



Original Article

Changing Labor Market in India: Trends, Challenges, and Policy Implications

Dr. Dabholkar Archana Tanji
D. B. F. Dayanand College of Arts and Science, Solapur

Manuscript ID:
RIGJAAR-2026-030212

ISSN: 2998-4459
Volume 3
Issue 2
Pp. 62-66
February 2026

Submitted: 09 Jan. 2026
Revised: 16 Jan. 2026
Accepted: 11 Feb. 2026
Published: 28 Feb. 2026

Correspondence Address:
Dabholkar Archana Tanji
D. B. F. Dayanand College of
Arts and Science, Solapur.
Email:
atdabholkar25@gmail.com

Quick Response Code:



Web: <https://rlgjaar.com>



DOI:
10.5281/zenodo.20306661

DOI Link:
<https://doi.org/10.5281/zenodo.20306661>



Creative Commons



Abstract

India's labour market is undergoing significant structural changes due to demographic shifts, economic reforms, and technological advancements. This paper examines trends in labour force participation, youth employment, and gender dynamics, highlighting key challenges such as high informal employment, skill mismatches, regional disparities, and the impact of automation. It also evaluates the role of policy reforms and institutional changes in shaping employment outcomes. The study concludes with policy recommendations aimed at enhancing employability, promoting inclusive growth, and leveraging India's demographic dividend for sustainable economic development.

Keywords: Labour Market, Employment, India, Skill Development, Informal Sector, Policy

Introduction

The Indian labour market is characterised by a large workforce with a high share of informal employment, where most workers are self-employed or casual labourers rather than regular salaried employees. Agriculture still absorbs a significant portion of workers, while services and industry continue to grow. Informality remains widespread, with many workers lacking job security and social benefits, although formal sector jobs have been increasing slowly. Recent data shows a slight reduction in unemployment, and government initiatives target skilling, social security, and better job quality, but challenges like skill mismatches, low wages, and limited women's participation persist. Labour markets are vital for economic development because they connect workers with jobs that generate income, boost production, and fuel economic growth. When labour markets function well, more people are employed in productive activities, raising household incomes and increasing demand for goods and services, which in turn stimulates further investment and growth. Good labour markets also help reduce poverty, improve living standards, and support social stability by creating opportunities for skill development and better-quality jobs. Efficient matching of workers to suitable jobs enhances productivity and competitiveness, making labour markets a key driver of sustainable economic progress.

Understanding changing labour market dynamics is crucial for research because it reveals how economic, social, and technological transformations affect employment patterns, job creation, and workforce structure. Analysing these dynamics helps identify shifts in demand for skills such as the decline in low-skill jobs and rising demand for high-skill or flexible work forms and informs policies that enhance employability and social protection frameworks. This understanding enables evidence-based policymaking to address unemployment, underemployment, and labour market inequalities, support sustainable economic growth, and adapt education and training systems to future job needs. Moreover, in developing economies like India, where the structure of work is rapidly evolving due to innovation, informality, and global trends, such research provides insights that are essential for designing responsive labour policies and inclusive growth strategies.

Statement of the research problem

Despite India's strong economic growth, the labour market continues to display structural challenges that hinder inclusive employment outcomes. High levels of **informal employment** and **underemployment**, coupled with a persistent **skills mismatch** between job seekers and industry needs, result in jobless growth where economic expansion does not translate into adequate quality jobs. Moreover, formal job creation has not kept pace with the rapidly growing workforce, and **female labour force participation remains significantly low**, exacerbating inequalities in employment opportunities.

Creative Commons (CC BY-NC-SA 4.0)

This is an open access journal, and articles are distributed under the terms of the [Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International](https://creativecommons.org/licenses/by-nc-sa/4.0/) Public License, which allows others to remix, tweak, and build upon the work noncommercially, as long as appropriate credit is given and the new creations are licensed under the identical terms.

How to cite this article:

Dabholkar, A. T. (2026). Changing Labor Market in India: Trends, Challenges, and Policy Implications. *Royal International Global Journal of Advance and Applied Research*, 3(2), 62–66.
<https://doi.org/10.5281/zenodo.20306661>

These structural imbalances create difficulties in absorbing new entrants into productive and secure work, highlighting a **critical need to understand how labour market dynamics are changing and what factors are shaping these shifts** to inform effective policy responses.

Scope of the Study:

This study focuses on analysing the **changing dynamics of the Indian labour market**, including key aspects such as labour force participation, employment structure, informality, and the impact of socio-economic factors like skills, gender, and demographic shifts.

The research will examine **recent trends and patterns** in employment using secondary data from national surveys (such as PLFS and NSSO), government reports, and scholarly studies, covering a defined **time period** (e.g., the last decade) to capture contemporary changes. It will explore **sectoral differences** in labour outcomes, the role of policy reforms, and structural influences on job creation and workforce participation. The scope is limited to **national-level labour market indicators and determinants**; it will not include detailed case studies of individual industries or regions unless explicitly stated, but will seek to highlight broad patterns that can inform policy and future research. This approach sets clear **parameters for data sources, analytical focus, and thematic boundaries**, ensuring that the study remains manageable and relevant to current labour market challenges in India.

Review of literature

1. Labour Market Measurement and Participation Trends

Bhalla, Bhasin & Das (2024) analyse labour market data and measurement issues, finding that structural transformation is influenced by rising education, demographic trends and changing work patterns. Their work emphasises the importance of accurate labour data to understand real shifts in participation and employment quality.

2. State-Level Informal Employment Trends

Research based on the *Annual Survey of Unincorporated Sector Enterprises (ASUSE)* shows that **Maharashtra has one of the highest shares of informal sector enterprises and workers among major Indian states**, with the number of informal sector workers rising from about 91.2 lakh in 2015-16 to around 1.15 crore in 2022-23, highlighting the growing scale of informal employment even amid broader economic change.

3. An Analysis of Employment Growth in Maharashtra

This research article studies employment growth in the state of Maharashtra, analysing job creation patterns and structural employment dynamics over time. It provides empirical insights into how employment trends in various sectors have evolved in a major Indian state context, making it relevant for state-level labour market analysis.

The literature on Maharashtra's labour market shows that structural change is ongoing but uneven. While Maharashtra's economy continues to grow, formal employment growth lags, and informality remains entrenched, particularly in unorganised sectors and urban settings. Gender gaps and policy challenges further shape

the evolving dynamics of employment. Collectively, these studies underline the importance of examining how labour market dynamics are changing in response to economic, demographic, and institutional shifts within the state — providing a strong foundation for empirical research on labour market transformation.

Objective of the Study

1. To analyse recent trends in India's labour market.
2. To examine major challenges faced by the Indian labour market.
3. To assess the impact of technological and structural changes on employment.
4. To evaluate existing labour policies and reforms in India.
5. To suggest suitable policy measures for improving labour market outcomes.

Research Methodology

This study follows a **qualitative research approach**. It is based on secondary data collected from government reports, academic journals, International Labour Organization (ILO) publications, World Bank reports, and policy documents. The qualitative method is suitable for understanding structural changes, institutional challenges, and policy implications in the labour market. Content analysis has been used to interpret trends and challenges discussed in existing literature.

Trends in the Indian labour market

The sectoral shift in employment in India has been slow and uneven, reflecting an incomplete process of structural transformation. Agriculture continues to employ a disproportionately large share of the workforce despite its declining contribution to GDP, indicating low productivity and disguised unemployment. Industrial employment, particularly in manufacturing, has remained largely stagnant and has failed to absorb surplus labor from agriculture. Although the services sector has expanded rapidly and dominates economic output, its capacity to generate broad-based employment has been limited due to skill-intensive and urban-centric growth. As a result, India's labor market is characterized by persistent informality and underutilization of labor, posing significant challenges for inclusive growth and effective policy intervention.

Formalization of employment in India has progressed gradually, driven by digitalization, policy initiatives, and expanding platform-based work, yet informality remains widespread. Measures such as GST implementation, digital payments, and increased social security coverage have encouraged firms and workers to enter the formal system, particularly in services and MSMEs. At the same time, the rapid growth of the gig economy—encompassing platform-based delivery, ride-hailing, and freelance digital work—has altered employment relations by offering flexible work opportunities while often lacking job security and social protection. While gig work contributes to income generation and partial formalization through digital records, it also raises concerns regarding employment quality, labour rights, and long-term income stability, underscoring the need for inclusive labour policies.

India's labour force participation rate (LFPR) has shown a gradual improvement in recent years, reflecting a recovery from earlier declines and the post-pandemic adjustment of the labour market. Recent data indicate a rise in overall participation, driven largely by higher rural engagement and a steady, though uneven, increase in female labour force participation. While rural LFPR remains consistently higher than urban LFPR, urban areas have shown modest gains. Despite these positive trends, significant challenges persist, particularly the wide gender gap and the dominance of informal employment, suggesting that rising participation has not uniformly translated into better job quality or formal employment opportunities.

Youth employment is central to India's ability to harness its demographic dividend, as a large and growing share of the population is of working age. While this demographic advantage offers the potential for accelerated economic growth, it is constrained by high youth unemployment, skill mismatches, and limited availability of quality jobs, particularly for educated youth. The gap between

educational outcomes and labour market requirements has resulted in underemployment and delayed workforce entry, reducing the effective utilization of young human capital. Realizing the demographic dividend therefore depends on targeted investments in education, skill development, and job creation that align with evolving industry demands.

Gender dimensions play a critical role in shaping labour market participation in India, where female labour force participation remains significantly lower than male participation despite recent improvements. Structural factors such as unequal access to education and skills, unpaid care responsibilities, social norms, and safety concerns continue to limit women's engagement in paid work, particularly in urban areas. Although rising education levels and policy initiatives have contributed to a gradual increase in women's participation, much of this employment remains concentrated in informal and low-paying sectors. Addressing gender disparities in labour market participation is therefore essential for inclusive growth and for improving overall labour productivity and economic outcomes.

Table no 1. Sector-wise Distribution of Employment in India (% Share)

Sector	2011-12	2017-18	2023-24
Agriculture	54.6	44.1	45
Industry	24.5	25.4	25
Services	20.9	30.5	30

Source: NSSO, PLFS, Economic Survey

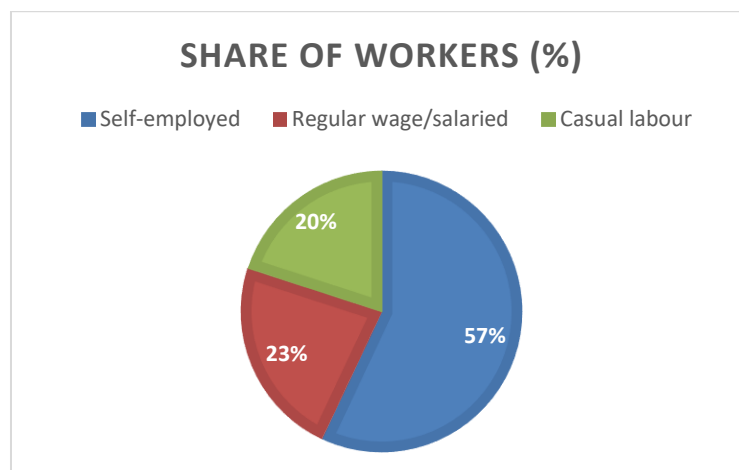
The table shows a clear change in the sectoral composition of employment in India over time. The share of employment in agriculture declined sharply from **54.6% in 2011-12 to 44.1% in 2017-18**, indicating gradual structural transformation; however, its rise to **45.0% in 2023-24** reflects a partial reabsorption of labour into agriculture, particularly in the post-pandemic period. Industrial employment has remained largely stagnant at around **25%**, highlighting the limited capacity of manufacturing and

construction to absorb surplus labour from agriculture. In contrast, the services sector has recorded a significant increase in employment share from **20.9% to 30.0%**, driven by growth in trade, transport, communication, and digital services. Overall, the pattern indicates an uneven structural shift in India's labour market, where services lead employment growth while agriculture continues to absorb a disproportionately large workforce, pointing to persistent issues of low productivity and informality

Table no 2. Nature of Employment in India (2023-24)

Employment Type	Share of Workers (%)
Self-employed	57
Regular wage/salaried	23
Casual labour	20

Source: PLFS, MOSPI



The table indicates that a majority of workers in India are **self-employed (57%)**, reflecting the dominance of informal and own-account activities in the labour market. Regular wage or salaried employment accounts for only **23%** of total employment, highlighting the limited availability of stable and secure jobs with social protection. Casual labour constitutes **20%** of employment, pointing to widespread income insecurity and vulnerability among workers. Overall, the distribution underscores the structural challenge of high informality and the need for policies that promote formal, regular, and quality employment opportunities in India's labour market.

Major Challenges in India's labour market

High Informal Employment:

A large share of India's workforce is employed in the informal sector, characterized by lack of job security, written contracts, social security benefits, and legal protection. Informality limits productivity growth and leaves workers vulnerable to economic shocks.

Unemployment and Underemployment:

Despite economic growth, unemployment—especially among youth and educated individuals—remains a challenge. Underemployment is widespread, with many workers engaged in low-productivity or part-time jobs that do not fully utilize their skills and education.

Skill Mismatch and Low Employability:

There is a significant gap between skills supplied by the education system and those demanded by the labour market. Inadequate vocational training, limited industry-academia linkage, and outdated curricula contribute to low employability of graduates.

Gender Wage Gap and Low Female Labour Force Participation:

Women's participation in the labour force remains low, and those employed often face wage disparities compared to men. Social norms, unpaid care work, safety concerns, and limited access to quality jobs restrict women's economic participation.

Regional and Rural-Urban Disparities:

Employment opportunities and wage levels vary widely across states and between rural and urban areas. Less developed regions face limited industrial growth, weak infrastructure, and fewer formal employment opportunities.

Impact of Automation and Digitalization:

Technological advancements are reshaping job structures by increasing demand for digital and high-skill jobs while reducing opportunities for routine and low-skill work. Without adequate reskilling and upskilling initiatives, automation risks widening inequality and job displacement.

Impact of policy reforms and institutional changes

Labour Law Reforms:

Recent consolidation of labour laws into four codes (e.g., Industrial Relations, Social Security) aims to simplify compliance, improve worker protections, and encourage formal employment. This has the potential to attract investment and formalize more jobs.

Skill Development Initiatives:

Programs like **Skill India** and **Pradhan Mantri Kaushal Vikas Yojana (PMKVY)** focus on improving employability by aligning vocational training with industry needs. These

initiatives help reduce skill mismatches and enhance youth employment prospects.

Social Security Expansion:

Schemes such as **Pradhan Mantri Shram Yogi Maan-dhan** and health insurance coverage for informal workers improve social protection, particularly for those previously in the unorganized sector.

Promotion of Entrepreneurship and MSMEs:

Policies like **Startup India** and support for micro, small, and medium enterprises (MSMEs) encourage self-employment and job creation, helping absorb labour that formal employment cannot accommodate.

Women's Labour Participation Policies:

Reforms such as maternity benefits expansion, flexible work arrangements, and skill programs targeting women aim to reduce gender disparities in employment.

Digitalization and E-Governance:

Institutional changes promoting digital platforms for job matching, payments, and training (e.g., e-SHRAM portal) improve labour market efficiency and reduce information asymmetry.

Public Employment Programs:

Schemes like **MGNREGA** provide rural employment safety nets, stabilize incomes, and help manage seasonal underemployment.

Policy implication and recommendations

Policy Implications

- **Formalization of Employment:** High informal employment suggests the need for policies that encourage formal job creation, improve social security coverage, and protect workers' rights.
 - **Skill Development and Education Alignment:** Persistent skill mismatches indicate the importance of linking education and vocational training with industry needs to enhance employability.
 - **Gender Inclusion:** Low female labour force participation and wage gaps highlight the need for gender-sensitive policies, flexible work arrangements, and safety measures at workplaces.
 - **Youth Employment Focus:** High youth unemployment requires targeted strategies to expand quality job opportunities, apprenticeships, and entrepreneurship support.
 - **Regional Balance:** Unequal employment opportunities call for region-specific industrial and skill development strategies to reduce rural-urban and inter-state disparities.
 - **Adaptation to Technological Change:** Automation and digitalization necessitate continuous reskilling and upskilling programs to prevent job displacement and skill obsolescence.
- ##### **Recommendations**
- **Strengthen Labour Market Institutions:** Improve efficiency of employment exchanges, e-governance platforms, and labour regulation enforcement.

- **Expand Skill Training Programs:** Scale up vocational and digital skills initiatives, especially in sectors with high growth potential.
 - **Promote Women's Employment:** Introduce incentives for firms to hire women, provide childcare facilities, and ensure equal pay policies.
 - **Support Youth Entrepreneurship:** Facilitate access to finance, mentorship, and incubators for startups led by young entrepreneurs.
 - **Encourage Formalization of MSMEs:** Simplify compliance and provide incentives for small businesses to formalize and offer social security to employees.
 - **Regional Development Focus:** Invest in infrastructure, education, and industry in lagging states to create more equitable employment opportunities.
 - **Future-ready Workforce:** Integrate digital literacy, AI, and automation-related skills into mainstream education and training programs.
2. Ministry of Labour and Employment, Government of India. (2025). *Labour Bureau Annual Report 2024–25*. Government of India. <https://labourbureaunew.gov.in>
 3. National Sample Survey Office (NSSO). (2024). *Employment and unemployment survey*. Government of India. <https://www.mospi.gov.in>
 4. Government of India. (2024). *Economic survey 2023–24*. Ministry of Finance. <https://www.indiabudget.gov.in>
 5. NITI Aayog. (2023). *Policy paper on employment and skill development*. Government of India. <https://www.niti.gov.in>

Conclusion

India's labour market is at a critical juncture, shaped by demographic advantages, economic reforms, and technological transformations. While labour force participation is gradually improving and policies are supporting skill development, formalization, and gender inclusion, significant challenges remain, including high informal employment, youth underemployment, skill mismatches, gender disparities, and regional inequalities. Automation and digitalization further highlight the need for a future-ready workforce. Realizing India's demographic and economic potential requires a coordinated approach—strengthening institutions, aligning education with industry needs, promoting inclusive employment, and fostering innovation and entrepreneurship. Effective policy interventions and sustained investment in human capital are essential to ensure that the changing labour market translates into inclusive and sustainable growth for the country.

Acknowledgment

I would like to express my sincere gratitude to all those who have contributed to the successful completion of this research paper on Changing Labor Market in India: Trends, Challenges, and Policy Implications. I am deeply thankful to my institution for providing the academic support and resources necessary for carrying out this study.

Financial support and sponsorship

Nil.

Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

References

1. Ministry of Statistics and Programme Implementation (MOSPI). (2025). *Periodic Labour Force Survey (PLFS) 2024–25: Annual report*. Government of India. <https://www.mospi.gov.in>