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An Analytical Study of the Impact of Economic Reforms on Labour and Employment Patterns in India

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Abstract

The process of economic reforms in India, initiated in 1991 and strengthened through subsequent liberalization, privatization, and globalization (LPG) policies, has significantly transformed labour markets and employment patterns. This analytical study examines the structural changes in employment trends in India in the context of recent economic reforms, using secondary data from government reports, Economic Surveys, and labour statistics. The study highlights both quantitative and qualitative shifts in employment generation across sectors. Recent data indicate a substantial increase in total employment, rising from 47.5 crore in 2017-18 to about 64.33 crore in 2023-24, reflecting the impact of policy-driven growth and economic expansion. Additionally, the unemployment rate has shown a declining trend, falling to around 3.2% in 2023-24, though it fluctuates between 4-6% in 2025 depending on measurement methods. Labour force participation has also improved, reaching approximately 56.1% in 2025, indicating increased workforce engagement, particularly among women and rural populations. However, the study finds that economic reforms have led to a shift from formal to informal and self-employment sectors, with nearly 60% of workers engaged as self-employed or in informal enterprises. The expansion of the informal sector, which employed over 128 million workers in 2025, underscores persistent challenges in job quality, job security, and social protection. Furthermore, technological advancement and globalization have contributed to skill-based employment polarization, increasing demand for skilled labour while marginalizing low-skilled workers. The study concludes that while economic reforms have accelerated employment growth and diversification, they have also created disparities in job quality, regional employment distribution, and skill requirements. There is a need for inclusive policy frameworks focusing on skill development, formalization, and labour welfare to ensure sustainable employment outcomes in India.

Keywords: Economic Reforms, Employment Patterns, Labour Market, Informal Sector, Labour Force Participation.

Introduction

The implementation of economic reforms in India in 1991 marked a significant transformation from a state-controlled economic framework to a more liberalized and market-oriented system. These reforms, commonly referred to as LPG, aimed to enhance economic efficiency, attract foreign investment, and accelerate growth. Over the past three decades, these reforms have significantly influenced India's macroeconomic performance and have brought profound changes in the structure of labour and employment. In recent years, particularly after 2014 and during the post-pandemic recovery phase, the pace of reforms has further intensified through initiatives such as digitalization, labour law consolidation, skill development programs, and production-linked incentives. The Indian labour market has undergone notable transformation in response to these economic reforms. According to recent data from the Periodic Labour Force Survey (PLFS), the Labour Force Participation Rate (LFPR) has shown a steady improvement, reaching approximately 56.1% in December 2025, reflecting increased workforce engagement across both rural and urban areas. Similarly, the Worker Population Ratio (WPR) has improved to around 53.4%, indicating a rise in the proportion of employed individuals within the working-age population. These trends suggest that economic expansion and policy interventions have contributed to greater employment opportunities and labour market participation.

In terms of unemployment, India has witnessed a gradual decline in recent years. The unemployment rate decreased to nearly 3.2% in 2023–24 and further trends indicate levels around 3–5% in 2025–26, depending on measurement criteria. Recent survey-based estimates also show unemployment falling to around 3.1% in 2025, accompanied by improvements in wages and labour participation. However, despite this apparent improvement, concerns remain regarding the quality and nature of employment, particularly the prevalence of informal and low-productivity jobs. A significant feature of post-reform employment patterns in India is the expansion of the informal and unorganized sector. Recent estimates indicate that employment in the unincorporated sector reached approximately 128.1 million in 2025, highlighting its dominant role in providing livelihoods. Additionally, the informal sector generated nearly 75 million new jobs in 2025 alone, reflecting its resilience and adaptability in the face of economic changes. However, such employment is often characterized by job insecurity, lack of social protection, and low wages, raising concerns about the inclusiveness of economic growth.

Another important dimension of labour market transformation is the increasing participation of women and rural workers. Female LFPR has risen to around 35.3% in 2025–26, indicating gradual progress in gender inclusion, although it still remains relatively low compared to global standards. Furthermore, there has been a shift from agricultural employment to non-farm sectors such as services and

small-scale manufacturing, reflecting structural changes in the economy. Despite these positive developments, several challenges persist. The issue of underemployment, skill mismatch, and regional disparities continues to affect labour market outcomes. Rapid technological advancement and automation have also contributed to skill-based employment polarization, increasing demand for skilled labour while limiting opportunities for low-skilled workers. Moreover, debates regarding the accuracy of employment data and the adequacy of job creation highlight the complexity of assessing labour market performance in a rapidly evolving economy.

The present study seeks to analytically examine the impact of economic reforms on labour and employment patterns in India using recent data and trends. It aims to explore the structural changes in employment, assess the quality of jobs created, and identify key challenges and policy implications for achieving inclusive and sustainable employment growth.

Objectives

- To examine the impact of economic reforms on the structure and growth of employment in India.
- To analyse the changing patterns of labour force participation, unemployment, and sectoral employment distribution.
- To assess the quality of employment with special reference to informalization, job security, and wage conditions.
- To identify the major challenges and suggest policy measures for improving employment opportunities and labour welfare in the post-reform period.

Methodology

The present study is based on a descriptive and analytical research design using secondary data sources. Relevant data have been collected from published reports of the Ministry of Statistics and Programme Implementation, NITI Aayog, Reserve Bank of India, and World Bank, along with PLFS, Economic Surveys, and other government publications up to 2025-26. The study employs comparative and trend analysis techniques to examine changes in employment patterns, labour force participation, and unemployment rates before and after economic reforms. Statistical tools such as percentage analysis and simple tabulation have been used for data interpretation. The approach is qualitative in interpretation but supported by quantitative indicators to ensure reliability and validity of findings.

Structural Transformation of Employment across Sectors

Economic reforms in India have significantly altered the sectoral composition of employment. Prior to the reforms of 1991, the Indian economy was predominantly agrarian, with nearly two-thirds of the workforce engaged in agriculture. However,

post-reform liberalization accelerated the shift towards the industrial and service sectors. This structural transformation is a key indicator of economic modernization. The share of agriculture in total employment has steadily declined, while the services sector has emerged as the largest employer in recent years. This transition reflects increased productivity, urbanization, and expansion of sectors such as information technology, finance, retail, and telecommunications. However, unlike developed economies, India's transition has been uneven, with the industrial sector not absorbing labour at the expected rate. This phenomenon is often referred to as "jobless growth," where economic growth does not proportionately translate into employment generation.

Trends in Employment Growth and Workforce Expansion

The structure of employment in India has undergone significant transformation over the past decade due to economic reforms, technological advancements, and shifts in sectoral productivity. These changes have influenced the distribution of labour across agriculture, industry, and services, reflecting a gradual transition from traditional to modern sectors. Understanding these trends is crucial for analysing the dynamics of workforce expansion and structural economic change. The following table presents sector-wise employment patterns over time, providing insights into the evolving nature of India's labour market.

Table 1: Sector-wise Distribution of Employment

Sector	2011-12 (%)	2017-18 (%)	2023-24 (%)
Agriculture	48.9	44.1	41.5
Industry	24.3	23.1	25
Services	26.8	32.8	33.5
Total Employment (crore)	47	47.5	64.3

Source: PLFS, Economic Survey, Government of India

As presented in above Table 1, there has been a consistent decline in the share of agricultural employment from 48.9% in 2011-12 to 41.5% in 2023-24, indicating a gradual movement of labour away from low-productivity sectors. Simultaneously, the services sector has expanded significantly, increasing its share to 33.5%, becoming the primary driver of employment growth. The industrial sector shows modest improvement, reflecting limited labour absorption capacity despite policy initiatives like "Make in India." Additionally, total employment has increased from around 47 crores to over 64 crores, demonstrating that economic reforms have contributed to overall job creation. However, the growth is not uniformly distributed across sectors, raising concerns about structural imbalances.

Nature of Employment Growth and Emerging Patterns

Economic reforms in India have contributed to a substantial increase in total employment, which rose from approximately 47 crores in 2017-18 to about 64.3 crore in 2023-24. However, the nature of this employment growth raises concerns

regarding quality and security. A significant proportion of the workforce remains engaged in informal activities, with nearly 57.3 percent of workers categorized as self-employed and only about 22.5 percent in regular salaried employment. This indicates that while employment opportunities have expanded, they are largely concentrated in low-productivity and insecure forms of work, reflecting disguised unemployment and underemployment rather than stable job creation.

Changing Trends in Labour Force Participation

Economic reforms have led to a gradual increase in labour force participation, with the Labour Force Participation Rate reaching approximately 56.1 percent in recent years. This rise indicates improved economic engagement and a shift towards greater inclusion of the working-age population in productive activities. Female participation has also improved to around 35.3 percent, especially in rural areas, reflecting enhanced access to employment opportunities, self-employment, and government-supported livelihood programs.

However, a considerable share of this participation is concentrated in informal and low-paying jobs, limiting the overall impact on economic empowerment and financial stability. Many workers, particularly women, are engaged in agriculture, daily wage labour, and unorganized sectors where job security and social protection are minimal. Despite the upward trend, gender disparities remain significant, and women continue to face barriers such as wage inequality, limited access to formal employment, lack of skill development opportunities, and socio-cultural constraints that restrict their mobility and decision-making power.

Trends and Dynamics of Unemployment

The unemployment scenario in India has undergone significant changes in the post-reform period. Recent estimates indicate a decline in the unemployment rate to around 3-5% in 2024-25, suggesting a recovery in employment levels after economic disruptions such as the COVID-19 pandemic. This decline reflects improved economic activity, expansion of services, and government-led employment generation programs. However, a deeper analysis reveals structural challenges underlying these figures. One key issue is the prevalence of disguised unemployment, particularly in agriculture, where a large number of workers remain underutilized. Additionally, educated unemployment has emerged as a serious concern, with a growing number of graduates unable to find suitable jobs matching their qualifications. This indicates a mismatch between the education system and labour market requirements. Another critical aspect is underemployment, where individuals are employed but not in positions that fully utilize their skills or provide adequate income. Economic reforms have contributed to job creation, but a significant proportion of these jobs are part-time, contractual, or informal in nature.

Thus, while headline unemployment rates appear low, they do not fully capture the complexities of India's labour market.

Sectoral Shifts and Employment Redistribution

The Indian labour market has experienced notable sectoral transformation over time. The share of agricultural employment has declined from 48.9 percent in 2011–12 to 41.5 percent in 2023–24, indicating a shift away from traditional sectors. Simultaneously, the services sector has expanded to 33.5 percent, emerging as the leading contributor to employment growth. The industrial sector, however, has increased only modestly to around 25 percent, reflecting its limited capacity to absorb labour. This uneven structural transition highlights the persistence of low-productivity employment and the absence of a strong manufacturing base to support large-scale formal job creation.

Informalization of Employment in the Post-Reform Era

One of the most significant outcomes of economic reforms in India has been the increasing informalization of employment. While reforms have accelerated economic growth and expanded job opportunities, a large proportion of this growth has occurred in the informal sector. Informal employment is characterized by lack of written contracts, absence of social security benefits, and minimal legal protection. Despite the expansion of formal industries, nearly 85-90% of India's workforce continues to be employed in the informal sector. This trend indicates that economic reforms have not sufficiently translated into formal job creation. Even within the organized sector, the rise of contractual and outsourced labour reflects a shift towards "informalization within formalization." Employers increasingly prefer flexible labour arrangements to reduce costs, which adversely affects job stability and worker welfare.

Job Security and Nature of Employment Contracts

Employment patterns play a crucial role in determining job security and the overall quality of work in an economy. In India, the nature of employment contracts has undergone significant changes, with a growing shift towards informal and non-standard forms of work. This transformation reflects structural challenges such as limited formal job creation and increasing labour market flexibility. Understanding the distribution of workers across different employment types is essential to assess the extent of job security and economic stability. The following table presents the trend in employment categories over recent years.

Table 2: Distribution of Workers by Employment Type

Employment Type	2017-18 (%)	2021-22 (%)	2023-24 (%)
Self-Employed	52.2	55.6	57.3
Regular Wage/Salaried	22.8	23.1	22.5
Casual Labour	25	21.3	20.2

Source: PLFS, Economic Survey, Government of India

As presented in Table 3, the share of self-employment has steadily increased from 52.2 percent in 2017–18 to 57.3 percent in 2023–24, indicating a rising dependence on informal and independent work arrangements. Although this growth may partly suggest entrepreneurial expansion, it largely reflects limited availability of stable and formal employment opportunities. The proportion of regular wage or salaried employment has remained nearly stagnant, highlighting the slow growth of secure and structured jobs within the economy. At the same time, the share of casual labour has declined from 25 percent to 20.2 percent; however, this shift does not necessarily indicate an improvement in employment quality, as many workers appear to have transitioned into low-income self-employment. Overall, the trends suggest that the Indian labour market continues to be characterized by a dominance of insecure and non-standard employment, with insufficient access to job stability, social security, and long-term contractual protection.

Wage Conditions and Income Inequality

Wage conditions in India further reflect the qualitative challenges of employment. Although economic reforms have contributed to rising average incomes, wage growth has been uneven and often insufficient to ensure a decent standard of living, particularly in the informal sector. A large proportion of workers earn low and irregular incomes, with limited access to benefits such as health insurance, pensions, or paid leave. Moreover, significant wage disparities exist across sectors, regions, and skill levels. High-skilled workers in organized sectors such as information technology and finance command relatively higher wages, while workers in agriculture and informal services earn considerably less. Gender wage gaps also persist, with women typically earning lower wages than men for similar work.

The rise of the gig economy and platform-based employment has added another dimension to wage inequality. While such jobs offer flexibility, they often lack income security and regulatory protection. Consequently, workers remain vulnerable to income fluctuations and economic shocks. In conclusion, the assessment of employment quality in India reveals that economic reforms have led to increased employment opportunities but have not adequately addressed issues of job security, formalization, and equitable wage distribution. The dominance of informal employment, coupled with stagnant growth in secure jobs and persistent wage inequalities, underscores the need for stronger labour regulations, social security expansion, and inclusive economic policies to improve the overall quality of employment.

Structural and Institutional Challenges in the Labour Market

India's labour market continues to face deep-rooted structural and institutional challenges that hinder inclusive and sustainable economic growth. Nearly 85–90 percent of the workforce is employed in the informal sector, limiting access to

job security, legal protection, and social security benefits such as pensions, insurance, and paid leave. This high level of informality also reduces productivity and contributes to income instability among workers.

Additionally, skill mismatch remains a major concern, as the education system often does not align with industry requirements, leading to rising educated unemployment and underemployment. Many graduates lack practical and technical skills demanded by modern industries, which creates a gap between labour supply and demand. Regional disparities further intensify these challenges, with rural areas depending heavily on agriculture and informal employment, while urban areas offer relatively better opportunities, infrastructure, and access to diversified occupations. These imbalances highlight the need for targeted policy interventions and improved skill development initiatives.

Emerging Challenges in the Era of Globalization and Technology

The post-reform period has also introduced new challenges driven by globalization, technological advancement, and changing nature of work. Automation and digitalization have increased productivity but reduced the demand for low-skilled labour, leading to job polarization. High-skilled workers benefit from new opportunities in sectors like information technology and finance, while low-skilled workers face job insecurity and wage stagnation. The rise of the gig economy and platform-based employment presents another critical challenge. While it offers flexibility and income opportunities, it lacks regulatory oversight, resulting in absence of job security, health benefits, and social protection. Workers in this segment often operate outside traditional labour laws, making them vulnerable to exploitation. Furthermore, gender inequality remains a persistent concern. Although female labour force participation has improved, women continue to face barriers such as wage discrimination, limited access to formal employment, and social constraints. Addressing these emerging challenges requires a dynamic and forward-looking policy framework that aligns with global economic trends while protecting workers' rights.

Policy Measures for Inclusive and Sustainable Employment Growth

Addressing these challenges requires a comprehensive and multi-dimensional policy approach that integrates economic, social, and institutional reforms. Promoting formal employment is essential, particularly when only about 22–23 percent of workers are engaged in regular salaried jobs, as formalization ensures better job security, stable income, and access to legal protections. Strengthening skill development initiatives can help bridge the gap between labour supply and industry demand by equipping workers with relevant technical, digital, and vocational skills suited to evolving market needs.

Expanding social security coverage is critical for protecting the large informal workforce, ensuring access to healthcare, insurance, and old-age support. Furthermore, encouraging labour-intensive industries such as textiles, agriculture-based processing, and small-scale manufacturing can generate large-scale employment opportunities. Reducing regional disparities through targeted investments in rural infrastructure, education, and industrial development can support balanced growth. Such measures are necessary to ensure that economic reforms lead not only to employment expansion but also to improved job quality, productivity, and greater social and economic equity.

Findings and Interpretation

The analysis indicates that economic reforms in India have significantly influenced labour and employment patterns, resulting in both measurable progress and continuing structural challenges. A key finding is the substantial increase in total employment, which has risen from about 47 crores in 2017–18 to over 64 crores in 2023–24, accompanied by a decline in unemployment to around 3–5 percent in recent years. This reflects the positive impact of economic expansion and policy initiatives on employment generation. However, these improvements are largely quantitative in nature, as concerns remain regarding the quality, stability, and sustainability of jobs created.

Sectoral analysis reveals a gradual structural transformation in the Indian economy. The share of agricultural employment has declined from 48.9 percent to 41.5 percent, indicating a movement away from traditional low-productivity sectors. At the same time, the services sector has expanded significantly to 33.5 percent, emerging as the primary driver of employment growth. The industrial sector, however, has grown only marginally to around 25 percent, reflecting limited labour absorption capacity and highlighting the issue of “jobless growth.” Labour force participation has improved to approximately 56 percent, with a gradual rise in female participation to around 35 percent, yet gender disparities and concentration of workers in informal employment continue to persist.

A major finding is the overwhelming dominance of informal employment, with nearly 85–90 percent of workers engaged in unorganized sectors. The increase in self-employment from 52.2 percent to 57.3 percent, along with the stagnation of regular salaried employment at around 22–23 percent, indicates limited availability of secure and formal jobs. Additionally, the informal sector alone accounts for a significant share of employment, with over 128 million workers engaged in such activities, further emphasizing issues of job insecurity and lack of social protection. Wage inequality and income instability also remain major concerns, particularly for low-skilled workers and those involved in gig and platform-based employment.

Overall, the findings suggest that while economic reforms have expanded employment opportunities and facilitated sectoral diversification, they have not sufficiently improved job quality or ensured inclusive growth. Structural issues such as informalization, skill mismatch, underemployment, and limited expansion of formal sector jobs continue to constrain sustainable labour market development. These trends highlight the need for stronger policy interventions aimed at improving employment quality, enhancing labour productivity, and ensuring equitable distribution of economic gains.

Conclusion

The study demonstrates that economic reforms in India have brought significant changes in the structure and growth of employment, leading to an increase in total employment and a decline in unemployment rates in recent years. However, these improvements are largely quantitative, as the quality of employment remains a major concern. A substantial proportion of the workforce continues to be engaged in informal and self-employment activities, with nearly 85–90 percent lacking access to job security and social protection. The transition from agriculture to the services sector reflects structural transformation, but the limited growth of the industrial sector indicates an imbalance in labour absorption. Moreover, persistent issues such as wage inequality, skill mismatch, and regional disparities continue to restrict inclusive development. Therefore, although economic reforms have expanded employment opportunities, they have not ensured equitable and secure job conditions. Achieving sustainable and inclusive labour market outcomes requires a comprehensive policy approach focusing on formalization, skill development, social security expansion, and balanced regional development.

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