

# **BRIEFING: THE SOCIAL COST OF NO ECONOMIC GROWTH – A CONTINUATION OF THE SITUATION BETWEEN 1998 AND 2008 INTO THE NEXT TEN YEARS<sup>1</sup>**

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## **INTRODUCTION**

- 1 This note has been produced following discussion in the Strategic and Economic Development Steering Group on the potential cost to economic development of a 'pause' or no economic growth. The Social Development Planner (SocialDP) was concerned that a combination of a focus on the potential economic impact of delayed or no economic growth and potential constraints on SHG budgets, without a complimentary focus on the social impact could unnecessarily heighten the social cost of delayed or no economic growth.

The note is intended as a briefing for the:

- a) Steering Group on Strategic and Economic Development (SGSED);
- b) Social and Physical Infrastructure Steering Group (SPISG);
- c) Steering Group on Financial Strategy (FSSD); and
- d) The Consultation on Whether an Airport is the most Appropriate Option for Access to St Helena in the Current Economic Climate (referred to as the 'DFID Consultation').

Where more data and analysis can be found is referenced.

## **DEMOGRAPHIC CHANGE: THE IMPLICATIONS**

### **Past demographic trends**

- 2 Out-migration and a demographic imbalance are the fundamental social issues for the Island. The resident population has dropped from 4913 in 1998 to 3981 in 2008<sup>2</sup>. Moreover the birth rate has been steadily falling and in 2007 was to 8.7 per 1,000<sup>3</sup>.
  - a) The working age proportion of the population has dropped from 58.2% in 1998 to 56.9% in 2008;
  - b) The proportion of the population over 60 years of age, has increased from 15.5% to 26%; and
  - c) The population aged under 17 years has decreased from 26.2% to 18.2%<sup>4</sup>.

See Table 2 for the percentage change in absolute numbers, which are dramatic. For example there are 557 fewer 0-16 year olds on the Island in 2008 compared to 1998, and 634 fewer people of working age.

### **Forecasted future population trends**

- 3 Projected population totals for 2018 are set out in Table 1 and Table 2. These are 3226 and 3544 respectively, a difference of 318, which is significant. Table 1 uses the trend in the total population and Table 2 uses the trend for each different age group. The decline is 19% and 11% respectively.

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<sup>1</sup> Thanks to many people for excellent comments and feedback, which have improved this briefing.

<sup>2</sup> Pers com Statistics Office, 26<sup>th</sup> March 2009.

<sup>3</sup> DEPD, 2007 Statistical Year Book.

<sup>4</sup> Muir, Ann, 2009. St Helena Social Policy Plan: Situational Analysis, para 2.1

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**Table 1: 1998 to 2008 population trend carried forward to 2018 using the total population figure as a moving trend**

|                         | 1998        |                    | 2008        |                    | (5)<br># and<br>%<br>Change<br>difference<br>between<br>1998 and<br>2008 | 2018   |                      |
|-------------------------|-------------|--------------------|-------------|--------------------|--|--|----------------------|
|                         | (1)<br>#    | (2)<br>% of<br>pop | (3)<br>No   | (4)<br>% of<br>pop |  | (6)<br>Forecast % of pop<br>incl difference in<br>% change between<br>1998 and 2008<br>(4)<br>less or plus (5) | (7)<br>Forecast<br># |
| Under School<br>Age 0-4 | 312         | 6.4%               | 166         | 4.2%               | Less 146<br>Less 2.2%  | 2.0%   | 64                   |
| School Age<br>5-16      | 973         | 19.8%              | 556         | 14.0%              | Less 417<br>Less 5.8%  | 8.1%   | 262                  |
| Working Age<br>17-59    | 2858        | 58.2%              | 2224        | 55.9%              | Less 634<br>Less 2.3%  | 53.6%  | 1728                 |
| Over 60                 | 760         | 15.5%              | 1034        | 26.0%              | Plus 274<br>Plus 10.5%   | 36.5%  | 1177                 |
| Not stated              | 10          | 0.2%               | 1           | 0.0%               |  |  |                      |
|                         | <b>4913</b> |                    | <b>3981</b> |                    | Less 19.0%   |  | <b>3226</b>          |

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**Table 2: 1998 to 2008 population trend carried forward to 2018 using population group figures as moving trends**

|                         | 1998        | 2008        | 1998-2008                |                         |                | 2018                      |                                 |
|-------------------------|-------------|-------------|--------------------------|-------------------------|----------------|---------------------------|---------------------------------|
|                         | #           | #           | % Diff<br>1998 =<br>100% | # Diff<br>Since<br>1998 | # in<br>Pop    | Forecast<br>% of<br>Total | Forecast<br># Diff<br>2008-2018 |
| Under School<br>Age 0-4 | 312         | 166         | 53.21%                   | -140                    | 88.32          | 2.49%                     | -77.68                          |
| School Age<br>5-16      | 973         | 556         | 57.14%                   | -417                    | 317.71         | 8.97%                     | -238.29                         |
| Working Age<br>17-59    | 2858        | 2224        | 77.82%                   | -634                    | 1730.64        | 48.84%                    | -493.36                         |
| Over 60                 | 760         | 1034        | 136.05%                  | 274                     | 1406.78        | 39.70%                    | 372.78                          |
| Not stated              | 10          | 1           |                          |                         |                |                           |                                 |
|                         | <b>4913</b> | <b>3981</b> |                          |                         | <b>3543.46</b> |                           |                                 |

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Irrespective of the total population in the years after 2008:

- If the number of the working age population does not increase (because of a lack of economic growth);
- Then the number of births will further decline; and
- If the number of people over 60 years increases (through natural retirement from working on Island and by the return of Saints working off-shore); then
- This will increase the non-economically active proportion of the population

Tables 6 and 7 in the annexe provide some estimates of possible dependency rates of the non-economically active to the economically active. These are quite dramatic, for example the ratio of economically active to the non economically active 60+ group move from 79% to 21% in 1999 to 68% to 32% in 2008 to a forecasted 55% to 45% in 2018. (See Table 7).

- 7 A brain drain means
- a) A brain strain, as a smaller working age population is delivering services;
  - b) Higher demands on the Government budget as SHG seeks to meet higher expectations, in particular the education/ training expectations of children and young people and the medical care expectations of an aging population; and
  - c) Almost certainly increased financial dependency on HMG.

## **GOVERNMENT SERVICES**

8 Some examples of the social cost of a lack of economic growth are set out by service provider.

### **9 Health**

- a) The out-migration of working-age people and the demographic shift towards an older population presents a growing issue about who will take care of people able to live in the community, who otherwise would need to be in residential care - elderly parents, without children on the Island and people with learning and physical disabilities who are living with their parents and/ or siblings.
- b) Demand for care which is already outstripping sustainable supply and resources<sup>5</sup> will place an increasing strain on health service funding. The PHSSD budget has doubled from £1,651K in 1999/2000 to £3,407K in 2008.
- c) Attrition, which is already an issue, will worsen. One of the impacts of a general shortage of qualified nursing staff, auxiliary staff and administration staff is that priority is given to providing emergency care in response to people with health crises. In the long run the care for chronic illnesses and preventative measures are compromised and cannot be moved forward<sup>6</sup>. This is also clearly the least cost effective approach and again will only spiral further and faster out of control with the continued demographic change and lack of economic growth.
- d) In a vicious circle this contributes to a loss of morale which feeds into the loss of staff.

### **10 Education and Vocational Education/ Training**

- a) Delivering education faces the same challenges as that of health – the Island cannot provide all the professional expertise and facilities to meet all expectations. If the working age population declines further this will increase the number of unfilled teaching positions thereby restricting subject teacher availability and the number of clerical support positions.
- b) At the moment history, religious education, music and foreign languages are not offered at GCSE level, and physics as a stand along subject is not available at AS or A level. After this academic year business studies will not be taught either. Reasons for this include the small number of students and the limited availability of teacher skills. Therefore some of the skills which support Island development are already not available. These subjects are unlikely to be available without population and economic growth or additional budgetary support.
- c) Sustaining the current vocational training course may be an issue when DFID project funding runs out – because of the high cost of external verification. In addition because of the declining population “there is no prospect of attracting sufficient numbers from the 16-19 year age group to make vocational training courses sustainable beyond one or two enrolments”<sup>7</sup>.

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<sup>5</sup> SHG, 2008. *Focusing on the Future: Health and Social Services Development Strategy 2008-2012*, section 2.

<sup>6</sup> Source, PHSSD 21<sup>st</sup> April 2009.

<sup>7</sup> Forrester, David, 2009. St Helena Adult and Vocational Education Strategy, Power Point Presentation to Stakeholders on the 15<sup>th</sup> June 2009, Slide13.

11 **Social Security**

- a) Social security benefits budget has increased from £700K in 2000/01<sup>8</sup> to £1,268K in 2008/09<sup>9</sup>. Social security benefits (as medical and health care) are not linked to contributions - only to nationality, although most are means tested.
- b) Nearly 17% of people are in receipt of Income Related Benefit (the vast majority are aged 60+). Given the declining birth rate and assuming a higher proportion of the population aged 60+ in the next ten years, the social security budget will increase.
- c) Whether or not social security benefits become contribution linked, without economic growth or budgetary support the fiscal burden on tax payers will increase.

12 **Fuel**

With a smaller population, demand for fuel will possibly reduce, lowering fuel importation. This could have one of two impacts, depending on the level of reduction in demand:

- a) As SHG pays a fixed freight charge and the bulk fuel installation needs to be maintained, if these costs remain constant this may mean that fuel per litre becomes more expensive impacting on the cost of electricity and other goods and services; alternatively
- b) If fuel demand reduced significantly it could be that only three deliveries per year, rather than four, would be needed and therefore there would be three and not four freight charges. This could lessen an increase in the price per litre.

13 A substantial increase in the price relatives to incomes could mean social isolation for people unable to afford to run a vehicle.

14 **Utilities**

- a) If there is no economic growth the increase in demand for utilities - electricity generation, water, sewerage and solid waste disposal - plus road infrastructure – will taper off. Increased out-migration is likely to reduce demand on existing infrastructure.
- b) If the cost of providing utilities becomes more expensive , then this will lead to either higher bills or a greater subsidy from SHG.
- c) Enhancements contained in the Infrastructure Plan project are already in the pipeline: they are not dependent on the airport decision.
- d) Continued or increased out-migration will exacerbate the existing skills shortage which is affecting maintenance, operation and upgrading of infrastructure.
- e) Inadequate maintenance and improper operation will lead to deterioration in the level of utility service provision.

**EMPLOYMENT**

15 The impact of a declining number of working age people (even when as a proportion of the population, it remains relatively constant) includes:

- a) A decline in the number of businesses (a smaller market is less profitable), and therefore employers on the Island;
- b) A reduction in the amount of skilled work available;
- c) But the increase in the older population will mean more work in care, although this will be largely unskilled work;
- d) A decline in demand for goods and services, resulting in increased prices (as the share of fixed overheads will be higher on each item);
- e) Reduced consumer choice;
- f) Less variety in the employment market for school leavers and people already in the market wishing to move career or job; and
- g) Increase in the SHG share of employment and a higher cost for services because SHG

<sup>8</sup> Finance Department, 2000, *Estimates of Recurrent Revenue and Expenditure*, p. 49.

<sup>9</sup> Finance Department 2008, *Estimates of Recurrent Revenue and Expenditure*, p. 50.

costs are generally higher than in the private sector.

## **CIVIL SOCIETY**

- 16 All activities and interests on the Island, which are driven by civil society groups or organizations, will be affected by less money in the economy and a declining population. Plus:
- a) Less active groups or organizations will mean there is not the same opportunity for people to develop organizational and leadership skills outside the work place;
  - b) A less active civil society will increase expectations on SHG to fill gaps in services if groups or organizations can no longer deliver such services, for example in social welfare, sports and youth activities; however
  - c) It could also be that in the event of economic and social adversity some groups or organizations will become increasingly vocal, strengthen their engagement with Government and seek to become drivers of change.

## **FAMILY AND COMMUNITY LIFE**

- 17 The socio-economic impact of the situation between 1998 and 2008 continuing without change on family and community life is shaped by the potential demographic shift to 36.5% of the population being aged 60+. Key issues are:
- a) Who will take care of people able to live in the community, who otherwise would need to be in residential care – see 7a) above;
  - b) The strain that could be felt by fewer families on the Island - not just the demand of ageing relatives, but also financial demands incumbent with a declining tax base;
  - c) The implications of fewer children and youths, and the energy they bring which is essential for the renewal of society and for taking forward the Island into economic relationships of the global economy;
  - d) Young people consider it “good to go” for a broader working experience. A vicious circle of limited opportunity and out migration will further constrain economic growth, thereby limiting opportunities;
  - e) Without an increase in spending power (salaries) the decline in population will mean less money in the economy for local enterprise;
  - f) A loss of morale and confidence in Government and the private sector being able to deliver social and economic change; and
  - g) Increased dependency on HMG.
- 18 While the proportion of children and youths with parents working off-shore who are being cared for by relatives may remain the same, the actual number is likely to fall
- 19 Social life could be constrained by less money in the economy leading to fewer food outlets, bars and other social activities.

## **TREND IN PER CAPITA EXPENDITURE 1998 – 2008**

- 20 Table 3 in the Annex demonstrates how expenditure has more than doubled for each Island resident between 1998 and 2008, whether HMG aid support statistics or SHG expenditure statistics are used. However this doubling is not simply a function of population decline, when the 1998 resident population figure is used as a baseline there is still a doubling of HMG support or a 75% increase in SHG expenditure. See Table 4.
- 21 Table 5 illustrates the increasing spend on health and education over the last ten years as a proportion of SHG expenditure and per capita/ student user. This demonstrates the combined impact of meeting higher expectations of the health and education services and a population decline.

## CONCLUSION

- 22 The social cost of delayed or no economic growth is three-fold – continuing demographic change, the added financial implications for tax payers of increased per capita expenditure and psychological. A declining population, which is not being replaced is likely to lead to a heightened sense of isolation and insularity. Population growth – or the lack thereof – is an important measure of the vitality of the Island. Stagnant or no growth has an impact on potential inward investors and Saints considering returning to the Island to work.
- 23 A focus on the social cost of delayed or no economic growth is absolutely essential to understanding the economic impact: the social cost carries a high economic impact. **Indeed if the demographic imbalance is not addressed in the next ten years and if the situation between 1998 and 2008 continues, then forecasts show there will be no children on the Island aged 0-4 years.** Between 2008 and 2018 therefore lies the ‘tipping point’ where demographics threaten prospects for sustainable development.

## ANNEX: TABLES

**Table 3: Trend in Per Capita Expenditure<sup>10</sup>**

|         | Pop <sup>11</sup> | HMG Support <sup>12</sup> |            |                        | SHG Expenditure <sup>13</sup> |            |                        |
|---------|-------------------|---------------------------|------------|------------------------|-------------------------------|------------|------------------------|
|         |                   | £                         | Per Capita | % Change <sup>14</sup> | £                             | Per Capita | % Change <sup>15</sup> |
| 1998/99 | 4913              | £8,747,000                | £1,780.38  | 100%                   | N/A                           |            |                        |
| 1999/00 | 4820              | £8,887,000                | £1,843.85  |                        | £13,647,000                   | £2,831.45  | 100%                   |
| 2000/01 | 4727              | £10,024,000               | £2,120.76  |                        | £13,608,000                   | £2,879.03  |                        |
| 2001/02 | 4633              | £10,343,000               | £2,232.27  |                        | £16,684,000                   | £3,600.81  |                        |
| 2002/03 | 4540              | £9,486,000                | £2,089.34  |                        | £15,852,000                   | £3,491.48  |                        |
| 2003/04 | 4447              | £11,003,000               | £2,474.25  |                        | £17,570,000                   | £3,950.98  |                        |
| 2004/05 | 4354              | £12,161,000               | £2,793.19  |                        | £18,656,000                   | £4,284.99  |                        |
| 2005/06 | 4261              | £12,458,000               | £2,924.00  |                        | £20,001,000                   | £4,694.41  |                        |
| 2006/07 | 4167              | £11,146,000               | £2,674.57  |                        | £20,068,000                   | £4,815.47  |                        |
| 2007/08 | 4074              | £15,746,000               | £3,864.81  |                        | £23,857,000                   | £5,855.63  | 206.81%                |
| 2008/09 | 3981              | £18,076,000               | £4,540.57  | 255.03%                | N/A                           |            |                        |

**Table 4: Per Capita Expenditure Assuming the 1998 Population**

|         | Pop <sup>16</sup> | Assuming 1998 Population |            |                 |                        |
|---------|-------------------|--------------------------|------------|-----------------|------------------------|
|         |                   | HMG Support              | % Increase | SHG Expenditure | % Change <sup>17</sup> |
| 1998/99 | 4913              | £1,780.38                | 100%       |                 |                        |
| 1999/00 | 4820              | £1,808.87                |            | £2,777.73       | 100%                   |
| 2000/01 | 4727              | £2,040.30                |            | £2,769.79       |                        |
| 2001/02 | 4633              | £2,105.23                |            | £3,395.89       |                        |
| 2002/03 | 4540              | £1,930.80                |            | £3,226.54       |                        |
| 2003/04 | 4447              | £2,239.57                |            | £3,576.23       |                        |
| 2004/05 | 4354              | £2,475.27                |            | £3,797.27       |                        |
| 2005/06 | 4261              | £2,535.72                |            | £4,071.04       |                        |
| 2006/07 | 4167              | £2,268.67                |            | £4,084.67       |                        |
| 2007/08 | 4074              | £3,204.97                |            | £4,855.89       | 174.81%                |
| 2008/09 | 3981              | £3,679.22                | 206.65%    |                 |                        |

<sup>10</sup> Statistical Year Books, various

<sup>11</sup> A cumulative 10% of the difference in total population has been used to provide annual estimates of population for each of the ten years between the census years of 1998 and 2008. The ten year trend is more important here than annual population figures.

<sup>12</sup> Includes Budgetary Aid, Shipping Subsidy, Development Aid and Technical Cooperation

<sup>13</sup> Includes SHG Investment Goods, Consumer Goods, Shipping, Technical Cooperation and Overseas Training.

<sup>14</sup> Baseline = 100%

<sup>15</sup> Baseline = 100%

<sup>16</sup> A cumulative 10% of the difference in total population has been used to provide annual estimates of population for each of the ten years between the census years of 1998 and 2008. The ten year trend is more important here than annual population figures

<sup>17</sup> Baseline = 100%

**Table 5: Health and Education Expenditure<sup>18</sup>**

|               | Pop  | SHG<br>Total | PHSSD<br>% of |              |                             | Education<br>% of |              |     |                             |
|---------------|------|--------------|---------------|--------------|-----------------------------|-------------------|--------------|-----|-----------------------------|
|               |      |              | Dept<br>Total | SHG<br>Total | Per<br>capita <sup>19</sup> | Dept<br>Total     | SHG<br>Total | No. | Per<br>Capita <sup>20</sup> |
| 1998/<br>1999 | 4913 | N/A          | N/A           |              |                             | N/A               |              | 973 |                             |
| 1999/<br>2000 | 4820 | £9,738,000   | £1,856,000    | 19.06        | £385.08                     | £1,194,000        | 12.26        | 931 | £1,282.08                   |
| 2000/<br>2001 | 4727 | £11,105,000  | £2,051,000    | 18.47        | £433.93                     | £1,241,000        | 11.18        | 890 | £1,395.01                   |
| 2001/<br>2002 | 4633 | £10,210,000  | £1,897,000    | 18.58        | £409.42                     | £1,193,000        | 11.68        | 848 | £1,407.01                   |
| 2002/<br>2003 | 4540 | £10,237,000  | £2,098,000    | 20.49        | £462.09                     | £1,237,000        | 12.08        | 806 | £1,534.36                   |
| 2003/<br>2004 | 4447 | £10,192,000  | £2,246,000    | 22.04        | £505.06                     | £1,266,000        | 12.42        | 765 | £1,655.98                   |
| 2004/<br>2005 | 4354 | £16,043,000  | £3,388,000    | 21.12        | £778.17                     | £1,671,000        | 10.42        | 723 | £2,311.84                   |
| 2005/<br>2006 | 4261 | £16,012,000  | £3,087,000    | 19.28        | £724.55                     | £1,374,000        | 8.58         | 681 | £2,017.32                   |
| 2006/<br>2007 | 4167 | £16,976,000  | £3,072,000    | 18.10        | £737.15                     | £1,389,000        | 8.18         | 639 | £2,172.35                   |
| 2007/<br>2008 | 4074 | £17,914,000  | £3,079,000    | 17.19        | £755.73                     | £1,416,000        | 7.90         | 556 | £2,546.76                   |
| 2008/<br>2009 | 3981 | N/A          | N/A           |              |                             | N/A               |              |     |                             |

<sup>18</sup> Statistical Year Books, various<sup>19</sup> The health per capita figure is based on the total populations (as users).<sup>20</sup> The education per student capita figures are based on the number of children and youth of compulsory school age (which was 5-15 until August 2008), and therefore exclude students of 16+ and vocational training students.

**Table 6: Dependency Ratios 1998 and 2008 Using Population Total to Estimate Moving Trend**

|                              | 1998 |        | 2008 |        | Forecast 2018 |        |
|------------------------------|------|--------|------|--------|---------------|--------|
|                              | #    | %      | #    | %      | #             | %      |
| <b>Comparison 1</b>          |      |        |      |        |               |        |
| Economically active          | 2858 | 58.29% | 2224 | 55.88% | 1728.00       | 53.48% |
| Non-economically active      | 2045 | 41.71% | 1756 | 44.12% | 1503.00       | 46.52% |
| Total                        | 4903 |        | 3980 |        | 3231.00       |        |
| <b>Comparison 2</b>          |      |        |      |        |               |        |
| Economically active          | 2858 | 78.99% | 2224 | 68.26% | 1728.00       | 59.48% |
| Non-economically active 60+  | 760  | 21.01% | 1034 | 31.74% | 1177.00       | 40.52% |
| Sub Total                    | 3618 |        | 3258 |        | 2905.00       |        |
| <b>Comparison 3</b>          |      |        |      |        |               |        |
| Economically active          | 2858 | 68.98% | 2224 | 75.49% | 1728.00       | 84.13% |
| Non-economically active 0-16 | 1285 | 31.02% | 722  | 24.51% | 326.00        | 15.87% |
| Sub Total                    | 4143 |        | 2946 |        | 2054.00       |        |

**Table 7: Dependency Ratios 1998 and 2008 Using Population Groups to Estimate Moving Trend**

|                              | 1998     |                   | 2008     |                   | 2018       |                     |
|------------------------------|----------|-------------------|----------|-------------------|------------|---------------------|
|                              | Actual # | Actual % of Total | Actual # | Actual % of Total | Forecast # | Forecast % of Total |
| <b>Comparison 1</b>          |          |                   |          |                   |            |                     |
| Economically active          | 2858     | 58.29%            | 2224     | 55.88%            | 1730.64    | 48.84%              |
| Non-economically active      | 2045     | 41.71%            | 1756     | 44.12%            | 1812.82    | 51.16%              |
| Total                        | 4903     |                   | 3980     |                   | 3543.46    |                     |
| <b>Comparison 2</b>          |          |                   |          |                   |            |                     |
| Economically active          | 2858     | 78.99%            | 2224     | 68.26%            | 1730.64    | 55.16%              |
| Non-economically active 60+  | 760      | 21.01%            | 1034     | 31.74%            | 1406.78    | 44.84%              |
| Sub Total                    | 3618     |                   | 3258     |                   | 3137.43    |                     |
| <b>Comparison 3</b>          |          |                   |          |                   |            |                     |
| Economically active          | 2858     | 68.98%            | 2224     | 75.49%            | 1730.64    | 81.00%              |
| Non-economically active 0-16 | 1285     | 31.02%            | 722      | 24.51%            | 406.03     | 19.00%              |
| Sub Total                    | 4143     |                   | 2946     |                   | 2136.68    |                     |