



The economics of leave. Theoretical considerations and empirical evidence.

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What does 'economics of' mean?

Two options:

Taking the high road:

Analyse the market for leave in the economic language of supply and demand.

Taking the low road:

Concentrate of the costs and benefits of parental leave legislation.





The low road: costs and benefits:

Interesting from a micro perspective because the (potential) leave taker should be informed about the relative costs of his or her decisions

Interesting from a macro perspective because it provides information on the most optimal design of social policy.

Overall aim: to find some 'stylized facts' of leave on labour market outcomes





Costs and benefits of leave...

Reasons for introducing leave facilities:

Health of child and health of parent
(mother);

Optimal bonding between parents and child;

Equal opportunities: leave as instrument of
reconciliation.

Yet equal opportunities of leave are not
straightforward – leave implies some
distance from the labour market and as such
may be a risky strategy in terms of career
and/or income



Two opposing views (1)

The first argument applies a straight-forward human capital argument and predicts negative effects of leave in terms of career and income development: leave results in a period out of work, which in turn leads to depreciation of human capital and a loss of (potential) work-experience. Taking up leave is thus costly.

Default: uninterrupted labour market career
-> leave has negative effects in terms of labour market outcomes

Two opposing views (2)

The second argument predicts more positive results on the basis of a kind of transaction cost argument: parental leave facilitates the return to the labour market after a period of non-participation, will limit the loss of human capital and will limit the search costs after a period of non participation.

Default: career interruption
-> leave facilities have positive effects in terms of labour market outcomes





Empirical evidence summarized along three lines:

- * effects of leave on length of career interruptions
- * effects of leave on the participation rate
- * effects of leave on relative wage and income

In total 24 articles, but articles differ in scope, by period, by methodology applied, in data used, countries that are covered etc.





Period: 1996-2007

Countries: Germany, Sweden, Norway, Denmark, USA, Netherlands, Belgian, Austria, UK. in addition to some comparative studies

Not much studies use a very strict definition of leave – study might refer to maternity leave, parental leave or to a combination of both.



Effects of leave on length of career interruptions

Joesch (1997) USA; Ondrich *et al.* (1996; 2003) Germany ; Rønsen and Sundström (1996) Norway and Sweden; Pylkkänen and Smith (2004) Sweden and Denmark ; Schönberg and Ludsteck (2007) Germany.



Conclusions:

Leave might shorten or lengthen the period of interruption depending on the original position and depending on the design of the leave (Joesch 1997);

Mixed evidence on whether longer leaves decreases the rate of return. Ondrich et al 1996, 2003: yes; Rönksen and Sundström 1996: no; Schonberg and Ludsteck (2007) increased leaves lead to delay in return to work but no lower return rate. Pylkkänen and Smith (2004) refer to impact of payment level, take up of fathers and availability of child care.



Effects of leave on the participation rate:

Ondrich *et al.* (1996; 2003) Germany; Hashimoto *et al.* (2004) USA; Román (2006) Netherlands and Belgium; Ruhm (1998) nine EU countries; Jaumotte (2003) OECD; Mandel and Semyonov (2005, 2006) OECD.



Conclusions:

Long and short periods of (institutionalised) leave seems to be related to a low overall participation rate (Ondrich et al 1996, 2003; Hashimoto et al 2004; Roman 2006).

Optimum length: 20 weeks (maternity and parental leave) (Ruhm 1998; Jaumotte 2003).

Higher participation rates seem to be accompanied by higher levels of segregation (Mandel and Semyonov 2005, 2006)



Effects of leave on relative wage and income

Waldfoegel (1998a) UK and USA; Ruhm (1998) 9 EU countries; Albrecht *et al.* (1999) Sweden; Beblo and Wolf (2000, 2002) Germany ; Ondrich *et al.* (2002) Germany ; Hashimoto *et al.* (2004) USA; Ziefle (2004) Germany;
Gupta and Smith (2002) Denmark; Beblo *et al.* (2006) Germany.



Conclusions:

Leave has a negative effect on female wage rates. On average, hourly wages are lower in countries with longer periods of leave (Ruhm 1998); Beblo and Wolf 2000; Beblo et al. 2006); Ondrich et al. 2002). One exception Waldfogel (1998).

Negative effects seem to be stronger for men than for women and seem to depend on the type of interruption \neq human capital argument (Albrecht et al 1999; Beblo and Wolf, 2002).

Early interruptions have much less effect than later interruptions (Beblo and Wolf 2000).

Mixed evidence on whether negative effects are long lasting (Beblo and Wolf 2002 and Ziefle 2004 yes: Gupta and Smith 2002 no))

Conclusion and debate:

Conclusion (stylized facts):

1. The existence of a developed leave system tends to increase (female) participation rates on the condition that leave is not too long.
2. Leave comes at a cost in terms of future income, at least in the short run.
3. Effects of taking up leave by women \neq effects of taking up leave by men.



Future research:

Little research yet on the optimal design of leave

Little research yet on the optimal timing of leave

Little research yet on why the nature of the interruption seems to be important for estimating the overall labour market results;

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