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Opinion - Economy

Is India ready to reap demographic dividends?

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Realisation of policy-supporting conditions in terms of human resource development and gainful employment will decide if India is ready to reap the demographic dividends.

The United Nations World Population Ageing 2007 report includes interesting and useful estimates of long-term age structure transition of India. The proportion of population in the younger age group (0-14 years) is estimated to fall from 31.2 per cent in 2007 to 24.5 per cent in 2025 and to 18.3 per cent in 2050. At the same time, the share of the aged population (60 years and above) is estimated to grow from 8.6 per cent to 12 per cent and 22.2 per cent. Consequently, the working age group population (15-59 years) may not be less than 60 per cent throughout. This estimate is a major source of confidence for India's expectations of demographic dividends.

In reality, however, the above age structure transitions have many different impacts. For instance, the ageing index shows that the ratio of young to aged population may rise from 26.1 per cent to 49.2 per cent and to 113 per cent. Correspondingly, old age dependency ratio (or the ratio of aged to working age population per 100 population) rises from 8.6 per cent to 12 per cent and to 22.2 per cent. This rise underlines the importance of old age support demands. For instance, the potential support ratio, which is the inverse of the old age dependency ratio, may decline from 11.7 per cent to 8.4 per cent and to 4.5 per cent.

Demographic dividends

Economic pay-offs of age structure transitions are best summarised in the form of first and second demographic dividends. Both dividends are measured in terms of ultimate increase in per capita national income under different economic assumptions.

The first dividend is positive so long as the population growth is less than the growth of the labour force. From this point of view, and other things being equal, India can expect to reap the first demographic dividend up to 2050.

The second dividend depends on the methods of financing consumption for the retired and the aged. If financed by accumulated capital during their working age, the positive impact of this capital accumulation on economic growth is a source of second dividend. India's old-age public social security is negligible under the National Social Assistance Programme. Thus, National Sample Surveys on living conditions of aged offer evidence of the importance of familial support rather than capital accumulation. This is understandable, given India's large-scale poverty, unemployment, and unorganised sector

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without adequate social protections. This raises initial doubts on India's possibility of reaping the second dividend in the near future.

National Transfer Account

National Transfer Account (NTA) is a new international venture to introduce age into the National Income and Product Account. It measures reallocations or shift of resources from one age group to another and, hence, inter-generational transfers at the national level of aggregation. Reallocations occur because consumption and production differ at different ages of individuals (production exceeds consumption in working age groups, and consumption exceeds production in childhood and old/dependent age groups). NTA documents the means by which those with lifecycle deficits (young and old) draw on the lifecycle surplus (generated during working ages). The individual is the fundamental analytic unit in NTA, as all transactions are treated as flowing to and from individuals and are classified on the basis of age.

Public and private (for instance, families) institutions mediate the individual transactions. Thus, all estimations in the NTA, such as lifecycle deficit, asset reallocations, and transfers, are distinguished by public and private sectors.

NTA is now being constructed for 19 countries, including India, under the guidance of Profs Ronald Lee of the University of California in Berkeley and Andrew Mason of the University of Hawaii in Manoa. The outcomes of this policy research have enormous implications for scientific estimation of demographic dividends, support systems for the aged, and overall inter-generational allocations in the national and international contexts.

India's claims

India's claims for economic advantages of the future age-structure transitions are related to rising or higher working age population. This is evident in the Planning Commission's Approach Paper to the Eleventh Plan. In addition, the Approach recognises that the expected advantages would be conditional upon investing in human resource development and providing gainful employment opportunities for those joining the working age group.

A complete construction of NTA is essential to estimate the nature and magnitude of the expected economic-payoffs of age-structure transitions in India. Further, realisation of policy-supporting conditions in terms of human resource development and gainful employment will be decisive on whether India is ready, or when it would be ready, to reap the demographic dividends. Otherwise, reaping demographic dividends by India may merely remain a wishful thinking.

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