

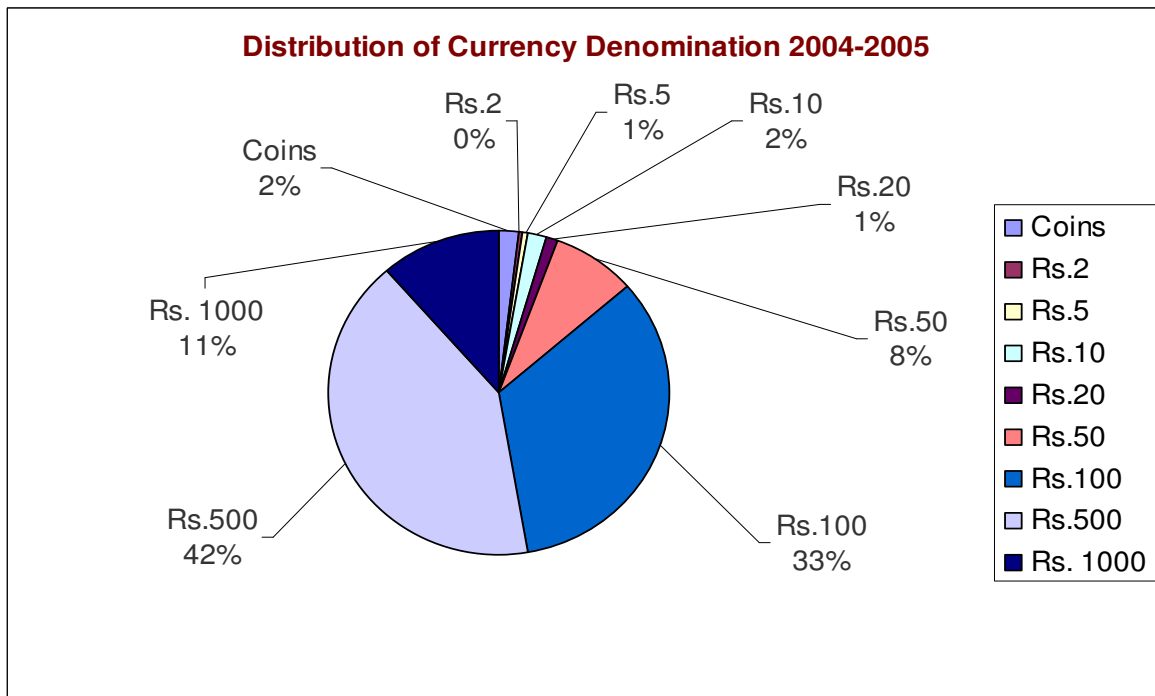
### **Damaging (implications) effects of high denomination Currency**

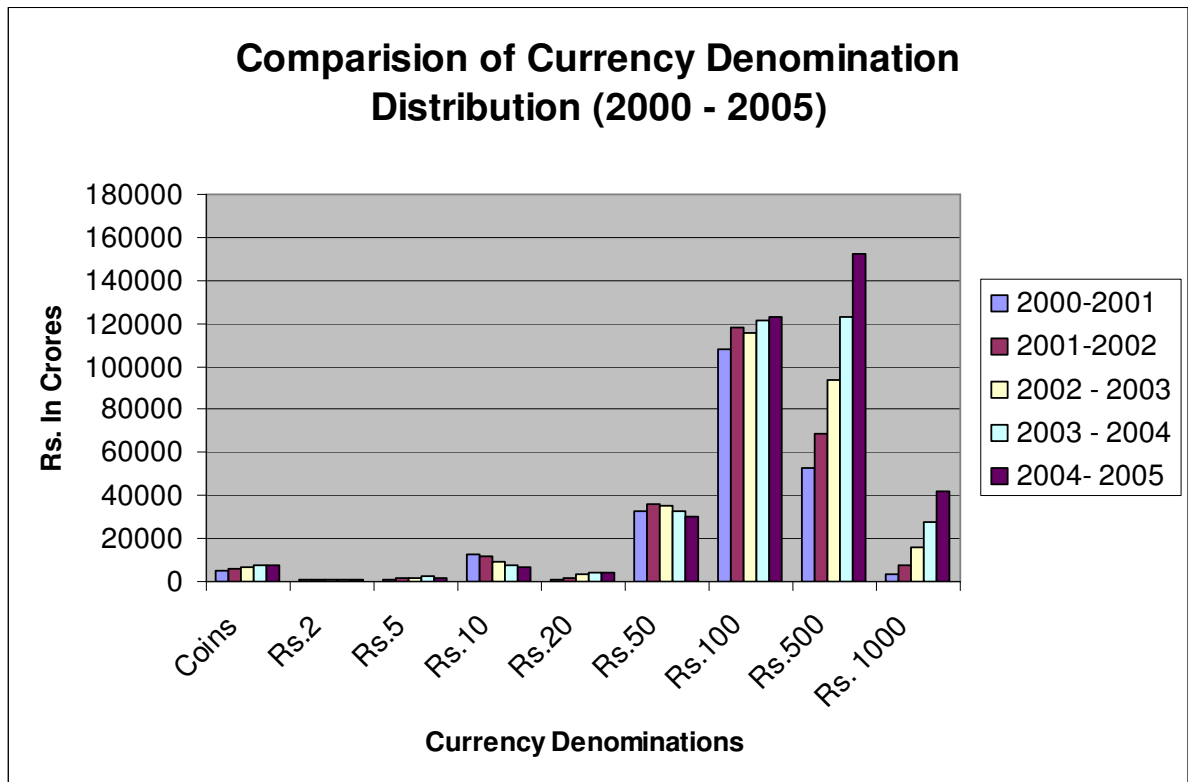
An important characteristics of the developed economies is the maximum utilization of the banking channels for almost all of the economic transactions. Especially with the process of globalization, it was expected that the Indian Scenario would also move towards this healthy practice.

Alas, the exact opposite has been the case – thanks to the easy availability of the high denomination currency of Rs. 500 and Rs.1000. Have a look at some statistics.

#### **Currency Denomination Distribution (2000-2005)**

<b>Year</b>	<b>Coins</b>	<b>Rs.2</b>	<b>Rs.5</b>	<b>Rs.10</b>	<b>Rs.20</b>	<b>Rs.50</b>	<b>Rs.100</b>	<b>Rs.500</b>	<b>Rs. 1000</b>
2000-2001	5358	471	1016	12336	1012	32818	108141	52947	3719
2001-2002	6270	538	1264	11989	1531	35601	118041	68512	7179
2002 - 2003	6972	483	1739	9088	3425	35191	115386	93813	15971
2003 - 2004	7199	472	2276	7750	4383	33027	121442	122938	27473
2004-2005	7351	462	2086	6770	3876	29941	123282	152728	42082





It is a move that facilitates the rapid growth of the parallel or black economy. Given the rampant, cancer-like growth of the black money, existence of high denomination notes is incomprehensible. “Ease of daily transactions” can best be a futile attempt to justify the existence of such notes.

We submit that the abuse of these high denomination notes is at the root of many a serious and complex issues confronting the nation.

The excessive percentage of cash transactions is one of the primary blocks in Capital formation in this nation. In the developed nations, almost 80% and more of the transactions happen through the banking system. Compared to this only about 20% (and diminishing) number of transactions happen through the banking system in India.

The table below is an attempt to quantify the underlying cause for this situation – the availability of large denomination currency notes. It uses a ratio of Per Capita Income and High denomination notes as a measure.

<b>Nation</b>	<b>Per Capita Income (A)</b>	<b>Highest denomination (B)</b>	<b>Ratio A/B</b>
US of A	32,000 USD	100 USD	320
UK	21,000 GBP	50 GBP	420
Japan	40,00,000 Yen	10,000 Yen	400
India	24,000 INR	1000 INR	24

In the modern economic system, the “**Credit formation capacity**”, of an individual or an entity is determined by the “**credibility**” established through the use of banking system. The excessive ease of cash transactions keeps the common man, especially the rural population, outside the main economic stream. **Credit registration** is itself blocked due to such large valued cash transactions. This has a serious effect on the **National Credit Supply** – as larger and larger parts of the population stay away from the banking system.

One of the main drivers of the large number of suicides, in the recent past, of the farmers is this inadequate supply of Credit. Writing off loans, or government subsidies and grants is a mere temporary balm, which is fundamentally unsustainable. The only real solution is to make **Banking Credibility** available to all farmers. Enabling this requires that the rural economy shifts to the banking system and away from the clutches of the cash economy.

Another debilitating effect of HDN is the exodus of valuable capital from the banking system into the cash economy. This capital then, either gets misused in illegal / amoral transactions or gets “frozen” (as in the lockers of corrupt). This is the root cause of the perpetual shortage of capital for all true developmental work – private or public!!

In fact, the existence of HDN, is a high risk preposition. Money, honestly earned by a working man, may land into the hands of a common pick-pocket or be sucked away by the bigger crooks – ransom seekers and such like. The uncontrollable economic power of the fake or real HDN, is abused by anti-national forces.

Hyper-liquidity is one more malady triggered by the HDN. Due to this hyper liquidity cash transactions are both preferred and encouraged. Cash transactions are untraceable. Hence, this is the ideal economic engine for the all pervasive corruption, terrorism, extortion, illegal immigration and other nefarious anti-national activities.

The issue of fake currency is really becoming very grave. Fake HDN are promoting an era of insecurity and instability. They are ruining the national economy steadily. FHDN are the engine of growth for the terrorist and anti-national activities. India is a large nation and this excessive use of cash transaction is combining to make the spread and use of FHDN a virtually uncontrollable phenomenon.

Even more dangerous, than the newer and powerful weapons that strengthen the anti-national forces, is the far reaching impact of the HDN on the main-stream economy. It is

a force-multiplier beyond compare as it fuels the parallel economy which is by definition beyond government control.

We submit that, given the far reaching, destabilizing impact of the HDN on the economy, an immediate removal from circulation of all currency above Rs. 50 and an active promotion for the utilization of the Banking system as the top priority.

One of the disturbing facets of our Economy is the huge disparity - nearly 70% of the National Purchasing Power is concentrated into the hands 30% of the population! In this economy, then, the high denomination notes make a bad situation worse!