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Estimating the effects of pronatal policies on residential choice and fertility[☆]



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ABSTRACT

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In this paper, we estimate the impacts of local-government-sponsored pronatal policies on fertility by exploiting the geographical variation in policies across municipalities in Japan. We develop an empirical model that accommodates both the location and fertility choices of households to take into account their self-selected migration across municipalities. We estimate the model using microdata on households in metropolitan areas. The results suggest that self-selection may generate substantial upward bias in the estimated impacts of pronatal policies on fertility. We also find that some types of noncash benefit pronatal policies significantly increase the probability of births occurring in metropolitan households. *J. Japanese Int. Economies* **34** (2014) 179–200. Department of Economics, Keio University, 2-15-45 Mita, Minato, Tokyo 108-8345, Japan; National Graduate Institute for Policy Studies, 7-22-1 Roppongi, Minato-ku, Tokyo 106-8677, Japan.

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1. Introduction

It is widely recognized that fertility rates in many OECD countries have been declining for decades. Fig. 1 shows changes in total fertility rates over time for several OECD countries. From 1970 to the mid-1980s, every country experienced a decline in its fertility rate. In some countries, such as France and the United States, the fertility rate “rebounded” to the replacement rate (2.08). However, other countries such as Korea and Japan experienced a steady decline. In 2010, Korea and Japan had the lowest fertility rates among these countries.

With fertility rates below replacement rates, OECD (2007) acknowledged that policies that make it easier—or less costly—to have children have become more important. In particular, given the experiences of rebounding to the replacement rate in the United States and Denmark from the mid-1980s and in France from the mid-1990s, they claim that these “successes” reflect the implementation of pronatal policies and arrangements that have made children more “affordable”.

There is a large body of empirical research on the effects of pronatal policies on fertility in developed countries. As summarized by Gauthier (2007), most recent studies based on microdata focus on the impacts on fertility of either (i) cash benefit policies (e.g., family and child allowances, tax reduction, and tax credits) or (ii) noncash benefit policies (e.g., subsidized services for children and families, childcare provision, and maternity and parental leave). Generally, studies of cash benefit pronatal policies conclude that these policies have positive impacts on fertility, although the significance and magnitudes of the impacts vary greatly across household types and regions (e.g., to name a few, Milligan, 2005; Cohen et al., 2007; Laroque and Salanié, 2008; Azmat and Gonzalez, 2010; Gonzalez, 2011; Brewer et al., 2011). Conclusions about the effects of noncash benefit pronatal policies are mixed (e.g., see Blau and Robins, 1989; Del Boca, 2002; Andersson et al., 2004 for the effect of childcare; Ronsen, 2004; Lalive and Zweimuller, 2009 for the effect of parental leave). Although these studies are well executed, they tend to be restricted to particular types of pronatal policies and tend to ignore others that are equally important. Because the magnitudes of some policy effects are not directly comparable with those of others across studies—policies are implemented at different times and places—it is not clear which pronatal policies are the most effective.

This paper contributes to the literature by quantifying rigorously the effects of pronatal policies on fertility. Our study differs from previous studies in that we estimate the impacts of various pronatal

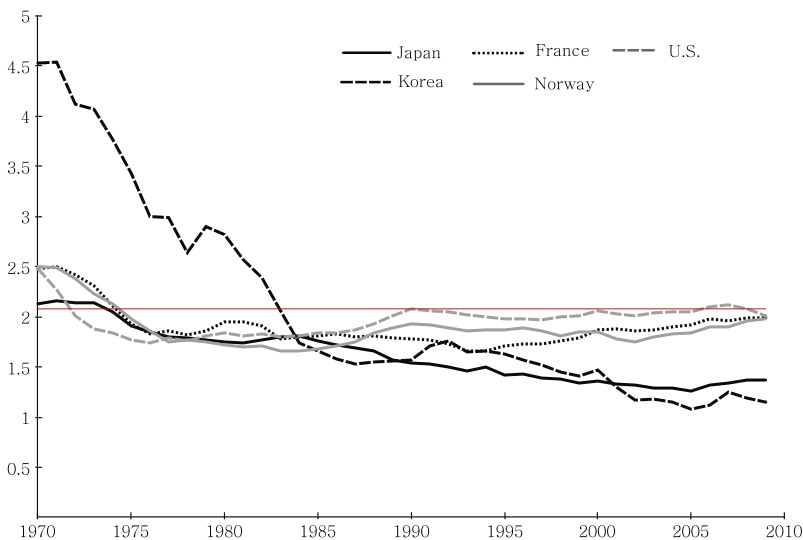


Fig. 1. Trends in total fertility rates in selected OECD countries. Note: The horizontal line corresponds the replacement level of fertility, that is, the number of children each woman needs to have to maintain current population levels.

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