

DEMONETISATION:

From Deprivation to Destitution

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Foreword: C. Rammanohar Reddy



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Foreword

In the ranking of economic policy decisions in Post Independence India, the demonetisation of the high denomination notes (HDNs) of ₹ 500 and ₹ 1000 currency notes in 2016 will figure at the top. It will rank alongside the Industrial Policy Resolution of 1956 that ushered in licensing, the bank nationalisation of 1969 and then the July 1991 economic liberalisation programme.

In terms of a long-term macroeconomic impact, the 2016 demonetisation is not going to change the economy in the same manner as the three other major events did. Unlike the Industrial Policy Resolution of 1956 or the July 1991 reforms, it has not put in place new structures, new rules and new regulations. Economic growth in terms of the headline GDP numbers has recovered since 2017 and seemingly everything has returned to normal.

Yet, we must admit that in scale and sweep demonetisation or “notebandi” as it came to be called in common parlance was an epochal event. The country had witnessed demonetisation earlier – in 1946 and 1978 – but those were much smaller in design and implementation. In 2016, it was a huge event: it had to be when 86 per cent of the currency was denotified at one stroke (with some transition period for some activities). It was also a bolt from the blue somewhat like bank nationalisation (bank nationalisation was on the agenda in 1969 but nobody really expected it to happen).

The demonetisation announced on 8 November 2016 was epochal because it was an economic event that touched everyone’s lives – rich, poor and middle class. Yet the decision seemed to have been taken with little thought and against every piece of sage advice. That is the real significance of the notebandi of 2016.

People remain perplexed. What happened then and why? If all the structures of corruption and the underground economy continued to remain in place two years later, why was demonetisation carried out?

Those questions have not yet been answered.

There are other and more immediate questions that have also not been answered. The most important one, in my view, is the impact that demonetisation had on work, incomes, consumption, indebtedness and the like in the informal sector which is home to some 70-75 per cent of the workforce and produces 50-60 per cent of India's GDP.

If 86 per cent of currency in circulation is suddenly removed, then however temporary that withdrawal, there is going to be a major disruption of the economy. There would be a short-term disruption and perhaps even a long-term impact. We do know that in the aggregate GDP growth was pulled down in the quarter after demonetisation. But that is in the aggregate, what of the impact in the more cash-dependent and therefore more vulnerable sectors?

Two years after notebandi, we do not have a comprehensive assessment of the short-term and likely long-term economic impact of demonetisation. The government has neither set up a committee to prepare an assessment nor has it commissioned any studies on the subject. The only official studies that have been done are one prepared in early 2017 by a committee set up by the Government of Kerala which looked at conditions in that state¹ and another by the Reserve Bank of India in March 2017 which as its title itself suggested was a preliminary investigation.² There have been none by the Government of India.

To a certain extent, we can understand the absence of such initiatives by the Government of India. To initiate such an assessment would itself be an indication that the Government took a wrong decision in demonetisation of ₹ 500 and ₹ 1000 currency notes.

It has been left to independent researchers, consultancies and industry associations to come up with assessments of the immediate impact of notebandi.

The All-India Manufacturers' Organisation conducted surveys among its members – mainly small and medium enterprises – a month after demonetisation and then again a year later. In both

1 "Report of Committee to Study Demonetisation in the State Economy of Kerala", Kerala State Planning Board, 2017.

2 "Macroeconomic Impact of Demonetisation: A Preliminary Investigation", RBI, March 2017.

instances, the AIMO reported significant output and employment losses, in the excess of 25 per cent. Such surveys by industry bodies are often not treated seriously, since they are seen as expressing a self-interest of their members. However, the impact on small industry was real and cannot be dismissed as imaginary. There was also the question of separating the effect of the Goods and Services Tax (which was introduced in mid-2017) from that of demonetisation of a few months earlier.

Be that as it may, a few independent agencies have also studied the impact of demonetisation in particular areas. The CMIE has been tracking what happened to employment and its results present a distressing picture. Based on a survey of 172,000 households before and after notebandi, the CMIE concluded that the immediate job losses were as high as 12.7 million, while the long-term impact was a fall in jobs of as many as 3.5 million. The labour force also came down by 15 million.³

These are humungous figures but they have also been hotly contested on grounds of definition, estimation and interpretation. Unfortunately, such controversies have arisen because the Government or autonomous agencies like the National Sample Survey Organisation themselves have not come out with any numbers on employment post-demonetisation.

There have been a few studies by researchers from academia on the fall-out of notebandi especially on the informal sector. Examples are the early study by Dreze and Co. on informal establishments in Ranchi⁴ and one on slums in Mumbai⁵. More recently, there has been a study on the informal activity of waste chains and how

3 “CMIE’s Mahesh Vyas Says, 3.5 Million Jobs Lost Due to Demonetization”, <https://indianexpress.com/article/business/economy/cmies-mahesh-vas-says-3-5-million-jobs-lost-due-to-demonetisation-5357295/>, *Indian Express*, September 15, 2018.

4 Jean Dreze, Dheeraj Kumar and Akash Ranjan, “Demonetisation Decimates Ranchi’s Economy”, <https://thewire.in/uncategorised/demonetisation-decimates-ranchis-economy>, 26 December, 2016.

5 Deepa Krishnan and Stephan Siegel, “Survey of the Effects of Demonetisation on 28 Slum Neighbourhoods in Mumbai”, <https://www.epw.in/journal/2017/3/web-exclusives/survey-effects-demonetisation-28-slum-neighbourhoods-mumbai.html>, *EPW Web Exclusives*, 21 January 2017.

demonetisation affected workers in Pune.⁶ It is also surprising that not more researchers in academics have taken up what is an obviously important area of study. Micro studies are particularly relevant to help us build up a layered understanding of the fall-out of demonetisation.

This is where sector studies like this detailed survey and analysis by Ritu Dewan and Radha Sehgal are extremely important. This study of the impact of demonetisation on workers in the construction industry is based on surveys conducted in the Mumbai Metropolitan Region in April-May 2018 and looks to estimate the impact in a variety of aspects immediately before demonetisation, immediately afterwards and 12-18 months later.

The choice of the sector is important for four reasons. First, the workers in the construction industry – usually migrant, and usually both men and women – come from the poorest strata. Any negative impact would have the starkest fall-out on these workers and their families. Second, the construction sector was in the years before demonetisation one of the most dynamic sectors in terms of employment generation in both rural and urban India. So, an important question would be how demonetisation affected this important employment-creating sector. Third, the real estate sector has traditionally been highly cash-intensive in its transactions – in the use of both legal and illegal cash. So, the additional important question will be: How did the sudden withdrawal of cash disrupt activity and what was the final impact on the workers? Fourth, construction activities in India operate in both the formal and informal areas, with workers usually on informal short-term contracts. So, the construction sector could be a good illustration of how an informal sub-sector was affected by demonetisation.

A study of workers in the construction industry will therefore give us the starkest impact of demonetisation on workers in a thriving but volatile sector workers who do not enjoy job security and are drawn from some of the poorest economic strata.

This is where this micro study of construction workers in eight “nakas” in the Mumbai Metropolitan Region plays an important part

6 V. Kalyan Shankar and Rohni Sahn, “How Demonetisation Affected Informal Labour: Waste Chains in a City?”, <https://www.epw.in/journal/2018/26-27/notes/how-demonetisation-affected-informal.html>, *EPW*, 30 June 2018.

in helping us understand the impact of demonetisation. This to my mind is the first such study of what happened after demonetisation in the construction sector.

Based on a primary survey, the study looks at different aspects of employment, wages, consumption expenditure (including on health), borrowings and other areas, with special attention being paid to the gender dimension. The overall picture that the study presents is a very discomfoting one. The voices of the workers and their families that are interspersed in the study provide additional illuminating insights, and in many cases, lend an additional poignancy to the story being told.

The fall-out of demonetisation as illustrated in this study called for immediate ameliorative measures to cushion the impact of demonetisation. That this did not happen at that time says as much about the design and execution of demonetisation as about the tardiness of the response of the state and central governments. This may also tell us why the Government of India has refused to entertain any thought of presenting an overall assessment of notebandi, in say a White Paper that is placed in Parliament.

The economic dimension of the impact of demonetisation on workers was to an extent expected and should have been obvious to those who designed the event. We now know that the RBI too had alerted the Government of India to the short-term costs, and that these costs may not be outweighed by the long-term benefits, if any.

It is the social impact of demonetisation that, we are less aware of and where more work needs to be done.⁷ For instance, the early media reports (substantiated in this study) spoke of one major deleterious impact on women who were working to sustain households where the men were either irresponsible or abusive. Women in these households had built up cash reserves from their earnings, reserves hidden from husbands, who were often either irresponsible or abusive, to be used during emergencies and for the education of their children. Demonetisation had both an economic and social impact on these women: the cash holdings often kept in

7 One early study of the social impact was by Isabelle Guerin *et al.*, "Understanding Social Networks and Social Protection: Insights on Demonetisation from Rural Tamil Nadu", <https://www.epw.in/journal/2017/52/review-rural-affairs/insights-demonetisation-rural-tamil-nadu.html>, *EPW*, 30 December 2017.

₹ 500 and ₹ 1000 notes were now useless unless the women had bank accounts and could deposit this cash in those accounts. There was also a social impact in that the women were now vulnerable to husbands (often abusive) for having maintained these “secret” reserves.

There is another and more disturbing social impact that this study refers to. The poorer sections of society who lost jobs or did not receive their cash wages had to look for a variety of survival strategies. Sexual exploitation of the women in these households was unfortunately one of these extreme survival strategies as referred to in this study of construction workers. A related question would be if the hardships imposed by demonetisation led to any increase in domestic violence.

We are experiencing a double tragedy in relation to notebandi. The first tragedy was the suffering imposed by the event. The second tragedy is we do not as yet know the full story of how the common people coped with this suffering. This study on the impact of demonetisation on the informal sector as illustrated by the experiences of construction workers in the Mumbai Metropolitan Region adds to our understanding of the fall-out of that major event.

We need more work like this one by Ritu Dewan and Radha Sehgal to help us come to a fuller understanding of what happened to common people. That will help us, even at this late stage, to devise strategies to help them neutralise the negative impact which in many instances also seems likely to have a long-term impact.

C. Rammanohar Reddy

27 November, 2018

Proem



The poor and the excluded have been at the center of ActionAid's discourse and actions since 1972.

ActionAid India is an organization that works in solidarity with the most marginalized of communities to promote Social and Ecological Justice. While, we believe in equality and justice for all, we begin with supporting the empowerment of the marginalized in their struggle for a life of dignity – as equal citizens of India. We draw inspiration and guidance from the Constitution of India and international covenants that envision a just and equal world. ActionAid aspires to seek alternatives that serve in the interest of the poor and excluded thereby advancing our mission towards a world devoid of poverty and injustice.

Given our long experience of working with the most deprived people across the country through participatory research and action, we adapt and strengthen qualitative research, capturing and reporting the lived realities of deprived communities. Our research, documentation and advocacy initiatives always build on people's knowledge from below and articulate narratives with the aim of making the facts of people's lives relevant to policy making and policy change.

Decline of traditional livelihoods due to distressed agrarian and rural economy and lack of sustainable alternatives has adversely impacted people's agency and sovereignty. The widespread lack of basic services, living wages, social security, and increased vulnerability to exploitation, violence, and bondage has pushed people to becoming economic migrants at immense social and personal cost, and exposed them to further precariousness and exploitation in peri-urban and urban areas.

The Mumbai Regional Office of ActionAid has been comprehensively engaging with the agency of construction workers for more than a decade to reassure social security, decent wages and dignified work while addressing exclusions in the labour market.

We constructively engage with the larger civil society and governments to build capacities and resilience among the marginalized communities thereby ensuring their access to entitlements.

Research shows that a shift has distanced both the policymakers from people and decision-making from elected representatives, leading to an increasing democratic deficit in the country. Researches and studies will help us in deepening our understanding to undo this. Democratic governments can act on behalf of their citizens by upholding social and economic rights and the principle of justice for the poor and the excluded.

Deepening our focus on poverty eradication by documenting and working on power-based injustices is an increasing part of our work. This study, **Demonetisation: From Deprivation to Destitution**, is one such effort to know if Notebandi had negative consequences and fell disproportionately on the shoulders of the construction workers, the powerless.

I am sure this microbook will go a long way in engaging with the policy makers. Let us now translate the suggestions and recommendations of the study into actions and results.

We extend our heartfelt thanks and gratitude to the students of the esteemed St. Xavier's College, without whom this study would not have seen the light of the day. Many thanks to Prof. Ritu Dewan and Radha Sehgal for their unwavering support in taking the study from conception to completion.

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2nd December 2018.*

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Chapter One

Introduction

The single most debated and discussed policy in the past few years which has had deep structural ramifications is that of the demonetisation of the two highest value currency notes. More of an announcement than a policy, the banning of ₹ 500 and ₹ 1000 notes came as a huge jolt to the people of India, and deeply impacted all spheres of life, livelihoods and labour. The correctness and appropriateness of this pronouncement has witnessed a large volume of literature, richly argued and with strong database, including the final calculations released by the RBI in September 2018; much has been written and much more will be written. The focus, however, has been on macro issues and impacts, along with interviews and ‘stories’: this study certainly does not seek to deny or decry the significance and value of hitherto published work which informs the discussion, but aims to enrich this debate via visibilisation of the ground realities through the investigation and quantification of the ramifications of demonetisation on various facets of the lives and labour of the marginalised. The basic purpose is therefore the estimation of these ramifications in measurable terms, combined with the articulation of people’s testimonies based on their experiences, struggles and coping strategies impacted specifically by demonetisation.

As a fundamental at the start itself, we would like to state that we question the very basis of this policy that aimed – initially at least before extending to other objectives such as curbing ‘terrorism’ – to remove black money from the economy. One, the equation of wealth with money is itself irrational, based as it is on the mercantilist view of the economy. Two, it goes against the economic principle that money is not only not equal to wealth but that, in fact, money veils the basic foundations of society. Three, that this mercantilist view has no role whatsoever to play in today’s national and also international scenarios, and in fact not only contests but devisibilises the current

state and also stage of development of capitalism. Four, that focusing on cash as the only and sole form of wealth conceals the fundamental resource-based inequalities that permeate all structures both economic and extra-economic. Five, that 'illegal' money cannot be equated to notes that are strewn around and that can be identified and caught; money is converted into assets, whether property or gold or shares or diamonds, whether within the boundaries of the country or beyond.

This micro-book is probably the first study based on primary data collection and evaluation focusing on the varied impacts of demonetisation: the ramifications are estimated during three phases. Phase One reflects the situation prevailing in the period immediately preceding the announcement of Notebandi, the pre-demonetisation reality, so to say. The second phase extends over the first three months after November 8th and covers the period between November 2016 and January 2017 in order to capture immediate impacts. The third phase unravels the long-term consequences and extends over the 16 months between February 2017 and May 2018 when the field survey was carried out.

Our perspective is clearly partisan, in that it focuses on the labour and livelihoods of the marginalised and the vulnerable. Accordingly, our objectives are – to document on a quantitative base the impact of demonetisation in all its various avatars; to capture the various facets that have been affected in all their manifestations; to measure the extent and intensity of these effects; to examine whether, of the several ever-changing objectives, financial inclusion has been enhanced; to unravel evidence based on the testimonies of those impacted; to visibilise and record the various strategies of survival; to identify the myriad short- term and long-term repercussions of demonetisation on those who have been consistently pushed off the page of growth and also 'development'.

The survey was conducted during the months April and May 2018 which is generally accepted as being the high season for construction work. Also to be pointed out is that these summer months is when a large proportion of migrants return to their villages for several reasons – for purposes of sowing in instances where the workers are land-holders, due to closure of schools and hence

vacations of the children, for marriages, etc. There are thus three major repercussions of conducting the field survey during the peak summer season: one, that the supply of labour declines; two, that the demand for workers increases; and three, that wage rates during this period therefore probably reflect a high that may not necessarily be operative during 'normal' months. The implication is clear – that in fact there is a rather strong possibility of our quantitative results underestimating the impacts of demonetisation.

This micro-book is also, we are proud to say, the result of research conducted along with six interns from St. Xavier's College, Mumbai, who were not only with us every step of the way, but whom we would be doing injustice to if we did not formally recognise them: Maria Paul, Monica Moses, Rohini Toal, Rucha Takle, Sara Ansari and Tanaya Jagtiani – efficient, bright, committed, eager, sensitive and compassionate. This research, conducted with the help of Madhukant Pathariya and Laxmi Naik of SALAH (Social Action for Literacy and Health) would have been unrealisable but for the generosity of spirit and support of Nirja Bhatnagar, Head of the Maharashtra Regional Office of Action Aid, and her team: Vinayak Pawar, Celsa Estibeiro, Karishma Gupta, Moti Lal and Mahesh Hambir.