

CHAPTER I

INTRODUCTION

Introduction

Demographic transition is the shift from high mortality and fertility rates to low mortality and fertility rates. This shift is commonly understood to occur in three phases. The first phase of the demographic transition is characterized by high mortality and fertility rates. A decline in mortality marks the beginning of the second phase. The second phase of the demographic transition sees major changes in the age structure: the share of the working-age population, 15 to 64, in the total population swells. In the initial stages of this transition, fertility rates fall, leading to a labour force that is temporarily growing faster than the population dependent on it freeing up resources for investment in economic development and family welfare. This leads to a baby-boom generation that is gradually working its way through nation's age structures which will have significant effects for several generations as they enter the reproductive years. This period generally lasts for a long time, typically five decades or more.

As the boom generation enters working age, there is the opportunity to unleash an economic growth spurt, provided the right kinds of policies are in place to ensure the extra workers are productively employed. The demographic dividend is the economic growth potential that can result from shifts in a population's

age structure, mainly when the share of the working age population is larger than the non-working-age share of the population, 14 and younger or 65 and older. The dividend comes as resources are freed for economic development, and for greater per capita spending on higher quality health and education services. Economic growth takes off and a virtuous cycle begins where capabilities and opportunities continuously expand. That potential can be enormous, provided supportive economic policies are in place and investments in human capital, particularly of young people, are substantial and strategic. Without a solid economic and policy framework to back it up, the demographic dividend may not be fully realized. For this reason, policymakers should benefit from a clearer understanding of the relationship between economic development and the changes in age structure that result from the unfolding demographic transition.

Demographic Transition and the Indian Economy

The Indian States home to the vast majority of the world's population are in varying stages of a demographic transition from high to low rates of mortality and fertility. India's population begin to enter the third stage of transition sometime in the close of the 1960s. As decline in the death rates was much more rapid, the rate of natural increase in the population went up from 1.2 to 1.3 per cent during 1921-51 to 2 to 2.2 per cent during 1951-81. Interestingly, around the same time, decline in birth rates also gathered momentum. The decline in birth rates was experienced almost throughout the country, though there were significant regional variation in its pace. Population projections made by the United Nations, the World Bank and demographers all indicate that India as a whole will attain replacement level fertility or complete the fertility transition in the next 20 years. However, the population size

will continue to rise for 50 to 60 years due to the recent history of high fertility that has resulted in young age structure and because, despite the decline, the total fertility rate (TFR) for the country as a whole is still above replacement level of TFR of 2.1. India's future population size will largely depend upon the course of the birth rate, particularly in the heavily populated northern states. United Nations 2015 'more likely scenario' projections shows India's population growing from 1.3 billion at present to 1.5 billion in 2050.

Demographic Dividend and the Policy Environment

The states undergoing this transition have an opportunity to capitalize on the demographic dividend offered by the maturing of formerly young populations. The demographic dividend is not, however, automatic. Given the right kind of policy environment, this demographic dividend can help to produce a sustained period of economic growth, as it did in several East Asian economies. Several key policy variables influence nation's abilities to realize the demographic dividend. Policymakers should consider how to maximize and capture this dividend by accelerating the demographic transition, and allowing extra labour to be absorbed productively in the market. The demographic transition offers policymakers a window of opportunity. Seizing it could prove vital to the economic and social development of the country.

Statement of the Problem

In 2015, about 29 percent of the population was below age 15 and just 6 percent was age 65 and older. Nearly half of the population, 47 percent, is below age 25. As these young people produce their own families, they also require additional

schools, jobs, and housing. However, India is facing serious challenges of unemployment, work deficit in various sectors, new additions to the labour force, underemployment, and the fact that large sections of the workforce in the informal sector are below the poverty line. Only about half of the males who constitute two-thirds of the workforce are working, whereas only about one-fifth of the females finds employment. Even in a period of significant employment growth, open unemployment actually increased from 6.1 per cent in 1993-94 to 8.3 per cent in 2004-05. Unemployment rates increased in both urban and rural areas. There is the further problem that even those who have been educated find it hard to get jobs, whether these jobs are appropriate to their skills or otherwise. Underemployment can also be high for all workers, and especially for casual labourers. An analysis by the World Bank brings out the inevitability of underemployment in conditions under which poor people – particularly males – have no option but to do whatever work they get, if they wish to survive. There is widespread underemployment both in subsistence farming and in the informal sector. Poverty and underemployment co-exist, and the extent of poverty is highest amongst casual workers. Overall, the generation of employment in the Indian economy has fallen behind the growth in the supply of workers. Whether the current growth in employment in India can optimally absorb the large addition to the labour force due to the demographic transition, and the policy reforms required to achieve the potential demographic dividend needs a critically analysis.

Justification of the Study

The transition of the demography from a high fertility and high mortality regime to one in which both are low, and the probable impact on economy has been

at the centre of modern demographic research. A causative relation between an increase in the percentage working age population and economic growth of a country has been observed, albeit with the right policy interventions. The term 'demographic dividend' entered the research and policy lexicon towards the end of the 20th century denoting the potential from the rapid growth of the labour force, temporarily, than the population dependent on it, freeing up resources for investment in economic development and family welfare.

Estimates by the World Bank show that the population aged 15 to 59 years is set to increase dramatically in India from around 757 million in 2010 to 972 million in 2030. This could potentially translate into an addition of over 200 million workers over the next two decades. On the other hand, during the same period, the working age population is expected to decline in most developed regions of the world and even in China (where it would fall from 913 million to 847 million). In other words, India will contribute a substantial chunk of the increase in the global labour supply over the coming years. A lower age group working age population and falling dependency ratio, compared to not only the ageing more developed countries but also China, is seen as a major advantage for India. There is a pervasive policy and public discourse on the potential for India to reap a significant demographic dividend.

Objectives

The objectives of the research are as given below:

- Study the stage of demographic transition of Indian States at different points of the transition spectrum and the consequent increase in the working age group, or the potentially productive segment.

- Study the current growth in employment in the country and the ability of the Indian economy to optimally absorb the large addition to labour force due to the demographic transition.
- Understand the policy reforms required for India to achieve the potential demographic dividend.

Research Questions

In the demographic transition stage that India finds itself in, can the nation accrue the optimum potential demographic dividend, in an increasingly globalised market and economy? The specific questions given below needs critical analysis to arrive at possible policy reforms to enable India to reap the dividends:-

- What is the current age structure of the population of India and is there a significant increase in the working age population and fall in dependency ratio in line with what was observed in the East Asian countries from the middle of the 20th century which resulted in an economic boom in the region?
- Whether the current growth in employment can optimally absorb the large addition to labour force due to the demographic transition to achieve the potential demographic dividend?
- What are the policy reforms that are essential for India to possibly maximise the potential demographic dividend?

Research Methodology

The study is based on secondary data from census of the Government of India, the USA, and international agencies, and information collected from various publications, articles, books and research reports. The change in age structure in the population of Indian states and the consequent addition to the working age population was analysed, and the ability of the economy to optimally absorb this additional labour force has been studied in detail. The vast literature available on the subject was explored to speculate the policy reforms required to achieve the potential demographic dividend. The chapterisation is as given below:-

➤ **Chapter I – Introduction**

➤ **Chapter II - Literature Review:**

The relevant literature available on the subject has been reviewed in the chapter.

➤ **Chapter III - Demographic Transition:**

This chapter elucidates the demographic transition model and the near universality in successive fall in mortality and fertility resulting in the significant growth of working age population of a country over a period of time. The research on transition causality is also discussed in detail. The chapter concludes by looking at the demographic transition stage in India.

➤ **Chapter IV - Demographic Dividend:**

This chapter explains the concept of demographic dividend and that the age structure changes merely create the potential for economic growth. It highlights that whether or not this potential is captured depends on the policy

environment, and empirically and theoretically there is nothing automatic about the link from demographic change to economic growth.

➤ **Chapter V - Population Change in India:**

This chapter critically examines the population using the data from the Office of the Registrar General and Census Commissioner General, India to understand the age structure and its likely projection. The data reflects the positive change in mortality and the rapid fall in TFR (total fertility rate) towards the later part of the 20th century taking the population growth of the country close to the replacement level. The geographic diversity is highlighted using the states and union territory data. The poor sex ratio at birth - one of the most striking features of India's population profile - is also underlined. Finally, socio-economic character of the population and literacy rate is discussed, mainly with a view to understand the labour force participation in the economy.

➤ **Chapter VI - The Demographic Change and Employment Growth in India:**

This chapter relies on various national surveys and studies undertaken to understand the growth of employment in various sectors of the economy. The major shift away from agriculture is underlined signifying the rural to urban migration especially amongst youth. The data clearly indicates the worrying gap between employment generation and perennial entry of potential labour force into the economy. It also suggests that under employment is equally challenging as unemployment. The poor women labour force participation,

also due to gender discrimination, is another worrying aspect of employment in India.

➤ **Chapter VII - Enhancing India's Potential Demographic Dividend:**

The various policy reforms required to improve the markets and the economy and to generate employment and growth are considered in detail in this chapter. The enormous research on the subject clearly brings out that in order to fully reap the benefits of the demographic dividend and support a return to high and more inclusive growth, India needs to renew its commitment to sound macroeconomic policy and implementation of reforms.