Desai Nitin, Demographic Dividend or Debt, in Building from the Bottom: Infrastructure and Poverty Alleviation, ed. Sameer Kochar & M. Ramachandran, Academic Foundation, New Delhi, 2010. pgs.143-167

12 Demographic Dividend or Debt?

Nitin Desai*

The Malthusian argument linking population growth and development recognised early on in Indian planning and ambitious family planning programme was instituted at an early stage. The theoretical basis for a modern version of Malthusian argument that population growth is detrimental for development rests on a variety of factors like:

- The impact of rising numbers of young persons on savings through the demands on household budgets and public budgets for health nutrition and education.
- Women being caught up in child rearing have less time for other work.
- The pressure on food and wage goods from a rising population and the lower level of surplus food for sustaining the urban/ industrial work force.
- The pressures on living space leading for instance to slums in urban areas.
- The impact of multiple pregnancies on women's health.
- The poor nutrition for children because of the numbers sharing what the family can afford.

The modern Malthusian argument can be summarised as drawing out the implications of a rising child dependency ratio (Coale and Hoover, 1958).

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* Eleventh JRD Tata Memorial Oration, Population Foundation of India, March 26, 2010.

The idea of a demographic dividend is a twist to this argument when the dependency ratio starts falling. It is a product of the demographic transition which takes place in most modern societies and typically has the following stages:

- An initial decline in infant mortality and child survival with low cost and affordable public health measures (vaccination, clean water, sanitation) which raises the birth rate and creates a bulge at the base of the population pyramid.
- A later decline in death rates in higher age groups and a decline in fertility rates which reduces the rate of new additions at the base of the pyramid and the rate of withdrawal at higher ages.
- This means that the population bulge created by the higher birth rate in the first phase moves up the population pyramid and in due course leads to a bulge in the middle, working age groups, the so called demographic dividend phase.
- A later stage is when the bulge moves into the older age group and the proportion of retired persons in the population goes up and the old-age dependency ratio starts rising.

The increase in the proportion of persons in the working age group can affect growth prospects in several ways:

- Working people typically are net savers unlike retired people who are typically net dissavers and this raises the rate of savings in the economy.
- The lower dependency ratio can reduce the burden of education expenditures, though this may well be counter balanced by rising demands for vocational and higher education of the larger working population.
- The lower birth rates and dependency ratio may ease the burden of maternal and child health expenditures.
- The rising numbers of young workers may be more willing to take on new occupations and to move where work is available.

But all this assumes that the economy is able to generate productive work for the rising numbers in the working age group.

The links between the demographic dividend and growth have been examined by researchers by looking at the experience of developing countries. The main example given in support is the acceleration of growth in East and South East Asia and the main counter example is the absence of any such correlation in Latin America when it went through a period of rising proportion of persons of working age (Chandrasekhar *et al.,* 2006). A recent study by K.S. James (2008) (which also summarises various international studies) looked at the argument by examining the experience of the States in India and concludes that empirical analysis shows "the positive impact of the working age group population boom on economic growth... despite the fact that the educational achievements and health conditions of the people are far from adequate and employment creation is below the required level."

This argument now has been given wide currency in India and is offered as part of an explanation for why the current phase of high growth will continue for a few decades. My purpose is to explore this argument and see whether the expected changes in India's population size and structure will create a supply-side potential and the policy measures required for realising this.

The Demographic Dividend in India

An assessment of the prospects for a demographic dividend has to work with some projections of population over a relatively long period of time. A variety of such projections are available and three of them[1] are summarised in Table 12.1.

1. The three projections are the following:
   1. Population Projections for India and States. Registrar-General of India, New Delhi, May 2006.
   2. The Future Population of India: A Long-Range Demographic View. Population Foundation of India, New Delhi, August 2007, Scenario B.
   3. World Population Prospects: The 2006 Revision and the 2008 Revision. Population Division, DESA, United Nations (accessed March 19, 2009 at *http://esa.un.org*).

Table 12.1

Alternate Population Projections for India 2001-2051

(in million)

	Year	*2001*	*2011*	*2021*	*2031*	*2041*	*2051*
1.	Registrar General	1029	1193	1340			
2.	Population Foundation B	1029	1201	1370	1523	1651	1751
	Year	*2000*	*2010*	*2020*	*2030*	*2040*	*2050*
3a.	UN 2006 Revision	1048	1220	1379	1506	1597	1658
3b.	UN 2008 Revision	1043	1214	1367	1485	1565	1614

Sources:

1. Population Projections for India and States. Registrar-General of India, New Delhi, May 2006.
2. The Future Population of India: A Long-Range Demographic View. Population Foundation of India, New Delhi, August 2007, Scenario B.
3. World Population Prospects: The 2006 Revision and the 2008 Revision. Population Division, DESA, United Nations (Accessed March 19, 2009 at *http://esa.un.org)*.

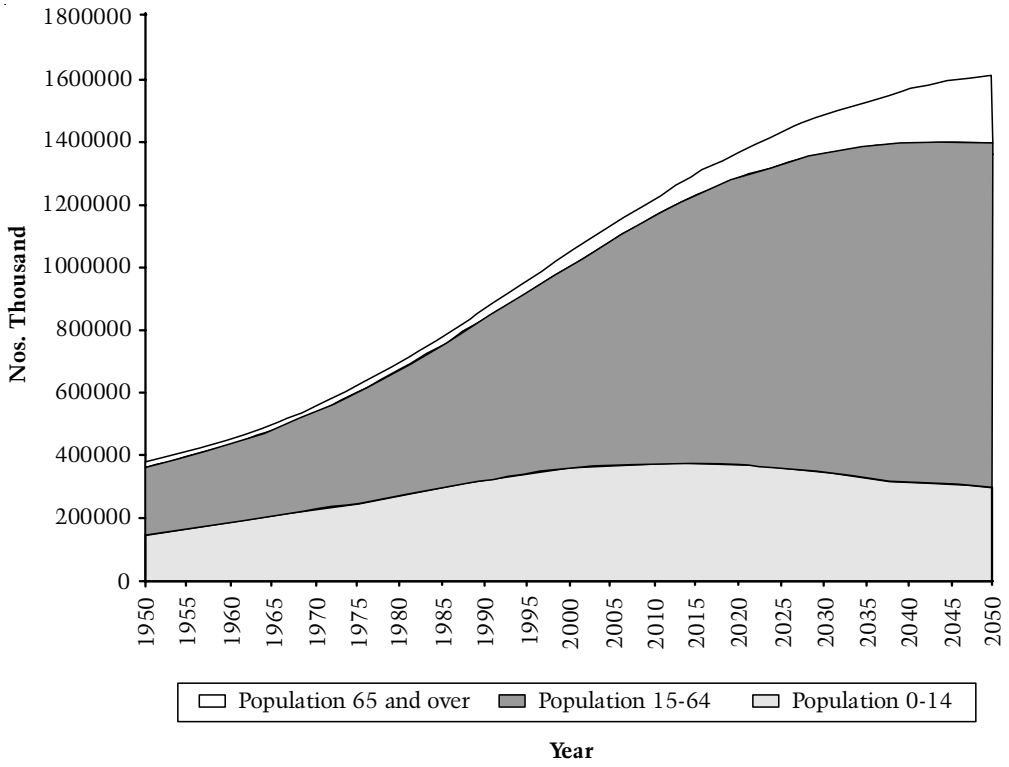
The projections do not differ very much up to 2030/31 as the major factors determining population growth in this timeframe, for instance the number of women in the reproductive age group, is subject to only small differences. For the longer term the two projections reported here do differ because of the different assumptions about fertility. But the differences do not alter the assessment of the impact of the demographic dividend very greatly. All three projections are used in this chapter, depending on the point which needs to be substantiated. A century of actual and projected population growth based on the UN 2008 projections is presented in the Figure 12.1.

The Figure shows how the proportion of persons in the working age group (15-64) increases by a truly large amount as we look ahead at 2050. It also shows the decline in the school going population and the rise in the number of persons of 65 years and above as we get to the mid-century. All of these are dimensions that have significant implications for growth prospects.

A more detailed picture of the bulge in the working age population is presented in the population pyramid based on the Registrar General's projections in Figures 12.2(a) and 12.2(b).

Figure 12.1

Population Growth 1950-2050



Source: World Population Prospects: the 2006 Revision and the 2008 Revision. Population Division, DESA, United Nations (Accessed March 19, 2009 at *http://esa.un.org*).

The all-India estimate given in Figures 12.2(a) and 12.2(b) hides large regional differences, which are crucial for judging whether the supply-side potential of the demographic dividend can actually be realised. The fall in the dependency ratio will reverse itself in due course as the larger working age population ages. Unlike the first demographic phase, the rise in the dependency ratio in this later phase is because the proportion of older persons (65+) starts increasing. For India as a whole the decline in the dependency ratio starts reversing by 2030, and that is the case for many states. However there are some states, notably Kerala and Tamil Nadu where the reversal starts even earlier by 2010-11, and somewhere it starts to reverse only after 2050-51. These differences are shown in Figure 12.3 for India and the three representative States.

A more complete synoptic picture is presented in Figure 12.4 which shows when each State will experience the end of the demographic dividend and a reversal in the dependency ratio because of a rise in the older population.

Figure 12.2(a)

Population Pyramid India 2001

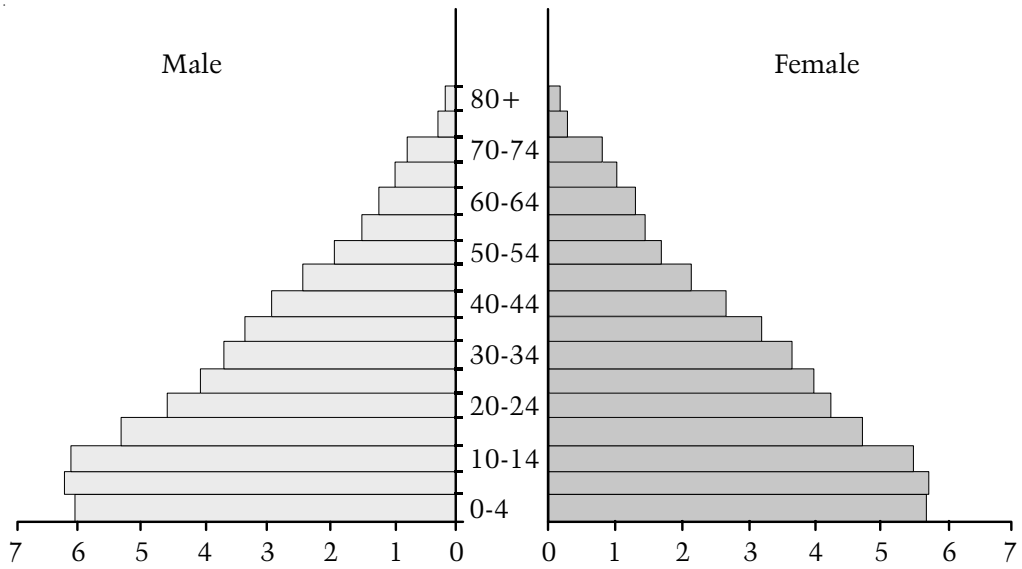
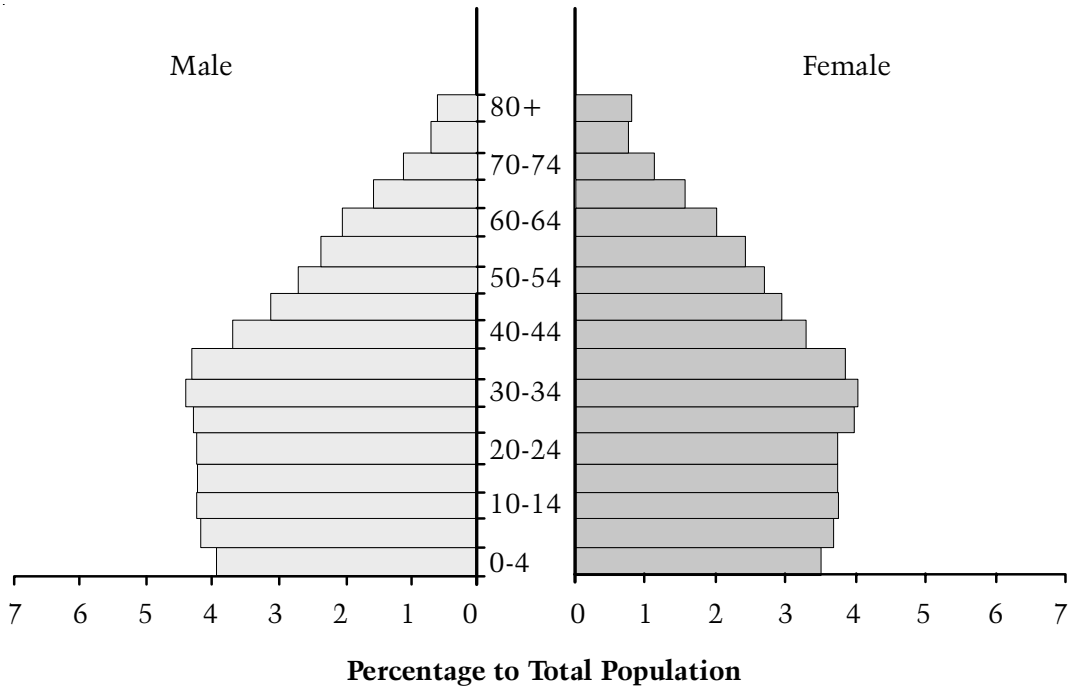


Figure 12.2(b)

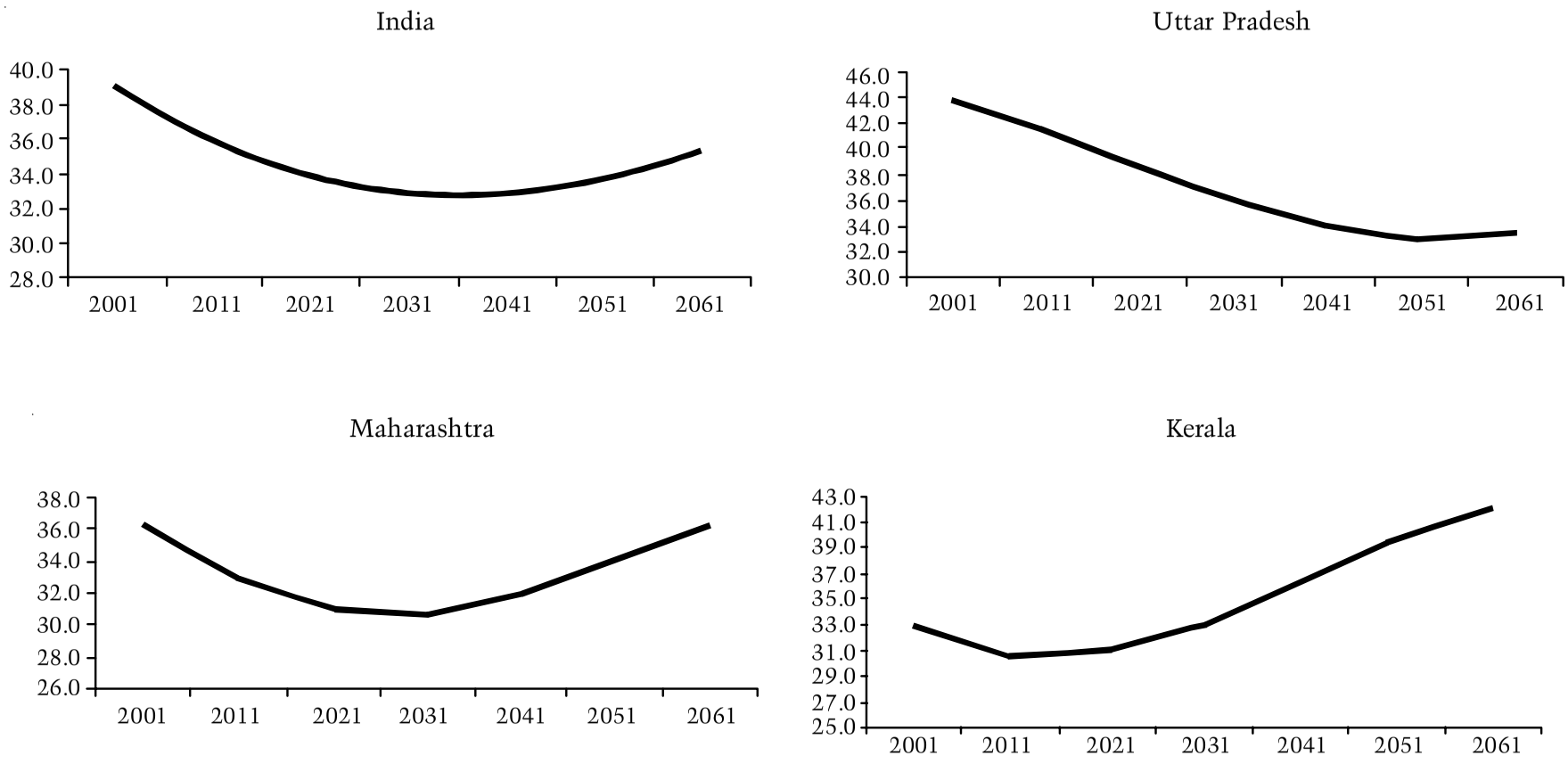
Population Pyramid India 2026



Source: Population Projections for India and States, 2001-2026. Registrar General of India, May 2006.

Figure 12.3

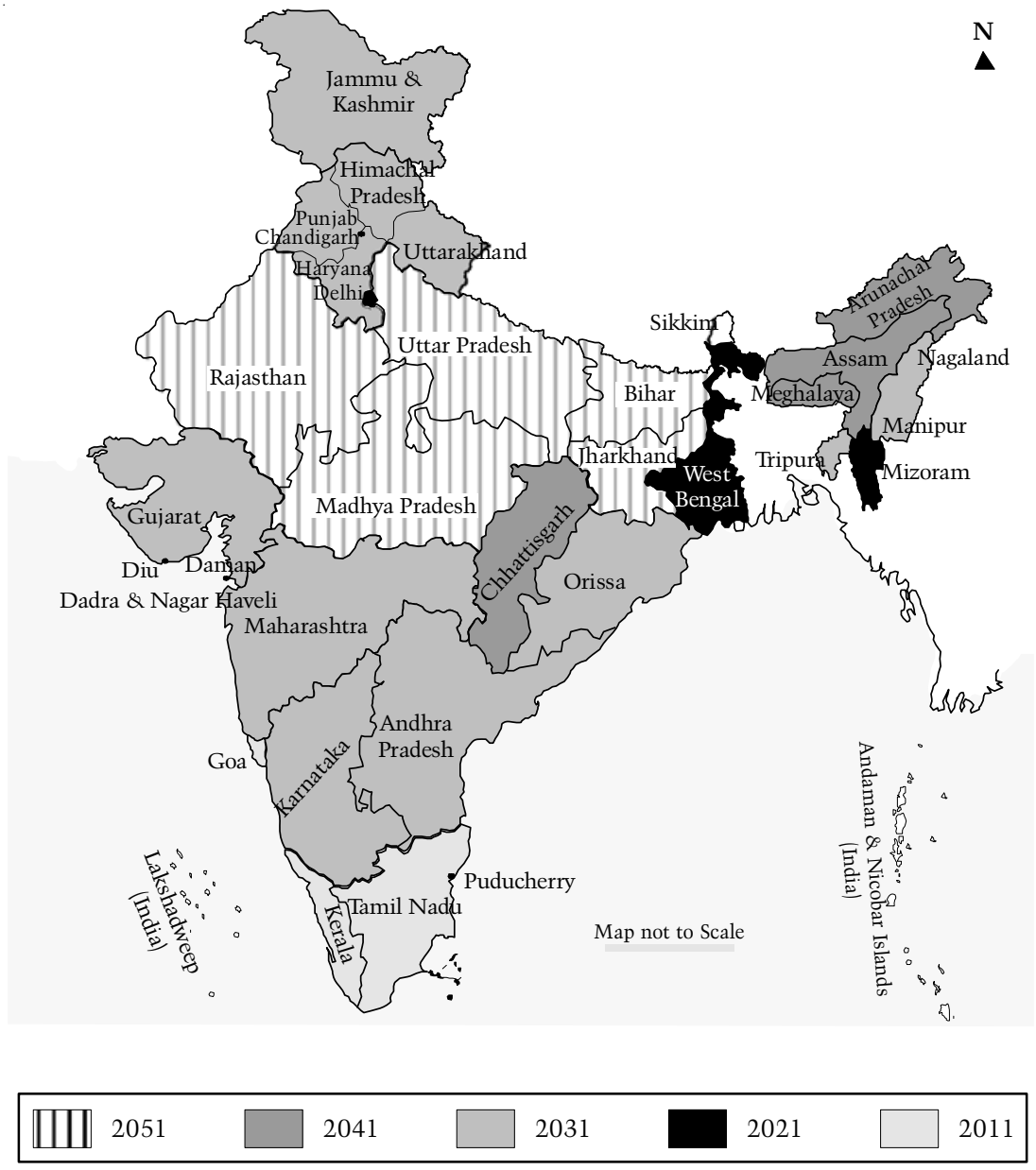
Time Profile of Dependency Ratio 2001-2061



Source: Based on Scenario B Projections in Population Foundation of India, The Future Population of India—A Long Range Demographic View. New Delhi

Figure 12.4

Year after which Dependency Ratio Starts Rising Again, Statewise



Source: Based on Scenario B Projections in Population Foundation of India, The Future Population of India: A Long Range Demographic View. New Delhi.

Five states—UP, Bihar, Jharkhand, Rajasthan and MP—are the ones where the demographic dividend will be experienced for the longest

period. In two southern states, Tamil Nadu and Kerala, and in West Bengal the window of demographic opportunity is quite short. In most other states, it will last for about two decades.

Another way of looking at this regional difference is to assess the magnitude of the dividend, as measured by the growth in working age population that will arise in the different States. Focusing attention on the five northern states—UP, Bihar, Jharkhand, Rajasthan and MP—their share in the growth in working age population and the younger part of the work force would be as follows on the basis of the statewide projections of the Population Foundation in its Scenario B.

- Share in growth in 15-64 Age Population:

  2011 to 2031: 56.7 per cent 56.7 per cent.

  2031 to 2051: 91.6 per cent.

The share of these five States in the younger part of the work force, according to the projections presented by the National Commission on Enterprises in the Unorganised Sector (2009) is as follows:

- Share in growth in 15-29 Labour Force:

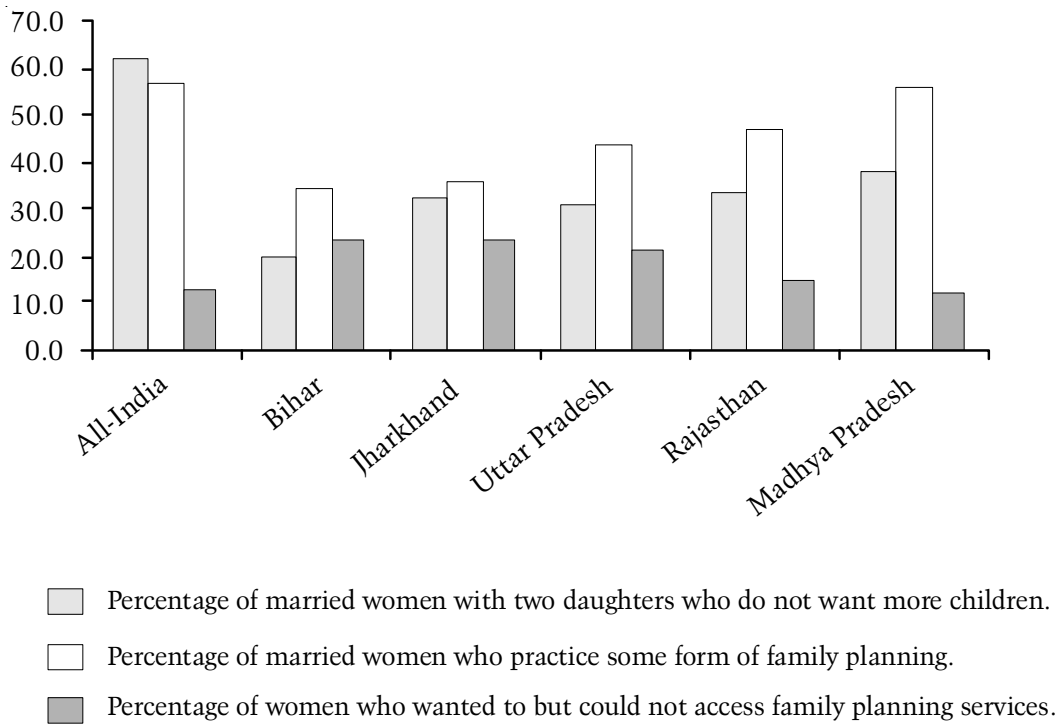
  2006-07 to 2016-17: 76.3 per cent.

The demographic dividend will accrue mainly in these five States and translating this into results in terms of growth will require policies that change radically the prospects for development in these States. Arguments that defend high growth on the grounds of the demographic dividend must be judged by their plausibility in the context of the economic conditions and governance systems that prevail in these five States.

The focus on the demographic dividend may divert attention from the fact that the task of containing population growth is not yet over, particularly in the five northern states where the bulk of the demographic dividend will accrue. Figure 12.5 presents some data from the 2004-05 National Family Health Survey which brings out the gap between these States and the rest of India in the reach of family planning and in the change in attitudes.

Figure 12.5

Family Planning, 2005-06



Source: National Family Health Survey 3, Mumbai: International Institute of Population Sciences. Fact sheets accessed on 19.3.2010 at *http://www.nfhsindia.org/nfhs3.html*

Conditions for Realising the Dividend

The most important condition for realising the demographic dividend is the availability of productive employment for the rising numbers of workers. This will involve the acquisition of new skills and the arrangements for education and vocational training are critical. The absorption of the large increase in the labour force will have to take place to a very large extent outside the agricultural sector. This means more rapid urbanisation and the capacity to manage this will be important. These conditions for cashing the demographic dividend are dealt with below.

Employment

The demographic dividend can only be realised if the growing labour force finds productive employment. According to the National

Commission for Enterprises in the Unorganised Sector (NCEUS) (2009) the rate of growth of employment during the decade of 1993-94 and 2004-05 declined significantly to 1.85 per cent from the previous 10 years of 2.03 per cent for 1983 to 1993-94 accompanied by a decline in the growth rate of wages and average earnings of the workers between 1993-94 and 2004-05 compared to the previous decade. The Commission's estimates of the distribution of employment between the organised and unorganised sector and between workers with organised social security and employment rights and those without is presented in Table 12.2.

Table 12.2

Distribution of Employment by Sector and Type of Employment

In million (figures in brackets are percentages to the row totals)

	Informal Unorganised Worker	*Formal Organised Worker*	*Total*
		1999-2000	
Informal/Unorganised Sector	339.7 (99.5)	1.8 (0.5)	341.5 (100.0)
Formal/Organised Sector	23.1(42.1)	31.8 (57.9)	54.9 (100.0)
Total	362.8 (91.5)	33.6 (8.5)	396.4 (100.0)
		2004-05	
Informal/Unorganised Sector	391.8 (99.6)	1.4 (0.4)	393.2 (100.0)
Formal/Organised Sector	28.9 (46.2)	33.7 (53.8)	62.6 (100.0)
Total	420.7 (92.3)	35.0 (7.7)	455.7 (100.0)

Notes: 1. Based on labour force on the Usual Principal and Subsidiary Status (UPSS) with a minimum duration of employment of 30 days in the year for inclusion in the labour force on a subsidiary status.

2. The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than 10 total workers.

3. Unorganised workers consist of those working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers.

Source: National Commission for Enterprises in The Unorganised Sector (2009). p.13: Table 2.3.

These estimates show that the bulk of the employment growth has taken place in the unorganised sector and in the form of casual employment without employment/social security benefits in the organised sector. This casualisation of employment and the slower growth in wages is explicable once one recognises that the growth in the

labour force is running currently at around two per cent plus. Part of the explanation must also lie in the way labour laws work to discourage formal employment contracts.

It is possible that the growth in employment may have been higher in recent years when the growth rate accelerated and anecdotal evidence would seem to suggest that labour shortages are being experienced in places. Whether this reflects higher overall employment growth or deficiencies in the education and training system is a moot question.

A great deal of the casual employment includes make work type arrangements in farms and small household enterprises. Additions to this disguised unemployment cannot constitute a contribution to the demographic dividend and what is needed is quality employment which provides genuine full-time work and where the productivity is sufficient to pay a living wage. The scale of the employment challenge can only be assessed by adding to the growth in the labour force, the 'surplus labour' that needs to be absorbed in productive work.

A rough attempt at quantifying this 'surplus labour' challenge can be made on the basis of the estimates prepared by the NCEUS (2007) on the basis the 2004-05 NSS and is given in the calculation presented below:

- The work force is of the order of 455 million.[2]
- Non-agricultural employment was of the order of 200 million, 140 million in the unorganised sector and 60 million in the organised sector, in round numbers.[3]
- Some part of the reported employment in unorganised non-agricultural enterprises, particularly in household industry is really disguised unemployment. Around 15 per cent of the workers in the unorganised non-agricultural sector, roughly 20 million in absolute number are unpaid family workers. For the purposes of

2. NCEUS (2009). Table 2.3 (p. 13) which is a slight modification of Table 1.1 in NCEUS (2007): 4.

3. NCEUS (2007): p.3 and Table 1.1: p.4.

this illustrative calculation full-time work with adequate earnings outside agriculture is assumed to be 180 million in 2005.

- In 2005, the total cropped area in agriculture was 190 million hectare with a value added of Rs 5.5 trillion (GoI, 2009).
- Assuming full-time employment: one person per hectare full-time equivalent employment in agriculture would be 190 million in 2005 with implied earnings of the order of Rs. 30 thousand per worker.
- This yields surplus or low productivity labour in 2005 of 85 million in the work force: 455 million.

The annual additions to the labour force are running at the rate of nearly 10 million a year. Realising the demographic dividend means finding productive work for these new workers added to the labour force every year plus absorbing the backlog of low productivity or surplus workers over the next decade or two.

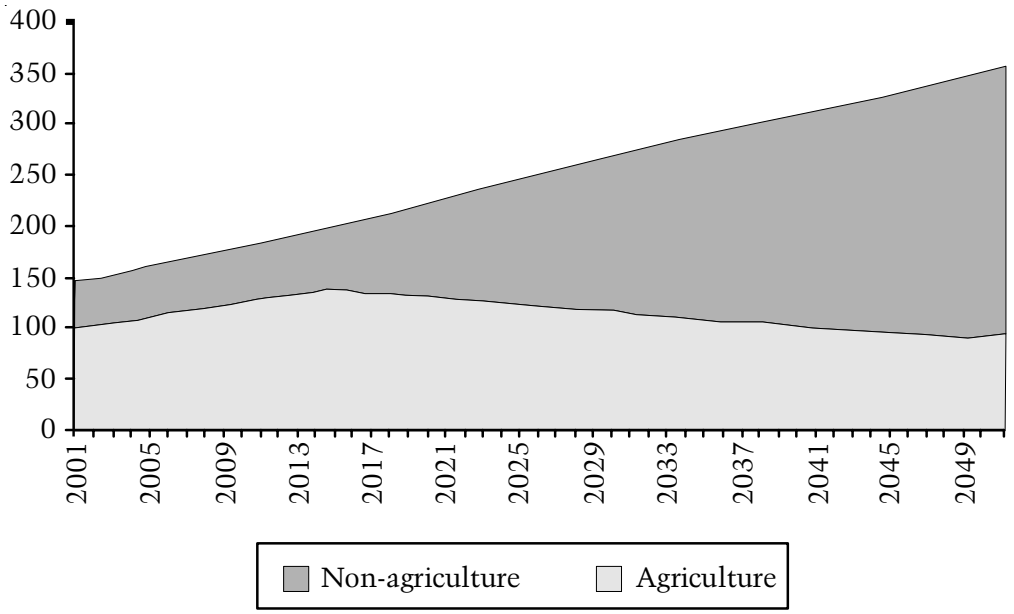
An illustrative projection of how employment and its distribution between agricultural and non-agricultural work has to evolve to absorb additions to the work force and to absorb the low productivity workers from agriculture over 30 years beginning 2015 in the five northern states and over 20 years in the rest of India is presented in Figures 12.6(a) and 12.6(b).

This illustrative projection brings out the magnitude of the increase in non-agricultural work opportunities that will be required in all parts of India, but more particularly so in the five northern states. In these five states, the labour force continues to grow right through to 2051 and non-agricultural work opportunities have to expand at an average annual rate of 4.1 per cent from 2015 when the structural shift is assumed to begin. In the rest of India, this required rate of increase in non-agricultural work is only 1.5 per cent on the same basis.

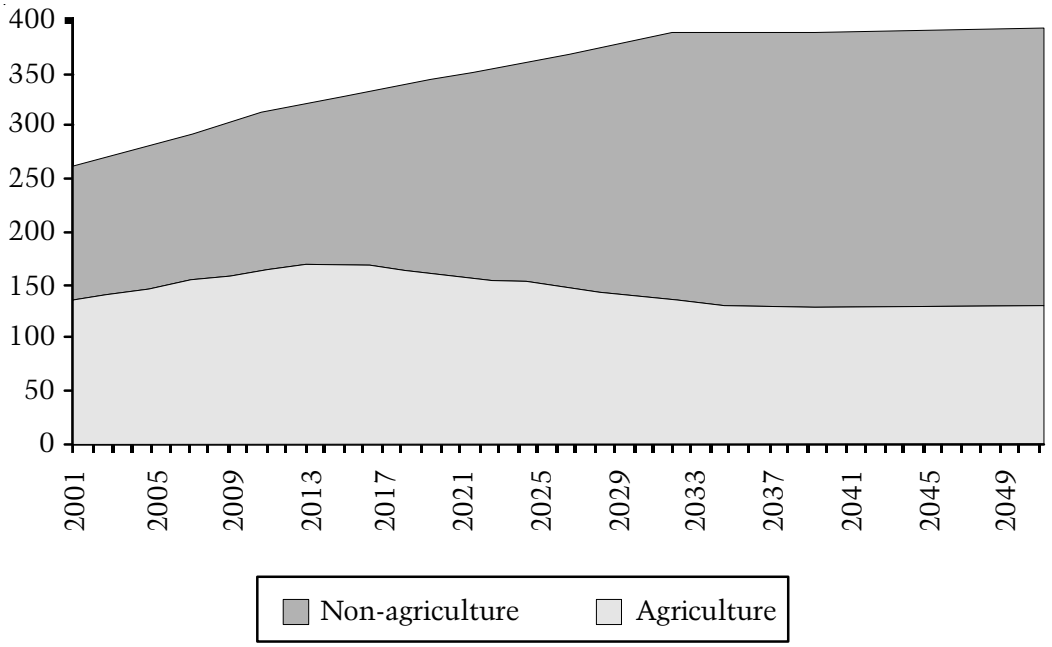
The structural shift in the rest of India may be even more rapid as the labour market becomes tighter and the decline in the agricultural work force may be larger than what is projected here. One can also anticipate huge migratory pressures from the northern states to the rest of India unless growth impulses in these States become stronger.

Figure 12.6

(a) Growth in Employment:Five States



(b) Growth in Employment: Rest of India



The projected growth rates of employment will require sustained high growth of the order that has been achieved in recent years at the all-India level. During the period 2004-05 to 2008-09, when GDP grew at

an average annual rate of 8.5 per cent, the growth record of the five northern states is mixed. Bihar and Jharkhand grew more rapidly, at 11.4 per cent and 9.6 per cent respectively. But the other three states grew at a much slower pace of 4.8 per cent in MP, 4.9 per cent in Rajasthan and 6.3 per cent in UP.[4] At these rates, the growth in employment projected above is unattainable.

The organised sector, which currently absorbs only about 1 million additional workers, cannot expand to absorb 9 million plus new workers per year and the bulk of the growth will take place in what is called the unorganised sector. This will require a major effort aimed at providing a more firm legal basis for land rights and tenure, the ability to enforce contracts and secure payments, access to justice, credit systems, protection from municipal and police harassment, etc. We have barely begun this process.

The Regional Dimension

Projections of the annual rate of growth in the population in the working age group in the five states and in India as a whole based on the Population Foundation's Statewide projections in Scenario B are presented in Figure 12.7.

The Figure shows two trends quite clearly—first, the challenge of ensuring employment growth to absorb a rising working population is greatest in the five northern states, where the labour force will continue to grow at rates close to or greater than the current rate of increase in employment.

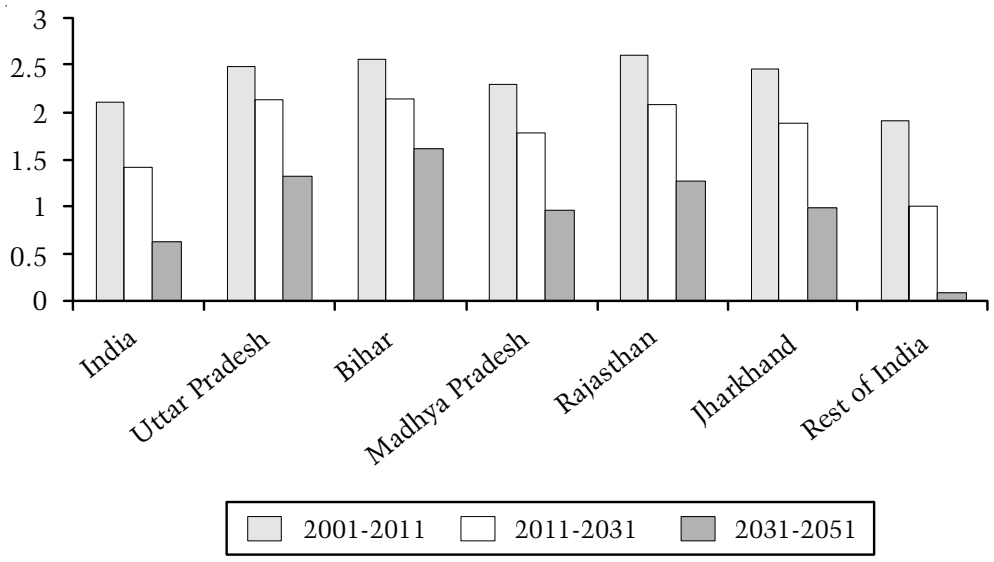
Second, the rest of India may well face labour shortages as labour force growth drops sharply in the decades ahead to a near zero level beyond 2031 and the scale of labour migration from the northern states to other parts of India may well have to increase. This is simply a further elaboration of the point made earlier that the demographic dividend will accrue mainly in these northern states and that is where it will have to be realised. The decades ahead to a near zero level beyond

4. Based on constant price data on State Domestic Product reported in *Handbook on Statistics on Indian Economy, 2008-09*, Table 5. Accessed on the RBI website on 11 April 2010.

2031 and the scale of labour migration from the northern states to other parts of India may well have to increase. This is simply a further elaboration of the point made earlier that the demographic dividend will accrue mainly in these northern states and that is where it will have to be realised.

Figure 12.7

Growth Rate of Working Age Population



The share of the five northern states—UP, Bihar, Jharkhand, Rajasthan and Madhya Pradesh—in the increase in the 15-64 age group will be about 56 per cent in the next two decades and 91 per cent in the decades after. One could also argue that they probably have a higher than national average share in the current backlog of surplus labour, the 85 million in zero or low productivity work that was indicated earlier. They also have a higher than average proportion of people in poverty. Realising the demographic dividend will require that up to two-third or so of the new quality employment will have to be generated in these four states. Either that or scale of interregional migration will run into levels that may be impossible politically and socially.

The impetus for growth in the North can come from the rising demand for goods and services within the country provided transport and

communication investments are directed at connecting these regions to the booming South and West. Either these states are better connected with the parts of the country where growth impulses are stronger or large scale migration from these states to other parts will have to take place.

The key lies in market logistics—transport, banking, trading channels, information. A transport policy aimed at strengthening connectivity of the high population growth areas to others, reducing movement barriers, movement and transaction costs can play a major role. Our poorly implemented highway programme, the lack of an effective payments system for SMEs, informational barriers, the lack of trust and confidence between buyers in the South and West and suppliers in the North stand in the way of the transmission of growth impulses. These need to be corrected if the demographic dividend is to be realised. There are other deficiencies like poor power supply, inefficient administration and the lack of law and order which also need to be corrected.

Interregional migration will take place. Migration, urbanisation and occupational shifts take people away from traditional support structures. Socially diverse urban areas will require a tolerance. Will regional and sectarian politics prevent this? Or will a booming economy help to foster a culture of tolerance and respect for diversity?

Social security systems will also be required. Long-distance migrants cannot resort to the expedient of returning to their village to cope with the ups and downs of business cycles. Some form of unemployment insurance will be required. A growing population of older persons, separated from children who may have moved to new opportunities in a booming economy, will need pensions and other support. Sustaining labour mobility will require the establishment of a system of social security for which we are ill-prepared as of now.

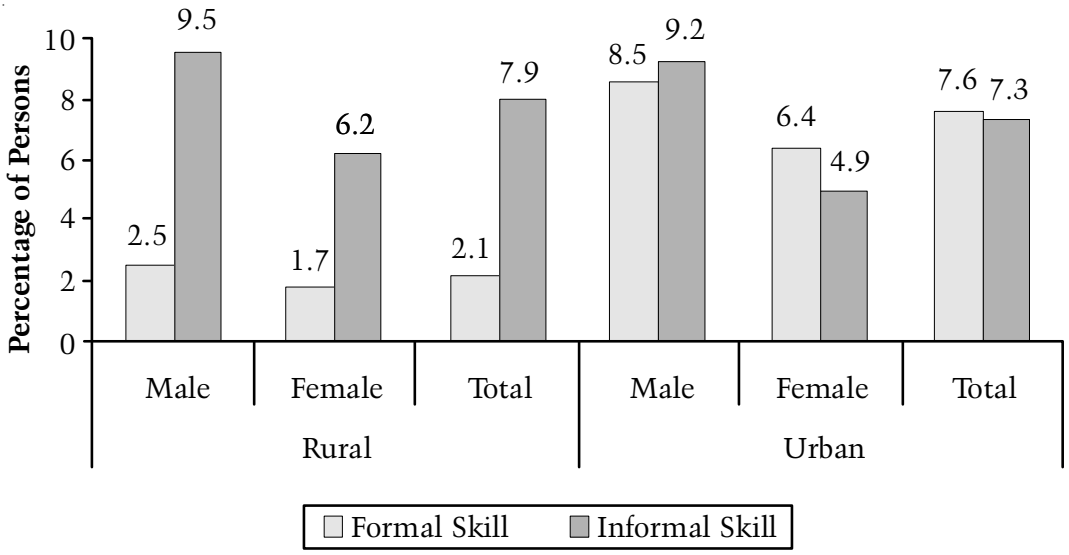
Education and Training

The projected numbers, imply a labour force distribution between agriculture and non-agriculture that will shift from the present 60:40 split to roughly a 20:80 split. That is the scale of the occupational

mobility required. This sort of occupational shift requires a labour force which has undergone some degree of vocational training. The actual record here is rather poor. Figure 12.8 shows how low is the proportion of even young workers with formally acquired or even informally acquired skills:

Figure 12.8

Percentage of Population with Skills in Age Group 15-29, by Residence, 2004-05



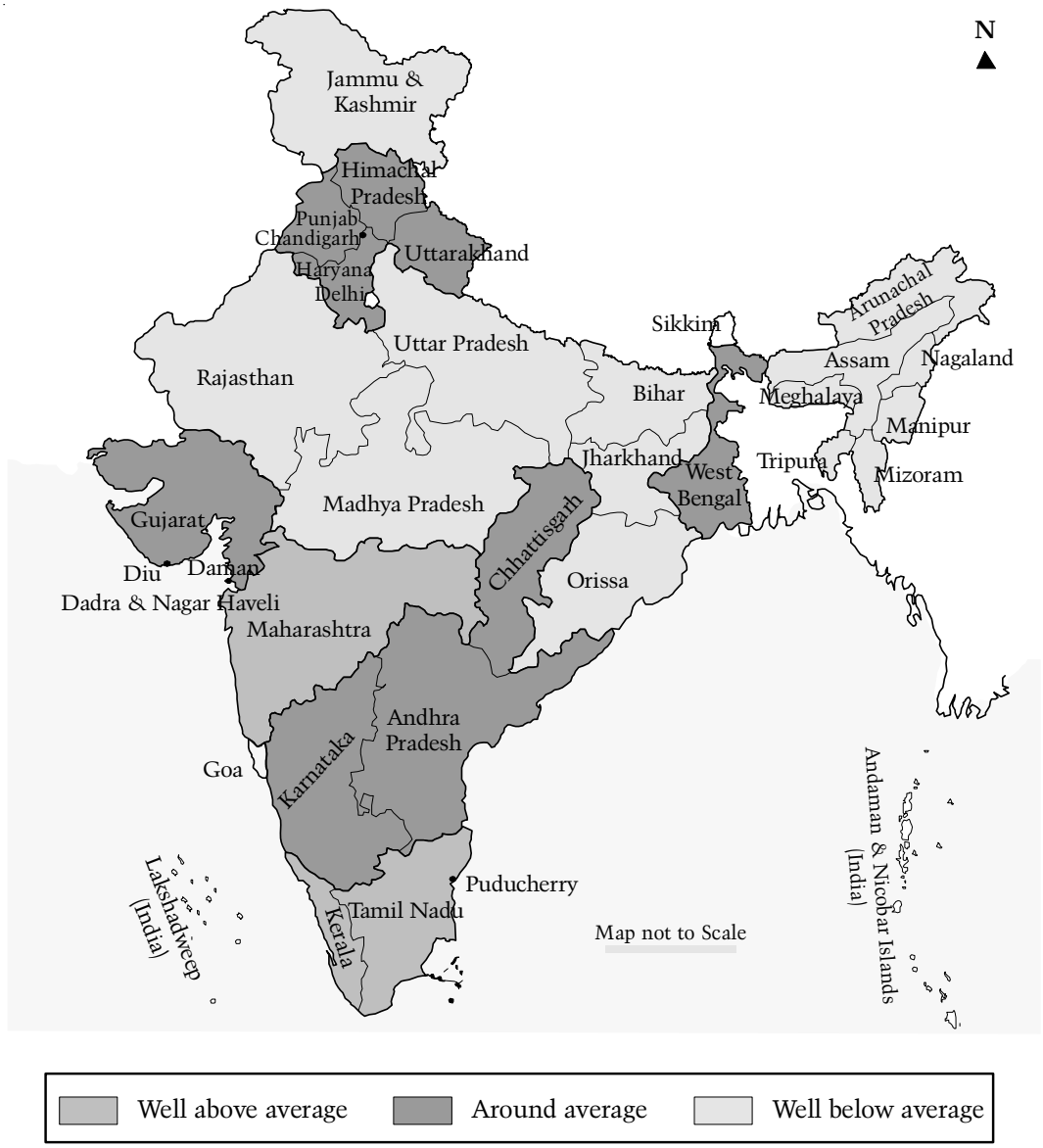
Source: Based on unit level data of NSS 61st Round 2004-05, Employment-Unemployment Survey reported in National Commission for Enterprises in the Unorganised Sector (NCEUS), (2009), Skill Formation and Employment Assurance in the Unorganised Sector, Government of India, New Delhi, p.17 Figure 3.5.

International comparisons with other developing countries show how large a gap has to be covered if we are to benefit from the demographic dividend. In the late 1990s, the percentage of young workers (20-24 years old) who had received formal training was 22.4 per cent in Botswana, 28.1 per cent in Colombia, 36.1 per cent in Mauritius and 27.6 per cent in Mexico. Even the urban figures for India are well below this level (NCEUS, 2009a).

The demographic dividend will accrue mainly in the northern states, and the situation with regard to skills is much below the national average there as is shown Figure 12.9.

Figure 12.9

Percentage with Formal Skills, 15-29 Age Group, 2004-05



The occupational shift requires a huge effort at post-secondary vocational education, an area quite neglected so far. But this will not work unless the quality of elementary and high school education is improved. A high school education is the minimum a youngster needs to escape from the confines of family, caste and geography. But we also need a much better system of post-school vocational training than the present combination of poorly run public institutions and loosely supervised private shops.

The NCEUS has estimated that at present around 2.5 million training places are available and with many courses being less than one year around 5 million people can be trained per year. In order to provide formal skill training to half the labour force, the goal recommended by the Commission, considerable expansion of training would be required. The Commission estimated that during the 11th Plan, the annual training capacity would need to go up to 12.5 million (up from about 5 million currently). A further increase to 18 million would be required during the 12th Plan and to 25 million during the 13th Plan. If these targets are achieved, then by the end of the 13th Plan about a decade away around half the total labour force would have formal skills (NCEUS, 2009a: 38).

There are hopeful signs that the matter is receiving serious attention with the constitution of Prime Minister's National Council on Skill Development, the National Skill Development Coordination Board under the Planning Commission, and the National Skill Development Corporation under Ministry of Finance. But once again it is worth emphasising that much of this effort will have to be in the five northern states where the necessary preconditions in the form of an effective school system is not yet in place.

Urbanisation

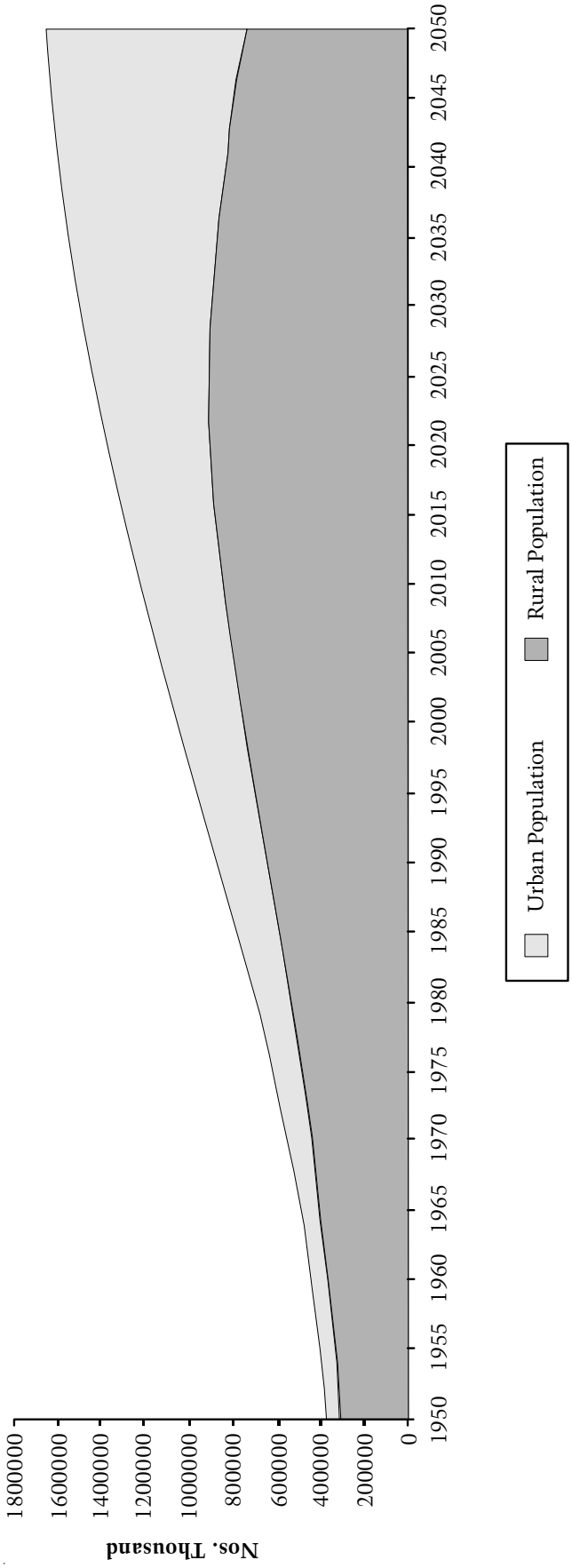
The demographic dividend cannot be realised in agriculture and traditional household industry. Some 200 million people or so will have to shift from their traditional family occupations; an occupational shift of this order will imply a massive change in the urban rural distribution. The UN Population Division's projections of urbanisation,[5] done largely on the basis of trend analysis are presented in Figure 12.10.

The absolute size of the rural population will start declining by 2025-2030 and by 2050 it will be 125 million less than now. Urban population will grow continuously and be 525 million larger in 2050.

5. Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2006 Revision and World Urbanization Prospects: The 2007 Revision*, *http://esa.un.org/unup*, Accessed March 19, 2009.

Figure 12.10

Population, Rural and Urban, 1950-2050



Actually urbanisation is understated because of a conservative Census classification: Unpublished calculation by the late Prof. Visaria (Dyson, 2008) suggest that including villages with population more than 5,000 (13,376 with 113 million people) to 1991 Census urban numbers, would raise percentage from 25.7 per cent to 39 per cent. Even on the Census definition practically all of the population increase will be in urban areas and after, 2025-2030 there will be a net depopulation of rural areas. These numbers imply very substantial rural to urban migration, and the pace of urbanisation may be even more rapid if the estimates of occupational shift are correct.

The focus of planning and politics must shift from rural to an urban bias. The demographic dividend will be won or lost in our cities and towns, particularly in North India, and we are quite unprepared for that. The key issues are of urban governance and urban finance. The Thirteenth Finance Commission has made a beginning in this area; but much more fiscal decentralisation is needed to allow this third tier of governance to function effectively. We need fully empowered city governments in charge not just of municipal and social services but also transport and land use in the urban fringe and law and order. Directly elected mayors could provide the political entrepreneurship that our cities and towns need so badly.

In place after place, people are making their own cities, often in unauthorised colonies like Dharavi in Mumbai, while planners cater to a small elite. These young urban centres are characterised by an immigrant mentality with high savings, a desire to improve status through education, ambitions for children, a willingness to accept squalor as even that may be better than what was left behind, ghettoisation for reassurance and social protection. There will be many more such people made cities as the demographic dividend is realised. Planners must learn to work with these entrepreneurial migrants to improve water, drainage, health, safety and housing quality.

The rapid scale of urbanisation as millions migrate to cities in search of productive work will pose environmental concerns via the impact of a city on energy and water demand and waste generation. A city's energy requirements are larger than the rural alternative because of

the need for transport over longer distances for work and leisure, the more enclosed housing mode and lifestyle. Water requirements are larger because of the housing and sanitation mode, transmission loss and perhaps also lifestyle. The higher volume of waste generation is mainly because of lifestyle differences.

We need to reconsider the form of cities and move away from the model of large polycentric transport intensive cities like Delhi. Compact cities with high densities reduce pressure on agricultural land, involve shorter travel distances and can be walking and cycling friendly. There are huge social benefits from proximity of work, residence and leisure. The greater localisation of services, work places and businesses reduces infrastructure cost. High and well distributed densities will also allow affordable public transport and help to contain high infrastructure costs.

Conclusion

The demographic dividend is a supply-side potential in that working people can be an asset for growth and development. But to realise this potential the economy must grow in a manner that generates productive work opportunities at the scale required to absorb the growth in the work force and the education and vocational training system must provide them with the skills required to use these opportunities. The demographic dividend also generally involves large changes in the sectoral structure of the economy and the rural-urban mix. It almost certainly will involve large scale migration from rural to urban areas and, possibly interregional migration within the country.

The major challenge for realising this demographic dividend in India is perhaps not so much the overall growth rate of the economy. The acceleration of growth in recent years seems to be sustainable at least for some time, mainly because of the high savings rate and the corporate entrepreneurial dynamism that has been unleashed by the liberalisation of the regulatory system.

The big challenge at the all-India level is now to unleash a similar dynamism in the public sector providers of infrastructure and services. We need a 1991 type of reform in the way in which our public sector is managed and run because realising the demographic dividend requires an

order of magnitude change in education and vocational training. It also poses huge challenges for urban development. Both of these are areas where we have barely begun the process of reform. Money is being thrown at the problem; but the underlying structures for planning and accountability remain unchanged.

The reform of public sector management has to take place in a political environment where coalition compulsions have come to dominate public policy. The politics of patronage has acquired greater importance and this has become a barrier to the reforms that we need in education and vocational training. The growth of money power in politics also constrains policy, for instance in stopping measures to empower city administrations or in a more rational policy on urban land markets.

This challenge of reform is even more acute in the five northern states—UP, Bihar, Jharkhand, Rajasthan and Madhya Pradesh—where the bulk of the demographic dividend will be realised over the next decades. These States have also not shown the growth performance that has driven the West and the South of the country though there are some welcome signs of change now. If these states continue to lag behind the rest of the country then the demographic dividend may well become a demographic trap with a large disaffected population of unemployed youth turning to different varieties of extremism and violence. That is why extending the growth impulses that have led to double digit growth in the West and the South to the rest of the country must become a central goal of public policy.

Hence a summary prescription for realising the demographic dividend is, radical root and branch reform of the public sector and rapid growth in the northern states as a central aim of development policy.

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