



Demonetization

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ABSTRACT

The government has implemented a major change in the economic situation by demonetizing the high value currency notes – of Rs 500 and Rs 1000 denomination. It ceased to be legal tender from the midnight of 8th of November 2016. People had been given upto December 30, 2016 to exchange the notes held by them.¹ The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. The reasons offered for demonetization are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”. This paper is focused toward to figure out various economical, social and political implication of this step.

KEYWORDS : Demonetization, Economical impact, Political impact.

Introduction

There can be no denial of the fact that despite the consistently rising economic growth (705percent in 2015-2016) the Indian economy has been beset with several problems like black money, hoarding, unemployment, poverty, inflation, disparities in income levels, regional balances in economic development and so on. The demonetization move of the Indiangovernment came all of a sudden on nov8, 2016. With the banning of currencies in demonetization of Rs. 500 and Rs 1000. The pronounced objectives of the scheme included wiping out the black money from the Indianeconomy, pushing counterfeit notes out of circulation and there by stopping terrorist funding leading to cessation of terrorist activities. Although the stated idea behind the demonization scheme are notable ones we all have been witnessing the recent developments within our economy that have followed this gigantic move.

Historical background

Demonization has not been a completely new phenomenon in the Indian economy. It has been implement twice in the past in 1946 and 1978. In 1946, currencies of Rs. 1000 and Rs.10000 were declared as invalid legal tenders although the fact remains that this ban did not has much impact in the economy since such high value currencies were not possessed by common people. However both these notes were reintroduced in 1954 along with the introduction of a new currency note of Rs. 5000. In 1978 then Prime minister of India Mr. Morarji Desai, declared the banning of Rs. 1000, Rs. 5000, Rs. 10000 currency notes. The sole aim of this ban was again to curb black money generation in the country. While the previous two bans did not have much of impact and affected only privileged few, the recent demonetization move of the government had had wide ranging ramifications within the country cutting across all sections of the society.

Economical impact of the scheme

Demonetization as such cannot be branded as a good one or bad one in absolute terms. Rather there is a need to make a dispassionate analysis of the entire move in terms of the economic, political as well as social consequences. The fact that 86% of the total value of currencies in circulation was immediately withdrawn by the government has truly hit the economy hard although it is claimed that this is going to be only a temporary phase. The economic growth rate has been checkmated by this process as per the observations of IMF and other leading monetary agencies many of the factories have shut their doors leading to financial hardships to wage earners and salaried persons who have no alternative sources of incomes. Small businessmen and traders have been hit hard as they were not able to sell much to consumers due to unavailability of cash in hands of the latter. Farmers used to produce

vegetables and other agricultural products like anything but they were not able to sell much in the market with the accompanying fall in the prices of such products above all, the common man has been hit hard having been made to stand in long queues before banks to withdraw some money with a view to sustaining his daily living. Practically, the whole economy has been passing through a period of reduced economic activities especially investors such as construction, real estate, cement and consumer good.

Political and social implications

Judged on political considerations the demonetization move cannot be considered as a well-planned or well managed one. As any gigantic move of this scale was banned to affect a larger majority of the population in a populous country like India, there were a need for wider in camera consultation among policy makers, experts in the areas of economics, banking etc before making this move. Even there was a need to take the cabinet into confidence at the last moment before the scheme of demonetization was declared by the government. These consultative processes would have lent more of legitimacy to the demonetization move while at the same time ensuring the implementation of the scheme in the right direction.

In our system of representative democracy, the government is bestowed with immense political power by the common men to manage the nation or to run the nation. Indeed the elected government is expected to be a manifestation of the popular will of the masses as well as their cherished dreams and expectations regarding a better quality of living. Therefore, before introducing the scheme of demonetization, the government should have been guided by a few pragmatic considerations such as the efficacy of the scheme in terms of tackling black money, its likely impact on the common men's lives, and the possible effects on economic growth that had been rising steadily over the years. There was vat disparities in the composition of our population in terms of income levels of different sections interregional variations in economic development, concentration of wealth in the hands of a few, and so on.

While the well to-do sections of the society do not seem to have been much affected by gothicdemonetization move on account of their proximity to power centers at different levels, the vast majority of the masses involving the lower, lower middle, and the middle class have been immensely affected by this move.

A comparative perspective

There can be no dispute about the fact demonetization was motivated by good intentions. These intentions included the elimination of black money, the curbing of counterfeiting,

controlling terrorism and moving the nation to a cashless age. As per the reports of intelligence agencies the demonetization drive has severely affected the 'hawala' operations in the country. In addition it must be acknowledged that counterfeit currencies or notes have gone out of circulation immediately leading to a decline in terror funding as well as terrorist activities in Jammu and Kashmir, north east and other parts of the country. A decline in corrupt deals and price corrections in the artificially skewed real estate market are some of the other benefits being witnessed in the country in the aftermath of demonetization moving to the other side of the coin, the efforts of the government to combat black money have been so far ineffective. The government had assumed that a significant portion of illegal wealth is stored in the form of bank notes when it is actually not. In addition it must be noted that as per newspaper reports, 97 percent of invalidated Rs. 500 and Rs. 1000 notes had been deposited with banks by December 2016 thus undermining the government's claim of extinguishing black money. This has belied the governments hope that it can profit from old and unreturned notes as the RBI could transfer that money to the government as special dividend to be spent on developmental projects. While the common people had to accept the great inconveniences associated with the limits on cash withdrawals as well as the time spent in accessing bank accounts, the fact remains that many of them have been severely dislocated with their job losses and collapsing businesses and their livelihood irreparably damaged.

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