

The impact of parental leave policy on child rearing and employment behaviour: the case of Germany

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Abstract

This paper studies the effects of policy changes induced by the German parental leave reform on child rearing and back-to-work behaviour. The German reform of 2006 increased parental benefits and shortened paid leave period. It was intended to stimulate fertility and decrease employment breaks related to the birth. To identify the effect of incentives I estimate the bivariate choice model following Laroque and Salanie (2008). The identification strategy relies on the variation in financial incentives induced by parental leave reform, variation in partner's labour income and other household characteristics such as marital status and spouses education. Regional variation allows to capture the availability of child care institutions. I estimate the simultaneous probit model of bivariate mother back-to-job and child care decisions using German Socio-Economic Panel Data (SOEP) for the period 2002-2009. The preliminary results show that policy has an insignificant negative effect on the employment breaks related to motherhood. However, among women with regular part-time job the probability to come back-to-work during the first-rearing year significantly decreases of 7-8 percentage points. The impact is amplified by 13-14 percentage points for mothers with second and third child. One of the possible explanations is that change in parental benefits allows to compensate wage losses from the part-time employment and reallocate time in favour of child care. The impact of the reform on the child-care decision is positive but insignificant. In the short run, the policy does not seem to produce significant effects on child-rearing behaviour. This might be related either to the traditional role of mother as the main child care provider or to the restricted supply of institutional child care. Further counterfactual exercises are still a work in progress.

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