



UNEMPLOYMENT AND ECONOMIC GROWTH IN INDIA: TRENDS, CAUSES, CONSEQUENCES AND POLICY CHALLENGES

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ABSTRACT

Unemployment remains one of the most significant socio-economic challenges confronting the Indian economy. Despite sustained economic growth, structural transformation, technological development, and expansion of the service sector, the generation of adequate and productive employment continues to be a major policy concern. This paper examines the relationship between unemployment and economic growth in India, focusing on the nature of unemployment, structural causes, youth and educated unemployment, rural-urban differences, technological change, informal employment, and the role of public policy. The study follows a descriptive and analytical methodology based on secondary data and established economic literature. It argues that economic growth alone cannot guarantee adequate employment unless growth is sufficiently employment-intensive and accompanied by investment in human capital, manufacturing, infrastructure, agriculture, micro and small enterprises, and labour-market institutions. Skill mismatches, regional disparities, dependence on informal employment, inadequate industrial absorption, demographic pressures, and changes associated with automation further complicate the employment challenge. The paper concludes that India requires an integrated employment strategy combining sustained economic growth with labour-intensive production, education and skill reform, entrepreneurship, rural diversification, social protection, and improved labour-market information.

Keywords: *Unemployment, Economic Growth, Employment, Indian Economy, Youth Unemployment, Labour Market, Skill Development, Informal Sector, Economic Development*

1. INTRODUCTION

Employment is one of the most important links between economic growth and social welfare. For most individuals and households, employment represents the principal source of income and economic security.

Productive employment also contributes to national output, savings, investment, consumption, and government revenue.

India has experienced major economic transformation since independence and particularly following the economic reforms initiated in 1991. The economy has become increasingly integrated with global markets, the service sector has expanded, technological adoption has accelerated, and new industries have emerged. However, the employment consequences of economic growth have remained uneven.

The challenge is not restricted to open unemployment. Underemployment, disguised unemployment, irregular employment, low wages, informality, and mismatch between educational qualifications and available jobs are equally important.

India's demographic structure adds another dimension. A large working-age population can provide a demographic dividend when productive employment opportunities are available. However, when employment creation fails to keep pace with labour-force aspirations, the same demographic potential can produce economic and social pressures.

The relationship between economic growth and employment is therefore central to India's development strategy.

2. OBJECTIVES OF THE STUDY

The major objectives are:

1. To examine the nature and different forms of unemployment in India.
2. To analyse the relationship between economic growth and employment generation.
3. To identify the major causes of unemployment in the Indian economy.
4. To study the problem of youth and educated unemployment.
5. To examine rural and urban dimensions of unemployment.
6. To analyse the impact of technological change on employment.
7. To evaluate major government initiatives related to employment and skill development.
8. To suggest policy measures for promoting productive and sustainable employment.

3. RESEARCH QUESTIONS

The study addresses the following questions:

- Why does unemployment remain a major concern despite India's economic growth?
- What structural factors influence employment generation?
- Why is unemployment among educated young people particularly significant?
- How does unemployment differ between rural and urban economies?
- What is the likely effect of automation and digitalisation on employment?
- What policy measures can make economic growth more employment-intensive?

4. RESEARCH METHODOLOGY

The study follows a descriptive and analytical research methodology and is based primarily on secondary information.

4.1 Sources of Data

Relevant information may be obtained from:

- Ministry of Statistics and Programme Implementation;
- Periodic Labour Force Survey reports;
- Government of India's Economic Survey;
- Reserve Bank of India publications;
- International Labour Organization;
- World Bank;
- Ministry of Labour and Employment;
- NITI Aayog;
- academic journals, books, and research reports.

4.2 Method of Analysis

The paper employs descriptive interpretation and economic analysis to examine the relationship between growth and employment. Existing theoretical and empirical literature is reviewed to identify major structural characteristics of India's labour market.

4.3 Limitations

The study relies primarily on secondary information. Employment conditions may also vary significantly across states, age groups, educational categories, gender, occupations, and rural and urban areas. National averages can therefore conceal important regional and demographic differences.

5. CONCEPT OF UNEMPLOYMENT

Unemployment generally refers to a situation in which individuals who are willing and able to work at prevailing conditions cannot obtain suitable employment.

The unemployment rate can be expressed as:

Unemployment Rate = (Number of Unemployed Persons / Labour Force) × 100

The labour force includes persons who are employed as well as those unemployed persons who are actively seeking or available for work according to the applicable statistical definition.

However, the unemployment rate alone cannot describe the entire employment situation in a developing economy.

A person may technically be employed but receive insufficient working hours, extremely low income, or work far below his or her productive capacity. Therefore, employment quality is also economically important.

6. MAJOR TYPES OF UNEMPLOYMENT IN INDIA

6.1 Open Unemployment

Open unemployment occurs when an individual is willing and able to work but cannot find employment.

It is particularly visible among educated young people and job seekers in urban areas.

6.2 Disguised Unemployment

Disguised unemployment exists when more workers are engaged in an activity than are actually required.

It has traditionally been associated with agriculture. If some workers can be withdrawn without significantly reducing total production, their marginal contribution may be extremely low.

6.3 Seasonal Unemployment

Seasonal unemployment occurs when employment is available only during certain periods.

Agricultural workers may experience seasonal unemployment between sowing, harvesting, and other agricultural operations.

6.4 Structural Unemployment

Structural unemployment results from a mismatch between the skills possessed by workers and the requirements of available jobs.

Changes in technology, industrial structure, trade, and consumer demand can contribute to structural unemployment.

6.5 Educated Unemployment

Educated unemployment occurs when individuals with formal educational qualifications are unable to obtain suitable employment.

It is particularly important in India because expansion of higher education has raised expectations regarding formal and professional employment.

6.6 Underemployment

Underemployment occurs when individuals work fewer hours than desired or are employed in positions that do not adequately utilise their skills.

7. ECONOMIC GROWTH AND EMPLOYMENT

Economic growth refers to sustained expansion in the productive capacity and real output of an economy.

In principle, rising output should increase demand for labour. However, the relationship between GDP growth and employment is influenced by the structure of production and technology.

If growth occurs predominantly in highly capital-intensive sectors, output may increase considerably without generating proportional employment.

The employment responsiveness of economic growth can be expressed through the concept of employment elasticity:

Employment Elasticity = Percentage Change in Employment / Percentage Change in Output

Higher employment elasticity indicates that economic growth is accompanied by relatively stronger employment generation.

The central policy issue is therefore not only the rate of economic growth but also its composition.

8. THE PROBLEM OF JOBLESS GROWTH

The expression jobless growth refers to a situation where an economy experiences substantial output growth without corresponding increases in employment.

Several factors may contribute to this phenomenon.

Technological progress enables firms to produce greater output with fewer workers. Capital-intensive industries can expand rapidly without employing large numbers of people. Productivity improvements may similarly reduce labour requirements per unit of output.

India's relatively strong performance in certain high-productivity service sectors has generated income and exports but cannot alone absorb the entire workforce.

Employment-intensive economic development therefore requires expansion across manufacturing, construction, tourism, healthcare, logistics, retail, agriculture-related industries, and small enterprises.

9. POPULATION GROWTH AND LABOUR SUPPLY

India possesses a large working-age population.

A growing labour force can contribute to economic development by expanding productive capacity. When workers are educated, healthy, skilled, and productively employed, the economy can benefit from a demographic dividend.

However, rapid growth of the working-age population also increases the number of people seeking employment.

Employment generation must therefore keep pace not only with existing unemployment but also with new entrants into the labour market.

The challenge is especially significant because younger generations often possess higher educational qualifications and employment expectations than previous generations.

10. YOUTH UNEMPLOYMENT

Youth unemployment represents a particularly important dimension of India's labour-market challenge.

Young people frequently experience difficulty in transitioning from education to employment. Several factors contribute to this situation.

First, educational qualifications may not correspond to labour-market requirements.

Second, employers often demand prior work experience, which new entrants naturally lack.

Third, young workers may search longer for employment that corresponds to their qualifications and expectations.

Fourth, geographic mobility can be restricted by family responsibilities, housing costs, cultural factors, or lack of information.

Prolonged unemployment at the beginning of a career can have long-term consequences. Workers may experience skill deterioration, lower lifetime earnings, reduced confidence, and delayed financial independence.

11. EDUCATED UNEMPLOYMENT AND SKILL MISMATCH

India has experienced significant expansion in higher education. Increasing numbers of young people obtain undergraduate, postgraduate, technical, and professional qualifications.

Education generally improves productivity and employment opportunities. However, expansion in educational qualifications does not automatically guarantee employment.

A mismatch can emerge when the education system produces skills that differ from those demanded by employers.

For example, employers may require practical technical knowledge, communication abilities, digital competencies, analytical skills, and workplace experience in addition to formal qualifications.

Students may possess theoretical knowledge but limited exposure to practical applications.

The education-to-employment transition therefore requires stronger cooperation among universities, vocational institutions, industries, and policymakers.

12. RURAL UNEMPLOYMENT

Rural unemployment has distinctive characteristics.

Agriculture continues to support a large population, but the sector cannot always provide sufficient productive employment throughout the year.

Small landholdings, seasonal agricultural activities, limited irrigation, mechanisation, and low agricultural productivity can contribute to unemployment and underemployment.

Disguised unemployment is also associated with rural households where multiple family members work on small farms even though fewer workers could produce similar output.

The long-term solution requires diversification of the rural economy.

Potential areas include:

- food processing;
- dairy and livestock;
- horticulture;

- handicrafts;
- tourism;
- rural logistics;
- renewable energy;
- small-scale manufacturing;
- digital services.

Rural development should therefore be viewed as broader than agricultural development.

13. URBAN UNEMPLOYMENT

Urban labour markets attract migrants because cities offer greater possibilities in industry, construction, transport, services, trade, and professional employment.

However, migration can also increase competition for jobs.

Urban unemployment is often associated with educated workers seeking formal employment. At the same time, large numbers of workers participate in informal occupations without stable contracts or social protection.

The challenge of urban employment therefore involves both unemployment and employment quality.

Housing, transport, skill development, industrial policy, and urban planning all influence the ability of cities to generate productive employment.

14. INFORMAL EMPLOYMENT

A substantial proportion of India's workforce is associated with informal employment.

Informal workers may lack written contracts, job security, paid leave, pensions, insurance, and other employment benefits.

From an economic perspective, the distinction between employment and unemployment can therefore be misleading if employment quality is ignored.

A person working irregularly at extremely low wages may be counted as employed while remaining economically vulnerable.

India's employment strategy should consequently focus on three goals simultaneously:

more jobs, better jobs, and more productive jobs.

Formalisation should be encouraged without creating excessive regulatory burdens for micro and small enterprises.

15. AGRICULTURE AND EMPLOYMENT

Agriculture remains economically important for employment, food security, and rural livelihoods.

However, agricultural employment faces several structural limitations.

Land fragmentation reduces the economic viability of farming for some households. Seasonal production generates fluctuations in labour demand. Mechanisation may reduce labour requirements for certain operations.

The solution should not be to prevent productivity-enhancing technology. Instead, productivity improvements in agriculture should be accompanied by creation of alternative rural employment.

Agro-processing, cold-chain infrastructure, warehousing, transportation, food packaging, agricultural marketing, and rural services can create employment while strengthening agricultural value chains.

16. MANUFACTURING AND EMPLOYMENT GENERATION

Manufacturing has historically played an important role in structural transformation.

As workers move from low-productivity agriculture toward higher-productivity manufacturing, average productivity and incomes can increase.

Labour-intensive manufacturing can absorb workers with different educational and skill levels.

Industries with significant employment potential include textiles, garments, leather products, food processing, electronics assembly, furniture, toys, pharmaceuticals, renewable-energy equipment, and selected engineering activities.

India's manufacturing strategy should combine technological competitiveness with employment generation.

Industrial clusters, reliable electricity, transport infrastructure, credit availability, simplified compliance, export promotion, and workforce training can encourage manufacturing investment.

17. MSMEs AND EMPLOYMENT

Micro, Small and Medium Enterprises constitute an important source of employment and entrepreneurship.

Small enterprises are present in manufacturing, retail, food processing, tourism, transport, handicrafts, repair services, technology, and professional activities.

MSMEs can generate employment with comparatively smaller capital requirements than many large-scale industries.

However, these enterprises frequently face constraints such as:

- inadequate credit;
- delayed payments;
- limited market access;
- technological gaps;
- infrastructure deficiencies;
- regulatory complexity;
- limited management capabilities.

Improving the business environment for MSMEs can therefore contribute significantly to employment generation.

18. TECHNOLOGY, AUTOMATION AND EMPLOYMENT

Technological change has always influenced labour markets.

Automation, artificial intelligence, robotics, digital platforms, and advanced software can increase productivity and create new products and industries.

At the same time, technology can replace certain repetitive and routine tasks.

The overall employment effect depends upon the balance between jobs displaced and new jobs created.

Technology may reduce demand for some occupations while increasing demand for software development, data analysis, cybersecurity, digital marketing, equipment maintenance, logistics, healthcare technology, and other emerging activities.

The appropriate response is not to resist technological progress but to prepare workers for technological transition.

Continuous learning and reskilling will become increasingly important.

19. GENDER AND EMPLOYMENT

Women's participation in economic activity is essential for inclusive growth.

Greater female employment can increase household income, strengthen financial independence, improve human-capital investment, and expand the productive capacity of the economy.

Several barriers may restrict women's participation, including unpaid care responsibilities, safety concerns, inadequate transportation, social norms, limited childcare facilities, and mismatch between available jobs and educational qualifications.

Policy measures should encourage safe workplaces, flexible employment arrangements, childcare facilities, skill development, entrepreneurship, digital work opportunities, and equal access to productive resources.

Increasing women's participation can significantly expand India's effective labour force and development potential.

20. GOVERNMENT EMPLOYMENT PROGRAMMES

The Government of India has introduced several programmes directly or indirectly related to employment.

20.1 Mahatma Gandhi National Rural Employment Guarantee Act

MGNREGA provides a statutory framework for wage employment in rural areas and serves as an important social-protection mechanism.

20.2 Skill India

Skill-development initiatives seek to improve employability by providing vocational and occupational training.

20.3 Make in India

The programme seeks to promote manufacturing and investment, which can contribute to employment generation.

20.4 Startup India

Startup promotion can support entrepreneurship, innovation, and new employment opportunities.

20.5 Pradhan Mantri Mudra Yojana

Credit support for micro-enterprises can facilitate self-employment and small-business activity.

20.6 Digital India

Digital infrastructure and services can create new opportunities in technology, digital commerce, online services, and entrepreneurship.

The effectiveness of these programmes ultimately depends on implementation, coordination, employment quality, and measurable outcomes.

21. ENTREPRENEURSHIP AND SELF-EMPLOYMENT

Formal wage employment cannot alone absorb India's entire labour force.

Entrepreneurship and self-employment therefore constitute important components of employment policy.

Young entrepreneurs can create businesses in agriculture, manufacturing, tourism, technology, retail, healthcare, education, food processing, logistics, and digital services.

However, entrepreneurship should not be presented as a substitute for the government's responsibility to create an enabling economic environment.

Entrepreneurs require:

- affordable credit;
- infrastructure;
- business training;
- market information;
- technological support;
- simplified regulations;
- mentorship;
- reliable digital connectivity.

A supportive entrepreneurial ecosystem can transform some job seekers into job creators.

22. CONSEQUENCES OF UNEMPLOYMENT

Persistent unemployment creates economic and social costs.

22.1 *Loss of Output*

When willing workers remain unemployed, potential productive resources remain unused.

22.2 *Poverty*

Unemployment reduces household income and increases vulnerability to poverty.

22.3 *Inequality*

Unequal access to employment opportunities can widen income disparities.

22.4 Human Capital Loss

Long periods without work may result in deterioration of skills.

22.5 Migration

Lack of employment can encourage migration from rural areas and economically weaker regions toward cities or other states.

22.6 Fiscal Pressure

High unemployment can increase demand for welfare expenditure while reducing potential tax revenue.

22.7 Social Consequences

Persistent unemployment, particularly among educated young people, can produce frustration, delayed household formation, economic dependence, and social dissatisfaction.

Employment policy therefore has implications extending well beyond labour economics.

23. POLICY RECOMMENDATIONS

India requires a comprehensive strategy for employment-intensive development.

23.1 Promote Labour-Intensive Manufacturing

Policies should encourage industries capable of absorbing large numbers of workers while remaining internationally competitive.

23.2 Reform Education and Skill Development

Curricula should increasingly incorporate practical knowledge, digital skills, communication, internships, apprenticeships, and industry exposure.

23.3 Strengthen MSMEs

Improved credit availability, digitalisation, infrastructure, technology adoption, and simplified regulations can increase employment among small enterprises.

23.4 Diversify the Rural Economy

Rural development policies should encourage non-farm activities alongside improvements in agricultural productivity.

23.5 Promote Women's Employment

Childcare, safe transportation, flexible employment, digital opportunities, and entrepreneurship programmes can improve female participation.

23.6 Expand Apprenticeships

Structured apprenticeship programmes can reduce the experience barrier faced by young workers.

23.7 Strengthen Labour-Market Information

Reliable information about vacancies, skills, wages, and occupational demand can reduce mismatches between employers and workers.

23.8 Prepare for Automation

Reskilling and lifelong-learning systems should help workers transition toward occupations that complement new technologies.

23.9 Encourage Regional Development

Investment should be geographically diversified so that employment opportunities are not concentrated in a limited number of major cities.

23.10 Improve Employment Quality

Policy should evaluate not only the number of jobs created but also wages, productivity, stability, working conditions, and social protection.

24. MAJOR FINDINGS

The study identifies the following findings:

1. Unemployment in India is multidimensional and includes open, seasonal, structural, disguised, and educated unemployment as well as underemployment.

2. High economic growth does not automatically generate sufficient employment.
3. The sectoral composition and employment intensity of growth are important determinants of job creation.
4. Youth and educated unemployment require particular policy attention.
5. Skill mismatch remains an important obstacle in the transition from education to employment.
6. Rural employment challenges require diversification beyond conventional agriculture.
7. Manufacturing and MSMEs have considerable potential for employment generation.
8. Informal employment makes employment quality as important as employment quantity.
9. Automation may eliminate some tasks while creating new occupations and skill requirements.
10. Greater female participation can significantly strengthen India's productive potential.
11. Entrepreneurship can contribute to employment but requires institutional, financial, and infrastructural support.
12. Employment policy must be integrated with industrial, educational, agricultural, technological, and regional-development policies.

25. CONCLUSION

Unemployment remains one of the central challenges of India's development process. The country's economic progress has expanded opportunities in technology, services, infrastructure, manufacturing, and entrepreneurship, but employment generation remains uneven across sectors, regions, educational groups, and social categories.

The fundamental policy challenge is to establish a stronger connection between economic growth and productive employment.

India's demographic structure provides a potentially historic economic opportunity. A large young population can support higher production, innovation, entrepreneurship, savings, and consumption. However, the demographic dividend can be realised only when workers possess relevant skills and have access to productive employment.

The employment challenge therefore cannot be solved through a single programme. It requires coordination among macroeconomic policy, industrial development, agriculture, education, vocational training, infrastructure, MSME development, technology policy, and social protection.

Particular attention must be paid to educated youth, rural workers, women, informal workers, and regions where employment opportunities remain limited.

Future policy should also move beyond a narrow distinction between employed and unemployed persons. The quality, productivity, security, and remuneration of employment are equally important.

India's long-term development objective should consequently be employment-rich economic growth—growth that increases national output while simultaneously expanding opportunities for productive, secure, adequately remunerated, and dignified work.

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