



Can Policies Boost Birth Rates?

Is the steep decline in birth rates permanent?

Are women having fewer children than they want?

Do labour market conditions matter for having children?

Are children becoming a “luxury” that families can no longer afford?

Can policies help reduce the cost of children?

For further information

For further reading

Where to contact us?

Introduction

Birth rates have declined sharply in most OECD countries over the past few decades. The total birth rate was still sufficient to maintain a constant population in the early 1980s but has since declined to just 1.6 children per woman. This is well below the average of 2.1 children per woman needed just to maintain current population levels and will bring dramatic consequences – declining population levels in most OECD countries and a much higher proportion of older people.

The most direct consequence of low birth rates is a “vicious circle” of decreasing population: fewer children today imply fewer women of childbearing age 20 years from now, so the cumulative momentum of current low birth rates will be difficult to reverse.

The effect on society is also significant. There will be fewer young adults to care for elderly family members, pensions and healthcare will take up an increasing amount of public spending, the workforce will be older and less adaptable, and domestic savings may shrink. And changing expectations will only make matters worse. People tend to say that they want to have the same number of children as was typical when, they themselves, were young, so low birth rates become very difficult to reverse.

This *Policy Brief* looks at the extent of the falling birth rate problem, whether governments can do anything to reverse it, and how they can cope with the economic and social consequences. ■

Is the steep decline in birth rates permanent?

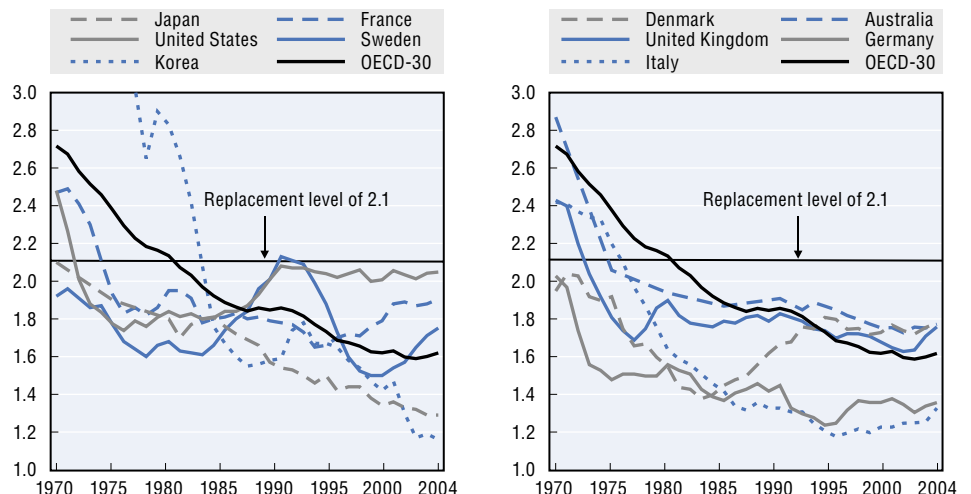
Given the steepness of the decline in birth rates that has already taken place, the decline is unlikely to be completely reversed. The increase required to bring birth rates back to the levels recorded three or more decades ago is very large in many OECD countries – indeed, birth rates have fallen to 1.3 children per woman in Japan and several Southern and Eastern European countries, and to only 1.2 in Korea. In purely biological terms, it may still be possible to return to previous levels but the pace of such a recovery would be unprecedented in human history.

The fall in the number of children in the past 30 years has been described as “the second demographic transition”, following the “first transition” that characterised industrial societies around the late XVIIIth century. That “first transition” saw a marked decline in infant mortality, thanks to reductions in poverty, coupled with improved sanitation and healthcare. The “second transition” has been accompanied by a tendency to postpone having children. This does not necessarily mean a woman will have fewer children than if she became a mother earlier. But for many this will be the result, since a later start to childbearing shortens the period during which she can have children. In addition, women are less fertile as they grow older. One consequence is that many more women remain childless or have fewer children than they had planned. Today, close to half of all children in most OECD countries grow up without siblings, while the share of women who are childless at age 30 has increased by around one third compared to previous generations. Postponement of childbearing also increases the risk of health problems for both mothers and children. Data available to date suggest that the decline in birth rates is likely to continue in the future even among women who are already of childbearing age today. ■

Are women having fewer children than they want?

A wide range of factors are contributing to lower and later childbearing. They include the higher educational attainment of successive generations of women; their growing aspirations to be economically active and financially independent; and the fact that they rank parenthood as less important

Figure 1.
FERTILITY RATES ARE BELOW REPLACEMENT LEVEL IN MOST OECD COUNTRIES, 1970-2004
 Total fertility rates from 1970 to 2004



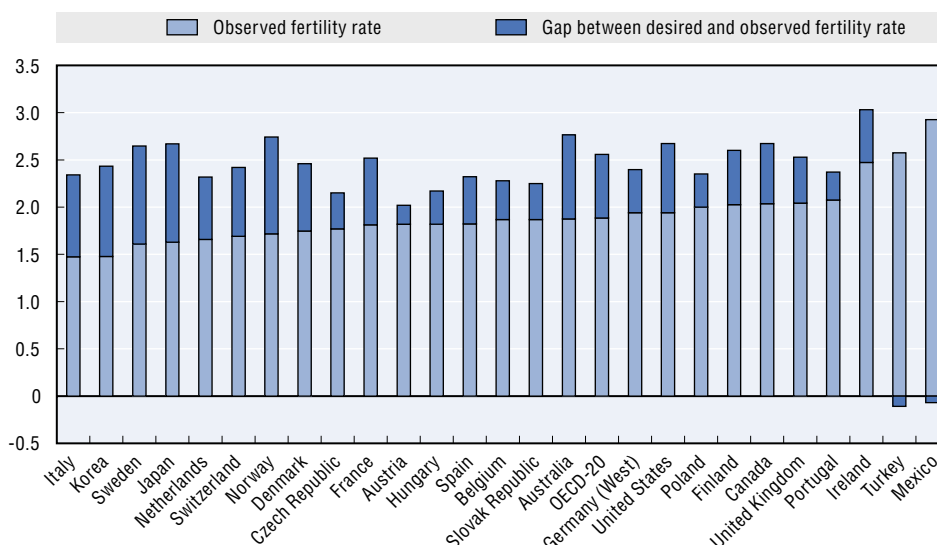
Source: OECD (2007), *Society at a Glance: OECD Social Indicators*.

than previously among their life goals. Indeed, surveys show that deep transformations have taken place in the value different generations of women place on childbearing and gender roles. For example, women in their 30s in OECD countries have much more “liberal” attitudes towards lone parenthood and the importance of having a child or a job in order to be fulfilled in life compared to women in their 50s. Nevertheless, most women, irrespective of their age, continue to regard the institution of marriage as important. With few exceptions, men have more traditional views about family and gender roles compared to women, although these gender gaps have narrowed over time in a majority of countries. While these changes in values and beliefs are likely to have contributed to lower and later fertility in all countries, there is no simple correlation between these changes and the changes in birth rates. Other factors have obviously been at work.

There are a number of basic issues in everyday life facing women and couples with young children, or even contemplating having children. These reflect the emergence of new risks such as labour market insecurity, difficulties in finding suitable housing and affordable childcare, in addition to other difficulties in combining parenthood and paid employment, and in feeling they have reached some form of financial security before considering having children. An issue for governments is why policies have failed to respond to these needs and concerns.

Evidence about how far these constraints are affecting women’s childbearing decisions is provided by opinion surveys about how many children they would like to have. While interpreting survey responses to such questions is not without problems, especially in a cross-country context, Figure 2 – which plots the observed and desired number of children of women of child-bearing ages in 2000 – suggests that women have fewer children than they would like; and that the gap between the number of children women want and the number they actually have is higher in OECD countries where birth rates are lower.

Figure 2.
WOMEN’S DESIRED AND OBSERVED NUMBER OF CHILDREN IN SELECTED OECD COUNTRIES, 2000



Source: D’Addio and Mira d’Ercole (2005a, b) based on data from the World Values Survey (2000).

This gap between the children women would like to have and the number they actually have has also increased over the past 20 years, both on average and in most OECD countries. The widening of this gap is only partly explained by the postponement of childbearing, since it has been widening for both younger and older women. Younger women still have time to close the gap and have more children, but for women who are close to the end of their reproductive cycle a widening gap between the number of children they wanted and the number they have suggests that they are likely to end up with a smaller family than they would have liked. ■

Do labour market conditions matter for having children?

It is clear that labour market conditions do affect when people have children and how many they have. But this simple answer hides a dramatic change in the effect of labour markets on childbearing in the past 25 years. In the past, fertility rates were higher in those OECD countries where most women remained outside the paid labour market. Today, the reverse is the case: fertility rates are higher in those countries where women's employment rates are higher. The type of work is also important. Birth rates are higher in countries where a larger share of women work part-time – suggesting that these jobs often provide women with an effective means to reconcile work and family responsibilities. For society as a whole, paid work and childbearing no longer substitute for each other. It remains true that women who have a paid job have fewer children than women who do not, but the extent to which this occurs has declined over time.

Unemployment also matters for childbearing, but again the effect has changed over the years. High unemployment tended to go hand in hand with high birth rates, but since the late 1990s this has reversed, and now birth rates are higher in OECD countries where unemployment rates are lower.

The reasons underlying these changes are not fully known, although factors such as financial insecurity and concern about managing work and family life clearly play a part. What is certain is that higher educational attainment and labour market participation among women have fuelled the diffusion of new values – such as autonomy and financial independence – among younger women, as well as a greater perception of “incompatibility” between professional and family roles that still characterises many OECD countries. ■

Are children becoming a “luxury” that families can no longer afford?

The question whether raising children is becoming such a financial burden that people cannot afford to have them is a particularly difficult one. The answers differ depending on the country and the type of costs considered. What is certain is that considerations about the costs of children play a key role in the standard model used by economists to explain childbearing decisions. The basic conclusion is that birth rates will fall as these costs increase. The economic literature on the costs of children distinguishes between:

- *Direct costs*, which refer to the additional “out-of-pocket” costs incurred by households when children are present, such as food, clothing, childcare, education and housing; and

- *Indirect costs*, which refer to the loss of income incurred by following birth of a child – in the form of foregone earnings when parents drop out of employment or reduce their working hours to care for their children, or when they experience a decline in their career prospects.

Assessing the likely size of these costs raises difficult methodological issues. In the case of direct costs, estimates from several countries suggest that costs increase with the age of the child and decline with family income, and that economies of scale reduce the direct costs per child for second-born and subsequent children. This is understandable – a couple may move to a larger home on having one child, but may not need to move again after a second child, for example; many schools also apply preferential rates for siblings.

While direct costs of children are shared among parents, the indirect costs fall mainly on women since it is generally women who reduce working hours or stop working to look after children, with negative consequences for their long-term career and financial prospects. As the labour market opportunities available to women have increased over time, many women are finding that bearing and rearing children is often a “luxury” that they cannot afford. ■

Can policies help reduce the cost of children?

The question of how policies can make it easier – or less costly – to have children, is one that has gained in importance recently. Previously the attitude of most OECD governments to the fall in birth rates was one of “benign neglect”. However, there are indications that the situation is changing rapidly in some countries. Less than 30 years ago, the overwhelming majority of OECD governments considered their country’s birth rate as “satisfactory”, with only a few countries considering it as either “too high” or “too low”. Today, only two OECD countries regard the current birth rate in their country as “too high” (Mexico and Turkey), while most consider it “too low” and a (sizeable) minority regard it as “satisfactory” – Australia, Belgium, Canada, Denmark, Finland, the United Kingdom, Ireland, Iceland, the Netherlands, New Zealand, Sweden and the United States.

But policy action has lagged behind this change in perceptions and many OECD governments continue to favour no explicit interventions in this sensitive area. Nevertheless, even when rejecting explicit goals to boost birth rates, governments in all OECD countries recognise the importance of reducing the artificial barriers to having and raising children. At the root of this change is the understanding that, whether deliberately or not, policies shape the environment in which childbearing decisions take place: they may help parents to overcome the obstacles to childrearing that they face in everyday life – or create new constraints that accelerate the decline in birth rates.

Measuring the precise impact of most policy interventions on the cost of children and on birth rates is difficult. Data on several types of policy measures remain patchy, and the range of influences at work is wide. Yet some evidence suggests that governments can modify both.

In this respect, OECD work has shown that providing a continuum of support tailored to the specific age of the child and needs of the parents can make

a difference. “Family-friendly” policies have, in recent years, become a top priority in most OECD countries. Underlying such policies is the belief that women who want to work and have children should have the possibility of doing both; when women are asked to choose between the two, the end result is usually both a low birth rate and a low employment rate, which is not good for the economy or society.

The form of these policies varies. They include giving mothers the possibility to care for their children at home when the child is very young, but also providing an ample supply of childcare places at affordable costs and out-of-school-hours activities. They also include leave arrangements that re-balance the distribution of care activities *within* the family (e.g. extending parental-leave arrangements to fathers on a take-it-or-lose-it basis), as well as financial transfers and tax provisions which lower the effective tax burden levied on families with children. Further “family-friendly” initiatives are not limited to government: change often starts in the workplace, and rests on the roles of employers, workers and their representatives.

It is almost impossible to define the “cost” of a child to its parents – there are many theoretical and empirical problems to be overcome. A frequently used assumption – often used by researchers who have looked at income distribution – is that the additional consumption necessary to support a child at the same standard of living as before is around 32% of gross household income in the case of one child, and around 27% in the case of two children. Few countries come close to providing cash benefits to families which are worth this much. For example, the “effective” tax rate (which measures the combined effect of tax provision and benefit received) levied on a couple with average earnings with two children in Hungary and Luxembourg is about 15 points lower than that of a couple without children on the same earnings level. The difference between the two rates is close to zero in Greece, Japan, Korea, New Zealand and Poland. Cross-country differences are as large – if not larger – when considering access to, and cost of, formal childcare. The proportion of children between the age of 3 and the age of mandatory schooling that are using formal childcare arrangements varies from around 30% in Korea and Japan, to close to 100% in Belgium, the Netherlands and France.

Research for 16 OECD countries over a twenty-year period shows that birth rates are high in OECD countries where cash transfers to families are high, replacement wages during parental leave are high, female employment rates are high and more women are working part-time. Conversely, birth rates are low where unemployment is high, the ratio of the female-to-male wages is high and periods of parental leave are long – as longer periods of detachment from the labour market increase the difficulties of re-entering the labour market, especially for the women who are better educated and in better-paid jobs. An analysis based on cross-section data also suggests that birth rates are higher in OECD countries with a higher enrolment in formal childcare.

The most important conclusion is that, although fertility rates below replacement levels are likely to have become a persistent feature for many OECD countries, there is nothing *inevitable* in the abnormally low levels (at

or below 1.3 children per women of childbearing age) currently experienced by some. Fertility rates fell sharply and continuously in Japan and Korea but have rebounded in the United States and Denmark since the mid-1980s and in France since the mid-1990s, often to levels that are close to replacement levels. While the configuration of factors that has led to this positive result differs, these “successes” reflect the presence of policies and arrangements, such as affordable childcare, that have made children more “affordable”. The same range of policies holds the promise of being effective elsewhere. ■

For further information

For further information about the OECD’s work on fertility rates, please contact Anna Cristina D’Addio, Social Policy Division, Directorate for Employment, Labour and Social Affairs, OECD, tel.: +33 1 45 24 87 09, e-mail: anna.daddio@oecd.org or Marco Mira d’Ercole, tel.: +33 1 45 24 87 48, e-mail: marco.mira@oecd.org.



For further reading

OECD (2007a), **Benefits and Wages. OECD Indicators – 2007 Edition**, forthcoming, ISBN 978-92-64-02378-9, 185 pages.

OECD (2007b), **Babies and Bosses – Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries**, forthcoming, ISBN 978-92-64-03247-7, € 20, 153 pages.

Lutz, W., V. Skirbekk and M.R. Testa (2005), “The Low Fertility Trap Hypothesis”, International Meeting on Postponement of Childbearing in Europe, 1-3 December 2005, Vienna.

D’Addio, A.C. and M. Mira d’Ercole (2005a), “Trends and Determinants of Fertility Rates in OECD Countries: The Role of Policies”, OECD Social Employment and Migration Working Papers No. 15, OECD, Paris.

D’Addio, A.C. and M. Mira d’Ercole (2005b), “Policies, Institutions and Fertility Rates: A Panel Data Analysis for OECD countries”, OECD Economic Studies, No. 41, 2005/2.

Del Boca, D., M. Locatelli, S. Pasqua, C. Pronzato (2003), **Analysing women’s employment and fertility rates in Europe: differences and similarities in Northern and Southern Europe**, WP Child, Turin.

Sleeboos, J. (2003), “Low Fertility in OECD Countries: Facts and Policy Responses”, OECD Social Employment and Migration Working Papers No. 15, OECD, Paris.

Ahn N. and P. Mira, (2002), “A Note on the Changing Relationship between Fertility and Female Employment Rates in Developed Countries”, *Journal of Population Economic*, No. 15(4)4, p. 667-682.

Or visit www.oecd.org/els/social/family.

OECD publications can be purchased from our online bookshop:

www.oecd.org/bookshop

OECD publications and statistical databases are also available via our online library:

www.SourceOECD.org

Where to contact us?

OECD HEADQUARTERS

2, rue André-Pascal
75775 PARIS Cedex 16
Tel.: (33) 01 45 24 81 67
Fax: (33) 01 45 24 19 50
E-mail: sales@oecd.org
Internet: www.oecd.org

GERMANY

OECD Berlin Centre
Schumannstrasse 10
D-10117 BERLIN
Tel.: (49-30) 288 8353
Fax: (49-30) 288 83545
E-mail:
berlin.contact@oecd.org
Internet:
www.oecd.org/deutschland

JAPAN

OECD Tokyo Centre
Nippon Press Center Bldg
2-2-1 Uchisaiwaicho,
Chiyoda-ku
TOKYO 100-0011
Tel.: (81-3) 5532 0021
Fax: (81-3) 5532 0035
E-mail: center@oecdtokyo.org
Internet: www.oecdtokyo.org

MEXICO

OECD Mexico Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560 MEXICO, D.F.
Tel.: (00.52.55) 9138 6233
Fax: (00.52.55) 5280 0480
E-mail:
mexico.contact@oecd.org
Internet:
www.oecd.org/centrodemexico

UNITED STATES

OECD Washington Center
2001 L Street N.W., Suite 650
WASHINGTON DC. 20036-4922
Tel.: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: www.oecdwash.org
Toll free: (1-800) 456 6323

The OECD Policy Briefs are prepared by the Public Affairs Division, Public Affairs and Communications Directorate. They are published under the responsibility of the Secretary-General.