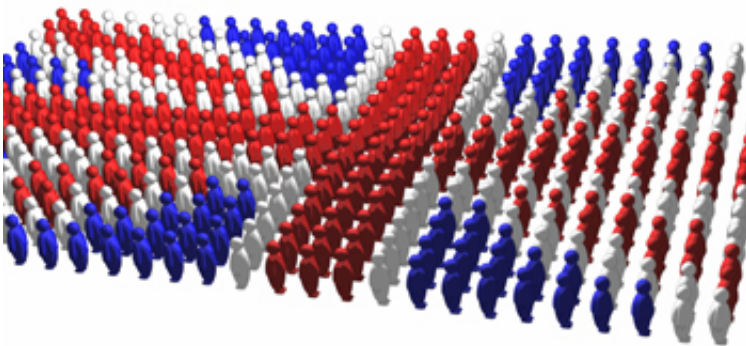


Rapid UK population growth undermines living standards, but may be necessary for economic growth

September 15 2014, by Hannah Postles



A new SPERI report examines the link between population growth and economic growth in the UK.

The traditional link between population growth and economic growth has been weakened in the UK, according to academics at the Sheffield Political Economy Research Institute (SPERI).

The latest evidence shows that despite the economic recession of the late 2000s, and subsequent stagnation, the UK population has grown at a rapid rate since the mid-2000s, with this growth continuing despite the coalition government's attempts to curb immigration.

This contrasts with post-war experience in the UK, say academics. High [population growth](#) in the mid-to-late 1960s was matched by high [economic growth](#), and lower population growth in the 1970s was matched by lower economic growth. Similarly, higher population growth from the mid-1980s onwards was matched by relatively high economic growth (with the exception of the early 1990s recession).

This unusual shift is the main reason that, while the [economy](#) creeps towards recovery in statistical terms, living standards remain significantly below their pre-recession peak.

Given the upcoming referendum on Scottish independence, the SPERI report also considers the relationship between economic growth and population growth in Scotland. Scotland's economy has grown more slowly than the UK's as a whole during the post-war period, but its population has also grown more slowly, and indeed experienced a prolonged period of decline.

From the mid-1990s onwards, however, Scotland's economy generally grew faster than UK as a whole. Its population did not grow as fast as the UK's, but it was growing at a much faster rate than has been normal over time for Scotland alone.

The report by the University of Sheffield's SPERI Research Fellow Dr Craig Berry argues that the type of jobs that the UK now tends to create – low-paying jobs in the services sector – helps to explain the change. Rapid population growth, outpacing productivity, is incentivising firms to concentrate in labour-intense but low value-added industries.

As such, while the link between population growth and economic growth has weakened, in an economy dominated by the services sector, the recovery may have been even slower had the population not grown at an incredibly fast rate.

Dr Craig Berry said: "Stagnating living standards are the price we are paying for economic recovery.

"The traditional link between population growth and economic growth has been weakened by the long-term shift towards becoming a services-led economy, and because the UK's growth industries are labour-intense rather than capital-intense, we seeing very little improvement in productivity, which has traditionally enabled higher living standards as the population grows.

"The implications of this are potentially quite alarming. The UK is unable to take advantage of the potential for population growth to drive economic growth, yet at the same time requires ever-stronger population growth to furnish a services-led economy.

"At present, Scotland seems to have avoided falling into this trap – the recovery in Scotland is not built on rapid population growth to the same extent. This may offer some hope for Scotland's economic prospects as an independent country.

"However, what is unclear is the extent to which the Scottish economy is benefiting from the services-led recovery in the wider UK economy. If Scotland loses its niche within the UK economy as a whole, it may end up replicating on a smaller scale the dilemma currently being experienced in the UK."

The full report can be viewed at uk/publications/speri-briefs target="_blank">speri.dept.shef.ac.65788873b65 ... cations/speri-briefs

Today's publication is the fifth in a new series of SPERI British Political Economy Briefs. Through this series SPERI hopes to draw upon the expertise of its academic researchers to influence the debate in the UK on sustainable economic recovery.

More information: The full report can be viewed at speri.dept.shef.ac.uk/publications/speri-briefs

Provided by University of Sheffield

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