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RESEARCH ARTICLE

SOCIO-ECONOMIC AND PSYCHOLOGICAL IMPACT OF DEMONETIZATION IN RURAL PUNJAB

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ABSTRACT

The Government of India implemented a drastic change in the economic environment on 8th November, 2016, by demonetizing the high currency notes of Rs 500 and Rs 1000. Demonetization was a step taken by the honourable Prime Minister to eradicate black money and to flush out the fake currency being in circulation from the economy. The objective of this paper is to deeply go through the issue of demonetization and to study the hardships being faced by the rural people due to demonetization. Various websites, journals, articles, write ups of famous personalities, news in newspapers have been consulted to write this paper. This paper concludes that respondents suffered very bitter experience of demonetization. According to the respondents demonetization was not a good step as they had problem in operating digital economy.

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INTRODUCTION

Money plays a very crucial role in human life. Unlike, the past when barter system was the base of economies, in the present era, the printed currencies in various forms and denominations have become the basis for the exchange of goods and services in almost all the countries of the world (Mohan 2016). The economists believed that the adequate supply of currency play a positive role in the smooth functioning of the society as well as development. Under or over supply of currency may generate negative roles for the economies. The term demonetization is related to the bank currency. Demonetization refers to the ban of old currency where old money is considered as an illegal tender. This practice is done to wipe out the illegal cash being accumulated over the period of time in the system. The main objectives of the demonetization are to eliminate the black money, corruption, terrorism and fake currencies (Sangwan 2016). Demonetization was tried by some other countries in the world like Nigeria (1984), Ghana (1982), Zimbabwe (2010), North Korea (2010), Soviet Union (1991), Australia (1996), Myanmar (1987), Great Britain (1971), Pakistan (2015), Zaire (1997) and United States of America (1969) out of which only Australia and USA were successful in their attempts. The demonetization was enforced on 12th January 1946 for the first time in India and secondly, on 16th January, 1978. Recently, it was announced by the government of India on 8th

November, 2016 and declared that the high denomination old Rs 500 and Rs 1000 notes as not legal tender in the country. The government of India has also introduced new notes of Rs 200 and Rs 2000 in the country. The process of demonetization was a historic event. It was one such decision which affected the lives of a billion people directly and all at once. The announcement of demonetization was made by none other than the head of the government, Mr. Narendra Modi, the Prime Minister of India in which he announced Rs 14.18 lakh crore (trillion) of currency as invalid and as a result of which the entire society was emptied of cash with sudden announcement as it was believed that in India, there is a rampant black money largely in the shape of currency note and this was termed as the bottleneck in the development of the country. Further, it was also believed that many people had hoarded the currency note particularly of Rs 500 and Rs 1000 denomination, beside investing it in a real estate. It is also believed that the act of demonetization has made the entire economy paralyzed (Singh and Singh 2016). After few days of demonetization, people in India in general and in rural area in particular suffered due to non-availability of cash and waiting in the long queues for days together to get the very limited amount of money (Mohan 2016; Ramachandran 2016). The issue of demonetization has affected the various sections of the society in various forms. Agriculture constitute a major part of Indian economy and a big source of employment to our population. The agricultural scientists and agricultural economists had divergent views regarding the impact of demonetization on the farming community of the country. Many economists believed that demonetization may destroy a tiny part of the black wealth but

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it would not stop black income generation (Kaur and Akriti 2015). Similarly the farmers have been affected negatively because their only source of transaction was cash (Mohan 2016). The farmers generally suffered in the forms of low price of the products particularly of vegetables. Similarly, the agricultural labourers also suffered a lot after the demonetization as some of them lost their job while some were insecure of losing their jobs.

Objective of the paper: The ultimate objective of this paper is to have a detailed view of the hardships being faced by the rural people due to demonetization.

RESEARCH METHODOLOGY

The study was conducted in Rural area of Ludhiana district by selecting six villages from two blocks namely Ludhiana – II and Machhiwara. Three village from each block were taken for data collection. Data was collected from 30 farmers and 5 labourers from each selected village. The farmers of various categories i.e, Large, Marginal and Small were covered under the study. The total sample of the study was 210. Data was collected personally with the help of structured schedule.

REVIEW OF LITERATURE

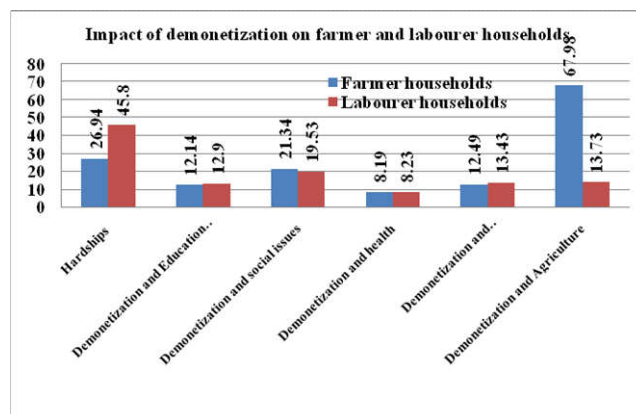
Mohan (2016) concluded that demonetization could result in lower interest rates over the long run. Greater financial inclusion and digitization of payments will cause deposits to swell. Further, there could be changes in behavior, not just of individuals but of businesses, which leads to better tax compliance and higher tax to GDP ratio. Cash and black money were not synonymous but, yes, a lower use of cash can indeed help to reduce black money in the economy. A serious assault on black money, however would require measures aimed at real estate, gold, holdings abroad, donations to political parties and significant improvements in the tax, law enforcement and judicial systems. Sangwan (2016) highlighted the positive impact of the demonetization on reduction in rates of deposits, advances, corruption, inflation, terror finance, black money and improvement in tax GDP ratio, financial inclusion and ease of doing business. He acknowledged demonetization as a historical step in introducing violence free economic, socio cultural and political transformation.

Ramachandran (2016) brought out that demonetization would bring a considerable degree of pain to the economy over the next three to four months. The GDP growth rate of the economy would be affected in short-run period, but it in the long-run, this measure could generate significant effect on the economy. Implementation of this measure has undoubtedly been inefficient and caused a great deal of hardship to the common man. In the medium and long term, however it will have cleansing effect on some critical areas of the economy like real estate and such an impact must be welcomed by all. Singh and Singh (2016) attempted to estimate the level of circulation of cash in the country. Presently, the magnitude of notes being circulated in the country occupied about 12.1% of total GDP of the country. In –hand cash was estimated to be around 3.2% or roughly around \$220 billions of household assets. About 87 per cent out of the total cash is in the form of Rs 500 and Rs 1000 notes or roughly we can say Rs 14 lakh crore (\$190 billion). A large amount of cash was generated by the economic transactions which were not reported to the tax authorities and generated through corruption.

Kaur and Akriti (2015) brought out the issue of black money in the Indian economy. The study suggested that issue of black money prevailing in the society can be reduced with active participation of our youth and parliament. There should be very strong and appropriate legislative framework in order to control the generation of black money especially in sector where the chances of generating black money was relatively very high. It was reported that a large amount of black money or unaccounted wealth has been stashing abroad every year and government's measures to check the black money was very inadequate or almost negligible. India can maintain its status amongst richest nations, if all the black money would be brought back in the economy.

RESULT AND DISCUSSION

Level of socio-economic and psychological implication of demonetization on farmers and labourers: The frequency of responses of the sampled respondents with respect to different statements of socio-economic and psychological impact of demonetization were quantified into scales. These scales with respect to different statements of socio-economic and psychological impact of demonetization of each individual respondent were summed up to form a series. This series represented the level of impact of demonetization. Five such series were created which represented the impact of demonetization on children education, on social issues, on health, on psychological issues and on agriculture, respectively. The impact level of demonetization were further classified into Low, medium and high level by using cumulative cube root method and the results in this respect is presented in Table 4.4.1. It is evident that the proportion of sampled respondents corresponding to low, medium and high level of impact of demonetization on education of children came out to be 38.33, 36.67 and 25.00 per cent in case of farmers, while the respective figures in case of impact of demonetization on social issues were estimated to the tune of 33.89, 31.11 and 35.00 per cent and the same were 38.89, 38.89 and 22.22 per cent in case of health issue, 39.44, 37.22 and 23.33 per cent in case of psychological issues and 35.00, 33.89 and 31.11 per cent in case of agriculture, respectively. Similarly, the per cent share of sampled respondents corresponding to low, medium and high level of impact of demonetization on education of children came out to be 20.00, 10.00 and 70.00 per cent in case of labourers, while the respective figures in case of impact of demonetization on social issues were estimated to the tune of 40.00, 46.67 and 13.33 per cent and the same were 3.33, 0.00 and 96.67 per cent in case of health issue, 13.33, 3.33 and 83.33 per cent in case



Comparative level of hardships and socio-economic and psychological issues faced by the farmers and labourers

Particulars	Farmer		Labourer		t	Sig. (2-tailed)
	Mean	SD	Mean	SD		
Hardships	26.94	4.08	45.80	3.49	23.89*	0.00
Education of children	12.14	2.15	12.90	2.40	1.75	0.08
Social issues	21.34	2.50	19.53	2.89	3.58*	0.00
Health	8.19	0.71	8.23	0.86	0.27	0.79
Psychological issues	12.49	1.96	13.43	1.41	2.52*	0.01
Agriculture	67.98	6.00	13.73	28.16	23.12*	0.00

* Significant at one per cent level of probability

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Particulars	Farmer		Labourer		t	Sig. (2-tailed)
	Mean	SD	Mean	SD		
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Social issues	21.34	2.50	19.53	2.89	3.58*	0.00
Health	8.19	0.71	8.23	0.86	0.27	0.79
Psychological issues	12.49	1.96	13.43	1.41	2.52*	0.01
Agriculture	67.98	6.00	13.73	28.16	23.12*	0.00

* Significant at one per cent level of probability

Association of farm size and level of hardships faced the respondents

Level of socio-psychological response	Chi-Square	Correlation-Coefficient
• Level of Hardships	87.375*	-0.492*
• Children Education	25.757*	-0.202*
• Social Issue	15.959*	-0.008*
• Health Issue	82.386*	-0.372*
• Psychological Issue	43.473*	-0.261*
• Level of Agriculture	41.994*	0.232

of psychological issues and 83.33, 3.33 and 13.33 per cent in case of agriculture, respectively. Based on the total sample, i.e. out of total 210 respondents, the proportion of sampled respondents corresponding to low, medium and high level of impact of demonetization on education of children came out to be 35.71, 32.86 and 31.43 per cent in case of farmers, while the respective figures in case of impact of demonetization on social issues were estimated to the tune of 34.76, 33.33 and 31.90 per cent and the same were 33.31, 33.33 and 32.86 per cent in case of health issue, 35.71, 32.38 and 31.90 per cent in case of psychological issues and 41.90, 29.52 and 28.57 per cent in case of agriculture, respectively.

Comparative level of hardships and socio-economic and psychological issues faced by the farmers and labourers households after demonetization:

Farmer and labourer households constituted the major share in the rural areas. Therefore, the socio-economic impact of demonetization on farmers and labourer households basically, represents the impact of demonetization on rural areas of Punjab. The level of hardships faced by the respondents during the period of demonetization and the level of socio-economic implication of demonetization of farmers and labourer households were compared in this section and results are summarized in Table 4.4.2. The results revealed that mean level of hardships faced by the sampled respondents during the period of demonetization was many more times higher (45.80) among labourers than that of farmer households (26.98). The value of t-statistics (23.89) clearly indicated that the mean difference of level of hardships faced by the labourers and farmers was highly significant. The impact level of demonetization on social issues and agriculture was very high among farmer households than that of labourer households. The impact level of demonetization on social issues and agriculture worked out to be 21.34 and 67.98 in case of farmer households, while the

corresponding figures were 19.53 and 13.73 in case of labourer households. The value of t-statistics with respect to these two issues came out to be 3.58 and 23.12 which revealed that mean difference between the impact level of demonetization on social issues and agriculture was highly significant at one per cent level of probability, respectively. The implication of demonetization on psychological issues was came out to be higher among labourer households (13.43) as compared to farmer households (12.49) and the mean difference in this regard statistically differ between farmer and labourer households. The impact level of demonetization on education and health was worked out to be more or less same in case of farmer and labourer households, respectively.

Conclusion

The demonetization process was initiated in the country with the aim to curb black money, corruption, terrorism, fake currencies and to promote digitalization of banking transactions. In India, large part of the population living in the rural areas and most of them used liquid cash for making all transactions. Therefore, the life of this section of the society was observed to be affected considerably during the period of demonetization. As perceived by the sampled respondents, the step of demonetization was fairly good in terms of curbing out the black money in the country. It was also presumed by the sampled respondents that digitization of banking operation was not easy and demonetization could not generate fruitful results at the end.

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