IMPACT OF DEMONETIZATION POLICY ON COMMON PEOPLE LIFE

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Abstract

In 2016, the Indian government decided to demonetize the two biggest denominations of 500 and 1000 rupee notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight against tax evasion, eliminate black money, terrorist financing activities and promote a cashless economy.   Demonetization Policy is a master stroke to combat corruption, bribery, unethical tax evasion by the black money hoarders. Black money and corruption affects the growth of the economy of any country. The annual black money economy is conservatively placed at around 20 percent about GDP . GDP recovered to 6.3 percent in Nov to September 2016 from the previous quarter's 5.7 percent. To eradicate the root problem of black money generation, this policy play vital role. Hence the study of opinion of the public towards the impact of demonetization is mandatory. The result of the demonetization cannot be reaped with a night. It is a lengthy process, even year to take to yield a benefit. The present article has made an attempt to explain the impact of demonetization in the common man life in Virudhunager district .

Keywords: Financial literacy, black money, fake currency, digital payment

Introduction

B.R.Ambedkar in the year 1923, mentioned the importance of demonization in his book titled "Problems of Indian Currency: its origin and its solution". 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 main reasons for demonetization process are to combat inflation, to combat corruption and to discourage cash system.

In 2002, the nations of the European Monetary Union adopted the euro. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into Euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into Euros for a while so that a smooth transition through demonetization would be assured. The demonetization of dollar at Zimbabwean, 3-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar.

In 2016, the Indian government decided to demonetize the two biggest denominations of 500 and 1000 rupee notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight against tax evasion, eliminate black money, terrorist financing activities and promote a cashless economy. The government expected the entire money in circulation in the form of currency notes of Rs 500 and Rs 1,000 which have been scrapped to come back to the banking system so that the tax authority can trace the transactions and tax black money hoarders. Some economic experts had projected that a part of the demonetized currency notes of a value of Rs 15.44 lakh crores at the end of March 2016 would not return to the banking system. Where as per the report of RBI , it is estimated that Rs 2.5 lakh crore may not return to the system. Based on such calculations, reports emerged that this would lead to substantial gains to the government considering that this would lower the liabilities of the RBI.. But 99 per cent of the Rs 15.44-lakh-crore scrapped currency notes, had come back to the central bank at the end of June 30, 2017.

Statement of the Problem

Demonetization Policy is a master stroke to combat corruption, bribery, unethical tax evasion by the black money hoarders. Black money and corruption affects the growth of the economy of any country. The annual black money economy is conservatively placed at around 20 percent about GDP . GDP recovered to 6.3 percent in Nov to September 2016 from the previous quarter's 5.7 percent. To eradicate the root problem of black money generation Mr.Modi's more does little to address this vital issue. Hence the study of opinion of the public towards the impact of demonetization is mandatory. The result of the demonetization cannot be reaped with a night. It is a lengthy process, even year to take to yield a benefit. The present article has made an attempt to explain the impact of demonetization in the common man life in Virudhunager district .

 Research methodology

The present study is analytical and descriptive in nature. In addition to the secondary data, primary data   are also collected from the people. Interview schedule method is followed to collect the primary data. The primary data needed for the paper is collected from 120 sample respondents in Virudhunagar District. Convenient sampling technique is used to collect the primary data from 120 respondents. The secondary data is collected from the books, magazine, newspaper and websites.

Objectives of the Study

The researcher has framed the following objectives based on the research problem. The specific objectives of the study are:

1. To analysis the socio-economic conditions of the respondents
2. To assess the success of demonetization policy .
3. To study the problems faced by the respondent in the introduction stage of the policy .
4. To analyze the impact of demonization policy on common people life.
5. To offer suitable suggestions based on findings of the study.

Analysis and Findings

Socio-Economic condition of the respondents

In order to analyze the socio-economic condition of the respondents, different factors have been identified. The factors are gender, age, marital status, educational qualification and employment details. The following table shows the output of the opinion survey with 120 respondents.

Table No.1 Socio-Economic Condition of the respondents

Socio-Economic Factor	variable	No of the respondents	Percentage
Gender	Male	56	46.7
	Female	64	53.3
	Total	**120**	**100.0**
Age	Up to 25 years	16	13.3
	26-40 years	64	53.3
	Above40 years	40	33.4
	Total	**120**	**100.0**
Educational status	Upto 8th Std	14	11.7
	8th – 12th Std	46	38.3
	Degree&Above	60	50.0
	Total	**120**	**100.0**
Employment details	Government Employee	28	23.3
	Private Employee	20	16.7
	Self Employed	38	31.7
	Students	34	28.3
	Total	**120**	**100.0**

Source: Primary Data

The information derived from the above table is that, 53.3 per cent of the respondents are female, 53.3 per cent belongs to the age group of 26-40 years, 50 per cent of the respondents are degree holders' and 31.7 per cent are self employed .

Amount Deposited in the Bank Accounts

The situation of demonetization forced all the people to form a queue in front of the public and private commercial banks either to exchange the old denomination currency notes of 500 or 1000 or to make a deposit on their accounts. The question is asked among the respondents towards the amount of deposit made in their account after the high note ban. The following table brings to force the hike in bank deposit after demonetization with devalued currency.

Table No.2 Hike in Deposit with Devalued Notes

Amount	No. of Respondents	Percentage
Upto Rs 10000	46	38.3
Rs 10001- Rs 20000	29	24.2
Rs 20001- Rs 30000	22	18.3
Above Rs 30000	18	15.0
No Change	5	4.2
Total	120	100.0

Source: Primary Data

From the above table, it is clear that 38.3 per cent deposited upto Rs. 10000 and 24.2 per cent deposit raised in the range between 10001 and 20000, 18.3 per cent made a deposit of 20001 and 30000, 15 per cent deposit raised above Rs 30000 and only 4.2 per cent have no changes in deposit level. Hence this policy made a constraints on the public to deposit the banned notes up to the period allowed by RBI.

Level of Support

In a democratic country like India, the government is by the people for the people. The duty of the ruling government is to plan and execute the policies only for the welfare of the people irrespective of the feedback from the people. The opinion of the respondents about their support to the demonetization is gathered and shown in the table
Table No.3 Level of Support

Level of support	Support in the Initial Stage		Support after one Year	
	No. of Respondent	Percentage	No. of Respondent	Percentage
Fully	49	40.8	24	20.0
Partly	43	35.8	49	40.8
Not at all	28	23.3	47	39.2
Total	120	100.0	120	100.0

Source: Primary Data

Out of 120 respondents, 40.8 percent were supporting fully in the initial period of the policy, but after the one year it has reduced to 20.0 per cent. Partly support response has been increased from 35.8 per cent to 40.8 per cent. Further 23.3 per cent of the respondents not at all supporting demonetization in the initial survey and their percentage hiked to 47 per cent in the subsequent survey.

Association between Supporting Level of the Policy and Socio Economic Condition

Chi square test is used to test the association between supporting level demonetization policy and socio-economic factors at the introduction stage.

Ho: Supporting Level of the demonization policy is not associated with Socio Economic Condition

Table No.4 Analyze the Association between Supporting Level of the Policy and Socio Economic Condition

Socio-Economic Condition	Chi-square value	d.f	P value	Hypothesis
Gender	4.654	2	0.03**	Rejected
Age	3.656	4	0.455**	Accepted
Educational status	2.881	4	0.041**	Rejected
Employment	4.606	6	0.595**	Accepted

Source: Computed data **Significance at 5% level

Chi – square value of Association between Supporting Level of the Policy and gender, age, educational status and employment are 4.654, 3.656, 2.881and 4.606 respectively.

P Value of the above variables are 0.003, 0.455, 0.041 and 0.595. P value of the variables namely gender and educational status are less than 0.05 and other two variables P value is more then 0.05. Hence supporting level of demonetization is associated with gender and education status and not associated with other two variables namely age and employment .

Percentage of Success on reduction of black money and fake currency

The Indian finance system is a traditional and very old one. There is no major change in the plan of finance system and currency issue for the last few decades. The major stroke to the finance issue in entire India, a demonetization policy about the currency withdrawal of 500 and 1000 notes was announced by the government with aim to reduce black money and fake currency. The rate of success is based on the observation, acceptance and reaction of the people. The data related to the rate of success of the plan is obtained and the following table quantifies the data.

Table No.5 Percentage of Success on reduction of black money and fake currency

Success Percentage	No. of Respondent	Percentage
Up to 25	29	24.2
25-50	42	35.0
Above 50	32	26.7
No effect	17	14.2
Total	120	100.0

Source: Primary Data

The study brings to limelight that is 35 per cent of the people conveyed that the demonetization plan got 25 % to 50% success, 26.7 per cent opinioned that the plan got above 50 % success, 24.2 per cent opined that the plan is successful only up to 25% and the balance 14.2 percent of the respondents opinioned that the policy has not made any changes in the reduction of black money and fake currency.

Success of Demonetization Policy

Present ruling party focuses on the prospects derived due to demonetization. They have a calculation about the policy that the prospects can overcome the problem faced by general public in the initial period. The researchers studied the opinion about the success of Demonetization policy and is tabulated as below.

H$_O$: Opinion about the success of Demonetization policy is same between male and female

Table No.6 Comparative Analysis between male and female about success of Demonetization policy

Prospects	Gender	Mean	Std. Deviation	Std. Error Mean	t	p value
Reduce black money	Male	3.25	.144	.108	.580	.563*
	Female	3.13	.057	.131		
Increase tax revenue	Male	3.72	.922	.119	1.139	.257*
	Female	3.52	.630	.129		
Reduce fake currency	Male	3.17	.130	.146	1.133	.260*
	Female	3.38	.958	.124		
Reduce Terrorism	Male	2.95	.241	.160	.632	.528*
	Female	3.10	.355	.115		
Deduce corruption	Male	3.02	.142	.147	.235	.814*
	Female	2.97	.126	.153		
Increase in the uses of digital transactions	Male	3.23	.137	.152	.150	.881*
	Female	3.20	.253	.162		
Increase transparency.	Male	2.98	.347	.174	.494	.622*
	Female	3.10	.238	.160		

Source: Computed data

*Significance at 5% level

P value of all the variables are more than 0.05 at 5% level of significance. Null hypothesis is accepted in all the seven statements. Hence opinion on the success of demonetization point between male and female are same. The first priority is given to the tax payment, which will be increasing revenue to the government. Second prospects of this policy helps to abolish fake currency, third prospect is increase in the uses of digital transactions. The last four prospects reduce black money, increase transparency, reduce Terrorism and reduce corruption.

Problems faced due to Demonetization Policy

Commentator on both the ruling and opposite sides agree that there has been poor execution, monumental mismanagement which led to destruction of businesses, jobs and lives across the country. Now the opinion of general public in Virudhunager district on note ban are tabulated below

H₀: Problems faced by all group of respondents due to demonetization policy are same.

Table No.7 Problems faced due to Demonetization

Problems	Group	Sum of Squares	df	Mean Square	F	Sig.
Time Wasted	Between Groups	.867	2	0.433	0.399	0.672*
	Within Groups	127.100	117	1.086		
	Total	127.967	119			
Suffer only poor not rich	Between Groups	3.247	2	1.623	1.414	0.247*
	Within Groups	134.345	117	1.148		
	Total	137.592	119			
Poor Peoples are exploited by rich	Between Groups	14.948	2	7.474	5.103	0.008**
	Within Groups	171.377	117	1.465		
	Total	186.325	119			
Huge Cash Crush	Between Groups	12.745	2	6.373	4.449	0.014*
	Within Groups	167.580	117	1.432		
	Total	180.325	119			
Difficult to buy essential items	Between Groups	.923	2	0.462	0.249	0.780*
	Within Groups	216.669	117	1.852		
	Total	217.592	119			
Difficult to get loans	Between Groups	12.426	2	6.213	3.835	0.024*
	Within Groups	189.540	117	1.620		
	Total	201.967	119			

Source: Computed data

*Significance at 5% level, **Significance at 1% level

F value for the above variables are 0.399 (Time Wasted), 1.414(Suffer only poor not rich), 5.103(Poor Peoples are exploited by rich),4.449 (Huge Cash Crush),0.249 (Difficult to buy essential items) and 3.835 (Difficult to get loans). Out of seven problems, four problems namely poor people are exploited by rich, Huge Cash Crush, Difficult to get loans and for

name sake faced by all the respondents are same as per the their opinion. Other three problems are having different of opinion among the respondents.

Impact of Demonetization on Common People Life

The various measure taken by the government to develop its economy. But all the effort not get success. The impact in common people life due to demonetization policy being presented in the following table.

Table 8 Impact of Demonetization in the Common People Life

S.No	Variables	Impact Specified in No. of Respondents				
		HSC	SC	MC	LC	NC
1.	Increase Saving Habit	48	28	12	10	2
2.	Boosted digital payment	34	29	13	17	7
3.	Reduce Food inflation	13	18	21	30	18
4.	Improve Financial Literacy	34	27	11	18	10
5.	Increase Investment in real estate	13	18	27	19	23
6.	Increase gold purchase	11	29	25	31	4
7.	Save time due to usage of Technology	30	32	15	18	5
8.	Compulsion to get salary through bank account	30	29	21	18	2
9.	Supporting India's economic growth	18	31	28	17	6
10.	Improve Business Condition	21	17	12	37	13

Source : Primary Data

HSC- High Significant Change SC - Significant Change MC- Moderate change

LC – Low change   NC – No change

The above table exhibits that 48 respondents reported high significant change in their saving habit due to policy, 34 respondents reported high significant changes in increase digital payment, 30 respondents reported low change in reduce food inflation, 34 respondents reported High Significant change in their financial literacy , 23 respondents reported that there is no chases investment in real estate , 31 respondents reported that there is low changes in purchasing of gold and 30 respondents reported high significant changes in save time due to the usage of technology. High Significant change in getting salary through bank account is reported by 30 respondents, 31 reported significant change in economic growth and 37 reported little change in development of business.

Suggestion based on the findings.

The following suggestions are given by the researchers based on the findings of the study.

1. Rural people are not aware about the digital payment . Hence banks have to augment setting up of digital literacy booths outside banks. Spreading digital literacy across all sections of the nation is the need of the hour.

2. Government should print more and smaller denominations such as Rs. 50, 100, and 200 notes to avoid fake currency.
3. Government should compel all types of institution to follow digital payment to convert our economy into cashless economy to avoid corruption, terrorism etc.
4. Social advertisement can be broadcasted to create awareness about need of cashless economy.
5. Removal of service tax charged while making payments through credit card, debit card, charge card or any other payment card up to Rs. 2,000 in a single transaction is a good start for the transformation from cash transactions to the digital transfers.
6. The people need to consider the possibility for implementation of the policy seriously before accepting it or rejecting it.

Conclusion

The aim of demonetization is to create a visible digital economy. The degree of inconvenience is the short term pain and it will pave the way for long term gains. Its position in India is a remarkable place in the international affairs and makes the entire foreign countries to watch India and make their plan according to the Indian economy.   The immediate effect of demonetization of the economy would probably be short lived. Government has to frequently adopt this policy to reduce fake currency and corruption. However, the long term effect will drive the Indian economy to new areas of growth in the coming times with its impact not just only on black money, terrorism and corruption but also in improving tax compliance, better fiscal balance and lowering inflation.

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