POLICY ANALYSIS OF DEMONETISATION IN INDIA: 1946–2016

Introduction

This paper attempts to understand the demonetisation policy of 2016 through an analysis of similar demonetisation policies in 1946 and 1978. While a lot has been written about the barriers to the implementation of the demonetisation policy of 2016, not much has been said about the factors that led up to the policy decision. In this paper, I argue that the demonetisation policy of 2016 was a technocratic decision, with very strong political and economic motivations.

A study of the instances of similar policy changes in 1946 and in 1978 in India will help enrich our understanding of the factors that led to the demonetisation policy of 2016. A comparative analysis will not only bring to light the differences across the three identified time frames but also provide an insight into the perceptions among policymakers towards certain threats and their responses.

This paper argues that the demonetisation policies of 1946, 1978 and 2016 were pitched against the suspected black economy. The language of anti-corruption measures appears to remain constant across the varying time frames. It also attempts to draw parallels between the political circumstances across the three time frames.

The first section of the paper highlights the methodology employed and the theoretical frameworks that could assist the understanding of the policy change under consideration. The second section reviews the available literature on demonetisation at the national and international levels. The third section provides a timeline of the events that led up to all three national instances of policy change. The fourth section attempts to analytically compare the political circumstances that led to the instances of policy change. The paper concludes by briefly restating the arguments made and will hopefully make the reader question what she already knows about the policy under scrutiny.

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Methodology

By constructing this narrative, I wish to explain the causes that led to the three identified instances of policy change, i.e., the demonetisation policies of 1946, 1978 and 2016. Since most literature around demonetisation policies emphasises the effects of the policy decision and the economic ramifications of the policies, the major source of information for this paper are the Reserve Bank of India (RBI) and Ministry of Finance notifications issued across all three time frames. While I have been able to access the original notifications, the published interviews with officials in 1946 and 1978 were also useful sources. As for the 2016 demonetisation policy, the main sources of information are the RBI notifications along with several articles published in newspapers such as *The Hindu* and *The Economics Times*.

I have tried to construct a narrative of policy change that seamlessly strings together the three instances of the adoption of the demonetisation policy. All information being used for this paper has been acquired through secondary research. Apart from the effects that these policies have had across the three instances (in terms of monetary ramifications for the government), this narrative largely relies on qualitative data, most of which is sourced from published newspaper articles.

Literature Review

All the published material on the subject of demonetisation in India and around the world can be divided into three broad categories: one set of writings analyses the notifications issued by the central bank (the RBI in India) and the Ministry of Finance that announced and operationalised the policy through a series of notifications. This also includes an investigation into the legality of the decisions made. The second set of writings not only scrutinises the implementation of the policies but also analyses the effects that the policies of demonetisation have had on the masses, the bureaucratic practices that they have encouraged and the overall impact on the economy. This kind of writing also seeks to question the declared motivations behind these policy decisions. The third set of writings tries to understand the political and electoral motivations that create the conditions for the formulation of macroeconomic policies such as the demonetisation policies of 1946, 1978 and 2016. This paper situates itself along the blurred boundaries that separate the second and third type of writings.

While a lot of scholarly analysis has been done of the demonetisation policy of 2016 through all the aforementioned lenses, the rigour of analysis was
weaker around the 1978 policy and nearly absent around the 1946 policy. This section of the paper will review the writings around the three instances of policy. However, emphasis will be laid on the policy of 2016 on account of it being the instance of policy change that I wish to explain via a comparison with the preceding policies.

It is in the first style of writing that relies on a close scrutiny of the notifications and/or ordinances that legitimised the politico-economic decisions made by the ruling government that I situate the articles published by The Indian Express, The Economic Times and Livemint among others following the announcement on 8 November 2016. These articles are informative in that they enlist the various RBI notifications and central government and Ministry of Finance (MoF) announcements regarding the policy change. However, apart from being descriptive and informative, a few articles published in this category bear headlines that reflect a greater skepticism about the number of notifications and announcements issued that point towards the argument that the move was not well planned. This includes the articles “Demonetisation: 50 days and 74 Notifications” (The Indian Express 2016) and “59th Circular by RBI, How Many More to Come?” by T K Arun (The Economic Times 2016) An article published in Livemint, dated 22 December 2016, enlisted the several RBI notifications that had been issued between 8 November and 22 December 2016. Most writings in this category are first descriptive and then critical of the decisions made by the ministry and the RBI. A few other writings in this category also question the legal foundations of the decisions made by the government.

For example, an article in The Economic Times (Wahi 2016) makes the legal–philosophical argument that we live in a country governed by the rule of law and not by the rule of men, and a purely legal argument that questions the demonetisation of 2016 by stating that while Section 26(2) of the RBI Act empowers the government to declare any series of notes as illegal, it does not sufficiently justify the continuously shifting restrictions on cash withdrawals and deposits (via subsequent notifications and public announcements). It also does not enable the RBI to discriminate between holders and non-holders of bank accounts. This line of argument also analyses the procedures that led to the adoption of the demonetisation policies of 1946 and 1978.

The 1946 demonetisation policy that devalued currency notes of Rs 500 and above (following the recommendation of the new Finance Minister Sir Archibald Rowlands). A similar process was followed in 1978 when the devaluation of Rs 1,000 and above was announced on All India Radio
after the promulgation of an ordinance. However, the argument that the demonetisation policy of 2016 is unconstitutional on account of following a legal process that differs from the one followed previously is not convincing. Having said that, the public discontentment after the demonetisation move in 2016 found expression in a number of public interest litigations (PILs) filed with the Supreme Court that questioned the validity of the “demonetisation notification”.

The second broad style of writing that characterises the discourse around demonetisation can be seen to include but not limited to the arguments made in the first style of writing. Economists and scholars in this category try to analyse the policy of demonetisation based on the effect that it has had or could have on the masses and the economy. This can hence be seen as an argument that concerns itself with the effects of the policy decision(s).

While alluding to the effects of the policy decisions, writings in this category also analyse the implementation of the policy. This includes articles that describe the inconvenience caused to the common man, the effect of the policy decision on the informal economy (Bhardwaj 2016), the unequal impact across masses (Gopalkrishnan 2016) and the irreversible damage that the policy decision has caused to the economy (Dhole 2016). These arguments include predictions and speculations pertaining to the effect that policy decisions have on the gross domestic product (GDP). For example, India Ratings and Research revised its GDP forecast and stated that it will fall from the earlier estimated 7.8% to 6.8% in FY17 (Dhole 2016). Economists like Pranab Bardhan and Amartya Sen expressed their skepticism about the demonetisation policy of 2016 by calling it “an assault on the poor” and a “despotic action that has struck at the root of economy based on trust” (The Hindu 2016).

While an attempt has been made to pitch the policy of demonetisation on several grounds, the government has insisted time and again that the policy decision was intended to adversely affect black money hoarders, terrorist funding and bureaucratic corruption, and encourage the development of a digital economy. However, in a series of articles that express skepticism about this claim, it has been opined that by encouraging the economy to be digitised, the state has done little to curb corruption but has only created newer means for the practice of corruption. As illustrated by the case of B Srinivasa Rao, an income tax officer in Visakhapatnam (Javaid 2016), who asked for bribes in installments owing to the cash crunch being faced by the payee, one can imagine the several innovative ways in which the practice of corruption would have and will continue to thrive in post-demonetisation
India. Apart from demanding bribes in installments, one can expect bribes being demanded in the form of movable assets.

On further speculation, one can imagine the other ways in which the demonetisation policy would have affected the market of corruption in India. At a time when the entire country was scuttling around to come to terms with the ramifications of the new policy that included exchange of notes and hours spent in queues for cash withdrawals, it would be safe to imagine that the “babus” in the government offices and banks could have exploited the helplessness of citizens. While the officials themselves would have been facing a similar struggle, the demand for cash made of citizens and the promise to “move things along quicker” could have created conditions for the development of a more lucrative and mutually benefitting system of corruption.

As mentioned before, this paper can be situated in the middle of the second and the third style of writing, the one that I will try to explain in this concluding part of the section. Individuals, scholars and reporters using this style of writing seek to answer questions that this paper tries to explain in detail. Highly speculative in nature, writings in this category try to question and understand the motivations behind the policy decisions, the political and economic policy objectives, the electoral aspirations that these policies could be used to achieve, among others. This style of writing does not limit itself at trying to construct a narrative of the instances leading up to the policy change but also pays close attention to the factor of temporality, that is, it asks the question: Why did the policy change occur at a given point in time, not sooner and not later?

According to a report in the Hindustan Times:

The BJP’s thumping victory in the Chandigarh municipal election on December 20 led party chief Amit Shah to describe it as a “stamp of approval” for Narendra Modi’s demonetisation decision. He had reasons to make that claim. BJP won almost every poll countrywide, post the note ban. But Shah has taken a huge risk in describing election victories as endorsement of demonetisation. Any adverse outcome in the ensuing assembly elections in five states—Uttar Pradesh, Uttarakhand, Punjab, Goa and Manipur—will deny him the liberty to delink the election result and demonetisation (Kumar 2017).

Apart from the belief that demonetisation occurred when it did in order to render some political parties cashless for the upcoming elections, several other speculations with reference to the effect this move would have on businesses such as a Paytm have been made. Experts emphasising on this
form of writing are comforted by how the focus of discussion has been the inconvenience and not the policy of demonetisation, which exposed a deliberative deficit in the government and cast a shadow on its capacity to effect sound policies (Hasan 2017). Scholars have also been concerned about how the opinions that disagree with the 2016 policy of demonetisation have been termed pro-corrump and, hence, anti-national. I will try to consolidate the opinions in this category in the subsequent sections of this paper.

Timeline

In this section of the paper, with the help of a timeline, I will try to highlight the three identified instances of policy change. Largely descriptive in nature, this section will state the events leading up to the policy changes of 1946, 1978 and 2016. An understanding of these events will make the analysis of the subsequent questions more comprehensive. Although the larger theme that this paper is based on is the analysis of the factors leading up to the demonetisation policy of 2016, I refer to the demonetisation policy of 1978 with the aim to draw some parallels between the prevalent conditions then and in 2016. The reference to the 1946 demonetisation policy does not essentially contribute to our understanding of the 2016 policy decision but is still a part of the analysis for the sake of completeness.

1946: The Demonetisation of Currency

On 12 January 1946, the Government of India passed the High Denomination Bank Notes (Demonetisation) Ordinance. This entailed the devaluation of currency notes of Rs 500 and above. Two important political and economic factors are said to have led to the promulgation of this ordinance. First, the Second World War, fought between 1939 and 1945, was said to have been largely profitable for businessmen in India who, it is believed, supplied towards the Allied war effort and concealed huge profits from the tax department. After the end of the Second World War in 1945, the promulgulation of the Demonetisation Ordinance in 1946 was seen as a move made against those big businessmen who had amassed huge sums of wealth and were evading taxes.

Second, the Bank of England, withdrew (from circulation) the notes of £10 (issued from 1759 to 1943), £20 (issued from 1725 to 1943), £50 (issued from 1725 to 1943), £100 (issued from 1725 to 1943), £200 (issued from 1725 to 1928), £500 (issued from 1725 to 1943) and those of £1,000 (issued from 1725 to 1943) on 16 April 1945 (Bank of England 2014). Taking a cue from this
exercise of the Bank of England, Sir Archibald Rowlands, recommended that India should demonetise higher denomination currencies\textsuperscript{1}.

As a response to the observed tax evasion by businessmen in India and Rowland\textquotesingle s recommendations, two ordinances were promulgated on 12 January 1946. These ordinances officially devalued currency notes of Rs 500 and above in India (Gazette of India 1946). However, people were given several windows for the conversion of higher currency notes. This exercise resulted in the conversion of high currency notes to the tune of Rs 9 crore (out of the total Rs 144 crore in circulation). However, notes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954.

1970: The Direct Tax Enquiry Committee

In 1970, the Indira Gandhi government set up the Direct Tax Enquiry Committee under Justice Wanchoo. This committee (also known as the Wanchoo Committee) was set up to solicit recommendations about the strengthening of the taxation system in India. Among several other recommendations, the Wanchoo Committee recommended the demonetisation of high currency notes. Bibek Debroy (an economist and a member of the NITI Aayog), quotes Madhav Godbole, from his book *Unfinished Innings: Recollections and Reflections of a Civil Servant* (1996):

\begin{quote}
“In the middle of 1971 the Direct Taxes Enquiry Committee, popularly known as the Wanchoo Committee, submitted an interim report in which, inter alia, it recommended the demonetisation of high-value currency notes. As soon as the report was received, it was discussed in a series of meetings in the Finance Minister\textquotesingle s room. By that time Y.B. Chavan had been shifted as Finance Minister.

After detailed consideration, it was decided to undertake a series of steps, including demonetisation, as recommended by the committee. In view of the sensitive nature of the subject and the need for maintaining utmost secrecy, it was decided that the Finance Minister should speak to the Prime Minister and obtain her approval to the proposed course of action before further steps were initiated. Accordingly, the Finance Minister spoke to the Prime Minister. As he told me on his return from the meeting, the conversation was very brief and very crisp. When Y.B. Chavan told her about the proposal for demonetisation and his view that it should be accepted and implemented forthwith, she asked Chavan questions about the Congress Party\textquotesingle s electoral prospects after such a measure.” (Debroy 2016)
\end{quote}
Hence, the probability that the demonetisation policy would be formulated and/or implemented in 1971 ceased to exist with the rejection of Finance Minister Y B Chavan’s suggestions by the then Prime Minister Indira Gandhi.

1975: The Declaration of Emergency by Indira Gandhi

The period that most people describe as the dark age of Indian democracy began on 25 June 1975 and lasted till 21 March 1977. Those 21 months of uncertainty and fear were triggered by the declaration of Emergency by the then Prime Minister Indira Gandhi. Threatened by a series of factors that included the political environment within the country, recession, growing unemployment, rampant inflation and the food crisis, and the upheavals in Gujarat and Bihar (where the JP Movement was beginning to gain momentum), the Indira Gandhi government (via the then President Fakhruddin Ali Ahmed) issued an order that gave the prime minister the authority to rule by decree and curbed civil liberties of the people. The suspension of fundamental rights led to the arrest of dissenters. Although threat to national security and adverse economic conditions were reasons cited for this decision, it is believed that this move was made to protect the government’s political and electoral interests, especially as a safeguard against the revolution against the prime minister that J P Narayan was organising. The censorship of the press under the provisions of the Emergency played a major role in this term being called the “darkest days” for Indian democracy. This time frame has been described as the time when “the nation was bound with chains and turned into a jail due to one person’s lust for power” (The Hindu 2015).

On 18 January 1977, the prime minister suddenly announced that the elections to the Lok Sabha would be held in March. This declaration also came with the release of political prisoners, removal of censorship on the press and the removal of the restrictions on civil liberties. The speculations about the motivations for conducting the “surprise elections” are many. While some believe that better sense had prevailed and Indira Gandhi had finally realised the importance of the existence of a liberal democracy, others believe that she was misinformed, that is, she might have believed that the declaration of the 22-point programme, the slum rehabilitation policies and the other “pro-people” measures would ensure that she would win the next election. However, popular discontentment found democratic expression when the elections were held on 16 March 1977 and the Congress Party faced a humiliating defeat.
1977: The Janata Party Comes to Power

Popular discontent during the Indira Gandhi rule led to the voting out of the Congress government as the Janata Party government came to power. Taking full advantage of the popular sentiments and exploiting it for political gains, the Janata government continued to speak of the excesses during Congress rule, especially during the Emergency period. The Maruti scandal that involved Sanjay Gandhi and reeked of cronyism and corruption was used to bolster the narrative against the Congress. In a time when the new government was making a conscious effort to distinguish itself from its predecessors, several actions and inactions of the Congress government under Mrs Gandhi were highlighted. This also included the failure to implement the recommendations of the Direct Tax Enquiry Committee (also known as the Wanchoo Committee). This particular inaction on the part of the government was further used to support the claim that the Congress was corrupt and would not adopt any measures that addressed the issue of corruption.

1978: The High Denomination Notes (Demonetisation) Act

The factors stated in the previous section seem to have motivated the move by the Janata Party government. On 14 January 1978, R Janaki Raman, a senior official from the chief accountant’s office in RBI was informed about the government’s decision to demonetise high-denomination notes and was asked to draft an ordinance. After the ordinance was drafted, it was sent to President N Sanjiva Reddy for assent. Having received the president’s assent, on 16 January 1978, the ordinance was announced via All India Radio at 9 am, which stated that all banks and government treasuries would be closed the next day. Banks and government treasuries were expected to submit information to the RBI regarding the high denomination notes held with them. The public was to be given three days to exchange the notes and was expected to make several declarations in the decided format. The ordinance defined “high denomination bank notes” as those bank notes of the denomination of Rs 1,000, Rs 5,000 and Rs 10,000, issued by the RBI (India Kanoon 2011). The Demonetisation Act of 1978 is said to have brought back Rs 20 crore (out of the Rs 145 crore in circulation) in the form of high denomination notes.

Having taken one step towards arresting the growth of black money in the economy and against tax evasion, the RBI kept up with its policy decisions by issuing several Central Board of Direct Taxes (CBDT) circulars that allowed tax evaders to disclose unaccounted sources of income and wealth. This then resulted in the ratification of the Voluntary Disclosure of Income Scheme in 1997.

2004–14: Congress in Power

After coming back to power in 2004, the Congress government (the United Progressive Alliance) under Prime Minister Dr Manmohan Singh faced several challenges. One such major roadblock was the number of scams exposed during their regime. These included:

- The Bofors Scam (1980s–1990s):

  A scam with a strong emotional appeal on account of being related to defence services and India’s security interests, the Bofors scandal came to light in the year 1987. Prime Minister Rajiv Gandhi was said to be involved in the receipt of kickbacks from the Swedish arms company.

- The Telgi Scam (2002):

  The infamous Telgi scam involved the counterfeiting and circulation of stamp papers across states in India. The losses to the exchequer were estimated at about Rs 2,000 crores. The mastermind behind the scam A K Telgi had confessed that he enjoyed the support of several Congress ministers across 12 states in India.


  Former Telecom Minister A Raja was involved in a Rs 1.76 lakh crore scam that involved the awarding of dubious 2G licenses in 2008 at throw-away prices pegged at 2001 prices.

- The Coalgate Scam (2012):

  The Comptroller and Auditor General (CAG) had accused the government of allocating coal blocks without following the mandated process of competitive bidding. As a result of this, several public sector enterprises and private firms paid far less than what they were required to pay. As per CAG estimates, the loss to the exchequer was estimated to be approximately Rs 1.8 lakh crores.
Other scams that were unearthed (and was said to have Congress involvement) were the Commonwealth Game Scandal and the Wakf Board Land Scam, among others. Despite the political turmoil, the UPA government managed to stay in power for a period of 10 years, i.e., 2004–14.

However, in the latter years of their rule, especially with the active role played by the then CAG, Vinod Rai, the scams that were unearthed began to become one of the active concerns of citizens. The popular sentiment helped in the creation of several anti-corruption movements such as the one led by Anna Hazare. The demand for a transparent and accountable system of governance became stronger by the day.

2014: The BJP and the General Elections

Having retained power for a period of 10 years, the Congress (the UPA) was hoping to be re-elected in the 2014 general elections. However, the party chose Rahul Gandhi as their prime ministerial candidate to oppose Bharatiya Janta Party`s (BJP`s) prime ministerial candidate—the then Gujarat Chief Minister Narendra Modi. Modi was successfully able to pitch the Gujarat model of development and was able to convince the masses, yet again, that the Congress and its government were corrupt and that the country needed to vote it out of power. Attempts in this direction also found expression in the BJP election manifesto, which not only highlighted the faults of the then government in power but also presented a roadmap that promised to lead the country out of its economic and political miseries. The BJP manifesto criticised the UPA government for being corrupt, and vowed to track down and bring back black money stashed in foreign accounts (BJP 2014).

2014–16: The BJP in Power

Owing to its strong campaigning strategy, a strong prime ministerial candidate and weak opponents, and the anti-Congress sentiment within the country, the BJP came to power after winning the 2014 general elections in India. Soon after coming to power, the BJP, in the 2014 budget, constituted a Special Investigation Team (SIT) to discuss policy matters on combating the black money menace and the status of ongoing probes, among other issues (The Hindu 2014). The first meeting of SIT was held on 4 June 2014. This could be seen as the first step taken by the BJP government to distinguish itself from the UPA government, which the former had time and again criticised for being corrupt. Following the constitution of the SIT, the Prime Minister, on 15 August 2014, announced the launch of the Pradhan Mantri Jan Dhan Yojana
(PMJDY). The biggest financial inclusion initiative in the world (india.gov.in 2014), this scheme sought to empower citizens financially by ensuring access to the formal banking system.

In 2015, the BJP government, keeping in line with the promises made in its election manifesto, initiated an information exchange (on matters concerning hoarding of black money) and changes in tax treaties with Mauritius, Cyprus and Singapore. Later in the year, the government passed the Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015. According to the provisions of this Act, willful attempt to evade tax on foreign assets, failure to furnish returns and abetment of tax evasion were declared to be punishable offences (PRS India 2015).

The setting up of the SIT, the launch of the PMJDY scheme, the changes in tax treaties with a few countries and the Undisclosed Foreign Income and Assets Bill, 2015 were followed by the Income Disclosure Scheme in 2016. The scheme was expected to remain in force for a period of four months from 1 June 2016 to 30 September 2016 for filing of declarations and payments towards taxes, surcharge and penalty (Press Information Bureau 2016).

While the government was establishing mechanisms for the declaration of unaccounted wealth, the Cost of Cash in India Report and the RBI Annual Report (2015–16) were released. The Cost of Cash in India Report, commissioned by MasterCard, stated that transactions in India are very cash intensive unlike other developed or fast-developing countries. The study stated that cash deals cost India 1.7% of the GDP every year (Srivats 2016). The RBI Annual Report (2015–16) estimated that 6,32,926 fake currency notes were in circulation. Also, at the end of March 2016, 16 lakh crore bank notes were in circulation, out of which 6 lakh crore notes were in the denomination of Rs 1,000 and 8 lakh crore notes were in the denomination of Rs 500.

Having estimated the number of fake currency notes in circulation along with an estimate of the number of Rs 1,000 and Rs 500 notes in circulation, it was believed that most counterfeited notes were of these higher denominations. Also, the low real estate and capital markets were seen as a reason for the cash being held in hand by the public.

2016: The Demonetisation Policy

On 8 November 2016, the prime minister announced that (through RBI Notification (RBI/2016-17/112), Rs 500 and Rs 1,000 denominations of bank notes of the existing series issued by RBI (hereinafter referred to as Specified Bank Notes) shall cease to be legal tender with effect from 9 November 2016.
It was also announced that a new series of bank notes called Mahatma Gandhi (New) Series having different size and design, highlighting the cultural heritage and scientific achievements of the country, would be issued. Through several notifications (by the RBI and the MoF) dated 10 November, 13 November, 22 November, 23 November, 24 November, 25 November, 29 November and 1 December, the implementation of this policy decision was elaborated.

**Analysis**

Having understood the history of the policy of demonetisation in India, we can now look at the several ways in which the 2016 policy interjected the policy stasis. In this section, I will also try to draw out similarities and differences between the demonetisation policies of 1946 and 1978 with the policy of 2016. I argue that the formulation of demonetisation policies across the identified years has been based on an ill-informed and incomplete stakeholder analysis.

During the first instance of policy change, that is the 1946 demonetisation policy, the target population comprised big businessmen who, it was believed, had made huge profits during the Second World War. At that point in time, it was assumed that the nature of the economy was such that the attack would land directly on the target population without having an effect on the others. This was because of the nature of the population that had high denomination notes of Rs 1,000, Rs 5,000 and Rs 10,000. Similarly, the policy decision of 1978 must have envisioned the nature of the population that would be affected by the policy decision.

Although the size of the economy in 1978 was larger than that in 1946, it was only a few people who were under scrutiny (black money hoarders) and the policy was designed to target them. However, the motivations behind the formulation and implementation of the demonetisation policy of 2016 were starkly different from those of the previous policy decisions. Although all three instances of policy change targeted the black economy comprising black money hoarders and tax evaders, the latest policy decision had additional motivations.

Apart from the black economy, the 2016 policy was also meant to interrupt the circulation of counterfeited banknotes and the funding of terrorism in the country. However, while the effects of the previous policy decisions were more or less limited to the target population, the effects of a similar policy decision in 2016 spilled over and largely affected the common public. It
could then be said that the social construction of the target population in the case of the 2016 policy was shortsighted and incomplete.

While the criticisms of the policies of 1946 and 1978 are centred around (but not limited to) the fact that the devaluation of notes of higher denominations eventually led to an exercise of conversion, the criticisms with reference to the latest policy are not only centred around the erroneous social construction of the target population but also the lack of planning that is reflected through the several RBI notifications that were issued after the official announcement.

It is also interesting to note that while the Modi government has mentioned the Wanchoo Committee report to support its decision, some writers like Nilanjan Mukhopadhyay (2016) argue that this reference is reflective of a “selective memory”. In his opinion:

One could call it selective amnesia or partial use of facts, but Prime Minister Narendra Modi cited just one of the Wanchoo Committee’s recommendations to claim that while Indira Gandhi lacked courage and will to demonetise high-value currency in the early 1970s, he demonstrated exemplary courage since he is not driven to seeking short-term political and electoral gains and instead is motivated by the objective of eradicating black money. While citing the Wanchoo Committee’s recommendations on demonetisation, the prime minister conveniently left out that the committee was against voluntary disclosure and tax amnesty schemes (Mukhopadhyay 2016)

Although the Indian Executive did not have a strong say in the matter of the formulation of the policy of 1946 under British rule, the disagreement that Indira Gandhi had (as discussed earlier) led to the inability to adopt this policy in 1971. When the decision to demonetise high denomination currency notes was made in 1978, I G Patel, the then RBI governor, was not in favour of the step. However, the way in which the 2016 policy was pitched to the people was largely nationalistic and patriotic. Hence, any opposition to the policy was meant to imply a support for corruption and hence against national interests.

The similarities between the demonetisation policy decisions of 1978 and 2016 lie in the fact that just like the 1978 move was made by the ruling government (Janata Party) in order to assert its commitment to address the issue of corruption, a word synonymously used with the Congress (then), the policy decision of 2016 and the basis for it (the declarations made in the BJP manifesto, 2014) has similar objectives. The discussions about the scams of the Congress/UPA government helped in making the UPA look like the
antagonist. The anti-corruption measures undertaken by the BJP assisted in the assertion of its identity as that of a party that is against corruption.

It is believed that if the demonetisation policy had been formulated in 1970, the effects would not have been remarkable on account of the fact that the recommendations of the Wanchoo Committee were public in nature and hence gave the defaulters a window to protect their interests. However, the way in which the “surgical strike against black money” was announced on 8 November 2016 made sure that the defaulters were caught unawares.

A lot can also be said about the time at which the Modi government decided to introduce this anti-corruption policy. Right in the middle of its term, when there was great debate about the ability (or the lack of it) of the government to live up to its promises of “Acche din”, the demonetisation policy could be seen as a way by which the state was reasserting its presence in the lives of the citizenry. Also, temporality is crucial to the understanding of this discussion. While a non-governmental organisation (NGO) in Pune called Arthkranti claims to have advised the government to demonetise higher denomination notes, regardless of whether this claim is valid or not, the fact that the government was thinking in the direction of taking concrete steps to address the problem of black money helps refute the claim made by several groups that it was not a deliberate decision.

It is believed that the timing of the move was based on electoral politics within the country. Since it is believed that campaign financing is generally dependent on the black economy, with the Uttar Pradesh elections coming up, the decision to demonetise higher currency notes would render several political parties cashless.

While the policy change of 2016 greatly disrupted the formal and the informal economy in the country, the introduction of notes of Rs 2,000 and the subsequent ease with which the conversions were being made possible appear to have led India into a situation that can temporarily be described as that of stasis.

**Conclusion**

Through this paper, I have tried to understand the history of demonetisation in India with the aim to find an explanation to the policy decision of demonetisation in 2016. One can conclude that while the decision to demonetise high denomination currency notes has largely been described as being a purely political and electoral move, it would be safe to say that
the decision was also technocratic. For example, the measures taken before
the announcement of the policy (Income Disclosure Schemes, Black Money
and Imposition of Tax Act and the PMJDY) provided sufficient time for the
people to channel/declare their assets. The PMJDY undertook a large-scale
effort to improve access to the formal banking system. However, after being
given a number of windows to come clean, for those who still continued to
be a part of the black economy, the sudden demonetisation of 2016 could
be seen as a final sweep. Although the decision could be rooted in political
aspirations, it would be a mistake to conclude that the move was only limited
to the politics associated with it.

The broad research question that I have tried to answer through this paper
is: What factors contributed to the rollout of the demonetisation policy in
2016? I believe that with a comparative analysis of the three policy moments,
I have been able to identify a connection (although not very robust) between
the three instances of policy change. Also, alluding to the previous policy
decisions, we can, in my opinion, conclude that while the problems of
black money and tax evasion have been constant across several decades,
the government’s response to it has largely been homogeneous. This can
be said on account of the fact that the stated motivations for all the three
policy decisions were very similar, i.e., to disrupt the functioning of the black
economy.

Largely retrospective and speculative in nature, I believe that my study assists
in a better understanding of the demonetisation policy of 2016 by grounding
it in the history of the political economy in India. This study also cautions
us against making hasty conclusions and categorising major policy decisions
as either political or technocratic. Through this study, I have tried to draw
attention to the blurred line that separates political and technocratic decision-
making.

This study can be criticised on account of the comparative approach that
it takes. One might believe that the understanding of the policy decision
of 2016 need not be grounded in the history of the gamut of similar policy
decisions and that these can all be explained in isolation. However, a
comparative study such as this one allows for us to pay attention to the ways
in which changing times might add to the problems, but the solutions to
them are largely homogeneous. This realisation can then be used to evaluate
the policy decisions that will be made in the future. Having a sense of what
works and what does not and mapping the stakeholders involved in the
operationalisation of the policy could allow for the creation of more robust
policies. While analysing the demonetisation policy of 2016, the results of the Uttar Pradesh elections can make us conclude that the electoral objectives of the policy have been achieved. However, it would be interesting to know what explains the defeat of the BJP in the Punjab elections.

In conclusion, this study shows that there are several factors that might seem unrelated to the given instance of change but can assist us in constructing a narrative leading up to the change. One way by which this study can be carried forward is by taking a closer look at the changes that the three policy decisions have had on the economic behaviour of people. If we are able to identify a steady trend in the way by which the economy has reacted to these decisions (while taking into account the differential economic conditions), it could add to our ability to foresee the implications of similar policy decisions in the future.

End Notes


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