



Impact of Demonetization on Employment in Indian Economy

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Abstract: *The present paper makes an effort to know the effects of the 2016 demonetisation in India on employment status across various sectors of the Indian economy. The demonetization hurt small businesses and daily wage worker who depend on cash. The paper examines how demonetization affects employment status in the short run and long run. The findings reveal a sharp decline in employment in various sectors like construction, agriculture and cottage, and small scale industries in short run. However, some sectors like e-commerce and digital payments grew, because people started using cashless transactions. The study suggests that in this situation, the government should promote cashless transactions and digital transactions to facilitate enterprises. The government can provide Incentives for cottage and small scale industries to create employment opportunities. Moreover, government should increase public investment in the infrastructure sector which can create more employment opportunities in the short run.*

Keywords: Demonetization, Indian Economy, Employment Rate, Cashless Economy, Digital Payments.

1. Introduction

On November 08, 2016 Indian government announced demonetisation. This means Rs.500 and Rs.1000 notes were no longer legal tender. These notes constituted approximately 86 percent of the total cash currency in circulation at that time. The goals of demonetization were to reduce black money, corruption, terrorist funding and fake currency. Apart from that, government wanted to promote cashless economy that helped Improve transparency and boost tax revenue in the long run. The demonetization significantly affected all sectors of the Indian economy. The present paper makes an effort to investigate the impact of demonetization on employment in the Indian economy, which relies on cash transactions. Due to the lack of cash in the economy, it led to negativity impact the all sectors of the economy, such as agriculture, construction, cottage and small scale industries, retail and manufacturing. Many people lost their jobs, wage rates cut down, small shopkeepers, construction workers and Farmer were severely impacted. As a result, the purchasing power of the people in the economy decreased and lack of aggregate demand the growth rate of the economy come down. The present paper explores how demonetization affected employment in Indian economy. However, some sectors like e commerce and digital financial services expended growth has a result of the shifts towards cashless transactions.

2. The Objectives of Demonetization

The primary objectives of demonetization, as outlined by the government, were as follows

- To check on black money stored in the form of high-denomination currency.
- Prevent the circulation of fake currency.
- To stop terrorist financing.
- Promote a shift towards a digital economy and reduce the dependency on cash transactions.

3. The Impact of Demonetization on Employment.

After the implementation of demonetization by Indian government in 2016, had an adverse impact on employment and slowdown in economic activities in the economy. It led to significant job losses in informal sector, affecting 1.5 million to 3 million people (Das and Sengupta, 2017).The construction sector substantial job loss due to lack of cash, affecting 3.5 per cent of the construction sector workers.

(Kumar and Sharma, 2017). Due to demonetisation, wage rates cut down, reduction in workhours and decrease in the income of the daily wage workers end retail businessmen, (Ghos 2017).Moreover, the informal sector constricted by 31 per cent and as a result, it decreased job opportunities and increased poverty ratio in the Indian economy (ILO ,2017.).

Demonetisation, led to slow economic growth rate, decrease in employment generation and increase in the inequality of wealth and income in the economy (RBI 2017.) Demonetization led to 2.2 percent decline in the employment in the non-agricultural sector (N.S.S.O., 2017). Therefore, we can say that demonetisation had an adverse impact on employment. Opportunities in Indian economy. The people were losing their job andthe growth rate was declining in the short run.

4. History of Demonetisation in India

1. In 1946 under British rule Rs. 110000 and Rs. 1000 notes were demonetised to target blackmoney. However, this event had a limited impact. Due to the low circulation of such high demonetization.

2. In 1978, Prime Minister Morarji Desai, announced the demonetization of rupees Rs.1000, Rs.500. & Rs. 10000 notes. The main goal was to check black money in the economy. Similar to the 1946 event, the impact was limited. As this demonetization were not commonly any use.

3. In 2006, Prime Minister Narendra Modi announced the demonetization of Rs. 500 and Rs. 1000 notes, which represented 86per cent of the total currencies in circulation. The goals were to reduce corruption, fake currency, terrorism funding and black money. While each of demonetization sought, to address economic issues, their effectiveness, outcomes have varied.

5. Employment Structure in India Economy

Employment structure in Indian economy is divided into three sectors -agriculture, industry and services. A large proportion of workforce Works in agriculture but its contribution in GDP is only 14 per cent. The industrial sector includes manufacturing and construction, whereas the service sector includes jobs in education, information technology, banking, insurance and health care etc.

The employment in Indian economy can be divided in formal and informal sector also. The former sector includes the enterprises or organisations that are registered with the government, follow labour rules and social security laws formulated by the government. According to the International labour Organisation. 10 per cent of the workforce in Indian economy employed in formal sector. The informal sector comprises small shops, domestic workers, self-employed workers, contract workers and unorganised labour. In India about 90 per cent work forces employed in the unorganised sector .The informal sector heavily relies on cash transactions and it was most impacted by demonetization, whereas former sector was impacted to be relatively less infected by the demonetisation.

6. Impact of Demonetization on Employment in Short runs in Indian Economy.

Agriculture Sector

Agriculture is the most cash independent sector in Indian economy and it was severely impacted by the demonetization. Small farmers struggled to purchase inputs like seeds, pesticides, fertilisers and labour payments due to shortage of cash. As a result, agriculture production and farm employment decreased. Moreover, many agriculture labourers lost their daily wage employment as small farmers were unable to pay wages.

Construction Sector

The construction industry, which provides employment to a large section of labourers, mainly from rural, areas, was severely impacted by demonetization. As cash is the main medium of wage payments in this sector. This sector depends on cash for wage payments resulted in stop off project and widespread lay off. As a result, the employment opportunities in sector reduced.

Retail and Informal Sector

This sector comprises small shops, street. Vendors add daily wage labourers. This sector was worst impacted by demonetization. Due to shortage of cash there was reduction in aggregate demand and many small businesses shut down temporarily. It reduced the job opportunities in this sector.

Small and Medium Enterprises

In Indian economy, small and medium enterprises provides employment over 100 million people. This sector was severely infected by demonetization. This sector generally earns marginal profits and depends on daily cash flows for operation. This sector reduced production and significant decrease in demand for the workers.

7. Impact of Demonization on Employment in long-term.

In Formalization of the Economy

One of the long run positive impact of demonetition was the formalisation of the Indian economy .In India more businessmen, and workers would enter the formal financial system. In long run, after demonization promoted digital payments rise in GST registration, new bank accounts opened, but the transition of formal employment remained slow. A majority of the displaced workers from the informal sector found it struggled to secure jobs.

Digital Economy and Employment

Demonetization promoted digital payments, but financial inclusion in rural land semi-Urban areas remained limited due to low literacy rate and limited internet access. As a result, cashless economy grows, but in formal sector employment generation was limited.

Employment Recovery After demonetization

The Employment in formal sector increased gradually. On the other hand workers in informal sectors struggled to regain employment. Many sectors like construction in small scale retail took longer time to recover.

Construction Sector

Construction sector faced significant challenges due to demonization like delay project timeline, liquidity issues and layoffs .Recovery in the sector was slow as it use labour intensive techniques.

8. Suggestions and Policy Implications.

The present paper suggests the following suggestions.

8.1. Support for Informal Sector Workers.

Targeted policies can improve digital literacy and financial inclusion in rural areas. Digital literacy, mobile banking services, financial literacy and microfinance options help workers and businesses into the formal financial system.

Supports to Informal Sector Workers

A social safety net is crucial to minimise, the impact of economic crisis like demonetization. It includes providing loan to people for starting their self-employment, access to credit for small businesses and financial help for the poor people .It provides financial security, reducing poverty and enhancing economic growth.

Credit Facilities for SME's

Small businesses need loans to survive in the situation of financial crisis. It helps them to manage cash flow and liquidity problem in the economic crisis like demonetization.

Monitoring Employment Data

The government should collect and monitor the employment data especially in the informal sector .It will help to understand employment patterns, anticipate potential crisis, and help to make suitable policies to promote employment opportunities in the economy.

9. Conclusion:

The announcement of demonetization was a bold decision taken by the government of India. It had both positive as well as negative effects. In the short run, many people lost their job, particularly in the informal sectors, which depend on case like agriculture, construction and retail businesses. This informal sector was severely impacted by that demonetition. Demonetization had many positive impacts also like increase in digital transactions, promoting cashless economy, and reduced fake currency, and increase government tax revenue, checks on corruption and improve financial inclusion. In the economic crisis, government should make economic policy that protects workers of informal sector. Government should provide them credit facilities. The government should increase public investment in the infrastructure sector. It will increase aggregate demand in the economy and employment generation in the economy. When government will increase public investment, there will be multiplier impact in the economy. It will generate more employment opportunities and economic growth of the economy.

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