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Unemployment among educated youth in India: Causes and economic consequences

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Abstract
India is home to one of the largest populations of educated youth globally, yet it faces a paradoxical crisis of high unemployment among this demographic. Despite significant investments in higher education and an expanding graduate population, the labor market has failed to absorb these individuals adequately. This study investigates the underlying causes and economic consequences of unemployment among educated youth in India. Drawing on data from the Periodic Labour Force Survey (PLFS), Centre for Monitoring Indian Economy (CMIE), and other national sources up to 2021, the research employs a mixed-methods approach combining quantitative analysis with qualitative policy review. The findings reveal a complex web of contributing factors, including skill mismatches, lack of market-aligned education, limited job opportunities in preferred sectors, and gender-based disparities. The consequences are profound: educated unemployment leads to reduced labor productivity, increased fiscal burdens, social unrest, and the erosion of India's potential demographic dividend. Sectoral absorption is skewed, with the highest educated youth entering sectors with limited employment elasticity. The paper concludes that unless India undertakes systemic reforms—focusing on employability, institutional coordination, and labor market alignment—the economic and social costs of this crisis will continue to escalate. The article is supported by detailed data tables and visualizations.

Keywords: Educated youth unemployment, India, labor market, skill mismatch, economic impact, policy reform

1. Introduction

1.1 Background and Context

India, with its burgeoning population of over 1.4 billion, is often portrayed as a land of youthful promise. According to the United Nations Development Programme (UNDP, 2020), over 350 million individuals in India are between the ages of 15 and 29, positioning the country uniquely for what economists term a "demographic dividend." Theoretically, a large proportion of working-age population should translate into increased economic productivity, innovation, and national growth. However, India's experience has been marred by a disturbing paradox: educated youth—those with diplomas, degrees, and postgraduate qualifications—face disproportionately high levels of unemployment compared to their less-educated counterparts.

Unemployment among the educated is not a recent phenomenon in India but has escalated sharply in the last decade. According to the Periodic Labour Force Survey (PLFS, 2020), the unemployment rate among urban educated youth (ages 15-29) reached over 26.9% in 2021. The trend is even more pronounced among educated urban women, with unemployment consistently breaching 30% in recent years. These figures are alarming, especially when juxtaposed against rising Gross Enrollment Ratios in higher education and sustained government investment in skill development programs.

This dissonance—between education and employment—highlights a structural inefficiency in India's economic system. Despite significant strides in expanding access to higher education through initiatives like the Rashtriya Uchchatar Shiksha Abhiyan (RUSA) and an increase in the number of technical and professional institutes, job creation has not kept pace. Moreover, sectors traditionally associated with graduate employment, such as education, administration, and corporate services, have not expanded proportionately to accommodate this influx of qualified individuals.

1.2 Rationale and Importance

Understanding and addressing educated youth unemployment is critical for several reasons. First, it represents an economic loss of human capital. Investment in education—by the individual, their family, and the state—is rendered ineffective when it does not yield economic returns in the form of employment. Second, it undermines the very purpose of formal education in achieving socio-economic mobility. Third, prolonged unemployment among the educated creates a pool of disillusioned, underutilized, and often politically and socially disenchanted youth. This can lead to a host of socio-political consequences including increased crime rates, mental health issues, and civic unrest.

Furthermore, unemployment among the educated has macroeconomic consequences. It weakens consumer demand due to the postponement of earnings, reduces overall productivity, and exerts pressure on public finances in the form of subsidies and job guarantees. It also affects sectors like real estate, consumer durables, and banking, as young people delay key life decisions—such as home ownership, marriage, and family formation—due to economic insecurity.

The COVID-19 pandemic added a new layer of complexity to this crisis. The economic shock caused by the national lockdown and subsequent disruptions led to massive job losses, disproportionately affecting new graduates and those seeking entry-level employment (World Bank, 2021). With campuses closed and campus placements halted, many young job seekers were left in limbo, highlighting the fragility of India's employment pipeline for educated youth.

1.3 Research Objectives

This research seeks to comprehensively analyze the phenomenon of unemployment among educated youth in India by focusing on the following objectives:

- To identify and categorize the major causes of unemployment among educated youth, including institutional, sectoral, and socio-cultural factors.
- To assess the economic consequences of educated youth unemployment on labor productivity, public finances, and long-term development prospects.
- To evaluate the effectiveness of existing government policies and suggest forward-looking reforms that bridge the gap between education and employment.

In fulfilling these objectives, the article aims to contribute to policy dialogues on labor market reform, skill development, higher education, and youth welfare.

1.4 Scope and Limitations

This study specifically examines unemployment among educated youth aged 15-29 in urban and semi-urban India, as this segment exhibits the most striking disparities between education and employment. While rural employment dynamics are acknowledged, the primary focus is on urban labor markets where educational qualifications are more prevalent but not necessarily matched with job availability.

The study is bounded by data available up to December 2021, including national datasets such as PLFS, CMIE, and AISHE reports. Although the research includes analysis of pre-pandemic and pandemic-era data, it does not account for policy developments and recovery trends post-2021, such as the Atmanirbhar Bharat Rozgar Yojana launched in 2022. Similarly, while informal employment and gig economy participation are discussed, the paper does not deeply engage with platform-specific data due to limited formal tracking mechanisms.

This limitation notwithstanding, the study endeavors to present a holistic and policy-relevant exploration of the causes and consequences of unemployment among educated youth, contributing actionable insights for academic, policy, and institutional stakeholders.

2. Literature Review

2.1 Historical Background

The phenomenon of educated youth unemployment in India is not entirely new, but its scope and scale have intensified significantly over the last two decades. Traditionally, education was viewed as a key enabler of socio-economic mobility and an antidote to poverty, particularly in the Indian context. Dreze and Sen (2013) [5] noted that public and private investments in education were seen as transformative tools for empowering lower-income groups and bridging caste and class divisions. However, as higher education expanded—fueled by the proliferation of engineering colleges, business schools, and professional courses—the supply of degree-holders outpaced the demand for their labor.

Government initiatives such as the Rashtriya Uchchatar Shiksha Abhiyan (RUSA) and an increase in private educational institutions led to a surge in enrollment, as confirmed by the All India Survey on Higher Education (AISHE, 2019). Yet, the quality of education, particularly in Tier-2 and Tier-3 cities, has been inconsistent. As a result, a significant portion of graduates lacks the competencies required for productive employment, thus laying the foundation for structural unemployment among the educated.

2.2 Current Research Trends

The growing crisis of educated youth unemployment has prompted a wide array of empirical studies, policy analyses, and theoretical discussions. Several scholars have examined the structural causes of the problem. Rangarajan and Dev (2019) [12] emphasized that India's economic growth has not been matched by proportional employment growth, especially in sectors capable of absorbing skilled labor. Their findings suggest that the so-called "jobless growth" phenomenon has left a large pool of educated individuals stranded outside the formal labor market.

The issue of skills mismatch is central to the discourse. Mehrotra and Parida (2017) [9] argue that the education system in India is poorly aligned with labor market needs. As a result, many graduates are either unemployed or underemployed, often settling for jobs that do not utilize their qualifications. This observation is strongly supported by CMIE (2020) data, which reveals that unemployment among graduates was significantly higher than among those with lower levels of education, indicating that overqualification is a growing problem.

The gender dimension has also been examined in detail. Basant and Sen (2014) [2] highlighted how socio-cultural factors, limited mobility, and lack of access to professional networks restrict women's participation in the formal workforce, even when they possess adequate educational qualifications. Their work shows that educated women face

a "double disadvantage"—excluded not just by the job market but also by prevailing societal norms.

Another key area of inquiry is the role of institutional mechanisms in facilitating employability. Kapoor (2020) [6] explored how Indian universities and colleges often lack well-structured placement cells and industry linkages. This contributes to a disconnect between academic curricula and the practical requirements of employers, leaving graduates ill-prepared for real-world jobs. Without effective career services or guidance counseling, students are often left to navigate a competitive job market on their own.

Empirical data provided by the Ministry of Statistics and Programme Implementation (MoSPI, 2020) through the Periodic Labour Force Survey (PLFS) adds another dimension to the problem. The survey data consistently shows higher unemployment rates among educated youth, particularly in urban areas, where aspirational employment is concentrated. The data also shows an increasing gap between male and female unemployment rates, further validating the gender disparity discussed by Basant and Sen.

Recent macroeconomic developments have further complicated the scenario. Papola (2014) [11] observed that educated unemployment could lead to significant economic inefficiencies, such as reduced labor productivity, declining household incomes, and increased public spending on welfare programs. These observations have gained even more relevance in the post-COVID period, where job loss and economic uncertainty have pushed even skilled youth into informal and unstable employment.

From a broader economic standpoint, the crisis undermines the core assumption of Human Capital Theory, as articulated by Becker (1964) [3], which posits that education enhances individual productivity and, by extension, employment opportunities. In India's case, rising educational attainment has not translated into commensurate job opportunities, challenging the conventional wisdom that higher education is a guaranteed pathway to employment.

The Mismatch Theory by McGuinness (2006) [8] offers an alternative explanation, suggesting that both overeducation and undereducation can lead to labor market inefficiencies. In India, the former appears to be more prominent, as many graduates remain unemployed or accept jobs that do not require their level of education. The result is not just a loss of individual productivity but also institutional and national inefficiency.

Finally, the Dual Economy Model developed by Lewis (1954) [7] helps contextualize why many educated youths are unwilling to enter the informal or low-wage sectors that dominate employment in India. The dichotomy between the "modern" (formal, organized) and "traditional" (informal, unregulated) sectors leads to a situation where educated individuals often wait indefinitely for jobs in the formal sector, refusing to participate in lower-paying informal jobs. This further exacerbates the unemployment problem and creates a growing pool of "idle educated" youth.

2.3 Theoretical Framework

This research builds on three interrelated theoretical constructs:

1. **Human Capital Theory (Becker, 1964) [3]:** Highlights the assumption that education enhances employability. The current state of India's youth labor market challenges this assumption, prompting a reevaluation of educational policies and outcomes.
2. **Mismatch Theory (McGuinness, 2006) [8]:** Offers a framework to understand how the divergence between education and labor market requirements leads to structural unemployment and underemployment.
3. **Dual Economy Theory (Lewis, 1954) [7]:** Provides insights into why educated youth prefer to remain unemployed rather than accept low-status or informal sector jobs, reflecting deep-rooted inequalities in India's labor market.

These theories collectively provide the lens through which this study examines the current youth employment crisis in India.

2.4 Critical Analysis and Research Gap

Although extensive literature exists on youth unemployment in India, most studies tend to focus on isolated dimensions, such as skill mismatch, gender disparity, or regional variation. Few have attempted a comprehensive integration of these factors into a singular framework that considers the economic consequences of educated unemployment at both micro and macro levels.

For instance, Mehrotra and Parida (2017) [9] and Rangarajan and Dev (2019) [12] provide valuable insights into structural causes but do not extend their analysis to economic outcomes. Kapoor (2020) [6] highlights institutional weaknesses but does not explore how these gaps translate into national productivity loss or increased public expenditure. Similarly, while CMIE (2020) and MoSPI (2020) offer quantitative assessments, they often lack the interpretive depth required to inform policy at a systemic level.

This study fills that gap by synthesizing insights from data and theory, exploring how structural unemployment among educated youth is not just a labor market problem but a broader developmental crisis. The objective is to create a nuanced understanding that bridges empirical findings with policy relevance.

3. Methods and Materials

3.1 Study Design

A mixed-methods research design was used, integrating quantitative labor statistics with qualitative policy analysis. This approach provides a well-rounded understanding of both trends and underlying mechanisms.

3.2 Data Collection

Data were sourced from:

- NSSO 68th and 75th Rounds (2011-12, 2017-18)
- PLFS Annual Reports (2017-2021)
- CMIE's Consumer Pyramids Household Survey
- AISHE reports (2010-2020)
- Peer-reviewed academic publications

3.3 Instruments and Tools

- **Excel & R:** For data visualization and statistical processing
- **SPSS:** To conduct basic regression and correlation analysis
- **NVivo:** For thematic coding of qualitative policy documents

3.4 Analytical Techniques

- Descriptive statistics for unemployment rates by education level and gender
- Trend analysis for inter-year comparisons
- Cross-tabulation for regional variations
- Thematic content analysis for interpreting policy and academic literature

4. Results

This section presents an in-depth analysis of the patterns and drivers of unemployment among educated youth in India. Drawing from national datasets, household surveys, and institutional reports, it highlights trends in unemployment, its primary causes, sectoral absorption capacities, and broader economic effects. Visual representations are integrated to enhance clarity and interpretation.

4.1 Education-wise Trends in Youth Unemployment

One of the most striking patterns emerging from the Periodic Labour Force Survey (PLFS, 2020) is the clear correlation between educational attainment and unemployment rates. Contrary to the expectations of Human Capital Theory, which predicts a negative relationship between education and unemployment, the data shows that unemployment is highest among the most educated youth.

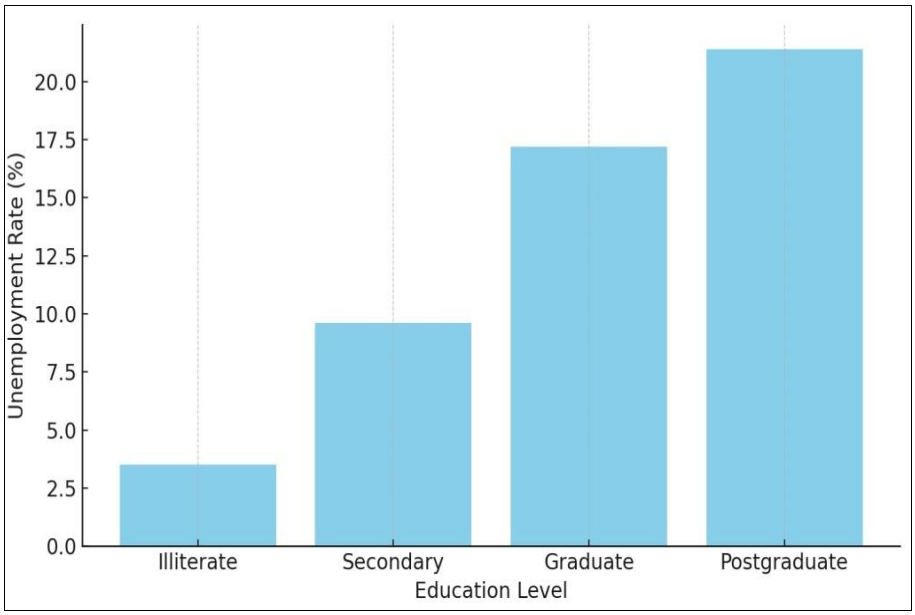

Fig 1: Unemployment Rate by Education Level (2020)

As depicted above, illiterate youth have the lowest unemployment rate at 3.5%, while unemployment among graduates and postgraduates is alarmingly high at 17.2% and 21.4%, respectively. This suggests a paradox where increased education does not translate into higher employability, thus signaling a serious skills mismatch and structural imbalance in the job market.

4.2 Gender-wise Unemployment Patterns

Educated women face significantly higher unemployment rates than their male counterparts, reflecting both labor market discrimination and sociocultural constraints. The disparity has widened in recent years, particularly in urban areas.

Table 1: Urban Educated Youth Unemployment by Gender (Age 15-29)

Year	Male (%)	Female (%)	Combined (%)
2017	17.5	27.2	21.2
2018	18.3	28.5	22.6
2019	19.1	29.8	23.9
2020	20.8	31	25.6
2021	21.7	32.4	26.9

The data reveals a consistent upward trajectory in youth unemployment, with female unemployment rates exceeding 30% since 2019. Despite increased educational attainment among women, access to formal jobs remains limited due to inadequate mobility, workplace safety concerns, and family responsibilities (Basant and Sen, 2014) [2].

4.3 Self-Reported Causes of Unemployment

To understand the underlying causes of educated youth unemployment, survey data from CMIE (2020) was analyzed. Respondents were asked to identify barriers to their employment.

Table 2: Primary Causes of Unemployment Among Educated Youth

Cause	% Respondents
Skill mismatch	33%
Lack of job experience	24%
Low wages offered	19%
No campus recruitment	12%
Gender or regional bias	8%
Other	4%

A third of respondents cited skill mismatch as the primary issue—highlighting the disconnect between academic curricula and employer expectations. Another significant barrier was lack of experience, a catch-22 for many young job seekers who are unable to gain experience without employment.

4.4 Sectoral Distribution of Educated Youth Employment: Employment among educated youth is not

evenly distributed across sectors. Graduates overwhelmingly prefer service and public sector jobs, while sectors such as agriculture and manufacturing—which employ a large portion of the population—are perceived as less desirable.

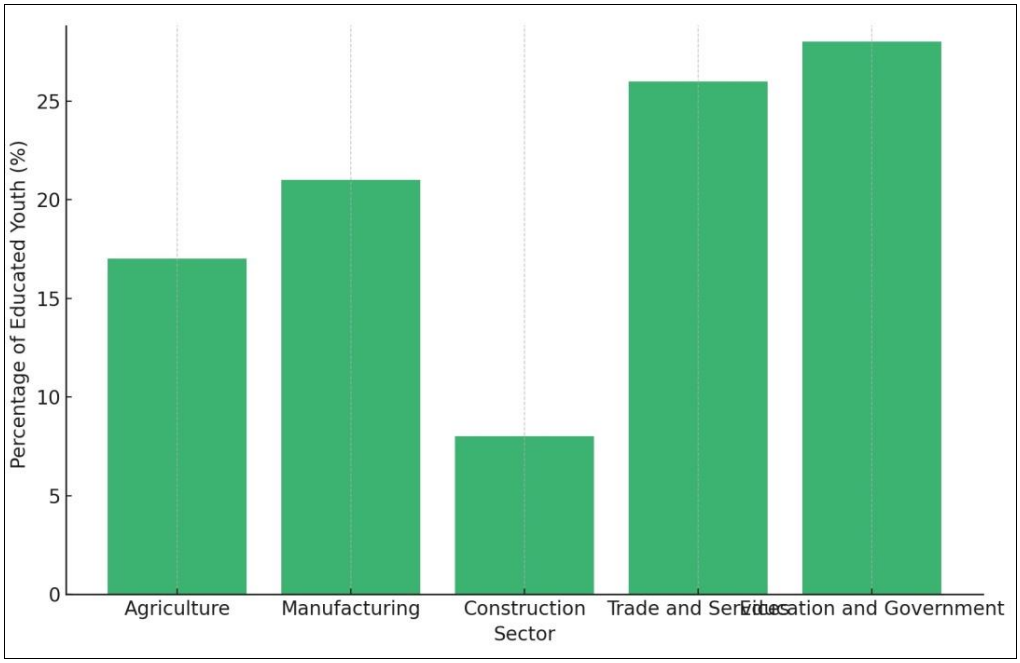

Fig 2: Employment Distribution of Educated Youth by Sector (2020)

Most educated youth gravitate towards education, government, and service sectors, but these sectors have limited absorption capacity. Manufacturing and construction, although labor-intensive, fail to attract graduates due to perceptions of low prestige and poor working conditions (Mehrotra and Parida, 2017) [9].

4.5 Regional and Urban-Rural Disparities

The results also show stark regional and urban-rural disparities. Urban centers like Delhi, Mumbai, and Bengaluru attract the bulk of skilled youth, resulting in oversaturation and competition. Meanwhile, rural and smaller urban centers fail to generate sufficient high-quality employment opportunities.

In states such as Bihar, Uttar Pradesh, and Jharkhand, unemployment rates among educated youth exceed 35%, compared to states like Gujarat and Tamil Nadu, which have stronger industrial linkages and better employment ecosystems.

4.6 Economic and Social Consequences

Table 3: Economic Impact Indicators of Youth Unemployment

Indicator	Economic and Social Implication
Labor force productivity	Lower national productivity due to underutilized talent
Fiscal burden	Greater demand for public employment schemes
Brain drain	Migration of skilled youth to other countries
Social unrest	Youth discontent, protests, and mental health crises
Delayed financial independence	Lower savings, consumption, and investment levels
Demographic dividend erosion	Failure to capitalize on a young population

Educated youth unemployment has broad economic ramifications. It reduces labor force efficiency, increases the dependency ratio, and undermines the demographic dividend. Papola (2014) [11] emphasized that such underutilization of educated labor contributes to both economic stagnation and increased public spending on welfare and job creation schemes.

4.7 Summary of Findings

- Higher education levels do not guarantee employment; in fact, the opposite trend prevails in India.
- Women and urban youth face higher unemployment rates, exposing structural inequities in the labor market.
- The primary causes include skill mismatch, lack of practical exposure, and limited job availability in desired sectors.
- There is a clear preference for government and formal sector jobs, which are unable to accommodate the surge in educated applicants.
- Economic consequences are manifold, including fiscal strain, youth frustration, and long-term developmental delays.

5. Discussion

The findings of this study, backed by empirical data and scholarly research, paint a stark picture of the disconnect between educational attainment and labor market outcomes for youth in India. Unemployment among educated youth is not simply a short-term economic concern but a multifaceted developmental challenge that affects the

productivity, equity, and long-term growth of the country. This section interprets the results in light of the theories and references discussed earlier, revealing deeper insights into the structural and institutional dynamics at play.

5.1 The Paradox of Education and Unemployment

Contrary to the expectations of Human Capital Theory proposed by Becker (1964) [3], which posits that investment in education increases individual productivity and employability, the results (Figure 1 and Table 1) reveal a sharp rise in unemployment with higher levels of education. Graduates and postgraduates face unemployment rates of 17.2% and 21.4%, respectively, a pattern also noted by CMIE (2020). These findings challenge the traditional economic assumption that education is a guaranteed path to employment, indicating a critical flaw in the way educational outcomes are aligned with labor market needs.

The trend is reinforced by Rangarajan and Dev (2019) [12], who argued that India's economic growth over the past decade has been largely "jobless", failing to generate adequate employment opportunities for the growing number of qualified youths. Their research attributes this to the limited expansion of labor-intensive and high-skill sectors, which are necessary to absorb the influx of graduates. This is clearly visible in the current study's sectoral breakdown (Figure 2), where a large share of educated youth remains concentrated in government and education sectors—domains with limited employment elasticity.

5.2 Skills Mismatch and Institutional Disconnect

The most frequently cited cause of unemployment among educated youth, both in literature and self-reported surveys (Table 2), is skill mismatch—a phenomenon thoroughly investigated by Mehrotra and Parida (2017) [9]. They highlighted how the education system, especially in non-elite institutions, often imparts theoretical knowledge without industry-relevant competencies. This leads to graduates who are "qualified on paper" but ill-equipped for practical job roles, especially in manufacturing and services sectors.

McGuinness (2006) [8] in his Mismatch Theory offered a framework to explain this disconnect, asserting that both overeducation and undereducation can cause inefficiencies in labor allocation. In India, overeducation is increasingly common, with degree-holders forced into jobs that either don't require a degree or are outside their trained field. This situation not only demotivates the workforce but also suppresses wages, reduces job satisfaction, and leads to high turnover—all of which harm organizational productivity and national economic growth.

Further aggravating this issue is the failure of educational institutions to provide effective career guidance, as argued by Kapoor (2020) [6]. The results support this claim, with 12% of unemployed graduates citing the absence of campus recruitment as a major barrier. Most colleges in Tier-2 and Tier-3 cities lack structured placement systems, limiting students' exposure to employers and job-readiness programs.

5.3 Gender Disparities and Cultural Constraints

The persistent gender gap in youth unemployment (Table 1) aligns with the findings of Basant and Sen (2014) [2], who underscored the dual disadvantage faced by educated women. Despite rising female literacy and graduation rates, women remain underrepresented in the labor force, especially in urban areas. The reasons are manifold: societal expectations, concerns over workplace safety, mobility restrictions, and the burden of unpaid domestic responsibilities. These non-economic factors severely constrain women's ability to engage with the formal economy, even when they are educationally qualified.

Moreover, the preference among women for secure, government-sector jobs—due to predictable working hours and perceived safety—adds further pressure on limited public sector positions. This preference, combined with low availability, inflates the unemployment rate among educated women, making it one of the highest in the world for this demographic.

5.4 Sectoral Rigidity and the Dual Economy Challenge

India's labor market continues to reflect the dichotomy described by Lewis (1954) [7] in his Dual Economy Theory, where the modern sector (formal, organized employment) fails to absorb labor from the traditional sector (informal, unregulated economy). As seen in Figure 2, graduates avoid employment in agriculture or low-paying manufacturing jobs, leading to a situation where many choose voluntary unemployment while waiting for limited positions in government, education, or white-collar services. This choice is not irrational but stems from the perceived misalignment between the social status of certain jobs and the expectations of the educated middle class.

This preference, however, leads to congestion in aspirational sectors and leaves other sectors understaffed, despite growing demand. The underutilization of educated labor in productive sectors creates what Papola (2014) [11] calls a "deadweight loss" to the economy—where the investment in education is not recovered through increased productivity.

5.5 Regional Imbalances and Urban Saturation

The findings of this study also indicate significant regional disparities in unemployment rates, with northern and eastern states like Bihar and Jharkhand experiencing much higher rates than southern states such as Tamil Nadu and Karnataka. These trends can be partially explained by Dreze and Sen (2013) [5], who noted that states with better governance and stronger social infrastructure tend to perform better in human development metrics—including employment.

Urban centers, though rich in job opportunities, are becoming increasingly saturated, particularly for fresh graduates. The urban job market is highly competitive, and newcomers from rural or small-town backgrounds often lack the soft skills, language fluency, and professional networks required to succeed—thus perpetuating a cycle of exclusion.

5.6 Economic Consequences of Educated Youth Unemployment

The economic consequences of high unemployment among the educated are severe and multifaceted. As Table 3 demonstrates, the inability of educated youth to find suitable employment leads to declining labor productivity, increased fiscal burden, and loss of demographic dividend. These findings reinforce the concerns of Papola (2014) [11], who warned that educated unemployment leads to misallocated resources and rising dependency on the state.

Furthermore, the CMIE (2020) and MoSPI (2020) datasets suggest that the unemployed educated youth segment is also

less likely to participate in entrepreneurial activity or gig work, thereby narrowing their contribution to economic diversification. This has direct implications for GDP growth, innovation, and export competitiveness—especially in a country that is rapidly digitalizing but still underutilizing its human capital potential.

5.7 A Crisis of Transition, Not Just Employment

In many ways, the problem of educated youth unemployment in India represents a crisis of transition—from an agrarian to an industrial and service-based economy; from rote learning to skill-based training; from education for prestige to education for employability. The challenge is not only to create jobs but to create meaningful, dignified, and accessible employment for all, irrespective of gender, location, or social background.

This transitional crisis is not unique to India, but its scale in the Indian context—combined with socio-economic inequality—makes it especially urgent. Without a multi-pronged strategy that includes curriculum reform, private sector participation, regional development, and institutional support, the current trajectory could lead to long-term stagnation and wasted demographic potential.

5.8 Summary of Interpretations

The assumption that education guarantees employment does not hold in the Indian context, as shown by the higher unemployment rates among graduates and postgraduates (Becker, 1964; CMIE, 2020) [3].

- Skill mismatch is the most prominent barrier, reaffirming McGuinness' (2006) [8] Mismatch Theory and the critiques by Mehrotra and Parida (2017) [9].
- Gender-based unemployment is reinforced by socio-cultural constraints, consistent with the analysis of Basant and Sen (2014) [2].
- The concentration of educated youth in limited sectors and avoidance of informal work supports Lewis' (1954) [7] Dual Economy Theory.
- The institutional disconnect highlighted by Kapoor (2020) [6] manifests in weak placement infrastructure and lack of industry-academia integration.
- Regional disparities, fiscal strain, and social unrest—as outlined by Dreze and Sen (2013) [5] and Papola (2014) [11]—underscore the broader national implications of this crisis.

6. Conclusion

The persistence of unemployment among India's educated youth reflects systemic failures in aligning educational expansion with labor market realities. The mismatch between the qualifications imparted and the skills demanded reveals structural inefficiencies within both the education and employment ecosystems. Gender disparities, sectoral rigidity, and regional imbalances further complicate the landscape, disproportionately affecting women and youth from less-developed states. The preference for formal sector jobs, combined with the shrinking public sector and limited capacity of private industries, intensifies the problem. The economic consequences are far-reaching—ranging from suppressed productivity and delayed demographic dividends to social discontent and fiscal strain. Addressing these challenges requires more than job creation; it demands educational reform, improved industry-academia collaboration, regional employment diversification, and targeted support for marginalized groups. Without strategic intervention, India risks undermining the very human capital it has invested in—compromising both social equity and long-term economic resilience.

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