

Employment Effects of Paid Sick Leave

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ECO 494: Senior Thesis in Economics

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Abstract: Labor groups contend that state laws mandating paid sick leave raise worker productivity by increasing health and reducing employee turnover. Sick leave skeptics, however, argue the employment effects of these policies are substantial for all firms because the costs to employers – small firms in particular – are substantial. This paper will analyze the labor market effects of Connecticut's Paid Sick Leave Act. To identify the impact of sick leave mandates, this paper will employ a difference-in-difference design to compare quarterly employment levels in six Connecticut counties with a control group consisting of New York, Massachusetts, and Rhode Island counties that share a border with Connecticut. Because the law exempts employers with less than 50 employees, we also analyze employment effects by firm size. Our analysis shows no evidence that Connecticut's Paid Sick Leave Act reduces employment and some (albeit weak) evidence that it increases employment. Disaggregating the employment data by firm size, we find no statistically significant effect on employment from Connecticut's sick leave law on firms with 50-249 employees or 500+ employees. However, firms with 250-499 employees show a net employment loss across two quarters of 3.2 percentage points.

1. Introduction

In an effort to improve the welfare of low-wage workers, a series of US states, counties, and municipalities have passed legislation mandating employers to offer sick leave benefits to employees.¹ Opponents of such mandates contend that such mandates raise payroll costs and reduce employment. However, proponents counter that paid sick leave mandates reduce costs by reducing the spread of illness, raising worker productivity, and cutting employee turnover.² Thus, the costs of sick leave mandates are small if they exist at all.

Consistent with the claims of proponents, some employer surveys suggest that the cost of sick leave mandates is minimal. The Institute for Women's Policy Research surveyed San Francisco employers and found that only 14% of employers reported reduced profits following the passage of the sick leave legislation. A survey of Connecticut employers by the Center for Economic and Policy Research found that nearly two-thirds of employers reported cost increases of less than 2 percent or didn't know how much costs had increased as a result of the sick leave law.³

Despite this, some survey results suggest that the costs of the mandates are significant and may therefore reduce employment. In a 2009 survey, San Francisco employers reported staffing difficulties resulting from Paid Sick Leave Ordinance (PSLO) of 2007. While 71.8% of

¹ To date, five states have passed such legislation (Connecticut, California, Massachusetts, Oregon, and Vermont). Office of Personnel Management: Fact Sheet: Sick Leave (General Information) (<https://www.opm.gov/policy-data-oversight/pay-leave/leave-administration/fact-sheets/sick-leave-general-information/>). San Francisco was the first city to mandate sick leave when it passed the Paid Sick Leave Ordinance (PSLO), which took effect on February 5, 2007. City & County of San Francisco Office of Labor Standards Enforcement: Paid Sick Leave Ordinance (PSLO) (<http://sfgsa.org/index.aspx?page=419>). See also News Release: "Employee Benefits in the United States – March 2015" (<http://www.bls.gov/news.release/pdf/ebs2.pdf>).

² "Paid Sick Leave: Costs Rise for Small Businesses" (<http://www.thefiscaltimes.com/Articles/2012/03/14/Paid-Sick-Leave-Costs-Rise-for-Small-Businesses>)

³ "Sick Leave Doesn't Hurt Business, Says Business" (<http://www.bloombergview.com/articles/2015-02-04/sick-leave-doesn-t-hurt-business-says-business>)

employers reported support for the ordinance, employers affected by the ordinance frequently reported compliance problems. For employers forced to make changes to policy in response to the law, nearly half reported compliance difficulties and delays or work reassignments.

Moreover, the Urban Institute (2009) found that San Francisco "employers weren't experiencing the promised reductions in turnover" after the policy was enacted. Another survey of 86 Connecticut employers found that 31 of these companies reduced employee benefits or cut paid leave to cover the cost of the new law, 12 had cut back employee hours, and another 6 reduced employee wages. "Thirty-eight businesses claimed they would likely hire fewer people in the future."⁴

Because the survey data support competing claims with regard to the employment effects of sick leave mandates, this paper aims to provide a more rigorous assessment of employment effects of sick leave mandates. To assess the employment effects of sick leave mandates, this paper will analyze the labor market effects of Connecticut's Paid Sick Leave Act – the first statewide sick leave law enacted in the United States (effective January 1, 2012). Because of its first-in-the-nation status, Connecticut is an important case study for sick leave legislation across the country. To identify the impact of sick leave mandates, this paper will employ a difference-in-difference design to compare quarterly employment levels in six Connecticut counties with a control group consisting of New York, Massachusetts, and Rhode Island counties that share a border with Connecticut. Because the law exempts employers with less than 50 employees, we also analyze employment effects by firm size.

⁴ "Understand the Costs of Mandatory Paid Sick Leave"
(<http://www.usnews.com/opinion/articles/2013/03/04/understand-the-costs-of-mandatory-paid-sick-leave>)

2. Literature Review

According to a March 2015 report by the Bureau of Labor Statistics (BLS) on access to employee benefits, in the private sector, 61% workers have access to some form of paid sick leave in the United States. Broken down by occupation, the proportion increases to 81% of workers in management, business, and related occupations and to 65% for sales and office workers, but decreases to 39% for service workers. In private firms with less than 50 employees, 49% of workers earn paid sick time. This proportion increases with firm size (58% in firms with 50-99 employees, 67% in firms with 100-499 employees, and 80% in firms with 500 or more workers).⁵ The private sectors of the New England (the region of interest) and the Middle Atlantic are the most generous in the country with respect to paid sick leave, offering the benefit to 62% and 67% of workers, respectively.

Sick leave legislation varies along a number of dimensions. Most obvious, is the rate at which sick time is accrued. Most sick leave legislation mandates accrual at one hour for every 30 worked, though cities such as Philadelphia, Pennsylvania and Tacoma, Washington require 40 hours of work to accrue an hour of sick leave. Connecticut follows the 40-hour accrual model as well. Another variation of the accrual model is a tiered system, followed by Seattle, Washington and Washington D.C. This model mandates accrual rates depending upon the size of a firm or organization.⁶

⁵ News Release: "Employee Benefits in the United States – March 2015" (<http://www.bls.gov/news.release/pdf/ebs2.pdf>)

⁶ For instance, the policy in place in Washington D.C. mandates one hour of sick time for every: 87 hours worked in companies with 24 or fewer employees; 43 hours worked in companies with 25-99 employees; and 37 hours worked in companies with 100 or more employees. The accrual system in Seattle is less graduated than that of the nation's capital, however the logic of both policies follows that the generosity of the sick leave policy increases as the size of a company grows." Overview of Paid Sick Time Laws in the United States" (Updated March 2, 2016). *A Better Balance*. (<http://www.abetterbalance.org/web/images/stories/Documents/sickdays/factsheet/PSDchart.pdf>)

Other features of sick leave legislation include: the amount of sick time that can be earned or used; the amount of unused time that can be carried over into a subsequent year;⁷ who is covered;⁸ for whom sick time can be used;⁹ and whether or not cities can pass broader sick leave policies than the states in which they are located.¹⁰

Connecticut's Paid Sick Leave statute (enacted on July 1, 2011 and effective January 1, 2012) mandates accrual of one hour of sick leave for every 40 worked.¹¹ The law applies only to service workers and exempts firms with under 50 employees. In a given year, a service worker is entitled to earn and use up to 40 hours of sick time. Service workers can begin using their earned sick time after their 680th hour (their 85th day, or 17th week) of work after their date of employment (if it occurred after January 1, 2012). However, they must have worked an average of 10 or more hours per week in the previous quarter to use their earned leave.

Employers are at liberty to offer more generous sick leave policies for their employees under this law. Connecticut law also protects employees from employer retaliation for use of leave for the following circumstances: recovery from, diagnoses for, and preventative treatment for mental or physical injuries to the employer or the employer's spouse or child; and measures

⁷ Tiered systems are more prevalent. In New Jersey municipalities that enacted sick leave laws (Newark, Passaic, East Orange, Paterson, Irvington, Trenton, Montclair, Bloomfield, Jersey City, and Elizabeth) for instance, workers can earn: 24 hours per annum in companies with fewer than 10 employees; and 40 hours in companies with greater than 10 employees. In these cities a maximum of 40 hours of unused sick hours can be carried over, but employers are not forced to allow more than 40 hours to be utilized in a year. Seattle has no limit on earned leave, but mandates a minimum number of hours that a worker can use. Workers can use up to: 40 hours in companies with 5-49 employees; 56 hours in companies with 50-249 employees; and 72 hours in companies with 250 or more employees. Unlike the carry-forward systems in the New Jersey municipalities mentioned above, Seattle's is tiered in conjunction with its usage system.

⁸ For example: hourly service workers in Connecticut; geographical employees in Massachusetts, Oregon, Washington D.C., and San Francisco; and geographical employees who work a certain threshold of hours in California, Montgomery County, Maryland, and Philadelphia, Pennsylvania.

⁹ For example: immediate family only, immediate and extended family, etc.

¹⁰ For example, cities in Oregon, with the exception of Portland, cannot enact more generous benefits than the state, but Californian cities can.

¹¹ "Good for Business? Connecticut's Paid Sick Leave Law" (<http://cepr.net/documents/good-for-buisness-2014-02-21.pdf>)

related to family violence or sexual assault (medical care, counseling, relocation, and/or legal proceedings).¹²

The literature surrounding the employment effects of paid sick leave legislation is small relative to other types of employer mandate legislation (Hesselius 2007; Markussen 2011; Schliwen, Earle, Hayes, and Heymann 2011; Ahn and Yelowitz 2015). Ahn and Yelowitz (2015) analyze the effect of the Connecticut Paid Sick Leave Act on the labor market using a difference-in-difference design. Surrounding New England states (Massachusetts, Rhode Island, New Hampshire, Vermont, and Maine) serve as the control groups. Using 2009-2012 data from the Public Use Microdata Sample (PUMS) of the American Community Survey (ACS), three employment metrics are examined: work in the previous week; unemployment; and labor force participation. After the inclusion of state and year dummies, state-year trends, and demographics, the effects on every specification besides work in the previous week become statistically insignificant. The number of respondents who worked in the previous week post-sick leave falls by 1.24 percentage points. When the sample is split between those under 30 and those 30 and older, only those 30 and older are affected: the number who worked in the previous week as a result of the law falls by 0.99 percentage points. Inclusion of the state minimum wage makes the employment effect across all measures insignificant.

The literature surrounding the employment effects of paid sick leave legislation is small relative to other types of employer mandate legislation. Markussen (2011) examines the effect of sick leave on the wages and employment potential of individuals. He finds that earnings fall by 1.2% in the second year after an individual's use of sick leave increases by 1%. Also, the probability of employment is reduced by 0.5 percentage points. Hesselius (2007) similarly

¹² "Connecticut General Statute 31-57r through 31-57w - Paid Sick Leave" (<https://www.ctdol.state.ct.us/wgwkstnd/SickLeaveLaw.htm>)

uncovers a strong positive relationship between the duration of sick days and the risk of unemployment (significant at a 1% significance level). The risk of unemployment increases by 6.3% for spells of less than 8 days; by 17.0% for spells of 8-28 days; and by 30.0% for those of greater than 28 days. Schliwen et al. (2011), though, found no significant relationship between the length of paid sick leave in OECD countries and unemployment.

A series of papers consider the effects of other types of employer mandates, such as employee health insurance and paid family leave. Mathur (2008) examines the likelihood that self-employed individuals would "transition from sole proprietor to small business employer" in the presence of state health mandates. The study suggests that the self-employed will be less likely to create jobs as the number of health mandates for employees increases. This occurs in spite of the fact that many small businesses are exempt from state mandates. Small businesses seem to be affected by such mandates because they may choose to offer health insurance to stay competitive with companies that already provide the insurance.

On the other hand, Buchmueller, DiNardo, and Valletta (2011) do not find a statistically significant effect of state health insurance mandates on employment. Investigating Hawaii's Prepaid Health Care Act (PHCA), the study shows that despite a rise in employer costs, the decline in "conditional employment probabilities" is not statistically significant. The researchers do discover, however that there was a significant switch to part-time workers by employers to offset rising insurance costs. Mathur, Slavov, and Strain (2015) undertake a similar analysis of the effect of the Patient Protection and Affordable Care Act on part-time employment. Since the mandate applies to people working 30 or more hours in a week, the study examines the shift in worker hours from 31-35 to 25-29 hours a week. Their difference-in-difference (DD) analysis

concludes that the shift in part-time work hours between the two categories was not caused by the employer mandate.

While family leave policies vary depending upon which parent can take leave, most laws offer only maternity leave. The literature concerning these laws shows modest employment effects. Baum (2003) investigates the effects of the Family and Medical Leave Act of 1993 on employment and wages. Two treatment groups are used ("mothers with infants" and "women of childbearing age"), along with control groups of all men and single men. Utilizing difference-in-difference (DD) and difference-in-difference-in-difference (DDD) analyses, the study concludes that the passage of the 1993 "maternity leave legislation has small and statistically insignificant effects on employment and wages for both treatment groups regardless of which control group is used," after controlling for demographic, state-specific, and year-specific variables.

The limited effect is likely due first to the fact that many employers offered maternity leave before the passage of the FMLA, and to the nature of the legislation; the law does not require employers to pay employees on maternity leave (except for health insurance that is provided during leave). Waldfogel (1999) estimates the effects of the FMLA on female employment and finds "little evidence of any employment effect" for women. Ruhm (1998) however shows that the employment-to-population (EP) ratios for women are positively associated with parental leave in Europe using a DDD model. Maternity leave differs from other employee benefits because mothers often decide to terminate their employment some time after childbirth. Hanel (2013), for example, analyzes the probability of mothers returning to work after childbirth in Australia. Using a propensity score matching technique, she finds that while mothers will delay their return to the workforce as a result of the policy, the difference in the probability of a return to work between mothers under such a policy and mothers who are not

falls as the child reaches one year of age. Moreover, the mandate does not affect the mother's long-term employment either positively or negatively.

3. Data and Methods

Like Ahn and Yelowitz (2015), our analysis will use a difference-in-difference design to determine the labor market effects of Connecticut's Paid Sick Leave Act, with a number of key differences. Firstly, employment is analyzed at the county level, rather than the state level. We analyze employment data from the Census Bureau's Quarterly Workforce Indicators (QWI) data set for four New York counties, three Massachusetts counties, and three Rhode Island counties. We compare these counties with six Connecticut counties that share a border with either New York, Massachusetts, or Rhode Island.

Second, our employment data is collected from a survey of employers rather than a survey of employees (as in the case of Ahn and Yelowitz, 2015). QWI data are employer-employee linked and thus not biased by the residence of the employee. Data from the ACS are based upon responses from individuals. Therefore, it may be the case that Connecticut respondents, after the passing of the sick leave law, have found employment in the state across the border. According to the ACS, in this case, employment in Connecticut did not change. Since the Paid Sick Leave Act applies to firms, and not individuals, in Connecticut, it is important that the data reflect firm employment numbers rather than individual employment status. Consequently, we are able to capture movements by workers across state borders seeking employment in the event of adverse effects of the mandate.

None of the counties that border Connecticut were subject to sick leave mandates at the time the Connecticut law came into effect and we end our data series prior to the date that

Massachusetts enacts its sick leave law. Third, our employment data is measured quarterly rather than yearly. This allows us to better capture any employment increases or decreases that occur immediately after the date that the law becomes effective (yearly employment reflects an average across all months and thus is less precise). Finally, we use employment levels and changes in employment levels rather than unemployment and labor force participation rates.

Quarterly employment and demographic data for the period 2009-2014 were extracted from the Census Bureau's Quarterly Workforce Indicators (QWI). QWI data are employer-employee linked and thus not biased by the residence of the employee. We create a variable "Treat" that takes the value of 1 for Connecticut county (treatment group), and a value of 0 for all other counties (control group). We also create a variable "Post" that takes the value of 1 for all observations in the first quarter of 2012 and 0 otherwise. The interaction variable, $Treat*Post1$, thus applies to the Connecticut counties in the first quarter of 2012 to capture the effect of any employment changes from the law.

To measure the effect of the law over time, $POST1$ and the interaction term are lagged to capture employment effects in the second quarter of 2012. The interaction variable will be regressed on changes in employment levels measured at the beginning and end of each quarter in the data set. To account for exogenous shocks that affect all counties, we include time dummies. To control for cross-section specific time trends we include interactions between cross section and year.

We hypothesize that employment will drop in the first quarter in which the law is effective, but that the effect is short-term and will not affect employment in the second. The same method is applied to test employment effects in three categories of large firms - 50-249 employees, 250-499 employees, and 500 or more employees - because the law is directed toward

firms with 50 or more employees. We expect the smallest category of large firms to be affected most heavily by the statute because these firms will be less capable of absorbing the costs of the law compared to larger firms and because large firms are already more like to offer sick leave benefits to employees.

4. Results

Table 1 below reports means and standard deviations of the change in end-of-quarter employment for the full sample. It also provides means and standard deviations for the treatment and control groups, as well as for the treatment and control groups before and after the statute took effect. Data for employment at the start of each quarter are excluded as it is, to a large extent, a duplication of our findings for end-of-quarter employment. Furthermore, due to the standards of the Census in publishing the QWI, the number of observations is smaller when measuring employment at the start of each quarter. Before the statute took effect the average change in employment in Connecticut counties under examination is approximately 0.32% per quarter, 0.14 percentage points below that of the control group. The difference increases slightly in the period after January 1, 2012, with average change in employment approximating 0.35% and 0.51% in the treatment group and control group, respectively.

Table 2 presents the results of our difference-in-difference estimation on the data summarized in Table 1. The first column reports an OLS regression on employment change without time fixed effects or controls for cross-section specific time trends. The results on the variables of interest (Treat*Post1 and Treat*Post1_lag) suggest that, contrary to expectations, Connecticut's paid sick leave law caused employment to rise 1.3 percentage points in the quarter following the effective date of the sick leave law. While the estimate for the second quarter

following the effective date ($Treat*Post1_lag$) is negative, the estimate is statistically insignificant.

Specifications 2 and 3 of Table 2 add controls for time fixed effects (column 2) and cross-section specific time trends (column 3). Adding these controls leaves the basic results from column 1 unaffected. To test the robustness of this result to outliers, we run a robust regression procedure. This procedure screens the observations using Cook's distance to remove outliers and then uses an iterative process in which observations are weighted based on the size of the residual with small residual observations receiving larger weights. Also, we exclude observations for the time period between the date the sick leave act was signed into law (July 1, 2011) and when the law took effect (January 1, 2012) (i.e, the third and fourth quarters of 2011). We dropped these observations to exclude labor market changes in anticipation of the law's effect. Forward looking firms may lay off workers (or simply defer hiring) prior to the effective date. The results from this specification appear in column 4 of Table 2. The results show that neither variable of interest ($Treat*Post1$ and $Treat*Post1_lag$) maintains statistical significance. However, the estimated coefficient for $Treat*Post1$ shows little change from columns 1 through 3. We may conclude that the analysis shows no evidence that Connecticut's Paid Sick Leave Act reduces employment and some (albeit weak) evidence that it increases employment.

Because the Connecticut Paid Sick Leave Act exempts firms with fewer than 50 employees and because large firms were more likely to offer sick leave benefits prior to the law, we repeat the analysis in Table 2 on employment change disaggregated by firm size. Table 3 presents our results broken down by firm size: 50-249; 250-499; and 500 or more employees. For each category, we include regression results based on the specifications reported in the third and fourth columns of Table 2. The regressions for firm size 50-249 employees and 500+ employees

show that the sick leave law had no significant effect on employment. By contrast, the regressions for employment in firms with 250-499 show significant effects on the variables of interest (Treat*Post1 and Treat*Post1_lag). In the first specification, estimates show a statistically significant and positive effect from the law in the second quarter following the effective date of the law (Treat*Post1_lag). The estimate suggests 19 percentage point increase in employment. The estimate for the first quarter following the effective date of the law (Treat*Post1) is negative and of similar magnitude. However, the estimate cannot be statistically bounded from zero.

These large but imprecise estimates suggest that outliers may be affecting the results. Consequently, we once again run the robust regression procedure described above. Here, we find that both variables of interest are statistically significant. The estimate for the first quarter following the effective date of the law (Treat*Post1) is negative. It suggests that the law caused employment to fall about 11 percentage points. In the second quarter following the effective date of the law (Treat*Post1_lag), employment rebounds by about 8 percentage points. Thus, the results suggest a net employment loss across the two quarters of 3.2 percentage points.

5. Conclusion

We utilize difference-in-difference estimation to determine the effect of Connecticut's paid sick leave statute on employment. Our analysis examines employment overall, and then at employment by firm size. We examine employment by firm size because the Connecticut Paid Sick Leave Act exempts firms with fewer than 50 employees and because large firms were more likely to offer sick leave benefits prior to the law. Our analysis shows no evidence that Connecticut's Paid Sick Leave Act reduces employment and some (albeit weak) evidence that it

increases employment. Disaggregating the employment data by firm size, we find no statistically significant effect on employment from Connecticut's sick leave law on firms with 50-249 employees or 500+ employees. However, we find a statistically significant effect on employment from Connecticut's sick leave law for firms with 250-499 employees. The estimate for the first quarter following the effective date of the law is negative. It suggests that the law caused employment to fall about 11 percentage points. In the second quarter following the effective date of the law, employment rebounds by about 8 percentage points. Thus, the results suggest a net employment loss across the two quarters of 3.2 percentage points.

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Table 1. Means and Standard Deviations	
	End Change
Full Set	0.0043 (0.0499)
Treatment	0.0034 (0.0399)
Control	0.0049 (0.0554)
Treatment-Pre	0.0032 (0.0412)
Treatment-Post	0.0035 (0.0389)
Control-Pre	0.0046 (0.0546)
Control-Post	0.0051 (0.0562)

Table 2. Employment Effects of Connecticut's Paid Sick Leave Statute

	(I)	(II)	(III)	(IV)
Treatment	-0.0007 (0.0053)	-0.0006 (0.0027)	-0.7068 (3.689)	2.822 (2.058)
Post1	-0.0150*** (0.0050)	-0.0794*** (0.0140)	-0.0785*** (0.0131)	-0.0615*** (0.0066)
Post1_lag	0.0763*** (0.0181)	0.0119 (0.0228)	0.0129 (0.0219)	0.0015 (0.0067)
Treat*Post1	0.0132* (0.0077)	0.0130** (0.0063)	0.0130** (0.0066)	0.0122 (0.0081)
Treat*Post1_lag	-0.0281 (0.0190)	-0.0282 (0.0189)	-0.0284 (0.0187)	-0.0000 (0.0081)
Time Dummies	N	Y	Y	Y
County-Time Trends	N	N	Y	Y
R-Squared	0.0819	0.6974	0.6993	-
Observations	356	356	356	324

Table 3. Employment Effects by Category of Large Firms

	50-249 Employees		250-499 Employees		500+ Employees	
	(I)	(II)	(I)	(II)	(I)	(II)
Treatment	1.446 (5.601)	0.6641 (3.674)	-10.94 (11.90)	4.247 (6.117)	0.9656 (4.480)	6.291** (2.953)
Post1	-0.0713*** (0.0267)	-0.0449*** (0.0127)	0.1311 (0.1238)	0.0018 (0.0187)	-0.0189 (0.020)	-0.0140 (0.0121)
Post1_lag	-0.0227 (0.0182)	0.0020 (0.0121)	-0.1082 (0.0874)	-0.0166 (0.0197)	-0.0269** (0.0115)	-0.0243* (0.0131)
Treat*Post1	0.0247 (0.0261)	0.0074 (0.0201)	-0.1815 (0.1237)	-0.1125*** (0.0313)	-0.0004 (0.0140)	-0.0025 (0.0172)
Treat*Post1_lag	0.0278 (0.0186)	0.0118 (0.0195)	0.1928** (0.0903)	0.0796** (0.0313)	0.0221 (0.0152)	0.0235 (0.0183)
Time Dummies	Y	Y	Y	Y	Y	Y
County-Time Trends	Y	Y	Y	Y	Y	Y
R-Squared	0.2977	-	0.1364	-	0.4368	-
Observations	356	324	356	324	356	324