

“Black Money” and India’s Demonetization Project

Prominent Citizens Question Delhi Government's Intentions

By [Prof Prabhat Patnaik](#)

Global Research, November 19, 2016

Countercurrents.org 16 November 2016

Region: [Asia](#)

Theme: [Global Economy](#), [Poverty & Social Inequality](#)

We, the undersigned, support all efforts to stop corruption, stamp out black money and counterfeit currency, and act against funding that helps creates unrest in the country be it through terrorism or creating divisions and hatred among people.

However, the decision to demonetize Rs 500 and Rs 1000 notes is misconceived and will not address the problem of black money for the following reasons:

1. If it is the Government’s case that high value denomination currency is used to hoard black money, then the decision to reissue new Rs 500 and Rs 1000 notes does not make sense. Issuing even higher value Rs 2000 note is completely inexplicable and puzzling.
2. Black money is generated through evasion of taxes on income from lawful activities and money generated from illegal activities. In the absence of steps to curb the generation of black money, demonetization is a futile exercise, as it proved to be in 1978.
3. In the last 5 years, IT raids have found that only 5-6% of black money is kept in hard cash. Moreover, those who have amassed sizable black money are equipped to find ways around demonetization by converting their existing cash to bullion, gold jewellery, real estate and foreign currencies through brokers and middle-men. In fact, organized middle-men and touts have already emerged to convert black money into white for a commission.
4. As per The Indian Statistical Institute, Kolkata study done on behalf of the National Investigation Agency (NIA), Rs 400 crores worth of fake currency is in circulation in the Indian economy. This is only .028% of Rs 14,180 billion worth currency demonetised in Rs 500 and Rs 1000 notes
5. Experts including a former RBI Governor and the current Chief Economist of the World Bank have spoken against demonetization.
6. 86% of currency in circulation is in Rs 500 and Rs 1000 notes. 97% of all transactions by volume are done in cash. Summary demonetization has created chaos all over the country with people unable to purchase daily essentials and, in many cases, life-saving goods and services. 5 persons, including one infant, have died as a direct result of the impact of demonetization
7. Only about 30% of the Indian population has access to the banking system as per data compiled by the banking division of the finance ministry. Moreover, the distribution of banks is highly skewed with a third of all bank branches in only 60 Tier 1 and Tier 2 cities/towns. Consequently, people in rural India who often also suffer from inadequate information have become the worst victims of demonetisation.

8. Reports have started coming in of digital payment systems unable to keep up with the new volume of transactions with credit and debit card servers also going down.
9. All currency has value only because of the inherent trust in the banking system. Summary demonetization has shaken this trust and will likely impact India's economy well beyond the initial and widespread chaos.

It is evident that demonetisation will not achieve its stated intent of eliminating black money but has thrown the entire country's economic system in disarray. Related developments also call into question Government's intentions and need clarification:

1. Rs 1.14 lakh crore of bad debts has been waived by Government banks in the last 3 years. At the same time, loans worth lakhs of crores of rupees are still outstanding. Why has the Government not made public the names of the beneficiaries of the waiver and the names of the big defaulters, both individuals and corporations?
2. A key campaign promise was to bring back black money stashed abroad and deposit Rs 15 lakh each from the proceeds in the account of every citizen. Why has the Government not made public the names held by it of Indian account holders in offshore banks?
3. Were BJP leaders and friends given prior information about the impending demonetisation so that they could take pre-emptive measures to safeguard their assets? [The WB unit of the BJP is reported to have deposited a total of Rs 3 crore in Rs 500 and Rs 1000 notes in its bank accounts in the days and hours before the announcement of the demonetisation. A BJP leader posted pictures of wads of Rs 2000 notes much in advance of the demonetisation. A digital payments company printed a full page advertisement lauding demonetisation in a newspaper on the morning following the announcement at 8 pm on November 8, 2016.]
4. Why did the Government announce that cash deposits higher than Rs 2.5 lakh will be scrutinised against the tax return with 200% penalty for any tax evasion? [This appears to be intended to dissuade people from depositing money so that the Government can claim success of demonetisation and forewarn people to split their deposits among different accounts and different depositors.]
5. All conversions can be done only after filling a form and attaching ID proof. This has led to major harassment of poor and illiterate people and those who do not have an identity card.
6. What is the cost of demonetisation? [It has been estimated that the cost of replacing currency in circulation with new Rs 500 and Rs 2000 notes will be Rs 20,000 crore. Besides, far greater losses will be incurred by markets predominantly run on cash and the participants (wholesale markets, retail stores, street-vendors, transportation etc) and in lost productivity.]
7. Even if the Government was intent on demonetisation, why was it not implemented after careful planning: new notes printed, arrangements made for distribution, ATMs recalibrated etc? [It has been seen that banks are running out of cash within hours of opening and most ATMs are still non-functional.]
8. We are all concerned about the use of money power in elections. Why hasn't the Government proposed state funding of elections? Why is the BJP resolutely against transparency in its own funding by refusing to come under the Right to Information Act?

The summary way demonetisation has been effected is leading to a riot like situation in the country. We demand that the Government ensure that common people have immediate access to enough money to pay for their daily needs and health emergencies. Failing which, we demand the rollback of demonetisation or suspension of demonetisation to enable the common person to make adequate arrangements for daily needs and for more orderly phasing out of the old notes. The role of the Government is to undertake honest tax administration and not to treat the common person like a criminal making him/her stand in line and filling forms to access his/her own legitimate money

Signed/-

Prabhat Patnaik
Prashant Bhushan
Aruna Roy
Bezwada Wilson
Jayati Ghosh
Harsh Mander
Kavita Srivastav
CP Chandrasekhar
Nikhil Dey
Shantha Sinha
Aniket Alam
Dipa Sinha

The original source of this article is Countercurrents.org
Copyright © [Prof Prabhat Patnaik](http://ProfPrabhatPatnaik.com), Countercurrents.org, 2016

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Prof Prabhat Patnaik](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca