



Effect of Demonitization on Indian Politic

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INTRODUCTION

Demonetization is 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. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is demonetization, in which a form of payment is restored as legal tender.

There are multiple reasons why nations demonetize their local units of currency:

- to combat inflation
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade

India's Demonetization

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Chaos ensued in the cash-dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs: only 60% of the country's 200,000 ATMs were operational. Even those dispensing bills of lower denominations faced shortages. The government's restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help a bit. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The rupee fell sharply against the dollar.

The government's goal (and rationale for the abrupt announcement) was to combat India's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion (only 1% of the population pays taxes), eliminate black money gotten from money laundering and terrorist-financing activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owed amount was imposed.

On November 8th 2016, a joke went viral across India's Whatsapp users: "Tomorrow, a lot of married men in India are going to find out how much black money their wives have." The US elections of that evening overshadowed another huge political announcement elsewhere in the world – that in 50 days time 86% of India's currency in circulation would be void.

This demonetization is Prime Minister Narendra Modi's attempt to reduce bribery and the black economy so that India may shift towards digitalized money transfers, which are more traceable and taxable. Only 2.89% of Indians filed any income taxes in 2013, compared with 45% of US citizens. Although the majority of Indian's incomes are probably below the tax threshold in the first place, there is no doubt that India's black market is huge: the World Bank estimated it to be 23.2% of the total economy in 2007.

It's unsurprising that scrapping the 500 and 1,000 rupee note overnight (worth about £6 and £12 respectively) was a huge shock to India. Nearly 87% of transactions in India use cash, meaning the country is more cash driven than Russia, Brazil and Mexico. A huge government push for financial inclusion drove up bank account holdings from 35% to 53% (an extra 175 million Indians became account holders) between 2011-2014, but the majority of these new bank accounts are empty and only 15% of adults reported using their account to make or receive payments. Crucially, only 39% of account holders in India own a credit or debit card, meaning the remainder would require a bank teller to carry out each transaction. Even online shopping in India is done with cash: about 70% of online commerce is paid with cash on delivery.

Although the government was primarily targeting wealth tax evaders in an attempt to redistribute income, the poor, and particularly women and those living rurally, have perhaps suffered the most. Lower income Indians are unlikely to have their own bank account, and even given 50 days to do so, would struggle with limited education and resources to open one. They might even not be able to reach a bank in the first place, as only 27% of Indian villages have one within 5km. Women also have been particularly effected, as most do not already own a bank account – according to the UN, 80% of women in India did not have access to one as of 2014.

This demonetization has caused chaos throughout India. The Indian Express reported that at least 33 people have died as a result of demonetization, with causes of death ranging from people collapsing of exhaustion after waiting in the queues for the bank, a child dying in hospital as the parents only had only currency notes, and others committing suicide as they were unable to feed their families. Outside of these extreme cases, the rest of the country faced hours of queuing outside banks and ATMs and huge income losses, as customers and employers had no cash to pay workers with. The huge cash shortages haven't been helped by the government's failure to introduce the new 500 and 2,000 rupee notes: to make demonetization a surprise, they couldn't start printing any new cash before the announcement.

Domestic abuse rates spiked in November, with calls to India's One Stop Crisis Centre (OSCC) – a domestic abuse charity – more than doubling the month that Modi announced demonetization. 50% of the women who received counseling said their abuse was due to troubles to do with demonetization. India has a culture of women stowing away small sums of cash without their husbands' knowing, in cases of emergencies. In a country where the percentage of work-age women with jobs has fallen by 10% to 27% since 2005 (the largest drop in any country), for many this cash is a lifeline and the greatest source of control and independence they have. After demonetization, many women were faced with the choice of losing their money or handing it over to their husbands.

This isn't the first time India has tried demonetization, and it very well may not be the last. In 1946, all 1,000 and 10,000 rupee notes were recalled and in 1978, all 1,000, 5,000 and 10,000 notes were. That the country has tried this measure two times already suggests both that demonetization isn't enough to end corruption and that the new money quickly becomes 'black

money' again. Yet despite the IMF cutting India's growth rate from 7.6% down to 6.6%, Modi has held on to most of his popularity, with most seeing demonetization as a genuine stand against tax evasion and the black market. Increased financial inclusion and transparency are of course fantastic goals, and if achieved, would alleviate poverty and increase productivity, but the question is whether demonetisation is worth the price Indians have had to pay.

Objectives

Now there is some questions arise here

- What is positive effect of demonetization on India?
- What is negative effect of demonetization on India?
- How Indian people gave response to demonetization
- reaction of opposition parties of Indian democracy on demonetization

BJP trying to impose that its historical decision and pulling its glorification on others and taking advantages in local elections on this path it is important to see other political party's reaction on it and it became as follows

On November 8, Indian prime minister Narendra Modi announced on national television the demonetization of Rs. 500 and Rs. 1000 currency notes (worth roughly \$7.50 and \$15, respectively) to combat the menace of black money and counterfeit currency. In one stroke, approximately 80 percent of India's currency became worthless. India's political discourse was until recently dominated by identity issues such as cow protection, the uniform civil code, and debates on freedom of expression. Partial demonetization has ensured a substantial shift in the political discourse to economic issues. Factions within political parties and some political parties that thrive on identity politics are on the back foot.

For the first few days, many citizens welcomed the move. However, with growing currency shortages, rumours about alleged commodities shortages prompted ordinary people to hoard essential commodities such as salt. With limitations on currency withdrawals, there are long lines at ATMs and banks across the country. The immediate objective for the government is to ensure the ATMs have enough cash, and that there is trust in the public that they will have easy and continued access to currency.

The partial demonetization may negatively impact campaign spending in the poll-bound states of Punjab and Uttar Pradesh. In addition, the winter parliamentary session has a heavy legislative agenda. Parliamentary proceedings may get disrupted due to protests by opposition members over demonetization and important bills related to Goods and Services Tax (GST) may not get legislated.

Outside the Parliament, it is important for the government to ensure that the inconvenience people are experiencing does not translate into street violence. The government should also work to ensure that the current currency shortages do not cause growth to contract for more than a quarter. Even if these goals are achieved, however, demonetization will have long-term political impact. Already, West Bengal chief minister Mamata Banerjee reached out to her primary rival – the Communist Party of India, Marxist – to launch a nationwide political campaign. On the other hand, Chief Minister Nitish Kumar of Bihar – a key opponent of Modi – supported the demonetization policy, indicating the possibility of substantive political realignments.

The partial demonetization has allowed PM Modi to successfully portray himself as a genuine anti-corruption crusader. During a speech in Goa, he stated that the partial



demonetization is only the first of many anti-corruption reforms. One clue as to what these reforms might be is his reference to state funding of election campaigns. It is likely that “combating corruption” will be an important campaign platform for the ruling BharatiyaJanata Party (BJP) in the coming months. Political parties, such as the AamAadmi Party, with a similar reform agenda to the BJP will now have to quickly re-calibrate their strategies to retain their core vote base.

While there is widespread support within the ruling party for these measures, in the coming months there will also likely be murmurs within the BJP that the demonetization has hit their core support group – small traders and business owners – the most. In order to restore relations with this group, the government may announce simplification of tax procedures and even reduction of taxes paid by small traders/business owners. Furthermore, sustained punitive anti-corruption measures may quickly bring diminishing returns. Therefore, it will become necessary to initiate large-scale welfare schemes in order to maintain momentum. More importantly, establishing a connection between these two efforts by stating that ‘anti-corruption’ measures have provided necessary resources to initiate welfare measures may have long-term political dividends.

Some regional parties have found it difficult to align with the BJP due to the fear of getting branded as ‘right-wing sectarian’ elements, and thus losing the minority vote. If the agenda of combating corruption gains momentum, it is very possible that some regional parties will gravitate towards the ruling alliance. If the partial demonetization and the introduction of new currency are successful, then it will reinforce the perception that Prime Minister Modi is a decisive leader. It is unsurprising that the recent ‘surgical’ strike against Pakistan was conducted in utmost secrecy because the military bureaucracy is trained to maintain secrecy. The partial demonetization involved a large number of actors, including the Ministry of Finance, the Reserve Bank of India, and other units of civilian bureaucracy. The fact that demonetization was in fact kept secret indicates the capacity of the Prime Minister’s Office to enforce utmost secrecy. Various institutions and organizations that are supposed to monitor and report on government activity will re-examine their tool-kit.

Reaping the dividends described above hinges on the government’s ability to ensure that there are adequate currency flows into the economy. If the government fails to give easy access to currency within a reasonable time frame, that failure will have a devastating impact, not just on the ruling political party but also on the nation’s economy. Such negative consequences will reduce India’s ability to negotiate the complex power-play at regional and global levels. Not surprisingly, many ordinary citizens, irrespective of their political affiliations, are hoping that this currency shift will work for the larger national good.

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