

A Critical Analysis on the Low Birth Rate Problem and the Effectiveness of Relevant Policy

Zhenzheng Yao^{1,a,*}

¹*Department of International Development, Kings College London, London, WC2R 2LS, United Kingdom*

a. K21083604@kcl.ac.uk

**corresponding author*

Abstract: This paper discusses the importance of the birth rate problem and the effectiveness of China's Three-Child policy. In order to efficiently elaborate problems, this paper analyses the issue from several perspectives. Firstly, a declining birth rate will have a negative impact on the global and domestic economic development due to the decrease in labour force. Secondly, this paper suggests that the key reason for this declining birth rate is the rising economic pressure on young people. This paper finds that China, Japan, and South Korea face the same low birth rate problem. Hence, this paper investigates the different wage levels and house prices among these East Asian countries and elaborates on the relationship associated with declining birth rates. Furthermore, this paper also discusses how to ensure the successful implementation of the Three-Child policy, and what effect the social welfare and the Three-Child policy can bring to help the society and the economy.

Keywords: birth rate, Three-Child policy, East Asia.

1. Introduction

Nowadays, there is uneven global demographic change with some parts of the world experiencing rapid population growth and others facing rapid ageing. Globally, healthy birth rates enable the smooth growth of the global economy and the sustainable development of human culture; domestically, a positive birth rate ensures fresh labour into the market and increases demand and consumption power, further increasing domestic economic growth [1]. Therefore, some countries actively imposed several strategies to fix or slow down the growth of the ageing population and the decline of the domestic birth rate. Due to the severe low birth rate problem, the Chinese Government announced a new policy called the "Three-Child policy", which means that parents in China would now be permitted to have up to three children within a family. Different opinions come along with the announcement of the policy, that the policy could bring a crucial change in demographic structure within China, while this strategy might be seemed as too urgent since the announcement came only five years after the stunning reversal of the 1980 One-Child policy.

This paper considers the fundamental problem of low birth rate may be due to the negative attitude of the prediction for the future economic condition. Young people in China faced a highly competitive labour market, relatively low occupation rate, expensive house prices and low salaries. All these factors cause an insecurity of economic conditions and a lack of confidence to give birth. Hence, low confidence to raise a child with a healthy and happy life leads to a result of declining domestic birth

rate. This paper discusses whether the Three-Child policy is appropriate and functional to solve the problem of China's declining birth rate.

2. Economic Impact of Low Birth Rate

Other than China, a declining birth rate and an ageing population increased in many other Asian countries. Recent research announced that the birth rate of South Korea in 2023 was a mere 0.72 children per woman, and Japan's birth rate declined for the seventh consecutive year in 2022 to a record low, which regards 1.2565 children born to a woman's lifetime, according to data from Statistics Bureau of Japan and Korean Statistical Information Service. In contraction, China's birth rate per woman in 2022 was 1.18 children per woman, the second place between Japan and Korea. All this data above indicates that all three East Asian countries faced the same problem: the population shrinks and ages rapidly. From the research, each 10 per cent increase in the fraction of the population age 60+ decreased per capita GDP by 5.5 per cent. One-third of the reduction arose from slower employment growth; two-thirds due to slower labour productivity growth [2]. Hence, a low birth rate and an ageing population will have a negative impact on macroeconomic development and growth.

The first problem arising from the low birth rate is the lack of supply in the domestic labour force, leading to decreased domestic productivity. Also, the lack of the supply of labour force will tend to increase the labour cost for domestic industry and lead to an increase in the total production cost. This will eventually decrease the profit and increase the price of the product, which results in a decrease in demand and people's living standard. Further, it may lower the capacity of investment and innovation in technology for domestic industry hence result in slower or negative growth of economy in the long run. As a result, the average wage and domestic living standard may face a further decrease and enhance pressure on young domestic people, which leads to a further reduction in the birth rate. Secondly, a decrease in the annual birth rate will directly affect the country's population level and many related industries. For instance, the decline in the birth rate indicates a decrease in demand for maternal and infant products, and the increase in the ageing population level will also negatively impact tourism and many other industries that mainly rely on young people.

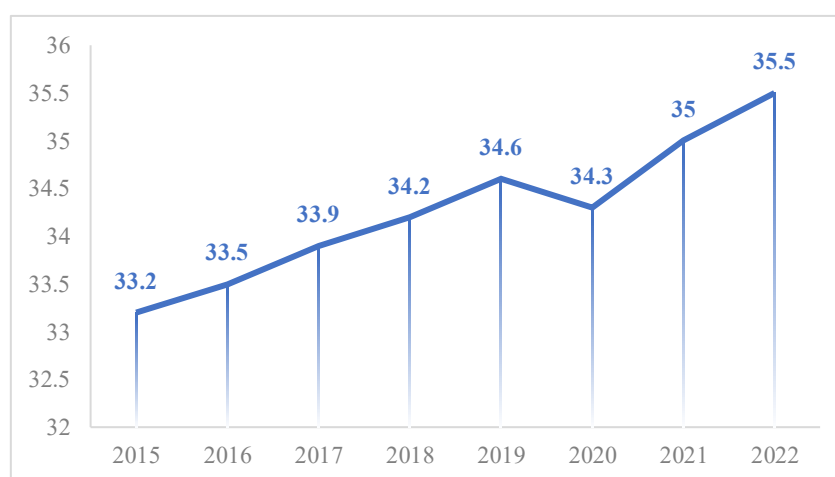


Figure 1: Global Total Labour Force (Data from World Bank).

Figure 1 and Figure 2 represent the growth trend of the global total labour force and world GDP between 2015 and 2022. The GDP is proportionate to the trend of the total labour force. As shown in the figures, the amount of labour has increased from 33.2 billion to 34.6 billion between 2015 and 2019 and decreased to 34.3 in 2020, while the world GDP also increased from 75.36 trillion dollars to 87.95 trillion dollars within four years and dropped to 85.58 trillion dollars in 2020. However, the

simultaneous decrease in the total labour force and world GDP may be due to the impact of the COVID-19 pandemic to some extent. COVID-19, known as a global disease, caused severe economic problems such as job losses and insecurity in economic conditions and resulted in a decline in the birth rate [3].

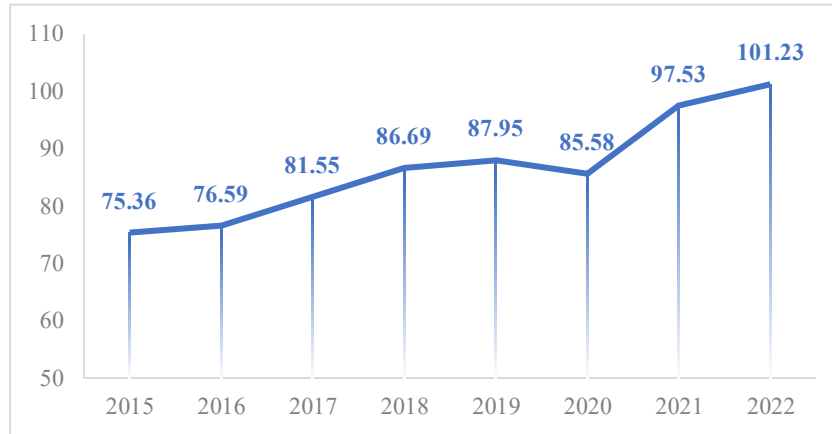


Figure 2: Global GDP (Data from World Bank).

This paper considers population and the amount of labour force as essential factors in global economic development due to the direct ratio between the two figures. Therefore, implementing China's Three-Child policy may increase the domestic labour force in the long run and result in further economic growth. Since the rise of the supply in the labour market will cause a drop in labour cost and hence lower the production cost, which may lead to a decrease in general price level and boost domestic demand, which eventually causes a growth trend of domestic economy development, and contribute to the global economic growth. Moreover, since China had benefited from the demographic dividends at the early stage of economic development and succeeded in miraculous growth during the past 40 years [4]. The publication of the Three-Child policy may lead to another increase in the domestic population and benefit from the demographic dividends again.

3. Difficulties in Policies Implementation

The Chinese government released an article announcing that the top three problems during the implementation of the Three-Child policy were heavy financial burdens, unattended children, and women's difficulties in balancing family and work [5]. This paper considers these reasons crucial for the birth rate problem among three East Asian countries, namely high living costs and insecurity in workplace.

Young people in China, Japan and South Korea face extremely high economic pressure. As of November 2023, the mean purchase price of housing in Seoul, South Korea, amounted to around 819 million South Korean won. The average cost of apartments amounted to around 1.05 billion South Korean won, while the price of row houses was about 341 million (data source: Statista.com). In contraction, the average wage level for people who live in Seoul is 4.26 million South Korean won monthly, which indicates that young Seoul people need to save money for almost seven years with no daily expenses to own a row house in the capital of South Korea. This unrealistic condition for house purchases also happened to Shanghai's young people, a well-developed city in China. From the data, as of 2023, the average monthly salary in Shanghai is 13,486 Chinese yuan and the average house price of newly built residential property within the inner ring road was 119,839 Chinese yuan per square meter, which means Shanghai's young people need to save for a year with little daily

expenditure to own a one square meter house within the inner ring of Shanghai [6]. This dramatic contraction of average income level and house prices explains why many young people nowadays are reluctant to marry and have children to some degree.

Giving birth to babies will result in higher daily expenditure and lower living standards [7]. Instead of marriage and having a child, the problem of surviving and owning a place to stay has become the first and most important goal for young people nowadays. The urgent situation of low birth rate and ageing population has led to several policies that create incentives and encourage birth. The South Korean government has offered financial incentives, such as \$1,640 for the first child and \$2,200 for the second plus \$820 compensation monthly. A couple with a child born in 2024 could receive up to \$24,000. This policy aimed to reduce the economic pressure among young Korean people and create economic safety for having children. However, giving money may not ameliorate the declining birth rate, that structural reforms must accompany with financial aid [8]. Moreover, the problem of female health for women who are still working during pregnancy also acts as an essential factor of low birth rate. According to the research, pregnant women who are still dedicated to working, especially work with physical effort, might affect respiratory and metabolic acid-base balance, which results in congenital abnormalities of organs in infants [9]. Based on these reasons, problems of living standards and physical health problems among both woman and their children became the biggest obstacles to the implementation of policies regarding low birth rates.

4. Effectiveness of China's Three-Child Policy

Three-Child policy refers to the permission and encourage of having a third kids within China. With the experience of the Two-Child policy, the Chinese government is aware that the importance of young people's economic pressure is directly related to the low birth rate. Therefore, the published Three-Child policy is packed with several government welfare, including the costs of caring for infants and young children under the age of three in the special additional deduction for individual income tax; the Ministry of Human Resources and Social Security implementing special protection for female workers by enterprises a criterion for assessing the integrity of enterprises; and the Ministry of Education issuing regulations to support the development of after-school and summer care services, which efficiently reduced the education cost and nursing cost with newborn babies to solve the problems of heavy financial burdens and unattended children in some degrees [5].

Also, regarding issues of women's health care during pregnancy and difficulties of balancing families and work, the Chinese government is planning to strengthen the Maternal and Child Health Institutions, reconsideration and regulation of workers' working hours, rest and holidays, and maternity leave and breastfeeding leave for female workers. In comparison, with more funding and economic help, the Chinese government are solving birthrate problems from multiple perspectives to implement the Three-Child policy successfully.

However, several issues still need to be considered regarding the effectiveness of these auxiliary policies for enforcing the Three-Child policy. Firstly, the policy's magnitude needs to be clarified; a little tax deduction will be useless in alleviating young people's economic pressure. Secondly, even though maternity leave and breastfeeding leave policies have fixed the problem of maternal health to some degree, the possibility of maternity leave and breastfeeding leave affecting future career development for women still exists [10]. Also, the issue of expensive house prices and relatively low salaries still mentally bother young people, who may not be willing to create families and have children in a rented house. Moreover, the economic effect of the Three-Child policy might be offset by the absence of a female labour force during pregnancy. From the research, there is a negative effect of the number of children on maternal labour supply in both extensive and intensive margins [11]. Hence, the magnitude of the economic development of the Three-Child policy might be insignificant. In an economic perspective, it worths considering whether the deduction of individual tax or other

series of welfare action will worsen the national debt and increase the budget deficit, and hence reduce the public expenditure of Chinese government. As the result, the economic progression of increasing birthrate will shrink again.

5. Conclusion

In conclusion, the problem of birth rate and an ageing population are important factors influencing the world economic trend and human development. Moreover, a relatively low birth rate and high ageing population within a country will directly impact on the total labour force and productive efficiency, affecting the domestic economy. This paper considers the fundamental problems of low birth rates and the ageing population, which are primarily related to the willingness of young people to give birth nowadays. From all of the above, high economic pressure and irrational pricing of local houses stimulate the reluctance of young people to have children due to the lack of confidence to raise and birth a child in good economic conditions. Furthermore, this paper also discusses the effectiveness of China's Three-Child policy. As a result, this paper considers that the Three-Child policy indeed can solve the domestic birth rate problem to some degree due to the right direction of the policy. Specifically, the Three-Child policy, setting up a series of valuable strategies to reduce the economic pressure on young people and female workers nowadays, can help alleviate the key burden for the giving birth in China.

However, this paper may also have some limitations regarding the need for more information. The effectiveness and magnitude of the Three-Child policy still need to be determined over a longer term, since the policy was set in such a relatively short period. Moreover, this paper can only elaborate on information from official Chinese government websites. In order to discuss the efficiency and usefulness of China's Three-Child policy more accurately, collecting first-hand data might be more suitable and realistic. Using methods such as interviewing or questionnaires to the people in China who are planning or already have third kids will make the research more reliable.

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