
EXAMINE THE POLICIES RELATED TO DEMONETIZATION AND ESTABLISHMENT

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ABSTRACT

The purpose of this study is to analyze the effects of the 2016 demonetization policy implemented by the Indian government on the general populace in order to better understand the nature of popular protest and mobilization. Since Prime Minister Narendra Modi stated, to the complete surprise of the country, on November 8, 2016, that the high-denomination notes of 500 and 1000, which were in circulation at the time, would no longer be legal money, demonetization has been the most talked-about topic in India. Almost 85 percent of the money was lost in one blow. Ordinary people's lives were upended by the migration, which also caused over a hundred deaths, significant job losses in unorganized industries, and general suffering and inconveniences for the poor. Though there was a great deal of distress and inconvenience, the overall attitude appeared.

Keywords: Demonetization; Black Money; Cashless Economy; Corruption; Counterfeit Currency; Public Protest; Agitation and Mobilization.

OBJECTIVES

The objective of this paper is to study the politics of demonetization and mobilization. The question that needs to be searched is how despite widespread socio-economic and political implications of demonetization the government was able to generate more support than opposition and why mass public protest and mobilization did take place.

METHODOLOGY

The paper is an analytical study on public protest. This assignment studies various aspects regarding changing nature of public protest and political mobilization through analytical framework with primary and secondary data published sources like, newspapers, magazines, journals and the like etc.

INTRODUCTION

As the news of demonetization flashed around India, it was received with surprise and followed by huge lines in front of ATMs, shops, and petrol pumps. People seeking to exchange their old notes had to stand in long queues, and over hundred people lost their lives.ⁱⁱ At the same time many people supposed that government's move may turn out beneficial for the common man. The step of demonetization of the high denomination currency notes is, argue its supporters, a master stroke to flush out black money, dismantle terror funding, and crack down on money laundering and counterfeit currency. However, the real motive behind this unprecedented move seems to be undisclosed so far by the government. The economists, intelligentsia, social scientists, politicians and the common man are in confusion regarding the size of its impact on black money and corruption and finally on economic growth and development. This step will affect Indian economy comprehensively in long term and in short term consequences are widespread and somehow risky too. We feel it was not just an economic decision but a well calculated political move too.

Immediate and long term effects of demonetization on economy of India are certainly a debatable issue for the economists; but it has huge social and political implications. Dimensions of demonetization are much vast. Although government of India has given several reasons like to root out black money concentration, discouraging corruption, disrupting terror funding and money laundering. Later, in a changed narrative government said that it wants to turn Indian Economy into a cashless economy, but experts have speculated about the real motive behind this surprise move by the government. In fact, Government of India claimed that demonetization of high denomination notes was a well calculated move to achieve certain goals. Although, Government of India claimed that it was a well thought decision; in an interview to the NDTV, Nobel Laureate and eminent economist Noble laureate economist and philosopher, **Amartya Sen** termed demonetization a “despotic act” and said that it was an act of betrayal against the entire economy.ⁱⁱⁱ

According to Kaushik Basu: “*Demonetisation was ostensibly implemented to combat 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.*”^{iv}

Former Prime Minister Dr. Man Mohan Singh called demonetization of Rs.500 and Rs.1000 notes as a: “*Monumental mismanagement*” that might bring GDP down by 2 percent.”^v Arvind Virmani, the former economic advisor to the government of India, said demonetization is a useful method of flushing out black money. Surjit Bhalla, an economist and a former member of Economic Advisory Council to the Prime Minister of India, Narendra Modi, found demonetization bold step and bigger than GST.^{vi}

In India demonetisation was undertaken twice in the past, once in 1946 and the second time in the 1978. However, during both those times, the Indian economy was not so vibrant. Much of the debate on the demonetization move has focused on its economic consequences; not enough attention has been paid to the politics of this decision which can possibly explain the lukewarm opposition to it. One of the Modi's big election promises was to end corruption and bring back deposits in foreign banks. While staying almost 18 months in power, there was huge pressure on government to do something extraordinary to

end corruption and black money. There was a sharp criticism of the government's failure to deliver on the promise of bringing back black money. It was seen as a dramatic measure that would enhance the regime's credibility in fighting corruption and black money and divert attention from its perceived failures on this and other fronts. Instead of finding ways to tackle graft through the tightening of regulations and control on real estate and political party funding, demonetization was promised as the ultimate solution. **Prof. Nafis Alam** observed, "The government's demonetization drive, then, can be seen as an effort to curb the corruption and the flow of black money as stated, but also to force the general population to embrace digital payment options. Unfortunately, it seems to have failed in both aspirations. Even though the main stated aim of demonetization was to curb the extent of black money in the economy, during the first two months of the drive, almost 90% of the scrapped and demonetized notes were back in the banking system. This stands in contrast to the government expectation that roughly ₹3 lakh crore (US\$44 billion) of the scrapped notes would never return because they would be part of black money hoards. The second consequence of moving towards a cashless economy may also be a failure. When cash returns to the system, many Indians are likely to go back to the cash-based transactions given the over-dependence on cash-based transactions in the country due to limited connectivity and privacy issues related to transactions. Ultimately, the demonetization drive has been successful in making the banking sector healthier, but not what it was projected to do in terms of bringing in "black money" and turning the country into "digital India".^{vii}

The focus of discussion has been the inconvenience, not the policy of demonetization. On the one hand, the efforts to combat black money have been so far ineffective, on the other; the opposition has failed to convince the people that it was a mistake. The government has presumed that a significant portion of illegal wealth is stored in the form of banknotes. By December 30, practically the entire stock of old bank notes had been deposited, thus undermining the government's claim of extinguishing black money. This happened within a few weeks of the announcement. There was a hope that the government can profit from old and unreturned notes as the Reserve Bank of India could transfer that money to the government to spend. The apparent failure of the initial drive against black money, the change of goalpost from curbing black money to cashless economy to digital transactions was a compulsion, all this to justify the move by the government.

Further evidence of the overwhelming influence of what might be loosely termed as political constraints emerges from the fact that even critics assume demonetization was motivated by good intent, which makes it more difficult to go against it. This was supposed to include the elimination of black money, the curbing of counterfeiting, controlling terrorism and moving the nation to a cashless age. Critics of the government have had to preface their criticism with a disclaimer acknowledging the laudable motivations of the exercise even as they bemoan its incompetent implementation. But the poor and people working in the informal sector have not only been inconvenienced, they have been dislocated and their livelihoods irreparably damaged. Standing in a queue or being late to work is an inconvenience, but collapsing businesses and losing jobs go well beyond inconvenience.

In dealing to the messages, demonetization was presented as ultimate project to clean up the national economy. It has been portrayed as a drive against tax evaders to help the poor. Prime Minister Narendra Modi coined it as a step of 'redistributive justice', 'a war unleashed against the corrupt' and venal elite

flaunting their black money. Hence, many people believed that in trying to curb black money, the government was acting against the rich people hoarding piles of illicit cash. There was perception that the rich are suffering because this was a measure that caused problems for them is undoubtedly appealing to poor people, but such resentment doesn't translate into protest. In this case, it is actually thought to explain or excuse the pernicious effects of demonetization. Martha Nussbaum (reference) argues in her book *Hiding from Humanity: Disgust, Shame and the Law* that disgust is a questionable formation, one that has the social function of maintaining hierarchies, while the really democratic act would be to criticize and undo social hierarchies.

After demonetization, a clear cut message had been sent that the government of India had adopted the policy of zero tolerance in dealing with corruption, tax evasion and black money. Such type of message gave satisfaction among people that government had taken right step. Other reasons can be adduced to explain the relative shortage of protest. First, the general climate of fear and the government's intolerance towards dissent deters people from expressing opposition against the move. Second, there is Indian obsession with black money. The document will detail the steps the government has taken to tackle corruption, officials with knowledge of the matter said. The most prominent among these is demonetization, which has "strengthened the hands of the common citizen and the government in the fight against corruption, terror funding, Naxalism, human trafficking, black money and counterfeit notes" one of them said. Direct benefit transfer — where the subsidy amount is transferred directly to the beneficiary's bank account.^{viii}

The supporter of demonetization correlated this move with nationalism. The analogy with a war against corruption is also designed to do this, to make people participate in a sacrifice for 'cleaning up' the nation. Thus, the Prime Minister compared the war on black money to the external aggressions India faced in 1962, 1965, 1971 and 1999 (Kargil), when the 'intrinsic strength' of citizens was on display. He went on to add: "Such collective energy and patriotism is understandable in the face of external threats. However, when crores of Indians unite to fight a war against internal evils, it is unparalleled." Information and Broadcasting minister **Venkaiah Naidu** on Sunday said demonetization was a "national project of behavioural change" and urged filmmakers to present its consequences in a creative manner.^{ix}

The story of the day lies on the other side of political divide, the "enterprise" model of political parties. These parties that derive their relevance from pecuniary patronage predicated on caste, personal charisma, community or regional identity are the ones hit hardest. The workers and ground support for such parties are a net result of personal aggrandizement these bestow on their followers. Therefore, the relation that these parties have with their supporters is one of give and take with little space for sentiments. In the short term, it will be tough for such political parties to sustain their patronage power and in the long term a lot will depend upon their ability to rebuild their monetary reserves. One can summarize from the above logic that politically demonetization may lead to a one-way ascendancy street for cadre-based parties, but there is more to it.

Any discussion of public protests must also take into account the fact that large and visible protests are not spontaneous, they are usually an outcome of mobilization by political parties; but parties have been stymied because mobilizing against demonetization can be instantly condemned as support for corruption.

‘Only black money hoarders are opposing demonetization’ was one unvarying refrain of the ruling dispensation. In the face of this kind of propaganda, no one can afford to be seen as directly opposing measures to clean up black money and weed out counterfeit currency. The public also fears that opposition to demonetization will make them appear corrupt and immoral. “We are these days marking the third anniversary of Prime Minister

Narendra Modi’s unprecedented mandate. It is fair to contend that the decimation of the Opposition and limiting its appeal is one of his biggest successes so far. The victory of the Congress in Punjab notwithstanding, the recent Assembly elections re-established Modi as the most dominant political individual by far. India is on the anvil of another phase of single-party dominance, the kind witnessed in 1950-67 when there was no challenge to the Congress. Besides ensuring good governance and pro-people alternatives to the Centre’s priorities, non-BJP parties, if they wish to stage a comeback, require rebuilding credibility by collaborating on issues. An election pact must be the end of a political process. Unfortunately, a dialogue has been initiated with this as a starting point. Before overcoming the TINA factor and presenting a political alternative, Opposition parties have to project a vision for India that is different from Modi’s.”^x

Economists, editors, politicians, ex-bureaucrats, bloggers and businessman to common man is discussing about its benefits and fallouts, the real benefits or loss of this decision to our economy is still have to understand. In this noise one can easily lose the signals emerging from the hinterland. Therefore in order to understand to the potential ways in which the great demonetization will play out, we have to analyze the issue at multiple levels. To further refine the topic, in terms of economic theory on paper, demonetization should play out in a text book fashion and the government will end up mopping black money up as surplus in the Reserve Bank of India account. However, that may not be case when it comes to execution on ground. Therefore assuming a mediocre execution of the policy, as is the case with most governmental initiatives in India, one needs to look at the political economy of the policy measure. That according to us will decide the battle for or against Modi.

The response to the '**Bharat Bandh**' called by certain members of the Opposition was not overwhelming. While the intent part of demonetization was somehow beyond doubt, the execution bit is indicative of a budding sense of resentment that may culminate in something serious. The lack of large-scale protest is by no means an expression of popular support for the government’s decision but it has been interpreted not just as acquiescence but endorsement of the demonetization.

It is an open secret that cash drives the Indian electoral system and no politician can hope to be a serious player without utilizing some in the elections. A move like demonetization is bound to have a serious impact on the way India polity is structured. The way things stand there are currently two models of political parties in India. The first is the cadre-based ideologically- driven parties — this club is almost exclusively composed of the BJP, CPM and CPI. The only party added to this list recently would be AAP, even though its growth story has more to do with a decentralized volunteer network working on a bottom-up approach rather than a centralized

cadre working on a top-to-bottom approach. However, the AAP leadership has been trying relentlessly to

convert their structure the other way round: Good or bad; only time will tell.

These parties can marshal workers, volunteers and leaders with little else but slogans and doctrinaire preaching. Hence, by default, these parties are less dependent upon monetary patronage and cash dealings, although not fully immune to them. BJP has recently topped the dubious list of being the richest party with funds coming from "unknown" sources. Many attribute the Modi success in 2014 to cash fuelled media blitz, even though it just added to a wave which already was there to see. Therefore, it can be asserted that these parties, ideally should be least affected by demonetization.

In the Indian context, in order to understand politics of mobilization and to assess its impact on public response or lack thereof to calls such as demonetization by this present government, a good place to start is to review precedence. In post-independence India, there have been politically charged movements which involved, mass mobilization, for example,

JP Movement was the most widespread and successful, although short lived, to the extent that it brought regime change in state and at the center. JP movement too, like the demonetization, was aimed against rampant corruption and upliftment of the poor. JP headed the movement and he had an appeal, lacked by the modern day politicians, was his stature as a freedom fighter and honest man. He aimed to keep it a social movement, and thus, urged people to rise above their political affiliations and ideological commitments before joining the movement. However, the undercurrent was political, since it was aimed against state authority: a democratically elected government.

More than the movement, the response to the movement by the then government is a case study in itself. The then government crushed the movement, and JP was not spared. He was jailed, and they say that this harsh treatment by Indira Gandhi, none other than daughter of his friend and comrade, Nehru, broke his heart.

However, personal comments aside, during the JP movement, the mass mobilization was against the rampant corruption believed to be allowed by the central government and thus the central government itself was the target of the movement. In the present context, it is just the reverse of the situation. The opposition was under pressure to mobilize masses against a central government decision which was presented as pro poor and anti-corruption. It was not a straight forward decision, where moral and political implication is quite clear, like a case where you simply by standing for or against a position score moral high ground on your political opponent. It was not like there a mass protest against the authority was ready to erupt, and like any astute and shrewd political mind who could read the sentiments of the people, one just had to lit the fire in already

dry hay. It was a tricky situation which could have easily gone against any political party which tried to score political point on this.

Mass mobilization requires a different level of consciousness. People do not simply become hardcore cadre activists just because they are facing some problems which may be due to the incompetence and poor performance of the very government they themselves have elected. Mass mobilization was no easy even against a foreign, oppressive British rule. There could be many reasons why people do not react and

similarly, different reason why they do.

CONCLUSION

The Reserve Bank of India's annual report for the financial year 2017-18 revealed that almost 99.3% of the Rs 1000 and Rs 500 banknotes invalidated on November 8, 2016 had been returned in to the system.^{xi}The empirical data from all quarters are showing that the well calculated move by the Government could not reach at logical conclusion. The political observers are of the view that demonetization was an opportunity lost by the opposition to translate into a huge mobilization of people against the government move which itself acknowledged that we could not reached its target what they did think. The lack of large-scale protest after demonetization could be understood that clean image of the Prime Minister and his government played a major role. People by and large perceived that at least the government was cleaning the system, and eliminating black money. The ruling party and its allies have successfully defined move as a national festival and correlated it to nationalism and making it more difficult for opposition to go against. The Common man on the street was troubled for his own money, however, found the move as Modi's big campaign to end corruption as promised during election campaign. The Government's claim of disrupting terror funding was more credible than opposition's criticism of the government's intention. In fact, regional leaders like Nitish Kumar and Naveen Patnaik have even come out in the support of demonetization made opposition other leader's empty hand. In India any kind of mass mobilization requires an honest and incredible leadership like Mahatma Gandhi, Subhash Chandrab Bose, Jawahar Lal Nahru, and Jai Prakash Narayan. Politics is the most dynamic activity in democracy and the economic discourse in India has been changed since liberalization (1991).

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