

ECONOMICS

DEMOGRAPHIC DIVIDEND OF INDIA

A MYTH OR REALITY



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PREFACE

The age structure of a population plays a key role in promoting economic growth through an increase in the ratio of the working age population. This positive influence is conditioned on the presence of good policies and institutions. India is experiencing an unprecedented increase in the working age ratio and this is being hailed as India's opportunity to undergo faster growth. This report shows that Age structure is not homogeneous throughout the country.

Keeping with these conditions in mind what are the challenges, what policies Government made like - MAKE IN INDIA , MGNREGA , START UP INDIA and with these policies what still needs to be done.

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Introduction

Demographic dividend is rise in economic growth due to a rising share of working age people in a population or we can say it is freeing up of resources for country's economic development and the future prosperity of its populace as it switches from an agrarian to an industrial economy. It is also known as demographic bonus or demographic window.

DEMOGRAPHIC TRANSITION

It is transition from high birth and death rates to low birth and death rates as a country develops from an agrarian to an industrialized economy. This could be made possible by industrialization accompanied by urbanization and widespread of education.

In initial stages of this demographic transition, fertility rate falls, leading to a labour force that is temporarily growing faster than the population depends on it, all else being equal, per capita income grows more rapidly during this time.

Fertility rate:

The Total fertility rate sometimes also called the fertility rate of a population is the average number of children that would be born to a woman over her lifetime if :

1. She were to experience the exact current age-specific fertility rates (ASFRs) through her lifetime, and
2. She were to survive from birth through the end of her reproductive life.

Fertility rate in INDIA in 2012 was 2.50 births per woman which is quite low as compared to 4.0 births in 1991 so, first step of demographic transition is already being taken.

Percentage Distribution Of Population By Broad Age Group

Broad age group

Sex	0-14	15-59	60+
Total	29.5	62.5	8.0
Male	30.0	62.2	7.7
Female	25.5	62.8	8.4

*Source - Census of India , 2011 Statement 3

DEPENDENCY RATIO

We can define dependency ratio as dependent population (14 below and 60 above age group) divided by working age group (15-59 age group).

Present dependency ratio in India is 0.6 i.e in a family of 8 people 5 people depends on 3 working people which is quite lower than 0.73 in 2001. So, we can say dependency ratio in India is decreasing. This decline sharply contrasts with demographic trend in industrialized countries and also in China where dependency ratio is increasing.

It is true to say that lower the dependency ratio higher the economic productivity.

This low dependency ratio gives India a comparative advantage and will result in improving our competitiveness.

According to Technical Group of Population Projection in 2020 average Indian will be of 29 years old , compared with 37 years in China and United States along with 48 in Japan.

This implies that India is in midst of a process where it faces the window of opportunity created by demographic dividend of India.

A DEMOGRAPHIC WINDOW

The demographic transition explained above provides India a window, one time opportunity to take the country to the track of sustainable growth and development and to eliminate the problem it is facing due to mass unemployment , poverty , illiteracy , etc. The nation got this window opportunity due to relatively large and young workforce as compared to other developed economies like China, USA, Japan , etc which are facing the problem of greying population. So due to the demographic transition India got a chance to establish itself as a manufacturing hub in the global market.

IMPACT OF DEMOGRAPHIC TRANSITION ON ECONOMIC GROWTH

Some demographers have pointed out that many Asian countries are expected to benefit from the change in the age structure in coming years as growth of the working age population will be higher as compared to the growth of the child population leading to a lower dependency ratio. This age structure transition can have a positive impact on economic growth in the following ways:

- (1) Saving rate is expected to increase during the age structure transition which will automatically generate capital resources that the country needs for investment purpose. The higher the share of workers to non-workers in the population of a country, larger is the surplus available for investment and hence contributing to the economic growth of the nation.
- (2) With the decline in fertility, more women are likely to enter into the labour market resulting in increased economic activity. Major hurdle to women entering the labour market is high fertility and time spent on child care. A decline in fertility allows women to spend more time on economic activities which ultimately contributes to the economic growth of the nation.
- (3) People invest more on their own health when children are fewer in number , leading to better productivity and economic benefits of household.
- (4) Government will also be in a position to spend and invest in more productive activities like R&D, defense , environment, etc with the decline in the number of children as public spending on education and health can be diverted to more productive activities.

But...

"The demographic dividend argument ignores the fact that available workers are not automatically absorbed to deliver growth."

There are many hinderance in the way of demographic dividend to deliver economic growth to the nation. Some of major challenges are as follows:

CHALLENGES

There are many challenges to demographic dividend of India. Some of them are as follow:

- Low Literacy Rate.
- Unskilled Workforce.
- Unemployment.
- High involvement in agriculture.

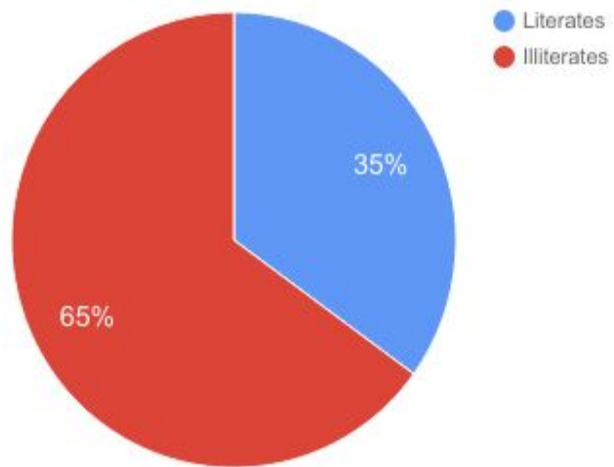
LOW LITERACY RATE

The working definition of literacy in Indian census since 1991 is the total percentage of a population of an area at a particular time aged 7 years or above who can read and write with understanding . Here the dominator is the population aged 7 years or more.

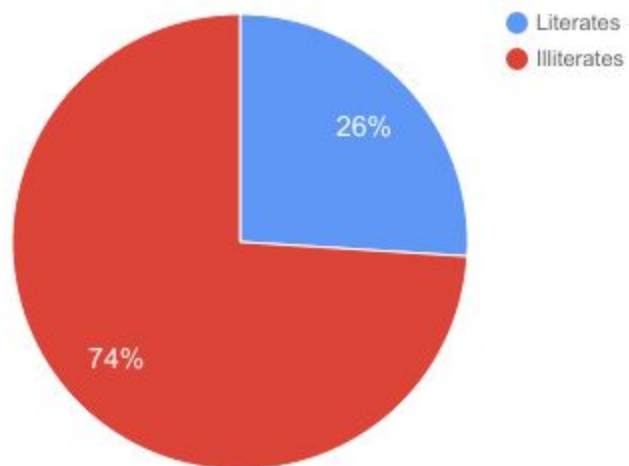
Even being criteria too low literacy rate in 2001 was 65% only which increases to only 74% which is only 9% in 10 years. Also, quality of schooling is extremely poor.

There is a wide gender disparity in the literacy rate in India. Effective literacy rate in 2011 were 82% for men and 65% for women. This low female literacy rate has had a dramatically negative impact on family planning and population stabilization and also one of the major factor for less women empowerment.

2001



2011



*Source Unesco

UNSKILLED WORKFORCE

Unskilled labour is a segment of the workforce associated with a limited skill set or minimal economic value for the work performed. Unskilled labour is generally characterized by a lower education attainment such as high school, diploma and typically results in smaller wages. So, we can say that unskilled mass leads to low productivity.

Today's era is an era of knowledge and skills, your skill not degree will get you a job. According to National Employability Report which is based on a study of more than 1.5 lakh engineering students only 20% of them were employable i.e. 80% of them were unemployable which is a huge mass. If these conditions remain intact then India can lose this one time opportunity of demographic dividend.

Category	Percentage of employment	Total employment (in million)
Unskilled Workers	83	25.6
Skilled Workers	10	3.3
Engineers	3	0.8
Technicians and Foremen	2	0.6
Clerical	2	0.7

UNEMPLOYMENT

As mentioned above that the workforce won't automatically produce output. The workforce must be provided with proper job opportunities so that they can give their contribution to the economic growth of the country. But this is where the problem arises. After the independence population of the country grew at an alarming rate of 2.1% per annum and with it the number of people coming to the labour market in search of jobs also rose rapidly, whereas employment opportunities did not increase most of the time correspondingly due to slow economic growth .

There are not sufficient jobs in the country for the young mass which is leading to unemployment. Due to this unemployment another problem comes into the play called “brain-drain”. This insufficient job opportunities provoke the youth to go abroad in search of job which is leading to the drainage of quality brains out of the country.

According to a report by Labour Bureau : “Unemployment rate shot up to a high of 5% in the year 2015-16.”

Another factor which leads to unemployment is Lack of women empowerment in the country. How could a country possibly have the fruits of demographic dividend if one half of its population is not taking part in economic activities. So, the nation will have to rule out this havoc to be benefited for its demographic dividend.

HIGH INVOLVEMENT IN AGRICULTURAL ACTIVITIES

After India became a democratic country it had an agrarian economy. Agriculture and allied activities contributed about 55% of total economy . But overtime India has changed from an agrarian economy to a mixed economy. The contribution of Agriculture over years but still the major mass of population is involved in these activities. In year 2015-16 agriculture and allied activities contributed about 16% to the total GDP but around 65% of total population is involved in it which shows high “disguised unemployment”.

The nation will have to create jobs in manufacturing sector so that the mass involved in agriculture and allied activities can be utilized to yield economic growth. Also the farmers still use old tools and practises in farming which takes more labour. If modern technologies are made accessible to farmers then it will lead to better productivity with less labour.

GOVERNMENT POLICIES

To cope up with the above mentioned challenges Indian government have come up with several policies over time. Some of them are as follows:

1. Make In India:

This policy was launched by PM Narendra Modi on 25 September, 2014 with the primary aim of making India a global manufacturing hub by encouraging both multinational as well as domestic companies to manufacture their products within the country.

Its main aim is to raise the contribution of the manufacturing sector to 25% of the GDP by the year 2025 from its current 16%. It has selected major 25 sectors of manufacturing including IT, Defense, Railways, medicines, etc. It allowed FDI upto 100% in these 25% and its effect can be seen by the fact that between September 2014 and November 2015, the government received ₹1.20 lakh crore (US\$18 billion) worth of proposals from companies interested in manufacturing electronics in India. It was aimed to create job opportunities in India by relaxing the foreign investment terms in the country.

And to support this new infrastructure was laid down and projects like smart cities were launched to improve the infrastructure of the country.

2. Sarva Shiksha Abhiyan(SSA):

As explained in the challenges about a quarter of our total population lack basic elementary education. This program was launched with a clear frame for universal elementary education. It was considered as an opportunity for promoting social justice through basic education. Education was made fundamental right under this and elementary education was made free in government schools. An act was passed under this program called the Right to Education Act(RTE).

The action plan to this program included opening new schools with basic facilities like classrooms, toilets, drinking water. To cope up with the inadequate teacher strength, new recruitments were made. Computer education was started in government schools. This was an appreciable step to improve the literacy ratio of the country.

3. National Skill Development Scheme:

To develop the skill among the young workforce this program was launched . A new organisation was set up named “ National Skill Development Corporation ” under this. It included encouragement of standardization in the certification process and initiate a process of creating a regularity of skill. It also involve training the existing workforce to increase their economic productivity. It included providing Monetary Awards for Skill Certification to boost employability and productivity of youth by incentivizing them for skill training. This was a good initiative to reduce the problem of lack of skill among the workforce.

3. Stand Up India:

This program was launched by PM Narendra Modi to promote entrepreneurship in India, especially among women and SC & ST communities . As per PM it aims to empower every Indian and enable them to stand on their own feet.

The central govt. has decided to provide loans under this scheme to those beneficiaries who want to pursue entrepreneurship and stand up on their own feet. These loans will range from Rs. 10 lakh and the maximum amount a beneficiary can claim under this project is Rs. 1 crore. These loans can be repaid in easy installments as favorable to the beneficiaries and will be given grace periods for repayment. The interest rates on the credit amount will be very less compared to the existing rates in the market. The economic backward and women entrepreneurs can avail these loans after they complete the registration process for the Stand Up scheme.

4. Startup India:

Start Up India was an action plan aimed at promoting bank financing for startup ventures to boost entrepreneurship and encourage start ups with job creation. The campaign was first announced by PM Narendra Modi on 15 August 2015 address from the red fort. It is focused on to restrict role of States in policy domain and to get rid of "license raj" and hindrances like in land permissions, foreign investment proposal, environmental clearances. It was organized by Department of Industrial Policy and Promotion (DIPP).

5. MGNREGA:

MGNREGA or Mahatma Gandhi National Rural Employment Guarantee Act, 2005 is an Indian labour law and social security measure that aims to guarantee the 'right to work'. It aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.

The MGNREGA was initiated with the objective of "enhancing livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year, to every household whose adult members volunteer to do unskilled manual work".^[6] Another aim of MGNREGA is to create durable assets (such as roads, canals, ponds, wells). Employment is to be provided within 5 km of an applicant's residence, and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance. Thus, employment under MGNREGA is a legal entitlement. MGNREGA is to be implemented mainly by gram panchayats (GPs). The involvement of contractors is banned. Labour-intensive tasks like creating infrastructure for water harvesting, drought relief and flood control are preferred.

6. Digital India:

Digital India is a campaign launched by the Government of India to ensure that Government services are made available to citizens electronically by improved online infrastructure and by increasing Internet connectivity or by making the country digitally empowered in the field of technology

It was launched on 1 July 2015 by Prime Minister Narendra Modi. The initiative includes plans to connect rural areas with high-speed internet networks. Digital India consists of three core components. These include:

- The creation of digital infrastructure
- Delivery of services digitally
- Digital literacy

7. 12th Five Year Plan:

The Union Cabinet on 4 October 2012 approved the 12th five year plan with its aim to renew Indian economy and use the funds from government in improving the facilities of education, sanitation and health. This plan has seen a three fold increase in the budget constraints when compared to that of the 11th five year plan . The plan would infuse a huge fund of 47,70,000 lakh crore and this will help to accomplish the economic growth to an average of 8.2 percent.

The plan aims towards achieving a growth of 4 % in agriculture and to reduce poverty by 10% by 2017. The main of 12th five year plan is faster , sustainable and inclusive growth.

8. Setting up new institutes for higher education:

To improve the stand of higher education in the country new IITs and IIMs were set up. To achieve this goal 16 new IITs are set up making a total of 23 adding to the previous 7 . Also a total of 20 IIMs are established and a new IIM has been announced to be open in Warangal.

STILL THESE NEEDS TO BE DONE

- **Improvement in education standards both for lower and higher education.**
- **Women empowerment.**
- **Making economic environment more flexible and attractive for foreign investment.**
- **Creating a R&D favourable environment.**

These can be done by creating a solid foundation of a well established education system is fundamental in the furtherance of a developing nation like India. In lower we're making children memorize the words. We are not making them understand the basics. Different combination of subjects should be introduced to ensure greater productivity.

As around 45-50% of population in working age are women, then how we can achieve a dividend when 50% of working age population are ineffective to economic growth. The lack of women empowerment is like a vicious cycle that needs to be broken if country wants to use the window

THE OTHER SIDE:

The demographic dividend is one time only opportunity as its length is determined by the speed of demographic transition. This shows that dividend will likely to continue upto 2030 and would become negative thereafter this could happen because of ageing population.

Presently only 8% of Indian population is over 60 years and according to UN estimates by 2050 it will be 19%. This shows that a demographic burden is awaiting India, therefore it is high time to put in place sound policies that are good for nation today, and will stand us in good stead over the years as our population ages.

There are three areas that need great attention which are as follow:

- It would be necessary to look at older workers as potential resources and creates opportunities for them in social sectors for example para teachers.
- Managing soaring health care cost forms the second challenge of an ageing society. It would require creating innovating financial health care structures to make this challenge.
- The next area which may require considerable attention is increasing the ability to save for old age, this in turn would require improving quality of education thereby increasing productivity and hence enhancing the level of income and savings.

In addition to above it is also necessary to lay the foundation of strong social security system that would be fully equipped to take care of India's ageing population.

CONCLUSION

Demographic dividend provides India a golden opportunity to be a developed nation and economic superpower but for this some structural changes are needed, through we have great many policies but their proper implementation is more important . Special focus must be on education, skill development and producing new job opportunities to hit this movement otherwise dividend may turn into nightmare.

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