

GENERAL STUDIES III

India's Surplus Labour Trap: UPSC Notes 2027

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Date: 21 October 2026

Platform: Civil Service Gurukul Research Wing

Reading Time: 5 Mins

India's surplus labour trap describes an economic challenge in which workers remain concentrated in low-productivity agriculture, informal employment and underpaid self-employment because sufficient remunerative jobs are not emerging elsewhere. Although headline employment indicators have improved, the quality and productivity of work remain critical concerns. The PLFS Annual Report 2025 recorded that regular wage and salaried workers accounted for 23.6% of employment, while the Economic Survey 2025–26 highlighted agriculture's substantial share of the workforce. This original Civil Service Gurukul article explains disguised unemployment, the Lewis dual-sector model, structural transformation, jobless growth, demographic dividend, labour-market data and comprehensive policy measures, with UPSC Prelims MCQs and a GS-III Mains Model answer.

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INDIAN ECONOMY | UPSC 2027

GS Paper III | Indian Economy

Disguised unemployment, low-productivity agriculture, structural transformation, the Lewis dual-sector model, labour-market evidence and India's demographic dividend explained.

Updated: 21 October 2026 | UPSC Prelims & Mains 2027 | Civil Service Gurukul

Central Issue: India's surplus labour trap refers to a structural economic challenge in which large numbers of workers remain employed in low-productivity agriculture, informal activities and marginal self-employment because adequate remunerative jobs are not available in higher-productivity sectors. A person may therefore be **technically employed but economically underutilised**. This is why employment quantity and employment quality must be examined separately.

42.4%

Agricultural share of workforce, Q2 FY26, CWS

23.6%

Regular wage/salaried workers, 2025, usual status

6.5%

Educated unemployment, 2025, usual status

Data interpretation: These figures come from different periods and source definitions. They describe aspects of the labour market, not a single directly comparable distribution. The unemployment rate alone cannot measure disguised unemployment.

UPSC GS Section / Paper

GS-III: Indian economy, employment, growth, development, inclusive growth and government budgeting.

GS-II: Welfare policies, human-resource development and governance.

GS-I: Population, migration, urbanisation and demographic dividend.

Prelims: Labour-market indicators, unemployment types, economic models and employment policies.

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1. What Is India's Surplus Labour Trap?

Surplus labour exists when the number of workers available for an activity exceeds the amount required for efficient production.

For example, a small family farm may involve six members, even though four could maintain roughly the same output with existing land, capital and technology.

The two additional workers may be disguisedly unemployed. Their labour is being used, but their marginal contribution to production may be very low or effectively zero.

The trap arises when such workers cannot easily shift to higher-productivity activities because adequate opportunities, skills, finance or mobility are missing.

Illustrative Example

A farm produces 100 units with six workers. If four workers can still produce 100 units under the same conditions, the additional two workers may represent disguised unemployment.

This is a textbook illustration, not an estimate of India's actual agricultural workforce.

2. Types of Unemployment: Important UPSC Concepts

Type	Meaning	Example
Open Unemployment	Available and seeking work but not employed.	A jobseeker unable to find work.
Disguised Unemployment	Workers contribute very little additional output.	Excess family workers on a farm.
Seasonal Unemployment	Work unavailable in certain parts of the year.	Season-dependent agricultural labour.
Structural Unemployment	Mismatch between available jobs and skills or location.	Workers lacking skills for expanding industries.
Underemployment	Insufficient working hours or inadequate utilisation of abilities.	Qualified worker in irregular, low-hour work.

Type	Meaning	Example
Frictional Unemployment	Temporary unemployment during job transitions.	Worker changing employers.

3. Lewis Dual-Sector Model Explained

Economist W. Arthur Lewis developed a dual-sector model to explain how development can occur through the movement of labour from traditional, low-productivity activities to a modern, higher-productivity economic sector.

Two Sectors

Traditional Sector

Typically represented by subsistence agriculture, low capital intensity, surplus workers and low labour productivity.

Modern Sector

Typically represented by industrial or other productive enterprises with capital accumulation and higher potential earnings.

Expected Transformation

Surplus Labour in Traditional Agriculture

?

Expansion of Productive Non-Farm Enterprises

?

Workers Move to Better Jobs

?

Higher Labour Productivity and Earnings

?

Greater Savings, Demand and Investment

What Is the Lewis Turning Point?

The Lewis turning point occurs when the surplus labour pool has been sufficiently absorbed that additional workers cannot be attracted without upward pressure on wages.

India's continuing productivity and employment disparities suggest that this transformation remains incomplete.

4. What Does Recent Evidence Show?

The Economic Survey 2025–26 reported that agriculture accounted for 42.4% of employed persons aged 15 and above in Q2 FY26 under the Current Weekly Status measure.

The Annual PLFS 2025 found that 23.6% of workers were in regular wage or salaried employment under usual status.

Unemployment among people with at least secondary education was estimated at 6.5% in 2025 under the same usual-status framework.

Indicator	Figure	Meaning
Agricultural workforce share	42.4%	Q2 FY26, age 15+ CWS
Regular salaried/wage employment	23.6%	2025, usual statu.
Educated unemployment	6.5%	2025, secondary education or above, age 15+, usual status
Monthly unemployment	5.0%	September 2026, age 15+, CWS

The ILO–IHD India Employment Report 2024 also identified the shortage of productive and remunerative non-farm jobs as an important obstacle for educated young workers.

These indicators highlight different dimensions of India's employment challenge, rather than establishing a single measure of surplus labour.

5. Why Does India's Surplus Labour Trap Persist?

Small Agricultural Holdings

Fragmented landholdings and limited productive assets constrain output per agricultural worker.

Insufficient Labour-Intensive Jobs

Manufacturing has not absorbed available workers as extensively as in some earlier industrialising economies.

Skills Mismatch

Qualifications, employable skills and employer requirements may not align.

Informal Employment

Many workers rely on small enterprises, irregular work and low-productivity self-employment.

Regional Development Gaps

Industrial investment, infrastructure and job opportunities remain uneven across states and districts.

Barriers to Mobility

Housing, transport, information gaps and family responsibilities may limit worker movement.

6. Can GDP Grow Without Enough Quality Jobs?

Yes. Output can expand through capital investment, technology, automation and better efficiency without a proportionate increase in employment.

Employment Elasticity of Growth**Employment elasticity =**

Percentage change in employment divided by percentage change in real output.

For illustration, if employment grows by 2% while real output grows by 8%, employment elasticity is 0.25.

Low employment elasticity does not automatically indicate an unhealthy economy, because productivity improvements are valuable.

The policy concern arises when expanding output fails to provide sufficient jobs for those seeking better livelihoods and when workers cannot transition to more productive work.

7. Why Are Women and Young People Especially Important?**Women Workers**

Unpaid household enterprise work, care responsibilities, limited safe transport and unequal access to formal opportunities can reduce women's access to remunerative employment.

Educated Youth

Young workers may struggle to obtain jobs that match their qualifications and career expectations.

The problem includes both open unemployment and employment below a worker's skill potential.

Regional Migration

Migration can improve access to jobs but may also expose workers to housing shortages, informal contracts and limited social protection.

8. Economic and Social Consequences

Low Household Incomes

Low productivity limits earnings and constrains household purchasing power.

Unequal Growth

Higher economic output may not translate into equally broad improvements in living standards.

Weak Domestic Demand

Inadequate labour income may limit consumption and demand for new business investment.

Demographic Risk

A large working-age population may pose an economic challenge when productive job opportunities are scarce.

9. Government Initiatives Relevant to Employment

Initiative	Relevant Objective
Make in India	Strengthen domestic manufacturing and investment.
Production Linked Incentive Schemes	Support production scale and investment in selected sectors.
PMKVY / Skill India	Promote vocational training and employability.
PMEGP	Support microenterprise establishment and self-employment.
MUDRA	Expand access to microenterprise credit.
PM Vishwakarma	Support traditional artisans and craft-based livelihoods.
MGNREGA	Provide a statutory rural wage-employment guarantee.
e-Shram	Facilitate registration and policy support for unorganised workers.

The effectiveness of these interventions should be assessed through sustainable job creation, real earnings, enterprise productivity and long-term outcomes, not merely programme enrolment.

10. Way Forward: Escaping the Surplus Labour Trap

- 1. Expand labour-intensive manufacturing:** Strengthen textiles, apparel, food processing, leather, furniture and other employment-generating value chains.
- 2. Increase MSME productivity:** Improve technology access, formal credit, market linkages and cluster infrastructure.
- 3. Develop rural non-farm employment:** Promote agro-processing, logistics, repair services and rural enterprises.
- 4. Reform skilling:** Connect vocational education with apprenticeships and local employer demand.
- 5. Improve women's employment:** Expand childcare, safe transport, suitable workplaces and equitable opportunities.
- 6. Enable worker mobility:** Strengthen rental housing, portable benefits and reliable labour-market information.
- 7. Improve agricultural productivity:** Support diversification, water efficiency, farmer producer organisations and supply chains.
- 8. Measure job quality:** Track earnings, working hours, employment security, underemployment and labour productivity.

UPSC Mains Analytical Takeaway

India's policy objective should not be to move workers out of agriculture regardless of opportunities elsewhere. It should be to create productive, voluntary and remunerative transitions across the economy.

11. UPSC Prelims 2027: Quick Revision

Concept	Remember
Surplus Labour	Workers available beyond the labour efficiently required.
Disguised Unemployment	Low or zero marginal contribution by additional workers.
Lewis Model	Movement from traditional to modern productive sector.
Lewis Turning Point	Exhaustion of surplus labour begins exerting upward wage pressure.
Structural Transformation	Reallocation of labour and output to higher-productivity sectors.
PLFS	Periodic Labour Force Survey, conducted by NSO under MoSPI.
LFPR	Labour Force Participation Rate.
WPR	Worker Population Ratio.
Employment Elasticity	Employment growth divided by output growth.
Demographic Dividend	Growth potential from favourable working-age population structure.

12. UPSC Prelims Practice MCQs

Question 1

Disguised unemployment is most accurately described as:

- (a) A worker changing jobs
- (b) Additional workers contributing negligible marginal output
- (c) Workers temporarily absent because of illness
- (d) An economy with no unemployment

[View answer](#)

Answer: (b). This captures the standard economic meaning of disguised unemployment.

Question 2

The Lewis dual-sector model emphasises the transfer of labour from:

- (a) Modern industry to subsistence agriculture
- (b) Traditional low-productivity activities to the modern sector
- (c) Public services to foreign trade only
- (d) Urban employment to unpaid household work only

[View answer](#)

Answer: (b).

Question 3

The Periodic Labour Force Survey is conducted under:

- (a) Reserve Bank of India
- (b) Ministry of Statistics and Programme Implementation
- (c) Election Commission
- (d) NITI Aayog alone

[View answer](#)

Answer: (b).

Question 4

If employment grows by 3% and real output grows by 6%, employment elasticity equals:

- (a) 0.5
- (b) 2.0
- (c) 3.0
- (d) 9.0

[View answer](#)

Answer: (a). $3 \div 6 = 0.5$.

Question 5

Consider the following statements:

1. A lower unemployment rate necessarily means there is no underemployment.
2. Structural transformation can increase aggregate productivity.
3. Informal self-employment may coexist with low earnings.

Which statements are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) All three

[View answer](#)

Answer: (c). Statement 1 is incorrect because unemployment and underemployment measure different conditions.

13. UPSC Mains GS-III: Model Answer

Practice Question — 15 Marks

"India's employment challenge is increasingly a problem of productivity and job quality rather than merely open unemployment." Examine the surplus labour trap and suggest measures for sustainable structural transformation.

Suggested word limit: 250 words

Model Answer

Introduction: India's surplus labour trap refers to the concentration of workers in low-productivity agriculture and informal activities due to inadequate remunerative employment elsewhere. The Economic Survey 2025–26 reported agriculture's share at 42.4% of employment in Q2 FY26 under PLFS Current Weekly Status.

Causes: Limited labour-intensive manufacturing, fragmented agricultural holdings, skills mismatch, informality and regional disparities constrain the transfer of workers to higher-productivity sectors.

Consequences: Low marginal productivity depresses earnings and household demand. Disguised unemployment, precarious self-employment and inadequate formal jobs weaken inclusive growth. Educated youth and women face additional barriers.

Way forward: India must expand labour-intensive manufacturing, MSME competitiveness and rural non-farm industries. Demand-linked skilling, apprenticeships, agricultural diversification and stronger worker mobility are essential. Female employment requires safe transport, childcare and flexible opportunities. Policy monitoring should prioritise real wages, productivity and job quality.

Conclusion: India can harness its demographic dividend by transforming surplus labour into a productive workforce through employment-rich and inclusive structural change.

14. Frequently Asked Questions

Q1. What is surplus labour?

Labour available in excess of what is efficiently needed for production.

Q2. What is disguised unemployment?

A situation in which some workers contribute little or no additional output despite being employed.

Q3. Who developed the dual-sector model?

Economist W. Arthur Lewis.

Q4. Why is economic growth alone insufficient?

Growth may arise from capital and productivity improvements without creating enough remunerative jobs.

Q5. Which GS paper covers the topic?

Primarily GS Paper III: Indian Economy, Employment and Inclusive Growth.

15. Conclusion

India's surplus labour trap highlights the gap between having work and having productive, remunerative work.

The central policy priority is to improve productivity, create sustainable non-farm jobs, strengthen skills and ensure that growth translates into better livelihoods.

For UPSC preparation, connect disguised unemployment with the Lewis model, structural transformation, employment elasticity and demographic dividend.

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