

*Demonetization and Poor Economics: Warning signs that the government overlooked*

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**Abstract**

Demonetization as a tool to curb black money in the Indian economy and promote a cashless society miserably measurable failed in the aspect of social welfare and poor economics or how the economics of being poor worked. This research paper shows that the government overlooked warning signs in the form of existing available data that with fair consideration would make demonetization infeasible because of the impact on poor people particularly in rural areas.

**Keywords** : Poor Economics, Social Welfare, Demonetization

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## **Introduction**

Rich people including economists find it difficult to understand the preferences and constraints of poor people while classical economics evolved studying poor people (Theodore 1980). In democratic societies the State's purpose is to improve people's lives (Wilensky, H. 1975; Sen A. 1997). However through arbitrary and unplanned demonetization the State failed to follow the theories of social welfare.

## **Impact of Demonetization on Rural India**

On November 8, 2016 the Government of India demonetized all 500 rupees and 1000 rupees at 8:00 PM through a live address to the nation. These two banknotes constituted 86% of the total notes in circulation. It was expected by the government that people will deposit their cash holdings into existing bank accounts or create new accounts for depositing cash. A time period of 50 days was provided for the same. However the government failed to account for the economic conditions and access to financial facilities such as banks in rural areas, the literacy rate of rural people and digital literacy and understanding of the online banking facilities of these rural people. Borpujari. P (2013) notes that there is a conspicuous apathy of the privileged towards the less privileged. This indifference, to an extent, is driven by market logic to an outcome of selective class-centered coverage of news and debates by Indian media (Kumar, 2017). Economic growth after liberalisation has been exclusionary (Chandra, 2010; Suryanarayana & Das, 2014). Poverty is not a natural phenomenon but a direct result of the structural features of the prevailing political economy as the under-privileged are left out of the economic growth and wealth is transferred from the poor to the rich (Shrivastava & Kothari, 2012).

The following available data for India with particular reference to rural India were overlooked by the government which forcefully implemented demonetization on the Indian economy:

1. Cash and ornaments (considered as cash for assessment purpose) comprised only 5% to 6% of the black money while the rest is stashed in other forms of assets (Suresh, A. E., 2016).
2. A study of online data available on Statista shows that smartphone as a percentage of total phones in circulation in India at the end of year 2015 was 26.3% and in 2016 were 29.8%. Smartphone is essential for smooth mobile banking or doing digital transactions.

3. Subscriber base of GSM phones at the end of 2016 was 562 million (Rajkumar. D, Sharmila K, and Rebello. S, 2016)
4. While rural banks greatly increase economic growth ( Burgess and Pande, 2003), a cashless rural banking economy depends a lot on knowledge about m-banking as well as digital literacy.
5. Inappropriate internet connectivity in rural India, complexity of mobile banking, lack of knowledge about mobile banking and digital literacy (Sihare, 2017), led to an ill-prepared rural India.
6. Literacy rate is less than 80% for working people and less than 60% for older people (Tanushree Chanda, 2019) with higher illiteracy rate in villages. and will be a big impediment to usage of mobile banking service or banking.
7. The lack of cash would directly impact farmer's ability to get good prices for the crops harvested at the time of demonetization, with a ripple effect into purchases of seeds and fertilizers for the next cultivation season (Gurav, 2020).
8. While microfinance has helped the poor a lot, a large of poor people in rural areas don't have access to this as non-availability of formal employment makes them non-bankable (Chavan, V., Khanna, K., & Shinde, G., 2016). This also ensured lack of exchange facilities for the poor who had to travel a lot without guarantee of same day exchange of banned currency with new ones.

## **Conclusion**

The study of poor economics means the study of the economics of being poor and with rural agricultural areas comprising the maximum of any country's population, it is essential that we understand that common economic theories also applies to them as given proper access to facilities like healthcare and education they will also exhibit similar behavior which the middle class population show (Theodore 1980). Dreze and Sen (2013) had stated that in the last two and half decades, growth had excluded the poor. Even with demonetization it was obvious that the concerns and problems of the poor didn't figure in the decision making of the government. So we can state that Demonetization had overlooked the warning signs available to the government in the form of reports as well as research papers and data. This is also against the Theory of Social Welfare as the state acted to the detriment of the interests of the common man and poor people.

## **Further Research Potential**

An in-depth study of the impact of this demonetization exercise can be made by various social scientists and economists post COVID that would be an eye-opener to how the social welfare of people of India was undermined through this decision.

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