

## Impact of Demonetization on Employment in India

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### ABSTRACT:

This paper explores impact of demonetization on employment scenario in India particularly informal sector employment. In India, more than 90 percent people are employed in the informal sector and majority of wage payments to this sector are in cash form. Statistically, more than 95% of total transactions were in cash form (Live Mint, January, 01, 2017). Given the nature of huge informal employment, the decision to demonetize currency overnight changed the labour market dynamics significantly by rendering millions of workers exposed to increased uncertainties in employment. Findings of the study suggest that demonetization was the prime cause of the income and employment slowdown. Sales of large equipment and machinery in rural areas fell down considerably cutting down jobs in the face of note ban.

**KEY WORDS:** Demonetization, Informal Sector, Employment, GDP

Demonetization has affected various sectors of the economy. However, among all implications, the impact of demonetization on 'employment' is worth pondering. In India, more than 90 percent people are employed in the informal sector and majority of wage payments to this sector are in cash form. Statistically, more than 95% of total transactions were in cash form (Live Mint, January, 01, 2017). Given the nature of huge informal employment, the decision to demonetize currency overnight changed the labour market dynamics significantly by rendering millions of workers exposed to increased uncertainties in employment. In the recent past, Indian labour market has witnessed numerous uncertainties including the problem of world recession and growing automation in the manufacturing sector. Moreover, the impact of information and communication technology (ICT) on employment growth is far from being conclusive. In such a situation, policy initiative like demonetization by stealth added further volatilities and uncertainties in the labour market. Right after one year post-demonetization, most economic indicators suggested a worsening of the situation. It is easy to conclude that demonetization was the prime cause of the slowdown. Sales of large equipment and machinery in rural areas have fallen considerably cutting down jobs in the face of note ban.

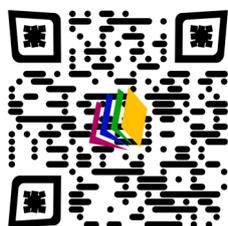
The recession caused by global crisis of 2008 had not yet fully faded away, in this backdrop 86% currencies were demonetized and undoubtedly its negative impact on employment was observed particularly in the unorganized sector. According to NCEUS (2009) there is increasing informalisation of formal sector over a period of time. It is also worth mentioning that increasing



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'informalisation of the tiny formal sector' further aggravated the employment scenario. A 2009 OECD study on informal economies concluded that enforcing formality can be counterproductive and lead to an increase in poverty. According to the UN report and UNCTAD's trade and development report 2017, India's informal sector employment has been adversely affected by the demonetization move. Different surveys have already shown "reverse migration" due to demonetization.

The sudden demonetization move caused rippling effect in many sectors and made them vulnerable to unanticipated liquidity crunch. Undoubtedly it impacted both organized and unorganized sectors and also the overall economic fabric of the nation. Both formal and informal sectors were already experiencing depressed demand and low investment, the move triggered job cuts and hiring-freeze particularly in sectors such as FMCG, automobiles, Infra, Construction and real estate. Since these sectors were cash-strapped, revenue, employment, consumption and investments were hit hard.

Statistics in the post-demonetization period showed that consumer demand slowed down, consequently industrial production declined, undoubtedly growth slightly plummeted and employment was adversely affected. Manufacturing sector which employs skilled and semi-skilled workers also witnessed slowdown in production, as a results lesser jobs were created and layoffs took place. Though, the job losses might be temporary but they still affect daily wage laborers and other labour-intensive sectors like textiles, garments, leather and jewellery.

Medium and large scale industries engaged in infrastructure projects reported a 35% cut in employment and 45% revenue loss. It is further found that labour intensive units such as food and beverage, tobacco, textile, leather, wood and jewellery employ nearly half of the total workers in the organized manufacturing sector of the economy, these sectors have been hardest hit. However in the manufacturing sector, medium and large scale industries experienced lowest job cuts and revenue losses.

Small businesses were also severely affected. Some of the examples from all over the country:

A jute mill in west Bengal, Howrah had to

close down as management was unable to pay wages to labourers. All 2,500 of them were rendered jobless. Bangle factories of Firozabad, up, have faced similar brunt of the cash crunch with 90 % of the factories shut down. Hundreds have been rendered jobless in diamond and ceramics industry of Gujarat. With 60% ceramic factories closed down. Thousands have lost jobs in tea gardens of west Bengal and Assam. The knitwear and hosiery industry of Ludhiana are also winding shops. [Quoted from the article written by Thakur, Upasana (2017)]

Demonetization shifted away income from the informal sector to the formal sector. The formal sector was already equipped to accommodate the changes in terms of digitization or tax-compliance. The informal sector is not an obstacle in our growth process. Though it may not pay taxes and is largely dependent on cash but it plays a transforming role in providing job opportunities to millions of workers and thereby reducing inequality [Himanshu, Live Mint, Nov6, 2017]. Informal sector workers have very poor and meager social protection such as health, education, insurance and provident fund benefits. Since, majority of wage payment is made in cash form, they are the ones who have to bear the brunt of demonetization move.

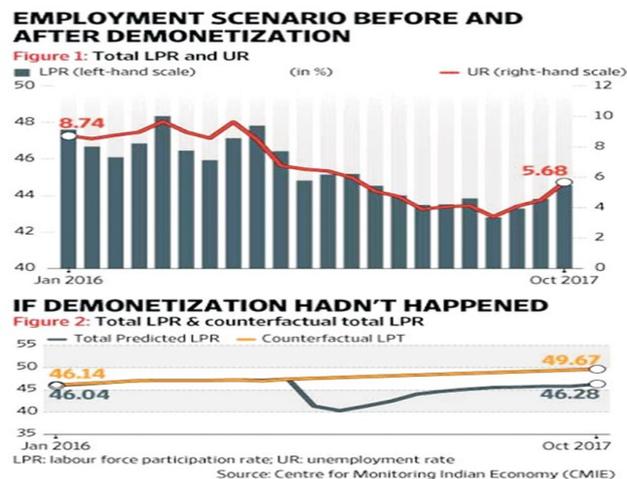
Theoretically, a unit decrease in GDP growth is linked to decline in employment growth rate, concept called employment elasticity (EE) of output. Statistics shows that demonetization led to slight decline in the economic growth and therefore, informal sector employment was negatively affected. Much of the recent analyses have validated the fears that had been expressed in the immediate aftermath of demonetization; quarter 1 (FY2017-18) growth rate has slumped. However, as pointed out by many experts it was short lived.

If we consider gender aspect of labour relations, studies show that women have comparatively weaker bargaining power and therefore face more uncertainties in terms of wage rates and social security. Hence, the industries which are more suitable to women faced greater hardship in wage payments as compared to their male counterparts since in these industries payment was made in the form of cash. Financial literacy and financial inclusion, both are in a very poor state in India. Since majority has poor access to banking

institutions and very low level of literacy about financial instruments, they were objects of exploitation, during and post demonetization move.

World Bank in its bi-annual South Asia Economic Focus report for Spring 2018 titled 'Jobless Growth' noted that the Indian economy has recovered from the adverse effects of demonetization and implementation of GST. The Indian economy is expected to grow by 7.3 per cent in 2018 and further accelerate to 7.5 percent in 2019 and 2020. Highlighting India's declining employment rate based on employment data analysed from 2005 to 2015, the report stated that in addition to high growth, more and better jobs need to be created for every percentage point of growth. India must create 8.1 million jobs annually to maintain its employment rate.

The All India Manufacturers' Organization (AIMO) represents an organization of traders, and small, medium and large scale industries. AIMO conducted a survey and found drop in employment of 60 percent and loss in revenue of 55 after demonetization last year. An article contributed by Forbes mentions that, Indian start-ups cut-down on jobs amid uncertainty created by demonetization. In a survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI) had already expressed pessimism in hiring and revival of the manufacturing sector employment due to demonetization, which later turned out to be true to a great extent. According to new survey data put out by the Centre for Monitoring Indian Economy (CMIE), government's demonetization decision may have resulted in the loss of roughly 1.5 million jobs. CMIE's data is based on the result of consecutive waves of household surveys performed from January 2016 to April 2017 (sample size: 161,617 households across India). In addition to the joblessness, there has been decline in Labour Force Participation Rate (LFPR). Indeed, in a developing country like India, a fall in LFPR is a sign of economic slowdown.



The decline in the LPR should be a matter of deep concern for the Indian economy. Persons may drop out of the labour force due to discouragement, the inability to find a job. In the meantime, they may take up part-time jobs to make ends meet or may be compelled to start a small business (“forced entrepreneurship”) as a desperate move for their very survival. Having explained ill-effects of demonetization, no matter how bleak employment situations were particularly in the first half of 2017, it started picking up later. It is evident that financial services will improve, banking penetration will deepen, postal services are also expected to improve, and enhanced use of IT enabled services may lead to increased employment opportunities. Demonetization affected positively jobs in E-commerce sector such as Flipkart, Zomato, etc. Jagdish Bhagwati, Vivek Dehejia and Pravin Krishna have tried to explain that demonetisation had some beneficial effects on the Indian economy in terms of apparent boost to digital banking and digital transactions. According to the World Bank "adverse effects" of demonetisation in India will disappear in the medium term, saying any reform has short-term costs. Some silver lining though will probably occur in the long run in the context of employment that financial services will increase providing larger employment and Banks will follow expansion providing more jobs.

Figure 1 shows the trends in total (all India) unemployment rate (UR) and total LPR and Figure 2 shows what would have happened to LPR if demonetization had not taken place.

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