



# Demonetization in India

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On 8th of November 2016, when much of the population was preoccupied with anticipating the results of the US election, India sprung its own surprise. In late evening, through an unscheduled live television broadcast, Prime Minister Narendra Modi declared that all ₹500 and ₹1,000 banknotes currently in circulation would cease to be legal tender from midnight of the very same day. In their place, a new series of ₹500<sup>1</sup> and ₹2000 banknotes would be introduced. Overnight, 80% of cash was rendered useless for transactions.

The exchange of invalid notes was implemented through strict controls, with a final deadline set for 30 December. Two days after the announcement, banks began the exchange process, for which proof of identity was required. To regulate the overwhelming demand, a maximum of ₹20,000 per account per week was fixed (this was subsequently increased to ₹24,000). There was no limit on how much money could be deposited in one account, but if the total exceeded ₹250,000 between 9th November and 30th December, the depositor would be required to provide a PAN card.<sup>2</sup> It was envisioned that this requirement would result in previously unaccounted cash flows becoming known to the tax authorities, who would henceforth be able to keep track of large cash flows.

Additional relaxations of the rules were introduced in an ad hoc manner. For example, since the end of the year is one of the wedding seasons in India, a higher withdrawal limit (₹250,000 per account) was permitted for families with wedding expenses to cover. Places of public importance such as government hospitals, petrol and gas stations, train and flight booking agencies, state government's dairies, ration outlets and crematoria were allowed to accept old notes until 24th November. Farmers were allowed to withdraw ₹25,000 per week. Unsurprisingly, some actors exploited these concessions to launder their money, for example by purchasing railway tickets for the most luxurious class and the longest distance possible with the old denominations, only to cancel the booking later and get a refund in the newer denominations. In response to such creativity, the government had to stay on its toes and update its policies continuously.

In his public address, Modi highlighted three reasons for this sudden demonetization: the need

to impede terrorism, which was allegedly funded by counterfeit currency; rampant black money<sup>3</sup> and endemic corruption. He could be seen as appealing to the citizen's patriotism, presenting himself as above his political party and taking action in the national interest. He called this *his* and the honest Indian *citizen's* fight against black money and corruption, and asked the population to be patient for a few days in order to secure a better future. Modi claimed that his decision was not so abrupt after all, but merely the continuation of policies such as *Pradhan Mantri Jan-Dhan Yojana*.<sup>4</sup> This was a national financial inclusion scheme launched in 2014 under which 220 million new bank accounts were opened by June 2016. Since only banks were deemed eligible for the 2016 demonetization drive, this was indeed a necessary precondition. Between June and September 2016 the government implemented an *Income declaration scheme*.<sup>5</sup> This enabled people who had previously hidden their actual income to come forward and declare it in the form of cash, investments or other assets. In effect this was money laundering sanctioned by the government, but it was justified by Modi as offering those who possessed black money in some form or other (perhaps because they were victims of unforeseen situations) a chance to come clean.

Modi's demonetization has been receiving mixed responses. Some opposition parties criticized the assumption that black money is hoarded in cash and claimed that it was more likely to be transformed into real estate, gold or accounts in foreign countries. Despite a fall of the stock market and in some sections of the poor, however, in the social media most young Indians were enthusiastic about the premier's brave move (the hashtag #surgicalstrike against black money became an instant hit).



Such notices are a common sight at shops.

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Despite the government's efforts to ensure smooth execution, daily life was severely disrupted in many places, especially rural areas where cash is the sole driver of exchanges integral to people's lives. Although banks provided services for longer hours, reports surfaced of people standing in queues for hours before being turned away as banks ran out of their daily (new domination) cash stock. Demonetization created an imbroglio for the Indian citizen and a feeling of dispossession. This context can be better understood if we look into the

phenomenon of money itself in the emergence of market capitalism, when economy becomes disembedded from the social matrix (Polanyi 1944). The value of state issued paper bills had hitherto been taken for granted by the people of India, who now received an unexpected reality: the money they had viewed as inherently powerful in fact had no value without the state's declaration that it constituted a legal means of exchange. In my field site (Palghar, near Mumbai) cash is the sole medium of exchange in the daily bazaars and street vendors, and also in shops selling expensive goods such as electronics and even gold. People pay for virtually all services and utilities such as telephone and electricity in cash. Amid speculation that a shortage of cash would decrease demand for goods and throttle businesses, I was keen to explore how the enterprises and people I had worked with, most of them reliant on cash, even if they also made some use of banks, were adjusting to Modi's move.

For example, most workers in Palghar receive their wages in cash. One small business owner told me that he had begun to pay his staff and suppliers via bank transfers, however many of his workers come from other states and many lacked proof of a local address without which they could not open a local bank account. During the cash crunch my informant was not able to pay these workers in full. He said that most of them understood the situation and were quite cooperative. His company produces parts that are used in water heaters, and he said that sales had fallen as a result of consumers not having sufficient access to cash. Obligated to slow down his production line, he added that it felt like a setback of half a year. Although he expressed his disappointment by criticizing details of the government's planning and implementation, he refrained from criticizing the policy itself, especially Modi's intention.

A recent telephone conversation with an employee in a factory where I spent a lot of time during my fieldwork revealed a different picture. She was very assertive regarding her support of the policy, emphasizing the fact that the money in her possession is hard earned and that she has nothing to fear as she does not have a stash of money at home. She had decided to cooperate fully as she thought this would benefit people in the long run. On the positive side, she pointed out how, during this time of crisis, people had begun to appreciate the value of money and to practise frugality. Since moving from a money based market economy to a system based on truck and barter is hardly a viable option, people try to seek out middle ground. My informant's narrative suggested an increase in cooperation among those linked in economic networks. For example, mutuality expresses itself in daily consumption practices as petty traders such as the vegetable vendor and the milkman offer their products on credit, which previously was pretty uncommon.

In numerous public addresses since the decision, Modi has successfully added a moral dimension by insisting that a clean, honest person does not have any reason to feel threatened by the policy, while those who feel threatened must have done something dubious to explain

their piles of tainted black money. Moral judgments are also passed on the strategies that actors adopt to deal with the new circumstances. Previously considered acts of generosity may now be viewed as morally questionable. For example, a businessman paid his workers two months' salary in advance after demonetization, some might praise him for seeking to alleviate his workers' cash flow, but others might suspect a ruse to circumvent government restrictions and dispose of his reserves of black money. So far the majority of the people I have been able to communicate with have refrained from questioning Modi's good intention, indicating that his appeal to shared notions of justice and fairness has worked.

At this point the nation is still in shock and struggling to balance Modi's charismatic propaganda with knee jerk reactions of despair among citizens who pay a high price for this logistically challenging undertaking. What the country needs is time; for the time being, however, debates, discussion and gossip centered on demonetization continue to reverberate in the streets, the social media, and parliament alike.

## References

Polanyi, K. 1944. *The Great Transformation: The political and economic origins of our time*. New York: Holt, Rinehart & Winston.

## Notes

<sup>1</sup> 1 Euro is around 70 Indian rupees.

<sup>2</sup> Permanent Account Number (PAN) is used to declare income tax in India.

<sup>3</sup> Black money (*Kala dhan* in Hindi) includes but is not limited to money earned by illegal means, as well as money for which income tax and other taxes are not paid. The colour black here denotes the money is tainted, owing to the means by which it was accumulated.

<sup>4</sup> The scheme offers zero balance account (an individual holding such an account does not require to maintain a certain amount of balance, the account will sustain even if there is no balance), overdrafts and free insurance facilities along with debit cards, though these do not always function smoothly.

<sup>5</sup> Previously undisclosed income was taxed at 45% by the government under this scheme, which was reported to have led to declarations of about 67000 crore rupees (ca. 9.5 billion Euros).