Institute of Policy Studies

Development Goals and Demographic Change: Presentation by the World Bank

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In December 2015, IPS hosted a discussion on the World Bank and International Monetary Fund's *Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change.* Dr Philip Schellekens, Lead Economist of the Development Economics Prospects Group at the World Bank, presented the report's key findings while Manu Bhaskaran, IPS Adjunct Senior Research Fellow and Edward Teather, ASEAN Economist at UBS, were the discussants.

Presentation by Dr Philip Schellekens

Dr Schellekens outlined the successes and shortfalls in achieving the United Nations' Millennium Development Goals as well as the significant development priorities for the next 15 years. The world poverty rate has reached single digits for the first time in history; yet, some 700 million remain extremely poor. Income poverty fell rapidly from 1990–2015, but non-income goals, such as the prevalence of undernourishment, primary school completion rates, and the access to sanitation facilities have not met development targets.

The pace of poverty reduction differed significantly across regions, with East Asia Pacific's share falling rapidly and Sub-Saharan Africa (SSA) likely to remain elevated through 2030. Prosperity also needs to be better shared with the bottom 40% of income earners, especially in high-income countries where inequality has generally risen.

Addressing absolute and relative deprivation in non-income dimensions is essential as observed widespread inequality of opportunity in all countries is eroding the pace and sustainability of shared prosperity. For instance, PISA math test scores showed strong correlations with income deciles in a cross-country survey. The World Bank has developed a Multidimensional Poverty Index to track deprivations in non-income dimensions.

The second part of Dr Schellekens' presentation covered the challenges and opportunities presented by demographic trends. A period of unprecedented global population growth has ended and the working-age share of the global population has peaked at 66%. The world is now ageing. However there is regional diversity. SSA, for instance, will account for more than half of global population growth where the working-age population will remain high through 2050.

The World Bank has developed a new typology of four stages based on the opportunities for growth and development that demographic change presents: Pre-Dividend (Total Fertility Rate or TFR >4) and Early-Dividend (TFR<=4) with growing working-age population shares; and Late-Dividend (TFR=>2.1) and Post-Dividend (TFR<2.1) with shrinking working-age population shares. The demographic profiles take into account fertility, mortality and migration.

The policy approach depends on the stage of demography and development: Pre-dividend countries lag in human development outcomes and need to spark demographic transition; early-dividend countries are further along in demographic transition and need to accelerate job creation; late-dividend countries with shrinking working age population and accelerating ageing need to sustain productivity growth; while post-dividend countries with shrinking working age population and ageing well underway need to adapt to ageing.

For pre-dividend and early-dividend countries such as Ethiopia, improving education and productivity, and accelerating savings can help them capture demographic dividends. Policies to facilitate and expand trade, migration and capital flows will allow countries to leverage demographic diversity to create growth and positive development spill-overs.

Presentation by the Discussants

Mr Bhaskaran began by discussing the confluence of factors needed for economic development, ranging from the transformation of economic structures through manufacturing and urbanisation, to growing human capital and increasing state capacity in industrial policy. Future growth will likely be impacted by three current emerging trends, he said, which include:

- Rising investments in new technologies such as genomics and social interactions, mobility, analytics driven by big data and cloud technology (SMAC) stack technologies, which will lift global growth
- The impact of automation that could lead to greater income inequality and on-shoring of global value chains, which would affect global trade patterns
- Falling commodity prices, which may force policymakers to move away from “lazy growth” and implement broad-based poverty alleviation policies

Mr Bhaskaran noted that current challenges to sustainable development include intractable violence and instability, and falling commodity prices, which will adversely affect economic growth. Longer-term policy challenges for development include: Improving the resilience of poorer countries to absorb external shocks through economic diversification and better balance of shock absorbers and amplifiers; dealing with heightened risk of conflict given that young median populations show 2.5 times greater risk of conflict than older median populations, which prefer openness and participation; and developing sustainable immigration policies through careful calibration of immigration numbers to manage the sharper trade-offs between interests of different age-groups as societies age.

Mr Teather noted that countries would have to make tough social choices in the context of an ageing population. Evidence demonstrates that a range of choice in the level of tax and social spending is available, with the European Union preferring higher taxes and social spending than Asia.

Debt per person will increase as working-age populations shrink, and redistributive choices to benefit either creditors or debtors have to be made, with higher inflation benefiting borrowers and lower inflation benefiting lenders. Negative correlation of median age and Consumer Price Index (CPI) inflation has been found in several countries, indicating a political economy factor in protecting the interests of the older age groups, which are heavily invested in fixed income.

Question and Answer Session

A participant asked about the divergence in growth patterns between Germany and Japan despite similar demographic and Post-Dividend economic development profiles. Dr Schellekens noted that similarities were in total fertility rate at about 1.4, low inflation, and shrinking working-age populations, in Germany by 10% and Japan by 5%. Key differences were that Germany had higher productivity growth, refused to take on public debt, and was more open to migration, accounting for its higher rate of growth.

On whether the world faced a labour supply crunch with shrinking working-age populations, or oversupply with labour-saving technologies, Dr Schellekens said that technology creates transitional job losses and income inequality in the short run, but increases incomes and labour demand in the longer run.

On the SSA, which consists of pre-dividend and early-dividend countries which have risks of youth unemployment and political instability, Dr Schellekens noted that there would be three aspects to effective policy. First, controlling the total fertility rate; second, adopting the right market mechanisms, and third, putting in place conditions for growth, according to the demographic stage of the country.

Reducing TFR could be accomplished through strong economic growth and improving female access to education, while mechanisms for growth could include improving state capacity, as well as using external and market orientation to guide the resource allocations to increase productivity growth. While the World Bank recognises the importance of productivity improvement in small holding agriculture for income growth to trickle down, it is sector-agnostic, meaning that it does not advocate either an agriculture and natural resource-led, or a manufacturing-led model of growth, said Dr Schellekens. It is crucial for SSA to improve the business environment to attract investments and to ensure that its economies are competitive enough to generate labour demand. This will allow the region to take advantage of the opportunities that arise as China rebalances away from labour-intensive manufacturing.

In terms of policy lessons from previous early-dividend experiences, South Korea showed that good basic education and social services in the countryside were crucial for the adaptability of the workforce to be re-skilled and urbanised as the country industrialised, noted Dr Schellekens. Mr Bhaskaran added that South Africa showed that a poor education system and strong labour law protections and high minimum wage prevented new entrants to the workforce, which exacerbated youth unemployment and social instability.

Questions were raised about the divergences between individual welfare and economic growth. One instance was the introduction of universal healthcare in China. This insures against health-related shocks and improves individual welfare but will lead to reduced savings and economic growth. Another instance is the policy and academic debate about the optimal size of a country and economy, and the optimal long-run demographic profile and fertility rates to maximise welfare.

Questions were also posed about improving Japan's growth and its TFR. Dr Schellekens cited the EU as a model to consider. There, high female labour force participation correlates with TFR, indicating that a conducive environment for parenting increases the effectiveness of pro-natalist policies. Greater openness to migrants, said Dr Schellekens could also result in demographic "chronological arbitrage", where an infusion of young workers into an ageing host country could ease the ageing challenge.

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