UC SANTA BARBARA

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# No Place Like Home

The United States, alone among industrialized countries, has no mandated family leave policy at the national level. Opponents of such leave usually argue that it would impose prohibitive burdens on businesses and their employees.

New research, however, provides some of the first evidence that family leave policies like those in Scandinavian countries impose negligible costs on small firms and the co-workers of people who take family leave.

Heather N. Royer, an associate professor of economics at UC Santa Barbara and co-author of a working paper prepared for the National Bureau of Economic Research, noted that the research used data on small firms in Denmark.

“One thing to be clear about is that we’re looking not at all firms; we focus on small firms for two reasons,” she said. “One is if you look at the public rhetoric around family leave, the discussion is about the small firms being hurt by this.

“And the second thing is that if you think about one worker going on leave,” she continued, “it’s going to be a bigger effect in a small firm just because of numbers. One out of 30 people is different than one out of 300 people. And so we think that it’s also a natural place to look because … if we’re going to find an effect, it’s going to be there.”

The authors analyzed extensive data from Denmark, where expectant mothers are eligible for job-protected leave with wage replacement for four weeks before birth, 14 weeks immediately after birth and then have 32 weeks they can split between

themselves and the father — although, in practice, mothers take the majority of that time.

In the Danish model, the employer pays the worker's wages and benefits and is reimbursed by the government.

In analyzing the data, the researchers emerged with several key findings. First, firms in which a woman gives birth are exposed to roughly 289 extra days of parental leave. Although that sounds like a company would take a hefty hit, Royer noted that businesses make adjustments that not only minimize disruption, but raise the retention rates of existing employees.

The paper also finds that Danish parental leave imposes minimal costs on businesses. While there are "marginal increases in the earnings of existing employees" and increased temporary hiring, but overall the firms' wage bills, once taking into account the government's reimbursement for employees' parental leave is unaffected.

What's more, the researchers found no evidence that costs of parental leave are being shifted to co-workers, who see increases in their hours, earnings and likelihood of being employed when an employee goes on leave. Nor do their co-workers appear to suffer from the co-worker's absence, at least in terms of sick leave.

Although criticism of family leave policies usually revolves around costs, Royer said it has the potential to boost the economy by bringing more women into the workforce, "because having a bigger labor force is a useful thing."

"We have huge demographic issues as the baby boomers retire," she said. "And so funding programs like Social Security, we always worry about having a stable workforce." Family leave, she added, could encourage women to enter the labor force and "not have to make this trade-off between, 'I'm going to be a parent or I'm going to be a worker.' They can do both."

The paper's other co-authors are Anne A. Brenoe of the University of Zurich, Serena P. Canaan of American University of Beirut, and Nikolaj A. Harmon of the University of Copenhagen.

While the authors are an international lot, Royer noted that Brenoe and Canaan have ties to UC Santa Barbara. Brenoe was a Ph.D. student when the project started and

visited Santa Barbara for six months while her husband was on family leave. Canaan earned her Ph.D. in economics from UCSB in 2016.

“I think that this project to me is very satisfying in the sense that this started from discussions of people who were here at one point,” she said. “So I think it’s one of the things I love about it, that it came from just casual conversations about research.”

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