



«The impact of (macro)economic factors on family size and parenting»

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**International Forum:
Time for Children! Towards a Family Friendly Society**

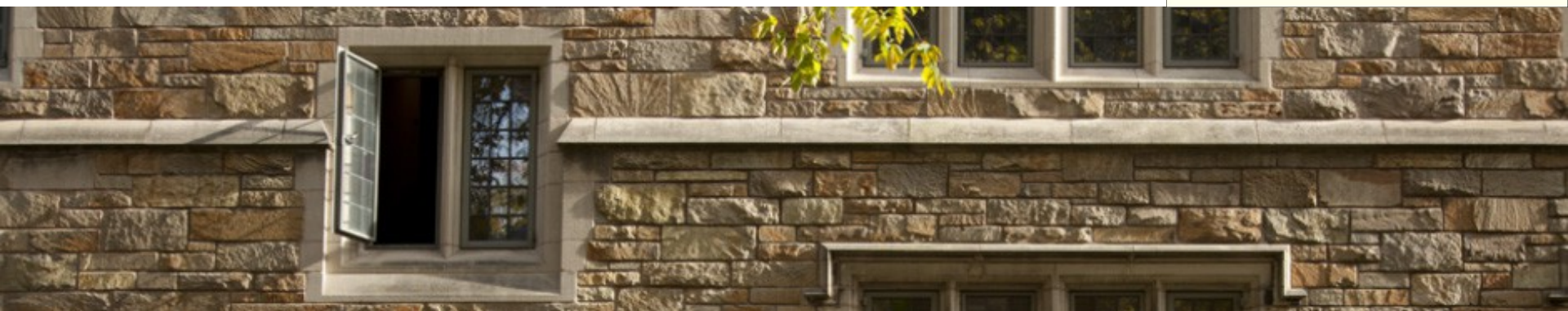
Riga, August 9, 2018.



Love, Money & Parenting

HOW ECONOMICS EXPLAINS
THE WAY WE RAISE OUR KIDS

Matthias Doepke & Fabrizio Zilibotti



Outline of Today's Presentation



Europe has had fertility rates below the reproduction rate since the 1980s.

Today, I will try to answer the following questions:

- 1) Is small family size a European phenomenon?
Or is it a more acute problem than elsewhere?
- 2) Can economics help us understand fertility trends and parenting practices?
- 3) Can policy affect the choice of family size and parenting?
Large or small effects?
Can we pinpoint specific policies?
- 4) Is low fertility a problem for society?
In the short run...
In the long run...

Is Low Fertility a European Phenomenon?



There are strong regularities linking the process of development and industrialization to population trends.

In pre-industrial societies (e.g., before the British Industrial Revolution) technical progress and productivity improvements increase the number of children who are born and who survive into adulthood.

But this situation has since long changed: today, economic development and improvements in living standards are accompanied by a reduction in fertility (and mortality).

Is Low Fertility a European Phenomenon?



Because in the poorer countries the demographic transition is still in progress, so we see that in poorer countries:

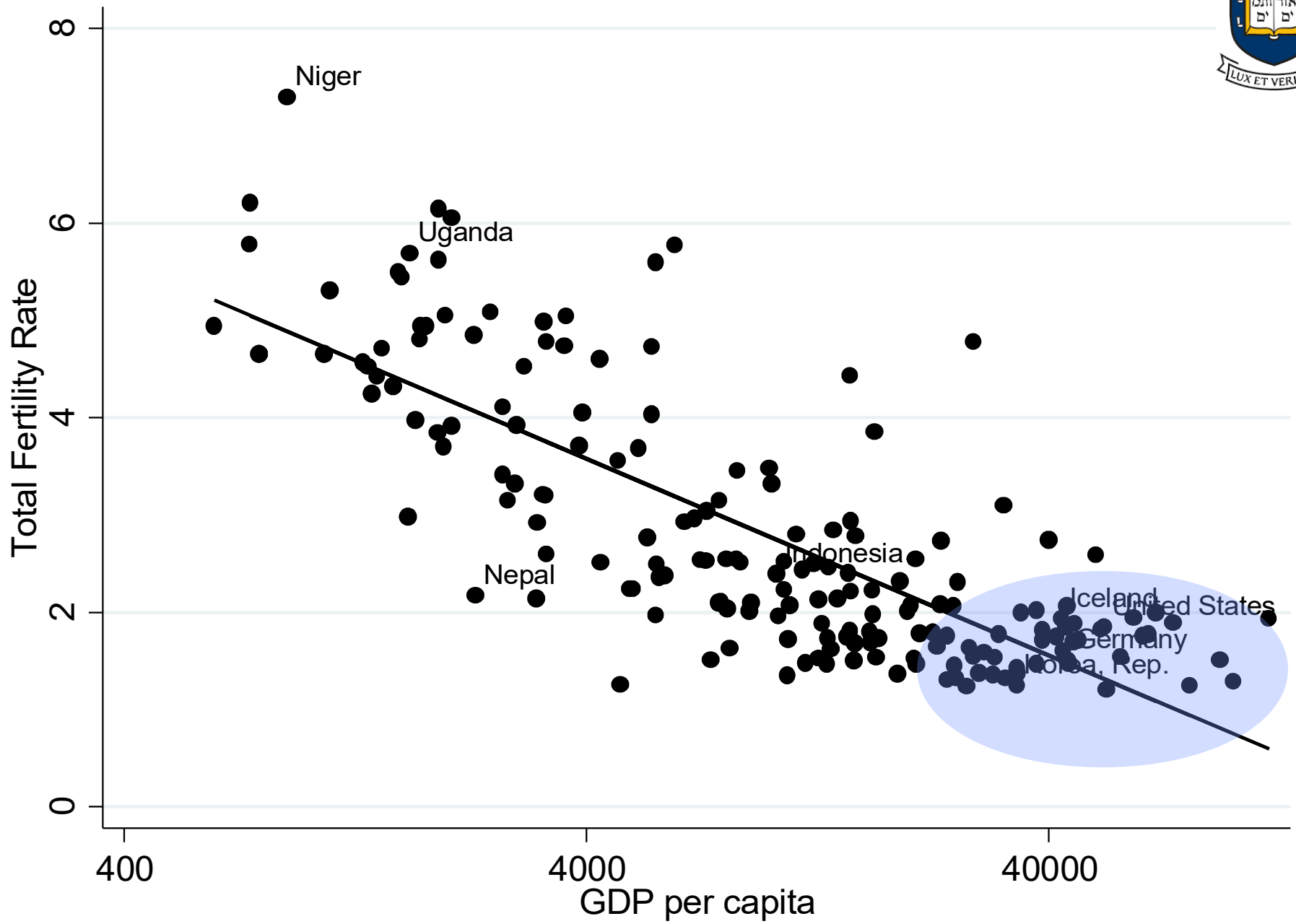
- 1) population level is growing faster;
- 2) population growth is falling faster.

In richer countries, fertility is stable at low levels.

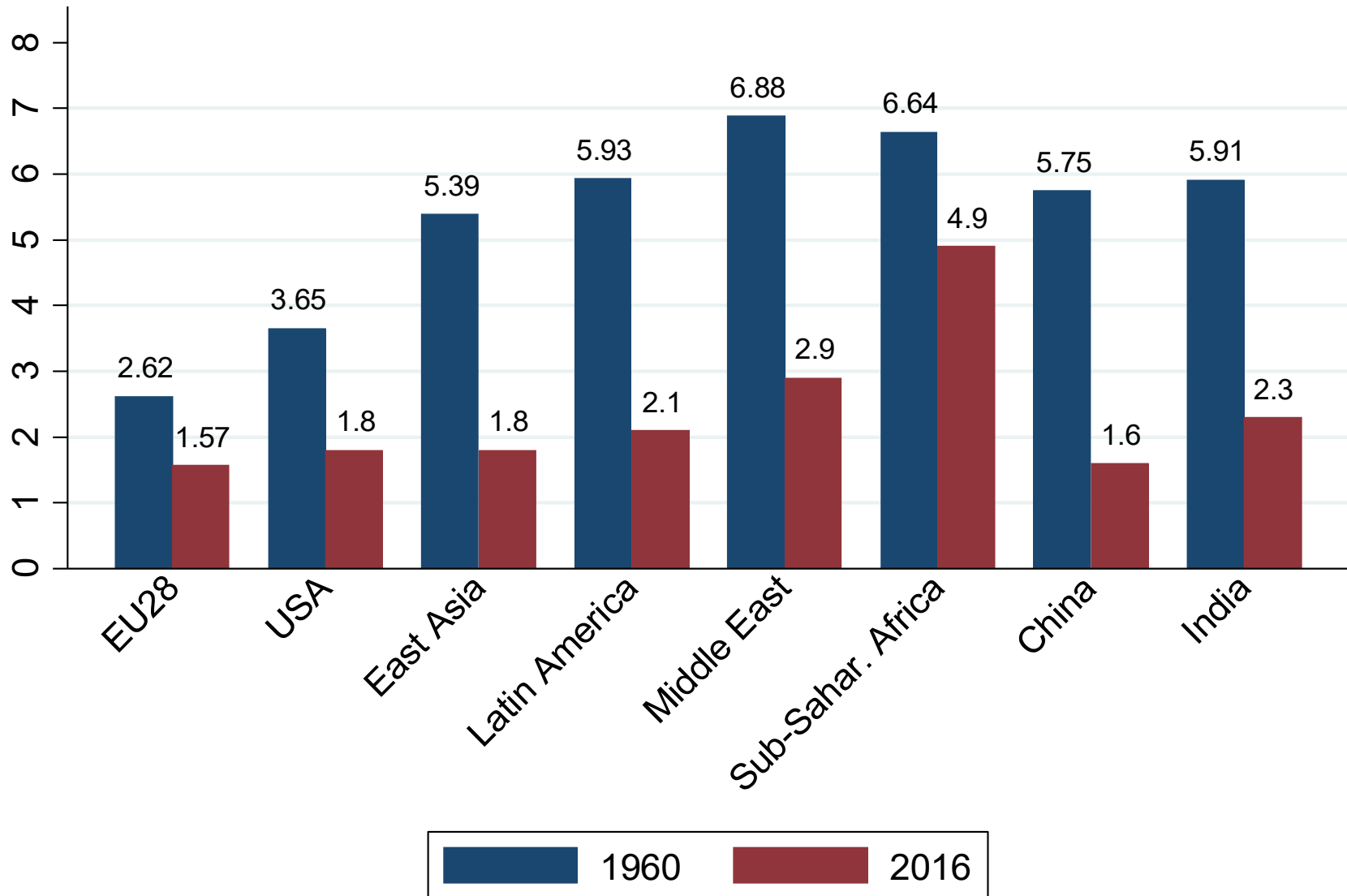
A look at the data.

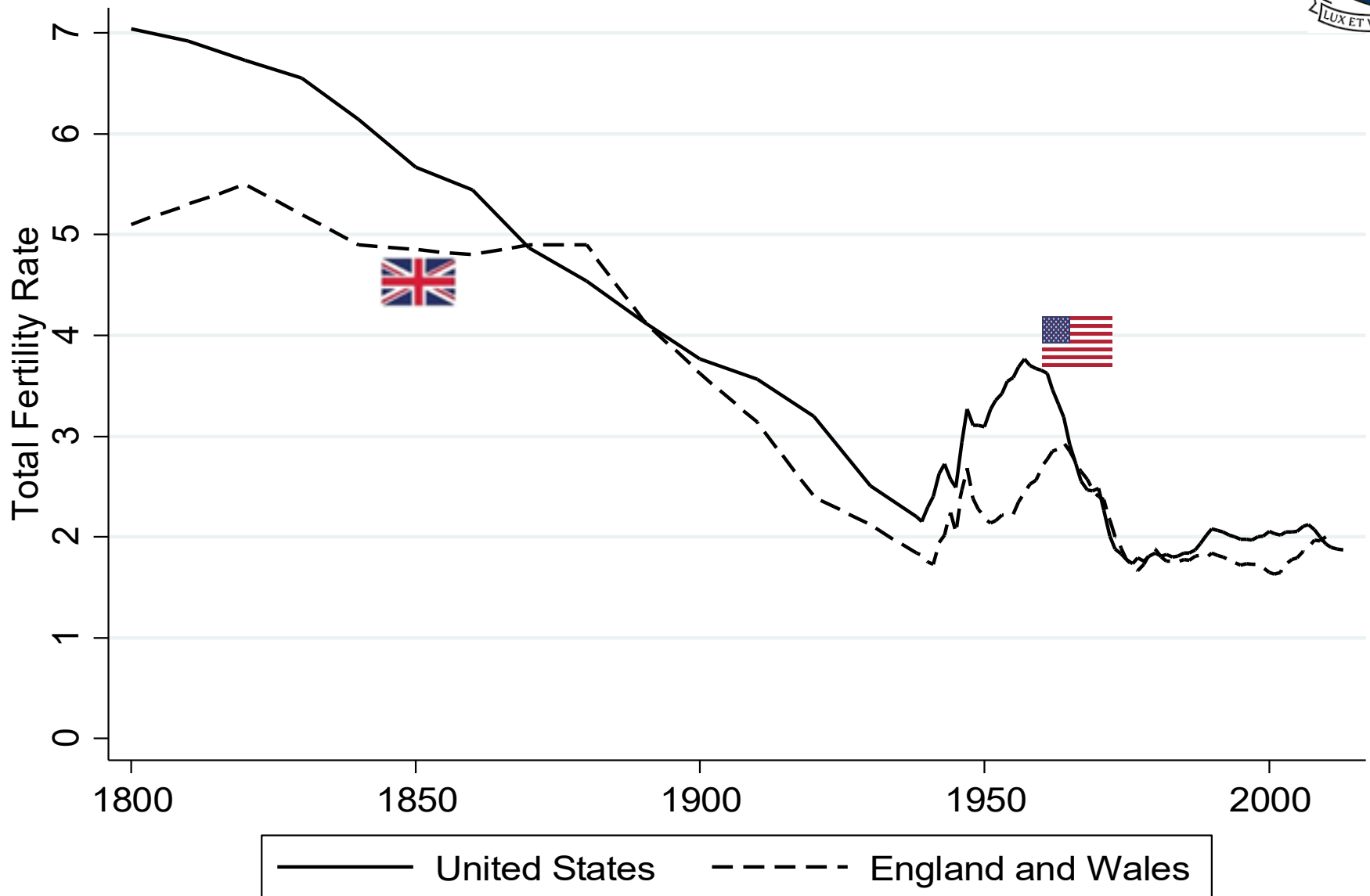
Total Fertility Rate (TFR): no. of children who would be born per woman if each woman were to bear children according to the current schedule of age-specific **fertility rates**.

Approximately, TFR is no. of children per woman.

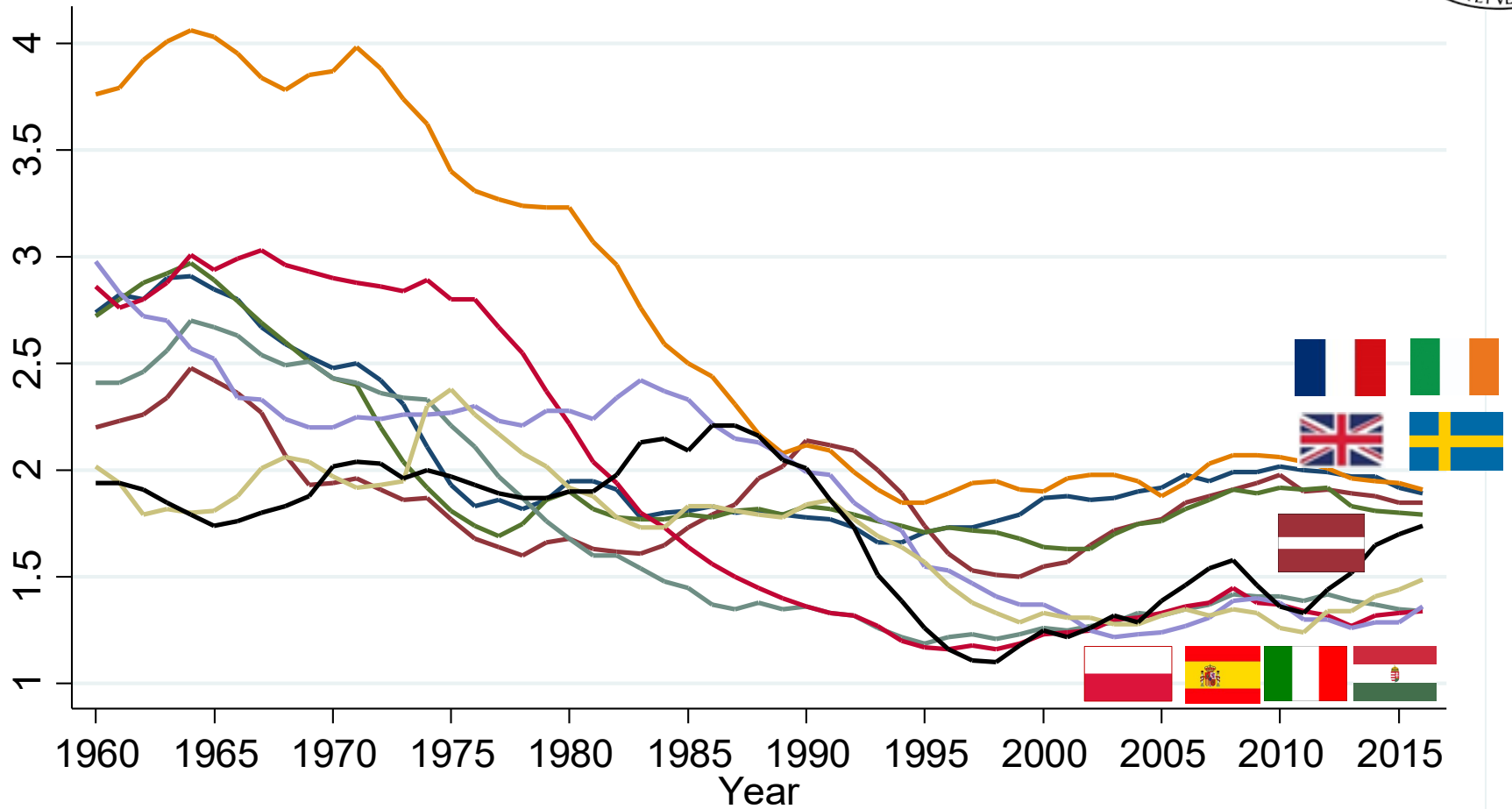


TFR in 1960 and in 2016 for selected countries/areas

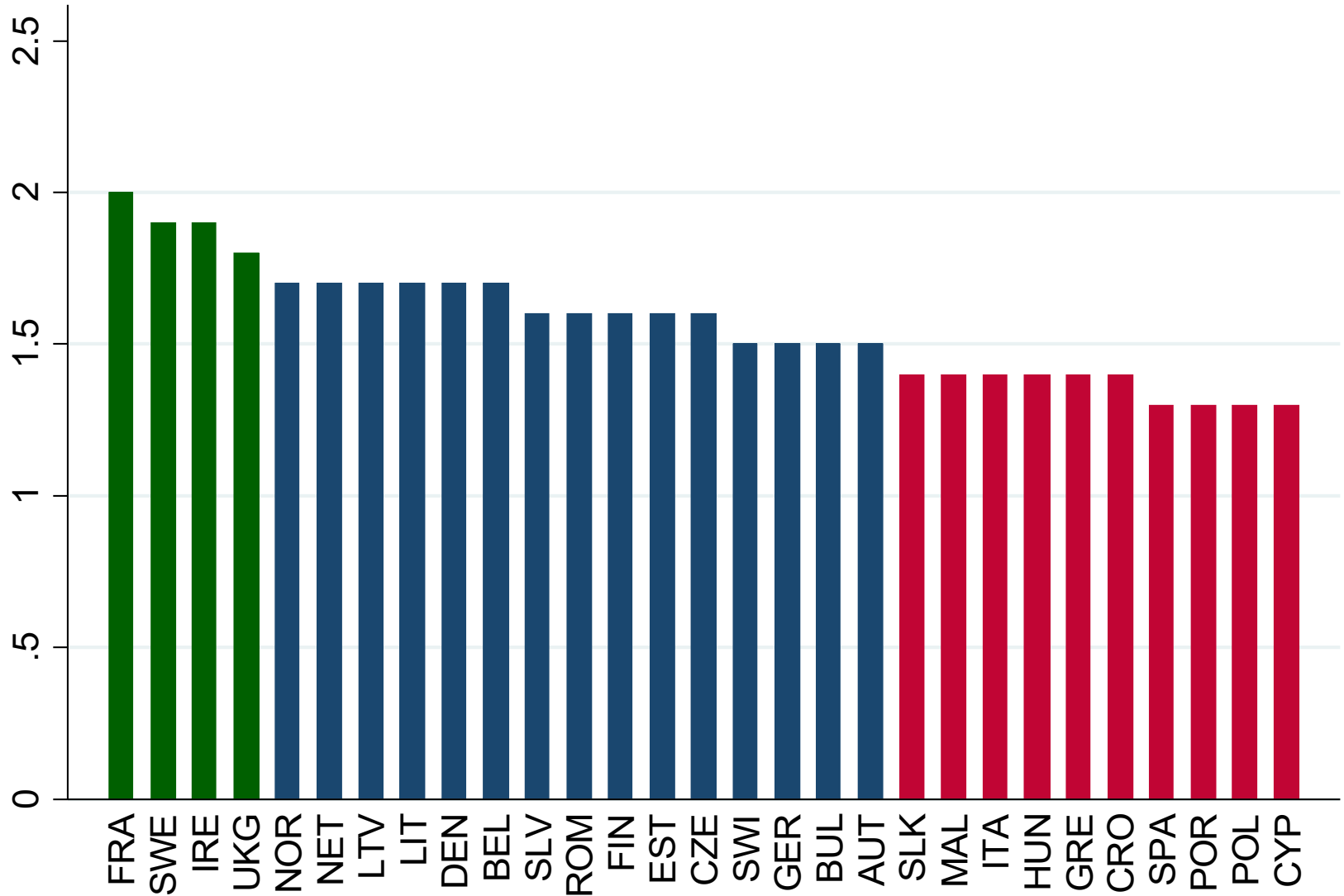




TFR Time Series 1980-2016 for Selected Countries



TFR in 2016 across European countries



Family Size is a Choice



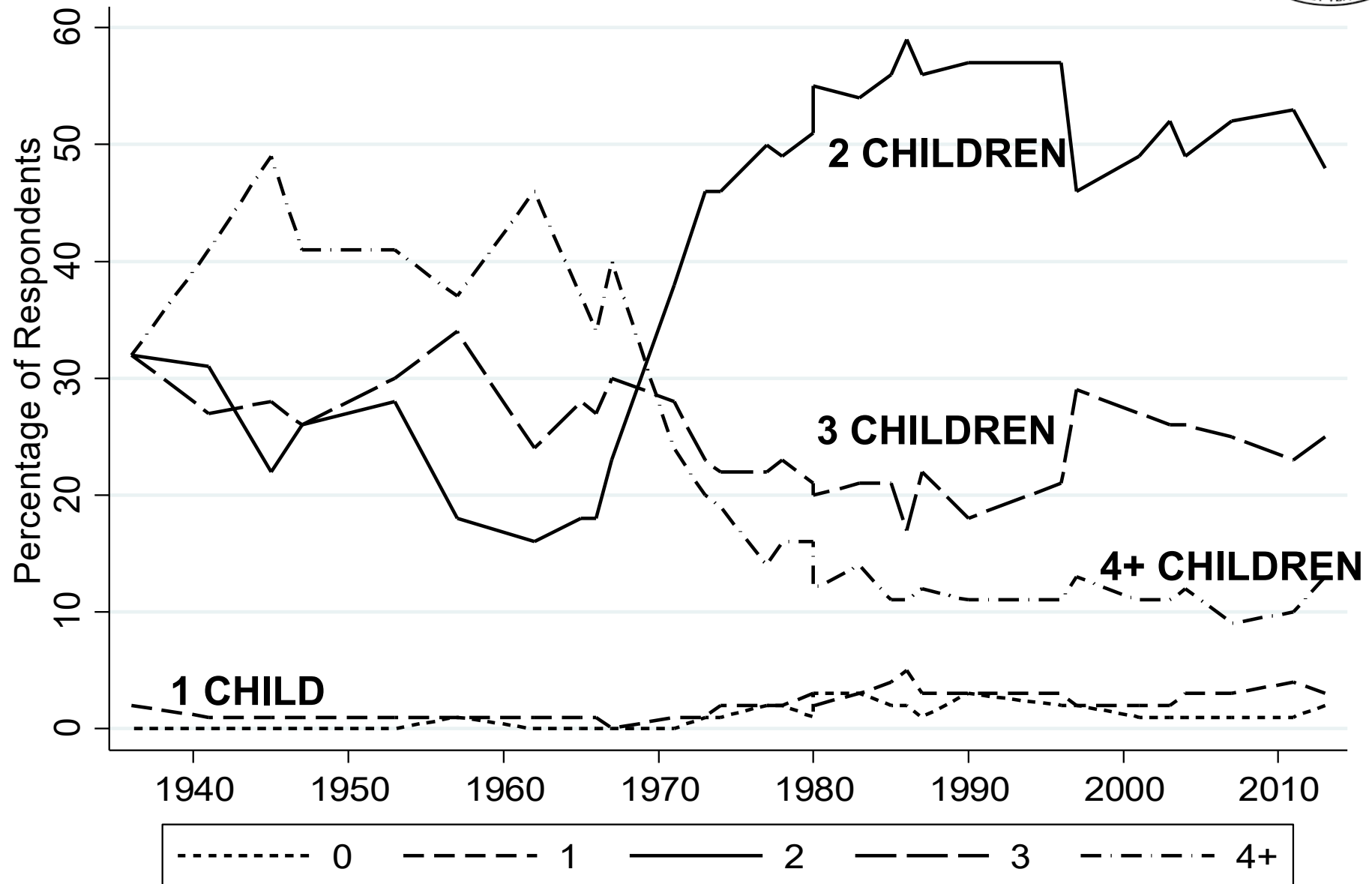
By-and-large changes in fertility reflects the decision of people to have fewer children.

As opposed to, say, better contraception.

In the EU28 today, only 27% of women think that the ideal family has more than 2 children.

Only in Estonia, >50% think the ideal family has 3+ children.

Ideal Family Size in the US



Can Economics Explain Family Size?



What factors affect the desired number of children?

- 1) Child labor (relevant for developing countries, not for the EU);
- 2) Sons/Daughters taking care of the elderly (also);
- 3) Cost and return to investing in education/human capital;
when children receive a long education, the cost for parents, increases;
- 4) Value (opp. cost) of parents' time, esp. women. Gender roles;
 - social acceptance that women work in the market;
 - secular decrease of gender gap in wages (since WWII).

I'll zoom on (3) and (4), more relevant for Western economies

Can Economics Explain Family Size?



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Can Economics Explain Family Size?



Gary Becker (Nobel Laureate in 1992): quantity/quality trade-off.

While parents enjoy having children in general, they also enjoy what he called the “quality” of their children.

Parents enjoy their children being successful and prosperous, i.e., they love their children and altruistically care about their welfare.

Their family decision respond to economic incentives.

Forthc. book with Matthias Doepke “**Love, Money, and Parenting**” develops this idea into several dimension of parenting (family size, parenting styles, what makes parents more relaxed or more intensive, gender roles in parenting, school systems, family happiness, etc.).

Can Economics Explain Parenting Trends?



Two key observations:

1) **Inequality and high returns to education lead to the rise of *helicopters parents*:**

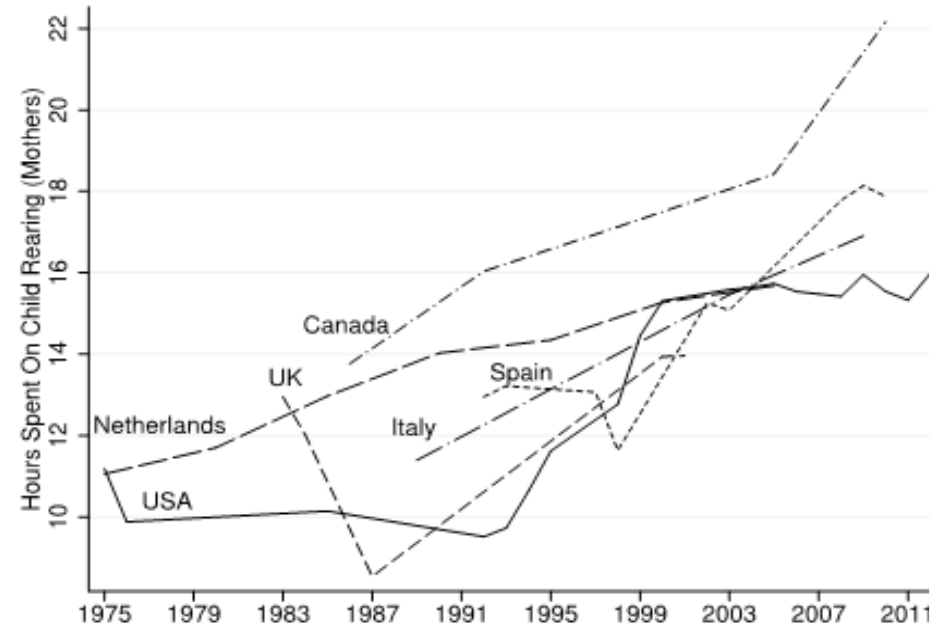
- ☞ Parenting has become “more intensive,” i.e., more time is invested on child rearing (even though families are smaller!).
- ☞ Relates to choice of family size – many parents prefer to have a single child and invest a lot of time and resources on her or him.

2) Large differences in parenting styles across countries.

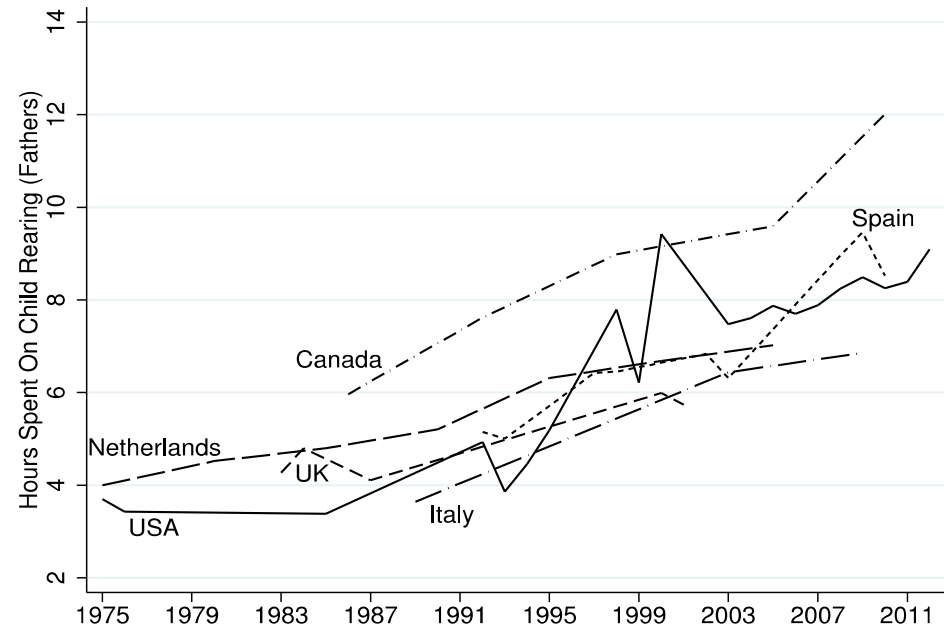
- ☞ The way parents interact with their children is affected by the extent of income inequality.

Hours Spent on Child Rearing

Mothers



Fathers



Netherlands: in 2005 +1 hour per day parent-child interaction relative to 1975

USA: in 2005 +1h45' per day parent-child interaction relative to 1975

USA: in 2012, education-related time is up by a factor of 3.5 relative to 1976;
unsupervised play time for children has fallen significantly.

Can Economics Explain Parenting Trends?



Two key observations:

1) **Inequality and high returns to education lead to the rise of helicopters parents and tiger parents**

- ☞ Parenting has become “more intensive,” i.e., more time is invested on child rearing (even though families are smaller!)
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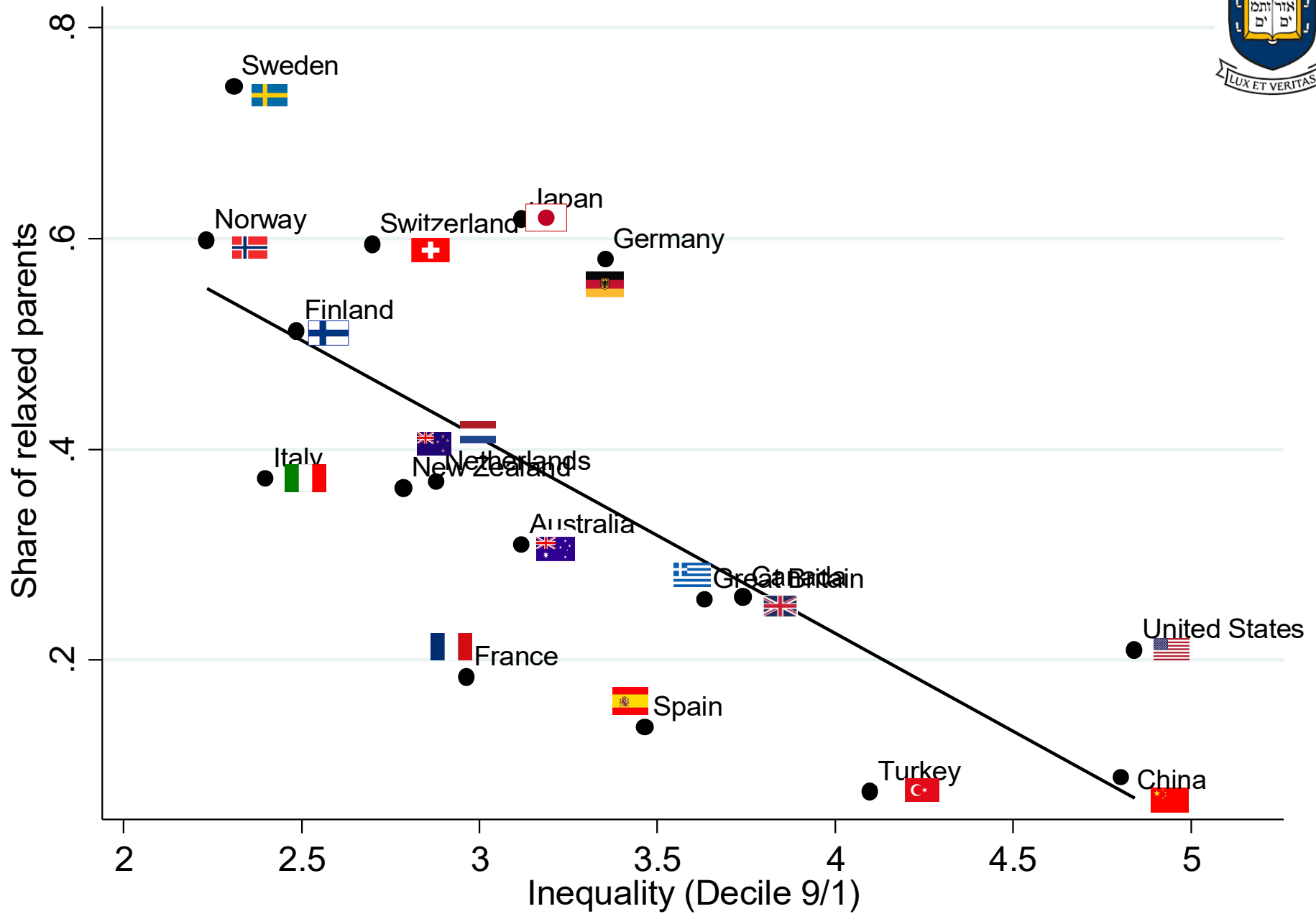
2) **Large differences in parenting styles across countries.**

- ☞ The way parents interact with their children is affected by the extent of income inequality.

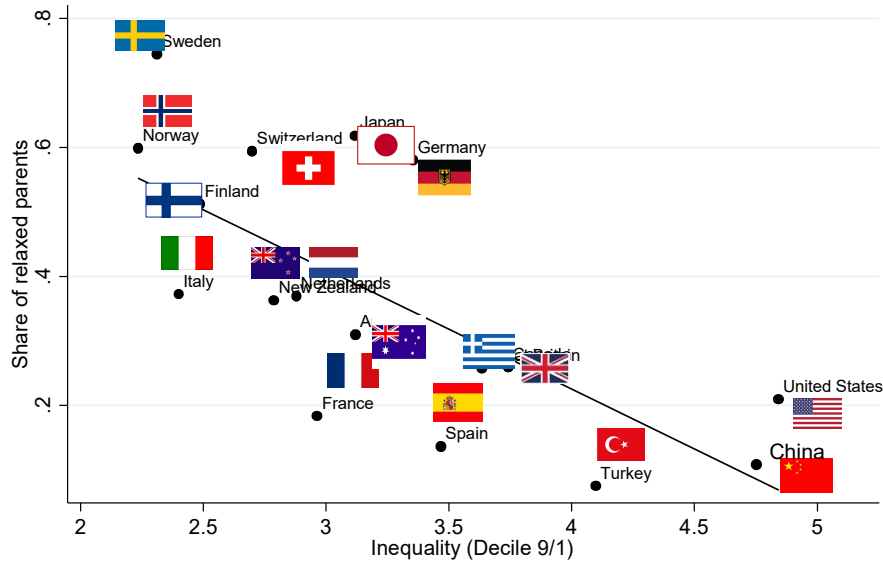
VARIATION IN PARENTING STYLES X-COUNTRIES

LOW INEQUALITY – «**RELAXED**» (emph. Independence & Imagination)

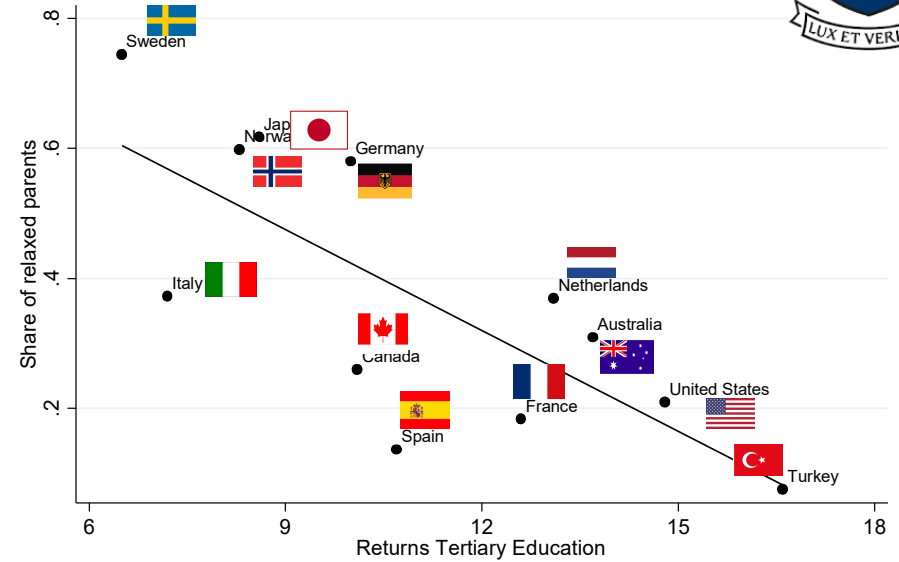
HIGH INEQUALITY – «**INTENSIVE**» (emph. Hard Work & Obedience)



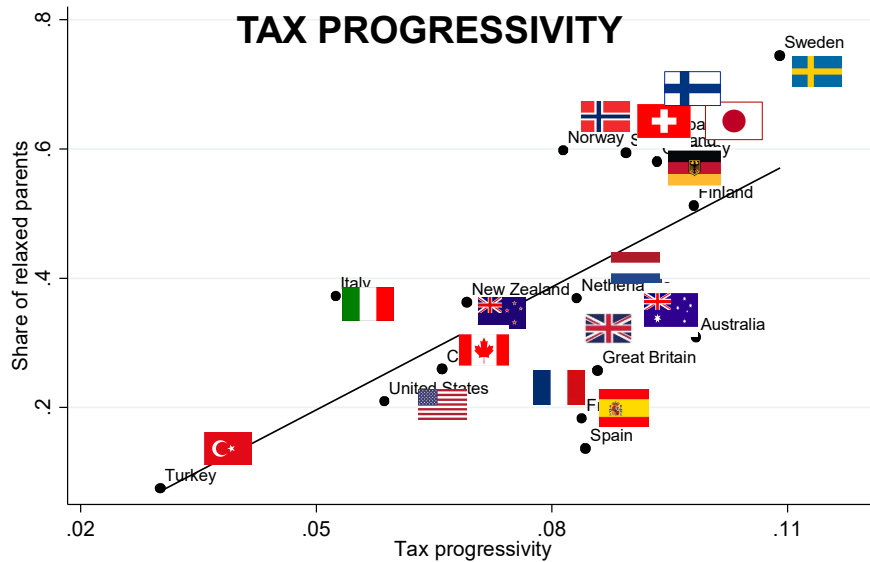
INCOME INEQUALITY



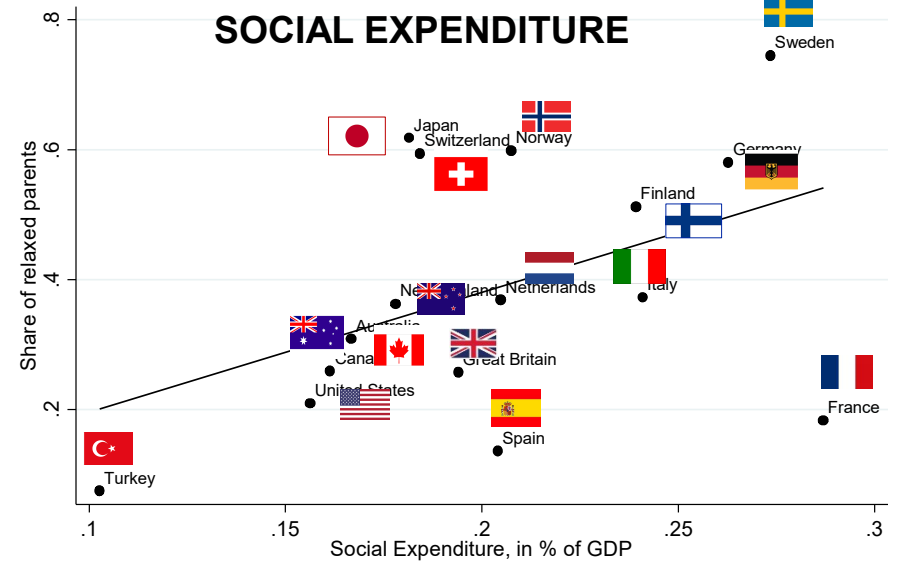
RETURN TO HIGHER EDUCATION



TAX PROGRESSIVITY



SOCIAL EXPENDITURE



Gender Roles and Family Size



Let us now turn to the opportunity cost for women.

Traditionalist “view”: back to a society with rigid gender roles where women take care of children and do not work.

A non-starter!

Empirical evidence: fertility is HIGHER (not lower) in countries with a high female participation rate.

True both across OECD and across Europe.

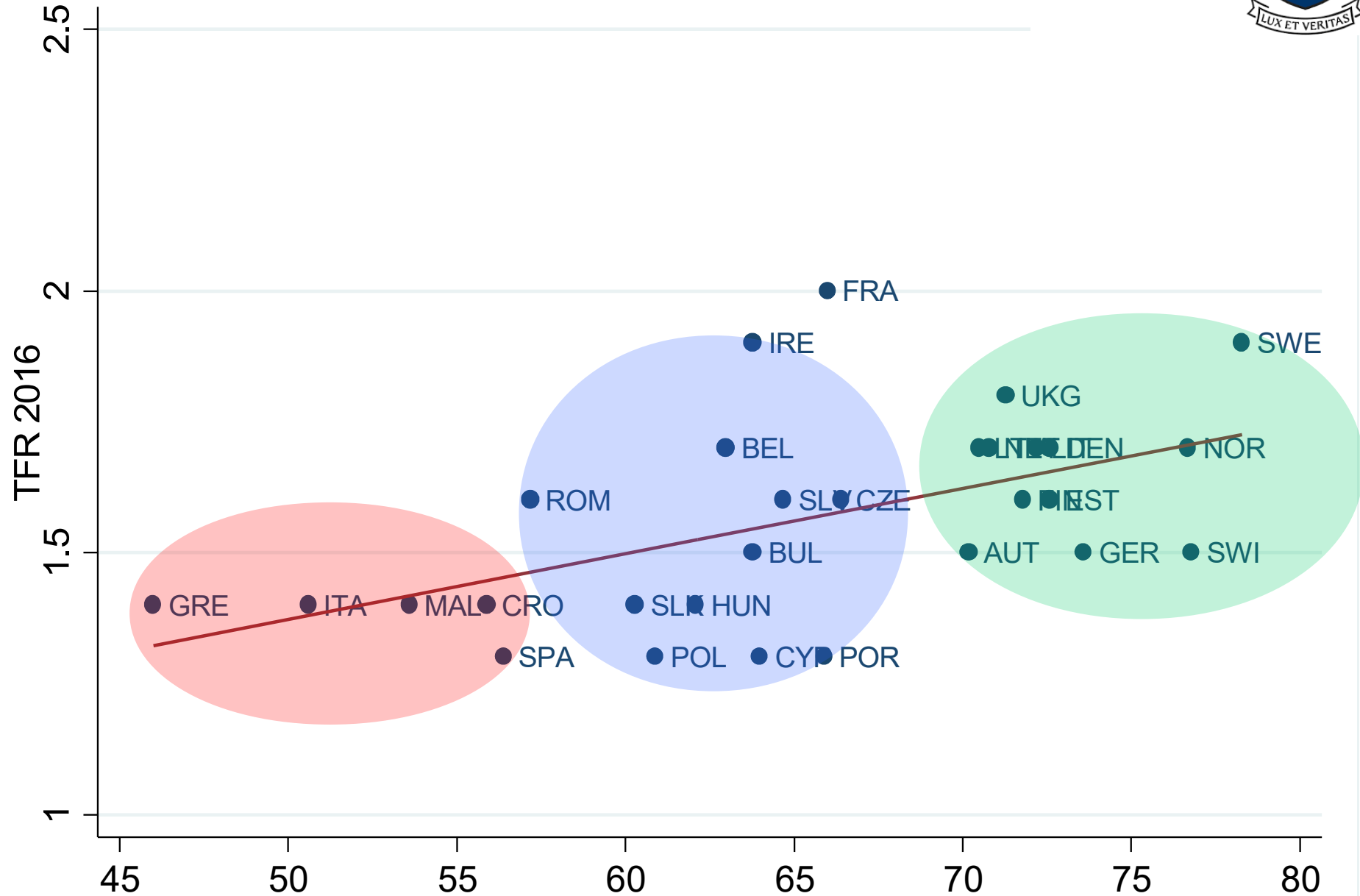
Examples:

Iceland, Sweden, Norway, UK, Latvia, etc.

VS.

Italy, Spain, Greece, Croatia

TFR in 2016 vs. Female Labor Participation



Gender Roles and Family Size



Contrary to earlier periods, women today do not consider having a career and having children as alternative prospects.

What varies X-countries is how ease is to combine them.

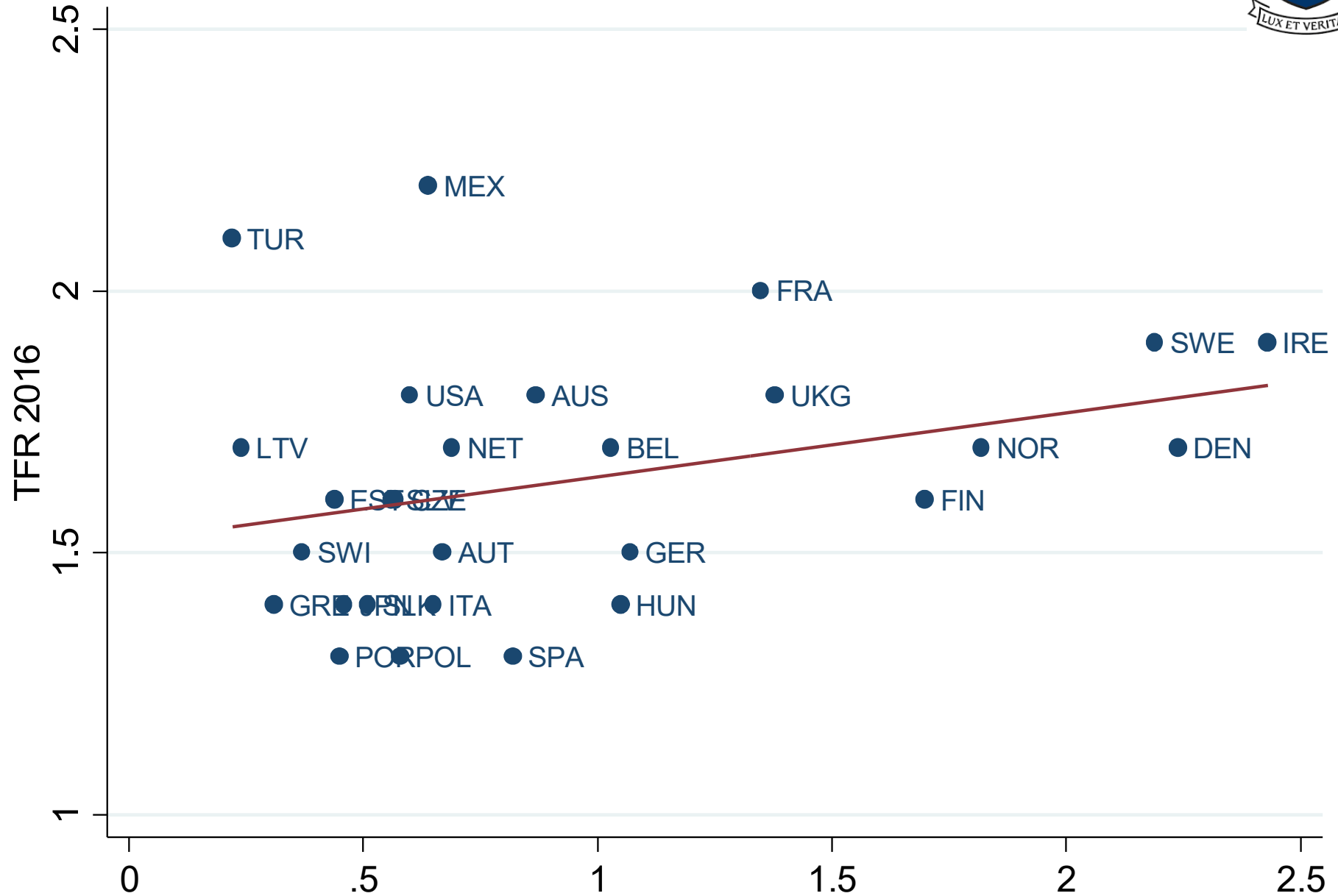
The countries where both fertility and female work are high are places where it is easy to have children without major career interruptions.

For example, France and the Scandinavian countries provide accessible and affordable child care from an early age.

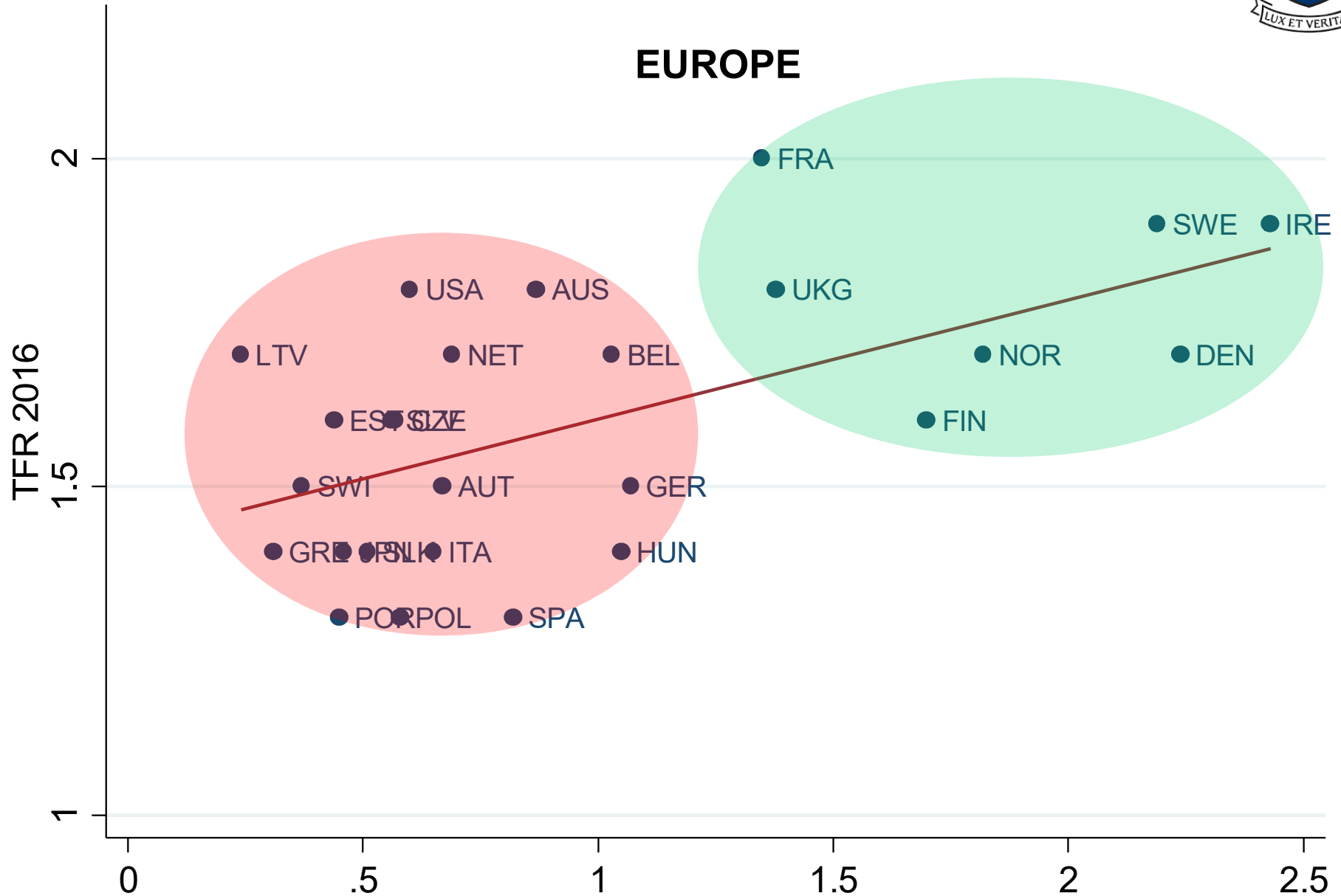
Low-fertility countries often lack such a child-care infrastructure.

Let us look at the data.

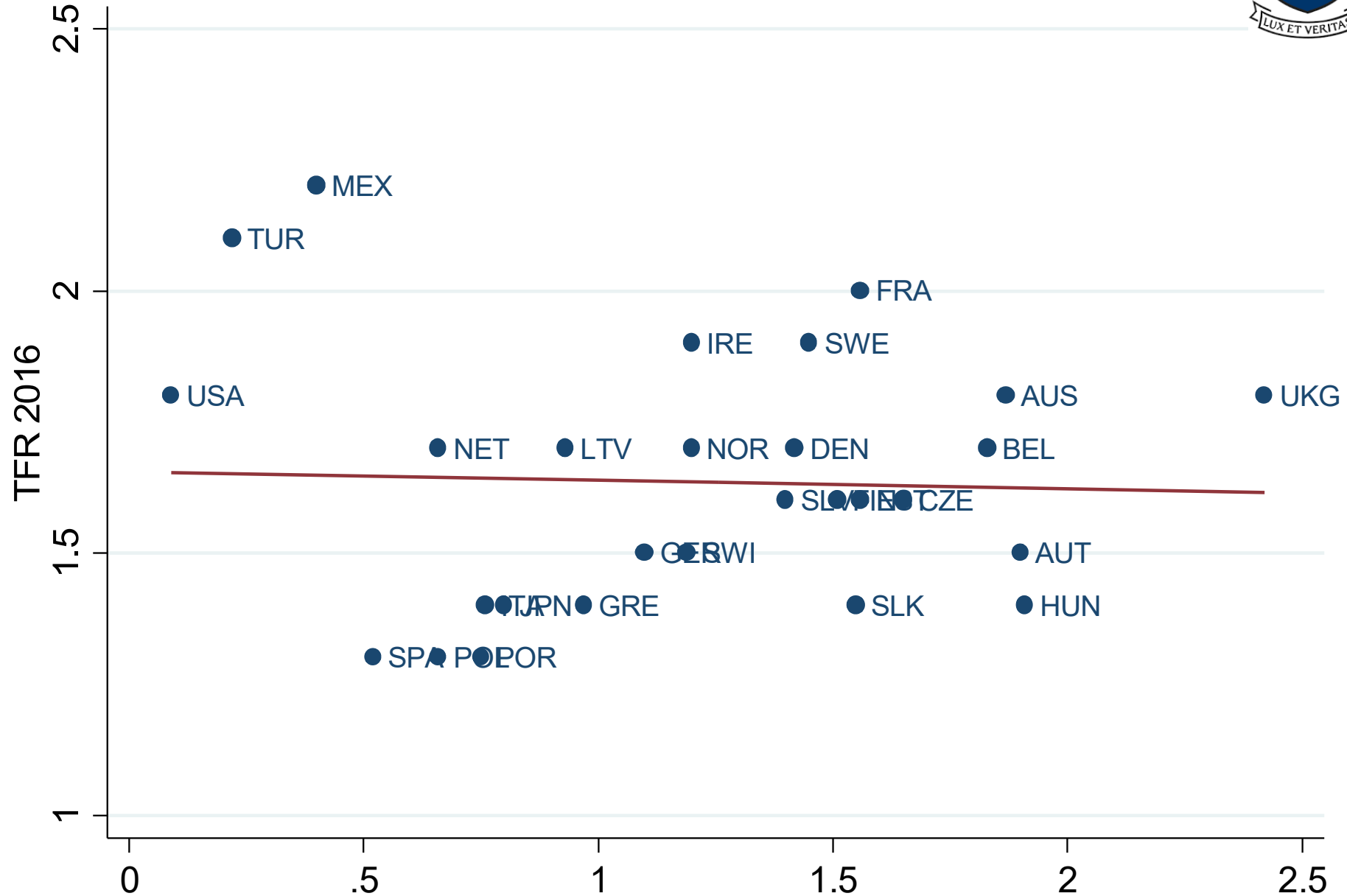
TFR in 2016 vs. Services for families



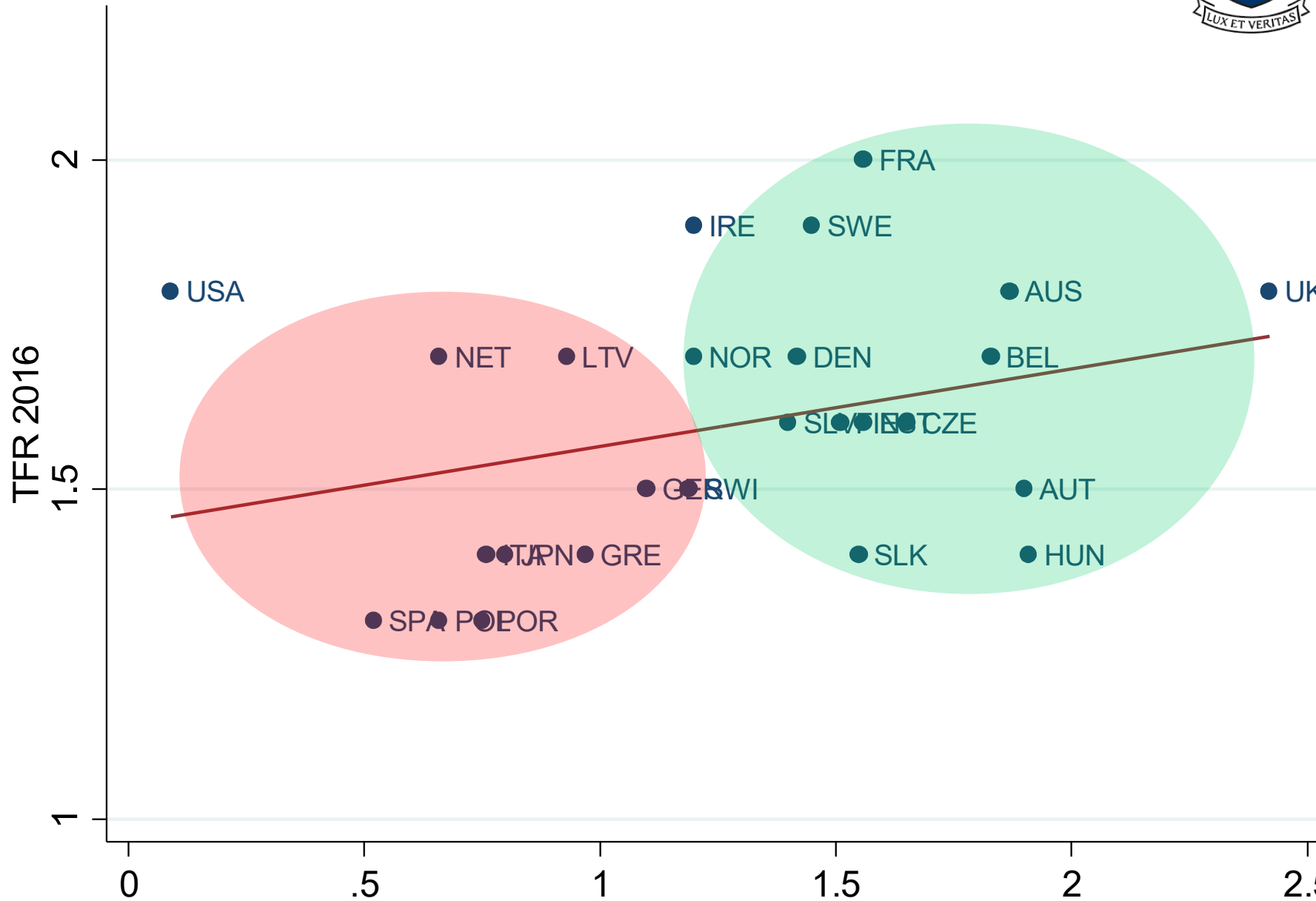
TFR in 2016 vs. Services for families



TFR in 2016 vs. Cash for families



TFR in 2016 vs. Cash for families



Can Policy Affect Family Size?

And how large an effect can we expect?

Increasing TFR all the way to 3 children is far fetched

Realistically: What can make a country move from 1.5 to 2?

The effect of spending on services targeted to women (e.g., subsidized daycare) is larger (and more robust) than cash transfers or tax breaks.

Spending extra 1% of GDP on daycare is associated with an increase in TFR by 0.2. A sizeable effect. But is it causal?

What is the mechanism? Why does subsidized daycare appear to be more effective than handing in cash to families?

Isn't it simpler to give people money and let them decide whether to spend it on childcare, paying a nanny, or taking unpaid leave?

This is how Germany and the US reason, for instance.

Can We Pinpoint Specific Policies?



An argument put forward in recent research by Doepke and Kinderman (and discussed in our book).

- 1) Wives and female partners take more than 50% of the burden of carrying and rearing children.
- 2) If you give families money, and cash is transferred, after the child is born, part of the money gets spend on buying a new car.
- 3) In expectation of this, women refuse to have more children.
- 4) If instead helps comes in the form of free daycare, that's different. Daddy cannot buy a new car...

Nice story... any evidence that it may be true?

Generations and Gender Programme (GGP)



Longitudinal Survey of 18-79 year olds in 19 countries

Wave I (2003-2009):

Do You Yourself Want Another Baby Now?

Does Your Partner Want Another Baby Now?

Four possible states for a couple:

Neither wants another baby

Both want another baby (AGREE)

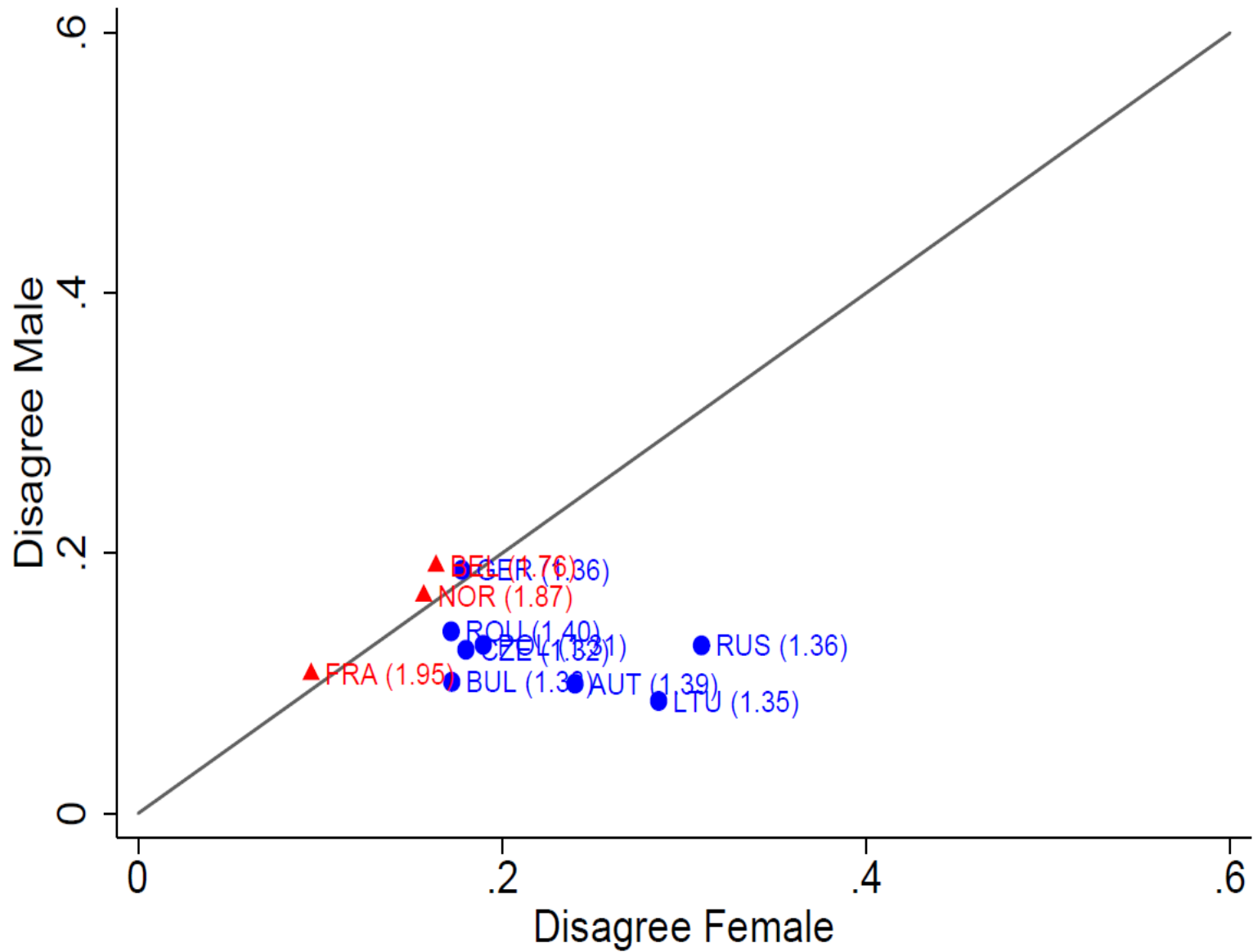
She wants another baby, he does not (DISAGREE)

He wants another baby, she does not (DISAGREE)

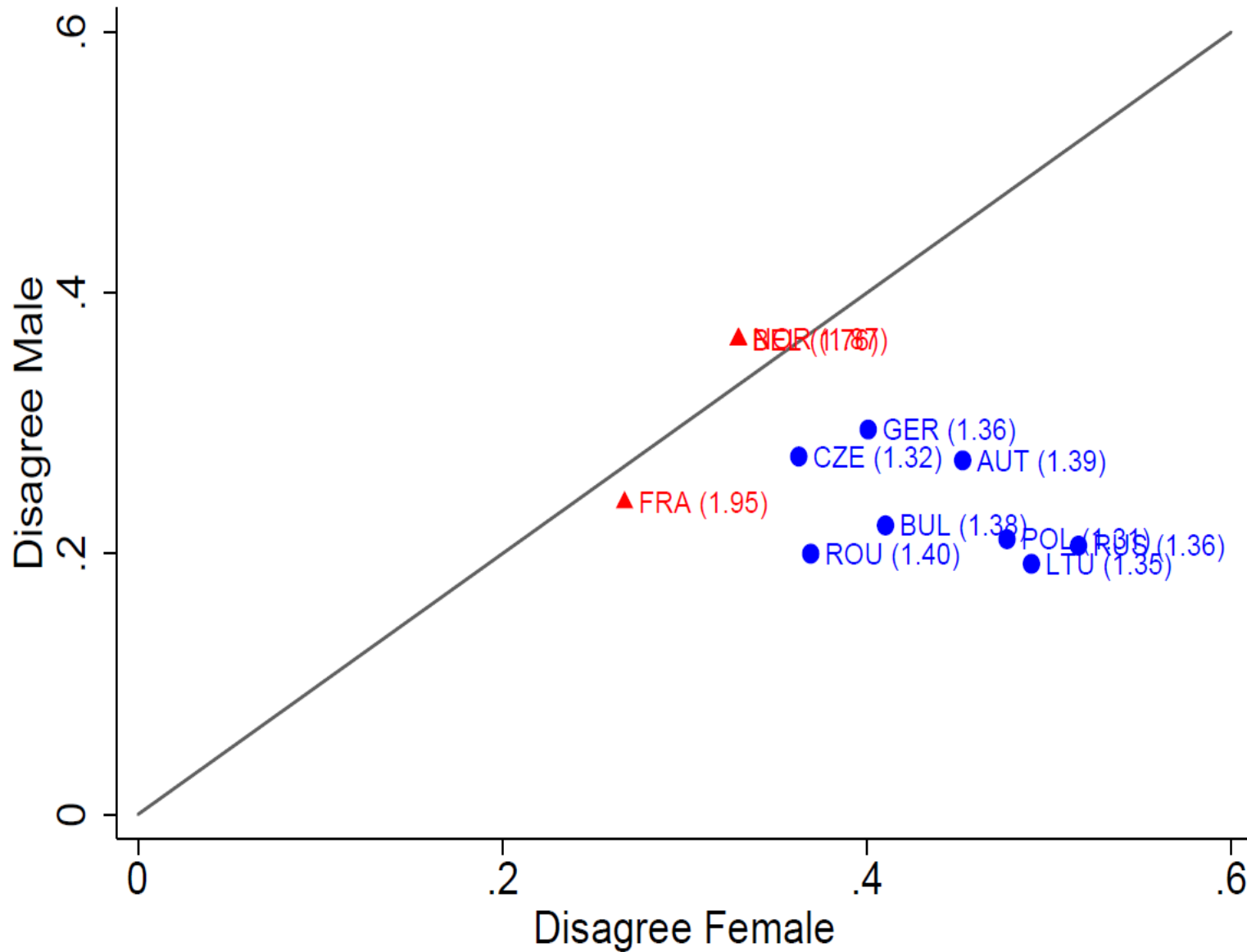
Wave II (2007-ongoing): Fertility Outcomes

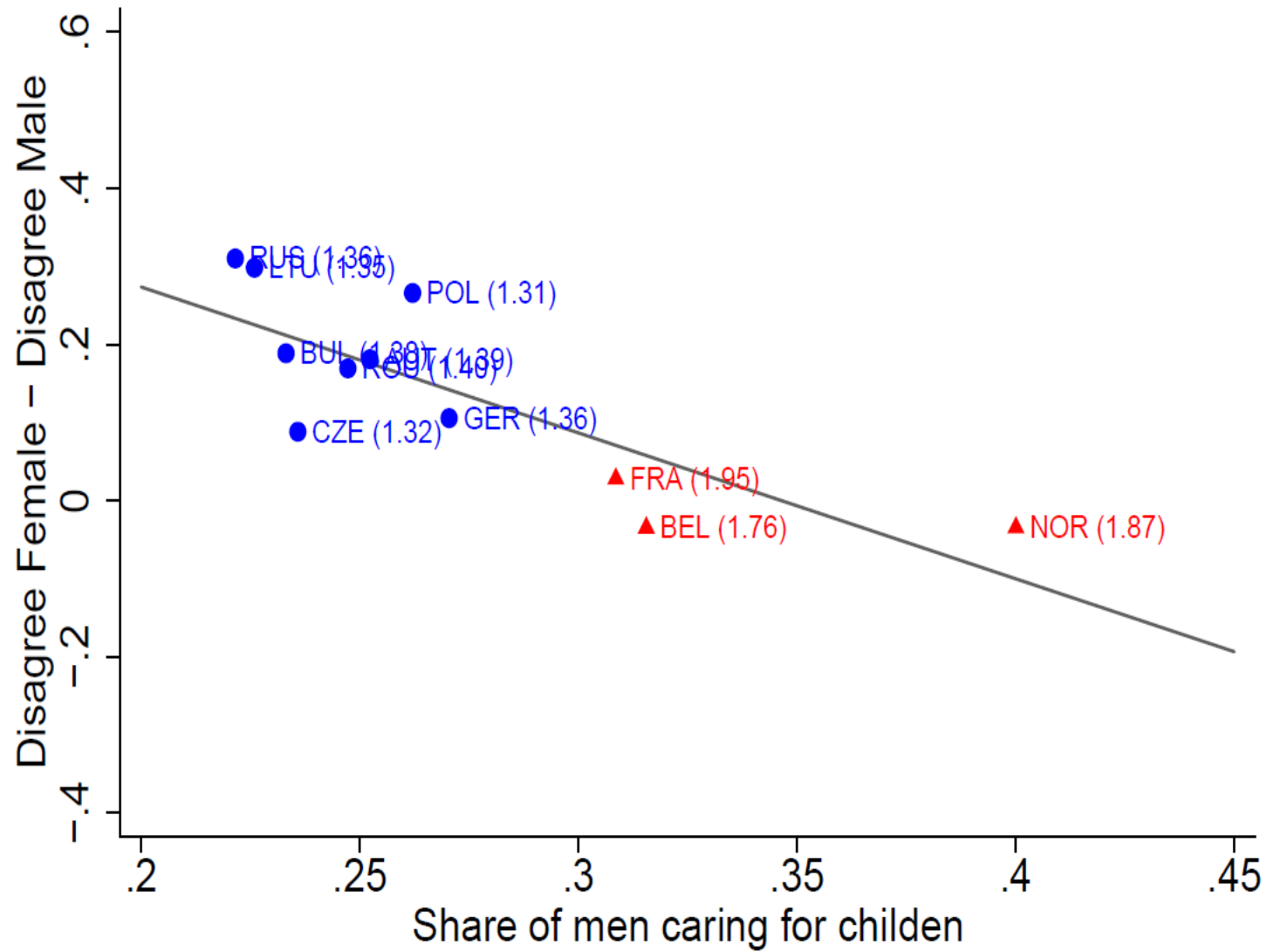
Evidence: agreement strongly matters for the outcome

Couples With One Child



Couples With Two or More Children





Can We Pinpoint Specific Policies?



The theory allows us to estimate the effect of policies/institutions on the probability to agree to have a baby...

Then estimate the effect of agreement on actually having a baby...

Finally, run counterfactual scenarios (effect of changes in policy)

Can We Pinpoint Specific Policies?



Results:

interventions more effective if targeted to higher order children
e.g., free daycare for the second + child

interventions more effective if targeted to women

means tested? (probably) a bad idea

Translated into “real policies”, the most effective policy is subsidized child care combined with parental leave. Achieving the same reduction via cash transfer would be >20% more expensive.

Large effects: a 0.2% of GDP targeted expenditure increases TFR by 0.1 (this figure is preliminary, and likely an upper bound...)

Is Low Fertility a Problem for Society?



Should governments worry at all about the population size? Why don't we just let people decide how many children they want to have?

Are there deep economic reasons for intervention:

- Happy families may be a target of its own
- ☞ Credit constraints may prevent people from having as many children as they would like (but then cash transfers should work very well)
- ☞ Fiscal externalities: stability of pension system
In the short run, low fertility implies a higher old age dependency ratio (smaller share of people actually working). Tighter budgets for PAYGO systems (many countries are irresponsibly ignoring that).

Note that this a temporary phenomenon: if TFR stabilizes at low level, only one generation will have to take the brunt of it...

Is Low Fertility a Problem for Society?



Longer term costs and benefits of an older population:

- a less innovative society?

- more health care costs

- less pressure on the environment and natural resources

Is Low Fertility a Problem for Society?



People can be imported... and immigrants are typically young and bring a net positive fiscal contribution

Immigration has so far avoided the decline of the population in many countries, and will probably continue to limit the decline in the coming years.

Growing opposition to immigration... defense of national identities, etc.

A matter for voters and politicians to decide.

Summary



Europe has had fertility rates below the reproduction rate since the 1980s.

Today, I have tried to answer the following questions:

1) Is low fertility a European phenomenon? **NO**

Or is it at least more extreme than elsewhere? **NO**

2) Can economics help us understand fertility trends and parenting practices? **YES**

3) Can policy affect the choice of family size and parenting? **YES**

Large or small effects? **SMALL/MEDIUM**

Can we pinpoint specific policies? **YES**

4) Is low fertility a problem for society? **??**

In the short run **YES**

In the long run **??**

More in the Book

Part One: Raising Kids in the Age of Inequality

Chapter One The Economics of Parenting Styles

Chapter Two The Rise of Helicopter Parents

Chapter Three Parenting Style around the World

Chapter Four Inequality and Parenting Traps

Part Two: Raising Kids throughout History

Chapter Five From Stick to Carrot

Chapter Six Boys versus Girls

Chapter Seven Fertility and Child Labor

Chapter Eight Parenting and Class

Part Three: How Policy Affects the Way We Raise Our Kids

Chapter Nine The School System

Chapter Ten

Parenting

The Future of

THANK YOU



Love, Money & Parenting

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