

## POLICY

# Why Is Population Growth Good For Businesses?

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Pretend you are a business person. Or maybe you are a business person, in which case you're a step ahead. Would you rather live in a place with a growing population or a shrinking population? Or would you be indifferent?

I think most would say they prefer a growing place. Okay, so go ahead and explain why using economic theory? This is not as easy.

It's true bigger places have advantages in terms of being able to offer a greater variety of consumer options and niches. But marginal population growth doesn't do all that much to change the relative size of a place. A small city growing fast takes a long time to become a mid-sized city, and so forth.

Yes, a growing population means greater demand, but it also means greater supply. So if you are a lawyer, and you care about the relative scarcity of lawyers then it doesn't really matter if the overall population is growing. It's really about the population of lawyers relative to the rest of the population, eg customers.

If a growing population brings growing supply and demand in equal proportion, then a business person should be indifferent between growing and shrinking. Given that land prices will be

falling in shrinking places, you might even think they have an advantage.

So why does population growth matter at all? One possible explanation is that in a growing market, you compete with incumbent businesses for new customers whereas in a shrinking market you compete for incumbent businesses for their existing customers. It's true that with shrinking supply of labor, firms will sometimes shut down and leave new customers up for grab. But population growth means steady flows of new customers, whereas closing firms happen only occasionally and it may be many years in between closings.

Putting this into economic theory terms, we can say competing for existing customers is harder because there may be switching costs, and existing businesses have greater information about their customers' preferences. What's more, long-standing existing businesses are more likely to have lower debt, higher cash reserves, and long-standing banking relationships that allow them to borrow more easily. All of these things allow them to fight for customers by taking short-term losses.

So is that why population growth is good? Or is there something else?



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I'm an economist at Moody's Analytics, where I cover labor markets and other aspects of the U.S. economy. The views expressed herein are solely those of the... **Read More**

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