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HUMAN CAPITAL

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

Gaining from differential demographic dividend

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INDIA'S DEMOGRAPHIC DIVIDEND has been the most talked about phenomena in the world economic forums for the past few decades. India's expanding working population and low age dependency, resulting in more people moving to the workforce, has led to an immense focus on the consumption-led and inward focussed contributors to economic growth. What was relatively less known is the existence of wide differences in demographic profiles between states, leading to economic disparities. Covid-19 has brought these difference to the fore, evident in the mass reverse migration seen at the beginning of the crisis. This article takes a look at how this could turn out to be an opportunity for a new India growth story that could be driven by entirely a different set of states than the ones that was driving our past.

Is the demographic dividend phase a golden period?

India has one of the youngest populations in an ageing world. Around 90% of its population under the age of 60, of which ~35% is under 19 years old. Such a young population ensures a potential addition to the working age group in the coming years. In contrast, most of the developed world is growing older, with more than 20% of its population over the age of 60.

Demographic dividend, as defined by the United Nations Population Fund (UNFPA) means "the economic growth potential that can result from shifts in a population's age structure which happens when the share of the working-age population is larger than the non-working-age share of the population". Such a demographic dividend has historically contributed up to 15% of the overall growth in advanced economies, with several Asian nations—Japan, Thailand, South Korea, and more recently China—taking advantage of this in their rapid growth and development. Japan was among the first major economies to experience, this demographically beneficial phase which lasted from 1964 to 2004. Similarly, Singapore and Hong Kong also witnessed higher double-digit growth, while countries like China and South Korea grew by ~9% in a similar 10-year period of low age-dependency ratio.

For India, this phase is coming at a felicitous time when the population in large parts of the world is ageing, and the right policies and programmes could lead to India achieving a 'golden period' between 2020-2040 and continuing later, though with decreasing results, as per a paper by the UNPFA.

We might be approaching an end to the demographic dividend in the next few decades

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.

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.

Differential demographic dividend across states an opportunity

Given these differences across states, India's demographic dividend window is available at different times in different states—with states like Delhi and Tamil Nadu having a higher share of working-age and ageing population. On the other hand, states like Bihar, Odisha and Uttar Pradesh have a higher share of young population and can be categorised as states which are at early stages of demographic transition. These differences in demographics and economic opportunities have led the former set of states to be receivers of migrants, with the latter set of states being home to this large pool of labour.

Moreover, these difference across states would imply that blanket, cross-country policies might not be very useful, with the former set of states being threatened by increasing ageing population over the next two decades. These states could face a labour deficit, with the window of opportunity of working-age-group closing soon. Hence, the focus for these states would have to be on better health facilities for the elderly, education and skill development to ensure maximum participation by the existing labour force and policies attracting more working hands from the states that have surplus labour.

While anecdotal evidence is indicating companies trying to woo back the migrant labour that has returned home, through higher wages and transport fares, a longer-term solution to retain this labour pool would be through the provision of basic facilities and social infrastructure, enhancing their living and working conditions.

On the other hand, states with a young population and higher TFR are poised to have a much higher potential demographic dividend in the coming decades. State policies could be directed at maximising the gains from the labour pool with the enablers of education, skill development and job creation. Moreover, Covid-19 provides a unique opportunity to these states to retain skilled migrant labour that has returned home.

A natural course could be developing on the agricultural dominance in some of these states, by encouraging investment in agro-processing industries. Moreover, focus on labour-intensive manufacturing and sectors like construction and infrastructure to absorb the large labour pool could be steps in the right direction. Attracting foreign capital, assisted by easing the conditions for doing business in these states could be one source of accessing funds, improving the investment climate, which, in turn, will create jobs and improve overall growth. Moreover, facilitating an environment that encourages growth in the services sector could lead to greater productivity.

The way forward, what needs to be done?

A large labour pool with wide cross-country divergence could be perceived as a double-edged sword by many, underscored by challenges of low skill development, weak labour market indicators with the addition of nearly 10 mn people to the workforce every year. However, in our view, schemes like Start-up India and Make in India, and the recent potential shift in the global order towards more foreign investment in India (which could aid in absorbing our large labour force), could turn these into comparative advantages for a country like India.

To conclude, India continues to be on the right side of the demographic transition that gives us an opportunity to bolster socio-economic development and emulate the experience of other nations (at similar stages of demographic transitions in the past). Requisite investment in human capital, skill development and state-specific policies could bolster this process further. The government's identification of policies to address these specific issues are steps in the right direction that will lead us to strong economic growth in the ensuing years.