As India's Fertility Rate Falls, The Window To Cash In On Our Demographic Dividend Is Getting Shorter. Have We Failed To Leverage It?

HEY BABY: As per NFHS data, India's total fertility rate, or the average number of children per woman, has declined to 2. The rate at which a population replaces itself is 2.1

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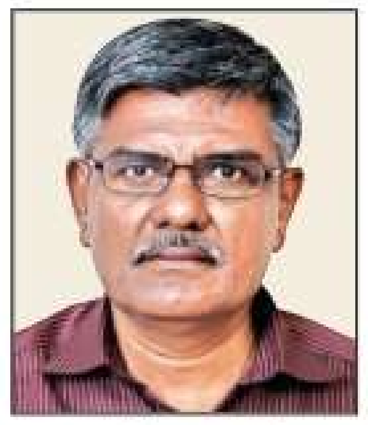
If jobless growth continues, we risk becoming old without becoming rich



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FOR

India aims to become a $5 trillion economy by 2025. Even if this happens, the estimated per-capita GDP rank would still be around 135 out of 190 economies. The reality is that India's per capita GDP is lower than Bangladesh, Sri Lanka, Bhutan and other South-East Asian economies. India needs to transform from an emerging economy to a developed economy or it may find itself in a middle-income trap.

Even if India becomes the fifth largest economy, we have to ensure prosperity for everyone. The top 1% holds 33% of the wealth and the top 10% holds 64.6% of the country's wealth (World Inequality Report, 2022). Increase in incomes needs to be inclusive, or India will grow rich without Indians getting rich. Prosperity needs to mitigate poverty and ensure reduction of inequality.

To get out of this poverty trap, we first need to raise incomes which require job creation. On the one hand, our 'growth' is jobless, and on the other, there is a lack of structural change with the share of the workforce in agriculture actually increasing. This does not bode well for our demographic dividend.

India is still a young country but data shows that our working-age population is going to start declining. To make the most of it, we need an educated, skilled workforce and the right structural changes

The 'East-Asian miracle' was based on demographic dividend. Their policies of investment in education, public health, productive employment, and structural transformation contributed towards a higher economic growth. China's GDP growth between the early 1990s and in 2000s was, for the most part, in double-digits or close. China's demographic dividend has now started petering out. While India's growth rate is catching up with the economic slowdown in China, reaching double-digits will require sound macroeconomic fundamentals and reaping the demographic dividend to the fullest. For this, we must ensure human development. With an HDI rank of 131, our demography cannot prosper.

Our demographic dividend is a non-recurring opportunity that is closing fast for India as it will soon start ageing. Our working-age population, which was recorded at 64.2% in 2021, is expected to marginally increase to 65.1% in 2031 and, thereafter, begin to marginally decline as per population projections. India is still a young country with median age 28.3 (considering 15-29 years as youth), but will no longer remain young with median age rising to 30.2 by 2026 and 34.5 by 2036. India's demographic dividend will shrink further as the latest round of NFHS-5 puts the total fertility rate — the number of children a woman can be expected to have during her lifetime — at 2. This will further decline to 1.73 between 2031 and 2035 as per projections.

As per NFHS-5, the population aged 15-49 with 10 or more years of schooling has crossed 50% per cent for males and 41% for females, but the glass is only half-full since we need an educated, skilled and productive workforce. The Periodic Labour Force Survey (PLFS 2019-20) data shows that only 38.5% of the population aged 15 and above completed secondary and above level of education and 11.8% of them did graduation and above. Overall, youth unemployment (15-29 years) was 15% in 2019-20.

PLFS (2019-20) data also reveals that 96.9% of persons aged 15 years and above have no technical education. Percentage of youth with formal vocational/technical training is just 4.1%. Overall, vocational training for the working-age population is still concentrated in IT & ITeS followed by textiles & handloom and electrical, power & electronics segment (EPE). Thus, there is also a need for diversifying skills, which should be duly acknowledged by existing skilling programmes.

It is also important to note that the highest migration in India takes place among the 20-24 age-groups (NSS 64th Round), mostly for work in case of males. As many as 8 out of 10 households reported internal migration. Increasing unemployment, lack of employment policy, regional inequalities (and rural-urban divide) along with absence of migration policy for actively promoting skills and migration (both internal and international) may transform our demographic dividend into a demographic disaster.

The Reserve Bank of India data shows that expenditure on public health and family welfare as a percentage of GDP was just 1.1% in 2021-22 BE (budget estimates), and as a ratio to aggregate expenditure, it was 5.5%. Similarly, expenditure on education (inclusive of sports, art and culture) as a percentage of GDP remained at just 2.9% in 2021-22 (BE). Expenditure on education as a ratio to aggregate expenditure was recorded at 13.9% in 2021-22, which is actually lower than that of 2020-21 (14.3%).

India may overtake China to become the most populous country by 2025 (UN-DESA) or a little later. This necessitates that we work diligently in realising our closing window of demographic dividend. China employed its labour force to increase economic growth and reduce poverty levels. India's challenge is to create decent jobs keeping in mind Industrial Revolution 4.0, automation and its differential impact on high-end and low-end occupations amidst Covid-19. This calls for skilling and reskilling to minimise negative externalities of job loss and make youth future ready for new occupations. For India to become 'Skill Capital', we need an employment policy in tandem with a migration policy. India's jobless growth puts our demographic dividend at risk; we might end up becoming old without becoming rich.

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We can still harness our youth but focus has to be on manufacturing

Dharmakirti Joshi

AGAINST

The term demographic dividend is understood as a stage in a country's demographic transition when the share of its working age population rises, unlocking an economy's growth potential. The latter part, though, is not automatic, as we delve into later.

India currently meets the first criterion. Our population dynamics are favourable and expected to remain so, as per UN projections. About 930 million people (67% of India's population) are currently in the working age group of 15-64 years. This group is set to expand by 100 million over the next decade despite a declining trend in birth rates. This means that a whopping 22.5% of the incremental global workforce over the next decade will come from India. In the same period, the working age population of China is projected to shrink 25 million.

Sure, India is not fully reaping the benefits of its predominantly young population. But that does not mean we have run out of possibilities to do so the way many advanced countries with ageing populations have. Even there, some of them are liberalising their immigration policies, reflecting the criticality of youth for driving growth. So, the pertinent question is: what must India do to turn its demographic opportunity into a dividend and ensure it is not squandered away?

Let us begin with manufacturing, the sector that, in a country's industrialisation pathway, absorbs surplus labour from agriculture. Unlike China and many other East Asian economies, which used manufacturing and exports to push growth and employment, India bypassed the manufacturing stage and witnessed a rather atypical rise in the share of services in its gross domestic product (GDP). Various attempts, including the New Manufacturing Policy, failed to raise the share of manufacturing in GDP which is stuck at 16-18% of GDP. This restricted the movement of labour out of agriculture, keeping productivity improvement and per capita incomes low.

The task ahead to nurture manufacturing as a wellspring of jobs is uphill, if not insurmountable, as the labour intensity of manufacturing is on the decline due to rising automation. Another reason for the reduced ability to absorb labour has been the proclivity of firms to substitute labour with capital due to what they feel are 'rigid' labour laws in India. This means that manufacturing will have to grow faster to generate the same number of jobs that it did in the past. The Production Linked Incentive (PLI) scheme is the latest attempt to push manufacturing. This comes at a time the pandemic has accelerated the process of diversification of suppliers and production destinations, especially under the China-plus-one policy. Here's a chance for India to integrate itself into global value chains and develop manufacturing.

Improving competitiveness of products through a focus on domestic infrastructure building, reforming labour laws, strengthening dispute resolution mechanisms, and reducing the cost of doing business and trade costs would go a long way in improving India's chances of scripting manufacturing-led growth.

Paradoxically, along with reforms in labour laws, there is another simultaneous imperative — of strengthening social security net for the masses where much needs to be done. Additionally, for accelerating job creation, India should specifically focus on labour-intensive segments of manufacturing such as textiles, gems and jewellery, food processing, leather and leather products. Bangladesh and Vietnam are prime examples of economies that took advantage of their low-cost structure and developed their textile sector.

The pandemic has caused some major shifts. The foregrounding of technology when the country lacks skilled manpower is creating wage pressures. At the same time, the hit to smaller enterprises and contact-based services is creating an unemployable/under-employed army of people. Indeed, the micro, small and medium enterprises (MSMEs), which are far more labour-intensive than large firms, have borne the brunt of the pandemic.

So India not only needs to create more jobs in manufacturing, it must also skill the labour force to meet changing market needs and provide continued fiscal support to MSMEs to recover from the crisis.

Within non-agriculture, construction is the most labour-intensive sector. A dominant part of the labour force used here continues to be unskilled or semi-skilled. A fast-growing construction sector would help create employment for the less-skilled surplus labour in agriculture.

Finally, coming to services. Focusing on relatively labour-intensive services such as healthcare, education and hospitality can greatly augment job creation. Public investments in healthcare and education will not only create jobs, but also raise growth potential by making the workforce skilled, educated and healthy.

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It is equally important to focus on the gender dimension to realise the demographic dividend. As the United Nations Population Fund points out, not just dividends, but "all progress will be constrained if the population is under-prepared, and every person — particularly every girl — cannot pursue her education or navigate her transition to adulthood assured of her human rights."

Thus, favourable demographics are a necessary though not sufficient condition to reap the demographic dividend. For that, conscious steps and investments must be taken to promote growth, employment and well-being, as outlined here. Moreover, these will take time to fructify. India has only a short window to act.

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