

DEMONETIZATION IN INDIA: SOCIO-ECONOMIC AND POLITICAL IMPACT

Dr Deepa Kaushik

Assistant Professor

Dept. of Law

Vivekananda Institute of Professional Studies

I P University, Delhi.

Email: deepakaushik03@yahoo.com

Dr. Mrityunjai Pandey

HOD, Innovative Institute of Law, Gr. Noida

mrityunjai_pandey@yahoo.com

About a hundred days back when Prime Minister Mr. Narendra Modi announced that denomination of 500/- and 1000/- rupee notes would cease to be the legal tender from 9th of Nov, the whole country was stunned. This decision caused sensation in the whole country. Social Media was flooded with messages and information. People started counting soon to be trash which they had accumulated for years legally or illegally. Some praised the move while some others questioned the same.

Rumors became rife. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in this miserable hour. People could get only Rs 4000/ of old denomination exchanged with the new one. Big queues before the banks and ATMs became the order of the day.

Instead of getting shorter, these queues were getting longer with every passing day. The last date for the whole process was 30th of December. The persons could deposit the old cash worth Rs 2.5 lakh till the said date.

The main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The whole opposition shook hand against this move under one pretense or the other. They called this decision a draconian law and wanted the Govt to roll back it. Tirades were made to target the decision. Govt also carried out counter attacks.

The new currency which replaced the old one is of denomination of 500/- and 2000/-. Though the people faced a lot of inconvenience owing to shortage of funds, they did not criticize the Govt for the move. Even they lauded the Modi Govt for this big move. Prime Minister also addressed the people many times telling the people that it was a *mahayajna* and they must offer their own *ahuti* in it.

Police used sticks to beat up people waiting in queues to withdraw their own hard-earned money. All small manufacturing units in Barabanki shut down for weeks. Thousands became unemployed. Traders were very angry with prime minister's decision that he first said it was done to curb black money but then afterwards he said it was done to promote digital economy.

People could use credit cards and popular mobile wallets like Paytm etc. in cities like Delhi and Mumbai, but not in small towns or villages. People there are mostly illiterate; many people don't have bank accounts or credit cards. But this was only one-sided story as many people are saying that Modi is doing good work and that the note ban was "a good decision even if it caused some hardships in the short term".

Prime Minister said he was aware the hardships people were suffering from but he sought only 50 days for setting the things right. He jibed at the chief political leaders who have stashed big amount of money and now joined hand to force Govt to take the decision back.

The most interesting thing regarding the demonetization is that people are devising various unique methods for transforming their black money in to white one. Some of these methods are as follows –

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/- to 700/- for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.

1.0 Whether demonetization is a tragedy or a remedy?

A) Is it a monumental mismanagement of the economy as Dr. Manmohan Singh charges?

B) Or is it a remedy for the accumulated filth as Prime Minister Narendra Modi claims?

Economics says money, growth, prices and jobs are inter-related. Apply this rule to the NDA and UPA periods. During 2004-10, average money supply grew annually 18 per cent (15.3 per cent under the NDA). But asset prices rose by several multiples of it. The moderate rise in money supply over the NDA's number does not explain the huge asset inflation.

Prime Minister Modi has rightly called the demonetization as "kadak chai" (bitter pill). That HDNs promoted high bribery and helped terror funding through fake HDNs cannot be disputed at all. Far from doing a monumental misappropriation or making a "mammoth tragedy", Mr. Modi is correcting the monumental mismanagement of the economy by the economist Dr. Manmohan Singh.

2.0 Two rationales: which did the PM intend?

Modi's first stated rationale was to cut down the black market economy, which sustains illegal activities like tax evasion, bribery, counterfeiting, and terrorist finance. These goals are in line with Modi's campaign promises to deliver transparency and fairness; and they are consonant with history. India scrapped its currency notes to curb tax evasion and terrorism in 1946, and again in 1978.

But the day after Modi's announcement, India's finance minister Arun Jaitley put forth a very different rationale. Demonetization would make India a cashless society. Economic Affairs Secretary, Shaktikanta Das, chimed in, extolling the virtues of cashless societies. And Urjit Patel, India's new central bank governor, urged banks to provide digital capture technology, and citizens to start using debit cards and digital wallets.

Patel's predecessor was University of Chicago economics professor Raghuram Rajan, who had announced his departure from the Reserve Bank of India in June, around the time Modi's plan was hatched. The timing leaves open the question whether Rajan's dissent triggered his departure.

In fact, the most public proponent of the cashless society is another American economist, Harvard University Kenneth Rogoff, whose thought-experiments on phasing out paper currency were first proposed in a 2014 paper and later published in his book, *The Curse Of Cash*.

Rogoff argues that by replacing cash with a digital store of value, central banks are able to take full control over monetary policy. But, if demonetization doesn't help working people get on with their lives and rebuild the momentum the local economy has lost, Modi's revolutionary experiment could seriously backfire.

3.0 Political Impact

As the few Indian states hold several phased elections to choose a new government, it is the right time to assess if the recent currency ban is an issue with the voter.

When the votes are counted on 11 March, we will know whether it was a masterstroke or a miscalculation. The result would change the political future of many big shots and also would determine whether this *notebandi* was a hit or a miss.

4.0 Impact of Demonetization on Indian Society/ Economy

We shall see a great impact of this move of the Central Govt on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.

There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

It will abridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term.

5.0 References:

1. www.forbes.com/sites/.../what-india-has-done-to-its-money-is-sickening-and-immoral.
2. www.wsj.com/articles/indias-demonetization-debacle-1481851086
3. www.fortune.com/2016/12/26/india-demonetization-rupee-notes
4. www.project-syndicate.org/.../india-demonetization-policy-consequences
5. www.thehindu.com/opinion/op-ed/Not-a-tragedy-but-the-remedy/article16798081.ece
6. www.bbc.com/news/world-asia-india-38903785