

Demonetisation to Oust Black Money: A Success or Failure?

Basant K. Potnuru
Associate Professor
FORE School of Management
New Delhi
E-mail: basant@fsm.ac.in

Abstract

Demonetization of high valued Indian currency notes of Rs. 1000 and Rs. 500 on 8th of November 2016 has shaken the country by disrupting normal behavior of Indian politics, economy and society. The ruling coalition quickly articulated this as a big-bang step to unearth black money and attached its success in the elections held in the country post-demonetization as an endorsement of people for the demonetization decision. The opposition on the other hand has termed it as an ‘organized loot’ and irresponsible step that adversely affected all sections of society, especially the poor who were dependent on a hard hit informal economy. Now, with 99 percent of the demonetized currency deposited in the banks, the government faces difficult questions, if the move was at all worth? Why the government announced it without due consideration and failed to foresee its adverse consequences. This paper, in the hindsight, revisits the expectations and objectives of demonetization, and critically analyses it’s both positive and negative effects.

The slowdown in the economy post-demonetization by 1 to 2 percent of GDP growth rate constituting a loss of income of Rs. 1 to 2 lakh crores, plus the new currency printing (Rs. 7,965 cr.) and transportation (Rs. 16,000 cr. as on 6th December 2016) costs, caused inconvenience and loss of lives, etc. are considered, then the demonetization, as an economic case, does not stand the scrutiny. Clearly, the costs outweighed the benefits. What needs to be done to curtail the black money is to fix the demand for black money that comes from political parties, real-estate business, government-private sector nexus rather than focusing on to curtail the supply of black money through cash-less measures.

Key Words: Demonetisation, Black Money, Economy, Costs and Benefits

Acknowledgement: The infrastructural support provided by the FORE School of Management, New Delhi for undertaking this research is gratefully appreciated.