

Defects of Demonetisation

Why in news?

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Ex-Governor of RBI, Raghuram Rajan, has criticised demonetisation as not a well-planned or well thought-out useful exercise.

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What are the concerns highlighted?

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- **Plan** - At the time of demonetisation, the demonetised high-value notes comprised 87.5% of the currency value.

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- This is certainly a huge percentage of currency in the economy.

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- In this case, a similar amount of currency should have been printed and made ready to be put back in circulation.

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- But India went for demonetisation without having done this.

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- **Economic impact** - It certainly had a negative economic impact.

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- Evidently, people ran out of currency, not being able to pay, economic activity slowed down, especially in the informal sector.

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- A lot of people probably lost their jobs. But this is often not taken into account because it is the informal sector.

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- **Intent** - Apparently, money that was demonetised came back to the system.

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- But the desired effect that a lot of people would pay taxes did not happen.

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- This is because people very quickly found ways around the system to evade taxes.

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- And as per various estimations, the cost of demonetisation varies between

1.5-2% of GDP.

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- All these raise serious questions as to the purpose and intent of the whole exercise.

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Source: Economic Times

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