

Parental leave benefit



REPORT by Mathias Huebener, Kai-Uwe Müller, C. Katharina Spieß, and Katharina Wrohlich

The parental leave benefit:
a key family policy measure, one decade later

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average household income for young families
in the first year«

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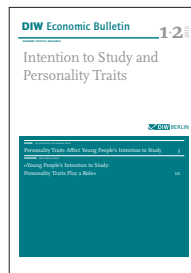
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NEXT ISSUE OF DIW ECONOMIC BULLETIN

DIW economic outlook

The parental leave benefit: a key family policy measure, one decade later

By Mathias Huebener, Kai-Uwe Müller, C. Katharina Spieß, and Katharina Wrohlich

On January 1, 2017, the parental leave benefit will be celebrating its tenth anniversary. Although its implementation was hotly debated, it has become a widely accepted family policy measure. Its impact on parental labor supply, the division of labor between parents, fertility, and indicators that reflect the well-being of parents and children have been examined from a variety of perspectives. A global evaluation of relevant economic studies shows that on average, when young families receive the parental leave benefit as an earnings replacement benefit, their economic stability in the first year after the birth of a child increases. As a result of the parental leave benefit, the employment rate of mothers decreased in the first year after childbirth, while it increased in the second year. While the share of fathers who take parental leave has clearly increased, the effects on the division of labor within the family are inconclusive. Some evidence suggests that the parental leave benefit has some effect on fertility. Little is known about its impact on child development. Overall, the parental leave benefit family policy measure has been successful in many areas. However, its targeted effects could be augmented by additional family policy reforms.

On January 1, 2007, the Federal Parental Leave Benefit and Leave Act (*Bundeselterngehalt- und Elternzeitgesetz*) went into effect for all children born on or after that day. It replaced the child rearing allowance (*Erziehungsgeld*) and fundamentally reformed the benefit system for parents of newborn children: the new parental leave benefit (*Elterngeld*) was designed as an earnings replacement benefit without means testing. For most parents, the benefits are now considerably higher. The payment duration was reduced to, on average, 12 to 14 months instead of the child rearing allowance's maximum duration of 24 months. And the parental leave benefit also provides the opportunity to take partner months (Box).

The parental leave benefit was adopted with a set of goals in mind. Most importantly, it aimed at providing a "protected phase" for parents with children under one. It supports families as they "become accustomed to family life with a minimum of financial hardship and allows them to focus on taking care of their children."¹ Second, its design as an earnings replacement benefit means that the parental leave benefit allows both parents to preserve their personal economic independence. This aspect encourages mothers to participate in the labor market. Third, the parental leave benefit aims at improving gender equality: the aforementioned points intend to increase the incentive for fathers to participate more actively in raising their children. Raising birthrates has originally not been directly targeted by the reform. However, the later evaluation by the Federal Ministry for Family Affairs, the authority of the act, added this point to the parental benefit's set of goals.² When the earnings-related parental leave benefit replaced the means-tested child rearing allowance, short-term distribution targets became less important.³

¹ Proposed legislation of the CDU/CSU and SPD caucuses, "Entwurf eines Gesetzes zur Einführung des Elterngeldes," *Bundestagsdrucksache* 16/1889 (June 20, 2006).

² For a more detailed discussion of the goals of the various actors, see Martin Bujard, "Die fünf Ziele des Elterngeldes im Spannungsfeld von Politik, Medien und Wissenschaft," *Journal of Family Research* 25 (2) (2013): 132-53.

³ In 2006, the income limits for receipt of the child rearing allowance were 30,000 Euro net income for couples and 23,000 Euro for single parents in the child's first six months. Much lower income limits applied to the receipt of child

Box

The parental leave benefit

The parental leave benefit is an earnings-replacement benefit that substitutes part of the net earnings from employment. It is based on the 12-month period before childbirth.¹ The minimum benefit is 300 Euro per month and the maximum 1,800 Euro. The replacement rate depends on the level of earnings from employment. For (net) monthly earnings between 1,000 Euro and 1,200 Euro, the parental leave benefit replaces 67 percent. For low earners with prenatal earnings below 1,000 Euro, the replacement rate rises stepwise to a maximum of 100 percent. If the prenatal net earnings are above 1,200 Euro, the replacement rate drops from 67 to 65 percent.²

Parental leave benefits are only granted if the relevant parent does not work more than 30 hours per week. Families who have another child under three or at least two older children under six will also receive a "sibling bonus" of ten percent of their parental leave benefits. The minimum sibling bonus is 75 Euro.

Parents receive parental leave benefits for 12 months. The entitlement period is extended to 14 months if the second parent also takes parental leave for at least two "partner months." Single parents with full custody also have the option of receiving parental leave benefits for up to 14 months. It is also possible to receive parental leave benefits for up to 24 or 28 months. In this case the monthly payments are cut in half.

¹ Detailed regulations are available on the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) website. See www.bmfsfj.de/bmfsfj/themen/familie/familienleistungen/elterngeld/das-elterngeld/73752?view=DEFAULT (accessed on November 15, 2016—in German only).

² Couples with taxable income in the last completed fiscal year of over 500,000 Euro (for single parents, over 250,000 Euro) are not eligible for parental leave benefits. The parental leave benefit is subject to a progression proviso.

Since 2011, for families receiving benefits as per the German Social Code Book II (SGB II) in addition to the parental leave benefits, the minimum amount of 300 Euro of parental leave benefits is considered as income. Before 2011 (and with the child rearing allowance system) this was not the case.

Until the "parental leave benefit plus" (*Elterngeld Plus*) was implemented on July 1, 2015, parental leave benefit recipients had little financial incentive to work part-time. According to the earlier parental leave benefit regulations, working parents would receive "partial parental leave benefits." They amounted to 67 percent of the difference in net earnings from employment before and after birth, but at least €300. Furthermore, the benefit duration was curtailed if both parents received parental leave benefits at the same time, or if they received partial parental leave benefits.³

The new "parental leave benefit plus" option eliminated the double "entitlement consumption" of parental leave eligibility. Parents who work part-time after childbirth can now apply for "parental leave benefit plus" months instead of regular parental leave benefit months (now called "basic parental leave benefit months"). For these months, the parent receives a maximum of half of the basic parental leave benefit he or she would have received for not working. The benefit duration doubles in this case. The new option also includes a partner bonus: if both parents work part-time simultaneously—i.e. between 25 and 30 hours a week—they will receive four additional "parental leave benefit plus" months.

³ For example, if both parents wanted to take parental leave at the same time and worked part-time, each of them would have received seven months of partial parental leave benefit payments under the old regulations. This means they would receive only half of the parental leave benefits they would have received if they had applied for a "block model," i.e., if one had taken seven months of parental leave after the other without working part-time at all.

The implementation of the parental leave benefit reform was embedded in a paradigm shift in family policy trig-

gered in the middle of the 2000s. The switch from a conservative family policy to a "sustainable" one took place as a "mix of time-related measures, transfer payments and infrastructure investments."⁴ Within this framework, the implementation of the parental leave benefit was a far-reaching key measure based by design on similar measures in Northern European countries such as Nor-

rearing allowance after the child's seventh month (16,500 Euro for couples and 13,500 Euro for single parents). A study showed that around 77 percent of all families received child rearing allowance payments during the child's first six months, but as of the seventh month, the portion decreased to around 50 percent. See Nancy Ehlert, *Elterngeld als Teil nachhaltiger Familienpolitik*, dossier commissioned by the Office of the Center of Excellence for Family-related Benefits (Federal Ministry for Family Affairs, prognos AG, 2008). The shift away from the goal of supporting lower-income households in particular and the resulting redistribution effects received criticism from many sides, see for example Annette Henninger, et al., "Geschlechtergleichheit oder 'exklusive Emanzipation.' Ungleichheitssoziologische Implikationen der aktuellen familienpolitischen Reformen," *Berliner Journal für Soziologie* 18 (1) (2008): 99–128.

gered in the middle of the 2000s. The switch from a conservative family policy to a "sustainable" one took place as a "mix of time-related measures, transfer payments and infrastructure investments."⁴ Within this framework, the implementation of the parental leave benefit was a far-reaching key measure based by design on similar measures in Northern European countries such as Nor-

⁴ See Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ), eds., "Familie zwischen Flexibilität und Verlässlichkeit, Perspektiven für eine lebenslaufbezogene Familienpolitik: 7th Family Report," *Bundestagsdrucksache* 16/1360 (April 26, 2006).

way and Sweden.⁵ On the eve of its implementation, the parental leave benefit was a subject of controversy in the public arena, politics, and to a lesser extent, in the context of research. The short term impact on income distribution and the implementation of partner months were hotly debated. Implementing the parental leave benefit also had a significant fiscal impact. In the year it was implemented, the government spent €4.2 billion on it—over one billion more than it spent on the child rearing allowance in 2006.⁶

The reform also had an impact on family household income, parental leave duration, parental employment status, fertility, and other parental behavior. Many of these effects have been empirically examined on the basis of microdata in the past ten years. In the following, we present an overview of the most important results of the research with a particular focus on economic analyses. We have focused on studies that identify causal effects and therefore go beyond the pure presentation of statistical relationships or trends over time.⁷ For example, the studies we selected control for several other determinants of the analyzed indicators, such as general time trends, the expansion of the daycare system for children or the improved labor market situation.

Higher net income in the first year after childbirth; lower transfer income in the second

One direct effect of implementing the parental leave benefit was the change in the net household income of families with children under one.

A study by Geyer et al. (2013) determined a significant average increase of around 480 Euro per month.⁸ The gain in income varies by socio-economic factors. Mothers with a university degree had, on average, an increase in net income of 600 Euro per month. For all other families, the average increase was around 430 Euro per month.

Particularly large differences resulted depending on the mother's prenatal employment status. If they were working prior to giving birth, the average gain in income was around 530 Euro per month. For mothers who did not

work, income increased only by around 230 Euro per month, on average. There were also differences depending on the number of children. Families with one child were able to benefit the most (around 600 Euro), followed by families with two children (around 380 Euro) and families with three or more children (around 230 Euro).⁹ The conversion to an earnings-related benefit system had the effect that, on average, families with several children received a lower parental leave benefit amount than families with one child because of lower pre-birth earnings.

While almost all families received higher benefits in the first year after childbirth,¹⁰ some families were forced to accept losses in benefit payments in the second year after childbirth. Families with low household incomes were most likely to be affected by this loss. However, many families still experienced increases in household income in the second year after childbirth. This is mainly due to the higher labor market participation of mothers (see next section).¹¹ Still, the families who could have received the child rearing allowance in the second year after childbirth lose out due to the 2007 reform (only considering transfer payments) if the additional parental leave benefits in the first year exceed the losses in the second year.¹²

Overall increase in maternal labor market participation

Compared internationally, career interruptions of mothers in Germany were relatively long.¹³ The curtailment of the maximum payment duration from 24 months for the child rearing allowances to 12 months for the parental leave benefits,¹⁴ and the accompanying loss in income for some families, followed the political goal of getting mothers back to the labor market faster.

⁵ See BMFSJF, eds. (2016).

⁶ See Ehler (2008). Since then, expenditures for the parental benefit have risen every year due to the increasing participation of fathers. It currently amounts to 5.9 billion Euro, www.bundeshaushalt-info.de/#/2015/soll/ausgaben/einzelplan/170168102.html (accessed on November 22, 2016).

⁷ Most studies are based on difference-in-differences or regression discontinuity designs. In the latter, only parents who had a child in the last quarter of 2006 were compared to parents who had a child in the first quarter of 2007.

⁸ Johannes Geyer et al., "Das Elterngeld und seine Wirkungen auf das Haushaltseinkommen junger Familien und die Erwerbstätigkeit von Müttern," *Journal of Family Research* 25 (2) (2013): 193–209.

⁹ Geyer et al. (2013).

¹⁰ The families that selected the "budget" option of 450 Euro per month according to the child rearing allowance regulations experienced losses because the parental leave benefit regulations only granted the basic amount of 300 Euro. Furthermore, after 2011 the parental leave benefit has been counted as income in the Hartz IV welfare benefit calculation. Between 2007 and 2010, the basic amount of 300 Euro was not included in Hartz IV.

¹¹ Martin Bujard and Jasmin Passet, "Wirkungen des Elterngeldes auf Einkommen und Fertilität," *Journal of Family Research* 25 (2) (2013): 212–37.

¹² In the worst case, the financial losses amounted to 3,600 Euro. The families that would have received the highest child rearing allowance of 300 Euro per month for 24 months according to the child rearing allowance regulations, now only receive 300 Euro per month for 12 months according to the parental leave benefit regulations.

¹³ OECD, "The labour market position of families (LMF)," *LMF1.2 Maternal employment*, www.oecd.org/els/family/LMF_1_2_Maternal_Employment.pdf (accessed on November 20, 2016).

¹⁴ Single parents can receive the parental leave benefit for 14 months. For the same total amount of parental leave benefit, the payment duration can be doubled, meaning that a couple can receive half of the monthly payment for up to 28 months. Around 11 percent of parents took advantage of this extension option in 2013. See German Federal Statistical Office, *Elterngeld für Geburten 2013 nach Kreisen*, Wiesbaden, 2015.

Higher labor market participation rates of mothers in the second year after childbirth

A study by Bergemann and Riphahn (2010) analyzed the employment-related intentions of mothers with children under one year of age based on the Socio-Economic Panel (SOEP), a representative panel data set for individuals and households in Germany.¹⁵ Their results suggest that a significantly higher proportion of mothers would like to resume working within the next year. A study based on a data set from members of the AOK health insurance fund arrived at similar results.¹⁶ It concludes that the share of mothers who work when their child is under one has fallen by six percent due to the implementation of the parental leave benefit. However, for the second year after childbirth, the share of mothers who would like to return to work has risen significantly.

An analysis of actual changes in employment behavior based on the German Microcensus confirmed that the labor market participation of mothers has significantly increased in the second year after childbirth—especially among mothers with low incomes.¹⁷ A structural labor supply model also showed that mothers' likelihood to take-up part-time work in the second year after childbirth has risen by 2.5 percent. As expected, the effect is stronger for mothers with low household incomes, with an increase of over 13 percent.¹⁸

Evidence of long-term employment effects for mothers

In addition to examining the labor market participation of mothers with a child under two, for whom the financial incentives substantially changed, various studies looked at the effects on mothers' employment when their child is older. Positive employment effects were also found when the child was between three and five years old, although the additional employment almost exclusively involved part-time jobs.¹⁹ Even in the group that would not have had a right to receive the child rearing allowance accord-

ing to the pre-2007 regulations, the employment rate of mothers with a child over two rose.²⁰

The longer-term positive effects could not be linked to financial incentives. The parental leave benefit reform did only change financial incentives for families in the first two years after childbirth. This is why the longer-term positive effects on maternal employment tend to be attributed to changes in social norms—also influenced by the parental leave benefit.²¹ The implementation of the parental leave benefit might have established a new social norm for intended time of resuming employment, namely 12 months. This shift in social norms is supported by empirical evidence suggesting that mothers' employment breaks after childbirths are impacted significantly by their coworkers' employment breaks at the same company. These social interaction effects could reinforce short-term behavioral effects due to changes in financial incentives in the medium and long terms.²² According to this interpretation, the effects of the parental leave benefit go beyond the direct effects derived from financial incentives.

Larger proportion of fathers taking parental leave

Since the implementation of the parental leave benefit, fathers' parental leave taking has significantly increased. Before 2007, less than three percent of all fathers took parental leave. The share increased to 15 percent in the first year after the parental leave benefit was implemented. Ever since, the share of fathers who take parental leave has risen continuously to more than 34 percent to date. However, most fathers only take two months of parental leave (Figure 1).²³

Numerous studies have empirically examined the determinants of fathers' use of parental leave. For example, they showed that fathers tend to take parental leave when their partners have a high income and a strong labor market attachment. Since the parental benefit was implemented, especially fathers with high levels of education have increasingly used parental leave. The characteristics of the fathers' employers also play a role: the likelihood of taking parental leave is greater for fathers who

¹⁵ Annette Bergemann and Regina T. Riphahn, "Female labour supply and parental leave benefits—the causal effect of paying higher transfers for a shorter period of time," *Applied Economics Letters* 18(1) (2010): 17–20.

¹⁶ Jochen Kluge and Marcus Tamm, "Parental leave regulations, mothers' labor force attachment and fathers' childcare involvement: Evidence from a natural experiment," *Journal of Population Economics* 26 (3) (2013): 983–1005.

¹⁷ See Johannes Geyer et al. (2013). It also confirmed the findings of a significant reduction in mothers' job market participation when their child is under one.

¹⁸ See Katharina Wrohlich et al., "Elterngeld Monitor," *DIW Berlin – Politikberatung kompakt* (2012).

¹⁹ Jochen Kluge and Sebastian Schmitz, "Mittelfristige Effekte der Elterngeldreform in Ost und Westdeutschland," *Vierteljahreshefte zur Wirtschaftsforschung* 83 (2014a): 163–81.

²⁰ Annette Bergemann and Regina T. Riphahn, "Maternal Employment Effects of Paid Parental Leave," *DIW Discussion Paper* 9073 (2015).

²¹ Jochen Kluge and Sebastian Schmitz (2014a); Annette Bergemann and Regina Riphahn (2015).

²² Clara Welteke and Katharina Wrohlich, "Peer Effects in Parental Leave Decisions," *DIW Discussion Paper* 1600 (2016).

²³ See Kerstin Pull and Ann-Cathrin Vogt, "Viel Lärm um nichts? Der Einfluss der Elterngeldreform auf die Inanspruchnahme von Elternzeit durch Väter," *Soziale Welt* 61 (2) (2010): 121–37 and Heike Trappe, "Väterzeit – das Elterngeld als Beschleuniger von Gleichstellung?" *Zeitschrift für Familienforschung* 25 (2) (2013): 238–64.

work in large companies and have permanent employment contracts.²⁴ Furthermore, mothers whose partners take parental leave have employment rates more than twice as high as mothers whose partners do not take paternal leave.²⁵

Inconclusive impact on the division of family and household labor

It is also relevant to pin down the extent to which the parental leave benefit has achieved its intended equal opportunity-related goals and changed the division of housework and childcare between partners.²⁶ Studies based on the SOEP have shown that mothers' longer parental leave is linked to a traditional division of labor related to housework and childcare—even after both partners have returned to the labor market.²⁷ When the child is four years old, fathers on parental leave divide family-related work more equally than fathers without career interruptions. In the medium term, fathers who took parental leave at the same time as their partners participated less frequently in childcare than fathers who were on parental leave while the mother was working. This relationship was not apparent for the second child.²⁸

The parental leave benefit can also influence parents' cohabitation and propensity to marry. This can have various causes. For example, the parental leave benefit changes the incentives to take advantage of the income tax splitting for married spouses or view marriage as an "insurance union." Furthermore, fathers participating more during parental leave can strengthen their ties to the family. For example, it was shown that the parental leave benefit reform led to a short-term drop in the propensity to marry.²⁹ However, another study found an

24 Nora Reich, "Predictors of Fathers' Use of Parental Leave in Germany," *Population Review* 50/2 (2011): 1-22; Esther Geisler and Michaela Kreyenfeld, "How policy matters: Germany's parental leave benefit reform and fathers' behavior 1999-2009," *Max Planck Institute for Demographic Research Working Paper* 021 (2012).

25 Wrohlich et al. (2012).

26 For an overview of international studies on the relationship of fathers to parental leave or parental benefit regulations and the domestic division of labor, see Schober, Pia, "Daddy leave: does it change the gender division of domestic work?" *DIW Roundup* 46 (2014).

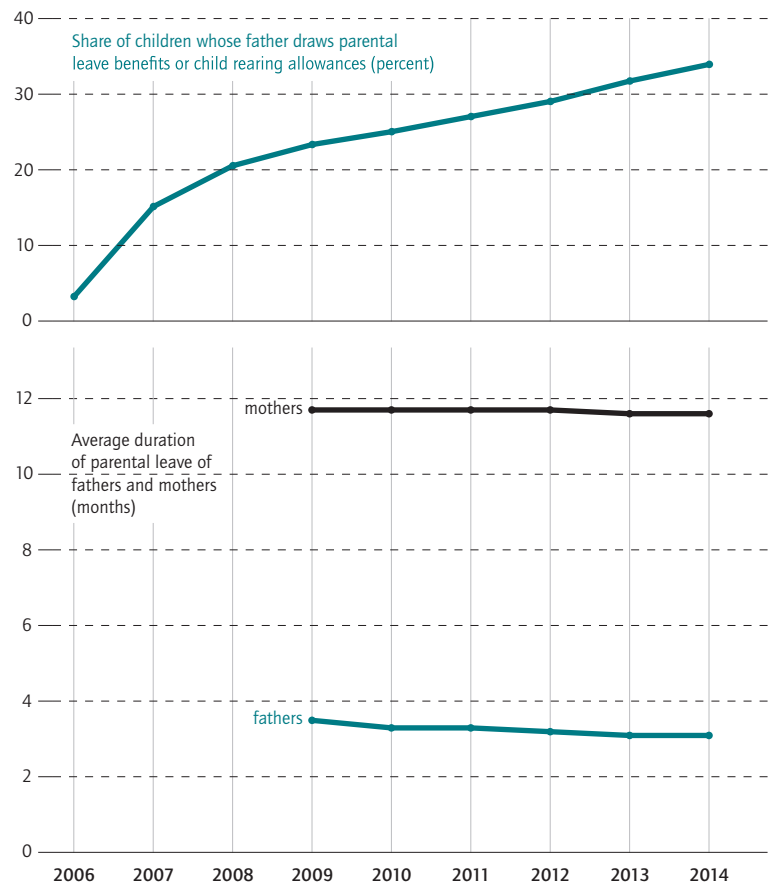
27 Pia Schober and Gundula Zoch, "Kürzere Elternzeit von Müttern – gleichmäßigere Aufteilung der Familienarbeit?" *DIW Wochenbericht* 50, (2015a): 1190-96; Pia Schober and Gundula Zoch, "Change in the gender division of domestic work after mummy or daddy took leave: An examination of alternative explanations," *SOEPpapers on Multidisciplinary Panel Data Research* 803 (2015b).

28 A study that analyzed fathers' relative portion of childcare for children under one found that the parental leave benefit reform had no significant impact. This is probably due to the fact that both fathers and mothers spend more time with children under one under the new regulation. See Kluge and Tamm (2013).

29 Jochen Kluge and Sebastian Schmitz, "Social Norms and Mothers' Labor Market Attachment. The Medium-run Effects of Parental Benefits," *Ruhr Economic Papers* (2014b): 481.

Figure

Share of fathers drawing parental leave benefit or child rearing allowance and average duration of parental leave of fathers and mothers



Note: The number for 2006 refers to fathers drawing child rearing allowance. From 2007 on, the numbers refer to fathers drawing parental leave benefits. For the average duration of parental leave in the years 2006 through 2008, there was no information in source of the Federal Statistical Office.

Source: Federal Statistical Office (Statistisches Bundesamt) (2016): Statistik zum Elterngeld. Elterngeldempfänger nach Geburtszeiträumen: Deutschland, Jahre, Geschlecht, Bezugsdauer des Elterngeldes.

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While the share of fathers on parental leave has steadily increased since the introduction of the parental leave benefit, the duration constantly remains relatively short.

increased likelihood of firstborns in West Germany living with non-married parents and fewer single mothers in general.³⁰

omic Papers (2014b): 481.

30 Kamila Cygan-Rehm et al., "Love your leave, don't leave your love! Paid parental leave and children's living arrangements," *LASER Discussion Papers* 88 (2015).

Mixed evidence on the effects on fertility

Even if an increased birthrate was not originally one of the explicit goals of the parental leave benefit reform, public discussions often raised the question of whether or not the parental leave benefit had this effect. So far, not many empirical studies have been published that analyze the causal effects of the parental leave benefit on fertility in Germany. Most people assume that the parental leave benefit increased birth rates, since it puts the majority of family households in better financial shape. However, one could also argue that mothers' age at childbirth increased. On average, parents have higher earnings, and therefore higher parental leave benefits later in life. To the best of our knowledge, no study has explicitly examined the effect of the parental leave benefit reform on mothers' age at childbirth. One study based on a structural behavior model compares the parental leave benefit to the child rearing allowance. It found that the parental leave benefit reform positively affected the birthrate.³¹

Because the parental leave benefit was designed as a temporary earnings replacement benefit, there is always an incentive to work again between having additional children and after the parental leave benefit phase comes to an end. Specific provisions of the parental leave benefit law contain incentives for short respites between births and therefore, shorter career interruptions.³² One study showed that the parental leave benefit reduced the likelihood of additional births—albeit slightly.³³ A further study, based on the Microcensus, showed varying effects on additional children depending on mothers' income. The probability of having additional children decreases for women in the lower income segment, while higher-income women “catch up” later.³⁴

31 Raphael Abriy et al., *Evaluation der Wirkung ehe- und familienbezogener Leistungen auf die Geburtenrate/Erfüllung von Kinderwünschen*, appraisal for prognos AG (2014). In an as yet unpublished paper, researchers also found that the parental leave benefit had a positive effect on the fertility rate. However, the study did not consider the expansion of daycare centers. See Anna Raute, *Can financial incentives reduce the baby gap? Evidence from a reform in maternity leave benefits*, paper (2016), www.annaraute.wordpress.com/research/ (accessed on November 11, 2016).

32 Families with multiple children receive a “sibling bonus” as long as at least one older sibling under three or at least two older children under six live in the household. Furthermore, parents receive a “speed premium” if the time between subsequent births is short. When the amount of the parental leave benefit is calculated for a subsequent child, the former income from employment can still be taken into consideration.

33 Kluge and Schmitz (2014b).

34 Kamila Cygan-Rehm, “Parental leave benefit and differential fertility responses: Evidence from a German reform,” *Journal of Population Economics* 29 (1) (2016): 73–103. The results are also different between East and West Germany. See Kamila Cygan-Rehm, “Auswirkungen des Elterngeldes auf Folgegeburten in West- und Ostdeutschland,” in: *ifo Dresden berichtet* 20 (06) (2013): 39–43.

Other effects: breastfeeding habits, maternal satisfaction, and child development

Since the parental leave benefit is a comprehensive reform, it makes sense to observe effects on the behavior of parents—and mothers in particular—beyond those discussed thus far. Due to the lower employment rates of mothers with children under one, the “protected phase” for (especially) mothers and their children has been expanded. Mothers can now spend more time with their children. The question is how mothers use this protected phase and to what extent it influences their well-being.

One study, based on the SOEP, analyzes the effect of the parental leave benefit reform on mothers' breastfeeding habits. The results showed that the reform did not cause more mothers to breastfeed, but more mothers were breastfeeding for at least four months.³⁵ Further analyses are needed to see whether this also affected their children's health.

Another study examined the parental leave benefit reform effects on mothers' well-being and subjective satisfaction levels. As expected, the mothers who benefitted from the reform were more satisfied. However, this could only be observed for mothers in West Germany, and the analyses are based on a small sample.³⁶

Almost no causal assessments dealing with the effects of the parental benefit on children's development are available.³⁷ The only published analysis we know of is based on SOEP data and examined the short-term effects on indices of child developmental during the first three years of children's lives.³⁸ This study's findings are, however, inconclusive. Studies concerning later child development phases have not been published yet.

35 Raphael Kottwitz et al., “Parental Leave Benefits and Breastfeeding in Germany—Effects of the 2007 Reform,” *Review of Economics of the Household* 14 (2016): 859–90.

36 Miriam Maeder, “Earnings-related parental leave benefits and subjective well-being of young mothers: evidence from a German parental leave reform,” *BGPE Discussion Paper* 148 (2014). For additional information on the effects of the parental leave benefit reform on parents' well-being, see Mikko Myrskylä and Rachel Margolis, “Parental Benefits Improve Parental Well-being: Evidence from a 2007 Policy Change in Germany,” *MPIfDR Working Paper* 010 (2013).

37 For an overview of the international literature on the effects of parental leave regulations on child development, see Mathias Huebener, “Parental leave policies and child development: A review of empirical findings,” *DIW Roundup* 102 (2014).

38 Katrin Huber, “Moving to an earnings-related parental leave system. Do heterogeneous effects on parents make some children worse off?” *SOEPpapers on Multidisciplinary Panel Data Research* 791 (2015). Based on a relatively small sample of the SOEP, the study examined the effects on the personalities and adaptive behavior of children.

Discussion

On the eve of its implementation in 2007, the parental leave benefit was a subject of controversy. The debate focused on the various incentives it offers and its potential effects. For example, the distributional properties of the parental leave benefit were fervidly discussed, as the benefit is earnings related and thereby favors middle and upper income families.³⁹ Despite that, the parental leave benefit is widely accepted today. The partner months were also heavily criticized for giving the state a say in parents' division of labor. Ten years after the parental leave benefit was implemented, this aspect is widely accepted. Public opinion surveys document that overall the parental leave benefit is very popular.⁴⁰

Corrections to incentive effects in the 2015 version

Further amendments to the original regulations have eliminated the discrimination against parents with part-time employment (Box) and strengthened the effect of specific components of the parental leave benefit. For example, the addition of the "parental leave benefit plus" option (*ElterngeldPlus*, which went into effect on July 1, 2015) improved incentives to work part-time while receiving parental leave benefit payments. Anchored in the new benefit option, the partnership bonus (*Partnerschaftsbonus*), strengthens the parental leave benefit's policy aim of improving gender equality: both parents receive it if they pursue part-time employment at the same time.

Improved job market integration of mothers overall

In sum, we can say that the parental leave benefit has contributed to an increase in household income when children are under one year of age. Beyond that, it has allowed a greater number of highly qualified mothers to interrupt their careers when their child is under one. In the lower income segment, more mothers are going back to work when their child is between one and two. Whether or not this has changed since the implementation of the "parental leave benefit plus" (*ElterngeldPlus*) has not been studied yet.⁴¹ For women in the lower income segment in particular, continuous employment is important, considering the effects on their longer-term wage trend and

pension. Future studies are needed to reveal the extent to which the parental leave benefit has very long-term effects on wages and pension levels.

Also interesting to note is that even parents who did not benefit from the reform have changed their employment behavior. These effects are presumably due to a shift in social norms. It remains to be seen whether this shift in social norms will persist. This also pertains to more fathers taking advantage of (longer) parental leave. If these initial trends are strengthened by further family policy reforms, the measures might contribute to a more favorable birthrate trend above and beyond the direct effects of the parental leave benefit reform.⁴²

Complete gender equality still out of reach

The findings indicated that the increase in paternal participation does not go hand in hand with the equal division of childcare and household work in families. Although the parental leave benefit has led to changes in the division of domestic labor, fathers typically take only two months of paid parental leave. If correcting this imbalance were a family policy goal, the legal entitlement to a partner month extension with unchanged payment duration of 14 months would be an ideal point of departure.

Need for research on the well-being of parents and children

Almost no studies have examined the extent to which the parental leave benefit is related to an increase in the well-being of parents and children. This is an area where more research is needed. We also know little about how the parental leave benefit has affected child development. If families in the middle and higher income segments and better-qualified parents gain more from the parental leave benefit reform, it may be revealing to study its various effects on children.

Conclusions

Without doubt, the parental leave benefit has changed the family policy landscape in Germany and supported many families during a crucial phase of life for children's development and their attachment to their parents. One family policy achievement is its contribution to assuring the economic stability of families. The parental leave benefit promotes the goal of improved work-family balance and pursues gender equality goals.

³⁹ See Annette Henninger et al. (2008), or Martin Bujard (2013).

⁴⁰ Wilhelm Haumann, "Die Akzeptanzanalysen: Staatliche Familienleistungen aus Sicht der Bevölkerung," *Vierteljahreshefte zur Wirtschaftsforschung* 1 (2014): 101-20.

⁴¹ A detailed description of the change in employment incentives for mothers and fathers resulting from the parental leave benefit plus is available in Johannes Geyer and Alexandra Krause, "Veränderungen der Erwerbsanreize durch das ElterngeldPlus für Mütter und Väter," *DIW Discussion Paper* 1592 (2016).

⁴² In general, birthrate trends depend on multiple factors. For a comprehensive description, see Günter Stock et al., eds., *Zukunft mit Kindern* (Frankfurt, New York: Campus Verlag, 2012).

Its effectiveness in terms of these goals can be further increased as long as other family or labor market policies do not counteract it. Income tax splitting for married spouses and free coverage for non-working spouses in statutory health insurance will thwart the majority of the family policy goals.⁴³ Reforms in those areas could also

contribute to better achieving the goals that the parental leave benefit reform targeted, making family policy in Germany more consistent in the process.

43 Holger Bonin et al., "Lehren für die Familienpolitik. Zentrale Resultate der Gesamtevaluation familienbezogener Leistungen," *DIW Wochenbericht* 40 (2013): 3-13.

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SIX QUESTIONS FOR KATHARINA WROHLICH

»The parental leave benefit has increased average household income for young families in the first year«

1. Mrs. Wrohlich, at the beginning of next year the parental leave benefit is turning ten. To what extent has it been able to strengthen the financial situation of young families? The parental leave benefit has actually been able to increase the net income of families significantly in the year after their child was born. But the reform also left some people behind – in particular, families that would have received two years of child rearing allowance under the old law. But the income of the vast majority of families has increased as a result of the parental leave benefit.
2. What effects does the parental leave benefit have on maternal employment? When their child is under one, mothers now tend not to work. This especially applies to mothers with high incomes and high education. We saw that these mothers are less likely to work in the first year. The explanation for this is that today this group receives relatively generous parental leave benefit payments it did not receive before 2007. When the child is between one and two, all mothers have an increased likelihood of going back to work, but more mothers with lower incomes do. These mothers receive 12 to a maximum of 14 months of parental benefit now, whereas in some cases they received 24 months of child rearing allowance before 2007. This effect is in line with the goals of the parental leave benefit law – after all, one of them was to curtail the interruptions in mothers' careers.
3. Was the parental leave benefit a successful family policy measure? Families now have significantly more income at their disposal until the child is one. And the desired curtailment of maternal career interruptions—especially those of mothers with lower incomes—is also a reality. The gender equality goals have been partially achieved due to the increased participation of fathers. We saw that the proportion of fathers who receive the parental leave benefit has jumped from approximately 3 percent before 2007 to over 30 percent at present.

But the duration of fathers' parental leave has basically remained constant at two months. I think there is room for improvement here.

4. Are there other areas that could be improved? The parental leave benefit has already been reformed through the parental leave benefit plus implemented on July 1, 2015. This remedied an inherent flaw in the parental leave benefit system. Previously there was no financial incentive for parents to work part time while receiving the parental leave benefit. In my opinion, the partner months hold further potential for developing the parental leave benefit system. If the ratio of partner months were raised—to four out of 14 instead of two out of 14, for example—fathers would probably extend the duration of their parental leave.
5. Is there any proof that it has affected the birthrate? What a thought-provoking question... Unfortunately, it is difficult to study and empirically prove any causal effect of the parental benefit on the birthrate. The studies we are familiar with arrive at mixed results, but there are a handful of studies that report a small positive overall effect.
6. Does the parental leave benefit have an impact on family life? I think that the parental leave benefit has changed social norms in two ways. On the one hand, 12 months has become the new norm for the duration of maternal career interruptions. For one year, mothers receive a relatively generous benefit and afterward return to the job market. The right to childcare after the child's first birthday syncs perfectly with the new situation. The second social norm that has become established over the past ten years: it is now acceptable for fathers to take two months of parental leave. Previously, this was not the case.

Interview by Erich Wittenberg