


Chinese puzzle

What's the connection between China's one-child policy and the ability of the United States to continue spending beyond its means? You can be excused for not immediately guessing the answer to this bizarre question. The truth is an amazing story.

In 1979, following a devastating famine, the Chinese Communist Party decided to regulate fertility in order to achieve a better balance between the people's future needs and China's ability to produce food. Although the one-child policy (OCP) is less unambiguous than its crisp name suggests (rural families were allowed to have a second child if the first one was a girl), it restricted the freedom of most couples to choose how many children they would have. It has been estimated that due to the OCP there are now 300 million fewer Chinese than there otherwise would have been. While this is almost certainly an overestimate of the effect of the OCP – the birth rate was already falling before the policy was implemented – few people doubt that the Chinese attempt to regulate fertility amounts to a first-order social intervention.

In 2007, two Chinese economists published an ingenious article exploring the income effects of the OCP.  The Communist Party's hypothesis was borne out by the data; regions with fewer babies experience faster income growth. This probably comes as no surprise to neo-Malthusians. However, the mechanism linking the OCP to higher incomes is not well understood, and few people believe that Malthus's dismal world view – based on a mismatch between resources and people – provides the whole story. One rather unexpected complementary storyline is as follows.

It is well known that the gender ratio in China is quite distorted. In some provinces, 30% more boys than girls are born. Boys are preferred to girls, in rural areas, because they provide security for old age. Especially since the late 1980s, when ultrasound technology became widely available to allow pre-natal sex screening, the number of boys born has systematically outnumbered that of girls. Recent research suggests that about half the gender gap is explained by the OCP. If couples really want to have a son, and are restricted in the number of children they can raise, the evidence suggests they may resort to drastic measures to make sure their offspring includes a boy. This certainly was an unexpected and undesirable side effect of the OCP.



BigStockPhoto

Which brings us to the final piece of the puzzle. If the number of boys in the maternity ward consistently exceeds that of girls, then eventually men will be more plentiful than women. And as women are becoming scarce in China, they become more 'valuable'. Specifically, women can afford to become more demanding in the marriage market, and the competition among men to attract a spouse intensifies. How do parents help their son to find a wife? They save money to provide him with a superior starting position – they support him with money for a nice house and fancy items that prospective wives might like. In the countryside, the parents of teenage boys are engaged in a race to accumulate savings. And the more skewed the local gender ratio, the harder they compete. The Chinese save an astronomical 50% of their incomes, and China has become the world's leading creditor. According to a recent study, about half of these savings can be explained by marriage competition induced by the OCP – another unexpected side effect of the policy.

So here we have the full story. The one-child policy raised incomes but made girls and women scarce. This invited a massive savings response by desperate parents who want the best for their sons. Quite a bit of these savings eventually found its way abroad. It is well known that Chinese savings have allowed the current generation of Americans to spend more money than they earn. But it is interesting, and surprising, that this behaviour was facilitated by Chinese communists fretting about Malthusian nightmare scenarios in the 1970s. ■

By **Erwin Bulte**, professor of economics at Wageningen University and Tilburg University. He is also a research fellow at the University of Cambridge and an adviser to the UN Food and Agriculture Organization.