

Skewed Employment Opportunities, Income Inequality and Demand-Constrained Economic Growth in India

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Abstract

This study examines India's long-run economic growth potential and the constraints on its path to faster economic and social progress, and suggests policy pathways to expand domestic market size and facilitate inclusive growth. Using various secondary data sources, we argue that India needs to broaden its internal domestic market, which can remove significant demand constraints at a crucial juncture when the world economy is witnessing a major economic and political upheaval. Although the demand-constrained economic growth can be overcome through significant policy interventions, the key is to broaden the job ladder at the top rungs (formal jobs) and narrow down the job opportunities at the bottom rungs (informal jobs) to reduce income inequality. Additionally, this can be achieved by generating inclusive and fair employment opportunities for the most disadvantaged households. This would result in an increase in their income levels and the economy's overall demand, which would in turn generate virtuous cycles of rapid economic growth and further expand the market size within the economy. Therefore, the study concludes that the bottom strata of households need to have equality of opportunities in terms of access to quality education, health facilities, employment, and income, which would enhance social and economic upward mobility. Otherwise, it can exacerbate macroeconomic instability if inequality worsens further.

Keywords: Wealth and Income Inequality, Market Size, Informal Sector, Aggregate Demand, and Economic Growth.

JEL Codes: E21, E24, E26

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1. Introduction

India envisioned for a *Viksit Bharat* (i.e., a Developed Economy), which aims to expand the GDP (Gross Domestic Product) size to \$30 trillion by 2047 from \$3.4 trillion in FY 2023 (NITI Aayog, 2024). According to the Ministry of Finance, achieving the milestone of a developed economy will require an investment rate that must surge to more than 35% of GDP, the generation of 7.85 million new non-farm jobs annually till 2030, and sustained annual real GDP growth of at least 8%. However, the Reserve Bank of India (RBI) slashed India's real GDP growth rate projections to 6.5% for 2025-26 (RBI, 2025).

The government has emphasised the ambitious goal of achieving a \$30 trillion economy by 2047. It is definitely commendable, but it also motivates us to raise some fundamental questions: Who will be the beneficiaries of that growth? Would it provide benefits to a few businessmen or the common citizens in general? Who has to bear the cost of such growth if such benefits are concentrated only at the upper layer of the income pyramid? What would be its implications? What is to be produced? How is it to be produced? For whom is it to be produced? Would it generate equal opportunities for all, specifically for the poor, workers, women, vulnerable sections of society, tribals, etc.?

Farmers and labourers have shed their blood and sweat in building up our great nation, despite extreme weather conditions, low wages, low income, being trapped in poverty, suffering losses in farming, a lack of formal credit, and limited growth opportunities, etc. They definitely deserve better rewards for their sacrifices and hard work. However, they are suffering from extreme poverty, income inequality, unemployment, marginalisation in formal employment, high inflation, malnutrition, etc., which lead to political, social, and economic unrest, and injustice to them. To provide justice, the government needs to formulate aggressive redistributive policies that would promote justice and equality, implying inclusive growth and greater human capital and employment, which would help to create equal and fair opportunities for all.

Against this backdrop, this paper examines India's long-run growth potential by organising the descriptive analysis around three interrelated themes: first, the aspiration of achieving high and sustained GDP growth; second, the structural constraints that may impede this trajectory, particularly income inequality, spatial disparities in consumption, and the dual and stratified nature of the labour market; and third, the policy pathways—especially export expansion, private investment, and employment generation—through which domestic market size can be broadened and growth made both sustainable and inclusive. In doing so, the paper provides a descriptive analysis of income inequality and its linkages with demand constraints, informality, and the broader development strategy required for inclusive growth.

2. Relationship between Effective Demand and Market Size

Notably, the growth rate of output in an economy is primarily determined by the potential aggregate demand that capitalists can tap. If effective demand in the economy comes down, capitalists

would slash their investments, which in turn would decrease economic growth (Keynes, 1936). Then, the fundamental question is what determines the effective demand? The answer seems straightforward – the market size of the economy determines effective demand. The market size hinges on how the benefits of the achieved growth are distributed among different economic agents. If the benefits of economic growth are asymmetrically distributed and concentrated among a few economic agents, then growth lasts for a short period. It implies that growth is exclusive and unsustainable for the economy.

For instance, from 2003 to 2008, India's higher economic growth was driven by the export of services from high-skilled manpower. Its spillover effect generated subsequent demand cycles across sectors, and once global demand declined, it led to slow growth (Ghatak et al., 2020). Economic growth should be inclusive and broad-based. Otherwise, if the benefits of growth are concentrated only among the thin layer of the higher-income segment of the population, reflected in the income or consumption pyramid, its trickle-down effect will be restricted and will not reach the poorer sections, thereby resulting in a narrow market size.

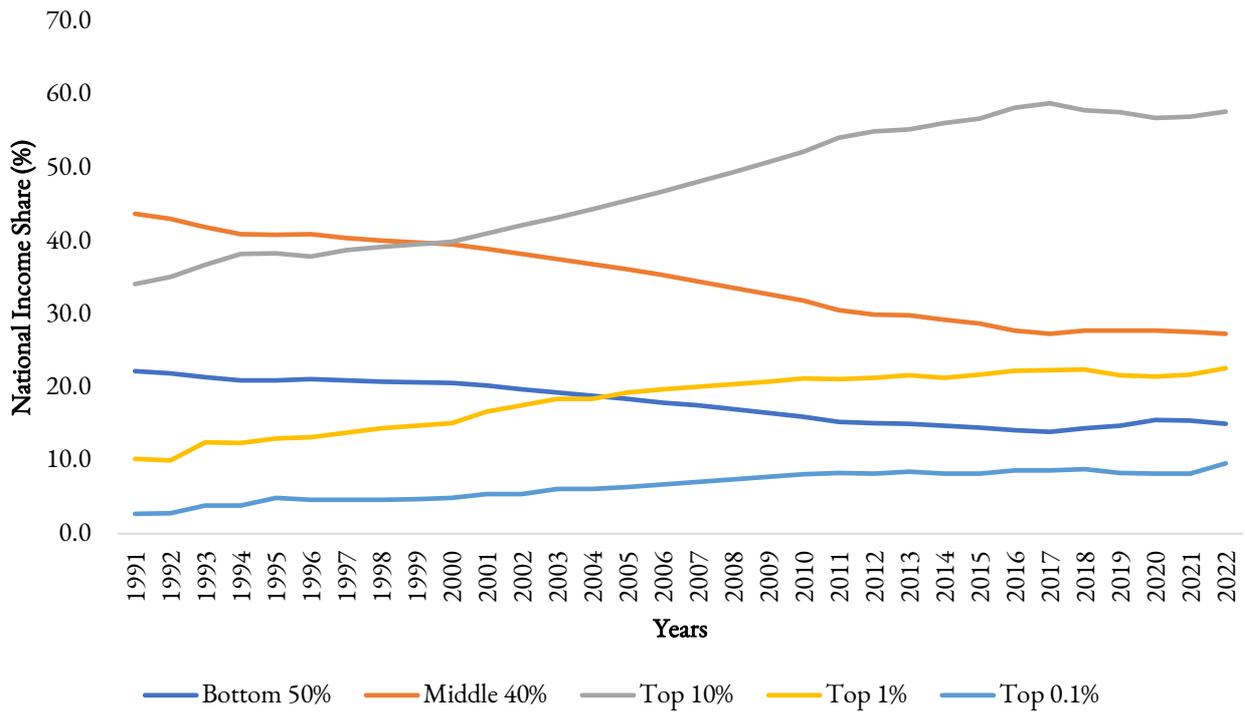
3. Trends in Income and Wealth Inequality in India

India is recognized as a highly unequal society. Since the economic reforms of 1991, income inequality has persisted and continued to rise steadily. According to the World Inequality Database, the income share of the bottom 50% declined from 22.2% to 15%, while the income share of the top 1% more than doubled from 10.2% to 22.6% over the span of 1991 to 2022. In 1991, the national income shares of the Middle 40%, top 10%, and top 0.1% was 43.7%, 34.1% and 2.7%, respectively, whereas by 2022, the Middle 40%, top 10%, and top 0.1% possess 27.3%, 57.7%, and 9.6% of the national income shares, respectively (Figure 1).

On the other hand, by 2023, 1% of the richest Indians held 40% of the country's total wealth, and in contrast, the bottom half of the population held just 6.5% of the wealth. Remarkably, 29% of wealth was held by the top 0.1%, which is precisely equal to the Middle 40% i.e., 29% (Figure 2). This clearly reflects an extremely unequal distribution of income and wealth in India, which is highly skewed and concentrated at the upper income strata of society.

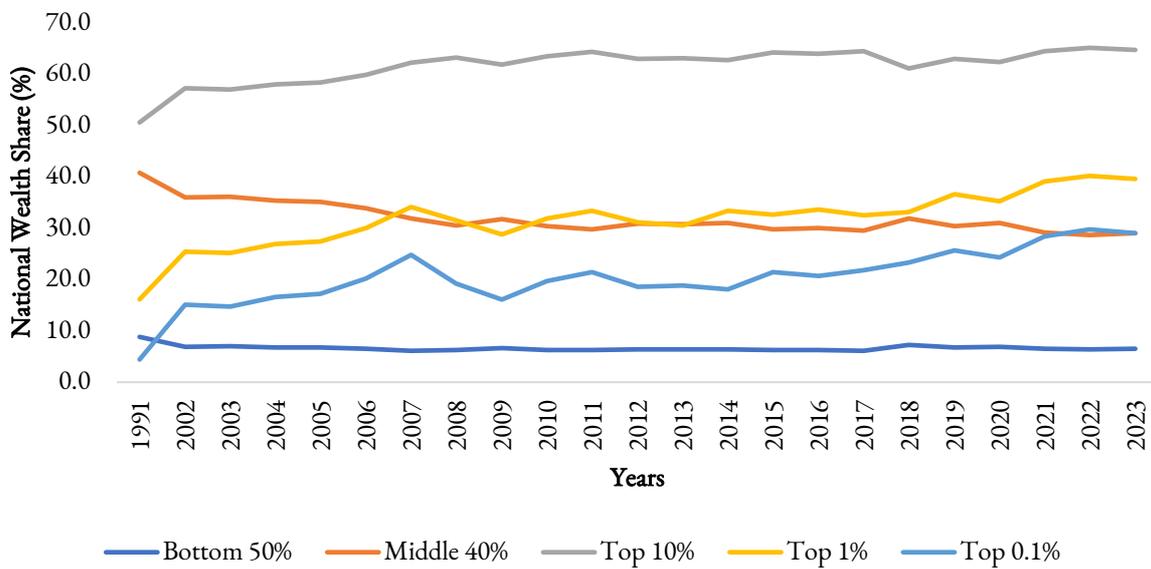
Rising inequality affects medium- and long-term growth performance by dampening demand among the poor and middle classes, resulting in K-shaped growth (Narayana, D., 2022). For inclusive growth, it needs to generate virtuous cycles of growth that pushes wage rates up across sectors; transfer a large fraction of surplus labour from agriculture to informal or formal non-farm jobs, and subsequently migrate informal workers into well-paid formal jobs.

Figure 1: Income Inequality in India, 1991-2022 (%)



Source: World Inequality Database.

Figure 2: Wealth Inequality in India, 1991-2023 (%)



Source: World Inequality Database.

4. Spatial Disparities in Consumption Demand

The above income disparity is further substantiated when we look through the lens of average Monthly Per Capita Consumption Expenditure (MPCE) data for 2022-23 at current prices, published by the National Statistical Office Survey, as presented in Figure 3. It is evident that extreme inequality in consumption expenditure exists in the Indian economy, both in rural and urban areas.

- The average MPCE in rural India is ₹3,773, while in urban India it is ₹6,459, and ₹4,534 for the pan-India.
- In the rural sector, the average MPCE of the bottom 50% is ₹2,401, while the top 50% has an average of ₹5,145.
- Likewise, the urban average MPCE is ₹3,506 and ₹9,210 for the bottom 50% and top 50% of the population, respectively.
- Surprisingly, the average MPCE of the bottom 50% for rural and urban areas is lower than the average MPCE of both rural as well as urban India. More specifically, the average MPCE of the bottom 50% in both rural (₹2,401) and urban India (₹3,506) is smaller than the average MPCE in rural India (₹3,773).

It means that the bottom strata of households in both rural and urban sectors incur monthly consumption expenditure below the average MPCE in rural India. The top 10% spend 5.5 times more than the bottom 10% in rural areas, while the top 10% consume 7 times more than the bottom 10% in urban areas. It is also seen that the bottom 10% in urban India incur consumption expenditures that are 1.5 times higher than the bottom 10% in rural India. The top 10% in urban India spend twice as much as the top 10% in rural India.

This signals that the standard of living is relatively somewhat similar for rural and urban households in the bottom 10% and the top 10%, and that consumption demand is constrained by their low incomes. The urban-rural gap in average MPCE is reduced to 71% in 2022-23 from 84% in 2011-12, which explains the spatial dimension of extreme consumption inequality.

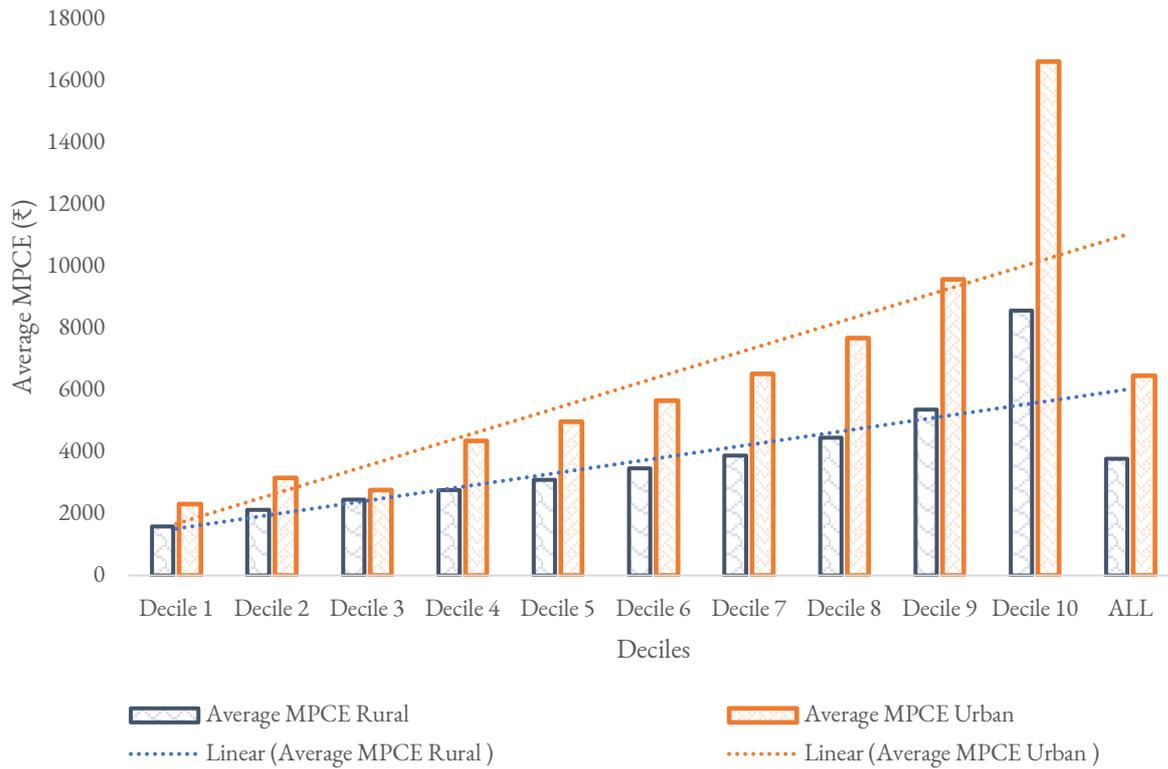
The trendlines for rural and urban consumption also clearly reflect the divergence between rural and urban consumption demand, rising as we move up the consumer pyramid from the bottom to the top. The discrepancy in the urban-rural average MPCE is more evident in the top 50% of households in the consumer pyramid (Figure 3).

In rural India, the share of food and non-food items in the rural average MPCE is 46% and 54%, respectively. For urban counterparts, the share of food is 39% and non-food items is 61% in the urban average MPCE. The bottom strata of households spend more on food items in their consumption basket. If general prices witness a drastic rise, the higher inflation brings more hardships to the bottom segments of the consumer or income pyramid. It adversely affects their purchasing power. This would significantly influence the consumption basket of the bottom segment of consumer households, narrowing the market size and ultimately leading to low aggregate demand, which would then turn into a vicious spiral. If higher inflation is accompanied by job losses, the scenario becomes even darker and gloomier for the lower strata. It has significant implications for the livelihoods of the poor.

An overview of several previous studies on poverty in India noted that the estimates of the total number of persons living below the poverty line ranged from 34 million to 373 million (Iqbal, N., 2023). It clearly points out that a very large number of Indians still survive on very little means. These unequal consumption patterns have critical implications for macroeconomic fundamentals. The

skewed distribution of income and wealth in favor of the super-rich and ultra-rich dampens the aggregate demand of the economy, leaving lower and middle-income classes, who have a higher marginal propensity to consume (MPC). This poses constraints on inclusive and broad-based economic expansion of the market size, with limited trickle-down benefits from economic growth reaching the majority of the population.

Figure 3: Average MPCE across Deciles at Current Prices, 2022-23 (₹)

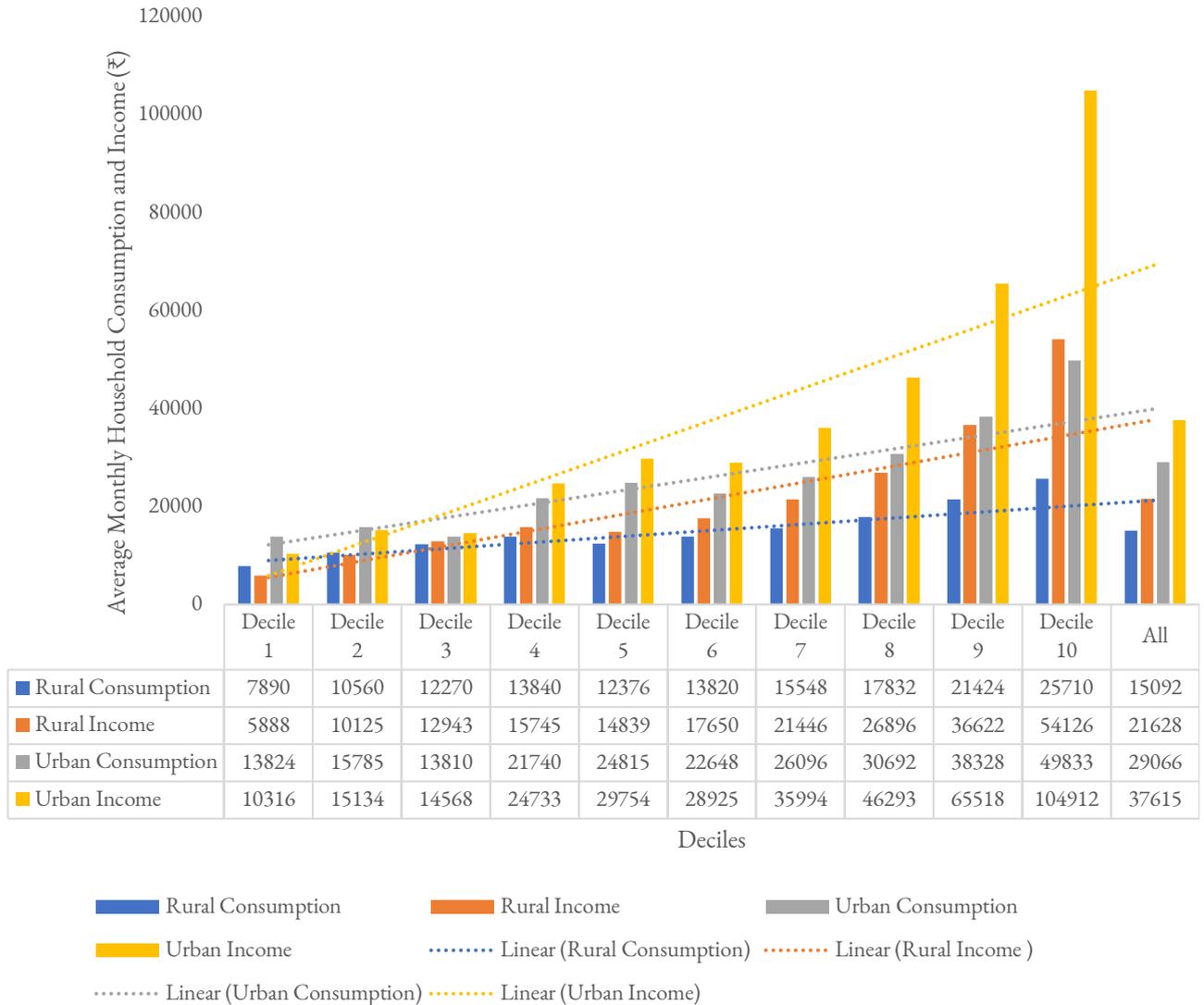


Source: Household Consumption Expenditure Survey, 2022-23.

5. Decoupling of Household Consumption Expenditure and Income

In line with the above analysis, Figure 4 presents the average monthly Household Consumption Expenditure and Income at rural and urban India for 2022-23 at current prices across deciles. It clearly shows that household consumption expenditure is decoupled from household income at both the bottom and the top of the consumer pyramid. It reveals that the bottom 50% of households' consumption demand exceeds their income (low-income households have a higher desired consumption or MPC relative to their income), and also that consumption demand is synchronized with their income, as compared to the top 50% households. At the top 50% level, consumption expenditure is decoupled from their income. The consumption demand is not synchronized with their income due to a greater saving tendency of ultra-rich households.

Figure 4: Average Monthly Household Consumption Expenditure and Income at Current Prices, 2022-23 (₹)



Note: The procedure for estimating decile-wise average monthly household incomes using decile-wise average Monthly Per Capita Consumption Expenditure (MPCE) and saving rates follows the methodology proposed by Ghatak, Kotwal, and Ramaswami (2020) and subsequently applied by Bhagat and Mallick (2024). Decile-wise average MPCE data are sourced from the Household Consumption Expenditure Survey, 2022–23, conducted by the National Statistical Office (NSO). To obtain decile-wise average monthly household consumption expenditure, MPCE values are multiplied by the corresponding decile-wise average household sizes reported in Appendix Table 1, column 3, of Bhagat and Mallick (2024). Saving rates—defined as the ratio of savings to income ($\text{Saving Rate} = \frac{\text{Savings}}{\text{Income}}$)—are taken from Shukla and Sharma (2016), and the corresponding consumption rates are computed by subtracting the saving rate from 100 (consumption rate = 100 – saving Rate). Decile-wise average monthly household income is then estimated by dividing the decile-wise average monthly household consumption expenditure by the respective consumption rate.

Source: Authors’ computation using Household Consumption Expenditure Survey, 2022-23, and Shukla, R., and A. Sharma (2016).

- In rural India, the average monthly household income and consumption expenditure are ₹21,628 and ₹15,092, respectively.

- For urban India, the former is ₹37,615, and the latter is ₹29,066, respectively.
- In the rural sector, for the bottom 50% household's average monthly income is ₹11,908, while the average monthly consumption expenditure is ₹11,387.
- Likewise, for the urban bottom 50% households, the average monthly earnings are ₹18,901, whereas their average monthly spending is ₹17,995.
- The top 50% households in rural India, on average, have monthly earnings of ₹31,348, while their consumption expenditure is ₹18,867.
- Whereas the urban top 50% strata households, on average, have monthly earnings of ₹56,328 and spend ₹ 33,519 on consumption.

In rural India, the top 50% of households earn 2.6 times more than the bottom 50% of households. However, they incur consumption expenditures that are 1.7 times higher than those of the bottom 50% households. Similarly, for urban India, the top 50% income earners income is three times that of the bottom 50% households. Whereas their consumption expenditure is 1.9 times that of households in the bottom 50%. The bottom half of households from the consumer pyramid in urban India consume and earn 1.6 times more than those in rural India. Likewise, the upper 50% of households in the urban region consume and spend 1.8 times more than rural region.

Additionally, the trendlines for both rural and urban average monthly household consumption and income clearly demonstrate that the divergence between rural and urban consumption demand, as well as income generation, rises as we move up in the consumer pyramid from bottom to top. The decoupling between average monthly household consumer spending and income is clearly visible in the consumer pyramid for both rural and urban areas (Figure 4).

This clearly indicates that households in the bottom stratum, having lower incomes, have a higher marginal propensity to consume (MPC) than households in the upper stratum with higher incomes. This is in consonance with Keynesian theory of psychological law of consumption, which suggests that as income increases, consumption increases, but the increased consumption is less than in proportion to the household's increased income. This implies that it leads to increased savings among households with rising incomes. This also suggests that lower-income households tend to spend a larger share of their income on consumption compared to higher-income households.

Theoretically, the income level of households determines their consumption demand. The potential demand from lower-income households is higher, but it is constrained by their low-income levels. It means that most of the bottom strata households in rural as well as urban India are engaged in informal and less productive economic activities, so they earn less.

There is a need to generate greater employment and high-quality opportunities for the bottom 50% of the population, which will help to increase their income and shift their consumption pattern towards non-food items. This would provide greater incentives for capitalists to incur investment. It will transform exclusive growth into inclusive growth initially by the consumption-led growth, and then transform into production-led growth and inclusive employment-led growth.

The above pattern is also consistent with the central argument by Banerjee and Duflo (2007). Banerjee and Duflo argued that poor households have binding subsistence restrictions, high income volatility, and limited access to formal credit and savings mechanisms, all of which hinder intertemporal consumption smoothing. As a result, lower-income households spend most of their income and may even exceed it through dissaving or informal borrowing.

Higher-income households, on the other hand, after meeting their basic consumption needs, allocate a smaller share of their additional income to spending and a bigger part to savings and asset accumulation, resulting in a decoupling of income and consumption. This pattern suggests that measures to enhance stable earnings and productive employment for the bottom half of households are crucial for boosting consumption-led growth and supporting inclusive economic development.

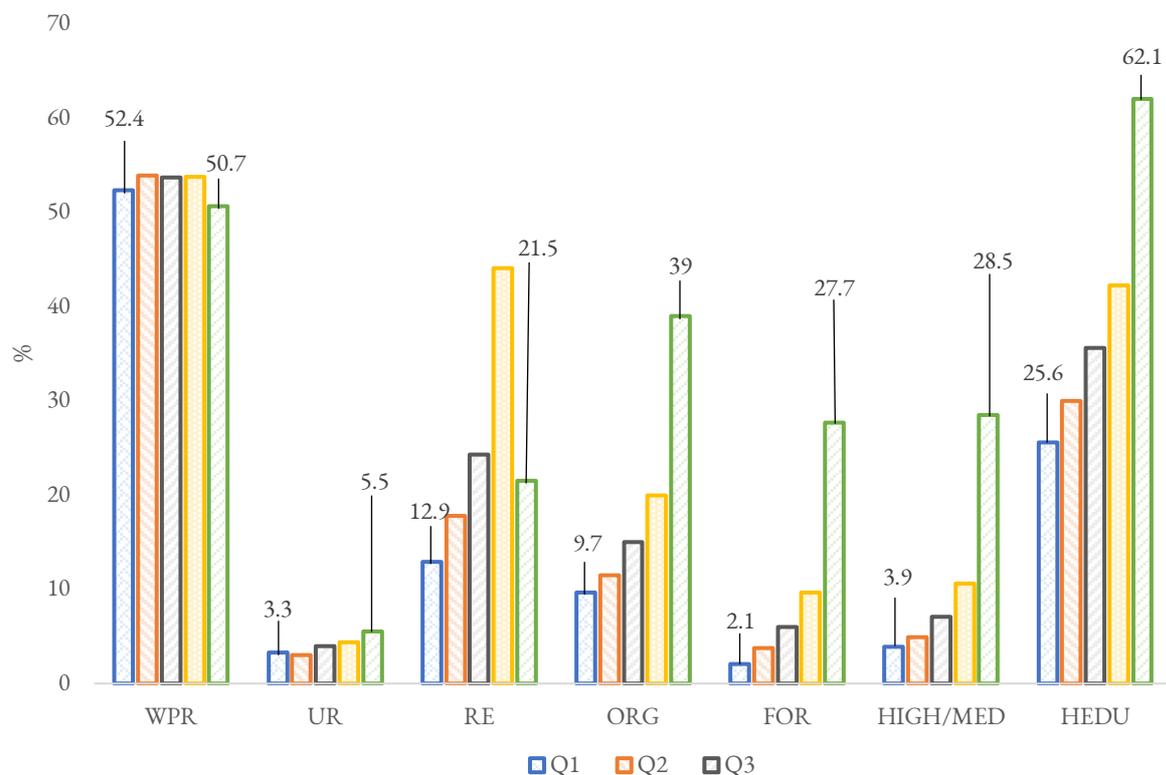
6. Quality of Employment Opportunities (Formal vs Informal)

We have already provided evidence that the potential consumption demand of bottom-strata households is constrained by their low income levels. Why are the bottom strata households earning low incomes? To address these basic question we tried to discuss the characteristic features of India's stratified labour market, like the quality of employment and educational opportunities available through the lens of monthly per capita expenditure quintiles.

We have compiled Figure 5 from the India Employment Report 2024 published by the International Labour Organization (ILO). It clearly demonstrates that the fraction of the population in the lower quintiles of monthly per capita expenditure is marginalized from productive economic activities, higher educational attainment, and high skill-intensive employment opportunities. However, the benefits of higher economic growth tend to favor the highly educated, high-skilled workers, and those engaged in formal and regular employment. The marginalization of the poor section of society from high-paying and formal jobs reinforces income inequality, leading to lower incomes at the bottom strata of the population, and subsequently slackening aggregate demand.

The effective demand determines the quality and quantity of employment opportunities in the labour market. When the fraction of formal employment is higher relative to the upper-tier informal jobs, followed by a higher share of upper-tier informal jobs compared to the lower-tier informal jobs, the job ladder appears broader at the top and narrower at the bottom, indicating a relatively inclusive occupational structure at higher levels. Conversely, when formal jobs are limited, and lower-tier informal employment predominates, the occupational job ladder becomes narrower at the top and widens at the bottom, indicating a stratified labor market with limited upward occupational mobility.

Figure 5: Employment (UPSS, aged 15+) characteristics, by income class (monthly per capita expenditure quintiles), 2022 (%).



Note: Q1: 1st Quintile; Q2: 2nd Quintile; Q3: 3rd Quintile; Q4: 4th Quintile; Q5: 5th Quintile; Q1 (poorest); Q5 (richest). WPR=worker population ratio; UR=unemployment rate; RE=regular employment; ORG=organized sector; FOR=formal employment; HIGH/MED=high- and medium-skill jobs; HEDU=education secondary level and higher; and POP=population. The WPR and UR are rates, while the RE, ORG, FOR, HIGH/MED, HEDU, and POP are shares.

Source: Compiled from India Employment Report 2024, ILO.

In the Indian context, approximately 73% of workers were engaged in lower-tier informal jobs, and the share of formal employment was around 10% as of 2022. Therefore, the job ladder in the Indian labor market is narrower at the top and broader at the bottom, resulting in labor market inequality. The bottom rungs of the job ladder are overcrowded with low-productivity, informal, casual, low-skilled, and low-paying jobs, while the top of the job ladder offers formal, high-skilled, and well-paid jobs with stability and social security (Sen, 2025).

To broaden the market size of the Indian economy, India needs to widen the job ladder at the top rungs and narrow it at the bottom, which would expand the incomes of poor-strata households and ultimately drive up effective demand. In contrast, the ground reality in the job ladder of the Indian labor market, it is perceived that the difference in employment opportunities is narrower at the top and broader at the bottom. This reinforces income disparity, which weakens the potential driver of consumption demand for poor-strata households and leads to a demand-constrained, narrower market size.

Figure 5 shows that the unemployment rate is higher among the richest income groups. These upper strata people can meet their daily needs from their accumulated savings. However, when it comes to the lower strata population, they are severely affected, as it involves their economic struggles and the sustenance of their lives. The worker population ratio (WPR) varies between 50.7% and 53.9% indicating that it is relatively uniform across income quintiles.

However, the accessibility to quality employment is heavily skewed in favour of the top income quintiles. Workers from the lower-income categories have lower educational attainment than those in higher monthly expenditure quintiles. The former are more involved in low-skill, casual, and informal jobs, whereas individuals from the higher expenditure quintiles are engaged more in medium- and high-skill, regular, and formal employment activities of higher quality.

Figure 5 also shows that workers in quintile 3 and quintile 4 (middle-income group) have the largest shares in regular employment, i.e., 24.3% and 44.1%, respectively, followed by quintile 5 (21.5%). Likewise, the organized sector employment increases from 9.7% (Q1) to 39% (Q5), indicating access to the organized sector rises significantly with income. Moreover, formal employment is predominantly concentrated among the richest, signifying the exclusion of the poor from well-paid jobs with social security and benefits. Hardly 2.1% of the poorest (Q1) earn their livelihood from formal employment, while 27.7% the richest (Q5) have access to formal employment.

Only 3.9% of workers in the poorest quintile (Q1) are employed in higher and medium-skilled occupations. In contrast, 28.5% of workers in the richest quintile (Q5) were engaged in higher and medium-skilled employment. It reflects the positive correlation between income and skill intensity, which reinforces income inequality through the channel of intergenerational differences in human capital.

In the context of higher educational attainment, 25.6% of people in the bottom quintiles (Q1) have attained higher education, whereas the top 20% (Q5) have a higher educational attainment of 62.1%. It clearly reveals that educational attainment is uneven across income quintiles. The richest are more than twice as likely to have higher education than the poorest, which fosters their involvement in formal, medium- and high-skilled jobs. In contrast, the poorer income group has lower educational attainment and limited access to formal, regular, and high-skilled employment opportunities, which reinforces the dualism in India's labour market. It shows that the factors of production held by the poor are unskilled and low-skilled labour.

The non-utilization of factors of production held by the poor leads to the exclusion of the bottom strata of the population from the growth process. The exclusive growth process benefited the rich, and they amassed the lion's share of the incremental income generated by the uneven growth. Furthermore, exclusive growth promotes the utilization of factor endowments held by the rich, and these factors produce goods and services that are skilled labour- and capital-intensive in nature. It leads to a rise in the employment and income of the skilled workers, while the poor have been excluded from well-paid employment opportunities.

At the aggregate level, the distribution of incremental income determines the demand for a basket of commodities for consumption and expansion of market size. If the distribution of incremental income goes to high-income households, it increases the gap between rich and poor, leading to a rise in demand for goods and services produced by the rich, who utilize their skilled and capital-intensive factor endowments, and ends up by narrowing market size (Ghose, 2023).

The characteristics of India's stratified labour market, documented in Figure 5, are also in line with network-based and institutional models of Munshi and Rosenzweig (2006, 2016). Munshi and Rosenzweig (2006, 2016) demonstrate that while caste- and network-based insurance mechanisms lower income risk for lower-income households. It also discourages investment in human capital and occupational mobility. This results in labor misallocation and a persistent concentration in low-productive and informal employment. This mechanism helps explain income disparities resulting from lower-income groups' limited access to formal, skill-intensive occupations.

This stratification is further exacerbated by gender-based constraints. Afridi, Dinkelman, and Mahajan (2018) and Afridi, Barooah, and Somanathan (2023) emphasize that limited access to skills, safe workplaces, and socially acceptable jobs disproportionately excludes women from formal employment, particularly in poorer households. These institutional, network, and gender constraints confine the bottom strata to low-quality jobs, reduce income growth and effective demand, and maintain a demand-constrained economic process.

7. Role of Exports and Private Investment in Expansion of the Market Size

Exports and private investment are two key engines of economic growth, providing substantial stimulus to expand domestic aggregate demand and market size. In FY 2025, net exports made a positive contribution of 1.7% to GDP growth, primarily driven by the robust performance of services exports. In the case of India, the external sector has exhibited notable resilience in view of geopolitical tensions, global uncertainties, and tariff wars, which have been evident from a manageable current account deficit at 1.2% of GDP, sustained inflows of remittances, and a stable accumulation of foreign exchange reserves (Economic Survey, 2024-25).

The rapid growth of the Indian economy has been driven by the services sector since the 1991 economic reforms. The services sector is known as the most skill-intensive sector of the Indian economy. At the sub-sectoral level, the exclusive growth of the Indian economy is driven by the high-skill-intensive sectors such as "communication, financial and business services" in the services sector and "machinery and equipment" in the manufacturing sector.

Furthermore, the nature and characteristics of the leading sector (services sector) determine the distribution of incremental income among the factors of production. The rich strata of the population supplied the high-skill-intensive labour for the production process. It increased the income of the rich and super-rich, excluding the poor section of society from the trickle-down

benefits of high economic growth, which primarily affected those with unskilled and low-skilled factor endowments. It resulted in a skewed distribution of income towards the upper-strata households, and eventually the employment opportunities for informal workers deteriorated. The asymmetrical distribution of income in favor of the rich strata generated effective demand produced by the thin layer of the consumer pyramid, i.e., the high-skilled workers. It leads to narrowing down the market size in the Indian economy (Ghose, 2023).

The distinctive feature of sustained growth since 1991 was that the services sector dominated the lion's share of India's gross domestic product (GDP). Conversely, the manufacturing sector was the leading sector in the economies of East and Southeast Asia. China's exports were driven by manufacturing, whereas India experienced growth in service-sector-led exports. It implies that services use high-skilled labour rather than the manufacturing sector (especially unorganized manufacturing), which employs unskilled and low-skilled workers in the production process.

The employment elasticity of the services sector is lower than that of the manufacturing sector. It stalled the process of labor transformation from the low-productive to the high-productive sector in India. Once labour migrates to high-productive employment, it increases their income levels, leading to higher consumption demand, and ultimately, it expands the economy's market size (Kotwal, Ramaswami, and Wadhwa, 2011).

Figure 6 illustrates the trajectory of employment tied to India's aggregate exports across three key sectors—Agriculture, Manufacturing, and Services—over the span of 1995 to 2018. This period corresponds to India's integration with global markets, accelerated globalization, trade liberalization, and investment liberalization. These employment trends, tied to India's aggregate exports, serve as a proxy for understanding how export-led growth policies have translated into inclusive labour-market outcomes across various sectors. It motivates us to pose the very basic question: Do exports promote inclusive and quality employment in India's stratified labour market? As discussed in the previous section, a large share of the labour force in the Indian labour market is engaged in the informal sector.

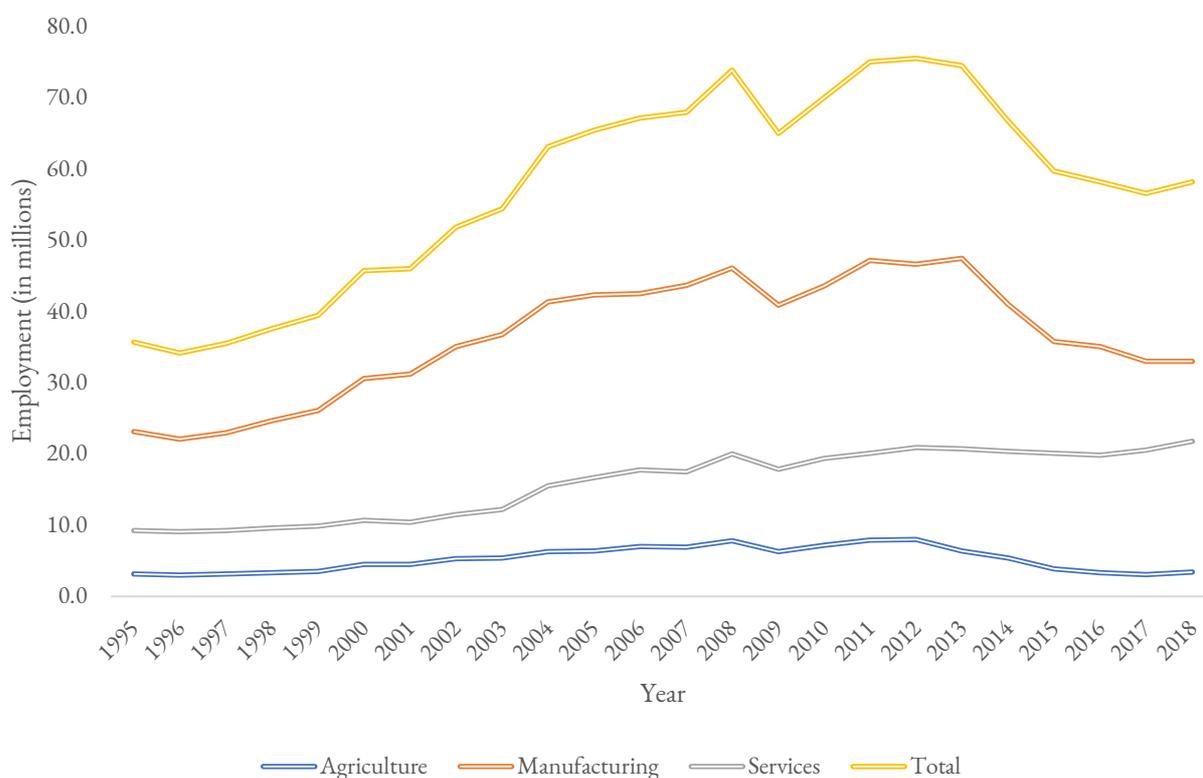
The Organisation for Economic Cooperation and Development - Trade in Employment (OECD-TiM) estimates of employment tied to India's aggregate exports by sector, presented in Figure 6, reveal that Indian exports supported a total of 35.7 million jobs in 1995, which increased to 73.9 million in 2008. The global financial crisis of 2008 had a significant impact on India's exports, resulting in a decline in export-related jobs to 65.1 million, highlighting the country's sensitivity to global shocks. Once export growth picked up, export-linked jobs reached an all-time high of 75.6 million in 2012. After 2012, India's export-tied jobs declined to 58.2 million in 2018 due to a slowdown in exports. It raised an increasing concern about the sustainability of export-led job creation.

At the sectoral level, manufacturing is the main driver of export-supported jobs. The manufacturing sector supported 23.2 million jobs in 1995 and increased to 46.7 million by 2012. Since 2014, export-linked jobs have lost momentum and declined to 33 million, indicating a need to rejuvenate labour-intensive exports such as textiles, leather, and electronics.

On the other hand, the service sector has shown a steady upward trend in generating export-related jobs, reaching 21.8 million in 2018 from 9.3 million in 1995, despite its lower employment elasticity compared to the manufacturing sector. However, India is an agricultural country, and around 44% labour force is engaged in the agricultural sector. The agricultural sector supported approximately 6-8 million jobs in export-related activities between 2004 to 2012. However, the export-related employment declined to 3.4 million in 2018.

Notably, capital-intensive or skill-intensive sectors contributed more to export-linked employment. However, a large fraction of the labour force is concentrated in low-skill-intensive sectors, including agriculture and manufacturing. The labour-intensive sectors have the potential to generate productive and high-quality employment opportunities for surplus workers engaged in the agricultural sector (EXIM, 2023).

Figure 6: Employment Tied to India's Aggregate Exports by Sector, 1995-2018 (in millions)



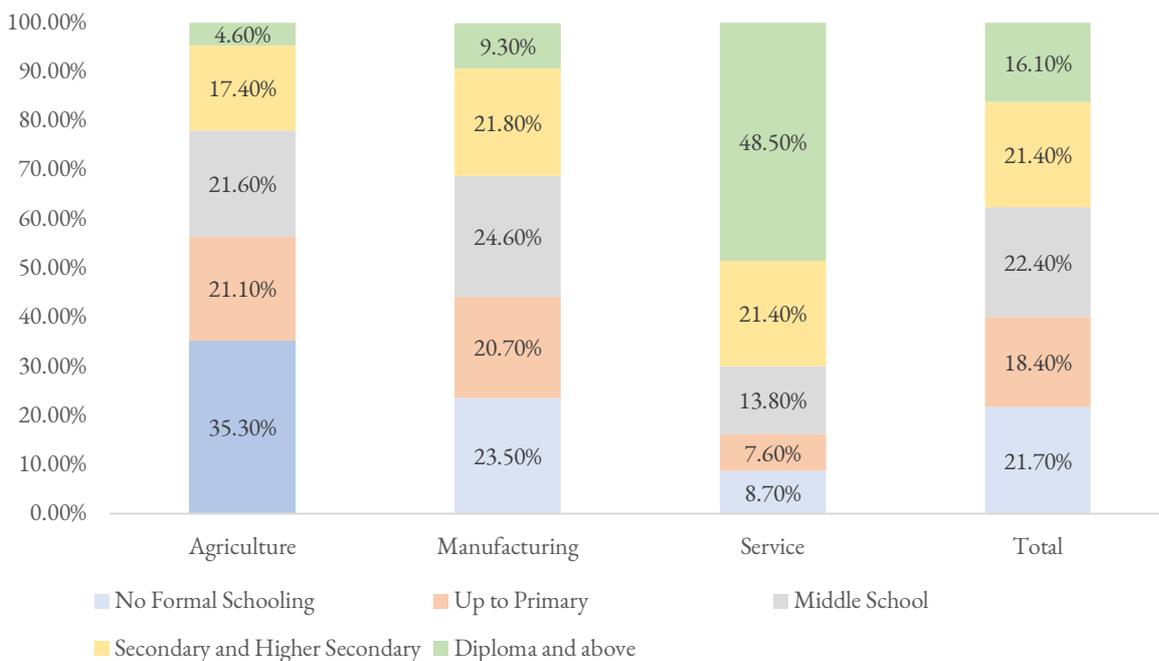
Source: OECD, Trade in Employment (TiM) Database, 2023.

Education is the gateway to higher-paying and higher-tier employment opportunities. Figure 7 presents a snapshot of the distribution of export-related employment by educational attainment across three sectors of the Indian economy for the year 2017-18. It reveals that agricultural exports generate employment mainly for workers with no formal schooling (35.3%), and cumulatively, 78% of the export-linked labour force in agriculture has attained no more than a middle school education.

The manufacturing sector's export-related employment reflects a more balanced educational profile than that of the agricultural and service sectors. The distribution suggests that export-oriented manufacturing employed low- to medium-skilled laborers, with its dependence on labour-intensive sectors such as textiles, apparel, and basic metals. It indicates the scope for skill upgradation in the manufacturing sector.

Finally, export-linked employment in the services sector clearly shows a skill bias towards higher educational attainment. Around 48.5% of export-oriented labour in this sector holds secondary and higher secondary education. It confirms the skill-intensive nature of the export services sector. The stratified labour market favours highly educated and high-skilled workers, reinforces income inequality among the poor-strata population, and leads to a narrow job ladder at the top, ultimately resulting in a demand-constrained market size.

Figure 7: Distribution of Export Related Employment by Educational Attainment across Sector Groups (%), 2017-18



Source: Adopted from EXIM, 2023.

According to Keynes, consumption is the foundation of investment. The unequal income distribution leads to low propensity to consume and a high propensity to save among the higher-income classes. Higher savings are required to support higher investments, which sustain capital accumulation and economic growth at full employment (Elliott, John E., and Barry S. Clark, 1987).

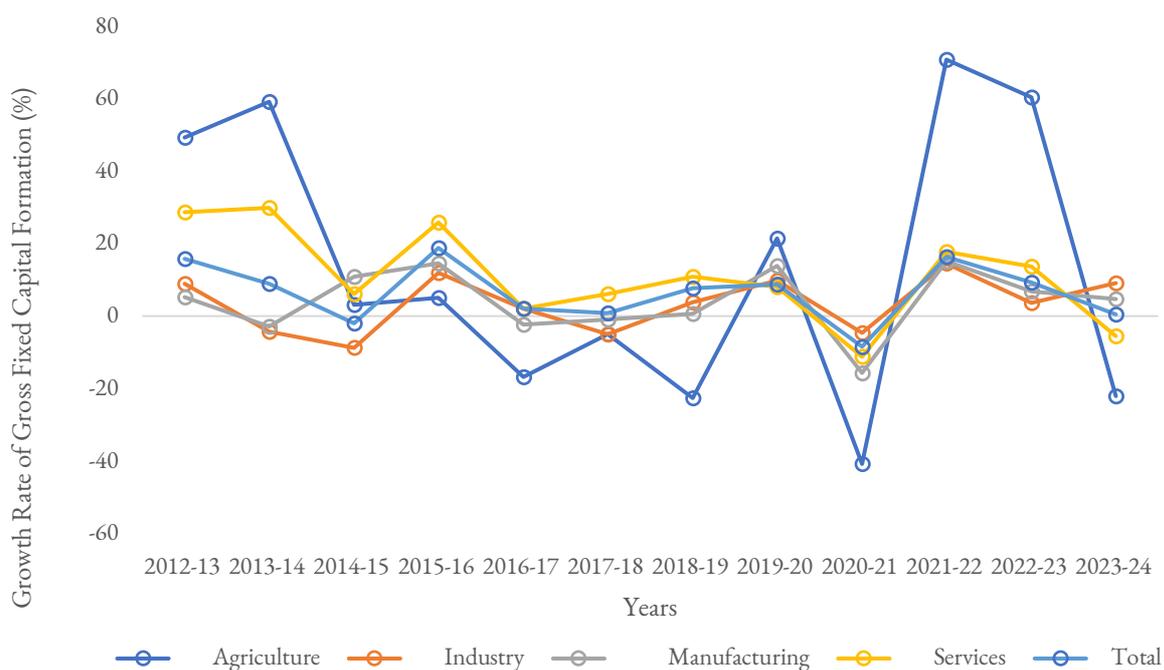
The investment in an economy depends on the demand for goods and services produced by producers. If consumers incur a larger portion of their expenditure on the basket of commodities produced by businesses, then it boosts investment in the economy. Higher investments generate more employment opportunities, which, in turn, lead to higher income levels. This incremental income

creates virtuous cycles, and it can have spillover effects that further drive aggregate demand, resulting in fostering economic growth (Liu and Hanauer, 2011).

According to the NSO survey on private corporate investment expenditure, the corporate investment ecosystem in India is skewed in nature and reflects sharp fluctuations in investor sentiment across sectors. The growth outlook and corporate profitability determine private corporate investment. In India, the private corporate sector is the second-largest investor, after household investment, and has a dominant presence in the formal sector.

Figure 8 presents the gross fixed capital formation of the private sector by economic activity, indicating fluctuations in corporate investment. At the sectoral level, the private investment in the agricultural sector is most volatile. Manufacturing is a major component of the industry sector. The cyclical fluctuations reflect the impact of economic slowdown and COVID-19 disruptions. Services show relatively stable growth, suggesting consistent market demand. The trend of total private investment is synchronized with those of industry, manufacturing, and services, indicating these sectors influence the overall investment pattern through intersectoral linkages.

Figure 8: Gross Fixed Capital Formation of Private Sector by Economic Activity (at 2011-12 prices)
(in %)



Source: Centre for Monitoring Indian Economy (CMIE).

According to the World Investment Report 2025 of the United Nations Conference on Trade and Development (UNCTAD), India attracted a 0.3% (Rank 36th) share of global FDI inflows in 2000, which improved to 2% (Rank 18th) in 2010. Furthermore, in 2020, FDI inflows accelerated to 7.4% of global inflows (rank 7th), but deteriorated to 1.8% (rank 16th) in 2024.

However, as per the Economic Survey 2024-25, at the sectoral level service sector is the major recipient of FDI (19.1%), followed by computer software and hardware (14.1%), trading (9.1%), non-conventional energy (7%), and cement & gypsum products (6.1%). Importantly, the manufacturing sector received about USD 19 billion (23%) of FDI inflows by 2024.

Meanwhile, as per the Economic Survey 2024-25, the share of government capital expenditure has increased and remains strong at 3.1% of GDP. Specifically, the government is incurring capital expenditures on infrastructure development projects such as roads, ports, etc. It means investment is mainly driven by government investment rather than by private investment and foreign direct investment (FDI), which generate employment opportunities for medium to high-skilled workers. It clearly represents the precariousness of economic conditions, which restricts the expansion of the internal market.

In a nutshell, the two key drivers of economic growth — exports and investment — are generating employment and income-generating opportunities asymmetrically for medium- and high-skilled workers. Again, it is increasing the demand for goods and services produced by medium and high-skilled workers. The informal sector provides livelihoods to around 88% of the labour force, which is not supported much by exports and investment. That excludes informal workers from the benefits of higher economic growth process, deteriorating their income and leading to a slowdown in aggregate demand, which results in a contraction of market size.

8. Roadmap for Expansion of Market Size and Sustainable Economic Growth

The major issue is: what should be the desirable roadmap for the expansion of market size and sustainable economic growth for the Indian economy in the perceived situation, as many Indians are also retrenched within the economy and working abroad, and whose demand was also getting exhibited indirectly through remittances (domestic demand) and Indian exports outside. Its answer depends on how the Indian government crafts its macroeconomic policy to ensure the expansion of its internal market size through its budgetary policies by allocating resources under different heads.

In 2023, India surpassed China in terms of its population. The median age of Indians is 28.4 years, which is on the favorable side of the economy as this implies a large percentage of the population is youths. This should bring a demographic dividend. However, according to the International Labour Organization (ILO) Report 2024, 83% of youths in India are unemployed. In the current global situation, the government should capitalize on this window of opportunity by expanding its own investment and incentivizing corporate investment and FDI through attractive policies. This can lead to inclusive employment opportunities and economic growth. This demographic dividend would help the economy to widen its market size and generate waves of domestic consumption demand.

India, with a population of over 1.4 billion, needs to transform this vast population into potential consumers of goods and services produced by industries. That would transform the narrow demand-

constrained market-size economy into a wider market economy. This would have a spillover effect on aggregate demand cycles across sectors and regions, sustaining higher economic growth over the long run without the influence of global business cycle fluctuations. However, the precondition is that the benefits of economic growth should reach broader sections of consumers or society, whose marginal propensity to consume (MPC) is significantly higher than that of the super-rich and high middle-income classes.

Importantly, private final consumption expenditure (PFCE) is closely intertwined with the other components of aggregate demand, accounting for 57% of GDP in 2024-25 (MoSPI, 2025). In this context, we wish to draw from our empirical findings published in an earlier volume in EPW (Bhagat and Mallick, 2023). Authors have empirically observed that PFCE plays a prominent role in generating waves of aggregate demand and finally in unleashing higher economic growth.

The empirical analysis revealed that in the long run, a 1% rise in PFCE leads to an average 0.96% upsurge in India's GDP, holding other components of aggregate demand constant. Therefore, the policy intervention should prioritize raising these aggregate demand components to enhance market size. A rise in consumption demand not only boosts immediate output but also incentivizes private sector investment by improving capacity utilization. This creates a virtuous cycle of rising employment, income, and further consumption.

Furthermore, Bhagat and Mallick (2024) calibrated the empirical model based on the consumer expenditure survey of the National Sample Survey Organisation (NSSO) from 1983 to 2017 and found that poor-strata households have the potential to generate aggregate demand, but they are constrained by their low levels of income while raising their consumption demand. More precisely, in rural India households having an average monthly income below the threshold of ₹2612, when their income increases by ₹100, then they spend ₹91. Likewise, in urban India households having a monthly average income less than the specified limit of ₹3095, when their income increases by ₹100, then they spend ₹83. In the context of pan India, the household average monthly income when lies below the specified limit of ₹3116, if their income rises by ₹100, then consumption demand increases by ₹84.

It is clearly evident that the size of the multiplier depends on households' marginal propensity to consume (MPC) and the distribution of income. Since the MPC of poor households is usually higher than that of rich households, an income distribution in favour of poor households will increase the value of the multiplier and the market size of the economy.

9. Conclusion and Policy Suggestions

Economic growth is importantly shaped by the potential aggregate demand, which is essentially tapped by the capitalist. Further, the market size determines the aggregate demand. If the benefits of higher growth are in favour of the thin layer of the top income groups of the population, then it leads to a narrowing of the market size. To broaden the market size, it is necessary to increase the benefits

of higher growth for the underprivileged section of society by generating inclusive employment opportunities that lead to a more equitable distribution of income in society.

In the context of India, the job ladder is narrower at the top and wider at the bottom. To achieve inclusive and broad-based economic growth, it needs to widen the job ladder at the top and narrow it at the bottom. The generation of quality employment opportunities in favour of the bottom strata of the consumer pyramid works like a two-edged sword. It would expand the job ladder at the top rungs and increase the market size in the economy.

However, export, private investment, and government expenditure are generating incremental income in favour of the upper strata of the consumer pyramid. It leads to decoupling between household income and consumption demand. However, the poor households have a higher marginal propensity to consume (MPC). The incremental income rise in favour of the bottom strata of households increases their consumption expenditure and further widens the market size.

The higher economic growth experiences of the new income-transitioning countries (such as Bangladesh, Vietnam, Indonesia, and Ethiopia), the Asian Tiger Economies (South Korea, Taiwan, Hong Kong, Singapore), and China show that these economies were characterised by high income inequality, pervasive informality, stratified labour market, narrow domestic market size, low productivity, skill-biased growth and widespread poverty.

Initially, these economies relied on export- and investment-led growth strategies, private investment in manufacturing and infrastructure, and deliberate human capital formation. It enabled them to foster structural transformation, enhance productivity and wages, reduce informality, achieve high income growth, and expand the domestic market. These comparative examples of economies suggest that without a deliberate shift toward labour-intensive production, formalisation, and broad-based income growth, India's envisioned target of expanding the GDP to \$30 trillion risks remaining demand-constrained and exclusionary.

Therefore, broad policies should be framed with the aim of intervening through redistribution. The government should encourage capitalists to invest by expanding infrastructure and offering other concessions. However, the government can also tap into the tax revenue potential to divert resources to the poorer sections by providing them with better-quality employment opportunities. The government should undertake an aggressive redistribution program, which is currently not being implemented, as it did during the COVID-19 crisis by providing food and gas subsidies and implementing other welfare measures for the poor.

This may require distribution of Universal Basic Income (UBI) to the poor and extend social security benefits as well as something similar to the old age pensions even for the informal workers to bring them to a common level playing field complemented by increasing tax rates on the super-rich and eliminating all kinds of tax concessions, and low tax rates on them and bridging up tax loopholes without unduly compromising their incentive to work and invest and thereby contribute to economic growth. There must be an optimal way, but the critical question is how to secure it for a developing

economy like India, when we aspire to push it to comparable standards to those of a developed economy.

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