

Abstract

Parental leave policies encourage mothers of newborn children to stay home and take care of their children. Two key instruments of parental leave policies are duration of job protection and benefits payments. This paper studies the causal effects of these two policy instruments on mother's return to work decisions and their subsequent impact on mother's labor market performance in the medium-run. To examine these issues, we exploit three different policy reforms in Austria that altered various components of the parental leave system. The policy changes were abrupt and unpredicted providing us the unique opportunity to apply a regression discontinuity research design. We find that duration of parental leave benefits is central for mothers time spent at home after child's birth. Duration of the job-protected period while on leave also influences mother's decisions to return to work, but to a lower extent. Yet, prolonged work interruptions due to parental leave have surprisingly little effects on mothers' earnings and employment 5 years after birth. On the other hand, there seems to be a detrimental effect on earnings and employment for women of high earnings capacity when their work interruptions exceed the period of job-protected leave.

JEL Classification: J13, J18, J22

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