



EFFECT OF ECONOMIC SHOCK ON NON-FARM EMPLOYMENT IN INDIA

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Abstract:

This study examines the effect of demonetization on non-farm employment in India. The employment change was measured by applying a simple before-and-after approach using quarterly panel data obtained from eight major non-farm sectors. The analysis indicated that the jobs of casual workers fell considerably, whereas the employment of regular and contract employees revealed a remarkable resilience to demonetization. Total employment continued to increase, with a slight improvement in the pace of job creation in the quarter following the demonetization. The sectors that experienced gains in employment after demonetization included manufacturing, education, information technology, transport, health, and trade. In addition, the employment scenario in the accommodation and restaurant sectors recovered from a declining trend seen in the previous quarter to a stage of stabilization. The findings justify the government's priorities for employment generation and employability improvement.

Key Words: Demonetization, Employment, India, Sectoral Analysis

1. Introduction:

Employment is pivotal for reducing poverty and attaining the goal of inclusive growth in labour surplus developing countries like India (Basu and Das, 2016). It improves the quality of life and wellbeing of people. Indeed, employment generation is a major concern for policymakers across the globe. The problem of unemployment is severe and chronic in India (Ghose, 2016; Mamgain and Tiwari, 2016). The Constitution of India recognizes the right to work as a fundamental obligation of the government to all citizens and makes provision for compensation in cases of joblessness (Srinivasan, 2010). The issue of the link between the availability of finance and employment has become momentous in the aftermath of the global financial crisis of 2008, mainly due to the substantial reduction in jobs and the jobless recovery of economic growth in many economies (Boeri et al., 2013; Boustanifar, 2014; Popov and Rocholl, 2018; Fernandes and Ferreira, 2017; Fowowe, 2017). According to the International Labour Office (2010), this great financial crisis worldwide caused a sharp drop in employment, with significant variations across countries. For example, the United States saw one million per quarter in job losses.

Theoretically, changes in the availability of finance can affect employment through their impact on investment. Secondly, improvements in access to finance affect the ability of individuals to start new businesses, which in turn increases the demand for labour (Erhardt, 2017). Finally, the availability of cash directly affects firms' ability to pay labour throughout the production process. In this way, economic theory provides strong justification for the responsiveness of the level of employment to changes in access to credit.

India had among the highest levels of currency in circulation, at 13% of gross domestic product (GDP). On November 8, 2016, the Government of India suddenly revoked the legal tender status of its preexisting 500 and 1000 rupee currency notes. The stated objectives of demonetization move were to curb black money, control counterfeit currency, check funding for terrorism, and also eradicate corruption. As these high value banknotes accounted for 86% of the total worth of Indian currency in circulation, the demonetization resulted in an immediate cash shortage in the country (Ohlan, 2017). This measure to prevent the growth of parallel economy has become a matter of intense debate as the persistence of cash shortages holds serious implications for people's lives and economic activity. This monetary policy change can be characterized as a domestic exogenous macroeconomic shock (Karmakar, & Narayanan, 2020). The major criticism of the demonetization drive was that it would deter the job creation process in the economy. In fact, changes in employment are one of the most visible effects of demonetization. It is, therefore, imperative to investigate whether demonetization has really triggered job cuts. Against this background, the main objective of the study was to investigate the effect of demonetization on employment in India.

The remainder of the paper is organized as follows. Section 2 briefly describes sources and types of data and outlines the before-and-after approach used in the study. Section 3 presents and discusses the estimation results. Finally, Section 4 concludes the main findings of the study and provides their policy recommendations.

2. Methodology:

The study is based on panel data sourced from the "Quarterly Employment Survey" conducted by Labour Bureau, Ministry of Labour and Employment, Government of India. The survey provides sector-wise high-quality data on different important facets of employment, viz., nature of job, status of employment, and gender-wise change in jobs. It covers eight major non-farm sectors of Indian economy, including manufacturing (Mgf), education (Edu), information technology (IT), accommodation and restaurant (Accom), transport

(Trans), construction (const), health, and trade. These sectors together represented 81% of aggregate non-farm employment. The sample size of this survey was 10,630 enterprises with 10 or more workers. These enterprises were selected using a stratified simple random sampling technique. The number of enterprises from each stratum, represented by state, sector, and size class, was decided using the proportional method. In this survey, the stratification was based on the number of workers.

The impact of demonetization on employment was assessed using a before-and-after approach. The quarterly data on employment were taken from two successive surveys representing the pre-demonetization period (July-September, 2016) and the post-demonetization period (October-December, 2016). The graphical methods were used to present the empirical results. A shortcoming of the before-and-after approach used in the study is that it is based on the strict assumption that other things remained unchanged.

3. Results and Discussion:

Figure 1 exhibits quarterly growth in total employment in India during pre-and post-demonetization periods. A glance at Fig.1 makes it clear that job creation in India has experienced a rising trend, overall employment has been expanded from 206.31 lakh on October 1, 2016 to 207.53 lakh on January 1, 2017, implying a jump of 1.22 lakh jobs. Moreover, the pace of job creation has improved, slightly from 0.16% during the pre-demonetization quarter to 0.59% during post-demonetization quarter. It may be added here that India's GDP registered a robust growth of 7.1% during the same quarter, implying a low employment elasticity of economic growth. In other words, this growth may be referred to as jobless growth.

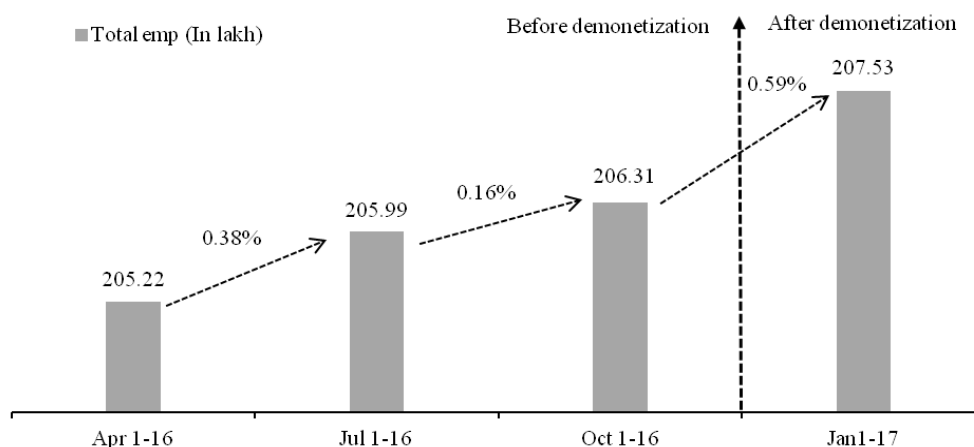


Figure 1: Quarterly change in total employment

The finding of a low responsiveness of employment to output is in line with the findings of earlier studies in the Indian context (Choudhury and Chatterjee, 2015; Tejani, 2016; Bashu and Das, 2016). Although the rate of employment generation remained sluggish, the resilience of labour market in India may partially be explained by the robust growth seen in the penetration of electronic transitions triggered by the digital India mission (Ohlan, 2017). It is worth mentioning here that Indian labour market had previously shown such resilience to the global financial crisis of 2008 as well.

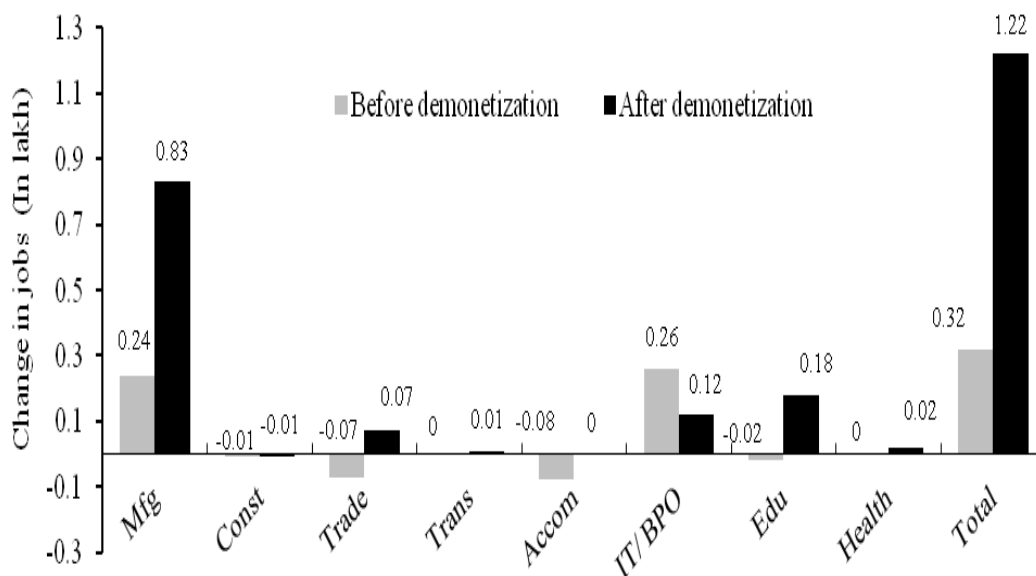


Figure 2: Sector-wise breakup of job flows

Figure 2 shows quarterly changes in employment before and after demonetization at the sectoral level in India. Figure 2 illustrates that during the post-demonetization quarter, the manufacturing sector was the largest contributor to job growth. Specifically, the sectoral breakdown of employment data indicates that the growth in jobs in the manufacturing sector has jumped considerably from 0.24 lakh during the quarter of July-October 2016 to 0.83 lakh during the quarter of October-January 2017. This positive change can be explained by a robust growth in output in the manufacturing sector of 8.3% seen during the same quarter. It is followed by the education sector, with a contribution of 15%. Specifically, the number of workers in the education sector has increased by 0.18 lakh over demonetization quarter, whereas employment slipped by 0.02 lakh during the pre-demonetization quarter. It is pertinent to mention here that the employment generation in the education sector is driven by female workers only. As depicted in Fig. 2, the trade sector has also experienced a shift in the direction of change in the number of workers during demonetization quarter; employment has increased by seven thousand.

The pace of employment generation was halved in the information technology and business process outsourcing sectors, dropping from 0.26 lakh addition in the pre-demonetization quarter to 0.12 lakh in the post-demonetization quarter. Other sectors experiencing an increase in employment included health and transport. The job creation process has come to a standstill in accommodation and restaurants, while in the pre-demonetization quarter; this sector has seen a slight reduction in employment. On the other hand, a slight deceleration in employment (-0.01 lakh) in construction work remained unchanged. It may be added here that the employment of female workers increased by 1,000. However, the fall in jobs for male workers by two thousand resulted in a net loss in aggregate employment in the construction sector. The overall growth rate of the construction sector was also slowed down from 3.4% during pre-demonetization quarter to 2.7% during post-demonetization quarter.

Figure 3 displays the changes in employment before and after demonetization periods in terms of nature of job, gender, and types of job. It is clear from Fig. 3 that after demonetization the largest addition in employment is observed in full-time jobs, at 1.68 lakh. This growth in full-time jobs has occurred in the manufacturing, trade, accommodation and restaurant, information technology/business process outsourcing (IT/BPO), and education sectors. Only the health sector experienced a deceleration in full-time jobs. On the other hand, part-time jobs declined by 46 thousand, much higher than a contraction of 37 thousand witnessed during the pre-demonetization quarter. As mentioned above, the net addition in total employment was 1.22 lakh. Again, a major decline in part-time jobs is observed in the manufacturing sector, with a loss of 48 thousand jobs. It is followed by accommodation and restaurants, construction, and the education sector. The part-time jobs in trade and IT/BPO remained unchanged, whereas the health and transport sectors saw an expansion in part-time jobs during the post-demonetization quarter. It is worth noting that during post-demonetization quarters, reductions were observed only in part-time jobs.

We now look at the change in employment from a gender perspective. The employment of women increased by 52 thousand, whereas male workers contributed to the remaining 70 thousand net additions in total employment during the post-demonetization quarter. The highest addition of both male and female workers was observed in the manufacturing sector, followed by the education sector. While female workers saw a decline in their jobs in the manufacturing sector by 25 thousand in the prior quarter, the employment of male workers has slightly come down only in the construction sector during the post-demonetization quarter.

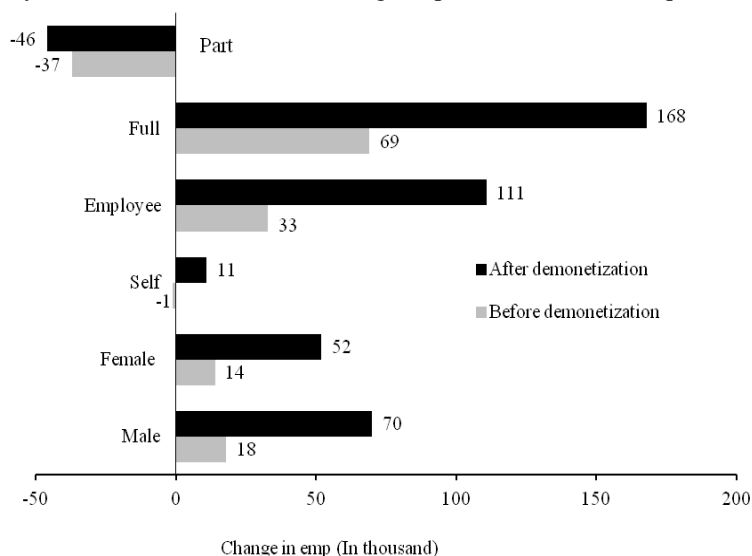


Figure 3: Quarterly change in types of employment

The expansion in employment was observed mainly in employees, with a share of 91%, whereas self-employed people accounted only for 9% of the total addition in employment. However, self-employed people experienced a slight deceleration in their employment during the pre-demonetization quarter. The majority of the expansion in self-employment was estimated in the manufacturing sector. At the same time, the education and health sectors have seen a declaration of self-employment even during the post-demonetization quarter.

In order to have a deeper understanding of the impact of demonetization on employment, we now turn to examining the change in employees by nature of job. Fig. 4 shows the change in jobs by nature of employment based on regular, contract, and casual types of employees. It is seen from Fig. 4 that the employment of regular employees has increased by 1.39 lakh and that of contract employees by 1.24 lakh. Due to a significant fall in jobs for casual workers by 1.52 lakh in the aftermath of demonetization, the net addition in total employees was 1.11 lakh.

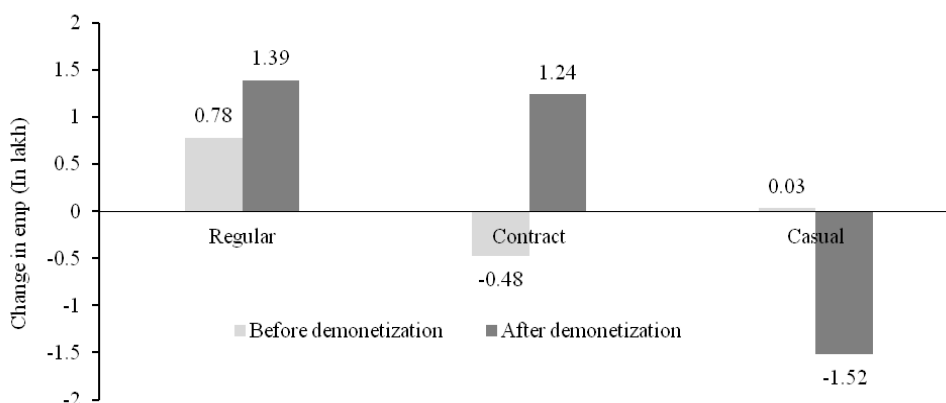


Figure 4: Breakup of quarterly change in employees by nature of job

4. Conclusion:

The study examined the impact of demonetization on employment generation in India using a before and after approach on quarterly panel data. It was found that demonetization had not caused massive regular and contract job destruction. The addition in total employment during the post-demonetization quarter was about fourfold that of the pre-demonetization quarter, with a net job creation of 1.22 lakh. This finding corroborated the finding of Ohlan (2017) on the strong resilience of Indian tourism industry to demonetization. The strong resilience of the Indian labour market to demonetization could partially be due to the perceptible ratcheting up of growth in electronic transactions. Besides, the availability of new currency notes turned the sentiment of the people from the adverse impact of demonetization to its long-term benefits (Singh et al., 2018). The best performer in terms of job creation was the manufacturing sector, followed by the education sector. It is worthwhile to note that the gain in jobs was almost equally distributed between male and female workers.

The employment generation was mainly observed in full-time jobs, whereas part-time jobs continued to experience a steep and sustained fall. Similarly, regular and contract employees enjoyed a gain in employment, while casual employees lost jobs during the post-demonetization quarter. Likewise, acceleration is observed in self-employment. The destruction of employment was mainly due to the contraction of the construction sector. However, the problem of unemployment is chronic and rampant. Presently, the pace of job creation is slow in comparison to the fastest growth witnessed in the labour force. India needs to continue to focus on skilling its workforce. Due to the limited availability of the requisite data, the analysis could not be extended to an investigation of the changes that occurred in farm sector jobs and other parts of the unorganized sector. This may be a fertile area for further research in this direction.

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