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India's Jobless Growth Crisis: Bridging the gap between Education, Employment, and Economic Policy

Abstract

India's economy is growing rapidly, but there aren't enough quality jobs for its youth. This has created a significant job crisis, that stems from: the education system focusing more on just getting degrees rather than teaching practical skills, labor laws that have made job security less common, and economic growth that doesn't proportionally lead to more formal jobs. To overcome these challenges, this essay analyzes those root causes and proposes comprehensive reforms, including overhauling education to teach skills that industries demand, creating fairer labor laws to protect workers, and making policies that support job growth alongside new technology. Without these kinds of changes, India risks losing its "demographic dividend"—the advantage of having a young population. But with the right reforms, the country can turn its workforce into an engine of sustainable growth.

Introduction

India is at a tipping point. While its economy is one of the world's fastest-growing, it hasn't provided enough quality jobs for its enormous youth population. This gap has evolved to a significant state where it could derail the benefits of India's demographic change. To demonstrate this fact, the statistics behind it tell a rough story: with annual GDP growth rates of 6-7% since

2000, the youth unemployment rates have hit three times the national average, and merely 18.43% of engineers possess industry-relevant skills (Afroz, 76; George & Baskar, 149). This crisis is based on three interrelated failures: an education system that certifies students for phantom jobs, labor policies that prioritize flexibility over security, and economic growth that has increasingly been "jobless" (Tejani, 846). The impact is pretty clear: millions of young Indians that are either unemployed, underemployed in the informal sector, or stuck in jobs that do not utilize their education. Without quick action in the right direction, which aligns education with labor market needs, reduces the flexibilization of the labor market, and ensures the widespread adoption of artificial intelligence, India risks turning its much-hyped "youth bulge" into a force for social unrest. This essay examines the surge of India's jobs crisis, by analyzing the root causes of the decline in employment, the unstable labor-market conditions for new-entrants, and provides possible actionable recommendations to convert human capital into sustainable growth.

Economic Expansion Without Employment

Although India boasts generous economic growth for their country, it has not translated into sufficient job creation, especially for their large youth demographic. Dr Sheba Tejani, an economist with a PhD from the New School for Social Research, utilized Kaldor-Verdoorn(K-V) coefficients over a statistical analysis of the NSSO(thick employment surveys) to determine that India's growth has become more output-productive but less employment-intensive, driven by a shift toward high-productivity service sectors and industry productivity gains without proportional hiring increases(Tejani, 861). This phenomenon primarily plagued the 2000-2010's Indian economy because of the agriculture sector's low relative growth and its large weight in employment(Tejani, 868). Although employment densities have migrated between sectors over

time, the primary issue resides in India's large informal sector, because it replicates the agricultural sector's main defects over time: a low relative growth and contains about "93% of employees"(Afroz,74). As a result, this issue will persist unless there is an adequate transfer of employment from informal to formal. Moreover, India's overwhelming reliance on informal employment creates additional structural barriers to both stable employment and skill development, severely limiting the country's economic potential. As Afroz(2018) demonstrates through NSSO data, only 6.9% of Indian workers hold formal sector jobs, with a meager 2.2% employed in private organized sector positions, while the vast majority remain trapped in low-productivity, unstable work arrangements(Afroz,74). This staggering employment dynamic is further contributed to by India's skill crisis, with Afroz's research showing that just 1/3 of job seekers possess employer-ready skills - gaps exacerbated by outdated education systems and training infrastructure that particularly fails women and rural workers(Afroz,76). So, not only do college educated students suffer, but when people from lower socioeconomic backgrounds attempt to upskill themselves through college, they are unable to meet industry standards. Therefore, their primary options for income being contract work and or falling back into the informal sector. While programs like the National Skill Development Policy(2015) aimed to address these challenges, Afroz's analysis reveals their limited impact on the informal sector workforce that constitutes the overwhelming majority of Indian labor(Afroz,76). Without comprehensive reforms to formalize employment while dramatically improving skill development systems, India risks permanently undermining its demographic dividend, leaving millions trapped in low-productivity informality and the economy unable to achieve its full potential.

Education System Failures

India's higher education system has become a paradox—producing large numbers of graduating students at an all-time high but not equipping them for the realities of the jobs market. George & Baskar's (2024) regression analysis paints a bleak picture: 30% of Indian graduates are jobless, three times the national level (George & Baskar, 138). Even top institutions such as the IITs, long regarded as prestigious-must hire universities, have seen placement rates plummet from 90% before 2010 to just 50-70% in 2022. The authors additionally established a direct correlation: for every 1% rise in engineering graduates, placement rates in IITs fall by 0.75% (Baskar, 141). These implications on the graduate population are terrifying as they are burdened with education debt but trapped in underemployment or shoved into the informal sector, their potential lost due to education planning failures at the system level. But why are employers still “reasonably satisfied with the fresh graduates” (Varghese, 2022)? Varghese, N. C & Mona Khare’s empirical analysis of the National Sample Survey (NSS) and Per Labour-Force Survey (PLFS), concluded that along with the average employer’s satisfaction, they also believe that function and industry specific skills of fresh grads will be “taken care of by [further participation in] the industry sector” (Varghese, 2022). This contradiction unearths a deeper issue—degree inflation. The IT industry is a prime-example—while grinding out hundreds of thousands of engineers each year, barely 18.43% are found to be equipped with minimum industry competence (Afroz, 76). Therefore, while employers may report satisfaction with graduate’s basic qualifications, it doesn’t reflect the sheer volume of degrees which dilute the value of a diploma, essentially creating a market where credentials no longer mean competence. This is further exacerbated when formal education often fails to encode critical soft skills and deep technical expertise that the industry actually requires. As, there exists a skill gap where graduates lack “employer-desired competencies—especially conceptual, personal, and managerial skills” (Varghese, 2022). Therefore,

the Indian higher education system is trapped in a self-perpetuating cycle: mass-producing non-unique graduates with the same bare minimum abilities, rather than preparing them for labor market needs, leaving both employers and employees in a supply and demand deficit. This systemic failure not only squanders human capital, but further pushes India's demographic advantage into a pit of disasters, as many are forced into low-wage gig work or into the informal sector while the economy faces a shortage of genuinely skilled professionals.

Labor Market Flexibilization and Automation Policy

For those fortunate enough to secure employment, India's labor market structure presents fresh challenges. The 2020 labor reforms, as debated by Mishra & Dwivedi (2024), were established for the purpose of modernization and facilitating business, but have contributed to the erosion of job security. For example, standing orders, used to secure and provide stability by regulating employment conditions, have been brutally undermined by raising the threshold for worker protections from firms with 100+ employees to only protecting workers from firms with 300+ employees. This policy has normalized unstable employment, replacing permanent roles with fixed term contracts, which are now drastically common particularly among youth who represent 83% of India's unemployed (Dhingra & Kondirolli, 583). This "flexibilization" creates a disturbing incentive for employers, where they enjoy near-total ability to hire and fire at will, but especially fresh grads and young workers are denied stability for learning skills or advancing careers. The dominance of the informal sector (93% of employment, Afroz 76) further aggravates these vulnerabilities, as the majority of workers lack contracts, social security, or access to formalization. Without any interventions against these policies, India's youth will remain trapped in a paradox: overeducated for the informal sector, yet underqualified for the formal jobs that are on the track to vanishing. A particular example of the abuse of contract-work

remains in export-oriented industries, which show a dazzling 1.6x-2.1x the regular hiring rates(Gangwani 2024). However, 79% of these so-called “regular” jobs lack written contracts, rendering them functionally equivalent to the insecure positions that Dhingra predicts with the flexibilization phenomenon(Gangwani 2024). The consequences of these labor reforms that are charaded as job facilitators is a generational trap. India’s youth are not only bullied out of formal employment, but also pushed onto contract “formal” employment that is just as precarious as informal employment.

If not to make the situation worse, new technologies like AI and automation threaten to further disrupt the formal job economy. Hammer & Karmakar (2021) criticize India's AI policy by pointing out a fundamental mismatch: although there is rapid automation deployment in high capital sectors like finance and IT, the informal workers(the rural migrants, women, and low-skilled laborers) are not yet covered under such upskilling schemes(Hammer & Karmakar, 1335). This risks creating a divisive membrane, where tech elites and upper-middle class can reap productivity gains but most others suffer rising job insecurity. Primarily because the productivity for their sector has increased without a need to increase employees. To further drive the point, while AI can generate niche jobs in software development, it also replaces traditional work in manufacturing and clerical work, industries that previously absorbed semi-skilled labor, but now can reduce their costs by enabling their skilled workers using AI. So, there needs to be some policy intervention, or industry re-focus where AI’s boost in productivity doesn’t bar new entrants from the field. Rather, there needs to be an incentive to hire more employees for a company, whether it be subsidies or tax cuts.

Bridging the Skills Gap & Policy Solutions

To escape this generational trap, India needs to rethink its education and work policies simultaneously. Currently, the underemployment crisis is the result of a perfect storm of failures: an education system that prioritizes credentials over producing competent workers, labor policies that incentivize precarious work, and technological disruption that disproportionately benefits capital over labor. Starting off with education, the skill mismatch is very prevalent, where even though 72% of Indian employers prioritize soft skills like communication, problem-solving, and teamwork(Varghese Khare, 2022), the education system remains glued to outdated systems that prioritize rote memorization and theoretical knowledge with limited practical expertise. This discrepancy is further demonstrated in engineering education, especially in tier-2 and tier-3 colleges, where the curriculum focuses on obsolete specializations rather than emerging field technologies and useful work experiences in those fields. However, these educational deficits can be resolved. The Kochi service-learning model(George et al.) demonstrates how experiential education can bridge skill gaps. By engaging engineering students in real-world projects like designing municipal wastewater treatment systems, the program achieved an 89% employment rate(George et al, 267). This success demonstrates three main lessons: industry collaboration ensures curriculum remains relevant, hands-on learning builds both technical and soft skills, and public-private partnerships can scale effective models nationwide while resolving non-addressed issues. Therefore, a wide-spread increase in similar partnerships for local efforts in universities would not only benefit the new graduates thrust into the economy, but also the college's ratings in terms of graduate employability.

However, education reform alone cannot solve India's employment crisis. As reforming the labor market for new entrants is more than equally significant. Gupta & Varma's (2024) research reveals that every 1% increase in GSDP drives a 7.69% rise in formal employment, suggesting target investments in high-growth sectors (renewables, electronics, et.c) could significantly boost job creation (Gupta, 160). But as Dwedi mentioned, these measures also need to be paired with strong worker protections to prevent the exploitation seen under the current "flexibilization" policies. Three possible approaches could be taken to address these issues: Expanding the National Skill Development Mission to include mandatory paid apprenticeships with contract guarantees, reversing the 2020 labor reforms by lowering the protection threshold back to 100+ employees, and creating incentives for firms to convert contract positions to permanent roles. Promoting these approaches concurrently would handle the main concerns of the current job market, but they do not provide complete coverage over time, as labor policies are government defined, meaning that flexibilization is a non-constant threat to these solutions.

Additionally, the automation challenge requires rather innovative solutions. Especially solutions that embrace technological change and ensure that the benefits are broadly shared, such as tax incentives for companies that pair automation with workforce expansion, and sector specific upskilling programs focused on AI-augmented jobs. Without this comprehensive approach, which could provide a switch in the positive direction for reforms, India risks creating a permanently split labor market that crushes the backs of youth.

Conclusion

India's youth job crisis is not predetermined but the outcome of policy choices—prioritizing too much GDP growth and not enough quality employment, prioritizing theoretical education over required hands-on experience/unique job qualifications, and employer flexibility over worker security. The facts unmistakably point to the truth that without structural reforms, the demographic dividend will become a demographic time bomb. Solutions are within reach; reform of curriculum with education tied to industry needs, enactment of labor protections, and investments properly driven into employment generating industries. However, what is needed now is the political will to implement them at scale before the next generation is lost to underemployment and informality.

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