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### **Are children a ‘public good’? Main implications of bringing up new individuals for society**

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The main purpose of this paper is to analyze what are the main implications for society that arise when families decide to bring up children. Although being a strictly private choice for those who are involved, we must take into account that this decision is indeed one of the most public actions and brings different implications for the society. Therefore we will consider three aspects of it:

- Costs and benefits of bringing up children for both the parents and the state.
- Implications for the society as a whole: the ‘public good’ child.
- Analysis of different cultural dimensions around the world to understand how we can all agree on the correct concept of ‘public good.’

Trying to explain why such a concept is totally different from one nation to another can help us to get a more global approach for everybody to agree on it. We are going to analyze these dimensions under the approach of Geert Hofstede, an influential Dutch social psychologist and anthropologist who is a well-known pioneer of cross-cultural groups and organizations. He explains under five indexes (which are based on different interviews to specific groups of people from different nations all around the world) how different cultural groups can influence the behavior of societies or different organizations. Although Hofstede has analyzed these cultural dimensions for each country all over the world, we are going to simplify the explanation and try to explain these behaviors only in the European Countries.

#### **Costs and Benefits**

There is this persistent trend in the First World of decrease in the rate of marriage together with the increase the rate of couple relationships breakdowns. In Spain, for instance, the number of marriages were 216.451 in 1999, while in 2008 they had gone down to 196.613 (-10%). For the same country, the number of marital breakdowns was 94.346 in 1999 and 118.939 in 2008 (+26%).<sup>1</sup>

What are the consequences of these variations in behavior? How do they influence the costs and benefits for parents and the public state of bringing up children?

First, the decision of having children can cause a ‘backward movement’ in the career of the mother, because women are nowadays as present in the labor market as men. In the United States, for instance, 50% of the labor market is compound of women.<sup>2</sup> But evidence shows that there is no a backward movement in the father’s career. Obviously, when they take the decision of bringing up children a normal expectation is the difficulty in combining family and work. Moreover, they also think that bringing up children will have a negative connotation in their actual job. A study done by the Boston College in 2010 shows clearly that all these expectations were the other way around.<sup>3</sup> In fact, parents who were interviewed showed a radical change in their daily lives in positive terms. They realized what things were relevant and what things weren’t. They learned to prioritize work and family. For example, they explain that having brought up children caused a reduction in their personal time, personal aspirations in life, greater manager understanding and better relationships with employees inside the company. So we can see that not only there has been a change in the woman role (as they have entered the labor market) but also there has been a change in the role of the father inside the family. Now the father is more involved in the home duties and both father and mother try to share out responsibilities, which is a very positive fact.

Nevertheless, the real costs must be measured economically in order to grasp the idea of a ‘public good child’, and then evaluate the success in the education and social development. As in every business decision, we can divide the amount into direct and indirect costs. For instance, direct costs could be those which are strictly related to children such as clothing, food, housing education, etc.

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<sup>1</sup> ‘Statistics of Annulments, Separations and Divorces 2008’ (Instituto Nacional de Estadística, Spain).

<sup>2</sup> ‘The new Dad. Exploring fatherhood within a career context’ (Boston College, 2010).

<sup>3</sup> ‘The new Dad. Exploring fatherhood...’

The indirect costs would be the result reduction in income or welfare of parents derived from bringing up children, the so-called 'opportunity costs' in business. We can include lost of women income as they have to stay at home, the reduction in future pension rights, etc. As economists calculate the inflation rate, we can calculate the cost of bringing up children with a basket of goods that children need. Although is not easy to measure all direct costs, it is important to know that the mean of children cost hovers 20-30% of the total household income. Normally, the cost of food in Europe is the largest variable on the cost of children, followed by child care and education costs.<sup>4</sup> All these costs can be translated into an increase of national consumption or investment, leading to an increase of the Gross Domestic Product of a country (a state benefit). When a couple decides to have children, there is an increase in consumption, an increase in human capital investment and, in some countries, the government spends money in caring children policies. Therefore, children should be considered as a 'public goods' not just in economic terms (which not always should lead to an increase in economic welfare), but also in social terms.

Especially now, children are needed. The fertility rates should increase in order to compensate the increase in population ageing. To illustrate how a child can contribute to the GDP of a country, it is interesting to analyze which economic sectors can be positively affected. The recent 'Sustainable demographic dividend' study<sup>5</sup> reveals data on how some American economic sectors have changed due to decisions such as giving up to have children. Examples of these sectors are: food, child care, home maintenance, pets, toys, etc. Companies regarding these sectors are concerned with the family protection (some examples are Johnson and Johnson, Kellogg's, Mattel...). According to this study, the most affected sectors were child care and personal insurance. Behind these conclusions, all these companies can change the economic behavior of the marriage couples. They can use direct marketing campaigns protecting life and family. They can invest more money on research and development (R&D) projects in order to create new products.

It is also important to know that marginal costs of children tend to decrease as children increase in age. This is what economists call 'economies of scale' in business. As we are talking about marginal costs, when children grow parents gain in investment and consumption experience. For the next child, parents know what is relevant for the child's care and so on for the following one.

We know all direct costs are normally shared between parents, but what about indirect costs? Are they equally shared? A study produced by the European Commission<sup>6</sup> states that these indirect costs fall on mothers. As already mentioned, the role of women regarding the labor market has changed considerably, but the financial crisis started in 2008 was an important break-even point. The principal industries affected by the crisis were those dominated by men while women industries were less affected. That is one of the reasons why the women labor market participation rate has increased. But when women bring up children they have to reallocate their working time with possibility of losing their career aspirations and their investment in human capital. There are also indirect costs such as losing personal income, personal time and all related opportunity costs which are difficult to measure.

On the other hand, all direct and indirect costs depend on the household income, the age of children, their education and different aspects of a family which make it difficult to analyze mathematically the real cost of bringing up children. Obviously this calculation could be different across families and countries. Nonetheless, a child must be considered as a 'public good' because he or she produces a positive externality. This externality occurs when a family decision such as bringing up children doesn't receive the full benefit of the decision. As years come by, children will become tax-paying citizens and will contribute to the Social Security and Medicare systems. What if all families decided personally not to invest time or money in bringing up children? What if only a little proportion of families decided to bring up children? The so-called 'free-rider' economic problem would appear. This economic term refers to the situation that arises when someone consumes a resource without paying for it or paying less than the full cost. In case of public goods, this leads to a Pareto-inefficiency, meaning that a reallocation of resources has improved the situation of an individual (in this case it would be the family who are not investing money and time in bringing up children) but making the situation of another individual to get worse at the same time and as a result (in this case, it would be the 'public good', that is to say the very child and his or her family).

Furthermore, there are different children's care policies carried on by governments. Why do governments spend money in such policies to compensate the cost of a private family decision such as bringing up a child? The answer is precisely that for governments, especially nowadays, a child is a 'public good'. Therefore, governments are trying to implement such policies in order to compensate the cost of raising children. Although these policies sometimes are not enough to compensate costs, they are clearly justified and represent near 4% of the GDP in countries where this percentage is the highest.<sup>7</sup>

Therefore, what kind of costs do governments have regarding such policies? Typical policies and costs are monetary and non-monetary ones, which we are going to analyze later across countries with different cross-cultural situations. Are these costs different among countries? How can culture influence the child term of 'public good'? And what about the policies carried on? Are they equal among countries? Can culture differences allow all of us to reach a global concept of 'public good'?

### **Cross-cultural dimensions and child-care policies**

One of the most important issues when we study the costs and benefits of bringing up children and the way governments try to compensate for those costs is to take into account how people behave in different situations and under different cultural dimensions. Geert Hofstede, an influential Dutch social psychologist and anthropologist, made a study about how different cultural situations make people behave and influence the society and different organizations. He analyzed those culture differences for different countries using five indexes:<sup>8</sup>

- 'Power distance index' (PDI) which is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally meaning that why this members accept 'inequality'.

<sup>4</sup> 'The costs of rising children and the effectiveness of policies to support parenthood in European countries: A literature review' (European Commission, Directorate-General Employment, Social Affairs and Equal Opportunities, Unit E1 - Social and Demographic Analysis, 2009)

<sup>5</sup> 'The Sustainable Demographic Dividend - What do marriage and fertility have to do with the economy?' (The National Marriage Project, 2011).

<sup>6</sup> 'The costs of rising children and the effectiveness of policies...'

<sup>7</sup> 'The costs of rising children and the effectiveness of policies...'

<sup>8</sup> www.geert-hofstede.com and www.geerthofstede.nl.

- 'Uncertainty avoidance index' (UAI) which is the extent to which how the culture of a society programs its members to feel either uncomfortable or comfortable with different situations regarding risk. Therefore, how a society responds to situations or risk, uncertainty, etc.
- 'Individualism index' (IDV) which is the degree to which individuals are integrated into groups. The extent to which an individual is expected to look after her or himself and her or his immediate family. The opposite would be the extent to which an individual is integrated into a more extended group or family (with many friends, uncles, aunts and grandparents).
- 'Masculinity index' (MAS) refers to the distribution of emotional roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The IBM studies (where Hofstede worked as psychologist) revealed women's values differ less among societies than men's values.
- 'Long-Term Orientation index' (LTO) which is the extent to which societies foster pragmatic virtues oriented towards future rewards, in particular saving, persistence, and adapting to changing circumstances (long-term orientated). The opposite would be short-term oriented societies, which foster virtues related to the past and present such as national pride, respect for tradition, preservation of 'face' and fulfilling social obligations.

Geert Hofstede analyzed these indexes for different countries all over the world. Although it is very interesting to analyze one by one, we are going to simplify our model by talking about European countries (sometimes mentioning countries of other parts of the world to make comparisons). Regarding family and children social protection policies by governments (including monetary and non-monetary ones), we can start talking about how much is the expenditure in percentage of the GDP for those policies. As we can see, the countries which spent more in these policies in 2005 were: Denmark (3.8% of GDP), Luxembourg (3.6%), Germany and Austria, Finland, Sweden and Iceland (3.0%)<sup>9</sup>. Therefore, the Northern European countries are the ones which spent more.

Why such a constant pattern? Is it the term family important in those countries? Have they given more importance to demographic problems?

If we analyze Hofstede's indexes, the individualism one for these countries is relatively high (between 50 and 70)<sup>10</sup>, meaning that individuals in such countries are less integrated into extended groups or families. The term 'extended family' or the term child as a 'public good' is not so common. Moreover, the ageing rate of population in those countries is high, so to compensate for the cost of bringing up children it seems rational to expend more in such family and children policies. They need to promote more the extension of families.

The opposite are those countries in which there is less expenditure such as: Spain and Italy (1.1 % of GDP), Poland (0.8%), Malta (0.9%), Portugal (1.2%) etc. What about the individualism index in these countries? The index is relatively lower (in Portugal is between 30 and 40). As we can see, in these countries individuals are more tied to 'extended families'.

Although nowadays fertility rate in those countries is very low, historically the term 'extended family' has been more developed and probably such policies are not so needed as in Northern Europe. At first glance, this may not make sense. It may seem that the countries where the terms 'extended family' and child as a 'public good' are more common should have more family and child policies. But, in reality, that's not the case. As these terms are more common, there is no interest to expend in such policies. This is why there is more sensibility in the Northern countries regarding demographic problems. For instance, the parental leave monetary policy consists in the absence at work of the father or the mother. As we can see, the expenditure in this policy is much bigger in Norway (0.7% of GDP) than in Spain (0.2%)<sup>11</sup>. The same happens with other different policies.

If we analyze Hofstede's 'Power distance index' (PDI), some interesting findings arise. The majority of Northern Europe countries have a very low value, between 10 and 30. This means that the less powerful members of organizations and institutions in those countries don't accept neither expect that power is distributed unequally. Therefore, this can be related to the existing Welfare State in those countries in which the state plays a key role trying to protect and promote the economic and social well-being of the citizens. This is strictly related to what was previously mentioned about unequal distribution of power. That is why family and child policies are promoted in these countries. Is it strictly necessary to have a low PDI for having a Welfare State? Obviously not. But we can observe a negative correlation between the PDI and the Welfare State. As the index gets lower, usually there is a more developed Welfare State. What about other countries such as Spain, Italy, Poland, Malta and Portugal? The PDI for these countries is about 50-60. Furthermore, the Welfare State expenditure in such countries is less than in the European Northern countries. That is why the term 'Welfare State' is not so developed in such countries.

This Welfare State expenditure has facilitated the entrance of women into the labor market. As this expenditure has been larger for the Northern European countries, we found larger employment rates of women in these countries in comparison with the Southern European Countries. For instance, in 2010 the employment rates for women in Iceland, Denmark, Germany and Finland were 77%, 71.1%, 66.1% and 66.9%, respectively. Whereas in the Southern countries such as Spain, Italy and Poland, the values were 53.0%, 46.1% and 53.0%, respectively.<sup>12</sup>

We are going to analyze a special case outside from Europe. It is the case of China. The PDI in this country is 80.<sup>13</sup> Therefore, the less powerful members of organizations are, they accept and expect power to be unequally distributed. The term 'Welfare State' is not developed. The Social Welfare expenditure during the last century has been insufficient although nowadays policies such as pension rights, medical insurance and unemployment insurance are being included in the social expenditure program.

What about the 'Long-Term Orientation index' (LTO) index? Geert Hofstede applied this index for specific countries. As we don't have information about this index for all European Countries, we can't fully analyze its dimension. Can it be used to explain a sus-

<sup>9</sup> 'The costs of rising children and the effectiveness of policies...'

<sup>10</sup> [http://www.geert-hofstede.com/hofstede\\_austria.shtml](http://www.geert-hofstede.com/hofstede_austria.shtml) (50 or 70 means simply a value between 0 and 100). All studies done by Hofstede are based on interviews to different employees and about culture. Although these studies are directly done to employees in order to get a cross-cultural economic point of view, we can use them to analyze how different societies are designed. This mechanism and calculations of indexes are explained in Hofstede's official website

<sup>11</sup> 'The costs of rising children and the effectiveness of policies...'

<sup>12</sup> Employment and Labour Markets: Key Tables - DOI:10.1787/20752342 (OECD, 2011).

<sup>13</sup> [www.geert-hofstede.com/hofstede\\_china.shtml](http://www.geert-hofstede.com/hofstede_china.shtml).

tainable family and children policy in an ageing society? Germany and Sweden, for example, have an index of 30,<sup>14</sup> meaning their individuals foster virtues related to the past and present such as national pride, respect for tradition, preservation of 'face' and fulfilling social obligations. Therefore, the term 'future' doesn't have importance for them. What would be a good family and child policy? The report about 'The Sustainable Demographic Dividend'<sup>15</sup> reveals that it would be a good idea to promote thrift, mainly in young couples. Creating habits for thrift can be a very good and efficient policy and especially in those countries where the ageing problem persists.

Another good policy could be the respect of the role of religion as a 'prenatal force'. There could be a strong positive relation between religion and stable families with kids that fulfill their daily obligations. For instance, there is a study which shows that American high school students from intact families that worship frequently have, as a group, the highest Grade Point Average (GPA) for English and Maths combined.<sup>16</sup> These policies should be driven in order to protect future family but they aren't a solution to the world demographic problem of low fertility and large ageing rates.

Regarding the 'Uncertainty avoidance index' (UAI), we can see a negative correlation between its values and care, family and children policies. Countries as Spain, Portugal, Poland, Italy, France and Greece have a very high index (between 80 and 90),<sup>17</sup> indicating that in those societies, where we can include Germany, individuals are reluctant towards risk. Therefore, these countries try to minimize the situations of risks by strict laws and rules, safety and security measures... But what about the demographic problem? Should they devote more importance to it? Do they need to apply more care family and child policies? At first glance, that is what they should do, in comparison with the Northern European Countries which have a lower index value and more tolerance to risk situations.

Finally, regarding the 'Masculinity index' (MAS) index, we can say that Southern European countries are more 'masculine' than the Northern ones. For instance, the difference between the index for Italy (65) and the one from Sweden (5) is very high. This could lead us to the expenditure that nowadays these countries assign to care family and child policies. As it has been said, the expenditures in those policies as percentage of GDP are 1.2% and 3.0% respectively. It would be interesting to analyze women expenditure and women expectations in those countries were they don't have too much participation in the decision making process.

## Conclusions

As we have seen, the costs of bringing up children can be divided into direct or indirect costs, though it is sometimes difficult to measure them. What effect do they have in a given society? Normally, it depends on its cultural dimension. Although there can be differences across countries, governments and citizens should think of a child as a 'public good'. The parent's costs are the State benefits in economic and monetary terms, and the direct costs of bringing up children are the direct revenues for different private and public companies.

The State's costs are directly related to the policies they carry out. They should establish different policies to promote fertility in order to catch up the desired rate. Demographers have determined that the desired rate should be 2.1 children per women over her lifetime in order to solve the ageing problem and to sustain the population over time. Where are we now? The average woman in a developed country has 1.66 children.

These policies should be addressed in a way that citizens understand the 'public good' term for newborns. They should understand the benefits and costs of such a decision. Not just private and economic costs or benefits, but also the social ones. Then, the whole of a society itself should try to understand this term.

Secondly, can different countries reach a global concept of child as a 'public good'? As we have seen, China could be a country with a very different concept. The expenditure in promoting family and child policies in the past decade has been very low and, surprisingly, sometimes this little expenditure has been enough to control the Chinese birth rate. The same should apply for Northern and Southern European countries. Can they reach a global 'public good' concept for a child? They should try it in order to balance the situation and to keep fertility rate at its sustainable level, otherwise there will be a huge ageing problem.

Finally, we should consider the cultural 'dimensions' of each country. Sometimes the problem of low fertility arises because we behave and think about a child very different from one country to another. Although there are economic and social circumstances which make fertility rate to vary across countries, it is very important to comprehend the different cultures. But there is something even more important: every civilization finds it necessary to negotiate compromises with its own values and culture and therefore for their continuity, unless it is suicidal, there is need of children in order to guarantee them.

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<sup>14</sup> [www.geert-hofstede.com/hofstede\\_germany.shtml](http://www.geert-hofstede.com/hofstede_germany.shtml) and [www.geert-hofstede.com/hofstede\\_sweden.shtml](http://www.geert-hofstede.com/hofstede_sweden.shtml).

<sup>15</sup> 'The Sustainable Demographic Dividend...'

<sup>16</sup> 'Religious Attendance, Family Structure and School Performance of U.S. High School Student' (Family Research Council, 2010).

<sup>17</sup> [www.geert-hofstede.com/hofstede\\_dimensions.php](http://www.geert-hofstede.com/hofstede_dimensions.php).