

## Families, Fertility and Maternity Leave

Barry Maley

EXECUTIVE SUMMARY

The debate over paid maternity leave has been linked to the concurrent debate over Australia's declining fertility. Although each of these subjects is important in its own right, neither can be divorced from the wider problem of a coherent and fair family policy. Yet this is happening. Serious attention to family policy and the pressing problems of family dysfunction, family taxation, and the retreat from marriage should underpin the development of a rational and acceptable approach to both maternity leave and fertility.

- Falling fertility is a genuine cause for concern, but does not justify the deliberate manipulation of birth rates by government incentives. The wise course is to reform family support benefits, restore the stability of marriage, encourage innovation in voluntary, private work-and-family initiatives, and wait and see.
- Apart from the increased direct and indirect ('opportunity') costs of having children, high divorce rates increase the risk for both men and women of having to raise a child alone or of losing contact with it. These may be factors in the retreat from marriage and reduced birth rates.
- Compulsory or government-provided paid maternity leave cannot be justified as a 'gender equity' measure. It is properly an issue for voluntary negotiation between employers and employees. The question of employment continuity for employed mothers should be separated from the question of a maternity or dependent child payment.
- Working mothers and at-home mothers should be treated equally in public support for their dependent children. Measures of GDP ignore the importance of the family in investing in children, regenerating the workforce, and in engaging in (unmeasured) home production. If this is acknowledged, it follows that non-employed mothers of dependent children are making an economic contribution no less than that of employed mothers, and their work should be equally valued.
- Public support for the costs of dependent children is now relatively less generous than a generation ago. Support drained from families with children has flowed into a massive welfare and pension bill, inverting the former 'generational contract'. We need steady taxation rules over the life cycle.
- A universal, equal-value allowance or tax credit for all dependent children—displacing all other child benefit payments or concessions—is recommended.

**Barry Maley** is Senior Fellow at The Centre for Independent Studies, and former Director of the Centre's *Taking Children Seriously* research programme, completed in 2001. His most recent book, *Family & Marriage in Australia* (CIS 2001) was one of three finalists in the Research in Ethics category at the Australian Museum Eureka Prizes. The author wishes to thank Susan Windybank, Peter Saunders, Andrew Norton and Jennifer Buckingham for comments on earlier drafts of this paper. The usual disclaimers apply.

## THE QUESTION OF FERTILITY

The cause of rises and falls in fertility rates is one of the most difficult questions in demography. Many social, economic, legal and cultural variables have been identified as possible factors affecting fertility. Economic variables are probably the most intensively studied, for the plausible reason that they encompass a large range of human preferences likely to affect decisions about whether or not to have children. The 'rational actor', 'utility' and 'cost-benefit' models of economics have also proved powerful in throwing light upon many aspects of fertility.<sup>1</sup> Yet social, cultural and psychological variables have not been ignored.

We lack a general, empirically-verified theory of fertility, but various studies have shown suggestive statistical correlations. For example:

- that there is a negative correlation between length of education of women and their fertility (but with variations across age-groups, suggesting that a social-cultural variable may also play a part);<sup>2</sup>
- that rising opportunity costs of children delay child-bearing;<sup>3</sup>
- that high-earning women have a lower preference for children than low-earning women;<sup>4</sup>
- that higher incomes and wage rates lead couples to establish smaller but more highly educated families;<sup>5</sup>
- that increases in female wages rates have played a major role in the strong decline of the fertility rate in Italy, a country with one of the lowest fertility rates in Europe—1.22 children per woman—despite its long history of cultural and religious emphasis on family formation.<sup>6</sup>

### Should we attempt to raise fertility rates?

There is evidence that policy measures intended to affect fertility rates in various countries have had some influence. The province of Quebec, in Canada, achieved a rise from 1.4 to 1.6 in its total fertility rate over a five-year period in the 1990s by a system of cash payments following the birth of a third or subsequent child.<sup>7</sup> France has a relatively generous system of family payments to which is attributed its achievement of somewhat higher levels of fertility than its European neighbours.

It is possible, given sufficient economic/financial and other inducements, that the Australian government, in pursuit of a national population policy, could raise the nation's fertility rates. There can be no certainty about this, and even less about the size of the effects or their durability; quite apart from the costs it might entail and the way they are distributed. The key question is the desirability of doing so by attempting to manipulate decisions by couples about having children.

The position taken here is that deliberate policies designed to bribe or coerce couples to have more children would be repugnant. Like the Chinese one-child policy, it would treat men and women as no more than instruments in a controlled breeding exercise intended to achieve a certain level of population. It would be implemented in the absence of any certainty of achieving its ends; or whether, if achieved, such a population level would then serve the immediate or long-term interests of the nation. Nothing so smacks of social engineering of the most intimate of human affairs and the commodification of children; it is also more likely to lead to ever more makeshift fiddling with fertility incentives or disincentives, once the mandate to do so is allowed.

Nevertheless, fertility rates below population replacement rate, and falling, are worrying for two reasons. First, if sustained over a long period and without massive immigration, both national growth and the survival of the nation as we know it would be under threat; and, second, that low and falling fertility seems to be both dispiriting in itself and indicative of national malaise. One cannot help feeling that there is something wrong with a country that cannot, or will not, reproduce itself, and something sad about a society with a dearth of children. Present circumstances

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may turn out to be no more than part of a fertility cycle of waxing and waning birth rates (with historical precedents). But can we afford to wait and see? Recovery from the damage done in the meantime may be very difficult—even impossible.<sup>8</sup> There is good reason for concern, and good reason to welcome a turnaround in our below-replacement rate of fertility. The key issue is whether governments should act and, if so, how.

### **Paid maternity leave and fertility**

The claim for compulsory paid maternity leave, funded either by government or business, has been argued for as a fertility-raising measure by some, or as a workplace ‘entitlement’, or equity measure, by others. A further argument is that Australia should follow the many other countries that have introduced it. But there is no point in joining a march of folly<sup>9</sup> if the arguments for *compulsory* paid maternity leave are flawed.

There is no firm evidence that maternity leave alone would make a significant contribution to increasing the fertility rate, assuming it would be in the public interest to do so. Sweden offers more than a year’s paid maternity leave and generous child care allowances, but its fertility rate has slumped from 2.1 children per woman in 1990 to 1.5 children per woman in 1997, compared to Australia’s 1.7 per woman, and the United States’ 2.1 per woman, where there is little paid maternity leave.<sup>10</sup> This is a matter discussed by the Treasurer, Mr Peter Costello, in a recent article. He points out:<sup>11</sup>

- that ‘there is no evidence of a connection between high fertility rates and maternity leave’;
- that developed countries which have long-established maternity leave provisions have below-replacement-rate, and often falling, fertility, while many countries without maternity leave have above replacement-rate fertility;
- that countries with high living standards have low fertility rates and countries with low living standards have high fertility rates;
- that a study by Gauthier and Hatzius across 22 industrialised countries for the period 1970 to 1990 showed no relationship between maternity leave and fertility.

This evidence suggests that the reasons why women are choosing to have fewer, or no, children go beyond an either/or choice between career and children. It is probable that falling fertility is, in part, a response to profound social and economic changes. And it may be that these are so deeply determined, so entrenched and popular as to be beyond reversal or mitigation except at unacceptable financial and social cost. The movement of mothers into the workforce is an outstanding example, along with the increasing fragility of married life.

### **The costs of motherhood**

In the last 40 years, increasing wealth, the success of claims for equality of opportunity and wage equality for women have widened horizons beyond child-bearing and domesticity. Access to earned income at higher wages, greater independence, the intrinsic appeal of work for many, and normative approval of work as no less a woman’s due than children and domesticity, meant that the psychic and financial ‘opportunity costs’ of choosing domesticity and children rather than a job grew rapidly. The advent of ‘The Pill’ severed the connection between marriage and children and removed a key risk of interruption to a career.

Simultaneously, and perhaps relatedly, disruption of the family system emerged from another direction. The divorce rate began to rise in the 1960s in association with changes in family law, changes which became more radical with the passage of the Family Law Act 1975 and the introduction of unilateral, no-fault divorce after one year’s separation. Between 1960 and the present, the divorce rate has quadrupled. Financial independence and the introduction of sole parent pensions mitigated the

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penalties of divorce for many women. With more wives working, the advantages of domestic division of labour in marriage were undercut for many men (although offset by larger joint income). For women and men, investing in children carried a greater risk of raising them alone, or of losing contact with them. The implications for both marriage and fertility are obvious.

As job opportunities and wages for women increased, alongside rising divorce rates and a general retreat from marriage, the gap between the attractions of employment, and domesticity and children, widened, drawing women into the workforce in growing numbers and raising the 'price' of marriage and children. This has led to proposals for public policy to help reduce the opportunity costs to make it easier for mothers to combine jobs and having children, thus raising fertility levels. Mass provision of subsidised child care, and compulsory maternity leave paid for by government or business, are among these proposals. They have been pressed by Peter McDonald<sup>12</sup> and others in the interests of reducing or eliminating the gender inequity, rising opportunity costs, and the 'male breadwinner model' of the family which, they hypothesise, are causal factors in falling birth rates.<sup>13</sup>

It is plausible that reducing the direct and opportunity costs of children will raise the birth rate, so moving in this direction might increase the birth rates of women committed to full-time employment and careers. The costs of doing so on a scale likely to have the hoped-for fertility effects have not, to my knowledge, been carefully estimated. Such costs must be distributed through the community by the tax-transfer system, with unknown incidence and possible disincentive effects that may, in some measure, be counterproductive for fertility amongst some groups of women.

So there may be offsetting consequences elsewhere. We know that there is considerable variation in the number of children born in the different socioeconomic groups, with significantly higher fertility among women with less education and poorer career prospects.<sup>14</sup> If paid maternity leave benefits and extensive child care subsidies, for example, were to be made *exclusively* available to full-time employed mothers, and additional to other universal dependent-child benefits, this would differentially disadvantage those mothers who are staying at home or working part-time. This may induce members of the latter groups to reduce the disadvantage by joining the full-time workforce and perhaps depressing their fertility to the lower level characteristic of more advantaged women and mothers. It would also, presumably, raise to an even higher level the proportion of infants put into out-of-home care for many hours per week.

I have suggested elsewhere that individuals and families strive to maintain a way of life consistent with the way of life and the presuppositions and expectations of the socioeconomic group to which they belong.<sup>15</sup> A possible explanation for the presently higher birth rate amongst families on incomes just about or just below median weekly earnings is that their *relative* income position has been better protected than that of families on middle to upper incomes (especially single-income families) because of income-supplementation (welfare) programs paid for by tax transfers from middle-and-upper-income earners.<sup>16</sup> Loraine Donaldson makes a similar point when she claims that fertility decisions by families are guided by whether having children is consistent with maintaining their living standards according to an external social norm.<sup>17</sup>

Surveys show that, in prospect, young men and women want to have more children than they in fact have when they form a household. Should the focus move away from fertility, *per se*, towards restoring a family system that would allow parents to have the children they want without great sacrifices? Among the requirements would be a system that not only deals adequately with the costs of children but also encourages greater confidence in the durability of the parents' relationship to each other and to their children. None of the arguments for paid maternity leave discussed on the following pages adequately address these issues, if at all.

### **Paid maternity leave: the gender equity argument**

The principal argument for paid maternity leave justifies it as a measure 'to help redress the inequality experienced by working women'.<sup>18</sup> This is a 'gender equity' argument. It hinges upon the key proposition of feminism that motherhood prevents the achievement of gender equality between men and women. Accordingly, mitigation or removal of the disadvantages of maternity in the workplace are fundamental to removing male-female inequality in general. A woman, it is claimed, has 'no choice' but to give up work continuity and income when she has a baby, whereas a male worker or father does not face such a decision and the loss or disadvantage which follows. Maternity leave is therefore a central gender-equity issue, and its absence is coercive and unjust.

'No choice' is the basis of this argument; but this is misleading, and no question of injustice or coercion arises. Working mothers and prospective working mothers always have the option of not working. The decision to work is a free one, as is the decision to have a baby, and both have foreseeable consequences. There is no coercion here, and no injustice unless it is claimed that the imperatives attached to pregnancy and parturition are injustices inflicted upon women by some human agency. But pregnancy and parturition are not social artefacts emerging from a 'gendered' society. They are embedded in a biological, not a social or cultural, category. They are 'being a female' facts of life that become operative when certain free choices are made, not imposed injustices or inequalities. The choice of work, for men as for women, forecloses all sorts of other options and opportunities to satisfy a variety of fulfilments. Whatever reasons might be offered and accepted for paid maternity leave, the gender equity one is flawed.

### **Paid maternity leave: the economic arguments**

Agitation for compulsory maternity leave has been placed in the context of an ideological debate about the relative importance and value to be attached to market-work by mothers, on the one hand, and home care of children by their mothers, on the other. A spokeswoman for Women's Electoral Lobby, for example, has justified government maternity leave funding 'because of the economic benefits of women in the workplace . . .'.<sup>19</sup> This phrase implies that mothers at home rearing children and engaging in domestic production are contributing nothing of economic value, and has led to an unfortunate and unnecessarily divisive contest between working and non-working mothers.

It is certainly the case that the usual measures of Gross Domestic Product and national per capita income routinely ignore additions by births to the population, and they ignore also the domestic and family work of rearing and socialising the newcomers who will regenerate a productive workforce. But this does not mean that they have no value. As the late Peter Bauer has put it:<sup>20</sup>

In the economics of population, national income per head founders completely as a measure of welfare. It takes no account of the satisfaction people derive from having children or from living longer. The birth of a child immediately reduces income per head for the family and also for the country as a whole. The death of the same child has the opposite effect. Yet for most people, the first event is a blessing, and the second a tragedy. Ironically, the birth of a child is registered as a reduction in national income per head, while the birth of a farm animal shows up as an improvement.

There is no good reason why production in the market should be accorded higher value or importance than home production and child rearing. Productive labour in traded goods and services and the growth of human capital depend for their continuance upon the regeneration, socialisation, and education of those who will be the workers of the future, and vice versa. Their interdependence is inextricable.

At a more fundamental level, the intrinsic attractions of non-domestic careers for many mothers, and the necessity or utility of market work for others, must be seen as absolutely legitimate choices not to be devalued or thwarted by public policy in

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a free society. Correspondingly, women whose preference is to forsake careers and market work in favour of motherhood and domestic work for shorter or longer periods must be accorded similar respect and legitimacy. There is evidence that most mothers prefer to stay home with their pre-school children or to work only for a few hours per week,<sup>21</sup> with a gradual return to work (mostly part-time initially) as their children grow older. Mothers' preferences, it seems, divide fairly equally between three groups—full-time workers, part-time workers, and stay-at-homes during the school years. Provided the care and well-being of the children involved are not put at risk by choices in these matters, family independence to make their own arrangements should be the bottom line, uninfluenced by differential policy incentives. It follows that the stance of public policy in relation to employed versus non-employed mothers should be neutrality, but not indifference. The problem is the choice of measures to improve the prospects of both without privileging one or the other, because doing so would, in the long run, prejudice the flourishing of both.

### **Maternity leave and private enterprise**

Whatever policy measures are adopted, they should not foreclose, or second guess, the evolution of civil norms and private practices by business and individuals to find private, rather than publicly imposed, resolutions for the particular problems and particular individual circumstances that may arise in family-and-work situations. Allowing scope for flexibility and innovation here is important. The vicissitudes of family life, and the oscillation of women into and out of the workforce as family circumstances change over the life-cycle, demand government support for measures that are readily adaptable to a range of changing family needs, and predictable into the future.

Unpaid maternity leave is already a work entitlement and paid leave for varying periods is offered both by a number of private enterprises on a voluntary basis, and under statute by government departments. The federal government has released a report<sup>22</sup> showing that paid leave was available in 23% of private workplaces and 59% of government workplaces. IBM, for example, provides six weeks paid maternity leave.

Paid maternity leave is clearly an additional cost of employment for private enterprise and therefore properly a matter for negotiation between employer and employee. In individual cases, the cost may make an employee unprofitable to employ, but in other cases, the cost may be more than offset by the overall value of an employee, or by promoting employee loyalty. Compulsory paid maternity leave would force many organisations to reduce their costs by reducing employment, with female employees directly at risk and male employees indirectly so. Negotiation offers the opportunity for parties to seek win-win situations, compulsion does not. Along with compulsion come regulation, monitoring, enforcement mechanisms, and more paperwork, reducing business efficiency and capacity for employment. Current agitation, however, is primarily aimed at winning government funds to finance paid maternity leave.

### **PAID MATERNITY LEAVE: THE WRONG FOCUS**

If, despite the arguments against it, government should move in the direction of compulsory, paid maternity leave, what disadvantages for working women are the main focus of attention?<sup>23</sup>

It would seem that the key issue for most women would be the threat to continuity of employment and career because of her maternity absence. It is not so much the loss of income in the immediate post-natal period that is the nub, but the workplace right to return to the same position with the same pay and status. The costs of having a baby for working women are so highly variable in terms of direct costs and opportunity costs, and could be so large in many cases, that full compensation for them could never be contemplated. A government decision to pay a percentage of

normal wages would be highly discriminatory. A maternity payment at a common level for all women would be equitable, but the costs for middle and higher-earning women could not be covered; so the fertility-lowering effects of significant opportunity costs for these groups would remain. The most that could be aimed for would be to alleviate the threat to continuation of employment after taking time off for a baby.

That being so, focussing on the question of payments for maternity leave puts the wrong cast on the issue. Since unpaid leave is already an entitlement, the real issue is government support for some of the (immediate and continuing) costs of having children from the moment of dependency, irrespective of whether or not the mother is working.

By its nature, paid maternity leave would be a 'work' benefit conditional on limiting the period of the mother's absence from work, thus putting pressure upon a mother to return to work, perhaps prematurely from both the child's and the mother's point of view. To that extent, choice is narrowed rather than enlarged.

A special financial benefit for maternity restricted to employed women would be discriminatory against mothers engaged in home production. In attempting to 'redress the inequality experienced by working women', an inequality is introduced for mothers who are not working. Doing so would be as discriminatory as present government policy which gives an extra 'baby bonus' benefit (Family Tax Benefit Part B) to mothers on condition they stay at home for five years. On the other hand, a continuing cash or tax benefit for *all* dependent children immediately upon birth and continuing during dependency, rather than a specific and short-duration 'maternity' leave provision, would allow all mothers maximum choice, without discrimination on the basis of work or non-work. Before pursuing this suggestion, however, we must first answer a fundamental objection to any form of public support for parents to offset some of the costs of raising dependent children.

### **Children: public benefits and private costs**

The objection is based on the contention that couples are not obliged to have children. Doing so is a voluntary decision and should not entail any liability upon the public purse and the childless to help defray the costs of that choice. Children, it is said, may be seen as no more than 'consumer goods' delivering rewards enjoyed exclusively within the family, or perhaps as private investments towards support in old age. Accordingly, the parents should accept total responsibility for them.

Yet this is a grossly inadequate perspective. It does not capture the complex private and public aspects of children, the 'externalities', or positive and negative economic and social effects that they may have, and the formidable policy and legal constraints applying to parents that seriously qualify a 'consumer good' view. From the moment of its birth a child bears entitlements to life and care in its own right under the law. Parents are trustees for that care and are obliged to surrender some of their own income and consumption to provide it, and they will be open to penalties if they fail to do so.

In any case, economic and social changes, especially over the last 50 years, have made a mockery of whatever plausibility the 'private consumption view' of children might have had. At the end of the 19<sup>th</sup> century, a strong norm still existed whereby children were expected to look after their parents in old age. As the 20<sup>th</sup> century advanced, industrialisation, the growth of market work, labour mobility, and growing wealth weakened that norm. Years of education for children lengthened, future earnings depended more and more upon human capital investments, and the costs of children grew. The apprehension of ageing parents about children defaulting on their implicit responsibilities towards them prompted a legislative response of increasing public support for the aged.<sup>24</sup>

The post-World War II period saw a rapid intensification of these trends and the advance of the welfare state. The costs of welfare have grown 400% over the last 40 years,<sup>25</sup> increasingly transforming children from 'private' to 'public' goods while raising the costs of rearing and educating them—costs that fall in large part upon

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their parents. As an earning adult, a child born today is destined to bear an unavoidable burden of claims upon its income to support welfare for elderly adults and others who have made little or no contribution to the costs of its rearing. The rapid growth of transfer payments and hence the taxation costs put upon future generations have increasingly removed the 'benefits' of children from the private family sphere to the public sphere. More and more ageing and childless adults are free-loading on parents of children.<sup>26</sup> The more that parents invest in their children's education, for example, in order to enhance their human capital and income-earning capacity, the greater the extent of public capture of the benefits. Conscientious and effective parenting is a major contributor to the growth of human capital and to that extent a public contribution or good whose benefits today are distributed widely beyond the family.

Furthermore, children are persons, immature citizens, and 'taxpayers' in their own right with claims that go with that status.<sup>27</sup> Public policy must deal with this complexity as well and as fairly as it can. How this might be done is the burden of later discussion, but, amongst other things, it should be guided by a long view of the relations between the generations.

### **The life cycle and intergenerational tax equity**

As costs have risen and government benefits have fallen for parents with dependent children, benefits for the old have increased. In *Selfish Generations*,<sup>28</sup> David Thomson analysed the consequences of this process in New Zealand. The latter half of the 20<sup>th</sup> century saw the collapse in that country of the former intergenerational compact, which had acknowledged the claims for public support by parents of dependent children, and the emergence in its place of a new taxation regime diverting greater public assistance to the elderly at the expense of families with dependent children. Alan Tapper<sup>29</sup> has made a comparable analysis of a similar process in Australia and Lucy Sullivan<sup>30</sup> has documented the way in which Australian provision for the costs of children through the taxation and benefits system has been steadily eroded over the last 30-odd years.

Although not explicitly proclaimed as an intention in either Australia or New Zealand, the effect of relatively generous public support for the costs of children until 30 or 40 years ago served an equitable and socially efficient life-cycle and intergenerational purpose within the taxation system. Childless adults and adults whose children were no longer dependent were relatively heavily taxed to provide tax concessions and allowances for parents of dependent children at a time when family financial burdens were particularly heavy. But those 'tax expenditures' for the benefit of parents and their dependent children could be seen as investments rather than as sectional and privileged consumption subsidies—for two reasons. First, because today's children will be the generators of tomorrow's wealth and taxation revenue, yielding widely distributed benefits and public goods—in the economists' terms, 'positive externalities'. Second, because the child-free adult of today, although taxed to help support other adults' dependent children, would, as a child, already have benefited from the dependant concessions and allowances provided to his or her parents. In other words, provided the rules are steady over the life cycle, there is no inequity for individuals involved here. This is because, as Nicholas Barr,<sup>31</sup> quoted by Andrew Norton,<sup>32</sup> points out in a different context, we have here a kind of national 'piggy bank' arrangement whereby those children who benefit from parental 'withdrawals' from the bank in one stage of the life cycle, are committed to reciprocating taxation 'deposits' at a later adult stage of greater affluence and capacity. Every citizen gets the benefit early and every citizen is obliged to pay for it later.

But the intergenerational compact has broken down, and the outcome today is that the relative costs to parents of raising children have risen very rapidly in the space of a generation. This is putting severe financial pressures upon parents, and more so upon many mothers faced with the dilemma of staying home for the sake of their children or working to help provide for them. This is one part of a double



whammy. As the financial burdens became pressing, public support for the costs of children via the taxation and benefits system diminished significantly, with greater relative effects upon middle-income families (especially single-income families) than upon low income families.<sup>33</sup> In addition, taxation and family support developments over this period saw a movement away from the former taxation principle that the value of public support for the costs of children should be equal and universal for every child, irrespective of parental income. The widely-accepted taxation principle that account should be taken of the number of persons dependent upon a particular income has also been diluted. Overall, in the last generation, for a variety of reasons (including unemployment), public support and expenditures for adults have outpaced expenditure on children.<sup>34</sup>

## **A COHERENT FAMILY POLICY: THE RIGHT FOCUS**

Decisions about maternity leave and reflections about falling fertility should follow from a coherent family policy, not lead it. I have suggested that there are prior questions about the position of children and parents in the taxation and public benefits system, and family instability, that need to be considered first.

For the overwhelming majority of couples, the decision whether or not to marry and have children cannot help being affected by the extent to which the durability of their relationship can be relied upon, and by the balance between the costs of children and the expected rewards of parenthood. Human commitment to having and caring for children has biological, social/moral, and economic dimensions.<sup>35</sup> 'Instinctive' parental altruism is bolstered by social norms mandating responsible behaviour towards children. This helps guarantee their care even in the absence of compensating 'rewards' from those children. The moral and normative dimension supporting altruistic and responsible behaviour needs, in turn, to be reinforced by two public assurances. First, that public policy and convention will take their parenting relationship seriously by remunerative public recognition and endorsement of what parents are doing and achieving; and second, by enabling them, through the law, to have confidence that their marriage will have status as a serious and enduring joint commitment. Without those normative, legal, and economic assurances the commitments and norms, and marriage itself, will grow weaker and the interest in having children will flag.

While the private or parental rewards of children may have remained constant, the financial and other costs, and the risks, have risen substantially to an extent likely to erode the commitment to, and interest in, children. The public benefits of children have grown at the expense of relatively greater burdens for their parents. It is to be expected that this trend of uncompensated rising costs, and the hazards of divorce, separation, and sole parenting, will continue to prolong family dysfunction, unhappy consequences for children, less investment in children, and declining fertility.

### **What needs to be done**

The question of paid maternity leave, and to some extent the issue of falling fertility, resolve themselves in the broader questions of public support for the costs of rearing children, and the viability of marriage.

The central theme of this paper is that the level and nature of public support for the costs of dependent children, and family stability and confidence in the future, are the key issues that should be the focus of family policy; not because attending to them might raise fertility rates, or because it is an essential part of a population policy, but because it is the good thing to do in the here and now for a whole host of reasons that are by now very well known.

Money isn't everything, but it matters. Families with dependent children have been getting a raw deal over the last generation compared to previous generations. The present federal government has moved to improve things in the last few years,

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but the relative disadvantage compared to the past is still substantial. There are many kinds of payments and benefits for parents, including child care subsidies. They have developed in piecemeal fashion to constitute a mess which is anything but efficient or equitable. Targeted welfare has created poverty traps and work disincentives; some benefits inequitably advantage the better off compared to the not-so-well-off; some are specific to working mothers and some are specific to non-working mothers, sometimes with arguable justification. We have recently had the absurd spectacle of hundreds of thousands of welfare recipients understating their incomes and having to repay overpaid benefits through the tax system.

### **A single parenting payment**

As I have urged elsewhere,<sup>36</sup> if policy is to be fair to all children and families, without privilege or discrimination, and the same for families where mothers are employed as for families where mothers are not employed, the obvious way of achieving this is to establish a tax credit or cash allowance of equal value for all dependent children. A tax credit, rather than a welfare handout, is important in not discouraging work effort for higher income, and in allowing people to keep more of what they have earned, rather than to see themselves as government supplicants. Moreover, as Gary Becker and Nigel Tomes show, 'progressive income taxes reduce the incentive to invest in children'.<sup>37</sup> That being so, the case for an equal-value, universal benefit on behalf of dependent children is strengthened. I have in the past suggested a sum of \$4000 per annum per child as a possible (and affordable) figure, even though it is a great deal less than the actual costs of raising a child. It is important that the parents make some sacrifice to rear the child if it is within their power reasonably to do so.

I have further suggested that such a tax-credit/allowance should replace all other allowances, subsidies, or tax breaks for children, including child care subsidies or allowances. This would permit maximum flexibility for parents in making their family and child-rearing arrangements, including child care, and recouping some of the wages lost through child birth and absence from work. It would be adaptable to the highly variable demands that parents face at various stages of the child-rearing cycle. It would be simple and much cheaper to administer (mainly through the taxation system). For special circumstances, such as multiple births, disablement, and so on, supplement credits or allowances may be necessary. Low income families would, of course, continue to receive support at the current level for adult family members.

In a recent report, the Federal Treasurer, Mr Costello revealed<sup>38</sup> that in '2002-2003 a total of \$19.3 billion will be paid to families (through Family Tax Benefit, Child Care Benefits, Maternity Allowances, Parenting Payment and the Baby Bonus)'. There are just on 5 million dependent children in Australia. An overall parenting-and-child tax credit/allowance, such as I am suggesting, would cost \$20 billion per annum. It is therefore a sum almost equal to what is presently being spent by the various programmes the Treasurer mentions, and therefore quite practicable without additional taxation. Even so, it would not return families with dependent children to the relative position they enjoyed under the taxation system a generation ago, vis a vis adults without dependants. But it would be a feasible beginning for moving towards steadily dismantling disadvantages that have accrued over recent years, while at the same time attending to some of the welfare disincentives and anomalies, and handicaps to higher employment levels, that persist.

Moving in this direction would probably create some winners and losers. Figuring that out in detail is beyond the scope of this paper, but if the argument for my proposal on the grounds of equity and flexibility is a strong one, that is very much in its favour.

Simultaneously reducing the costs of children along with measures to encourage the stability and attractions of marriage, would reinforce each other and make the family bargain more attractive and durable, with great benefits for children and adults. Those are consummations devoutly to be desired for their own sake; and their achievement would be a huge step towards securing the familial foundations without which an improvement in fertility rates would seem to be unlikely.

**A sum of \$4000  
per annum  
per child is a  
possible (and  
affordable)  
figure.**

## Endnotes

- <sup>1</sup> For example, Gary S. Becker and Robert J. Barro, 'A Reformulation of the Economic Theory of Fertility', *Quarterly Journal of Economics* 103:1 (February 1988).
- <sup>2</sup> Simon Appleton, 'How Does Female Education Affect Fertility? A Structural Model For The Cote D'Ivoire', *Oxford Bulletin of Economics and Statistics* 58:1 (1996).
- <sup>3</sup> Loraine Donaldson, *Fertility Transition; The Social Dynamics of Population Change* (Blackwells: Oxford, 1991).
- <sup>4</sup> Marco Francesconi, 'A Joint Dynamic Model of Fertility and Work of Married Women', *Journal of Labour Economics*, 20: 2, part 1 (2002).
- <sup>5</sup> Randall J. Olsen, 'Fertility and the Size of the Labor Force', *Journal of Economic Literature*, vol. XXXII, (March 1994) 60-100.
- <sup>6</sup> Maria Laura Di Tommaso, 'A Trivariate Model of the Participation, Fertility and Wages: the Italian Case', *Cambridge Journal of Economics* 23:5 (1999), 623-640. Fertility rate quoted from Alison Barnes, 'Low Fertility: A Discussion Paper', Department of Family and Community Services, Occasional Paper No. 2 (Canberra: Commonwealth of Australia, 2001).
- <sup>7</sup> Peter Costello, 'Paid Maternity Leave Is Not A Fertility Policy', *Options*, No. 14 (August 2002).
- <sup>8</sup> Alison Barnes, 'Low fertility'.
- <sup>9</sup> With apologies to Barbara Tuchman. This phrase is the title of one of her books.
- <sup>10</sup> Alison Barnes, 'Low Fertility'.
- <sup>11</sup> Peter Costello, 'Paid Maternity Leave Is Not A Fertility Policy'.
- <sup>12</sup> Peter McDonald, 'Gender Equity, Social Institutions and the Future of Fertility', *Working Papers in Demography*, No. 69 (Canberra: The Research School of Social Sciences, The Australian National University).
- <sup>13</sup> It is a reasonable hypothesis, however, that insofar as maternity leave might contribute to reducing the opportunity costs of having a baby that it will be positive for fertility rates, other things remaining equal.
- <sup>14</sup> Australian Bureau of Statistics, *Births 1999* (Canberra: ABS, 2000).
- <sup>15</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 77.
- <sup>16</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 87-88.
- <sup>17</sup> Loraine Donaldson, *Fertility Transition; The Social Dynamics of Population Change*.
- <sup>18</sup> Adele Horin, 'A Deserved Move for Women—If the Will Is There', *The Sydney Morning Herald*, (27-28 July 2002), 35.
- <sup>19</sup> Sandy Killick, 'Work Is A Family Issue', *The Australian* (22 July 2002), 13.
- <sup>20</sup> Peter Bauer, *Population Growth: Curse or Blessing?*, Occasional Paper 28 (Sydney: The Centre for Independent Studies, 1990), 3.
- <sup>21</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 69-73.
- <sup>22</sup> Sherrill Nixon, 'Work or Family: A Case of Sophie's Choice, Says Goward', *The Sydney Morning Herald* (9 September 2002), 3.
- <sup>23</sup> The following paragraph has profited from a discussion with Jennifer Buckingham and comments she made.
- <sup>24</sup> Nancy Folbre, 'Children as Public Goods', *The American Economic Review*, 84:1552 (May 1994), 86-90.
- <sup>25</sup> Barry Maley, *Family & Marriage in Australia*, Policy Monograph 53 (Sydney: The Centre for Independent Studies, 2001), 78.
- <sup>26</sup> Gary S. Becker and Robert J. Barro, 'A Reformulation of the Economic Theory of Fertility', 86. Nancy Folbre's discussion pertains to the United States, but similar trends have obtained in Australia, and indeed in most of the developed countries of the West.
- <sup>27</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 88-91.
- <sup>28</sup> David Thomson, *Selfish Generations? The Ageing of New Zealand's Welfare State* (Wellington: Bridget Williams Books, 1991).
- <sup>29</sup> Alan Tapper, *The Independent Monthly* (April 1993).
- <sup>30</sup> Lucy Sullivan, *Taxing the Family: Australia's Forgotten People in the Income Spectrum*, Policy Monograph 50 (Sydney: The Centre for Independent Studies, 2001).
- <sup>31</sup> Nicholas Barr, *The Welfare State as Piggy Bank: Information and Risk, Uncertainty, and the Role of the State* (Oxford: Oxford University Press, 2001).
- <sup>32</sup> Andrew Norton, *The Unchained University*, Policy Monograph 56 (Sydney: The Centre for Independent Studies, forthcoming, 2002).
- <sup>33</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 85-88.
- <sup>34</sup> Simon Appleton, 'How Does Female Education Affect Fertility?', 188.
- <sup>35</sup> Gary S. Becker and Robert J. Barro, 'A Reformulation of the Economic Theory of Fertility', 88; see similar observations by Nancy Folbre.
- <sup>36</sup> Barry Maley, *Family & Marriage in Australia*, 191-194.

- <sup>37</sup> Gary Becker and Nigel Tomes, 'Human Capital and the Rise and Fall of Families', *Journal of Labor Economics* 4: 3 (1986), S1-S35.
- <sup>38</sup> Peter Costello, 'Paid Maternity Leave Is Not A Fertility Policy'.