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The politics and Economics of Demonetization: Rhetoric and Reality

SOMESH PHILEM
Department of Political Science, Lovely Professional University,
Jalandhar (Punjab) India

ABSTRACT

Demonetization is an act carried out to remove a currency from its use as legal currency. Demonetization is carried out when a country replace either all the old notes or few old notes with the new one. There has been three case of demonetization in India, the first one in 1946, the second in 1978, and the third in 2016. The recent demonetization of 2016 was to fight against the black money, corruption and terrorist funding. Its plan was also to increase the digitalisation of cash in India. Since most of the people in India are of the view that the implementation of demonetization scheme was motivated by purely economic logic, the present study attempts to explore the political dimension of demonetization. To explore the impact of demonetization on the politics of India. To analyse the negative and positive effects of demonetization. To study the effect of demonetization on society.This research paper ask several questions like, The Demonetisation that has implemented in India in November of 2016, has it met its objective? Why there is huge mass support on demonetisation that gives people an uneasy life? To what extent the demonetisation is politicised? And these questions will be discuss in the later part of this paper.

Key Words : Demonetization, Black Money, Corruption

INTRODUCTION

The term demonetization means to remove a currency from its use as legal currency. The Indians who are living now have witness and experienced and gone through at least once or twice the case of demonetization in their lives although some may experience it for the third time. The first of such demonetization in India was during the year of 1946 and it was not an independent India and then it didn't have much impact to the society because the note ban are on higher denomination of 1,000 and 10,000 Indian rupees. And such currency are not accessible to the common people. The second demonetization in India was in the year 1978 during the time of the then prime minister Moraji Desai, it put a ban on the currency of rupees 1,000, 5,000, 10,000. And its aim was to fight against black money and so most of the common people of India during that time don't have the said currency so it was of not much impact to the society but the rich people of that time are a bit shaken by demonetization.

The recent one was in the year 2016 and it effects the whole Indian society and the country was in turmoil. This time the ban of currency was put on the notes of rupee 500 and 1,000 and issue

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of new 500 and 2000 rupee note. And this effect a lot because almost every common people have such rupee 500 and 1000. This time it was announced by the Prime Minister Narendra Modi on the night of November 8, 2016 and people were completely caught offgaurd and this announcement by the prime minister has come into effect from 12 a.m. of 9 November. The aftermath of that announcement was shortage of cash in the Indian market and people have to stand in long queue in the ATM to get cash and some died in such activity. The government did it in order to curb the black money in India.

The demonetised note accounted for around 80% of the country's circulating cash so it was very difficult at the initial days because there were shortage of new Currency of 500 rupee note and 2000 rupee notes. People started speaking up on Demonetization and here some notable ones, Amartya Sen an economist and Nobel Lauret said that demonetization of the currency was a very rude and despotic act taken up by the government broke the promise of paying the promissory note, this was in an interview with the NDTV. While interview by the Indian express professor Sen told that "Only an authoritarian government can calmly cause such misery to the people - with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience and indignity in trying to get their own money back." Further he adds that: "Telling the public suddenly that the promissory notes you have, do not promise anything with certainty, is a more complex manifestation of authoritarianism, allegedly justified - or so the government claims - because some of these notes, held by some crooked people, involve black money. At one stroke the move declares all Indians - indeed all holdersofIndian currency - as possibly crooks, unless they can establish they are not"(Sen, Business Today, 2016).[1]

Dr Manmohan Singh the then prime minister of India express his views that demonetization will bring down the GDP by 2 percent. He called it is a monumental mismanagement. He further add that the way in which the government is implementing the scheme will hurt the growth of agricultural activities in India, it will be very hard time for those people who are in the informal sector of economy. He also adds that it will be difficult time for small industry (Singh, Business Today, 2016).[2]

Arvind Virmani an Indian economist and a former Indian representative to the IMF said that demonetization is a useful way of flushing out the black money in India. He said that the way the government implement is not surprising at all because such scheme are to be done in such way that the insiders may not take advantage of it. Speaking on its short-term impact on business community, Virmani said: "How it will affect requires a deeper study, but the first thing one knows is when you demonetize such a large proportion of currency, the immediate effect is a collapse of retail trade in goods and services. He further said the currency needed for everyday transactions has to be replaced quickly. "The longer that is delayed, the more the negative effect," he said (Virmani, Business Today, 2016).[3] Maitreesh Ghatak (Professor, The London School of Economics and Political

1. Amartya Sen 2016, 'top economists are divided on demonetisation: who said what?' *Business Today*, 5 December, viewed 4 february 2017,http://m.businesstoday.in/story/top-economists-are-divided-on-demonetisation-who-said-what
2. Dr Manmohan Singh 2016, 'top economists are divided on demonetisation: who said what?', *Business Today*, 5 December, viewed 4 february 2017,http://m.businesstoday.in/story/top-economists-are-divided-on-demonetisation-who-said-what
3. Arvind Virmani 2016, 'top economists are divided on demonetisation: who said what?', *Business Today*, 5 December, viewed 4 february 2017,http://m.businesstoday.in/story/top-economists-are-divided-on-demonetisation-who-said-what

Science, London) said that the policy of demonetisation is form of taking tax from the tax evader at one time. He adds that even after all of this effort the generation of black money is a continuous process and there is no guarantee that after demonetisation there won't be black money in India it will be continue in the new notes moreover he said that the amount of the black money might increase due to the higher denomination of 2000 rupees.He adds further that cost of the demonetisation will bet higher and the effectiveness of demonetisation be less. The demonetised note consist of 86 percent of the total cash in the country and it will drop the amount of the cash in the market and the printing of new notes take times and its circulation will also take time and it will further reduce the liquidity (Ghatak, The Tribune, 2017).[4] ArunJaitley, the Union Finance Minister said on the eve of the first anniversary of demonetisation that in the Indian history November 8 would be remember as the watershed moment. He adds that India is moving towards more honest, transparent and cleaner financial system after demonetisation. He said that the objective of demonetisation is met and that objective is to reduce the currency in circulation (Jaitley, The Indian Express, 2017).[5]

Politics of Demonetisation :

The demonetisation brought criticism about the move on the government. There were protest, agitation by people but most of all it is towards the bank in their locality. There are reports, news about the angry people who stand in queue at ATM or in bank about the slow circulation of new legal cash but most of it are directed or confined to one locality or some few locality. The angry people jammed the road or lock the door of the bank in the form of agitation or protest against the demonetisation. The protest in the more organised form is done by the opposition party in the winter session of the parliament. In the winter session of the parliament all the debate or the talk is about the demonetisation the opposition party ask for the vote on demonetisation and this talk about the demonetisation covers the entire winter session. The Opposition parties organised several protests in different parts of the country, but this did not turns into a large protest in whole of India. The question that needs to be asked concerns the relative importance of social and political influences that generated greater support than opposition against demonetisation.

Diversionary tactic :

Since its implementation in November of 2016 the talk about demonetisation is on economic perspective it didn't give much focused on the political perspective which can explain what Modi government did to cover something. During the campaign of 2014 election one of the biggest promised of Narendra Modi is to end corruption and bring all the black money from outside India back to India. He said it with such confidence that it will be done in the first 100 days of his government. It didn't happen and so demonetisation is the big face changer of the government to give back the people what they promise during the voting campaign. Demonetisation was announced prior to some months before the election of state assembly of five states. This move by the government

4. MaitreeshGhatak 2016, 'economist speak upon demonetisation', *The Tribune*, 5 December,viewed 7 february2017,http://www.tribuneindia.com/news/comment/economists-speak-up-on-demonetisation/332432.html

5. ArunJaitley 2017, 'demonetisation met its objectives, will be remembered as watershed moment' *The Indian Express*, 7 november, http://indianexpress.com/article/business/demonetisation-met-its-objectives-will-be-remembered-as-watershed-moment-arun-jaitley-4926390

shows that they are on the check of the monetary of the other party in the state which will be used for the election.

Shifting goalposts :

The government of India led by the prime minister Narendra Modi implement the demonetisation keeping in mind to check to the black money and to check the funding of the terrorist works or function in India. The fight against the black money is not that much effective of what the government had actually thought of earlier, the government assumed that a large amount of illegal money is in the form of notes but that turn out to be wrong that 97 percent of the demonetised money came back to the bank. The initial gaol of the demonetisation in India was to curb the black money and after its effectiveness the gaol is change to the improvement or the increase of the use of digital cash by the people of India.

'Good' intent, 'bad' management :

The government of India implemented the move of demonetisation with the intention of getting the rid of the black money, to check the funding of the works of terrorism in India and to increase the use of digitalised cash, the opposition party criticised about the move by the government but they can't shacked the ruling government, as their action was based in the improvement of the condition of India. The criticism is made on the point that the government action is good but the management of such action should also be effective and due to this mismanagement the poor and the large section of the Indian society had to suffer a lot. The wage earner had to leave their job to stand in queue either at ATM or in the bank, the loose their job, due to lack of money the worker were not paid, etc. such case has defame the demonetisation.

Overall in the social level it is put up by the government that demonetisation is the tool to sweep the rich tax evader and to find out the person who holds the illegal money and it is also shown as the finding of the illegal money and to give back the poor what they deserved. And thus there is no much of protest die by the people of India at large because almost all the people of India wants is the justice and some change in the society of India by the new government.so it is shown to the people and the people take is as morally correct to search for the illegal money in India and redistribute it to the people of India and that would do justice to the whole of India. (Hassan, The Hindu, 2017)[6] .

Impact On Employement :

The centre for Monitoring Indian Economy (CMEI) which track the business and economic put up the figure of the number of losses of job after demonetisation in the month of November 2106. The CMEI put the figure to 1.5 million jobs loss in the first four months of 2017. The CMEI put up the figure after the survey they did on the sample size of 161,167 household and the survey cover a total number of adults of 519,285.the approximate employment was 405 million in the month of January-April 2107 and the approximate employment in the month of September-December 2016 was 406.5 million. The number of employment are together that includes the organised as well as unorganised sector and it also include the agricultural and non-agricultural sector (Arun,

6. Zoya Hassan 2017, 'the politics of demonetisation', The Hindu, 28 January.http://www.thehindu.com/opinion/lead/The-politics-of-demonetisation/article17104627.ece

India Today, 2017)[7] .

Impact on farmer :

The impact on farmers are also felt after the implementation of demonetization. Demonetization was implemented in November of 2016 and that is the time for rabi crops. The farmers were lack of cash and the farmers are in the condition that they were not able to buy the HYV seeds and instead they depend on the old seeds which was cultivated in the previous year.

As there was the lack of cash in the whole nation there the demands of the vegetables and crops in the market reduce. The farmers needs insecticide and pesticides for the crops and the cash is required by the farmers to buy this things but they don't have and the overall productivity is reduced.The vendors who sold the fruit and vegetables are a great lost as there was lack of cash and cash is needed by the people but the fruits and vegetables are rotten because there were less cash to buy so they are great lost.

The labourer and the worker who are working were not paid as there were shortage of cash. Some of the farmer who took loan to invest in the crops are at lost as there was no price set for the crops and vegetables and the price is reduced due to demonetization and they need to repay back the loan but they didn't profit from what they have cultivated and the interest of the loan keep increasing and they are in debt.

There were protest on different parts of India by the farmers due to demonetization as the price is reduced because there were less buyer even then the vegetables they produce are not able to sell and they are unable to meet the daily needs. Some farmer even throw of their products on the roads to be destroyed instead of selling because the price was so less.

Impact of Demonetisation in Manufacturing Sector :

The Index of Industrial Production (IIP) show us that between the periods from December 2016 to March of 2017, the manufacturing growth was the lowest as compared to the same time period of the last five year (ManasChakravarty, live Mint, 2017)[8] .

The reduced in the manufacturing growth may be due to the process of demonetisation, and the IIP data do not take into account of the informal sector. The chart below tells us the reduced in the manufacturing growth in the formal sector. The informal sector would have been hit much harder (ManasChakravarty, live Mint, 2017)[9] .

The impact of demonetisation can be seen from the chart. The growth rate in average in manufacturing sector is 1.6% in December 2016- March 2017, whereas the growth rate in average in manufacturing sector is 4.9% in December 2015- March 2016. In the last four months of the fiscal year of 2014-2015 the average growth rate was 3.2% and the 3.7% was in 2013-2014 and in the last four month of the fiscal year 2012-2013 the average rate of growth was 9.4%

7. MG Arun 2017, 'how demonetisation took its worst toll on unorganised sector employing 80 percent of India's workforce', India today, 21 July.https://www.indiatoday.in/magazine/up-front/story/20170731-demonetisation-jobs-lost-unorganised-sector-jobless-growth-india-economy-1025552-2017-07-21

8. Manas Chakravarty, 2017,'New IIP series shows sever impact of demonetisation on manufacturing sector', live mint, 15 May, https://www.livemint.com/Money/oYE902Pvtv5ltCWe9P2WcI/New-IIP-series-shows-severe-impact-of-demonetisation-on-manu.html

9. Ibid

(ManasChakravarty, live Mint, 2017)[10] .

The manufacturing growth of the fiscal year 2016-2017 is higher than the previous fiscal year if we take for the whole year because if we take for the whole year the growth rate is 4.9% as compared to 3%. This shows that the first eight month of the fiscal year 2016-17 is higher than that of the fiscal year 2015-16. The rate of growth in average in the first eight months of fiscal year 2016-17 was 6.6% as compared to the first eight months of fiscal year 2015-16 which was 2.1%(ManasChakravarty, live Mint, 2017)[11] .

The rate of growth in the manufacturing sector deep down in the last four months of the fiscal year 2016-17 which indicate the impact of demonetisation in the month of November. This shows that the growth rate in the first eight months of the fiscal year 2016-17 is dragged down by demonetisation. The growth rate in manufacturing in month of January 2017 was 3% and it was further reduced in the month of February 2017 to 1.4% and furthermore it was reduced in the month of March to 1.2% and it shows that the growth rate will be slow because of the hit by demonetisation (ManasChakravarty, live Mint, 2017)[12] .

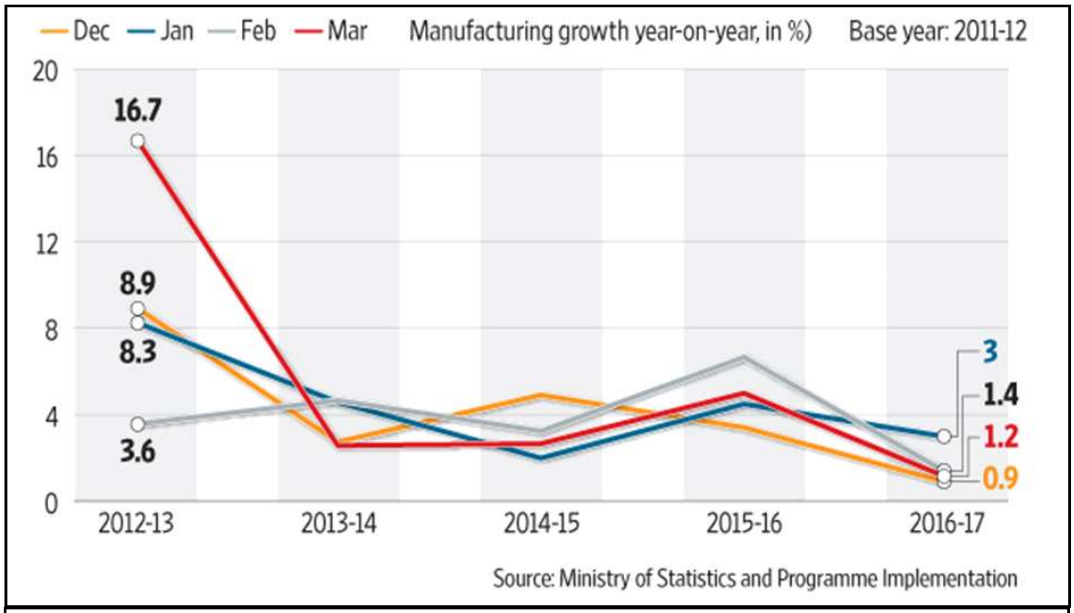

Fig. 1 : Manufacturing growth in Dec. 2016-March 2017 was the weakest in the past five years

Discussion and Analysis :

The demonetisation that has been implemented by the BJP led government in November of 2016 under the Prime Minister of Narendra Modi has given its objective as to remove the black money in India, to check the funding of the terrorist works in India and to increase the use of digital

10. Ibid
11. Ibid
12. Manas Chakravarty, 2017,'New IIP series shows sever impact of demonetisation on manufacturing sector', live mint, 15 May, https://www.livemint.com/Money/oYE902Pvtv5ltCWe9P2WcI/New-IIP-series-shows-severe-impact-of-demonetisation-on-manu.html

cash by the people of India. The government had projected that a large portion of the demonetised notes will not come back and it will account for the portion of black money in India. But to the government surprise more than 97% of the total demonetised money came back to the bank. So the objective of removing the black money is not done because the figure shows that there is little amount of black money that has been in circulation in India and it shows that there is no black money to demonetised.The objective of curbing the black money in India is not met and the government shift the objective towards the digitalisation of cash. The government encourage the people to do so to reduce the dependency on cash. To some extent the digitalisation of cash has benefit from demonetisation by increasing the number buying and selling through digital money. The digitalisation of cash is not wide spread across all over India and to all section of people. It is confined to the persons who have access to smartphone, who have access to internet, who have access to bank account connected to the smartphone. So this objective is also not met at a great extent.

People are hurt by demonetisation but mass of population are supporting the move by following the rule and regulation set by the government in the aftermath of the demonetisation, there are some protest in some parts of the country but it's not huge and significance. There is the reason why the mass support the move of the government by the people.In the loksabha election of 2014 the BJP party won majority and form the government and winning the election requires a lot of the supporter or follower to vote for the party and the candidate and the ruling government enjoy the privileged of the popularity among the people of the India and so there is support from the people on the move of demonetisation by the government.There is support from the people because majority of the population are either in the middle class or poor family and so the people take the action of demonetisation as the good one to equalise the difference between the poor and the rich.

The BJP led government is ruling in the central government. Demonetisation is implemented to check the black money, increase digitalisation of cash. The time of implementation of demonetisation was prior to some few months before the state legislative assembly of the five states of Manipur, Punjab, Uttar Pradesh, Goa, Uttarakhand in which the BJP party form the government in the four other state apart from Punjab either by majority of forming alliance. The move of the demonetisation has check the funding in the election. During the election campaign of the 2014 Loksabha election the BJP promise the people of India to bring back all the black money to India within the first hundred days of their government but the government fail to do so and there were criticism from the opposition party and the people and so demonetisation act as diversionary tactics to regain the popularity among people.The prime minister to strengthen his position often come up with the idea of nationalism that those who don't support the idea of demonetisation for cleaning up the black money are those who are corrupt and anti-national, it's also more like of propaganda to gain the support of people in sacrificing for the cleaning up of black money in India.

Most of the people are of the idea that demonetisation is a scheme which is related to only economic sphere but it's not only limited to economic sphere but it also links with the political sphere. The plan of demonetisation that has carried out by the government also has some objective not of the economic one but of the political one. The government did in order to gain the popularity among the people. Moreover the government did it to give the people something of what they promise in the election campaign of 2014 Lok Sabha. The government or the ruling party in the centre carry out the action of demonetisation to check the funding of the election in the local or national level election.

The BJP led central government implement demonetisation as a check to separate between

the friends and the foe, those who support the government action are the friend and those who do not are the foe. It is to check the popularity and the real supporter of the government which will play a decisive role in the loksabha election of 2019.

Demonetisation has effected a large number of people whole over India. Demonetisation has caused the lives of many Indians. It has impact on the different section of the society. It has also impact on the different section of industry or manufacturing sector.

The most effected are the daily wage earner who earn to live from day to day and there was shortage of cash in circulation and they don't have the money to buy the things to feed their family. Many worker or employee lost their job as the employer don't have enough cash to pay their wages.The factory and industry reduce their production capacity. The people at large are effected a lot as there were little amount of money in circulation and no cash to buy the daily needs. The farmers and the fruits and vegetables sellers are effected as fruits and vegetables are perishable things and the price is reduce and there were little buyer.The positive impact of demonetisation are that the people and government are aware of the amount of the black money in India. It increases the use of digital cash by the people of India. It increase the number of people in the tax payer.

The process of demonetisation is shown by the government that it is morally true to carry out such action, that this action will help the government and the people especially the poor to have better future by taking the illegal money from the rich people who become rich by taking the money by illegal method. Demonetisation acts as a justice to give back the poor what they deserved.

Conclusion :

Demonetisation is the plan implemented by the government in order to fight the black money in India and it is also the move by the government to increase the use of digital cash by the people. Since the implementation of demonetisation in November of 2016 the people are suffering due to the immediate reduce in the amount of the cash in circulation. It effects the different section of the society and the different section of the work force. It results in the reduced of manufacturing production and it increases the number of job loss. The government objective to curb the black money or to identified the black money is not met as almost all percent of the demonetised money came back to the bank little amount didn't came back so its objective of finding the black money is not met. The digitalisation of cash is not carried out at a large scale as all people cannot do transaction through it because of certain reason such as uneducated, no access to smartphone or internet, no access to bank account and it objective to digitalise the cash is not met. The implementation of demonetisation is a big gamble by the government and they fail in it very big it's a trial and fail process, its failure can be look from the extent of the effect on the people of by it and the profit by it to the people. The people in all sections of life are not left touch by demonetisation after its implementation. The decline in production rate, job loss, loss of lives all accounts of demonetisation. Demonetisation is a plan to do good for the society but the plan didn't match well with the condition of the society which it is implemented.

Suggestion :

The government in order to implement such plan should have a proper cut out strategy for the consequence that is to be followed out if the plan didn't meet its objective.

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