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# Employment Dynamics in The Post GST Era Trends in Job Creation, Displacement and Sectoral Employment Transition

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## Abstract

The introduction of the Goods and Services Tax (GST) in July 2017 marked a watershed in India's indirect tax architecture, reshaping production, trade, and firm structures. This paper analyses employment dynamics in the post GST era, focusing on trends in job creation and displacement, as well as sectoral employment transitions. Evidence from recent studies indicates a net negative impact on informal sector employment, with estimates of around 15.7 million informal jobs lost in the initial two years, largely in small-scale manufacturing and textiles, due to higher compliance burdens and exit of smaller firms. At the same time, organized sectors such as logistics, ecommerce, stability, their share remains small relative to the still dominant informal sector. The analysis draws on official labour surveys (PLFS), national accounts, and sectoral impact studies to map gross flows of employment—both job losses and job creation—across manufacturing, construction, trade, transport, and services.

GST subsumed taxes like VAT, service tax, excise, and others into a common national market, reducing cascading effects and boosting transparency in indirect taxation. Over the years, several antinationalization measures and digital compliance initiatives have been introduced to stabilize and refine the system.

In academic or policy-oriented abstracts, "introduction of GST reforms" typically sets the stage by highlighting GST as a transformative indirect tax reform and then foregrounding the latest structural changes (for example, the 2025 simplification of slab rates and compliance ease measures). The abstract usually goes on to outline the objectives of the reform—such as lowering tax burden, easing compliance, and enhancing revenue efficiency—before briefly stating the method and expected outcomes.

Policy relevant findings indicate that GST has accentuated structural changes already underway in India's labour market, reinforcing the need for targeted skilling, better access to finance for small enterprises, and simplified compliance for MSMEs.

- The paper concludes with recommendations to cushion the transition: focused reemployment schemes, digital skilling aligned with GST driven sectors, and calibrated reforms that balance formalization with inclusive job creation. Overall, the post GST employment trajectory underscores the importance of viewing tax reform not only as a fiscal instrument but also as a major driver of labour market restructuring.

**Introduction**

India's labour market has long been characterised by a large informal sector, low laborlore participation among women, and muted job creation despite relatively high GDP growth. The introduction of GST in 2017 aimed to unify a fragmented indirect tax system, reduce cascading taxes, and integrate interstate markets, but its structural implications for employment have been unevenly distributed across firms and sectors. This paper situates GST within the broader narrative of "jobless growth" and later "robust employment growth" reported between 2016–17 and 2022–23, where employment expanded by about 36 percent (adding roughly 170 million jobs) even as patterns of where and how these jobs were created changed markedly.

The core objective is to unpack GST induced shifts in employment: who gained jobs (e.g., logistics, ecommerce, IT, formal services), who lost (small scale manufacturing, parts of trade), and how workers transitioned across sectors. The introduction also outlines the conceptual framework—difference indifferences estimates, sectoral decomposition, and formal in formal job quality analysis—used in the literature to estimate GST's impact. Finally, it describes the seminar style structure of the paper, including data sources (PLFS, NSS, KLEMS, and sectoral stock market indices) and the policy questions to be addressed in the subsequent sections.

**Content: Trends in job creation and displacement**

**1. Net impact on overall employment**

National level analyses that use quasi experimental methods suggest that GST implementation reduced informal sector employment by about 3.7 percentage points, equivalent to roughly 15.7 million jobs in the first two years, while boosting compliance and revenue collection. At the same time, broader employment growth accounts show that

India added around 170 million jobs between 2016–17 and 2022–23, implying that other growth drivers—services, construction, and expanding formal sector opportunities—offset a large share of GST related losses. This divergence highlights that GST's impact must be interpreted within the wider context of demographic pressures, preexisting reforms (such as demonetization), and structural shifts in services and manufacturing.

Sectoral decomposition studies reveal that value-added growth in recent decades has been driven more by productivity per worker than by employment growth, reinforcing the view that tax reforms affecting firm organisation (like GST) can reshape labour demand without necessarily reducing aggregate employment. However, the "quality" of employment—contract status, social protection, and wage stability—has shifted toward formal sector jobs even as the informal sector remains numerically dominant.

**2. Sectoral employment transitions**

Several empirical papers classify GST affected sectors into "winners" and "losers" from formalization and market integration effects. Logistics, transport, warehousing, and ecommerce have experienced rising employment, as reduced interstate barriers and electronic invoicing systems raised demand for drivers, warehouse staff, IT support, and tax compliance professionals. Similarly, IT, banking, and parts of the services economy (tourism, insurance, and financial intermediation) have benefited from smoother transactions and better compliance infrastructure, translating into higher demand for skilled whitecollar and technical workers.

On the other hand, labor-intensive, smallscale segments such as textiles, certain FMCG, and unorganized manufacturing have seen job shedding or slower growth, as GST compliance costs and inputtaxcredit rules squeezed low margin firms. Some studies report that these sectors registered lower profitability and growth, contributing to firm exits and employment loss, especially in informal production clusters. The net effect across sectors is often described as roughly "neutral" at the aggregate level, but highly unequal in distribution across regions and worker skill groups.

**3. Formalization vs. informal sector contraction**

A recurring theme in the GST employment literature is the push toward formalization: small firms either shut down or register under GST, bringing parts of the informal economy into the tax net and, in principle, closer to formal sector protections. However, many displaced informal workers have not smoothly transitioned into formal jobs; instead, they have shifted to precarious self-employment, informal services, or outside labour force status, especially in rural and semi urban areas. This "fragile" transition

underscores that while formal sector employment has grown, its capacity to absorb excess labour remains constrained by skill mismatches and credit constraints.

**Recommendations**

**1. Institutional support for distressed sectors**

Policies should differentiate between sectors that are structurally competitive and those that are vulnerable to GST type shocks. For stressed segments such as textiles and small-scale manufacturing, calibrated support—simplified GST return filing, concessional rates for small turnovers, and targeted credit guarantees—can reduce forced exits and preserve employment. Parallel measures such as clusterlevel upgradation and technology transfer can help these firms improve productivity and become more GST compliant without cutting labour.

**2. Skilling and labour market intermediation**

Given the rising demand in logistics, ecommerce, and IT linked services, skill development programmes should align with GST driven growth sectors. Short-term certification in GST compliance procedures, digital sales, warehouse management, and last mile logistics could help informal workers transition into formal sector roles. Public employment service platforms and digital job matching initiatives can ease sectoral transitions by reducing information gaps between workers and employers.

**3. Gender and region sensitive measures**

Since much of the informal sector employment loss is concentrated among lows killed and female workers, gender targeted skilling and daycare support can improve laborlore participation and job quality. Regional imbalances should also be addressed through localindustrial policies that combine GST linked infrastructure (logistics parks, industrial estates) with training and entrepreneurship programmes in lagging states.

**Conclusion**

The post GST period in India has witnessed a dual movement in employment: contraction in parts of the informal sector and growth in formal sector opportunities, particularly in logistics, ecommerce, IT, and selected services. While aggregate employment has expanded, the restructuring effect of GST has intensified preexisting trends toward formalisation and productivity driven growth, leaving many lows killed workers behind. The paper illustrates that GST is not merely a fiscal reform but a powerful structural lever affecting where and how employment is created.

To harness the benefits of GST while minimizing displacement, India needs a more active labourmarket strategy that combines simplified compliance for MSMEs, targeted skilling, and stronger social protection mechanisms. Only then can the post GST employment trajectory become more inclusive and resilient, aligning tax reform with broad-based job creation.

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