

# The Impact of Demonetization on India and Indians<sup>©</sup>

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● **Abstract:** *The government of India took a bold decision of Demonetization on 08/11/2016. In this research I have utilized the opinions of general public and few economists and rational people. This study will help us to understand the thinking of the public about the Demonetization and to understand the positive and negative Impact of Demonetization in India it will also give some insight about some less discussed issues related to the impact of demonetization.*

● **Keywords:** Demonetization, Black money, Government, Cashless system, Financial strategy.

## 1. Introduction:

### 1.1 Rationale of research

- In order to know whether the Indians are in favor of this decision of the currently ruling government or not.
- In order to know the conditions of all the classes of people of India during the period of demonetization and how did it affect the daily routine of Indian people and related functioning.
- In order to know the positive and negative impact of demonetization on Indian economy and business.
- In order to know the opinions and reactions of Indian businessmen, economists, politicians and financial experts.

### 1.2 Scope of Research:

- Demonetization is one of the biggest and the most critical steps taken by any ruling governments of India ever to recover black money.
- The research has been conducted to understand the actual effect of the demonetization through which one will able to know the overall effect on people and economy of the India.
- This research will help the Indian citizens and businessmen of small enterprise to know the basic impact on their daily transactions so that they can plan accordingly about their budget for any given period of time in future.
- This research will give the idea about the changes in the financial functioning of the India including the various sectors like Banking Sector, Revenue Department, Direct and Indirect Taxes Department (CBDT & CBEC) etc.

## 2. Literature Survey:

### 2.1 Definitions of demonetization:

- Demonetization means Withdrawal of a particular form of currency from circulation. (Businessdictionary, 2017)
- Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. (Investopedia, 2017)

- Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation. (ImportantIndia, 2017)

### 2.2 Meaning of Demonetization:

- The governments of the respective countries formulate the financial strategies and policies for the economic growth of the country. Most of the times when a lot of black money circulates in the economy of the country which is unaccounted for because the sources of income are not known to the government. It can be money generated through illegal trade or unauthorized funding. To remove this money out of circulation, the government can take the steps like demonetization so that the money holders are forced to deposit the cash with the banks or lose their wealth. It is a strategy that has worked effectively in few countries.
- Demonetization can also be referred to as the process of moving people from a cash-based system to a cashless system (digital system). (ImportantIndia.com, 2017). The cashless system (digital system) can be achieved with the help of technologies like electronic and mobile payment methods.
- By keeping hard cash people can easily evade taxes, which is a harmful practice for an economy of any country. Keeping cash out of the bank accounts also reduces the deposits with the banks and financial institutions. It means that the government has to borrow the funds from external sources like World Bank & IMF etc. which leads to increase the national debt. The economic impacts of which are many and severe. Moving people to a cashless system is, therefore, a favorable economic policy for any country.
- The management of process demonetization is very important. If it managed well it can be beneficial in terms of economically as well as socially, like it can reduce inflation, improve the economy, and result in financial behavior change among citizens. However, if not managed well, it may cause a lot of economic trouble to the people.
- How the process is managed in the best way determines its effects on the economy of a country.

### 2.3 Brief history of Demonetization in India:

- The India has already gone through the situation of demonetization twice before Nov.8, 2016. Firstly in the year of 1946 and secondly in the year of 1978.
- The first was when Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation in January 1946, a year and a half before the country won independence from the British. The Rs10,000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938.
- All three notes were reintroduced in 1954.
- In the early '70s, the Wanchoo committee, a direct tax inquiry committee set up by the government, suggested demonetization as a measure to abolish the existence of black money.
- Then, in 1977, the Janata Party coalition government came into power. A year into the government's term, party leader Morarji Desai was more bullish about cracking down on counterfeits and black money. The High Denomination Bank Notes (Demonetization) Act, instated by the ruling party on Jan. 16, 1978, deemed the Rs. 1000, Rs 5000 and Rs10,000 notes illegal for the second time.

#### 2.4 Other studies on the 'Demonetization'

##### ▪ Article # 1 - The Demonetized Indian

"Indians are a resilient lot. By nature, we Indians, maybe have it in our blood to bounce back from shocks-natural and man-made and get on with things. On 9th of November, when the citizens of India- were told that the 500 and 1000 INR currency notes in their pockets will no longer continue to be legal tender, the entire country was in stun. The next few days that followed were long queues outside ATM's (banks were suddenly the most 'in demand' commodity); wage earners requested their bosses for short leave to tend to the same. The prime minister promised the citizens that the pain would last a few days and this was a bold move to tackle black money, corruption as well as counterfeit notes that terrorists use to cause mayhem in our country. The citizens were hopeful; people cooperated and stood outside banks in lines. Even those, the vast majority in villages, travelled miles to find a functioning ATM's. Many a times, when their turn would come, after hours of patiently waiting, the opportunity cost of a job they could be at, the ATM's would run out of " (Sahgal, V.,2017)

##### ▪ Article # 2 - 'Demonetization was a despotic act' said Amartya Sen (Nobel prize winner Indian Economist)

"The demonetization of currency was a despotic act as the government broke the promise of compensation that comes with a promissory note." "Demonetization goes against trust. It undermines the trust of entire economy,"

"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." (Sen, A., 2016)

##### ▪ Article # 3 - 'Useful step for flushing out black money' said Arvind Virmani (Economist and former Indian representative to the IMF)

"The manner in which it was implemented is not surprising - such actions are always secret till announced, so that insiders do not take advantage of the information at the cost of the outsiders," The Wire quoted Virmani as saying. 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 demonitize 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," (Virmani, A., 2016)

##### ▪ Article # 4 - "The biggest wild card in all of this, of course, is demonetization." Said Kartik Hosanagar (A professor in Wharton's department of operations, information and decisions)

The year 2017 has overall been "a good year" for India. But the biggest wild card is Demonetization. It is unclear how it will play out. But any impact on economic activity and GDP will be temporary, and the long term benefits such as an increase in cashless activity will be more permanent. (Hosanagar, K., 2017)

##### ▪ Article # 5 - Impact of Demonetization on Indian Society

"We shall see a great impact of this move of the Central Govt. 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 may be cheaper. Indian Currency may get respect at the international market. There may 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.

This big move will certainly 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." (Gupta, V., 2016)

### 3. Problem Definition:

- The Problems need to be concerned upon identified as follow:
- The research has been made till now on the topic of demonetization in India most of the respected researchers and paper presenters focused on the economic and the financial aspects of the phenomena. To some extent the discussion concerning the effects on the society as a whole has been made as well.
- But the questions raised in my mind:
  - What about the people died directly or indirectly due to demonetization in India?
  - What cost will be determined of each person who died?
  - What is the potential economic loss to the country due to the death of approximately 90 people which includes 7 to 10 boys and girls aged less than 20 years?
  - What monetary compensation is appropriate to fill the emotional gap of the family members of the diseased people?
- And many others this kind of question can be raised to the government and the rational people of India.
- It can be possible that the young persons who died in the phase of demonetization could have been the potential successful businessman, political leaders, economist etc. that we never know. So that the loss of those people ultimately the future economic loss to the country.
- Few of the people died because of delay in medical attention in private hospitals because their relative had old currency notes to pay, and few of those people died due to standing in long queues without any basic facilities around.

### 4. Research Methodology:

- This is an Exploratory Research to gain the further insight in the subject of demonetization impact in India and its various effects in various areas.

#### 4.1 Sources of Information:

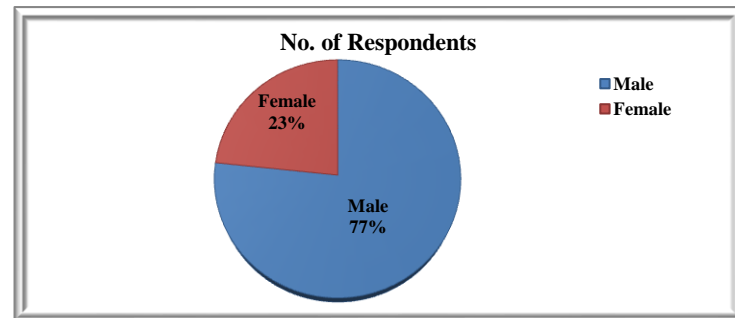
- **Primary Source:** Sample Survey.
- **Secondary Sources:** Online articles, Interviews, Opinions of rational people working in the related area of study.
- **Sample size of Survey:** 30 Persons.
- **Sampling Unit:** State of Gujarat
- **Sampling Technique:** Convenient Sampling.

### 5. Analysis of the Research (Based on the Survey)

- The survey has been conducted on 30 persons (100%) the following analysis are in the proportion of the same:

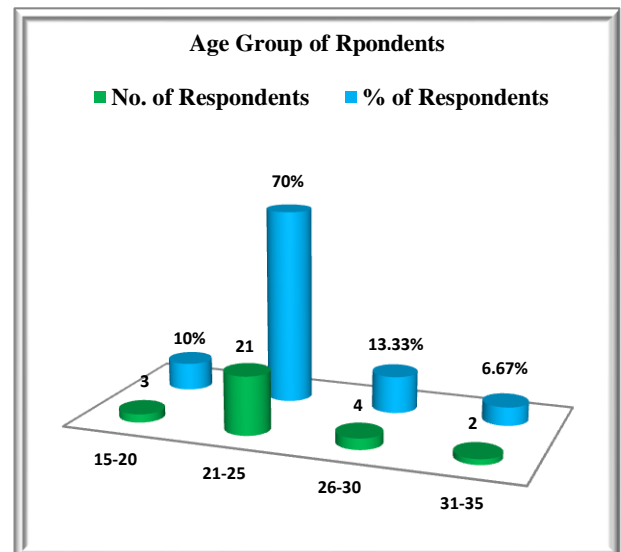
#### 5.1 Demographical Analysis:

##### a) Gender



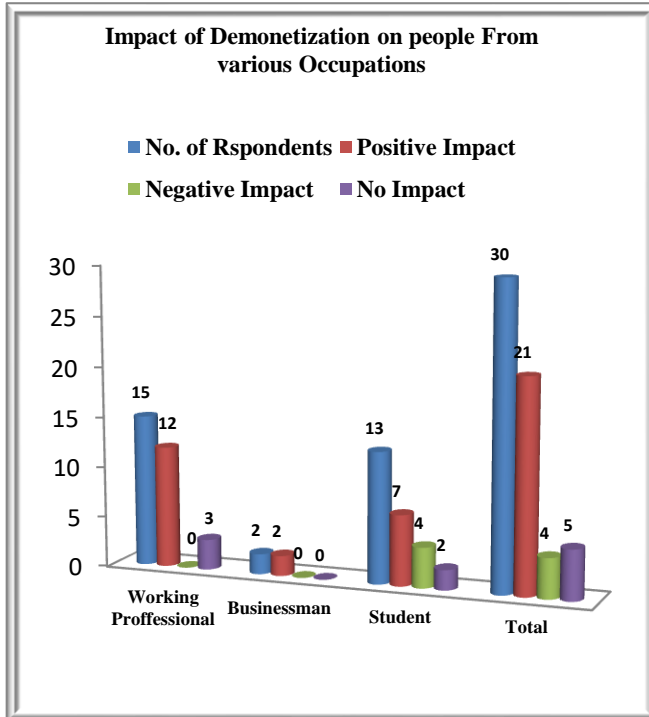
- The most important demographic element is gender.
- In this survey total no. of samples (respondents) are 30, amongst which 23 are male and 7 are female.
- Which are in terms of percentage 77% and 23% respectively.

##### b) Age Group



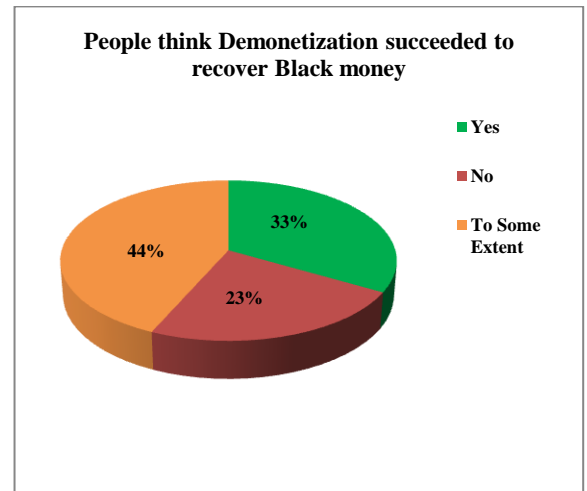
- Age group is another demographic element for this survey.
- The classes of age groups are divided into 15-20 years, 21-25 years, 26-30 years and 31-35 years.
- The highest no. of respondents are in the age group of 21-25 years which is 70% and the lowest no. of respondents are in 31-35 years which is 6.67% it shows that the age group of 21-25 years are more interested to give their opinion in this survey.

### 5.2 Impact of Demonetization on People From various Occupations:



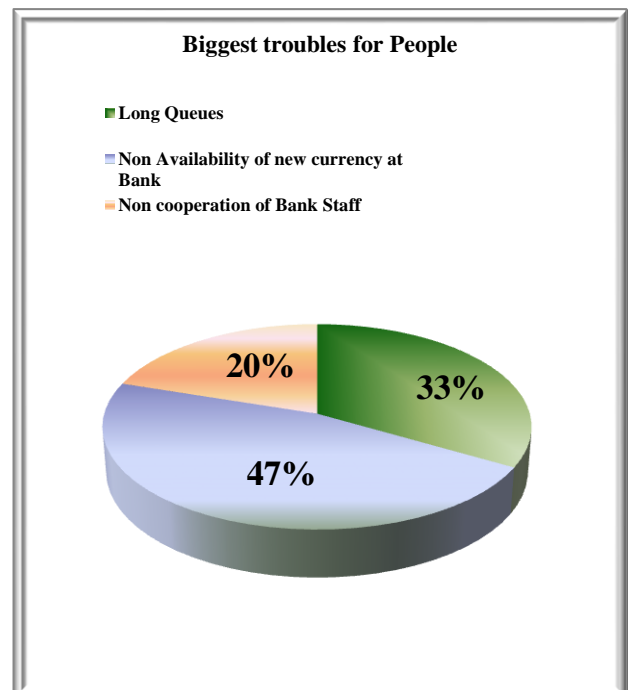
- In this survey I have asked tow questions (1) what is your Occupation? And (2) what is the Impact of Demonetization on your daily financial transactions? To know that the impact of demonetization on the financial transactions of people from various occupations.
- From the above chart we can conclude that out of 15 working professionals 12 thinks that the impact is positive and only two thinks that it has no impact on their financial transactions.
- If we see the total analysis of survey we can conclude that out of 30 people 21 people thinks that demonetization has positive impact, 4 people thinks that it has negative impact and rest 5 people thinks that it has no impact on their financial transactions.

### 5.3 People thinks Demonetization has succeeded to recover Black money:



- From the above pie chart we can see that 33% of people think that Demonetization has succeeded to recover black money.
- 44% of people think that the black money has been recovered to some extent, and only 23% of people think that it has not succeeded to recover black money.
- From this we can conclude that people believes that the black money has been recovered due to demonetization.
- And the initiative of the government to recover the black money is being favored by people.

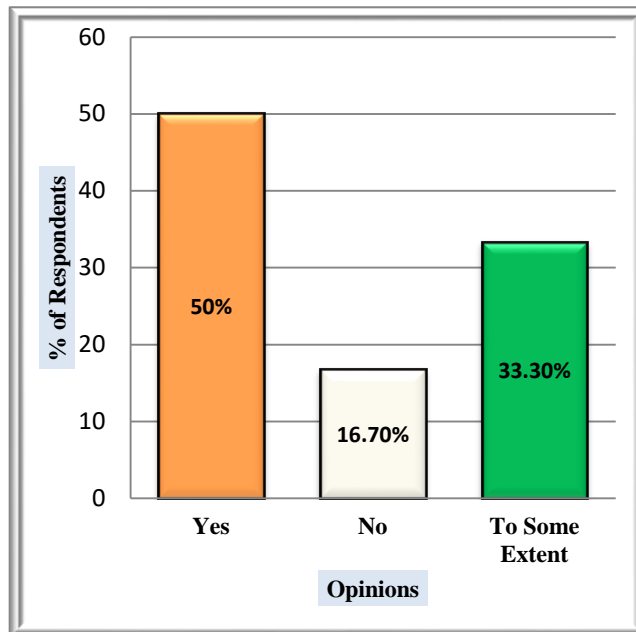
### 5.4 Biggest troubles they had faced during Demonetization:



- From the above pie chart we can see that there are several major troubles were prevailing like long queues in front of Banks, Non availability of new currency at bank, and Non cooperation of bank staff.

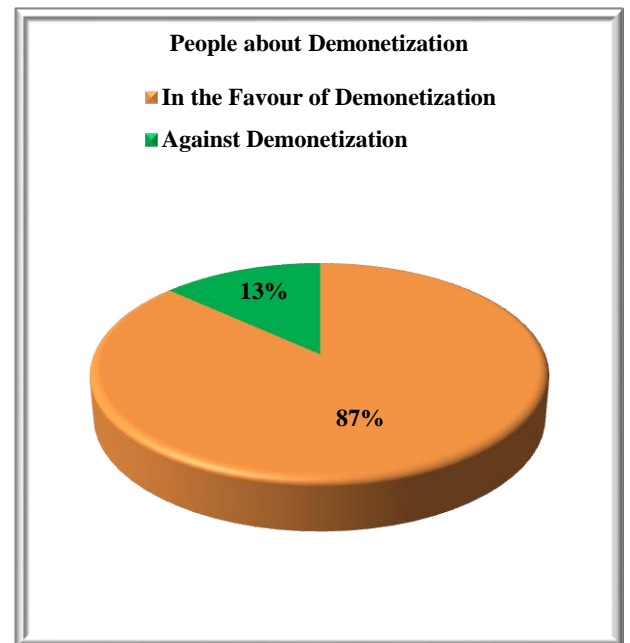
- The responses pertaining to that reflect that most of the people i.e. 47% suffered from non availability of cash at bank.
- 20% and 33% people respond that the biggest troubles for them were non cooperation of bank staff and long queues in front of banks respectively.
- From these responses we can conclude that the non availability of new currency with banks was the biggest trouble for the people.

### 5.5 People think Indian Economy Improved due to various decisions of the current government:



- The above bar chart shows the responses to the question “Do you think Indian Economy has improved due to the various decisions of the contemporary government?”
- 50% of the respondents replied that the Indian Economy has improved due to the decisions of the current government
- And 33.30% respondents think that the Indian economy improved to some extent and 16.70% respondents replied that the Indian economy has not improved.
- But the positive replies are far more in comparison to the negative one.

### 5.6 People in the favor of Demonetization:



- The most important and most precise question of my survey to the respondents is “Do you in the favor of Demonetization?”
- The above pie chart gives the answer to my question that 87% of the respondents are in the favor of Demonetization and 13% of the respondents are against of Demonetization.
- From the above responses we can conclude that the numbers of optimistic people are far more than the pessimistic people about Demonetization.

## 6. Findings of the Research:

- From this research it has been found out that people are more interested in the growth of India as a whole apart from their personal growth.
- People think that demonetization is an effective step taken by the contemporary government to strike out the existence of Black money from circulation of Indian economy.
- All the rational people and thinkers are more focused and concerned about the financial and economical impact of demonetization only but forgetting the social and socio economical impact of the same.
- Socio economical impact hereby mean the people died due to the demonetization include young boys and girls who could have been the potential tax payers of India and they could have been contributed in the GDP of the country if they were alive.
- People nowadays are fond of Electronic transactions rather than physical one. They find the electronic mode more convenient and time saving.
- Despite facing troubles like long queues in front of banks, non availability if new currency at bank, non cooperation of bank staff etc. during the period of Demonetization, most of the people still in the favor of Demonetization.
- It was found that initially when the Demonetization was being put in to application i.e from 9th November, 2016 (It was announced on 8th November, 2016 at IST 20:15) to until the old currency notes was being exchanged by the people with the new one i.e till 30th December, 2016 people suffered from

trouble by the time it comes to the routine as far as the general public is concerned.

## 7. Conclusion of Research:

- From this research it has been concluded that Indians are more tolerant in terms of the application of any new event by the government of India. During demonetization people had initially protested demonetization but by the time of 10 to 15 days they had accepted the fact that they had to comply with the decision of the government to take a chance to contribute to the Corruption and Black money free economy of India.
- If we refer the opinions of some well known Indian economists according to them the demonetization is the biggest blunder of the BJP government even though it does not seem like, one of the initiatives of demonetization was cashless transactions which is being achieved to the very great extent and as far as the recovery of black money is concerned it also recovered to the fine extent i.e. approximately 15 Lac crores in old currency notes have been deposited even though it is not known how much of these currency are black money still it is a very large amount that has been deposited by Indians ever in the history of India.
- Whatever the success and black money has recovered with the help of Demonetization in India is the collective effort and patient Indian people, Bank staff and the government; no one can give credit to the BJP government only.

## 8. Recommendations:

- The Demonetization in India was not for the first time in the history of India as discussed earlier (Demonetization in 1946 & 1978) so it is not rational to troll the current government for that.
- The Indian government took the initiative of Demonetization for the welfare of the Indians and Indian economy. It is very convenient reason to appreciate the efforts of the government and as it would not have been possible without the cooperation of general public so that the government should obey their promise that they have made to the public.
- The critics of Demonetization should stop criticizing and blaming the government about their decision rather they should give suggestions to fix the problems they think that has arisen due to Demonetization.
- The government should formulate the policies to help the diseased persons that lost their lives due to Demonetization directly or indirectly.
- The government should make effective planning to handle the effects of these kinds of decision implementations for that they should formulate the special committee consist of experts from various sectors.
- The government should publish the data regarding the Demonetization to make aware the general public about the progress by way of general circulars, advertisements, hoardings etc. of the Demonetization.

## 9. Limitations during Research:

- The Geographical area of investigation is the state of Gujarat only.
- The sample size of survey is only 30 people, so that the charts and analysis is showing the responses given by the samples by filling up the survey form.
- The survey has been done through electronic way and not by personal conversation with respondents.
- The sampling technique used for the survey is convenient sampling which is the non-probability sampling technique.

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## Author's Profile



**Sagar Burse** received the BBA degree specialized in marketing from K.S School of Business Management, Gujarat University in 2016. Pursuing MBA in K.S School of Business Management, Gujarat University itself. Also cleared CA-CPT & CA-IPCC (Group-I) in June-2013 and May-2015 respectively. He completed 2 years of training at a Chartered Accountancy firm in Ahmedabad, Gujarat.