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**The new economy and its implications for Australia's demographic future**

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In the 1960s and 1970s, there was a general movement in liberal democracies to free up social structures that inhibited individual freedoms. By far the most important social change of this period was the redefinition of the lives of women and its consequent implications for the nature of the family. Before this, employers had been constrained to think of their workers as 'family men'. In relation to the labour market, equal pay for women, the ending of discrimination against married women and the abolition of the basic wage effectively constituted the abolition of the male breadwinner model of the family. However, its removal left no alternative model of the family for policy purposes. The market became more able to identify workers simply as workers and not as people who had families. Workers became, as they are now, individuals with a package of skills.

This new identification of workers corresponded neatly with the restructuring of economies in the 1980s in line with a philosophy that the free operation of the market is the most efficient and effective form of economic organisation. In the past 20 years, regulations and restrictions have been reduced so that capital can flow easily in the direction that maximises business efficiency and profit. The theory is that profitable businesses mean improvements in employment and wages and, hence, in economic wellbeing. The characteristics of this new economic regime are small government and low taxation, free flow of capital across international boundaries, free trade, freedom for employers and workers to determine wages and working conditions, and curtailment of government-funded social welfare. In distributional terms, the system rewards innovation and hard work and, hence, provides incentives for both. The individual worker has greater freedom to sell his or her skills to the highest bidder. Governments, both national and international, take on a new role as facilitators and regulators of this system. And employers have no interest in the family status of their workers and, accordingly, feel no responsibility for workers' families.

In the 1990s, it can be argued that the free market system, on average, has produced greater levels of prosperity in most industrialised countries. However, there are questions about its distributional outcomes. While handsomely rewarding those who are successful in its terms, the new market economy tends to be unforgiving of its casualties whether they be individuals, companies or nations. Companies and nations are penalised for less than acceptable performance through the out-flow of capital at short notice. Individuals are penalised for less than acceptable performance by loss of their income source, or by stagnation in their career path. The rewards may be greater under this system than under the former system of protection, but the risks are also greater. The unemployed come to be dominated by the long term unemployed, the resource-poor by the homeless. The casualties of the system become a problem for the system only in so far as they disrupt the free operation of the market. Most countries deal with the casualties through their welfare systems, but these are increasingly seen as being under threat because they absorb capital that could be used more productively. Like the market itself, life for the workers has become much more of a gamble with high stakes.

The market approach deals with individuals as inputs to the system of production. Consequently, in order to protect themselves from risk, individuals must maximise their utility to the market. This means that they need to focus upon the acquisition of saleable skills, work experience and a marketable reputation. At the same time, they need to accumulate savings or wealth as a personal safety net. They also need to maintain flexibility of time and place so that they can react to opportunities as they arise. The canny player in a game that rewards market production is unwise to devote time or money to social reproduction. Social reproduction involves altruism, that is, time and money devoted to others or to the society at large. For the risk averse in a free market economy, altruism is equivalent to foolhardiness.

Family is the heart of social reproduction. It is the place where altruism abounds. There are people and politicians who believe that the public world of the market economy and the private world of the family are separate worlds: that an individual can be highly competitive, individualistic and risk averse in the market but then, just hours afterwards, be self-sacrificing, altruistic and risk accepting within the family. The only explanation I can give for this logic is that these are people who missed the 1970s in that they still believe in the separation of the roles of men and women; that market production is a male responsibility and social reproduction is a female responsibility and that the male breadwinner model is the way that people do (or should) lead their family lives.

This is not the 1950s. In attitude and behaviour, we have rejected the male breadwinner model of the family. Young women today are equipped for market production at a level at least equivalent to young men and employers are very happy to employ women in the market economy. Where human capital counts, the free market will employ a skilled woman before an unskilled man, even before a man slightly less skilled than the woman. The risk-averse woman of today will ensure that she is able to support herself and, given the high probability of divorce, will be careful not to put herself at the risk of dependency upon a man. Couples recognise that dual employment provides a hedge against job loss for either one and banks reinforce this by providing mortgages on the basis of two incomes. Parents and schools encourage young women to accumulate skills that will enable them to remain attached to the labour force. As a result, there are very few young women today who see their future lives in terms of finding a husband and never thereafter being engaged in market work. Reinstitution of the male breadwinner model of the family is not the solution to the dilemma that we now face in maintaining social reproduction in combination with a free market approach to economic production.

The incoherence of the market and the family that emerged in the 1980s in combination with the autonomy in personal behaviour established by an older generation in the 1970s have stimulated new behaviours in a younger generation. Young Australians are now putting their family lives 'on hold' while they establish themselves in the market. The consequent delay of family formation has reached an unprecedented level not just in Australia but in most industrialised countries. In 1971, 14 per cent of men aged 30-34 years in Australia had not married. This percentage is now approaching 40%. Before the

mid-1980s, cohabiting relationships of people in their 20s usually led to marriage. It has now become more likely that first cohabiting relationships are ended by separation.

#### CHART

The fertility rate has been falling throughout the 1990s and detailed examination of age-specific trends suggests that Australia's fertility rate will continue to fall in future years. Even more prominently, first births are occurring at later and later ages. Young people in the 25-34 age range are now much less likely to own their own house than was the case 20 years ago.

Survey evidence shows that in their early twenties, young Australians express a preference to marry and to have an average of a little over two children. That is, most young people do not come out of the school system and their formative years in their own families holding negative attitudes about marriage and family. However, by the time they are in their early thirties, a high proportion are not married and their achieved fertility is considerably below an average of two children. In their 20s, they learn about the market at first hand. They learn to be risk averse. They experience a system that does not value or reward those who have children. Indeed, it very obviously penalises those who have children, particularly women. Being risk averse is not just a characteristic of those with higher levels of education. Between 1986 and 1996, the fall in fertility at younger ages was greater for women without qualifications than for those with a university degree. Labour force participation tells the story. Women in the central child-bearing ages, 25-34 years, from 1970 onwards have become increasingly likely to be in the paid labour force. In 2000, the rate of participation has gone above 70 per cent in this age group for the first time.

The trend to delay family life is common to all industrialised countries and is even more significant in the countries that have very low fertility rates such as Japan and the countries of Southern Europe. Some commentators attribute these trends among young people to liberalism and self-centred materialism, that is, they are seen to be the product of individual motivations, values and attitudes that are anti-family. In contradiction of this, it is interesting to observe that the lowest fertility rates in the world apply in those countries that hold to more traditional family values. The Southern European, Germanic and East Asian countries with more traditional family systems have lower fertility rates than the Nordic countries and the English-speaking countries that have more liberal systems. Inter-country comparison thus suggests that the most important factors involved in the delay of marriage and child-bearing among young people are structural or institutional. The two main structures involved are the market and the gender structure. The market demands investment in self; the gender structure in combination with the labour market penalises women who have children.

Does all this matter? I believe it matters to the private lives of individual people and to the creation of a healthy society but here I shall restrict myself to how it matters to nation-states and to economies. The impact of low fertility on future labour supply is the mechanism through which current family formation patterns will reverberate upon the economies of particular nation-states.

## CHART

The impact of low fertility on future labour supply is shown in this table. Between 1970 and 1995, labour supply grew rapidly in all 12 of the countries shown in the table. The range is from a low of 0.5% per annum growth in the United Kingdom to a high of 2.3% per annum in Australia. During this period, the central paradigm of advanced economies has been the rate of economic growth. The market has a powerful orientation towards growth. In sharp contrast, the projected growth rates in labour supply in the 35 years from 2020 are zero or below zero in all countries except the United States. These projections are based on an assumption of unchanged rates of fertility and labour force participation and unchanged levels of migration. It is important to remember that the negative growth rates are primarily the product of CURRENT low fertility rates as it takes about 20 years for a baby to become a worker.

For some countries where fertility is falling at present, such as Australia, Canada and Japan, the projected rates in the table are probably optimistic barring increases in labour force participation rates. Because the United States has such a large labour force, the low but positive rate of growth of its labour supply represents a very large increase in labour supply. From 1999 to 2054, the US labour supply, on current trends, will increase by almost 40 million. In the same time period, Australia's labour supply will increase by two million and Japan's would fall by 24 million. Does it matter if the labour supply is diminishing in advanced countries? We can keep up standards of living through improvements in productivity that will certainly occur in the next 50 years. And a shift to fewer workers and fewer people may have all kinds of benefits in crowded countries. The important factor here is not what is happening in any one country but in the global economy, or, more directly, what is happening in one country, the United States, compared to what is happening in the others. There are strong arguments that, as it has done in the past 20 years, capital will follow growth, and at very short notice. The facts are that, with present trends, labour supply growth will be much greater in the United States than in any other of the currently advanced countries and we cannot expect that productivity enhancements will be lower in the US than in other economies. Indeed, the US will almost certainly do better in productivity terms. The world's economic engine will be steaming on while the remaining advanced nations are looking for labour. Skilled labour from all over the world is likely to be sucked into the United States to fuel the engine. Already, there are many influential voices in the United States calling for a much more aggressive immigration program directed towards skilled workers. Just as skilled workers are sucked out of Tasmania and New Zealand at present into the markets of Sydney and Melbourne, in the future, it is potentially possible that Australia as a whole may have the same experience. The level of permanent departures of Australian residents which for years had been fixed around a number of about 30,000 per annum jumped to 38,000 in the year ended 30 June 2000.

The argument is that Australia and other advanced countries aside from the United States are running a risk of economic stagnation arising from projected falls in labour supply. These falls are the direct result of low fertility which in turn is the product of the prevailing market and gender systems. It may sound like an extreme argument but some

advanced countries, Japan is perhaps the most prominent example, are starting to take these possibilities very seriously. France has always taken the issue seriously and its fertility rate today is rising and is higher than those of most other advanced countries. Nordic countries which place a strong emphasis on equity for parents in market employment also consider that they have the right policy mix to sustain relatively high fertility rates. For other European countries, the past association of pronatalism with fascism has delayed policy reaction. For the next 20 years, increases in labour force participation rates are an option for many countries including Australia. This means reversing the trend to early retirement among men through incentives to remain in the labour force and a shift in the negative attitudes of employers towards older workers. It also means increasing the labour force participation rates of women but in a way that does not induce further falls in fertility rates. However, if we want to address the projected falls in labour supply from 2020 onwards, we need to be devising policies to increase or sustain fertility rates now.

Why isn't the market interested in this issue? Because the market is very short term in its orientation. Firms and governments become caught up in this short-term vision and, with good reason, because they are punished by the financial markets for any short-term lapse. Consequently, long term investment tends to fall off the agenda for both firms and governments. For all its virtues, neo-classical economics is the science of change at the margin. Its models show the impact of change at the margin including margins of time. The neo-classical approach to fertility decision making is to devise a model relating to the utility of the marginal child to the marginal couple. There is not much room here for attributing low fertility to the nature of social organisation. Social organisation is exogenous, well covered by the assumption of *ceteris paribus*. The long term is in the lap of the neo-classical god, the price mechanism. We can have faith that, in good time, it will correct for whatever we need. As children become scarcer, their value to society will increase and we will pay more to those who produce them. This may be so but, if the market is reacting to a shortage of workers induced by previous low birth rates, an increase in births does not feed into the labour force for around 20-25 years.

Population policy is policy for the very long term. As an example, we are now preparing for a large increase in the aged proportion of our population that will occur mainly between 2020 and 2040. This ageing of our population is the product of relatively high birth rates from 1950 to 1970 followed by low birth rates since 1970. Hence a policy issue derives from births 70 years and more beforehand. We can project ahead now and see that very low birth rates such as those that apply in Japan and most of Europe today will lead to age structures that are inverted pyramids.

#### CHART

In the work done by Rebecca Kippen and myself, we refer to this form of age structure as the coffin shape, wide at the shoulders and narrow at the feet. The coffin age structure has several very undesirable characteristics. Initially, the numbers at older ages are increasing rapidly at the same time as the absolute size of the labour force is falling. This is already happening in many industrialised countries. Later, as the smaller and smaller birth cohorts move into the child bearing ages, they produce even smaller sized cohorts of

children, that is, the coffin shape has an in-built momentum of population decline. In sum, this is an uncomfortable situation for a population to be in. There is no sign at all that the market price mechanism is about to correct for this situation in Japan or Europe. Indeed, the opposite is true. The market continues to produce risk-averse workers for whom children are a considerable risk.

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The coffin-shaped age structure can be avoided through combinations of migration and fertility that produce at least zero population growth. For Australia, continuation of the present level of migration with the present level of fertility would lead to a growth rate that is a little above zero. The risk for Australia is that the fertility rate will continue its downward trend. If the fertility rate fell as much in the next eight years as it has in the past eight years, we would have a situation in which the immigration levels that would be required to avoid the coffin age structure would be well above the levels that we have experienced in the past 50 years. That is, the immigration levels required to avoid population decline are likely to be unsustainable as is the situation now for many countries of Europe and for Japan. Furthermore, in the following decades, there will be massive international competition for skilled labour across all of the advanced countries. We could face the same situation as New Zealand does today in running a huge migration program (relative to population size) but ending up with net negative migration.

While continuing migration will play an important role in the future of our population, we also need a solid foundation of the home-grown type. The failure of the new economy we have developed today is most evidenced by our failure to be able to establish this foundation. For the past 20 years, almost all industrialised countries have had rates of birth that are below the level that reproduces the population.

Reform is not a matter of tweaking this and fiddling with that, the standard approach of Australian governments. What is required is nothing less than a new social contract that enables the market approach to proceed but which, at the same time, provides just rewards to social reproduction, especially to parents and more especially to mothers. This contract needs to be based upon what most young Australians want to do and not upon what the ideological extremes believe they should be doing. To provide maximum benefits to 'stay-at-home' mothers when most mothers want to be employed for most of their lives is foolish. To provide maximum benefits to parents who both work full-time from soon after the baby is born when most parents wish to reduce their participation in the very early years of the child's life is foolish. To provide maximum tax benefits to higher-income people who tend to be older and/or free of responsibilities for children is foolish. This is what we have been doing in Australia and our birth rate is continuing to fall.

What kind of society cannot even reproduce itself? The answer is our form of free market society. The essential mistake that we are making in Australia is that, for reasons of short-term political expediency, we have failed to specify a new model of family as the basis for policy. Instead, we attempt to support 'choice' between all family models. Effectively, this means that we provide maximum public support to the extreme choices,

the male breadwinner model on one hand and maximum labour force attachment on the other hand. When Australians have very young children, it is evident that they wish to maintain work attachment but at a reduced level. Labour force attachment steps up as the youngest child ages. This is an alternative family model but we are unprepared to give it priority. Norway, a country that has maintained its fertility rate at a relatively high level, opted at an early stage for a new family model that steers a middle course between the extremes. We lack the same political will.