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Economic Impacts of Population Reduction

Contribution to GTI Forum The Population Debate Revisited

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In his lead essay, Ian Lowe argues that we must discuss the "elephant in the room," namely population growth. The world population has again doubled in just fifty years. The human impact (I) on nature is the product of P population, A affluence, and T technology. While I = PAT may be a "power-blind" and "agent-less" equation that does not tell us anything exact about the world (relations between different factors are historical and vary), it nonetheless indicates correctly that population and its growth matters. But why is population growth a taboo? Lowe and other participants in this discussion trace the absence of population growth in the political agenda to the dominance of conservative values and neoclassical economics. In addition, many leftists have entertained the suspicion that considering the role of population growth means blaming the poor.

In the 1980s, the US government started to fight abortion in international fora and linked family planning conceptually with abortion. Meanwhile, in the context where neoclassical economics increasingly defined the development agenda—for instance, through the International Monetary Fund (IMF) and World Bank—it started to appear evident to many that mainstream and libertarian economists such as Julian Simon had won the great population debate against neo-Malthusians such as Paul Ehrlich. Analysts on the left associated the concern for population growth with racism, eugenics, and forced measures. They resorted to the idea that education and empowerment of women would slow population growth on its own—even though experience shows that active promotion of family planning and contraception is critically important and that in many parts of the Global South, population growth is a key cause of poverty in itself. Consequently, other issues have largely replaced concerns about overpopulation.

In the affluent North since the 1980s, mainstream economics has also developed the idea that the aging population is becoming a fiscal burden—also through eroding the current tax bases—and that therefore further population (and economic) growth would be desirable. This has not facilitated global agenda-setting. The basic implication is that public finances must be adjusted to the sustainability deficit and the general government deficit. In many affluent countries, fiscal sustainability deficit has been taken to mean that as the so-called dependency ratio is deteriorating, it is no longer possible to maintain welfare state services or transfers at current levels of generosity. Structural reforms such as privatization are necessary, and public spending must be cut.

However, from a Keynesian perspective, attempts to reduce public debt tend to be self-defeating and recessionary. Through cuts in public expenditure, disposable income is reduced, thus potentially inducing or worsening economic recession through the multiplier effect. This leads to decreased tax receipts and increased expenditure due to the workings of automatic stabilizers, such as unemployment benefits. When combined with a fall in GDP, this increase in expenditure increases the debt-to-GDP ratio, potentially leading to a vicious circle. Crucially, however, whether this dynamic is played out depends, e.g., on the policies of other states and the prevailing phase of the business cycle, which is partly dependent on these policies though by no means reducible to them.

What this analysis indicates is that anticipations of the future are reflexive and thus often self-altering. The anticipation that aging population is becoming a fiscal burden can become, at least in part, a self-fulfilling prophecy. Moreover, the idea of cutting public spending goes against the basic Keynesian idea that decarbonization and adequate responses to various other ecological problems require direct public investments on a massive scale, organized not only within states but also internationally and globally. At a still deeper level, the attempt by mainstream economics to induce further economic and/or population growth goes against the basic insight of I = PAT. As technological developments are uncertain and can never more than partly compensate for the material impacts of production and consumption, the growth of both population and incomes increases the human impact on nature.

However, I = PAT is a problem also for post-Keynesian economic theory. Could full employment be reached in a steady state economy? The aim of a steady state or decreasing economy poses fundamental challenges to economic theory and policy. How do we avoid vicious cycles in macroeconomic developments if the aim is a systematically decreasing world population? Could this decrease be accelerated in the affluent North where the levels of consumption are especially unsustainable while speeding up the demographic transition in the South? This area of research has started to catch the attention of post-Keynesian economists, but many of them rely on abstract and irrealist models of separable national economies imagined as closed systems.

It looks clear that in an ecologically sustainable economic system, aggregate demand, savings, and investments would have to be controlled or at least steered on a macroeconomic level. This would seem to imply intensive and extensive planning at different scales of organization, including globally. The global scale is particularly important for various reasons, not least given the importance of population as a conventional source of national state power. Moreover, could recurrent budget deficits and reduced savings maintain a non-zero rate of profits? Are these kinds of budget deficits and reduced savings sustainable? What can we learn from the experiences of countries with the fastest population decline whether due to mass outbound migration, demographic transition, or both? What kind of global clearing and monetary system is compatible with generalized and persistent deficits, reduced savings, and decreasing populations?

In a new 2022 paper, Hansjörg Herr argues that "[a]lthough comprehensive government interventions and rules are needed in an ecologically low-growth economy, the recommended system is not comparable with a planned system of the former Soviet type."[1] And he continues, "Whether such an alternative system is understood as a version of highly regulated capitalism or as a new system is a question of taste." It thus seems that an adequate discussion of the "elephant in the room" takes us to the deepest questions of economic theory and political practice. While countries such as Japan can muddle through for decades, decreasing world population does not seem to be quite compatible with the current form of capitalist market economy, nor with sovereign states and the currently prevailing gridlocked system of global governance.

Endnotes

1. Hansjörg Herr, "Transformation of Capitalism to Enforce Ecologically Sustainable GDP Growth: Lessons from Keynes and Schumpeter," *European Journal of Economics and Economic Policies* 19, no. 1 (2022): 159–173, https://www.elgaronline.com/view/journals/ejeep/19/1/article-p159.xml.

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