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# Political and Financial Impact of Demonetization in India

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## Abstract

The strength of currency as well as the related economical factors is the key points in the elevation of multi-dimensional growth of the country. From last one year, the implementation of Demonetization in India is in huge debate in positive as well as negative ways. The government agencies call this step as a main strategy to eradicate the corruption and fake currency. The concept of Demonetization was originally proposed and implemented by Chanakya during of rule Chandragupta when huge fake currencies were spread by the people in 350-275 BCE. Chanakya then implemented Demonetization and in the same way the current government is justifying its step. This manuscript underlines the assorted perspectives of demonetization with its impact on the economy of India with the data based evaluations. The paper investigates the dimensions of demonetization with the positive as well as negative impacts with the related perspectives towards social and financial aspects. The move towards demonetization was a very strict decision of government but there were assorted positive features which are presented in the manuscripts with the real impacts.

*Keywords: Chanakya and Demonetization, Currency Bank, Demonetization, Economy of India, Noteban*

## Introduction:

It is considered as big data in the economy of India when the demonetization was implemented in India on 8 November 2016 and there was a huge discussion in different segments including economy, politics, business and many others. The Government of India presented it instantly with the justification towards the removal

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of fake currency and corruption. With the explanation to this step, while speaking to the parliamentarians, Prime Minister Narendra Modi said, "Chanakya has already told us what to do after UPA's 10 years. Chanakya Niti says Money accumulated by unfair means can survive only till 10 years & by 11th year is it destroyed along with interest."

#### Social, Economical and Political Impacts of Demonetization:

- **Forcible Digital Transactions and Cashless Economy:** More individuals started utilizing cards and e-wallets, and the interest for purpose of offers (POS) or card swipe machines expanded. This prompted the increasing speed of establishment of POS machines According to information of Pine Labs, the interest for its POS machines multiplied after the choice. The organization expressed that the platinum card exchanges ascended by 108% and Visa exchanges by 60% on 9 November 2016. Anyway concerns were raised with respect to the need security of versatile applications utilized for advanced exchanges. A few web based business organizations hailed the demonetisation choice as a driving force to an expansion in advanced installments, trusting that it would prompt a decrease in COD returns which could chop down their expenses. In December 2016, the administration propelled an application called BHIM (Bharat Interface for Money) in view of the Unified Payment Interface. In September 2017, Google propelled its first India-just keeping money application utilizing UPI called Google Tez that can be utilized by clients of more than 50 puts money on the UPI stage, and is accessible in a few Indian dialects. Both the Immediate Mobile Payments System (IMPS) and the Unified Payments Interface (UPI), which bolster moment installments utilizing cell phones, have developed significantly since demonetisation, even as money has come back to the economy.
- **Unemployment:** There was a loss of jobs due to demonetisation, particularly in the unorganised and informal sector and in small enterprises. Labour union jobs were crashed. Around 1.5 million jobs were lost in first four months of 2017 (i.e) from January 2017 to April 2017 as an effect of demonetisation.
- **Huge loss to Migrant Workers:** Transient workers in Kerala kept on being paid in demonetised money, and therefore went hungry. They additionally lost valuable work hours since they needed to remain in ques to trade cash at banks. At banks, numerous workers confronted badgering from authorities.

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Indeed, even after trade, many were not able purchase basics from shops which rejected their Rs. 2000 division notes. Transient specialists in Gujarat's adornments industry were left jobless by the stoppage in the neighborhood economy due to demonetisation. This included adornments laborers in Ahmedabad and Rajkot, precious stone specialists and synthetic filaments in Surat, artistic industry laborers in Morbi, metal laborers in Jamnagar and shipbreaking specialists in Alang.

- **Black Money:** The government had estimated that approximately 20% of the demonetised notes would be permanently removed from circulation. However, by 30 December 2016, approximately 97% of the demonetised banknotes, or \$220 billion of the 15.4 trillion that had been demonetised, had been deposited with the banking system. A Central Bank report released in August 2017 stated that a total 99% of the 500 and 1000 notes that were demonetised returned to the banking system, a figure far larger than the government had expected at the time of banning the notes. Therefore, the government failed in its aim of purging black money from the economy. Modi had stated that due to demonetisation, corrupt officials, businessmen and criminals — popularly believed to hoard large amounts of illicit cash — would be stuck with "worthless pieces of paper". Economic analyst Vivek Kaul stated in a BBC article that "demonetisation had been a failure of epic proportions."
- **Human Trafficking:** Nobel laureate Kailash Satyarthi and others work to fight human trafficking said that the note ban had led to a huge fall in sex trafficking, but that the trade had already begun rebounding by the following month. Satyarthi said the demonetisation would be effective in combating exploitation of children as well as corruption and would be a great obstacle to traffickers. However, two months later he expressed his disappointment on Rs 2000 notes being pushed into human trafficking in absence of other concrete steps.
- **Cash Shortage:** In the ATM machines, there was huge shortage of cash and thereby the small business community went to loss because of the less spending capacity by the common man. The cash shortage also affected the routing wage workers to high level and created unemployment.
- **Radical Groups:** Demonetisation had badly hit Maoist and Naxalites as well. The surrender rate has reached its highest since demonetisation was

  
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announced. It is said that the money these organisations collected over the years have now lost their value making them take such a decision.

- **Stock Market Decline:** There was severe negative impact on the stock market with the implementation of noteban. The BSE SENSEX and NIFTY 50 stocks indices fell over 6 percent on the day after the announcement
- **Agriculture:** The agriculture sector of the country is based on the daily wage workers who are paid regularly in cash. With the announcement of currency ban, it was a huge hit on this sector as the cash shortage could not pay the wages to the workers and the farm employees.
- **GDP:** The GDP of country lowered down to more than 6% because of the loss in small businesses and routine earning persons. It was a huge hit on the GDP as it is very important point in the growth of any country.

#### **Positive Impacts of Demonetization:**

- **Expansion in the Tax Payers Base:** The government taken this step so that there are more spans and number of the tax payers in the country so that the economy of nation can be escalated.
- **Identification of Benami Properties:** With this implementation, the close glance to the sale and purchase of properties was done. The government agencies were taking close view on the transactions and the genuine person should be given benefits.
- **Recognition of Shell Firms and Companies:** The step of currency ban (aka demonetization) also identified the shell firms and companies which were involved in the money laundering.

#### **Currency Ban in India before Year 2016:**

##### **Year 1946 during British Rule**

In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency. Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced.



### Year 1978 during Government of Morarji Desai

That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country. During the time of Morarji Desai, the effect of demonetization was not big because the high valued currency notes were not in the reach of common people and that's why its effect on corruption was not big but it was kept confidential in same way as the current government did.

### Conclusion:

The currency and economic values are the key focuses in the rise of multi-dimensional development of the nation. The idea of Demonetization was initially proposed and executed by Chanakya amid of govern Chandragupta when gigantic phony monetary standards were spread by the general population in 350-275 BCE. The paradigm of demonetization is having long historical aspects to cut down the corruption and movement towards the digital transactions. By these focuses, the move of demonetization was implemented so that the issues of fake currency, funding to terrorism, corruption, suspicious cash transactions can be removed or can be atleast under scanner by the government agencies with the increase in the taxpayers. Chanakya at that point executed Demonetization and similarly the present government is defending its progression. The step of demonetization gave lots of impacts on the political system as well as financial system of the country. The most hit sector was the small business community and the daily workers which further led to the lowering down of gross domestic product of the country. The step of demonetization is considered as effective step towards the anti corruption movement in long term benefits to the country and overall development in the infrastructure as well as other sectors including education, defense, social security and many others with the key focus to the multi dimensional growth of the country.

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