

India's Services Sector: Insights from Employment Trends and State-Level Dynamics

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Introduction

India's services sector is central to the country's economic output and employment, engaging nearly 188 million workers in 2023-24, contributing over half of national GDP. Despite its size, the sector exhibits a paradox where it accounts for 30% of total employment but more than 50% of output, indicating a disconnect between growth and labor absorption.

Key Employment Trends

- Services have added around 40 million jobs in the last six years, with a post-COVID employment elasticity of 0.63, second only to construction, demonstrating strong labor absorption capacity.
- Employment is concentrated in traditional sub-sectors like trade, transport, and education, which collectively employ over two-thirds of service workers but are characterized by high informality, low wages, and limited productivity growth.
- Modern sectors like IT, finance, healthcare, and professional services show higher productivity, wage potential, and employment elasticity but employ relatively fewer workers.

Workforce Composition and Conditions

- Urban workers dominate service employment (over 60%), while rural participation remains low (under 20%), especially among rural women who constitute only 10.5% of rural service workers.
- Employment types show a dual structure: 51% are regular wage/salaried workers, the highest among all sectors, but 45% are self-employed, often in vulnerable and informal roles without social security.
- Prime-age workers (30-44 years) are the largest cohort in services, with stable employment concentrated in this group; youth (15-29 years) face barriers entering formal service jobs.
- Education significantly affects access to quality jobs — graduates and postgraduates are more likely to have regular salaried roles, but high underemployment and informality persist even among degree holders.
- Informality remains widespread: 87% of workers lack social security, with self-employed and informal salaried workers forming large shares, especially in trade, transport, and hospitality sub-sectors.

Wage and Gender Disparities

- Earnings inequalities are stark along gender and rural-urban lines: rural women earn less than half of rural men's wages, significantly lower than gender wage gaps in agriculture or manufacturing.

- Urban women have relatively better wages but remain concentrated in lower-paying social service roles like education and healthcare.
- Formal, urban, and skill-intensive segments offer better wages and pathways toward gender parity.

Regional and Sub-sectoral Divergence

- Services sector employment varies widely across states, with Maharashtra, Tamil Nadu, Karnataka, and Telangana leading in modern, high-productivity sectors, while states like Bihar and Madhya Pradesh have concentrations in low-value, traditional services.
- Trade and transport dominate employment in populous states but provide low productivity and limited wage growth.
- Emerging service sectors in finance, IT, healthcare, and professional services show strong growth and wage potential but limited scalability in terms of workforce size.

Policy Recommendations: Four Unlocks

- **Accelerating Formalisation & Job Security**

Enhance labor protections, extend social security to self-employed and gig workers, and formalize household-based services to improve job quality.

- **Bridging Gender & Rural Gaps**

Develop rural service hubs, promote women's participation through targeted skilling (e.g., STEM, healthcare, IT), safe mobility, equal pay enforcement, and leadership opportunities.

- **Leveraging Technology & Global Megatrends**

Invest in AI, digital skills, climate tech, modern apprenticeships, industry-aligned education, and lifelong learning to prepare the workforce for future demands.

- **Fostering Balanced Regional Growth**

Support service sector development in Tier-2/3 cities, incentivize local clusters, invest in digital and physical infrastructure, and reduce migration pressures by expanding opportunities beyond metros.

Conclusion

India's services sector stands at a pivotal point. While it drives economic output and offers large-scale employment, its potential is constrained by informality, gender and spatial divides, and regional disparities. Addressing these through coordinated policy action can transform services from a low-productivity employment safety net into a dynamic engine for inclusive and sustainable growth moving toward the vision of Viksit Bharat 2047.

Read More: [India's Services Sector: Insights from Employment Trends and State-Level Dynamics](#)

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