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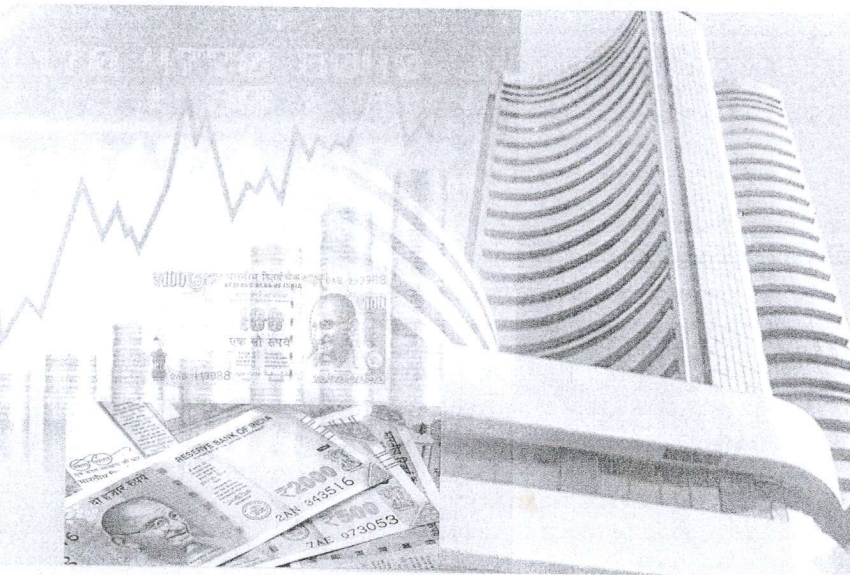
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IN CHANGING GLOBAL SCENARIO**

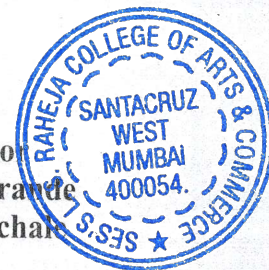


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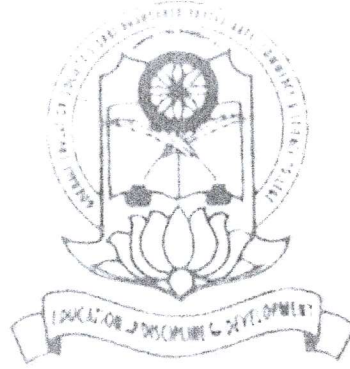
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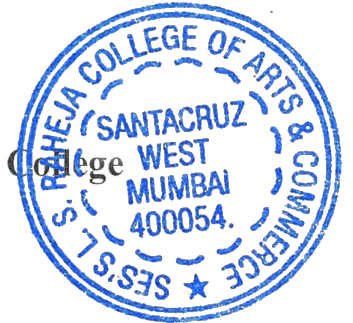
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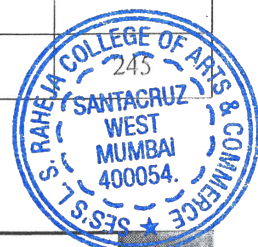
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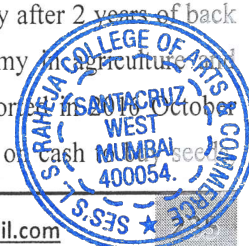
55) Informal Economy in the Aftermath of Demonetisation: an Appraisal.

Samya Shinde

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Demonetisation is the act of making existing legal tender unusable. The process occurs when the current form of money is pulled from circulation and often replaced by new notes. The Indian government in November 2016 as part of its economic reform agenda launched the demonetisation of large denomination currency notes of Rs. 500 and Rs. 1000 with the aim to counter black money, counterfeit currency and control funding of terror. Economists then had criticized the move with some calling it anarchy while some other economic experts calling it a push towards forced recession. Nobel laureate Professor Amartya Sen called the move a 'despotic action' while economist Professor Pranab Bardhan observed that the move to demonetize will cause hardships for the poor and will adversely affect the informal economy. A year later the economy is still grappling and coming to terms with the after effects of this ill-planned and poorly executed move with the GDP severely hit, manufacturing sector affected and the cascading effect on small and medium sectors.

In an attempt to formalize the informal economy demonetisation was brought in as a measure. The sector worst affected by this economic cum political decision is the informal sector that employs nearly 93% of the population including agriculture and contributes about 45% of the GDP. The cash based informal sector was worst affected leading to job losses and is still feeling the pinch of the move. The slowdown in urban and informal economy has repercussions on the rural economy. Agriculture was badly hit and the agriculture commodities markets are yet to stabilize. Though GDP figures are yet to reflect the impact on the informal sector the lingering effect of demonetisation is being felt on the rural economy. Informal sector accounts for 45% of GDP and 85% of total employment (Patnaik 2017). Ground level reports confirm that demonetisation has increased peasant indebtedness. Cash dependent service sectors like transport, logistics, real estate, retail was badly affected post demonetisation. Rural demand contracted due to its cash intensive nature. Demonetisation was a contributing factor in the significant drop in domestic prices of many commodities affecting farmers since the farmers were not able to recover their cost of production leading to suicides; it also made traders wary of extending credit for buying seeds and other farm inputs. In spite of good monsoon the prices of agricultural commodities crashed. The purchasing power of farmers decreased. Many farmers were found dumping their produce in protest as they were unable to recover the cost of production due to crashing prices in the market. S.Mahendra Dev, Director of Indira Gandhi Institute of Development Research, Mumbai states that due to demonetisation there was deflation which led to fall in farmers' income. Agricultural growth in 2015-16 grew by just 1.2 % due to drought situation during the last 2 years. According to the CRISIL report of October 2016 agriculture was to grow by 4% and the rural economy following a good monsoon was showing signs of recovery after 2 years of back to back droughts but demonetisation reversed it and the impact was felt on the rural economy in agriculture and informal economy. Farmers reported running very low on cash to buy seeds. IndiaSpend report of October 2016 report that the rural economy that constitutes 65% of the country's population depends largely on cash





fertilisers, farm equipments; pay their workers in cash and traders pay the farmers in cash as well which all got affected due to demonetisation.

According to a Report by ASI (2010-11), roughly a fifth of the almost 32 million people employed in the textile and garment sector, are daily wage earners. Since garment factories employ migrants, following demonetisation many workers were forced to go back to their homes when the factories closed down. The slowdown in the construction sector left many youth seeking alternative employment to supplement farm income jobless; remittances from urban to rural areas came down leading to a fall in rural demand. The rural non-farm sector that employs 30% of rural labour was also badly affected as it impacted industrial production.

The local artisans and small traders linked to informal economy were badly affected by demonetisation. The cash dependent micro and medium enterprises, small shop owners and daily wage earners were in for a rude shock following demonetisation. The handicraft and handloom sector that employs 110 lakhs, out of which 43 lakhs artisans work in handloom alone with 77% of them women, has been afflicted with blows post demonetisation. Activist Aruna Roy in an interview (31 Dec. 2016) stated that the move to demonetise will finish the informal sector. It will have an impact on the women entrepreneurs who run small businesses or are self-employed and mainly deal in cash. "Rural entrepreneurship run by women cannot sustain [their livelihoods because of the impact of this demonetisation] which is expected to last for a year" (Aruna Roy 2017). Craftsmen who run their trade on credit faced severe cash crunch post demonetisation that resulted in 50% fall in production. On the demand side too one saw a fall of 40%-50%.

The emphasis on digital transactions made consumers opt for e-commerce websites rendering rural artisans products redundant. consumers preferred large retail than small retailers and street vendors thus affecting the informal economy.

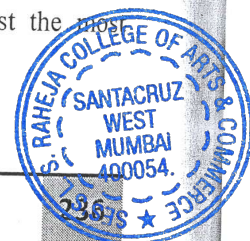
The impact of demonetisation is also felt on employment. Pawan Kumar (2017) states that demonetisation affected the labour market dynamics with many workers exposed to uncertainty in employment. He points to the fact that the employment scenario is not conducive to face any challenge since majority of the population working in the informal sector without any written contract (79% of non-agricultural workers) and are ineligible for social security benefits.

The relevance of informal sector in Indian economy

The neo-liberal agenda of the government to demonetise has dealt a severe blow to the informal sector. Following the neo-liberal agenda the government failed to realise that informal sector is an integral part of the Indian economy and continues to grow rapidly as it offers labour at a lower cost subsidizing the economy. It is a provider of employment to millions since the formal sector employment growth rate is marginal, almost negligible.

National Commission for Enterprises in the Unorganised Sector (NCEUS) defines informal sector, as "all unincorporated private enterprises owned by individuals and households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than 10 total workers." (NCEUS 2007:2).

It comprises of small shop owners, workers in manufacturing, construction, barbers, beauticians, plumbers, drivers, hawkers, domestic workers, small producers and traders, home based workers etc. Amongst the most vulnerable of the population they are denied social security benefits and decent work conditions.



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The informal sector accounts for 92% of total employment. NCEUS report 2009 estimates the informal economy contributes 50% of the GDP. The ILO India Labour Market Update (2016) and NSSO data (2011-12) state that more than 90 percent of the employment in the agricultural sector and close to 70 percent in the non-agricultural sector falls under the informal category and 84.7% of jobs in the Indian economy are in the informal or unorganised sector (NSSO) mainly in the sectors of agriculture, manufacturing, construction and trade. According to the 2015-16 economic survey 'of the 10.5 million new manufacturing jobs created between 1989 and 2010 only 3.7 million i.e. about 35% were in the formal sector'. Thus informal sector is an integral part of India's economy and any attempt to formalise it needs to be thought over seriously keeping in mind the interlinkages between the formal and the informal sector. Informal sector will continue to be an integral part of Indian economy and is here to stay-it cannot be wished away- since not many jobs are being created in the formal sector. Of the 6.4 million new employment opportunities recorded during 2000 - 2010, about 76 percent were in the informal sector (Kamath 2017). There were only 1.5 lakh new jobs created in the formal sector in 2016 (Sengupta 2017). Thus informal sector is important as it absorbs a large population without any special skills or qualifications. Without any opportunities in the formal sector the informal sector supports livelihoods of millions of workers. A study of informal economies commissioned by OECD in 2009 concluded that formalizing the informal economy can have negative repercussions and may lead to increase in poverty.

The informal economy is an integral part of the Indian economy and is interlinked with the formal sector. Considered as a scourge because it does not pay taxes and is dependent on cash it nevertheless is a safety net for millions of workers moving from the agricultural sector to the nonagricultural sector. It is the sector seen responsible for cash-driven transactions, even illegal transactions, for keeping majority of India's population as the working poor. Contempt for the informal sector is unjustified and myopic. With demonetisation attempts at forcing to formalise the informal economy will make the process of transition from informal economy to formal economy painful and arduous. The short term benefit of the formalization of economy is at the cost of long term shock to the absorber of the growing population of the unemployed. The short term benefits of tax collection through forced formalization will lead to "loss of income generation, employment creation and reskilling of labour by the informal sector" (Himanshu 2017). Moreover if informal sector suffers the effect is also felt on the formal sector as the formal-informal sector are interlinked. The informal sector buys goods from the large formal sector and any amount of shrinking of output in the informal sector will lower the demand for the formal sector. The cash constraint in informal sector will affect the formal sector both on the demand and supply side of the economy (Ghosh et al 2017).

The decision to demonetise 86% of the total currency was disruptive since India's economy includes large, cash dependent informal sector. The informal sector has linkages with the formal sector and therefore economic growth was hit. The aim to formalize the economy without full and proper assessment of the cost and benefit on informal economy was a mistake. Tax arguments and poor working conditions are the reasons one uses to push for rapid formalisation of the economy but informal economy is not homogenous construct. In the report 'Measures to tackle black money' produced by the Central Board of Direct Taxes in 2012 argued that black money is held in the form of benami properties, bullion and jewellery with black money holders keeping just 6% as cash. Thus stagnation at demonitisation would tackle black money is also farcical.





The informal sector is largely excluded from the formal financial world and is outside the ambit of digital transactions. The withdrawal of 86% cash in the economy has implications for expenditure to small and medium scale enterprises. Small and micro enterprises prefer cash as means of transactions since cash transactions costs are low in comparison to digital transactions that charge 2%–3% tax; cash transactions are also preferred for its immediate realization unlike delays of bank transfers and also because informal credit is available to small and microenterprises only as cash. In absence of cash, small traders due to demonetisation have to return to barter and trust based credit (Barbara Harris White 2017). Thus any attempt to forcefully formalising the already fragile informal sector may actually end up eliminating the small margins on which these firms survive causing poverty.

Various reports have pointed out that demonetisation has declined the earnings of small businesses. Survey in Ranchi by Professor Jean Drèze reported 45% decline in earnings of small businesses in Amritsar; a survey of small shopkeepers in Delhi by Anil Vyom finds decline in earnings by 60%; study by Harsh Mandar reports decline of 60% jobs to labourers; decline by 44% in earnings of self employed in slums.

In an analysis of demonetisation and digitalisation, Sood and Baruah (2017) conclude that formalising transactions through digital money in the informal economy does not eradicate the black economy. The growth of formal economy does not come with the formalization of exchange but with changes in the production relations within the economy. India's economy is characterized by exploitative informal labor relations and production structure. Formalization of transactions cannot overcome this informalization. The digitalization process will affect the earnings in the informal sector making informal production uncompetitive.

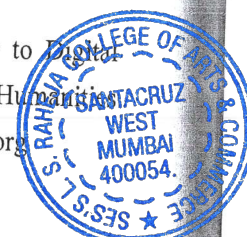
Conclusion

With 93% of the population surviving for employment on the informal sector with daily work payments and cash transactions remonetisation will take more time than anticipated by the government. The urban areas were worst affected by demonetisation since a large number of migrants depend for their livelihood on the informal sector in the urban areas. As reports indicate the demand for work under Mahatma Gandhi National Rural Employment Guarantee Scheme saw an upsurge post demonetisation as many migrants returned to their villages.

While it was a politically calculated move benefitting the government politically as it showed its commitment to fighting black money and terror funding, economically it was an ill planned move that experts are still trying to figure out the reasons behind this massive unprepared move. It caused losses in agriculture and to informal sector, disrupted supply chain and cost many jobs. Drop in GDP growth rate and 99 per cent of banned notes returning to RBI are major indicators of demonetisation's failure. It crippled the informal economy that is yet to recover from the shock of demonetisation combined with the implementation of the Goods and Services Tax.

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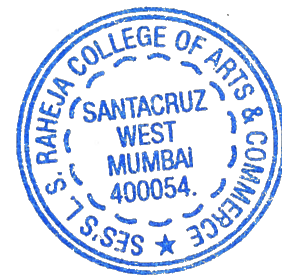


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