

Demonetization-Impacts in Urban and Rural Area

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ABSTRACT

It is no new thing how Government of a country can decide and introduce new monetary policies every now and again. But the news of demonetization came as a shock to India as a whole. The move was targeted for flushing the stocks of "black money" out of the economy and getting them legitimate, banked and taxable so that it becomes a part of our economy. The government also claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. These Government claims before demonetization might sound appealing on hearing, however, they will be seen as mere forecast or assumptions as the case may be. The truth remains that, the true and practical impact of demonetization can only be ascertained after and not before its implementation. The researcher has reviewed various literatures in line with the topic area. In this paper, the Researcher tries to analyze the impact of demonetization, identify potential benefactors and those who bore the heat of this monetary policy with special reference to urban and rural area in India.

1. Introduction

Demonetization is the act of taking off the legal tender status of a currency unit, usually whenever there is a modification of currency. The current form or forms of currency is stopped from circulation and retired to be replaced with new notes or coins. At 20:00 Indian Standard Time (IST) on 8 November On 8 November 2016, Indian Prime Minister Narendra Modi announced the demonetization in an unscheduled live televised address. In the announcement, He declared the use of all ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series invalid at past midnight, and also announced the issuance of new ₹500 and ₹2000 banknotes of the Mahatma Gandhi New Series in replacement for old banknotes. However, this was not the first time the country's currency had undergone demonetization. Indian government had demonetized bank notes on two previous occasions- in 1946 and in 1978- and in both cases, the goal was to fight tax evasion by "black money" held outside the formal economic system.

2. Objectives

Generally speaking, Demonetization is undertaken by nations for a number of reasons:

- To combat crime and corruption (tax evasion)

- To dishearten a cash-dependent economy
- To fight inflation
- To assist trade

The original objectives for demonetization in India were to:

Eliminate fake notes; Inflict losses on those with black money; and Disrupt fright and criminal activities. Later, new objectives were tacked on: Enabling growth in bank credit and Turning India into a cashless economy. The government claimed that the action would limit the shadow economy and break down on the use of unlawful and fake cash to fund unlawful activity and terrorism. The sudden nature of the broadcast and the extended cash shortages in the weeks that followed created significant interruption throughout the economy, intimidating economic productivity.

3. Uniqueness of Rural and Urban Area of India: Comparison Chart

Urban and Rural settlements are very different, regarding the mass of human structures and the inhabitants of that area. The standard of living for instance in urban areas is higher in comparison to the rural areas. At present, the maximum part of the total population resides in urban areas, as well as the total land area occupied by the urban region is greater than the rural areas. Below is a comparison chart for urban and rural area.

Foundation for Comparison	Urban	Rural
Definition	The term urban simply refers to the region or area which is densely populated and possess the characteristics of the man-made surroundings.	Rural is a region located on the outskirts, a small settlement, outside the boundaries of a city, commercial or industrial area. It includes, scenery areas, villages, where there are natural vegetation and open spaces
Activities	Income source from Non-agricultural work, such as trade, commerce or provision of services.	Agriculture and livestock as main source of income

size	Highly populated	Low density of population. In India, where population is below 15000 is called as rural, as per the planning commission
Advantages	Division of labor and specialization is always present in the urban settlement at the time of job allotment .easy access to various amenities, better transportation facilities, entertainment and education options, health facilities.	rural life is simple and relaxed.
Disadvantages	Pollution, caused due to large scale industrialization and means of transportation like buses, trains, cars and so on, leading to increasing in health problems in the people living in that area.	No division of labor
Standard of living	High	Low

4. Demonetization: Similar Impacts in Rural and Urban Effects

The public faced a lot of difficulties with the implementation. Below are some of the impacts similar to both urban and rural area after demonetization.

- **Currency Scarcity:**

There was insufficiency of lower denomination notes in the market, and long hour queues outside banks. Daily wagers required going to the Bank daily instead of working to save their life- long reserves of few thousands as the case may be. Even foreign students in India could not access the money sent to them for feeding, payments of fees etc as western union couldn't distribute old currencies. Also, Senior citizens didn't have a facility of separate lines in banks, so it was really challenging for them, as there were few heart attacks, strokes and other news out there.

- **Incompatibility of Currency**

A 2000 Rsnote was unsuited for ATM machines. This led to a need for replacement or up gradation of 2.2 lakhs ATM's.

- **Ceremonial Cancellations**

Some Marriages were cancelled or postponed because of money unavailability. There was less sound of wedding bells

- **Savings**

The fraction of savings is much higher (25%) for those households that experienced a loss in income. About 30% of households report that their savings increased in November 2016, possibly due to precautionary motives or due to "forced" savings as new currency notes were not available^[1].

- **Temporal Confusion and Chaos**

The Public faced minor difficulty for a few days due to the scarcity of lower denomination currencies in the system. It certainly affected various categories of people.

5. Demonetization: Impacts in Urban Area

- **Black Money**

One of the objectives of demonetization was to take out the Black money stored in the form of Rs 500 and Rs 1000 notes from the system. The government's plan to scrap 500 and 1,000 notes was to uncover up to 4.6 lakhs crores in black money. Some of these black money where cut- off. However, it is believed that the effect of demonetization on black money is only temporal as it can't be cut-off entirely

- **Terror Funding**

Fake Indian Currency Notes (FICN) network was dismantled by the demonetization measures. Taking out 500 and 1000 rupee notes out of circulation had a lasting impact on the producing FICN's, thus affecting the funding of terror networks in certain states.

- **Real Estate Considerable Course Correction**

The demonetization decision was expected to have far reaching effects on real estate. Resale dealings in the real estate sector often have an important cash constituent as it reduces occurrence of capital gains tax. Black money was responsible for sharp increase of properties in metros; real estate prices saw a sharp drop after demonetization.

- **Digitalization**

A Demonetization resulted in people adopting virtual wallets such as Paytm, Ola Money etc. The gradual transition towards digitization and a cashless economy definitely helped curb corruption. The added convenience of using digital payment solutions and virtual wallets can't be ignored either

- **Agricultural produce**

Because the rural farmers were also suffering from the effect of demonetization, they did more of preserving agricultural produce for themselves rather than giving all out so as to survive. this move affected the availability of some agricultural produce in the urban areas and the prices for available ones increased.

6. Demonetization: Impacts in Rural Area

The demonetization of 500 and 1000 rupee notes to crush back economy came at a wrong time. Below are some of the impacts faced by those in the rural areas .

- **Agriculture:**

After demonetization, Many farmers were unable to get enough cash to buy seeds and fertilizers for their winter crops, Production of essential commodities was under threat hurting some farmers who were just recovering from the two-year drought, landholders faced problems such as paying daily wages to the farmers and purchasing agricultural needs for growing crops and also faced problems while selling their harvested produce. Problems in purchasing seeds at the right time for sowing at upcoming season was also another issue.

For Farmers with KCC/Agricultural Loan Account, the government allowed them to withdraw up to Rs.25,000 per week against their crop loans to ensure sowing of winter crops is done properly. These farmers had at least a basic knowledge on how banking works and they could be able to sustain the impact of demonetization. The problem would be with the cash realized from past sales that was not deposited into KCC account and not necessarily with buying the new seeds.

For Farmers with no KCC/Agricultural Loan account, They will be largely affected as they do not have the facilities of withdrawing 25000 in cash. As it is generally seen that such farmers do not keep lump sum in bank accounts largely due to fact of low income or sometimes, lack of awareness. They had to stand in line and suffer. Credit transactions increased in agricultural sector due to these farmers, the farmers based in rural areas with no banks were largely affected. They faced much difficulty because of the demonetization. Failure to get a reasonable price on their produce, pushed many farmers under massive debts, burdened by interests. Small farmers also

suffered a cash-crunch due to demonetization, as many have crops lying around, but with no buyers whatsoever.

- **Labor**

Farmers lacked enough cash to take care of themselves and their families. This made them to toil even harder to ensure their survival.

- **Small Businesses**

Small businesses from rural area are dependent on the labors, purchasers and as cash flow was less the chain was somewhat broken and so they suffered a lot. A decrease in GDP is a result of this situation.

- **Shops**

Normal life, goes on the grocery store but after demonetization, grocery stores had the least people to visit. Due to reduction in cash flow in market, shopkeepers were also affected a lot.

- **Savings**

About 30% of households report that their savings increased in November 2016, possibly due to precautionary motives or due to "forced" savings as new currency notes were not available^[1]

7. Conclusions

From the above case study, the objectives as well as impacts of demonetization in urban and rural area has been highlighted. While some of these impacts are temporal, others are likely to be permanent. Demonetization and its benefits cannot be over-emphasized and their practical benefit as well as its negative effect is seen from the above study.

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