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The Impact of Labour Market Integration on Fertility Decisions – A Comparison of Germany and the UK

Christian Schmitt

1. Introduction

The transition to parenthood currently takes place at a later stage in the life-course than it did a few decades ago. The tendency to postpone parenthood has led not only to an increase in age at first birth, but also to rising levels of permanent childlessness. Aside from other causes, this delayed transition to parenthood can be traced back to an extension in educational attainment, especially of women, accompanied by an extension of the time spent in the educational system (Blossfeld/Rohwer 1995b). Additional time is required to transform educational investments into safe labour market positions. Considering the increase in the prevalence of discontinuous employment patterns, this process becomes even more time intense (Oppenheimer/Lewin 1999).

In this paper, I investigate the interrelation between initial labour market performance and fertility decisions with respect to two major research questions: First, how is the timing of first parenthood related to labour market performance? Second, can differences in first birth risks, depending on individual labour market performance, be identified? In other words, to what extent do successfully integrated persons differ with respect to their fertility decisions from those who are poorly integrated into the labour market or who show discontinuous employment patterns?

To account for the impact of labour market structure as well as for the influence of institutional settings, I consider two different welfare state systems, namely the continental conservative German welfare state and the liberal welfare state of the United Kingdom. Aside from the influence of a different labour market structure and different social policy settings, differences in opportunity costs for men and women with respect to fertility transitions need to be considered. Thus it has to be taken into account that the lack of a profound and completed labour market integration or lasting occupational insecurity is likely to result in different outcomes for women and for men. Hence, the cross national comparison of the German and the British welfare state will be flanked by a gender specific differentiation.

For the international comparison of fertility, I revert to micro data from the British Household Panel Study (BHPS) and the German Socio-Economic Panel (SOEP), using comparable longitudinal data from 1991 to 2002.

2. Theoretical Framework

I assume that a significant proportion of transitions to parenthood are consequences of a rational choice in interaction with biographical planning processes (see also Blossfeld/Müller 1996). As a consequence of this assumption, I apply a framework of meaning- and purposeful action. In this understanding, the outcome of a decision depends on current resources and exogenous constraints as well as on expected utility and expected chances of succeeding in attaining a pursued goal, given alternative paths of action. The factors, which are of relevance when analysing choice processes, outline a model of man that is based on the availability of *resources*, limiting *restrictions*, personal *expectations*, *evaluations* and finally a selection that *maximises* utility¹

When taking into account the above outlined framework of rational choice, the central role of preferences need to be stressed. With the so called »*social production functions*« approach, Lindenberg (1991) conceptualises *instrumental* preferences as means to achieve the universal goals in the form of *physical well-being* and *social approval*. In that context, the desire for family formation as well as career-pursuit can both be interpreted as strategies of attaining social approval.

The neoclassical framework postulates the central assumptions of transitivity and stability of preferences. With focus upon fertility decisions, this leads to the notion, that the preference for the *number* of children, set at one time, remains unchangeable throughout the procreation cycle (cf. Huinink 2001: 114). Such a static perspective however neglects dynamic processes which are active throughout the life course and which also affect biographical plans: It is likely that the realisation of a specific life goal – like having a child – depends on situational factors as well as on the interaction with other (possibly competing) life goals. In that sense, the priority of family formation or employment depends not only on the salience of these goals but also – aside from exogenous factors – on the cost and the general possibility of delaying a specific goal attainment. This argument exhibits a special relevance with respect to fertility decisions, as family formation poses – unlike most other major life course transitions – an irrevocable step.

¹ Siegwart Lindenberg summarizes these characteristics with the well known acronym of RREEMM; (Lindenberg 1990).

Life course research conceptualises biographies as being characterized by a sequence of different stages. Employment takes a central part in this concept (Kohli 1991) and the timing of vital transitions is closely related to the structuring effect of welfare state institutions (Mayer/Schoepflin 1989). Leaving the family of origin, founding a new household, educational participation, transition into the labour market, marriage or partnership and transition into parenthood – all these passages initiate central life-course stages in modern societies. In recent decades, an accumulation of the mentioned passages into a rather narrow time frame can be observed (Kohli 1985: 7). Additionally, age-norms are of relevance in specifying life-course segments, when certain transitions have to be initiated or completed. (Levy 1996). Although transitions ages are subject to welfare state structuring (and thus variable to a certain extent, depending for instance on the duration of higher education, e.g.), age norms still define certain boundaries.

Labour market participation and family formation coincide within a narrow time frame. But their relation is ambivalent. As parenthood involves a *long-term* commitment, the role of occupational integration also rests in providing a reliable and lasting source of familial backing. Yet both life domains compete over scarce resources, especially in the form of available time. As educational participation of women has shifted from an exception to a rule, conflicts result especially in societies, where social norms favour a traditional division of gender roles. Such societies provide women with the skills to compete in the labour market, while at the same time they put the burden of childrearing solely upon the shoulders of the woman.

In Germany as well as in the United Kingdom, traditional gender norms are still encouraged by various social institutions. For instance, the social policy setting in Germany relies mainly on the assumption of a gender specific distribution of labour between either household or market work. In that consequence these institutions still favour the male-breadwinner-model. Taking into account the fact of higher educational and occupational participation of a majority of women nowadays, work-family conflicts are genuinely prevalent for women.

It is no surprise that women, who have obtained a high amount of human capital, strive to transform educational investments into safe labour market positions. Such a strategy serves the need to maintain economic autonomy as well as the need to avoid a devaluation of human capital investments. The theory of the new home economics relies heavily on the assumption of differences in earnings potentials between men and women, when explaining a gender specific role differentiation. Higher educational investments of women however result in an increase in obtainable income. This, in turn, increases the price of time for non-market activities like parenthood (Mincer/Polachek 1974) what acts in disfavour of family formation. Still, dual earner couples are not as exposed to economic insecurities as single earner families. Furthermore, the income obtained by the woman increases the general

ability to economically support a family. Yet the negative effect of a rising price of the woman's time – time required for family formation – outweighs the positive effect of economic support (Mincer 1963: 77).

A potential scenario that can be deduced from these theoretical considerations involves the rejection of parenthood *per se*. Blossfeld & Jaenichen identify an effect of delayed transition to motherhood, but do not find any effect on completed fertility (cf. Blossfeld/Jaenichen 1992; see controversial Brüderl/Klein 1993). In that sense, family formation might be postponed until labour market integration in terms of having obtained a full-time occupation or a permanent contract has been completed. Depreciation of human capital investments is certainly more pronounced if job status remains precarious beyond a certain duration. If a family is started before a safe labour market position has been attained, labour market re-entry after an initial phase of childrearing might lie beyond the range of options. Finally, a coping strategy of combining extensive educational investments with family formation might be the starting of a family in periods, where labour market prospects are unpromising or where opportunity costs are low. This could be the case during episodes of unemployment or bleak job prospects.

The following set of hypotheses is primarily based on the assumption that either man or woman have to cope with a work-family conflict (except for H1 and H2). Although an increase in egalitarian gender roles can be observed, childcare remains a widely feminine chore (see Blossfeld/Rohwer 1995b for Germany; Noonan 2001 for the U.S.; Zollinger-Giele/Holst 2004). As a consequence, hypotheses H3, H4 and H5, which deal with work-family-conflicts, are foremost relevant for women.

H1: Transition-norm-hypothesis: The transition to parenthood is closely linked to transition norms. In that consequence, a major proportion of first-birth transitions follows labour market entry in a close sequence, independently of the level of labour market integration.

H2: Resource-hypothesis: Family formation requires a stable provision of economic resources. In that consequence, labour market integration is a prerequisite for family formation, making parenthood transitions rare, subsequent to completed labour market integration. As time until labour market integration is completed varies over individuals, a constant diffusion into parenthood should be observable.

H3: Conflict-hypothesis: Parenthood and employment are competing domains which both require dedication and available time. The stronger the integration into the labour force, the higher the reluctance to start a family.

H4: Social approval-hypothesis: Parenthood and occupational success in the form of completed integration into the labour market are both means to achieve social approval. The reporting of the importance of having a child and the importance of career pursuit reflects compliance with internalised norms of different norms of socially approved behaviour, respectively the perception, which behaviour

offers best chances of social approval. Hence, if family formation is favoured over career pursuit as a life course goal, labour market integration should be widely irrelevant for the transition to parenthood.

H5: Human-capital-hypothesis: The transition to parenthood becomes an option only if the depreciation of human capital investments due to family related labour market absence can be minimised. In that consequence, an initial transformation of educational investments into a secure labour market position is required, in order to improve the chances of labour market re-entry after family formation, and to minimise the threat of a deterioration of expectable job status.

3. Labour markets and social policy settings – a comparison between Germany and the UK

With respect to the labour market structure, one of the most prominent differences between Germany and the UK is that the British labour market is mostly deregulated resulting in a rather rigid structure with high levels of insecurity. However, the economic situation in the UK improved by the end of the 90ies resulting in rather low unemployment rates whereas the unemployment rates in Germany were on a comparatively high level. Furthermore there are tendencies in the German labour market that discontinuous employment patterns and insecure career paths become more and more frequent (Tölke 2004).

Of special importance to this topic are transfers and benefit systems that might help bolster the effect of a bad labour market performance and enable the actors to start a family, even if future economic prospects are bleak. The comparison between Germany and the UK is made difficult, due to the different focus on institutions and societal solidarity (for details see Neyer 2003). The unemployment insurance benefits in the UK are means tested and payments are rather low. In contrast to the German transfers, they do not increase with parenthood. (MISSOC 2002). In contrast, the lack of unemployment assistance in the UK and the subsequent British income support (the system guaranteeing minimum resources) reduces household income decisively, what could be a central disincentive in the decision for a child.

Family policy transfers in Germany are rather generous system and financially encourage women to retreat from the labour force. This includes generous child related benefits and generous maternity leave arrangements with no imminent commitment to return to work. Return to the previous job is guaranteed by legal

rules for a duration of three years². These generous transfers are flanked by a rather limited supply of childcare and daycare institutions, which makes a combination of market work and childrearing a difficult task. This package of financial aid and childcare support tends to detract women from the labour market and thus favours the male breadwinner-model (Pfau-Effinger 1996: 479). It can be concluded that the decision to perform the transition to motherhood in Germany either requires promising future labour market perspectives or establishes strong dependencies from the male breadwinner.

In the case of the UK there are no parental leave transfers available at all. All in all, family related transfers in the UK are clearly limited. The UK follows the principle of encouraging diversity and dynamics on a widely privatised child- and daycare system (Mahon 2002: 354). Although there is a limited financial support with regard to childcare in the UK, the costs of childcare for working parents remain among the highest in the EU (Bradshaw/Finch 2002). Nevertheless, the amount of female labour force participation in the UK (45,0%) rests only marginally below the levels in France (45,1%) and Finland (47,6%, OECD 2001). Just as in the UK, German parents face increased costs of external childcare combined with a low level of coverage, especially in the Western part of Germany. This is consistent with the view of the German family policy, which discourages female employment (43,2% in 2000; OECD 2001).

4. Data and Methods

The empirical analysis will be based on the British Household Panel Study (BHPS) as well as the German Socio-Economic Panel (SOEP). Both panels are representative household surveys, covering over 9.300 households and more than 16.500 individuals in the case of the BHPS and over 12.600 households and more than 23.800 individuals in the case of the SOEP (year 2002). These surveys provide longitudinal data and offer high level of comparability.

To investigate the influence of labour market integration on *family formation* (i.e. only first birth transitions will be investigated) I consider solely the transition to first-parenthood. Among the indicators, to measure the extent of labour market integration, I analyse the time since labour market entry, duration of continuous employment, index of overtime work in relation to working hours and various measures of job status, indicating discontinuous or fragile employment patterns.

² Some jobs however are not covered by this rule, including especially short-term contracts or freelance work.

The further set of covariates includes net personal income (as indicator for economic backing), transfers reception and educational attainment. The importance of having children in the future and the importance of having a good job will also contribute as indicators of biographical goals. These items might furthermore reflect the internalisation of social norms and thus display the preferred means to attain social approval.

An element of the empirical model is the supplementation of individual data with partner data. The decision for or against a child is in almost all cases being made by both partners (Thomson/Hoem 1998). Thus the resources and situation of both partners have to be taken into account when calculating the probability for the transition to parenthood.

To focus on the population at risk, the age limit is set below 46 years (i.e. to restrict the analysis to persons who are still likely to have a first child, considering social and biological factors; cf. Chen/Morgan 1991). Furthermore, the transition to first birth as *dependent variable* (or to be more specific the decision for this transition which I define to be placed 10 months prior to first birth) is highly dependent on age. As the underlying forces that drive fertility decisions are vary across age groups, an exponential hazard transition rate model will be applied with the extension of a piecewise constant model³. (for details see Blossfeld/Rohwer 1995a: 110). All multivariate results displayed, will be based on this piecewise constant exponential hazard estimates. Both descriptive and multivariate findings are based on characteristics of cohorts from 1955 to 1985, observed between 1991 and 2002.

5. Findings of the Empirical Analysis

A descriptive observation of first-birth decisions reveals that the mean age when starting a family is lower in Germany (24,6 years for woman and 26,8 for men) than in the UK (25,8 vs. 28,2) – and that in spite of a significant number of teenage motherhoods in the UK (cf. Ermisch/Pevalin 2003). A closer view on the transition patterns (basis: Kaplan Meier Survival) reveals that first birth transitions in the UK are spread over a wider array of age groups. Still the mean age at entry into the labour market is *lower* in the UK. This reveals that time, spent in the labour force in the UK *before* starting a family is much more extended than in Germany. A closer look on first birth hazards of couples after labour market entry supports this picture: In Germany, first birth risk rises steeply, after labour market entry and reaches

³ In that sense the piecewise-constant intervals simulate a normal distribution with a summit close before 30th year of life, where the selection of the intervals is based on a hazard rate analysis.

a summit after 6 to 8 years. In the UK, a rise in first birth risk, following labour market entry can be identified. This rise however is less pronounced than in Germany and followed by a lasting diffusion process into parenthood after over a period of about 15 years. This means that in the UK – while the transition to parenthood seems to depend on labour market entry – the *timing* of the birth transition seems to depend on other factors than the time of entry into the labour force.

Taking a closer look at the multivariate analysis (see appendix for details), the activity status can in part be interpreted as an indicator that represents the extent of labour market integration. In Germany as well as in the UK, a distinct negative effect of being in education is observable for both men and women. But amongst those who have already performed the step into the labour force, gender specific different effects prevail: Investigating the unemployment duration, women with longer unemployment spells (> 3 months) in the UK show a clearly increased affinity to decide for a first child. Certainly the high opportunity costs in the UK are a topic here. Among German women, frictional unemployment results in a reduced risk to form a family. German men show a negative effect of unemployment on first birth decisions. These effects of unemployment in Germany however disappear after controlling for educational attainment, income and reception of transfers (for both men and women). Obviously in Germany, the effect of unemployment on family formation is rather related to negative income effects of unemployment than to bleak economic perspectives in case of a job-loss.

Part-time employment often signals an incomplete labour market integration. The multivariate estimates show a strong negative effect of male part time employment in Germany. Surprisingly this effect is also negative for part time employed women, albeit to a lesser extent. Obviously German men and women both strive to complete their labour market integration, prior to family formation. In the UK however the effect of part-time employment is positive for women. This might indicate that – given a lack of labour opportunities (and hence the chance to only work part-time) – the available time budget fosters parenthood transitions, which might point to high opportunity costs of parenthood, caused by widely unavailable or costly childcare. Furthermore these women might generally prefer family formation over labour market integration and work part time to supplement household income to compensate a rudimentary British system of social support.

The analysis of *overtime* work might serve as an indicator of an *extensive labour market integration*. The effect of this indicator proves to be negative for women in both the UK and Germany (i.e. higher number of overtime hours relate to a reduced first birth risk). For women in the UK however the effect disappears after controlling for income. In Germany, where the level of the effect of overtime work is very distinct, the negative effect remains even after controlling for transfers, personal or partner information. This result points to a commitment to *either* occupa-

tional *or* familial career, especially for women who are highly integrated into the German labour market.

Women who are receiving higher levels of *transfers* (unemployment benefits, private transfers, etc. which in most cases display a weak or no labour market integration at all), show a higher likelihood to decide for a first child. Again, for men, opposing (i.e. negative transfer) effects can be identified. These, however, are not stable after controlling for the full set of covariates.

Investigating timing effects, the multivariate model does not identify any significant effects in the *duration* until first birth decision, except for German men. For the latter group an increased risks of first birth decisions can be observed, about two to six years after labour market entry – even after controlling for income and labour market integration in terms of the displayed indicators. This effect may point to a life course effect, a notion of a »proper« timing of events. German men are also the only group, for which any effect of the duration of *continuous* employment can be identified. In the latter case, the positive effect however is weak.

7. Conclusion

The investigation of the effects of labour market integration on fertility decisions reveals both cross national and gender specific differences. *For men*, negative effects of discontinuous employment patterns and incomplete labour market integration (in terms of part-time employment) are of significant importance in Germany. This suggests the necessity to complete the labour market integration prior to family formation and hints to the prevailing dominance of the male breadwinner model in Germany (cf. also Tölke/Diewald 2003).

On the other hand, strong labour market integration *for women* almost always points to a reduced risk to decide for a first child. This is especially true, when it comes to higher levels of obtained income or to a high amount of overtime work. These are not only indicators of a profound labour market integration, but also point to high human capital investments in terms of education and occupational career. Completed education and an initial labour market integration are a precondition to decide for having a first child, especially among German women: Other than British women in part time employment, German part-time working women show a reduced probability of having a first child, although the available time budget might foster the support of a family⁴. In contrast, a positive effect of part-time work among British

⁴ The combination of familial roles and part-time-work is exactly the strategy pursued by the majority of working women *after* childbirth (cf. Trzcinski/Holst 2003).

women can be identified, what is likely to be related to a reduced price-of-time-effect. Yet for this group of women, indicators of *extensive* labour market orientation are clearly associated with a reduced risk of fertility decisions.

In contrast, a clear evidence of an increased likelihood for first birth transitions can be observed, if opportunity costs for family formation are decreased. This can be derived from the positive effect in case of unemployment, the absence from the labour force in terms of doing housework or in case of transfer reception – all indicators that point to an interrupted employment pattern. The reconcilableness of work and family still is appears to be difficult for most women last but not least due to the low coverage of childcare institutions in Germany and their high costs in the UK.

Two different ways of coping with high opportunity costs of family formation can be identified among German and British women. In the UK, there is a high level of attachment to the labour force. British women obviously try to re-enter the labour market in case of frictional unemployment. Only longer spells of unemployment show an increased risk of fertility transitions. The robust positive effects of part-time employment among British women suggest that a combination of work and family role is preferable to a decision between these two spheres. This corresponds to the generally rudimentary transfer system in the UK, which encourages dual earner families. Birth transitions are prevalent in biographical segments, when labour market status and job-options are restricted and hence opportunity costs of parenthood are low.

In contrast, in Germany, a family is started, even in case of shorter unemployment spells or dependence on transfers, while overtime work and high income levels go hand in hand with a reduced probability to have first child. These findings point to a polarisation between a focus on *either* occupational role *or* a traditional division of labour. The latter focus is encouraged by German family policy, offering comparatively high monetary transfers for parents, while providing a low coverage of childcare institutions.

Appendix

Piecewise-Constant Exponential Hazard Estimates on First Birth Decision:

	United Kingdom		Germany	
	<i>Men</i>	<i>Women</i>	<i>Men</i>	<i>Women</i>
Region				
West (1) / East (2) Germany	coeff. (std. error)		0.15 (0.09)	0.25 (0.08)***
Type of Relationship (Reference: No partner)				
Consensual union	2.74 (0.19)***	1.67 (0.16)***	2.55 (0.15)***	1.78 (0.13)***
Marriage	3.61 (0.19)***	2.29 (0.17)***	1.70 (0.13)***	1.06 (0.11)***
Biographical Planning – Importance of having--- (Reference: Average importance)				
Children – high	1.00 (0.11)***	0.97 (0.10)***	0.24 (0.11)**	0.22 (0.09)**
Children – low	-1.04 (0.22)***	-1.05 (0.22)***	-0.41 (0.10)***	-0.70 (0.11)***
Good job – high	-0.22 (0.09)**	-0.32 (0.09)***	-0.12 (0.08)	-0.14 (0.08)*
Good job – low	-0.10 (0.50)	0.21 (0.26)	-0.12 (0.13)	0.22 (0.09)**
Activity Status (Reference: Full-time employment)				
Self-employed	0.19 (0.12)	-0.06 (0.25)	-0.10 (0.15)	-0.03 (0.18)
Part-time employment	-0.19 (0.34)	0.64 (0.13)***	-1.09 (0.38)***	-0.28 (0.14)**
Unemployed – short-term	0.01 (0.35)	-0.01 (0.29)	-0.36 (0.27)	0.03 (0.19)
Unemployed – longer	0.47 (0.19)**	0.48 (0.19)***	-0.22 (0.20)	-0.15 (0.18)
In education	-1.14 (0.43)***	-1.57 (0.28)***	-0.33 (0.14)**	-1.46 (0.18)***
Housework	-	0.79 (0.17)***	0.14 (0.25)	0.06 (0.14)
Duration of continuous employment:				
Months	-0.00 (0.00)	0.01 (0.01)	0.0072 (0.0038)*	0.0051 (0.004)
Months squared	0.00 (0.00)	-0.00 (0.00)*	-0.0001 (0.0000)*	-0.0000 (0.0000)
Overtime -				
Index (overtime/working hours)	0.23 (0.31)	-0.12 (0.44)	-0.54 (0.44)	-2.53 (0.80)***

- (1) Robust standard errors in parentheses.
 (2) All dummy variables coded »0/1« with 1 when true
 (3) Independent variable coded with »1« for birth decision in a given month
 (4) Effects are significant on the basis of $p < 0.10$ (*), $p < 0.05$ (**) and $p < 0.01$ (***)

Piecewise-Constant Exponential Hazard Estimates on First Birth Decision:

	United Kingdom		Germany	
	Men	Women	Men	Women
Time since labour market entry (Reference: No entry yet)				
Up to 12 months	0.06 (0.31)	-0.061 (0.24)	0.21 (0.25)	-0.03 (0.16)
13 – 24	0.13 (0.28)	-0.07 (0.25)	0.27 (0.23)	0.06 (0.15)
25 – 48	-0.02 (0.26)	-0.07 (0.22)	0.52 (0.21)**	-0.07 (0.15)
49 – 72	0.01 (0.25)	0.22 (0.23)	0.41 (0.21)*	0.10 (0.15)
73 – 96	-0.04 (0.25)	0.09 (0.24)	0.34 (0.22)	-0.09 (0.16)
96 – 120	0.03 (0.25)	0.16 (0.25)	0.27 (0.22)	-0.12 (0.18)
121 – 160	-0.01 (0.25)	0.30 (0.25)	0.32 (0.23)	-0.08 (0.19)
More than 160 months	-0.08 (0.26)	-0.08 (0.28)	0.31 (0.25)	-0.15 (0.24)
Income (measured in 1.000€ per month)				
Individual net labour earnings	0.11 (0.03)***	-1.10 (0.21)***	0.09 (0.02)***	-0.23 (0.08)***
Individual transfers	-0.65 (0.68)	0.30 (0.16)*	0.13 (0.15)	0.16 (0.06)***
Partners post govt. income	-0.91 (0.15)***	0.08 (0.03)***	0.04 (0.03)	0.11 (0.02)***
Educational attainment (Reference: Comprehensive school)				
University degree	-0.27 (0.16)*	-0.32 (0.17)*	-0.03 (0.11)	0.03 (0.12)
A level degree	-0.21 (0.15)	-0.39 (0.15)**	-0.30 (0.12)**	-0.32 (0.11)***
O level	-0.15 (0.16)	-0.34 (0.15)**	-0.14 (0.09)	-0.11 (0.08)
Primary schooling or none / still in school	0.09 (0.21)	0.07 (0.22)	0.05 (0.22)	-0.06 (0.18)
n of person months:	188607	161929	341822	271379
n of subjects / events:	2655/ 695	2401/ 780	5052/ 1063	4418/ 1217

Log pseudolikelihood:	245.85	320.12	32.30	50.78
Wald chi2:	16136	18413	25936	28825
<p>(4) Effects are significant on the basis of $p < 0.10$ (*), $p < 0.05$ (**) and $p < 0.01$ (***)</p> <p>(5) Time at risk: 16th to 46th year of age (month 180 to month 540).</p> <p>(6) Additional covariates include »household size«, »country of origin«, »partners transfers«</p> <p>(Source: SOEP and BHPS 1991 to 2003, own calculations).</p>				

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