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Does population matter?

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Countries at the right stage of development can reap a demographic dividend

EVER since Malthus's apocalyptic vision in 1798 of overcrowding and starvation, a debate has raged over population growth and its links with development. The latest contribution, a report* by the UN Population Fund (UNFPA), argues that larger families and fast-growing populations obstruct development and perpetuate poverty by slowing growth and diverting consumption away from the poor. In the 1980s, if all countries had cut net fertility by five births per thousand women, poverty would have been reduced by a third, the report claims. It concludes that, to overcome poverty, countries must deal with population concerns and fight poor reproductive health, unwanted fertility, illiteracy and discrimination against women.



How does population change affect the economy? Views have shifted in the past few decades. The 1960s and 1970s seemed to favour the neo-Malthusian view that high fertility hindered development: people with many children were unable to save and had to spend more on health and education, hindering investment in physical capital. Such pessimism spawned many publicly funded family-planning programmes, which were touted as a panacea for poor countries' economic ills.

In the 1980s, however, economists, not social scientists, came to dominate the population debate, with revisionist results. Empirical research seemed to discredit the neo-Malthusian view. Human capital and technical change, rather than physical capital accumulation, were the main drivers of growth. The revisionists argued that population pressures ultimately provoke institutional, technological and policy changes. Population growth, they concluded, has little impact on growth, unlike such factors as bad policies, corruption and lack of natural resources.

Over the past few years, economists have been reverting to the view that population does indeed matter. So is Malthus making a comeback? Not exactly. The important thing, says the UN report, is a changed age structure of the population, rather than population growth itself. People are living longer and, as parents realise that children have better chances of survival, fertility rates are falling, leading eventually to a higher ratio of working-age adults to dependants. Moreover, as family size declines, more women are likely to enter the labour market.

So long as the labour market can absorb more workers, production per head will increase. This creates a "demographic dividend" of growth, making possible higher savings and investment. Parents with fewer children can invest more in their health and education, creating a more

productive workforce. So the source of population growth and its timing are of the essence: at early and late stages of the demographic transition—when the youngest and oldest age-groups are growing the fastest—growth suffers. The demographic dividend appears only in the middle phase.

This also means there is only one window of opportunity. Low fertility eventually leads to a rising proportion of older people, raising the dependency ratio as the working population goes from caring for children to caring for parents and grandparents. Nor is the demographic dividend automatic. The right policies—a flexible labour market, investment and saving incentives, provision of high-quality health care and education—are still essential to making the working-age population more productive.

Provided that is done, a change in the population's age structure, due to a drop in mortality and fertility rates, will promote growth. But what about poverty? Higher growth helps to reduce it but, according to Robert Eastwood and Michael Lipton^{**}, having fewer babies also changes the distribution of consumption in favour of the poor. A drop in the birth rate eventually affects the supply of workers—unskilled workers in particular since fertility is usually higher among the poor—which in turn can help to increase employment and wages. Fewer babies can also mean a second income, as mothers can then join the labour market.

Asian miracles

This demographic dividend was essential to East Asia's economic success. In 1950, the typical East Asian woman had six children. Today she has two. As a result, between 1965 and 1990, the working-age group rose from around 57% to over 65% of the total population, increasing four times faster than the number of dependants. Some estimates suggest that the demographic dividend accounted for around a third of the growth in the region's income per head in that period. Latin America, on the other hand, has not benefited in the same way. Although demographic conditions were favourable, income per head grew by an average of only 0.7% per year between 1975 and 1995, compared with 6.8% for East Asia. This is due to poor policies: studies suggest that had the region been more open to trade, average growth would have more than doubled.

If these observations are correct, developing countries entering their demographic transition have a unique chance to cash their population dividend. South Asia will reach its peak ratio of workers to dependants between 2015 and 2025. Richer Latin American countries have completed the transition, but poorer ones continue to lag; their peak is likely in 2020-30. In sub-Saharan Africa, however, only 11 countries are expected to reach that stage before 2050, and a lot still has to be done to reduce fertility levels. The rapid rise in AIDS deaths will also frustrate changes in age structure that would otherwise occur. And once the transition is over and the dividend pocketed, countries will face the next big challenge: how to care for the old.

* "State of the World Population 2002: People, Poverty and Possibilities: Making Development Work for the Poor", UNFPA

**In "Population Matters. Demographic Change, Economic Growth and Poverty in the Developing World", edited by Nancy Birdsall, Allen C. Kelley and Steven W. Sinding, Oxford University Press, 2001.