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An analysis of the Demonetization Decision 2016: Impacts on Indian Society and Indian Economy

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Abstract : *The logical analysis of demonetisation it seems that they have various serious impacts on Indian economy and Indian society. In this study, we have found some important facts about short term as well as long term effects. In short term Indian economy facing lack of cash availability, unemployment condition, critical condition for rural and Middle Class. Cash crunch generate problems to households in mode of bill payment, also they have serious effect on agricultural production and daily wages labour and employee in manufacturing sector because there have no necessary liquid cash in the hand of employer and contractor. Other than this, demonetisation decision that would bring a positive impact on Indian society and economy like, E-payment method encourage digital mode of payment by mobile app and electronic method easily. It may control counterfeit currency, black money and Hawala but mostly issues happen about the black money. They have no proper way to control black money because people using different types of investment method and hidden their black money got the conclusion on this research study the demonetisation beneficial for the economy in the medium to long term period but it has a serious negative effects on Indian poor and Middle Class rural and urban society which has truly worst impact on Indian and on their livelihood.*

KEY WORDS : Demonetization, Black money, Inflation, Indian Society, Etc.

INTRODUCTION: Withdrawing the unit of money from circulation is called a demonetisation. It is a process which changes old currency units into new units. Demonetisation step taken by the central government, this is a legal process to change national currency. It is introducing new notes or coins by replacing old currency with new one. The currency or legal tender is issued by a country's Central Bank or a Monetary Authority. The government building is needful thing to ban the national currency to control the corruption, to eliminate fake Indian currency, to control inflation and go forward to digital economy. Demonetization of 2016 was not first time when the nation saw the pulling of banknotes from circulation in Indian economy, it happens twice before.

HISTORY OF DEMONETISATION IN INDIA : In India demonetisation has happened for the first time on 12th of January 1946. In January 1946 notes of Rs.1000 and Rs.10,000 were rolled back from circulation and new currency notes of Rs.1000, Rs. 5000, Rs.10,000 Euro introduced in 1954. On 16 January 1978 government again demonetised banknotes of denominator Rs. 1000, Rs.5, 000 and rupees 10,000 to counterfeit currency and black money. Recently Indian faced the demonetisation on 8 November 2016. Government of India announced a sudden demonetisation of the high value notes means Rs.500 and Rs.1000 banknotes will not be legal tender after midnight of 8 November 2016. They were set upper limit of cash withdrawal from Bank Rs.10,000 per day and from ATM Rs.2000 per day. By the RBI report on 31st March 2016, Rs. 500 and Rs. 1000 banknotes consist around 86% of total currency circulation, which is having value Rs. 15.44 lakh crore. The aim of Government of India behind denomination was to remove a huge amount of higher notes near about 15 trillion from circulation. This had main reason to tackle the black money fairy currency corruption and terror funding. The Government also took some other objectives like creation of cashless economy and digital transaction and the products having taxpayer base. Government permitted to citizens to deposit the demonetised currency notes in their bank account up to 30th December 2016.

OBJECTIVES OF THE STUDY :

- 1) To Study the impact of demonetization of 2016 on Indian economy & society.
- 2) To analysis the effects of Demonetization on various sector.
- 3) To study the success or failure of demonetization 2016

RESEARCH METHODOLOGY : This study has a descriptive nature about the analytical view and reasons of demonetisation with the sector wise impact of demonetisation 2016. It is based only on secondary research documentary. The source for this paper is secondary data read from various articles, websites, journals, government agencies reports, newspaper and other related published and unpublished documents etc.

NEED TO STUDY OF DEMONETISATION IN INDIA : It is needful thing to study and analysis on demonetisation 2016 and their effect on Indian economy with various sectors in India. They have many changes happen after the applying of this policy so that it is important to collect the data and study to understand the positive and negative outcomes of

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demonetisation. It may help to find the loopholes and unacceptable effects on Indian middle class and Agriculture sector which is the backbone of our Indian economy and Society. The study on demonetisation 2016 is used to explain the fulfilment of objectives and goals which is set by our Indian government. The government's aim was to control the black money scrap tax evasion, money laundering and stop the Hawala roots of money misuse. The black money or forged cash is mostly used to fund various terrorist activities against India. The Government have Noble aim to growth of our Indian economy and control the misuse of national legal currency. Essentiality analysis of the demonetisation and its effect on various Indian sectors is to evaluate the government decision the result of the study provide an insight into the demonetisation process and about its impact on the growth and development of our Indian economy and social cultural lifestyle of rural and urban sectors.

INDIAN SOCIETY : Indian society is broadly divided into two sectors, rural and urban. It is based on living standard of society, not to the religion, caste, language etc. Rural society is major locality in India. Since Independence various Government have laid more emphasis on urbanisation by modern technology, education and introducing industrialisation and urban infrastructure. But the rural sector offense said by government and educated Indian society. This may create wide gap between rural and urban economy in India. In urban areas itself there are three sub kinds of society poor, Middle class and rich. Most of the poor are no one else but people who have migrated from rural part to urban in search of job. These people live and work very hard and get less pay. Hence the people migrate from the rural parts to urban in search of income, yet in most cases the situation can't change. Most of Indian rural people depend upon agriculture which is the backbone of our country for centuries ago; Indian villages had been self-sufficient and self-contained economy by rural people "Baluch Paddhati". The rural and urban areas have been increased due to transportation and it makes expand the industrial roots in the rural economy. Observing today's situation many Industries have been florist in rural areas needed for setting up our Industries. India is the seventh largest economy of the world Indian economy. It is classified in three major sectors agriculture sector, industrial sector and service sector.

A) Agriculture and allied Sector : This Sector includes Forestry and fishery, also this sector mostly known as the primary sector of the economy. At the time of independence this sector has biggest share in the GDP (Gross Domestic Product) of India. But in the course of time, it goes declining and currently it contributes only 17% of Indian GDP. But it is not able to mention agriculture sector which provides jobs for 53% population of India.

B) Industry sector : This sector includes mining and quarrying, manufacturing, gas, electricity, construction and water supply. It is known as secondary sector of the economy. Currently it is contributing around 31% of the Indian GDP.

C) Service sector : Service sector includes financial real estate and professional services, public administration, defence, transport, Hospital, communication and broadcasting related services. It is known as a tertiary sector of the economy. Currently it is contributing around 53% of the Indian GDP. (Note/Source: Numeric percentage of various sector by IMF report 2017.)

Role of RBI to regulate and controlling paper currency : The Royal commission, Indian currency and finance had appointed on August 25th 1925. They suggested to establishment of central bank in India in 1934. Reserve Bank of India is established as a private shareholders bank. In January 1938, the Reserve Bank of India issued first of Scranton out in denomination of Rs.5 and Rs.10 and later in the same year denomination of Rs.100, Rs.1000 and Rs.10,000. The RBI was nationalized in 1949 and all shares were transferred to central government. The Reserve bank of India is constituted for the management of currency and for carrying the business banking in accordance with provisions of the Act. The RBI has sole right to issue banknotes in India. Our Indian currency has a guaranteed by Central Government the issue of banknote is by a separate department called Issue Department. As per the recommendation of Central Board, the Central Government denominate discontinuance of banknotes. Central Board includes Governor of RBI, 10 Deputy Governor which is directly nominated by Central Government and Government official which is nominated by Central Government. RBI is the heart of Indian economy. It is the master of all banks, the Saviour of government in the case of debit the lender of Last Resort. RBI is the main key of Indian economy. The RBI controls the Nation's money supply and only BI is having authority empowered to print new currency notes. It can increase and decrease the money supply of an economy by printing currency. In order to push up the growth of Indian economy, RBI can do so. RBI prints money primarily based on this growth in the economy and for replacing old and soiled notes.

ANALYSIS: REASONS OF DEMONETISATION 2016:

1) Prevention from fake currency : Withdrawing highest currency notes out of the economy will have serious impact on fake currency notes. It is been wasted by the demonetisation fake currency racket. I have unable to make it making a counterfeit currency for newly issued notes.

2) Controlling Black money : Demonetisation decision may be taken by government to curb black money that will have impact on parallel economy in our country. If your business likes property dealing, foreign currency dealers, private money lenders generally hold highest amount unrecorded money in form of cash in liquid.

3) To hit terrorist and Maoists : Demonetisation step actually made money with terrorist and moist worthless, they have holidays over rupees 7,000 crore. All such currency is now nothing but pieces of paper after this line the old currency.

4) Growth of digital economy : Demonetisation's main motto was encouraging the cashless economy payment, like online transaction payment through applications, e-wallet, and uses of ATM card and debit card which will help to developing digital economy.


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IMPACT OF DEMONETIZATION ON VARIOUS SECTORS IN INDIA:

- 1) **Impact on agriculture sector:** In 2016 Government of India announced demonetization. It was the time of Rugby harvest and farmer generally deals in cash, producer of Kharif Crop where unable to sell their Agricultural Products because of the liquidity crunch for Rugby season. They had experiencing the problem in sowing seeds crops due to unavailability of cash that necessary to use full requirement as a result farmer facing lot of problems. They had to sale at lower price which created loss in Indian agriculture sector during demonetisation span.
- 2) **Impact on ruler middle class society :** Demonetisation impact initially on rural, middle class and economically poor section of the society depends largely on cash transaction people of rural area or farmers depend upon daily wages work. They did not have worked for a number of days as their contractor did not have enough money to pay their workers. After demonetisation, people standing hours to hours in front of a bank door to change old currency into new. They were facing the burden of anxiety and uncertainly over in exchange their small amount.
- 3) **Labour intensitive sector :** In order to pay labour's wages, it is needful thing to cash in huge amount at the time of demonetisation. Limitation on the withdrawal amount from the bank was affecting the weekly payment to contract person, in textile mining, leather industries farming and transportation to their livelihood.
- 4) **Impact on manufacturing sector :** Demonetization make shortage of cash, it effect on demand and supply going to lack of money resulted in huge dip in manufacturing activities after demonetisation. All what you had come to stand still and especially medium enterprises sector were the worst negative effect of unavailability cash money industries facing loss and workers became jobless.
- 5) **Impact on retail sector :** Cash is a favourable mode of payment in purchasing daily needs product which has turned result in transaction due to lack of cash availability. In India most of retailers are using basic payment method they can't afford online payment. Credit ATM card payment show that the small traders facing more problem than higher and organised retail traders in India.
- 6) **Impact of digitisation of the economy :** As per the government data, number of daily transaction through Paytm, oxygen, mobi-wiki and other E-wallets recorded to 17 lakhs on 8th November 2016, after demonetization showing great growth. Government of India also launched money apps for a transaction like UPI, BIIM, SBI buddy etc. Online payment money banks had been seen up to 22-30% increase in digital transaction. From all these impact it can conclude that this effort of government had successful to turn people on digital economy.

FAVOURABLE AND UNFAVOURABLE EFFECTS OF DEMONETISATION ON INDIAN ECONOMY AND SOCIETY:

A FAVOURABLE IMPACT : Counterfeit Currency: Counterfeit currency counter is one of the main causes behind the demonetisation of Indian economy. Truly the counterfeit currency have a huge amount in our economy, latest Excel Institute reported that fake currency notes amounting to rupees 400 crore in circulation in the economy and average yearly 700000000 fake currency post annually in Indian currency flow. After the demonetisation old currency Ban and it is not possible to replacing fake currency in India bank. Currency notes were come with highly advanced security features which are strongly replicate.

Hawala Transactions : Hawala transaction had become the route to facilitate money laundering and terror funding. Hawala racket run on black money way to convert the black money into white by crossing boundaries of country. After the demonetisation decision, it may strictly labs the Black money of Hawala.

Black Money : A decision of Government of India became a master stroke on shocked the black money. It is estimated that out of total currency rupees 17 lakh crore, rupees 3 lakh crore is having black money integration. It is necessary to exchange money in bank and all transaction keeps legally recorded. So that all unaccounted money has to deposit in the bank with heavy penalty which had not possible to any black money holder that's why all black money currency being waste paper bites.

Terror funding: All channels of terror financing are strongly associated with the circulation of counterfeit currency and other sources of Black Money like Hawala. Mostly after the Hawala soft black money have this line demonetisation affect positively to control terror funding by the way of controlling fake currency and shoes donation outside to Indian boundaries this linked to Hawala. Income Tax Department announced that it has ceased rupees 5 billion in unaccounted cash from landlord peoples, also rupees 920 million of their cease and new currency notes of rupees 2000. Probably it may use any terror or Anti National work a decision of demonetisation preventing from terror funding.

UNFAVOURABLE IMPACTS : Liquidity Crisis: A decision of demonetisation rise to liquidity problem as people found it difficult to get necessary requirement as a result of the withdrawal of rupees 500 and rupees 1000 notes. Their Orchid huge gap in the currency composition as after rupees 100 rupees 2000 is the only denomination where lack of currencies gem, farming production employment and services.

Decrease in GDP : Withdrawn highest currency notes reduce the growth rate of economy. It reduces consumption pattern income, investment etc. During the demonetisation, many Industries were not able to continue their production activities, which were 7.5% in September 2016 declined to 5.7% in 2017. It means demonetization caused reduce 1.5% in the Indian GDP.

Fall in Employment: India's employment force grew from 401 million in April 2016 to 400.65 million to 8th December 2016. It fails 24105 million between January and April in the year 2017. There were 73% manufacturer did not hire employees for 3 months till after the demonetisation.


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Note Printing Cost: According to the figures released by RBI of India, the cost of printing notes increased to rupees 7965 crore in financial year 2017, which was rupees 3421 crore in financial year 2016. For demonetisation the cost of currency printing was increased which is not necessary. Government may be used in agriculture or other backward sectors for economic welfare.

CONCLUSION : After the logical analysis of demonetisation it seems that there were various serious impacts on Indian economy and Indian society. In this study, we have found some important facts about short term as well as long term effects. In short term, Indian economy facing lack of cash availability, unemployment condition, critical condition for rural and middle class households and cash crunch make problems in mode of bill payment, also they have serious effect on agricultural production and daily wages labour and employee in manufacturing sector because there have no necessary liquid cash in the hand of employer and contractor. Other than this, demonetisation decision that would bring a positive impact on Indian society and economy like, E-payment method, which encourage digital mode of payment by mobile app and electronic method easily. It may control counterfeit currency black money and Hawala but mostly issues happens about the black money, they have no proper way to control black money because people using different types of investment method and hidden their black money got the conclusion on this research study. The demonetisation beneficial for the economy in the medium to long term period but it has a serious negative effects on Indian poor and Middle Class rural and urban society which has truly worst impact on Indian on their livelihood.

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