

Life-Cycle Effects Modeling the Relationship between Earnings and Parental Leave

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One of the cornerstones of Swedish public policy making for work-life balance and gender equality is the parental leave program. Earnings of the parents and their relation to benefit received is often highlighted as one of the most important determinants of the length of leave and the division of leave between the mother and the father. Indeed, a parental leave program as such is designed to lowering the economic loss of being on leave, both by replacing part of the earnings during the leave (earnings-related or flat rate) and by job protection (prevention of economic loss in future earnings). Also, the most important reforms explicitly aimed at the fathers, such as the daddy month and the gender equality bonus, has economic incentives connected to earnings as its main incentive for getting fathers to use more leave.

Evidence of the relation between earnings and parental leave has however been inconclusive and contradictory. We know from some studies that higher earnings of both the mother and the father leads to higher uptake by fathers (Sundström & Duvander 2002, Jansson et al 2003, Ljungh & Nyman 2005, Duvander 2006), but the correlation is not linear: fathers with low earnings take very short periods of leave, if any at all, and high earner fathers take less leave, especially those in managerial positions (Nyman & Pettersson 2002, Duvander 2006). Recent descriptive statistics on the usage of parental leave in different earnings groups, however, show only the pattern that low earning fathers take less leave and no effect is found for other earnings categories (Duvander & Lammi-Taskula 2010).

In this study we propose that the inconclusiveness can partly be explained by how the effect of earnings on parental leave usage is likely to change over individual life-courses. More specifically, we propose that in the choice of taking parental leave, individuals not only consider earnings as a monthly monetary value but also take expected future earnings into account. In a model including only current earnings, the effect of expected future earnings will wrongly be mediated through the earnings factor.

The typical age-earnings profile shows high individual earnings growth in early adult years followed by a leveling off, therefore low earnings at older ages might be closer to the final earnings over the life-cycle while low earnings at younger ages might fail to reflect how earnings will grow in the next years and thus fail to take human capital into account. In Sweden, career progression flattens out after 5-10 years in the labor market (Härkönen & Bihagen 2011), which is a finding that gives us grounds for differential expectations. In line with this “occupation status maturation”

hypothesis, the same level of earnings could, depending on the age of the parent, mean both the beginning of a career and a career that has already stagnated. It is not just the positioning on the age-earnings profile that is likely to posit a different relationship, it is also likely that the shape of the age-earnings profiles matters for the effect of earnings on parental leave usage. While a steeply increasing profile is likely to be vulnerable to time out, individuals with almost flat profiles are likely to suffer only small costs, if any, due to being on leave. Important to note is also that steep earnings increases and career progressions usually coincide with the child-bearing years and thus also the period in which parental leave is to be divided.

Using Swedish register data for all parents of children born in Sweden 1993-2005, we will be able to give a clearer answer as to how earnings should be viewed when modeling uptake of parental leave. Our first preliminary results show significant results of the interaction of father's age and earnings, suggesting that fathers take also future earnings into account when making the decision to take leave. Fathers with higher earnings at lower ages take less leave than those with more mature earnings and careers, a finding that gives ground for further analyses. Ongoing work includes estimating age-earnings profiles for different occupations and educational groups as well as differentiating between age and labor market experience.