

# Cash Transfers and Fertility: From Short to Long Run

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## Abstract

Many developed countries are at risk of experiencing population decline due to low fertility rates, with potential adverse economic effects. As a response, governments are deploying family policies to increase the number of children. In this paper, we propose a dynamic life-cycle model of fertility and female labor force participation to assess their effectiveness. We use the short-run fertility effects of a cash transfer policy implemented in Spain in 2007-2010 to calibrate its parameters. Using the calibrated model, we find that the impacts, in the long run, are half as large as in the short run. This is driven by differences in the responses of younger and older women at the time of implementation. The latter must react shortly after, as they cannot delay fertility much longer. The former anticipates their first birth. This generates additional births in the short run. We also study the effects of an alternative policy consisting of childcare subsidization and explore how the coexistence of temporary and permanent contracts in Spain, which have different earnings profiles, affects fertility and interacts with cash transfers by raising the costs of career interruptions in crucial child-bearing years.

**Keywords:** Cash Transfers, Fertility, Female Labor Force Participation, Dual Labor Markets, Life-Cycle.

**JEL Codes:** J11, J13, J22

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# 1 Introduction

In the developed world, the prevailing total fertility rates (TFR) have been well under the replacement level of 2.1 since the mid-1980s. This implies, in the absence of immigration, that the total population has already or will soon start to decline and that the share of old people will rise. These trends are expected to have harmful effects on economic performance.<sup>1</sup> Governments worldwide, worried about demographic pressures and their effects on the economy, are deploying policies to boost fertility rates and slow down population decline and aging. There may be room for policy intervention due to the large gap between desired and realized birth rates among recent cohorts of women. Can family policies effectively close this gap and thus increase the number of children born per woman?

To answer this question, we propose a dynamic life-cycle model featuring joint fertility and labor force participation decisions. To calibrate the model, we use a natural experiment involving a policy that gave one-shot cash transfers to women upon childbirth in Spain between 2007-2010, known in the media as the “cheque bebé” (baby check). We choose the model’s parameters to match its effects on fertility and labor force participation in the year following implementation (the short run).<sup>2</sup> These responses contain invaluable information regarding the sensitivity of such decisions to family income. But they may also reflect changes in fertility timing (*tempo*) induced by the policy that does not necessarily translate into a change in the completed fertility rate. We also use data on desired fertility to capture heterogeneity in preferences over the number of children and match overall labor supply patterns for groups of women with children of different ages, as well as the average timing of first births right before the policy implementation.

We then use the calibrated model as a laboratory to perform quantitative experiments. First, we simulate the effects of the policy in the long run, i.e., after enough time has passed so that all women have been exposed to cash transfers since the beginning of their childbearing years. Thus, we quantify the effects on the overall number of children per woman (*quantum*). Then, we simulate the effects of an alternative policy involving childcare subsidies for children aged 0-3, with the same present value as the cash transfers. The cost of childcare at these ages can play an important role in fertility and mothers’ labor force participation decisions since

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<sup>1</sup>Population aging and decline are associated in the literature with increasing burdens of social security systems (De Nardi et al., 1999), low-interest rates (Krueger and Ludwig, 2007) and reduced output growth and investment (Aksoy et al., 2019). Jones (2022) explores the consequences of population decline in growth models. A disturbing possibility emerges: the Empty Planet result. This refers to a situation in which knowledge and living standards stagnate for a vanishing population, which can happen if society doesn’t implement the optimal allocation fast enough. He concludes that policies related to fertility can determine whether we fall into this trap or converge to a balanced growth path with exponential growth (“Expanding Cosmos”).

<sup>2</sup>See González (2013).

public schooling is usually not universally available yet for these children.<sup>3</sup> Finally, we explore the stand-alone effects and the interactions with the cash transfers arising from an essential feature of Spanish labor markets: the coexistence of temporary and permanent contracts, known as the duality of the labor market. Most workers start their careers with temporary contracts, which generate lower yearly earnings (partly due to intermittent unemployment) and have lower returns to experience. Therefore, the costs of career interruptions may be substantial in crucial child-bearing years, as women want to work, accumulate experience and increase the likelihood of transitioning to a permanent contract.

Our main result is that the long-run effects of cash transfers on fertility are about half as large in magnitude as the short-run effects (3% and 6%, respectively), the main reason being that in the short run, there are additional births among older cohorts of women that only have a few periods to adjust their decisions after the policy is announced. Moreover, we find that childcare subsidies for parents of children aged 0-3, with the same present value as the cash transfers considered in the first exercise, have a long-run impact on fertility that is only slightly smaller than the latter. However, instead of reducing mothers' labor force participation, which the cash transfers do, they increase it (around one percentage point, while the unconditional transfers reduce it in a magnitude at least as large). Furthermore, we find that eliminating the dual nature of Spanish labor markets (i.e., implementing a unique contract with earnings and returns to experience between the temporary and the permanent ones) has a long-run positive effect on fertility which is three times as large as that of the cash transfers (9% increase). Finally, we explore the interaction between labor market duality and cash transfers. In the long run, we find that the latter's effects on fertility are very similar both in a scenario with dual labor markets and in one where there is a single contract (which is more representative of the situation in other developed countries like the United States).

Taken together, our results imply that the impact of family policies may be smaller in the long than in the short run since the mechanisms at work do not seem specific to the cash transfer policy we consider here. Moreover, these quantitative exercises highlight the importance of interventions that make labor market interruptions less costly (as eliminating duality) and less necessary (as childcare subsidization) for fertility outcomes when considering the decision jointly with labor force participation.

**Related literature and contributions.**— This paper is related to various lines of research that intersect with each other. First, it fits into the economics of fertility. Historically, fertility rates have fallen with income and female labor force participation across countries

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<sup>3</sup>This was indeed the case in Spain at the time when cash transfers were introduced, see section 2 for details.

and families. Economists stressed ideas like the quantity-quality trade-off of children (Becker, 1960; Becker and Lewis, 1973) and the role of the opportunity cost of women’s time (Butz and Ward, 1979) to explain these empirical regularities.<sup>4</sup> However, neither of the aforementioned two relationships hold anymore in developed countries: the first one has flattened and the second one is now slightly positive. The new economics of fertility (Doepke et al., 2022) stresses the importance of compatibility between career and family as a major driver of fertility. As a result, it sees it as crucial to consider these decisions jointly with labor force participation, as this paper does.

In the literature addressing these issues, many studies deal with them in isolation.<sup>5</sup> Moffitt (1984) and Hotz and Miller (1988) were some of the first to consider them jointly, in reduced form. Erosa et al. (2002) and Erosa et al. (2010) do so as well, but within structural models with exponential lives and in steady-state equilibrium. Francesconi (2002) is the pioneer study involving a dynamic life-cycle model with joint fertility and labor force participation decisions. Other papers that have featured such models since then include Da Rocha and Fuster (2006), Sheran (2007), Del Boca and Sauer (2009), Keane and Wolpin (2010), Erosa et al. (2016), Adda et al. (2017), Guner et al. (2020) and Guner et al. (2021). Our main contribution to this literature is how we deal with heterogeneity in fertility preferences. We provide evidence that the desired number of children, as retrieved from fertility surveys, changes slowly across cohorts, does not heavily depend on income, and therefore provides a reasonable estimate of the lower bound for the potential fertility. Hence, we use desired fertility data to infer the distribution of preferences over the number of children. Moreover, efforts have been made recently to measure the impacts of maternity on labor market outcomes over different time spans, also known as child penalties (Kleven et al., 2019b). We use the event-study approach developed by these authors in our simulated data and contrast the resulting child penalties over time with the ones observed in the data.

This paper also contributes to the literature studying the impact of family policies on fertility and female labor force participation. There are broadly two branches in this body of research, one empirical and one structural (model-based). The empirical literature most often uses difference-in-difference and regression discontinuity designs to exploit natural experiments created by policy implementation. This way, they can identify the effects around

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<sup>4</sup>For a survey on what Doepke et al. (2022) call first-generation models of fertility, see Hotz et al. (1993)

<sup>5</sup>Early papers studying fertility in a static context include Becker (1960), Becker and Lewis (1973) and Willis (1973). Dynamic models of fertility that kept labor force participation constant include Ward and Butz (1980), Wolpin (1984), Rosenzweig and Schultz (1985), Cigno and Ermisch (1989), Heckman and Walker (1990), Blackburn et al. (1993), Arroyo and Zhang (1997) and Sommer (2016). Conversely, Heckman and Macurdy (1980), Blau and Robins (1988), Eckstein and Wolpin (1989), van der Klaauw (1996), Hyslop (1999), Attanasio et al. (2008), Keane and Sauer (2009) and Blundell et al. (2016) study labor supply decisions in a dynamic framework while taking fertility decisions as exogenous.

it in a small window of time. In particular, [Milligan \(2005\)](#) and [González \(2013\)](#) study the impact of cash transfers in Canada and Spain, respectively.<sup>6</sup> The latter study estimates the short-run impact of this policy on fertility and mothers’ labor supply that we use to calibrate our model. While they both find positive effects, the authors warn that the identified effects may include changes in timing, not just overall quantity. [Cohen et al. \(2013\)](#) use panel data on Israeli women and exploit variations in child subsidies to identify their effects on fertility. Interestingly, they find positive effects among older women, which they interpret as evidence in favor of an increase in the overall total of children and not just timing. In our results, these same effects explain the larger fertility effects in the short run.

On the other hand, the models used by the structural branch of the literature provide a laboratory to perform counterfactual quantitative experiments. This is important for three reasons. First, long-run impacts can be assessed by simulating the long run. Second, the results from the empirical literature strongly suggest that the context in which family policies are implemented matters ([Cascio et al., 2015](#); [Olivetti and Petrongolo, 2017](#)). Thus, it is crucial to understand how they interact with one another and with labor market institutions. Policies can be implemented separately and jointly in the model, allowing researchers to understand better the interactions that arise. Third, it is possible to experiment with policies that have never been implemented, which means they cannot be tested empirically yet. Notice that in this paper, we do all three things. Examples of this kind of work include some papers mentioned earlier: [Erosa et al. \(2010\)](#) study parental leaves, while [Adda et al. \(2017\)](#) and [Guner et al. \(2020\)](#) study cash transfers. Moreover, [Bick \(2016\)](#) studies the effects of childcare subsidies in a structural model featuring decisions over the total number of children and labor force participation but no decisions on the timing of fertility.

The main contribution of this paper is to connect the two branches of the literature studying the impacts of family policies on fertility and female labor force participation in the sense that we use a structural model, but we calibrate its parameters using carefully identified results from the empirical literature. We believe doing so is a powerful combination to understand better how family policies affect these outcomes. Indeed, there are direct appeals to this type of exercise in the literature, i.e.: “Combinations of clean designs with structural models of the sort presented in this paper may therefore be an avenue that helps to explore the longer-term effects of policy interventions” ([Adda et al., 2017](#)).

The remainder of the paper is organized as follows. Section 2 discusses the setting and

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<sup>6</sup>Other family policies have been studied as well. [Bettendorf et al. \(2015\)](#), [Geyer et al. \(2015\)](#), [Givord and Marbot \(2015\)](#), [Haeck et al. \(2015\)](#), [Nollenberger and Rodríguez-Planas \(2015\)](#) and [Müller and Wrohlich \(2020\)](#) evaluate the effects of childcare subsidies, while [Lalive and Zweimüller \(2009\)](#) and [Asai \(2015\)](#) study parental leaves.

lays out some descriptive evidence. Section 3 describes the model. In section 4, we explain how we take the model to the data and show the calibration results. Section 5 presents the main quantitative experiments. Section 6 concludes.

## 2 Background and Descriptive Facts

In this section, we describe the cash transfer policy that originated the natural experiment, which provides key moments we use as part of our calibration targets and the demographic and institutional context in which it happened. Then, we present evidence on fertility preferences that points to a gap between desired and realized fertility and discuss the robustness of these preferences to income and policy circumstances. Finally, we show evidence of changes in labor market behavior associated with motherhood. The facts presented in this section inform important modeling choices fully explained in section 3.

### 2.1 The Baby Check

Since the beginning of the 1990s, Spain has consistently been one of the countries with the lowest fertility rates in the world.<sup>7</sup> Against this backdrop, on July 3 2007, the Spanish prime minister unexpectedly announced the introduction of a one-time €2500 child benefit to be paid to mothers immediately after each birth. This benefit was complementary to any pre-existing child support or assistance. The policy came to be known in the Spanish media as “cheque bebé” (baby check, hereinafter). The projected population aging is explicitly mentioned in the originating law as the motive behind the new benefit, with the implicit understanding that it would increase fertility and slow down that demographic trend. The mechanisms through which the government expected the baby check to stimulate fertility were also made explicit in the law: compensating the additional expenditures households incur upon the birth of a new child and facilitating work-life balance. Lastly, the law mentions that the benefit was intended to maintain disposable income and welfare for low-income families with a new child.<sup>8</sup>

The baby check requirements were quite low, making it essentially universal. No income tests were stipulated, and the only real precondition was to have effectively resided in Spain for the two years before the birth<sup>9</sup>. This generated criticism to the benefit since its inception, as opposition parties argued that it was unfair that high-income families were receiving a

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<sup>7</sup>See appendix A for an overview of Spain’s and similar countries’ past and future demographics.

<sup>8</sup>LEY 35/2007, November 15, 2007.

<sup>9</sup>Even this requirement was relaxed in 2009, making all women residing in Spain eligible for the benefit.

similar benefit as low-income ones.<sup>10</sup> Nevertheless, the first baby checks were rolled out in November 2007. Over the next year, the government reported paying almost half a million of them, at the cost of approximately €1.2 billion, around 0.8% of the projected public expenditure for 2008.<sup>11</sup>

González (2013) exploits the sharp cut-off established by the government as a source of quasi-random assignment to identify the effects of the transfers on mothers' labor force participation.<sup>12</sup> She finds that mothers who received the benefit were 2-4 percentage points less likely to work twelve months after delivery. Moreover, she uses a differences-in-differences approach to identify the effect of the transfers on the annual number of births and finds that it increased by about 6 percent. These estimates provide invaluable information about the short-term sensitivity of households' fertility and female labor force participation decisions to unearned income.

The baby check was phased out three years later, on May 12 in 2010, as part of overall budget cuts implemented by the Spanish government after the 2008 financial crisis.<sup>13</sup> The baby check was no longer available to women who gave birth after January 1, 2011. Similarly to the introduction of the child benefit, its cancellation was unexpected. González and Trommlerová (2023) quantify and compare the effects of the introduction and cancellation of this policy. They find that right after the cancellation announcement in May 2010, there was a substantial rise in births of 4.7%, and right after the cancellation of the benefit, they observe a 5.7% decrease in births. They also find that the positive fertility response to the benefit's introduction in 2007 was smaller in magnitude than the fertility decline that occurred after the benefit's cancellation in 2010. Exploiting heterogeneity in economic conditions across provinces, they find that the larger negative effect of the cancellation was particularly pronounced in regions most affected by the economic crisis.

Researchers have quantified different family policies to boost fertility, but the issue remains unresolved in Spain and worldwide. On average, OECD countries devote slightly more than 2% of GDP on family benefits public spending, with Spain actually devoting only around 1% of GDP (OECD, 2022).<sup>14</sup> Moreover, a new baby check was introduced by the regional government of Madrid in January 2022, this time geared towards young mothers (below 30 years old), means-tested (families with annual income below €30000), and much

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<sup>10</sup>“El Congreso aprueba el cheque-bebé”. *El País*, October 18, 2007. [https://elpais.com/elpais/2007/10/18/actualidad/1192695432\\_850215.html](https://elpais.com/elpais/2007/10/18/actualidad/1192695432_850215.html) (in Spanish).

<sup>11</sup>“Presupuestos Generales del Estado, 2008”. *Ministerio de Economía y Hacienda*, December 26, 2008.

<sup>12</sup>Note that the baby check was announced on July 3, and all mothers giving birth from July 1 on were eligible to receive it.

<sup>13</sup>Montero, Vicky, 2010. “José Luis Rodríguez Zapatero dice adiós al cheque-bebé, su medida estrella en política social”. *RTVE*, May 5. <https://www.rtve.es/noticias/20100512/331041.shtml> (in Spanish)

<sup>14</sup>Includes mainly child-related cash transfers, parental leaves and income support for sole parents, and services for families with children.



more generous (up to €14500, in €500 installments).<sup>15</sup> The importance of assessing the effects of this kind of spending is therefore very much relevant.

## 2.2 Institutional Background

The impact of family policies is mediated by the context in which they are implemented. Here, we discuss the institutional background in which the baby check was introduced in July 2007 in Spain.

Public childcare provision at this time in Spain was pretty typical for a high-income country. Despite mandatory schooling starting only at age 6, preschool between 9 am and 5 pm was offered to all parents of children aged 3 to 6 that requested it, and take-up was nearly universal. For children aged 0-3, however, the availability of places in public childcare centers was quite limited, and parents, therefore, mostly had to pay for it out-of-pocket. Using the *Encuesta de Presupuestos Familiares* (Family Budget Survey, EPF henceforth) from the Spanish Institute of Statistics, we estimate that families with a child aged between 0 and 3 years old using full-time childcare spent on average €2000 a year in 2007.

The literature has pointed at taxation as one of the factors affecting the female labor supply. In particular, joint taxation has been identified as a strong disincentive to labor force participation among married women (Bick and Fuchs-Schündeln, 2017; LaLumia, 2008). Spain's system, however, allows couples to minimize their tax liabilities by filing jointly or separately, so it does not constitute an additional barrier to female labor participation.

One important aspect of the Spanish labor market that needs to be discussed here is duality, i.e., the coexistence of temporary and permanent contracts. The former have higher firing costs, and firms can effectively fire a temporary worker by not renewing her contract. Most young people start their careers in this situation, and with a probability that is initially low but increases with experience, they become workers with a permanent contract. This causes job insecurity, loss of earnings caused by intermittent unemployment, and lower returns to experience for young workers.<sup>16</sup> All these increase the cost of career interruptions early on for temporary workers, making it less likely that they can obtain a permanent contract. There is plenty of evidence that temporary contracts cause women to postpone and reduce their fertility (see Adserà (2004), de la Rica and Iza (2005), Auer and Danzer (2016), Lopes (2020) and Guner et al. (2021)). A related problem is the high unemployment rate. For example, Da Rocha and Fuster (2006) find that unemployment

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<sup>15</sup> *Boletín Oficial de la Comunidad de Madrid* núm. 308, December 27, 2021.

<sup>16</sup> Dolado et al. (2021) argue that when the gap in firing costs is large between temporary and permanent contracts, as in Spain. Workers under the former exert less effort, and firms provide less training, which may explain this difference in the returns to experience.



induces women to postpone and space births, which reduces fertility. However, the period before the policy implementation was one of low unemployment in Spain-the expansion before the Great Recession in 2008. Since this is the period we use for our model calibration, we do not model unemployment risk.<sup>17</sup>

## 2.3 Desired and Realized Fertility

In all high-income countries, women would like to have more children than they currently have, which may be one reason why policies such as the baby check might affect fertility. In this section, we use data from the *Encuesta de Fecundidad* (Fertility Survey, EdF henceforth) of the Spanish Statistics Institute to discuss the robustness of this fact for Spain.

There are two waves of the EdF, from 1999 and 2018. Crucially, women were asked in both of them about their desired fertility. The structure of the question, which is identical across years, is as follows: first, women declare the number of children they have. If they are childless, they are asked whether they would like or would have liked children, and if so, how many. If they have children, they are asked whether their number coincides with the number they would like or would have liked to have. If it does not, they are asked how many children they would like or would have liked to have. Finally, they are also asked to rank potential reasons behind this mismatch.

Table 1 shows the realized and desired fertility for women aged 40 to 44 in 2018 and the difference between them. We chose this age group because most of these women had already completed their fertility, meaning the difference in desired fertility is definitive. The main takeaway from this table is that there are many women whose completed fertility is lower than their ideal. In particular, it shows that the fraction of childless women more than doubles the fraction of those who declare not wanting to have any children, while less than half the number of women that would have liked three or more children do. On average, the desired number of children for this cohort at this point in time was 2.04, while the actual number was 1.54, a gap of 0.5 children. This is very close to what is observed on average across OECD countries<sup>18</sup>.

We believe that the existence of this gap is evidence that pronatalist policies have some margin to increase fertility. It can be reasonably argued that the answers given by people in surveys like the EdF do not represent policy-invariant preferences and that people respond by considering restrictions and incentives given by their current context. However, a pronatalist

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<sup>17</sup>Bentolila et al. (2012) look at the role of duality in the unemployment surge in Spain during the Great Recession.

<sup>18</sup>See OECD Family Database <https://www.oecd.org/els/family/database.htm>.

policy would very likely not diminish desired fertility by itself. Therefore, the gap between it and realized fertility can be seen as a conservative estimate of the maximum possible effect of such a policy. Nevertheless, in what follows, we present evidence that desired fertility would probably not change significantly in response to policies that alter decisions in the margin.

**Table 1.** Fraction of Women Aged 40-44 by Desired and Realized Number of Children

Number of children	Desired	Realized	Gap
0	7.90%	18.99%	-11.09%
1	15.20%	24.96%	-9.75%
2	49.75%	43.79%	5.95%
3 or more	27.15%	12.26%	14.89%

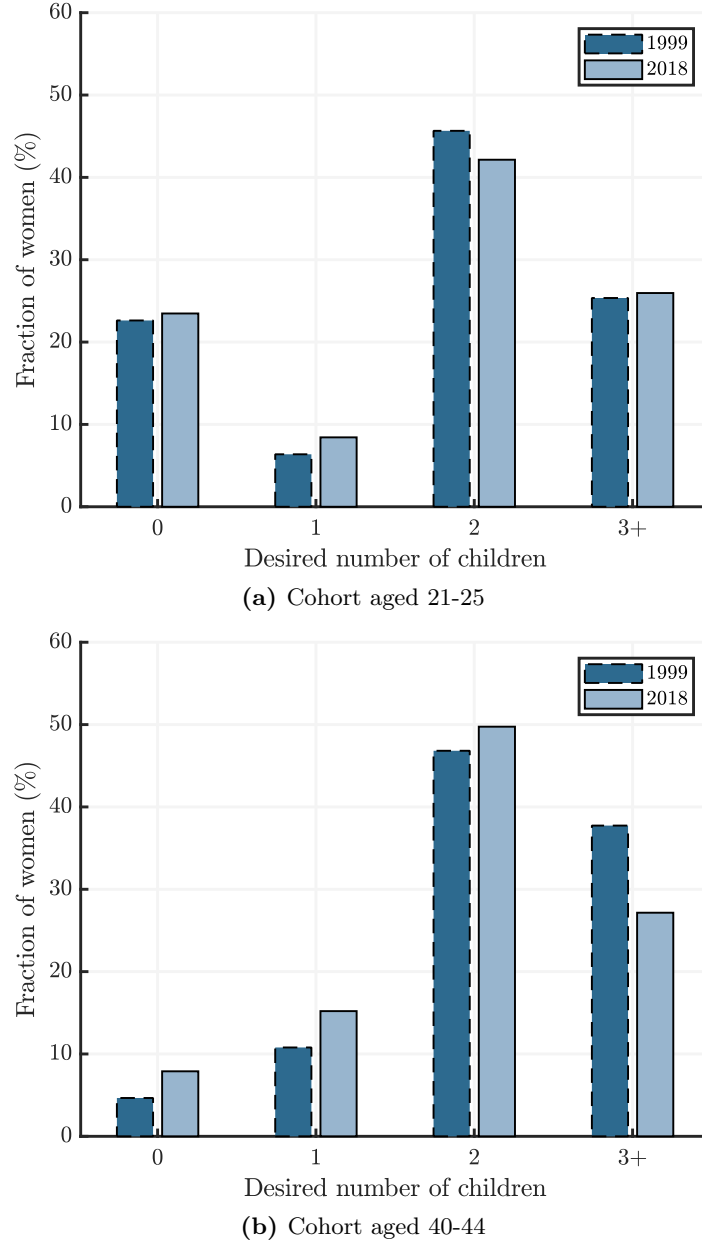
Source: *Encuesta de Fecundidad 2018, INE.*

An almost ideal way to test empirically whether the baby checks had any effect on desired fertility among the cohorts affected by it would be to use a Regression Discontinuity Design, similar to what [González \(2013\)](#) did for births and labor force participation. Unfortunately, we do not have data on desired fertility *right before* nor *right after* the policy announcement. We have two waves of the survey, which allows us to compare the same cohort’s responses at different ages and cohorts at the same age.

Figure 1 shows the desired number of children by cohort and by survey year. Consider first the cohort aged 21-25 in 1999 and 40-44 in 2018. When the baby check was introduced, these women were aged 29-33 in 2007 and therefore were affected by it. Their fertility preferences are represented by the dashed dark blue bar in Figure 1a and the solid light blue bar in Figure 1b. Notice that desired fertility experienced some changes between those years. In particular, the fraction of women that declared not wanting children in 1999 (when they were young, e.g., before most of them made any fertility decisions yet) is significantly smaller than the fraction in 2018 (after fertility was completed). Most of the difference is attributed to a higher proportion of women declaring they want one child. By contrast, the fractions wanting 2 or 3 children or more are similar. In other words, there is a discrepancy in the extensive margin but not so much in the intensive margin.

Two (non-mutually exclusive and non-exhaustive) hypotheses to explain this are that the baby checks changed the fertility preferences in a particular way for this cohort or that some women change their preferences as they age. The left panel shows that the desired fertility is almost identical across cohorts aged 21 to 25 and very similar across cohorts aged 40 to 44 in 1999 and 2018. This is evidence in favor of the second hypothesis. In a nutshell, Figure 1 points to fertility preferences changing somewhat along the life cycle but slowly across cohorts (which are exposed to different policies and economic conditions).

**Figure 1.** Fraction of Women by the Desired Number of Children for Selected Cohorts



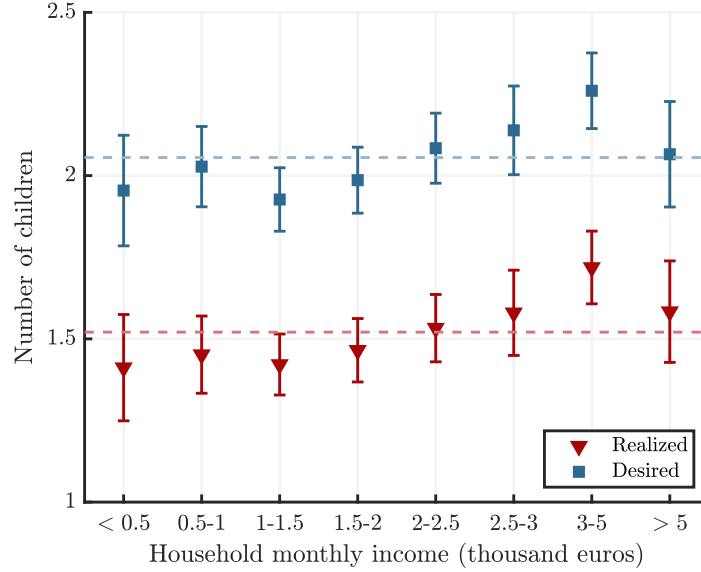
Source: Authors' work with data from *Encuesta de Fecundidad 1999 and 2018, INE*.

Moreover, Figure 2 shows the desired and realized fertility by household income for the same demographic as before. As discussed in the introduction, there's no clear relationship between fertility and income (if anything, there might be a slight positive correlation, whereas, in the past, it was negative). Moreover, desired fertility also does not exhibit a clear pattern. Since it does not change much with differences in family income shown here, which go up to an order of 10, it seems reasonable to conclude that desired fertility barely reacts to a one-time cash transfer which is a fraction of that.

Taken together, the evidence presented here indicates that fertility preferences reported

in the EdF reflect, albeit imperfectly, deep parameters regarding the maximum number of children women would be willing to have under reasonable changes in policy.

**Figure 2.** Desired and Realized Fertility by Monthly Household Income, Women 40-44



Source: Authors' work with data from *Encuesta de Fecundidad 2018*, INE.

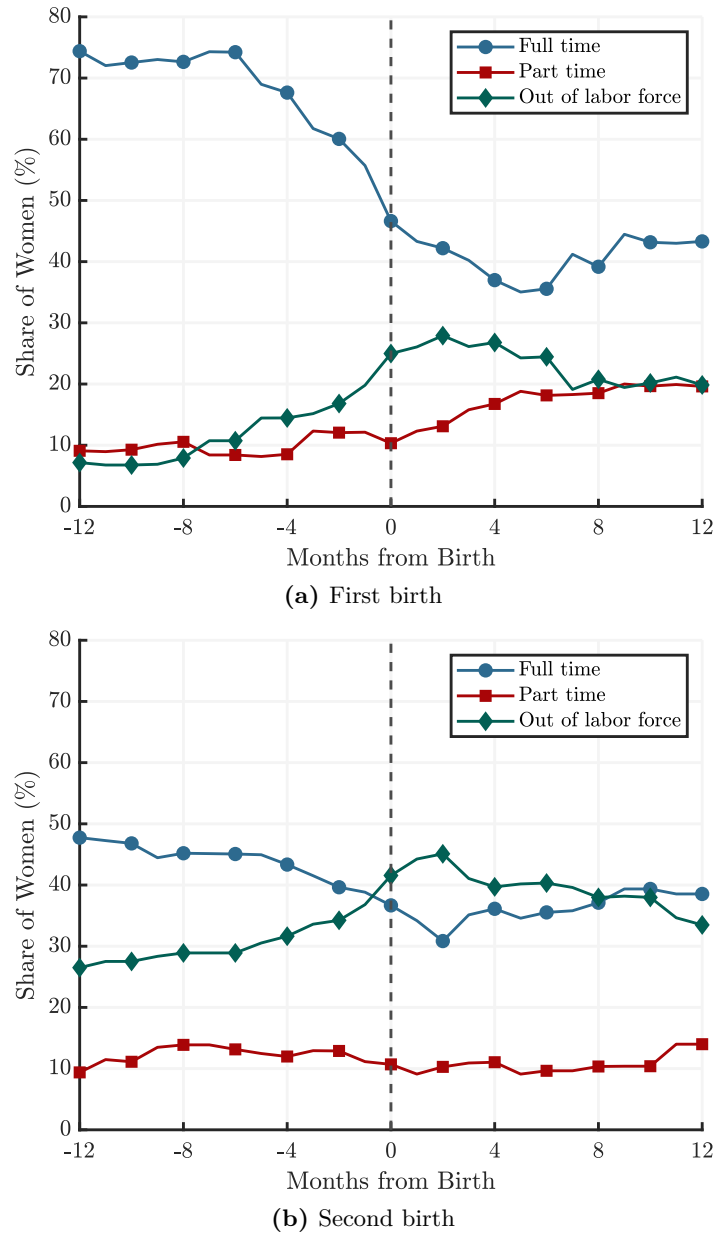
**Note:** Spikes represent 95% confidence intervals. Dashed lines represent the average realized and desired fertility of 1.52 and 2.05, respectively.

## 2.4 Labor Force Participation and Motherhood

Motherhood is associated with significant changes in women's labor market behavior. In this subsection, we use data from the *Encuesta de Condiciones de Vida* (Living Conditions Survey, ECV henceforth) of the Spanish Statistics Institute to provide some descriptive evidence for the magnitude of these changes among the cohorts of women affected by the baby check policy in the period immediately before its implementation. The ECV consists of a rotating panel, where households are interviewed for four consecutive years. There are 16000 households in the sample. Each year 4000 households leave, and 4000 new households replace them. We identified all births among women in the sample between 2004 (the first year of the sample) and July 2007 (that is, not eligible to receive the baby check). We kept all women for which there is labor force participation information for each of the 12 months preceding and succeeding the birth (24 months in total).

Figure 3 shows the fraction of women working full-time, part-time, and not in the labor force in this period by parity (first and second births). There is a large drop in full-time participation that actually starts about six months before the birth of the first child. The difference in the rate twelve months before and after childbirth is more than 20 p.p.

**Figure 3.** Female Labor Force Participation Around the First and Second Births



Source: Author's work using *Encuesta de Condiciones de Vida 2005-2008*, INE.

**Note:** The data corresponds to years 2004-2007.

Conversely, the part-time rate and the fraction of women that are out of the labor force increase by about 10 p.p. each<sup>19</sup>. By the time women give birth to their second child, full-time participation has barely changed compared to one year after their first one. However, the part-time rate has returned approximately to its pre-children level, while the fraction who are out of the labor force has inched upwards by between 5 and 10 p.p. The second childbirth is associated with another drop in full-time participation rates, this time of slightly

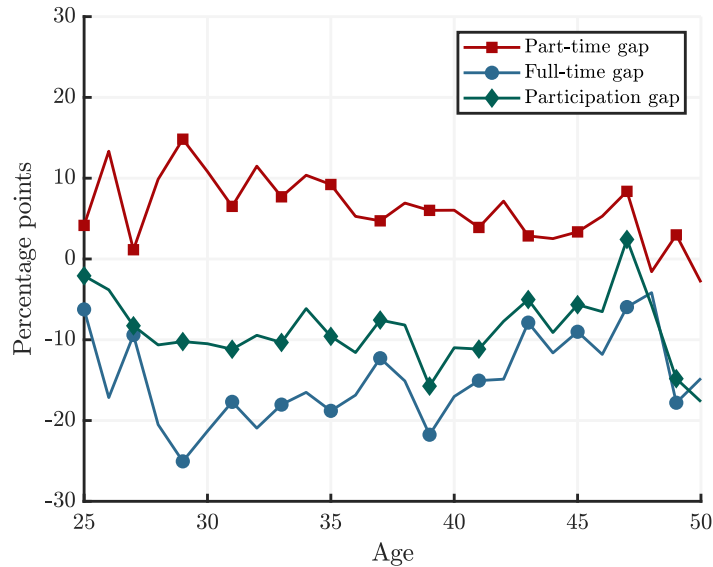
<sup>19</sup>The fractions of women don't add up to 1 as some are also unemployed (not shown in the graph).

less than 10 p.p. This is not compensated at all with part-time, and therefore almost entirely translates into a commensurate increase in non-participation over the next 24 months.

Taking stock, the first childbirth is associated with a significant drop in full-time participation, partially compensated by an increase in part-time. In contrast, the second birth is associated with a smaller drop that is not compensated by an increase in part-time and from a much lower baseline.

The previous analysis centers on the 24 months around childbirth and was performed on a balanced panel of women. To understand the longer-term effects of maternity on labor market behavior, we look at the cross-section of women present in the sample during the same period. Figure 4 plots the gap in participation, part-time and full-time rates between mothers and childless women by age. In general, mothers are much less likely to work full-time, somewhat more likely to work part-time, and less likely to work overall. The participation gaps close as women age and presumably their children grow up and start requiring less time, thus allowing them to work more easily. However, they persist between ages 30 and 40. Therefore, maternity is associated with a sudden drop in participation the year around childbirth and with lower participation rates for several years afterward.

**Figure 4.** Life-cycle Difference in Labor Force Participation Rates Between Mothers and Childless Women



Source: Author's work using *Encuesta de Condiciones de Vida 2005-2008*, INE.

**Note:** The data corresponds to years 2004-2007.

The main takeaway from the evidence presented here is that it is important to model the costs that children impose on mothers, especially time costs, in such a way that it generates the behavioral changes in the labor market associated with motherhood discussed above.

### 3 The Model

We study fertility and labor force participation decisions over the life cycle of married women. They derive utility from the number of children, consumption, and leisure. The model reflects the main trade-offs women face when making such decisions: each one has a target fertility level, but children negatively affect consumption and leisure time, so that desired fertility may not be achieved. The model captures dynamic career concerns as well. Becoming a mother at a younger and older age has various costs and benefits. Moreover, women face a trade-off between being a working mother or taking a costly career break once a baby is born. Labor market participation interruptions are costly because experience is not accumulated. Moreover, most women start working life under a temporary contract. To increase the chances of converting it to a permanent one, they must work to accumulate experience. However, there are costs of being a working mother. Considering all these constraints, each woman decides how many children to have and when to have them. The details of the model are covered in the rest of this section.

#### 3.1 Demographics

We model women's life choices between the ages of 25 and 52. A model period corresponds to one year. We denote model periods with  $j$ , hence age 25 corresponds to  $j = 1$  and age 52 to  $j = J = 28$ . Before  $j = 1$ , each woman is exogenously matched with a spouse/partner the same age as her and draws a desired number of children  $N^* \in \{0, 1, 2, 3\}$ . There are no marital transitions (no separations or divorces), and  $N^*$  remains constant for their whole life.

From ages 25 to 39, in each period, women must decide whether to try to have an additional child or not. We denote this decision by  $b \in \{0, 1\}$ . If she decides to do so ( $b = 1$ ), she gives birth to a baby next period with probability  $\alpha_j$ , which decreases with age. Therefore, women can give birth between the ages of 26 and 40. Each woman can have a maximum of three children, and we denote the total number of children by  $N \in \{0, 1, 2, 3\}$ .

After being born, each child transitions stochastically between four stages of life, based on the different kinds of costs children impose on mothers as they age. The first two stages are newborn (below one year old, thus born in the current period) and baby (between ages 1 and 3). The only difference between them is that newborns may come with a baby check. Children in these two stages entail the same consumption, leisure, and childcare costs. The third stage represents school-age (between ages 3 to 12). As children move to this stage, they



continue to impose consumption and leisure costs, although quantitatively not identical to those imposed by newborns and babies. However, full-time childcare for school-age children is free for the parents (we assume universal public provision). Finally, those in the fourth stage are teenagers/young adults (ages 12 and up), which are not costly at all for mothers in terms of leisure but represent a larger burden on consumption. The exact mathematical form all these costs take is discussed in the following subsection.

We denote by  $\mathbf{n} = [n_0, n_1, n_2, n_3]$  the vector indicating the number of newborns, babies, school-age children, and teenagers, respectively (hence  $N = n_0 + n_1 + n_2 + n_3$ ). A newborn becomes a baby with probability one after one period. A baby becomes a school-age child, and a school-age child becomes a teen with probabilities  $\lambda_1 = 1/2$  and  $\lambda_2 = 1/11$ , respectively. In expectation, a child spends two years as a baby and eleven years of school age. The teenage/young adult stage is absorbing: once a child reaches this stage, it remains there. We denote this structure by  $\mathbf{n}' = \Lambda_j(\mathbf{n}, b)$ .<sup>20</sup> The main advantage of modeling children's aging in this way is that we avoid carrying each child's age as a state variable.

### 3.2 Preferences and Constraints

Women are the sole decision-makers in the household. Alternatively, they hold all the bargaining power, and thus the household's preferences are perfectly aligned with hers. In each period, apart from their fertility decision, they must also decide their labor force participation  $h \in \{0, 1/4, 1/2\}$ , where  $h = 0$  means no participation, and  $h = 1/4$  and  $h = 1/2$  stand for part-time and full-time work, respectively.<sup>21</sup>

In each period, utility is derived from consumption ( $c$ ), leisure ( $l$ ), and children ( $\mathbf{n}$ ). The functional form for instantaneous utility is given by the sum of CRRA terms for the first two, and an additional term which is a function of the latter:

$$u(c, l, \mathbf{n}; N^*) = \frac{\left(\frac{c}{\psi(\mathbf{n})}\right)^{1-\gamma_c} - 1}{1 - \gamma_c} + \delta_l \frac{l^{1-\gamma_l} - 1}{1 - \gamma_l} + \Gamma[\mathbf{n}, h; N^*],$$

where:

<sup>20</sup>See appendix D for the exact functional form this structure takes.

<sup>21</sup>Out of the 24 hours a day has, we assume 8 are used for sleeping and personal care, leaving 16 hours to be split between work, childcare, and leisure. A full-time job (8 hours per day) therefore, represents  $\frac{1}{2}$  of the time endowment, while a part-time one (4 hours per day) represents  $\frac{1}{4}$  of it.

$$\Gamma[\mathbf{n}, h; N^*] = -\delta_N(\mathbf{n}; N^*) \frac{\exp(j - \gamma_N)}{1 + \exp(j - \gamma_N)} |N - N^*| + \mathbb{1}_{\{N>0\}} \zeta + \mathbb{1}_{\{h=1/2\}} \kappa(\mathbf{n}).$$

Children affect utility directly and indirectly. The first two terms of the above expression depend purely on the number of children, and are, therefore, the direct effect. First, women experience a utility penalty from the difference between the current ( $N$ ) and desired or target number of children ( $N^*$ ). This can be interpreted as a craving for children among women that are still able to have them, and lifetime regret among those that cannot. Either way, it is the reason why women have children in the model.

The intensity of the penalty for not having the desired number of children depends on two terms. The first one,  $\delta_N(\mathbf{n}; N^*)$  introduces a non-linearity:

$$\delta_N(\mathbf{n}; N^*) = \delta_{N1} \left[ 1 - \delta_{N2} \mathbb{1}_{\{N=2, N^*=3\}} \right],$$

i.e., we allow for the marginal disutility of not having a third desired child to be different from the marginal disutility of not having the first and the second.

The second one introduces age variation. In particular, it is a sigmoid function that increases with age and is asymptotic to 1. That is, younger women experience only a fraction of the utility penalty older women do, but this fraction increases with age. This can be interpreted in various ways. One is that it captures factors not included in the model that cause women to postpone fertility, such as housing and partner disposition. Another one is that it is a child-specific discount rate that decreases with age, as opportunities to have additional children diminish. Finally, there is a fixed (dis)utility of motherhood,  $\zeta$ .

The functional forms described above allow the model to reflect aspects of the quantum and tempo of fertility. Anticipating the calibration, it should be apparent that  $\zeta$  is crucial for the extensive margin of fertility (i.e. remaining childless or becoming a mother),  $\delta_1$  and  $\delta_2$  for the intensive margin (having 1, 2, or 3 children), and  $\gamma_N$  for the timing of births.

The third term in  $\Gamma[\mathbf{n}, h; N^*]$ ,  $\kappa(\mathbf{n})$  intends to capture the difficulties associated with working full-time while having kids. This includes schedule conflicts between full-time child-care and work, and disutility from not spending time with children.<sup>22</sup> We allow this cost to

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<sup>22</sup>Childcare usually goes from 9 am to 5 pm, but a full-time job may not correspond to that schedule. The fact that parents with young children must drop off and pick up their children at determined hours themselves or have someone else do it introduces an additional cost to working full-time. Moreover, [Guner et al. \(2021\)](#) report on the unusual organization of the workday in Spain, with long lunch breaks that create split-shift

vary on the age of the youngest child:

$$\kappa(\mathbf{n}) = \begin{cases} \kappa_1 & \text{if } n_0 + n_1 > 0 \\ \kappa_2 & \text{if } n_0 + n_1 = 0 \text{ and } n_2 > 0 \\ 0 & \text{if } n_0 + n_1 + n_2 = 0, \end{cases}$$

that is, if there is a newborn or baby present in the household, the utility cost of working full time is  $\kappa_1$ , if there aren't any newborns or babies, but there are school-age children, it is  $\kappa_2$ , and if there aren't any children other than teenagers, the cost is zero.

Children are costly in terms of consumption (non-childcare), and older children are more so. To reflect this, we use the OECD equivalence scale to adjust per-capita consumption in the household. It assigns a value of 1 to the household head, 0.7 to each adult, and 0.5 to each child. Teenagers are counted as adults, hence:

$$\psi(\mathbf{n}) = 1.7 + 0.7n_3 + 0.5(n_0 + n_1 + n_2).$$

Leisure time is also negatively affected by children. We assume that children require a minimum amount of time from the mother that increases sub-linearly to reflect economies of scale in the childcare production function (e.g. it doesn't take double the amount of time to prepare food for two children than it takes to prepare food for one). Moreover, we allow the minimum time required by children to vary on the age of the youngest. In particular:

$$\xi(\mathbf{n}) = \begin{cases} \xi_1 \sqrt{n_0 + n_1 + n_2} & \text{if } n_0 + n_1 > 0 \\ \xi_2 \sqrt{n_2} & \text{if } n_0 + n_1 = 0 \text{ and } n_2 > 0 \\ 0 & \text{if } n_0 + n_1 + n_2 = 0, \end{cases}$$

e.g., if there are two children in the household, the cost can be different depending on the ages. If both are school-age, the leisure cost for the mother is  $\xi_2 \sqrt{2}$ , but if one is a baby, the cost is  $\xi_1 \sqrt{2}$ . This provides flexibility for the model to reflect the needs children of different ages may have. Notice once again that teenagers do not impose any leisure costs.

With this, we can define leisure time for the mother, which is the residual of a time schedules. For example, 50% of workers are still at work at 6 pm in Spain, compared to 20% in the UK.

endowment of one unit minus hours at work  $h$  minus time required by children:

$$l = 1 - h - \xi(\mathbf{n}).$$

Finally, we assume that women in the labor force with newborns and babies are required to purchase childcare time for the same amount of time she works. Resources available for consumption at the household level are therefore the household's net income  $I_{net}^{hh}$  minus childcare costs:

$$c = I_{net}^{hh} - \lambda 2h(n_1 + n_2),$$

where  $\lambda$  is the cost of full-time childcare (we assume part-time childcare costs half as much).<sup>23</sup>

### 3.3 Income

We seek to model income in a way that captures income risk faced by households, accounts for labor market duality, is capable of reflecting the degree of (after-tax) income inequality (across households and genders, i.e. reflects the gender wage gap), and accounts for the returns of experience at different ages. To this end, we model spouses' (gross) income as depending on a couple of correlated, persistent stochastic shocks, the type of contract available (temporary or permanent), and accumulated experience.

The stochastic shocks for the woman and her partner are given by  $\epsilon^f$  and  $\epsilon^m$ , respectively. The household draws a couple of initial shocks  $(\epsilon_1^f, \epsilon_1^m)$  from an exogenous joint distribution, that subsequently evolves over time following an AR(1) process:

$$\begin{aligned} \epsilon^{f'} &= \phi^f \epsilon^f + \nu^f \\ \epsilon^{m'} &= \phi^m \epsilon^m + \nu^m \end{aligned}, \quad \begin{bmatrix} \nu^f \\ \nu^m \end{bmatrix} \sim N \left( \begin{bmatrix} \mu^f = 0 \\ \mu^m = 0 \end{bmatrix}, \begin{bmatrix} \sigma_{\nu^f}^2 & \rho \\ \rho & \sigma_{\nu^m}^2 \end{bmatrix} \right).$$

Experience is accumulated over time by working. We assume the partners always work full time, and therefore their experience in period  $j$  is  $j - 1$ ,  $\forall j \in \{1, \dots, J\}$ . Women experience changes from one period to the next according to:

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<sup>23</sup>It is possible that childcare costs do not increase linearly with the number of children (because of sibling discounts, etc.). However, we were not able to find good sources to determine the shape of the function.

$$x' = \begin{cases} x & \text{if } h = 0 \\ x \text{ w.p. } 1 - \pi_x & \text{if } h = \frac{1}{4} \\ x + 1 \text{ w.p. } \pi_x & \text{if } h = \frac{1}{4} \\ x + 1 & \text{if } h = \frac{1}{2}, \end{cases}$$

that is, the experience remains constant if she does not work, increases by one year if she works full time, and increases by one year with probability  $\pi_x$  if she works part-time. Notice that if  $\pi_x = \frac{1}{2}$ , half a year of experience is accumulated with one year of part-time work. However, we allow for  $\pi_x \neq \frac{1}{2}$ , possibly lower, to reflect a penalty of working part-time on experience accumulation. We denote this structure as  $x' = \Pi_x(x, h)$ .

We model labor market duality only for women. They draw an initial contract type  $z_1 \in \{0, 1\}$ , where 1 denotes permanent contracts and 0 temporary ones. In subsequent periods the probability of having a permanent contract depends on experience, the type of contract available in the previous period, and whether she worked in the previous period:

$$z' = \begin{cases} 0 & \text{if } z = 0 \text{ and } h = 0 \\ 0 \text{ w.p. } 1 - \pi_z(x) & \text{if } z = 0 \text{ and } h > 0 \\ 1 \text{ w.p. } \pi_z(x) & \text{if } z = 0 \text{ and } h > 0 \\ 1 & \text{if } z = 1, \end{cases}$$

that is, if a woman has a temporary contract and works, she becomes permanent with probability  $\pi_z(x)$  (which depends on her accumulated experience). If she has a temporary contract and does not work, she will still only have a temporary contract available for her next period. If she already has a permanent contract, she will also have one in the next period (it is an absorbing state). We denote this structure as  $z' = \Pi_z(x, h, z)$ .

Putting all the elements together, full-time (potential) log income for the woman is:

$$\ln(y^f) = \eta_0^f + \Delta\eta_0^f \mathbb{1}_{z=1} + \left(\eta_1^f + \Delta\eta_1^f \mathbb{1}_{\{z=1\}}\right)x + \left(\eta_2^f + \Delta\eta_2^f \mathbb{1}_{\{z=1\}}\right)x^2 + \epsilon^f,$$

that is, the type of contract changes the baseline income level and the returns to experience. In particular, if  $\Delta\eta_0^f > 0$ ,  $\Delta\eta_1^f > 0$ ,  $\Delta\eta_2^f < 0$  and  $\pi_z(x)$  is increasing in  $x$ , women have

an additional reason to work as much as possible at the beginning of their career, i.e. to increase the likelihood of getting an open-ended contract, under which expected income is higher.

Log income for the husband is given by:

$$\ln(y^m) = \eta_0^m + \eta_1^m(j-1) + \eta_2^m(j-1)^2 + \epsilon^m.$$

The household's net income is the sum of the gross incomes of both partners minus tax liabilities:

$$I_{net}^{hh} = I(y^m, y^f, h) - T(y^m, y^f, h) = y^m + 2hy^f(1 - \mathbb{1}_{\{h=\frac{1}{2}\}}\phi) - T(y^m, y^f, h),$$

where  $\phi$  is an earnings penalty on part-time work, and  $T(\cdot)$  is a tax liability function.

### 3.4 Timing, States, Choice Variables, and Problem in Recursive Form

Upon entering the economy, women draw a fertility preference  $N^*$ , an initial contract type  $z_1$ , and initial income shocks for them and their partners  $(\epsilon_1^f, \epsilon_1^m)$ . Then, they enter period 1 with no experience and no children, i.e.  $x_1 = 0$  and  $\mathbf{n}_1 = [0, 0, 0, 0]$ .

From period 1 on, women observe their state vector  $[\epsilon^f, \epsilon^m, z, x, \mathbf{n}]$ , and choose their labor supply  $h$  and whether or not to try to have an additional child next period  $b \in \{0, 1\}$ . This continues for every period until they reach 3 children or age 39 ( $j = 15$ ). After this happens, they cannot have any more children, and they choose only labor force participation in each period.

The dynamic problem women solve in period  $j$  is given by:

$$\begin{aligned}
V_j \left( \epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^* \right) = & \\
\max_{\substack{h \in \{0, \frac{1}{4}, \frac{1}{2}\} \\ b \in B_j(\mathbf{n})}} u(c, l, \mathbf{n}; N^*) + \beta \mathbb{E} \left[ V_{j+1} \left( \epsilon^{f'}, \epsilon^{m'}, z', x', \mathbf{n}'; N^* \right) \mid \epsilon^f, \epsilon^m, z, x, \mathbf{n} \right] \\
\text{s.t.} & \\
l = 1 - h - \xi(\mathbf{n}) & \\
c = I_{net}^{hh} - \lambda 2h(n_1 + n_2) & \\
I_{net}^{hh} = y^m + 2hy^f \left( 1 - \mathbb{1}_{\{h=\frac{1}{2}\}} \phi \right) - T(y^m, y^f, h) & \\
\ln(y^f) = \eta_0^f + \Delta \eta_0^f \mathbb{1}_{z=1} + \left( \eta_1^f + \Delta \eta_1^f \mathbb{1}_{\{z=1\}} \right) x + \left( \eta_2^f + \Delta \eta_2^f \mathbb{1}_{\{z=1\}} \right) x^2 + \epsilon^f & \\
\ln(y^m) = \eta_0^m + \eta_1^m (j-1) + \eta_2^m (j-1)^2 + \epsilon^m & \\
\epsilon^{f'} = \phi^f \epsilon^f + \nu^f & \\
\epsilon^{m'} = \phi^m \epsilon^m + \nu^m & \\
\mathbf{n}' = \Lambda_j(\mathbf{n}, b) & \\
x' = \Pi_x(x, h) & \\
z' = \Pi_z(x, h, z), &
\end{aligned}$$

where the choice set for the birth decision is defined as:

$$B_j(\mathbf{n}) = \begin{cases} \{0, 1\} & \text{if } N < 3 \text{ and } j < 15 \\ \{0\} & \text{otherwise.} \end{cases}$$

## 4 Calibration

In this section we specify the calibration results, discuss the identification we follow for the Method of Simulated Moments (MSM), and discuss the model validation for targeted and non-targeted moments.

We calibrate the model in two steps. First, we take a set of parameters from previous literature or estimate without solving the model yet. These include the parameters of the income process, the pregnancy success probabilities by age, the distribution of women over the number of desired children, and the cost of childcare. The second set of parameters is chosen jointly by targeting a set of data moments concerning average labor force participation



rates for women without children and mothers with children of different ages, the tempo and quantum of fertility, and the short-run response to the sudden introduction of a cash transfer policy. We rely on the MSM for these.

#### 4.1 Parameters Chosen Before Solving the Model

**Income Process.** To estimate the parameters governing the household’s gross income, we turn to Spanish administrative data. In particular, we use the *Muestra Continua de Vidas Laborales* (MCVL, Continuous Working Life Sample), which is a 4% random sample of all affiliates to Social Security in Spain. The first step is to estimate the following Mincer regression separately for men, women with temporary contracts, and women with permanent contracts:

$$\ln(y_{it}) = \beta_0^s + \beta_1^s x_{it} + \beta_2^s (x_{it})^2 + \Theta_{it} + \epsilon_{it},$$

where  $x_{it}$  denotes the experience for individual  $i$  at time  $t$ ,  $\Theta_{it}$  is a vector of controls, and  $s = \{m, ft, fp\}$  stands for men, women under temporary and women under permanent contracts, respectively.<sup>24</sup> From the results of these regressions, we obtain the constant term and the returns to experience for the gross income equations for each of the three groups. We then take the residuals obtained from this estimation and regress them on their time lags at the individual level, to obtain the persistence parameters of the AR(1) process for the stochastic shocks, and the variance of the innovations. For the correlation coefficient between spousal shocks, we follow [Hyslop \(2001\)](#) and set a value of 0.25.<sup>25</sup> The results of this procedure are shown in [Table 2](#).

For the numerical solution, we approximate the auto-regressive vector of stochastic shocks for the woman and her partner with a discrete-valued Markov chain using the method proposed by [Tauchen \(1986\)](#) and [Tauchen and Hussey \(1991\)](#). We use a 10 by 10 grid for the values of the shocks, where each point is calculated so that the income of the  $n$ -th point is the average income of the  $n$ -th decile for men and women at age 26. For the initial distribution of households over that grid, we identified all marriages without children and in which the woman was between 26 and 30 years old in the ECV between 2004 and 2007. Then, we computed hourly wages, and the deciles for each (separately for women and partners). Finally, we created a 10 by 10 matrix containing the fractions of couples by woman and

<sup>24</sup>See the appendix for the exact specification.

<sup>25</sup>This was estimated for the United States. Replicating his work for Spain is beyond the scope of the paper.

partner decile.<sup>26</sup> This is the distribution from which the initial income shocks are drawn.

**Table 2.** Parametrization of the Income Process

	$\eta_0^f$	$\Delta\eta_0^f$	$\eta_1^f$	$\Delta\eta_1^f$	$\Delta\eta_2^f$	$\eta_2^f$	$\phi^f$	$\sigma_{\nu^f}^2$
<b>Women</b>	6.348	0.806	0.048	-0.007	-0.003	0.001	0.906	0.184
	$\eta_0^m$		$\eta_1^m$		$\eta_2^m$		$\phi^m$	$\sigma_{\nu^m}^2$
<b>Men</b>	7.093		0.046		-0.001		0.900	0.184

**Probability of contract transition.** To estimate the probability of transitioning from a temporary to a permanent contract as a function of experience, we run a probit regression where the left-hand side variable is a dummy when a woman is on a permanent contract, on experience, experience squared, age, and education. We then estimate the marginal effect of one additional year of experience for the average woman for each level of experience (from zero to 25 years). We use the MCVL to estimate this. In the Appendix, Table B.4 provides the values of  $\pi_x(x)$ .

**Experience accumulation.** For simplicity, we assume that the accumulation of experience when working part-time is stochastic, with a probability of accumulating one year of experience  $\pi_x = \frac{1}{2}$ . Thus, the expected accumulation of experience of one additional year of part-time work is half a year.

**Tax function.** We use the tax function estimated for Spain by [García-Miralles et al. \(2019\)](#) to account for tax liabilities and credits. Total tax liabilities are given by  $T(y^m, y^f, h) = \tau I(y^m, y^f, h)$ , where the average tax rate  $\tau$  takes the form:

$$\tau = \begin{cases} 0 & \text{if } I(y^m, y^f, h) < \tilde{I} \\ \max \left\{ 1 - \tau_0 \left( \frac{I(y^m, y^f, h)}{\bar{I}} \right)^{-\tau_1}, 0 \right\} & \text{if } I(y^m, y^f, h) \geq \tilde{I}. \end{cases}$$

That is, households with a gross income below the threshold  $\tilde{I}$  do not pay any taxes and the average tax rate increases with the ratio of household to average income  $\bar{I}$ . In particular,  $\tilde{I} = 1404$ ,  $\bar{I} = 3900$ ,  $\tau_0 = 0.8823$  and  $\tau_1 = 0.1224$ .

**Pregnancy probabilities.** The probabilities of pregnancy success conditional on age  $\alpha_j$  are estimated following [Sommer \(2016\)](#), who fits an exponential function to point estimates

<sup>26</sup>There is a small number of married, childless, non-working women in this age range, which we discard.

of infertility by age from the medical literature ([Trussell and Wilson, 1985](#)). They imply a success probability of 0.85 at age 25, which drops slowly to 0.77 at age 30, somewhat more rapidly to 0.65 at age 35, and then to 0.48 at age 39.<sup>27</sup>

**Distribution of women over the number of desired children.** For the distribution from which women draw  $N^*$ , we use the fractions of women by the desired number of children taken from the EdF reported in Table 1. We are aware that these may be responsive to policy. However, in section 2, we discuss why it is unlikely that one like the baby check has a large effect on these answers, based on the small observed differences across average responses among people with different incomes in the cross-section, and the similarity of average responses across cohorts over time. In any case, we believe these answers capture relevant information about the heterogeneity in preferences among women in the population of interest and are useful in a calibration exercise.

**Childcare cost.** Using the Spanish Family Expenditures Survey, we estimated that a family with a child aged 0-3 using full-time childcare spent in 2007 on average around €2000. Therefore, we use this number as the cost per child per period for full-time and half the amount as the cost for part-time childcare.

**Discount factor.** We use  $\beta = 0.96$  ([Kydland and Prescott, 1982](#)).

## 4.2 Parameters Chosen Via the MSM

The remaining 12 parameters are calibrated by matching 12 moments from the data. The targets can be divided into three groups. The first one comprises labor force participation rates for women with and without children. The second one encompasses the average quantum and tempo of fertility. The third group involves the response to the cash transfers identified by [González \(2013\)](#).

**Labor force participation.** We include part and full-time participation rates for three groups of women (6 targets): childless, mothers whose youngest child is 0-3 (newborn or baby), and mothers whose youngest child is 3-12 (school-age). The data moments are taken from the 2004-2007 ECV. For each woman, we have information on participation by month. We compute an average yearly participation rate, counting each month worked full-time as 1, each month worked part-time as  $\frac{1}{2}$ , and dividing by 12. Following [Bick \(2016\)](#), we create a

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<sup>27</sup>See appendix E for more details.

yearly participation status variable that falls into one of our three categories: if the average participation rate was above 0.75, we count the woman as having worked full-time that year, if it is between 0.75 and 0.25 we count her as having worked part-time, and if it falls below 0.25 we count them as being out of labor force. We target the average part-time and full-time yearly rates for childless women between the ages of 25 and 51. For mothers, we target the average rates for all women with children of the respective age.

**Number and timing of births.** To compute the fertility targets, we use the EdF. In particular, we computed the fraction of women aged 40-44 in 2018 with 0, 1, 2, and 3 children and the average age at which this group had their first child. We use this sample because these women were likely very close to their completed fertility, which is the outcome of interest in the long run. These are 4 targets in total.<sup>28</sup>

**Baby check.** Finally, [González \(2013\)](#) states in the conclusions of her paper that she finds that after one year of the introduction of the baby check, the number of births increased by 6 percent, and mothers were 2-4 percentage points less likely to work after the introduction of the baby check in Spain. We take these numbers as her preferred estimates and target a 6 percent increase in births and a 3 percentage points reduction in participation. These are the last two targets. The number of births refers to the crude birth rate, the annual number of births per 1000 population. This short-term cross-sectional measure calculates the number of births one year after the policy implementation. To compute the model counterpart, we proceed as follows. For each cohort of women alive at the time of the policy introduction,  $t$ , the government announces that they are entitled to a baby check - conditional on having a baby- and they expect this to last forever. Considering this information, women update their decisions regarding the number and timing of births. Finally, we compare the number of births born in the economy in the period  $t + 1$ , under the baseline economy-no baby check- and after the introduction of the policy. Therefore, this measure of fertility does not reflect the completed fertility rate, which is why we label it a short-term effect. To compute the labor force participation response, we follow the same methodology.

### 4.3 Discussion

Although all parameters affect all model moments once we solve the model, some are more important than others for certain targets. The first two parameters,  $\gamma_c$  and  $\gamma_l$  govern how fast marginal utility from consumption and leisure falls, respectively. They are therefore

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<sup>28</sup>One of the fractions of women by the number of children is residual, and therefore there are only three targets for quantum and one for the tempo of fertility.

important in determining how willing are women to substitute between consumption, leisure, and children, and play an important role in the intensive margin of LFP decisions (part-time versus full-time) and for the fertility and LFP responses to the baby checks. The parameter on the age-varying weight on the fertility gap regulates how early the craving for children starts in the women’s life cycle, thus it is important for the average age at first birth. The weight on leisure  $\delta_l$  plays an important role in the extensive margin of LFP decisions. For the distribution of women by number of children,  $\delta_{N1}$ ,  $\delta_{N2}$  and  $\zeta$  are crucial. The first one increases the penalty for not achieving the desired number of children, and therefore when it is higher every woman is more likely to be closer to her desired number of children. The second one diminishes the marginal penalty of not having a third child and is thus important for the fraction of women that end up having 3 children. The last one is an additional utility from just being a mom, and plays an important role in the extensive margin of fertility, that is, the decision between remaining childless or having children. The next four parameters,  $\xi_1$ ,  $\xi_2$ ,  $\kappa_1$ , and  $\kappa_2$  are relevant for the LFP decisions of mothers with children at different ages. The first two affect the extensive margin, while the last two the intensive one (by making full-time work costly). Finally, the part-time earnings penalty  $\phi$  evidently has a direct impact on the likelihood of part-time work.

#### 4.4 Model Evaluation: Targeted Moments

Table 3 shows calibrated parameters, with a description of their role in the utility function. Consumption utility is almost logarithmic, with  $\gamma_c$  very close to 1. The penalty for not having a third child is 27% lower than the penalty for not having the first two, while there is an additional utility from the first child as given by the fixed utility from motherhood  $\zeta$  being positive. This can be interpreted as the utility cost of remaining childless being larger than the cost of having children but fewer than desired, which seems reasonable. The time cost with younger children is larger, while the extra cost of full-time work is very similar independent of the age of the children. Finally, the model implies that working part-time entails a 20% penalty on hourly earnings compared to working full-time.

Table 4 shows the model’s outcomes versus the data targets. In general, we achieve our objective of reproducing closely the data targets with the calibrated model. In particular, it is important that we were able to get the correct magnitude of the effect of the baby checks on fertility. We fall slightly short on the magnitude of the effect on LFP, but we are not too far from the lower range of 2 percentage points drop in [González \(2013\)](#). The effect is nevertheless small, and the model is qualitatively close.

**Table 3.** Parameters Calibrated With the Method of Simulated Moments

Parameter	Description	Value
$\gamma_c$	Curvature of consumption	0.985
$\gamma_l$	Curvature of leisure	0.151
$\gamma_N$	Age-varying weight on fertility gap	26.500
$\delta_l$	Weight on leisure	0.832
$\delta_{N1}$	Base weight on fertility gap	0.364
$\delta_{N2}$	Weight on fertility gap, 3rd child	0.270
$\zeta$	Fixed utility of motherhood	0.115
$\xi_1$	Time cost, youngest child 0-3	0.349
$\xi_2$	Time cost, youngest child 3-12	0.211
$\kappa_1$	Cost of full-time work, youngest child 0-3	-0.030
$\kappa_2$	Cost of full-time work, youngest child 3-12	-0.040
$\phi$	Part-time earnings penalty	0.200

**Table 4.** The Model vs. the Data, Baseline Calibration Targets

Moment	Model	Data	Difference
<b><i>Labor force participation:</i></b>			
<i>Childless women:</i>			
Part-time rate	0.190	0.194	-0.003
Full-time rate	0.732	0.717	0.015
<i>Mothers, youngest child 0-3:</i>			
Part-time rate	0.285	0.276	0.009
Full-time rate	0.539	0.537	0.002
<i>Mothers, youngest child 3-12:</i>			
Part-time rate	0.285	0.276	0.009
Full-time rate	0.579	0.583	-0.004
<b><i>Fertility:</i></b>			
<i>Share of women with:</i>			
0 children	0.190	0.190	0.000
1 child	0.240	0.250	-0.009
2 children	0.444	0.438	0.006
3 children	0.126	0.123	0.004
Average age at first birth	29.458	29.300	0.158
<b><i>Effects of cash transfers on:</i></b>			
Annual number of births	0.062	0.060	0.002
Mother's LFP over the first year	-0.016	-0.030	0.014

**Note:** The effect of the cash transfers is the number of births over the next year after the introduction of the policy. The effect on mothers' LFP over the first year is the difference between participation rates. Data points are the ones reported by [González \(2013\)](#) in the conclusions of her paper, which we take to be her preferred ones: 6 percent increase in the annual number of births, mothers 2-4 percentage points less likely to be working 12 months later.

## 4.5 Model Evaluation: Non-targeted Moments

Here we discuss the model’s results for a set of non-targeted moments. First, we would like to know how well the model replicates the long-term costs that motherhood imposes on women. [Kleven et al. \(2019b\)](#) propose an event-study specification around the birth of the first child to measure the effect of children on the labor market outcomes of the parents. This specification, originally applied to Danish data, has since been used by [Kleven et al. \(2019a\)](#) for Sweden, Germany, Austria, the UK, and the US. More importantly for us, [de Quinto et al. \(2021\)](#) did it for Spain, using the MCVL (which is the same data that we use to estimate the parameters of our income process). They assess the impact of the first child on gross earnings, days of work, probability of part-time employment, and probability of being on a temporary contract. The first and the last two of these outcomes have direct counterparts in our model. We implement the event-study specification on our simulated data. The results, together with the original estimates by [de Quinto et al. \(2021\)](#), are shown in Figure 5.

Qualitatively, the model displays adequate behavior in all three outcomes: the earnings and part-time penalties increase rapidly in the first two years after giving birth to the first child, while the temporary penalty is close to zero at the beginning and then increases slowly with age. Moreover, the three outcomes show a long-term penalty, i.e. even 10 years after giving birth the gap is still present.

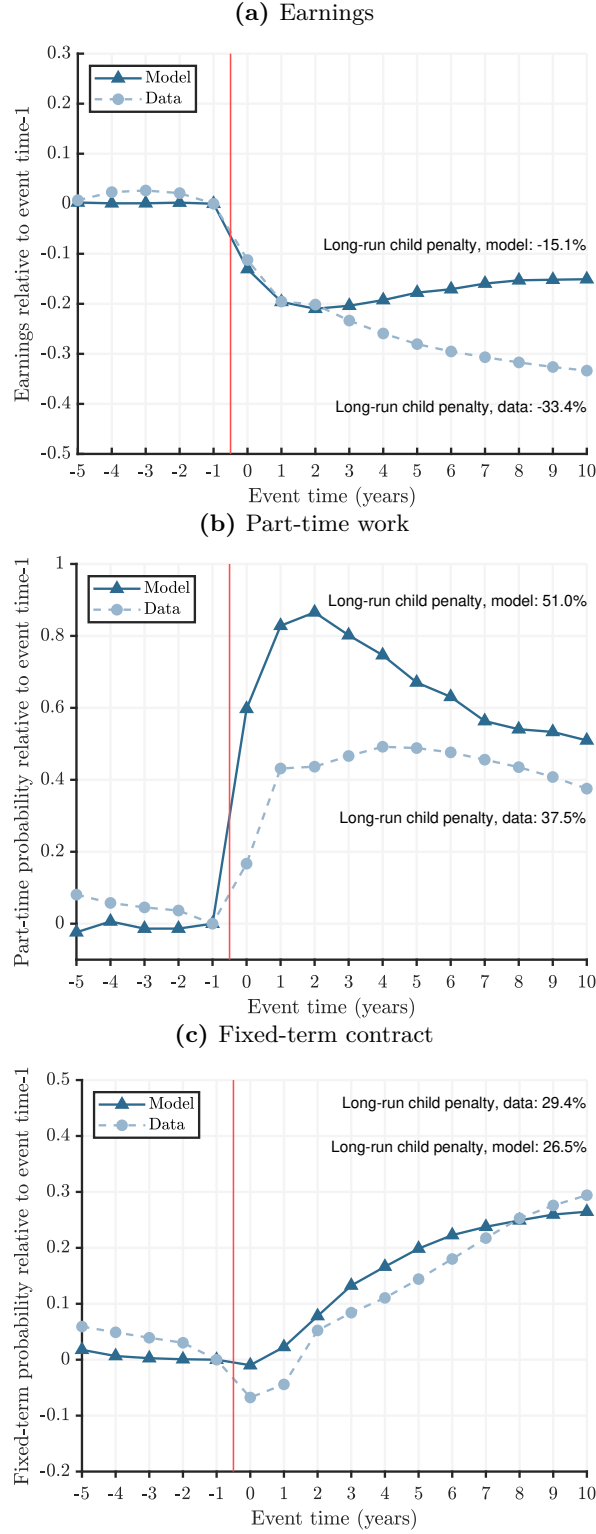
The reason why earnings and part-time probability increase immediately after the first birth is straightforward: after having their first child, many women switch to part-time employment or drop out of the labor force, which means they earn less or nothing at all (the earnings child penalty is estimated unconditional on employment status). The reason behind the shape of the penalty on the probability of being on a temporary contract is more subtle: women on permanent contracts are more likely to have children (in the data you can see it as a negative penalty for the first two years, in the model, there is only a very small effect the period the child is born). However, over time those that had children but were on temporary contracts convert them at a much lower rate than those who didn’t have children, because many of the former take career breaks or switch to part-time.

Quantitatively, the model’s long-term part-time and temporary contract probability penalties are quite close to the data counterparts. The main discrepancies occur in the first 5 years of the part-time and the last 6 of the earnings penalties. We think this is due to the fact that there are a number of factors that the model does not feature that affect earnings among mothers, including occupational choice and loss of skills ([Adda et al., 2017](#)). During the first years after birth, the model gets the right earnings by overestimating the part-time



penalty. After the fifth year, the part-time penalty falls very close to the one from the data. The earnings penalty reflects it by diverging from the one from the data.

**Figure 5.** Child Penalties in the Model and the Data

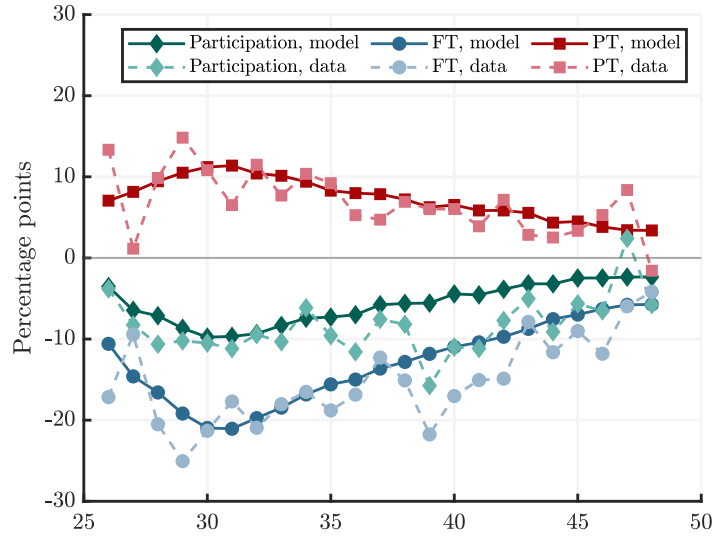


Source: Source: Author's work and data from [de Quinto et al. \(2021\)](#).

**Note:** The effects on (gross) earnings are estimated unconditionally on employment status. The effects on part-time and fixed-term contracts are estimated conditional on working.

While we target average labor force participation by childless women and women with children of different ages, we would also like to know how well the model reproduces the participation gaps between childless women and mothers at different ages. Figure 6 shows this, along with the data counterparts (which are the same series we showed in Figure 4). The model reflects very well the general patterns: overall negative participation and full-time gaps and positive part-time gaps that are the largest around age 30 and close gradually as women age.

**Figure 6.** Life-cycle Labor Force Participation Gap Between Mothers and Childless Women in the Model

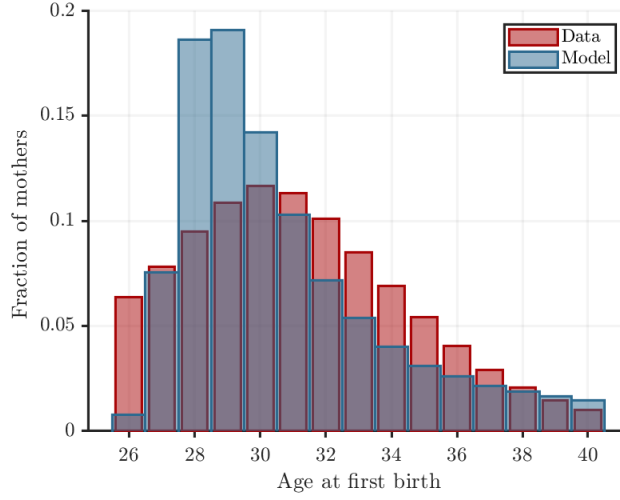


Source: Author's work and data from *Encuesta de Condiciones de Vida, 2004-2007*, INE.

Finally, although we target the average age at first birth, it is interesting to compare how its distribution looks with respect to the data. This is shown in Figure 7. Again, qualitatively the model reproduces the main features: the fraction of women having their first child is positive for every age between 26 and 40, with the bulk of women having it in their late 20s and early 30s, and the fraction of first-time mothers decreasing slowly after that. The main discrepancies occur with women aged 26 and with women in their mid-thirties. However, the model displays a reasonable amount of time variability in this dimension.

Overall, the model's fit along non-targeted moments is satisfactory, and it seems to be an adequate setting to perform the quantitative experiments necessary to answer the main research questions considered in this paper.

**Figure 7.** Distribution of Mothers by the Age at First Birth, Model vs. Data



Source: *Encuesta de Fecundidad 2018, INE*.

## 5 Quantitative Experiments

One of the main advantages of having a structural model like the one we propose in this paper is that it allows us to perform quantitative experiments consisting of counterfactual simulations. In this section, we present the results of three such experiments. For the first one, we assess the long-run effects of cash transfers on fertility, by simulating the life cycle of women eligible for the policy for the entire duration of their lives. Then, we analyze the effects of an alternative policy, consisting of subsidizing childcare for mothers of children aged 0-3, which is the one group for which there was no universal public coverage when the baby check was introduced. Finally, we explore the duality of the Spanish labor markets' role in fertility, its interplay with labor force participation, and the effects of cash transfers.

### 5.1 Short and Long-run Effects of the Cash Transfer

So far, we have replicated the short-run effect of the baby check found by [González \(2013\)](#). Whereas she finds that this cash transfer increased the number of births after the policy implementation, the long-run effect remains to be seen. It could be that the increase in the crude birth rate is a tempo effect - women are anticipating fertility-or a quantum effect-women are having, on average, more children. In this section, we aim to disentangle both and understand whether the baby check introduced in Spain is cost-effective, as this answer depends on whether women have, on average more children. We are therefore interested in the *completed fertility rate* (CFR, the average total number of children women have) in the

long run. To obtain this number, we simulate women’s life-cycle fertility and labor force participation decisions using our model, with everyone eligible to receive the baby check in every period of their life and having full knowledge of the fact. Then, we can compare the CFR of a cohort of women in such a situation with the CFR in the baseline scenario with no cash transfers.

In our model baseline, the CFR was 1.553 children per woman. In our counterfactual exercise in which each woman is eligible to receive the baby check every period, the CFR goes up to 1.599. This is a 2.95% difference, just short of half of the 6% effect in the short run. This result leads to two main conclusions. First, the baby check has both tempo and quantum effects. Second, if we looked only at the crude birth rate, we would overestimate the policy’s effectiveness. Therefore, to fully understand the cost-effectiveness of policies that target boosting fertility, it is imperative to look at the long run.

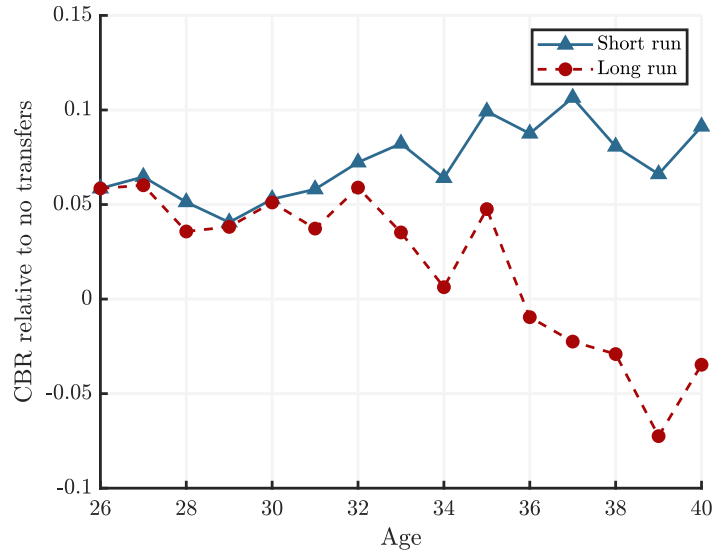
To understand why the long-run effects are different from those in the short run, it is helpful to consider the effect of the policy on women of different ages and to think about children as durable goods. After a certain age (around 30), most women want to have them as soon as possible (because they provide a utility flow). The exact timing depends on individual conditions. However, when a new policy makes it easier for women (at any age) to have children, the likelihood of them having a child in the following period increases for everyone. Moreover, for younger women, the likelihood of having them later may decrease. The profile of the crude birth rate (CBR, the fraction of women that have a baby in a certain period) by age, therefore, may look very different for a cross-section of women at the time the policy is introduced compared to a cross-section of women a few years later. The effect of the baby check on fertility found by [González \(2013\)](#) is on the total number of births in a short time window after the policy was implemented.

Figure 8 compares the effect of the cash transfer on the CBR by age in the short and the long run. The short-run effect is the CBR by age of the cross-section of women living at the time of the policy relative to the baseline CBR by age. That is, it shows the average fertility response for women of every age between 26 and 40 in the period following the policy announcement. The long-run effect is the CBR by age for women that were eligible for the baby check for all of their reproductive lives, i.e., for ages 25 to 39. Consider the cohort of women aged 30. In the short run, the CBR compares the number of births among 30-year-old women who receive the baby checks in the current year (at age 30), assuming such entitlement will continue until age 40, to the number of births among 30-year-old women in the baseline economy without baby checks. On the other hand, the long-run CBR measures the difference in the number of births at age 30 for women who had access to baby checks

since their entry into the economy, compared to the baseline economy where such benefits were unavailable.

The short and long-run CBR are identical for the youngest women. This is because these women face identical horizons. The two lines remain close for a few periods but start to diverge in the 30s. The short-run effect remains positive and has a soft U-shape. The reason is that cash transfers have a larger effect on young women, who are poorer, and on older women, for whom the transfer represents an incentive to take one of the few last opportunities to close the gap between their realized and desired number of children. Women in their late 20s and early 30s were having children anyways, so the effect on them is smaller. The long-run effect starts to fall and even becomes negative in the late 30s. That is because young women had time to plan the births of the children they wanted before, and there are no older women who are caught by surprise by the policy anymore.

**Figure 8.** Effect of the Cash Transfers on the Crude Birth Rate (CBR) by Age

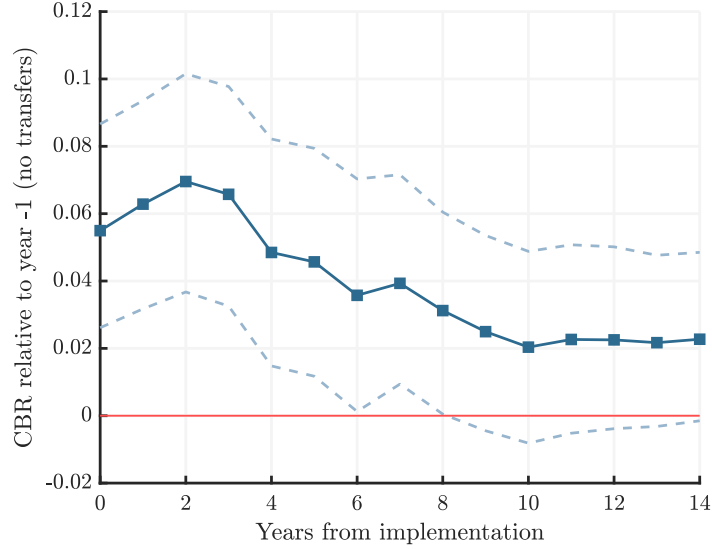


**Note:** The short-run effect of the cash transfers is the CBR by age for the cross-section of women living at the time of the implementation of the policy, relative to the baseline (without cash transfers). The long-run effect is the CBR by age among women that had access to the policy in every period in which they could have children, relative to the baseline.

To further understand how the effect of cash transfers on births changes over time, we simulate fifteen cohorts of women of different ages when the baby checks are announced. In year -1, the policy is announced. Then, in year 0, the overall crude birth rate depends on the responses of women aged 25-39 that were caught by surprise by the policy in the previous period and changed their decisions accordingly. In year 0, women aged 26-39 make fertility decisions conditional on their previous period choices, which affect the next period. The average decisions of each cohort in period 0 may differ from those of the previous cohort in period -1 (when they were the same age). This is because some women in the newer cohort

had an additional child, and that lowers the likelihood that they will have one during this period. Figure 9 shows the crude birth rate by year after the implementation of the policy. The CBR in the period right after the implementation goes up by around 6%, but then it gradually falls to around 3%, as the CBR profile by age converges to the long-run one shown in Figure 8.

**Figure 9.** Overall Crude Birth Rate Relative to no Cash Transfers by Year After Implementation

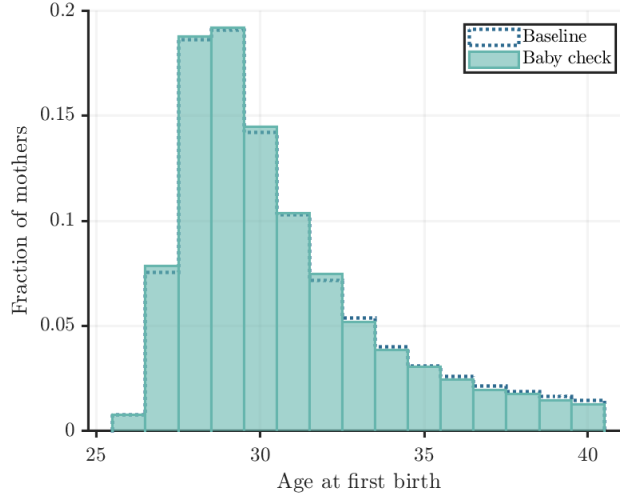


**Note:** Dashed blue lines are 95% confidence intervals, constructed via bootstrapping.

By observing the shape of the long-run effects of cash transfers by age one concludes that timing must also change. In Figure 10 we have plotted the fraction of women by age at first birth in the baseline and in our long-run counterfactual exercise. As expected, the distribution under the policy has more mass at younger and lower mass at older ages. In particular, there are more first-time mothers in their late 20s and fewer in their late 30s when cash transfers are in place. The average age at first birth is reduced with the transfers by 0.15 years (about two months), while the average spacing between children is also shortened, but the magnitude of the change is smaller (less than a month between the first and second and slightly more between second and third).

In a nutshell, the main reason why the short and long-run impacts of the cash transfers are different boils down to the difference between the fertility response that women in different stages of the life-cycle have to the surprise announcement and the response when they have had time to adjust the timing of their fertility. For younger women, that response is not that different. For older ones, it is, because they cannot go back in time and change their previous decisions and have only a few periods to adjust. Over time, this additional effect from older women having to adjust immediately goes away, as the women that become old have had time to adjust.

**Figure 10.** Age at First Birth in the Model, Baseline and With Baby Check



### 5.1.1 Discussion

Our results are consistent with the discussion in [González and Trommlerová \(2023\)](#). They find evidence for a quantum effect, a rise in cohort birth rates. First, the baby check increases fertility regardless of parity. It would be unlikely to see a rise in fertility among women who have already had two children if the fertility increase were only a tempo effect. Second, the baby check increases birth rates among older women. Despite this evidence, the short duration of the policy (3.5 years) and the economic crisis surrounding the baby check, make evaluating its long-run effects empirically challenging. We contribute to this paper by evaluating the long-run effect of this policy. We find both a tempo and quantum effect, although the latter is smaller than the rise in the crude birth rate found after the policy implementation-the short-run effect.

## 5.2 Childcare Subsidies

Childcare availability (or lack thereof) is frequently cited as one of the reasons why fertility may be low. Subsidizing childcare is a natural alternative to a universal cash transfer, such as the baby check. Here, we consider the effects of a subsidy for children aged 0-3, since schooling after that age is provided for free in Spain.

To be comparable in magnitude to the payment offered by the baby checks, we compute the proportional subsidy with a present discounted value equal to the baby check payment, i.e., €2500, for a full-time working mother. Such proportional subsidy is 43.34% of the yearly cost of full-time childcare (€2000), for the first three years of an infant's life. Since, in our model, women must buy childcare for the amount of time they work, an alternative way of



seeing this policy is a cash transfer conditional on working.

Not surprisingly, the long-run fertility effects are smaller than the ones observed with the baby checks. Completed fertility increases by only 2.06%, compared with 3% with cash transfers. The two policies diverge in their effects on labor force participation: it drops by a little bit more than 1 percentage point with the cash transfers with respect to the baseline, but it increases by almost 1 percentage point with the childcare subsidies. This result, again, is hardly surprising since the latter is essentially a subsidy to working mothers. Moreover, part-time work remains unchanged, meaning that all of the effects operate through full-time.

Finally, regarding the effect of the childcare subsidies on timing, again, they are slightly more muted than with the cash transfers. The average age at first birth decreases by close to a month and a half, while the spacing between children remains unchanged.

### 5.3 Impact of Labor Market Duality

Temporary contracts are associated with delayed and depressed fertility. While most of the literature exploring the effect of this type of working conditions on fertility centers on uncertainty and stability, we highlight another mechanism: returns to experience at critical ages. Most women start their careers under a temporary contract and anticipate their labor market participation may be reduced after having their first child. Therefore, they have an additional incentive to work full-time, accumulate experience and postpone childbirth, i.e., obtain a permanent contract first.

In our model, the difference between temporary and permanent contracts is reflected in the parameters of the income process. In particular, the constant term is larger for the permanent one, reflecting the fact that temporary workers experience unemployment spells during the year. Moreover, the returns to experience are larger for permanent workers, which could reflect firm or tenure-specific skill accumulation that temporary workers do not accrue.

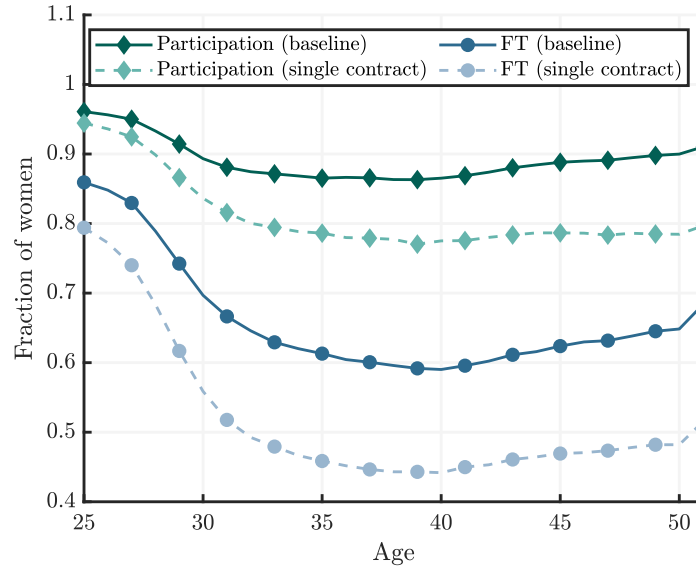
The counterfactual we propose here is to have a single contract represented by a unique income process with parameters estimated from pooling all female workers. Among younger workers, this contract offers full-time earnings that are lower than the permanent contract, but higher than the temporary one in the baseline scenario. Therefore, the returns to experience are not as large at the beginning of women's careers.

We re-compute the model solution under the new parametrization for the income process, simulate the life cycle for cohorts of women that live under these labor market conditions, and compare it to the baseline scenario (with dual labor markets and no cash transfers). Our main result is a 9.6% increase in completed fertility rates, which is three times as much

as the long-run increase we found with cash transfers. Moreover, the first age at birth is anticipated by 5 months, and the timing between births is slightly shortened.

To understand better what drives these effects, Figure 11 shows the average overall and full-time labor force participation in the baseline and under the single contract. The former is not very different early in women's working lives, but there is a gap in full-time participation early on. This gap widens as women get children (which happens earlier in the single contract scenario).

**Figure 11.** Female Labor Force Participation Through the Life Cycle, baseline, and single contract



Finally, the last experiment we carry out is to implement the cash transfers on top of the single contract and repeat the simulations. The completed fertility rate increases by 2.6% with respect to the scenario with a single contract but no transfers. This is very close but slightly lower than the transfers' effect on the economy with dual labor markets. In terms of timing, the average age at first birth is further reduced by 0.12 years, or about a month and a half, with further smaller reductions in spacing, again very close to the effect on timing on the economy with temporary and permanent contracts. These results imply that the results of our first experiment, i.e., the effects on fertility of giving cash transfers upon birth are smaller in the long run than in the short run and modest in magnitude, were not heavily dependent on that feature of the model and the Spanish economy.

## 5.4 Discussion: Bargaining and the Role of Fathers

One important assumption we make in our model is that women are the sole decision-makers in the household. Moreover, the explicit behavior of fathers is not analyzed. Here we discuss the potential implications of accounting for bargaining and allowing for a more active role

for fathers.

In heterosexual partnerships like the ones considered in this paper, both sides must participate in the making of a baby, and therefore there needs to be some sort of agreement for it to occur. This decision has two dimensions: the overall number of children and the timing of births. In a standard bargaining framework, both preferences enter as inputs, and the resulting outcomes should be a sort of weighted average of the preferences of the husband and the wife, with the weights depending on the relative threat points and bargaining power. Indeed, that is what the literature finds. In developing countries, the disagreement over the total desired number of children is larger, with men preferring to have more of them and their preferences taking precedence, likely because they tend to have more bargaining power in these contexts.<sup>29</sup> In industrialized countries, women’s preferences are, at the very least, as important as men’s, and each partner enjoys veto power when deciding whether to have additional children.<sup>30</sup> Doepke and Kindermann (2019) account for this using a quantitative model of household bargaining, and conclude that fertility responds highly to interventions that lower the childcare burden of women.

Accounting for bargaining may have some implications for our results. While there is no particular reason to think cash transfers lower the burden of women, childcare subsidies may. Therefore, this latter policy may have additional effects to the ones found by our model. Moreover, there is evidence that the disagreement over the desired overall number of children is small in developed countries. In particular, we find very similar preferences in this respect in Spain.<sup>31</sup> This suggests that using women’s total desired number of children is not unreasonable in our context. However, the scope for disagreement on the timing of births may be important. As a rejoinder, two features of the model could be represented as a reduced form for the veto power that husbands may have on the timing of births: the age-dependent weight on utility from children and the taste shock we add for the computational solution.<sup>32</sup> Naturally, there may be interactions between policies like the cash transfers here and men’s willingness to have children at different stages of life that the model, unfortunately, is unable to capture.

Whether or not one considers bargaining, it seems evident that fathers’ behavior can affect the effect of family policies on fertility. The presence of a more cooperative partner,

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<sup>29</sup>Westoff (2010) surveys desired fertility among men and women in African countries and finds differences of up to 5 children. Bankole (1995) and Gipson and Hindin (2009) provide evidence on the relative importance of men’s fertility preferences in Nigeria and Bangladesh, respectively. Rasul (2008) develops and tests a model of household bargaining over fertility using Malaysian data. He finds that couples bargain without commitment and that fertility outcomes depend on the relative threat points, which vary across ethnic groups.

<sup>30</sup>Thomson (1997), Thomson and Hoem (1998), Testa et al. (2014) and Hener (2015) find evidence on this using data from the United States, Sweden, Italy, and Germany, respectively

<sup>31</sup>See the appendix for details.

<sup>32</sup>See the computational appendix for more details.

who, for example, is more willing and able to pick up kids from school, attend school meetings or cook meals, would relax the time costs children impose on mothers and their willingness to have more of them. Some of these effects could be similar to the effects of lowering the values of the parameters  $\xi_1$  and  $\xi_2$ , which govern the time cost children of different ages impose on mothers and on  $\kappa_1$  and  $\kappa_2$ , which represent the costs of being a full-time working mother. As an additional exercise, we lower by 5% the values of these parameters to assess how much this affects fertility decisions. The completed fertility rate increases by 10% in response to these changes. However, the effect of cash transfers becomes more muted. Partly this is due to fewer women being away from their desired fertility levels. There is no good reason to think that cash transfers would increase the father’s willingness to do childcare and housework, and their modest effects on fertility are consistent with this. Other policies, like paternal leaves, may have this effect.<sup>33</sup>

## 6 Conclusions

A natural experiment involving cash transfers upon birth took place in Spain in 2007. The experiment was exploited by [González \(2013\)](#) via a DiD-RDD design to estimate its effects on fertility and mothers’ labor force participation. The causal relationship identified thus is best interpreted as short-run, around the policy intervention.

In this paper, we develop a life-cycle model of fertility and labor force participation, and calibrate its parameters using these cleanly identified short-run effects, along with other aggregate moments for Spain in the period right before the implementation of the policy. Using the model, we explore the longer-run effects of the transfers, as well as the effects of alternative policy interventions, and their interactions with an important feature of the Spanish labor markets: the coexistence of temporary and permanent contracts (duality).

We find that the long-run effect of cash transfers on fertility is about half as large as it is in the short run. The main reason is that in the short run, there are additional births by older women that do not have time to adapt their previous fertility choices and have to adjust soon. Moreover, we find that a childcare subsidization policy that gives women the same amount in present value as the cash transfers do brings about an increase in long-run fertility that is only slightly lower, but increases labor force participation instead of decreasing it. Furthermore, we find that the duality in the Spanish labor markets has a large effect on

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<sup>33</sup>[Ekberg et al. \(2013\)](#) find no effect on parental leave-taking on household work, but only use as a measure for it the share of leave taken for care of sick children. [Bünning \(2015\)](#) and [Tamm \(2019\)](#) do find long-lasting effects of leave-taking on childcare and housework. [Farré and González \(2019\)](#) interestingly find that paternity leave reduces fertility using data from Spain.

fertility, about three times as big as the effect of the transfers, driven by an increase in returns to experience during crucial years for child-rearing. However, labor market duality does not seem to be driving our results regarding the short versus long-run effects of cash transfers on fertility, as evidenced by the fact that the results change very little when we implement the policy in a scenario where only a single contract is available.

Our results highlight the importance of policy interventions that make labor market interruptions less costly (elimination of duality) and less necessary (childcare subsidies). This is in line with the main idea of the new economics of fertility, i.e. a crucial driver of it nowadays is the compatibility between career and family ([Doepke et al., 2022](#)).

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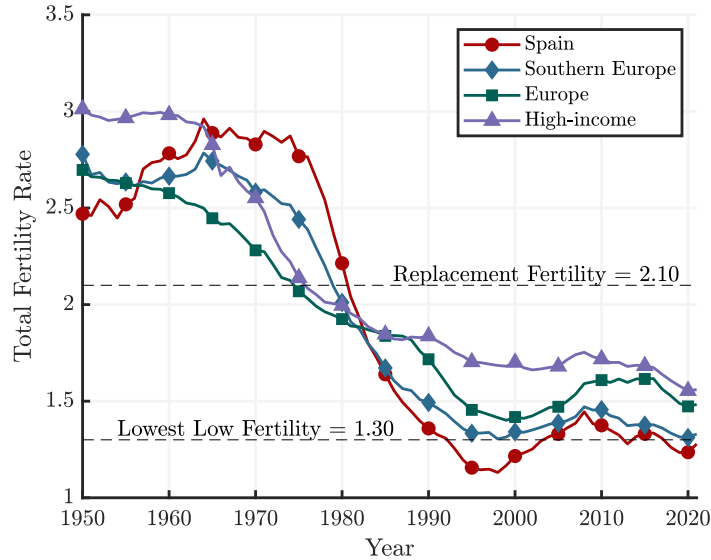
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## Appendix

### A Demographics in Spain

In the early 1990s, Spain became one of the first countries in the world to attain what demographers call lowest-low fertility, i.e. a total fertility rate (TFR, from now onwards) below 1.3 (Kohler et al., 2002). A group of countries, mostly in Southern, Central, and Eastern Europe, followed. Figure A.1 shows how Spain experienced a relatively late baby boom in the 1960s and 1970s, during which its TFR increased above that of others in its geographic proximity and that of the rest of high-income countries<sup>34</sup>. However, it fell rapidly in the 1980s, dipping below the lowest-low fertility threshold for a good deal of the three decades between 1990 and 2022, and below that of its peers for the entirety of that period.

**Figure A.1.** Total Fertility Rate, Selected Countries (1950-2022)



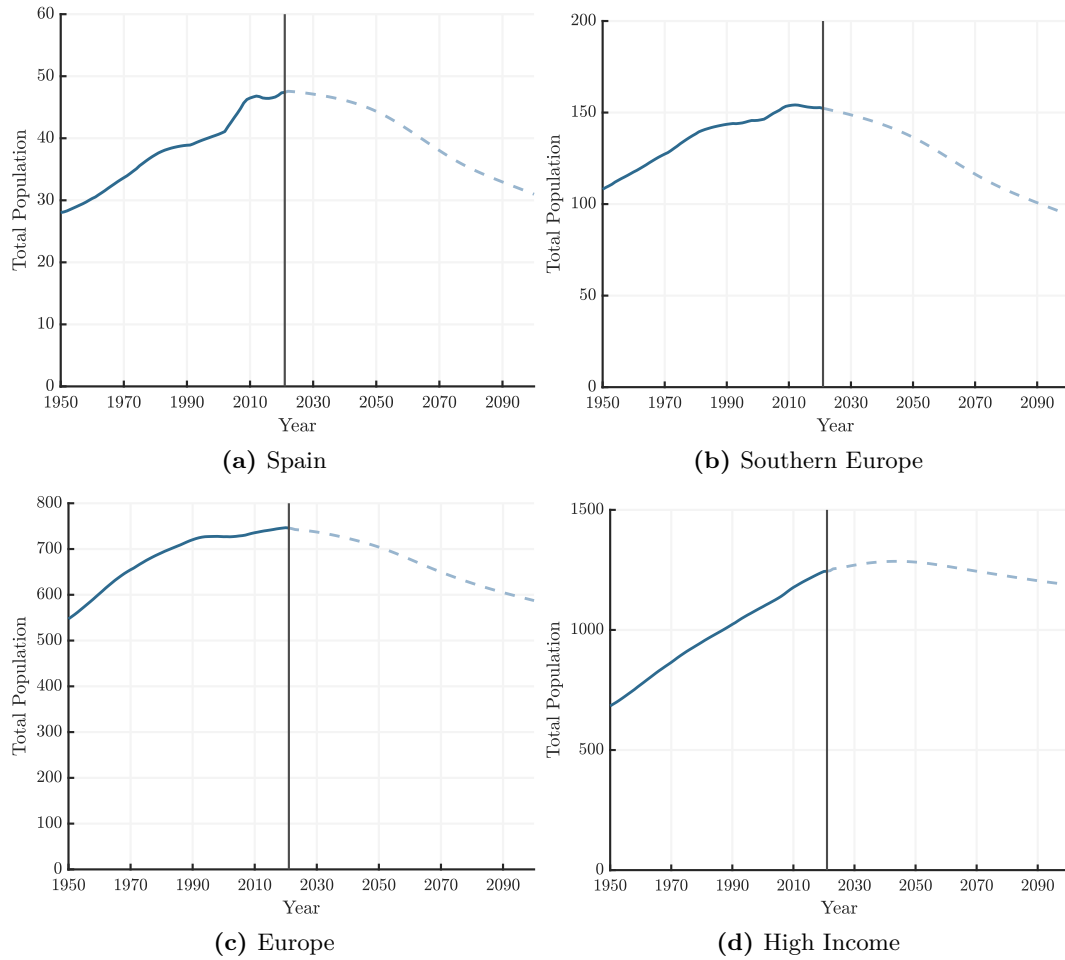
Source: [United Nations, Department of Economic and Social Affairs, Population Division \(2022\)](#).

Moreover, since the early 1980s, most of the developed world has had a TFR below the replacement rate of 2.1. This means, in the absence of immigration, that population will eventually decline. Figure A.2 shows the estimated and projected population in the countries for the same group of countries. In all of them, the population peak is likely very close or has already passed. In the case of Spain, it is apparent that the population would have already peaked if it were not for the large influx of immigrants (mainly from Latin America) it received in the 2000s. In fact, considering the very low fertility levels, in the absence of large-scale immigration, it is all but certain that most of the countries considered here will

<sup>34</sup>This Spanish baby-boom occurred later than that of other high-income countries, like the United States, where the baby-boom took place right after WWII and lasted until the mid-1960s.

see population decline soon.

**Figure A.2.** Total Population, Selected Countries (1950-2022)



Source: [United Nations, Department of Economic and Social Affairs, Population Division \(2022\)](#).

**Note:** Projections account for fertility, mortality, and migration, and we use the medium scenario. The total population is measured in thousands.

All said, Spain's demographic situation, while a bit more extreme than that of other similar countries, is still comparable in broad terms: TFR below replacement in all likelihood will lead to population aging and decline.

## B Calibration Appendix

### B.1 Labor Income Process

The parameters of the labor income process together with the persistence of the income shock and the variance of the residual of it were estimated from the Spanish Continuous Working Life Sample (MCVL). In particular, we regress gross log monthly income by sex on experience and experience square. We also control by age, education, year, province, occupation, sector, tenure, a dummy for part-time jobs, and the interaction between age and part-time jobs. After this, we estimate the residuals of both regressions assuming that they follow an AR(1) process as it is described in the model.

In this appendix, we summarize the main variables and sample restrictions that we made for the income process estimation. We use STATA codes from [Roca and Puga \(2017\)](#).<sup>35</sup>

#### 1. Main variables:

- **Gross monthly income:** refers to a very approximate measure of all labor income received by a person except pensions, prizes from games like the National Lottery, and non-levied income. Therefore it does not include unemployment benefits. It is extracted from the tax codes because they are uncensored. Earnings are expressed in real terms using the consumer price index of 2009.
- **Education.** It is divided into three educational levels: less than secondary education, secondary education, and university education.

#### 2. Sample restrictions:

- We restricted the sample for the years 1998-2017. The main reason for this is that the specification over the type of contract (open-ended vs fixed-term contracts) is available after this year.
- We keep the individuals who entered the labor market after 1998.
- We dropped:
  - (a) Individuals older than 55 years old. This eliminates those who receive an early retirement pension.
  - (b) Unemployed individuals
  - (c) Immigrants.
  - (d) Public sector employees.

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<sup>35</sup>We are responsible for the possible computational mistakes.

**Table B.1.** Labor Income Process by Sex and Contract

	Male	Female FT	Female OE
Experience	0.0457*** (316.07)	0.0475*** (163.13)	0.0409*** (195.67)
Experience <sup>2</sup>	-0.00140*** (-184.87)	-0.00267*** (-123.99)	-0.00134*** (-127.33)
Age (years)	0.0225*** (94.28)	0.0538*** (134.25)	0.0166*** (51.41)
Age <sup>2</sup>	-0.000320*** (-89.42)	-0.000763*** (-123.33)	-0.000233*** (-51.06)
Secondary education	0.0633*** (181.66)	0.0116*** (17.27)	0.0461*** (94.46)
Tertiary education	0.135*** (255.74)	0.0498*** (63.61)	0.169*** (285.64)
Part-time contract	-0.554*** (-172.55)	-0.393*** (-139.73)	-0.441*** (-165.01)
Constant	7.093*** (1770.06)	6.348*** (883.34)	7.154*** (1229.60)
Observations	8846471	2996927	5327129
Month FE	Yes	Yes	Yes
Province	Yes	Yes	Yes
Occupation	Yes	Yes	Yes
Sector	Yes	Yes	Yes
Tenure	Yes	Yes	Yes
Age×Part_time_contract	Yes	Yes	Yes
Fixed-term_contract	Yes	No	No

*t* statistics in parentheses

Source: MCVL 1980-2016, FT: Fixed-term contract, OE: Open-ended contract

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table B.2.** Persistence AR(1) Process by Sex

	Male	Female
resid_male_lag	0.900*** (2489.44)	
resid_female_lag		0.906*** (2683.50)
Observations	17170526	17170526

*t* statistics in parentheses

Source: MCVL 1980-2016

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



**Table B.3.** Residual Income Shock by Sex

	Mean	Variance
Residual Male	-.0065449	.0348526
Residual Female	.009062	.0344275
Observations	17170526	

Source: MCVL 1980-2016

**Table B.4.** Probability of Transition to Permanent Contract  $\pi_z(x)$  by Years of Experience  $x$ 

$x$	$\pi_z(x)$
0	0.066
1	0.092
2	0.121
3	0.151
4	0.182
5	0.212
6	0.239
7	0.263
8	0.284
9	0.303
10	0.319
11	0.335
12	0.351
13	0.369
14	0.388
15	0.410
16	0.433
17	0.458
18	0.485
19	0.512

## C Computation of the Model

### C.1 Computation With Taste Shocks

All of the decisions that women make in the model are discrete in nature. Unfortunately, this type of model tends to generate a jerky aggregate response to parameter changes, since individuals tend to change their decisions all at once unless there are vast amounts of heterogeneity.

To facilitate the numerical solution of the model, we include a taste shock to women's utility in every period. This helps by smoothing out labor force participation and fertility decisions. The shocks can be interpreted as unobserved state variables that add noise to the women's decisions. Moreover, the calibration and results are robust to their inclusion. For an in-depth discussion of this computational method, see [Iskhakov et al. \(2017\)](#).

Thus, we assume that in every period women receive a vector of additive-separable taste shocks  $\mu$ . In periods when they can still have children and need to choose on pregnancy  $b \in \{0, 1\}$  in addition to labor force participation  $h \in \{0, \frac{1}{4}, \frac{1}{2}\}$ , they receive a vector of six shocks, one for every element in  $\{0, \frac{1}{4}, \frac{1}{2}\} \times \{0, 1\}$ . In periods when they cannot have any more children and need only to choose labor force participation, they receive a vector of three shocks, one for every element in  $\{0, \frac{1}{4}, \frac{1}{2}\}$ :

$$\mu = \begin{cases} \left( \mu_{0,0}, \mu_{\frac{1}{4},0}, \mu_{\frac{1}{2},0}, \mu_{0,1}, \mu_{\frac{1}{4},1}, \mu_{\frac{1}{2},1} \right) & \text{if } j < 15 \text{ and } N(\mathbf{n}) < 3 \\ \left( \mu_0, \mu_{\frac{1}{4}}, \mu_{\frac{1}{2}} \right) & \text{otherwise} \end{cases}$$

All of these shocks are i.i.d, drawn from an Extreme Value Type I distribution with scale parameter  $\sigma_\mu$ .

The modified value function in states  $(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)$  is:

$$W_j(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) = \begin{cases} \max\{W_j^{h,b}(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) + \sigma_\mu \mu_{h,b}\}_{h \in \{0, \frac{1}{4}, \frac{1}{2}\}, b \in \{0,1\}} & \text{if } j < 15 \text{ and } N(\mathbf{n}) < 3 \\ \max\{W_j^h(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) + \mu_h\}_{h \in \{0, \frac{1}{4}, \frac{1}{2}\}} & \text{otherwise,} \end{cases}$$

where  $W_j^{h,b}$  and  $W_j^h$  represent the value, ex-taste shock, of choosing labor force participation  $h$  and pregnancy status  $b$  for a woman in period  $j$ , or just labor force participation

$h$ , in states  $(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)$ :

$$\begin{aligned} W_j^{h,b}(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) &= u^{h,b}(c, l, \mathbf{n}; N^*) + \beta \mathbb{E}^{\sigma_\mu} \left[ W_{j+1}(\epsilon^{f'}, \epsilon^{m'}, z', x', \mathbf{n}', \mu; N^*) \right] \\ W_j(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) &= u^h(c, l, \mathbf{n}; N^*) + \beta \mathbb{E}^{\sigma_\mu} \left[ W_{j+1}(\epsilon^{f'}, \epsilon^{m'}, z', x', \mathbf{n}', \mu; N^*) \right], \end{aligned}$$

where  $\mathbb{E}^{\sigma_\mu}$  denotes the expectations over future taste shocks and in both cases, choice and states variables need to be retrieved from the constraints and laws of motion:

$$\begin{aligned} l &= 1 - h - \xi(\mathbf{n}) \\ c &= I - \lambda 2h(n_1 + n_2) \\ I &= y^m + 2hy^f \left(1 - \mathbb{1}_{\{h=\frac{1}{2}\}}\phi\right) - T(y^m, y^f, h) \\ \ln(y^f) &= \eta_0^f + \Delta\eta_0^f \mathbb{1}_{z=1} + \left(\eta_1^f + \Delta\eta_1^f \mathbb{1}_{\{z=1\}}\right)x + \left(\eta_2^f + \Delta\eta_2^f \mathbb{1}_{\{z=1\}}\right)x^2 + \epsilon^f \\ \ln(y^m) &= \eta_0^m + \eta_1^m(j-1) + \eta_2^m(j-1)^2 + \epsilon^m \\ \epsilon^{f'} &= \phi^f \epsilon^f + \nu^f \\ \epsilon^{m'} &= \phi^m \epsilon^m + \nu^m \\ \mathbf{n}' &= \Lambda_j(\mathbf{n}, b) \\ x' &= \Pi_x(x, h) \\ z' &= \Pi_z(x, h, z). \end{aligned}$$

The main consequence of introducing the taste shocks is that the policy function becomes probabilistic. Given the distribution assumed for them, the probability that a woman chooses pregnancy decision  $b$  and labor force participation  $h$  in states  $(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)$  when  $j < 15$  and  $N(\mathbf{n}) < 3$  is the logit probability:

$$P_j(h, b \mid \epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*) = \frac{\exp\left(\frac{W_j^{h,b}(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu}\right)}{\sum_{i \in \{0,1,2,3\}} \sum_{k \in \{0,1\}} \exp\left(\frac{W_j^{i,k}(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu}\right)}.$$

Otherwise, the probability that a woman chooses labor force participation  $h$  in states  $(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)$  is the logit probability:

$$P_j \left( h \mid \epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^* \right) = \frac{\exp \left( \frac{W_j^h(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu} \right)}{\sum_{i \in \{0,1,2,3\}} \exp \left( \frac{W_j^i(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu} \right)}.$$

One additional benefit of using Extreme Value Type I shocks is that the expected value function is given by the tractable log-sum formula from ([McFadden, 1973](#)):

$$\begin{aligned} \mathbb{E}^{\sigma_\mu} \left[ W_{j+1} \left( \epsilon^{f'}, \epsilon^{m'}, z', x', \mathbf{n}', \mu; N^* \right) \right] = \\ \begin{cases} \sigma_\mu \log \left( \sum_{i \in \{0,1,2,3\}} \sum_{k \in \{0,1\}} \exp \left( \frac{W_j^{i,k}(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu} \right) \right) & \text{if } j < 15 \text{ and } N(\mathbf{n}) < 3 \\ \sigma_\mu \log \left( \sum_{i \in \{0,1,2,3\}} \exp \left( \frac{W_j^i(\epsilon^f, \epsilon^m, z, x, \mathbf{n}; N^*)}{\sigma_\mu} \right) \right) & \text{otherwise.} \end{cases} \end{aligned}$$

Using backward induction starting in period  $J$ , one can easily retrieve the expected value functions and the probabilistic policy functions.

## D Stochastic Structure for Children's Aging

In this appendix we show how to retrieve the stochastic structure that governs the transition probabilities for the vector state of the number of children at different ages takes, which we denote by  $\mathbf{n}' = \Lambda_j(\mathbf{n}, b)$ .

We denote by  $\lambda_1$  and  $\lambda_2$  the probabilities that an individual baby becomes a school-age child, and that an individual school-age child becomes a teen in a given period, respectively. Moreover, we assume that the aging event is independent across children. Notice that  $b\alpha_j$  is the probability that there is a newborn in the next period. Denote by  $P_i(x \mid n_i)$  the probability that  $x$  children in stage  $i \in \{1, 2\}$  (babies, school-age) move on to the next stage the next period (school-age, teenager), conditional on there being  $n_i$  children in that stage in the current period. Table D.1 shows these, for babies and school-age children.

**Table D.1.** Probabilities of aging by number of children,  $P_i(x \mid n_i)$

$n_i$	Number of children aging			
	0	1	2	3
0	1	0	0	0
1	$1 - \lambda_i$	$\lambda_i$	0	0
2	$(1 - \lambda_i)^2$	$\lambda_i(1 - \lambda_i)$	$\lambda_i^2$	0
3	$\lambda_i^3$	$\lambda_i(1 - \lambda_i)^2$	$\lambda_i^2(1 - \lambda_i)$	$\lambda_i^3$

To compute the whole set of probabilities of transition from state  $\mathbf{n} = [n_0, n_1, n_2, n_3]$ , we follow the algorithm:

```

for  $x_1 \in \{0, 1, 2, 3\}$  do
  for  $x_2 \in \{0, 1, 2, 3\}$  do
    if  $n_0 = 1$  then
       $\mathbf{n}' = [0, n_1 - x + 1, n_2 + x - y, n_3 + y]$  w.p.  $(1 - b\alpha_j)P_1(x_1 \mid n_1)P_2(x_2 \mid n_2)$ 
      or  $\mathbf{n}' = [1, n_1 - x + 1, n_2 + x - y, n_3 + y]$  w.p.  $b\alpha_jP_1(x_1 \mid n_1)P_2(x_2 \mid n_2)$ ;
    else
       $\mathbf{n}' = [0, n_1 - x, n_2 + x - y, n_3 + y]$  w.p.  $(1 - b\alpha_j)P_1(x_1 \mid n_1)P_2(x_2 \mid n_2)$  or
       $\mathbf{n}' = [1, n_1 - x, n_2 + x - y, n_3 + y]$  w.p.  $b\alpha_jP_1(x_1 \mid n_1)P_2(x_2 \mid n_2)$ ;
    end
  end
end

```

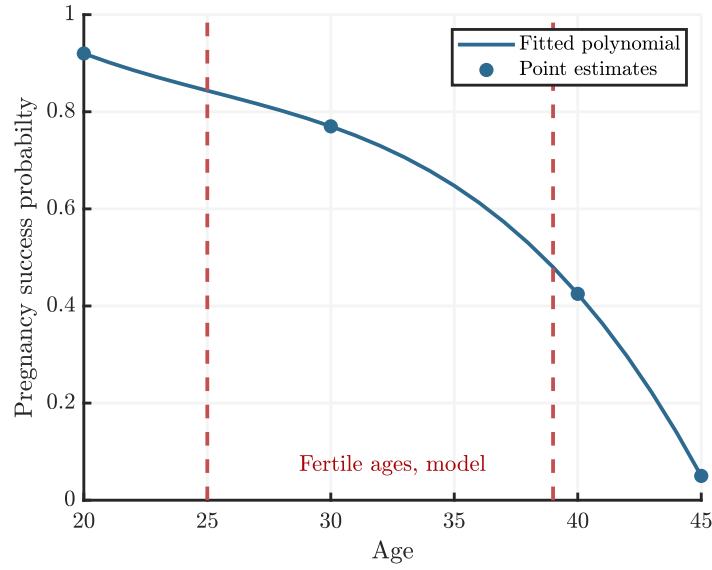
## E Pregnancy Success Probabilities

We follow [Sommer \(2016\)](#) in estimating the probability of pregnancy success by age  $\alpha_j$ . We use the following point estimates of natural infertility from [Trussell and Wilson \(1985\)](#):

$$\text{Infertility probability} = \begin{cases} 0.080 & \text{at age 20} \\ 0.230 & \text{at age 30} \\ 0.575 & \text{at age 40} \\ 0.950 & \text{at age 45,} \end{cases}$$

and then fit a polynomial through (the inverse of) them, as shown in Figure [E.1](#). Notice that we only have women having children in the model between ages 25 and 39.

**Figure E.1.** Pregnancy Success Probability Conditional on Age

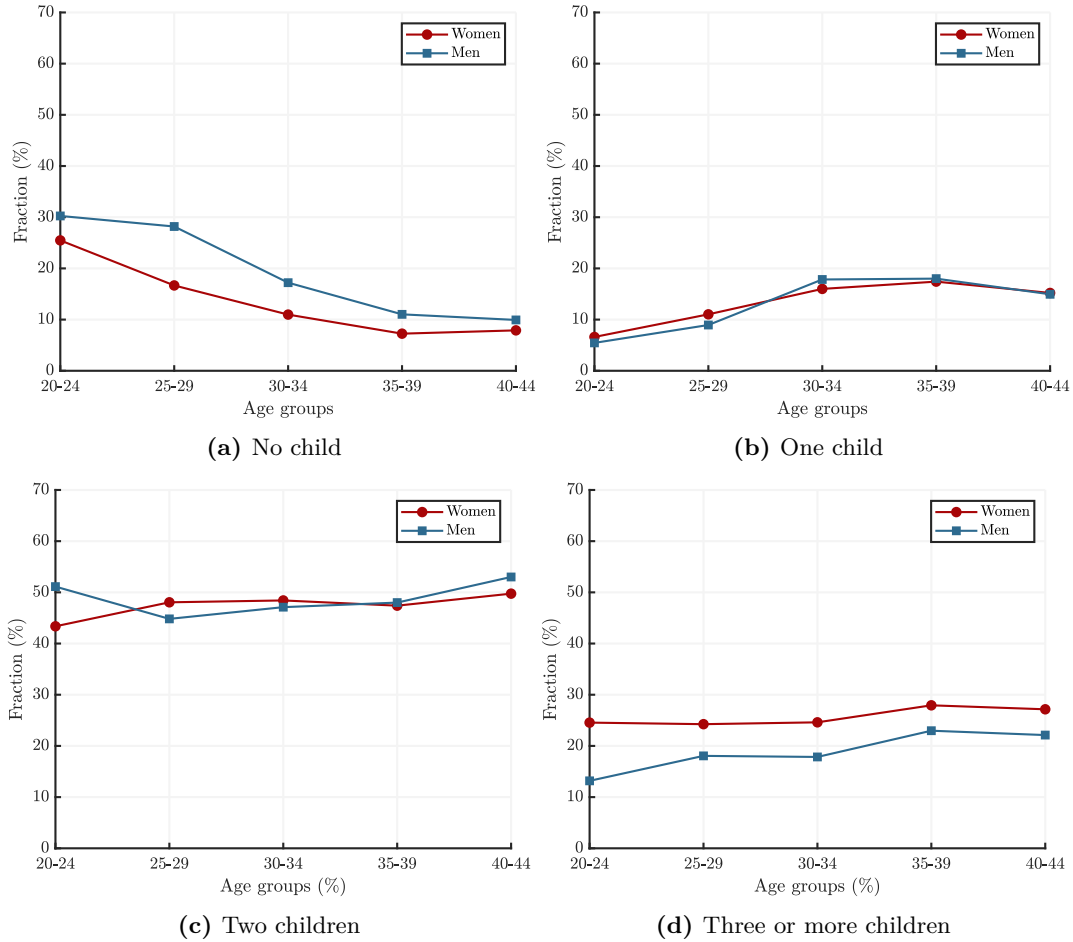


Source: Author's work, point estimates by [Trussell and Wilson \(1985\)](#).

## F Men's Fertility Preferences

While the first wave of the Spanish Fertility Survey in 1999 sampled only women, the second one collected responses on men's fertility preferences. A disadvantage is that the samples are separate, i.e., the survey collected basic data on the spouses of the sampled individuals, but it did not collect data on their preferences. Nevertheless, it stands to reason that one of the characteristics that people sort on in marriage markets is desired overall number of desired children. Figure F.1 shows fertility preferences by sex and age in 2018. The most significant discrepancies are the fractions of people wanting no children (higher for men) and those wanting three or more (higher than for women). However, in aggregate terms, the disagreement is minor and decreases with age.

**Figure F.1.** Desired Fertility by Gender and Age in Spain



Source: *Encuesta de Fecundidad 2018, INE.*