

Asymmetric Fertility Elasticities

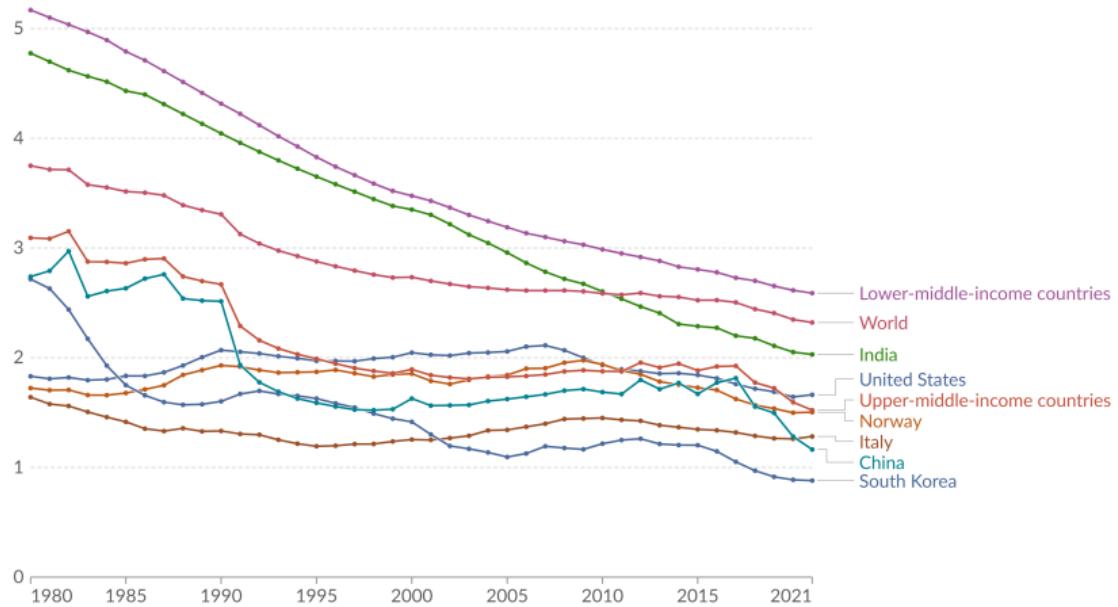
Sam Engle Chong Pang Anson Zhou

February 25, 2024

The rise of below-replacement fertility

Fertility rate: children per woman

Our World
in Data

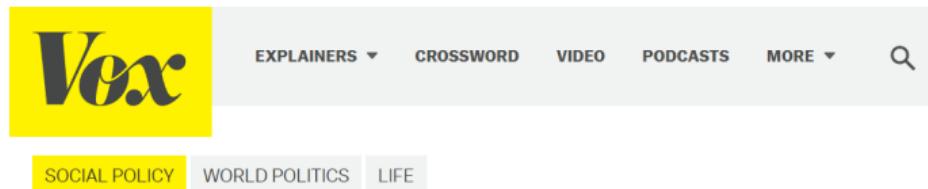


Data source: United Nations, World Population Prospects (2022)

OurWorldInData.org/fertility-rate | CC BY

Note: The total fertility rate is the number of children born to a woman if she were to live to the end of her childbearing years and give birth to children at the current age-specific fertility rates.

Raising fertility is difficult



The image shows the header of the Vox website. At the top left is the Vox logo in a stylized, lowercase font on a yellow square. To the right are navigation links: EXPLAINERS, CROSSWORD, VIDEO, PODCASTS, and MORE, each with a dropdown arrow. A magnifying glass icon for a search bar is also present. Below the main header, there are three categories: SOCIAL POLICY (highlighted in yellow), WORLD POLITICS, and LIFE.

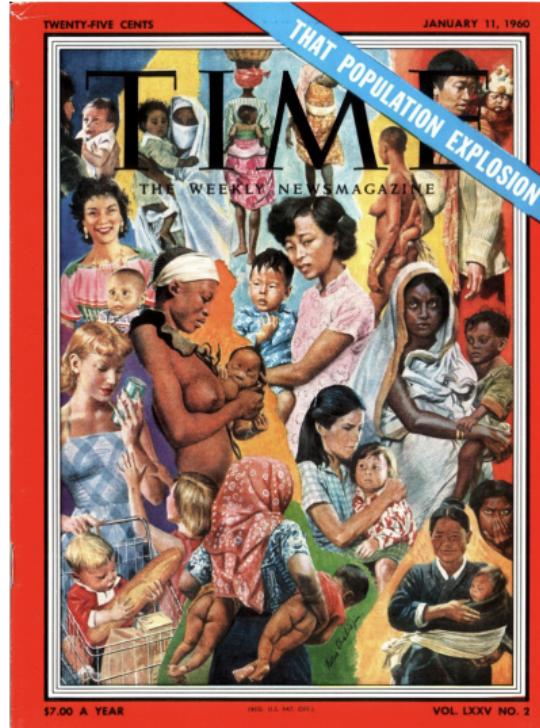
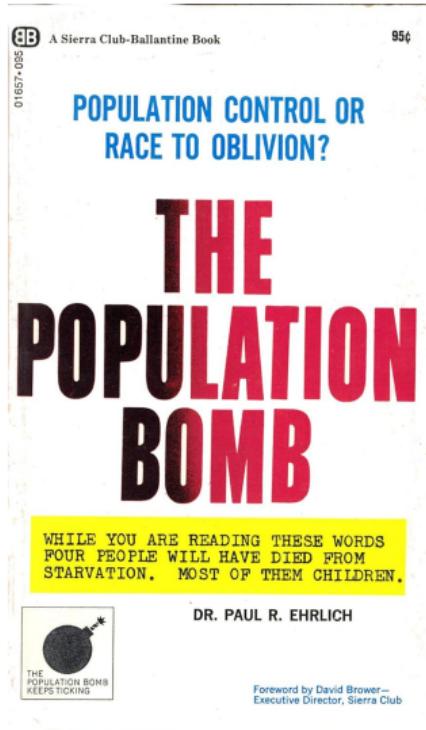
You can't even pay people to have more kids

These countries tried everything from cash to patriotic calls to duty to reverse drastically declining birth rates. It didn't work.

By Anna North | Nov 27, 2023, 8:00am EST

- “Pro-natal policies work, but they come with a hefty price tag” (Stone 2020)
- Interestingly, many countries with low fertility problems now were trying to reduce fertility not so long ago – and they succeeded!

The specter of Malthus in the 1960s



The global family planning movement

- Led by global organizations such as the United Nations, the World Bank, and Bill & Melinda Gates Foundation
- Many country-specific policies (e.g., the one-child-policy in China)
- Attaches more benefits to low fertility and population: economic development, health, gender equity, environment. . .

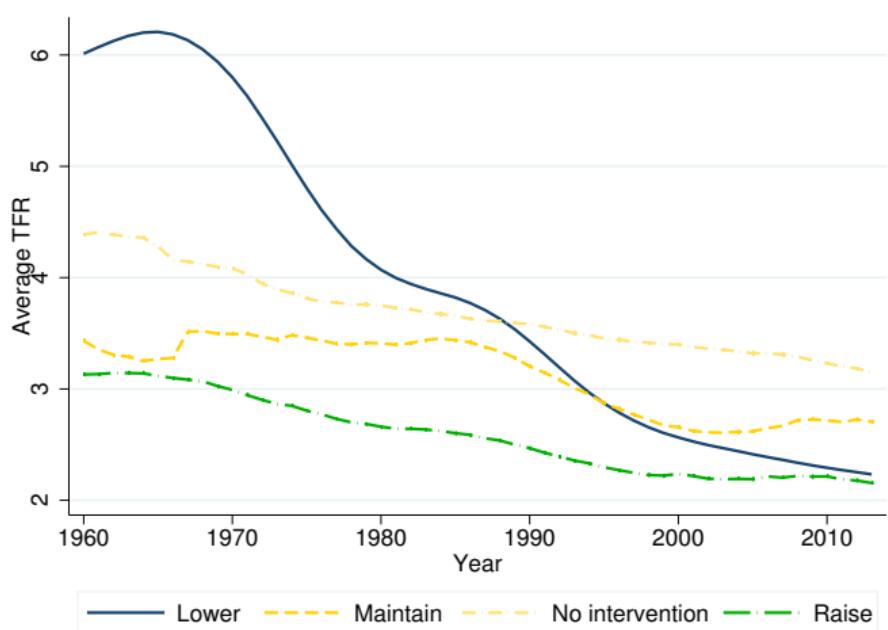
CLIMATE CHANGE | OPINION

Population Decline Will Change the World for the Better

A future with fewer people offers increased opportunity and a healthier environment

By Stephanie Feldstein on May 4, 2023

Reducing fertility seems to be easier



- Family planning policies played an instrumental role in explaining the rapid fertility convergence (de Silva and Tenreyro 2017)

This paper

- Research Questions
 1. Is it more difficult for the government to raise fertility than to reduce it?
 2. If so, what could be the reason behind and what are the policy implications?
- What we do:
 1. Empirically: establish **asymmetric fertility elasticities** using panel regression and cohort difference-in-difference methods
 2. Quantitatively: a dynamic model of cost minimization by the government
⇒ under asymmetric elasticities, fertility level has large **positional values**
 3. Theoretically: a behavioral theory of fertility choice under loss aversion

Literature

- Long-run fertility trajectory: Malthus (1872), Becker (1960), Easterlin (1968), Galor and Weil (2000), Feyrer et al. (2008), [Lutz et al. \(2007\)](#), Ibbotson (2019)
Contribution: downward pressure due to loss aversion
- Policy evaluations: McElroy and Yang (2000), Liu and Raftery (2020), Schultz (2007), Milligan (2005), Laroque and Salanié (2014), Raute (2019)
Contribution: document systematic asymmetry and its implications
- Fertility choice theory: Barro and Becker (1989), de la Croix and Doepke (2004), Córdoba and Ripoll (2019), [Kim, Tertilt, and Yum \(2024\)](#)
Contribution: incorporate loss aversion over consumption

Roadmap

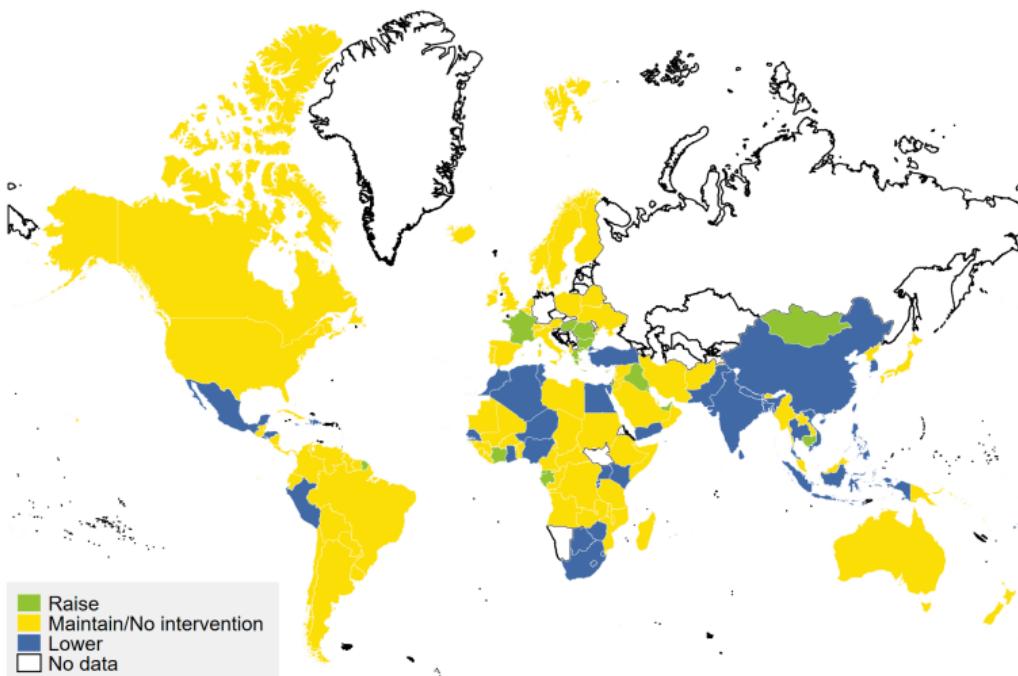
- Empirical results
- Quantitative model
- Theory to provide micro-foundation
- Conclusion

Empirical Analyses

Data

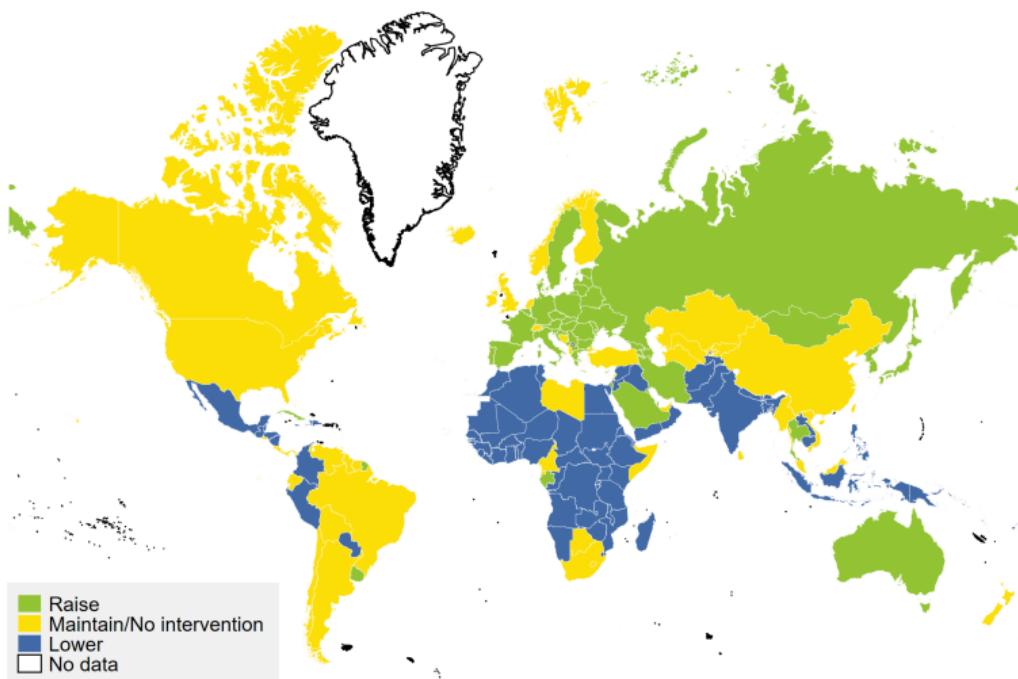
- Fertility data from the United Nations
- Policy stance dummy assigned by the UN Population Division since 1976
- Family planning expenditures from various sources following de Silva and Tenreyro (2017)
- Aggregate control variables from PWT and WDI: GDP per capita, urbanization, infant mortality, female labor force participation
- Individual-level data on fertility, education, and income from the World Value Survey (WVS) Database

Fertility policy in 1986



Source: United Nations Population Division

Fertility policy in 2013



Source: United Nations Population Division

distribution

Panel regressions

- We estimate the following specification

$$\begin{aligned}\Delta \text{TFR}_{it}/\text{TFR}_{it-1} = & \alpha + \beta_1 \text{Policy_Lower}_{it} + \beta_2 \text{Policy_Raise}_{it} \\ & + \beta_3 \text{Control}_{it} + \sigma_i + \eta_t + \epsilon\end{aligned}\tag{1}$$

- Explanatory variables constructed by

$$\text{Policy_Lower}_{it} = \frac{1}{N} \sum_{T=t-N}^{t-1} \mathbb{I}(\text{Policy}_{iT} = \text{Lower})$$

$$\text{Policy_Raise}_{it} = \frac{1}{N} \sum_{T=t-N}^{t-1} \mathbb{I}(\text{Policy}_{iT} = \text{Raise})$$

Results

Table 1: Population Policy and TFR

Dependent Variable		Δ Total Fertility Rate/Lagged Fertility Rate					
Policy Variables		Last Year		Average in the Last Five Years		Average in the Last Ten Years	
		(1)	(2)	(3)	(4)	(5)	(6)
Lower fertility		-0.0118*** (0.0013)	-0.0071*** (0.0055)	-0.0129*** (0.0015)	-0.0076*** (0.0016)	-0.0102*** (0.0020)	-0.0042* (0.0022)
Raise fertility		0.0013 (0.0034)	0.0016 (0.0030)	0.0034 (0.0039)	0.0013 (0.0034)	0.0023 (0.0040)	0.0002 (0.0039)
Country Fixed Effect		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect		Yes	Yes	Yes	Yes	Yes	Yes
Control Variables		No	Yes	No	Yes	No	Yes
Observations		10726	9146	10726	9146	9937	8462
R^2		0.133	0.174	0.133	0.173	0.123	0.170

Cohort difference-in-difference

- Using individual-level data, we estimate the following specification

$$\text{Child}_{icbt} = \alpha + \beta_1 \text{Policy_Lower}_{icbt} + \beta_2 \text{Policy_Raise}_{icbt} + \eta \text{Age}_i \times \text{Gender}_i + \gamma_{ct} + \delta_b + \epsilon \quad (2)$$

- Individual's exposure to policy constructed as

$$\text{Policy_Lower}_{icb} = \frac{1}{11} \sum_{t \in [b + \text{MAC}_{ct+18}-5, b + \text{MAC}_{ct+18}+5]} \mathbb{I}(\text{Policy}_{ct} = \text{Lower})$$

$$\text{Policy_Raise}_{icb} = \frac{1}{11} \sum_{t \in [b + \text{MAC}_{cb+18}-5, b + \text{MAC}_{cb+18}+5]} \mathbb{I}(\text{Policy}_{ct} = \text{Raise})$$

Results

Table 2: Population Policy and the Number of Children

Dependent Variable Interpolation of MAC	Number of Children								
	Country-Specific Year Polynomial				Nearest Neighbor			Socioeconomic Variables	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Target: Lower fertility	-0.776*** (0.220)	-0.762*** (0.210)	-0.624*** (0.185)	-0.844*** (0.201)	-0.655*** (0.188)	-0.875*** (0.208)	-0.831*** (0.243)	-0.821*** (0.232)	-0.631*** (0.215)
Target: Raise fertility	0.278 (0.181)	0.304* (0.162)	0.131 (0.186)	0.168 (0.167)	-0.007 (0.185)	0.141 (0.189)	0.259 (0.221)	0.262 (0.191)	0.046 (0.202)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Income Level-Age-Gender FE	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Education Level-Age-Gender FE	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Macroeconomic Controls	No	No	Yes	No	No	Yes	No	No	Yes
Observations	205324	183738	163768	231257	205288	182719	210785	186911	170841
R ²	0.281	0.294	0.301	0.285	0.297	0.303	0.279	0.295	0.298

Intensive margin

- Using data on expenditures, we estimate the effects of anti-fertility policies

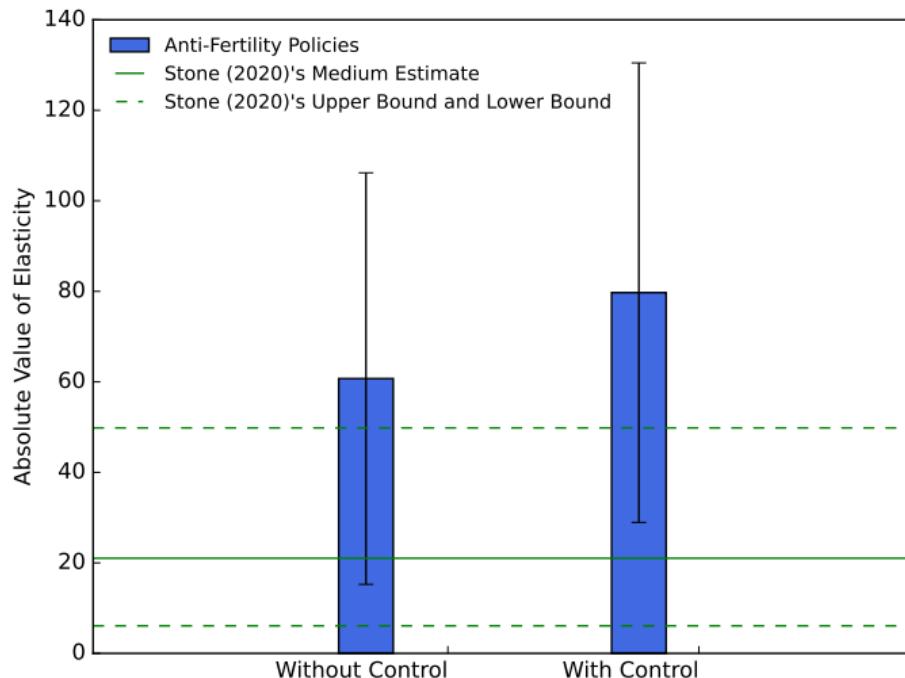
Table 3: Elasticity Estimation for Anti-Fertility Policy

Dependent Variable	Δ Total Fertility Rate/ Lagged Total Fertility Rate	
Construction of Policy Variables	Average in the Last Five Years	
	(1)	(2)
Anti-fertility policy funding-GDP Ratio	-60.72*** (22.65)	-79.71*** (25.29)
Country Fixed Effect	Yes	Yes
Year Fixed Effect	Yes	Yes
Control Variables	No	Yes
Observations	2754	2648
R^2	0.220	0.278

- Results consistent with de Silva and Tenreyro (2017)

Results

- Compare with recent meta-study of pro-fertility policies (Stone 2020)



Robustness

- Use levels instead of percentage changes in fertility
- Policy effects at different horizons
- Selection into treatment
- Country-specific trends
- Controlling for past fertility to mitigate reverse causality
- Importantly, the object we care about is the **ratio** between coefficients

Quantitative Model

Model setup (1)

- Government takes reference fertility n_t^r as given, chooses actual fertility n_t to minimize the discounted stream of costs

$$\mathcal{W}(n_t^r) = \max_{n_t} - \underbrace{\mathcal{P}(n_t, n_t^r)}_{\text{policy expenditure}} - \underbrace{\mathcal{S}(n_t, \bar{n})}_{\text{social cost}} + \beta \cdot \mathbb{E}_\epsilon \mathcal{W}(n_{t+1}^r)$$

$$\mathcal{P}(n_t, n_t^r) = \begin{cases} \pi^+ \cdot (\log(n_t) - \log(n_t^r)) & \text{if } n_t \geq n_t^r \\ \pi^- \cdot (\log(n_t^r) - \log(n_t)) & \text{if } n_t < n_t^r \end{cases}$$

$$\mathcal{S}(n_t, \bar{n}) = \lambda \cdot (\log(n_t) - \log(\bar{n}))^2$$

- Asymmetric fertility elasticities reflected in $\pi^+ > \pi^- > 0$

Model setup (2)

- Dynamic reference updating an adaptive reference updating process subject to idiosyncratic shocks (Thakral and Tô 2021)

$$\log(n_{t+1}^r) = \phi \cdot \log(n_t) + (1 - \phi) \cdot \log(n_t^r) + \epsilon$$

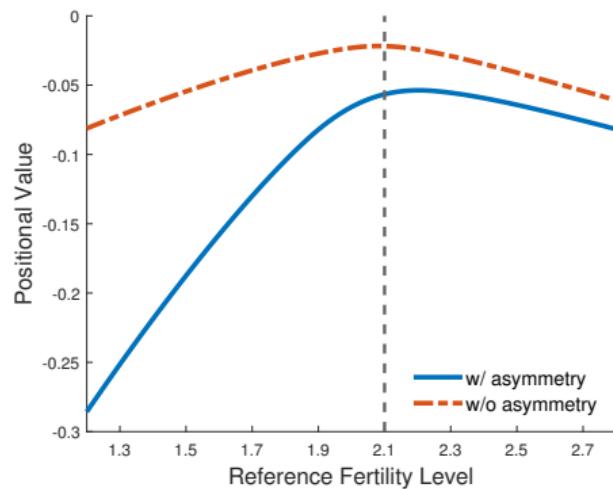
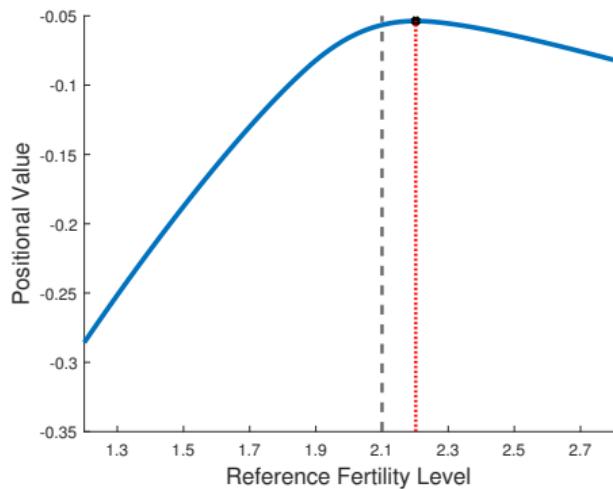
$$\epsilon \sim \mathcal{N}(0, \sigma_\epsilon^2)$$

- $\phi \in [0, 1]$ determines how long the government needs to spend to change people's reference point
- A new concept: $\mathcal{W}(n_t^r)$ is the **positional value of fertility level** that captures the (expected) discount value of policy expenditure and social cost

Calibration

- $\pi^+ = 0.05$ and $\pi^- = 0.014$ (% of GDP) from empirical estimates
- $\beta = 0.96$ for an annual model
- $\bar{n} = 2.1$: a commonly stated policy goal
- $\lambda \in \{0.02, 0.2, 2\}$: TFR=1.64 (USA 2022) results in a social cost of 0.065%, 0.65%, or 6.5% of GDP annually
- $\phi = 0.13$: the expected half-life of the original reference n_t^r is five years
- $\sigma_\epsilon \in \{0.01, 0.05, 0.1\}$

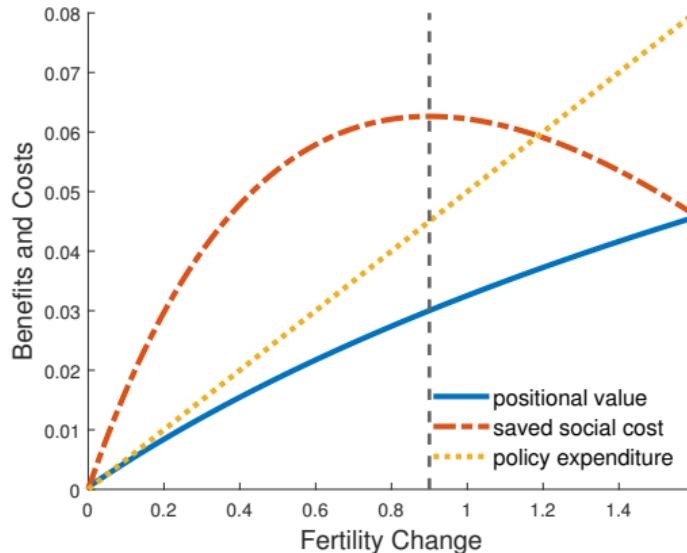
Positional value of fertility Level



- Key observation: $\pi^+ > \pi^- \implies \text{argmax}_n \mathcal{W}(n) > \bar{n}$
- Countries ignoring asymmetric fertility elasticities might go “too far” when they reduce fertility, landing in the steep part of $\mathcal{W}(n)$

wishful

Benefits and costs of pro-fertility policy when $n_t^r = 1.2$



- Gains in positional value due to changing future reference n_{t+1}^r
- Such gains are large, almost 1/3 to 1/2 of the saved social cost in baseline

Cost-minimizing fertility level

- Following the **buffer-stock intuition**, we find that the cost-minimizing reference fertility $n^* = \operatorname{argmax}_n \mathcal{W}(n)$:
 - is greater than \bar{n} as long as $\pi^+ > \pi^-$
 - increases with the social cost of fertility deviations from \bar{n}
 - increases with the magnitude of reference level shocks
- n^* does not depend much on the speed of reference updating

cost shock speed

A Behavioral Theory of Fertility Choice

A Behavioral of Fertility Choice

- A theory to provide micro-foundation of why $\pi^+ > \pi^-$
- Key ingredient: individuals have loss aversion over consumption
- Households solve

$$\max_{c,n} (1 - \alpha)(u(c) + v(n)) + \alpha G(u(c) - u(x))$$

$$c + \chi n = y \quad v(n) = \frac{n^{1-\gamma} - 1}{1 - \gamma} \quad \gamma > 1$$

- $\gamma > 1$ is a sufficient condition such that a rise in the cost of children χ raises the marginal cost of consumption c
- c can be interpreted broadly to capture other aspects of living standard
- Loss aversion exists as long as $\alpha > 0$

Loss aversion over consumption

- Individuals have loss aversion à la Santoro et al. (2014)

$$G(y) = \begin{cases} y & y \geq 0 \\ 1 - \exp(-y) & y < 0 \end{cases}$$

which is differentiable at $y = 0$ and $G'(y) < G'(-y)$ for all $y > 0$

- A consistency condition in equilibrium is

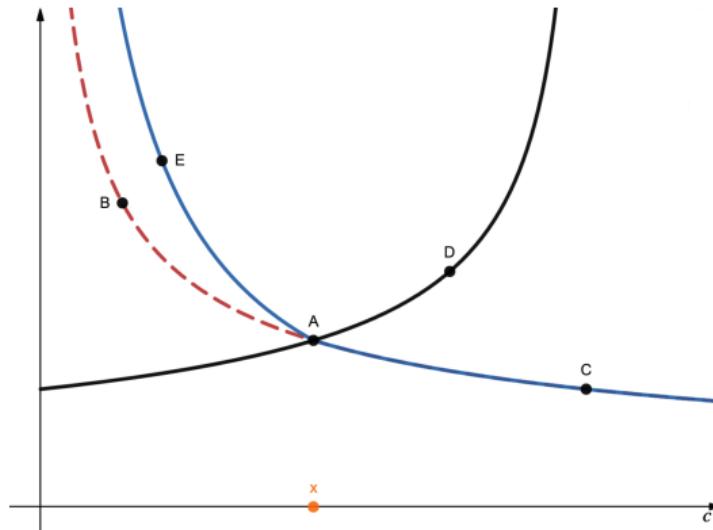
$$x = c$$

so that individual's expectation of the reference coincides with the actual consumption of their peers in this economy with representative agents

Optimal choice

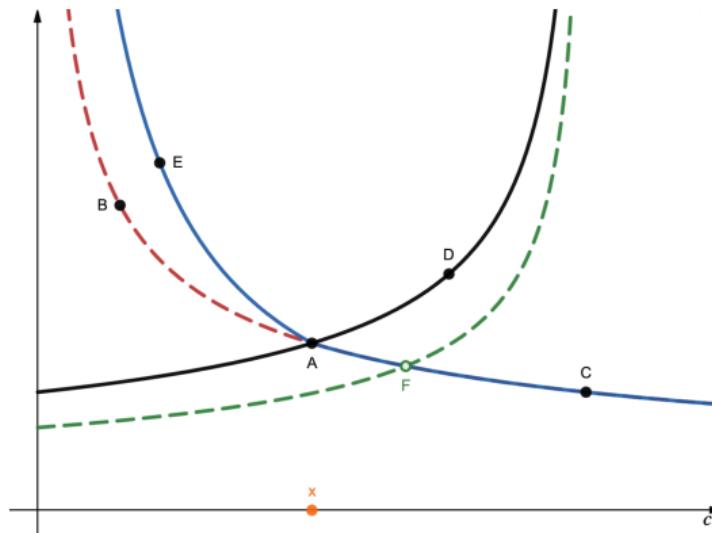
- The first-order condition of optimal consumption satisfies

$$(1 - \alpha)u'(c) + \alpha u'(c)G'(u(c) - u(x)) = \frac{1}{\chi}v' \left(\frac{y - c}{\chi} \right)$$



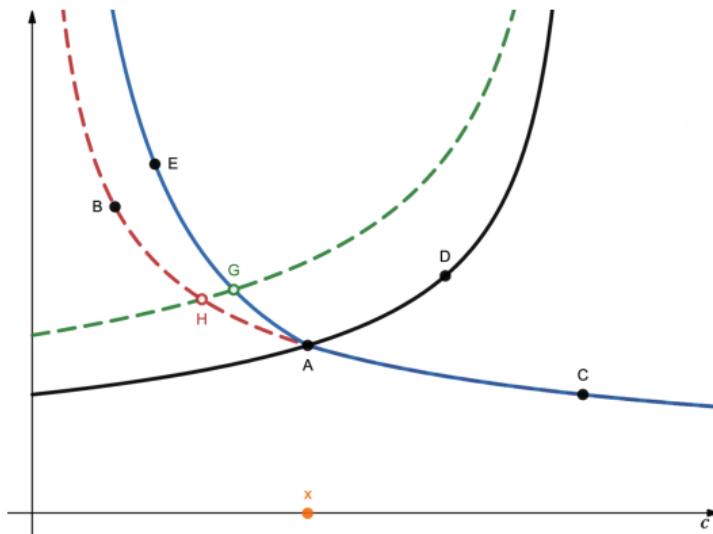
Falling price of fertility χ

- When χ falls, optimal choices coincide with and without loss aversion



Rising price of fertility χ

- When χ rises, optimal consumption falls *less* with loss aversion \Rightarrow fertility needs to reduce by *more* due to the budget constraint



Alternative explanations

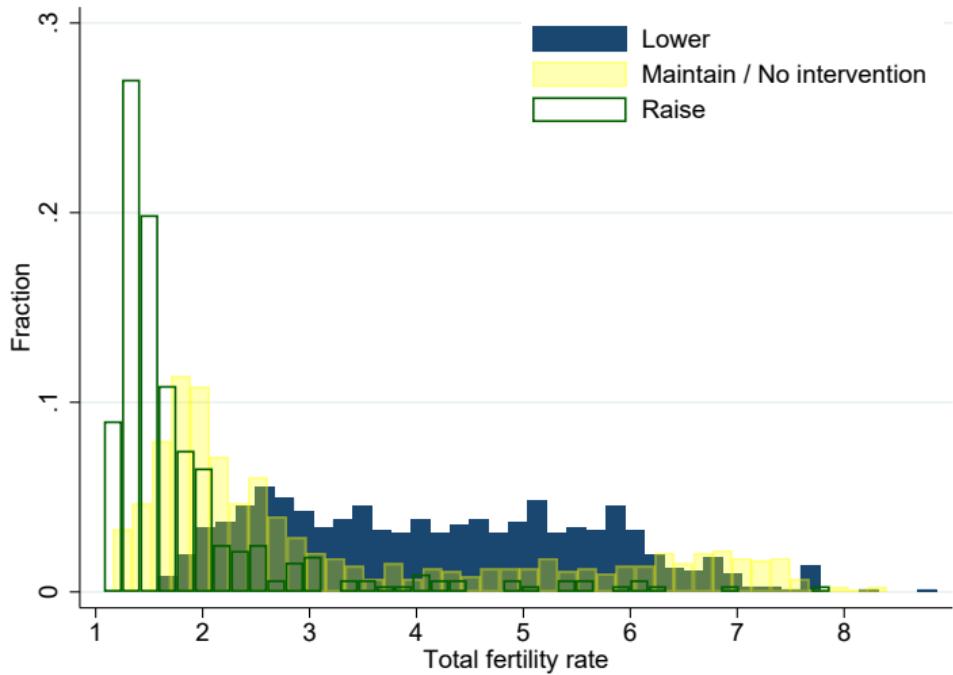
- Propagation mechanisms (e.g., peer pressure) make elasticities larger but do not induce asymmetry
- Fertility policies are **technologically feasible** in either direction
 - Propaganda: "It's better to make a family disappear than to make a second new birth appear" (China) & "have one for mum, one for dad and one for the country" (Australia)
 - Family planning access: planned parenthood & Decree 770 of Romania
 - Tax instruments: birth fines & baby bonus
 - Reproductive coercion: forced abortion & ?
- The choice of methods is affected by the preference of constituents

Conclusion

- Document asymmetric fertility elasticities in the data
- Build a dynamic cost-minimization model to study the positional value of fertility levels
- Provide a micro-foundation using a behavioral theory of fertility choice under loss aversion
- More research is needed

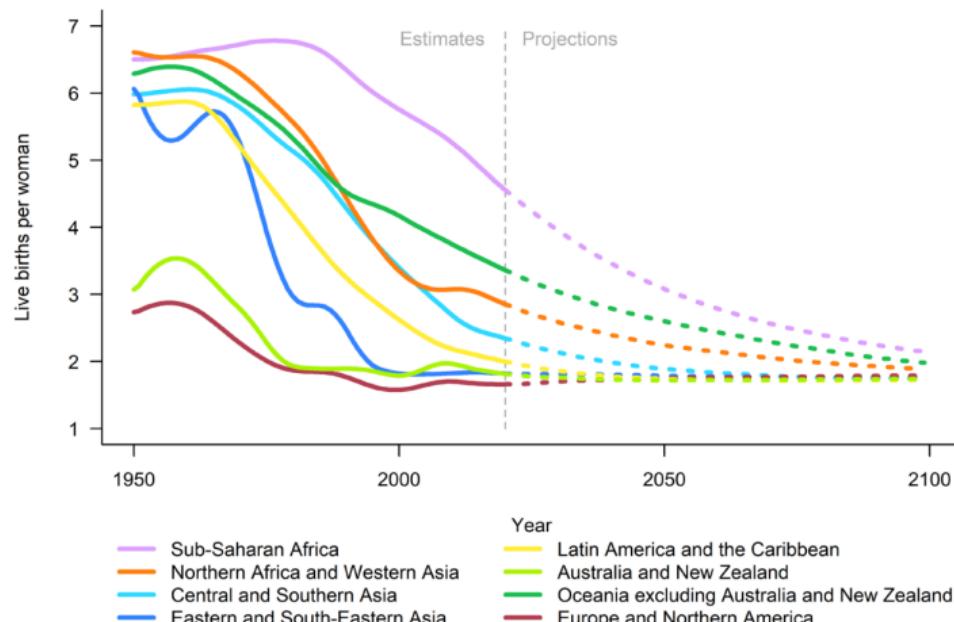
Appendix

Fertility policy distribution



Wishful long-run fertility predictions

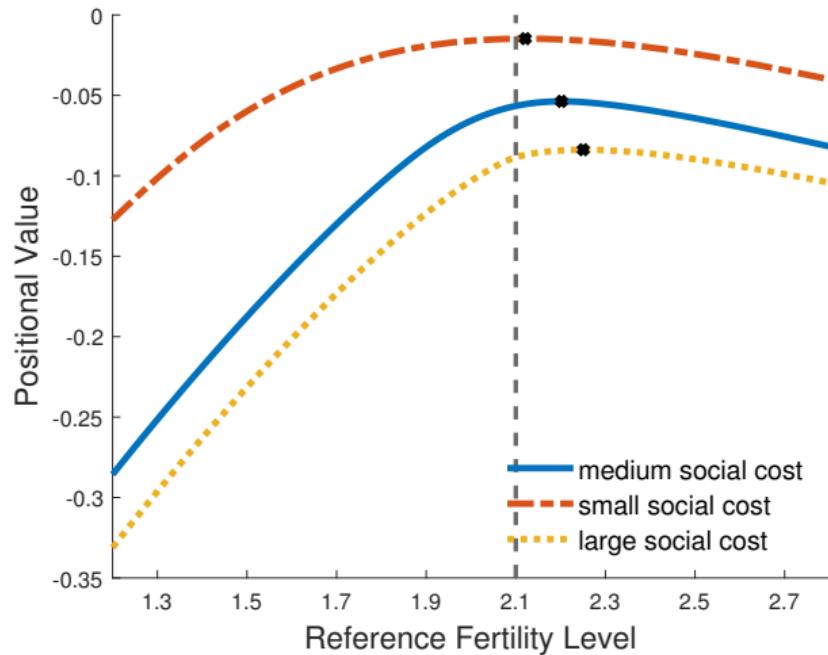
Total fertility rate by region, estimates and projections, 1950-2100



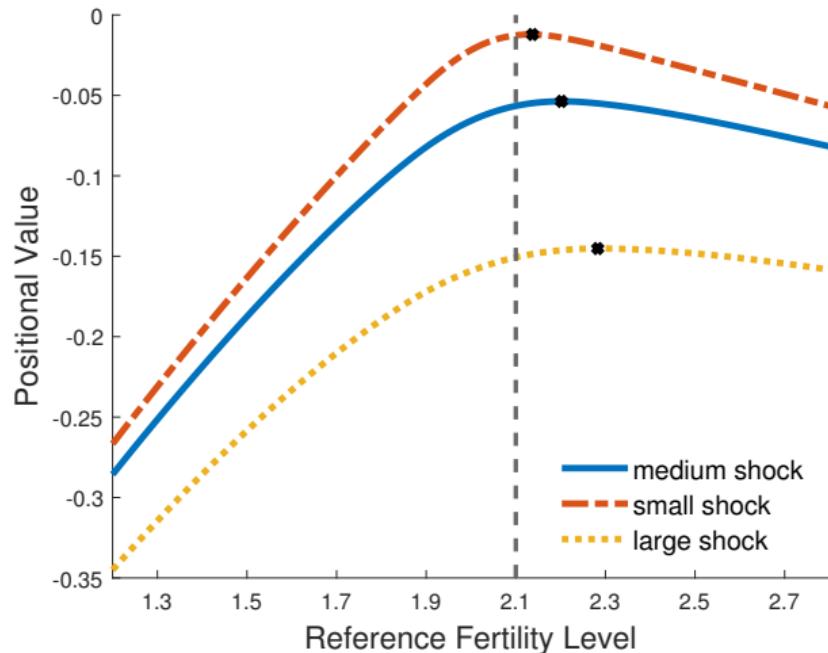
Source: United Nations Department of Economic and Social Affairs, Population Division (2019a). *World Population Prospects 2019*.

back

The role of social cost λ



The role of reference shock σ_ϵ



The role of reference updating speed ϕ

