

## POOR AMERICANS WILL SUFFER FROM A PAID LEAVE MANDATE

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The Women's Bureau of the US Department of Labor seeks input about the benefits and costs of paid leave and about its measurements thereof. The agency also seeks input to identify who benefits from paid leave policies and who bears the costs.

The Mercatus Center at George Mason University is dedicated to bridging the gap between academic ideas and real-world problems and to advancing knowledge about the effects of regulation on society. This comment does not represent the views of any particular party or special interest group but is designed to assist the Department of Labor as it considers the costs and tradeoffs inherent in implementing a paid leave policy.

One of the many benefits of a federal system is that states can experiment with different paid leave schemes. Their innovation with their own distinct policies reflects their own needs and the policy preferences of their residents. The resulting diversity in policy choices can also provide valuable information on what works and what doesn't.

The economics literature is also a powerful source of understanding of what works and what doesn't. According to this literature, implementing a system of paid leave at the federal level would be a mistake. The agency should be commended for its concern about who would bear the costs of a federal paid leave mandate. Such a program is likely to inadvertently hurt those whom it is meant to help: women in low-paying jobs, women who work part time, and women who are generally less secure in employment.

The agency should consider three circumstances surrounding paid leave: First, the number of women getting paid leave has expanded over time, so the fact that every woman does not get paid leave does not indicate a market failure. Second, the fact that other developed nations have mandated paid leave is not a sufficient justification for emulation in the United States. Third, by emulating other nations, the United States might well repeat their errors.

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## NOT EVERY WORKING WOMEN GETS PAID LEAVE, BUT IS THIS REALLY A MARKET FAILURE?

Among the most common justifications for government providing or mandating paid leave is the observation that not every working woman gets paid leave, which supposedly demonstrates a failure of labor markets to provide this benefit.

In proper context, however, this phenomenon cannot be considered a market failure. Data from the American Action Forum show that 66 percent of women today have access to paid leave—a 280 percent increase since the 1960s.<sup>1</sup> In particular, nearly 84 percent of middle- and high-income working women already have access to paid leave through their employers. Of low-income working women, a little more than 33 percent have access to this benefit, but this smaller figure is owed in part to the fact that these women tend to work jobs that are part time, hourly, or both.

All else being equal, every woman would undoubtedly like to get paid to stay home after the birth of a child, and every worker would like to have paid leave to care for a sick loved one. There's no denying the value of paid leave to families and young parents. Many companies understand that their bottom lines are improved by providing this type of benefit to their workers. That's why the data demonstrate that the vast majority of employers accommodate their employees' desires for paid leave.

Such decisions are never made in such a vacuum, though. Workers and employers weigh the benefits and costs of paid leave against those of other fringe benefits, so the decision not to provide paid leave may be an expression of workers' and employers' economic preferences, not evidence of a market failure. As an analogy, the fact that not all women receive paid leave as part of their employment packages is not evidence of a market failure any more than is the fact that that not everyone drives a Tesla. Teslas are expensive, and even though most people likely wouldn't mind getting one for free, realistically many drivers will forgo the speed, luxury, and attractive looks in order to save money.

Just like the decision to buy a Tesla, the decision to provide paid leave carries economic tradeoffs. Paid leave is a costly benefit, and firms offset this cost by reducing the value of workers' take-home pay. In addition to benefiting high-income women more than low-income women,<sup>2</sup> paid leave mandates disproportionately harm low-income workers.

While some workers may prefer reduced cash wages in return for paid leave, others may not. In particular, mandating leave would pose an undesirable tradeoff for many lower-paid women who prefer to receive as much of their income as possible in the form of take-home pay.

In fact, polls show that when women learn of the tradeoffs inherent in any government-mandated paid leave policy, their support for such a policy collapses.<sup>3</sup>

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1. Ben Gitis, *Paid Family and Medical Leave in the United States: Using Data to Guide Public Policy* (Washington, DC: American Action Forum, 2018).

2. Hearing on Paid Family and Medical Leave: Helping Workers and Employers Succeed, Hearing Before the H. Comm. on Ways and Means, 116th Cong. 29–31 (2019) (statement of Rachel Greszler, Research Fellow, Heritage Foundation).

3. Emily Ekin, *Poll: 74% of Americans Support Federal Paid Leave Program When Costs Not Mentioned — 60% Oppose If They Got Smaller Pay Raises in the Future* (Washington, DC: Cato Institute, 2018).

## ALL INDUSTRIALIZED NATIONS HAVE NATIONAL PAID LEAVE, BUT SHOULD THE UNITED STATES AS WELL?

Another argument that proponents of paid leave make is that the United States is the only industrialized country without a national paid leave program. While true, this is not particularly convincing.

As I showed earlier, absence of federal government action doesn't mean that US women aren't getting any paid leave. Nor does it mean that women in countries that have government-mandated paid leave programs are doing better than women in the United States.

In fact, while proponents of government-supported paid leave policies like to list the many benefits that women, their children, and the companies they work for get from paid leave, these proponents are silent about the many costs of these policies. Moreover, government-supported paid leave policies do not necessarily improve women's labor market outcomes relative to men's.

A National Bureau of Economic Research (NBER) paper shows that while women in non-US countries in the Organisation for Economic Co-operation and Development often have higher labor force participation, the lack of a federally mandated paid leave policy in the United States is associated with women in America being more likely to have full-time jobs and to work as managers or professionals.

A well-cited NBER paper looks at Denmark's very generous paid leave policy and finds that before women have children, their hours, employment, and wages are equal to those of men, but that these metrics all worsen relative to those of men after the arrival of children. The tradeoffs are even more dire for low-income employees, whom proponents of federally provided or mandated paid leave legislation in the United States claim they want to help.<sup>4</sup>

Another recent NBER paper expands on this research and shows that while this divergence in outcomes after having children also exists in the United States, it is significantly smaller here.

These facts are important to reiterate. Looking specifically at Nordic countries, which are often hailed as the example to follow in terms of family paid leave benefits, reveals that circumstances are not always what they seem to be. For instance, thanks in part to these benefits, Nordic women do participate in the labor force at higher rates than women in other countries. However, academic studies show that higher taxes on labor income, which are used to fund these generous policies, encourage women to work part time, not full time.

More generally, higher tax rates reduce the amount of time women work and increase the amount of time they spend doing unpaid household work. A study titled "The Nordic Glass Ceiling" by Nima Sanandaji explains that "Nordic professors and other workers are more inclined than their lower-taxed American counterparts to devote unpaid time to domestic work rather than work longer hours in their paid work."<sup>5</sup>

Studies by the European Commission and others find that broad-based welfare policies also create incentives for women to work part time rather than full time. Ironically, paid maternity leave policies make working fewer hours more attractive relative to working full time, which in turn hinders women's ability to reach the top executive positions.

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4. Henrik Kleven, Camille Landais, and Jakob Egholt Sogaard, "Children and Gender Inequality: Evidence from Denmark," *American Economic Journal: Applied Economics* 11, no. 4 (2019): 181-209.

5. Nima Sanandaji, "The Nordic Glass Ceiling" (Policy Analysis No. 835, Cato Institute, Washington, DC, March 8, 2018), 7.

This phenomenon is particularly pronounced in Scandinavian countries, where the benefits are more generous. For instance, while the share of female managers is 43 percent in the United States, it's 28 percent in Denmark, 30 percent in Finland, 32 percent in Norway, and 36 percent in Sweden.<sup>6</sup> These countries also have, relative to other developed nations, very low rates of women working in science, technology, engineering, and mathematics fields.

Well-intentioned policymakers like to think they can design a system that will make these tradeoffs disappear. Current state paid leave programs such as California's show that this is impossible.<sup>7</sup>

### THE UNITED STATES SHOULD NOT REPEAT EUROPEAN COUNTRIES' MISTAKES

The third mistaken claim made by those who would like to see a federal paid leave system adopted in the United States is that the levels of benefits being proposed in America aren't anywhere near as high as those mandated in Europe, so any negative consequences of government-mandated benefits in the United States would be smaller than they are in Europe.

That argument would be true only if the benefits don't grow over time, which is unlikely, in view of the history of similar programs, both in Europe and in the United States.

European programs didn't start off as big as they are now. The average length of family leave programs in the eurozone increased from 17 weeks in 1970 to 57 weeks in 2016.<sup>8</sup> Testifying before the Senate in 2018, Rachel Greszler noted that

between 1980 and 2011, the median amount of paid leave for mothers among Organisation for Economic Co-operation and Development (OECD) countries increased from 14 weeks to 42 weeks. In Canada, paid leave benefits doubled from 17 weeks to 35 weeks (52 weeks including home care payments) from 1980 to 2013 while the program's costs roughly quadrupled from 0.07 percent to 0.28 percent of gross domestic product (GDP). Similarly, Denmark's paid family leave program doubled in cost from 0.24 percent of GDP in 1980 to 0.48 percent in 2013.<sup>9</sup>

These results occur because maternity leave programs often expand to include parental leave and then to include even broader kinds of leave, such as home care for sick family members.

### CONCLUDING REMARKS

There are many more unconvincing arguments for mandated paid leave. While not discussed here, the cost to taxpayers of a mandatory federal paid leave system will be significant.<sup>10</sup> The federal government is already massively in debt. There is substantial empirical evidence of the negative

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6. Vanessa Brown Calder, "Parental Leave: Is There a Case for Government Action?" (Policy Analysis No. 850, Cato Institute, Washington, DC, October 2, 2018).

7. Tirthatanmoy Das and Solomon Polachek, "Unanticipated Effects of California's Paid Family Leave Program" (IZA Discussion Paper No. 8023, IZA Institute of Labor Economics, Bonn, Germany, March 2014).

8. Vanessa Brown Calder, "Would Government Paid Leave Benefits Grow over Time?," *Cato at Liberty*, October 12, 2018.

9. Examining the Importance of Paid Family Leave for American Working Families, Hearing Before the Subcomm. on Social Security, Pensions, and Family Policy of the S. Comm. on Finance, 115th Cong. 137-44 (2018) (statement of Rachel Greszler, Research Fellow, Heritage Foundation). Footnotes omitted.

10. Ben Gitis, *The Cost of Paid Leave Law* (Washington, DC: American Action Forum, 2015); Hearing on Paid Family and Medical Leave: Helping Workers and Employers Succeed, Hearing Before the H. Comm. on Ways and Means, 116th Cong. 29-31 (2019) (statement of Rachel Greszler, Research Fellow, Heritage Foundation).

impact of growing national debt on economic growth,<sup>11</sup> and it is hard to overstate the power of economic growth to benefit low-income Americans.<sup>12</sup> Therefore, the increasing national debt is something to be avoided for those who would like to help low-income Americans climb the economic ladder.

Beyond the real financial cost of mandating paid leave at the federal level, yet another consequence should concern policymakers, although it is rarely mentioned: having a federal policy on paid leave will shrink civil society and free corporations and employers from a responsibility that is best left with them. A majority of women report already receiving paid leave in various ways. Yet in states that have government paid leave policies, employers ask employees to first use the state benefits before employer-provided benefits.<sup>13</sup> The policy therefore effectively substitutes state intervention for private-sector responsiveness. Doug Bandow had a good explanation of why this reality matters:

Here government is threatening civil society institutions, ranging from charitable to business, which are aiding the poor, disadvantaged, and uninsured! True, the aid process is disorganized, decentralized, uncertain, and uneven. But that is society. Individuals, families, institutions, and organizations respond differently, yet their complex interplay is what makes community. Discerning and addressing needs, organizing diverse approaches, and responding to the people in front of you is what genuine compassion, which once meant “suffering with,” is all about.

. . . But for various reasons, . . . [mutual aid societies] were replaced by “impersonal bureaucracies controlled by outsiders.”<sup>14</sup>

Those eager to see federal intervention in paid leave should give some thought to this issue.

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11. Veronique de Rugy and Jack Salmon, “Debt and Growth: A Decade of Studies” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2020).

12. Veronique de Rugy and William Beach, “At 2 Percent Growth Rate, It Would Take 35 Years to Double the Size of the US Economy,” Mercatus Center at George Mason University, September 26, 2016.

13. Examining the Importance of Paid Family Leave for American Working Families, Hearing Before the Subcomm. on Social Security, Pensions, and Family Policy of the S. Comm. on Finance, 115th Cong. 137–44 (2018) (statement of Rachel Grezler, Research Fellow, Heritage Foundation).

14. Doug Bandow, “Obamacare’s War on Civil Society,” *American Spectator*, December 24, 2013. Material within the quotation marks is from David T. Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1860–1967* (Chapel Hill, NC: University of North Carolina Press, 2000).