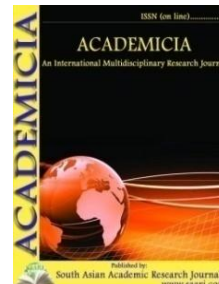


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DEMONETIZATION AND CASHLESS ECONOMY

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ABSTRACT

Since the midnight of November 8'Th 2016 suddenly people of India faced a major currency crunch by finding Rs 500 & 1000 notes irrelevant for payment purposes. Since then the issue of India making less on cash dependent came into being. For a common man the term 'cashless' may sound as if India is going to become more rich i.e. by using less cash they can get more. But ,certainly it is not so --Neither it is for the cash abundant people to use less-cash nor a move towards barter economy rather to transform India into relatively better economy. Now the Global economy has moved from the state of Star war to Digital war in which China has taken a lead over America by having biggest On-Line payments system and fastest computers .We are marching on 3G & 4 G their common people are running on 7th generation services. So the crux of the issue is how to make Indians to switch over to use more of electronic mode of payments even without changing the other economic parameters. We generally correlate level of education & adoption of latest technology , income status & and adoption of technology. But in this present although very short study we found that with respect to mode of electronic payment mechanism formal sector is significantly weak from demand side while informal sector is from both demand as well as supply side.

KEYWORDS: Counterfeit, Fake, Digital, App, Demonetization, Mode

INTRODUCTION

The Government of India implemented a major change in the economy by demonetizing the high value currency notes of Rs 500 and Rs 1000, with effect from midnight of 8th November 2016. These notes accounted for highest percentage (approximately 80 %) of the country's cash supply by value. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes.

Demonetization means when a currency loses its status of legal tender and moved out of circulation by government. It means either new notes or coins of the same currency are introduced or the old currency is fully replaced with the new currency.

The government's main objectives of demonetization were:

- to eradicate counterfeit currency —known as an FICN (Fake Indian Currency Note) and resist tax evasion
- Destroy the black money, and terrorist financing activities
- To take India towards cashless economy.

In this paper we will analyse how much the objective “**to take India towards cashless economy**” is achieved through the study of both the sector of our economy.

Cashless economy means an economy where all the monetary transactions take place without cash and through the use of electronic mode of payments. In short, using digital mode of payments such as Debit cards/ATM, Credit cards, Net banking, and various payment apps (Pay TM, BHIM app, etc) instead of cash for payment of various expenses or transactions done by the individual or an organization. Through demonetization government wanted to make India cashless economy.

Benefits of cashless economy:

- No risk of receiving counterfeit currency
- Easy to keep check on illegal transactions and black money
- No need to carry heavy amount of cash.
- Increases tax revenue and reduce tax evasion as government tracks all the transaction
- It reduces corruption from the economy.

After analyzing all the benefits of cashless economy our government wants to make all the sectors of our economy cashless for higher economic growth by reducing corruption from the economy. Our economy is mainly divided in two sectors – formal sector and informal sector.

Formal sector is defined as an organised system of employment with normal work hours and regular wages. This sector is monitored and taxed by government. People working in government service, civil service, public sector units, defense, schools, colleges, research institutes, management organizations, banks, multi-national/national/private companies etc **belongs to the formal Sector**

Informal sector is an unorganised system of employment which neither is taxed nor monitored by government. The informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.

People working as street vendors, small farmers, hawkers, home-based workers, cobblers, rag-pickers, porters, small traders, micro-entrepreneurs, labourers, artisans, etc **belongs to the informal Sector.**

Larger numbers of people are engaged in informal sector for their livelihood but this sector very unsecure and unstable; any change happen in our economy directly affects this sector because people's wages is not fixed in this sector.

Our government wants to make India cashless economy but informal sector workers do not use debit or credit cards, access the internet or use mobile banking and e-wallets etc. so after demonetization it was difficult for this sector to earn their daily wages. Though government says that after demonetization cashless transaction has increased and people are using electronic mode of payments more.

This paper is based the study of mode of payment used by both the sectors of our economy. Through this paper we will study if the mode of payment has increased in both the sectors or in just one sector which was already using it one and another way.

1- OBJECTIVE OF THE STUDY:

- i- To analyse the use of cashless mode of payment in formal and informal sector.
- ii- To find the correlation between use of mode of payment and income status.
- iii- To find the correlation between use of mode of payment and level of education.

2- SCOPE OF THE STUDY:

To make our economy cashless it is important to know that what mode of payment people use in different sectors and this study gives information about it which makes its scope wide and important as it will help economists, government and researchers to draw conclusions about how much demonetization has been successful in making India cashless economy. The study will provide the clear view about the use of cashless payment in both the sectors of economy through which government, policy makers etc. can develop new policies, ideas and ways to take India towards cashless economy.

3- RESEARCH METHODOLOGY:

To conduct the study, primary data was collected from Dehradun ,Syaldey,Manila and kashipur city of Uttarakhand. The cities were selected for study as it a capital city and a well developed combination of formal and informal sector workers.

400 samples were selected from the cities, 200 from formal sector workers and 200 from informal sector worker. The workers or interviewers were selected randomly from formal (teachers, officers, bankers, insurance agents, etc.) and informal sector (auto drivers, vendors, cobblers, shopkeepers, housemaids, labours, and self employed workers etc.).

The quantitative data was collected through interview schedule from the workers. To get the maximum response interview schedule was kept short and questions were easy to understand. It covered their demographic profile, economic status, views about demonetization, cashless economy and their mode of payment etc.

4- SUMMARY OF FINDINGS:

To summaries the data percentage method is used so that we can easily understand the information and can compare formal and informal economy.

5.1- The demographic profile of formal and informal workers:

Like the definition of formal and informal sector workers, their demographic profile is also different. Although we collected information from same age groups from both the sectors but their education level, family members, gender composition etc. are quite different which are explained in the following table:

TABLE 1- THE DEMOGRAPHIC PROFILE OF FORMAL AND INFORMAL WORKERS:

Sr. no.	Parameter	Formal sector Percentage (%)	Informal sector Percentage (%)
1	Age (years)		
	20-30	60	60
	30-40	30	30
	40-50	10	10
2	Gender		
	Male	70	90
	Female	30	10
3	Marital status		
	Married	75	80
	Unmarried	25	20
	Others		
4	Educational qualification		
	Primary	-	30
	High –school	-	50
	Intermediate	-	15
	Graduation	10	5
	Post graduation	60	
	Professional courses	30	

The table 1 shows the demographic characteristics of formal and informal workers in these places. All the workers interviewed belong to the age group of 20-50 years because this is the economically active age group and their participation is important for our economy. Most of the interviewer (60%) were selected from the age group of 20-30 years because they are more **technology friendly** and ready to accept new changes . 30% belong to the age group of 30-40 and rest belong to the age group of 40-50. Now a day the contribution of women has increased in the formal sector due to the changing mind set of people so we got interview of 30 % women in formal sector as they were well educated and understand the important of research they gave the information easily but sadly that was not the case with informal sector women as many of the women denied to give information only 10 % women gave their information. 70 % men were

interviewed from formal sector and 90% male were interviewed from informal sector. 75% of interviewers were married from formal sector and 80% were married from informal sector.

As far as their education level is concerned, it is very interesting to note that all formal sector workers are highly educated while informal sector workers are rarely graduates. Most of the informal sector works left education either due to their poor economic conditions or due to their lack of interest in education. Highest percentage of informal sector workers, 50% only attended high school while 60% of workers from formal sector were post graduate. 30% of interviewers from informal sector were primarily educated while 30% of interviewer from formal sector had taken professional courses. Though education is base for our economic growth and government has given so many facilities for free of cost education still the percentage of education is very low. To make India cashless it is important to make India educated because only an educated person can understand the importance cashless economy and can use new apps or technologies.

5.2 - Economic status:

The economic status of formal sector workers and informal sector workers differ from each other due to their earnings or wages. To know the monthly income of formal sector workers and informal sector workers we had to make two different class intervals because their income status varies.

TABLE 2- MONTHLY INCOME OF FORMAL AND INFORMAL SECTOR WORKERS

Formal sector Percentage (%)		Informal sector Percentage (%)	
10000-20000	10	Below 5000	5
21000-30000	15	6000-10000	75
31000-40000	15	11000-15000	20
41000-50000	40	Above 15000	-
Above 50000	20		

The above table 2 explains a lot about the difference between formal and informal sector workers. The highest percentage of informal sector workers 75% belong to income group of Rs 6000-10000 while 40% of interviewers earn Rs 41000-50000 monthly. 5 % interviewers from informal sector earn below Rs 5000 where as only 10% people earn below Rs 20000 in formal sector. The income difference is quiet evident between both the sectors the main reason for the gap is their education level. The people how have high education and skills get better job opportunities and income but the people with low education get low income jobs.

5.3 - Bank account and ATM– when asked about the bank accounts, it was very pleasant news that all the workers from both the sectors have bank accounts. Although informal sector workers also added the information that their bank accounts are not much useful for them as they don't have much income to save. Most of the bank accounts were open under jaan-dhan Yojana. All the formal sector workers have their own ATMs while only 70% informal sector workers have ATMs. 30% interviewers from informal sector said that they don't have ATMs and even they don't want to apply for it because they will not be able to use it as they find withdrawal process of bank is easier than the use of ATM. Basically they don't have much education to understand the technology so they are scared to use it.

5.4 - Mode of payments:**TABLE: 3 TO KNOW HOW FAR WE HAVE COME IN THE WAY OF MAKING OUR ECONOMY CASHLESS**

Sr. no.	Parameters	Formal sector (%) (n=200)	Informal sector (%) (n=200)
1	Taking Payment or salary		
	In cash		100
	Account	100	
2	Know about cashless payment		
	Yes	100	100
	No		
3	Medium used making any payment		
	Debit card/ ATM	70	15
	Net banking	15	
	Pay TM	15	10
	BHIM app		
	Others		
	Never used		75
4	Know about BHIM app		
	Yes	40	15
	No	60	85

When asked about why they don't use any mode of payment, most of the workers from informal sector said that they don't have knowledge of all these technologies and apps. Many of the informal sector workers didn't have smart phones. The workers like to take payment from customers in cash as it is easy and vendors said that they can't use cashless for Rs 10, 20 etc. payments as these are very small payments and mostly customers buy small – small things from different shops. They also find cashless payment wastage of time and money as to make payment we need internet. According to them if they will waste many on all these things then what they will eat. They have big family and small income so they can't waste money like this that is why they prefer cash payments which are easy, fast and don't need any specific knowledge.

Labours and housemaids said that they don't mind if they will get their wages in their account but it will waste their time as they will need to go bank to withdraw money so they also prefer payment in cash.

Government of India has made an app named as “BHIM (**B**harat **I**nterface for **M**oney)” is a mobile app developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI) is intended to facilitate e-payments directly through banks as part of the 2016 Indian banknote demonetization and drive towards cashless transactions.

When asked about this app most of the interviewers were shocked to know that our government has made any such app on 40 % interviewer from formal sector and 15% interviewer from informal sector said that they have heard about this app but they have never used it.

When we asked informal sector workers about swipe machine they said that the machine is costly for them and also consumers have to pay small amounts.

Formal sectors workers told that after demonetization mostly they perform their big transactions through digital medium and use cash only for small purchases. But informal sector workers told that their mode of payment have not changed even after demonetization as they are still making payments in cash and yes demonetization has hit them very hard as after demonetization their earnings reduces they had to suffer losses.

CONCLUSION

This study shows the changes in our mode of payments after demonetization. It covered both the sectors (formal and informal sector) of our economy. The use of mode of payment has only changed for formal sector as according to the interviewers after demonetization they have been using more cashless transaction then before but the informal sector workers still use cash for their transactions.

Formal sector use to get their salary in bank accounts even before the demonetization but now they also get their gas subsidies etc. direct on their bank accounts. The formal sector is already familiar with the working of bank and other formalities so they don't have problem in coping up with the working of cashless economy.

The informal sector plays an important role in our economy as it gives employment to large number of unemployed, less skilled, uneducated people. So if government makes any change in our economy it directly affects informal sector. The after effects of demonetization were also severe for the informal sector as this sector had to bear loss. This sector could not accept the changes occur in the economy after demonetization. As informal sector interviewers told that they don't use any digital mode of payment and they still conduct their transactions through cash either it is big or small. Informal sector also get their subsidies in their bank accounts still it doesn't make any difference.

We can conclude from the study that there is positive correlation between use of mode of payment and education level because the formal sector workers are more educated so they have more knowledge about the new techniques and digital platform of transactions so they use different types of payment modes for cashless transactions while informal sector workers are less educated so they don't have much knowledge about the various digital mode of payment. So they prefer cash payments more but now the young workers in informal sector has started using these payment modes.

We can also conclude from the study that there is positive relation between use of mode of payment and income status because after demonetization government has applied certain rules for big payments so now big payments only take place through electronic mode of payment. So people with higher income status use electronic mode for transactions while people with lower income status use cash as their mode of payment.

The demonetization has paved way for the cashless economy in India but a country like India where informal sector is larger than formal sector it is difficult to make it cashless because informal sector uses cash as their mode of payment.

Although the study is conducted in the small area with small sample size still it gives very clear picture about the economy that after demonetization how far government has achieved its objective of making our economy cashless.

The government has taken so many steps to make India cashless economy from setting limits on payments through cash, introducing BHIM app, providing subsidies in bank accounts, linking Adhar and PAN cards with bank accounts but still there are no satisfactory results. Government need to give people knowledge about the apps, techniques and also should conduct workshops were they can teach people how to use these digital modes and there benefits etc.

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