
OVERVIEW

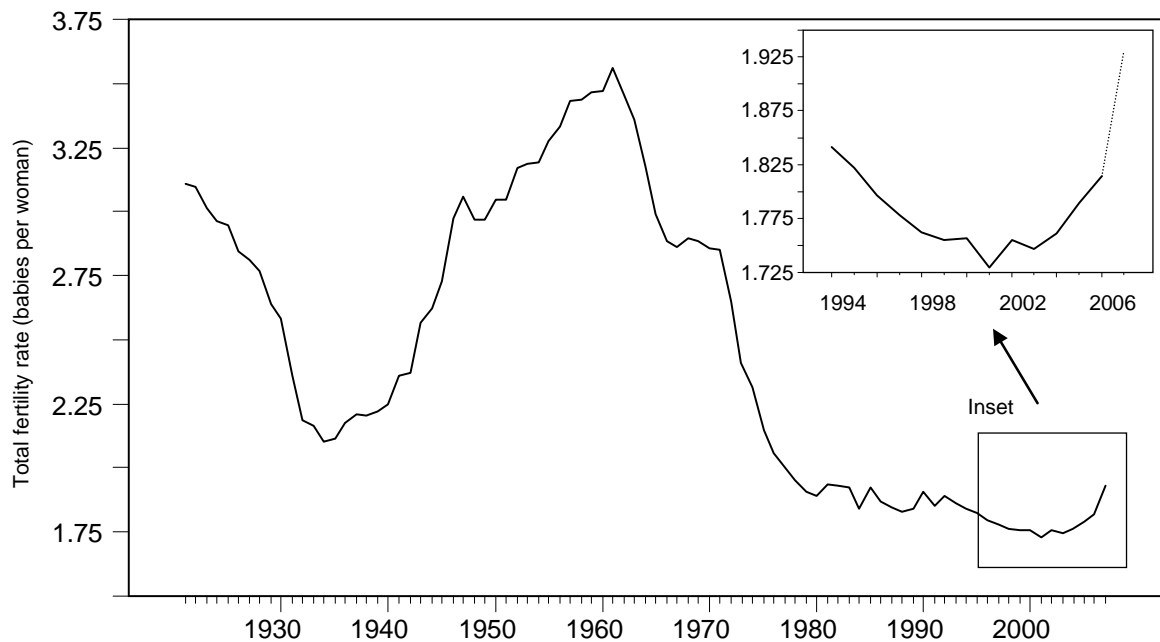
Key points

- Births in Australia are at an historical high — with around 285 000 babies born in 2007. This corresponds to an estimated total fertility rate of 1.93 babies per woman, the highest since the early 1980s.
 - This is not a one-off event as fertility rates have been generally rising for the last 6 years. Overall, the evidence suggests that after its long downward trend after the Second World War, Australia's fertility rate may have stabilised at around 1.75 to 1.9 babies per woman.
- Much of the recent increase in the fertility rate is likely to reflect the fact that over the last few decades, younger women postponed childbearing and many are now having these postponed babies (so-called 'recuperation'). This has shown up as higher fertility rates for older women.
- However, some of the increase is also likely to be due to a 'quantum' effect — an increase in the number of babies women will ultimately have over their lifetimes. For example, today's young women say they are expecting to have more babies over their lifetime than those five years ago.
- Rising fertility reflects several factors:
 - Buoyant economic conditions and greater access to part-time jobs have reduced the financial risks associated with childbearing and lowered the costs associated with exiting and re-entering the labour market.
 - With more flexible work arrangements, women today are more able to combine participation in the labour force with childrearing roles.
 - A recent increase in the generosity of family benefits (such as family tax benefit A and the 'baby bonus'), though not targeted at fertility, is also likely to have played a part. However, that role has probably only been a modest one. Family policies are more powerful in providing income support, improving child and parental welfare, and serving other social goals than in affecting fertility rates.
- Overall, Australia appears to be in a 'safe zone' of fertility, despite fertility levels being below replacement levels. There is no fertility crisis.
 - Australia's population should continue to grow at one of the highest rates in the developed world because of migrant inflows.
 - Feasibly attainable increases in fertility would not significantly allay ageing of the population, nor address its fiscal and labour market challenges.

Overview

Births in Australia have reached their highest level — with around 285 000 births in 2007. These high numbers partly reflect Australia’s larger population, but more importantly, given contemporary anxieties about the adequacy of fertility, they also reflect an increase in the so-called ‘total fertility rate’ (TFR) (figure 1). In 2006, the TFR was 1.81 babies per woman, appreciably higher than its lowest level of 1.73 in 2001. It is likely to be around 1.93 in 2007, but reflecting the effects of the slowdown in global growth, there may be a short-lived ‘relapse’ in fertility in 2008 and 2009 (as has occurred during other slowdowns).

Figure 1 **After a long decline, the fertility rate is now rising**
1921 to 2007



a The 2007 TFR is estimated.

The key question for Australia’s demographic future is, short-term business cycle effects aside, whether fertility levels will stay at roughly their current level, or resume the downward trend apparent before the recent recovery. That is difficult to surmise. For example, measurement issues — such as changing patterns of birth registration, in part prompted by the ‘Baby Bonus’ — muddy the interpretation of fertility trends. And, in the past, there have been short-lived ‘blips’ in fertility

before recurrence of subsequent declines. It is possible, that after a pause, fertility will decline again if some of the long-run drivers of lower fertility — such as later partnership formation, reduced housing affordability and the greater educational status of women — continue to exert a powerful influence.

Box 1 What is the total fertility rate?

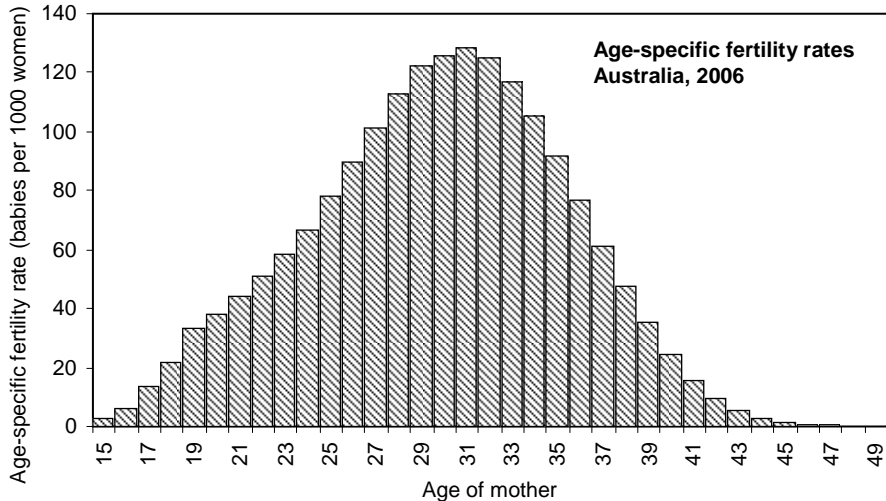
To avoid misunderstanding the key indicator of fertility — the total fertility rate (or TFR) — it is important to know how it is constructed and what it means.

In any given year, fertility rates can be calculated for women of different ages. These ‘age-specific’ fertility rates are calculated for women of each age from 15 to 49 years (with any births to women outside these ages being included in the fertility rates of 15 year olds and 49 year olds respectively) The age-specific fertility rates for Australian women in 2006 are shown in the figure below.

The TFR will then be the simple (non-weighted) sum of these rates. This is equivalent to stacking the bars in the figure below on top of one another (and dividing by 1000). The TFR is equivalent to the average number of children that would be born to a woman over her lifetime were she to experience current age-specific fertility rates through her lifetime.

A woman is unlikely to actually experience this lifetime fertility. For example, on average, 15 year olds today will not, when aged 16 in 2009 experience the age-specific fertility rate of 16 year olds apparent in 2008. It is even more unlikely that they would experience, when aged 40 in 2033, the age-specific fertility rate of 40 year olds apparent in 2008. This reflects the fact that age-specific fertility rates change over time.

While the TFR is not a reliable indicator of the number of children that young women of today will eventually have over their lifetimes, it is still a useful measure. Unlike the ‘crude’ birth rate (the sum of births divided by the population), the TFR controls for the age structure of the fertile female population. Were this not done, then as the relevant population of women aged, fertility rates would fall (as older women have lower fertility rates), though nothing would have happened to intrinsic fertility behaviour.



However, several factors suggest that the fertility rate may have stabilised at around 1.75–1.90, with a reduced likelihood that it will fall below 1.75, as anticipated only a few years ago:

- The increase in TFR is more sustained than would be suggested by random variation.
- Younger women have revised upwards their expectations of having children.
- The recent increases are consistent with the preceding deceleration of the downward trend in fertility, suggesting that the factors impeding past fertility — such as postponement of childbearing — have a weakening influence.
- The upturn in fertility in Australia is not an isolated event, but rather has been observed in many OECD countries. In particular, Australia’s experience appears to parallel that of other English speaking countries such as New Zealand, the United States, the United Kingdom and Canada.

Three distinct, but inter-related, factors have contributed to the rising total fertility rate:

- *Recuperation* — older women catching up on their previously postponed births. As in many other countries, the timing of Australian fertility behaviour has changed fundamentally over the past three decades. Women have delayed childbearing to later ages because of workforce participation, lifestyle choices, shifting social attitudes, and changing patterns of partnership formation, among a variety of other complex factors. Measured fertility falls during the initial transition to a new set of (older) ages at which women have babies. This is because younger women are having fewer children, while the fertility rates of older women have not yet risen. Eventually cohorts of women who had previously postponed childbearing start having children, which exerts a positive force on the TFR. This is recuperation.
- *Anticipation* — some women bringing forward babies that they were going to have later, in response to good economic times and family policy incentives.
- *Quantum* effects — an increase in the completed fertility above what it would have been otherwise. In contrast, recuperation and anticipation are timing (or tempo) effects that need not affect the lifetime number of babies had by women. The long-run demographic effects of fertility are dependent on lifetime fertility rates. Consequently, the presence of quantum effects in the recent fertility increase mean that the increase will have long-run, not merely ephemeral, effects.

It is hard to assess how much these various factors have contributed to the recent rise in fertility — in part because small changes in any of them are difficult to

distinguish from each other over short periods, and because they are conceptually linked. Timing decisions (inherent in recuperation and anticipation) are likely to affect lifetime fertility. Bringing births forward, or not delaying by as much, reduces the likelihood that unanticipated events will curtail childbearing (illness, partnership problems, and the natural decline of fecundity with age). Moreover, the three phenomena are likely to share common causes — conditions that are conducive to increased fertility are also likely to prompt earlier childbearing or slow the trend towards postponing childbirth.

Why has fertility been rising?

Recuperation has almost certainly been a major driver of the increase in fertility — the legacy of past postponement. But other factors are likely to have also contributed significantly. In particular, the recent period of prosperity experienced in Australia has probably played a decisive role in the upturn in fertility. This reflects greater household income, but probably more importantly:

- strong labour demand driving historically low levels of unemployment, as well as shorter average durations of unemployment
- low levels of output volatility
- flexible labour markets that have allowed part-time and casual jobs to flourish
- optimism about the future.

These factors promote childbearing by lowering the costs associated with exiting and re-entering the workforce, reducing the financial risks involved in family formation, and enabling parents to negotiate a better balance between work and caring responsibilities.

Other factors, such as greater educational achievement by women, later partnering and rising house prices are likely to have exerted a counterbalancing force and reduced the extent to which fertility may have otherwise risen.

The increased generosity of family policies — including the ‘Baby Bonus’ and Family Tax Benefit (A) — over the last eight years is also likely to have played a part, albeit probably a modest one. It may also be that the greater emphasis on family policy has highlighted community norms about the importance of children and that this, more than the monetary value of family policies, has had the bigger effect on fertility.

The international empirical evidence suggests that family policy has a small but statistically significant effect on fertility. However, the estimated effects are

typically found to be too small to explain the increase in fertility observed in Australia. The implication is that any effect has been achieved at a relatively high cost.

Were Australian fertility to have the same sensitivity to family allowances as OECD countries as a whole, then this implies that changes in allowances over this period increased the total fertility rate by about 3.7 per cent (around 0.07 babies per woman). This equates to a budget cost of about \$300 000 per additional baby (appendix D). Were a lower sensitivity of fertility to benefits assumed, the cost per additional baby could readily be significantly more. Such an assumption would not be far-fetched. There are several reasons why Australia's responsiveness to family policy is probably lower than that found in the international literature and why family policy is unlikely to have been a major factor in the recent upturn:

- family policy in Australia is not explicitly designed with pro-natalist objectives (unlike a number of countries analysed in the international literature)
- fertility in Australia has traditionally been unresponsive to increases in family policy of the type currently employed
- even with the recent increases, family payments in Australia still only represent a small fraction of the cost of raising a child.

In saying this, however, it is important to emphasise that since Australian family policies aim to promote social and economic goals other than fertility, finding only an incidental, supportive effect is neither surprising nor problematic.

Should we be worried by Australia's fertility levels?

There are widespread perceptions that Australia's fertility level is too low. This concern is driven by many factors, such as the future care for the old, countering the demographic effects of population ageing (including on workforce participation and economic growth) and the implications for Australian society.

The social implications of very low fertility levels are significant. Were Australia to have a very low fertility rate of around 1.0 to 1.2 babies per woman, then it would imply an older age distribution, a much lower visibility of children and (to make up the numbers) a significantly bigger proportionate representation of migrants in the Australian population. All of these would have cultural and social ramifications, might be hard to reverse readily, and arguably would be regretted by many Australians. It is notable that in those countries where fertility levels have dipped to around these levels, encouragement of fertility has become a major preoccupation of policy and a central concern for the community as a whole.

However, Australia has a high fertility level compared with many other developed nations, the visibility of children will not change by much in the future, and only small migrant intakes are required to maintain population growth. Consequently, it is premature to contemplate any acute social implications of the kind raised above.

Another important social dimension to fertility is the gap between people's personally ideal number of children and the number they actually expect to have. On average, this gap is around 0.4 babies per woman. To some extent, this gap may indicate the failure of policy or social institutions to support families in accordance with community norms. But there are other reasons for the gap that have less policy relevance. For example, people will tradeoff their ideals in family size for other things they wish to achieve, such as freedom. That part of the gap is not necessarily a problem and less evidently one that government policy should or could close.

Other social concerns relate to the fertility of specific groups, rather than aggregate fertility. For example, teenage pregnancies often lead to parental and child disadvantage. Births at older ages involve risks for mothers and babies.

The implication is that, at current levels of aggregate fertility, social policy should probably be more oriented towards the problems associated with the fertility levels for specific groups, rather than towards aggregate fertility levels.

While the social dimensions of fertility are a legitimate consideration in determining family policy, attempts to foster fertility primarily on economic and demographic grounds are not well-founded. Among other things:

- The fact that Australia's fertility rate is below the 'replacement level' of 2.1 babies per woman does not have long-run implications for the sustainability of Australia's population. The replacement level is the number of children a woman would need to have to ensure zero long-run population growth *in the absence of migration*. But in the presence of even a small fraction of Australia's current net migration levels, the sustainability of Australia's population is not at risk. Indeed, with current fertility rates, Australia's population is projected to grow at the third highest rate among developed countries to 2051.
- Feasible increases in fertility do little to change the future age structure of the population. For example, were the total fertility rate to climb to 2.1 babies per woman (the 'replacement' level) from 1.85 babies per woman, then the proportion of people aged 65 years or more in 2051 would change from 26.0 to 24.9 per cent.
- Even over the medium term, increases in fertility actually reduce the ratio of the prime workforce (those aged 15–64 years) to the number of people aged under 15 and over 64 years — the 'support' ratio. Likewise, higher fertility depresses

labour supply per capita growth over the next 50 years — precisely the period when the baby boom generation are withdrawing from the labour market. In the long-run there are positive effects of higher fertility on labour supply per capita and a reduction in dependency — but, for realistic changes in fertility, both effects are small.

- Higher fertility actually aggravates Australia’s fiscal pressures before it helps them, since the costs associated with raising extra children occur upfront, whereas the fiscal benefits are deferred for a long period. (Unlike many European countries, Australia has no impending pension crisis.)

Implications

Taking account of all of the existing evidence, there is no current or looming impending fertility crisis in Australia — Australia’s present fertility level is likely to be roughly at levels that avoid the problems of excess or insufficient fertility. Problems are only entailed if Australia were to move outside this ‘safe zone’.

The judgment that Australia has, and will continue to experience, relatively high fertility levels does not mean that there are no grounds for fertility policy. Australia’s current fertility levels are, in part, an outcome of social institutions and policies that lower the costs of raising children and that reduce the tradeoffs between careers and bearing children. While there are legitimate questions about the impacts and design of some of these policies, a wholesale retreat from such policies would risk a long-run shift to much lower fertility levels.

Finally, there are a wide range of family policies that may incidentally affect fertility, but which are premised largely on improving parental and child welfare, encouraging gender equity, achieving social justice and encouraging workforce participation, rather than more babies per se. Such policies may still have sound foundations, regardless of any diagnosis about the adequacy of a country’s fertility levels. The Commission’s current inquiry into the design and impacts of paid parental leave in Australia is assessing several issues in one such area of public policy.