

# Demonetisation

Experiences of the poor



Dr. Kanish Debnath



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# Demonetisation: Experiences of the Poor

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## Foreword

I remember 8<sup>th</sup> November 2016. I was in Mumbai being a guest speaker in “Inclusivity in Diversity” seminar arranged by NASSCOM. I started around 5.30 pm from Andheri and on my way back wanted to withdraw from an ATM. I noticed there was a longish queue in front of the ATM. I postponed the withdrawal - never imagining that I may have to postpone it for a pretty long time!

On my way back to Pune I got the news of Demonetisation from Social Media. No one knew what our nation was entering into. Yet, there was a big hope visible from all the posts/speeches / articles that our nation will be free of Black Money.

For the last 24 years we, at Annapurna Pariwar are dealing only with poor members, working for their empowerment - we do not deal with any black money.

We give small loans, collect the small savings and loan recovery all in small denomination notes as most of our members are not having bank accounts. We collect and give micro Health Insurance, Life Insurance claims in cash for the same reason.

All these years we have tried to help our members open their bank accounts after the first loan disbursement and disburse the second and consecutive loans, Health and Death claims by cheques. We thus try to make them bankable.

We faced a big jerk in November and almost till six months after. Our loan recovery and disbursement both suffered. Our members’ reported lack of cash to repay. Most of them being street side vendors, reported that their customers had no cash to buy their goods and services.

The impact and effect of Demonetisation on the macro economy are being largely debated. However, we thought of looking into its impact on the micro economy.

I am happy that Dr. Kanish Debnath agreed to write this book. The 4 students from Amalner who have collected the empirical data, have really worked hard and deserve appreciation. The Field teams of Annapurna who relentlessly work in the slums to help the members deserve a salute.

I feel this book arouses interest of the readers in understanding the effects and side effects on **micro economy**.

All those who have contributed to this book deserve thanks.

I feel honored to present this book to the readers on behalf of Dada Purao Research and Training Institute.

Dr. Medha Purao Samant

## **Acknowledgement**

I am thankful to Dr. Medha Puro-Samant and all her staff at Annapurna Pariwar for helping me with this book. This is a book dedicated to them and all the 2,00,000 + members!

I am grateful for having the unwavering support of my loving family. While Priyanka continues to be the source of my inspiration, my son Kiansh is my bundle of joy.

I must accept that this book would not have been possible without the hard work and dedication of four bright boys who are in their final year of the Master's in Social Work (MSW) program of Pandit Jawaharlal Nehru College of Social Work, Amalner, Maharashtra. I heartily thank –

1. Nilesh Samadhan Pawar
2. Ravindra Subhash Mali
3. Bhatu Sahebrao Pawar
4. Kishor Suresh Patil

For their help towards data collection from the slums of Pune and Mumbai.

I wish to also thank my colleagues and seniors at FLAME University for support and guidance.

Any errors or omissions are solely mine.

Dr. Kanish Debnath

## CHAPTER 1

### INDIA'S TRYST WITH DEMONETISATION<sup>1</sup>

#### Introduction

At 8:00 PM on the 8<sup>th</sup> of November 2016, the Indian Prime Minister had an important decision to convey to all citizens. It would change the country's economy and would impact almost everyone for several months to come. Citing it as a move to tackle the growing menace of black money and counterfeit currency, the Indian Prime Minister notified the government's decision to remove two high-valued currency denominations (that is ₹500 and ₹1000) from circulation and bring in new notes of ₹500 and ₹2000. He also added that from the midnight of the same day, all notes of ₹500 and ₹1000 will cease to be legal tender. In other words, these notes became invalid and useless within a few hours.

On that unforgettable Tuesday, at a time when people were returning home or taking a break after the day's work, news broadcasters on the radio and television began to deliver the message that none were not prepared for. Most channels beamed the PM's address several times, often breaking down the major clauses of the policy into pointers. Some reporters welcomed the policy while many others questioned the timing of the demonetisation, but all realised that the enormity of this single policy decision would be unfathomable for many months to come.

Everyone in possession of ₹500 and ₹1000 notes were allowed to deposit it in bank accounts or exchange it with new currency till 31<sup>st</sup> December 2016. To ease the immediate problems, the PM allowed the invalid currency to be still used for emergency services within the next 72 hours. The banks and all ATMs were to be shut-down for the next two days to plan for the currency exchange. Within a few minutes of the announcement, there were huge queues outside ATMs to withdraw all available ₹100 notes. However, none could predict that long queues outside banks will become commonplace and currency rationing would continue for the next few months.

#### The First Demonetisation (12<sup>th</sup> January 1946)

The demonetisation exercise of 2016 is not the first in India. In fact, it is the third one. Interestingly all the three decisions were taken to curb the menace of black money! So, unaccounted money or black money has been in existence for many years now. More fascinating is the fact that the first demonetisation<sup>2</sup> came even before India and Pakistan gained independence in 1947!

Since the first demonetisation took place seven decades ago, there is hardly any data on the same. In the first round, high denomination Bank Notes of ₹500, ₹1000 and ₹10,000 were

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<sup>1</sup> All paragraphs in italics are from publicly available sources as cited in footnotes. To preserve the meaning conveyed in the original document, text is presented verbatim as deemed fit.

<sup>2</sup> <https://mostlyeconomics.wordpress.com/2016/11/11/digging-through-india-demonetization-history-12-jan-1946-saturday-and-16-jan-1978-monday/>

demonetized. Some details can be obtained from the RBI's history<sup>3</sup> volume I as reproduced in the below excerpt –

*Soon after the war, while Government were giving attention to ways and means of averting the expected slump, thought was also given to check black market operations and tax evasion, which were known to have occurred on a considerable scale. Following the action in several foreign countries, including France, Belgium and the U.K., the Government of India decided on demonetisation of high denomination notes, in January 1946. It is interesting that as early as April 7, 1945, in an editorial on the tasks before the new Finance Member, Sir Archibald Rowlands, the Indian Finance referred to the action of the Bank of England in calling in notes of £ 10 and higher denominations and suggested similar action in India as 'one more concrete example for the Indian Government to follow in its fight against black market money and tax evasions which have now assumed enormous proportions'.*

Quite understandably, the exercise in India was a successor of a similar exercise in her colonial master. It can also be noted that France and Belgium also had taken a similar move post the World War 2. It seems that there was no clear consensus between the English authorities and their Indian counterparts as evidenced here –

*It is not known when the Government authorities started thinking on the demonetisation measure, but the final consultation with the Governor and Deputy Governor Trevor took place towards the end of 1945, when Mr. N. Sundaresan, Joint Secretary, Ministry of Finance, called for a discussion, for which he had earlier prepared a note and the drafts of the Ordinances to implement the scheme. According to a note recorded by Mr. Sundaresan, it would appear that the Reserve Bank authorities were not enthusiastic about the scheme. The Governor stated that the Finance Member had given him the impression that the scheme would be launched only when there were signs of the onset of an inflationary spiral. The Governor saw no special signs of such a situation. 'It appeared to him that the main object of the scheme was to get hold of the tax evader'. The Governor wondered if this could be called an emergency to justify the promulgation of an Ordinance, just before the newly elected Legislative Assembly met. The Governor wanted Government to be satisfied that there was no harassment to honest persons. As a currency authority, the Bank could not endorse any measure likely to undermine the confidence in the country's currency.*

*The Governor agreed that about 60 per cent of the notes would be in the Indian States and so co-operation of the State Governments was very necessary. Apparently he had some doubts about this. According to Mr. Sundaresan, the ideal thing was to block high denomination notes, but this course was not favoured by either the Finance Member or the Governor.*

*Subject to these observations, the scheme as drafted by Mr. Sundaresan was considered by the Governor to be theoretically all right, but he and the Deputy*

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<sup>3</sup> <https://www.rbi.org.in/scripts/RHVol-1.aspx>

*Governor pointed out the considerable administrative difficulties involved in covering nearly 5,700 offices of scheduled and non-scheduled banks. The Governor's concluding remarks, as recorded by Mr. Sundaesan, were as under:*

*"Sir Chintaman Deshmukh felt that we may not get even as much as Rs. 10 crores as additional tax revenue from tax evasion and that the contemplated measure, if designed to achieve such a purpose, has no precedent or parallel anywhere. If value is going to be paid for value (no matter whether such value is in lower denomination notes), it is not going to obliterate black markets. His advice is that we should think very seriously if for the object in view (as he deduces from the declaration form) whether this is an opportune time to proceed with the scheme. Provided Government are satisfied on the points of (i) sparing harassment to the unoffending holders and (ii) a worthwhile minimum of results in the shape of extra tax revenue, he does not wish to object to the scheme as drafted, if Government wish to proceed with it notwithstanding the administrative difficulties involved."*

Despite the differences between the government and the RBI top brass, the demonetisation went through via two special ordinances as furnished below –

*The Government went ahead with the scheme. On January 12, 1946, two Ordinances were issued, demonetizing notes of the denominational value of Rs. 500 and above. The first Ordinance, viz., the Bank Notes (Declaration of Holdings) Ordinance, 1946, required all banks and Government Treasuries in British India to furnish to the Reserve Bank of India by 3 p.m. on the same day, a statement of their holdings of bank notes of Rs.100, Rs. 500, Rs. 1,000 and Rs. 10,000 as at the close of business on the previous day. January 12, 1946 was declared a bank holiday. The second, the High Denomination Bank Notes (Demonetisation) Ordinance, 1946, demonetised bank notes of the denominations of Rs. 500 and above with effect from the expiry of January 12, 1946. This Ordinance provided that a non-scheduled bank could exchange high denomination notes declared by it under the Bank Notes (Declaration of Holdings) Ordinance at the Reserve Bank or a scheduled bank, for value in one hundred rupee notes or for credits with the Reserve Bank or a scheduled bank. Scheduled banks and Government Treasuries could obtain from the Reserve Bank value in one hundred rupee notes or in deposits with the Reserve Bank in exchange for high denomination notes declared by them under the above mentioned Ordinance. Other holders of high denomination notes could get them exchanged at the Reserve Bank, a scheduled bank or a Government Treasury on presentation of the high denomination notes and a declaration in the form prescribed in the schedule to the Ordinance, within 10 days of the commencement of the Ordinance. Under a press note issued subsequently by the Government of India on January 26, 1946, Managers and Officers in charge of offices and branches of the Reserve Bank of India were authorised to allow exchange of high denomination notes, up to and inclusive of February 9, 1946, on production of sufficient and valid reasons for delay in the presentation of notes. Thereafter the Governor and the Deputy Governor of the Bank were authorised to allow exchanges up to and inclusive of April 26, 1946. The power*

*for the extension of the time limit beyond April 26, 1946 was reserved for the Government of India.*

*The provisions of the second Ordinance, which was applicable to British India, were also extended, with suitable modifications, to the Administered Areas on January 22, 1946. Many Indian States also issued parallel Ordinances. States which did not enact such legislation were required to exchange their holdings of demonetised notes before March 7, 1946.*

The move did not succeed in achieving the intended effect. Though high value notes of ₹500 and higher got replaced with notes of ₹100 or less, it was considered more of a failure because the estimated currency stock did not decline by a huge margin. Further, there were major administrative loopholes that were exploited by black marketers as presented below –

*The measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably ‘demonetised’, not having been presented. The results of the demonetisation measure were summed up by Sir Chintaman, in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957, as under:*

*It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them. In the end, out of a total issue of Rs.143.97 crores, notes of the value of Rs.134.9 crores were exchanged up to the end of 1947 as mentioned in the Report of the Board of Directors of the Reserve Bank. Thus, notes worth only Rs.9.07 crores were probably “demonetised”, not having been presented. **It was more of “conversion”, at varying rates of profits and losses than “demonetisation”.***

*There was an echo of this measure in 1948. In September, while Government were considering anti-inflationary measures, rumours spread that the 100 rupee notes would be demonetised and that bank deposits would be frozen. The Prime Minister had to make a statement in the Legislature, categorically denying any such intentions on the part of Government.*

Overall, as recounted by the RBI, the first demonetisation drive was a futile exercise as 93.7 percent of the currency in circulation got exchanged and tax evaders could not be nabbed. The window of exchange was 10 days, that was extended by another 17 days. This was at a time when a majority of India's people were poor, with many among them who were not fortunate to having seen a ₹500 or a higher note. The exercise was therefore targeted at the elite class, who had their means to evade the scrutiny.



## The Second Demonetisation (16<sup>th</sup> January 1978)

Before the second demonetisation exercise, the currency in circulation composed of notes and coins below ₹10, and notes of ₹10, ₹20, ₹100, ₹1000, ₹5000 and ₹10000. Surprisingly, there was no ₹500 note. It cannot be clearly ascertained from RBI's chronological history, when were the high denomination notes re-introduced after the first demonetisation in 1946 and why a ₹500 note was not introduced. Quite like its predecessor, the Morarji Desai led Janata party coalition government while deciding to demonetise high value notes of ₹1000, ₹5000 and ₹10000, did not consider re-introducing them immediately. Only notes and coins of ₹100 or below remained in circulation. It was also considered as a move against the monetary largesse of the previous Indira Gandhi led Congress government. The below excerpts from the RBI's history<sup>4</sup> volume III narrates the story –

*Demonetization of high denomination notes is one of the radical measures normally resorted to by governments to counter forgery and illegal printing of notes by unauthorized sources. The Wanchoo Committee on Black Money had recommended demonetization many years ago. This suggestion was not acted upon, partly because the very publicity given to the recommendation resulted in black money operators getting rid of high currency notes. The Committee had observed that black money should be regarded largely as a flow, not as a hoard, and different members of the Committee held different views on how much black money was in circulation. The government resorted to demonetization of Rs 1,000, Rs 5,000 and Rs 10,000 notes on 16 January 1978 under the High Denomination Bank Notes (Demonetization) Ordinance, 1978 (No. 1 of 1978). The Finance Minister, in his budget speech of 28 February 1978, announced that demonetization was part of a series of measures that the government had taken for controlling illegal transactions and against anti-social elements. The purpose of the Demonetization Ordinance was stated in the preamble thus:*

*The availability of high denomination bank notes facilitates the illicit transfer of money for financing transactions which are harmful to the national economy or which are for illegal purposes and it is therefore necessary in the public interest to demonetize high denomination notes.*

*According to the Ordinance, all high denomination bank notes ceased to be legal tender in payment or on account at any place after 16 January 1978. The Ordinance further prohibited the transfer and receipt of these notes between persons after 16 January 1978 so as to make itself operationally meaningful.*

Incidentally, much alike to the first demonetisation drive, the RBI governor Mr. I. G. Patel was not favourable of the move. His views were –

*The demonetization of 1978 was the second such exercise in India, the first one having been conducted in 1946. Governor I.G. Patel was not in favour of this exercise.*

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<sup>4</sup> <https://www.rbi.org.in/scripts/RHVol-3.aspx>

According to him, some people in the Janata coalition in the government saw demonetization as a measure specifically targeted against the allegedly 'corrupt' predecessor governments or government leaders. Patel recalled in his book, "Glimpses of Indian Economic Policy: An Insider's View", that when Finance Minister H.M. Patel informed him about the decision to demonetize high denomination notes, he had pointed out 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. (p. 159)*

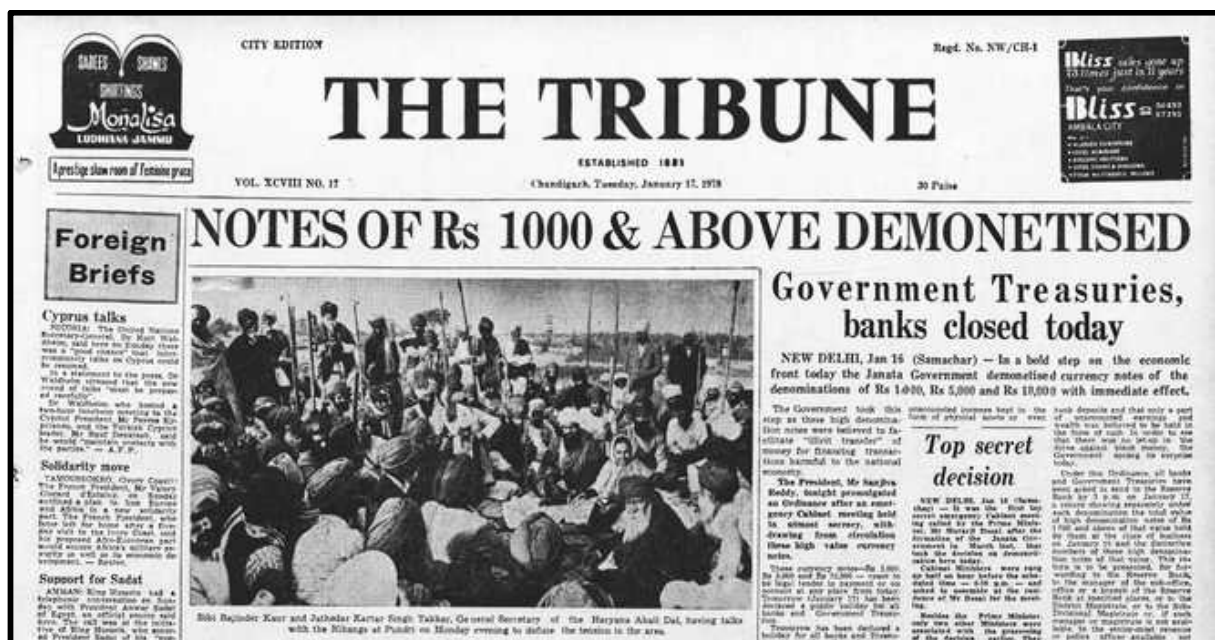


Figure: A newspaper headline on January 17, 1978

The RBI's volume also recounts an interesting story –

*Demonetization was a sensitive issue and secrecy was imperative. R. Janakiraman, a senior official in the chief accountant's office in the Reserve Bank, was asked by some officers of Government of India over the telephone on 14 January 1978, to go over to Delhi immediately on 'some urgent work'. When he enquired the purpose of the visit so that he could go prepared, the officials stated that matters relating to exchange control would need to be discussed and that he should leave for Delhi on his own. Janakiraman, however, took along with him M. Subramaniam, a senior official of the Exchange Control Department. On reaching Delhi, it was revealed that the government had decided to demonetize high denomination notes and he was required to draft the necessary Ordinance within twenty-four hours. During this*

*period, no communication was allowed with the Bank's central office in Bombay, since such contacts could give rise to speculation. Janakiraman and Subramaniam made a request for the 1946 Ordinance on demonetization to get an idea of how it was drafted, and the request was acceded to by the Finance Ministry. The draft Ordinance was completed on schedule; it was then finalized and sent for the signature of the President of India (N. Sanjiva Reddy) in the early hours of 16 January 1978. The news was to be announced on All India Radio's news bulletin at 9 am the same day; it was given as a flash towards the end of the news bulletin.*

*The Ordinance provided that all banks and government treasuries would be closed on 17 January 1978 for transaction of 'all business except the preparation and presentation or the receipt of returns' that were needed to be completed in the context of demonetization. For purposes of the Negotiable Instruments Act, 1881, 17 January 1978 was deemed to be a public holiday notified under the Act.*

The issues faced in implementing the ordinance are something that today many of us can relate to the recent exercise in 2016. Though in 1977, a year before the drive, the amount of high denomination currency in circulation was only 1.8 percent, the public was given only three days to make the exchange. Expectedly there was public outcry, especially from tourists who were caught in a soup. The details are as below –

*Issuing the Ordinance was one matter. Implementing it and working out the modalities to receive and exchange notes across the length and breadth of the country was another. The Ordinance contained comprehensive provisions for the exchange of notes held by banks and government treasuries as well as by the public; for exchange of notes after the time limit; and provisions related to offences and the power of the central government to make rules giving effect to the provisions of the ordinance.*

*Banks and government treasuries were required to submit information (in the form of data 'return') to the Reserve Bank of high denomination notes held with them as at the close of business on 16 January 1978. The notes held would be exchanged for an equivalent value by the Bank. The general public was given three days to surrender high denomination notes for conversion. After 16 January, notes could be exchanged on tender of the high denomination notes in person by the individuals themselves or by a person competent to act on his/her behalf. They had to tender the notes at the Reserve Bank or at notified banks in the prescribed format with full particulars giving, among other things, the source or sources from which the notes came into his/her possession and the reasons for keeping the amount in cash.*

*The arrangements for exchange of high denomination notes to be surrendered by the public at the Reserve Bank in Bombay required that the Bank open additional counters and mobilize manpower from other departments to meet the high demand. Long winding queues started forming in front of the Reserve Bank office right from the morning as also at the main office of the State Bank of India, to collect declaration forms. According to press reports on 18 January 1978, the day started with utter confusion over the issue of declaration forms at the Reserve Bank headquarters at*

*Bombay and the working hours stretched to 6.30 pm. Enterprising city printers are said to have made quick money selling forms in sets of three for Rs 3. As expected, there were frayed tempers and a considerable hue and cry from the public as well as foreign tourists, especially those who did not have, or did not care to preserve, documentary proof to support the exchange of notes. Many tourists were reluctant to fill the forms, particularly tourists from the Gulf countries. Generally, tourists who had a small number of currency notes of high denomination had their notes exchanged across the counter.*

*On the day following demonetization, two noted economists, Professor C.N. Vakil and Dr P.R. Brahmananda, expressed the view that the measure would not have any enduring effect on money supply, prices of necessities and problems like low savings, acute poverty, unemployment and industrial relations, as the high denomination currency notes formed only a small proportion of the total money supply. They were the authors of the memorandum titled 'Semibombla' submitted to the union government for tackling the inflationary situation in 1974.*

The second demonetisation, much like the former was unable to rope in the tax evaders and black marketers. The major reason was that the high denomination currency notes were barely used. Another reason was the speculation amid black money hoarders that a demonetisation could be around the corner led them to convert the money into other fixed assets such as land and gold.

Another interesting fact about the second demonetisation was that it led to an actual rise in currency levels! According to RBI, the demonetised amount (total value of notes of ₹1000, ₹5000 and ₹10000) was ₹73.1 crores. Notably, this is almost half of the ₹143.97 crores demonetised in 1946! Compared to this, ₹1067 crores were added by ₹100 alone and the rest of the smaller denominations added another ₹650 crores.

### **Other Demonetisations during RBI history**

Demonetisation or the outstripping of the legal status of notes and coinage is quite commonplace with the RBI. It has to often remove currency from circulation depending on various needs. For example, as of year 2017, coins worth 1, 2, 5, 10 and 25 paise are all withdrawn. Also withdrawn from circulation was the Indian 'Anna'. 1 Anna was considered equivalent to  $\frac{1}{16}^{\text{th}}$  of 1 rupee. Soon, 50 paise will be withdrawn due to inflationary pressures as well. These are gradually removed from circulation by the RBI. What stands out in the exercises in 1946, 1978 and 2016 was the enormity and speed of the process. Complete secrecy had to be maintained to prevent black money hoarders from exchanging the delegatized currency with other notes. However, the administrative set-up required to carry out the exchange without hurting honest citizens was lacking in all three episodes.

### **The Third Demonetisation (8<sup>th</sup> November 2016)**

As one can comprehend, there are many parallels as well as differences between the three demonetisation exercises. The major parallels are – first, all the three were aimed at curbing black money and creating inconveniences for tax evaders and black money hoarders.

Secondly, all high denomination notes above ₹100 were targeted. Finally, all ran into major administrative hurdles in ensuring that black money is not deposited or converted through other channels and also providing a hassle-free exchange with legal currency.

On the other hand, there are major differences of the third exercise with the previous ones. First, with growth and inflation in the economy, the circulation of high denomination banknotes had grown to enormous proportions. Despite the bank's push towards non-cash modes of transactions, banknotes in circulation grew to ₹16,415 billion. As per RBI's annual report 2015-16<sup>5</sup> (Table VIII.1) –

*During 2015-16, the demand for banknotes and coins remained high notwithstanding the growing shift towards non-cash modes of transactions. The Reserve Bank has, in close coordination with the central government, initiated the process of introducing new series of banknotes with more sophisticated security features having higher levels of resistance to counterfeiting. Sustained efforts were also made towards indigenisation of banknote production. At end-March 2016, the value of banknotes in circulation was ₹16,415 billion showing an increase of 14.9 per cent as against 11.4 per cent in 2014-15. The volume of banknotes increased by 8.0 per cent as against 8.1 per cent in 2014-15. In value terms, ₹500 and ₹1,000 banknotes together accounted for 86.4 per cent of the total value of banknotes in circulation; by volume, ₹10 and ₹100 banknotes constituted 53.0 per cent of the total banknotes in circulation compared to 24.4 per cent for ₹500 and ₹1,000 banknotes.*

Secondly, the major issue raised in support for the move was the threat of fake and counterfeit currency notes being introduced into the economy through cross-border operations. Some of the gains from this trade was used to sponsor terrorism from across the border. As per a study done by the Indian Statistical Institute, Kolkata, in 2015, the only concrete work done on the subject, at any given point of time ₹400 crore worth fake notes were in circulation in the economy.<sup>6</sup>

Thirdly, in contrast to the previous instances, the Governor of the Reserve Bank of India was in favour of the move. On November 8<sup>th</sup>, the day of the move, Urjit Patel, the Governor of the RBI, said that the government had observed that currency notes of high denomination were being misused and fake currency notes were being used for terror financing<sup>7</sup>. The Governor said that though the security features of the notes had not been breached, it was difficult for the general public to differentiate between real and fake currency.

Finally, new notes of ₹500 and ₹2000 was announced and introduced along with the demonetisation. This was not so in earlier cases. New security features were also added to the ₹100 note. Notably, the public was given 50 days for deposit and/or exchange of demonetised notes with new/existing banknotes. The time period given was again much higher than in the previous instances due to the sheer volume of banknotes.

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<sup>5</sup> <https://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1181>

<sup>6</sup> <http://www.thehindu.com/news/national/'Demonetisation-will-hit-terror-financing-hard'/article16441834.ece>

<sup>7</sup> <http://www.news18.com/news/india/why-were-the-notes-scrapped-rbi-chief-and-economic-affairs-secretary-explain-1309756.html>

Immediately after the demonetisation move, apart from the Prime Minister Shri Narendra Modi and the RBI governor Dr. Urjit Patel, another man by the name of Mr. Anil Bokil got famous. He claims that it was he who thought of this move much before the Prime Minister and had also discussed the same with him in a meeting in July<sup>8</sup>. Mr. Anil Bokil is a 52-year-old Aurangabad based architect and Chartered Accountant who started an NGO called Arthakranti<sup>9</sup>. However, he had different ideas that the government did not implement.

Mr. Bokil was actually in favour of a slow transition of removing banknotes of high denominations. He says that the move would have needed 18 months<sup>10</sup>. Interestingly, his organisation propounded the idea of taking away ₹500 and ₹1000 notes completely. Further, bank notes of denominations ₹500, ₹1000 and ₹2000 should be reintroduced temporarily to ease the difficulties in the transition phase<sup>11</sup>. To quote his suggestions – *“These new notes are just a stand-by or stop-gap adjustment and can be demonetized / withdrawn after a smooth transition from current cash-based, non-transparent system to a well-banked, transparent economy.”* His ideas on withdrawal reflects the Morarji Desai government’s move. Though Mr. Bokil’s idea was innovative, it is easy to understand why the government did not follow all of it. There are several pitfalls. Firstly, a phase transition would do little to tackle unaccounted cash as hoarders can easily exchange with legal currency denominations. Secondly, having new printed notes as a temporary currency would lead to a lot of unnecessary costs of printing, circulation and withdrawal. It would also reduce faith in the country’s currency. Finally, the momentum of India’s economic and industrial growth will be thwarted by the uncertainty created an 18-month transition period. Let us see how the current move pans out over a longer time frame.

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<sup>8</sup> [http://www.huffingtonpost.in/2016/11/09/meet-anil-bokil-the-man-who-suggested-the-idea-of-scrapping-50\\_a\\_21602059/](http://www.huffingtonpost.in/2016/11/09/meet-anil-bokil-the-man-who-suggested-the-idea-of-scrapping-50_a_21602059/)

<sup>9</sup> <http://www.arthakranti.org/>

<sup>10</sup> <https://qz.com/843490/anil-bokil-the-man-who-claimed-credit-for-narendra-modis-demonetisation-move-is-now-unhappy-with-it/>

<sup>11</sup> <http://blog.arthakranti.org/arthakranti-suggestion-for-transition-phase/>



## CHAPTER 2

### SUPPORT AND CRITICISM FROM AROUND THE WORLD<sup>12</sup>

Leaving the past behind, this chapter now focuses on the third demonetisation. As we speak on the event, we cannot help but bring into picture related issues of black money, corruption, fake currency, tax evasion, terrorism, Swiss bank accounts, cashless economy, and several others. This chapter tries to weave together various opinions and viewpoints on some of these topics of interest that are crucial to the demonetisation exercise. While focussing on each of these topics, the context of demonetisation is kept alive in the background.

#### On Demonetisation itself

There is a bit of a debate on the term ‘demonetisation’ itself. Does gradual withdrawal of a currency from circulation also count as demonetisation? Bibek Debroy explains<sup>13</sup> –

*‘Demonetisation’ means that some kind of currency unit loses its status as legal tender. This is different from a currency being withdrawn from circulation. A currency unit may be withdrawn from circulation, but can continue to remain legal tender. In America, Section 102 of the US Coinage Act of 1965 is a guarantee against any future demonetisation. ‘All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations), regardless of when coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues.’ It is important to make this point, since there are misinformed reports that the US ‘demonetised’ high-denomination notes in 1969. What was done was withdrawal from circulation, not demonetisation. The European Central Bank’s (ECB’s) decision on the €500 note is no different.*

*In the Indian case, there is legislation that allows for demonetisation. This is the High Denomination Bank Notes (Demonetisation) Act of 1978, passed in March that year, and originally enacted as an ordinance. Its Preamble indicates that it was enacted to address the issue of illicit money transfers. ‘An Act to provide in the public interest for the demonetisation of certain high denomination bank notes and for matters connected therewith or incidental thereto. Whereas the availability of high denomination bank notes facilitates the illicit transfer of money for financing transactions which are harmful to the national economy or which are for illegal purposes and it is therefore necessary in the public interest to demonetise high denomination bank notes.’ High- denomination here ‘means a bank note of the denominational value of one thousand rupees, five thousand rupees or ten thousand rupees’. Among other things, this statute prescribes a process for an individual or enterprise to surrender such bank notes to a bank. One should note that when the equivalent amount is paid to the holder in some other currency unit, this is not necessarily paid into a bank account, not under the 1978 statute. If the individual or*

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<sup>12</sup> All paragraphs in italics are from publicly available sources as cited in footnotes. To preserve authors’ conveyance, text is presented verbatim as deemed fit.

<sup>13</sup> <http://www.openthemagazine.com/article/essay/demonetisation-demythified>

*enterprise does not have a bank account, once identity has been established, the amount can also be paid in cash.*

*But this doesn't mean that demonetisation has to be necessarily done through an ordinance or statute. Consider the Reserve Bank of India Act, 1934. Section 24(2) states: 'The Central Government may, on the recommendation of the Central Board, direct the non-issue or the discontinuance of issue of bank notes of such denominational values as it may specify in this behalf.' Section 26(2) adds: 'On recommendation of the Central Board the Central Government may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at such office or agency of the Bank and to such extent as may be specified in the notification.' Does this cover demonetisation or withdrawal of notes from circulation? Despite the extensive media coverage of demonetisation, I don't think too many people have focused on this, a difference that is more than pedantic. I don't know the answer. It can only be interpreted judicially or legally.*

Is the 2016 demonetisation actually 'demonetisation' or 'withdrawal'? The confusion was created as the Prime Minister, in his speech, mentioned that the notes of ₹500 and ₹1000 will cease to be legal tender and the last day for all exchange at the RBI is March 31, 2017 but the date did not appear in the gazetted notification. Interestingly, the gazetted notification did not, even for once, mention the term 'demonetisation'. Based on this discrepancy, Debroy considers the act as a 'withdrawal' rather than 'demonetisation'. Another notable fact is that the RBI had used the term 'demonetisation' in one other instance in its chronological history (apart from the years 1946 and 1978). On 1<sup>st</sup> April 1968, the RBI 'demonetised' Quaternary Alloy Rupee Coins. Keeping semantics aside, for our understanding, we can continue to consider the 2016 exercise as a 'demonetisation'.

As far my understanding goes, the most scathing comment on India's demonetisation exercise comes from Steve Forbes of Forbes.com. He not only calls the move sickening and immoral, he also demeans India<sup>14</sup> –

*Even though India is a high-tech powerhouse, hundreds of millions of its people live in dire poverty. Many workers are leaving the cities to go back to their villages because so many businesses are closing. Countless companies are having difficulty meeting payroll, as they can't get the cash to do so. The real estate market has tanked.*

*India's economy is based mostly on cash. Moreover, much of it operates informally because of excessive rules and taxes. The government bureaucracy is notorious for its red tape, lethargy and corruption, forcing people to get by on their wits.*

*The World Bank's annual survey, Doing Business, measures how difficult it is to start and manage a business in 190 countries, using such metrics as what it takes to set up a legal business, obtain construction permits and get electricity. India ranks among the worst in the world in these areas.*

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<sup>14</sup> <https://www.forbes.com/sites/steveforbes/2016/12/22/what-india-has-done-to-its-money-is-sickening-and-immoral/>

*Not since India's short-lived forced-sterilization program in the 1970s--this bout of Nazi-like eugenics was instituted to deal with the country's "overpopulation"--has the government engaged in something so immoral. It claims the move will fight corruption and tax evasion by allegedly flushing out illegal cash, crippling criminal enterprises and terrorists and force-marching India into a digitized credit system.*

*India is the most extreme and destructive example of the anticash fad currently sweeping governments and the economics profession. Countries are moving to ban high-denomination bills, citing the rationales trotted out by New Delhi. But there's no misunderstanding what this is truly about: attacking your privacy and inflicting more government control over your life.*

*India's awful act underscores another piece of immorality. Money represents what people produce in the real world. It is a claim on products and services, just as a coat-check ticket is a claim for a coat left at the coat check in a restaurant or a ticket is for a seat at an event. Governments don't create resources, people do. What India has done is commit a massive theft of people's property without even the pretense of due process--a shocking move for a democratically elected government.*

*By stealing property, further impoverishing the least fortunate among its population and undermining social trust, thereby poisoning politics and hurting future investment, India has immorally and unnecessarily harmed its people, while setting a dreadful example for the rest of the world.*

*What India must do to fulfill its desire to become a global powerhouse is clear: slash income and business tax rates and simplify the whole tax structure; make the rupee as powerful as the Swiss franc; hack away at regulations, so that setting up a business can be done with no cost and in only a few minutes; and take a supersize buzz saw to all the rules that make each infrastructure project a 100-year undertaking.*

The Indian exercise is undoubtedly the largest in the world, and therefore expectedly has caught attention of international experts. For example, Kenneth Rogoff, Professor of Public Policy at Harvard University, former chief economist of the International Monetary Fund and author of the book "The Curse of Cash" says<sup>15</sup> that India's motivation was the same as his book suggests but he also goes on to add that his idea was not aimed at developing countries. Lawrence H. Summers, President Emeritus at Harvard University, states<sup>16</sup> that he is not in favour of the idea (demonetising \$100) as the costs to exceed the benefits.

## **Black Money and Corruption**

On the issue of black money and corruption, foremost, it is important to understand how black money is created and stored. As Suyash Rai explains<sup>17</sup> –

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<sup>15</sup> <https://thewire.in/81410/indias-currency-exchange-curse-cash/>

<sup>16</sup> <https://thewire.in/81659/larry-summers-on-demonetisation-india/>

<sup>17</sup> <https://ajayshahblog.blogspot.in/2016/11/trumping-black-money.html>

*It is useful to distinguish between black money creation, and black money storage. Black money may be created through illegal activities (eg. bribery), or through legitimate activities (eg. trading business) where all taxes were not paid. Black money is accumulated over a period of time and stored into a range of financial instruments. We should understand the likely impact on this unaccounted wealth and on future black money creation:*

*Impact on unaccounted wealth:* *Unaccounted wealth may be stored in many ways: rupee cash, gold, real estate, foreign currency cash, accounts in foreign countries, and other instruments. Of these, rupee cash is relatively unattractive as it earns a negative real rate of return. A 2012 study by an institute of the Ministry of Finance found that cash is the least preferred instrument for storing unaccounted wealth. Reports from raids by enforcement authorities also suggest that cash is only a small part of unaccounted wealth they find; the instruments of choice are benami properties, gold, diamonds, shares, etc. Moreover, part of unaccounted wealth is laundered, and becomes more difficult to identify. As with the white economy, only a small fraction of the total unaccounted wealth is kept as cash.*

*The November 8 decision will not result in most of these persons being caught by law enforcement agencies, as they have been forewarned: everyone knows that deposits in banks of above ₹250,000 will result in an investigation. However, persons holding unaccounted cash may have to quietly and privately bear losses. The extent of these losses depends on the rate charged by the market for laundering cash.*

*Some analysts, including the government's Chief Economic Advisor, have argued that this decision would lead to a transfer from black money holders to the central bank and to the government. This assertion raises important questions about what a central bank and government can and should do. If some cash does not return at the end of March, 2017, should the RBI simply decide to reduce its liabilities by that amount, and create a windfall profit? This seems very draconian, and makes many simplistic assumptions about the way the world works. The RBI Governor's promise on the note reads, "I promise to pay the bearer --- rupees." It does not add conditions on this promise. It is alarming to read about people in government and outside talking about confiscating private wealth so brazenly. If government and central bank just give up their liability with a 4.5 month notice, it might erode faith in the currency. It would be unwise to do so. RBI should carry the liabilities on its balance sheet for the foreseeable future, and keep limited windows open for people to return their hard-earned cash. They cannot announce this in advance, but in March-end, they should consider modifying the notification to this effect.*

*Impact on black money creation:* *Is this decision likely to have lasting impact on the working of the black economy? That depends on the deterrence it creates in the minds of participants. Deterrence is created by one's sense of the probability of getting caught and punished. Since this decision is not likely to ensure large-scale identification, prosecution and punishment of those creating black money, it may not have a significant effect on future black money creation. One may argue that this decision creates a deterrence by limiting the opportunities for black money storage.*

*Others may argue that this decision would force people holding black money to move to other instruments that may be easier traced. Neither of these arguments hold much water. Since the decision is expensive, the newly issued ₹2000 and reintroduced ₹500 notes would, for the foreseeable future, serve as reliable stores of unaccounted wealth. Transactions in the black economy may move to other means, such as USD cash, gold or bitcoin, but these transactions will not go away.*

Kaushik Basu, the C. Marks Professor of International Studies and Professor of Economics at Cornell University, has been more harsh in his treatment of the subject<sup>18</sup> –

*Demonetization was ostensibly implemented to combat corruption, terrorism financing and inflation. But it was poorly designed, with scant attention paid to the laws of the market, and it is likely to fail. So far its effects have been disastrous for the middle- and lower-middle classes, as well as the poor. And the worst may be yet to come.*

*India has a large amount of what is known as “black money,” meaning cash or any other form of wealth that has evaded taxation. According to a 2010 World Bank estimate, the most reliable available, the shadow economy in India makes up one-fifth of the country’s G.D.P. (A 2013 study by McKinsey, the consulting firm, puts the figure at more than one-quarter.)*

*Black money tends to exacerbate inequality because the biggest evasions occur at the top of the income spectrum. It also deprives the government of money to spend on infrastructure and public services like health care and education. According to the World Bank’s most recent estimate, from 2012, India’s tax-to-G.D.P. ratio is about 11 percent, compared with about 14 percent for Brazil, about 26 percent for South Africa and about 35 percent for Denmark.*

*The government’s wish to tackle these problems is laudable, but demonetization is a ham-fisted move that will put only a temporary dent in corruption, if even that, and is likely to rock the entire economy.*

*Many Indians have been scrambling to change their old notes, causing snaking queues in front of banks and desperation among the poor, many of whom have no bank account and live from cash earnings.*

*Anyone seeking to convert more than 250,000 rupees (about \$3,650) must explain why they hold so much cash, or failing that, must pay a penalty. The requirement has already spawned a new black market to service people wishing to offload: Large amounts of illicit cash are broken into smaller blocks and deposited by teams of illegal couriers.*

*Demonetization is mostly hurting people who aren’t its intended targets. Because sellers of certain durables, such as jewellery and property, often insist on cash*

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<sup>18</sup> <https://mobile.nytimes.com/2016/11/27/opinion/in-india-black-money-makes-for-bad-policy.html>

*payments, many individuals who have no illegal money build up cash reserves over time. Relatively poor women stash away cash beyond their husbands' reach, as savings for the children or the household.*

*Small hoarders often fear being questioned about the source of their money — they are accustomed to being harassed by tax collectors, among others — and may choose instead to forgo some of their savings.*

*People have also been skimping in response to the new policy, causing demand for certain basic goods to fall, which has hurt farmers and small producers and could eventually lead them to scale back on their activities.*

*And even more pain is around the corner. With so much money in circulation suddenly ceasing to be legal tender, India's economic growth is bound to nose-dive. Another risk is that the Indian rupee could depreciate as a result of people and investors moving to more robust currencies.*

*The government's demonetization dragnet will no doubt catch some illicit cash. Some people will turn in their black money and pay a penalty; others will destroy part of their illegal stashes in order not to draw attention to their businesses. But the overall benefits will be small and fleeting.*

*One reason is that the bulk of black money in India isn't money at all: It's held in gold and silver, real estate and overseas bank accounts. Another is that even if demonetization can flush out the black money that is held in cash, with no improvement in catching and punishing tax evaders, people with ill-gotten gains will simply start saving in the new bills currently being issued.*

*When the government announced demonetization, it also justified the measure as a way to curb terrorism financing that relies on counterfeit rupee notes, as well as to dampen inflation.*

*Both these justifications are flawed. Catching fake notes already in circulation neither helps trap the terrorists who minted them nor prevents more such money from being injected into the economy. It simply inconveniences the people who use it as legal tender, the vast majority of whom had no hand in its creation.*

*There also is no evidence that black money actually is more inflationary than white money; nor in theory should it be. Black money is just money held by people instead of the government. It's an excessive money supply that tends to create inflation; whether that money is white or black makes little difference.*

*Demonetization may have been well-intentioned, but it was a major mistake. The government should reverse it. It could at least declare that 500 rupee notes, which many poorer people frequently use, are legal again.*



*And if the government really does want to limit the amount of black money in circulation, it would do better to move India toward becoming a more cashless society. About 53 percent of adult Indians have a bank account, but many signed up at the government's initiative and so quite a few of the accounts are dormant. On the other hand, more than one billion people in India have a cellphone, and this could be tapped to encourage more active banking, in the form of mobile banking.*

*India's push to issue a unique I.D. number to all Indians based on their biometric information is a major step in the right direction. More than one billion people have already been registered, according to the government, potentially enabling them to use an app to collect pensions, for example.*

*Tackling corruption also goes beyond currency, cash or even banking. It requires changing institutions and mind-sets, and carefully crafting policies that acknowledge the complexity of economic and social life. The government could start by increasing penalties for tax evasion and amending India's outdated anti-graft laws.*

*In a country like India, where the illegal economy is so intimately intertwined with the mainstream economy, one inept government intervention against shadow activities can do a lot of harm to the vast majority, who are just trying to make a legitimate living.*

However, not many were unfavourable to the government's decision. In an article written jointly, eminent professors Jagdish Bhagwati of Columbia University, Pravin Krishna of Johns Hopkins University and Suresh Sundaresan of Columbia Business School argue otherwise<sup>19</sup> –

*India is largely a cash-driven economy, though a rapidly growing percentage of the population is becoming tech savvy. A shadow economy reliant on cash transactions and evading taxes, especially on high value transactions such as real estate purchases, gold, and intrinsically illegal activity, has taken deep and highly persistent root. Counterfeiting of Indian rupee notes and their subsequent use in funding of terrorist activities has also been an important concern.*

*While the pernicious effects of a large black economy and tax avoidance have been well recognised, no tangible policy action has been taken until now. Modi's radical move to invalidate the high denomination notes, in which the black economy primarily transacts, is a daring step.*

*Economically and politically powerful constituencies with considerable stake in the shadow economy have been upended. Undertaking this reform has required the political courage to impose predictable transition costs on the economy to lay the foundation for sustained future benefits – the converse of what one normally expects from one's politicians.*

*Some economists have advanced a criticism that this initiative is an abrogation of*

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<sup>19</sup> <http://blogs.timesofindia.indiatimes.com/toi-edit-page/war-on-black-money-demonetisation-is-a-courageous-reform-that-will-bring-substantive-benefits/>

*contract and trust in the currency. This is incorrect, as the policy allows for the exchange of old notes for new notes. Although the process is inconvenient, and subjects many households to hardships, it forces the cash from the black economy to be deposited into the banking system, potentially increasing transparency and expanding the tax base and revenues to the government from taxes and surcharges. Inevitably, the Indian economy will move towards digitisation of economic transactions, with cash currency playing a relatively minor role. The argument that the policy is anti-poor is suspect as a significant fraction of the taxes and surcharges that will be collected from the reform initiative is to be allocated to social programmes.*

*Finally, it has been argued that the action is despotic. On the contrary, this action has been taken by duly elected officials within the framework of a democracy. To be effective, the policy required an element of surprise. Given this surprise factor and the magnitude of the reform, the rollout of the policy has generated predictable hardships.*

*The shortage of new currency notes and limits on withdrawals has led to considerable anxiety about wage and pension payments, and cash financing of even routine household expenditures. The frequent changes in rules during the past month, over how money deposited into accounts will be taxed, how much money may be withdrawn and which exemptions would apply, for instance, have led to unnecessary confusion.*

*Nevertheless, there has been an impressive level of support at the grass roots level for this reform, as evidenced by the absence of any rioting, looting or acts of mass protest. But the policy makers must manage this transition process efficiently and with empathy, to ensure sustained support from the common man.*

*As per the Income Tax Amendment Act of November 28, 2016, the government will tax unaccounted income deposits at 50% and will only prosecute those who, upon investigation, are found to have engaged in illegal or criminal activity. This move is hoped to motivate the transfer of wealth from the black economy to the banks.*

*Several recent developments suggest that the demonetisation drive may well yield significant benefits.*

*First, around 80% of the currency in higher denominations has now been deposited back into bank accounts. Since individual deposits will now be matched with their tax returns and unaccounted deposits will be taxed, this will yield a windfall for the government permitting large increases in social expenditures.*

*Second, we already see an impressive switch into digital transactions. Thus, this one-time demonetisation itself could have long-term beneficial impact by nudging reluctant consumers into e-payments, whose transparency will ensure greater tax compliance and a higher permanent tax base.*

*Third, the government's action taken will put a major dent in counterfeiting. With the new notes being much less prone to counterfeiting, social benefits will be earned immediately.*

*In any other time, one would have to be unreasonably idealistic to expect, from politicians, a major economic reform, which offers substantive benefits in the future, but comes with significant political costs in the transition period immediately following the reform.*

*India, however, seems to have voted in a prime minister who is prepared to take on political risk in his efforts to fulfill his commitment to root out corruption – and has promised even more. We await his next steps.*

There is no clear estimate on the quantity of black money that exists and the amount of the same that would get wiped off forever due to demonetisation. Further, it also needs to be clarified to many that India's demonetisation exercise was not the only action taken towards prevailing corruption and shadow economy as Bibek Debroy puts forward<sup>20</sup> –

*The demonetisation of November 8th isn't meant to address creation of new 'black' income. For that, the Government has already taken some measures and will take some more. On steps that have already been taken, the Finance Ministry press release has a listing: 'In the last two years, the Government has taken a number of steps to curb the menace of black money in the economy including setting up of a Special Investigation Team (SIT); enacting a law regarding undisclosed foreign income and assets; amending the Double Taxation Avoidance Agreement between India and Mauritius and India and Cyprus; reaching an understanding with Switzerland for getting information on Bank accounts held by Indians with HSBC; encouraging the use of non-cash and digital payments; amending the Benami Transactions Act; and implementing the Income Declaration Scheme 2016.'*

*In the world of Physics, there is no unified field theory. I wonder why people look for one when the question of black income arises. The Government didn't claim that. The action of November 8th was meant to address the present stock of it, not its fresh creation.*

*It is only one of various steps, not the only one, and it isn't meant to resolve all 'black' problems under the sun. The stock of 'black' wealth isn't necessarily in the form of cash. It can be in the form of gold, real estate and other property. That kind of non-cash 'black' will also be addressed through other measures. As for the stock of 'black money' in cash that has become invalid, my guess is as good as yours. Perhaps around ₹5 lakh crore of those notes is 'black' in both the senses combined. The remaining ₹9 lakh crore is legal cash. Of this, perhaps ₹7 lakh crore is cash in active use for transactions. When notes are demonetised, this gets drawn out of the system and is replaced by new notes. Sure, this inconveniences people. But as citizens, are we prepared to tolerate this inconvenience, or are we saying we want the*

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<sup>20</sup> <http://www.openthemagazine.com/article/essay/demonetisation-demythified>

*Government to do nothing about the ₹5 lakh crore? Action against that money is also an additional deterrent against the creation of new 'black' income.*

*Also, ₹2 lakh crore was with people, serving no useful purpose and not even earning a return for its holders. This sum now enters the banking system. Banks have more liquidity. The Government could obtain money through the RBI that can be used for public expenditure schemes. In that sense, there can be a transfer of wealth from the relatively rich to the relatively poor. Of the ₹5 lakh crore that is 'black', around ₹3 lakh crore is perhaps so in the sense of taxes not having been paid, while ₹2 lakh crore is double black. (Around ₹1.25 lakh crore of 'black' money had already come into the system before November 8th.) For both varieties of 'black', there are reports of the old-for-new exchange facility being misused by cash hoarders, through touts. I am told the going rate is ₹350 for every ₹1,000 tendered. Alternatively, there are reports of gold being bought at a premium. In either event, there is some destruction of value (even if not 100 per cent) suffered by those with ill-gotten cash.*

*There remains the question of managing the transition. In this process, printing notes is the easier part. These wads of currency have to be taken to banks and then to ATMs. The more one prepares for such a transition, the greater the danger of its news leaking out and defeating the purpose of demonetisation. Since the Finance Ministry and RBI have tweaked the rules, the Government has been accused of not having had a plan and not being prepared. I don't quite see it in that light. Accepting feedback and modifying rules is a sign of being amenable to constructive inputs and is preferable to perverse rigidity. As of now, we are still in a period of transition, with crowds now easing off at bank branches. Calibrating ATMs will take longer. There has certainly been a short-term shock, concentrated in the third quarter of fiscal 2016-17. The gains will be in the medium term.*

It is therefore foolhardy to expect one demonetisation drive will uproot the cause of all corruption. The government did not expect anyone to believe the same either. However, the other steps required to plug the shadow economy should arrive fast on the heels of this exercise. It is also important at this stage to note that within the past six months there has not been any revolt or uprising against this move. Large sections of the society have chosen to suffer in silence even with cash shortages leading to market slowdown, job cuts, pay delays and added burden of cash exchange. Interestingly, they have chosen to remain silent even after repeated demands from the opposition parties to revoke the move, citing several difficulties<sup>21</sup> of the poor people. Even the parliament functioning was disrupted for many days due to their repeated demands on several items from the Prime Minister<sup>22</sup>.

Quite surprisingly (or not surprising at all?), most authors that have spoken on the topic have chosen to remain silent on the silence of the masses. It is quite unexpected. For example, the Venezuelan government decided to follow India's footsteps<sup>23</sup> on December 11 by declaring bills of 100 Bolivar as illegal tender within 72 hours. The chaos that ensued forced the

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<sup>21</sup> <https://thewire.in/82451/manmohan-singh-demonetisation-rajya-sabha-speech/>

<sup>22</sup> <http://www.hindustantimes.com/india-news/modi-s-defence-of-demonetisation-in-parliament-fails-to-resonate-with-opposition/story-Y1V0VKpVC74DOQRviLx7IO.html>

<sup>23</sup> <https://thelogicalindian.com/news/venezuela-demonetisation/>

government to hastily back out. The prolonged silence of the Indian people is unfathomable even more because as past evidence show, minor squabbles on caste or religious lines often turn into large spread violence. The most recent story is regarding the 'beef' ban. The silence probably emanates from a deeper anger against the bureaucracy that has been seething for many years. It must not be mistaken for acceptance, but more as a mark of trust on the government to meaningfully act against wrongdoers within a stipulated time frame.

### **Roadblocks to a Cashless Economy**

The government also pushed the agenda of having a cashless economy behind the demonetisation move. However, there are too many slips between the cup and the lip. The technology might be present but the Indian regulations need to be modified. As Ila Patnaik expresses<sup>24</sup> below –

*As a way out of the shortage of cash, government and the RBI have appealed to the public to adopt electronic payments. Indeed, it increasingly appears as if that, rather than black money held in cash, was the main objective of demonetisation. One point often made in the current debate is the difficulty in doing so as half the Indian population is unbanked. This is an important obstacle in the adoption of electronic payments. The pertinent question, however, is: Why does half of India's population not have bank accounts?*

*Most of India lacks bank accounts because we have tried to apply a command and control approach to banking policy. The lack of a competitive banking system meant that banks themselves were not inclined to open rural branches and ask customers to open bank accounts. Instead, beginning with the nationalisation of banks, it has been a government initiative for many decades. Banks have been given targets. Pushing public sector banks to open branches, and then pushing them to open accounts for the poor has not been a successful strategy. We did not create a competitive banking system. New commercial bank licences have been rare, barely two per decade. Foreign banks are not allowed to open more than 20 branches a year.*

*No doubt, in these difficult days without cash, there will be some movement to digital payments. Growth figures, given today's tiny base, will look large. But even some of this may be temporary. Permanent adoption of electronic payment systems will depend on the ease of payments and the charges to be paid for these services. Government has made digital payments free till December end to alleviate the cash situation. At some point beyond that, payment service providers will be allowed to charge for their services otherwise they will shut down the service, killing the whole cashless project. It has been reported that Visa, Mastercard and RuPay will altogether lose ₹1,000 crore in November-December. Regardless of the accuracy of the amount reported, this is not a sustainable model.*

*Electronic payments have to be easy to adopt. There are plenty of models around the*

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<sup>24</sup> <http://ilapatnaikblog.blogspot.in/2016/12/crossing-chasm.html>

*world to learn from. In some countries today, person to person payments are generally made digitally. Having effectively blocked such payments so far by onerous KYC norms and other restrictions, even the young who had the literacy, the means and the attitude to adopt e-payments, have not done so to the extent desired.*

*Unless the RBI ensures that all electronic payment systems and e-wallets are interoperable, we could be creating a monopoly. Today the payments regulator, the RBI, prevents a Paytm customer from paying a MobiKwik customer. This is unlike the TRAI that pushes telecom companies to accept calls that originate from other telecom providers. A telecom company cannot refuse to accept incoming calls and force the customer receiving the call to subscribe to its service. However, a payments provider requires the customer receiving payments to download its app and become a subscriber.*

*In markets with such network externalities, one of the service providers is likely to emerge as a monopoly, unless the regulator steps in. This is undesirable for a number of reasons. It could leave customers vulnerable to higher charges later, which may again reduce the adoption of digital payments. Second, it would reduce the incentive of the monopolist to constantly innovate as he will not be facing competition. Third, it will create systemic risk as it will make the system vulnerable to the health and electronic infrastructure of one provider. If the provider fails, the whole system can crash and again the economy can come to a standstill.*

*If the government wishes to push faster for a cashless economy, policy and regulation need to focus on competition and innovation. The RBI has been promoting bank-centric payment systems in an economy where banks don't even compete to get customer accounts. It is no surprise that neither banking nor payments have spread to the entire population. When you wish to influence the behaviour of millions of people, consumers, businesses there has to be a change in the policy framework from targets to one that works through incentives. In this case it has to be about incentives of banks, of payment service providers, of the payments regulator etc.*

Apart from the regulations, the consumers also need to be increasingly made aware of the benefits of digital transactions. Further, there must also be an assurance of the security of the customer's money against hacking and phishing. There is light at the end of the tunnel!



### **CHAPTER 3**

#### **TEXT ANALYSIS OF PRIME MINISTER'S RECENT SPEECHES**

As discussed earlier as well, the third demonetisation in India, was highly successful in maintaining secrecy even among the top ranks of the government and the Reserve Bank of India. The Prime Minister, Shri Narendra Modi acknowledged much after his historic announcement that this decision was taken 6 months earlier. Many opposition members even accused the PM of timing the decision at an opportune moment before the elections in five major Indian states. In this chapter, I aim to look at whether there has been much of a change in narrative of the Prime Minister. Perhaps this is the only study in this direction.

There are a few occasions among many, where an Indian Prime Minister's words reaches even the farthest corners of the nation. The first is the day when Indians celebrate their independence from Colonial rule – the 15<sup>th</sup> of August. The second is the day when India became a republic nation – 26<sup>th</sup> of January. On these days the Prime Minister truly becomes a leader to a nation of '125 crore Indians', who look up to him/her for ideas and actions. Interestingly, if one carefully notices, the date of the announcement of demonetisation – 8<sup>th</sup> November is midway between the two events! While the demonetisation date is 85 days away from the Independence day, it is 80 days earlier to the Republic day in 2017! Well, this could be a coincidence or it could be a pre-planned move to salvage any situation. Many have also noted that it came right on the heels of Diwali to reduce inconvenience during the festival season. It would be difficult to find out the correct cause now.

#### **Text Analysis – Methodology**

The method followed for the text analysis is simple. The idea is to identify keywords that get repeated within a speech and/or in multiple speeches. For example, it would be interesting to note how many times the Prime Minister had referred to the terms 'black money' and 'corruption' in his speeches leading up to the demonetisation announcement. The process for getting this information requires a series of sequential steps. First, the speech must be in English. Those ones that were delivered in Hindi (quite a few) can be translated into English using Google's web translation services. Though it may not be very accurate in translating sentences, translation of words is pretty accurate. Second, the document(s) must be removed of any special characters. Third, punctuations are removed. Fourth, all text is converted into lowercase characters. Fifth, common words used in English such as pronouns like me, her, myself, etc. and others are removed. Sixth, any other words that might be repeated and are not considered important are also removed. Finally, an analysis of frequency is done.

For our analysis, we will use a graphical method called 'Word Cloud' to display all frequently used words in an intuitive manner. The size of the word in the cloud is directly proportional to the frequency of its usage. For example, as can be seen from the figures that follow, the two most used words by the PM are 'country' and 'people'. The cloud can be customised by changing its size, font, colours, maximum word limit, etc. In the current context, I found that there is no major requirement for having multiple colours and for comparison between the two sets of speeches, I consider only those words that were repeated for fifty or more times.

## Analysis of PM speeches prior to demonetisation

The current Indian Prime Minister, Shri Narendra Modi is an eloquent speaker. He has agreed to speak on many occasions ranging from launch of new offices to campaign rallies promoting his political party. During the time frame of consideration, he has also made joint statements with the heads of several countries that he met. For our purpose, the speeches that were considered were the ones delivered to a general Indian audience. These can be found on the PM's websites<sup>25</sup> and are enumerated below –

1. PM's address to the Nation from the Red Fort on 70th Independence Day (Aug 15, 2016)
2. Speech at the launch of new BJP head office in New Delhi (Aug 18, 2016)
3. Speech at Unveiling of Schemes for Tribal Development in Gujarat (Sep 17, 2016)
4. Speech at a Public Meeting in Kozhikode, Kerala (Sep 24, 2016)
5. Speech at BJP National Council Meeting in Kozhikode, Kerala (Sep 25, 2016)
6. Address at the CSIR's Platinum Jubilee Function (Sep 26, 2016)
7. Speech at inauguration of full volume of Pt. Deendayal Upadhyay's work (Oct 09, 2016)
8. Address at Dussehra Mahotsav in Aishbagh Ramleela Ground, Lucknow (Oct 11, 2016)
9. Speech at a Public Meeting in Himachal Pradesh (Oct 18, 2016)
10. Address on the occasion of National MSME Awards in Ludhiana (Oct 18, 2016)
11. Valedictory speech at National Initiative towards Strengthening Arbitration and Enforcement in India (Oct 23, 2016)
12. Speech in Varanasi, laying the foundation stone of Urja Ganga Project, PNG Pipeline & Doubling Varanasi-Allahabad Rail Track (Oct 24, 2016)
13. Speech at Inauguration of National Tribal Carnival-2016 (Oct 25, 2016)
14. Address at the 50th Anniversary of Establishment of High Court of Delhi at Vigyan Bhavan, New Delhi (Oct 31, 2016)
15. Speech at flagging off ceremony of 'Run for Unity' on Rashtriya Ekta Diwas (Oct 31, 2016)
16. Speech at inauguration of Digital Exhibition showcasing role of Shri Sardar Vallabh Bhai Patel (Oct 31, 2016)
17. Speech at inauguration of Chhattisgarh Rajyotsav 2016 (Nov 01, 2016)
18. Address at Opening Ceremony of Haryana Swarna Jayanti Celebrations (Nov 01, 2016)
19. Keynote address at Ramnath Goenka Awards in New Delhi (Nov 02, 2016)
20. Address at Asian Ministerial Conference on Disaster Risk Reduction (Nov 03, 2016)
21. Speech at the inauguration of the 1st International Agro Biodiversity Congress 2016 (Nov 06, 2016)

The corresponding details of the speeches given post demonetisation follow in the next section. There are several things that comes to one's notice immediately from the word cloud of the PM's speeches pre-demonetisation. He had rarely spoken at any election campaign rally of his party - the Bharatiya Janata Party. He has used the word 'country' the most (409 times), followed by 'people' (349 times). Also, the buzz words that we were looking for are not there. He had used them rarely – 'corruption' (6 times), 'black' (6 times) and 'money' (43 times). Interestingly, the word 'Swiss' was not used at all.

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<sup>25</sup> <http://www.narendramodi.in> & <http://www.pmindia.gov.in>



## Analysis of PM speeches post demonetisation

As aforementioned, the speeches that were considered were the ones delivered to a general Indian audience. These can be found on the PM's websites<sup>26</sup> and are detailed below –

1. PM's address to the Nation (Announcement of demonetisation – Nov 08, 2016)
2. Address at Foundation Stone Ceremony of Mopa Green Field International Airport & Electronic City at Tuam in Goa (Nov 13, 2016)
3. Address at Karnataka Lingayat Education Society Centenary Celebrations, Belagavi Karnataka (Nov 13, 2016)
4. Speech at a Parivartan Rally in Ghazipur, Uttar Pradesh (Nov 14, 2016)
5. Address at Golden Jubilee Celebrations of Press Council of India on National Press Day (Nov 16, 2016)
6. Speech at Parivartan Rally in Agra, Uttar Pradesh (Nov 20, 2016)
7. Address at foundation stone laying ceremony of AIIMS in Bhatinda (Nov 25, 2016)
8. Address at a function to commemorate Constitution Day, at Parliament House Annexe (Nov 25, 2016)
9. Speech at Parivartan Rally in Kushinagar, Uttar Pradesh (Nov 27, 2016)
10. Address to the farmers at inauguration ceremony of Amul units in Deesa, Gujarat (Dec 10, 2016)
11. Inauguration of National Institute of Securities Markets campus (Dec 24, 2016)
12. Speech at Parivartan Rally in Dehradun, Uttarakhand (Dec 27, 2016)
13. Speech at DigiDhan Mela in New Delhi's Talkatora Stadium (Dec 30, 2016)
14. PM's address to the nation on the eve of New year 2017 (Dec 31, 2016)
15. Address at the Inauguration of the India International Exchange at GIFT city, Gandhinagar (Jan 09, 2017)
16. Address at Inauguration Ceremony of Vibrant Gujarat Global Summit 2017 (Jan 10, 2017)
17. Address at inaugural event of National Youth Festival at Rohtak (Jan 12, 2017)
18. Inaugural address at the opening session of the Second Raisina Dialogue (Jan 17, 2017)
19. Address at the Prime Minister's NCC Rally in New Delhi (Jan 27, 2017)
20. PM's reply to 'Motion of Thanks' to the President's address, in Lok Sabha (Feb 07, 2017)
21. PM's reply to 'Motion of Thanks' to the President's address, in Rajya Sabha (Feb 08, 2017)

It can be quickly noted from the details of the speeches, four came at election campaign rallies. He spoke at more rallies but those were not available. Speeches at campaign rallies are best avoided as most of them tend to be similar in content. The PM's replies in the Lok Sabha and Rajya Sabha on the completion of three months after the demonetisation exercise are important as the PM laid down the progress of the government on various fronts.

Compared to the previous word-list, the current one has new set of words while retaining many of the former popular ones such as 'people' (521 times), 'country' (494 times), 'brothers' (370 times), 'sisters' (330 times), 'government' (253 times), 'work' 9239 times) and finally 'India' (235 times).

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<sup>26</sup> <http://www.narendramodi.in> & <http://www.pmindia.gov.in>



The new ones that came into the picture are – ‘money’ (221 times), ‘notes’ (145 times), ‘days’ (133 times), ‘rupees’ (125 times), ‘black’ (100 times), ‘corruption’ (82 times) and ‘fight’ (71 times) among others. The words that went missing from the frame are ‘development’, ‘opportunity’, ‘political’, ‘party’, and ‘tribal’. There are no quick conclusions that can be drawn here. It is just that the PM’s rhetoric changed to support his move.

In total 86 keywords were repeated for over 50 times in 21 speeches post demonetisation compared to 81 keywords in 21 speeches prior to the move. So there is some loss in variety of words used. Also evident is the pains he went through to explain and support his decision on banning high denomination notes of ₹500 and ₹1000. Finally, it also mentionable that the numbers ‘500’ (38 times), ‘1000’ (35 times) and ‘2000’ (2 times) also found way into his speeches. He also stressed on ‘digital’ and ‘cashless’ for 29 and 6 times respectively.

### **Analysis of PM’s speeches in “Mann Ki Baat”**

One can contend that the speeches analysed were on a short time frame and were mostly aimed at audience that had gathered to listen to him. There is another novel way to look at the differences in his speech content. The PM had started a very innovative talk series that he delivers every month through the national television and the radio to connect to citizens on matters close to his heart. Called as “Mann Ki Baat” the talks include his views on several events across the nation and also his responses to queries from citizens.

There were eight speeches by the PM after demonetisation. To have a comparison on equal terms, eight speeches immediately prior to the move were taken. These 16 speeches were delivered across 16 months. All speeches can read or listened to in English or any of the regional languages. These can be found on the PM’s websites<sup>27</sup> and are as shown below –

<b><u>Pre – Demonetisation</u></b>	<b><u>Post – Demonetisation</u></b>
1. Mann Ki Baat, 27 March 2016	1. Mann Ki Baat, 27 November 2016
2. Mann Ki Baat, 24 April 2016	2. Mann Ki Baat, 25 December 2016
3. Mann Ki Baat, 22 May 2016	3. Mann Ki Baat, 29 January 2017
4. Mann Ki Baat, 26 June 2016	4. Mann Ki Baat, 26 February 2017
5. Mann Ki Baat, 31 July 2016	5. Mann Ki Baat, 26 March 2017
6. Mann Ki Baat, 28 August 2016	6. Mann Ki Baat, 30 April 2017
7. Mann Ki Baat, 25 September 2016	7. Mann Ki Baat, 28 May 2017
8. Mann Ki Baat, 30 October 2016	8. Mann Ki Baat, 25 June 2017

As before, there are perceptible similarities and differences. While the two clouds look almost identical with many common words such as (people, India, country, yoga, etc.), there are some shifts. The first eight speeches show a great emphasis on ‘water’ (124 times), sports (31 times), education (26 times), festival (26 times) and Diwali (26 times); these are missing in the next eight editions. For understandable reasons, the next eight speeches use new words like ‘money’ (41 times), ‘waste’ (31 times), ‘digital’ (27 times), ‘mission’ (22 times), ‘mobile’ (21 times), ‘black’ (21 times) and ‘cashless’ (3 times).

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<sup>27</sup> <http://www.narendramodi.in/mann-ki-baat> & <http://www.pmindia.gov.in/en/tag/mann-ki-baat/>



## CHAPTER 4

### A FIELD STUDY IN SLUMS OF PUNE AND MUMBAI

Much has been said on demonetisation from various quarters. There are several anecdotes<sup>28</sup> on the Indian 'jugaad' to deal with the pressing challenges. However, there has been no systematic study to understand the impact to the poor at the ground level. The only field study on the topic, which I am aware of, is a survey of 214 families in Mumbai slums in early December 2016<sup>29</sup> by Deepa Krishnan and Stephan Siegel. The study reported loss in income among some respondents (31%), high wait times (>1 hour) outside banks or ATMs for most (88%), increased bank account adoption (12%; total 92%), postponement or reduction in grocery consumption (54%) and increased savings (30%). Interestingly, irrespective of income loss or differences in education levels many respondents considered it to be a good policy (109 people); when compared to terming it as a bad policy (46 people) or having a neutral position (39 people). In their words – *"The majority of respondents view the policy overall as positive, including the majority of those that experienced some loss of income in November"*.

The state of the masses can not be better expressed than the words of Y. V. Reddy<sup>30</sup> –

*Demonetisation 2016 was undoubtedly a historic and unprecedented event. There has perhaps been no other policy decision that has affected the lives of a billion people directly and all at once. It is difficult to find a parallel in terms of the range of economic activities that have been hit by an economic policy decision.*

*Never before has a central bank been required to produce currency notes in such large quantities at such incredibly short notice and make it available to millions of people spread over vast territories with diverse transportation challenges. Collection of and accounting for returned notes deposited in banks has been even more challenging. The conduct of elections could be a good parallel in India to the scale of Demonetisation 2016, but in the latter case the central bank did not have the luxury of adequate notice.*

*It is no wonder the announcement of Demonetisation 2016 was made by none other than the Prime Minister of India, which is indeed a rare occurrence. For millions, a majority of our population, Demonetisation 2016 led to a virtual denial of freedom of movement, drying up of sources of livelihood and deprivation for no fault of theirs. **Yet, people at large did not revolt.** They went through not just inconvenience, but pain. While the agony was palpable, the patience of the masses was beyond belief. There was a silent but eloquent demonstration of some deep, shared intense feeling. That feeling, I believe, is one of disgust with the state of affairs in recent years, and a belief that this may be the only way in which they could express it.*

*Equally unfathomable were the intentions behind or the purpose of Demonetisation 2016, an exercise which, though it had mass appeal, also had on the face of it*

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<sup>28</sup> <https://mostlyeconomics.wordpress.com/2016/11/11/demonetisation-impact-across-india/>

<sup>29</sup> <http://www.epw.in/journal/2017/3/web-exclusives/survey-effects-demonetisation-28-slum-neighbourhoods-mumbai.html>

<sup>30</sup> 'Foreword' in Reddy, C. R. (2017). *Demonetisation and Black Money*, Orient BlackSwan



*stupendous downside risks and uncertain benefits. In other words, the decision to go ahead Demonetisation 2016 might not have been the result of calculated risk taking, but may have been taken out of inspiration or political instinct. Prime Minister Modi obviously had the confidence that the masses would be supportive of the decision. The fact that the government, under his leadership, had earlier taken a series of unprecedented policy measures relating to black money lends credibility to his intentions. Perhaps the changing narratives have sustained the faith of the people in the operation. In any case, Demonetisation 2016 is unlikely to be the end, but actually the beginning of the story.*

There are two threads here. One, people were highly inconvenienced. Two, for some reason, people did not revolt. While the second thread is quite subjective and difficult to pursue, it would be interesting to find out after six months, how inconvenienced people were and still are. That was the mission we had for our survey in the slums of Pune and Mumbai.

### **Research Questions**

The nature and scale of the demonetisation exercise makes it a unique experiment across the world. We started off with the following research questions –

- a) What was the impact of demonetisation on their employment income?*
- b) How big were the problems in monthly income cash flows?*
- c) How large were the problems in monthly consumption expenses?*
- d) Did the exercise bring about a behavioural change towards cash?*
- e) What problems did households face in their regular lives?*
- f) How did households cope with the new unforeseen situation?*

### **Field Survey - Methodology**

To answer the research questions, a field survey was planned. There were quite a few challenges to surmount. First, we needed to choose a well-defined population that is easy to access within a short time frame. This population will then guide us towards the required sample size. Since most of Annapurna Pariwar's members are low-income households staying in slums or nearby localities, it's member base was chosen as the reference population. There are some further justifications that can be provided to support this choice. Since Annapurna's Microfinance program is open to all members within the clusters they operate in, there is no major difference that can be attributed to a member from a non-member. Next, Annapurna's program is located within two major slums in adjoining cities – Pune and Mumbai. While this geographic restriction does not allow us to say much about the entire nation, but it does help to focus on the matter at hand by reducing the sample size requirements.

The second challenge was to fix a sample size. Here we used Sloven's Formula that is available in many standard Statistics text books. The formula is as shown –

$$n = \frac{N}{1 + Ne^2}$$

where,

n = size of the sample of population to be surveyed

N = estimated size of the population

e = acceptable margin of error

Since a 95 percent confidence interval is sufficient for most interpretations, we put in a value of  $e = 0.05$  and  $N = 1,50,000$  number of ongoing member households in the two cities combined. The calculation therefore gives us a figure of 398.936 households. We rounded this off to 400 member households to be surveyed across the two cities.

The third challenge of selecting the sample households was overcome easily as all the details of Annapurna's member are available via a relational database and also a well-functioning internal website. We also employed four final year students of the Master's in Social Work (MSW) program of Pandit Jawaharlal Nehru College of Social Work, Amalner, Maharashtra. They were chosen because they had some understanding of the social strata where they were to be immersed and also they spoke the local language – Marathi.

A questionnaire was designed (see appendix 3) keeping in mind that households would be willing to share only a limited time with the students. The questionnaire was then carefully translated into Marathi. The students were trained on filling the questionnaire for a few days before they were given lists of randomly chosen households with complete details such as name, address, phone number, the corresponding Annapurna branch, etc. The process could not be fully random, because those chosen members whose records did not have complete information, were replaced by new members (again randomly drawn) until all had the required information to access the members. The students were then given the task of filling five forms in Marathi – each day for 20 days. A few days were kept as buffer.

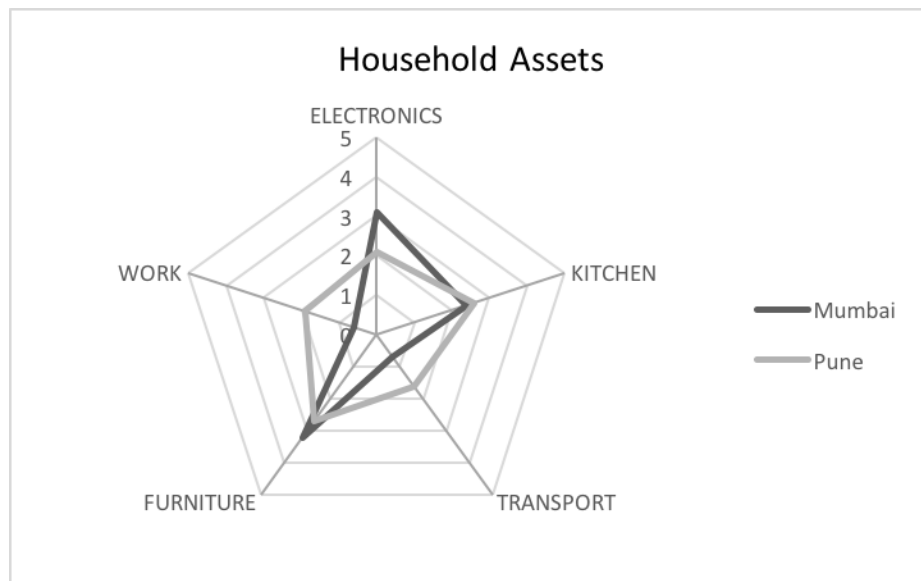
The field survey was finally undertaken in the slums of Pune and Mumbai during the months of May and June 2017 and a total of 411 filled response forms were collected. The process of encoding the collected data onto a spreadsheet software had to be complete within a short notice. Due to lack of complete information in important sections, nine forms had to be rejected. This left us with 402 forms or observations.

### **Observations from the data**

Now we come to the most interesting part, where we derive inferences from the data. From a total of 402 responses, the following general observations can be made –

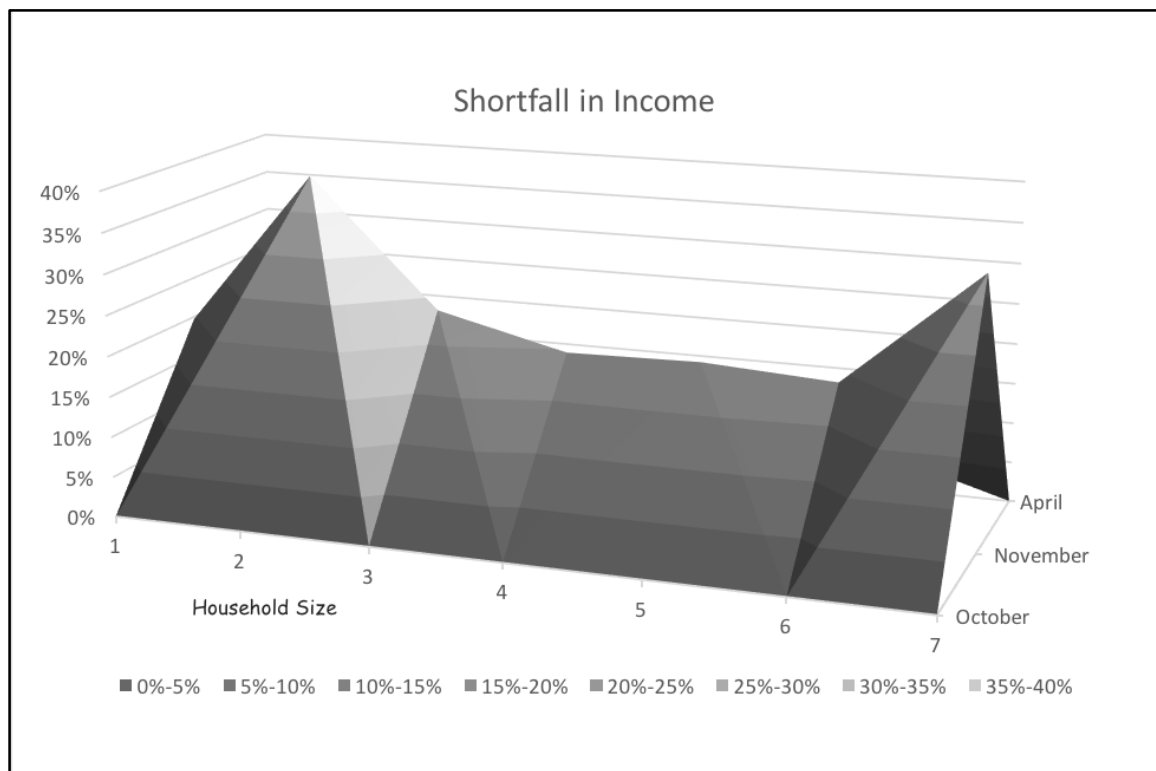
1. The average age of respondents was around 40 years.
2. Almost everyone in the families of respondents has an Aadhar card (UID).
3. Around 34 percent of households do not have any bank accounts in Mumbai while 21 percent do not have so in Pune.
4. Even after taking loans from Microfinance Institutions, some households still have access to loans from moneylenders. Some take loans from their immediate bosses.

5. Households in Mumbai had more electronic assets than Pune, but the ones in Pune had more assets for commute and work. The number of assets in the kitchen and furniture were similar. See the graph below and also refer to questionnaire for more details.



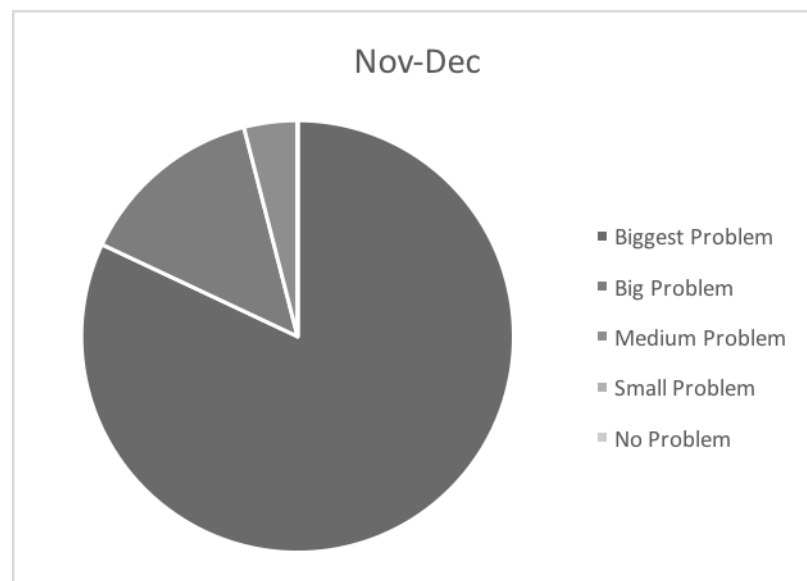
**Figure:** A radar plot of Household assets in Mumbai and Pune

6. Next, a 3D plot is charted for looking at income shortfall across the timeframe of six months. The variable chosen were household size, time frame and income shortfall. An interesting saddle-like plot is observed that needs to be investigated further.



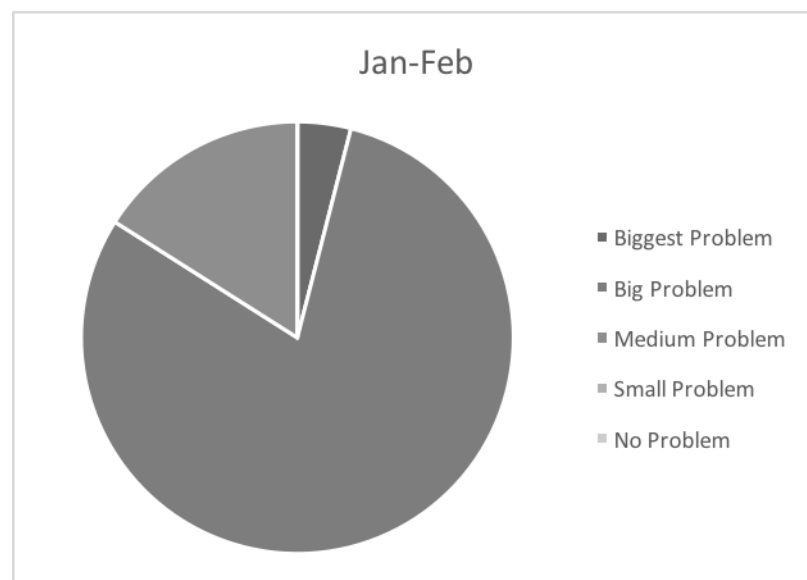
**Figure:** 3D plot of income shortfall across different months grouped by household size

7. Respondents were asked on how difficult was for them to earn income in the months of November and December of 2016 compared to October. The figure below reflects their responses. The darker the section, the tougher it was for the members.



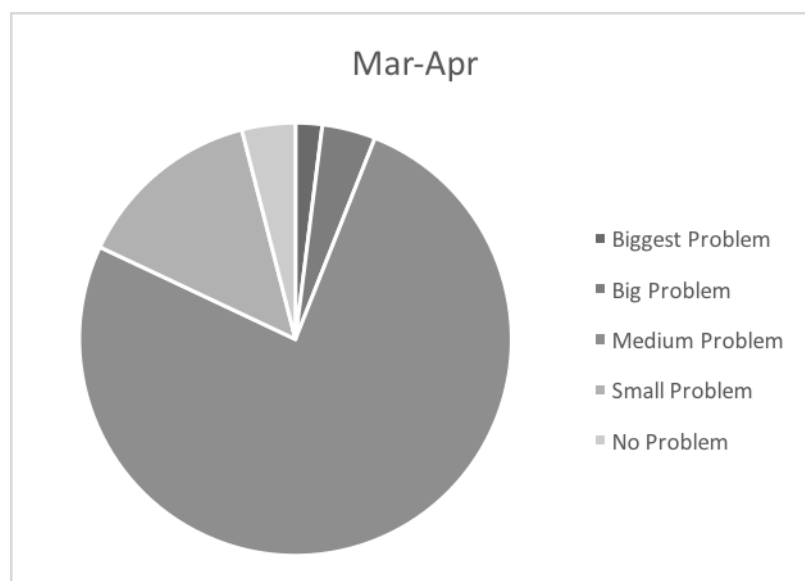
**Figure:** Respondents' difficulties in earning income in Nov-Dec 2016

8. Respondents were then asked on how difficult was for them to earn income in the months of January and February of 2017 compared to previous ones. The figure below reflects their responses. The darker the section, the tougher it was for the members.



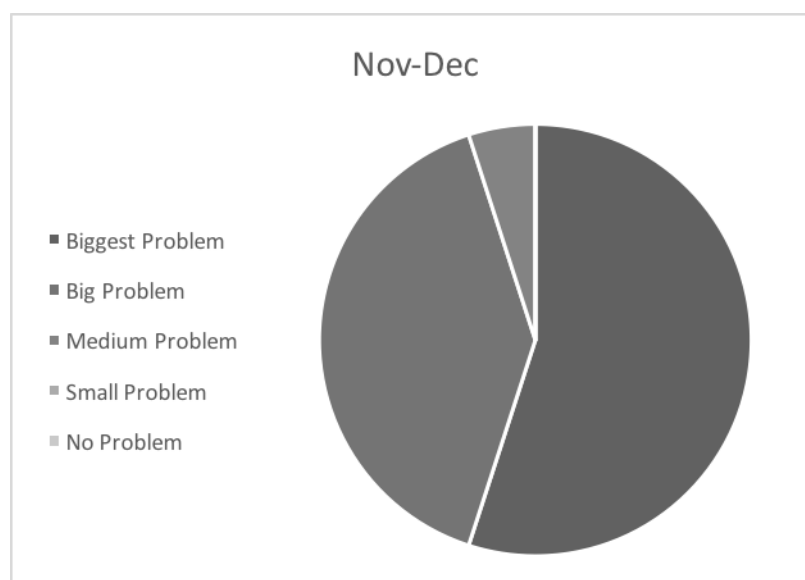
**Figure:** Respondents' difficulties in earning income in Jan-Feb 2017

9. Respondents were finally asked on how difficult was for them to earn income in the months of March and April of 2017 compared to previous ones. The figure below reflects their responses. The darker the section, the tougher it was for the members. It can be easily noticed that the teething difficulties faced right after demonetisation has eased off by April 2017.



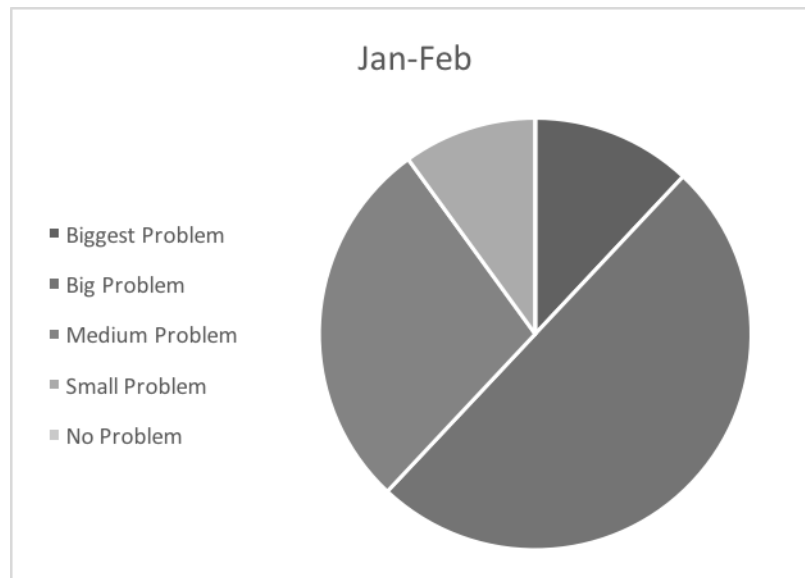
**Figure:** Respondents' difficulties in earning income in Mar-Apr 2017

10. Respondents were also asked on how difficult was for them to buy necessary items in the months of November and December of 2016 compared to October. The figure below reflects their responses. The darker the section, the tougher it was for the members. It can be noticed that compared to income shortfalls, the problems here were lesser. This can probably be attributed to the fact that many traders continued to accept the banned ₹500 and ₹1000 notes in order to continue their business and to safeguard against losses due to stocks perishing in storage.



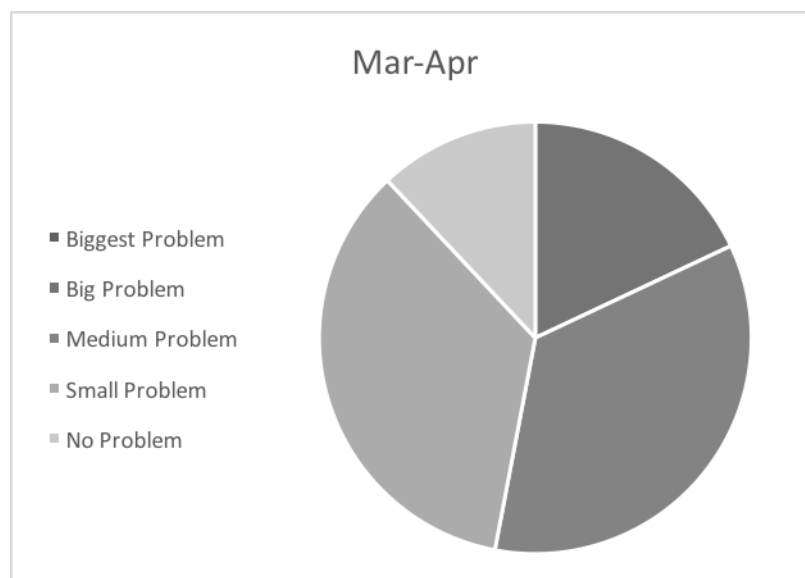
**Figure:** Respondents' difficulties in buying necessities in Nov-Dec 2016

11. Respondents were then asked on how difficult was for them to buy necessary items in the months of January and February of 2017 compared to previous ones. The figure below reflects their responses. The darker the section, the tougher it was for the members. By this time, the ₹2000 note had begun circulation in almost every part of India. The ₹500 note took longer time to come. Probably, this added to the difficulties as many traders did not have change for ₹2000.



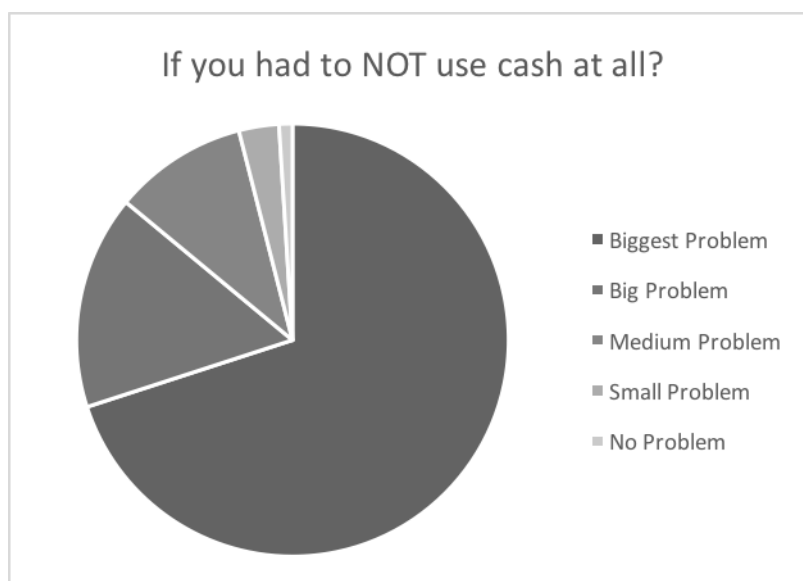
**Figure:** Respondents' difficulties in buying necessities in Jan-Feb 2017

12. Respondents were finally asked on how difficult was for them to buy necessary items in the months of March and April of 2017 compared to previous ones. The figure below reflects their responses. The darker the section, the tougher it was for the members. It can be easily noticed that the major difficulties faced right after demonetisation has eased off by April 2017. For the issues that remained, it is difficult to say clearly whether these can be ascribed clearly to Demonetisation 2016 or some other sources.



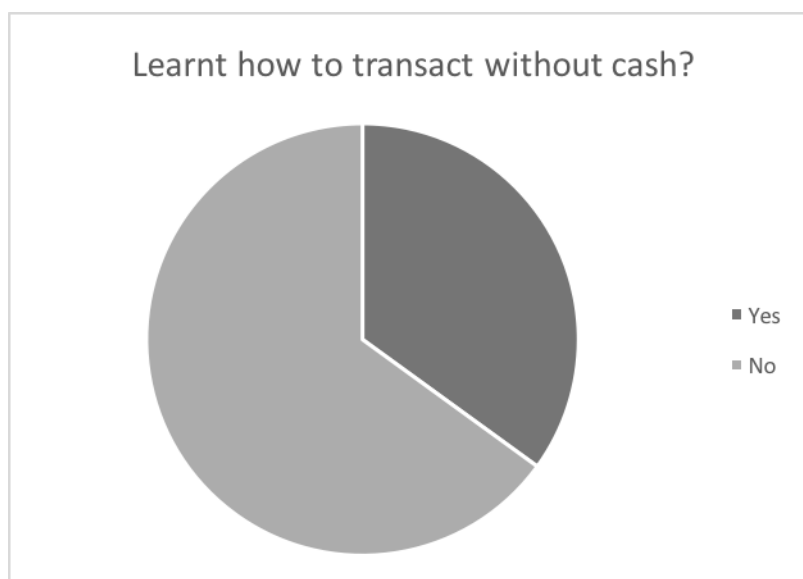
**Figure:** Respondents' difficulties in buying necessities in Mar-Apr 2017

13. Respondents also asked on how difficult was for them to completely use cashless methods of payments from May 2017. The figure below reflects their responses. The darker the section, the tougher it was for the members. It clearly shows the unpreparedness of the Indian citizens at the Bottom of the Pyramid in adopting new technologies. Probably there has to be a clear policy nudge to bring about a behavioural change.



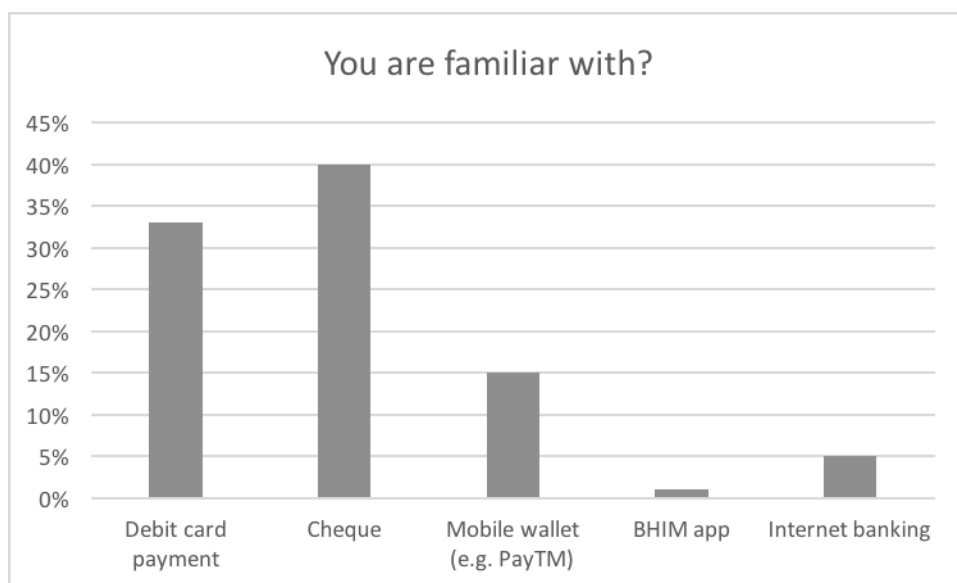
**Figure:** Respondents' perceived difficulties for cashless transaction in May 2017

14. Respondents were next asked whether they did learn how to use cashless methods – both digital and paper – during the six-month period following demonetisation. To the utter dismay of the field investigators, around 65 percent responded in the negative. This adds to the previous finding and shows that there are learning barriers. The government and the civil society in general need to think of ways to aid learning.



**Figure:** Respondents' learning difficulties for cashless transaction in May 2017

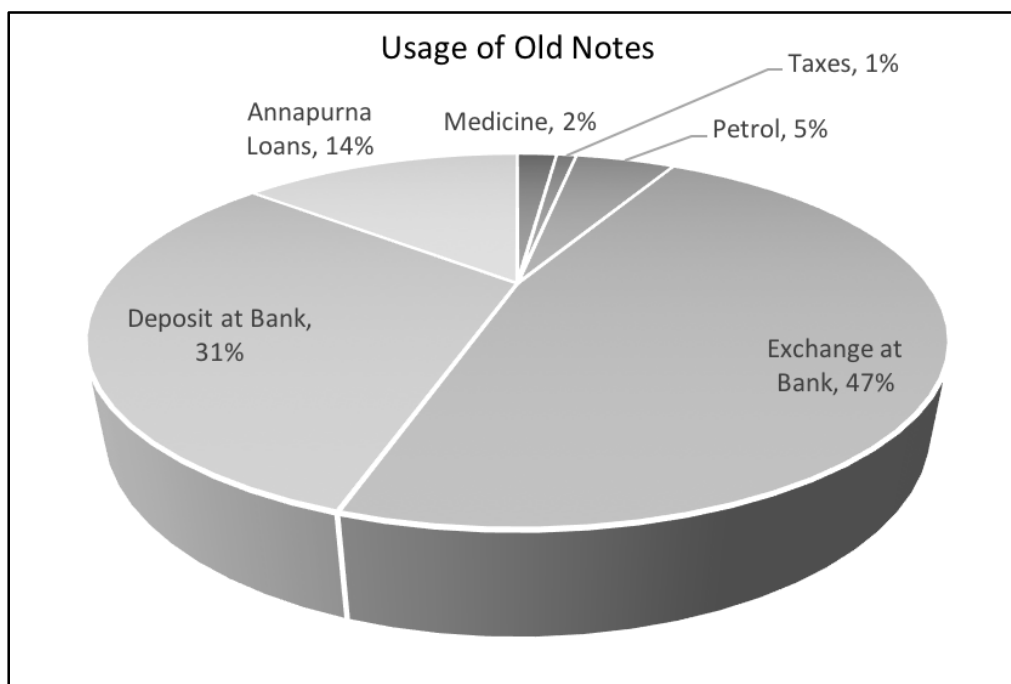
15. Respondents were then asked on their familiarity with different modes of cashless payments. The figure below reflects their responses. It is easy to spot that a huge chunk of the population is not yet familiar with digital forms of transactions. Two reasons that can be forwarded are the lack of trust and access. People might find it difficult to come to terms with non-tangible forms of payments. Further, the digital way of payment also needs to be backed by a strong internet infrastructure, which is lacking in India.



**Figure:** Respondents' familiarities with different modes of digital payments in May 2017

### Final Words

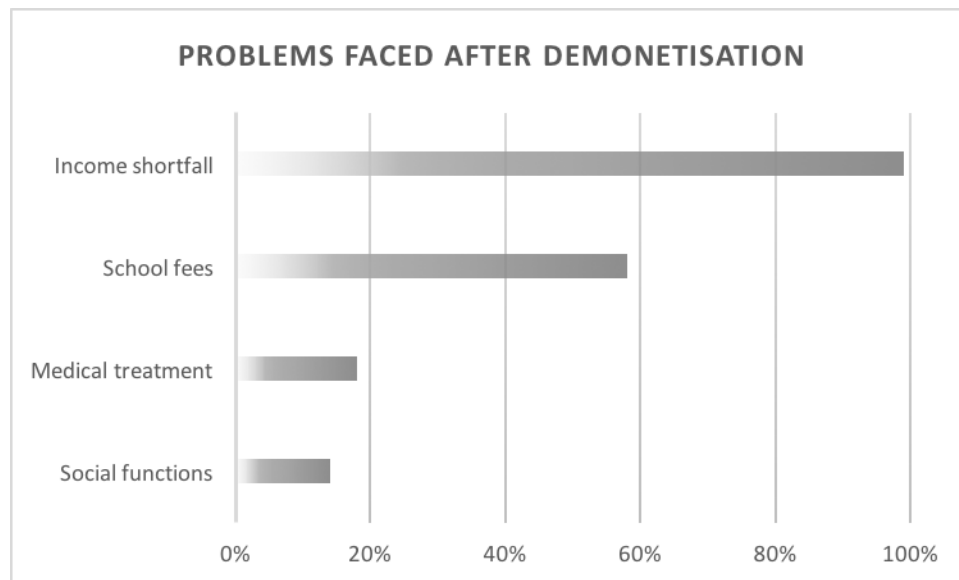
Overall, there were grievances from most respondents about loss of income and difficulties of making purchases or paying for necessary services. However, by April 2017, most families have overcome the temporary injunction of a cash-less society (much akin to being helpless). Most parts of the bigger community stood with each other in solidarity and helped each other. Many did not resent Demonetisation 2016 as they felt that this policy move was not aimed at reducing their freedom. The figure below reflects respondent's responses on the way they took care of the banned notes in their custody.



**Figure:** Respondents' usage of old ₹500 and ₹1000 notes in their custody

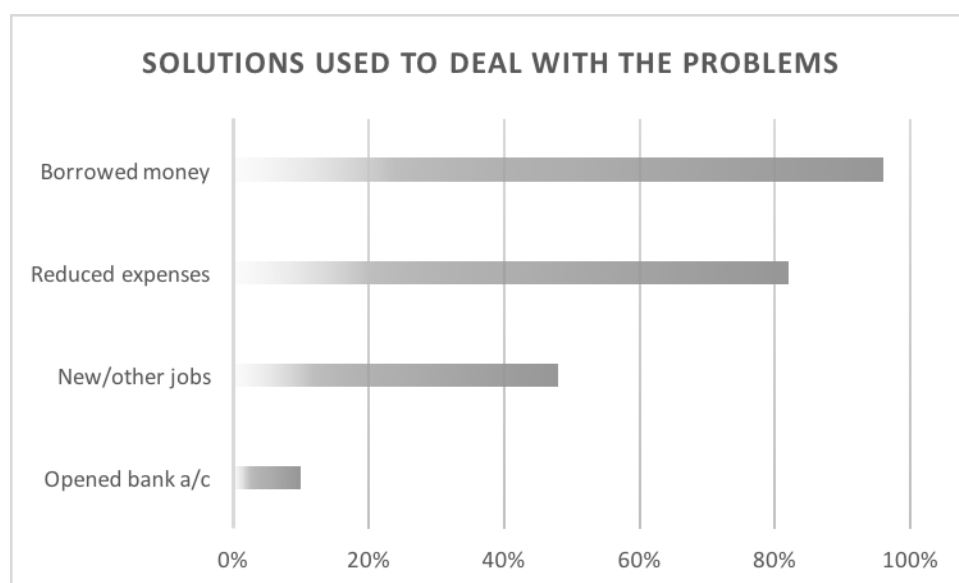


The top problems that most households faced, as per the respondents, are depicted in the graph below. They are – (a) they faced a shortfall in income, (b) some faced difficulties in paying for child’s school or tuition, (c) a few had to postpone medical treatment either for themselves or their family members (though government hospitals and clinics were accepting banned notes, but then again that is a different story), and (d) few others faced problems for spending on social functions such as child’s marriage, etc.



**Figure:** Respondents’ major problems after Demonetisation 2016

However, households were enterprising enough to find quick solutions to their woes and worries, most popular solutions are depicted in the graph below. They are – (a) borrowed money from friends, relatives, boss or moneylenders, (b) reduced or postponed monthly expenses, (c) some worked at casual or temporary jobs to meet exigencies like temporary stoppage of work, loss of employment, or delay in payment by bosses, and (d) many used their existing bank accounts for deposits / exchange, while a few opened new accounts.



**Figure:** Respondents’ major solutions to tide over the above problems

## CHAPTER 5 POSTSCRIPT

As explored through the course of the previous chapters, there are no parallels or precedents of Demonetisation 2016 in the Indian or World history. After a span of over six months, though much of the common man's woes are over, the speculations over the true costs and benefits of this mammoth exercise is not. When the current Reserve Bank of India Governor Urjit Patel was summoned by a Parliamentary Committee to know about the progress on Demonetisation, it was learnt from him that the counting of notes is yet to be completed<sup>31</sup>. Patel was quoted as providing the following inputs<sup>32</sup> –

*The RBI was using 39 counting machines and had hired seven more machines. Even with some many machines, it is taking time as they also have to keep count of the fake notes. They have decided to buy some more counting machines.*

*The bank had cut staff holidays and they were working "round the clock" except on Sundays to count the notes. The total money in circulation now is ₹15.4 lakh crore against ₹17.7 lakh crore in November last year when Prime Minister Narendra banned high value notes in an attempt to battle black money and corruption.*

*RBI is taking time to announce the count of demonetised notes collected as the banned notes are still to come in from Nepal and cooperative banks are being allowed to accept them. Also, post offices, where people could exchange old notes for new currency last year, are yet to deposit old notes with the RBI.*

It is true of what Y. V. Reddy has added – "Demonetisation 2016 is actually the beginning of the story". The Prime Minister of India Shri Narendra Modi needs get his act together and match his narrative of "Acche Din" (good days). He has been doing his part by working really hard without any breaks. He also needs to mobilise his council of ministers, the members of his political party, get customary support from opposition members and the officials in the Indian Administrative Services.

The current Indian government has the rare privilege of enjoying the trust of a majority of the citizen as shown in the following infographic<sup>33</sup>. As Niall McCarthy of Statista explains –

*Trust in government serves as a vital driving force for a country's economic development, increases the effectiveness of governmental decisions, as well as leading to greater compliance with regulations and the tax system. The level of confidence in a country's government is generally determined by whether people think their government is reliable, if it can protect its citizens from risk and whether or not it is capable of effectively delivering public services.*

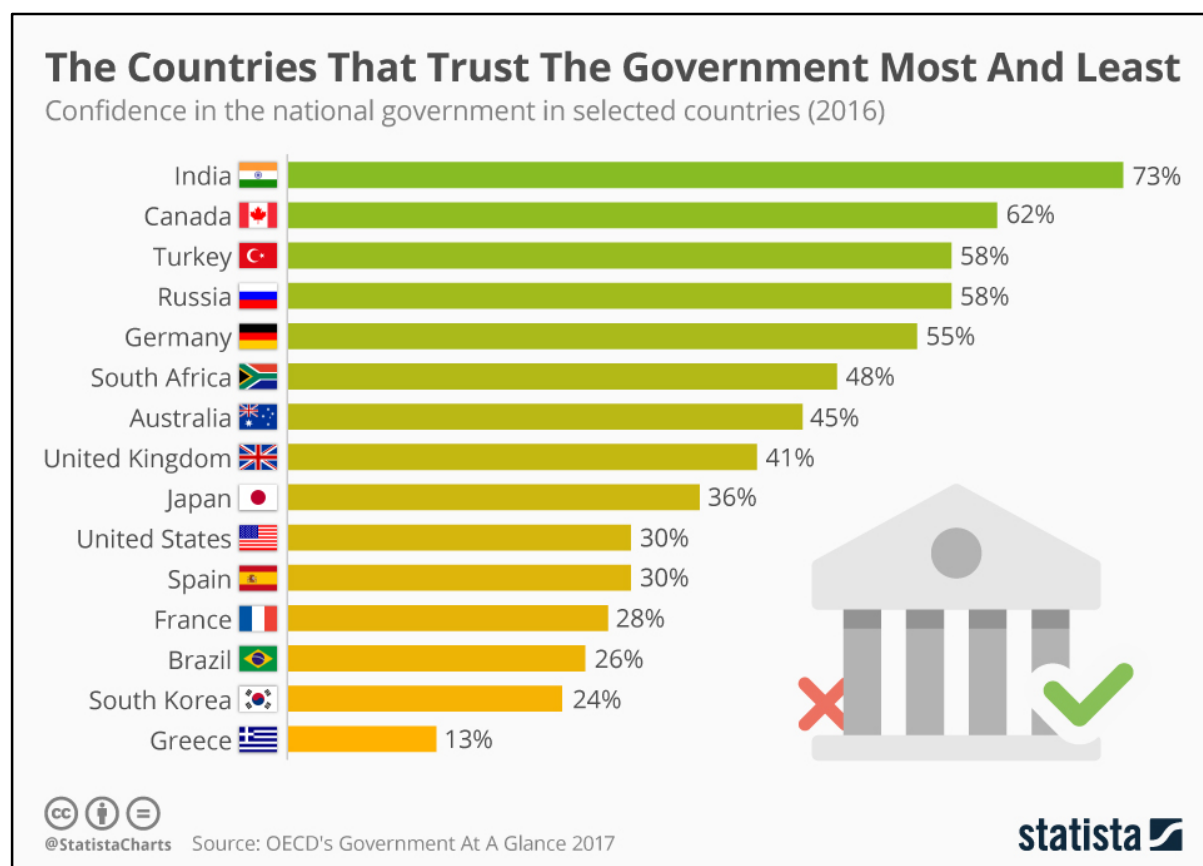
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<sup>31</sup> <http://www.ndtv.com/india-news/banned-notes-deposited-still-being-counted-rbi-governor-urjit-patel-tells-lawmakers-1723905>

<sup>32</sup> <http://www.hindustantimes.com/business-news/deposited-demonetised-notes-are-still-being-counted-rbi-governor-urjit-patel/story-oZyhJdtXZvIKnaf9IDCVIO.html>

<sup>33</sup> <https://www.statista.com/chart/10273/the-countries-that-trust-the-government-most-and-least/>

The statistic was obtained from the 2017 edition of the OECD's<sup>34</sup> 'Government at a Glance report'<sup>35</sup>. OECD currently has 35 member countries<sup>36</sup>, including India, who have united together with a broad aim of cooperation on topics of allied interests.



**Figure:** Representation of citizen's confidence in the elected government

It is not on the Indian government but the true onus lies on everybody to act beyond their call of duty to truly fulfil his dream of a new and revived India. If that is achieved, it will be a great tribute from Indian citizens and diaspora to two timeless teachers – Dr. A. P. J. Abdul Kalam and Swami Vivekananda.

<sup>34</sup> OECD - Organisation for Economic Co-operation and Development.

<sup>35</sup> <http://www.oecd.org/gov/government-at-a-glance-22214399.htm>

<sup>36</sup> <http://www.oecd.org/about/membersandpartners/list-oecd-member-countries.htm>

### FOR FURTHER READING

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