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Paid Parental Leave: Lessons from OECD Countries and Selected U.S. States

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PAID PARENTAL LEAVE: LESSONS FROM OECD COUNTRIES AND SELECTED U.S. STATES

Willem Adema, Chris Clarke, Valerie Frey, OECD Directorate for Employment, Labour, and Social Affairs, Social Policy Division

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EXECUTIVE SUMMARY

The United States is at a crossroads in its policies towards the family and gender equality. Currently America provides basic support for children, fathers, and mothers in the form of unpaid parental leave, child-related tax breaks, and limited public childcare. Alternatively, the United States' OECD peers empower families through paid parental leave and comprehensive investments in infants and children.

The potential gains from strengthening these policies are enormous. Paid parental leave and subsidised childcare help get and keep more women in the workforce, contribute to economic growth, offer cognitive and health benefits to children, and extend choice for parents in finding their preferred work-life strategy. Indeed, the United States has been falling behind the rest of the OECD in many social and economic indicators by not adequately investing in children, fathers and mothers.

A comprehensive study of work-life balance issues warrants a detailed discussion of all relevant policies, such as tax/benefit supports, workplace practices, childcare, education, and long-term care systems. Such an assessment is beyond the scope of this report, which focusses more narrowly on issues around reconciling work and care commitments for families with young children and in particular on paid parental leave policies within the OECD and the United States.

Insufficient maternity and paternity leave hinders American women and families

The United States is the only country in the OECD that does not offer paid maternity leave at the national level, and one of nine OECD countries that does not have a paid leave entitlement reserved for fathers. Furthermore, only about 60% of American workers are eligible for twelve weeks of *unpaid* employment protection around childbirth. Instead, American families rely on a patchwork of supports – including state-level legislation on employment-protected leave, as well as "pregnancy disability" payments and paid family leave entitlements that exist in some states – in order to take time off and keep their jobs when a child arrives. Most private American employers do not provide paid leave around childbirth to employees, and businesses that do so tend not to provide it to low-wage workers, precisely those individuals who can least afford to take unpaid leave. This puts the United States out of step with its OECD peers in terms of financial support and employment protection for parents with a new child.

The economic and health benefits of paid leave around childbirth are significant. The evidence analysed in this report shows that – across OECD countries and in U.S. states offering paid leave – paid family leave increases the likelihood that women work, both by giving them an incentive to work prior to childbirth and by offering them employment protection to facilitate their return to the same job. This is good for women and men, as well as families and businesses, which would otherwise face replacement costs to hire and train new workers.

In addition to helping women return to work, paid maternity leave enables mothers to recover from pregnancy and childbirth, while paid family leave allows both parents to care for and bond with their new child. Paid leave can reduce maternal stress and improves mothers' life satisfaction during their children's early infancy.

Families also benefit when fathers are with their families around the time children are born. Fathers' leave-taking is associated with higher female employment, less gender stereotyping at home, and higher life satisfaction. Extended time at home during early infancy is also associated with fathers' greater involvement with their children, which has positive effects on children's cognitive and emotional development. The United States is on the right path with offering the same employment-protected leave provisions for mothers and fathers around childbirth.

Caring for children while working is a struggle for many families, but public policies can help

The majority of American parents work, and childcare costs are a significant burden for many families. The average parents of a pre-schooler spend 10.5% of their monthly family income on child care, and for low-income families, this expenditure can be three times as high. This is because working low-income families often do not have access to the Child and Dependent Care Credit or employer-provided childcare support. Furthermore, compared to many other OECD countries, there is limited federal investment in childcare for very young children in the United States. A very small share of American children attend Head Start, the federally-funded preschool programme, and access to state-level preschool varies significantly by state of residence. The United States should commit more funding to high-quality, publicly-subsidized childcare to help working families and improve equality of opportunity for all children.

Women's labour force participation contributes to economic growth

Although female labour force participation in the United States is still above the OECD average, American women's participation has been falling since 2000. Labour force participation rates among American women are 11 percentage points below those of men, despite the fact that women's average level of educational attainment is now above that of men.

Increasing levels of female labour market activity to at least match male levels would help offset the sharp slowdown in labour force growth and contribute to economic growth. The U.S. is committed to the G20 target of reducing the gender gap in labour force participation rates by 25% in 2025, which would add 0.13 percentage points per year to growth in GDP. However, a rapid elimination of the gender gap by 2025 could increase the average annual rate of growth by as much as 0.5 percentage points. This is equivalent to an overall increase of 7.7% of GDP per capita in the long run.

American women continue to be underpaid compared to men. The gender pay gap is 18% at median income compared to 15% on average across the OECD. In fact, gender pay gaps are above the OECD average across the earnings distribution, which points to persistent glass ceilings at the top and prevailing sticky floors at the bottom. Almost two-thirds of American workers earning at or below the minimum wage are women: any increase of the minimum wage would thus have an immediate impact on many low-income mothers and children living in low-income households.

The path forward

The United States can build on good practices in U.S. states and other OECD countries to improve gender equality and support families. Several states have taken the lead in promoting family-friendly social policies for mothers, fathers, and children, and public support for these policies is high. It is time for the United States federal government to get behind public initiatives supporting families:

- The United States should introduce paid maternity and parental leave around childbirth at the federal level, to strengthen parental labour force attachment and give all American children the best possible start in life.

- The United States should increase federal and state investment in pre-primary childcare, by granting low-income workers access to Child and Dependent Care Credit, while states and local-governments should continue to innovate with pre-primary childcare programmes.

RESUME

Les États-Unis se trouvent à la croisée des chemins dans le domaine des politiques familiales et de promotion de l'égalité hommes-femmes. À l'heure actuelle, les enfants américains et leurs parents ne bénéficient que d'une aide minimum, qui comprend un congé parental non rémunéré, des allégements fiscaux liés aux enfants et une offre restreinte de services publics d'accueil des jeunes enfants. A contrario, les pairs des États-Unis au sein de l'OCDE offrent aux parents et aux familles la possibilité de prendre un congé parental rémunéré et investissent massivement dans les politiques de l'enfance.

Des politiques plus généreuses dans ces domaines pourraient générer des bénéfices considérables. Le congé parental rémunéré et les services subventionnés de garde d'enfants contribuent à augmenter le nombre de femmes qui rejoignent le marché du travail ou qui y restent, participent à la croissance économique, ont des effets bénéfiques sur les compétences cognitives et la santé des enfants, et offrent aux parents un éventail de choix plus large afin de concilier au mieux vie professionnelle et vie privée. Les États-Unis accusent en effet du retard par rapport aux autres pays de l'OCDE à l'aune de nombreux indicateurs sociaux et économiques, car ils n'ont pas suffisamment investi dans le bien-être des enfants et des parents.

Pour étudier toutes les questions relatives à l'équilibre entre vie professionnelle et vie privée, il est nécessaire d'examiner de manière détaillée l'ensemble des politiques publiques pertinentes, comme les aides fiscales/sous forme de prestations, les pratiques en entreprise, les services de garde d'enfants, les aides en matière d'éducation et les aides à la prise en charge de la dépendance. Or un tel examen déborde le cadre du présent rapport, qui se concentre plus spécifiquement sur les problèmes rencontrés pour concilier vie professionnelle et responsabilités familiales en présence de jeunes enfants, et en particulier sur les politiques relatives au congé parental rémunéré dans les pays de l'OCDE et aux États-Unis.

L'insuffisance des congés de maternité et de paternité handicape les femmes et les familles américaines

Les États-Unis sont le seul pays de l'OCDE qui n'offre pas, à l'échelon national, de congé maternité rémunéré. Ils figurent en outre parmi les neuf pays de l'OCDE qui ne donnent pas aux pères la possibilité de prendre un congé paternité rémunéré. Par ailleurs, seuls 60 % environ des travailleurs américains peuvent prétendre à un congé *non rémunéré* assorti d'une protection de l'emploi de douze semaines à la naissance d'un enfant. Les familles américaines sont donc contraintes de s'appuyer sur de multiples aides – parmi lesquelles les lois en vigueur au niveau des États sur les congés assortis d'une protection de l'emploi, ainsi que les prestations « grossesse-invalidité » et les droits à congé parental rémunéré mis en place dans certains États et territoires – pour pouvoir prendre un congé sans perdre leur emploi à l'arrivée d'un enfant. Aux États-Unis, la plupart des employeurs privés n'offrent pas de congé rémunéré à la naissance d'un enfant, et lorsqu'il existe, ce droit n'est généralement pas étendu aux travailleurs à bas salaire, alors que ce sont ceux qui peuvent le moins se permettre de prendre un congé non rémunéré. Les États-Unis sont donc en décalage avec leurs pairs de l'OCDE en termes d'aide financière et de protection de l'emploi pour les parents qui accueillent un nouvel enfant.

Sur le plan économique et de la santé, les avantages associés au congé rémunéré à la naissance d'un enfant sont considérables. L'analyse menée aux fins du présent rapport montre que dans les pays de l'OCDE et les États américains où le congé rémunéré pour raisons familiales existe, les femmes sont plus nombreuses à travailler, à la fois parce qu'elles sont incitées à travailler avant la naissance de l'enfant et parce qu'elles bénéficient d'une protection de l'emploi qui facilite leur retour au travail. Les effets sont bénéfiques pour les femmes comme pour les hommes, ainsi que pour les familles et même pour les entreprises, qui n'ont pas à assumer les coûts de remplacement liés à l'embauche et à la formation de nouveaux salariés.

Outre le fait qu'il les aide à reprendre le travail, le congé maternité rémunéré permet aux mères de se rétablir après la grossesse et l'accouchement, tandis que le congé rémunéré pour raisons familiales permet aux deux parents de s'occuper de leur bébé et de tisser des liens avec lui. Le congé rémunéré peut contribuer à réduire le stress maternel et à améliorer la satisfaction des mères à l'égard de leur vie au cours des premiers mois qui suivent la naissance de leur enfant.

La présence du père à la maison à la naissance de l'enfant est également bénéfique pour les familles. Le congé paternité est associé à un taux d'emploi plus élevé des femmes, à une diminution des stéréotypes fondés sur le sexe au sein du foyer, et à une plus grande satisfaction à l'égard de l'existence. Le fait d'être à la maison pendant une période prolongée au cours de la petite enfance permet également aux pères de s'impliquer davantage auprès de leurs enfants, ce qui a des répercussions positives sur le développement cognitif et émotionnel de l'enfant. Les États-Unis sont sur la bonne voie pour offrir aux mères et aux pères les mêmes droits à congé rémunéré assorti d'une protection de l'emploi à la naissance d'un enfant.

S'il est difficile, pour de nombreuses familles, de s'occuper des enfants tout en travaillant, le soutien que peuvent apporter les politiques publiques n'est pas négligeable

La majorité des parents américains travaillent et, pour de nombreuses familles, les frais de garde des enfants représentent une charge financière importante. En moyenne, les parents d'un enfant d'âge préscolaire consacrent 10.5 % de leur revenu familial mensuel à la garde d'enfant. Pour les ménages modestes, cette proportion peut être jusqu'à trois fois plus élevée. L'explication : les ménages à faible revenu ne peuvent souvent pas prétendre au *Child and Dependent Care Credit* ou à une subvention de l'employeur pour la garde d'enfant. En outre, par rapport à de nombreux autres pays de l'OCDE, les investissements consacrés aux services de garde des enfants à l'échelon fédéral sont limités s'agissant des tout-petits. Une très faible proportion des enfants américains ont accès au programme de préscolarisation fédéral *Head Start*, tandis que l'accès aux services préscolaires fournis par les États varie sensiblement selon le lieu de résidence. Les États-Unis devraient accroître le financement public des services de garde de qualité afin de venir en aide aux ménages qui travaillent et d'améliorer l'égalité des chances pour tous les enfants.

L'activité des femmes contribue à la croissance économique

S'il reste supérieur à la moyenne de l'OCDE, le taux d'activité des femmes aux États-Unis diminue depuis 2000. Il est inférieur de 11 points à celui des hommes, en dépit d'un niveau d'études moyen supérieur.

L'alignement du taux d'activité des femmes sur celui des hommes contribuerait à compenser le ralentissement brutal de la croissance de la population active et à soutenir la croissance économique. Les pouvoirs publics américains se sont engagés à atteindre l'objectif du G20 qui vise à réduire de 25 % l'écart hommes-femmes en termes de taux d'activité d'ici à 2025, ce qui se traduirait par 0.13 point supplémentaire de croissance annuelle pour le PIB. Toutefois, si l'écart hommes-femmes était comblé rapidement et totalement d'ici à 2025, l'augmentation du taux de croissance annuelle moyen pourrait atteindre 0.5 point, ce qui équivaudrait à une hausse globale de 7.7 % du PIB par habitant à long terme.

Les Américaines continuent de percevoir un salaire inférieur à celui de leurs homologues masculins. L'écart de salaire entre hommes et femmes s'élève ainsi à 18 % au niveau du revenu médian, contre 15 % en moyenne dans la zone OCDE. En fait, les écarts de salaire hommes-femmes sont supérieurs à la moyenne de l'OCDE à tous les échelons de la distribution des revenus, ce qui témoigne de la persistance d'un plafond de verre au sommet de l'échelle de rémunération et de « planchers collants » en bas de l'échelle. Près de deux-tiers des travailleurs américains rémunérés au salaire minimum ou en deçà sont des

femmes : tout relèvement du salaire minimum aurait donc un effet immédiat sur de nombreuses mères faiblement rémunérées et sur de nombreux enfants vivant dans des ménages modestes.

La voie à suivre

Les États-Unis peuvent s'inspirer des bonnes pratiques mises en œuvre dans certains de leurs États et dans d'autres pays de l'OCDE pour diminuer les inégalités entre hommes et femmes et pour aider les familles. Plusieurs États ont ouvert la voie en mettant en place des politiques sociales en faveur des familles (mères, pères et enfants), politiques qui reçoivent un fort soutien de la part du grand public. Il est temps, pour le gouvernement fédéral américain, de soutenir les initiatives publiques qui viennent en aide aux familles :

- Les États-Unis doivent instaurer, à l'échelon fédéral, un droit à congé maternité et parental rémunéré à la naissance d'un enfant, afin de renforcer les liens des parents avec le marché du travail et d'offrir à tous les enfants le meilleur départ possible dans la vie.

- Les États-Unis doivent accroître les investissements consentis à l'échelon fédéral et des États dans les services préprimaires, en permettant aux travailleurs à bas salaire d'avoir accès au dispositif *Child and Dependent Care Credit*, tandis que les États et les autorités locales doivent continuer d'innover avec des programmes d'accueil préprimaires.

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CHAPTER 1: PAID PARENTAL LEAVE: LESSONS FROM OECD COUNTRIES AND SELECTED U.S. STATES.

1.1. Main findings

1.1.1. American women are not getting a fair deal

1. American women contribute greatly to economic growth in the United States, and if their labour force participation were to increase further the economy as a whole would benefit. Yet American women are far from reaching full and equal status in the U.S. labour market. Less than two-thirds of them are in work compared to three-quarters of men, and American women are less likely to be entrepreneurs or move up the corporate ladder than men – the share of women on boards of directors in the biggest companies is around 20%. American women also earn substantially less than men: at median income the gender gap is 18%, and gender differences in earnings amongst self-employed workers are a staggering 42% (OECD, 2015a).

2. Gender pay gaps have come down since the mid-1970s (Figure 1.1) due to substantial gains in educational attainment, increased female labour force participation until the 1990s, and diminishing occupational segregation (OECD, 2015a and 2015b). Still, as in other OECD countries, women tend to work in different sectors and occupations than men, and pay tends to be lower in female-dominated sectors. Differences in working hours also contribute to the gender pay gap, as women more than men tend to make use of flexible workplace measures, including part-time employment. Yet, these factors cannot explain all gender pay differences, and in the United States about 40 to 50% of the gender pay gap remains "unexplained" (Blau and Kahn, 2007; OECD, 2012a). These unexplained factors are likely to include discrimination, but it is difficult to isolate the exact impact of discriminatory behaviour on gender pay gaps. Legislation has directly addressed pay discrimination, such as the 1963 Equal Pay Act and Title VII of the Civil Rights Act of 1964, which was recently augmented by the Lilly Ledbetter Fair Pay Act.[1] Further measures to increase pay transparency within companies, professions and economic sectors could expose and thus discourage discrimination.

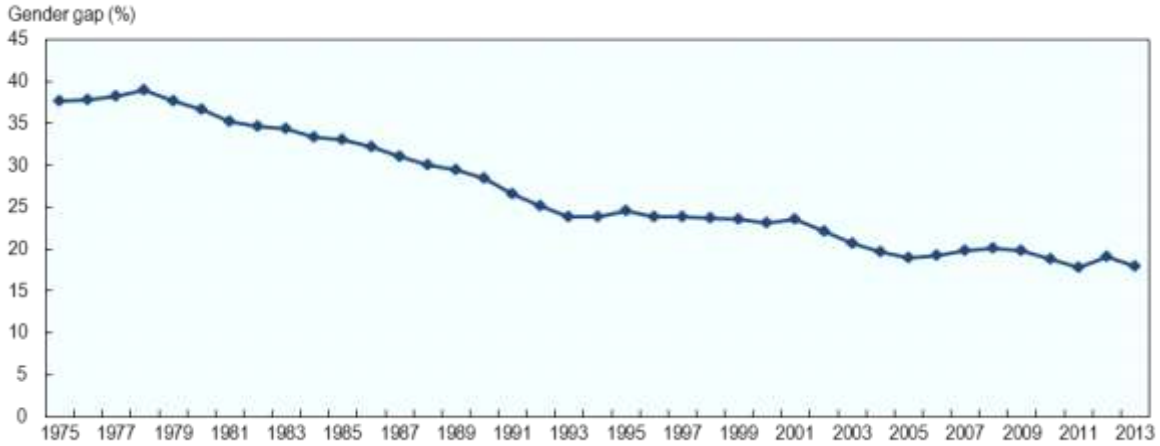
3. American women earn substantially less than men across the earnings range (Chapter 2). At 10%, the gender gap among low earners is smaller than at the median (OECD, 2015c). This reflects the influence of pay floors, statutory minimum wages and collective agreements to protect low-wage workers, and these are important for many women as 63% of workers earning at or below the minimum wage are women (U.S. BLS, 2015). At USD 7.25 per hour the minimum wage is just over one-third of the median wage, the third-lowest level across OECD countries with a minimum wage (OECD, 2015d). Increasing the federal minimum wage to USD 12 by 2020, as has been suggested, could lift at least 10 million people out of poverty (U.S. CEA, 2014), would affect 35 million people with earnings near the minimum wage, and boost the earnings of around 30% of America's women in work (EPI, 2015).

[1] This Act reinstates protection against pay discrimination that was stripped away by the Supreme Court's decision in 2007 in "Ledbetter v. Goodyear Tire & Rubber Co". The Act – signed into law in 2009, reinstates prior law and makes clear that pay discrimination claims on the basis of sex, race, national origin, age, religion and disability "accrue" whenever an employee receives a discriminatory pay-check, as well as when a discriminatory pay decision or practice is adopted which affects the person.

4. American girls score at least as well as American boys in international science testing and there are now more women with high school and post-secondary degrees than men. Women are, however, still far less likely to obtain degrees in science, technology, engineering or mathematics, which offer more promising opportunities for career and earnings progression (OECD, 2015e).

Figure 1.1: The gender pay gap has declined markedly over time but remains substantial

Gender gap in median weekly earnings for full-time employees, United States, 1975-2013



Note: The gender wage gap is unadjusted, and is calculated as the difference between median weekly earnings of men and women relative to median weekly earnings of men. Estimates of earnings used in the calculations refer to gross weekly earnings of full-time wage and salary workers.

Source: OECD (2015) Online OECD Employment Database

1.1.2. The United States is "out of step" on paid leave

5. Gender issues are closely related to the reconciliation of work and family life, as most American mothers and fathers of dependent children work, even when children are not yet a year old: 57.3% of mothers with infants worked outside the home (U.S. BLS, 2014). 56% of working mothers and 50% of working fathers say they have difficulty balancing work and family commitments (Parker and Wang, 2013). How can policies support parents in overcoming barriers to employment participation and help them provide for their children?

6. Across the OECD, governments try to help parents to balance their work and care commitments for young children with paid leave to care for very young children and with formal childcare supports. All OECD countries, except the United States, have employment-protected paid maternity leave for at least 12 weeks on a national basis (Chapter 4). This provides job security and enables mothers to recuperate from giving birth and bond with and care for children, whilst providing valuable income support at a time of increased stress on household budgets. Often mothers also have access to additional paid parental leave[2] entitlements. On average across the OECD, mothers can combine paid maternity and parental leave entitlements for up to about one year (OECD, 2015b). Furthermore, and in line with OECD (2013a), *the OECD Gender Recommendation*,[3] there are an increasing number of OECD countries that also provide paid leave for fathers, with entitlements in ten OECD countries lasting for more than 2 months (OECD, 2015b). By contrast, fathers in America and eight other OECD countries do not have access to paid fathers leave.

2 Maternity leave is an employment-protected leave of absence for employed women around the time they give birth, while paternity leave is an employment-protected leave of absence for fathers at the time of childbirth. Parental leave is an employment-protected leave of absence for employed parents, which is often supplementary to the maternity and paternity leave periods (see Chapter 4 for detailed definitions).

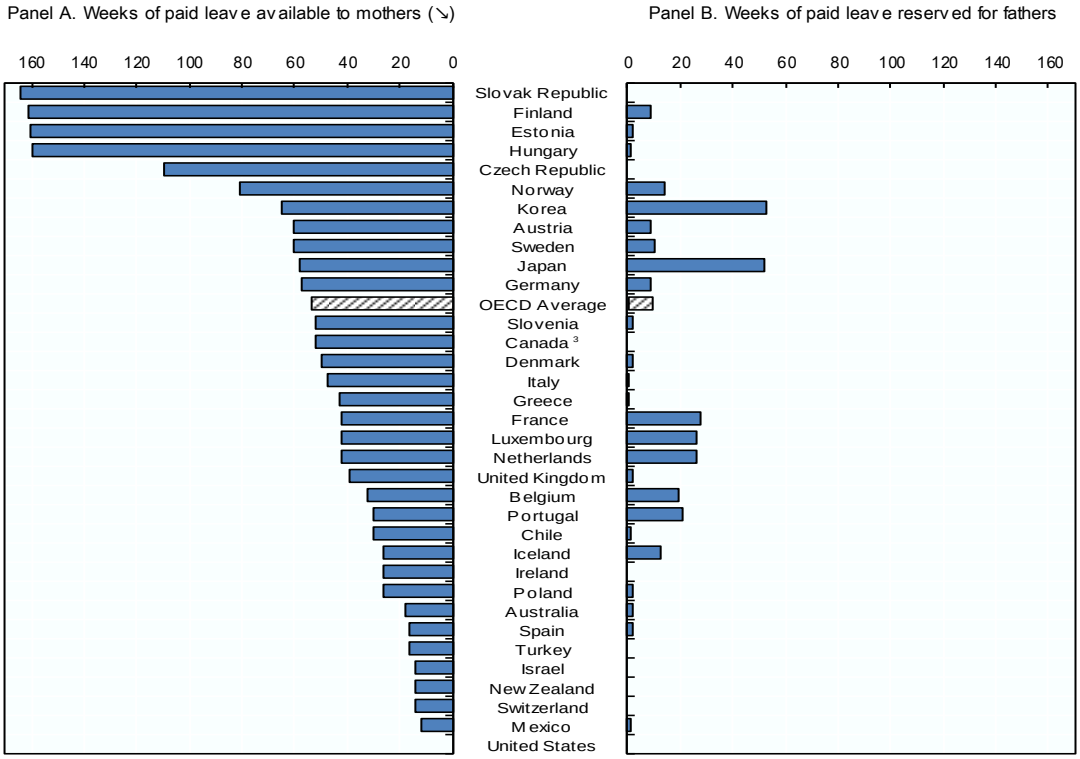
3 The OECD Gender Recommendation was adopted on 29 May 2013 by OECD countries and a number of key emerging economies, and sets out a number of policy principles and measures that governments should consider to address gender inequalities in education, employment and entrepreneurship. It notably recommends that governments of Member countries – through appropriate legislation, policies, monitoring and campaigning – provide equal access to education, promote family-friendly policies, foster participation of fathers in unpaid work, work towards a better gender balance in leadership positions and promote entrepreneurship among women.

7. The United States provides 12 weeks of unpaid job-protected leave under the federal Family and Medical Leave Act (FMLA)[4], but not to workers in companies with less than 50 employees, to employees that have been with their current company for less than a year, or to employees that work an average of less than 24 hours per week (U.S. DOL. 2012). As a result, less than 60% of U.S. workers are covered by and eligible for leave under the FMLA (U.S. DOL. 2012). And while some businesses provide employees with access to paid family leave themselves, it is more likely to be offered to relatively skilled and well-paid workers as part of a broader employee benefit package (U.S. CEA, 2015). In general, low-income families have insufficient support during the period when they are most in need of income: immediately after childbirth, when mothers cannot work and the costs associated with a new child put additional strain on household budgets.

8. American families must make do with a patchwork of supports to secure time-off around childbirth, including additional state legislation on employment-protected leave, but also "pregnancy-disability" payments, and paid family leave entitlements that exists in a handful of states and territories.

Figure 1.2: American mothers and fathers miss out on paid parental leave

Paid leave *available* to mothers[1] and paid leave *reserved* for fathers[2], in weeks, 2014



Notes:

1. Paid leave available to mothers includes weeks of paid maternity leave and any weeks of paid parental leave and paid home care leave that are available to mothers (see Chapter 3).

2. Paid leave reserved for fathers includes weeks of paid paternity leave, 'father quotas' or periods of parental leave that can be used only by the father and cannot be transferred to the mother, and any weeks of paid sharable leave that must be taken by the father in order for the family to qualify for 'bonus' weeks of parental leave.

3. Data for Canada reflect statutory provisions at the federal level. The province of Québec has a separate parental insurance programme which includes a five week paid leave period for the exclusive use by the father.

Source: OECD (2015) Family Database

4 . The Family and Medical Leave Act provides leave for a variety of reasons, including to care for a newborn or newly adopted child (the "parental-care provision", to care for a close relative with a serious health condition (the "family-care provision"), or because the employee is personally suffering from a serious health condition (the "self-care provision").

9. California, Hawaii, New Jersey, New York, Rhode Island and the U.S Territory of Puerto Rico have Temporary or Short-term Disability Insurance schemes (TDI or SDI as in California) that can pay benefits in case of maternity, generally for around 6-10 weeks (duration varies with medical assessment). Furthermore, California (2004) and New Jersey (2009) also provide 6 weeks and Rhode Island (2014) 4 weeks of Paid Family Leave (PFL) to parents as an individual entitlement for child-bonding and/or care purposes, and their state policy development experiences hold important lessons for future policy development at federal level (see below).

1.1.3. The case for paid maternity and parental leave

10. The evidence from around the OECD shows that a judiciously chosen period of paid leave is generally good for female employment: it encourages women to enter work before childbirth and it facilitates re-entry after childbirth. In OECD countries and in California, female labour force participation increased when paid parental/family leave became available or was expanded, consistently improving rates of mothers returning to work (and to the same employer) after taking paid leave (Akgunduz and Plantenga (2013); Baum and Ruhm (2014); Rossin-Slater *et al* (2013); Ruhm (1998); and, Thévenon and Solaz (2013)). The evidence presented in Chapter 5 suggests that paid leave is estimated to have increased female employment rates by 1.5 to 2.5 percentage points relative to male employment rates.

11. It is hard to pinpoint the exact wage effects of taking short-term leave. The evidence, while mixed, does suggest that women face earnings penalties following long periods of leave. However, many studies from across OECD countries also find that earnings of "mother returners" tend to catch up in the medium term (*e.g.* Buligescu *et al*. (2008); Lalive and Zweimuller (2009); Zhang (2010)).

12. Individual and household level data shows that paid maternity leave enables mothers to recover from pregnancy and childbirth and improves maternal health and wellbeing (McGovern *et al* (1997); Chatterji and Markowitz, 2005 and 2008). However, such evidence is more difficult to find on an aggregate (population-wide) level (Aitken *et al*., 2015). The evidence on the relationship between paid leave and child health outcomes such as low-birth weights, infant mortality and cognitive development, is also mixed. This OECD study, however, does find that the introduction of paid family leave in California and New Jersey had significant effects on immunisation rates in these states, especially among children in low-income families. Across economic and health outcomes, paid leave has stronger positive effects than unpaid leave.

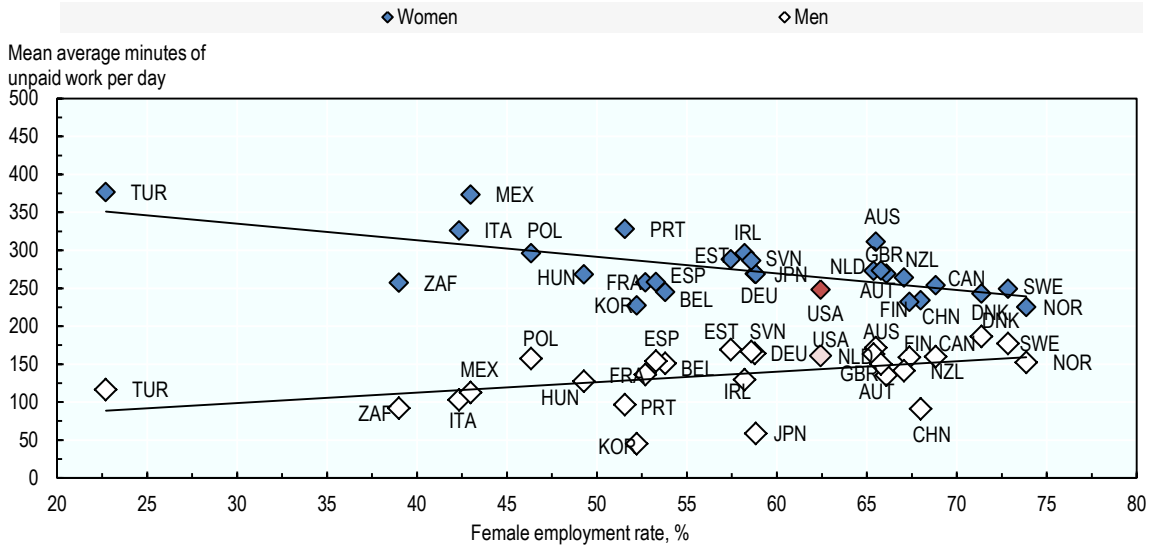
13. Families, mothers and fathers benefit when fathers take child-related leave. Fathers' leave-taking is associated with higher female employment (Figure 1.3), less gender stereotyping at work which is likely to reduce the negative effect leave taking may have on earnings and career profiles, less gender stereotyping at home, and better life satisfaction for fathers (Eggebeen and Knoester 2001, WHO 2007). Extended time at home during early infancy is also associated with fathers' greater involvement with their children, which has positive effects for children's cognitive and emotional development (Baxter and Smart, 2010; Brandth and Gislason, 2012).

14. The FMLA also provides American workers with 12 weeks of unpaid leave because the employee is personally suffering from a serious health condition or to care for a sick elderly relative or partner. Many OECD countries have legislation in place which provides for income support when employees fall ill and/or face mental health issues (OECD, 2003, 2010 and 2012b)), while care leave for seriously ill elderly people is often unpaid in OECD countries (OECD, 2011; and Chapter 3). In terms of elderly care leave, the U.S. does not stand out in OECD comparison, though some countries provide significantly longer period of leave. Nevertheless, without looking at wider care or disability policies,

social services and support networks for sick employees and/or eldercare – which is beyond the scope of this study – an assessment of sick leave or elderly care leave policies is inappropriate.

Figure 1.3: Female employment is higher in countries where men do more around the house

Mean average minutes of unpaid work per day by sex and female employment rates, around 2005



Source: OECD estimates based on national time-use surveys and OECD (2015) Online OECD Employment Database

1.1.4. The "leave experience" of American business

15. There are costs and benefits to introducing paid parental leave schemes. In many OECD countries, employers contribute financially to paid leave schemes, in New Jersey employers contribute to the TDI-scheme but not to PFL, while employers in California and Rhode Island do not have to make financial contributions to TDI/SDI and PFL programmes, which are entirely financed by employee contributions, via payroll taxes. In California these contributions amount to 1 percent total for both TDI/SDI and PFL (for earnings up to just over USD 100 000 per annum). There are other costs for employers to introducing paid leave, as employers may need to hire replacement workers or to retrain existing workers to temporarily cover any missed work by those who are on leave. These hiring/replacement costs are greater the higher the skills-profile of a job and the longer the duration of the leave. There is no comprehensive evidence on the extent of replacement costs as accurate numbers on short-term replacements are hard to come by. Most businesses ask other employees to cover the work of their colleague on leave, but it is not clear what relevant costs are, including paid overtime.

16. At the same time, businesses may benefit from the retention of experienced employees when trained workers return to the same job rather than quitting. The availability of leave may also enhance employee loyalty, productivity and morale. *Prima facie* it is not clear what the balance of cost and benefits to employers might be. The available evidence suggests that American businesses generally report few negative effects from existing family leave laws (U.S. DOL, 2012). Similarly, Appelbaum and Milkman (2011and 2013) found that around 90% of firms reported that the introduction of paid family leave either had a positive effect or no effect on costs, productivity, profit, and workplace morale.

17. Businesses clearly do face high costs, however, when employees *permanently* leave their jobs, and new parents are much more likely to quit their job when they cannot access employment-protected parental leave (see above). Employers face a variety of direct and indirect costs, possibly including: exit interviews and severance pay; lost productivity while an employee anticipates their departure; productivity losses while a position is unfilled; the costs of recruiting, hiring and training a new employee; reduced productivity until the new worker is fully trained; and lost clients. One estimate suggests that it costs a business, on average, 21% of an employee's annual salary to replace them (For further detail see Chapter 5 and Boushey and Glynn, 2012).

18. From that perspective, public parental leave schemes can be a win-win for businesses, particularly those businesses that are already required to protect new parents' jobs: existing state plans and proposals for publicly-funded PFL do not impose tax costs or employee payment burdens on employers, yet they offer measurable benefits in the form of employee retention.

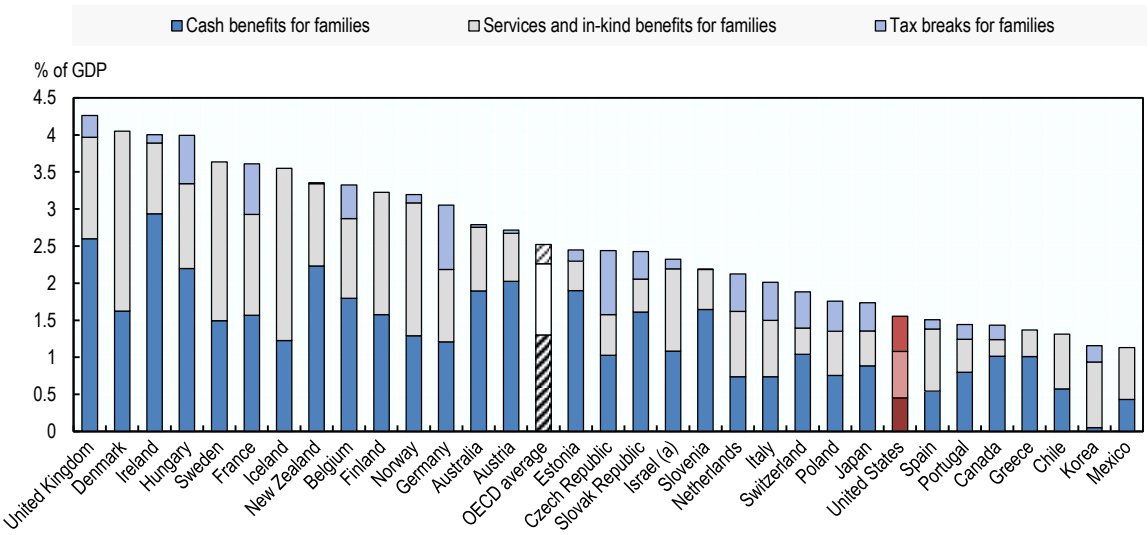
1.1.5. The role of childcare

19. Public spending on Family benefits in the United States includes cash benefits (*e.g.* Temporary Assistance to Needy Families – TANF), family services (including Early Childhood Education and Care (ECEC)), and Tax Breaks with a Social Purpose (TBSP), *e.g.* the Child Credit. Public spending on the Earned Income Tax Credit (EITC) programme is also included here, as it is mostly - though not exclusively - paid to families. Public spending on family benefits amounted to 1.6% of GDP in 2011, well below the OECD average of 2.5% of GDP. Figure 1.4 also shows that almost one-third of public spending on family benefits goes through the tax system, while this is only 10% across the OECD on average. The proportion of public spending devoted to family services, including ECEC, is on par with the OECD average at close to 40%, but not as high as in Denmark and Sweden where this is around 60%.

20. Public funding for ECEC services is relatively low in the United States compared to the rest of the OECD; in 2011, the U.S. spent about 0.4% of GDP on ECEC at the national level, whereas the OECD average was 0.7% (see note to Figure 1.4 and Chapter 3). In 2011, less than 1% of families reported using Head Start – the nationally-funded preschool programme in the United States (U.S. Census Bureau, 2013). Some U.S. states and localities offer pre-kindergarten programmes for four-year-olds, but availability and coverage varies greatly across regions. American families' access to subsidized (or free) pre-kindergarten thus depends to a great extent on the state in which they live.

Figure 1.4: Public spending on family benefits is relatively low, and about one-third concerns tax-benefits[1]

Public expenditure on cash benefits for families, service and in-kind benefits for families[2], and tax breaks for families, as a % of GDP, 2011



Notes: 1) public spending on tax breaks toward families in the United States includes the Child Credit and the personal allowance for dependents, for which children are often the main items.

2).Local governments can play a key role in financing and providing childcare services. This spending is comprehensively recorded in Nordic countries, but in some other (often federal) countries, it may not be fully captured. For example in Canada where local governments may use different funding streams to finance childcare services including non-earmarked general Federal block-grants, and/or because information on spending by local governments on childcare is not reported to national authorities, *e.g.* in Switzerland. For the United States, spending through relevant earmarked Block-grants is identifiable, but data on additional state spending is not available on a comprehensive basis. Funding by states and other local authorities can play an important role, but even if it were included it is unlikely to significantly move the U.S. up the ranking as mostly only 4-year olds attend pre-schools, while enrolment among younger children is often higher in other countries (see Chapter 3).

Source: OECD (2015) Social Expenditure Database

21. American families use a variety of strategies to care for children while parents work. Nearly half of all U.S. families with working mothers regularly rely on relatives to care for pre-primary school-age children (U.S. Census Bureau, 2013). Just over a quarter of families report using formal childcare or pre-school facilities on a regular basis. In that context, local initiatives to expand childcare services for very young children are very important. For example, the New York City (NYC) universal free pre-Kindergarten (pre-K) programme was introduced in 2014, which within a year engaged 50,000 four-year-olds in the city (Chapter 3).

22. Most working families pay for childcare costs out of pocket: only 5% of American families receive financial help from the government with childcare costs (U.S. Census Bureau, 2013). Formal child care costs burden many families: the average parents of a pre-schooler spend 10.5% of their monthly family income on child care (U.S. Census Bureau, 2013). For low-income families, the burden can be at least three times as high. The Child and Dependent Care Credit (CDCC) provides support with childcare costs (Chapter 3), but the CDCC mostly benefits higher income groups: about 60% of supports go to the two highest income quintiles (Maag, 2013). Lower-income groups' access to the CDCC is limited because it is non-refundable, and only paid to those with tax liabilities and not many working low-income families have such tax liabilities remaining after accounting for the Earned Income Tax Credit (EITC). One way of better ensuring that public funds reach those who need it most would be to make the CCDC refundable (non-wastable) too; this would result in cash payments to potential claimants in low-income families.

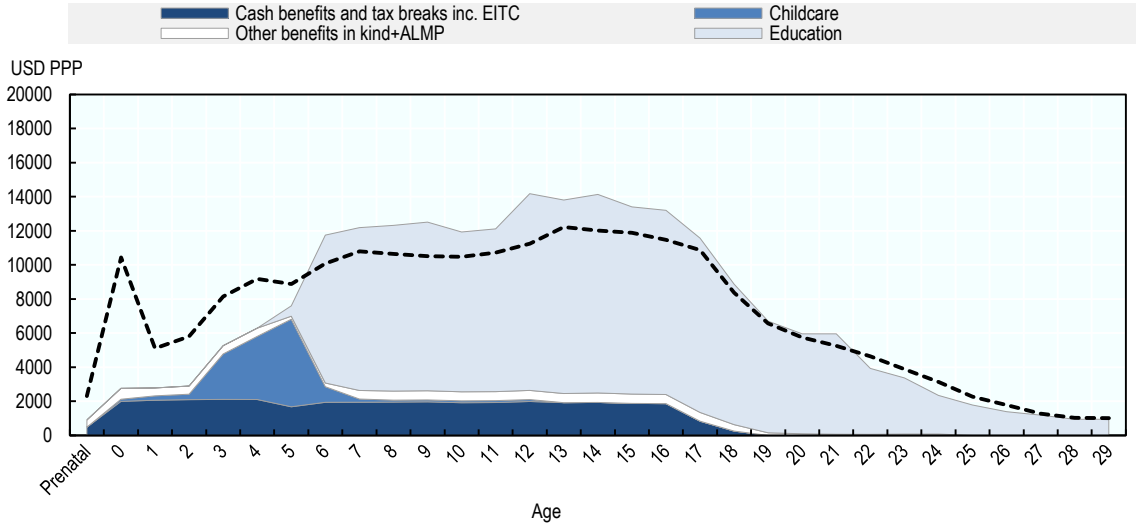
1.1.6. Investment across the early life-course

23. In many countries, maternity, paternity and parental leave arrangements are not considered as stand-alone measures but are instead regarded as an integral part of early childhood policy. For example, Danish policy aims to provide a *continuum of supports* to families with young children: around childbirth there are 18 weeks of paid maternity leave and 2 weeks of paid paternity leave, followed by 32 weeks of paid parental leave. There is an entitlement to a formal place in childcare from when the child is 6 months old, and 66% of Danish children under the age of 3 attend Early Childhood Education and Care (ECEC) services – the highest rate in the OECD (OECD, 2015b). These subsidized ECEC-services which are free for children in the lowest-income groups, continue until entering primary school upon which out-of-school-hours care become available. These care facilities are attended by over 80% of Danish children age 6 to 8 (OECD, 2015b). Education is compulsory from age 6 to 16.

24. There has been increasing recognition across the OECD, which is backed up by research (*e.g.* Duncan and Magnuson, 2003; Fougère *et al* (2014); Heckman 1999; Heckman and Masterov, 2007; and Heckman *et al*. (2010)) that investing in children early and sustaining spending throughout compulsory schooling is beneficial both for them and for society in general. Figure 1.5 shows that public investment in children starts to kick in around age 3-4, and reaches its peak when children are in secondary (high-school). In comparison to the rest of the OECD (represented by the broken black line), differences in public investment in primary and secondary education are not that large. However, the lack of investment in children in the United States during the early years is striking. For children under age 6 - the average OECD government in 2011 spent the equivalent of about USD 7 100 on each child while for the United States this just over USD 4 100. The U.S. would have to increase public spending on children under 6 by around 75% in order to bring spending in-line with the OECD average, the equivalent of around USD 3 000 per child per year or about 0.56% of GDP.

Figure 1.5: There is a large gap in public early childhood investment in the United States.

Public spending by age of the child in PPP per capita (US$)



Source: OECD (2015) Online Education Database and OECD (2015) Social Expenditure Database.

25. In terms of paid leave, Chapter 4 shows that public spending on paid maternity, paternity and parental leave programmes differs considerably across the OECD, as it varies with the coverage of paid leave programmes as well as payment rates and duration of paid leave periods. Spending tends to be highest – at around or above 0.5% of GDP – in the Nordic and Eastern European OECD countries, where paid leave generally concerns one year or more, while public spending is generally 0.2% of GDP in those countries with shorter paid leave. Public spending on a paid leave scheme to be introduced in the United States is likely to be most comparable to spending in countries with short paid leave durations (12 to 18 weeks) such as Australia, New Zealand and Switzerland, where spending varies from 0.07 to 0.13% of GDP.

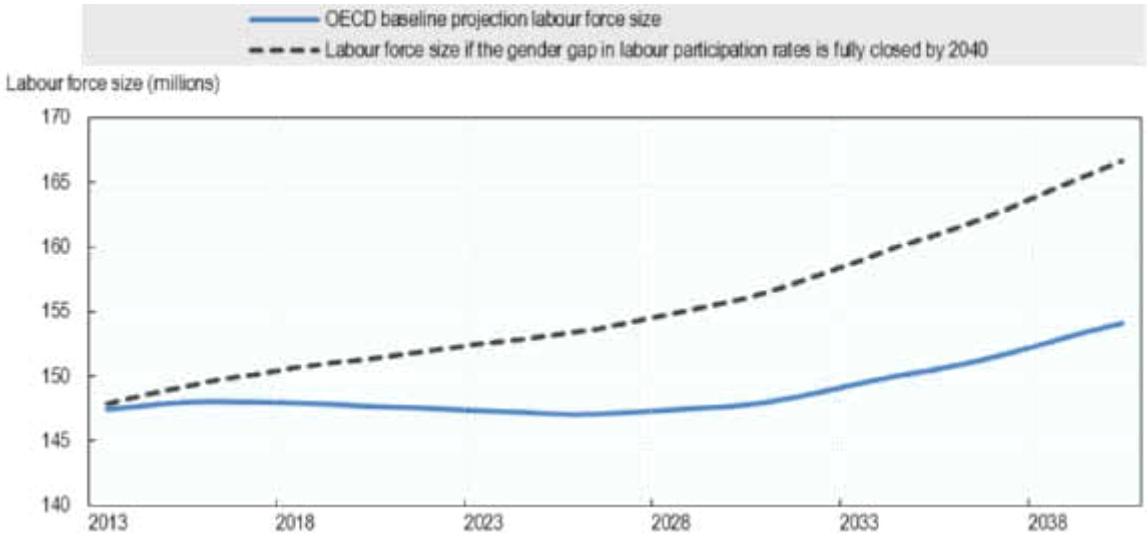
1.1.7. The cost of inaction

26. Increased investment in children's early years would, among other things, promote female labour force participation. Evidence shows that the introduction of paid parental leave, for example, would allow new mothers to remain attached to the labour market and encourage women to return to work sooner following childbirth. Indeed, as mentioned above, international evidence suggests that the implementation of a paid leave programme could increase female employment rates by somewhere between 1.5 and 2.5 percentage points relative to male rates (Chapter 5). Similarly, increasing the availability and affordability of childcare services would allow mothers to enter employment with reduced caring responsibilities, while improving access to flexible working arrangements would increase the compatibility of women's work and family roles.

27. Failure to support women's entry or attachment to the labour market could impose considerable costs on the U.S. economy. Unlike most other OECD countries, both male and female labour force participation rates are falling in the U.S. with the declines expected to continue across the next few decades. In combination with future population trends, this explains why the size of the U.S. working age labour force is projected by the OECD to drop by almost one million over the next ten years and only return to pre-2008 levels in 2031 (Figure 1.6). OECD (2014a) highlighted this sluggishness in U.S. labour supply as a likely drag on U.S. economic performance.

Figure.1.6: The cost of inaction: a declining labour force until 2030

Projected total working age (15-64) labour force size under different gender gap scenarios, United States, 2010-2040



Source: OECD estimates based on the OECD (2014) Population and Demography Database and OECD (2014) Online OECD Employment Database.

28. Promoting female labour participation and closing gender gaps in labour force participation rates can help arrest sluggishness in the size of the U.S. labour force. The U.S. Administration is committed to the G20 target of reducing the gender gap in the labour force participation rate by 25% by 2025 (OECD *et al*, 2014). However, given that female educational attainment rates now exceed those of men in the United States, one scenario could be that female labour participation rates increase to a level that matches male participation in 25 years' time. This scenario – illustrated by the broken dark line in Figure 1.6 – would add twelve-and-a-half million extra workers to the U.S. working age labour force relative to the OECD baseline projection based on recent trends of participation rates among 5-year age groups (see Chapter 2 for more detail). The estimated pay-off in terms of economic performance is likely to be substantial: closing the gender gap in this manner could add as much as 0.22 percentage points to average annual growth rates in GDP per capita between now and 2040, producing by 2040 an additional USD 4400 per head per year on top of any growth predicted by OECD baseline estimates.

29. Recent OECD work has found that early childhood education and care are vital not only for parents seeking to combine work and family responsibilities, but also for income inequality and the impact this has on economic growth. OECD (2015f) showed that more inequality hampers long-term economic growth, to a large extent because the bottom 40% of the income distribution is restricted in their opportunities to invest in their human capital development. The larger the income gaps the more difficult it is for low-income families to invest in education opportunities for their children. Low-income families cannot keep their children in education for as long as would be optimal or afford high quality education, harming their future earnings as well as their ability to borrow money to invest in new opportunities. It is therefore important to invest in early childhood opportunities for all as a condition for inclusive growth (see www.oecd.org/inclusive-growth).

30. Good quality formal childcare provides young children with the environment to develop and learn. OECD (2013b) showed that participation in quality early childhood education is associated with stronger reading performance at age 15, especially for children from families with disadvantaged socio-economic backgrounds (OECD, 2014b). For all these reasons, a focus on early years investment is crucial in fostering development opportunities for future generations.

1.2. Policy development: from local social laboratories to national inclusive growth

31. Supreme Court Justice Louis Brandeis once famously referred to U.S. states as "laboratories of democracy" where citizens can "try novel social and economic experiments without risk to the rest of the country." Indeed, the practice of social laboratories, where policies are first tried and tested and local level, reflects a common path of social policy development in American history. Ongoing experiences at community or state level are diverse, including, for example, initiatives to implement paid sick days (*e.g.* San Francisco), supplementary minimum wage legislation (various states), and universal public pre-Kindergarten education (*e.g.* New York City). State-level experiences with paid family leave policy are important to consider when formulating policy recommendations on paid leave at the federal level.

32. In terms of paid parental leave, the experiences with two paid leave arrangements at state level appear most relevant:

- Five states and one territory (California, New Jersey, New York and Rhode Island in the 1940s and Puerto Rico and Hawaii in the 1960s) have Temporary or Short-term Disability Insurance legislation (TDI, or SDI in California). These provisions cover incapacity-related contingencies outside the workplace, including maternity, and income support for "disabled" mothers is available around childbirth through TDI for several weeks (often for 6 to 10 weeks, but duration can longer depending on the medical assessment and varies by state).

- Three states – California (2004), New Jersey (2009) and Rhode Island (2014) – have implemented Paid Family Leave (PFL), which provides income support during the "bonding period" with very young children or for caring for sick adult dependents for up to 4 weeks in the case of Rhode Island and 6 weeks in California and New Jersey. These are individual entitlements for workers who are eligible to pay into their state's TDI programmes and who have paid for a minimum "base period" of time. Payments are a share of wages. The replacement rate was 66%, in 2014 up to a maximum of USD 595 per week in New Jersey and 55%, up to USD 1075 per week in California. These programmes are completely employee-funded (Chapter 4 – which is cited as a key reason for its successful introduction into state legislation.

33. The state of Washington also legislated paid family leave entitlements, but these have never been rolled out. Different factors contributed to the non-introduction of paid leave: financing issues (for any new insurance type programme, money has be to set aside up-front to finance claims during the initial period, before sufficient contributions have been paid in, the "actuarial hump"), bad luck with timing (immediately upon legislation the financial crisis broke out), and the absence of an existing administrative frame for the implementation of paid leave on a state-wide basis.

34. California and New Jersey run their paid family leave programmes through existing public TDI frameworks which hold all the necessary info on workers and employers, collect contributions (from employees), and pay benefits. Washington state did not have such a system, which made the practical introduction more difficult and more expensive. In all, a successful introduction of a paid maternity and family leave programme at the federal level would require the use of existing social security frameworks that hold the necessary administrative records to operate a paid leave programme efficiently.

35. Despite the relatively low employee contribution rates to paid family leave programmes, the PFL-budgets in California and New Jersey are covering payment. New Jersey recently reduced its contribution rate to 0.8% of gross earnings. Californian policymakers are considering other options. Even after 10 years a substantial part of the Californian workforce is not aware of the programme, particularly those socio-economic groups with the greatest financial needs. The OECD Tax/Benefit models show that SDI/PFL in California prevents working families from falling into poverty when their first child is born, unless it concerns a sole parent whose prior earnings were at minimum wage level. Use among male low-

income workers remains limited, but otherwise the use of paid family leave has become more gender equal over the last 10 years – it is after all an individual entitlement. A renewed awareness campaign and/or improvement of payment rates can help address concerns on take-up, further improve the gender balance in use, and strengthen the household income of families with infants.

1.2.1. Key Policy Recommendations

36. Taking into account findings on labour market and socio-economic outcomes; the importance of unobservable factors (including discrimination) on gender pay gaps; the evidence on the effects of paid parental leave on employment, child development health and well-being; the largely non-negative employer experiences with paid leave in the U.S.; the experiences with paid temporary disability and paid family leave in various U.S states and territories; and with U.S. public childcare supports more generally, this review suggests that U.S. federal policymakers should consider the following:

- Enhance support to parents with young children by introducing access to paid maternity and parental leave for all employees, as administered by existing social security agencies at the federal level.
  - Introduce paid maternity leave for 8 weeks and
  - Introduce a gender-neutral individual paid parental leave entitlement of 6 weeks for each parent.
  - Payment rates could be a ratio of previous earnings. The experience of paying 55-66% of earnings up to a certain threshold is a sensible model to follow.
  - To limit employer costs, finance the scheme out of employee payroll taxes.
  - Ensure that eligibility criteria and duration of the new paid leave scheme are in line with the FMLA stipulations.
- Increase access of low and moderate-income families to quality preschool and childcare. Increase access to the Child and Dependent Care Credit (CDCC) for low-income families by making it refundable in addition to EITC entitlements. States and local-governments should continue to innovate with early childhood education and care programmes.

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CHAPTER 2: AMERICAN WOMEN IN WORK

2.1. Introduction

37. Female workers contribute greatly to the economy in the United States. Over the past half century, increases in female market participation have stimulated U.S. economic growth (Hsieh *et al.*, 2013) and put a brake on increases in market income inequality among households (OECD, 2015a). Yet American women are far from reaching full and equal status in the U.S. labour market. Not only are women less likely than men to be in paid work, they also earn less and are far less likely to reach the top of the corporate ladder. And while American women have made enormous strides in obtaining tertiary education – there are now more women with high school and post-secondary degrees than men – women still lag behind in entering and pursuing careers in science, engineering and technology. There is considerable room for improvement in getting American women into work and reaping the benefits of a fully accessible, inclusive and gender-equal workforce.

38. This chapter provides a summary overview of the position of women in the U.S. labour market, including in comparison with women in other OECD countries. It starts with an overview of challenges faced by the U.S. labour market and the important role that women's participation plays in addressing these challenges; it then moves on to examine the scope, scale and causes of gender differences in U.S. labour market outcomes.

Main Findings

- The U.S. economy is recovering comparatively well from the economic crisis, but continues to face challenges in the form of declining labour force participation rates and increasing income inequality. Women have a key role to play in helping the U.S. to overcome these challenges.

- Although female employment rates in the U.S. are above the OECD average, the share of American women in paid work has been falling since 2000 and remains far lower than the share of men: less than two-thirds of America women are in employment, compared to three-quarters of men.

- American women in employment typically get paid less than men. The gender gap in median earnings in the United States is, at 18%, somewhat above the OECD average of 15%. Gender pay gaps in general are related to a number of factors, but in the US a considerable portion may be driven by discrimination.

- American women are less likely to be entrepreneurs than women in other OECD countries. In 2013, only 1.6% of working women in the U.S. were their own employer, compared with 4.3% of men and an OECD female average of 2.2%. Gender differences in self-employment earnings were also very large: American self-employed women earn 42% less than self-employed men.

- American girls score at least as well as American boys in international science testing and girls are more likely to complete tertiary education. But women nevertheless are far less likely to obtain degrees in fields such as Science, Technology, Engineering, and Mathematics (STEM) which offers more promising opportunities for career and earnings development. The United States can help improve women's labour market participation and wages by encouraging more women to access STEM training and careers.

2.2. The U.S. labour market faces challenges, but female workers can help

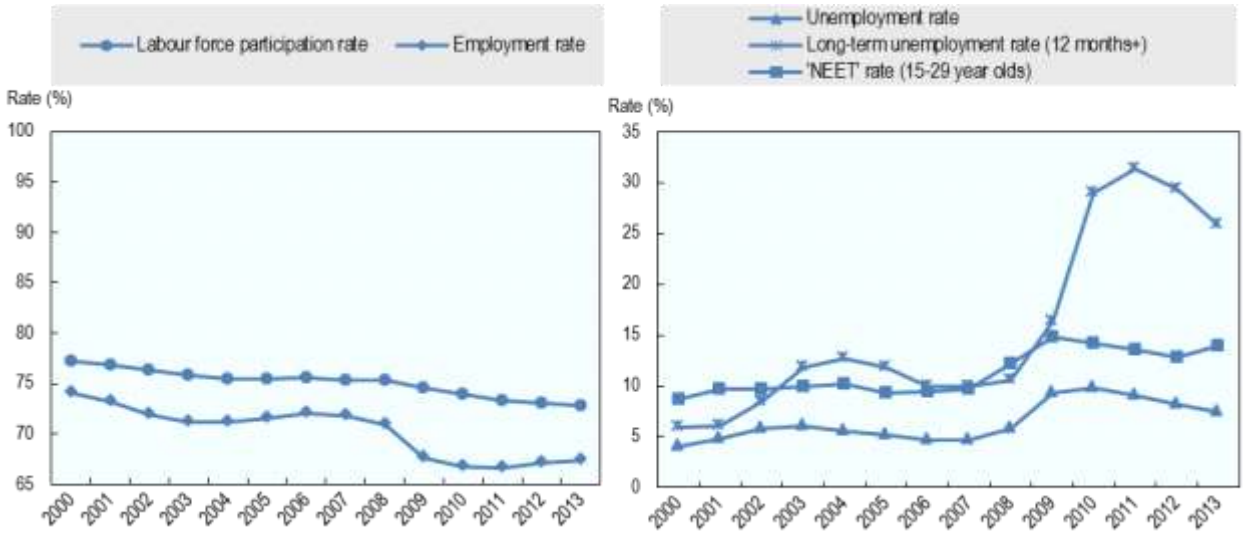
39. The U.S. economy is recovering from the economic crisis more quickly and strongly than most OECD economies. In 2016, the OECD projects GDP growth to reach 2.8% in the United States compared to just 2.1% in the Euro area and 2.5% across the OECD on average (OECD, 2015b). Labour market conditions are also improving faster in the United States than in many other advanced economies. At 5.6% in Q1 2015, the U.S. unemployment rate is well below the quarterly peak it reached five years earlier (10.1% in Q4 2009) and far lower than the rates seen both across the OECD (6.9% on average in Q1 2015) and particularly in the Euro area (11.3% in Q1 2015) (OECD, 2015c). Yet, not all the trends in the US economy are positive; employment and labour force participation rates are declining, while income inequality and poverty rates are rising. Women can play a central role in helping the U.S. face these challenges.

2.2.1. Employment and labour participation rates are falling in the U.S.

40. Unlike most other countries in the OECD, labour force participation and employment-to-population rates in the US have been declining since the turn of the century (Figure 2.1). Much of this trend is due to an ageing population; indeed, the most recent *OECD Economic Survey* of the United States (OECD, 2014a) suggests that between one-third and two-thirds of the recent decline in US participation rates can be explained by the gradual retirement of the baby-boomers. However, participation and employment rates are also falling among younger age groups (Table 2.1). Among 15-24 year-olds, for instance, both male and female rates fell by over 10 percentage points between 2000 and 2013. The decline is less severe for those of "prime working age" – participation rates for 25-54 year-olds fell by 3 percentage points between 2000 and 2013 – but remains notable nonetheless.

Figure 2.1: US labour force and employment participation have declined since 2000

Labour force participation rates, employment rates and unemployment rates (15-64 year-olds), long-term unemployment rates (12 months+, % of all unemployed, all ages) and 'not in employment, education or training' (NEET) rates (15-29 year-olds), 2000-2013



Source: OECD (2015) Online OECD Employment database and OECD (2015) Online Education database.

Table 2.1: Participation rates are falling among young and prime-age men and women, but holding up among older workers

Labour force participation rates by gender and age group, United States, 2000, 2007 and 2013

	All			Male			Female		
Age group	2000	2007	2013	2000	2007	2013	2000	2007	2013
15-24	65.8	59.4	55.0	68.6	61.5	56.6	63.0	57.2	53.5
25-54	84.0	83.0	81.0	91.6	90.9	88.4	76.7	75.4	73.9
54-65	59.2	63.8	64.4	67.3	69.6	70.0	51.9	58.3	59.2
15-64	77.2	75.3	72.8	83.9	81.7	78.7	70.7	69.1	67.2
65+	12.9	16.0	18.7	17.7	20.5	23.5	9.4	12.6	14.9

Source: OECD (2015) Online OECD Employment database.

41. For those under age 24, much of the decline in labour force participation can be explained by growth in higher education. Since 2000, the proportion of 15-19 year-olds in education has increased by 4 percentage points and the proportion of 20-24 year-olds by just fewer than 8 points (OECD, 2014b). Yet, the number of young persons who are "NEET" (that is, Not in Employment, Education or Training) has also increased by over 60%, from a little under 9% in 2000 to just under 14% in 2013 (Figure 2.1).

42. The fall in participation among "prime age" (25-54) workers is more worrying. A part of this may be due to the enduring effects of the economic crisis: the US long-term unemployment rate, for example, increased by over 20 percentage points between 2008 and 2011 (Figure 2.1). Since then the rate has started to decline, but may have had a longer-run impact on non-participation if employers have become reluctant to hire from a group of workers who spent a year or more outside of employment (see U.S. CEA, 2014a, for a detailed discussion of trends in participation since 2007). But "prime age" participation rates were already falling long before the economic crisis. Female rates have been decreasing since reaching 76.8% in 1999, albeit following four decades of almost continual growth. Male "prime age" participation rates, meanwhile, have been falling steadily since peaking at a little over 96% in 1968.

43. Participation has been holding up among older workers reflecting declining employment opportunities for low-skilled workers and a growing use of disability benefits despite overall improvements in the population's health status. The number of disability benefit recipients was 5.2% of the U.S. working-age population in 2000 and 6.5% in 2012, and the upward trend is worrying, as very few people entering this form of income support return to employment (OECD, 2010 and 2014a).

44. Making better use of the talent of the working-age population and bringing people back into the labour force remains a key challenge for the U.S. economy. The US labour market continues to retain slack, so inactivity produces a drag on economic performance (OECD, 2014a). Indeed, the OECD's *Economic Survey* highlights the recent contraction in labour supply as a likely key constraint on future US economic growth (OECD, 2014a). Given that in the US women remain less likely to be active in the labour market than men, there is particular scope for increasing overall participation through the promotion of women's economic activity. In this regard, creating a labour market environment that is friendly to and supportive of female workers is central to addressing the decline in US labour participation. The gains in terms of GDP growth from promoting female labour participation could be substantial (Box 2.1; Thévenon *et al*, 2012).

Box 2.1: Good for growth: getting more American women into the labour force could boost economic performance

Closing the gender gap and promoting female labour force participation (FLFP) would boost economic performance in the United States, as elsewhere in the OECD. Together with gains in productivity, the size of the labour force is a key driver of the growth rate of GDP, so an expansion in labour supply through increased female participation would likely boost production and output. Gender equality and FLFP have long been positively associated with economic development and growth (Goldin, 1986 and 1995). Recent cross-country analysis also found that gender gaps in economic activity and low FLFP significantly constrain economic growth (Klasen and Lamanna, 2009; Thévenon *et al*, 2012).

OECD projections based on current rates of labour market entry and exit suggest that U.S. participation rates are likely to continue to fall over the coming decades. Male participation rates are predicted to drop to 76.7% by 2025 and to just under 75% by 2040, while female rates are projected to fall slightly further, to just over 65% in 2025 and to 63.6% in 2040. In both cases the decline in participation is expected to be largest among 30 to 50 year-olds as the current generation of inactive young men and women struggle to reintegrate into the labour force. The result is that despite a growing population and increases in labour participation among older cohorts, the size of the working age (15-64) U.S. labour force is expected to level out over the next fifteen years and grow by only 4% by 2040.

Closing the gender gap in participation and increasing levels of women's labour market activity to at least match those of men would help address this stagnation in the size of the U.S. labour force. To illustrate the effect, Figure 2.2 shows projections of the size of the total working age (15-64) labour force under different gender gap scenarios. These are presented ranging from a baseline scenario to more optimistic projections of a decreasing gender gap (Figure 2.2):

- A baseline scenario: both male and female labour force participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012.

- The **"25-by-2025 and 50-by-2040"** scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates falls by a quarter by 2025 and is halved by 2040 (OECD *et al*, 2014).

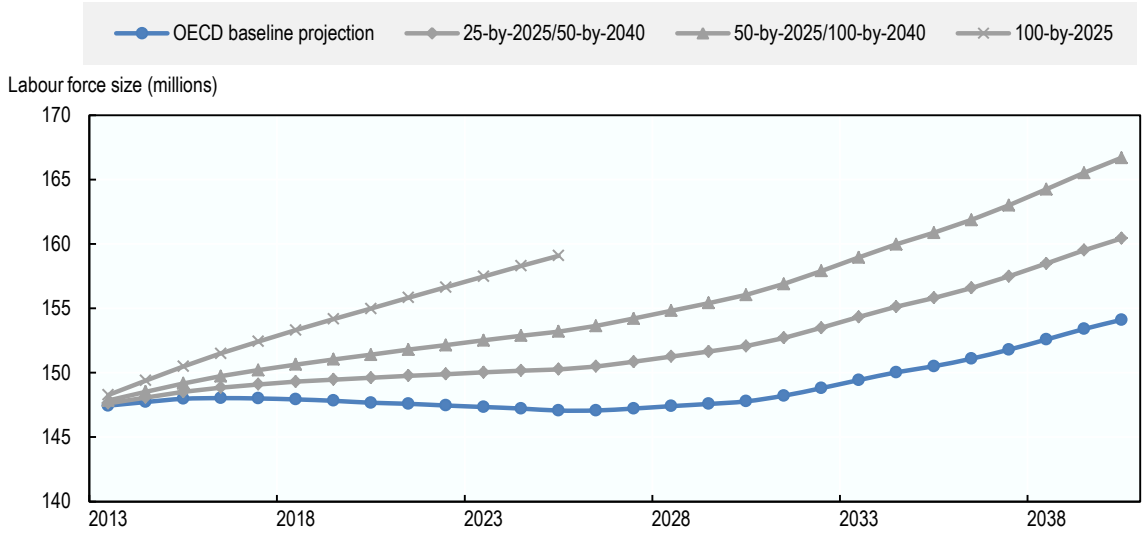
- The **"50-by-2025 and 100-by-2040"** scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates is halved by 2025 and disappears by 2040.

- The **"100-by-2025"** scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates disappears by 2025.

Under the baseline scenario, the size of the labour force is expected to decrease by almost one million over the next ten years and only return to pre-2008 levels in 2031. In contrast, steadily closing the gender gap in participation rates so as to halve it by 2040 would increase the size of the labour force by 3.2 million and 6.3 million in 2025 and 2040, respectively, while eliminating the gender gap entirely by 2040 would increase the size of the labour force by 12.5 million. The full elimination of the gap by 2040 would provide the US economy with an additional 14.4 million workers by 2025.

The latter three scenarios require a reversal of the current trend of declining female participation. However, given the projected downward drift in male participation rates, relatively small increases in female labour participation would be sufficient to close the gender gap. For example, the "25-by-2025 and 50-by-2040" scenario requires current female participation rates to increase by just 0.73 percentage points by 2025 and 1.73 percentage points by 2040. Closing the gender gap by 2040 needs a slightly larger increase – female rates are required to increase by 7 percentage points over the next 25 years– while elimination of the gender gap by 2025 requires current female participation rates to increase by just over 9 percentage points. Yet there is evidence that even these more ambitious targets are achievable: an increase of 9 percentage points represents just a little over half of the improvement seen in US female participation rates across the quarter century between 1975 and 2000.

Figure 2.2: Total working age (15-64) labour force size in the United States under different gender gap scenarios



Source: OECD estimates based on the OECD (2014) Population and Demography Database and OECD (2014) Online OECD Employment Database.

These OECD estimates suggest that the "growth dividend" from closing the gender gap in participation rates and boosting the size of the labour force is likely to be substantial (see Annex 2.A.). Under the baseline scenario – which uses the OECD's standard labour force projections - GDP per capita is expected to grow at a relatively healthy average annual rate of 1.7% between 2012 and 2040, due in large part to technological progress and gains in multi-factorial productivity over the period (OECD, 2014c). However, expanding the female labour supply would add extra impetus to this growth. Halving the gender gap in labour force participation could increase the average annual growth rate between 2012 and 2040 by 0.11 percentage points, while full convergence in activity could add 0.22 percentage points per year to growth in GDP per capita. Elimination of the gender gap by 2025, meanwhile, could increase the average annual rate of growth by as much as 0.5 percentage points. This is equivalent to an overall increase of 7.7% in GDP per capita over the next decade or so, producing by 2025 an additional USD 3500 per head per year on top of the increase predicted by the baseline scenario.

2.2.2. Income inequality and poverty rates are relatively high in the United States

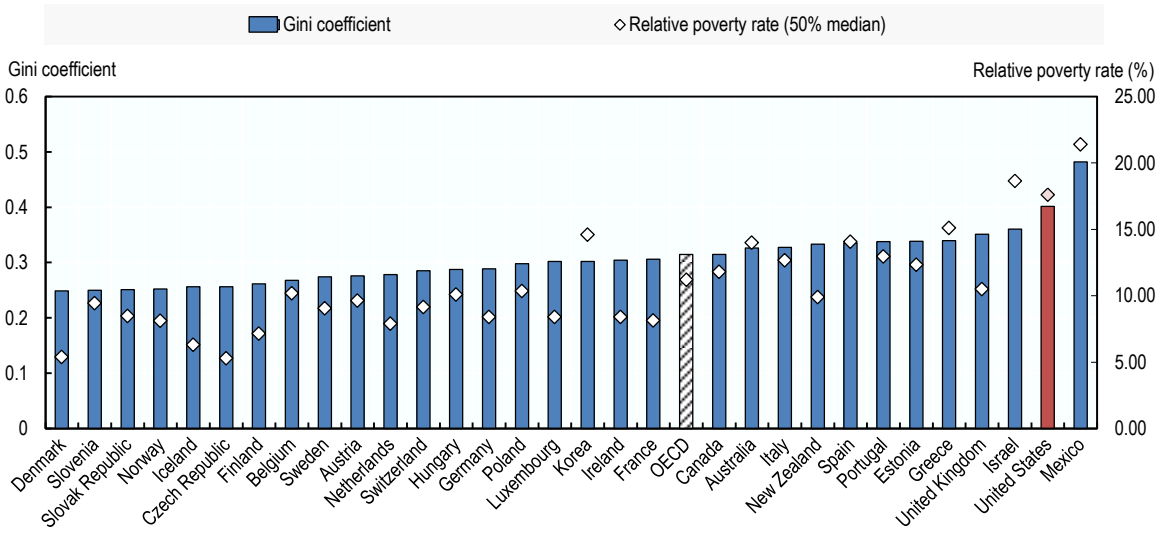
45. Income inequality is greater in the United States than in almost all other OECD countries, with the gap between high and low incomes widening further in recent years. In 2013, the Gini coefficient on income – an indicator that ranges from 0 (perfect equality) to 1 (perfect inequality, where one individual receives all the income) – stood at 0.40 in the United States, well above the OECD average of 0.31 (Figure 2.3). The average income of a household in the top 10% of the U.S. income distribution, meanwhile, was 19 times higher than the average income of a household in the bottom 10% of the distribution. This is up from a ratio of 12.5 to 1 in the mid-1990s and 11 to 1 in the mid-1980s (OECD, 2015a). And relative poverty rates in the US are too well above the OECD average. In 2013, around 18% of U.S. households had an income of less than half the national median, compared to 11% across the OECD as a whole (OECD, 2015a; figure 2.3).

46. High levels of income inequality in the United States are related to a number of factors. Part of the explanation may be weak literacy and numeracy skills among large parts of the U.S. population. One in six adults in the United States has low literacy skills and one in three weak numeracy skills (OECD, 2013a and 2013b). As a result, many American workers lack the skills needed to qualify for well-paid,

knowledge-intensive jobs and instead they often move in and out of low-paid, frequently involuntary part-time work. But another reason is stagnation in real wages for lower-skilled workers and an unequal distribution of the gains from economic growth in recent decades. Real household incomes for those in the bottom 10% of the U.S. income distribution have fallen by 3.3% since 1985, despite an increase of almost 25% in household income across the country as a whole (OECD, 2015a).

Figure 2.3: Income inequality and poverty rates are high in the United States compared to other OECD countries

Income inequality and relative income poverty rates in OECD countries, 2013 or latest year available



Notes: the Gini coefficient takes values between 0 (where every person has the same income), and 1 (where all income goes to one person). The poverty threshold is 50% of median disposable household income in each country.

Source: OECD (2015) Income Distribution Database (IDD).

47. There are a variety of possible policy responses to increases in income inequality and relative poverty in the U.S. For example, promoting female labour market outcomes could help address – or at least mitigate – income inequality in the United States. OECD (2015a) found that changes in female employment patterns – in terms of both labour participation and career attainment – over the past two decades have put a considerable brake on rising inequality, largely because increases in the frequency and intensity of female employment has helped distribute market income more equally and increased the spread of income across households. This holds in most OECD countries, but the contribution of women to reducing the rise in income inequality has been particularly strong in the U.S.: estimates suggest that had women's employment patterns remained frozen at the levels of the mid-1990s, the current U.S. Gini coefficient would be 3 points higher than it is today (OECD, 2015a).

48. With 63% of minimum wage earners being female, increasing the minimum wage would also help boost the income of many female workers. Since 1980 the real minimum wage has fallen by about 20% and, despite a sharp increase between 2007 and 2010, the real minimum wage was on approximately the same level in 2013 as it was in 2000 (OECD, 2015a). At USD 7.25 per hour the minimum wage is just over one-third of the median wage, the third-lowest level across OECD countries with a minimum wage (OECD, 2015d). It is estimated that raising the Federal minimum wage to USD 12 by 2020 could lift at least 10 million people out of poverty (U.S. CEA, 2014b), would affect 35 million people with earnings near the minimum wage and boost earnings of around 30% of America's women in work (EPI, 2015).

49. Increasing the minimum wage may carry some risk in terms of discouraging employment and job growth. Short-term employment effects of such an increase in the minimum wage are uncertain, but are generally deemed small (Belman and Wolfson, 2014; U.S. CEA, 2014b; OECD, 2014a), if only because many states and cities already have minimum wages above the federal level: in Seattle, for example, the minimum wage is USD 15 per hour. In the longer-term increasing the minimum wage may have some adverse effect on the *rate* of job growth over time, although importantly should not lead to a drop in relative employment levels themselves (Meer and West, 2013). But much of the available evidence suggests that even if raising the minimum wage does damage job growth, the size of the effect from a moderate increase is likely to be small and is unlikely to outweigh the contribution of an increased minimum wage to the earnings of low-income households (Doucouliagos and Stanley, 2009; U.S. CEA, 2014b; OECD, 2015e).

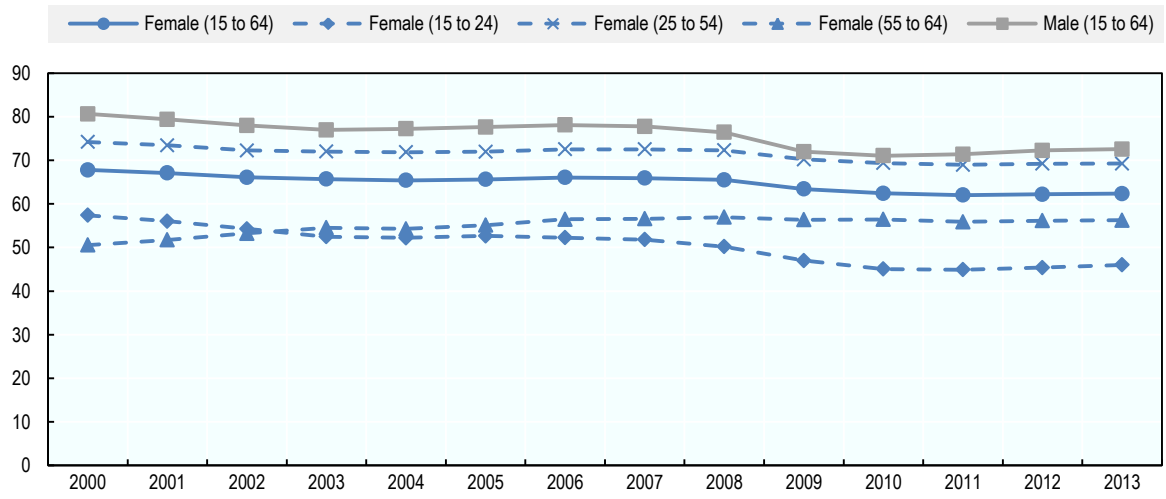
2.2.3. America's women face unequal access to quality jobs

50. American women are less likely to participate in the labour market and less likely to be in paid employment than their male counterparts. In 2013, 62.3% of 15-64 year-old American women were employed (OECD, 2015c). By comparison, 72.6% of 15-64 year-old men were in employment, producing a gender gap of just over 10 percentage points. While smaller than in many other countries – the OECD-wide gender gap in the employment rate stands at 11.9 percentage points – the presence of the gap suggests that there is room for female employment and labour force participation to increase.

51. Yet female employment in the U.S. is falling. Since peaking at 67.6% in 2000, the employment rate among women aged 15-64 has decreased by an average of 0.4 percentage points per year (Figure 2.4). The declines have been most severe among 15-24 year-olds, but the rates are also falling among "prime age" women between 25 and 54. Male employment rates have been falling too, with the rate for men aged 15-64 dropping from just over 80% in 2000 to 72.6% in 2013. Excluding a fluctuation during the economic crisis, the gender gap in the employment rate, however, has remained relatively stable since 2000.

Figure 2.4: Female employment rates are falling, particularly among younger age groups

Employment rates by sex and age group, United States, 2000-2013



Source: OECD (2015) Online OECD Employment Database.

52. For women of prime working age, the decline in employment has been particularly sharp among mothers. The share of mothers who do not work outside the home rose from 23% in 1999 to 29% in 2012 (Cohn *et al.*, 2014). This increase has been driven in large part by "traditional" married couples with working husbands. In 2012, nearly two-thirds of stay-at-home mothers had a working spouse. Married and single mothers who stay at home cite child-rearing, disability or inability to find a job as the main reasons for not working (Cohn *et al.*, 2014).

53. Regardless of marital status, mothers who stay at home are younger and less educated than their working mother peers: 49% of non-working mothers have a high school diploma or less, compared to 30% of working mothers (Cohn *et al.*, 2014). 34% of stay-at-home mothers live in poverty, compared to only 12% of working mothers. Wealthy and well-educated mothers who have opted out of the workforce are rare: only 5% of married stay-at-home mothers had at least a master's degree and a family income of USD 75 000 (2012) or higher (Cohn *et al.*, 2014).

54. From an international perspective, the decline in female employment means that the US no longer ranks among the highest performers in this area in the OECD (Figure 2.5, Panel A). While female employment has been falling in the United States, it has been increasing in almost all other OECD countries. Female employment rates have fallen in only five other OECD countries – Denmark, Greece, Iceland, Norway and Portugal – with no country seeing a decline even half as large as the U.S.

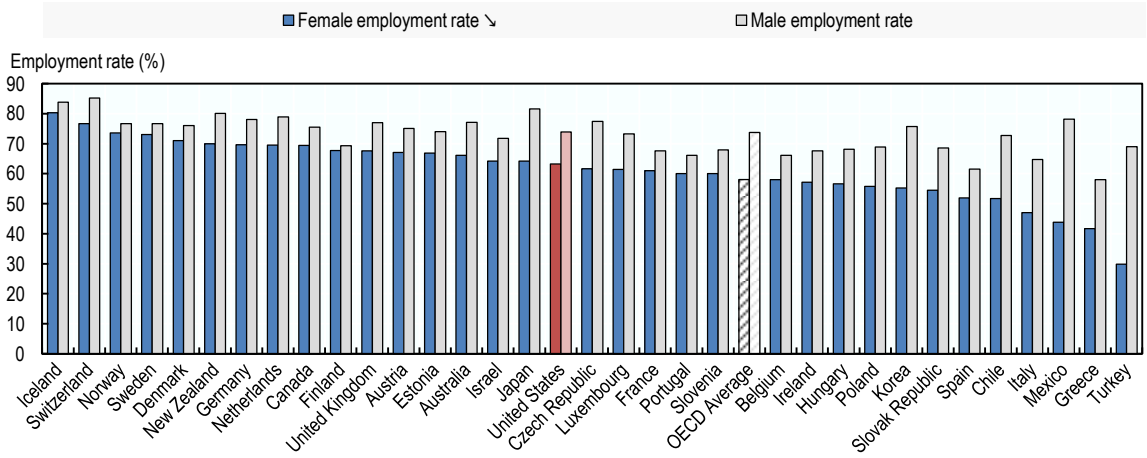
55. This widespread increase in female employment, particularly in European countries, is related to the development of publicly supported family-friendly policies such as parental leave, childcare services and care support during out-of-school hours, and also to increased opportunities for part-time employment (OECD, 2007; OECD, 2012). Part-time employment in many European countries is supported by legislation that safeguards proportional pay per hour for part-time workers, and a number of countries have legislated the right (to demand) to work part-time (Blau and Kahn, 2013; Thévenon, 2013). Indeed, the high rates of female employment in Switzerland, Germany and the Netherlands are strongly related to the high incidence of part-time employment in these countries. In the United States, by contrast, part-time employment is relatively uncommon (Figure 2.5, Panel B). However, differences in the incidence of involuntary part-time work are not that large. For example, in Germany in 2013 around 21% of male part-time employees and 13% of female part-time employees were working part-time 'involuntarily', i.e, they would have liked to work full-time. For the United States in the same year, the share of male and female part-time employees who worked working part-time involuntarily stood at 11% and 9% respectively (OECD, 2015c).

56. Working hours in the United States are –at an average of 41 hours per week for male and 36 hours per week for female wage and salary workers – slightly higher than OECD average hours for both male (40 hours per week) and female (35 hours per week) employees (OECD, 2015c). Working long hours increases the likelihood of work-life conflict and job stress poses risks to the well-being of workers and their families; working more than 50 hours per week, for example, is correlated with poorer subjective well-being and higher levels of anxiety (Caldera Sánchez and Tassot, 2014). Furthermore, when combined with a lack of flexible or family-friendly working practices, long working hours can push mothers out of high-paying jobs, increasing occupational segregation and reducing their earning potential.

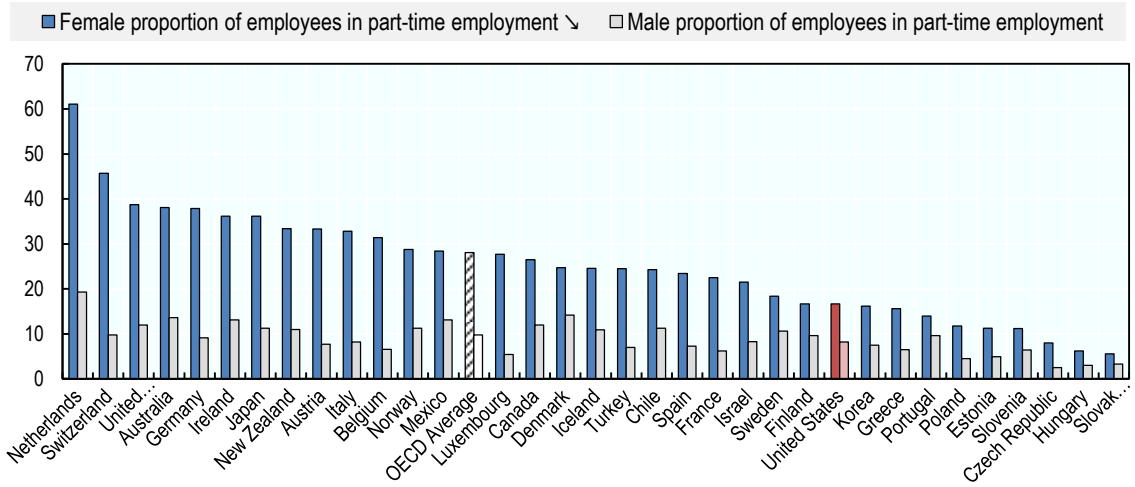
57. But part-time work is also not without its drawbacks. Working part-time, especially when it is of a permanent rather than a temporary nature, has negative effects on career progression. Indeed, in Germany, the Netherlands and Switzerland only around 30% of those employed as "managers" (including legislators, senior officials and managers) are women (OECD, 2015f). By contrast, the equivalent figure in the United States (43%) is the highest in the OECD (Blau and Kahn, 2013, OECD, 2015f). Yet, getting to the very top remains difficult for American women as well: in 2013, the share of women on boards of directors in US Forbes Global 500 companies was – at 20% – only just above the OECD average of 18% (OECD, 2015g).

Figure 2.5: American women are more likely to work than women on average across the OECD, but not part-time

Panel A. Male and female seasonally adjusted employment rates, 15/16-64 year-olds, 2014 Q4



Panel B: Part-time employment[1] as a proportion of total employment 15/16 – 64 year-olds, 2013



Note: 1) Part-time employment refers to persons who usually work less than 30 hours per week in their main job, except for Australia and Iceland where data concern hours worked in all jobs. The data for Japan and Korea concern actual rather than usual hours worked, and the data for the United States are for wage and salary workers only.

Sources: OECD (2015) Online OECD Employment database

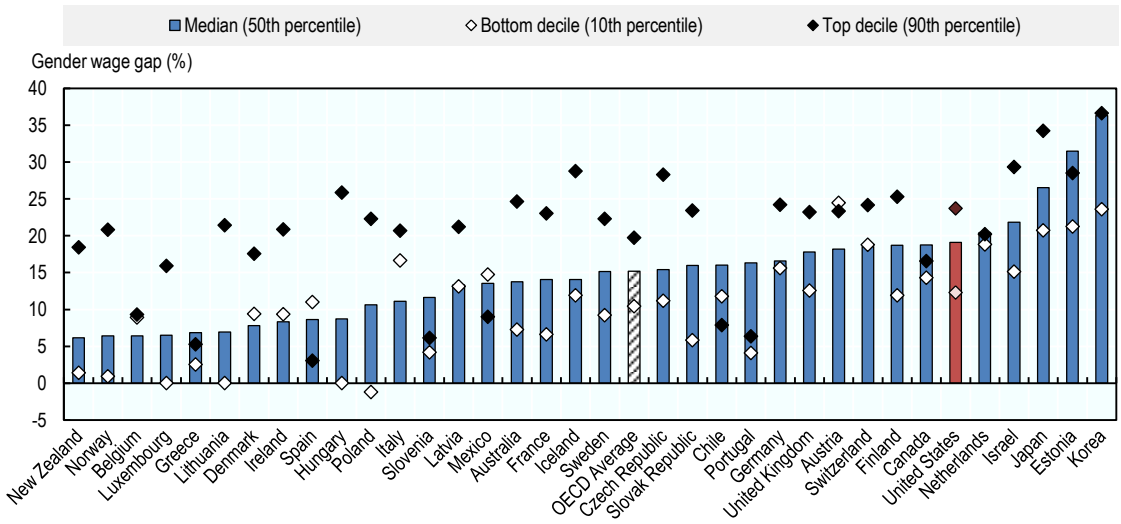
2.2.4. American women get paid less than men

58. Once in employment, American women typically get paid less than men. The gender gap in median earnings among full-time employees in the United States is – at 18% – somewhat higher than the OECD average (15.2%) and well above the sub-10% gaps seen in New Zealand and several European countries (Figure 2.6). However, the gender gap in median earnings in the U.S. has been falling– from 23.1% in 2000 and 19.2% in 2006 – and at a slightly quicker rate than the OECD average, which stood at 18.2% in 2000 and 16.1% in 2006 (OECD, 2015c).

59. Gender pay gaps are related to a number of factors. Individual characteristics and career choices, for example, can explain at least part of the gap. In many countries including the United States, gender differences in education and work experience now explain only a relatively small portion of the pay gap (OECD, 2012; Goldin, 2014). Yet, women continue to work in different sectors and occupations to men – perhaps because they are forced or self-select into jobs that are more compatible with wider family responsibilities – with pay in female-dominated jobs often lower than in male-dominated areas of the labour market (Blau and Kahn, 2007; OECD, 2012).

Figure 2.6: Women get paid less than men across the earnings distribution

The gender gap in full-time earnings at the bottom, middle and top of the earnings[1] distribution, 2012 or latest year available[1,2,3]



Notes: Countries ranked in ascending order according to the gender gap in median earnings.

1. The gender wage gap is unadjusted, and is calculated as the difference between median earnings of men and women relative to median earnings of men. Estimates of earnings used in the calculations refer to gross earnings of full-time wage and salary workers. However, this definition may slightly vary from one country to another.

2. For the gender gap in 10th and 90th percentile earnings: data for Estonia, France, Latvia, Lithuania, Luxembourg, the Netherlands, Slovenia, Switzerland and Turkey refer to 2010, and for Chile, Iceland and Israel to 2011.

3. For the gender gap in median earnings: data for Estonia, France, Latvia, Lithuania, Luxembourg, the Netherlands, Slovenia, Switzerland and Turkey refer to 2010, for Chile, Germany, Iceland and Israel to 2011, and for Hungary to 2013.

Source: OECD (2015) Online OECD Employment database

60. Gender differences in working hours play a role too. The fewer hours typically worked by women has a direct effect on pay gaps based on aggregated earnings data (OECD, 2012), but beyond this a lack of flexibility within many firms also means that many women may suffer disproportionately for working shorter hours or for requesting a work schedule that fits better around family responsibilities. Goldin (2014 and 2015), for example, showed that there is a wage penalty attached to working short hours over and above pro rata adjustments to earnings, while in some sectors – particularly the corporate, financial, and legal sectors – many firms offer disproportionate rewards to those who work long, continuous hours at certain times of the day. This is not the case in all industries – the healthcare, retail and technology sectors, for example, have all moved towards a position where flexible working is punished less through decreased wages (Goldin, 2014). But Goldin argues that a lack of flexibility in many industries can continue to explain a sizeable portion of the gender pay gap, and that a more widespread shift towards working practices and wage policies that are more approving of flexible working could lead to considerable decreases in gender pay gaps.

61. But these factors cannot explain the entire gender pay gap. Indeed, in the U.S. about 40 to 50% of the gender gap remains "unexplained" or related to "non-observable variables" (Blau and Kahn, 2007; OECD, 2012). These unexplained factors are likely to include gender discrimination[5], but it remains difficult to isolate the exact impact of discriminatory behaviour on gender pay gaps. Legislation in the United States addresses pay discrimination includes the 1963 Equal Pay Act and Title VII of the Civil Rights Act of 1964, which was recently augmented by the Lilly Ledbetter Fair Pay Act.

62. As is the case in most OECD countries, gender pay gaps in the U.S. are larger among high earners – those at the 90th percentile of the male and female earnings distributions – than they are at the median (Figure 2.6). The presence of a relatively wide gap at the top end of the earnings distribution mirrors at least in part the continued under-representation of women in top positions and the persistence of a "glass ceiling" on women's careers. However, particularly in the American context, it also reflects the tendency for women managers to work in "non-top-paying" occupations and sectors, such as public service, health, education and the non-profit sector.

63. By contrast, in the U.S. the gender gap among low earners – those at the 10th percentile of the male and female earnings distributions – is slightly narrower than that at the median (Figure 2.5). But this is also the case in most OECD countries, with the gap for low earners in the U.S. in fact slightly larger than the OECD average. Across countries, narrow gender gaps for low earners largely reflect the influence of enforced pay floors and the effects of statutory minimum wages and collective agreements to protect low-wage workers Given that American women account for 63% of workers earning at or below the minimum wage (U.S. BLS, 2015), it is likely that the level of the minimum wage has some influence in the U.S. too. At USD 7.25 per hour the minimum wage was just over one-third of the median wage in 2013, the third-lowest level across OECD countries with a minimum wage (OECD, 2015d). Increasing the federal minimum wage to USD 12 by 2020, as has been suggested, could increase earnings for around 30% of female workers in the United States (EPI, 2015).

2.2.5 America has comparatively few female entrepreneurs

64. American women are also less likely to be entrepreneurs than women in many other OECD countries. In 2013, only 1.6% of working women in the U.S. were their own employer. The OECD average rate of female self-employment in the same year was 2.3% (OECD, 2015g), with rates reaching over 3% in Hungary, Korea, New Zealand, Portugal, Spain and Switzerland and 4% in Greece and Italy. And once they start a business, American female entrepreneurs are also likely to earn a lot less than their male counterparts: in 2010, female earnings from self-employment in the U.S. were 42% lower than male earnings from self-employment (OECD, 2015g). This can be explained mostly by the lower capitalization of female-run companies, choice of sector, lack of managerial experience, and the lower number of hours female entrepreneurs devote to their businesses, as they are more likely than men to juggle work with family care commitments.

[5] The U.S. Equal Employment Opportunity Commission (EEOC) is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability or genetic information. Most employers with at least 15 employees are covered by EEOC laws (20 employees in age discrimination cases). Most unions and employment agencies are also covered. The EEOC has the authority to investigate charges of discrimination against employers who are covered by the law, but also works to prevent discrimination through outreach, education and technical assistance programmes.

65. Governments across the OECD have helped promote female entrepreneurship by fostering gender-neutral legal frameworks for business, ensuring equal access to finance for female and male entrepreneurs, and pairing financing schemes with support such as financial literacy training, business training, mentoring, and increased access to professional financial and legal advice. It is also important for governments and educational institutions to provide more information to women about the process and benefits of running a business.

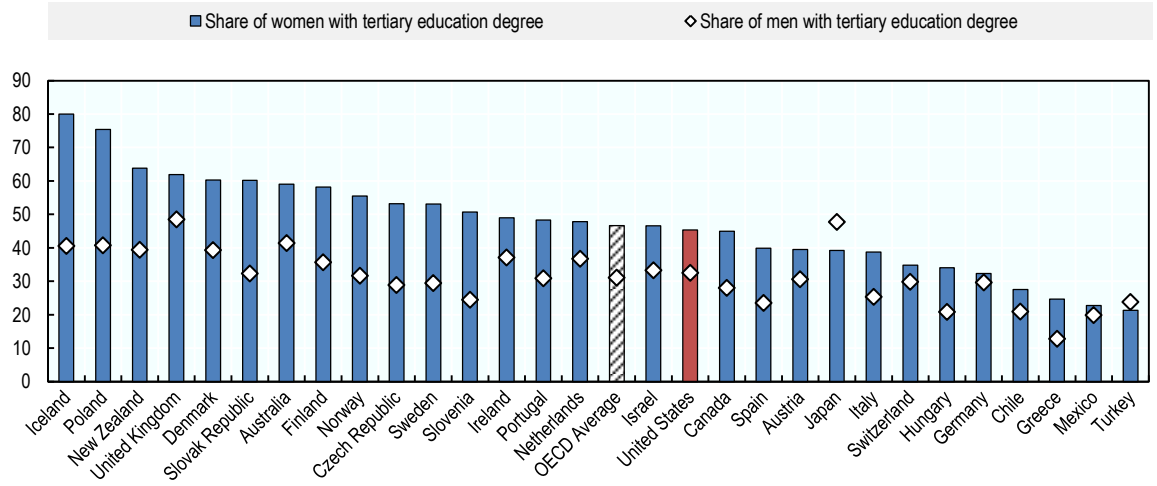
66. The United States has taken some good steps to help women entrepreneurs. The US Small Business Administration has begun several initiatives promoting female entrepreneurship, such as the network of Women's Business Centers and the Women-Owned Small Business (WOSB) Federal Contract Program. The WOSB plan sets aside 5% of federal contracts for eligible women-owned small businesses, with the explicit goal of increasing women's entry into male-dominated sectors. Such initiatives help female entrepreneurs access finance and public procurement and can increase the growth potential of women-owned businesses. However, rigorous evaluations and better data are needed to evaluate the cost-effectiveness of these programmes and fully understand the constraints facing American women starting their own businesses.

2.3 Enhancing opportunities for women: improving access to STEM training and careers

67. Education is another important avenue for improving women's opportunities in the labour market. At age 15, U.S. students score close to the OECD average in terms of reading and science literacy, but lag behind somewhat in mathematics. American girls and young women perform better in school than American males and are more likely to graduate from high school and college. An OECD report (2014d) shows that girls in the United States had higher 2012 Programme of International Student Assessment (PISA) literacy scores than boys in the fields of reading and science, though boys scored higher in mathematics. Among 25 to 34 year-olds, 89.9% of American women had obtained at least an upper secondary education degree in 2011, compared to 87% of American men.

68. Figure 2.7 shows that American women are also more likely than their male peers to obtain a tertiary education. In 2011, 45.4% of American women had a tertiary education degree, compared to just 32.4% of men. These rates are comparable to the OECD average.

Figure 2.7: More American women than men hold tertiary education degrees



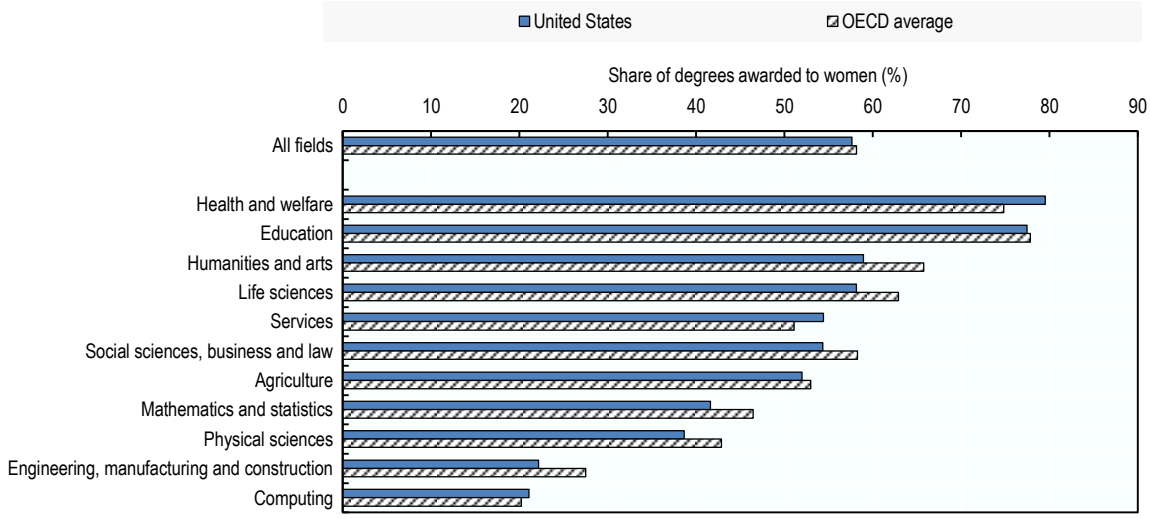
Source: OECD (2015) Gender Portal; data from 2011 or most recent year.

69. However, despite these advantages in years of schooling, American women often shy away from pursuing mathematics and science degrees. In 2011, American women made up fewer than half of all US university graduates in the fields of science, mathematics, statistics, physical sciences, engineering and computing (Figure 2.8). Compared to the OECD average, the United States lags behind in female STEM graduates.

70. Increasing female participation in STEM fields can help bring more young women into STEM jobs and improve women's earning prospects. For instance, women obtained only 21% of tertiary degrees in computing in 2011, even though this field has one of the highest returns to education. The average annual salary for a worker with a degree in computer engineering was USD 75700 in 2011, compared to USD 34750 in the more female-dominated field of social work. Public initiatives aimed at emphasising STEM skills in early education and introducing girls to mathematics and science careers can encourage more girls to study these subjects. Raising awareness of the earnings effects of educational choices can also promote the entry of more girls into these disciplines (see OECD, 2015h, for a detailed discussion of issues around the aptitude, behaviour and confidence of boys and girls in education).

Figure 2.8: Women in the United States are less likely to graduate with STEM degrees

Share of tertiary degrees awarded to women, by field of study, 2012



Source: OECD (2015) Online Education Database

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ANNEX 2.A. ESTIMATING THE EFFECTS OF CHANGES IN THE FEMALE LABOUR FORCE ON GDP PER CAPITA

To illustrate the effects of closing the gender gap in labour market participation rates on economic performance, research conducted for this report estimated growth in GDP and in GDP per capita between 2012 and 2040 under four hypothetical gender gap scenarios: the baseline scenario, where both male and female rates are projected based on current trends; the "25-by-2025 and 50-by-2040" scenario, where the existing gender gap is assumed to decrease by 25% by 2025 and 50% by 2040; the "50-by-2025 and 100-by-2040", where the current gap is assumed to fall by 50% by 2025 and to be eliminated by 2040; and, the "100-by-2025" scenario, where the gender gap in participation rates disappears by 2025.

The starting point for the estimates is the long-term growth models produced by the OECD and presented in *OECD Economic Outlook*, No. 95 (2014c). These models project potential output based on a standard Cobb-Douglas production function, with constant returns to scale featuring physical capital (K), human capital (H) and potential employment (N) as production factors plus labour-augmenting technological progress (E) such that:

(1) $$y = \alpha(n+e+h) + (1-\alpha)k,$$

lower case letters denote logarithms and α is the wage share, assumed equal across countries at 2/3.

Potential output is estimated by projecting the various input components. A useful descriptive decomposition is to divide changes in GDP per capita into productivity and labour utilisation components (where P is population):

(2) $$\Delta(y-p) = \Delta(y-n) + \Delta(n-p)$$

It is the latter part of the decomposition, the labour utilisation component, that is of primary interest here. Labour utilisation can itself be disaggregated into a further three components, with LF denoting the labour force and PWA the population of working age:

(3) $$\Delta(n-p) = \Delta(n-lf) + \Delta(lf-pwa) + \Delta(pwa-p)$$

The first term, $\Delta(n-lf)$, captures the effect of changes in structural unemployment. For OECD countries, the long-term growth models assume the structural unemployment rate gradually returns to the lowest value observed between 2007 and 2014. Unemployment rates in non-OECD countries, meanwhile, are assumed to converge gradually to the OECD average, unless the rate is already lower than the OECD average, in which case it remains fixed. The second term, $\Delta(lf-pwa)$, reflects changes in labour force participation rates. In most countries these rates are projected using a cohort model, with changes in participation projected by sex and five-year age group. However, in certain countries (including all non-OECD countries) where data broken down by age is more limited, a simplified approach is used to proxy the cohort model. Lastly, the final term, $\Delta(pwa-p)$, captures the effect of demographics and an ageing population. It is a simple ratio of the working-age population to the overall population.

The estimates of growth in GDP per capita under the different gender gap scenarios are achieved by manipulating the second term, $\Delta(lf-pwa)$. The "baseline" scenario uses standard estimates for changes in labour force participation rates, with rates projected by sex and five-year age group based on entry and exit rates over the period 2003-2012. The same participation rate projections are used in the standard long-term growth model, so estimates for growth in GDP per capita under the "baseline" scenario are identical to those provided by *OECD Economic Outlook*, No. 95. The "25-by-2025 and 50-by-2040" scenario leaves male participation rates unchanged, but assumes that female labour force participation rates adjust to the extent that by 2025 the gender gap for each five-year age group is 25% lower than its 2012 value and 50% lower by 2040. The "50-by-2025 and 100-by-2040" scenario is similar, but assumes that the gender gap for each five-year age group is 50% lower than its value in

2012 by 2025, and that male and female participation rates have fully converged by 2040. Finally, the "100-by-2025" scenario assumes that female participation rates adjust to such an extent that the gender gaps for each five-year age group are eliminated by 2025. In each case changes and developments in other production factors – such as physical capital and technological progress – are held steady in line with the baseline projection.

It should be pointed out that the projections used in these scenarios are mechanical, in the sense that they assume changes in female participation do not interact with other labour inputs – such as male labour participation, or male and female working hours – or any other production factors, including physical or human capital or productivity. It is possible that increases in female labour participation may lead to decreases in male participation and male or female working hours – so that paid work becomes more evenly shared across individuals – in which case these scenarios may overestimate the potential change in overall labour supply that would follow from an increase in female participation. It should also be noted that the estimates of change in GDP take no account of the possible effects of increases in female participation on household production. Again, to the extent that an increase in female labour participation leads to a decrease in household production or to a shift from unmeasured to measured activity, the estimates shown here may overestimate the effects of a change in female participation on GDP. With these limitations in mind, the following projections should be read only as estimates or approximations of the impact of changes in female labour supply on economic output. Nonetheless, they continue to provide an indication of the possible or potential benefits in terms of GDP from increased female participation.

Annex Tables 2.A.1 and 2.A.2 show the resulting estimates of growth in GDP per capita for selected OECD countries for the 2012 - 2025 and 2012-2040 periods, respectively. The results in the tables include:

- Closing gender gaps in labour participation could boost economic growth in all the countries examined. This mostly holds even in the less ambitious "25-by-2025 and 50-by-2040" scenario. The only exception is Canada, where the average annual rate of growth in GDP per capita is estimated to be no different under the"25-by-2025 and 50-by-2040" scenario than in the baseline setting. In large part, this is because current trends in labour market activity suggest that the gender gap in Canada is already on course to fall by approximately 25% between 2012 and 2025 and that the improvements will continue to 2040.

- The potential gains from closing the gender gap are greatest in Mexico, mostly because of a relatively large existing reserve of inactive female labour. Nevertheless, the estimated returns to increased female participation are generally considerable across countries. For example, eliminating the gender gap by 2025 could add 0.4 percentage points to average annual growth in Australia and the United Kingdom, and as much as 0.6 percentage points in Japan. The smallest potential gains are in France, Germany and again Canada, where complete convergence by 2025 is estimated to add only 0.2 percentage points to the average annual growth rate of GDP per capita, or an additional USD 1200 (2005 USD) in GDP per capita per year by 2025.

- In this context, the potential gains for the United States from closing the gender gap are relatively large. The elimination of the gender gap by 2025 is estimated to add 0.5 percentage points to the average annual growth rate of GDP per capita, placing the United States 3rd out of the 8 countries examined in terms of the relative percentage gain. Furthermore, the high existing levels of GDP per capita in the US mean that the potential payoff there in terms of dollars per head far exceeds the possible gains for other countries. For example, the suggestion from the long-term growth models is that full convergence in participation rates by 2025 could produce an additional USD 3448 (2005 USD) in GDP per capita by 2025, exceeding other large gains in Japan (USD 3155), Mexico (USD 2605) and the United Kingdom (USD 2458). Indeed, the estimated additional GDP per capita generated in the US by only halving the gender gap by 2025 – USD 1771 – is larger than the payoff produced by full convergence in Canada, France and Germany. Clearly, promoting the female labour supply and closing gender gaps in labour participation has at least the potential to provide a considerable boost to standards of living in the US, in both absolute and comparative terms.

Annex Table 2.A.1: Projected average annual growth rates in GDP and GDP per capita in USD 2005 PPP, %, 2012-2025[1]

	Baseline [2]		25-by-2025 [3]			50-by-2025 [4]			100-by-25 [5]		
	GDP	GDP per capita	GDP	GDP per capita	Increase in GDP per capita	GDP	GDP per capita	Increase in GDP per capita	GDP	GDP per capita	Increase in GDP per capita
	(1)	(2)	(3)	(4)	(4) - (2)	(5)	(6)	(6) - (2)	(7)	(8)	(8) - (2)
Australia	3.3	2.1	3.4	2.2	0.1	3.5	2.3	0.2	3.7	2.5	0.4
Canada	2.1	1.2	2.1	1.2	0.0	2.2	1.3	0.1	2.3	1.4	0.2
France	2.2	1.7	2.2	1.8	0.0	2.3	1.8	0.1	2.4	2.0	0.3
Germany	1.1	1.3	1.2	1.4	0.0	1.3	1.5	0.1	1.4	1.7	0.3
Japan	1.0	1.3	1.1	1.4	0.1	1.3	1.6	0.3	1.7	1.9	0.6
Mexico	2.8	1.8	3.0	1.9	0.1	3.3	2.3	0.5	4.0	2.9	1.2
United Kingdom	2.7	2.1	2.8	2.2	0.1	3.0	2.3	0.2	3.2	2.5	0.4
United States	2.7	1.9	2.8	2.0	0.1	2.9	2.1	0.2	3.1	2.3	0.5

Notes: 1. GDP per capita projections are based on estimates of the size of the 15+ labour force consistent with the growth model as per OECD Economic Outlook, No. 95.

2. The baseline scenario: both male and female labour force participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012.

3. The “25-by-2025” scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates falls by a quarter by 2025.

4. The “50-by-2025” scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates is halved by 2025.

5. The “100-by-2025” scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates disappears by 2025.

Source: OECD estimates based on OECD (2014) Economic Outlook No. 95 long-term database, the OECD (2014) Population and Demography Database and the OECD (2014) Online OECD Employment Database.

Annex Table 2.A.2: Projected average annual growth rates in GDP and GDP per capita in USD 2005 PPP, %, 2012-2040[1]

	Baseline [2]		50-by-2040 [3]			100-by-2040 [4]		
	GDP	GDP per capita	GDP	GDP per capita	Increase in GDP per capita	GDP	GDP per capita	Increase in GDP per capita
	(1)	(2)	(3)	(4)	(4) - (2)	(5)	(6)	(6) - (2)
Australia	3.1	2.0	3.1	2.1	0.1	3.3	2.2	0.2
Canada	2.1	1.3	2.0	1.3	0.0	2.1	1.3	0.0
France	2.1	1.7	2.1	1.8	0.0	2.2	1.8	0.1
Germany	1.1	1.4	1.1	1.4	0.0	1.2	1.5	0.1
Japan	1.1	1.5	1.2	1.6	0.1	1.4	1.8	0.3
Mexico	3.1	2.3	3.3	2.5	0.2	3.6	2.8	0.5
United Kingdom	2.6	2.0	2.7	2.1	0.1	2.8	2.2	0.2
United States	2.4	1.7	2.5	1.8	0.1	2.6	1.9	0.2

Notes: 1. GDP per capita projections are based on estimates of the size of the 15+ labour force consistent with the growth model as per OECD Economic Outlook, No. 95.

2. The baseline scenario: both male and female labour force participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012.

3. The “50-by-2040” scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates is halved by 2040.

4. The “100-by-2040” scenario: male participation rates are projected based on average entry and exit rates for each five-year age group over the period 2003-2012 and the gap between male and female participation rates disappears by 2040.

Source: OECD estimates based on OECD (2014) Economic Outlook No. 95 long-term database, the OECD (2014) Population and Demography Database and the OECD (2014) Online OECD Employment Database.

CHAPTER 3: RECONCILING WORK AND FAMILY LIFE: A SNAPSHOT OF ISSUES AND CARE SUPPORTS

3.1. Introduction

71. How can the United States strengthen women's labour market attachment and improve their employment conditions? Reconciling work and family commitments is key to addressing that issue for many mothers as well as fathers, and policy measures that have been shown to improve women's employment participation in other OECD countries include workplace flexibility measures, parental leave arrangements, childcare and early education, and out-of-school hours care. Furthermore, working parents often do not only have their own children to care for; they may also be involved in caring for their parents, partners and other relatives

72. The main focus of this report is on parental leave supports and their costs and benefits, which will be discussed in the following chapters. However, parental leave is only one piece of the work and family reconciliation jigsaw puzzle. A full discussion of work-life balance issues would require a comprehensive discussion of polices such as tax/benefit supports, workplace practices, childcare, education and elderly care services – which is beyond the scope of this study. Rather, this chapter aims to provide a contextual frame for the parental leave discussion by providing an overview of work/life balance supports other than parental leave. It first discusses workplace flexibility measures that American workers may have access to. It then considers childcare arrangements of American families with young children and their costs, and discusses the public childcare supports in the U.S in an international context. At the end, the chapter considers some indicators on long-term care and discusses workers' leave entitlements in OECD countries to care for sick relatives and partners.

Main findings

- Most American mothers and fathers of dependent children work. The majority of parents are employed even in households with very young children: 57.3% of mothers with infants worked outside the home in 2013.

- Work-life balance is a key issue for many American parents: 56% of working mothers and 50% of working fathers say they have difficulty balancing work and family commitments. Fathers (46%) are twice as likely as mothers (23%) to report they spend too little time with their child.

- Compared to other OECD countries, part-time employment is relatively uncommon in the U.S, but 40% of workers state that they have some control over days worked – which is similar to findings for European countries.

- Families use a variety of strategies to care for children while they work to earn income. Nearly half of all families in the United States call on relatives to regularly care for children below primary school age. Only a quarter of families report using formal childcare or pre-school facilities on a regular basis.

- Most working families pay for child care costs out of pocket: only 5.3% of American families with children under 5 report receiving financial help from government with childcare costs. OECD Tax/benefit models show that a married couple using formal childcare services for 2 children where both spouses work full-time, together earning 150% of the average wage (AW), can face out-of-pocket expenses as high as 40% of AW, while this is around 17% on average across the OECD.

- Formal childcare costs burden many families: the average parents of a pre-schooler spend 10.5% of their monthly family income on childcare. For low-income families the burden can be at least three times as high. Supports through the Child and Dependent Care Credit (CDCC) appear regressive, as it is only available to those with tax liabilities and not many working low-income families' tax liabilities remaining after accounting for the Earned Income Tax Credit (EITC). By contrast, public childcare support in Denmark or Sweden is more redistributive as low-income families often do not pay a fee, while fees for paying households increase with income.

- In 2011, the U.S. spent about 0.4% of GDP on Early Childhood Education and Care (ECEC) services at the national level – not including programmes financed by local governments – whereas the OECD average was 0.7%. In 2011, less than 1% of families reporting using Head Start – the nationally-funded preschool programme in the United States.

- Some U.S. states and localities offer pre-kindergarten programmes for four-year-olds, but availability and coverage varies greatly across regions. American families' access to subsidized (or free) pre-kindergarten thus depends significantly on the state in which they live.

- The FMLA provides American workers with 12 weeks of unpaid leave to care for a relative or spouse with a serious health condition. This does not stand out in international comparison; care leave for sick elderly and/or partners is often unpaid in other OECD countries.

3.2. Reconciling work and family life

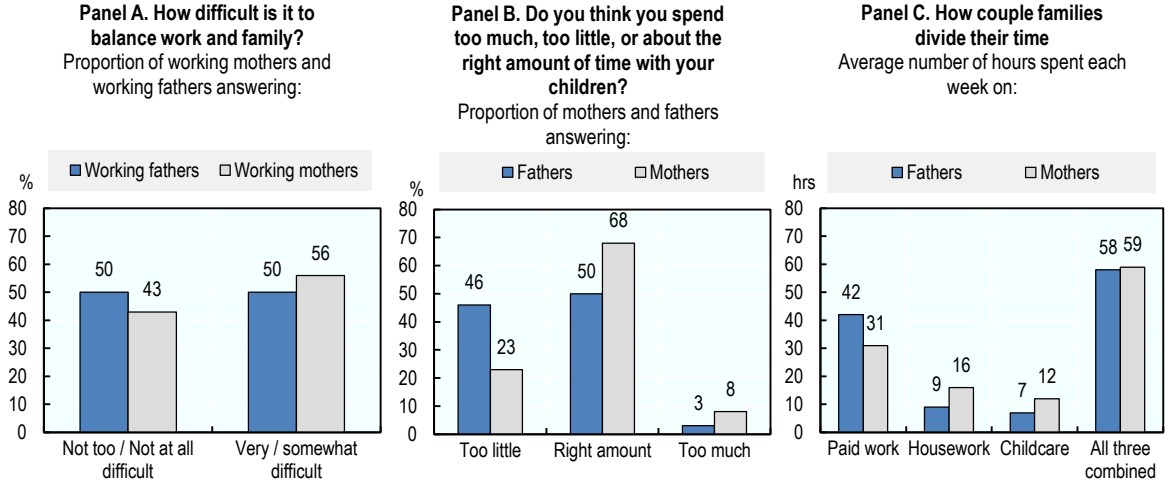
73. The reconciliation of work and family life is a key issue to a large number of American families. In 2013, there were more than 30 million working families with dependent children in the United States (U.S. BLS, 2014). Among all families with children, there was at least one working parent in 88.2% of families. Among married couples with children, 96.3% had at least one working parent and 59.1% had two working parents; 68.2% of single mothers worked; and, 81.2% of single fathers worked (U.S. BLS, 2014). Furthermore, the majority of mothers of *young* children work outside of the house. In 2013, 74.7% of mothers with children aged six to seventeen were in work: this was 63.9% for mothers with children under age six and 57.3% of mothers with infants (under 12 months of age) were employed (U.S. BLS, 2014).

74. Work-life balance issues often play out differently for mothers and fathers, as the balance of paid and unpaid work varies considerably by sex. American mothers work in the formal market for an average of 21 hours (compared to 37 hours for fathers), while they spent an average of 32 hours on unpaid work, which is almost twice as much (17 hours) as spent by fathers (Taylor *et al*., 2013).

75. Work life balance issues are often highlighted as a key concern in life-satisfaction surveys, in the US as well as in other countries (OECD, 2007; OECD, 2011a; OECD, 2014). A 2013 Pew Survey estimates that 56% of working mothers and 50% of working fathers say they find it very or somewhat difficult to balance work and family responsibilities (Figure 3.1, Panel A). Parents in dual-earner families are slightly more likely than parents with a single-earner to express difficulties in balancing work and family (54% vs. 49%, respectively). In addition, fathers (46%) are twice as likely as mothers (23%) to report that they have too little time to spend with their child (Figure 3.1, Panel B). This partly reflects that fathers in couple families spend on average 5 hours less than mothers per week on childcare (Figure 3.1, Panel C).

76. While no directly comparable information exists for other OECD countries – survey questions are often somewhat different across countries – available information on how satisfied workers are with their work-life balance suggests that the situation in the United States is broadly comparable to that in Europe. Eurofound (2014) reports that in Europe in 2011, 44% of parents in couple families, and 48% of single parents face conflict between work and family interests. Furthermore, the Great Recession in 2007/8 is found to have increased the occurrence of such conflicts, especially for single parents for whom the percentage reporting a work-life conflict increased by 10 points since the onset of the crisis.

Figure 3.1: Work-life balance: fathers are less involved in childcare than mothers, and many would like spend more time with their children



Note: The population for panel A is: mothers and fathers with children under age 18 working either full-time or part-time; for panel B, mothers and fathers with children under age 18; and, for panel C, adults aged 18-64 who are currently married or are living with a partner, are who are working either full-time or part-time, and who live in a household with their own child(ren). "Don't know/refused" are not shown.

Source: Parker and Wang (2013) for panels A and B, and American Time Use Survey as calculated by Parker and Wang (2013) for panel C.

77. In the absence of a partner, single parents are particularly likely to face time-crunch issues in finding a good work/family balance. And while the amount of time single parents engage in childcare has increased over the past several decades (Bianchi, 2011), single mothers spend less time in childcare than married mothers (i.e. less total child care, less routine care, less time playing with and interacting with their children).

3.3. Workplace flexibility

78. Workplace flexibility encompasses a range of practices that, broadly speaking, enable workers to adjust their work schedules so as to help reconcile the twin demands of work and family life. These measures range from reduced-hours and flexitime options – such as part-time work, or the opportunity to vary clocking in and out times – to more advanced options, such as the opportunity to work "compressed" weeks or use "time accounts" to shift working hours across weeks or months. Workplace flexibility can also include home or teleworking.

79. Many OECD countries have enacted statutory legislation ensuring employees have the right to – or at least the right to request – certain arrangements (Gornick and Heron, 2006; OECD, 2011a). In European OECD countries, flexible working practices are often governed by collective agreements, while in the U.S. such arrangements are generally laid down in individual employment contracts, with coverage uneven across demographic and socio-economic groups.

80. Across the OECD, smaller enterprises are likely to provide workplace flexibility through informal employer rules, even though it is often argued that flexible working measures are too costly for small firms where each member of staff is critical to business operations. Yet, in the U.S. firms with less than 100 employees do not provide significantly less flexibility to their employees than larger firms, and in terms of clocking in and out times, occasional working at home, having control over when to take breaks –

firms with 50 to 99 employees provide staff with more flexibility than firms with 1,000 employees or more (Matos and Galinsky, 2014). Similar results are found elsewhere: employer surveys in the United Kingdom find no strong relationships between firm size and the provision of flexibility, and in France the option to work flexible hours to care for a sick child is more available in companies with less than 50 employees than in larger companies (OECD, 2011a).

81. Despite a lack of statutory legislation almost half of all American employees have access to some form of flexible working arrangement (U.S. CEA, 2015). This suggests that many employers see the business case for providing such measures. Different studies point to a range of beneficial effects ranging from decreased rates of absenteeism, improvements in staff retention, increases in employee creativity and reductions in overhead costs when employees work remotely (EHRC, 2009; BWFJ, 2009; BMFSFJ, 2010a and 2010b; FFWHT, 2010; Catalyst, 2010a and 2010b). Then again, evidence on the overall effect of flexible working practices on general firm performance remains is less clear. While some studies provide evidence in support of a positive relationship between flexible working arrangements and employee productivity (Georgetown University Law Center, 2010), others find that the effects disappear once other factors – including the quality of general management – are controlled for (Bloom *et al*, 2010).

3.3.1. Part-time work is relatively rare in the United States

82. Part-time work is the most commonly used form of workplace flexibility. On average across the OECD, 9.4% of male employees and 26.1% of female employees work part-time, with rates reaching as high as 19.3% for men and 61.3% for women in the Netherlands. Part-time work is however relatively rare in the U.S.: only 8.2% of male American employees and 16.7% of female American employees work part-time hours (OECD, 2015a).

83. Part-time employment carries a number of advantages for workers looking to balance work and family commitments. Part-time employees report greater control over working hours and reduced levels of stress (OECD, 2010), while the shorter hours offered are frequently more compatible with other responsibilities such as child care commitments. Across many OECD countries part-time employment is particularly common among women of prime childbearing age (25-39), with a majority indicating they choose part-time employment on account of caring responsibilities (OECD, 2010). Part-time work does often involve penalties in terms of lower hourly earnings and fewer training opportunities, lower job security and restricted access to social security programmes. Working part-time, especially when it is of a permanent rather than a temporary nature also has negative effects on career progression (Chapter 2). Yet, despite drawbacks there is evidence that many part-time workers prefer to work shorter hours: OECD (2010) finds that across the OECD 83% of part-time employees have chosen to work part-time voluntarily, and that female part-time employees in particular are generally satisfied with their part-time jobs.

84. Many OECD countries have introduced statutory legislation that protects part-time workers, including safeguards to ensure proportional pay per hour and/or legislation backing the right to work part-time hours for family reasons – or at least the right to request to do so, often demanding employers to justify their decision in case of refusal (OECD, 2011a). In the U.S., workers are statutorily entitled to request part-time hours but only in order to care for a child, not for other family reasons such as to care for a partner or parent, and employers have the right to reject such requests on any ground.

3.3.2. Many U.S. workers have access to some form of workplace flexibility

85. The U.S. provides no statutory right to request flexible hours at the federal level, but the provision of such schemes by employers is fairly common. Data from the American Time Use Survey 2011 show that 53% of employees report having some flexibility in arranging their working time, with 40% stating that they have some control over days worked. This compares well with many other OECD countries. Although not strictly

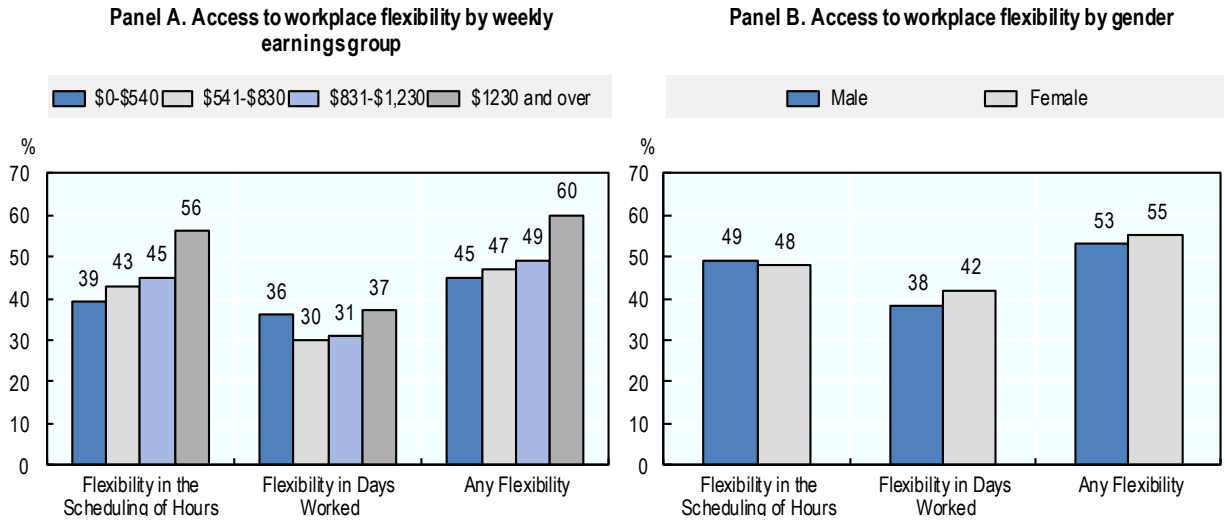
comparable, data from the 'European Survey on Working Conditions' suggests that in many European countries only around 40% of employees have some control over working schedules. Rates are typically higher in the Northern European countries, including Denmark, Finland, Sweden and particularly the Netherlands, where almost 70% of workers have at least some control over their working times (OECD, 2011a).

86. Flexible working-time options in the U.S. are not distributed equally across sectors and socio-economic groups. Figure 3.2, Panel A shows that those with higher earnings are more likely to have access to schemes that grant some flexibility in setting working time than median and particularly low wage earners. To some extent this reflects differences in the occupations and sectors in which high and low earners work: broadly speaking, high wage earners are more likely to work in professions – such as management, business, and finance – that lend themselves more easily to flexibility and employee-control over work schedules.

87. Yet, in many cases it may be those workers on lower incomes that are most in need of workplace flexibility. While in the U.S. high earners are more likely to work long hours (Williams and Boushey, 2010), they also have a greater ability to ease conflicts between work and family commitments by substituting money for their own time (*e.g.* by hiring nannies or housekeepers and by using organised childcare services). Low-income earners are more likely to have to rely on informal networks – such as grandparents and other relatives – to provide care (U.S. Census Bureau, 2013). In contrast to earnings-based differences, access to flexible working time arrangements is more equally distributed between men and women; Figure 3.2, Panel B suggests that men and women are approximately equally likely to have at least some flexibility in setting their own work schedule. It seems that while men and women have equal access, men make much less use of it: women are almost twice as likely as men to work part-time.

Figure 3.2: Workers on higher incomes have greater access to flexible working-time arrangements, but access is equal for men and women

Proportion of employees[1] with access to flexible working-time arrangements, 2011



Note: 1) Self-employed workers are excluded from the sample. Weekly earnings are for full-time wage and salary workers with one job.

Source: U.S. CEA (2015).

3.3.3. Teleworking covers one in five of American workers

88. Progress in communications and mobile technologies provides opportunities for many employees to work remotely, frequently from home. While home working or tele working does not necessarily offer a solution to the 'time crunch' – employees working from home are expected to work at least as long as those in the office – it can help ease conflicts between work and family commitments by eliminating commuting time and facilitate (non-intensive) supervision tasks. Home working may be particularly valuable to parents of older children and those who need to be with elderly relatives.

89. In the U.S., flexibility in work location is less frequent than access to flexible working time. About 22% of American employees report to have flexibility in where they work (U.S. CEA, 2015). This is similar to other OECD countries. In the United Kingdom, for example, 23% of employees had access to teleworking arrangements (Hooker *et al*., 2007; Tipping *et al*., 2012). Similar to flexible working time options, flexible location options are also unequally distributed across earnings groups; in 2011, 39% of workers earning USD 1230 per week or above had access to schemes that allowed flexibility in the location of work, compared to only 13% of those earning up to USD 540 per week (U.S. CEA, 2015). In both instances, this is also related to the fact that many jobs – particularly those further down the earnings scale – still require employees to be physically present at the worksite.

3.4. Balancing childcare and work in America

3.4.1. How do American families care for children while working?

90. What do American families do when paid work conflicts with caring for children? In nearly half of U.S. households with working mothers[6], regular care for infants and pre-schoolers is provided by a family relative (this age group is defined as infants and children under five years of age.) The care providers are typically an available parent (22%), a grandparent (21.1%), or in 5.5% of the cases a child's sibling or other relative (Figure 3.3).

91. There are some differences across socioeconomic groups in the use of extended family as caregivers. Families living in poverty are slightly less likely than households above the poverty line to rely on grandparents for care (29.6% and 33.3%, respectively). However, poorer households are much more likely than higher-income households to rely on siblings or other relatives to care for their children (20.7% versus 9.0%, respectively). Non-Hispanic white and African-American households rely on grandparents at similar rates (31.7% and 31.2%, respectively), whereas rates of caregiving by grandparents are higher in Hispanic (34.1%) and Asian (41.2%) families (U.S. Census Bureau, 2013).

92. In about a quarter of households with working mothers, infants and pre-schoolers are regularly cared for at childcare, most of which are privately run. Access to formal day care centres or preschools is influenced by income. Households below the poverty level are much less likely to use formal day care or preschool (19.5% use these facilities) than households at or above the poverty level (32.4% use these facilities). Less than 1% of all young children with working mothers attend federally-funded Head Start centres, with a concentration among low-income children. The remaining quarter of young children receive non-relative care in a variety of settings: 13.1% of pre-schoolers receive care in a provider's home day care, 3.1% of pre-schoolers are cared for in their own home, and 13.2% receive "other" care or have no regular arrangement (U.S. Census Bureau, 2013).

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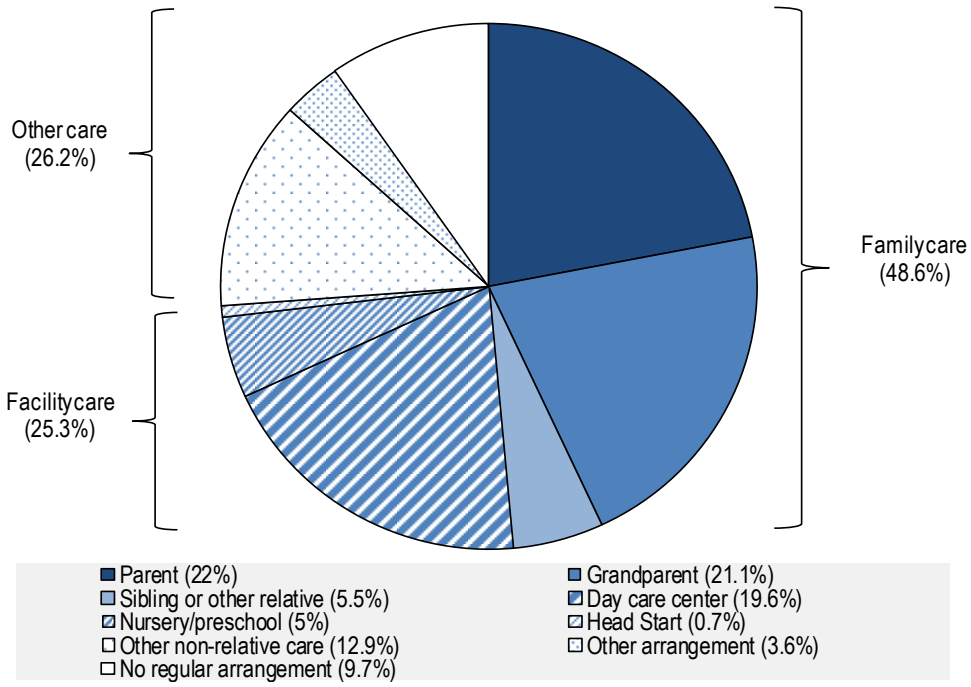
6 The Survey of Income and Program Participation (SIPP) – a leading U.S. survey on child care provision – focuses on mothers as the primary child care provider. Thus, most questions investigate care provision when a mother is working.

Figure 3.3: Most pre-schoolers receive care from relatives when mothers work

Regular child care arrangements of pre-schoolers with employed mothers in the United States, 2011



Source: U.S. Census Bureau (2013).

3.4.2. Child care costs burden many families

93. The prevalence of family care and the limited use of formal day care centres are related to the high out-of-pocket childcare cost for American families. Out-of-pocket child care costs have nearly doubled for American families since the mid-1980s, and only few households receive support from the government to pay for care. Parents of children under five years old reported paying USD 188 per week for childcare (over USD 9500 USD per year - 2014 USD) on average, in 2011, while parents of children aged five to fourteen paid less due to the use of primary and secondary school: USD 98 per week (U.S. Census Bureau, 2013).

94. These costs represent a significant burden on family budgets. Parents of pre-schoolers spend 10.5% of average monthly family income on child care, and parents of five- to fourteen-year-olds spend 4.7% of their monthly income on child care. For low-income families, the burden is much higher: families living below the poverty level spend 30.1%, on average, of their family income on child care expenses. Even though middle- and high-income households tend to pay more for higher-quality care, households earning over 200% of the poverty line nevertheless spend a much smaller share (6.9%) of their income on child care (U.S. Census Bureau, 2013). This represents a greater than four-fold difference in share of income going towards child care across these income groups.

Few families receive financial support to help with childcare costs

95. A small share of families receives government support for childcare: only 5.3% of households with children under five years of age. Because most publicly-subsidized child care is means-tested in the United States, low-income households are more likely to receive such support: pre-schoolers living below the poverty line were nearly four times as likely to receive help from the government as those living above the poverty line - 11.8% versus 3.3% (U.S. Census Bureau, 2013).

96. Families participating in other means-tested government programmes, such as Temporary Assistance for Needy Families (TANF) and Medicaid, were also much more likely to receive government support for child care: 28.9% of pre-schoolers in families receiving TANF, and 11.3% of pre-schoolers in families receiving Medicaid, received government subsidies for childcare, compared to 4.8% and 1.6% of non-recipients, respectively (U.S. Census Bureau 2013).

97. For all families with children, the US Tax system includes for each child and dependent dependency exemption of USD 3900 in 2013, Low-income workers with dependents have access to a refundable (i.e. it is paid when tax liabilities are less than entitlements) Earned Income Tax Credit (EITC). For tax-payers with two children, the credit is 40% of earned income up to USD 13430 in 2013. There is also the Child Tax Credit (CTC) that can be used to partially offset the costs of raising children (including childcare). In 2013, the maximum credit was USD 1000.[7]

98. Some working families that pay for child care are eligible to claim the Child and Dependent Care Credit (CDCC) on their federal income tax return. The Internal Revenue Service (IRS) requires that the care must be provided so that the filing parent could work or look for work, and working parents must have at least one child under the age of twelve (U.S. IRS, 2011). The credit is fairly small. Parents can expense only USD 3000 (for one qualifying parent) or USD 6000 (for two qualifying parents) in child care costs. The credit is then a share of the parent's qualifying expenses, depending on gross income; families earning less than USD 15000 a year can claim a credit for 35% of qualifying expenses (up to the USD 6000 limit for two parents), while families earning over USD 43000 a year can claim only 20% of eligible expenses (up to the USD 6000 limit). The expenses must also be reduced by any amount of dependent care benefits provided by the filer's employer (U.S. IRS, 2011).

99. In all, the CDCC mostly benefits higher income groups. Maag (2013) estimates that almost 60% of federal benefits go to the two highest income quintiles. This is so, because in these income groups more people have childcare expenses, and the level of such expenses is above average. Furthermore, lower-income groups' access to the CCDC is limited because it is non-refundable, and only paid to those with tax liabilities and not many working low-income families have such tax liabilities remaining after accounting for the Earned Income Tax Credit (EITC). One way of better targeting public funds on low-income families would be to make the CCDC refundable (non-wastable) too: i.e. redesign the system so as to make cash payments to potential claimants in low-income families (Ziliak, 2014).

100. Employers can also provide help with childcare. The government provides tax incentives to employers who provide child care benefits. For example, employers who provide direct childcare assistance can deduct those costs as business expenses from federal taxable income. Employers can also offer dependent care reimbursement accounts and/or workplace-funded childcare. In 2014, 39% of civilian workers had access to a dependent care reimbursement account, which allows employees to put a limited

[7] The maximum credit is reduced for taxpayers with income in excess of certain thresholds. The credit is reduced by USD 50 for each USD 1000 of income in excess of USD 110000 for married taxpayers and phased out by USD 150000. The CTC is refundable to the extent of 15% of earned income in excess of USD 3000. A taxpayer with three or more qualifying children may be allowed a supplemental refundable child credit, subject to certain restrictions (OECD Tax-Benefit Models, country chapter for the United States, www.oecd.org/els/social/workincentives).

portion of their pre-tax salary into a flexible spending account (FSA) to pay for childcare or elder care. The money placed in an FSA, which must be used within a year or lost, is tax-exempt. 11% of civilian workers had access to workplace-funded childcare (Stoltzfus, 2015). Dependent care FSAs and workplace childcare mostly benefit high-wage workers. Only 16% of private sector workers in the lowest income quartile had access to a dependent care FSA, compared to 61% of private workers in the top income quartile. Similarly, only 5% of private sector workers in the lowest income quartile were offered workplace childcare, compared to 19% in the top income quartile (Stoltzfus, 2015).

Childcare cost in international comparison

101. Panels A and B of Figure 3.4 illustrate the issues around childcare costs to American parents in an international context. Innovatively, the OECD Tax-Benefit models account for childcare costs when looking at financial incentives to work. The OECD Tax-Benefit models calculate the net childcare cost as related to full-time care for two children aged 2 and 3 in a typical childcare facility. Out-of-pocket costs or net costs to parents are determined by childcare fess minus cash benefits, rebates and tax concessions, and other relevant benefits. Childcare costs may vary with family situation and earnings level. Results for the U.S. reflect the tax/benefit situation (including typical childcare fees) as in Michigan. For illustrative purposes, Figure 3.4 presents results for two different family types only:

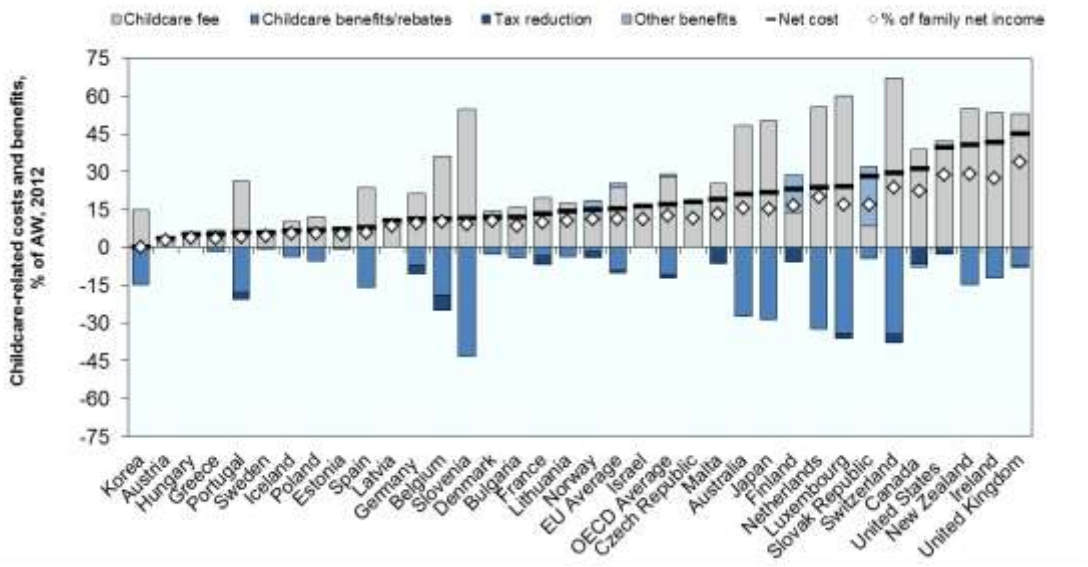
- *A married couple where both spouses work full-time, one earning the average wage (100% of AW) and the other one earning half the average wage (50% of AW).* For such dual-earner couples, the average out-of-pocket expenses across the OECD for two children in full-time care are around 17% of AW (Figure 3.4, Panel A). However, centre-based formal care is most expensive for working couples in most Anglophone countries (except Australia) with net costs above 40% of average wage, as in the U.S. This family only receives a limited amount of fiscal support, while similar families in other OECD countries frequently receive childcare benefits and rebates. In Ireland and the United Kingdom net childcare costs for a working couple with 150% of average earnings are highest at more than 40% of average wage.

- *A full-time employed sole parent with below-average earnings (50% of AW).* Unless they can rely on informal care arrangements, sole parents need to have access to formal childcare to be able to participate in the labour market. On average across the OECD, for sole parents with earnings at 50% of AW net childcare costs are almost half that faced by dual-earner families, that is 10% of AW (Figure 3.4, Panel B). Compared to dual-earner families, net childcare costs are significantly lower in for example the United Kingdom (more than 20 percentage points less), mostly achieved through targeted childcare benefits and rebates. But not so in the U.S. (Michigan) and Canada (Ontario), where out-of-pocket childcare costs remain high, at over 30% of average wage, where such benefits are relatively low.

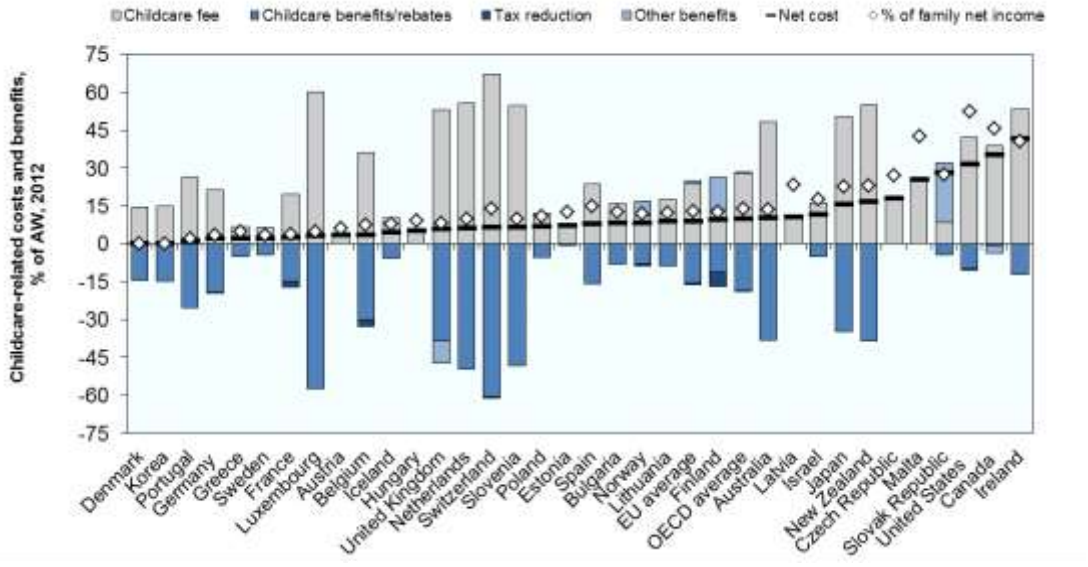
102. Clearly childcare costs are high to American families, resulting in financial incentives to limit workforce participation during the childcare years, or look for cheaper alternatives for formal care. In 1999, 23% of mothers with a child younger than 18 stayed at home, by 2012 this had risen to 29% (Ziliak, 2014). But many families cannot afford to withdraw from the labour force, and thus have to rely on family and informal arrangements where they can.

Figure 3.4: Out-of-pocket childcare costs[1] for care at a typical childcare centre are high in the U.S[.1,2,3]

Panel A Net full-time childcare costs for dual-earner family with full-time earnings of 150% of the average wage[2,3], 2012



Panel B: Net full-time childcare costs for a sole-parent family with full-time earnings of 50% of the average wage[2,3] 2012



Notes: 1. OECD, 2014 Taxing Wages includes information on the average wage - AW). :

2. In a number of countries, available fee information relates to a particular region or municipality, for example, Canada (Ontario), Germany (Hamburg), Japan (Tokyo), United Kingdom (England) and the United States (Michigan). Ziliak (2014) suggests that out-of-pocket costs for sole parents on median earnings in Michigan are low in the U.S. apart from in Alaska, but those estimates are not based on the costs of a typical costs of a childcare facility, but include less formal day-care arrangements too.

3. The results on net childcare costs as per cent of net family income account for tax reductions, child benefits and "other benefits" (*e.g.* the EITC), which are not primarily childcare-related (*e.g.* family or housing benefits) but nonetheless, influence the net household income position.

Source: OECD (2015) Tax-Benefit models

3.5. Government support for early childhood care and education in the United States

103. Though only a small share of parents report receiving government support for child care expenses, a range of public programmes do exist for childcare. Most of this public funding goes towards preschool education for four-year-olds, including the main federal preschool (pre-primary education) programme (Head Start), and state-run pre-kindergarten initiatives.

3.5.1. Head Start

104. Head Start is a federal means-tested programme aimed at promoting the school readiness of young, children in low-income families through educational, nutritional, health, and social services (U.S. HHS, 2015a). Head Start is funded through the federal Office of the Administration for Children and Families (ACF) in the Department of Health and Human Services. In 2013, the federal government appropriated USD 7.6 billion USD to Head Start. In turn, Head Start served nearly 904 000 children and pregnant women (U.S. HHS, 2015a).

105. U.S. HHS delivers grants to about 1,700 approved community-based agencies that deliver local Head Start services. These grantee agencies can be public, private, for-profit, or non-profit, and care can be provided in centres, schools, or family child care homes (U.S. HHS, 2015a).[8] Head Start care facilities must undergo formal "designation renewal" processes at least every five years in order to prove they are meeting programme quality requirements in order to continue receiving Head Start grants (U.S. HHS, 2015b).

106. Head Start programmes typically take one of two forms:

- *Early Head Start* serves pregnant women (1.3% of programme participants in 2013-2014), infants (4.2% of participants), and toddlers (11.9% of participants) up to age three through "early, continuous, intensive, and comprehensive" interactions with families (US HHS, 2014 and 2015a).

- *Head Start* began as a preschool programme serving three- and four-year olds. Three-year-olds comprise 34.9% of Head Start participants, and four-year-olds make up 46.2% of participants (US HHS, 2014).

3.5.2. U.S. state and local pre-kindergarten programmes for three- and four-year-olds

107. In the United States, states play an important role in funding and delivering childcare programmes. Forty states and the District of Columbia offer public pre-kindergarten (pre-K) programmes. The National Institute for Early Education Research (NIEER) estimates that these states and the District of Columbia spent a combined total of USD 5.4 billion USD on pre-kindergarten programmes in 2012-2013. This is slightly less than federal spending on Head Start (USD 7.6 billion USD in FY 2013). Combined, just over 1.3 million children in the United States attend state-funded pre-K, including only 4 percent of three-year-olds but 28 percent of four-year-olds (NIEER, 2014).

108. Access to these public preschool programmes varies enormously by state. In Florida, Georgia, Iowa, Oklahoma, Texas, Vermont, West Virginia, Wisconsin, and Washington, D.C., public pre-K covered more than half of all four-year olds in the 2012-2013 school year (Figure 3.5). In Alabama, Alaska, Arizona, Delaware, Minnesota, Missouri, Nevada, Ohio, Rhode Island and Washington, fewer than 10% of four-year-olds attended state pre-K. In 2012-2013, ten states offered no state-funded pre-K at all: Hawaii, Idaho, Indiana, Mississippi, Montana, New Hampshire, North Dakota, South Dakota, Utah, and Wyoming.

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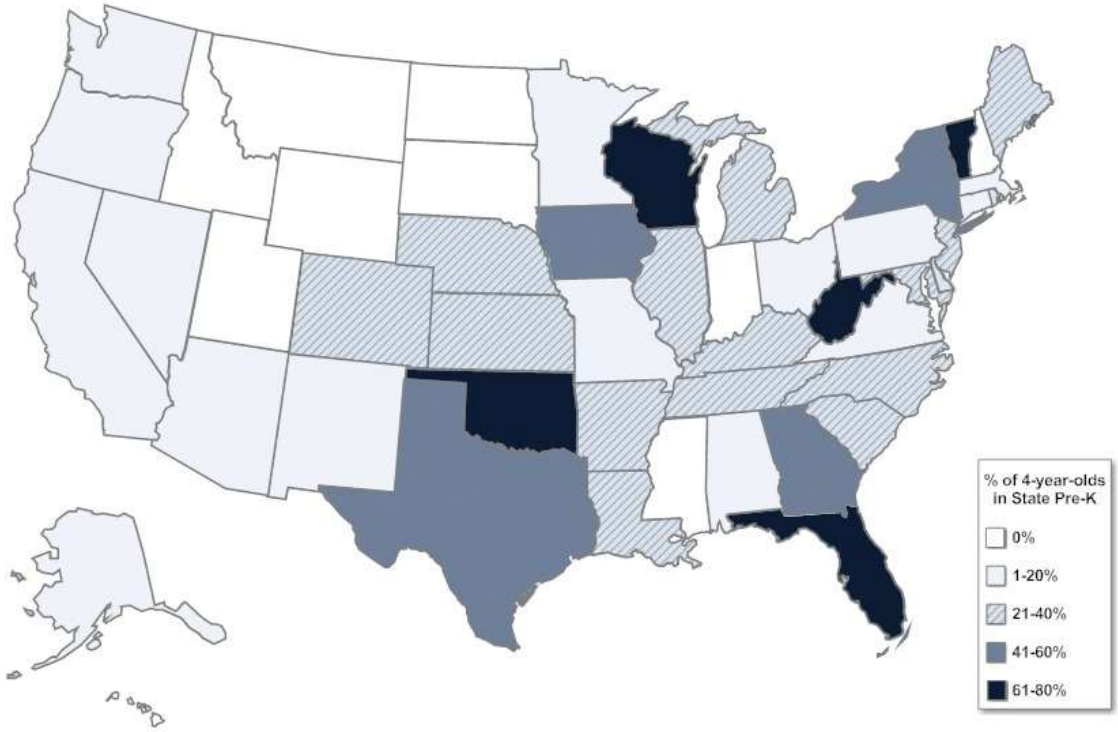
8 A small share of Head Start participants take part in home-based services, in which a Head Start staffer visits children in their own home and works with parents.

Figure 3.5: Share of four-year olds in state pre-kindergarten



Source: NIERR (2014) estimates of pre-Kindergarten enrolment

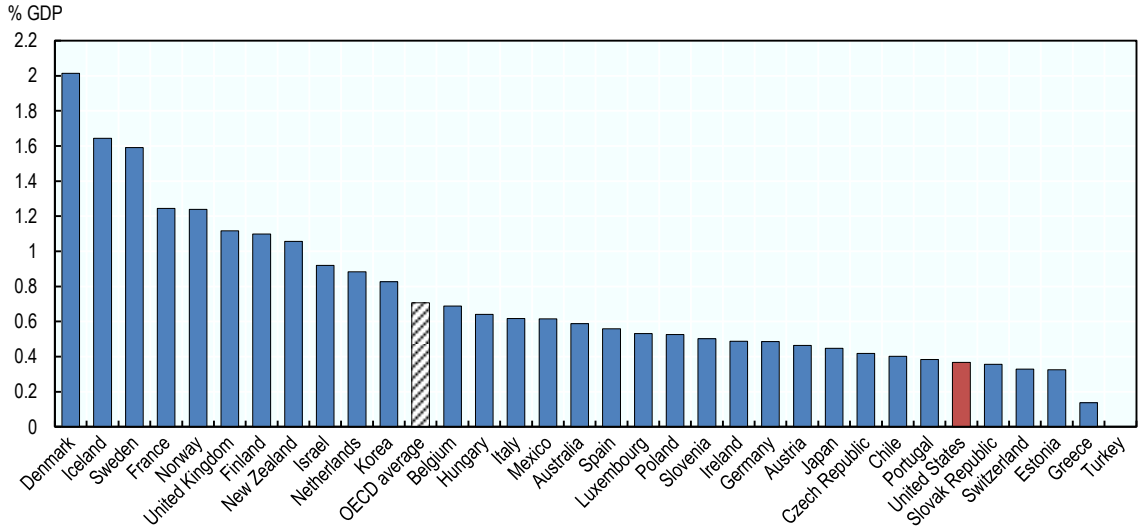
109. Some localities also offer preschool programmes. One noteworthy example is New York City's universal pre-kindergarten programme, which came into effect in September 2014. In less than a year, the NYC Department of Education and Mayor Bill de Blasio's office certified all the necessary teachers and community facilities; located and recruited over 50000 four-year-olds in the city; and, implemented a free pre-K program in all five boroughs of New York in advance of the 2014-2015 academic year. The programme is funded by city and state funds, and administrators are targeting 70000 four-year-olds to be enrolled for the 2015-2016 school year.

3.5.3. U.S. investment in early childhood care and education is below the OECD average

110. Compared to many other OECD countries, the United States invests relatively little money at the federal level in child care and pre-school services. Denmark has the highest level of spending, at 2% of GDP, as children generally enter formal day around age 12 to 18 months, when the period of paid leave runs out (Chapter 4). On average across the OECD, public spending on childcare and preschools amounted to 0.7% of GDP in 2011, about twice as high as Federal investment in the United States (Figure 3.6). The previous section illustrated the important role of State funding (which is not fully captured in the data, see the notes to Figure 3.6). However, even if it were included it is unlikely to significantly move the U.S. up the ranking as mostly only 4-year olds attend pre-schools. Furthermore, while average childcare spending across the OECD has increased since 2000 from 0.5 to 0.7 of GDP, expenditure in the U.S has oscillated around 0.4% of GDP (OECD, 2014).

Figure 3.6: Public spending on child care and early education services is low in the U.S.

Public expenditure on child care and early education services[1,2] as a % of GDP, 2011



Notes:

1. To adjust for cross-national differences in the compulsory age of entry into primary school only spending on children up to the age of 6 is included.

2. In some (often federal) countries, it is not possible to fully capture all childcare spending. For the U.S. spending through relevant earmarked Block-grants is identifiable, but data on additional state spending is not available on a comprehensive basis. In Canada, childcare by the provinces is co-financed out of non-earmarked general block-grants and/or provincial funding, but it is unclear to what extent. As a result, no data is presented here for Canada.

Source: OECD (2015) Social Expenditure Database

3.5.4. Compared to other OECD countries few American children are in formal childcare or pre-primary education.

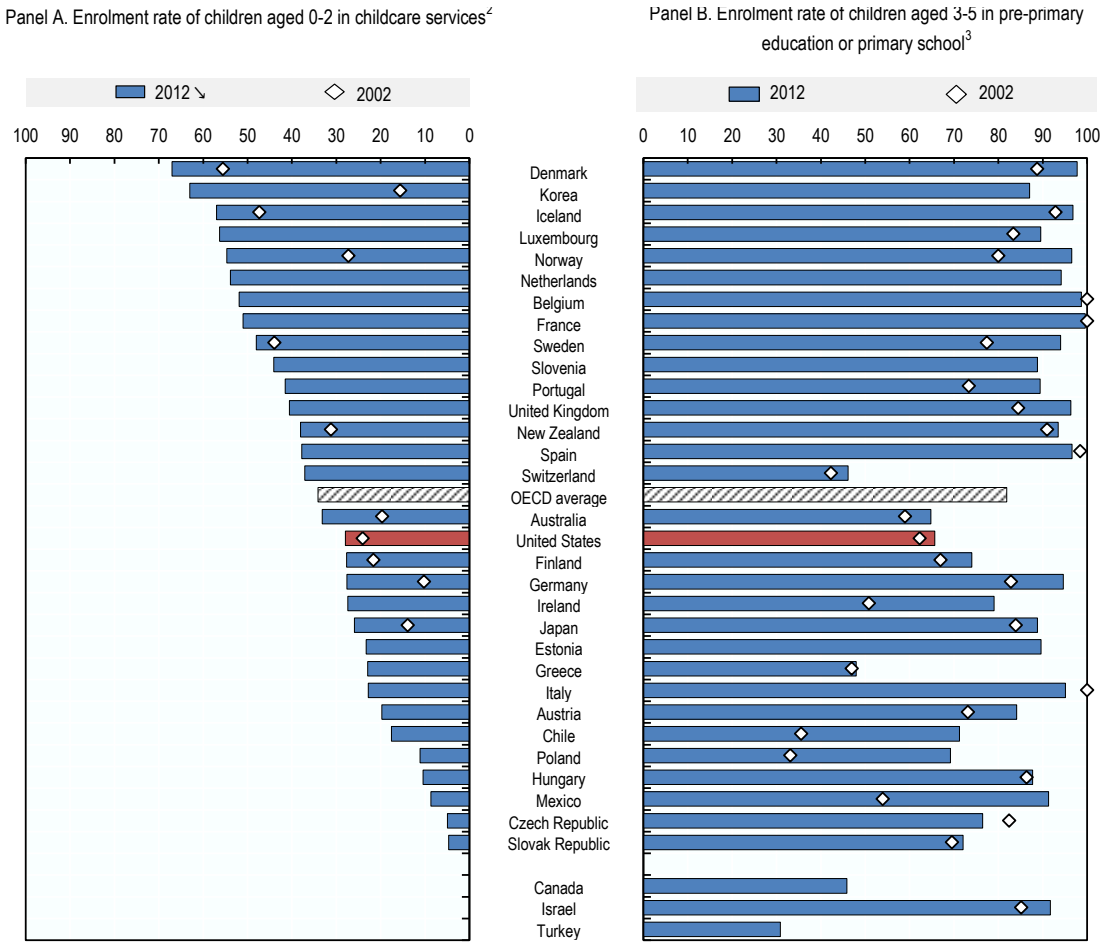
111. Many OECD countries have invested heavily in early childhood education and care services, in part out of recognition of the importance of early education from a child development perspective but also because childcare is one of the main tools for balancing work and family life. In 2012, 34% of children aged between zero and two were enrolled in formal childcare services, on average, across the OECD (Figure 3.7, Panel A). Rates for three-to-five year olds were even higher, with 83% of three-to-five year olds enrolled in pre-primary education or primary school, again on average across the OECD (Figure 3.7, Panel B).

112. Both averages conceal large differences across countries. While in eight OECD countries (Belgium, Denmark, France, Iceland, Korea, Luxembourg, the Netherlands and Norway) more than 50% of children aged between zero and two used formal childcare services in 2012, in three others (the Czech Republic, Mexico and the Slovak Republic) the equivalent rate was less than 10% (Figure 3.7, Panel A). Similarly, for three-to-five year olds enrolment rates ranged from above 97.5% in Belgium, Denmark and France – where services are provided universally – to below 50% in Canada, Greece, Switzerland and Turkey (Figure 3.7, Panel B). But in a majority of OECD countries at least 30% of zero-to-two year olds and 80% of three-to-five year olds were enrolled in childcare or formal education services in 2012.

113. In this context, comparatively few American children use formal childcare or are enrolled in pre-primary education programmes. For example, in 2011 only 28% of children aged between zero-to-two in the U.S were enrolled in formal childcare services (Figure 3.5, Panel A). This was lower than in sixteen other OECD countries, and less than half the rate seen in the leading countries. And in relative terms enrolment rates for three-to-five year olds in the United States were even lower; in 2012, only 65.7% of children aged between three and five were in pre-primary education, a rate that is over 15 percentage points below the OECD average (Figure 3.7, Panel B).

Figure 3.7: Relatively few American children are enrolled in childcare and pre-primary education

Enrolment rate of children aged 0-2 in childcare services and children aged 3-5 in pre-primary education or primary school, 2002 and 2012[1]



Notes:

1. For 0-2 year olds, Data for Japan are for 2010 and for Australia, Chile, Mexico, the United Kingdom and the United States for 2011. For 3-5 year olds, data for Mexico refer to 2011.

2. Data include children enrolled in organised care (*e.g.* day care centres or nursery schools and in some cases pre-primary education) and those cared for by licensed child-minders or other forms of formal non-relative care, although exact definitions may vary slightly across countries. In all cases data exclude those cared for by relatives, including parents, grandparents and siblings or other relatives.

3. Data include children in pre-primary education (both public and private), but also in some countries children enrolled in compulsory primary education.

Source: OECD (2015) Family Database

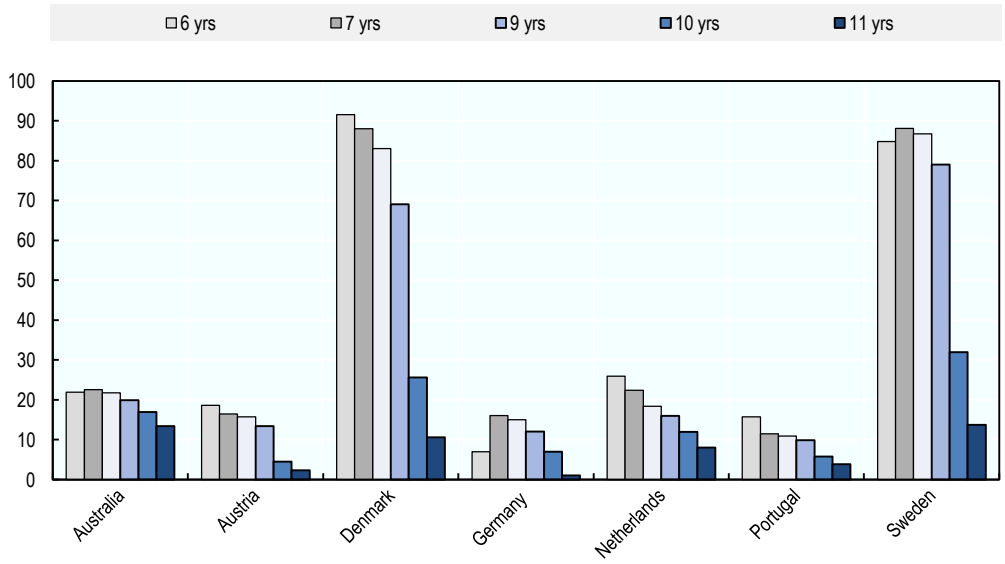
114. Enrolment rates in the U.S. are, however, increasing. Between 2002 and 2011 the proportion of zero-to-two year olds enrolled in formal childcare services increased by just under 4 percentage points, while between 2002 and 2012 the rate for three-to-five increased just under 3.4 percentage points (Figure 3.7, Panels A and B). But these increases are much smaller than in some other countries. In Korea for instance, sustained investment saw enrolment rates for children aged between zero and two grow from 15.6% in 2002 to 63% in 2012, while in Mexico rates for three-to-five year olds increased from 54% in 2002 to 91.3% in 2011. Increases in most countries are not quite so large; on average across those countries where data are available at both time points, enrolment rates for zero-to-two year olds increased by just over 14 percentage points between 2002 and 2012, and those for three-to-five year olds by just over 9 percentage points. Nevertheless, these increases outstrip those in the U.S., meaning that enrolment rates for American children are falling further behind those from many other OECD countries. In addition in Denmark and Sweden children of primary-school age generally can attend out-of-school-hours care services.

3.5.5. Out-of- school-hours care services in OECD countries

115. Childcare issues do not stop when children enter primary school. A full-time working week is not directly compatible with school hours, and working parents need to find care solutions before and/or after school hours and during school holidays. Denmark and Sweden are countries with the most comprehensive Out-of-School-Hours (OSH) care systems (Figure 3.8). Before school hours start, parents can take their children to before-school programmes usually in the same building. As school finishes earlier than parents' working day, children go to after-school programmes until their parents pick them up. The activities offered during this extra-school time vary from one municipality to another. Children play, do their homework or participate in a number of leisure activities. Local authorities (municipalities) decide on the funding of programmes and the fees charged to families.

Figure 3.8: Children enrolled in out-of-school-hours care services

% of children aged 6 to 11 enrolled in out-of-school-hours care services by year of age, 2011 (or latest available year)[1]



Note: 1. Data refer to 2011 for Australia, Austria, Germany, Portugal, Sweden; 2009 for Denmark and Netherlands.

Source: OECD (2015) Family Database

116. All children of primary school-age in Denmark and Sweden are entitled to a place in OSH-care programmes, and while take-up is not universal more that 60% of children aged 6-11 are enrolled OSH-programmes. Take-up in other countries remains comparatively low, although in Australia and the Netherlands just under 20% of primary school-age children make use of OSH services. Generally, enrolment rates in OSH-care decline as children get older. This may be related to children becoming more independent and preferring to spend their time (with their peers) outside of an organised venue.

3.5.6. Does formal child care enhance child outcomes?

117. Recent research provides rich evidence stressing how social spending on children early in the life cycle can be effective to enhancing children's long-term outcomes (OECD, 2009; OECD, 2011a). The literature evidences the positive returns of investing early in the access to early childhood education and care (ECEC) services with regards to the formation of skills and capabilities, as well as regarding health outcomes (*e.g.* Heckman 1999, 2007; Heckman and Masterov, 2007; Cunha and Heckman, 2007; Duncan and Magnuson, 2003 and 2004). Investing in early childhood is argued to be beneficial, as it increases the efficiency of later investment ('skills begets skills'), and helps saving the money that is required later to repair the long-term consequences of the underinvestment in human capital.

118. Formal childcare participation is often found to have positive effects on cognitive development of children (Ruhm and Waldfogel, 2011), but some negative effects on behavioural outcomes can be observed if children are in poor-quality care or in care for long hours (Belsky *et al*., 2007). Quality of services and care intensity and quality are two other parameters that matter. Long hours in care are associated with poorer developmental outcomes for young children, but effects are small (Belsky, 2003; Langlois and Liben, 2003) and vary with child characteristics. Nevertheless, there is evidence that long periods in centre-based care are linked with more behavioural problems because children are tired and then exposed to stressful situations (Belsky *et al*., 2007; Bradley and Vandell, 2007; Stein *et al*. 2013). At the same time, a high-quality care environment is found to foster children's cognitive development (*e.g.* NICHD, 2003) and increase levels of pre-academic skills and language at four years of age in relation to centre-based care services (NICHD, 2001). The is also evidence that the earlier children start preschool, the more positive the outcomes (for England, Sylva *et al*., 2011 and France, Fougère *et al*., 2014).

119. Zoritch *et al*. (2000) found that attending day-care increases children's IQ and has beneficial effects on behavioural development and school achievement in the U.S. Long-term follow ups also suggest there are effects on increased employment, lower teenage pregnancy rates, higher socio-economic status and decreased criminal behaviour. Huerta *et al* (2011) examine child cohort data for five different countries (including the U.S.) and conclude that enrolment in formal child care has a positive influence on cognitive scores in the United Kingdom and the United States, although no clear association is found for the other countries (Australia, Canada and Denmark).

120. Gordon *et al*. (2007), Zutavern *et al*. (2007) and Harrison *et al*. (2010) further illustrate the positive effects of investing in childcare programmes on health outcomes. Ludwig and Miller (2007) found that Head Start programmes have been responsible for a large drop in mortality of children aged from 5 to 9 years; while Anderson *et al*. (2010) estimate that the same programmes have diminished the risk of smoking in young adulthood by 25% compared to other pre-school programmes. On the other hand, long hours in childcare centres can also increase the risk of ear infection, respiratory illness and gastrointestinal illness (Gordon *et al*., 2007; Baker *et al*, 2005). Then again, these health problems experienced in early childhood due to attending child care centres are not found to have long-term consequences (Bradley and Vandell, 2007).

121. Nores *et al* (2005) suggested a USD 12.90 return per public dollar invested in the Perry programme, due to savings in education, welfare, and criminal justice, and increased taxes on earnings. More recently, Heckman *et al*. (2010) estimated that each dollar invested at age 4 in the Perry programme yields a return of 60–300 dollars by age 65. Otherwise, the benefit-cost ratio, accounting for deadweight costs of taxes and assuming a 3% discount rate, ranges from 7 to 12 USD per person.

122. OECD work suggests that investment in active social policies such as the EITC and/or childcare supports economic growth (Arjona *et al*, 2001). Furthermore, a focus on the early years is crucial in addressing socio-economic differences in education: poverty in childhood can affect educational development opportunities, which can have long-lasting effects which can carry over to future generations. To combat poverty and promote child development, childcare services should provide parents with young children the care support they need to work, as well as the safe environments needed for pre-schoolers to learn and develop. The OECD PISA results show that participation in quality early childhood education is associated with stronger reading performance at age 15, especially for children from families with disadvantaged socio-economic backgrounds (OECD, 2013a).

3.6. Long-term care and leave policies to care for an elderly relative

123. Care commitments for children are not the only source of work/family conflict. Across the OECD an increasing number of older people are in need of long-term care and – although formal care systems exist – many of those providing such care are informal carers, mainly family and friends (OECD, 2011b). A large number of those giving care to elderly relatives are likely also to already have their own family care commitments as well as jobs (U.S. BLS, 2013). The so-called "sandwich generation" - i.e. those with a dependent child and a parent age 65 or older, is expected to grow in the near future as a consequence of the combination of late parenthood and the prolongation of the period in which middle-aged adults are alive at the same time as (one of) their (more or less dependent) parents (Mason and Zagheni, 2014). Taylor *et al*. (2013) suggested that already just over one in eight Americans aged 40 to 60 were both raising a child and caring for a parent, in addition to between seven to ten million adults who had aging parents who are not living close by.

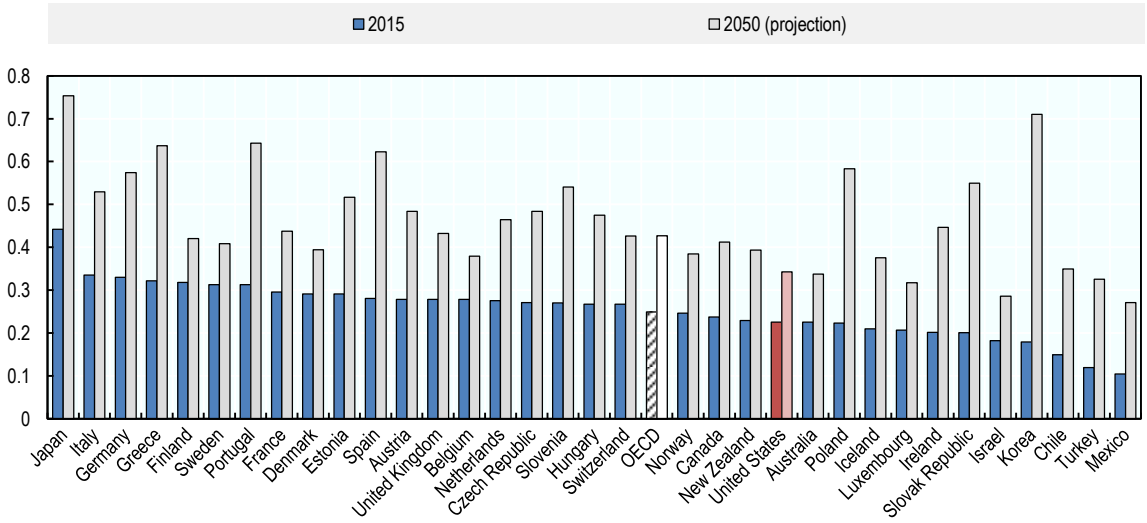
124. Population ageing in the U.S. may not unfold as dramatically as in some other OECD countries. Figure 3.9 shows that the United States has a relatively young population with the old-age dependency ratio – measured as the number of people aged 65 and over per person of working age (15-64) – standing at 0.22, compared to 0.33 in Germany Italy and 0.44 in Japan. The old-age dependency ratio in the U.S. is projected to increase to 0.34 by 2050; but in Germany and Japan old-age dependency ratios are projected to increase by 2050 to 0.57 and 0.75, respectively.

3.6.1 A snapshot of indicators on long-term care

125. Public expenditure on long-term care (LTC) in the U.S. is low relative to many OECD countries (Figure 3.10). In 2013, the U.S. spent a little over 0.5% of GDP on public LTC services, while the OECD average was 1.8% of GDP, with spending reaching as high as 3.2% of GDP in Sweden and 4.3% in the Netherlands.

Figure 3.9: The United States has a relatively young population, and population ageing will not unfold as fast as in most other OECD countries

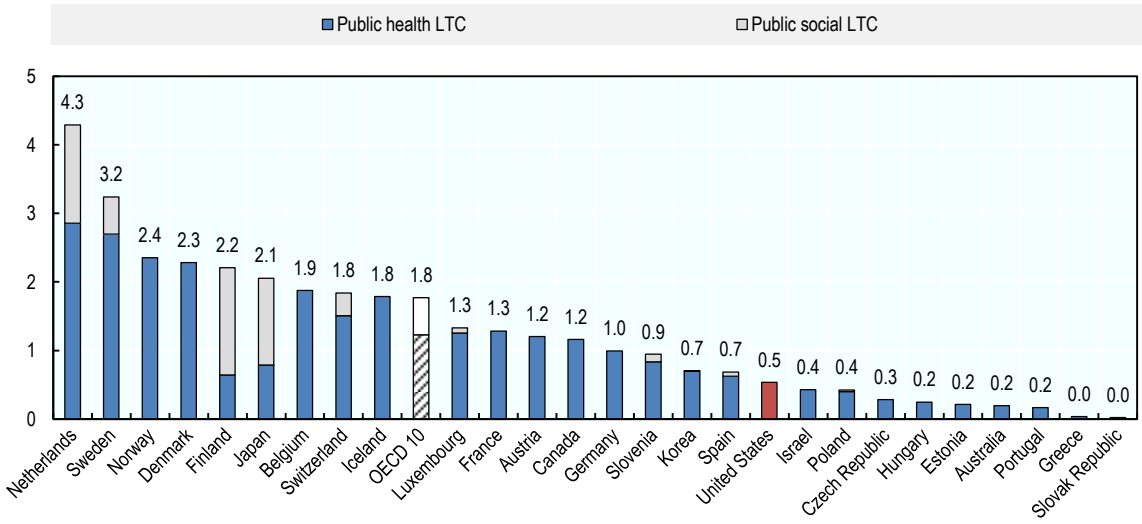
Old-age dependency ratio (number of people aged 65+ per person aged 15-64), 2015 and 2050 (projection)



Source: OECD (2015) Demography and Population Database

Figure 3.10: Public expenditure on long-term care is relatively low in the US

Public expenditure as a % of GDP, 2013 (or latest available year)



Notes:

1) LTC spending is consists of two components of health and social care. The health component includes palliative care, nursing care and assistance with activities of daily living like bathing, dressing and getting in and out of bed. It covers cares provided in LTC institutions or at home. The social component covers assistance with instrumental activities of daily living such as cooking, shopping, and transport. For federal countries, data include spending by both federal and state or province government authorities.

2) Data for Australia, Japan, Luxembourg, Poland, Portugal and Spain refer to 2012; data for Israel refer to 2011.

3) The OECD average is for the ten countries that report both health and social spending.

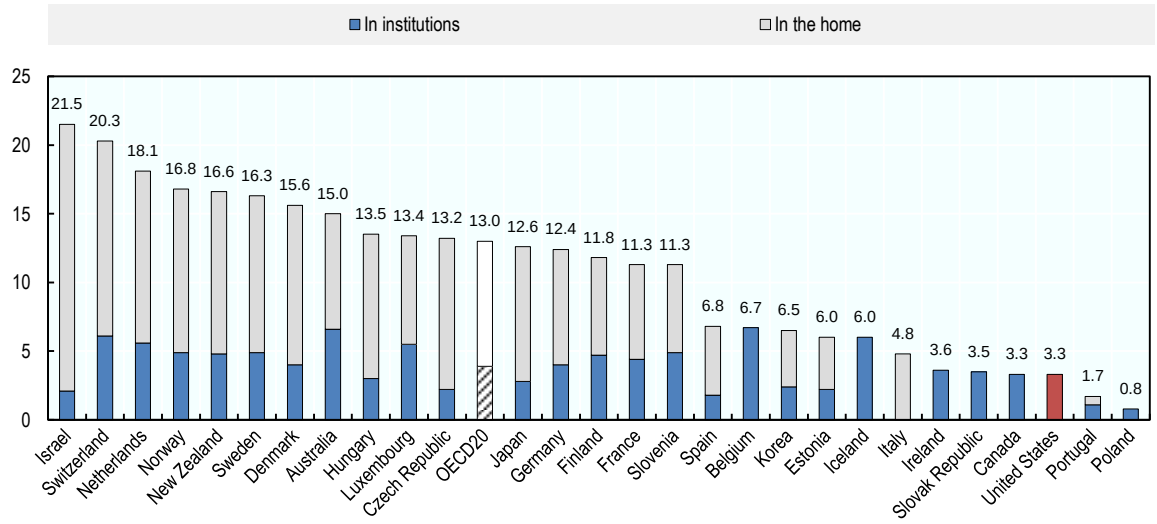
Source: OECD (2015) Health Statistics

126. The relatively low level of public spending on LTC in the U.S. is likely related to the design of public LTC services. Unlike most OECD countries, LTC supports in the U.S. are provided through safety-net programmes and targeted at the poor. While this can ensure that the least well-off have access to LTC services, it leaves others without any support from the state. These people may purchase services privately (which may not always be captured in national data, especially for those receiving care in their own homes), receive care informally from family and friends, or forgo services entirely. This has two implications:

- A low proportion of older people in the U.S. are recorded as receiving LTC services. 3.3% of over-65s are in care institutions, compared with an OECD average of 3.9%, and rates as high as 6.1% in Switzerland (Figure 3.11). Data for people receiving care at home is not currently reported by the U.S. for recent years, but in 2007 the number reported to be receiving care at home was similar to the number in institutions. If this remains the case, the total for the U.S. would be significantly below the OECD average.
- The U.S. may have substantial private out-of-pocket costs for LTC. Although private spending on LTC is difficult to measure in cross-national comparisons, the fact that the U.S. has a relatively large number of LTC workers – 12 workers per 100 people over 65, compared to an OECD average of 6.1 (OECD, 2015c) – suggests that private expenditure is a significant factor. This expenditure will mostly be direct costs to LTC users, since private health insurance for long-term care does not play an important role in any OECD country (OECD, 2013b).

Figure 3.11: Recipients of long term care among the elderly aged 65 years and over

Proportion of the population aged 65 years and over in receipt of long term care by place of care, 2013 (or nearest year)



Source: OECD (2015) Health Statistics

127. Many older people who need LTC-services prefer to stay in their own homes for as long as possible, so that they can retain their independence and remain part of their local community. In response to this preference, most OECD countries have implemented policies to promote home care, and the proportion of people receiving care at home has risen. The U.S. is no exception, with the proportion receiving care at home rising from just under 40% in 2000 to 45% in 2007, the latest year for which home care data is available (OECD, 2015c). While this rate is still low compared to other OECD countries, this might result from the under-reporting of privately purchased home care services

128. While home care can lead to better outcomes for LTC-users, it also means a greater role for informal carers such as spouses or adult children (OECD, 2015b). According to the American Time Use Survey 2011-2012, 16 % of Americans aged 15 and older (39.6 million) provide unpaid care to someone aged 65 or older who needs help because of a condition related to aging, for an average of 3.2 hours per day. The majority of those providing unpaid elderly care are women (56%). In most cases (85%), the person has to care for someone who does not live in the same household (U.S. BLS, 2013).

129. While informal care can have benefits for the LTC-user, and many carers report that the experience is rewarding, it can also place a physical and mental strain on the carer. Mental health problems are 20% more common in those providing informal care, and increase with the intensity of care. People caring intensively for an older relative or friend are more likely to work part time, or not at all (OECD, 2011b). The growing role of community care therefore makes health and employment support for carers more important than ever.

130. Despite the strain of providing care, the large majority (63%) of people engaged in elderly care are employed, 75% of which work full-time. 22% of all eldercare providers also have a child under the age of 18 living with them. Americans who are facing this double care burden are even more likely to be in employment: 78 % of parents providing eldercare are employed, with 62 % working full time (U.S. BLS, 2013).

3.6.2 Leave entitlements to care a family member

131. Workers who care for an elderly person have needs that are somewhat different from those who care for a very young child on a full-time basis. Such workers may need time-off occasionally, but needs may arise at short notice with timing that is unpredictable. In order to meet these needs, many OECD members grant employees specific entitlements to care for a close relative and/or sick and disabled dependent family member. These rights are often restricted to employees with a parent who is severely impaired and who is recognized as such by the benefit agency. Moreover, employment-protected leave to care for a relative is not always paid, and often there is no flexibility in how to use entitlements (for example, to split the period of leave in separate intervals or take only a few hours off).

132. Broadly speaking there are two types of care leave entitlements. First, most OECD members provide specific entitlements for employees who have to care for a family member with general illness, including both serious and "non-serious" illnesses. The rights often vary with the identity of the person cared for (*e.g.* a child, partner or parent), and while in some countries these care periods are paid (*e.g.* full replacement earnings in Austria), in others, such as Belgium and Italy they are not (Figure 3.12).

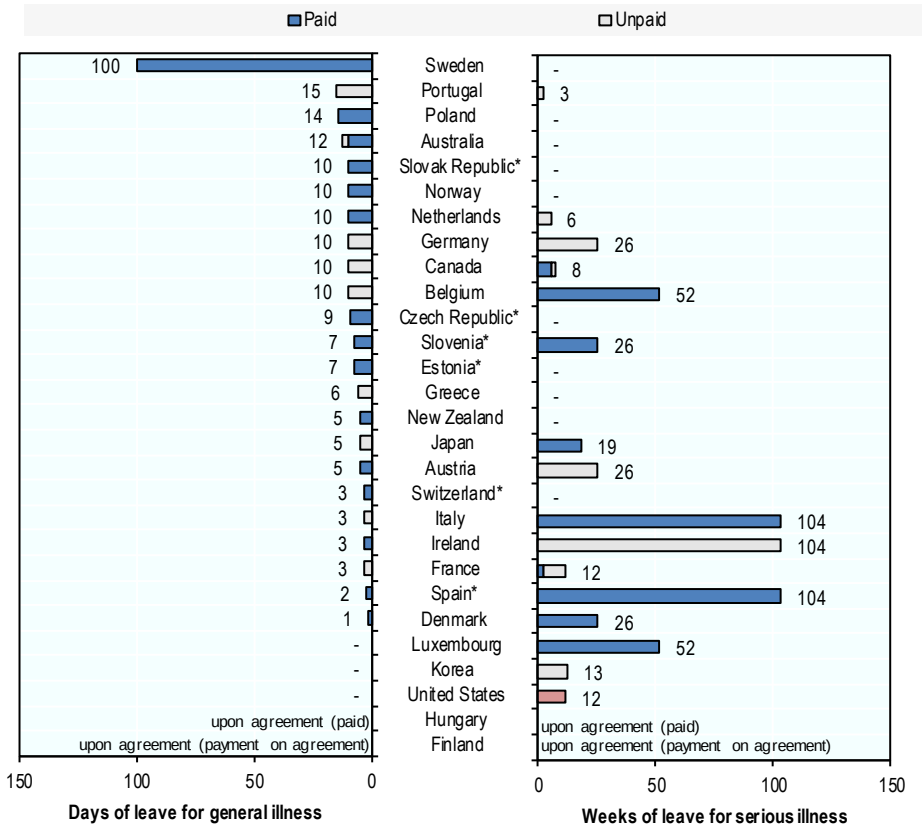
133. Leave days can be granted on a per episode basis, for a limited number of days, in which case it is often paid. Alternatively, entitlements concern a set maximum of care days that an employee can take within a year. The duration of leave often varies with the seriousness of the illness, but not in Sweden where there is no distinction in the duration of entitlements once a claim has been established. Most countries provide a few days (up to 3 weeks in Portugal) to employees who need to care for a relative under "normal" circumstances.

134. Employees with a relative who is seriously ill are often entitled to take longer periods of leave. There is large variation in this regard: from 3 weeks in Portugal to one year in Italy, Ireland or Spain, while there is no specified duration for instance in Finland and Hungary[9]. In Japan, entitlements are fixed from

[9] For example, Danish municipalities decide about the duration and benefit payment rate for employees caring for a terminally ill relative or a close friend living in the same household. In Norway, employees can extend the period on leave when caring for a child with a severe and/or chronical disease up to the age of 18. In Spain, the maximum duration of care leave for a dependent relative with a severe illness is 2 years, but there is no limit when it concerns a child under 18 who is in hospital or receiving medical treatment at home.

the point of view of the person who needs care and not from the perspective of employees. Thus, each family member (children, spouse, elder parent or other dependent family member) is granted up to 18.6 weeks of paid family care over his/her lifetime. Only a few countries provide income support during the full period of care leave, and the payment rarely fully replaces previous earnings. In Germany, although leave is unpaid, people caring for elderly relatives are legally entitled to take time off or temporarily reduce their hours, with interest-free loans available from the state to compensate for the reduction in income (OECD, 2015b).

Figure 3.12: Duration of leave entitlements to care for a relative, 2014



Note: Canada: 10 days in Quebec and Ontario; 3-5 days in British Columbia and New Brunswick. *In the Czech Republic, Estonia, the Slovak Republic, Slovenia, Spain, and Switzerland, the entitlement is per spell of illness.

Source: Moss (2014) and EC (2012)

135. There is no statutory right to leave in order to care for a relative with a general or non-serious illness in the United States, but the FMLA includes provisions to ensure that eligible workers with up to 12 weeks of unpaid leave in order to care for a spouse, parent or child with a 'serious' health condition. In comparative terms this is not particularly generous, but it does not stand out either: only 12 OECD countries offer workers longer employment-protected leaves in order to care for a relative with a serious illness and – although the shorter leaves for general illnesses are often paid – only 8 provide workers with an entitlement to payments across leave to care for seriously ill relatives.

136. In addition to the aforementioned rights, many countries also provide specific entitlements to care for a sick child (Austria, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Japan, Italy, Luxembourg, Norway, Poland, Portugal, Sweden, and Switzerland). Some countries (for example, Austria, Denmark and Hungary) allow employees to take time-off for personal or exceptional reasons, and in many cases such time is used to reconcile work and family commitments.

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CHAPTER 4: THE UNITED STATES IS OUT OF STEP ON PAID LEAVE

4.1. Introduction

137. Over the past three decades, maternity leave and other childbirth-related leave have become major features of national support packages for families and children in OECD countries. Designed to be used around the years following childbirth, employment-protected leave provides job security while allowing mothers time to recuperate from giving birth and allowing parents time to care for young children. When paid, leave also provides families with valuable income support at a time of increased stress on household budgets.

138. Most OECD countries have long provided a legal right to take paid leave from work to care for a new child. Indeed, almost all OECD countries have implemented programmes that allow for more than the 14 weeks of paid maternity leave stipulated by the ILO Maternity Protection Convention (ILO, 2010), and most provide leave that meets the World Health Organization's recommendation that "women need at least sixteen weeks of absence from work after delivery" to protect the health of mother and child (WHO, 2000). An increasing number of OECD countries also provide fathers paid leave in line with the OECD Gender Recommendation (OECD, 2013).

139. The United States, however, continues to provide workers with only 12 weeks of unpaid employment-protected leave to use around the time of a child's birth. Along with Mexico, this represents the shortest period of legal childbirth-related employment protection in the OECD, and the United States remains the only OECD country whose national social protection system provides mothers with no paid leave at all following childbirth. In an effort to address this situation, in 2014 the U.S. Department of Labor launched its "Lead on Leave" initiative with the aim of promoting a federal paid family leave scheme in the United States (U.S. DOL, 2015).

140. To put the United States leave arrangements in an international context, this chapter first outlines the maternity, parental and paternity leave arrangements across the OECD. The discussion then focuses on the U.S., discussing the current system of unpaid leave and take-up of leave also in view of employer-provided benefits. The discussion then focuses on the states with a paid leave system, and discusses issues around paid family leave in California with the use of the OECD tax-benefit models.

Main findings

- Eligible American parents can take up to twelve weeks of unpaid parental leave under the federal Family and Medical Leave Act, but less than 60% of US workers are covered by and eligible for leave under the FMLA.

- The United States is the only country in the OECD that does not offer paid maternity leave on a national basis, and as in eight other OECD countries it does not have a paid leave entitlement reserved for fathers.

- Public spending on a paid leave scheme to be introduced in the United States is likely to be most comparable to spending in countries with paid leave durations of 12 to 18 weeks such as Australia, New Zealand and Switzerland, where spending varies from 0.07 to 0.13% of GDP.

- The absence of public spending on paid leave contributes to the U.S. having far less public investment in children not yet of school-age than in other OECD countries. In order to bring spending on children during the early years in-line with the OECD average requires an investment of around USD 3000 per child per year or just over 0.5% of GDP

- American families must rely on a patchwork of protections in order to secure employment-protected time off around childbirth or family illness: employment protection legislation, "pregnancy-disability" payments, paid family leave entitlements or paid sick leave benefits vary significantly by state or city of employment.

- California, Hawaii, New Jersey, New York, Rhode Island and the U.S. Territory of Puerto Rico have temporary disability schemes that can pay benefits in case of maternity, generally for around 6-10 weeks.

- California, New Jersey and Rhode Island also provide paid family leave for child-bonding or care purposes, with the entitlement in California and New Jersey lasting 6 weeks and in Rhode Island 4 weeks.

- Paid family leave was first introduced in California where it took effect in 2004, and its use has become more gender equal over the years, despite limited take-up among male low-income workers.

- Paid family leave prevents many families from falling into poverty.

- When there is no public framework to register eligible employees, track contributions and contributory records, and pay out benefits, it is difficult and costly to set up a new administrative mechanism. It is much more cost-efficient to make use of an existing social security framework that holds the necessary administrative records to operate a paid leave programme efficiently.

- Most private American employers do not provide paid family leave to employees, and businesses that do offer paid family leave tend not to provide it to low-wage workers, *i.e.* to the individuals who in financial terms need it the most.

4.2. Paid parental leave arrangements across the OECD

141. OECD countries generally offer three types of paid and unpaid family-related leave around childbirth: maternity leave, paternity leave and parental leave (used by one or both parents), which in some countries is complemented with home-care leave of a prolonged duration (Box 4.1).

142. In the United States there are no separate maternity, paternity or parental leave arrangements, these contingencies are all covered by the Family and Medical Leave Act (FMLA) which provides unpaid leave for a variety of reasons, including to care for a new-born or newly adopted child (the "parental-care provision", to care for a close relative with a serious health condition (the "family-care provision"), or because the employee is personally suffering from a serious health condition (the "self-care provision"). Thus, in the United States workers covered by the FMLA – both mothers and fathers - are entitled unpaid leave on an individual and "gender-equal" basis.

Box 4.1: Defining different types of child-related leave in OECD countries

The OECD Family database recognises the following different types of leave specifically related to child-birth and very young children (OECD, 2015a).

Maternity leave (or *pregnancy leave*) is an employment-protected leave of absence for employed women around the time they give birth (and, in some countries, around adoption). Many OECD countries have fixed maternity leave entitlements that exceed the ILO-recommended minimum period of fourteen weeks of paid leave. In most countries, beneficiaries may combine pre-birth with post-birth leave. In some countries, a short period of pre-birth leave is compulsory, as is a six- to ten-week leave period following birth. Almost all OECD countries provide public income support payments that are tied to the maternity leave period.

Paternity leave is an employment-protected leave of absence for employed fathers at the time of childbirth. Periods of paternity leave are usually much shorter than for maternity leave. Because of the short period of absence, workers on paternity leave often continue to receive full wage payments or benefits equivalent to their full gross earnings.

Parental leave is an employment-protected leave of absence for employed parents, which is often supplementary to specific maternity and paternity leave periods and usually follows a period of maternity leave. Entitlement to the parental leave period is often individual, but entitlement to public income support is often family-based, so that in many countries only one parent can claim such support at any one time.

Home care leave (sometimes called childcare or child-raising leave) is an employment-protected leave of absence that sometimes follows parental leave and that typically allows at least one parent to remain at home until the child is two or three years of age. Home care leave is less common than the other three types of leave and is offered only in a minority of OECD countries, including Finland, Hungary and Norway. This also tends to be paid through flat-rate "child-raising" benefits that offer only relatively low payment rates ("Child-raising allowances" that are paid only by some municipalities and/or are offered without associated employment protection – such as those in Denmark, Luxembourg and Sweden – are not included).

Job-protected versus *employment-protected* leave: The employment protection stipulations put forth in ILO Convention No. 183 state that a woman is guaranteed the right to return to the same position or an equivalent position paid at the same rate at the end of her maternity leave. A narrow definition of the phrase "job protection" would involve a right of return to the same job position. However, U.S. FMLA legislation defines "job protection" in a similar away as the ILO defines "employment protection". The legislation mandates that, when an employee returns from FMLA leave, he or she must be restored to the same job or to an "equivalent" job. An equivalent job is defined as a job that is virtually identical to the original job in terms of pay, benefits and other employment terms and conditions, including shift and location (U.S. DOL, 2014). This report will use the broader term "employment protection" except when discussing leave schemes or studies that specifically cite "job-protected" leave.

4.2.1. Maternity leave

143. The first and most common form of family leave across the OECD, maternity leave, is an employment-protected leave of absence for employed women around the time of childbirth. Maternity leave tends to last between three and five months – with the OECD average at 18.5 weeks in 2014 – and is generally paid for all or at least most of the duration (Figure 4.1). Moreover, payment rates across maternity leave periods tend to be high. In 2014, the OECD average payment rate across paid maternity leave was 75% of previous gross earnings, and in one-third of OECD countries mothers with average earnings receive payments equivalent to their full gross pay for the duration of the leave.

144. The United States is the only country in the OECD that does not offer paid maternity leave on a national basis (Figure 4.1; Moss, 2014 also contains a detailed overview of parental leave arrangements across a range of OECD countries).[10] American mothers have access to twelve weeks of employment-protected family leave under the FMLA, but at the federal level at least this leave is unpaid.

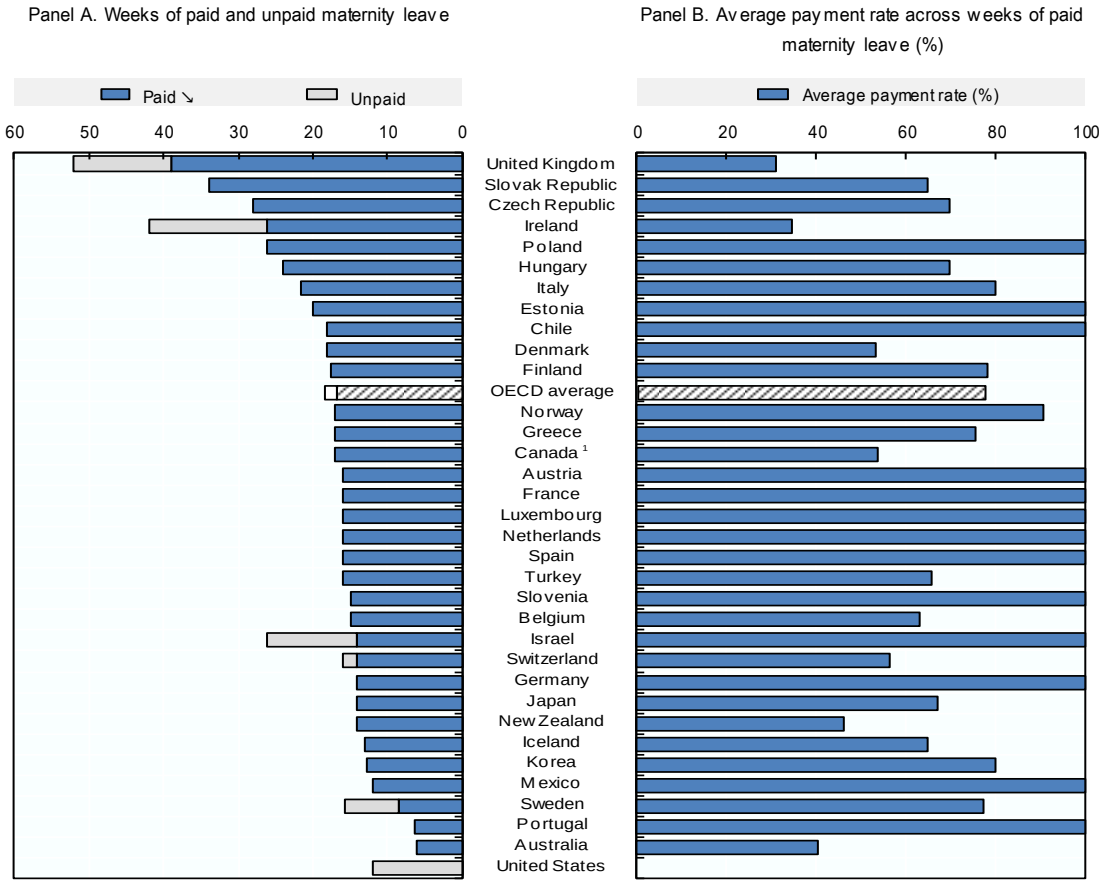
145. In most OECD countries the funding of maternity pay is based on insurance principles, so eligibility criteria are often linked to contributory records and/or periods of employment. In many countries the criteria stipulate a qualifying period of between 6 and 12 months. For example, in Canada eligibility

[10] ILO (2015) showed that out of the 185 countries for which information is available, Lesotho and Papua New Guinea are the only other two countries without a national paid maternity leave scheme.

depends on 600 hours of continuous employment over the last 52 weeks, while in the United Kingdom mothers are required to have worked for the same employer for 26 weeks up to the 15th week before expected childbirth. Eligibility is generally most relaxed in the Nordic countries. In Finland there is only a residency requirement of 180 days, while in Denmark qualification for full maternity, paternity and adoption pay requires 120 hours of work in the 13 weeks prior to paid leave, but a range of stipulations extend eligibility to wider groups.[11]

Figure 4.1: The United States is the only OECD country without a national paid maternity leave scheme

Duration of paid maternity leave and the average payment rate across paid maternity leave relative to average earnings, 2014



Note: Payment rates are based on the proportion of gross earnings replaced by the maternity benefit over the length of the paid entitlement for a person on average earnings. If this covers more than one period of leave at two different payment rates then a weighted average is calculated based on the length of each period. In some countries maternity benefits may be subject to taxation and may count towards the income base for social security contributions. As a result, the actual amount received by the individual on maternity leave may differ from those shown in the figure. Please see the OECD Family Database (http://www.oecd.org/els/family/database.htm) for more detail.

1. Data for Canada reflect statutory provisions at the federal level. The payment rate in Canada does not take into account the two-week unpaid waiting period that must be observed at the beginning of the leave .

Source: OECD (2015) Family database.

11 Eligibility for maternity/paternity/adoption cash benefits in Denmark also covers: unemployment insurance recipients or those in activation measures, persons who within the last month have completed a vocational training course of at least 18 months, pupils in a vocational training course as specified by law, and self-employed with limited working hours or in receipt of specific income-support benefits (Missoc, 2015a).

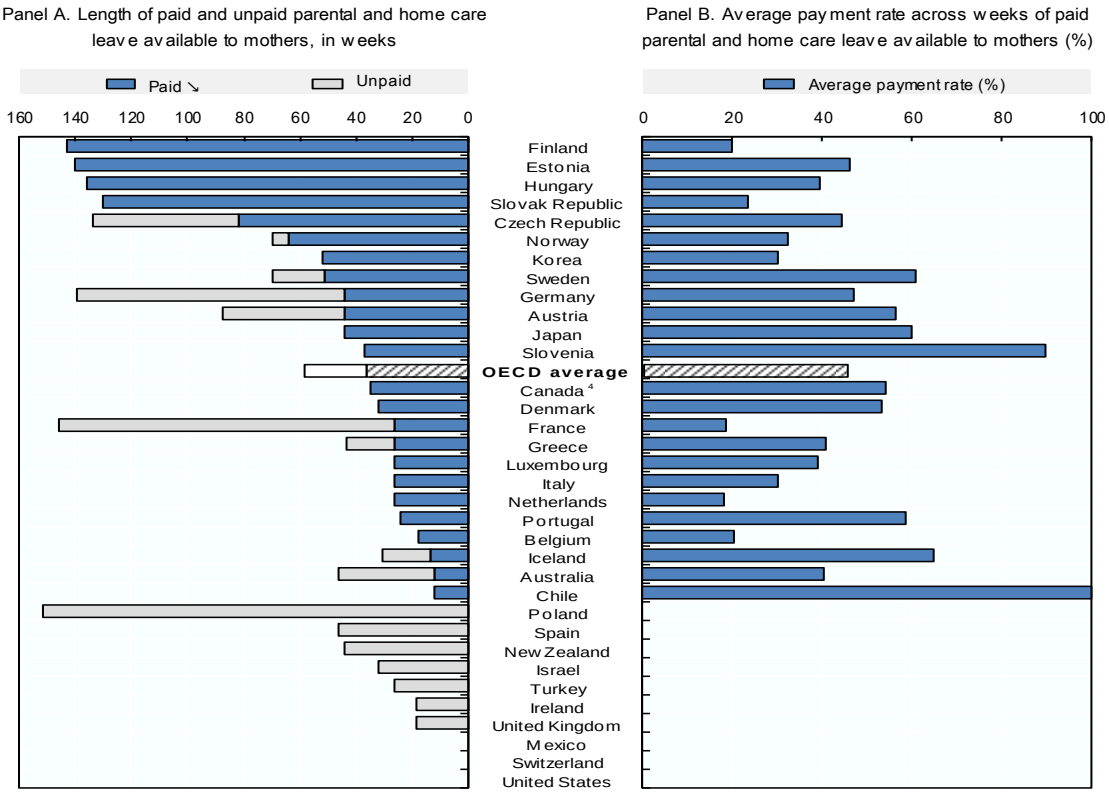
146. Maternity benefits are often financed through social or health insurance contributions (*e.g.* the Czech Republic and Japan), albeit with supplementary contributions from public budgets in all European OECD countries. Sometimes these are scheduled and fixed contributions – in Austria, for example, 70% of maternity benefits are paid by the Families Compensation fund – but often public budgets generally cover the relevant fund deficits and the payment of (means-tested) maternity benefits for those with insufficient contributory records. MISSOC (2015b) reports that the insurance systems in the Czech Republic, Estonia, the Netherlands, Spain and Switzerland do not rely on government transfers, but public budgets in these countries would cover any other income support to pregnant women or mothers with new-borns on general social assistance benefits.

4.2.2. Parental leave that can be used by mothers

147. In several OECD countries – including Australia, Canada, Iceland, New Zealand, Norway, Portugal and Sweden – maternity leave does not stand alone but rather should be considered in conjunction with prevailing parental leave legislation, and indeed within the whole framework of support for working parents with young children (see section 4.2.5 below). Hence, Figures 4.1 and 4.2 are best considered together, and are "additive": the weeks of paid and unpaid leave presented in Figure 4.2 are over and above the entitlements reflected in Figure 4.1. For example, in line with international commitments, Sweden provides for employment protection for pregnant workers and mothers, but it does not have a separate paid maternity leave system. Instead, within the paid parental leave legislation 60 days of paid leave are reserved for the exclusive use of mothers (as reflected in Figure 4.1). However, Figure 4.2 shows that, in addition, mothers in Sweden could take another year of paid leave, and another 18 weeks of unpaid parental leave. Australia is another country that specifies "maternity payments" within its paid parental leave legislation: in Australia, paid parental leave is 18 weeks at maximum, of which 6 weeks can be taken by the mother prior to childbirth (as reflected in Figure 4.1). Often mothers also take the remaining 12 weeks of paid leave (Figure 4.2): in all, Australian mothers in 2014 were entitled to 12 weeks of paid parental leave and 40 weeks of unpaid parental leave.

Figure 4.2: In addition to maternity leave, in many OECD countries mothers have access to around 35 weeks of paid parental leave

Duration of paid and unpaid parental and home care leave available to mothers[1], and the average payment rate[2] across paid parental and home care leave available to mothers relative to average earnings, 2014[3]



Note:
1. The weeks of paid and unpaid leave presented here are in addition to the entitlements shown in Figure 4.1.

2. See note 1 to Figure 4.1. In addition: information on France is based on income support for mothers of a first child; income support is more generous when it concerns a mother's second or third child.

3. The information reflects the situation in 2014, and in that year all parents in the Netherlands who took parental leave at maximum for half a year were entitled to a tax reduction of EUR 4.24 per hour of leave. This "fiscal support" was abolished per 1 January 2015.

4. Data for Canada reflect statutory provisions at the federal level. The payment rate in Canada does not take into account the two-week unpaid waiting period that must be observed at the beginning of paid leave.

Source: OECD (2015) Family database.

148. In addition to paid maternity leave, mothers can take 37 weeks of paid parental leave at a payment rate of 45% of last earnings on average across the OECD. Taken together with paid maternity leave, the average duration of paid leave entitlements that mothers can use is just over one year across the OECD. Figure 4.2 also shows that nine OECD countries make unpaid parental leave available on top of the paid leave entitlement, while another seven countries have only unpaid parental leave entitlements.

149. In many OECD countries the entitlement to paid parental leave is family-based, which means that except for periods reserved for either the mother or the father (see below), it is up to the parents in couple families to decide how they would like to share the paid leave entitlement. From a financial perspective, mothers frequently get paid less than their husbands, so that the mother taking leave is least costly to the household budget in the short-term. This contributes at least in part to the dominant use of paid parental leave by mothers.

4.2.3. Father-specific leave

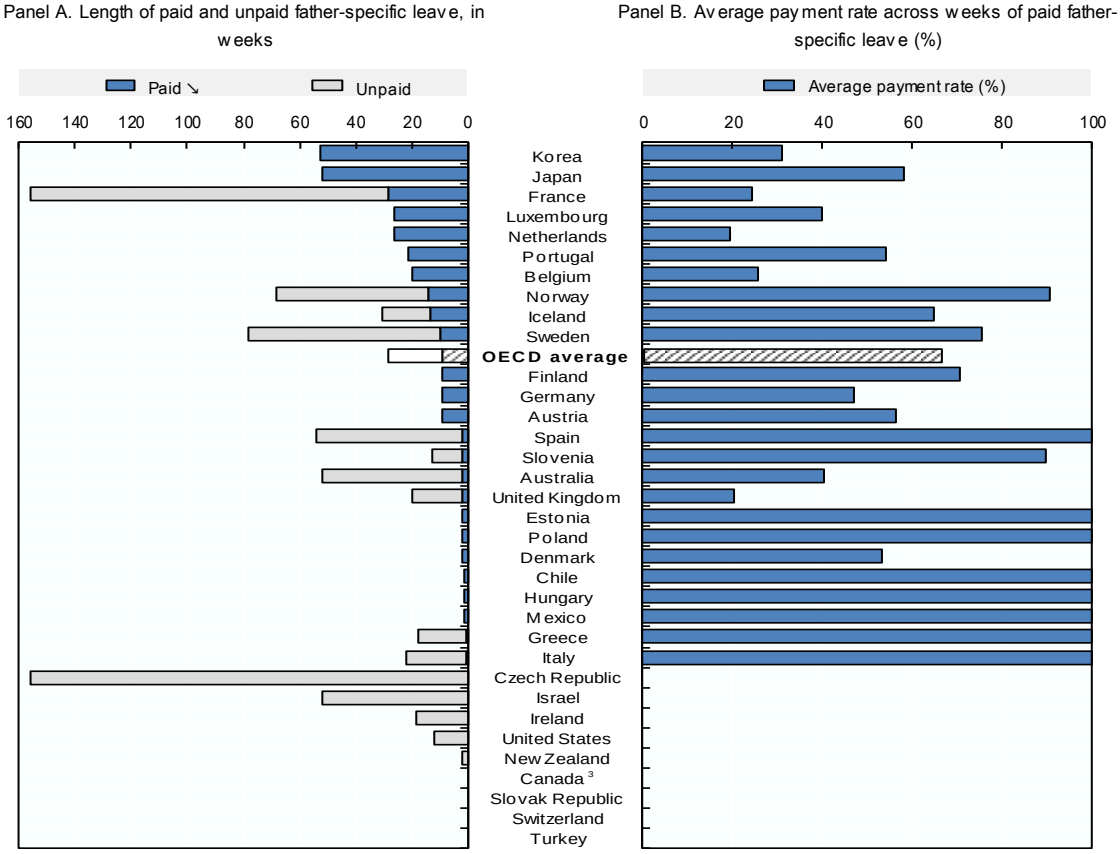
150. To increase take-up of leave among fathers, many OECD countries have introduced father-specific paid leave periods. These include any period of employment-protected paternity leave, parental leave that is reserved for the exclusive use by fathers ("daddy quotas"), or sharable parental leave that is effectively "reserved" as it must be used by the main leave-taker's partner (often the father) in order for the family to qualify for bonus weeks. Figure 4.3 includes only entitlements that are non-transferable.

151. As with maternity leave for mothers, eligible American fathers can take up to twelve weeks of unpaid parental leave under the FMLA. This arrangement is not uncommon: there are nine OECD countries that do not offer access to paid father's leave. And in terms of duration of employment protection, leave for American fathers is around the OECD average (Figure 4.3). In addition, the FMLA entitlement can be used by eligible fathers to care for a sick relative/partner or manage personal health issues.

152. In most OECD countries, father-specific entitlements tend to be far shorter than maternity and parental leave. On average OECD countries offer nine weeks of paid father-specific leave; nine OECD countries provide no paid father-specific leave at all, and ten countries offer two weeks or less, but these short periods are often paid in full (Figure 4.3). However, there are a growing number of countries that provide father's leave for a longer period, and there are nine countries that reserve three months or more of paid leave for fathers (Box 4.2). In North America, the Canadian province of Québec has introduced a 5 week period of paid leave reserved for fathers in its parental leave scheme. After recent reforms individual paid leave entitlements in the two East Asian OECD countries – Japan and Korea – last as long as twelve months. The entitlement in Japan is paid at around 58% of average earnings, which would be the equivalent of 30.4 weeks of leave at full pay, by far the most generous paid father-specific entitlement in the OECD (OECD, 2015a). However, fewer than 5% of Japanese and Korean fathers use their paid leave entitlement. To some extent this may be related to limited awareness among Japanese and Korean fathers regarding these – relatively new – entitlements. But fathers are also likely to consider that taking parental leave for a few months is likely to have a negative effect on their career prospects.

Figure 4.3: Paid leave reserved for fathers is longest in Korea and Japan and is 2 months or more in one-third of OECD countries

Duration of paid father-specific leave[1] in weeks and the average payment rate[2] across paid father-specific leave relative to average earnings, 2014



Notes: 1) The information refers to entitlements to paternity leave, "father quotas" or periods of parental leave that can be used only by the father and cannot be transferred to the mother, and any weeks of sharable leave that must be taken by the father in order for the family to qualify for "bonus" weeks of parental leave. 2) See note to figure 4.1 3) Data for Canada reflect statutory provisions at the federal level. The province of Québec has a separate parental insurance programme which includes a five week paid leave period for the exclusive use by the father.

Source: OECD (2015) Family database.

Box 4.2: Encouraging fathers to take leave to care for children

There are different reasons for urging fathers to use parental leave, including the possibility to change gender stereotypes and foster gender equality between men and women and give children the right to be with both parents (see Section 5.2.4 of more discussion of the relevant issues). Chapter 5. Sweden was the first OECD country to introduce paid parental leave in 1974, with a shareable leave period of 6 months (Chronholm, 2007). In 1995 a one-month leave period for the exclusive use of fathers was introduced, which was subsequently extended to two months, and which will soon be extended to three months. Over the years the proportion of parental leave days taken by fathers has gradually increased, from 5% in 1980 to 10% in 1995 and 24% in 2012.

Financial incentives have changed the behaviour of fathers in other countries too. In Iceland, for example, only 3% of parental leave days available were taken by fathers prior to the introduction in 2001 of a three-month father-specific entitlement to paid leave. Since this reform the proportion of leave days taken by fathers has increased tenfold (Eydal and Gíslason, 2014). Similarly, in Germany an overhaul of the payment scheme attached to parental leave has seen the proportion of fathers claiming parental leave allowance increase from 3.5% in the last quarter of 2006 to just over 32% in the third quarter of 2013 (Destatis, 2015).

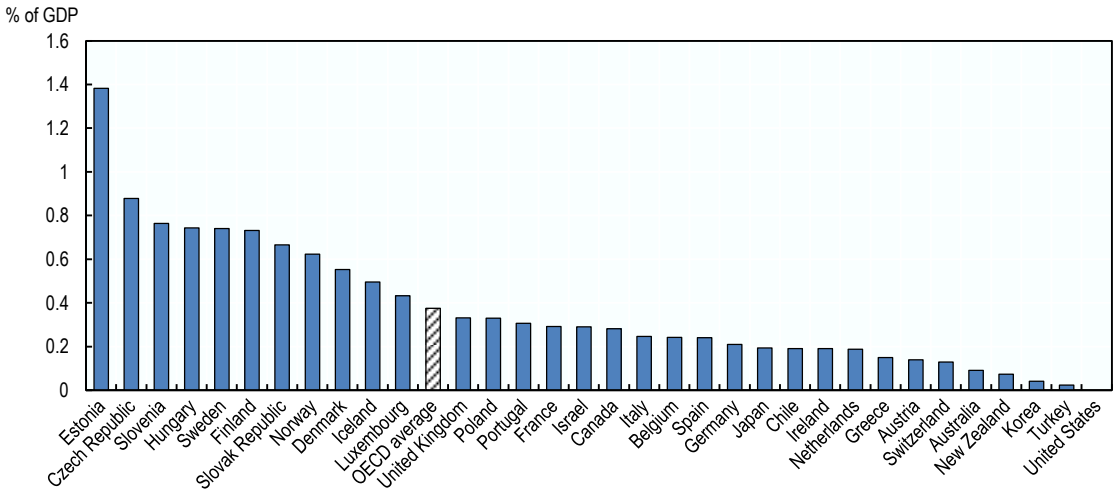
4.2.4. Public spending on leave

153. The cost of maternity, paternity and parental leave programmes differs considerably across the OECD (Figure 4.4), largely on account of the cross-country differences in the length, duration and payment rates of leave arrangements (see OECD (2015a) indicator PF2.4 for more detail). Public spending on maternity and parental leave tends to be highest – at around or above 0.5% of GDP – in the Nordic and Eastern European OECD countries. These countries offer mothers at least one year of paid leave (Figures 4.1.and 4.2), while the Nordic countries also tend to reserve generous paid leaves for fathers (Figure 4.3). Costs are generally far lower – at around or below 0.2% of GDP – in those countries that provide shorter paid leaves. In Switzerland, which offers 14 weeks of paid maternity leave at an average payment rate of 56% of gross earnings, plus 2 weeks of unpaid maternity leave, public spending amounted to only 0.13% of GDP in 2011. In Australia and New Zealand – which respectively offer mothers 18 and 14 weeks of paid leave at an average payment rate of around 40-45% of gross earnings, and in the case of Australia two weeks paid paternity leave – public spending on leave came to just 0.09% and 0.07% of GDP respectively in 2011.

154. Public spending on a paid leave scheme in the United States is likely to be most comparable to expenditure in the countries on the right-hand side of Figure 4.4. A scheme that offers 12 weeks of paid leave at a replacement rate of about 55-to-65%, for example, might have costs that are relatively similar to the paid leave systems in Australia, New Zealand or Switzerland. While direct comparisons are difficult due to differences in wage levels and possibly also take-up, the dollar spend on maternity leave per child born in New Zealand – USD 1700 in 2011 – would equate to just a little over 0.04% of US GDP per year, while the dollar spend per child born in Australia – around USD 3 000 in 2011 – would equate to around 0.08% of US GDP. In dollar terms public spending per child born in Switzerland is, at USD 6600, a little higher, due mostly to comparatively high real wages for employees in Switzerland. Even so an equivalent spend per child born in the United States would come only to 0.17% of US GDP.

Figure 4.4: Public spending on paid leave is highest in Eastern and Northern European countries

Public expenditure on maternity, parental and paternity leave, as a % of GDP, 2011



Note: Data on spending in Austrlia do not include outlays on the "baby bonus" or the "maternity immunisation allowance"; spending on maternity leave in the Netherlands is categorised as "mandatory private" in the OECD Social Expenditure database (it concerns payments employers are legally obliged to make for which they get reimbursed through sickness insurance legislation). As such it is not included in the OECD average of public spending on paid leave.

Source: OECD (2015) Social Expenditure Database

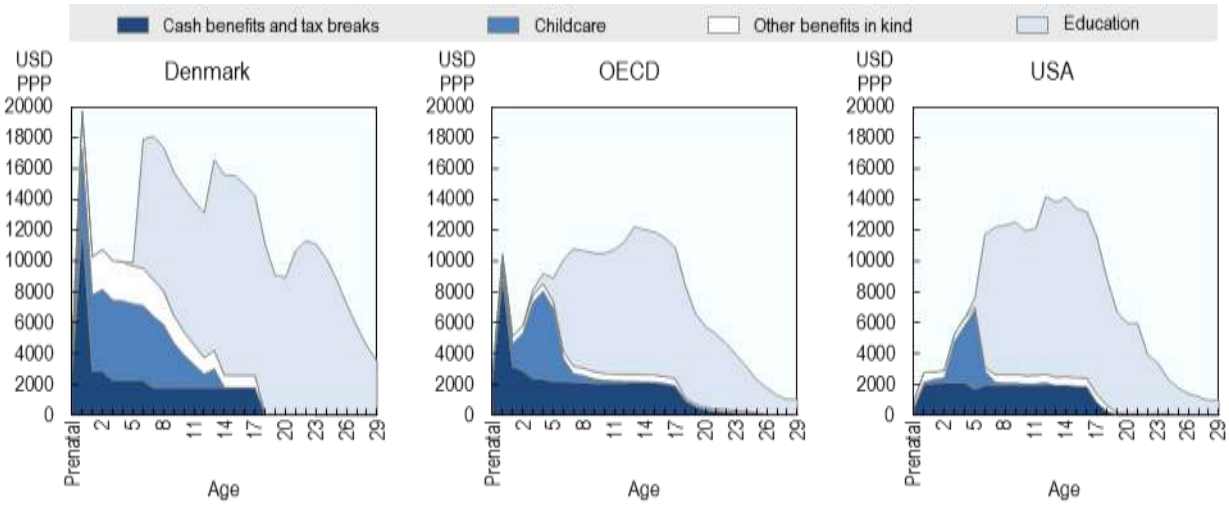
4.2.5. Child-related leave is a key part of the family policy package in most countries

155. In many countries**,** maternity, paternity and parental leave arrangements are not considered stand-alone measures but are instead regarded as an integral part of early childhood policy. For, example, Danish policy aims to provide a continuum of supports to families with young children: around childbirth there are 18 weeks of paid maternity leave and 2 weeks of paid paternity leave, followed by 32 weeks of paid parental leave. There is an entitlement to a formal place in childcare from when the child is 6 months old, and 66% of Danish children under age 3 attend formal childcare – the highest rate in the OECD (OECD, 2015a). There is pre-school support from age 3 onwards, and upon entering primary school, out-of-school-hours care is widely available. These care facilities are attended by over 80% of Danish children age 6 to 8. Education is compulsory from age 6 to 16.

156. Such an extensive package of family support is not cheap. Danish public spending on family benefits amounts to just over 4% of GDP, compared to an average of 2.6 % across the OECD and 1.2% in the US. Differences in education spending are a little smaller: public spending on primary and secondary education is 4.7% of GDP in Denmark compared to 3.6% in the US (OECD, 2015a). Yet across OECD countries there is increasing recognition that investing in children early and sustaining spending throughout compulsory schooling is beneficial both for them and for society.

157. Public investment in primary education and secondary education in the United States is relatively high compared with other countries. However, compared with the OECD average the United States invests little in support for infants and young children (Figure 4.5). During the early years – children under age 6 - the average OECD government in 2011 spent the equivalent of about USD 7100 on each child while for the United States this is just over USD 4100. The U.S. would have to increase public spending on children under 6 by around 75% in order to bring spending in-line with the OECD average, the equivalent of around USD 3 000 per child per year or just over 0.5% of GDP.

Figure 4.5: Average social spending by age of child in USD PPP, 2011



Note: The spending profile for the United States includes public spending on the Earned Income Tax Credit (EITC), which is largely paid to working families with children. However, it is not classified as a family benefit in the OECD Social Expenditure database (SOCX) as it is not exclusively paid to families with children.

Source*:* OECD (2015) Social Expenditure database and OECD (2015) Online Education database.

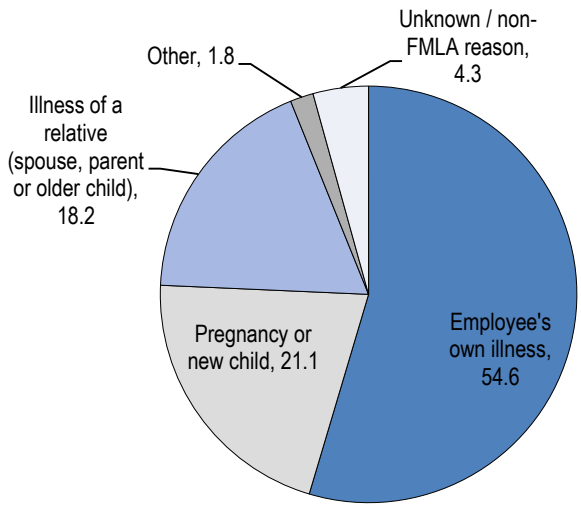
4.3. A patchwork of protection for American families around childbirth and illness

158. Like mothers and fathers around the world, most Americans need to take time off from work at some point in their lives to care for themselves and a new infant or child. In a Department of Labor (U.S. DOL) survey in 2012, only 13.1% of employees reported having taken leave in the previous twelve months, and the leave duration was typically short: 42.4% of all leave periods last for two weeks or less (U.S. DOL, 2012). However, poorer and less-educated workers generally have less access to both paid and unpaid leave. There is also a significant difference between workers whose leave was FMLA-protected and those for whom it was not: rates of leave-taking were higher among FMLA-eligible individuals (15.9%) than among ineligible workers (10.1%) who made private arrangements with their employer.[12] Women are slightly more likely than men to take leave (14.9% vs. 11.4%), and workers in households with children are more likely to take leave than those in households without children (16.5% vs. 10.5%).

159. In 2012, more than half of all leave was used for an employee's own illness (Figure 3.5). The second most common explanation was leave related to the arrival of a new child: a little over one-in-five leaves were used to address pregnancy-related illness, miscarriage, new-born care, caring for a newly adopted or fostered child, and/or new child. Caring for a non-newborn child, spouse, or parent accounted for 18% of leave.

Figure 4.6: Pregnancy or the birth of a child accounts for only a minority of FMLA leaves taken in the U.S.

Reason for taking FMLA-leave, in proportion of all accepted leave requests



Source: U.S. Department of Labor (2012)

160. As illustrated above, unlike all other OECD countries the United States does not administer a national paid parental leave programme. Rather, it offers a patchwork of employment protection and income support for workers. The following section reviews this mix of protections for American workers – including federal employment-protected leave, state employment-protected leave, paid leave offered by business, state disability payments for maternity, and state paid family leave – with particular focus placed on the system in California, which in 2004 was the first state to implement paid family leave.

12 Differences in the use of leave across FMLA eligible and FMLA-ineligible workers is not due solely to access to employment-protected leave. There are systematic differences across workers who are eligible and those who are not: at a minimum, workers who can access FMLA are likely to have greater job security, hold longer job tenure and work for larger organisations.

4.3.1. About 60% of workers are eligible for federal job protected family leave

161. The federal Family Medical Leave Act (FMLA), enacted in 1993, provides some employees with up to twelve weeks of unpaid job protection to bond with a new child; to care for an ill parent, child or spouse; to attend to their own serious health condition; or to attend to any qualifying exigency arising from the fact that the worker's spouse, child or parent is a "covered military member" on active duty.

162. FMLA protection guarantees that a worker will be able to regain their position (or a similar one) with their employer after they return from temporary leave. Benefits and the other conditions of employment must remain the same after returning from leave.

163. However, the FMLA does not cover all workers. Under current legislation, only those who work for a covered employer (that is, an employer with at least 50 workers within 75 miles of the worksite), have worked continuously for the employer for the past 12 months *and* have at least 1250 hours of service for the employer over the past 12 months are eligible for leave under FMLA. The U.S. Department of Labor estimates that 59.2% of workers meet these criteria.

164. In addition, there are other barriers that prevent American workers from taking sufficient leave for their own illness or to care for a family member, notwithstanding legal employment protection:

- Awareness of the FMLA is limited. The 2012 U.S. DOL survey found that only 66.2% of employees have heard of the FMLA. 70% of employees at FMLA-covered worksites and 53% of employees at uncovered (non-FMLA) worksites were aware of the FMLA.
- Because FMLA employment-protection is unpaid, many workers cannot afford to leave work for the full amount of time that they need. Among workers who took leave, nearly two-thirds reported some level of difficulty in making ends meet while on leave, and 43.3% reported that they would have taken longer leave if more (or any) pay had been available. Among employees who wanted to take leave but did not take it, nearly half cited a lack of affordability (U.S DOL, 2012).
- Returning to work can be difficult. Workers reported feeling pressured to return in order to retain seniority or resume their workload. Nearly 8% of workers reported losing their seniority. Job loss and loss of seniority were much more common among FMLA-ineligible workers than those covered by the FMLA.

4.3.2. A medley of state employment-protected leave laws

165. The national FMLA allows states to set leave standards that are more expansive than the federal version. At least sixteen states, plus the District of Columbia, offer their own form of family medical leave protection. These state-level laws vary from the federal FMLA with respect to both eligibility criteria for employees and the duration of employment-protected *unpaid* leave.

166. The Federal FMLA mandates that providers with at least fifty employees must offer leave, but some states have lowered the employer-size thresholds. Maine, for example, requires private employers with 15 or more employees and public employers with 25 or more employees to provide up to 10 weeks in two years for the birth or adoption of a child or for organ donation, while Minnesota requires that all employers with 21 or more employees must offer up to six weeks for the birth or adoption of a child, as well as several other health-related needs (NCSL, 2013). Washington, meanwhile, requires all employers regardless of size or sector to offer at least some level of employment-protected leave. In all cases some form of worker eligibility criteria still exist, typically in the form of the minimum hours and months worked, but several states have also chosen to loosen these requirements. In Oregon, for example, eligibility requires an average of 25 hours work per week in the 180 days prior to leave, while in

Washington an employee is required to have worked only 680 hours in the year preceding the leave (see Annex Table 4.A.1 for a summary of variations in employer and employee criteria in selected states).

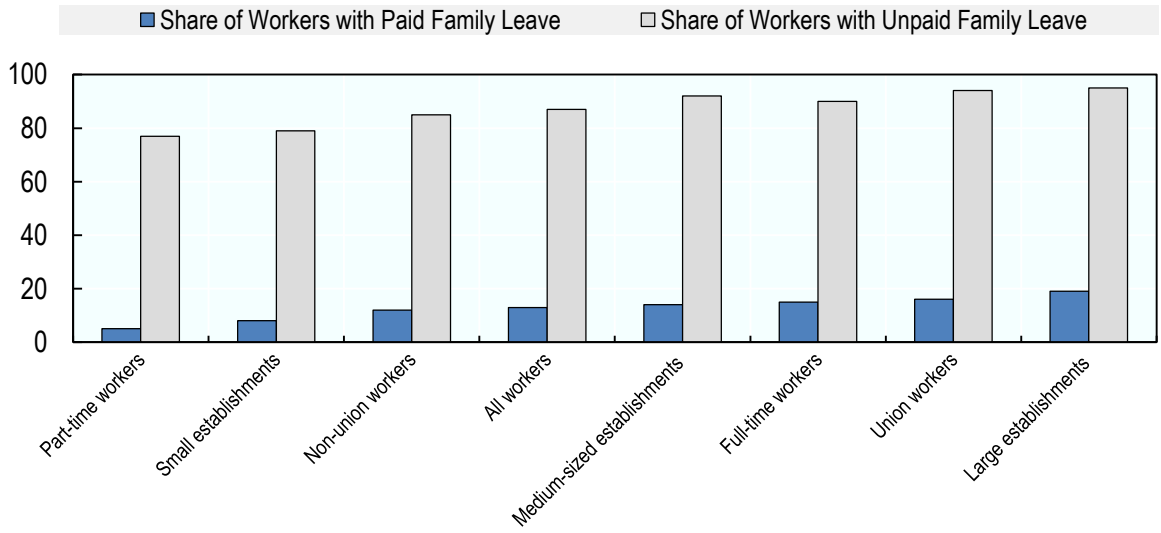
167. In addition to these different mandates on employer size and employee records, a few states also have more expansive eligibility criteria for family and medical leave than does the FMLA. A few states extend the definitions of eligible family members for whom leave can be provided (*e.g.* domestic partners, grandparents, parents-in-law); while others expand the family or health conditions (*e.g.* organ donation or the death of a family member during active military duty) that make an employee legally eligible for leave (NPWF, 2014a).

4.3.3. Most employers do not offer paid family leave

168. Some employers offer their employees the option of job-protected leave even if the employees are not legally eligible for the FMLA. The U.S. DOL (2012) estimates that 39% of employees work for employers who offer FMLA-like benefits to FMLA-ineligible hourly staff, and 30.1% of employees work for employers who offer FMLA-like benefits to ineligible staff who have worked a minimum number of hours. Figure 4.7 shows that 87% of all workers in the United States have access to some amount of unpaid family leave – although the survey does not detail the length of leave offered – while 13% of workers are offered some amount of paid family leave by their employers (U.S. BLS, 2014).

Figure 4.7: Large establishments are most likely to provide paid family leave to workers, and full-time employees are most likely to have access

Family leave benefits offered by employers by type of worker in the United States, 2014



Note: Small establishments are defined as those with 1-99 workers; medium-sized establishments are defined as having 100-499 workers; and large establishments are defined as 500+ workers. Unpaid leave incorporates FMLA-mandated leave. The sum of paid and unpaid leave may exceed 100 percent because workers have access to both types of leave.

Source: U.S. BLS (2014).

169. Employers offer paid and unpaid family leave at different rates to different types of workers. Full-time workers, unionised workers, and workers in larger establishments are more likely to get both paid and unpaid family leave (some of which is guaranteed by FMLA protection) than are part-time, non-unionised or small establishment employees. There are also differences across career sectors in accessing family leave: employers provide 92% of management and professional workers with unpaid leave (and 20% with paid family leave), whereas only 80% of service workers have employer-provided unpaid leave - and a dismal 7% receive paid family leave (U.S. BLS, 2014).

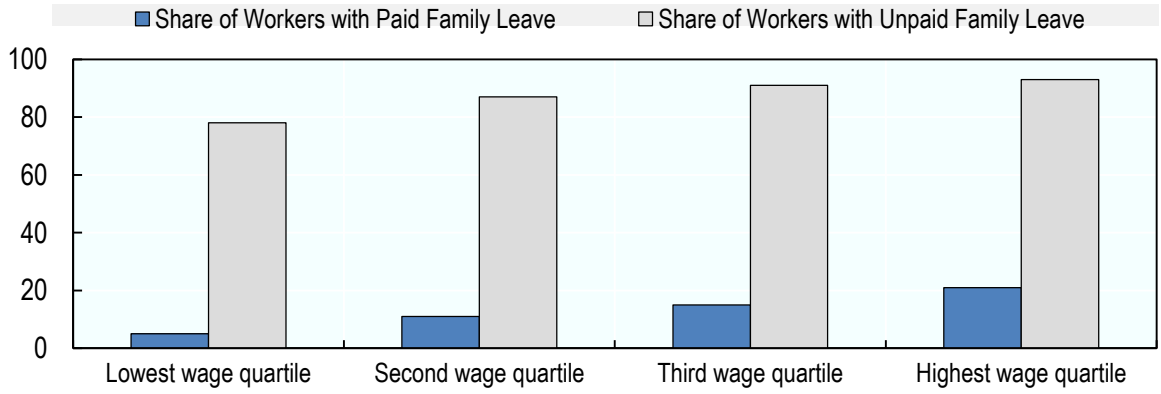
4.3.4. Poor workers are the least likely to get paid leave

170. There are also considerable socioeconomic differences in who is offered paid family leave. Workers on lower wages suffer from a lack of access to leave. Figure 4.8 shows that employers offer paid family leave to only 5% of workers in the lowest wage quartile, whereas employers offer paid leave to over a fifth of workers in the highest wage quartile. Low-wage employees are also less likely than higher-paid employees to have access to unpaid family leave. Low-wage workers thus face a severe disadvantage when they need to take time off to care for a new-born or a sick relative: they are the least able to afford unpaid leave, and they are the least likely to have access to paid family leave. Establishing paid income support for low-wage employees can reduce inequalities among workers.

171. Employers offer the highest levels of paid family leave to management, business and financial workers (24% have paid leave) and registered nurses (23% have paid leave), suggesting that paid family leave functions as a significant non-wage benefit to higher-skilled workers, particularly higher-skilled women. Indeed, high-skill employers like Google have identified paid maternity leave as a sound business strategy for improving employee retention after childbirth (Wojcicki, 2014).

Figure 4.8: Low-wage workers are least likely to have access to paid family leave.

Family leave benefits offered by employers by workers' wages and salaries in the United States, 2014



Source: U.S. BLS (2014).

4.3.5. State-provided paid leave arrangements

Maternity as disability: paid maternity leave in five states

172. Americans in most states can only rely on the limited benefits of the FMLA when they need time off to care for new infants, children or ill family members, leaving many Americans without sufficient support at a time when they need it the most. Only five states offer paid maternity benefits: California, Hawaii, New Jersey, New York and Rhode Island. Figure 4.9 illustrates the sparse coverage of public income support for families around childbirth. Puerto Rico – a United States Territory – also has a temporary disability scheme that can pay benefits in case of maternity.

Figure 4.9: Few states offer income support during pregnancy, childbirth and/or family leave

Source: OECD.

173. These benefits, which are intended to provide mothers with leave to prepare for (and recover from) pregnancy and childbirth, are offered through each of the five state's short-term disability insurance (SDI) or temporary disability insurance (TDI) systems. The SDI and TDI systems more broadly offer partial wage replacement to workers who have had to leave work due to illness, injury, pregnancy and/or recovery from childbirth.[13] The TDI systems are funded through employee contributions to the state's unemployment insurance scheme.

174. Eligibility criteria and the funding for income support during maternity leave vary across states. In California, SDI typically covers pregnancy-related "disability" for six to ten weeks around childbirth with a replacement rate of around 55% up to a threshold. In New York and New Jersey, pregnant workers are eligible for up to 26 weeks of TDI, but frequently receive pregnancy-related disability payments for ten weeks around childbirth (four weeks before, six weeks after) with a replacement rate of 66% up to a threshold. Hawaiian workers are eligible for up to 26 weeks of partial wage replacement due to "pregnancy disability", and female workers in Rhode Island are eligible for up to 30 weeks of pregnancy-related TDI payments up to a maximum pay cap (NPWF, 2014a).

Paid family leave is offered only in California, New Jersey and Rhode Island

175. In addition to TDI/SDI, California, New Jersey and Rhode Island also provide paid family leave (PFL). Funded through a payroll tax levied on eligible employees, and administered through their state TDI systems, these PFL programmes offer partial income replacement shortly after childbirth or when caring for a (qualified) ill adult family member. Employers do not make contributions to the PFL programmes – indeed, removing employer contributions was a key component of reducing business opposition and passing the PFL legislation. California's policy took effect in 2004, New Jersey's was implemented in 2009, and Rhode Island's began in 2014 (Box 3.4 provides information on some other health and family-related leaves).

13 States also have "Workers Compensation" frameworks, which are used to cover workplace injuries/disability. In some states this is publicly run, whilst in others operations have been sourced out to different private insurers.

Box 4.3: Other health and family-related leave offered by cities and states

There are no federal laws requiring employers to provide paid sick leave for employees. Only three states require employers to provide paid sick leave: Connecticut, California and Massachusetts (NCSL, 2014). Eligible workers can accumulate up to 40 hours (about five days) of paid sick leave per year in Connecticut, 24 hours per year in California and 40 hours per year in Massachusetts.

While state-mandated sick leave remains uncommon, an increasing number of cities have legislated paid sick days. Since San Francisco began requiring paid sick days in 2006, at least twenty principalities have passed similar measures, including New York City in 2013. In New York City, qualified workers accrue sick leave at a rate of one hour for every 30 hours worked, for a maximum of 40 hours of sick leave per calendar year (NYC, 2014).

While sick leave legislation in U.S. states and cities has gained ground in recent years, there is also a counter-trend: twelve states have passed laws pre-empting cities and localities from enacting paid sick day mandates.

A few states also require employers to provide a small number of hours each year for parents to attend school-related events for their children. These states include California, Illinois, Louisiana, Massachusetts, Minnesota, North Carolina, Rhode Island and Vermont, plus also Washington D.C. (NCSL, 2013).

176. In all three states PFL is available to eligible employees for a short period of time only: 6 weeks in California and New Jersey and 4 weeks in Rhode Island. Payment rates are a proportion of earnings. In 2014, the payment rate in California was 55% of gross earnings, up to a maximum of USD 1075 per week; in New Jersey, the rate is 66% of gross earnings, up to a maximum of USD 595 per week; and in Rhode Island, it is 60% of wages, up to USD 752 per week. Benefit payments may be subject to federal income tax, but all are exempt from state income tax.

177. Washington state legislated paid leave in 2007, but the scheme remains unfunded due to legislative and administrative barriers. A major barrier to the state rolling out PFL is the lack of a state TDI system, which is the public administrative framework used to coordinate PFL schemes in California, New Jersey and Rhode Island. After initially authorising the creation of a state PFL in 2007, the economic crisis and political disagreements prevented alternative funding schemes from advancing in Washington.

178. California and New Jersey run their paid leave programmes through existing public TDI frameworks which hold all the necessary information on workers and employers, collect contributions (from employees), and pay benefits. Washington State did not have such a system, which made the practical introduction more difficult and more expensive in terms of administrative costs. When there is no public framework to register eligible employees, track contributions and contributory records, and pay out benefits, then it is difficult and costly to set up a new administrative mechanism. It is much more cost-efficient to make use of an existing social security framework that holds the necessary administrative records to operate a paid leave programme efficiently. As contribution rates to paid leave programmes are so low, there is hardly a private market for the operation of paid leave programmes, so this is not a viable alternative for public delivery.

4.3.6. Paid leave in California

179. With a population of almost 39 million people in 2014, California is the most populated state in the US and has a larger population than most OECD countries, including Canada. Having had paid leave since 2004, California is also the state with the oldest PFL system. This 11-year experience facilitates evaluation (see Chapter 5); this section therefore discusses the characteristics of the Californian scheme in some detail.

180. Using the OECD Tax-Benefit models, the financial position of Californian workers on child-related leave can be examined before, during and after the period of leave, as well as in comparison with workers on leave elsewhere in the OECD (Box 4.4). To this end, it is assumed for California that mothers access temporary State Disability Insurance (SDI) payments for 6 weeks (this can be twelve at maximum;

duration varies with medical assessment)), and paid family leave also for 6 weeks: twelve weeks in all. The Payment rate of SDI and PFL is the same and is determined using the recipient's earnings over the previous quarter prior to benefit application. The gross replacement rate of this benefit is approximately 55%, up to a maximum of USD 1067 per week (in 2013[14]) for those with previous quarterly earnings of USD 25196.

Box 4.4: Modelling net incomes and their compositions using OECD Tax-Benefit models

The OECD Tax-Benefit models are used to analyse the effects of tax and benefit systems on the incomes of working-age individuals and their families in OECD countries both in and out of work. For the majority of countries, including the United States, the models span more than a decade (2001 – 2013). The benefits incorporated in the models include unemployment benefits, social assistance schemes, housing benefits, family benefits and employment-conditional benefits. The tax system aspects incorporated include personal income tax and both employee and employer paid social security contributions. These models focus on describing policies and documenting policy changes (with policy indicators), holding "everything else" constant, in order to examine policy mechanics and isolate policy changes from any population changes that may occur in parallel. OECD (2015b) provides detailed country-specific information about the tax and benefit systems and a regularly updated selection of key indicators calculated from the OECD Tax-Benefit models.

For the United States, the standard model that is used in OECD outputs is specific to the state of Michigan. For the purposes of this analysis, a parallel model for California in 2013 has been developed that includes the Paid Family Leave cash benefit, state tax system, payroll taxes – 1 percent total for both SDI and PFL up to earnings just over USD 100 000 per annum – and state specific rates for Temporary Assistance for Needy Families (TANF) and Social Assistance, specifically "CalWorks" (a state level means-tested family benefit) and "CalFresh" (state-specific means-tested social assistance support).

Integrating maternity and paternity benefits and parental leave into the tax-benefit models enables closer analysis of the changes in family net income over both the pre- and post-natal periods and the subsequent ageing of the child. This change in net income can then be decomposed to show the effect on family income of both the benefit itself and any interaction between the benefit and other components of the tax-benefit system.

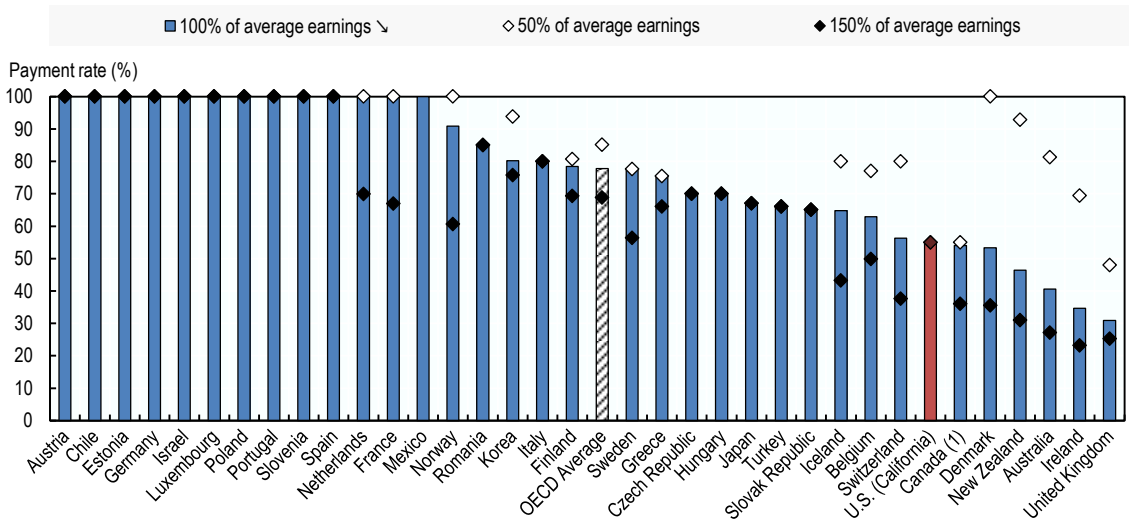
The calculations presented here consider two family types, namely a single adult and a two-earner couple, both having their first child. It is assumed in both instances that the mother takes six weeks of Disability Insurance and subsequently the full six week allocation of Paid Family Leave. In the case of the two-earner couple, it is also assumed that the father takes six weeks of Paid Family Leave once the mother returns to work. In this manner, the period of paid income support during leave does not exceed the duration of job protection as stipulated in the FMLA.

181. Figure 4.10 shows that the proportion of gross earnings replaced by the California PFL system is relatively low and below the OECD average, although it is similar to or higher than in a number of other Anglophone countries, including Australia and the United Kingdom. It is also slightly higher than in Denmark, but in that country maternity pay is often (but not always) topped up to 80-90% of earnings by employers. At twelve weeks duration of paid leave, California together with Mexico also has the shortest duration of paid leave that working mothers can access around childbirth in the OECD (Figures 4.1 and 4.2).

14. To maintain consistency with the OECD Tax-Benefit model - which at the time of writing is based on tax and benefit policies in OECD countries in 2013 - the 2013 PFL rules have been used here.

Figure 4.10: SDI and PFL payment rates in California may not be high in international comparison, but are higher than maternity payment rates in other Anglophone OECD countries

Proportion of previous gross earnings replaced by maternity benefit across paid maternity leave, by level of earnings, 2013



Note: Payment rates are based on the proportion of gross earnings replaced by the maternity benefit over the length of the paid entitlement for a person on average earnings. For example, in California someone with previous quarterly earnings of USD 7 540 (USD 30 160 per annum), a benefit award of USD 319 per week (equivalent to USD 16 588 per annum) will be made. In some countries maternity benefits may be subject to taxation and may count towards the income base for social security contributions. As a result, the actual amount received by the individual on maternity leave may differ from those shown in the figure. Please see the OECD Family Database (http://www.oecd.org/els/family/database.htm) for more detail.

1. Data for Canada reflect statutory provisions at the federal level. The payment rate in Canada does not take into account the two-week unpaid waiting period that must be observed at the beginning of the leave.

Source: OECD (2015) Family Database, and data provided by the State of California, Employment Development Department, the "Disability Insurance and Parent Leave Weekly Benefit Amounts" schedule for 2013.

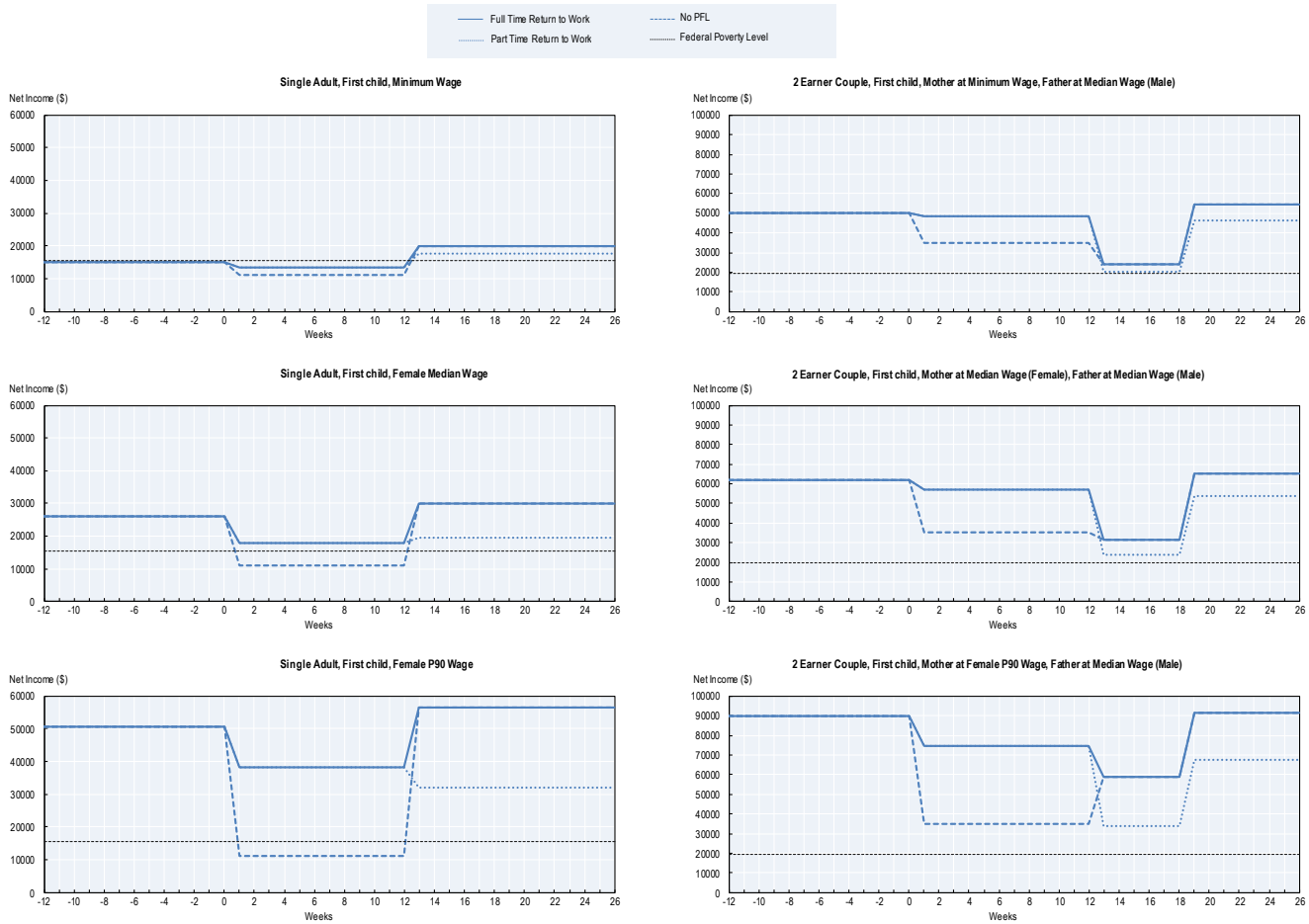
Paid leave prevents many families from falling into poverty

182. Considering the net income of a family over time gives a more complete picture of the effects of using SDI and PFL in California. Figure 4.11 shows the net income of a single person and a two-earner couple over a period from 12 weeks prior to the birth of their first child until 26 weeks after the birth. In the case of the two-earner couple, the male partner is assumed to earn the male median wage and the female partner the female median wage.

183. It is assumed that SDI benefit is drawn from week zero and is taken for six weeks by the mother, followed by six weeks of PFL. For dual-earner couples, it is also assumed that the father will take six weeks of PFL when the mother's entitlement runs out: from a child's perspective, the combination of paid leaves spans an 18-week period in this case. At 12 weeks, when the mother returns to work, the chart shows the net income both when the mother returns to work full-time and when she returns to work part (half) time. Three different levels of earnings for the mother are shown (Annex Table 4.B.1): at the minimum wage (top, California minimum wage of USD 8 per hour); at the female median wage (middle); and for a high earner, whose earnings are at the bottom of the highest 10 percent of female earners (90th percentile, bottom).

Figure 4.11: Leave payment rates in California keep workers out of poverty unless they were earning the minimum wage

Net income from 12 weeks prior to birth to one year post-birth: single adults and two-earner couples initially without children, 2013



Note: The Federal Poverty Level: one person family = USD 11490; two-person family = USD 15510; three-person family = USD 19530; and a four-person family = USD 23550, see http://aspe.hhs.gov/poverty/13poverty.cfm

Source: OECD (2015) Tax-Benefit Models

184. Figure 4.11 also includes the Federal Poverty Level (see Note to Figure), and shows that at the minimum wage, a single adult has earnings just below this poverty level. PFL gives some support, but the net income of this person decreases further below the poverty level during the period of leave. At higher earnings levels, the SDI/PFL payment rates are sufficiently high to keep single parents above the poverty line (assuming all other benefits for which they are eligible when earnings are zero are claimed). Without PFL, these individuals will drop below the poverty line regardless of previous earnings. On returning to work, net income is again above the poverty line (see below).

185. In the case of the two-earner couple, the income of the working parent is sufficient to keep the family income above the poverty level; however, this is assuming that the father waits until the mother returns to work before using Parental Family Leave and no unpaid leave is taken around the birth.

186. By integrating the SDI/PFL programme into the OECD tax-benefit model and using the net incomes calculated, it is possible to look at the net replacement rate.[15] This indicator can be used to assess how individual earnings and income changes may affect families' tax liabilities and/or eligibility for other social benefits. Indeed, while PFL has a gross replacement rate of 55%, the net income of families on leave does not decrease by 45% following the birth of the child at any earnings level or family type (Figure 4.11). The 'net' replacement rate of a single person earning minimum wage is 90%, and for a high earning female (earning at 90th Percentile) is 76%. Net incomes increase again following the return to full-time work, typically to levels higher than before the birth, especially for sole-parent families with limited earnings.

187. For those on minimum wage, Figure 4.11 shows that returning to work part time will also maintain a higher net income than prior to the birth despite lower gross income.[16] This is due to a combination of lower income taxes (moving from a payable amount to a refundable amount) and eligibility for Earned Income Tax Credit.

188. During the transition periods, minimum-wage earners have little variation in net income. Within both family types at minimum wage, returning to work at a part-time level shows little or no decrease from the initial position due to other interactions within the benefit system. As expected, a part-time return to work shows a much higher decrease in net income at higher earnings levels.

189. Without PFL and assuming that benefit payments applicable to a person with zero earnings are claimed, a much lower net income is evident across all earnings and family types following the birth (Figure 4.11). This suggests that, broadly speaking (tax regimes differ across states), sole parents and minimum-wage earners living in the United States who do not have access to paid leave around childbirth are likely to experience poverty at that time.

Use of leave has become more gender equal over the years

190. During the first 10 years of California's leave programme, the number of claimants increased from just over 150 000 in 2005 to 216 000, about 1.3% of California's employed civilian population. The average age of claimants is 33, and 70% of claimants are female, down from 83% in 2005. As eligible men have higher earnings, the average weekly benefit payment to men in 2013 was USD 629, compared with USD 498 to women. Over time the use of PFL has shifted towards higher income groups, especially among men: men on low incomes are least likely to use PFL (California Senate Office of Research, 2014).

191. While in other OECD countries parental leave frameworks are often very different from leave arrangements for care reasons (Chapter 5), one of the attractions of PFL – in California as in other states – is that it provides an integrated framework for leave to bond with a child or to provide care to registered domestic partners, spouses, children or parents. The proportion of "bonding claims" filed by men has doubled since 2004 to 30% of all claims in 2013. The increasingly gender equitable use of California's PFL is also illustrated by the average duration of claims: in 2013, the average duration for women using leave for child-bonding purposes was 5.2 weeks as compared to 4 weeks for men, and the average duration for which women claimants took leave for care purposes was 4.2 weeks as compared to 4.1 weeks for men (data provided by the State of California, Senate Office of Research). Differences remain: for example, almost half of female "care claimants" filed in order to look after their parents; among men, caring for a spouse was the most cited reason for taking leave for care purposes.

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15 Net Replacement Rates (NRR) are used to analyse the effects of labour market transitions on household incomes, usually defined as the ratio of net income while out of work divided by net income while in work: NRR = netOW/netIW. This measures the fraction of net income in work that is maintained when becoming unemployed. In this instance, the transition is to maternity leave rather than to unemployment.

16 This is before accounting for childcare costs and associated benefits and/or subsidies (see Chapter 5).

Current issues around paid family leave in California

192. Use of California's PFL programme may have increased, but the proportion of low-income workers among its users is declining (California Senate Office of Research, 2014). There would appear to be at least two barriers to increased take-up:

1. Knowledge of California's paid leave policy (PFL) remains limited. Applebaum and Milkman (2011) found that about half of California's workers are unaware of PFL, and that workers with the greatest need (minority and low-income Californians) are least likely to know about it. The State of California Employment Development Department is initiating a new outreach campaign in 2015 and is working to simplify the application process.

2. Among those who do know of PFL, the wage replacement rate may be considered too low to induce take-up. About one-third of individuals who are aware of PFL did not apply because they found wage replacement too low relative to their normal income (Applebaum and Milkman, 2011).

193. The PFL budget in California covers payments despite the relative low payroll contribution workers make to the SDI/PFL programmes (1 per cent of earnings). This provides some room to consider improving the programme, and in July 2014 care leave coverage in California was extended to include grandparents, grandchildren, parents-in-law and siblings. Other options include reducing the contribution rate: New Jersey recently reduced the payroll contribution to TDI/PFL from 1% to 0.8% of gross earnings, or increase the replacement rate, perhaps with a higher relative payment rate for low-income workers that could gradually be phased out up to the current level for higher-income workers.

194. Alternatively, increasing the duration of PFL spells could be considered. Extending the benefit duration to meet the ILO convention of 14 weeks for maternal leave would require an additional two weeks of PFL, assuming SDI can continue to be used for the additional six weeks. However, this must be done in coordination with state legislation on employment protection, so that the duration of employment protection is in line with income support entitlements. Otherwise, there is a risk that claimants draw income support for longer than employment protection is available and lose the entitlement to return to their workplace. Streamlining payment and employment protection legislation to limit that risk seems logical.

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ANNEX 4.A. STATE VARIATIONS IN COVERAGE AND ELIGIBILITY RULES FOR FAMILY AND MEDICAL LEAVE

Annex Table 4.A.1: Summary of variations in coverage and eligibility rules for family and medical leave in selected States

State	Employer size conditions	Employee conditions	Family members for which leave can be taken for
California	Private sector employers with 50 or more employees. All public sector employers.	-	Child, spouse, parent, domestic partner, child of domestic partner, or stepparent.
Connecticut	All employers with 75 or more employees, except certain school employers.	1000 hours of service with the employer during the 12-month period prior to leave.	Child, spouse, parent, civil union partner, parent-in-law, or stepparent.
D.C.	All public or private sector employers.	1000 hours of service with the employer during the 12-month period prior to leave.	All relatives by blood, legal custody, or marriage, and anyone with whom an employee lives and has a committed relationship.
Hawaii	Private sector employers with 100 or more employees.	6 months of consecutive employment prior to leave.	Child, spouse, parent, in-laws, grandparents, grandparents-in-law, stepparent, or reciprocal beneficiary.
Maine	Private sector employers with 15 or more employees. All state employers, and local government employers with 25 or more employees.	-	Child, spouse, parent, sibling who lives with employee, civil union partner, child of civil union partner, or non-dependent adult child.
Minnesota	All employers with 21 or more employees.	12 months of consecutive employment prior to leave and average working hours at least equal to one-half of a full-time equivalent position during that time.	Child, spouse, parent, grandparent, or sibling.
New Jersey	-	1000 hours of service with an employer during the year prior to leave.	Child, spouse, parent, in-laws, or domestic partner.
Oregon	All employers with 25 or more employees.	An average of at least 25 hours worked per week in the 180 days prior to leave.	Child, spouse, parent, grandparent, grandchild, or parent-in-law, or a person with whom the employee has or had an in loco parentis relationship.
Rhode Island	Private sector employers with 50 or more employees. All state employers and local government employers with 30 or more employees.	12 months of consecutive employment prior to leave and an average of 30 or more hours per week.	Child, spouse, parent and parent-in-law.

State	Employer size conditions	Employee conditions	Family members for which leave can be taken for
Vermont	All employers with 10 or more employees for reasons associated with birth or adoption. All employers with 15 or more employees for reasons related to an employee's or other family members illness.	12 months of consecutive employment prior to leave and an average of 30 or more hours per week.	Child, spouse, parent and parent-in-law.
Washington	All public or private sector employers.	At least 680 hours of employment during year prior to leave.	Child, spouse, parent, parent-in-law, grandparent, or state registered domestic partner
Wisconsin	-	12 consecutive months of employment prior to leave and at least 1000 hours of service during that time.	Child, spouse, parent, domestic partner, or parent of a domestic partner.

Source: NCSL (2013)

ANNEX 4.B: BACKGROUND DATA TO CHAPTER 4

Annex Table 4.B.1: Wages used for analysis of the Californian tax-benefit system

	Minimum Wage [1] (USD 8 per hour)	Female Median Wage [2]	Average Wage [2]	90th Percentile [2]
In per cent of the average wage [3]	34%	65%	100%	146%
Amount per annum (gross)	USD 16 640	USD 31 766	USD 48 774	USD 71 181

Notes:

1. *Source:* OECD (2015) Taxing Wages, 2015.

2. *Source:* OECD (2015) Income Distribution Database

3. Minimum Wage – USD 8 from 1st January 2008, USD 9 from 1st July 2014, USD 10 from 1st January 2016.

CHAPTER 5: DOES PAID LEAVE PAY OFF? EVIDENCE ON WOMEN'S EMPLOYMENT AND FAMILY HEALTH OUTCOMES

5.1. Introduction

195. OECD countries other than the United States provide paid maternity leave to mothers for at least 12 weeks, and on average across the OECD, mothers can combine paid maternity and parental leave entitlements for up to about one year. Furthermore, countries increasingly provide financial incentives to fathers to take paid leave for 2 months or more to care for and bond with their children (Chapter 4).

196. Do social, health, and economic outcomes matter when considering the design of child-related leave policies? What are the effects of paid maternity, parental, and family leave? Is taking paid leave good for aggregate labour supply, individual labour force attachment, and the earnings and career prospects of mothers and fathers? What are the effects on child and maternal health, or the long-term impacts of time to bond with children?

197. This chapter looks at the benefits and costs of providing and using paid child-related leave. It first presents U.S. and international evidence on the effects in terms of labour market outcomes and then considers the evidence on the effects of a father's taking leave. It then considers health, family and child well-being effects and further develops evidence on the effects of paid leave programmes in the United States. The last section considers the cost of providing paid leave programmes to employers.

- In general, the evidence holds that paid leave is generally good for female employment: it encourages women to enter work before childbirth and it facilitates faster re-entry after childbirth (to the same employer). In OECD countries and in California, female labour force participation increased when paid family leave became available or was expanded. Broadly speaking, the evidence seems to suggest that paid leave is estimated to have increased female employment rates by 1.5 to 2.5 percentage points relative to male employment rates.

- It is hard to pinpoint the wage effects of taking short-term leave. The evidence, while mixed, does suggest that women face earnings penalties following a long period of leave, although many studies in OECD countries find that earnings of "mother returners" catch up in the medium term.

- Paid parental leave enables mothers to recover from pregnancy and childbirth and allows both parents to care for and bond with their new child. Considering the effects of taking leave on the individual leave-taker, there is ample evidence to suggest that paid maternity leave improves maternal health and wellbeing. However, such evidence is more difficult to find on an aggregate (population-wide) level. The evidence on the relationship between paid leave and the child health outcomes of low-birth weights and infant mortality is also mixed.

- The introduction of paid family leave has had positive effects on immunisation rates in California and New Jersey, especially among children in low-income families.

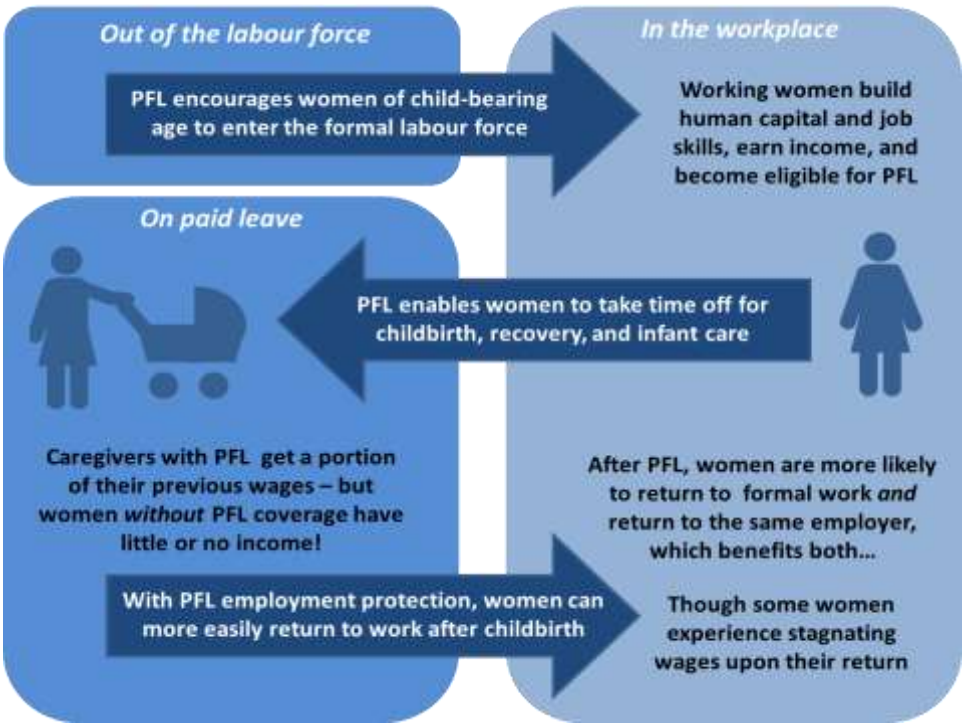
- Families and fathers benefit when fathers take child-related leave. Fathers' leave-taking is associated with higher female employment, less gender stereotyping at home, and better life satisfaction for fathers. Extended time at home during early infancy is also associated with fathers' greater involvement with their children, which has positive downstream effects for children's cognitive and emotional development.

- Critics of child-related leave claim that leave allowances place financial and administrative burdens on businesses, but the available evidence shows that very few American businesses report negative economic or staff management effects from the FMLA or California's paid family leave scheme.

5.2. Does paid family leave help or hinder women in the workforce?

198. Employment-protected child-related leave can have conflicting effects on the labour market behaviour of women of childbearing-age. In the short term, paid family leave provides a pre-birth paid work incentive; women need to have a work history prior to childbirth in order to establish an entitlement to paid maternity leave, and they may be less likely to quit prior to birth when they expect post-natal job security and/or maternity pay (Figure 5.1). In the longer term, protected paid leave increases the likelihood of women returning to the same employer after childbirth, thus maintaining their work experience, human capital, and job tenure. Stronger female labour force attachment might reduce gender gaps in wages and hours worked. Greater access to paid leave may also contribute to greater acceptance of leave-taking in countries where this is less common, such as the United States.

Figure 5.1: Paid family leave increases women's work choices around childbirth



Source: OECD

199. Alternatively, paid leave could lengthen the time a woman spends outside the workplace, interrupt her career, and thus potentially widen the gender gap in employment and wages. Extended time out of work may weaken women's career progression and human capital development. If leave periods are long, then employers face hiring costs which may lead employers to discriminate against women at the time of hiring or promoting employees. And as women workers of child-bearing age go on maternity leave, there is a risk that some employers will invest less in training and development of women in this age group.

200. To get a better view of the overall labour market effects of women taking leave around childbirth, the following sections review evidence on the effects of paid and unpaid leave on women's labour force participation rates, working hours, and wages. Given that take-up of paid maternity leave around childbirth tends to be very high in the countries where it is provided (Baker and Milligan 2008a; Burgess *et al* 2008; Dustmann and Schönberg 2012; Liu and Skans 2010; and, Rasmussen 2010), the potential impact of leave on women's participation decisions and wages are important issues for the United States to consider. There are, however, limitations in the extent to which evidence from other OECD countries is directly applicable to the United States (Box 5.1).

Box 5.1: Caveats regarding the interpretation of international evidence for the U.S. context

When considering the economic effects of paid parental leave, the United States can draw from other countries' experiences. However, there are at least two significant limitations. First, countries that have instituted paid leave have done so in specific social, economic, and political contexts that in some important ways were favourable to introducing paid leave. This "selection effect" means that countries offering paid leave differ systematically from the United States in important ways that affect socioeconomic outcomes. For instance, countries with paid parental leave may have greater gender equality, more public support for early childhood education and care policies, political institutions that facilitate comprehensive family policies, and/or different labour market structures. Thus, the effect of introducing paid leave in the US might not be the same as those experienced in the Nordic countries, for example, where childcare and gender policies are very different. Cross-national studies seek to control for country-specific (unobserved) characteristics that may affect leave policies and labour market outcomes, but such attempts cannot be completely successful. For this reason, cross-national regressions are useful to illustrate aggregate (population-wide) effects of leave policies on women and children's outcomes, but selection issues make direct comparisons with possible effects in an U.S. context difficult.

A second major limitation comes when comparing different intensities of family leave is that most OECD countries have offered extensive paid leave schemes for decades. While scholars have quasi-experimentally evaluated changes to these programmes, most changes in paid leave policies have occurred at the margin, typically by adding or subtracting a few weeks on top of an existing benefit system. Such evidence is useful for providing baseline estimates of potential changes in the United States, but they likely underestimate the potential effects of introducing paid family leave for the first time on a large scale in the United States. Forty-seven U.S. states offer no paid parental leave, and transitioning from zero weeks of paid leave to any amount of paid leave in the United States is likely to have a larger effect on female employment and wages than the effect of changing a few weeks in an existing, generous scheme. For that reason papers which evaluate the effects of moving from no paid to a short period of paid leave are particularly relevant for the U.S. set-up.

5.2.1. Effects of paid maternity and parental leave on employment and earnings

Paid maternity and parental leave can help keep women in work

201. In OECD countries, paid maternity leave is generally effective at getting women into (and keeping them in) paid work. Ruhm (1998), Akgunduz and Plantenga (2013), and Thévenon and Solaz (2013) all provide estimates of population-level effects of leave mandates on gender differences in labour market outcomes. They find that the effect of parental leave on total female employment is positive, although the effect is small and gets smaller as the length of leave increases. Ruhm (1998) finds that 40 weeks of leave increases the participation rate of women aged 15-64 and 25-34 by 4% and by 7-9%, respectively, but parental leave entitlements of one year and longer negatively affect wages (Table 4.1). Extending Ruhm's study to 16 European countries for the period between 1970 and 2010, Akgunduz and Plantenga (2013) find that the participation rate of women aged 25-34 would increase by 2.5% relative to men in the presence of a 28 week leave entitlement, but that such a policy would have a significant negative effects on the share of women in high-level occupations.

202. In a similar study for OECD countries, Thévenon and Solaz (2013) found that leave entitlements have a small positive effect on female employment rates and hours worked. The introduction of a few months of paid leave is found to have the largest effect on female employment rates, but beyond that period the effect of providing additional weeks of leave on female employment rates is relatively small. It remains positive, however, as long as the total period of leave does not exceed approximately two years.

203. These cross-national studies further show that the provision of leave entitlements also benefits employees who are either not using them (such as men) or those who are not eligible for them (*e.g.* women above child-bearing age). This suggests that some employers at least react to the provision of paid maternity by hiring more workers in the workforce who are not "at risk" of taking leave around childbirth. Yet the expansion of the periods of existing paid leave has a positive effect on female employment rates (and on women's average weekly working hours) relative to men, which indicates that overall, the expansion of paid leave, if not too long – and introducing 12 weeks of paid leave is not too long - is positive for women's employment.

The return to work and time with children

204. Most of the studies find a positive effect of the introduction of employment-protected leave on the probability of women returning to work within a specified period of time, rather than dropping out of the labour force. For example, Berger and Waldfogel (2004) show that in the United States the introduction of the FMLA for 12 weeks increased the percentage of women returning to work within this period. Similarly, Han *et al*. (2009) find that the introduction of paid and unpaid leave mandates for family or health reasons in some American states was associated with a significant 4.7 point increase in the probability of working within nine months of childbirth: women who had access to paid employment-protected leave around childbirth were also more likely to be still in employment by the time of the fourth birthday of their child.

205. Han *et al*. (2009) also find that mothers with higher educational attainment, whose careers and earnings are more likely to be affected by taking leave, are more likely to return to work relatively early. At the same time, these workers may have better opportunities to find formal childcare solutions and are more likely to have access to flexible working arrangement once resuming work. Evidence for New Zealand also suggests that the willingness of employers to accommodate employees resuming is an important determinant of the timing of the return to work (NZ DoL, 2007).

206. Available evidence for other countries corroborates the positive effect that that the provision of a few weeks of paid parental leave has on both the time spent with children and the probability of returning to work. For instance, in Australia the entitlement to employment protection for a year was complemented by the introduction of paid parental leave (PPL) for 18 weeks in January 2011. ISSR (2014) found that the introduction of PPL delayed the maternal return to work for those who took leave for 6 months or less, but beyond the six-month point the probability of mothers returning to work increased.[17]

207. This finding is consistent with findings by Ronsen and Sundström (2002), who compare female employment patterns in Finland, Norway and Sweden over a period of 20 years from 1972 onwards, focusing on the impact of parental leave and childcare programmes. They found that women who are entitled to paid leave have a much higher overall "re-entry to work rate" during the first three years following birth than non-eligible mothers in Sweden and Norway, while the pattern is less clear in Finland. Yet they also point out that the extension of the period of paid leave delayed the return to work. Dahl *et al*. (2013) confirm this finding for Norway: the expansion of paid leave from 18 to 35 weeks had no influence on the returns to work two years after childbirth, and a very weak effect in the long run.

208. For Canada, using provincial variation to evaluate the effects of granting up to 70 weeks of employment job-protected paid leave, Baker and Milligan (2008a) found that in comparison to not having access to paid allowances for 17 to 18 weeks (of around 50% of previous weekly earnings) the introduction

[17] ISSR (2014) found that prior to the adoption of PPL 22% of mothers had returned to work after 18 weeks, while this was 15% of mothers after the adoption PPL; 64% of mothers had returned to work after 6 months of leave both before and after reform, while the proportion of mothers who had returned to work within the first year after the childbirth was higher after (73%) than before (69%) PPL-reform.

of such allowances did not significantly affect the amount of time mothers spend out of the labour force. Women did spend more time at home when offered paid leave allowances for longer durations (of 29-70 weeks), but this has had no adverse effect on employment.

209. In a recent evaluation of the effect of the 2007 parental leave reform in Germany, which involved replacing means-tested benefits payable for up to 24 months with earnings-related benefits (at 67% of earnings) for 12 months for all workers, Bergemann and Riphahn (2015) find evidence of a significant increase in the number of mothers who go back to work within a year. The overall time that an average mother entitled to benefit payments both before and after reform returned to the labour force declined after reform by 10 months at the median. Moreover, the negative effect on the total number of hours worked by mothers due to higher take-up of paid leave was found to be offset by the higher "and quicker" rates of return to work. The authors also suggest that the complete change of the system and the relatively high payment rates involved were two key factors underlying this positive outcome.

Box 5.2: Identifying separate effects of employment-protection and paid leave

Most studies cited cannot separately identify the effects of providing employment-protection from those of receiving income support, as these two entitlements are frequently introduced or extended simultaneously. However, in Austria employment-protection legislation for parents on leave and income support for parents with young children are two different schemes which underwent reform in 1990, 1996 and 2000. On basis of the reform effects and comparing with a benchmark scenario of no paid parental leave or employment-protection, Lalive *et al* (2014) found that systems which:

- pay parental leave benefits but grant no employment protection delay the return to work as the share of women who return to the original employer is smaller, and a larger proportion of leave-takers will stay out of the labour force;
- provide employment-protection without income supports delay the return to work only slightly; but the proportion of women who return to their original employer is considerably higher
- involve an aligned combination of income support and employment-protection delays the return to work substantially. But, when benefits and employment-protection run out, the share of mothers returning to work is higher than under the benchmark scenario.

The findings suggest that income support and employment-protection *complement* each other in achieving time for care after birth while maintaining medium term labour market attachment.

These findings have at least some resonance with evidence for the U.S. on the effect of the introduction of the FMLA on female employment (see above). It also confirms the analysis of Espinola-Arredondo and Mondal (2009), who found that the impact of the FMLA on female employment rates was most positive and most significant in those states that expand upon the basic benefits and eligibility criteria of the FMLA (Chapter 4).

Table 5.1: International evidence: parental leave policies' effects on women's labour force participation rates and wages

Publication	Country, years, and method	Independent variables	Results	
			Participation rates	Wages
Akgunduz and Plantenga (2013)	**16 European countries,** 1970 to 2010, TSCS estimations.	Weeks of paid and job-protected leave entitlement	**Increase** (2.5%) in the participation rate of rate of 25-34 year old women relative to men with 28-week leave entitlement **Increase** (1.8%) in the participation rate of 15-64 year old women with 25-week leave entitlement	**Decrease** (7.3%) in the high-skill wages with 30 weeks leave entitlement **No effect** on low-skill wages
Baker & Milligan (2008a)	**Canada,** 1976-2002, Panel and TSCS estimations	Change (increase) in weeks of job-protected leave entitlement	**Increase** (varies by model) in employment four months post-birth following leave introduction of 17-18 weeks and extensions from 12 to 18 weeks (varies by province) **Increase** in employment four months post-birth following leave extension to twelve months	N/A
Buligescu *et al* (2008)	**Germany,** 1994-2005, Panel data estimations	Weeks of paid and job-protected leave entitlement	N/A	**No effect** on wages of women five years after return to work
Dahl *et al.* (2013)	**Norway,** Reforms in the 1980s and 1992, Regression Discontinuity Design	Effect of the increase from 18 to 35 weeks of paid leave	No significant effect on women's return to work and long-term labour market attachment	No significant effect on earnings
Lalive and Zweimüller al (2009)	**Austria,** 1989-2005, Panel data estimations	Change (increase) in paid and job-protected leave by policy change	**No long-term effect** on the participation rate of women who took the leave	**No long-term effect** on wages of women who return to work (catch-up after a short term reduction of earnings)
Ejrnaes and Kunze (2013)	**Germany,** 1975-2001, Panel data		**Decrease** in the probability of returning to full-time employment for all education groups	**Decline** in real wages (by 5.8% for the medium-skilled, 4.4 for the high-skilled and 3.4% for the low-skilled.
Schönberg & Ludsteck (2007)	**Germany,** 1976-1993, Panel data estimations	Change (increase) in paid and job-protected leave duration by policy change	**No long-term effect** on the participation rate of women who took the leave	**Negative effect** on wages of women who return to work
Ruhm (1998)	**7 European countries,** 1969-1993, TSCS estimations.	Weeks of paid and job-protected parental leave entitlement	**Increase** (7-9%) in the participation rate of 25-34 year old women with 40 weeks leave entitlement **Increase** (4%) in the participation rate of 15-64 year old women with 40 weeks leave entitlement	**Decrease** (2.6%) in the hourly wage of 15-64 year old women with 40-week leave entitlement
Ronsen & Sundström (2002)	**Sweden, Norway and Finland** Event history analysis	Weeks of paid leave	Probability for women to resume full-time employment is twice as high for women eligible to parental leave than for non-eligible women in Sweden, and 40% higher in Norway – but decline with the extension of the duration of paid leave	N/A
Thévenon & Solaz (2013)	**30 OECD countries,** 1969-2010, TSCS estimations	Weeks of paid and job-protected parental leave entitlement	**Increase** in female participation rate relative to men by up to 1,5 percentage points for 25-54 years old women and 2,5 for the 25-34 years old, if leave is no longer than 2 years.	**Weak negative effect** on gender differences in earnings of full-time workers

Source: OECD.

5.2.2. Paid maternity and parental leave has mixed effects on women's wages

210. Maternity and parental leaves may have contradictory effects on women's wages. On the one hand, rather than having mothers search for a job after childbirth, employment-protected leave can help preserve firm and sector specific knowledge and skills if it facilitates a timely return to similar employment (or the same job) following childbirth, which could help "mother returners" develop their career and earnings profile. On the other hand, leave may *hasten* human capital depreciation if it leads to mothers spending a prolonged period of time outside of the labour force, as while on leave mothers may miss opportunities to acquire new knowledge and skills and lose out on accumulating work experience. Women who take maternity or parental leave may also be perceived as being less committed to their career, which may reduce the willingness of employers to invest in leave-takers, and limit their career opportunities.

211. Research provides at least some support for both of these arguments. Within individual countries, there is some evidence to suggest that women who can or do take leave receive higher wages after childbirth than women who cannot or do not take leave (Waldfogel, 1998; Boushey, 2008). Waldfogel (1998) found that in both the United Kingdom and the United States women who are eligible for and take leave receive significantly higher pay following childbirth than those who cannot or do not, with in both countries a wage premium attached to leave-taking that is almost sufficient to offset the penalty associated with becoming a mother. Similarly, for the United States, Boushey (2008) found that having access to and taking paid leave can increase wages by as much as 9%, relative to women who did not take leave. Boushey did not find an increase in wages for women who took unpaid leave.

212. Other studies find that leaves may damage women's wages. In Austria, for example, Lalive and Zweimuller (2009) – who exploit adjustments to the duration of paid parental leave during the late 1980s and early 1990s – found that mothers eligible for longer leaves are paid significantly less when returning to work than mothers eligible for shorter leaves. Similarly, in Germany, Ejrnaes and Kunze (2013) find that each additional year of leave for which a mother is eligible reduces mother's wages by between 3% and 5.7% on the return to work.

213. There is also evidence to suggest that the provision of longer leaves may decrease women's wages as a whole. Ruhm (1998) found that the entitlement of forty weeks of parental leave decreases women's wages on average by 2.6%, while Thévenon and Solaz (2013) found that the availability of paid leave may slightly widen the gender gap in earnings among full-time workers. Akgunduz and Plantenga (2013), meanwhile, found that while 30 weeks of parental leave results in no significant change in low-skill wages, the same period of leave does lead to a 7.3% decrease in the high-skill wages, most likely due to depreciation in human capital. Datta Gupta *et al*. (2008) characterise the negative effects of leave on women's general wages as a "boomerang" effect: while generous leave provisions and high female take-up of leave may help promote female employment, it also results in all women suffering deterioration in their position once inside the labour market.

214. Evidence on how long any negative wage effects last is mixed, but several studies find persistent wage penalties even as earnings grow. Lequien (2012) observed that in France – where the three-year paid leave period was extended to families with two children in 1994 – wage growth over the six years following the birth of a second child is lower among women who gave birth after the reform rather than before, and each year of absence from work – up to 10 years after the reform – is estimated to reduce wages by 7% to 17%. For Austria, the wage penalties found by Lalive and Zweimuller (2009) were short-term effects but it still took mothers between 4 and 10 years following childbirth to catch up. Zhang (2010) found that Canadian mothers who return to work recover their lost earnings in about seven years, with mothers returning to their original employers recovering their wage levels fastest. For Germany, each year of leave is estimated to reduce earnings on return to work by 6% to 20% (Beblo *et al*., 2006; Ejrnaes and Kunze, 2013; Ondrich *et al*., 2002). But, while Schönberg and Ludsteck (2007) found that wage penalties can be observed as long as eight years after a mother returns to work, Buligescu *et al*., (2008) estimated that the returned mothers catch up quickly and that the negative effects on wages are small or non-existent two years after resuming work.

215. Disentangling the effects of taking parental leave from the effects of having children on earnings path is not always possible. While the gender gap in earnings has diminished in many professions, the "motherhood" penalty for women remains persistent and strong, relative to men and childless women (Bertrand, Goldin and Katz, 2009; Correll, Benard and Paik 2007). Furthermore, these negative wage and career progression effects largely follow long periods of leave from work (*e.g.*, one or two years or more). It is unlikely that a twelve-week absence – which is what is currently offered in the United States – significantly disrupts human capital formation.

5.2.3. Paid leave helped keep women at work in California

216. California's Paid Family Policy (PFL) policy has been in effect for over a decade (Chapter 3), and researchers have analysed the effects of PFL on Californian women's workforce participation and wages. Despite using different methods and sites, these studies on California reach a similar conclusion as the international literature: PFL increases maternal work post-birth. There is also weak evidence that wages improve.

217. The introduction of PFL increased mothers' leave-taking (and the duration of leave-taking) after birth: a doubling to an average of over 5 weeks for mothers of new-born children (Rossin-Slater *et al*., 2013; Baum and Ruhm, 2014). Importantly, Rossin-Slater *et al* (2013) also find some indication that the increase may have been largest among socio-economically disadvantaged workers. Low-income women were the least likely to take leave prior to the introduction of PFL because taking unpaid leave was unaffordable for many low-income families. Moreover, Goodman (2012) also finds that the introduction of PFL in California increased the amount of time that mothers spent with children below age 1 by 3 hours per day.

218. Given this increased take-up of maternity leave, what are its effects on later employment? Rossin-Slater *et al* (2013) find that conditional on being employed, mothers eligible for PFL worked more hours in the years following the introduction of the policy than before.[18] The gains were sizeable and significant: in the years after the introduction of PFL, employed mothers with paid leave rights had at least 6% to 10% more work hours relative to comparable, pre-PFL mothers.

219. Using different survey data, Baum and Ruhm (2014) find similar effects of PFL on maternal employment. They find that PFL increases the probability of a mother being employed in California at nine to twelve months after birth; mothers eligible to PFL in California had a 5.5 percentage point greater probability of working than mothers who did not have access to the programme. Baum and Ruhm argue that the higher rates of employment and work hours are driven by job continuity, particularly among workers with weak labour force attachments.[19]

220. The evidence on labour market outcomes in California is very helpful insofar as it provides more useful indications for the potential roll-out of other paid leave schemes in the United States than evidence for other OECD countries.

5.2.4. Fathers, mothers and children win in case of gender equal access to and use of leave

221. While much of the debate around child-related leave focuses on programmes for the mother, of at least equal importance are leaves that are targeted at or available to fathers. As well as providing fathers with the opportunity to support the mother and child directly after childbirth, father-specific leaves are

[18] Because California's PFL programme was only introduced in 2004, the "post-treatment" years were comprised of all survey years available at the time of publication: 2006-2010, roughly around the period when the children were toddlers.

[19] Both Baum and Ruhm (2014) and Rossin-Slater et al (2013) found suggestive but statistically insignificant evidence that wages of mothers taking leave also increased.

likely to encourage fathers to engage in childcare and, to some degree at least, promote male unpaid work within the household. Moreover, providing father-specific leave is likely to reduce grounds for leave-based employer discrimination against female employees: relative to a situation where only the mother is entitled to child-related leave, providing fathers with leaves of similar or, ideally, equal length to mothers should eliminate or at least reduce gender differences in the 'risks' involved with employing individuals of childbearing age (see Levtov *et al*, 2015 for an overview of the "State of the World's Fathers").

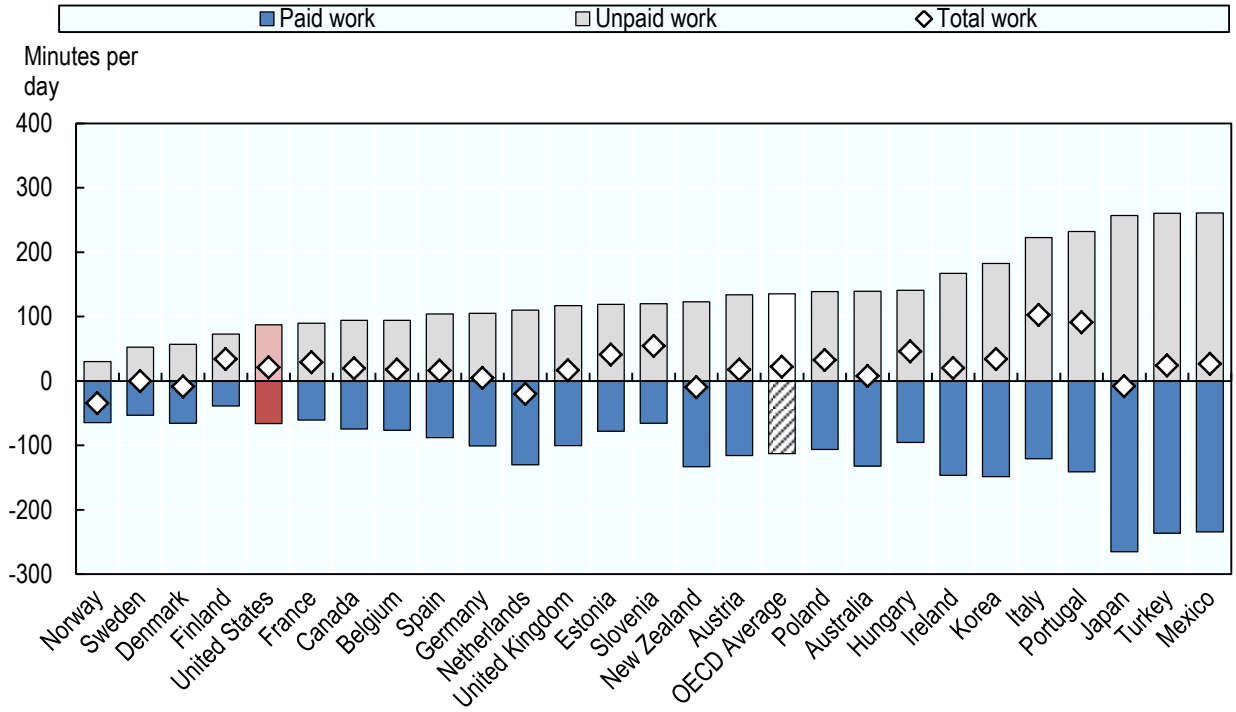
222. Evidence from across the OECD suggests that the provision of father-specific leave may have considerable effects on fathers' behaviours. Across countries, fathers' use of leave is associated with increased paternal involvement in childcare activities and at least some redistribution of unpaid work (Nepomnyaschy and Waldfogel, 2007; Tanaka and Waldfogel, 2007; Huerta *et al*, 2013; Almqvist and Duvander, 2014). Using data from the United Kingdom, for example, Tanaka and Waldfogel (2007) found that fathers who took paternity or parental leave were more likely to engage in child-related tasks such as changing diapers, feeding the child and or getting up to care for the child at night. Huerta *et al* (2013) found something similar in a study of four OECD countries (Australia, Denmark, the United Kingdom and the United States), particularly if the father took leave for two weeks or longer. Importantly, these effects are likely to be enduring: fathers that are engaged early are more likely to remain involved as their children grow (Baxter and Smart, 2010; Brandth and Gislason, 2012). In a study on Sweden, where a "daddy-month" of paid parental leave reserved for fathers was introduced in 1995, Almqvist and Duvander (2014) found that when fathers took long leave, parents shared both household tasks and childcare more equally.

223. Increased paternal involvement in childcare and unpaid work in turn carries a number of advantages for women and families. Gender differences in time spent on paid work, for example, are smaller in countries where gender differences on unpaid work are smaller (Figure 5.2), while several studies find that within couples female labour supply is positively related to male household labour (see Coltrane (2000) and Lachance-Grzela and Bouchard (2010) for reviews of the time use literature) and that female earnings may be damaged – perhaps to the extent of around USD 230 000 in lifetime wages for highly skilled women – when mothers are burdened by childcare responsibilities (Ty Wilde *et al*., 2010). Greater paternal involvement in childcare and family life is also associated with positive cognitive and emotional outcomes (Cabrera *et al* 2007; Lamb 2010; OECD 2012; Huerta *et al*. 2013) as well as physical health benefits for the child (WHO, 2007). Plus, fathers themselves may also benefit from increased involvement around the home: those who contribute more to unpaid work face a lower risk of divorce than less-involved fathers (Sigle-Rushton 2010), while fathers who engage more with their children report greater life satisfaction and better physical and mental health than their less-engaged peers (Eggebeen and Knoester 2001, WHO 2007).

224. Yet, in many countries fathers' use of leave remains low. It is not that there is a lack of demand for leave among fathers; a recent study by the OECD found that across four countries – Australia, Denmark, the United Kingdom and the United States – 80% or more of new fathers take at least some time off work around childbirth (Huerta *et al*. 2013). However, the length of time taken is heavily influenced by the presence and design of state legislated father-specific paid leaves. In the United States, where most fathers must either take unpaid FMLA or use paid leave from other sources, the majority of fathers take less than two weeks (Nepomnyaschy and Waldfogel, 2007; Huerta *et al*. 2013). In contrast, in Denmark – where fathers are entitled to two weeks paid paternity leave plus 32 weeks of paid sharable parental leave – over 90% of fathers take at least two weeks (Huerta *et al*. 2013). For fathers in many OECD countries, a lack of access to lengthy and – crucially – well paid job-protected leave remains at least one barrier to full early engagement with childcare and family life.

Figure 5.2: Gender differences in paid work are smaller where gender differences in unpaid work are smaller

Gender differences (female-minus-male) in average paid, unpaid and total working time in minutes per day, circa 2010



Source: OECD estimates based on national time-use surveys

5.3. Does paid family leave promote health outcomes for mothers and children?

225. In addition to its labour market effects, paid family leave is often touted for its health and well-being benefits. Since paid family leave provides time off around childbirth and during early infancy, paid leave enables mothers to recover from pregnancy and childbirth and allows both parents to care for and bond with their new child. In subsequent years, paid family leave may also facilitate parents to care for children when sick or unwell (Heymann *et al*., 1999).

226. The health of both mothers and children may thus benefit from the availability of paid leave. There is some evidence that paid parental leave reduces maternal stress and improves mothers' life satisfaction during early infancy of their children. Researchers have also studied whether paid family leave can lead to a lower incidence of low-weight birth and infant mortality, a higher probability of breastfeeding, more visits for medical check-ups, and greater rates of up-to-date immunizations in early childhood. The literature is reviewed below.

5.3.1 The effects of family leave on maternal health: International and U.S. evidence

227. The effects of maternity leave on mother's health outcomes are understudied in international literature, in large part due to a lack of data on maternal stress and well-being. The existing literature shows mixed results, but there is some evidence that greater access to leave reduces depression and improves overall self-reported health.

228. Several studies find that leave may promote the mental health of mothers following childbirth. McGovern *et al* (1997), for example, find that taking at least 15 weeks off work following childbirth has a positive effect on self-reported mental health, while taking at least 20 improves a mother's 'role function', that is, their ability to conduct routine daily activities. Similarly, Chatterji and Markowitz (2005) find that find that delaying the return to work reduces depressive symptoms – with a one-week increase in the length of leave associated with as much as a 6-7% decline in depressive symptoms – while a later paper by the same authors adds also that increases in the length of time a mother spends on maternity leave may improve overall self-reported health status (Chatterji and Markowitz, 2008). Having a spouse who did not take any parental leave after childbirth is associated with higher levels of maternal depression (Chatterji and Markowitz, 2008).

229. Approaching the issue from the opposite angle, Chatterji *et al*. (2013) find that among employed mothers, increases in maternal working hours when infants are 3 months old are positively associated with depressive symptoms and parenting stress, and negatively associated with self-reported overall health, when the infant is six months old. However, they also find no significant association between maternal employment and the 'quality' of parenting - as measured by trained assessor's observations of maternal sensitivity and support towards the child - at age 6 months.

230. However, other studies find no observable effect of leave on maternal health outcomes. Baker and Milligan (2008b), for instance, evaluate an increase in the number of weeks of maternity leave granted to new parents in Canada. They find that increasing paid leave benefits from six to twelve months has no influence on maternal health as measured by self-reported health status, depression, or related post-partum problems. Liu and Skans (2010) also do not find any effect of the extension of the leave duration from 12 to 15 months on divorce and mother's mental health as measured by hospital admissions for mental health reasons in Sweden.

231. A recent overview of studies on the linkages between maternity leave and maternal health (Aitken *et al*., 2015) suggests that difference in results tend to follow different methodological approaches: they corroborate the positive association between paid maternity leave and maternal health when considering studies that look at the effects of taking leave on individual leave-takers, but suggest no such effect can be found when looking at the impact of maternity leave on mental health at more aggregated levels.

232. Evidence on the long-term effects of maternity leave on mental health and life/satisfaction is becoming available. Avendano *et al*. (2015) using data for 8 European countries find that more generous maternity leave reduces the risk of depression in old age. D'Addio *et al*. (2014), analysing the relationship between life satisfaction and birth-related leave in Germany and the United Kingdom, found that women who have used birth-related leave have higher life satisfaction.

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Table 5.2: International and U.S. evidence: parental leave policies' effects on maternal health

Publication	Country, years, method, data	Independent variables	Results	
			Depressive symptoms	Overall health
Baker and Milligan (2008b)	**Canada**, 1998-2003 Estimations from National Longitudinal Survey of Children and Youth	Extension of paid and job – protected maternity leave from six months to 12 months	No effect	No effect
Chatterji and Markowitz (2005)	**United States**, 1988 Estimations from National Maternal and Infant Health Survey	Weeks of any leave after childbirth, either paid or unpaid	Decrease in depressive symptoms	Suggestive association between length of maternal leave and having at least three postpartum outpatient visits for mental or physical health problem.
Chatterji and Markowitz (2008)	**United States**, 2001 Estimations from the Early Childhood Longitudinal Study-Birth	Weeks of any leave after childbirth, either paid or unpaid	Decrease in depressive symptoms	Increase in self-reported health
Chatterji *et al* (2013)	**United States**, 1991-1992 Estimations from National Institute of Child Health and Human Development study on Early Child Care	Working hours 3 months after childbirth	Fewer work hours associated with fewer depressive symptoms	Fewer work hours associated with better self-reported health
Liu and Skans (2010)	**Sweden**, 1987-2005 Estimations from administrative data	Extension of paid and job-protected parental leave benefits from 12 to 15 months	N/A	No effect on mental health status

Source: OECD

5.3.2 International evidence on child health effects is mixed

233. Researchers have studied the relationship between leave and a variety of child health outcomes, including child mortality, child delivery[20], birth weight, immunization, and cognitive development. Although contradictory evidence exists, much research has found that paid leave is associated with lower infant mortality and a lower likelihood of low-weight birth. The relationship between child-related leave and both immunization and cognitive development is, however, more contested.

234. The evidence on the effects of paid maternity leave on infant mortality is mixed. Ruhm (2000), using data from sixteen European countries over the period 1969 to 1994, finds that paid leave entitlements have a substantial effect in reducing mortality for new-borns and for children between one month and five years of age (Table 5.3). Tanaka (2005) extends Ruhm's cross-national study by also considering data for Japan and the U.S. extending the sample-period to 2000, and generally reached the same conclusion: job-protected paid leave significantly decreases infant mortality rates (Table 5.3). However, it is hard to assess the robustness of these results. OECD (2011), which used an extensive parental leave dataset for 30 OECD countries from 1969 to 2008 (but otherwise replicated Ruhm's framework), could find no significant effects of parental leave on infant mortality.

235. Khanam *et al* (2009), using Australian data, provide evidence that staying home with a child during the first months of life has a positive effect on child health outcomes. Paid maternity leave reduces the incidence of child asthma and bronchiolitis, and significantly increases the duration of breastfeeding and the likelihood of up-to-date immunization. These positive effects are significant if the duration of leave is at least 6 weeks. Baker and Milligan (2008b) examine the effects of the extension of paid maternity leave from six months to 12 months in Canada and find the increased amount of maternal care due to the maternity leave reform had no statistically significant effect on early childhood development indicators, specifically child temperament and motor-social development for children up to 29 months old.

236. However, the most comparable evidence for the United States arguably comes from Norway, where the introduction of paid leave resembles potential family leave changes in the United States. Carneiro *et al* (2010) evaluate the introduction of a four-month PFL scheme in Norway in 1977. This mimics the U.S. case in several ways: the preceding Norwegian policy was to offer three months of unpaid leave, and, at the time, public day care coverage in Norway was low and female employment was relatively high. The reform increased mothers' leave-taking by four months and sustained family income during that period. The authors find that children of mothers who were affected by the introduction of paid leave were less likely to drop out of high school. Mothers' additional time at home is associated with, on average, a 2.7 percentage point decrease in the child later dropping out of high school. The effects were even greater for less-educated mothers, whose children were 5.2 percentage points less likely to drop out of high school.

237. When considering long-term education effects, Liu and Skans (2010) conclude that the extension of parental leave benefits from 12 to 15 months in Sweden had no effect on children's scholastic performance at age 16 and Dustmann and Schönberg (2012) found that extending maternity leave in Germany had no substantial effect on long-term educational outcomes such as high school attendance.

[20] For example, Guendelman et al. (2009) found that maternity leave in late pregnancy reduces the risk of delivery by cesarean section and help to prolong gestation in women who experience stress at work. Similarly, Cerón-Mireles et al (1996) found that an absence of pre-natal leave increased the likelihood of premature birth.

5.3.3 Unpaid leave in the United States has had few effects on child health outcomes

238. Similar to the cross-national results, unpaid leave seems to have had inconsistent effects on infant and child health outcomes in the U.S: health benefits may better accrue following paid leave provisions. Berger *et al*. (2005) compares children whose mothers returned to work within 12 weeks of unpaid leave to children whose mothers stayed at home longer than 12 weeks after childbirth in the United States. Relative to children whose mothers stayed home longer, children whose mothers returned to work within 12 weeks were less likely to receive regular medical check-ups, to be breastfed, and to have all of their DPT/Oral Polio immunisations. Furthermore, children whose mothers returned to full-time work within 12 weeks are more likely to have externalising behaviour problems (such as aggressiveness and impulsivity) at age 4.

239. Rossin (2011) also examines the effect of unpaid leave in the U.S. and concluded that the 12 weeks leave of the FMLA led to increases in birth weight, decreases in the likelihood of premature birth, and substantial decreases in infant mortality. However, she points out these positive effects hold only for children of educated mothers and not for children of less-educated and single mothers, who are less likely to be able to take FMLA's unpaid leave.

5.3.4 A continuing debate over the role of mothers' work during infancy

240. Although it is not a direct measure of parental leave, mothers' work in early childhood is a proxy related to the availability of leave. Recent studies suggest that some forms of maternal employment during the child's first year may be detrimental to children's cognitive development and contribute to behavioural problems. Brooks-Gunn *et al*. (2002), for example, find that a mother working more than thirty hours per week during the first nine months of a child's life has strong negative effects on child cognitive development. Similarly, Baum (2003) finds that maternal work in the child's first year has a detrimental effect on child cognitive development, although they suggest this negative effect may be partially offset by the positive influence of increases in family income.

241. However, an OECD (2011) cross-national study of longitudinal data from 5 countries (Australia, Canada, Denmark, the United Kingdom and the United States) shows mixed results. British children whose mothers return to work by the time they were 6 months old (either full-time or part-time) were more likely to experience conduct problems. However, in other countries this relationship between mother's work and children's health was not significant.

242. While a mother's decision to return to work during her child's infancy should of course be left to her and her family, the availability of paid parental leave is useful in providing mothers with the option of spending their time on in-home care or returning to paid work in the formal labour force.

Table 5.3: International evidence: parental leave and child health outcomes

Publication	Country, years, and method	Independent variables	Results				
			Mortality rates	Birth weight	Breastfeeding	Immunisation	Cognitive
Baker and Milligan (2008b)	**Canada**, 1998-2003 Estimates from National Longitudinal Survey of Children and Youth	Extension of paid and job –protected maternity leave from six months to 12 months	N/A	N/A	N/A	N/A	No effect on child temperament or motor-social development
Carneiro *et al* (2010)	**Norway,** 1975-2006 Estimation of Norwegian administrative data	Introduction of paid and job-protected maternity leave from zero to four months	N/A	N/A	N/A	N/A	Increase in high school graduation: paid leave associated with 2.7 percentage point decline in dropping out
Khanam *et al*(2009)	**Australia**, 2005 Longitudinal Study of Australian Children and Parental Leave Australia Survey	Weeks of maternity leave (either paid or unpaid)	N/A	No effect	Increase in breast-feeding	Increase in immune-sations	N/A
Liu and Skans (2009)	**Sweden**, 1987-2005 Estimation of administrative data	Extension of paid and job-protected parental leave benefits from 12 to 15 months	N/A	N/A	N/A	N/A	No effect by age 16
Ruhm (2000)	**16 European countries**, 1969-1994 TSCS estimation	Weeks of paid and job-protected leave	Decrease in mortality: a 10-week extension of paid leave reduces post-neonatal deaths by 3.7-4.5% and child mortality by 3.3-3.5%.	No effect	N/A	N/A	N/A
Tanaka (2005)	**16 European countries, U.S. and Japan**,1969-2000 TSCS estimation	Weeks of paid and job-protected leave	Decrease in mortality: a 10-week extension of paid leave reduces post-neonatal deaths by 4.1% and child mortality by 3%.	Positive effect: reduction in low-birth-weight infants	N/A	No effect	N/A

Source: OECD

5.4. Health effects of state paid leave

243. Evidence on the child health effects of PFL in the United States is limited, in large part because of the newness of the state programmes and infrequency in the collection of health data. Stearns (2015) studies the effects of the 1978 Pregnancy Discrimination Act, which resulted in the five states with temporary disability insurance programmes to providing about six weeks of maternity leave for pregnant and new mothers, and found that paid maternity leave reduced low birth-weight births by five percent and preterm births (less than 37 weeks gestation) by eight percent.

244. In an analysis of breastfeeding and paid leave in California, Huang and Yang (2015) find that the introduction of PFL was associated with an increase in breastfeeding of 10-20 percentage points at three, six, and nine months of age. PFL also contributed to a rise in exclusive breastfeeding.

5.4.1. Paid family leave improved immunization rates in California and New Jersey

245. Immunizations are an important part of preventative health care. The U.S. Centers for Disease Control and Prevention (US CDC) estimate that vaccinations will prevent an estimated 322 million illnesses, 21 million hospitalizations, and 732000 deaths during the lifetimes of children born in the United States between 1994 and 2013 (US CDC, 2014). Yet immunizations and "well child" care are rarely explored as an outcome of paid family leave in international and U.S. research. The following preliminary study of the 2001-2012 U.S. National Immunization Survey (NIS) attempts to answer the following question: what is the relationship between PFL and infant immunization in the United States?

246. This original OECD analysis applies a quasi-experimental difference-in-differences (DID) strategy to estimate the effects of the introduction of PFL on vaccination rates for young children (19 to 23-month-olds). The DID approach mimics an experimental design by comparing rates of immunization for "control group" children with "treatment group" children in two PFL states: California and New Jersey. The goal is to evaluate how the *difference* between the "treatment" and "control" groups has changed over time, specifically by subtracting (or differencing) pre-PFL from post-PFL vaccination rates.

247. In the United States, there is no federal legislation mandating vaccinations. Rather, the CDC provides a recommended vaccination schedule, and states use their own discretion to mandate specific immunizations for childcare and preschools. Only immunizations that are required for preschool in the sampled regions are included as outcome variables in this analysis. The NIS tracks vaccination coverage through a representative phone survey of households and a corresponding medical provider-confirmed vaccination history. The NIS only includes the ages of children in the survey, does not include birth dates, and its survey years do not match 12-month calendar years. Thus, it is not possible to identify perfectly the treatment period around birth, and the analysis instead looks at children's treatment status by the age of 19 to 23 months (consequently, the actual year of PFL introduction is excluded from analysis, but years before and after are compared.)

248. The introduction of PFL led to significant increases in young children receiving doses and full vaccination series across difference specifications of the control group. Table 5.4 presents the difference-in-difference estimates of PFL's effect on immunization rates in California and New Jersey. In this table, the control group comprises all other states in each Census region (U.S. Northeast for New Jersey, and U.S. West for California). "Number of doses" is a discrete variable counting how many immunizations children received, and "completed vaccination series" is an indicator variable identifying whether a child has received a full vaccination series (1) or not (0).

Table 5.4: Paid family leave increased children's immunisations in California and New Jersey

Difference-in-difference estimates of paid family leave on immunization rates for 19 to 23 month-olds: PFL states relative to regional control groups, 2001- 2012

State:	California (PFL introduced in 2004)		New Jersey (PFL introduced in 2009)	
Variable:	Number of doses	Completed vaccination series	Number of doses	Completed vaccination series
Hib	0.180 ***	0.113 ***	-0.063	-0.083
(Haemophilus influenza type b)	(0.058)	(0.035)	(0.132)	(0.073)
IPV	0.034	-0.032	0.022	0.116 *
(Polio)	(0.047)	(0.027)	(0.119)	(0.072)
MMR	0.033	0.003	0.093 **	0.079 **
(Measles, Mumps, and Rubella)	(0.025)	(0.024)	(0.042)	(0.041)
Number of observations	12262	12262	8865	8865

Notes: Dependent variables are 1) a continuous variable for number of immunizations received or 2) an indicator variable for whether a vaccination series was completed (as defined by CDC immunization guidelines). Robust linearized standard errors are in parentheses. Controls for sex, race, number of children, mother's education, mother's age, marital status, and poverty status are included in the regressions but excluded from this table. California and New Jersey are compared to "control group" states, comprised of those in the respective adjacent U.S. Census region. Other NIS-monitored immunizations with insignificant results are excluded from this table. *** indicates statistical significance at p<0.01, ** = p<0.05, * = p<0.10

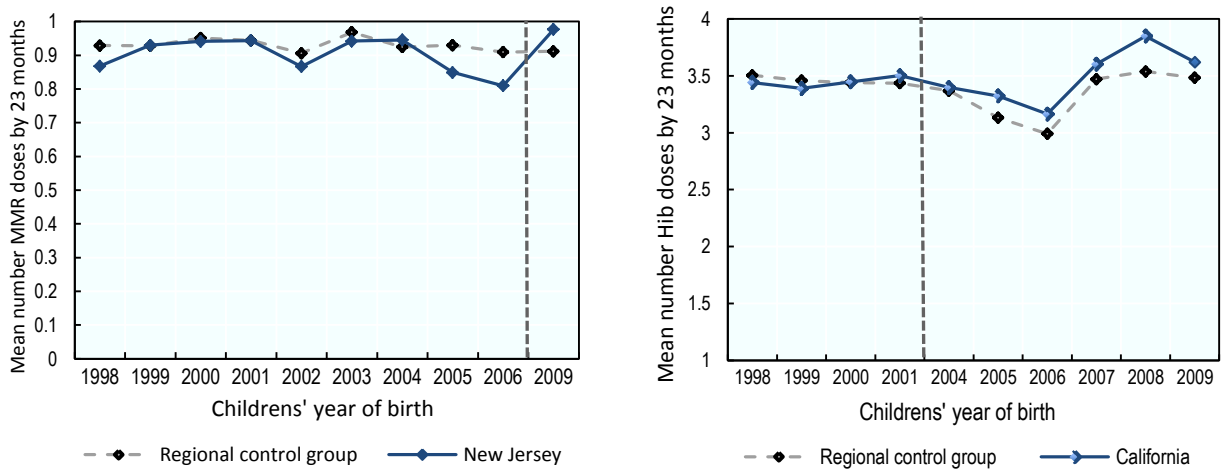
Source: OECD calculations of National Immunization Survey data, 2001-2012

249. In New Jersey, the introduction of PFL led to a significant increase in measles, mumps and rubella (MMR) and polio immunization coverage for young children - indeed, following the introduction of PFL, children in New Jersey were almost 10% more likely to receive measles vaccinations relative to children in the regional control group When looking at whether toddlers received a completed series of shots, New Jersey children were also 11.6% more likely than the comparison group to have completed a full vaccination series for polio following the introduction of paid leave.

250. This is a noteworthy effect, given that MMR and polio vaccine coverage is already relatively high in the country and the state. 91.9%(+/-0.9) of all children in the U.S. and 95.6% (+/- 3.3) of all children in New Jersey aged 19-35 months received at least one dose of MMR, and 92.7% (+/- 1.0) of all children in the U.S. and 91.8% (+/-4.5) of all children in New Jersey aged 19-35 months have at least three doses of a polio vaccine (CDC, 2013). The positive MMR results for New Jersey are robust to modelling the "control group" as the entire United States, rather than just the Northeast region. Children in California experienced a highly significant increase in *Haemophilus influenza* Type B (Hib) doses and full vaccinations (this result is also robust to modelling the control group as the entire United States).

251. These DID estimates are illustrated below with trend lines in Figure 5.3. The vertical reference line for 2009 in New Jersey and 2004 in California represents the timing of paid family leave's introduction. In the graphic on the left, the y-axis represents the average number of MMR doses received by 23 months in New Jersey. In the graphic on the right, the y-axis represents the average number of Hib doses received by 23 months in California.

Figure 5.3: Vaccination trends before and after PFL in New Jersey and California



Source: OECD (see Table 4.4).

PFL has had important effects on immunisation of children in low-income households

252. Children living in poverty in the United States are less likely to have been immunized than children living above or at the poverty line. There are particularly large disparities for diphtheria, tetanus toxoids, and pertussis (DtaP) vaccinations (8.2 percentage points) and the full series of Hib (by 9.5 percentage points) between low- and higher-income children (CDC, 2014). Reaching these low-income populations is important for preventing outbreaks of vaccine-preventable diseases. What, then, are the effects of PFL on poor parents' rates of immunizing their children?

253. Subgroup analyses reveal heterogeneous effects of PFL. In particular, PFL has had disproportionately large effects on children in low-income families, especially in New Jersey. Table 5.5 presents the effects of PFL on vaccination doses and full series for children whose households live below the federal poverty line (again in the model presented here, the control group comprises all other states in each Census region - U.S. Northeast and U.S. West).

254. In New Jersey, PFL caused highly significant increases in the received doses of DTP/DTaP, Hib, Hepatitis B (HepB), and polio vaccinations for low-income 19 to 23-months-old children. These children were also more likely to receive a full vaccination series of DTP/DTaP after the introduction of PFL. In California, PFL led to increases in low-income children receiving the full series of HepB shots, relative to the regional control group. (When compared to the national control group, rather than just neighbouring states, the full series of IPV immunization increases as a result of PFL in California). It is unclear why there are more positive effects seen for New Jersey than for California, but recall that there is only one year of data observed post-PFL in New Jersey. The "treatment" period in New Jersey also corresponds with the Great Recession, which may involve a relatively high share of "temporary low-income families" in New Jersey, and these families may well have retained the preventative health behaviours of middle-class families.

Table 5.5: Paid family leave improved low-income children's immunisations in California and New Jersey

Difference-in-difference estimates of paid family leave on immunization rates for 19 to 23 month-olds below the federal poverty level: PFL states relative to regional control groups, 2001- 2012

State:	California (PFL introduced in 2004)		New Jersey (PFL introduced in 2009)	
Variable:	Number of doses	Completed vaccination series	Number of doses	Completed vaccination series
DTP/DTaP	0.049	-0.042	0.649 ***	0.259 **
(Diphtheria, tetanus toxoids, and pertussis)	(0.086)	(0.056)	(0.191)	(0.105)
Hib	0.136	0.061	0.507 **	0.162
(Haemophilus influenza type b)	(0.099)	(0.064)	(0.216)	(0.138)
IPV	-0.122	0.097 *	0.720 ***	-0.043
(Polio)	(0.075)	(0.052)	(0.209)	(0.151)
MMR	0.037	-0.072	0.508 **	0.156
(Measles, Mumps, and Rubella)	(0.071)	(0.045)	(0.205)	(0.148)
Number of observations	2730	2730	1680	1680

Notes: DID estimates in this table are for the subgroup of children with household incomes below the federal poverty line. Dependent variables are 1) a continuous variable for number of immunizations received or 2) an indicator variable for whether a vaccination series was completed (as defined by CDC immunization guidelines). Robust linearized standard errors are in parentheses. Control variables for sex, race, number of children, mother's education, mother's age, marital status, and poverty status are included in the regressions but excluded from this table. California and New Jersey are compared to "control group" states, comprised of those in the respective adjacent U.S. Census region. Poverty level incorporates income and family size based on U.S. Census poverty threshold. Other NIS-monitored immunizations with insignificant results are excluded from this table. *** indicates statistical significance at p<0.01, ** = p<0.05, * = p<0.10

Source: OECD calculations of National Immunization Survey data, 2001-2012

255. PFL's positive effects on low-income children's immunizations are greater than the effects seen for children of single mothers. There are no positive significant effects of PFL on vaccinations in single mother households in New Jersey. In California, only Hib and HepB immunizations increased for children born to single mothers. Since this study looks at "intent-to-treat" rather than actual "treatment" – it is not possible in the survey data to see who received PFL, but rather, who was eligible based on location and timing – the null effect for single mothers may be driven by very little uptake among single mothers. (Recall that there are minimum work hour requirements in the twelve months preceding possible PFL payments.) It may also be the case that two parents' ability to take time off from work may matter at least as much as wage replacement in getting parents to take their children to doctor's appointments for preventative health care.

5.5. The costs and benefits of paid family leave for American employers

256. There are costs and benefits to introducing paid family leave schemes. In many OECD countries employers contribute financially to paid leave schemes (Chapter 4), but employers in California, New Jersey and Rhode Island do not have to make financial contributions to PFL–schemes – a major factor in getting relevant legislation through state assemblies. California's, New Jersey's, and Rhode Island's paid leave programmes are financed by employee contributions, via payroll taxes, that are operated by state short-term disability schemes (Chapter 3).

257. However, there are costs for employers to introducing PFL. Employers can face financial and administrative costs when employees take paid or unpaid job-protected time off from work, as they may

need to hire replacement workers or they may need to retrain existing workers to temporarily cover missed work. And these hiring/replacement costs are higher the higher the skills-profile of a job and the longer the duration of leave.

258. On the other hand, businesses may benefit from experienced employee retention when trained workers return to the same job rather than quitting. The availability of leave may also enhance employee loyalty, productivity, and morale. Employers can attract workers who prefer family-friendly policies. Prima facie it is not clear what the balance of cost and benefits to employers might be.

5.5.1. American businesses report positive effects of family leave laws

259. Both national and state-level surveys of U.S. employers have found that family leave has had a positive impact on workers' lives without providing evidence that this has been a burden on employers. In a Department of Labor survey of workers and worksites, the vast majority of businesses report that FMLA had either positive or "non-negative" effects on business profitability, employee productivity, absenteeism, turnover, career advancement, and morale: 96% of FMLA-covered worksites reported that FMLA had very positive (15.1%), somewhat positive (18%), or no noticeable effects (62.9%) at their business (U.S. DOL, 2012).[21]

260. Furthermore, the U.S. DOL found that employers and employees have little difficulty complying with FMLA. Employers faced the most difficulty in covering unplanned leave of indeterminate duration, and were most able to prepare for advance-scheduled leave of a fixed duration (U.S. DOL, 2012). Employer notice periods, then, are an important factor to consider in PFL design.

261. When workers take FMLA leave, most FMLA-covered worksites – 75.6% – simply assigned another worker to temporarily assume the leave-taker's tasks. 7.3% of FMLA-covered worksites hired a temporary replacement, and the rest of the organisations used a combination of strategies – including putting work on hold until the leave-taker returned or having the employee perform some work while on leave – to meet their needs during a worker's FMLA leave (U.S. DOL, 2012). Similar to the national DOL results, Appelbaum and Milkman (2011; 2013) surveying approximately 250 California businesses on their experiences with PFL, found that 90% of California firms had a positive effect or no effect on costs, productivity, profit, and workplace morale.

262. The national DOL survey and the California survey of businesses found that businesses report few cases of misuse or fraud in the take-up of paid family leave. In the national survey of FMLA-covered worksites, a mere 2.5% of businesses reported suspicion of FMLA misuse, and *confirmed* misuse was even rarer: only 1.6% of worksites report confirmed misuse (U.S. DOL, 2012). In California, nearly 90% of businesses reported that they had no experience of employees misusing leave (Appelbaum and Milkman, 2011; 2013).

[21] These estimates vary depending on the survey weighting specification, but, across models, the majority of worksites report neutral to positive effects of FMLA compliance.

5.5.2 The costs of replacing workers

263. There is no comprehensive evidence on the extent of replacement costs that business faces. Accurate numbers on short-term replacements are hard to come by. Most businesses ask other employees to cover the work of their colleague on leave, but it is unclear as to what costs are in terms of shifting work among salaried employees or paid overtime.

264. Businesses clearly *do* face high costs, however, when employees permanently leave their jobs, and new parents are much more likely to quit their jobs when they cannot access job-protected PFL (see above). Replacing a worker is costly. Employers face direct and indirect burdens in the form of exit interviews and severance pay; lost productivity while an employee anticipates their departure; productivity losses while a position is unfilled; the costs of recruiting, hiring, and training a new employee; slower productivity until the new worker is fully trained; and lost clients (Bloom *et al*. 2010, Boushey and Glynn 2012, Dube *et al* 2010).

265. A meta-analysis of thirty case studies on employee turnover finds that it costs a business, on average, 21% of an employee's annual salary to replace her (Boushey and Glynn 2012).[22] Replacement values are positively associated with the skill level of the employee, but *all* employees – even low-wage and less-skilled workers – are costly to replace. Workers earning less than USD 50,000 per year cost about 20% of their salary to replace, and workers making USD 30,000 or less cost about 16% of their salary to replace (Boushey and Glynn 2012). Higher earners in high-skill jobs, such as doctors and lawyers, cost even more. Paying attention to employee retention is thus a smart move for all businesses' bottom lines.

266. On average, 21.9% of American women who worked during pregnancy quit their job prior to the birth of their first child (U.S. Census Bureau, 2011). The highest frequency of quitting occurs among less-educated mothers, but quit rates are still significant among higher-skilled workers: 22.9% of new mothers with some tertiary education and 12.9% of new mothers who earned a tertiary degree (or more) quit their jobs around the time of childbirth (U.S. Census Bureau, 2011). The loss of these workers represents significant costs to businesses, also because the majority of mothers (75%) who *do* return to their pre-birth employer continue to work the same amount of hours as before, rather than work part-time as in some OECD countries such as the Netherlands or the United Kingdom (OECD, 2015).

267. Figure 5.4 shows that employee retention is positively correlated with access to paid leave; that is, mothers who have access to paid leave are more likely to come back to their jobs. They also tend to be better-educated and have higher-paying jobs, supporting evidence for paid leave as a workplace benefit.

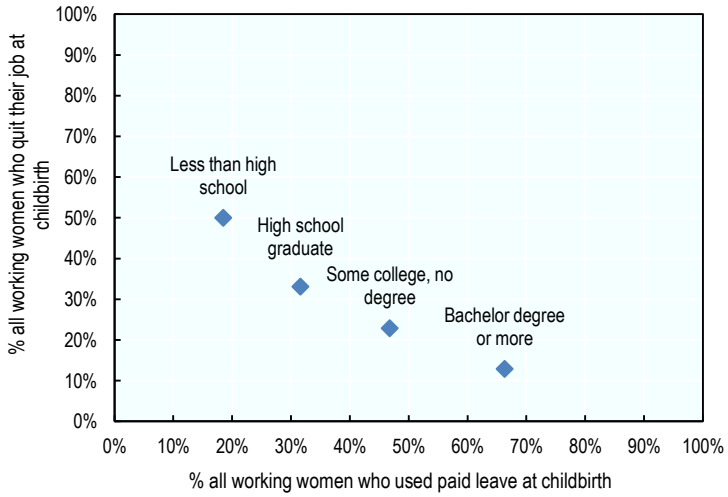
268. Given that only five U.S. states offer paid maternity (disability) leave and only three states offer paid family leave, the 66% of college-educated mothers in Figure 4.3 who report having used paid leave is comprised mostly of women who have access to paid leave through their employer. Large companies like Google point to paid maternity leave as both a valuable recruiting tool and a strategy for employee retention. When Google introduced a five-month maternity plan (from its pre-existing twelve weeks of paid leave) in 2007, the attrition rate for new mothers dropped by 50 per cent and matched the average attrition rate for the rest of the company. Google's head of human resources reported that the new leave policy improved morale, as measured by employee surveys, and is cost-effective: after factoring in recruitment costs, granting mothers five months of leave did not cost Google any more money (Manjoo 2013).

22 This estimate excludes highly-specialised occupations such as executives and physicians. The authors of the report suggest that the costs of replacing workers in such highly-specialised positions are likely to be even higher, but exclude information on turnover costs for these occupations to avoid skewing the estimate upwards.

269. Of course, in companies where employee replacement costs are relatively low, business-provided paid leave may not be cost-effective. However, *public* PFL schemes can be a win-win for businesses, particularly those businesses that are already required to protect new parents' jobs: existing state plans and proposals for publicly-funded PFL do not impose tax costs nor employee payment burdens on employers, yet they offer large benefits in the form of employee morale and retention.

Figure 5.4: Pregnant workers with paid leave are less likely to quit their jobs

The proportion of all working women who use paid leave at childbirth, and the proportion of working women that quit their job following childbirth



Note: Paid leave includes all paid maternity, sick, vacation and other leave to workers

Source: U.S. Census Bureau (2011).

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