

Demonetisation and its impact on rural economy

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Abstract

This analysis seeks modern infrastructure in the rural sector to boost the consumption and growth. The paper analyses the effect of recent demonetisation on rural economy and for country as a whole. This work attempts to establish the fact that loss in consumer spending and decrease in wage rate in rural sector by demonetisation effect have to be handled with proper care with modern infrastructure along with proper allocation of MNREGA and agri-credit and higher agricultural insurance benefit.

Introduction:

Indian economy is based on agriculture. About 70% of Indian population directly or indirectly depends upon agriculture.

Indian economy is very much dependent on agriculture for the following reason

1. **Largest contribution in national income**
2. **Largest employment providing sector.** Nearly 52.1% of working population is in agricultural sector.
3. **Source of industrial development:** Industries get basic raw materials from agriculture like textile, sugar, oil processing etc.
4. **Development of tertiary sector also happens because of growth of agriculture and industry .**Tertiary sector provides helpful services to agriculture and industry like banking, warehousing etc.
5. **Contribution in foreign trade:** Agriculture plays an important role in international trade. Jute Tea Coffee and Spices are the well known country's export.
6. **International importance:** India is the largest producer of coconuts, mangoes, bananas, milk and dairy products.

Problems of Indian agriculture:

Despite many importance of agricultural sector, growth of Indian agriculture is estimated 4.6% during financial year 2013-14. The growth target for agriculture in the 12th five year plan remains at 4%. Share of agriculture in national income also came down from 54% (1950) to nearly 13 % (2016).

There are three different factors creating problem in Indian agricultural economy

1. **Environmental problem:** The most serious problem is the erratic nature of the monsoon. Temperature remains high throughout the year. There is deficiency in rainfall and regional distribution is not symmetrical. Irrigation also not sufficient in rural area covers only 33% of cultivated area in India. Drought and flood are very common phenomenon in these region.
2. **Economical factor:** In rural sector farmers are very poor and not able to buy expensive modern agricultural equipments. They depend on money lenders because there are so many formalities to get a loan from bank. After independence land reform was also not successful due to lack of strong political will.
3. **Social factor:** There is massive underemployment in the agricultural sector in the non irrigated area. In these sector there is seasonal unemployment ranging from 4 to 8 month. Lack of education of common people in village areas giving rise to growth of village money lenders who are charging much higher interest rate than banks.

While there are so many inherent problems in Indian agricultural sector, let's understand the demonetization in India and its far reaching effects to the agricultural sector.

Meaning of Demonetization:

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. In India's case this move has been taken to curb the menace of black money, fake notes by reducing the amount of cash available in the system

History of demonetization in India:

Demonetization was first implemented in India in 1946 when RBI demonetised circulation of Rs 1000 and Rs 10000 notes. The Government then introduced higher denomination bank notes in Rs 1000 Rs 5000 Rs 10000 in 1954 before Moraji Desai govt demonetised these notes in 1978.

Demonetization in recent times:

On Nov 8 evening Prime Minister Narendra Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the disease of corruption and black money which have taken deep root and new notes of Rs 2000 and Rs 500 were introduced. There was no change in form of currency exchange be it cheque, DD payment via credit or debit card etc.

Problem faced by agriculture after Demonetization :

1. **Agricultural economy is labour intensive** absorbing 70% of employment contributing 50% to GDP. Cash transaction dominates agricultural society. So Black money is quite common in rural areas. After demonetization farmers were unable to sell their goods as consumer had lack of cash. A farmer depends mostly on village money lenders for liquid cash which is also stopped. **Rural consumer spends have contracted from a growth of 12% in 2015 to 10.9% in 2016.**
2. **Job losses**, fall in farm income, social disruption especially in cash intensive sector.
3. **In service sector in rural areas**, sellers did not able to sell their product because of cash crunch. At the same time they were not getting raw materials for providing the service. For example, cobbler who is selling footwear in rural areas did not able not sell their product because of cash crunch, at the same time they were not getting essential raw material such as leather as card is not common in rural economy even if cash transaction stopped.
4. **Transport operator** who are taking cash only for giving transport facility which is only way of movement of raw material and finished product were also stopped their operation.
5. In rural areas there are so many banks having many branches. 38 % of total branches are present in rural segment. So the problem is not infrastructure but the blockage caused by **inability of banks to deliver cash in adequate quantities and denomination on time.**

Conclusion:

Problems of loss in consumption due to several problem common in agricultural economy can't be solved only by demonetization. Only black money can be controlled with the help of demonetization. Decrease in crop production in rural sector can best be tackle by the following

- **Higher agricultural credit** will improve the safety net and hopefully catalyse rural spending. Companies with strong rural presence will get benefit if agricultural output increases. If farmers get cheap easy credit from financial institution they will not depend upon village money lender and will not be trapped in high debt.
- **Agricultural Insurance** Indian farmers are suffering from huge loss during natural calamities which can be tackle effectively by agricultural insurance. Insurance is the one of the best way to protect the farmers from such damage. By paying insurance premium farmers can recover their loss from damage in natural calamities.
- In rural sector it is very critical to make investment in road transport and airways for reducing cost of movement of goods and people. It will improve the economy's overall competitiveness and growth and will increase capacity utilisation.

Some of important measure taken by Indian government to boost agricultural growth

- **The National Rural Employment guarantee Act 2005** is a social security scheme to provide employment in rural areas. This scheme provide 100 days job guarantee to any adult who have registered in Rural Employment scheme. This scheme is implemented with the help of Gram Panchayat. The Minimum wage is determined by the state ranging between Rs 163 in Bihar to Rs 500 in Kerala.
- **Swatch Bharat (rural)** up by 33%., PM's favourite programme of building toilets and make a cleaner India has received another boost in spending touch nearly Rs 1400 crore in 2017-18.
- **Spending on Rural health and Rural housing scheme** is up considerably.