



# Parental leave reforms and the employment of new mothers: Quasi-experimental evidence from Japan☆



Yukiko Asai

University of Tokyo, Institute of Social Science, Hongo 7-3-1, Bunkyo-ku, Tokyo 1130033, Japan

## HIGHLIGHTS

- I examine the effect of an increase in cash benefit on mothers' job continuity
- The cash benefit was first introduced in 1995 and the replacement rate was 25%
- The replacement rate was raised from 25% to 40% in 2001
- The job continuity of mothers who gave birth before and after the reform are compared
- I find little evidence that job continuity increased in response to the reform

## ARTICLE INFO

### Article history:

Received 8 October 2012  
Received in revised form 13 January 2015  
Accepted 19 February 2015  
Available online 7 March 2015

### JEL classification:

J13  
J21  
J22

### Keywords:

Parental leave  
Cash benefit  
Job continuity  
Labour supply

## ABSTRACT

This study examines the changes in job continuity of new mothers following an increase in cash benefits provided during parental leave. The cash benefit was first introduced in 1995 and the replacement rate was 25%. The replacement rate was raised from 25% to 40% in 2001. During this period, the maximum duration of paid leave and that of job-protection remained unchanged, and therefore, I can isolate the effects of changes in the amount of cash benefit from those due to changes in duration of leave. By comparing the job continuity of women who gave birth to their child before the reform and those who did so after the reform, I find little evidence that the labour supply pattern of new mothers changed in response to the increased cash benefit.

© 2015 Elsevier B.V. All rights reserved.

## 1. Introduction

Parental leave (PL) provisions differ across countries in terms of the duration of job protection, duration of paid leave, and amount of benefit

paid.<sup>1</sup> Job protection guarantees the right to remain employed and to return to one's previous employer after the completion of PL. Hence, this can help preserve mothers' job-specific human capital around their childbearing. Cash benefits provide financial support to enable mothers to stay at home with their newborns when the value of their time with their children is high.<sup>2</sup> The changes in PL provisions and how they affect the labour supply of mothers form central policy discussions.

☆ The author would like to thank the editor, Steven Haider, and the anonymous referees for their comments and suggestions, which contributed to significantly improving the paper. The author is also grateful to David Card, Takao Kato, Hideo Owan, Shintaro Yamaguchi, Murat Kirdar, Nicole Schneeweis, Cedric Gorinas, Niklas Kaunitz, Izumi Yokoyama and the seminar participants at the University of California Berkeley, SOLE, EALE, Hitotsubashi University and Aarhus University for their useful comments and suggestions on an earlier version of this paper. The National Statistics Center of Japan, in accordance with the Statistics Act, provided data from the Employment Status Survey. The author is responsible for all remaining errors.

E-mail address: [y\\_asai@iss.u-tokyo.ac.jp](mailto:y_asai@iss.u-tokyo.ac.jp)

<sup>1</sup> Europe and Canada have generous programs, whereas the United States has a restricted program. In the United States, the Family and Medical Leave Act (FMLA) provides 12 weeks of unpaid job-protected maternity leave (ML) to employees in companies with more than 50 employees. Canada provides 15 weeks of paid ML and 35 weeks of paid PL, and job protection duration varies by province. Germany provides 6 weeks of paid ML before and 8 weeks after childbirth, PL with flat transfer for a maximum duration of 24 months, and 36 months of job-protection.

<sup>2</sup> Time spent with a child is more valuable when children are younger (Klerman and Leibowitz, 1997).

Although there are many papers that examine the effects of the duration of paid leave and job protection on labour supply,<sup>3</sup> research on the effects of the amount of cash benefit is relatively scarce. This is because, in the previous studies, whenever the amount of cash benefit was increased, the maximum duration of paid leave also increased. If the amount of cash benefit alone is increased, the increased benefit would give an incentive to mothers to remain employed under PL and return to work at the previous employer after the completion of PL. If the duration of paid leave is also increased, the increased benefit would not only increase mothers' incentive to work, but would also increase mothers' time away from work, because when mothers take longer leaves, they receive greater cash benefits. As mothers stay longer at home while remaining employed under PL, however, their human capital depreciates, their preferences might change, and/or they might have another child. Previous studies have failed to isolate the effects of changes in the amount of cash benefit.

The contribution of this paper is to isolate the effects of changes in the amount of cash benefit by exploiting the Japanese reforms. The Japanese PL legislation allows a mother to stay at home until her child is exactly one year old and guarantees her right to return to work with her previous employer. The cash benefit is paid by employment insurance and provided in the form of income replacement. Hence, the amount is determined by the mother's average monthly wage in the months prior to childbirth. Although a cap for the cash benefit exists, it is set so high that most mothers are unaffected. The cash benefit was first introduced in 1995 and the replacement rate was 25%. Then it was raised from 25% to 40% in 2001. During this period, the maximum duration of paid leave and that of job protection remained unchanged. Therefore, these policy reforms allow me to estimate the causal effects of changes in the amount of cash benefit on mothers' job continuity.

I identified the causal effects of the two Japanese reforms on job continuity by comparing women who gave birth to their first child before the reforms to those who did so after the reforms. Because a mother's eligibility depends on the timing of childbirth, which cannot be perfectly controlled, it would have been difficult to take advantage of the reforms by controlling the timing of their conception and delivery. Therefore, the treatment and control groups are nearly randomly assigned. The results show little evidence that the reforms increased the job continuity of mothers. I confirmed that the results were robust to time-varying macroeconomic shocks by taking fathers and non-childbearing women as comparison groups.

The Japanese PL legislation has a unique feature that might increase job continuity around childbearing: mothers in Japan can receive the cash benefit only if they commit to return to work at their previous employers after the completion of PL. This feature is not seen in other countries where mothers can decide not to return to work at the end of PL after collecting cash benefits. Studies have shown that when cash benefits are provided regardless of whether one works, the labour supply of mothers decreases, even in high maternal employment countries (Schone (2004) and Naz (2004) for Norway). Therefore, previous studies on changes in PL provisions tend to focus on return-to-work (including return-to-work with other employers) rather than job continuity. This study is one of the few that examines job continuity, which is another contribution of this paper.<sup>4</sup>

The effects of PL provisions can differ depending on the pre-policy environment. In Japan, the maternal employment rate is low and the availability of childcare is limited.<sup>5</sup> Hence, this study provides insights

into the impacts of family policies on mothers' labour supply in a country where the opportunity cost of childbearing and childrearing is high. In countries where obstacles for working mothers exist, family policies are expected to encourage mothers to remain employed rather than to quit their jobs to raise a child.<sup>6</sup> Contrary to this expectation, I found that the increased financial compensation surrounding childbirth did not increase mothers' job continuity. A possible explanation for this unexpected result is a lack of support for working mothers beyond one year after childbearing. Hence, my results seem to suggest that the reforms should be accompanied by family policies to increase support for working mothers not only surrounding childbirth, but also during the period of childrearing.

### 1.1. Related literature

Previous studies on duration of leave find that extensions of paid leave and of job protection increase job continuity. Baker and Milligan (2008) find that in Canada, extending job-protected leave from 17–18 weeks to 29–52 weeks induces some women who previously returned to work but with other employers to return to their previous employers.<sup>7</sup> Schonberg and Ludsteck (2007) find that in Germany, an expansion of the paid and/or job-protected period increases the probability of a woman working for her previous employer shortly after the completion of PL. However, they also find that many women leave their previous employer soon after returning to work. They interpret this result in two ways: first, some firms might lay off mothers soon after they return to work; second, mothers might play the system and return to work only in order to qualify for unemployment benefits.<sup>8</sup>

Studies on mothers' return-to-work find that changes in PL provisions affect their time away from work. An extension of the maximum duration of paid leave and/or job protection causes mothers to stay at home for longer periods (Schonberg and Ludsteck, 2007; Baker and Milligan, 2008; Hanratty and Trzcinski, 2009; Lalive and Zweimuller, 2009; Lalive et al., 2013).<sup>9</sup> However, there is little evidence that the extension of leave increases the likelihood of mothers returning to work (including return-to-work with other employers) after the completion of PL (Schonberg and Ludsteck, 2007; Hanratty and Trzcinski, 2009). This is because the extended period of leave may induce mothers to have another child and/or might depreciate mothers' human capital and change their preferences.<sup>10</sup> In fact, a prolonged leave even decreases the likelihood of return-to-work. Lalive and Zweimuller (2009) show that extending mothers' paid job-protected PL from one year to two years reduces the likelihood of their returning to work.

This paper differs from previous studies on PL in that the effects of changes in the amount of cash benefit on mothers' job continuity are investigated, while the duration of leave is held constant.

<sup>6</sup> In countries where childcare supply is sufficient and the maternal employment rate is high, family policies such as a further reduction in the price of childcare in recent years has led to only small or insignificant changes in mothers' labour supply. See for example, Lundin et al. (2008) for Sweden; and Bettendorf et al. (2015-in this issue) for the Netherlands.

<sup>7</sup> Their dependent variable is an indicator for mothers being employed and at work the fourth month following the month of birth.

<sup>8</sup> Waldfogel et al. (1999) find that the introduction of a leave program increases job continuity. Recent studies focus on the changes in provisions and are conducted primarily using data on North American and European countries. Note that previous Japanese studies identified the effects of PL by comparing data on women working for a company that voluntarily provided PL with data on women working for companies that did not. However, those estimates may suffer from unobserved differences in mothers who gain employment at companies offering PL.

<sup>9</sup> On the other hand, studies on the United States have shown that short, unpaid job-protected PL does not have a significant impact on mothers' labour supply. For example, Klerman and Leibowitz (1997) investigated the labour supply effect of the FMLA in the United States and found no statistically significant effect on employment, leave, or work. Baum (2003) similarly found small and insignificant effects on employment.

<sup>10</sup> Using aggregate data, Ruhm (1998) finds that PL is associated with increases in female employment, but with reductions in their relative wages at extended durations in European countries.

<sup>3</sup> Examples include, but are not limited to, Schonberg and Ludsteck (2007), Baker and Milligan (2008), Hanratty and Trzcinski (2009), Lalive and Zweimuller (2009), and Lalive et al. (2013).

<sup>4</sup> To my knowledge, Baker and Milligan (2008) and Schonberg and Ludsteck (2007) are some of the other studies that mainly focus on job continuity.

<sup>5</sup> Maternal employment includes mothers who are employed but on leave. According to the OECD, the Japanese maternal employment rate for mothers with children three years of age or younger was 29.8%, which is approximately 30 percentage points lower than the average in OECD countries. The female employment rate in 2005 for those aged 25 to 49 was 65.7%, which is approximately 10 percentage points lower than the OECD average.

Download English Version:

<https://daneshyari.com/en/article/972084>

Download Persian Version:

<https://daneshyari.com/article/972084>

[Daneshyari.com](https://daneshyari.com)