

Effects of demonetization on common People- An Empirical Analysis

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Abstract:

India has been passing through a paradigm shift in the economy due to demonetization.

The purpose behind demonetization was aimed to unearth huge sums of black money stashed in currency notes, to root out corruption, reduction of counterfeit currency notes already in circulation, root out terror funding and to inculcate a culture of digital payments in the economy.

It is true that the move has created a tremendous cash crunch in day to day requirements. The effect of demonetization felt across India in all the sectors of the Economy and Society.

The study is descriptive and empirical in nature. A structured questionnaire is used to analyze the perceptions about demonetization among common man. The study aims at endorsing the effect of bold move of the Government.

Key words: Demonetization, Digital payment, Economy

Introduction:

Demonetization is the act of stripping a currency unit of its status as legal tender, currency includes coins and paper notes of different denominations issued by the central bank of a country duly backed by the sovereign authority. Every bank note in a country is a promissory note by the government and act as a legal tender duly signed by the head of the central bank. To demonetize means to take away the promise of it being the legal tender of the said bank notes, and thus depriving it of its monetary value by the sovereign authority.

History:

Demonetization is one of the effective fiscal policy measures to curb inflation, and to remove bad money out of economy. There were two similar instances of demonetization of high currency notes in India. The move was first implemented in January 1946 when the RBI discontinued Rs. 1000 and Rs. 10,000 Notes. Eight years later in 1954, Rs. 10,000 was brought back and Rs. 5,000 note was introduced. Later, in 1978, the Moraji Desai government demonetized the big value notes of Rs. 1000, 5000 and 10,000. According to data provided by the RBI, Rs. 10,000 note was printed in 1938 and 1954 and was subsequently demonetized in 1946 and 1978, respectively. As per the report "**Measure to tackle black money in India and Abroad**", Black money committee was formed, headed by the chairman of central Board of director Taxes in 2012. In the past experiments with demonetization government had ended in failure. The report highlights that Demonetization as one of the measure to curb generation of black money, found it impractical despite its noble aims. It revealed that in both instance of demonetization just less than 15% of high currency notes were exchanged. However in the current circumstances demonetization has affected nearly 86% of the currency in circulation of Rs. 500 and Rs. 1000 denomination.

Purpose of Demonetization:

- ❖ To Unearth huge sums of Black money stashed in currency notes
- ❖ To Eradicate Corruption from the system
- ❖ To Root out counterfeit currency notes in circulation
- ❖ To Stop funding for Terrorism
- ❖ To Inculcate the Culture of Digital payments.
- ❖ To Streamline Undisclosed Income.
- ❖ To Transform India to Cashless Economy.

Effect of demonetization on various Sectors variables

Sl. no	Sector	Impact
1.	Auto mobiles	Marginally negative
2.	Banks & NBFs	Neutral
3.	Steel	Marginally negative
4.	Retailing	Mostly positive
5.	Consumer durables	Neutral
6.	Cement	Negative
7.	Jewelers	Highly negative
8.	Real estate	Highly negative

Research Methodology:

A structured undisguised questionnaire has been used as an instrument for data collection. Data regarding demographic details and their views about demonetization has been collected using multiple choice questions. For the various study parameters, statement has been framed and the respondents were asked to give ranks. Purposive and convenient sampling is used to collect data from 50 respondents from Bangalore. The sample respondents comprises of students, lecturers, house wives and professionals.

Objectives:

1. To analyze common man understanding on demonetization.
2. To explore the perceptions and opinions about demonetization.

Empirical analysis and interpretations

Table -1

Opinion about Demonetization

Sl. No	Statements	yes	%	No	%	NI	%
1.	Favour of Demonetization	21	42	27	54	2	4
2.	Cash less economy possible	16	32	26	52	8	16
3.	Purchasing power has increased	11	22	27	54	12	24
4.	Help in economic development	18	36	24	48	8	16
5.	Prices of essentials come down	7	14	38	76	5	10
6.	Liquid cash is more risky	23	46	15	30	12	24
7.	Govt., forcing Digitalization	29	58	4	8	17	34
8.	Bold move of govt.,	23	46	7	14	20	40

Source: Compiled from primary data

It is clear from the above table that 54% of the sample respondents are against the Demonetization and 52% of them expressed that cashless economy is not possible. Finance Minister said that it would clean completely the economic system, increase the size of economy and revenue base. But the study reveals that 54% of the respondents are of the opinion that purchasing power does not increased due Demonetization. 48% of the respondents expressed that Demonetization is not in favour of country's economic development.

76% of the sample respondents said that prices of essentials have not come down due to Demonetization. 46% has agreed that maintaining liquid cash is more risky than investment. 58% of them felt that government is forcing us to move to digitalization without proper infrastructural platform. 46% of the respondents have expressed that indelible mark in the history of Indian Economy, and it is the bold step towards transforming India to Digital India.

Table -2
Purpose of Demonetization

Reasons	RANK-I	RANK-II	RANK-III	RANK-IV
<i>Cash less Economy</i>	10	24	24	2
<i>Eradication of black money</i>	14	11	11	3
<i>Root out corruption</i>	13	15	15	13
<i>Digitalization</i>	13	0	0	32

Source: Compiled from primary data

The above table it is evident that Eradication of Black Money, Rooting out corruption in all forms, and moving towards digitalization is ranked as I, II, III, IV as the main objective of Demonetization.

Class of people	Ranks -I	% VALUE	Ranks-II	% VALUE	RANK-III	% VALUE	RANK-IV	% VALUE
POOR	38	76%	10	20%	0	0%	2	4%
MIDDLE CLASS	10	20%	38	76%	2	4%	0	0%
UPPER CLASS	0	0%	2	4%	45	90%	3	6%
RICH PEOPLE	2	4%	0	0%	3	6%	45	90%

Table -3

Impact of Demonetization on various classes of people

source: Compiled from primary data

It creates inconvenience in the daily life of the commoner in the process of hitting the black money holders. The above table is evident that 76% of the sample respondents have said that poor people suffered a lot than any other class of people in the economy. It is noted that upper class people are not caught in the turbine of demonetization.

Table -4

Effects on various sections of the society

Affected people	RANK- I	RANK- II	RANK- III	RANK- IV
Politicians	17	7	2	24
Industrialists	10	19	17	4
Service providers	13	10	18	9
Common people	10	14	13	13

Source: Compiled from primary data

The above table is an instance that politicians hoard maximum amount of unaccounted money, which cause set back in government process in removal of high value legal tender. Hence politicians are ranked first in the eyes of the common people.

Charts showing overall impact on demonetization

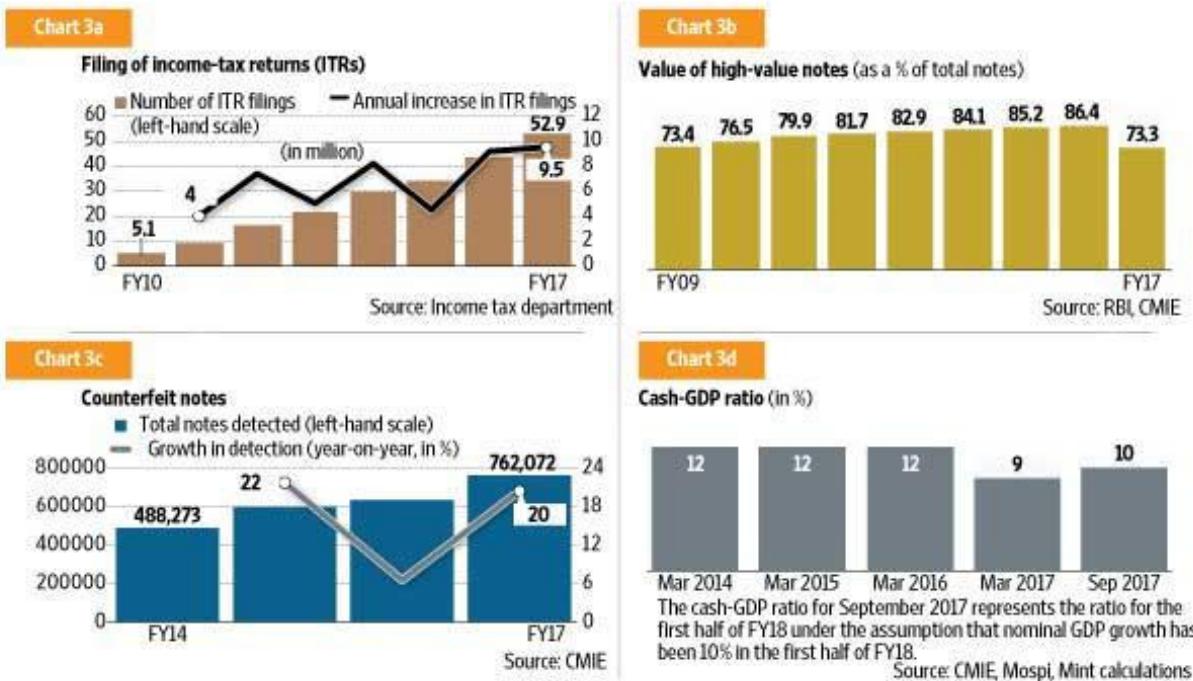


Table -5
 Various Forms of Black Money

Forms	RANK- I	RANK-II	RANK-III	RANK-IV
Cash	1	33	7	9
Gold	9	8	23	10
Real Estate	16	9	11	14
Foreign Currency	24	0	9	17

Source: from primary data

The above table shows the presence of Black money in various forms. 48% of the Respondents have expressed that the black money exist in the form of foreign exchange reserves and just 2% of respondents claim that it in the form of hard currency. 32% of people believe that black money is invested in real estate. Only 18% of them said that unaccounted money is converted in to gold.

Table-6

Beneficiaries of Demonetization

Beneficiaries	RANK- I	RANK-II	RANK-III	RANK-IV
Politicians	18	8	6	18
Industrialists	0	32	18	0
Service providers	9	10	20	11
Common people	23	0	6	21

Source: compiled from primary data

Common people are most affected with this move, but the table depicts they are the major beneficiaries of this act. They were prized for their tolerance, and acceptance at large. Government opened lottery system to the public to use wallet and Cash discounts on usage of cards into their day to day transactions. Poor people for the first time brought into the main stream of core banking system. Net banking was made access to all and KYC norms were diluted. These are the benefits enjoyed by the people due to demonetization.

Findings:

1. 54% of the sample respondents are against the Demonetization and 52% of them expressed that cashless economy is not fully possible, but leads to less cash economy.
2. 58% of them felt that government directly forcing common people to adopt digitalization.
3. 46% of the respondents have expressed that it is a indelible mark in the history of Indian Economy.
4. Study group have expressed corruption can be curbed by Demonetization.
5. Study reveals that the upper class people are not caught in the turbine of demonetization.

6. This effect occurred as a nightmare to the Politicians.

Suggestions:

1. The Study suggests the government has to assure the people of this country a long term gain for the short term pain suffered.
2. The Big Push should be given to underprivileged to make cashless economy through digital medium
4. The government has to implement simpler steps to adopt digitalization at ease.
5. Threshold limit to be fixed beyond which transactions should never be done in cash.
6. Government has to spread awareness on the benefits of adopting digitalization in all walks of life.
7. Quoting of Aadhaar and PAN number for all transactions must be made mandatory.
8. Government should take stringent action against circulation of counterfeit currency

Conclusion:

Demonetization had a great impact on our economy as well as on the social life of the people. Our economy is more dependent on cash, only less than half of the population uses banking system. This effort of government had a multi disciplinary effect on banking system. The change was inevitable to the banks to promote online mode of transactions.

The one big promise of demonetization was a rapid expansion in the tax base but the actual results have been quite modest. Another stated aim of demonetization was to detect and eliminate counterfeit notes. The growth in detected counterfeit notes after demonetization has not been unusually large.

Demonetisation did provide a boost to non-cash payments in the short term but that effect may be waning, with the cash-to-GDP ratio back to double-digits. There seems to have been some. The proportion of high-value notes (Rs500 and above)—often viewed as conduits of black money—has also been rising as new notes have entered the system.

The study reveals that majority of the respondents are against demonetization. Most of the people explicitly agreed that cash less economy is not possible but it will pave a way to less-cash economy in future. The Ministry of Finance said this process would completely drive out black money and clean the economic system and it leads to increase the size of economy by capturing the flow of money through Digitalization.

The findings of the study indicate that proper measures have to be taken before implementing fiscal and monetary policies. Study reveals that there was no reduction in prices of essential commodities instead there was acute shortage of hard currencies. It indicates that people prefer to hold hard currency rather than in any other forms. People suggest that most of the black money is kept in the form of foreign currencies. It implies that Government has to be vigilant on foreign currency transactions in future. On a whole the research finds that people have acknowledged demonetization as a bold decision in changing the face of Indian economy in terms of curbing black money.

