Europe has a low-fertility problem â?? so why does it tax its own reproduction?

Description

Pieter Vanhuysse

Societies adhere to an erroneous â??stork theoryâ?• of child-rearing when they do not account for all the resources required to raise the next generation, writes **Pieter Vanhuysse***. This helps explain why European countries currently tax rather than subsidise their own reproduction, despite fertility rates stubbornly sitting well below the replacement level required to maintain the size of the population.*

As different generations live together, they transfer valuable resources among each other. Childhood is the most resource-dependent lifestage. Newborn infants are delivered into this world â?? though not by storks, but by their mothers. Then, it takes on average twenty-five years to turn newborns into resource-productive adults. But how many resources does this childrearing process really require? And who pays for it? These are questions of primordial importance as they pertain to demographic renewal and fiscal sustainability â?? to how societies reproduce over time.

Parents use a combination of three channels to rear children: (1) staying at home to care for their child (giving â??timeâ?•), (2) buying market goods and services (giving â??moneyâ?•), or (3) working and paying higher net public transfers (â??taxesâ?•) that will finance state activities, including social policies for children. But importantly, these three channels are not equally visible in statistics. Parents do not keep accounts of how much time and money they spend rearing their children, so these transfers leave few traces. By contrast, taxes and social security contributions are much better recorded in national statistics.

In a new study**,** sociologists Robert Gal, Marton Medgyesi and I argue that this asymmetric statistical visibility matters a great deal, as it hides an important further asymmetry in who shoulders the cost of reproducing society. We use new accounting methods for twelve EU countries to measure not just all public transfers (the â??stateâ?•) but, crucially, also to value the less visible flows of private time and money. It takes a village, said Hillary Clinton. As we show, it certainly takes taxpayers, but even more so, parents.

A â??green momentâ?• for demographic renewal?

The notorious â??green momentâ?• in thinking about macro-economic growth came when more inclusive ways of accounting laid bare the degree to which standard GDP-measured growth tapped into unpriced but valuable environmental resources. In the same vein, shining a wider light on less visible resource flows between generations reveals to what degree societies tap into a hidden and undervalued world of transfers within families.

This allows us to better measure the production of economic value, too. GDP, for instance, still does not count unpaid household labour. Economic statistics today render enormous amounts of unpaid care work invisible, even though firms and governments could not function without the human capabilities and fiscal revenue created by care work.

Better accounting for intergenerational transfers truly shifts perspectives, and not just marginally. Parents in Europe contribute somewhat fewer public transfers than non-parents. But, away from the statistical limelight, parents additionally provide large transfers of time and money to their own children. This might seem unremarkable. Parents are, after all, the primary caretakers. What is remarkable is that these hidden extra transfers are so large that they change the entire picture.

Over an entire working life, the average parental/non-parental contribution ratio in Europe flips around, from 0.73 when measuring public transfers alone, to 2.66 when including all three transfer types. In other words, parents contribute about one-quarter fewer net taxes than non-parents. But when we then also value all flows of time and money, it turns out that parents contribute over *two-and-a-half times more* resources overall.

Why do such large asymmetries in cost-sharing matter? Rearing children is not just a personal lifestyle choice. Children are also public goods. As they grow up to become taxpayers, social security contributors, caregivers and parents in their turn, children will finance future public goods and welfare states. All of this will then also benefit non-parents.

Hence childrearing creates positive externalities. To be sure, not all parental inputs carry such externalities: some part resembles pure consumption. Parental transfers may also reduce intergenerational mobility. So why should parents be compensated for the high transfer cost of something they presumably freely engaged in?

Debunking another â??stork theoryâ?•

A key reason is that not counting the positive externalities of a good generally leads to socially suboptimal amounts of that good being produced. If societies do not fully value the transfer cost of childrearing, they risk producing too few productive adults. This puts the intergenerational social contract under severe strain. Ultimately, labour markets and welfare states could not continue to function well without the value produced by families. In Alfonso CuarÃ³nâ??s cult sci-fi thriller *Children of Men*, two decades of infertility have brought society near collapse.

Even in the most liberal societies, everyone, irrespective of their personal conception of the good life, has a strong interest in having someone produce the next generation of workers and taxpayers. Barring immigration on a politically wholly unrealistic scale, the renewal of the fiscal basis of the welfare state crucially depends on sustainable demographic reproduction.

This is a function of both the size (â??quantityâ?•) and the productivity and capabilities (â??qualityâ?•) of successive generations — of what mainly parents do. This is why childrearing acquires the deeper status of producing a *socially necessary* public good. This creates stronger moral obligations for all those who benefit to share in its cost.

It is the relative invisibility of parental time and money transfers that allows welfare states to free-ride on the cost of producing the next generation of workers and taxpayers. Today, policy practices do not fully take into account how the human and fiscal resources welfare states and labour markets tap into were created in the first place.

Societies thus adhere to another â??stork theoryâ?• that needs debunking. Just as newborn infants are not actually delivered by storks, resource-productive adults do not just drop fully formed out of the sky. Rather, they are delivered to society after a further twenty-five years of child-rearing, financed to some degree by all taxpayers but to a larger degree by their own parents.

Challenging the policy status quo

Better measuring the distributional impact of the status quo would allow debates about the social and private costs of demographic renewal to be held on more complete and more explicit terms.

Many activities with positive externalities, such as charitable donations, private savings or investments in green technologies, are awarded tax credits. In Ancient Rome, tax laws recognised childrearing as an activity fiscally equivalent to paying taxes. The poorest Roman citizens were tax-exempt but were considered to contribute in kind by rearing their offspring. They were called *proletarii:* men who could serve the public only by fathering children (*proles*).

But when parents produce positive externalities today, instead of receiving tax credits, they shoulder a significant extra resource contribution load. We calculate that the â??taxâ?• rates implicitly imposed thereby on child-rearing are much higher than the value-added tax rates currently in place in Europe on consumption goods such as food, clothes and electronics. Is this good policy?

Parental prisoners of love

There is something quite wrongheaded about two other widespread societal (non-)valuation practices: the â??motherhood penaltiesâ?• and â??carer penaltiesâ?• in labour markets. Mothers love their children and carers love their jobs. These, too, are presumably freely chosen pursuits. Yet making mothers and carers pay an earnings penalty is akin to freeriding on that love: a form of exploitation. This is neither just nor efficient. Care economist Nancy Folbre put it memorably:when societies take prisoners of love, it does not benefit them in the long run. This is an unsustainable policy.

Better accounting for invisible value production matters as it substantially changes how we understand, let alone address, the same policy question. This applies to care work and motherhood. It applies to green growth. And it also applies to the transfer cost of producing the next generation of workers and taxpayers. Children are partly consumption to their parents, but they are also a socially necessary public good.

Toward a more holistic human capabilities policy paradigm

When parents contribute over two-and-a-half times more resources than non-parents, this captures the sheer magnitude of the asymmetric cost-sharing. The private resources parents give their children may be statistically less visible, but they are no less real â?? and no less essential for social reproduction.

The same resources could have been spent otherwise, in more consumption or savings. Unlike savings, the private transfer cost of childrearing really is a cost and only metaphorically an â??investmentâ?•. Parents do not get to keep the capital they spend, nor do they receive positive returns for it. The large size of this â??privatisedâ?• cost will affect parenting decisions and lower fertility levels.

This raises important questions about policy models in an aging Europe of elderly-oriented welfare states. Across Europe, parents have significantly fewer children than they would like. Of course, we are nowhere near the zero-fertility dystopia of *Children of Men*. But Europe has, for a while now, grappled with fertility rates well below replacement level, high or still-increasing levels of childlessness, and larger, longer-living elderly populations. Yet despite rising demographic tensions, societies unwittingly tax rather than subsidise their own reproduction. In the long run, this is an unsustainable policy.

To secure its future foundations and avoid becoming a continent of gerontocracies, Europe needs to make its currently elderly-oriented welfare states more intergenerationally balanced and much more human capital-oriented. Notwithstanding its name, the â??social investment paradigmâ?• needs to design more holistic and more extensive policy models to better assist, value and incentivize the work of parents, carers and educators â?? those who nurture the human capabilities that will later sustain us all.

For more information, see the authorâ??s accompanying paper at Royal Society Open Science (co-authored with MÃ¡rton Medgyesi and RÃ³bert IvÃ¡n GÃ¡l)

This blog post was first published in EUROPP European Politics and Policy by the LSEâ??s European Institute.

Illustration by Hannah Vanhuysse (7).

Pieter Vanhuysse (PhD, *LSE*) is a member of the European Academy, a Full Professor of Politics and Public Policy at the Department of Political Science and a Senior Fellow at the Danish Institute for Advanced Study, University of Southern Denmark. He works on political economy, welfare states, political demography and intergenerational transfers.

Date Created
November 20, 2023
Author
politikwissenschaft_h1c5yk