



THIRD WAVE
SOLUTIONS

Reaping the Demographic Dividend

Parijat Garg

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A search for the term “Demographic Dividend” on Google throws up a large number of articles and essays written by a wide variety of people ranging from businessmen like Mr. Nandan Nilekani to members of supranational bodies like the IMF and World Bank. Most ascribe the recent success of the Asian Tigers to this “demographic dividend” and several point out the expected average age statistics in various countries of the world in 2020 (37 in the United States, 45 in western Europe, 48 in Japan and only 29 in India). The common conclusion drawn is that with a vast and young population such as India has, it is poised to make a quantum jump forward as growth skyrockets and per capita income catches up with the rest of the world. While this may be true, it is certainly not going to be as automatic a process as these essays make it out to be. For India to really draw full benefit from this narrow window of opportunity (in a country's history, this is a narrow window indeed with the population pyramid inverting itself within a few decades of the peak).

It is true that some growth in national output and living conditions is a virtual certainty with such a favourable demographic structure, conditions have to be consciously created to be able to extract the maximum contribution to development from the young bustling Indian population. Again, many have pointed out that job creation is critical for this to happen etc, but in my view, that is a very narrow agenda and much more needs to be done on many different

fronts to create a really conducive environment for this growth to happen.

Also, if and when we begin to see the improvements in living conditions, growth and per capita incomes, we need to keep in mind the lessons that need to be learned from countries that have been through their own “baby boom” periods and are now living in a period where the population pyramid is getting inverted, pension plans are facing acute underfunding problems and State sponsored medical aid programmes are being questioned or being scaled back. These issues have come into starker light during the recent financial crisis and we need to make sure that we do not go overboard in making promises to ourselves that we may not be able to keep when the boom period passes.

Marginal Product of Labour

We have on our hands what is called a “sure thing” in finance – only it is surer than that. We have repeatedly seen economies grow rapidly during their periods of demographic benevolence. We are going to hit the sweet spot soon ourselves. When such opportunities exist, the important thing to do is to “leverage”. In finance, that would mean making the bet with borrowed money. In the real economy, that would mean better infrastructure and more capital goods. With these, each individual in this burgeoning young working population will be much more productive and with so many hands working, this can become a virtuous cycle that can yield dividends many times the investment.

This is a period where inorganic growth is merited. This is not a time to be conservative in spending on development on infrastructure. However, that does not seem to be the mindset. For instance, a document describing the model contract for widening of highways says the following:

The emphasis should be on phased development rather than on providing high cost roads for catering to the projected growth in the long term.

While this seems like sound logic, there is a tragic fallacy. The first is that it requires a projection of what sort of growth is expected along the different road systems in the country. Historically speaking, most such projections have fallen way short of reality as availability of a better resource is quickly leveraged and growth far surpasses historical trends. As a counter-point, some historical cities in India (for instance Jaipur) had really far-sighted rulers who built roads and drainage systems that have far outlived their builders and are still serving well today. Others, who had rulers who did not have quite as much vision, have suffered badly indeed. Second, phased development usually ends up being a euphemism for building once, then waiting until the resource is so thoroughly clogged/overused that growth is stalled for a significant time. Only after that a need for the next phase is recognized, years are spent on planning and the renovation starts. The loss this entails in 30-40 year window of opportunity we have could take a tremendous toll.

The reason why projecting growth, especially out to 8-10 years is futile is because growth seldom takes a standard organic path when such

gigantic forces are in play. Transformations take place even in way things take place so that previous assumptions about rates of growth fall awry. For instance, truck engine technology available in India could improve dramatically so that trucks with much greater tonnage capacity and much higher speeds could be on the roads. This would reduce road congestion dramatically as well as fuel consumption and manpower required. In such a scenario, if we have built roads which can handle only 20 tonne trucks plying at 80 kmh, we will find ourselves unable to leverage this new technology. Nor is this wishful thinking, because such trucks are already available elsewhere in the world.

In this regard, China needs to be looked up to as they build infrastructure with far greater capacities and needs that meet the eye. While not everyone may approve of their methods or their treatment of their citizens, the development efforts are definitely commendable.

The reason this section is titled “Marginal Product of Labour” is precisely this. Basic economics teaches us that for a fixed amount of capital, the marginal productivity of labour declines as available manpower increases. To ensure that this increased manpower is adequately utilized, we need to ensure a commensurate growth (even more than commensurate growth given that we have a shortfall) of capital goods and infrastructure in the country.

Disguised Unemployment

Another concept taught early in any decent school-level economics class is that of Disguised Unemployment. The classic example is that of the agricultural sector of India. With less land

under crops than the United States (approx. 329 million acres in India compared to 400 million in the US), India employs over 240 million people in agriculture compared to a grand total of just over 1 million people in the US (CIA World Factbook). This is very often been loudly ascribed to the fragmented land-holdings and the inability to deploy expensive heavy machinery like tractors, harvesters, etc. When stated like this, the solution seems to be collectivization. My contention is that there is a more constructive solution than mass nationalization of farmland. It is first important to understand why it turns out that such a vast army of workers remains tied to the land in the first place. To my mind, there are two primary reasons for this – lack of education and lack of opportunity and each leads to the other.

With rural society stagnating because of lack of infrastructure like assured electricity and road connectivity, alternatives or augmentations to agricultural activity has remained restricted to handicrafts, basic food processing or trade in goods consumed in the village. Earning capacity from these trades remains limited and very little work is available from a reasonably well-educated person. Getting an education beyond primary school often entails having to leave home and staying at bigger towns/cities, an expensive affair. Even after the education, lack of remunerative work back home necessitates staying on the cities. With weaker educational bases, even the jobs available to these youngsters in the cities may just sustain them in the cities with expensive rents and do little to improve the lot of parents at home. Given these frictions, many choose to stay back in the villages where incomes are lower but so are living costs. Of course, this has the consequence of the next

generation also being unable to access good education and becoming a further burden on limited land.

Villages with better connectivity to nearby cities and more reliable electricity supply, on the other hand, have seen dramatic increases in economic activity with ingeniously set up “computer centers” with wireless internet connectivity (for trading on commodities exchanges no less), milk chilling plants, oil extraction units etc. This leads to a virtuous cycle where other support jobs are created for computer technicians, electricians, spare parts dealers, computer tutors, etc. The pressure to move to cities reduces while simultaneously reducing dependence on land and agriculture. To keep this momentum going, however, first an education system needs to be developed to cater to vocational training needs. A knowledge of Mughal history is almost irrelevant compared to say basic science like electricity, the nitrogen cycle, etc. Once this base is created, then more formal education relating to literature, history etc can be created. Until then, the uselessness of such knowledge keeps children away from schools and, therefore, from potential growth. [I can almost hear the outrage from sophisticated city dwellers who'd shudder at the thought of an education devoid of an exposure to Mahadevi Varma, Shakespeare and Wordsworth.]

Urban India faces an even more subtle form of disguised unemployment. India currently employs a very large number of people in the call center industry. These are usually university graduates with diverse degrees ranging from the arts to commerce as well as science. (A very large number is also of MBAs from the hundreds of tiny colleges that have mushroomed across the country – where teachers are just recycled

graduates from the previous batches. If not at the end of a call center call, many end up selling mutual funds, irrespective of their specializations at college.) The fact that graduates from such fields end up in call center jobs speaks volumes about the quality of education delivered in our centers of higher learning as well as the severe dearth of remunerative employment for such people. Clearly, if people from all these fields can work fruitfully at a call center, it can only mean that a call center job requires the least common denominator of all these specialisations, a working knowledge of English and an ability and willingness to work ridiculous hours, often spanning exactly the period when most people would rather be asleep. This in return for a salary that often covers little more than rent for a crowded apartment (often 6 people to 3 rooms) and a few luxuries like occasionally eating out and sporting a feature-rich cellphone.

Big-name consulting firms, meanwhile, lament the lack of enough university graduates to fill the growing demand for call center services. We must not be waylaid to think of ourselves as sources of cheap labour to the developed world, however. History teaches us that a service that generates a good income is not necessarily the best one to provide in the long run. A striking example is that of the cultivation of indigo during the British Raj years. Being a cash crop, it did bring better money but ruined the land and rendered it useless for cultivation of other crops when demand for indigo died down. Therefore, even if we are able to employ every single university graduate we produce in the call center industry, we must not think of this as a success of our educational system but a massive failure. It is also a massive failure that we are unable to create more remunerative jobs which use the

specialised skills of the Bachelor of Psychology or a Master of Fashion Communication; for when call center jobs eventually migrate out of India to other south Asian countries because of increasing costs in India, as they inevitably will, we will be left with a broken education system and a huge army of young college graduates who have hung on to little other than basic spoken English and a fake American accent. This young population will be able to do little to contribute to the “demographic dividend”.

The Road Ahead

The decisions that we as a nation take over the next 4-5 years will have a big role in determining how the next few decades work out for India. It would require a lot of vision and planning, but with an eye on world history and an open mind that it is futile to make concrete number projections for events expected to occur ten, twenty even 30 years down the line. The only solution is to develop our resources, both physical and intellectual in a way that leaves us with enough flexibility to adapt to changes as they occur without creating bottlenecks that can make us lose 5-10 years in a battle against time and age!