Policies to Support Entering and Leaving the Workforce

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IDEA Public Lecture at CERGE-EI and Swiss Embassy in Czech Republic
October 2020
The life-cycle
Bismarck's Social Insurance Idea
Work-life balance
Parental Leave for Mothers vs Fathers

Chart PF2.1.B. Paid parental and home care leave available to mothers
Duration of paid parental and home care leave available to mothers, and the average payment rate across paid parental and home care leave available to mothers for an individual on national average earnings, 2018

Panel A. Weeks of paid parental and home care leave

Panel B. Average payment rate across paid parental and home care leave (%)

Chart PF2.1.C. Paid leave reserved for fathers
Duration of paid paternity leave and paid father-specific parental and home care leave in weeks, and the average payment rate across paid paternity and father-specific leave for an individual on national average earnings, 2018

Panel A. Weeks of father-specific leave

Panel B. Average payment rate across paid father-specific leave (%)

Note: Striped bars indicates payment rates based on net earnings. Data for Chile and Costa Rica refer to 2017. See notes to Table PF. Note: Striped bars indicates payment rates based on net earnings. Data for Chile and Costa Rica refer to 2017. See notes to Table PF2.1.B.

a. See note a. to Table PF2.1.B
b. See note b. to Table PF2.1.B
c. See note c. to Table PF2.1.B
Source: See tables PF2.1.C-PF2.1.E
Outline

• Parental Leave

• Child-care

• Pension System

• Demand for Social Insurance
Parental Leave
Parental Leave Objectives
(e.g. Australian System)

• The objectives of the Paid Parental **Leave** scheme are to:
  – signal that taking time out of the paid workforce to care for a child is part of the usual course of life and work for both parents
  – promote equality between men and women and balance between work and family life.

• The objective of Parental Leave **Pay** is to provide financial support [...], in order to:
  – allow those carers to take time off work to care for the child after the child’s birth or adoption
  – enhance the health and development of birth mothers and children
  – encourage women to continue to participate in the workforce.
Employment Rate

Parental leave

Time

Birth of Child  End of Leave
Return to work
(Lalive, Schlosser, Steinhauer, Zweimüller, 2014)

• How do women on parental leave return to work?

• Parental leave in Austria
  – Benefit: flat cash transfer, about 30% of avg. wage
  – Job protection: return to work guarantee
  – Can be shared but mostly women take it

• Reform
  – until June 1990: 1 year
  – from July 1990: 2 years
Return to work

June 1990, all women worked before birth
Return to work
June vs July 1990
**Employment and Earnings**  
**(5 years after birth)**

<table>
<thead>
<tr>
<th></th>
<th>1990 reform</th>
<th>1996 reform</th>
<th>2000 reform</th>
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<tbody>
<tr>
<td>Employed</td>
<td>-0.004</td>
<td>-0.004</td>
<td>-0.017</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.011)</td>
<td>(0.010)</td>
</tr>
<tr>
<td></td>
<td>[0.404]</td>
<td>[0.513]</td>
<td>[0.486]</td>
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<tr>
<td>Earnings per calendar day</td>
<td>0.550</td>
<td>0.351</td>
<td>-1.297 **</td>
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<tr>
<td></td>
<td>(0.482)</td>
<td>(0.578)</td>
<td>(0.539)</td>
</tr>
<tr>
<td></td>
<td>[16.691]</td>
<td>[22.377]</td>
<td>[21.693]</td>
</tr>
<tr>
<td>Earnings per day worked (Euros)</td>
<td>1.216 **</td>
<td>1.115 *</td>
<td>-0.670</td>
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<tr>
<td></td>
<td>(0.561)</td>
<td>(0.584)</td>
<td>(0.590)</td>
</tr>
<tr>
<td></td>
<td>[41.309]</td>
<td>[43.624]</td>
<td>[44.962]</td>
</tr>
<tr>
<td>Observations</td>
<td>10815</td>
<td>10514</td>
<td>9103</td>
</tr>
</tbody>
</table>

Notes: This table reports the effects on outcomes measured 5 years after birth.
German countries

Figure 3: Child Penalties in Earnings in German-Speaking Countries

- Long-Run Penalty:
  - Austria: 51%
  - Germany: 61%

Earnings Relative to Event Time -1

Event Time (Years)
Benefits vs job protection

• Reduced form analysis
  – can not disentangle the role of both elements of parental leave
  – (since we always observe both at the same time)

• We still need to understand the separate roles
  – Benefits costly for the government
  – Job protection costly for firms
Our approach

• Adapt a job search framework to the parental leave context
  – Women are searching for new jobs while on parental leave
  – Include policy elements

• Estimate the model using data with no reform

• Assess how well the model predicts reforms

• Counterfactual simulations
Fit

(a) Empirical return to work:

Note: This is the cross sectional return to work profile in the 1996/7 to 2000/6
Note: This is the cross sectional return to work profile in the 1996/7 to 2000/6
What Matters?
Return to work

(a) Return to work

- Share back to work
- Months after birth

Legend:
- (1) benchmark (no PL)
- (2) only benefits
- (3) only job protection
- (4) combined policy
- End of benefits/JP
Return to Same Employer

(b) Return to same employer

- (1) benchmark (no PL)
- (2) only benefits
- (3) only job protection
- (4) combined policy
- end of benefits/JP

Share back to pre-birth employer

Months after birth
What matters?

• Benefits
  – take-up high but few return to same job

• Job protection
  – Return to work but take-up is low

• Benefits and job protection
  – Time for care AND job continuity

-> Both elements complement each other to achieve policy objective
Parental Leave and Fertility
Motivation

• Does parental leave reduce the costs of having children?
• Parental Leave
  – facilitates having a child and working
• Focus on second child
  – Automatic renewal
  – Extended leave
• Based on Lalive and Zweimüller, 2009
Births and Eligibility

- Maternity leave starts
- Child is born
- Maternity leave ends
- Parental leave ends
- Maternity leave starts

16 weeks

If <6 weeks:
PL extended

Before July 1990: 12 months
July 1990-June 1996: 24 months
After July 1996: 18 months
The Effect on Fertility

Note: This figure shows the probability of having a second child within three years by date of birth of the first child. Moving average (backwards in June, forward in July).
New Children Born
(since previous birth)

Figure 5:
The Additional Child Hazard when Parental Leave is Extended
Long-run effect
(% with second child)
Leave reserved to fathers

• Several countries provide paternity leave
• "Daddy months" may foster attachment to child
• Tentative evidence
  – Sweden, Ekberg et al. 2013: no evidence
  – Germany, Bünning (2015): men with long leaves work more in the household
Family Leave - Summary

• Parental leave
  – Time for care of newborn
  – Return to previous job
  – No incremental labor market penalty
  – Fertility higher
  – Possibly imposes a cost on firms and new hires

• But the scheme does not
  – generate similar careers between fathers and mothers
  – ensure comprehensive return to work
Child-Care
Objectives

• Child-care offers care to young children
• Valuable to working parents (can continue job)
• Pre-school experience for children
• May affect
  – Child-development
  – Labor force attachment
  – Fertility (through better work life balance)
Why invest in early childhood?

Returns to a Unit Dollar Invested

- Programs targeted toward the earliest years
- Preschool programs
- Schooling
- Job training

Child-development
(Felfe and Lalive, 2018)

• Child-development
  – Language, Motor, Socio-Emotional Skills

• Germany
  – Expansion of child care
  – Some children "easily" get in, some only when child-care expands

• How does attending child care affect child development?
The Great German Expansion
(Bauernschuster et al. 2020)

• Child-care expansion in Germany
  – from 2005 to 2012
  – guaranteed place by 2012
  – expansion differs by region

• Effects on
  – fertility and
  – labor supply
Fertility
(by time since expansion)

Figure 5. Timing of the dependent variable. The bars indicate the effect of child care coverage in period $t$ on births per 1,000 women in the period according to the $x$-axis. Horizontal lines indicate 90% confidence intervals. All five regressions are independently estimated using the generalized DID approach. Control variables including child care coverage are lagged by one year and are included in period $x - 1$. Only for $x - 1 = t$ the control variable child care coverage is identical to the variable of interest child care coverage in period $t$. 
Children in Kindergarten
Weekly work hours of mother
Policy Challenge

Net childcare costs

- Single, 67% of average wage
- Couple, 67% of average wage
Child care - Summary

• Expanding child-care improves socio-emotional skills

• Child-care crucial for better work-life balance

• Both short-term, and long-term increases in productivity
Pensions
Figure 1.1. The rise in the old-age to working-age ratio is accelerating
Number of people older than 65 years per 100 people of working age (20-64), 1950-2100

Note: The centre line is the OECD average old-age to working-age ratio. The shaded area indicates the range between the country with the lowest old-age to working-age ratio and the country with the highest old-age to working-age ratio.
Questions

• Pensions become unsustainable

• How can we reform the pension system?

• How are people affected by these changes?
A Swiss Design
Raising the Full Retirement Age for Women
(Lalive et al. 2020)

Figure: 1997 Reform Cohorts

<table>
<thead>
<tr>
<th>Year</th>
<th>FRA</th>
<th>Full Pension</th>
<th>3.4% cut</th>
<th>6.8% cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 1939</td>
<td>FRA62</td>
<td>62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 1, 1942</td>
<td>FRA63</td>
<td>63</td>
<td>3.4%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Jan. 1, 1948</td>
<td>FRA64</td>
<td>64</td>
<td>3.4%</td>
<td>6.8%</td>
</tr>
<tr>
<td></td>
<td>MAF</td>
<td>64</td>
<td>6.8%</td>
<td>13.6%</td>
</tr>
</tbody>
</table>
Figure: How the Reform Affects Social Security Wealth
Figure: Effect on Pension Claiming Hazard
Unequal losses in SSW

![Graph showing unequal losses in SSW](image)
Inequality in Pension Wealth
(Maxime Moix, 2020)

Figure 2: Mean pension wealth at age 60 for men born in 1940

Notes: This figure shows mean pension wealth at age 60 calculated using our main measure, which is based on the benefit at the claiming age only. The interest rate $i$ is set to 2%. Because the month of birth of individuals is taken into account in the computation, these measures can be thought of as reflecting pension wealth for individuals born mid-year. Left bars provide results assuming that survival probabilities do not depend on earnings, while right bars provide results assuming that they do.
Pension Reforms - Summary

• Financial incentive weaker than statutory age effects

• Substantial proportion of the population acts "passive"

• Pensions amplify inequality in life-time wealth
Demand for social insurance
Why this variety in policies?

• History
  – Who is responsible for providing?
    • State vs individual
    • Soviet Union

• Culture
  – Traditional Gender roles
    • Men at work, women in household
    • Child suffers if mother works
Source: European Values Survey 2017, own calculations.
## Determinants of Social Insurance

**Culture vs Economy**

<table>
<thead>
<tr>
<th></th>
<th>parents</th>
<th>father</th>
<th>participation</th>
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</thead>
<tbody>
<tr>
<td>gender roles</td>
<td>18.425*</td>
<td>-1.518*</td>
<td>0.856</td>
</tr>
<tr>
<td></td>
<td>(7.519)</td>
<td>(0.680)</td>
<td>(0.717)</td>
</tr>
<tr>
<td>lgdp</td>
<td>30.993</td>
<td>-2.008</td>
<td>7.108***</td>
</tr>
<tr>
<td></td>
<td>(26.856)</td>
<td>(4.123)</td>
<td>(1.600)</td>
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<tr>
<td>satellite</td>
<td>97.897</td>
<td>-4.703</td>
<td>-15.122</td>
</tr>
<tr>
<td></td>
<td>(114.410)</td>
<td>(17.785)</td>
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<tr>
<td>urss</td>
<td>170.747</td>
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<td>(159.880)</td>
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<td>(8.206)</td>
</tr>
<tr>
<td>Constant</td>
<td>-783.120</td>
<td>88.882</td>
<td>-161.854**</td>
</tr>
<tr>
<td></td>
<td>(720.128)</td>
<td>(115.629)</td>
<td>(42.212)</td>
</tr>
</tbody>
</table>

| R-squared | 0.303 | 0.118 | 0.322 |
| N         | 31    | 29    | 23    |

* p<0.05, ** p<0.01, *** p<0.001
The Swiss language border
(Eugster et al. 2020)

Figure 2: Majority language, by community

Notes: Language regions in Switzerland by the Swiss population census 2000.
Votes for Maternity Leave
(in Switzerland)

Notes: These graphs show the percentage in favor of a 1999 proposal to maternity leave as a function of distance to language border. 0= language border, positive = French speaking areas, negative = German speaking areas. All votes show larger support for the policy at the language border.
Notes: These graphs show the percentage in favor of three proposals to introduce maternity leave (the last one was successful) as a function of distance to language border. 0= language border, positive = French speaking areas, negative = German speaking areas. All votes show larger support for the policy at the language border.
Role of culture

• Demand for social insurance varies

• Different attitudes, different funding

• Policies designed within socio-cultural context

• Some-times it takes time to change
Concluding remarks

• Family policy works
  – (Because markets sometimes do not)
  – Generates time for care, and time for work
  – Crucial for work-life balance
  – Can not assume people understand all details (e.g. pensions)

• Policies are set within a cultural context
  – Changes may be (very) slow, then (very) fast
Thanks
References

• Felfe, Christina and Rafael Lalive, Does early child care affect children's development?, Journal of Public Economics, Volume 159, 2018, Pages 33-53, ISSN 0047-2727,


Long-term care
Challenges ahead

• Ageing populations

• Demand for long-term care increases

• Who should provide long-term care?
Source: European Values Survey 2017, own calculations.
Long-term care expenditure (health and social components) by government and compulsory insurance schemes, as a share of GDP, 2017 (or nearest year)
Scandinavian countries

Figure 1: Child Penalties in Earnings in Scandinavian Countries

Long-Run Penalty:
Denmark: 21%
Sweden: 26%
Elicited Gender Norms

Figure 4: Estimated Child Penalties vs Elicited Gender Norms

- Germany
- Austria
- United Kingdom
- United States
- Sweden
- Denmark

Long-Run Child Penalty in Earnings vs Women With Children Under School Age or In School Should Stay at Home (Fraction Agreeing)

Slope = 1.024 (.254)
Scandinavian countries

Figure 1: Child Penalties in Earnings in Scandinavian Countries

Long-Run Penalty:
Denmark: 21%
Sweden: 26%
English-speaking

Figure 2: Child Penalties in Earnings in English-Speaking Countries

![Graph showing earnings relative to event time for men and women in United Kingdom and United States, with long-run penalty for United Kingdom at 44% and United States at 31%](image-url)
Parental leave reforms

<table>
<thead>
<tr>
<th>Period</th>
<th>Code</th>
<th>Ben  (mths)</th>
<th>Prot. (mths)</th>
<th>Δ Ben (mths)</th>
<th>Δ Prot. (mths)</th>
</tr>
</thead>
<tbody>
<tr>
<td>before 1990.06</td>
<td>S1</td>
<td>12</td>
<td>12</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1990.07 – 1996.06</td>
<td>S2</td>
<td>24</td>
<td>24</td>
<td>+12</td>
<td>+12</td>
</tr>
<tr>
<td>1996.07 – 2000.06</td>
<td>S3</td>
<td>18</td>
<td>24</td>
<td>-6</td>
<td>0</td>
</tr>
<tr>
<td>2000.07 – 2002.12</td>
<td>S4</td>
<td>30</td>
<td>24</td>
<td>+12</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: The duration measures time since birth until benefit (Ben column) or job protection (Prot. column) ends. Actual benefit duration is shorter since mothers receive maternity leave for up to 3 months after birth. Maternity leave comes with full pay and job protection. Source: Various federal laws (Bundesgesetzblätter).
Data

• Austrian social security data
  – Private sector
  – Work and earnings history
  – Social security program history (UI, PL)
  – Limitations
    • No hours worked
    • No household context

• Our samples
  – Women with work attachment, first child
  – Two month windows around policy change
  – Five years after birth
Mind the pensions gender gap

Figure 1.6. The gender pension gap is large

Note: gender gap in pensions calculated for persons at age of 65 and more using the following formula: 1 – women’s average pension / men’s average pension. It includes persons who obtain old-age benefit (public or private), survival pension or disability benefit. Data for Iceland cover 2014.
Model estimation

• Likelihood contributions
  – Still on parental leave
  – Left parental leave for old job
  – Left parental leave for new job

• Results
  – Value of home production decreases over time
  – Wage offers do not change much
  – 1 EUR parental leave benefit = 4.60 EUR wage
Disposable incomes

Figure 1.5. Disposable incomes of older people
Incomes of people aged over 65, % of total population incomes

Note: 2016 or latest available year. All income from employment, self-employment, capital and public transfers are included. Incomes are measured on a household basis and equivalised with the square root equivalence scale to adjust for differences in household size.
Source: Table 7.1, OECD Income Distribution Database.

StatLink: https://doi.org/10.1787/888934040566
Employer adjustments

Figure 6.
The effect of the extended parental leave program on firm’s total wage costs

NOTE: Each point in the graphs shows the estimated coefficients on the interaction terms between the indicator of employing women giving birth in 1988 and the treatment intensity $\tau$, i.e., the $\beta^*$ from Equation 3, along with the 95% confidence intervals.