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Abstract

Family policy is getting increasing public policy attention in the EU as a result of population ageing and the challenge of the sustainability of economic growth. It is being recognised that a sustainable rise in the fertility rate is needed in order to put a break on population ageing. Immigration can postpone but not stem the tide of ageing. In consequence, research into the reasons for the decline in the fertility rate and the role of public policy in promoting fertility gain momentum. There is growing evidence that social and economic policies do have an important role to play in raising fertility. Properly devised, they allow a better balance of market and family work and raise the propensity to invest in higher education and training, thereby furthering the sustainability of economic growth and wellbeing of the society.

Key words: sustainable family policy, fertility, labour force participation, work-life balance

Introduction¹

Fertility rates have been declining for decades in industrialised societies - in Austria and Japan since the early 1960s without causing much concern to policy makers. This may have been due to the concomitant rise in life expectancy and/or immigration, which tended to stabilise population size or even allow population growth. It was not until the ageing of the baby boom generation and the difficult task of raising the retirement age to sustain economic growth and to ensure the funding of pensions, that the low fertility rate has become a contentious issue in public policy. Also the cost involved in up- and re-skilling of mature workers and immigrants in the wake of globalisation and industrial restructuring may have added to the concern about the changing demands on the skills of the population and the adaptability of the society to meet the challenges (*OECD, 1994*).

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¹ I thank Lea Rennert and Andreas Steinmayr for research assistance.

Consequently, research into the causal factors behind the widespread international fertility declines and the potential for public policy to stem the tide has become more prominent since the 1990s. It led to a change in paradigm in German family policy (*Rürup – Gruescu, 2003, Bertram et al., 2005*) and has become a controversial issue in Austrian government programmes since the early years of 2000 (*Schöffl, 2000*).

An objective of family policy is to stabilise population size by raising the fertility rate. Currently the fertility rate in Austria stands at 1.38 (Japan 1.32) children per woman, which is below the reproduction rate of 2.1. Given a continued inflow of immigrants of more than 30,000 persons annually, a fertility rate of somewhat more than 1.6 would suffice to stabilise the number of inhabitants in Austria. But a sustainable family policy goes beyond the objective of ensuring quantitative demographic stability; it also wants to make sure that the population has the required skills to ensure sustainability of economic growth. In order to achieve this qualitative objective, measures have to be put in place to allow the combination of family and market employment for mothers and fathers alike (work-life balance) and to raise the quality of pre-school care². This implies that family policy, which, until now has had the main aim of reducing the costs of children to parents, e.g., by tax incentives and cash transfers to families with children, has to be expanded by providing professional care services for children such that parents have the opportunity to combine childrearing with market work (*OECD, 2005*).

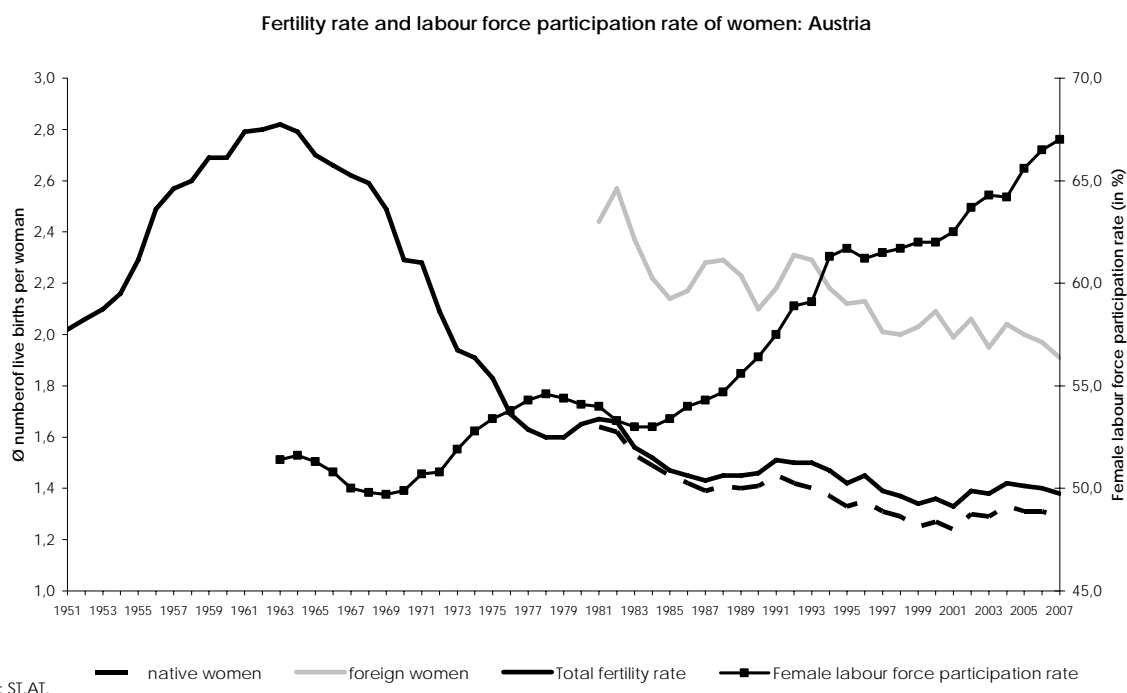
In what follows we look into the development of fertility rates in Austria and internationally with some explanations provided by empirical research. Thereafter policy responses are analysed, with a focus on the level of public expenditure in percent of GDP and its composition. The paper closes with an overview of various family policy models and their respective implications for the sustainability of economic growth.

Why fertility declines

In Austria, the total fertility rate has fallen below the level required for population replacement of 2.1 in 1972. It reached its lowest level in 2001 with 1.33 and increased only slightly to 1.38 in 2007. The coming into mature age of the baby boom generation (the birth cohorts of the 1950s and 1960s) and no recovery of the fertility rate, has sparked various changes in family policy, in particular changes in parental leave regulations. None of the measures have so far been able to raise the fertility rate to a level which would ensure the reproduction of the population. Consequently, research into the possible reasons for the fall is becoming more prominent in Austria in order to better understand the complex issues at work and to facilitate the design of more effective policies.

² The learning capacities and the social competencies are developed in pre-school age; therefore investment in the quality of pre-school education and care raises the learning potential of youth.

Graph1:



The factors responsible for the fertility decline are a smaller number of children per woman and a growing proportion of women choosing to have no children at all. The increasing rate of childlessness is quite common internationally. The proportion of childless women aged 40 in Austria is about the same as in the UK, USA, Switzerland and Sweden (around 20 percent). (Coleman, 1996) In addition, women wait before having the first child because of the prolongation of education, increasing uncertainty about the life course as well as longer search periods for partners³. Marriages are breaking up to a greater extent than in the past and job security can no longer be taken for granted, neither for young men nor women. Consequently, first marriage is postponed and the age at first birth is rising – from 24 years in 1985 to close to 30 in 2007. Thus, the timeframe for childbearing is shortened while the propensity to work is increasing.

Not only do women have fewer children, they also delegate childcare increasingly to professional service providers in nurseries. Between 1997 and 2007 the proportion of 3-5 year old children in kindergartens increased by almost 12 percentage points to 83.5 percent in Austria⁴. Many of the care-givers in preschool nurseries are mothers. The long-run rise in labour force participation of women is partly the result of outsourcing of child care from the home to

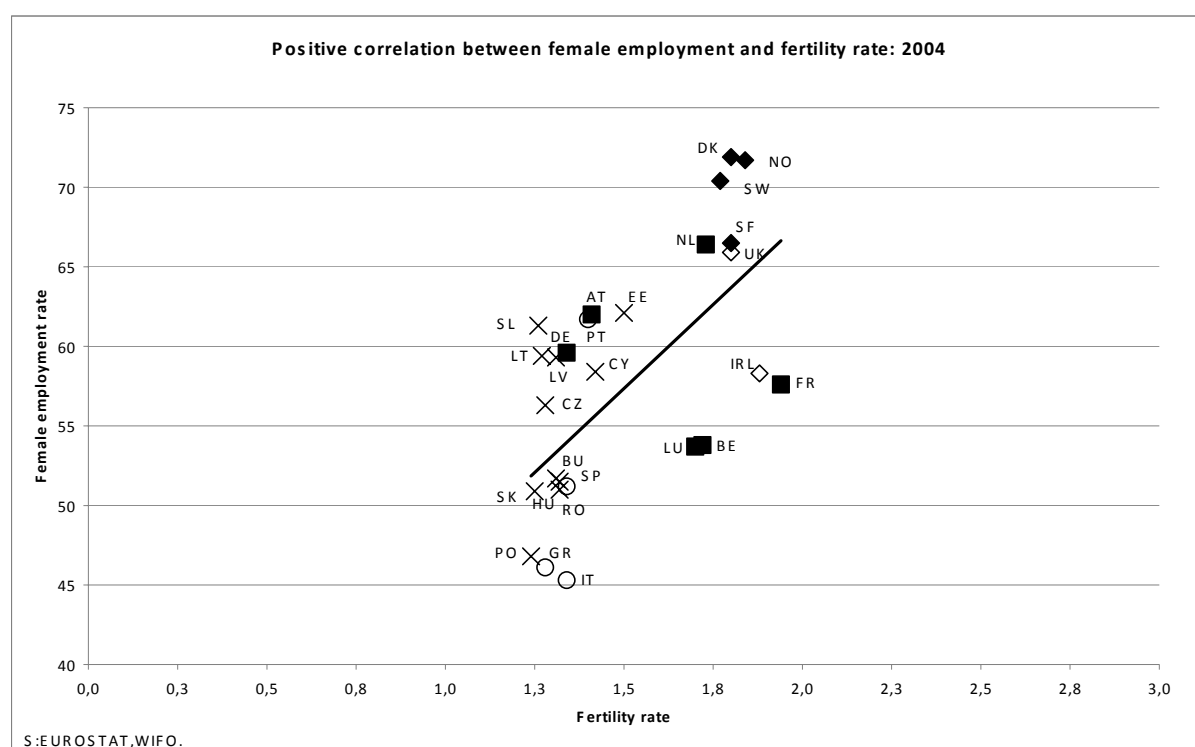
³ On the 'marriage squeeze' see *Guttentag – Secord, 1983*.

⁴ Thus Austria has not yet reached the Barcelona target of the provision of pre-schools for 90 percent or more of over 3 year olds, quite in contrast with the Nordic countries, Belgium, the Netherlands and Germany.

the market. There is a two-way causality of life-course changes, in particular increasing labour force participation, and structural changes in labour markets.

The longitudinal negative relationship between fertility rates and female labour force participation rates is by no means systematic over time, as can be seen from graph 1: the long run declining trend of fertility goes hand in hand with phases of rising as well as falling labour force participation of women. A cross-sectional analysis shows that high levels of employment tend to go hand in hand with high fertility rates, at least in recent years in Europe (Graph 2).

Graph 2:



The literature provides various explanations for the long-run decline of fertility in the industrialised countries. While Gary Becker (1981) argues that costs and benefits of having children are weighed against each other, others argue that it is a change in values and expectations of a 'good' life (Qu - Weston, 2004). Direct costs of children may be augmented by indirect costs, like foregone earnings due to child care work and reduced career opportunities. But non-financial costs like diminished opportunities for social relationships may also be a reason for reducing the number of children. And increasingly better educated women may look for fulfilment in market work rather than family work. Others argue that parents have a preference for fewer children as the welfare state takes over the role of children of earlier days, i.e. the provision of health care and social services. Consequently,

parents spend more time with fewer children, thereby enhancing their emotional development and educational achievements (*Bittman, 2004*).

The various explanations are not mutually exclusive: increasing employment instability and marriage break-ups may put a break on fertility just as rising direct and indirect costs of bringing up a child. The more difficult it is to balance family and market work, the lower the fertility rate. In addition, advances, in contraceptive technology and employment opportunities provide women with choices not available to them to the same extent before the 1960s (*Hakim, 2000*).

Some argue that the countries with particularly low fertility rates have progressed in providing equal opportunities for boys and girls as far as the access to higher education is concerned, but have failed to adapt the male bread winner model such that women's employment and career opportunities are limited if they have children (*Andersson, 2005, McDonald, 2000*).

Positive relationship between public expenditure on families and fertility

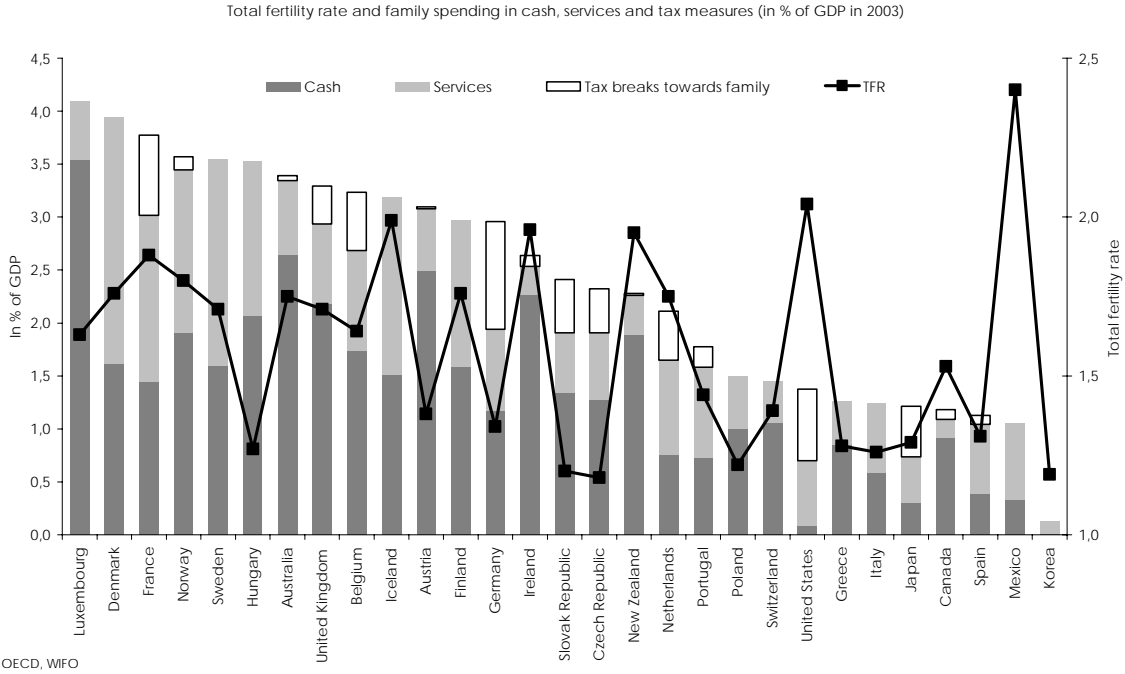
Many of the factors which are thought to influence fertility can be affected by public policy. Policies that are relevant are tax and income support schemes, child care and educational policies, and other policies that affect parents' ability to balance family and work. While all these policies may exert an influence on fertility, the contribution of the one or other policy is difficult to isolate, as the decision to have a child may depend on various factors, e.g. employment opportunities as well as child care provision (endogeneity).

Despite the difficulties in assessing the effectiveness of isolated policy measures d'Addio and d'Ercole (2005) have shown that a higher level of government spending on family policy is associated with a higher fertility rate. But as graph 3 indicates, this general positive relationship is rather weak from a cross-country perspective.

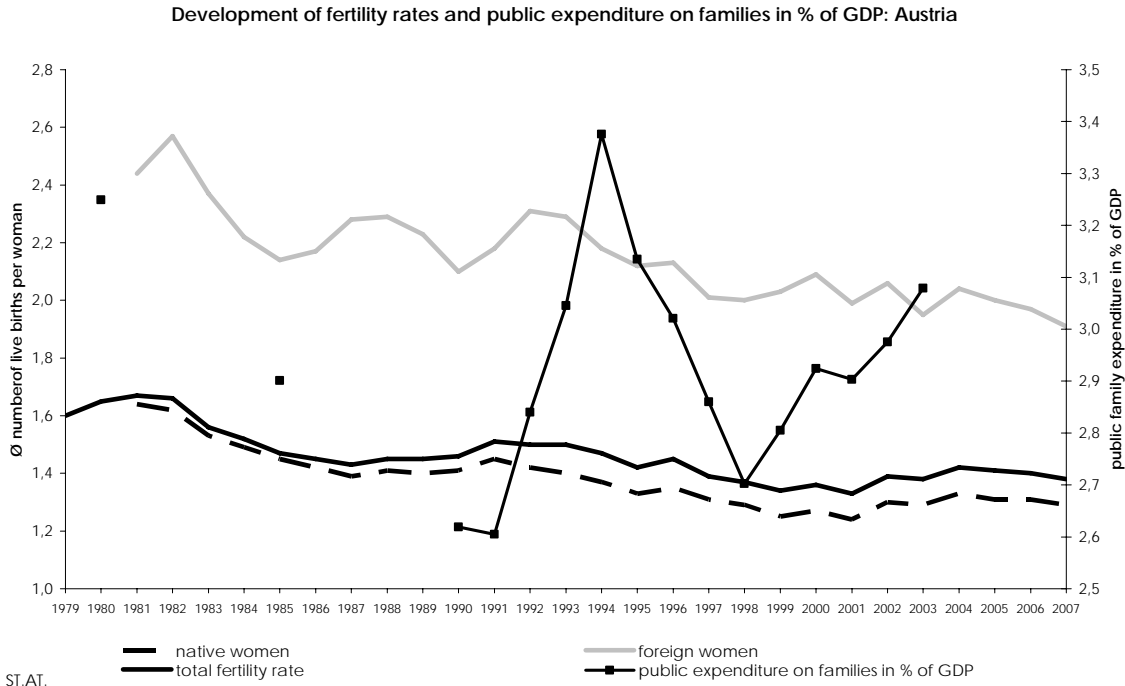
While countries with below average expenditures on family policies (less than 2.5 percent of GDP) tend to have low fertility rates, e.g., Korea, Japan, Spain, Italy, Greece and Canada, there are some important exceptions, e.g., USA and Mexico. On the other hand, countries with above average expenditures on family policy like Austria and Germany are amongst the countries at the lower end of the international spectrum of fertility rates.

Also from a longitudinal point of view we do not have a systematic positive correlation between public expenditure on family policy and the fertility rate in the case of Austria. Graph 4 indicates that there have been relatively pronounced variations in family expenditures and no clear trend between 1980 and 2003, while the fertility rate has trended downwards. It can be seen that the fertility rate of subgroups of the population, in particular native and foreign women, is quite different such that compositional changes in the female population may have a stronger impact on fertility than public expenditure. Apart from that, different policies may take longer to lead to the expected outcomes than others.

Graph 3:



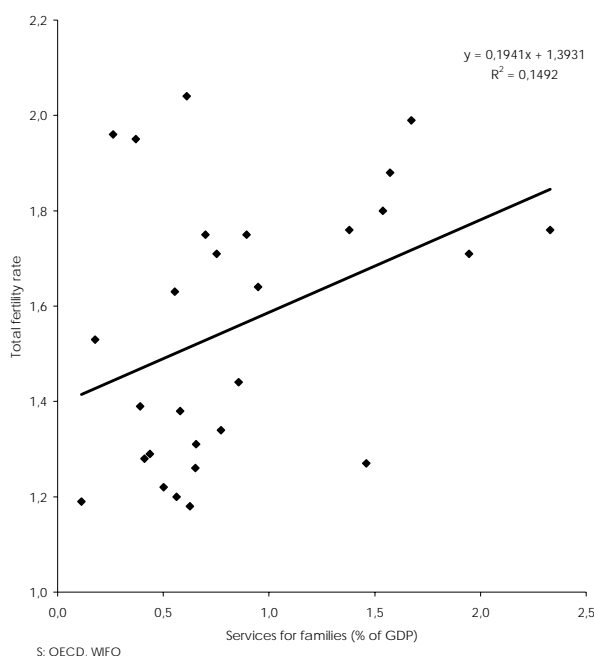
Graph 4:



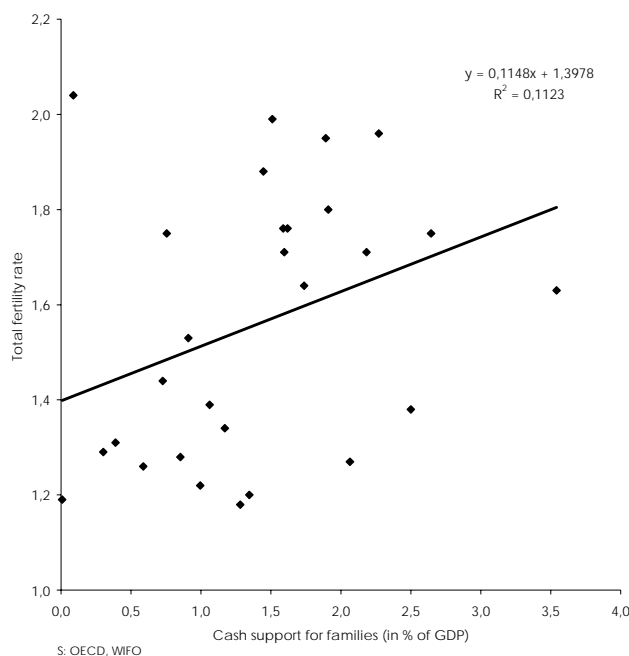
Laroque – Salanie (2005) argue that family benefits have reduced the cost of raising children in France thereby raising the fertility rate. But if we look at the composition of family expenditure in France, we see that a comparatively small proportion is paid out in cash benefits, while tax breaks towards families are quite important, and, of course, family services. Thus it is the specific combination of policies rather than a single policy mechanism which ensures a higher reproduction rate. A consequence of the family friendly environment is that mothers are able to pursue careers to the same extent as women without children, not least due to the generous provision of child care services by the state from a very early age of the child onwards.

A cross country comparison of the differential impact of various expenditure items on families shows that there is a stronger positive relationship between the fertility rate and service provision than of cash benefits to households. Thus, the main reason for the low fertility rate in Austria appears to be the limited provision of child cares services. The large amounts of cash benefits families receive reduce the direct cost of children. But the limited number of (affordable) care services available does not allow women to pursue a career – Austria is spending less than the OECD on average on childcare and early education services (0.6 percent of GDP compared to 1.2 percent in France and 1.6 percent in Denmark). Thus it is difficult to combine work and family life, which results in a reduction of the number of children (Graphs 5 and 6).

Graph 5: Positive correlation between public expenditure on services for families in percent of GDP and the total fertility rate



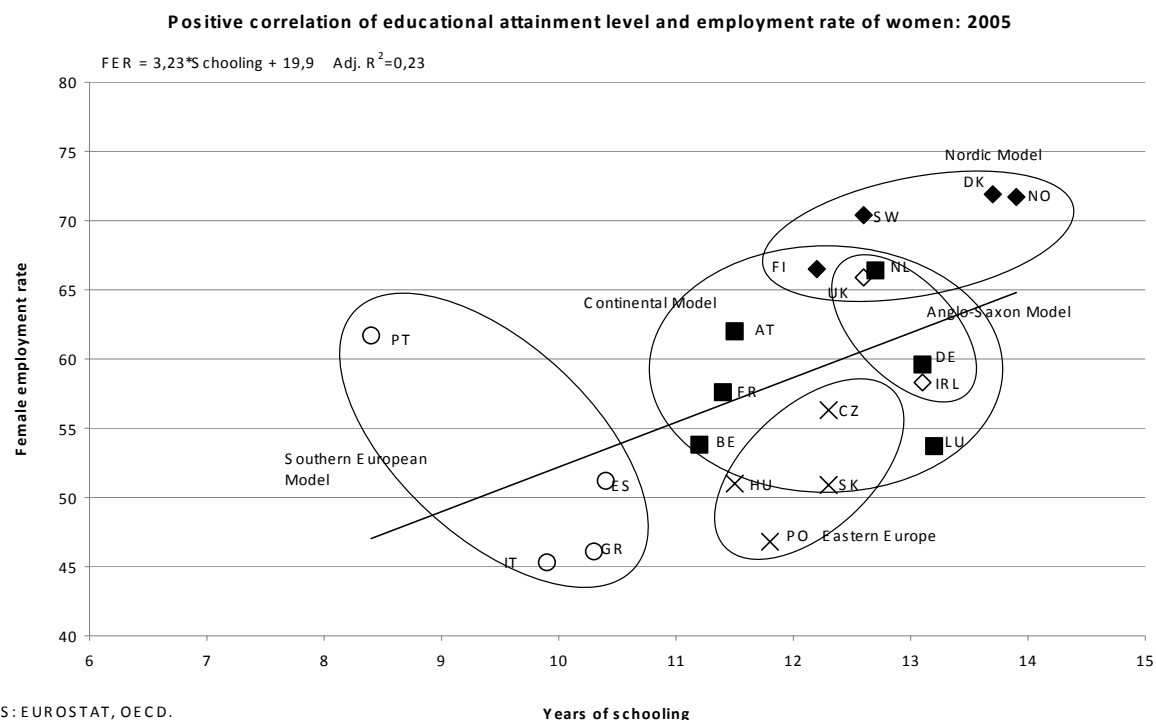
Graph 6: Positive correlation between cash support for families in percent of GDP and the total fertility rate



The importance of the composition of family expenditure for fertility developments highlights the need for a multifaceted approach towards family policy. If family policy is to contribute to the sustainability of economic growth, the impact on the skill composition of the work force is of utmost importance. In that context an increase in the labour supply of mothers contributes to economic growth, while their withdrawal from the labour market to care for children may contribute to skill shortages on the labour market and thereby either restrict the economic growth potential or provide the basis for increased immigration to fill the gaps. As *Freeman – Schettkat* (2001) put it: "As long as some skilled and educated persons produce in the household, rather than buying in the market, the demand for low-skill labour will be less in the economy with greater household production."

Outsourcing of child care to the market does not only raise the productive potential of the society in the short run but also in the long run by promoting investment in further education of women (Graph 7). The driving force for increased labour force participation of women is not clear, however. Is it the need for highly skilled labour resources that pull women out of the household or is it individual preferences, or the autonomous trend towards higher education or changing social and cultural norms and values (featuring in equal opportunities legislations). In any rate, the trend towards higher education and labour force participation of women does not only promote economic growth but also welfare, whereby higher welfare levels may be associated with a low social gradient (small differences in income, education, housing standards), longevity and the preservation of a reproduction rate of fertility.

Graph 7:



Conclusion

While it is evident that family policy has an impact on fertility, an overview of public spending on families does not provide full insight into the complexities of family friendly policies. A thorough assessment of such measures would have to include flexible work schedules, number and length of school days, paid vacation time as well as public provision of child care services and the costs involved per child. But the fundamental challenge of men and women remains between combining work and family life with children. The Nordic and French model tends to provide a framework where one may strike a balance between concurrent work and family, while the central European model, in particular Austria, tends to promote a sequential life course, meaning a withdrawal from the labour market for a couple of years while the children are small (generously funded through tax incentives and paid maternity leave) followed by re-entry into the labour market at a later stage. So far the institutional arrangements are not there yet which would allow women, who have withdrawn from the labour market for a certain period of time, to pursue a career thereafter. Thus family friendly policies are not always so friendly after all.

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