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## DEMONETIZATION: ASSESSMENT OF OBJECTIVES

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### ABSTRACT :

On Nov.8, 2016 PMO of India announced demonetization, which resulted in withdrawal of high currency notes of Rs.500 and Rs. 1000 as legal tender after midnight. The decision needs to be justified on big grounds as the notes which cease to be legal tender comprises 86% of the total currency in circulation in the country. Because the decision was one which may impact the entire population of the country it needs to be justified on big and true grounds and also needs all the aspects (economic, social, moral etc.) to be taken into consideration. The objectives included in the announcement speech are as follows:

- 1.Plug Terror Financing,
- 2.To control Fake Currency;
- 3.To curb Black Money,
- 4.To put a check on Corruption.

The following paper aims to evaluate the scheme on the basis of objectives stated by Prime Minister of India in the introductory speech of demonetization.

**KEYWORDS :** Demonetization, Currency, Black money, Counterfeit.

### INTRODUCTION:

India is country where cash to the GDP ratio is in double digit with an estimated 90% of transaction in cash. It is a very surprising decision to ban notes which holds approximately 86% of the total of the currency in circulation. Yet the decision is justifiable on the ground which is related to one of the biggest political issues in the country and holds the pulses of almost every citizen of the country that is "Black Money". May be that is the reason for the success of the central ruling party in all the local elections. But is the decision proved to be worthy in respect to the objectives told by PMO on Nov.8, 2016 the day when Demonetization was announced. In the following paper we will try to understand the worthiness of the decision with respect to its initial objectives. As the true results of the decision cannot be measured so early yet we will try to study it on the basis of secondary data, reports, articles published before and after the introduction of the scheme.

The research paper is a conceptual one where only published data (online or offline) is used to support any argument.

### EXPLANATION

Objectives of the demonetization scheme as stated in the speech of Prime Minister on the day of announcement of the demonetization are:

1. Plug terror-financing and put a check on fake currency.
2. To curb the black money exists in the country.
3. To control the corruption.

### 1) Plug terror-financing and put a check on fake currency:

For the sake of the simplicity we should study it in two different phases:

**a) Plug Terror financing:** In the introductory speech we all came to know about the role of fake currency in the financing of the terror in the country. But if Google sources if financing the terror it came up with many results, like: charity, money laundering etc. though fake or counterfeit currency is a part of it but we do have to note that draining cash is not a long-term solution for curtailing terrorism.

**b) Put a check on Fake Currency:** according to study conducted by National Statistical Institute, Kolkata in 2015 total fake currency prevails in the Indian market is Rs. 400 crore which is merely 0.0022% of the total currency in circulation. This value of FICN (fake Indian currency notes) remains constant over last 4 years according to answer of the question tabled in parliament. Media reports also quoted the ISI study as concluding that the existing system of seizure and detection are enough to flush out the quantum of FICN being infused.

Denomination-wise Counterfeit Notes Detected in the Banking System as a Proportion of the Notes in Circulation (in pieces) (April to March)						
Denomination (?)	2013-14			2014-15		
	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC
1	2	3	4	5	6	7
2 and 5	1	11,698,000,000	0.00000000	0	11,672,000,000	0.00000000
10	157	26,648,000,000	0.00000001	268	30,304,000,000	0.00000001
20	87	4,285,000,000	0.00000002	106	4,350,000,000	0.00000002
50	6,851	3,448,000,000	0.00000199	7,160	3,487,000,000	0.00000205
100	118,873	14,765,000,000	0.00000805	181,799	15,026,000,000	0.0000121
500	252,269	11,405,000,000	0.00002212	273,923	13,128,000,000	0.00002087
1000	110,035	5,081,000,000	0.00002166	131,190	5,612,000,000	0.00002338
Total	488,273	77,330,000,000	0.00000631	594,446	83,579,000,000	0.00000711
FICN: Fake Indian Currency Notes. NIC: Notes in Circulation.						
Note: Does not include counterfeit notes seized by the police and other enforcement agencies.						

Source: rbi.org.in

The above presented report presents the FICN seized by the banking system. Government of India also launched a website for public to help them to identify the FICN namely paisaboltahai.rbi.org.in.

Even if the government claims that the problem of FICN is one hundred times larger than what is there in the reports "demonetization" does not seem to be a good decision.

It is hardly significant to cause damage to small and medium industries for who cash acts as their lifeblood, as they heavily rely on cash. Even if we consider it as big issue (FIC) demonetization do not guarantee that the new currency cannot be copied or new notes are impossible to copy. Hence this reason does not provide a satisfactory answer to support the scheme like demonetization.

### 2) To Curb the Black Money:

It is crucial assumption for demonetization exercise that Black Money is hoarded in the form of cash. It is necessary first of all we should understand the meaning of Black Money we should not confuse it with Black Cash. We need to understand the meaning and difference in Black Economy, Black Money and Black Cash:

**Black Economy:** unreported or under-reported income flows from broad set economic activities.

**Black Money:** assets that have neither been reported to the public authorities at the time of generation nor

disclosed at any point of time during their possession.

**Black Cash:** Part of black money which is held in the form of cash.

National Institute of Public Finance and Policy estimated in a report presented by it in Dec.2013, that Black Money could constitute the 75% of the GDP of Indian Economy. However government denied the report and media backed it by choosing 20-30% estimate by World Bank.

At 75%, 120 lakh crore of Black Money is generated every year. Now if we compare it with the total currency demonetized which is 14.6 lakh crore approximately by holding an assumption that half of it were black even then it merely equals to the 7% of the total Black Market.

According to Swaminathan Aiyer (2016) as a stock not even 2% of the historical black hoards are held in cash---almost all had been converted into gold, real estate, financial investment some at home much abroad \_\_\_\_\_the overwhelmed stock of Black Money has been laundered in white ages ago.

Also we should take into consideration that money velocity of black is greater than white. It means propensity to consume is greater in black money earners and they try to convert it into non-cash form. And the part they save in the form of cash they save it from their other sources which are white. [  $m_{vb} > m_{vw}$  ]

Here we should not forget that economy of a country can be divided into two parts namely Organised sector and Unorganised sector and the later one is not a symbol of Black Economy or Black Money.

Under the scheme of Demonetization, Govt. of India tries to curb merely a tiny part of the black money and if we see the reports related to the total money deposited with the banks after demonetization which is almost 97% of the total demonetized currency it seems that even the tiny objective is far from the reach. However Govt. of India claims that it is not the end yet and it is asking the suspects to tell the source of money they deposited in their accounts.

### 3) To take Corrective Measure for Corruption:

It is another crucial assumption that most of the corruption prevailing in the country has its roots in cash but if we look around global behavior of corruption there are cash intensive countries with lower perceived corruption and less cash intensive countries with higher perceived corruption. The "Corruption Perception Index" of Transparency International represent the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). In 2015, the index was higher for money economies with higher Currency-GDP ratios (75 for Japan and Hongkong, 86 for Switzerland, 81 for Germany and 76 for Austria) and lower for money economies with lower Currency-GDP ratios (44 for South Africa, 38 for Brazil, 35 for Mexico, 36 or Indonesia.)

As stated earlier, Money-velocity of Black is greater than White and money generated through corruption is also a part of black, it is immaterial to attack on cash for discouraging corruption.

### CONCLUSION:

It may be too early to know the exact results of the demonetization on the Indian Economy yet after considering the above points we can depict a picture for the initial claims about the benefits of the scheme to the society:

- 1) The concept of counterfeit currency and terror financing is over exaggerated to support the decision of demonetizing the 86% currency in circulation.
- 2) Claim to curb the Black Money is also not in the favour of the decision as it is targeting only 7% (highest reported) of the total Black Money and according to reports it could not realize that also as reports is there that 97% of the currency demonetized came back into the banks.
- 3) Another claim of stopping the corruption do not support the decision as propensity to consume black money is greater than white and using less cash in economy is not a source evidence of less rate of corruption.

However true impact of demonetization can only be known in long run but if we see the initial claims by the government in the favour of demonetization none of them is too strong to support such a big decision.

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