The Economics of Paid Family Leave

By Lisa McKinney [1]  
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Washington Gov. Jay Inslee in July signed into law one of the nation’s most comprehensive paid family leave programs, offering workers paid time off for the birth or adoption of a child or for the serious medical condition of the employee or his or her family member. The legislation, which will take effect in 2020, offers eligible workers 12 weeks of either parental or medical leave, or 16 weeks for a combination of both. Only four other states guarantee paid family leave: California, New Jersey, New York and Rhode Island, with New York’s program beginning in 2018. The District of Columbia also approved a paid family leave program this year to take effect in 2020.

Washington state Sen. Joe Fain, who sponsored the legislation, was able to stay home for an extended period after his son was born last year because the Legislature wasn’t in session, and his wife’s employer gave her a generous leave. He said he wanted other families in his state to have the same opportunity.

“When I thought about all the things I did to give my son his best start in life, I realized most families don’t have that ability to focus solely on their new baby,” he said. “In many cases, dads are heading back to work the next day. We know from studies, anecdotal evidence and our own experience that it is critical to the family unit to have that time to adjust and bond.”

Doctors usually clear patients to return to work four to eight weeks after the birth of a baby, depending on the type of delivery and any complications that occurred. Mothers who are not offered paid leave through their employer often return to work sooner, particularly if they cannot afford to forgo their income, or cobble together a paid maternity leave using sick, personal and disability leave.

Washington’s legislation calls for both employers and employees to pay into the system, 0.4 percent of wages, with 63 percent paid by employees and 37 percent paid by employers, and weekly benefits are calculated based on a percentage of the employee’s wages and the state’s weekly average wage. An employee who makes $50,000 a year, for example, would pay $2.42 a week and their employer would pay $1.42 a week, for a weekly wage benefit of about $704.

Critics of paid family leave laws worry about how they will affect employers and how paid leave will be funded, particularly when a company must continue to pay part of an employee’s salary while also paying a temporary replacement. There are also concerns that guaranteed leave laws may force employers to cut back on other benefits or compensation; make employers hesitant to hire women in child-bearing years, particularly if the laws only apply to mothers; and make certain states less attractive to businesses looking to relocate.

But given the relatively short leaves found in family leave laws in the states, most of these fears haven’t come to fruition, said Christopher Ruhm, professor of economics and public policy at the University of Virginia.

“The general results we are finding is that if we talk about paid parental leaves in the durations we might think about in the U.S.—or even twice as long as we think about in the U.S.—the effects seem to be pretty uniformly positive,” he said. “The labor market situation for women seems to improve, it seems to lead to higher
employment rates and possibly higher wages. There is a lot of concern by employers and employer groups that these policies will be difficult or costly to implement. The evidence we have so far in the states is that once these policies are put in place it's just not that big of a deal.”

Ruhm said the potential benefits to the larger economy are also often overblown.

“People make claims about benefits to the economy, but my belief is that these policies are really just not that big,” he said. “If we are talking about things like effect on gross domestic product, it is just negligible. I think it is a misnomer when people say it is going to increase economic growth.”

Ruhm said that despite the recent wave of high-profile companies—such as 3M, American Express and Coca Cola—implementing paid parental leave policies, he thinks legislation will be necessary if all workers are to have access to leave.

“It is true that we are seeing increases in voluntary provisions of paid leave, but for the most part we are seeing that for advantaged employees, often highly educated, high-wage employees in competitive industries,” he said. “There are things the free market does very well, but there are situations where there are barriers in the free market working well.”

For example, if an employer is the only one in the industry or area offering paid leave, that company may attract a large pool of people who will use the benefit the most, which will make it costly to the employer. Paid leave laws even the playing field for both employers and employees, and because much of the cost is typically financed by payroll taxes levied on employees, these laws often make offering paid parental leave more affordable for companies. Ruhm said that in surveying small employers with 10-99 employees, he is seeing a largely favorable view of paid leave legislation.

Washington’s Fain said when the Legislature looked at who had access to paid leave in the state and who did not, and which employers were able to offer the benefit and which were not, it was a “stark picture.”

“Larger employers in sectors that have wider profit margins and in wealthier parts of the state were already offering this to their upper middle and upper income employees because they need to attract top talent,” Fain said. “It was making it harder for smaller employers in less lucrative sectors to compete and attract that same talent because they cannot afford to offer paid leave on their own.”

California’s paid parental leave law, enacted in 2002 and effective in 2004, was the first in the nation and offers the longest-running case study on the effects of paid leave policies, although funding mechanisms and lengths of leave vary by state.

Most employers said California’s program had no noticeable effect or a positive effect on productivity (89 percent), profitability (91 percent), turnover (96 percent) and morale (99 percent), according to a report from the Center for Economic and Policy Research. Eighty-seven percent said it has not increased costs and 9 percent said they saved money because of decreased turnover or benefit payments.

A Rutgers University study commissioned by the National Partnership for Women and Families found in New Jersey, in the year after giving birth, women who take paid leave were about 40 percent less likely to receive public aid or food stamps.

“While we have known for a long time about the maternal and infant health benefits of leave policies, we can now link paid family leave to greater labor force attachment and increased wages for women, as well as to reduced spending by businesses in the form of employee replacement costs, and by governments in the form of public assistance,” said study co-author Linda Houser.
In the U.S., there is also a philosophical debate about whether it is the government’s role to mandate paid leave.

“I’m a Republican and I am naturally hesitant to turn to the government to solve problems,” Fain said. “But at some point you have to look at the numbers and stats and see who is falling behind. ... If we believe it is important for parents to be there (right after) kids are born or for a loved one to be there during cancer treatment, we need to see if government has to have a role in that.”