Demographic dividend: Challenges and opportunities for India

Swami, Madhubala

R.A.D.A.V. College, Mumbai

17 December 2016

Demographic Dividend: Challenges and Opportunities for India

A Research Article

By

Dr.Madhubala Swami
(Associate Professor and Head of the Department of Economics)

Presented at

The National Conference on

Demographic Dividend: Challenges and Opportunities for India

Organised by

Ramanand Arya D.A.V. College, Bhandup (E), Mumbai – 400 042

On 17th December, 2016

Dr. Madhubala Swami, Associate Professor and Head of the Department of Economics, Ramanand Arya D.A.V. College, Bhandup (E), Mumbai – 400042, Ph: +91 9820876298, email: madhu.swami61@gmail.com

Demographic Dividend: Challenges and Opportunities for India

Abstract

Demographic dividend is the result of demographic transition which brings about a change in the age structure of the population of a country. After going through phases of high birth rate and high death rate in the 1920s, India entered into a phase of declining fertility and mortality rate in the eighties. India is one of the few countries in the world having a high proportion of its population in the age group of 15-59. While a large proportion of young population increases consumption and provides impetus to production and GDP of the country, high savings and investment by the elderly enhances economic growth. However, demographic dividend poses various challenges for India where social infrastructure is still lagging behind. India needs to allocate sufficient resources to improve educational and healthcare infrastructure to meet the requirements of the young and the elderly. Skill development of the young population through vocational and formal education and creation of adequate jobs are the stark realities which India faces at present and has to address with urgency to reap the benefits of demographic dividend. This paper attempts to delve into issues related to demographic transition of India and challenges and opportunities related to this favourable transition.

1. Introduction

Demographic dividend means that the country's dependency ratio, as measured by the share of the young and the elderly as a fraction of the population, will come down more sharply in the coming decades. Increase in the share of working age population means more workers in the productive age groups that will add to the total output, generate more savings, accrue more capital per worker, and all these leading to higher economic growth.

According to the Population Census 2011 figures, the total population in India is 1.21 billion, which is expected to rise up to 1.40 billion by 2026 mainly owing to an increase in life expectancy at birth for males and females from 65.8 and 68.1years, respectively. These figures reported between 2006 and 2010 shall rise up to 69.8 and 72.3 years respectively during 2021–2025. A decline in the total fertility rate (TFR) from 2.6 to 2.0 is the main initiator of demographic dividends, such that the fall in TFR with older generations having shorter life expectancies, the dependency ratio declines dramatically.

2. Review of Literature

Julian Simon (1981) opines that growing population is necessary for material advancement. People in a country are not only consumers but are producers as well. In the short run population growth may cause some problems but in the long run it will be beneficial for the country.

Ahlburg (1998) argues that 'economics does not conclusively show that a greater number of people implies slower economic development or a lower standard of living'.

In recent years great interest is shown in examining relationship between population growth and development. Bloom Canning and Sevilla (2003) while studying this relationship enunciate that it is not merely the size of the population but the composition of population which is associated with the economic development of a country.

Bloom et al (2011) have asserted that demographic dividend itself cannot lead to economic development of a country. Proactive policies of the government play an important role to realise the benefits of demographic dividend. Improper policies and inadequate social infrastructure can also lead to demographic disaster (Bloom and Canning, 2011).

P.K. Das and S. Kar (2016) have tried to establish a relationship between government's expenditure on health and education will have impact on productivity of working population and on growth rate of the economy. The results of the econometric model including public expenditure on health, education and infrastructure show that the social sector expenditure plays

an important role in affecting the rate of working age population with implications for labour force participation. The growth rate is positively affected by the expenditure on education and infrastructure, but not by the expenditure on health. However, expenditures on education and infrastructure negatively affect the working age population, but health expenditure affects it favourably.

3. Demography of India: Some Facts

There have been significant changes in the composition of India's population since 1950-51. Mortality rates started declining in India from early twenties and the fertility rate started declining from 1970s (Bhagat and Kumar, 2011). The growth rate of population between 1950 and 1980 stabilised and thereafter one could see a declining trend in the growth rate of population. The birth rate declined from 45 per 1000 in the fifties to 21in 2013. India is expected to achieve replacement level fertility rate of 2.1live births per woman very soon as the current fertility level is 2.4 live births per woman in 2012.

Death rate too is showing a declining trend. Due to control over communicable diseases and improved health infrastructure the mortality rate has declined from 150 per 1000 live births in early 1950s to 40 in 2013. The life expectancy has increased from mere 40 years at the time of independence to 66 years now. These facts show that India has been going through demographic transition and its population will stabilise to 1.6 billion by 2050.

Table 1 – Size and Age Composition of India's Population in Million

Age Group	1991	2001	2011	2050 (Projections)
0 – 14	312.4 (37.2)	363.5 (35.3)	372.4 (30.7)	328.2 (19.8)
15 – 59	464.8 (55.4)	585.6 (56.9)	729.9 (60.2)	996.3 (60.1)
60+	57.7 (6.7)	76.6 (7.4)	103.8 (8.5)	332.0 (20.0)
Age not stated	4.7 (0.5)	2.7 (0.3)	4.5 (0.3)	

Source: www.censusindia.gov.in; Projections for 2050 from US Census Bureau (www.census.gov). Figures in parenthesis are in percentages

A look at India's population growth rates and GDP growth rate between 1951 and 2011 shows that while population grew by 3.3 times GDP grew by 20 times at factor cost and food grains production grew by 4.2 times during this period. This shows that India's population has not constrained economic growth.

India's growth performance post 1990s shows a favourable demographic change. The proportion of young population in the 15-59 age group has been rising while the dependency ratio of 0-14 and 60 plus per 100 working age population has been declining. This shows that the period of demographic dividend

which started in with fertility decline in the early 1970s is likely to shrink in the 2020s and will gradually disappear maybe by 2040 when dependency ratio rises rapidly due to increase in old population enjoying longer life expectancy. Thus demographic dividend is a short lived opportunity for India and should reap the benefits as fast as possible.

4. Opportunities and Challenges

There are various factors going in favour of India which can enable it to harness the advantages of demographic dividend. According to a study by the World Bank (2005: 10), "has a critical mass of skilled, English-speaking knowledge workers, especially in the sciences. It has a well-functioning democracy. Its domestic market is one of the world's largest. It has a large and impressive diaspora, creating valuable knowledge linkages and networks." Combined with other key factors such as macroeconomic stability, a vibrant private sector, democracy, a free market economy, a broad and well developed financial sector, diversified science and technology infrastructure can help India to make good use of knowledge revolution.

Large population is not necessarily a drag on economic development of a country. If the larger proportion of population is young it results in high level of consumption thereby providing an impetus to production and GDP growth. A low dependence ratio due to declining fertility rate and a small proportion of old population leads to high savings and investment rates. Thus GDP growth gets a boosted due to positive impact of both of these factors.

As there are advantages of demographic dividend due to this transition there are challenges for the country as well. There is need to create jobs for the growing young population, expand a diversified educational and health infrastructure for the growing population. Developing skills of the young workforce in various fields required for the emerging sectors of the economy is another challenge.

While skill development and job creation are the prerequisites of reaping benefits of demographic dividend, proactive steps in creating sufficient merit goods i.e. education and health are required (Chandershekhar et al. 2006). With urbanisation there is a rise in problems of congestion, non-communicable diseases. This leads to a heavy pressure on existing health infrastructure which is not sufficient to cater to the current population. Moreover, the poor state of health infrastructure and lack of risk cover for the poor masses has led to increased burden of out of pocket expenses. High expenses on medical care often deplete the life-long earnings of the poor and leads to indebtedness.

5. Suggestive Policy Measures

- The government needs to review the policies such as National Rural Health Mission (NHRM), Janani Suraksha Yojana (JSY), Right to Education (RTE) Act and other policies for strengthening education and health infrastructure to meet the challenges of improving social infrastructure.
- The elderly need sufficient amount of transfer payments to have a sustainable level of living. The government needs to provide a corpus to fund transfer payments to the old as the familial support system is dwindling. Instead of many schemes such as Annapurna Yojana, Pradhan Mantri's Pension Plan etc. it is better to have a one comprehensive social security scheme for the elderly.
- Early diagnosis and awareness of non-communicable life style diseases such as diabetes, heart attack and obesity can save a significant amount of expenses on healthcare. The governments should aim at spreading awareness about these diseases through media and campaigns.
- Skill development is imminently required for training and engaging young population in highly technical jobs or other meaningful activities of livelihood. Not all in the 15 to 59 age group have a very high IQ and want to be highly qualified. There should be modules of vocational education to equip them with required skills to earn sufficient amount of income for not only sustenance but also to have a reasonably decent standard of living.

6. Conclusion

India has undergone demographic transition from 1920 to 1980. It has entered the threshold of demographic dividend wherein a large proportion of population is between 15-59 yrs. It is both an opportunity as well as a challenge for India to make the best of it as the tide may turn against us in a period of another 20 years or so. With a favourable demography, proactive policies aimed at job creation, skill development, a vibrant financial sector to develop and support entrepreneurial activity, adequate educational and healthcare infrastructure India can surely reap benefits of demographic dividend. Runway is ready, take off has to happen.

References

Ahlburg, D.A. (1998). Julian Simon and the Population Growth Debate. *Population and Development Review,* Vol. 24, No. 2, pp. 317-327.

Bhagat, R.B. & Kumar, K. (2011). Aging in India: Trends and Pattern. In K.N.S. Yadav and Alok Kumar (eds.) *Aging: Some Emerging Issues.* New Delhi: Manak Publications, pp. 19-37.

Bloom, D., Canning, D. and Sevilla, J. (2003). *The Demographic Dividend: A New Perspective on the Economic Consequences of Population Change.* The RAND Corporation, Santa Monica.

Bloom, D. and Canning, D. (2011). Demographics and Development Policies. *Development Outreach,* Vol. 13, No. 1, pp. 77-81

Census of India (2011). *Provisional Population Total,* Paper 1 of 2011, India, Series 1, Registerar General and Census Commissioner, India.

Chandershekhar, C.P., Gosh, J. and Roychowdhury, A. (2006). The Demographic Dividend and Young India's Economic Future. *Economic and Political Weekly,* December 9, pp. 5055-5064.

Das, P.K. and Kar, S. (2016). Public Expenditure, Demography and Growth: Theory and Evidence from India. *IZA Discussion Paper* No. 9721.

Debasis, B., Agrawal, T., Desai, S. (2015). After the Dividend. *Economic and Political Weekly,* Vol. 50 (24).

Simon, Julian. (1981). *The Ultimate Resource.* Princeton N.J.: Princeton University Press.

Websites:

http://populationcommission.nic.in/content/935_1_AgeStructureSexratios.aspx

http://populationcommission.nic.in/content/935_1_AgeStructureSexratios.aspx