

Policy Brief: Addressing Rising Graduate Unemployment in India (2011–2023)

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Executive Summary

Graduate unemployment in India has risen steadily from 12% in 2011 to 23.5% in 2023, despite significant public investment in higher education and robust GDP growth. This policy brief highlights the key structural and macroeconomic factors contributing to this paradox of 'jobless growth.' It draws on fixed-effects panel regression and qualitative analysis from state-level data across India. Findings suggest that government expenditure on higher education, labor market informality, and rising services sector employment are positively associated with unemployment, while the industrial sector continues to absorb graduates effectively. The brief concludes with policy recommendations to align education with labor market needs, reduce informality, and stimulate inclusive job creation.

Background

India has one of the largest higher education systems in the world, with Gross Enrolment Ratio (GER) rising from 20.8% in 2011 to 29.4% in 2023. Simultaneously, public spending on higher education rose from 0.72% to 1.33% of GDP. Despite these gains, graduate unemployment has nearly doubled over the same period. This reflects deeper structural issues, including skills mismatches, regional disparities, and informality in the labor market. The failure to translate education expansion into employability undermines India's demographic dividend and creates social and economic risks.



Figure 1: Graduate Unemployment Rate in India, 2011–2023

Key Findings

Based on fixed-effects panel regression (2011–2023), supported by Ridge regularization, the following results emerged:

- Government expenditure on higher education is positively associated with graduate unemployment, suggesting inefficiencies in fund utilization and misalignment with labor market needs.
- GDP growth correlates positively with graduate unemployment, confirming the phenomenon of jobless growth.
- Labor market informality significantly increases graduate unemployment, as educated workers avoid insecure, low-quality jobs.
- Services sector expansion has not improved graduate employment outcomes, as much of the growth is in informal or low-skilled roles.
- Industrial sector employment is negatively correlated with unemployment, showing its capacity to absorb graduates.
- GER and NSDP per capita are statistically insignificant, indicating that access to education and income levels alone do not guarantee employability.

Policy Recommendations

1. Align Higher Education with Labor Market Needs: Develop stronger industry-academia linkages, modernize curricula, and expand vocational and digital training programs.
2. Promote Industrial Growth for Job Absorption: Support manufacturing and industrial reforms to create formal graduate-level jobs, building on 'Make in India' initiatives.
3. Formalize the Labor Market: Implement targeted policies to reduce informality, strengthen social security nets, and encourage firms to transition into formal employment structures.
4. Enhance Quality of Education: Focus on teaching quality, infrastructure, and accreditation to ensure that education spending translates into employable graduates.
5. Address Regional Disparities: Support lagging states with targeted skill development and investment in graduate-relevant industries.

Conclusion

Graduate unemployment in India is not merely an outcome of macroeconomic fluctuations, but a structural issue rooted in weak education-to-employment linkages and a highly informal labor market. Reforms that focus on industrial job creation, skill development, and labor formalization are essential to ensure that India's growing pool of graduates can contribute meaningfully to economic growth. By addressing inefficiencies in public expenditure and strengthening market alignment, policymakers can transform the challenge of graduate unemployment into an opportunity for inclusive development.

References

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