Rs 2000 Note Withdrawn: Policymaking That Is Insensitive to Consequences Has Become the Norm

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In a sudden decision, the Reserve Bank of India (RBI), announced the withdrawal of Rs 2,000 notes from circulation with immediate effect. The denomination will remain legal tender, meaning one can go change the mentioned denomination to any other currency denomination at a bank or even make deposits using the same denomination up until September 30. Or spend it on goods and services — provided, of course, a shop or supplier is willing to accept the notes, which they likely may refuse to do.

“The total value of these banknotes in circulation has declined from Rs 6.73 lakh crore at its peak as on March 31, 2018, (37.3% of notes in circulation) to Rs 3.62 lakh crore constituting only 10.8% of notes in circulation on March 31, 2023,” the RBI said. The apex bank also said that “the objective of introducing Rs 2000 notes were also met once banknotes in other denominations became available in other quantities.”

Questioning the logic and motive?

For those with a traumatic memory recollection of 2016’s demonetisation announcement (which banned 80% of the money supply circulating in the form of Rs 500 and Rs 1,000 notes), this particular RBI announcement may in theory seem to offer people time options and reason for depositing or exchanging the Rs 2,000 denomination.

But look it this way, if a person or a business firm that operates largely on cash-based reserves has lacs of Rs 2,000 based currency reserves (and most firms in India still do, particularly in a largely unorganised economy to pay up for labour charges and working capital needs).

The firm or the individual will now have around 130 days or so to make scores of daily visits (employ different people to do the same) to a bank to change these notes (because only Rs 20,000 can be exchanged at a time for other denominations, you will see those with large sums employing more people just to do this).

Also, for those operating their business still reliant on cash, say in real estate or property-related transactions, the announcement will surely cause significant trouble (given more than 50% of their everyday business is still large cash-reliant). I am guessing the announcement to also result in a difficult quarter for much of the real estate and construction business sector from hereon (and also other cash-reliant businesses). In a 'jobless-poor investment' growth trajectory, how does the timing of this appeal to sound economic policy or thinking?

Furthermore, somewhere, the limit of Rs 20,000 for exchanging Rs 2,000 notes seems to be announced based on a need to also 'monitor' the rate and scale of exchanges of large sums of Rs 2,000 notes. This might give ammunition to centralised agencies (captured by the Modi-Shah double engine) to specifically target certain businesses, individuals or the political opposition.

So, while in theory, and on paper, all of this may appear to sound fine and a small "RBI monetary policy measure", but, the reading of this announcement has to be seen in the context of its timing and political economy implications too.

Note how the RBI announcement came a few days after the Karnataka election results (where the BJP performed poorly) and even today, this was notified after Friday's stock market hours had closed for the day to avoid any immediate spillover effect (or cause any panic amongst investors).

The deadline for exchanging or depositing the Rs 2,000 note has also been kept as September 30, which is just two months away from several state-assembly elections (giving enough reason to believe the political or electoral motivations of the government in asking the RBI to announce this now). I have previously argued how the timing of the demonetisation announcement too had kept the UP elections in mind, seeing it more as a political action than an economic policy measure.

There are also serious questions about 'state capacity', and the concerns of implementation from an already stressed public-sector bank system (its bureaucracy), which makes the executive discharge of any such 'centralised' announcement difficult (and those with lived experience of responding to demonetisation and the crisis of management and public sector bureaucracy that followed may very well know this).

New notes issued after demonetisation. Credit: PTI

Consequentially insensitive policy making as a norm for Modi government?

The political economy of the Modi government – and its institutional functioning – has been discussed at length in the recent past (this author has argued and spoken at length about an environment of *intellectual bankruptcy* that shapes much of the current government's policymaking-advising space. The government seems to hardly have any cohesion or clarity in its macroeconomic or fiscal vision.

Look at another recent instance for example.

Only a couple of days ago, the Union finance ministry announced a 20% Tax Collected at Source (TCS) charge for all international credit transactions abroad from July 1. The government said the decision was taken in consultation with the RBI. The move, notified Tuesday night, was surely to impose a 'significant compliance burden on both card-issuing banks and consumers'.

More importantly, the administrative cost of tax-monitoring all international credit card transactions may simply be 'not possible' and appears to be a consequentially-insensitive announcement from the government's know-how of its own 'capacity' to implement such a notification. From a simple cost-benefit exercise on executive action (resources needed), the announcement made less sense.

The notification, naturally, resulted in an uproar on social media around the announcement and the government initially refused to budge. However, on Friday, the Union government announced that to "avoid any procedural ambiguity, it has been decided that any payments made by an individual using their international debit or credit cards up to 7 lakh is exempted from the LRS limits, and hence will not attract any TCS".

Could the government not think about these considerations before making the announcement and riling people up?

This isn't one isolated instance too.

Much of the economic policy-making space under the current government's decision-making architecture suffers from a lack of instituting any critically reflective feedback loop or even learning from its own past mistakes.

From demonetisation in 2016, to the ad-hoc introduction of the GST, the poor implementation of the Insolvency Bankruptcy Code, the introduction of CAA-NRC, the Central farm laws, to the 'codification' of labour laws, all signal a common, worrying trend in the political economy structure of the current government's *governmentality*: it practices centralised, consequentially-insensitive, ad-hoc, knee jerk policies and laws, without making any efforts to consult (or seek advice) from domain-knowledge experts or have white papers in place to learn from its own experiences of past-implementation failures.

'Fare thee well' or 'fare thee forward'?

In a country as large and administratively complex as India, any Union government (which must take decisions in a federal consensus-building order with the states) is well aware of the complex procedural and implementation challenges associated with a given policy/law or changed notification's executive discharge.

A consequence-sensitive ('fare-thee well') approach to policymaking warrants the agency of the state to consider the instrumental processes involved in implementing the policy and the likely outcomes culminating from its final execution. We have seen nothing like this over the last nine years of government action. From a reasoning perspective (and in a class of public policy action):

- A *fare thee well* or 'consequentially-sensitive approach' to public policymaking accommodates a process of ascertaining both, a set of culmination outcomes (i.e representing only the final outcomes seen without taking any note of the administrative process of getting there) and a set of comprehensive outcomes (i.e taking note of the agency-led administrative processes through which the culmination outcomes come about). Any good public policy, in its design, is observed or seen to be taking take such a method.

- A *fare thee forward* or ‘consequentially-independent’ approach in policymaking may seem to be concerned with neither of these two outcomes (ie culmination or comprehensive). A badly designed policy, law or notification change in existing law/policy is seen to take such an approach, in order to maximise economic efficiency while imposing high social costs, resulting in market –and government failure. The implementation cycles of demonetisation and GST (and others spoken of) reflects a benign, indifferent outlook towards those responsible for implementing the cycle (the agency or the administrative body) and those directly affected by the policy (the people or recipients, citizenry concerned).

Unfortunately, as mentioned recently, going into the parliamentary elections of 2024, we might see more of such *fare thee forward* (consequentially insensitive) policy action by the current government, guided more by ‘political or electoral’ motives (to either consolidate or control power) and less by sound economic principles or consequentially sensitive reason. The craft of policymaking in India must seek to align economic incentives in a way that allows the agency and the people to work in a mutually cooperative way and collectively share the benefits that accrue.