



## GLOBAL LEADERS COUNCIL FOR REPRODUCTIVE HEALTH

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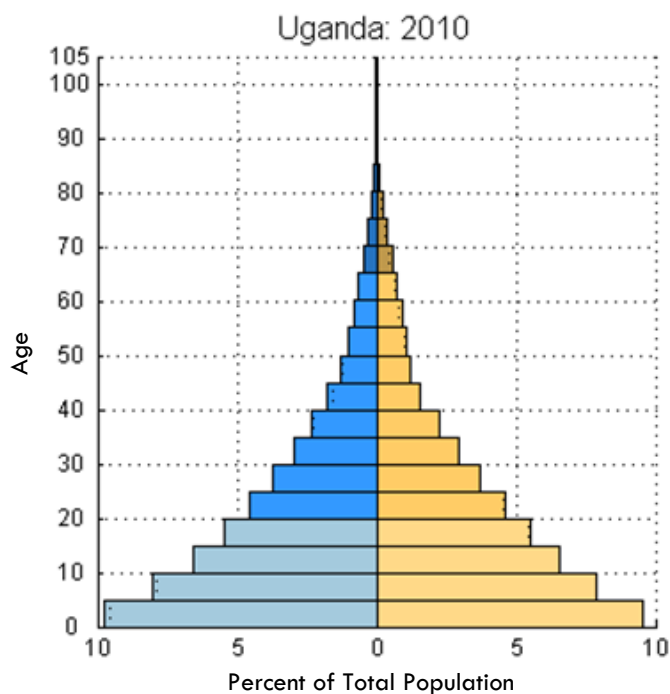
# Family Planning Promotes the Demographic Dividend



**T**he relationship between population dynamics and economic expansion is complex, but demographic changes play an important role in national development. While it is widely accepted that population growth rates do not have any consistent effect on economic growth,<sup>1</sup> there is one set of population changes that can result in major economic benefits, as well as improved well-being for families and societies. This powerful opportunity is known as the demographic dividend, and it offers the potential to boost economic growth and poverty reduction—but only if government leaders implement sound policies.

The potential for a dividend occurs as part of the demographic transition, the shift from a population with high mortality and fertility rates to longer life expectancies and smaller family size. Today, the world is in the midst of unprecedented demographic diversity. Mortality rates have declined everywhere such that most children live to

reach adulthood, but in many countries, high fertility rates have stalled or are only falling slowly, guaranteeing rapid population growth for decades to come. Meanwhile, some countries, mostly in developed regions, have now reached the end of the transition and are experiencing population aging and even decline.



United Nations Population Division

The middle stage of the demographic transition, which lasts for only a few decades, provides a unique opportunity when population change can intersect with economic development. This opportunity is the demographic dividend, and the possible economic benefits it presents are significant.

## Changes in age structure are the key

The demographic dividend is an outcome of changes in a country's age structure, which is the relative size of different age groups within a population. In the early stages of the demographic transition, when fertility rates above three children per woman contribute to steady population growth, the

age structure maintains a pyramid shape. Because mortality rates have declined but fertility rates remain high, each successively younger age group comprises a larger share of the population than the next-oldest group. When an age structure looks like this, the number of students reaching school age and young adults seeking jobs increases every year. Today, most countries in sub-Saharan Africa, as well as parts of Central America, the Middle East and South Asia, have such youthful age structures.

For these countries, the window of opportunity for the demographic dividend has not yet opened. They have a high dependency ratio, with working-age adults needing to support a large number of children and young people. In many cases, women are likely to stay out of the workforce in order to care for their growing families. Just as a family's income can be stretched in this situation, so can the economy of the entire country. With each generation larger than the one before, the economic resources for education, health care and other social services must keep pace to provide the same level of services to every citizen. The number of available new jobs must also increase at a high rate to match the growth in the labor market. This is a significant challenge.

Consider Uganda, where the fertility rate has been steady around seven children per woman for 50 years and three-quarters of the population is younger than 30.<sup>2</sup> In 2009, the economy could only provide employment for about 20 percent of the half million new job seekers. Yet if the fertility rate stays near six children per woman, the number of new

**The window of opportunity occurs after fertility rates have declined. During this window, there are more working adults relative to the number of children who depend on them for support.**

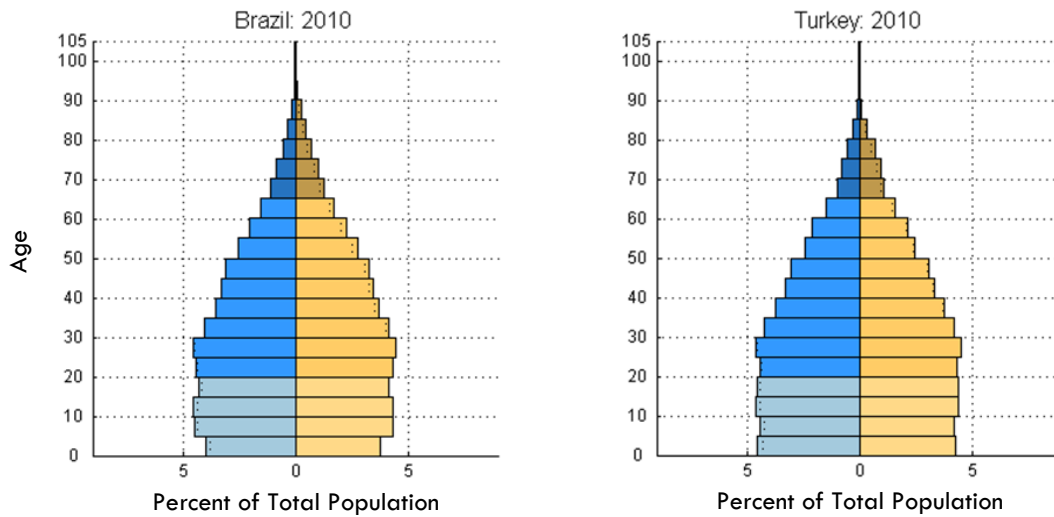
jobs required each year would triple to 1.5 million by the late 2030s.<sup>3</sup>

## The window of opportunity

The window of opportunity for the demographic dividend occurs once fertility rates have steadily declined for about 30 years.<sup>4</sup> For a few decades, there is still a large share of working-age adults in the population due to previous generations of high fertility, a residual effect due to population momentum. This reverses the trajectory of dependency ratios: During this window, there are more income-generating adults relative to the number of children and young people who depend on them for support.

These demographic changes have several economic implications. First, the relative size of the labor force increases as the share of children within the population declines. In addition, women are more likely to enter the workforce when they have smaller families. With a larger labor force thanks to these factors, the economy can potentially become more productive.

The window of opportunity also allows governments to invest more in human capital—the health, education and training of their population. Healthy and educated workers are more likely to see their own incomes and standards of living improve, and the economy



United Nations Population Division

*Brazil and Turkey are in the middle of the window of opportunity. In 1980, women in both countries averaged four children each, but fertility has now declined to the replacement level of two children per woman. In turn, the countries' age structure profiles are losing the pyramid shape and reflecting greater balance among younger age groups.*

can benefit from higher wages, improved productivity and growing capacity to build diversified and knowledge-based industries.

The strongest regional effects of the demographic transition to date have been seen in East Asia. In 1960, countries across the region had an average of five children per woman; by the early 1980s, the fertility rate had fallen to 2.5.<sup>6</sup> Between 1965 and 1990, the region's economy expanded rapidly, at a rate of six percent per year on a per-capita basis. About one-third of this growth has been attributed to the increase in the proportion of working-age adults.<sup>7</sup> The demographic dividend has also been linked to the dramatic growth in Ireland's economy during the 1990s,<sup>8</sup> one decade after the fertility rate fell from three to two children per woman.<sup>9</sup>

The economic benefits of the demographic dividend accrue not only to governments but also, critically, to families and individuals. When families choose to have fewer children, they are also often able to save more for their own future and to invest in children's education rather than relying upon their labor for income. Once more children are sent to school, the educational enrollment rate and attainment level of girls also rises. This, in turn, creates a cycle that tends to promote lower fertility rates. Girls' education is correlated with lower fertility later in life.<sup>10</sup>

## Why policy choices matter

The demographic dividend is an opportunity, but one that does not happen on its own. Two sets of policy interventions are prerequisites to achieving the potential economic benefits. The first

interventions relate to reaching the window of opportunity, and the second to capitalizing on the dividend.

First, countries must move into the middle stages of the demographic transition, which only occurs once fertility rates have steadily declined. Fertility rates do not decline unless women and couples choose to have smaller families *and* have access to the health services that allow them to do so. Family planning and reproductive health services are a critical component of opening the window of opportunity. Between the early 1960s and late 1980s, family planning programs contributed to nearly half of the total decline in fertility rates across the developing world.<sup>11</sup> Fertility rates fall by one child per woman for each 16 percentage point increase in contraceptive use.<sup>12</sup>

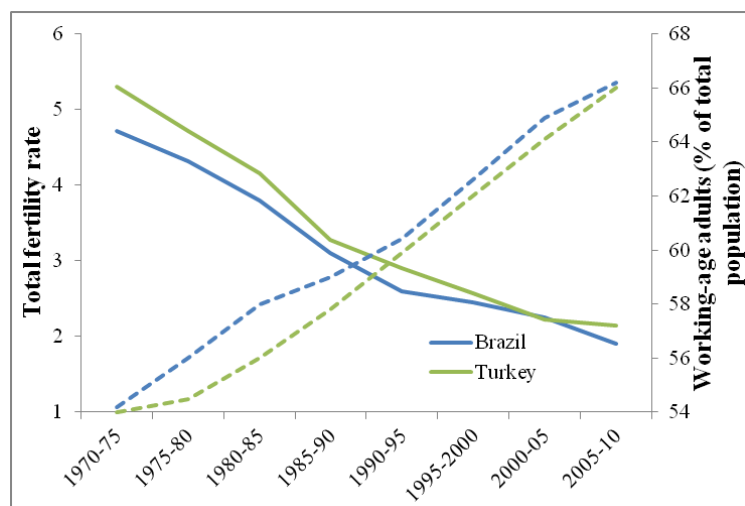
But the need for family planning education and services remains great in countries that have not yet reached the window of opportunity. An estimated 215 million women in the developing world would like to prevent or delay pregnancy but are not using effective contraception, which leads to 75 million unintended pregnancies each year. In Pakistan, for example, 24 percent of births are unintended. If Pakistani women were able to avoid unintended births through the use of family planning, the national fertility rate would be three children per woman instead of four, and the country would be on a faster path to the demographic transition.

The second set of policy interventions is required to capitalize on the window of opportunity once demographic changes are underway. The economic benefits from the demographic dividend in East Asia were so strong be-

cause the region's economies were prepared to take advantage of it: The growing generation of workers entering the labor force was highly educated, and labor and financial markets were stable, with room for expansion. Unfortunately, not all countries that have seen the requisite changes in their population age structure have experienced the same economic benefits as the East Asian Tigers, because their social and economic policies have not been structured to capitalize on the demographic dividend.

Workers, especially younger adults, must be able to enter the labor market, with jobs available as their numbers grow. This requires not only increased demand for new employees within industries but also a flexible labor market. Meanwhile, when families choose how to invest their incomes, they must have confidence that their savings will

*As fertility rates in Brazil and Turkey have fallen to two children per woman (shown in solid lines), the share of working-age adults within the population (dotted lines) has correspondingly risen, opening the window of opportunity for the demographic dividend.*





be secure in the financial system. And in order for domestic industries to expand, economists also recommend that countries have open trade policies.<sup>15</sup>

The window of opportunity for the demographic dividend is limited, reinforcing the importance of sound policy choices early in the transition. After a few decades, the large share of working-age adults will age out of the workforce, followed by smaller generations among their children and grandchildren. If countries have not capitalized on the demographic dividend while it is available, they will miss the chance for economic growth and development that can help them prepare for and adapt to the next phase in the transition—aging.

## Recommendations

Countries with high fertility rates have the demographic dividend and its potential economic advantages in their sights, but only if comprehensive policies are initiated early. In order to open the window of opportunity for the dividend, leaders must focus on the policies that improve women's well-being and in turn promote demographic changes.

***Increase investments in family planning and reproductive health.*** Contraceptive choices are the mechanism that allow women and couples to implement their decision to have smaller families. In addition to promoting lower fertility rates and in turn opening the window of opportunity for the demographic dividend, access to and use of

family planning and reproductive health services has countless other benefits for national development and the health of a population. Even in countries with limited resources, family planning is a cost-effective and sustainable investment. In sub-Saharan Africa, the economic savings towards meeting the Millennium Development Goals by fulfilling unmet need for family planning would be two to six times greater than the costs.<sup>16</sup>

***Promote girls' education.*** Not only does girls' education contribute to lower fertility rates, it also results in stronger human capital among the workforce and greater economic security for families. Cross-national surveys show that family size decreases as a woman's level of education rises. At the same time, women with smaller families are more likely to enter the labor force, contribute to their family's income, and invest in the health and education of their children. Once the window of opportunity for the demographic dividend opens, an educated workforce is necessary to take full advantage of the potential economic benefits.

***Target economic development for youth.*** When fertility rates are still high, the number of young people entering the labor market increases each year, as does the number of children each working-age adult must support. These growing generations of young people—including women—must have viable opportunities for employment in order to provide for themselves and

contribute to national development. Once fertility rates decline and the window of opportunity opens, young people can be the driving force of advances in industry and technology, but only if they are offered education and productive entry into the labor force.

***Target the economic climate and build human capital to capitalize on the dividend.*** Even as countries work to promote the demographic changes that open the window of opportunity, they must also activate a long-term set

of policies that will enable the potential dividend to be realized. Because a healthier and more educated workforce will be more productive, the human capital of the population as a whole should be strengthened through improved health and nutrition as well as increased educational attainment levels for secondary school and beyond. In addition, economic openness and financial stability are necessary so that families are secure in building savings and businesses are confident in expanding jobs.

## Notes

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