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India's Demonetization Disaster

Shashi Tharoor

CHANGE comes in many forms to different countries. Some embrace change, some resist change, and some have change thrust upon them. Take India, which was plunged into chaos on the night of November 8th, 2016, when Prime Minister Narendra Modi, in a 48-minute address, announced that some ₹14 trillion worth of ₹500 and ₹1000 notes (roughly $7.50 and $15.00)—amounting to 86 percent of all the currency in circulation in India—would become illegal as of midnight. People would have until the end of the year to deposit them in bank accounts (and pay whatever taxes and fines the authorities decided to impose on them), but they were no longer legal tender.

This unexpected shock-and-awe announcement, Modi said, fulfilled a declared campaign objective to fight "black money" or, put another way, cash made from tax evasion, crime, and corruption. The prime minister declared that his announcement would not only rid the nation of black money, it would render worthless the counterfeit notes that were reportedly printed by Pakistan to fuel terrorism against India.

The initial stunned reaction was followed by a panicky scramble to unload the expiring notes: the very night of the announcement, people rushed to petrol pumps to fill up their tanks, jewelers tripled their sales, and loans were hastily returned. There were unexpected consequences too: housewives who had salted away their savings in biscuit tins for a rainy day found their years of thrift would soon be worthless. In most cases, even their husbands had not known how much their wives had saved.

But within days the real result of the Modi announcement became apparent—the severe disruption of normal economic activity. Inept implementation

Shashi Tharoor *is Chairman of the Parliamentary Standing Committee on External Affairs in India's LokSabha (House of the People), former Minister of State for Human Resource Development, and former Minister of State for External Affairs in the Government of India. He is the author of 16 books on various aspects of Indian life and politics. You may follow him on Twitter @ShashiTharoor.*

Photo: Guliver Image/Getty Images

A typical queue outside a New Delhi bank owing to the demonetization crisis

made a mockery of the initial shock-and-awe. Not nearly enough new currency had been printed before the announcement (some estimates were that only 4 percent of replacement currency was printed), so banks did not even have a fraction of the money needed to meet consumer demand for new notes. Long queues snaked in, outside and around banks, foreign exchange counters (including at the international airport), and ATMs to change the old notes and withdraw new ones.

But the ATMs were largely empty, since the new notes had been made in a different size from the old ones and did not fit the existing ATMs. These needed re-calibration, a process that took tens of thousands of engineers several months to complete. The Government had not thought of making the new notes the same size as the old to avoid this obvious problem.

An additional complication was the fact that there are not enough ATMs in India: the country disposes ofonly 20 ATMs per 100,000 people, as compared to 77 in China, 114 in Brazil, and 279 in South Korea. Even South Africa has 70 ATMs per 100,000 people.

In the meantime, thanks to the slow speed of the Mint's presses, cash was in short supply. Banks did not have enough money and so restricted withdrawals to small amounts of cash that most customers found insufficient. Though the permissible withdrawal limits kept changing, being raised and lowered confusingly, they went up with time—provided the bank had the cash available when one asked for it.

Such restrictions are arguably illegal—under which provision of law can an Indian citizen be denied access to the money in his or her own account? When, in Parliament, I asked the Finance Minister to name one country in the world that disallows people from withdrawing their own money from a bank, he could give me no reply.

The economy has plunged into chaos, and the decision looks more like a miscalculation than a masterstroke.

Thirty days after the prime minister's speech (in which he had asked the public to bear with inconvenience for just 50 days), only 30 percent of the currency in circulation had been restored. The Reserve Bank of India (RBI) told the Public Accounts Committee of Parliament on January 18th that it was up to 60 percent. The State Bank of India estimated that it would go up to 70 percent by the end of February.The Government's own annual Economic Survey 2016–2017, released on February 1st, then claimed that replenishing the cash supply will be complete by March 2017—but that target too slipped. Cash shortages remained for months more; the rate of printing new ₹500 notes fell below target. It took another three months to remonetize the banking system.

The initial replacement notes all came in the form of an unusually high denomination (₹2,000 or $30) that most people did not find useful—especially since the government's failure to print additional quantities of smaller notes meant that for weeks no one was able to make change for a ₹2000 note. Since over 90 percent of all financial transactions in India are made in cash, and over 85 percent of workers are paid their incomes in cash, the everyday economy was brought to a standstill in the last two months of the year. The recovery in the new year was slow, and official figures showed a marked slowdown in the country's growth rate in the first quarter of 2017.

If this points to an appalling lack of elementary planning on the part of the government, the broader consequences have been far worse. The economy has plunged into chaos, and the decision looks more like a miscalculation than a masterstroke.

The lack of cash reduced both consumption and demand across the board. A booming economy that boasted the highest growth rate in the world suddenly became a cash-scarce economy. Production went down in all sectors. Small producers could not get working capital to keep their businesses going, and many had to shutdown. Daily-wage workers (a large majority of India's labor force) lost their jobs because firms did not have the cash to pay them.

All indicators—sales, traders' incomes, production, and employment—were down in November/December 2016; India's GDP, as estimated by former Prime Minister Manmohan Singh, will shrink by around a full percentage point for the fiscal year. At the end of January, former Finance Minister P. Chidambaram went further, saying that he expected the rate to be no more than 6 percent in 2017–2018 and 6.5 percent in 2018–2019, extending the bad news by another two years.

The Economic Survey 2016–2017 released on January 31st by the Chief Economic Advisor to the government itself states that demonetization is an aggregate demand shock, an aggregate supply shock, an uncertainty shock, and a liquidity shock. It says that the cash crunch "must have" affected the informal economy, which accounts for nearly half of the overall GDP and about 80 percent of the employment economy—one which runs on cash.

India's unemployment rate has shot up to a five-year high of 5 percent in 2015–2016. According to the All-India Manufacturers' Organization (AIMO), macro- and small-scale industries and traders have incurred 60 percent job losses and a 47 percent revenue loss because of demonetization. Not only are small- and medium-sized enterprises shutting down; medium and large infrastructure companies surveyed by AIMO have reported a 35 percent drop in employment and a 45 percent drop in revenue. AIMO estimated even higher losses of jobs and revenue by the end of March.

Current estimates tell us that real estate, construction, and infrastructure, which provide the most employment after agriculture, are set to lose over 100,000 jobs in 2017. The eight lakh crore (₹8 trillion) construction industry, which employs 45 million people, has virtually ground to a halt, with a drop of 80-90 percent in income.

There has been an inventory pile-up due to low consumer demand. Local industries—footwear in Agra, garments in Tirupur—suspended work due to a lack of money. Several enterprises are now struggling to their feet, whereas many have not been able to resume at all.

The informal financial sector—rural moneylenders who provide loans that amount to 40 percent of India's total lending—has all but collapsed.

Rural India is in bad shape. The fishing industry, dependent entirely on cash sales of freshly-caught fish, has been deeply affected. This is even affecting coastal security, as I pointed out during Question Hour in Parliament, because the cash shortage has dramatically reduced the number of boats going out to sea to about 10 percent of previous levels, thereby reducing the number of eyes and ears available to our intelligence agencies monitoring suspicious activities in our waters.

Traders are losing perishable stocks and farmers have been unloading produce below cost—since no one has the money to purchase their freshly harvested crops. Peas that Punjabi farmers sold at ₹30 a kilo only a year ago were brought down to seven rupees a kilo two months after demonetization.

The liquidity crisis has deeply affected farm production, farm prices, and agricultural credit repayments.A study by two economists at Delhi's Indira Gandhi Institute of Development Research found that in mid-November 2016, deliveries of rice to rural wholesale markets were 61 percent below usual levels, soybeans were down 77 percent, and maize nearly 30 percent. The winter crop could not be sown in time, because no one had cash for seeds, and the resultant harvest was lower than projected.

As ordinary people clutching their savings wasted hours standing patiently in queues that offered no assurance of money at the other end, fatalism battled with exasperation.

All this has been hugely destabilizing in the short term. The prime minister asked people to be patient for 50 days, but those 50 days are long gone and it is clear that the process will take much longer before normal money supply is restored. As for the long term, as former Prime Minister Manmohan Singh trenchantly observed, quoting Keynes, "in the long run, we are all dead."

The story of demonetization was of unnecessary suffering throughout the country. As ordinary people clutching their savings wasted hours standing patiently in queues that offered no assurance of money at the other end, fatalism battled with exasperation. Stories of individual tragedies were reported daily—of hospitals turning away patients who only had old notes, children not being fed, middle-class wage-earners unable to buy medicines for the sick, and as many as 135 people reportedly dying after collapsing in bank queues or committing suicide. Ironically, the rich—more likely to hold credit cards and be "cashless"—have been relatively unaffected; the main victims have been the poor and the lower middle-classes, who rely on cash for their daily activities.

Thus, those at the bottom of the economic pyramid are the principal victims of this supposedly "pro-poor" policy. Yet they have reacted with stoicism, swayed by the government's assiduous public relations messaging that portrays their difficulties as a small sacrifice for the nation. "If our soldiers can stand for hours every day guarding our borders," one popular, and hugely effective, social media meme asked, "why can't we stand for a few hours in bank queues?"

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The impact of the demonetization in terms of the cash deficit and its consequences has been particularly severe in Kerala, the state I represent in Parliament, because of the distinct character of its banking sector, in which the cooperative sector and Primary Cooperative Societies play a central role.

Overall, the cooperative banking sector is much more active and vibrant in Kerala than elsewhere in India. As a result, over 70 percent of the deposits in cooperatives in India come from Kerala; over 70 percent of the non-agricultural loans and advances made in India are made in Kerala; and over 15 percent of agricultural loans and advances disbursed in India are disbursed in Kerala. But the Reserve Bank of India prevented all 370 central district cooperative banks and 93,000 primary agricultural credit societies in the country from depositing or converting old notes after November 8th, 2016.

Keeping the cooperative banks and societies out of the note exchange process was particularly damaging for Kerala. Dairy, agriculture, and the market for fish have all been severely affected.

Tourism, vital for India's economy, was hit hard, albeit briefly. Foreigners have been spared tragedy but not inconvenience, for they were only allowed to cash a hundred dollars a day and often had to go from bank to bank to get the money. In November 2016, for instance, tourists returned without seeing the Taj Mahal because their notes were not accepted at the ticket window, and travel plans were curtailed by lack of new money.

Tourism works by word of mouth: how will one regain the trust of foreigners that have already spread the word of their harrowing ordeals in demonetizing India?

While it is clear that the government had not done its homework before launching the scheme—and in a manner typical of the Modi Administration, had consulted very few officials within it—it is not the prime minister's style to be on the defensive. His propagandists boasted of a "surgical strike" on black money, corruption, terrorism, and counterfeiting. Over time, it became painfully clear that those objectives had not been met. A "surgical strike" is supposed to be precisely targeted, but it is clear that the collateral damage is so extensive that the pain it has inflicted outweighed any tangible gain, at least in the short term.

In the beginning of December 2016, new victims surfaced, ranging from salary earners trying to get money out of their bank accounts and pensioners unable to receive their monthly allowances, to fathers and brides unable to finance long-planned weddings at the peak of the Hindu marriage season. As late as the end of January 2017, Indians were surviving on less than half the cash that had been in circulation at the beginning of November 2016. Shockingly, this was all happening in a country where cash represented 98 percent of all transactions by volume and 68 percent by value. While the cash is now largely back in circulation, memories of demonetization have shaken many people's faith in the currency.

Indeed, the Modi government itself has effectively conceded that demonetization has failed and has had a severe adverse economic impact on India. In its list of achievements touted in the *Economic Survey* 2016–2017, the list takes note of assorted schemes continued from the previous regime, but fails to mention demonetization. The Survey also accepts that demonetization resulted in "growth slow[ing], as demonetization reduced demand (cash, private wealth) [and] supply (reduced liquidity and working capital and disrupted supply chains), and increased uncertainty" and "job losses, decline in farm incomes, social disruption, especially in cash intensive sectors." To this must be added the economic cost of printing and replacing notes, estimated at ₹1.25 trillion.

Unfortunately, there is no evidence that any of the declared objectives of the scheme will be attained. In a largely cash-fueled economy, all cash is not "black money" and all black money is not cash. In fact most of India's black money has been invested in real estate and other forms of property, gold and jewelry, investments in property abroad, and "round-tripping" that has seen the money return to India's stock market as "foreign investment" via countries like Mauritius. The Modi move, therefore, touches only a small proportion of black money assets.

Worse, the government had hoped that the sudden move would eliminate a large portion of the black money holdings altogether from the government's liabilities, since it was assumed that many hoarders would destroy their money rather than attract the attention of the taxman by declaring it. Various agencies of the government had initially estimated that around 25 to 35 percent of the demonetized banknotes would not be deposited by the stipulated dates. On November 23rd, 2016, the Attorney General of India told the Supreme Court of India that the government expected that notes worth four to five lakh crores (some $800 billion) would be rendered worthless by not being deposited.

In a largely cash-fueled economy, all cash is not "black money" and all black money is not cash.

But those who held large quantities of black money seem to have been more resourceful than the government and have found creative ways to launder their money, with the result that most of the estimated black money in circulation has flooded into the banks. Some well-placed friends of the ruling party were allegedly tipped off before Modi's announcement, leading to suspicions that the well-connected may have had time to dump their black money stocks. Though the Reserve Bank of India has so far refused to release official figures, claiming to a parliamentary panel that they are still counting the old notes received, experts agree that the amount of black money that will eventually be wiped out will fall significantly short of the initial estimates. Indeed, there may be no liability write-off at all.

It has been widely reported that, by the end of December 2016, around 95 to 97 percent of the demonetized notes in circulation had reached the banking system. Indians abroad and the Central banks of Nepal and Bhutan, which keep some of their foreign exchange reserves in Indian currency, hold a part of the remaining notes. The actual value of notes rendered worthless will be known only after June 30th, 2017, which is the deadline for Non-Resident Indians to exchange any demonetized cash that they may hold at specified offices of the RBI.

However, it already appears to be clear that a maximum of only two to 3 percent of the demonetized notes will remain undeposited, unequivocally indicating that the demonetization exercise has failed to achieve its primary objective of cleansing the economy. The RBI Governor has conceded that there is no impact at all of demonetization on the RBI's balance sheet.

And since corruption seems to be a way of life in India, it will not be long before the old habits of under-invoicing, fake purchase orders and bills, reporting non-existent transactions,and straightforward bribery all generate new black money all over again. The government's plan is therefore likely to be ineffective beyond the short term, since it does nothing to control the source of black money.

Indeed, in the first six weeks after demonetization, the Income Tax Department announced it had seized ₹5 billion in unaccounted cash from people hoarding currency they could not explain.Strikingly, ₹920 million of their seizure happened to be in brand new ₹2000 notes! Cases of corrupt officials, including bank managers, being caught red-handed in illegal transactions have been reported, all of which involved the new currency. Some bank managers worked from 9 am to 5 pm telling people they had no money, and then from 5 pm to 9 pm gave money through the back door to money launderers for a fee.

The government liked to boast of being the world's fastest-growing major economy; it is a boast it can no longer make, since, thanks to demonetization, it slipped behind China again.

Though I am by no means tarnishing all bank mangers for the sins of a few, the fact is that in its drive against corruption the government has created new forms of corruption. Black money clearly continues to be generated—it has merely changed its color and shape. Black money has become white by way of pink! And, of course, ₹2000 notes will take up less space in the briefcases of the corrupt than ₹1000 notes did.

The Prime Minister's other declared objectives have not been met, either. Demonetization is not a necessary exercise to achieve the objective of thwarting counterfeiting, and the government's citing of such an aim displays considerable overreach. Media reports confirm that counterfeit bills of our freshly designed currency notes are already in circulation. This could, however, have been prevented by enmeshing strong security features with the design. It seems that the government has missed the opportunity of ensuring the adoption of such security features in the new ₹500 and ₹2000 currency notes that it launched post-demonetization. This indicates a lack of foresight and inadequate planning on the government's part. There appears to be no special new watermark, no security thread or fiber, no new latent image, and certainly no nano chip, as BJP supporters were boasting on social media!

Will a mere change of color and size render the notes safe? Shockingly, RBI has admitted that three different versions of the ₹500 note have been printed in haste. If all three versions are authentic, one can reasonably assume that this is going to confuse the public and make it easier for counterfeiters to get away with their own fake versions.

But still, how big of a problem is this? A study conducted by the Indian Statistical Institute in Kolkata, under the supervision of the National Investigation Agency, estimated that the value of fake Indian currency notes in circulation was about ₹400 crores, which amounted to only roughly 0.03 percent of the withdrawn currency.

It also indicated that the ability of banks to prevent counterfeit notes being deposited was limited, since their machines often fail to identify fake notes and bank tellers—overwhelmed by the pressure of the astronomically high level of deposit activity in the 50-day window period—could not make the manual effort to identify fake notes.

As a result, every indication suggests that several fake currency notes have slipped through into the banking system and become legitimized. Thus, far from hurting counterfeiters, demonetization may have helped legitimize fake currency by having it exchanged, amid the chaos, for new notes.

Prime Minister Modi also cited among his objectives the undermining of terrorist and subversive activities. He even went so far as to say, on December 27th, that "through the note ban, in one stroke, we destroyed the world of terrorism, drug mafia, human trafficking and the underworld."

But empirical evidence collated from data on terrorist strikes and fatalities from the Global Terrorism database and the South Asian Terrorism portal shows that it is very difficult to establish a causal relationship between the number of terrorist strikes on Indian soil and the absolute levels of currency in circulation. In any case, we are seeing reports of terrorists being caught or killed in Kashmir in possession of large quantities of new notes. So where is the claimed effect on terror financing?

Meanwhile, the goalposts kept shifting: the Reserve Bank of India issued no fewer than a hundred notifications on demonetization—some 138 in 70 days until I stopped counting! Each of these was intended to tweak an earlier announcement. Many are referring to this once-respected institution as the "Reverse Bank of India" for its frequent reversals of stance on such matters as the amounts of money permissible to withdraw, the last legal date for withdrawals, and even whether depositors would have their fingers marked with indelible ink so they could not withdraw their money too often.

Demonetization has caused serious and seemingly lasting damage to India's fledgling financial institutions, most notably the RBI, which conspicuously failed to exercise its autonomy, to anticipate the problems of Modi's scheme, prepare its implementation better, and to alleviate its impact. The United Forum of Reserve Bank Officers and Employees wrote to the Government on January 13th, 2017, pointing to "operational mismanagement," which has "dented RBI's autonomy and reputation beyond repair." The inexplicable silence of its governor, Urjit Patel, has reduced him to a lamb. But this "silence of the lamb" is eating India's citizenry alive.

In one recent change of declared objective, the prime minister and finance minister are now talking about moving India to a "cashless society"—an idea and a phrase that was not mentioned even once in Prime Minister Modi's original November 8th, 2016, speech. (This was hastily amended to a "less cash" society when the absurdity of the proposition was widely pointed out.) But they seem blissfully unaware of the fact that over 90 percent of retail outlets do not even have a card reader at the point of sale, that half of India's population is unbanked—India is home to 21 percent of the world's unbanked adults—and that the overwhelming majority of their nationals still function in a cash economy. In fact, 97 percent of retail transactions in India are conducted in cash or check. Few consumers use digital payments: only 11 percent used debit cards for payments last year.

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Only 6 percent of Indian merchants accept digital payments. And fewer than 2 percent of Indians have used a mobile phone to receive a payment, compared to over 60 percent of Kenyans and 11 percent of Nigerians.

As columnist T.J.S. George asked: "Are we to assume that daily wage earners, small-time farmers and sundry hawkers who don't even know what is a bank will be happy to see the country getting rid of cash, rather than vague things like illiteracy and poverty?"

The plain fact is that the digital infrastructure for "cashlessness" simply does not exist in India.The aforementioned Economic Survey acknowledges that digital transactions face significant impediments.

Though the government hopes many will use their mobile phones for cashless payments, the Survey enumerates approximately 350 million people without cellphones (the "digitally excluded"); 350 million with regular "feature" phones, and 250 million with smartphones. A mere 34.8 percent of the country has internet access, and there are around 200 million users of digital payment services. A 2015 World Bank study of bank-account usage and dormancy rates across different regions found that only 15 percent of Indian adults reported using an account to make or receive payments.

In such an environment, a cash scarcity is economically crippling. Moreover, most mobile applications and internet banking websites are largely available in English, a language not understood by a majority of the people.

There are also appalling deficiencies in cybersecurity. Ours is a country where cyber-crime flourishes; the government's drive for cashlessness may be creating new vulnerabilities and new victims. Expecting India to become a "less cash" economy at this point is like removing 86 percent of a person's blood circulation and then asking him to dance.

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Studies confirm that most Indians who use cards use them just to withdraw cash from ATMs; making payments by plastic is still something of a novelty. Multiple stories—which might have been hilarious, if they were not so pathetic—have been told of people patriotically trying to use plastic at the few outlets that do accept cards and being told "the server is down"; of salesmen frantically rushing out onto the street from their shops with card-readers in hand hoping to catch a better signal; and of single transactions taking a dozen minutes because the card-reader keeps breaking down in mid-execution.

India offers some of the slowest broadband speeds in the world, and at least a third of the population has no reliable electricity supplies. It is all reminiscent of Marie Antoinette: "if they do not have cash, let them use plastic!"

The Government seems to be engaged in an exercise to furnish the penthouse of a building whose foundations it has not yet dug. As the *Harvard Business Review* noted, "India's digital state (it ranked 42nd out of the 50 countries we studied in our Digital Evolution Index), does not engender the threshold of trust needed for cashlessness to take hold in a meaningful way."

Worse still, there is a transaction cost involved in each digital payment that is absent in any cash exchange—so using "less cash" actually involves more expenditure for the payer. This obviously affects ordinary citizens who are used to cash, which involves no transaction costs for them. It is also expensive for merchants to adopt digital payments, which affects them adversely. Merchants highlight the high cost of even trying out these machines as a factor that is driving down interest in acceptance of digital payments. "I was thinking of installing a card machine at my store. But the banks asked for a ₹5,000 deposit," said one merchant in a recent study.

The government is doing nothing to ensure point-of-sale machines are made available to traders, small retail outlets, and small and micro enterprises, free of cost, as I suggested in Parliament, or to remove charges for all cashless transactions.

The financial implications of moving to a "less cash" economy have raised related concerns. Dark suggestions have been made that the real beneficiaries of demonetization are the handful of companies that specialize in digital payments, especially by mobile phone. (Only 2 percent of India's nearly one billion mobile phone users have ever used their phones to make digital payments; although this figure began shooting up after demonetization.) In addition, digital transactions, by leaving a traceable record, add to the state's ability to monitor individuals' expenditures. As former Finance Minister P. Chidambaram asked,

> why should a young adult be forced to disclose that she bought lingerie or shoes or he bought liquor or tobacco? Why should a couple be forced to leave a trail of a private holiday? Why should an elderly person leave a record that he bought adult diapers or medicines for his ailments? Why should the government or its numerous agencies have access to our lives through access to Big Data?

The Government seems to be engaged in an exercise to furnish the penthouse of a building whose foundations it has not yet dug.

These are serious questions that call into account the Government's insouciant announcement of objectives that were never presented to Parliament for approval until three months later, when the policy was irreversible and the damage had already been done.

Equally serious is the continuing concern about the legality of the government's action. The entire demonetization exercise had been conducted by the issuance of gazette notification no. 2652 by the Joint Secretary, Finance, under Section 26(2) of the Reserve Bank of India Act of 1934. This provision gives the Union government the limited power to demonetize certain series of the country's currency through a notification. This provision does not, however, give the government the power to freeze bank accounts through limits on cash withdrawals, disrupt normal banking operations, and impose mandatory disclosure requirements (such as identity cards) while depositing cash into bank accounts or exchanging old notes.

The relevant provision of the aforementioned Act unambiguously states:"(1) Subject to the provisions of sub-section (2), every banknote shall be legal tender at any place in India in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government."

This means that the money every Indian holds in her hand or in the bank is a debt guaranteed by the government to her. Currency thus represents a 'public debt' owed by the government to the holders of banknotes. "I promise to pay the bearer of this note ..." vows the RBI Governor on every Indian currency note. Every currency note is a contract between the bearer and the state, something that has been signed in good faith and ratified by the prevailing law of the land. The questions that then arise—and have still been left unanswered by the government and the courts—include: Can this contract be repudiated unilaterally by the state? On what legal grounds can the RBI write off notes that it had promised to honor?

The burden of demonetization has undoubtedly been regressive, as it has most negatively affected the poor and the unbanked.

And while we are considering the issue of legality, why has the RBI not placed in the public domain the Minutes of the RBI meeting of November 8th, 2016, that was supposed to have requested the prime minister to make the announcement he did? Is it for fear of revealing the real nature of the meeting would only confirm the Bank's surrender of its autonomy to the government? Only eight out of 21 Directors attended, and four of them were officials. Only four independent Directors were present.

This entire decision-making process was a Government exercise trampling on the autonomy of the RBI, rather than a decision of the institution meant to be in charge of India's monetary policy.

Among the longer-term effects of this monetary disruption have been unemployment and severe dislocation of India's informal economy; the collapse of many marginal businesses unable to survive the ongoing loss of income; severe reductions in crop yields and problems pertaining to agricultural credit; and the accelerated flight of investment out of India.

Even more worrying is the prospect of a long-lasting decline in India's so-far robust economic growth, and the danger that it will push more Indians who were in the process of escaping poverty right back into it.

The burden of demonetization has undoubtedly been regressive, as it has most negatively affected the poor and the unbanked, which have had to lose their daily wages to stand in queues or have lost their jobs because of non-functioning markets;

and they are the ones who are expected to transform their financial habits. The truly cashless are the poorest Indians, who depend on cash for their daily survival: as the *Harvard Business Review* puts it, "this unfortunate crisis is a case study in poor policy and even poorer execution. Unfortunately, it is also the poor that bear the greatest burden."

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While many Modi fans are blaming the implementation rather than his intent, the fiasco was inherent in the design of the policy.

It is clearly a "symbolic" policy—high ambiguity, high conflict, top-down, centralized, and authoritarian. There was no "policy skeleton," and, worst of all, no cost-benefit analysis, no evidence that alternative policy options were considered. It is clear no impact study was done, judging by the blizzard of new official notifications every day, tweaking and fixing the regulations.

The government has presided over a non-transparent policy environment that seems entirely unconducive to the creation of a cashless society.

This is a manufactured crisis. The government, for no public benefit anyone can understand, has thrown a spanner into the works of the Indian economy. It is an ill-conceived scheme, ill-planned, poorly thought through, badly implemented, and disastrously executed. Demonetization failed in its stated objectives. Deep rooted problems, like corruption or terrorism, are not amenable to blunt, one-off policy instruments. Demonetization was the equivalent of an "anti-stimulus" policy intervention, and the consequent drag on demand has been significant. The government liked to boast of being the world's fastest-growing major economy; it is a boast it can no longer make, since, thanks to demonetization, it slipped behind China again.

Modi came to power in 2014 promising to boost growth, create jobs for India's youthful population, and encourage investment.These objectives lie in tatters with his ill-considered demonetization. He abolished the central government's Planning Commission to signal that the days of top-down statist control of the economy were over, but his demonetization decision has brought back the worst days of government control. His reputation for being an efficient and competent manager is irremediably stained by the implementation disaster. How long it will take for India to recover is anyone's guess.