



Female labour supply and household employment shocks: Maternity leave as an insurance mechanism



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ABSTRACT

This paper investigates the role of unpaid maternity leave in providing household insurance against paternal employment shocks. The main outcome is the timing of a mothers' return to work after having a child. Exploiting the US Family and Medical Leave Act, we find that mothers eligible for maternity leave speed up their return to work in response to a paternal shock, with the conditional probability of being in work 49% higher than in households with no unpaid maternity leave. Further evidence is provided on the insurance role of unpaid maternity leave through (i) no significant interaction between *paid* maternity leave and the paternal shock and (ii) smoothing of consumption effects of the shock for households covered by unpaid leave.

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1. Introduction

An important policy question asks how families insure themselves against shocks to income or employment. We know there is imperfect insurance as both consumption and child human capital respond to unexpected changes to income.¹ Since women have entered the labour force, female labour supply has become a potential form of household insurance.² However despite this, insurance is imperfect and there are welfare implications to household shocks.

This paper analyses whether access to unpaid maternity leave offers an insurance role by increasing mothers' responsiveness to paternal employment shocks. Whilst the benefits of maternity leave on female labour supply³ and child outcomes⁴ have been examined, this paper draws upon a third benefit which is as yet unstudied—the insurance role of

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¹ Attanasio and Davis (1996) reject full insurance of consumption against shocks and Blundell et al. (2008) find only partial insurance of consumption against permanent shocks and full insurance of transitory shocks for non-poor households. Carneiro et al. (2010) estimate human capital responses to permanent income shocks which decline across the child life cycle and responses to transitory shocks which are flat across child age. Finally, Carneiro and Jinja (2015) argue that parental investments in child human capital are close to being fully insured, with only small response of investments to permanent shocks and full insurance against transitory shocks.

² See for example Blundell et al. (2016).

³ For example Waldfogel (1999), Berger and Waldfogel (2004), Hofferth and Curtin (2006), Lalive and Zweimuller (2009), Lalive et al. (2014), and Schönberg and Ludsteck (2014).

⁴ See Rhum (2000), Gregg and Waldfogel (2005), Gregg et al. (2005), Baker and Milligan (2008a,b), Liu and Skans (2010), Rasmussen (2010), Carneiro et al. (2015a), Rossin (2011), and Dustmann and Schönberg (2012).

maternity leave. A mother who is eligible for unpaid maternity leave has a right to return to work after the birth. If her partner loses a job around the timing of the birth, the right to work reduces search frictions and makes it easier for her to smooth the effect of the job loss.

We exploit time-state variation across US states in the implementation of unpaid maternity employment protection. In the US there was no federal legislation regarding maternity leave until the Family and Medical Leave Act (FMLA) was introduced in 1993, which allowed 12 weeks of unpaid maternity leave.⁵ However, some states implemented their own version of the policy as early as 1972.⁶ Although the FMLA is 20 years old the implications of this paper reach beyond an analysis of the policy itself, by informing about the mechanisms households use to insure against shocks.

A difference-in-difference approach identifies the insurance mechanism through an interaction of layoff and FMLA. The monthly labour market status of mothers and fathers is constructed using the US Panel Study of Income Dynamics (PSID), starting from the month they have a child. The parents are followed up to the time that the mother shifts labour state,⁷ either to re-enter the labour market or to have another child. In between the birth and the change of labour state the father may experience an exogenous shock by losing his job.⁸ This is a meaningful shock as 8% of the sample experience layoff prior to the mother shifting state. Using a duration model, we estimate whether mothers speed up their return to work after birth in response to the paternal job loss and specifically whether the marginal effect of layoff is heterogeneous by eligibility to unpaid maternity leave. In considering a mother's decision to return to work, we control for her future fertility decisions⁹ using a competing risk methodology.

We find the conditional probability of observing a mother in work after a paternal shock is 49% higher in households with employment protection around childbirth, relative to a household with no paternal shock. This suggests that mothers with no maternity employment protection are less able to use their labour supply to insure households. The results are statistically significant for movements into full- but not part-time work which is intuitive as FMLA only offered employment protection if mothers had worked 1250 h in the previous year.

To give further evidence that this responsiveness of the return to work is due to the insurance role of unpaid leave, we repeat analysis focusing on whether mothers exposed to a paternal shock speed up the return to work if eligible for paid maternity leave. The intuition is that there is less financial benefit of returning to work early whilst on paid leave and indeed, we find no significant interaction effect of a layoff with eligibility to paid leave. Finally, using data on annual food consumption, we find that whilst a layoff lowers household food consumption, this effect is mitigated if households are covered by FMLA, evidence of smoothing of food consumption through FMLA.

Employment protection through FMLA provides insurance for the mother from losing *her* job whilst taking some time off after birth. The additional insurance role studied in this paper is insurance against *paternal* shocks by elimination of search frictions. A large literature models labour market participation in the presence of search frictions (see [Mortensen and Pissarides, 1999](#); [Mortensen, 2011](#) for a review). Whilst classically the model consists of two labour market states of employment or unemployment, a number of papers have added the state of non-participation, which is distinguished from unemployment through passive job search behaviour, see [Kim \(2001\)](#), [Garibaldi and Wasmer \(2005\)](#), [Yip \(2003\)](#), [Pries and Rogerson \(2009\)](#) and [Moon \(2011\)](#). In particular, [Pries and Rogerson \(2009\)](#) describe labour market frictions as a fixed cost which make job search more costly and note that “Increases in this fixed cost make non-participation more attractive at the margin.” ([Pries and Rogerson, 2009](#), p. 569). An increase in this fixed cost is analogous to a limit in employment protection after birth. [Section 5.4](#) explores heterogeneity in the insurance effect of unpaid leave, by three variables which typically proxy for search frictions—the business cycle, local labour market conditions and maternal education.

The paper is related to a literature which has found that female labour supply as an insurance mechanism is responsive to the level of her partner's unemployment insurance ([Cullen and Gruber, 2000](#)), health insurance ([Buchmueller and Valletta, 1999](#)) and Medicaid ([Winkler, 1991](#)). Our paper instead links the female labour supply response to a paternal shock across eligibility to unpaid maternity leave.

The identification comes from the exogenous paternal employment shock and we show that our results are robust to two potential sources of endogeneity of the shock—predictability of the event through past experience of layoff and through anticipation effects.

There are important policy implications from this paper. If mothers are less able to insure their households against paternal shocks, the welfare consequences will be felt by adults ([Black et al., 2015](#) find health effects in Norway) and children (see [Duncan and Brooks-Gunn, 1997](#); [Carneiro and Heckman 2003](#); [Currie, 2009](#); [Carneiro et al., 2010](#); [Dahl and Lochner, 2012](#); [Carneiro et al., 2015b](#) for examples). However the other side of the coin is the evidence which suggests negative consequences for child development of early maternal return to work (within the first 12 weeks), through lowering immunisations and breast-feeding, worsening child behavioural problems ([Berger et al., 2005](#)) and cognitive outcomes ([Baum, 2003a](#)). Moreover, combined with the evidence in the paper of no significant movement into work in response to the

⁵ Conditions for eligibility, discussed in [Section 2](#), include working for the employer for at least 1250 h in the year before birth and a firm size of at least 50.

⁶ [Waldfoegel \(1999\)](#) found leave to increase as a result of FMLA, [Berger and Waldfoegel \(2004\)](#) found for mothers working before birth, those covered by FMLA were more likely to take at least 12 weeks and [Hofferth and Curtin \(2006\)](#) found FMLA to raise employment post childbirth but lower wages.

⁷ The destination state of an individual (to remain at home, have a child or move to work) will be referred to as the labour state.

⁸ Similar to [Rhum \(1991\)](#) and [Stevens \(1997\)](#) the job loss is recorded as exogenous if the reason was recorded as plant closure, laid off or being fired.

⁹ For example, [Del Bono et al. \(2012\)](#) find fertility effects of female job displacement.

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