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What Effects did the Parental Allowance Increase Have on Women's Participation in the Labour Market²

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Summary

- We evaluate the effects of the 2020 increase in the total value of the parental allowance by 80 thousand CZK (36%) on labour market participation among mothers of young children. Mothers' employment decisions have reflected the raise in income that resulted from the higher allowance, and many mothers responded to the increase by claiming the parental allowance over a longer period of time. Among mothers of three-year-olds, the labour market participation rate reduced from 70% to 60%, i.e. by a whole 10 percentage points (p.p.) Among mothers of two-year-olds, the labour market participation rate fell 6 p.p. to 20%. In both groups, the number of hours worked per week also decreased correspondingly.
- The reform's effects also varied with the number of children. The reduction in employment rate was more pronounced (10 p.p.) among mothers receiving the parental allowance for their first child. It is likely that these mothers were planning to have another child and that they used the additional allowance to bridge the remaining time until the birth of their second child, i.e. avoiding a return to work in between children.

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This study summarises the main findings and conclusions of the research paper by Grossmann, J., Pertold, F., Šoltés, M. and Šarboch, M., "Parental Allowance Increase and Maternal Labour Supply: Evidence from Czech Reform" (2022).

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- As far as education levels are concerned, the effect of the parental allowance increase was most evident among mothers with university education. The share of working mothers in this group reduced by as much as one third (by 16.4 p.p.) and their hours worked dropped by 4.8 hours per week (a reduction of 30%).
- These effects of the increase in the parental allowance on mothers' labour market participation remained stable for 1 year after the reform. Although it is likely that some of these effects will ease off over time as a result of changes in mothers' expectations about their family budgets, the one-off increase to the parental allowance has led to short-term, society-wide negative costs in the form of a reduction in women's labour market participation. These costs would not have been incurred if the value of the parental allowance had been increased more regularly, in smaller increments, in a predictable manner, or if a shorter time limit had been imposed for claiming the allowance.