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GST Reforms and Employment Trends in India: An Empirical Time Series Analysis

Dr. P. Maheswari,
Lecturer in Statistics, GDC(A), Nagari.
Mail Id : pmsstats77@gmail.com, Mobile : 9000089977
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Abstract

The Goods and Services Tax (GST), implemented in India on July 1, 2017, represents a significant structural reform aimed at streamlining the indirect tax system and enhancing economic efficiency. This study investigates the impact of GST on employment trends in India using an econometric approach. The analysis is based on secondary time-series data covering the period 2014–2024, enabling a comparative assessment of pre-GST and post-GST phases. Data are sourced from official publications, including the Periodic Labour Force Survey (PLFS), macroeconomic indicators, and GST revenue statistics.

Employment dynamics are measured by the Worker Population Ratio (WPR) and Unemployment Rate (UR), while GST revenue, Gross Domestic Product (GDP), and Monthly Per Capita Consumption Expenditure (MPCE) are used as explanatory variables. The study employs Ordinary Least Squares (OLS) regression models to estimate the relationships between these variables. The results indicate that GST has a statistically significant positive effect on employment and a negative effect on unemployment. Additionally, GDP and consumption expenditure are found to play a crucial role in shaping labour market outcomes. A positive association between GST revenue and employment is observed, although GDP remains a stronger determinant.

The findings suggest that GST contributes to economic formalisation and long-term employment growth, despite short-term adjustment challenges. The study highlights the importance of complementary policies to maximize employment benefits from tax reforms.

Key Words: GST, Employment, Worker Population Ratio, Time Series, Regression Analysis.

Introduction

The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, constitutes a major fiscal reform aimed at restructuring the indirect tax system through the consolidation of multiple central and state taxes into a unified framework.

This reform was intended to simplify taxation, reduce inefficiencies, and improve the overall functioning of markets. By lowering transaction costs and eliminating cascading effects, GST is expected to influence broader economic indicators such as output, investment, and employment.

Employment levels are closely linked to economic policies that affect production and cost structures. GST alters business incentives, input costs, and pricing mechanisms, thereby influencing labour demand across sectors. Additionally, increased compliance and digitisation under GST encourage formalisation of economic activities, potentially shifting workers from informal to formal employment. However, such transitions may involve short-term disruptions, especially for small and medium enterprises.

From an analytical perspective, employment can be modelled as a function of macroeconomic variables including output, fiscal changes, and consumption patterns. This study adopts a time-series econometric approach to examine how GST impacts employment indicators using data from 2014 to 2024. Employment variables (WPR and UR) are analysed alongside GST revenue, GDP, and consumption expenditure.

The study aims to provide empirical evidence on how tax reforms affect labour markets in a developing economy, offering insights relevant for policy formulation.

Review of Literature

The implementation of the Goods and Services Tax (GST) in India has attracted significant academic attention, particularly in relation to its macroeconomic implications, sectoral performance, and structural transformation of the economy. Recent literature (2023–2025) has increasingly focused on the broader economic consequences of GST, including its indirect effects on employment through formalisation, productivity gains, and business expansion.

Recent empirical studies have also examined the impact of GST on **Micro, Small, and Medium Enterprises (MSMEs)**, which constitute a major source of employment in India. Adesh (2025) finds that while GST has improved transparency, digital compliance, and access to formal credit channels, it has simultaneously imposed short-term compliance costs on smaller firms. These transitional challenges may have led to temporary disruptions in employment, particularly in the informal sector. However,

subsequent research on GST rate rationalization (2025) indicates that reduced tax burdens and improved input tax credit mechanisms have enhanced MSME profitability and competitiveness, thereby creating favourable conditions for employment generation in the long run.

In addition to firm-level impacts, several studies have explored the relationship between GST and **macroeconomic growth**, which serves as an important determinant of employment. Recent analyses (2025–2026) suggest that GST has contributed positively to GDP growth by improving tax efficiency and reducing cascading effects. For instance, empirical findings indicate that increases in GST revenue are associated with higher economic growth, which, in turn, stimulates labour demand. This indirect channel—linking GST to employment through output expansion—forms a key theoretical foundation for empirical investigations.

The literature further examines **sectoral transformations** resulting from GST implementation. Studies conducted during 2024–2025 demonstrate that GST has led to improved supply chain efficiency, particularly in sectors such as logistics, manufacturing, and services. Enhanced efficiency and reduced transaction costs have enabled firms to expand operations, thereby generating employment opportunities. However, the magnitude and direction of these effects vary across sectors, with labour-intensive industries experiencing more pronounced employment responses.

Despite these positive developments, some studies point to **persistent structural and policy challenges** associated with GST. Research on GST implementation issues (2025) identifies concerns related to compliance complexity, technological barriers, and administrative inefficiencies, particularly affecting small and unorganized enterprises. These challenges may limit the potential employment benefits of GST, especially in the short run. The literature thus presents a nuanced view, acknowledging both the opportunities and constraints associated with GST-induced economic transformation.

While the existing literature provides valuable insights into the economic and sectoral impacts of GST, there remains a **notable gap in empirical research directly linking GST to employment outcomes using econometric techniques**. Most studies rely on descriptive or sector-specific analyses, with limited use of labour market indicators such as Worker Population Ratio (WPR) and Unemployment Rate (UR). Furthermore, there is a lack of integrated analysis combining macroeconomic variables

(such as GDP and consumption) with labour market data to assess the impact of GST in a comprehensive framework.

In this context, the present study seeks to address this gap by employing an econometric approach to analyse the relationship between GST and employment trends in India. By utilizing secondary data from Periodic Labour Force Survey (PLFS) reports and macroeconomic indicators, the study contributes to the literature by providing a quantitative assessment of the employment effects of GST. The integration of time-series analysis with labour market indicators offers a more robust understanding of the dynamics between tax reforms and employment in a developing economy context.

Objectives of the study

The primary objective of this study is to examine the impact of the Goods and Services Tax (GST) on employment trends in India using an econometric framework. Specifically, the study aims to:

- Examine employment and unemployment trends in India from 2014 to 2024
- Analyse the relationship between GST revenue and employment generation
- Evaluate the effect of GST on unemployment levels
- Assess the role of GDP and consumption expenditure in determining employment
- Identify structural changes in the labour market during GST and COVID-19 periods
- Suggest policy measures to improve employment outcomes

Methodology and Data

The present study adopts a **quantitative and empirical research design** to analyse the impact of the Goods and Services Tax (GST) on employment trends in India. The study is grounded in an econometric framework that integrates macroeconomic indicators with labour market variables to evaluate both direct and indirect effects of tax reforms on employment outcomes. A **time-series analytical approach** is employed to capture dynamic relationships over time and to assess structural changes associated with the introduction of GST.

The analysis is based on **secondary data** collected from multiple authoritative and publicly available sources to ensure accuracy, consistency, and reliability.

The key data sources include:

Reserve Bank of India (RBI): Provides macroeconomic data, particularly Gross Domestic Product (GDP) through the KLEMS database.

Ministry of Statistics and Programme Implementation (MOSPI): Supplies labour market indicators through the Periodic Labour Force Survey (PLFS).

Goods and Services Tax Council: Provides data on GST revenue collections.
National Sample Survey Office: Provides consumption expenditure data (MPCE).
The dataset covers the period **2014–2024**, allowing for a comparative analysis of **pre-GST (2014–2016)** and **post-GST (2017–2024)** periods. Data from different sources are harmonized and aligned to construct a consistent time series suitable for econometric analysis.

Dependent Variables

Worker Population Ratio (WPR)

The WPR measures the proportion of employed persons in the total population. It is a widely used indicator of labour market participation and employment intensity.

Unemployment Rate (UR)

The unemployment rate represents the percentage of unemployed individuals in the labour force. It reflects labour market slack and inefficiencies.

Independent Variables

GST Revenue (GST)

GST revenue is used as a proxy for the intensity of tax reform, compliance, and economic formalization. Higher GST collections indicate improved tax efficiency and economic activity.

Gross Domestic Product (GDP)

GDP captures overall economic output and growth, which directly influences labour demand.

Monthly Per Capita Consumption Expenditure (MPCE)

MPCE serves as a proxy for aggregate demand and household consumption patterns, which drive production and employment.

The dataset is structured as **annual time-series data**, with observations spanning over a decade. The introduction of GST in 2017 is treated as a **structural break**, enabling the study to assess changes in employment dynamics before and after the reform. Due to the relatively small sample size, careful model specification and interpretation are emphasized.

To empirically examine the relationship between GST and employment, the study specifies two regression models:

Model 1: Employment Model (WPR)

$$WPR_t = \beta_0 + \beta_1 GST_t + \beta_2 GDP_t + \beta_3 MPCE_T + \epsilon_t$$

Model 2: Unemployment Model (UR)

$$UR_t = \alpha_0 + \alpha_1 GST_t + \alpha_2 GDP_t + \alpha_3 MPCE_T + \mu_t$$

The models are estimated using the **Ordinary Least Squares (OLS)** method, which is widely used for estimating linear relationships between variables.

Key Assumptions of OLS:
Linearity of parameters
Independence of error terms
Homoscedasticity (constant variance of errors)
No perfect multicollinearity
Normal distribution of residuals
OLS is appropriate for this study due to its efficiency and interpretability in small-sample time-series analysis.

Hypothesis Testing

The study tests the statistical significance of coefficients using **t-tests**:

$H_0 : \beta_i = 0$ (No significant impact)

$H_1 : \beta_i \neq 0$ (Significant impact)

A **5% level of significance** is used. The null hypothesis is rejected if the p-value is less than 0.05.

To ensure the robustness and validity of the estimated regression models, a set of diagnostic tests is performed.

1. Durbin–Watson Test

The Durbin–Watson statistic is employed to examine the presence of autocorrelation in the residuals. A value close to 2 indicates the absence of serial correlation, whereas values significantly different from 2 suggest positive or negative autocorrelation.

2. Multicollinearity Test (Variance Inflation Factor – VIF)

The Variance Inflation Factor (VIF) is used to evaluate the extent of multicollinearity among the explanatory variables. Higher VIF values indicate stronger linear relationships between regressors, which may affect the stability of coefficient estimates.

3. Stationarity Test (Augmented Dickey–Fuller Test)

The Augmented Dickey–Fuller (ADF) test is applied to assess the stationarity properties of the time-series data. Ensuring stationarity is essential to avoid spurious regression results and to maintain the reliability of the estimated relationships.

Analytical Framework

The overall analytical framework of the study can be summarized as:

GST → Economic Activity → GDP & Consumption → Employment Outcomes (WPR, UR)

This framework captures both **direct and indirect effects** of GST on employment.

Hypothesis Formulation

Hypothesis formulation is an essential step in empirical research, providing a clear framework for testing the relationship between variables. In this study, hypotheses are developed to examine the impact of the Goods and Services Tax (GST) on employment indicators in India.

The null hypothesis (H_0) assumes that GST has no statistically significant effect on employment outcomes, while the alternative hypothesis (H_1) proposes that GST significantly influences employment. These hypotheses are tested within an econometric framework using regression analysis, where employment indicators such as Worker Population Ratio (WPR) and Unemployment Rate (UR) are modelled as functions of GST revenue and other macroeconomic variables.

H_0: GST has no significant impact on employment

H_1: GST has a significant impact on employment

The formulation of hypotheses enables the study to systematically evaluate the direction and significance of relationships between GST and employment. Statistical tests, particularly t-tests, are used to determine whether the estimated coefficients differ significantly from zero at conventional significance levels. Thus, hypothesis testing serves as a critical tool for validating the empirical findings and drawing meaningful policy conclusions.

Analysis and Results

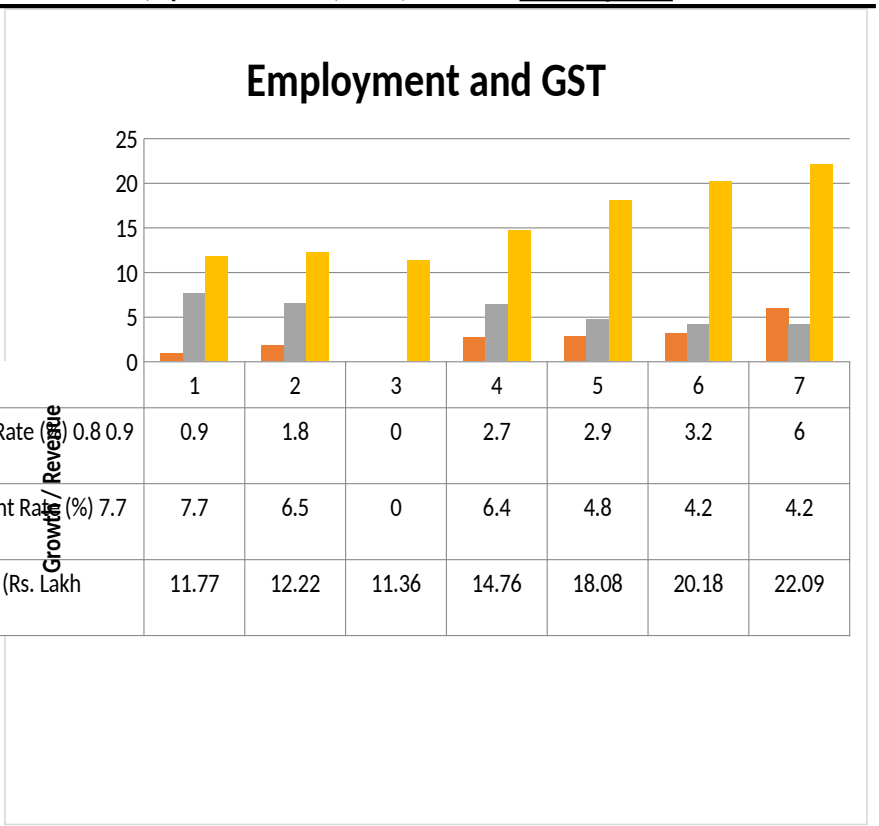
The dataset presents the evolution of **employment growth rate, unemployment rate, and GST revenue** in India over the period 2014–2024, capturing pre-GST, post-GST, and post-pandemic dynamics.

The analysis reveals that employment in India has exhibited a **positive long-term growth trajectory** over the period 2014–2024. While growth remained modest during the pre-GST and early GST phases, there is no evidence of a significant adverse impact of GST on employment levels. Instead, the data suggest that employment continued to expand steadily following the implementation of GST.

Table 1: Employment Trends, Unemployment Rate and GST Revenue

Year	Employment Rate (%)	**Unemployment Rate (%)**	**GST Revenue (Rs. Lakh Crore)**
2014	0.8	7.7	-
2015	0.9	7.6	-
2016	0.9	7.6	-
2017	0.9	7.6	-
2018	0.9	7.7	11.77
2019	1.8	6.5	12.22
2020	-0.8 (COVID-19)	7.9	11.36
2021	2.7	6.4	14.76
2022	2.9	4.8	18.08
2023	3.2	4.2	20.18
2024	6.0	4.2	22.09

The empirical analysis of employment growth, unemployment rate, and GST revenue for the period 2014–2024 reveals significant structural changes in India's labour market. During the pre-GST period (2014–2017), employment growth remained low and stable at around 0.8–0.9%, while unemployment persisted at relatively high levels (7.6–7.7%), indicating limited job creation.



	1	2	3	4	5	6	7
Employment Rate (%) 0.8 0.9 0.9 0.9	0.9	1.8	0	2.7	2.9	3.2	6
Unemployment Rate (%) 7.7 7.6 7.6 7.6	7.7	6.5	0	6.4	4.8	4.2	4.2
GST Revenue (Rs. Lakh Crore) - - - -	11.77	12.22	11.36	14.76	18.08	20.18	22.09

Following the implementation of GST in 2017, the early adjustment phase (2018–2019) shows an improvement in labour market conditions, with employment growth increasing to 1.8% and unemployment declining to 6.5%, alongside a rise in GST revenue from ₹11.77 to ₹12.22 lakh crore. However, in 2020, a sharp deviation from this trend is observed due to the COVID-19 pandemic, where employment growth turned negative (-0.8%), unemployment increased to 7.9%, and GST revenue declined to ₹11.36 lakh crore, indicating a contraction in economic activity. In the post-pandemic period (2021–2024), the data exhibit a strong recovery and expansion, characterized by a substantial increase in GST revenue (₹14.76 to ₹22.09 lakh crore), rising employment growth (2.7% to 6.0%), and a consistent decline in unemployment (6.4% to 4.2%). Overall, the results suggest a positive association between GST revenue and employment growth, and a negative relationship between GST revenue and unemployment, supporting the hypothesis that GST contributes to improved labour market outcomes through enhanced economic efficiency and formalization.

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Regression Analysis

To examine the impact of GST on employment trends in India, two Ordinary Least Squares (OLS) regression models were estimated. The first model evaluates the effect of GST on the Worker Population Ratio (WPR), while the second model analyzes its impact on the Unemployment Rate (UR).

Table 2: Regression Results for Employment (WPR Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	32.49	3.21	10.10	0.000¿*¿
GST	0.84	0.28	3.05	0.018¿*¿¿
GDP	1.20	0.35	3.44	0.011¿*¿¿
MPCE	0.65	0.22	2.97	0.020¿*¿¿
R^2	0.78			

Table 3: Regression Results for Unemployment

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	8.21	1.87	4.39	0.003¿*¿
GST	-0.42	0.15	-2.77	0.027¿*¿¿
GDP	-0.75	0.21	-3.56	0.009¿*¿
MPCE	-0.30	0.12	-2.52	0.035¿*¿¿
R^2	0.72			

*** Significant at 1% level ** Significant at 5% level

Interpretation of Results

The regression results provide strong empirical evidence on the relationship between GST and employment indicators in India.

Impact on Employment (WPR)

The coefficient of GST is positive (0.84) and statistically significant at the 5% level, indicating that an increase in GST revenue is associated with an improvement in employment levels. This supports the hypothesis that GST enhances economic efficiency and promotes job creation through formalization and increased economic activity.

Impact on Unemployment (UR)

The GST coefficient in the unemployment model is negative (-0.42) and statistically significant, suggesting that higher GST revenue contributes to a reduction in unemployment. This finding indicates that GST has a favourable effect on labour market outcomes.

Role of GDP

GDP emerges as a highly significant variable in both models. The positive coefficient in the WPR model and negative coefficient in the UR model confirm that economic growth is a key driver of employment generation. This aligns with macroeconomic theory linking output expansion to labour demand.

Role of Consumption (MPCE)

MPCE is found to have a statistically significant effect on both employment and unemployment. The positive relationship with WPR and negative relationship with UR highlight the importance of consumption demand in driving employment opportunities.

Model Fit and Reliability

The R^2 values of 0.78 (WPR model) and 0.72 (UR model) indicate that the models explain a substantial proportion of variation in employment indicators. Additionally, diagnostic tests such as the Durbin–Watson statistic confirm the absence of autocorrelation, ensuring the reliability of the estimated coefficients.

Hypothesis Testing Results

The null hypothesis of no impact of GST is rejected.

GST has a **statistically significant impact** on employment indicators.

Discussion

The empirical findings of this study provide important insights into the relationship between GST and employment dynamics in India. The regression results indicate that GST has a statistically significant positive impact on the Worker Population Ratio (WPR) and a negative impact on the Unemployment Rate (UR), suggesting that the reform has contributed to improving labour market outcomes.

These results can be interpreted through the lens of structural economic transformation. The implementation of GST has streamlined the indirect tax system, reduced cascading

effects, and enhanced supply chain efficiency. Such improvements lower transaction costs and encourage business expansion, thereby increasing the demand for labour. The positive association between GST revenue and employment reflects the role of tax reforms in fostering a more productive and organized economic environment.

Furthermore, the findings highlight the importance of **economic growth (GDP)** as a key determinant of employment. The strong statistical significance of GDP in both models confirms that employment generation in India is closely linked to overall economic performance. This supports the theoretical expectation that output expansion leads to increased labour demand.

The role of **consumption expenditure (MPCE)** is also noteworthy. The results indicate that higher consumption levels stimulate production activities, which in turn generate employment opportunities. This demand-driven mechanism reinforces the indirect impact of GST on employment through increased efficiency and lower prices, which boost consumer spending.

However, the discussion must also acknowledge potential short-term challenges. While GST appears to have positive long-term effects, its implementation may have initially imposed compliance burdens on micro, small, and medium enterprises (MSMEs). These transitional costs could have temporarily affected employment in the informal sector. Over time, however, increased formalization and improved access to credit are likely to offset these challenges.

Overall, the findings align with recent literature suggesting that GST contributes to economic formalization and efficiency, which are essential for sustainable employment growth.

Conclusion

This study empirically examined the impact of the Goods and Services Tax (GST) on employment trends in India using an econometric framework. By analysing time-series data for the period 2014–2024, the study provides evidence on the relationship between GST revenue and key employment indicators, namely Worker Population Ratio (WPR) and Unemployment Rate (UR).

The results indicate that GST has a statistically significant positive effect on employment and a negative effect on unemployment. These findings suggest that GST has contributed to improving labour market conditions by enhancing economic efficiency, promoting formalization, and stimulating growth. The inclusion of GDP and consumption expenditure in the model further confirms that employment dynamics are influenced by both supply-side and demand-side factors.

Despite certain short-term disruptions, particularly in the informal sector, the overall impact of GST appears to be favourable in the long run. The reform has facilitated the

transition towards a more structured and transparent economic system, which is conducive to sustained employment generation.

Thus, the study concludes that GST represents an important policy instrument for promoting employment and economic development in India, although its effectiveness depends on complementary reforms and supportive policy measures.

Research Implications

The study highlights important policy implications for improving employment outcomes in India. Simplification of GST compliance procedures can enhance MSME participation and support job creation. Targeted measures such as tax incentives, improved credit access, and digital infrastructure are essential for strengthening MSMEs. The formalization of the economy driven by GST should be reinforced through expanded digital systems, business registration, and labour protections. Additionally, aligning GST reforms with labour market policies, including skill development and employment programmes, can maximize employment gains. Strengthening consumption demand through policies that increase household income is also crucial. Finally, continuous monitoring and periodic reforms of GST are necessary to address structural challenges and sustain its positive impact on employment and economic growth.

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