our country in times to come where gains would be political and cost would be borne by public.

From a better understanding point of view, demonetisation decision is discussed and analysed in the sequential and logical order. The first step of conceptualisation and planning of move was done under the garb of huge secrecy. That is acceptable given the fact that in case of any leakage, the intended goals would have fallen flat on their face. However, questions were raised about efficacy of the team of expert that took the decision.

Secondly, non-inclusion of the RBI's higher echelons raised many questions and reflects possible trust deficit among government institutions and functionaries. Beyond any doubt maintenance of secrecy was of pivotal importance but there should be sufficient discussion among the trustworthy and heads of critical institutions before subjecting nation to such an event. The balance between secrecy and keeping potency of decision intact should have been struck in a much better manner.

As far as second stage is concerned, the manner in which implementation was done left much for asking. The bogey of secrecy overwhelmed the need for having a proper

mechanism in place to ensure appropriate implementation to ensure smooth transition and lesser inconvenience in the interim phase. The chaos became flavour of the day.

The instances of never ending serpentine lines emerged as new normal and pretty much became part of lives of general public. A proper planning in the initial stage would have made implementation far more effective and less

painful. Moreover, economically less fortunate class of people and small business entities were undone wrongly and got hit disproportionately like migrant labours, farmer, daily wage earners, small industries especially in the informal sector etc.

Table- I
Summary of Impact of Demonetisation (Short Term)

Details	Time Frame	Quantum
Loss to Economy	Till 31 st December 2016	Rs 1,28,0000 crore
Investment Proposal	Second Quarter of 2016-17	Rs 1,20,000 crore (a decrease of 55%)
Job Loss	Financial Year 2016-17	At least 50 lakh

Source: Compiled from Centre for Monitoring Indian Economy (CMIE)

The table- I reflects impact of demonetisation in different time frames which indicates the economic loss to economy in terms of job loss, decline in investment proposals and loss to households, business units, banks etc. It is pointed out that RaghuramRajan, former Governor of RBI, would have never agreed to the decision of demonetisation and he estimated that short term cost would be around Rs.3,00,000 crore.

The never ending battery of notifications from government and RBI only added to the prevailing confusion. The independence and autonomy of RBI came in the line of fire as it is alleged that RBI chose to get itself reduced merely as the arm of government rather than behaving like an independent giant financial institution of global repute. The central bank was sarcastically called Reverse Bank of India which is attributed to it's coming up with new notification almost every other day and in some cases to set right or improve upon (reversing) the previous notification. It was pointed out as a case of falling from the grace for RBI.

Some of imminent questions raised included:-

How did government arrive at the figure of 3-4 lakh crore of black money not returning to the banking system?

Was the note printing capacity of the designated presses were factored in?

Was there a remonetisation plan in place?

What was the plan to recalibrate ATMs given the different sizes of newly launched currency notes post-

demonetisation?

Why did the RBI stopped reporting the amount of currency returned after sometime?

Even Manmohan Singh, former Prime Minister of India, cautioned post demonetisation in November 2016 that the decision can end up bringing down rate of economic growth by 2% and loss of faith in the currency system (which was rather more deplorable). The prediction is expected to be based on loss of employment which would bring down the income and consumption resulting into activation of vicious cycle of downward economic spiral. This is what actually happened as the GDP growth rate from the high of 8.17% in 2016 fell to the level of around 5% in 2020.

Finally, follow up and evaluation stage, the government choose to remain silent on the impacts and repercussions of demonetisation. To this day no one has got any authentic statistics about what was the net benefit or loss to the economy due to demonetisation.

Some of the important points that still begging for the reply includes:-

What was the net benefit-cost to economy due to the demonetisation?

- o Cost of printing new currency notes?
- o Cost of disposing the old currency notes?
- o Opportunity cost of loss of productive hours standing in the lines?

- o What was achieved on expected lines?
- o How to quantify the mental pain, agony and inconvenience faced by the people?
- Ø What could have been done better?
- Ø Was maintaining secrecy at any cost worth it?
- Ø What measures were taken to set correct the job loss and business loss?
- Ø Were the conditions ripe to go for demonetisation in 2016?

It doesn't take a genius to appreciate the point that in absence of an effective mechanism of evaluation and follow-up action, the policy makers would have ample avenues to get away with their poorly conceptualised policies without any harm. Importantly, those who refuse to learn from their mistakes are bound to be punished over and again till such time they mend their ways.

The researcher of this paper conducted a pan India survey in the month of May-June 2019 under which 1,061 responses were received. The respondents agreed with

government's decision of demonetisation as the mean score of 3.64 was greater than acceptance level of 3.5 (median).

Moreover, on the set of questions pertaining to the role of demonetisation, the respondents agreed with all of them with transformation into digital and cashless economy got the highest support. These findings of survey would be quite satisfying for government, which faced criticism from various quarters, based on the fact that public in general supported government in spite of problems and inconveniences faced by them. The possible reason includes belief of public in the intent of government to improve the economy and a vivid sense of bright and prosperous future ahead.

Moreover, some of the major findings of the survey suggest that:-

- Ø Expectations of the respondents pertaining to demonetisation were met.
- Ø Demonetisation would act as moral check in future thereby keeping tap on people to check them from indulging into malpractices.

Table- II

Summary of the Responses: Appropriateness of Rs 2,000 Note

Response	Respondents	%
Strongly Disagree	175	16.49
Disagree	220	20.74
Slightly Disagree	152	14.33
Slightly Agree	222	20.92
Agree	232	21.87
Strongly Agree	60	5.66
Total	1061	100
Mean Score	3.28	
Level	Disagree	

Source: Primary Data collected by the Researcher through Questionnaire

However, as the table- II reflects, the people did not agree with decision of the government to launch Rs 2,000 currency note. Moreover, as can be seen in the table –III, the people are of opinion that government should demonetise the Rs 2,000 currency note in future.

Both these findings suggest that the idea of coming up with Rs 2,000 note did not get acceptability of the general public. This does seem quite logical also as one of central theme of demonetisation was to getting away with the high value bank notes for they being skeptical to be used in various undesirable economic activities.

Table- III
Summary of Responses: Demonetisation of Rs 2000 Note in Future

Response	Respondents	%
Strongly Disagree	103	9.71
Disagree	198	18.66
Slightly Disagree	141	13.29
Slightly Agree	185	17.44
Agree	245	23.09
Strongly Agree	189	17.81
Total	1061	100
Mean Score	3.79	
Level	Agree	

Source: Primary Data collected by the Researcher through Questionnaire

There are few points that need to be understood by all of us to keep the decision of demonetisation in perspective:-

It was not just a note-exchange exercise else this mindset would lead to missing out on forest for the trees.

The return of 99.3% of the demonetised bank note should not be seen as a failure. There is need to see the larger picture, as return of money to banks which was else lying with people would now be available for lending. Moreover, the disclosure of the money held by people would improve government finances through better tax realisation and related positive spill-over effects (direct and indirect tax), formalisation of economy etc. especially post GST implementation.

It was not about just 0.7% (currency note not returned) being black money. There was quite substantial amount of recovery done by government and tax authorities through income tax raids and endeavors like Operation Clean

Money. It would be far more convenient in light of available data to trace the defaulters and people doing under reporting of income.

The increase in the volume and value of the digital transactions post demonetisation was commendable. However, the rate of growth was not able to maintain itself in the longer horizon which needs to be looked into by the concerned authorities. A better enabling environment need to be put into place along with necessary inputs at affordable cost with confidence about security and safety in the cyber space need to be ensured to achieve the goal of cashless and digital economy in true sense.

The decision will serve as a valuable guide to future governments and other countries in the realm of monetary policy formulation and countering black money.

Importantly, it is pretty convenient to pass the bucks now after 3 years as we know what followed after the decision.

Conclusion & Recommendations

The previous two instances of demonetisation in 1946 and 1978 were not able to deliver the expected results. Similarly, the recent demonetisation seemed pretty promising in initial stages but with passage of time the prospects seemed falling short of expectations. As the hindsight bias (also Knew-it-all-along) suggests that the inclination to consider an already happened event more predictable than they really were before they happened, looks applying well to the opinion of people about recent demonetisation.

Some of the important lessons that can be learnt from event includes:-

Something that cannot be measured cannot be controlled either. This goes true especially for the black money. We need to put a robust mechanism in place through appropriate legal, technological and administrative architecture to decipher enigma of black money and its quantum. Else we will end up cutting a sorry picture about the proportion of black money and controlling its prevalence in the economy.

There is no point in cleaning up the floor when water tap is kept open. Rather than focusing only of cleaning up the black money circulating in the economy, the efforts should be taken of checking the origin of the black money itself. The self-feeding cycle of corruption and black money need to be understood in a comprehensive manner.

Make the things simple but not simpler or avoid over-simplification. One of the driving idea behind the move that the corruption is majorly channelised through the large value currency notes is infested with logical fallacies. Firstly, the corruption is a hydra-headed concept and takes place in many forms like sponsorship of event or foreign tour or education, allotment of land or flat, expensive gifts, nepotism etc. The over-simplification of corruption to merely as cash changing the hands is reflection of lack of understanding of the whole concept. Secondly, assumption that the people keep the proceeding of corruption in cash is misplaced. Various studies have indicated that only around 6% of the ill-gotten money is kept in cash and rest all is invested in other available avenues with the intent of not getting caught and at the same time to earn some return like benami property, jewellery, gold and silver etc.

Avoid shooting oneself in the foot. The claim that the high value bank notes i.e. Rs 500 and Rs 1,000 were fraught with many problems given their anonymity and logistical ease because of which they were used to undertake corrupt activities, store of black money, funding anti-national activities etc. Well in that case it was utter illogical to

launch Rs 2,000 and Rs 500 currency note which raised many question on the whole decision of demonetisation of high value bank notes itself.

Ø An insight to visualise translation of policy into impact. The great leaders and governments are those which can see that other fails to see. The autonomy of the institution of national significance shall be kept intact in all the eventualities as they command a huge respect in the eyes of the general public and any tinkering with their independence can possibly be counter-productive.

Ø Technology is great enabler and equalizer. The contemporary technologies like Artificial Intelligence (AI), Big Data Analytics (BDA), mechanisation etc. could come pretty handy in the whole process of any major decisive decision and demonetisation is no exception to the same.

It is concluded with the suggestion that government may institute an expert fact finding committee to evaluate the important dimensions of demonetisation and lessons learnt from the gigantic exercise with official figures pertaining to positive and negative impacts of the demonetisation in different time horizons- short, medium and long term.

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