

## Chapter Nine

### FATHERHOOD AND THE NEW ZEALAND POPULATION “PROBLEM”: AN ECONOMIST’S VIEW

by  
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#### 1. CHOICE AND FATHERHOOD

Why do men become fathers? The standard economic starting point in answering this question is that people (including men) act rationally and in a self-interested fashion. This assumption is of course literally false, like any other generalisation about human behaviour, but it is on occasion a useful and powerful simplification, as long as we do not let it run away on us.

The key point that this leads to is that fatherhood (as motherhood) is normally a rational choice made by men who assess the expected private benefits they obtain from having a child to be in excess of the expected private costs they bear.

Even if we consider heterosexual sex likely to lead to conception to be biologically programmed for many men, the nature of contraceptive technology, its low cost, ready availability and known low probabilities of failure support fatherhood being a rational individual choice, perhaps in the majority of circumstances, for at least the last generation.

In terms of contraceptive failure, information on failure rates is readily available at low cost: men have little excuse for not knowing about the existence and approximate size of the risk of contraceptive failure. If men have sex with women involving a chance of conception then men chose to accept this risk and therefore chose to have children (or more accurately chose a positive probability of having a child, and a probability of facing the attendant benefits and costs) if contraception fails.

In discussing fatherhood acknowledgement of this choice is important. Equally important is consideration of situations where choice to become a father is limited or non-existent. The first caveat to the choice model set out above arises if the

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<sup>1</sup> The views expressed in this article are my own and not those of my employer.

contraceptive responsibility is the woman's, she evades the responsibility without informing the man, and she consequently becomes pregnant. If such an information asymmetry exists, male choice in any real sense to father a child may be compromised. Most of us have anecdotal evidence of this asymmetry problem directly or from friends and family but we have little idea how prevalent such behaviour is. Men, of course, can insure themselves against this eventuality by taking the contraceptive responsibility themselves but such a change in choice of contraceptive technology part way through a relationship, indirectly asks a question about trust in a relationship which may actively undermine it. Hence the change to male responsibility may not occur.

A second asymmetry between men and women arising out of fatherhood is the question of paternity or maternity. Women know that they are the biological mother. Men do not know whether they are the biological father, at least not without further tests which may not be available if they are married to and living with the woman, have signed the birth certificate and the woman exercises her right as mother to not allow a DNA test.

Furthermore male choice over fatherhood is legally restricted in comparison to women. Legal rights mean that women have the sole choice about termination of a pregnancy. The putative father does not have the right to demand an abortion of the mother if he does not want the child and she does, even though child birth imposes financial obligations on him. In addition, he does not have a right to ensure that the baby is carried to term by the mother (if he wants the child and she does not).

A biological rather than legal asymmetry in terms of fatherhood choices working to the advantage of men is that their period of fertility is considerably longer than that of women, so that men have a greater time span over which they can choose to have children.

My final caveat to the choice model which I have outlined above is the reality of a cognitive dissonance problem. Men say to themselves: "I'm too smart to get anyone pregnant", or "I don't want to know about contraceptives or their risks since finding out about it involves me admitting I've been stupid or careless over the last n years with my contraception". How important this cognitive dissonance is I do not know but I do not wish to deny the likelihood it may be an important factor in mitigating the choice model in many cases.

## **2. WHY DO FATHERS CHOOSE TO HAVE CHILDREN?**

If we are prepared to concede that in many cases (a majority?) fatherhood involves a fairly active choice by men, what are the costs and benefits that fathers will weigh up when they make a decision to have children?

Economists think of children as fulfilling a variety of functions for parents (both mothers and fathers): as producers (i.e. children as investment goods), consumption goods, and insurance contracts. Let me consider each potential function in turn.

Fathers may rationally have children if they can put their children to work and extract a surplus over and above the running costs of the child. Thus children can be seen as functioning as a choice decision in a father's investment portfolio. If fathers can get a better return from investing their cash in bonds or the sharemarket rather than feeding, clothing and housing an additional child then they will chose not to have the extra mouth to feed, all other things being equal.

In lower income countries the economic opportunities for child labour, the fact that the father has certain legal or customary rights to appropriate the product of the child, and the fact that for many fathers other investments yield a lower rate of return is a primary reason to have children. While in richer societies using children as producers is less prevalent, nevertheless parents, including fathers, still try and offset some of the costs of having children by requiring them to produce non-marketed services which the parents wholly or partly appropriate within the household. Recalling my own childhood, my sole parent mother had her sons cooking dinner for her from a very young age and mowing the lawns (with a hand-mower). This reduction in her time required to produce non-marketed household output enhanced both her marketed income (pay, since she could go out and be employed as a teacher) and her leisure time (sleeping in or reading while the boys mowed the grass or prepared dinner). Nevertheless, it is fair to say that few if any fathers in our society would get a positive return from their children if they were considered solely as investment goods.

Perhaps the most important reason parents have children is that children function, as Chicago economists Gary Becker put it, as a consumer durable. Like a refrigerator, children last and deliver consumption benefits over a considerable time span. There are clearly substantial non-market benefits – or in less jargonistic terms pleasures – to be had in having children. There are pleasures in playing with them, watching them learn and grow, and loving them and having them love you. There is also the pleasure in generational continuity - the idea that we live on through others with whom we are both socially and biologically related - and seeing the pleasure that they give their grandparents and other relatives.

Finally fathers (and mothers) may have children to provide for them in sickness or in their old age. In this case children are a form of health and old age insurance. In societies without old age pensions and with few financial instruments like pensions, sickness benefits or health insurance (because these markets are thin through prevalent moral hazard and lemons problems) children may be a good insurance policy. In societies like ours, where there are plentiful financial instruments for savings and state provision of sickness and old age benefit, there is not the same need to have children to function as a sort of family social welfare system. Consequently today the insurance reason for having children is substantially less than perhaps it has been in the past or in other societies. Nevertheless the insurance function of children in our current society is doubtless a factor considered by some in making a decision to have children.

### 3. DO WE NEED MORE CHILDREN?

Pro-natalists, including some at the recent fatherhood conference<sup>2</sup>, sometimes claim there are greater public benefits to having children than are evident in our current public incentives provided to have children. Furthermore, they argue that because of low rates of current natural increase and low net immigration New Zealand increasingly has a population problem. In particular they are worried about the ageing population structure and the consequent difficulties of providing for the retired. As a policy suggestion they suggest increasing the public subsidies to having children to both fathers and mothers.

The pro-natalist argument seems one of distributive justice (non-parents are free riding off parents, old people in the future will have lower incomes because there will be fewer working people to support them) and of economic efficiency (low population growth means we lose the ability to reap scale economies).

The first point that needs to be made about this group is that they implicitly accept that parenting, including fatherhood, is a choice amenable to economic incentives. Given that they advocate a policy of subsidising parents to have children to increase the population, they are suggesting that parents respond rationally to changed incentives to have more children. The implicit assumption is that there are strong responses by people to changed financial incentives to have children. I am less sure about strong responses to such incentives than I am to the suggestion that parents respond to incentives.

I note with some surprise that while the pro-natalists who advocate a variety of subsidies to fathers and mothers to have children rarely consider other alternative policies which achieve identical ends. These alternative pro-natalist policies designed to boost population include taxes on all forms of contraception (including abortion), reducing subsidies for family planning services, and taxation of the fertile but childless.

Some pro-natalists at the fatherhood conference argued “families are fiscally exploited” and that parents “gift” their children to society. I feel an at least equally good case can be made that those who do not have children are fiscally exploited and there is no “gift” since society pays in many ways for children. Consider the vast amounts spent by the state on child health, education, housing, and income support – a transfer from the childless to those with children. Non-parents currently subsidise children through the tax/transfer system. Large amounts of the health budget is earmarked for children. Equally education spending, functioning both as education and free childcare, is largely paid for by the taxpayer. Finally much of the social welfare budget is a child subsidy, the most obvious example being the domestic purposes benefit. Thus in terms of distributive justice it is not plain to me that parents are getting exploited by the state (and thus indirectly by non-parents).

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<sup>2</sup> Social Policy Forum, “Fathers, Families and the Future”, Wellington, 19 April 1999.

Many pro-natalists focus on the public benefits and private costs of children. They omit to discuss the private benefits of children, mentioned above, nor the fact that revealed preference suggests that for many fathers who have children the private benefits clearly exceed the private costs. Pro-natalists also omit consideration of the considerable public costs of children. Consider the harmful externalities of young skateboarders. Consider my direct experience in seeing the Matrix, the latest sci-fi film – a bawling baby and parents who seemed happy to ignore it which interrupted the pleasures of other movie goers. More seriously consider the negative externalities imposed on society by teenage children.

The conclusion of pro-natalists that we have a population problem is not self-evidently true. Further, even if we have a problem of a population which is too small, it is not self-evident that pro-natalist policies are the only or best solution. A classic pro-natalist argument is that we need the next generation to look after us as we age. This argument must be based on the external effects of children – benefits of the next generation to third parties. The current incentive structure, pro-natalists imply, is such that too few children are born. Thus we need to internalise the externality through a tax on non-reproduction or subsidy to reproducers.

However we individually know current fertility trends and therefore can rationally make provision for the inevitability of old age by purchasing income generating assets abroad which we run down during our retirement. In this case no child subsidy and consequent later inter-generational compulsory transfer from young to old is needed. In terms of generating income from abroad to support the next generation there is always the risk of the assets being nationalised or the foreign country stopping transfers of income (but that is a risk we are already facing to a certain degree in a globalised economy). Nationalisation risks can be controlled by spreading the investment portfolio across a number of countries.

Alternatively we can avoid increasing our saving today and import educated adults freely from the rest of the world (easy to do given we are one of the wealthiest countries in the world), saving on child rearing costs, from whom we can generate tax revenue to top up our depleted coffers when we age. It is not as if we live in a world short of children. The migrants in turn can if they choose follow the same pattern when they age or have their own children. The only other problem with such a policy is that people brought in may not feel so inclined to support the aged if there are no strong kinship links. However it is as well to be aware that the nation state in any case is not based on shared kinship links.

Overall if – and it is a big if – the next generation is going to be too small in the absence of any policy change there may be more efficient ways of achieving a higher population than the encouragement of more fatherhood and motherhood.

## **IN SUMMARY**

An economic approach can result in interesting and provocative ways of thinking about why fathers have children. The approach forces us to focus on choice and private and public costs and benefits which probably do play an important role in decisions that men make to become fathers. At the same time it is worth acknowledging that other social science perspectives are not only valuable adjuncts but necessary in their own right. Traditional economics underplays the role of doubtless important factors in the area of fatherhood like irrationality, cognitive dissonance, tradition, morality and emotion.

The argument that children are under funded and that the state needs to increase the net subsidy on children to encourage more fatherhood otherwise New Zealand faces a future population problem is not a strong one, even on equity grounds. The argument lacks rigour and is based on long chains of logical reasoning which are weak at several points. The contention that we have a population problem has not been established and, even if we accept there is a population problem, policy alternatives to expanding the population at the margin apart from child subsidies need to be considered.