



Demonetization and the poor strata of society

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Abstract

Demonetization is the process in which a particular currency or valuable mineral is degraded as a legal tender. The Indian economy was faced with short term shocks in demand for goods and services, cash crunch and cash hunt. This occurred upon government announcement of demonetization as a measure to deal with issues of black money, counterfeit money, tax evasion, corruption and terrorism. The Reserve Bank of India subsequently issued Rs.2000 notes and new notes of Rs.500 into circulation from 10th November, 2016 but was short in supply. The supply and circulation of smaller denominations such as Rs.100, Rs.50, Rs.20, Rs.10 and the use of payment systems (i.e. Paytm) were not enough to absorb these tremors. The demonetization did not only impact the working class and the firms negatively but severely increased the woes of the poor strata in the society. The poor strata as the name suggest refers to a section of the population who do menial jobs in both formal and informal sectors of the economy.

The formal sector encompasses registered or licensed businesses and corporations.

These include public traded companies and businesses which file tax return such as sales tax, income tax, corporate tax etc. The workers in this sector are recognized by law and are provided security and legal protections. These organizations can sue and be sued since they are separate legal entities.

The decision of demonetization did not only impacted the working class and the firms negatively but severely increased the woes of the poor strata in the society. The poor strata as the name suggest refers to the section of a population who do menial jobs in both formal and informal sectors of the economy. The author of this current write-up uses a lot of observation and personal experience and both formal and informal interaction among those people in the academia and the labour class on Lovely Professional University Campus.

Keywords: demonetization, poor strata, society, labour class

Introduction

India is the Asia's third largest economy and also the fastest growing economy in the world. Since 1946, India has demonetized its currency for three times. The first of its kind happened in 12th June, 1946, followed by 16th January, 1978 and 8th November, 2016 respectively.

The purpose of this write-up is to identify the impact of the demonetization on the poor strata of the society. The majority of the poor strata of the society dwell in the rural area and are mostly subsistence agricultural farmers and also labourers in the formal sectors of the economy. The knowledge on the poor strata is important for both management and economic decisions and development.

Monetization refers to the injection of money either through fiscal policies and capital expenditure by the Government or through the issue of currency notes by the central bank and the creation of credit by the financial systems. Monetization is intended to increase the amount of money in circulation in order to boost productivity, employment, consumption and investment.

However, Demonetization is a partial or total withdrawal of currency notes in circulation and render them unacceptable or illegal tender. The overnight decision by Indian Government to withdraw high currency notes of Rs. 1000 and Rs. 500 respectively sent shocks across India and beyond. The timing

involved made it practically difficult for holders of black money to make adjustment and convert it into white money. It also put stress on those who intended to withdraw cash immediately since there was only a daily ATM withdrawal limit of Rs.2000. Whereas the Rs. 100 was subsequently short in supply.

These high currency notes represented 86 per cent of the currency in circulation. Demonetization brought economic slowdown since private consumption decreased, which led to a drop in the GDP growth. In the agricultural sector, prices of farm produced fell since few cash were in circulation. Thus, farmers were impacted negatively. The poor strata that are depending on agriculture as their major source of livelihood were impoverished, since they faced a sizeable proportion of the demonetization burden, the labourer class who also form part of the poor strata in the society also experience negative effect of this cash crunch.

The Government to uncover black-money also launched voluntary disclosure scheme in 1975, which attracted no sanctions on the people who disclosed black-money voluntarily. The Government issued a ten year 'bearer bonds' which had a face value of Rs. 10,000 each. The bond was accompanied with an ordinance which gave them a shield of immunity from prosecution and disclosure of the source they generated those income for investment. However, the Swiss

Bankers Association have disclosed an estimate one trillion USD of Indians black money which is in various bank accounts in Switzerland. This means that most of this black money is not only stored in rupees but also in various international currencies which makes the war against it unsuccessful.

Political parties and various sections of the populace seemed divided on the subject matter. The purpose of the current demonetization exercise was intended to eradicate the black money, counterfeit currency, tax evasion, cross border terrorism and adopt cashless economy in order to streamline economic activities and build a more robust economy.

Meanwhile, others believed that the decision of withdrawing the high currency notes from circulation was needless and was politically motivated in wake of the assembly elections which was due in some states, mainly UP. Additionally, they also believed the decision of demonetization was far from the reality on the ground, thus not going to obtain any substantial result.

Literature Review

Jain (2006) ^[4] in his article “E-payments and e-banking” pointed out that e-payments would be able to check black. He analyzed the growth pattern of cashless transaction system. He emphasized that technological dividend of India would ease payment and remittance burdens and also facilitate rapid and optimal use of available funds at banks, financial institutions, business and the entire citizenry. The Prime Minister Narendra Modi on the last day of demonetization, 30th December, 2016 announced the BHIM mobile app in support of the move towards cashless economy.

Kumar, P. (2016) ^[7] evaluated the shock of the last year’s demonetization in relation to the labour market in India. He cited the Report on Fifth Annual Employment and Unemployment Survey (2015-16), in his discussion. It was established that households representing 20per cent with monthly income less than or equal to Rs. 10,000 have bank account. The survey depicted that the workers who belong to this income group are poor strata. Thus, would face burdens propagated by the just ended demonetization.

Kapur (2015) ^[6] examined the impact of black money on Indian economy, found that Government have undertaken many measures to eradicate the black economy and tax evasion. He depicted that Government enacted tax laws (Amendment) Act, 1975 upon the recommendation of Wanchoo Committee. This act aimed at preventing tax evasion and tax avoidance, black money, reduction in tax arrears through administrative and legal systems. This was supported with the setting up of Income Tax Settlement Commission, to serve as an alternative dispute resolution body.

Sinha and Rai (2015) ^[13] asserted in their examination of the aftermath of demonetization in the rural population, took into consideration a data provided by census 2011 and Reserve Bank of India Banking Statistics which depicts a vast difference between urban and rural population in relation to the banking networks throughout the country. However, Government made some effort to make Rs.100 currency notes available to the rural communities but that could not reduce their predicaments during the period of demonetization.

ASI (2010-11), estimated that fifth of 32 million people employed in the textile and garment sector, are daily wage earners. Policies which cause output to fall increases their cost of living and decrease their welfare since producers are rationale. The heavy burden of the demonetization does not only have an impact on the rich and the firms. The situation seems normalized after 30th December, 2016 due to effective monetization by Reserve Bank of India.

Ashish and Agarwal (2010) ^[2] in their article “Cashless Payment System in India- A Roadmap” stipulated that Government had initiated plans to integrate the parallel economy by way of introducing cashless payment systems like the BHIM mobile app developed by the National Payment Corporation of India (NPCI). The existing payment platform such as Paytm also saw a tremendous patronage across the entire country. The move away from cash-based towards a cashless (electronic) payment system would trim down cost of issuing currency and track each transaction. It would also check tax avoidance and fraudulent transactions.

Alvares and Clifford (2009) according to their report examined the problems regarding fake currency in India. The researchers indicated that India’s fight to eliminate counterfeit currency has not been easier and many counterfeit are hidden no matter the type of mechanism employed. It was confirmed that security futures embedded in the currency notes are being flouted up till now and has made it difficult to identify counterfeit money in circulation. The Indian Government in an attempt to resolve this situation issued Rs.2000 notes with more security features together with newly designed Rs.500 notes.

Acharya and Associates (1985) ^[1] in their analysis of “aspects of black economy in India”, pointed out that demonetization and voluntary disclosure schemes were unsuccessful to checking the generation of black money. The researchers suggested that there should be reduction in tax rates, simplification of tax structure, strict enforcement of law and punishment to tax evaders so as to eradicate the menace of black money. However, up till now black economy is still expanding.

Methodology

The purpose of this report is to examine the impact of demonetization on the poor strata in the society. Several online articles, journals and reports were reviewed to shed light on the success and challenges arising out of demonetization in the last decades. The experience and details in this paper is centered around India demonetization which started on 8th November, 2016 and ended on 30th December, 2016. In order to enhance the understanding of the subject matter and draw conclusions for this paper the author of this current paper made a lot of interactions and informal interview with the citizens during the implementation of demonetization in India. The main target of this write-up is toward the poor strata in society. However, the author also tapped the academicians and the labour class in Lovely Professional University views on the topic. The author through personal experience and observation also was able to ascertain the stress and how much time is at the ATM and the shortage of cash in circulation. This lead to payment challenges ranging from health, education, food and so on.

Expectation

Bank deposit increased due to Demonetization. The banks can create more credit thereby increasing the productivity. Thus, employment and consumption would increase. The net effect would lead to GDP growth subsequently. This would boost investor confidence and increase foreign direct investment.

Global Recap

Demonetization is a comprehensive policy to be adopted; countries which embarked on demonetization faced a lot of economic tremors. The table.1 below depicts the impact of demonetization on some economies and the reasons for failure. The rationale behind demonization is good but give rise to a lot of economic hardship when implementation fails.

Table 1: Countries which implemented demonetization earlier and the impact.

Serial No.	Country	Year	Economic Effect	Reason for failure
1	Ghana	1982	Made Economic Weak and Unsuccessful	People support for black market and investment in physical assets.
2	Nigeria	1984	Economy collapsed, Unsuccessful	Debt-ridden and inflation did not take change well.
3	Myanmar	1987	Unsuccessful	Led to mass protest resulting in killing of many people.
4	Soviet Union	1991	Unsuccessful	People did not take change positively due to poor harvest.
5	Australia	1996	No side effects	As the purpose was only to replace paper with plastic.
6	North Korea	2010	Weaked economy, unsuccessful	People left with no food and shelter
7	Zimbabwe	2015	Weaked economy, unsuccessful	Face value % 100 trillion dollars dropped to \$0.5 dollar.
8	Pakistan	Dec-16	Cannot be predicted	As the people have ample time to get their note exchanged.

Source: IJRESS

The impact on earnings of the poor strata

The informal sector population depends largely on cash transactions. They are daily wage workers and can be found in both urban and rural communities, they have high dependency on cash transactions and could not take advantage of the payment systems that were introduced such as Paytm. Their sources of earnings were affected negatively since they are

daily wage workers and were spending much of their time on long queue at the ATMs. Also, employers were going through liquidity crunch they find it difficult to clear their checks and any amount of withdrawals they wanted to make. They temporary became unemployed which reduced the level of living standard and welfare. They made huge sacrifice towards the projected economic prosperity of India.

Table 2: Rural and urban branches of banks at glance.

Group	Population (Crore)	Branches (Crore)	Per Branch Population (Thousand)	Share Of Deposits	Share Of Advances
Rural	83(68)	34(37)	24	9%	8%
Urban	38(32)	59(63)	6	91%	92%
Total	121	93	13	100%	100%

Source: Census 2011 & RBI Banking Statistics handout Dec' 11

Recommendations

Demonetization is a big exercise and there have been a lot of difficulties in the implementation. The government had to make some tradeoffs between keeping the secrecy of the mission vs. consulting all stakeholders and creating a full proof implementation plan and some showed clearly as we saw the execution challenges.

From the results of our study we came up with some recommendations for the implementation of demonetization, as follows:

- Printing of new notes in advance as printing of notes is standard procedure so secrecy could still be protected.
- Printing of smaller denomination currency notes before the implementation to help the common man when the announcement is made.
- Supplying support to shop owners in the form of card machines in order to promote the use of plastic money.
- Accounting for the poor strata by providing more ATM's or Banking facilities in their local areas.
- Providing a higher withdraw limit so that people don't need to frequently visit ATM's or banks frequently and spend hours or end up in long queues instead of being more productive.

- Setting up mobile camps in which locals can go and exchange their currency instead of having to travel very far to change their currency.

Conclusion

Demonetization was an ambitious step taken by the government for the good of the people in the sense that it was set up to counter multiple economic problems such as black money, counterfeit notes, terrorism and in some sense encourage a cashless economy with the main motive of curbing black money. There is definitely a need to hit black money. It has real costs, many of them on equity as well as on growth. Some part of demonetization measure was punitive and had collateral damage. A major concern is that demonetization does not eradicate black money; it only cleans it up for one time and basically starts it all over again. It does not solve the root cause. Furthermore, it is very difficult to confirm whether or not demonetization would be a success or failure. Now, the impact on the entire economy and the wellbeing of the people can fully be assessed in the long run. However, from the observation on the poor strata we can vividly say that demonetization really impacted the poor strata negatively

during the implementation period. There were plenty flaws in the implementation of demonetization that affected the target area, which is the poor strata in society.

The main concern was liquidity, which was represented by several questions, which pointed to few ATM's and banking facilities in the rural areas which was making life extremely difficult due to the long queues on ATMs and banks. This could have been resolved if government had provided additional schemes to inject liquidity into the rural areas such as mobile camps in various societies where they are lacking.

Finally, the overall experience of the poor strata was bad but they were of the view that demonetization was a good move to crush down the black economy and make the whole Indian economy more productive and robust in the long run.

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