

An Analysis of the Impact of Demonetization on Retail Traders: With Special Reference to Belthangady Town

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ABSTRACT

Due to the restive growth of the black money, India has been practicing the dual economic system. Large volume of the parallel economy is continuously ruining the all-round growth of our economy. The most part of the Black money is attributed to tax evasion. It impacts directly on government revenue since it is forced to raise the direct tax rats and follow deficit financing to resort the government expenditure. When the Government increases the progressive tax rates to maintain equity in the distribution of tax burden, the growth of black money negatively act upon social justice by increasing income inequalities in an economy. Following of Deficit financing is negatively affected, once again, on the health of the economy. Demonetization is the strategic device to hold down illegal economic system. Demonetization was done by the Central Government headed by our honorable Prime Minister, Narendhra Modi, with the close aid of RBI in last two and half years ago (8th November, 2016). The present study has attempted to trace out the short term impacts of demonetization on retail business in the study region. This study has dependent on both the secondary and primary data for its analysis.

Key Words : Retailers, Sales Volume, Profit, Impacts, Demonetization

INTRODUCTION

In 1946, the currency note of Rs. 1,000 and Rs. 10,000 were removed from circulation, which had considered the first higher value currency ban of the Indian economic history. However, both the notes were reintroduced in 1954 with an additional introduction of Rs. 5,000 currency. The second (higher value Currency ban) currency ban was done in 1978 (Morarji Desai, the former Prime Minister of India, was announced the currency ban taking Rs. 1000, Rs. 5000 and Rs. 10,000 out of circulation). The sole aim of the ban was to curb black money in the country. The third (higher value currency) currency ban was done by the Central Government headed by Narendhra Modi with the close aid of RBI authorities in last one and half years ago (8th November 2016). Former move was taken with a very good intention to reduce role of parallel economy and

bring greater transparency in our economy. This move was the sudden shock every country men and formal and informal debates have started about the impacts of demonetization on Indian economy.

India's famous economist *viz.*, Amartya Kumar Sen, Nobel Prize laureates, who given the counter reaction on demonetization move that "Demonetization of currency was a dictatorial act as the government broke the promise of compensation that comes with a promissory note it goes against trust. Only an authoritarian government can calmly cause such misery to the people - with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience and indignity in trying to get their own money back." Demonetization was ostensibly implemented to combat corruption, terrorism financing and inflation. But it was poorly designed, with scant attention paid to the laws of the market, and it is likely to fail. So far its effects have

been disastrous for the middle- and lower-middle classes, as well as the poor. And the worst is yet to come,” leading economist Kaushikasu wrote in The New York Times. Speaking at the Rajya Sabha, Dr. Singh has called demonetization ‘Organized loot’, a ‘legalized plunder’ and a ‘monumental mismanagement’. He even said that the National income would fall by 2 per cent.

But the time has thought the corner lesson to all side debaters of the demonetization in later days. Our economy has now freed from the all the abrupt impacts of demonetization. Though it will take few years of time to get the absolute outcome but some short-term effects are quite visible.

Statement of the problems and research issues:

The present micro level study has been both the analytical and descriptive in nature. Since last one and half years, there is a serious serial debate, by famous economists, politicians, and administrators, on the central government bold move of demonetization across the country/world. Arguments on the move of demonetization were tended as like test of coffee with sugar and without sugar. As regards, researcher intended to conduct the study on impact of demonetization on retailers in Belthyangady town. Issues relating to pros and cons of such move of the central government on the retailers in the study region have been showcased.

Review of literature:

Review of literature and documentary sources have helped to had clear knowledge about topic that have conducted in the particular area in the past relating to the demonetization, features and its pros and cons that helps to finding out research gap.

Atul Sood, Ashupurna Buruah (2017) stated that Demonetization is a panacea (universal remedy) for the

country’s growth and a solution to its core economic problems¹. Arun Kumar (2017) discussed about the nature of money supply and its link with transactions in the economy which helps to understand and analyze the impact of Demonetization². Alok Prasanna Kumar (2016) propounded that the daily announcements with unchanging rules and new prohibitions not only cause disorders but also undermine the rule of law in the country.³

Dennis Rajakumar and Shetty (2016) argued that in 1978, the demonetization received limited public attention and had little impact on daily lives of people (high denominate notes were only 6% of the total currency in circulation). Further, author compared the 1978 situation with the 2016 and stated that the current situation is different, the demonetized Rs.500 and Rs. 1000 notes constitute over 85 per cent of total notes were circulated by value and impacted negatively on the daily lives of people⁴. Anush Kapadea (2016) stated that Indian monetary system is based on state-bounced credit money; his hierarchical system of credit / social relations appears to us as a system of flat money. Further by monitoring prime minister’s Statement. Author stated that the governments created an economic crisis from which we are get to emerge⁵.

Balakrishna (2016) stated that Demonetization is a standard tool in any quote to bag public policy instruments⁶. Ashok K. Nag (2016) argued that Demonetization affects the stock of unaccounted and tax – evaded cash but not necessarily any flow or generation process of such cash. Further he asked answer from policy makers, whether this demonetization initiative would stop or at least curb the generation of black money. Finally concluded that Demonetization could at least to be a temporary road dump but it would not stop the onward tawny of the chariot of corruption⁷.

1. “The New Moral Economy: Demonetization, Digitalization and India’s Core Economic Problem”. Economic and Political weekly (EPW), January 7, 2017, vol-L11, No.1, PP 31-36.
2. “Economic Consequences of Demonetization: Money Supply and Economic Structure”, Economic and Political Weekly (EPW), January 2017, Vol LII, NO 1, PP 14-18.
3. “Demonetization and the Rule of law”, See: Economic and political weekends, December, 2016, Vol-LI, No-50, PP 19-22
4. “Demonetization: 1978” See: Economic and Political weekly (EPW), November 2016, vol-LI, No- 48, PP-13-17
5. “Money and Demonetization. The Fetish of Fiat”, See: Economic and Political weekly (EPW), December, 2016, vol.LI No51, PP.36-42.
6. News paper article titled “The new color of Money”, See: The Hindu, Mangalore Edition, November 11, 2016.
7. Lost Due to Demonetization”, See: Economic and Political weekly (EPW), November, 2016, vol.LI, No 48, PP 19-21.

Sumanta Banerjee (2016) propounded that it is the opportunity of upward mobility offered by the democratic political system. Further question the move like what is offering to the poor and underprivileged section of society for the in convenience⁸. Banerjee and Chatterjee (2016) wrote in his blog that the major factor like non cash transactions has considered to be harder hit for the sale of car. Further, the impact results in inventory piling issue, increased fear among the end customer regarding changing government norms for possession of wealth and assets⁹.

Mohammad Miyan (2017) analysed the effects of demonetization on the various economic factors. Added to this, based on the primary level survey, he revealed that India can deliver the goods a major growth by adapting the demonetization strategy and its impact on the whole economy.¹⁰ Rajiv Chopra (2017) discussed about the short run costs and long run demonetization and its impact on the growth of various sectors of an economy where significant cash transactions are involved. Further, he mentioned about the digitalization and its roll on bringing transparency in the system by moving towards cashless economy.¹¹

Kamatchi Muthulakshmi E and Kalaimani G (2017) urged that demonetization has been certainly eradicating the black money through the devaluation of 500 and 1000 Rs. notes. Further, they stated that the demonetization move will affect some extent to the general public, but for larger interest of the country such decisions are inevitable¹².

Sankar R (2017) discussed about the rare and new concepts of demonetization, social entrepreneurs and the impact of demonetization on Social entrepreneurs .He

also, further, stated that social entrepreneurship it could be overcome through the exact rule implied by the government, provided if allowed regularly will be successful in their entrepreneurship activity¹³.

Srivastava (2017) opined about the bold decision which was taken by the central government to overcome the black money and its impact on India. Researcher also, further, stated that Indian financial markets, real estate market, FMCG Sector, Auto assets backed loans etc, all are declined for a short time¹⁴.

Objectives:

The prime objective of the study is to analyze the impacts of demonetization in the study region in general and the particular objectives of study are as follows.

1. To know the pulse of the retailers about demonetization in study region.
2. An Analysis of impact of the demonetization on Small traders in the study region.

Scope, relevance and limitation:

The present study has been geographically restricted to Belthangady Taluk administrative headquarter (Town) of Dakshina Kannada District. Issues relating to the effect of demonetization on small retail traders in the study area have been taken for the study. This topic has been relevant in current days and this study contributes itself at minute level to the monetary economics.

METHODOLOGY

The present Study has been partially descriptive and partially analytical in nature. This micro level study has

8. "Narendramodi, Bob Dylan and Demonetization" See: Economic and Political weekly (EPW) November 2016, vol- 5 LI No 48,PP 21-23.
9. "The impact of demonetization on India"See - "The impact of demonetization on India" Squire Patton Boggs, (2017), from <http://www.squirepattonboggs.com/~>
10. "Statistical Review on the Demonetization in India" See- international Journal of Advanced Research in computer Science, June 2017, vol-8, No-5, ISSN No.0976-5697, PP 1891-1894
11. "Impact of Demonetization on Indian Economy" See- Global Journal of Enterprise Information System, April 2017, vol-9, issue-2,, PP 100-101.
12. "Impact of Demonetization on Indian Economy", see- IOSR Journal of Humanities And Social Science, 2017 e-ISSNN: 2279-0837, PP 50-54
13. "A Study of Demonetization and Social Entrepreneurs: Impact and Effects- A Theoretical Perspective" see- Online on www.abhinavjournal.com , June 2017, vol-6, Issue-6,PP 42-47
14. "Demonetization and its Effects in India" see - SSRG International Journal of Economics and Management studies, February 2017, vol-4, issue-2, PP 17-23.

been geographically restricted to the Belthangady Town of Dakshina Kannada District; Karnataka State. It has relied on both the primary and secondary Data. Secondary data were collected through published and unpublished sources namely Reports Journals, Periodicals, Books, Monographs, Gazettes, Daily News Papers and so on. Primary data were collected through preparing well structure interview schedules to the small retail traders in the study region. Totally 80 respondents (retail traders) have been randomly chosen for the study and required information has been collected. To draw inference and verify the hypotheses, data gathered from the Primary and Secondary Sources have been analyzed with help of appropriate tables and used Weight Point Score Method to evaluate the overall opinion of respondents in respect the central government move. Simple statistical tools like mean, median, mode, percentage and average have been engaged at the time of discussion and interpretation of data gathered.

RESULTS AND DISCUSSION

In this chapter, field survey data gathered through structured interview schedule have been discussed and interpreted. Totally 80 sample respondents (retail businesses) from Belthangadi Town have been randomly chosen for the primary level survey. Issues relating to the opinion about Demonetization and its impacts on business and other related questions were employed to know the pulses of retailers about the Demonetization move by the central government in the study region. Primary level data were gathered through engaging different age group, minimum of 21 years of old and maximum of 60 years, respondents of retail businesses in the study region.

Mode of retail business:

Retail business in India accounts for about 10 per cent of its GDP. The Indian retail market is estimated to be US\$ 600 billion and one of the top five retail markets of the world by economic value. Retail business is the prime occupation for several Indians. We can see the different types of retail businesses, among those some important retail business chosen for the primary level study. While collecting primary level data, researcher has given ample inclination to the existing retail business of the study region. Of the total respondents interviewed, each of about 17.5 per cent of respondents have

interviewed from Gift Store and Bakery followed by highest of 20 per cent of the respondents have chosen and interviewed as the same from Small Kirani Shops. Further, 12.5, 13.75, 11.25, and 7.5 per cent of respondents have randomly chosen from grocery store, small textiles, pharmacy and electrical good shop, respectively and collected required information.

Gender and education details of the respondents:

General information about respondents includes education and gender of respondents. Here, of the total respondents interviewed about 81.25 per cent and 19.75 per cent of respondents were belonged to male and female category, respectively. Thus, data also revealed reality that high of about 38.75 per cent and 27.5 per cent of respondents have completed Pre-University and Graduation level education, respectively. Added to this, about 16.25 per cent and 10 per cent of respondents have got SSLC and Primary level education, respectively in the study region. Further, it is also proved from the field study that insignificant percentage of only about 2.5 respondents was obtain the formal education in the study region.

Details of the respondents having bank accounts:

Rural banking has become integral to the Indian financial markets with a majority of Indian population still living in rural or semi-urban areas. Pradhan Mantri Jan Dhan Yojana is one of the recent initiatives by the new government which has definitely contributed to bring banking to every household. It is traced out from the primary level study that of the total retail traders interviewed very high of about 88.75 per cent of retail traders have had bank account in the study region, remaining percentage was not. Dakshina Kannada district is very famous for banking activities in Karnataka. In the district, 05 National level Banks have originated and by this district has documented as banking hub of India. Earlier studies have also proved higher banking literacy of the district

Retailers' opinion about demonetization:

Primary level information relating to the retailers' opinion about the demonetization move by the central government is presented in Table 1. It is revealed the fact that of the total retail traders interviewed about high of about 38.75 per cent of retail traders was pleased with central government move of the demonetization in

Table 1 : Retailers’ Opinion about Demonetization Move

Particulars	No. Respondents	% of Respondents
(01)	(02)	(03)
Happy	31	38.75
Very Happy	08	10.00
Satisfactory	19	23.75
Unhappy	13	16.25
Very unhappy	09	11.25
Total	80	100

Source : Data gathered through Primary Investigation, April-2018

the study region. Added to this 10 per cent of them was very happy and 23.75 per cent of them satisfactory with such move of central government in the study region. Further, primary level investigation also traced out the reality that only together about 26.50 per cent of retail traders was unhappy and very unhappy with the demonetization move of the central government in the study region. Here, researcher state the field observation that respondents were given the highly political motivated response regarding the central government move of the demonetization. Particularly, one community (research ethics is not allowed to researcher to disclose the name of the community) in the study region was not ready to accept such move of the central government in the study region.

Impact of demonetization on black money:

The biggest mission of demonetization is described as fighting black money. India’s economy historically holds a big parallel economy where unreported income is far above the ground. The effectiveness of demonetization against black money depends upon the follow-up and supportive measures were made by the government. For example, the enactment of the modified Benami Transactions Act from November 1, 2016 will be a big associated tool in the hand of the government to tackle black income. Data collected from the field study regarding impact of Demonetization on retail business

has been presented in Table 2 of Part-B. It is evidenced from the field investigation that of the total respondents interviewed about 58.75 per cent of them was in favor of demonetization move that certainly abate the circulation of black money in the economy. Further, considerable percentage of about 41.25 per cent of them was said that move of the central government is not able to curb black money in an economy.

Impact of demonetization on retail business:

Demonetization has impacted the retail industry due to a liquidity crunch. As the Indian retail industry generates a lot of cash transactions, a reduction in sales will continue in the short-term, *i.e.* one-two quarters. This impact is being felt largely by small traders and the unorganized retailing segment prevalent on many high streets across the country, as compared to the organized retailing segment. Data collected from the field study regarding impact of Demonetization on retail business has been presented in Table-02 of Part-B. It is revealed the fact that of the total retail traders interviewed, high of about 51.25 per cent of retailers was not faced any type of problems regarding the implementation of that move by the central government in Belthangady town. Further, remaining sizeable of about 48.75 per cent of retailers’ business has affected by that move in the study region. It can be concluded that half of the retailers were affected by the move of the central government in the study region.

Impact of demonetization on sales volume:

The lack of liquidity for people has also impacted retail businesses. Retailers in India have seen a 50 per cent drop in sales within the first 5 days of Demonetization Move. Post demonetization, it is said, trade in markets across the country has reduced to 25 per cent in comparison to normal days. Since demonetization, consumer footfall is very less. Not only are the retail

Table 2 : Impact of Demonetization on Black Money and Retail Business

Part-A: Impact of Demonetization on Black Money and Retailers			Part-B: Impact of Demonetization on Retailers		
Particulars	No. of Respondents	% of Respondents	Particulars	No. of Respondents	% of Respondents
(01)	(02)	(03)	(01)	(02)	(03)
Reduce the Black Money	47	58.75	Un-suffered	41	51.25
Does not effect on Black Money	33	41.25	Suffered	28	35.00
Total	80	100	Highly Suffered	11	13.75
			Total	50	100

Source: Data gathered through Primary Investigation, April-May 2018

activities but even the wholesale trade affected severely because of very low volume of transportation of goods. "Sales of essential consumable goods sold by super markets, hypermarkets and neighborhood stores selling by acceptance of cards have had a good weekend sale. The time for the impact would depend upon the speed with which currency is made available to the citizens. Primary level data gathered from the field in respect of impact of demonetization on business volume of retailers are presented in Table 3 (Part-A).

Data revealed the fact that of the total respondents interviewed majority of about 53.75 per cent of them, in the study region, agreed the decreasing trend of sales during the period of demonetization. As against, about 46.25 per cent of retailers has not experienced the declining tendency of the retail sales during the demonetization phase in the study region. It can be concluded that respondents, in the study region, were expressed the mixed opinion in this regard. Here respondents have given mixed opinion about the impact of demonetization on their sale volume and no one was ready to say this move of central government positively impacted on the sale volume of retail business.

Demonetization and business income:

Primary level data regarding impact of demonetization move on retail business income in the study region has presented in Table 3 (of Part-B). It can be viewed from the study that of the total respondents interviewed high of about 51.25 per cent of retailers' business income has declined during the implementation period of demonetization in the study region. Thus, about 43.75 per cent of retailers said that there was no change in the business income during the above said period. Added to this, only 5 per cent of them agreed that income of the retail business has increased during that period in the study region.

Retailers' overall outlook about the impact of

demonetization:

The government's decision on November 8 to immediately demonetize the Rs. 500 and Rs. 1,000 notes in circulation, which accounted for 86 per cent of all currency in circulation, has impacted a raft of sectors. Consumers have turned frugal, causing a sharp drop in demand for goods and services. While farmers and small industries will bear the brunt and sectors like transport and real estate will be visibly be in pain, several other industrial sectors will have to scale back services or production. To find out the area of the retail business is at most impacted due to implementation of demonetization, researcher has employed weight point score method and calculations are presented in Table 4. It is clear from the calculations that according to retailer, daily bank transaction which obtained scored highest weight points of 376, stay at 1st rank among five impacts of the demonetization on retailers in the study region. Further, retailers have assigned 2nd and 3rd rank for the reduction of income and profit with weighing 291 and 287 weight point score, respectively. Thus, it can be inferred that, with 271 and 176 weight points, decreasing of sales volume and unaccounted transactions have Placed 4th and 5th rank among the five identified impacts of the demonetization on retail business in the study region.

Findings of the study:

Based on the earlier discussion, findings of the present micro level study have provided as follows. About 75 per cent of them was whole heartily supported the demonetization move of the central government in the study region. Demonetization is tool which is used to curb illegal transaction of money. In study region about 59 per cent of them were agreed the positive impact of the demonetization move of the central government on black money. Study also evidenced that fact that of the total respondents interviewed half of them was faced the problem in their retail business due to the implementation of demonetization in the study region. Added to this, about

Table 3 : Impact of Demonetization move on Sales Volume and Income

Particulars	No. of Respondents	% of Respondents	Particulars	No. of Respondents	% of Respondents
(01)	(02)	(03)	(01)	(02)	(03)
Sale of Product declined	37	53.75	Income Increase	04	5.0
No change in the sale of production	43	46.25	Income Decrease	41	51.25
Sale of production increased	00	00	No change in Income	35	43.75
Total	50	100	Total	50	100

Source: Data gathered through Primary Investigation, April- 2018

Table 4 : Impact of Demonetization on Retailers

Respondents and Weight Points (WP)												
Causes for Short Life of Roads	No. of Resp.	WP 5	No. of Resp.	WP 4	No. of Resp.	WP 3	No. of Resp.	WP 2	No. of Resp.	WP 1	Total WPs	Rank
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)
Decreasing Income	27	27X5 135	16	16X4 64	21	21X3 63	13	13X2 26	03	03X1 3	291	IV
Decreasing Sales volume	33	33X5 165	14	14X4 56	19	19X3 27	9	9X2 18	5	05X1 5	271	V
Daily bank Transactions	64	64X5 320	14	14X4 56	--	--	--	--	--	--	376	II
Decreasing Profit	29	29X5 145	16	16X4 64	13	13X3 39	17	17X2 34	05	05X1 5	287	I
Unaccounted transactions	03	03X5 15	07	07X4 28	05	05X3 15	53	53X2 106	12	12X1 12	176	III

Notes : 1) Total number of Respondents 50, 2) WP=Weight Point
Source : Data gathered through Primary Investigation, April 2018.

44 to 46 per cent of the retailers experienced the decreasing of sales volume and income due to that move of the central government.

Suggestions:

Researcher has traced out some important findings of the study earlier. To resolve difficulties in implementing of Demonetization in the study region, here researchers has offered some valuable suggestions for the betterment of the . Successfulness of any government policies is relied on public involvement, so, public has to strictly abide by government policies. Even today, enormous business kept away from government auditing; in this respect government has to register all the business and give strict instructions to them for keeping accountability of the business.

Conclusion:

Demonetization process is like a two faces of a coin because on the one hand it will benefit the nation and on the other it would create some temporary and long term problems. It is found that in Belthangady region, demonetization implemented here had both the positive and negative impacts on small traders and it negatively impacted on their sales volume and income in short run but they were anticipated positive impacts of the demonetization on their business in the study region.

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