

BACKGROUND

No. 3231 | JULY 20, 2017

Paid Family Leave: Avoiding a New National Entitlement

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Abstract

President Trump campaigned on, and has included in his budget, a federal paid family leave (PFL) program that would provide new parents with six weeks of paid time off. This would establish a new national entitlement that could expand as other federal entitlements have, potentially costing hundreds of billions of dollars per year. Many employers are implementing PFL policies or expanding existing ones, and some states have implemented their own—which a federal PFL could dismantle, pushing at least part of the cost of existing programs onto federal taxpayers. With conflicting economic and social benefits and consequences of government-provided paid leave, the role for the federal government is to remain neutral with regard to parents' decisions to stay home or work outside the home. The government can, however, make it easier and less costly for workers to take family leave by reducing marginal tax rates so that workers have larger paychecks, supporting, instead of impeding, flexible work arrangements between employees and employers, and cutting costly regulations so that businesses can afford to provide paid leave.

President Donald Trump campaigned on, and has now included in his budget, a federal paid family leave (PFL) program that would provide new mothers and fathers (including adoptive parents) six weeks of paid leave to stay home with their children following the birth or adoption of a child.¹ This would establish a new national entitlement program that could expand along the same lines as other federal entitlements, potentially costing hundreds of billions of dollars per year.

KEY POINTS

- President Trump has proposed a federal paid family leave (PFL) law. This law would create a new national entitlement that would almost certainly inflate over time.
- Based on market demand, many private employers are expanding or creating new PFL policies, and a handful of state governments have enacted their own PFL laws.
- A federal PFL law could minimize or dismantle existing PFL provisions, and could potentially cost federal taxpayers hundreds of billions of dollars per year.
- With conflicting economic and social benefits and consequences of government-provided paid leave, the ideal role for the federal government is to remain neutral with regard to parents' decisions to stay home with their children or work outside the home.
- To support families' access to PFL, the federal government can: reduce marginal taxes, encourage flexible work arrangements, and cut costly business regulations.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3231>

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Many employers are implementing new PFL policies or expanding existing ones, and a handful of states have implemented their own PFL policies while others are considering adding their own. A federal PFL could dismantle existing private and state policies that are arguably better equipped to meet their unique workers' and populations' needs and would push at least part of the cost of existing programs onto federal taxpayers. With conflicting economic and social benefits and consequences of government-provided paid leave, the ideal role for the federal government is to remain neutral with regard to parents' decisions to stay home with their children or work outside the home. The federal government can, however, make it easier and less costly for workers to take family leave by reducing marginal tax rates so that workers have larger paychecks, supporting, instead of impeding, flexible work arrangements between employees and employers, and cutting costly regulations so that businesses can better afford to provide paid leave.

Leave in the United States

The fact that the United States is the only industrialized country that does not have a national PFL law has prompted advocates—including in the Trump Administration—to advocate for one. Policymakers should evaluate a federal PFL law based on its potential merits and consequences for U.S. workers and taxpayers as opposed to the argument that “everybody else is doing it.”

Although the U.S. does not have a federal PFL law, the Family and Medical Leave Act of 1993 (FMLA) requires that companies with 50 or more employees allow their workers to take up to 12 weeks of unpaid family leave.² Although the Bureau of Labor Statis-

tics (BLS) reports that only a little more than 13 percent of workers in the U.S. have access to formal PFL, many other workers have access to informal paid leave via temporary disability or accumulated sick, personal, and vacation days. Moreover, the 2016 Kaiser/HRET Employer Health Benefits Survey found that 33 percent of non-federal public and private employers reported providing paid parental leave, and a similar 34 percent of workers were employed in firms that offer paid parental leave.³

Low-income and minority workers are least likely to have access to paid leave. According to the BLS data, only 6 percent of workers in the lowest quartile of wages have access to paid leave, compared to 24 percent of workers in the highest quartile.⁴

A federal paid leave policy could stop or hinder important advancements that employers are making based on market demand instead of government command.

Most parents—particularly mothers—would prefer to be home with their children in the weeks or months following their birth or adoption. Research shows that this is beneficial,⁵ and there is general agreement that providing workers with the flexibility to be home with their new children is good for parents and children (and often businesses as well).

What is not always agreed on is who should pay for parents who work outside the home to stay home after they have or adopt a child. Currently, employers—those that offer it—are the ones to pay for paid

1. Office of Management and Budget, *A New Foundation for American Greatness: Budget of the U.S. Government Fiscal Year 2018*, p. 20, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf> (accessed June 13, 2017).

2. Thirteen percent of private-sector workers have access to paid leave, while 14 percent of civilian workers and 16 percent of state and local government workers have paid leave. Access to unpaid leave is 87 percent among private-sector workers, 88 percent among civilian workers, and 94 percent among state and local government workers. Bureau of Labor Statistics, “Employee Benefits Survey—Leave Benefits: Access,” March 2016, Table 32: Leave benefits: Access, private industry workers/civilian workers/state and local government workers, https://www.bls.gov/ncs/ebs/benefits/2016/benefits_tab.htm#tabs-4 (accessed December 12, 2016).

3. Nisha Kurani et al., “Paid Family Leave and Sick Days in the U.S.: Findings from the 2016 Kaiser/HRET Employer Health Benefits Survey,” May 31, 2017, <http://www.kff.org/womens-health-policy/issue-brief/paid-family-leave-and-sick-days-in-the-u-s-findings-from-the-2016-kaiser-hret-employer-health-benefits-survey/> (accessed June 15, 2017).

4. Bureau of Labor Statistics, “Employee Benefits Survey—Leave Benefits: Access,” Table 32.

5. Maya Rossin-Slater, Christopher J. Ruhm, and Jane Waldfogel, “The Effects of California’s Paid Family Leave Program on Mothers’ Leave-taking and Subsequent Labor Market Outcomes,” National Bureau of Economic Research *Working Paper* No. 17715, December 2011, <http://www.nber.org/papers/w17715> (accessed June 13, 2017).

leave in the United States. While employers are the ones to provide workers with paid leave, most economists agree that most or all of those costs are passed down to other employees through lower compensation, and to customers through higher prices.⁶

In some cases, however, federal and state regulations, such as the minimum wage, prevent employers from being able to spread the costs of providing paid leave to other workers. This is one reason why lower-wage jobs are less likely to offer paid parental leave. Competition to provide the lowest prices and attract the best workers (through higher wages) can prevent employers from offering paid leave, particularly if it is not something their average employee desires.

However, many employees do desire PFL, and employers are not immune to those desires. Many employers have and are working to create or expand paid time off for family leave, as well as adding alternative solutions to meet their workforce needs, such as more flexible hours and work-from-home options. Numerous reports document the growth of paid leave policies among employers of all sizes, with large firms engaged in a race to the top to provide generous PFL benefits, and smaller firms increasing access to paid leave.⁷ A federal paid leave policy could stop or slow down these important advancements that employers are making based on market demand instead of government command.

A New National Entitlement Program

A federal paid leave program would create yet another national entitlement program. As the history of Social Security, Medicare, Medicaid, and the federal government's roughly 80 welfare programs, such as Supplemental Security Insurance (SSI) and

Supplemental Nutrition Assistance Program (SNAP) demonstrate, entitlement programs all follow the same ever-expansive path.⁸ Even at the state level, where governments are more constrained in their ability to finance deficit spending, paid leave programs have already expanded.

What President Trump proposed as a targeted, relatively limited paid leave program for new parents could quickly inflate to include paid sick, medical, and caregiver leave; more generous benefits; and longer periods of leave. Already, instead of applauding the President's inclusion of a paid leave proposal in his budget, paid leave advocates have derided it as "amateurish, inadequate, insulting,"⁹ claiming that "on literally every aspect...it falls short."¹⁰ If a federal paid leave law passes, advocates will immediately push for more expansive and larger benefits. An extensive and generous federal PFL program could leave taxpayers "employing" more workers (through PFL benefit checks) than any private-sector employer in the U.S.

A federal paid leave program would create yet another national entitlement program, all of which follow an ever-expansive path.

A national PFL program would require a one-size-fits-all program that would not be able to target the needs of unique populations. Moreover, its size and scope would make it difficult to minimize fraud and abuse, and without shouldering any of its costs,

6. Jonathan Gruber, "The Incidence of Mandated Maternity Benefits," *The American Economic Review*, Vol. 84, No. 3 (June 1994), pp. 622-641, and Darren Lubotsky, "The Economics of Employee Benefits," in Joseph Martocchio, *Employee Benefits: A Primer for Human Resource Professionals*, 2nd ed. (McGraw-Hill, 2005), http://lubotsky.people.uic.edu/uploads/2/3/1/7/23178366/the_economics_of_employee_benefits.pdf (accessed June 27, 2017).

7. Janice Podsada, "Large Scale Companies Change Paid Family Leave Rules," *The Washington Times*, January 21, 2017, <http://www.washingtontimes.com/news/2017/jan/21/large-scale-companies-change-paid-family-leave-rul/> (accessed June 15, 2017), and Sheryl Smolkin, "Why More Employers Are Offering Paid Parental Leave," *Employee Benefit News*, September 14, 2016, <https://www.benefitnews.com/news/why-more-employers-are-offering-paid-parental-leave> (accessed June 15, 2017).

8. Robert Rector, "Examining the Means-Tested Welfare State: 79 Programs and \$927 Billion in Annual Spending," testimony before the Committee on the Budget, U.S. House of Representatives, May 3, 2012, <http://www.heritage.org/testimony/examining-the-means-tested-welfare-state-79-programs-and-927-billion-annual-spending> (accessed July 10, 2017).

9. Christina Cauterucci, "Trump's Budget Takes an Amateurish, Inadequate, Insulting Stab at Paid Parental Leave," *Slate.com*, May 23, 2017, http://www.slate.com/blogs/xx_factor/2017/05/23/trump_s_paid_parental_leave_plan_in_the_budget_is_inadequate_and_insulting.html (accessed June 19, 2017).

10. Bryce Covert, "Trump's Updated Paid Leave Plan 'Falls Short' in Nearly Every Way, Experts Say," *Think Progress*, May 23, 2017, <https://thinkprogress.org/trump-paid-family-leave-updated-plan-93ca67a92d82> (accessed June 19, 2017).

states would have minimal incentive to curtail fraud and abuse in the system. Although the President's proposal aims to provide flexibility for the states to "establish paid parental leave programs in a way that is most appropriate for their workforce and economy," the federal government will have to put reins on the generosity of PFL, or else states will enact extremely costly programs. Alternatively, if, as the President's proposal suggests, states have to generate enough revenues on their own through their unemployment-insurance programs, the costs will fall on employers and lead to a reduction in jobs.

A better solution is to allow individual employers to continue to expand their PFL policies. Where private employers alone do not meet individual workers' needs for paid leave, state and local governments can implement their own paid family leave programs without a federal mandate, as a handful have already done.

State-Based Paid Leave Programs

To date, four states have enacted PFL programs: California (implemented in 2004), New Jersey (implemented in 2009), Rhode Island (implemented in 2014), and New York (will begin in 2018). Although not a formal PFL policy, Hawaii has a temporary disability insurance program for new mothers around the time of childbirth. Additionally, Washington State enacted a program in 2007 that it has not implemented due to financing shortfalls, and the District of Columbia passed a paid leave bill in 2016 that has not yet taken effect and may be subject to change.¹¹

The four existing state programs all rely on employee-paid payroll taxes and are administered through each state's disability program. They all

provide paid leave to parents (and, often other family members) for the birth or adoption of a new child or to care for a sick family member. Tax rates, allotted time of leave, and eligibility and benefit levels vary by state.

In California—the first state-level paid leave program in the U.S.—workers initially received 55 percent of their wages (up to a maximum of \$1,067 per week) for six weeks. California has since expanded its program twice: once to extend leave to grandparents, grandchildren, siblings, and parents-in-law;¹² and another time to increase benefit levels from 55 percent of wages to as much as 70 percent, based on workers' incomes.¹³ New Jersey's program provides two-thirds of workers' wages (up to \$615 per week) for six weeks.¹⁴ Rhode Island provides four weeks of paid parental or family leave with a maximum benefit of \$795 per week.¹⁵ New York's program will eventually provide 67 percent of wages (up to 67 percent of the median state wage) for 12 weeks.¹⁶ New York's program also has more generous eligibility criteria, including paid leave for workers when a spouse, domestic partner, parent, or child is called to active-duty military deployment.¹⁷

While only four states have official PFL programs, momentum exists for additional state PFL programs. During the 2015 state legislative sessions, 23 states and the District introduced one or more PFL proposals.¹⁸

Evidence from Existing State Paid Family Leave Programs. The Rhode Island and New York programs are very recent, so any long-term costs, benefits, and consequences are still unknown. More is known, however, about the impact of California and New Jersey's programs. Economic studies on the effects of California's PFL program reveal that it:

11. Nick Iannelli, "DC Council to Revisit New Paid Family Leave Law," WTOP, February 21, 2017, <http://wtop.com/dc/2017/02/dc-council-revisit-new-paid-family-leave-law/> (accessed June 19, 2017).
12. 2013 Cal. Legis. Serv. Ch. 350 (amending CAL. UNEMP. INS. CODE § 3302(f)-(j)).
13. B. 908, 2015-2016 Leg., Reg. Sess. (Cal. 2016). The 2016 expansion will take effect in 2018.
14. Aparna Murtha et al., "Paid Family and Medical Leave: An Issue Whose Time Has Come," AEI-Brookings Working Group on Paid Family Leave, May 2017, <http://www.aei.org/wp-content/uploads/2017/06/Paid-Family-and-Medical-Leave-An-Issue-Whose-Time-Has-Come.pdf> (accessed June 12, 2017).
15. Ibid.
16. Ibid.
17. New York State, "Paid Family Leave: How It Works," <https://www.ny.gov/new-york-state-paid-family-leave/paid-family-leave-how-it-works> (accessed June 12, 2017).
18. Montana Budget and Policy Center, "Paid Leave in Four States: Lessons for Montana Policymakers and Advocates," December 2015, <https://www.dol.gov/wb/media/Paid%20Family%20Medical%20Leave%20in%20Four%20States%20FINAL.pdf> (accessed June 12, 2017).

- More than doubled maternity leave-taking from 5.4 percent to 11.7 percent of mothers with children under age one. The greatest increases occurred among non-college-educated mothers (from 2.4 percent to 7.7 percent); unmarried mothers (from 1.9 percent to 9.4 percent); and black mothers (from 2 percent to 13.7 percent).¹⁹
 - Increased likelihood of all types of leave-taking from 8.2 percent to 14.9 percent.²⁰
 - Roughly doubled the length of leave from an average of three weeks to between six and seven weeks.²¹
 - May have increased subsequent work hours and earnings of employed women with children between the ages of one and three by 6 percent to 9 percent.²²
 - Led to a steady uptick in the percentage of men filing PFL claims to bond with new children.²³
 - Still lacks sufficient public awareness, with fewer than half of workers who could have received PFL benefits even knowing that the program exists (awareness was lowest among low-wage, Latino, and immigrant workers).²⁴
 - Paid out \$4.9 billion in PFL benefits to 1.8 million recipients between fiscal year (FY) 2008 and FY 2016, with an average benefit of \$2,693.²⁵
- Less research exists on the impact of New Jersey's more recent Family Leave Insurance (FLI) program, but there are a few statistics on its utilization:
- Claims for bonding with new children comprised 81.5 percent of claims in 2011 (72.5 percent from women and 9.0 percent from men) while family care claims encompassed the remaining 18.5 percent (13.9 percent from women and 4.6 percent from men).²⁶
 - Only 40 percent of New Jersey residents are aware the program exists;²⁷ awareness is lowest among those most needing family leave;²⁸ 1 percent of eligible families used the family leave;²⁹ and some managers and even human resource professionals are confused about the policy.³⁰

Cost of Paid Family Leave

Paid family leave includes multiple costs. First, there is the direct cost of financing the program, which, to date, has taken the form of an additional payroll tax up to about 1 percent of workers' pay. Payroll tax rates for the states' paid leave programs (and associated short-term disability programs) are:

19. Rossin-Slater, Ruhm, and Waldfogel, "The Effects of California's Paid Family Leave Program on Mothers' Leave-taking and Subsequent Labor Market Outcomes."

20. Ibid.

21. Ibid.

22. Ibid.

23. Eileen Applebaum and Ruth Milkman, "Leaves That Pay: Employer and Worker Experiences with Paid Family Leave in California," Center for Economic Policy Research, 2011, <http://cepr.net/documents/publications/paid-family-leave-1-2011.pdf> (accessed June 13, 2017).

24. Ibid.

25. State of California Employment Development Department, "Paid Family Leave (PFL) Program Statistics," http://www.edd.ca.gov/Disability/pdf/qspfl_PFL_Program_Statistics.pdf (accessed June 13, 2017).

26. Karen White, Linda Houser, and Elizabeth Nisbet, "Policy in Action: New Jersey's Family Leave Insurance Program at Age Three," A Report of the Center for Women and Work, January 2013, http://smlr.rutgers.edu/sites/smlr.rutgers.edu/files/documents/FLI_Report_1-31_release.pdf (accessed June 13, 2017).

27. Ibid.

28. Ibid.

29. Sharon Lerner and Eileen Appelbaum, "Business as Usual: New Jersey Employers' Experiences with Family Leave Insurance," Center for Economic and Policy Research, June 2014, <http://cepr.net/documents/nj-fli-2014-06.pdf> (accessed June 13, 2017).

30. Ibid.

0.9 percent in California (on wages up to the first \$104,000 of earnings);³¹ 0.34 percent in New Jersey (up to the first \$32,000 of earnings);³² and 1.2 percent in Rhode Island (up to \$64,200).³³ On an annual basis, paid family and medical leave cost the median worker \$277 in California, \$109 in New Jersey, and \$384 in Rhode Island.³⁴ New York's program is estimated to cost workers \$73 per year once fully phased in, but it will almost certainly cost significantly more considering that it provides about 33 percent higher benefits for two- to three-times as many weeks compared to existing state programs.³⁵

The American Action Forum estimated that a national PFL program that provided 16 weeks of paid leave would cost between \$307 billion and \$1.9 trillion per year.³⁶ Although this estimate models a more expansive PFL plan than existing state-based ones or President Trump's proposed federal plan, it is not unrealistic that a federal PFL program in the U.S. could expand to this size. The American Action Forum estimated that a payroll tax of between 0.5 percent and 1 percent of workers' wages would generate only \$61 billion in annual revenues, or between 3 percent and 20 percent of its estimated costs.³⁷

Although existing and proposed PFL programs do not directly tax employers, most employers still bear a direct cost of continuing to pay the employer portion of employees' health care benefits while they are on leave. In 2016, private employers paid an average of \$12,865 toward employees' premiums for family health insurance coverage (the total average family plan cost was \$18,142).³⁸ Over a six-week to 12-week leave, this

amounts to between \$1,500 and \$3,000 per employee.

Aside from the payroll taxes that finance the program and employers' health care costs, employers and employees bear other indirect costs. Employee absences can cause operational disruptions, especially for smaller employers. Employers have to find someone else to cover their job functions, either by hiring temporary workers or by shifting additional work to existing employees. Replacement workers often do not perform the absent worker's job with the same quality or reliability. An economic study examined the impact of Denmark's implementation of a one-year paid parental leave program on the nursing industry and found that the generous paid leave policy led to a rapid and persistent 12 percent decline in nursing employment; a 17 percent increase in inpatient readmissions; an 89 percent increase in newborn readmissions; a delay in technology adoption; and a 13 percent increase in nursing home mortality over the three-year period following enactment.³⁹ Significantly shorter periods of paid leave as provided and proposed in the U.S. would minimize these potential consequences, but would not eliminate them.

Moreover, a national paid leave policy could end up hurting the very same workers it intends to help. As professor and scholar Harry Holzer of the AEI-Brookings Project on Paid Family Leave noted, "A mandatory paid leave policy might well lead employers to begin discriminating in hiring against less-educated women in the child-bearing ages, especially minority women."⁴⁰ There is some evidence that the Americans with Disabilities Act caused employers to

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31. Montana Budget and Policy Center, "Paid Leave in Four States: Lessons for Montana Policymakers and Advocates," December 2015, <https://www.dol.gov/wb/media/Paid%20Family%20Medical%20Leave%20in%20Four%20States%20FINAL.pdf> (accessed June 12, 2017).
 32. In New Jersey, workers pay 0.09 percent for paid family leave and 0.25 percent for paid medical leave. *Ibid.*
 33. *Ibid.*
 34. *Ibid.*
 35. New York's program is estimated to cost workers an average of 70 cents per week in 2018, increasing to \$1.40 per week in 2021, once fully phased in. Betsy McCaughey, "How You End Up Paying for 'Paid Family Leave,'" *New York Post*, April 12, 2016, <http://nypost.com/2016/04/12/how-you-end-up-paying-for-paid-family-leave/> (accessed June 12, 2017).
 36. Ben Gitis, "The Cost of Paid Family Leave Law," American Action Forum, October 2015, <https://www.americanactionforum.org/research/the-cost-of-paid-family-leave-law/> (accessed June 13, 2017).
 37. *Ibid.*
 38. Kaiser Family Foundation, "2016 Employer Health Benefits Survey: Summary of Findings," September 14, 2016, <http://www.kff.org/report-section/ehbs-2016-summary-of-findings/> (accessed June 13, 2017).
 39. Rossin-Slater, Ruhm, and Waldfogel, "The Effects of California's Paid Family Leave Program on Mothers' Leave-taking and Subsequent Labor Market Outcomes."
 40. Harry J. Holzer, "Paid Family Leave: Balancing Benefits and Costs," AEI-Brookings Project on Paid Family Leave, January 30, 2017, <https://www.brookings.edu/blog/social-mobility-memos/2017/01/30/paid-family-leave-balancing-benefits-and-costs/> (accessed June 12, 2017).
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hire fewer disabled workers.⁴¹ Similarly, while evidence suggests that the Family Medical Leave Act increased women’s likelihood of remaining employed, it reduced their likelihood of getting promoted by a larger amount.⁴²

Women who make use of PFL policies through their employers can mitigate reduced promotion opportunities by remaining connected to their work even while taking PFL. This could mean responding to pertinent matters and answering some e-mails and phone calls—and only if the women choose to do so. However, a federal PFL policy would prevent women from making the choice to stay connected and to not miss out on potential opportunities, since a federal PFL would require workers to withdraw entirely from their work while receiving benefits. If the government pays workers, and those workers then perform even a minimal level of work, the PFL becomes an employer-subsidy instead of an employee-subsidy. A federal PFL policy would make employers reluctant to have any contact with employees while on leave because it could become grounds for a lawsuit if the worker interprets the contact as asking them to perform work.

Potential Bias in Government-Provided Paid Leave

Most people would consider PFL only for parents who work in the formal labor force—that is, those who are paid for the work they do. Although not specified in his budget’s paid leave proposal, President Trump’s leave plan may be available to both working and stay-at-home parents.⁴³

“Leave” means a temporary absence—so, if a parent is currently not working (perhaps already staying home with children), he or she does not take leave from a job. So should the government pay stay-at-home parents to do what they would already do?

If leave were not available to stay-at-home parents, government-provided leave would create an implicit bias, placing a higher value on working parents’ time at home with their children than that of stay-at-home parents. If paid leave is available to all parents, regardless of whether they work outside the home, however, it is not really paid leave, but a payment for having or adopting a child. If the federal government decides to provide paid leave to both working and stay-at-home parents, the least distortionary form would be a straightforward payment that is not conditional on earnings (as a PFL benefit would be) or taxes paid (as the Child Tax Credit is). While more straightforward and impartial than a tax credit or subsidy program, having the government directly pay people for lifestyle choices would establish a new and troublesome precedent.

An alternative approach to provide more equal benefits to single-earner and dual-earner couples would be to allow paid leave for one working family member. Dual-earner families could choose which spouse would take the leave, and the sole worker in single-earner families could take the leave.

President Trump’s budget proposal for PFL does not state whether it would be available to working as well as non-working parents.⁴⁴ His campaign factsheet on family and childcare policies did indicate that his proposed tax deduction for childcare expenses would be available to working as well as stay-at-home parents.⁴⁵

Conflicting Economic Benefits and Social Values of Paid Leave

Studies both within and outside the United States show that PFL can have an economic benefit. When women have access to paid leave, their total work and earnings actually increase because more women return to work, and they are less likely to take long

41. Ibid.

42. Mallika Thomas, “The Impact of Mandated Maternity Benefits on the Gender Differential in Promotions: Examining the Role of Adverse Selection,” unpublished manuscript, University of Chicago, January 22, 2015, <http://www.economics.cornell.edu/sites/default/files/files/events/Thomas%20paper.pdf> (accessed June 19, 2017).

43. President Trump’s campaign proposal fact sheet on his child-care and paid-leave plans did not specify whether his paid-leave proposal would be available to all parents, but it did say that his tax deduction for childcare expenses would be available to working, as well as stay-at-home, parents. Furthermore, his campaign staff indicated that the paid leave proposal would be available to all parents.

44. Office of Management and Budget, *A New Foundation for American Greatness: Budget of the U.S. Government Fiscal Year 2018*.

45. Donaldjtrump.com, “Fact Sheet: Donald J. Trump’s New Child Care Plan,” September 13, 2016, https://assets.donaldjtrump.com/CHILD_CARE_FACT_SHEET.pdf (accessed July 19, 2017).

absences from the labor market.⁴⁶ More mothers working means more jobs for childcare providers, and more measurable economic output and taxes paid both by working mothers and childcare providers.

With conflicting economic and societal benefits and consequences, the ideal role for the federal government is to remain neutral, neither subsidizing nor penalizing parents who choose to stay home with their children, nor those who work outside the home.

Economic studies show there are diminishing returns, however, to paid maternity leave. More lengthy leaves of a year or more have proven detrimental to the wages and relative positions of workers who take extended leave.⁴⁷ This is likely a combination of the potential decline in skills and experience during the leave, and employers' reluctance to hire or promote workers who are likely to take extended leaves of absence.

Paid leave policy is not all about economics, however. It has social implications as well. There are benefits to mothers (or fathers) staying home with their children, including positive impacts on child outcomes as well as the voluntary contributions of stay-at-home-parents to public schools and other charitable roles.

Paid leave proposals inherently acknowledge these benefits, but focus on just a few weeks or months of time for parents and children to be together.

While the first weeks and months following the birth or adoption of a child are a particularly meaningful time for parents and children, the benefits from parents being home with their children do not end after six weeks, 12 weeks, or even a year of paid leave. A national PFL policy, however, would imply that an arbitrary length of paid leave that the federal government provides is the correct level. But neither the potential benefits of parents staying home nor the potential negative consequences of parents not staying home end after a designated number of weeks or months, as paid leave policies may imply.

When children are not at home with their parents, they are often home with other family members or at daycare. Studies reveal both negative and positive effects of children attending daycare. Those effects vary by the quantity of time a child spends in childcare, the quality of care, and the child's socioeconomic background. In general, research shows that children who spend long hours in daycare exhibit more problematic behaviors, such as aggression and conflict seeking.⁴⁸ Behavioral consequences of non-relative childcare are greatest for children who begin extensive time in childcare at young ages (under two years).⁴⁹

While effects can vary over time, a study that examined children at age 15 found lingering negative consequences of daycare on adolescents' risk-taking and impulsivity (such as experimenting with drugs and alcohol).⁵⁰ Another prize-winning analysis examined Canada's introduction of a highly subsidized childcare system that made it easier for parents to work outside the home. The authors found "striking evidence that children's outcomes have worsened since the program was introduced," and report

46. Maya Rossin-Slater, "Maternity and Family Leave Policy," National Bureau of Economic Research *Working Paper* No. 23069, January 2017, <http://www.nber.org/papers/w23069.pdf> (accessed June 19, 2017), and Claudia Olivetti and Barbara Petrongolo, "The Economic Consequences of Family Policies: A Century of Legislation in High-Income Countries," January 2017, National Bureau of Economic Research *Working Paper* No. 23051, January 2017, <http://www.nber.org/papers/w23051.pdf> (accessed June 19, 2017).

47. Christopher J. Ruhm, "The Economic Consequences of Parental Leave Mandates: Lessons from Europe," *The Quarterly Journal of Economics*, Vol. 113, No. 1 (1998), pp. 285-317.

48. Family Facts, "The Effects of Day Care on the Social-Emotional Development of Children," *Brief* No. 43, undated, <http://www.familyfacts.org/reports/2/the-effects-of-day-care-on-the-social-emotional-development-of-children> (accessed December 14, 2016).

49. Susannah Loeb et al., "How Much Is Too Much? The Influence of Preschool Centers on Children's Social and Cognitive Development," National Bureau of Economic Research *Working Paper* No. 11812, December 2005, <http://www.nber.org/papers/w11812> (accessed December 13, 2016), and Harriet Vermeer and Marinus van Ijzendoorn, "Children's Elevated Cortisol Levels at Daycare: A Review and Meta-Analysis," *Early Childhood Research Quarterly*, Vol. 21 (2006), pp. 390-401, https://www.researchgate.net/publication/222525572_Children's_elevated_cortisol_levels_at_daycare_A_review_and_meta-analysis (accessed December 13, 2016).

50. Deborah Lowe Vandell et al., "Do Effects of Early Child Care Extend to Age 15 Years? Results from the NICHD Study of Early Child Care and Youth Development," *Child Development*, Vol. 81 (May/June 2010), pp. 737-756.

increased family stress levels, more aggression and anxiety for children, and deterioration in parents' mental health and relational satisfaction.⁵¹

High-quality daycare has been linked to some small to moderate positive social outcomes for children from low-income, minority, or single-mother households (although quality of care is not as strong a factor as quantity of care).⁵² Other research shows some positive academic outcomes of daycare for low-income children, but poorer social outcomes.⁵³

With conflicting economic and societal benefits and consequences, the ideal role for the federal government is to remain neutral, neither subsidizing nor penalizing parents who choose to stay home with their children, nor those who work outside the home. Where desired by workers and taxpayers, businesses and states are better equipped to design and implement PFL programs that target the needs of their own employees and residents in an efficient manner.

Federal Support for PFL: How to Avoid Market Disruptions and Costly New Entitlement

A federal PFL policy would limit and even eliminate existing PFL programs provided by private employers and state governments. The creation of the federal Social Security Disability Insurance (SSDI) program greatly expanded workers' access to disability insurance, but at a significant cost. The existence of SSDI created the notion that the government program was sufficient for workers' needs and prevented employers and individuals from providing and purchasing more comprehensive and less costly private disability insurance.⁵⁴ As with most entitlement programs, the SSDI program has more than doubled in size and scope, but inherent fraud, abuse, and inefficiencies result in an extremely poor provision of services for SSDI beneficiaries who often wait years for their benefits.⁵⁵ A federal PFL program would likely follow the same expansive, inefficient, and problematic path.

Rather than enacting a new national entitlement and disrupting gains in PFL provisions from private employers and state governments, the federal government can better support and encourage PFL through:

Pro-Growth Policies and Lower Taxes. The federal government is already involved in too many areas of individuals' and families' lives, and this involvement requires a significant portion of workers' paychecks. Instead of enacting a policy that would provide about \$2,700 in benefits to select families, the federal government should enact comprehensive tax reform that would provide the average family with far more than \$2,700 through lower taxes and higher wages. The benefits of pro-growth tax reform would extend beyond the first six or 12 weeks following the birth or adoption of a child—they would help families better afford *all* the costs associated with raising a child.

Flexible Work Arrangements. PFL can be a great benefit, but complete disengagement from work for months is costly for employers and not always ideal for workers, who can lose out on opportunities for advancement. What *is* ideal is for employees and employers to work out, amongst themselves, arrangements that suit them best. Some workers can remain engaged from home while still enjoying the benefits of time with a new child. Others are only able to do their work in the office, but maybe they can work fewer hours, or shift their work time to when a spouse or other family member is able to care for their child. These types of arrangements would not be possible under a federal PFL policy. A PFL law would establish a one-size-fits-all policy that would prevent workers from doing any work for or receiving any payment from their employers while receiving federal PFL benefits. The best way for the federal government to support the types of flexible work arrangements that workers—women in particular—desire is by *not* intervening in employers' and employees' ability to negotiate equally ben-

51. Michael Baker, Jonathan Gruber, and Kevin Milligan, "Childcare, Maternal Labor Supply, and Family Well-Being," National Bureau of Economic Research *Working Paper* No. 11832, December 2005, <http://www.nber.org/papers/w11832.pdf> (accessed July 19, 2017).

52. Family Facts, "The Effects of Day Care on the Social-Emotional Development of Children."

53. Loeb et al., "How Much Is Too Much?"

54. Rachel Greszler, "Private Disability Option Could Help Save SSDI and Improve Individual Well-being," Heritage Foundation *Backgrounder* No. 3037, July 20, 2015, http://thf_media.s3.amazonaws.com/2015/pdf/BG3037.pdf.

55. Rachel Greszler, "Disability Insurance Fails Short-Term Solvency Test Even After Transfer from Social Security," Heritage Foundation *Backgrounder* No. 3147, October 4, 2016, http://s3.amazonaws.com/thf_media/2007/pdf/wm1457.pdf.

official terms of employment.⁵⁶ Where flexible work arrangements are not as viable, such as in lower-wage service jobs, the federal government could still help workers take leave through policies such as Paid Time Off savings accounts,⁵⁷ eliminating the government's prohibition on companies allowing workers to choose between overtime wages or overtime paid leave accumulation,⁵⁸ or allowing workers to receive their earned income or child tax credits early to meet their immediate health care or family-care needs.⁵⁹

Cutting Costly Regulations. The federal government's litany of red tape adds tremendously to employers' cost of doing business.⁶⁰ By cutting costly, unnecessary, and burdensome regulations, the federal government can free up financial resources so that employers can not only hire more workers, but can provide them with the benefits—such as paid family leave—that they desire.

Conclusion

The ideal role for the government is to remain neutral with respect to parents' choices to remain at home with children or to work outside the home. However, family finances do not always allow parents the option of staying home full time, or even taking time off from work following the birth or adoption of a child. If workers and taxpayers desire widespread and government-run paid leave programs, states are best equipped to implement and administer those programs, and a handful have already done so. A federal PFL program would create a new national entitlement with the potential for exponential growth. Instead of crowding out and stifling growth in existing PFL programs, the federal government can improve families' ability to take leave and their access to PFL by enacting pro-growth tax reform, encouraging flexible work arrangements, and cutting costly regulations that make it harder for employers to provide PFL.

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56. Rachel Greszler and James Sherk, "Paycheck Fairness Act Would Reduce Pay and Flexibility in the Workplace," *Heritage Foundation Issue Brief* No. 4200, April 17, 2014.
57. James Sherk, "Congress Should Consider Alternatives to Mandatory Paid Leave," *Heritage Foundation WebMemo* No. 1457, May 15, 2007, <http://www.heritage.org/jobs-and-labor/report/congress-should-consider-alternatives-mandatory-paid-sick-leave>.
58. Rachel Greszler, "This Easy Fix Will Create New Flexibility for American Workers," *The Daily Signal*, April 20, 2017, <http://dailysignal.com/2017/04/20/this-easy-fix-will-create-new-flexibility-for-american-workers/>.
59. Carrie Lukas, "Labor, Tax, and Fiscal Reforms to Help Parents Balance Work and Family," in *Room to Grow: Conservative Reforms for a Limited Government and Thriving Middle Class* (YG Network, 2014), <http://conservativereform.com/wp-content/uploads/2014/05/Chapter-11-The-Agenda-Work-Life-Balance.pdf> (accessed June 27, 2017).
60. James L. Gattuso and Diane Katz, "Red Tape Rising 2016: Obama Regs Top \$100 Billion Annually," *Heritage Foundation Backgrounder* No. 3127, May 23, 2016, <http://thf-reports.s3.amazonaws.com/2016/BG3127.pdf>.
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