

## German Leave Reforms: Acknowledging Diversity?

When parental leave was introduced in West Germany in 1986 the main aim of policy makers was to enable and actively encourage mothers to stay at home and care for their children during the first years of life. For this purpose the maximum leave period was gradually extended to 3 years while period of paid leave was prolonged to 24 months, at a flat rate benefit level of 307 Euro per month. The possibility of part-time work during leave was also introduced, but the number of hours was limited to 19 hours.

Overall, the new leave entitlement represented a major family policy innovation for the West German context because it concretely acknowledged the social and economic value of childrearing and because it conferred, in principle, the same leave rights to fathers. Indeed, in the political discourse, most politicians stressed the need for more paternal involvement in childrearing but in reality, the features of the new entitlement were too inflexible – too little part-time options, little possibilities to flexibly share leave periods – and too decoupled from prior incomes as to really offer fathers an incentive to take up leave.

Although the new leave scheme improved the situation of working parents it was still pronged on the belief that homecare by mothers was the best way to ensure the wellbeing of toddlers. As put by a prominent Christian Democrat

All teachers and psychologists concur that the foundations for people's life courses are laid during their first three years of life. Therefore it has been our goal from the very beginning, to extend parental leave time and benefits to three years. Today, parental leave and benefits enable the mother or the father to intensively educate and care for the new born child during the first years of life...<sup>1</sup>

The new entitlement also did little to accommodate the diverse needs of parents deriving from different income and employment situations. Nor was there any possibility to spread leave over a longer period than the first three years after childbirth or to take extended leave in case of sickness of a child. It was, in other words, largely tailored for the needs of the traditional male breadwinner family. In fact, with the introduction of parental leave, employment rates of mothers with young children witnessed a substantial decline.

It was only 15 years later, in the aftermath of a government turnover, that a new red-green government introduced a parental leave reform, which had the explicit aim to render parental leave more flexible for working parents. On one side, the utilization of leave was rendered more flexible, as parents are now able to distribute the last 12 months of their combined leave entitlements over a period of 8 years after the birth of their child, but only with the consensus of their employer. Moreover it is possible for parents to take their leave interludes simultaneously, whereas they previously had to alternate. On the other side, the part-time dimension of parental leave was decisively strengthened by the introduction of a legal entitlement to part-time and the concomitant increase of the maximum number of weekly part-time hours per parent from 19 to 30.

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<sup>1</sup> Walter Link (CDU), Bundestag, Stenographisches Protokoll 12/50: 4104, 17.10.1991

From a diversity perspective, these changes constituted a significant improvement because leave entitlements were now more geared towards the flexibility needs of working parents and their children. Parents were now also able to choose between a 300 Euro monthly leave benefit for a period of 24 months and a monthly benefit of 450 for a period of 12 months. This so called “budget option” was intended as an incentive for an earlier labour market return. But the reform did not touch the fundamental money issue, as parents continued to receive a flat rate benefit, independently of their prior earnings. On the contrary, the reform actually lowered the income ceilings for benefit entitlement from 51.130 Euro to 30.000<sup>2</sup> a fact, which lead to a significant decline of benefit recipients (Dingeldey, 2004).

If the 2001 parental leave revisions rendered entitlements more flexible they did not have much measurable impact on the gendered patterns of leave utilization. While the number of fathers taking some days of leave did slightly increase to around 3 percent, mothers almost always kept taking paid leave and mainly for the full 24-month period. Hence the new laws were neither very effective in reducing the length of women’s labour market exits – in 2003 only 11.7 percent of parents opted for the “budget option” (akjSTAT, 2005) – nor did it lead to a significant increase in fathers leave take up.

It was in the light of these fairly limited results that policy makers, following a period of protracted politically infighting, decided to enact a fundamental reform of Germany’s parental leave legislation. The new “Elterngeld”, which was introduced in January 2007, does not only provide parents with 67 percent of their prior income, rendering it a wage replacement measure. It also reduces the standard period of benefit payments from 24 to 12 months, although parents can still opt to spread the payment over a period of 24 months at 1/3 of prior income. And, the new law has also introduced so called “daddy months”, whereby the combined paid leave entitlement period of both parents is extended to 14 months if the father takes at least two months of leave.

The reform thus tries to tackle a number of interconnected issues. By linking benefit levels to prior earnings the law aims to reduce the parental opportunity costs related to childbirth. At the same time this measure, like the “daddy months”, also has the explicit purpose of facilitating the paternal usage of leave entitlements. The reduction of the standard length of paid leave, on the other hand, has the aim to reduce the time parents, but especially women, spend outside the labour market, as research clearly shows that a prolonged absence from the labour market entails substantial negative effects on career and income prospects.

Although the reform was widely supported among political parties and a wider public, it was criticized on two grounds. The first and maybe least surprising criticism arrived from conservative circles, which perceived the reduction of standard paid leave periods and the introduction of “daddy months” as an illegitimate state interference in family-internal choices (Wiechmann & Oppen, 2008).

The second criticism concerned the progressive nature of the new benefit. It was argued by political representatives from the left as well as unions and welfare organizations, that the a linkage of benefit levels to prior income effectively constituted “a

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<sup>2</sup> for the first 6 months of leave. Ceilings for the following 18 months were raised from 15.032 Euro to 16.500 Euro

redistribution from the poor to the rich”<sup>3</sup> as it “basically subsidizes those who need it least [*i.e. higher income earners*] with the most”<sup>4</sup>. In order to overcome such criticism the government introduced a minimum benefit level of 300 Euro and a benefit ceiling of 1800 Euro. And it added a so-called low-income component for households with less than 1000 Euro earnings.

Others pointed out, that the de-facto reduction of paid leave periods disadvantaged those people who had no or only intermittent earnings in the 12 months before birth. In fact these people, namely students, the unemployed and housewives, now receive the minimum payment of 300 Euro for only 12 months, while beforehand they could receive the payment for 24 months. A loss of 3600 Euro for some of the neediest social groups (Bothfeld, 2006).

All in all, the new Elterngeld nevertheless represents a major advancement in the Germany family policy landscape, especially when seen in the wider context of childcare expansion and low income child benefits. In the following part we shall now briefly assess to what extent the Elterngeld has achieved its declared purposes and to what extent the criticisms above have come true. For this purpose we will rely on the latest official statistical data from the Federal Statistics Office (Destatis, 2008) as well as the results of a recent evaluation report commissioned by the German Ministry for the Family, the Elderly, Women and Youth (RWI, 2008).

Between January 2007 and March 2008 729.714 Elterngeld applications were received of which 10.093 or 1.4% were rejected. Before the introduction of the new leave benefit, rejections rates were considerably higher mainly due to the previously mentioned income ceilings. In 2003, for example, 6,9% of all applications were rejected, primarily on the grounds of too high incomes (akjSTAT, 2005). A further 38,3 percent of recipients faced a reduction of their benefit levels after the first six months of paid leave. The recent leave reform has therefore broadened the recipient base and rendered the entitlement quasi universal. Yet it is also true that since the introduction of the Elterngeld “households with mothers that have a college or university degree have significantly higher income after the birth of a child” then was the case before the reform (RWI, 2008: 29).

Household with higher incomes thus seem to be one of the prime winners of the new legislation. This is especially true for men who choose to take up paid leave, with almost 46 percent receiving more than 1000 Euro per month. For women the percentage is less than 15 percent, while more than 50 percent of them receive less than 500 Euro (Table 1).

**Table 1: Leave benefit levels according to gender (2008)**

Income (Euro)	Total	Women	Men
300 - 500	53,4	57,4	28,6
500 - 1.000	28,4	28,9	24,6
1.000 - 1.500	11,4	9,3	24,9
1.500 - 1.800 +	6,8	4,4	21,7

Source: BMFSFJ (2008: 21)

<sup>3</sup> Bundestagsdrucksache 16/1877, pp. 1

<sup>4</sup> Prof. Butterwege (University of Cologne), 1st reading of the Elterngeld proposal, Bundestag, Stenographisches Protokoll 16/16: pp. 21, 03.07.2006

And what about the households with lower incomes? Have they benefited or are they the main losers of the new leave settings? A look at Table 2 reveals a mixed picture. Overall 45 percent of evaluation survey respondents<sup>5</sup> said their income in the year after childbirth was lower than beforehand, while 29 percent said their income remained about the same and 21 percent believed their income had actually increased. Interestingly especially households with several children say that their income has increased – almost 70 percent of households with 3+ children – which is primarily due to the fact, that mothers in households with several children tend to have been out of employment before childbirth, particularly in West Germany. For these households, any additional income related to childbirth constitutes an improvement of the combined household earnings.

The available data also indicates that earnings of low-income households tend to remain stable or increase in the year after birth. In fact more than 50 percent of households with an income below 1000 Euro say that their income has increased and another 27 percent maintain similar income levels. Again this maybe largely attributed to the relatively high number of single earner households in this income group. At the same time, the “low income component” and the “siblings bonus” introduced with the new leave legislation seem to have the desired effect. In sum, one may therefore say, that the new leave benefit has not deteriorated the economic situation of low income households during the first year – which is largely thanks to the minimum income features added to the original law proposal following severe criticisms of social injustice. On the other hand, it is undeniable, that after the first year the economic situation of low-income families maybe worse than with the prior regulations, simply because the length of paid leave has been halved. Similarly, it is also evident, that higher income household have benefited from the reform even if most of them continue to incur substantial income losses after childbirth.

**Table 2: Change of Household income in the year following childbirth (%)**

<b>Income is...</b>	<b>lower</b>	<b>about same</b>	<b>higher</b>	<b>na</b>
Total	45	29	21	4
<b>According to number of children</b>				
1 Child	55	25	17	3
2 Children	35	31	28	7
3+ Children	27	44	24	5
<b>According to income prior to childbirth</b>				
below 1000 Eu	15	27	53	5
1000-2000 Eu	34	35	27	3
2000-3000 Eu	50	30	18	2
3000+ Euro	67	23	8	2

Source: RWI 2008

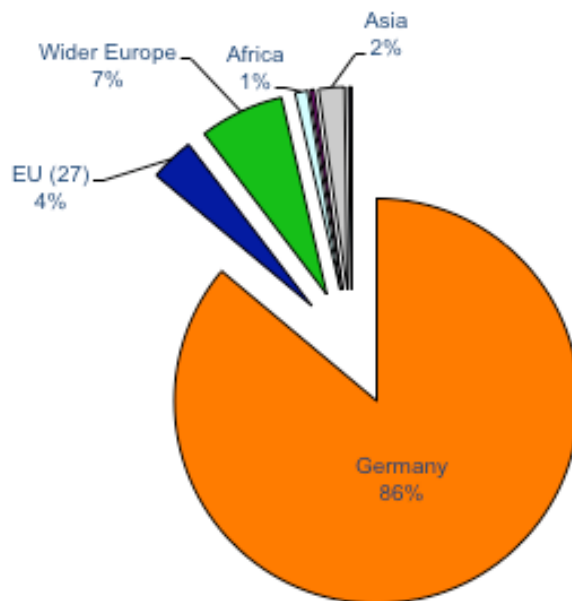
A look at the nationality of benefit recipients shows that the vast majority are German citizens – although they still maybe of foreign origin – while 14 percent have a foreign nationality (Figure 1). With 3,6 percent Turkish citizens constitute by far the largest group of foreign recipients, which is not surprising as they represent the largest immigrant population in Germany. The national leave legislation stipulates, that

<sup>5</sup> In concomitance with the introduction of the new Elterngeld the German Family Ministry (BMFSFJ) commissioned a continuous impact evaluation of the new measure. In 2008 the RWI therefore conducted a survey of a representative sample of parental benefit recipients (sample size: 2050).

anybody with a regular residence in Germany has the right to parental leave. Hence in principle, foreigners receive the same benefits than German citizens. But it is of course well known that immigrants tend to have household lower incomes and higher poverty rates. It is therefore likely, that the income foreign recipients remains stable or increases in the first year after childbirth, while it may then drop significantly due to the reduction of the length of paid leave benefits.

**Figure 1: Nationality of benefit recipients**

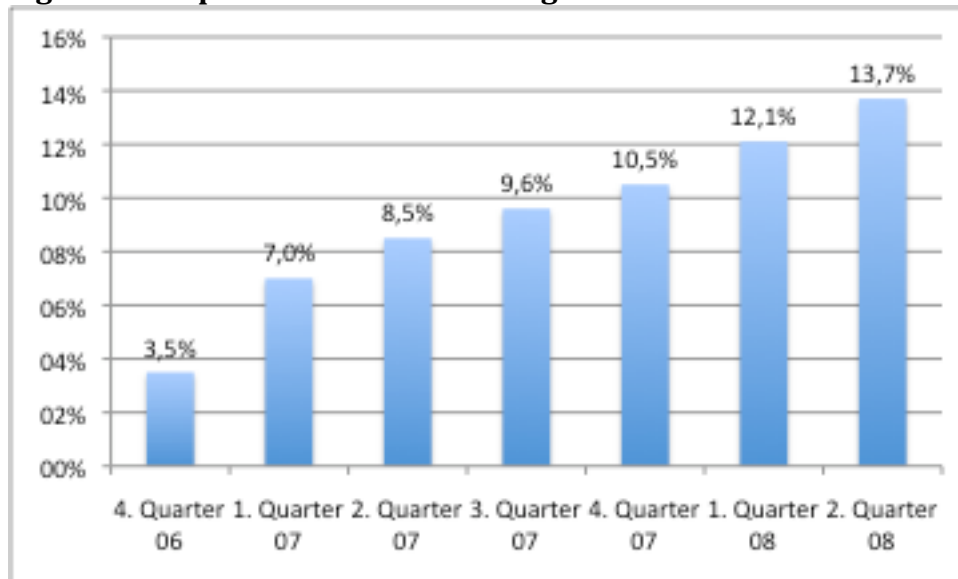
**Beneficiaries' Nationality**



Source: Destatis (2008)

Having looked at the diverse effects of the new legislation on the income of different social groups we shall now conclude by briefly assessing the impact on the gendered division of leave take up. As stated earlier, one of the principle goals of the new law is a stronger involvement of fathers in childrearing. Figure 2 shows that the new leave legislation is on track to fulfill its objective. Since the introduction of the Elterngeld the number of fathers taking leave has more than tripled from 3,5 percent in the last quarter of 2006 to 13,7 percent in the second quarter of 2008.

**Figure 2: Proportion of fathers taking leave**



Source: Destatis (2008)

For the German context, where fathers have remained notoriously absent from childrearing, these figures are highly significant. Public opinion surveys have for some time shown, that young men are increasingly willing to engage in childrearing but they usually shied away from taking even short leave periods, also due to loss of income and a fear of negative effects on their career. The new earnings related benefit seems to have significantly reduced the income hurdle that many fathers cited as main reason for not taking leave. At the same a rising number of fathers taking leave may, in the longer run, render employment environments and peer groups more supportive of fathers taking leave and may thereby reduce the negative incentives for fathers to make use of their leave entitlements.

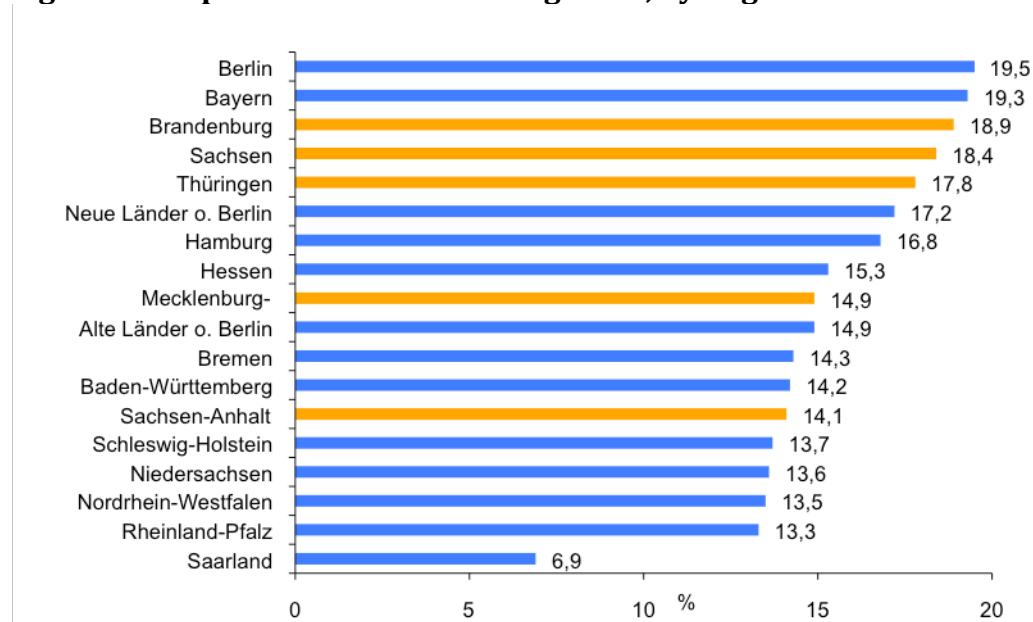
However, the encouraging figures above cannot conceal the fact that two thirds of fathers taking leave do so for a maximum period of 2 months, while only 14 percent opt for the entire 12-month period. Mothers, on the other hand, tend to opt for the entire 12-month of paid leave (72,3%) while only a very limited number returns directly after obligatory maternity leave. In other words, fathers are making some forays into the childrearing world but mothers continue to bear the brunt of homework responsibilities. It is also interesting to note, that there are significant regional differences in the take up of leave. Whereas fathers in East Germany tend to make more use of their new entitlements, fathers in West German regions, especially in the traditional industrial regions, tend to make much less use of parental leave (Figure 3).

**Table 3: Average length of paid leave**

	1-2 months	3-6 months	7-11 months	12 months	13-14 months
Total	10,6	3,5	11,8	72,3	1,8
Mothers	1,3	2,4	12,1	82	2,2
Fathers	66,2	10,1	9,6	14	1

Source: RWI 2008

**Figure 3: Proportion of fathers taking leave, by Region**



Source: Destatis (2008)

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