Perceived Economic Uncertainty and Fertility - Evidence from a Labor Market Reform

Barbara Hofmann∗
Katrin Hohmeyer†

Abstract
Empirical evidence on the causal effect of perceived economic uncertainty (PEU) on fertility is sparse and results are ambiguous. To provide causal evidence on the effect of PEU on fertility, we exploit exogenous variation in PEU induced by the announcement of a major German unemployment benefit reform in an instrumental variable approach. Using data from the German Socio-Economic Panel, we estimate the effect of PEU on the probability of becoming pregnant in the next year. We found that PEU induced by the reform announcement reduced the probability of becoming pregnant of women aged between 26 and 44 years cohabiting with a male partner. Those couples who were most likely to be hit by the upcoming reform responded strongest: The effect was driven by women who did not work full-time and by couples who already had children. In contrast, younger women, full-time employed women and childless couples did not respond to the uncertainty shock by reducing fertility. Several sensitivity tests underlined the robustness of our findings.

Keywords: Fertility, Instrumental variable, Welfare reform.
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∗University of Mannheim and Institute for Employment Research (IAB)
†Institute for Employment Research (IAB)