**Income Inequality and Paid Parental Leave**

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**1. Introduction**

Family Leave refers to providing time off for new parents around the birth of a baby (or adoption or foster-care placement) in order that parents can bond with their new child. The United States Congress began debating legislation to give women time off from work (without pay) around the birth of a child during the 1970s. However, nothing made it through Congress until the 1990s. In 1990, and again in 1991, Congress passed a parental leave bill; but these bills were vetoed by the first President Bush and Congress lacked the votes to override them. In February 1993, just one month into his Presidency, Bill Clinton signed the Family and Medical Leave Act (FMLA). This Act ensures that women who take time off to give birth have some job protection. It requires employers to provide 12 weeks of unpaid, job-protected leave for the birth of a child, adoption, or to deal with a close relative encountering a serious health problem.

However, FMLA has many exceptions for employers. It excludes all part-time workers, it leaves out workers who have not been with their present company for at least a year (something typical for younger workers), and it excludes anyone working for firms employing less than 50 workers. Key workers, generally the highest paid 10% of employees, can also be denied this benefit if their employer claims it would create “substantial and grievous injury” to the firm. Taking all these exclusions into account means around 50 percent of all workers are eligible for FMLA and only about 20 percent of new mothers (Appelbaum and Milkman, 2011). But most important of all, although parents are entitled to some leave time around the birth or adoption of a child, this leave is not paid leave. To take any time off from work means doing without one’s regular income. This is probably why the take-up rate is so low—around .7% of female workers between the ages of 16 and 44 (Boushey et al. 2013). In fact, there is evidence that unpaid leave has not significantly increased the amount of time women take off from work around the birth of a child (Han et al. 2008; Laughlin 2011).

The United States is the only industrialized country in the world without a policy of paid parental leave. In fact, as of 2011 out of 190 countries only four (Papua, New Guinea, Swaziland and the United States) do not have policies of paid parental leave (Human Rights Watch, 2011). This is important because balancing family and work responsibilities is difficult, especially for those earning low wages. They typically have little flexibility in their work schedule and they cannot afford to lose the income from taking any time off from work. Taking some time off is especially difficult for single parents, who need their regular paycheck to support their family. In the United States an estimated 48 percent of first births are to unwed parents—the “carriage before marriage” phenomenon (many of these mothers are in their 20s) (The National Marriage Project, 2013). The proportion of single mothers rose from 12% in 1965 to 25% in the early 2000s (Western et al., 2008). For these mothers, unpaid leave is especially problematic-- leading to workforce and financial instability (Census Bureau, 2011).

Paid parental leave has many benefits. It helps improve the well-being of children and mothers (Ruhm, 2000) and, perhaps counter intuitively, improves income and employment outcomes for mothers (Census Bureau, 2011; Engeman, 2012). It encourages work effort because benefits generally depend on wages during the year prior to giving birth. This income, plus the income from leave, both go to improve the living standards of families with young children. Finally, there are benefits for firms and the entire nation. Paid leave reduces worker turnover (Pavalko & Henderson, 2006) and so should increase worker productivity and aggregate living standards.

It is well-known that income inequality has become a problem in the United States over the past three decades. The United States has higher income inequality than all other developed nations. Having children is a considerable expense for families. With more families today with two working parents, and single-parent families, the financial stress of having children is even greater. Between 1975 and 2005 Western et al. (2008) found that inequality among families with children rose by two-thirds (a larger gap than other categories of inequality). The rise in inequality was lower among families in which the household head had a college degree, which provides opportunities for greater job security and higher salaries. For less educated heads of households, inequalities are greater. However, Western et al. (2008) found that controlling for education and other demographic factors does not explain all of the growing inequality among families. Even the rise in single-parent households did not explain the majority of the increase in inequality. They found the greatest increases in inequality occurred within demographic groups. Essentially, regardless of education and family structure, all families experienced within-group increases in inequality. This may result from lower job security, falling real wages for most workers (not just low-skill workers) and susceptibility to high-cost illness Western et al., 2008).

This creates problems at both the macroeconomic level and the microeconomic level. At the macroeconomic level, distribution affects disposable income, consumption, economic growth and employment. At the microeconomic level, distribution affects incentives, especially incentives to work in order to make more money. If hard work does not result in moving up the income ladder, there are few incentives to work hard.

There are also many negative social consequences to rising inequality. Richard Wilkinson, an epidemiologist at Nottingham University, devoted his career to identifying and documenting the social impact of inequality. His most recent work, *The Spirit Level* (Wilkinson and & Pickett, 2010), shows that greater income inequality is associated with mistrust, more crime, less giving to charity, worse school performance by children, more teen pregnancies, a greater incidence of obesity, more mental illness, increased drug addiction, and reduced social mobility. This is true for one country over time, across countries and within countries (e.g., states in the US). Probably one of the worst consequences of inequality concerns its impact on health, which results from a substantial portion of the population having low levels of income and from the greater stress that results from greater income inequality (Wilkinson 1994, 1996, 2000).

These two facts about the United States may be related to each other. The lack of paid leave in the US may help explain the greater income inequality that exists in the US. In the short-run, the lack of paid leave reduces the income of those at the bottom and middle of the income distribution, while having little impact on those at the top of the distribution. Those at the top are more likely to be eligible for paid time off through work—either using generous vacation benefits or through paid maternity leave (Census Bureau, 2011). Higher-income families are also in a position to save more money in preparation for parenthood and incur the costs of having a newborn. As a result, lower income families can face difficult choices: stay at home with a newborn longer, which is beneficial for the child and parent(s), but forgo income; or go back to work earlier and regain income but at the potential hardship of the child and parent(s). It is also possible that even after parent(s) go back to work the family will face financial difficulty because of the increased costs associated with a newborn (e.g., child care, additional doctor visits, clothes, baby food, etc.).

In the long-run the lack of paid leave may also worsen income inequality. There are two mechanisms at work here. First, higher debt as a result of the need for the time to take time off without pay around the time of birth of a child (which reduces families’ disposable income into the future), and the additional expenses of birth, may increase the debt burden of families with young children. We have previously argued (Pressman & Scott 2009; 2013) that interest payments on debt needs to be taken into account when measuring poverty and income inequality. Second, there is also strong evidence that parental employment reduces child health and child cognitive development—which could affect their future earning potential (Ruhm 2000, 2004).

The remainder of this paper examines the impact of paid parental leave on income inequality. Our main focus here will be on the short-run impact; we leave an examination of the long-run impact of paid leave for future work.

**2. Measuring the Impact of Paid Parental Leave on Income Inequality**

Income inequality is a complex concept. It seeks to take into account the many specifics of an entire nation’s distribution and then reduce it to a single number. Such a number is desirable for a number of reasons. It allows countries to be ranked and compared and it lets us easily see and measure changes in income inequality within one nation over time.

There is no perfect measure of income inequality. Each measure has its pros and cons. This paper looks at three measures—poverty rates, the size of the middle class and the Gini coefficient. National poverty rates only look at the very bottom of the distribution. This measure has the advantage of focusing on those households that do not have enough income to survive, an important issue in its own right; but it ignores the middle and the top part of the distribution. Similarly, looking at the middle class focuses only on the middle of income distribution, while ignoring what is happening at the top and the bottom. One of the most famous single summary measures is the Gini coefficient, which attempts to examine the entire distribution of income in a country at one point in time.

Attempting to summarize so much complex information in very simple terms does have its drawbacks; several plague the Gini coefficient. First, the primary drawback of the Gini coefficient is that it is rather sensitive to changes in the densest part of the income distribution (usually, but not always, the middle part of the distribution), while discounting changes at the top and bottom of the income distribution. Changes in distribution over time, therefore, will not be captured well by the Gini coefficient if the biggest changes occur at the high and/or low ends of the income distribution, which are not sufficiently weighted in the Gini coefficient. Second, it is hard to grasp intuitively the meaning of this number. What exactly does a value of .443(the US figure for 2009) mean, how does it compare to a value of .349 (the US figure for 1979), and how much more equal was US income distribution in 1979 compared to today? Third, the Gini coefficient is hard to decompose; this makes it difficult to analyze how the overall distribution is affected by changes in subsets of the overall distribution (Fei et al. 1978; Yitzhaki & Lerman 1991). Consequently, while the Gini coefficient can point out changes in the distribution of income, it cannot pinpoint where changes in the income distribution are taking place. This is why we also need to look at the other two measures of income inequality.

Our method of examining the impact of paid parental leave on income distribution involves looking for things that appear to be natural experiments. We find two such experiments. First, we note that different countries have enacted different paid parental leave policies; and so we look at the impact of these different policies on income distribution. We examine how paid parental leave impacts all three measures of inequality.

Second, we rely on the fact that a few US states have enacted paid leave policies as part of their temporary disability insurance programs. The first state to do so was California, which passed a Paid Family Leave bill on September 23, 2002, with paid leave becoming effective July 1, 2004. This Act provides up to six weeks of replacement pay at 55 percent of previous weekly earnings (to a maximum of $987 a week in 2011). The plan if funded through an employee payroll tax of 1.2 percent (benefit levels indexed to inflation) with no cost to employers (Applebaum and Milkman, 2011). Our home state, New Jersey, also has a paid parental leave program. It began in 2008 and it provides for six weeks of paid leave at 66% of prior weekly pay with a cap of $546 (Fass 2009). Like California, New Jersey finances its paid leave plan with a small employee payroll tax.

California’s Paid Family Leave faced substantial criticism—especially from businesses that argued the program would be abused and create additional costs (direct and indirect) that would be burdensome. Ten years after enactment of Paid Family Leave businesses have actual data with which to base their judgments and their conclusions are radically different. First, Paid Family Leave has reduced employee turnover—and thus the implicit/explicit costs associated with turnover. Research by Applebaum and Milkman (2011) found that employers reported a positive effect or no effect on productivity (89 percent), profitability (91 percent), turnover (96 percent) and employee morale (99 percent). Second, mothers who took advantage of Paid Family Leave were more likely to breastfeed and do so for longer (Applebaum and Milkman, 2011).

Comparing New Jersey and California to other US states enables us to examine the impact of paid parental leave on income distribution. Here, to control for other national differences that might affect the distribution of income, we focus on differences of differences. We compare New Jersey and California before and after enactment of Paid Family Leave to see how income distribution has changed as a result and compare these results to other states in the US that did not adopt state paid leave policies.

To make these two sets of comparisons—the US versus other developed nations, and California and New Jersey versus other US states, we rely on the Luxembourg Income Study (LIS).

**3. The Luxembourg Income Study**

The LIS is an international database containing extensive income as well as socio-demographic information on 46 countries, stretching over a period of 30 years.[[1]](#footnote-1) It was developed for the express purpose of providing researchers access to income and socio-demographic data that was as similar as possible among countries and over time. The LIS contains extensive income data as well as socio-demographic information on 46 countries and stretching back over a period of (in many cases) 30 years. LIS databases center around particular years, called “waves”. Each wave is around 5 years apart, with Wave #1 beginning in the early 1980s. The most recent data, which is just starting to come online, Wave #8, centers around the year 2010.

Our definition of income is household disposable income as defined by the LIS. It includes earned income as well as transfer income received from government benefits; however, it does not include one-shot or windfall income such as lottery winnings or realized capital gains. Before we analyze the impact of paid parental leave on household income distribution, we must deal with one issue when measuring income inequality-- how to compare households of different sizes. Our real concern is not with income levels, but with relative living standards; given some income level, living standards fall with rising household size.

A $24,000 income will be able support a single individual in the US reasonably well (depending on geographic location). In 2008, it would have provided more than twice the government-defined poverty-level income for a single person. But for a family of 5, an income of $24,000 provides each person with just $4,800 on average. Certainly, this would not support the same lifestyle as $24,000 for a single individual; in fact, according to the US Census Bureau, a family of five would have been considered poor in 2008 with this income. We deal with differences in household size by treating the income needs of all household members identically and looking at per capita household income. But this ignores important economies of scale in living arrangements. Two people can live together better on a given sum of money than apart, and they will have a higher standard of living by doing so.

In what follows, we adjust household incomes using the OECD recommendations regarding equivalence scales for household size (see Lyngstad et al. 1997). According to this standard, income requirements for each child are 50 percent of the requirements of the household head, and income needs for additional adults in the household are 70 percent of the requirements of the household head. These are actually close to the implicit household adjustments incorporated into the official US poverty lines developed by Mollie Orshanksy (1965, 1969). Other adjustment formulae have been suggested and tested, and empirical studies have found that this decision makes little difference to the broad results that one gets when using the LIS (Smeeding, Buhmann & Rainwater 1988); obviously, the actual figures will vary with different adjustment rules.

After adjusting household incomes based on household size, we need to define poverty lines for each household. Here we follow common practice and use a relative definition of poverty, defining households as poor if their adjusted household income falls below 50 percent of median adjusted household income (for that country at that time).[[2]](#footnote-2)

We define the middle class in terms of (adjusted) household income falling close to the median (adjusted) household income. Two frequently used ranges are 75% to 125% and 75% to 150% of median (adjusted) household income. Public opinion surveys consistently find that most households consider themselves middle class and put their own income within the range that they use to define the middle class (Pew 2008). This indicates that the latter range is preferable since it better reflects what people regard as middle-class income levels. It also has the advantage of putting more than one-third of all households into the middle class in every developed country, something that intuitively makes sense.

The Gini coefficient relies on two relationships—the Lorenz Curve and the line of perfect equality. It measures (somewhat counter-intuitively) where the actual income distribution falls within the range between perfect income equality (0), where everyone receives exactly the same income, and perfect income inequality (1), where every dollar of income goes to just one household. The Gini coefficient measures how close we are to each of these two polar opposites.

**4. Empirical Results**

To our knowledge no previous research exists that attempts to measure the impact of paid parental leave on income inequality. A good theory should explain what happens in one country over time and cross-national differences in income inequality. We will seek to do both. We begin by comparing the US and several other developed countries. We then look at how the introduction of paid parental leave in California and New Jersey during the 2000s affected income distribution in these states compared to other states in the USA.

In a classic work on economic and social policy, Gosta Esping-Anderson (1990) described three different state welfare regimes. The Anglo-Saxon model puts emphasis on the free market. The continental European model provides benefits to workers mainly through employment. Finally, in the Scandinavian model, benefits are universal and regarded as a matter of right. Following this trichotomy, we compare the US with three other countries over time—Germany, Norway and the UK. Each represent a different type of welfare regime; and each of these nations has a different paid parental leave program.

Historically, Germany was at the forefront of the movement for paid parental leave. It began a policy of 3 weeks unpaid leave after the birth of a child in 1878 to protect the mother and the child (Erler, 2009). The

German Imperial Industrial Code of 1891 then set maximum work hours for new mothers and prohibited the employment of women within 4 weeks of childbirth. Amendments in 1903 and 1911 increased the leave period to 6 weeks and also required paid time off 2 weeks before expected delivery (Frank & Lipner, 1988). Parental leave in Germany expanded between the 1970s and the early 2000s (Gornick & Meyers, 2003; Ruhm, 1998). By the late 2000s Germany was providing 14 weeks of paid leave at 100% of previous wages and another 12-14 months at 65% of previous wages (up to 1,800 Euros per month) until the child turns 3.

 Norway was the first Nordic nation to provide maternity leave to mothers—6 weeks of paid leave in the early 20th century. It was also the first country to let fathers participate in the national paid leave program so that they could bond with their newborn child. By the 1970s, leave was extended to one year, with 18 weeks of paid leave. The paid leave part was expanded considerably. By 2000, Norway was providing an entire year of leave at around 80% of previous wages. The benefit was either 56 weeks at 80% of prior wages or 46 weeks of leave at 100% of prior wages (Kamerman 2000; Brandth & Kvande 2009). To qualify for this benefit parents must be in the workforce for 6 of 10 months prior to the birth of their child.

The United Kingdom has been relatively stingy with paid parental leave. In the 1990s it provided 6 weeks of benefits at 90 percent of previous wages and another 12 weeks of parental leave at a low flat rate (Kamerman, 2000). Benefits were expanded during the 2000s as a result of efforts on the part of the Blair government to reduce child poverty. The flat rate parental leave benefit of 129 pounds, or 90% of one’s previous salary (whichever is lower), was extended to 27 weeks and two weeks of paternity leave was introduced (Smeeding & Waldfogel, 2010).

To qualify for paid parental leave, most countries require some prior work history and make benefits contingent on the length of time employed. The money to pay for these benefits usually comes from both the government and the employer, although several countries also require workers to make contributions.

 The US, however, has no national policy of paid parental leave. Families are left to fend for themselves. Some employers do provide for time off, but the employees eligible for such a benefit typically earn high salaries. A national paid leave program has been proposed by the Center for American Progress and legislation to provide up to 12 weeks of paid leave has been introduced in Congress; but this bill has not gotten anywhere (Boushey et al., 2013).

 Using the LIS databases, our household income adjustments, and our relative definition of poverty, Table 1 provides our estimates of national poverty rates as well as estimates of the size of the middle class and the Gini coefficient for all four nations. The results are consistent with the hypothesis of Esping-Anderson. Norway does the best of all four countries on all three measures of income inequality. It has the smallest Gini coefficient, the lowest poverty rate and the largest middle class. Germany does a bit worse than Norway on all three measures. The UK does considerably worse than Germany and substantially worse than Norway. Finally, the US does even worse than the UK on all three measures. Its poverty rate is nearly three times that of Norway and nearly twice that of Germany, while the US middle class is around 20 percentage points smaller than that of Germany and Norway. Finally, the US Gini coefficient is around 50% larger than the Gini coefficient of Germany and of Norway.

Table 2 repeats our calculations but also looks at families with children. We include in our table all families with children (someone under the age of 18) for all four countries; then we look at families with young children, defined as those under the age of 3. Several things are worth noting here.

First, country results seem related to the generosity of their national paid parental leave programs. This is especially true with respect to poverty. Norwegian families with children do not fare significantly worse than all families. Their poverty rate (5.0%) is a bit lower than the national average (6.6%) and they are more likely to be in middle-class families than average. For families with young children, the poverty rate of 7.2% is a bit higher than aggregate poverty rates, and so is the fraction of these families that are middle class. In Germany, families with children do a bit worse than all families—their poverty rate is 10.4% compared to the aggregate rate of 8.3%. The poverty rate of German families with young children (15.8%) is nearly double the aggregate rate and the percentage of middle class families with young children is 6 percentage points lower. Things look even worse in the UK, where families with children have much higher poverty rates (19.0%) than average (14.2%) , and where families with young children have substantially higher poverty rates (24.7%) than all households.

Second, the US does even worse than these three other countries when it comes to families with children. Child poverty is one-third larger than the aggregate poverty rate—23.5% for families with children and 30.4% for families with young children compared to the aggregate poverty rate of 18.1%. An important reason for this is that the US lacks a national policy of paid leave. As a result, the US poverty rate for families with young children is nearly double (nearly 15 percentage points higher) that of Germany and and four times larger (more than 23 percentage points greater) than that of Norway.

Third, the results concerning the size of the middle class are rather interesting—in every country except Norway having young children reduces the chance of being middle class. In all countries, the size of the middle class is slightly larger for those households with children. This is not likely due to the fact that children (or the programs available to households with children) make families middle class, but rather it is due to the fact that economic conditions lead families to have children.

Fourth, income inequality (as measured by the Gini coefficient) is lower for families with children than it is for all households in all countries except for Germany, where the two numbers are virtually identical.

Fifth, income distribution (as measured by the Gini coefficient) is more unequal for families with *young* children in the UK than for all households. This result differs sharply from Germany, where there is no difference in Gini coefficients for all households and for households with young families, and Norway, where income is distributed *more equally* for families with young children than for all households. It seems that paid parental leave is a force here; those countries with stronger paid leave policies do far better when it comes to income equality among families with young children. By providing generous benefits and a generous minimum benefit to all families with young children, income inequality is reduced for such families.

Table 3 looks at the impact of paid parental leave programs on income inequality in more detail. It helps us better understand the empirical results from Table 2. The results in this table were derived by subtracting paid parental leave from household income and recomputing our three measures of income inequality. Since paid leave mainly helps those without labor income, and since paid leave is targeted to families with young children, we would expect to find a much larger impact on poverty here. And this is exactly what we see. Paid leave reduces poverty rates for households with young children by much more than any other group, and the impact is greater on poverty than on the middle class and the Gini coefficient.

Table 3 also makes clear that Norway does so well because paid parental leave substantially reduces household poverty rates for households with young children. Absent paid parental leave, over 20% of families with young children would have been poor—close to the figures for the UK and the US; paid leave reduces this figure to 7.2%. For all families with children the reduction is only 4.5 percentage points, which is only to be expected since few of these families qualify for paid leave. Paid parental leave also increases the size of the middle class in Norway—for households with children by 6.6 percentage points and for households with young children (the focus of the policy) by over 20 percentage points. Gini coefficients for each group are also much lower as a result of paid parental leave.

For Germany, which has a less generous paid parental leave program than Norway, the poverty reductions and growth in the size of the middle class are considerably smaller. German poverty rates fall by nearly 2 percentage points for households with children and nearly 8 percentage points for families with young children; the size of the middle class increases only a small amount (1.2 percentage points) due to the existence of paid parental leave, but by 9.3 percentage points for families with young children. There is little effect of paid parental leave on the Gini coefficient.

In the UK, paid parental leave has little impact on poverty or child poverty because the benefits there are so small. Paid leave reduces child poverty by only .2 of a percentage point and the poverty rate of families with young children by .8 of a percentage point. There are also small increases in the size of the British middle class and in the UK Gini coefficient for the same reasons.

The US, of course, has no such national policy and so does not get the distributional gains from paid leave that arise in Germany and Norway. It does not even get the small gains that we saw in the UK. This is one reason income inequality in the US is higher than these nations.

To study the impact of paid parental leave on income distribution in the US we rely in part on the difference-of-difference (DOD) approach. It looks at how changes in one variable are related to changes in some other variable over time. As such, the DOD approach takes into account national or regional characteristics that might affect the value of the Gini coefficient, the poverty rate and the size of the middle class, since it controls for differences among different areas—for example, a different macroeconomic situation, differences in demographics, and differences in state programs and policies.

We can use this approach to study the impact of paid parental leave in the USA as a result of the fact that some states have recently enacted a policy of paid leave. California has the oldest program and the one most similar to other developed countries. It offers six weeks of paid leave. All private sector workers are eligible for this leave to bond with a newborn or adopted child. The program replaces 55% to 60% of the weekly average worker earnings for the highest quarter over the past year up to a maximum of $959 (in 2009). Our home state of New Jersey also has a modest paid parental leave program; other states are in the process of developing them. For example, Rhode Island passed a paid leave bill in July of 2013 and the state of Washington has passed a paid leave program, although it has failed to implement it at this point in time.

The California and New Jersey programs operate through temporary disability insurance programs in each state. Payroll taxes are taken out of worker paychecks and this money is used to provide paid leave benefits in the state.

Because paid parental leave operates through state temporary unemployment/disability insurance programs, there is no paid parental leave category in the Luxembourg Income Study for the USA. This is why the US was not included in our calculations in Table 2 and Table 3. We could not get this information out of the LIS. However, we can use the LIS to assess the impact of paid parental leave on income distribution by comparing California and New Jersey to other states that do not have a paid leave program by examining changes in the impact of short-term work-related insurance programs.

We do so by looking at 2000 (the earliest available LIS database before these states had a paid leave program in place), and 2010, when both New Jersey and California had paid leave policies in place. We compare these two states with all the other states in the US that did not adopt a policy of paid parental leave between 2000 and 2010. This lets us test how California’s Paid Family Leave policy and paid leave in New Jersey have helped reduce inequality by comparing incomes before and after the policy’s enactment with changes in states that did not adopt these policies. We then subtract from household income all work-related insurance benefits in all states and recomputed poverty rates.

Table #4A looks at state poverty rates in 2000 and 2010. In 2000, there was little difference between California and New Jersey on the one hand and all other states. Aggregate poverty rates were similar—17.1% in California and New Jersey combined compared to 17.2% in all other states. Poverty rates for children and for young children were actually a little higher in California and New Jersey than in other states.

How does paid parental leave affect these results? We can try to answer this question by subtracting all work-related benefits from household income and recomputing poverty rates. Paid leave, remember was available in 2010 but not in 2000. Poverty rates were similar in 2000 after subtracting all work-related insurance benefits. For households with children and households with young children, California and New Jersey had slightly higher poverty rates; but this was true both before and after subtracting employment insurance benefits.

For 2010, *after* both California and New Jersey adopted paid parental leave policies, things look substantially different. As one would expect, the differences are not dramatic for all households. Poverty rates are a bit lower in California and New Jersey (17.7%) than other states (18.1%), but for families with young children the differences are even greater—the California and New Jersey combined rate is 29.3% compared to 30.4% in other states.

We can see these effects more clearly in Table #4B, which summarizes the changes in poverty from Table #4A. The numbers in this table show the reduction in poverty rates due to all work-related insurance programs. In 2000, California and New Jersey do a bit worse than other states overall and a bit better for families with young children. For families with young children, benefits from work-related insurance programs cut poverty rates by 2.5 percentage points, a little more than for other states.

But things were different in 2010. Both California and New Jersey provided paid leave as part of their temporary disability insurance programs. In 2010 work-related insurance programs still do a bit worse in the aggregate in other states than in California and New Jersey. But for households with children and especially for households with young children, the gains are more pronounced—1.1 percentage points and 1.3 percentage points respectively. The comparative decline in poverty for families with young children is 50 percent greater than in 2000. Since the main change between 2000 and 2010 was the introduction of paid parental leave, we can attribute this better performance, at least in part, to state policies of paid leave—the main change over the ten-year time period.

**5. Paying for Paid Leave**

Although there are positive returns to paid leave, the program does have up-front costs; so even with overwhelming evidence that it would pay for itself over a generation, funding such a program would be controversial. This is especially true now in the US, where politicians are unwilling to undertake programs that add to the federal deficit. There are three simple ways to incorporate paid parental leave into the U.S. Social Security system, financing the program with payroll taxes. The suggestions and estimates below are for a rather stingy program compared to the rest of the world, providing benefits for much less time than all of the paid parental leave programs in the developed world and below the recommendations of the International Labour Organisation. Nonetheless, they provide a good benchmark for estimating the costs of something more similar to European systems (which provide on average around twice as much parental leave).

First, Randy Albelda and Alan Clayton-Matthews (2006) estimate that we could fund paid parental leave, covering 100 percent of earnings over 12 weeks for new mothers, with just a 0.3 percentage point increase in the Social Security payroll tax for both employer and employee). Paying 75-80 percent of previous earnings seems a reasonable alternative given work-related costs (commuting, food eaten at work, and work clothes), child care expenses, and higher marginal tax rates for couples with a second income. This would put the program more in line with the replacement rates for Western European programs. It would also lower the needed tax increase proportionately, or it would allow for a proportionately longer period of leave at a similar cost.

Second, instead of increasing Social Security tax rates, we could fund 12 weeks of paid leave at 100 percent of earnings by increasing the wage level to which Social Security taxes apply. Raising the Social Security wage base by around 10 percent (to $120,000 from the 2011 limit of $108,600) would also accomplish this, according to the estimates of Heather Boushey (2009). Again, replacing only 75 to 80 percent of previous earnings would reduce the needed base increase or allow for longer periods of paid leave.

Third, delaying the date at which people can collect full Social Security benefits if they take paid parental leave would also provide the needed funds. Twelve weeks of paid leave for any one parent could result in both parents working an extra six weeks later in life in order to collect their full Social Security benefit upon retirement. For a family with two children, each parent would need to work an extra 12 weeks or 3 months to collect full benefits. Parents could also have the option of retiring at normal retirement age and collecting lower monthly payments from Social Security after they retire. By either delaying retirement or accepting slightly smaller benefits at retirement, they could effectively shift the time they pay for parental leave in order to have valuable time at home with a very young child.

These suggestions are all inexpensive. The first two would cost only .6 percent of the Social Security wage base and an even smaller percentage of U.S. GDP. The last would cost nothing except a slightly longer work life for the parents. Each option would finance a program with many short-run benefits for families and young children as well as long-term gains that, alone, would pay for the entire program. By reducing the U.S. child poverty to near Western Europen levels, paid parental leave should be thought of as an important investment in the future.

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| **TABLE # 1 INCOME DISTRIBUTION IN FOUR NATIONS** |
| ***COUNTRY AND YEAR*** | ***POVERTY RATE*** | ***PERCENT MIDDLE CLASS*** | ***GINI COEFFICIENT*** |
| GERMANY (2010) | 8.3% | 52.9% | 0.265 |
| NORWAY (2004) | 6.6% | 61.1% | 0.249 |
| UK (2010) | 14.2% | 42.8% | 0.356 |
| US (2010) | 18.1% | 37.8% | 0.381 |
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| SOURCE: Author's calculations from the Luxembourg Income Study database. |
| **TABLE # 2** **INCOME DISTRIBUTION IN FOUR NATIONS - FAMILIES WITH CHILDREN AND WITH YOUNG CHILDREN (under age 3)** |
| **COUNTRY & GROUP** | **POVERTY RATE** | **PERCENT MIDDLE CLASS** | **GINI COEFFICIENT** |
| Germany (2010) | 8.3% | 52.9% | 0.265 |
| Germany - Families with Children | 10.4% | 54.1% | 0.267 |
| Germany - Families with Young Children | 15.8% | 47.0% | 0.265 |
| Norway (2004) | 6.6% | 61.1% | 0.249 |
| Norway - Families with Children | 5.0% | 69.1% | 0.222 |
| Norway - Families with Young Children | 7.2% | 66.1% | 0.226 |
| UK (2010) | 14.2% | 42.8% | 0.356 |
| UK - Families with Children | 19.0% | 43.7% | 0.347 |
| UK - Families with Young Children | 24.7% | 39.7% | 0.365 |
| US (2010) | 18.1% | 37.8% | 0.381 |
| US - Families with Children | 23.5% | 39.4% | 0.373 |
| US - Families with Young Children | 30.4% | 35.0% | 0.391 |
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| Source: Author's calculations from the Luxembourg Income Study database. |

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| **TABLE # 3 PAID PARENTAL LEAVE AND INCOME DISTRIBUTION** |
| **COUNTRY & YEAR** | **POVERTY RATE** | **MIDDLE CLASS** | **GINI COEFFICIENT** |
| Norway (2004) | 6.6% | 61.1% | 0.249 |
| Norway (2004) without paid leave | 7.9% | 59.2% | 0.261 |
| Norway (2004) families with children | 5.0% | 69.1% | 0.222 |
| Norway (2004) families with children and without paid leave | 9.5% | 62.5% | 0.243 |
| Norway (2004) families with young children | 7.2% | 66.1% | 0.226 |
| Norway (2004) families with young children and without paid leave | 20.3% | 45.2% | 0.269 |
| Germany (2010) | 8.3% | 52.9% | 0.265 |
| Germany (2010) without paid leave | 8.5% |   | 0.267 |
| Germany (2010) families with children  | 8.5% | 52.9% | 0.267 |
| Germany (2010) families with children and without paid leave | 11.0% | 53.5% | 0.269 |
| Germany (2010) families with young children | 15.8% | 47.0% | 0.265 |
| Germany (2010) families with young children and without paid leave | 18.7% | 44.2% | 0.267 |
| UK (2010) | 14.2% | 42.8% | 0.356 |
| UK (2010) without paid leave leave | 14.3% | 42.6% | 0.357 |
| UK (2010) families with children | 19.0% | 43.7% | 0.347 |
| UK (2010)families with children and without paid leave | 19.2% | 43.2% | 0.348 |
| UK (2010) families with young children | 24.7% | 39.7% | 0.365 |
| UK (2010) families with young children and without paid leave | 25.5% | 38.0% | 0.369 |
| Source: Author's calculations from the Luxembourg Income Study database

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| **TABLE # 4A PAID PARENTAL LEAVE AND POVERTY IN THE U.S.** |
| ***YEAR & STATES*** | ***ALL HOUSEHOLDS*** | ***HOUSEHOLDS WITH CHILDREN*** | ***HOUSEHOLDS WITH YOUNG CHILDREN*** |
| California & New Jersey (2000) | 17.1% | 23.4% | 30.1% |
| California & New Jersey (2000) Without Work-Insurance Benefits | 29.8% | 26.1% | 32.6% |
| All Other States (2000) | 17.2% | 22.1% | 28.5% |
| All Other States (2000) without Work-Insurance Benefits | 31.9% | 24.0% | 30.3% |
| California & New Jersey (2010) | 17.7% | 23.6% | 29.3% |
| California & New Jersey (2010) without Work-Insurance Benefits | 33.8% | 28.6% | 33.4% |
| All Other States (2010) | 18.1% | 23.5% | 30.4% |
| All Other States (2010) without Work-Insurance Benefits | 35.6% | 27.6% | 33.2% |
|  |  |  |  |
| Source: Author's calculations from the Luxembourg Income Study database |
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| **TABLE # 4B DECLINE IN POVERTY IN THE UNITED STATES DUE TO WORK-RELATED INSURANCE** |
| ***YEAR & STATES*** | ***ALL HOUSEHOLDS*** | ***HOUSEHOLDS WITH CHILDREN*** | ***HOUSEHOLDS WITH YOUNG CHILDREN*** |
| California & New Jersey (2000) | -12.7 | -2.7 | -2.5 |
| Other States (2000) | -14.7 | -1.9 | -1.8 |
| California & New Jersey (2010) | -16.1 | -5.0 | -4.1 |
| Other States (2010) | -17.5 | -3.9 | -2.8 |
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| Source: Author's calculations from the Luxembourg Income Study database |

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1. More information is available at the LIS homepage at [www.lisproject.org](http://www.lisproject.org). [↑](#footnote-ref-1)
2. There are many good reasons for employing a relative definition of poverty, especially in cross-national studies. See Pressman (2002, pp. 20-1). [↑](#footnote-ref-2)