

Minimum Wage and Youth Employment in India: Does Raising Wages Help or Hurt Students Entering the Job Market?

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Abstract

India's wage-setting framework is transitioning from a patchwork of state-level minimum wages under the Minimum Wages Act, 1948, to a unified system under the Code on Wages (2019), which introduces a central "floor wage." In practice, India still operates with a non-binding national floor level minimum wage (NFLMW) of ₹178/day as a reference, while state rates vary by occupation, skill and region. This paper examines whether raising minimum wages helps or hurts students and recent school-leavers entering India's job market. Building on canonical and contemporary economic theory, international evidence, and Indian labour market data (especially PLFS), I find: (1) moderate minimum-wage increases tend to raise earnings with small or ambiguous overall employment effects, but (2) displacement risks can be larger for marginal groups such as very young or less-experienced workers—unless policy is paired with complementary measures (apprenticeships, hiring incentives, skill-matching, and strict wage enforcement). For India, where youth unemployment (15–29) on the usual status measure has hovered near ~10–12% in recent years and educated youth unemployment remains high, a calibrated state-wise approach—keeping wage floors reasonable relative to local medians, coupled with active labour-market policies—offers the best chance to boost youth incomes without shrinking entry-level opportunities.

1. Introduction

Debates on minimum wages often ask a deceptively simple question: do higher wage floors price out inexperienced workers, or do they lift incomes with little to no job loss? For students and school-leavers, this question is personal. Many seek part-time or first jobs to fund college, support families, or gain work experience. India's labour market compounds the challenge: rapid educational expansion has produced a larger pool of degree holders, but formal job creation has not consistently matched aspirations, especially in urban centres.

This paper evaluates how changes in minimum wages may affect youth employment prospects in India, with a special focus on students entering work for the first time. After summarising India's minimum-wage framework and current youth employment trends, I review theories of minimum wages and

synthesize evidence from international and Indian studies. I then analyse implications for students, discuss special sectors like gig work, and propose policy options that balance fair pay with robust youth hiring.

2. India's Minimum-Wage Framework (Where We Are Now)

2.1 From fragmented minima to a national “floor”

Historically, India's Minimum Wages Act (1948) empowered state and central governments to set occupation- and region-specific minima. In 2019, Parliament passed the Code on Wages, seeking to unify four older laws and introduce a central floor wage below which no government-set minimum can fall. Although the Code received assent, full implementation (and notification of floor wages under the Code) has been staggered; policy communication still references the long-standing National Floor Level Minimum Wage (NFLMW) of ₹178/day, which functions as a non-binding baseline while states set higher statutory minima.

2.2 Today's baseline and variation

Multiple reputable policy and advisory sources note the NFLMW of ₹178/day remains unchanged in 2024–25; states typically set higher rates by skill category and cost-of-living, often adjusting Variable Dearness Allowance (VDA) semiannually. This landscape means a student's entry wage depends heavily on location and sector, not just the national number.

3. India's Youth Labour Market: The Facts Students Face

National labour indicators have improved since the pandemic troughs but remain uneven for youth. Government PLFS bulletins (Current Weekly Status) reported overall unemployment around 5–6% in mid-2025 (15+), and annual usual status estimates for youth 15–29 at about 10–12% in 2020–23, dipping near 10.2% in 2023–24. Educated youth face higher open unemployment, reflecting aspiration and job-mismatch challenges; in some states (e.g., Kerala), youth rates are strikingly higher, especially for women.

At the same time, formalisation trends (EPFO additions) and new hiring schemes have aimed to expand job creation, yet skill-training programmes (like PMKVY) show mixed placement rates, highlighting a persistent transition problem from classroom to workplace.

Bottom line for students: Jobs exist, but competition is intense for quality, formal roles; sector and state matter; and “educated unemployment” is a real risk without targeted pathways into work.

4. What Economic Theory Says About Minimum Wages and Youth

4.1 The textbook view vs. modern frictions

In a perfectly competitive market, a binding minimum wage above the equilibrium price reduces employment. But real labour markets are riddled with frictions: search costs, monopsony power (employers with wage-setting power), information asymmetries, and adjustment margins other than

headcount. Modern empirical work often finds small or zero average employment effects of moderate minimum-wage hikes, even while wages rise for low-paid workers. However, heterogeneous effects are possible: youth and less-experienced workers may face larger risks if employers substitute toward more experienced labour at higher wage floors.

4.2 Channels that especially matter for students

- Substitution toward skills/experience: If the wage floor rises, firms might prefer experienced workers or automation.
- Productivity responses: Firms can train more, upgrade job quality, or reorganise work.
- Hours and hiring margins: Instead of firing, employers may trim hours, raise performance expectations, or reduce new trainee slots.
- Compliance gaps: In large informal sectors, non-compliance dilutes effects (good or bad) for youth.

5. What the Evidence Shows

5.1 Global evidence (with youth focus)

International syntheses conclude that minimum wages commonly lift pay and do not reliably reduce total employment, but some studies detect adverse impacts for vulnerable subgroups, including youth. For example, a review of developing countries reports positive wage effects, negligible overall employment effects, but more negative effects on youth/low-skill groups; age-specific quasi-experiments (e.g., Turkey) find reduced youth employment probabilities when youth rates jump sharply.

Counter-examples also exist: large formalisation or “good job” gains are documented in settings with strong enforcement and complementary policies. Recent work likewise stresses improvements in job quality—not just wage levels—after increases. The policy lesson is not that “youth always lose,” but that design and context determine outcomes.

5.2 Indian evidence and context

Rigorous causal Indian studies directly linking minimum wage hikes to youth employment are relatively scarce, partly due to data and policy heterogeneity across states. Related evidence shows minimum-wage changes can alter household decisions (e.g., child labour reductions) and that Indian labour markets feature large informality, uneven enforcement, and wide state variation in notified rates—all of which mute or mediate impacts on youth hiring.

Given this landscape, most credible takeaways for India echo the global literature: moderate increases (relative to local medians) tend to raise earnings with limited average job loss, but entry-level candidates with weaker work histories could be more exposed to reduced new-hire slots unless policies deliberately protect or promote youth hiring.

6. Special Case: Students and Recent School-Leavers

6.1 Why entry thresholds matter

Students lack prior experience and signalling credentials (references, tenure), so employers view their productivity as uncertain. When the minimum wage rises:

- If productivity \approx higher wage: students benefit via better pay and possibly better-structured jobs.
- If perceived productivity $<$ wage: employers may prefer older candidates, automate tasks, or require unpaid internships (which raises equity concerns).

6.2 India-specific features that shape outcomes

- Large informal sector & compliance gaps: Many student jobs are in retail, hospitality, delivery, tutoring, and micro-enterprises where compliance varies—dampening both gains and losses.
- Education–job mismatch: Educated youth unemployment is high, signaling weak matching between coursework and job skill needs.
- Gig/platform work growth: Students increasingly combine studies with gig work; here, “minimum earnings standards” and social security are debated at the state level (e.g., recent actions in Telangana).

Implication: For Indian students, a higher wage floor may raise typical pay where enforced, but pairing it with youth-specific hiring incentives, apprenticeships, and skill-bridging can prevent a drop in entry-level openings.

7. What Do Current Numbers Say?

- Wage floor: NFLMW stands at ₹178/day, unchanged in recent years; states generally notify higher minima and revise VDA periodically.
- Youth unemployment (15–29): Usual-status UR around 12.9% (2020–21), 12.4% (2021–22), 10.0% (2022–23); ~10.2% in 2023–24 per official releases. Educated youth unemployment remains notably higher.
- Overall UR (15+): CWS moved around 5–6% in 2025.
- State disparities: Some states report very high youth unemployment, especially among educated women (examples highlighted for Kerala).

These facts reinforce that youth labour demand is tight in many formal segments, so policy must carefully balance wage floors with measures that create and protect student-friendly pathways into work.

8. Policy Design: How to Raise Wages and Protect Student Jobs

8.1 Calibrate the wage floor to local conditions

Set state/occupation minima with reference to local median wages and productivity, not just the NFLMW. Excessively steep hikes risk reducing trainee slots; too low and students earn too little to remain in school. Regular VDA updates help maintain real value without disruptive jumps.

8.2 Pair wage floors with

active youth hiring

tools

1. Apprenticeships & learn-and-earn programs with modest stipends co-funded by government for first six months.
2. Targeted hiring credits for firms that take on first-time youth workers (already part of the policy conversation via broader employment-linked incentives).
3. Campus–industry matching: job-ready modules (Excel, coding basics, customer support, digital sales) embedded in Class 12/UG curricula, with employer-led assessments.

8.3 Enforce compliance (especially where students work)

Strengthen inspections and grievance systems in retail, hospitality, and delivery to ensure notified minima are actually paid. Without enforcement, responsible employers are undercut, and genuine student gains evaporate.

8.4 Guard against unintended exclusion

Where a hike is material, require or incentivise a minimum share of youth/first-job hires in large establishments for a transition period. Alternatively, allow youth training rates (slightly below full minimum for a strictly limited training window) coupled with mandatory certification and automatic progression to the full minimum—so students aren't stuck in low pay. (Several countries use structured training wages; evidence is mixed, so safeguards are essential.)

8.5 Support the gig transition for students

Clarify earnings standards, transparency of platform commissions, and accident/social-security coverage for student gig workers; Telangana's recent moves illustrate the direction of travel.

9. Weighing the Evidence: Does Raising Minimum Wages Help or Hurt Students?

Short answer: It depends—but India can make it help more than hurt.

- Helps when hikes are moderate, predictable, and paired with apprenticeships/hiring credits, good enforcement, and better school-to-work matching. Students then get higher pay and often better job structure (clear shifts, safety, progression).
- Hurts when hikes are large relative to local wages/productivity and no complementary policies exist. Then employers may reduce new-hire slots or demand prior experience, squeezing out first-timers—as some international youth-focused studies warn.

In India's present context—high educated-youth unemployment, large informality, varying enforcement—the most defensible path is gradual, well-signalled wage increases plus strong youth-onboarding programs. That combination maximises the benefits (income, dignity, retention) and minimises risks (fewer openings for newcomers).

10. Practical Advice for Class 12 Students (Actionable Takeaways)

1. Aim for certified apprenticeships rather than purely informal work; they're harder to cut when wage floors rise and give you credible experience.
2. Stack job-ready skills now (basic accounting, spreadsheets, sales CRM, prompt writing for AI tools, customer support scripts). These signal productivity at hiring time.
3. Track your state's notified minimum wage (skill category & local zone). If you work part-time, ask the employer which schedule they follow and whether VDA is included.
4. Gig caution: Check typical net earnings after commissions and hours. Push for platforms with transparent pay and accident cover.

11. Conclusion

Do higher minimum wages help or hurt Indian students at the threshold of work? The fairest reading of theory and evidence is: well-designed minimum wages can raise earnings and improve job quality without large aggregate job losses, but students—because they're new—need policy backstops to ensure employers keep hiring them. For India, the recipe is clear: reasonable, locally-calibrated floors + enforcement + apprenticeships + youth hiring incentives + skills-matching. With that, wage policy becomes a ladder for young people, not a wall.

References (selected)

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9. Gig/platform earnings & regulation examples (Telangana).