

Who Benefits from Child Benefits?

The Labor Supply Effects of Maternal Cash Benefit

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Non-technical summary

The paper examines the effect of restoring maternity cash benefit in 2000 on labor market participation and employment probability of mothers in Hungary.

The low rate of labor market participation is a serious a problem for most Southern- and Eastern-European countries, thus, it is of high importance to examine its potential cause in this region.

The study uses micro data of the Labor Force Survey (LFS) to assess the short and mid-term labor market effects of the Hungarian cash benefit. The policy change in 2000 is used as a source of variation, before and after, affected and not affected groups of mothers are compared to reveal the effect of the benefit on labor market participation probability.

The structure of the paper is the following. After the introduction, in section 2, a brief overview is given on the Hungarian child benefit system and its most important changes in 2000. Section 3 gives a detailed description about the data used. In the fourth part, the most important identification issues are discussed. Section 5 presents the estimations and their results. Finally, in Section 6 conclusions are drawn.

As a result, the paper finds that

- the benefit has an overall negative effect on the probability of returning to the labor market and finding a job
- in the first 5 years following the child birth the length of time spent home increases
- in the first two years of motherhood, no significant employment effects can be demonstrated.

- after the second year of motherhood, a negative employment effect is found for female with low level of education, although the large cash benefit is received only until the end of the second year.

These findings suggest that mothers with higher level of education are able to adjust their labor supply behavior to their and the family's needs, even in absence of the cash benefit. On the contrary, the benefit helps mothers with low level of education to delay their return to labor market and thus adjust labor supply to their preferences: the accumulated monetary reserves allow them to choose staying at home instead of undertaking a full-time job.

Keywords: female labor participation, child benefit, labor state transitions, motherhood, labor supply