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Recent Development Experience and Challenges of Low Income States in India: With Special Reference to UP and Uttarakhand



THEME 2

Indian Economy: Its Employment Dimension



THEME 3

Doubling Farmer's Income: Improving Agricultural Viability and Farmer's Income in India

Uttar Pradesh - Uttarakhand Economic Association

Giri Institute of Development Studies, Aliganj, Lucknow

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Implementation of Demonetisation and GST its Effects on Employment in India

Dolly Singh & G.M. Dubey***

Introduction

The labour market in India has been witnessing numerous uncertainties including the problem of world recession, and growing 'automation' particularly in the manufacturing sector. Today major policy change like 'demonetization' is likely to make the employment scenario further volatile by causing uncertainties to rise in labour market.

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender. On 8th November 2016, the Government of India has announced the demonetization of all 500 and 1000 banknotes of Mahatma Gandhi Series.

The move was taken to curb the menace of black money, fake notes and corruption by reducing the amount of cash available in the system.

GST (Goods and Service tax) or what can be called the One India One tax rate for unification of multiple types of taxation is now truly underway with the GST council meeting and deliberating on over 1121 product and hundreds of service category and its rates under GST. With the approval of the council of ministers and acceptance of almost all rules related to GST and its rates structures the Govt of India is surely on its path to implement the said GST wef 1st July 2017. Rates for over 81% products are kept in 18% or lower tax slab with all Essential food items and daily consumption items at nil rates and most other household items in 5 or 12% category. With this the

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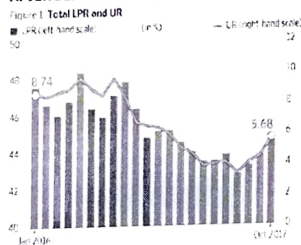
industry at large is surely welcoming the announcements from Srinagar by the GST council. The necessity of GST to require invoicing at each stage by the supply chain and business to avail the cenvat or inputs tax credits will mean a further flip to Digital and formal economy thereby higher declaration of income, turnovers, and profits leading to increased taxation and employment by these companies.

GST contribute to a direct employment of lacs of youth in IT and finance side reading companies to create systems to enable over 800000 companies for GST roll out and invoicing, it will further lead to savings on logistics by the entire economy and thereby greater investment by FMCD, FMCG, logistics companies, E-com companies towards enhanced employment. BFSI industry within which the Fintech companies, small and micro lending companies, NBFC's, payment banks etc are a great beneficiary as greater digital economy and access to information and financial records will enable more investment directly in network and people employment

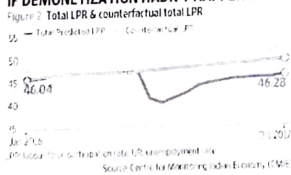
Demonetisation and Employment

Demonetisation has resulted in the extinguishing of jobs, especially in the informal sector. The Centre for Monitoring Indian Economy has estimated that 1.5 million jobs were lost during the January-April. Alongside this loss of jobs, there has been a decline in the labour force participation rate (LPR). Figure 1 shows the trends in total (all India) unemployment rate (UR) and total LPR.

EMPLOYMENT SCENARIO BEFORE AND AFTER DEMONETIZATION



IF DEMONETIZATION HADN'T HAPPENED



Effect of Demonetization on Employment

- The Centre for Monitoring Indian Economy has estimated that 1.5 million jobs were lost after demonetization. Alongside this loss of jobs, there has been a decline in the labour force participation rate (LPR).

- For a developing economy like India, a drop in labour participation rate is a sign of an economic slowdown.

Effect on Medium and Large Scale Industries

- (a) Medium and large scale industries engaged in infrastructure projects, such as big-ticket road construction, reported a 35% cut in employment and 45% revenue loss. The industries like foreign companies, engaged in export-oriented activities reported 30% job losses and 40% revenue fall.
- (b) In the manufacturing sector, medium and large scale industries reported the least job-losses are 5% and took a revenue hit of 20%.

Effect on Informal Sector

- (a) The informal sector presently employs more than 80% of India's workforce. It includes workers in small and medium industries, grocers, barbers, maids and others.
- (b) Within manufacturing, labour intensive sectors such as textiles, leather and gems and jewellery have already reported considerable job losses due to supply chain and market disruptions.

Effect on Agriculture

- (a) Agriculture was expected to grow at 4% this year according to, but demonetization is likely to dent that forecast. The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and anticipated shortfall in 2015-16 output and have firmed up further as demonetization.

Effect on Self-Employment

Most of the self-employed workers lose their employment during the months of cash crunch. They don't able to sell their products because of cash crunch and lack of digital transactions facilities.

Demonetisation Impacts on Employment of Uttar Pradesh State

Mahatma Gandhi National Rural Employment Guarantee Scheme. In Uttar Pradesh, in particular, an ever-burgeoning army of migrant labourers returning to their villages for lack of work in the cities, as a direct result of the cash crisis, has led to a mad scramble for employment under the government programme. However, panchayat officials say they cannot take in anymore workers as the scheme is already facing a crippling fund crunch, with villagers yet to get their dues from six months ago.

"The job guarantee scheme has stopped functioning," said Sewaram, sarpanch of Bhareh village in the state's Etawah district. "The MNREGA fund has not come for several months now. People demand jobs but we can't do anything."

Some 500 km away in eastern Uttar Pradesh, the sarpanch of Kajrinandpur village in Ambedkar Nagar district, Pravin Sharma, is in a similar bind. "In my village, nearly 200 people have MNREGA job cards," he said. "Nearly 100 of them are yet to get wages for 20-25 days of work they did about six months back. How can we enrol new labourers when there is no fund?" While the demand for work is growing by the day, employment under the job scheme plummeted nationwide in November, coinciding with the demonetisation of high-value notes. The number of households getting work dropped 23% compared to October. There was dropped in employment to the squeeze on funds and overstretched panchayats.

How GST affected Employees in India?

The employer-employee transactions under the GST tax regime, consultancy firm PricewaterhouseCoopers (PwC) would be payable to the cash value of gifts provided to an employee during a financial year exceeds Rs 50,000. The term 'gift' has not been clarified under GST law. However, it is said to be a sum "made without consideration, is voluntary and is made occasionally".

Benefits of GST for Business and Industry

- Easy compliance
- Uniformity of tax rates and structures
- Removal of cascading
- Improved competitiveness
- Gain to manufacturers and exporters

Benefits of GST for Central and State Governments

- Simple and easy to administer
- Better controls on leakage
- Higher revenue efficiency

Benefits of GST for the Consumers

- **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Taxation and GST

Taxation is one of the crucial ingredients of the ease of doing business as every potential investor looks at the taxation procedure of the prospective investment destination country. India though holds various strengths in terms of demography, demand and democracy but has been challenged by complications in the ease of doing business. GST implementation is to going to provide impetus to various reforms and policies introduced by the Government for the ease of doing business and to push India to a more simple, transparent and tax friendly regime.

Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today is impacted by cascading impact of taxation. Hence, GST is also beneficial for consumers as there would be only one tax from the manufacturers and service providers to the consumer leading to transparency and efficiency. It will prevent leakages from the system and provide relief in terms of reduced tax burden on most of the commodities.

Conclusion

The overall this paper concluded that Demonetisation hit employment of our country in labour market because of shortage of circulation of currency in market as suddenly banned of Rs 1000 and Rs. 500. The job loosed temporarily affect the daily wages of labourers and other labour intensive sectors like textiles, garments, leather and jewelleryes. In short run there have been problem related to liquidity crunch, unemployment, loss of growth of economic activities. GST play a positive role to create employment opportunities in manufacture sector, Services sector, taxation etc. GST promoted ease of doing businesses, help in reduction of transactions costs to businesses, boost manufacturing of goods and supply of services, increase price-cost margins of manufacturers, generate employment opportunities for the vast pool of young population with enhanced production possibility frontiers and push overall GDP growth of the economy in much higher trajectory. The need of the hour is to spread awareness at a larger scale about the implementation procedure and advantages of GST to every citizen of the country.

The transition of India's to move towards a formal economy and digital economy may have been pushed by demonetization and digitization, however it is GST and its impact on the companies, economy and jobs in 5-7 years that would be truly make us transition from a developing economy to developed economy.

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