

Parental leave and fertility: educational and ethnic differences in the tempo and quantum changes of second and third births

Short abstract

Paid parental leave has become a part of family policies in an increasing number of Western societies. Parental leave benefits may create varying incentives which can lead to heterogeneous fertility responses. The aim of this study is to examine whether and how the changes in second- and third-order fertility associated with the 2004 parental leave reform in Estonia vary depending on mothers' education and ethnic background. Parental leave with low flat-rate benefits was replaced with an earnings-related scheme, which had full compensation rate and some more generous features. The study draws on data from Estonian administrative registers on women born between 1960 and 1999, who had their first or second child between 1993 and 2014. Mixture cure models are estimated for the transitions to second and third births in addition to the descriptive analysis. We find that women with high educational attainment exhibit a stronger response, both in terms of accelerating the tempo and increasing the quantum of fertility, to the introduction of earnings-related parental leave benefits, than their counterparts with less schooling. Moreover, the reform found to be associated with lengthening of the interval between the first and second birth among the low-educated women, even though the risk of the second birth increased for those women. Findings suggest that low educated mothers postponed the second birth to strengthen the labor market attachment before having the next child in order to benefit more from the new system. In terms of fertility quantum, Estonian women show a stronger response than women from other ethnic groups. Regarding the tempo of childbearing, the results pertaining to ethnic differences are mixed. The study suggests that changes in fertility behavior associated with

the introduction of earnings-related parental leave benefits are more pronounced among women with higher opportunity costs.

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