A STUDY ON UNDERSTANDING THE CONCEPT OF DEMONETIZATION: STUDY CARRIED OUT WITH MBA STUDENTS AS RESPONDENTS.

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ABSTRACT

The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge, this study highlights on the opinion and perception of respondents towards the demonetisation issue faced by them, it tries to bring out the insight of understanding and measuring the aftermath of demonetisation it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy. Demonetization of 86% of floating currency in the market meant a huge transformation in the way businesses are being conducted in India. Push for 100% cashless transactions meant that age-old customs had to be destroyed, and new ways required to be learnt in order to conduct any type of business in the country. The original assumptions underlying the decision remain unclear, but it seems to be causing considerable harm. Although popular right now, demonetisation may not end up being a good bargain.

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Literature review:

On November 8, the government announced its decision to discontinue the legal tender status of Rs 500 and Rs 1000 notes. The original objectives were stated as: eliminating fake currency; inflicting losses on those with black money; and disrupting terror and criminal activities. Later, new objectives were tacked on: enabling growth in bank credit, turning India into a cashless economy. India witnessed a financial coup, the scale of which was unparalleled in the entire human history. Demonetization of 86% of floating currency in the market meant a huge transformation in the way businesses are being conducted in India. Push for 100% cashless transactions meant that age-old customs had to be destroyed, and new ways required to be learnt in order to conduct any type of business in the country. The original assumptions underlying the decision remain unclear, but it seems to be causing considerable harm. Although popular right now, demonetisation may not end up being a good bargain. A study by the National Investigation Agency and the Indian Statistical Institute, in 2016, estimated that fake Indian currency notes in circulation have a face value of Rs. 400 crore. This is an incidence of fake currency of 0.022%. The scale of counterfeiting of the Indian rupee is not out of line with what is seen in other countries, and the procedures adopted worldwide to address this include investigative actions against counterfeiters, phased replacement of old series of notes with new notes that have better security features, etc. Demonetisation is generally not seen as a tool for dealing with counterfeiting. We must also not forget that the counterfeiters will now
get to work on the new 500/2000 rupee notes, while India will likely never do a demonetisation again.

The analysis presented in the finance ministry’s White Paper on Black Money, 2012, shows (on page 47) that, on average, the amount of cash seized during raids by income tax authorities is 4.88% of total undisclosed income admitted in those cases. This data is from more than 23,000 warrants executed. Even if this decision inflicted a 100% loss upon holders of unaccounted cash, this would imply a loss of only 4.88% of their total unaccounted wealth, which is not much of a shock for those with such wealth. If, as is more likely, the demonetisation has imposed a 40% loss upon holders of unaccounted wealth (who suffer a 40% discount when laundering their money), this implies a loss of just about 2% of unaccounted wealth.

Cash is a store of value (white or black), but it is also a medium of exchange. Most people in India only transact with cash. More than 90% of shops accept only cash or very short-term credit. Large numbers of labourers and small value suppliers are paid in cash. While these facts may change over time, they mean that this sudden ban may be leading to disruptions in consumption and production. Compared to the 10,000 yen note ($137 in purchasing power parity), the 1000 swiss franc note ($775), the USD 100 note, or the 500 euro ($530) note, the Rs. 1000 ($31 in purchasing power parity) and Rs 500 ($15.5) are practical notes that are used for daily transactions. Hence, demonetisation of these notes is a large adverse monetary shock—perhaps the largest ever such shock in world history. The constraints of ATM recalibration and currency printing are leading to a long transition period. Even ensuring 50% re-monetisation in cash form—about Rs. 7.5 lakh crore—by December-end appears hard. The Centre for Monitoring of Indian Economy has estimated that a few elements of the first-round impact give a reduction of GDP of around Rs 1.3 lakh crore; the total impact will be higher owing to the multiplier effect, the hysteresis associated with the monetary shock, the impact upon expectations, etc.

While there is much talk about the GDP impact of this decision, a unique feature of this episode is that there may considerable other costs that fall disproportionately upon the poor. The rich have access to electronic payments, employees who will stand in queues to obtain cash, and savings that are used to cope with a decline in income. The poor lack all these. If a poor person suffers an income shock, or is not able to get medical treatment, the consequences are enormous for the individual, but the GDP impact may be negligible. In terms of welfare implications, these costs matter a lot more than the impact on GDP.

Some have compared this decision with a surgical strike, but it is more like a nuclear strike. The nuclear option has been exercised before exhausting other options. Although measures to help people disclose their undisclosed incomes have concluded, the efforts to directly or indirectly curb illegality have barely begun. This raises concerns about the wisdom of using this lever of demonetisation.

The poor are also more vulnerable to frauds and swindles that are thriving in the present environment of enormous uncertainty. The unbanked are likely to be mainly the poor, and the unexpected ban on exchange of notes has created a desperate situation for them. It is easy to say that they should open bank accounts. But in the present situation of uncertainty, we are hearing reports of people resorting to desperate measures even to protect a part of their savings. There are many reports of this happening in remote areas.

India being a vast, multi-terrain country, with the uneven presence of banking facilities, there are many regions with poor access to banking facilities. The transaction cost of having to make the trek to a bank branch multiple times to exchange or withdraw cash even once is quite high as a percentage of a household’s income. We have heard stories about people living in remote villages in hilly areas having to rely on others to get notes exchanged, and taking losses in the process. So, for a subset of the poor living in remote locations, the costs may be even larger. It is quite likely that the costs of this decision on the poor will be significant, and some poor people might suffer disproportionately. Poor households have no black money and did nothing to deserve this. Never before has a decision of the Government shown negative effect on people so early as the current move to demonetize.

A narrative has been built on its supposed benefits. The decision has been hailed by the supporters as a master stroke, a surgical strike which will end the reign of Black Money and establish the supremacy of White Money. It has been described as a bold act by an unquestionable authority whose decisions are for only collective benefit of the nation and these decisions can nothing else be but only correct. In this extreme faith all others have been just reduced to an audience who just need to look at the unquestionable authority who will take decisions for the benefit of all. Any questioning of this authority only means that
they have vested interests in perpetuation and existence of the Black money economy.

A look at the current developments only breaks the narrative and shows the hollowness of the argument. The greater common good is only a good of the few. In this supposed crackdown on Black Economy, the Black money does not reach its dead end but continues to thrive and benefit one side of the political divide. High cost marriages worth Rs. 500 crores continues to get performed through usage of Black money as seen in case of Reddy’s. About Rs. 92 lakh worth Black money in the form of new Rs. 2,000 denominations get caught with the party claiming to be working towards ending Black money, Rs. 3 crore worth of Money gets deposited to Party Bank account in West Bengal in the form of old denomination notes just before the announcement. Many past and present Chief Ministers associated with party in power continue to be involved in cases associated with corruption as in the case of Yedurappa, Shiv Raj Chauhan and Raman Singh.

The decision of the government has brought the economy to a standstill. The sufferers of the decision continue to be the poorest that have no bank account – the workers in the Tea Plantations of Assam, garment workers dependent on wage labor in Tamil nadu, the street vendors who are completely dependent on cash transactions, the farmers who need credit for agricultural inputs and for carrying out agricultural operations, the construction workers in urban areas who need cash on a daily basis to meet their immediate needs, the vegetable vendors who need to dispose off their stock the same day. Many of the operations in Agriculture produce market committees (APMCs) have come to standstill affecting the farmers. All the poorer sections, the dalits, the adivasis, the women who are completely out of the cashless system in the country continue to face the havoc. Human lives continue to get lost in this crackdown on Black Money. Lack of acceptance of old cash denominations has only resulted in deaths of common people. Instances of denial of treatment in the name of old denominations, deaths due to standing in long queue, suicides as rations could not be brought on money and money which could not be sent to the needy family members on time, heart attacks as marriages get cancelled are some of the emerging human stories. The Government continues to describe this as a temporary inconvenience which has to be borne by the citizens for the patriotic act. Parallels keep getting drawn with soldiers in Siachen who stand for long hours to protect the nation. However, in this patriotic act the rich and powerful hardly stand in long queue. Just like ordinary soldiers die in a war, so too in this case ordinary people lose their lives. This happens at a time when large loans of corporate like Kingfisher’s get written off. About Rs. 7,000 crore worth loans to 63 willful defaulters gets written off

A 50 day time is sought to emerge out of the temporary inconvenience. It is being pointed out that banking operations need at least 4-6 months to be restored back to normalcy. However the social and human costs of this period following demonetization could be disastrous. This is irrespective of the extreme faith being expressed on the new panacea for ending Black money namely Demonetization.Today the politics of Maya is well and truly back in play with Narendra Modi’s ‘Mahayagna’ a.k.a. demonetization promising a digital Moksha through the tapasya of a ‘war on black money’. Once again, as in India’s sordid past, the biggest losers of this devious push for a cashless economy are going to be those right at the bottom of the Indian caste hierarchy. From all evidence so far it is clear, that the Scheduled Castes and Scheduled Tribes, who make up a bulk of those surviving off India’s vast informal economy, are the worst affected by the sudden disappearance of cash from the economy. Labour in agriculture, construction, fishing, textiles, micro-enterprises, the urban and rural poor – mostly from these marginalized castes – have been pushed to the brink of starvation or worse due to loss of jobs and income

The World Bank has lowered its growth forecast for India to 7 per cent from 7.6 per cent in 2016-17, citing a slowdown in consumption and manufacturing due to demonetisation and an ongoing decline in private investment and credit constraints due to impaired bank balance sheets. The World Bank’s Global Economic Prospects January 2017 report added that the Indian economy is subsequently set to recover its growth momentum, with growth rising to 7.6 per cent in FY18 and further strengthening to 7.8 per cent in FY20. “Unexpected ‘demonetization’— the phasing out of large-denomination currency notes which were subsequently replaced with new ones—weighed on growth in the third quarter of FY2017,” the report added. “Weak industrial production and manufacturing and services purchasing managers’ indexes (PMI), further suggest a setback to activity in the fourth quarter of FY2017.” This was further accentuated by other economic factors, the report added, leading to a slump in the entire year’s growth rate. “A retrenchment of private investment,
reflecting excess capacity, corporate deleveraging, and credit constraints due to impaired commercial banks’ balance sheets, also had an adverse effect on activity,” according to the report. “For the whole of FY2017, growth is expected to decelerate to a still robust 7.0 per cent.” Demonetization could still cause major problems in the short term, slowing reforms and affecting smaller economies dependant on the Indian economy, according to the World Bank.

“In the short-term, ‘demonetization’ could continue to disrupt business and household economic activities, weighing on growth,” according to the report. “Further, the challenges encountered in phasing out large currency notes and replacing them with new ones may pose risks to the pace of other economic reforms (e.g., Goods and Services Tax, labor, and land reforms).” The report added that the demonetization effect on trade and remittance channels could also affect growth rates in smaller economies such as Nepal and Bhutan. Due to this cash crunch, India ground to a halt. Businesses shut down, farmers couldn’t buy seeds, taxi and rickshaw drivers didn’t have any way to receive payments, employers had no way to pay their employees, hospitals were refusing patients who only had old banknotes, fishermen watched their catch wither up and rot, some families had difficulty buying food, and weddings throughout the country were cancelled. Initially, demonetization was sold by Modi as a campaign to fight corruption. It was thought that the country’s black market wouldn’t be able to exchange or deposit their gluts of illicitly obtained wealth, and the central bank could have been in for a payday that was estimated to be as high as $45 billion. But this simply didn’t happen. Even with strict regulations put in place to audit large deposits and limit the amount of banknotes that could be exchanged at one time, India’s shadow economy was able to unload their black money, often laundering it sparkling white in the process.

Data Analysis and Interpretation:

1. Do you know what exactly the meaning of demonetisation is
   A] Yes   b] No

   ![Pie Chart](chart1.png)

   **Interpretation:**
   It’s a quit surprise that most of the respondents do not know the exact meaning of demonetisation, the research conducted revealed that around 70% of the respondents do not know the meaning, only around 30% of people know about demonetisation.

2. Do you know the definition of black money according to income tax laws
   A] Yes   b] No   c] not exactly

   ![Pie Chart](chart2.png)

   **Interpretation:**
   Most of the respondents ado not know the actual definition of black money according to the income tax laws of India. The majority of respondents more than 60% are unaware of the real definition, only a handful of respondents which is around 20% knows the actual definition, and what is more surprising that around 10% of the respondents tried to understand the definition of black money in their own way of understanding.

3. The demonetisation will help in curbing black money
   A] agree b] disagree c] strongly agree d] strongly disagree

   ![Bar Chart](chart3.png)

   **Interpretation:**
   It was thought that the country’s black market wouldn’t be able to exchange or deposit their wealth in the process.
Interpretation:
As we all know, one of the primary objectives of demonetisation is curbing black money, but the data collected from respondents gave a complete different picture. Majority of the respondents more than 50% do not believe that this move by the government will be able to curb the black money, which also helps to understand that the shadow economy will prevail even after demonetisation. The data reveal that just 30% of the respondents are of the believe that this move will curb the black money.

4. Can this step be considered as tool for making country get rid of corruption?
A] yes  b] no  c] minimal impact

Interpretation:
The data collected reveals that majority of the respondents around 60% are not of a believe that the move demonetisation will help the government in tackling corruption, in fact many of the respondents said it may lead to further corruption, just 30 % of the respondents are of a believe that this move of demonetisation will help in removing the corruption in the system, around 10 % of the respondents said that there will be minimal impact on the elimination of corruption from the system.

5. This process of demonetisation will help the government in tackling with border infiltration
A] yes  b] no  c] No impact

Interpretation:
One of the significant objectives of government for justifying the move of demonetisation is stopping the border infiltration, this question tries to get the perception of respondents about the chances of attaining this objective by the government, more than 50% of respondents said that the border infiltration may not be stopped by demonetisation, around 30% believe that this move will help the government to stop the infiltration and around 15% believe that there is no relationship between the demonetisation and border infiltration.

6. This process of demonetisation will help the government in transforming country into cash less economy
A] yes  b] no  c] cannot say

Interpretation:
The above question is intended to record the responses pertaining to the perception about cash less economy which is also one of the objective of demonetisation move, the responses highlights that this objective of government will be obtained in future, the data analysis reveals that more than 60% of respondents agree to the fat that the country will be cash less economy in future, around 30% of the respondents said that it will not be possible, around 10% respondents said that they are not able to relate the demonetisation with cash less economy.

7. Digital infra structure in India is not at par with the international norms
A] agree  b] disagree  c] strongly agree  d] strongly disagree
Syed Valiullah Bakhtiyari / A study on understanding the concept of demonetization: study carried out with MBA students as respondents.

Interpretation:
One of the must have requirement for transforming country towards the digital country is availability of required infrastructure, this question is intended to know the understanding of respondents towards the existing facilities and digital infra structure prevailing in country, the data analysis revealed that around 60% of the respondents believe that the country do not have infrastructure to implement the digitization of money, around 20% agrees to the fact that the country do have the required infrastructure, around 10% of respondents disagree to the fact that the existing digital infrastructure is not enough and 8.

Over all as a citizen of country are you in favour of government move
A] yes  b] no  c] not full support

Interpretation:
This question is intended to understand the feelings of respondents towards the overall picture of government move including all the objectives cited by the government, the data analysis high lights that majority of the respondents more than 50% of them in are not in a support to government move, it’s quite surprising because most of the media houses in their coverage pretends that majority of Indians support this move, around 30% of the respondents said that they are in complete support to the government move, and around 15% said that they are not in full support to the government move.

9. Demonisation process is a short term pain but long term gain
A] agree  b] disagree  c] strongly agree d] strongly disagree

Interpretation:
The data analysis of the above response highlight that majority of the respondents are of a believe that this move of demonetisisation will be gain for the nation in a long run, but they believe that it will be pain in present, What is more surprising in this research is that the respondents do have confused state of mind in many responses and most of them took extra time to respond to each question.

10. The demonetisation resulted in the loss of bread and butter for daily wage workers
A] yes  b] no  c] not much affected

Interpretation:
The above question is the question which has generated quickest reply from the respondents, and many respondents around 70% believes that this
move of demonetisation has resulted in the loss of earnings for the daily wage earners, which implies that the most affected people are lower class people

11. The government was not prepared for tackling the post demonetisation situation
A] agree  b] disagree  c] strongly agree d] strongly disagree

Interpretation:
This question is intended to know the responses about the post demonetisation measures taken up by the government, the analysis of collected responses shows that maximum respondents around 60% says that it was a complete chaos and miss management and the government was not able to tackle the post demonetisation situation properly which ultimately resulted in loss of human lives also, around 20% respondents agree to the fact that government has done good measures and could control the situation to an good extent, around 10% says that government was completely prepared for facing situation arised due to demonetisation.

12. Will the cash transactions be replaced by digital money in future
A] yes  b] no  c] not completely

Interpretation:
The question is directed towards understanding the responses about the effect of demonetisation in rural India, the analysis of data revealed that more than 50% of respondents agree to the fact that Rural India is lacking in digital infrastructure there by this move of government will effect badly in rural parts of country, around 25% strongly agree to this fact that there is lack of digital infra in rural India, around 10% disagree and an equal percentage of respondents strongly disagree to this fact, according to these respondents India’s rural population is provided with all requirements by the government which are needed for the implementation of demonetisation.

13. Most of the rural population in India do not have the proper knowledge about digitization of economy
A] agree b] strongly agree c] disagree d] strongly disagree

Interpretation:
The question is directed towards understanding the responses about the effect of demonetisation in rural India, the analysis of data revealed that more than 50% of respondents agree to the fact that Rural India is lacking in digital infrastructure there by this move of government will effect badly in rural parts of country, around 25% strongly agree to this fact that there is lack of digital infra in rural India, around 10% disagree and an equal percentage of respondents strongly disagree to this fact, according to these respondents India’s rural population is provided with all requirements by the government which are needed for the implementation of demonetisation.

14. Introducing 2000 rupees note by banning 1000 rupee note will be a futile exercise for controlling counterfeit currency
A] yes b] no c] no relationship
Interpretation:
One of the significant objective of government move of demonetisation is eliminating counterfeit currency in the form of high denomination, this question is intended to know the responds pertaining to their believes about this government objective, the data analysis results are surprising because maximum respondents around 70% says that it is not possible to stop circulation of counterfeit currency in high denominations, the base for their opinion is collection of counterfeit 2000 currency notes almost every second day, Around 20% respondents says that it is possible to control the venom of counterfeit currency circulation and they say that the entire exercise is not futile and will yield results, surprisingly around 10% of respondents do not consider this move of demonetisation associated with this objective of government and they say that there is no relationship between demonetisation and counterfeit circulation of currency.

15. The demonetisation will help in stopping terror funding
A] agree b] disagree c] strongly agree d] strongly disagree

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