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Unemployment and Labor Market Dynamics in India: Issues, Comparisons, and Strategies

India is a crucial player in international relations, developing and growing at a rapid pace. With a population that has already surpassed China, India is now the largest country in the world. Its economy is also expanding significantly, with an 8.4% growth in the fourth quarter of 2023 (Krishnan). It is predicted that in a few years, India will become the third-largest economy in the world (Laker). This makes the study of the Indian economy an urgent need. With rapid development and scaling, however, come additional issues and challenges. One of the main issues for India is unemployment. In an April 2024 Reuters poll, 15 out of 26 economists who responded to an additional question identified unemployment as the biggest challenge for the government after the national election (Purohit). This paper argues that unemployment, driven by various economic and social factors, poses a significant challenge to India's effective and equitable development and advocates for addressing these issues through proposed governmental programs.

India's labor market is currently facing diverse challenges that hinder its effective development. According to the Centre for Monitoring the Indian Economy, the unemployment rate was 7.6% in March 2024 (Purohit). What is even worse in the case of India is youth unemployment. As per the India Employment Report 2024, nearly 83% of the jobless population

are youths, with youth unemployment rising dramatically over the past decades, reaching nearly 45% for youths aged 20 to 24 in the last quarter of 2023 (Appendix A). Also, the wages earned by employed youth are lower than those earned by adults (Dev and Venkatanarayana 27). As India's population is rapidly increasing with an increasing share of youth in demographics, the challenge of youth unemployment poses a substantial threat to societal balance and economic stability. Finally, the persistence of underemployment and informal employment adds to the complexity of the labor market. Around 90 percent of workers are informally employed, a phenomenon where workers are getting paid "under the table" and not paying taxes to the authorities (Srivastava xx). Also, self-employment, including unpaid household work and small businesses, remains prevalent, constituting about half of total employment.

A significant factor contributing to unemployment is the slow workforce transition from agriculture to non-farm sectors (Srivastava 20). As the Indian economy is developing, its distribution by sectors also changes. As is common for most developing economies, the share of the agricultural sector decreases while that of service increases. This creates two issues for the Indian labor market. First of all, the services sector is much less labor-intensive compared to manufacturing or farming (Krishnan). This means that as the economy transits, there are fewer and fewer jobs for the ever-growing population, which is a key cause of unemployment. Another issue is that this shift in sectors also requires a shift in workers' skills. In addition, digitalization and the introduction of new technologies are reshaping industrial employment, increasing capital intensity, and also shifting the skills composition of jobs. The mismatch between the skills of a workforce and available job opportunities is stark. At the same time, due to the transitioning phase of the Indian economy, there are still more low-skilled jobs in demand in the market. This makes it harder for college graduates, who typically seek white-collar opportunities, to find

employment. Therefore, the unemployment rate for graduates is even higher. In 2018, the unemployment rate was 7.1% among illiterate youth, whereas it stood at 35.8% among graduates (Appendix B). The limited opportunities for educated Indians contribute to brain drain and eventual migration.

A country that serves as a strong option for comparison with India is Mexico. Despite all the similarities between these countries, the difference in the level of unemployment is drastic. While India's unemployment rate is 7.6%, Mexico's is only 2.8% (International Labour Organization). The difference is almost triple. Looking at the discussed issues that may cause such high unemployment in India, it is easy to notice that the same issues do not prevent Mexico from maintaining low unemployment statistics. While it was mentioned that India's economic transition and increase in the service sector imply a potential decrease in job availability, Mexico's service sector constitutes 58% of the economy, which is 10% more than in India, yet this does not prevent Mexico from having high employment rates. Additionally, similar to India, Mexico's informal sector comprises a significant portion of the workforce, accounting for about 60% (De la Parra and Bujanda 2). However, unlike in India, this does not seem to negatively impact Mexico's unemployment rate. Despite the high level of informality in employment, Mexico manages to maintain a low unemployment rate, highlighting a key difference in how the labor markets of these two countries operate. These arguments imply that the potential drawbacks discussed earlier can be addressed, as the same issues do not have such a high impact on Mexico's labor sector. One reason for this could be governmental programs aimed at addressing potential issues. For instance, Mexico implemented the Employment Support Programme (Programa de Apoyo al Empleo), which "serves people 16 years of age or older, who need to acquire or reconvert their qualification or job skills to facilitate their placement in a job."

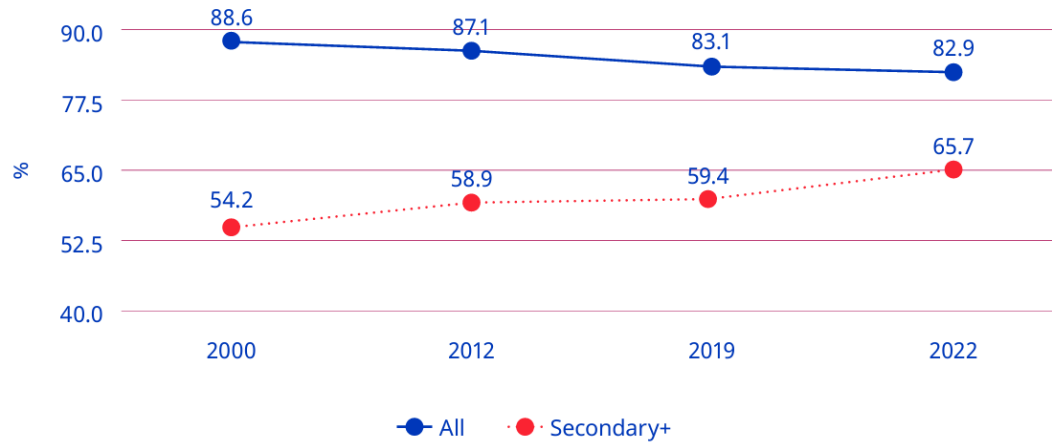
Additionally, Mexico also has the "Jóvenes Construyendo el Futuro" or "Youth Building the Future" program, which involves providing Mexican youth with training, internship, and job opportunities.

As youth unemployment is the biggest issue, the Indian government should implement something similar to the Mexican Jóvenes Construyendo el Futuro program, where Indian youth will be able to gain all of the needed skills and experience for jobs, as well as some internship opportunities. As sector transition is a major problem, the Indian government and employers should implement retraining programs, where workers will be able to learn new skills and transition to different, more modern, and demanding positions. Besides introducing extra programs, the development of formal public education is very important. "To continue competitive advantage and ensure a continuous supply of quality manpower," India needs large investments in public higher institutions (Dev and Venkatanarayana 29). This should happen together with the development of a new, more relevant curriculum, as well as the creation of better conditions for attracting qualified faculty. To prevent unemployment among educated youth and consequent brain drain, India should promote job creation in sectors with high growth potential, such as technology, which will be an appealing option for fresh graduates. Lastly, As informal underemployment is a significant challenge, the Indian government should consider the following measures. First, they might try implementing regulations on minimum wages to ensure that workers in informal sectors receive fair compensation for their work, which will decrease the level of underemployment. Secondly, enforcing regulations on formal employment, including measures to encourage businesses will formalize their workforce and provide benefits such as social security and healthcare. Finally, Introducing tax benefits for employers who transition informal workers into formal employment will incentivize businesses to contribute to the formal

economy. These solutions could help stabilize India's workforce and provide Indian workers with the necessary resources.

Appendix A

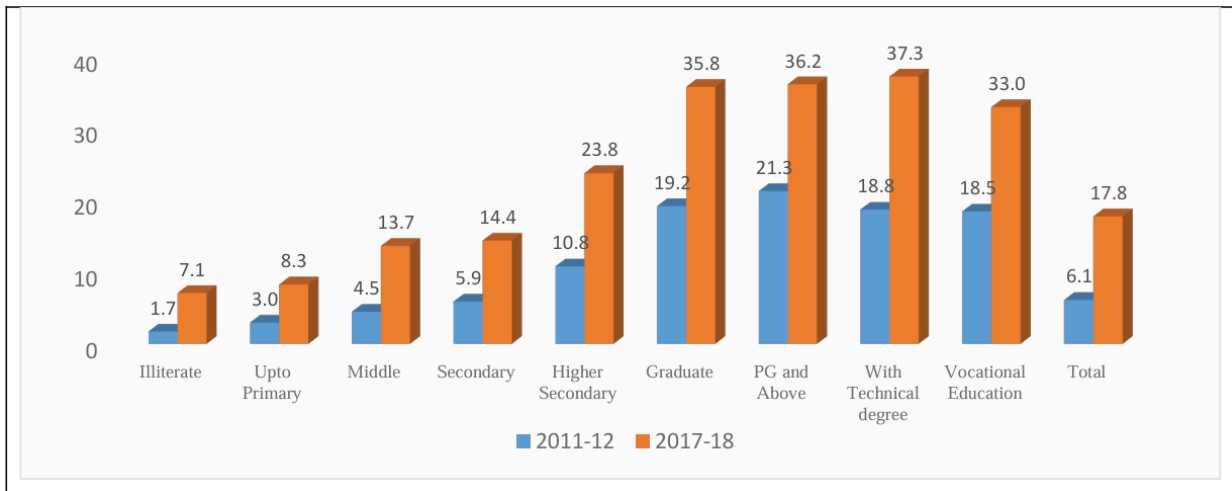
Share of unemployed educated youths (secondary or higher) in total unemployed persons (%)



Source: Srivastava, Ravi, et al. India Employment Report 2024. International Labour Organization, 2024. p.90

Appendix B

Youth unemployment rates by level of education in India, 2012-2018 (%)



Source: Mehrotra, Santosh and Parida, Jajati. India's Employment Crisis: Rising Education Levels and Falling Non-agricultural Job Growth. 2019. p.9.

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