

money would be laundered into white using the Jan Dhan accounts (Roshan, 16 November 2016). In all policy matters, economists with a valid real time track record should be taken more seriously, and vice versa.

To use the term black money precisely, we should use it, strictly speaking, only to mean untaxed wealth that is held in the form of cash, whether it is strictly hoarded or later used for unrecorded transactions. A note by itself is neither black nor white. But it can be used to transact black or white payments that generate corresponding black or white income, and that can in turn be used as a store of black or white wealth. Further as a note circulates, it ends up being used for both white and black transactions.¹⁷

We will use the terms black income or black wealth when they can be precisely used. Despite the misnomer and multiple meanings, we still need to use the term black money to cite and discuss what others are saying. The term underground or shadow or parallel or informal economy is used by many economists and analysts to define the untaxed or black economy. We will also use the term unrecorded and recorded (or registered) economies or sectors and income, for GDP and tax projections. These are precise terms.

8.4 FAILURE TO CATCH MOST 'BLACK MONEY'

The immediate phase can be defined as November 8–December 30 when the scheme was on. The main focus of the public during this 'immediate phase' was on how much of the Rs 15.44 trillion of DMC gets deposited in the banks. If there was one metric or scorecard by which the success or failure of the scheme was being judged by the public and media, it was how much of DMC was 'coming in' to the banks.

More coming in implied a greater failure of the scheme, certainly in the immediate phase. This is because those holding black money, in order to avoid investigations, taxes, and possible arrest, would not have deposited it. It would make sense to just destroy it. If more DMC came in, either there was not much black money, or most of the black money was somehow laundered and converted into white.

The cumulative amount of DMC reported as deposited on the respective dates was as follows:

Date	18 Nov	27 Nov	6 Dec	10 December
Amount (Rs Trillion)	5.44	8.44	11.55	12.44

Source: As announced or reported by RBI

¹⁷ P. K. Chakraborty, who was critical of demonetization proposals as RBI Deputy Governor, also made some of these points in an interview within two weeks of the ban. As of early January 2017, he was the only ex RBI official who had openly criticized the demonetization scheme. (The Hindu, 2016). Earlier, as RBI Deputy Governor, he was sidelined for criticizing the lax monetary policy of then Governor Subbarao.

After 10th December, RBI stopped reporting the amount deposited! But based on other data from RBI, it was estimated by Bloomberg analysts that almost 97% of DMC had come in by late December. Following the rush of deposits in the first week, on November 16th the Government lowered the limit for tax scrutiny of deposits from Rs 10 lakhs to Rs 2.5 lakhs. Further, it stipulated that those depositing be marked with indelible ink to prevent multiple exchanges! On November 28th, it also declared a small partial tax amnesty. This was followed by the PMGKY scheme, starting December 17th 2016, with various incentives and opportunities for last minutes conversions of black into white. The Chronology has full details.

Clearly, large number of poor (Jan Dhan) accounts holders, had accepted deposits in their name, most likely in return for some commission. In fact, the Prime Minister's warning in late November, to imprison those who allowed their accounts to be misused to launder black money, was a tacit admission that the scheme was being successfully gamed. The statement by Finance Ministry official (Dec 17th Chronology) that RBI was double counting indicated anxiety that close to the whole amount, **or even more**, might come in than the DMC amount. If almost all came in, it implied that close to no black money was caught. If more than Rs 15.44 trillion comes in, that would be even worse. It would imply that RBI had accepted counterfeit notes, messing up at some stages in the process of withdrawing, counting and replacing the DMC.

As of mid-March 2017, RBI had not reported how much money had come in (Addendum Chronology). Thus, both the data and subsequent decisions and statements by RBI and other officials indicate a huge failure.

8.4.1 Complications due to Counterfeiting

The possibility of counterfeit notes being returned or brought in at some stage of the process complicated both the situation and its analysis. According to RBI data, the number of counterfeit notes which it detects, when brought into the banks, are a small proportion in volume and value terms of the total currency in circulation. Based on RBI's Table 8 in its Chapter on Currency Management in its Annual Report for 2016, this works out to 0.070 basis points in volume terms (share of fake notes to total notes issued) and 0.1856 basis points in value terms. The ratio in value terms is not reported by RBI, but it can be calculated as we have done. Although two and a half times more in value terms than volume terms, since counterfeiting is taking place more for higher denominations, this is still a minuscule share.¹⁸

The extremely low share of counterfeit notes has led many of the critics of the scheme to argue that counterfeiting was not a valid reason to demonetize. But the magnitude of the counterfeiting problem is not clear cut. The footnote to this above cited RBI Table states the proportion of Fake Indian Currency Notes detected does not include "counterfeit notes seized by the police or other enforcement agencies". These seizures *may be large*. In

¹⁸ One hundred basis points is one hundredth of one percent, i.e., 0.01%. Many other sources have reported this as 0.002%, which is the same as ours, after rounding off, but harder to comprehend.