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DEMONETIZATION-RISE OF DIGITAL ECONOMY IN INDIA

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ABSTRACT

On 8th November, 2016, India woke up to 86% of the cash in the economy no longer being legal tender. Some sections are opined that it can cause hardships for common people and some sections have reacted to this decision with overwhelming support. But the sudden purge of 86% bank notes in circulation is bound to create some hassles for the general public. This scheme has impacted the businesses, common people and financial institutions along with multi-diverse background in India. The main thrust of the Demonetization move is to accelerate this transformation to a digital economy. This will minimize the role of cash and transit with least cost to a predominantly digital economy. This paper attempts to provide an overview of Demonetization to Digital Economy . And also tries to elucidate how it tries to transform India from cash centric economy to cash less economy. The paper makes an effort to know about the Demonetization effect on Daily labour.

KEYWORDS: *Demonetization, Digital Economy, Daily labour, cash less economy.*

INTRODUCTION:

On 8th November, 2016, India woke up to 86% of the cash in the economy no longer being legal tender. What followed after the initial shock was chaos – not just at ATMs and bank counters, but also in Parliament,

TV debates, and among other stakeholders. Now that the dust is settling somewhat, a crucial debate is shaping up on the longer term effects of the Demonetisation policy.

On balance, the popular sentiment seems to have endorsed the Prime Minister's bold

move, taking the inconvenience in its stride. Much of this initial goodwill has focused on the impact on black money. Indeed, once the chaos of Demonetisation is over and the cash hoardings are flushed out, the infusion of money with the banks will, in the short-to-medium run, spur economic activity and unfold the virtuous cycle of growth. However, for this process to sustain over a long term, reduction in tax rates, widening the tax base, reducing the scope of corruption through administrative reform, and transparency in electoral funding will become necessary to avoid the repetition of a parallel economy and – most importantly – to ensure an effective transition to a digital economy. For, other than the legitimate goals of choking off sources for terror financing and ensuring monetary sovereignty, the main thrust of the Demonetisation move is to accelerate this transformation to a digital economy. This will minimize the role of cash and transit with least cost to a predominantly digital economy.

OBJECTIVES

- This objective of this paper is to understand the Demonetization and Digital economy .

- To understand the challenges and opportunities of Digital Economy .
- The paper also aims to focus on the effects of demonetization on Daily labour.

NEED

The whole process of demonetization is to push Indian people towards a cashless economy. A cashless society will be a better solution for the Indian economy. The government is pushing digital payment measures like credit cards, debit cards, e-wallets etc. The government has also waived off charges on transactions made by digital methods. A lot of companies like Paytm, Mobikwik, Oxygen are providing e-wallets to the Indian consumers. They can use those wallets to make payment. A lot of small traders are started using swap machine to collect payment directly to their bank account.

SCOPE

Demonetization is accelerating a process of digitization across the economy that – while already underway – would have otherwise taken years to reach fruition. For digital finance companies, it opens up a great opportunity across sectors and regions. It will motivate them to demonstrate greater

responsiveness to demand and faster innovations to maintain lead time in the changing scenario. And as SMEs become more and more adept at electronic payment systems, they will become an integral part of the formal economy; as a result, cashlessness and the use of digital technology will gain in force.

DEMONETIZATION TODIGITAL ECONOMY

On November 8, 2016, India has seen a few historic announcements from the prime minister's office in relation to cancelling the high denomination of 500 and 1000 rupee notes with an objective to tackle the black money, access to cash by terrorists, curb tax evasion & encourage cashless transactions. The high denomination currency notes make about ~85% of the total cash circulated in India. In the announcement, Modi declared that use of all 500 and 1,000 banknotes of the would be invalid after midnight of that day, and announced the issuance of new 500 and 2,000 banknotes of the New Series in exchange for the old banknotes.

With the effect of demonetization reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic

product ratios in the world, and lubricating economic activity with paper has costs. To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under the Jan Dhan Yojana (Prime minister Financial Inclusion scheme) and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency. RBI has also issued licenses to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions. Things are also falling in place in terms of technology for India. The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message. So, the exercise can exchange currency notes and the ongoing currency crunch be a decisive factor in making India a truly cashless economy. Shortage of cash has significantly increased the use of digital modes of payment, but the actual shift will only be visible after the cash crunch eases. It is possible that a section of people who has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this

medium, but there are still a number of hurdles in making India a cashless economy.

OPPORTUNITIES OF GOING CASHLESS

- **Convenience**

This ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option while travelling.

- **Discounts**

The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase the savings to take advantage of these.

- **Can track spending**

If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns

and, in case of a scrutiny, people will find it easy to explain their spends.

- **Budget control**

The written record will help to keep tabs on the spending and this will result in better budgeting. Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latter factor.

- **Less risk**

If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.

Small gains

It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that we can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

GO DIGITAL, GET DISCOUNTS

Service tax : Waiver of service tax of 15% on digital transactions up to ₹2,000.

Fuel : 0.75% discount on digital purchase of fuel through credit/debit cards, e-wallets or mobile wallets.

Rail tickets : 0.5% discount on monthly and seasonal suburban railway tickets from 1 January 2017. Online rail ticket buyers get up to ₹10 lakh free accident insurance too.

Rail catering : 5% discount on digital payments for railway catering, accommodation, retiring rooms, etc.

Highway toll : 10% discount on NH toll payment via RFID or fast-tags in 2016-17.

Insurance : 10% discount by government general insurers on premium paid online via

their portals. 8% discount on new LIC policies bought online via its site. POS: Rs 100 a month is the maximum rent that PSU banks can charge for PoS terminals.

Rupay : Kisan credit card holders to get RuPay Kisan cards.

CHALLENGES OF GOING CASHLESS

▪ Risk of identity theft

The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform. Besides, the latest move by the government to remove the two-factor authentication process for online transactions up to ₹2,000, will not help. Irrespective of the size of transaction, the absence of this additional layer of security will expose thousands to the risk of identity theft.

▪ **Losing phone**

Since you will be dependent on your phone for all your transactions on the move, losing it can prove to be a double whammy. It can not only make you susceptible to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are travelling abroad or in smaller towns or villages with lack of banking infrastructure or other payment options. Another drawback is that one needs to keep their phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

▪ **Difficult for tech-unsavvy**

India has a low Internet penetration of 34.8%(2016), according to the Internet Live Stats, and only 26.3% of all mobile phone users have a smartphone (2015), as per Statistic figures. Besides the practical difficulty of going digital, a bigger block is the psychological shift. You are suddenly jumping three

generations to the digital medium,. It's a problem for the older people, who may suddenly find themselves locked out of their accounts if they can't download an app or don't have cash. The digital medium may prove a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.

▪ **Overspending**

While there is no denying the convenience of card or mobile wallet transactions, it could open a spending trap for an unsuspecting population. The pain of parting with money is felt more acutely if one uses physical cash instead of a card. Hence, using cash instead of cards or mobile wallet acts as a natural bulwark for people who find it difficult to control their spending. Besides, a high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a

habit that they may find difficult to break.

DEMONETIZATION EFFECTS ON DAILY LABOUR

The Centre's directive on demonetization of higher currency notes has raised an air of discomfort and anger among the salaried class people. This visible and hyped discomfort has somewhat ignored the most affected segment, the labourers. The livelihood for these labourers has come to a standstill. Their pending dues and rising cash crunch have forced them to go back to their respective native places.

Demonetization has hit agricultural sector, crop sowing, seed purchase, harvest, wage agricultural labour, rendering millions of people temporarily jobless because lack of cash. In urban areas, it has crippled street vendors, small shopkeepers food stall owners, those doing menial jobs like cobbling, sweeping, those in construction and other daily contract labour.

- Owing to the rise in livelihood problems, a major section of construction labourers have migrated to their native places. These workers get their weekly payments by the end of every Saturday. A major chunk of labourers have lost their jobs and workers hailing from Bihar, Uttar Pradesh and other migrant labourers have headed their home." There are no authentic data of these labours available with the government but they are expected to contribute nearly one to three percent of the total population.
- Workers from agricultural sector too claimed to have affected due to current effect of demonetization. They could not arrange labour for carrying out different agricultural activities during current Rabi season of crops. While getting agricultural labour itself was problematic, they are not

able to avail services of these labourers due to payment related issues. The rural areas are badly affected due to cash crunch with ATMs still dry; they have no money to pay daily wages of these labourers.

- Industry executives warned that if the cash crunch continued, the number of jobless people will only grow. They, however, added that a clearer picture will emerge in the weeks to come when more cash is likely to be in circulation.
- Production has been severely affected in the days following the sudden demonetization move. Many factories have already reduced their production because of liquidity crisis. The cash withdrawal limit of Rs 50,000 a week helped the industrialists to conduct only necessary business transactions.
- Besides, many labourers do not have savings account, as

70 per cent of them are migrant workers from the north and northeastern parts of the country. At the same time, a lot of workers do not use bank accounts because they risk losing poverty or BPL status if the amount in their saving account exceeds the limit of Rs 50,000.

- Almost a fifth of 32 million people employed in textile and garment industries, who are paid their wages daily or weekly, have been severely hit. Around 25 per cent of the 25 lakh workers in labour industry have also been affected.

CONCLUSION:

To conclude, Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough Rs.100 notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as

he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

As the Indian government and all the stakeholders are trying to grapple with the implementation of demonetization announcements from the government, there has been certainly increased participation by Indian citizens through digital payment gateways, internet banking, mobile and digital wallets and so on. There is also expectation from the broader markets in India that the Indian government may come up with more relevant measures to reduce black money and also encourage digital transactions in the country. This paper has made sincere effort to understand the problems of daily labour an insight into current challenges and opportunities that prevail in the Indian economy and also explains the Indian government's longer term aspirations to achieve a cashless economy in the country.

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