

The Missing Link

How Population Increases Correlate with Job Creation

By Michel Godet¹

Economists readily recognise the link between growth and job creation. Hence those who ponder which mechanisms encourage growth usually cite demand and innovation or lack thereof. Very few, however, make the connection between economic growth, job creation and demographics. Somehow economists refuse to see the link and do not bother to test or confirm it.

Yet the post-war boom and baby-boom went hand-in-hand and the American economy vis-à-vis the European may be explained by innovation as well as greater demographic growth. For the past twenty years, the fertility rate in the United States has been two children per woman versus 1.5 in Europe. Meanwhile the American population has continued to increase steadily while the European population has stagnated.

Nevertheless, these troubling correlations reveal that the industrialised countries which have created jobs and reduced unemployment the most are also those in which the population has increased the most dramatically. It would be a pipe-dream to think that everything will fall into place after the year 2000 because of this decrease in the active population in

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Europe. On the contrary, the demographic implosion, within a context of granny-boom and baby-crash will only heighten social and economic tension.

The dynamics of the active population are reflected in employment figures.

The strong positive correlation between variations in population figures and job creation is indeed spectacular. There is an almost exponential link between the demographic dynamics and job creation, especially in the USA and in Japan where employment is rising twice as fast as the population. The following chart confirms this situation with figures from the OECD on population, jobs and unemployed for the period 1975-1997. The chart reveals that the United States and Japan, the two countries that have created the most jobs (45% and 26% respectively) are also the countries in which the population rose the most, in relative terms (24% and 13% respectively). Inversely the five main European countries demonstrate weak demographic growth in both absolute and relative terms given the lack of job creation and significant increases in unemployment figures. Their populations increased moderately (7%) and jobs increased by only half that (3%). France, for example, falls below the European average with a population spurt of only 11% during the same period, and an increase in job figures of only 2%.

Naturally this type of correlation between demographics and economic growth appear to be a mere educated guess. The hypothesis must be tested. Nevertheless, these averages disguise serious disparities among

the various countries and regions compared. In fact, for any given population, growth does depend on innovation, job creation, entrepreneurial spirit and labour market conditions.

Variations in Population, Employment and Unemployment 1975-1997

Countries	Variation in the population (millions)	Variation in the population (%)	Variation in employment rates (millions)	Variation in employment rates (%°)
USA	50.8	24%	39.1	45%
Japon	14.7	13%	13.4	26%
5 main European countries*	17.2	7%	3.1	3%
France	5.9	11%	0.5	2%

* France, Germany, GB, Italy, Spain

Source: OECD data retabulated by Cnam

Given the stakes involved, the principle of precaution so often cited in ecological matters should be applied to demographics. Are the statistics bureaus wearing blinkers? Statisticians should consider the link between demography and economic growth just as they did for human activity and global warming. Why not start studies that test causality hypotheses and, in the meantime, take conservative measures to increase the birthrates?

Let us remember that Europe's main market is Europe. Statistically, the Old Continent consumes 93% of what it produces. The rapid greying of Europe can hardly stimulate growth given that in order to invest and consume one must need to set up a household or company and one must be confident about the future. Unfortunately these traits decrease with age. In sum, the perspective for Europe is soft, variable growth.

Dynamic demographics: a condition for growth

The demographic implosion in Europe will certainly be spectacular. In 1975, France had 1.7 million more youths under the age of 20 than it does today. In Northern Italy and the Catalan region, the fertility rate has remained stagnant at less than one child per woman for two decades! In other words, 2.1 children per woman would be required just to ensure reproduction of the current generation. European countries resemble orchards that have reached maturity after producing fine harvests for forty years. Unfortunately no one ever thought to replant!

In 2025, the Europe of 15 will have approximately the same number of inhabitants as in 1999 (380 million) and will be surpassed by the population of southern and eastern shores of the Mediterranean, which will have doubled by then! Within the category of developed countries,

Russia, Japan, and Eastern Europe will experience greater deterioration in terms of demographic shifts than Europe.

Among the developed countries, only the United States will continue to stand out. From 1999 to 2025, the United States will continue to rise in absolute terms in parallel with Brazil. Their populations will rise by 63 million and 50 million respectively, in contrast with the Japanese and Russian populations which will decrease by 6 million and 8 million respectively.

In Europe, efforts to stimulate market demand by encouraging adults who are already settled to replace products will not compensate for decreases in consumption, and especially not the decrease in the dynamic spirit of a youth. European leaders have not understood that there will not be any durable economic revival without a demographic revival.

Indeed, demographic growth and job creation reveal a shared 'lust for life' which translates into economic initiatives and childrearing. It seems that the entrepreneurial spirit is closely related to the family spirit! Economic revival is a major preoccupation among government leaders who have done the opposite of what was needed by giving bonuses to car buyers and not to cradle buyers. Fortunately immigration has compensated for population decreases. Nevertheless, we can not ignore the value of educated citizens who are able to integrate the maximum

number of children from elsewhere. Nor can we ignore the need for more native-born children in the schools!

Lastly, let us remember our history lesson: the spectacular demographic decrease of the Roman Empire (a drop of 50%) preceded its economic and political fall.