



Paid Sick Days Don't Cause Unemployment

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Introduction

Critics of legislation requiring employers to provide paid sick days frequently argue that these measures will lead to job loss and raise the national unemployment rate.¹ In previous work, we have analyzed whether there is any relationship between whether a country offers paid sick leave and national unemployment rates. Using data on over 100 countries around the world, we found no relationship between the availability of paid sick leave and either unemployment or competitiveness.²

However, the question remained whether the *duration* of sick leave was critical to the impact on unemployment. The recent completion of a detailed analysis of leave duration and funding mechanisms in 22 affluent countries now makes such an analysis possible. In this issue brief, we use internationally comparable data to examine the relationship between the national unemployment rate and the length of government-mandated or government-funded short-term paid sick days and longer-term paid sick leave.³ We find no statistically significant effect of mandated paid sick days or leave on national unemployment rates.

Data and Methodology

To measure the effects of paid sick days and paid sick leave on national unemployment rates, we use data on the generosity of government-mandated and government-funded paid sick days and leave policy from a separate analysis we completed recently.⁴ In that analysis, we examined legally required forms of paid sick days and leave in a sample of 22 countries with the highest scores on the United Nation's Human Development Index.⁵ We assessed generosity by converting legal rights to paid sick days and leave into full-time-equivalent sick pay available to workers facing two typical health situations: a five-work-day flu and a fifty-work-day treatment for a more serious disease such as cancer.

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To look for a relationship between the unemployment rate and paid sick days and leave, we regress internationally comparable data on unemployment rates from the Organization for Economic Cooperation and Development (OECD)⁶ against the separate measures of the generosity of paid sick days and paid sick leave.

To smooth out short-run effects of the business cycle, we use the average unemployment rate in each country over two periods: 2000-2007, which corresponds to the most recent complete business cycle in the United States, and 1989-2007, which includes the last two complete business cycles in the United States.⁷

Ideally, we would also like to control for other factors that affect national unemployment rates. Unfortunately, there is not sufficient comparative data of adequate quality available to include these factors in this study. We interpret the evidence here as simply a first-cut evaluation of the claim that paid sick days and leave increase national unemployment rates.

We also note that government-mandated or government-funded paid sick days and leave may be positively correlated across countries and over time with other forms of labor-market regulation that are often hypothesized to increase unemployment (such as generous unemployment-related benefits, high levels of unionization, or high tax rates). To the extent that these other factors do act to increase the national unemployment rate, excluding them from this analysis would bias our simple regressions toward concluding that more generous paid sick days policies were associated with higher national unemployment rates.

Unemployment and Leave

Table 1 presents our main results. The first set of columns shows the relationship between the generosity of short-term paid sick days legislation and the national unemployment rate. For the period 2000-2007, national unemployment *declines* with the generosity of paid sick days. Each additional day of full-time-equivalent paid sick days available to workers is associated with about a 0.2 percentage-point reduction in the national unemployment rate. The standard error of this estimate is large, however, indicating that the relationship is not statistically significant. If we expand the analysis to cover the average national unemployment rate for 1989-2007, the economic effect of the generosity of paid sick days on the unemployment rate almost doubles: an increase of one paid sick day is associated with about a 0.4 percentage-point fall in the national unemployment rate. But, again, the standard error of the estimate is large, and the relationship is not statistically significant.

TABLE 1
Relationship between Paid Sick Days and Harmonized Unemployment, 22 High Human Development Index Countries

National Unemployment Rate	Paid Sick Days			Paid Sick Leave				
	Coefficient	Std. Error	R ²	Coefficient	Std. Error	R ²		
1989-2007	-0.210	0.245	0.036	NS	0.032	0.035	0.041	NS
2000-2007	-0.401	0.275	0.096	NS	0.006	0.041	0.001	NS

Note: Coefficients are results from Ordinary Least Squares Regression of the harmonized unemployment rate from the OECD (2009) against measures of the generosity of paid sick days (first set of columns) and paid sick leave (second set of columns) from Heymann, Rho, Schmitt, and Earle (2009). Sample size is 22 in all cases. NS: Not statistically significant.

Figure 1 shows the data and the fitted regression line for the average unemployment rate for 1989-2007 and short-term paid sick days. The figure illustrates that countries with generous paid sick days policies – those guaranteeing that a worker who misses five work days due to illness will receive five full days of pay – have a wide range of unemployment rates: from around three percent, for example, in the case of Switzerland, to about 10 percent in the case of Finland. Similarly, countries that provide little or no paid sick days also exhibit a wide range of unemployment rates: from under four percent in Japan to over 13 percent in Spain.

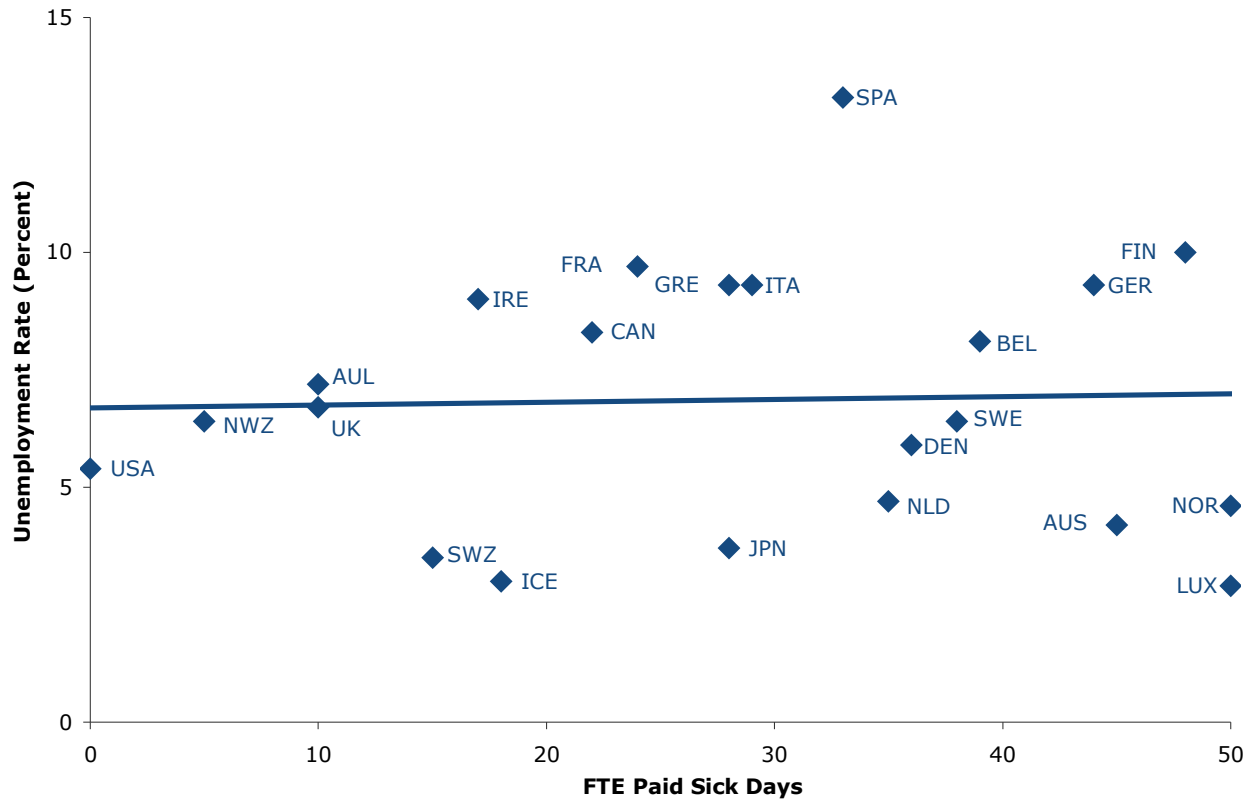
FIGURE 1
Unemployment Rate (1989-2007) and Paid Sick Days



Source: Analysis of OECD and Heymann, Rho, Schmitt, and Earle

The second set of columns of Table 1 presents results from a similar analysis of the relationship between longer-term paid sick leave and the national unemployment rate. For both periods – 2000-2007 and 1989-2007 – the national unemployment rate does not vary much with the availability of paid sick leave, and in both cases the weak relationship is not statistically significant. **Figure 2** shows the underlying data and the fitted regression line for the relationship between paid sick leave and the average unemployment rate over the period 1989-2007.

FIGURE 2
Unemployment Rate (1989-2007) and Paid Sick Leave



Source: Analysis of OECD and Heymann, Rho, Schmitt, and Earle

Conclusion

The experience of the 22 countries with the highest level of social and economic development (as measured by the Human Development Index) suggests that there is no significant relationship between national unemployment rates and legally-mandated access to paid sick days and leave.

1 See, for example, the National Small Business Association: “NSBA is opposed to legislation that would hinder an entrepreneur’s ability to create jobs—something the Healthy Families Act would surely do.” (<http://www.nsba.biz/content/2343.shtml>, accessed June 3, 2009.); or, the National Association of Manufacturers: “Employer mandates [such as the Healthy Families Act] make it even more difficult for manufacturers to preserve or create jobs and help drive economic recovery.” (<http://www.nam.org/NewsFromtheNAM.aspx?DID={EE3B9173-EAC9-4E4A-81F3-E2F82861D352}>, accessed June 3, 2009.)

2 Earle, Alison and S.Jody Heymann. 2006. “A Comparative Analysis of Paid Leave for the Health Needs of Workers and their Families Around the World.” *Journal of Comparative Policy Analysis*. 2006; 8 (3): 241-257.

3 Following Heymann, Rho, Schmitt, and Earle (2009, p. 2) and others: “We use the term ‘paid sick days’ to refer to short-term leave for health-care appointments, to deal with short-term illnesses and injuries, and to address periodic short-term health needs related to chronic health conditions. The term ‘paid sick leave’ is used to refer to longer-term medical leave such as that needed for serious health conditions that require lengthier treatment and recovery periods. We use the term ‘paid sick days and leave’ to refer to both of these policies together. In many countries, paid sick days are covered by employer mandate and paid sick leave by social insurance.”

4 See S. Jody Heymann, Hye Jin Rho, John Schmitt, and Alison Earle. 2009. “Contagion Nation: A Comparison of Paid Sick

Day Policies in 22 Countries,” Center for Economic and Policy Research Briefing Paper (May).

- 5 Again, following Heymann et al (2009, p. 4): “Our sample consists of those countries that score at least 0.94 on the Human Development Index (HDI), ‘a summary composite index that measures a country’s average achievements in three basic aspects of human development: health, knowledge, and a decent standard of living. Health is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrollment ratio; and standard of living by GDP per capita (PPP US\$)’ (<http://hdr.undp.org/en/statistics/faq/question,68,en.html>). The Human Development Index (HDI) is calculated yearly by the United Nations for 177 countries and areas with sufficient data and reported in their annual Human Development Reports. See United Nations Development Programme, Human Development Report, *Human Development Indices - A statistical update 2008*, Table 1.”
- 6 OECD, Main Economic Indicators database, accessed May 29, 2009. Data for Iceland refer to the “commonly used definition” and are not strictly comparable to the harmonized or standardized rates used for the rest of the sample.
- 7 Business cycles in the rest of the sample follow roughly the same pattern, and our qualitative results are not sensitive to choosing any multi-year period through 2007 that starts between 1989 and 2000. We exclude data for 2008 because they correspond to a new, incomplete business cycle. Including the most recent data available makes the coefficient on the paid sick days and leave regressions more negative, reinforcing the conclusions we draw from Table 1.