

Impact of Demonetization on Economy and Society in India: A Sociological Study

Abstract

The Government of India announced demonetization of the high level value currencies of Rs 500 and 1000 with an objective to unearth the black money and to curb the corruption, counterfeit currency as well as terror funding. This decision is considered as biggest cleanness drive against the black money in the history of Indian economy whose benefits will be reaped in long run. However, the impact of this sudden move is causing major cash crunch in the economy affecting daily requirement of ordinary person and businesses.

The decision was made effective since midnight of 08th Nov 2016 and Reserve Bank of India will issue new notes of 2000 and 500. Rest all notes will remain unaffected. In order to give relief to citizens, some exceptions were given to petrol, CNG and gas stations, government hospitals, railway and airline booking counters, ration stores and crematoriums to accept the old notes up to 24th Nov 2016. On 17th Nov 2016, a guideline was issued that for wedding, a family can withdraw Rs. 2,50,000/- from one account. The move was reflected by government as a very crucial step to curb the issue of corruption, black money, counterfeit notes and ultimately terrorism. This article is an attempt to assess the impact of demonetization on Indian economy as it was introduced to eradicate the parallel economy. The study is dedicated to know both positive and negative after effects of demonetization and it has taken the data from secondary sources such as newspapers, magazines, internet and some relevant books etc.

Keywords: Demonetization, Note Ban, Black Money, Corruption, Indian Economy.

Introduction

The word Demonetization is the process of introduction of new notes or coins of same currency and replacement of old currency with new one. The reason for demonetizing the currency resist inflation, stop corruption and also to discourage the cash system in the country. In Nov 2016, a revolutionary and very bold step was taken by the Indian Government to ban Rs. 500 and Rs. 1000 as a result of demonetization. These two biggest notes were dominating the market and were accounted around 80% of the total currency supply. As declared by our Prime Minister, that this step was having the main aim of eradicating the counterfeit money, resistance of tax evasion, destruction of black money and terrorist funding. In addition it was a step to move our nation forward in the direction of cashless money. It was really un-doubtable that the decision was taken for the welfare of the country and our countrymen, but there was also a very mind boggling question in everybody's mind that whether the note ban decision will actually eradicate the black money and how our economy will be impacted. And also, whether the last man of our society will be benefitted or not.

In our day to day language, the unofficial and unaccounted money is known as black money and on the contrary the official money is known as white money. Demonetization is stripping a currency unit of its status as legal tender. With every passing day, need of our civilization and mankind is increasing and money has become the life blood of every economy. Earlier the barter system emerged which was the exchange of goods between two parties. But with increasing complexity in life and economy, money system emerged as a very strong pillar in building the economy and it was proved easier and convenient method than barter system. The exchange of money proved very beneficial in doing easy business, taxing and building of national integrity. Around the world the menace of



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corruption and black money is rising day by day and our nation is also not untouched with this. With the formal economic activities such as production, exchange, distribution and services, another economy known as informal economy which remains untaxed has become a monster and it has promoted and established a parallel economy. The reasons for demonetization are appended below:

1. Promotion of cashless economy.
2. Elimination of black money.
3. Eradication of counterfeit money.
4. Combating corruption and inflation.
5. Cracking down of terrorism and Naxalism.

Historical Background of Demonetization

The concept of Demonetization is not new either for India or the world. Many times the world has seen the ban on currency notes in circulation in various countries which rendered huge cash useless. The reasons may be to curb black money, fighting corruption or to stop funding terrorism. Some nations adopted this policy of banning currencies to stop uncontrollable inflation and to bring economic stability. For instance, the new currency adopted by the European Union known as Euro can be cited as the best example of Demonetization. The introduction of Euro saw the demonetization of various currencies in Europe and authorities had to fix the exchange rates for the various national currencies into Euros. In case of our nation, the demonetization of currencies has been done two times earlier also. On 12th January 1946, notes of Rs.1000, Rs.5000 and Rs.10000 were taken out of circulation, but they were reintroduced in the year 1954. The second time India witnessed the demonetization on 16th January 1978, an ordinance was promulgated to phase out the currency notes of Rs.1000, Rs.5000 and Rs.10000 in circulation. In Russia, Mikhail Gorbachev in the year January 1991 withdrew big Ruble bills to curb black money and to halt inflation, but it failed. The result was worse when political infighting combined with economic collapse and ultimately the world witnessed the breakup of giant Soviet Union. With this disastrous result, Russia learnt the lesson and in 1998, the redenomination of ruble went altogether very smoothly.

Similarly, in 2010 the dictator of North Korea Kim Jon mounted a reform that knocked off two zeros from the face value of the old currency in an effort to tighten control of the economy and close black markets. Combined with a poor harvest, the measure left the country with severe food shortages, according to reports at the time. Surging rice prices stoked unrest that prompted an unusual apology from Kim, and -- reports suggested -- the execution of the ruling party's head of finance. In Myanmar: In 1987, the country's military junta invalidated as much as 80 per cent of the value of money in circulation, according to reports at the time -- as in other such initiatives, it was directed at curbing the black market. One result was the first student demonstrations in years. Deepening economic unease helped trigger mass protests across the nation the following year that led to a government crackdown that killed thousands of peoples.

Scope of the Study

This study will prove very beneficial for Indian government, businessmen, customers and ultimately every citizen of India. By this study, our government can assess the impact of demonetization on present society and it can formulate and implement some better policies for the betterment of our economy, if required. For the common man who is the most affected person of every policy would be able to rationalize their decision of income and expenditure. In addition, the businessman can also take decisions that whether he will be able to generate more profit in the current market scenario. And finally the impact of demonetization on our economy which was having a very noble cause of curbing corruption will be known by every citizen of India.

Review of the Literature

The findings and view of different authors and researchers will be analysed by this chapter emphasizing on the Impact of Demonetization on Economy and Society in India.

Dr.Virender and Rahul Pratap Singh (2016) "Impact of Demonetization on Indian Economy" India has the highest level of currencies in circulation at 12.1% of GDP. The cash on hand is an estimated at around 3.2% of household assets higher than investment in equities or roughly around \$ 220 billion. Of this cash , 87% is in the form of Rs 500 and Rs 1000 notes or roughly Rs 14 lakh crore (\$ 190 billion). A significant position of household cash on his hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought in to the system or the money just disappearing .The study highlighted the probable consequences of this decision on various economic variables and entities. The author concluded that if the money disappears, as some holders would not like to be seen their cash pile, the economic will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

Dr. Rahul Prakesh Deodhar(2016) " Black money and Demonetization " The Government of India announced that the Rs 500 and Rs 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization, will it be effective if people can still create new black money. The author concluded that it is just one move of one piece in chess board of black money. To-check mate the black money king, you have to win the board. These are various steps required as detailed above. The Government can play all moves and still fail if they play improperly. All we can say is that the Government is playing well, But will it succeed. The efforts will bring massive amounts of cash in to the banking system – a benefit in itself. Once the money is in the legitimate channels, it should be better utilized and revenue will be

generated from its use. If that is success enough then yes.

Research Methodology

The article is based on secondary data. Secondary data is collected from library, text books, and journals, articles from news-papers and from relevant websites available on internet

Objectives of the Study

The main objectives of the study are as follows:

1. To find out the consequences of demonetization on Indian citizens.
2. To find impact of demonetization on different parts of the society.
3. To analyze the impact of demonetization on the Indian economy.
4. To assess the impact of demonetization on curbing of corruption and black money.

Demonetization and its impact on Indian Economy

The withdrawal of Rs.500 and Rs. 1000 by Govt. of India on 08th Nov. 2016 had very serious impact on the life of everyone. It was considered as the biggest step by Narendra Modi Govt. to defeat corruption and parallel economy which was also playing a very crucial role in funding terrorism and Naxalism. The reasons behind this crucial step and its after impacts can be summarized by the points which are appended below:

Demonetization of Only 500 and 1000 Currency Notes

According to RBI's Report the 500 rupees and 1000 rupees notes approximately 86 % value in the circulation. So government decides to remove this huge amount of money from the market. And the maximum Fake currency notes exist in the form of 500 and 1000 Rs.

Impact on Indian economy after note ban

The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the market become slowdown, but the increase in the deposition in the bank would be better for economy in future.

Effect on bank loans in India after note ban

After demonetization announcement deposition in Indian bank has increased, According to reserve bank India, deposits crossed 5 trillion rupees from 10th November to 18th November. Due to this many banks like SBI, ICICI, and HDFC PNB reduced their deposits rates. (Here MCLR means (Marginal Cost of Landing Rates)

Effect of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November. According to pranabsen (India's First Chief Statistician) said that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector

which is 45% of the India's Gross Domestic Product, and approximately 80% of India's employment depends upon IT sector.

Impact of demonetization on Real estate

During November-December 2016, the monthly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmadabad, Kolkata, Chennai, Hyderabad, Bengaluru, Pune, Mumbai and Noida. Before demonetization the monthly average house sales was 19000 units in July month and 18000 units in October month. The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively. The government had announced the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter, October month showing best performance, but November and December both negatively impacted by the demonetization, 50% of the total sales in the third quarter contributed by October month. The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units. Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector.

Impact of Demonetization On Indian Peoples

The inputs from the segment of people reveal that demonetization is directly affected the short term consumption needs of the people which includes daily wage labourers, women, students, small vendors, shopkeepers etc. basically belonging to the middle and lower class families for whom cash is the primary mode of payment for their day to day activities. Along with this, the direct impact of demonetization drive is seen on those who live in remote areas of the country, having no bank accounts and no identification proofs.

We found to assess the level of difficulty people are facing because of demonetization and we found that 57.5% respondents reported that they are facing high level difficulties whereas rest responded that the impact is quiet modest on their daily activities. Further, we assessed the impact of currency crunch on life of people and observed that the major impact of currency crunch is seen on daily needs of the people (90%) such as purchase of eatables, daily products and other necessities, transport (76%), health care and wellness (66%), beauty and cosmetics (41%).

The major problems faced by the people while depositing / withdrawing cash from the bank /ATM, 84% respondents have reported unavailability of cash at bank and ATM as major hurdle, followed by ATMs closed (86%) long queues and waiting hours (73%). At the same time, the major problems faced by the peoples by the internet banking and mobile banking are being used quiet frequently for money transfer as well as payments instead of standing in long queues for money withdrawal/deposit/transfer. However, people belonging to the poorest sections of the society who don't have the smart phones, internet

facility and lack digital literacy are majorly impacted by demonetization drive.

RBI Report on Demonetization

The Reserve Bank of India's annual report has revealed the data on amounts retrieved after the recent demonetization drive. The main points of this report are as follows:

1. Rs. 500 and Rs. 1,000 banknotes were withdrawn as a means to combat counterfeiting, black money and the financing of terrorist activities.
2. The report brings out that as much as Rs. 15.28 lakh crore of the demonetized high-value currency returned to the banking system.
3. This is around 99% of the total value of the withdrawn currency at the time of demonetization.
4. The bank has not received a part of the demonetized sum which is equal to Rs 16,050 cr.
5. The final deposit figures could still rise with influx of money from District Central Cooperative Banks.
6. This is because, these banks were very recently allowed to deposit withdrawn notes that they had accepted for a few days after demonetization after which it was stopped.
7. Also, RBI is in discussions with the government to further accept the demonetized notes held by citizens and financial institutions in Nepal.

Positive outcome of Demonetization:

1. The whole process has brought more accountability to money and the anonymity with cash transactions is reduced.
2. Big data analytics of deposits and increase in suspicious transaction reports have thrown better light on holdings of black money.
3. The reports by banks are also helping in identification of shell firms and taking necessary actions against money laundering activities.
4. This could possibly lead to an increase in future tax revenues with better tax compliance.
5. The recent surge in digital transactions, inflows into mutual funds and insurance companies, the rise in new income tax assesses are evident of transformation to a modern economy.
6. The drive has promoted more formalization of the economy and financialisation of savings.
7. Terror financing: Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.
8. Maoism: Maoist sympathizers call Modi's demonetization move an "undeclared financial emergency". There are reasons to it. Demonetization has hit the Maoists and their

movement hard. Black money is the oxygen for Maoists. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre. Police sources in both Chhattisgarh and Odisha have told the writer that the Maoists have stashed old high denomination notes to the tune of over Rs 10,000 crore at their dumps in the dense jungles of Odisha Chhattisgarh boarder. No wonder, with Modi's demonetization drive, all those illegal money are reduced to paper scrap. Maoists are in a state of coma and Maoist activities see a crippling blow. Ever since the demonetization announcement was made, no major violence was reported from the Maoist infested states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.

9. Kashmir unrest: The four-month-long unrest in Kashmir valley is on a backburner, thanks to demonetization. No stone pelting on security forces has been reported in Kashmir ever since the demonetization announcement was made. An intelligence estimate suggests that Pakistan sends Rs 1,000 crore annually to the separatists for fuelling unrest in Kashmir. The money is transferred through hawala route. With hawala trans actions completely choked up, the separatists are now clueless. It won't be wrong to say that "stone palter" Prime Minister Narendra Modi completely shattered the Kashmir unrest with his stone called demonetization.
10. North-East insurgency: Demonetization has severely affected the multiple militant groups operating in the North-East. According to intelligence estimate the north-eastern insurgent groups together have a corpus of Rs 400 crore annually. The insurgents source their funding in two ways. They raise funds through levy and extortions like the Maoists do. But unlike Maoists, the leaders of North-East militant outfits do not live in the jungle. Their English speaking high ranking leaders run operations from their dens in Myanmar, Bangladesh and Nepal. From there they also transfer huge illegal money via hawala route to their cadre for running the militancy. With the extortion money stopped completely in the absence of cash inflow and hawala operations coming to a complete halt, all activities of North-East militants have shuttered down.

Contentious outcomes of Demonetization

1. As against the government's expectations on the impact the exercise would have on illegal money, the return of almost 99% of devalued currency raises doubts on the purpose of the drive.
2. Banking - This is the first time since 1952-53 that reserve money for the whole year contracted, by 13 per cent due to demonetization impact.
3. The RBI incurred a reduction in the profit made by the central bank on account of issuing currency.

4. Also, processing and destruction of old Rs 500 and Rs 1,000 notes kept in various currency chests and regional offices of the RBI pose a challenge.
5. It has cost the government around Rs 8000 crore for printing new notes during the period July 2016-June 2017.
6. Economy - Worsening business conditions are significantly bringing down private investment.
7. Demonetization considerably made a hit on the unorganized supply chains that were dependent on cash transactions.
8. How efficiently were they able to rebuild after the economy was re monetized is still doubtful.
9. The figures and outlook on consumption, which has long been the main driver of the economy, is also not very optimistic with demonetization impact.
10. Overall, the growth prospects look dull due to the impact of demonetization.

The Short-Term Vs. The Longer-Term Implications The Short-term Impacts

There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Roadside vendors, cab drivers, kirana stores, etc., have already stopped accepting Rs 500 and Rs 1,000 notes. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time.

The Longer-term Implications

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Last, though this move by the government may not be a first, having being tried by earlier governments as a tool to fight corruption. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation.

The Sectoral Impacts

While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the

market for consumer durables and non-durables is expected to feel the heat. In the short to medium-term, large denomination purchases will likely be made via electronic purchases rather than through brick and mortar outlets. This will impact the retail sector adversely. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large Areas of sub-sectoral impact will be felt in luxury cars, SUVs, gems, jewellery, gold and high-end branded products. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large number of people. On the positive side, there is likely to a reset of spending patterns as this move represents indirectly a significant push towards a cashless economy. Businesses in the fin-tech sector, including payment banks, mobile wallets, electronic transfer providers, etc., are expected to see gains.

Suggestions for Implementing Strategies for tackling Black money:

The Central government's recent decision to demonetize the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. The challenge now is to ensure that the creation of new black money is minimized. A committed government plus tax reforms such as the GST will be part of the solution. Government has to analyse the pros and cons of the demonetization impact to take lessons for future reforms. Some of the measures which can be used for effective control of corruption and black money are appended below:

1. Establish identity of persons (through PAN Card, Aadhar Card etc.) operating in the country citizens and foreigners.
2. Enable low the cost direct bank transfers (Implementation of NEFT/IMPS/RTGS and other formats) including direct transfers of subsidies to the beneficiaries under the Aadhar scheme.
3. Enable electronic register of assets (Underway through electronic land records, digitization of revenue records)
4. Reform tax system so that cost of compliance is lower than cost of tax evasion.
5. Through initiatives such as Saral forms, e-filing, self-declaration etc.) Indirect tax system through simplification (GST).
6. Widen the net for disclosure by filing Income Tax return. (auto processing returns for tax refunds)

7. Regulations that increase costs for black money creating activities. (Prevention of Corruption Act etc.)
8. Create attribution chain for funds entering and exiting the country (such as through P-Notes, FDI, Prevention of Money Laundering Act etc.)
9. Create e-trails of both incomes and expenditure.
10. Control on holding of cash and physical money including Indian and foreign money.

Conclusion

Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors sot that production will grow in our country, employment will be generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition of our country. Although Demonetization has created so many hurdle for the citizens of India. Citizens of India faced so many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems. When government took this bold decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind

of problem for a long time. But government has given so many remedies to the citizens of India for time to time. On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all are declined for a short time. Some economics expert said that positive

impact of demonetization will showed in future. Government has also increased the withdrawal limits. The queues in front of banks and ATMs have reduced. Somehow black money also comes out. Now we should wait and watch the overall impact of demonetization drive.

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