



A Study Of Impact Of Demonetization On Resilient Rural Economy: Then And Now

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Abstract:

This was the third time when demonetization in India took place. This time with the objective to combat black money, counterfeit currency and terrorist financing. Currency notes with the denominations of Rs. 500 and Rs. 1000 were withdrawn from circulation which accounted for around 86% of the total value of the currency. It caused great sufferings to the whole population of India particularly to rural Indians with limited access to financial and digital infrastructure.

This historic economic policy decision of demonetization was supposed to be a game-changer. It has indeed caused disruption on a huge scale which lasted for longer duration. It has resulted to the economic slow-down to some extent as its ultimate cost. This study aims to analyze the impact of demonetization on rural economy. It is an attempt to find out the immediate and long-term impact of demonetization to villagers. It may be beneficial to policy makers as a road map to improvise the implementation of any such move which will maximize positive impact at the time of its effect and the impact of demonetization now, after a decade.

Keywords:

Demonetization, rural economy, farmers, villagers, currency, banking, impact, note-ban.

Introduction:

Nobel laureate and economist Amartya Sen has opined that demonetization in November, 2016 has caused great sufferings to the Indian economy. Earlier in 1946 the currency notes with higher denominations of Rs. 1,000 and Rs. 10,000 were demonetized but the negative impact was lower as not many people possess currency notes of higher denominations. Similar move was undertaken in 1978 for imposing a ban on the currency of Rs 1,000, Rs 5,000 and Rs 10,000. Again, this time it had not impacted public at large except the privileged class followed by a haunting slow-down. Every time the main objective remained the same to curb the generation and circulation black-money. This time, the demonetization has impacted the whole population of India, more badly hit was the rural economy.

Every policy decision should be taken considering its benefit to the weaker sections and the less privileged. India in an agrarian nation, home to around 18 crores of rural households (2017). In such a scenario where there is a spate in the number of farmers' suicide, a very important question hovers. Was demonetization of currency of lower denominations, the right move? Or whether a wrong time (just before harvest season) was chosen? The initial objectives of this historic move were really significant but how far the government got success in achieving these objectives. If not, as it was shifted later to a 'less cash/cashless economy', who suffered the most other than these poor villagers. It has surely inconvenienced legitimate transactions of many people. Therefore, it becomes important to study the impact of demonetization on rural India and one of the largest sectors, agriculture which employs around 50-60% of population. It would be noteworthy whether the same situation of distress and sufferings persist even now, after ten years.

Objectives of the study:

The objectives of this study are:

- To analyze the impact of demonetization on Indian rural economy then and now.
- To examine the hardships faced by the villagers at the time of demonetization.
- To analyse the positive impact of demonetization on rural economy after ten years.

Research Design: Descriptive research design has been used for conducting this study which is based on secondary sources of data.

Impact of Demonetization on rural economy:

It was the third time, Indian government had decided for and implemented demonetization to curb black money. This time also the laid objectives were not fulfilled. Unlike the previous instances of demonetization, this time, the greatest challenge for central bank was to print and distribute these currency notes to a cash-based economy at a very short notice to every corner of the country including the remote villages.

There were many anticipated risks like erratic untimely rainfall for which rural people are prepared to face, but this move was never anticipated. It caused panic situation for exchanging hard earned money. Not getting money when it is urgent had definitely badly hit the sentiments of the poor villagers who were silently supporting this move of the government with the good objectives. Turmoil faced by villagers have presented them as resilient citizens reaping the positive impact at present.

Negative impact on rural economy at the time of demonetization-November 2016:

i. Impact on agricultural transactions: The time for demonetization was not good from the point of view of agricultural operations. After the sluggish growth, agriculture sector was all set to achieve atleast 4% growth in 2016-17. It was harvest season for Kharif crop growers, means the time to reap benefits from the good harvest. But due to unavailability of cash in the pockets of rural buyers in cash-based market, disappointment and grief percolated amongst farmers/villagers because of this unprecedented risk which came as a sudden shock. Rabi crop growers were also adversely affected as sowing had just begun, for which they needed cash for the purchase of seeds, inputs, fertilizers, hire of labourers etc. The production of rabi crops, marketing and prices of kharif crops were major issues and caused distress among farmers.

ii. Intensifying impact of unorganized informal money market: India, the highest populated country next to China, is agrarian economy with 640,867 villages and 68.84% of Indians living in villages (2016-17). Even after decades of Independence, majority of them are still undeveloped lacking in basic infrastructure and most importantly banking facility. There was no other option then to keep silence and keep waiting for the turn. The shortage of banking facilities in remote areas, lack of availability of cash in rural banks/co-operatives, lack of digital literacy, lack of digital banking infrastructure and the problem of transportation have multiplied the waiting period for poor villagers and for some it never ended resulting to death.

There is parallel unorganized money market prevailing in villages and villagers are under the clutches of these money lenders by whatever name called in this modern era. Farmers had to purchase seeds and other agricultural inputs on credit from money lenders owing to the problem of cash crunch. Measures for agri-protection by the government were not effective for bringing relief to the distressed villagers.

iii. Lack of financial inclusion: Use of mobile wallets and other online payment options were made available, post demonetization which transformed Indian economy to less-cash economy. Millions of bank accounts were indeed opened under Pradhan Mantri Jan Dhan Yojana for making digital India but rural people were not using it and later they turned to be dormant accounts. This non- inclusion aggravated the problem post demonetization in rural areas.

iv. Limited usage of cash-alternatives: According to the Telecom Regulatory Authority of India (TRAI), the number of rural subscribers rose to around 112 million as of March 2016. Even though, the mobile penetration in rural areas was sufficient but the percentage use of internet and online payment options by rural people was negligible. They faced inconvenience, coupled with bitter memories of agony and pain for payment of school fees, marriage, medical emergency, rent etc.

v. Reduction in consumption demand: Post-demonetization, it took longer time to normalize the situation in villages then it was thought of. This caused an irreversible damage to the rural economy. Demand of vegetables, fruits and other perishable commodities lowered due to cash shortage which had resulted to heavy loss to farmer. The circulation of cash/currency was not smooth resulting in lack of funds for purchase of seeds, timely availability of manure etc.

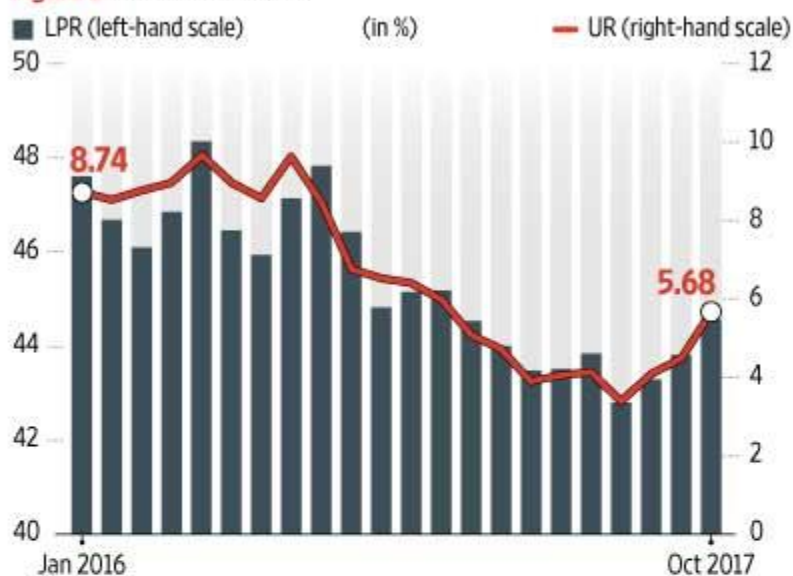
vi. Loss of source of livelihood: The whole banking system was dedicatedly engaged to implement this decision. The cash flow in the brick-and-mortar market did not come back to normalcy till now as many people lost their source of livelihood. Delay in sowing seeds and inadequate fertilizers resulted in insecurity of job and even discontinuity of jobs for many landless labourers. There was a decline in hiring of daily wagers for agricultural operations and 50 lakhs loss of jobs included many farmers and villagers. Daily wage workers without any bank account and MGNREGA workers were badly-hit. The prices of food grains and vegetables went down. This pathetic situation resulted in deaths of many people post note-ban till 2018. It also resulted in reverse migration from cities to villages. The buyers disappeared from the markets due to cash-crunch. Farmers had to dump their produce for lack of cash availability to bring them to the markets. Condition became severe with multiplying effect as they could not sell the produce, they also could not arrange money for sowing seeds for the next harvest season.

vii. Impact on rural labourers: These labourers are paid daily or weekly in cash which were delayed by their employer because of cash scarcity and some employers even made the payments with demonetized currency. Sowing of rabi crops were delayed or declined, affecting the work and wage payments which further compelled them to take the credit from local retail traders or private money lenders and thereby increasing their debt. There was decline in

employment and income resulting in increase in demand for work under NREGA but with uncertainty of payments there also.

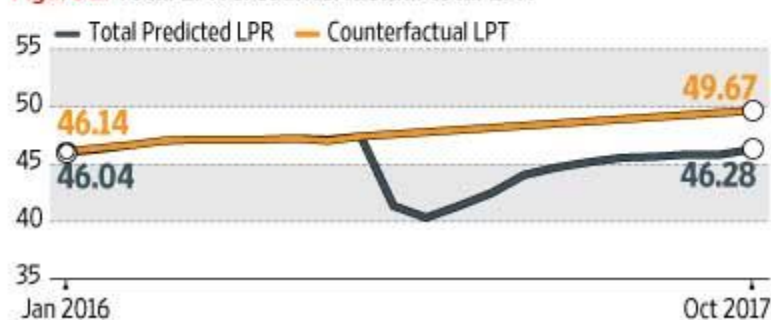
EMPLOYMENT SCENARIO BEFORE AND AFTER DEMONETIZATION

Figure 1: Total LPR and UR



IF DEMONETIZATION HADN'T HAPPENED

Figure 2: Total LPR & counterfactual total LPR



LPR: labour force participation rate; UR: unemployment rate

Source: Centre for Monitoring Indian Economy (CMIE)

viii. Reverse Migration: Ease of living index went down drastically in both urban as well as rural areas. Reverse migration numbers increased and many poor people returned to villages, never to go back as they had lost their source of livelihood.

ix. Non-functional Co-operative Banks: Co-operative banks which serve large number of people in rural areas were prevented from handling cash. These banks were made non-functional which increased the worries and inconvenience of poor villagers.

x. Distress in informal and MSME sector: Distress caused in informal and MSME sector due to the shortage of cash/funds, has resulted in irreparable social and economic loss in rural India. This has widened the rural-urban divide.

Positive impact of demonetization on rural economy after a decade:

- i. Financial Inclusion:** Demonetization has resulted in a paradigm shift in the financial operations of rural India. Rural population which was earlier reluctant to adopt the digital system now has adapted to the changed scenario of cash-less economy. They have been benefitted by PM-JAN DHAN YOJANA and DBT-Direct Benefit Transfer scheme for financial inclusion. The move of demonetization has led to increased trust in formal financial system.
- ii. Growth of Digital payments:** Rural India which was earlier on back-foot to use digital payment options owing to the lack of trust, poor infrastructure, digital illiteracy etc. now are using digital platforms for financial transactions with much ease and confidence especially the Gen-Z of rural India.
- iii. Strengthening of formal sector in rural India:** A decade after demonetization, there is an apparent change in the structure of rural economy which is now more formalized. Digitalization of land records, adoption of formal system for banking and financial transactions to avoid unaccounted cash transactions, using e-commerce channels and platforms have proven to be beneficial for rural economy in the long-run.
- iv. Increase in liquidity in rural banks:** Demonetization had resulted in increase in funds/deposits in rural banks, agricultural co-operative banks. This availability of funds made provision for long-term loans at comparatively lower rates to villagers for furthering the rural development. Availing credit from the formal structure is a strong indicator of strengthening of financial system in rural India.
- v. Transparent and quick operations in Mandi:** Villagers/farmers reported easy transfer and transparency and reduction in the number and role of intermediaries in the operations of Mandi. Though increase in documentation initially caused inconvenience to the rural economy but formalization of supply chain has resulted in more benefits in the long-run.
- vi. Shift in tendency towards financial planning:** Behavioural shifts are visible among rural people. They are depositing cash from home to banks which increased their saving habits owing to increased trust in banks and proper utilization of money. Financial inclusion has resulted in better financial planning by rural population.
- vii. Rural Entrepreneurship:** Demonetization has resulted in increase in opportunities for rural entrepreneurship. Many people started selling mobile, offering recharge facility, internet facility with computers were opened in villages to strengthen the digital infrastructure and to assist in digital payments. Distress led innovations opened the door for 'local to global' in villages. The number of agri-preneurs and women entrepreneurs increased which diversified the sources of household income of villagers.
- viii. Increase in rural consumption:** Adoption of digital systems for payment and other digital platforms for shopping and networking have made all consumer durables, farm-products, technology, branded products and services accessible even to rural areas now. It has resulted in rural consumption and increase in standard of living.

Conclusion:

Cash will always remain an important means of transaction in rural economy. The important feature about money is that it should be used at the time one needs to spend it, later it loses its value and is of no use, if one is not capable of using it. This phenomenon of money was witnessed by many legitimate owners of money at the time of demonetization, particularly in rural areas. This paper may help the policy makers and the implementers to consider various aspects related to rural economy to minimize the irreversible damage

before thinking of demonetization of currency which is in use by almost all, for most of their day-to-day transactions. In a country like India where nearly 90% of people work in informal sector, 55 % work in agriculture and allied activities and earn their wages in cash, save in cash and store in denominations of Rs. 500 and Rs. 1,000 notes which is their hard-earned money and not black money, a period when thousands of Indians live in town or villages with no bank, demonetization resulted in more damage than benefits.

When the very objectives of demonetization proved untenable, it was shifted to a 'less cash/ cashless economy' but digitalization of payments, financial inclusion and awareness, formalization of the informal sector and adoption of electronic means of payment is a process which cannot be hurried to implement note-ban because of lack of infrastructure/digital infrastructure and other constraints.

Now, mobile wallet companies are providing services in languages other than English and there is a vast improvement in digital literacy among those users ensuring smooth transition to digital payments in rural India. Many companies like Paytm and MobiKwik had started doing this at the time of demonetization. If demonetization had happened after ensuring this it might not have resulted in immense grief to countless poor villagers, farmers and honest citizens and more benefits than the costs could have been accrued from this big-bang reform.

In a nut-shell, it can be concluded that short-term disruptions at the time of demonetization have resulted in structural change with respect to rural India. Initially, demonetization caused inconvenience to the rural economy which was purely dependent on cash. Now the resilient rural population despite long transition phase and high economic cost at the time of demonetization and with no visible impact on black money/counterfeit currency is reaping benefits of digital inclusion, formal financial systems and their financial inclusion.

Villagers who could not move to non-cash alternatives were the great sufferers of this great shock with a long-lasting adverse social and economic impact to vulnerable groups and poor rural households. Local retailers, small and medium farmers, contract labourers, unemployed class and MGNREGA workers had to suffer a lot due to demonetization. These facts cannot be overlooked while planning any financial reform of this kind the next time.

Distress caused by demonetization has now turned out to be a win-win situation for rural economy. There is a massive surge in digital transactions as per the official reports by RBI in dual-payment economy and digital infrastructure expansion to rural India is now seen as an opportunity for quick-commerce.

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