Defects of Demonetisation

Why in news?

\n\n

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

\n\n

What are the concerns highlighted?

\n\n

\n
- **Plan** - At the time of demonetisation, the demonetised high-value notes comprised 87.5% of the currency value.
\n
- This is certainly a huge percentage of currency in the economy.
\n
- In this case, a similar amount of currency should have been printed and made ready to be put back in circulation.
\n
- But India went for demonetisation without having done this.
\n
- **Economic impact** - It certainly had a negative economic impact.
\n
- Evidently, people ran out of currency, not being able to pay, economic activity slowed down, especially in the informal sector.
\n
- A lot of people probably lost their jobs. But this is often not taken into account because it is the informal sector.
\n
- **Intent** - Apparently, money that was demonetised came back to the system.
\n
- But the desired effect that a lot of people would pay taxes did not happen.
\n
- This is because people very quickly found ways around the system to evade taxes.
\n
- And as per various estimations, the cost of demonetisation varies between

1.5-2% of GDP.
\n
- All these raise serious questions as to the purpose and intent of the whole exercise.
\n

\n\n

\n\n

Source: Economic Times

\n