

# MONEY, MONEY, MONEY: ON DEMONETISATION

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Taxation & Black Money

The Reserve Bank of India's annual report for 2017-18 [reveals that 99.3% of currency notes](#) that were demonetised at midnight on November 8, 2016 have returned to the banking system. This is only marginally higher than its provisional estimate last year that over 99% — or 15.28 lakh crore worth of the old 500 and 1,000 notes — out of the 15.44 lakh crore that were in circulation at the time had been deposited by June 30, 2017. This makes a couple of things crystal clear. First, the hope that a large chunk of unaccounted money would not return to the system — arguably, the principal reason for the exercise — was almost wholly belied. As a result, the plan to transfer the arising surplus from the RBI to the Centre, which was not formally declared but strongly rumoured, was a non-starter. Second, given the sheer logistical difficulty in penalising all those who converted unaccounted money into legal tender, demonetisation worked as an unintended amnesty scheme. Despite the significant cost to the economy, demonetisation, to the disappointment of the Prime Minister's critics, had no political fallout. Narendra Modi succeeded in portraying the move as one that would knock out the corrupt rich — a harsh but necessary shock therapy. This was perhaps why the massive disruption caused by the overnight removal of 86% of the currency in value terms did not cause agitations.

## RBI's currency report in charts

Nevertheless, the RBI report, which points to a spurt in counterfeiting of the new 500 and 2,000 notes, raises the old question all over again. Was it worth the slowdown in growth, the damage to informal sector supply chains, and job losses in sectors such as construction that were the bulwark of employment creation for the unskilled? True, there have been some benefits. For instance, the number of income tax returns filed has surged a little over the trend growth rate. But surely this could have been achieved by other policy measures. Cashless modes of payment have become more common, but financial savings in the form of currency have also risen, suggesting that people still value cash. Not all policy choices work out and accepting mistakes or planning flaws helps strengthen governance processes. For example, learning from the UPA's mistakes, a cleaner auction process for natural resources has been worked out. The government must not disown its biggest reform attempt or try to sidestep parliamentary scrutiny of the outcomes of demonetisation. Instead, it could focus on fixing the problems that people still face — transactions with 2,000 notes in the absence of 1,000 notes are difficult as it is a departure from the currency denomination principle (every note should be twice or two and a half times its preceding denomination). Even as these issues are sorted out, the larger lesson must be heeded: sudden shocks to the economy don't always yield intended policy objectives.

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