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I Bachelor Thesis I

Demographic Change in Germany and France –

A comparison of fertility, family policy and their implications on public budgets

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Declaration of Academic Honesty

I hereby declare in lieu of oath that I have written the following Bachelor thesis independently, without outside assistance and without making use of any other resources than stated in the thesis. All parts adopted literally or correspondingly from any publication are marked.

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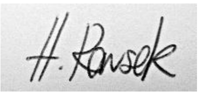

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Abstract

Demographic change constitutes a major challenge to society and in the long term to public budgets of European Union member states. While improved health care led to a longer life expectancy and an overall ageing of society throughout the European Union, some member states are further challenged by low fertility rates and a shrinking of the population. The resulting rise in the age dependency ratio indicates a burden for social security systems and puts the concept of generational equity at risk. Germany as a country faced with very low fertility shows need for action with regard to expanding its workforce to ensure a sustainable social security system in the future. France on the other hand excels with high fertility rates and steady population growth. The factors determining fertility will be elaborated by means of Gary Becker's economic theory of the family and Gøsta Esping-Andersen's welfare regime theory. Family Policy measures as the major governmental driver in terms of conveying social values and providing correspondent financial incentives will be compared in both Germany and France. Paying attention to the current economic situations, the thesis at hand will provide suggestions for action aiming at generating generational equity in the long run.

Der demografische Wandel stellt eine immense Herausforderung für die Gesellschaft und öffentlichen Haushalte in Mitgliedsstaaten der Europäischen Union dar. Zwar hat eine verbesserte medizinische Versorgung in allen Mitgliedsstaaten zu einer Erhöhung der Lebenserwartung und damit Alterung der Gesellschaft geführt, aber einige Mitgliedsstaaten verspüren den zusätzlichen Druck von geringen Geburtenraten und einer schrumpfenden Bevölkerung. Der daraus resultierende Anstieg des Altenquotienten weist auf die zukünftige Belastung von sozialen Sicherungssystemen hin und stellt ein Risiko für das Konzept der Generationengerechtigkeit dar. Deutschland als Land mit einer sehr niedrigen Geburtenrate weist besonderen Handlungsbedarf auf in Hinsicht auf eine volle Ausschöpfung des Arbeitskräftepotenzials und die nachhaltige Finanzierung von sozialen Sicherungssystemen. Währenddessen glänzt das Nachbarland Frankreich mit hohen Geburtenraten und konstantem Bevölkerungswachstum. Mithilfe von Gary Beckers ökonomischer Theorie der Familie und Gøsta Esping-Andersens Wohlfahrtstheorie werden die Faktoren dargestellt, die auf Geburtenraten Einfluss nehmen. Familienpolitik dient als staatliches Werkzeug zur Vermittlung von sozialen Werten und entsprechenden finanziellen Anreizen und wird auf dieser Basis in Deutschland und Frankreich verglichen.

Mit Rücksicht auf die aktuelle wirtschaftliche Situation in beiden Ländern werden Handlungsvorschläge angeführt um das Konzept der Generationengerechtigkeit langfristig nicht zu gefährden.

Abbreviations

BEEG	Gesetz zum Elterngeld und zur Elternzeit
BKGG	Bundeskindergeldgesetz
BMAF	Base mensuelle de calcul
BMFSFJ	Bundesministerium für Familie, Senioren, Frauen und Jugend
CAF	Caisse d’Allocations familiales
CLCA	Complément de libre choix d‘activité
EC	European Commission
ECB	European Central Bank
EStG	Einkommensteuergesetz
EU	European Union
EPIC	European Platform for Investing in Children
FAZ	Frankfurter Allgemeine Zeitung
GDP	Growth Domestic Product
GG	Grundgesetz
GTAI	Germany Trade and Invest
KiFöG	Kinderförderungsgesetz
OECD	Organization for Economic Co-organisation and Development
PAJE	Prestation d’accueil du jeune enfant
SMIC	Salaire minimum interprofessionnel de croissance
TAG	Tagesbetreuungsausbaugesetz
TFEU	Treaty on the Functioning of the European Union
TFR	Total Fertility Rate

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Introduction

"*A Land without Children: Why won't Germans have more babies*?" (Spiegel, 2011) - "*No Babies*?" (New York Times, 2008) - "*No Kids, no problems*!" (Population Europe, 2011) - "*Fertility – Europe is running low on children*" (Magazine on European Research):

When following up on headlines or political debates one cannot avoid to encounter the heated discussion about demographic change. The world of media seems to try to outbid each other with doom scenarios about countries "becoming senile" and the "threat" of "plunging" birth rates. Of course, there are not only downsides to demographic change since a longer life expectancy and improved medical care should primarily be regarded as a positive evolution. However, demographic change requires adjustment on all areas and constitutes a great challenge for society as well as for public budgets. This becomes most obvious in the age dependency ratio[1] which will double from 2008 to 2050 throughout the European Union (EC, 2008b: 8). Thus demographic change should not be handled light-heartedly, but rather be met with appropriate policy measures as in spite of the heated media attention, demographic change is not inevitable fate but a political and economic issue that can be tackled. As demographic change is caused by a higher life expectancy on the one hand and low fertility on the other, family policy constitutes a useful tool to react to a change in age structure and declining population.

Even though all European countries are faced with demographic change, the measures to tackle this phenomenon vary among the member states. While both Germany and its neighbour France are confronted with an ageing society, the French Total Fertility Rate[2] (TFR) with 2.01 children per woman is far above the German TFR of 1.4 in 2012 (Worldbank, 2014). This phenomenon leads me to the research question:

[1] The age dependency ratio indicates the proportion of economically dependent people on 100 working age people.

[2] The Total Fertility Rate (TFR) compares figures for the average number of children that would be born per woman if all women lived to the end of their childbearing years (15- 49) and bore children to a given fertility rate at each age. Once a cohort reaches the age of 50, the total and average number of children born to this cohort are calculated and summarized in the TFR (a more direct measure of the level of fertility than the birth rate since the latter only represents the average number of children per women during one specific year) (Federal Statistical Office, 2014).

Which socio-economic aspects influence the decision to have children? What is the impact of German and French family policy on fertility and the fiscal situation and how could generational equity be achieved?

In order to analyse the differences in German and French TFRs, the present thesis will describe the issue of demographic change before comparing the demographic situations in Germany and France. Then the impacts of an ageing society on Public Budgets will be explained and countermeasures named. After this descriptive section, the theoretical approach of Gary Becker's economic theory *A Treatise on the Family* (1960) and Gøsta Esping-Andersen's major work *The three Worlds of Welfare Capitalism* (1990) are explained and their usability for the research question analysed. Subsequently, the aims of family policy are summarized in five aspects and the national family policies of France and Germany elaborated in view of financial transfers towards families and the provision of day care centres for children. Afterwards, the economic situation in both Germany and France is elaborated with regard to impacts on the concept of generational equity. Finally, the thesis at hand concludes by providing an outlook.

1. Demographic Change – a European issue

All over the European Union, countries are faced with the challenge of an ageing population which is characterized by two phenomena: low birth rates and increased life expectancy. This development is widely known as "demographic change". The phenomenon of demographic change can be observed from World War II onwards. While birth rates were especially high in the two decades after World War II, from 1970 onwards a significant change in the population structure of most industrialized countries became visible with lower birth rates and higher life expectancy (Linz & Stula, 2010: 2). Moreover, the *baby boomer* [3]generation of the post war period is now passing the threshold to retirement indicating the turning point of the demographic development which places an obstacle not only to social security systems but rather to economy and society as a whole (EC, 2011: 1). In 2050 there will be 48 million fewer people (as compared to 2009) between the age of 15 and 64 and 58 million people more aged above 65 years throughout Europe (Linz & Stula, 2010: 3). This process is labelled *two-pronged ageing* as an

[3] Baby boomers is a phrase for people born during the Post-World War II period (1946-1964).

increasingly higher number of people grows increasingly older (Frevel & Dietz, 2008: 141). Thus the number of people in retirement in proportion to the number of people in working age will decrease substantially which is reflected in the age dependency ratio: While in 2008 every person above 65 years had four people at working age in Europe, in 2050 it will be only two working people per dependent person (age dependency ratio of 0.25 and 0.5) (EC, 2008b: 8). Accordingly, there will most probably be 58 million more people above 65 years and 48 million less people between 15-64 years in 2050 compared to 2009 (EC, 2008b: 8).

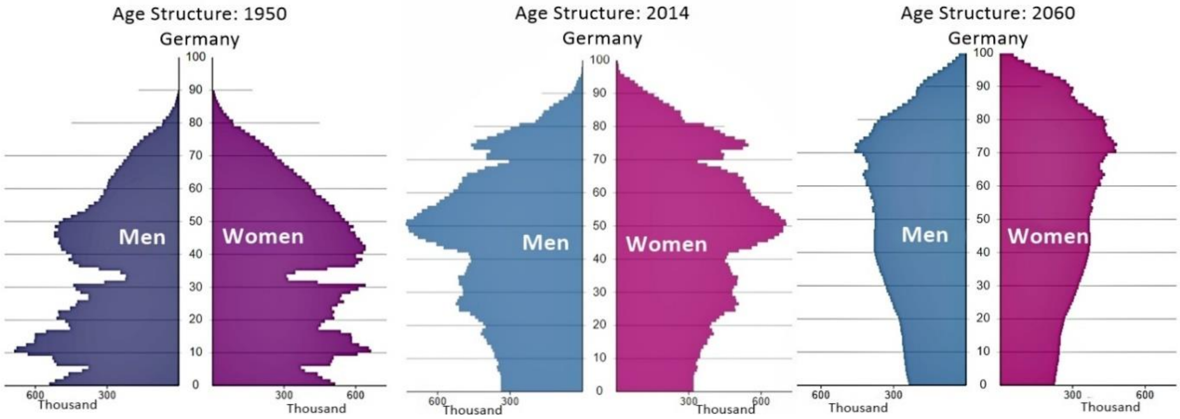
As will be elaborated in subsequent chapters, this change in the European's population age structure pressures social security systems and future economic growth. Therefore correspondent policy adjustments become indispensable. Even though demographic change is an issue for every European country, the degree and speed of the progress differs from one country to another and measures need to be tailored to meet individual needs. In the following the demographic situation in Germany and its neighbouring country France will be described.

1.1 Demographic Change in Germany

The demographic situation in Germany is especially tense: birth rates have not risen above the official reproduction rate of 2.1 since 1970 (Bujard, 2011: 4) and since 1972 birth rates have been lower than death rates – the number of annual births has almost quartered.

This development is also noticeable when having a look at Germany's population pyramid (a graphical illustration that shows the distribution of age groups). While in 1910 the population pyramid resembled an actual pyramid – reflecting a growing population- nowadays the population pyramid resembles rather an onion and will present an almost steady distribution (resembling the form of a beehive) in 2060 as can be seen in the charts provided below (Federal Statistical Office, 2009).

Population Pyramids Germany, Source: Own Diagram based on Federal Statistical Office, 2009



Since the beginning of the 20th century birth- as well as death rates have been decreasing. Especially remarkable are the years during World War II when millions of especially young men died and fertility was low. This becomes visible in the incisions of 5-6 year olds and 32 year olds in the 1950 population pyramid– those cohorts are considerably smaller than the other ones as a consequence of WW I and WW II. Average life expectancy for new-born children in 1950 amounted to 64.6 years for boys and 68.5 years for girls. The number of people below 20 years was twice as high as the number of people above 60 years. This relation shifted considerably not only in Germany but also in most industrialized states towards a population structure with more old people and less young. From 1972 onwards natural population growth came to an end with death rates being higher than birth rates. As visible in the 2014 population pyramid, Germany experienced a baby boom during the time of the economic miracle in the post war period. At this point of time, the average number of children per women in West Germany was 2.5 which changed rapidly though with the beginning of the baby bust – improved contraception methods and a changed role of women in society lead to a decrease in birth surplus[4] from 5.3% in 1960 to 0.9% in 1970 (Federal Statistical Office, 2014). This can be seen in the bulge at age 45-60 (babyboom) and the incision at age 40 (baby bust). Despite the negative net population balance over decades the natural population decrease was countered by immigration until 2003. Since 2003 however, Germany has already lost 500.000 inhabitants (Klingholz & Sievert, 2009: 3).

Also today birth rates remain low at 1.4 in 2014 implying that a generation of 100 women only generates 66 daughters, 44 granddaughters and 30 great-granddaughters (Klingholz

[4] A birth surplus is a positive birth balance which implies more births than deceased in a certain period of time.

& Sievert, 2009: 5). At times, Germany's birth rate was even at the bottom of the European Union (Eurostat, 2009: 162).

Due to prevailing low birth rates Germany's population will reduce by eleven million inhabitants from 2009 to 2060 (Eurostat, 2009: 162). The shrinking population in combination with an increased life expectancy of 78.72 years for men and 83.14 for women in 2012 (Federal Statistical Office, 2013) leads to an ageing of the German society: While in 1985 the over 64-year-olds accounted for only 15% of the entire population, in 2050 the same share will amount to 33%. (Klingholz & Sievert, 2009: 3) Thus the number of people below 20 years will reduce by more than 30% until 2060 (Federal Statistical Office, 2006).

Naturally, this development will pose a challenge to Germany's social security system and economic strength as will be elaborated in chapter two.

1.2 Demographic Change in France

The French population on the other hand consisted of only 62.106.000 in 2008 but shows annual gains of 350.000 people (Klingholz & Sievert, 2013). Contrary to the German example since the 1970s averagely 230.000 more people were born annually than deceased. Thus the population of France amounted to 63.5 Million in 2011 and according to latest calculations the total population might increase by another nine million until 2050 (Klingholz & Sievert, 2013).

Population growth and on top of that a rapid one is rather unusual in current Europe. The main reason for this is the high fertility rate of French women: with an average of two children per woman France ranks third in regard to fertility after Island and Ireland (Klingholz & Sievert, 2013). But also immigration plays a role: in 2011 the migration surplus totalled 77.000 thus constituting to ¼ of population growth (Klingholz & Sievert, 2013).

Nonetheless, both Germany and France share the issue of an ageing population. From 1985 to 2007 the percentage of over 65 year-olds compared to the entire population increased from 14.2% to 16.3% and in 2050 the same share will amount to 32% (Klingholz & Sievert, 2013). Due to demographic changes and a very low retirement age of 62 (before 2010 it was even lower at 60 years), France will face immense costs in the pension scheme and health insurance especially with the number of above 74 year-olds doubling until the much-mentioned year 2050. And even today the French treasury accounts are in deficit with a weak economy challenged by structural crisis and a downgrading of its credit rating. However, with strong population growth France might be able to counter this development as future generations are able to serve as contributors to social security systems and foster economic growth.

2. Effects of Demographic Change on Public Budgets

Demographic change constitutes a major challenge to public budgets as it affects both the revenue and the expenditure side. If demographic developments are not counteracted by appropriate measures the sustainability of public budgets is at risk. This is indicated by sustainability gaps[5] which consider the long-term development of public revenue and expenditure flows to prevent further increase in public debt (SVR, 2011: 157). This concept assumes the present fiscal policy to be pursued in future. Financial policy can be considered as sustainable if it does not increase the current debt-to-GDP ratio in the long term despite impending additional financial burden (Federal Ministry of Finance, 2001).

Even though the concept of calculating sustainability gaps is a useful tool to indicate the need for political action, it is a very sensitive number and depends on various assumptions regarding unemployment rates, labour force participation of older workers and net migration. As these parameters may be influenced politically, they can be used in order to generate a long-term sustainable government budget. In the following, the impacts of demographic change on both the revenue and expenditure side of the German public budgets are illustrated.

2.1 German Public Budgets under Pressure

Revenue Side

Due to the decrease in working-age population declining economic growth is to be expected (SVR, 2011:1). As a consequence of decreasing GDP, income per capita as well as consumption will go down. Since taxes and duties mainly strain income and

[5] Public debt (explicit plus implicit debt) in relation to current GDP.

consumption, relevant losses in this regard can be assumed. With its dependency on GDP development, revenues are bound to decline (EC, 2011: 3).

Economic growth greatly depends on productivity growth (OECD, 2008: 5). Thus it is also necessary to examine the influence of demographic change on productivity. Productivity is a key element in assessing standards of living (OECD, 2011: 12) which are likely to be influenced by demographic change. Will the standard of living decrease with the working age population or will steady progress in terms of productivity and efficiency lead to increasing standard of living? An ageing society in this regard can be viewed as either a chance or a risk: the older society could run out of innovative ideas or new productivity reserves could be opened up due to the pressure of the ageing society.

The term productivity is broadly defined as a ratio of a volume measure of output and a volume measure of input use (OECD, 2011:11) but is used in various contexts differently. Labour productivity for instance provides a measure of the efficiency with which inputs are used in an economy to produce goods and services which is reflected by the ratio of GDP and total numbers worked (OECD, 2008: 5). With increased life expectancy and an overall ageing society, the participation of older people in the workforce will increase in future. It is arguable whether this will slow down labour productivity simply due to an older workforce with presumably less energy or whether a younger staff will profit from older people's experience which could cause labour productivity to remain stable or even to increase. It is not proven that workers' productivity decreases with age. Rather, it is assumed that individual productivity slightly increases until the age of 55 and then remains stable for approximately another 10 years (SVR, 2011: 2). This is especially true in case work places are shaped age-appropriately and training initiatives are encouraged. Thus demographic change does not necessarily lead to negative impacts on labour productivity.

The effects on national production potential however are a different matter. The production potential is defined as the production capacity that can be generated within a certain period and can only be assumed. It depends on (1) amount and quality of available production factors, (2) the technical possibility of combination of production factors and (3) the economic structure (bpb, 2013). The production potential is the production volume which is possibly achieved with normal working conditions and a change in production potential depends mainly on a change in capital and labour force, working hours, technical progress or structural change (bpb, 2013). A declining working age population and an increasing elderly workforce might alter the production potential as older people are not available for the labour market as constantly as young people (SVR, 2011: 9).

On the positive side an increase in consumption goes hand in hand with an ageing population and will thus lead to rising consumer tax revenues. Moreover, an increase in inheritance tax revenues will contribute to public revenues so that some economic scientists expect a steady development of the revenue side of public spending (SVR, 2011: 160). However it is questionable whether these minor changes will be able to compensate the future decline in GDP and thus a negative development of revenues can be assumed (SVR, 2011: 160). However, in predicting the influence on the revenue side, a number of assumptions are implied and thus it cannot be as clearly anticipated as the expenditure side of public budgets.

Expenditure Side

On the expenditure side developments are clearly negative. The expenditure side is mainly composed of age-related expenditures, health care and long term care costs as well as unemployment benefits and spending on future generations regarding education and family policy transfers. As these four expenditure areas constituted for 60% of all general government expenditures in 2010, the demographic effect on public spending is immense (SVR, 2011: 160).

With an ageing society, the costs for statutory pension insurance will inevitably increase (SVR, 2011: 15). A special problem to generational inequity is the pay-as-you-go[6] financing of statutory pension payments with costs amounting to 9.9% of GDP (Auerbach & Lee, 2011: 16). According to economic experts' calculations expenditures for public old age-provision will increase to 507 billion Euro in 2060 which will constitute a doubling compared to 2010 (SVR, 2011: 160). Consequently, public expenditures on old-age provision in relation to GDP will go up by 4% to 15.5% in 2060 (SVR, 2011: 160).

Concerning health, statutory health insurance and social care insurance are essential as the correspondent costs rise with age. In total the projected costs double from 2010 to 2060 and will amount to 346 billion euro (SVR, 2011: 163). However, an estimation about health and social care costs is based on various assumptions and thus vaguer than an estimation about social security costs.

[6] A financial policy which makes use of current revenues rather than credits.

As to unemployment benefits, a declining population especially in the working age will first of all lead to decreasing unemployment rates but also to shortages of skilled workers. Nonetheless, structural unemployment will remain to a certain degree due to qualification and region-related mismatch. The costs for unemployment expenditures will decrease first as a result of smaller labour supply but will then go up as benefits increase with wages.

Spending on future generations is expected to go down with continuously low birth rates. Relevant costs cover education and day care centres as well as family policy transfers. In relation to GDP, these costs will go down by 0.5% until 2060, but not as much as one would expect with birth rates being low as wage increases for teachers and educators have to be included into calculations (SVR, 2011: 167). These positive side effects should not detract from the fact that social security systems are faced with great financial burdens.

Thus, without necessary reforms high deficits and rapidly rising public debt will challenge the public sector. And even today, public debt amounts to 2.030 billion Euro (Statista, 2014) which constitutes 78.4% of GDP in 2013 (Federal Ministry of Finance, 2014). This is far above the limit of 60% as prescribed in the Maastricht Treaty (Stability and Growth Pact Art. 126 TFEU). Even though there is no clear definition or calculation as to when a debt ratio is not sustainable anymore, sustainability is clearly not given with constantly rising new indebtedness (SVR, 2011: 169). Especially during the global economic and financial crisis the importance of fiscal flexibility became apparent. Therefore a reduction in debt level is urgently needed to ensure the governmental ability to respond to a potential crisis or future demographic challenges.

Age dependency ratio

The change in age structure itself is not the main problem regarding the sustainability of public budgets, but rather the balance of people that contribute to economy and thus social security systems and those that depend on it (Börsch-Supan, 2011: 21). Obviously with demographic change there will be a reduction in contributors to social security systems and an increase in people in retirement and in need of health services. While in 2008 the old-age dependency ratio in Germany amounted to 0.34 (34 senior people and 100 working-age people), in 2060 the ratio will be 63 or 07 senior people and 100 working people (0.63 or 0.67) –depending on net migration (Federal Statistical Office, 2009: 6).

To counter the critical age dependency ratio, consolidate the revenue side of public spending and relieve the expenditure-side, it is necessary to expand the workforce. This can happen in five ways:

(1) Immigration of skilled people
(2) Extend retirement age
(3) Earlier entering into Workforce
(4) Integrate Women in Workforce
(5) Foster fertility rates

Concerning (1), Germany implemented the European Union's Directive on Highly Qualified Workers in August 2012 to facilitate immigration regulations for qualified workers from third states (non-EU countries). (Federal Ministry of Education and Research). (2) was gradually achieved with the implementation of the Pension-Insurance – Retirement Age Adjustment Act (*Rentenversicherungs-Altersgrenzenanpassungsgesetz*) in March 2007 which raises the retirement age progressively from 65 to 67 years (The Federal Government). Also (3) is complied with as the school reform for grammar schools reduced school time from former 9 to 8 years with first graduations of this new model from 2008 onwards. Furthermore with the abolishment of the compulsory military service or alternative civilian service in 2011, students can gain one to two years before starting university education.

The measures (4) integrating women into workforce and (5) foster fertility rates are covered by national family policy and will be elaborated in subsequent chapters. Covering all five listed measures of tackling demographic change would go beyond the scope of this thesis. On first examination, the objectives of increasing employment (especially concerning mothers) and fertility rates at the same time seem to be contradictive. As will be elaborated in Chapter 3 however, goal-oriented policy measures that facilitate the reconciliation of work and family life enable this combination that is highly desirable with regard to a present and future expansion of the workforce.

3. Theoretical Background

3.1 *A Treatise on the Family* by Gary Becker

One way to tackle demographic change and expand the workforce is (5) an increase in fertility. But which factors motivate people to start a family and have children? In the following, Becker's *Treatise on the Family* (an economic theory of the family) is elaborated to identify in which way fertility may be altered.

Gary Stanley Becker was an American economist who was awarded the Nobel Memorial Prize in Economic Sciences in 1992. Becker made important contributions to the family economics branch of economics, labelled the *New Home Economics*. This branch of economic science is characterized by presuming rational behaviour of individuals and the application of the rational choice theory. According to Weimann (2009: 10) an action is considered as rational in case it is consistent with regard to a given objective and consistent with regard to the objective of maximizing individual advantage (Weimann, 2009: 16). Therefore actions underlie the principle of a cost-benefit assessment implying that the possibility that an action is performed increases with the benefit included for the individual. Vice versa, the more cost is involved in an action, the less likely it is performed.

Regarding marriage it is then assumed in Becker's treatise on the family that unmarried men and women are trading partners who decide to get married if for both parties the use of the marriage exceeds the use of being single (Blossfeld & Jaenichen, 1993: 170). Accordingly, family is defined as a community of individuals putting together their resources to attain a higher level of welfare[7] by division of labour within the family than each one of them could attain individually (Ott, 1991: 385).

In his theory of choice of partners and marriage Becker assumes enhanced efficiency through division of labour (Becker, 1993: 33). The two most important theorems are:

(1) All household members with a comparative advantage in gainful employment specialize on gainful employment. All household members with a comparative advantage in domestic work specialize on domestic work.
(2) Household members specializing on gainful employment only invest in marketable human capital. Household members specializing on domestic work only invest in household specific human capital.

It is further assumed that women have always been responsible for the upbringing of children. As a consequence women invested less human capital on gainful employment and focused on domestic work instead. The advantage of marriage then lies in the fact, that each of the contractual partners can bring something into the household that the

[77] In the field of economics, welfare refers to utility gained through the achievement of goods and services.

other one does not have – gender related division of labour in family and gainful employment is thus regarded as the main reason for marriage (Blossfeld & Huinink 1989:386).

Women's growing labour market orientation as a result of improved education and the prospect of a professional career leads to the postponement of marriage to a later point of time. Also, many women remain unmarried and existing marriages oftentimes become unstable.[8] Moreover, due to the educational expansion among women leading to improved career prospects the desire for children is influenced which will be elaborated below.

In Becker's economic theory of the family children are regarded as consumer goods that are primarily of psychological use. If the costs for children rise, demand will decrease and other cheaper goods will be preferred. Children's relative price is influenced by two factors: money and time. If children contribute financially to the household, the net cost is reduced and demand for children rises again. Besides financial costs, the aspect of time is involved in this cost-benefit analysis. The time that mostly mothers spend on the care and upbringing of their children is a major part of the "production costs" of children as this time could be used for paid work instead. These costs can be regarded as opportunity costs and further increase the total costs of children. As a consequence they lead to a decline in birth rates as apparent in many European countries for decades. With growing educational levels and career opportunities in combination with a change in gender roles, investing time in children is growing less attractive for women. As women with a higher educational level face higher opportunity costs when deciding in favour of children female education and number of children are negatively correlated (Becker, 2001: 5). According to Becker, the father's time is not as important since he is specialized on paid rather than domestic work (Becker, 1993: 140). His labour market status affects the decision for or against children in a different way: the higher his income, the better he can care for a family financially (Kreyenfeld, 2001: 55). The higher his educational level, the higher is his income and the better his prospects of financing a family. Hence the correlation between male educational level and number of children is positively correlated.

In some countries such as the Scandinavian countries and France however a high female participation in the workforce goes hand in hand with high fertility rates. How is that

[8] In 2013 169.800 marriages were divorced. 36% of marriages entered in one year get divorced within the following 25 years. (Federal Statistical Office, 2014)

possible given the negative correlation of female education and number of children as stated by Becker? Obviously reducing these opportunity costs for women would shift the negative correlation towards a positive one. But what is the difference in countries who accomplished exactly this?

One major source of criticism on Becker's theory might explain this phenomenon: he omitted the effect of institutions and societal settings on the desire for children.

In the subsequent chapters, societal settings and their influence on families and birth rates will be elaborated and differences between states' welfare system explained.

3.2 *The three Worlds of Welfare Capitalism* by Gøsta Esping-Andersen

Gøsta Esping-Andersen is considered as main representative of the research field of welfare state arrangements and their influences on individual decision-making behaviour. His most influential work has the title *The Three Worlds of Welfare Capitalism* (1990). According to Esping-Andersen welfare states differ mainly in their degree of decommodification - their immunization from market dependency- which is reflected in alternative non-market means of welfare production (Esping-Andersen, 1998:36). The major question in his works in therefore: How can people support themselves without being integrated into the labour force? (Esping-Andersen, 1990:22) More interesting for the content of my thesis: How can the opportunity costs of having children be reduced by public policy?

Esping-Andersen classified western European countries and Anglo-American countries with the help of macroeconomic data and theoretic concepts in three categories: liberal welfare states, conservative states and social democratic welfare states.

States such as the USA, UK and Australia are characterized by a liberal welfare system with means-tested social benefits, low financial transfers and a low degree of social security benefits. Welfare[9] is regarded as only for the poor with strict regulations of access and low commodification. With regard to family support, liberal welfare states only step in to secure minimum living wage for instance in case of single mothers to substitute the male breadwinner.

[9] In this regard "Welfare" can be defined as government programs in the form of money or necessities for those in need.

Most continental European countries are considered to be conservative welfare states. Besides market structures, government plays a decisive role in securing people's welfare. Due to the strong influence of Catholic Church in these countries, traditional family structures are intended to be maintained reflected in a male breadwinner model. Typically, women who are not participating in the workforce are excluded from parts of social insurance (in case they are not married) as it is calculated according to duration and type of employment. Married women on the other hand are mostly co-insured with their working husbands. Not means-tested social welfare but employment-related welfare services are characteristics of conservative welfare states. Day care centres and similar services are only little developed so that family is of major importance in producing welfare among its members.

The third kind of welfare state is the social democratic one which is to be found among the Scandinavian countries. Individual social rights are strong and decommodification reaches a high degree. Everyone is entitled to relatively high unemployment benefits as equity on a high level is aimed for. In this case not the family is responsible for major parts of welfare but rather governments and their services. Families are supported with child care services and care for the elderly. Thus women have the opportunity to freely decide in favour of employment without having to give up a family. As a result it is strongly encouraged by this system that women have children and remain in employment as their "domestic skills" are performed by governmental institutions.

Esping-Andersen's Theory of Welfare Capitalism received massive criticism however, mainly from the feminist side as it neglects the fact that decommodification differs between men and women (Langan & Ostner, 1991). In most countries, women do not have the same level of workforce integration as men and thus lack the necessary commodification that has to go before a possible decommodification. Due to gender-specific division of labour women remain absent from the labour market for a longer period of time as compared to men and rather engage in unpaid domestic work. Welfare theories should thus incorporate the degree to which countries enable or enforce female participation (and especially mothers' participation) in the workforce. Having in mind taxation systems, insurance systems, provision of day care centres and female participation in the workforce it becomes apparent that Esping-Andersen's classification is not valid anymore as especially the group of conservative welfare states appears quite heterogeneous. In the following, the examples of two conservative welfare states (Germany and France) will be compared with regard to their family policy measures.

4. Family Policy

In Sociology, a family is considered as a small group differentiated along gender and generation characterized by a mutual cooperation based system of solidarity. Its creation is carried out in a ceremonial manner and its function is the biological and social reproduction (Frevel & Dietz, 2008: 102). Within the European or Western culture area family is regarded as the primary smallest unit of community and ideally fulfils various functions such as the reproduction function (generation replacement), the household function (satisfying basic needs), the socialization function (conveying values, norms and education) and the support function (caretaker in times of sickness) (Bundesministerium für Famile, Senioren, Frauen und Jugend [BFSFJ], 2006: 8). Ideal and reality oftentimes diverge though.

Due to the fundamental change in family lifestyles, the dissolution of the traditional breadwinner-family[10], increasing female employment and lone parenting family policy has been gaining attention over the last few decades. As a consequence new needs concerning social and family policy evolved (Bujard, 2011: 31).

Family policy is primarily characterized by social values and only secondarily by economic objectives. Family itself is the core of individuals' private life and is to be protected from governmental encroachment (Bujard, 2011: 4). Art.6 (1) of the German constitution (Grundgesetz, GG) ensures governmental protection and thus grants a special status to family and marriage.

Family policy may pursue objectives concerning the individual[11] as well as societal goals as it is oftentimes motivated by demographic issues. Sometimes financial incentives are emanated from family policy measures (for instance with regard to female employment) that have a negative impact on the economy altogether. Hence family policy also plays a decisive role concerning potential growth[12] (SVR, 2014: 395).

As elaborated above, Becker's economic theory of the family assumes two aspects to be important within a rational cost-benefit-analysis of possible parents: the factors time and

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[10] The male breadwinner model is an ideal of the family in which men earn a family wage and provide while wives do domestic labor and care for family members

[11] such as poverty reduction, childhood education and gender equality

[12] Potential growth in economics is understood as a long-term change in GDP given a regular capacity level of production capacities. Thus potential growth indicates a change in production potential. It is not identical with economic growth as the latter depends on cyclical economic changes.

money. Esping-Andersen's theory then adds the importance of welfare state support for the family with regard to day care provision and financial allowances. Further it was argued above that some countries such as France and the Scandinavian countries managed to encourage female labour market participation by public policies while fostering fertility at the same time.

Thus in the following family policy measures in Germany and France are elaborated regarding four objectives:

(1) Foster reconcilability of work and family life / Increasing female employment
(2) Protection of families' financial stability
(3) Well-being and good development of children
(4) Realizing existing desire to have children

Having in mind the correlation between female employment and fertility that seems to be negative in many states (see Becker's *A Treatise on the Family*) but positive in others such as France and the Scandinavian countries, objective (1) can be considered as determinant. Also in view of gender equality and expansion of the workforce in an altogether shrinking population, objective (1) is of utmost importance.

To examine whether these four goals are achieved in the two countries observed, two different kinds of family policy provisions are compared: financial transfers towards families and the availability of childcare facilities.

4.1 Family Policy in France

The French high fertility rate is surprising given that until World War II it ranked far behind the German one. So what encouraged the TFR to increase drastically and maintain a high level? Fearing the neighbour's growing population strength, the issue of active family policy attracted attention much earlier in France. 1939, the *Code de la Famille* (Code of Family Law) marked the hour of birth for French public family policy measures and from 1970 onwards the focus of France's population policy shifted onto encouraging women to participate in the workforce (Klingholz & Sievert, 2013).

The French family policy will be separated into two measures in the following: financial transfers and the provision of day care centres.

Financial transfers

Three indicators reflect financial transfers towards families: (a) the rate of payments towards families in relation to GDP, (b) amount of child benefit in relation to national average wage, and (c) tax incentives for secondary earners in comparison to married couples with a sole wage earner (Bujard, 2010: 8).

(a) Cash benefits constitute a corner stone of family policy in France with monetary transfers to families making up 2.6% and childcare benefits amounting to 1.6% of GDP. If tax benefits are also taken into consideration, the budget for family support reaches 3.6% of GDP (EPIC, 2014). The family benefits fund also covers the social security charges to parents who make use of registered child minders.[13] Thus family policy constitutes an essential part of social policy in France and might fulfil objective (2) protection of families' financial stability if the financial resources are used wisely which will be examined in the following.

(b) The *Caisses d'Allocations familiales* (Family Allowance Fund) pays family benefits to French citizens or foreign persons residing in France with one or more dependent children. Dependent children are those below 20 years of age with a monthly income below 55% of statutory minimum wage (*SMIC*). This is written down in Section L. 512-1 of the *Code de la Sécurité sociale (*Social Security Code). Family benefits are calculated as a percentage of the *base mensuelle de calcul* (BMAF, or monthly benefit family base) which is upgraded every April 1st according to changes in the annual consumer price index. This year, the BMAF has been increased to 406.21€ (Cleiss, 2014).

Allocations familiales (Child benefits) in France are paid to families with at least two dependent children which encourages a larger family size. It is neither means-tested nor related to previous employment. Child benefit rates for families with two children are set at 32% of BMAF which amounts to 129.99 € per month, while every additional child is rewarded with another 41% (166.55€) (Cleiss, 2014) Compared to the average annual salary of 22.157€ and corresponding monthly average salary of 1846.42€ (OECD, 2014), the child benefit for two children makes

[13] Child minders account for two thirds of the childcare solutions for children under the age of three. In 2009, the 290.600 child minders in France provided 817.000 childcare places for children under the age of six.

up 7% of income. This can be considered as a relevant financial support, even though it is smaller than in Germany. Therefore objective (2) is pursued and correspondingly objective (4) realizing existing desire for children as well, at least from a financial point of view.

Further, a *Complément familial* (family income supplement) is paid to families with at least three children between the ages of 3 and 21 and an annual net income of maximum 45.623 € for a dual income couple in 2014 (Cleiss, 2014). The amount is set at about 41.65% of the BMAF or 169.19€ (Cleiss, 2014).

Besides these basic maintenance benefits, French families receive early childhood benefits (PAJE or prestation d'accueil du jeune enfant) to offset the costs due to the arrival of a new-born child and childcare. In this context a birth / adoption grant is paid in the 7th month of pregnancy / upon adoption which amounts to 927.17€ / 1,855.42€ (Cleiss, 2014). The income ceiling regulating eligibility for this benefit is calculated according to the number of children in the family and expected. The ceiling is higher in case both parents are working or for single parents. Further, the obligatory prenatal examination during the first 14 weeks of pregnancy has to be proven.

According to the same eligibility calculation and with proof of a medical examination at 9 and 24 months, an *Allocation de base* (basic allowance) is paid from the day of birth until the age of three. The amount of allowance is 185.54€ per month.

The *Complément de libre choix d'activité* (CLCA, or supplement for free choice of working time) is a non-means tested allowance paid to parents who stop working or work less in order to care for a child. To be eligible, the parent needs to have worked for at least two years preceding the birth of the first child. The CLCA is paid for a period of six months for the first child and up to the third birthday for any additional child. The full rate of CLCA (in case of giving up employment completely) amounts to 579.13€ and in case of part-time work 440.37€ are paid (Cleiss, 2014).

The supplement for free choice of childcare is paid to a couple or parent making use of registered *Assistantes Maternelles* (childminders). One part of the benefit covers the childminder's wage to some extent and the other covers the social security contributions payable as employer of the childminder. In case the parents make use of a private childcare facility the benefit is also paid.

A third category of child benefits are meant for special purposes, e.g. in case a child is disabled or severely sick. Besides, an *Allocation de Rentrée Scolaire* (back-to-school-allowance) is paid to any child aged 6-18 who is attending school and whose parents' income is below a certain ceiling which is assessed according to the number of dependent children. The benefit is payable at September 15th of each school year and varies from 364.45€ to 397.88€ (Cleiss, 2014).
Besides, an *Allocation de logement familiale* (family housing allowance) is paid to families to help with housing costs. The payment depends on the property, the rent and the family's income.

Another special benefit is paid to parents having brought up three children or above as they receive 10% more retirement-pay (Sickinger, 2005: 4).

During maternity leave, mothers receive their full salary for 16 weeks and 26 (34) weeks if it is their second (third) child. Fathers are allowed to only 11 consecutive days of parental leave with full payment (EPIC, 2014). Thus women are encouraged to go back to employment quickly and therefore objective (1) is fulfilled. Regarding financial stability of families (2) however, this measure is questionable. Mothers are forced to go back to work relatively soon as otherwise they would face financial pressures. Also objective (3) Well-being of children and good development might be questioned as children and parents sometimes alienate from each other due to the little amount of time they get to spend together. However, discussing this issue would go beyond the scope of this thesis.

Even though the care allowance CLCA is available to both men and women, 99% of beneficiaries are women (Morgan, 2003). Since the benefit is low however, it is mostly taken by lower income, less skilled women who face difficulties in the labour market anyway.

As a consequence the CLCA contradicts goal (1) and (3) and on a long-term basis also (2) as women face difficulties when re-entering the labour market after a longer period of interruption. The generous child benefits as listed above clearly serve objective (2), (3) and (4) as financial stability of families is secured, therefore well-being of children is fostered (especially through the back-to-school allowance) and the desire for children is not counteracted by financial worries.

(c) Moreover, large families benefit from tax concessions: the family quotient, a specific principle of tax, favours families with at least three children. In the French tax system, a tax unit is not an individual but a household which is divided into shares – a married couple receives two shares, a married couple with two children receives two and a half shares and so on so that in the end the deductible income is divided by the number of shares and the taxes are calculated on the basis of this adjustment (EPIC, 2014).

By this procedure of tax adjustment objective (2) protection of families' stability is fulfilled as especially large families profit from tax concessions. This can also lead to the fulfilment of objective (4) realizing existing desire for children.

Extension of day care centres

French family policy provides a wide range of subsidised childcare services and a generous allowances system. This combination intended to facilitate the reconciliation of work and family life seems to be rather effective since France (together with Ireland) shows the highest fertility rate in Europe with an average of two children per woman in 2011 (EPIC, 2014). The fertility rate has been increasing for twenty years now and remains steady. According to figures from 2012, female employment from 15-64 reaches 60% and thus meets the Lisbon target.[14] France is an international leader in the provision of public full-day preschools and exceeds even Scandinavian standards (which are oftentimes considered as role-model) in this regard. Over 30% of children below the age of three are in publicly run or publicly subsidized day care services or receive early childhood education (Morgan, 2003: 264). The high-quality programs are generally available to all children from age three upwards and even 35% of the two year olds participate in the preschool system (Morgan, 2003: 264). The programs are furthermore free of charge and available for the entire school day from 8.30 to 4.30 p.m., excluding Wednesday afternoons. Thus, school time is compatible with parents' work schedule and women's employment is facilitated. In many other countries like Germany, Austria and the Netherlands, public child care is only offered part-time which makes it difficult for parents (mostly the mothers) to pursue a job outside the house. As a consequence of the full-time day care and preschool services, the participation of French women in the labour force is generally higher than in other conservative welfare states. In the 1990s, 68% of mothers were in the labour force in France, compared to 41% in Germany and 52% in the

[14] In 2000, the European Council in Lisbon launched the „Lisbon Strategy" which is aimed at making the EU the most competitive economy in the world and achieving full employment by 2010. The specific targets set with regard to employment were an overall employment rate of 70% and female employment of 60%.

Netherlands (Morgan, 2003: 266). Nowadays, 70% of the French women with one or two children remain in employment (Klingholz & Sievert, 2013). Therefore objective (1) Reconcilability of work and family life / Female Employment and (4) Fulfilment of the existing desire for children can be considered fulfilled. Objective (3) Well-being and good development of children is also fulfilled as especially lower class children profit from early childhood education and day care centres thus foster equal chances.

Concluding, the French family policy measures support families, and especially large families, financially in various ways so that having children is not a question of money. Moreover, French women can rely on generous day-care centres that match with work schedules so that the time factor, too is not contradicting the wish to reconcile children and work. Therefore, the two determinants influencing fertility as stated in Becker's *A Treatise on the Family*, are covered by French family policy.

The rising opportunity costs that go along with improved education and career prospects for women who decide whether or not to have children are thus counteracted by public institutions which take care of the "domestic skills" that were originally fulfilled by women. Thus, France, like the social democratic welfare states of Scandinavia managed to combine high fertility with high female participation in the workforce and reversed the negative correlation.

Concerning Gøsta Esping-Andersen's theory of welfare states, the French social policies do not necessarily correspond with their classification as conservative welfare state as the traditional male-breadwinner model is not encouraged but rather a dual-income-model. As a result not only female employment and fertility are fostered but also the workforce expanded and gender equality generated. With extensive child care facilities and a generous support system that does not rely on means-testing or employment, France shows characteristics of the social democratic welfare state as well. Thus France can be considered as a hybrid-form of conservative and social democratic states which worked out effective measures to foster female fertility and population growth.

4.2 Family Policy in Germany

The German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth was founded in 1959 and since then various measures were undertaken to ensure financial stability of families and encourage a larger family size. The major challenge of recent times is Germany's low fertility rate with an average of 1.4 children per woman (Worldbank, 2014). According to a representative survey from 2013 67% of possible future parents fear the high costs involved with children and 54% state that family is not compatible with a career. Besides, 45% complain about the lack of governmental support, for instance in the form of child care services (Stiftung für Zukunftsfragen, 2013). To what degree family policy measures of recent years might have counteracted these fears will be elaborated below.

Again, the extent of national family policy will be measured by the financial transfers towards families and the extension of childcare facilities. To what degree the four goals (1) Reconcilability of work and family life / Female Employment, (2) Protection of families' financial stability, (3) Well-being and good development of children and (4) Fulfilment of the existing desire for children are pursued by family policy measures in Germany will be highlighted in the following.

<u>Financial transfers</u>

Three indicators reflect financial transfers towards families: (a) the rate of payments towards families in relation to GDP, (b) amount of child benefit in relation to national average wage, and (c) tax incentives for secondary earners in comparison to married couples with a sole wage earner (Bujard, 2010: 8).

(a) Annually in Germany 2.9% of GDP are invested in cash benefits and noncash benefits regarding family policy which is above the EU-average of 2.08% (BFSFJ, 2006a: 8). However, with a total volume of 200 billion Euro towards family- and marriage related allowances, about 8% of Germany's GDP was spent on family matters in 2010 (SVR, 2014: 394). Therefore family policy can be considered as an essential component of German social policy. The relatively high amount of allowances towards families can be regarded as favouring objective (2) protecting families' financial stability. However, the financial resources might not be transformed into effective, goal-oriented measures as will be further discussed below.

(b) *Kindergeld* (Child benefits) in Germany is regulated by law through the *Bundeskindergeldgesetz* (*BKGG,* federal law on family allowances). Hence, parents or guardians are entitled to child benefits when having their main residence in Germany or having unrestricted tax liability in Germany (according to *Einkommensteuergesetz* [Income Tax Act] §§ 31 ff. und §§ 62 ff. *EStG*) and care for at least one child. The right to child benefits exists already in the month of birth and lasts unrestricted until the age of 18. After the age of 18, child benefits are paid until the age of 25 if the child is in education or vocational training. The amount of child benefit is determined in § 66 *EStG* and § 6 *BKGG* and accounts for 184€ for the first and second child, 190€ for the third child and 215€ for every further child. The average annual salary in Germany amounts to about 23.155€ in 2014 which is more than the OECD average of 18.047€ (OECD, 2014). Hence one can conclude an average monthly salary of 1.929€ - a child benefit for the designated two children per family[15] of 368€ would thus make up 19% of monthly earnings and constitute a considerable support.

Consequently, child benefit in Germany helps achieving objective (2) protect families' financial stability which goes hand in hand with objective (4) Realizing existing desire for children as the decision to have children is oftentimes linked to one's financial outlook.

Even though the costs for the second child may be estimated at a lower level compared to the first child[16], the amount of child benefit is equal for both children as each of them receives a grant of 184€ per month. This constitutes a small positive financial incentive towards having a second or even third child. From a demographic point of view however with the aim to increase fertility, one might suggest improvements as seen in the French way of family policy: rewarding larger families by paying significantly higher sums for three children or paying child benefit only after the second child.

According to the *Gesetz zum Elterngeld und zur Elternzeit* (*BEEG*) Parents are also entitled to the so called *Elterngeld* if they interrupt their work fully or partly to care for their child. The payment is generally restricted to 12 months but can be extended by two more *Partnermonate* (partners months) if both parents decide to participate in child care and decrease working hours. The amount of the monthly allowance is aligned with the former net income of the applicant parent.[17] The minimum amount (in case of unemployment) is 300€ and the maximum amount accounts for 1.800€. Lower income parents are further

[15] 2.1 children per woman is the minimum amount for population reproduction when taking into consideration deceases (Frevel & Dietz, 2008)
[16] Fixed costs such as furniture, toys etc.
[17] Income between 1000 and 1200€ is substituted by 67%, income of 1220 by 66% and income of 1240 and above by 65%.

supported as the percentage of reimbursement rises using a particular system[18] when the former income is below 1000€ per month (BMFSFJ, 2011: 13).

According to the RWI (Rheinisch-Westfälisches Institut für Wirtschaftsforschung) the introduction of the *Elterngeld* increased the possibility for a mother to be employed by 10%. Thus the labour market behaviour of women has changed in a substantial way with women reconciling a job and family working more hours per week, returning to their former work place more often and therefore attaining permanent contracts more often (RWI, 2009: 8).

Hence, the introduction of *Elterngeld* fulfils the family policy objective (1) encouraging female employment and facilitating reconciling work and family life. Objective (2) protection of families' financial stability is also served, at least in the first year after childbirth. Moreover, objective (4) Realizing existing desire for children is also pursued as with the *Elterngeld* the first 14 months of life are taken care of financially and female employment is encouraged rather than prevented.

(c) Tax incentives for secondary earners in comparison to married couples with a sole wage earner in Germany are another interesting aspect to look upon. Due to the *Ehegattensplitting* the dual income model is at a tax disadvantage compared to the breadwinner model. The two incomes of a married couple are added, then divided by two before tax per person is estimated. This procedure allows generous tax benefits as compared to separate taxation because not one high income is taxed but two fictive lower incomes. The costs for the tax incentives are set at 20 billion Euro annually, the costs for the co-insurance at about 13 billion Euro annually (BMFSFJ, 2006b).

However, the *Ehegattensplitting* is widely criticized by economics as it delivers negative working incentives to women and consequently leads to a risk of poverty in old age. The benefits appear as income replacement and encourage women to leave work. In case of a divorce however, women oftentimes face poverty.

The same is true for the cost-free co-insurance of women. Both measures favour single-income families while placing double-income families at a disadvantage. The bigger the difference in income, the bigger the advantage of the family. Therefore despite the fact that the *Ehegattensplitting* disburdens families financially, it is not advisory from a demographic point of view. Couples without

[18] With every 2€ that the net income was below the threshold of 1000€, the replacement rate rises by 0.1%.

children benefit just as much as families with children and negative working incentives for women are created fostering low female employment and a risk of poverty in old age.

Thus the *Ehegattensplitting* contradicts objective (1) reconcilability of work and family life especially with regard to female employment. It supports however objective (2) protection of families' financial situation as it constitutes a considerable financial relief. As this tax provision applies to married couples in general and not only families with children however, the policy is not specifically beneficial to families and does not necessarily increase fertility.

Extension of childcare facilities

The *Tagesbetreuungsausbaugesetz* (*TAG)* which entered into force in January 2005 provides for a quality- and needs-oriented development of childcare and day-care centres. A special target of the policy is the provision of day-care services for below 3 year olds. Therefore until October 2010, the creation of 230.000 additional places in day care centres, nurseries and with child minders were targeted.

The development was continued by the *Kinderförderungsgesetz (KiFöG)* which entered into force in 2008 under the great coalition of SPD and CDU. From 2013 onwards, every child aged one year or above is entitled to a place in a day care centre. With about 800.000 day care places, the demand is theoretically fulfilled. However, in areas with a high demand such as big cities, fulltime childcare places are still scarce. (SVR, 2014: 398)

With the extension of childcare services, the *TAG* and *KiFöG* clearly fulfil objective (1) reconcilability of work and family life as it has positive effects on female employment and therefore objective (2) protection of families' financial stability is also pursued. Aim (3) Well-being and good development of children can also be considered fulfilled as children benefit from early childhood education, especially those from lower education backgrounds. The better reconcilability of work and family life also leads to the realization of existing desire for children and therefore objective (4) is also pursued. Hence, the extension of day care centres according to *TAG* and *KiFöG* pursues all four aims of family policy and is thus highly recommendable regarding fertility.

Counteracting to the development of day care provision though is the introduction of the *Betreuungsgeld* in 2013. This social security benefit is paid to families caring for their children at home during their second and third year of life without claiming a place in a day care centre. Even though the amount only totals 150€ per child and is also paid to working parents, it encourages especially low-income mothers to drop out of the workforce.[19] As kids from educationally disadvantaged backgrounds however benefit the most from day care centres, the incentives of the *Betreuungsgeld* contradict not only the objective of female employment (1) but also work against equal chances and early childhood education (3). As the amount is rather low with 150€ monthly, objective (2) protection of families' financial stability cannot be considered fulfilled. It rather contradicts financial stability in the long term as women are prevented from going back into employment.

Thus, the *Betreuungsgeld* is not beneficial to any of the aims of family policy and is therefore not to be recommended as a targeted family policy to tackle the societal issues of an ageing population.

To conclude, Germany has invested quite a considerable amount in family policy matters. Amongst the first short term achievements are the expansion of day care centres and the introduction of *Elterngeld*: both include positive incentives for women to stay in or go back to employment and facilitate the reconciliation of work and family life. As a consequence objective (2) and (4) are also pursued. As children profit from early childhood education (especially when coming from a lower education background) equal chances are provided and good development fostered (3). Child benefits also play a considerable role in achieving goal (2).

Measures such as the *Betreuungsgeld* on the other hand contradict the objectives (1) Reconcilability of work and family life / Female Employment, (3) Well-being of children and good development and do not support any of the objectives. The *Ehegattensplitting* supports objective (2) but is highly contradictive to objective (1). Furthermore it is not only beneficial to families with children but rather to married couples in general.

If financial resources from counterproductive measures such as the *Ehegattensplitting* and the *Betreuungsgeld* were to be repositioned onto more advisable measures, family policy could work more efficiently towards all the goals implied.

To return to Becker's economic theory of the family the factors time and money find attention in the expansion of day care facilities and the legal entitlement to a spot as well as the *Elterngeld* and *Kindergeld*. However, in urban areas the demand for day care spots

[19] Theoretically the *Betreuungsgeld* can be paid to both sexes, but in 2014 95% of the recipients were mothers.

is higher than supply so that it is not a given to find a place. Besides that Germany has accomplished quite a development of family policy in recent years. However, this development was too late to counteract an ageing society as fertility responds only slowly to policy incentives.

Further, by encouraging the single income male breadwinner-model (keyword *Betreuungsgeld* and *Ehegattensplitting*) gender equality is counteracted and opportunity costs for women who are employed and want to have children remain high. As a consequence, the workforce is not expanded to its maximum.

4.3 Interim Conclusion

Germany's recent family policy seems to follow the French example with the legal entitlement to a day care spot for every child below the age of three and the massive expansion of day care provision. Both countries spend a considerable percentage of GDP on family policy matters and financial incentives are supposed to support families with raising children. The French family policy offers a wider range of monetary benefits however with paying attention to the special needs of school children and the housing situation of larger families. Also in terms of maternity leave, there are significant differences: While French women typically have a 16 week fully paid maternity leave, German women typically take 12 months of maternity leave with 65% of payment. Also fathers are treated differently in the various family policies. In France, men are only entitled to 11 consecutive days of paternity leave. In Germany on the other hand, men can take up to 12 months of paternity leave paid at 65%. Besides the mentioned differences, the national family policies of Germany and France are quite similar today. Nonetheless, the results differ greatly with a TFR in France of 2.0 (Klingholz & Sievert, 2013) and a TFR in Germany of 1.4 (Worldbank, 2014). Moreover, 70% of mothers with one or two children are employed (Klingholz & Sievert, 2013) as compared to 40% in Germany (BMFSFJ, 2012: 1). In Germany the results of recent policies are not visible yet as birth trends respond to incentives time delayed. Whether the desired effects come into force at all is questionable though as the same policy measures can lead to different results in countries as societal values and experiences from history also play a part. Moreover, it is important to acknowledge that while the French family policy proves to be effective in increasing fertility rates, the relation between mothers and their children seems to suffer in many cases and working mothers are challenged with a double burden of full- or part-time jobs and household duties. A current study about the well-being of children conducted by Unicef across 30 countries asked children how they regard their relationship to parents and peers. France ranked last (Unicef, 2007).

5. Economic Outlook

5.1 France

Although the French family policies are very effective in terms of increasing fertility, there is a downside to the immense spending they entail: Currently, France is faced with great fiscal and economic challenges. Especially problematic is the slow economic growth with 0.5% in 2014 (GTAI, 2014). Also the labour market situation is tense as France shows unemployment rates of estimated 10.4% in 2014 (GTAI, 2014) and The European Commission expects the difficult conditions on the labour market to deteriorate even in the following years (Kullas, 2013: 1). Furthermore, the fiscal deficit is cause for concern: during the financial crisis in 2009 it rose to 7.5% of GDP and since then French governments have failed to reach the legally acceptable level of below 3% as prescribed by the fiscal pact (Art.126 TFEU). Originally this should have already happened in 2013, but the European Commission allowed an extension of the deadline to 2015. It is even questionable though whether the prolonged deadline can be met as the European Court of Auditors assumes the French growth and tax income prognosis to be too optimistic (Kullas, 2013: 1). According to the French Minister of Finance, Michel Sapin, it is unlikely that economic growth will go far beyond 1% in 2015, even though 1.7% were originally anticipated. Also, new debt will amount to more than 4% of GDP as opposed to the expected 3.8% (Die Zeit, 2014).

While public expenditures are among the highest within the Euro-Zone, economic growth is among the lowest. This situation could put the French debt sustainability at risk in case financial and structural reforms fail to be implemented. A country's debt is sustainable if the country is able to pay its debt in time and in the agreed scope (ECB, 2012). Whether this is the case depends on several factors such as tax income, economic growth and average interest rates. In case a country is not debt sustainable and cannot sustain a certain limit of debt, it is faced with a debt spiral having the final consequence of insolvency. A debt spiral is existent when a country has to take out new loans to pay its interest rates (ECB, 2012).

According to Kullas (2013: 4) France showed a sustainability gap of 3.5% of GDP in 2012 which is above the European average of 3.1%. In this context the sustainability gap is calculated as the difference between required primary balance[20] and achieved primary balance. Thus this concept does not depend on future developments and does not include projections. Rather it reflects the current deficit of between public expenditure and income without paying attention to implicit debt. If future developments of the labour market, advances in productivity and expenses related to population development are to be included, the EU sustainability rating is more appropriate which states a sustainability gap of 449% in France based on the year 2013 (Stiftung Marktwirtschaft, 2014).

A real danger to the French debt sustainability however arises only in case the gap between required primary balance and real primary balance cannot be closed. There are two ways this can be prohibited according to Kullas (2013: 5):

(1) by an increase in government revenue / decrease in government spending which leads to a rise in real primary balance
(2) by economic growth as then the required primary balance decreases and tax revenues go up and with them the real primary balance

The French tax burden is already very high with 46.7% of GDP – within the Euro zone, only Belgium has a higher tax burden. However, the French government decided an increase in value added tax from 2014 onwards from 19.6% to 20%. Thus, the means of revenue-increasing are used up. But, when having a look at the immense public expenditures, a cutback seems reasonable: with 56.6% of GDP France is expenditure-wise on top of the Euro-area (Kullas, 2013: 9). One reason for this are increasing social costs. No other EU-country spends such a high percentage of GDP on social expenditures as France with retirement-benefits being the largest matter of expense and subject to increase. Further, the public sector employment offers possible savings being the largest in size among the European Union (besides the Scandinavian countries) with 23% of total employment (Kullas, 2013: 10).

A third possible measure is economic growth, meaning domestic demand or net export need to rise. Since the introduction of the Euro, France's economic growth has been depending on a rising domestic demand as net export continued to go down. In Germany however, the development was opposite since the introduction of the Euro (Kullas, 2013:

[20] Primary balance is primary expenditure minus primary income.

11). As domestic demand remains static as a consequence of unemployment and decreasing public expenditures, France has to focus on fostering net export. For an increase in exports and decrease in imports, a competitive economy is required. However, problems in competitiveness have led to a continuous decrease of net-output in the manufacturing sector over the last decades (Kullas, 2013: 12). This problem could be solved by an increase in productivity or decrease in labour wages. In the short term however it is not possible to increase productivity. Nonetheless, France should think about long-term measures increasing productivity and innovation as in this regard it lags far behind the German economy.[21] In the short term, the better solution to France's low productivity is a decrease in labour costs as they are high in the European comparison. The measures undertaken by the Hollande government even aggravated the issue of high non-wage labour costs as the retirement age was reduced from already low 62 years to 60 years and minimum wage was raised even twice to currently 9.43€ per hour (Kullas, 2013: 15).

Besides these measures, François Hollande currently leads a policy of austerity and becomes increasingly unpopular with the French people as nonetheless neither public budgets nor the economy seem to ease (FAZ, 2014). The 50 billion Euro of expenditure cutbacks planned within three years constitute only a rather negligible amount when considering that public expenditures in France amount to 1.200 billion Euro annually (FAZ, 2014).

This current austerity of the Valls government triggered a state crisis which lead to the resignation of the government. Arnaud Montebourg, former Minister of Economic Affairs, harshly criticized Germany for its rigid austerity measures that it supposedly imposes on the entire European Union. France as second largest economic nation should at least co-determine economic policy instead of simply obeying austerity measures enforced by Germany. Especially a socialist government should not simply copy German conservative policies but rather prioritize managing the economic crisis before aiming at budget consolidation, he announced (Tagesschau, 2014a).

The introduction of the new government on August 27 with former bank manager Emmanuel Macron as new Minister of Economic Affairs is to be understood as a signal to

[21] Whereas Germany showed a rate of 526 patent applicants among one million employed people in 2011, the same rate in France only amounted to 301. (Kullas, 2013)

the world of finance and a concession to the need of economic reforms but included the resignation of central figures of the left socialist wing.

Having in mind this intricate situation of French public finances and the legal boundaries set by Art. 126 TFEU, it is questionable whether it will be possible to keep up the generous and efficient family policy measures. In contrast to this, Germany excels with economic growth, low unemployment figures and marginal new indebtedness.

5.2 Germany

Despite the omnipresent impacts of the financial and economic crisis beginning in 2007/2008, the German economy has performed remarkably well in recent years. While in most European countries job losses are a daily occurrence, unemployment figures in Germany are at a record low of 5.4% in 2013 (EC, 2014: 56) which encourages demand and generates economic scope for action by public households. Economic growth amounted to 0.4% in 2013 but is expected to accelerate due to rising domestic demand (EC, 2014: 56). Even though the European countries were currently faced with an economic and financial crisis, German exports cracked the one billion Euro mark for the first time in 2011 with exports increasing by 11.4% compared to 2010 (Sueddeutsche, 2012).

Public budgets are also stable with public debt amounting to 77.3% of GDP in the first quarter of 2014 (Federal Statistical Office, 2014) – even though this is far beyond the 60% limitation of the fiscal pact (Art. 126 TFEU). Despite a slight deficit of 0.1% in 2014 following a slight surplus of 0.1% in 2013, public budgets remain balanced. Also in future the general government budget is forecast to remain balanced and the structural budget to remain in surplus leading to a declining debt-to-GDP ratio (EC, 2014: 57).

However, when having a look at implicit debt[22] Germany's public budgets face a great challenge: An increase in age-related public expenditures of 3.6% of GDP over the years from 2010 to 2060 is projected which is above the EU-average of 2.9% (EC, 2008a: 93). With an estimated age dependency ratio of 0.67 in 2060 (Federal Statistical Office, 2009) and declining production due to an ageing society the anticipated sustainability gap ranges from 0.6% (optimistic base variant[23]) to 3.1% (pessimistic base variant) of GDP.

[22] The sum of current and future deficits of social security systems over a long period of time

[23] The optimistic (pessimistic) base variant assumes a fertility rate of 1.6 (1.4) children per women by 2025, a rise in life expectancy at birth of 89.2 years (91.2) for women and 85.0 (87.7) years for men by 2060, net migration of 200.000 (100.000) persons per year form 2015 onwards, an increase in retirement age by two (one) year(s) until 2035, unemployment rate of 3.4% (5.8%) by 2030, total factor productivity growth 0.96% (0.71%) from 2019 onwards and an inflation rate of 1.9% (1.9%). (Federal Ministry of Finance, 2014)

Thus, over time, "compliance with the debt brake[24] and European fiscal rules would no longer be assured" (Federal Ministry of Finance, 2014). However, the raise of retirement age to 67 years and recent reforms of the statutory pension system and statutory health system have led to a reduction in sustainability risks (Federal Ministry of Finance, 2014). Other policies aimed at the younger generation such as the *TAG*, *KiFöG* and the introduction of *Elterngeld* will reveal their effects only in the long run as demographic behaviour responds on a long-term basis. This explains the findings of the survey mentioned above conducted by the Stiftung für Zukunftsfragen (2013): The effects of the newer family policies aimed at facilitating the reconciliation of work and family life are not measurable yet as a change in attitudes will only be noticeable in the long-term. Nonetheless, the focus has to be set on further encouraging fertility and facilitating the reconciliation of work and family life to foster female employment, expand the workforce and thus reduce the age dependency ratio. Currently Germany is criticised for its lack of reforms.

6. Generational Equity

Low fertility rates and an ageing population ultimately lead to higher public deficits in a pay-as-you-go-finance system. This development will pose a problem to future generations as they will on the one hand be faced with increasing tax payments to counter high public deficits and on the other hand with increasing contribution rates to social security systems in order to finance the high number of retired persons. The pay-as-you-go-finance practice implies a generational contract that ensures that the elderly receive compensation payments from working people with regard to their former work and contributions to the same social insurance system (Börsch-Supan, 2003: 1).

Meanwhile, working people can rely on receiving comparable compensation payments during retirement. As a result of demographic change and the increase in old-age dependency ratio, young people are burdened with rising costs to sustain the pensioning system. In this context discussions about generational equity oftentimes arise. But what is to be understood by generational equity? While there are two common ways to determine generation – either a cohort of 30 years or the people living on earth in a

[24] The „debt brake" became part of Germany's constitution in 2009 and requires the federal government to run a budget deficit of no more than 0.35% of GDP starting 2016 and 0% starting 2020.

specific point of time – the term equity is almost impossible to define (Raffelhüschen & Schoder, 2007: 144). While it is clear that equity is linked with equality, the question remains to what extent equality has to be achieved in order to generate equity (Raffelhüschen & Schoder, 2007: 144). According to the principal of intertemporal budget limits[25], public budget has to be compensated in the long-term meaning that one generation should not prosper financially on the expense of the next generation. These will be burdened either by increased contribution rates or by tax increases as a measure to counter rising public debt. Using this argument of generational equity, decisions on social policies in recent years have been justified (Schmähl, 2007: 146). Likewise, fiscal sustainability is regarded as necessary precondition for generational equity (Schmähl, 2007: 146). According to the social advisory council of the federal government generational equity is achieved when the relation between contributions and benefit entitlements does not change among the generations (Schmähl, 2007: 147). Thus, generational equity is solely defined on the basis of financial returns. In terms of realizing generational equity, France and Germany are faced with contrasting challenges.

France is confronted with high fertility rates but faces negative public deficit and debt perspectives. The French public budget is currently burdened by vast social policies while the economy lacks the power to compensate these expenditures in the future. As a consequence, next generations will be burdened with high public debt and therefore rising taxes to pay off deficits as the debt of today constitutes the taxes of tomorrow (Bund der Steuerzahler). Moreover, the issue of an ageing society linked with a low retirement age highly burdens the French social security systems. Nonetheless, continuous population growth will foster national production and decrease pressures originating from a rising age dependency ratio. Therefore, despite its rising public debt, France awaits a future of population growth. However, financial reforms are necessary to consolidate public budgets and ensure that future generations are provided with what they are entitled to according to the concept of generational equity.

Meanwhile, Germany faces low fertility rates and a shrinking population but balanced public budgets. Germany profits from economic growth even in times of financial crisis and presents a manageable annually new indebtedness according to the “debt brake”: in 2013 net borrowing amounted to only 0.23% of GDP (Federal Ministry of Finance, 2014) and economic growth numbered 0.4% in 2013. However, implicit debt is rising drastically

[25] The concept of intertemporal budget limits implies that today’s public borrowing restricts future scope for action. In the long run, public debt may not grow faster than GDP.

with Germany's ageing society. Therefore, a balanced budget per se does not entail generational equity when accompanied by a shrinking population that lacks the necessary future taxpayers and employees. With an immense age dependency ratio, the younger generation is put under pressure regardless of a relatively stable explicit debt. This is even more the case if a balanced budget is achieved through cutbacks on social policies that are targeted at the younger share of the society, e.g. education spending. Hence, budget consolidation is oftentimes justified through the instrumentalization of catch words such as "sustainability" and "generational equity". However, the effects of austerity measures in social, educational and health system hinder exactly those that are supposed to be protected by austerity measures and household consolidation – the younger generations (Butterwegge & Klundt, 2003: 62). This situation is quite accurately described by the term „generational paradox" which implies that social systems with strong emphasis on pension policy oftentimes disregard the aspect of fertility rates and thus put the sustainable financing of future pensions at risk (Bujard, 2011:8). Germany has to set out its priorities and while paying attention to the needs of an ageing generation, it may not neglect the needs of a younger generation. By fostering fertility or promoting education and equal chances, governmental policy can set the path towards generational equity.

To come to a conclusion, neither population growth nor a consolidated budget alone can lead to generational equity. France and Germany both lack policies that will lead to a sustainable public budget with regard to explicit and implicit debt. Hence, both demographic scenarios put future generations under pressure.

7. Conclusion

The thesis at hand aimed at a comparison between family policy measures in Germany and France by answering the research question:

Which socio-economic aspects influence the decision to have children? What is the impact of German and French family policy on fertility and the fiscal situation and how can generational equity be achieved?

First of all, it was elaborated that while both countries are faced with the challenges of an ageing society, namely an increasing age dependency ratio and pressured social security systems, fertility varies greatly between the two neighbouring countries. Germany struggles with a constant low TFR of 1.4 per woman (Worldbank, 2014) which consequently leads to a shrinking population as natural population loss is not counteracted by immigration: from 2009 to 2060 Germany's population will decrease by 11 million inhabitants (Eurostat, 2009: 162). France on the other hand excels with a fertility rate of 2.0 children per woman which in combination with net immigration will lead to high population growth: Until 2060 the French population will increase by 9 million inhabitants (Klingholz & Sievert, 2013).

Demographic change in Germany challenges public budgets on both the revenue and expenditure side due to rising pension and health care costs of an ageing society in combination with a decrease in contributors to social security systems. This is indicated by an increasing age dependency ratio from 0.34 in 2008 to approximately 0.67 in 2060 (Federal Statistical Office, 2009) meaning that by 2060 100 working people will have to provide for 67 retired people. One measure to counter this decisive factor is the expansion of the workforce. In this regard the thesis at hand focused on increasing female participation in the labour market while at the same time fostering fertility rates.

The economic theory of Gary S. Becker as described in *A Treatise on the Family* (1960) provided two factors that influence the rational cost-benefit-analysis of couples when deciding upon having children: time and money. It was then stated that a negative correlation between female education/ employment and number of children led to a decrease in fertility rates in recent years as opportunity costs for children increase. However, when having in mind countries such as the Scandinavian countries and France which excel by high female employment and high fertility rates at the same time it must be possible to shift this negative correlation into a positive one.

With the help of Gøsta Esping-Andersen's *The three Worlds of Welfare Capitalism* (1990) the three categories of welfare states were elaborated with regard to social policy measures and the reconcilability of work and family life in the given countries. Thereby it became apparent that the countries need to reduce the opportunity costs of having children in order to achieve high female employment and high fertility rates. Therefore, the domestic duties traditionally assigned to women due to gender-based division of labour including child care and care for the elderly have to be fulfilled by governmental institutions. As a result, having children is not a question of giving up employment and workforce expansion is served in two ways: higher fertility and higher female employment. When analysing the welfare state dimensions created by Esping-Andersen more closely it became obvious that these are no longer valid in some cases. While France and Germany are both considered to be conservative welfare-states, their national social policies, especially in regard to family policy, have quite different approaches.

The comparison between the two countries is hampered by the fact that France looks back on a long history of active family policy and population policy since 1939 while in Germany the issue of family policy gained political attention only later. Today, family policy in France and Germany have converged in many ways as a consequence of the expansion of day care centres in Germany in form of the *TAG* in 2005, the *KiFöG* in 2008 and the introduction of the *Elterngeld* in 2006 so that theoretically the opportunity costs of children for German women have reduced significantly. Nonetheless, results differ quite a lot as can be seen in mothers' labour participation rates and birth rates. However, birth trends change only on a long-term basis and it will need time until the theoretical possibilities are made use of practically. Thus it remains to be seen whether German family policy manages to encourage both mothers' participation in the labour market and fertility rates through the measures undertaken in recent years.

While in France family policy has remained unaffected by current austerity measures stable birth rates and population growth can be expected. In Germany on the other hand extensive family policy measures where undertaken only in recent years so that a positive development is highly possible. A positive development in female labour participation rates and fertility rates is necessary with regard to evanescent generational equity in Germany. As a primary step the repositioning of financial resources from counteractive measures such as the *Betreuungsgeld* and *Ehegattensplitting* towards more target-oriented measures appeared to be advisable. While the expected implicit debt constitutes the main problem to generating generational equity, explicit debt in Germany remains rather stable due to austerity measures within the framework of the Agenda 2010 under *SPD* and Bündnis 90/ Die *Grünen* (especially the *Hartz IV* legislation). Ten years later, Germany managed to develop from the "sick man of Europe" to the European "locomotive of growth" (FAZ, 2013). In France on the other hand, next to implicit debt as a consequence of an ageing society and low retirement age, explicit debt constitutes a major problem. Economic reforms are not only needed in terms of generational equity but also urgently demanded by the European Commission (EC, 2013: 4). Special attention is to be paid to increasing retirement age as well as pursuing fiscal and structural reforms to ensure future economic stability. While Germany demands reforms in most European countries on behalf of the European Union, in Germany itself the last major economic reforms date back to the Gerhard Schröder government until 2005. Moreover, with measures such as the introduction of minimum wage of 8.50€ from 2015 onwards labour costs increase and competitiveness suffers. As a consequence, at the recent EU Finance ministers' meeting voices of criticism questioned the German economic prospects and declared that Germany might turn into the "sick man of Europe" again if necessary reforms are not implemented (Tagesschau, 2014b).

Thus it becomes evident that generational equity is neither achieved by a balanced budget alone nor by high fertility. Both Germany and France face great challenges in this regard and continuous reforms are necessary to keep up with the implications of an ageing population – may it be shrinking or growing.

Despite the furore in media and political debates, the challenges implied in demographic change are not irreversible fate but might be moderated by appropriate policy measures as elaborated in the thesis at hand. There are not only downsides of an ageing society, even though the public opinion seems to agree on that. However, as Georg Christoph Lichtenberg wrote (Schmähl, 2011: 160): Nothing is more questionable than sentences which came into fashion.

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