



The Socio, Economic and Political Impacts of Demonetization in India

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Abstract: Demonetization means to withdraw money or the like from use. This means it is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The goal of the demonetization move in India is to make the economy stronger and eliminate the parallel cash economy which is unaccounted and untaxed. While this can impact the GDP negatively in the short-term, it should have positive long term consequences. There are multiple reasons why nations demonetize their local units of currency. Some reasons include combating inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. However the demonetization that happened in India will have impact on economic, social and political ramifications, both from immediate and long-term perspectives. The objective of this paper is to analyse the socio, economic and political impacts of Demonetization in India.

Keywords: Demonetization, Currency, GDP, Social, economic and political impacts and Corruption.

Introduction:

Prime Minister Narendra Modi has announced demonetization of high denomination currency keeping in view the manifesto of the party to fight corruption and respecting the sentiments of voters.

India's GDP is \$2,000 billion (Rs 125 lakh crore) and estimated parallel economy is 23 percent, which makes it about Rs. 28 lakh crore. Around 68 percent of that cash is kept in denominations of Rs 500 and Rs 1,000 notes. A back-of-the-envelope calculation shows that Rs 3 lakh

crore or \$45 billion will flow into India's white economy, which is equivalent to GDP of more than 100 countries.

Moreover as per recent estimation only 6% of the black money is kept in the form of cash and therefore much more can be converted and the said objective of the Government may not be achieved. Earlier also demonetization was implemented in nine countries and failed to achieve the desired objectives of curbing the black money in majority of cases.

Objective of Demonetization: The objective behind demonetization is to



force those who have hoards of black money to deposit it in banks. The objective is laudable because black money is used to fund terrorism of various forms to weaken economy.

Only 5 percent of Indian Workers pay income tax, just 15 percent of the economy is inside the tax net and India's tax to GDP ratio at 17 percent is 5 points lower than comparable countries.

The Socio, Economic and Political Impacts of Demonetization in India:

India is the fastest growing economy of the world a small Current Account Deficit, sufficient fiscal space, low inflation, and rising foreign exchange reserves. We shall see a great impact of this move of the Central Government 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.

The demonetization that happened in India will have impact on economic, social and political ramifications, both from immediate and long-term perspectives. The impact of this move includes:

• **Financial/business impact:**

- Banks will be having a tough time. They will be flooded with cash.
- Real estate prices will fall and the transactions volume will drop.
- People with large amount of black money are using unscrupulous means to convert it into legitimate currency.
- A taxpayer has to stand in queues to withdraw his hard-earned money.
- Second hand car market will cash badly.
- Online companies are having the last laugh as most of the white income class is resorting to online.
- CAs will be having a time of their lives.
- Small/medium sized businesses relying on cash transaction are seeing a total demand collapse.
- Gem and jewelry business will be hard hit.

Political Impact:

- No cash doles out in elections. Whole electioneering will change forever.
- Normal life may be impacted because of demonstrations.
- All parties will join hands to paint the demonetization scheme as a big scam.

• **Social Impact:**



- The society will become more equitable with lesser class distinction.
- Politics may change forever.
- Cashiers and bankers will get due respect in society.
- People now know moral status of their peers and neighbors better.
- Low-income people have been impacted as their payments are delayed.
- Some people may commit suicide.
- Big blow to gambling.
- **Impact on Indian economy:**
- GDP will be impacted as consumption will fall – Indirect tax collection may be lower.
- Disorganized work to move to organized sector.
- Demonetization may benefit India in long term:
 - Income taxes rates may come down
 - Loans will become cheaper
 - Housing will become affordable

unchallenged for next half a century. Hence, despite pain, the country is unified in this rare opportunity, to cleanse the economy from cancer of corruption, on its way to become a superpower.

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Conclusion:

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

In fact, India with nearly 60% of population below 35 years will be