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Labor Market Effects of U.S. Sick Pay Mandates

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Rent Control—Is the Cure Worse Than the Disease?

NOTE

1. Oakland rent control ordinance. <https://oakland.legistar.com/LegislationDetail.aspx?ID=2680738&GUID=BAED7BF3-ED56-4A16-A876-37717D4E01D6&Options=&Search=> (accessed January 11, 2019).

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The article draws on research from the forthcoming working paper, “Do Rent Increases Reduce the Housing Supply under Rent Control? Evidence from Evictions in San Francisco,” published by the Upjohn Institute. <https://doi.org/10.17848/wp19-296>

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Labor Market Effects of U.S. Sick Pay Mandates

Nicolas R. Ziebarth and Stefan Pichler

Background

The United States, Canada, and Japan are the only industrialized countries that do not provide universal access to paid sick leave. In these countries, sick pay is largely provided as a fringe benefit by employers on a voluntary basis (Heymann et al. 2010). In the United States, coverage rates are around 65 percent among full-time workers; low-income, part-time, and service sector workers have coverage rates of less than 20 percent (Susser and Ziebarth 2016). In a given week of the year, Susser and Ziebarth (2016) estimate that the total demand for paid sick leave sums to 10 percent of the workforce in the United States.

To date, sick leave legislation has been passed in 11 states, the District of Columbia, and dozens of cities across the United States.¹ They require that employees must have the right to earn, accumulate, and take sick days, typically up to seven days per year. Some critics are concerned that these mandates cause substantial wage reductions for employees, as well as job losses. Upjohn Early Career Research Awardee Nicolas R. Ziebarth of Cornell University and colleague Stefan Pichler of ETH Zurich published an examination of these sick pay mandates in the *Journal of Human Resources* (forthcoming).

Findings

The research team used employment and wage data from the Bureau of Labor Statistics from 2001 to 2016 to compare the labor market dynamics of the cities and states with mandates to “synthetic” control cities and states over time. The research assessed mandates in nine cities (including San Francisco, Washington, D.C., and New York City) and four states (Connecticut, California, Massachusetts, and Oregon).

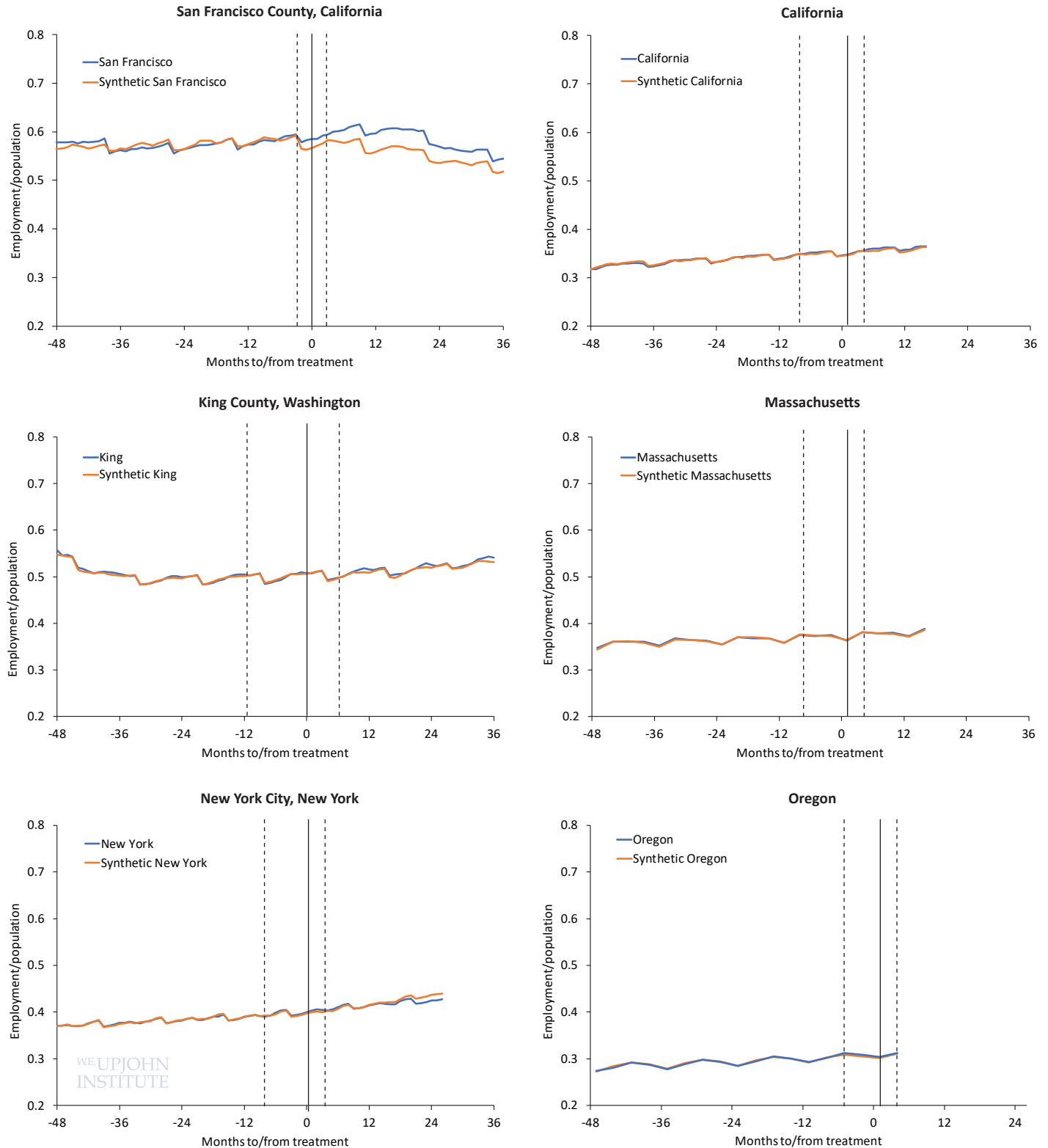
The synthetic control group method (SCGM) is a relatively recent statistical method that allows researchers to draw causal inference. In this specific case, to benchmark the labor market dynamics of cities and states that implemented a mandate, the SCGM produces a very similar synthetic control group consisting of fractions of similar counties and states.

Figure 1 illustrates the SCGM and some select findings. The left column shows the findings for three areas—San Francisco, King County, and New York City. The right column shows the findings for three select states, California, Massachusetts, and Oregon. The x-axis represents the normalized timeline in months up to and since the mandates became effective, and the y-axis shows the

ARTICLE HIGHLIGHTS

- Over the past decade, dozens of cities, eleven states, and the District of Columbia have passed sick leave legislation.
- Sick pay mandates allow employees to earn and accumulate one hour of paid sick leave credit per 30–40 working hours.
- Comparing employment and wage dynamics in cities and states that mandated sick pay with synthetic control regions, there is no evidence that the mandates lead to major disruptions of local labor markets.

Figure 1 Employment Dynamics in Regions with Sick Pay Mandates Relative to Synthetic Control Regions



SOURCE: Pichler and Ziebarth (forthcoming).

NOTES: The solid vertical lines indicate the months when the mandates became effective, whereas the dashed vertical lines to the left indicate when the law was passed, and the dashed vertical lines to the right indicate when the "accrual period" was over. Originally published in the *Journal of Human Resources* (forthcoming). © 2018 by the Board of Regents of the University of Wisconsin System. Reprinted courtesy of the University of Wisconsin Press.

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outcome measure of interest—in this case, the number of private sector jobs as a share of the total population. The blue lines illustrate the private sector job development for the “treated” cities and states that implemented a mandate, and the orange lines illustrate the employment dynamics for the synthetic control counties or states.

An important condition for the SCGM to produce valid findings is that

certainty, but nor do they find any evidence for them.

Implications for Policy and Practice

The United States is one of three OECD countries without universal access to paid sick leave. Opponents of sick pay mandates are mainly concerned with negative employment or wage effects. Yet, there is no strong evidence of systematic and disruptive labor market effects when cities and states mandate that employees have the right to earn and take sick days. Concerns of massive labor market disruptions are vastly overstated.

The absence of major labor market disruptions may be a function of how the U.S. mandates are designed. In fact, they seem to be more incentive-compatible than their European counterparts and minimize shirking behavior, a main concern of opponents. The reason for this incentive-compatibility is that paid sick days are personalized, and employees “earn” them. For every 30–40 hours worked—that is, for every full-time week of work—employees earn one hour of paid sick leave. Unused sick days roll over to the next year. Because earned sick days represent a personalized insurance credit (similar to health savings accounts) for future health shocks that are likely to occur (e.g., flu or illness of a child), we expect shirking to play a minimal role for most employees.

However, wages and employment could still be significantly affected because of administrative burdens or psychological effects when employers overestimate the actual relevance for their businesses. The findings in Pichler and Ziebarth (forthcoming), however, show that this was very likely not the case. They are able to exclude employment losses of more than 2 percent and wage reductions of more than 3 percent at conventional statistical levels.

Together with research showing that influenza-like illness rates decrease as

a result of the mandates (Pichler and Ziebarth 2017), this finding suggests that the mandates can be an effective tool to increase workers’ health and well-being.

NOTE

1. For an overview, see <https://www.abetterbalance.org/paid-sick-time-laws/> (accessed January 11, 2019).

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We do not find evidence that sick pay mandates kill jobs or systematically disrupt local labor markets.

the synthetic control group provides a valid imitation of the treatment group in premandate months; in other words, the solid and the dashed lines should match as closely as possible in the months before the mandates became effective. As seen, this is the case for all cities and states evaluated. Technical details aside, the difference in the outcome for postmandate months then illustrates the impact of the sick pay mandate on employment dynamics of the city or state.

As Figure 1 shows, there is little evidence that employment dynamics systematically either improved or worsened after the introduction of a sick pay mandate. The graphs look very similar when assessing the impact on wage growth in cities and states with sick pay mandates and when investigating specific industries, such as construction or hospitality. More details and results are in Pichler and Ziebarth (forthcoming).

When carrying out formal statistical tests about the difference in employment and wage dynamics in treatment and synthetic control regions, these tests cannot reject the null hypothesis of no differences at conventional statistical levels. However, the statistical tests cannot exclude modest reductions in wage growth and employment with absolute statistical

The article draws on research from the forthcoming Journal of Human Resources article and an Upjohn Institute working paper, which can be found at https://research.upjohn.org/up_workingpapers/293/.

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