

Contribution of Informal Economy for First Demographic Dividend: Evidence and Implications for India

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Abstract

India's total population is projected to increase from 1134 million in 2007 to 1395 million in 2025 and to 1593 million in 2050. Throughout, working-age population is projected to remain around 60 percent. If this working-age population is totally transformed into educated, skilful and employed, it would be contributory for increasing the national economic growth. Given the past work participation rate, a large number of projected working population may likely to be in the informal economy.

Growth of per capita income (Y/N) may be defined by the sum of growth of (a) income per working age member (Y/L) or productivity, and (b) proportion of population in working ages (L/N). In the literature on National Transfer Accounts (NTA), (L/N) is called the support ratio, or ratio of effective producers to effective consumers. Given the growth of productivity, support ratio increases growth of per capita income. The period during which growth of support ratio leads to increase in economic growth is called ***First Demographic Dividend***. Support ratios are estimated from age profiles of labour income and consumption in the NTA

This paper is the first attempt to estimate the First Demographic Dividend, as it is related to informal economy in India. It estimates the support ratio and productivity in 2004-05. Using the productivity estimate as given, the First Demographic Dividend is estimated by distinguishing the support ratios by formal and informal economy. Analyses of the empirical results are useful to understanding the nature and extent of impact of informal economy on India's economic growth through First Demographic Dividend. This implies that a policy for strengthening of the informal economy may be justifiable from the viewpoint of maximizing economic growth in India. Subject to the comparability of economic structure, however, the framework and implications are applicable and relevant for other developing countries.

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