

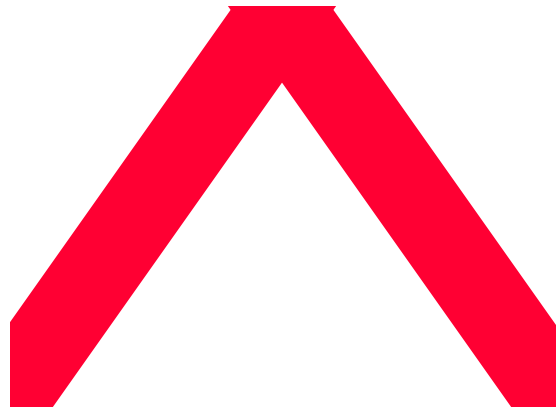
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Does economic development drive the
fertility rebound in OECD countries?



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We examine how far changes in fertility trends are related to ongoing economic development in OECD countries. In the light of the inverse J-shaped relationship between the human development index (HDI) and total fertility rates that was recently found by Myrskylä, Kohler and Billari (2009), we single out the impact of economic development on fertility. We empirically test the hypothesis of a convex impact of GDP per capita on fertility, using data from the OECD area that spans the years 1960 to 2007. We test the robustness of our findings by controlling for birth postponement and for different income distribution patterns. By designating a clear turning point in the relationship between economic development and fertility, we find that economic development is likely to induce a fertility rebound, but is not sufficient to lift fertility to a significantly higher level in all OECD countries. Country-specific factors explain why countries with similar GDP per capita levels achieve significantly lower or higher fertility rates than the estimated baseline, however. By decomposing GDP per capita into several variables, we identify female employment as the main factor impacting fertility, behind GDP variations. The positive association between the increase in female employment and fertility rates suggests a key role played by the changes in norms and institutions supporting the combination of work and family that go along with the process of economic development.

Keywords: *demographic economics, fertility, economic development, female employment, economics of gender*

JEL codes: *J11, J13, J16, O11*

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1. Introduction

The consequences of economic development on fertility dynamics have given rise to controversial but often negated predictions. An example of this is the pioneering thesis of Malthus, who anticipated rapid growth in population size going hand in hand with economic development. While Malthus predicts a pro-cyclical evolution of fertility, the demographic transition theory (DTT) suggests that in countries that develop from a pre-industrial to an industrialised economic system, long-term increases in economic wealth and income per capita are combined with a transition from high to low birth and death rates (Galor and Weil 1999; Doepke 2009). The DTT predicts ever-decreasing fertility rates with economic growth. Indeed, in many OECD countries over recent decades, a rapid decline of fertility below replacement level was observed that went hand in hand with economic growth. However, in the last few years, especially in highly developed countries, fertility trends have reversed simultaneously with continuing economic development.

Whether further economic advancement is likely to provoke a revival of fertility in highly developed countries is of major political, social and economic interest. As fertility affects population growth and the age structure of the population, changes in fertility in the immediate future have far-reaching consequences on economic development, productivity growth and aspects of welfare systems (Barro and Becker 1989; Prskawetz and Lindh 2006; Prskawetz *et al.* 2008). Fertility response to economic development is not similar in nature at all points. Many factors shape the relationship, over and above the economic dimension (Lesthaeghe and Surkyn 1988).

Yet a series of empirical studies have identified changing relationships between economic growth and fertility rates. Butz and Ward (1979), for example, find that whereas in the USA fertility trends were pro-cyclical before 1960, they turned counter-cyclical from the 1960s until the late 1970s. Most recently, Myrskylä, Kohler and Billari (2009) find a so-called “inverse J-shaped” relationship between the human development index (HDI) and total fertility rates, suggesting a fertility rebound from a certain level of human development on. However, the use of a composite measurement of human development masks the particular contributions of each of the indicator’s components (GDP per capita, life expectancy and school enrolment). In addition, Myrskylä *et al.* (2009) do not provide an estimation model that allows empirically estimating in one step the exact level of HDI leading to a reversal of the fertility trend. Hence, the empirical studies do not make it possible to conclude whether in OECD countries, further economic growth can be expected to go hand in hand with a fertility increase.

In order to find out whether *economic* development is the driving factor behind the fertility rebound observed in several highly developed OECD countries, we focus our analysis on the impact of income per capita alone on fertility. On the basis of theoretical arguments, recent empirical findings and descriptive statistics, we pose the hypothesis of a convex impact of GDP per capita on fertility, implying an inverse J-shaped pattern of fertility along the process of economic development (i.e. a U-shaped pattern with the declining branch on the left hand side longer than the rising branch at the right-hand side). We empirically test our hypothesis using data for OECD countries that spans the years 1960 to 2007. As GDP per capita captures more than one dimension of economic advancement, we filter out the impact of its various components (labour productivity, average working hours, employment) on fertility, and we also take account of their gender distribution.

The main novelty of our contribution is that we propose a one-step estimation model, which can be used to quantify a clear turning point in the relationship between economic development and fertility, at which further economic advancement can be expected to lead to a rebound of fertility. Moreover, we separately identify within-country trends and between-

country variations in order to capture within-country trends as precisely as possible, controlling for cross-country differences that can shift the relationship one way or the other. A range of econometric techniques are used to control for omitted variable bias, non-stationarity and endogeneity. Furthermore, in addition to standard periodic fertility rates, we use tempo-adjusted fertility rates in order to control for changes in the timing of births. We also test the robustness of our findings by controlling for different income distribution patterns. We find that economic development is likely to induce a fertility rebound, but is not sufficient to lift fertility to a significantly higher level in all OECD countries. By dividing GDP per capita into components, we identify an increase in female employment as a main correlate with the rebound of fertility to replacement level that has recently taken place in some OECD countries. The possibility of combining work with family formation thus emerges as a key parameter explaining variations in fertility trends.

Our interpretation of these results is the following: A qualitative change in the content of economic growth alters the nature of its influence on fertility rates. The change occurs because fertility and economic development are linked in a two-way relationship. On the one hand, changes in population composition, which are caused by fertility variations, affect the propensity of women to work. Furthermore, the population composition affects a country's level of investments in education as well as the propagation of innovation and technologies, which shape productivity. By this means, fertility affects the long-term path of economic growth. On the other hand, economic growth affects fertility. However, whether economic growth increases or decreases fertility depends on a country's development stage. Consequently, the impact of economic development on fertility can change its sign at various points in the process of economic development. We show that in economically advanced countries, the impact of economic development on fertility has changed from negative to positive. Furthermore, we find that female employment, which is a key dimension of GDP, is a driving factor for this change, as the revival of fertility goes hand in hand with the development of female employment. Our finding suggests that the change in the impact of economic development on fertility reflects new patterns of fertility behaviour, in which childbearing goes together with female labour market participation.

Section 2 presents an overview of the existing theoretical literature on the two-way interactions between economic development and fertility. The following empirical sections focus on the impact of economic development on fertility. In Section 3, we present the existing empirical findings on the impact of macroeconomic outcomes on fertility. Section 4 contains a discussion of our data. Section 5 presents our empirical strategy and the estimation results. Section 6 concludes by summarising the main findings and identifying directions for future research.

2. Economic development and fertility: the chicken or the egg?

Macroeconomic outcomes and fertility variations are highly interconnected. A general theoretical approach throwing light on this interconnection is given by Barro and Becker (1989), who, among other things, put forward the co-determination of fertility and economic growth paths. Further theoretical developments have clearly extended the idea of a two-way relationship between fertility behaviour and economic advancement. However, the arguments in the literature concerning the impact of economic advancement on fertility are ambivalent. At the same time, there are many ways in which fertility inversely impacts economic outcomes, and theory also shows ambivalent results for this direction of effect.

The two-way relationship between population growth and economic development makes it difficult to designate a clear impact of one variable on the other. To keep track of the possible effects of economic outcomes on population growth, it is necessary to consider also the inverse effects of economic development on population growth. This applies no less to empirical investigation than to theoretical analysis, which is why, before presenting the theoretical literature on the impact of economic development on fertility, we first present some main arguments on how fertility impacts economic outcomes.

2.1. The impact of fertility on economic outcomes

Neoclassical growth models suggest a negative impact of fertility on economic outcomes, while more recent endogenous growth models rather argue in favour of a positive impact. Based on the Malthusian “population trap” argument, according to which fertility increases lead to poverty and pauperisation due to the finite nature of natural resources, Solow’s (1956) “exogenous” growth model predicts that population growth leads to a “dilution” of physical capital, on the assumption that the supply of capital is fixed and returns of labour are diminishing. Intergenerational models assume that a reduction in family size increases private savings and enables households to invest more in each of their children, which makes the labour force more productive and thus enhances growth (Galor and Weil 1996, 1999, 2000; De la Croix and Doepke 2003; Doepke 2004; Galor 2005). In addition, reduced fertility enables women to participate in the labour force, which is beneficial for a country’s labour force and increases investments in children and thus is positive for economic growth (Klasen 1999; Knowles *et al.* 2002; Klasen and Lamanna 2009; Bloom *et al.* 2009). Another stream of arguments relates to the “demographic dividend” by emphasising that declining fertility rates imply decreasing youth dependency rates and thus a relative increase in the share of working age people in a population, which in turn increases output per capita and thereby per capita income (Bloom *et al.* 2003; Bloom *et al.* 2010).

However, in the middle and long run, decreasing young cohorts lead to a reduction of the working age population and thereby to a reduction of a country’s labour force as well as an increase in old-age dependency rates. Consequently, the long-term impact of a decrease in fertility on economic growth may rather be negative (Lindh and Malmberg 1996; Beaudry and Green 2000; Prskawetz and Lindh 2006). In the same line, main elements in the *endogenous growth* theory speak in favour of a positive impact of fertility on economic development. By defining human capital, innovations and technical advancement as a key element of economic growth, endogenous growth models emphasise the importance of population growth, as population growth increases the number of workers available to the economy and therefore its “talent pool”. Moreover, population density boosts innovations, technology transfer and knowledge exchange which stimulate productivity and thus income growth (Arrow 1962; Boserup 1965, 1970; Phelps 1966; Lucas 1988; Simon 1981, 1986). Following this logic, an ageing population risks decreasing labour productivity and growth by slowing down the motor for technical innovations, which are driven mainly by younger generations¹. Furthermore, high old-age dependency ratios increase health and pension expenditures at the expense of investments in education, research and development (Blanchet 2002).

¹ The empirical evidence of declining productivity with an ageing population is limited, however. Some studies even point to a quite opposite conclusion, showing that older, more experienced workforces can increase productivity (Malmberg *et al.* 2008; Prskawetz *et al.* 2008).

2.2. The impact of economic development on fertility

In developed countries, the impact of economic development on fertility is ambivalent. The relationship between the two variables can be divided into three different periods since World War II. The first period is clearly marked by a co-increase in income levels and fertility rates, reflecting pro-cyclical variations of fertility. Then, fertility rates shifted downwards from the late 1960s or early 1970s onwards, while average income levels, as measured by GDP per capita, continued to increase (disregarding short-term fluctuations). Early observers, such as Butz and Ward (1980), argued for an emergence of contra-cyclical fertility going hand in hand with an increase in female employment. This does not accommodate, however, the recent reversal of fertility rates, which was first observed in a very limited number of countries until the early 2000s, but has since covered a growing number of countries. Some scholars have argued that this fertility “rebound” reflects a transition towards new patterns of family formation in which childbirths are postponed more than some decades ago. According to this argument, the upswing of fertility rates illustrates the end of the transition period during which childbirth has been postponed, whereas the total numbers of children a woman has on average has not decreased (Goldstein *et al.* 2009).

The new patterns of fertility are marked by an end of postponement of childbirth, new economic and social dimensions and modern attitudes and norms towards the family, female education and gender roles. The contribution of economic development to this process is still unclear, however. The variations in fertility outcomes over the last three or four decades raise two main questions about their connections with economic development, beyond short-term fluctuations: To what extent are fertility variations connected with the trends in economic development? Which specific dimensions of economic outcomes are responsible for the recent upswing of fertility rates?

The impact of economic growth on fertility is ambivalent in theory, as an increase in income per capita can either bring an increase in the demand for children because the explicit costs are more easily borne (“income effect”) or a decrease in the demand for children. To explain the negative impact of income on fertility, the main arguments are provided by the so-called “new home economic theory”. Becker (1960, 1981) interprets fertility reduction as a rational behaviour of individuals by explaining that the impact of an increase in individual income on fertility is subject to a *quality-quantity* trade-off. A household income increase raises not only the indirect but also the direct costs of children, because in modern societies parents place more focus on children’s “quality” to raise the chances of their children, which induces a substitution effect against the number of children in favour of the “quality” per child (education) and the living standards of the household (Becker and Lewis 1973; Willis 1973; Cigno 1991). Another argument in favour of a negative impact of economic development stresses the rise in the “opportunity costs” of children derived from the increase in women’s educational achievement and participation in the labour market. Given the increase of the earning potential associated with higher educational attainment, women are encouraged to invest more time in labour market participation than in caring for children. A consequence is that women most probably substitute work for children. The development of women’s employment then becomes one of the most prominent factors explaining fertility decrease over the recent decades (Mincer 1963; Becker 1965; Willis 1973). Substitution may dominate over the income effect when household income is limited and highly dependent on women’s earnings, with a decrease in fertility as a consequence. The domination of a substitution effect is even higher when the induced increase in household income is invested in the “quality” of children rather than in their “quantity”, which is likely to happen when households’ income increases (Willis 1973; Cigno 1991). The two arguments – the focus on child quality and an increase in the opportunity cost combined, are economic factors which strongly contributed to the sharp decrease in fertility rates observed since the early 1970s when income was constantly increasing (Hotz *et al.* 1997).

In addition, the increase in women's education has been found to impact the timing of births but not necessarily the probability of having children. Blossfeld (1995) finds that the postponement of the first childbirth is largely (if not entirely) explained by the longer enrolment of women in the educational system, but does not always reduce the "demand" for the total number of children. Consequently, increased education and employment for women leads to a postponement of childbirth (tempo effect), but does not necessarily affect the total number of children a woman has (quantum effect) (Rindfuss *et al.* 1980; Lesthaeghe 2001; Bongaarts 2002). This implies that, once the process of postponement of childbirth has come to an end, total fertility rates are likely to increase again (Goldstein, Sobotka and Jasilioniene 2009).

However, the impact of economic development on fertility may alter over time, for two main sets of reasons. First, the focus on child quality may dominate the "quantity" effect of income on fertility only up to a certain threshold of wealth, after which households can afford to have additional children without any erosion in their living standards – if the lack of income was an obstacle to the completion of desired fertility. A dominant income effect may be expected if economic development proves to increase the disposable income of households. The relative importance of this income effect is likely to be higher after a certain stage of development is attained, when family size is relatively low or when the number of hours supplied by women for paid work is already quite large (Hotz *et al.* 1997). However, positive long-term trends in economic growth do not necessarily preclude a rise of unemployment, which is known to impact negatively on fertility rates (Adsera 2004; Sobotka *et al.* 2010).

Second, macro-level contexts shape how economic development impacts fertility behaviour (Lesthaeghe and Surkin 1988; Philipov *et al.* 2009). Since they change over time, the incidence of economic development of fertility trends may also vary. Changes in norms regarding the transition to adulthood, partnership formation and parenthood, which accompany economic development, also shape the incidence the latter may have on childbearing decisions (Lesthaeghe 2010; Liefbroer and Merz 2010). In some Western countries, these changes are characterised by an increasing tolerance for extramarital childbearing and for the career development of both sexes. This increasing tolerance may contribute to the fact that in some countries, women feel more encouraged to work and have children at the same time than in other countries. By providing more flexibility for childbearing decisions, increasing childcare opportunities and modern norms are likely to increase the probability that economic growth has a positive impact on fertility. In contrast, the positive impact may be reduced in countries with insufficient childcare services and rigid gender norms. Changing attitudes towards sexuality and the spread of contraception have been key components in this "postponement" process as they give couples wider opportunities to control not only the number of their children, but also the timing of births. In all, these changes to some extent reflect the fact that societies have progressively moved towards norms of family size which are less binding than those applying several decades ago. Clearly these norms do not directly affect the cost of children, but they impact the importance this cost may have on childbearing decisions.

The development of female employment is also crucial in this process, since it impacts the direct and opportunity costs of raising children. The expansion of female employment is, furthermore, critically dependent on the process of economic development. Different phases have been broadly outlined in the literature, which suggests a convex relationship between economic growth and female employment rates (Goldin 1994; Cagatay and Özler 1995; Mammen and Paxson 2000; Luci 2009). A first period of women's decreasing labour market participation can be associated with economic development on a relatively low development stage if growth is primarily driven by improvements in men's opportunities without corresponding improvements in women's career potential. Boserup (1970) argued that such a process is highly likely in the early stages of industrialisation and urbanisation, which

involve a growing demand for labour mobility that weakens family networks and therefore reduces the opportunities for combining work and family. In this context, women either restrain their participation in the labour market or limit their number of children. A second period is expected to emerge, however, on higher development levels when economic growth generates more opportunities for women to achieve education and participate in the labour force. Policies accompanying economic development to facilitate the combination between work and family may also accelerate this process. The conflict between female employment and family formation may also be reduced in that case if sufficient support is provided to working parents. Changes in norms concerning childcare and work are also expected to deeply alter the conflict between female employment and childbearing. On the one hand, childbirths can be postponed until a period of life when they are less damaging to the career opportunities of women. Increasing use of contraceptives, and changes in the norms concerning childbearing age are also clearly parameters that allow households to more freely decide on the timing of births. On the other hand, changing attitudes towards female employment and the care of young children also facilitate the adaptation of childbearing behaviours. These variations of contexts, which go with economic development, are thus highly likely to increase women's opportunities for combining work and childbearing. Simultaneous increases in female labour market participation and fertility rates can be expected in this case.

Following the arguments listed above, the influence of economic growth on fertility is likely to change over time, as long as the process of growth is maintained. In a context of low average income and high fertility, it is highly likely that an increase in average income may, in a first period, negatively impact fertility when economic growth takes place in a context of low average income combined with a high value placed on children's human capital and the development of female employment. Economic growth induces higher productivity and thus higher wages, which may first encourage households to invest more time in work and postpone childbearing. This may, however, occur up to the point after which households may use their additional resources to realise their fertility plans rather than further increase their labour supply. A second stage may appear, however, as national income continues to grow. In that stage, higher income may nonetheless help households to have children when they want, but the adaptation of norms and institutional context that accompany economic development and the increase in female labour market participation may also facilitate the realisation of fertility plans. Childbearing may be relatively postponed in this period compared to the first one. This non-monotonic influence of economic growth may be captured by a rebound in fertility rates coming after a decrease. In other words, the impact of an increase in GDP per capita on fertility rates may vary with the countries' development stages. One issue then is to investigate whether a change from negative to positive in the influence of economic wealth on fertility trends can be identified in order to explain the recent fertility rebound.

A clear empirical strategy can be derived from these developments. First, we aim at empirically testing the anticipated inverse J-shaped impact of economic development, as captured by GDP per capita, on fertility. A clear distinction between within-country variation and between-country differences is required to figure out how exactly the relationship between the two variables develops over time. Then, a second step consists in opening the "GDP black box" to assess which components of economic development are most related to fertility trends. Are fertility trends primarily driven by the development of income generated by work, the time constraints derived from working hours or the increase in female employment? Moreover, we attempt to capture which of the GDP components have been responsible for the increase in fertility rates observed over the most recent years in many OECD countries. Changes in labour productivity, employment rates and working hour patterns as well as their gender distribution will be scrutinised to identify the main "drivers" of the fertility rebound.

3. Previous empirical findings on the impact of economic development on fertility

The existence of divergent relations between economic growth and fertility rates are also assessed empirically. Butz and Ward (1979) observe that fertility rates in the US were procyclical until the 1960s, but started to decline in a period of persistent economic growth from the 1960s until the late 1970s, implying an inverse J-shaped pattern of fertility along the process of economic development. In the same way, An and Seung-Hoon (2006) find an inverse J-shaped relationship between demographic and economic growth in 25 OECD countries for the years 1960 to 2000.

The study by Butz and Ward (1979) has been challenged, however, for several reasons. While some studies such as Mocan (1990) still provide figures of persistent counter-cyclical fertility patterns, other studies raise objections to the empirical strategy pursued by Butz and Ward (1979) and propose different estimates that do not confirm the negative impact of real wages and income on fertility rates at higher levels of income (McDonald 1983; Krämer and Neusser 1984; Macunovich 1995). Moreover, Butz and Ward's (1979) prediction of continuous fertility decline with further economic advancement only applies to a limited number of countries. In many highly developed countries, a reversal of fertility trends has been occurring in the last decade and a rebound of fertility rates back to replacement levels can be observed simultaneously with continuous economic growth and a continuous increase in women's labour market participation. In many European countries, the negative relationship between fertility and economic advancement has weakened within the last decade even if fertility decisions still conflict with female labour supply and an expansion of family-friendly policies would be necessary to further enhance fertility and women's labour supply (Ahn and Mira 2002; Kögel 2004; D'Addio and Mira d'Ercole 2005).

Most recently, Myrskylä, Kohler and Billari (2009) argue that a fundamental change occurred during the last quarter of the last century in the relationship between fertility and human development. On the basis of both cross-sectional and longitudinal data covering more than 100 countries for the years 1975 to 2005, Myrskylä *et al.* (2009) estimate the impact of human development (measured by the United Nations Human Development Index: HDI) on total fertility rates. They use a graphical analysis to identify the potential level of HDI that turns the correlation between human development and fertility from negative to positive (HDI=0,85-0,9). This critical level is then tested by including it as a parameter in a maximum likelihood function. For the year 1975, Myrskylä *et al.* (2009) find a strictly negative correlation between HDI and fertility for all countries. Yet, for the year 2005, they find a negative correlation between HDI and total fertility rates only for countries with a HDI level below that minimum. For countries with a HDI level above that minimum, Myrskylä *et al.* (2009) find that the two variables are positively correlated. This suggests that in highly developed countries like the USA, Norway and Ireland, human development implies a rebound of fertility, whereas at low and medium development levels, human development continues to decrease fertility.

Furuoka (2009) provides a further empirical test of the critical level of HDI that leads to a turn in the relationship. The test for the threshold effect of HDI on fertility constructs asymptotic confidence intervals for the threshold parameter. Like Myrskylä *et al.* (2009), Furuoka (2009) splits the sample in two regimes in order to test linear correlations. Furuoka (2009) contests the study by Myrskylä *et al.* (2009) by finding that in countries with a high Human Development Index, higher levels of HDI still tend, albeit weakly, to be associated with lower fertility rates.

Besides ambiguous findings, both Myrskylä *et al.* (2009) and Furuoka (2009) do not provide a “one step” estimation model that avoids dividing the data set into two subsamples. Moreover, both studies use a composite measure of human development, containing GDP per capita, life expectancy and school enrolment. The combination of the three components makes it difficult to interpret the estimated coefficients for two reasons. Firstly, due to limited HDI-data availability, in both studies the analysis of the fertility rebound is focused on cross-country variations only. Secondly, it is unclear which of the HDI components initiates the fertility rebound. In addition, as life expectancy and school enrolment are correlated with GDP per capita, interpretation problems arise because of multi-collinearity.

4. Data discussion

In order to identify the driving factors of the fertility rebound, we consider it appropriate to focus the analysis on OECD countries only, as the rebound is mainly observable in highly developed countries. A closer look at the separate HDI components for OECD countries shows that for this limited group of countries, the variation is greatest for GDP per capita in comparison with life expectancy and school enrolment. This suggests that in OECD countries, changes of GDP per capita are more important for fertility variations than changes in life expectancy or school enrolment. We therefore suggest that in OECD countries, GDP per capita is the driving factor behind the fertility rebound. To test our hypothesis, we propose an empirical analysis that isolates the impact of GDP per capita on fertility rates in OECD countries. However, we control for a set of other variables including education. We use a large macroeconomic panel data set that includes observations from all 30 OECD countries over four decades (1960-2007).

The table in Appendix 1 provides an overview of all data used in this study including the control variables and the decomposition variables.

4.1. Trends in total fertility rates in OECD countries

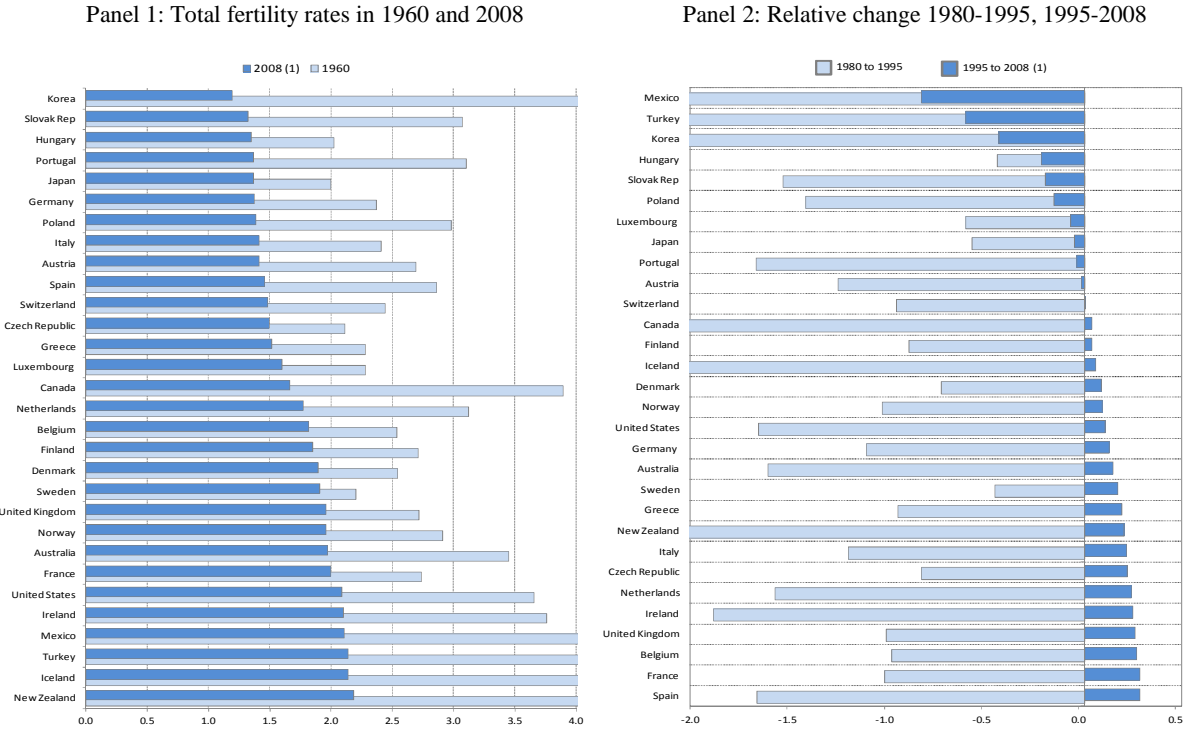
The total fertility rate (*TFR*) by year and country is undoubtedly the most popular indicator used to compare fertility trends between countries. This period rate corresponds to the ratio between the number of births in a given year and the average number of women of reproductive age (generally considered from age 15 to 49) and thereby represents the average number of children that would be born to a woman over her lifetime if she were to experience the exact current age-specific fertility rates through her lifetime, and if she were to survive from birth to the end of her reproductive life².

The *TFR* only gives an accurate estimation of completed fertility level if there is no change in the timing of births across cohorts. In the opposite case, such as when there is an increase in the mean age of mothers at childbirth, the number of births in a given period is reduced. Consequently, the postponement of birth to older ages reduces total fertility rates. Hence, the *TFR* is sensitive to changes in the timing of childbirth. However, if the total number of children born by women over their life course does not change, total fertility rates increase again when postponement comes to an end at a certain age of mothers.

² Total fertility rate is preferred to the crude birth rate, which is the ratio between the number of births in a given year and the number of persons of a population of the same year, because this measure is influenced by the age structure of a population. The total fertility rate relates births to the age-sex group at risk of giving births (women aged 15-49 years) and therefore is a more refined measure for comparing fertility across populations.

The dominant feature regarding fertility trends is the sharp decline in total fertility rates (*TFR*) in OECD countries over the last four decades. Looking back to the early 1970s, the fall appears substantial with an average *TFR* that fell from 3.23 children per woman in 1970 to 1.71 in 2008, e.g. a level well below the 2.1 threshold required to replace the population with no contribution from immigration (Figure 1 Panel 1). In 2008, only a few countries had a fertility rate around or above the so-called replacement rate level (United States, Ireland, New Zealand, Iceland, and Mexico and Turkey).

Figure 1: Fertility trends in OECD countries



Source: OECD Family database
 Year 2007 for Canada, Czech Republic, Estonia and Slovenia.

The intensity of fertility decline varies across countries, however. It has been comparatively limited in countries where fertility rates still currently score above 1.8, namely in Scandinavian and English-speaking countries (except Canada) and in a few Continental European countries (Belgium and France). The fertility rate is above the replacement level in only two of this set of countries in 2008: Iceland and Ireland. Yet fertility is also slightly above the population replacement rate in Mexico and Turkey where the decrease has been extremely steep since the early 1980s, but from a much higher initial level (*TFR* respectively around 7 and 6 in the 1960s).

A sharp decline in fertility is also observed in Korea and Japan, and in many European countries where fertility rates are currently far below 1.5 children per woman. Korea exhibits the lowest rate at around 1.2. Other “lowest-low” fertility countries, e.g. with *TFR* below or around 1.3 on average since 2000, include Austria, Czech Republic, Germany, Greece, Hungary, Poland, Portugal, Slovak Republic, Spain and Switzerland. In 2008, the lowest low-fertility countries (*TFR* below 1.4) were Poland, Germany, Japan, Portugal, Hungary, Slovak

Republic and not least Korea. The extremely low level of fertility in these countries is of great political concern since the population will shrink rapidly if fertility remains at such a level.

Despite this overall decline in fertility, many countries have recently experienced a reversal of trends, with an increase in fertility rates (Figure 1 Panel 2). The “rebound” has been especially high (above 0.3 children per women, comparing TFR in 2008 with the minimum since 1970) in Denmark, Sweden, Czech Republic, United States, Finland, France, United Kingdom, Belgium, Netherlands, Spain, Norway and New Zealand. The timing and pace of this change varies from country to country. Only a few countries experienced such a reversal in trends in the mid-1990s (Belgium, France, Ireland, Italy, Netherlands, Spain and the US), while a significant increase (by above 0.2 children per woman) has occurred since 2000 in Sweden, Czech Republic, United Kingdom, Greece, Spain, New Zealand and Ireland). Nevertheless, most OECD countries have seen such an increase since 2000, though often very slight, the only exceptions being Germany, Korea, Mexico, Portugal, Switzerland, and Turkey. Fertility rates continue to decline in this latter set of countries, but the pace of decrease slowed down. Though there is no guarantee that these trends will persist in the long run or that they reflect more than a change in the timing of childbirths.

Alternative measurements of fertility aiming at adjusting *TFR* to filter out the impact of changes in the timing of births will also be used in the following analysis. While there is really no optimal measure to capture postponement, the Bongaarts-Freeney tempo-adjusted fertility rates (*adjTFR*) have become the most common indicator (Bongaarts and Feeney, 1988; Sobotka, 2004). By weighting *TFR* by changes in women’s mean age at childbirth, this adjusted measurement focuses on the quantum-component of fertility changes. However, *adjTFR* only corresponds to a pure quantum measure of fertility on the assumption of uniform postponement of all stages, i.e. an absence of cohort effects (Kohler and Philipov, 2001). Consequently, *adjTFR* implies only an imperfect control for tempo effects. Moreover, tempo-adjusted fertility rates are only available for a subset of OECD countries. We therefore start our empirical estimations based on total fertility rates as endogenous variable and introduce *adjTFR* only at the second stage.

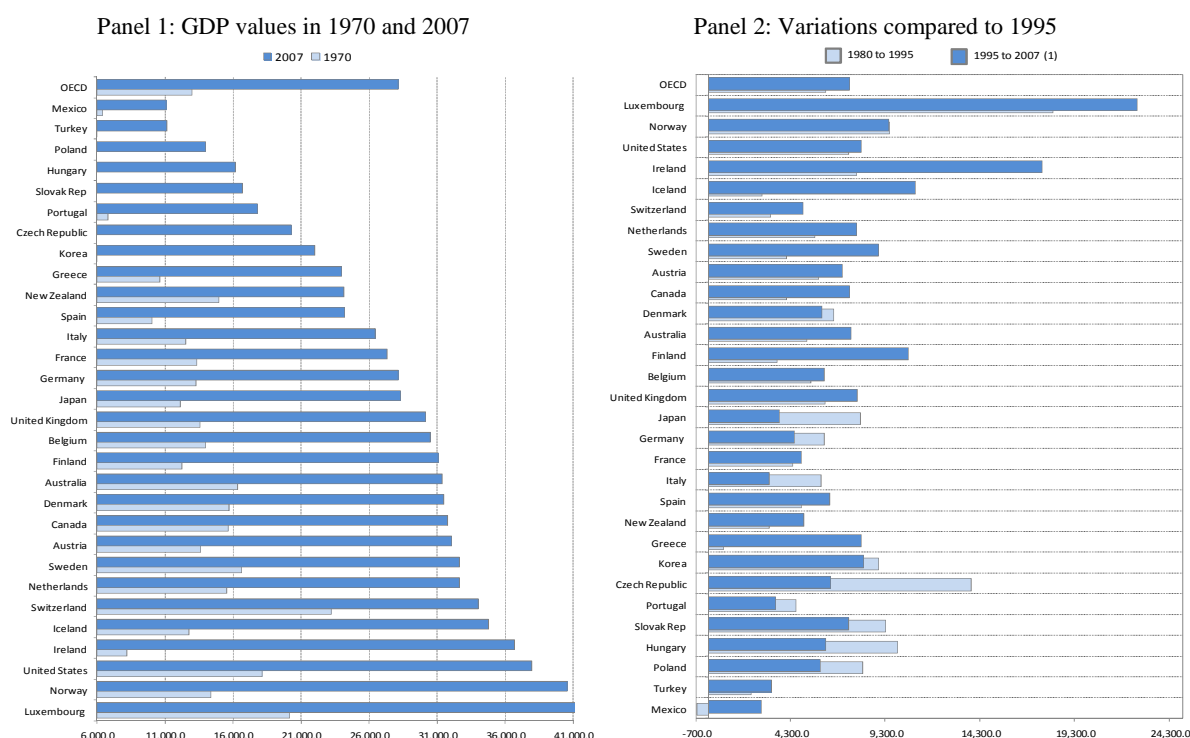
4.2. Trends in GDP per capita in OECD countries

GDP per capita is measured at purchasing power parity (PPP) in constant 2005 US \$. On average in all 30 OECD countries, GDP per capita at PPP increased from \$11,915 in 1970 to \$28,134 in 2007. Constant-price measures of GDP are considered here in order to filter out the increase in GDP per capita that is due to price inflation without relating to any increase in the consumption basket.

In all countries, the increase is more or less continuous with common breaks around 1975, 1980, 1990 and 2000 due to economic shocks that affected all countries at about the same time.

The highest GDP per capita level can be observed in Luxembourg for the year 2007 (\$65,000 at PPP; figure 2). Luxembourg’s GDP per capita level has significantly outstripped the GDP levels of the other observed countries since the early 1990s. Countries with high GDP levels somewhat closer to the average level are Norway, the United States and Sweden, with highest levels in the decade after 2000. The lowest levels of GDP per capita can be observed in Korea, Turkey and Mexico in the 1970s, followed at some distance by Poland in the 1990s and Portugal in the 1970s.

Figure 2: Trends in GDP per capita in OECD countries
 US\$, PPP constant prices (2005 reference)



Source: OECD Data Base (2009)

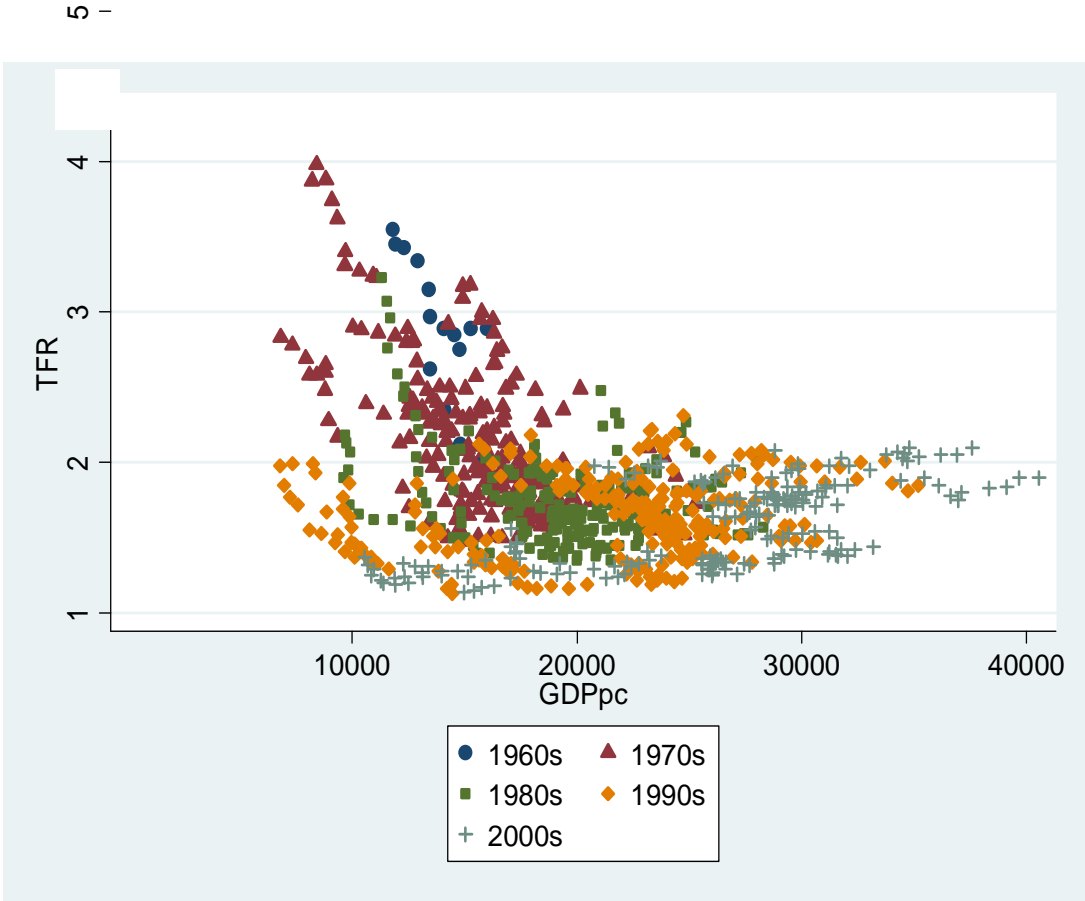
The descriptive analysis suggests that whereas until the late 1980s in all observed countries economic advancement went hand in hand with fertility decline, since the early 1990s the picture is threefold: generally speaking, countries with the lowest income levels record continuously declining fertility rates. Countries with medium income levels record stagnant fertility levels below replacement levels and countries with the highest income levels record a fertility rebound. This observation supports the hypothesis of an inverse J-shaped pattern of fertility along the process of economic development and suggests a convex impact of economic advancement on fertility.

In order to see whether the inverse J-shaped pattern can be observed graphically, we plot the observations of GDP per capita against those of total fertility (figure 3). For this data plot, we drop out some countries that risk over-accentuating the inverse J-shaped pattern. This concerns Luxembourg, which has an outstandingly high level of GDP per capita among OECD countries, especially in the 2000s. This also concerns Korea, Mexico and Turkey, as these emerging countries have outstandingly low levels of GDP per capita and high levels of fertility, especially in the 1960s and 1970s. However, parts of our regression analysis are based on the whole data set including emerging countries and early time periods from the 1960 on. These relatively heterogeneous data allow us to capture not only effects of GDP per capita on fertility which are due to changes in individual income (income effect, substitution effect), but also to capture development effects (reduction of fertility from very high levels of fertility on due to structural change).

Even without these countries, the data plot suggests a rather inverse J-shaped pattern of fertility along the economic development path, indicating that at low income levels, economic growth lowers fertility whereas from a certain higher level of income on, income growth increases fertility. The data plot also suggests that the negative relationship between fertility

and economic development is rather dominated by observations of the 1960s, 1970s and 1980s, whereas the positive relationship is clearly dominated by observations from the 2000s.

Figure 3: GDP per capita against TFR for 26 OECD countries, 1960-2007



Source: OECD Data Base (2009)

5. Empirical analysis

Our empirical procedure aims at verifying whether in OECD countries, there is a reversal of the correlation between fertility and economic advancement after a certain income level. We address several challenges when testing an inverse J-shaped pattern between economic development and fertility. One challenge is to properly estimate the minimum level of GDP per capita and fertility by a “one step” estimation model. This procedure avoids a division of the data set and at the same time enables an empirical estimation of the turning point in the relationship between economic development and fertility. Another challenge is to adequately control for a series of methodological problems. In comparison to existing empirical studies, we use a macroeconomic panel data set that includes a large time dimension. As the variables vary over the two dimensions of country and time, estimators are more accurate in distinguishing variations between countries and over time. In addition, the time dimension of the data enables us to control for unobserved country-specific effects and to deal as well as

possible with endogeneity caused by an inverse causality between economic development and fertility. Furthermore, we distinguish between within- and between-country variations.

Moreover, we control for birth postponement by using tempo-adjusted fertility rates besides total fertility rates as endogenous variable and by using two different measures of women's age at childbirth as control variables. In addition, we test the robustness of our findings by controlling for different income distribution patterns as well as for education and female employment. In order to gain a deeper insight into the economic mechanisms that drive fertility, we finally decompose the GDP per capita into a number of more specific components, which are labour productivity, working hours and employment, and estimate their impact on fertility. Gender-specific variables are taken into account where available.

5.1. Econometric strategy

Based on pooled OLS, we first test a linear against an exponential and a quadratic model in order to verify whether the impact of GDP per capita on fertility is linear, convex or concave and whether there is a maximum or a minimum in the relationship. For the linear model, we use total fertility rates (*TFR*) as endogenous variable and the log of GDP per capita (*lnGDPpc*) as exogenous variable. The exponential model is tested by using the total fertility rates (*lnTFR*) as endogenous variable and GDP per capita (*GDPpc*) as exogenous variable. To test the quadratic model, we add the square of the log of GDP per capita (*lnGDPpc²*) as exogenous variable to the linear regression model in order to control for an inverse J-shaped pattern of fertility along the process of economic development.

Our estimation equation for this quadratic model is:

$$TFR_{i,t} = \beta_1 + \beta_2 * \ln GDPpc_{i,t} + \beta_3 * \ln(GDPpc_{i,t})^2 + \varepsilon_{i,t} \quad (1)$$

We use the natural logarithm of GDP per capita (*lnGDPpc*) which is standard in most macro-econometric works, as the logarithmic form reduces absolute increases in the levels of GDP per capita and therefore captures proportional rather than absolute differences in the distribution of GDP per capita levels.

As *lnGDPpc²* is a function of *lnGDPpc*, the coefficients β_2 and β_3 cannot be interpreted separately. To confirm a convex impact on economic development on fertility with a minimum point in the pattern of fertility along the process of economic development, β_3 must be significantly positive as an indicator of the curve's convexity. Hence, a positive coefficient implies that there is a minimum in the data curve, meaning that an increase of *lnGDPpc* decreases the fertility for small levels of *lnGDPpc* and increases fertility from a higher level of *lnGDPpc* on.

After confirmation of the quadratic model against the linear and the exponential one, in a second step we test the robustness of the quadratic model. Therefore, we use more advanced estimation methods than pooled OLS, as the estimated OLS-coefficients risk being biased and inconsistent due to omitted exogenous variables, non-stationarity of the time series and endogeneity between the endogenous and the exogenous variables.

To control for possible endogeneity, we use an instrumental variables estimator (IV) that includes lagged variables of *lnGDPpc* as instruments for *lnGDPpc* and lagged variables of *lnGDPpc²* as instruments for *lnGDPpc²*. Instead of simply using lagged exogenous variables directly in the estimation equation, we perform the IV-regression in two steps (Two Stage

Least Squares Estimator, see Appendix 2 for mathematical documentation). We use one-year lags as well as five-year lags. The use of lagged exogenous variables lessens the risk of obtaining biased and inconsistent estimators due to inverse causality between the endogenous and the exogenous variables. For example, it is not possible that *TFR* observed in 1984 impacts *lnGDPpc* in 1980. On the other hand, it is highly likely that variations of fertility that lead back to changes in the economic environment appear time-lagged.

In order to account for unmeasured country-specific factors, we use a fixed effects estimation model (FE). The fixed effects model performs regression in deviations from country means. This implies an elimination of unobserved country-specific variables that are constant over time and that have an impact on fertility. One might, for example, think of the country's degree of national feeling that can be correlated with fertility levels as well as with a country's economic development stage. The fixed effects estimator also captures norms and attitudes that do not necessarily change much over time but impact fertility, for example attitudes toward gender roles.

The transformation that produces observations in deviation from individual means also implies that the FE estimator focuses on within-country variation only, whereas the OLS and IV capture variations between countries and over time. To focus on between-country variation only, we apply a between effects estimator (BE), which is based on time averages of each variable for each country. A comparison of the goodness of fit of the FE and the BE estimator tells us whether the estimated impact of economic advancement on fertility are due to within- or rather due to between-country variations.

We also compare the fixed effects model to a random effects (RE) model, which captures both within and between-country variation. The RE estimator subtracts a fraction of averages from each corresponding variable and therefore also controls for unobserved country heterogeneity. If the number of observations is large, the RE model is more efficient than the OLS and the FE model, but only on the assumption that the unobserved effects are uncorrelated with the error term. If this is the case, unobserved country specific variables that are constant over time are captured by an additional residual and the estimators are unbiased and asymptotically consistent. We use a Hausman (1978) test to choose between the FE and the RE model.

The models presented so far do not allow controlling for time specific effects and endogeneity. This is why we use a first-differences estimator (FDE) in the next step. The differencing process eliminates unobserved variables that are constant over time and obtains stationary time series. The elimination of time trends is important as the estimation models are based on the hypothesis that the time series are stationary. Time series that are marked with a trend would lead to spurious regression and thereby to biased estimates. Graphical tests (correlogram, partial correlogram), an augmented Dickey Fuller (1979) and a Phillips Perron (1988) test for unit root in time series and a Levin, Lin and Chu (2002) test for unit root in panel data suggest the existence of an autocorrelation in some of the time series of *TFR* and *lnGDPpc* (graphs and tests not shown here). As the tests suggest that all series are difference stationary, the first-difference estimator is appropriate to control for non-stationarity.

The first difference of the natural logarithm of GDP per capita approximates the year-to-year relative changes of GDP per capita. Hence, the first-difference estimator estimates the impact of GDP per capita growth on fertility variations and therefore risks obtaining biased estimates due to an "underdevelopment" effect. High GDP per capita growth is likely to go hand in hand with low income levels (convergence mechanism) and thereby might be rather associated with fertility declines than with fertility increases. Thus, as the first difference estimator is not based on level variations, it does not permit clear statements about the role of economic development for the fertility rebound in highly developed countries.

Finally, we use a one-step System Generalised Method of Moments estimator, which not only considers unobserved heterogeneity and non-stationarity, but at the same time also endogeneity (Box 1).

Box 1. Generalised Method of Moments applied to the analysis of fertility trends

The GMM method goes back to Arellano and Bond (1991), who propose a difference GMM estimator that transforms the regressors by first differencing, which removes the fixed country-specific effect. Moreover, the use of lagged levels of the regressors as instruments for the first-differenced regressors controls for endogeneity. However, lagged levels of the regressors are likely to be poor instruments for the first-differences equation. We therefore use an augmented version, which implies an efficiency gain over the basic first-difference GMM: a one-step System GMM estimator that goes back to Arellano and Bover (1995) and Blundell and Bond (1998). The System GMM estimator combines a set of first-differenced equations with equations in levels as a “system”, using different instruments for each estimated equation simultaneously. This involves the use of lagged levels of the exogenous variables as instruments for the difference equation and the use of lagged first-differences of the exogenous variables as instruments for the levels equation. In addition, System GMM is a dynamic panel estimator that makes it possible to control for the dynamics of adjustment by including a lagged endogenous variable among the exogenous variables.

However, even though System GMM implies an efficiency gain difference GMM by using additional instruments, the System GMM does not completely resolve the problem of weak instruments, as not only lagged levels are likely to be poor instruments for differences, but differences are also likely to be weak instruments for levels (Roodman 2009; Stock and Yogo 2002). Hence, even though the System GMM model proposes the most comprehensive control for a variety of econometric pitfalls, it does not offer a complete control for endogeneity.

Moreover, the fact that the System GMM method uses more instruments than the difference GMM increases the risk that the estimation model is over-identified (Bowsher 2002; Roodman 2009). In order to reduce the number of instruments, we apply the System GMM estimator to edited data. We obtain quinquennial data by dividing the measured time period into five-year sections as follows: we use five-year means for the observations of the endogenous variable and observations of the beginning year of the respective mean for the exogenous variables for every country. This data transformation reduces the number of periods from over 40 to 10 and therefore implies a significant reduction in the number of instruments (from over 800 to around 100 depending on the number of exogenous variables). Moreover, the transformation of the data into quinquennial data allows us to limit time trends, because five-year intervals are less likely to be serially correlated than annual data. In addition, the transformed data makes it possible to intensify the control for endogeneity: for example, if a country's observation of *TFR* is the mean of the years 1980-1984, the corresponding observation of *lnGDPpc* is from 1980, which limits capturing impacts of fertility on GDP per capita.

However, the use of around 100 instruments still implies a significant risk of obtaining a severe overfitting bias (Bond 2002) and reduces the power of the Sargan test to detect invalid instruments (Bowsher 2002). In order to further reduce the number of instruments, we limit the number of lags of the instruments for the first difference and for the levels equation instead of using all available moment conditions. Moreover, we increase the length of the lag of the instruments. By doing so, we obtain a limited number of instruments that does not outnumber the degrees of freedom.

We report the number of instruments and the statistics of the Sargan test of over-identifying restrictions. The Sargan test tests the validity of the instruments and has a null hypothesis of “the instruments are exogenous as a group”. A p-value above 0.05 makes it possible to accept this hypothesis. The Sargan difference statistics validate the extra moment restrictions imposed by the level equations in the System-GMM specification in comparison to the Difference-GMM specification.

5.2. Estimation results

5.2.1. The impact of GDP per capita on fertility

Table 1 shows the estimation results for testing a linear against an exponential and a quadratic model using pooled OLS.

Table1: Linear vs. exponential vs. quadratic model

| | linear model | exponential model | quadratic model |
|----------------------------|-----------------------|---------------------------|-----------------------|
| Endogenous variable: | TFR | lnTFR | TFR |
| Type of regression: | Pooled OLS | Pooled OLS | Pooled OLS |
| Regressors: | | | |
| GDPpc | | -0.0000166*** (-16.21) | |
| lnGDPpc | -1.013*** (-24.24) | | -15.63*** (-14.91) |
| lnGDPpc² | | | 0.760*** (13.95) |
| constant | 11.87*** (28.98) | 0.943*** (43.24) | 81.92*** (16.27) |
| N | 1050 | 1050 | 1050 |
| nb. of countries: | 30 | 30 | 30 |
| time period: | 1960-2007 | 1960-2007 | 1960-2007 |
| R ² : | 0.359 | 0.200 | 0.460 |
| R ² adj.: | 0.359 | 0.200 | 0.459 |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

When comparing the linear estimation model in the first column with the exponential model in the second column and to the quadratic model in the third column, we observe that the goodness of fit is highest for the quadratic model. Even though the significantly negative coefficient of *lnGDPpc* in the first column suggests a dominant negative relationship between fertility and economic development, the results suggest that the impact of GDP per capita on fertility is not strictly negative and also not only exponential. In fact, the significant coefficient of *lnGDPpc²* indicates that the negative correlation between GDP per capita and fertility turns into a positive one from a certain level of economic development on, with a clear minimum point in the pattern between the two variables. In the case of an absence of that turning point, the coefficient of *lnGDPpc²* would have been non-significant. Consequently, we conclude that the quadratic model captures the variation between economic development and fertility better than the linear and exponential ones.

Table 2 compares the OLS regression results for the quadratic model with the IV, FE, BE, RE and FDE results, based on the full data set with observations of all 30 OECD countries over four decades.

Table 2: Quadratic model, yearly observations

| Endogenous variable: | total fertility rate (TFR) | | | | | |
|--------------------------------|-------------------------------|-----------------------|-----------------------|--------------------|-----------------------|-------------------------------|
| Type of regression: | Pooled OLS | IV (2SLS) | Fixed Effects | Between Effects | Random Effects | First Difference Estimator |
| Regressors: | | | | | | |
| <i>lnGDPpc</i> | -15.63*** (-14.91) | -12.36*** (-11.15) | -16.94*** (-20.87) | -19.14* (-2.05) | -16.89*** (-20.86) | -13.75*** (-11.18) |
| <i>lnGDPpc</i> ² | 0.760*** (13.95) | 0.608*** (10.47) | 0.815*** (19.45) | 0.960 (1.98) | 0.813*** (19.45) | 0.716*** (11.10) |
| <i>constant</i> | 81.92*** (16.27) | 64.39*** (12.19) | 89.54*** (22.76) | 97.10* (2.18) | 89.14*** (22.72) | -0.0362*** (-11.12) |
| N | 1050 | 900 | 1050 | 1050 | 1050 | 1020 |
| nb. of countries: | 30 | 30 | 30 | 30 | 30 | 30 |
| time period: | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 |
| R ² : | 0.460 | 0.35 | 0.542 (within) | 0.327 (between) | 0.4580 (overall) | 0.110 |
| R ² adj.: | 0.459 | 0.349 | 0.542 | 0.327 | | 0.108 |
| nb. of instruments: | | 1 (5 year-lags) | | | | |
| nb. of estim. param.: | 3 | 3 | 3 | 3 | 3 | 3 |
| Hausman (p-value): | | | | | 0.0371 | |
| estim. minimum GDPpc \$ (PPP): | 29 200 | 26 000 | 32 600 | | | |
| estim. minimum TFR: | 1.56 | 1.57 | 1.51 | | | |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

For all estimation methods except the BE estimation, the coefficient of *lnGDPpc* is negative and the coefficient of *lnGDPpc*² is positive, which confirms a convex impact of economic development on fertility with a clear shift in the relationship between the two variables from negative to positive.

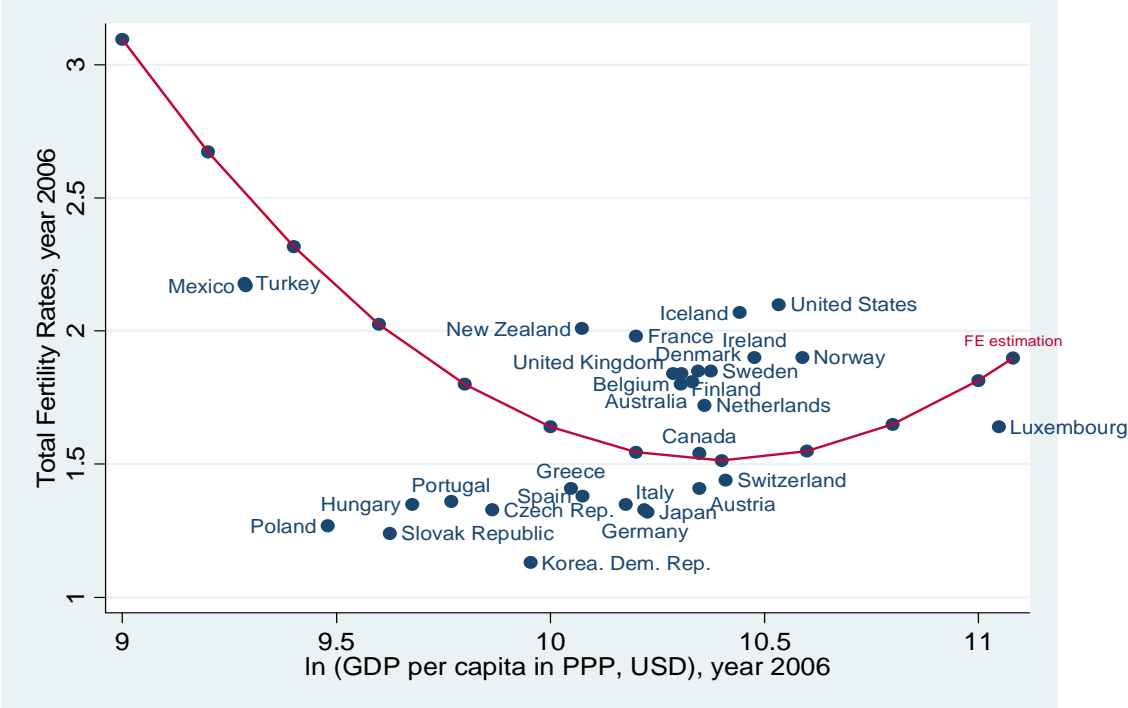
The IV-estimation results are based on five-year lags as instruments for the exogenous variables. The estimated coefficients based on one- to four-year lags do not differ much and thus are not presented in particular. The fact that the FE regression results are significant indicates that the hypothesis of a convex impact of *lnGDPpc* on *TFR* can be confirmed also for within-country variation only. This indicates that the convex impact exists not only due to cross-country variation, as suggested by Myrskylä *et al.* (2009) and Furuoka (2009), but also, and above all, due to fertility variations that appear within each of the observed countries. The goodness of fit of the within variation is –with 54%- higher than the goodness of fit of the between variation (33%) and the BE estimation results are hardly significant. Moreover, the goodness of fit of the within variation is higher than the overall variation of the OLS and RE model. The fact that the FE model is clearly superior to the BE specification indicates that the convex impact is actually dominated by within-country variation. In addition, a Hausman (1978) test comparing the fixed effects to the random effects model suggests that the difference of the estimation results of the fixed and the random effects models is systematic. This implies that the hypothesis that the unobserved country effects are not correlated with the error term in the RE model must be rejected. Hence, for our data the fixed effect specification is superior to a random effects specification in controlling for unobserved country-heterogeneity. The fixed effects model controls for country specific variables that do not change over time and therefore confirms that the convex impact of *lnGDPpc* on fertility is not driven by unobserved time-constant variables.

The last two rows of Table 2 show the calculated minimum levels of GDP per capita and *TFR* based on the estimated coefficients³. As the FE model is proven to be the most appropriate one, fixed-effect estimations are preferred to capture the critical value of GDP per capita that induces an increase in fertility. Appendix 3 shows the calculation of the minimum levels based on the estimated coefficients of the FE regression. The FE estimation results indicate that the minimum of the curve is located at an income level of \$32,600 (PPP) and a fertility level of 1.51 children per woman. This suggests that economic development decreases fertility until a relatively high income level, but from \$32,600 (PPP) on, economic growth is associated with a rebound of fertility⁴.

To illustrate the pattern between *TFR* and *lnGDPpc*, we calculate the *TFR* for various income levels based on the FE regression results and present the results graphically. Figure 4 overlays our predicted path, as estimated by the FE specification, with the cross-sectional variations of the 30 OECD countries in 2006. We expect countries to be located close to the predicted line, in the absence of strong country-specific characteristics.

The red line in Figure 4 confirms that the FE regression results imply a reversal of the relation between economic development and fertility at a fertility level of 1.51 and an income level of *lnGDPpc*=10.39, which corresponds to \$32,600 (PPP). Furthermore, the line shows that the estimated pattern between *TFR* and *lnGDPpc* is actually inverse J-shaped, i.e. the declining branch on the left-hand side is longer than the rising branch at the right-hand side.

Figure 4: FE estimation against actual values of *TFR* and *lnGDPpc* for 30 OECD countries (in 2006)



Source: OECD Data Base (2009)

³ As the FE estimation is superior to the BE and RE estimation, we do not calculate the minimum levels for the BE and RE estimation results. The minimum levels can also not be calculated for the FDE, as the first-difference estimates are based on growth rates instead of levels.
⁴ We test this estimated minimum by dividing our data set in two samples, one with GDP per capita levels above and the other one with GDP per capita levels below \$32,600 (PPP). We find a significantly positive impact of *lnGDPpc* on *TFR* for the first and a significantly negative impact of *lnGDPpc* on *TFR* for the second sample (results not shown here).

Figure 4 shows that the fertility and income levels in 2006 correspond quite well to the FE estimates for a couple of countries, which are Mexico, Turkey, Canada, Switzerland, Austria and Luxembourg. For Mexico and Turkey, our empirical analysis suggests that further economic growth decreases total fertility rates, whereas for Canada, Switzerland, Austria and Luxembourg, one can expect an increase in fertility coming along with a further increase in wealth.

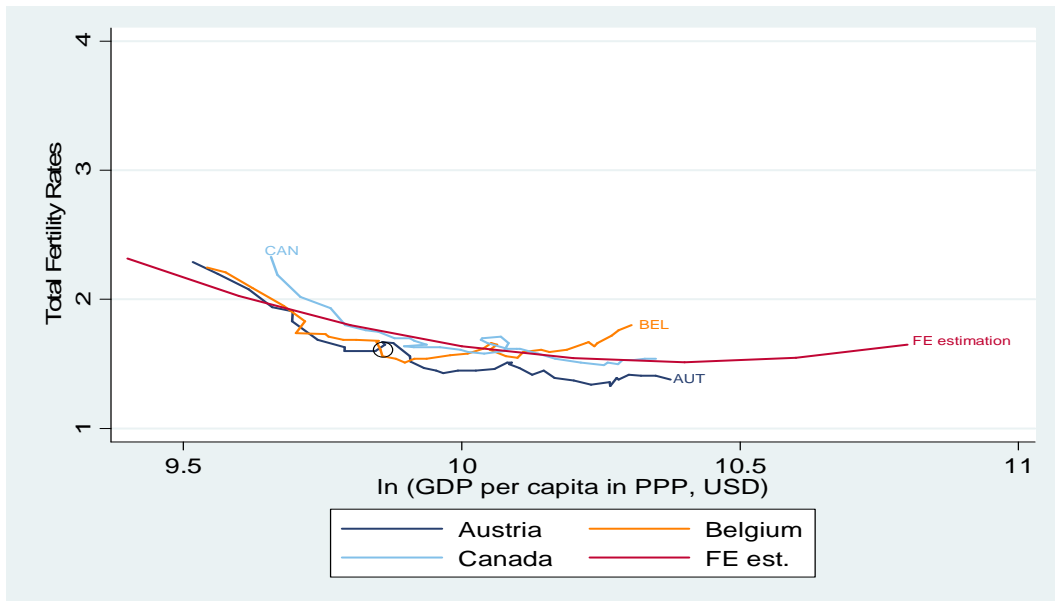
Figure 4 also sheds light on countries that significantly deviate from the expected path. Some of them, like the Nordic and English-speaking countries, along with the Netherlands and Belgium, have much higher fertility levels than their income levels indicate. For some of them, especially France and New Zealand, the *TFR* is much higher than its predicted value given their GDP per capita level which is below the estimated threshold (10,39 for *lnGDPpc*) from which economic development acts as a booster of fertility. It is clear that in these countries, the fertility “rebound” took place at a time in the process of economic development at which further decrease in fertility rates could be expected. By contrast, high fertility countries such as the United States, Iceland, Ireland and Norway are located much more clearly on the right-hand side of the predicted curve, which unambiguously predicts a positive influence of consumption growth on fertility.

Contrasting with this first group, the countries below the predicted line (Eastern and Southern Europe, along with Germany and Japan) have much lower fertility levels than the predicted values and the “minimum” set at 1.51. As in Japan and Germany, income levels are only somewhat below \$32,600 (PPP), our regression results fail to explain why fertility levels stay so low especially for these two countries. Their actual level of fertility is all the more unexpected since GDP per capita is equal to or higher than its value estimated for France or New Zealand.

Strikingly, the line dividing countries below and above the predicted fertility level corresponds to the distinction between countries providing comparatively high assistance to working parents with young children in the mid 2000s, and those characterised by a relatively limited assistance to families and rather low support for work and family reconciliation (Thévenon 2010). Work and family reconciliation is achieved by different means, however, in Nordic and English-speaking countries. Publicly regulated support is relatively comprehensive in the first set of countries, where generous entitlements to paid leave and early enrolment in childcare services combine to support work and child raising in a quite continuous way. Alternatively, work and family reconciliation is facilitated by the development of part-time work combined with in-cash and in-kind support targeting primarily low-income families and preschool children in the English-speaking countries.

We now verify how our FE estimates correspond to the actual trends in fertility rates for selected OECD countries. Figure 5 compares the FE estimation results with real within-country variations in countries which are close to the estimated path: Austria, Canada and Belgium. However, in Belgium, the fertility rebound is more significant than suggested by the FE results. In Austria, as in Germany, the impact of immediate further economic growth on fertility is quite inconclusive and the pattern as a whole is situated on a lower fertility level.

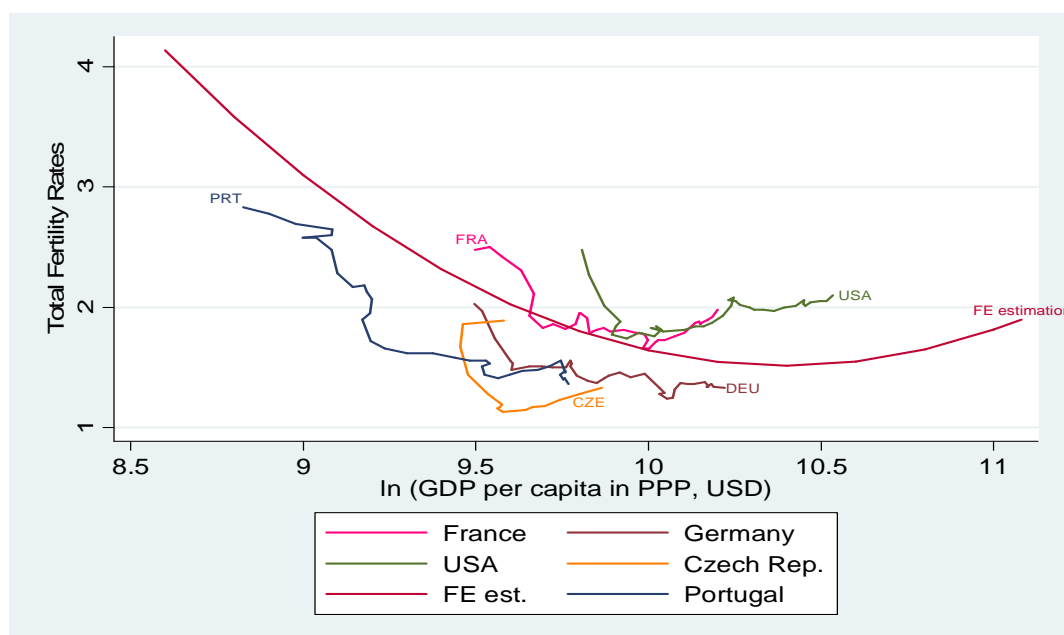
Figure 5: Estimated and actual trends in fertility rates
Austria, Canada and Belgium



Source: OECD Data Base (2009)

Figure 6 illustrates the cases of countries which mostly deviate from the expected path concerning the level of fertility. However, irrespective of periodical fluctuations, the pattern between fertility and income is rather inverse J-shaped in all these countries, which confirms that economic growth decreases fertility up to a certain relatively high level of income, and then increases it. The fertility rebound coming hand in hand with a certain level of economic development is particularly observable in France, the United States and the Czech Republic, whereas in Germany and Portugal, the impact of immediate further economic growth on fertility is quite inconclusive.

Figure 6: Estimated and actual trends in fertility rates
France, Germany, Portugal, the Czech Republic and the USA



Source: OECD Data Base (2009)

As the FE model focuses on within-country variation, it is not surprising that the curve based on the FE results corresponds more to variations within countries (Figures 5 and 6) than to variations between countries (Figure 4)⁵. However, Figures 5 and 6 lead to a common conclusion: in Eastern and Southern European countries and Germany, economic development goes hand in hand with a lower level of fertility than suggested by our empirical results, whereas in countries like France, for example, the regression analysis suggests a lower level of fertility given the country's increase and level of GDP per capita. It is striking that in Figure 6, the German pattern is almost parallel to the French one. This means that in these two countries, changes in fertility are almost identically related to changes in income. Yet, the German pattern as a whole is situated on a much lower fertility level than the French one. Moreover, recent economic growth has induced a much more significant fertility rebound in France than in Germany.

We conclude that our empirical results so far prove an inverse J-shaped pattern of fertility along the process of economic development in OECD countries. Hence, we identify economic development as a driving factor for the fertility rebound. This implies that further economic development is likely to increase fertility in many OECD countries. However, our empirical analysis does not succeed in explaining why in some OECD countries, the inverse J-shaped pattern is situated at quite different fertility levels. Moreover, we do not know why in some countries, economic growth increases fertility again more significantly than in other countries.

In countries like France, Belgium and New Zealand, it seems that other factors beyond economic advancement are responsible for the relatively high fertility levels and the significant fertility rebound. Moreover, in Japan, Germany, Austria and Eastern and Southern European countries, low fertility levels cannot, or not only, be explained by insufficient economic advancement. Even though our analysis suggests that in these countries too

⁵ The line based on the results of the OLS model that captures within- and between-country variation at the same time, is, however, very similar to the line based on the FE results shown in Figures 4,5 and 6.

further economic growth increases fertility, it seems likely that fertility increases at a much lower level.

We now test whether the inverse J-shaped pattern of fertility along the process of economic development can also be confirmed for the System GMM estimation model, which controls for endogeneity, unobserved country-heterogeneity and non-stationarity at the same time. Therefore, we use quinquennial data, which includes five-year means for the observations of the endogenous variable and observations of the beginning year of the respective mean for the exogenous variables for every country. Observations from 1960-2007 are thus divided into ten intervals. We do not only apply System GMM but also re-estimate the OLS, IV, FE and FDE models based on quinquennial data to test the robustness of our findings.

Table 3: Quinquennial data

| Endogenous variable: | total fertility rate (TFR) | | | | |
|---|-------------------------------|------------------------------|----------------------|-------------------------------|--|
| Type of regression: | Pooled OLS | IV (2SLS) | Fixed Effects | First Difference Estimator | System GMM |
| Regressors: | | | | | |
| <i>lnGDPpc</i> | -14.17*** (-6.83) | -10.86*** (-5.08) | -15.80*** (-9.47) | -18.58*** (-9.88) | -13.62*** (-4.56) |
| <i>lnGDPpc</i> ² | 0.690*** (6.39) | 0.534*** (4.76) | 0.764*** (8.86) | 0.982*** (9.92) | 0.711*** (4.62) |
| <i>lagged TFR</i> | | | | | 0.537*** (7.15) |
| <i>constant</i> | 74.32*** (7.48) | 56.81*** (5.59) | 83.14*** (10.31) | -0.200*** (-7.34) | 65.81*** (4.54) |
| N | 224 | 194 | 224 | 194 | 164 |
| nb. of countries: | 30 | 30 | 30 | 30 | 30 |
| time period: | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 |
| R ² : | 0.444 | 0.335 | 0.542 (within) | 0.340 | |
| R ² adj.: | 0.439 | 0.328 | 0.468 | 0.333 | |
| nb. of instruments: | | 1 (1 period-lag= 5 years) | | | 16 |
| nb. of estim. param.: | 3 | 3 | 3 | 3 | 4 |
| Sargan (p-value): | | | | | 0.172 |
| Sargan-Difference (p-value): | | | | | 0.189 |
| Instruments for first differences equation: | | | | | L5.(L.TFR L2.lnGDPpc L2.lnGDPpc ²) |
| Instruments for levels equation: | | | | | DL4.(L.TFR L2.lnGDPpc L2.lnGDPpc ²) |
| estim. minimum GDPpc \$ (PPP): | 29 000 | 26 200 | 31 000 | | |
| estim. minimum TFR: | 1.57 | 1.59 | 1.45 | | |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

Table 3 shows that all estimation models including System GMM confirm a convex impact of economic development on fertility. The significantly positive coefficient of *lnGDPpc*² of the System GMM estimation suggests that when controlling for dynamics of adjustment, for endogeneity, non-stationarity and time-constant omitted variables at the same time, there is still an inverse J-shaped pattern of fertility along the process of economic development. The Sargan test of over-identification restrictions suggests that all instruments are valid (exogenous) and the Sargan-Difference test validates the extra moment restrictions of the System GMM specification.

The goodness of fit is again highest for the FE-model focusing on within-country variation. FE regression results based on quinquennial data indicate, at \$31,000 (PPP) per capita per year, a similar minimum income level to the FE results based on yearly data⁶. The minimum fertility level is, however, at 1.45, somewhat lower than the one indicated in table 2.

5.2.2. Control for birth postponement

It is possible that in some countries, economic advancement has not yet initiated a significant rebound in fertility because in these countries, the postponement of childbearing has not yet come to an end. The postponement of births to older ages reduces the number of births in a given period and therefore reduces total fertility rates. Several studies suggest that an increase in the mean age of mothers at childbirth partially explains the decrease in fertility observed over recent decades in many OECD countries, and particularly the lowest-low fertility rates that can be observed in many Eastern European countries (Bongaarts and Feeney 1998; Kohler, Billari and Ortega 2002; Goldstein, Sobotka and Jasilioniene 2009). At the same time, the total number of children borne by women over their life course might not change, implying that completed cohort fertility does not decrease. In that case, once the process of postponement of childbirth has come to an end, total fertility rates are expected to increase again. Thereafter, the “catch-up” in the number of births of mothers after age 30 may partially explain the rebound of fertility in highly developed OECD countries. Bongaarts (2001, 2002) as well as Goldstein, Sobotka and Jasilioniene (2009) suggest that the declining tempo effects, which are due to an end of birth postponement, increase total fertility rates particularly in the United States, the Netherlands and Norway.

As the delay in childbirth can be a main determinant of fertility decreases and the end of birth postponement a main determinant for a rebound of fertility, we now test whether we still find an inverse J-shaped pattern between fertility and economic development when controlling for tempo effects. For this purpose, we use tempo-adjusted total fertility rates (*adjTFR*) as endogenous variable. The tempo-adjusted fertility rate is intended to measure fertility levels within a given period in the absence of postponement. Taking tempo changes into account, tempo-adjusted fertility rates are usually higher than total fertility rates. Tempo-adjusted fertility rates are available for 18 OECD countries and cover the years 1961-2005.

The use of tempo-adjusted fertility rates involves a further robustness test, as the *adjTFR* is not available for the outlier countries Luxembourg, Korea, Mexico and Turkey. An inclusion of observations from Luxembourg, which has outstanding high levels of GDP per capita and at the same time relatively high fertility levels especially in the 2000s, risks over-accentuating the empirical finding that economic development increases fertility from a certain income level on. An inclusion of observations of Korea, Mexico and Turkey also risks over-accentuating the inverse J-shaped between fertility and economic development because these countries have outstandingly high fertility levels and at the same time relatively low income levels, especially in the 1960s and 1970s.

Data on *adjTFR* is available as three-year moving averages, which smoothes out short-term fluctuations. In order to avoid overlapping information in our data, which would cause a problem for the System GMM estimation due to its use of instruments, we do not use five-year means of *adjTFR* like we do for the *TFR*, but observations of every fifth year only as we do for *lnGDPpc*. This reduces our observed time period to the years 1965-2005.

⁶ We do not calculate the minimum levels for the System GMM estimation results, because for this estimation around 66% of the variation in total fertility rates is explained by the variation of its own past values.

Table 4 shows the regression results with *adjTFR* as exogenous variable, based on data with five-year observations.

Table 4: Control for birth postponement, five-year observations

| Endogenous variable: | tempo-adjusted total fertility rate (<i>adjTFR</i>) | | | | |
|---|--|------------------------------|----------------------|-------------------------------|--|
| | Pooled OLS | IV (2SLS) | Fixed Effects | First Difference Estimator | System GMM |
| Type of regression: | | | | | |
| Regressors: | | | | | |
| <i>lnGDPpc</i> | -4.004 (-0.94) | -3.690 (-0.97) | -12.94*** (-3.62) | -10.74* (-2.43) | -42.97* (-2.01) |
| <i>lnGDPpc</i> ² | 0.206 (0.95) | 0.199 (1.02) | 0.625*** (3.46) | 0.541* (2.38) | 2.165* (2.02) |
| <i>lagged adjTFR</i> | | | | | 0.479 (1.65) |
| <i>constant</i> | 21.30 (1.02) | 18.91 (1.02) | 68.61*** (3.89) | -0.0685 (-1.62) | 213.9* (2.01) |
| N | 82 | 73 | 82 | 64 | 54 |
| nb. of countries: | 18* | 18* | 18* | 18* | 18* |
| time period: | 1965-2005 | 1965-2005 | 1965-2005 | 1965-2005 | 1965-2005 |
| R ² : | 0.014 | 0.069 | 0.483 (within) | 0.093 | |
| R ² adj.: | -0.011 | 0.042 | 0.325 | 0.063 | |
| nb. of instruments: | | 1 (1 period-lag= 5 years) | | | 7 |
| nb. of estim. param.: | 3 | 3 | 3 | 3 | 4 |
| Sargan (p-value): | | | | | 0.907 |
| Sargan-Difference (p-value): | | | | | 0.907 |
| Instruments for first differences equation: | | | | | L6.(L2.adjTFR L.lnGDPpc L.lnGDPpc_2) |
| Instruments for levels equation: | | | | | DL5.(L2.adjTFR L.lnGDPpc L.lnGDPpc_2) |
| estim. minimum GDPpc \$ (PPP): | | | 31 300 | | |
| estim. minimum adjTFR: | | | 1.6 | | |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

* OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Korea, Luxembourg, Mexico, New Zealand, Switzerland, Turkey

For all estimation methods, the coefficient of *lnGDPpc*² stays positive, though the OLS and IV results are not significant. The estimation results in Table 4 confirm that fertility increases again from a certain level of development on also when taking into account tempo effects. We conclude that changes in the timing of births are not the driving factor behind the inverse J-shaped pattern between fertility and economic advancement, as the increase in fertility corresponds to real quantum changes. Moreover, we know now that the inverse J-shaped pattern of fertility along the process of economic development can be confirmed even when omitting countries such as Luxembourg, Korea, Mexico and Turkey that risk over-accentuating the inverse J. Once again, the goodness of the fit is by far higher for the FE – model than for the other estimation models, indicating that the inverse J-shaped pattern is much more shaped by within country-variations than by overall- or between-country variations.

The minimum level of tempo-adjusted fertility indicated by the FE regression is at 1.6 naturally somewhat higher than our estimated minimum level of total fertility (1.51 and 1.45 for the FE model in tables 2 and 3), as tempo-adjusted fertility rates are usually higher than total fertility rates. However, the estimated minimum income level corresponds approximately to those indicated by the FE model in tables 2 and 3.

As tempo-adjusted fertility rates are only available for 18 OECD countries until 2005, we apply a further control for birth postponement by keeping *TFR* as endogenous variable and

by adding the mean age of mothers at childbirth (*MAB*) as well as the age of mothers at first childbirth (*MA1B*) as control variables to our regression model. These variables exist for a larger set of countries and time periods. We use the fixed effects model in order to use data with yearly observations up to 2007. The regression results, shown in table in Appendix 4, confirm a significantly convex impact of *lnGDPpc* on fertility when controlling for mothers' age at childbirth and when covering observations of almost all OECD countries from 1960 to 2007. However, whether an increase in mothers' age at childbirth increases or decreases fertility depends on the age measure. Due to this ambiguous finding, we prefer to use tempo-adjusted fertility rates to control for birth postponement.

5.2.3. Control for different income distribution patterns

After having tested the robustness of our findings with respect to birth postponement, we now control whether the inverse J-shaped pattern of fertility along the process of economic development can be confirmed also when controlling for different income distribution patterns. While fertility trends have proved to depend on the average increase GDP per inhabitant, it is also highly likely that this impact can be altered by the fraction of the population who benefit most of this wealth increase. We therefore add, one by one, five different measures of income inequalities to our quadratic estimation equation while keeping tempo-adjusted fertility as endogenous variable. Inequality indices are thus included to account for changing inequalities at the top of the income distribution (by reference to the P90/P50 inter-decile), around the median (P50/P30) or at the bottom (P50/P10). The incidence of low-pay jobs is also considered. Data are available for 15 OECD countries and cover the years 1960-2007. We use the fixed-effects model in order to cover observations until the year 2007. Table 5 presents the FE estimation results based on yearly observations.

Table 5: Control for income inequalities, yearly observations

| Endogenous variable: | tempo-adjusted total fertility rate (<i>adjTFR</i>) | | | | |
|-----------------------------|--|----------------------|----------------------|----------------------|-----------------------|
| Type of regression: | Fixed Effects | Fixed Effects | Fixed Effects | Fixed Effects | Fixed Effects |
| Regressors: | | | | | |
| <i>lnGDPpc</i> | -12.39*** (-7.89) | -12.96*** (-8.49) | -12.25*** (-7.71) | -15.95*** (-9.91) | -16.28*** (-11.68) |
| <i>lnGDPpc</i> ² | 0.608*** (7.69) | 0.621*** (8.10) | 0.605*** (7.56) | 0.770*** (9.55) | 0.805*** (11.43) |
| <i>p90_p10</i> | 0.129*** (4.86) | | | | |
| <i>p90_p50</i> | | 1.109*** (6.29) | | | |
| <i>p50_p10</i> | | | 0.307*** (4.20) | | |
| <i>p90_p30</i> | | | | 0.732*** (8.51) | |
| <i>low_pay_incidence</i> | | | | | 0.0495*** (9.67) |
| <i>constant</i> | 64.46*** (8.27) | 67.28*** (8.88) | 63.23*** (8.02) | 82.66*** (10.31) | 83.15*** (12.10) |
| N | 242 | 242 | 242 | 226 | 171 |
| nb. of countries: | 15 ⁺ | 15 ⁺ | 15 ⁺ | 14 ⁺⁺ | 13 ⁺⁺⁺ |
| time period: | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 | 1960-2007 |
| R ² within: | 0.315 | 0.356 | 0.298 | 0.468 | 0.594 |
| R ² adj.: | 0.263 | 0.308 | 0.245 | 0.428 | 0.555 |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

⁺ OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Iceland, Ireland, Korea, Luxembourg, Mexico, New Zealand, Portugal, Switzerland, Turkey,

⁺⁺ OECD countries without 15 countries listed above and Spain.

⁺⁺⁺ OECD countries without 15 countries listed above and Italy and Norway.

Table 5 shows that the fixed-effects estimations confirm an inverse J-shaped pattern of tempo-adjusted fertility along the process of economic development even when controlling for income inequalities. Furthermore, for all inequality measures, the estimation results suggest that income inequalities are significantly positively correlated with fertility. As the FE model focuses on within-country variation, the estimation results imply that when inequalities increase in a country, fertility also increases. The direction of causality is not clear, however, since the FE model does not control for endogeneity. The estimated inequality coefficient is highest for the P90/P50 measure, which suggests that fertility and inequality increases go hand in hand especially in those countries where the upper income decile differs widely from the average income level.

However, our estimation results do not show whether there is a polarisation in fertility behaviour between upper and lower income deciles. We do not know whether it is rather the rich or the poor households that increase their number of children, or whether fertility increases are equally distributed over all income levels. More data on the micro-level is needed to answer this question. Closer analysis of the patterns between income inequalities and fertility behaviour is certainly a fruitful area for future research. Knowing if it is the richer families that tend to increase fertility (for example because of improved access to private services) or if it is rather the poor ones (for example because of increased teenage pregnancies) makes it possible to derive important policy implications.

The table in Appendix 5 shows some further robustness controls for the FE model based on yearly data. The impact of *lnGDPpc* on tempo-adjusted fertility stays significantly convex when controlling for different measures of education and for female employment. However,

data on education is only available for a reduced time period. Only tertiary school enrolment turns out to have a significant impact on fertility. The regression results suggest that tertiary school enrolment decreases fertility.

5.2.4. Decomposition of GDP per capita

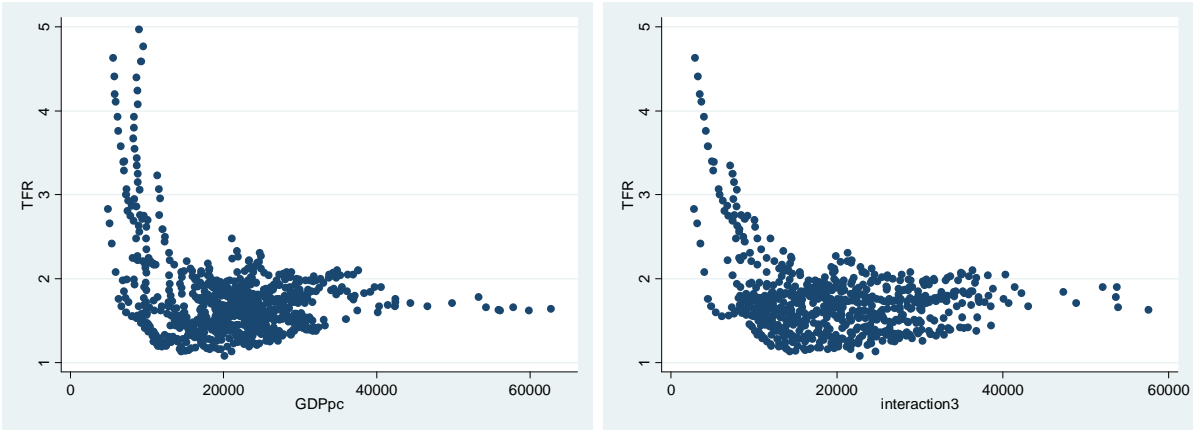
Our analysis so far confirms a convex impact of GDP per capita on fertility even when controlling for birth postponement and for different income distribution patterns. This implies that economic development is likely to induce a fertility rebound in OECD countries. However, we also found that in some OECD countries, the fertility-increasing effects of economic advancement are likely to be restrained by factors that are not included in our estimation model. In order to gain a deeper insight in the economic mechanisms behind fertility increase, we now decompose GDP per capita into a number of more specific variables and estimate their impact on fertility.

First, we replace GDP per capita by an interaction term containing three variables, which are labour productivity, average working hours per worker and the employment ratio⁷.

$$GDP_{pc} = \text{labour productivity} * \text{average working hours per worker} * \text{employment ratio}$$

Figure 5 compares the data plot of TFR vs. GDP per capita against the data plot of TFR vs. the interaction term and illustrates that the interaction term adequately substitutes for GDP per capita.

Figure 5: Interaction term substitutes GDPpc



Interaction 3= labour productivity * average working hours per worker * employment ratio

Source: OECD Data Base (2009)

⁷ Labour productivity = GDP/ sum of working hours; avrg. working hrs. per worker = sum of working hours / active population; employment ratio = active population / total population

Now, we estimate the impacts of each of the decomposition variables on fertility. We use *adjTFR* as endogenous variables to keep the control for tempo-effects. Due to limited data availability we reduce our observed time period to the years 1980 to 2005. Including the years 1960-1980 in our estimation would seriously bias the results, as for this time period, for most of the decomposition variables data is only available for a small sub-group of countries. Moreover, the reduction of the database makes it possible to focus on linear impacts of the decomposition variables on fertility. In order to focus on determinants of the fertility rebound, one could consider further restricting the database, for example to observations from the late 1990s on. However, we refrain from doing so in order to keep the data set sufficiently large. When estimating linear impacts of the decomposition variables on tempo-adjusted fertility, we obtain the most robust results by limiting the observed time period to the years 1980 to 2005.

The first step is to estimate the impact of our three decomposition variables on *adjTFR*.

$$\begin{aligned} adjTFR_{i,t} = & \beta_1 + \beta_2 * \ln(labourprod\ activity)_{i,t} + \\ & \beta_2 * \ln(avrg.hrs.perworker) + \beta_4 * \ln(employment\ ratio) + \varepsilon_{i,t} \end{aligned} \quad (2)$$

The second step is to split the employment ratio into two variables, which are the employment rate (ages 25-54) and the ratio of the active population⁸. We limit the observed age group in order to better capture the impact of the employment variables on fertility. We estimate the impact of our four decomposition variables on *adjTFR* as follows:

$$\begin{aligned} adjTFR_{i,t} = & \\ & \beta_1 + \beta_2 * \ln(labourproductivity)_{i,t} + \beta_3 * \ln(avrg.hrs.perworker) \\ & + \beta_4 * \ln(employmentrate) + \beta_5 * \ln(ratioactivepopulation) + \varepsilon_{i,t} \end{aligned} \quad (3)$$

The third step is to use our decomposition variables disaggregated by gender and estimate our model as follows:

$$\begin{aligned} adjTFR_{i,t} = & \beta_1 + \beta_2 * \ln(labourproductivity)_{i,t} \\ & + \beta_3 * \ln(avrg.hrs.perworker_men) + \beta_4 * \ln(avrg.hrs.perworker_women) \\ & + \beta_5 * \ln(employmentrate_men) + \beta_6 * \ln(employmentrate_women) \\ & + \beta_7 * \ln(ratioactivepopulation_men) + \beta_8 * \ln(ratioactivepopulation_women) + \varepsilon_{i,t} \end{aligned} \quad (4)$$

Table 6 presents the regression results for estimation equation (2), based on data with five-year observations from 1980 on.

⁸ Ratio active population = active population (ages 25-54)/ total population (ages 25-54)

Table 6: Decomposition of *lnGDPpc* in 3 variables, five-year observations

| Endogenous variable: | tempo-adjusted total fertility rate (<i>adjTFR</i>) | | | | | |
|---|--|------------------------------|--------------------|--------------------|-------------------------------|--|
| Type of regression: | Pooled OLS | IV (2SLS) | Fixed Effects | Between Effects | First Difference Estimator | System GMM |
| Regressors: | | | | | | |
| <i>ln(labour productivity)</i> | -0.0166 (-0.19) | 0.00721 (0.06) | -0.0895 (-1.35) | 0.464 (2.01) | -0.0441 (-0.14) | -0.226 (-1.55) |
| <i>ln(avrg. hrs. per worker)</i> | 0.00449 (0.01) | -0.0308 (-0.08) | 0.872 (1.08) | 1.085 (1.61) | -0.416 (-0.44) | 0.434 (0.67) |
| <i>ln(employment ratio)</i> | 0.624** (2.83) | 0.575* (2.44) | -0.296 (-0.82) | 1.037* (2.79) | 0.172 (0.46) | 1.541** (3.35) |
| <i>lagged adjTFR</i> | | | | | | 0.557* (2.35) |
| <i>constant</i> | -0.499 (-0.17) | -0.115 (-0.03) | -3.257 (-0.48) | -11.65 (-1.92) | -0.0382 (-0.49) | -7.617 (-1.28) |
| N | 62 | 50 | 62 | 62 | 44 | 37 |
| nb. of countries: | 18 [†] | 18 [†] | 18 [†] | 18 [†] | 18 [†] | 18 [†] |
| time period: | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 |
| R ² : | 0.129 | 0.119 | 0.172 (within) | 0.464 (between) | 0.019 | |
| R ² adj.: | 0.084 | 0.061 | | 0.349 | | |
| nb. of instruments: | | 1 (1 period-lag= 5 years) | | | | 13 |
| nb. of estim. param.: | 4 | 4 | 4 | 4 | 4 | 5 |
| Sargan (p-value): | | | | | | 0.089 |
| Sargan-Difference (p-value): | | | | | | 0.053 |
| Instruments for first differences equation: | | | | | | L4.(L2.adjTFR Inlabourprod Inavghrspw Inemplrat) |
| Instruments for levels equation: | | | | | | DL3.(L2.adjTFR Inlabourprod Inavghrspw Inemplrat) |

† statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

[†] OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Korea, Luxembourg, Mexico, New Zealand, Switzerland, Turkey

We observe that the employment ratio variable has a positive and significant coefficient for almost all estimation models, whereas the coefficients of the other exogenous variables are not robust or significant.

Whereas the FE model is non-significant, the BE model obtains significant results by exploiting differences between countries. As the between estimator discards the time series information in the data set, the results suggest that the positive impact of the employment ratio on fertility is driven by between-country variation. This is confirmed by the fact that the goodness of fit is higher for the BE than for the FE model.

To further test whether employment is a driving factor for the fertility rebound in OECD countries, we split the employment ratio into the employment rate (ages 25-54) and the ratio of the active population. We then estimate equation (3), again based on data with five-year observations from 1980 on.

The regression results, shown in the table in Appendix 6, confirm a significantly positive impact of employment on fertility for the OLS, BE and System GMM estimation. This suggests that the higher the employment rate of the population between the age 25 and 54, the higher is a country's tempo-adjusted fertility rate. Moreover, the employment rate is the most significant variable in comparison to the other variables, indicating that employment is a driving factor for the fertility rebound in OECD countries. Furthermore, the estimation results confirm that the correlation between employment and fertility is dominated by between-country variations.

As the impact of the decomposition variables on fertility may differ between men and women, we now disaggregate working hours, employment rates and the ratio of the active population by gender. Table 7 shows the regression results for estimation equation (4), again based on data with five-year observations from 1980 on.

Table 7: Decomposition of $\ln GDPpc$ with gender disaggregation, five-year observations

| Endogenous variable: | tempo-adjusted total fertility rate (<i>adjTFR</i>) | | | | |
|--|--|------------------------------|--------------------|-------------------------------|---|
| | Pooled OLS | IV (2SLS) | Between Effects | First Difference Estimator | System GMM |
| Type of regression: | | | | | |
| Regressors: | | | | | |
| <i>ln(labour productivity)</i> | 0.0465 (0.31) | 0.354* (2.20) | 0.416 (1.40) | -0.246 (-0.58) | 0.152 (1.78) |
| <i>ln(avrg. hrs. per worker men)</i> | 1.289* (2.11) | 2.412*** (4.12) | 2.108 (2.28) | -1.295 (-1.03) | 0.917* (2.17) |
| <i>ln(avrg. hrs. per worker women)</i> | -0.874** (-2.83) | -1.369* (-2.48) | -0.841 (-1.66) | -0.326 (-0.26) | -0.430* (-2.01) |
| <i>ln(employment rate 25-54 men)</i> | -0.357 (-0.52) | -1.369* (-2.48) | -1.422 (-1.36) | 0.591 (0.66) | 0.947 (1.63) |
| <i>ln(employment rate 25-54 women)</i> | 0.601** (3.30) | 0.904*** (5.02) | 1.039* (3.32) | -0.552 (-1.10) | 0.377*** (3.58) |
| <i>ln(ratio active population men)</i> | -5.360 (-1.31) | -3.031 (-0.82) | -8.782 (-1.12) | 0.718 (0.19) | 0.542 (0.22) |
| <i>ln(ratio active population women)</i> | 3.797 (0.82) | -0.690 (-0.16) | 5.860 (0.60) | -0.842 (-0.21) | -3.263 (-1.20) |
| <i>lagged adjTFR</i> | | | | | 0.692*** (7.94) |
| <i>constant</i> | 3.910 (0.58) | 9.378 (1.31) | 4.756 (0.36) | 0.0366 (0.33) | 1.671 (0.41) |
| N | 44 | 30 | 44 | 28 | 39 |
| nb. of countries: | 16 ⁺ | 16 ⁺ | 16 ⁺ | 16 ⁺ | 16 ⁺ |
| time period: | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 |
| R ² : | 0.451 | 0.677 | 0.816 (between) | 0.163 | |
| R ² adj.: | 0.344 | 0.574 | 0.655 | | |
| nb. of instruments: | | 1 (1 period-lag= 5 years) | | | 27 |
| nb. of estim. param.: | 8 | 8 | 8 | 8 | 9 |
| Sargan (p-value): | | | | | 0.413 |
| Sargan-Difference (p-value): | | | | | 0.140 |
| Instruments for first differences equation: | | | | | L3.(L.adjTFR lnlabourprod lnavghrspw_m lnnavghrspw_w lnempl_m lnempl_w lnractpop_m lnractpop_w) |
| Instruments for levels equation: | | | | | LD2.(L.adjTFR lnlabourprod lnavghrspw_m lnnavghrspw_w lnempl_m lnempl_w lnractpop_m lnractpop_w) |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001
⁺ OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Japan, Korea, Luxembourg, Mexico, New Zealand, Switzerland, Turkey, USA

Table 7 reveals that not only for the OLS, IV and System GMM estimation, but also for the between effects estimation, female employment is significantly positively correlated with tempo-adjusted fertility rates⁹. Hence, the overall estimators and the between estimator

⁹ To further test whether employment is a driving factor for the fertility rebound in OECD countries, we replace labour productivity by male and female wages for all sectors (results not shown here). Even though this involves a further reduction of the number of observations, the estimation results prove the robustness of our finding, as the coefficient of female employment stays significantly positive for the OLS, IV and System GMM estimation. However, the wage coefficients are found to be non-significant.

reveal female employment as the key dimension of GDP that goes hand in hand with a fertility rebound in highly developed countries. This suggests that the change in the impact of economic development on fertility from negative to positive in highly developed countries is driven by an increase in female labour market participation.

To date, high female employment rates (ages 25-54) over 80% along with high total fertility rates and tempo-adjusted fertility rates can especially be observed in Finland, Norway, Sweden, Denmark and Iceland. These are countries with high income levels at the same time. Moreover, France for example has higher female employment rates and at the same time higher fertility rates than Germany, even though Germany has somewhat higher GDP levels. Countries where fertility and female employment rates are particularly low are the Southern and Eastern European countries.

Our empirical findings accord with a series of other empirical studies, which investigate the correlation between female employment and fertility in OECD countries. Engelhardt, Kögel and Prskawetz (2004a, 2004b), for example, find for six OECD countries, that the correlation between female labour market participation and fertility is significantly negative only up to the year 1975. Kögel (2004, 2006) finds a positive association between the two variables in Western European countries from the 1980s on when focussing on cross-country variation. However, the studies highlight that the association between female employment and fertility is influenced by the countries' institutional context, in particular in terms of family policies. These components are not explicitly taken into account by our study. They are only implicitly considered as governments' investments are part of GDP per capita

Our finding of a positive correlation between female employment and fertility also implies that fertility decreases when female employment decreases. This can be observed in Eastern Europe, where fertility rates declined sharply along with a steep downfall of female employment in the beginning of the 1990s. Da Rocha and Fuster (2005) confirm our finding that fertility is procyclical by emphasising that also in Sweden, East Germany, Spain and Italy, during the 1990s both fertility and male and female employment decreased. They find that fertility and employment are positively associated in OECD countries with relatively low employment ratios.

While fertility recovery goes hand in hand with the increase in female employment rates, we find that the impact of male employment is fairly non-significant, which is most likely due to the fact that the within and between variations of male employment are fairly negligible in our data base. However, estimations reveal that an increase in women's average working hours has a significantly negative impact on fertility. Thus, while the increase in female labour market participation is positive for fertility, working too many hours still curbs fertility increase. Working more than the current average (less than 40 hours per week in our sample) is likely to alter fertility increase. By contrast, men's working hours have a significantly positive impact on fertility. These results suggest that fertility still increases in a gender-unbalanced context of division of work. The finding of a positive impact of female employment and a negative impact of female working hours on fertility suggests that reconciliation issues play an important role in women's decision to have children.

6. Conclusion

This study shows that the influence of economic development on fertility trends has changed radically in the last few years, during which a rebound of fertility rates has been observed. Our empirical findings support the hypothesis of a convex impact of economic advancement on fertility rates. We find an inverse J-shaped pattern of fertility along the process of economic development in OECD countries over the decades from 1960 on, which is dominated by within-country variation. This implies that in the most developed countries, recent economic advancement goes hand in hand with a rebound in fertility. This finding is robust when controlling for endogeneity, the postponement of birth and for different income distribution patterns. Moreover, whatever the specification is, the estimated threshold from which GDP per capita can be expected to boost fertility is much higher than the actual OECD average in 2007. We therefore expect further economic growth to enhance fertility in a large number of OECD countries.

By designating a clear turning point in the relationship between economic development and fertility, we find that economic development is a driving factor for fertility in the majority of OECD countries and further economic development is likely to induce a fertility rebound. However, many countries do not follow the path identified. Some of them demonstrate a much lower actual fertility rate in 2006 than the one predicted from GDP trends. Eastern and Southern European countries as well as Germany, Japan and Korea are clearly in that situation. At the same time, these countries are characterised by comparatively low support for reconciling work with family formation, which seems to restrain the fertility-increasing effects of economic advancement. By contrast, Northern European and English-speaking countries exhibit higher fertility rates than their expected values. These countries provide more advanced support for combining work and family, although different in nature. These differences throw light on the country-specific factors that lift fertility rates to a significantly higher level, above and beyond economic development. Changes in norms concerning childbearing, labour market contexts, and policies supporting families or the work-life balance accompanying the process of development are consequently crucial dimensions to consider in order to better capture cross-national differences in fertility trends. Moreover, while the process of growth is expected to raise fertility from a certain stage of economic development on, the increase may be limited for most countries, unless development is accompanied by some evolution in the institutional context. Hence, economic advancement seems to be a necessary but not sufficient condition for a significant fertility rebound.

To gain a deeper insight in the economic factors that “drive” fertility, we decompose GDP per capita into a number of more specific variables and estimate their impact on fertility. Here, we find that fertility increases along with the diffusion of female labour market participation. One possible explanation for this finding is that in several highly developed OECD countries, economic advancement not only increases women’s labour market opportunities, but increases at the same time reconciliation possibilities for parents. Here again, the changes in labour market and institutional contexts that accompanied economic development are strong candidates for explaining this positive association between fertility and female employment trends. Patterns of development vary quite widely across the OECD, however. It is clear, for example, that economic development has generated very different labour market opportunities for women and various forms of support for combining work and family in the Nordic countries, on the one hand, and in the English-speaking countries, on the other hand, where fertility and female employment rates are, however, comparatively high. Further investigation into the relationships between economic growth, labour market development, policies regarding work and family reconciliation and fertility trends is now required to better understand the variety of cross-national patterns.

Finally, our estimation results suggest that economic advancement increases fertility in countries that enable female employment, but they do not allow any statements concerning the role of public or private reconciliation instruments, as these are only part of our GDP measures but are not modelled explicitly in this study. Therefore, further analysis is needed to test the positive association between fertility and female employment by integrating indicators of social policy and particularly the design of reconciliation policies. An in-depth analysis of the linkages between fertility, institutional settings like norms and family policies, and women's labour market participation seems to be a fruitful area for future research. In addition, we consider a further investigation of the patterns between income inequalities and fertility to be worthwhile.

Appendix:

Appendix 1: Summary statistics

| variable | definition | nb. of obs. | nb. of countries | time period | mean | std. dev. | min. | max. | source |
|-----------------------------------|--|-------------|------------------|-------------|----------|-----------|---------|----------|--------------------|
| <i>TFR</i> | total fertility rates (average number of births per woman) | 1418 | 30 | 1960-2007 | 2,19 | 0,96 | 1,08 | 7,26 | OECD |
| <i>adjTFR</i> | tempo-adjusted total fertility rates, 3 year MA | 519 | 18 | 1961-2006 | 1,97 | 0,32 | 1,34 | 3,43 | Bongaarts & Feeney |
| <i>GDPpc</i> | gross domestic product per capita in purchasing power parities (in constant 2005 USD) | 1072 | 30 | 1960-2007 | 19812,53 | 8234,63 | 2859,90 | 65001,25 | OECD |
| <i>lnGDPpc</i> | natural logarithm of <i>GDPpc</i> | 1072 | 30 | 1960-2007 | 9,80 | 0,46 | 7,96 | 11,08 | own calculation |
| <i>MAB</i> | mean age of mothers at childbirth | 1097 | 29 | 1960-2007 | 27,79 | 1,40 | 24,55 | 31,20 | OECD |
| <i>MA1B</i> | age of mothers at first childbirth | 702 | 26 | 1960-2007 | 25,79 | 2,09 | 20,70 | 30,70 | OECD |
| <i>p90_p10</i> | the ratio of the 90th and 10th percentiles of the income distribution | 433 | 23 | 1960-2007 | 3,35 | 2,10 | 1,75 | 19,33 | OECD |
| <i>p90_p50</i> | the ratio of the 90th and 50th percentiles of the income distribution | 433 | 23 | 1960-2007 | 1,82 | 0,20 | 1,27 | 2,35 | OECD |
| <i>p50_p10</i> | the ratio of the 50th and 10th percentiles of the income distribution | 441 | 23 | 1960-2007 | 1,80 | 0,89 | 1,30 | 8,70 | OECD |
| <i>p90_p30</i> | the ratio of the 90th and 30th percentiles of the income distribution | 366 | 21 | 1960-2007 | 2,24 | 0,41 | 1,41 | 3,79 | OECD |
| <i>low_pay_incidence</i> | the share of low-wage workers among employees | 309 | 22 | 1960-2007 | 17,36 | 5,66 | 4,60 | 33,88 | OECD |
| <i>primary school enrolment</i> | primary school enrolment % gross (girls and boys) | 632 | 30 | 1980-2003 | 48,57 | 0,51 | 45,41 | 52,60 | UN |
| <i>secondary school enrolment</i> | secondary school enrolment % gross (girls and boys) | 617 | 30 | 1980-2004 | 49,03 | 2,55 | 34,32 | 54,78 | UN |
| <i>tertiary school enrolment</i> | tertiary school enrolment % gross (girls and boys) | 605 | 30 | 1980-2005 | 48,70 | 7,15 | 25,54 | 63,66 | UN |
| <i>labour productivity</i> | GDP/sum of working hours | 693 | 30 | 1980-2007 | 26,28 | 12,29 | 2,66 | 78,29 | OECD |
| <i>avrg hrs per worker</i> | average working hours per worker = sum of working hours/active population | 711 | 30 | 1980-2007 | 1800,89 | 247,41 | 1334,00 | 2922,73 | OECD |
| <i>avrg hrs per worker men</i> | average working hours per male worker = sum of working hours men/active population men | 508 | 27 | 1980-2007 | 2198,20 | 160,94 | 1871,34 | 2891,76 | OECD |
| <i>avrg hrs per worker women</i> | average working hours per female worker = sum of working hours women/active population women | 508 | 27 | 1980-2007 | 1814,64 | 238,13 | 1244,73 | 2653,42 | OECD |
| <i>employment ratio</i> | active population/total population | 787 | 30 | 1980-2007 | 44,18 | 6,49 | 27,87 | 70,08 | OECD |
| <i>employment rate 25-54</i> | number of employed persons/working age population (ages 25-54) | 710 | 30 | 1980-2007 | 75,72 | 7,73 | 53,21 | 91,60 | OECD |

| | | | | | | | | | |
|--------------------------------------|--|-----|----|-----------|-------|-------|-------|-------|------|
| <i>employment rate 25-54 men</i> | number of employed men/working age population men (ages 25-54) | 710 | 30 | 1980-2007 | 87,98 | 4,32 | 73,01 | 97,30 | OECD |
| <i>employment rate 25-54 women</i> | number of employed women/working age population women (ages 25-54) | 710 | 30 | 1980-2007 | 63,48 | 14,21 | 25,59 | 89,60 | OECD |
| <i>ratio active population</i> | active population (ages 25-54)/total population (ages 25-54) | 710 | 30 | 1980-2007 | 63,24 | 2,85 | 54,65 | 69,63 | OECD |
| <i>ratio active population men</i> | active population men (ages 25-54)/total population men (ages 25-54) | 710 | 30 | 1980-2007 | 63,50 | 2,93 | 54,05 | 70,69 | OECD |
| <i>ratio active population women</i> | active population women (ages 25-54)/total population women (ages 25-54) | 710 | 30 | 1980-2007 | 62,99 | 2,85 | 55,20 | 69,61 | OECD |

Appendix 2: IV-regression in two steps (Two-Stage Least Squares) with one-year lags

Step 1:

Estimation of a reduced form which regresses the endogenous regressor $\ln \hat{GDP}pc_{i,t}$ over the instrument $\ln GDPpc_{i,t-1}$:

$$\ln \hat{GDP}pc_{i,t} = \beta_1 + \beta_2 \ln GDPpc_{i,t-1} + \varepsilon_{i,t}$$

Calculation of $\ln \hat{GDP}pc_{i,t}$ based on the estimated coefficients in Step one.

Calculation of $\ln \hat{GDP}pc^2_{i,t}$ using $\ln \hat{GDP}pc_{i,t}$.

Step 2:

Estimation of $\ln TFR$ based on $\ln \hat{GDP}pc^2_{i,t}$ and $\ln \hat{GDP}pc_{i,t}$:

$$\ln TFR_{i,t} = \beta_1 + \beta_2 * \ln \hat{GDP}pc_{i,t} + \beta_3 * \ln(\hat{GDP}pc_{i,t})^2 + \varepsilon_{i,t}$$

Appendix 3: Quantification of the regression results based on the estimated coefficients of the FE regression (Table 2, column 3):

$$TFR_{i,t} = 89,54 - 16,94 * \ln GDPpc_{i,t} + 0,815 * \ln(GDPpc_{i,t})^2$$

$$\frac{\delta TFR}{\delta \ln GDPpc} = -16,94 + 1,63 \ln GDPpc$$

$$\frac{\delta TFR}{\delta \ln GDPpc} = 0 \Leftrightarrow \ln GDPpc = 10,39$$

$$TFR_{i,t} = 89,54 - 16,94 * 10,39 + 0,815 * 10,39^2 = 1,51$$

→ **Minimum at $GDPpc = \$32,600$ (PPP), $TFR = 1,51$**

Appendix 4: Further control for birth postponement, yearly observations

| Endogenous variable: | total fertility rate (TFR) | |
|-----------------------------|-------------------------------|-----------------------|
| Type of regression: | Fixed Effects | Fixed Effects |
| Regressors: | | |
| <i>InGDPpc</i> | -19.42*** (-18.64) | -15.81*** (-12.14) |
| <i>InGDPpc</i> ² | 0.933*** (17.62) | 0.779*** (11.91) |
| <i>MAB</i> | 0.0323* (2.54) | |
| <i>MA1B</i> | | -0.0580*** (-5.59) |
| <i>constant</i> | 101.6*** (19.54) | 83.23*** (12.90) |
| N | 845 | 582 |
| nb. of countries: | 26 [†] | 29 ^{**} |
| time period: | 1960-2007 | 1960-2007 |
| R ² within: | 0.538 | 0.493 |
| R ² adj.: | 0.522 | 0.464 |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

[†] OECD countries without: Canada, Korea, Mexico, Turkey

^{**} OECD countries without: Turkey

Appendix 5: Control for education and female employment, yearly observations

| Endogenous variable: | tempo-adjusted total fertility rate (adjTFR) | | | |
|------------------------------------|---|----------------------|-----------------------|----------------------|
| Type of regression: | Fixed Effects | Fixed Effects | Fixed Effects | Fixed Effects |
| Regressors: | | | | |
| <i>InGDPpc</i> | -14.82*** (-8.63) | -15.80*** (-8.77) | -17.28*** (-9.82) | -13.92*** (-8.41) |
| <i>InGDPpc</i> ² | 0.725*** (8.36) | 0.776*** (8.51) | 0.868*** (9.63) | 0.680*** (8.05) |
| <i>primary school enrolment</i> | 0.0119 (0.55) | | | |
| <i>secondary school enrolment</i> | | -0.0191 (-1.86) | | |
| <i>tertiary school enrolment</i> | | | -0.0202*** (-4.38) | |
| <i>employment rate 25-54 women</i> | | | | -0.00130 (-0.82) |
| <i>constant</i> | 76.80*** (8.96) | 83.07*** (9.18) | 88.79*** (10.25) | 73.03*** (8.97) |
| N | 286 | 280 | 282 | 347 |
| nb. of countries: | 18 [†] | 18 [†] | 18 [†] | 18 [†] |
| time period: | 1980-2003 | 1980-2003 | 1980-2003 | 1960-2007 |
| R ² within: | 0.357 | 0.364 | 0.405 | 0.375 |
| R ² adj.: | 0.309 | 0.315 | 0.359 | 0.337 |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

[†] OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Korea, Luxembourg, Mexico, New Zealand, Switzerland, Turkey

Appendix 6: Decomposition of *lnGDPpc* into 4 variables, five-year observations

| Endogenous variable: | tempo-adjusted total fertility rate (<i>adjTFR</i>) | | | | |
|---|--|------------------------------|--------------------|----------------------------|---|
| Type of regression: | Pooled OLS | IV (2SLS) | Between Effects | First Difference Estimator | System GMM |
| Regressors: | | | | | |
| <i>ln(labour productivity)</i> | -0.0309 (-0.30) | -0.0712 (-0.55) | 0.691* (2.63) | 0.0296 (0.08) | -0.319 (-1.49) |
| <i>ln(avrg. hrs. per worker)</i> | -0.0320 (-0.09) | -0.229 (-0.57) | 1.190 (1.66) | -0.472 (-0.51) | -1.561* (-2.38) |
| <i>ln(employment rate 25-54)</i> | 0.782* (2.55) | 0.594 (1.93) | 1.589* (2.94) | 0.146 (0.28) | 1.358*** (4.04) |
| <i>ln(ratio active population)</i> | 0.312 (0.39) | 0.399 (0.46) | -2.708 (-1.12) | 0.309 (0.55) | -1.174 (-0.68) |
| <i>lagged adjTFR</i> | | | | | -0.0723 (-0.32) |
| <i>constant</i> | -2.507 (-0.57) | -0.458 (-0.09) | -4.885 (-0.42) | -0.0568 (-0.63) | 13.53 (1.51) |
| N | 60 | 47 | 60 | 42 | 32 |
| nb. of countries: | 18 [†] | 18 [†] | 18 [†] | 18 [†] | 18 [†] |
| time period: | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 | 1980-2005 |
| R ² : | 0.134 | 0.122 | 0.534 (between) | 0.022 | |
| R ² adj.: | 0.071 | 0.038 | 0.391 | | |
| nb. of instruments: | | 1 (1 period-lag= 5 years) | | | 9 |
| nb. of estim. param.: | 5 | 5 | 5 | 5 | 6 |
| Sargan (p-value): | | | | | 0.129 |
| Sargan-Difference (p-value): | | | | | - |
| Instruments for first differences equation: | | | | | L4.(L2.adjTFR L.Inlabourprod L.Inavrghrspw L.Inempl L.Inractpop) |
| Instruments for levels equation: | | | | | DL3.(L2.adjTFR L.Inlabourprod L.Inavrghrspw L.Inempl L.Inractpop) |

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

[†] OECD countries without: Australia, Belgium, Canada, France, Germany, Greece, Korea, Luxembourg, Mexico, New Zealand, Switzerland, Turkey

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