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Germany's 2007 Parental Leave Reforms: The Effects on Women's Return-to-Work Decisions Following Childbirth

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Abstract

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LAKE FOREST COLLEGE

Senior Thesis

Germany's 2007 Parental Leave Reforms: The Effects on Women's Return-to-Work
Decisions Following Childbirth

by

Margaret Hennessy

April 14, 2014

The report of the investigation undertaken as a
Senior Thesis, to carry two courses of credit in
the Departments of Economics and International Relations

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Abstract

This thesis evaluates the policy-induced changes from Germany's 2007 Parental Leave Policy reforms on new mothers' return-to-work intentions after childbirth. In the hopes of incentivizing female labor force participation and encouraging fertility, German policymakers radically restructured the parental leave benefit system. The updated policy grants the stay-at-home parent 67% of net earnings for twelve months immediately following birth. To empirically test the effects on new mother's employment behavior, this study utilizes the 2003 and 2009 waves of the German Socio-Economic Panel Study (GSOEP) in conducting a binomial probit regression analysis of her return-to-work likelihoods and expected speed of return. The results suggest that Germany's 2007 Parental Leave reforms created a positive effect in encouraging new mothers' return to the labor force as well as their expected speed of return following childbirth.

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Introduction

The increased participation of women in the labor force has proved to be one of the most significant changes of the 20th century. When western economies grew, so did their gross domestic products (GDP), causing more and more people to flood into the labor markets. Most notably, many developed countries witnessed steep spikes in female labor force participation rates. For Germany in particular, these trends are surprising. The male breadwinner-female housewife model of household production has historically characterized Germany's cultural norms, values, and stereotypical gender roles. Boosts in female labor force participation rates have largely impacted a German woman's ability to find fulfillment beyond the private sphere of her home. German society is witness to a reversal in its deep-seated cultural expectations. Indeed, the entire face of familial roles and values is undergoing transformation. As female workers have steadily infiltrated the historically male-dominated labor force, Germany has been forced to meet the changing needs of a more diverse workforce. Economically speaking, spikes in German female labor force participation rates effectively raised the foregone value of their time spent in child-care and household production. According to data from the World Bank, German female labor force participation rates rose from 43% in 1990 to 54% in 2013 (World Bank Data Center, 2013). Women in the workforce have been rising to the ranks of their male counterparts, leveling the playing field. One consequence of these shifts in labor force composition is the large reductions in demand for children. More and more women have found the opportunity cost of children too high, which explains why Germany has record low fertility and maternal employment rates. When it comes to the choice between a full-time career or a family, mothers in Germany women seem to choose one or the other – as opposed to balancing the two.

Between the years 2000 and 2006, the fertility rate in Germany, for those aged 15 to 49 years old, dropped from 1.38 to 1.33 births per woman (OECD, 2013). During the same time frame, labor force participation rates of German women continued to climb. Although lower fertility rates are typical of most developed western nations, the German case is one example of *record* low rates. This trend has not been seen in Germany since World War II. The German fertility rate has been trailing behind other OECD nations. Seen in *Table 1* (below), Germany is the only country that has experienced a consistent decrease in fertility rates over this seven-year period. Compared to its European neighbors, such as France with a rate of 1.98, Germany's declining rates were disconcerting.

Table 1: Fertility Rates of Women Aged 15 to 49

Country	2000	2002	2003	2004	2005	2006
Austria	1.36	1.39	1.38	1.42	1.41	1.41
Belgium	1.67	1.65	1.67	1.72	1.76	1.8
Denmark	1.77	1.72	1.76	1.78	1.8	1.85
France	1.87	1.86	1.87	1.9	1.92	1.98
Germany	1.38	1.34	1.34	1.36	1.34	1.33
Sweden	1.55	1.65	1.72	1.75	1.77	1.85
United Kingdom	1.64	1.64	1.71	1.77	1.79	1.84
United States	2.06	2.01	2.04	2.05	2.05	2.1

Source: OECD 2013, "Fertility Rates of Women Aged 15 to 49"

Furthermore, the maternal employment rate in Germany have remained much lower compared to other OECD nations. Looking at the year 2002, for instance, the maternal employment rate of German mothers with children under three years old was 56%— the lowest out of the same group of eight OECD nations. Even the United States, which does not have a federally mandated parental leave system, had a higher maternal employment rate at the time. The statistics are taken from OECD provided data, and presented below in *Table 2*:

Table 2: Maternal Employment Rates by Age of Youngest Child (2002)

Country	Age of Youngest Child		
	Under 3	3 to 5	6 to 14
Austria	80.1	70.3	69.8
Belgium	70.4	67.4	68.6
Denmark	71.4	77.5	79.1
France	66.2	63.2	67.5
Germany	56.0	58.1	64.3
Sweden	72.9	82.5	77.4
United Kingdom	57.2	56.9	67
United States	56.6	60	69.4

Source: OECD 2006, "Mothers in Paid Employment"

In combination, this declining fertility rate and low maternal employment rate pose difficult challenges if Germany wishes to continue as Europe's leading economic power. According to "Population by 2050," a recently-published study by the German Federal Statistics Office, the population in Germany is projected to drop from almost 82.5 million in 2005 to 69 million by 2050 (Federal Statistics Office of Germany, 2006). Furthermore, the same report projects the older population in Germany doubling by 2050, while birth rates remaining constant. The total working age population is expected to be 42 to 44 million in 2030 but only 35 to 39 million in 2050 (Federal Statistics Office of Germany, 2006). Hence, scholars expect a significant *decrease* in the working age population will cause a shift in the working age dependency ratio— i.e. more people working to older and older ages with fewer young people to support them. A decrease in a nation's working age population *reduces* the productive capacity of its economy because of the resulting decline in its active labor force. Why ought these predictions raise concern for Germany? A depleted working age population and simultaneous bulge in the older age population are not favorable conditions for long-term economic growth, and will create internal strains for the country's economy.

In response to these demographic pressures, German policymakers have sought to create a policy that inspires a better balance between work and family life. What does a proper work and family life balance look like - and what is it supposed to achieve?

Individuals who choose to start a family must allocate their time and resources efficiently to ensure adequate childcare while avoiding serious income losses. Achievements in child development and resulting positive externalities for society (such as an educated youth population) should provide enough incentive for governments to invest in family policies. Most individuals struggling with the choice to start a family fear the negative consequences doing so might have on their progress along their chosen career paths. In Germany, the consequences on individual human capital help to explain why rates of maternal employment have lagged behind in recent years. It also explains why some women, especially those with higher levels of human capital and labor force attachment, choose not to have any children at all. Since the latter half of the 1990s, Germany has offered parents more flexibility in balancing their career and children; but despite these well-established family policies, fertility rates have plummeted, prompting lawmakers to consider a new approach. Enacted in 2007, Germany's Parental Leave Policy Reforms marked a paradigm shift in family policy. These reforms significantly increased monetary incentives for fertility *and* "disincentivized" longer interruptions in employment. On the whole, the policy attempts to do away with welfare dependence, i.e. recipients relying on government support to survive. Essentially, the 2007 reform's purposes are to activate labor force participation of mothers, encourage fertility, and support young families.

The structural organization of this paper is twofold. It offers both a quantitative and qualitative analysis of the 2007 parental leave policy reform in Germany. In Part I consists of my quantitative analysis. In it, I examine the effectiveness of Germany's 2007 Parental Leave reform, particularly on mother's return-to-work intentions after

childbirth. In order to conduct an in depth analysis, I organize two sections as follows. Chapter I provides a detailed description of Germany's institutional background as it relates to the 2007 policy reforms. Chapter 2 reviews the existing literature, which supports the development of my research. Chapter 3 presents the theoretical evidence necessary to conduct my analysis. Chapter 4 establishes the data and methodology used to present the empirical analysis. Chapter 4 concludes Part I with a discussion of the general findings from my quantitative research. Part II covers the qualitative analysis, discussing how Germany's 2007 parental leave reform resembles neoliberal economic theory in practice. Chapter 5 provides a broad overview of neoliberal economic theory in order to lay the groundwork for my analysis. I follow up this overview by discussing how Germany's social democracy and welfare state have come under pressure by virtue of neoliberalism in Chapter 6. Finally, in Chapter 7, I suggest that the 2007 parental leave reform establishes a strong foundation for Germany's future economically, socially, and politically. The paper concludes with a summary of my quantitative findings, which support my hypothesis that the reform has a positive impact on mother's return-to-work intentions. It also summarizes how they support my qualitative analysis, which interprets the policy from a neoliberal approach.

I. Institutional Background

History of Parental Leave:

Raising a family while maintaining a career is an ongoing battle faced by the majority of adults. The primary goal of a parental leave policy is to alleviate and help parents resolve this conflict. Parental leave provides parents with confidence that their job is protected while they attend to the care of their newborn children. Germany's parental leave system is a unique case to study as it was developed against the backdrop of war. In the aftermath of World War II, Germany faced detrimental population loss. During this chaotic time period, the family unit represented a reliable resource for citizens and social institution. Out of this grim reality arose keen interests amongst policymakers to rebuild Germany's social system by creating more top-down family policies. Under the direction of former chancellor Helmut Kohl, in 1986 the coalition of the German Christian Democrats (CDU) and Free Democratic Party (FDP) constructed Germany's first "parental leave" system. The policy originally attempted to help rebuild the German population and its economy by incentivizing fertility while also encouraging female employment. Leading up to this period in history, the "breadwinner model" characterized the typical German family's approach to household production. For instance, mothers in Germany have been entitled to maternity leave and benefits since 1979, seven years before men became eligible, under the mother protection law, *Mutterschutzgesetz* (Ondrich, Spiess, Yang, & Wagner, 1995). The original maternity leave policies established by law that mothers were prohibited from working until eight weeks passed after giving birth. It was not until the creation of "parental leave" policies, in the later part of the 1980s, that household production became viewed as a task for either parent. The 1986 federal child-rearing benefit, *Bundeserziehungsgeldgesetz*, reformed the German system to be gender neutral and available for both parents. Following its enactment, there

was a movement away from the “breadwinner model” towards a “dual-earner model.” The intent of these policies was to provide both parents with flexible working arrangements. From the 1970s to 1990s, Germany’s labor force witnessed an increase in the participation rate of women with young children—growing from 32.4% in 1985 to 45.1% in 1991 (Ondrich et al., 1995). The range of privileges parents could access was expanded even more following the initial 1986 policy. Since 1992, parents have enjoyed job-protected-leave until the child’s third birthday. German parents can stay at home anytime during the first three years of their child’s life without losing their previous job. Moreover, after the 2001 reforms, the parent staying at home was given the option to take two years (24 months) of paid leave.

The 2001 parental leave policy instituted new incentives, at the time, for parents. Policymakers from both ends of the political spectrum were beginning to agree that family policies are important tools to ensure both a strong future labor force and economic growth. During the 1990s, Germany’s parental leave system was structured as a cash benefit transfer program, which was widely criticized as being ineffective. After the election, in 1998, of Chancellor Gerhard Schröder’s Social Democratic Party, in 1998, Germany’s social welfare system shifted. The 2001 policy instituted a means-tested benefit transfer system. A means-tested system essentially determines eligibility for government assistance. Hence, if individuals or families have the means to support themselves, i.e. income, then government assistance is denied. Moreover, in cases of public assistance, the parent on leave was given two choices in benefits. The first option provided €450 per month for the first twelve months immediately following childbirth; the second option totaled €300 in benefits per month for the first twenty-four months following childbirth. As mentioned, the maternity benefit was means-tested; if the parents’ joint income exceeded a certain income ceiling the benefit was not granted. In

the first six months of the child's life, two-parent households with an annual income less than or equal to €30,000 were eligible for assistance. For single parent households, the income ceiling was capped at €23,000. Six months after the birth, these caps decreased to €16,500 and €13,500 respectively.

Before the 2001 policy reform, a parent on leave was only allowed to work up to a total of nineteen hours a week while receiving the benefit. Following the new law's enactment, this work restriction was extended to allow thirty hours of work per week. What's more, the 2001 reforms allowed *both* parents to utilize the parental leave time *simultaneously*. Ultimately, however, lawmakers viewed the long duration of benefit eligibility as a deterrent for female labor force participation following childbirth, since twenty-four months of paid parental leave is conducive to longer labor market interruptions. Subsequently, in 2002, Germany's maternal employment rate for mothers with children under three years was 56%, which is quite low compared to Germany's European neighbors. These negative trends in the employment rates of mothers with young children persisted, however, which proved the 2001 policy was relatively ineffective in encouraging labor force participation. Policy makers had no choice but to pursue yet another family policy scheme. For the first time in two decades, the duration of benefit eligibility was shortened and the monetary benefit amount was significantly increased.

2007 Policy Reforms:

The 2007 parental leave policy reforms were implemented in the face of several demographic changes in Germany. In conjunction with shortages of skilled labor, Germany witnessed changes in social perceptions regarding maternal employment. Elected in 2005, and still in power today, Chancellor Angela Merkel (Christian

Democratic Union) led efforts to reign in previous expansions of Germany's welfare state (I will discuss further in Part II). Policymakers restructured the parenting benefit from a transfer payment to an earnings replacement benefit. Three primary objectives of the 2007 policy are as follows:

1. To financially support new families after childbirth;
2. To strengthen incentives for mothers to return to work soon after birth;
3. To enhance parental involvement in childcare (Chirkova, 2012).

The major changes from the 2007 policy occurred in the transformations of the parental leave and benefits structure. Parents who gave birth on or after January 1, 2007 became eligible for “parent’s money” or *Elterngeld*. This new child-rearing benefit system amounts to 67% of average net monthly earnings, from the 12 months prior to the birth, for the parent who takes leave. The monetary limits of the benefit are a minimum payment of €300 per month and maximum payment of €1,800 per month. The new benefit is *only* granted for twelve months if just one parent takes leave, and up to fourteen months if both parents choose to take leave. Single parents automatically receive the benefit for fourteen months. Parents who are unemployed prior to birth receive a standard allowance of €300 per month. Parents with net earnings below €1,000 prior to the birth receive a little more than two-thirds of their previous income. In the case of multiple births (i.e. twins), the parenting benefit rises €300 per child. Parents working in any type of employment— fixed-term contracts, part-time work, and marginal employment— can also take advantage of this policy. Carried over from the 2001 policy, parents taking leave are allowed to work up to thirty hours per week while still receiving the benefit. The 2007 policy reforms increase the amount of monthly benefit payments, but by cutting the eligibility period in half the German government drastically reduced costs. In 2007, the estimated policy costs were €3.87 billion per year, whereas the 2001 estimated costs were roughly €180 billion per year (Mätze & Ostner, 2010). The problem with the 2001

benefit scheme was its financial incentives for longer work interruptions. Under the 2001 policy, it was more advantageous to take the two-year leave option. The 2007 reform attempts to overturn this system, and instead encourage faster reintegration of mothers into the labor force. How, then, did the 2007 policy changes influence a mother's return-to-work intention following childbirth?

II. Literature Review

The bulk of existing literature related to Germany's parental leave policies predominantly studies the effectiveness of policies in place before the 2007 reforms. There have been several studies examining the causal relationship between longer leave periods and return to work delays. One of the first contributions to the literature, Ondrich et al. (2002) conclude that the German government's generous extensions in benefit duration implies that mothers are less likely to return to work during the benefit protection periods. Using micro-level data from the GSOEP for West German mothers in the 1990s, they discover that previously employed mothers were likely to take the full extent of available leave. Also, their results suggest that mothers are more likely to remain at home when there is greater time allotted for benefit receipt and job protection (Ondrich et al., 2002). Also, Ruhm and Teague (1995) study the changes from federal leave policies in seventeen industrialized nations between 1968 and 1988. The study concluded that paid leave periods of "moderate" length, i.e. twenty-five to fifty weeks, are positively related to increases in female labor force participation (after parental leave), but policies beyond this length have negative effects (Ruhm & Teague, 1995).

Scholars in this field of research have also conducted cross-country comparisons to analyze the strength of family policies across different labor markets. One study carries out an analysis between Germany, Great Britain, and Sweden, to estimate the return to

work probability for mothers within the first twenty-four months after childbirth (Gustafsson, S., Wetzels, C., Vlasblom, J., & Dex, S, 1996). Their logit analysis of panel data shows the highest return probabilities among career oriented, highly educated women. For these women in particular, opportunity costs of children are very high, making them more likely to supply more labor following childbirth. Interestingly, these authors also found that 80% of Swedish mothers have re-entered the labor market compared to 55% of German women by the time the child is three years old (Gustafsson et al., 1996). Although Europe is most referenced for having a longstanding history of mandated parental leave policies, scholars compare the strengths of these policies in other regions. During the late 1990s and early 2000s, most advanced European nations, with policies already in place, began to expand the range of benefits offered to parents. For example, in 2000, Germany and Canada extended the time durations for benefit eligibility and leave; following in their footsteps were the United Kingdom (2002) and Denmark (2003). Baker and Milligan (2008) found that extending the length of the Canadian maternal leave period from twenty-five to fifty weeks was associated with mothers spending longer time on leave before returning to work. Altogether, these studies demonstrate that longer leave periods—across the board— are disadvantageous for a nation’s labor market outcomes.

Focusing on Germany, Bergemann and Riphahn (2011) use data from the German Socio-Economic Panel to test the hypothesis that higher transfers and cuts in the benefit entitlement period are associated with an increase in mothers labor force participation. More specifically, they expect the 2007 policy to increase the return to work probability after the first twelve months following childbirth. They primarily draw these conclusions with reference to the neoclassical model of labor supply. According to their hypothesis, mothers under the 2007 policy reform (compared with mothers under the previous policy)

are more likely to return to the labor force after the benefit's term dissolves. Their research on the 2007 reform also suggests a possible increase in the desire to minimize the time between births because of the better financial benefits. At the end of the transfer period, mothers on leave experience a sizeable income drop, which gives them incentive to substitute the benefit with labor earnings. Also, this hypothesis emphasizes that the 2007 reform's reduction in benefit payment period (from twenty-four months to twelve months) encouraged faster speeds of intended return. The results from their probit estimations are insignificant and do not support this hypothesis, however. Chirkova (2012) argues that the drop in income levels after the benefits expire has a strong impact on women's return to work intentions immediately following childbirth. Accordingly, this results in decreased participation rates of women with newborns in the first year but higher participation rates during the second year. Yet Chirkova's empirical results suggest a decline in the probability of women returning to work in both the first and second year of motherhood (2012). Both papers present conclusions consistent with the hypothesis that the 2007 reforms had a negative effect on return-to-work probabilities during the first twelve months. Conversely, Chirkova's empirical results contradict Bergemann and Riphahn's second year findings from their 2011 study. Chirkova explains her contradictory results as being due largely to the effects that child-care availability has on a woman's employment decision. Finally, though Kluge and Tamm (2009) observe similar outcomes, they use a natural experiment design with data collected by health insurance firms. The strong incentive for mothers to stay home post-delivery results in significantly lower participation rates during the first twelve months. Unlike Chirkova, however, they found a significant decrease in mothers' employment return likelihood during the 12 months after giving birth, and a significant increase in mothers' return probability after the transfer expires (Kluge & Tamm, 2009).

Much like these previous studies, I am interested in determining if the cuts in benefit duration and increases in financial incentives had the effect of *reversing* previous trends in employment following childbirth. The majority of researchers design their models by studying one year before and after the 2007 policy reforms. By looking at the years right before the 2007 policy was enacted, researchers must account for the fact that women might change their behavior in expectation of the reforms. This paper takes a different approach to study the policy's effects by utilizing two years after the 2001 policy and two years after the 2007 policy. Moreover, by using 2003—when the 2007 reform was not on people's radar—I avoid any biases due to changes in mother's expectations. I study how mothers reacted to these two different parental leave systems. As the data I present in Chapter IV suggests, the 2007 reform was effective in motivating mothers' return to work.

III. Theory

Classic Labor Supply Model:

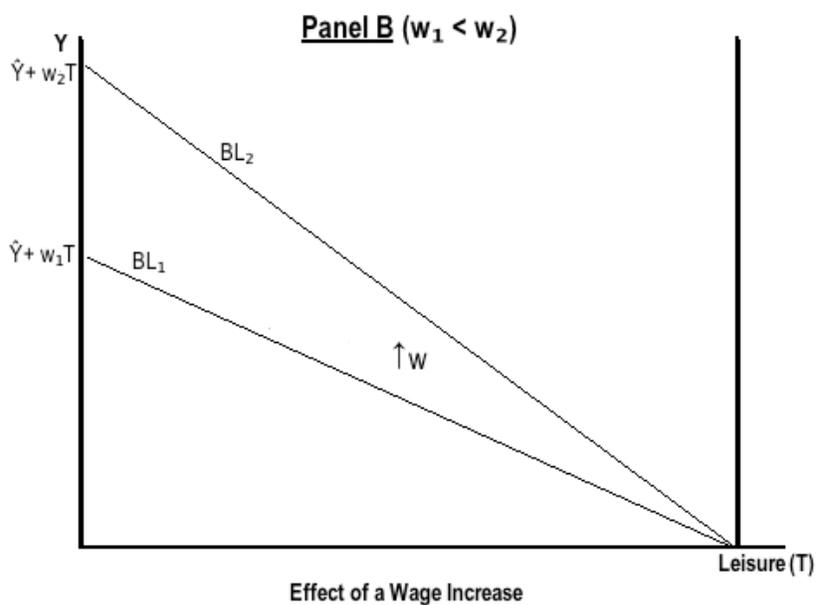
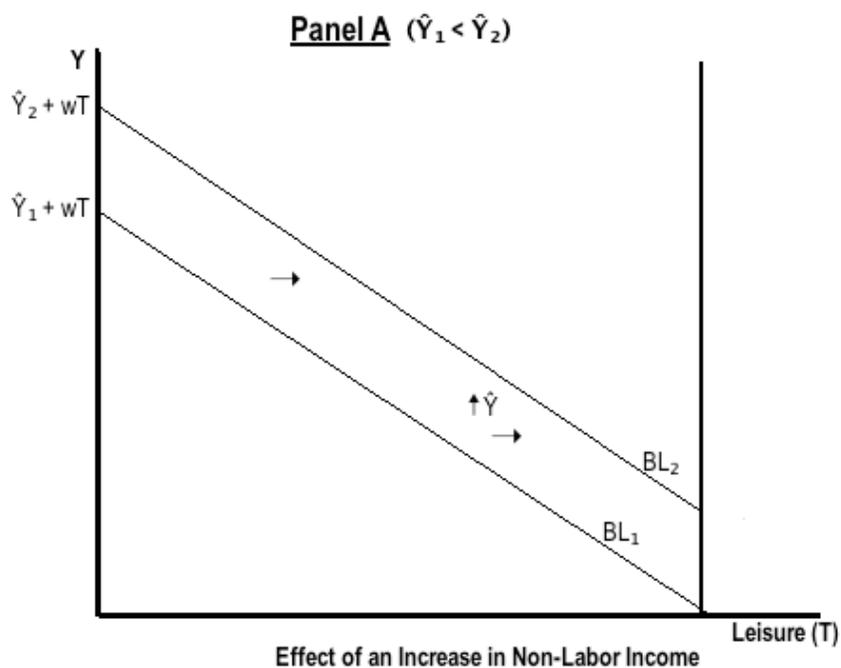
A mother's decision to work after birth is contingent upon several factors influencing her overall lifetime utility. Classic economic theories attempt to weigh all associated costs and benefits surrounding her choice. No matter how one looks at it, however, the model boils down to a woman's value of her own time. Neoclassical labor supply theory models an individual's decision to work (and how much to work) based on the tradeoff between labor and leisure. The goal for an individual is to maximize his/her utility by choosing the optimal allocation of his/her time. For parents, their allocation of time is a tradeoff between labor and household production, both of which cut into available leisure time. Household production consumes parent's leisure time in this basic model. It represents the allocation of an individual's time specifically towards rearing children and common household activities— cleaning, cooking, etc. The neoclassical labor supply model isolates several factors that determine whether or not a person works and if he/she does how many hours are spent working.

In the basic labor supply model, every worker is faced with a budget constraint representing all labor-leisure tradeoffs. Assuming a constant wage and a time endowment of T , the individual's budget constraint is:

$$Y = w(T - l) + \hat{Y}$$

Where Y is total consumption, \hat{Y} is non-labor consumption, and l is hours of leisure. For every hour of leisure the individual gives up w in earned income. Therefore, the cost of one hour of leisure is equal to w . This basic model can be represented graphically in the following two examples *Figure 1*:

Figure 1. Labor Market Budget Constraints



For my analysis it is crucial to recognize how the budget line changes when certain circumstances change. Panel A of *Figure 1* demonstrates a parallel outward shift of the budget line because non-labor income, \hat{Y} , increases. This increase in non-labor income,

while holding wage constant, expands the worker's opportunity set or budget constraint. In contrast, Panel B shows how the budget line rotates out along the consumption axis when the wage rate increases. For this paper, it is important to have a basic understanding of the manipulations in budget constraints that occur due to changes in non-labor income.

Lastly, I introduce two central components of the classic model that result from changes in an individual's budget constraint— the income and substitution effects. First, the income effect measures the impact of a change in non-labor income on the number of hours worked (Panel A, in *Figure 1*). When looking at the income effect, it is important to define whether leisure is a “normal” or “inferior” good. Assuming all else equal, if a person's income increases then so does his/her demand for better quality goods— “normal goods.” If that person's income decreases, his/her demand for lower quality or off brand goods— “inferior goods”— increases, because these are more affordable. Suppose leisure is a normal good, an increase in non-labor income increases the demand for leisure and decreases the hours of market work. The cost of rearing children increases when income rises. In terms of Germany's 2007 reform the increased monthly benefit represents an increase in non-labor income, and an increase in demand for leisure—according to the income effect. If leisure time is normal (which is supported in the literature for women in general and particularly for mothers), more parents are expected to take advantage of paid leave. Alternatively, the substitution effect measures the impact of a change in wage rates on the number of hours worked. Holding non-labor income constant, an increase in the wage rate will raise the price of leisure, thus increasing the incentive to work and decreasing the demand for leisure.

Since labor and leisure are opposites, it is difficult to make conclusions about the magnitude of the income and substitution effects when studying them together. On the one hand, a rising wage gives workers larger opportunity sets. According to the income

effect this situation causes an increase in their demand for leisure therefore decreasing labor supply. At the same time, however, the substitution effect stipulates that leisure has become relatively more expensive (measured in terms of w) giving the workers more incentive to leisure less in order to work more and consume more. Changes in a mother's budget constraint ultimately influence her decision to return to work, however, this can also be affected by factors outside of the classic model– such as her preferences and human capital depreciation.

Human Capital Concerns

For a proper analysis of the tradeoff a mother faces between labor and leisure, I construct a model to illustrate the constraints a woman faces when choosing the optimal allocation of her time. A mother must weigh all of her costs and benefits associated with the choice to take leave and the decision to return to work. First, let the time period immediately following the birth of a child be the present time period (time=0). The cost of one hour of time=0 leisure is equal to her future wage penalty, which represents her diminished earnings potential due to work absence. In this model, the utility derived from leisure time (i.e. staying at home) is measured by benefit amount. Her basic choice, excluding human capital depreciation, looks like this:

$$u(p, b) \geq u(0, w)$$

This equation says that she will choose to take leave if the benefits outweigh the costs. The term $u(p, b)$ represents the utility from her decision to stay at home, which factors in the leisure time from taking the policy p and the benefit amount b . The right side represents her costs from either choice– taking leave and earning nothing or working and earning w . In order for her to choose to exit the labor force following the birth of a child, her utility from consuming more leisure, i.e. each additional day of leave, must be greater

than her wages foregone by not working. Her final decision to return to work following childbirth is expressed mathematically in the following equation:

$$u(p, b) + \gamma w \leq 2w$$

The future wage penalty she will incur by staying at home instead of working is represented by the term γw . Future wage penalty (γ) is used to represent her opportunity costs from taking leave multiplied by her current wage. The future wage penalty is dependent on various market forces— employer tastes, re-entry barriers, and human capital depreciation. These contingencies, associated with a mother leaving the labor force, place pressure on the allocation of her time. The right side of the equation contains the term $2w$, which denotes the wage she would earn if she chooses to work both periods instead of taking leave. In order for her to choose to work both periods instead of taking leave, her utility from staying home plus her future wage penalty she suffers from taking leave must be less than or equal to double her wage. As her utility of staying at home increases then she becomes more likely to extend her leave time and stay out of market work.

Moreover, the two effects measured within the classic model—the income and substitution effects— also influence her choice. First, the income effect stipulates that if an increase in income occurs, (wages and preferences held constant) the number of leisure hours demanded will rise and the hours of work desired will decrease when leisure is a normal good. Alternatively, the substitution effect shows that if income is held constant, an increase in the wage rate will raise the price of and reduce the demand for leisure, since they work in opposite directions for a typical wage change. Thus the substitution effect increases her incentives to work. Altogether, these factors place pressure on a woman's tradeoff between her labor and leisure when she is choosing to re-enter or exit the labor force following the birth of a child.

Model of the 2007 Reforms

Considering the neoclassical model of labor supply, what does the 2007 policy's increased benefit amount and shortened eligibility period do to a woman's budget constraint? Furthermore, how does this affect her decision to work? The answers to these questions are complex; I offer a specific application of income and substitution effects to find answers. Germany's 2007 parental leave reforms changed the budget constraint faced by mothers, specifically by increasing the monthly benefit (non-labor income) amount while also decreasing the eligibility period (time constraint). In reference to the policy, the income and substitution effects both influence a mother's return-to-work decision differently. The budget constraint is higher for those women under the 2007 reforms compared to their predecessors under the 2001 policy regime. The 2007 reform has the effect of expanding the budget constraint, by changing the price of staying at home and increasing the non-labor incomes of those women who are newly eligible. Under the old regime the maximum amount a woman could receive for one month of leave was €450 total. After the 2007 reform this maximum ceiling became €1,800 per month. To understand how her decision will change let's consider a woman with a pre-birth income of €1,000 per month. If she decides to take leave for a year under the 2007 policy, she will be receiving €670 per month as compared to the previous €450 amount.

Looking strictly at the effects of the increased monetary benefit following the 2007 reforms, we can assume that both income and substitution effects will negatively affect her decision to return to work during the first twelve months of leave. First, the income effect asserts that there is an increase in demand for leisure because the increased benefit amount makes it more affordable. The income effect states that there will be an increased demand for leisure, following the 2007 reforms, because the woman feels

to choose the two-year option. In reference to *Figure 3*, the one year leave option pays €450 per month, after twelve months totaling to €5,400 in benefits for one year of leave. Under the 2001 policy, the two-year leave option pays €300 per month— after twenty-four months this equals €7,200 in benefits, which is financially more rewarding than the one-year leave option. This fiscal incongruity essentially rewards longer employment leaves. Understanding whether or not this incentive scheme actually affects human behavior can be difficult. A woman might be more likely to opt-out of work and instead receive compensation for staying at home with her newborn baby for the first years of his or her life. After the 2007 reforms, this extended period of compensation was no longer an option for parents. To account for this change, while still encouraging fertility, the new policy significantly increased the monetary incentive. Following the 2007 policy, the parent on leave could receive up to €8,040 ($€670 \times 12$) in benefits for up to one year. This new parental benefit is significantly greater than it was in both the one-year and two-year leave options under the 2001 policy.

The two-year comparison budget constraint in *Figure 3* shows that once the twelve-month period is over, a parent in 2007 has more incentive to replace the high benefit with labor earnings. Why? The sizeable income decrease at the end of the twelve-month period provides the parent on leave strong incentive to maintain household income levels by returning to work. This resembles the causal effects of paying a higher benefit for a reduced time period. The previous example of the substitution effect demonstrates that the policy changes induce women to substitute labor with leisure because leisure has become relatively less expensive. I predict that women on leave, following the 2007 policy reforms, will be more likely to substitute the monthly benefit payments with labor income after the twelve month period ends. Here the income effect points to an increased demand for leisure during the 2007 benefit eligibility period because she feels relatively

wealthier— compared to the 2001 policy. Once the twelve-month eligibility period has elapsed, however, she loses the benefit and the income effect becomes insignificant. In fact, I argue that the income effect following the twelve months will induce her to demand more labor as she will feel relatively poorer following the benefit's expiration. Therefore my model predicts that the 2007 policy reforms have the effect of discouraging long employment interruptions because of the increased likelihood of women intending to return to work sooner after the twelve months of paid parental leave.

IV: Empirical Analysis

This chapter first presents my analysis' data and methodology. It then discuss my results, studying the effect of the policy change on new mother's intent to return to the labor force. Within this discussion, the paper also considers the effect on intended speed of her return. The supplementary output tables from each probit regression are embedded within the analysis. Also include here is an analysis the policy's effect on a new mother's return decision by the probabilities of her response to the following categories: no return, expected return within two to five years, and expected return within one year or less. This output is found in my ordered response model, which concludes this section.

Data and Methods

I use data from the German Socio-Economic Panel (SOEP). Started in 1984, SOEP conducts annual surveys of private households and individuals in Germany. The original survey, which contained roughly 12,000 respondents, has now expanded to well over 22,000 respondents each year. The primary goal of the survey is to collect micro-level data on individuals and families in order to measure demographics and changes in living situations. The general population survey covers a wide variety of topics every year

ranging from: population, education and training, labor market dynamics, earnings, housing, health, satisfaction with life, and household production (Frick & Haisken-DeNew, 2005). The questionnaires are distributed through face-to-face interviews with all members of a survey household aged sixteen years and older. There are many different extensions of the general population questionnaires. For the purpose of this study, however, I predominantly use data collected from the “Living in Germany” questionnaire and its extensions on employment information. The survey consists of cross-sectional data.

Cross-sectional data’s structure offers a one-dimensional evaluation of new mothers’ behaviors, before and after the enactment of Germany’s 2007 reforms. I use the cross-sectional data on recent mothers in 2003 and again in 2009 to theoretically model how policy changes affect a mother’s consumption of the benefit as well her decision to return work. Moreover, I narrow my sample to focus exclusively on new mothers. By definition, “new mothers,” as females with an infant, i.e. a child between the ages of zero and one year old, in the current survey year. Restricting the data to this sample allows me to measure new mothers who gave birth under each different policy structure. Since the model consists of binomial dependent variables (representing return-to-work intentions) a marginal effects probit regression is utilized. The probit regression estimates the maximum likelihood (probability) that an individual observation will fall into one of two categories with zero or one likelihoods. In my model, I consider two different dependent variables: a mother’s intention to return to work and the expected speed of her return. These variables are taken directly from the question in the survey asking individuals who indicate they are currently out of the labor force, but not unemployed or in active service, (including parents on leave). The first question asks if these individuals intend to return to employment. The follow-up question, for those individuals that indicate a likely return,

asks them when they expect to return, the possible answers were as follows: 1) yes, within one year or less 2) yes, within two to five years. The first dependent variable, “Return Likelihood” simply indicates her self-reported likelihood or probability of returning to the labor market at anytime before or after her maternity leave benefits expire; and the second dependent variable, “Return Speed” measures the expected speed of her return. For the second dependent variable, “fast” represents an expected return to work within a year or less, and “slow” indicates the time frame within two–five years or more. The model also includes a binomial policy variable to compare differences in the two sample years. The policy variable equals zero for the year 2003 and one for 2009. If the 2007 reform is effective in increasing the probability and speed of a mother’s return, as I expect, then the probit outcomes will return positive coefficients on the policy variable. The following equation estimates a mother’s intention to return to work:

$$\begin{aligned} \text{return} = & \alpha + \beta_1 \text{married} + \beta_2 \text{university} + \beta_3 \text{fulltimepy} + \\ & \beta_4 \text{workexp} + \beta_5 \text{indvincome} + \beta_6 \text{otherinc} + \beta_7 \text{childrenhh} + \\ & \beta_8 \text{age} + \beta_9 \text{age}^2 + \beta_{10} \text{policy} + \text{error} \end{aligned}$$

I supplement the binomial probit regressions with an ordered probit model, which tests which return response has the strongest likelihood. Models involving choice probabilities are often referred to as ordered models. This type of model utilizes an ordinal dependent variable. An ordinal variable is categorical and ordered by response—for instance “poor,” “good,” and “excellent.” In the classical labor supply example of an ordered probit model the question asks women what amount of work they desire. Three alternative discrete choices are offered: no work, part-time work, and full-time work. These choices are ordered and distinguished by women’s desired combination of labor and leisure. In this paper, I utilize this approach to predict new mother’s self-reported intentions of returning to work after childbirth. My ordered probit model consists of a

dependent variable, “Return Order”, which logically orders a new mother’s return decision by three distinct options: no return (0), return within two to five years (1), and return within one year or less (2). According to neo-classical labor supply theory, her desire to return to work, as measured by the three possible answers, will ultimately depend on her preferences and budget constraint. As my theory predicts, I assume the 2007 policy changes increase the probabilities of new mothers in 2009 returning to work.

My model tests the effect of the policy controlling for the following variables: education levels, work experience, marital status, full time employment in the previous year, income levels, number of children, and age. Together, these independent variables are quantifiable outside factors that affect her preferences and budget constraint following childbirth. Some of the explanatory variables signify her opportunity costs while others help determine her utility of staying at home. First I will discuss the independent variables that represent a new mother’s human capital attainment and overall attachment to the labor force. In reference to the equation representing a new mother’s decision to return to work, the following variables: “university degree”, “work experience”, and “full time work experience” account for differences in her human capital depreciation (γ) from extending leave. The binomial education variable, “University Degree” equals one if the mother holds a university degree and zero otherwise.¹ According to human capital theory, I expect to see a positive relationship between a mother’s level of education and the two dependent return variables because highly educated women have a higher opportunity cost from taking longer leaves.² Additionally, I include two independent variables in the model to represent a mother’s

¹ I defined the university degree for those individual observations with eighteen or more years of education, the number of years signifying obtainment of education at the university level in Germany.

labor force attachment. The first is an explanatory variable to represent her total previous work experience, defined by the total years of previous full-time and part-time employment experience. I also include an independent variable “Full Time Work Experience” to indicate if she was employed full time in the year immediately prior to giving birth. I use these two work experience variables interchangeably to see which is more significant. For new mothers with extensive histories of full-time work, I expect a greater likelihood of return-to-work because of the negative effects on human capital depreciation from long durations of leave. Higher levels of education and more work experience raise her opportunity costs of lengthy career breaks.

In order to estimate a mother’s ultimate decision to take leave, I incorporate the following independent variables in the model: “Marital Status,” “Outside Income,” “Individual Income,” and “Number of Children in Household (HH).” From the conclusions of Gary Becker’s theory on household production, I predict that new mothers who are married are less likely to return to work than their single counterparts.³ The binomial variable for marital status originates from a marital status categorical variable; “married” includes all individuals who are legally married, spouse present or absent, at the time of the survey. A spouse being absent includes those individuals who are married to military or Foreign Service members; therefore, I decided to keep these observations in the model. I assume that married mothers might derive greater utility from staying at home because it is more affordable for them since their husband’s income provides an additional safety net. Thus, the income effect causes married mothers to feel relatively wealthier and demand more leisure when on leave. For this same reason, I predict new mothers with access to outside income sources will be more likely to stay out of the labor

³ Gary Becker’s “Human Capital, Effort, and the Sexual Division of Labor” stipulates that married women can split their time dedicated to household chores and raising children with their husband. Since, their husband’s income also supplements total household income so they are not expected to be primary caretakers nor providers.

force for longer periods of time. The explanatory variable representing outside income is an interaction term created by taking the total household income generated through labor earnings and subtracting individual income. Lastly, the independent variable representing the number of children in the household is defined as the number of people under the age of eighteen living in a household (at the time of survey), with a maximum of ten. As the number of children in the household increases I expect to see a negative effect on a mother's intentions to return to work because she must devote more of her time to household production. For the most part, these independent variables increase a new mother's utility from staying at home and encourage longer work interruptions.

The summary statistics, presented in *Table 3*, show 597 total new mothers for 2003 and 2009. I first present the statistics for the entire sample followed by a brief account of each year separately (*Tables 4 & 5*).

Table 3: Summary Statistics for 2003 & 2009

Variable	Mean	Std. Dev.	Min	Max
Return Likelihood	0.630	0.483	0	1
Return Speed	0.233	0.423	0	1
Return Order	0.863	0.765	0	2
Marital Status	0.709	0.455	0	1
University Degree	0.143	0.350	0	1
Employment Status	0.588	0.493	0	1
Full Time Work Experience	0.357	0.479	0	1
Total Work Experience	5.275	4.755	0	22.9
Individual Income	8.968	23.560	0	508
Outside Income	33.786	28.535	0	264
Maternity Benefit	2.304	2.965	0	21.352
Single Mom	0.253	0.435	0	1
Number of Children in HH	1.975	1.189	1	8
Age	31.250	5.681	17	49
Age squared	1,008.754	357.895	289	2401
Policy	0.474	0.500	0	1

Note: There are 597 observations

To begin with, the majority of all new mothers, roughly 70.9%, are married. The average number of children in this sample is roughly two children per woman; and, the average age of new mothers is approximately 31 years old. The maximum age of mothers is cutoff at 49 years old.⁴ New mothers who possess a university degree (or higher) only make up 14.3% of the sample. New mother's previous full-time work experience is only five and a quarter years, which is lower than I expected. Looking specifically at the full time work experience indicator variable, roughly 35% of the sample was employed in full time work in the year prior to the survey date.⁵ As far as the dependent variables are concerned, roughly 63% of all new mothers indicate a positive intention to return to work at any given time. Within the 63% that indicate a likely return, an estimated 23.3% of new mothers intend to return within one year or less.

Table 4: Summary Statistics for 2003

Variable	Mean	Std. Dev.	Min	Max
Return Likelihood	0.592	0.492	0	1
Return Speed	0.191	0.394	0	1
Return Order	0.783	0.744	0	2
Marital Status	0.707	0.456	0	1
University Degree	0.124	0.330	0	1
Employment Status	0.564	0.497	0	1
Full Time Work Experience	0.350	0.478	0	1
Total Work Experience	4.928	4.310	0	17.4
Individual Income	7.227	11.000	0	84
Outside Income	33.441	27.244	0	216
Maternity Benefit	1.876	2.489	0	21.352
Single Mom	0.248	0.433	0	1
Number of Children in HH	1.975	1.241	1	8
Age	30.653	5.702	17	49
Age squared	972.010	354.610	289	2401

Note: There are 314 observations

⁴ I dropped seven outlier observations that included women who reported being over the age of 50 years old and having a newborn infant.

⁵ After checking the data for the *fulltime* and *employed* variables I found that six observations reported being unemployed and full-time. The mismatch in this data is most likely due to a reporting error; to account for the error these six observations are dropped from the data set.

Table 5: Summary Statistics for 2009

Variable	Mean	Std. Dev.	Min	Max
Return Likelihood	0.671	0.471	0	1
Return Speed	0.279	0.449	0	1
Return Order	0.951	0.779	0	2
Marital Status	0.710	0.454	0	1
University Degree	0.165	0.372	0	1
Employment Status	0.615	0.487	0	1
Full Time Work Experience	0.364	0.482	0	1
Total Work Experience	5.686	5.210	0	22.9
Individual Income	10.901	32.121	0	508
Outside Income	34.168	29.946	0	264
Maternity Benefit	2.779	3.357	0	20.9
Single Mom	0.258	0.438	0	1
Number of Children in HH	1.975	1.131	1	8
Age	31.912	5.593	17	47
Age squared	1049.523	357.728	289	2209

Note: There are 283 total observations

In order to carry out the empirical analysis of these dependent variables between the two years, the variable “Policy” serves as the primary object of concern. This variable alone offers a direct comparison of new mothers’ intentions before and after the 2007 reforms. Evidently these summary statistics verify that relatively more new mothers, and infants, were observed in 2003 compared to 2009.⁶ Out of the total sample population, 53% of new mothers were observed in 2003 and 47% in 2009. Looking at the year 2003 first, (*Table 4*) approximately 59% of the new mothers intended to return to the labor force, while 19% of that subsample intended a fast return. Alternatively, their 2009 counterparts show stronger prospects for labor force participation (*Table 5*). As previously mentioned, the sample of new mothers in 2009 is somewhat smaller; noting

⁶ OECD’s 2013 “Fertility Rates of Women Aged 15 to 49.”

this, we still see larger percentages of these women intending to return to work. In the 2009 sample of new mothers, 67% show positive intentions to re-enter employment and around 28% of them are likely to return within a year or less. These statistics reinforce the theory's predictions and support the hypothesis that policy-induced changes encourage increased labor force participation following the 2007 reforms.

Results and Analysis

The output in *Table 6* shows results from the probit estimation on effects of the 2007 policy reforms on a new mother's likelihood of return.

Table 6: Probit Results for Return Likelihood

Variable	Outcome
Married	-0.215 (0.133)
University Degree	-0.386* (0.164)
Full Time Work Experience	-0.277* (0.132)
Individual Income	0.000 (-0.00000247)
Outside Income	0.000 (-0.00000205)
Number of Children in HH	-0.213** (0.061)
Age	0.103 (0.092)
Age squared	-0.002 (0.001)
Policy	0.244* (0.111)
Constant	-0.579 (1.437)
Observations	565
Pseudo R-Squared	0.043

*Indicates significance at the 5% level

** Indicates significance at the 1% confidence level

The explanatory variable “Policy” symbolizes the primary 2007 policy’s changes—the increased benefit amount for a shorter time period, and is therefore the central focus of forthcoming analysis. The sampling frame of the data, 565 observations, represents the non-missing values for all of the variables included in this model. Unexpectedly, the independent variables for university degree and full time work experience returned negative coefficients, statistically significant at the 5% confidence level. In reference to the human capital theory, I expected to see a positive relationship between these variables and her return likelihood since highly educated women have a higher opportunity cost from taking longer leaves. Yet, my results could indicate that this group of new mothers purposefully chooses to spend more time at home with their newborns, and they can afford to do so because their previous earnings were high. As expected, an increasing number of children in the household produce a negative effect on new mothers’ probability of returning to employment. The estimations on return likelihood yield a positive and significant reform effect as represented by the positive estimation on the policy variable. Interpreting this variable specifically, I expect that new mothers in 2009 are more likely than new mothers in 2003 to re-enter the labor force in the future, so the policy was effective in its goal of increasing female labor supply.

The results from the second probit model on “Return Speed”, depicted in *Table 7*, also confirm the theory’s prediction about the speed of a new mother’s return following the 2007 reforms. As aforementioned, the return speed dummy is coded with one equaling a fast return. Unlike the previous probit regression, marital status produces a statistically significant negative effect on a new mother’s speed of intended return. This means that married new mothers are more likely to return within two to five years and less likely to return within one year or less. This finding evidently corresponds with theories on household production. Moreover, one can assume that married mothers are

more likely, than single mothers, to extend the duration of their leave periods because they can afford to since they have access to their spouse's income. Furthermore, according to the income effect, the 2007 policy's institution of increased benefits causes new mothers to feel wealthier overall. Thus causing them to demand more leisure in the twelve-month policy period. The combination of a married mother's access to her spouse's income and the additional benefit makes her even more likely to extend leave period beyond twelve months.

Table 7: Probit Results for Return Speed

Variable	Outcome
Married	-0.500** (0.137)
University Degree	0.019 (0.181)
Full Time Work Experience	0.113 (0.144)
Individual Income	0.000 (0.000)
Outside Income	0.000 (0.000)
Number of Children in HH	-0.208* (0.077)
Age	0.121 (0.106)
Age squared	-0.002 (0.002)
Policy	0.304* (0.122)
Constant	-2.048 (1.619)
Observations	565
Pseudo R-Squared	0.0612

*Indicates significance at the 5% level

** Indicates significance at the 1% confidence level

Interestingly enough, the coefficients on education and labor force attachment control variables are positive. Yet, we cannot make any predictions because the results for these variables are statistically insignificant. Most important for the purpose of this study, the policy reform effect variable returned positive and statistically significant results again.

This test measures the probability that new mothers will return fast (within a year or less) or slow (two to five years, or more). A positive and statistically significant result on the “Policy” variable indicates that new mothers in 2009 are more likely to return within one year less to the labor force, following childbirth, than new mothers in 2003. Accordingly, after the 2007 reforms, new mothers have a higher likelihood of returning to work within one year or less. These results parallel my theory’s prediction that the 2007 policy incentivizes mothers to return to work sooner than before because of the benefit time restriction. Furthermore, the significant income drop new mother’s experience (after the twelve months pass) gives them more incentive to substitute the benefit income with labor earnings.

Table 8: Ordered Probit Regression

Variable	Outcome
Married	-0.363** (0.114)
University Degree	-0.237 (0.148)
Full Time Work Experience	-0.112 (0.115)
Individual Income	-0.210** (0.056)
Outside Income	-0.000 (0.000)
Number of Children in HH	0.000 (0.000)
Age	0.120 (0.082)
Age squared	-0.002 (0.001)
Policy	0.269** (0.096)
Observations	566
Pseudo R-Squared	0.347

*Indicates significance at the 5% level

** Indicates significance at the 1% confidence level

Table 9: Marginal Fixed Effects

Marginal Fixed Effects: Return Order

Variable	No Return (0)	Slow Return (1)	Fast Return (2)
policy	-0.101** (0.036)	0.021* (0.009)	0.080** (0.029)

*Indicates significance at the 5% level

** Indicates significance at the 1% confidence level

Presented in *Table 8*, is the output from my ordered probit regression on “Return Order.” The results from an ordered probit regression and the marginal fixed effects of its estimation support these initial tests indicating that the policy is effective in encouraging mother’s return-to-work intentions and expected speeds. The dependent variable in this model “Return Order” is a categorical variable, not continuous; because of this, the coefficient 0.269, attached to the “Policy” predictor is not the mere change in likelihood as it was in the previous two regressions. The dependent variable here codes a return time of one year or less as the highest response category. On that note, the ordered probit results return a negative coefficient on the marital status indicator, which is statistically significant at the 1% level. This outcome supports my prediction that being married has a strong negative influence on a new mother’s expected return, in both years. Therefore, the results from the ordered probit output suggest that new mothers in 2009 show the highest probabilities of returning to work within one year or less and returning at all, but the decomposition of the effects on each of these separately requires a marginal fixed effects calculation.

I follow up this ordered response model by running marginal fixed effects to calculate the elasticities of the variables as related to each separate category of the “Return Order” indicator variable. The first marginal effects calculate the probabilities of the predicted outcome that new mothers show no intention to return to work (i.e. “Fast Return” equals zero). The policy variable returned a negative marginal effect significant at the 1% level. This means that a woman in 2009 is roughly 10 percentage points less likely than her 2003 counterpart to reveal no intention of returning to work at all. The second column of marginal fixed effects shows the outcome of a likely and slow return (within two to five years or more, i.e. “Fast Return” equals one). For this category, the policy variable returned positive and statistically significant marginal effect at the 1% level. This calculation yields a positive policy effect; so, a slow expected return is approximately 2 percentage points more likely for a woman in 2009 than her 2003 counterpart. Finally, the category for the fastest return (within one year or less, i.e. “Fast Return” equals two) is computed using the marginal effects test. These results confirm that new mothers in 2009 have the highest probabilities of intending to return to work within one year or less. Altogether, the marginal effects estimations from the ordered probit conclude that new mothers in 2009 have higher probabilities of future return to work as well a faster intended speed.

Discussion

Chapters I through IV in Part I of the paper considers the effects of the paradigm shift in German family policy following the 2007 parental leave reforms. In these chapters, I assess the policy’s efficiency in strengthening incentives for new mothers to return to work soon after childbirth. *The findings from my empirical analysis suggest the reform significantly increased the likelihood of new mothers intending to return to work*

and the speed at which they do so. These conclusions are supportive of Bergemann and Riphahn's previous studies, which determine that the reform succeeds in shortening mothers' employment interruptions (2011). Evident from the model's outcomes, the positive policy effect signifies a *higher* return probability amongst new mothers in 2009 compared to 2003. Moreover, the ordered probit regressions and corresponding marginal effects tests suggest that new mothers in 2009 showed the highest likelihoods of returning to work within one year or less. Overall, the changes in the benefit scheme—paying higher transfers for a limited time— significantly *discourage* new mothers from extending their employment breaks after childbirth. These shortened employment interruptions should reduce the human capital depreciation and wage penalties faced by German mothers, who were previously prolonging employment after childbirth. In the long run, these effects produce beneficial outcomes for a mother's maintenance of a healthy work and family life balance. This paper's quantitative results yield evidence that Germany's 2007 policy has succeeded one of its goals, encouraging mothers return to work soon after childbirth.

Part II: Qualitative Analysis

Part II of this paper explores the influences of neoliberal theory on the restructuring of the German welfare state. By doing so, I provide a qualitative analysis of Germany's 2007 parental leave reforms to further support my quantitative conclusions. I particularly focus on Germany's social democracy and corporatist government model as two key components underlying its economic success. Chapter V discusses the interrelation between Keynesian doctrines and the modern era of neoliberal economic policies to provide a contextual framework. This chapter also includes a discussion of the neoliberal principles and policies, and neoliberalism's effects in advanced industrial economies. Chapter V concludes with a brief overview of the critiques and criticisms of neoliberal economic theory. Following my discussion of neoliberalism, I offer a snapshot of Germany's social democracy and corporatist government in Chapter VI. This chapter considers the contraction of the German welfare state. Finally, Part II concludes, in Chapter VII, with a qualitative assessment of the effects of Germany's 2007 parental policy reforms on its economic competitiveness, politics, and social affairs. This final chapter serves as the culmination of my thesis—tying together my quantitative and qualitative analysis of Germany's 2007 parental leave policy reforms.

For the past forty years, neoliberal economic theories have swept through the world like a tidal wave. The emergence of neoliberalism in the mid 1970s transformed governments' attitudes towards international political and economic affairs. Globalization acts as a vehicle helping to spread the doctrines of neoliberal economic theory. States who wish to compete and survive in our capitalistic international economy must embrace some form of neoliberalism. We have reached a point in which it is difficult for states to act alone. Institutional differences in policymaking reflect the complex nature of this economic theory. The state is no longer the primary focus in international political

economy. With the rise of neoliberalism, government officials have begun to pursue more progressive domestic agendas that encourage the independent success of their citizens. In this sense, state governments are becoming more concerned with ensuring future economic success domestically by laying the necessary groundwork now. Moreover, advanced nations are experiencing shifts in the social perceptions of the role government should play in people's lives. Across the board there has been a major shift away from "welfarism" towards a neoliberal approach to policy. Meanwhile, the historically social democratic states of Europe are striking bargains between their socialist heritage and the new values of neoliberalism. The case of Germany is a prime example. The function and composition of the German labor force has evolved dramatically since World War II. While attempting to rebuild its population and state from the ground up, Germany has had to relinquish some of its traditional views on the family unit. The past few decades symbolized a dramatic shift away from Germany's traditional breadwinner model toward a dual-earner model of household production.

The rapidly changing nature of the international system and inception of globalization has caused Germany to strike a bargain between old ideas and new methods. In this regard, family policy has moved toward the center stage in Germany policy agendas. The concept of "parental leave" instead of "maternal leave" is being given more respect in their society because of its advantageous effects. By accounting for the needs of working mothers and fathers Germany has created a much more diverse workforce. In response to neoliberalism's advance, German policymakers have struck a bargain between social conservatism and marketization. The social conservatism preserves Germany's social democratic ideals to support families. Germany's marketization attempts to align individuals' desires to start families without a heavy reliance on welfare. The question that arises here is how has Germany's social democracy

and welfare state come under pressure by virtue of neoliberalism? Furthermore, is Germany's family policy and recent 2007 parental leave reform a result of neoliberal pressure? Although Germany has embraced neoliberalism in many aspects, it has also preserved its social democratic legacy. Germany's coalition government has established a healthy policy environment for the human capital accumulation, labor market productivity, and population growth necessary for it to continue as a leading global economy.

V: Neoliberalism

Neoliberalism in Context and Principle

Neoliberal economic theory's dynamism surfaced as response to the intellectual divisions within Keynesianism and its failure to adapt to the changing face of the international economy in the later half of the 20th century. From the period of the 1930s until the mid 1970s, Keynesian economics reigned as the supreme theory. British economist John Maynard Keynes emphasized that capitalist economies are subject to periodic weakness in aggregate demand generation, which leads to higher unemployment. Keynesianism roots itself in a period that was branded by market failures—The Great Depression, horrific unemployment, and World War II. The emergence of an interventionist state theory occurs in response to major economic crisis because more government assistance is necessary to overcome severe crisis. Keynesian economics argues that markets may take too long to self-correct and return to a perfect equilibrium—without high unemployment and little growth. Markets are traditionally defined through the absence of state intervention. However, what economists like Keynes fear is that markets—when left to their own devices—can be more destructive than government intervention. These fears are expected during deflationary time periods where

unemployment increases, prices decrease, and demand falls. Keynesianism offered a new set of tools for governments to use in attempt to reboot their economies. Monetary and fiscal policy tools were developed in the era of Keynesianism. During the Great Depression Era, monetary policies were used to adjust interest rates and offset deflation. In combination with them, fiscal policies allowed governments to increase spending and cut taxes. Altogether these measures were used to generate demand, encourage spending, reduce unemployment, and rebuild consumers' faith in the economy. Keynesianism solutions helped rebuild nations in the aftermath of the Great Depression and World War II. Ultimately, however, Keynesianism failed because politicians continued to increase deficit spending beyond the necessary level.

The Cold War era opened the doorway for a new economic theory—neoliberalism. First and foremost, the challenges governments faced were no longer unilateral. States within the international system were introduced to new kinds of threats, primarily economic. Moreover, states could no longer confront these challenges unilaterally. The entire international system was undergoing rapid economic globalization. For example, the creation of international organizations such as the United Nations, World Trade Organization, and International Monetary Fund symbolized the new nature of the international system. Moreover, there were several economic shocks during the later half of the 20th century that changed the relationship between states and the international political economy. The 1973 Oil Crisis caused a sharp increase in inflationary prices across the global economy, and it especially crippled the economies of advanced western nations (Palley, 2004). Moreover, Keynesian policies ultimately proved to be inflationary as entitlements grew and fiscal capacities stagnated (Harvey, 1989). The global economic crises of the 1970s opened the door for this radically new approach to economic policies. Neoliberal policies surfaced in response to the shifts in economic conditions during the

1970s and 1980s. The entire face of the international economic affairs was changing. Neoliberal theory offered adaptable solutions and tools to address new challenges that states faced in international relations. Yet, it is worth pointing out that, as early as the late-1940s, neoliberal economic policies had a powerful champion in the United States, which forged greater economic integration globally as a response to the catastrophic effects of economic nationalism, in the 1930s, and as a strategic response to Soviet communism, one that would draw the “free world” closer together – and to itself, the world’s dominant economic power.

In light of these new international economic pressures, states have come to exercise some caution and instrumentalism in their domestic and foreign policy approaches. Economic failure at home is now seen as failure abroad, and it is essentially recipe for an advanced economy’s downfall as a powerful international actor. Essentially, the nation, which offers the best conditions for foreign investment and new business, wins the race. A competitive world order has given rise to neoliberal theories, which provide states with the tools necessary to thrive. Neoliberalism emphasizes the importance of macroeconomic stability (MacLeavy, 2010). Neoliberals view domestic economic success from within and without the state. Neoliberalism is a unique political economic theory proposing that individual prosperity prospers in an environment where fundamental liberties are protected. Individual liberties can only flourish if there are strong private property rights, free markets, and free trade (Harvey, 2005). Accordingly, the role of the state in neoliberal theory is limited, but not absent. The primary function of the neoliberal state is to protect individual freedoms (Harvey, 2005). This strand of neoliberalism is taken from Locke’s liberal tradition in international relations. Locke is considered one of the founding fathers of liberal theory due to his concern for the individual’s “unalienable rights.” Locke argues that people have natural born rights to

life, liberty, and property—neoliberalism borrows this mantra. Moreover, the state must help in the protection of markets. On that point, markets must be overseen and protected by the neoliberal state. Neoliberalism builds upon the ideas of Fredrick von Hayek, who critiques an interventionist state (MacLeavey, 2010). Rather, neoliberal theory governs a rolling back of state power and supports the privatization of markets. David Harvey interprets this concept as follows:

Privatization and deregulation combined with competition, it is claimed, eliminate bureaucratic red tape, increase efficiency and productivity, improve quality, and reduce costs, both directly to the consumer through cheaper commodities and services and indirectly through the reduction of the tax burden.

Harvey highlights the quintessential elements of the neoliberal approach—deregulation, privatization, and competition. In principle, neoliberal theory is pure competition.

Furthermore, neoliberals argue for this competition in state's foreign policy approach. That is, the ideal international system for a neoliberal is one whereby market forces dictate the expanding global economy. Neoliberal economic principles, in international relations, call for the following: liberalization of trade policies, open borders and free trade, reduced foreign exchange restrictions, and flexible exchange rates. In short, it sees economic globalization as fostering national and global economic growth and securing human liberty. International organizations and neoliberalism essentially go hand-in-hand. Neoliberals adhere to the rules established by these organizations, which regard international competition as healthy (Harvey, 2005). Therefore, neoliberals advocate for a multilateral reduction in barriers to trade. International competition allows for increased productivity, lower prices, and reduced inflationary

tendencies (Harvey, 2005). Thus explaining why neoliberalism emerges as the solution to the various regional and international inflationary economic crises of the 1970s. Moreover, the champion states of neoliberal economic theory pursue policies that promote macroeconomic stability. When domestic competition results in economic growth this fosters international competition and growth.

Neoliberal Policies

By using various legal and economic means, government officials attempt to foster an institutional environment within states that promotes and protects neoliberalism's core principles. The primary goal is to establish a legal framework that protects individuals' property rights. The neoliberal state, therefore, should "use its monopoly of the means of violence to preserve these freedoms at all costs" (Harvey, 2005). In order to protect individual rights, neoliberal policies rely upon strong legal jurisdictions. For example, legal patents have been created to protect intellectual property rights. Furthermore, globalization has created an international system whereby access to information on new technology and innovation is within reach of all. In the advent of globalization, individuals and states are more susceptible to infringements of their rights. Neoliberal policies hope to avoid these scenarios by enforcing patent laws. The downfall of these policy approaches, however, is when "better informed and more powerful" players gain a comparative advantage under existing legal frameworks (Harvey, 2005). Harvey finds fault with the neoliberals' presumption that competition occurs on a level playing field (2005). In reality, not all participants in a market have access to equal information.

Additionally, supply-side economic devices are used in conjunction with legal protections in order to bolster neoliberal principles. What is “supply-side” economics? Simply put, supply-side economic policies lower the barriers to production and reduce producers’ costs. Essentially, these policies attempt to increase consumer’s wellbeing by targeting the supplier directly. Neoliberalism is the underlying theory in supply-side economic policies. These policies are typically characterized by the following: modest government regulation, decreased tax rates, free movement of capital, and free trade. Supply-side economics focuses on the importance of macroeconomic stability above all. Therefore, neoliberalism stresses that central banks must be independent of elected governments. Neoliberal economic policies achieve macroeconomic stability by targeting the money supply. The regulation of the money supply to affect interest rates and encourage growth is common in neoliberal policies. What’s more, neoliberal economic policies largely transfer the power over sectors of the economy from public to private hands. In the immediate post WWII period, for instance, most of the advanced European powers removed healthcare, education, and housing from market forces (Harvey, 2005). With the election, in 1979, of Margaret Thatcher, a prominent neoliberal politician of the late-20th century, however, Britain dramatically marketized its economy. Like the majority of OECD nations who followed in her footsteps, Thatcher emphasized public-private “quasi-governmental” partnerships (Harvey, 2005). Within neoliberal policies, businesses and corporations collaborate with state actors taking part in directly influencing the legislative process. Government sold off state economic assets like railroads and banks, and shut down underperforming state-owned enterprises, such as coalmines. There has been much debate, however, over the

actual impact of these neoliberal policies on achieving economic growth in Britain and other advanced industrial countries, like the United States, that enthusiastically embraced neoliberalism.

Neoliberalism's Effect in Advanced Industrial Economies

The adoption of neoliberal economic policies paved the way for a new era of economic cooperation, among advanced industrialized countries (and, later, between them and newly emerging market economies). As aforementioned, many international organizations sprang up in the wake of World War II to help with reconstruction efforts. The Organization for Economic Cooperation and Development, established in 1948, was one such organization created to help finance and implement the United States' Marshall Plan. For the purpose of this paper, I focus my analysis of neoliberalism's effect in advanced industrial economies, primarily on OECD member nations. Since the mid-1997 most all OECD countries real effective exchange rates have appreciated as the result of massive depreciations in the currencies of emerging markets in Asia (Durand et. al, 1998). Neoliberalism's deregulation of international financial markets and floating exchange rates supported these trends. Altogether this has contributed to a relative decline in the U.S. competitiveness as a foreign exporter vis-à-vis Asian emerging markets between 1995 and 1997 (Durand et. al, 1998). In regards to neoliberalism's effects on foreign direct investment, there was a dramatic increase in the cumulative outflows for OECD countries between the 1980s and 1990s. This set the stage for the economic success of OECD countries leading into the 21st century. Within these advanced nations, creditors primarily benefited from the rise in interest rates during the late 1970s. One of the major effects of

neoliberalism on advanced economies was the increase in wealth of the upper fractions of society. The creditors and owners of capital benefited greatly from neoliberal policies (Duménil & Lévy, 2005). Moreover, the already advanced OECD nations could support more technological innovation and advance the spread of their new products. In the advent of neoliberalism we have witnessed the birth of multinational corporations (predominantly western) that have created monopolies in international trade, to the benefit of advanced economies (Harvey, 2005). Neoliberalism for citizens within advanced industrial economies has created the following advantages: improved productivity, increased consumer choice, lower prices, and increased material welfare. Evidently, however, neoliberalism creates unequal accumulations of capital and economic growth, favoring already advanced economies, which have the wherewithal to compete in an international free market system.

Critiques and Criticisms of Neoliberalism

Neoliberalism has been beneficial for a small handful of elite nations and rather detrimental to the majority in our world. One critique to neoliberalism is its exacerbation of uneven geographical development and creation of class divisions (MacLeavy, 2010). These critics claim that neoliberalism has created an international system whereby the interests of economic superpowers trump those of lesser-developed nations. Hence why Harvey poses the question: “In whose particular interests is it that the state take a neoliberal stance, and in what ways have those interests used neoliberalism to benefit themselves rather than, as claimed, everyone, everywhere?” (Harvey, 2005) For example, one of the central tenants of neoliberal thinking– international competition–has worked to the

advantage of advanced nations and, therefore, to the detriment of most developing countries. Low income, developing nations rely heavily on protectionist policies to support their domestic growth. When neoliberalism arose, the western powers had already reached the highest rungs on the ladder of development, while their less developed counterparts were still climbing. For those less developed nations, free trade meant that their domestic firms would not fare well against international firms who had already established a comparative advantage in international markets. The result, however, is an increase in unemployment when those domestic firms fail to break into international markets. Essentially we have witnessed a deliberate creation of unemployment to produce a pool of low-wage surplus labor (Harvey, 2005). According to neoclassical economic theories, real competition means that those who produce with the lowest costs have the comparative advantage. International competition, often times, amounts to a cluster of multinational corporations who have monopolized power over smaller domestic firms (Harvey, 2005).

Furthermore, the neoliberal tidal wave in international relations has completely restructured pre-existing institutions, powers, and divisions of labor and social relations (Harvey, 2005). What does Harvey mean by his term “creative destruction,” as a critique of neoliberalism? Following the economic crises of the 1970s, the advanced economies (with support from the IMF particularly) essentially forced a neoliberal agenda in less developed nations around the world, in Latin America especially. The neoliberal agenda has been implanted in many developing countries since the 1970s. Behind the economic and political mandates was the apparatus that appealed to individual values and desires (Harvey, 2005). Western economies utilized their comparative advantages

in international markets to create full-fledged neoliberal states across the world. Due to the coercive influence of advanced economies, the majority of less developed nations were given little choice but to restructure their institutional structures according to neoliberal principles. The spread of neoliberalism has proved to help develop some nations even faster by opening their borders up to trade internationally. It is important, however, to point out that this has not been the case across the board. The “creative destruction” has been one of the biggest critiques of neoliberalism. Some advanced nations embraced neoliberalism while also safeguarding their traditional divisions of labor, social institutions, and powers—like Germany. Many European states resisted neoliberal reforms in the late 20th century and found ways to preserve their social democratic legacy. Some of the advanced social democratic countries avoided the negative effects of neoliberalism, i.e. social inequalities, unequal redistribution of wealth, unemployment etc. Germany somehow managed to embrace neoliberalism while maintaining its pre-existing institutions, powers, and divisions of labor and social relations.

VI: Germany’s Social Democracy

Corporatist Model

The German political economy is largely capitalist but it functions under a social democratic umbrella. Germany’s resistance to the negative effects of neoliberalism can be attributed to its political culture. German political culture strongly encourages collective rights of its citizens. The context of these rights however is protected through a corporatist orientation. Germany maintains a healthy balance between its corporatist government and competitive marketplace.

It does not allow the dominance of one over the other. Corporatism is a “system in which the ordinary elements of civil society, such as unions, are sanctioned by the state and given authority to represent particular groups” (O’Neil, 2012).

Germany’s corporatist model includes the voices of business, labor, and the state.

Altogether, these sectors of its economy work together under established legal frameworks to ensure certain political goals are achieved. This model originally

began in the 1960s when the German government sought to bring together

business and labor to coordinate economic policy (O’Neil, 2012). By

implementing such a model of government, Germany has effectively reduced

conflict between labor and business, which fosters its economic growth.

Furthermore, Germany’s party structure emphasizes cooperation from parties on

both ends of the spectrum. Those on the left are guided by social democratic

principles of the state’s role in the economy, while those on the right are

influenced by values that favor a free market.

The German Welfare State

Under the direction of Social Democratic and Christian Democratic governments, Germany undertook the reconstruction of its entire state and economy following World War II. Germany’s social policies have historically been crafted with influences from the Bismarckian legacy (Weishaupt, 2010). The original birth of German state socialism occurred in the late 19th century, under the leadership of former German chancellor, Otto von Bismarck. This time period signified the introduction of Germany’s social market economy whereby Bismarck created German health, accident, old age, and disability insurance systems. Out of the chaotic aftermath of WWII came a resurgence of Bismarckian socialist tactics. The post-war period proved a challenging time for all

nations involved in the conflict, however, Germany bore most of the burden. The political and economic atmosphere of the time emphasized the deliverance of public goods through the state. The circulation process started from the top and trickled down to reach as many peoples as possible. Whether through health, education, insurance, or other public goods and services, the German government was dedicated to reenacting its welfare state in all arenas.

The German socialist coalition parties, which dominated the political sphere from re-unification into the beginning of the 21st century, effectively expanded the welfare state. Following its reunification in 1989, several unexpected coalition governments have governed Germany. For the purpose and direction of this paper, however, I begin my analysis with the Red-Green coalition, which held power in Germany from 1998 through 2005. This coalition was composed the Social Democratic Party (SPD) and the Green Party. The center-left Social Democratic Party— most commonly known as Germany's oldest party—formed in 1875 and found its roots during the 19th century labor movement. The Social Democratic Party represents the interests of the working class citizens. It championed support during reunification of East and West Germany in the 1970s. Unlike the SPD, which has ruled Germany over various lengths of time, the elections of 1998 marked the entrance of the Green Party to federal power. The two parties came together under the leadership of former Chancellor Gerhard Schröder. As aforementioned, the German state, leading up to this point, had been characterized by immense spending to support its welfare state and public programs, which enjoyed support from both the center left *and* right of the political spectrum. Schröder entered office on the heels of a financial crisis of sorts, which helps to explain the transformation of the German welfare state at the turn of the 21st century.

The Retrenchment of German Welfare State

During the mid to late 1990s, Germany's Red-Green coalition attempted to pursue an agenda that focused on "modernizing" the welfare state. Representative of this agenda is the Blair-Schröder document of 1999, which embodies the party's objectives and ideals for the future of Europe's Social-Democratic countries. Then prime minister of the United Kingdom, Tony Blair, worked together with Schröder to produce this document. In short, the document included constructive criticism of the social systems in place and offered new ideologies for reconstruction, which incorporate neoliberal principles. For example, Blair and Schröder argued, "The weakness of markets have been overstated and their strengths underestimated" (1999). From a larger prospective, this document resembled the ideals of liberal and neo-liberal theories. In their discussion on the role of the market Blair and Schröder wrote the following:

Product market competition and open trade is essential to stimulate productivity and growth. For that reason a framework that allows market forces to work properly are essential to economic success and a pre-condition of a more successful employment policy.

This statement is the prototype of the neo-liberal's approach to macroeconomic policies, which I will address in further detail in the next section. Along the same lines, the authors contend that social morality should not be measured using levels of public expenditures (Blair & Schröder, 1999). Critics of the Blair-Schröder document remark that it was too ideological for the financial situations of Social Democrat governments— specifically Germany—at the time. The expressed goals from this document were not put into practice.

Although the Blair-Schröder document proclaims a reconstruction of the welfare state, in reality, the German social system *expanded* during the Red-Green coalition—

specifically in relation to family policy. The 2001 parental leave policy strongly resembles previous welfarist tactics. Since the policy is means-tested, not income-dependent, it provides benefits for individuals and families regardless of their previous work experience. This particular component of the policy was carried over from the previous parental leave policies of the 1990s. Possibly the most explicit example from this policy that represents an expansion of the welfare state is the twenty-four month paid leave option. By allowing parents on leave twenty-four months of paid leave, the government essentially rescinded its goals from the Blair-Schröder document (to do what?). This policy's structure exemplifies a Keynesian welfarist approach to family policy. As this paper demonstrates, the 2001 policy *discourages* a quick return to employment following childbirth, relative to the 2007 reform, by financially incentivizing the twenty-four month option. According to political economic theory, this policy effectively incentivized individuals to delay their return to the workforce, thereby generating a "welfare trap" of sorts (MacLeavy, 2010). What does "welfare trap" mean? When individuals, in this case usually mothers taking parental leave, become dependent upon the benefits they receive from government-funded social programs, they typically end up staying out of work for longer periods of time. Drawing from my theoretical framework, because longer breaks in employment cause depreciation in human capital, individuals find it more difficult to re-enter the labor force.

Moreover, considering Germany's record low maternal employment and fertility rates, the 2001 policy's expansion of paid leave time raised even deeper concerns about future economic growth. The one saving grace of the 2001 reform is its expansion of the allotted time parents on leave are allowed to work while receiving the benefit. The previous parental leave policy of 1992 instated that the parent on leave can work only a maximum of nineteen part-time hours per-week. Under the 2001 policy, the parent on

leave could work a maximum of 30 hours per week while still receiving the benefit. Although this is an important policy change, it still only encourages mothers to remain in part-time, not full-time, employment. Due to this component, along with its means-tested structure, the 2001 policy effectively continued the traditional male breadwinner model of household production, which further contributed to a shortage in overall labor force participation among females. Also, the policy attempted to encourage fertility; however, the benefit amount was significantly lower compared to other OECD nations at the time, such as Sweden. Additionally, as Chirakova pointed out, the poor quality, lack of availability, and high costs of childcare in Germany have continually deterred females from having children (2012). The 2001 policy's benefit amount was not significant enough to outweigh these costs. Finally, the government bore the burden of these costs. The 2001 *increased* total government expenditures on family policy at a time when the German economy had already been feeling the competitive effects of economic globalization. Overall, the ramifications of this policy on Germany's future economic growth and population development were concerning enough for policymakers to completely reconstruct the entire system in 2007.

VII: Evidence of Neoliberalism in Germany's Family Policy

The Grand Coalition

The 2007 parental leave policy reform represents an unexpected paradigm shift in the history of Germany's family policy. Despite its original intentions of modernizing and restricting the welfare state, the 2001 parental leave policy nonetheless embraced a strong welfarist approach to family policy. As aforementioned, the policy's central components encouraged long breaks in employment for parents taking leave. Moreover, the total expenditures to finance the policy seemed contrary to policymakers goals of

decreasing public spending. The intentions behind the 2001 policy may have been to move away from German welfare state methods, however, the structure did not support these goals. At the time of the 2005 elections, political and economic forces were calling for different ideological leadership in Germany. Moreover, the atmosphere in German politics was less polarized at this time, which encouraged more bipartisan efforts. A Grand Coalition government composed of the Christian Democratic Union (CDU) and the Social Democratic Party (SPD) emerged from the elections. Under the leadership of Germany's first ever-female leader, Chancellor Angela Merkel, the country experienced serious reconstruction of its political economy. I focus on the retrenchment of Germany's welfare state with the 2007 parental leave policy reform as a case example.

Under Chancellor Merkel's leadership, the Grand Coalition represents a major shift in German politics. The Christian Democratic Union is Germany's main, center-right political party. Its roots can be traced back to Germany's Center Party in the 1870s, which was heavily Catholic and found power in Western Germany (Spiegel Online). This fact alone explains why Chancellor Merkel is the most unlikely of CDU candidates. Having been born and raised as a Protestant female in East Germany, she is the polar opposite of the stereotypical chancellor. Because of her background, Merkel brings different experiences and perspectives, which have not played a role historically in the highest political office. Her unique leadership style has enabled her to maintain her popularity and consistently best other CDU leaders, including those from the CDU's sister party in Bavaria, the more socially conservative and heavily Catholic Christian Social Union (CSU). This historic election occurred at a less polarized time, unlike during the immediate post WWII and German re-unification periods. The CDU and SDU had no option other than to share political power and problem solve together. The CDU was able to shift from its old traditional reliance on the breadwinner model, and the

SPD, which had already begun to move toward the center under Schroeder, accepted in practice neoliberal solutions to the economic and social challenges facing the German state. The 2007 Parental Leave reform is the product of this political accommodation.

Germany's 2007 Parental Leave Reform

Germany's 2007 parental leave reform marks a shift from the welfarist model towards a more consolidated neoliberal approach. With the advent of globalization, neoliberal doctrines are becoming more common in domestic and international politics. In order to safeguard its economy for future growth and development, Germany's Grand Coalition employed a neoliberal approach to its domestic economic policies. Although the welfarist models were supported by both the CDU and SPD, the state of affairs in 2007 called for a new approach to family policy. Former Chancellor Gerhard Schröder claimed in 2005 "Globalization and the economic changes it has caused mean that Germany is no longer a country in which there is sufficient room for redistributing wealth" (Purvis & Boston, 2005). His remark embodies the surrender of Germany's welfare state to the pressures of globalization. Under the direction of Merkel's leadership, German policymakers enacted policies to activate the labor force and encourage competition.

Take, for example, the qualitative shift that occurred in Germany's family policies in 2001 and 2007. Germany's 2007 parental leave reform drastically restructured its predecessor because of its new neoliberal backbone. Exactly how does Germany's 2007 parental leave reform represent an application of neoliberal economic theory? Foremost, this reform is predominantly concerned with achieving greater economic efficiency in Germany's family policy, which speaks to the importance that Germany's political elites now give to reducing state spending and pursuing other macro-economic policies that

reduce deficit spending and thereby encourage a more favorable investment and economic growth climate in Germany. The policy's benefit and eligibility requirements encourage the optimal use of human capital. By replacing the 2001 policy's two year paid leave option the 2007 policy discourages long breaks in employment. Moreover, the new policy replaces the old standards of welfarism in Germany's family policy by constructing an earnings-dependent benefit system. It is no longer acceptable for citizens to reap the benefits of Germany's social system without contributing to support its sustainability. These policy conditions exemplify the influences from neoliberal economic theory. Neoliberal policies replace the "safety net" functions of welfare states with new functions as a "trampolines" (MacLeavy, 2010). The 2001 policy still protected low-income, non-working citizens within its "safety net." Its structure was not designed to help parents bounce back into employment following childbirth. Rather, parents under the 2001 policy were more likely to remain unemployed for longer than necessary and potentially fall into the "welfare trap" (MacLeavy, 2010). Whereas, the 2007 policy requirements and incentive structure help citizens avoid the "welfare trap" by rebounding them back into the German labor market sooner.

Accordingly, the 2007 parental leave reform aims to achieve greater labor market flexibility and competitiveness— two ingredients crucial for Germany to sustain global economic austerity. The Grand Coalition is exactly what Germany needed to rein in social spending and place its domestic economy on a path towards supremacy internationally. Whether or not Germany was ready for it, the Grand Coalition pursued a neoliberal agenda. Driven by long-term macroeconomic success, Chancellor Merkel effectively retracted the role of the German government. By trimming costs and cutting unnecessary programs, the Grand Coalition created a "leaner, meaner" version of the old welfare state (MacLeavy, 2010). The example of Germany's 2007 Parental Leave reform

demonstrates greater austerity measures used by policymakers. German policymakers tightened the budget on family policy by making the benefit contingent upon previous employment and net earnings. Moreover, this new incentive structure proves to be more cost effective and progressive. The policy eradicated the traditional “breadwinner” model and replaced it with a dual-earner framework. Furthermore, the policy reform marks a significant step in the German government’s advancement of gender equality. In doing so, Germany policymakers are showing government support for a more diverse and inclusive workforce.

Conclusion and Future Research

Germany's Grand Coalition has successfully implemented a domestic agenda for its future economic success as a major global competitor. Germany's politicians and policymakers have learned from the past. The 2007 parental leave policy reforms signify Germany's attempt to end its streak of declining maternal employment and record low fertility rates. Moreover, this policy represents the cohesion of ideals from the social left with fiscal conservatism of the Christian right. The political consensus in Germany is more austere and neoliberal under the Grand Coalition. That is not to say, however, that this new era of German governance has forgotten its social democratic values. The policy has effectively rid Germany's population of its reliance on welfare. It promotes individual entrepreneurship while supporting individual decisions to start a family. The 2007 parental leave reforms, as my quantitative analysis suggests, have been effective in encouraging labor market activism amongst mothers. The analysis indicates that new mothers are more likely to return to the labor force, and sooner, under the 2007 policy. The 2007 parental leave reform offers German mothers a healthier work and family life balance. Moreover, the reforms buffer Germany's future workforce by encouraging flexibility, diversity, and human capital appreciation. Altogether, this policy is crucial if Germany wishes to avoid the future disappearance of its working age population. These findings support my claim that Germany's new approach to family policy encourages a healthier future economy, government, and society. In my future research I am interested to quantitatively test if this policy has been successful at increasing fertility, and examine how childcare availability affects this.

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