Bursting the Demonetisation Bubble

Why in news?

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The RBI’s recent report on demonetisation clearly rubbished the hype created initially.

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Could demonetisation curtail black money?

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- Cash is only one component of black wealth - pitched at about 1%.
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- Black money is a result of black income generation that is produced by various means.
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- As these means are not affected by the one-shot squeezing out of cash, any black cash squeezed out by demonetisation would then quickly get regenerated.
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- Hence, there is little impact of demonetisation on the black economy.
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- The fact that 98.8% of demonetised currency has come back to the RBI only confirms this.
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How has been the government’s reaction evolved?

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- **Changing Goalposts -** The entire episode has understandably been highly embarrassing for the government since the initial days.
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- To cover it up, it has kept changing its intended objectives.
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- While the initial announcement suggested that the action was to weed out

black money & counterfeiting and plug terror funding, it soon changed the narrative to going cashless.
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- Anticipating an imminent failure midway, the government had also started saying that demonetisation is only one of the many steps to tackle the black economy.
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- **Furthering the Fallacy -** The government now claims that inquiry is underway to trap suspicious massive deposits that had come into banks.
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- Simultaneously, it also adds that “idle lying money” (read black money) has come into the system which will decrease the cash-to-GDP ratio and expand the tax base.
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- The fact of the matter remains that none of these objectives have seen any significant progress.
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What were its economic impacts?

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- The severest bruns were been borne by the poor as the unorganised sector was completely shattered.
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- At one stroke, we saw 1% point off the GDP growth rate being wiped out.
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- With the note shortage slowly waning and the long-term economic and social effects are becoming evident.
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Source: The Hindu

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