

Changing Dynamics of the Labour Market in India: Structure, Challenges, and Policy Pathways

GANESH SHRIRANG NALE (SATARKAR)

*M.A. Sociology, Department of Sociology, Central University of Haryana, Mahendragarh – 123031,
India*

Abstract- The labour market serves as a vital mechanism connecting production, employment, and income distribution within an economy. In India, it represents a complex structure that mirrors both the nation's demographic diversity and its developmental imbalances. This paper examines the Indian labour market through a comprehensive lens—exploring its features, demand and supply dynamics, composition, and evolving challenges amid globalization, technological transformation, and policy reforms. The analysis begins with theoretical insights into the labour market, emphasizing its dualistic nature that encompasses both formal and informal sectors. It then delves into the structural characteristics of the Indian labour force, which remains dominated by informal employment, underemployment, and low labour productivity. The study draws upon recent data from the Periodic Labour Force Survey (PLFS), NITI Aayog, the International Labour Organization (ILO), and other governmental sources to illustrate key trends such as rising labour force participation in rural India, gender-based employment gaps, and the emergence of gig and platform-based employment. It further highlights the interplay between demographic transition and skill mismatches that constrain productive absorption of labour. The paper argues that India's labour market continues to reflect persistent dualism—between organized and unorganized sectors, rural and urban economies, and male and female workers—creating deep-seated inequalities. The COVID-19 pandemic magnified these structural weaknesses, exposing the vulnerability of migrant and informal workers. Despite legislative consolidation through the four labour codes (2019–2020), implementation gaps and institutional inefficiencies hinder inclusive growth. The concluding section identifies critical challenges, including unemployment, informality, gender disparity, and skill shortages, while proposing actionable policy recommendations. It calls for a transition toward a human-centred labour policy emphasizing social security, skill development, and technological adaptation. The study posits that the future of India's labour market depends on its ability to reconcile economic flexibility with social protection, ensuring that growth translates into equitable employment opportunities. By integrating empirical data with theoretical insights, this article contributes to ongoing academic and policy debates on employment and labour reforms in developing economies. It asserts that a comprehensive reorientation of labour institutions,

coupled with inclusive growth strategies, is essential for achieving India's sustainable development and social justice goals in the twenty-first century.

Keywords: Labour Market, Employment, Informality, Unemployment, Labour Codes, Social Security, India.

I. INTRODUCTION

The labour market constitutes a crucial foundation of economic and social systems. It links the productive potential of the population with the demand for goods and services, determining both national output and individual welfare. In India, with a labour force exceeding 550 million people (PLFS, 2023), this market reflects deep structural heterogeneity. The coexistence of high economic growth and persistent unemployment indicates that India faces not only quantitative but also qualitative employment challenges.

The post-liberalization period since 1991 has witnessed significant transformations in production structures, technological advancement, and the rise of service-oriented employment. However, the promise of job-led growth has remained unfulfilled. Informality dominates the labour landscape, with approximately 80–85% of workers outside the ambit of formal social protection. This dualistic structure—comprising a small formal core and a vast informal periphery—defines India's labour market.

This paper explores the major dimensions of the Indian labour market, including its structural features, composition, and emerging dynamics. It also assesses persistent problems such as unemployment, underemployment, gender disparity, and labour informality. Finally, it suggests policy measures for achieving decent and inclusive work in line with Sustainable Development Goal 8 (Decent Work and Economic Growth).

II. THEORETICAL FRAMEWORK OF LABOUR MARKET ANALYSIS

Labour market theories provide conceptual tools to understand how employment, wages, and productivity interact. Classical economists like Adam Smith and David Ricardo emphasized labour as a factor of production determined by supply and demand. Neoclassical theory refined this approach, arguing that wages adjust to equilibrate labour demand and supply.

However, real-world labour markets, especially in developing economies, deviate from perfect competition. Institutional and structural factors—such as trade unions, minimum wage laws, and social hierarchies—affect wage determination. Keynesian theory shifted focus to aggregate demand, asserting that unemployment results from insufficient effective demand, not rigid wages.

In the Indian context, dual labour market theory (Doeringer & Piore, 1971) offers valuable insight. It distinguishes between the primary (formal) and secondary (informal) sectors, characterized respectively by stability and insecurity. India's employment pattern aligns with this dualistic model, where the informal sector absorbs surplus labour under precarious conditions.

The Lewis Model of Economic Development with Unlimited Labour Supply (1954) also remains relevant. Lewis posited that developing economies possess surplus rural labour that migrates to the industrial sector, driving growth. However, India's experience shows that such labour absorption is partial, creating urban underemployment and informalization rather than full transition.

III. FEATURES OF THE LABOUR MARKET IN INDIA

The Indian labour market is distinct due to its vast size, demographic diversity, and institutional complexity. Its key features include:

3.1 Dualistic Structure

A small formal sector with job security, regulated wages, and benefits coexists with a large informal sector characterized by insecurity and low earnings.

3.2 Predominance of Informality

Approximately 82% of the workforce is informal (ILO, 2024). Even within formal enterprises, informal contracts are common.

3.3 Gender Disparities

Female labour force participation stands at around 37%, far below male participation (PLFS, 2023). Socio-cultural barriers and lack of safety deter women's employment.

3.4 Regional Imbalances

Labour participation is higher in southern and western India, while eastern and northern states experience underemployment and distress migration.

3.5 Sectoral Composition

Agriculture employs nearly 43% of workers, followed by services (32%) and industry (25%). Structural transformation remains incomplete.

3.6 Informal Wages and Low Productivity

Wages in informal work are significantly below organized-sector averages. Labour productivity in India is about one-fourth that of China and one-eighth that of the U.S. (ILO, 2022).

IV. DEMAND AND SUPPLY OF LABOUR

4.1 Labour Supply

India's demographic dividend—over 65% of its population below 35 years—offers immense labour potential. However, skill shortages and low female participation constrain effective supply.

4.2 Labour Demand

Demand arises from industrial, service, and agricultural sectors. Automation and capital-intensive production have weakened the link between growth and employment. The service sector, particularly IT and finance, demands high skills, excluding low-educated workers.

4.3 Skill Mismatch

Only 4.5% of Indian workers have formal vocational training (NSSO, 2022). The gap between education and employability reduces labour market efficiency.

4.4 Migration and Mobility

Rural–urban migration, driven by agricultural stagnation, has led to informal urban settlements and precarious employment. Seasonal and inter-state migration, especially from Bihar, Uttar Pradesh, and

Odisha, sustains India's construction and service economies.

V. NATURE AND COMPOSITION OF THE INDIAN LABOUR FORCE

The Indian labour force is highly heterogeneous in terms of gender, caste, education, and region.

5.1 Rural vs. Urban Composition

Rural workers constitute nearly 68% of the total workforce (PLFS, 2023). While agriculture remains dominant, rural non-farm employment is expanding.

5.2 Occupational Distribution

Most workers are self-employed (~53%), followed by casual labour (~25%) and regular wage earners (~22%). The majority of self-employed individuals are in low-income informal activities.

5.3 Educational Profile

Despite rising literacy, over half of workers lack secondary education, limiting their upward mobility. The share of graduates in total employment remains under 20%.

5.4 Social Stratification

Caste and community influence occupational patterns. Scheduled Castes and Scheduled Tribes are overrepresented in low-paying informal jobs.

VI. TYPES AND CHARACTERISTICS OF LABOUR MARKETS

India exhibits multiple labour market types:

1. Agricultural Labour Market: Seasonal employment and disguised unemployment are common.
2. Industrial Labour Market: Concentrated in organized manufacturing; automation reduces demand.
3. Service Sector Labour Market: Expanding in IT, retail, and logistics, yet largely informal.
4. Urban Informal Labour Market: Dominated by vendors, domestic workers, and construction labourers.
5. Gig and Platform Labour Market: Emerging domain employing delivery agents, drivers, and freelancers; lacks regulation and benefits.

The multiplicity of markets reflects India's fragmented economy and uneven development.

VII. NEW DYNAMICS OF LABOUR MARKET IN INDIA

Globalization, digitalization, and policy reforms have reshaped India's employment landscape.

7.1 Technological Change and Automation

Industry 4.0 technologies (AI, robotics, IoT) are altering skill requirements. While creating new opportunities, they also risk technological unemployment among low-skilled workers.

7.2 Gig Economy and Platform Work

Platforms like Swiggy, Zomato, and Ola have created flexible jobs but without labour rights. The gig workforce is projected to exceed 23 million by 2030 (NITI Aayog, 2022).

7.3 Labour Code Reforms (2019–2020)

The four consolidated codes aim to simplify compliance, promote flexibility, and expand social security. However, trade unions argue that they dilute worker protection.

7.4 Global Integration

Export-oriented sectors like textiles and IT services connect India to global supply chains but face volatility due to international market fluctuations.

7.5 COVID-19 Pandemic and Labour Crisis

The 2020 lockdown exposed structural vulnerabilities. Over 100 million migrant workers lost livelihoods (CMIE, 2020). The crisis underscored the need for portable welfare systems.

VIII. PROBLEMS OF LABOUR IN INDIA

8.1 Unemployment and Underemployment

Despite economic growth, employment generation remains inadequate. Educated youth unemployment exceeds 15%, while disguised rural unemployment persists.

8.2 Informality and Precarity

Over 80% of workers lack written contracts, job security, or benefits. Informality erodes productivity and social cohesion.

8.3 Low Wages and Inequality

Real wage growth stagnated post-2016. Gender and caste wage gaps remain substantial, with women earning roughly 75% of men's wages.

8.4 Poor Working Conditions

Occupational health and safety remain neglected. The ILO (2024) reports that 40% of informal workers face workplace hazards.

8.5 Social Security Deficits

Limited implementation of the Code on Social Security (2020) leaves gig and informal workers unprotected.

8.6 Child and Bonded Labour

Economic distress sustains exploitative labour. The 2011 Census recorded about 10 million child workers.

8.7 Gender Inequality

Patriarchal norms, inadequate childcare, and wage discrimination restrict women's economic participation.

8.8 Migrant Labour Vulnerabilities

Lack of portability in benefits and exclusion from welfare schemes marginalize migrant workers.

8.9 Weak Labour Institutions

Trade union fragmentation and declining collective bargaining weaken labour's negotiating power.

8.10 Skill Gap and Digital Divide

Limited technical training excludes rural youth from emerging digital employment.

IX. CONCLUSION AND POLICY PATHWAYS

India's labour market stands at a critical turning point. Despite demographic advantages, structural constraints—informality, inequality, and technological disruption—impede inclusive growth. The future of work in India depends on a holistic policy framework that integrates economic, social, and technological dimensions.

Policy Recommendations:

1. Formalization of Employment: Simplify compliance for MSMEs while enforcing minimum wages and contracts.
2. Universal Social Security: Implement portable welfare systems for all workers, including gig labour.

3. Skill Development and Education Reform: Align vocational training with industry needs and promote lifelong learning.
4. Gender Inclusion: Ensure equal pay, safe workplaces, and childcare support.
5. Rural Industrialization: Promote agro-processing and local manufacturing to reduce distress migration.
6. Strengthening Labour Institutions: Revitalize tripartite dialogue between state, employers, and workers.
7. Digital Labour Policy: Protect rights of gig workers while leveraging technology for job creation.

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