

## **POLITICS SANS ECONOMICS: COMMENTARY ON THE POLITICAL ECONOMY OF DEMONETIZATION IN INDIA**

*Política sem economia: comentários sobre a economia política de desmonetização na Índia*

Zaad Mahmood<sup>1</sup>

### **Introduction**

Demonetisation has been the contentious issue in Indian politics ever since the Prime Minister Narendra Modi, declared that Rs 500 and Rs 1000 notes would cease to be legal tenders from midnight of 8<sup>th</sup> Nov 2016. Demonetisation or the withdrawal of form of currency from circulation is nothing unique as many countries have done it. In 2002 the nations of the European Union began to use to common currency of Euro and demonetised the old national currencies such as mark, franc and lira. In 2015, Zimbabwe demonetized its currency in response to hyperinflation. The Indian exercise, however, stands distinct to other economies due to the suddenness of the decision as the declaration and its implementation occurred in a matter of hours. The abruptness was compounded by the volume of the exercise as 86 percent of all legal tender in the country was demonetised and cash transactions constituted nearly 80 percent of all economic transactions in the country (Ghosh 2016). Naturally the decision and its implications have dominated political and electoral discourse of the country (Express Web Desk 2016).

This paper of attempts to provide an overview of the politics associated with demonetisation in India. It presents the experience of demonetisation along with the various narratives, both in favour and against, the move of demonetisation. Interestingly the debate surrounding demonetization has been largely confined to the cost benefit analysis, and economic merit-demerit. This paper shifts the focus from economic to political dimensions of demonetisation and argues that in the absence of comprehensible economic consequences, the narrative of demonetisation is dominantly constructed by political parties. Although demonetization is essentially an economic instrumentality, in the Indian context it has been reduced to purely political rhetoric.

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<sup>1</sup>Assistant Professor, Presidency University, Índia. E-mail: zaad.mahmood@gmail.com

## **Demonetisation experience in India**

In economic literature demonetisation is presented as a measure to combat corruption (tax evasion), fake currency, inflation and to facilitate cash less transaction and trade. The Government of India also broadly presented the same reasons behind its decision of demonetisation. The Government justified the move as part of its battle against corruption to limit parallel economy, prevent counterfeit currency, curbing subversive activities and increasing tax revenue (Express Web Desk 2016).

India's tax compliance has been historically very poor with large scale evasion. In 2012-13 only 4 percent of the 760 million adults (enumerated in 2011 census) filed Income tax returns and more than half of the 29 million individual tax payers paid no tax. In the financial year 2012-13 just around 18000 individuals declared incomes above 10 million and direct taxes contributed only 51 percent of tax revenue in 2015-16 (Editorial 2016). The argument of demonetisation as a measure to prevent tax evasion has received support from business leaders and banks like A. Bhattacharya of State Bank of India, Narayan Murthy of Infosys, and International agencies like International Monetary Fund (ANI 2016, Express Web Desk 2016).

As some financial experts predict the move will have strong 'formalisation effect' and nearly half of the non-tax paying businesses in the informal sector will become unviable and cede market shares to the organised sector (Worstell 2016). It is also expected that given the huge inflow of capital into banks, lending interest rates would decline that may have a stimulatory effect on economic growth in the long run. Empirically, demonetisation has forced people to deposit money into the banks with long queues noted across the country.

In this narrative the non-deposit of unaccounted currency has emerged as a key political issue. During demonetization it was claimed that the government would gain a windfall profit due to non-deposit of some amount of black money for fear to sanction. According to statements, the government expected around Rs 4- 6 trillion not to return to the banks. This amount once transferred to the government by the Central Bank would enable tax cuts, bank recapitalisation and infrastructure spending (Roychoudhury 2016). It is noteworthy that even after 100 days and the presentation of the national budget the government has not disclosed the amount of non-deposited currency. News reports however, suggest that around 97 per cent of currency notes, outlawed by the government have returned to banks raising serious questions on the short term benefits of demonetisation (Express Web Desk 2017).

Critics have also raised questions about fake currency as a reason for demonetisation. According to the Reserve Bank of India data only seven notes in every million were detected as fake in 2015-16. In terms of value, the fake notes constituted Rs 296.4 million in value out of the total Rs16.41 trillion worth currency in circulation (IANS 2016). This amounts to a miniscule .0018 percent of the total value of currency and demonetisation of entire currency is akin to throwing the baby with the bathwater. Even the most conservative estimates of genuine currency notes suggest that only 250 notes in every million are fake (joint study by the Indian Statistical Institute and National Investigation Agency).

In contrast to the gains associated with demonetisation, the detrimental effects in the form of severe cash shortages for small businesses, agriculture, transportation and the informal sector have been

immediate. People seeking to exchange their notes had to stand in lengthy queues, a process by made challenging by inefficient planning and unequal banking access (IANS 2016). As pointed out by several prominent economists over 90 percent of all transactions in India are conducted in cash, and over 85 percent of workers get their incomes in cash which made the impact all pervasive (Ghosh 2016). The number of deaths associated with demonetisation (either due to lack of medical help due to cash shortage or death due to stress of queueing for withdrawal from banks) has touched the three digit figure (Worstell 2016).

At a macro-economic level both growth and investment have been adversely affected due to demonetisation. Equity research firms have estimated that the liquidity crisis will result in GDP growth decline between 0.5 percent to 2 percent in the fiscal year (Worstell 2016). All evidence, except for government records (the government changed the calculation of GDP) corroborates decline in industrial investment and growth. According to reports in Indian Express Newspaper (2017) average investment declined from 20.97 billion rupees during the 39 pre-demonetisation days (October 1 through November 8) to 8.24 billion during the post-demonetisation period (Nov 9 to Dec 31).

It is noteworthy that prominent economists have repeatedly questioned efficacy of demonetisation as a measure to control black money as it addresses only the stock of cash black money but not the unaccounted assets or the flow of black money. Even the Black Money Committee Report (2012) of Government of India recommended against demonetisation for curbing black money. Corroborating such arguments the income tax searches in 2012-13 yielded less than 6 percent of undisclosed income in the form of cash (Suresh 2017). As such the efficacy of demonetisation as a step against black money has been seriously undermined.

People have also questioned the policy from the philosophical standpoint of sanctity of private property and choice. Steve Forbes of the famous Forbes magazine has labelled the decision as ‘sickening and immoral and called it a *‘massive theft of people’s property’* (FE Online 2016). News such as BJP state unit depositing cash just before demonetisation in West Bengal (Express News Service 2016) or investing in land in Bihar (Gupta 2016) have further raised questions about the impartiality of the process.

Intuitively the cost of demonetisation till now, far outweighs the benefits. The visible benefit has been the fillip to cash less transactions in the economy. The demand for point of sales (POS) machines and transactions through E-payment options have increased significantly (Economic Times 2016). According to data of Pine Labs, the debit card transactions rose by 108 percent and credit card transactions by 60 percent on 9 November 2016. Undeniably this is a move towards greater formalisation of economic transactions. In contrast, the cost of the process has been enormous, at least in economic terms. According to CMIE just the cost of withdrawing 500 and 1000 currency notes was conservatively around 1.28 trillion rupees till December 30, the deadline set for currency swap by the government. This cost is likely to go up over time due to the overall loss of liquidity, broken supply chains and loss of confidence in consumers (ET Bureau 2016).

Surprisingly the political cost of the move has been favourable for the Prime Minister and the government. Since demonetisation the incumbent centre wing BhartiyaJanta Party (BJP) has formed

government in 4 out of the 5 sub-national states that went to polls. This success comes close on the heels of victory in the civic polls in Odisha, Maharashtra, Gujarat and Chandigarh. In Chandigarh the BJP won 20 out of total 26 seats, in Maharashtra BJP increased its seat tally from 25 seats to 119, in Gujarat BJP maintained its lead on 23 out of 31 other seats of various municipalities, and panchayats, and in Rajasthan the party won 19 seats out of 37 seats (Shekhar 2016). A natural question in this context is how despite the apparent limitations of demonetisation in economic domain and hardships for the common people, the government and the Prime Minister can elicit political mileage and electoral success.

Interestingly in the available narrative on demonetisation, the political dimension of the process has remained relatively unexplored. Questions about political strategy behind the decision has not been interrogated adequately. Such questions are necessitated by the fact that incumbent BJP has largely been identified as the party of upper caste, traders-small and middle-level businessmen (Chhibber 1997). The move has implications for business especially small and medium ones in the short run, and betrays the political decision making horizon (gains in long term future with immediate costs).

### **Politics of demonetisation**

The decision of demonetisation has been contested and divisive. The winter session of the parliament saw little work due to protests by opposition, a Bharat bandh (All India strike) called by Left parties (HT Correspondents 2016) along with spate of protests across the country (Daniyal 2016). As the economic gains from demonetisation remain unsure, it is the political narrative of the process that has acquired prominence.

In this battle of political narratives, Prime Minister Modi and the government have positioned demonetisation at a moral plane as a battle against corruption. People sympathetic to Narendra Modi argue that the idea of demonetisation in principle was necessary and difficult, but it was marred by inept implementation and corruption. The upsurge in Jan-Dhan accounts (zero balance accounts opened by the government for the poor) post demonetisation is alleged to be one of means of money laundering. The implementation of demonetisation however reveals flaws in policy beyond adoption of unscrupulous means by people such as difference in the size of currencies requiring recalibration of ATMS, and inadequate currency printing leading to severe inconvenience. Critics have argued that these point to the lack of policy analysis, cost-benefit analysis, or consideration of alternative policy.

### **Decision of demonetisation**

Intuitively, the policy of demonetisation, as it has unfolded is more a political process than a considered economic calculus. The gain from the demonetisation exercise, particularly to the Prime Minister is more than evident. Corruption was a significant electoral issue in the 2014 elections, and one of the key electoral promises of Modi was to bring back black money stashed in Swiss banks. In one stroke he has presented himself as the leader waging a battle against corruption. The PM claimed that the difficult decision of demonetisation was necessitated by the inaction of all previous leaders to tackle the corrupt.

The move was also carefully presented as the bold and uncompromising, characteristics that complement the leadership style of Modi. The success of this political posturing is evident when the Prime Minister is hailed by Singapore-based paper *The Independent* as a Lee Kuan Yew to stamp out corruption in India (*The Independent* 2016). According to noted sociologist Asish Nandy Modi is pushed by his intense desire to do something, to leave his mark in history and radical demonetisation could be interpreted through such a lens (Gopinath 2016). Modi himself has claimed that demonetisation complemented the *swachhbharatabhiyan* (clean India campaign) as corruption, black money and terrorism are festering sores, holding India back in the race towards development (Knowledge@Wharton 2016).

The timing of the move, in the middle of the term also highlights an effort to reinvigorate the government and the party. Modi had promise *Acche Din* and *Sabkasaath*, *sabkavikas* (Prosperity and all round development) to all Indian through economic growth and effective governance. The first two years of the government however did not witness the overhauling of economic policy that Modi had promised. As Kala and Bellman (2016) note although the Indian economy was doing good, the strong economic fundamentals did little to lift corporate profits or consumer spending. The economic growth, decreasing inflation, and diminished fiscal deficit under the present government was largely due to the crash in crude oil prices. In real terms railways and ports report on good handled show a decline in tonnage and Index of Industrial production is near zero. Interestingly the public banks in India have been struggling to control a growing mountain of bad debt. As such the move of demonetisation, with potential for windfall gains would have been a strategic move by the government to infuse public investment.

Beyond the posturing of anti-corruption and bold leadership, it is noteworthy that demonetisation has mirrored an effort to create new social alliances by Narendra Modi. The 2014 elections that ushered in the Modi government, was marked by strong inroads by the right wing BJP into rural areas, beyond its traditional support base among urban upper castes and middle-class voters. As Tillin (2015) points out Modi explicitly appealed to an inchoate group he described as India's 'neo-middle classes', many of whom live in rapidly urbanising areas. The BJP and its allies won 80 percent of the 40 most highly urbanised seats and 56 percent of the 123 semi-urban seats. Since scope for further expansion in these sector is limited for the BJP expansion into rural area is the way forward for the party. As such Modi has explicitly focused on improving the situation in rural India and providing relief to the agricultural sector by increasing the social spending manifold. The idea of demonetisation as a burden on the rich and moneyed, rather than the poor has been invoked time and again to consolidate the coalition.

Chhibber and Verma (2017) point out that BJP has stitched together a social coalition of upper castes, other backward castes, scheduled castes and tribes by amassing voters who favour less intervention in the economy and conservative social values.

Careful observers of politics have noted the shift in patronage under the Modi government. Talukdar (2016) points out that Modi has reneged his promise to the urban middle class on economic reforms and increased tax burden on the middle class to finance increased social spending. The service tax rate was increased from 12.36 per cent to 15 per cent, and windfall benefits of a crash in oil prices in global markets

was not transferred. This abandonment of the wealthy aspiring middle class (businessmen and professionals) was also evident in the political message by Modi of the rich spending sleepless nights while the poor enjoyed during demonetisation (IANS, 2016).

Politically the move also resonated the strategy of conflating national interest with actions of the government. While announcing the demonetisation the Prime Minister projected it as a national objective and said that India would have to endure some hardships if it wanted to combat corruption, tax evasion and the menace of black money. The government's and its advocates have projected the strains of demonetisation as a small price and contribution of ordinary citizens for national good. As Tharoor (2016) points out the government's assiduous public relations did its job by conflating standing in queue for money with soldiers standing in guard at the borders. "If our soldiers can stand for hours every day guarding our borders," one popular social media meme asks, "why can't we stand for a few hours in bank queues?" was a common phrase used to justify the problems associated with withdrawing cash.

### **Politics of Opposition**

In a liberal democracy the ability of the government to reap electoral dividends from policy despite failures is directly correlated to the failure of opposition parties. It is the inability of the opposition to come together in a united manner on the streets (despite the posturing of unity within the parliament) that allowed the government some breathing space after demonetisation. Expectedly the Indian National Congress (Congress) which was displaced by the NDA government in 2014 has opposed demonetisation. The mainstream Left Parties [Communist Party of India (Marxist), Communist Party of India, Communist Party (Marxist-Leninist)] have also been vocal against demonetisation. However, the national opposition parties could not provide any convincing counter narrative to the claims of the government. This is primarily because just as the policy of demonetisation was reduced to a political action by the government, the opposition to demonetisation was also underlined by instrumental logic of opposition.

Interestingly the most virulent criticism of demonetisation has emerged from regional parties particularly Mamata Banerjee, the Chief Minister of West Bengal and Arvind Kejriwal the Chief Minister of Delhi. The response of other regional parties to demonetisation has varied between complete support to full-fledged opposition. Among the prominent non-NDA (outside the ruling alliance) leaders the Chief Minister of Bihar, Nitish Kumar of Janata Dal United hailed the move as a step against corruption while his ally Lalu Prasad Yadav of Rashtriya Janata Dal has criticised the move. The Chief Minister of Odisha, Navin Patnaik has endorsed the move while Tamil Nadu chief minister has maintained neutral distance. The table below represents a comparative statement of the position of sub-national states with reference to demonetisation.

Table 1. State wise government response to demonetization and party in power

State	Party in power	Response to Demonetisation
Andhra Pradesh	TDP (NDA)	Support with some reservation
Arunachal Pradesh	PPA (NDA)	Complete Support
Assam	BJP (NDA)	Complete Support
Bihar	JDU	Complete Support
Chhattisgarh	BJP (NDA)	Complete Support
Delhi	AAP	Opposed
Goa	BJP (NDA)	Complete Support
Gujarat	BJP (NDA)	Complete Support
Haryana	BJP (NDA)	Complete Support
Himachal Pradesh	INC (UPA)	Initial support and then opposition
Jammu & Kashmir	PDP (BJP ally)	Support with some reservation
Jharkhand	BJP (NDA)	Complete Support
Karnataka	INC (UPA)	Opposed
Kerala	CPIM	Opposed
Madhya Pradesh	BJP (NDA)	Complete Support
Maharashtra	BJP (NDA)	Complete Support
Manipur	INC (UPA)	Opposed
Meghalaya	INC (UPA)	Opposed
Mizoram	INC (UPA)	Opposed
Nagaland	NFP (NDA)	Support with some reservation
Odisha	BJD	Support
Puducherry	INC (UPA)	Opposed
Punjab	SAD (NDA)	Support
Rajasthan	BJP (NDA)	Support
Sikkim	SDF (NDA)	Support
Tamil Nadu	AIADMK	Opposed
Telangana	TRS	Support with some reservation
Tripura	CPIM	Opposed
Uttar Pradesh	SP	Opposed
Uttarakhand	INC (UPA)	Opposed
West Bengal	TMC	Opposed

Source: Authors calculation based on news reports (Times of India, The Hindu, The Telegraph, Various Issues)

Evident from the table is the partisan support to the policy of demonetisation. Parties which are part of National Democratic Alliance (led by the BJP) have backed the policy with varying degree of support.

The opposition particularly the Congress party, the Left have opposed the policy. Interestingly some regional parties like JDU, BJD, TRS who are not allies of BJP have extended support to the move while AAP and TMC have opposed it. The varying response of the political parties, especially the opposition, reveal that opinion on demonetisation has been mixed which necessitate a further interrogation of party behaviour.

Intuitively demonetisation has detrimental consequences, at least in short run for the poor (mostly deal in cash), rural population (limited bank and cashless facilities), illiterate people (limitations in online transaction) and informal sector (outside the purview of regulation and likely to come under tax bracket) given their propensity for cash transaction. As such states with greater poverty, larger informal sectors, rural population and lower literacy are likely to expect greater hardship due to demonetisation. Further the banking infrastructure i.e. number of spread of bank branches are likely to influence the experience of demonetisation as difficulty in changing currency would influence perception of the process and liquidity in the local market.

The table below shows the comparative position of the major sub-national states on the relevant factors mentioned. These are colour coded with red indicating conditions least conducive to demonetisation, yellow intermediate while green highlighting most favourable conditions for demonetisation in a comparative vein. The categorisation was made on the basis of measurement of mean and standard deviation of the individual variables. The data was collected from government records namely Census 2011, Handbook of Indian Economy, Reserve Bank of India and Planning Commission of India. A cursory reading of the table reveals that some sub-national states are better equipped (economic-institutional) to deal with demonetization than others. Evidently states like Arunachal, Assam, Bihar Chhattisgarh are likely to suffer more in the context of demonetisation, while states of Delhi, Goa, Karnataka, Gujarat, Haryana, Kerala, Tamil Nadu have more favourable conditions for demonetisation. The response of the states to demonetisation, however do corroborate to the ground realities and is largely explained by partisan composition of government. The opposition to demonetisation in Kerala and Karnataka while support in Assam, Chhattisgarh are evidently examples of such partisan behaviour.

Interestingly the support for demonetisation by Bihar government, although counter intuitive can also be explained thorough the logic of partisan interest. The present government is formed by an alliance of Janta Dal United headed by Nitish Kumar and Lalu Prasad Yadav led RashtriyaJanta Dal. The alliance was formed as an anti-BJP Mahagatbandhan (alliance) after JDU broke a 15-year alliance with BJP in 2013. The political support base of the JDU primarily draws on the Maha-dalits, Kurmi and other backward castes except Yadavs and banks on the developmental image of the Chief Minister. In contrast the RJD has support base among the Yadavs and Muslims and the period of RJD rule is best remembered for social empowerment but governance failure and massive corruption. The support for demonetization by Nitish Kumar thus represents a posturing that is developmental and honest, distinguishing the JDU from the RJD.

Table 2. State wise share of Primary sector NSDP, Literacy rate, share of unregistered manufacturing, poverty, population per bank branch

State	Primary Sector in NSDP	Literacy Rates 2011	Unregistered Manufacturing	Average Population Per Bank Office (000)	Population Below Poverty Line)	Party in power
Andhra Pradesh	0.26	67.02	0.30	12.00	21.10	TDP
Arunachal Pradesh	0.33	65.38	0.40	16.00	25.90	PPA
Assam	0.22	72.19	0.28	21.00	37.90	BJP
Bihar	0.19	61.80	0.60	24.00	53.50	JDU
Chhattisgarh	0.22	70.28	0.11	19.00	48.70	BJP
Delhi	0.01	86.21	0.64	8.00	14.20	AAP
Goa	0.03	88.70	0.17	4.00	8.70	BJP
Gujarat	0.13	78.03	0.17	13.00	23.00	BJP
Haryana	0.16	75.55	0.28	11.00	20.10	BJP
Himachal Pradesh	0.19	82.80	0.08	7.00	9.50	INC
Jammu & Kashmir	0.21	67.16	0.33	13.00	9.40	PDP
Jharkhand	0.18	66.41	0.19	17.00	39.10	BJP
Karnataka	0.14	75.36	0.23	10.00	23.60	INC
Kerala	0.08	94.00	0.49	8.00	12.00	CPIM
Madhya Pradesh	0.30	91.85	0.24	6.00	36.70	BJP
Maharashtra	0.08	69.32	0.29	17.00	24.50	BJP
Manipur	0.20	82.34	0.43	14.00	47.10	INC
Meghalaya	0.17	79.21	0.06	33.00	17.10	INC
Mizoram	0.19	74.43	0.38	12.00	21.10	INC
Nagaland	0.27	91.33	0.42	10.00	20.90	NFP
Odisha	0.19	79.55	0.21	25.00	37.00	BJD
Puducherry	0.04	72.87	0.17	15.00	1.20	INC
Punjab	0.22	85.85	0.41	8.00	15.90	SAD
Rajasthan	0.21	75.84	0.22	8.00	24.80	BJP
Sikkim	0.10	66.11	0.02	16.00	13.10	SDF
Tamil Nadu	0.07	81.42	0.30	8.00	17.10	AIADMK
Telangana	0.16	80.09	0.14	11.00		TRS
Tripura	0.23	87.22	0.30	16.00	17.40	CPIM
Uttar Pradesh	0.10	67.68	0.08	20.00	37.70	SP
Uttrakhand	0.23	78.82	0.43	9.00	18.00	INC
West Bengal	0.17	76.26	0.51	17.00	26.70	TMC

Source: Data compiled by Author from Census (Registrar General & Census Commissioner 2011), Handbook of Indian Economy (Reserve Bank of India Various Issues), Planning Commission (2013)

In terms of electoral support, the JDU had been gaining since early 2000's when it was in alliance with the BJP. The JDU and BJP broke ranks and fought the 2014 election separately. The 2014 parliamentary election was the worst performance by the party. It became clear that while the developmental and transparent governance under Nitish Kumar was gaining public support, the social basis of JDU was still

inadequate for electoral victory. The election results formalised the path to alliance with RJD at the state level.

<b>Party /Vote Share</b>	<b>2004 Parliamentary Election</b>	<b>2005 Assembly Election</b>	<b>2009 Parliamentary Election</b>	<b>2010 Assembly Election</b>	<b>2014 Parliamentary Election</b>	<b>2015 Assembly Election</b>
<i>JDU</i>	22.4	20.5	24	22.6	16	17.3
<i>BJP</i>	14.6	15.6	13.9	16.5	29.9	25
<i>RJD</i>	30.7	23.5	19.3	18.8	20.5	18.8

Source: (Election Commission of India Various Issues)

It is noteworthy that in Bihar 5,298 panchayats out of 8,471 panchayats in the state don't have a bank branch and the state is one of the poorest in India. Despite the ground realities, the support for demonetisation by JDU, and the opposition by RJD highlights the political context of support.

Similar political logic underlines the incumbent Biju Janata Dal support for demonetisation in Odisha. The BJD is not part of the NDA alliance and Odisha performs poorly in all the objective conditions necessary for successful demonetisation. In fact, 47 percent of the population have no access to banking in the state. Despite such conditions the support of BJD to demonetization reflects the desire to portray an image of honest, and progressive government. It is worth noting that since inception the party has proclaims itself as secular and development oriented. Incidentally the BJD was an ally of the BJP in the state in the 2000s. The alliance between BJP and BJD broke down in 2009 over seat sharing and incidences of communal violence especially in Kandhamal district.

<b>Party/ Vote Share</b>	<b>2000 Assembly Election</b>	<b>2004 Assembly Election</b>	<b>2009 Parliamentary Election</b>	<b>2014 Assembly Election</b>	<b>2014 Parliamentary Election</b>
<i>BJD</i>	29.4	27.4	37.2	43.9	44.8
<i>INC</i>	33.8	34.8	32.7	26	26
<i>BJP</i>	18.2	17.1	16.9	18.2	21.9

Source: (Election Commission of India Various Issues)

As the data suggests the BJD has gained since the breakdown of the alliance with the BJP in the state. The BJD support is concentrated in the upper castes and the OBCs along with Dalits and Adivasis. The main opposition in the state is the Congress which has been politically discredited in the 2014 election for corruption and discrimination against Odisha (Mohanty and Ray 2014). Clearly the BJD is not politically opposed to the BJP and developmental honest image of the leader conforms to the support for demonetisation. The relation between the BJD-BJP has also remained complicated as BJP central leaders have rarely criticised the state Chief Minister (Mohanty 2016).

Like the support of opposition parties, the opposition to demonetization can be explained through the logic of politics. The virulent opposition of Delhi Chief Minister Kejriwal to demonetisation can be understood in the context of Delhi politics. Delhi is a unique state being the capital of India. The AamAadmi Party emerged in the context of anti-corruption movement and projects itself as a party of the masses hitherto ignored by the mainstream political parties. The political ascendance of AAP has been at the expense of the Congress party and the BJP is the main opposition to the AAP with vote share of 34 percent in 2015. Thus despite the relatively favourable conditions on ground, the AAP opposition to demonetisation has repeatedly emphasised on problems for the population especially migrant labours, slum dwellers, poor, small and medium businessmen, who constitute the support base of the AAP. For AAP the posturing of anti-corruption is not critical as the party image incorporates anti-corruption (broom being the party election symbol).

For West Bengak Chief Minister Mamata Banerjee, the logic of anti-corruption runs in the opposite direction. The TMC has been marred in allegations of corruption since assuming power in the state and projecting an anti-corruption image is not a major concern of the regime. Rather the pro-poor image of the party and anti-BJP posturing is critical to success of the TMC. The state has around 27.5 percent Muslim population and muslims votes are critical in nearly 100 constituencies (more than 30 percent votes) out of total 294 in the state (Azim 2016). Even though consolidation of Muslim votes is difficult, anti-BJP positioning is the best way to attempt this consolidation.

<i>Party/ Vote Share</i>	<b>2004 Parliamentary Election</b>	<b>2006 Assembly Election</b>	<b>2009 Parliamentary Election</b>	<b>2011 Assembly Election</b>	<b>2014 Parliamentary Election</b>	<b>2016 Assembly Election</b>
<i>Left Front</i>	50.8	50.6	43.3	41.1	30.1	21.7
<i>TMC</i>	21	26.6	31.2	38.9	39.8	45.6
<i>INC</i>	14.6	14.7	13.5	9.1	9.7	12.4
<i>BJP</i>	8.1	1.9	6.1	4.1	17	10.1

Source: (Election Commission of India Various Issues)

In the assembly elections in 2016 the Congress received around 12.3 votes (in alliance with Left Front) just 2 percent more than BJP's vote share. In real terms therefore BJP has emerged as the third alternative in the state. Interestingly the BJP vote share declined in 2016, compared to 2014 but this decline did not benefit the Left-Congress alliance in a significant way. Instead TMC's vote percentage increased as minority votes shifted to TMC as the credible bulwark against the BJP. Also the support base of the TMC has largely drawn to rural and urban poor. Its vote share tended to be higher in rural areas, a sign that it has replaced the Left as the "provider party" for the rural poor (Vernier 2016). Unsurprisingly Mamata Banerjee was most vocal against demonetisation because the principal opposition in the state (CPIM and Congress)

opposed the move, and she had to portray herself as a greater, more credible opposition to BJP for the minorities and her traditional vote bank.

## Conclusion

In conclusion it is important to point out that demonetisation and its consequences are still unsure, at least economically. The economy has been somewhat destabilised in the short run while the long run benefits can only be anticipated. In the absence of credible economic outcomes, the narrative of demonetisation constructed by political parties has dominated the discourse. That is why states like Delhi and Karnataka despite having comparatively favourable conditions has opposed the move while backward states like Arunachal Pradesh, Assam, Bihar have extended their supported. Despite the economic failures politically the move has cemented the position of the government as an effective honest administration despite all the pitfalls. The instrumental attitude of the opposition parties towards demonetization has meant that the opposite narrative has been fragmented. The response of political parties is guided not only by their conception of demonetisation but their electoral interests. In this milieu unsurprisingly electoral outcomes or elections have become the metric to measure the success or failure of the decision. In this fluid political-economy situation the position of parties is likely to follow the verdict of the people.

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## RESUMO

Entre 8 de novembro e 31 de dezembro de 2016, o governo indiano instituiu um dos maiores exercícios de desmonetização do mundo, retirando 86% de todas as moedas, sob a forma das notas de Rs 500 e Rs 1000. Este artigo analisa o debate em torno do exercício de desmonetização e tenta fornecer uma narrativa política do evento. Interrogando os vários argumentos em torno da desmonetização, argumenta que a desmonetização foi reduzida a uma postura política, uma vez que as consequências econômicas continuam a ser altamente debatidas.

**Palavras-chave:** Desmonetização; Economia política; Índia;

## ABSTRACT

Between 8th November and 31st December 2016 the Indian government instituted one of the biggest demonetisation exercises in the world by withdrawing 86 percent of all currency in the form of Rs 500 and Rs 1000 notes. This paper looks at the debate surrounding the demonetisation exercise and attempts to provide a political economy narrative of the event. Interrogating the various arguments around demonetisation, it argues that demonetisation has been reduced to a political posturing as the economic consequences remain highly debated.

**Key-words:** Demonetization; Political Economy; India;