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UNEMPLOYMENT AND ECONOMIC GROWTH IN INDIA

An Empirical and Policy-Oriented Analysis

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ABSTRACT

Unemployment remains one of the most important socio-economic challenges confronting India. Although the economy has experienced sustained structural change and periods of rapid growth, the central policy question is whether expansion in output is producing adequate, productive and secure employment. This paper examines the relationship between economic growth and unemployment in India with emphasis on labour-force participation, worker-population ratios, sectoral transformation, youth and educated unemployment, female participation, informality and employment-intensive development. The study uses a descriptive and analytical methodology based on secondary data from official Indian sources and established economic literature. The Periodic Labour Force Survey (PLFS) 2023-24 reported an all-India labour force participation rate of 60.1 per cent, worker population ratio of 58.2 per cent and unemployment rate of 3.2 per cent for persons aged 15 years and above under usual status. These indicators show improvement over 2017-18, but the quality, productivity and distribution of employment remain crucial concerns. The paper argues that India needs not merely high GDP growth but growth capable of absorbing labour through manufacturing, MSMEs, modern services, infrastructure, rural non-farm activities and human-capital development.

***Keywords:** Unemployment, Economic Growth, India, Employment, Labour Market, PLFS, GDP, Inclusive Growth, MSMEs*

1. INTRODUCTION

Economic growth and employment are fundamental indicators of economic welfare. Growth increases the production of goods and services, while employment determines how effectively human resources participate in and benefit from that expansion. In a populous developing economy, growth that fails to create sufficient productive work may coexist with underemployment, informality, low earnings and regional disparities.

India's post-1991 development has been characterised by liberalisation, a rapidly expanding services sector, technological change and deeper integration with the global economy. At the same time, the country must continuously create opportunities for a large working-age population. The employment question is therefore not limited to whether unemployment rates rise or fall. It also concerns the quality of work, regularity of earnings, social security, productivity and the capacity of workers to move from low-productivity activities into better jobs.

Official PLFS data show substantial improvement in headline labour-market indicators over recent years. The unemployment rate in usual status for persons aged 15 years and above declined from 6.0 per cent in 2017-18 to 3.2 per cent in 2023-24, while labour-force participation and worker-population ratios increased. These changes are encouraging, but they need to be interpreted together with the composition of employment and the differences between rural and urban labour markets.

2. OBJECTIVES OF THE STUDY

1. To examine the nature and major forms of unemployment in India.
2. To analyse recent trends in labour-force participation, employment and unemployment.
3. To study the relationship between economic growth and employment generation.
4. To examine the role of agriculture, manufacturing, services and MSMEs in employment creation.
5. To identify challenges relating to youth, educated and female employment.
6. To evaluate major policy directions for employment-intensive and inclusive growth.
7. To suggest measures for improving both the quantity and quality of employment.

3. RESEARCH QUESTIONS

- Does rapid economic growth necessarily generate proportionate employment in India?
- What structural factors explain unemployment, underemployment and informal work?
- Which sectors offer the strongest potential for large-scale employment creation?
- How can education and skill development respond more effectively to labour-market requirements?
- What policy mix can make India's growth more employment-intensive and inclusive?

4. RESEARCH METHODOLOGY

The study follows a descriptive and analytical research design. It is based on secondary data from the Ministry of Statistics and Programme Implementation, the Periodic Labour Force Survey, the Ministry of Finance, the

Ministry of Labour and Employment, and related institutional reports. Academic books and literature on development, labour markets and structural transformation provide the conceptual framework.

The analysis distinguishes between usual status and current weekly status because the reference periods differ. Usual status considers activity over a longer reference period, while current weekly status captures labour-market activity during the preceding seven days. This distinction is important when comparing unemployment estimates. The study therefore avoids treating a single unemployment number as a complete description of India's labour market.

5. CONCEPT AND FORMS OF UNEMPLOYMENT

Unemployment generally refers to persons who are without work but are seeking or available for work. In developing economies, however, open unemployment represents only one dimension of labour underutilisation.

Open unemployment: occurs when a person willing and available to work cannot obtain employment.
Seasonal unemployment: arises when work is available only during particular periods, especially in agriculture and seasonal industries.
Disguised unemployment: exists when more workers are engaged in an activity than are required, so the marginal contribution of some workers is very low.
Educated unemployment: refers to qualified persons who cannot find suitable work matching their education, skills or expectations.
Structural unemployment: results from a mismatch between available skills and the changing requirements of industries and occupations.
Underemployment: occurs when people work fewer hours than desired or in activities that do not fully utilise their capabilities.

6. RECENT LABOUR-MARKET TRENDS IN INDIA

The PLFS 2023-24 shows in table 1, a marked improvement in headline indicators for persons aged 15 years and above under usual status. Labour-force participation rose from 49.8 per cent in 2017-18 to 60.1 per cent in 2023-24. The worker-population ratio increased from 46.8 per cent to 58.2 per cent, while the unemployment rate fell from 6.0 per cent to 3.2 per cent. Female labour-force participation increased particularly strongly, from 23.3 per cent to 41.7 per cent over the same period.

Table 1

Indicator (%)	2017-18	2022-23	2023-24
LFPR, age 15+, usual status	49.8	57.9	60.1
WPR, age 15+, usual status	46.8	56.0	58.2
Unemployment Rate, age 15+, usual status	6.0	3.2	3.2
Female LFPR, age 15+, usual status	23.3	37.0	41.7

Source: Periodic Labour Force Survey, Annual Report 2023-24, MoSPI.

Calendar-year PLFS estimates also illustrate why definitions matter. For January-December 2024, the all-India unemployment rate for persons aged 15 years and above was 3.2 per cent in usual status but 4.9 per cent in current weekly status. The difference reflects the distinct reference periods and should not be interpreted as a contradiction.

7. ECONOMIC GROWTH AND EMPLOYMENT GENERATION

Economic theory suggests that higher output can raise the demand for labour. Yet the employment elasticity of growth varies across sectors and technologies. Output may rise rapidly with limited employment creation when production becomes highly capital-intensive or when expansion is concentrated in sectors requiring relatively few workers.

India therefore needs to focus on the composition of growth. Labour-intensive manufacturing, construction, tourism, logistics, healthcare, retail, food processing and a wide range of small and medium enterprises can generate employment across different skill levels. Growth in high-productivity technology sectors remains valuable, but a broad employment strategy must also create pathways for workers with secondary, vocational and moderate skill levels.

8. STRUCTURAL TRANSFORMATION AND AGRICULTURE

Structural transformation involves the movement of labour from low-productivity activities to higher-productivity sectors. India has experienced a decline in agriculture's share of national output over the long run, but agriculture continues to support a substantial part of the workforce. This creates a productivity challenge where labour may remain concentrated in activities with low output per worker.

The appropriate policy response is not simply to reduce agricultural employment. Productive alternatives must be developed through agro-processing, storage, logistics, rural manufacturing, tourism, renewable energy, handicrafts and local service enterprises. Improving farm productivity and creating rural non-farm employment can occur simultaneously.

9. MANUFACTURING AND THE EMPLOYMENT CHALLENGE

Manufacturing is central to employment-intensive structural transformation because it can absorb workers moving out of agriculture and can create supply-chain linkages with services and small enterprises. Labour-intensive industries such as textiles, garments, footwear, food processing, furniture, electronics assembly and light engineering can create large numbers of jobs when supported by reliable infrastructure, finance, technology and market access.

India's manufacturing strategy should therefore balance productivity and scale with employment creation. Industrial clusters, logistics improvements, export integration and simplified compliance can reduce costs for firms. At the same time, apprenticeships and industry-linked vocational education can improve the match between workers and vacancies.

10. SERVICES SECTOR AND NEW EMPLOYMENT OPPORTUNITIES

Services have been a major engine of Indian growth. Information technology, finance, telecommunications and professional services have created high-productivity employment, while transport, retail, hospitality, education, healthcare and tourism employ workers across a wider range of qualifications.

Digitalisation is creating new opportunities but also changing the nature of work. Platform work, remote services, e-commerce and digitally enabled micro-enterprises can widen access to markets. Policy must nevertheless address job security, social protection and skill upgrading so that technological transformation improves rather than weakens employment quality.

11. YOUTH AND EDUCATED UNEMPLOYMENT

Youth unemployment deserves special attention because prolonged difficulty in entering the labour market can reduce lifetime earnings and weaken the demographic dividend. Expansion of higher education has increased the supply of degree-holders, but employers frequently report gaps in practical, technical, digital and communication skills.

A stronger education-to-employment transition requires internships, apprenticeships, career guidance, vocational pathways and closer cooperation between educational institutions and employers. Training programmes should be evaluated not merely by enrolment or certificates issued, but by placement, retention, wage progression and employer satisfaction.

12. FEMALE LABOUR-FORCE PARTICIPATION

The rise in female labour-force participation reported by the PLFS is an important development. However, participation alone does not reveal job quality, earnings or occupational mobility. Policies should expand women's access to safe transport, childcare, digital tools, finance, formal employment and entrepreneurship.

Women-led self-help groups and micro-enterprises can support household incomes and local development, but the objective should include progression into higher-productivity activities. Better measurement of unpaid work and constraints on women's time is also essential for informed policy.

13. INFORMALITY AND QUALITY OF EMPLOYMENT

A central challenge in India is that employment may be available without adequate security, predictable earnings or social protection. Informal workers often lack written contracts, paid leave, pension coverage or effective occupational protection. Consequently, an improvement in the unemployment rate does not automatically imply an equivalent improvement in job quality.

Gradual formalisation should combine simplified registration and compliance with portable social protection, digital access and incentives for enterprises to grow. Policies must avoid imposing disproportionate administrative costs on very small businesses while encouraging their transition toward higher productivity.

14. ROLE OF MSMES AND ENTREPRENEURSHIP

Micro, Small and Medium Enterprises are important for employment because they operate across manufacturing, services, retail, repair, food processing and local production. Their geographical spread also allows employment to be created outside major metropolitan centres.

Improved credit access, prompt payments, digital market access, technology adoption, cluster development and easier participation in government and private procurement can strengthen MSME employment. Entrepreneurship policy should encourage viable businesses rather than treating self-employment as a substitute for the broader creation of stable wage jobs.

15. SKILL DEVELOPMENT AND HUMAN CAPITAL

Technological change is transforming occupational requirements. Artificial intelligence, automation, data systems and advanced manufacturing can raise productivity but may also displace routine tasks. The appropriate response is sustained investment in human capital.

Vocational education should be integrated more closely with mainstream schooling and higher education. Apprenticeships can bridge classroom learning and actual workplace requirements. Reskilling systems are equally important for workers whose occupations change during their careers.

16. GOVERNMENT POLICY AND EMPLOYMENT

India's employment framework includes rural employment support, skill development, manufacturing promotion, infrastructure investment, entrepreneurship initiatives and digital public infrastructure. MGNREGA provides a rural employment safety net, while programmes such as Skill India, Make in India, Start-up India and other enterprise-support initiatives influence employment through different channels.

The Economic Survey 2024-25 highlighted improvements in labour-market indicators and emphasised the importance of a supportive regulatory environment, skilling, women's entrepreneurship and emerging opportunities in the digital and renewable-energy economies. The effectiveness of employment policy ultimately depends on implementation, coordination and measurable labour-market outcomes.

17. MAJOR FINDINGS

- India's headline labour-market indicators have improved substantially since 2017-18.
- Lower unemployment should be interpreted alongside participation, employment quality, informality and earnings.
- Female labour-force participation has increased strongly, but sustained gains require access to productive and secure work.
- Manufacturing and MSMEs remain essential for absorbing workers at scale.
- Services provide major opportunities but are highly heterogeneous in skill requirements and job quality.
- Skill mismatch and the education-to-work transition remain important challenges for young people.

- Employment-intensive growth requires sectoral and regional strategies rather than reliance on aggregate GDP growth alone.

18. POLICY RECOMMENDATIONS

1. Promote labour-intensive manufacturing through industrial clusters, logistics, reliable power and export-oriented production.
2. Strengthen MSMEs through easier formal credit, technology adoption, digital markets and timely payments.
3. Expand apprenticeships and employer-linked vocational training, with outcome-based evaluation.
4. Accelerate rural non-farm job creation in agro-processing, tourism, logistics, crafts and services.
5. Support women's employment through childcare, safe mobility, flexible work, digital access and finance.
6. Improve social protection and portability for informal, migrant and platform workers.
7. Use infrastructure investment to generate employment while improving long-term productivity.
8. Strengthen district- and state-level labour-market information so training reflects actual demand.
9. Encourage entrepreneurship while maintaining a strong policy focus on regular wage employment.
10. Measure success through job quality, productivity, earnings and security in addition to unemployment rates.

19. CONCLUSION

India's recent labour-market data show meaningful progress, including higher labour-force participation and worker-population ratios and a lower usual-status unemployment rate compared with 2017-18. These trends provide a stronger foundation for employment policy, but they do not eliminate the structural challenge of creating large numbers of productive, secure and adequately paid jobs.

The central economic objective should be to make growth more employment-intensive. This requires a balanced strategy combining manufacturing, MSMEs, modern services, rural diversification, infrastructure, human-capital development and women's economic participation. The demographic dividend will yield its full benefits only when workers can move into productive opportunities that raise both individual incomes and national productivity.

Accordingly, the debate should move beyond a narrow choice between growth and employment. Sustainable development requires both: high and stable economic growth together with continuous improvement in the quantity, quality and accessibility of work.

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