DEMONETIZATION AND IT’S IMPACT ON CONSTRUCTION LABOR FORCE

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Abstract: Construction Industry is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The construction industry provides many job opportunities to individuals and is considered among the largest industries that provide employment. In order to make a workable project plan, the resources needed for the project and their availability must be checked. The financial and economic crisis has affected many sectors, and also the construction sector. Economic downturns generally disrupt the employment landscape and lead to economic restructuring. Economic downturns can also reduce the stock of skills in the economy for a number of reasons including emigration, early exit from the labor force, or a failure of new entrants to the labor market to acquire skills. This study aims to study the consequences of economic slowdown on construction industry especially on the labor force that are connected to this industry and it also gives the skills that should be implemented to combat such economic crisis situation, which can be referred by construction firms to sail smoothly in the grave situation of economic downturn.

KEYWORDS

INTRODUCTION

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. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Economic downturns can also reduce the stock of skills in the economy for a number of reasons including emigration, early exit from the labour force, or a failure of new entrants to the labour market to acquire skills. Even if this only happens at the margin it can inhibit economic recovery where skill shortages slow the pace of recovery. Economic downturn leads to a decline in a country’s gross domestic product (GDP) growth for two or more consecutive quarters of a year. The global economic recession has taken its toll on the Indian economy that has led to multi-crore loss in business and export orders, tens of thousands of job losses, especially in key sectors like the IT, automobiles, industry and export-oriented firms. Indian economy also passed through these stages during the year 2008. The economic growth rate, which was above 8% for consecutive period of three years since 2006, suddenly plunged to an average of 5.5%. Developed world is under the fear that recession may not turn out to be continuous process resulting into great depression. Generally recessions are for two quarters, but depression is a severe economic downturn that lasts several years. Earlier India was affected less by external world depressions as it relied more on internal consumption, saving and import substitutions. However, after 1991 India opened up its economy to global players, share of exports, both goods and services, in GDP grew significantly.

The Real Estate industry in India witnessed unprecedented growth in a relatively short span of time. With most companies having seen only the upward swing, the economic downturn proved to be a litmus test. Companies with stronger fundamentals and ability to make quick strategic decisions continued to operate, though with reduced visibility and size of operations, the weaker ones found it challenging to retain the position and image as a Real Estate developer. Construction industry plays a critical role in all developmental sectors like agriculture, irrigation, energy, transportation, communication, manufacturing, housing, civil infrastructure and social services. Construction management (CM) or construction project management (CPM) is the overall planning, coordination and control of a project aimed at meeting a client’s requirements in order to produce a functionally and financially viable project. Most companies must invest working capital before realizing a profit or return on investment. When you have inaccurate and untimely cash flow...
analysis, it leads to a misunderstanding of the timing of cash flows, which negatively impacts how your financial performance is viewed, both inside and outside the company. This could impact market capitalization, the ability to raise capital or pursue acquisitions, all critical components of a growth path. On the other hand, better management of cash flow can positively influence how customers view the viability of your company and therefore influences whether they buy from you or view you as a strategic partner.

The demonetization rule implemented in the year 1946 and 1978 had some significant impact on the country's economy for quite a few years but the current government was adequately prepared to handle the situation and the government also introduced newly minted notes and coins to continue cash transactions which barely impacted the common people and the small time businesses alive. The third wave of demonetization in 2016 impacted the construction business sector tremendously. This sector contributes the maximum economy to the country overall growth and development but this sector too came under the crunch of demonetization.

Among all implications of ‘demonetization’, its impact on employment is important, particularly in a situation when majority of wage payments are made in cash form. Given the nature of huge informal employment, more than 95 percent of total transactions in India are in cash form. The decision of sudden ‘demonetization’ therefore led the labor market dynamics changed significantly by rendering millions of workers exposed to increased uncertainty in employment; they resorted to ‘reverse migration’. For employment growth, economic growth is one of the important factors. In a situation, when the recession phase caused by global crisis of 2009 had hardly dimmed away, the recent move of ‘demonetization’ will push growth downward as predicted by most economic agencies including RBI and IMF. The prediction of decline in GDP ranges from 0.5 percent to 2 percent. Theoretically, a unit decline in growth rate results a decline in employment growth rate, a concept called as employment elasticity (EE) of output. So, labor market, particularly informal in nature, will be most affected by the move. Following the Report on Fifth Annual Employment and Unemployment Survey (2015-16), a couple of points are worth mentioning. First, among all, very few households (20 percent) with monthly income less than or equal to Rs. 10,000 have bank account. Seconds, majority of workers belong to this income group only; 82 percent among self-employed, 60 percent among regular or salaried workers, 87 percent among contract workers, and 96 percent among casual workers.

Third, majority of workers, in all category of employments have no written contract, 65 percent among self-employed, 60 percent among regular or salaried workers, 87 percent among contract workers, and 96 percent among casual workers. Fourth, majority of workers (71.2 percent) receive no social benefits. Fifth, 60 percent of workforce belongs to just six states, Tamil Nadu, Maharashtra, Andhra Pradesh, Gujarat, Karnataka and Uttar Pradesh. Informal employment, which constitute as high as 95 percent of all employment is backed with no (or least) social security such as health, education or provident fund benefits. Workers are subject to be fired (or lay-off) at any point of time during the production (or distribution) process. Since majority of wage payment is made in cash form; they are thus the ones to face misery caused by the recent announcement of “demonetization”. According to Financial Express (Nov, 24, 2016), an estimated 4 lakh workers, largely belonging to this segment has been affected by the decision.

The payments, especially to workers, were only by liquid cash. The sudden restriction on withdrawals led the contractor unable to cope with the labor pressure. The first and fore most is fleeing of labor force from the sites. They were not paid money for the days they worked. They could not prolong in a new place without liquid cash. The local people were also reluctant to extend credit facility to migrant workers, as they themselves were badly hit by poor cash sales. Consequently, the laborers were returning to their villages. Many of the ongoing projects came to a standstill. Majority of workers do not have bank account at all. As they are the floating population seeking livelihood, it is literally impossible for them to open bank accounts from place to place. The Contractors, though they had sufficient balance, could not draw from bank in view of the restrictions on the amount and number of transactions per week. They were only silent spectators to the fleeing of workers from the site. The new bookings were virtually nil. The Builders who made a massive investment are in troubled waters. India’s decade long construction boom created one in three new jobs as tens of millions of people made journey from rural areas to towns seeking livelihood, came to a grinding halt. It has been pointed out that demonetization 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 period in India. The estimated total employment during the period was 405 million compared to 406.5 million during the preceding four months, September-December 2017.
Alongside this loss of jobs, there has been a decline in the labor 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.

The reported job losses are not reflected in the UR but the declining LPR shows that persons are dropping out of the labor force. However, the UR and the LPR have both been increasing over August-October. Declining LPR was a phenomenon that was witnessed in the US also during the recent recession: the dismal jobs situation led many to drop out of the labor force, i.e. they stopped searching for jobs. It has often been stated that India has a young population; approximately half the population is under the age of 26. It seems inconceivable that LPR can show a declining trend unless something dramatically unusual is happening in the Indian economy. The decline in the LPR should be a matter of deep concern for the Indian economy. Persons may drop out of the labor force due to discouragement, the inability to find a job. In the meantime, they may take up part-time jobs to make ends meet or may be compelled to start a small business (“forced entrepreneurship”) as a desperate move for their very survival. It can be easily concluded that employment scenario in the country is not conducive enough to face any challenge such as the ‘demonetization’ of currency. In a country, when 79 percent of non-agricultural wage workers have no written contract and only one fourth are eligible for any social security, the decision is certainly a cause of concern. India has the world largest youth population, so for any developing country like India, it is the time to harness the population dividend by providing them gainful employment.

A direct consequence of demonetization has been on the health status of the working class, one which has long-term impacts on not only capacity to work but also the capacity to come out of poverty. Expenditure on health and health quality, as is widely known, is the primary reason for not only living in poverty and not only staying in it, but also slipping into it. Three aspects have been focused on: one, expenditure on medicines; two, impact on hospital admissions and three, change in source of health care.

SKILLS NEEDED FOR THE UPTURN:

1. Rebuilding organizations after demonetization will require management skills in developing new business and handling expansion. Some skills identified as important in rebuilding organizations in the upturn were similar to those required for the downturn, including sales, soft skills, and managerial skills. This would require managers to plan and manage resources and to recruit, lead, motivate and harness the ideas of junior staff.

2. Skills in manufacturing occupations will be needed as a result of labor market change. Stakeholders and employers reported that some future skills needs will arise from changes to the employer's workforce or from the wider labor
market. Thus, re-storing growth in highly cyclical manufacturing businesses with an ageing work-force will require significant initial training in high level skills among junior staff to fill gaps left by senior staff on retirement.

3. Demands for multi-skilled roles are likely to persist. A number of stakeholders predicted that, having tried multi-skilling in the downturn, many employers would be keen to continue with this model in the upturn, leading to a requirement for hybrid qualifications, such as in cleaning and maintenance.

4. New skills may be needed for new ‘green’ jobs. Interviewees mentioned ‘green skills’ most frequently out of all new skills identified. This is a very difficult area of demand to predict as it is often not clear whether the likely demand relates to whole jobs or parts of jobs and whether the skills themselves are entirely new or simply use existing skills applied to ‘green’ technologies. The need for some smaller sets of skills appear to be both more generalized and more geographically dispersed and may arise in the form of additional modules on qualifications in the building trades to incorporate higher environmental standards etc. Further research will be required to identify kinds of skills needed at a regional and sub-regional level.

CONCLUSION:

In this paper, from the past researches it is observed that many, construction related firms came across demonetization conditions at one point during their existence and the labor market was majorly and hardly hit by the waves of demonetization. In order to cope with the prevailing downturn, construction companies can use the above skills matching their firm’s resources and capabilities and cope up with such times. Even the government should consider the above initiatives in order to alleviate economic crisis situations.

REFERENCES:


