



EXPERIMENTATION, EFFICACY AND EXPERIENCES OF DEMONETISATION: TRIPPLE E'S OF DEMONETISATION

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ABSTRACT

This paper illustrates how India has experimented thrice times with demonetization in higher denomination since 1946 to 2016. It has observed about the zero efficacy of demonetization in addressing corruption, black money, counterfeiting currency and terror funding. The best international practices of demonetization suggest that demonetization is effective if it is used to check the hyperinflation/inflationary situation in the economy. After having thrice use of demonetization in higher denomination, this seems that India has lessoned more about the use of demonetization and its efficacy. Now in future, it will be used with great care and precaution. This paper also seeks to answer the implication of demonetization in the light of international retrospect. This international retrospection suggests us that demonetization may be of two types- random as well as systematic demonetization. Both produce different result in different circumstances and hence have different implication which will work as a guiding path in future for the use of demonetization again. Systematic demonetization can be used as an alternative to random demonetization in case of inflationary situation and replacement of old denomination with new ones which has at least impact on the economy as compared to random demonetisation

Key Words: Demonetisation, Random Demonetisation, Systematic Demonetisation,

On November 8, 2016, one of the most unprecedented steps in international economic scenarios took place in India after 1978, that is demonetization in higher denomination of two legal tenders. It is unprecedented in the sense that if it is observed through the retrospection of demonetisation in demonetizing countries, it comes to know that this had been occurred when they were facing the adverse circumstances such as hyperinflation, terrorism, political upheaval, or other extreme circumstances, but India's demonetization is a *denovo case* as it combined secrecy and suddenness amidst normal economic and political conditions. But India's action is not so unprecedented in its own economic history because there were two previous instances of demonetization in 1946 and 1978. The table 1 provides the overview of history of demonetization in higher denomination in India since 1946 to 2016 respectively-

Table 1: overview of history of demonetization in India

Date	Governor of RBI	Government	Objectives	demonetised Higher denominations notes	% of demonetised higher denomination to the money stock	Amount of demonetised higher denomination backed to the RBI	No. of days for exchange(excluding grace period)
Jan. 12, 1946	Chintaman Deshmukh	British Rule (governor general of india – Archibald Wavell) and Winston Churchill – PM of Britain	To stop - unaccounted money -tax evasions	Rs 500 , , 1000 & 10000 notes	80 %	Rs 134.9 crore out of 143.97 crore.(93.7%) Only Rs 9.07 crore were not exchanged by end of 1947	10 days
Jan. 16, 1978	I.G. Patel	Janta party PM -Morarji Desai	To combat - Black money - counterfeit ing	Rs 1000 , 5000(introduced in 1954 with the re- introduction of 1000 & 10000) & 10000 Notes	86.6%	Rs 2.1 thousand crore out of 2.8 thousand crore.(75%) Only Rs 0.70 thousand crore were not exchanged.*	3 days
Nov. 8, 2016	Urjit Patel	BJP PM - Narendra Das Modi	Aimed at addressing Corruption; black money; counterfeit currency; terror funding	Rs 500 & 1000 notes	86%	Rs 15.28 lakh crore out of 15.44 lakh crore(98.96%)by the end of june-2017	50 days

Sources: History of RBI Vol I (1935-1951) pg-706 ;History of RBI Vol III (1967-81)pg-450 ;RBI annual report 2016-17 ; *Indian economy(development and planning) pg-560 by Dr. Badri Vishal Tripathi

On November 8,2017 the first anniversary of demonetization was observed as Anti-Black Money Day by the ruling party while the opposition party observed it as a Black Day for Economy and Democracy. It is a political debate between the two which can not be use for the real assessment of the use of demonetization. What was the real motive behind the use of

demonetization? it is still unknown because of ambiguity of ruling party in its objectives of demonetization. But the public debate on demonetization has raised three set of questions-

- 1- Broader aspects of management, as reflected in the design and implementation of the initiative.
- 2- Its economic impact in the short term, medium term and long term.
- 3- Its implication for the broader vision underlying the future conduct of demonetization.

The answer of the first two questions has been attempted by many scholars and economists, but the last one is still unanswered which set the stage for me to play my role.

I- Experimentation

Demonetization: Demonetisation may be regarded as the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Or Demonetisation refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In Ministry of Finance report(2017) it defined as “ Analytically, demonetization can be seen as comprising the following-

- A money supply contraction but only of one type of money - cash.
- A tax on unaccounted private wealth maintained in the form of cash –black money and
- A tax on saving outside the formal financial system.”

Since demonetization is a policy change and then it may be of two types 1- random change 2- systematic change. So demonetization can also be regarded as random demonetization and systematic demonetization.

We define a demonetization as random change if it possesses the following characteristics-

- Sudden demonetization.
- Without prior announcement.
- Very short period of time for exchange(some days or months)

Some major instances of random demonetization across the worldwide are provided below;-

Table 2: Major instances of Random demonetization

Country	Year	Objectives	Effects
Ghana	March ,1979	Excess liquidity and inflation	Loss of public confidence in the banking system
Myanmar	Nov.1985	Need to fight black money	Public protest; Hurry to buy stocks goods pushed up inflation
	Sept. 1987	„ „ „ „ „ „ „ „	
Brazil	1990	To fight hyperinflation	Output contraction;price moderation
	1993	„ „ „ „	Economy stabilized gradually
Soviet Union	1991	Fight organized crime and address money overhang;	Loss of public confidence;hyperinflation;cash drying up;job losses
Russia	1993	Need to complete exchange of old notes and control inflation	Problems for neighbouring currencies;public protest
North Korea	2009	To crack down black currency market and fight inflation	Activities halted for a week public panic and protests
Venezuela	2016	To fight inflation	Public protests
India	Jan,1978	To curb black money & tax evasion	Public panic
	Nov.2016	To curb blackmoney; counterfeiting; corruption; terror funding	Public protests & public support both

Sources: Economic Survey Report 2016-17 pg- 53-79

We define a demonetization as systematic change if it possesses the following characteristics-

- Pre-announced demonetization
- Gradually demonetization or step manner demonetization
- Sufficient period of time for exchange(some months or years)

Some major example of systematic demonetization across the worldwide are provided below:-

Table 3: Major instances of systematic demonetization

Country	Year	Objectives
Australia	1988 & 2015	Prevent counterfeiting
Singapore	2014	To mitigate higher money laundering risks associated with large value cash transactions
Canada	2011	Improve public confidence in currency; deter counterfeiting
Denmark	2012	Fight counterfeiting threats
Sweden	2013-2016	Decisions were part of preparations for the replacement of the banknote and series which was scheduled begin in 2015
Pakistan	June 2015	Fight corruption ;black money;terrorism

Sources: Economic Survey Report 2016-17 pg- 53-79

Transmission mechanism of impact of demonetization: This subsection discusses the transmission mechanism of impact of demonetization which shows how demonetization will affect the GDP growth rate, inflation rate and Policy interest rate with the help of Quantity Theory of Money. Impact of demonetization can be understood theoretically like as- Demonetisation is -

- 1- An aggregate demand shock because it reduces the supply of money and private wealth.
- 2- An aggregate supply shock to the extent that cash is an input to production (for example agriculture)
- 3- An uncertainty shock for investors and consumers.

Theoretically, it can also be shown with the help of Quantity Theory of Money (QTM) which states that

$MV = PY$ where M-money supply, V-velocity (the rate at which money turns over), P- price level, Y-real GDP

Now, if M decreases, V increases, either or the Nominal GDP decreases (a negative impact on both price and real activity).

January 12, 1946: Soon after the second world war, while Government were giving attention to ways and means of averting the expected slump, thought was also given to check black market operations and tax evasion, which were known to have occurred on a considerable scale. Following the action in several foreign countries, including France, Belgium and the U.K., the Government of India decided on demonetisation of high denomination notes, in January 1946. According to a note recorded by Mr. Sundaresan, it would appear that the

Reserve Bank authorities were not enthusiastic about the scheme. The Governor stated that the Finance Member had given him the impression that the scheme would be launched only when there were signs of the onset of an inflationary spiral. The Governor saw no special signs of such a situation. 'It appeared to him that the main object of the scheme was to get hold of the tax evader.

The Government went ahead with the scheme. On January 12, 1946, two Ordinances were issued, demonetizing notes of the denominational value of Rs. 500 and above. The first Ordinance, viz., the Bank Notes (Declaration of Holdings) Ordinance, 1946, required all banks and Government Treasuries in British India to furnish to the Reserve Bank of India by 3 p.m. on the same day, a statement of their holdings of bank notes of Rs.100, Rs. 500, Rs. 1,000 and Rs.10,000 as at the close of business on the previous day. January 12, 1946 was declared a bank holiday. The second, the High Denomination Bank Notes (Demonetisation) Ordinance, 1946, demonetised bank notes of the denominations of Rs. 500 and above with effect from the expiry of January 12, 1946. This Ordinance provided that a non-scheduled bank could exchange high denomination notes declared by it under the Bank Notes (Declaration of Holdings) Ordinance at the Reserve Bank or a scheduled bank, for value in one hundred rupee notes or for credits with the Reserve Bank or a scheduled bank. Scheduled banks and Government Treasuries could obtain from the Reserve Bank value in one hundred rupee notes or in deposits with the Reserve Bank in exchange for high denomination notes declared by them under the above mentioned Ordinance. Other holders of high denomination notes could get them exchanged at the Reserve Bank, a scheduled bank or a Government Treasury on presentation of the high denomination notes and a declaration in the form prescribed in the schedule to the Ordinance, within 10 days of the commencement of the Ordinance. Under a press note issued subsequently by the Government of India on January 26, 1946, Managers and Officers in charge of offices and branches of the Reserve Bank of India were authorised to allow exchange of high denomination notes, up to and inclusive of February 9, 1946, on production of sufficient and valid reasons for delay in the presentation of notes. Thereafter the Governor and the Deputy Governor of the Bank were authorised to allow exchanges up to and inclusive of April 26, 1946. The power for the extension of the time limit beyond April 26, 1946 was reserved for the Government of India.

The provisions of the second Ordinance, which was applicable to British India, were also extended, with suitable modifications, to the Administered Areas on January 22, 1946. Many

Indian States also issued parallel Ordinances. States which did not enact such legislation were required to exchange their holdings of demonetised notes before March 7, 1946.

There was an echo of this measure in 1948. In September, while Government were considering anti-inflationary measures, rumours spread that the 100 rupee notes would be demonetised and that bank deposits would be frozen. The Prime Minister had to make a statement in the Legislature, categorically denying any such intentions on the part of Government.

January 16, 1978: Demonetization of high denomination notes is one of the radical measures normally resorted to by governments to counter forgery and illegal print-ing of notes by unauthorized sources. The Wanchoo Committee on Black Money had recommended demonetization many years ago. This suggestion was not acted upon, partly because the very publicity given to the recommendation resulted in black money operators getting rid of high currency notes. The Committee had observed that black money should be regarded largely as a flow, not as a hoard, and different members of the Committee held different views on how much black money was in circulation. The government resorted to demonetization of Rs 1,000, Rs 5,000 and Rs 10,000 notes on 16 January 1978 under the High Denomination Bank Notes (Demonetization) Ordinance, 1978 (No. 1 of 1978). The Finance Minister, in his budget speech of 28 February 1978, announced that demonetization was part of a series of measures that the government had taken for controlling illegal transactions and against anti-social elements. The purpose of the Demonetization Ordinance was stated in the preamble thus:

“The availability of high denomination bank notes facilitates the illicit transfer of money for financing transactions which are harmful to the national economy or which are for illegal purposes and it is therefore necessary in the public interest to demonetize high denomination notes”.

According to the Ordinance, all high denomination bank notes ceased to be legal tender in payment or on account at any place after 16 January 1978. The Ordinance further prohibited the transfer and receipt of these notes between persons after 16 January 1978 so as to make itself operationally meaningful. The Ordinance provided that all banks and government treasuries would be closed on 17 January 1978 for transaction of ‘all business except the preparation and presentation or the receipt of returns’ that were needed to be completed in the context of demonetization. For purposes of the Negotiable Instruments Act, 1881, 17 January 1978 was deemed to be a public holiday notified under the Act. Issuing the Ordinance was

one matter. Implementing it and working out the modalities to receive and exchange notes across the length and breadth of the country was another. The Ordinance contained comprehensive provisions for the exchange of notes held by banks and government treasuries as well as by the public; for exchange of notes after the time limit; and provisions related to offences and the power of the central government to make rules giving effect to the provisions of the ordinance.

Banks and government treasuries were required to submit information (in the form of data 'return') to the Reserve Bank of high denomination notes held with them as at the close of business on 16 January 1978. The notes held would be exchanged for an equivalent value by the Bank. The general public was given three days to surrender high denomination notes for conversion. After 16 January, notes could be exchanged on tender of the high denomination notes in person by the individuals themselves or a person competent to act on his/her behalf. They had to tender the notes at the Reserve Bank or at notified banks in the prescribed format with full particulars giving, among other things, the source or sources from which the notes came into his/her possession and the reasons for keeping the amount in cash. The arrangements for exchange of high denomination notes to be surrendered by the public at the Reserve Bank in Bombay required that the Bank open additional counters and mobilize manpower from other departments to meet the high demand. Long winding queues started forming in front of the Reserve Bank office right from the morning as also at the main office of the State Bank of India, to collect declaration forms. According to press reports on 18 January 1978, the day started with utter confusion over the issue of declaration forms at the Reserve Bank headquarters at Bombay and the working hours stretched to 6.30 pm. Enterprising city printers are said to have made quick money selling forms in sets of three for Rs 3. As expected, there were frayed tempers and a considerable hue and cry from the public as well as foreign tourists, especially those who did not have, or did not care to preserve, documentary proof to support the exchange of notes.

Nov. 8, 2016: This was the third time when the government of India exercised the demonetization in higher denomination of Rs. 500 and 1000 notes. The circumstances were not like as in 1946 and 1978. It was the time when India was transforming from agricultural oriented economy to service oriented economy. Several measures had been taken by the government and there was a need to formalize, digitize and financialise the economy. In addition to it, most of the estimates on black money had been given by several economists and officials and also there were so many articles were published on Benami property and

fictitious gold purchases etc. So under both –economical as well as political –pressure the government demonetized.

The specified bank notes (cessation of liabilities) ordinance 2016 was passed. The SBNs ordinance cease to be liabilities of RBI under section of the RBI act and cease to have the guarantee of the central government (Rs 500 and 1000 notes). In the SBNs act 2017, specified bank notes means a bank note of denominational value of five hundred or one thousand rupees of the series existing on or before November 8, 2016. People were given the time upto December 31, 2016 to exchange their notes. There was also provision of grace period for the following persons as specified in the act-

- 1- A citizen of India who makes a declaration that he was outside India between November 9, 2016 to December 30, 2016 subject to such conditions as may be specified by notification, by the central government.
- 2- Such class of persons and for such reasons as may be specified by notification, by the central government. (SBN Act 2017)

II -Efficacy

Every economic policy is designed for achieving certain specified objectives. Tinbergen Rule dictates that number of achievable policy goals can not exceed the number of policy instrument (Tinbergen 1952). Sometimes the policymakers need to follow policy rule rather than discretion. Despite emphasis on policy rules in the recent macroeconomic research, the notion of policy rule has not yet become a common way to think about policy in practice. Policymakers do not, and are not evidently about to, follow policy rules mechanically. Does this mean that we must give up on policy rules and return to discretion? Even some of those who have advocated the use of rules in the past seem to have concluded that discretion is only the answer. If there is anything about which modern macroeconomics is clear however-and on which there is substantial consensus- it is that policy rules have major advantage over discretion in improving economic performance (Taylor 1993). This is one of the reasons that researchers have focused on policy rules in recent normative policy research. Hence it is important to preserve the concept of a policy rule even in such environment.

A precise analytical distinction between policy rule and discretion can be drawn from time-consistency literature. In three of the major contribution—Kydland and Prescott (1977), Barro and Gordon (1983) and Blanchard and Fischer (1989)—a policy rule referred to as the “optimal”, the “rules”, or the precommitted solution to dynamic problem respectively. Discretionary policy is referred to the “inconsistent”, the cheating, or the shortsighted

solution respectively. This is true in the case of demonetization which was used as a discretionary policy, not as a policy rule. The advantage of rules over discretion is like the advantage of cooperative over non cooperative solution in game theory. So following these arguments what I want to establish here that the thumb rule for the use of demonetization is in the case of Hyperinflationary situation given the normal political condition and sometimes it also serves the purpose of curbing counterfeiting. The most beautiful feature of demonetization is this that whatever the nature of demonetization-random as well as systematic-,it serves the purpose of curbing inflationary situation and counterfeiting. Except these two area ,demonetization did not have much efficacy in anything else.If it is used for anything else purpose it will result into shortsighted solution rather than permanent solution. Now the question is about why not systematic demonetization?

According to a study, it was found that in five out of six countries the inflation rate had fallen after the demonetization. Out of six, three belongs to the category of systematic demonetization and rest of them belongs to the category of random demonetization. These countries were India, Ghana, Myanmar, Australia,Sweden and Pakistan. The observation of data of 26 countries of the world after demonetization suggests that often inflation rate had fallen after demonetization whether it was targeted or not.And the most striking results of the paper was this that there were found two way causal relationship between demonetization and inflation. If we look at the cause of demonetization in Brazil of 1990 & 1993 ,which was hyperinflation. While in the other countries like India(1978,2016) and Pakistan(2016),the major cause of demonetization was black money, corruption and counterfeiting. But the data of inflation rate showed a decline after demonetization(Ansari 2017).

According to a note recorded by Mr. Sundaresan, it would appear that the Reserve Bank authorities were not enthusiastic about the scheme of demonetization of 1946. The Governor stated that the Finance Member had given him the impression that the scheme would be launched only when there were signs of the onset of an **inflationary spiral**. The Governor saw no special signs of such a situation. ‘It appeared to him that the main object of the scheme was to get hold of the tax evader.

The results of the demonetization of 1946 measure were summed up by Sir Chintaman¹, as under:-

‘It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual

could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them. In the end, out of a total issue of Rs.143.97 crores, notes of the value of Rs.134.9 crores were exchanged up to the end of 1947 as mentioned in the Report of the Board of Directors of the Reserve Bank. Thus, notes worth only Rs.9.07 crores were probably “demonetised”, not having been presented. It was more of “conversion”, at varying rates of profits and losses than “demonetisation”.

The demonetization of 1978 was the second such exercise in India. Governor I.G. Patel was not in favor of this exercise. According to him, some people in the Janata coalition in the government saw demonetization as a measure specifically targeted against the allegedly ‘corrupt’ predecessor governments or government leaders. I.G. Patel(2002) recalled in his book that when Finance Minister H.M. Patel informed him about the decision to demonetize high denomination notes, he had pointed out that:

such an exercise seldom produces striking results. Most people who accept illegal gratification or are otherwise the recipients of black money do not keep their ill-gotten earnings in the form of currency for long. The idea that black money or wealth is held in the form of notes tucked away in suit cases or pillow cases is naïve. And in any case, even those who are caught napping—or waiting—will have the chance to convert the notes through paid agents as some provision has to be made to convert at par notes tendered in small amounts for which explanations cannot be reasonably sought. But the gesture had to be made, and produced much work and little gain. (p. 159)

On the day following demonetization, two noted economists, Professor C.N. Vakil and Dr P.R. Brahmananda, expressed the view that the measure would not have any enduring effect on money supply, prices of necessities and problems like low savings, acute poverty, unemployment and industrial relations, as the high denomination currency notes formed only a small proportion of the total money supply. They were the authors of the memorandum titled ‘Semibombla’ submitted to the union government for tackling the inflationary situation in 1974.

Including demonetization of 2016, India has demonetized thrice times in higher denomination for addressing the black money. Every time on an average 90 % of demonetized higher

denomination notes went back to the RBI .So it concludes that demonetization alone is an inappropriate tool for curbing the black money in the context of India. Since india's objectives of demonetization in 2016 were fourfold i.e.addressing corruption , black money, counterfeit currency and terror funding.One thing should be remembered that demonetization is not a panacea. Like as GDP growth rate ,demonetization has also short term effect on corruption and terror funding.Some official news are this that there is reduction in the terrorist activities in sensitive areas like as J&k.As it was stated that the demonetization would hit the black money ,it seems to be a fruitless effort. As in 2012 ,the Central Board of Direct Taxes had recommended against demonetization ,saying in a report that demonetization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties ,bullion and jewellery.According to data from income tax probes ,black money holders kept only 6% or less of their wealth as cash,suggesting that targeting this cash would not be a successful strategy.²⁹ In the study done by Ansari(2017) , it was observed that those countries who had demonetized keeping in view to control the inflation –i.e. Brazil and Ghana(see appendix) – they got success in this field.On the basis of this , it can be easily concluded that demonetization is an appropriate tool for controlling hyperinflation or inflation.

Thus the above discussion also strengthened my view about the efficacy of demonetization. This discussion also enabled me to project about the implication of demonetization. So far as the question about the efficacy of demonetization in achieving specific objective, it is necessary to consider upon the nature of demonetisation. A list of such matching is given below:

Table:4 Hypothetical projection on the implication of demonetisation

Objective	Nature of Demonetisation	Examples of adopting countries	
		Random	Systematic
Hyperinflation/ Inflation	Random/systematic	Ghana(1979) Brazil(1990 &1993) Russia(1993) North korea(2009) Venezuela(2016)	Zimbabwe(2015)
Black money	Systematic	Myanmar(1985 &1987) North korea(2009) India(1978 &2016)	Pakistan(2015)
Counterfeiting	Systematic	India(2016)	Australia(1988&2015) Canada(2011) Denmark(2012) Pakistan(2015)
Corruption	Systematic	India(2016)	Pakistan(2015)
Exchange of old notes	Systematic	Soviet Union(1991)	Australia(2015) Sweden(2013-16)

This table suggest that India would have alternative to random demonetization, that is systematic demonetization. The adjective “systematic” is defined in the Oxford American Dictionary as “ methodical, according a plan, and not casually or at random.” Since India’s demonetization was also planned but it was not well designed and implemented. Now what I want to say that systematic demonetization could also serve the purpose of demonetization of 2016. In systematic demonetization the central bank of a country announces it and gives long span of time to exchange specified bank notes. i.e. Pakistan(2016),Sweden(2013),Australia(2015).The first column of the table indicates specified objective and the second column indicates the nature of demonetization which may be two types-random as well as systematic. And the third column indicates the example of demonetizing countries.

The first row indicates that If the specified objective is to check the hyperinflation, whatever the nature of demonetization the objective will be achieved.i.e. Brazil (1990 &1993) and Ghana (1982).The second row indicates that if the specified objective is to check the black money, the process of systematic demonetization may be adopted but it will have zero efficacy. Similarly,in case of counterfeiting and corruption, it will have zero efficacy. Zero efficacy implies that it will have no effect on the specified objective even shortsighted solution may be achieved.

III-Experiences

Several countries, that have demonetized, works as a guider for the other countries. The results of demonetization in those demonetizing countries can be considered before the

exercise of demonetization. India is a very large democratic country and a fast developing economy in the world and India has huge potential in future. Any mistake can exclude India from reaping the demographic dividend. The Impact of demonetization of 2016 could make India's situation worse off. The best international instances of demonetization shows such worse situation which they have realized. During the exercising of demonetization, the experiences of demonetizing countries can not be neglected. India should lesson from international experiences. A list of countries that have demonetized is provided in the appendix. Some international experiences have been given here-

Ghana 1979: The government announced the introduction of new cedi notes to replace the ones at a to discount of 30% for amounts upto 5000 cedi and 50% for amounts excess of 5000 cedi.

The old cedis were therefore demonetized. New issued included cedi 1,5,10,20 and 50.It was aimed to check the inflation. The table 5 shows how Ghana controlled over the inflationary situation.

Table 5: Inflation rate

Year	Inflation rate
1978-79	73.09%
1979-80	54.44%
1980-81	50.07%
1981-82	45.50%

Myanmar 1985 &1987:In 1985 50 and 100 kyat notes demonetized and people were given limited exchange facility.Alongwith this 75 kyat note was introduced.This demonetization was aimed to fight black marketing. This could not successful in achieving its objective. So again in 1987, 25,35 and 75-kyat notes demonetized with hardly exchange facility and new denominations were introduced. This led to hurry up to buy stock goods which pushed up inflation.

Brazil 1990 & 1993: To fight hyperinflation the currency were demonetized which led to contraction of output, price moderation and economy stabilized gradually.

Soviet Union 1991: 50 and 100 ruble notes were withdrawn suddenly in January for exchange to new rubles. Exchange was to be completed in three days and in very small amounts per person. It was aimed to fight organized crime and addressing money overhang which led to loss of public confidence, hyperinflation, cash drying up and job losses etc.

Pakistan 2015: In June 2015, it was announced that old design notes of Rs.10,50,100 and 1000 would be non-legal from December 1,2016,Bank would exchange old notes with new ones till end November 2016.State Bank of Pakistan- Banking Services Corporation Offices would continue to accept the old notes till end December 2021.This is aimed to fight corruption, black money and terrorism.

In addition to the international experiences of demonetization India has its own past experiences regarding demonetization. Each and every time it was aimed to check black money and corruption and each and every time the target missed. According to a study by the National investigation Agency and Indian Statistical Institute, in 2016, estimated the fake Indian currency notes in circulation have a face value of Rs. 400 crore. This is an incidence of fake currency of 0.022%. The scale of counterfeiting of the Indian rupee is not out of line with what is seen in other countries and procedures adopted worldwide to address this include investigative actions, phased replacement of notes with new notes that have better security features etc. Demonetisation is generally not seen as a tool for dealing with counterfeiting. We must also not forget that the counterfeiters will now get to work on the new 500/2000 rupee notes, while India will likely never do a demonetization again. Reserve Bank of India revealed that all but 1% of demonetized was returned to the banking system, putting a question on the efficacy of this move before the government. According to a respondent on the demonetization, "It seems that it was a thoughtless decision. What did we achieve? All say in the long term it is good for the country. If present is not perfect how can you think about future? I hope the government will not try an experiment like this in future."

India's demonetization experiment has generated some important thinking about cash, corruption, data and digital economy.

Conclusions

To sum up, it can be easily said that demonetization is not a panacea. It is not specified for achieving the objectives like as corruption, counterfeiting, black money, and terror funding. It is used as a tool to last resort. Random demonetization has too much high cost for the economy while systematic demonetization has too low cost/zero cost for the economy. Systematic demonetization serves the purpose of curbing inflation. If we have to exchange old denominations notes with new notes, we can also use systematic demonetization. So now we need to move systematic approach of demonetization. Systematic demonetization can be ranked over random demonetization. If India adopts systematic approach, we would not have losted thousand of lives and jobs. Demonetisation is an economic tool which can not be used as a political tool.

End notes

1- in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957,¹

2 -Measures to tackle black money in India and abroad- [www.dor.gov.in/sites/upload_files/revenue/files/measures to tackle black money.pdf](http://www.dor.gov.in/sites/upload_files/revenue/files/measures%20to%20tackle%20black%20money.pdf)

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Appendix

Table of Figures

India (1978 &2016) (in percent)

Year	GDP growth rate (constant prices)	Inflation rate (CPI)
1975-76	9.00	-1.10
1976-77	1.25	2.10
1977-78	7.47	5.2
1978-79	5.50	0.0
1979-80	-5.20	17.1
1980-81	7.17	18.2
2012-13	5.50	10.2
2013-14	6.50	10.0
2014-15	7.20	5.9*
2015-16	8.00	4.9
2016-17	7.10	4.5
2017-18 Q1	5.70	4.0

*due to combining CPI-IW and CPI-AW
in2014

Source:Economic survey report and
Handbook of statistics on Indian economy
2016

Australia(2015)

2012	3.6	1.8
2013	2.1	2.5
2014	2.8	2.5
2015	2.4	1.5
2016	2.5	1.0

Source:central bank of Australia

Pakistan(2015)

2012	3.8	11.0
2013	3.7	7.4
2014	4.1	8.6
2015	4.0	4.6
2016	4.7	2.2
2017Q1	5.28	3.4

Sources: central bank of Pakistan

Sweden(2013)

2012	0.1	0.9
2013	1.2	-0.1
2014	2.7	-0.2
2015	4.1	0.0
2016	3.2	1.0

Sources:central bank of Sweden

Ghana(1979)

1977	2.27	116.45
1978	8.48	73.09
1979	-2.51	54.44
1980	0.47	50.07

Source:Data book ,December 2014

Brazil(1990&1993)

1988	3.28	1430.72
1989	-3.10	2947.73
1990	1.51	432.78
1991	-0.47	951.50
1992	4.67	1927.98
1993	5.33	2075.85
1994	4.42	66.01
1995	2.21	15.76

Source: Data book ,December 2014

List of Demonetising countries

Countries	Year
India	1946,1978 & 2016
Pakistan	2015
Ghana	1979
Myanmar	1985,1987
Brazil	1990,1993
Soviet Union	1991
Russian	1993
Iraq	-----
North Korea	2009
Cyprus	-----
Greece	-----
Venezuela	2016
Belgium	-----
Netherlands	-----
France	-----
Romania	-----
Ceylon	-----
Singapore	2014
Australia	1988 ,2015
Canada	2011
Denmark	2012
Sweden	2013-16
Zimbabwe	-----