Population as a resource

Revised

The world's seven billionth person was most probably born on 31 October 2011. Global population is projected to reach 8 billion around 2025. Are these landmark events good news or bad news for the global economy and environment? The debate over whether population growth is a blessing or burden – or both – is a very old one.

'People are the ultimate resource,' argued Julian Simon in 1980. Referring to the repeated waste of lives in war during human history, Simon wrote memorably:

> There came to me the memory of reading a eulogy delivered by a Jewish chaplain over the dead on the battlefield at Iwo Jima, saying something like, 'How many who would have been a Mozart or a Michelangelo or an Einstein have we buried here?'

The argument we can infer from this is a compelling one: population growth is beneficial because a larger 'pool' of people is likely to produce more truly exceptional individuals who will innovate and design in unanticipated ways that benefit everyone else enormously. Would you own a smartphone if fewer people had been born in the past and, as a result, iconic inventors such as Bill Gates and Steve Jobs had never lived?

Another advantage of a large population is the sizeable labour force that can help a country to industrialize. People are the **human resources** that allow domestic industries to thrive or act as a magnet for foreign investors. Much of China's 'economic miracle' can be attributed to the enormous size of its cheap labour force.

> **Keyword definitions**
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> **Human resources** The working-age people found in a place who can generate wealth with the skills and capabilities they possess (dependent on their educational levels, the languages they speak and their capacity to innovate and invent).

The demographic dividend

It is not just population size that matters. Economists and geographers are interested in the benefits brought by a particular type of population structure. A relatively new concept called 'the demographic dividend' (DD) is used to frame the debate. In essence, this is a short-term demographic benefit that is 'cashed in' by a country when it moves from stage 2 to stage 3 of the DTM (see page 14).

- During the early decades of stage 3 of the DTM, a 'bulge' develops in the population pyramid between roughly the ages of 15 and 35. These are the more youthful and energetic cohorts of the working-age population.
- This bulge is a product of the time lag of demographic transition: declining infant mortality (occurring immediately following improvements in health, hygiene and food supply during stage 2) is only followed later by a fall in the number of births (because moral codes governing birth control and sexuality are at first resistant to change).
- The population pyramids for Angola and Vietnam in Figure 1.15 (page 15) show this. In Angola (stage 2), women still give birth to six children and the dependency ratio remains high with many young dependants, whereas Vietnam (stage 3) has recently gained a low ratio of very young dependants compared with working-age groups.

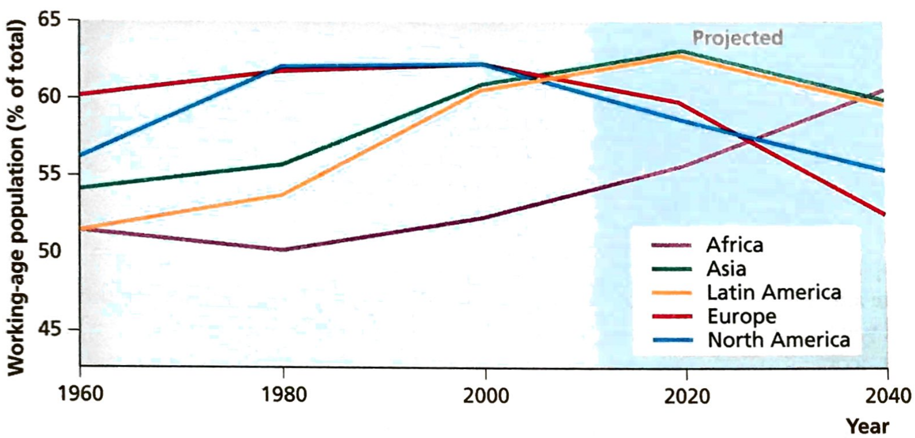
The DD played an important role in the emergence of the 'Asian Tiger' economies during the 1960s and is one reason for China's fast growth in recent decades. In such cases, the movement of large, youthful cohorts into working age, accompanied by falling births, boosts economic and social development because:

- a large, young workforce serves as a powerful magnet for 'footloose' global capital
- workers with fewer children begin making investments, contributing to financial growth
- women become more likely to enter the formal workforce, promoting greater gender equality

- salaried workers quickly become consumers; so global retailers and media corporations view these countries as important emerging markets (MTV and Disney are targeting India in particular).

More recently, numerous emerging economies in Asia, Latin America and, increasingly, parts of Africa have begun to enjoy their own demographic dividend, as Figure 1.32 shows.

- **Asia** Indonesia is currently cashing-in a major demographic dividend (66 per cent of its 240 million people are of working age and 90 per cent are literate).
- **Latin America** Brazil began to enjoy its demographic dividend around 2000; today, it is home to 130 million working-age people out of a total of 192 million. In Colombia, just 33 per cent of the population is dependent; and with a literacy rate of 90 per cent, the future looks promising.
- **Africa** South Africa is beginning to profit from the demographic dividend. Mauritius, Morocco and Algeria recently experienced falling fertility.



Source: PolicyProject.com

Figure 1.32 Trends in the proportional size of the working-age population by global region, 1960–2040 (projected)

Developed countries, generally, enjoyed the demographic dividend a long time ago, with exceptions. Ireland experienced a late decline in fertility in the 1980s that delivered a demographic dividend in the 1990s (its 'Celtic Tiger' growth phase). The USA, where a relatively large influx of younger immigrants has provided an extended demographic dividend, is an important reminder that migration shapes population structure too.

Other factors affecting the demographic dividend

A demographic dividend is *not* always delivered when population structure changes. Some countries fail to make the most of their human resources because of other factors:

- A large working-age population is a wasted opportunity if numeracy and literacy are weak (a concern for some Indian states, where primary and secondary education performance is poor).
- Good governance is essential. Performance of the manufacturing and tertiary sector is determined by economic policies that affect levels of free trade, entrepreneurial activity and inward investment. Providing a framework for growth remains a challenge for some countries (notably Pakistan, according to the British Council).
- In Egypt and Tunisia, where government revenue was, until recently, allegedly siphoned off for the benefit of a small ruling clique, ordinary people received little in the way of 'trickle-down' benefits from their own demographic dividends.
- Political instability jeopardizes the climate for long-term investment. Asian 'success stories' have experienced generally greater political stability (albeit sometimes in non-democratic forms) than parts of Latin America and sub-Saharan Africa. Today, erratic and unpredictable rule can be a powerful deterrent for global capital.
- Youthful out-migration, as in Mexico, may jeopardize receipt of the demographic dividend.

The demographic dividend is, at best, a temporary benefit only. Once several decades have passed, a large number of older workers cease working. With fewer young workers to fund care for the elderly, the dependency ratio begins to rise again, this time involving retirement costs (a 'demographic debt') rather than childcare expense. As we have seen, Japan, which moved through the demographic transition ahead of other Asian nations and benefited from a demographic dividend and economic boom in the 1960s, must now pay for an increasingly elderly population. By 2030, we will know if China, whose recent demographic dividend and 'economic miracle' owe so much to the 1979 one-child rule, can afford to do the same.

CASE STUDY

INDIA'S DEMOGRAPHIC DIVIDEND

India's imminent demographic dividend is one important reason for its new 'superpower' status. Until recently, a dependency ratio close to 0.6 had slowed the country's growth. Now, falling fertility means that by 2030 it could be as low as 0.4. This will mean a higher proportion of population contributing to economic output (and with fewer children to look after, more women entering paid employment). Figure 1.33 compares trends for China and India: as you can see, China has already 'cashed-in' its DD; India is about to.

In theory, the future is bright for India on account of population change:

- While many Asian countries are ageing, approximately half of India's 1.2 billion people are under the age of 26, and by 2020, it is forecast to be the youngest country in the world, with a median age of 29. That means a growing pool of buyers for goods and services, and a growing middle class.
- Between 2006 and 2011, consumer spending in the country almost doubled, from US$500 billion to US$1 trillion. Further growth can be expected.
- India's giant labour force could attract foreign investors who are deterred by rising wages in China (manufacturing labour costs there are nearly four times higher than in India).

However, India's demographic dividend may fail to materialize fully:

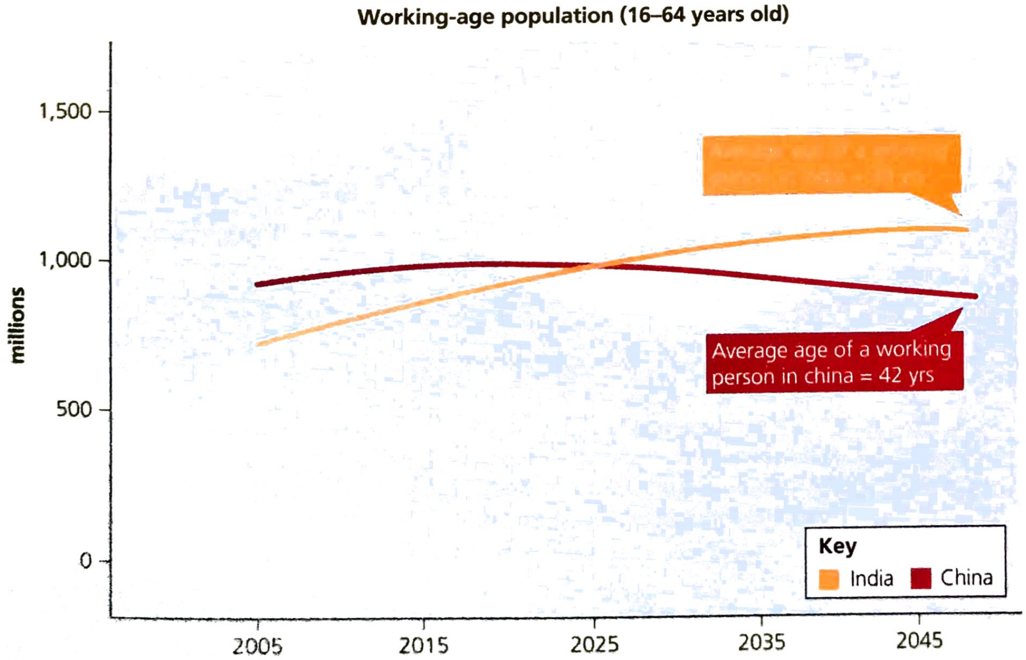
- The literacy rate is around 60 per cent (compared with 92 per cent in China). Without improvement, this threatens India's economic development: large numbers of young workers may lack the skills needed to find well-paid employment and contribute to national economy growth.
- India's government has been criticized for its rules and 'red tape', which have sometimes deterred foreign investors. In some industrial sectors, TNCs are obliged legally to work in partnership with a local Indian company if they want to gain market access: not all companies are prepared to work in this way.

As a result, political and social factors could mean that India fails to catch up with China despite its increasingly favourable demographic characteristics.

PPPPSS CONCEPTS

Think critically about the relative importance of demographic, political and social processes of change in determining whether India's economic power may possibly increase in the years ahead.

Working-age population (16–64 years old)



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

Figure 1.33 India and China's working-age population sizes, 2005–45 (projected)