Birthing pain makes health system suffer (with Joshua Gans), *The Australian*, 20 June 2006

Bringing down the 2004 budget on May 11 that year, Treasurer Peter Costello said he hoped every Australian family would have three children: one for the husband, one for the wife and one for the country.

To show he was willing to put his money where his mouth was, the Treasurer announced a new, simplified baby bonus. Unlike the old payment, which had been complex to calculate and understand, this one could not be simpler: for every new baby, the mother would get $3000. There was a small catch. As with most budget announcements, this one did not take effect until the start of the financial year. Only babies born on or after July 1, 2004, qualified for the bonus.

What the Government may not have fully anticipated is how expectant parents responded to the incentive.

These days there is some discretion as to the precise day you have a child. With planned caesareans and inducements, many parents really do get to pick junior's birthday. If your baby was due in late May or early June, this wouldn't really matter. But what about if your child was due at the end of June?

To test the effect, we obtained three decades of daily birth data from the Australian Bureau of Statistics. Since the mid-1970s, the population has grown but the birthrate has declined, so the total number of births a year has stayed pretty constant.

Of the past 10,000 days, one stands out.

On July 1, 2004, more babies were born than on any other day in the past 30 years. The day on which the new baby bonus took effect may well be called "the Great Australian Birthday".

Remember, the bonus was announced in May that year, so it could not have affected conceptions. The only way it could have had an effect was if parents chose to move their child's birthday from June to July.

Using daily data from the Australian Institute of Health and Welfare on caesarean sections and inducements, it is apparent that the rate of both procedures increased sharply in July 2004. Not surprisingly, the effect is largest in the final week of June and the first week of July.

An estimated 700 births were moved by two weeks or less. But some babies were moved further still. According to our results, the baby bonus caused the birthdates of about 300 babies across the country to be moved by more than two weeks.

This appears to be troubling, although it may also indicate the considerable latitude that exists around the scheduling of these procedures.

Regardless, the effect of the 2004 baby bonus was considerable disruption for hospitals and expectant mothers that continued through July.

Thus, maternity wards were placed under considerable stress for essentially a non-medical event. Whether this disruption was worth the Government saving about $100million in payouts is not clear. A comprehensive study on the health effects has yet to be done. But a sudden change in economic incentives from one day to the next is probably not the best way to make policy.

This lesson from history is particularly relevant right now. On July 1 this year, the baby bonus will increase in value from $3166 to $4000. Although there is less reason for parents to react to this change than there was in 2004, our results suggest that an extra $834 will create a fresh incentive to schedule births in July rather than June.

Maternity hospitals should take this into account when planning staffing and other factors in the next few weeks. Expect fewer babies in the last week of June and more in the first week of July (which may have flow-on effects throughout the month).

For parents, consider taking advantage of the quieter time in the last week of June and follow your doctor's advice on scheduling. In a decade, you'll be glad you let medical factors take precedence over the baby bonus.

And for Costello, now that we know the lessons of history, how about changing how things are done for the next scheduled increase in the baby bonus in 2008? Perhaps a gradual rise of $50 a month will deliver better results for all concerned.

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