



## **Socio-Economic Impact of Demonetization on Society**

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### **Introduction:**

Currency system as a dominant economic source has a significant place in the economy of any country. Availability of currency and its use, types of currency, its security and control of government determine the form of economy of a country. Sound economy of any country accelerates its economic and social development. In reverse if a country has shortage of currency, black money, similar black economy, corruption, no control of government, the country could have many problems, questions and stops socio-economic process of development. The role of government policy is very important in the process of socio-economic changes. So far, in India the decision of demonetization has been declared thrice. The first demonetization declared on 12 July, 1946. In which out of R. 143.97 cr. Currency units R. 134.9 has been exchanged. The old currency units of R. 1000 and R. 10000 were replaced with a new currency unit of R. 1000, R. 5000, R. 10000. The demonetization took place in 1954. The second decision of demonetization has been taken place in the government of Janata national party. On 16 January, 1978 the old currency units of R. 1000, R. 5000, and R. 10,000 were replaced with a new currency units. The third demonetization declared in the government of Bhartiya Janata Party on 08 November, 2016 in which the old currency units R. 500 and R.1000 retired and a new currency unit of R. 500 and R. 2000 has been brought into currency.

### **The Concept of Demonetization**

“Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.” In other words: “It is radical financial step in which currency units status as a legal in declared invalid. This move is usually executed when old currencies have to be replaced by new one's or wherever there is a change of national currency. However, given the extent to which the project has to be executed, the move as to be well planed in advance. According to government's declaration,



demonetization means retiring old currency and introducing new currency units into use. Such demonetization is done giving easy system and certain period of time.

### **Purpose of Demonetization**

When the third declaration of demonetization announced by the Prime minister on 8 November, 2016, the following objectives were declared:

1. To eradicate fraud currency units from economy
2. To stop tax evasion
3. To control corruption and root it out
4. To stop supply of currency for terrorist and circulation of fraud currency by them

The above objectives of demonetization are seen to have considered by government. Though the step of demonetization took place to eradicate corruption, to bring out black money into economy, all transaction through banking, transparency of economic trade, to increase taxpayer and cashless transactions, the declaration has created many new problems in India. Though the demonetization was welcomed, it was considered that it should have solved the current problems. The present article attempts to explain the economic and social condition created by the demonetization. The article also tries to present economic and social positive-negative impact on farmer and their farm, laborer and farm laborer, small merchants, trader, service men, necessary service, marketplace, common people.

### **Impact on Agriculture and Farmer**

Agriculture is a backbone of Indian economy. Though the decision of demonetization as a long term solution to problems is important, the farmers currently are facing many problems. Indian agriculture has older problems such as no minimum price for farm products, no availability of market place, exploitation by traders, no pride for agriculture, in which the decision of demonetization rubbed salt on the older wound. The impact on agriculture and farmer of demonetization could be presented in summary form in the following ways.

1. The impact is seen in farmer's weekly market, retail market, and sale.
2. Common farmers are facing problems of selling their goods under minimum price in the market place.
3. Farmers were allowed to buy seeds, fertilizers and pesticides by old currency units by government, but the fact is that on the one side majority farmer do not have remnant old currency, on the other side traders are unresponsive to farmer's demand because of shortage of currency. So exploitation began.



4. Farmer's produced seeds, cotton and other production were bought by traders at two different prices such old currency and new currency. Traders provided farmer's cheque after one or two month later because of shortage currency. As result market price deliberately reduced to new currency, in a way farmer were exploited.
5. Mass media covered news of withdrawal limit from bank, cashless bank, and postponement of marriage date. In exceptional case marriage took place offering only tea to guest of bridegroom.
6. In terms of Credit/Debit card, Net Banking, Cheque farmers are seen rather unaware. Small farmers prefer cash transaction. On one hand farmers are unable to get sufficient currency from bank, on the other trader's exploitations, computer illiteracy, shortage of currency. As result farmers are caught into scissors.

### **Impact on Merchant Class**

Positive and negative impact of demonetization in among merchants is seen. The class of merchants can be divided into two classes: big and small. When observed the following impact on both classes is displayed:

1. It is seen that the decision of demonetization of government and a new currency of R. 2000 has in large been exploited by big/wholesaler dealer. When the old currency of R. 500 and R. 1000 retired, the currency of R. 100 increased, in such situation wholesaler with vested interested group deliberately shared the stock of the currency R. 100, which resulted in uncountable problems.
2. The large impact of demonetization is seen on small merchants, shopkeeper. The new currency of R 2000 and its exchange affected small scale of customers.
3. Big merchant deliberately forced customers to buy more goods saying shortage of currency exchange for currency R. 2000.
4. Merchants started giving cheques to farmers for their buying grains instead of cash payment. Further, farmer faced problem of withdrawal limit from bank. In a way farmer find themselves in trouble.
5. Big merchant with their shared interest in bankers on the basis of commission occasionally exchanged the old currency into new currency which resulted in shortage of currency in commerce.

### **Impact on Fundamental Service:**

Almost all fundamental services are seen affected by the decision of demonetization. The government allowed special concession on Medical services, Medical shop, Gas, Rail



Service, Air Service, Petrol Pump services. Special services like transactions in old currency were allowed for filling House tax, Water tax, Electricity Bill. Further, the following ways the impact is seen on necessary services.

1. Although government's frequent JR allowed hospitals to receive the old currency to pay bill, the management was seen to have disobeyed it denying old currency and demanded new currency which resulted in increasing the more trouble for patients, their relatives and families.
2. On the one hand patients in hospital, family negligence and on the other hand municipalities became prosperity because people filled year's arrears of house tax and water tax for which they used the old currency. Those who pay bills above R. 50,000 were recorded by government to inquire further.
3. Exploitation and fraud case were seen at petrol pump which were allowed to receive the old currency by government. Common people forced to fill petrol of Rs 500 and Rs 1000 and sometimes owner of the petrol were illegally caught exchanging the old currency into new currency. The same also happened in rail way stations.

### **Impact on Common People**

The biggest impact of demonetization seems to have on the common people. It is frequently said by government that the decision of demonetization is to bring out black money into economy, to bring transparency in trade, to stop fraud money from neighbor nations. It is imprinted in common people by the media that they supported demonetization. The opposition party insisted on various problems such as unnecessary of demonetization, delay of availability currency. From the announcement of demonetization on 08 November, 2016 to the date 22 December 2016 in the period of 45 days the government has published 65 JR which created doubts in the minds of people. The effects on the common people attempted to pin out in the following ways.

1. Even though government determined ample time to exchange old currency to new one, people remained in queue in bank. People had no other options
2. Almost ATM services were in not working position. Where it was open only R 2000 withdrawal was allowed by the bank. People were seen waiting hour-in-hours in queue in front of ATMs.
3. Though there was not limit to deposit old currency into bank account, but there was a certain limit to withdrawal of it, so people faced many problems.



4. People were given the new currency of R 2000 by banks who find trapped even greater for exchange of it in market place because the shortage of currency of R100.
5. Demonetization impacted on marketplace extensively. On the one hand shortage of exchange currency created a picture of saving, but on the other hand small shopkeeper were greatly affected and remained seating in their shop without customers.
6. Some rich people managed Jan Dhan saving account by giving commission to the account holder even though the limit of deposit. Until such saving account collected around Rs. 72 cr. In this case UP and West Bangal are in first rank.
7. Illegal cases of exchanges of old currency to new currency were seen in some banks and central government's post offices where the staff was involved. For example, Nashik District Bank within one day exchanged R. 47 cr. In this way it impacted on common people.
8. Demonetization and limit of withdrawal of currency from bank hindered people to postpone their marriage program dates.
9. Exchanges of illegal currency on commission based such as 20% or 25% were seen in weekly market places. Such cases created doubts in people's mind.
10. According to media report waiting of hour-in-hour in queue in front of ATMs and banks sacrificed 27 people's life. These people were common people.
11. Bank workers found in distress and sometimes in tit-for-tat situation because of excessive workload which resulted in increase people difficulty.

### **Impact on Servicemen**

Servicemen are seen safe class. This class receives salary at the end of each month.

What are the impacts of demonetization on servicemen is shown in the following ways.

1. Basically, servicemen are economically safer than other class who is generally thought to contribute in cashless service and found ready to support. This class also faced problems of exchange of currency in market place.
2. The class also faced problem in currency withdrawal from their accounts because of the limit of currency withdrawal.
3. In private sector at some places the payment of workers is being done by cash in hand in old currency, where advance payments of one or two months were given as a way out from demonetization.
4. Servicemen had to face problems in exchange of old currency to new one. Their working hours and responsibility hindered them direct contact to bank so they



employed their relatives or family member where there was possible. But in certain cases they had to exchange old currency himself putting their duties aside.

### **Impact on others**

Along with the above mentioned impact of demonetization there are others impacts are in the following ways;

1. Senior citizen, retired citizen tolerated physical and mental pressures.
2. At some places burning of old currency of R 500 and R 1000 was reported by media.
3. Illegal exchange of old currency to new currency happened at bank, railway, and petrol pump.
4. Some bank had insufficient supply of new currency, so bank customers were forced to receive the fewer amounts than determined limit. At some bank the board saying 'NO Cash' found in displayed in mocking position.
5. ATMs service was totally collapsed.
6. Though people were allowed to the limited withdrawal of R 2 lakh 50 thousand for marriage ceremony. But a picture of people receiving the amount is rare and daunting.
7. Merchant class had other problems like farmer were not ready to receive cheques, so they faced problems.

Though the above discussed impact of demonetization seems negative, this decision is long term secure economic policy for better nation development. How far it will alter life is a different story. It is expected to be fruitful in future. Positive side of demonetization is shown in the following ways.

1. Demonetization can help to eradicate similar black money from economy.
2. It can prevent coming fraud currency by neighboring nations and terrorists.
3. The possibility of shock on real estate sector cannot be denied. The kind of On Money was large in this sector. The rate of Ready raker can affect builder's lobby.
4. Demonetization can help to reduce higher prices of house buildings
5. There is an uncertainty how far demonetization halt black money, but it is sure that the decision will succeed to stop increase in black money.
6. Maximum transactions are through banking which help to increase cashless transactions, to understand yearly turnover of transactions, to hinder tax evasion, to increase national income of country and to speed up developmental programs.
7. New services like Net banking, E-banking, Mobile banking, RTGS, Cheque payment will be used extensively, but effective awareness in customers is required. In foreign



countries the rate of transaction is 20% to 25% whereas in India it 75%. So this has to be considered seriously.

8. Customer can have minimum documentation for loan, so bank officers can decide loanee's credit easily. Demonetization can stop the cooperate banks going into irreconcilable position.
9. Farmer's land, transactions, production income have been connected with Adhar Card, so government can increase its income. Farmers came under the category of taxpayers.
10. There is possibility to grow the habit of saving in Indian people. 'Money is in bank account but cannot expenditure it' in other words it is saving.
11. Digital documentation and Cashless transactions reduce the amount of expenditure manufacturing on papers.
12. Banking transactions will be encouraged and security will take banks.
13. Corruption will stop not at all but at some level.

There is a positive and certain expectation of the possibility of long term economic policy. It is totally dependent on how the policy is implemented at level of government. It is certain that strict decisions are needed.

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