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# Is the U.S. Missing Out? The Effects of Parental Leave Benefits on Business

KATHARINE WEST

Most of the developed nations in the world have instituted comprehensive maternity (and sometimes paternity) leave programs, many of which offer paid time off for new mothers. Recently, there has been increasing focus on the maternity leave laws in the United States, which grants new mothers a leave period, without wage compensation, much shorter than the world average. The twelve weeks of unpaid leave mandated in the United States is comparable with the benefits offered in Papua New Guinea, Swaziland and Lesotho, rather than those in other similarly developed nations. For instance, the International Labor Organization reports that Canada offers mothers up to eighteen weeks leave at fifty-five percent of their wages; in Brazil, mothers receive one hundred twenty days at full pay; and in Belgium maternity leave is fifteen weeks long, with the first thirty days compensated by eighty-two percent of wages and seventy-five percent for the remainder of the leave.

In 1993, the United States enacted its first, and currently only, regulations regarding maternity leave. The Family Medical Leave Act of 1993, FMLA, grants employees twelve weeks of unpaid leave after the birth or adoption of a child and guarantees their position will still be available upon return. This benefit is only mandated for employees who have accrued over 1,250 hours and have been employed for at least a year at a firm with over fifty employees. This leaves approximately forty percent of the population uncovered because they are employed at either medium or small businesses (Bernard). Many employers claim that parental leave programs are too costly and choose not to offer any parental leave benefits beyond FMLA mandates. Would it harm the employers in the United States if they followed the rest of the world and offer increased parental benefits for employees who have new children? Or, could more comprehensive family benefits packages actually benefit businesses by increasing employee loyalty and productivity?

Studies have shown definite societal benefits from offering longer and assisted parental leaves. Parents have more time to bond with their child, and longer leave periods have been

correlated with longer periods of breast-feeding. Breast-feeding has been linked to lower infant mortality rates, along with a great number of future health benefits for both the mother and child (Ogbuanu et al.). A healthy future generation has lower healthcare costs, something many in the United States are calling for. In 2002, the Pan American Health Organization published “Quantifying the Benefits of Breastfeeding: A Summary of the Evidence.” The authors, Chessa Lutter, Jay Ross, Luann Martin and Natalia Leon-Cava, estimated that increasing the breastfeeding rates from the 1998 levels to the Surgeon General’s current target levels would save no less than \$3.6 billion (116). One study used in the estimation followed 617 infants through their first year; the study concluded that non-breastfed infants incurred an additional \$331 to \$475 in medical related costs in comparison to breastfed infants (117). Since firms are mandated to provide employee health insurance, lower societal healthcare costs benefit the firm.

Are the short-run costs incurred by employers offering paid parental leave benefits great enough to justify the opportunity cost of the societal benefits? The lack of regulations would lead one to believe that the costs must outweigh the benefits. However, this is not the case. Christopher Ruhm, Associate Dean and Professor of Public Policy and Economics from the Frank Batten School of Leadership and Public Policy at the University of Virginia, has written a number of papers on the topic for the National Bureau of Economics. In the abstract for the paper he co-authored with Jackqueline Teague they assert “the econometric estimates provide little support for the view that moderate periods of parental leave reduce economic efficiency but rather hint at a modest beneficial impact, particularly when considering paid time off from work.”

Jody Heymann, the Dean of the Fielding School of Public Health at the University of California, Los Angeles, notes in an article published by the *New York Times* that “beyond the marked health advantages, paid maternity leave yields economic gains in terms of reduced health care costs, reduced recruitment and retraining, and improved long-term earnings for women” (qtd. in Bernard). Given these comments, there is reason to believe that employers can also reap the benefits of maternity leave. Skilled labor is often difficult to find, and the process of hiring a new employee can be costly, especially in industries that require highly educated specialists. Employers would rather retain an employee than replace one; in addition to time lost to interviews and training, along with potential recruiter fees and signing bonuses, a great deal of time and resources are diverted from the most efficient uses.

Google, the multinational internet services and products giant, is an example of a company that has profited by implementing

additional maternity leave benefits for employees. In 2007, after discovering that women were leaving the company at twice the rate of men, the maternity leave policy for new mothers was amended to offer five months of paid leave with full benefits. Once the policy change was implemented, the retention rate of women matched that of their male counterparts. Google's head of Human Resources, Laszlo Bock, notes that the reason for the policy change was not only to increase retention and employee satisfaction but also because by factoring in "the savings in recruitment costs, granting mothers five months of leave doesn't cost Google any more money" (Manjoo). However, while Google's leave policy is extremely generous, the rate of attrition is of much higher concern than in industries where workers with basic skills are sufficient. Nevertheless, frequent turnovers are costly even for firms that do not hire highly skilled workers. Time lost to training and inexperience means less productivity and lower efficiency.

In a 2009 paper published by the Institute for Women's Policy Research, IWPR, the authors advocate the implementation of a paid parental leave program for federal employees. The federal government employs more workers than any other firm in the United States, and many current federal employees are highly skilled and approaching retirement age. In order for the federal government to compete with the private sector and recruit new talent for replacements, the IWPR argues the need to increase the parental benefits currently offered. The private sector, in order to compete for and retain the best employees, offers enticement in the form of leave programs far more comprehensive than mandated. In order for the federal government to recruit the top job seekers, similar benefits must be offered (Miller, Helmuth, and Farabee-Siers 5).

The competition for talent was the reason that Ascensia, a British global management consulting firm, introduced a nine-month paid maternity leave program. In the documentary, *Why Can't a Woman Succeed Like a Man?*, Director of Human Resources Dan Flynn and Senior Executive Anne Gardner were asked why the company chose to offer such a long period of paid leave. Flynn states that the policy helps the company succeed because, "the way we make money is we sell clients the ideas, thoughts and skills of some of the best people in our industry and therefore it is critical we have the best people working for us." Gardner echoes his sentiments, saying the payoff for the company is that the leave program ensures "the best people working in the environment" are working for their firm. Not only does this policy aid Ascensia during the recruitment process, it also helps in the retention of top talent; nearly all new mothers who work at Ascensia return after the given leave period. The increased retention rates that result from paid leave are another reason why IWPR supports a

paid leave policy for federal employees. They estimate that the government could save over fifty million dollars by offering paid parental leave benefits:

Improved employee retention would yield substantial government savings by reducing the costs associated with staff turnover. Recruiting new employees, the relatively low productivity of new hires, drains on the productivity of colleagues and supervisors, human resources processing time, training, and lost productivity between the departure of an employee and the hiring of a replacement are all real costs to employers. (Miller, Helmuth, and Farabee-Siers 9)

California was the first U.S. state to implement a family leave policy exceeding federal government mandates. Currently New Jersey, Rhode Island and Washington are the only other states that have mandated paid maternity leave policies. The 2004 California's Family Rights Act, CFRA, increased benefits offered to employees with new children. In addition to the 12 weeks of unpaid leave granted by the FMLA, CFRA offers six weeks of leave paid at a percentage of the mother's wage. In 2002, before CFRA was passed, economists Arindrajit Dube and Ethan Kaplan from the University of Chicago and University of California, Berkley respectively, predicted that the implementation of the paid leave program would "produce substantial cost savings for employers" and also savings for the state of California (49). Their analysis estimated eighty-nine million dollars in savings for employers caused by reduced turnovers and twenty-five million dollars in savings for the state that can be attributed to reduced transfer payments (5).

In 2011, a study conducted by the Center for Economic and Policy Research "found that 89% of employers surveyed reported that the state's policy had either a positive or no noticeable effect on productivity. An even larger portion of employers found that the policy had a positive effect or none at all on profitability and performance, turnover, and employee morale" (Zillman). The results of this study supported the conclusion of Dube and Kaplan's foundational work that employers would not be adversely affected by offering paid leave. Additionally, California's paid leave program is funded by taxing employee wages, relieving the employer of the financial burden of paying for an employee who is not currently contributing.

Employers may feel that they are disadvantaged by a mandated maternity leave policy because they are required to hold a job open for an employee that is not contributing to production. They can either spread the responsibilities of the missing employee among the rest of the staff or they can hire a

temporary replacement. There is, obviously, some impact on productivity. However, because comprehensive leave benefits are proven to reduce turnover and increase productivity, the advantages outweigh the costs to firms offering these programs (Rhum 7). Christopher Ruhm, in collaboration with Maya Rossin-Slater and Jane Waldfogel, determined in their paper that once CFRA went into effect, there was a six to nine percent increase in the hours worked by mothers before and after their leave periods. The authors attribute the increased commitment to the job security provided by CFRA (19). Employers benefit from not only added the loyalty that results from maternity leave programs, but also the added productivity of committed female employees.

A 2012 report by Rutgers University Center for Women and Work found that “paid family leave may strengthen women’s workforce attachment and workforce stability by allowing women to retain employment both before and after a birth, particularly employment with the same employer and at the same, or better, wage. This benefits the woman, her family, and – by reducing turnover costs – her employer” (Houser and Vartanian 7). Similarly, after studying the economic outcomes of the parental leave policies in Europe, Christopher Ruhm wrote “it is frequently asserted that parental leave raises levels of firm-specific human capital, by allowing women to return to their old jobs after having children. This elevates the marginal revenue product of workers” (7). Maternity leave policies that induce commitment reduce turnover and increase productivity, thus decreasing the marginal cost of labor.

All of the results examined here show the same outcome; employers benefit by offering comprehensive parental leave programs. When a firm offers paid leave, they are able to maximize human capital investment. Efficient labor means firms will maximize output and in turn profit. Therefore, in the interest of both the employee and employer, the most beneficial policy for the United States would entail an expansion of the benefits mandated in the Family and Medical Leave Act of 1993.

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Katharine West is a senior Economics major. This paper was written for Managerial Economics taught by Professor Itler Bakkal. After earning her BS from Bridgewater State University, she plans to continue her economics education in a graduate program.