

# *The Two-Child Policy and China's Economic Outlook: An Assessment of Policy Impacts*

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**Abstract:** During the shift from 2015 to 2016, the Chinese government discuss and officially revise the family planning policy in to its second phase, that is, the two-child policy. This revise signifies the former one-child phase had been realised to be no longer applicable to China's national situation. The two-child policy was aimed to solve the subsistent low birth rate problem, but it didn't reach its goal. This paper will discuss the reason why the policy didn't work as expected and its specific influences to Chinese economy; raise several solutions the government should take to reach the goal of lifting birth rate. With Analysis the relaxation of this policy, this paper will lead people to introspect an incorrect decision and to learn a lesson from this accident. This paper analyses whether the second phase of this policy can mitigate the consequences it once caused, in addition, how did this fact effect Chinese economy.

**Keywords:** Two-Child Policy, Economic Growth, Birth Rate, Family Planning.

## 1. Introduction

During the shift from 2015 to 2016, the Chinese government had discussed and officially push the family planning policy into the two-child phase. The revise of this policy signifies the previous ongoing phase “one-child policy” had been realised to be no longer applicable to China's national situation at that time by the government; on the other hand, the revise of this policy was deemed to be a sort of solution to return the subsistent low birth rate situation. However, this carefully considered decision did not have the intended effect eventually. In this paper, we will mainly discuss why this policy did not work as it was expected and how exactly it affects Chinese economy. Furthermore, other solutions that the Chinese government should take to achieve the “birth rate returning” goal will also be imagined.

As the two-child policy had been enacted for nearly a decade and the three-child policy was just enacted for years, younger generations will encounter a future of unlimited fertility in practice; this family planning policy that phased out of relevance should be examined dialectically in order to prevent from being completely forgotten for its serious consequence. Analysing the relaxation of this policy will lead people to introspect an incorrect decision and to learn a lesson from this accident [1]. This paper analyses whether the second phase of the two-child policy can mitigate the consequences it once caused, in addition, how did this fact effect Chinese economy?

The remainder of this paper is organized as follows: Section 2 is basic fact analysis, Section 3 is the relationship between the two-child policy and the macroeconomy, Section 4 is analysis of the

future of the two-child policy and its pathway for economic growth, and finally, the conclusion of this paper.

## 2. Basic fact analysis

### 2.1. Overview of the One-Child and Two-Child Policies

As the Chinese government started to turn their attention on the economic status after decades the country was found, the authorities become worried to a serious economic problem. To be specific, shown in the figure 1 and figure 2, around 1980s, the authorities gradually considered that the slow increase rate of real GDP per capita matching with the sustained high birth rate will become a critical encumbering factor to China's development (Figure 1).

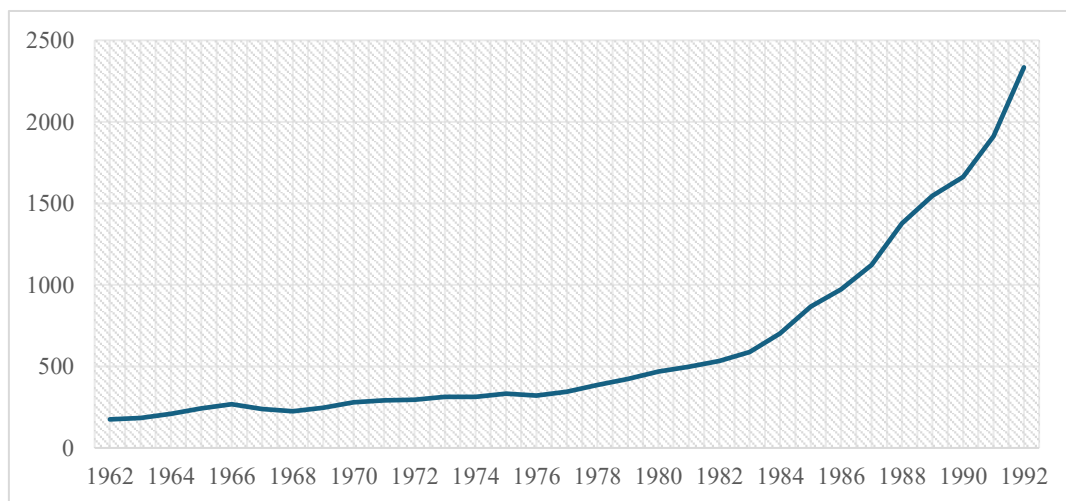


Figure 1: GDP per capita of China from 1962 to 1992 (in yuan)

(Note: Data are sourced from the National Bureau of Statistics of China. Unless otherwise specified, this applies throughout.)

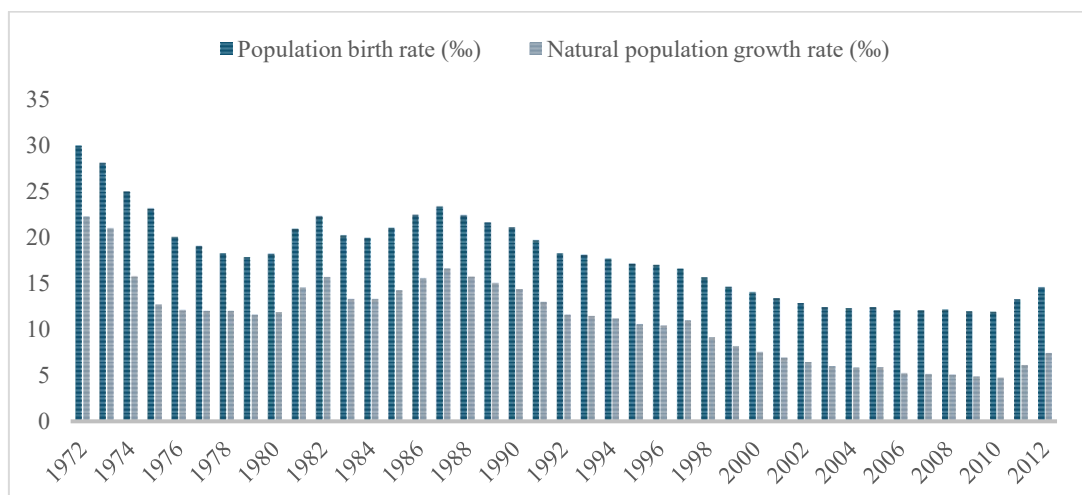


Figure 2: the Population birth rate and the natural population growth rate of China from 1972 to 2012 (in %)

By knowing the prevailing though of Chinese at that time, the reason why the phenomenon occurs can be easily clarified. The traditional children production strategy at that time was extremely focus

on the quantity of children but not the quality of children due to the high mortality rate [1]. And that problem and solute strategy is shared by nearly most of developing countries (Figure 2). Hence in multichildren families, labourforces will be severely fettered in families in order to raise their offsprings and therefore disabled to participate in production; thus, the GDP and its future increase will also be significantly drawn back by such reasons [2].

To solve the imminent and predictable problem that the improper matching between increase rate of real GDP per capita and birth rate will bring, the authorities decided to embed the regulation of the production into the constitution at Sep 1982 (however, the idea itself had been implemented far before this time); and this is known as the “one-child policy”. The one-child policy had been strictly and even violently implemented, therefore had severely stroked the birth rate. In addition, even there is no causality for the “liberate such labourforces into the production” and “increase in real GDP per capita”, an easily economic conduction can conclude the idea that the one-child policy did ensure and push the increase in the economic status. The liberated workforce, as a result of the one-child policy, is destined to become an integral part of the production process, thereby invigorating the labour market. Simultaneously, as newly income-generating consumers, these individuals are expected to engage in both consumption and investment activities. In short, the workforce released by the one-child policy will contribute to economic growth from multiple perspectives [3-4]. However, this arbitrary policy seems overlooked the issue of future labour force needs.

As the chinese government had passed to the 21st century with its people, a problem that all the developed countries quietly emerged. That is, ironically, an already existing low birth rate and its subsequence: a predictable labourforce lack caused by the low birth rate shown in the figure 3, which was a conspiracy by arbitrary policies and international trends. Against the backdrop of this era, the authorities had done action to try to save such problems. One of the measure the government had taken is the relaxation of the former production limiting policy. And that measure was known as the two-child policy. This policy, literary, enable families to produce their second child legally (Figure 3).

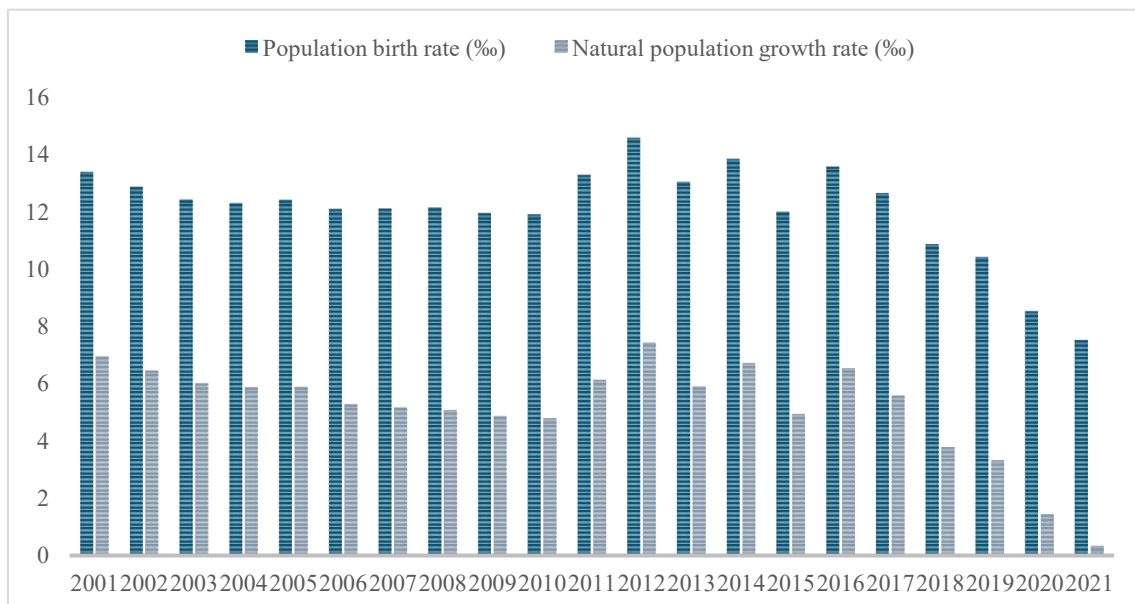


Figure 3: the Population birth rate and the natural population growth rate of China from 2001 to 2021 (in %)

## 2.2. The current state of economic development in China

From the perspective of GDP, even China had experienced relatively small impact caused by the COVID-19 and its clean energy industry has dominated the market, as the figure 4 and figure 5 show, China's GDP is somehow still facing a declaration in the GDP (in other words, the increase speed of GDP gets decrease).

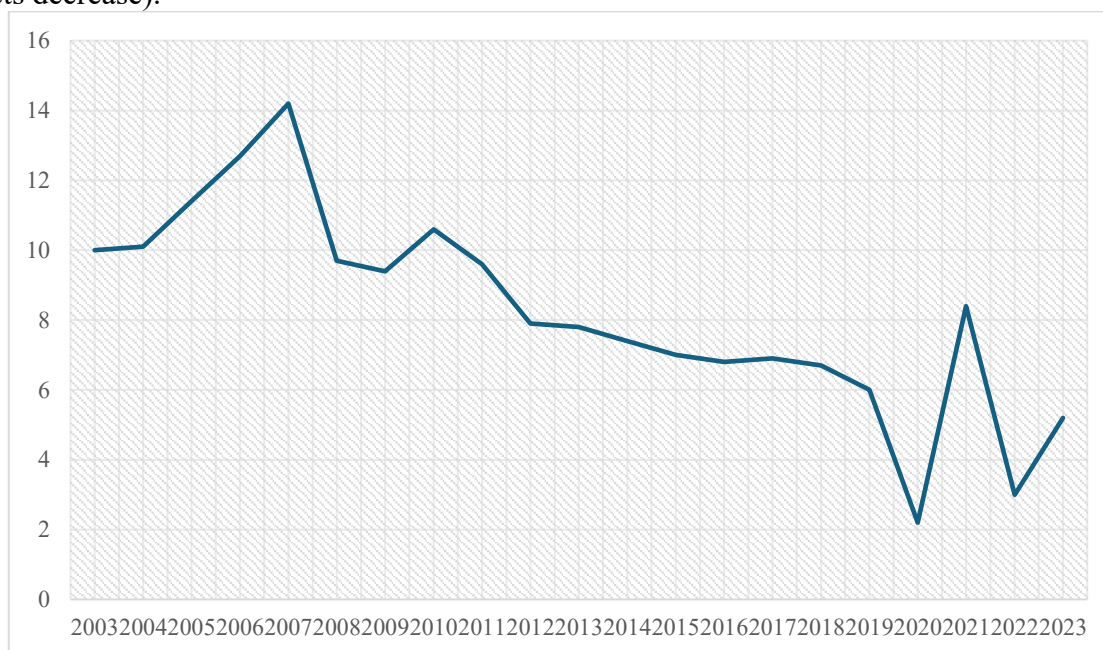


Figure 4: the GDP growth of China from 2003 to 2023 (in %)

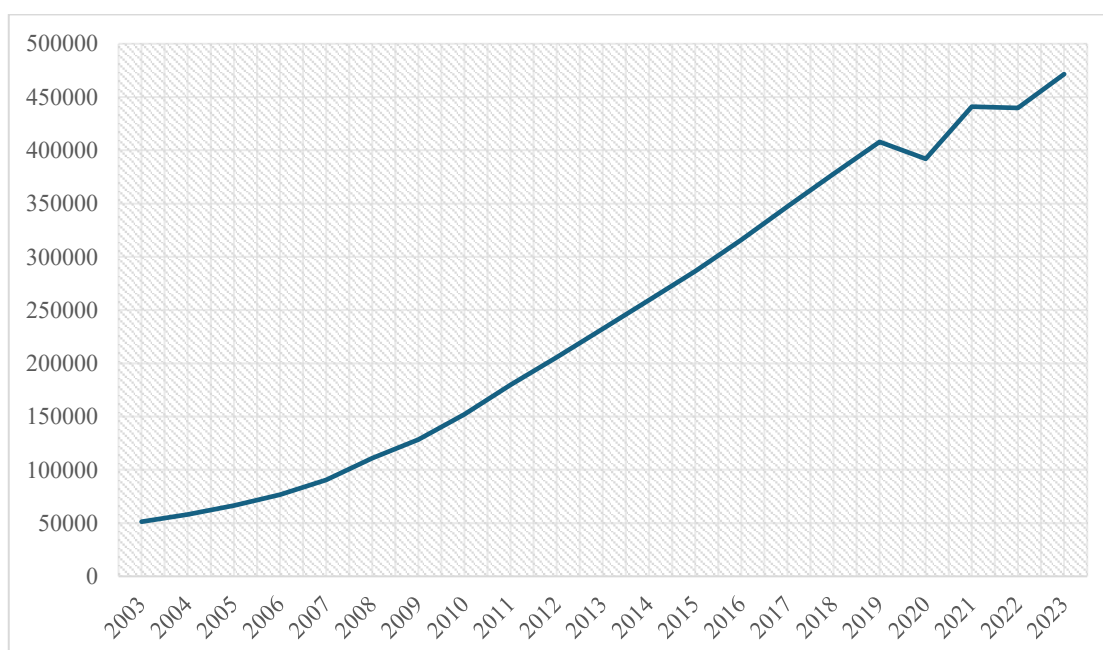


Figure 5: the total retail sales of consumer goods of China from 2003 to 2023 (in billion yuan)

**Consumption:** In response to the current state of economic slowdown in China, the household sector is increasingly inclined to allocate their incomes and assets towards savings rather than consumption [5]. Even though the government had done massive solutions in multiple ways such as

tax cutting and consumption vouchers issuing to try to encourage the consumption, none of them can be a mainstay to return the declining propensity to consume (Figure 5).

From the perspective of investment, as the figure 6 and figure 7 show, the investment status of China is experiencing similar problem with consumption. Accompany to the global economic downturn, both domestic and foreign investment gradually slow their investments on Chinese economy. On the other hand, Chinese investment structure is not scientific and reasonable, therefore the transformation of the investment structure is unpredictable [6-8]. Specifically, given that Chinese industries have nearly monopolized the clean energy market and related sectors, a high-quality investment opportunity is poised to emerge, presenting itself to investors worldwide. However, investments in China continue to face their core risks, particularly in real estate.

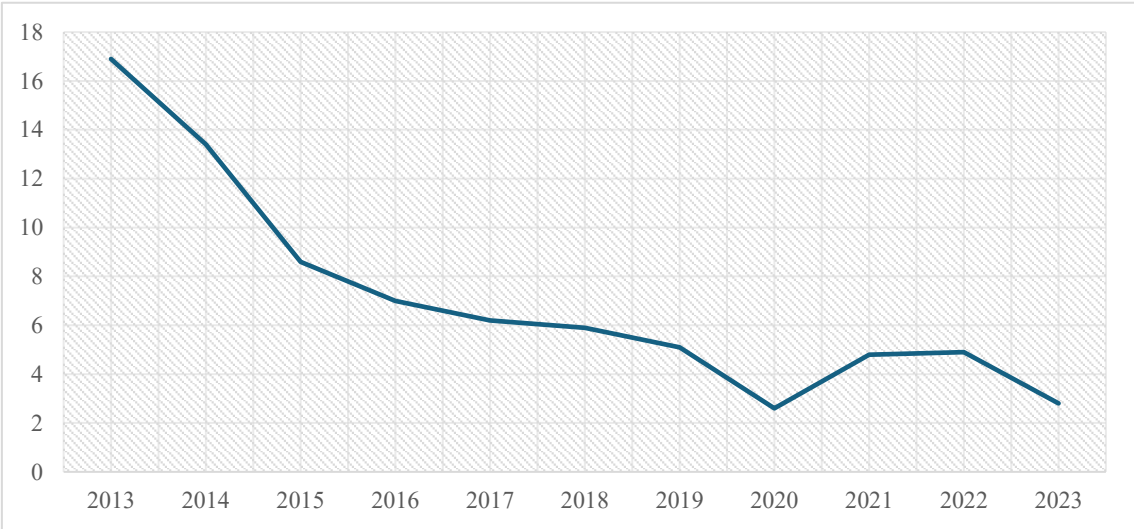


Figure 6: Year-on-year growth in total fixed asset investment for the whole society (in %)

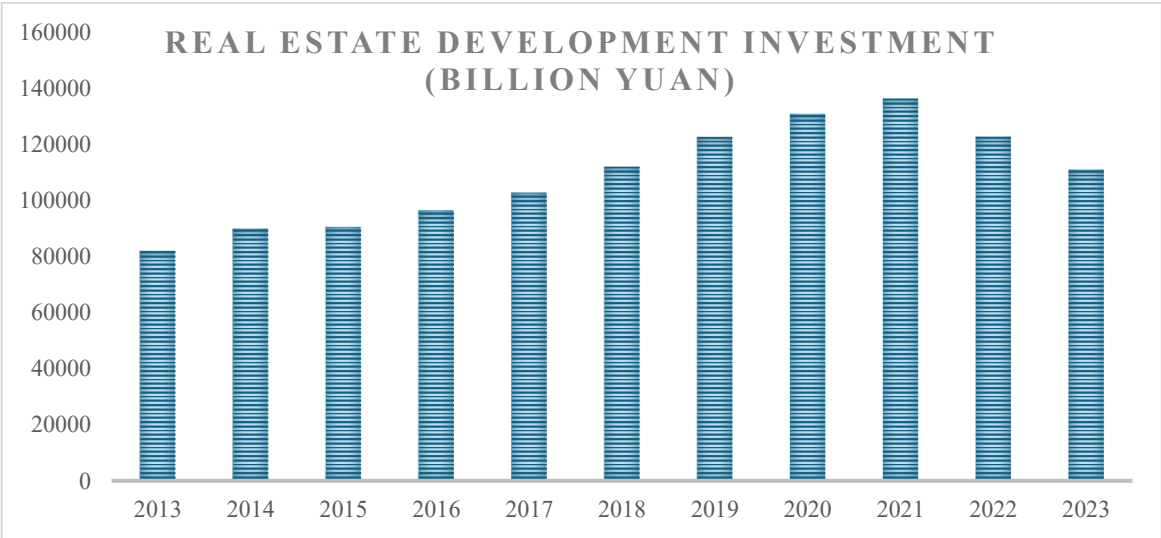


Figure 7: Year-on-year growth in total fixed asset investment for the whole society (in %)

### 3. The relationship between the two-child policy and the macroeconomy

#### 3.1. Theory

Thomas Malthus, an influential economist, had some significant understanding about the relationship between population growth and economic conditions. Malthus believed that population tends to grow at an exponential rate, while the means of subsistence (like food and resources) increase only arithmetically. This means that if population grows too quickly, it can outstrip the available resources, leading to poverty and hardship.

Malthus argued that there are two types of checks on population growth: preventative checks, such as delaying marriage or choosing not to have children, and positive checks, which include events like famine, disease, and war. According to Malthus, these checks help to keep population growth in check and prevent widespread scarcity.

So, in simple terms, Malthus saw population growth as a key factor that can influence economic stability and development.

Based on Malthusian theory, which posits that unchecked population growth will outstrip resource supply, leading to societal issues. China, as a near-developed country that has achieved sufficient developments in technology and advancements in livelihood to support a new wave of population growth, has chosen to abandon family planning policies in practice. This is because this nation has already addressed the pressures of rapid population growth on resources. Instead, it faces new challenges such as population aging and shifts in economic structures [7].

In this near-developed country, lower birth rates due to increased education levels and women's participation in the workforce have naturally slowed population growth, reducing the need for restrictive family planning measures. Additionally, population aging, caused by declining birth rates and longer life expectancy, leads to labour shortages and strains on social security systems. To address this, authorities encourage higher birth rates rather than limiting them [8-10].

Moreover, as economies shift from relying on population size to focusing on technological innovation and human capital quality, restrictions on family sizes had already show their obstruction on the attraction and development of skilled labour, impacting national competitiveness. Therefore, China relaxes or even eliminates family planning policies to adapt to these new economic realities and cultural shifts.

In summary, based on Malthusian principles regarding the balance between population growth and resource allocation, China has maximally relaxed family planning policies to address new challenges such as aging populations and evolving economic needs.

#### 3.2. Logic

In the short-term, easing from a one-child to a two-child policy allows for some growth (though admittedly not very much) through a domino effect of downstream effects. The direct effect of this policy reform would be on the fertility and birth rate of a population. Allowing a second child would increase the birth rate over time as couples who used to want more kids but were kept from them by policy changes move on their newly-found right. More births mean more consumers farther off: and in the bigger picture, this increases overall consumption.

Higher consumption, supported by a growing population, can translate into rising demand for items across product and service categories, including infant care products, education, housing, and healthcare. This increased demand can inspire businesses to grow or start a new venture in order to meet the growing market, thus ultimately leading to more investment. The expectation is that as business picks up, companies will expand and invest, which means hiring additional labour (creating more job openings) and thereby lowering unemployment.



Government finances are likewise affected by the economic activity generated. When people consume more and invest to a greater extent, this means that the government will collect a significant amount of taxes from consumers; these tax revenues can be spent on infrastructure developments, seeing as the direct link towards further economic growth is one where public funds are used for social support (such as infrastructure projects including schools). This in turn can bolster the wider economy, making it more favorable for job growth and business development.

In the long term, the relaxation of a one-child policy to a two-child policy may not substantially affect the economic environment when the underlying cause of low fertility rates is primarily economic downturn and reduced willingness to have children [9]. The direct effect of this policy reform would still be on the fertility and birth rate of a population. However, if the desire for more children is suppressed by economic hardships and the high cost of living, the policy change alone may not result in a significant increase in births over time.

Over the long term, without a substantial increase in births, the number of future consumers remains relatively stable or even declines. In the bigger picture, this means that overall consumption does not experience a significant boost. Without a notable rise in consumption, the demand for goods and services across various sectors does not increase sufficiently to inspire businesses to expand or start new ventures. Consequently, the lack of growth in demand may not lead to a significant increase in investment.

As a result, the expectation that businesses will expand and hire additional labour to lower unemployment may not materialize. Government finances may also not see a substantial improvement due to stagnant or declining tax revenues, as the consumption and investment levels do not rise significantly. Without a robust increase in public spending on infrastructure and social support, the wider economy may not become more favorable for job growth and business development.

#### **4. Analysis of the future of the two-child policy and its pathway for economic growth**

##### **4.1. Challenges to China's Economic Growth**

Although the Chinese government has recognized the low birth rate problem and its derivative problems, its changes to the “two-child policy” remain limited, due to the inherent simplicity of the policy itself. Since the two-child policy is no longer the main reason for hindering childbirth,[10] even the government can relax the family planning into three-child policy, or even render the family planning powerless (in fact, this policy and rendering had been executed years ago), relaxing the two-child policy will still be less effective in return such problems.

Due to the predictable lack in labourforce and population aging in the future, the possibility for China to keep a healthy economic growth rate is under severe challenge. If the authorities still choose to ignore such crisis, at least following factors will become significant resistance to China’s economic growth. The rising cost of human capital cause the price level to become abnormally high; the massive unemployment in the field of education and baby product caused by the decline of the newborn.

In short, the easing of a one-child policy to a two-child policy starts with inducing population growth; next comes encouraging consumption and investment, followed by balancing government fiscal capacity and employment. Although slow at first, following cultural, economic, and social factors from other countries, these effects are broad enough to make a reasonable contribution in the short term on this scale. However, in the long term, the relaxation of a one-child policy to a two-child policy may not have a significant impact on the economic environment when the root cause of low fertility rates is linked to economic factors such as economic downturns and the high cost of living. These effects are likely to be limited despite the initial policy change, as cultural, economic, and social factors continue to play a significant role in shaping family size preferences and reproductive decisions.

## 4.2. Policy suggestion

From the financial perspective, the government should offer financial supports to encourage families to have more children, such as subsidies and tax relief measures. These incentives can weaken the economic burden of raising children and motivate couples to have babies.

From the childcare support angle, the government should invest in extended and shared parental leave policies and provide high-quality public childcare services. Such measures can enable parents to maintain their careers while ensuring their children receive proper care, creating a more family-friendly environment that encourage couples to have babies.

From the work-life balance standpoint, the government should promote flexible work arrangements and establish a family-friendly workplace culture. This includes encouraging businesses to implement flexible work hours and remote working options, as well as providing supportive amenities like breastfeeding rooms. These initiatives can enhance job satisfaction and reduce stress, making it easier for parents to balance career and family responsibilities.

## 5. Conclusion

This paper critically explores the consequences of China's abandonment of its one-child policy in favour of a two-child family planning programme for dealing with low birth rates and broader economic aims. The research comes to the overall conclusion that easing of policy has failed badly in solving both demographic and labour market challenges, advocating a more comprehensive strategy for pushing up birth rates thereby helping economic growth.

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