

Demographic Dividend: Indian Economy Notes for UPSC Exams

Demographic Dividend meaning - It is the potential for economic gains when the share of the working-age population (15 years - 64 years) is higher than the non-working age group.

Demographic dividend occurs when the proportion of working people in the total population is high because this indicates that more people have the potential to be productive and contribute to growth of the economy.

Due to the dividend between young and old, many argue that there is great potential for economic gains, which has been termed the "demographic gift". In order for economic growth to occur the younger population must have access to quality education, adequate nutrition and health including access to sexual and reproductive health.

Demographic dividend takes place when a country undergoes a demographic transition from a rural agrarian economy with high fertility rates to an urban industrialized economy with low fertility and mortality rates. This article gives details on demographic dividend and opportunities that accompany it, in the Indian context. For more information on the [IAS Exam](#), visit the given link.

What is a Demographic Dividend?

As per the [United Nations Population Fund \(UNFPA\)](#), the demographic dividend is the economic growth potential resulting out of changing population age structure with a large section of people in the working-age group of 15 years to 64 years as compared to the non-working age population of below 14 years and above 65 years.

Demographic Dividend - Causes

Change in population structure occur due to

1. Falling birth rate
2. Lower fertility rate
3. Increased longevity

Falling birth rate and lower fertility rate will contribute to a reduction in expenditure, increased longevity will lead to an increase in the size of the working-age population.

Demographic Dividend - Opportunities for India

1. India will have the youngest workforce in the world with a median age much lower than China and other Developed countries.
2. The other countries will have a higher proportion of the population which is not in the working-age group which will result in a shortage of manpower to the tune of 56 million.
3. Indian workforce can fill this gap in India and abroad and result in greater economic growth.
4. During the period of demographic dividend, the personal savings will grow, which means greater purchasing power, which can lead to the growth of the economy.

To know how demographic dividend and other factors impact the [Indian Economy](#), visit the linked article.

The Pattern of Demographic Shift in India:

- India's working-age population is rising and stood at 68% compared with 67.3% in 2020 and 66% in 2015, according to the [UNFPA's State of World Population Report 2023](#).
- China, on the other hand, has a working-age population of 69%, but it is declining from 70.3% in 2020 and 73% in 2015.
- India's population in 2023 stood at 1,428.6 million compared to China's 1,425.7 million, according to the UN report on world population.
- While India is a young country, the status and pace of population ageing vary among states, according to the UNFPA. Southern states, which are advanced in demographic transition, already have a higher percentage of older people.
- These differences in age structure reflect differences in economic development and health, and remind us of states' very different starting points at the outset of the 2030 Sustainable Development Goals Agenda, according to the UN report.
- India needs to address the diversity between states, according to the UNFPA, but this also offers boundless opportunities for states to work together, especially on demographic transition, with the north-central region as the reservoir of India's workforce.

Demographic Divided - Challenges facing India

1. Skill development of the working-age population so that they can turn out to be productive for the country's economy. By 2031, the overall size of our vast working-age population would have declined in 11 of the 22 major States. While Kerala's population is already aging, in Bihar the working-age cohort is predicted to continue increasing till 2051. Check out the details on [Demographics of India](#) on the page link provided here.
2. Rate of employability among Indian graduates is on the lower side. Further details on [Unemployment in India](#) can be seen on the given link.

3. As per UNDP report, India ranks very poorly in Human Development Index (HDI). You can go through the details of the [Human Development Index 2020](#) on the linked page.
4. The mean years of schooling and expected years of schooling are very low in India. Go through the [issues and challenges with the Indian education System](#) on the linked page.
 - Also, read about [Digital Education in India](#) on the given link.
5. Unemployment rates are high in rural and urban India.
6. A huge percentage of the population is still dependent on [agriculture in India](#), this segment is also known for underemployment and disguised unemployment.
7. A huge majority of the workforce is employed in the unorganized sector which is riddled with low wages and the absence of social security.
8. Fall in female labour force participation in India, as per reports from International Labour Organisation ([ILO](#)) and World Bank. Growing female literacy is not translating into relevant and marketable skills. Lack of flexible entry and exit policies for women into virtual classrooms, and into modules for open digital training, and vocational education limits access to contemporary vocations. Aspirants can check the following links for further details-
 - [Gender Inequality](#) and
 - [Gender Pay Parity](#)

Way Forward to Tap India's Demographic Dividend Window

- **Investment in Health and Education:** Experts suggest that the Indian government needs to accelerate investment in health and education to improve the employability of its workforce. The 15th Finance Commission has recommended that India's public expenditure on health should increase to 2.5% of GDP by 2025. Similarly, public investment in education needs to be increased from its current level of 1% of GDP.
- **Accelerating Manufacturing Activity:** The potential of the manufacturing sector to create millions of jobs needs to be tapped. This can be achieved by implementing land and labour reforms to boost the sector's competitiveness.
- **Addressing Structural Issues:** India needs to address its structural issues fast to accelerate economic growth. This can be done by generating more jobs, investing in health and education, and accelerating manufacturing activity.
- **Collaboration Between Centre and States:** The central and state governments need to work together to accelerate manufacturing activity and harness the full potential of India's young population.
- **Addressing Diversity Between States:** The UNFPA's State of World Population Report 2023 highlights the need for India to address the diversity between states. Southern states, which are advanced in demographic transition, already have a higher percentage of older people. The north-central region is seen as the reservoir of India's workforce, and there are boundless opportunities for states to work together, especially on demographic transition.
- **Human Capital Investment:** India needs to invest in human capital to trigger a demographic dividend. This investment can be in the form of greater economic productivity, health,

education, and empowerment. India has a new education policy, and the government plans to invest 6% of GDP in education. However, the actual investment is only 2.9% of GDP.

- **Focus on Sustainable Development Goals:** The differences in age structure between states reflect differences in economic development and health. Therefore, states need to work together to achieve the 2030 Sustainable Development Goals Agenda.

Demographic Dividend - Latest Updates

1. India's population is among the youngest in an aging world. By 2022, the median age in India will be 28 years; in comparison, it will be 37 in China and the United States, 45 in western Europe, and 49 in Japan.
2. At present, the working-age population in India is increasing because of rapidly declining birth rates, with our average annual population growth rates nearly half in the last decade, compared to what was seen in the 1970s. A key driver of this trend has been the steady decline in India's total fertility rate (TFR), which is the number of births per woman or children likely to be born to a woman in her childbearing age. Interestingly, India has reached a TFR of 2.2, which is slightly lower than the global TFR value of 2.4.
3. Although the overall fertility rate has halved from 1990 till now, there is wide interstate variation, with states like Bihar, Madhya Pradesh and Uttar Pradesh having higher TFR, of up to 2.5, whereas states like Delhi, Maharashtra, Tamil Nadu have lower TFR, of 1.5.
4. Given their Varying TFRs, the demographic dividend window is available at different times in different states; this calls for tailored policies, not an All-India approach
5. Recently a Minister in the Government of India mentioned about the potential of India's demographic dividend to build an Atmanirbhar Bharat.
6. Bihar's poverty rate continues to be stubbornly high compared to the all-India figures. According to the 2018 global multidimensional poverty index, shockingly, more than half of Bihar's population is 'multidimensionally poor'. Bihar is one of India's youngest states, but for it to use its demographic advantage, it needs to get its basics right. Only a healthy and educated youth population can benefit from the much-touted demographic dividend.

Frequently Asked Questions related to Demographic Dividend

Q. Which country is in Stage 4 of Demographic Transition?

Some of the countries that are in Stage 4 of the Demographic Transition are Australia, Argentina, Singapore, USA, South Korea, most of the European countries. Stage 4 of Demographic Transition is considered as an ideal situation for a country since it indicates a gradual population growth.

Q. What are the 5 stages of Demographic Transition?

The 4 stages of Demographic Transition are Stage 1: In this stage the population is low but it is balanced due to high death rate and high birth rate.

Stage 2: In Stage 2, the population will start to rise because the death rate will start to fall due to improved medical care, sanitation, water supply, [food security](#) etc. The birth rates will keep rising in stage 2.

Also, learn more about [water scarcity](#) - Water Stress in India & the Prevention of Water Scarcity.

Stage 3: The gap between Birth and death will keep getting narrower. The reduction in gap is due to reduction in birth rate due to various reasons like increased employment, more importance to material possessions than large families, [empowerment of women](#) etc.

Stage 4: Population growth is slow but the population is high. Population growth is slow in stage 4 due to low birth rate and low death rate. There is a social desire to have smaller families.

Stage 5: In Stage 5, the population starts declining, nevertheless the population is still very high. The population starts ageing because it is dominated by older people. In this stage 5, the birth rate is lower than death rate.

Q. Why is Demographic Dividend Important?

Demographic Dividend is very important. Historically demographic dividend has contributed upto 15% of the overall growth in advanced economies. Demographic Dividend helps in increasing the workforce, there will be rapid urbanisation and industrialisation. It leads to more investment in physical and human infrastructure. The productivity of the country's economy increases due to increased labour force. Demographic Dividend will help in witnessing a massive shift towards middle-class society.

Who coined the term Demographic Dividend?

The term Demographic Dividend was coined by David Bloom. He emphasized the importance of demography to economic growth. David Bloom attributed a large portion of the economic growth of East Asia in 1965 to 1990 to the region's working-age population, which led to increase in productivity.

Multiple Choice Question

Consider the following statements:

1. The dependency ratio is an age-population ratio of those typically not in the labor force (the dependent part ages 0 to 14 and 65+) and those typically in the labor force (the productive part ages 15 to 64). It is used to measure the pressure on the productive population.
2. The inverse of the dependency ratio, the inverse dependency ratio can be interpreted as how many independent workers have to provide for one dependent person (pension & expenditure on children).
3. Among the countries currently classified by the United Nations as more developed (with a total population of 1.2 billion in 2005), the overall median age rose from 28 in 1950 to 40 in 2010, and is forecast to rise to 44 by 2050.

4. Demographic dividend occurs when the proportion of working people in the total population is high because this indicates that more people have the potential to be productive and contribute to growth of the economy.

Choose the correct answer from the below given-options:

- A) Only statements 1, 3 and 4 are true.
- B) Only statements 2, 3 and 4 are true.
- C) All the above given statements are true.
- D) None of the above given statements are true.

Answer: C

About how much of India's population is in the 15 - 59 years demographics?

- A) 61.5%
- B) 62.5%
- C) 71.25%
- D) 76.14%

Answer: B