

# HOW DO WE CONVERT OUR DEMOGRAPHIC DISASTER TO A DEMOGRAPHIC DIVIDEND - A ROAD MAP?

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# How do we convert our demographic disaster to a demographic dividend - a road map?

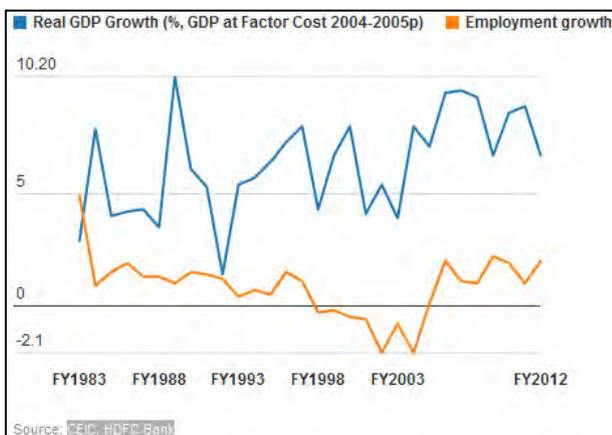
The much talked about demographic dividend is most likely to be a demographic disaster if we as a country don't wake up to the unemployment reality.

Let's first differentiate employment and skill development. In every official forum there is a talk that our youth are not getting jobs because they are not skilled. So the ministry of skills was created at the central government level. The assumption is to get 100 million people skilled and everything will be fine. This has led to large scale budgets for skills and programs like PMKVY or PRADHAN MANTRI KAUSHAL VIKAS YOJANA are created with strong budgetary support. Is this assumption that lack of skilling is the real reason for unemployment - is it true?

In my mind it is only the 10% problem. The 90% problem is that we are not creating enough jobs. Five indicators clearly show that we are heading towards a demographic disaster.

1

Jobless economic growth. The data below establishes this fact.



Year	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Full year
2009	2.50	-1.31	4.97	6.40	12.56
2010	0.61	1.62	4.35	2.07	8.65
2011	1.74	2.15	3.15	2.26	9.30
2012	0.81	0.73	--	**1.68	3.22
2013	1.07	0.86	1.43	0.83	4.19
2014	0.36	1.82	1.58	1.17	4.93
2015	0.64	-0.43	1.34	-0.20	1.35

\*\* This is combined figure for Q3 and Q4

Source: Labour Bureau

What does this mean? The economic growth without job growth means that rich will become richer while the poor who needs jobs to get out of poverty will not have the opportunity. Economic growth with attendant inflation will make the poor poorer.

2 Huge supply despite lack of jobs due to demographic reasons. We are adding 12 to 14 million youth to the job market including 6 million graduates every year. See the table below for more information:

UNDERGRADUATE Enrolment distribution in % across courses in 2012-13 provisional			Pass percentage derived	
Course	%	Enrolment in 2012-13 ('000s)	No in final year ('000s)	Pass % in 2010
Arts/ Humanities/ Social Sciences	40.69	9,579	3,193	80%
Engineering & Technology	16.34	3,846	962	
Commerce	14.53	3,420	1,140	
Science	12.6	2,966	989	
IT & Computer	4.11	968	323	
Medical Science	2.87	676	135	
Management	2.19	516	172	
Law	0.95	224	45	
Education	3.1	730	243	
Oriental Learning	0.46	108	36	
Agriculture	0.55	129	43	
Other	1.6	377	126	
<b>Total</b>	<b>99.99</b>	<b>23,538</b>	<b>7,406</b>	
<b>No. of candidate passed out in 2012-13</b>			<b>5,929</b>	

Source: AISHE Portal ([www.aish.gov.in](http://www.aish.gov.in)) and Education Statistics at a glance Ministry of HRD , 2014

All figures in '000s

#	Definition	Total Enrolment	Total Dropouts
1	Primary	132,327	1,782
2	Upper Primary (or) Lower Secondary	66,470	4,007
3	Secondary	37,297	3,784
4	Senior Secondary	22,314	6,816
<b>Total</b>		<b>258,508</b>	<b>16,389</b>

Source: DISE School education in India report for 13-14

Against this, the job growth over a 4 year period (2013 – 2017) across 15 sectors projected as 37 Million or 9.25 Million per year by NSDC and KPMG.

Sector	Demand for graduates and PG at entry level in organized sector in million			Total Employment in million		
	2013	2017	2022	2013	2017	2022
Automotive	0.09	0.11	0.12	11.0	12.8	14.9
Civil Aviation	0.01	0.01	0.01	1.7	1.7	1.7
<b>Banking &amp; Financial Services</b>	0.78	<b>0.98</b>	<b>1.30</b>	1.9	2.4	3.2
Education	0.16	0.17	0.20	13.5	14.7	17.3
Insurance	0.48	0.55	0.63	1.0	1.1	1.3
Construction, Building and Infra	0.11	0.14	0.18	45.4	59.4	76.6
<b>IT &amp; ITeS</b>	1.30	<b>1.64</b>	<b>2.20</b>	3.0	3.8	5.1
Logistics	0.02	0.03	0.03	16.7	23.0	28.4
Media & Entertainment	0.00	0.01	0.01	0.4	0.7	1.3
Retail	0.04	0.04	0.06	38.6	45.1	56.0
Telecom	0.14	0.29	0.15	2.1	4.2	2.1
Travel & Tourism, Hospitality	0.01	0.01	0.02	4.5	5.8	7.2
<b>Pharma &amp; Healthcare</b>	1.42	<b>1.85</b>	<b>2.67</b>	7.1	9.2	13.3
<b>Total</b>	<b>4.6</b>	<b>5.8</b>	<b>7.6</b>	<b>146.9</b>	<b>183.9</b>	<b>228.3</b>

Source: KPMG / NSDC Reports

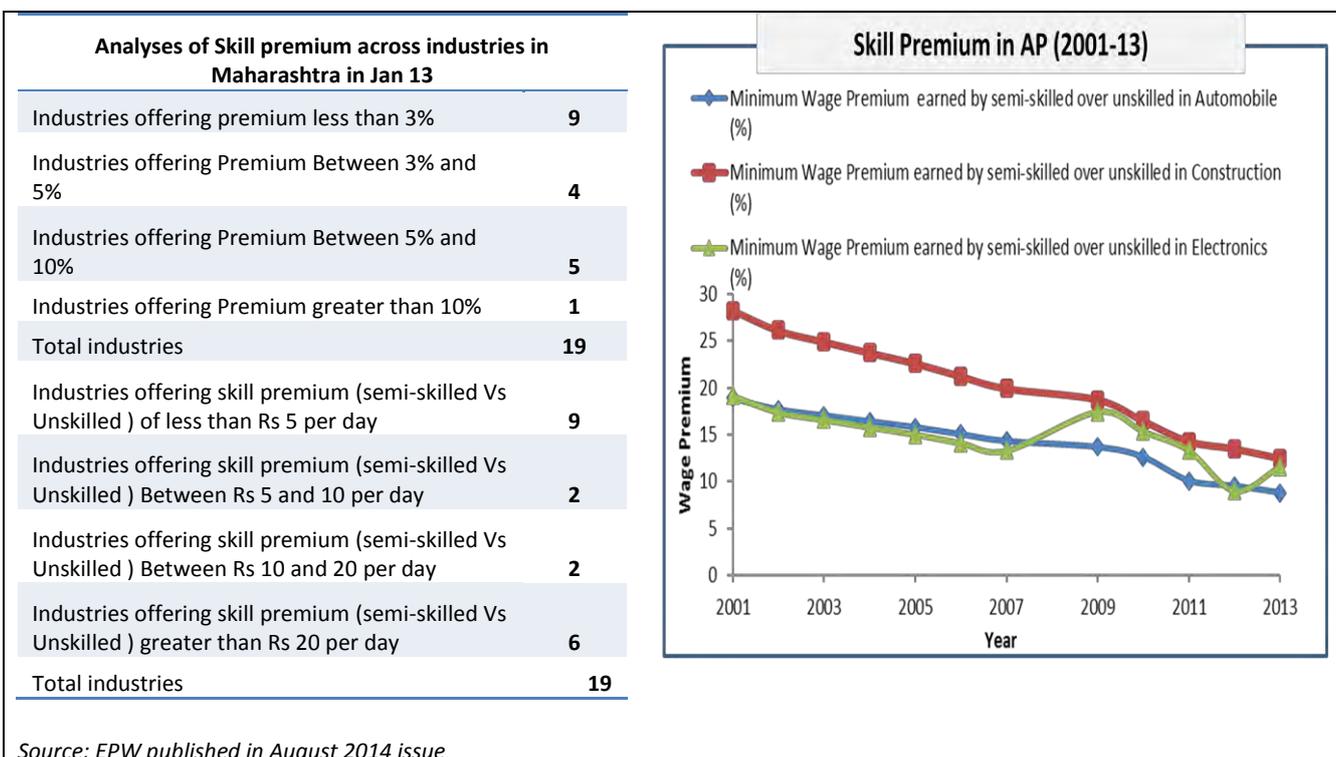
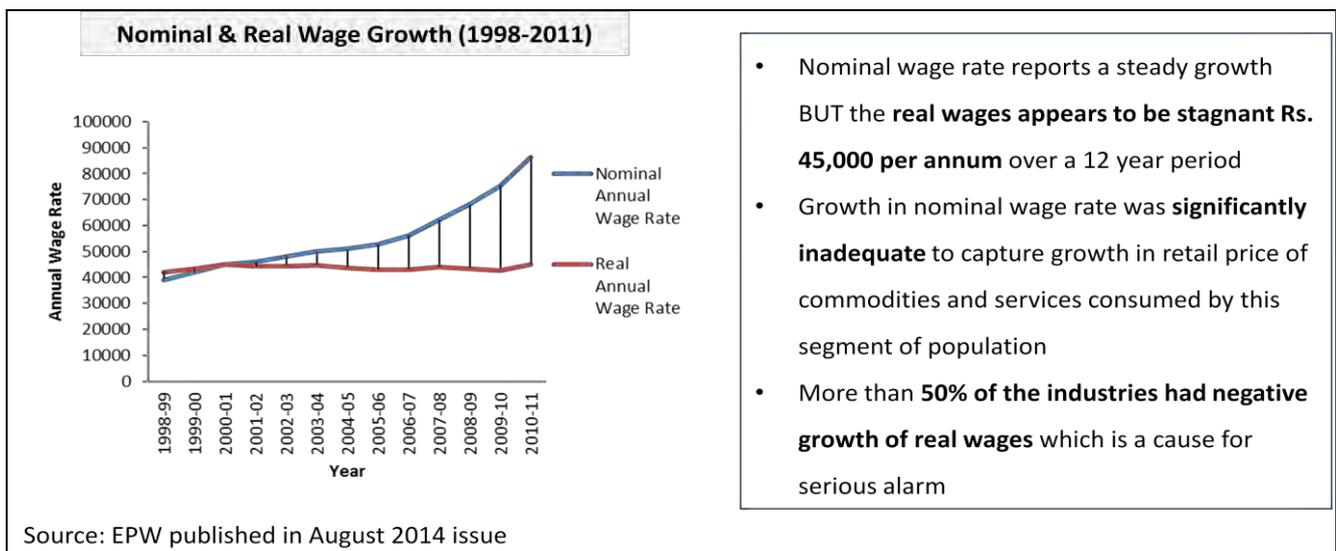
The reality is far lower than the above high demand projections. The graduate entry level job growth is also far lower and in my estimate less than one million a year. **So, from now on we will add 5 million graduates and 4 million non graduates to the unemployment pool every year.** Hence, we need to discourage unproductive graduation by increasing graduation fees (with extensive scholarship support) like USA and encourage skilled diploma by providing scholarships and lower fees.

**3** Our Skilling system which is being driven by excessive supply side focus

The recent PMKVY Guidelines 2016-20 released in Jul 2016 uses the word "employer" only 37 times in a 24,443 worded document. The whole attempt is to increase the supply of skilled people

without the demand for them. What we will end up is adding **millions of skilled** graduates and non graduates to our unemployment pool every year. This will be after spending over Rs 2,000 crores in skilling every year. The other consequence of excess supply over demand is the wage stagnation.

**4** There is very limited demand for skills among youth. Why? It does not pay to get oneself skilled. How? Research shows that factory worker's real wages has stagnated during the 12 year period 1999 to 2011, net of inflation. In half the sectors the real salary has declined. On top of this, there is nil or marginal skill premium. For details see data below.



The jobs, post-skilling, are not in home towns. Net result - many end up spending more than what they earn. This means borrowing and hence absconding or returning back to home town.

**5** Entrepreneurship promotion among youth is also a big challenge because of many reasons – Capacity to take a loss, Scaling-up, Managing people, Managing customers, Managing profitability, Managing cash flows – all these come from experience which comes from making mistakes. Many graduates of IIMs and IITs are struggling as entrepreneurs. So, asking a fresh graduate to setup new enterprise and create jobs is like asking a baby to run a marathon.

## So how do we reverse the trend?

**1** Create a demand for skills among youth by **revising the minimum wage** and enforcing it strictly. If we leave wages to the market, wage stagnation is bound to occur. Hence wages must be regulated at the entry level through minimum wages regulations. Delhi government has notified a new set of minimum wages. This has to be followed by other states. Create low cost stay options in employment centers. The idea is to create a saving potential while working.

**2** Incentivise and recognise job creators. 8 out of 10 new jobs are in MSME sector. But MSME sector cannot absorb the increased minimum wages. So provide **wage subsidy** for one year for every skilled hire in MSMEs. Wage subsidy for employment is the equivalent of investment subsidy for investment. Simplify procedures for start ups. Give an Inspection Raj holiday for five years for all MSMEs. Reduce the interest rate for working capital for MSMEs. Thus neutralise the impact of minimum wage increase only for MSMEs. Large industrial employers can easily absorb the extra cost.

**3** Encourage and incentivise labour productivity training in MSMEs like Singapore government (<http://www.wda.gov.sg/content/wdawebbsite/L102-ForEmployers/L223E-007EmployerBasedFund.html>). Encourage use of the latest tools in work places by allowing subsidised import of latest technology which will make the Indian workmen globally competitive. Encourage global certification and training **for one foreign language. Refund training and up-skilling costs incurred by MSMEs for global certifications.**

4 Identify 10 countries where INDIAN skilled labour will be in demand both in the developing and developed world. In developing world, identify manpower intensive sectors like infrastructure, textiles, etc and provide bi-lateral credit and incentives for projects in these countries tied up with skilled manpower supply for 5 years. At the end of the period the Indian skilled manpower will train local youth and return. In developed world, **sign up bi-lateral agreements** for Indian skilled manpower to work on "project or time bound" visa in their countries to minimise "immigration" challenges like the gulf countries. Set up a **large engineering skill staffing company like TCS** (which set up India's first IT staffing company in 1980s) to employ and protect these project visa personnel. The overseas work option after experience will drive the demand for skills among freshers.

5 **Incentivise** employers to replace their experienced manpower with fresh and trained manpower with **demand driven skill programs**. Employers will incur the cost of custom skill programs and claim as reimbursements when they induct fresh hires. The experienced manpower with global certifications will be shipped overseas on project visas explained earlier. The employers will also benefit because their wage costs will remain constant due to automatic exit of experienced work force.

6 Lastly, create a **Ministry of Job Creation** at cabinet rank at the central and state level. This ministry will focus on policies, regulations, incentives for new job creation and will give the "big employers" i.e. MSME sector, their due.

Many countries have opted for Ministry of Labour & Employment model where the focus is on labour advocacy and rights. This has put this ministry in adversarial position vis-à-vis employers. What we need is a ministry which is working for the employers. Jamaica has already created a "separate ministry" called ministry of "**Economic Growth and Job Creation**". We need to do the same. (Source: <http://opm.gov.jm/ministries/ministry-of-economic-growth-and-job-creation/>)



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