

## **The Demographic Dividend**

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There was a time when India's large population was seen as its worst liability. The chattering classes went on and on about how all our problems would be solved if only the poor people could be persuaded or, if necessary forced, to have smaller families. The government bought this logic and launched one of the world's most ambitious family planning programs. Various aid agencies pumped large sums of money into these programs. Eventually it led to the notorious forced sterilization programs of the Emergency period. The same attitude led China to adopt its 'one child' policy with disastrous consequences.

Today you hear fewer complaints about large populations as both countries continue to grow at very high rates despite the global financial crisis. However, the fundamental mind set has not changed. A large population is still seen as a liability rather than an asset. The truth is that a large population can be both a liability and an asset. It all depends on the context and the perspective from which the question of population size is addressed. India's large population sets it apart from the rest of the world, along with China, as the only two countries with populations of over a billion each. This large population is a liability for some purposes, but a great asset for other purposes.

Let's look at the liability aspect first. Whenever India's population size enters the denominator of a statistic, the resultant per capita figure appears miniscule. The recently released UNDP Human Development Report indicates that India's per capita GDP(PPP) of

\$ 1046 makes it one of the poorer countries, ranked 128 out of 182 countries. This tyranny of the denominator works its way through to everything from the per capita availability of power or telephones to road, rail or airport capacity. It applies also to the availability of foodgrains, the allocation of public resources and the provision of education and health services.

Thus, the per capita availability of foodgrains has remained less than 500 grams per capita per day for the past fifty years. The consequent widespread malnutrition has resulted in 46 % of children under 3 years being under weight. Similarly, very few countries spend as little as the \$7 per capita (PPP) that the Indian government spends on health care. The picture for education is similar. The billions of rupees the central and state governments have spent year after year on both development programs as well as welfare schemes work to just a few rupees per head per year when divided by the population.

As a consequence, after more than half a century of growth in independent India, about 28% of the population still remain below the national poverty line. And 76% of the population still live on less than about Rs 100 (\$2) per day. It is not surprising then that India's ranking as 134<sup>th</sup> in terms of the Human Development Index (HDI) is even lower than its per capita GDP ranking.

However, when these same bleak per capita numbers are *multiplied* by population size to derive the gross figures, the picture is totally transformed. Population size as a multiplier is a great asset. India is among the largest countries in the world in terms of power generation, the length of road and rail networks, or the stock of telephone connections. It is a country with one of the largest stocks of doctors, lawyers, engineers and scientists and also the largest stock of graduates.

With a GDP of \$ 1176.9 billion India was the 12<sup>th</sup> largest economy in the world in 1997, the last year for which comparative data is available. Only the G8 countries, China, Spain and Brazil were ahead. When measured in Purchasing Power Parity(PPP) terms, which corrects for differences in the cost of goods and services across countries, India is ranked even higher, it's GDP(PPP) of \$3096.9 being the fourth largest after China, USA and Japan.

Thus, from the perspective of the average individual, India is still a poor country. But India as a whole is already one of the worlds largest and most powerful countries, the G20 which have now taken charge of the global economy. The key to this paradox is of course India's large population. It is either an asset or a liability, depending on whether population size enters the numerator or the denominator of a particular calculation. The question to ask is how best to maximize the asset value of India's large population while minimizing its drag as a liability. The larger the share of population that is productively employed, the lower will be the drag of population size.

The good news here is that the dependency ratio in India is declining. This is a ratio of the number of children and aged persons outside the work force to the number of persons in the workforce. It has come down from 71.5% in 1990 to 55.65% in 2008. Thus a progressively larger share of the population is entering the workforce for productive employment. Moreover, the average age of the Indian workforce has also been declining, implying the emergence of a large and dynamic workforce. This great demographic dividend of a large, growing and young workforce is one of the main drivers that is powering India's drive to prosperity.

However, to fully and productively employ this growing workforce, huge investments will be required in their education and training to ensure that they have the right skills. It will also be

necessary to build up the required stock of plant, machinery and other equipment to meet the requirements of this workforce. In other words, whether India's large population is only an asset or it is also a liability ultimately depends on whether or not a sufficiently high rate of investment can be sustained to absorb the entire workforce in productive employment.

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