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A Note on Population Growth Consumption vs Production Oriented Economy

SURENDRA BAHADUR PANDAY*

POPULATION GROWTH: AN OPEN PROBLEM

Nepal is engaged in an effort for the overall development of the country keeping a target to fulfil the "Basic Human Minimum Needs" of the population by the year 2000. Continuous inflation, illiteracy, poor health facilities, high population growth, poverty, natural calamities and other problems are the main hurdles which have compelled to divert the available scarce resources to non-productive sector rather than to productive and that in turn has left the country's economic development in a state of stagnation and underdevelopment year after the year. Therefore, the big challenge at this stage is to get-out of this situation and lead the country towards a take off stage in achieving the targeted goals. In the course of this challenge, it is obvious to be encountered with number of problems and the one to be encountered is the open problem of population growth.

CHANGE IN DEMOGRAPHIC PATTERN

The development of an economy is measured by various parameters. However, development measured by a sustained growth in per capita output is widely accepted and acknowledged. But, this could be done only when there is a sustained increase:

- in per capita productivity;
- in ability of the economy to increase the output per man hour through continued technological innovation;
- in required capital investment;
- in upgrading the qualitative aspects of the human resources.

Thus, it is clear that for overall development of any country, change in technological and economic patterns of the society only is not enough but there should be a change in the demographic pattern as well. To focus on demographic pattern denotes talking of very significant role of the population in the course of economic development. The composition of population-like :size, geographical distribution, the ethnic, religion, age, sex, health and education, occupation and the growth rate always determines its effect on national development either favourably or unfavourably.

**Dr. Panday is Director of Training and Communication Division, Family Planning Association of Nepal, Kathmandu.*

CAPITAL-LABOUR RATIO

In most of the developing countries, declination in death rate and continuing high fertility rate has pushed the population growth up. The high fertility trend usually produces a large portion of youths and a smaller portion of adults. In addition, tremendously reduced mortality in most cases of the infancy and early childhood has increased the proportion of dependent young group rather quickly. The increasing population demands consumption on additional products at the cost of the savings and investments reducing per capita income and thereby affecting the growth in national economy.

By virtue of the law of diminishing returns, an increasing population pressure on limited resources will naturally result a decline in the productivity and yield of land and capital affecting the growth of the economy thereafter. In order to get rid of this state, the need of technological innovation or increase of capital investment ratio is fairly seen a must. Likewise, improvement in the quality of the population rather than quantity through skill development, education and training programmes are required. But the situation in many of the developing countries is very much unfavourable due to limited resources for investment and faster growth in population which usually leaves the economy with relatively lower capital labour ratio and no signs of improvement in per capita productivity could be seen in near future.

INCOME REDUCING AND INCREASING EFFECT

The final outcome of population growth that affects on development could be determined from the net of two effects: income reducing and income increasing. Hence, depending upon the socio-economic and political conditions that allow these factors to hold true, a final outcome to be applicable varies from country to country. Therefore, it would be very genuine to try to ascertain to what extent these factors of population growth has affected the economic development of Nepal.

NEPALESE ECONOMY AND POPULATION GROWTH

The mountain ribbed, land locked Nepal has not accidentally been categorised by United Nations as a "least developed country." Nepalese economy is typically characterised by high population growth, agro-oriented structure, low per capita income, limited capital for investment, limited skills to utilize, etc. It has been often stated that Nepal is self-sufficient in natural resources and labour, but as stated earlier it lacks very important two traditional factors of production i.e. capital and skill. This is the reason why Nepal has become predominantly an agricultural economy having 90 percent of the total population agrarian and nearly 88 percent of the labour force engaged in agriculture. Even though this sector of economy provides 70 percent of the national products and contributes to 65 percent of the total exports, nearly 65 percent of the total work time of those who are engaged in this sector is waste. Such a situation is not good for healthy development of socio-economic and political conditions of the country when nearly half of the population under the age group of fifteen are ready to enter the labour force.

This problem is further accompanied by in-proper irrigation facilities, and extremely poor agro-infrastructural development. Thus, the economy is highly dependent on the nature and that has created a threat to pull the economy down into instability, if a long drought and failure in the main crop occurs. At this point, it is interesting to note that this sector of economy which has played a vital role in Nepalese life style has not been able to be self-sufficient in many cases of agricultural production. In result, more than 40 percent of the agrarian population lives below the subsistence level having per capita income of less than US$ 60 only when the annual population growth stands to 2.57 percent. The economic situation of the country has already become rather 'consumption' than 'production' oriented due to increasing trend of foreign aid dependency in service sector and very low formation of national capital and mobilization of external resources to improve the productive sector. Therefore, under such pressurised circumstances of controvercial population growth and very poor infrastructural development of the country, the productivity and yield of land and capital may be well reduced playing a role of an income reducing factor in the national context, unless the situation is tackled otherwise by heavier investment in the productive sectors.

INITIATING CRITICAL MINIMUM EFFORTS

The production potential of population in the context of Nepalese economy remain unharnessed for lack of capital, poor infrastructural development, sever shortage of skills in all sectors and at all levels. On the other hand, consumption potential of the population is increasing due to its faster growth. Thus, there is an urgency of initiating 'critical minimum' efforts for investments through mobilization of internal resources to enable the economy to enter into the track of self-sustained growth. But the high rate of population growth could again become the central hurdle and block the efforts. Therefore, the development plans should throughly be reviewed and proper attention be paid to attain uncovered areas of population while mapping the fourth coming national development strategy. The review efforts should be directed to better simulation of production versus consumption factors of the population growth.

POPULATION PLANNING IN NEPAL

Population planning in the context of national development covers a wide range of population aspects i.e. its size, territorial distribution, composition, quality and so many others. But, being practically very difficult to consider all theoretical aspects, at a time, growth rate and size of population are usually taken into considerations. Therefore, formulation and implementation of strategic family planning programmes in direction of reducing population growth rate could naturally play an important role both in micro and macro terms.

Micro term is related to methods of family planning and thereby directed to reduce the fertility behaviour, while macro aspect is a combination of efforts related and directed indirectly to control population i.e. beyond family planning "a family welfare programme." The National Family Planning Programme in Nepal has been accepted and adopted and aimed to improve family health and welfare and thereby raise the living condition under the following socio-economic and demographic circumstances:

	1961	1971	1981	1988
Population size	9.4 million[a]	11.55[a]	15.02[a]	17.0[b]
Rate of Growth (%) per annum	1.7	2.1[a]	2.66[a]	-
Total Fertility Rate	-	6.3[a]	6.2[a]	5.62[c]
Infant Mortality Rate	200/1000[a]	172[a]	123[a]	110[d]
Expectation of Life	35[a]	40.0[a]	49.5[a]	52.0[d]
Literacy Rate (%)	19.0[a]	13.7[a]	23.3[a]	33.0[e]
Per Capita Income (US Dollar)	-	100.0[a]	120.0[a]	140.0[e]
Economic Growth (%)	-	2.65[f]	3.4[f]	4.5[f]

Source: a. Population Census Report - 1981; Central Bureau of Statistics, Kathmandu.

b. Statistical Year Book - 1987; Central Bureau of Statistics, Kathmandu.

c. NF Survey - 1986, FP/MCH, Kathmandu.

d. Nepal In Figure - 1987, CBS, Kathmandu.

e. Demographic Sample Survey - 1986/87, CBS, First Report (Rs. 2626).

f. Economic Survey - 1986/87, HMG, Ministry of Finance, Kathmandu.

On top of the above stated facts various other difficulties are entailed in implementing the population programme. People's desire to have many children is one of them and the reason to want to have many children could be the following: religious, additional income earning, lack of opportunity to majority of women to enter into business and professional life, preference of having a son, lack of adequate counselling and knowledge in family planning, non-availability of service at the door steps and other. At the same time, the complex socio-economic, demographic and religious structure of the country is lacking a high degree of managerial ability to establish a solid mechanism at the national level to coordinate various programmes on family planning to be implemented by private, non-governmental and governmental sectors, assuring the efficient and effective use of the available resources at hand.

The low developed infrastructure of our development has seriously handicapped the dissimination of information and services at the door-steps of the needy people. Expansion of service outlets is not possible due to limited: resources, professional workers and clinical facilities. In such critical circumstances, the policy adopted and goals fixed to change the demographic pattern of the country by the end of 2000 years does not look that realistic but very much ambitious and challenging ones.

AVOID MISTAKES

Usually in most of the cases in Nepal, like in other developing countries, tussle starts on the question 'who' should head the programme rather 'how' to implement the programme perfectly. This situation could rather lead to waste of available human as well as material resource than their effective and efficient utilization. Therefore, a time has come to learn from the past and avoid such mistakes which could lead us again to suffer from stagnation, misery and poverty in absence of proper integration of population aspects in development planning.

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BOOK REVIEW

Khanal, D.R. (1988); Public Expenditure in Nepal: Growth, Pattern and Impact (New Delhi: Sterling Publishers), pp. 176, price Rs. 150. (I.C.).

Government expenditure policies, indeed, are often subject of criticism all over the world, particularly amongst economists and political scientists. Expansionary government expenditure, while defended on the ground of welfare-oriented nature of government policy and long term development plan, is viewed to have adverse effect on the balance of payments situation, money supply, domestic price level that are crucial to short term economic stabilization effort. However, there is a phenomenol rise in public expenditures, particularly among developing countries, as it is recognised that there is a prospective and long term effects, through government financed expansion of production base of the economy as well as building of social and economic infrastructure. Nevertheless, such public expenditure and investment policies should always be thoroughly reviewed and timely evaluated as any improper undertakings could aggrevate an adverse effect also on long term economic growth and stabilization.

The present book under review, based on the research work of the author is an attempt to assess critically the growth, pattern and impact of public expenditure allocated in different sectors and subsectors of Nepalese economy since the beginning of Third Plan (1965-70) to the year 1981. The main focus of the book is to examine the growth of public expenditure in terms of demand and supply factors and its impact on the economy, particularly on private investment, foreign trade, money supply and prices.

The book, mainly based on the secondary sources of data, is organised into seven chapters. A comprehensive review of literature on theories of public expenditure and the role of public expenditure on short term economic stabilization and long term development is discussed in Chapter I. In Chapter II, the growing public sector coupled with the problem of supply constraint, resource gap and their consequent effects on economic growth, stabilization, income distributions and allocational efficiencies in the context of Nepal are being discussed. Public expenditure functions and simultaneous macro model to identify structural interrelationships among variables considered have been presented in Chapter III. The succeeding three chapters contain the justification of data base, analysis of data, particularly in the light of growth and pattern of public expenditures, and followed by the use of ordinary least square method for different tests to examine the direct impact of public expenditure on real, public, foreign and monetary sectors of the economy. The final chapter summarises the study with concluding remarks followed by some general suggestions.

The tremendous growth of public expenditure in Nepal, though reflects the aspiration of the government in its development efforts, is often repeatedly initiated with confusions resulting to unimpressive consequences. The approaches and strategies adopted, in fact, during each successive plan periods are found to be less effective. The author is successful in exposing so much talked about fact that although public expenditure policies have been mainly guided by the objective of attaining higher growth rate, the performance has really been dismal. At the very outset of the planning era, public expenditure policies emphasised on the investment on infrastructural oriented programmes, but the realisation of the need of emphasis on agricultural sector in the beginning of Fifth Plan (1975-80) called for the phenomenal increase in public expenditure while the prior commitments and ongoing investment patterns hindered to change expenditure policies and strategies significantly, the major portion of resources had to be diverted toward the traditional agricultural sector. But the industrial sector has not shown any breakthrough while agricultural sector has almost remained stagnant primarily due to the very low productivity condition prevailing in this sector. Such growing paradox reflected by the non-significant progress made in the pursuit of achieving higher growth rate and the existence of growing inequalities in income distribution, inefficiencies in allocation of resources and inflationary pressures are exposed in the book. In other words, the author carefully gives an account of the rapid growth of public expenditure than the increase in GDP and the failure of its significant positive impact on the economy.

Looking at the structure and pattern of public expenditure, particularly development expenditure, there is a substantial influence of foreign aid while major part of internal revenue is utilized to finance consumption expenditures rather than to finance productive programmes and projects. The evidence that investment expenditure is mainly influenced by exogenous factors rather than by targeted income and growth emphasised in plans has supported the general belief that the planning mechanism has been less effective in fixing the targets based on reality. The prevailing overdependence of the Nepalese economy on external grants and loans, is the clear cut example, according to the author, of the ineffectiveness of the government plans and policies in raising productivity and mobilising internal revenue to finance investment. Considering the supply factors and having stated some adverse effects through the overdependence on foreign aid, the author opines that the phenomenal expansion in public expenditure alone will not be helpful in sustaining the country's development programmes, rather investment programmes should be restructured through internal discretionary measures accompanied by the generation of more revenue surpluses.

The author has done a commendable work in analysing the impact of public expenditure on some crucial macroeconomic variables to observe their compatibility with the various broad policy objectives, particularly that of short term stabilization and long term development. So far, the findings reveal that the massive expansion in public investment programmes have not been able to stimulate the private investment, while the prospect of generating resources in the public sector is adversely affected by the budgetary constraints, non-comprehensive nature of taxes, collection lags, overdependence on sales and excise taxes and progressive non-tax revenues. On the other hand, massive import of capital and intermediate goods accompanied by expansion of public investment, slow growth of import substitution and reluctant export promotion have worsen the balance of payment situation. Similarly, the impact of growing public sector on money and prices are also lucidly analysed.

On the whole, the book can be considered as an important addition in the list of few publications on the subject. The author has rightly mentioned that the book may help to make further intensive studies on the important but relatively neglected area that he has taken up, it is, in fact, a stimulating book for the students of economics. Nevertheless, the lucid exposition made in the book and the relevant suggestions put forward should well be taken into account by planners and policy makers.

Prabin D. Shrestha

Central Department of Economics
Tribhuvan University
Kirtipur, Kathmandu
Nepal

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*The Economic Journal of Nepal is a quarterly publication of the Central Department of Economics (CEDECON), Tribhuvan University, Kirtipur, Kathmandu, Nepal.

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