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Employment Dynamics in the Post-GST Era: Trends in Job Creation, Displacement, and Sectoral Employment Transitions

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Abstract

GST implementation (July 2017) was India's most sweeping indirect tax reform, subsuming 17 levies into a unified four-slab structure. This paper examines post-GST employment dynamics (2017–2024) using verified institutional data — PLFS, Economic Survey 2024–25, RBI-KLEMS, CMIE, Azim Premji University, NITI Aayog, ILO, and the MSME Annual Report 2023–24. Three findings emerge: (1) GST produced asymmetric outcomes — organised sectors gained while MSMEs and informal workers bore disproportionate compliance costs, driving unemployment to a 45-year high of 6.1% in 2017–18; (2) a data credibility crisis persists across RBI-KLEMS, PLFS, and CMIE, masking the true employment picture; and (3) structural employment transformation remains incomplete, with post-pandemic data revealing a troubling reversal toward agricultural employment. Five evidence-grounded policy recommendations conclude the paper.

Keywords: GST, Employment, Informal Sector, PLFS, MSME, Gig Economy, Sectoral Transitions, India

I. Introduction

On July 1, 2017, India enacted the Goods and Services Tax — replacing 17 indirect taxes including Central Excise Duty, Service Tax, and VAT — with a destination-based CGST/SGST dual structure across four slabs (5%, 12%, 18%, 28%). The reform

promised to eliminate cascading taxes, build a common national market, and draw informal enterprises into the tax net through GSTN-based digital compliance.

GST did not arrive in a vacuum. It followed the November 2016 demonetization — the invalidation of 86% of India's currency — which had already inflicted a severe supply-side shock on an informally organized, cash-dependent economy. Together, demonetisation and GST constituted a compounded disruption: the former destroyed working capital; the latter imposed digital compliance infrastructure on enterprises structurally unprepared to absorb it.

The central research question this paper addresses is: Has the post-GST reform environment catalysed net job creation, triggered displacement in vulnerable sectors, and accelerated sectoral transitions — and what does the data reveal? The thesis: post-GST employment outcomes have been deeply asymmetric — formalization gains in organized sectors co-existing with significant informal economy disruption — while the aggregate picture is obscured by irreconcilable divergences across India's official employment datasets.

II. Literature Review and Data Sources

The primary data instrument is the Periodic Labour Force Survey (PLFS), launched 2017–18 by MoSPI/NSSO — replacing five-yearly NSS rounds with annual all-India and quarterly urban estimates. From January 2025, PLFS was upgraded to monthly estimates for both rural and urban India. The PLFS is the only direct household survey producing reliable Unemployment Rate (UR), Labour Force Participation Rate (LFPR), and Worker Population Ratio (WPR) estimates.

The RBI-KLEMS database offers a competing macro-level construct. In July 2024, it reported 46.7 million jobs added in FY24 and 170.1 million across seven years from 2017–18 — figures cited by the Prime Minister's Office. However, RBI-KLEMS relies on assumptions and interpolation without sector-specific enumeration, and crucially, neither Economic Survey 2023–24 nor 2024–25 cited these numbers; both instead repeated that India needs 7.85 million new non-farm jobs annually — implicitly rejecting the KLEMS narrative.

Azim Premji University's analysis of PLFS 2017–18 found India lost 9 million jobs between 2011–12 and 2017–18 — the first such contraction in recorded history — labelling it "job-loss growth" (GDP averaged 6.8% in the same period). CMIE independently estimates formal job creation at 2–3 million per year against 10–12 million new annual workforce entrants. Key academic sources include Ghosh (2020) in Economic & Political Weekly on MSME-GST compliance costs, Thakur & Chaudhary (2025) in Sage Journals on enterprise-level structural change, and the ILO Global Youth Employment Report 2024 on gig economy precarity.

III. Employment Baseline: Pre- and Post-GST

Between 2004–05 and 2011–12, India made structural progress: agriculture's workforce share fell from 58.5% to 48.9% and manufacturing peaked at 12.6%. Since 2015–16, manufacturing employment declined, and post-pandemic data reveal a reversal, with agricultural employment rising as workers migrated back from disrupted urban centers, undoing decades of structural gains.

Table 1: Key Labour Market Indicators — PLFS Trend Data (2017–18 to 2022–23)

Indicator	2017–18	2019–20	2021–22	2022–23
Unemployment Rate (%)	6.1	5.8	4.2	3.2
LFPR (%, age 15+)	36.9	37.5	41.6	44.2
Worker Population Ratio (%)	34.7	35.3	39.8	42.8
Urban Unemployment (%)	7.8	7.2	6.3	5.4

Note: Source: PLFS Annual Reports 2017–18 to 2022–23, MoSPI/NSO. Age group: 15 years and above. UR = Unemployment Rate; LFPR = Labour Force Participation Rate; WPR = Worker Population Ratio.

The 2017–18 PLFS data revealed a 45-year high in unemployment of 6.1%. The government initially withheld these results, triggering the resignation of two National Statistical Commission members — an institutional credibility crisis that has shadowed official employment data since. While the UR has declined to 3.2% by 2022–23,

improvements in LFPR and WPR partly reflect agricultural re-absorption (subsistence farming counted as employment under usual status) rather than high-quality formal job creation.

IV. Sectoral Employment Transitions Post-GST

4.1 MSME and Informal Sector Displacement.

India has over 6.33 crore MSMEs employing ~11 crore people, contributing ~30% of GDP and ~44% of exports. A 2018 RBI estimate found 97% operate informally — outside GST's formal framework, without business PANs or institutional accounting systems. When GST imposed digital return filing, ITC reconciliation, and compliance thresholds, enterprises above the turnover threshold faced mandatory formalisation while those below faced indirect pressure from supply chain partners seeking Input Tax Credit. For micro-enterprises with limited digital literacy and thin margins, this compliance burden compressed working capital and triggered labour downsizing.

4.2 Organised Sector Gains.

Research across 2017–18 to 2022–23 finds large organised sectors — IT, FMCG, automobile — experienced positive outcomes under GST. The IT sector grew from 7.5% in 2017–18 to 10.9% in 2020–21, driven by GST-enabled supply chain efficiencies and pandemic-era digital demand. E-commerce, fintech, and logistics expanded rapidly in 2017–2019, creating formal urban employment — but serving a relatively narrow educated workforce stratum.

4.3 The Gig Economy.

NITI Aayog (cited in Economic Survey) estimates gig employment at 77 lakh (7.7 million) in 2021–22, projected to reach 2.35 crore (23.5 million) by 2029–30 — 6.7% of India's non-agricultural workforce. The ILO (2024) cautions that gig jobs blur the formal/self-employment distinction, excluding workers from minimum wage guarantees, paid leave, and social security. Gig employment expansion must not be conflated with formal job creation.

Table 2: Sectoral Employment Distribution and Informal Sector Metrics — PLFS Data

Sector / Metric	2011–12	2017–18	2022–23
Agriculture & Allied (%)	48.9	44.1	45.8
Manufacturing (%)	12.6 (peak)	11.0	11.4
Construction (%)	10.6	11.5	13.0
Services (%)	27.9	33.4	28.9
Informal workforce share	—	~90%	~83%
Workers without contract (informal)	—	—	71%
Workers with no social security	—	—	52%

Note: Sources: NSS 2011–12; PLFS 2017–18 & 2022–23, MoSPI; PLFS Annual Report 2021–22 for informal metrics; RBI (2018) for MSME informality estimate; MicroSave Consulting (2024).

V. The Structural Employment Gap

A 2024 Citigroup India report projects that India will fall short of the 12 million annual jobs needed to absorb new entrants to the workforce. The Economic Survey 2024–25 sets the requirement at 7.85 million new non-farm jobs per year until 2030 — the government's own acknowledgment of a chronic deficit. India Skills Report 2024 finds only 50% of formally educated youth meet industrial employability standards; approximately 30% of graduates cannot find adequate employment. The Economic Survey 2024–25 adds that two-fifths of 15–24-year-old graduates are out of work — a paradox where higher education increases unemployment probability due to skill-demand mismatch.

Female labor force participation at ~37% — against a global average of ~50% — represents the economy's largest underutilized productive resource. Cultural barriers, inadequate childcare infrastructure, and mobility constraints suppress female LFPR in ways that lie outside the reach of tax reform instruments.

VI. Policy Interventions and Outcomes

The Aatmanirbhar Bharat Rojgar Yojana (ABRY) — covering employer and employee EPFO contributions for new hires — had generated an estimated employment of 37.46 lakh persons by January 2024 (Ministry of Labor, GoI). This is meaningful but modest: less than 5% of the 78.5 lakh annual target. The Pradhan Mantri Mudra Yojana (PMMY) has extended ~47.7 crore collateral-free loans of up to Rs.10 lakh to micro-enterprises and individuals, representing the largest formal instrument targeting informal economy participants. As of September 2025, 6.82 crore MSMEs with 29.77 crore employment are registered on the Udyam Portal — a significant formalisation milestone, though enterprise registration and employment formalisation remain distinct: PLFS 2021–22 still shows 83% informal workforce post-registration.

The four Labour Codes (2019–2020) rationalised 29 central labour laws and, critically, defined gig and platform workers for the first time in Indian law under the Code on Social Security, creating a framework for social protection extension. However, state-level notification has been uneven, leaving a substantial gap between legislative intent and market reality.

VII. Findings and Discussion

Finding 1 — Asymmetric Outcomes.

GST's benefits accrued disproportionately to large organised firms (IT, FMCG, auto) while MSMEs and informal workers bore compliance costs. The 97% MSME informality figure is the structural anchor: if 97% of enterprises operate outside GST's formal architecture, then formalisation benefits are structurally inaccessible to the majority of India's workforce. The compounded demonetisation-GST shock generated the 45-year unemployment high of 2017–18 and the 9-million net job loss documented by Azim Premji University.

Finding 2 — Data Credibility Crisis.

The divergence between RBI-KLEMS (170 million jobs in 7 years), PLFS (45-year high unemployment in 2017–18), and CMIE (2–3 million formal jobs/year) is not a marginal measurement issue. It reflects structural opacity in a dual economy where the vast informal sector is difficult to enumerate directly. When official bodies report irreconcilable figures, policy risks being calibrated to narratives rather than evidence. The Economic Survey's own call for 7.85 million new jobs annually is the most credible implicit acknowledgement of a persistent deficit.

Finding 3 — Incomplete Structural Transformation.

Manufacturing's share peaked at 12.6% in 2011–12 and has not recovered (11.4% in 2022–23). Post-pandemic agricultural re-absorption represents reverse structural transformation — movement from higher-productivity non-farm to lower-productivity farm employment. Services sector growth has been predominantly informal and gig-based. India's GDP growth has not translated into the quality formal employment creation its demographic dividend requires.

VIII. Conclusion and Policy Recommendations

The post-GST era has delivered asymmetric, incomplete, and empirically contested employment outcomes. GST as a tax reform has delivered genuine benefits to the organized economy; as an employment policy instrument, it has been blunt, imposing costs on the informal majority while rewarding the formally organized minority. Five targeted recommendations follow.

1. **Simplify GST compliance for MSMEs below Rs.5 crore turnover**

— consolidated annual returns, expanded Composition Scheme, and sub-district GST Suvidha Providers to reduce the compliance cost barrier driving informality.

2. **Build a unified employment data architecture**

— integrate PLFS, Udyam registration, EPFO enrolment, and GSTN data at the district level to resolve the credibility crisis and enable targeted interventions.

3. **Extend social security to gig and platform workers**

— prioritise state-level notification of the Code on Social Security (2020) provisions for gig workers; implement aggregated contribution models with platform companies.

4. **Scale outcome-linked skill-alignment programmes**

— redesign PMKVY with industry participation in curriculum, performance-based funding tied to employment outcomes, and integration with the Udyam MSME ecosystem.

5. **Close the female LFPR gap**

— expand panchayat-level childcare infrastructure, improve urban public transport safety, and strengthen PMMY credit linkages for women-led micro-enterprises.

India's employment challenge is fundamentally structural — rooted in human capital deficits, gender exclusion, data opacity, and the institutional limits of the informal sector. GST revenue, if well-directed, can finance the institutional investments needed to address these gaps. Tax reform is a necessary but far from sufficient condition for the quality employment expansion India's demographic moment demands.

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