

Demonetization in India: Impact on employment and job market

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Abstract

Demonetization is a process of withdrawal of a particular form of currency from circulation. The current form of money is pulled out from circulation and retired, to be replaced with new notes or coins. The latest demonetization measures taken by the Indian Government on November 8th 2016, in an endeavor to curb corruption and black money has resulted in a multitude of inadvertent consequences. While the key intention behind this move is praiseworthy, the planning and implementation of the scheme leaves much to be desired from a policy point of view. The move has caused undulating impact throughout the economy, leaving most sectors economically crippled owing to the unforeseen cash crunch. In this context, this paper aims to study the outcomes and probable ramifications of the scheme on economy, specifically on employment and jobs.

Keywords: Demonetization, Impact, Economy, Black-Money, Employment, Jobs

1. Introduction

The notable move by government of India was taken on 8th November 2017, to tender 86% of the 16 trillion Indian rupees illegal. This has, as expected, induced a variety of reactions across the world. While a lot of citizens took it in their stride to convert their cash into legal denominations, some were angry, some confident and hopeful of seeing India stronger as a result of this move, and some corrupt were sweating it out to find ground-breaking methods of saving a part or all of their undeclared wealth and escaping from a potentially detrimental noose around them.

2. Review of literature

Sukanta Sarkar (2010) ^[1] conducted a study on the parallel economy in India: causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian political system i.e. Indian Govt. just focused on making committees rather than implementing it.

Mr. Swapnil Undale (2016) ^[4], observed in his study that ever since the announcement of demonetization, the income of unorganized sector workers had come down drastically — by up to 60 per cent. And their work was decreasing each day. It was hurting all the more as their —debit and credit limit with their patrons had been crossed. The study concludes that laws should be implemented properly to control black money in our economy.

AIMO (2016) report says note ban caused 35% job loss, 50% dip in revenue. As per the study, the industrial sector has been badly affected, with small and medium-sized enterprises (smes) sector worst-hit.

Deepali Bhargava (2016) ^[5], analysed in her study that businesses, especially the small and medium enterprises, and sectors like autos, non-bank finance companies, which are cash driven will see temporary disruptions as well. Demonetization would likely result in big disruptions in the informal economy, which is estimated at about 40-50% of GDP with big multipliers. A large chunk of wholesale and

retail trade that happens through the informal sector, as well as lending through the informal financial sector could be most impacted.

Tax research team (2016) in their working paper affirmed in favour of demonetization. Its main objective is to analyze the impact of demonetization on Indian economy. Their study highlighted the impact of such a move on the availability of credit, spending, level of activity and government finances.

Mohul Ghosh (2016) ^[6] stated in his study that within the unorganized sector, there are a large proportion of labor-intensive sectors wherein cash was the only way to conduct business. Due to unexpected demonetization announced by the govt., experts warned about job loss close to 4,00,000 jobs within such sectors.

3. Objectives of Study

The paper has following objectives:

1. To study reasons behind the current demonetization move
2. To study the impact of demonetization on jobs and employment specifically.
3. To study the future repercussions of this move.

4. Scope of the Study

The scope of the study is limited to study the concept of demonetization and chiefly focuses on the impact of current demonetization move on employment.

5. Research Methodology

This study is based on secondary data analysis and will examine secondary data collected from recent websites, blogs, research papers and reports of government. The effect of demonetization on jobs will be highlighted in the present paper.

6. Analysis and Findings

6.1 Meaning

Demonetisation refers to the decision of RBI/government to recall the status of a currency to be used as a legal tender. All the currencies issued by RBI can be used as a legal tender as

the value they carry is promised by RBI, but once the value has been demonetized or revoked, the currency note cannot be used. Worldwide the central banks follow a practice wherein older currency notes are recalled and new currency notes with enhanced security features are issued in order to overcome the nuisance of counterfeit currency. It is a process by which a series of currency ceases to be a legal tender and is not acceptable as valid currency.

According to S. Gurumurthy (2016) "the quantum jump in illicit cash in the economy fuelled an asset price bubble in gold, stocks and real estate, which reflected as high GDP growth in the UPA years and continuing till now. However, that growth couldn't create jobs because it was black money spirited out of India and round-tripped back in the form of investment in assets,"

6.2 Reasons behind Demonetization

As per the government, the reasons behind current demonetization move are cited as follows:

- Tackling the danger of black money/parallel economy/shadow economy
- Reduction of the cash transactions and control on corruption, thereby moving towards cashless transactions.
- Countering the nuisance of counterfeit currency
- Preventing the cash being used for terrorist activities.

6.3 History of demonetization in India

Going by the history, Indian governments had demonetized bank notes earlier in January 1946, when banknotes of Rs 1,000, Rs 5,000, and Rs 10,000 denomination were taken out of circulation. All three notes were reintroduced in the year 1945.

Then, at the stroke of the hour on midnight of 9th November 2016, India lost 86% of its monetary base as Modi Government announced its decision to tender 86% of the 16 trillion Indian rupees illegal. While IMF and EU welcomed the scheme, few economists, with first hand understanding of the menaces, like, Dr. Raghuramrajan and Dr. Kaushik Basu did express their reservations on the demonetization move. On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion In terms of value, the annual report of Reserve Bank of India of 31 march 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion of which nearly 86% were Rs.500 and Rs.1,000 banknotes. They were taken out of circulation from 2016.

6.4 Impact on Economy and the Job Markets

The enormously smart move of declaring Rs 1000 and Rs 500 denomination currency notes to curb the menace of black money, corruption, counterfeit currency and economic terrorism is praiseworthy and far sighted and bears a host of political and economic benefits in the long run. The immediate effect is that of utter chaos. 86% of the economy became defunct as an immediate aftermath post announcement at midnight.

The move has caused rippling effects in many sectors leaving them crippled due to unanticipated liquidity crunch. The drive impacted both organised and unorganised sectors as well as the overall economic fabric of the nation. Business will suffer from low products and services sale, so less amount of money in circulation translates into lowering of short term

consumption demand. The formal and informal sectors that were already grappling with depressed demand and low investment are now seeing job cuts and hiring freeze. Hiring in FMCG and auto sector witnessed a sharp slowdown. Other sectors likely to feel backlash of demonetisation are infra, construction and real estate. These three sectors will see approximately a lakh job cut over the next year.

Indian commerce and retailers have a propensity towards transacting in cash. With demonetisation they have become cash strapped and consequently revenue, employment, consumption and investment have all taken a hard hit. The unorganised sectors employs a majority of workers and cash being the dominant mode of payment in this segments, liquidity crunch in such system dynamics can compromise the employment and livelihood of weaker and low income groups. Unemployment will lead to lesser wages and poor will face the brunt. Demonetisation is likely to stall India's economic growth by 1 % over the coming year and witness some 4 lakh job cuts. A permanent dent has been made to the informal sector by demonetisation. Small businesses are already getting affected by this decision and facing great inconvenience.

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.

The effect on employment has been terrible for the unorganised sector. The impact could go further severe, if cash supply remains inadequate in the system. The intensity of the impact depends on how quickly and adroitly money gets re-injected into the economy and when the imposed restrictions on cash withdrawals are lifted. Having said that, no matter how bleak employment situation seems to be now, it will improve in the following months.

It is evident that financial services sector will see a surge in growth, banks will expand, and postal services will upgrade- thereby opening up more and more employment opportunities. Smart cities and major infrastructural projects will also give impetus to employment going forward. Most e commerce firms actively adopting cashless means of transacting will boost the need of skilled labour force on the digital end. Mobile wallets, fin-tech firms, payment banks, small banks will witness an unexpected boost. This sector will register about 5 fold increase in business growth and this will be reflected in their hiring.

The IT industry that depends the least on cash is least affected by demonetisation and will continue to witness hiring. India's start-up community is all set for a high growth paradigm if it gets timely funding from venture capitalists and angel investors. More Govt funding via unpaid tax can provide the impetus to start up & innovation program thereby fostering growth and employment opportunities.

Indian economy before demonetisation was already struggling with slow demand, investment and slow production. The IP slipped down to 1.9 % in Oct compared to an expansion of 9.9 % in similar period last year and this happened due to lacklustre performance of manufacturing sector and a decline in production of capital goods. Manufacturing sector shrank by 2.4 % in October and capital goods output saw a contraction of 25.1%.

Post Demonetization there is further deterioration in the economy- all sectors from manufacturing to service have been adversely affected. Large sectors like automobile, real estate and infra have been badly hit and witnessed negative job growth. Sales of large equipment and machinery in rural areas have fallen considerably cutting down jobs in the face of note ban.

The cash intensive real estate and infra have come to a grinding halt due to demonetization. Both capital expenditure and cash flow have been affected adversely. The business outlook may further look gloomy as infrastructure companies will look to reduce costs and cut labour in the unorganised workforce especially. Demonetization also affected jobs in E-commerce sector as Flipkart, Zomato and many others made 60-75 % of orders on CoD basis. PM Modi's announcement to make India cashless, has hit the CoD orders, however e-commerce is maturing and with a better understanding of utilisation of costs and resources, retailers getting on to E-commerce platforms will boost the need of manpower on digital end.

6.5 Road Ahead

The road ahead will be full of upheavals. The move may continue to have serious repercussions on the jobs and employment. Following future repercussions are expected:

- The number of jobs and revenue are expected to dip by 40 per cent by March in medium and large scale industries.
- 35 per cent job cut and 45 per cent revenue fall is likely to be witnessed by medium and large scale industries engaged in export-oriented activities.
- 15 per cent job drop and revenue hit by March to be witnessed by medium and large scale industries in manufacturing sector.

7. Conclusion

The Demonetisation drive has affected both organised and unorganised sectors as well as the overall economic fabric of the nation. A permanent dent has been made in the informal sector by demonetisation. Small businesses are already getting affected by this decision and facing great inconvenience. It is those who are in the low income groups who are the most affected by this decision.

There has doubtless been a lot of negative impact on employment, especially in the unorganized sector. Crisis of employment opportunities will arise in the near future in India. Demonetization efforts are clearly falling behind the demand for cash, meaning thereby that demand and job revival could be tricky. Having said that, no matter how bleak employment situation seems to be now, it will improve in the following months as it is expected that financial services would increase providing larger employment. Banks may expand providing more jobs and postal services are expected to upgrade

providing more employment opportunities, making the overall employment scenario better.

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