



INDIA'S EMPLOYMENT PARADOX

STRUCTURAL SHIFTS, INFORMALITY
& THE FUTURE OF JOBS

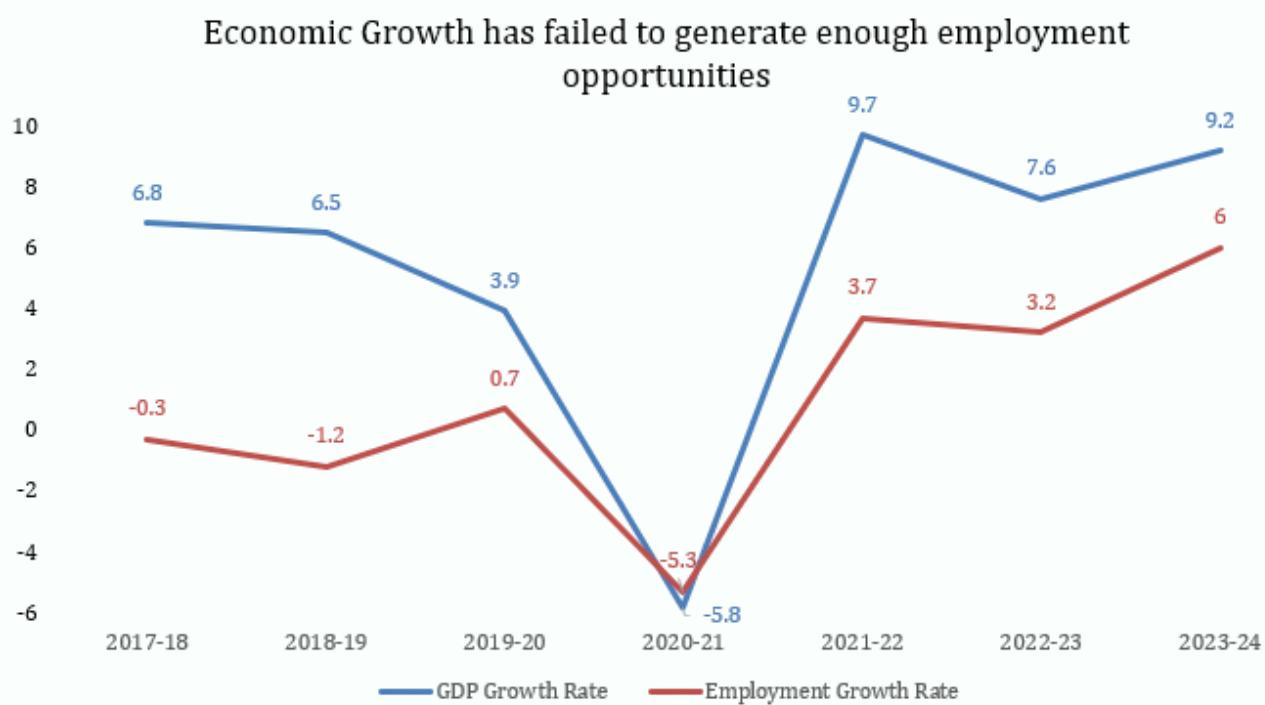
India's Employment Paradox

Why High GDP Growth Isn't Translating into Proportional Job Creation

Growth in an economy is often equated with rising employment. A growing economy translates into better opportunities for individuals to earn a living. But is it possible that in a growing economy, jobs become stagnant. This is what is called as '**Jobless Growth**'.

The concept of jobless growth refers to a situation where economic growth does not lead to job creation. This phenomenon can occur when a country emerges from a recession, and despite an expanding economy, unemployment remains the same or worsens.

What is the data telling us?



The graph clearly shows that while India's GDP has grown strongly in recent years, rebounding to over 9% in 2021-22 after the pandemic and remaining above 7% thereafter, employment growth has not kept pace. Although there is a visible post-pandemic recovery in employment (rising from -5.3% in 2020-21 to 3.7% in 2021-22 and 6% in 2023-24), overall employment growth remains far lower and far more volatile compared to GDP growth, with multiple years hovering around 1% or turning negative.

This persistent gap reflects a structural decline in **employment elasticity**, which measures how much employment increases for every 1% rise in GDP. India's elasticity has fallen from about 1 in the 1970s to well below 0.1 today, indicating that strong economic growth now generates very few additional jobs. As long as GDP growth continues to significantly outpace employment growth even during recovery years, the challenge of jobless growth will endure, limiting India's ability to fully harness its demographic advantage.

What factors are leading to Jobless Growth?

1. Weak Manufacturing Transformation and the ‘Missing Middle’

India’s structural transformation from agriculture to manufacturing has been only partially successful. Manufacturing jobs have dropped sharply from **51 million workers in 2016–17 to under 30 million in 2024** reflecting its **capital-intensive** rather than labour-intensive nature. Most new jobs are coming from tiny or informal businesses, while mid-sized, job-rich firms, the so-called “**missing middle**” remain scarce because of high compliance burdens, limited access to finance, and scattered supply chains. Unless India strengthens its MSMEs and builds a supportive ecosystem for mid-sized manufacturing, the country will struggle to absorb the growing number of workers moving out of agriculture.

2. Services-Led Growth with Limited Employment Elasticity

India’s economic expansion has been heavily driven by **high-skill, low-employment** sectors like IT, finance, telecom and advanced manufacturing. While these sectors add strongly to the economy, they don’t generate many direct jobs. IT services, for example, contribute over 7% to GDP but employ only about 4.5–5 million people directly. The recent focus on **capital-heavy** industries like semiconductors and electronics has widened this gap even more. Because the economy moved quickly from agriculture to services without building a strong manufacturing base, it has struggled to create large numbers of jobs for semi-skilled and low-skilled workers.

3. Slow Growth of Labour-Intensive Exports and Informal Services Dependence

Unlike the East Asian countries that grew rapidly through **export-driven, low-skill manufacturing**, India hasn’t been able to spark a similar export boom in sectors like apparel, footwear or light engineering goods. Instead, most of the jobs in the service sector are informal and clustered in low-paying segments such as small retail, logistics, domestic work and gig-based services. These jobs often come with little social protection and limited scope for productivity gains, which has widened the gap between **economic growth and the creation of good-quality jobs**. To close this gap, India needs policies that promote **labour-intensive exports** and incentivise formalization of service-sector employment.

4. Technological Displacement and Skill Deficits

The rapid adoption of **automation, artificial intelligence (AI) and robotics** boosted productivity, but it has also reduced the need for routine, low-skill jobs. These technologies make businesses more efficient and globally competitive, but they also risk **polarising the job market** with high-skilled workers professionals benefitting the most while many mid- and low-skilled workers being pushed out. Meanwhile, India’s skilling system, though improving through **PMKVY 4.0** and **Skill India Mission 2.0** still struggles to produce workers who are fully job-ready for new and emerging industries. As a result, the gap between fast-moving technology and the country’s human-capital readiness continues to grow, perpetuating jobless growth.

5. Structural, Social, and Global Pressures on Employment

Job creation in India continues to be constrained by **infrastructure bottlenecks, regulatory complexity and gender disparities**. Many women are leaving paid work because of childcare duties and the lack of safe, flexible workplaces, keeping **female labour force participation** among the lowest in the world despite recent improvements. At the same time, **global challenges** from protectionist trade policies to layoffs in the tech industry have revealed how dependent India is on unstable export and service markets. With nearly 12 million young people entering the workforce every year, the shortage of quality jobs risks turning the **demographic dividend into a demographic burden**, posing threats to both economic stability and social cohesion.

Why should we be worried?

1. The Vanishing Demographic Dividend

India's youth bulge with almost **half the country's population being under 30** has long been seen as its biggest economic asset. But this advantage is **shrinking**, as India is expected to start ageing by the mid-2030s. Without sufficient meaningful jobs, millions of young people could lose out on their most productive years. What makes this even more worrying is that unemployment among youth aged 20–24 is several times higher than the national average, reflecting a deep disconnect between education, skills, and employability.

2. Rising Risk of Social and Economic Discontent

Persistent joblessness among educated youth can easily spill over into **social unrest and frustration**. The sporadic protests around schemes such as **Agnipath (2022)** and the recurring debates on recruitment freezes in public employment highlight the growing anxiety regarding job scarcity in India. As aspirations rise faster than employment opportunities reflected in number of unemployed youths, the danger of **economic exclusion** turning into **social disillusionment** becomes more real, especially in tier 2,3,4 towns and rural India.

3. Skills–Industry Mismatch Threatening Growth

India's long-term growth and its ability to attract global investors increasingly depend on having a workforce that is **future-ready, industry-aligned workforce**. Yet many sectors continue to face a clear gap between the skills workers have and the skills employers are looking for. Fields like **electronics manufacturing, automotive components, AI and data services, logistics, green energy and semiconductors** all report shortages of workers with the technical, digital, and problem-solving abilities required to run modern production systems. Although initiatives such as **Skill India Mission 2.0, PMKVY 4.0 and Skill India Digital** have expanded training opportunities, the speed and quality of skilling still do not meet industry expectations because of outdated course material, inconsistent training standards, and limited involvement from employers. As global value chains shift and investors seek countries with large pools of job-ready talent, India risks losing ground to nations that have heavily invested in vocational training, apprenticeships, and lifelong learning. Closing this gap will require a stronger collaboration between industry and academia, training programs based on the real market requirements and large-scale upskilling so that India's workforce can keep pace with the rapid technological and industrial changes.

4. Declining Productivity and Labour Force Participation

Jobless growth has broader macroeconomic implications. When educated youth fail to find meaningful employment, many become **discouraged and drop out** of the labour market altogether, reducing the overall **labour force participation rate (LFPR)** particularly among women. This not only lowers potential GDP but also limits productivity gains across sectors. Sustained underemployment can erode skill levels, weakening long-term economic dynamism and innovation capacity.

5. Fiscal and Welfare Pressures on the State

High unemployment indirectly impacts the government's fiscal capacity. As more individuals rely on **social safety nets, welfare transfers or subsidized schemes**, public expenditure on support programs grows without a matching increase in tax revenue. This has been famously referred to as the '**revari**' culture in India. This imbalance can crowd out productive investments in infrastructure, innovation and education. In the long run, persistent jobless growth could constrain the fiscal health of economy and delay India's progress toward becoming a **Viksit Bharat** by 2047.

What are the Major Government Initiatives to Bridge the Employment Gap?

Government Initiatives	Schemes
Skill Development and Future-Ready Workforce	<ul style="list-style-type: none"> Skill India Mission 2.0: Strengthened under the Ministry of Skill Development & Entrepreneurship (MSDE), it integrates digital, green and AI-based skilling modules. It continues to operate through key programs like PMKVY 4.0 and NSDC, aiming to skill 60 lakh youth by 2026. Dual Apprenticeship Program (DAP): Builds on the Apprentice Protsahan Yojana, now offering government reimbursement of up to 50% of stipend costs for MSMEs hiring apprentices, promoting hands-on experience and industry readiness.
Incentivizing Job Creation and Formal Employment	<ul style="list-style-type: none"> Aatmanirbhar Bharat Rojgar Yojana (ABRY): Extended till FY 2025, the scheme provides EPFO contribution subsidies for new job creation in formal establishments. Production Linked Incentive (PLI) Schemes: Now spanning 14 key sectors (including electronics, textiles, auto, and semiconductors), PLI has directly and indirectly created over 7 lakh new jobs. Make in India 2.0: Focuses on high-value manufacturing and global value chain integration to create steady, formal sector jobs.
Promoting Entrepreneurship and Self-Employment	<ul style="list-style-type: none"> Pradhan Mantri Mudra Yojana (PMMY): Has sanctioned over ₹27 lakh crore in collateral-free loans to small entrepreneurs since 2015, boosting micro and small business employment. Stand-Up India 2.0: Provides enhanced credit access and mentorship for women and SC/ST entrepreneurs, along with capacity-building via SIDBI and banks. Startup India & Digital India Initiatives: Create a supportive ecosystem for technology-led startups, generating skilled, urban employment in digital services, fintech, and e-commerce.
Social Security and Formalization of the Workforce	<ul style="list-style-type: none"> e-SHRAM Portal: Over 29 crore unorganized workers have been registered, enabling targeted delivery of social security schemes and better visibility of informal employment. National Career Service (NCS) 2.0: Modernized digital platform connecting job seekers and employers; integrates with e-SHRAM, Skill India, and EPFO data for unified labour market intelligence. Gig and Platform Workers' Social Security Code: Being operationalized to ensure benefits like health, accident insurance, and pension coverage for gig workers under the E-Shram+ framework.
Sectoral and Regional Employment Missions	<ul style="list-style-type: none"> PM Vishwakarma Yojana: Focuses on traditional artisans and craftspeople, offering skill training, toolkits, and concessional loans to revive local employment clusters. Green Jobs Mission: Part of India's climate commitments, it aims to train and employ 1 million youth in renewable energy, EV, and waste management sectors by 2030. State Employment Missions: States like Tamil Nadu, Gujarat, and Uttar Pradesh have launched localized employment platforms linked to Skill India and PMKVY 4.0 to boost placement outcomes.

BEST PRACTICES



Germany

Dual Vocational Training System (VET)

- Germany trains students through a dual model: classroom learning + firm-based apprenticeships.
- Apprentices receive stipends and industries co-develop and co-finance the curriculum, training and assessments.



Vietnam

Export-Led, Labour-Intensive Manufacturing

- Vietnam generated millions of jobs by prioritizing labour-intensive export industries—including textiles, footwear, furniture and electronics assembly
- The government developed highly efficient export processing zones and plug-and-play industrial parks



South Korea

Hidden Champions Strategy

- Korea built strong mid-sized firms called hidden champions that created high-skilled jobs.
- Programs provided SMEs with technology upgrading, export support, easier finance and cluster-based innovation hubs.



Australia

Worker Mobility + Job-Matching Platforms

- These countries use AI-driven national job-matching portals connecting employers, trainers and workers.
- Integrated with migration and credential systems, they reduce friction in labour markets.



UAE

Green Job Creation Through Large-Scale Investments

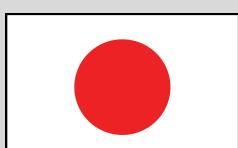
- Countries are building massive solar parks, hydrogen plants, and green industrial hubs.
- These projects have created new ecosystems of employment in maintenance, engineering, logistics and R&D.



Singapore

SkillsFuture - Lifelong Skilling

- Singapore offers every adult a learning credit that can be used anytime for upskilling.
- Strong alignment between industry, training institutes, and government ensures continuous skill renewal.



Japan

Kaizen Productivity Movement

- Japan transformed MSME productivity through nationwide Kaizen campaigns, emphasizing continuous improvement, lean manufacturing and waste reduction.
- These reforms helped small and medium enterprises become globally competitive without large-scale expansion, creating a resilient and high-quality supply-chain ecosystem

Conclusion

India's jobless growth challenge underscores a structural gap between economic expansion and employment generation. To bridge this divide, the focus must shift toward productive, inclusive and technology-ready job creation. The following five strategic directions outline the path forward:

1. Manufacturing-Led Growth and Investment Revival

Boosting **labour-intensive manufacturing** remains critical for large-scale job creation. This requires, Upgrading **industrial infrastructure**, reducing compliance burdens and fast-tracking **commercial dispute resolution**. Providing **targeted fiscal incentives** such as tax rebates and credit guarantees for MSMEs, start-ups and export-oriented industries under schemes like **Make in India 2.0, MUDRA and Startup India**. A vibrant manufacturing sector will absorb the agricultural workforce and anchor India's demographic dividend towards productive employment opportunities.

2. Localized Skill & Employment Ecosystems

Building **micro-level skill hubs** aligned with local industry demand will ensure that training leads directly to employment. These **Localized Skill Ecosystems** developed in partnership with **district administrations, community groups or local employers** can connect skill supply with regional opportunities, reducing migration pressure and improving employability. Such models will also promote women's participation and youth entrepreneurship.

3. Green and Circular Economy Jobs

India's green transition must be an employment opportunity, not a displacement risk. A **Green Jobs Transition Fund** should support workers shifting from carbon-intensive sectors to renewable energy, EV and waste management roles. Additionally, **Circular Economy Clusters** focused on recycling, upcycling and sustainable product design can generate thousands of new-age jobs while contributing to environmental sustainability.

4. Technology-Enabled and AI-Augmented Work

Artificial Intelligence should be leveraged as a **job enabler** and not as a job eliminator. **National AI Job Augmentation Program** can train workers to use AI tools in fields like logistics, finance, agriculture and design. This **Human plus AI** synergy will increase productivity, create new hybrid job roles and ensure the workforce remains globally competitive with new-age skills.

5. Empowering Gig and Nano Entrepreneurs

With over 1 crore gig workers and a rising informal workforce, India must **institutionalize gig work** through **worker-owned cooperatives** that offer bargaining power and shared benefits. Simultaneously, establishing **Nano-Entrepreneur Incubation Zones** in tier-2 and tier-3 cities can nurture ultra-small businesses with 10–50 employees, providing mentorship, shared infrastructure and digital market linkages. Together, these initiatives will create distributed and inclusive employment ecosystems.

In summary, India's path to inclusive growth lies in manufacturing depth, local skilling, green innovation, digital enablement and entrepreneurial empowerment. By synchronizing these five levers, India can move from "**jobless growth**" to "**job-rich transformation**," ensuring that economic expansion translates into sustainable livelihoods for its 1.4 billion citizens.



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