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## **The Effect of Changes in Maternity Leave Policy on Labor Market Outcomes for Young Females in Brazil**

### **Abstract:**

On Dec 1998, the Social Security System (INSS) reform in Brazil was passed by the Congress and a ceiling of R\$ 1200<sup>1</sup> was imposed on any benefit paid by the INSS<sup>2</sup>. As consequence, employers became responsible for paying the remaining wage for women receiving wages above to the ceiling. Using a traditional labor demand and labor supply analysis, the ceiling imposed on the maternity leave benefit paid by the INSS is expected to negatively affect the demand for female workers.

At the beginning of the following year, a lawsuit was filed at the Supremo Tribunal Federal (Supreme Court) arguing that this ceiling was unconstitutional based on the fact that it could increase discrimination against women in the labor market. On May 1999, the Supremo Tribunal Federal suspended temporally the imposed ceiling. However, the limit imposed on the payment of the maternity leave was permanently cancelled only on April 2003, about four year later, and the INSS returned to be the only party responsible for paying maternity leave benefits.

The period from December 1998 to April 2003 allow us to analyze women's outcomes from the perspective of three different policy changes. From December 1998 to May 1999, we have the limit imposed on benefits paid by the INSS and employers became responsible for paying the remaining wage in a case of maternity leave. Second, it is the period when Amendment n° 20 was temporally suspended for about four years. After March 2003, the lawsuit was judged and the Supremo Tribunal Federal decided that Amendment could not be applied to maternity leave benefits in order to avoid discrimination against women in the labor market.

The study of the changes in maternity leave policy from 1988 to 2003 is important due to the fact that discrimination is the main source of gender wage gap in Brazil (Leme and Wajzman, 2000) and it rises as the wage rate increases (Nogueira and Marinho, 2006). This paper uses the difference-in-difference approach in order to examine how the changes in maternity leave law from 1988 to 2003 in Brazil affected young female's earnings, employment and gender discrimination. The treatment group is composed by young female, aged between 20 and 40. This group was chosen according to the likelihood of using the maternity leave benefit. We also propose four different controls groups: young males, females between 41 and 65 years old, young females working in the informal sector and young females who earn less than R\$ 1,200.

Although maternity leave law changes have been investigated across different countries, our study is unique in the sense that this changes occurred in Brazil allow us to analyze the effects in cases where there are no additional benefits conceded to working women but an increase in costs to employers.

Our preliminary results suggest that young female's labor outcomes were not affected immediately after the change in maternity policy. On the other side, it seems that there is a negative impact on young female's earnings and employment during the period when the ceiling was temporally suspended.

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<sup>1</sup> US\$ 1.00=R\$2.02 at 04/25/07

<sup>2</sup> Amendment of n°20 (art°14) was included to the Constitution.