



# INTERNATIONAL RESEARCH JOURNAL OF HUMANITIES AND INTERDISCIPLINARY STUDIES

( Peer-reviewed, Refereed, Indexed & Open Access Journal )

DOI : 03.2021-11278686

ISSN : 2582-8568

IMPACT FACTOR : 8.428 (SJIF 2026)

## An Analysis of Unemployment Trends and Their Impact on the Indian Economy: A Study Based on Secondary Data

**Rupesh Ranjan**

Research Student,

Motilal Nehru National Institute of Technology,

Prayagraj (Uttar Pradesh, India)

E-mail: [Rupesh27may@gmail.com](mailto:Rupesh27may@gmail.com)

DOI No. **03.2021-11278686** DOI Link :: <https://doi-ds.org/doi/10.2026-55868716/IRJHIS2606009>

### **Abstract:**

*One of the most critical socio-economic issues in India is unemployment since it has a direct influence on income, alleviation of poverty, consumption, productivity, social stability and sustained increase in the economy. Even though India has witnessed a rapid economic growth particularly in services, digital business, infrastructure, manufacturing programs and start-up activity, the creation of employment has not necessarily kept pace with the high and youthful labour force in India. This research paper examines the trend of unemployment in India based on secondary data in official and institutional sources like Periodic Labour Force Survey (PLFS), Ministry of Statistics and Programme Implementation (MoSPI), Ministry of Finance, International Labour Organization (ILO), Institute of Human Development (IHD), and World Bank. It analyses the trends in unemployment based on rural-urban place of residence, the gender, the youth, education and the nature of jobs. The results indicate that the official unemployment rate in India has decreased over the past years, despite bigger rates in the late 2010s to approximately 3.1 percent as per PLFS usual-status estimates in 2025. Nevertheless, it is not entirely resolved as unemployment among the young people, educated unemployment, unemployment in towns, informal employment, underemployment, and low quality of work is still a key issue of concern. The paper contends that unemployment has impacted the Indian economy in terms of loss of output, consumption, loss of tax revenue, dependency burden, poverty, inequality, wastage of skills, and strain on social welfare program. The paper suggests enhancing the manufacturing sector, which is labour intensive, enhancing vocational education, supporting micro, small and medium enterprises, increasing women working in the labour market, facilitating formal jobs and enhancing the labour market data systems.*

**Keywords:** *Unemployment, Indian economy, PLFS, youth unemployment, secondary data, labour market, economic growth, informal sector*

### **1. Introduction:**

Unemployment is a condition in which the willing and able people cannot get appropriate jobs. Unemployment is underutilisation of human resources and productive capacity in economic terms. In

a nation such as India, unemployment is not only a problem that is economic, but also a social and developmental problem. The working population of India is one of the largest in the world, and the potential of such a population can be transformed into a driving force of the growth if people are interested in productive employment. But when jobs are not available in adequate numbers or when they are of poor quality, the same population benefit can become a liability.

The issue of unemployment in India is multifaceted since it is present in conjunction with the booming economy. It has transformed into a significant world economy, and its services, information technology, infrastructure, retail, e-commerce, construction and online platforms have grown significantly. But unemployment and underemployment are still evident in the countryside and the urban regions. The high levels of competition among young graduates seeking scarce government jobs, unstable income among the informal workers and the labour force participation rate of women is less than that of men despite the improvement over the recent past. As such, the situation of unemployment in India cannot be comprehended solely in terms of the headline rate of unemployment. It should also be examined in terms of job quality, labour force participation, worker population ratio, self-employment, casual labour, youth joblessness, educated unemployment and informal employment.

The Periodic Labour Force Survey is the most important official source for employment and unemployment indicators in India. PLFS quantifies unemployment in various ways including usual status, and current weekly status. The usual-status method would indicate individuals' activity over a longer reference period and the current weekly status method would indicate the labour market conditions during the last seven days. Such a difference is significant since India has seasonal employment, informal labor, unpaid family labor, and ad hoc labour. An individual might not be unemployed, but he/she can face an income insecurity or underemployment.

Recent PLFS data indicate that there is an improvement in the labour market in India. The unemployment rate of individuals aged 15 years and above improved over time and in 2025, it was 3.1 percent in normal status. The participation rate of labour force and worker population ratio also remained relatively stable. Nevertheless, these favorable signs should be viewed with caution since the employment issue of India is now more about quality, productivity, and frequency of jobs and not merely the lack of employment. In the case of a worker who is on self-employment with a low payment, he or she might be the one who is technically considered to be employed yet is still on economic distress. On the same note, the educated young people might not get a job that suits them or matches their interests or desires.

This paper critically examines the unemployment patterns and how they have affected the Indian economy using secondary data. The analysis is done on the timeframe 201819 to 2025 but also touches upon the general structural problems of labour market in India. The aim is to know whether the official unemployment has declined in a sustainable employment and the continued impact of

unemployment on economic growth, social development and policy planning.

## 2. Study Objectives:

This research aims at examining the trends in unemployment in India and evaluating its effects on the Indian economy using secondary data.

### The targeted goals are:

1. To examine recent unemployment trends in India using PLFS and other secondary data.
2. To analyse unemployment differences across rural and urban areas.
3. To study the relationship between youth unemployment, education, skills, and labour market mismatch.
4. To evaluate the economic and social impacts of unemployment on India.
5. To suggest policy measures for reducing unemployment and improving job quality.

## 3. Research Questions:

This study is guided by the following research questions:

1. What are the major unemployment trends in India in recent years?
2. How do unemployment patterns differ between rural and urban areas?
3. Why does educated youth unemployment remain a major concern despite economic growth?
4. What are the major impacts of unemployment on the Indian economy?
5. What policy measures can help India reduce unemployment and create productive employment?

## 4. Methodology:

The research is founded on the secondary data analysis. No primary survey or field interview was done. The secondary data were obtained through official government publications, international labour reports, development databases and scholarly sources. The key sources of data are PLFS reports released by MoSPI, government press releases, Economic Survey, the ILO and IHD reports, data of labour market provided by the World Bank, and literature on economic theory.

The study uses descriptive and analytical methods. Unemployment trends, labour force participation, worker population ratio, rural-urban difference, and employment structure are presented using descriptive analysis. The causes and effects of unemployment and the effect on the Indian economy are discussed analytically.

The main limitation of this study is that secondary data can be differentiated about definitions, survey methods, reference periods and age groups. As an illustration, PLFS usual-status unemployment and current-weekly-status unemployment might have varying outcomes since they quantify labour market situations differently. In addition, since 2025, PLFS shifted to a calendar-year reporting period, which restricts direct comparisons to previous July-June survey years (Ministry of Statistics and Programme Implementation [MoSPI], 2026). As such, the results must be interpreted

with due consideration of methodology.

### 5. Conceptual Framework:

Economic growth, income distribution, poverty, productivity, and human development are closely related to unemployment. Classical economic theory supposes that the labour markets respond to wages, whereas the Keynesian theory states that unemployment might be caused by the lack of aggregate demand (Keynes, 1936). Unemployment in developing economies tends to be structural in the sense that the economy cannot generate productive jobs to absorb an increasing labour force. Lewis (1954) elucidated that developing nations might possess excess labour in the traditional agriculture industry, and the difficulty lies in reallocating workers to the modern and productive industries.

In India, unemployment is determined by various factors. First, there is the population growth and demographic pressure which augment the job seekers. Second, the education system tends to generate graduates who lack complete skills that are required in the industry. Third, the growth in the economy has been in services and labour-intensive manufacturing has not been developed sufficiently to absorb millions of people. Fourth, informality is high, so that a significant number of people work without stable wages, contracts, social protection, and career development. Fifth, the norms of gender, safety issue, unpaid care and low number of appropriate jobs inhibit women involvement in the labor market.

According to the law of Okun, there is a correlation between unemployment and the loss in output: with an increase in unemployment, the actual output will decrease compared to the potential output (Okun, 1962). The relationship varies depending on the country however, the core concept applies to India. With unemployed or underemployed workers, the economy is missing potential production, household earnings are damaged, consumption declines and the possibility of finding oneself in poverty increases.

### 6. Trends of Unemployment in India:

According to official statistics, the unemployment rate in India has decreased over the past few years. Under normal conditions, the unemployment rate of persons aged 15 years or older, according to PLFS, fell to 3.2 percent in 202223; 3.2 percent in 2025, and slightly decreased to 3.1 percent in 2026 (Ministry of Labour and Employment, 2024; MoSPI, 2024, 2026).

**Table 1**

#### **Unemployment Rate in India Under Usual Status for Persons Aged 15 Years and Above**

<b>Year / Survey Period</b>	<b>Unemployment Rate</b>
2018–19	5.8%
2019–20	4.8%
2020–21	4.2%
2021–22	4.1%

2022–23	3.2%
2023–24	3.2%
2025	3.1%

The fact that the unemployment rate is falling means that there is an increase in labour absorption. This trend is however not to be construed as eradication of the unemployment issues. Low unemployment rate in India may sometimes indicate the need to take whatever work may be available to do particularly with poor families. Most workers cannot afford to be out of jobs as many developed economies can. They can be casual labourers, unpaid family workers, street hawkers, small farmers, gig workers or low-income self-employed workers. Hence, quality of employment takes precedence over quantity of employment.

According to PFS 2025, the labour force participation rate of individuals aged 15 and above was 59.3 percent, whereas the worker population ratio was 57.4 percent (MoSPI, 2026). This implies that a larger percentage of the working-age population were working or involved in the labour force. It was also estimated in the report that approximately 61.6 crore persons aged 15 years and above were working in usual status in the period between January and December 2025 comprising of 41.6 crore males and 20.0 crore females (MoSPI, 2026). These statistics indicate the large size of the labour market in India.

Nonetheless, the employment structure is an issue. By 2025, a larger fraction of workers (over 56.2 percent) was self-employed (as compared to 2024), but this percentage decreased to 57.5 to 56.2 percent. Regular wage or salaried work grew by 22.4 to 23.6 percent, and casual labour did not change much and was approximately one-fifth of all employment (MoSPI, 2026). This shows a slight change towards more job regularity, yet India continues to have a huge proportion of employees in precarious employment.

### **7. Rural and Urban Unemployment:**

The nature of rural and urban unemployment is different. Agricultural seasonality, disguised unemployment, low productivity, monsoon dependence, non-farm limited activities and migration are widely associated with rural unemployment. Unemployment among the educated young people, migrants, those seeking jobs in the service sector and those who have been victims of industrial slowdown or automation are more visible in the urban areas.

PLFS 2025 shows the rural unemployment under normal status is 2.4 percent and urban unemployment is 4.8 percent (MoSPI, 2026). Rural unemployment may seem to be less but that does not always imply that the rural workers are economically stable. In the villages, there are numerous low-productivity agricultural workers, family businesses, construction workers or informal services. They can be technically utilized but have very low income. This is sometimes referred to as disguised unemployment or underemployment.

Unemployment is more prevalent in cities since in most cases, the job seekers in urban areas are seeking a particular type of paid jobs. The young people in the city are usually highly educated and demanding. Low pay, manual or informal jobs may not be readily accepted by them who have invested their degrees. E.g. a graduate in Delhi, Lucknow, Kolkata, Mumbai, or Bengaluru could be jobless as he/she prepares to take government exams or finds formal jobs in the private sector. On the contrary, a rural labourer can toil in agriculture or family enterprise despite low income.

The changes in the economy are also reflected in urban unemployment. Manufacturing and formal services demand special skills, and much of the graduates do not have a practical training, communication skills, digital skills, or technical competence. Meanwhile, automation and digitalisation decrease the need in routine occupations. This leads to a situation of a lack of fit between the labour force and the job opportunities in the urban labour market.

### **8. Young and Educated Unemployment:**

One of the greatest labour market issues in India is youth unemployment. Youths between the ages of 15 and 29 are the future employees and their employment performance influences productivity, innovativeness, family income, and social stability. According to PLFS 202324, the unemployment rate among the youth (15-29 years old) was significantly higher than the general rate of unemployment. The rate of youth unemployment was approximately 10.2 percent, with the rural areas having less than urban areas (MoSPI, 2024). This demonstrates that the youths have more challenges with getting into the labour market.

According to the ILO and IHD India Employment Report 2024, the educated young population has increased unemployment due to the disconnect of skills, increased ambitions, and lack of quality employment (International Labour Organization and Institute for Human Development, 2024). This is very grave as education should enhance jobs. But in India, the number of the educated youth who are not employed is large due to the lack of the economy to create appropriate jobs that match their qualifications.

It is not an issue of not being educated but a lack of employable skills. Most graduates have degrees with no industry-specific skills like data handling, using machines, communicating in English, problem-solving, digital literacy, and teamwork, and basic technical knowledge. As an example, an engineering graduate might possess theoretical knowledge but might not be prepared to work in a manufacturing plant, a construction project, a software company, or a renewable energy company without further training. Likewise, an accounting or finance graduate might not secure any employment without Excel, ERP, GST, or data analysis skills.

Another issue is NEET. According to a report of PLFS 2025, 25.0 percent of individuals in the age group 15-29 years old were not under normal status of employment, education, and in training (MoSPI, 2026). This means that a high portion of the young people is not productively engaged. In

case this scenario persists, India might not realise its demographic dividend.

### **9. Gender Dimension of Unemployment is a dimension of unemployment that deals with gender aspects:**

One of the dimensions of unemployment and labour participation in India is gender. The participation of female labour force has traditionally been low due to social norms, unpaid care work, household duties, safety issues, mobility limits, wage disparity and the absence of appropriate employment. The latest PLFS figures indicate that the female labour force participation has improved, though the gender gap is still large.

Male labour force participation stood at 79.1 percent as compared to 40.0 percent of female labour force participation under normal status in 2025 (MoSPI, 2026). This is an improvement but also a significant disparity in economic participation by males and females. The ratio of female worker population was 38.8 percent as compared to 76.6 percent males (MoSPI, 2026).

The rate of female unemployment can be misleading in rural areas where it sometimes may seem low. Many women are not in the labour force hence are not considered as unemployed. The rest are unpaid laborers in domestic businesses or farming. This implies that women might be underpaid, unpaid or their economic contribution is underestimated statistically. Female unemployment is more likely in urban settings as educated women are more likely to pursue appropriate formal jobs, yet they are prevented by safety concerns, work-related discrimination against women, family needs, marriage, mobility, and childcare, as well as lack of flexible work.

Employing more women can have a very positive impact on the Indian economy. It can improve household income, boosting consumption, enhancing the education and health of children, alleviating poverty, and boosting national output. As a result, the unemployment policy should incorporate gender sensitive measures like safe transport, providing childcare, flexible working terms, anti-discrimination laws, training women in skills, and encouraging women owned businesses.

### **10. Unemployment in India Causes:**

In India, there are various causes of unemployment. The first reason is the disconnect between the labour force development and the development of quality jobs. Millions of youths are coming into the labour market every year, yet the economy does not necessarily generate sufficient formal and productive jobs in this regard.

The second reason is the lack of skills. Most schools are oriented towards theoretical teaching and not employability. The industry needs technical skills, digital skills, communication skills as well as problem-solving ability, which is not the case with many graduates.

The third reason is the sluggish growth of labour-intensive manufacturing. The manufacturing exports were used by countries like China, Vietnam and Bangladesh to generate mass jobs. The services and technology industries are well developed in India and the ability of manufacturing to

absorb the semi-skilled and low-skilled labour is limited. The schemes like Make in India and Production Linked Incentive are designed to help overcome this problem, but the results of employment should be constantly monitored.

The fourth reason is informality. India has a huge percentage of workers who perform informal work with no written contracts, job security, pension and health insurance or stable wages. Informal employees are more susceptible to shocks like pandemics, inflation, illness, or slowdown of the economy.

The fifth reason is the imbalance of regions. The more industrialised, well-developed states have more jobs due to their better infrastructure, education, and investment opportunities whereas poorer ones experience an increased labour movement. Maharashtra, Gujarat, Delhi, Karnataka, Kerala and Tamil Nadu are Bihar, Uttar Pradesh, Jharkhand, Odisha, and West Bengal workers who migrate to find employment.

Technological change is the sixth cause. The digital platforms and mechanisation can raise productivity, artificial intelligence, and automation can do the same, but it can decrease the need in routine labour. In the absence of reskilling, there is a risk that workers will be unemployed or in low-paying positions.

### **11. Effect of Unemployment in the Indian Economy:**

Unemployment has wide economic and social impacts. To start with, unemployment brings about loss of output. When employees lose their jobs, the economy will generate below the potential. This decreases the national income and GDP growth. The law of Okun suggests that unemployment relates to the output gaps since idle labour constitutes unproductive capacity (Okun, 1962).

Second, unemployment decreases household consumption and income. Household consumption is a significant source of economic growth in India. When the individuals lack stable jobs, they use less money on food, clothing, housing, transport, education, health and consumer goods. Small shops, local markets, restaurants, transport services and micro-enterprises are some of the businesses that are affected by low demand.

Third, unemployment enhances poverty and inequality. Poor families cannot afford not to work and therefore they must take up low-paid or low-income jobs. Educated unemployment is also a source of inequality as the families invest in education and do not get returns. This frustrates the youth and undermines social mobility.

Fourth, unemployment puts fiscal pressure on the government. In situations where unemployment is high, welfare schemes, food subsidies, rural employment programmes, skill development schemes and social protection are demanded. Meanwhile, there is also a risk of a decrease in tax revenue due to the need to earn taxable income by fewer individuals. This puts a strain on the state budgets.

Fifth, unemployment is a waste of human capital. In education and training, families, society and government invest. When educated youth are not employed, the country is not receiving the payoff of such investment. Indicatively, when a trained engineer, nurse, teacher or IT graduate does not secure employment or is employed in another menial low-paying job, the productivity of the nation suffers.

Sixth, unemployment enhances migration strain. Unemployment locally drives people to move out of rural to urban or poor to richer states. Migration can give opportunities however unplanned migration can result in overcrowding, slums, low-paying jobs and straining urban services.

Seventh, unemployment has an impact on social stability and mental health. Unemployment causes stress, low self-esteem, conflict in the family, postponed marriage, debt and social frustration. In youth, long-term unemployment may enhance discouragement and lack of confidence in institutions.

Eighth, unemployment undermines demographic dividend. The young population of India is only an opportunity when the youth are healthy, employed and skilled. Unless young people are employed or underemployed, the demographic dividend could turn into a demographic challenge.

## **12. Policy Recommendations:**

India requires multi-dimensional approach to employment. To start with, more labour-intensive manufacturing should be increased. Large-scale employment can be achieved in sectors like textiles, garments, footwear, food processing, electronics assembly, furniture, toys, renewable energy equipment and construction materials. Bangladesh has a garment industry that India can emulate where export-oriented production generated millions of jobs and particularly to women. India has more domestic and export potential, but it requires simpler compliance, superior logistics, industrial clusters, and skill-based factories.

Second, there should be an improvement in vocational and technical training. Training must be closely aligned with the industry needs. Apprenticeship, machine operation, digital tools, communication, safety, quality control and workplace discipline should be incorporated as courses. Certification should be recognised by employers.

Third, micro, small and medium enterprises are to be better supported. Finance, technology, delayed payments, marketing, and compliance burden are some of the problems facing MSMEs which have generated numerous jobs. MSMEs can be supported in growing employment by easier access to credit, digital payment system, cluster support, and access to the market.

Fourth, safe transport, childcare centers, flexible working hours, equal wages, maternity leave, and avoiding workplace harassment should be encouraged to enable women to work. Employment opportunities can be generated by women self-help organizations, online businesses, food processing, health services, education, and local services.

Fifth, India ought to enhance job matching platforms. Connection between job seekers and

employers, training facilities and apprenticeships should be established through the National Career Service and the state employment portals. The digital platforms must be easily accessible to rural youth and in local languages.

Sixth, there should be formalisation of employment. Protections such as written contracts, social security, health insurance, pension and minimum wage should be given to the workers. Formal jobs increase productivity and improve household security.

Seventh, non-farm jobs in the rural areas need to be increased. The pressure on agriculture and migration can be relieved by agro-processing, dairy, fisheries, rural tourism, warehousing, renewable energy, handicrafts and small production.

Eighth, data in the labour market needs to be reinforced. Regular, consistent and thorough data on employment is useful to policymakers by showing issues early and formulating specific interventions. The monthly and quarterly PLFS data are significant milestones, yet data ought to reflect underemployment, informal income insecurity, gig work, and skill mismatch.

### **13. Conclusion:**

On the one hand, the official PLFS data show that unemployment in India decreased, on the other hand, the employment issue is still a significant problem. The unemployment rate is not a complete picture of the underemployment situation, informal employment, low wages, gender disparities, youth unemployment, and educated unemployment. The economy of India has a good growth potential, yet the growth needs to be more employment-intensive and inclusive.

The discussion reveals that unemployment has impacted the Indian economy by resulting in a loss of output, low income, low consumption, poverty, inequality, fiscal burden, wastage of human capital, migration pressure and social frustration. Unemployment among youth and educated people is of special concern as it has a direct impact on the demographic dividend of India. Policy needs to be addressed urgently as well on urban unemployment, women limited participation in labour, and informal jobs.

India requires a middle way approach of both economic growth and employment creation. It requires labour-intensive manufacturing, development of MSMEs, vocational training, employment of women, non-farm jobs in rural areas, formalisation, and improved labour market information. The employment policy must not concentrate on the rate of reduction of the unemployment rate but should also aim at enhancing the quality of the job, productivity, income security and even dignity of work. When India can transform its huge labour force into skilled and productively employed labour force, unemployment will be reduced and economic development of the country in the long run will become more inclusive and sustainable.

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