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Economics of Childbearing and Pronatalist Policies

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Family Policy: Belarus

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Abstract

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The brief opens a series of FROGEE Policy Briefs aimed at providing overviews and the popularization of economic research related to gender equality issues. The current brief introduces the general rationale behind fertility decisions and policy interventions. It summarizes the economic literature on the effects of different types of policy interventions on enhancing childbearing. A well-documented phenomenon in developed countries is that fertility declines with income levels and as countries become richer, fertility rates fall over time. This negative fertility-income relationship is mainly due to two distinct trade-offs faced by individuals. The quality-quantity trade-off manifests itself in the tendency of well-off individuals to choose to invest more in a child's quality and therefore forgo quantity. Another trade-off arises from the fact that raising children takes time, which confronts parenthood with people's career opportunities. The brief continues by summarizing economic research on the effectiveness of various pronatalist policies. It appears that the most effective ones are exactly those which aim at the elimination of the discussed trade-offs. In particular, policies which are able to free the time of potential parents or combine parenthood with career, appear to be most promising.

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Belarus follows the pro-natalist model of raising fertility. The country offers a wide number of various mostly financial stimuli to the population. The implemented measures resulted in a growth of the overall total fertility rate level. However, the growth occurred mostly in rural areas. In the long-run that might lead families into the poverty or pension traps due to the peculiarities of the rural labor market.

Economics of Childbearing and Pronatalist Policies

Introduction to FROGEE policy briefs

FROGEE Policy Briefs is a special series aimed at providing overviews and the popularization of economic research related to gender equality issues. Debates around policies related to gender equality are often highly politicized. We believe that using arguments derived from the most up to date research-based knowledge would help us build a more fruitful discussion of policy proposals and in the end achieve better outcomes. The aim of the briefs is to improve the understanding of research-based arguments and their implications, by covering the key theories and the most important findings in areas of special interest to the current debate. The briefs start with short general overviews of a given theme, which are followed by a presentation of country-specific contexts, specific policy challenges, implemented reforms and a discussion of other policy options.

Introduction to Economics of Childbearing

We start our series with childbearing, a topic that is tightly related to gender issues and an area with a high degree of public policy intervention. From an economic point of view, there are several potential reasons why public policy interventions concerning fertility may be beneficial for society and why – when left without support – decisions of parents might be suboptimal from the social point of view. In order to better understand these, one must first consider the intuition behind the theoretical economic approach to family relations in general and to fertility decisions in particular, much of which draws on the seminal contributions of Gary Becker (Becker & Lewis 1973; Becker & Tomes 1976).

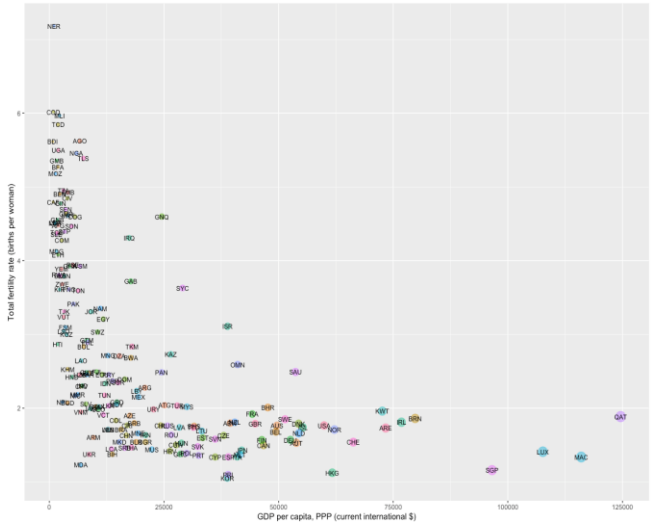
In Economics, goods are any real objects that satisfy people's needs and typically come at some cost. Becker's approach to the family extends this reasoning to human relations, and presents decisions on partnership, divorce and family formation in the context of 'economic' trade-offs between costs and benefits. Since having children is associated with considerable costs (both in terms of money and time) as well as gains in a number of dimensions, the decision to have a child can be formulated as an economic decision. However, viewed from this perspective, the choice to have children turns out to be special in several dimensions.

Negative Income-Fertility Relationship and Low Fertility

One of the most robust observations regarding fertility is that – in contrast to many other types of expenditures - there is a strong negative association between earnings and number of children (Figure 1). This negative income-fertility relationship has been observed in every developed nation, both when examined over time in relation to income growth and when looked at in a cross-country comparisons (see Jones et al. 2011). Figure 2 shows this relationship in a broad macro perspective: historically, as the world's per capita GDP has grown fertility rates have tended to decline.

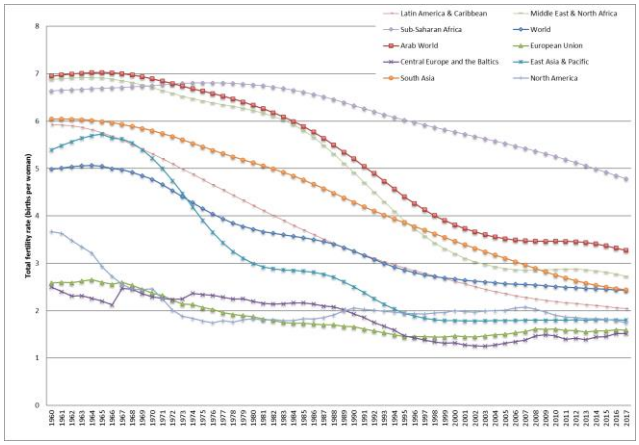
There are several potential drivers behind the above relationship. Two of the most established explanations are opportunity cost and quality-quantity trade-off, and they relate to several special features of the costs and benefits of having a child and the very nature of the family.

Figure 1. The relationship between total fertility rate and GDP per capita



Source: World Bank.

Figure 2. Trends in total fertility rate by region, 1950-2050.



Source: World Bank.

Money and Time Costs

A rather unique property of family formation is that costs related to childbearing are expressed both in terms of money and time. Because of the latter, high-earning parents face higher opportunity costs of the time necessary to raise a child. This might not only contribute to the aforementioned negative fertility-income relationship, but has also been shown as one of the main reasons behind low fertility in developed countries. One of the most common policies used to increase fertility is money transfers which come in the form of family allowances, baby bonuses or tax credits. According to the UN Population Facts, at least 96% of developed nations have this type of policy. OECD countries, on average, spend around 4% of their GDP on this kind of assistance and the average effect of such interventions has been estimated to increase the total fertility rate (TFR) by 0.08 – 0.35 (Luci-Greulich & Thevenon 2011). The main reason why one needs to spend a lot of money to gain a relatively small increase in TFR is that low fertility is a «first world» problem, i.e. most of the targeted individuals are not bounded by the monetary costs of a child.

Policies that take the time-cost of children into account promise a higher potential effect in developed countries. For example, Raute (2019) uses German data to find an 18% increase in fertility among women with earnings above the median after the introduction of earnings-dependent paid maternity leave policy.

Quality — Quantity Trade-off

In economics, the idea that education, health and other factors increase human productivity and potential is conceptualized in a notion of "quality of human capital". As the return on investment in human capital rises, parents may choose to have fewer children and focus their time and financial 'investments' in their quality. Some of the most convincing evidence on the strength of the quality-quantity trade-off was revealed using the data on twin births and on family sizes by Hanushek (1992) and Li et al. (2008).

Cultural Norms

Relatively recent research on the determinants of fertility has documented the substantial and persistent influence of cultural norms on fertility. This is reflected in the variation of fertility levels within countries among people of similar financial status, but coming from different cultural

backgrounds. For example fertility levels among immigrants in the developed world tend to resemble those in their countries of origin (see, e.g. Beach & Hanlon 2019, Families and Societies 2015), and while cultural norms change and can also be affected by the policy environment (Bassi & Rasul 2017), there tends to be a substantial degree of time-dependence in how norms evolve and adjust.

Internal Costs and External Benefits

The last special feature of childbearing from an economic perspective is that although most of the costs in terms of time and money related to children are borne by parents, a large portion of future economic gains of an additional person is external to the family and benefits the wider society. When an adult enters the labor force, begins to produce goods and services for other people and pays taxes to the government, his or her parents would not be able to capture any significant portion of these benefits (Schoonbroodt & Tertilt 2014). From an economic perspective this suggests that the social value of children is higher than the private (parental) one. This situation is one of the main arguments for public policy intervention with regard to fertility. Whenever social benefits outweigh private benefits, subsidizing private choices may result in overall welfare improvements.

Fertility Enhancing Policies: What Works and What Doesn't?

From the perspective of encouraging fertility, there is a wide range of options available to policymakers. On the one hand paid parental leave and subsidized childcare can mitigate the conflict between career and parenthood, while the introduction of paternal leave attempts at balancing out the time out of work between the two parents and at changing their allocation of time to childcare. On the other hand, child-related money transfers are aimed at reducing financial constraints on families who limit or postpone fertility because of their financial status. In practice it is often hard to measure the effects of particular fertility-enhancing policies due to the lack of data and an absence of specific policy implementation designs, which would allow policy evaluation. However, there is evidence that fertility-enhancing policies can be successful in stimulating fertility. Luci-Greulich & Thevenon (2011) find that the most effective cash transfers are those targeted at the youngest children (aged 0-3), while those that are paid out around the birth appear to be less efficient. A number of studies prove the positive impact of transfers to families with children on fertility rates (d'Addio & d'Ercole 2005, Ermisch 1998, Milligan 2005, Whittington 1992, Whittington et al. 1990). Developments over the recent decades in Sweden are often used as an example of a successful family focused package, although given the multitude of different schemes running at the same time it is difficult to disentangle their specific implications (see Björklund 2006 for the evidence from Swedish policy reforms and Luci-Greulich & Thévenon 2013 for a broader overview of the existing research on fertility-enhancing policies).

Kalwij (2010) and Raute (2019) focus their attention on policies which alleviate career – parenthood trade-offs. Raute (2019) finds especially large effects of the adequate compensation of forgone earnings of high earning women (the author also contributes a comprehensive literature review of studies on the effects of alleviating the opportunity cost of children). Doepke and Kindermann (2016) complement these findings by providing evidence that fertility is especially responsive to policies that specifically reduce the childcare burden for women.

The evidence on the effects on fertility of another popular type of family policy, maternity leave, is less clear. Since most of the developed nations nowadays do have paid maternity leave, it is hard to measure the effect of its availability on the decision to have children. However, different durations of maternity leave across countries and changes in those durations allow economists to draw some conclusions. Although some researchers do find a positive effect of maternity leave duration (Adserà 2004), others fail to support this conclusion using different sources of data and experimental designs (d'Addio and d'Ercole 2005, Olivetti and Petrongolo 2017).

Concluding Remarks

A better understanding of the economic approach towards family formation and fertility can be helpful in thinking of a re-design of family-focused policy packages. It is beyond the scope of this brief to provide a full overview of the extensive body of economics research on this topic, but the evidence tends to suggest that a set of successful policy tools to encourage fertility is available. The basic concepts presented here can hopefully serve as background to a systematic and evidence-based discussion on public policy in this field. It should be noted that since parenthood is one of the most important choices in the life of many people, it is inherently related to many other individual choices and outcomes. Therefore, any policy aimed at increasing fertility will inevitably affect other important dimensions such as income inequality, taxation, gender equality, health and child development, among others. This means that any public intervention should always carefully consider its potential positive and negative side effects.

Family Polices: Belarus

After the collapse of the USSR, Belarus faced a severe drop in the total fertility rate (TFR) from 1.91 in 1990 to 1.23 in 2003. The growth of birth-rates is a top priority for the country, especially taking into account that high levels of adult mortality are considered as a major threat to future demographic stability (Shakhotska 2007). To increase fertility is part of the country's current family policy (Presidential Decree 1998; the National Programme of Demographic Security).

In general, Belarus can be classified as a country with a pro-natalist model of family policy with mostly financial measures applied to boost fertility (Freika and Gietel-Basten 2016).

During the last decade, the share of the Social Security Fund (SSF) expenses devoted to fertility support has grown substantially. In 2005 expenses on maternity and childcare benefits formed around 7.5% of the total expenses of the SSF and they jumped up to 13.2% in 2016 (Belstat, Family in the Republic of Belarus 2017). Altogether, in 2005 family support formed around 0.9% of the GDP and grew to 1.6% of the GDP in 2016.

Measures of support include a wide range of different birth and child allowances. Women are able to get the pre- and postnatal leave paid at the amount of 100% of their previous earnings for 126-140 days depending on the riskiness of a pregnancy. There is also a maternity grant - a lump sum payment that amounts to 10 times the minimum subsistence level for the first birth and increases up to 14 times the subsistence level for the second and following births. The minimum subsistence level is set at around 22% of the country's average wage, which in July 2019 amounted to 529 USD. Also, there is an allowance for early pregnancy registration (before 12 weeks of pregnancy) equal to the minimum subsistence

level – it is designed to motivate women to seek medical care early in the pregnancy.

However, the main support comes from the monthly allowance for children aged under 3. Starting from 2013, 35% of the country's average wage is paid for the first child (as of July 2019 it amounts to 185 USD) and 40% of the average wage for the second and following children (amounts to 211 USD). Before 2013 the possible maximum monthly amount of this allowance was equal to the subsistence minimum (as of July 2019 it amounts to 110 USD). For comparison, the minimum monthly wage was 160 USD in July, 2019.

The maternity leave period is 3 years long. It is important to note that the job position of a woman must be kept during the entire 3-year period, so she can return to the same workplace after the maternity leave.

The majority of women (around 85-90%) take advantage of that possibility and stay at home during the whole period until their child is 3 years old. That is in part the result of the traditional pattern of gender roles in the society: women are considered as the main childcare and household duty holders in the family. The under-provision of childcare services for children aged under 3 also contributes to such an arrangement. According to the official statistics the current capacity of kindergartens covers just 40% of children aged under 3. The availability of kindergartens for children 3 years and older is satisfactory (although there are problems in some newly constructed districts). The costs of childcare and food in kindergartens are partially subsidized by the government.

There are various targeted subsistence allowances for families with low levels of income and in difficult circumstances, ranging from monetary payments to in-kind support with free food for children or reimbursement for the cost of diapers. The state also provides support to certain types of families (children with disabilities, children living in radioactive territories, children with HIV).

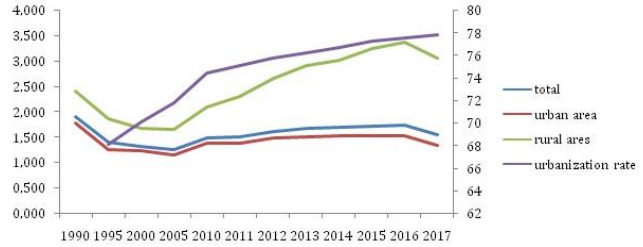
To boost fertility and stimulate families to have more than one child, another monthly allowance amounting to 50% of the minimum subsistence level was introduced in 2015. It is provided to families with children aged from 3 to 18 years in case there is also a child aged under 3 years in the family.

Moreover, starting from 2015, Belarus runs a family capital program. If there are two or more children in the family aged under 18, a family has the right to receive sizeable financial support from the state upon the birth of the third or subsequent child. The current size of support amounts to 10,000 USD and is located in a special bank account. Families are allowed to withdraw this money only when a child turns 18 years old. However, there are limited expenses on which this money can be spent: education, healthcare and the improvement of living standards.

Another policy intervention to boost fertility is the provision of preferential credit with reduced rates or a one-use subsidy on housing construction for young or financially-disadvantaged multi-child families.

The implementation of the family policy seems to have rather positive results: the fertility rate grew as high as 1.73 in 2016 before decreasing to 1.54 in 2017, but it is still way below the pre-transformation level (Figure 1). At the same time, it is not clear whether such results are due to implemented policies only, or whether the growth in fertility was influenced by the growth of income and economic stability overall, as shown in the study by Amialchuk et al. (2013).

Figure 1. Total Fertility Rate and the level of urbanization in Belarus



Source: http://dataportal.belstat.gov.by.

Moreover, we would expect that that these measures mostly have a positive impact on fertility rates in rural areas, as the value of child allowances oftentimes is above the average wage in the area. In 2017 the average TFR in urban areas equaled 1.34, while in rural areas it reached the level of 3.1 (Belstat). Taking into account the very high rate of urbanization in Belarus (77.9% in 2017), the existence of such a large gap between urban and rural fertility rates could be due to policy intervention, but also more in general to the inverse shape of the relationship between the TFR and the size of the inhabited locality (Kulu 2012).

In the short-run such generous support allows families to keep a sustainable standard of living as the level of obtained allowances often surpasses the average earnings in rural areas. However, in the long run such a policy provides additional risks for families of falling into poverty and pension traps. Women that spend over three years in a row on maternity leave become less mobile, and suffer from deteriorated professional skills and automatically become more vulnerable in the labor market (Chubrik et al. 2018).

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