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978-1-107-09172-6 - Realising the Demographic Dividend: Policies to Achieve
Inclusive Growth in India
Santosh Mehrotra
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Realising the Demographic Dividend

This book elaborates on policies to achieve inclusive growth in India. It deals with various development issues like the failure to increase employment despite unprecedented industrial and services growth; failure to generate enough skilled manpower to meet the requirements of fast growing sectors; and failure to ensure human capabilities so that the poor can participate in the benefits of economic growth.

The book's theoretical framework is based on the capability approach discussed in the first chapter. The rest is empirical, and is focused on specific problems with specific policy implications. Human capital levels of the youthful workforce in India remain worrying and the largely informal workforce is not covered by social insurance. In addition, universal elementary education, despite the Right to Education Act 2009, is yet to be achieved in the country. Health outcomes over the years have improved only slowly. Sanitation still remains a very serious problem for a major part of the country. The author discusses these issues in individual chapters. Specific policy implications are also provided, beyond what is currently being practised. Finally the book deals with the governance issues that need to be addressed if growth has to be inclusive.

Santosh Mehrotra is Professor of Economics at the Centre for Informal Sector and Labour Studies, Jawaharlal Nehru University. He was earlier Director General, National Institute for Labour Economics Research, the only research institute of the Planning Commission of India. Mehrotra also headed the Rural Development Division and then the Development Policy Division of the Commission. He was the team leader of the India Human Development Report 2011 and was the chief economist of the Human Development Report, New York. Professor Mehrotra's research has been translated into French, Spanish, Russian, Chinese and Portuguese.

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“This is a topic of fundamental importance to the future development path of India. The script is exceptionally clearly structured and sharply written. . . .the level of analysis in this volume is far above other analyses of this complex topic. This book is likely to be widely referred to and become a standard reference for debates about India’s labour market and employment policies, and their relationship to growth and social justice in India.”

— **Peter Nolan**, Director of Development Economics, University of Cambridge

“This excellent book combines analytical sharpness and policy sensitivity to tackle the central issue of how to make best use of the demographic dividend for inclusive development. It will be of interest to analysts and policy makers alike.”

— **Ravi Kanbur**, T.H. Lee Professor of World Affairs, International
Professor of Applied Economics and Management, Cornell University

“This book combines a comprehensive factual background on each welfare dimension that he addresses with crisp histories of the various programmes that were initiated in each area. Diagnosis flows naturally from these two elements and translates effectively into practical policy recommendations. This book will become a standard reference for anyone wanting to understand why things are the way they are in India’s welfare state and what must be done about it.”

— **Subir Gokarn**, Former Deputy Governor, Reserve Bank of India
and Director, Brookings Institute India

“It is a highly topical subject: why did India fail to translate its fast growth into welfare for the poor? This is a thoroughly professional piece of work by a thorough and through professional. The book is basically empirical, although it has a theoretical foundation in the work of Amartya Sen and Martha Nussbaum.”

— **Ajit Singh**, Professor Emeritus in Economics, University of Cambridge

“Santosh Mehrotra has been on the inside, and this adds value to his project, apart from giving him access to materials. To be fair, he is not presenting as a spokesperson for the Planning Commission, the Government, and least of all for the freakish outlier interpretations of the Indian neo-liberal economic regime.”

— **Ashwani Saith**, Professor Emeritus, Institute of Social Studies, The Hague

“It is a hard hitting empirical book testing and largely validating the theoretical underpinnings of the importance of the so called ‘softer’ aspects of development practice and policy. The demographic dividend, skilling policies, gender, children are all put together. While people like me saw the Indian advantage over countries like the US, China and Japan, Mehrotra also correctly spells out the challenges of the dividend.”

— **Yoginder K. Alagh**, Former Vice Chancellor, Jawaharlal Nehru University

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Preface

This book has grown out of many years of learning while I was with the Planning Commission of India, first heading two divisions (Rural Development and then Development Policy) and then as the head of the only research institute of the Commission (2006–14). In the early 1990s, I had joined the United Nations system, after having left an academic position in JNU, New Delhi. In the UN role I had had the opportunity of advising governments from across the developing world, but had never actually worked for the government. The opportunity of joining the government came at a time when India's GDP was growing at an unprecedentedly high rate. It was an extremely exciting time to be in government, as I was quite often at the cutting edge of policy design and policy advice. India has remained, along with many other major Asian economies, a country that has prepared five year plans almost continuously since Independence. Both China and India are currently into their 12th Five Year Plan. I had the good fortune of contributing to the process of preparation of the 11th as well as 12th Five Year Plans, apart from working with central line ministries as well as state governments. It was a profoundly important learning experience, and many of the lessons from that wide and rich experience are reflected in the chapters of this book.

India is at an extremely critical juncture in its development – the demographic dividend – a period when the share of the working age population in the total population rises, which is known to have many benefits flow to its people provided government policies are such as to exploit this once in a life time opportunity in a nation's history. Before the dividend begins the nation is burdened with a high dependency ratio, with a large and growing share of the population below the working age of 15. Once the dividend period has passed, the share of the elderly population rises who are no more working, and hence have to be provided for (in terms of pensions and health benefits). The dividend, lying in between these two periods, is characterised by a low dependency ratio and a high share of the working age population.

India's demographic dividend began in the early 1980s and is expected to come to an end towards the latter part of the 2030s. In other words, India is just beyond the midpoint of its dividend, and this once in a life time opportunity for our nation is unlikely to last beyond another quarter of a century from now. The question is whether our policymakers recognise the limited time available for exploiting the advantages of the demographic

dividend. Visionary policies and speedy decision making to increase and sustain GDP, reduce poverty and enhance the human capabilities of our citizens cannot wait – every year lost will never return in the life of a child or youth, and in 25 years India will be an aging society. The West European and Japanese populations are already aging, and their total populations have in fact been declining. China is at the end of its demographic dividend, and although its GDP has grown at a rate for three decades unprecedented in human history and has succeeded in reducing the numbers of the poor at the same time, their leaders are already complaining that ‘Europe became rich before they became old, we have become old without having become rich’. India, and its leaders, could face the same challenge in a quarter century but today, they need to guard against missing the current opportunities, so that a quarter century from now our children and their leaders do not have to repeat the Chinese concern at the end of their demographic dividend.

This book is organised as follows. In chapter 1 the theoretical framework is laid out which holds the rest of the book together. The remaining 15 chapters of the book are to be found under four broad headings: Growth, Employment and Inclusion (Part 1), Human Capital Formation (Part 2), Building a System of Social Protection (Part 3) and Governance (Part 4).

The subject discussed in each chapter is a critical priority if the objective of India’s policymakers – inclusive growth – is to be achieved. Thus, the concern behind chapter 2 (Sustaining Economic Growth) is that after achieving a growth rate of 8.4 per cent per annum over 2003–04 to 2011–12 GDP growth declined in the following two years (2012–13 and 2013–14). Even though India is yet far from the risk of hitting the point of the middle-income trap, as it still has more than abundant supplies of labour, yet we note that this kind of volatility in growth is reminiscent of the middle income Latin American experience and is contrary to the experience of China or the miracle economies of East Asia. This raises the concern that, if this volatility in growth continues, there is the risk that India may even have difficulty in graduating from low-middle-income status to upper-middle-income status, while the demographic dividend begins to peter out. This chapter makes the case for action needed to preclude this eventuality. If growth is to be sustained, then agricultural output must grow much faster (discussed in chapter 3) than even the 3.2 per cent per annum experienced over 2007–12; over 2012–14 agriculture has grown under 2 per cent per annum. Such a low agricultural growth rate was not typical of the East Asian economies and is not even typical in several Indian states (for example, Gujarat and Andhra Pradesh). Chapter 3, therefore, presents the policies needed in order to raise the growth rate of agriculture, a pre-requisite for overall inclusive growth.

Also inclusive growth will only be achieved if the employment-elasticity of output rises. Chapter 4 presents several employment related paradoxes of India’s rapid economic growth in the last decade. The first is that output has grown and poverty fallen, but the slow rate of poverty decline remains a major concern. The second is that output growth has

sustained but manufacturing/services employment has been volatile. The third paradox is that despite growth in per capita income, women's labour force participation rate, already amongst the lowest in the world, has continued to decline. The chapter elaborates policies needed to address these employment-related concerns.

The historical evidence of the now industrialised countries is that with rising per capita income the size of the state and the share of public expenditure in GDP rises almost monotonically. India too has experienced rapid growth over the two decades since the economic reforms began (compared to the preceding four decades), but the tax GDP ratio has remained stagnant. Chapter 5 (Public Finance: Increasing Fiscal Capacity) devotes attention to the ways in which the fiscal capacity of the state can be raised, so that infrastructure investment can be sustained as well as public investment in health, education, skill development and social protection. Expenditure reforms required to improve the effectiveness of spending are discussed in several later chapters.

The last two chapters in Part 1, chapter 6 (Skill Development: Finding New Financing Mechanisms to Take Vocational Education and Training to Scale) and chapter 7 (A Common Platform for Skill Development: Implementing the National Skills Qualification Framework), both address a concern that has become particularly important in the last seven or eight years, when the growth rate increased. These chapters spell out how an eco-system can be created to expand the provision and improve the quality of vocational education and training in the country. In particular, it makes the case for a grand bargain between the public and private sectors to create a national training fund to finance skill development on a vast scale, and also presents the case for why a common platform for skill development is needed, in the form of a national skills qualification framework (which the author had a key role in formulating), to ensure coherence among the skill development providers in India.

Part 2 (Human Capital Formation) turns its attention to one of the most serious weaknesses of the Indian economy: the state of human capital. Chapter 8 (Addressing Capability Deprivation of Women for Inclusive Growth) suggests that India suffers from one of the worst gender discrimination in the world, and argues that sustaining a rapid growth rate is itself dependent upon ensuring much better status for girls and women as part of an inclusive growth strategy, than is currently realised by policymakers. It spells out the dimensions where sustained action is needed.

Chapter 9 (From the Right to Education to the Right to Learning) goes on to examine the school system five years after the implementation of the Right to Education Act. The challenges, despite the significant increase in enrollment at every level, remain monumental. The policies to address the huge challenges have to be not only visionary, but based on research evidence, rather than the 'gut feeling' of senior bureaucrats or merely political directives. The research evidence collected here suggests a number of policy priorities differ from those currently in the focus of government policy.

Chapter 10 (Food Security, Nutrition and Health: Policy Dilemmas and Interlinked Challenges) addresses the complex and inter-related problems underlying the worst malnutrition rates in the world. It first discusses the complex challenges around implementation of the Food Security Act and key reforms needed in it; examines whether the 40 year old Integrated Child Development Scheme can address malnutrition in its current form; and then proposes key reforms to ensure early childhood development and to the public health system. Malnutrition remains an intractable problem requiring multi-sectoral action. However, the chapter makes the case that there is little or no prospect for multi-sectoral action being realised within the foreseeable future, given fundamental problems with the incentive structure our bureaucrats face for such cooperative action. It, therefore, argues for specific requirements within each of several programmes, if the world's worst malnutrition rates are to improve more rapidly than has happened since 2005.

One of the greatest failures of policy/programming and a shame for India is that more than two-third of its rural population defaecates in the open – a phenomenon found nowhere else in the world. India accounts for only 16 per cent of the global population, but 60 per cent of the world's population that defaecates in the open lives in India. Chapter 11 (Redesigning Sanitation Programmes to Make India Free from Open Defaecation) makes the case for a radical re-design of the government programmes, away from merely building toilets (that remains a focus even mid-2014 onwards). The new government's programme design is not much different from that before 2014, when between 2001 and 2011, the share of rural households that has a toilet increased only 10 percentage points to 32 per cent, and often even those are not used. At this rate, there is a risk that Indians will still be defaecating in the open 70 years from now.

Part 3 (Building a System of Social Protection) makes the case for a comprehensive social assistance and social insurance programme, which must cover in the first phase the households below the poverty line. Chapter 12 (Minimising Leakages in Welfare Programmes: How to Identify the Poor Correctly?) addresses an issue that has proved a challenge in many developing countries: how to identify the poor as opposed to 'estimating' them? It draws upon the author's experiences in government to present a design for the census that has recently been implemented in the country. It is hoped that the identification of the poor will not remain such a contentious issue in the future, as it has been for the last two and a half decades.

India is an outlier among emerging market economies in having 93 per cent of its workforce in informal employment, almost none of whom have any social insurance. Chapter 13 (Needed a Social Insurance System for Unorganised Workers below the Poverty Line) presents the outline of a social insurance system consisting of old age pension, death and disability insurance and maternity benefits for those below the poverty line, and goes on to cost it. The cost of covering the entire BPL population within such a social insurance mechanism works out to no more than 0.38 per cent of GDP (but it

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cautions that it must not be introduced hurriedly, without careful planning and piloting, unlike the efforts initiated since mid-2014). Chapter 14 (Introducing Cash Transfers: A Proposal for a Minimum Income Guarantee and Some CCTs) goes on to argue that India is again a complete outlier among middle-income countries in having very little cash assistance provided to workers. This is particularly surprising given that one in ten of the Indian workforce is without any social insurance, and has informal employment. The chapter details the case for a minimum income guarantee for BPL and some CCTs.

The last two chapters examine two complex, even ticklish, problems of governance. The first is that, despite being a federal, democratic country India remains one of the most fiscally centralised governance systems in the world. Chapter 15 (Two Pre-requisites for Optimum Governance: Deep Fiscal Decentralisation and the Bureaucracy's Ability to Learn) makes the case for deep democratic decentralisation, contrasting India with China in this regard which is much more fiscally decentralised. It also argues that the Indian bureaucracy is in urgent need for radical reform to become a 'learning administrative service'. Without this institutional change it may be difficult for the state to respond with agility. Also domain knowledge in the senior bureaucracy is needed to respond to the needs of a rapidly diversifying economy. The Indian bureaucracy has to learn to become a learning civil service, and incentive systems must be put in place if civil servants are to cease being generalists. Finally, Chapter 16 (Addressing Left-wing Extremism: Encourage Peace to Secure Development – or the Way Round?) addresses the developmental challenges facing almost one-sixth of the country's districts that are infested by left-wing extremists. We argue that without addressing the developmental challenges of these districts the security-centric approach of the Indian state so far is unlikely to ensure peace with social justice. The area of influence of left-wing extremists may only continue to grow, as it has for the last quarter century.

The book, despite covering a broad canvas, does not attempt to be exhaustive; it does not cover some very important dimensions that are also critical to ensuring inclusiveness in growth. For example, the rapid enhancement of access to electricity to hundreds of millions who still live in darkness as night falls, or climate change and its growing impact on small farmers who have no capacity to cope with it or financial inclusion in a country where nearly half the population does not have a bank account. These issues are not discussed at length, but brought up briefly where they fit in well in the theme in focus in a particular chapter.

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