

# Parental Leave and Mothers' Careers

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*Extended Abstract*

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Paid parental leave - as it is common in many industrialized countries - has been shown to be associated with higher female employment rates on the one hand, but lower relative wages at extended durations of paid leave on the other hand (e.g. Ruhm 1998). Against this background, many countries are discussing the optimal design of parental leave policies.

Germany introduced a parental leave reform in 2007 that replaced a means-tested benefit targeted at lower-income families by an earnings related transfer that is paid to all mothers.<sup>1</sup> The maximum duration of paid leave was cut from 24 to 14 months. Depending on household income and individual prior-to-birth earnings, this reform changed work incentives for mothers in the first and second year after giving birth. For mothers with high prior-to-birth earnings, incentives to take a leave for one year have strongly increased. For mothers with low prior-to-birth earnings and low household income, incentives to take up employment in the second year after giving birth have increased. Several empirical evaluation studies have shown that the reform had the expected short-run labor supply effects: High-income mothers' labor supply decreased in the first year after giving birth, i.e. their average leave duration increased. Low-income mothers, on the other hand, increased labor supply in the second year after giving birth (see, e.g. Bergemann and Riphahn 2011 and 2015, Geyer et al. 2015, Kluve and Tamm 2013, Kluve and Schmitz 2018, or Welteke and Wrohlich 2016).

In this paper, we investigate the long-term effects of these labor supply responses on mothers' careers. In particular, we analyze the effect of parental leave on mothers' daily wages up to nine years after the child is born. Moreover, we analyze whether there are effects on mothers' probability to hold a leadership position.

To this end, we use administrative data from social security records, i.e. the integrated employment biographies (IEB) provided by the Institute of Employment Research (IAB). These data contain the total population of individuals in Germany who have an employment contract subject to social security contributions. From these data, we select a sub-sample of mothers who gave birth to their first child in the last quarter of 2006 and the first quarter of 2007. For these individuals, we observe their whole employment history and wages up until nine years after giving birth.

A descriptive analysis of these data with respect to mothers' labor supply reactions to the 2007 parental leave reform confirms findings from previous studies: High-income mothers have on average longer employment interruptions (leave increases by 1,6 months). Low-income mothers also have longer employment interruptions (increase by 0,6 months), however, a higher probability to return to work in the second year after giving birth.

Human capital theory suggests that we should see a negative effect of these labor supply reactions on long-term wages, in particular for high- income mothers. Moreover, previous studies exploiting exogenous variations in parental leave introduced by maternity leave reforms in Germany in the 1980s and 1990s have shown that longer parental leaves by mothers had negative effects on wages in that context (see, e.g. Schönberg and Ludsteck 2014).

In order to identify potential wage effects of the reform, we exploit the parental leave reform 2007 as a natural experiment. Due to the timing of the reform, parents of children born in the first quarter of 2007 could not know that they would be eligible for the new benefits at the time of conception of their child (see, e.g. Kluve and Tamm, 2013). Comparing mothers with children born in the first quarter of 2007 (treatment group) to mothers with children born in the last quarter of 2006 (control group) thus identifies the ITT effect of the reform.

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<sup>1</sup> The new parental leave scheme also included a „daddy quota“ of two months.

First results show that the (small) increase in parental leave duration did not reduce mothers' long-run career perspectives. Nine years after giving birth, we do not find a statistically significant effect of the reform on mothers' wages, not even for high-income mothers, whose increase in the duration of parental leave was higher than that of low-income mothers. The same is true for the mothers' occupational position: We do not find any statistically significant effects of the reform on the probability to hold a leadership position.

We interpret our first findings as good news: Granting a more generous benefit in the first year in order to provide a financial safeguard for families with young children has led to longer employment interruptions for certain groups of mothers without harming their long-term career perspectives. In the next step, we will analyze heterogeneous effects for different socio-economic and regional subgroups.

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