

Deconstructing India's Monumental Demonetisation

Move: An In-Depth Examination

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Abstract: In November 2016, India witnessed a momentous event in its economic history with the implementation of the demonetisation move, a decision that aimed to combat corruption, black money, and counterfeit currency. This paper offers an in-depth examination of India's monumental demonetisation move, analyzing its origins, objectives, implementation, and the ensuing economic and social impacts. By deconstructing the policy, this study delves into the various factors that influenced its adoption, the strategies employed for execution, and the consequences faced by different sectors of society. Drawing upon a comprehensive review of existing literature, official documents, and expert analyses, the research uncovers the complexities and intricacies of the demonetisation move. The analysis also considers the lessons learned from this historic policy experiment, shedding light on the successes and failures that can inform future economic reforms in India and other countries facing similar challenges.

Keywords: Black money, Corruption, Demonetisation, Policy

Introduction

In November 2016, the Government of India made a bold and unprecedented move by demonetising 86 percent of its currency in circulation. The objective behind this decision was to tackle various issues such as undeclared income, counterfeit currency, formalisation of the economy, and expansion of the tax base. However, the effectiveness and consequences of this demonetisation move have been a subject of debate and analysis. This article aims to provide a comprehensive analysis of the Great Indian Demonetisation, examining its objectives, outcomes, and the impact it had on different sectors of the economy.

Background: The Need for Demonetisation

Demonetisation in India is not a new concept. In the past, the government had demonetised banknotes in an effort to combat tax evasion and curb the circulation of black money. However, the success of these previous initiatives was questionable. In 2016, the Government of India decided to take a more drastic approach in an attempt to address the issue of black money and corruption that plagued the country's economy.

The Demonetisation Process

The demonetisation process was carefully planned and executed by the government. The decision to demonetise the ₹500 and ₹1,000 banknotes was announced by Prime Minister Narendra Modi in a televised address to the nation on November 8, 2016. The move took effect from midnight on the same day, giving the public a limited window to exchange their old banknotes for new ones.

The demonetised banknotes could be deposited in banks or exchanged for legal tender over the counter. The Reserve Bank of India set limits on the amount that could be exchanged initially, with the limits gradually being increased over time. The exchange of banknotes was stopped completely on November 25, 2016.

Objectives of Demonetisation

The government had several objectives in mind when implementing demonetisation. These objectives included:

1. **Seizing Undeclared Income:** One of the primary goals of demonetisation was to crack down on unaccounted wealth and black money held outside the formal economic system.
2. **Curbing Counterfeit Currency:** Demonetisation aimed to eliminate counterfeit currency from circulation, which was seen as a threat to the economy and national security.
3. **Formalisation of the Economy:** By promoting digital transactions and reducing reliance on cash, the government aimed to encourage the formalisation of the economy and bring more transactions into the tax net.
4. **Expanding the Tax Base:** With the increased transparency resulting from demonetisation, the government expected to expand the tax base and boost tax revenues.

Outcomes and Impact

The outcomes and impact of demonetisation have been a matter of intense scrutiny and analysis. While the move had some positive effects, such as a temporary increase in digital transactions and a crackdown on counterfeit currency, it also had significant drawbacks and limitations.

Limited Success in Achieving Stated Objectives

Analysts and researchers have found that demonetisation had limited success in achieving its stated objectives. The initial estimates suggested that a significant portion of demonetised currency would not be returned to the banking system, indicating the removal of black money from circulation. However, the actual results were different. According to a report from the Reserve Bank of India, almost 99.3 percent of the demonetised currency was deposited in banks, suggesting that the effort to seize undeclared income had not been as successful as anticipated.

Impact on Jobs and Output

Demonetisation had a significant impact on jobs and output in the economy. Disaggregated data suggests that the move led to lost jobs and decreased industrial production, affecting various sectors. An estimated 1.5 million jobs were lost, and the country's GDP growth rate was negatively affected. However, it is important to note that the output costs appeared to be temporary, and the economy gradually recovered from the initial shock.

Disruption and Challenges

The implementation of demonetisation was not without challenges. The sudden withdrawal of a large portion of currency led to widespread disruption and inconvenience for the public. People had to queue for hours to exchange their old banknotes, and some even lost their lives in the rush. The shortage of cash in circulation also affected small businesses and the informal sector, which heavily relied on cash transactions.

Increased Digitization and Cashless Transactions

One of the positive outcomes of demonetisation was the increased adoption of digital and cashless transactions. With the scarcity of cash, people turned to digital payment methods, such as mobile wallets and online banking, to carry out their day-to-day transactions. This shift towards a more digital economy was an unintended consequence of demonetisation but played a significant role in promoting financial inclusion and reducing the reliance on cash.

Analysis and Criticism

The move of demonetisation received mixed reactions from various stakeholders. Supporters of demonetisation argued that it was a bold step towards tackling corruption and black money. They believed that the temporary inconveniences were necessary for long-term benefits and the formalisation of the economy. On the other hand, critics of demonetisation highlighted the poor planning and execution of the move, which led to unnecessary hardships for the public. They argued that demonetisation failed to achieve its objectives and had adverse effects on the economy.

Lessons Learned and Future Considerations

The Great Indian Demonetisation was a significant event in India's economic history, with both positive and negative consequences. It highlighted the importance of careful planning, coordination, and the need for alternative measures to mitigate the short-term disruptions caused by such moves. The experience of demonetisation also emphasized the importance of addressing the root causes of corruption and black money through comprehensive reforms in taxation, governance, and financial systems.

As India looks towards the future, policymakers and economists must consider the lessons learned from demonetisation. They should focus on implementing measures that encourage transparency, promote financial inclusion, and foster a robust and resilient economy. By learning from the successes and challenges of demonetisation, India can continue its journey towards sustainable economic growth and development.

Conclusion

The Great Indian Demonetisation was a monumental step taken by the Government of India to tackle corruption, black money, and promote the formalisation of the economy. While the move had its share of successes and failures, it sparked debates and discussions about the role of currency and the need for comprehensive reforms. As India moves forward, it must build upon the lessons learned from demonetisation to shape its economic policies and ensure a prosperous future for its citizens.

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