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Indian demographic dividend lacks spark

By Kunal Kumar Kundu

NEW DELHI - The Indian economy has long been hailed as ready to shoulder the burdens of an engine of global growth once China falters, but it is really just ambling along. For a brief moment it flirted with glory, threatening to touch a double-digit growth rate only to fall back when the global crisis erupted in 2008.

Praised then for being an environment highly conducive to a global growth, report after report sang paeans on the economy's potential, concluding that it is just a matter of time before India overtakes China on a sustainable basis. The central theme has been the benefit the country can derive from its young population, which will continue to grow in size for another couple of decades or so.

Like many of its peers in the developing world, India will have a relatively large working-age population (aged between 15 and 59 years), as compared to its dependent population (aged 14 years or less and 60 years or above) over the next few decades. In the case of India, the dependency ratio (number of children and aged people per working-age person) declined 21% over the past three decades, compared to a decline of 31% in China, 1% in US, 7% in Europe and an increase of 8% in Japan. At the current trend, India would have the lowest dependency ratio of these major blocks by 2030.

As a result, by 2030, India's working-age population is expected to expand to 131% of the 2010 workforce. When the number of people eligible to be part of a labor force constitutes a disproportionately large percentage of a country's population, it is but natural that the country would benefit.

In the paper, "The Demographic Dividend - A New Perspective on the Economic Consequences of Population Change", David Bloom, David Canning and Jaypee Sevilla argue that, "nations undergoing this transition have an opportunity to capitalize on the demographic dividend offered by the maturing of formerly young populations."

It is, however, important to realize that the dividend that a young population is likely to entail does not materialize like manna from heaven. What this necessitates is that India is able to provide adequate opportunities to the large number of young people who enter the work force every year. If, on the other hand, the economy is not geared adequately enough to absorb them at the rate desired, this has the potential to vitiate the social fabric and the desired dividend may well turn into a curse.

Thus far, available data indicate that India has failed miserably in providing meaningful employment opportunities for its teeming millions. According to India's Planning Commission, the employment elasticity of growth in India in the last decade declined from 0.44 during the first half to an abysmal 0.01

during second half of the decade. If we assume that the average elasticity for the decade is 0.2, and India's workforce increases by roughly 2% every year, the economy has to grow by 10% to absorb all the new entrants. Not surprisingly, the past decade is considered as one of jobless growth for India.

An analysis of India's growth history shows that India moved from being an agrarian economy to a service sector driven economy by completely bypassing the Industrial revolution. However, the proportion of population engaged in these activities has hardly changed. As per available data, little more than 50% of India's population continues to be engaged in agriculture (which barely accounts for 14% of gross domestic product), while less than 30% of the population works in the service sector that accounts for more than 60% of GDP.

Although non-agricultural sectors continued to grow faster, it failed to wean away people from agriculture at the desired pace, leading to lopsided structure of employment distribution in India. For India to be able to reap the demographic dividend, employment opportunities need to open up substantially in the manufacturing sector. It is important, therefore, that India strives to achieve a higher contribution of industry to GDP so as to be able to move a fair share of people engaged in agriculture into industry, since the skill barrier is less for movement to agriculture industry than from agriculture to service.

However, the achievement on this front leaves a lot to be desired. According to the Planning Commission, employment elasticity in industry during the second half of the decade was negative. This explains India's employment conundrum. As per the latest assessments by India's National Sample Survey organization (NSSO), India's unemployment rate fell to 6.6% in 2009-10, from 8.2% in 2004-05. While the unemployment number seems to be low, the fact is that, given the lack of viable employment opportunities, self-employment accounts for roughly 60% of India's population in work. A big chunk of this includes low-paying activities like hawking magazines, flowers at traffic signals and the like. Casual workers - who get jobs at times and remain unpaid at other times - account for 30%, while only 10% of the working population is in regular employment.

Moreover, if one looks at the disaggregated data of employment in terms of educational attainment, unemployment is least among rural unskilled workers while it is highest among educated urban youth. What this implies is that the average quality of education in India is poor. Thus, although there are some oases of educational excellence (the IITs, IIMs, ISI, IISc etc), the generally poor quality of education (engendered by questionable quality of teachers, poor availability of basic infrastructure) renders majority of educated youth unemployable.

Having said that, India does have appropriate policies in place which among others include the New Manufacturing Policy (NMP) or the Right To Education (RTE) Act. Problem, however, lies at the stage of implementation. The general tendency is to spend the money allocated for various projects but there's hardly any end-use and/or outcome audit to ensure desirable outcomes.

Thus, while India cannot be faulted on its intent, the general lack of will amplifies the magnitude of the problem, especially as time ticks away. It is but this "will" that will decide whether the dividend does manifest itself positively or morphs into a curse.

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