

## Demonetization in rural areas of Lucknow (U.P): Immediate impact make life difficult to live

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### Abstract

This research has come up as a key measure for knowing unified growth of Rural Areas. The Government of India has taken up several decisions towards bringing stability in Economy, But decisions was not fully effective due to loopholes in Government Policies. One more step taken by Government of India to demonetize the 500- Rupee and 1000- Rupee notes, the two biggest Denomination in currency system. This Demonetization adopted on 8<sup>th</sup> November 2016 to seize Black Money, Cash Hoarding and make India a cashless digital economy. This paper makes an attempt to study the cause and effect of Demonetization in Rural Areas. The effect of Demonetization was more on Rural Areas due to less availability of Banking Facilities or Digital Transactions. The finding of the study shows that Rural Population were more adversely affected. Demonetization with the aim of cashless and digital economy, efforts are required to make technology reach the bottom of the Pyramid, but the motto of Demonetization is still to achieve yet.

**Keywords:** Demonetization, Cashless economy, Digital economy

### 1. Introduction

Demonetization is the act of stripping a currency unit of its standard as legal tender. When any Government withdraws the legal tender rights of any denomination of currency, it is known as Demonetization. In January 1946, the Demonetization of 1000 Rupee note and 10000 Rupee note to place in India, Again In 1954, 1000 Rupee note, 5000 Rupee note and 10000 Rupee note for introduced, In 1978, Government Demonetized the 1000 Rupee note, 5000 Rupee note and 10000 Rupee note from economy. The prime Minister announced on 8<sup>th</sup> of November, 2016 about the withdrawal of legal tender of 500 and 1000 currency note in the late evening. After the Demonetization the circulation of currency become degraded.

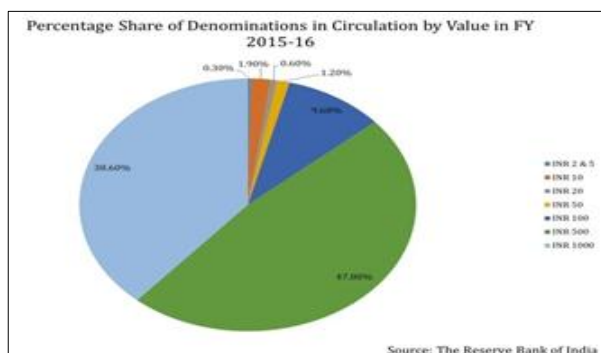


Fig 1

In terms of value, the annual report of Reserve Bank of India (RBI) of 31<sup>st</sup> March 2016 stated that total bank notes in circulation valued were 16.42 lakh crore of 500 and 1000 rupee notes. As per the RBI press release on 28/11/2016, the total amount of old currency notes (which are now withdrawn) of value of 8.11 lakh crore has been deposited by the customers

till 27/11/2016. Banks started accepting deposits from 10<sup>th</sup> of November but within a period of 18 days around half money has been received by the banks. The show is still on, but between this the Government again provided the scheme of pay tax and converts your black money into White Money scheme launched. Is there any need for it? Rural Indians, which is about 70 percent of Indian population, depend on cash. And so are daily wage workers, whether rural and urban areas are their workplace. So a large no. of happened due to a surprise decision of Mr. Prime Minister, those people were hit very badly. All of a sudden their earning stopped, they couldn't trade with the old currency notes, and people stopped hiring daily wage labourers, as they were unable to pay them. Purchasing power of people went down remarkably. Daily wage earners were unable to eat twice daily. The economic activities of middle class family almost stopped. A big hit to them, and the best part is they were innocent, they didn't have black money. But they had suffering.

### 1.1 Objectives

- To Study the cause and effect of Demonetization in Rural Areas of Lucknow.
- To Study the current impact of Demonetization in Rural Areas of Lucknow.
- To Study the Challenges before and after Demonetization Scheme of the Government.

### 1.2 Review of Related Literature

Economics professor ARUN KUMAR is one of the most widely quoted authors on black money. He has authored The Black Economy in India (Penguin, 1999) and Indian Economy after Independence: Persisting Colonial Disruption (Vision Books, 2013).

In an interview to India Legal's Editor-in-Chief,

Inderjit Badhwar and Associate Editor Meha Mathur, Prof Kumar describes how this rash drive will adversely impact demand, employment and investments.

**Amartya Sen:** Leading economist; Noble Laureate; recipient of the Bharat Ratna Calls the move authoritarian: In an interview with The Indian Express, Professor Sen said, “Only an authoritarian government can calmly cause such trouble to the people — with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience and contempt in trying to get their own money back.”

**Dr. Manmohan Singh:** Former Prime Minister Overall opinion: Speaking at the Rajya Sabha, Dr. Singh has called Demonetization an “Organised Loot”, a “Legalised Plunder” and a “Monumental Mismanagement”. He even said that the National income would fall by 2%, which in his mind was “an underestimate”.

**Kaushik Basu:** Leading economist; Senior Vice-President and Chief Economist at The World Bank; eminent economist; former RBI governor cannot wipe out black money; hoarders have already found loopholes: “Anyone seeking to convert more than Rs 250,000 must explain why they hold so much cash, or failing that, must pay a penalty.”

**Arun Shourie:** Former economist at the World Bank; recipient of the “Padma Bhushan” and Union Minister, If the government was planning this for months, how could it be possibly so ill-prepared? In an interview with NDTV, Shourie asked by the government could not anticipate any problems when they finish off 85% of the currency value in India. “Small and medium enterprises, transport sector, the entire agricultural sector—I can’t reach them. I can’t reach 6 lakh villages. They did not think about this?”

**Arun Jaitley:** Current Finance Minister of India; Senior Advocate, Delhi High Court In effect, the government will be able to invest more money in agriculture and social sector: “A lot of money that operates in the shadow economy will now become a part of the banking structure itself. Banks will have a lot more money to support the economy. Private sector investment, which was so far lacking, will now get back into the economy. The banks which were struggling because of the NPA problem will have a lot more money to lend for agriculture, infrastructure sector, social sector, trade and industry.”

**Bibek Deb Roy:** Leading economist; Member of the Niti Ayog, a policy think-tank for the Government of India, In an interview with Karan Thapar, Deb Roy spoke about the note banning and its repercussions. His take on the impact on daily wage labourers and loss of jobs: “What happened on November 8 is part of a broader jigsaw.”

**Arvind Virmani:** Leading economist; Former India’s representative at IMF; Former Chief Economic Adviser, Government of India’s Useful method; secrecy was a pre-required: “This is a useful method of flushing out black money, given that a large percentage of cash holding is in these two denominations. The manner in which it was implemented is not bizarre such actions are always secret till announced, so that insiders do not take advantage of the information at the cost of the outsiders.”

**Surjit Bhalla:** Chairman, Oxus Investments, a Delhi-based economic research or advisory firm; Former Professor at Delhi School of Economics; previously worked at the World Bank Calls it a “assertive step” on PM’s part: Bhalla wrote in The Indian Express that, “There should be no question that this BJP

policy is bold and courageous. The trading community has long been identified as the BJP’s core constituency and Prime Minister Narendra Modi has gone against this powerful support group. So let us give Modi a considerable amount of credit for taking a assertive step for the country- sincerely in the name of the nation.”

### 3. Research Methodology

This research is mainly based on Secondary sources of data. Deductive based approach was used for analyzing the relevant data. Further the Proposed Methodology are based on analysis of existing literature and social views on Demonetization whose impact was sudden for the society. Here Researcher made Comparative study on Demonetization of few Rural Areas of Lucknow. The area which cover under the scheme of the study are Mohanlal Gunj, Nigohan, Banthra and Banibanthra, then Researcher have used descriptive study to analyze the qualitative data to present real image of Rural People’s thinking towards Demonetization.

#### 3.1 Cause and Effect of Demonetization

The Government claimed that this Demonetization is required for the following reasons:

1. For decelerating the funding of terrorism.
2. For dealing with the problem of fake currency.
3. For making the Black Money inferior.
4. For making Corruption free India etc.
5. The spine of Terrorism has been broken.
6. Anonymous money reached to the Government Treasury.

#### 3.1 Current Impact of Demonetization

1. Most of the people being aware of Digital Transactions.
2. Government reduced Digital Transactions surcharge.
3. Benefit to Tax Payer.

#### 3.2 Challenges before and after Demonetization Scheme

1. How to send New Currency Notes in Rural Areas.
2. To ensure the continuous flow of money.
3. How to implement this large amount of Anonymous money for betterment of commonpeople.
4. Try to finish Agricultural loan of small farmers.
5. To prevent the Re-hoarding of Black Money.
6. Bring beneficial scheme for poor people.

### 4. Findings

The percent of higher value of 500 and 1000 notes was 86.4% as on 31st March, 2016 which is circulated in Indian Economy. There is bifurcation of people in regard to the acceptance of Demonetization. There are some portion of people which do not like the Demonetization of Higher value. In contrary there are some people which compliment such movement. There is especially true amongst the youth and the poor as they want Corruption free India over the decades, but we also know the fact that in a Rural Areas, there is a lack of general awareness or digital transactions. Some rural people only know that the legal tender of 500 and 1000 notes has been demonetized because they do not know the actual reason behind the decision. On the other side some people are also accepting the decision because they are aware about the result of it. Their hopes regarding corruption free India unite with the decision, but they also feel that the immediate impact a bit hard. Rural Areas are finding difficult to get the change or to purchase the

basic products of their need from the local market or local shops. They survive on daily wages and due to Demonetization they do not get more work to do and do not get more price of it, because the only work to do is to stand in a bank's queue to get money or exchange money from the banks. Due to lack of Banking Facilities in Rural Areas they faced many difficulties to survive. They had to go to the town area near their villages, but it consumes their whole day and they could not do their daily wages work on that day. Most of the people think it could be better if Government brings this decision with better planning, and rest of other people think this decision is best made by Government because immediate impact can lead to cash hoarding money, but this percent goes down in Rural Areas due to lack of Banking Awareness, lack of opening Jan Dhan Account. Rural people hold the money at home not in the bank. In Rural Areas most of the people belongs to Daily Wage Earner and belongs to Agriculture. They do not have money to purchase seeds for farming. Rural Areas, those who was far from the city, faced difficulties due to non-availability of Banks and ATMs. Those Rural Areas, which was situated near the town they faced difficulties like non-availability of cash in Banks and ATMs. Some Rural people work on the basis of "Dehadi" or Daily Earner. They go to city for daily earning but due to Demonetization they got less work or they did not get daily wages from their work. Most of Rural people was thinking what they will do, what they will eat tomorrow after the Demonetization. Some points should be considered for the overall findings which are as follows:

#### 4.1 Immediate impact:

- a. Immediate impact will be a logistical nightmare to manage the cash replacement in banks,
- b. Exchange of money and smooth functioning of the banking system.
- c. Hold-up consumer spending due to cash availability.
- d. Strong liquidity issues in cash based sectors like Real Estate and Jewellery.
- e. GDP will decline due to reduction in overall spending.

#### 4.2 Overall Economic Impact:

- a. GDP growth is expected to be negative for few months.
- b. Inflation rate will be fall gradually due to Transaction cost or Real Estate Prices.
- c. Brake on windfall.
- d. Rise in the value of Indian Currency gradually.
- e. Banking System will get a boost.

### 5. Conclusion

As a result of Demonetization, Rural Economy came into stagnant position. Most of the Agricultural Businesses shut down. Farmers were unable to buy seeds and Rickshaw drivers were unable to receive payments. Employer had no way to pay their rural workers. Hospitals were prohibiting patients who only had old currency. Some families had difficulty in buying food and having wedding throughout the Rural Area were rejected more. On top of this 85% of workers were paid in cash. Most of Agricultural businesses are running in cash and due to Demonetization the Rural people are facing difficulties due to unavailability of cash, that's why they are not accepting the decision more of Demonetization because they don't need to know about the future of country. They only give preference to their requirements or their needs. They are very sensitive and

emotional that's why they don't understand the future advantage of Demonetization. They only see the immediate impact on their life. Will Economic Growth be Rise after This Demonetization? Can India Keep Growth Above 7% After Demonetization? What is the Circulation of Money after Demonetization? Few days After India's Demonetization: The Results Are In or Out of Control?

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