



Australian Government
Productivity Commission

**Paid Parental Leave:
Support for Parents with
Newborn Children**

**Productivity Commission
Inquiry Report**

No. 47, 28 February 2009

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28 February 2009

The Hon. Chris Bowen MP
Assistant Treasurer and Minister for Competition Policy and Consumer Affairs
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission's report on *Paid Parental Leave: Support for Parents with Newborn Children*.

Yours sincerely

Robert Fitzgerald AM
Presiding Commissioner

Angela MacRae
Commissioner

Terms of reference

INQUIRY INTO IMPROVED SUPPORT FOR PARENTS WITH NEWBORN CHILDREN

Productivity Commission Act 1998

I, CHRIS BOWEN, Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, pursuant to Parts 2 and 3 of the Productivity Commission Act 1998, hereby refer strategies for improved support for parents with newborn children to the Commission for inquiry and report by the end of February 2009. The Commission is to hold hearings for the purpose of the inquiry.

Background

The Australian Government wants to consider how to improve support for parents with newborn children. The context for this is the need to ensure strong and sustainable economic growth, adjust to the imperatives of an ageing population, promote the early development of children and support families in balancing work and family responsibilities.

Scope of the Inquiry

In undertaking the inquiry the Commission is to:

1. Identify the economic, productivity and social costs and benefits of providing paid maternity, paternity and parental leave.
2. Explore the extent of current employer provision of paid maternity, paternity and parental leave in Australia.
 - a) Identify paid maternity, paternity and parental leave models that could be used in the Australian context.
 - b) Assess those models for their potential impact on:
 - (i) the financial and regulatory costs and benefits on small and medium sized business;
 - (ii) the employment of women, women's workforce participation and earnings and the workforce participation of both parents more generally;
 - (iii) work/family preferences of both parents in the first two years after the child's birth;

-
- (iv) the post-birth health of the mother;
 - (v) the development of young children, including the particular development needs of newborns in their first 2 years; and
 - (vi) relieving the financial pressures on families.
- c) Assess the cost effectiveness of these models.
 - d) Assess the interaction of these models with the Social Security and Family Assistance Systems.
 - e) Assess the impacts and applicability of these models across the full range of employment forms (e.g. including for the self-employed, farmers, shift workers, etc).
 - f) Assess the efficiency and effectiveness of Government policies that would facilitate the provision and take-up of these models.
3. The Commission is to report by February 2009. The Commission is to hold public hearings and seek public submissions for the purpose of the inquiry and is to produce a report for public release by government.

CHRIS BOWEN

Contents

Terms of reference	IV
Acknowledgments	X
Abbreviations	XI
Glossary	XII
Key points	XIV
Overview	XV
Recommendations	XXXIX
1 Objectives of statutory paid parental leave	1.1
1.1 Introduction	1.2
1.2 What has the Commission been asked to do?	1.3
1.3 What objectives might a mandatory scheme seek to achieve?	1.5
1.4 Some rationales are stronger than others	1.12
1.5 Some issues for scheme design	1.15
2 What we are proposing and why	2.1
2.1 How to view the model	2.2
2.2 The model	2.3
2.3 How financially generous should the scheme be?	2.6
2.4 Who should finance the scheme?	2.13
2.5 Eligibility and requirements for use	2.22
2.6 The duration and timing of leave	2.39
2.7 Measures to reduce business burdens	2.49
2.8 Complementary policies	2.52
2.9 The cost of the scheme	2.54
2.10 Review	2.57
3 Parental leave in Australia today	3.1
3.1 Introduction	3.3
3.2 What are the rules governing parental leave now?	3.3
3.3 Who is eligible for parental leave?	3.9

3.4	The current usage of parental leave in Australia	3.17
3.5	Summary	3.27
4	Child and maternal welfare	4.1
4.1	Leave prior to the birth of a child	4.2
4.2	Maternal recovery	4.10
4.3	Breastfeeding benefits for children and mothers	4.19
4.4	Child health (breastfeeding aside) and development	4.35
4.5	Fathers	4.46
4.6	Choosing an optimal leave period	4.53
5	The labour market impacts of paid parental leave	5.1
5.1	The dimensions of labour market impacts	5.2
5.2	The female labour market experience	5.4
5.3	Labour market outcomes as a rationale for action	5.8
5.4	The labour market impacts of paid parental leave	5.13
5.5	The empirical evidence	5.26
5.6	The bottom line	5.39
6	Social and cultural issues	6.1
6.1	Introduction	6.2
6.2	Supporting people's efforts to balance paid work and family life	6.3
6.3	Greater opportunities for fathers	6.8
6.4	Gender equity objectives	6.9
6.5	Reflecting society's norms	6.15
7	Business impacts	7.1
7.1	Introduction	7.2
7.2	Business costs	7.2
7.3	Business benefits	7.14
7.4	Effects on existing voluntary schemes	7.16
8	Financing and delivery options	8.1
8.1	Introduction	8.2
8.2	Direct employer financing	8.2
8.3	Pooled levy arrangements	8.5
8.4	Portable leave savings accounts	8.9
8.5	Income contingent loans	8.12
8.6	Concessional business tax arrangements	8.21

8.7	Parental leave financed through general government revenue	8.23
8.8	Delivery options	8.28
9	Interaction with social welfare payments	9.1
9.1	Interaction with other government payments	9.2
9.2	Interaction with the tax system	9.15
9.3	The bottom line	9.22
A	Consultations	A.1
B	How much will it cost?	B.1
	References	R.1

The following appendices are referred to in the chapters but are not reproduced in this report. They are available on the inquiry website.

Website: www.pc.gov.au/projects/inquiry/parentalsupport

C	Trends in parental leave	C.1
D	Child welfare and development	D.1
E	Eligibility requirements	E.1
F	Eligibility for government payments	F.1
G	Paid parental leave and return to work	G.1
H	Breastfeeding evidence of health benefits	H.1
I	What payment level?	I.1
J	Short birth spacings and eligibility	J.1
K	Businesses affected by parental leave	K.1
L	Distributional impact	L.1

Acknowledgments

This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). The HILDA survey is managed by a consortium led by the Melbourne Institute of Applied Economic and Social Research, The University of Melbourne.

This paper also uses unit record data from Growing Up in Australia, the Longitudinal Study of Australian Children (LSAC). The LSAC project was initiated and is funded by FaHCSIA. The Parental Leave in Australia Survey (PLAS) was conducted through Wave 1.5 of the LSAC by G. Whitehouse, M. Baird and C. Diamond (2005), and was funded through the Australian Research Council Linkage Project.

A range of published and unpublished data from the Australian Bureau of Statistics is also used throughout this report.

Abbreviations

AIFS	Australian Institute of Family Studies
ATO	Australian Taxation Office
DEEWR	Department of Education, Employment and Workplace Relations
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FAO	Family Assistance Office
HILDA	Household, Income and Labour Dynamics in Australia Survey
ILO	International Labour Organization
LSAC	Longitudinal Study of Australian Children
NES	National Employment Standards
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
PSA	The Public Service Association and Professional Officers Association Amalgamated Union of New South Wales
sub.	submission
trans.	transcript
WHO	World Health Organization

Glossary

eligible fathers	For access to the proposed paid parental leave and paternity leave, a father will be a male carer of a child, whether the biological father or the partner of the eligible mother.
HILDA	<p>The Household, Income and Labour Dynamics in Australia (HILDA) Survey is a household based panel study which collects information about economic and subjective well being, labour market dynamics and family dynamics. Interviews are conducted annually with all adult members of each household, and panel members are followed over time. In Wave 6, interviews were obtained from 7139 households.</p> <p>HILDA is funded by FaHCSIA and managed by the Melbourne Institute of Applied Economic and Social Research.</p>
LSAC	<p>The Longitudinal Study of Australian Children tracks the development of children from birth to early adulthood. It examines family and social issues relevant to their development, and includes questions about family functioning, health, non-parental childcare and education.</p> <p>Data are being collected over seven years from two cohorts of 5000 children each. The first cohort, comprising children aged under 12 months in 2003-4, will be followed until they reach six to seven years, and the second, comprising children aged four years in 2003-4, will be followed until they reach 10 or 11. Study informants include the child (when appropriate), their parents, carers and teachers.</p> <p>The study is being conducted by the AIFS, together with researchers from other universities and research institutions.</p>
paternity leave	Leave that is quarantined for the sole use of fathers or other eligible partners on a ‘use it or lose it’ basis.
‘use it or lose it’	A restriction that the leave can only be taken by the intended recipient; it cannot be transferred to another person and is forfeited if not used.

OVERVIEW

Key points

- The Australian Government's statutory paid parental leave scheme should be taxpayer-funded, and should:
 - provide paid postnatal leave for a total of 18 weeks that can be shared by eligible parents, with an additional two weeks of paternity leave reserved for the father (or same sex partner) who shares in the daily primary care of the child
 - provide the adult federal minimum wage (currently \$543.78) for each week of leave for those eligible, with benefits subject to normal taxation.
- All those employed with a reasonable degree of attachment to the labour force should be eligible, including the self-employed, contractors and casual employees.
- A broad range of family types should be eligible, including conventional couples, lone parents, non-familial adoptive parents, same sex couples, and non-parental primary carers in exceptional cases, so long as they meet the employment test.
 - Those families not eligible for paid parental leave may still be eligible for paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.
- Employers should participate in the scheme by:
 - acting as paymasters where the employee had sufficient workplace tenure, with the government prepaying employers by instalment to avoid cash flow impacts
 - providing superannuation contributions for long-term eligible employees, though this measure should be deferred for at least three years and reviewed at that time.
- Such a scheme would meet a range of commonly agreed objectives. It would:
 - generate child and maternal health and welfare benefits by increasing the time parents take away from work. The Commission estimates that the average absence will increase by ten weeks. Many more families would have an increased capacity to provide exclusive parental care for children for six to nine months
 - promote some important, publicly supported social goals, and in particular, that having a child and taking time out for family reasons is viewed by the community as part of the usual course of work and life for parents in the paid workforce
 - counter some of the incentives against working posed by the tax and welfare system — potentially contributing around six months of net additional employment for the average woman over her lifetime
 - increase retention rates for business, with reduced training and recruitment costs.
- The Commission estimates that the government scheme will cost taxpayers around \$310 million annually in net terms (with an additional net cost to the economy of \$70 million if super contributions are introduced in the future).
- These costs take account of significant offsets from reduced social welfare payments (including removal of the baby bonus for parents using the scheme) and the tax revenue from paid leave. The costs would be much higher without these offsets.

Overview

Background to this inquiry

Around 280 000 mothers gave birth in Australia in 2007. Of these, around 175 000 were born to mothers who were in the workforce prior to giving birth, with at least 80 per cent of those mothers intending to return to work. Accordingly, there is a large number of employed mothers who need to take leave from work. There have been enduring calls for many years in Australia to introduce a statutory scheme that would provide broad paid parental particularly maternity leave to such parents. Only around half of employed mothers (and a somewhat smaller share of fathers) are currently eligible for paid parental leave as part of arrangements privately negotiated with their employers (box 1). Given the recent slowing pace of private provision, it is not clear that the proportion of the workforce covered by paid parental leave will change much over the next decade.

Coverage through voluntary private provision is particularly low for casual, less-skilled and lower-paid employees (and, by the nature of their employment, all of the self-employed). These employees often resign when they have a baby, or if they remain employed, take a shorter time off work to care for their babies than other employees.

The issue of paid parental leave has reached contemporary prominence because of the increasing role of women as simultaneously carers, workers and sources of family income, and changes, albeit limited, to male roles in caring for, and rearing, children. Women participate in work at rates higher than at any other time in Australia's history. For instance, in the key reproductive years of 25 to 34 years, (partnered) female participation rates increased from around 45 to 70 per cent from 1978 to 2008, while rates for men in the same age bracket *fell* by about four percentage points (figure 1).

Evolving community norms about the roles of women and men in reconciling their working and caring roles have been expressed politically and industrially, including through employer-provided leave and work arrangements, and government-mandated unpaid leave entitlements. A legislated unpaid maternity leave guarantee of 52 weeks that gives a mother the right to return to her job has been available since 1979, and in 1990-91, the government extended this right to a father taking

paternity leave. The Australian Government’s Fair Work Bill proposes the inclusion in the National Employment Standards of the right to request an additional 52 weeks of unpaid parental leave.

Against this background, the Australian Government asked the Commission to consider the design and impacts of a paid maternity, paternity and parental leave scheme in Australia.

Box 1

Babies and parental leave

Around 281 000 mothers gave birth in 2007, with around 108 000 mothers not in paid employment at birth and 173 000 in paid work prior to birth.

Using adjusted ABS figures, 54 per cent of female employees and 50 percent of male employees have access to employer-provided paid parental leave. Access is higher in full-time jobs (74 per cent for females) than part-time jobs (32 per cent for females).

Only around 24 per cent of women on very low wages (less than \$500 per week) had access to paid maternity leave, compared with around 84 per cent for those on high wages (over \$1200 per week).

While most mothers stayed at home for six months or more after the birth of their child, some went back much earlier:

	Mothers returning to paid work after childbirth ^a		
As a proportion of	Before 3 months	Before 6 months	Before 12 months
All mothers	7%	17%	39%
All mothers in paid work prior to childbirth	11%	26%	57%

^a Based on the Longitudinal Study of Australian Children. Figures were prior to introduction of the baby bonus, which will have allowed some women to finance a longer period of absence from work.

Many participants in this inquiry have observed that, along with the United States, Australia is conspicuous among developed countries in not offering a statutory paid parental leave scheme. Australia’s near unique status is largely a semantic distinction. The non-hypothecated baby bonus, a \$5000 instalment payment commencing at the birth of a child provides the equivalent of 14 weeks parental leave at \$357 (untaxed) per week or around two-thirds of the minimum wage. The baby bonus is buttressed by other family payments, so that overall, family subsidies in Australia are relatively generous by OECD standards (figure 2). These subsidies are diverse in nature, recognising the needs of different families. Income support measures particularly benefit those families where a parent leaves paid work to care for their baby, while child care subsidies are focused on parents in paid employment.

Figure 1 Workforce participation by partnered women has risen
1978-79 to 2007-08

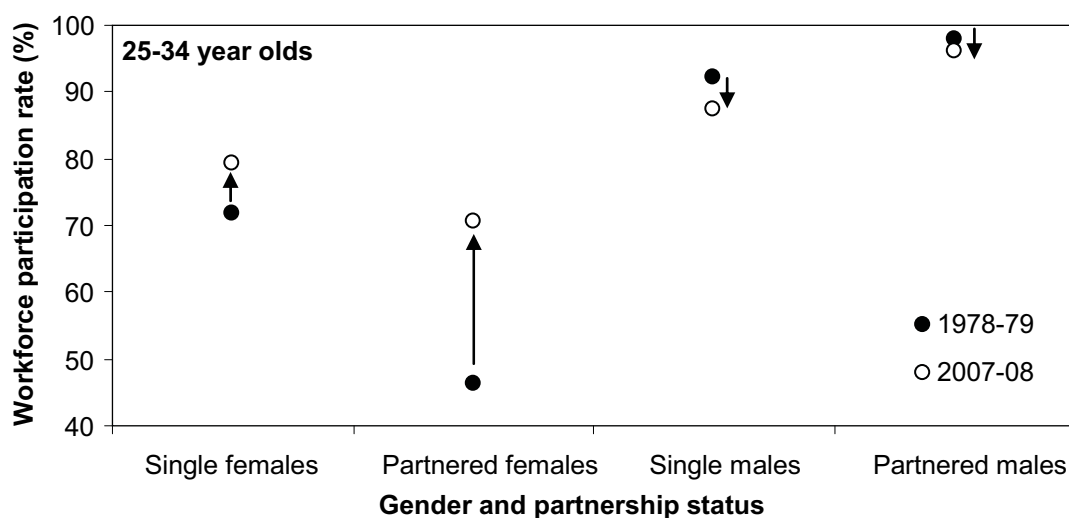
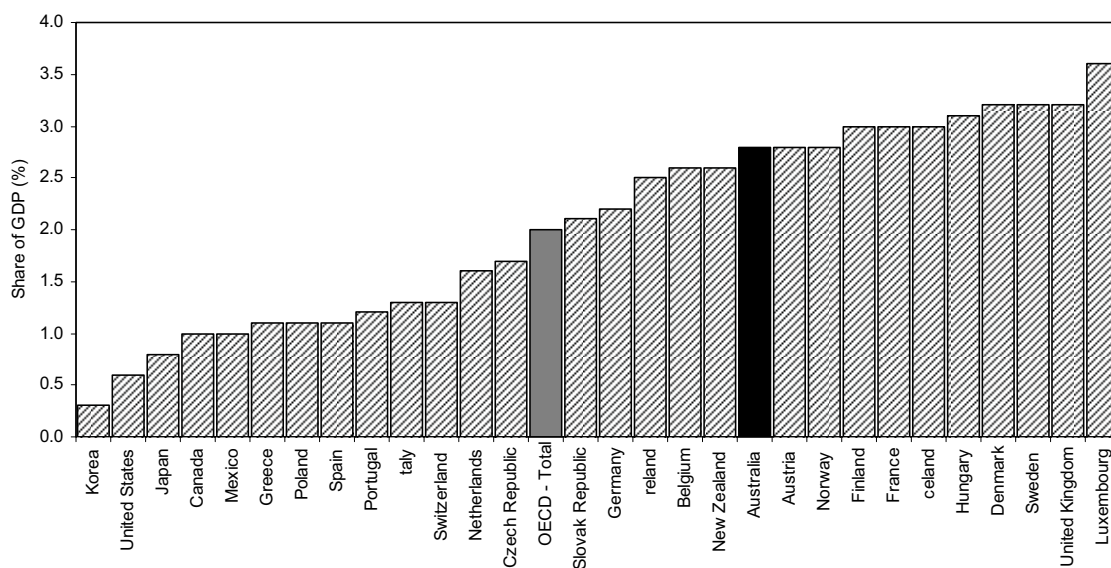


Figure 2 Australia is relatively generous to families
Government spending on family policies as a share of GDP, 2005



As discussed below, existing family support measures lack some of the desirable incentive effects of a paid parental leave scheme. Moreover, an explicitly-named parental leave scheme clearly has strong symbolic resonance for many Australians so much so that many suggested schemes to this inquiry involved relabelling of some existing family payments.

What reasons are there for a paid parental leave scheme?

The Commission identified three broad grounds for a paid parental leave scheme:

- the improved wellbeing of families, and in particular child and maternal health, associated with an extended period of absence from work around the birth of the baby and secure financial support during this period (see below). For a variety of reasons such as financial constraints parents cannot always take sufficient time off from work
- in the face of the incentives *against* work provided by the social welfare and tax system, encouragement of women of reproductive ages to maintain their lifetime attachment to the workforce
- the expression of community norms. This includes the view that having a child and taking time out for family reasons is part of the usual course of work and life for many people in the paid workforce, including fathers. It also encompasses the importance of valuing children. These rationales for paid leave are more contentious than others, because while survey evidence suggests most Australians would like to see the introduction of statutory paid parental leave, many also oppose it, especially when it is made clear that someone must pay for the scheme. Nevertheless, social policy provides an important rationale for a government-mandated scheme.

The design of any paid leave scheme needs to reflect these rationales.

The health and wellbeing of children and parents

The impact of paid parental leave on maternal and child health and wellbeing is relevant to the issue of the appropriate duration of leave and to a level of payment needed to encourage parents to take such leave. There is compelling evidence of health and welfare benefits for mothers and babies from a period of postnatal absence from work for the primary caregiver of around six months. There are also reasonable grounds to expect benefits from longer periods of exclusive parental care up to nine to 12 months.

The gains do not only accrue to parents, as society often has to pay for health costs and other consequences of poorer outcomes for children and parents. Moreover, there may also be long run productivity benefits in the same vein that the Commission anticipated gains from early childhood education and health initiatives in its modelling of the National Reform Agenda.

How do these benefits arise?

The child welfare effects of parental care

Most of the evidence supports the view that non-parental care in the first six to 12 months of a child's life can lead to behavioural problems and delayed cognitive development for some children. Evidence of problems is strongest where non-parental care is initiated very early (three to four months or less), where maternal employment is full-time and care is of low quality. The extent of gains from exclusive parental care appears to diminish beyond 12 months.

There is some evidence that paternity leave has emotional benefits for fathers, positively affects children's emotional and educational achievement and provides support for the mother. The evidence suggests longer-term benefits from early involvement of fathers.

Breastfeeding benefits babies and mothers

The capacity for breastfeeding is often identified as a major benefit from early maternal care of babies. There is an extensive literature on the health benefits of breastfeeding, though many are based on observational studies where causality can be hard to substantiate. Nevertheless, overall the evidence suggests significant benefits from exclusive breastfeeding up to six months:

- The existence of benefits for children is supported by meta-analysis of higher quality studies undertaken as part of the Cochrane Collaboration (an international evidence-based review process). Benefits identified include reductions in a wide range of infant conditions (for example, respiratory tract infection and eczema), cognitive gains, and potential adult impacts (for instance, in reducing obesity, diabetes and high blood pressure).
- Mothers gain psychological benefits, faster recovery from birth, reduced risks of breast cancer and ovarian cancer and possible reduced risk of post-menopausal hip fractures and osteoporosis.

The current clinical orthodoxy (Australia's National Health and Medical Research Council, the American Academy of Pediatrics, the WHO and others) recognise these benefits, with recommendations for six months of exclusive breastfeeding.

These are average effects

It is important to emphasise that the beneficial effects of close parental care of babies and of breastfeeding are *average* effects. What holds on average does not always hold at the individual level. Parents who make use of non-parental care within six months of the birth of their child or do not breastfeed will often encounter

no child development or health problems. But, from a policy perspective, it is the average effect that matters, since it is not possible to know in advance when a particular child would benefit from breastfeeding or exclusive parental care.

Not all parents are able to take the ideal time away from work for their babies

Many parents return to work earlier than six months (box 1) — often against their own preferences — though longer periods of parental care can be beneficial. Around 11 per cent of mothers who were in paid work prior to childbirth return to work before three months, around 26 per cent before six months and around 57 per cent before the baby has reached one year old. (These figures predate the introduction of the baby bonus, and are likely to have fallen somewhat since.) Fathers take only very short periods of leave. And in Australia, most women exclusively breastfeed for much shorter periods than the recommended six months (and breastfeed much less than in many other countries), despite high initiation rates. This suggests the scope for paid leave to prolong beneficially the parental care of babies.

Moreover, even for those parents who can take sufficient time away from work to care for their children, the period after the birth of a baby, and the interruption to family income that this often entails, can involve financial hardship. The Commission regards relieving financial hardship as primarily a *means* of encouraging greater parental time at home and stimulating lifetime employment, but not an *end* in itself (given the backdrop of a comprehensive welfare system). Nevertheless, relieving hardship means that families suffer reduced financial and other associated stresses during the postnatal period — with beneficial impacts on child and family welfare. (The evidence suggests that income is, by itself, a strong predictor of child welfare.) Accordingly, a paid parental leave scheme may still generate improved health and welfare outcomes for those families whose length of absence from paid work is not affected by the scheme.

How long should paid leave be?

Taking into account the above evidence, the average desirable duration of postnatal absence from work would be around six to nine months. However, the duration of any *paid* statutory scheme does not have to be equal to the period of absence that most helps parents and their children.

Parents already use many options — particularly access to privately negotiated paid maternity schemes and past accumulated leave — to fund a period of leave from work to care for their children.

While many women would like or need some prenatal leave, the Commission is not recommending it as part of the scheme. Women are sometimes able to use sick leave where there is a medical need, and the prenatal period is also covered by several statutory provisions. These provisions include a legal obligation for employers to provide a safe job to a pregnant woman if medically indicated, and if one is not available, to pay ‘no safe job’ leave. Unlike the postnatal period, there is no systemic evidence that women are taking prenatal leave periods that are too short from a maternal or child welfare perspective. Accordingly, a statutory paid parental leave scheme will have its greatest beneficial effects in the postnatal period and this should be reflected in the design of the scheme.

The appropriate length of postnatal leave needs to balance several factors. It should:

- when supplemented by people’s private efforts, achieve a length of absence from work for most families that provides significant maternal and child welfare benefits
- when combined with a sufficient payment rate, provide an overall package that provides greater benefits for most working families than opting out to welfare benefits
- not require too great a co-contribution by parents, as poorer families in particular would require the main carer to go back to work earlier than desirable. It would also mean that parents (particularly mothers) might have to exhaust their reserves of recreation and carer’s leave, reducing the scope for parents to care for their child at later ages such as when the child was sick amplifying family stresses
- not require disproportionate funding from taxpayers or employers. The benefits to children and parents from incrementally longer periods of leave have to be weighed against their (appreciable) budgetary costs. Each additional week of leave would cost taxpayers a net \$50 million. At some point, other areas of government spending (such as quality childcare services, improved children’s health services and early childhood education) or private consumption are more valuable to people. The point to emphasise is that someone has to pay for a parental leave scheme. The forgone benefits of that spending (and the costs of raising taxation) have also to be taken into account.

While there is no exact science about choosing the precise duration, the Commission considers that a leave period of 18 weeks of postnatal leave (as proposed in the draft report), combined with adequate payment levels appropriately balances the above considerations. Such a duration would provide the overwhelming majority of parents more than 90 per cent according to preliminary estimates the *option* of taking at least 26 weeks of leave without undue financial stress.

While not all will actually use this option, the Commission's statistical analysis, supported by a significant body of international evidence, suggests that the proposed scheme would significantly increase mothers' current time away from work around the birth of the baby. Our estimate is that, on average, eligible employed mothers would increase their absence from work by about an additional 9.8 weeks or around 55 per cent of the proposed length of statutory paid leave. Consequently, more women will be able to have longer, beneficial interactions in the early phase of their babies' lives and to breastfeed for longer.

- The effects on duration are greater for lower income, more financially constrained families. They are a particular target of this policy since they often have low representation in privately negotiated paid parental leave schemes.
- For those women currently taking leave of less than 26 weeks, the average additional leave is around 6.2 weeks, but the gain is greatest for those women in this group taking very short leaves. We estimate that the small group of women taking less than eight weeks of postnatal leave prior to the scheme would increase their average leave duration by more than 12.3 weeks. Accordingly, even if a scheme does not always enable exclusive parental care for six months, it will often make a considerable difference to the time available to parents to care for their child.
- Most women already take more than 26 weeks of leave, but the scheme enables a significantly greater number to reach this duration and will also allow many of those taking six months to increase their leave duration to nine months. (And, regardless of the length of paid leave, some parents will return to work earlier than six months, so that from a practical perspective, a goal of achieving a six month leave period for all primary carers is unrealistic.)
- Even where the scheme does not significantly increase leave durations, it would nevertheless increase family incomes, with benefits for child welfare.
- Given the difficulties in forecasting parents' behaviour after the introduction of a statutory paid parental leave scheme (appendix G), the above estimates are of uncertain accuracy. That reflects data limitations and the exclusion from the modelling of some factors that may change parents' behaviour. For instance, the estimates ignore the impacts on leave duration arising from responses by employers, the availability of paternity leave, the capacity of the mother to transfer parental leave, and changing community norms about desirable leave lengths that may arise from a statutory scheme. The actual effect of the proposed scheme may be better (in our view, the more likely outcome), but also possibly worse than suggested by the above analysis. The future mooted review of the scheme (recommendation 2.14) should assess the actual leave behaviour of parents to see if any modest changes in the duration of the scheme are required.

The Commission has also proposed that the government's statutory scheme include two weeks of paternity leave (which cannot be transferred to the mother). Such quarantined leave recognises the child welfare and other benefits of involvement by fathers in the early months of a baby's life. It acknowledges the lesson from overseas experiences that men rarely take paid parental leave if it is at the expense of women's use of that leave, and more generally take low levels of leave around the birth of the child.

Increasing the lifetime workforce participation by women

As implied above, paid parental leave will reduce women's labour force engagement while their baby is young. This is not an adverse finding – it is a major goal of such leave arrangements.

However, a scheme may also increase lifetime workforce participation, both over the long run following the early infant years of their children, but also prior to the birth. While such participation is not an appropriate goal in itself, a statutory leave scheme would counter some of the current distortionary incentives against paid work posed by the tax and welfare system.

Paid parental leave is an in-work benefit, acting like a de facto wage increase for employees, and yet, given its predominant tax funding, does not increase the costs of hiring parents much for firms. These features of the scheme mean that women formerly outside the labour force have incentives to become employed. Paid parental leave would be one of the few areas of government social expenditure that actually encourages women to work.

Moreover, decisions by women around the time of birth of their baby are important for their future employment (chapter 5). In the absence of paid leave, many women resign from their jobs and lose contact with their former employers. It is harder to re-enter employment from outside the labour force compared with the expected return to work implied by taking a period of paid leave.

Businesses have emphasised the substantial value to them from increased retention rates of women arising from *privately* negotiated maternity leave arrangements. Although the effects are not likely to be as large, business can also expect increases in workplace retention rates from a statutory paid parental leave scheme. Higher retention stems from the fact that, in the main, an increased return rate to employment involves return to the original employer. This would be reinforced by including a 'keeping in touch' provision in the government's statutory scheme, as in the United Kingdom, which allows parents on leave to return to work for short periods to participate in events like training days.

It is difficult to measure the lifetime employment impacts of the proposed scheme. Nevertheless, back-of-the-envelope calculations based on overseas empirical evidence suggested a net increase in average female lifetime employment of around half a year though this estimate is not precise. Accordingly, even though a paid parental leave scheme reduces women's labour supply around the time of birth, its overall impact on labour force engagement is likely to be positive. However, such long-run increases in female labour supply would also be likely to reduce future female wage growth by a small margin.

Social change

The social impacts of a statutory paid parental leave scheme are more elusive than its family welfare and labour supply effects, principally because they are qualitative in nature and, as would be expected, involve value-laden judgments.

A scheme would be likely to:

- reduce the pressures of caring and working on parents, particularly mothers, when their children are young
- increase somewhat the involvement of fathers in the early months of a child's life. However, that effect will probably only arise from the short period of paternity leave. Given overseas evidence, it will not have appreciable impacts on fathers' willingness to participate in child-related domestic tasks for older infants over the short run. Accordingly, while a paid parental leave scheme may reflect (and reinforce) the prevalent community view that fathers have an important role to play in child rearing and in domestic tasks, its actual effects on fathers' behaviour are likely to be modest
- give women greater labour market experience than otherwise, building up their skills by more than otherwise and making them less vulnerable economically over their lifetimes, especially where relationships break down. Achieving this impact depends on avoiding excessive imposts that encourage employers to discriminate against women. The proposed scheme recognises this imperative. Delaying implementation of any employer superannuation contributions to the scheme acknowledges the need to contain labour costs for business in the current climate
- provide a strong signal that taking time out of the paid workforce to care for a child is viewed by the wider community as part of the usual course of life and work for parents, rather than a nuisance. A scheme that intends to signal this should be structured like other leave arrangements, such as those for recreation, illness and long service leave, rather than being structured as a social welfare measure.

Some participants also considered that providing for paid parental leave would signal the importance and value of children – not just for parents but for society as a whole.

While many participants in this inquiry say they would value these kinds of social impacts, not all agreed. Some see having children as a private choice with parenting to be organised as individual parents feel is appropriate.

Nevertheless, it is a legitimate role of the government of the day to act on its view of the kind of society we would like to live in, with political accountability if that view is out of kilter with public sentiment. The evidence from a variety of social surveys suggests that a significant majority of people do favour a statutory scheme and seek more supportive arrangements at work to improve their work-family balance.

Outline of the proposed scheme

The design of a coherent scheme must support its key objectives, be practically implementable, minimise burdens for taxpayers and business, and avoid perverse behaviour. The key aspects of the scheme are set out in table 1 below, but it is worth highlighting some of the design elements, their rationale and implications. It is also worth emphasising that there is no ‘perfect’ scheme and that the Commission had to consider complex evidence, tradeoffs between objectives and above all, uncertainty, in determining the appropriate features of its model. That is why the Commission is recommending a review be conducted three years after the scheme’s implementation to assess how it has performed against its objectives. The review should be supported by appropriate data collection.

The Commission has changed some aspects of the model proposed in the draft report following feedback from participants and after further analysis (box 2).

Duration and payment rate

As discussed earlier, the Commission is proposing paid parental leave of 18 weeks. To make that leave period viable, the payment rate has to be sufficiently high that going on leave is preferable to taking welfare payments (the baby bonus and higher family tax benefits).

Table 1 A snapshot of the proposed model

Duration	18 weeks of paid <i>parental</i> leave to be used up within one year of birth as one block of a continuous period of parental care, with the parental care, but not necessarily the statutory paid leave, commencing no later than birth. An additional two weeks would be available as <i>paternity</i> leave. It would be reserved for the father (or other eligible partner) who shares in the daily care of the child and would also need to be used within one year of birth. Payments would only be made if parents took leave ('use it or lose it').
How much?	<p>The going adult minimum wage (currently \$543.78) for each week of parental or paternity leave, paid regardless of pre-birth incomes, subject to taxation, and included as income for assessment of welfare benefits, with the exception of income support payments (principally parenting payments, Newstart and the disability support pension).</p> <p>Parents taking any statutory paid parental leave would lose the baby bonus (except for multiple births) and there would be no access to family tax benefit B while on statutory paid parental leave. These conditions would not apply to paternity leave.</p> <p>Depending on a review to be held three years after program inception, payment of superannuation contributions while on leave, with benefits to only apply to the actual salary of the employee or the adult minimum wage, whichever is lower. Mandated contribution rates limited to the statutory 9 per cent rate, but no bar to negotiation for higher amounts.</p>
Who pays?	<p>Cash payments for paid parental and paternity leave would be fully taxpayer-financed, but with changes to the baby bonus and family tax benefit B.</p> <p>Where employees were entitled to unpaid parental leave under the National Employment Standards, the Government would prepay statutory paid parental and paternity leave entitlements by instalment to employers, who would then make payments to their employees.</p> <ul style="list-style-type: none"> The Australian Government would pay all other eligible employees directly <p>Employers would fund any future implementation of superannuation contributions, but only to long-term employees (12 months) eligible for super on their wages prior to the scheme.</p>
Eligibility and requirements for use	<p>Statutory paid parental leave would be available for a primary carer, typically the parent, but with scope for non-parental eligibility in special circumstances.</p> <p>Eligibility for parental or paternity leave would require 'continuous' employment (with one or more employers) for at least 10 of the 13 months prior to expected birth, and paid work of at least 330 hours in the 10 months.</p> <p>The scheme would cover all employees who met the employment test above, including the self-employed (including contractors) and casual workers.</p> <p>To get any future superannuation entitlements, employees must also be eligible for unpaid parental leave under the National Employment Standards and be entitled to these benefits before taking paid parental or paternity leave.</p> <p>Eligible mothers could transfer paid parental leave rights to fathers and other eligible partners, if they also meet the required employment tests above. In special cases (eg death of the mother), eligible partners could access paid parental leave if the mother was ineligible.</p> <p>'Paternity' leave would be available to eligible fathers, or, in same sex couples, to the other eligible partner, even if the mother was not eligible for statutory paid parental leave.</p> <p>No use of statutory parental leave by both parents at the same time, but statutory paternity leave could overlap with a mother's parental leave.</p> <p>Parents could take statutory paid parental leave at the same time as other private paid leave, but fathers would not be allowed to take paternity leave while on other paid leave.</p> <p>Eligible adoptive parents could get access to leave for children under 16 at time of placement.</p> <p>Primary carer could adjust leave to 'keep in touch' with employer if there is mutual consent.</p> <p>Parents giving birth to twins or more would get one leave entitlement but, subject to the income test, receive the baby bonus for each additional child.</p>
Other policies	Regulatory and information measures to assist business to cope with disruption burdens and to advise employees of their entitlements
Non-eligible parents?	Those families not eligible for paid parental leave may be entitled to paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.

Box 2 **What are the main changes since the draft report?**

To promote access to the scheme by parents having second or subsequent babies, amendment of the average ten hours a week working requirement to effectively an average one day a week requirement

To make re-qualification for statutory leave easier for existing mothers and to allow scope for interrupted work and unpaid prenatal leave, amendment of at least a continuous 12 month prior period of work to a requirement for working for at least 10 of the 13 months prior to the expected birth of the child.

To fit in better with existing paid parental leave schemes and recognising the benefits of longer parental care, removal of the requirement that parents initiate statutory leave within six months of the birth of the child. In its place, there would be a requirement that parents complete statutory paid parental and paternity leave within 12 months of birth or adoption. Statutory *parental* leave would have to be taken as one block in a continuous period of parental care, with the parental care, but not necessarily the paid parental leave, commencing no later than birth.

For administrative simplicity and flexibility for parents, removal of the requirement that statutory paid parental leave payments to the primary carer follow or precede other private leave payments, so that statutory paid parental leave could be taken concurrently with other paid leave. The 'non-concurrence' requirement would still apply to paternity leave.

Reflecting a desire to reduce costs for business during the scheme's establishment phase and given current economic uncertainties, delayed and contingent implementation of superannuation contributions by employers, with this issue being part of a review of the scheme three years after its introduction.

To avert any cash flow problems for employers, introduction of the requirement that the Government pay by instalment those employers acting as paymaster for government before the businesses make parental and paternity leave payments to employees.

Given its better risk management processes and likely cost advantages, payment by Centrelink to employers undertaking the paymaster function, not through changes to pay-as-you-go withholding taxes.

Given consistency with other welfare payments, preserving the current means-testing of the baby bonus rather than eliminating income testing as proposed in the draft.

To allow broader access to the scheme by lower-income families and to encourage their longer-term workforce participation, provision that the income from statutory paid parental and paternity leave not count as income for the purposes of calculating parenting payments (single and partnered) and other income support payments.

Given the existing effects of the welfare system, removal of a lower rate of payment for juniors and others getting below minimum wage rates.

Given its administrative complexities, removal of the proposal to reimburse the remaining portion of the baby bonus for a parent on statutory parental leave who returns to work prior to 18 weeks.

Recognising the diversity of families and children's needs, a capacity for non-family members to get statutory paid parental leave in some limited cases.

The Commission proposes payment at the minimum adult weekly wage¹ for eligible parents in statutory paid parental (and paternity) leave, as has been recommended in past reviews. Most inquiry participants supported such a payment rate – it has the advantage that it is recognised as a wage, has a strong precedent in many overseas schemes and would probably be less open to pressures to increase its value than an alternative based on a share of average weekly earnings.

One concern – raised by the Australian Fair Pay Commission – is that using the federal minimum wage as the benchmark payment rate might result in pressures to raise the minimum wage to better meet parent’s needs. However, the Australian Fair Pay Commission is statutorily bound to ignore matters not connected with the goals of the wage setting process – and these would include those pressures. That said, if a substantive case were made that the wage determination process would be undermined, the payment rate could be commenced at the federal minimum wage, but subsequently be indexed to average weekly earnings.

The statutory leave payment would be like any other income gained while on leave. It would:

- be taxable
- be taken into account in calculating income-tested welfare payments, with the exception of income support payments (such as parenting payments and disability support pensions). The latter exclusion ensures that statutory paid parental leave would remain attractive for most low-income women.

Under the Commission’s proposal, recipients of paid parental leave (but not the short period of paternity leave) would lose eligibility for family tax benefit B for the duration of the statutory leave and, with the exception of those having multiple births, would not be eligible for the baby bonus. Parents on paid parental leave would still usually get substantially more in net terms than they would on welfare payments and would be able to take longer leave.

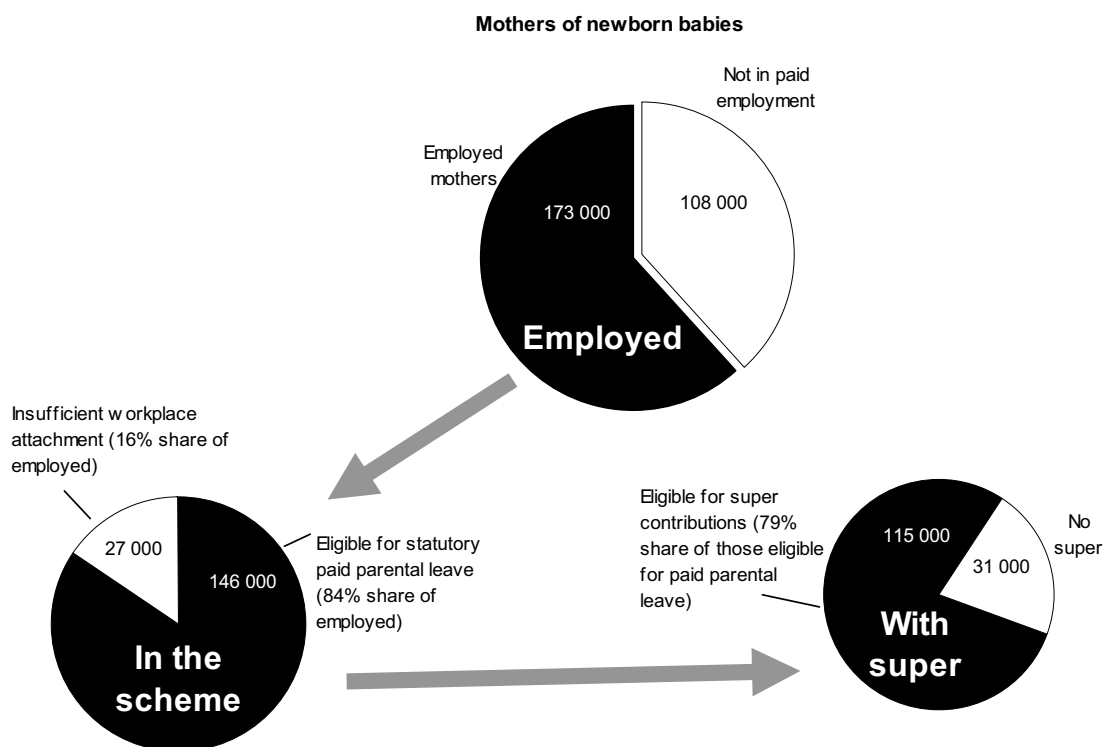
Payment at a flat rate would mean that the labour supply effects would be greatest for lower income, less skilled women – precisely those who are most responsive to wage subsidies and who are least likely to have privately negotiated paid parental leave. Full replacement wages for highly educated, well paid women would be very costly for taxpayers and, given their high level of attachment to the labour force and a high level of private provision of paid parental leave, would have few incremental labour supply benefits.

¹ The standard federal minimum wage is currently \$14.31 an hour, with a weekly rate of \$543.78.

Eligibility

To be eligible for paid parental leave, a person would have to be the full-time primary carer of the child, meet a work test, and other than in exceptional circumstances, be the parent of the child. These criteria reflect the goal of the scheme to encourage exclusive parental care of children, not time away from work per se. Not all employees would be eligible (figure 3) and not all of those who are eligible would actually choose to use their entitlement. (The latter is reflected in the Commission's estimate of the costs of the scheme – see later.)

Figure 3 **Who will be eligible?**



The work test would require an employee to have been employed:

- ‘continuously’ for at least 10 months (the ‘qualifying’ period) of the 13 months prior to the expected date of the birth or adoption, though not necessarily with the same employer (the ‘10-13’ rule). A requirement for continuity would not preclude reasonable breaks in employment (chapter 2).
- for at least 330 hours in the qualifying period (with work including paid leave provided by the employer). The 330 hour requirement allows the eligibility of a parent who has worked an average of one conventional day a week for the relevant ten months.

The 10-13 rule has the advantage that it will cater for many instances where a woman has a premature birth, is retrenched prior to birth (and can't get another job) or where the business folds prior to birth and it provides considerably more latitude for eligibility for statutory paid parental leave for employees with more interrupted patterns of work.

The 330 hour rule stems from recognition that one of the goals of a paid parental leave scheme is to encourage existing mothers outside the labour force to re-enter work on at least a part-time basis to qualify for paid parental leave for a subsequent child. However, if the eligibility threshold for hours/tenure were set too high, it could discourage this transition. Empirical evidence suggests that a requirement for 10 hours a week as set out in the draft report's proposal would disqualify from eligibility a significant minority of mothers with at least one child, adversely affecting the workforce participation goals of the scheme. A one day a week requirement though only a little less stringent allows significantly broader involvement.

The Commission considered whether higher hours and tenure eligibility thresholds might be appropriate for first-time mothers. However, the incentive effects of such higher thresholds are not likely to be that great since women without children already have high workforce attachment. A second rule for first-time mothers would add complexity without much gain.

Coverage would extend to all people meeting the employment test, including part-time, full-time and casual employees, the self-employed and contractors recognising that employment takes many forms.

Families also assume many forms. Families include conventional couples, single parents, adoptive parents, and same-sex partnerships, and in some instances, non-parental care arrangements. As is now customary in family policy, the Commission recognises all of them have legitimate, if sometimes constrained, claims for access to a scheme. In particular, the Commission has proposed stringent requirements for access to the scheme by non-parents, recognising that the scheme's purpose is not provision of child care.

Differing needs

Parents giving birth to twins or other multiple babies would be entitled to paid parental leave entitlements for one child, and the baby bonus for each additional child (subject to the existing income test for that payment).

People outside the labour force and employees not meeting the employment test outlined above would be ineligible for statutory paid parental leave. Some in this

inquiry have argued that it is inappropriate to provide additional benefits for employed parents without making these also available for families where one parent cares for their children full time. However, those concerns have to be placed in context.

First, Australia's tax and transfer system recognises that different families have different needs. In particular, on average, a family with one parent caring full time for their children obtains family tax benefits and other payments that over a lifetime exceed those of other families (chapter 9). This is appropriate given their income circumstances and it recognises that caring for children is a valued activity. Moreover, it should be recognised that even in the immediate post-birth period, such families would generally:

- qualify for the baby bonus and family tax benefit B (welfare payments that by design would not be available for recipients of statutory paid parental leave)
- get higher levels of other welfare payments, such as family tax benefit A and low income tax offsets, than recipients of statutory paid parental leave (because the latter lose some access to such benefits due to the income tests that apply to them)
- face lower tax obligations than parents who are working enough to be eligible for statutory paid parental leave
- still be able to access paid *paternity* leave.

In other words, the gap between the benefits of statutory paid parental leave and those benefits received by families where the primary carer does not qualify for statutory leave are much smaller than first apparent. (Indeed, for some family groups, achieving any gap has been a challenge in the design of the scheme.)

Box 3 **Some examples of what parents would receive**

1. Laura is a mother working in a part-time job earning \$400 a week. After the birth of her second child, she is entitled to, and takes, 18 weeks of paid parental leave at \$543.78 per week (about \$9788 gross in total). Her partner is also eligible for paternity benefits as he meets the work test and takes the two full weeks off to help care for the new baby. He gets \$1088 (gross) through the statutory paid parental leave scheme. So the total family gains are \$10 876 over the 18 weeks.

By participating in the scheme, the family forgoes the baby bonus, loses some family tax benefits and pays some tax. After these offsets, they receive around \$2600 more than they would have received without the scheme being in place.¹

If the super contributions were introduced in the future, these would give the family an additional (gross and net) \$979 of benefits to bring the total net value of benefits to around \$3500.

2. Six months before she has her child, Roberta chooses to leave her \$40 000 a year job. Her lack of tenure in employment means that she is not eligible for statutory paid parental leave. However, at the birth of the child, Roberta, a single mother, gets the baby bonus of \$5000, and an average of an additional \$21 200 of family tax benefits and parenting payments per year over 2008-09 and 2009-10, giving her an overall package over the two year period of \$47 200 after the birth of her child.² The paid parental leave scheme makes no change to the benefits she receives. This would be the same for a mother who has never been in the paid workforce.

Maximum gross payments under the Commission's scheme

	Paid parental leave	Paid paternity leave	Total
	\$	\$	\$
Government payments	9 788	1 088	10 876

¹ The example assumes that the first child is two years old, that the new baby is born on 30 August 2008, that she returns to work one year later at her old wage, and that her partner earns \$65 000 annually. The calculations of benefits are the combined outcomes over the two fiscal years 2008-09 and 2009-10 since the net benefits must take account of the way the tax and benefit system works over fiscal years. The apparent monetary costs associated with any forgone wage income while on leave are not included as offsets because they are balanced by the non-pecuniary benefits of taking the leave. ² This assumes the same birthday as above, but no return to work until after 2009-10.

Second, the Commission's proposed design for a government statutory scheme has distributional consequences, but that is not its purpose. Rather, the design reflects the goals of a statutory scheme – better maternal and child welfare; improved incentives to work given the existing tax and transfer system; and achievement of social policy objectives, especially in relation to work/life issues, that many Australians see as desirable. These impacts only relate to parents in employment. For example, a parent caring for children full time does not require incentives to prolong an absence from work. Widening the reach of a paid parental leave scheme

so that government provided it on equal terms to all parents would cost taxpayers a lot more, for little or no gain in its impacts. (And, it would actually undermine the scheme's employment incentive effects.)

Workplace norms and retention

The more that parental leave arrangements mimic those that exist as part of routine employment contracts, the more they will be seen by employers and employees as standard employment arrangements, with the dual effect of:

- promoting employment continuity and workplace retention (thus helping to preserve job and employer-specific skills that would be reduced if parents were to resign or move to another employer) and reducing training costs for employers
- signalling that a genuine capacity to take a reasonable period of leave from employment to look after children is just a normal part of working life.

The Commission has proposed several features of a scheme that would help achieve these outcomes:

- as in the United Kingdom scheme, employees would generally be paid their parental leave through their employer. The Commission proposes that the Government would prepay employers by instalment (using processes for payment that are commonly used for Centrelink clients). Prepayment would avoid the cash flow problems posed by the option proposed in the Commission's draft report
- as in some employer-provided paid parental leave arrangements there would be scope for brief interruptions to leave so that employees could keep in contact with the employer or so the self-employed could continue some administrative duties with their business (the 'keeping in touch' provisions discussed earlier)
- subject to the proposed three year review (see below), employers would make superannuation contributions to employees on statutory paid parental leave as is common for some other forms of paid leave. Contributions would only be required if their employees were eligible for these entitlements before taking leave *and* were also eligible for unpaid parental leave under the National Employment Standards.

Who will pay?

The Commission considered a wide array of options for funding paid leave, including:

-
- direct employer financing, where individual employers would be obliged to pay for the parental leave taken by their employees (in effect, a tax on employers, the scale of which would depend on the age and gender composition of their workforces)
 - pooled funding by employers. Every employer would pay an amount proportional to their payroll into a common fund to finance leave. They would do so regardless of the numbers of likely users of paid parental leave in their individual enterprises. In effect, this would be akin to a special payroll tax levied on all employers
 - leave ‘banks’, in which firms would be obliged to contribute weeks to a leave fund as an employee’s tenure grew, with the leave being dedicated to parental care and portable between employers. (The baby bonus would finance an initial right to a minimum period of parental leave for all employees.) This is another form of direct employer funding
 - models that involved some element of user pays – such as income contingent loans by government and tax concessions to business to provide paid parental leave
 - funding from taxpayer-funded general revenue (often referred to as ‘government’ funding).

All of these models involve the obligation by some part of the community whether it be funded by specific employers or employees, or through government from taxpayers – to contribute at least some amount to the costs of a paid parental leave scheme. A government-enforced obligation to pay something might not always be *called* a tax, but effectively it is one. Accordingly, the choice really is between competing forms of tax (and varying levels of co-contributions by parents).

The Commission proposes that the cash component of the leave scheme be raised through general revenue – that is, from taxpayers generally. Such an approach is easier to manage administratively than most of the other arrangements and is consistent with the point, recently made by the Australian Future Tax System Review Panel, that there are already too many special-purpose taxes. (There are, however, grounds that any future increase in the generosity of the scheme could be predominantly privately financed – such as through an income-contingent loan arrangement, as used for higher education funding.)

The Commission also considers that there is a *prima facie* case for employers to make superannuation contributions to longer-term employees for the paid parental and paternity leave period. However, the Australian Government should defer implementation to reduce the costs to business during the establishment phase of the scheme, to take account of the outcome of an Australian Tax Office ruling on the

applicability of the superannuation guarantee to paid parental leave, and given the current economic uncertainty. The Commission proposes that the benefits of implementation of superannuation contributions by employers should be examined as part of a review of the scheme three years after its inception, and would consider the outcome of the ATO ruling, and compliance and other costs at that time.

Employers would otherwise have few obligations beyond those already applying under the National Employment Standards. Providing super contributions would act, at least to some extent, as a quid pro quo for the retention gains that business could expect, and from a practical perspective, payment of such entitlements by the government would entail many complexities. (As shown below, this employer contribution represents a relatively small share of the total package of costs.)

Importantly, businesses would only face additional compliance costs when they had an employee taking paid parental leave (box 4). The Commission estimates that the average small business with less than 20 staff would have a 4 per cent chance of having one or more employee pregnancies in a given year. As a result, many small businesses would not face increases in compliance or financial costs for the majority of the time. Were a super obligation to be implemented, even a small business that mainly employed young women would face small effects on its profitability (chapter 7).

Parents would contribute too as payment would not be provided for the full period of leave from work that parents take to care for their children. If parents chose to take at least six to nine months off work, they would have to use other paid leave or savings to finance up to half of the overall leave period.

How much will it cost?

The Commission estimates that a government scheme along the lines proposed would cost taxpayers around a net \$310 million annually. Taxpayer funding of the statutory paid parental leave scheme would represent about a 1.2 per cent increase in existing outlays by government on family assistance measures.

If business superannuation contributions were introduced in the future, the net business contribution would be around \$60 million and the total net cost to the economy as a whole around \$380 million.

(The overall cost estimates in the Commission's final report are lower than in the draft report. This is primarily because they rely on a more sophisticated model of the welfare and tax system and take better account of those families that do not use their entitlement to statutory paid parental leave.)

Box 4 **Impacts on business**

The Commission has proposed that the only immediately implemented obligation of employers relates to their function as ‘paymasters’ for government. Using their usual pay cycle, an employer would pay the minimum adult wage to an employee on paid parental leave, but only for those employees eligible for unpaid parental leave under the National Employment Standards. To ensure that there would be no adverse cash-flow consequences for employers, the government would prepay the leave instalments to employers.

The business would only face additional compliance costs when an employee was on paid parental leave — with no change otherwise. Compliance costs of managing parental leave generally would also be lowered by introducing longer leave notice arrangements than under the current National Employment Standards.

The overwhelming majority of employing small businesses (some 96 per cent) do not have an employee giving birth in any given year. So small business would mostly not face any costs from parental leave.

Business generally should benefit from the scheme through higher employee retention rates.

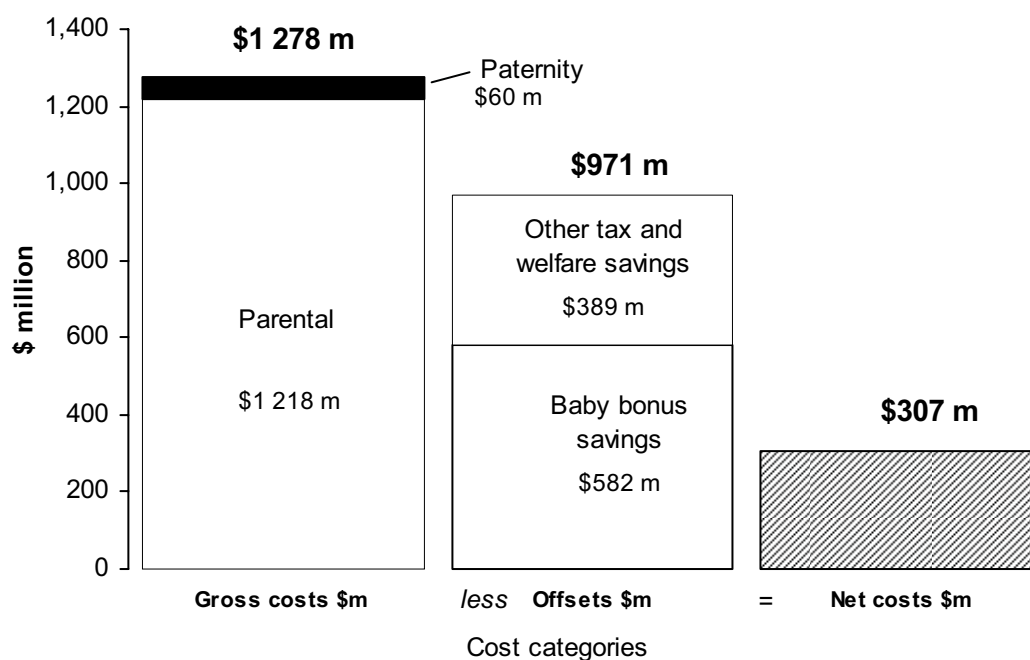
If an employer-funded superannuation contribution were introduced in the future, the financial impacts on business would be constrained by:

- applying the contribution rate to the employee’s actual pre-leave wages or the adult minimum weekly wage — whichever is lower
- limiting the *mandated* super contribution rate to the statutory 9 per cent, even if the business usually paid more than this (but with scope for parties to privately negotiate higher amounts)
- restricting these contributions to employees who
 - passed the eligibility requirements for statutory paid parental leave (in particular, the work test) *and*
 - received super entitlements before going on paid parental leave *and*
 - were eligible for unpaid parental leave under the National Employment Standards.

The maximum financial cost of super contributions for any employee would be 3.1 per cent and 0.3 per cent of annual wages for paid parental leave and paid paternity leave respectively (reducing for those on higher incomes).

The cost would have been significantly higher but for the (deliberately crafted) interaction of the statutory paid parental leave scheme with the tax and welfare system (figure 4).

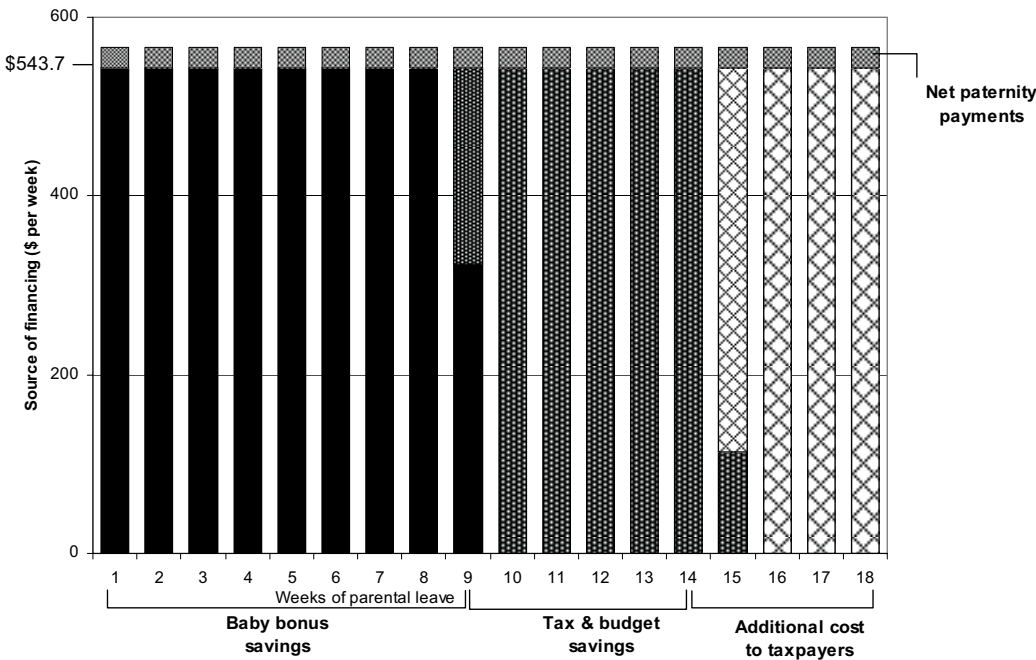
Figure 4 **The net cost of statutory paid parental leave to government**



Savings arise from taxes on paid leave and forgone baby bonus payments and other welfare payments. There may be other tax and welfare savings over the longer run, reflecting the greater lifetime employment of women and better infant and maternal health, but the Commission has not included these, given their uncertain magnitude. The Commission has also taken into account the fact that some parents will not fully use the offered leave – in particular, paternity leave.

Another way of understanding the underlying *net* cost of the Commission's proposal is to consider how each of the 18 weeks of leave is funded (figure 5). The first 8.5 weeks of the 18 is funded by removing eligibility for the baby bonus for those using statutory paid parental leave. The next six weeks are largely funded by taxes on parents' earnings from statutory paid parental leave and reduced family tax benefits. Taxpayers fund around an additional four weeks of leave on a net basis. (The paternity element of the package is shown as a 'top up' on the standard weekly benefits in the chart.)

Figure 5 **Financing of paid parental leave by government**



Recommendations

Payments and funding of a scheme

RECOMMENDATION 2.1

The Australian Government's statutory paid parental leave scheme should provide paid parental and paternity leave, with:

- *payment at the going adult federal minimum wage for each week of leave*
- *payments subject to income tax and included as income for assessment of welfare benefits, with the exception of income support payments as defined under section 23 of the Social Security Act 1991 (principally parenting payments, Newstart and the disability support pension)*
- *superannuation entitlements, subject to the implementation approach and conditions specified in recommendation 2.4.*

RECOMMENDATION 2.2

Parents having multiple births, such as twins, should receive a paid parental leave entitlement for one child only and should be entitled to the payment of the baby bonus, subject to its income test, for each additional child.

RECOMMENDATION 2.3

The Australian Government should fund the cash component of the paid parental leave scheme, partially offsetting these costs by:

- *removing eligibility for family tax benefit B while a primary carer is on statutory paid parental leave*
- *removing eligibility for the baby bonus for a family using statutory paid parental leave (with the exception of any additional children where there are multiple births).*

RECOMMENDATION 2.4

There is a prima facie case that employers should fund superannuation contributions during the paid parental and paternity leave period, with:

- *superannuation entitlements calculated on the pre-birth (or pre-adoption) wage of the employee who is taking the leave, or at the federal minimum wage, whichever is the smaller*
- *superannuation payments made only to those employees who have (a) qualified for and chosen to take statutory paid parental leave; (b) were entitled to employer superannuation contributions in their jobs before taking leave; and (c) were entitled to unpaid parental leave under the National Employment Standards*
 - *If parental leave is transferred to an eligible partner, the partner may qualify for superannuation contributions, even if the original primary carer did not qualify. Only one parent may receive superannuation contributions for statutory parental leave at any given time.*
- *mandated superannuation contributions under the scheme should be limited to the statutory rate (currently 9 per cent), but with no bar to privately negotiated higher rates.*

The Australian Government should implement these employer contributions following a review of the statutory paid parental leave scheme three years after its inception (recommendation 2.14), subject to consideration of:

- *the outcome of a final Australian Taxation Office ruling on the applicability of the superannuation guarantee to paid parental leave*
- *legal and other administrative issues for government*
- *any significant detrimental effects on business viability at that time or on compliance costs.*

RECOMMENDATION 2.5

The employer should make statutory parental and paternity leave payments directly to employees, with prepayment of each instalment by the Australian Government. However, an employer would only act as a paymaster for government where an employee was also eligible for unpaid parental leave under the National Employment Standards. Where such an employee worked with multiple employers, the employer allocated the tax-free threshold for PAYG withholding purposes should act as paymaster.

Legislation and guidelines for the paymaster function should explicitly rule out:

- *any employer obligations for accrued leave entitlements*
- *any impacts on notice periods and severance payments*
- *any impacts on payroll tax or workcover obligations.*

The Australian Government should pay other eligible primary carers directly.

Who would be eligible?

RECOMMENDATION 2.6

The Australian Government should require that, in order to be eligible for the statutory paid parental leave, a parent must have worked:

- *‘continuously’ for at least 10 months (the ‘qualifying’ period) of the 13 months prior to the expected date of the birth or adoption, though not necessarily with the same employer, and*
- *for at least 330 hours in the qualifying period.*

In addition, to be eligible for:

- *statutory paid parental leave, a parent must be the primary carer of the child*
- *statutory paid paternity leave, the father or relevant partner must share in the daily primary care of the child.*

Eligibility should include the self-employed (including employers and contractors), subject to independent assessment that they have met the eligibility criteria.

RECOMMENDATION 2.7

A statutory paid parental leave scheme should cover:

- *the parents of newborn children, including surrogate mothers*
- *mothers of a stillborn baby, where the baby meets the requirement for birth registration*
- *parents of non-familial adoptions of children aged under 16 years old from the time of placement*
- *custodians of surrogate children, subject to its compatibility with an impending uniform framework for surrogacy across Australian jurisdictions*
- *those in special circumstances as determined administratively (recommendation 2.8).*

RECOMMENDATION 2.8

The Australian Government's scheme should allow a non-parental primary carer access to statutory paid parental leave (or the balance left), but only if:

- (i) - there are genuine problems in the parents fulfilling that role, and*
- the relevant primary carer meets the work tests for eligibility, and*
 - the carer has long-term responsibility for the daily primary care of the child, and*
 - the carer is not making use of the carer's leave entitlements under the National Employment Standards if these apply to them*

or

- (ii) the relevant departmental secretary makes an administrative determination on the basis of 'special circumstances'.*

Who gets what?

RECOMMENDATION 2.9

Subject to the eligibility requirements of recommendation 2.6, the paid parental leave scheme should give:

- eligible mothers the initial parental leave entitlement, but allow them to transfer the entitlement to eligible partners who take on the role of the primary carer*
- fathers access to paid parental leave if the mother is not eligible, but only where (a) the fathers meet the employment and primary carer eligibility requirements and (b) there are special circumstances, which would be determined administratively*
- fathers or other eligible partners who share in the daily primary care of the child, a two week period of exclusive paternity leave on a 'use it or lose it' basis, even if the mother is not eligible for statutory paid parental leave.*

Duration and timing of leave

RECOMMENDATION 2.10

The Australian Government's statutory paid parental leave scheme should provide a total of 18 weeks of paid parental leave for a primary carer who meets the employment test, subject to the requirement that:

- *the primary carer complete paid parental leave within 12 months after birth (or eligible adoption) as one block in a continuous period of parental care, with the parental care, but not necessarily the statutory paid parental leave, commencing no later than birth*
- *leave would be taken at the full-time rate*
- *only one transfer of paid parental leave would generally be permitted between parents, except in special circumstances to be determined administratively.*

There should be provision for 12 weeks of paid parental leave to a surrogate mother meeting the employment tests.

The scheme should allow:

- *statutory paid parental leave to be taken concurrently with any other leave*
- *parents to take any paid parental leave remaining if their child died*
- *the transfer of any outstanding leave to the partner if the primary carer died.*

The Government should require paternity leave to be completed as one block within 12 months after birth (or eligible adoption). Paternity leave should:

- *be able to be taken at the same time as the primary carer's paid parental leave*
- *not be able to be taken concurrently with other forms of the father's paid leave.*

Other matters

RECOMMENDATION 2.11

The Australian Government should:

- *amend clause 74(4) of the proposed National Employment Standards to require an employee on parental leave to provide six weeks notice for an extension to leave, unless an employer agrees to a shorter period*
- *ensure that unpaid leave entitlements under the proposed National Employment Standards apply to eligible adoptive parents of children aged under 16 years.*

RECOMMENDATION 2.12

In addition to publicly provided information on the workings of a statutory paid parental leave scheme, the Australian Government should provide:

- *evidence-based advice to employers on how to reduce the disruption burdens associated with increased average durations away from work by carers, with this information especially directed at small business*
- *a web-based calculator that shows which employees would be eligible and the net benefits they would receive, and that sets out any obligations by employers.*

RECOMMENDATION 2.13

The Australian Government's statutory paid parental leave scheme should include:

- *a 'keeping in touch' provision that subject to employer and employee consent allows the employee to work up to 10 days while on paid parental leave, where that work strengthens the connection to their workplace*
- *scope for eligible self-employed parents to maintain some oversight of their businesses while on leave.*

The scheme will need monitoring and review

RECOMMENDATION 2.14

The Australian Government should undertake:

- *ongoing assessments of the interaction of the statutory paid parental leave scheme with the tax and welfare system and of the extent to which employers have changed their privately negotiated arrangements in response to the statutory scheme*
- *a review of the scheme three years after its inception, including:*
 - *its effectiveness in meeting its main objectives*
 - *assessment of the impacts of the scheme on leave taken by parents, and of any modest changes to the duration of the statutory scheme that may be required*
 - *the viability of implementing mandated superannuation contributions by employers at that time*
 - *the potential for more flexible arrangements, including a capacity for parents to share their statutory parental leave on a part-time basis and to take leave at half-pay for double the period*

-
- *whether employer-funded accrued leave or other entitlements should still be outside the scope of the statutory scheme.*

RECOMMENDATION 2.15

To underpin the review proposed in recommendation 2.14, the Commission proposes that the Australian Government should commission or otherwise ensure that surveys are undertaken to assess the impacts of the Government's statutory paid parental leave scheme on parents' behaviours, what happens to existing voluntary schemes, and the health and welfare of parents and children.

1 Objectives of statutory paid parental leave

Key points

- Participants proposed a range of objectives for mandated paid parental leave including: maternal and child health and welfare (including the rights of children and their place in society); the balance between paid work and family life; workforce/workplace attachment; gender equity; financial assistance; and population fertility.
- There are tensions between some objectives and tradeoffs will be necessary. For example:
 - Returning to paid employment too soon after a child's birth may adversely affect child and maternal welfare, but returning too late may undermine workforce attachment.
 - Funding arrangements inevitably provide incentives for some people and disincentives for others.
- Current arrangements already provide many parents with the right to return to a job, and financial assistance is provided by the baby bonus and the wider social welfare system. While together, existing programs provide a de facto paid parental leave scheme, a differently designed mandated paid parental leave scheme is likely to produce bigger individual and community-wide benefits.
- Objectives that appear most likely to support a case for paid parental leave are:
 - enhancing maternal and child health and development
 - facilitating workforce participation by offsetting the disincentives to paid work generated by social welfare and taxation arrangements
 - promoting gender equity and work/family balance.
- Objectives that have relatively weak rationales for paid parental leave are:
 - financial assistance — there are better ways to provide financial assistance than through paid parental leave, but it helps create the incentive to take leave by reducing financial pressures on liquidity-constrained families
 - increasing population fertility.
- Key design features include funding, length of paid leave, payment levels and eligibility. Specification of these will depend on the agreed objectives, evidence about the likely net impacts, and the tradeoffs that need to be made among them.
 - Scheme design should focus on obtaining benefits to the community that are additional to those available under current arrangements.
 - The efficacy of a number of design features will depend on outside influences such as the availability, quality, cost and regulation of child care centres and the availability and nature of family-friendly workplaces.
- The vast majority of participants consider that a mandated paid parental leave should be implemented, but this view is by no means universal.

1.1 Introduction

There have been enduring calls for government-mandated paid parental leave particularly maternity leave for many years in Australia, reflecting the fact that around 50 per cent of women in the paid workforce do not currently have access to any paid scheme. In contrast, a legislated right to 52 weeks unpaid maternity leave, which effectively gives a woman the right to return to her job, has been available since 1979 (and was extended to paternity leave in 1990-91). All mothers who are employees prior to childbirth are covered by this legislation over 80 per cent of employee mothers would meet the eligibility requirements. Moreover, under the National Employment Standards, intended to be introduced in January 2010, employees will have the right to request additional unpaid parental leave of up to 12 months, giving a total maximum of two years unpaid leave. The number of people affected by the availability and nature of any parental leave arrangements is substantial, given that 285 000 children were born in Australia in 2007 (an historical record).

Many stakeholders have observed that, with the United States, Australia is conspicuous among developed countries in not offering a statutory paid parental leave scheme. While most provide paid leave of around three to six months, some European countries, such as Norway and Sweden provide paid leave of around a year at near replacement wages. Stakeholders have noted that even poor developing countries have statutory schemes (for example, the Congo, Afghanistan, Somalia and Zimbabwe), though in reality these typically provide very limited coverage due to their small formal labour markets.

In part, Australia's near unique status is a semantic distinction. The 'baby bonus' of \$5000 provides most mothers with the equivalent of parental leave of 14 weeks (the funding duration sought by many participants) at \$357 (untaxed) per week, or about two-thirds of the adult minimum weekly full-time wage. The baby bonus is buttressed by other family payments, so that overall, family subsidies in Australia are generous by OECD standards (AIFS, sub. 138).

The calls for paid parental leave take place at a time when women have an increasing role as carers, workers and sources of family income, where there have been changes in male roles in caring for and rearing children, and where more employers are offering parental leave programs of their own:

- In the key reproductive years of 25 to 34 years, female workforce participation rates have increased from 51 to 74 per cent over the past 30 years.
- There has been a significant closing of the gap in workforce participation rates of married and unmarried women, and of married men and women.

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- The proportion of men engaged in home duties and caring roles has increased significantly, albeit from a very small base.
 - Households are more dependent on dual incomes to meet mortgage costs.
 - There have been changes in community attitudes about appropriate gender roles.

Accordingly, the issue of paid parental leave has reached contemporary prominence because the cultural and economic environment has changed markedly in Australia over the last few decades, with less clearly-defined gender roles and different attitudes about the separation of paid work and family. Further, there are several international agreements that are relevant to this policy area (box 1.1).

1.2 What has the Commission been asked to do?

It is against this backdrop that the Australian Government has asked the Commission to assess the economic and social costs and benefits of paid maternity, paternity and parental leave ('paid parental leave'). The terms of reference require the Commission to explore the current extent of paid parental leave provided by employers in Australia, but most importantly, to identify models of paid parental leave that could be used in Australia. The Commission is required to assess those models for their potential impact on:

- the financial and regulatory costs and benefits for small and medium-sized businesses
- the employment of women, their workforce participation and earnings and the workforce participation of both parents more generally
- the paid work/family preferences of both parents in the first two years after the child's birth
- the post-birth health of the mother
- the development of young children, including the particular development needs of newborns in their first two years
- relieving the financial pressures on families.

The Commission has also been asked to assess the cost-effectiveness of these models, their interaction with the social security and family assistance systems, and their impacts and applicability across the full range of employment forms (including, for example, self-employed people, farmers and shift workers). It has also been asked to assess the efficiency and effectiveness of Government policies that would facilitate the provision and take-up of these models.

Box 1.1 **International agreements relevant to paid parental leave**

The Human Rights and Equal Opportunity Commission (HREOC — subsequently renamed the Australian Human Rights Commission) — drew attention to a number of international instruments that are relevant to this inquiry. These include:

- the *Convention on the Elimination of All Forms of Discrimination Against Women* (CEDAW)
- the *Convention Concerning Equal Opportunities and Equal Treatment for Men and Women Workers: Workers with Family Responsibilities* (ILO Convention 156)
- the *Convention Concerning Discrimination in Respect of Employment and Occupation* (ILO Convention 111)
- the *Convention Concerning Vocational Rehabilitation and Employment of Disabled Persons* (ILO Convention 159)
- the *International Covenant on Civil and Political Rights*
- the *International Covenant on Economic, Social and Cultural Rights*
- the *Convention on Rights of the Child*
- the *Maternity Protection Convention 2000* (ILO Convention 183)
- the *Maternity Protection Recommendation* (ILO Recommendation 191).

Australia has also signed, but not ratified, the *Convention on the Rights of Persons with Disabilities*.

Many of these international policy instruments are non-binding. The two binding agreements relevant to paid parental leave are CEDAW and ILO Convention 183.

CEDAW is a key international instrument that, inter alia, provides that women should not be discriminated against on the grounds of maternity and prohibits dismissal on the grounds of pregnancy. But while Australia ratified CEDAW in 1983, it did so with a reservation against Article 11.2, which deals with the introduction of ‘maternity leave with pay or with comparable social benefits’. Nevertheless, HREOC advised that:

CEDAW places a general international obligation on the Australian Government to ‘... take all appropriate measures to eliminate discrimination against women in the field of employment’ in order to ensure, inter alia, the ‘right to work as an inalienable right of all human beings.’ (sub. 128, p. 7)

While Australia voted in favour of adoption of ILO Convention 183, which provides for a right to 12 weeks paid maternity leave, it has yet to take steps towards ratifying it.

HREOC has advocated a national scheme of paid parental leave in successive reports (HREOC 1999, 2000 and 2007).

Source: HREOC (sub. 128, pp. 4–12) and Australian Human Rights Commission (sub. DR377).

1.3 What objectives might a mandatory scheme seek to achieve?

In announcing this inquiry, the Government said that it intended:

... to explore ways to make it as easy as possible for working mums to balance their employment with the important job of raising a new generation of Australians. (Swan, Gillard and Macklin 2008)

About three-quarters of women in the paid workforce are entitled to unpaid parental leave, and an increasing number of employers now make paid parental leave available to their employees, subject to varying eligibility requirements. But about half of all women in the paid workforce do not have access to any paid parental leave, and calls for a government-mandated paid parental leave scheme for Australia are intended, in part, to fill this gap.

A key starting point must be to specify the objectives that such a scheme should meet. During the course of this inquiry, participants put forward a range of objectives encompassing:

- *the health of the mother*: time for the mother to recover physically from the birth, establish feeding routines and bond with the child
- *the health and development of the child*: to encourage better health and developmental outcomes for the child
- *the rights of children and their place in society*
- *the mother's longer-term attachment to the workplace / workforce* (including, for example, her consequent ability to better fund her own retirement and facilitating her 'right' to work)
- *the opportunity for fathers* to share in child care and family responsibilities
- *financial assistance* for the mother and family around the time of the birth
- *greater gender equity* in the home and in the workplace (in part, by recognising the social and economic importance of the bearing and raising of children)
- *promoting balance between paid work and family life*
- *enhancing the fertility* of the population.

There was general agreement among participants that these objectives provided an appropriate basis for a mandated paid parental leave scheme. Many referred to some or all of these objectives. For example, HREOC said that a national paid maternity leave scheme was required:

... to ensure the health and wellbeing of mothers and babies, to address the workplace disadvantage that women experience as the result of maternity, and to contribute to

women's ability to participate on equal terms with men in all aspects of life. (sub. 128, rec. 1)

The Brotherhood of St Laurence said that there is a need:

... to recognise the value of care, and its important impact on children's development. It is also important to promote female workforce participation, because this has positive impacts on the individual, families and on society. (sub. 92, p. 1)

Queensland Council of Unions said that women need time to recover from childbirth, adjust to motherhood and establish breastfeeding, 'one of the most important contributions to the health and development of babies'. But where women are forced to return to work before they and their baby are ready, this can lead to 'enormous financial and emotional strain ... at a time that is incredibly challenging' (trans., p. 809).

The CFMEU sought a model of paid parental leave that adequately supports women, together with a component of paid paternity leave to support families and better reflect 'the new reality of parenting', particularly for industries that are dominated by male workers. It saw paid parental leave as providing encouragement to greater female labour force participation, and noted that:

... policy focused on allowing parents to spend more time with their children in the early stages of life strongly correlates with positive outcomes for future learning and the development of children ... Further, ... a policy focus on provision of paid leave to fathers will go some way to addressing gender imbalances ... (sub. 206, p. 2)

Commerce Queensland saw the mother's longer-term attachment to the workforce and maintenance of the parents' work-related skills as key issues. To help achieve these goals, it proposed that parents of a newborn baby be provided with supplementary family income linked to their absence from the workforce (sub. 172, pp. 4, 8 and trans., p. 798).

Some saw paid parental leave in terms of 'normalising' society's view of the experience of women workers taking a period of absence to have children. In this vein, Prof Barbara Pocock suggested that the objectives of a mandated paid parental leave scheme should be:

... equality of opportunity for women, a physical recovery time for mothers, opportunities to bring about the best outcomes for babies and to increase the participation rate of those who choose to return to work early. ... A paid maternity leave scheme is about not disturbing the employment trajectory of women. (trans., p. 717)

Prof Joshua Gans argued that the goal of parental leave should be to provide the ‘ability and incentive’ for parents to move between life at work and life at home in ‘a frictionless manner’, as:

... following the birth of a child, one or both parents would like to be able to ‘pause’ their work life, take time off to spend with the baby ... and then to ‘resume’ their work life where they left off prior to the birth. (sub. 24, p. 1)

While participants commonly espoused the same broad objectives, some placed particular emphasis on one or two objectives that reflected their roles and specific interests (box 1.2). For example, the Equal Opportunity for Women in the Workplace Agency, whose role is to increase women’s workforce participation and facilitate their long-term attachment to the workforce, argued that:

... significant weight should be placed on workplace attachment as an objective, because improved attachment will improve gender equity by increasing women’s total workforce participation. (sub. 97, p. 1)

The NSW Commission for Children and Young People and National Investment for the Early Years (NIFTeY) focused on the health and development benefits that infants receive from an extended period of time with their mothers in the early years. They said that paid leave for the mother or other primary caregiver would have ‘significant immediate as well as long term benefits for children’s wellbeing, their families and society’ (sub. 234, p. 1). They added that:

One of the greatest risks to children’s health and development is poverty ... Strategies that allow women to maintain their connection to the workforce, such as paid parental leave, can help to address poverty. (sub. 234, p. 2)

The Western Australian Council of Social Service proposed universal paid maternity leave as a minimum safety net, to help alleviate ‘the hardship faced by many women who seek to maintain a work-life balance’ (sub. 156, p. 1).

The Public Interest Advocacy Centre said that the key objectives should be:

... to protect human rights, to promote gender equity and to achieve optimal health outcomes for mothers and children. (sub. 226, p. 5)

As in Australia, New Zealand’s different interest groups placed greater or lesser emphasis on particular objectives, while drawing from the same basic list. The NZ Department of Labour listed the following as the objectives of that country’s paid parental leave program:

- Gender equity within the labour market with increased female labour force retention and the opportunity to return to paid work without disadvantage to position or pay.

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- Gender equity within families with fathers sharing leave and caring responsibilities.
 - Improved health outcomes for both mother and child with a mother being able to recover from childbirth, bond with a new baby and return to work without negative consequences to her health and that of her child.
 - Income stability for families to provide a period of financial security during the leave period (NZ Department of Labour 2007, p. 8).

The NZ Families Commission cited exactly the same goals but in a different order emphasising the health of the mother and child first, income stability second, and gender equity objectives third (NZ Families Commission 2007, pp. 7–8). While this ordering simply reflects the different focus and responsibilities of the two agencies, the design of a scheme can create or reduce tensions between those objectives.

Many participants considered that lessons could be drawn from paid parental leave schemes in other countries. A common response was to note the generosity of some overseas schemes and advocate the same for Australia. As noted elsewhere in this report, paid parental leave schemes in other countries exhibit considerable variation in duration (ranging from 14 to 420 weeks), in payment levels (from a capped amount to full income replacement), eligibility requirements and funding arrangements. The experiences of other countries may well provide useful lessons, particularly if good quality evaluations of their impacts have been undertaken. However, translation to Australia of lessons from other countries is not always straightforward because of major differences in the operation of the underlying social insurance and/or social welfare systems.

Underpinning many specific proposals for paid parental leave put to this inquiry were broader perspectives on how the issue should be approached.

- Some spoke of the social value of children and parenthood, and of children as citizens, taxpayers and the workforce of the future.
- Several said that the benefits (and costs) associated with children and child development, while essentially private matters for families, nevertheless ‘spill over’ to the rest of society, thereby justifying a mandated paid parental leave scheme.
- Others argued that mandated parental leave would facilitate a better balance between paid work and family life by increasing community acceptance that people in the paid workforce require time away from the workplace to have and care for children.
- Yet others wanted paid parental leave perceived primarily as an equity issue, a gender issue or a ‘rights’ issue.

Box 1.2 Some participants' views on the case for mandated paid parental leave

Some contemplating parenthood expressed concern about how they would cope:

I'm 30 years old and would love to start a family in the next couple of years but at present, without paid maternity leave, having a child any time soon is financially impossible for us. (personal response)

HREOC said that paid parental leave would promote gender equality:

... by fostering shared responsibility between men and women for the care of children (sub. 128, p. 6).

Emily's List said that it would help:

... to address women's workplace disadvantage and decrease the level of sex and maternity discrimination that women continue to experience in the workplace. (sub. 65, p. 1)

The Work + Family Policy Roundtable said:

Incongruities between the public and private worlds of work and family are an obstacle to gender equality, family formation and parents' capacity to reconcile paid work with family responsibilities. (sub. 220, p. 4)

Rachel Cowling said:

... surely the fundamental objective should be to support health and wellbeing in families, which in turn supports healthy child development. Feeling a level of control over one's life is really critical to a sense of wellbeing ... (sub. 39, p. 1)

Catholic Social Services Australia said that:

... there's a danger of us talking about how families might adjust to workforce participation rather than ... talking about how workforce might adjust to family requirements. (trans., p. 837)

The Public Health Association of Australia highlighted the wellbeing benefits that arise when society recognises the dual roles of mother and worker. In its view:

... when women are recognised both as mothers and as workers then there is less likely to be as broad a prevalence of depression. That goes specifically to sickness but it's also about wellness, it's about feeling good about themselves and being able to manage and being able to manage their children in a positive way in a positive environment in a positive community. (trans., p. 23)

Family Day Care said:

I think that a message should be sent by the Australian community to fathers that they are a very important part of a young child's life. (trans., p. 829)

The Victorian Division Women's CPA Network argued for income support for parents:

A mother should not be penalised for having a child by then having her career put on hold. This places financial strain on the family unit and pressure for the mother to return to work earlier than she would like so her career and financial contribution to the family unit can be sustained. (sub. 150, p. 1)

(continued next page)

Box 1.2 (continued)

One participant noted that offering paid maternity leave:

... will help create a cultural shift by placing value on the unpaid work that women do as mothers. (personal response)

Working Women's Centre South Australia, Northern Territory Working Women's Centre and Queensland Working Women's Service said:

The objectives ought to be to provide women with appropriate time away from their workplace to rest and prepare for the birth or adoption of their baby, to give birth and recover, to bond with their child and establish a care routine including the option of breastfeeding. This time should be free from anxiety about income and also keep the woman employee engaged with her workplace. A paid parental scheme is important for the ongoing health and wellbeing of the child. (sub. 70, p. 2)

NIFTeY said that the primary objective of paid parental leave should be:

... support for the needs of babies, determined by sound evidence, rather than opinion or lobby groups. (sub. 55, p. 9)

Olivia Ball argued that:

Paid maternity leave is a human right. It remains for the Australian Government to fulfil this right for all women within its jurisdiction. ... Given financial support, many women would want to stay home longer with their babies and would breastfeed longer too. Breastfeeding itself has a strong basis in human rights (e.g., rights to life, health and food) (sub. 52, p. 1)

For example, many participants placed the issue of paid parental leave in the context of human rights. Claimed rights included:

- that babies and young children deserve a good start in life
- that parents deserve support for having a child
- that parents in paid work deserve some balance between home and employment
- that taxpayers without children deserve not to pay for the needs of other parents
- that businesses deserve a fair opportunity to be viable.

Dealing with the issue in terms of rights is particularly difficult, as sincerely and strongly held views expressed in some submissions may be contradicted by sincerely and strongly held views expressed in other submissions. In many cases the conflict came down to implied tradeoffs between different rights that were accepted as legitimate. Such complexities and conflicting viewpoints make a clear direction for policy difficult to ascertain.

Often related to the question of rights are concepts such as 'equity' and 'paid work-family balance'. These are social issues whose relevance for policy depends on evolving community norms and ethics and on careful definition of what, for

example, ‘equity’ means (particularly to people in different financial, family and workplace circumstances). Submissions variously advocated greater equity between men and women, between working and non-working mothers, between mothers who are eligible for paid parental leave and those who are not, and between mothers and other women in the workplace. These matters are discussed in chapter 6.

Public views on mandating paid parental leave are to some extent polarised. As an indication, the Commission received over 400 submissions (appendix A), including over 160 received after the release of the draft report, and roughly 500 personal feedback emails. Overwhelmingly, these were in favour of some form of paid parental leave, as were virtually all attendees at the public hearings. (Employer support was conditional upon it being wholly taxpayer funded.) A common view expressed by individuals was that a period of paid parental leave would have reduced the financial pressures on them to return to work earlier than was preferred, the baby bonus notwithstanding. The consensus in favour of paid parental leave is not absolute, however. Many comments left on media websites and internet blogs were opposed, arguing that having a child is a private decision that entails costs that are appropriately financed by the parents, not by taxpayers or by a levy on wages. A key question for this inquiry is to examine the private benefits and costs, and the public or community-wide benefits and costs, that might arise from a mandated paid parental leave scheme.

Many participants see paid parental leave in broader symbolic or signalling terms that implementation of a mandatory scheme would demonstrate community acceptance, as manifested through the political process, of the underlying rights being advocated. While difficult to capture in an investigation of benefits and costs, these symbolic issues have value and need to be taken into account.

Current programs help address some objectives

Some of the objectives discussed above are at least partly met by current government policies and programs and employer-provided paid parental leave arrangements. The government-mandated right to 52 weeks of unpaid parental leave facilitates workforce attachment. It effectively provides many employees with a right of return to the job they held before the birth of a child. In addition, the financial stresses of having a baby are reduced by the range of cash benefits that governments make to parents on the birth of a child and thereafter.

At the time of the birth of a baby, or the adoption of a child under 16 years of age,¹ the \$5000 baby bonus is payable. It is non-taxable, and paid in 13 fortnightly

¹ Increased from two years of age before 1 January 2009.

instalments of \$384. The baby bonus is an income-tested payment made to families whose estimated combined income is \$75,000 or less in the 6 months following the birth of a child or the child's entry into care.

Taken together, the baby bonus and the guarantee of a return to the same or similar job provides *de facto* paid parental leave for many parents (AIFS, sub. 138, p. 4). This view is supported by participants who noted, in their responses to the Personal Feedback Paper, that the baby bonus had allowed them to stay at home longer than otherwise after the birth of a child. One question for this inquiry is the extent to which a mandated paid parental leave scheme could secure better outcomes than are provided by these arrangements.

Many parents are also eligible for ongoing financial support by way of family tax benefits A and B, the parenting payment and certain payments to cover the cost of child care. (These payments are ongoing and far outweigh the baby bonus in terms of the ultimate value to parents/families.) In total, payments to parents on the birth of a child and thereafter are high by international standards. Moreover, the structure of assistance is also among the most progressive in the OECD in the extent to which assistance is directed to low income families with children (Whiteford 2008). The ability of any design feature of a paid parental leave scheme to achieve particular objectives depends on how the scheme interacts with existing welfare arrangements.

In addition to government support, an increasing number of employers provide their employees with paid parental leave. Employer-provided parental leave is available to around 50 per cent of working women (and some large employers of women have only recently commenced providing paid maternity or parental leave, so may not be included in the data reported here). One issue for this report is the likely effect of a government-mandated scheme on the nature and extent of benefits that employers would be willing to offer employees in future. These matters are discussed in chapter 7.

1.4 Some rationales are stronger than others

Whether a particular objective is valid depends on its underlying rationale – the reasons for seeking to achieve that objective. It depends on good evidence that paid parental leave can help further that objective. It also depends on evidence that meeting the objective would lead to community benefits that would not otherwise be achievable.

Of the objectives listed in the previous section, those that, singly or together, appear more likely to support a case for paid parental leave, whether by addressing inherent market failures or difficulties in realising social norms, are:

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- enhancing maternal and child health and development
 - facilitating workforce participation by offsetting the disincentives to paid work generated by social welfare and taxation arrangements
 - promoting gender equity and work/family balance.

Close analysis of each, including their rationales, the strength of evidence as to their impacts, and the implications for the design of any paid parental leave scheme, are discussed in chapters 4, 5 and 6. However, the rationales for two commonly-stated objectives are not strong.

Financial assistance

Many participants indicated that their inability to take fuller advantage of the existing unpaid parental leave rules was due to the difficulties of managing family life on reduced household income for the period of the mother's absence. While the experiences of individual women vary enormously, many personal responses to the inquiry expressed concern about having to return to employment earlier than they would have preferred, or than may have been optimal on health and welfare grounds, because of financial pressures. Early return to work for financial reasons is even more of an issue where the mother is the main or sole income earner. Some who were contemplating having a family in the near future expressed concern about how they would cope financially.

Were increased financial assistance by itself to be a key objective, it could be addressed effectively by increasing one or more family payments. But the design of a paid parental leave scheme needs to include an element of financial assistance that encourages or facilitates a period of absence from the workforce, reducing the financial pressure on some mothers to return to work early, to help achieve better health and welfare outcomes for mothers and children. In this way, it has a different role to family payments. Financial assistance is better seen as a design feature that creates an incentive to take parental leave, rather than an objective in itself.

Enhancing the fertility of the population

Some participants saw paid parental leave as having a beneficial effect on population fertility, citing public discussion in recent years about Australia's birthrate. However, recent research by the Commission (box 1.3) shows that Australia's fertility level has been rising over the past few years and is now relatively high compared with most OECD countries. It also found that, while universal paid parental leave might provide a small stimulus to fertility, its capacity

to make a significant further difference to fertility levels in a cost-effective manner is small. For such reasons, seeking to increase fertility is unlikely to be a sound objective for a paid parental leave scheme.

Moreover, adopting increasing fertility as an objective would also require some difficult decisions to be made about how that objective might be pursued. For example, one approach to explicitly target fertility might be to pay parental leave at a lower rate for the first child and at a higher rate for second and later children. Another might be to target benefits on those who currently have few or no children. A third might be to target benefits on those who, irrespective of whether they already have children, are judged more likely to respond to a higher payment. There are troubling implications in each case that are likely to rule out implementing schemes with these design features.

Box 1.3 Key findings from the Commission’s recent work on fertility

Births in Australia are at an historical high — around 285 000 babies born in 2007 — with an estimated total fertility rate of 1.93 babies per woman, the highest since the early 1980s. Fertility rates have been generally rising for the last six years.

Much of the recent increase is likely to reflect the fact that over the last few decades, younger women postponed childbearing and many are now having these postponed babies. This has shown up as higher fertility rates for older women.

Some of the increase is also likely to be due to an increase in the number of babies women will ultimately have over their lifetimes.

- For example, today’s young women say they are expecting to have more babies over their lifetime than those five years ago.

Rising fertility reflects several factors:

- Buoyant economic conditions and greater access to part-time jobs have reduced the financial risks associated with childbearing and lowered the costs associated with exiting and re-entering the labour market.
- With more flexible work arrangements, women today are more able to combine participation in the labour force with childrearing roles.
- A recent increase in the generosity of family benefits is also likely to have played a part, although probably only a modest one.

Australia appears to be in a ‘safe zone’ of fertility, despite fertility levels being below replacement levels. There is no fertility crisis.

Source: Lattimore and Pobke (2008, p. xii).

To the extent that paid leave encourages women to have children earlier, there could be some health and development benefits for the parent and the child. For example,

a range of physical and mental disorders in children (rates of schizophrenia, for example) are strongly related to the age of the mother and the father. These caveats aside, the Commission does not see increasing fertility as an appropriate objective for a paid parental leave scheme.

1.5 Some issues for scheme design

From the viewpoint of the mother, a mandated period of paid parental leave would be clearly beneficial. It would allow her to take a longer period of absence from her job than she would otherwise find affordable, or to enjoy additional financial assistance over the same period of absence that she was intending to take anyway. These are private benefits, the costs of which would come from others in the community, via taxation revenues (if government-funded) or by way of levies on employers (and the subsequent costs that such funding arrangements generate).

From the viewpoint of the community that pays for paid parental leave, the focus should be on broader benefits that can be generated over and above those that arise from the private decisions of people. So, for example, if some women typically return to work earlier than the scientific evidence suggests would be beneficial for the child's health and development needs, a program that encouraged those women to take a longer period of absence would, on average, generate a public benefit.

Program design therefore focuses on seeking to achieve benefits that are additional to those that would arise through private decisions (sometimes termed 'additionality'). Such public benefits can provide the rationale for a government-mandated paid parental leave scheme.

To achieve particular public benefits, there are many combinations of duration, eligibility, level of payment and other features that could be proposed.

Differences in scheme design can arise from differences in the emphasis given to particular objectives. For example, in very broad terms, seeking better health outcomes for the mother and child implies a focus on the length of time away from work, while workforce attachment implies a focus on the rules for obtaining leave (and ensuring that social welfare does not create incentives to stay out of the workforce). More specifically, the objective of ensuring a sufficient period of time for a mother to recuperate after the birth could be addressed by establishing a period of leave exclusively for use by the mother. Alternatively, the objective of encouraging increased involvement of fathers in the early periods of a child's life could be facilitated by providing greater flexibility for parents to share leave provisions or even reserving some leave for the exclusive use of the father.

A particular concern is the scope for tension between the objectives proposed. For example, an extended period at home to aid the recovery of the mother and the development and wellbeing of the child may be somewhat at odds with maintaining the mother's attachment to the workforce, where a long absence may see her work skills decline or become dated, perhaps creating barriers to her return to work.

Similarly, quarantining a parental leave entitlement for the father/partner, rather than allowing couples to decide for themselves who takes the leave, may help reduce social attitudes antithetical to greater male caring roles, but it reduces the options available to the couple.

Many participants were aware of such tensions. For example, the ACTU noted that:

[there are] two social goods, ... the benefit to the economy and to households associated with increased maternal participation in the paid workforce and ... the child and maternal health benefits associated with delayed return to work or getting the timing of the return to work right. They're almost competing policy outcomes, but that's what you're looking for. (trans., p. 874)

Another consideration is that the introduction of any policy can result in unexpected and unintended consequences. Reasons for this include the interaction of different policies, but also because people have different preferences and personal circumstances and respond differently. The risk of unintended consequences typically increases as the number of policy objectives increase. This risk can be exacerbated if those objectives are potentially inconsistent.

Nevertheless, choices have to be made. These will be guided by the objectives of the scheme, evidence about the likely net impacts of different approaches, and the need to avoid unintended consequences. There will also need to be a tradeoff between complexity and simplicity. Some of the key choices to be made are listed in tables 1.1 and 1.2.

Approaches to scheme design

The process of designing a paid parental leave scheme should follow a coherent set of steps that have been widely explored in many other social, economic and regulatory contexts. The methodology is robust and well-tested. Its starting point is that the scheme should be designed to maximise the net benefits to the community that would not otherwise be forthcoming. This goal will be facilitated by incorporating design features that encourage desirable behavioural change, reduce the risk of unintended impacts, ensure cost-effective delivery (for example, through minimising administrative and compliance burdens) and, in time, require robust evaluation of outcomes followed by policy redesign, if appropriate.

Table 1.1 Objectives and some implications for scheme design

<i>Policy objective</i>	<i>Key issues</i>	<i>Possible implications for scheme design</i>
Maternal and child health	<ul style="list-style-type: none"> time needed away from the workplace by the birth mother for recovery time needed by the mother or other primary carer to establish breastfeeding and infant care regimes to obtain optimal health and development outcomes for the child 	<ul style="list-style-type: none"> the length of time away from the workplace to enable maternal recovery the length of time away from the workplace to enable optimal health and development outcomes for the child parents may not be aware of these health and development benefits income constraints may lead to earlier return to work than desirable
Gender equity / work-family balance issues	<ul style="list-style-type: none"> greater acceptance by workplaces and the community of women's dual roles as mothers and employees roles of mothers and fathers in the home differing family types (same sex couples etc) 	<ul style="list-style-type: none"> direct support for the mother signalling the value of being mothers and employees support for the partner may facilitate greater sharing of roles a quarantined period of leave for the partner or parental leave that the partner can share
Workforce attachment	<ul style="list-style-type: none"> benefits to workplace of retention of employees cost of time out of the workplace for parents (effect on career prospects, job quality and retirement benefits) problems faced by employers with employees taking leave increasing patterns of non-standard work affecting eligibility criteria 	<ul style="list-style-type: none"> eligibility rules for unpaid leave does not cover a (possibly growing) group in the workforce increased absence involves additional costs to employer and may degrade employees' skills some lack of knowledge among employees about currently available entitlements many mothers prefer part-time work on return rules for obtaining leave, taking account of the needs of employers

Source: Submissions, transcripts and health and welfare literature.

The importance of scheme design was explicitly recognised in a number of submissions. Jane O'Sullivan, for example, raised concerns about the unintended impacts that an inappropriately designed parental leave policy might entail:

I am strongly in favour of universal maternity leave provisions. However ... the motivation for such provisions needs to be made explicit, and the likely non-target impacts carefully analysed, before selecting a system that provides greatest social benefit for the least perverse result. (sub. 161, p. 1)

Table 1.2 Key choices to be made in scheme design

<i>Duration</i>	<i>Financing</i>	<i>Generosity</i>	<i>Eligibility</i>
<p>Quarantined leave for mother or father? (eg use it or lose it for men)</p> <p>Mandatory periods of leave? (eg antenatal period, maternal recovery?)</p> <p>Leave in blocks or flexible?</p> <p>Antenatal period</p> <ul style="list-style-type: none"> • 2 to 4 weeks? <p>Postnatal period:</p> <ul style="list-style-type: none"> • 12 weeks (Singapore, New Zealand) • 20 to 24 weeks (EU & Nordic) • Longer (Nordic) <p>Variations in length or starting point by type of family?</p> <ul style="list-style-type: none"> • disability • adoptive parents • stillborn children • surrogate mothers <p>Transition issues (eg should longer periods be slowly introduced?)</p>	<p>Government (state/federal), that is, <i>Taxpayers:</i></p> <ul style="list-style-type: none"> • general revenue • payroll tax • unspecified • personal family accounts rolling in family payments <p><i>Employees:</i></p> <ul style="list-style-type: none"> • HECS style loan • insurance scheme • unpaid leave • superannuation access <p><i>Employers:</i></p> <ul style="list-style-type: none"> • pooled or non-pooled • ongoing entitlements (super and/or leave) <p><i>Mixed:</i> Co-funding by any mix of:</p> <ul style="list-style-type: none"> • Employer • Govt. base contribution or tax credit to business • Employee <p>Differential treatment of:</p> <ul style="list-style-type: none"> • small businesses • low income versus high income employees for employee-funded schemes <p>Administrative arrangements:</p> <ul style="list-style-type: none"> • paid directly from govt • paid by firm, regardless of financing • government subsidies to firms for administrative/cash flow costs • integration with existing arrangements 	<p>Lower than minimum wage</p> <p>Minimum wage</p> <p>Replacement wage:</p> <ul style="list-style-type: none"> • with or without wage caps <p>Varied by:</p> <ul style="list-style-type: none"> • income or assets of worker/household (targeting) • hours worked • number of children already had • tenure in workforce or workplace <p>Inclusion of entitlements (super/leave)?</p> <p>Treatment of payment for tax purposes/ family income</p> <p>Contingency:</p> <ul style="list-style-type: none"> • only paid for weeks taken (early return means less money) <p>Control:</p> <ul style="list-style-type: none"> • paid to woman or not specified? <p>Payment structures:</p> <ul style="list-style-type: none"> • fixed instalments • rising instalments over time • two part payment (instalments and lump sum on return to work) <p>Transition issues:</p> <ul style="list-style-type: none"> • generosity rising over time? • government contribution falling as share of total fixed payment? 	<p>Those eligible for current unpaid leave</p> <p>Broader groups:</p> <ul style="list-style-type: none"> • casuals • fixed term • self-employed • unpaid family workers <p>Family circumstances:</p> <ul style="list-style-type: none"> • mothers • fathers • single parents • adoptive parents • same sex partner • grandparents/aunties/others who are prime carers <p>Length of employment:</p> <ul style="list-style-type: none"> • in the workforce • with a particular employer • since last use of parental leave <p>Treatment of those outside the workforce</p>

Similarly, the Australian Industry Group said that:

... a paid maternity leave scheme which is not properly designed risks an adverse reaction from employers which would undermine the effectiveness of the scheme. (sub. 182, p. 3)

Professor Joshua Gans, on the other hand, noted the range of undesirable incentives that different proposals would establish, observing ‘how hard it is to enact a system of paid parental leave’ (sub. 24, p. 5).

Designing a model that encourages behavioural change

Effective programs should be designed to achieve objectives that are based on sound rationales, underpinned by good empirical evidence. As noted, the ultimate objective of mandated paid parental leave must be to encourage socially valuable outcomes that would not have occurred without the scheme (that is, additional benefits). Such benefits also need to be balanced against other uses of the funds involved (by individuals, employers and/or government) and the distortionary cost associated with raising any additional government revenues.

Designing a scheme to generate additional benefits and not simply reward people for what they would have done anyway suggests that providing assistance to parents who have the financial means and propensity to act voluntarily is unlikely to lead to a net improvement in community welfare. However, although there are various scheme design tools that could help achieve this goal, they all have limitations. For example, while income thresholds can limit support to those most likely to change their behaviour in response to the scheme, this can create perverse workforce participation incentives as people reorganise their lives just to qualify for the available support. The design and implementation of any specific proposal needs to take account of such impacts.

Treating people equitably

In principle, program design should pay close attention to both the horizontal and vertical dimensions of equity (or fairness). Horizontal equity involves treating individuals or families in similar economic circumstances in a similar manner. Vertical equity involves treating individuals or families with different financial means according to their capacity to provide for themselves. The principle of vertical equity underpins Australia’s system of income taxation and much (but not all) of its social welfare arrangements, whereby many welfare benefits are targeted towards low income groups. Progressive welfare systems, for example, provide a proportionately higher rate of benefit payment at lower income levels.

In practice, equity is difficult to define and achieve when designing a paid parental leave scheme. It is inevitable that people will be treated differently for different reasons. What will be viewed as equitable by some will not be seen as such by others.

- Paying paid parental leave to eligible women in the workforce may be seen as equitable by those women but inequitable by those not in the workforce (see chapter 6 for a fuller discussion).
- A government-funded scheme that pays the minimum wage may be considered inequitable compared to the replacement wages paid under employer-provided schemes.
- But paying replacement wages under a government-mandated system would be seen as inequitable by recipients on low incomes and by those who have to foot the bill.
- Eligibility rules – who is in and who is out – provide a further dimension.

There is no neat way to reconcile all of these ‘inequities’. Tradeoffs need to be made.

Minimising risks

Family benefit payments are spread across a large number of programs with differing eligibility criteria that aim to meet a range of (sometimes conflicting) objectives. Some of these programs are delivered through the taxation system (or interact with it through taper rates). An effective paid parental leave scheme needs to take account of the relationships between different programs and the tax system in order to ensure the combined level of support provided is consistent, as far as practicable, with the overarching objectives of family assistance policies and fiscal policy. The potential for, and impact of ‘double-dipping’, including from both public and private sector sources, and adverse incentives needs to be closely scrutinised.

This need for a broad perspective on available support arrangements was acknowledged by a number of participants in this inquiry. GM Holden, for example, commented that while it assessed that the benefits of its own parental leave scheme substantially outweighed the costs for itself, the Government’s prospective role in this area required a broader review of all family assistance arrangements, rather than considering paid parental leave in isolation:

These support mechanisms are both financial (eg. baby bonus, child care rebate schemes), and non-financial (including maternal and child health centres, child care and early learning development, including kindergarten education). Taking a holistic view

of all of these mechanisms to support parents and children in our society will assist in developing an effective Government response ... (sub. 222, p. 11)

Similarly, Catholic Services Australia and the Australian Catholic Council for Employment Relations said that a view on the suitability of existing overseas models of paid parental leave to Australia cannot be taken in isolation and requires a 'holistic evaluation' that includes the role of the tax system and other transfer payments:

It is not feasible to expect an overseas model might be implemented directly into the Australian context without consideration of differences in the underlying taxation, transfer payment infrastructures and labour market conditions existing in each scheme. In particular, it is inappropriate in the Australian context to consider employee contributions such as those which in overseas models are premised on an entirely different social security model – one resting on employee contributions to social insurance. (sub. 225, p. 14)

In particular, interactions between different benefit programs can have significant consequences on incentives for workforce participation. As an illustration, the withdrawal of income-tested family benefit payments when a parent returns to either full-time or part-time work can impose an extremely high effective marginal tax rate on post-parental leave income. This can distort choices regarding workforce participation. These issues are discussed further in chapter 9.

Cost effectiveness

The costs of implementing a paid parental leave scheme need to be weighed against the expected benefits. As discussed above, the interaction of a parental leave scheme with family assistance payments may alter the level of overall support provided to parents, perhaps adversely influencing workforce participation outcomes (and implying a larger cost to taxpayers if the scheme were to be government-funded).

Several participants argued that problems with the current family benefits system, including child care subsidies, warranted review. Leonie Johnson argued that all family payments should be amalgamated into a single means-tested benefit that families could choose how to use (sub. 179, p. 1). The Australian Industry Group called for greater coordination and streamlining of family assistance programs in order to contain costs (sub. 182, p. 4). Such a broad review is outside the scope of this report.

Excessive risks to government revenue should be avoided. The simplest approach to limiting those risks involves placing a cap on potential liabilities. This could be given effect through a range of design features that are discussed in later chapters.

Simplicity

While all programs involve some administrative and compliance costs for governments, firms or individuals, those that are more complex (in terms of, for example, rules covering eligibility, withdrawal rates, top up payments and substantiation requirements) will impose higher compliance and administrative costs than simpler programs. Efficient program design should aim to minimise costs that are unnecessary in meeting the objectives of the program. One way of doing this might be to build on existing administrative systems, rather than to introduce new ones. The design of the parental leave scheme should also be such that employers and employees can readily understand their obligations and entitlements.

Evaluation

Proper and timely evaluation of family benefit programs including paid parental leave is critical to transparency, accountability, achievement of program objectives and policy learning. One important consideration is the collection of appropriate baseline and ongoing data to allow for subsequent evaluation of a program. Such an evaluation should take account of all benefits and costs, including those that cannot be quantified but are nevertheless important (chapter 6). The initiation, continuation or modification of a program should be dependent on the results of such an evaluation. Public reporting of these results should be mandatory as it reinforces the need for policymakers to act in the best interests of the community. The desirability of regulatory review was explicitly recognised by a number of participants including the Catholic Commission for Employment Relations (sub. 224, p. 4). The Commission's views on these matters are discussed in chapter 2.

Other considerations

One 'external' factor that affects the ability of any particular model of paid parental leave to generate benefits is the availability of supporting facilities or services outside of the leave arrangements themselves. Examples raised with the Commission included the availability, quality, cost and regulatory environment for child care services for children of different ages, and the existence or otherwise of family-friendly practices in workplaces (including, for example, areas set aside for breastfeeding or expressing milk). Another example is that the scope for baby health care and breastfeeding advocates to influence mothers' baby care behaviour is affected by the length of time the mother stays at home after the birth (Public Health Association of Australia, trans., p. 20).

The evidence concerning the claims made by participants is discussed in later chapters. Many social and economic benefits have been asserted, but without substantive hard evidence being cited. The rest of this report seeks to assess the public submissions and the relevant literature for insights and evidence, to see what they tell us about good rationales and achievable objectives, and about design features (such as duration, payments levels and eligibility requirements) that would help achieve those objectives.

2 What we are proposing and why

Key points

The Australian Government's statutory paid parental leave scheme should:

- provide paid *parental* leave for a maximum of 18 weeks, which could be shared by eligible parents, but would have to be used within 12 months of the birth or adoption as part of a continuous period of parental care immediately after birth
- include an additional two weeks of *paternity* leave reserved for the father or same sex partner to be used within 12 months of birth
- be accessed only by an employed parent who has been employed continuously (with one or more employers) for at least 10 of the 13 months prior to the expected birth of the child, and who undertook at least 330 hours of paid work in the 10 month period
 - coverage would extend to all people meeting this employment test, including full-time, part-time and casual employees, the self-employed and contractors
 - parental leave would only be available to the primary carer of a child
- allow scope for a broad range of families to participate, including adoptive parents, same sex couples, and surrogate mothers and, subject to a range of stringent conditions, a capacity for participation by non-parental carers
- provide the federal minimum wage (currently \$543.78) for each week of leave for those eligible, with benefits subject to normal income taxation and included as income for assessment of any welfare payments, with the exception of income support payments (principally parenting payments, Newstart and the disability support pension)
 - recipients of paid parental leave would not get family tax benefit B while on leave and, with the exception of parents of multiple births, would not get the baby bonus
 - there is a prima facie case for superannuation entitlements for the paid parental and paternity leave period for longer-term employees eligible for such benefits prior to the parental leave period
 - but implementation should be deferred until the results of a review to be undertaken three years after the scheme's inception and should be contingent on compliance and other costs at that time
- be taxpayer-funded, but with scope for the future introduction of employer-funded superannuation contributions
 - employers would also act as paymasters where the employee had sufficient workplace tenure, with the Government prepaying employers by instalment to avoid cash flow impacts.

The scheme would be supported by complementary measures to help business cope with disruption burdens associated with greater leave taking.

Those families not eligible for paid parental leave may be entitled to paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.

The Commission estimates that the annual gross costs to the Government (taxpayer) of the scheme would be about \$1.3 billion. In net terms, the cost to taxpayers would be around \$310 million, reflecting tax savings and changes to the baby bonus. There would be an additional net economy-wide cost of \$70 million if super contributions were introduced later.

2.1 How to view the model

The Commission has been asked to design a statutory paid parental leave scheme for the Australian Government. We propose that the scheme should be largely taxpayer-funded, and should incorporate two types of leave:

- 18 weeks of paid parental leave for either parent (subject to the mother's eligibility)
- two weeks of paid paternity leave for the father or other eligible partner.

Under the Commission's proposal, the Government would pay both types of leave at the going federal minimum wage. People with access to privately negotiated paid parental leave schemes would still receive statutory parental and paternity leave payments if they met the eligibility conditions.

The purpose of this chapter is to set out the myriad features of this model and to sketch the evidence and reasoning for our choices — drawing on the more detailed material and views of participants discussed in subsequent chapters. In most instances, we provide simple and brief explanations for our choices, but for some features, particularly the duration of leave and eligibility requirements, the judgment depends on weighing up many competing factors.

The Commission's model draws strongly on many of the features of schemes proposed by participants in this inquiry. But our model also has unique features that reflect the evidence about how parents behave and the many tradeoffs in designing any scheme — such as the community's desire to help new parents, balanced against the costs imposed on the community by doing so.

While the Commission explores many alternative models for a scheme, we have proposed a specific, preferred model, with detailed consideration of its desirable features and its effects. For instance, rather than provide an optional range of durations, the Commission has proposed a particular duration of leave that appears to best meet the objectives of a scheme. Similarly, we have proposed a particular 'hours of work' test for eligibility to the proposed scheme.

The Commission's proposed design — like those operating overseas — is complex, reflecting the need to avoid unintended consequences, and to accommodate the various tradeoffs that inevitably arise in schemes of this kind. Setting out its complex design elements provides a clear basis for implementation by government. That said, in the practical implementation of any scheme, small variations in our model are unlikely to affect its effectiveness materially.

We are less certain of the benefits of some features of a paid parental leave scheme than others. Where this is the case, we have suggested the Government consider these features later, after a review of the operations of the initial scheme. For instance, this includes the issue of parents sharing part-time paid parental leave. We have highlighted any such uncertainty where it occurs.

Given the useful feedback from participants following the draft report and our own analysis we have changed some elements of the draft report's proposals (box 2.1).

While the bulk of this chapter (and the rest of the report) is about paid parental leave, the Commission has taken into account the existing broad set of policy measures to support parents of newborn children.

Several overarching principles have guided the Commission in choosing model features:

- the model should be the simplest possible that achieves the main objectives of the scheme
- where possible, the model should avoid being overly prescriptive, allowing families to flexibly adapt the leave scheme to their specific needs. This is because families come in many forms and their needs depend on their particular circumstances. One size will definitely not fit all. For example, the needs of a family where the woman suffers postnatal depression are different from families where that is not so. However, as with the goal of simplicity, flexibility is desirable only to the degree that it does not subvert the objectives of a paid parental scheme. Without some constraint, the appropriate flexible model would be a general cash payment made to all families with newborn children that they could use for anything they liked (in effect, the present baby bonus). But that would not meet the objectives of a paid parental leave scheme.

2.2 The model

Table 2.1 sets out the basic features of the Commission's proposal. We discuss the details and the reasons for the specific choices in subsequent sections.

Box 2.1 **What are the main changes since the draft report?**

To promote access to the scheme by parents having second or subsequent babies, amendment of the average ten hours a week working requirement to effectively an average one day a week requirement

To make re-qualification for statutory leave easier for existing mothers and to allow scope for interrupted work and unpaid prenatal leave, amendment of at least a continuous 12 month prior period of work to a requirement for working for at least 10 of the 13 months prior to the expected birth of the child.

To fit in better with existing paid parental leave schemes and recognising the benefits of longer parental care, removal of the requirement that parents initiate statutory leave within six months of the birth of the child. In its place, there would be a requirement that parents complete statutory paid parental and paternity leave within 12 months of birth or adoption. Statutory *parental* leave would have to be taken as one block in a continuous period of parental care, with the parental care, but not necessarily the paid parental leave, commencing no later than birth.

For administrative simplicity and flexibility for parents, removal of the requirement that statutory paid parental leave payments to the primary carer follow or precede other private leave payments, so that statutory paid parental leave could be taken concurrently with other paid leave. The 'non-concurrence' requirement would still apply to paternity leave.

Reflecting a desire to reduce costs for business during the scheme's establishment phase and given current economic uncertainties, delayed and contingent implementation of superannuation contributions by employers, with this issue being part of a review of the scheme three years after its introduction.

To avert any cash flow problems for employers, introduction of the requirement that the Government pay by instalment those employers acting as paymaster for government *before* the businesses make parental and paternity leave payments to employees.

Given its better risk management processes and likely cost advantages, payment by Centrelink to employers undertaking the paymaster function, not through changes to pay-as-you-go withholding taxes.

Given consistency with other welfare payments, preserving the current means-testing of the baby bonus rather than eliminating income testing as proposed in the draft.

To allow broader access to the scheme by lower-income families and to encourage their longer-term workforce participation, provision that the income from statutory paid parental and paternity leave not count as income for the purposes of calculating parenting payments (single and partnered) and other income support payments.

Given the existing effects of the welfare system, removal of a lower rate of payment for juniors and others getting below minimum wage rates.

Given its administrative complexities, removal of the proposal to reimburse the remaining portion of the baby bonus for a parent on statutory parental leave who returns to work prior to 18 weeks.

Recognising the diversity of families and children's needs, a capacity for non-family members to get statutory paid parental leave in some limited cases.

Table 2.1 A snapshot of the Commission's proposed model

Duration	18 weeks of paid <i>parental</i> leave to be used up within one year of birth as one block of a continuous period of parental care, with the parental care, but not necessarily the statutory paid leave, commencing no later than birth. An additional two weeks would be available as <i>paternity</i> leave. It would be reserved for the father (or other eligible partner) who shares in the daily care of the child and would also need to be used within one year of birth. Payments would only be made if parents took leave ('use it or lose it').
How much?	<p>The going adult minimum wage (currently \$543.78) for each week of parental or paternity leave, paid regardless of pre-birth incomes, subject to taxation, and included as income for assessment of welfare benefits, with the exception of income support payments (principally parenting payments, Newstart and the disability support pension).</p> <p>Parents taking any statutory paid parental leave would lose the baby bonus (except for multiple births) and there would be no access to family tax benefit B while on statutory paid parental leave. These conditions would not apply to paternity leave.</p> <p>Depending on a review to be held three years after program inception, payment of superannuation contributions while on leave, with benefits to only apply to the actual salary of the employee or the adult minimum wage, whichever is lower. Mandated contribution rates limited to the statutory 9 per cent rate, but no bar to negotiation for higher amounts.</p>
Who pays?	<p>Cash payments for paid parental and paternity leave would be fully taxpayer-financed, but with changes to the baby bonus and family tax benefit B.</p> <p>Where employees were entitled to unpaid parental leave under the National Employment Standards, the Government would prepay statutory paid parental and paternity leave entitlements by instalment to employers, who would then make payments to their employees.</p> <ul style="list-style-type: none"> The Australian Government would pay all other eligible employees directly <p>Employers would fund any future implementation of superannuation contributions, but only to long-term employees (12 months) eligible for super on their wages prior to the scheme.</p>
Eligibility and requirements for use	<p>Statutory paid parental leave would be available for a primary carer, typically the parent, but with scope for non-parental eligibility in special circumstances.</p> <p>Eligibility for parental or paternity leave would require 'continuous' employment (with one or more employers) for at least 10 of the 13 months prior to expected birth, and paid work of at least 330 hours in the 10 months.</p> <p>The scheme would cover all employees who met the employment test above, including the self-employed (including contractors) and casual workers.</p> <p>To get any future superannuation entitlements, employees must also be eligible for unpaid parental leave under the National Employment Standards and be entitled to these benefits before taking paid parental or paternity leave.</p> <p>Eligible mothers could transfer paid parental leave rights to fathers and other eligible partners, if they also meet the required employment tests above. In special cases (eg death of the mother), eligible partners could access paid parental leave if the mother was ineligible.</p> <p>'Paternity' leave would be available to eligible fathers, or, in same sex couples, to the other eligible partner, even if the mother was not eligible for statutory paid parental leave.</p> <p>No use of statutory parental leave by both parents at the same time, but statutory paternity leave could overlap with a mother's parental leave.</p> <p>Parents could take statutory paid parental leave at the same time as other private paid leave, but fathers would not be allowed to take paternity leave while on other paid leave.</p> <p>Eligible adoptive parents could get access to leave for children under 16 at time of placement.</p> <p>Primary carer could adjust leave to 'keep in touch' with employer if there is mutual consent.</p> <p>Parents giving birth to twins or more would get one leave entitlement but, subject to the income test, receive the baby bonus for each additional child.</p>
Other policies	Regulatory and information measures to assist business to cope with disruption burdens and to advise employees of their entitlements
Non-eligible parents?	Those families not eligible for paid parental leave may be entitled to paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.

2.3 How financially generous should the scheme be?

The Commission proposes that eligible parents would generally receive a payment equal to the current adult minimum wage of \$543.78 a week. The payment would be at the flat applicable rate, rather than prorated on wage earnings prior to the paid leave period.

While the Commission considered several, more complex, variants, a flat-rate payment:

- is easier to implement
- ensures that low-income female employees are better off under a paid parental leave scheme than they would be on welfare payments, providing stronger incentives for labour supply by mothers with weaker attachment to the labour force.

Our approach also takes into account the balance between the needs of parents and the burdens on taxpayers – especially those who would not receive any direct benefits, such as those without children. Some European countries offer full replacement wages (and for longer periods than contemplated in our model). The budgetary effects of a long-duration, full replacement wage scheme would be large (section 2.9). It would also entail support for high-earning women, who already have strong attachment to the labour force, often receive privately negotiated paid maternity leave, and usually have better access to resources to self-finance leave.

As in the draft report, the Commission proposes that many employees would be eligible for a superannuation contribution while on statutory paid parental and paternity leave (though its implementation should be delayed and contingent – see below). Such contributions are customary for recreational leave, and depending on the outcome of a final ATO tax ruling may be obligatory for private paid parental leave (chapter 8). To that extent, entitlement to these benefits would be consistent with the goal of making a statutory paid parental leave scheme mirror, as much as possible, leave arrangements more generally. It would emphasise that the statutory scheme is a work-based benefit (with potential retention benefits) and that a period of caring for children while employed is a normal feature of employment. The exact financial arrangements are spelt out in section 2.4 and recommendation 2.4.

The Commission also considered whether employees should be eligible for accrued leave entitlements while on statutory paid parental and paternity leave. While in principle, there is some merit to such a proposal, there are also some disadvantages that suggest this should not be a feature of the current scheme (chapter 8), though it can be reassessed as part of the proposed three year review.

The overall cash equivalent of the Commission's package of paid parental leave (excluding the potential future super component), varies considerably as a share of the annual earnings of eligible parents (figure 2.1). For the lowest income earners, paid parental leave of 18 weeks would actually exceed their usual annual income.¹ (A workable scheme must have this consequence for the lowest income people as otherwise they would simply opt out because of the incentives posed by the tax and welfare system.)

Paid parental leave would be subject to taxation. Taxation of paid leave would:

- provide the biggest net payments to those parents whose behaviour (labour supply, time spent away from work) would be most responsive, resulting in a more cost-effective scheme (chapter 5)
- make the treatment of paid leave consistent with other wage incomes, normalising the arrangement, and signalling that it is not a 'welfare' payment (chapter 6).

Income from statutory paid parental leave would also be recorded as part of assessable income for eligibility to welfare payments, with the exception of identified income support payments (of which the most relevant are parenting payments, Newstart and the disability support pension).² This exception is intended to encourage certain groups of low income parents to use statutory paid parental leave rather than to opt out into the welfare system. As an illustration, in the absence of an exception for parenting payments, a single mother would lose around two thirds of her entitlement to parenting payments while on statutory paid parental leave, reducing her incentives for participation in the scheme and weakening any of the scheme's positive effects on her workforce participation. Similarly, without the exception for Newstart allowance, a father on Newstart would lose some or all of the allowance while his spouse was on statutory parental leave. Given other welfare benefits available to mothers outside the paid workforce, the mother would face a monetary incentive to opt out of statutory payments and the labour force.³ The exception would *not* apply to a wide range of other benefits such as family tax benefits, rent allowance, and child care benefits.

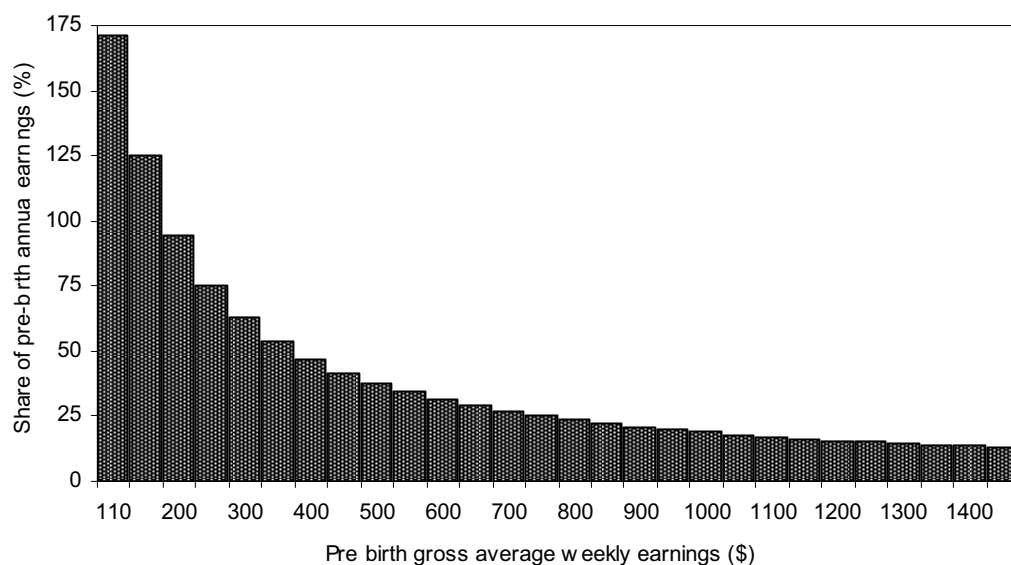
¹ That is, \$14.31 *times* 8 hours average a week (the floor on the Commission's employment test) *times* 52 weeks equals an annual salary of around \$6000, considerably less than the roughly \$9800 from 18 weeks of statutory paid parental leave.

² With income support payments identified under section 23 of the *Social Security Act 1991*.

³ In certain circumstances, it could have adverse impacts on the father's job search activities. For instance, were the mother receiving privately negotiated paid leave entitlements of more than around \$180 a week and then participated in the statutory paid parental leave, then her combined income would be sufficiently high that the father would no longer be eligible for Newstart payments. In that case, the father would have no obligations to search for work, potentially undermining his incentives for labour force participation.

Figure 2.1 Low income earners benefit most from paid parental leave^a

Paid parental leave as a share of annual pre-birth earnings



^a The calculations include the cash component of paid parental leave, but exclude superannuation contributions. (The latter make very little difference to the results.) The estimates assume that the parent takes all the leave and takes account of taxes. There is no subsidy for very low income earners since they do not meet the hours eligibility requirement. The calculations relate to gross statutory paid parental leave payments. They ignore the net effects arising from taxation of paid leave and the reduction in some social welfare payments. Those issues are considered in detail in chapter 9.

Data source: Productivity Commission calculations.

Given the complexity of the welfare system, it will be important for government to communicate to parents how they would fare if they took statutory paid parental leave rather than opting out. We consider the issue of information dissemination in section 2.7 and in recommendation 2.12.

Indexation of the payment

In the draft report, the Commission proposed that the value of paid parental leave should remain pegged over time to the going federal minimum wage (FMW), as set by the responsible regulatory authority. Such a basis for payment was an (uncontroversial) feature in all past Australian proposed statutory paid parental leave schemes and is a common basis for payment in schemes overseas (appendix I), including the minimum level of payment in the New Zealand scheme. It was also the proposed payment suggested by a wide spectrum of participants in this inquiry as either the sole payment or a base level, including prominent business

groups,⁴ unions,⁵ governments⁶ and other organisations.⁷ For instance, the Australian Chamber of Commerce and Industry said that it:

... welcomes the recommendation that any payments should be linked to the statutory federal minimum wage, which appears fiscally sensible and to have minimal impact upon the labour market (sub. DR399, p. 3)

However, the Australian Fair Pay Commission (sub. DR406, pp. 1–2) argued that using the FMW as the benchmark for future payment was problematic because:

Expanding the coverage of the FMW to encompass new parents would give currency to the view that the Commission should indeed have regard to their needs, especially the needs of new mothers. ... The fact that new parents would receive the FMW while on parental leave gives them a direct pecuniary interest in the level of the FMW which they might not otherwise have. At the very least, this complicates the Commission's processes for determining adjustments to the FMW. Arguably, it also exposes the Commission to pressure to adjust the FMW in a manner contrary to the interests of the low paid.

Were the process of wage determination to be materially affected this would represent a significant disadvantage of using the FMW in a statutory paid parental leave scheme. However, as noted in their submission, the Australian Fair Pay Commission is directed by its legislation to only consider certain defined matters when determining the minimum wage. By their nature, these matters would rule out consideration of the adequacy of payment in a statutory parental leave scheme. Accordingly, the Australian Fair Pay Commission would be *statutorily required* to ignore any pressures stemming from the use of the FMW in a paid parental leave scheme, and so the concerns it raises should not materialise.

Moreover, any such perceived disadvantage of using the FMW has to be set against its advantages and the relative merits of alternatives.

⁴ Such as ACCI (sub. DR399, p. 3); the Australian Industry Group (sub. DR363, p. 3); and the NSW Business Chamber and Australian Business Industrial (sub. DR340, p. 17).

⁵ For example, the ACTU (sub. DR365, p. 16); Shop Distributive and Allied Employees Association (sub. DR330, p. 3); Union of Australian Women, Victoria (sub. DR304, p. 1); Australian Education Union SA (sub. DR291, p. 2); and the Finance Sector Union of Australia (sub. DR306, p. 3). Unions (and often also groups representing women) generally favoured the federal minimum wage as the base payment, with top ups to full replacement wages when these were higher.

⁶ Such as the Western Australian Government (sub. 231, p. 1); Queensland Government (sub. 246, p. 2); and the Tasmanian Government (sub. DR411, p. 9).

⁷ Such as the Western Australian Commissioner for Children (sub 75, p. 5); the Australian Human Rights Commission (sub. DR377, p. 21); Women's Electoral Lobby Victoria (sub. DR368, p. 2); Hobart Women's Health (sub. DR313, p. 3); the Benevolent Society (sub. DR302, p. 11) and the National Council for Women Queensland (sub. DR392, p. 2).

The most obvious alternative to pegging the parental leave payment rate to future levels of the FMW is indexation by ordinary time average weekly earnings (AWE). This would amount to setting the payment equal to a fixed proportion of AWE. Were an initial parental leave payment to be set to \$543.78 per week,⁸ this would be equivalent to 47.2 per cent of AWE.⁹ Were AWE indexation to be used, then future statutory paid parental leave rates would be calculated as 47.2 per cent of AWE as recorded by the Australian Bureau of Statistics in any relevant period.

However, while easy to implement and divorced from future determination of the FMW, an AWE indexed payment has several significant limitations compared with the FMW:

- It is not a wage and therefore less clearly signals statutory paid parental leave as a work-based entitlement, reducing the benefits that stem from such signalling. To the contrary, use of AWE indexation for the payment would place statutory paid leave alongside welfare payments such as the disability support pension, the age pension and parenting payment (single).
- Determination of the FMW by the wage regulator takes account of the need to provide a safety net for the low paid, and also considers the need for the FMW to exceed welfare payments by a margin sufficient to encourage employment. This makes the FMW an appropriate benchmark for a basic rate of paid parental leave because there are parallel concerns for low-income families using parental leave. In contrast, movements over time in the AWE reflect changes in the occupational and skill composition of the workforce, the extent of salary sacrificing and many other factors that make it less clearly a sound conceptual basis for indexation of a basic parental leave payment.
- A ratio of paid parental leave payments to AWE of 47.2 per cent appears to be arbitrary and would almost certainly invite strong pressures on government for higher rates over time (50 per cent, 60 per cent and so on), whereas pressures on government would be likely to be lower when the payment is set at 100 per cent of an independently arbitrated wage. In other words, choice of the benchmarking method may influence future fiscal pressures for government in unexpected ways, and this should be a consideration in determining the appropriate benchmark.

⁸ Setting the *initial* level of statutory parental leave payment to the existing FMW and using AWE as the basis for *future* indexation would avoid any of the concerns put forward by the Australian Fair Pay Commission.

⁹ The value of ordinary time full-time adult average weekly earnings was \$1151.40 per week in the August quarter 2008 (ABS 2008, *Average Weekly Earnings, Australia, August 2008*, Cat. no. 6302.0). Accordingly, the FMW level of \$543.78 (effective from 1 October 2008) would represent 47.2 per cent of AWE around the comparable time.

Consequently, the Commission still considers that the federal minimum wage is an appropriate benchmark for future level of payments in a statutory paid parental leave scheme. However, if the Government wishes to use an alternative benchmark, the Commission considers that indexation by AWE would be a second best option. The commencement pay level could still be \$543.78 a week (or the level of the federal minimum wage prevailing at the time of implementation).

Arrangements for those on low wages

Payment at \$543.78 has the implication that some parents earning an hourly wage rate below the federal minimum – such as apprentices, trainees or those on junior wages¹⁰ – would receive substantially more income while on parental leave than prior to birth. For example, in Queensland, the minimum hourly rate of pay for a clerk aged less than 16 years employed in a hotel is 45 per cent of the adult minimum wage (\$6.44 an hour).¹¹ Were such a junior to have worked the minimum hours to be just eligible for paid parental leave, they would have been paid \$2125 in the entire year preceding birth of their child.¹² They then would receive a total of \$9788 in direct benefits during just the 18 week paid parental leave period (plus any employer superannuation contributions in the proposed future addition to the scheme) – or nearly five times more than their usual wage over the full year.¹³

The draft report noted that the large differential between pre- and post-birth earnings for those on less than minimum wage rates might act as an inducement to early childbearing for some mothers (with adverse lifetime effects for them). The draft report accordingly proposed lower statutory parental leave payments for people whose pre-birth hourly earnings were less than the adult minimum wage rate, a recommendation opposed by many participants on a variety of grounds.¹⁴

The Commission has reconsidered its position, taking note of the fact that the existing welfare system already provides a rate of payment post-birth that would also substantially exceed the past employment earnings of the relevant low wage groups. A junior who became a single parent would qualify for the baby bonus,

¹⁰ Junior employees are those who are under 21 years of age and are not paid the full adult rate.

¹¹ *Clerks Award - Hotels and Registered Clubs - State 2003* (AN140068 – Qld). Trainee wages can be even lower than this.

¹² That is 330×6.44 .

¹³ In contrast, the proposed benefits received by adult employees during paid parental leave would be at most double the annual wages received in the pre-birth year. That is, $\{9788 / (330 \times 14.31) - 1\} \times 100 = 207$ per cent.

¹⁴ For example, the ACTU (sub. DR365, p. 16); Hobart Women's Health (sub. DR313, p. 3); the National Children's and Youth Law Centre (sub. DR327, p. 3) and the Australian Rail Tram and Bus Industry Union (sub. DR326, pp. 6–7).

parenting payment (single), family tax benefit (A and B) and several other entitlements, whose value over the same 18 week period would also exceed their pre-birth earnings by around a fivefold factor.

Paying juniors and other relevant groups a parental leave benefit below the full rate would therefore not alter the incentives for early childbearing. (In any case, teenage pregnancy rates are low and have generally been falling over time.¹⁵) Accordingly, the Commission recommends that all eligible parents should be paid the minimum wage while on statutory paid parental leave.

Multiple births

While still infrequent, twins and multiple birth rates are rising in Australia. The Commission proposes that parents bearing twins or more would receive the same paid leave arrangements as those having a single baby, but would also receive the baby bonus for any second or more babies if they met the income test. (They would continue to be ineligible for family tax benefit B.) For example, a woman bearing triplets would receive a paid parental leave entitlement of a woman giving birth to one child, and if under the income limit, would also get two non-taxable baby bonuses.

RECOMMENDATION 2.1

The Australian Government's statutory paid parental leave scheme should provide paid parental and paternity leave, with:

- ***payment at the going adult federal minimum wage for each week of leave***
- ***payments subject to income tax and included as income for assessment of welfare benefits, with the exception of income support payments as defined under section 23 of the Social Security Act 1991 (principally parenting payments, Newstart and the disability support pension)***
- ***superannuation entitlements, subject to the implementation approach and conditions specified in recommendation 2.4.***

RECOMMENDATION 2.2

Parents having multiple births, such as twins, should receive a paid parental leave entitlement for one child only and should be entitled to the payment of the baby bonus, subject to its income test, for each additional child.

¹⁵ In 2007, there were around 10 500 new mothers aged 15 to 19 years (the main age categories for juniors) — or 3.7 per cent of all mothers. Of these, around 30 per cent or 3200 would be eligible for the Commission's proposed statutory paid parental leave.

2.4 Who should finance the scheme?

The Commission proposes that the Australian Government exclusively fund any cash components of the paid parental leave scheme. The Commission considered many other models (chapter 8), but all involved risks or complexities that ruled them out as serious contenders. For instance:

- full direct employer financing for their employees would pose serious risks for businesses, especially small ones, that employed higher proportions of females, and exacerbate discrimination against women of reproductive age
- a funding arrangement that pooled these risks is more attractive because it would spread the costs across all businesses, reducing the burden on ‘female-intensive’ employers and eliminating discrimination. But setting up what would amount to a hypothecated payroll tax in Australia to collect a tiny proportion of wage income would not be worth its potential administrative and compliance burdens and would go against the principle of tax simplification embraced by the Treasury tax review
- other models – some very elegant – also involved complexities or had other limitations that reduced their practicability for a basic scheme. However, income-contingent loans may have a role in any future increase in the generosity of the government scheme (chapter 8).

A purely government-financed scheme has the virtue of simplicity, spreads the burdens across the whole community, and reduces some of the risks posed by other models.

The Commission proposes that the Australian Government partly finance the scheme by changing other family payments:

- parents receiving paid parental leave would not get the baby bonus for a single birth and the Australian Government would use the savings to help finance the paid parental leave scheme
- family tax benefit B (available for secondary income earners, usually the mother, and assessed on their income) would not be paid to a family while a parent was on paid parental leave, with the resulting savings also used to help finance the leave scheme. The payment would resume after the statutory leave period if the family were eligible.

In this way, there would be a more coherent set of family payments for in-work parents. Working parents would be better off under this arrangement (chapter 9), but the incremental burden for taxpayers would be considerably reduced by realignment of the current family payments regime.

Would business contribute?

The Commission identified flaws in an employer-funded scheme, but that need not preclude some contribution from business. In particular, the Commission considers that, over the 18 week period, there is an in-principle case that employers provide the superannuation contributions discussed earlier (chapter 8).

However, there are several concerns associated with the immediate inclusion of mandated employer-financed superannuation contributions in a statutory paid parental leave scheme:

- The ATO is yet to release its final tax ruling to determine whether payment of superannuation on privately negotiated parental leave would be required. Were there to be such a requirement, then it would reinforce the argument that a similar contribution should be required for a statutory paid parental leave scheme so that it will come to be seen as an ordinary workplace entitlement, rather than a conventional welfare payment (chapters 6 and 8).
- A statutory paid parental leave scheme involves uncertainties and transitional costs for employers associated with working out how the scheme is to operate, any changes in payroll systems for those employers acting as paymasters, any adaptations of existing private schemes and the impact of the scheme on employees' leave durations and retention rates. While the Commission's proposals have attempted to reduce these costs (for example, by prepayment of employers acting as paymasters), firms will still face some transitional costs with the introduction of the scheme. The current unprecedented global financial crisis and its unknown impacts on Australia suggest caution in *further* adding to employers' costs through mandated employer superannuation payments, even though such payments would be very modest in their own right. Adding labour costs at this time may also have employment effects and potentially create some hostility to parents using the statutory leave, working against the objectives of the scheme. However, the impacts of mandated superannuation payments are likely to be considerably muted were their introduction to be delayed until employers' uncertainties about the statutory paid parental leave scheme have been largely resolved.

Given these concerns, the Commission proposes that the Australian Government defer the introduction of mandated employer-financed superannuation contributions until after a three-year review of the scheme (recommendation 2.14). The Government should then legislate for employer superannuation contributions to statutory paid parental and paternity leave by amending the *Superannuation Guarantee (Administration) Act 1992*, depending on:

-
- reconsideration of the impacts on business or legal and other administrative problems for government that may be involved. At present, these do not seem to be significant
 - sufficient time for business administrative systems for dealing with the obligations associated with the scheme to be bedded down (such as payroll software).

The detailed arrangements for paying the super contribution could also be considered as part of the review, including whether it would be feasible to provide employees with the option of taking the business contribution as a cash payment to meet their immediate financial needs or as a standard superannuation contribution. (This would not amount to early access to super funds collected under the superannuation guarantee and so would not create a precedent for cashing out past contributions.)

How big would the super contribution be?

Superannuation payments would be structured as follows (with some examples shown in box 2.2):

- For employees earning weekly income below the federal minimum weekly wage, their superannuation entitlements would be calculated at the 9 per cent superannuation guarantee statutory rate on their usual wages prior to taking paid statutory parental or paternity leave.
- Consistent with the ceiling on paid parental and paternity leave, the Government would limit mandated employer superannuation contributions (though employers could voluntarily pay more).¹⁶ Accordingly, employees would receive no more than those on minimum adult wages unless higher rates of contribution were privately negotiated. It follows that entitlements as a share of employee's actual pre-birth wages would fall rapidly once the employee was earning more than the adult minimum wage. The maximum mandated benefit would be 3.1 per cent and 0.3 per cent of annual wages for paid parental leave and paid paternity leave respectively.

¹⁶ Over 18 weeks of paid parental leave, the *maximum* accumulated employee benefit would be \$881 based on a 9 per cent super contribution rate applying to the federal minimum wage (that is $9\% \times \$543.78 \times 18$ weeks). It would be paid in instalments over the usual pay cycle of the business (often fortnightly). The maximum payment as a share of annual earnings would be 3.1 per cent ($881 / \{52 \times 543.78\}$). The benefit would be based on *actual* weekly earnings for employees earning less than the full-time adult minimum weekly wage. For example, an employee earning \$200 a week and getting 18 weeks of paid parental leave would be entitled to a total super contribution of \$324 (that is, $18 \text{ weeks} \times \$200 \times 9\%$).

Box 2.2 Some examples of potential superannuation obligations

Mary earns \$320 a week in a part-time job. She would be entitled to \$28.80 per week paid into her superannuation fund from her employer while she was on statutory paid parental leave. The aggregate cost over 18 weeks to the employer would be \$518.40, which would be tax deductible to the employer.

In contrast, Helen earns \$1280 a week. She would be entitled to a super contribution of \$48.94 per week, with an overall gross cost to the employer of \$880.92 over the full 18 week period (and a lower cost after tax deductions). Though Helen's weekly wages are four times greater than Mary's, her employer's mandated super contribution is only 70 per cent higher. This reflects the fact that the mandated amount is limited to \$880.92 (the amount that applies to the minimum wage).

Peter earns \$950 a week and takes his full two weeks entitlement to paid paternity leave. He would receive \$97.88 in superannuation benefits.

Who would get the employer contributions?

The employer contribution would only be available to a subset of employees who qualify for, and take, statutory paid parental leave:

- As for unpaid parental leave entitlements under the National Employment Standards, the quid pro quo of employer superannuation contributions would be an adequate period of tenure by the employee. Accordingly, the Commission proposes that an employee could only qualify for these benefits if they were eligible for unpaid parental leave under the National Employment Standards, which involves a 12 month tenure requirement. This requirement would help secure some retention benefits for employers.
- In addition, only those employees currently eligible for employer superannuation contributions could receive these benefits.

Overall, the Commission estimates that about 80 per cent of women who would be eligible for the paid parental leave under the Commission's proposed scheme would be able to access the superannuation contribution in the parental leave scheme. Some of the excluded women are employers/self-employed and others are employees with less than 12 months service.¹⁷ To provide employer superannuation contributions for current non-recipients would involve higher compliance costs for

¹⁷ These figures assume that women will (initially) be the predominant users of the statutory paid parental leave scheme. The super obligations of employers for men taking advantage of paternity leave have been included in the Commission's costing of its scheme, but are small. About 60 per cent of men eligible for paid paternity leave would be eligible for super on that leave under the Commission's scheme.

business and be inconsistent with the need for a quid pro quo for business identified above. The Commission does not propose that the Australian Government pay super contributions for those not receiving benefits from employers.¹⁸ To do so would be inconsistent with the underlying goals of superannuation policy generally and with workplace rewards (for example, loyalty to firms).

The impacts on business would be tempered

The burdens on employers of these super contributions would be reduced because the *mandated* amount would be:

- paid only at the statutory 9 per cent rate
- subject to ceilings, commensurate with the limit imposed on the government-funded cash contribution and only paid to those with an existing entitlement
- subject to tax deductions as for business expenses generally, so that the Australian Government would bear a proportion of the costs equivalent to the relevant tax rate.

Employers would be able to *voluntarily* provide greater superannuation payments on the statutory paid parental leave if they wished to do so – the Commission’s proposal is not intended to limit the capacity for employers and employees to supplement the statutory entitlements. However, the Government should not, as part of the introduction of a statutory scheme, require any obligations in relation to privately negotiated paid parental leave beyond those already set out in the superannuation guarantee legislation.

Subject to its future implementation, the business contribution to the total package of parental leave benefits would be small, with the lion’s share being the cash contribution by the Australian Government. (The *net* contribution – assessed in section 2.9 would be even smaller.) The employer contribution would be least for those on low wages because the superannuation entitlements would be prorated on an employee’s actual income, whereas the Government’s contribution would be a flat amount.

As noted above, the biggest dangers of employer co-funding of paid parental leave is discrimination against women of reproductive ages and, in the shorter-run, the financial pressures on cash-strapped employers. However, the *maximum* cost to an employer in a single year of a woman taking paid parental leave is around 3 per cent

¹⁸ Such contributions are not legally required for privately negotiated paid parental leave schemes. There are several complexities associated with obligations to pay superannuation for various types of leave, which are discussed in chapter 8.

of her annual wage. As discussed in chapter 7, the expected costs to employers in any given year are much lower than this, which should reduce the likelihood of discrimination and the burden on business. Waiting until Australia's economic conditions improve will also limit the impacts on business.

Some participants in this inquiry have called for mandatory 'top ups' by business. This would involve considerable costs to business and genuinely risk discrimination against women. The Commission considers that any top up to full replacement wage or any other form of supplementation should be voluntary and privately bargained.

Should there be a 'no disadvantage' test?

A major concern of some participants in this inquiry was that employers might weaken or even eliminate privately negotiated paid parental leave schemes after the introduction of a publicly funded statutory scheme (chapter 7). Any such 'crowding out' of privately negotiated leave would be problematic. The real financial gain to employees would be weakened and, with that, the expected benefits of a statutory scheme. For instance, were publicly-funded leave to entirely crowd out privately funded leave in a particular business, then the desired impact on leave duration, financial circumstances and workforce participation of its employees would not be achieved. Indeed, some employees could actually be worse off if employers were to behave this way.

Because of these concerns, some participants have called for a 'no disadvantage' test to accompany a statutory scheme to ensure that employers maintain all existing private schemes.

The Commission continues to think that most employers with existing schemes will wish to preserve their status as an 'employer of choice'. They will do this by either maintaining their current leave arrangements (the most likely outcome) or by re-configuring the package of employee benefits in a different way (such as introducing other family-friendly policies or higher wages), while preserving the value of that package.

Even were this not always to be the case, there are potential difficulties in applying a no-disadvantage test (chapter 7). That said, the Government should actively monitor the response by employers and consider timely policy action if there were to be widespread withdrawal from privately negotiated schemes. This issue should be assessed on an ongoing basis, while the broader interaction of privately negotiated leave and statutory paid parental leave should be considered as part of the three year review (recommendation 2.14).

Arrangements for paying leave

Arrangements for paying leave should as much as possible support the underlying objectives of the policy, while being as far as possible ‘straightforward, simple, cost effective and not administratively onerous for either families or the administrators’ (as articulated by Family Day Care Australia, sub. DR379, p. 2).

Given the desire to link paid parental leave to work, where an employee has reasonable tenure with an employer, the employer would act as an agent for government and pay the statutory leave payment on its behalf. This is the arrangement used in the United Kingdom. The Commission proposes that employees must have been with an employer for at least a year for an employer to act as ‘paymaster’ under the statutory paid parental leave scheme. This qualifying period is consistent with the tenure requirements that underlie many of the obligations employers face under the proposed National Employment Standards.

Structuring payments in this way would strengthen the link between the employer and employee, which should increase retention rates for the business (and lead to higher lifetime employment by women).

In the draft report, the Commission proposed a model based on delayed reimbursement of employers, potentially through credits to pay-as-you-go (PAYG) withholding payments made by employers to the ATO. While the Commission estimated that this approach would involve small cash flow costs to business, some employers and employer groups were nevertheless concerned that these cash flow impacts might be serious for some businesses. The present difficulties in accessing business credit to address short-term cash flow shortages might exacerbate such risks.

In addition, feedback sought by the Commission from the ATO suggests that providing credits through PAYG withholding payments could be costly to implement and would not adequately manage fraud or other risks.

Accordingly, the Commission proposes an alternative mechanism for an agency arrangement with employers. This would involve *prepayment* by Centrelink to employers of statutory parental and paternity leave instalments around the time of commencement of statutory paid leave (usually, but not always, at the birth of the child). Payment arrangements would be put in place using processes similar to that leading to payments to parents of the baby bonus. The employer would then pay the parents as part of their normal pay cycle. Such an approach would overcome the cash flow consequences of the Commission’s draft proposal and would allow more appropriate risk management by the Australian Government (chapter 7).

In some instances, a beneficiary of statutory paid parental leave will be working with multiple employers, but only one of these can fulfil the paymaster role. In the Australian tax system, the tax-free threshold for an individual employee is allocated to only one employer for PAYG withholding purposes to prevent underpayment of tax. The Commission proposes that that employer would fulfil the paymaster function.

Some participants have argued that where employers act as paymasters for government (see later), the employer is, in effect, acting as if they were paying the leave, with an incidental obligation to provide accrued leave entitlements and potentially to pay payroll tax and/or workcover premiums. In fact, as far as the employer is concerned, the employee is on unpaid parental leave, for which no such requirements exist. Accordingly, the Commission does not consider that there would be any such obligations associated with the paymaster function.¹⁹ Any such obligations would run against the intent of the industrial relations system. However, the legislation and guidelines for the paymaster function should explicitly rule out any such (incidental) employer obligations.

The Australian Government should deal with other eligible parents directly through the Family Assistance Office which is a partnership arrangement between several government agencies including Centrelink, making payments to individuals.

RECOMMENDATION 2.3

The Australian Government should fund the cash component of the paid parental leave scheme, partially offsetting these costs by:

- ***removing eligibility for family tax benefit B while a primary carer is on statutory paid parental leave***
- ***removing eligibility for the baby bonus for a family using statutory paid parental leave (with the exception of any additional children where there are multiple births).***

¹⁹ In contrast, sometimes payroll tax would be imposed on the employer superannuation contribution — since this contribution is being genuinely made by the employer. This would only apply for larger employers in some states and territories (such as Queensland). As discussed in chapter 8, the additional amounts would be small.

There is a prima facie case that employers should fund superannuation contributions during the paid parental and paternity leave period, with:

- *superannuation entitlements calculated on the pre-birth (or pre-adoption) wage of the employee who is taking the leave, or at the federal minimum wage, whichever is the smaller*
- *superannuation payments made only to those employees who have (a) qualified for and chosen to take statutory paid parental leave; (b) were entitled to employer superannuation contributions in their jobs before taking leave; and (c) were entitled to unpaid parental leave under the National Employment Standards*
 - *If parental leave is transferred to an eligible partner, the partner may qualify for superannuation contributions, even if the original primary carer did not qualify. Only one parent may receive superannuation contributions for statutory parental leave at any given time.*
- *mandated superannuation contributions under the scheme should be limited to the statutory rate (currently 9 per cent), but with no bar to privately negotiated higher rates.*

The Australian Government should implement these employer contributions following a review of the statutory paid parental leave scheme three years after its inception (recommendation 2.14), subject to consideration of:

- *the outcome of a final Australian Taxation Office ruling on the applicability of the superannuation guarantee to paid parental leave*
- *legal and other administrative issues for government*
- *any significant detrimental effects on business viability at that time or on compliance costs.*

The employer should make statutory parental and paternity leave payments directly to employees, with prepayment of each instalment by the Australian Government. However, an employer would only act as a paymaster for government where an employee was also eligible for unpaid parental leave under the National Employment Standards. Where such an employee worked with multiple employers, the employer allocated the tax-free threshold for PAYG withholding purposes should act as paymaster.

Legislation and guidelines for the paymaster function should explicitly rule out:

- *any employer obligations for accrued leave entitlements*

-
- *any impacts on notice periods and severance payments*
 - *any impacts on payroll tax or workcover obligations.*

The Australian Government should pay other eligible primary carers directly.

2.5 Eligibility and requirements for use

The Commission has crafted eligibility requirements for a statutory paid parental leave scheme that are accountable and administratively feasible, while giving parents as much flexibility as possible. However, excessive flexibility can:

- impose costs on business and taxpayers
- confuse parents about their entitlements
- lead to unintended impacts such as fraudulent claims
- require complex accountability processes. (As one participant quipped, the complexity and administrative costs of a scheme are equal to ‘flexibility to the power of accountability’.)

Leave would only be available for primary carers

In general, the Commission proposes that only *the* primary carer of a baby would be eligible for paid parental leave, with a limited capacity for both parents to receive paid leave simultaneously. This is consistent with the provisions for unpaid parental leave that will apply under the proposed National Employment Standards (where a three week period of concurrent leave is provided for under clause 72). There would, however, be a special provision for surrogacy (recommendations 2.7 and 2.10).

Which employees would be eligible?

A critical prerequisite for eligibility to paid parental and paternity leave is genuine attachment to the labour market prior to birth. This reflects the objectives of the scheme to provide, on child welfare grounds, a means for parents in the paid workforce to take sufficient time off for the exclusive care of children (chapter 4), while, over the longer-run helping to reduce the adverse incentives for paid work posed by the taxation and welfare system (chapter 5). In the draft report, the Commission proposed that parents would be eligible for statutory payments if they had been employed continuously for at least 12 months prior to the expected date of birth and worked an average of at least 10 hours a week.

Feedback from participants and further empirical evidence (chapter 5 and appendix J) suggest that these criteria may not be appropriate for parents who already have at least one child and are seeking to re-qualify for statutory paid parental leave:

- Women in this group work for less hours and have relatively short work tenures after their last baby. For instance, around 10 per cent of employee pregnant mothers with one or more existing children would fail a 10 hour rule (compared with less than 1 per cent for first-time mothers).²⁰
- Parents must often pay for a full day of child care, even if they use only part of it. Consequently, a woman just able to meet the 10 hour test may have to pay for two complete days of child care, lowering her net earnings and discouraging her workforce participation.
- Continuity of employment and accumulated workforce experience for existing mothers are critical elements in determining the lifetime workforce participation of women. Accordingly, one of the goals of a paid parental leave scheme is to help reduce the disincentives faced by mothers outside the labour force to re-enter work on at least a part-time basis to qualify for paid parental leave for a subsequent child. However, if the eligibility threshold for hours/tenure is set too high, it can discourage this transition. This appears to be a concern for a significant minority of existing mothers. (The evidence is discussed in chapter 5.)
- Any tenure test has the potential to affect how much leave a woman takes to care for her baby, or the spacing of subsequent births. As an illustration, with a 12 month tenure test, a woman wanting to space her children 70 weeks apart would need to return to work at around 18 weeks after her initial birth to qualify for a second round of statutory leave. This is less than the desired six months of leave to care for a child. If she wanted to take off six months to care for her first child, she would have to delay conception and the birth of her second child to qualify. So the desire for re-qualification may affect either the initial period of leave taken by a woman or birth spacing with potential child and maternal welfare implications (chapter 4 and appendix J). The extent of these effects depends on the distribution of birth spacing among existing mothers who have some aspiration for workforce attachment.

The Commission considered whether it was appropriate to have two different criteria for first-time mothers and existing mothers. In particular, higher hours and tenure eligibility thresholds might be appropriate for first-time mothers. However, the incentive effects of such higher thresholds are not likely to be that great since

²⁰ And, as the Women and Work Group (sub. DR283, p. 1) pointed out, some education and employment programs limit work to 8 hours a week.

women without children already have high workforce attachment. It would add complexity without much gain. Accordingly, the Commission favours a common set of eligibility conditions, but geared more to the needs of mothers who already have at least one child.

Given the above findings, the Commission has adapted the eligibility criteria in the draft report. We propose that an employed parent would be eligible for government-financed parental and paternity leave payments if they had:

- worked ‘continuously’ for at least 10 months (the ‘qualifying’ period) of the 13 months prior to the expected date of the birth or adoption, though not necessarily with the same employer (the ‘10-13’ rule), *and*
- worked for at least 330 hours in the qualifying period. The 330 hour requirement allows the eligibility of a parent who has worked an average of one conventional day a week (7.6 hours a week) for the relevant ten months.²¹

‘Continuously’ is a requirement for some form of regular hours.²² It should be defined to allow parents reasonable breaks in employment, such as a casual worker taking a holiday, or a worker moving between jobs were their employer to make them redundant. In the New Zealand system, this regularity rule requires a parent to have worked at least one hour every week or 40 hours every month. The Commission has not defined the precise criterion for an Australian scheme, but something akin to the New Zealand approach appears appropriate.

It should be noted that (as is customary in other contexts) a person would be regarded as ‘working’ if they were on some form of normal employer-*paid* leave, such as recreation leave.²³ For example, suppose that a woman’s standard hours of work was 15 hours a week and that she took 12 weeks of (paid) long service leave in the year prior to giving birth. That leave period would contribute nearly 30 per cent to the qualifying period and 180 hours to the required hours for participation in

²¹ The 330 hours requirement was derived as follows. First, note that a conventional day of work involves 38 hours/5 days=7.6 hours. Second, ten calendar months is equivalent to 43.45 weeks (that is, 10/12 months× 365/7 weeks). Finally, when multiplied these give 330.2 hours over the ten month period.

²² The National Employment Standards uses a requirement for ‘regular and systematic’ work — though its scope is not defined — to determine who is a long-term casual employee (which is the basis for eligibility to unpaid parental leave). While the Commission favours alignment of a statutory paid parental leave scheme with the National Employment Standards for features that involve employer obligations (such as super contributions and the paymaster function), this does not need to hold for other features. Accordingly, the definition of ‘continuous’ work under a statutory paid parental leave scheme need not be the same as ‘regular and systematic’ in the National Employment Standards.

²³ This, for example, is the approach taken in the Canadian federal system.

the statutory paid parental leave scheme. Unpaid leave such as that allowed for parental leave under the proposed National Employment Standards should not qualify as ‘working’ for the purposes of a statutory paid parental leave scheme,²⁴ since one of the goals of a statutory scheme is to encourage women’s continued *actual* employment after a reasonable period away to care for a newborn. Nor would participation in the current form of CDEP count as employment, since CDEP is a labour market program for the unemployed, rather than typical employment.

These eligibility requirements increase the number of potentially eligible women and reduce some of the limitations present in the previous criteria identified by participants in this inquiry (such as the National Pay Equity Coalition, sub. DR342, p. 5): The 10-13 rule:

- has the advantage that it will cater for many instances where a woman has a premature birth, is retrenched prior to birth (and can’t get another job) or where the business folds prior to birth
- provides considerably more latitude for eligibility for statutory paid parental leave for employees with more interrupted patterns of work (for example, casual teachers).

The Commission’s work test reflects the need for the leave to apply to parents with genuine attachment to the labour force, rather than those with precarious links. (Carers with limited attachment would still be eligible for welfare payments, such as family tax benefits and the baby bonus.) Very low hour or tenure requirements for example one hour worked in the last month would create perverse incentives for people to enter the labour force merely to qualify for the benefit, rather than because they seriously wish to obtain a job.

We have spelt out the additional criteria needed for the employer superannuation contribution in section 2.4.

Employee rights to a job on return from leave

Most employees on statutory paid parental leave would also be guaranteed a job on return from parental leave under the National Employment Standards. However, some employees would fail to meet the tenure or permanency tests of those

²⁴ An employee’s absence from work on unpaid parental leave under the National Employment Standards *does* count as service for the purpose of determining the employee’s entitlement to a later period of *unpaid* leave (Explanatory memorandum to the Fair Work Bill 2008). However, such an absence from work does not count as service for accruing other entitlements, such as paid leave. Accordingly, adoption of the Commission’s definition of ‘working’ for the purposes of qualification for statutory *paid* parental leave is consistent with the National Employment Standards.

standards, yet would be still eligible for statutory paid parental leave. For example, an employee who had worked for more than an average ten hours weekly over the last year, but with different employers, would qualify for the statutory paid scheme, but not a job return guarantee. The Commission's proposed scheme design would not extend the job guarantee rights of the proposed National Employment Standards. Employees not covered by the National Employment Standards would have to negotiate privately their return to work with their employer.

What about the self-employed?

The self-employed (including contractors and employers) would also be eligible for paid parental and paternity leave with the same requirements above.

There would need to be an appropriate definition of this group with definitions used by the Australian Tax Office a likely basis. A clear definition would ensure that people get the entitlements that are due to them and prevent people essentially outside the labour force from categorising themselves as 'self-employed' to access a benefit that is greater than the baby bonus.

The Government would need some process to ensure the reasonable probity of eligibility processes for the self-employed, given the lack of an objective arbiter of exactly how many hours a self-employed person works. It might be expected that some would exaggerate their actual hours of work to qualify for paid parental leave. As shown in figure 5.4 in chapter 5, the potential risk is not trivial. Around 20 per cent of self-employed pregnant women work less than an average eight hours per week (the threshold for eligibility in our proposed scheme). And it is possible that some people not in the labour force at all, could declare self-employment status so as to qualify.

A risk-management approach might involve a statutory declaration by the self-employed person and an accountant regarding hours of work.²⁵ This was, for example, supported by Australian Women Lawyers (sub. DR389, p. 9). A possible supplement (or substitute) might be a test to substantiate that the business is a genuine ongoing concern. For instance, the latter might involve a requirement for some threshold level of weekly business revenue or some indicator from a self-

²⁵ In New Zealand, there is also a requirement for a statutory declaration by a Justice of the Peace or a chartered accountant. The declaration relates to self-employment status, net income and earnings, but not to the hours worked, with the latter based on self-assessment. In the New Zealand system, there are generally low incentives for the self-employed to exaggerate hours of work because people working less than 10 hours a week (the New Zealand minimum requirement) would often get more by taking the Parental Tax Credit (a substitute payment). The incentives would be higher in an Australian system.

employed person's tax return.²⁶ However, the risks of fraud should not be overstated with the majority of people observing the law as much for ethical reasons as the risks of being caught (Torgler and Murphy 2004).

What kinds of families would be eligible?

Families assume many forms. A single baby has many potential primary carers including the biological parents (whether partnered or not), stepfathers, stepmothers and adoptive parents. The Commission proposes that a variety of primary carers should be eligible for statutory paid parental and paternity leave if they meet its employment eligibility conditions.

Parents of adopted children

As discussed in chapter 4, adopted children may have special needs for care, whether they are below school age or not. For instance, in relation to children adopted from overseas, Australian governments recognise these needs, requiring one adoptive parent to be at home for six months to a year, depending on the jurisdiction. Given this, the Commission proposes that the Government extend, at placement of the child, full paid parental leave to the parents of non-familial adoptions for children under the age of 16 years. This age limit is consistent with the eligibility criteria for adoptive parents accessing the 'baby' bonus.²⁷ This leave would be available to the adoptive parents even if the birth mother had received the baby bonus, family tax benefit B payments or statutory paid parental leave.

The treatment of adoption leave under the originally proposed National Employment Standards excluded school-age children. In its draft report, the Commission recommended that this age constraint be relaxed. Since then the Fair Work Bill has proposed that the National Employment Standards incorporate provision for unpaid leave for adoption placements involving children under 16 years old (clause 68). There is currently a Senate inquiry (to be completed by the end of February 2009) considering all aspects of the Bill as a prelude to its passage through the Senate. Given that the Bill has not been passed yet, the Commission reiterates its position that leave for adoption should include all ages of children under 16 years old.

²⁶ As suggested by YWCA Australia (sub. DR410), the Women's Electoral Lobby (sub. DR368), and the Retail Confectionery and Mixed Business Association (sub. DR318).

²⁷ The Australian Government extended eligibility for the 'baby' bonus to adopted children under the age of 16 years from 1 January 2009, reflecting the changing policy view about the significant caring responsibilities of parents of newly adopted children of any age.

Provision of paid parental leave for adoption is also consistent with the findings of the inquiry into adoption by the House of Representatives Standing Committee on Family and Human Services (2005). The Commission proposes 18 weeks of paid parental leave, which, like the unpaid leave provisions of the proposed National Employment Standards, would commence at the time of placement.

Under the Commission's recommendations, so-called 'known child' adoptions, where the adoptive parents have a pre-existing relationship with the child, would generally be excluded from eligibility for paid parental leave.²⁸ Australian Women Lawyers opposed this general exclusion (sub. DR389, pp. 6–7). However, in the Commission's view, by their nature, 'known child' adoptions do not usually involve the same challenges as non-familial adoptions have for developing a close relationship between new parents and an adopted child or for adaptation to a new environment. In particular, familial adoptions are overwhelmingly made by step-parents, who usually have strong prior relationships with the adopted child. Notably, the proposed National Employment Standards excludes most familial adoption placements (step-parents and those involving children residing with the employee for six months or more). In principle, the proposed Standards could cover familial adoptions by some non-step-parents, but these are extremely rare (Queensland Government 2002, pp. 53–54).

Nevertheless, the Commission recognises that there may be special circumstances when it is appropriate to allow eligibility to statutory paid parental leave for known child adoptions. For example, one case may be if there has been significant demonstrated trauma experienced by the child that requires intensive care by the new parent/s. The Commission proposes a capacity for administrative determinations of eligibility in such cases and in other special circumstances as discussed later (recommendation 2.8).

Families where the child or primary carer dies

The death of a baby in uterus or during labour ('stillborn') is a devastating experience for parents. The Commission proposes that mothers having stillborn babies that meet the requirement for birth registration in Australia would be eligible for full entitlement to paid parental leave.²⁹ This recognises the potentially

²⁸ 'Known child' adoptions (mainly step-parents) account for about one in ten of all adoptions in Australia and have been falling over time as alternatives for adoption have become available (such as parenting orders).

²⁹ Parents must register stillborn babies weighing more than 400 grams, or more than 20 weeks in gestation as a birth. This requirement reflects the significant development of the embryo. A 20 week qualifying period is in line with practices in the United Kingdom, where the government provides full entitlement to paid leave for babies born after reaching the mid-second trimester — that is around 24 weeks after gestation. The Commission's proposed qualifying period is

prolonged psychological effects on the mother (in addition to the usual physical maternal recovery period) (chapter 4). Those parents with stillborn babies not meeting the birth registration requirement would often still be eligible for sick and compassionate leave.

Similarly, the Commission proposes full entitlement for:

- (eligible) parents whose children die before the end of the statutory paid leave period (consistent with the treatment of stillborn babies)
- a person who assumes the role of caring for a child after the death of their (eligible) partner. Families in this position have factored in the income they would have received from the scheme. Given that, and the potentially traumatic nature of these events for the child and partner concerned, the Commission proposes that the new carer would not need to meet the employment eligibility tests.

Long-term foster parents?

Some participants argued for the inclusion of foster parents in a statutory paid parental leave scheme (such as the Benevolent Society, sub. DR302, p. 5), observing that it is difficult to recruit foster parents. However, the Commission considers that foster parents should not be eligible for paid parental leave because there are existing state and territory foster carer payments (as noted by HREOC, sub. 128). While such payments are below the level we propose for paid parental leave, there are many considerations in deciding on the appropriate assistance levels provided to foster carers. As a result, it would be better for state and territory governments to determine the appropriate payment levels for fostering, in the broader context of their policies to fostering in general.

Surrogacy

The surrogate mother of a baby should be eligible for sufficient paid parental leave to allow her to have a reasonable period of leave for adequate post-natal maternal recovery (see recommendation 2.10). The treatment of the custodial parents is more complex, since different Australian jurisdictions have varying legal provisions for surrogacy. In most jurisdictions, commercial surrogacy is not legal, but in some states this also applies to altruistic surrogacy. Where governments permit altruistic surrogacy, the baby must generally go through adoption processes before the government can grant custody. In March 2008, the nation's Attorneys-General agreed to develop a uniform framework to allow conditional, non-commercial

considerably longer than that in the National Employment Standards, where there is provision for special maternity leave around 11 weeks after gestation. However, that special leave is unpaid.

surrogacy³⁰ and in mid-January 2009 released a consultation paper.³¹ The Commission proposes that paid parental leave provisions for parents taking custody of such infants be finalised when Australian Governments have determined that framework. However, the Commission considers that, in principle, any arrangements would be the same as those for parents of adopted children (as previously discussed) and indeed this may be the automatic outcome of a new framework. Some might argue that payment to the surrogate mother and the adoptive parents is ‘double dipping’, but it takes account of the maternal recovery and child welfare needs, which in this special case, involves two sets of families.

What about eligibility for others?

Carers other than the biological or formal adoptive parents sometimes play a key role in the rearing of children. For instance, the Western Australian Department for Communities, Office for Women’s Policy (sub. DR371, p. 4), and supported by Indigenous women’s groups, observed the major part played by grandmothers and ‘aunties’ in caring for children in Indigenous communities. The Office of Women’s Policy in the Northern Territory Government (sub. DR414, p. 4) reiterated this observation, and argued that if the primary care giver was not the mother, then the paid parental leave should be extended to that person.³² Outside the Indigenous area, there may be other circumstances when a party other than the parents exercise a primary caring role (for example, where there is no responsible father and the mother is very ill). The Victorian Child Safety Commissioner (DR trans., pp. 126ff) indicated that relative carers often acted as the primary carers of children, but could face major financial difficulties in undertaking this role because of inadequate support from government.

There is already some capacity under the proposed National Employment Standards (clause 97) for paid leave for care of ‘immediate family’ in the event of an emergency, which could encompass care by a grandparent of a grandchild.³³ A non-casual employee is entitled to 10 days of paid personal/carer’s leave for each year of

³⁰ Standing Committee of Attorneys-General, Communiqué, 28 March 2008.

³¹ Joint Working Group of the Standing Committee Of Attorneys-General, Australian Health Ministers’ Conference, and Community And Disability Services Ministers’ Conference 2009, *A Proposal for a National Model to Harmonise Regulation of Surrogacy*, January.

³² Others also argued for an extension of eligibility of this kind (for example, National Women’s Centres, sub. DR310, p. 5).

³³ Given the definitions set out in clause 12, care of babies by other relatives is effectively excluded. There is also some ambiguity about what would constitute an emergency (Association for Payroll Specialists 2008). However, there may be some circumstances — say the sudden death of a single parent that leaves a baby without a primary carer — which could easily be deemed an emergency.

service with his or her employer (and under clauses 102 and 103 there are additional, but limited, provisions for unpaid carer's leave available to all employees). These provisions are relatively narrow in their reach and would not cover all of the circumstances where a primary care role for a child might desirably be exercised by a relative.

Accordingly, the Commission proposes that statutory paid parental leave (or the balance not taken by the mother) could be allocated to a non-parental primary carer, but only if:

- there are genuine problems in the parents fulfilling that role (such as a child protection issue or death of the parents), *and*
- the relevant primary carer meets the work tests for eligibility *and*
- the carer has long-term responsibility for the daily primary care of the child *and*
- the carer is not making use of the carer's leave entitlements under the National Employment Standards if these apply to them.

FaHCSIA would need to determine the appropriate definition of a formal primary carer, noting that:

- the provision would typically only apply to relatives of the child or people with a kinship connection (an 'auntie'). It is not intended that paid parental leave be a substitute for foster care arrangements
- the rules relating to these special arrangements would need to ensure they were not used as a way of funding child care (such as when a grandmother cared for a child while the mother went back to work).

The above approach would cover care by relatives generally and apply to 'aunties' and other kinship-connected carers in Indigenous communities, but only where the above criteria were met.

There may be other special circumstances when it will be appropriate to transfer paid parental leave to another party. In those cases, the Commission proposes that, as in various other 'special circumstances' clauses in the *Social Security Act 1991*,³⁴ the relevant departmental secretary be able to make an administrative determination.

It should be noted that under the above proposals, there would only be a limited capacity for a non-parental carer to take statutory paid parental leave and get a job return guarantee under the proposed National Employment Standards. The

³⁴ For example, the secretary has the capacity to waive the work participation requirement for eligibility for parenting payments in special circumstances.

Commission does not propose amendment of the National Employment Standards to address this as that would raise a raft of additional questions outside the scope of this inquiry. (For instance, it would raise the question of why emergencies other than those associated with caring for a child would not trigger an entitlement to long-term unpaid leave.)

What about parents who are ineligible for paid parental leave?

Employees who do not meet the Commission's proposed eligibility criteria and those not in paid work would be ineligible for statutory paid parental or paternity leave. Nevertheless, given the community's desire to support all parents of newborn children, those not eligible to statutory leave payments would be entitled to financial support through the social transfer system. There are a plethora of such support measures, including the baby bonus, which cumulatively provide substantial assistance to families with one parent staying at home to care for children (chapters 6 and 9 and appendix F).

In the draft report the Commission proposed elimination of the current means test³⁵ on the baby bonus, so all families not on statutory paid parental leave could access this payment. This would be consistent with the absence of income testing in the proposed statutory paid parental leave scheme and could promote (horizontal) equity between women in and out of paid work, but with similarly highly earning partners. However:

- the baby bonus more resembles a range of other family welfare benefits, such as family tax benefit (A and B), that are subject to income tests. Payment of the same level of welfare payments to high and low income families would raise legitimate (vertical) equity questions. (In contrast, the absence of a means test on statutory paid leave reflects its status as a work entitlement.)
- eliminating the means test would entail significant additional budgetary impacts. In the 2008-09 budget estimates, FaHCSIA estimated that around 16 000 families each year will not be eligible for the baby bonus due to the means test (so that income testing saved taxpayers around \$80 million). Reversing income-testing for parents not using statutory paid parental leave would cost taxpayers around \$45 million.
- eliminating the means test would make it attractive for women with strong labour force attachment to take the baby bonus and return to work early. In contrast, income testing of the baby bonus would make paid parental leave a more attractive option for this group, and given its 'use it or lose it' nature,

³⁵ Eligibility for the baby bonus became income-tested from 1 January 2009.

encourage longer periods of leave away from work, with accompanying child and maternal welfare benefits.

Accordingly, the Commission is not recommending removal of the current means test for the baby bonus for parents of newborn children.

All those using statutory paid parental leave would be ineligible for the baby bonus, with the exception of parents with multiple births. The draft report proposed another exception – the Commission recommended that women who interrupted their statutory paid leave would be paid any residual value of the baby bonus, so that they could not be any worse off in gross terms than had they opted out of statutory paid parental leave in the first place. There are some in-principle grounds for this exception since it would be more equitable and would avoid circumstances in which a would-be parent, facing a *risk* that they may need to interrupt paid parental leave, decides to opt out, losing the benefits to their children and themselves of longer absences from work. However:

- an early unanticipated return to work is likely to be uncommon
- one of the intentions of the scheme is to deter early re-entry to work by having a ‘use it or lose it’ provision in the statutory paid parental leave scheme
- feedback to the Commission suggests that the residual reimbursement proposal would involve considerable administrative complexities and costs.

Accordingly, in the final report, the Commission does not favour reimbursement of any residual value of the baby bonus for those parents who interrupt their statutory paid parental leave.

How would leave be allocated within families?

In some circumstances – such as with estranged couples – there may be disagreements between carers about who should act as the primary carer. The Commission aimed to avoid a complex bureaucratic approach for resolving this, with the guiding principles being the best interests of the child and administrative pragmatism.

In most situations, the Commission’s proposal would *initially* grant paid parental leave to the (eligible) mother. This is because of the unique capacity of the mother to breastfeed her baby, with the health and other benefits this has for the mother and baby (chapter 4).

Fathers meeting the employment test, and who share in the daily primary care of the baby, would still receive a short period of paternity leave, even if the mother was

not eligible for statutory paid parental leave. (This proposal met with widespread support from participants.) Only the father, or other eligible partner, could take this leave. If he did not use it, he would lose it, hence the popularly used description of such paternity arrangements as ‘use it or lose it’. Such a provision creates incentives for fathers to exercise greater caring responsibilities, consistent with currently stated social norms, and to signal to employers and colleagues that fathers’ roles in caring for babies are important. ‘Paternity’ leave would also be available to eligible same sex partners who share the primary care with the mother.

The Commission envisages some degree of flexibility, as outlined below, but we emphasise that complete flexibility involves costs as well as benefits.

Leave would not be mandatory

There would be no requirement that the parent take any given period of parental leave, as is mandated in some countries (such as Canada, Italy, Germany, Belgium and Estonia Moss and Korintus 2008). While children and mothers typically benefit from a period of leave and overwhelmingly most parents take at least a month off there are circumstances when this might not be true. The Commission’s scheme provides incentives for people to take time off, but allows them the final say about what they wish to do.

Transfer of leave should sometimes be permitted

There may be reasons why the mother may not be best suited to caring for the child. For example, a mother may suffer from post-natal depression, or the mother may be a very high earner, whose income is critical for meeting mortgage repayments.

Accordingly, we propose that, as in New Zealand, she would have the power to transfer the leave to the father (or same sex partner) so long as they assume the role of the primary carer *and* meet the employment eligibility criteria. This would allow carers to share the parental leave period of 18 weeks. For example, a mother might take the leave for the first 14 weeks after birth and then the father for the remaining 4 weeks. For practical reasons, employers would need adequate leave notices so that they knew who would be caring for the child and when (as is required under the proposed National Employment Standards) and so that FaHCSIA would have sufficient time to organise prepayment for the employer. In practice, the burdens on employers of transferability is not, in any case, likely to be great, since the New Zealand experience showed only that around 1 per cent of mothers transferred their leave to fathers.³⁶

³⁶ Australian Human Rights Commission (sub. DR377, p. 16).

Access to paid parental leave without the mother's consent

The Commission's proposed scheme is more flexible than those of many of the maternity-only schemes applied overseas, recognising the critical role of fathers by granting him a period of leave he alone can take and allowing him to benefit from parental leave if the mother consents. In addition, the Commission proposes that in some special cases a father who meets the employment eligibility criteria would receive paid parental leave without the need for a mother's consent, for instance:

- the father may be a sole parent of the new baby (for example, due to the death of the mother)
- where the mother refuses consent for the father to get statutory paid parental leave, but where a court has ordered joint custody arrangements
- the mother may be unable to give consent for medical reasons, when reasonably it would be expected that she would do so.

Some of these circumstances could be incorporated into the legislation covering a paid parental leave scheme (and others covered by the special administrative arrangements discussed in the next section).

Gender equality

The Commission's proposal does not give mothers and fathers equivalent access to paid parental leave in that:

- only the father can get a period of ring fenced paternity leave (for the reasons discussed above) irrespective of the mother's eligibility
- where both parents are eligible, it is the mother who decides who can take paid parental leave. This avoids the need to arbitrate where there is disagreement between parents about leave arrangements
- an eligible father cannot access paid parental leave if the woman is ineligible, for example, if she is not in the labour force or has insufficient employment tenure. This restriction is appropriate because where the mother is ineligible, the most likely outcome is that she would be the primary carer of the child, thus disqualifying the father anyway. Where she was ineligible and was not the primary carer, the 'special circumstances' provisions described above could be applied where appropriate. The discretionary use of these provisions would avoid the potentially difficult task of substantiating that the father on paid leave was genuinely the primary carer when a mother was outside the labour force.

In New Zealand, similar eligibility restrictions to those above were subject to a complaint of unlawful sexual discrimination to the New Zealand Human Rights

Commission (Father and Child Society 2003). While that New Zealand Human Rights Commission did not resolve the matter, the asymmetric treatment of men and women might raise concerns about gender equity in the Australian context too. This concern is accentuated by the fact that the proposed National Employment Standards provides parental leave entitlements in a gender neutral way. However, the Standards are for unpaid leave, so the risks of abuse of the provisions are low. The Commission's approach is pragmatic, balancing the goal of flexibly meeting the needs of all family members, particularly the child, with the goal of an administratively effective scheme.

Nevertheless, over the longer term, there may be scope to give men more equal effective access to paid parental leave.

One potentially significant step would be to allow parents to share leave on a part-time basis, so long as the child receives care exclusively from the parents in one block of time. For instance, the mother might take paid parental leave four days a week and the father one day a week. This would allow couples to have more flexible care arrangements, while maintaining the exclusive parental care that is important for child welfare. It would also give men a greater practical capacity for caring for their children, and allow both parents to maintain connections to the labour market.

In this vein, Australian Women Lawyers observed that:

... if the system acts as a barrier to shared care of children this will reinforce the outdated stereotype that it is a woman's role to stay at home with her children (DR389, p. 3).

As noted by the Public Service Association and Professional Officers Association Amalgamated Union of New South Wales (PSA) (sub. DR380, p. 16), allowing shared part-time care would also help women maintain connection with their careers.

While many participants supported a flexible arrangement of this type, others argued it might actually undermine the child and maternal welfare goals of the scheme (chapter 4). That would certainly be a concern were shared part-time care to be mandated, but is less clearly so when parents choose the option that best suits their individual, and highly varying, needs.

However, shared part-time parental leave raises other concerns, such as its potential disruption costs for employers. Some of these costs (and some of the concerns raised by employer groups) may be largely resolved by requiring employer consent for the use of this flexible option. Even then, employers might still feel obliged to

give consent, especially under the right for employees to request flexible working arrangements under the proposed National Employment Standards.

Given these concerns, the Commission has not recommended provision for part-time paid parental leave in the initial implementation of a statutory paid parental leave scheme. That said, when there is greater clarity about the operation of the ‘right to request’ provision in the proposed National Employment Standards and when business has adapted to a statutory paid parental leave scheme, it is appropriate to revisit shared part-time paid parental leave as part of the mooted three year review.

Another option for greater involvement by men in the care of their children could be an extension to paternity leave, as advocated by several participants, or a more general lengthening of parental leave, with more flexible sharing arrangements than those proposed by the Commission. The Australian Human Rights Commission argued for the latter as part of a second stage of reforms (sub. DR377, pp. 15–16). Such options could be considered after any initial scheme has been in place for some time.

RECOMMENDATION 2.6

The Australian Government should require that, in order to be eligible for the statutory paid parental leave, a parent must have worked:

- ***‘continuously’ for at least 10 months (the ‘qualifying’ period) of the 13 months prior to the expected date of the birth or adoption, though not necessarily with the same employer, and***
- ***for at least 330 hours in the qualifying period.***

In addition, to be eligible for:

- ***statutory paid parental leave, a parent must be the primary carer of the child***
- ***statutory paid paternity leave, the father or relevant partner must share in the daily primary care of the child.***

Eligibility should include the self-employed (including employers and contractors), subject to independent assessment that they have met the eligibility criteria.

RECOMMENDATION 2.7

A statutory paid parental leave scheme should cover:

- ***the parents of newborn children, including surrogate mothers***
- ***mothers of a stillborn baby, where the baby meets the requirement for birth registration***

-
- *parents of non-familial adoptions of children aged under 16 years old from the time of placement*
 - *custodians of surrogate children, subject to its compatibility with an impending uniform framework for surrogacy across Australian jurisdictions*
 - *those in special circumstances as determined administratively (recommendation 2.8).*

RECOMMENDATION 2.8

The Australian Government's scheme should allow a non-parental primary carer access to statutory paid parental leave (or the balance left), but only if:

- (i) - there are genuine problems in the parents fulfilling that role, and*
- the relevant primary carer meets the work tests for eligibility, and*
 - the carer has long-term responsibility for the daily primary care of the child, and*
 - the carer is not making use of the carer's leave entitlements under the National Employment Standards if these apply to them*

or

- (ii) the relevant departmental secretary makes an administrative determination on the basis of 'special circumstances'.*

RECOMMENDATION 2.9

Subject to the eligibility requirements of recommendation 2.6, the paid parental leave scheme should give:

- *eligible mothers the initial parental leave entitlement, but allow them to transfer the entitlement to eligible partners who take on the role of the primary carer*
- *fathers access to paid parental leave if the mother is not eligible, but only where (a) the fathers meet the employment and primary carer eligibility requirements and (b) there are special circumstances, which would be determined administratively*
- *fathers or other eligible partners who share in the daily primary care of the child, a two week period of exclusive paternity leave on a 'use it or lose it' basis, even if the mother is not eligible for statutory paid parental leave.*

2.6 The duration and timing of leave

One of the most vexing elements of a paid parental scheme is its appropriate duration, as was apparent from the diversity of participants' views in this area (chapter 4). Many factors are relevant to the choice and different groups of parents need different amounts. There is no exact science to this choice. The Commission proposes a paid parental leave period of 18 weeks of care (with some special cases discussed below). We also propose an additional two weeks of 'paternity' leave, which would be reserved for the father (or in same sex couples, to the other eligible partner).

For what period would leave be available?

Parents would have to complete statutory paid parental leave within 12 months after birth as part of a continuous period of parental care commencing at birth, with no provision for prenatal leave. The block of statutory leave could commence at any time in that continuous period. The 12 month limit is consistent with the evidence on the child welfare gains from exclusive parental care (chapter 4).

The Commission proposes exclusion of the prenatal period from the statutory scheme because, among the other factors discussed in chapter 4, many pregnant women can safely continue to work until shortly before birth without risk, so that the Australian Government should not prescribe a minimum period of prenatal leave, as do some other countries.

In addition, there is no evidence that there are systemic problems of women taking excessively short prenatal leave periods because of the absence of leave. Under the Australian Government's proposed National Employment Standards, women are entitled to unpaid parental leave up to six weeks prior to the expected birth date, so that they do not lose access to the job return guarantee if they leave work during this period. Employers are also legally obliged to transfer a pregnant women, where necessary, to a safe job in the prenatal period, while preserving pay and conditions, and where that is not possible to be paid 'no safe job' leave (clause 81 of the proposed Standards).

Under the Commission's new '10-13' eligibility test, a woman who needed a period of prenatal leave for health reasons could do so without putting at risk her subsequent eligibility for post-natal statutory paid parental leave.

A major advantage of not incorporating a prenatal leave period in a statutory scheme is the objective of extending post-birth leave for maternal and child health reasons 'additionality' (chapter 1). Factors other than the existence of paid

parental leave appear to determine the length of time women take prenatally. Accordingly, any payment during this period would cost taxpayers money, without changing behaviour. The implication is that for any given budget, a longer period of postnatal leave where behaviour is susceptible to change would be preferred to a scheme that allocated leave over both the pre and postnatal periods.

The issue of concurrent use of leave

In the draft report, the Commission proposed that concurrent use of statutory paid parental leave and other private leave (such as privately negotiated private paid parental leave or recreation leave) should not be permitted. This reflected our concerns to maximise additionality and cost effectiveness. For instance, a woman who had ten weeks of full replacement private paid parental leave and who intended to return to work at the end of that period would not benefit at all from statutory paid parental leave increasing cost effectiveness of the scheme. In contrast, concurrence would mean that she would have received around \$5000 gross from the Government an apparent deadweight cost to the scheme.

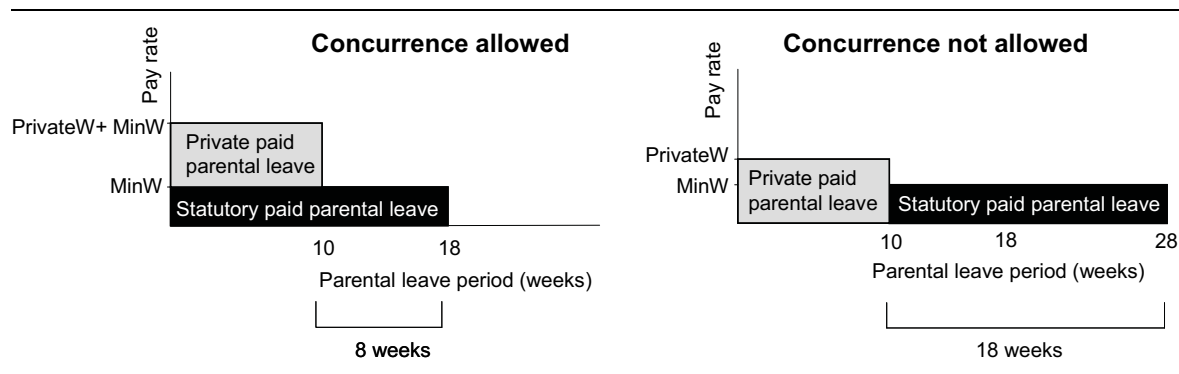
On the other hand, not many women who intend to return early to work would elect to take statutory paid parental leave, since the baby bonus and other welfare payments would be more attractive (so long as their income is not too high to trip the means test on the baby bonus). Even if they did take statutory paid parental leave during the relevant period, the marginal deadweight costs would often be low because they would forgo the baby bonus and other welfare payments. (Our changed view about reimbursement of the baby bonus significantly reduces the risks of deadweight costs associated with women who intend to return to work early anyway.)

The picture regarding additionality is even more complicated:

- Where a private scheme did not pay full replacement wages, allowing concurrence would provide stronger incentives not to return to work during the overlapping periods of private and statutory paid parental leave than a requirement for parents to use leave sequentially. In the example in figure 2.2 below, these stronger incentives to stay away from work persist until the end of week 10. However, the effect on additionality during this period must be small since it is a time when most women are strongly inclined to stay at home.
- The concurrence and non-concurrence approaches provide the same incentives for leave taking in the overlapping period (weeks 10 to 18 in the chart below).
- It is only in the period from 18 to 28 weeks that the ‘no concurrence’ model provides a stronger incentive to stay on leave. This is important because it

provides stronger incentives for women to take off the period that gets them to six months.

Figure 2.2 Incentive effects of allowing concurrence or not



In reaching a judgment about the benefits of permitting concurrence versus no concurrence, it is important to note that:

- a large share of mothers have no access to private paid parental leave, including all of the self-employed and many low-income employees. For these parents, there are no obvious differences in the incentives posed by permitting or not permitting concurrence
- the major reason parents give for going back to work ‘early’ are financial constraints of some kind. Both ‘concurrence’ and ‘no concurrence’ models provide the same gross payments to week 28 in the example above and so, subject to a woman wanting to take leave until at least this time, provide an equal financial capacity to do so (subject to some qualifications associated with the differential tax/welfare implications associated with the different bunching of payments).

Quite apart from the issue of additionality, other considerations affect the choice between the alternatives.

- A concurrence model is more amenable to voluntary employer top ups without complex administrative arrangements. For instance, an employer might top up the statutory scheme to full replacement wages, but this would mean that there would be concurrence of statutory and privately negotiated paid parental leave. The law could probably get around this by creating exception clauses to ‘no concurrence’, but auditing these in practice might be quite difficult.
- Were concurrent use of leave to be barred, employers and employees would probably restructure private paid parental leave arrangements to achieve an effect similar to that resulting had concurrent leave been permitted. For instance, firms might offer cashed out paid parental leave benefits that could then be used

by employees to finance a flow of private income concurrent with any statutory paid leave.

- There will often be incentives for parents to take private and statutory paid parental leave sequentially anyway because it would reduce the tax burdens and increase access to welfare benefits.
- It would give parents the option of getting above-replacement wages for a given period, which may relieve the early financial stresses associated with having a baby. (Some may perceive such a period of above-replacement wages as ‘unfair’, but someone getting the baby bonus instalment on top of existing privately negotiated leave would also get such above-replacement wages currently. In any case, the capacity for concurrence would not usually change the quantum of funding, just its timing.)
- Allowing concurrence would give employers and employees maximum flexibility in how they wished to arrange their leave, (and combined with the Commission’s 12 month limit, allow parents better scope to take privately negotiated leave on a part-time basis at the same time as taking statutory paid leave).
- It would also more often permit women to take a period of paid prenatal leave. If an employee is earning a weekly amount below the minimum wage then in general they would prefer to take the statutory paid parental leave first. However, in doing that they might forgo any period of paid prenatal leave in a private scheme (and these are often a feature of such schemes) because of the usual requirement that such leave be taken in one block. Concurrence would allow them to get access to the prenatal paid leave in such private schemes.

Accordingly, the Commission recommends that employees can take statutory paid parental leave at the same time as other privately negotiated leave if they wish to.³⁷ However, this should not relate to paternity leave, where a ‘non-concurrence’ rule should apply. Otherwise, given the current leave taking behaviour of men around the birth of their child, there is a substantial risk that many men would not alter their overall leave duration, but merely combine the statutory leave with a few weeks of full-replacement private leave they were going to take anyway.

Continuity of care

While there may be benefits from allowing parents to stop and then subsequently recommence their parental leave care to meet the needs of their small business, to

³⁷ It should be noted that concurrent use of leave is permitted in the New Zealand scheme, and so is not an exceptional provision.

study, or to strengthen links to the workplace, this could run against the child welfare benefits of continuous exclusive parental care. Accordingly, the Commission proposes that (collectively) parents would have to take leave in one block (with the single exception of the limited capacity for interruptions under the ‘keeping in touch provisions’ discussed later). The requirement for continuity of care would not preclude one parent from taking time off from a caring role if the other parent (see below) then took up that role.

An additional requirement to ensure continuity of parental care is that statutory paid parental leave would need to commence at birth, or after a period of other continuous leave that commences at the birth of the child.

Switching between carers

Another potential timing issue relates to how many times parents can switch as primary carers when taking paid parental leave. Some families might want to take complexly structured periods of leave. For example, the mother might take the initial 12 weeks, the father the next two, the mother the next two weeks and the father the final two weeks. The existence of a separate right to paternity leave for fathers alone would add to the potential complexity of leave periods.

While flexibility in the use of the various leave entitlements is inherently desirable, it would involve compliance burdens for employers, administrative costs for governments and may begin to undermine the advantages to children of uninterrupted care. Accordingly, the Commission proposes that:

- fathers (or other eligible partners) must complete their paid paternity leave in the 12 months after the birth of the child in one block
- in order to maximise the period of exclusive parental care, both parents could not take statutory paid parental leave at the same time. A father or mother would still be eligible to take three weeks of concurrent *unpaid* leave after the time of birth (or adoption placement) under the proposed National Employment Standards (clause 72(5)). In many instances, fathers would probably elect to take recreational leave for this period or to use their paid paternity leave. (The Commission proposes that men cannot take paid paternity leave at the same time as other forms of paid leave, but that there would be full scope to take paternity leave while on unpaid leave.) The capacity for involvement by both parents in this early period recognises the importance for both parents of developing a relationship with a new baby, as well as the special demands on families at this time
- only one transfer between parents of parental leave would generally be permitted. So, in the example above, if a mother wished to take the first 12

weeks of leave, then the father or eligible partner would have access to the remaining six weeks of leave, but without the capacity to pass it back to the mother. Some participants³⁸ expressed the concern about just one transfer, given the possibility of sporadic illness in the primary carer or of complex shared arrangements for taking leave. However, there are tradeoffs between flexibility and complexity. As suggested by the Australian Nursing Federation, the Commission proposes scope to allow more than one transfer in ‘special circumstances’ to be judged administratively.

Why 18 weeks?

The Commission’s choice of a postnatal leave period of 18 weeks (as in the draft report) is mainly a reflection of concerns to improve child and maternal health and welfare outcomes, which are strongly duration-related:

- The evidence is most compelling that there are child health and wellbeing benefits from exclusive parental care in the first six months of life. Longer periods of nine to 12 months may also be beneficial. However, beyond that, the evidence suggests that many of the risks of non-exclusive parental care become progressively less evident as the age of the child increases (although this is dependent on the quality of, and hours spent in child care and the extent to which the parents continue to play an active role in the care of the child). It should be emphasised that these are ‘average’ effects across whole populations of families, and that outcomes for specific families can be very different.
- There is also evidence of gains from a father participating in care in the early period of an infant’s life.
- A leave period for maternal recovery after birth should generally be longer than 12 weeks and could potentially be up to six months.

Why is it not just up to parents to choose the most beneficial duration of care for their children? In many instances, despite a preference for staying home longer for their baby’s wellbeing, many women find it hard to manage financially without working. (And, given the complexity of the emerging science underlying child welfare, some parents may not be aware of the gains associated with longer periods of absence from work.) The available evidence shows that a majority of formerly employed women return to work earlier than one year (around 60 per cent); around 30 per cent return within six months; and about 10 per cent return within three months (chapter 3). Society also has a stake in healthier children mainly for

³⁸ Such as the PSA (sub. DR380, pp. 15–16), The Australian Nursing Federation (sub. DR347, p. 7) and the Finance Sector Union of Australia (sub. DR306, p. 11).

ethical reasons, but also because it may lower subsequent social and fiscal costs, such as through the health budget.

Many early-returning women are paid relatively low weekly wages when in work because of part-time hours and/or low hourly rates. Accordingly, a reasonable level of payment in a parental leave scheme is likely to extend their leave by the full period of paid parental leave.

The effect is likely to be smaller for families that have less financial difficulties or where women get higher wages. Nevertheless, by altering the balance of returns from paid employment compared with full-time caring for children, longer average care periods are also likely for this group. (For many people, of course, paid leave will not alter the duration of leave taken during the critical period of a child's development. In these cases, a paid parental leave scheme is unlikely to produce many child welfare benefits, except those arising from the financial assistance component of a paid scheme.)

Many participants argued that leave should be a full six months to get to the 'ideal' leave absence. However, the duration of any *paid* statutory scheme does not have to be equal to the period of absence that most helps parents and their children. Parents can (and do) use many options to fund a period of leave from work to care for their children. So, if a period of around six to nine months is around the 'right' period of absence, then a paid parental leave scheme that gave parents around 18 weeks of postnatal leave would entail co-funding by parents of around two to five months, which most families would find affordable.

- Most women already take more than 26 weeks of leave, but the scheme enables a significantly greater number to reach this duration and will also allow many of those taking around six months to increase their leave duration to nine months.
- The Commission found that the impact of the scheme on leave durations (of those families taking less than 26 weeks) is greater for lower income, more financially constrained families. They are a particular target of this policy since they often have low representation in privately negotiated paid parental leave schemes.
- Overall, eligible employed mothers would increase their absence from work by about an average additional 9.8 weeks or to 55 per cent of the proposed length of statutory paid leave.
- Co-funding would recognise that both society and families have responsibilities to assist in the upbringing of children.

A period of paid parental leave much shorter than the proposed 18 weeks would require too much co-funding by parents. This would mean that poorer families in particular would require the main carer to go back to work earlier than desirable. And, to the extent that parents run down their reserves of recreation and carer's

leave, they would have reduced scope to care for their child at later ages – such as during seasonal breaks in child care provision or when the child was sick – amplifying family stresses. (Some also see running down all leave reserves to care for newborn children as unfair, especially as the burden commonly falls on mothers.)

Given the empirical evidence considered by the Commission, a period of statutory paid parental leave much longer than 18 weeks would produce diminishing benefits for children and parents for each additional week, and the costs would of course be higher.

There are other arguments for reasonable leave periods

First, up to a certain point, longer (combined pre and postnatal) leave periods probably stimulate *lifetime* labour supply:

- For a given rate of weekly payment, longer durations of leave increase the overall value to employed women of a statutory scheme. This value acts like a wage increase, and bigger wage increases elicit bigger labour supply responses (chapter 5).
- Women with no entitlements to paid leave often leave their jobs while pregnant or around the birth of their children, while those with long paid leave entitlements maintain a link to their employer – increasing their lifetime labour force engagement. It is likely that women with very short paid leave periods may respond in a similar way to those with none.
- However, long durations of care are likely to erode a primary carer's work skills, with consequences for subsequent job quality and career prospects. In addition, long leave may make staying at home the customary state, decreasing the likelihood that carers will seek re-employment. Chapter 5 finds some evidence that the labour supply effects of paid leave peak at around 20 weeks.

Second, many participants in this inquiry have argued that paid parental leave serves important social goals, such as affirming the appropriateness, and value of, time off from paid employment to care for infants. A short period of leave would not credibly recognise this value, and indeed would do the opposite. To meet the stated social goals suggests a total paid leave period of at least 12 to 14 weeks, given this was the minimum leave amount proposed by past inquiries and representations by participants, and the most common minimum in overseas schemes.

Third, for a given level of weekly payment, the aggregate leave period has to be long enough to make paid leave a more attractive option than the baby bonus paid to parents at home. In theory, this could also be achieved by paying the same

aggregate value of the statutory paid parental leave scheme as proposed by the Commission, but over a short period. But a short period has potentially perverse consequences that make it an unattractive option:

- Under the Commission's proposal, eligible carers in a family would collectively receive \$1088 for nine fortnights, amounting to \$9788 of gross income. The same aggregate gross amount could be achieved by paying \$1398 over seven fortnights of leave. However, as experience with the baby bonus has shown, large payments can have perverse impacts on the behaviour of some sub-groups. The Australian Government introduced payment of the baby bonus in 13 fortnightly instalments of \$384.62 per fortnight to overcome such perverse outcomes. It would sit oddly with that policy to introduce a fortnightly payment nearly four times that amount.

This suggests reasonably prolonged leave periods as the best way of paying the required aggregate amount. (That does not mean that there is never scope for trading off payment rates and duration.)

Finally, disruption and other burdens to employers probably rise initially with duration, while eventually falling. It seems plausible that an 18 week leave period would entail lower costs for employers than shorter leave periods because there are a wider range of options to cover the absence of the employee and the capacity to spread any transaction costs over a longer period. However, this may vary across employers.

Fiscal costs constrain the duration of paid leave

Some participants proposed paid leave of six months to one year. However, while there would probably be some gross benefits from longer leave periods, they entail a substantial increase in the financial burden on those funding the scheme or displace other expenditures by government, including spending on other facets of child welfare and health. Each additional week of leave would cost taxpayers around a net \$50 million after taking account of increased income tax receipts and reduced income-tested welfare payments (and \$115 million for each additional week *before* clawback of such offsets). At some point, the incremental gross benefits would not be worth the additional costs of forgone spending in other areas such as higher quality child care or a better health system.

Accordingly, the role for government should be in that period where the evidence of gains is most apparent. (Potential future add-ons to leave and how these might be funded is addressed in chapter 8.)

Durations other than 18 weeks

Special groups

Some babies are born in contexts where different considerations may determine the appropriate duration of leave. Unless otherwise stated, such special groups would still have to meet the employment and primary carer eligibility requirements set out by the Commission.

Surrogacy: The surrogate mother of a baby should be eligible for paid parental leave of shorter than 18 weeks since the prime objective would be a reasonable period of leave for adequate postnatal maternal recovery. The Commission proposes 12 weeks, in line with the existing scientific evidence (chapter 4).

Babies with a disability: Children with disabilities have special needs for parental care. Reflecting this, in the United Kingdom, parents of disabled children are eligible for a longer period of paid leave. However, the Commission does not propose longer paid parental leave entitlements for parents of babies born with a disability. This is because there is already an existing suite of disability services and support payments. These aim to flexibly provide services – medical, counselling, financial, and respite, among others – that reflect the particular circumstances of the family and child. A fixed, longer period of paid leave would fail to take account of those circumstances. If the existing disability services are not adequate, Australian governments should reform these, rather than using paid parental leave as a way of alleviating any such inadequacies.

Should there be scope to extend leave by getting half-pay?

The Commission considers that a statutory paid parental leave scheme should *not* give carers the capacity to be paid at half the rate for 36 weeks. Allowing half pay would complicate payments for government and for those employers acting as paymasters for government. While probably a lower risk, a capacity for half-pay might also allow tax planning, where parents would choose a payment regime that reduced their tax obligations or maximised their receipt of social welfare benefits.

This limitation would not preclude flexible arrangements. Under the new proposed National Employment Standards, an eligible employee would be entitled to unpaid leave of up to two years (subject to employer consent). This would allow an employee to put aside some or all of the payments received while on statutory paid parental leave and, combined with any other income or savings, use this money to fund a longer leave period. For instance, an employee might decide to spend half of their paid entitlement over 18 weeks and save the rest, subsequently running down

those savings over an additional 18 weeks. This is a desirable form of flexibility and indeed shows how the entitlement to unpaid leave is likely to complement the impacts of the Commission's proposed paid leave scheme on the duration of care for children (chapter 5).

RECOMMENDATION 2.10

The Australian Government's statutory paid parental leave scheme should provide a total of 18 weeks of paid parental leave for a primary carer who meets the employment test, subject to the requirement that:

- *the primary carer complete paid parental leave within 12 months after birth (or eligible adoption) as one block in a continuous period of parental care, with the parental care, but not necessarily the statutory paid parental leave, commencing no later than birth*
- *leave would be taken at the full-time rate*
- *only one transfer of paid parental leave would generally be permitted between parents, except in special circumstances to be determined administratively.*

There should be provision for 12 weeks of paid parental leave to a surrogate mother meeting the employment tests.

The scheme should allow:

- *statutory paid parental leave to be taken concurrently with any other leave*
- *parents to take any paid parental leave remaining if their child died*
- *the transfer of any outstanding leave to the partner if the primary carer died.*

The Government should require paternity leave to be completed as one block within 12 months after birth (or eligible adoption). Paternity leave should:

- *be able to be taken at the same time as the primary carer's paid parental leave*
- *not be able to be taken concurrently with other forms of the father's paid leave.*

2.7 Measures to reduce business burdens

The Commission has been conscious of the burdens any new set of obligations can have on employers, especially small business. In responding to the draft report, some employers were concerned that all employees eligible for statutory paid parental and paternity leave would also get super payments from their employers (Motor Trade Association of SA, sub. DR338, p. 2). This is not so. It is important to emphasise that where an employee had limited tenure with an employer, that employer would not have to pay a super contribution, and nor would the employer

need to provide a job return guarantee or act as paymaster. The scheme is designed to ensure that where it entails burdens for employers, it also encourage employees to meet the tenure element of the work test, with benefits for employers.

The Commission has also considered measures specifically aimed at lessening burdens for business. The first relates to the leave notices that employees must give employers that they are leaving and returning to work. This, more than the total leave period, may be the decisive factor in determining employer costs. The Australian Government's proposed National Employment Standards stipulate periods of notice for unpaid leave:³⁹

- (a) generally 10 weeks prior notice is required for taking parental leave (clause 74), if not practicable (say for a premature birth), as soon as is practicable
- (b) notice must stipulate the starting and end date (clause 74(3))
- (c) employees can extend their leave beyond the originally indicated period, but must give at least four weeks notice (clause 74(4))
- (d) employees on parental leave may return to work earlier if the employer agrees (clause 77), which implies that the employer can determine when that occurs.

A period of 18 weeks of paid leave, combined with (a), (b) and (d), decreases the likelihood of significant disruption burdens for employers. Moreover, it is possible that carers will less frequently seek extensions to leave if the paid period is sufficiently long, reducing the disruption burdens posed by the short notice required in (c).

However, the Commission considers there are grounds for extending the notice required under clause 74(4) of the proposed National Employment Standards to six weeks, since employers may well face significant costs if they have to re-arrange contracts with substitute employees.⁴⁰ Anything that reduces disruption burdens associated with parental leave has the added benefit of lowering the likelihood of discrimination against potential parents, particularly would-be mothers. It should be noted that an amended clause 74(4) would still permit some flexibility about notice where such notice is not practicable (for example, death of a spouse). Accordingly, amendment of the clause would not prevent leave being taken in the event of unforeseen circumstances, a concern raised by the Financial Services Union (sub. DR306, p. 13).

Another related initiative is evidence-based guidance to employers especially aimed at small business on how to adapt business practices to minimise

³⁹ Which also applies to any paid leave (clause 25 of the Standards).

⁴⁰ The Commission understands that following the experiences of their fledgling paid parental leave scheme, there is some consideration in New Zealand to increase the period of notice for return to work to reduce disruption costs.

disruption burdens. The New Zealand Department of Labour sought advice from employers on successful practices to reduce such costs and provided an online guide to employers.⁴¹ The Australian Government could combine such guidance with other information for employers associated with the introduction of a statutory paid parental leave scheme. The Australian Government should develop a web-based calculator that would show which employees would be eligible, what they would get and that would set out any obligations by employers. This would be useful for both employers and employees.⁴²

Finally, as in the United Kingdom (and as advocated in New Zealand by the National Advisory Council on the Employment of Mothers 2008), there are grounds for a ‘keeping in touch’ (KIT) provision. This would allow parents on statutory paid parental leave to work up to 10 days while on leave, but only if the employer and employee mutually consented. For example, parents could participate in training or planning and strategy days, or undertake any other activities that maintain contact with the firm or that facilitate an orderly return. Involvement would be strictly voluntary for both parties (a point worth noting given many concerns raised by participants).⁴³ Some privately negotiated schemes already incorporate such arrangements, such as the YWCA Canberra’s (sub. DR410, p. 4) staying-in-touch provision, ‘which has played an important role in increasing workforce attachment’.

The provisions in the UK statute could provide a template for these arrangements.⁴⁴ As in the United Kingdom:

- for practical administrative reasons, whether a parent goes in for one hour or a whole day would still count as a day for ‘keeping in touch’ purposes
- any ‘keeping in touch’ day would be counted as part of paid parental leave and would not extend the total duration of the statutory paid parental leave period.

The Commission understands that the majority of UK employers using the provision pay normal rates for the KIT days.

A KIT provision would be likely to improve employee retention for businesses, decrease any productivity loss associated with a parent’s absence from work and enhance the career prospects of the relevant parent.

⁴¹ See <http://www.dol.govt.nz/worklife/resources/making-it-work.asp#3>.

⁴² Several participants supported this measure, for example, the Tasmanian Women’s Council, sub. DR307; Australian Nursing Federation, sub. DR347; and the PSA, sub. DR380, while none opposed it.

⁴³ For example, the Shop Distributive and Allied Employees Association, sub. DR330; PSA, sub. DR380; Lisa Jeffrey, sub. DR357; Angela Budai, sub. DR329; National Women’s Centres, sub. DR310; and the Finance Sector Union, sub. DR306.

⁴⁴ Statutory Instrument 2006 No. 2014, *The Maternity and Parental Leave etc. and the Paternity and Adoption Leave (Amendment) Regulations 2006*.

This arrangement should also be extended to the self-employed/employers so that they can maintain a degree of oversight of their businesses. Such a provision is included in the New Zealand statutory scheme.

RECOMMENDATION 2.11

The Australian Government should:

- ***amend clause 74(4) of the proposed National Employment Standards to require an employee on parental leave to provide six weeks notice for an extension to leave, unless an employer agrees to a shorter period***
- ***ensure that unpaid leave entitlements under the proposed National Employment Standards apply to eligible adoptive parents of children aged under 16 years.***

RECOMMENDATION 2.12

In addition to publicly provided information on the workings of a statutory paid parental leave scheme, the Australian Government should provide:

- ***evidence-based advice to employers on how to reduce the disruption burdens associated with increased average durations away from work by carers, with this information especially directed at small business***
- ***a web-based calculator that shows which employees would be eligible and the net benefits they would receive, and that sets out any obligations by employers.***

RECOMMENDATION 2.13

The Australian Government's statutory paid parental leave scheme should include:

- ***a 'keeping in touch' provision that subject to employer and employee consent allows the employee to work up to 10 days while on paid parental leave, where that work strengthens the connection to their workplace***
- ***scope for eligible self-employed parents to maintain some oversight of their businesses while on leave.***

2.8 Complementary policies

The main goal of paid parental leave is the wellbeing of the newborn children and their parents. The Government also requested the Commission to consider complementary policies that would improve support for parents with newborn children.

It is possible that two policies produce more effective outcomes than each on its own. For instance, the benefits of paid parental leave are more fully realised if there are complementary support services that encourage Australia women to continue breastfeeding after initiation. Currently Australian women have relatively low rates of sustained breastfeeding (chapter 4).

In the draft report, the Commission recommended that the Australian Government should provide more resources to allow effective support for breastfeeding during the first six months of an infant's life. However, in December 2008, the Australian Government responded to a House of Representatives Standing Committee on Health and Ageing report on breastfeeding, agreeing to a national strategy with state and territory governments (chapter 4). That strategy should be the basis for more effective breastfeeding support and if warranted over time for more resourcing.

The Commission is uncertain of the benefits of other support services for children aged less than two years old.⁴⁵ There appears to be a wide spectrum of programs that deliver services to many family types and children. There have been dozens of pilot programs or small-scale state or national programs that provide funding for support of families, including those with babies (for example, the National Good Beginnings Volunteer Home Visiting Program and the Families First Program and the Victorian Best Start program). Community groups funded by specific short-term grants often deliver services. Many programs target disadvantaged families though some at least aspire to have universal reach.

The patchwork of programs and varying evaluation methodologies make it hard to detect gaps and to work out what works well (Wise et al. 2005). The Commission's initial impression is that government programs supporting parents with children under age two years are more fragmented and more poorly resourced than those aimed at older children. But the apparent 'messiness' of arrangements may not be a problem. Different communities may need different services, and variations in resourcing and program types across Australian jurisdictions may well be the kind of experimentation that reveals the best programs. Reconsideration of the issue since the draft has not changed this position. It is not appropriate to specify additional resourcing requirements or directions for policy without a robust evidential base.

⁴⁵ In June 2008, the Australian Government announced a comprehensive early childhood education initiative but this is aimed at older children. The initiative will ultimately provide all Australian children with access to 15 hours a week, 40 weeks a year of 'high quality, play based learning and development programs' in the year before school.

2.9 The cost of the scheme

The Commission's proposal for a statutory paid parental leave scheme will produce considerable benefits. However, it will also involve significant costs (figure 2.3 and appendix B). The annual gross costs of a statutory paid parental leave scheme (before the potential implementation of employer superannuation contributions at a later stage) would be around \$1.3 billion for government and ultimately taxpayers.

The net costs would be substantially lower than this. The Australian Government would save around \$580 million alone from savings to payments of the current baby bonus, so just taking account of that, the incremental monetary costs for taxpayers would be around \$700 million.

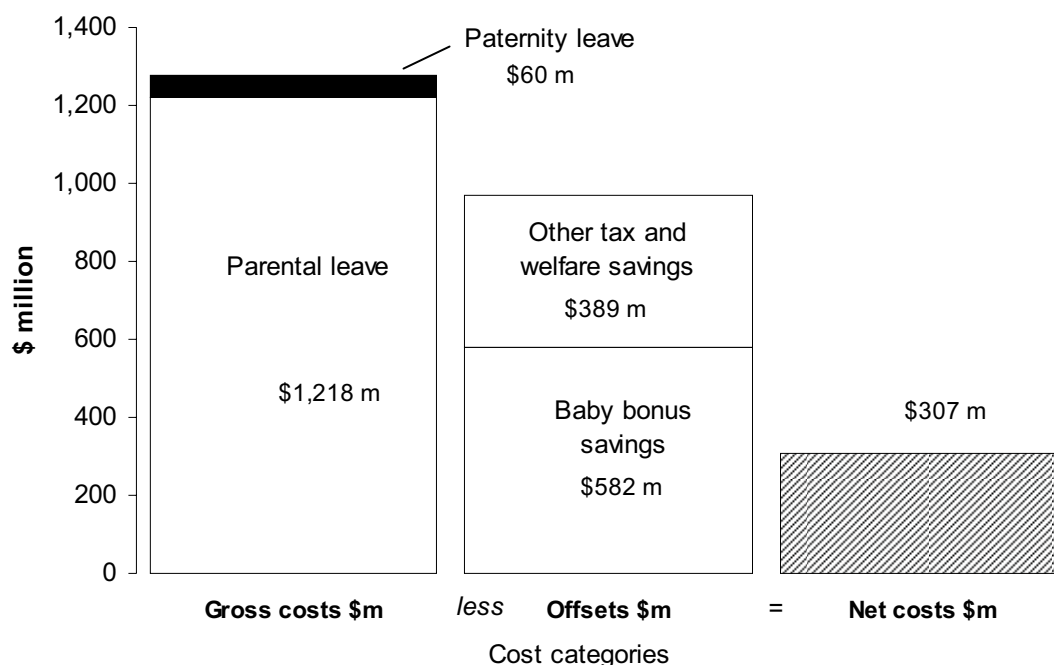
The ultimate net cost to the economy would be lower again, but is harder to calculate with accuracy since the calculations need to take account of taxes on paid parental leave and reductions in other income-tested family benefits (such as family tax benefits and child care rebates). The Commission estimates the net costs to be around \$310 million. (The cost estimates in the Commission's final report are lower than in the draft report. This is because they rely on a more sophisticated model of the welfare and tax system, take better account of those families that do not use their entitlement to statutory paid parental leave, and include budget savings from moving away from the Commission's draft proposal to eliminate income testing for the baby bonus.)

If superannuation contributions were included in the scheme at a later stage, they would entail additional gross costs of around \$85 million in today's dollars, which employers would bear. The net costs to employers would be \$60 million after taking account of the tax deductibility of business expenses and the overall net economy-wide costs of the scheme would be around \$380 million.

(These calculations and the implications for costs of different design elements of a scheme are set out in appendix B.)

Figure 2.3 How much will a scheme cost?

Estimated gross and net costs of the Commission's proposed scheme



Data source: Productivity Commission calculations described in appendix B.

Of course, as several submissions to this inquiry have pointed out, the aggregate costs look much smaller when:

- spread over many people. A scheme costing a net \$310 million represents around 6 cents in every \$100 of annual employee compensation or around \$30 per employee per year (in 2007-08 terms) and would represent a tax impost of around \$22 per taxpayer per year
- looked at in the context of the overall package of taxpayer-financed family assistance measures. Net taxpayer funding of the statutory paid parental leave scheme represents about a 1.2 per cent increase in existing outlays by government on family assistance measures.⁴⁶

So long as the government spreads the tax burden widely, the implication is that taxpayers would not experience any significant 'hip-pocket' effects from (modest) increases in the duration of paid leave, compared with other contemporary pressures on people's living standards like petrol and mortgage costs.

⁴⁶ The expenditure includes family tax benefits, parenting payment, child care benefits, child care rebate and the baby bonus for 2006-07 (FaHCSIA 2008, *Pension Review Background Paper*, August), but does not cover a sundry range of other benefits (such as the immunisation allowance). Accordingly, the estimated share will slightly overstate the relative budgetary impact of the proposed scheme.

However, while such affordability is an important consideration, it does not, by itself, justify more generous schemes. Broken down sufficiently into their parts, all items of government spending could be represented as an apparently tiny increment to taxpayer burdens, but their cumulative impact would clearly be very substantial. The important question is whether there are sufficient benefits to offset the costs of more generous schemes, regardless of how small these costs are at the individual level.

In addition, more generous schemes can generate quite large individual burdens. For instance, an alternative scheme might provide full income replacement for employees, with a minimum wage floor to ensure that there are appropriate work incentives for the lower-paid. Back of the envelope estimates suggest that this scheme would cost around \$1.9 billion after savings from the baby bonus, but before offsets from tax and income-tested welfare payments. (The comparable number for the Commission's scheme is \$700 million.)

Were leave extended to 52 weeks, then under a full income-replacement model, the comparable cost would be around \$7.2 billion after savings from the baby bonus. This indicates the significant budgetary implications of 'European-type' models. Were the Government to be the sole funder of such a generous scheme, individual taxpayers would face an additional burden of around \$500 per year (again, after savings from the baby bonus but before offsets from tax and income-tested welfare payments). Given a progressive tax system, many taxpayers would make only a small contribution, implying very significant contributions by higher income households.

Other costs?

While the monetary costs of the Commission's proposal are the most visible, other costs are also important and also need to be set against the benefits of the scheme. These costs include:

- compliance and administrative burdens for businesses and government
- potential disruption burdens to business associated with longer absences of women from work
- the disincentive, administrative and compliance costs associated with financing the expenditure through the tax system (though see Kaplow 2004)
- any risks of greater discrimination against women of reproductive age
- the social costs to that part of the community that believes it is not right to provide taxpayer funding to particular groups of families

-
- the slightly slower wage growth for women associated with greater female labour supply.

The Commission has not attempted to measure the net benefits of its proposals. It is hard to value the diverse health and welfare benefits for mothers and children, and the considerable social impacts of the scheme. The difficulty of valuing such factors is ubiquitous in social policy. Ultimately, it is up to the community through the political process to determine whether the kind and size of the benefits identified by the Commission are worth the costs.

2.10 Review

A statutory paid parental leave scheme represents a major and complex policy initiative. It has significant interactions with the tax, welfare and industrial relations systems. Its actual impacts will depend on the behaviour of employees and employers and on any unintended impacts. Accordingly, any scheme should be subject to staged assessment and formal evaluation.

On an ongoing basis, the Government will need to monitor the interactions of the paid parental leave scheme with an evolving tax and welfare system. As we have shown in this report (chapter 9), the impacts of a leave scheme depend on it being more attractive than welfare payments, and this will need to be preserved as family policy and taxes change.

There should also be a review of the scheme's design and operation three years after program inception.

The broad goal of that review should be the scheme's capacity to cost-effectively achieve its objectives, and in particular,

- child and parental well being
- workforce and workplace attachment
- the status and rights of women and men as both parents and members of the paid workforce.

More particularly, such a review should consider the effectiveness of the scheme in a range of areas:

- whether employees with existing privately negotiated leave have lost part or all of their privately negotiated paid parental leave benefits without adequate compensation (the 'no disadvantage' issue), and if they have to any systematic extent, the appropriate policy response

-
- its administrative ease for government and business
 - assessment of who is getting access to the scheme and whether the eligibility criteria are appropriate
 - interactions with the welfare system
 - the impacts of the scheme on leave duration and the adequacy of the 18 week leave period and/or the generosity of the scheme
 - the use of the minimum wage as the benchmark payment
 - the extent to which employers or employees have abused any features of the scheme and the appropriate risk management approaches to mitigate these
 - any major unintended impacts.

In addition, this report has mooted some features of a statutory paid parental leave scheme that could be implemented at a later stage if appropriate. The most important of these is a mandated employer superannuation contribution, which the Commission proposes be implemented contingent on compliance and other costs at that time. Some other, less presumptively desirable, future policy options that should also be considered are:

- the potential for parents to share part-time statutory paid parental leave and for other flexible arrangements, such as taking leave at half-pay over double the period
- reconsideration of the potential for inclusion of accrued leave entitlements in a future statutory paid parental leave scheme subject to (i) changes in the IR environment that made its inclusion more in line with the treatment of privately funded paid parental leave, (ii) less difficulties in dealing with multiple IR arrangements across jurisdictions and (iii) ways of reducing compliance burdens for firms associated with the need to track such entitlements over long periods.

To underpin this review, the Commission proposes that surveys be undertaken to assess the impacts of the scheme on parents' behaviours, what happens to existing voluntary schemes, and the health and welfare of parents and children. Some aspects of this can exploit existing ongoing collections such as the ABS Pregnancy and Employment Transitions survey while in other cases (such as the welfare area), a longitudinal approach may be necessary.

In recommending a future review, it should be emphasised that the Commission is not proposing that the Australian Government, as a matter of course, should increase its funding contributions to a statutory paid parental leave scheme by increasing payment rates or leave duration.

The Australian Government should undertake:

- *ongoing assessments of the interaction of the statutory paid parental leave scheme with the tax and welfare system and of the extent to which employers have changed their privately negotiated arrangements in response to the statutory scheme*
- *a review of the scheme three years after its inception, including:*
 - *its effectiveness in meeting its main objectives*
 - *assessment of the impacts of the scheme on leave taken by parents, and of any modest changes to the duration of the statutory scheme that may be required*
 - *the viability of implementing mandated superannuation contributions by employers at that time*
 - *the potential for more flexible arrangements, including a capacity for parents to share their statutory parental leave on a part-time basis and to take leave at half-pay for double the period*
 - *whether employer-funded accrued leave or other entitlements should still be outside the scope of the statutory scheme.*

To underpin the review proposed in recommendation 2.14, the Commission proposes that the Australian Government should commission or otherwise ensure that surveys are undertaken to assess the impacts of the Government's statutory paid parental leave scheme on parents' behaviours, what happens to existing voluntary schemes, and the health and welfare of parents and children.

3 Parental leave in Australia today

Key points

- In 2007, around 2 168 400 female employees (54 per cent) and 2 157 700 male employees (50 per cent) had some form of paid parental leave available to them. Several factors influence eligibility to paid parental leave:
 - eligibility for paid parental leave is higher for full-time workers than for part-time workers, and differs by type of industry and occupation
 - paid parental leave becomes more common for both men and women as gross wages increase, reaching a plateau around \$1400–1500 per week.
- While all employees are covered by unpaid parental leave legislation, not all employees meet the eligibility criteria. Around 17 per cent of employee mothers and 15 per cent of employee fathers were ineligible for unpaid parental leave.
- Around 72 per cent of mothers in paid work take leave around childbirth. The vast majority of women not taking leave resign from work. Around 75 per cent of fathers in paid work take leave around childbirth.
- On average, mothers taking leave from paid work remain on leave for 37 weeks. Mothers' leave is usually a combination of different types of leave — the use of leave largely reflective of the availability of leave. Unpaid maternity leave making up the majority of leave taken (average 34 weeks). Fathers take an average of two weeks leave, the vast majority using paid leave (usually annual leave).
- Of mothers in paid work prior to childbirth, 11 per cent return to paid work within three months of childbirth, 26 per cent within six months, 57 per cent within 12 months, and 74 per cent within 18 months.
- Casual employees rely heavily on unpaid parental leave and other unspecified types of unpaid leave. Casual employees are marginally more likely to return to work early and are considerably less likely to return in the longer run.
- Mothers with more children are more likely to be outside the workforce prior to childbirth. However, if they are in the workforce prior to childbirth, mothers with more children are more likely to return to work after childbirth.
- An early return to work becomes more likely for mothers earning gross wages above \$1400 per week or below \$700 per week. Mothers earning high incomes are likely to return to work early for different reasons to those earning low incomes.
- Self-employed mothers take the shortest amount of leave on average (23 weeks) and are much more likely to return to work early.

Table 3.1 Summary of leave eligibility, leave usage and return to work

<i>Sample group</i>	<i>Mothers returning to paid work after childbirth</i>			
	3 months	6 months	12 months	18 months
	%	%	%	%
All mothers in paid work prior to childbirth	11	26	57	74
Permanent	6	19	58	75
Casual	13	30	50	68
Fixed term	7	20	48	65
Full-time	8	23	57	74
Part-time	15	30	57	74
Self-employed	42	61	70	85
Same employer for 12 months	8	22	57	74
Changed employers within 12 months	9	34	65	82
Worked less than 12 months	8	19	45	63
1 child	7	23	56	72
2 children	12	25	60	78
3 children	17	31	55	78
<i>Sample group</i>	<i>Eligibility for paid maternity/ paternity leave (adjusted figures)^a</i>			
	% Female employees		% Male employees	
Total	54		50	
Full-time employees	74		58	
Part-time employees	32		12	
Public sector	82		75	
Private sector	44		44	
<i>Leave type</i>	<i>Types of leave taken by parents who took some leave</i>			
	Mothers		Fathers	
	% Taking leave	Av. weeks	% Taking leave	Av. days
Paid parental leave	46	11	27	7
Unpaid parental leave	71	34	9	14
Annual leave	41	5	60	15
Sick leave	6	3	4	13
Long service leave	7	12	2	23
Other paid leave	2	12	7	6
Other unpaid leave	17	29	11	8
Total types of leave	—	37	—	14

^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2).

Source: Estimates based on ABS, (*Employee Earnings, Benefits and Trade Union Membership, Australia*, Cat. no. 6310); ABS, unpublished data; LSAC Wave 1.5.

3.1 Introduction

This chapter outlines the current situation regarding paid and unpaid parental leave in Australia. The parental leave landscape may be usefully described by:

- the rules governing parental leave
- the number of employees eligible to take parental leave
- how parents use leave around childbirth
- when mothers return to employment.

This chapter outlines some important features of the Australian system of parental leave as it stands currently in the absence of any paid parental leave legislation. It briefly examines how different groups of Australians are affected by parental leave, although the aim is not to discover causal relationships regarding policy instruments, worker characteristics or job characteristics.

This chapter is divided into sections, each section containing a short summary at the end. A collection of some important statistics from this chapter is contained in table 3.1. Section 3.2 outlines the current rules regulating parental leave in Australia. Section 3.3 examines how eligibility for paid parental leave varies across the workforce, while section 3.4 looks at how parents use leave around childbirth. Section 3.5 provides a summary of findings for this chapter.

3.2 What are the rules governing parental leave now?

All forms of leave, including parental leave, are related directly to the realm of paid work. This is because ‘leave’ is different to simply being outside the paid workforce – it is a state of being away from work but remaining employed in a paying job. The rules governing parental leave are contained in workplace legislation, workplace agreements and employer policies.

Unpaid parental leave policy

Parental leave has been a feature of Australia’s legislative landscape since the 1970s. The first major piece of legislation in this area was the *Maternity Leave Act 1973*, which introduced 12 weeks of paid maternity leave and 40 weeks of unpaid maternity leave for Commonwealth public servants. In 1979, a Conciliation and Arbitration Commission test case provided for 52 weeks of unpaid maternity leave. A further test case in the Australian Industrial Relations Commission in 1990-91 introduced the concept of parental leave, which covered

maternity, paternity and adoptive leave. Unpaid parental leave provides parents with time to care for a new child and a right to return to work afterwards.

Entitlements to unpaid parental leave are now contained in the *Workplace Relations Act 1996* (Cwlth) and in state-based industrial relations systems. According to estimates from the Department of Education, Employment and Workplace Relations (DEEWR), the Workplace Relations Act covers approximately 80 per cent of Australian employees. Unincorporated businesses are subject to state industrial relations laws, which provide similar legislation to the federal system regarding unpaid parental leave.

The eligibility requirements for unpaid parental leave are based on workplace attachment. To qualify for unpaid parental leave under the Workplace Relations Act, employees must have had at least 12 months continuous service with their employer before the expected date of the child's birth or placement. Casual employees must be employed on a regular and systematic basis for at least 12 months with the same employer, and have a reasonable expectation of continuing engagement.

Currently, unpaid parental leave consists of a maximum of 52 weeks that can be shared between parents. This 52 week period is inclusive of other paid or unpaid authorised leave taken by the parents after childbirth. Also included is a period of prenatal maternity leave that mothers may take due to illness. While parents may negotiate their own leave beyond a 52 week period, they would not be covered by the terms of the legislation.

Both parents may only take unpaid parental leave concurrently during the first week after the child's birth. Fathers may only take a second block of unpaid paternity leave if they are the child's primary care giver for that period (for example, if the mother returns to work). At any time, however, fathers may take privately authorised leave (such as annual leave) concurrently with any form of leave taken by the mother.

Further, eligible mothers have the right to a safe working environment while pregnant. If a job is deemed unsafe for them, employers are required to provide a safe alternative job or to provide leave at full pay (see chapter 2).

Some significant changes to the nature of unpaid parental leave are scheduled to come into effect in January 2010 with the introduction of the National Employment Standards (NES). These include:

- up to three weeks concurrent unpaid parental leave for both parents, as opposed to the current one week

- a right for eligible employees to request up to 12 additional months of unpaid parental leave, giving a total of up to 24 months shared between eligible parents
- a right for employees to request flexible working arrangements if they have children under school age (DEEWR sub. 164, p. 4; NES Preliminary, 2008).

Other rules regarding eligibility and duration are to be generally unchanged (see box 3.1). For instance, any parental leave beyond the period of concurrent leave remains reserved for the primary caregiver.

Box 3.1 The National Employment Standards

The treatment of unpaid parental leave under the National Employment Standards (NES) is, in many ways, unchanged from the rules contained in the Workplace Relations Act. According to the NES:

- An employee must have had at least 12 months continuous service with the employer before the expected date of birth or placement of the child.
- Casual employees must be employed on a regular and systematic basis in the 12 months prior to the child's birth or placement. Casual employees must have a reasonable expectation of continuing their placement.
- Fathers can take a short period of leave concurrent with the mother's leave. Leave beyond this period is reserved for the primary carer.
- Parents must take leave in continuous blocks, and each parent has the right to return to work following their leave.

Important changes to unpaid parental leave contained in the NES include:

- Employee parents eligible for unpaid parental leave would have the right to request up to 12 additional months of unpaid leave (division 4).
 - The request must be made in writing, and may be refused by the employer only on reasonable business grounds.
- The maximum period of concurrent unpaid parental leave is three weeks instead of one week (division 4).
- Employee parents of children under school age will have the right to request changes in working arrangements for child care purposes (division 3).
 - Employees must have 12 months continuous service with the employer, and casual employees must have been employed on a regular and systematic basis with the expectation of continuation.
 - The request must be made in writing, and may be refused in writing by the employer only on reasonable business grounds.
- Unpaid parental leave and the right to request flexible work arrangements are two of the ten National Employment Standards that must be included in all modern awards (division 1).

Paid parental leave policy

There is currently no mandated period of paid parental leave in Australia. However, a number of employers across a range of industries already provide paid parental leave to their employees. Such leave is provided according to employment agreements and employer policy, and at the employer's cost. Conditions and eligibility provisions vary substantially in terms of the type of leave provided, the length of leave allowed, and other conditions (see table 3.2 for some examples). While these arrangements typically cover paid maternity or paternity leave, some refer to 'parental leave' more broadly to cover leave used to look after a sick child throughout childhood.

Table 3.2 Examples of paid parental leave in Australia

Organisation/ Industry	Type of leave	Entitlement conditions	Length of leave	Rate of pay	When introduced
Australian Public Service	Maternity leave	12 months service	12 weeks	full pay	1973
AMP (Financial Services)	Parental leave	12 months service	14 weeks	full pay	1995
Esprit (Retail)	Maternity leave	12 months service	8 weeks maternity and 4 weeks sick leave	full pay	2001
Australian Catholic University (Education)	Paternity leave	None stated	3 weeks	full pay	2001
	Maternity leave	less than 2 years service	1 week per full month of service up to 12 weeks	full pay	2001
		2 years service; must return to work for 6 months	52 weeks	3 months at full pay, 9 months at 60 per cent pay	2001
Holden (Manufacturing)	Maternity leave	24 months service	14 weeks	full pay	2002
Finlaysons (Legal)	Parental leave	2 years service; must return to work for 12 months	4 weeks, rising to 8 weeks after 5 years service	full pay	2007
Myer (Retail)	Parental leave	18 months service (not available to casuals)	6 weeks	full pay	2008
Aldi (Retail)	Maternity leave	12 months service (not available to casuals)	14 weeks	half pay	2008

Employees covered by agreements such as those in table 3.2 may not necessarily be eligible for paid parental leave at the time of childbirth or adoption. However, it is useful to consider how many employees are covered by workplace agreements with paid parental leave provisions. DEEWR estimated that:

- paid maternity leave provisions were present in 15 per cent of workplace agreements, covering 44 per cent of the total Australian workforce
- around 28 per cent of the workforce had workplace agreements containing paid paternity leave provisions
- around 12 per cent of the workforce had workplace agreements containing adoptive leave provisions.

Workers and parents not covered by parental leave policy

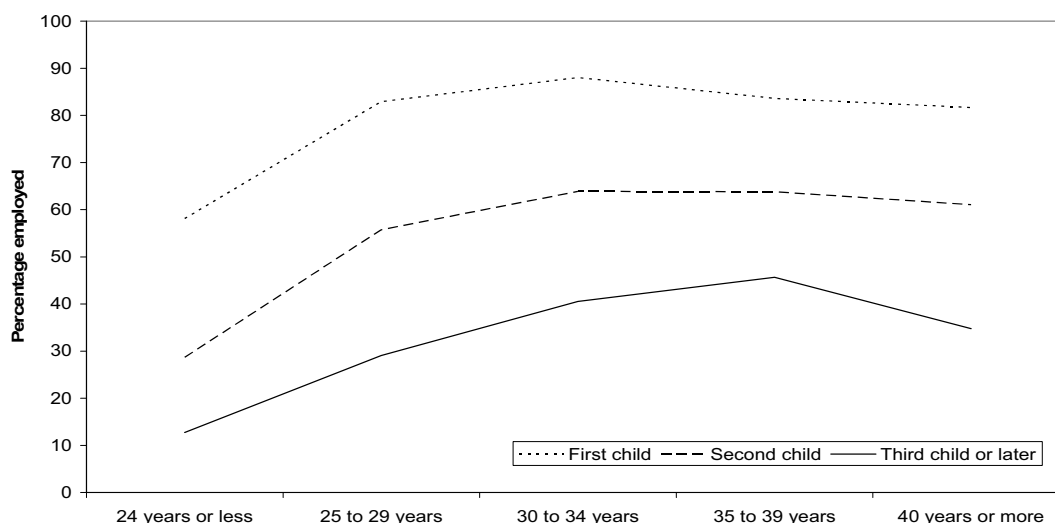
One group of workers who are not specifically covered by parental leave agreements or legislation are the self-employed. Normal concepts of paid and unpaid parental leave are difficult to apply to self-employed parents – they face the issue of parental leave from a very different perspective to other parents in terms of workplace relations, business incentives and work responsibilities. Effectively, the self-employed fully finance any period of parental leave and determine its duration. The distinction between unpaid and paid leave is meaningless for this group. Unpaid leave must be financed from savings as must any period of paid leave.

There were 674 100 self-employed people in Australia in 2007 – comprising 13 per cent of women and 23 per cent of men in the work force (ABS 2008a). LSAC data show that among parents who were in paid work before childbirth, around 7 per cent of mothers and 19 per cent of fathers were self-employed. Around 2 per cent of employee mothers switched to self-employment after childbirth.

Furthermore, it should be noted that a large number of parents are outside the paid workforce around the time of childbirth and, consequently, are not affected by parental leave policy. The Longitudinal Study of Australian Children (LSAC) wave 1.5 shows that two-thirds of mothers and 96 per cent of fathers were in paid work at some time in the 12 months before childbirth.

Evidence suggests that the employment rate for fathers during the pregnancy period is similar to those of other men, while women's employment has a more complex relationship with childbirth. The nature of employment among pregnant women differs significantly between those expecting their first, second or third child. Figure 3.1 shows that women with more children are more likely to be outside of paid work, and therefore less likely to be associated with formal maternity leave.

Figure 3.1 Employment rates of mothers during pregnancy, by birth order and mother's age^a



^a Employment refers to mothers' employment at any time during pregnancy.

Source: AIFS (sub. 138; p. 10); LSAC Wave 1.

Parental leave legislation in Australia today

The current scope of parental leave legislation is described in the following summary:

- both state and federal legislation provide a shared 52 weeks of unpaid parental leave to all employees with sufficient workplace attachment
- the NES will provide employees with the right to request up to an additional 52 weeks of unpaid parental leave, as well as flexible working arrangements
- paid parental leave is currently provided privately by many organisations
- the terms and conditions involved with paid parental leave differ considerably between organisations (for example, in the duration offered and eligibility requirements)
- around one-third of mothers and 4 per cent of fathers are not in paid employment during the pregnancy period, and are therefore not directly affected by parental leave legislation
- self-employed parents effectively self-fund any parental leave they take, and are not directly affected by current parental leave legislation.

3.3 Who is eligible for parental leave?

Not all paid employees are eligible for parental leave. As mentioned in section 3.2, the eligibility requirements for paid and unpaid parental leave are based largely around the duration of employment. Due to these requirements, many employees would not be able to use paid parental leave if they were to have a child.

The analysis in this section shows the number of people who have at least some unpaid or paid parental leave available to them. With regard to paid parental leave, schemes are likely to differ in terms of their conditions. For example, the paid parental leave available to men is usually shorter in duration than the paid maternity leave offered to women (see table 3.2).

Availability of unpaid parental leave

Since unpaid parental leave is contained in state and federal legislation, the availability of unpaid parental leave varies only according to the employment status and employment history of each parent. The Parental Leave in Australia Study, which was taken as part of LSAC Wave 1.5, provides the most direct and the widest coverage for estimating the availability of unpaid parental leave to parents at the time of childbirth.

At least 27 per cent of recent mothers and 35 per cent of recent fathers who were in paid work prior to childbirth were not eligible for unpaid parental leave. This includes parents who had not worked for the same employer for 12 continuous months (17 per cent of mothers and 15 per cent of fathers), and parents who were self-employed prior to childbirth (10 per cent of mothers and 20 per cent of fathers). Unpaid maternity leave is more likely to be available to first time mothers because mothers who have other children are much less likely to be in stable paid employment than first time mothers.

Availability of paid parental leave

The availability of paid parental leave depends on whether such leave is offered at a given workplace, as well as whether a given employee will qualify for that leave. The ABS estimates the availability of paid maternity and paternity leave for paid employees,¹ regardless of whether they are already parents or whether they plan to have children in the future. The estimates presented in this section are based on ABS data that have been adjusted by the Commission (see box 3.2). As such,

¹ In ABS (2008b), information on parental leave does not refer to owner-managers of unincorporated enterprises.

figures presented in this section show a higher level of availability of paid parental leave than previously published by the ABS (2008b, 2008c).

In August 2007, around 54 per cent of employed women and 50 per cent of employed men were eligible for paid parental leave as a condition of employment. The unadjusted figures show that 45 per cent of employed women and about 35 per cent of employed men say that they are currently eligible for paid parental leave (table 3.2). Larger differences between the adjusted and unadjusted figures reflect higher proportions of respondents who were unsure of their eligibility. Male employees appear to be less aware than female employees of their parental leave entitlements.

Box 3.2 Accounting for employees who did not know whether they were eligible for paid parental leave

In 2007, roughly 16 per cent of female employees and 28 per cent of male employees reported that they 'did not know' whether they were entitled to paid parental leave (ABS 2008c). If the employees who 'did not know' whether they were covered were excluded, 54 per cent of female employees and 50 per cent of male employees are estimated to be covered by privately negotiated paid parental leave schemes.

Problems can arise when making estimates from samples with extensive missing data. However, the ABS (2008c and sub. DR332, p. 2) considered that it would be 'reasonable to infer' that, for female employees, the 'did not know' group is likely to have a similar distribution to those who responded yes or no to the question.

On that basis it could be expected that 53.8 % ... of the 'did not know' responses would have entitlements to paid maternity leave. (ABS, sub. DR332, p. 2)

In its analysis of ABS data in this chapter and in appendix C, the Commission has therefore calculated the proportion of employees who are covered by paid parental leave schemes based on respondents who indicated they knew whether or not they were covered by such schemes.

Overall, the rates of availability for paid maternity and paternity leave is much higher than five years ago. These rates are at least ten percentage points higher in 2007 than in 2002 (table 3.3). The growth in availability of paid parental leave may have slowed recently (see appendix C for further discussion of trends).

The overall scope of parental leave

By applying the rates of availability for unpaid and paid parental leave to the population of recent parents, it is possible to present a basic estimate of the number of mothers and fathers who were eligible for parental leave at the time of childbirth. Figure 3.2 shows the scope of paid and unpaid parental leave compared with the

total number of births in 2007. It also illustrates the extent to which parents are not directly covered by current parental leave policies.

Table 3.3 Availability of parental leave by gender, 2002–07^a
Percentages

Year	Female employees entitled to paid maternity leave		Male employees entitled to paid paternity leave	
	Unadjusted	Adjusted ^b	Unadjusted	Adjusted ^b
	%	%	%	%
2007	45	54	36	50
2004	35	44	21	31
2002	31	41	20	31

^a While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). ^b The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2).

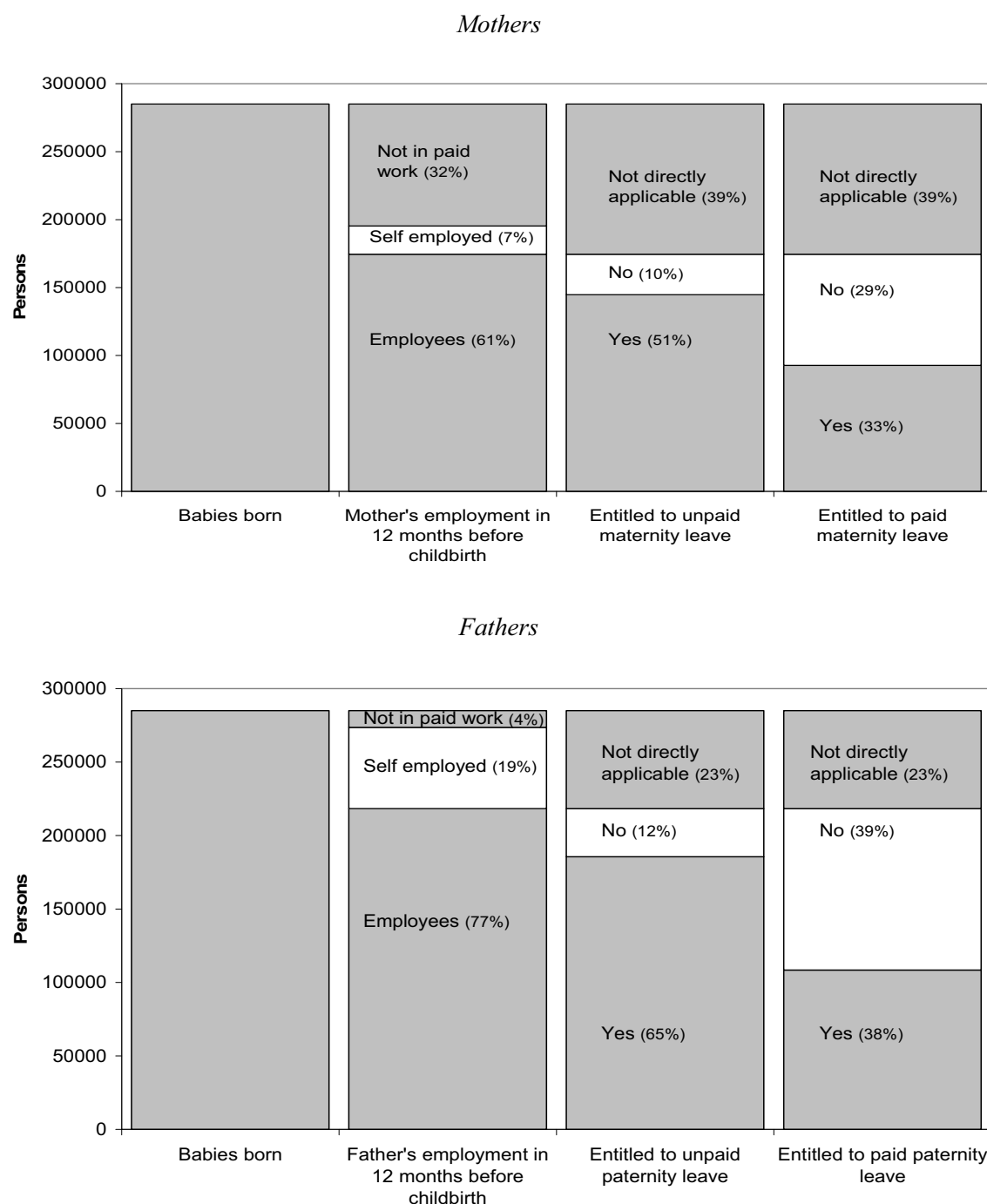
Source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Availability of parental leave by parents' characteristics

While it is useful to know how many employees have parental leave across the entire workforce, it is also important to consider how this availability is distributed across different sections of the workforce. By again adjusting ABS data as described in box 3.2, it is possible to consider how the availability of paid parental leave differs according to job and worker characteristics. The purpose of this analysis is not to determine causality, rather it is to ascertain how the availability of parental leave varies between different groups of employees.

One example is that the availability of both paid maternity and paternity leave changes, on average, according the age of employee. Both men and women are less likely to have paid parental leave available to them at ages over 59 years or under 25 years, with the lowest likelihood being at ages 15–19 years. For younger workers, these lower rates may be due to employment duration and stability, employee priorities or workplace bargaining power. It is worth noting that women between the ages of 20–45 years account for around 96 per cent of births (ABS 2007).

Figure 3.2 Parents' employment status and availability of parental leave in Australia^a

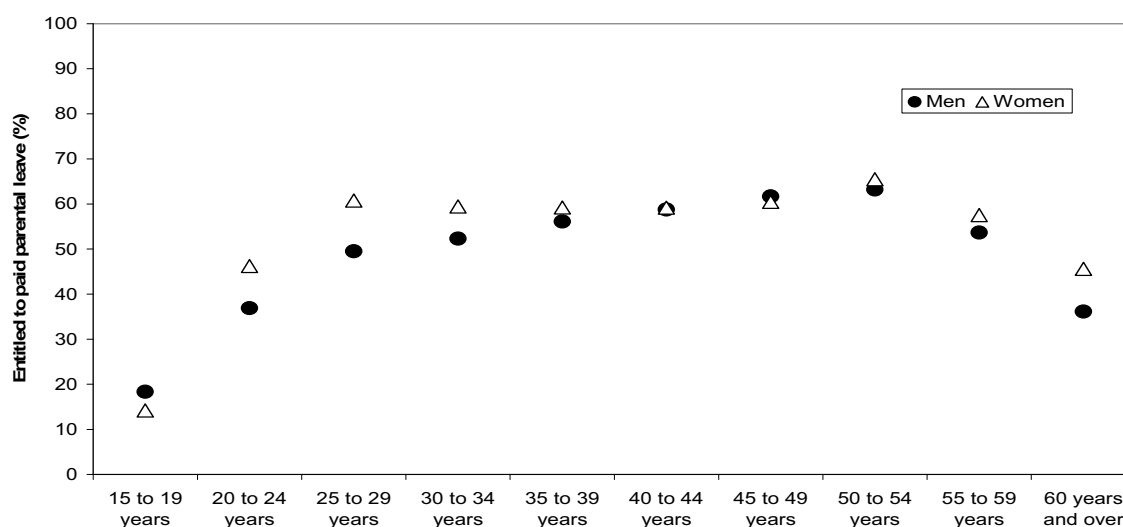


^a The Commission has based its estimates of availability of paid parental leave on ABS survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Births, Australia, 2007*, Cat. no. 3301); ABS, unpublished data; LSAC Wave 1.5.

Figure 3.3 Availability of paid parental leave for employees by age and gender^a

Percentage of the group eligible for paid parental leave



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2).

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

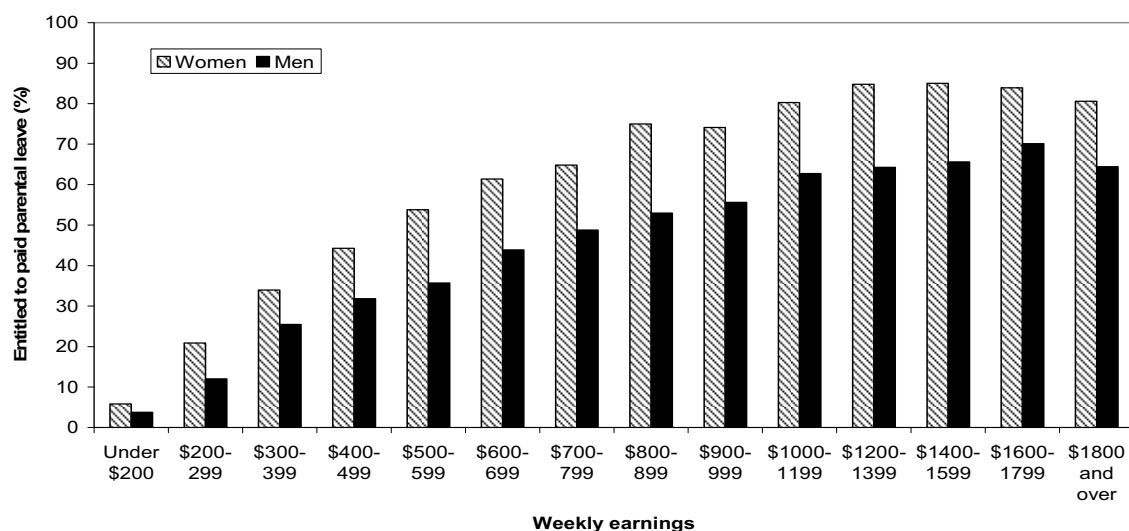
Full-time employees are more likely to be eligible for paid parental leave. In 2007, 74 per cent of female full-time employees had access to paid parental leave compared with only 32 per cent of part-time employees. Paid paternity leave was available to 12 per cent of male part-time workers, compared with 58 per cent of male full-time workers.

Employees on higher weekly earnings are more likely to have access to paid parental leave. Figure 3.4 shows that the proportion of workers with access to paid parental leave rises with gross income, reaching a plateau at around \$1400 to \$1600 per week before tax. This suggests that paid parental leave is a benefit that is more likely to be included as part of larger remuneration packages.

The positive relationship between access to paid parental leave and gross income may not only reflect differences in skills and experience – it may also reflect the disparity between full-time and part-time hours. Further, the type of occupation held also influences both pay rates and access to paid leave, with managers, professionals, and clerical staff more likely than other workers to have paid parental leave available to them (figure 3.5).

Figure 3.4 Availability of paid parental leave for employees by weekly earnings and gender^a

Percentage of the group with access to paid parental leave



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2).

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

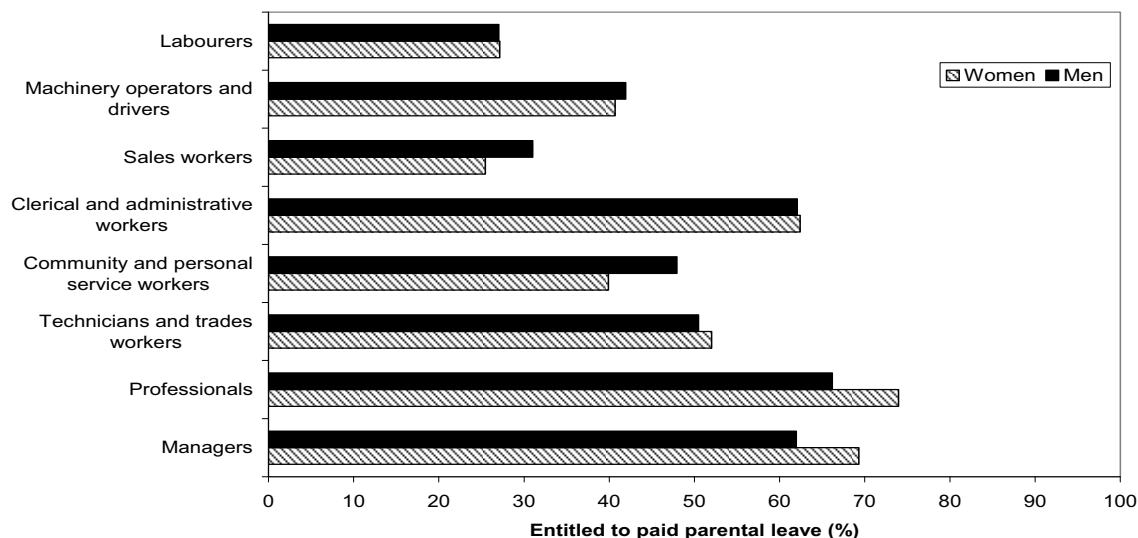
Paid parental leave is also more likely to be available in some industries than in others. Industries with the highest rates of availability of paid maternity and paternity leave are:

- public administration
- electricity, gas and water
- education and training
- financial and insurance services.

At least 70 per cent of female employees and over 60 per cent of male employees working in this group of industries had paid parental leave available to them (table 3.4). In contrast, less than 20 per cent of female employees working in agriculture, forestry and fisheries and in the accommodation and food services sector had access to paid parental leave. The availability of parental leave is not necessarily higher in industries with a larger or smaller percentage of female workers.

Figure 3.5 Proportion of employees in each occupation group with availability to some paid parental leave^a

Percentage of the group with access to paid parental leave



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2).

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Beyond formal eligibility

Several submissions to this inquiry indicated that issues regarding parental leave are often determined informally. Such issues may include the duration, conditions and eligibility of parental leave. It is not clear whether the net effect of informal practices would raise or lower the overall rate of availability for parental leave.

A survey of employer attitudes towards parental leave carried out by Australian Human Resources Institute (AHRI 2008) showed that 22 per cent of employers offered employees more leave than they are officially entitled to. In this way, the availability of paid or unpaid leave may extend beyond what is shown in the data, although it is not clear how many employees are offered such terms.

In contrast, there is also evidence that some employees experience difficulty in obtaining the parental leave to which they are entitled. Community legal centres, (for example, sub. 27), indicated that parental leave and the right to return to work

are among their most recurring issues. Case examples include women who are dismissed or demoted during pregnancy or during parental leave.

Table 3.4 Availability of parental leave for employees and the gender balance in each industry^a

Percentage of the group entitled to paid parental leave

<i>Industry</i>	<i>Men entitled to paid paternity leave</i>	<i>Women entitled to paid maternity leave</i>	<i>Proportion of workforce that is female</i>
	%	%	%
Agriculture, forestry and fishing	27	18	26
Accommodation and food services	24	19	58
Retail trade	37	33	57
Arts and recreation services	47	38	44
Administrative and support services	36	44	58
Rental, hiring and real estate services	45	44	49
Other services	49	44	42
Construction	43	46	11
Manufacturing	52	50	26
Wholesale trade	47	54	32
Professional, scientific and technical services	56	56	51
Transport, postal and warehousing	50	58	24
Mining	57	63	14
Health care and social assistance	54	62	82
Information media and telecommunications	58	63	41
Education and training	62	70	68
Financial and insurance services	68	75	54
Electricity, gas, water and waste services	63	77	17
Public administration and safety	72	84	46

^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2).

Source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Eligibility of parental leave in Australia today

The following points are a summary of some important conclusions regarding the availability of parental leave:

- although all employees are covered by unpaid parental leave legislation, not all meet the eligibility criteria. Due to these criteria, around 17 per cent of employee mothers and 15 per cent of employee fathers are ineligible at the time of childbirth

-
- around half of employees are eligible for paid parental leave, although this includes many who do not plan or are unable to have children
 - employees under the age of 25 are less likely to be eligible for paid parental leave
 - people earning higher incomes are more likely to have paid parental leave available to them
 - the occupations most likely to have paid parental leave available to them are managers, professionals, and clerical staff
 - industries with the highest rates of paid parental leave availability include:
 - public administration, electricity, gas and water
 - education and training
 - financial and insurance services
 - parental leave arrangements are sometimes decided informally. It is not clear whether informal arrangements would have much effect either way on the overall rate of availability.

3.4 The current usage of parental leave in Australia

The immediate outcomes of the current parental leave system are broadly illustrated by the patterns in which parents take leave around childbirth. A range of incentives and constraints influence parents' leave decisions – some studies have addressed these areas in detail (see AIFS sub. 138; Whitehouse, Baird and Charlesworth sub. 153; Baxter 2008). Similar to previous studies, this section relies on data from LSAC Wave 1.5, due to its sample size and detail of information.

Parents' leave taking behaviour can be described by the number of weeks or months parents may take in leave, and the different types of leave they use. Parental leave for mothers tends to be longer in duration than for fathers, and is more varied. Thus, some further issues concern mothers who either leave the workforce instead of taking leave or resign after taking leave.

This section focuses on the average number of weeks taken in leave, and some of the details regarding mothers' return to work. While these results are indicative of overall patterns, the cross tabulation method is not intended to determine whether causal effects exist. For this reason, the results in this section should be interpreted with care.

To take parental leave or not

Among parents who were in paid work at some time during the 12 months before childbirth, 72 per cent of mothers and 75 per cent of fathers took some form of leave around childbirth. Mothers who did not take leave were asked for the main reason why they did not take any leave around the birth of the child:

- 47 per cent said it was because they left their job
- 16 per cent were self-employed
- 9 per cent said it was because they had no access to leave
- 6 per cent said they could get by without leave because of family friendly arrangements
- 5 per cent were dismissed from their job during pregnancy.

Effectively, parents in paid work who did not take leave must have either left their job without a clear agreed period of leave (that is, resigned) or returned to work immediately (perhaps on a flexible basis). As a result, mothers who did not take any leave were more likely either to return to work early or to stay out of the workforce in the long run (Baxter 2008).

The LSAC database shows that of the mothers who do not take leave, 17 per cent return to work in the first three months. Around 27 per cent return within six months, and 63 per cent within 18 months (table 3.5). Compared with other mothers in paid work, those who did not take leave are more likely to return to work within three months of childbirth, but overall, have lower rates of return to paid work in the longer term.

How mothers use leave after childbirth

The time that mothers spent away from work after childbirth was estimated using LSAC wave 1.5 and ABS (2005d), as both datasets provide useful insights. The estimates based on ABS (2005d) have the advantage of being more specific in indicating the time that mothers take away from work after childbirth. In contrast, data from LSAC may be less precise due to the rounding of numbers for confidentiality reasons, as well as other issues.²

² LSAC documentation notes that some variables related to the length of leave taken may be inconsistent with other answers due to imperfect recollection by survey participants. Some discrepancies may be expected between the length of leave taken by mothers and their duration of time away from work. This is because some of the time taken away from the workforce may not constitute official leave (for example, after resigning), while some mothers may have

However, LSAC wave 1.5 contains a much larger sample, (3573 mothers, compared to the ABS (2005d) 1515 mothers). This is particularly useful in reliably estimating the number of mothers returning to paid work 12 months or more after childbirth, and more generally, undertaking disaggregated analysis of the return to work behaviour of parents. Other advantages of using LSAC include its longitudinal nature and its broader scope, which makes it more useful for analyses regarding other family members. Accordingly, for the bulk of the analysis on return to work behaviour in this report, estimates are based on the LSAC database.

The various methods show similar estimates of the time away from paid work taken by mothers who were in paid employment prior to childbirth (table 3.1):

- Between 11 and 17 per cent of mothers return to work before their child is 3 months old
- Between 26 and 31 per cent of mothers return to work before their child is 6 months old
- Between 57 and 62 per cent of mothers return to work before their child is 12 months old
- Between 73 and 74 per cent of mothers return to work before their child is 18 months old

Leave taken for maternity reasons generally comprises several different types of leave – some maternity-specific and some not, some paid and some unpaid. 86 per cent of mothers who took leave used at least some maternity-specific leave. Unpaid maternity leave was 34 weeks in duration on average, making up the majority of leave taken by mothers in paid work.

A significant number of mothers also take paid maternity leave – around 46 per cent of all mothers who took leave. Around 80 per cent of mothers on paid maternity leave received their full rate of pay. Around 4 per cent of mothers on paid maternity leave had some of their pay withheld until they returned from leave. The average mother with paid maternity leave took 11 weeks of paid maternity leave, as well as seven weeks of other paid leave.

indicated that they returned to work even when they did so on a one off or irregular basis during their leave.

Table 3.5 Timing of mothers entering paid work after childbirth by characteristics prior to childbirth

<i>Sample group</i>	<i>Mothers returning to work</i>			
	<i>Within 3 months of childbirth</i>	<i>Within 6 months of childbirth</i>	<i>Within 12 months of childbirth</i>	<i>Within 18 months of childbirth</i>
	%	%	%	%
<i>All mothers</i> ^a	7	17	39	52
<i>Mothers in paid work prior to childbirth</i>				
LSAC1	11	26	57	74
LSAC2 ^b	14	28	58	74
ABS (2005d) ^c	17	31	62 ^d	73 ^d
<i>Number of children</i>				
First child	7	23	56	72
Second child	12	25	60	78
Third child	17	31	55	78
<i>Mothers' education</i>				
Below year 12	14	27	50	66
Year 12	11	22	51	68
Certificate	12	29	59	73
Diploma	14	29	64	76
Bachelors degree	9	23	62	81
Graduate diploma	6	20	59	76
Postgraduate degree	8	30	65	84
<i>Leave taken</i>				
Did not take leave	17	27	45	63
Took some leave	9	26	61	77
<i>Employment type</i>				
Permanent employees	6	19	58	75
Casual employees	13	30	50	68
Fixed term	7	20	48	65

(Continued next page)

Table 3.5 (continued)

Sample group	Mothers returning to work			
	Within 3 months of childbirth	Within 6 months of childbirth	Within 12 months of childbirth	Within 18 months of childbirth
	%	%	%	%
<i>Employer type</i>				
Same employer for 12 months	8	22	57	74
Changed employers within 12 months	9	34	65	82
Employed less than 12 months	8	19	45	63
Self-employed	42	61	70	85
<i>Mothers' gross weekly wage</i>				
\$1–99	16	30	43	58
\$100–299	21	33	53	69
\$300–499	10	26	56	72
\$500–699	11	26	57	71
\$700–999	7	21	57	75
\$1000–1499	5	20	60	80
\$1500–1999	13	30	63	83
\$2000 or more	24	51	76	91
<i>Business size</i>				
<5 employees	17	34	51	65
5–19 employees	16	33	58	72
20–99 employees	7	22	51	65
100–499 employees	6	20	54	73
500 or more employees	4	17	59	78
<i>Work hours</i>				
Full-time	8	23	57	74
Part-time	15	30	57	74

^a Includes all mothers regardless of whether they were in paid employment prior to childbirth. ^b Estimates assume that where return to work data is missing, those who did not take leave and had returned to work did so in the first month. In LSAC1 and all other LSAC data in this table, no assumption is made about the return to work behaviour of respondents failing to provide a date on their return to work, with the missing observations excluded from the analysis. ^c Estimates are based on unit record data from ABS (2005d) expanded CURF. ^d May not be reliable due to low sample size.

Source: LSAC Wave 1.5.

How fathers use leave after childbirth

Around 75 per cent of fathers in paid work took some leave around childbirth. On

average, these fathers took two weeks of leave. In contrast to maternity leave, the use of paternity leave is overwhelmingly based around paid leave. Of the fathers who took leave, 60 per cent took paid annual/ holiday leave, 27 per cent took paid paternity leave while around 9 per cent took unpaid paternity leave. Around 72 per cent of fathers who took leave around childbirth relied exclusively on non-parental types of leave. Given the relatively short period of parental leave taken by most fathers, one type of leave was usually sufficient.

In terms of the duration of the leave taken by fathers around childbirth, around 15 per cent took more than two weeks of leave and less than 3 per cent took more than one month of leave. Where fathers took longer periods of leave, they had also used different types of leave – around half of the fathers who took over 60 days used some paid paternity leave, while 45 per cent used some form of unpaid leave.

Use of leave for permanent and casual employees

Permanent employee mothers take an average of 39 weeks of leave, which is seven weeks more than the average for casual employee mothers. This is not surprising, given that permanent employees generally have access to more types of leave.

Casual employees generally do not have paid leave, but the types of unpaid leave also differ between casual and permanent employees. Three-quarters of permanent employee mothers indicated that they used unpaid maternity leave, compared with 46 per cent of casually employed mothers who relied heavily on other unspecified types of unpaid leave. This may be due to a lower proportion of casual employees being eligible for unpaid parental leave.

While mothers who are permanent employees take more leave after childbirth, they are less likely to drop out of the workforce altogether. That is, permanent employees are less likely to return to work before their child is 6 months old, but are more likely to return to work by the time their child is 12 or 18 months old (table 3.5). This indicates that the time spent away from work by permanent employee mothers is more likely to be a period of leave that ends with a return to paid work.

Among fathers, those who are permanent employees tend to take almost two weeks leave, while those who are casual employees took one week. The reason why fathers' leave may differ between employment types may be the availability of different types of leave. For instance, a large percentage of casually employed fathers who took leave took either an unspecified unpaid leave (46 per cent) or unpaid paternity leave (28 per cent). A further 10 per cent took annual/ holiday leave, and less than 5 per cent took paid paternity leave. This contrasts with

permanent employees, where the majority of leave taken for paternity purposes is paid leave.

Among both men and women, permanent employees are generally entitled to more types of leave than other employees. For example, long service leave can provide substantial periods of leave, although it is not widely used by parents and may not be widely available. For parents taking long service leave, it provided around 11 weeks on average for mothers and three weeks for fathers. However, this is used by only 9 per cent of the permanent employee mothers and less than 3 per cent of permanent employee fathers.

Fixed term contract employees are relatively scarce in the LSAC Wave 1.5 sample. The evidence suggests that for parents on fixed term contracts who took leave, mothers used two weeks less than their casual counterparts and fathers two days less.

Use of leave and pre-birth employment duration

Both workplace and workforce attachment are related to longer periods of leave. Mothers who have been in paid employment with the same employer in the 12 months before childbirth take an average of 38–40 weeks leave in total. This is around five weeks more than mothers who worked for less than 12 months, and 10–12 weeks more than mothers who changed employers in the last 12 months. Mothers with stable employment are likely to take longer periods of leave because the eligibility for most types of leave, both statutory and privately negotiated, are connected to work tenure.

Workforce attachment and workplace attachment appear to have different relationships with mothers' time away from work. For instance, mothers who did not work for the full year prior to childbirth have consistently lower returns to work throughout the 18 months following childbirth (table 3.5). This implies that weaker attachment to the workforce prior to birth is related to weaker attachment to the workforce after birth—eligibility for unpaid and paid maternity leave is likely to be a contributing factor.

On the other hand, mothers with at least 12 months workforce attachment are more likely to return to the paid workforce, but are still less likely to have leave available if they have less than 12 months workplace attachment. As such, these mothers have high rates of return to paid work, but also have an increased likelihood of returning to work early after childbirth.

The types of leave that mothers use differs with levels of workplace and workforce attachment. Of mothers who stayed with the same employer for 12 months and who

took leave around childbirth, 49 per cent took paid maternity leave. This compares with 14 per cent of mothers who had changed employers and 6 per cent of mothers who were employed for less than 12 months. A similar trend exists for the rates at which mothers took unpaid maternity leave ranging from 72 per cent (same employer for 12 months), to 51 per cent (changed employers within 12 months) and 41 per cent (employed for less than 12 months).

The duration of fathers' leave was generally not affected to the same degree by their employment type. Total leave was 3–5 days longer if the father remained with the same employer for the 12 months prior to childbirth.

The types of leave used by fathers also differed according to workforce and workplace attachment. The uptake of holiday pay varied considerably, ranging from 68 per cent (same employer for 12 months) to 54 per cent (changed employers within 12 months) to 36 per cent (employed for less than 12 months). However, the take up of paid and unpaid paternity leave was similarly low for all men.

Use of leave and employment hours

Around 76 per cent of mothers in full-time work took leave around childbirth compared with 59 per cent of part-time employed mothers – the majority of those not taking leave had resigned. This reflects the fact that mothers in full-time work are less likely than mothers in part-time work to leave the workforce when having a child. Mothers in full-time and part-time work who do take leave have similar durations.

Full-time employees are more likely to be entitled to paid parental leave (section 3.3). This is reflected somewhat in the usage of leave, with 48 per cent of full-time employee mothers using paid maternity leave compared with 34 per cent of part-time employee mothers.

The return to work for mothers is marginally different for those in full-time and part-time employment. Mothers in full-time jobs are less likely to return early and more likely to return overall, although the difference is relatively small. It seems job characteristics such as permanent/ casual status and employment duration are more strongly linked to differences in the timing of a mother's return to work than part-time/ full-time status.

Use of leave by education and wage levels

The level of parents' income prior to childbirth may affect their ability to take leave as well as their decisions regarding duration. The average duration of mothers'

leave is longest in the \$1000–1499 per week gross income range – the average duration of leave is shorter for both highest and lowest income groups. Therefore, the relationship between income and the length of a mother's leave has somewhat of an inverted-U shape. Fathers' leave has a similar relationship with income, peaking in the \$700–999 range.

For the most part, mothers at lower gross wages prior to childbirth are more likely to stay out of the workforce in the longer term. This is implied by lower rates of return to work at 18 months after childbirth for women at lower pre-birth wage levels (see table 3.5). However, a relatively early return to work becomes more likely at both the high and low extremes of the wage range. The reasons that mothers have for returning to work are likely to differ between these groups – financial constraints are almost certainly more influential for low wage earners.

In terms of the wage level that parents received upon returning to work (after childbirth), higher wages tended to coincide with shorter leave. Mothers who reported gross incomes of \$2000 per week after childbirth took an average of 21 weeks leave, and those earning less than \$500 per week took an average of 41 weeks. In a similar trend for fathers, those earning less than \$500 per week took 18 days while those earning above \$2000 per week took 10 days.

There was some relationship between mothers' education and the duration of leave. At 18 months after childbirth, mothers with higher levels of education have a clear tendency towards greater workforce attachment. Returning to work early after childbirth was more common for mothers with diplomas, certificates, and for mothers who had not completed Year 12.

The average leave taken by mothers was 39–40 weeks for those with bachelors degrees or higher, and 36–38 weeks for those with certificates and advanced diplomas. However, mothers who did not finish high school tended to have slightly longer leave from work, averaging 42 weeks.

Less difference was found between fathers of differing education levels – the average length of leave being between 13 and 15 days for all educational levels. Higher educational attainment was linked with higher take-up of paid maternity leave. This ranged from 55–62 per cent for university graduates, 48 per cent for those with an advanced diploma, and 32 per cent for those with a certificate qualification.

Use of leave and number of children

Women with more children are less involved in paid work than women who have fewer or no children (AIFS sub. 138). However, by looking at the rates at which

employed mothers return to paid work, having more children is associated with earlier returns to work, and more returns to work overall after childbirth. These findings are not necessarily contradictory.

It is important to note that a large proportion of mothers with more than one child had opted out of the workforce *before* the birth of their child. Those remaining in the workforce during pregnancy would have an innately higher attachment to the workforce, and this is seen in their higher rates of return to work. In other words, the reason we observe rates of higher return to work for women with more children is that many of these women were not employed prior to childbirth, and therefore are not considered in the sample of women returning to work – and only those with particularly high workforce attachment remain in the sample.

Thus, with regard to women who are in paid work before childbirth, those with more children are more likely to return to work within 18 months. But with regard to all mothers (both inside and outside the workforce before childbirth), having more children is still associated with lower attachment to the workforce after childbirth.

Women who were pregnant with their first, second or third child had similar probabilities of taking paid or unpaid maternity leave. The duration of specific maternity leave and the total leave used for maternity purposes were also similar.

There was little change in the types of leave used by fathers for their first, second and third children. Fathers having a third child were less likely to use unpaid paternity leave and more likely to use long service leave. This is likely to be because fathers having a third child would have longer employment histories than first time fathers, and would therefore be able to accrue more paid leave.

Use of leave and business size

The average duration of leave for mothers increased with the sizes of the businesses employing them, ranging from 29 weeks for businesses with fewer than five employees to 42 weeks for businesses with over 500 employees. Mothers employed in larger businesses were more likely to take unpaid leave.

Paid maternity leave is most often taken in larger businesses. For women taking leave in businesses with fewer than 20 employees, 12–13 per cent took paid maternity leave. This compares to businesses with 20–100 employees (33 per cent), those with 100–500 employees (43 per cent), and those with more than 500 employees (66 per cent). These findings are consistent with the idea that larger businesses may be better equipped to cope with longer periods of leave, and that they are more able to afford paid leave.

Use of parental leave in Australia today

Some important conclusions regarding the use of leave for parental purposes are summarised in the following points:

- mothers taking leave use an average of 37 weeks
- almost one fifth of mothers in paid work resign instead of taking leave around childbirth
- three-quarters of fathers who are in paid work before childbirth take leave, usually for a period of two weeks
- casual employees are unlikely to use any paid leave around childbirth, as they are generally not entitled to it. They rely on unpaid maternity leave and other unspecified unpaid leave
- part-time employee mothers are more likely than full-time employee mothers to leave the workforce at childbirth
- self-employed mothers take the shortest leave and, overall, are considerably more likely than other mothers to return to work
- longer duration of employment with a particular employer is associated with more paid parental leave and longer leave generally
- mothers on lower wages prior to childbirth are less likely to return to work within 18 months of childbirth
- mothers on the highest and lowest pre-birth wages are more likely to return to work early after childbirth than are other employed mothers. Their reasons for returning to paid work early are likely to differ
- mothers with more children are generally less likely to be in paid work
- parents who are employed by larger businesses take longer leave and more paid parental leave.

3.5 Summary

Parental leave legislation has grown in scope since the 1970s – today it consists of 52 weeks unpaid maternity, paternity and adoptive leave for all eligible workers. In 2010, legislative changes will provide employees with the right to request up to 52 additional weeks of unpaid parental leave, as well as flexible work arrangements. In contrast, paid parental leave has remained outside of any legislative instruments, existing only through privately negotiated employer provisions. Nevertheless, the availability of paid parental leave has also grown, so that roughly half of the workforce is estimated to have some level of paid parental leave available, though

the growth rate appears to have slowed recently.

Underlying the wide prevalence of paid parental leave are three important qualifications:

- many employees are unsure of whether they are entitled to paid parental leave, and this affects our estimates of eligibility
- the prevalence of paid parental leave is relatively concentrated among groups who usually have better labour force outcomes, such as highly paid workers, professionals and permanent full-time workers
- paid parental leave is sometimes more commonly available for groups who are less likely to need it. For instance, employees are more likely to be eligible for paid parental leave at ages over 45 than at ages under 25.

The usage of parental leave also varies between groups. Trends in the use of leave reflect trends in the availability of leave, as well as the decisions made by parents and other features of the labour market. For instance, mothers with particularly high or particularly low incomes, and the self-employed are all more likely to return to work early. However, the reasons behind a mother's return to work are likely to differ for each group.

4 Child and maternal welfare

Key points

- There is compelling evidence of child and maternal health and welfare benefits from a period of absence from work for the primary caregiver of around six months and a reasonable prospect that longer periods (nine to twelve months) are beneficial.
- While many pregnant women can safely continue to work until shortly before birth, the required length of pre-birth leave will depend on the health of the mother-to-be, as well as her job and working conditions. This points to the importance of flexibility for work and prenatal leave decisions. The Commission also found no systemic evidence that women are taking prenatal leave periods that are too short from a maternal or child welfare perspective and, as such, does not recommend a prenatal leave period as part of the statutory paid parental leave scheme.
- Maternal recovery can be prolonged and an early return to work may increase the risk of depression and anxiety. On maternal recovery grounds, the length of absence from work should be no less than 12 weeks and potentially up to six months with wellbeing after that time dependent more on women's preferences than recovery.
- The biomedical literature suggests there are benefits from breastfeeding for infants and children (particularly if exclusively breastfed for six months) as well as for mothers. The evidence also suggests a positive association between paid parental leave and the duration of breastfeeding. Paid parental leave, together with support for breastfeeding, has the potential to improve breastfeeding rates.
- The evidence is most compelling that six months exclusive parental care fosters improved developmental outcomes (with evidence of problems strongest where non-parental care is initiated early, child care hours are extensive and care is of low quality). For the period six to 12 months the evidence is inconclusive, but beyond 12 months it suggests positive effects from quality non-parental care.
- The Commission supports ongoing efforts to integrate services to support parents of children under two, but is not convinced of the need for additional resourcing.
- The Commission proposes a paid postnatal leave period of 18 weeks. This, together with parents co-funding options (self and employer funded leave), will allow almost all infants to be exclusively cared for by their parents for the first six months of life.
- There is evidence that paternity leave has emotional benefits for fathers, positively affects children's emotional and educational achievement and provides support for the mother. The Commission proposes two weeks of paid paternity leave.

A key objective put forward for a paid parental leave scheme is to improve health and wellbeing outcomes for mothers, children and families more generally. Mothers need time to recuperate from the birth of a child, to establish breastfeeding and to bond with their new infant. The early year's of a child's life (including the prenatal period) are also now recognised as being especially important for future health and for the development of their emotional, social and mental capabilities. Parental, and particularly maternity, leave can improve the quality of these early years. As the World Health Organization (WHO) states:

A period of absence from work after birth is of utmost importance to the health of the mother and the infant. This is conducive to both the optimal growth of the infant and the bonding between mother and infant. Absence from work also allows the mother to recover. (WHO 2000)

A critical issue for this inquiry is how paid parental leave (and longer durations of leave) affects the health and wellbeing of families. While it is generally accepted that parents are the best people to make decisions about what is best for their child, the science relating to child, maternal and paternal welfare is complex, some is new, and parents may not always be aware of the gains associated with longer periods of absence from work. And, even if parents are aware of the benefits, liquidity constraints and financial hardship may force them back to work earlier than would be desirable. A related issue is the extent to which any gains from paid parental leave and longer periods of absence from work accrue to infants and their parents, and the extent to which they benefit society more generally.

This chapter looks at the evidence on the effect of parental leave policies on the health and wellbeing of mothers, children and fathers.

4.1 Leave prior to the birth of a child

The American College of Obstetricians and Gynaecologists states that:

Most of the time, a healthy woman with a problem-free pregnancy can keep working if her job poses no more risk than daily life. (ACOG 2008)

This is also the conclusion of a number of literature reviews on work and pregnancy (Gabbe and Turner 1997, Sequin 1998).

Some pregnancy related conditions, however, can interfere in a mother-to-be continuing to work, particularly in the later stages of pregnancy. A Cochrane review, for example, found that many women experience back or pelvic pain during pregnancy (two-thirds and one-fifth of all pregnant women respectively). As this pain generally increases as the pregnancy advances it can interfere with daily activities and prevent women going to work (Pennick and Young 2007). A British

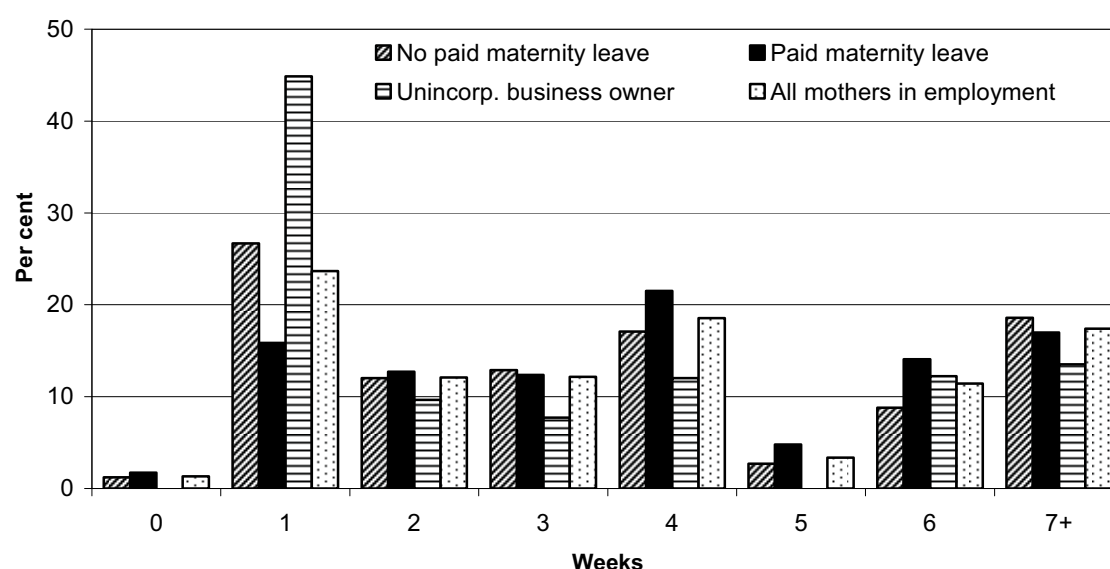
study also found that performing 32 of 46 everyday tasks were considered to be more difficult to perform during than before pregnancy (Nicholls and Grieve 1992). And, pregnant women with medical conditions, such as high blood pressure (pre-eclampsia), are required to rest during stages of pregnancy.

Women working in jobs requiring prolonged standing or walking and/or heavy lifting may find it difficult to undertake this type of work in the later stages of pregnancy. There is some evidence to suggest that strenuous work postures, heavy lifting, long standing and walking, and shift work increases the risk of sickness absence (Treffers 2000, Strand et al. 1997). Participants' personal experiences indicated varied experiences reflecting the health of the mother-to-be and her job and working conditions (box 4.1).

How much prenatal leave are Australian mothers currently taking?

Australian women in paid employment (both those with paid maternity leave and those without) took an average of four and a half weeks off work prior to birth, while women with their own unincorporated businesses took an average of four weeks in 2005. The average period of leave taken prior to birth, however, masks considerable variation in the period of prenatal leave taken (figure 4.1).

Figure 4.1 Percentage of mothers taking prenatal leave, by weeks and job characteristics



Data source: ABS (*Pregnancy and Employment Transitions, Australia, Expanded Confidential Unit Record File, Nov 2005, Cat. no. 4913.0.55.001*).

The most common period of prenatal leave for employed Australian mothers is one week (24 per cent), however, around 17 per cent take seven or more weeks prenatal leave. Mothers without access to paid maternity leave are more likely to take one week prenatal leave – forty-five per cent of unincorporated business owners and 27 per cent of employees – while those with paid maternity leave were more likely to take 4 weeks (22 per cent).

Box 4.1 Working during the later stages of pregnancy – participants' personal experiences

Personal feedback response:

I had worked as store manager for two years when I got pregnant. I stopped working when I was 8 months pregnant as doing heavy lifting, moving boxes and unpacking merchandise for the shop, cleaning and standing on my feet for hours was too much.

Lorana Bartels:

I took 6 weeks of paid sick leave before my first [child] (due to a blood condition arising from pregnancy). I took 4 weeks leave before my second was due as that was a legal requirement of my scholarship. As she was then born two weeks late, I only had 6 weeks of my 12 weeks' paid leave after her birth before I resumed my studies. (sub. 9, p. 1)

Alicja Mosbauer:

I required a medical certificate to work beyond 36 weeks (even though I sit behind a desk and my brain still functions). I used this opportunity to extend my time at work, as I wanted to access as much leave as possible for time with my child. My son came at close to 42 weeks, so I was happy not to have finished work too early. I am unsure of the benefits of too much prenatal leave, however, I was fit and healthy during my pregnancy and thus didn't suffer from complications that many women do. (sub. 10, p. 1)

Angela Budai:

I planned to have 5 weeks off prior to the birth of my son, but as he was overdue it was close to 7 weeks. ... without the leave provisions I had I would have been more likely to work as close to the baby being born as was practical. ... As it turned out I was incredibly tired during the last month and working would have been incredibly difficult. (sub. 17, p. 1)

Tom Gordon:

... using pre-natal leave was not necessary because of the good health of my wife during the 9 months. (sub. 28, p. 1)

Hilary Surman:

The AWA I was employed under at the time I became pregnant only permitted me to work until 28 weeks gestation. From 28 weeks I was required to take unpaid maternity leave or use accrued annual and long service leave. (sub. 35, p. 1)

Evidence on work environments and adverse pregnancy outcomes

While some reproductive hazards associated with work, such as exposure to radiation and lead, are well established, the evidence on the extent to which other work environments heighten the risk of adverse pregnancy outcomes is less conclusive.

Some studies find that physically demanding work and prolonged standing increases the risk of adverse pregnancy outcomes (Mozurkewich et al. 2000, Croteau et al. 2007, Hanke et al. 1999). A meta-analysis of 29 published observational studies, for example, found physically demanding work (heavy and/or repetitive lifting or load carrying, heavy manual labour or significant physical exertion) to be significantly associated with preterm birth, maternal hypertension and small-for gestational-age babies (Mozurkewich et al. 2000). Preterm birth was also found to be associated with prolonged standing, shift and night work and high cumulative work fatigue scores. The odds ratios, however, were not found to be large (between 1:20 and 1:60). This may be because working women on average tend to be healthier than women who do not work.

Other studies, however, suggest that the relationship between work-related exposures and adverse health and pregnancy outcomes is less convincing. For example, Bonzini et al. (2007), in a systematic review of the evidence relating to preterm delivery, low birthweight and pre-eclampsia and prolonged working hours, shift work, lifting, standing and heavy physical workload, found that across the studies:

- for pre-term delivery findings – the larger and more complete studies were less positive and pooled estimates of risk pointed to only modest or null effects
- for small-for-gestational age, the effect was moderate, but the evidence base was more limited
- for pre-eclampsia and gestational hypertension, the effect was too small to allow firm conclusions.

Overall, the authors concluded that:

The balance of evidence is not sufficiently compelling to justify mandatory restrictions on any of the activities considered in this review. However, given some uncertainties in the evidence base and the apparent absence of important beneficial effects, it may be prudent to advise against long working hours, prolonged standing and heavy physical work, particularly late in pregnancy. (Bonzini et al. 2007, p. 228)

Studies exploring the implications of modifying working conditions for pregnant women generally observe that when pregnant women employed in strenuous work are provided work requiring less physical effort, there are some improvements in

sickness absences during pregnancy and in the occurrence of premature labour (Strand et al. 1997). For example, a Quebec study (Croteau et al. 2007), while finding an association between prolonged standing and high job strain and preterm delivery, also found the associations to be weaker when exposures were eliminated to a legally justified preventative measure (pregnant women in Quebec have a legal right to be assigned to other tasks or to withdraw from work without prejudice if working conditions present a danger to themselves or the foetus). Such findings suggest that for those women engaged in heavy physical work, a transfer to lighter work during pregnancy may be beneficial.

The WHO recommends that during the second half of pregnancy women need to transfer to lighter work and eliminate night work to reduce the risk of causing ill health to the mother and the risk of having a premature or low-birth weight baby. Also, that pregnant women need to be completely absent from work from week 34 to 36 although this depends on the health of the mother and her physical workload. Protection from noxious agents is also recommended as is provision for rest breaks and leave for antenatal care (WHO 2000).

Similarly, the International Labour Organisation (ILO), while indicating that ‘working during pregnancy is not in itself a risk, except immediately before and after childbirth’, note that some aspects of pregnancy can affect a woman at work and there may be things at work that put the woman or child at risk (Paul 2004, p. 9). The ILO’s *Maternity Protection Convention, 2000* (Convention No. 183) sets out the right to health protection by calling for measures to ensure that pregnant (or nursing) women do not perform work prejudicial to her health or that of her child. Recommendation No. 191 provides for adaptations in the pregnant women’s working conditions in order to reduce particular workplace risks related to the safety and health of the pregnant woman and her child (ILO 2007).

Currently under the Australian Government’s National Employment Standards a pregnant woman:

- can take unpaid parental leave up to six weeks prior to birth, but may work right up to the birth of the baby (at the employer’s requests she must provide medical evidence about her fitness for work and any risks she may face)
- is entitled to be transferred to an appropriate ‘safe’ job provided that she gives her employer evidence that she is fit to work but should not continue in her present position because of risks arising out of her pregnancy or out of hazards associated with the position. If transferring an employee to a safe job is not reasonably practicable for the employer, the employee is entitled to leave at full pay

-
- is entitled to special maternity leave if she is unfit for work because of a pregnancy related illness or if pregnancy ends within 28 weeks of the expected date of birth otherwise than by the birth of a living child.

Does pre-birth leave improve pregnancy outcomes?

Some countries have parental leave arrangements with a compulsory ante-natal care period, while others allow ante and post natal leave care to be combined. Cross-country studies by Ruhm (1998) and Tanaka (2005) found that paid leave entitlements have a significant effect on early mortality rates and the incidence of low birth weight, but that there is a stronger negative relationship between leave duration and post-neonatal mortality. According to Tanaka:

The weaker effects on perinatal mortality rates were anticipated due to the short period of pre-childbirth leave provided in most countries. But, since some countries set a specified period of mandatory prenatal leave and other countries recommend specific periods of pre-birth leave, these short periods of pre-birth leave can be a factor in decreasing early infant mortality rates. One interpretation could be that a longer pre-birth leave would increase chances of mothers receiving prenatal care, which is a significant factor for early child health conditions. (Tanaka 2005, pp. F21-22)

Commenting on the differences in available prenatal maternal leave across the OECD countries, and the results from Tanaka's study, Chappel said:

The wide variation observed in approaches to maximum prenatal leave does not appear to be strongly evidence-based. While there is country panel-based evidence that paid parental leave may improve birth outcomes (Tanaka 2005), there are no evaluations on whether the split in paid parental leave (prior to and after birth) impacts on maternal or birth outcomes. (Chappel 2007, p. 10)

A Swedish study found no correlation between increases in infants weight in that country over the period 1978 to 1994 and more generous pregnancy leave arrangements (a pregnancy benefit program was introduced in 1980 in Sweden to provide up to 50 days leave for employed pregnant women whose occupation was considered particularly monotonous and strenuous and whose employer could not transfer her to a more suitable position). The authors concluded that 'the effects of social benefit programs on pregnancy outcomes may thus be overrated and merits further research' (Sydsjö et al. 2006, p. 991).

A recent study undertaken in California found that women taking prenatal leave up to four weeks prior to delivery had an almost four times lower odds of having a primary caesarean delivery (after adjusting for covariates) compared with those not taking leave (Guendelman, Pearl et al. 2009). While the study did not find any association between mean birthweight and leave in the ninth month of pregnancy, it

did find that there may be benefits for women at high risk of job strain from prenatal leave (in terms of prolonging gestation).

An optimal period of prenatal leave?

Overall, the evidence supporting the association between work and adverse pregnancy outcomes is inconclusive. And, while there is some evidence to suggest that a period of prenatal leave may improve pregnancy outcomes, there also appears to be a stronger relationship between parental leave durations and post neonatal mortality than for peri-natal mortality.

Based on the evidence, the required length of prenatal leave will depend on the health of the mother-to-be, the nature of the pregnancy, as well as the woman's job and work conditions. For women working in jobs with heavy physical workloads or working at night, time out of the workplace or a transfer to lighter or day work in the later stages of pregnancy may be beneficial to the health of the mother and the infant (under the National Employment Standards employers are obliged to transfer pregnant women to a 'safe' job if medically indicated, and if not available, to pay 'no safe job' leave). But, many pregnant women can safely continue to work until shortly before birth without risk. These findings point to the need for flexibility for work and prenatal leave decisions, with the decisions about taking antenatal leave being left open to women, in consultation with their employers and their treating doctors.

While a number of participants agreed with the proposal in the draft report that a period of prenatal leave shouldn't be mandated (see for example, sub. DR377, sub. DR310), many argued the need for a prenatal leave period. Some suggested that the restriction on when the period of statutory paid parental leave could be started should be lifted so that prenatal leave could be taken if required. Many expressed concern for those pregnant women (particularly casual workers) who are less likely to have access to other forms of leave (such as prenatal leave, personal/carer's leave, special maternity leave of no safe job, recreational leave) to cover leave they may require in the prenatal period (box 4.2). Others (such as the ACTU, sub. DR365, p. 8) argued that primary carers need access to a bank of leave in order to manage ongoing caring responsibilities and their own personal health upon return to work and hence they should not be required to draw on this leave to cover the prenatal period.

Box 4.2 Participants' views on a prenatal leave period as part of a statutory scheme**CPSU:**

If women want to take the time off prior to birth, they should have the flexibility to do so. (sub. DR376, p. 11)

BPW Australia:

BPW Australia questions the starting date of the proposed maternity leave; many existing paid maternity leave schemes in Australia and internationally commence up to six weeks before confinement. BPW would support more flexibility in commencement date rather than the proposed date of birth. (sub. DR321, p. 2)

Catalyst Australia Inc:

It is entirely consistent with the Inquiry's guiding emphasis on health and wellbeing to allow women to access paid parental leave where medical grounds require a period of pre-natal confinement. That is, if the health of the mother is an important consideration in public policy, it shouldn't matter where in the 'birth cycle' these health needs are met. (sub. DR374, p. 2)

Australian Human Rights Commission:

A disadvantage of the proposed model is that it does not allow women to take any of the paid parental leave just prior to birth ... The Commission does not accept poor additionality as a good reason for limiting options for women to begin taking paid leave earlier and recommends that paid leave be available to women to take immediately prior to birth. (sub. DR377, p. 9)

... In order to strike a good balance on this issue it may be appropriate to limit the period of paid leave available prior to the birth to four to six weeks to ensure that a period of paid leave is available following the birth. However, the Commission is in agreement with the Inquiry in that it would not support a compulsory period of leave being mandated for women either before or after the birth of a child. (sub. DR377, p. 19)

Unions Tasmania:

If a woman becomes ill prior to birth of a child she may not necessarily be able to access alternative forms of leave such as antenatal leave, personal/carer's leave, special maternity leave or 'no safe job' leave. Recreational, annual or long service leave may not be available to some parents. This issue particularly affects seasonal and casual workers. Families should be able to take paid parental leave prior to the birth of the child if they need to. (sub. DR400, p. 6)

Zonta International District 24:

Using other forms of leave to 'co-fund' neonatal parental leave again provides only the illusion of paid parental leave. The reality for many parents is that all other forms of leave will be exhausted for meeting the exigencies of early childhood, and they inevitably end up on unpaid leave simply to cope with the normal events of childhood prior to school. Using this up in the ante natal period compromises the important events and requirement of the first couple of years. (sub. DR408, p. 4)

There is, however, no systemic evidence that women (in the absence of a statutory paid parental leave scheme) are taking prenatal leave periods that are too short from a maternal or child welfare perspective and most have the capacity to self-fund this short period of leave (and a paid parental leave scheme will improve their capacity to fund this period of leave). Also:

- many women will be able to access privately funded paid prenatal leave
- many women will be able to access paid personal leave if there is a health concern in the prenatal period or to access recreational leave even when this is not the case
- sickness benefits provide an emergency backstop if no employee entitlements are available
- the Commission's proposed '10 of 13' months test prior to the expected date of birth allows women who need a period of prenatal leave for health reasons to do so without putting at risk her subsequent eligibility for postnatal statutory paid parental leave.

And, as discussed above, the evidence suggests that other factors (the health of the mother-to-be, her job and working conditions, the nature of the pregnancy), rather than the existence of paid parental leave determine the length of leave women take in the prenatal period. This suggests that a period of prenatal paid leave (at a cost to taxpayers) is unlikely to change behaviour hence there would be poor 'additionality'.

As such, the Commission does not propose a prenatal leave period as part of the statutory paid parental leave scheme. The issue of prenatal leave could, however, be re-visited as part of the three year review of the statutory scheme.

4.2 Maternal recovery

Many participants argued that mothers require a period of time away from work to physically recover from childbirth, restore functionality and mental health, and overcome fatigue resulting from loss of sleep and the demands of caring for an infant. Participants generally supported their claims by citing their personal experiences and by reference to the ILO *Maternity Protection Convention 183*, which advocates a minimum of 14 weeks paid leave in order to protect women's health during pregnancy and support the establishment of breastfeeding.

Most but not all women in the paid workforce have the right to unpaid maternity leave under current rules, for up to 52 weeks. But some mothers indicated that because of financial constraints, unpaid maternity leave did not give them a

choice about having time away from work to fully recover from childbirth and adapt to their new role of caring for an infant. The Human Rights and Equal Opportunity Commission submission contained two personal experiences:

When my second child was born my husband wasn't working so I had to go back to work after a caesarean after two days. I had no choice. It would make a huge difference if we got 14 weeks to be able to physically recover.

And:

I worked up until I was 38 weeks pregnant then took 2 weeks of annual leave because I didn't have access to paid maternity leave. (sub. 128, p. 27)

A number of submissions also raised concerns about the impact of an early return to work on the health and wellbeing of mothers and infants (box 4.3). As noted in chapter 3, around 11 per cent of mothers employed prior to having a baby return to work by three months, around 26 per cent return by six months and 57 per cent return by the time their baby is one year old.

How much time to recover and return to full functionality?

When seeking to answer the question what is the optimal period of parental leave an important consideration is how long it takes a mother to physically and mentally recover from having a baby and restore functionality.

From a medical perspective, maternal recovery takes six weeks (this is the period of time it takes for a women's body to return to its non-pregnant state following childbirth). Researchers looking at the issue of maternal recovery, however, commonly argue that because most women contend with several minor to moderate discomforts that can limit daily functions for some time, that a broader definition of maternal recovery that covers functionality is required. Tulman and Fawcett, for example, said:

Medical tradition has set the time of recovery from childbirth at 6 weeks, based on the healing of the reproductive organs rather than on a broader, more health-oriented definition of recovery that encompasses the resumption of usual activities and the assumption of the new responsibilities entailed by the birth. (Tulman and Fawcett 1991a, p. 294)

International and Australian evidence suggests that full recovery from pregnancy and childbirth can be prolonged with a range of studies suggesting a period of six months or longer. For example:

- A US study looking at the changes in the physical health of 436 first time mothers during the first year following childbirth (surveys conducted at one, three, six, nine and 12 months) found that although *most* physical health

problems of mothers were resolved by the third postpartum month, several persisted up to and beyond this time (Gjerdingen et al. 1993).

Box 4.3 Participants' concerns about an early return to work on the health and wellbeing of mothers and infants

Public Interest Advocacy Centre:

PIAC is disturbed by evidence given to this Inquiry about large numbers of women being forced to return to work within a few months of giving birth because of lack of paid leave entitlements (evidence of Unions New South Wales, pp. 285–401) This may have a detrimental impact on the mother's physical and emotional health and wellbeing, which may also impact upon the health and wellbeing of the child. (sub. 226, p 7)

What Women Want (Australia) Inc:

The financial impacts and pressures on young families often see new mothers returning to work before they are ready to. Stress comes with added health risks for any individual, but for a new mother who may also still be physically and mentally recovering from childbirth, the added stress of financial worries and returning to work before six months is becoming problematic for many Australian women. Many women are genuinely concerned about the affect that returning to work has on their newborn. Coping with the separation of mother and child is also a concern for mothers and fathers who may have to leave their infant at childcare facilities.

... If a 14 week scheme was introduced women who had given birth via caesarean section could spend half of their maternity leave recovering from surgery. (sub. 64, p. 7–8)

CPSU:

The survey of our members and the evidence presented at the Productivity Commission hearings very clearly demonstrates that this average entitlement of 12-14 weeks paid leave is not enough and due to financial pressures, if women cannot extend their leave by using accrued and annual and long service leave, many return to work before their baby is 6 months old. This is not in the interests of the child or the mother. (sub. 160, p. 20)

Lorana Bartels:

Although I had a very speedy recovery from my first baby, I returned to work after 6 weeks with my second, who was a much more difficult baby, and quickly developed post natal depression. Although I then took a further 2 weeks of sick leave for mental health reasons, in retrospect I now realised I didn't take anywhere near enough time off work. (sub. 9, p. 2)

Maternal and Child Health State Coordinators Group:

Caring for a young infant can be exhausting. If you are required to work, express your breast milk and have disturbed sleep, which is normal in the first few months, the mother's health and wellbeing will suffer.

... Returning to work and being separated from a new infant increases stress and anxiety for mothers, the increase in work load causes further distress for new mothers. (sub. 212, pp. 2–3)

- An Australian population based survey covering 1336 women who gave birth in Victoria in 1993 found that 94 per cent of women experienced one or more health problems in the first six months after childbirth the most common

being tiredness (69 per cent) and backache (44 per cent) (Brown and Lumley 1998).

- Another Australian population based cohort study covering 1193 women who gave birth in the ACT in 1997 found that while problems such as exhaustion/extreme tiredness and backache declined over the first six months, 49 per cent of women reported these health problems between 17 and 24 weeks postpartum (Thompson et al. 2002). Just six per cent of women reported no health problems in the first eight weeks after childbirth, 17 per cent in the second 8 weeks and 19 per cent between 17 and 24 weeks.

The evidence also suggests that the time required for complete maternal recovery depends on the circumstances of birth. Women having babies by caesarean section generally require longer to recover physically than women who give birth naturally (in 2006, 31 per cent of babies were delivered by caesarean section, Laws and Hilder 2008). Women who deliver by caesarean section are more likely to report exhaustion/extreme tiredness and to be readmitted to hospital in the first eight weeks postpartum period (Thompson et al. 2002). McGovern et al. (2006) found that health concerns were greater five weeks after childbirth for those mothers whose babies were delivered by caesarean section.

Studies looking at new mothers' functional status (defined as a mother's ability and readiness to integrate her new role as a mother and her other duties in the household, community and workplace and to resume self-care activities), find that a return to full functionality can take months rather than weeks. Repeated baby night-time awakenings, together with a lack of physical energy, are found to affect mothers return to full functional status. For example:

- A US study found that recovery as measured by performance of usual activities is not complete until at least six months after delivery for many women. Six months after delivery, 14 per cent of mothers had not fully resumed usual household activities and 26 per cent had not fully resumed social and community activities (Tulman and Fawcett 1991b).
- An Australian survey covering 132 new mothers found that none of the new mothers had achieved full functional status at six weeks after childbirth. Seventeen per cent had resumed their activities in and around the home; 8 per cent had resumed social and community activities; and 27 per cent self care. For baby care, 47 per cent reported being fully engaged in their desired level of care (Mc Veigh 1997).

The study by McVeigh also found that only 18 per cent of mothers who had resumed employment felt that they were functioning at as high a level as they had prior to having their baby. Likewise, a UK survey found that mothers returning to

work after 18 weeks (when maternity pay ended at that time) felt more distracted and less productive than mothers returning to work after a longer period (DTI 2000).

Family and social support, as well as infant temperament, also appears to impact on maternal recovery and a mothers stamina and wellbeing (Tulman and Fawcett 1991a, McVeigh 1997).

Leave and maternal health and wellbeing

A number of submissions pointed to the importance of a period of leave to support the psychological health of mothers (which in turn affects the psychological health of the child). The National Children's and Youth Law Centre, for example, said:

Of particular salience to a child rights analysis is the relationship between maternal and child health. It could be argued that improvements to maternal health consequentially improve child health and development outcomes by increasing maternal capacity to provide adequate care and also by helping to create an optimum environment in which to foster bonding and attachment. (sub. 152, p. 6)

The research also suggests that there is a positive relationship between the length of maternity leave and maternal health and wellbeing. One US study, for example, found that mothers reported higher vitality when taking more than 12 weeks leave after childbirth; better mental health when taking more than 15 weeks; and fewer limitations to their daily role when taking more than 20 weeks leave (McGovern et al. 1997).

Other studies show that returning to work after a brief period of maternity leave is a risk factor that compromises maternal health. For example:

- A survey of 436 first time mothers found a significant decline in depressive symptoms from the prenatal period through to the sixth postpartum month in those women who did not return to work (Gjerdingen et al. 1991). Of the women who had returned to work, those taking leave longer than 24 weeks had better mental health outcomes at nine and 12 months (Gjerdingen and Chaloner 1993). Employed mothers were also found to have higher rates of respiratory infections, breast symptoms and gynaecologic problems than mothers who were not employed (Gjerdingen et al. 1993).
- A US study by Chatterji and Markowitz (2005), using data from the Early Childhood Longitudinal Study found that increasing maternity leave from six (or fewer) weeks to eight to 12 weeks or more than 12 weeks reduced the number or frequency of depressive symptoms (by 11 and 15 per cent). And, more recently Chatterji and Markowitz (2008) found longer maternity leave, both paid and unpaid, to be associated with declines in depressive symptoms, a reduction in the

likelihood of severe depression, and an improvement in overall maternal health. The benefits of longer leave were found to be persistent well into the first year after childbirth.

Other studies show that the risk of depression and anxiety is particularly high when an early return to work coincides with maternal fatigue, poor general health, marital concerns and/or poor social support (Hyde et al. 1995, Klein et al. 1998). Hyde et al. (1995, p. 282), for example, concluded that ‘short leave can be conceptualised as a risk factor that, when combined with other risk factors such as marital concerns, is related to elevated levels of depression’.

Longer term, maternal wellbeing appears to be influenced by the fit between mothers’ actual and preferred roles (whether employed or at home) and her satisfaction with the role (McKim et al. 1999, Hock and DeMeis 1990, Klein et al. 1998). As Lero put it:

... research on maternity leave and mental health generally demonstrates that whether employed or at home, a mother’s role quality (the fit between their actual and preferred role, satisfaction with their role, and the support they receive from their spouse and society) is a stronger factor in accounting for mental health than considerations that focus on leave per se. Women who return to work and experience overload and lack of flexibility and support experience anger, distress and depression, and women who are at home but are concerned about role restriction and are depressed are both at significant risk. (Lero 2003, p. 5)

Another UK study, however, suggests that not having a job to return to after having a baby significantly increases the risk of postnatal depression (Warner et al. 1996). The authors concluded that this may reflect the isolation and low self-esteem experienced by some nonworking mothers, while also acknowledging that those most at risk of depression may also be those not seeking work in the post-natal period.

Around 14 per cent of employed Australian mothers leave the labour market around the time of birth, and for 20 per cent of these mothers the lack of paid maternity leave was the reason for leaving (Whitehouse, et al. 2005).

Maternal recovery – where does it leave us?

Overall, the evidence suggests that recovery from pregnancy and childbirth and the return to full functionality can be prolonged. There also appears to be a positive relationship between the length of maternity leave in the short term and maternal health and wellbeing. On health and wellbeing arguments alone, the optimal length of absence from work for a new mother should be longer than 12 weeks and potentially up to six months, with wellbeing after that time dependent more on women’s preferences than recovery from childbearing.

Given these findings on maternal recovery, it may seem appropriate to quarantine a portion of any paid leave for mothers to ensure a period of physical convalescence and recovery after childbirth (in a number of countries there is a compulsory maternity leave period following the birth). Many submissions argued for a period of leave quarantined to mothers. The Human Rights and Equal Opportunity Commission, for example, said:

A period of paid leave reserved for birth mothers paid maternity leave is biologically essential for women so that they can take time off from paid work prior to and immediately following childbirth in order to recover physically and emotionally from childbirth and must be considered a priority for the Inquiry. (sub. 128, p. 18)

Other submissions, however, argued for parental leave. The National Pay Equity Coalition, for example, said:

NPEC believes that the paid leave should be available as parental leave, to be taken by either parent, or by the mother's same sex partner. It may best suit some families for the father/partner to take paid leave to provide care for the baby and for the mother to return to paid work. For some mothers breastfeeding is not possible. In some families the mother may earn more than the other parent/partner and therefore household welfare is maximised by her return to work. Paid and unpaid leave for fathers also addresses the issue of gender equity in parenting and in modifying workforce participation due to caring responsibilities. (sub. 116, p. 10)

The evidence suggests that reserving a period of leave for mothers would largely reinforce what most mothers already do (only 11 per cent of mothers employed prior to having a baby return to work within the first three months). An evaluation of New Zealand's paid parental leave scheme (14 weeks paid leave) also found that it was rare for mothers to transfer their leave to partners:

For both biological and social reasons it is almost solely mothers who take paid parental leave and extended parental leave. Recovery from childbirth is seen as being supported by PPL as is breastfeeding for many women. (Department of Labour 2007, p. 23).

Reserving a period of time for mothers would, however, reduce flexibility in circumstances where the option for the partner to take the leave might be highly desirable (death of the mother, post-natal depression, a choice by a mother whose recovery is quicker and would like her partner to provide care, etc).

Considering the diversity of families and the individual needs of parents, differing experiences of childbirth (and adoption), and variations in maternal health, flexibility for either partner to utilise the leave would appear to be important. Accordingly, the Commission recommends allowing mothers a choice about who takes the leave (eligibility for paid parental leave determined through the mother), with no mandatory requirement that she take it for any given period.

Provisions for part-time parental leave?

The Commission sought feedback from participants on the merits (or otherwise) and practicality of a provision for part-time paid parental leave. Many participants supported part time parental leave on the basis that it would provide families with greater flexibility and choice in terms of managing work and caring responsibilities. Some suggested that part time provisions may encourage men to take leave and facilitate longer periods of exclusive parental care. Others, however, were of the view that such provisions could undermine the objective of enhancing maternal and child health and development and add to the complexity of the scheme (box 4.4). The Australian Human Rights Commission suggested that in the interest of ensuring that the health and wellbeing objectives of paid leave are met, the first 14 weeks of leave should be taken as a continuous block while the last four weeks could be taken part time or shared to provide a degree of flexibility and help facilitate shared care for couples who wish to share caring responsibilities (sub. DR377, p. 19).

Allowing parents to take leave on a part-time basis would:

- give families more choice about how best to arrange parental care for their new baby while maintaining exclusive parental care that is important for child wellbeing
- give men a greater practical capacity for caring for their children (which may encourage greater sharing of care responsibilities)
- allow both parents to maintain connection to the labour market.

Also, by allowing parents to choose the option that best suits their individual circumstances, provisions for part-time parental leave are unlikely to undermine the child and maternal welfare goals of the scheme.

Such provisions, however, add to the complexity of the scheme and a statutory obligation for employers to agree to part-time leave could be disruptive to many workplaces. While a requirement for employer consent could reduce such concerns, employers may feel obligated to give consent (especially given the right for employees to request flexible working arrangements under the proposed National Employment Standards).

As such, the Commission does not recommend part-time paid parental leave provisions in the initial implementation of a statutory paid parental leave scheme. Part-time parental leave provisions should, however, be revisited as part of the proposed three year review of the statutory scheme (at this time businesses would have adapted to a statutory paid parental leave scheme and there is likely to be greater clarity about the operation of the ‘right to request’ provision in the National Employment Standards).

Box 4.4 Part-time paid parental leave — participants' views

Many participants supported provisions for part-time parental leave as part of the statutory paid parental leave scheme. For example, the Office of the Anti-Discrimination Commissioner said:

The OADC supports flexible options that involve taking paid leave part-time, sharing it with the other parent, or taking leave in more than one period. The OADC is not of the view that a more rigid approach will benefit children or parents, given the diverse make up of families and their work commitments in today's society. (sub. DR378, p. 6)

Australian Breastfeeding Association:

To allow families the ability to make decisions best suited to their individual circumstances, the ABA recommends that the Commission consider the option of allowing fathers access to part time paid parental leave. This may help facilitate a gradual return to employment for mothers and allow a greater time of exclusive parental care. For mothers that are continuing to breastfeed this transition provides that opportunity for parents to refine the process of expressing and storing breastmilk before introducing care arrangements. (sub. DR391, p. 3)

Australian Women Lawyers:

The system should support and encourage individual family decisions as to managing work-life balance, particularly those which enable both parents to spend more time with their young children. Although the sharing or transfer of a portion of paid parental leave entitlements would increase the administrative complexity of the system, AWL submits that the associated cost is easily outweighed by the benefits of families of structuring flexible work and caring arrangements.

Furthermore, if the system acts as a barrier to shared care of children this will reinforce the outdated stereotype that it is a women's role to stay at home with her children. (sub. DR389, p. 3)

Others saw little merit in including part-time provisions as part of the statutory scheme. For example, the Australian Industry Group said:

There is unlikely to be great demand for such arrangements in the 18 weeks following the birth of a child. (Indeed, where the decision to return to work is financially motivated, the scheme would alleviate this pressure);

There is uncertain and potentially problematic interaction with existing unpaid parental leave entitlements and the right to request flexible working arrangements under the NES; and

The ability to take leave part-time could also be seen as undermining the objective of the scheme of enhancing maternal and child health and development. (sub. DR363, p. 14)

Australian Chamber of Commerce and Industry also said:

Page 2.1 states that the 18 weeks could be shared amongst parents. It is uncertain how an employer would know for certain that an employee's partner is not obtaining payments from another employer or the Government. Asking employers to preclude defrauding of the government would be a very difficult proposition and an inappropriate shifting of responsibilities. (sub. DR399, p. 26).

4.3 Breastfeeding – benefits for children and mothers

Many submissions emphasised the health and development benefits of breastfeeding (particularly for the first six months) for both infants and mothers. It was commonly argued that the prime objective of a paid scheme ought to be to allow sufficient time for mothers to establish breastfeeding and to bond with their child. They cited personal experiences and evidence from the WHO and other health professionals. A number of submissions noted a tension between WHO recommendations on exclusive breastfeeding and paid parental leave schemes of less than six months. The Australian Breastfeeding Association, for example, considered that the inquiry was ‘a timely opportunity to bring industrial legislation in line with public health recommendations and to remove a major barrier to breastfeeding’ (sub. 249, p. 5). What Women Want (Australia) Inc, also said:

The WHO recommends exclusive breastfeeding for the first six months of a baby’s life so combining the needs of a newborn with the commitment of full time, part time or casual work can clearly become problematic. While women should always be given a choice to decide what is best for them and their newborn in regards to breastfeeding, it is important that all women be provided with the opportunity to take a period, ideally six months, of paid maternity leave. (sub. 64, p. 3)

A number of participants argued for paid maternity leave on social benefits grounds. The Australian Breastfeeding Association said:

Premature weaning from breastfeeding results in an unnecessary disease burden on our health care system. (sub 249, p. 6)

Similarly, the Women’s Action Alliance argued that:

... by encouraging women to breastfeed, you’re not only enhancing the baby’s welfare, you’re enhancing the whole of society, because this lovely bit of research came out the other day, breast milk goes straight to the head ... the breastfed ones are more intelligent. That’s good for all of us to be breeding intelligent children for the future of Australia.

But there is another piece of research about breastfeeding ... that showed that returning to paid work, whether it be full-time or part-time suppresses breastfeeding. So it’s bad really for health and intelligence of future generations. (trans., p. 185)

How strong is the evidence of benefits from breastfeeding?

The biomedical literature on breastfeeding is voluminous and the *claimed* health benefits for infants, children and mothers are extensive.

But, despite the volume of research, evidence of a causal relationship between breastfeeding and health benefits has been difficult to obtain. This is largely because

almost all the studies on potential health benefits of breastfeeding are observational (in part because it is unethical to conduct randomised controlled trials of infant feeding methods). Observational studies have well-recognised sources of potential bias (including selection bias, confounding variables and reverse causality), which puts questions around the credibility of inferences and casts doubts on the magnitude of claimed benefits from breastfeeding. As Kramer et al., said:

Current evidence that breastfeeding is beneficial for infant and child health is based exclusively on observational studies. Potential sources of bias in such studies have led to doubts about the magnitude of these health benefits in industrialised countries. (Kramer et al. 2001, p. 413)

Consistent evidence from well designed cohort and case-control studies, however, have contributed to the evidence base. Evidence is also built by pooling the results from several studies (applying stringent methodological criteria), where possible from different populations, either through systematic reviews or meta-analyses (Kramer and Kakuma 2002, Leon-Cava et al. 2002, Horta et al. 2007, Ip et al. 2007). Leon Cava et al., while acknowledging the flaws of observational studies, also considered the sum of evidence to be convincing:

... no single study is as conclusive as a randomized controlled trial could be. However, as the epidemiological evidence favouring breastfeeding is generally derived from multiple studies in a variety of situations, the evidence is in sum, convincing. (Leon Cava et al. 2002, p. 3)

More recently, results from a large randomized trial in Belarus (including 17 000 healthy mother-infant pairs intending to breastfeed) where centres were randomly assigned to deliver support for breastfeeding have significantly improved the evidence base.

Health benefits for infants and children

Breastfeeding is considered the optimal form of infant feeding and a key determinant of infant health. The American Academy of Pediatrics state that:

Human milk is species-specific, and all substitute feeding preparations differ markedly, making human milk uniquely superior for infant feeding. (American Academy of Pediatrics 2005, p. 496)

A range of studies find protective health benefits and improved developmental outcomes for breastfed infants when compared with formula-fed infants (appendix H provides more detail on the evidence relating to the benefits of breastfeeding).

The evidence indicates breastfeeding reduces the incidence and severity of a number of infectious diseases in infants including gastrointestinal illnesses,

respiratory tract infections and middle ear infections. More exclusive and longer periods of breastfeeding are also associated with lower rates of infant illnesses (particularly gastrointestinal illnesses). Possible protective effects from breastfeeding have also been found against sudden infant death syndrome in the first year of life, the incidence of insulin-dependent (type 1) diabetes and some childhood cancers, although more research is required (American Academy of Pediatrics 2005). There is conflicting evidence for the protective effect of breastfeeding against asthma and other allergies (Kramer et al. 2007).

There is also increasing evidence that breastfeeding may have longer term effects, including the reduced incidence of obesity, diabetes (type 2), blood pressure and cholesterol in later life (Ip. et al. 2007, Horta et al. 2007). And, some (but not all) studies find an impact on later intelligence (Evenhouse and Reilly 2005 compared with Der et al., 2006, Anderson et al.1999, Kramer et al. 2008).

New evidence from the Promotion of Breastfeeding Intervention Trial shows that prolonged and exclusive breastfeeding improves children's cognitive development as measured by IQ and teachers' academic ratings at age six and a half. The authors concluded that:

Because protection against infections in developed country settings does not have the life-and-death implications for infant and child health that it does in less-developed settings, cognitive benefits may be among the most important advantages for breastfed infants in industrialised societies. (Kramer et al. 2008, p. 583)

Health benefits for mothers

The literature also points to a range of health benefits from breastfeeding for mothers, including:

- the promotion of a mother's recovery from childbirth
- earlier return to pre-pregnancy body weight and a prolonged period of postpartum infertility
- reduced risks of breast cancer
- possible reduced risk of ovarian cancer
- possible reduced risk of post-menopausal hip fractures and osteoporosis (American Academy of Pediatrics 2005, Labbock 2001).

Exclusive breastfeeding for six months

In 2000, the WHO commissioned a Cochrane Systematic Review of the scientific literature on the optimal duration of exclusive breastfeeding. Based on the evidence

available, the review recommended exclusive breastfeeding for six months. The current clinical orthodoxy (the World Health Organization, the American Academy of Pediatrics 2005, Australia's National Health and Medical Research Council, the Royal Australian College of General Practitioners and others) is a recommended six months of exclusive breastfeeding (box 4.5).

Box 4.5 Breastfeeding recommendations

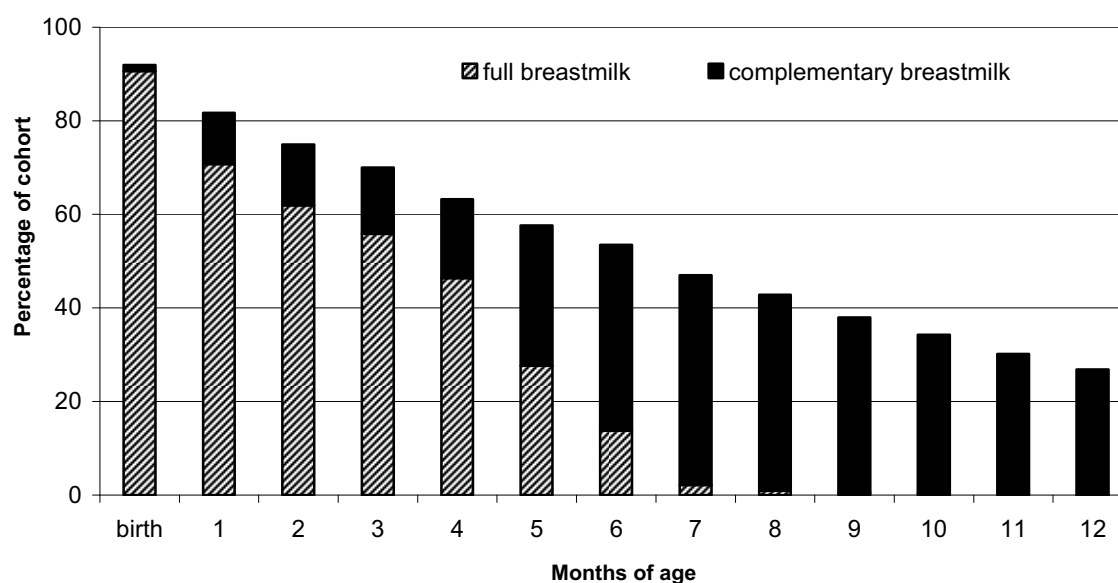
The **WHO** recommends exclusive breastfeeding for six months. In 2001 the WHO changed the recommendation for exclusive breastfeeding from four to six months, and urged Member States to 'support exclusive breastfeeding for six months as a global health recommendation taking into account the findings of the WHO Expert Technical Consultation on optimal duration of exclusive breastfeeding and to provide safe and appropriate complementary foods, with continued breastfeeding for up to two years or beyond' (Resolution World Health Assembly 54.2, ref Agenda Item 13.1, Infant and young child nutrition, A54/45, para 2(4)).

The **American Academy of Pediatrics (AAP)** has recommended six months as the optimal duration of exclusive breastfeeding since 1997 (AAP 1997). On revising its policy statement on breastfeeding in 2005 the AAP said – 'Pediatricians and parents should be aware that exclusive breastfeeding is sufficient to support optimal growth and development for approximately the first 6 months of life and provides continuing protection against diarrhea and respiratory tract infection. Breastfeeding should be continued for at least the first year of life and beyond for as long as mutually desired by mother and child' (AAP 2005, p 499).

The Australian **National Health and Medical Research Council** states that: 'For Australia, it is recommended that as many infants as possible be exclusively breastfed until 6 months of age. It is further recommended that mothers then continue breastfeeding until 12 months of age – and beyond if both mother and infant wish. Although the greatest benefits from breastfeeding are to be gained in the early months, especially from exclusive breastfeeding for at least six months, there is no doubt that breastfeeding provides benefits that continue beyond this time. After six months, continued breastfeeding along with complementary foods for at least 12 months will bring continuing benefits' (NHMRC 2003, pp. 305–306). The objectives for Australia are an initiation rate in excess of 90 per cent and 80 per cent of infants breastfed at the age of six months.

In Australia, most women exclusively breastfeed for much shorter periods than six months (and significantly less than women in many other developed countries). While the majority of Australian women commence breastfeeding (92 per cent of babies are breastfed at birth), just 14 per cent are exclusively breastfed at six months (figure 4.2). The rate of exclusive breastfeeding falls to 71 per cent at one month, declines steadily over the next three months and then falls rapidly after the fourth month – from 46 per cent to 28 per cent at five months.

Figure 4.2 **Breastfeeding in Australia, the first 12 months**



Data source: LSAC 2006-07 Annual Report.

While the breastfeeding initiation rate meets the National Health and Medical Research Council's (NHMRC) target, the rate of breastfeeding at six months is well below 80 per cent, a goal considered by the Council to be achievable in Australia:

An initiation rate in excess of 90 per cent, and 80 per cent of mothers breastfeeding at six months are achievable goals in Australia. Of the developed countries, Norway consistently reports the highest breastfeeding rates, ones that Australia should strive to achieve:

- Ninety-two percent of mothers are breastfeeding their child when it is 3 months of age
- Eighty per cent are breastfeeding their child at six months
- Forty per cent are still breastfeeding their child at 12 months. (NHMRC 2003, p. 2)

Early weaning — some estimates of costs

Most of the studies that have tried to put a dollar value on the costs of unnecessary disease burden of premature weaning have concentrated on the direct health care costs (increased rates of infant hospitalisation and duration of infant hospitalisation, increased use of health services, etc), of infant illnesses associated with not breastfeeding. For example:

- An Australian study conducted in the ACT estimated hospitalisation costs of early weaning (based on five conditions gastrointestinal illness, lower

respiratory infection, otitis media, eczema and necrotizing enterocolitis)¹ to be between \$1 2 million per year in that territory (Smith et al. 2002).

- A Spanish study looking at the effect of breastfeeding on the probability of hospitalisation as a result of infections during the first year of life found that 30 per cent of hospital admissions could have been avoided for each additional month of full breastfeeding. Also, that 100 per cent exclusive breastfeeding among 4 month old infants would avoid 56 per cent of hospital admission in infants in the first year of their life (Talayero et al. 2006).
- A US study covering three illnesses (lower respiratory tract illness, middle ear infection and gastrointestinal illness) found that for every 1000 babies never breastfed, compared with 1000 babies exclusively breastfed for three months, there were 2033 extra visits to the doctor, 212 extra days of hospitalisation and 609 extra prescriptions in the first year of life (Ball and Wright 1999).

As noted by Weimer (2001), the sizeable health care costs for most of the studies cover just a few infant illnesses and consequently are likely to underestimate the costs attributable to early weaning or not breastfeeding.

Leon Cava et al., on reviewing the evidence on the benefits of breastfeeding, concluded that the economic costs of not breastfeeding, while greatest for poor households and poor countries, were also significant for developed countries:

... apart from being the safest and healthiest infant feeding method, breastfeeding is also the least expensive. ... This is especially true when the unanticipated cost of health care for the sick infant takes its toll.

When the cost of medical care is borne by the health system or insurers, the economic impact is felt at that level. When infant illness requires mothers to miss work, employers and the economy are also affected. Although the economic costs of not breastfeeding generally are considered to be greatest for poor households and poor countries, the evidence summarized here suggest that the impact in developed countries is also serious. (Leon Cava et al. 2002, p. 4)

Employment and breastfeeding

While the biomedical literature suggests there can be significant benefits for infants, children and mothers from breastfeeding (particularly if exclusively for six months), this is of little importance if paid parental leave does not affect breastfeeding behaviour.

¹ Conditions including diarrhoea, gastroenteritis, otitis media (ear infection) and respiratory infection are primary causes of hospitalisation in infants aged less than 1 year and in children aged one to four in Australia. They are also among the main conditions presented to general practitioners.

Many mothers expressed concern that on returning to work they had to give up breastfeeding even though they considered it too early for their child's wellbeing. One mother, for example, said:

My workplace was very supportive of me breastfeeding and expressing using the first aid room. I also left during my lunch break to breastfeed her at lunch and return to work. But physically working full-time and breastfeeding, I couldn't do it. After a week I knew that I had to wean her. By the time she was six months old she was fully weaned from breastfeeding and it broke my heart to do it. But for financial reasons and because I don't receive any paid leave, I had to return to work and I had to return full-time. (trans., p. 51)

In the absence of paid leave, mothers may return to paid employment earlier than they would like and this could undermine the health and well-being of both the child (by affecting breastfeeding duration) and the mother. As Galtry and Callister said:

... in those situations where parents are totally dependent on their own financial means, the optimal length of parental leave may be quite different than what appears to be 'best practice' based on medical and other research. (Galtry and Callister 2005, p. 224)

Does returning to work impact on breastfeeding initiation and duration?

Some studies suggest that returning to employment has little or no impact on breastfeeding initiation (Lindberg 1996, Dennis 2002). Others, however, indicate that women who return to work after only a brief period of leave are less likely to initiate breastfeeding (Nobel 2001, Chatterji and Frick 2003, Hawkins et al. 2007, Guendelman, Lang et al. 2009). For example:

- A UK-wide longitudinal study found that mothers returning to employment within 4 months of having an infant were less likely to initiate breastfeeding (69 per cent) than those who returned later – 75 per cent at five or six months and 80 per cent at seven months or later. Mothers returning to work for financial reasons were found to be 4 per cent less likely to initiate breast feeding than mothers returning for other reasons (Hawkins et al. 2007).
- A recent study undertaken in California found maternity leave of less than six weeks or six to 12 weeks to be associated with a fourfold and twofold higher odds, respectively, of failure to establish breastfeeding (also an increased probability of cessation after successful establishment) relative to those women taking longer leave or those who had not returned to work (Guendelman et al. 2009).

While paid work and breastfeeding need not be mutually exclusive activities, breastfeeding is a time-intensive activity that requires mothers either to be with their babies to feed them or to be able to express and store milk that can be used later.

Frequent feeding or expression of milk (particularly when exclusively breastfeeding) is also necessary to maintain a mother's milk supply (NHMRC 2003, p. 10). The earlier a mother returns to work the more frequently she will have to feed her baby or express milk and this can make establishing and continuing to breastfeed difficult (see box 4.6 for participants' personal experiences and comments).

International and Australian evidence suggests that the duration of breastfeeding is influenced by a woman's decision about returning to work, with some studies pointing to the importance of flexibility and part-time hours for combining work and breastfeeding. For example:

- Lindberg 1996 found that women (particularly those returning to full time employment) tend to stop breastfeeding in the month they return to paid work and concluded that maternity leaves of 'at least six months' would be required to achieve the recommended six months of breastfeeding.
- A US study (using data from the National Longitudinal Survey of Youth) found that among mothers who initiated breastfeeding, returning to work within three months reduced the length of breastfeeding by four to six weeks. The authors concluded that 'the magnitude of the associations we find are large and important from a public health perspective' (Chatterji and Frick 2003, p. 26).
- An Australian study (Cooklin et al. 2008), using LSAC data found that fewer employed women were breastfeeding their infants at six months (39 per cent for women employed full-time and 44 per cent for women working part-time) than women not in paid employment (56 per cent). The lowest proportion of infants receiving breast milk at six months were those whose mother had resumed full-time employment either before three months (42 per cent) or between three and six months after the birth (39 per cent). Cooklin et al. concluded that:

Results from this large representative cohort of Australian infants confirm that maternal employment in the first 6 months of life contributes to premature cessation of breastfeeding even when known risk factors of breastfeeding cessation are controlled for. (Cooklin et al. 2008, p. 620)

- Another recent Australian study (Baxter 2008b), also using LSAC data, found that:

mothers not working, on leave or working 1-14 hours had the highest breastfeeding rates around 16 per cent higher than mothers working 15 hours or more

working women with flexible hours had breastfeeding rates 10 per cent higher than those without flexible hours

Box 4.6 Working and breastfeeding — participants' comments

Susan Kay:

Many people believe that if the mother isn't strapped to the baby then breast feeding isn't possible. This is completely false. I work full time and my husband brings my daughter into me twice a day for a feed. It takes no more than 15 minutes at a time and I just work the extra half hour to make up for the feeding time. (sub. 29, p. 1)

Hilary Surman:

Financially, because of the unavailability of paid maternity leave and my income being the primary one, I had to return to work when my baby was seven months old. This was difficult not only emotionally but also practically because I wanted to keep breastfeeding until the baby was twelve months. I have managed to keep breastfeeding by leaving expressed milk and expressing at work. You can image it is very difficult to express milk at work. There are no facilities available. Non-standard shift patterns added to the difficulties. (sub. 35, p. 1)

Personal response:

I am a doctor and mother of 2 young boys aged 2 and 4. I had no access to paid maternity leave. I saved for my time off and recommenced work 4 months after the babies were born. I worked part-time, I was still breastfeeding so I had to express milk and freeze it so that I could continue to have the children exclusively breastfed for the first 6 months of their life.

CPSU, a members personal experience:

I returned to work when my baby was 5 months old – still feeding her. I had to express at work with no facilities available to me. I ended up with mastitis and was advised by Dr to stop feeding her altogether. As a result she went straight to bottles and she ended up ill herself. (sub. 160, p. 10)

The Australian Family Association:

Some highly committed mothers manage to combine early return to work with continued breastfeeding. Such women require supportive workplaces. In many instances, the AFA believes that highly motivated employers might better accommodate the nursing mother by accommodating her baby in the workplace as well. (sub. 205, p. 10)

Some participants indicated that their workplaces were not suitable for mothers to breastfeed. Unions NSW, for example, said:

... many workplaces will never be a site suitable for a woman to breastfeed. Amongst our membership, rail guards, construction sites, truck drivers and many factories, are not suitable for young children. The only way to ensure that these women can breastfeed their children for 6 months is to ensure they have the paid leave and support to do so. (sub. 181, p. 7)

IEUA:

... further to flexible return to work options, women should have access to breastfeeding facilities such as access to a private room and refrigeration as well as work breaks. In some shameful situations, IEUA members are required to express breast milk in the toilet facilities of staff rooms as there are no other private facilities available. (sub. 72, p. 9)

50 per cent of working women with a baby under 6 months old were still breastfeeding – only slightly lower than those not employed and not on leave.

self employed women were more likely to breastfeed than other employed mothers

for employed women where child care was only provided by themselves or the baby's fathers, breastfeeding rates were 10 per cent higher than for employed women using other forms of child care.

Baxter concluded that 'it is important that opportunities be explored for continuing to encourage breastfeeding-friendly workplaces. Shorter work hours and flexible work hours are particularly related to higher breastfeeding rates' (Baxter 2008b, p. 26).

There is also some evidence that parental leave increases the duration of breastfeeding. A UK survey of Infant Feeding found that the proportion of mothers mentioning return to work as a factor behind giving up breastfeeding was lower in 2005 than in 2000 and it was noted that 'this is consistent with longer maternity leave entitlements in 2005 compared with 2000, and suggests some mothers have been helped to breastfeed longer' (Scientific Advisory Committee on Nutrition 2008, p. 21). Roe et al. 1999, found that an additional week of leave increased breastfeeding by almost one half of a week. Also, that mothers not in paid employment tend to feed their infants more feeds than those returning to work, a finding that may have implications for exclusive breastfeeding.

Baker and Milligan (2008b) found that increases in paid maternity leave in Canada (from six months to around a year in 2000) increased the time mothers spent at home with their infants by three to three and a half months and the longer period at home affected breastfeeding duration. Breastfeeding duration increased by over a month and the proportion of women exclusively breastfeeding for six months increased by almost 40 per cent.

That said, on self-reported indicators of maternal and child health, Baker and Milligan found little or no effect from the increase in breastfeeding duration. While finding some evidence of beneficial impacts on asthma, allergies, chronic conditions and ear infections at ages seven to 12 months, sensitivity testing raised doubts about their 'robustness, persistence and relation to breastfeeding/increased maternal care' (Baker and Milligan 2008b, p. 884).

Complementary measures to encourage breastfeeding for longer

Resuming work, however, is not the main reason given by Australian women for discontinuing breastfeeding. It comes in as the fourth main reason behind: problems in producing adequate milk (30 per cent); felt it was time to stop (23 per cent); other problems with breastfeeding (10 per cent). Just 8 per cent of mothers gave resuming work as the reason for discontinuing breastfeeding (ABS 2003).

Only a very small percentage of mothers, however, are unable to produce adequate milk supply for their infants and the perception of low milk supply is often based on a lack of confidence or understanding of the normal physiology of lactation (Royal Australian College of General Practitioners). According to Australia's National Health and Medical Research Centre:

... for the remainder of women who prematurely terminate breastfeeding, there are numerous causes both biological and psychological the majority of which are temporary and can be resolved with experienced advice or avoided by better preparation, hospital management or appropriate support. (NHMRC 2003, p. 8)

What this suggests is that paid parental leave by itself is likely to be only partly effective in increasing breastfeeding duration with complementary measures also playing an important role in improving the prospects that paid parental leave will encourage mothers to breastfeed for longer (appendix H).

There are a number of published reviews of interventions to promote breastfeeding initiation and duration, including several Cochrane Reviews, reviews by the US Preventative Services Task Force, the World Health Organization and NSW Health (Dyson, et al. 2005, Britton et. al 2007, Chung, et. al. 2008, Oliveira, et al. 2001, WHO 1998, Hector, King and Webb 2004).

The systematic reviews and meta-analyses of interventions to promote and support breastfeeding indicate that:

- breastfeeding interventions are more effective than routine care in increasing short and long term breastfeeding rates
- a variety of educational formats are effective in improving rates of initiation and short-term duration of breastfeeding (although not all studies find education to be effective), with one-to-one education and/or small group programmes appearing most effective. The isolated use of written materials is consistently shown to be ineffective and may be detrimental
- both peer and professional support strategies are effective in increasing duration and exclusivity of breastfeeding. These forms of support appear to be particularly effective in areas where initiation and continuation of breastfeeding is not high

-
- strategies that depend mainly on face-to-face support are more effective than those that rely primarily on telephone contact and the effectiveness of support is enhanced by home visits
 - postnatal support by a health professional and/or trained peer counsellors (such as parenting groups, face-to-face contacts and home visits) appears effective in promoting the duration of breastfeeding
 - health service policy and professional training can be important in enabling the consistent and integrated adoption and implementation of recommended practices (including the Baby Friendly Hospital Initiative and the WHO's Ten steps to successful breastfeeding)
 - combining prenatal and postnatal interventions and inclusion of lay support in a multi component intervention may be beneficial.

There is also some evidence that early skin-to-skin contact between baby and mother, rooming-in babies and avoiding inclusion of infant formula or material marketing infant formula in commercial hospital discharge packs, can be effective in improving breastfeeding initiation and short-term duration (Moore, Anderson and Bergman 2007, Rosenberg, et al. 2008, WHO 1998).

While the systematic reviews provide some insights into the effectiveness of interventions to promote breastfeeding, considerable gaps in the evidence remain, particularly for strategies related to public policy, supportive environments (such as interventions in the workplace to support breastfeeding and physical facilities in public places) and community action. There are also gaps in the evidence in terms of the effectiveness of strategies that specifically support breastfeeding continuation between three and four months, and strategies for promoting exclusive breastfeeding up to six months and breastfeeding beyond the six month period (Abulwadud and Snow 2007, Hector, King and Webb 2004).

The Australian Government currently funds a range of initiatives to support breastfeeding, including:

- in the 2008-09 Budget, the Australian Government provided \$2.5 million over five years to the Australian Breastfeeding Association to expand its communications infrastructure to create a national 24 hour breastfeeding helpline service at no cost to callers
- \$1.8 million over four years to support education and the provision of information resources, as well as health professionals training and support. The Australian Breastfeeding Association has been contracted to develop breastfeeding education for health professional and nationally recognised courses for Breastfeeding Helpline volunteers

-
- \$1.15 million over four years for research to support breastfeeding and improved data collection, including
 - an Australian National Infant Feeding Survey that will interview a representative sample of families with young babies, provide data on the prevalence and duration of breastfeeding, explore the barriers to initiating and continuing to breastfeeding, and collect data on other foods consumed by Australian infants
 - a qualitative research project looking at attitudes towards, and perceptions of, breastfeeding among mothers, pregnant women, their partners and health professionals
 - developing dietary guidelines for pregnant and breastfeeding women and reviewing the 2003 Dietary Guidelines for Children and Adolescents incorporating the Infant Feeding Guidelines for Health Workers.
 - *New Directions: An Equal Start in Life for Indigenous Children* which includes \$112 million for maternal and child health programs including access to antenatal care, information about baby care (including breastfeeding), advice and assistance with parental monitoring of developmental milestones and testing of Indigenous children's hearing, sight and speech before starting school (Australian Government 2008b, Department of Health and Ageing 2009).

In the draft report, the Commission recommended that the Australian Government provide more resources to allow effective support for breastfeeding. This recommendation received support from a number of participants. For example, the Tasmanian Women's Council said:

As noted by the Commission, only two thirds of Australian mothers still breastfeed their babies at three months of age. While the Australian Breastfeeding Association and child health clinics around Australia do a wonderful job to encourage and support mothers who breastfeed, many women who are breastfeeding cannot continue to do so once they return to work. Providing more resources in this area, concurrent with paid parental leave will no doubt have a great impact on encouraging and supporting women who breastfeed. (sub. DR307, p. 12).

The Australian Breastfeeding Association supported the recommendations relating to breastfeeding support in 'The Best Start' inquiry into breastfeeding:

Providing support for breastfeeding is complex and needs a multifaceted approach. Accordingly, we strongly encourage the Commonwealth to enact the recommendations from the Standing Committee on Health and Ageing report on the inquiry into the health benefits of breastfeeding entitled 'The Best Start' (2007). These recommendations are consistent with providing the necessary support for mothers to continue to breastfeed. (sub. DR391, p. 5)

The report of the maternity services review, *Improving Maternity Services in Australia*, released in February 2009, also indicated that a number of submission to that inquiry suggested the need for increased support for breastfeeding:

The need for more extensive professional postnatal support, specifically in the first 10 days postnatally, was raised with the Review. In particular, a number of submissions suggested the need for greater professional support in initiating and establishing breastfeeding, including greater access to support from midwives, including those trained as lactation consultants. (Department of Health and Ageing, 2009, p.34)

In December 2008, the Australian Government responded to the House of Representatives Standing Committee on Health and Ageing report, *The Best Start on the Inquiry into the Health Benefits of Breastfeeding*, and agreed (amongst other things) to:

- provide national leadership in supporting and promoting breastfeeding by inviting State and Territory Governments, through the Australian Health Ministers' Conference to collaborate on the development and implementation of a National Breastfeeding Strategy
- pursue in the context of developing a National Breastfeeding Strategy
 - the establishment of a basic set of indicators and definitions as the basis for a system to monitor breastfeeding trends in Australia
 - priorities for evaluating best practice in programs that encourage breastfeeding, including education programs and coordination of these programs
 - a targeted national education campaign to reach mothers who are less likely to breastfeed without additional encouragement and support.

In light of the Australian Government's current initiatives and recently announced response to the *Best Start* report the Commission is not recommending additional complementary support for breastfeeding. The National Breastfeeding Strategy should be the basis for more effective breastfeeding support and if warranted over time for more resourcing. The Commission supports evidence-based policy for improving breastfeeding support and considers that areas where further research may be warranted include support services for promoting duration and exclusivity of breastfeeding in the first month after birth and beyond three months (the periods when breastfeeding rates decline rapidly), and the effectiveness of supportive environments (particularly breastfeeding-friendly workplaces). The maternity services review, *Improving Maternity Services in Australia*, also recommended that:

... in order to lengthen the duration of breastfeeding, further evaluation be undertaken to identify the health care or community settings in which breastfeeding information and support are most effectively received, with a particular priority on consulting and

supporting women from diverse cultural and socioeconomic backgrounds. (Department of Health and Ageing, 2009, p. 39)

Improving co-ordination and continuity of service between prenatal breastfeeding support, hospital strategies and postnatal support (which could be addressed under the National Breastfeeding Strategy and the National Maternity Services Plan) may also go some way towards encouraging continuation of breastfeeding in Australia.

Evidence on breastfeeding — where does it leave us?

Existing paid maternity leave schemes, combined with other forms of leave (such as long service leave and annual leave), already reduce some of the pressure on mothers to return to paid work (and to reduce breastfeeding duration) in the period immediately after childbirth. It is among those mothers who are ineligible for paid maternity leave that you would expect to see the greatest differences between when mothers are returning to work and when they consider it is in the best interests of their child (including when they stop breastfeeding). Women who do not receive paid maternity leave and women who are self-employed return to work more quickly than those eligible for paid leave. Self-employed mothers, however, tend to have access to more flexible working arrangements, and are in fact more likely to be breastfeeding their infants at three months than those mothers who had not returned to work (80 per cent of self-employed mothers compared to 73 per cent of those mothers who hadn't returned to work, LSAC data). At six months, as many self-employed mothers were feeding their infants as those mothers who had not returned to work.

The impacts of relatively short statutory paid leave provisions (say 12–14 weeks) are uncertain but are likely to depend on the circumstances of particular women. Where such a paid leave scheme is taken at half-rate or enables a woman to extend a period of self- or employer-funded leave, then it may promote a significant increase in breastfeeding duration. That said, many of the women returning to work early are on relatively low wages and may not be able to afford to take paid leave at half pay. A longer period of paid parental leave (say 18 weeks) is likely to result in women on relatively low wages extending their leave to the full period of parental leave, that together with other funding options (such as privately negotiated paid maternity leave, accumulated leave or private savings), would enable mothers to exclusively breastfeed for the clinically recommended period.

For mothers on higher wages and those facing fewer financial constraints, the additional time spent on leave is likely to be less than those currently going back to work before they would like because of financial constraint. That said, an extended period of paid leave may see these mothers taking slightly longer periods of leave

and breastfeeding for longer. For some mothers, paid leave will not change the period of leave taken – hence breastfeeding duration is likely to remain unchanged.

Moreover, even for those parents who can take off sufficient time from work to care for their children, the period after the birth of a baby, and the interruption of family income that often entails, can involve financial hardship. The Commission heard from many participants about the financial hardships faced while on unpaid parental leave and the stress this places on families. A number of participants contemplating having a family also expressed concern about how they would cope financially on reduced income for the period of the mother's absence. One participant said:

Please take the financial strain off new families to let them enjoy this time together without the stress of making ends meet. (personal response)

The National Foundation for Australian Women also said:

... women's ability to take the full period of unpaid leave is constrained by financial circumstances. Families with tight budgets, such as those with older children and high mortgages, and those where the woman's earnings are a significant part of family income are likely to suffer severe hardship from the loss of one partner's earnings for 6 to 12 months. (sub. 54, p. 17).

According to LSAC data, mothers taking four to six months leave around the birth of their baby were more likely to report financial constraints as influencing an early return to work (or a decision not to take a longer period of leave) than mothers taking three months leave. And, mothers taking six to 12 months leave were more likely to report difficulty maintaining household income than those taking shorter periods of leave. What this suggests is that financial constraints tend to become more binding as the duration of leave increases (this most likely reflects the erosion of financial reserves with time away from paid employment).

While the Commission does not regard addressing financial hardship as a key objective of a paid parental leave scheme (as discussed in chapter 1 if financial assistance was a key objective by itself this could be addressed by increasing family payments), nevertheless, an important incidental benefit of a scheme designed to encourage parents to spend more time at home with their infants is that families suffer less financial and other associated stresses during the postnatal period. And, this has a beneficial impact on child and family welfare (the evidence suggests that income is, by itself, is an important predictor of child wellbeing). Accordingly, a paid parental leave scheme may generate improved health and welfare outcomes even for those families whose time spent at home is not affected by the scheme.

4.4 Child health (breastfeeding aside) and development

Better child health outcomes with more generous leave

By allowing mothers (and, or fathers) to stay home and care for their infants, parental leave may be expected to result in improved health and development outcomes for infants. And, there is some evidence to suggest that longer periods of paid parental leave are associated with reduced rates of infant mortality. Cross-country studies (OECD countries) by both Ruhm 2000b and Tanaka 2005, found that a ten-week extension in paid leave has the potential to reduce infant mortality by around 2.5 per cent. Ruhm (2000b, p. 933) concluded that ‘parental leave may be a cost-effective method of bettering child health’; also that parental time is ‘an important input into the well-being of children’.

Both these studies found that paid leave had the strongest effect on post-neonatal mortality deaths (between 28 days and one year). Tanaka found that a ten week extension in paid leave had the potential to decrease post-neonatal mortality rates around 4 per cent. Unpaid leave was not found to have a significant effect:

... if leave is provided without adequate payment and job protection, parental leave-taking behaviours may not be very responsive and may result in mothers’ early return to work. As a result, other leave does not have a significant effect on improving infant health. (Tanaka 2005, p. F26)

Improved health outcomes in the infancy period are attributed to rates of immunisation, check-ups with health care professionals and breastfeeding. For example, infants of mothers returning to work in the first six weeks are less likely to have regular medical check-ups in the first year of life, less likely to receive timely vaccinations and less likely to be breast-fed (Berger et al. 2005).

A symposium on parental leave, early maternal employment and child outcomes in the *Economic Journal* concluded that:

Children whose mothers stay out for more than 12 weeks are more likely to be breastfed, are breastfed longer, are more likely to be fully immunised and are more likely to receive recommended preventative (well baby) care. The policy implications of this finding is clear: extending paid job-protected maternity leave will lead to improvements in child health. How large the gains are will depend on what the leave entitlement is currently and how long the extensions are. (Gregg and Waldfogel 2005, p. F4)

Child development

On child development, the evidence suggests that both parental employment (by reducing the risk of poverty) and personal parental care (up to an age at which it is not entirely clear) are good for child wellbeing. As the OECD recently noted, a key issue in the parental leave debate is how to strike the right balance between parental employment and parental care in the early years of a child's life:

Parental employment reduces the risk of poverty and it thus reduces the likelihood of poverty and deprivation damaging child development. Personal parental care enhances child development, but when children start to learn from interactions with their peers, good-quality care provided by professional carers can also enhance child development. (OECD 2007, p. 109)

A number of participants argued for an extended period of paid parental leave (up to two years) on the grounds that exclusive parental care or continuous interactions with a single primary caregiver in the early stages of life is 'crucial' for healthy brain development and providing a solid foundation for future health and learning. Some participants went as far as suggesting that an extended period of leave is the most important investment that governments can make to support child wellbeing and development (box 4.7).

What do we know about child development in the early stages of life?

The science of early childhood development tells us that the first years of life are fundamental to the formation of healthy brain architecture, with experiences during this time helping to shape a child's future health and wellbeing. With sophisticated new technologies and focussed research on brain chemistry, much has been learned over the last few decades about the mechanisms through which the capabilities of a young child's brain expands, including the extent to which different types of experiences count towards a child's cumulative development over time (Mustard 2006).

The human brain is made up of billions of neurons that are connected via synapses to create neural pathways that communicate with each other to perform a specific range of functions including, for example, vision, hearing, language and behaviour. The early childhood period is a time of rapid brain development in terms of synapse formation and also when neural pathways (and the expression of genes) are particularly sensitive to the dose and range of experiences provided by a child's environment. This makes early childhood a period of simultaneous opportunity for enrichment and vulnerability to harm.

Box 4.7 The importance of primary carers — participants' views

A number of participants stressed the importance of parental care (or care by another primary caregiver) in the initial phase of a child's life:

- The NSW Commission for Children and Young People argued for a minimum of 12 months paid parental leave with a preference for 2 years, based on the evidence on child development and the importance of continuous nurturing interactions over the first years of life:

There is a significant amount of evidence that paid maternity leave can provide major benefits for babies as it gives time with their mothers at a crucial phase in a child's early years of development. Supporting parents so they can nurture their babies and young children is shown to have significant immediate as well as long term benefits for children's wellbeing, their families and society. ... parental leave greatly enhances the amount of time spent in face-to-face and organised activities that promote an infant's social development and emotional regulation. (sub. 234, p. 1).

- Early Childhood Australia proposed a paid parental leave duration of 12 months, stating that:

... strong relationships and secure attachments are possible in very high quality [child care] services but for the general population are much more likely in the context of paid parental leave. (sub. 237, p. 5)

- YWCA support a minimum period of 9 months paid parental leave to enable family units to achieve maternal, child and family welfare objectives as well as broader social and economic welfare objectives. They stated that there are:

... benefits of care of a very young child by immediate family members. (sub. 84, p. 11).

- The Australian Association for Infant Mental Health refer to infancy as a critical period for development, noting that babies are emotionally reliant on a consistently available caring adult:

Infant mental health begins with the relationship between the infant and his or her main carer, usually, but not necessarily the mother. (sub. 25, p. 2).

- NITeY also suggest that at least 1 year of leave is necessary to meet the needs of children since:

The drivers of the earliest development are stable, secure attachments to a few adult carers, especially the mother ... [and] in general, the best way to ensure that earliest developmental needs are met is to support parents in meeting them. (sub. 55, p. 2).

As the National Scientific Council on the Developing Child put it:

The foundations of brain architecture are established early in life through a continuous series of dynamic interactions in which environmental conditions and personal experiences have a significant impact on how genetic predispositions are expressed. Because specific experiences affect specific brain circuits during specific developmental stages referred to as sensitive periods it is vitally important to take advantage of these early opportunities in the developmental building process. That is to say, the quality of a child's early environment and the availability of appropriate

experiences at the right stages of development are crucial in determining the strength or weakness of the brain's architecture, which, in turn, determines how well he or she will be able to think and to regulate emotions. (National Scientific Council on the Developing Child, 2007b, p. 1)

The early childhood period is also important because each stage of neural pathway development rests on another, so that the complexity of brain circuitry, and in turn, its ability to perform a range of complex functions such as movement, coping, language, cognition and biological processes build over time. Because of this hierarchy, if lower level circuits are not wired correctly, the development of higher level circuits may be jeopardised. The research suggests that making corrections at later stages is often more difficult:

Getting things right the first time is more efficient and ultimately more effective than trying to fix them later. (National Scientific Council on the Developing Child 2007, p. 12)

But there is also the countervailing effect of brain plasticity the ability of the brain to change with learning. If a child is not sufficiently exposed to 'brain building' experiences during particular developmental phases, there may still be scope to intervene to restore a normal brain architecture and mitigate any detrimental effects on future learning. The evidence suggests that for human brain growth, previously thought-rigid sets of experiences that are critical for development are the exception rather than the norm (National Research Council and Institute of Medicine, 2000; *From Neurons to Neighbourhoods* 2000, p. 183). Indeed, neural pathways will either be maintained, strengthened or pruned over time according to the ongoing interactions between a child's genetics and new experiences. That said, while brain plasticity is retained into adulthood, not all parts of the brain are equally plastic (some neural pathways that are highly plastic around birth remain so only for a short window of time).

The importance of quality interactions for early brain development

The role of a primary caregiver is considered to be particularly important during the early childhood period, with the continuous interactions they provide affecting the rate of early brain development and the ability of the child to self regulate their emotions and 'attend' to the world. An emphasis is placed on the reciprocal nature of continuous interactions between a caregiver and child, based on shared gaze, vocalisations, touch and smell, so that:

... both members of the dyad enter into a symbiotic state of heightened arousal. (McCain, Mustard and Shanker, 2007, p. 27)

The nature of the relationship of young children to their parents and other care givers is dynamic, and often described as a 'serve and return' process where infants

seek out interaction through babbling, facial expressions, words, gestures, and cries, which an adult responds to, and so the process continues back and forth. As the National Scientific Council on the Developing Child said:

Growth-promoting relationships are based on the child's continuous give-and-take ('action and interaction') with a human partner who provides what nothing else in the world can offer — experiences that are individualized to the child's unique personality style: that build on his or her own interests, capabilities, and initiative; that shape the child's self-awareness; and that stimulate the growth of his or her heart and mind. (National Scientific Council on the Developing Child, 2004, p. 1)

It is via these endless interactions between a child and caregiver that a child's self regulatory system is said to become fully functional, but they are also said to be important for the caregiver since their 'mindreading' abilities are not innate and can 'only be attained through countless caregiver-child interactions that nature designed us to experience in the first year of a baby's life' (Greenspan and Shanker 2004; sub. 234, p. 7).

Of course, experiences can also be negative, including exposure to maternal depression, family violence and poverty, which can affect brain structure and have future implications for the building of relationships and wellbeing more generally. Outcomes that are often attributed later in life to adverse early childhood experiences include, but are not limited to, depression, anxiety, post traumatic stress, aggression, hyperactivity and substance abuse (Teicher 2003).

Stability of care providers is thought to be particularly important for young children as care needs to be responsive to changes in each child's development status (which is most rapid in early childhood). This may be difficult to achieve if caregivers are not sufficiently familiar with the infant's individual needs and the infant is not accustomed to reading the particular signals of their caregiver so as to feel supported and able to attend to their surrounding environment. Some argue for extended periods of maternity leave on the grounds that the constant changing of child care providers (particularly in formal care settings) does not support a child's sense of security and ability to build future relationships (What About the Kids, 2006, p.10). Others suggest that long hours of infant care (more than 10 hours) can disrupt a mother's attachment to her child (NIFTeY sub. 55).

What does the empirical analysis tell us?

Most of the more recent evidence tends to support the view that the use of *non-parental* care/child care (usually necessitated by maternal employment) when initiated within the first year of a child's life can contribute to behavioural problems and, in some contexts, delayed cognitive development (Han et al. 2001; Hill et al.

2001; Waldfogel et al. 2002; Brooks-Gunn et al. 2002; Baker et al. 2005). Evidence of problems is generally stronger when child care is initiated very early (3 to 4 months or less), when maternal employment is full-time and when the child care arrangement is for long hours and of low quality.

The evidence is mixed, however, with some studies not finding maternal employment or child care to be detrimental for various measures of child development across a range of ages, including within the first year of a child's life. But, the emergence of positive effects (mostly cognitive) from early child care experiences tend to be confined to situations where:

- child care is initiated at least after six months of age (NICHD 2000)
- maternal interactions remain sensitive and responsive (NICHD 2006)
- maternal employment is not full-time (Berger et al. 2005; Gregg et al. 2003).

For children aged around one year or older, the empirical work focussing on the effects of maternal employment and child care is more divided about the magnitude, or even direction, of the effects on child wellbeing. Some studies find that many of the potential risks associated with the use of child care for younger children are less evident as the age of the child increases, especially if the care is of high quality:

... cumulative experience in high-quality, centre-based care starting in the second year of a child's life may be particularly beneficial for cognitive development (From Neurons to Neighbourhoods, p. 312).

But, agreement about the point in time that these benefits start to kick in is not well established by the existing body of evidence. For example:

- maternal employment when children are one to four years old has been associated with small positive outcomes (Joshi and Verropoulou 2000)
- full-time maternal employment when a child is less than 18 months old has been found to have negative effects on cognitive and behavioural measures of child development, but where employment was part-time or initiated after 18 months, no detrimental impacts were evident (Gregg and Washbrook 2003).

There is more consistent evidence, however, that children across a range of ages who suffer from a particularly non-stimulating or impoverished home environment can benefit from child care. For example, in the case of maternal depression, the sensitivity of the mother's interactions with her infant may be improved with high quality child care use.

For those studies finding evidence of detrimental impacts from a mother's employment and the use of child care, the size of the impact is typically small on average, and often not statistically significant. Variance in child wellbeing is

generally more strongly predicted by a range of family characteristics including, for example, household income, maternal education and psychological adjustment, parenting quality and child rearing attitudes (NICHD 2006; Belsky et al. 2007).

Regardless of how small, however, any adverse effects of non-parental care, when experienced by a large number across the population, are not trivial and may have broad scale consequences over time. Also, small negative effects that are enduring may be especially significant, since they may result in future levels of achievement lower than might otherwise have been attainable.

The OECD recently summed up the evidence on child development and parental care by stating that:

Taking stock of the evidence, it seems that child development is negatively affected when an infant does not receive full-time personal care (breastfeeding issues aside...) for at least the first 6 to 12 months of his/her life. Cognitive development of a child benefits from participation in good-quality formal care (and interaction with its peers) from age 2-3. This generalisation of the evidence stands or falls with the quality of formal childcare, but as formal care and education is supplementary to parental care, also with the intensity and quality of interactions at home: the positive effects of formal care are biggest for children in disadvantaged families. (OECD 2007, pp. 110–111).

The symposium on parental leave, early maternal employment and child outcomes in the *Economic Journal* also concluded that:

... it appears that longer periods of leave are associated with better health outcomes for women and infants, and could potentially lead to better developmental outcomes as well. But, convincing empirical evidence regarding causal links between maternity leave, early maternal employment, and child outcomes is lacking. (Gregg & Waldfogel, 2005, p. F33).

The effects of maternal employment and child care for cognitive, behavioural and health outcomes in particular are discussed in further detail in appendix D.

What do we know about non-parental care in the early years?

On balance, the evidence points to a greater potential for negative effects on child development if a mother's return to employment is made before three to six months and the child is in non-parental care for extended periods of time. There appears to be a greater potential for positive effects if a return to employment is made between 12 to 18 months. This results in a window of apparent uncertainty that is not informed by current evidence (the six to twelve month period).

What we do know, however, is that in Australia:

- the majority of babies are not in regular non-parental care. Just under two-thirds of infants are cared for at home by their parents in their first year of life (ABS 2005)
- of those babies who are in care, most are in informal care, usually with grandparents (at least for the first year of life)
- parents balance their work and family responsibilities by reducing the number of hours in paid employment. Most Australian mothers return to employment on a part-time basis. This means that the use of child care in the early stages of a child's life is usually not extensive.
- an important factor in the hours that an infant is in formal care is the number of hours worked by the mother. If more than 20 hours of non-parental care is used, the use of centre-based care tends to increase. If fewer than 20 hours care are required, grandparents typically provide the care, particularly if the mother returns to work within six months of having a child.
- a mother's employment usually encroaches less on the time and interactions made available to her children than might be expected (Bittman, Craig and Folbre 2004; Nock and Kinston 1988; Bianchi 2000). Australian data shows that the reduction in a mother's time spent with her baby due to employment is only 2 hours per day on average. Mothers working full time spend on average 3.7 hours less with their baby a day (Baxter et al. 2007).

That said, a significant proportion of infants are placed into formal child care early in life, and sometimes for extended periods of time. According to LSAC data, of those mothers returning to work within six months, 14 per cent of infants are in child care for more than 31 hours or more per week and around 13 per cent are in child care for between 21–30 hours (appendix D).

LSAC data also shows that household income is positively associated with the use of non-parental child care – the percentage of infants in child care for more than 20 hours where the mother returned to work within six months was 45 per cent for families with household income greater than \$100 000 compared with 31 per cent for households with income between \$50 000 and \$100 000. Where household income is less than \$50 000 extended hours of child care are rare.

The use of child care is much more prevalent for children over 1 year of age, with around 60 per cent of children aged between one and two participating in child care (ABS 2005c). And, while there is greater use of formal care arrangements (usually centre-based day care) at this age, formal care use is at its highest when children are aged two to three, with just over 70 per cent in formal care arrangements.

A number of participants to this inquiry argued that formal child care (with the current one adult for every five infants) in Australia is not of sufficiently high quality to substitute for parental care for infants under 12 months (see, for example, Early Childhood Australia, sub. 237, p. 3, Australian Family Association, sub. 205, p. 24).

The evidence suggests that the quality of child care is important for child development, but measuring the quality of care is difficult. While indicators such as caregivers' level of education, experience and specialised training/qualifications, number of children in groups, child-to-staff ratios provide some insights into the quality of care, no single indicator is able to reflect the quality of interactions between staff and children. Ultimately, the prospect of a child's development being disadvantaged by non-parental care will depend on the quality of the care *relative* to that which would otherwise be provided by the mother.

What the evidence does show is that:

- adult-child ratios are associated with the quality of care provided (rarely, however, is causality established so it is not possible to specify how more carers per child results in better outcomes for child development, other than improving the probability of more interactions between carers and children). There is some evidence that the child-adult ratio is a stronger predictor of outcomes for infants than toddlers and older aged children, but most studies examine the effects of ratios for children aged 3-5 years and older (Cleveland et al, 2007; de Schipper et al. 2006).
- stability in care providers is strongly related to child outcomes (Loeb, Fuller et al. 2004; Huntsman 2008). This is largely because care that is responsive to changes in each child's developmental status is difficult to deliver if caregivers are not sufficiently familiar with the infant's individual needs and signals.
- a child's ability to make secure attachments may be reduced by high adult-child ratios. One study found a greater likelihood of an infant's secure attachment to their mother from an adult-child ratio of 1:3 versus larger ratios (Sagi, Koren-Karie, Gini et al. 2002).
- caregiver education and training is a better predictor of care quality than child-adult ratios (Burchinal, Howes and Kontos 2002). Higher levels of specialised training appears to be the most important contributor for infant children (Howes, Whitebook and Phillips 1992), but the statistical significance of formal teacher education has been questioned by recent studies that find no impacts on pre-reading or maths skills for pre-kindergarteners (Early et al. 2006).

That said, the few studies that have looked at the effects of increased maternal care (by expanding maternity leave) have not determined any noticeable improvements

in child development outcomes. Baker and Milligan (2008c) found no significant developmental benefits in children at age two from the increase in maternal care associated with increasing paid maternity leave in Canada from six to 12 months. Similar results, but for longer-term outcomes, were found by Dustmann and Schönberg (2008) when they looked at the effects of increasing paid maternity leave in Germany from two to six months and from six to ten months.

Parenting support programs

A number of participants to this inquiry, recognising the importance of positive interactions between infants and parents, called for increased support for parenting. The South Australian Government, for example said:

... to achieve strong early childhood outcomes, the interaction of parents with quality programs is of utmost importance. (sub. DR401, p. 4)

NIFTeY NSW said:

Paid parental leave and Parent and Child Centres are two sides to the one coin. The leave gives the parents, especially the primary care-giver, likely the mother, the time to engage with the baby in the endless interactions that facilitate new neural pathways in the brain that will build the baby's attachment to the mother, and shape the baby's emotional and intellectual development. Parent and Child Centres, with their array of inputs into building support for parenting, help the parental interaction to be most effective, and to assist parents when they need contact with others, reassurance, information and at times direction (sub. DR386, p 5)

There is some international evidence that parenting skills training reduces child behaviour problems, with post evaluations finding that these outcomes are generally maintained over time (Sanders et al. 2003, Antcliff 2007). The strongest effects are found for more targeted interventions (mostly directed at disadvantaged or 'at risk' families), with the usefulness of brief and universal parent-child support programs less clear and still the subject of ongoing research. For a further discussion of parenting support programs see appendix D.

There are currently in place a wide spectrum of programs in Australia that deliver services to many family types and children. There have been dozens of pilot programs or small-scale state or national programs that provide funding for support of families, including those with babies (for example, the National Good Beginnings Volunteer Home Visiting Program and the Families First Program and the Victorian Best Start program). Community groups funded by specific short-term grants often deliver services. Many programs target disadvantaged families though some at least aspire to have universal reach.

The patchwork of programs and varying evaluation methodologies make it hard to detect gaps and to work out what works well (Wise et al. 2005). The Commission's initial impression is that government programs supporting parents with children under age two years are more fragmented and more poorly resourced than those aimed at older children. But the apparent 'messiness' of arrangements may not be a problem. Different communities may need different services, and variations in resourcing and program types across Australian jurisdictions may well be the kind of experimentation that reveals the best programs. Following the 2020 summit, the Australian Government flagged a plan for all-in-one centres to be made universally available for mothers and babies. While yet to be detailed in policy, the idea is that the centres would provide an 'education passport' for parents (Department of Prime Minister and Cabinet, 2008).

Overall, the Commission is uncertain of the desirability of additional support services for children aged less than 2 years old. Re-consideration of the issue since the draft has not changed this position. The Commission, however, considers it inappropriate to specify additional resourcing requirements or directions for policy without a robust evidential base.

Where does it leave us?

Overall, the evidence is most compelling that six months exclusive parental care fosters improved developmental outcomes. The greatest potential for negative effects from non parental care are when child care is initiated early (in the first three to six months of a child's life), when the hours of child care are extensive and child care is of low quality. The evidence suggests positive effects from good quality care when a child is between 12 and 18 months old. But, the evidence is inconclusive for the period six to 12 months of age – the point at which cognitive development benefits from high quality care start to kick in is not well established. However, children facing disadvantage or at risk of less sensitive and responsive care in their home setting may benefit significantly from early exposure to high quality child care and from the extra income generated by their parents employment.

Given that the prospect of a child's development being disadvantaged by non-parental care is dependent on the quality of the care *relative* to that which would otherwise be provided by the mother, knowing more about the quality of child care in the Australian context is worthwhile, but is one that is presently hamstrung by a paucity of data. If, for instance, generally high quality child care was available, the benefits from exclusive parental care in the six to twelve month period are likely to be more limited. Anecdotal evidence provided by participants to this inquiry, however, suggests that child care in Australia is not of sufficiently high quality to substitute for parental care for infants under 12 months of age.

That said, it is also worth noting that the limited studies looking at the counterfactual (longer periods of maternal care in Canada and Germany), do not find significant improvements in child development.

4.5 Fathers

Many submissions to this inquiry argued for a period of paternity leave (commonly a two-week paid leave period) to enable fathers to bond with their new baby, adjust to their new role and provide support to their partners. For example, the Human Rights and Equal Opportunity Commission, argued that:

The emotional wellbeing of fathers is another important benefit of a national paid leave scheme. New fathers typically bear a greater proportion of financial responsibility for the family following the birth of a child and fathers of infants work very long hours... Supporting parent leave for fathers promotes paternal bonding, assists fathers to adapt to fatherhood, and helps fathers to support their partners. (sub. 128, p. 22)

The Government of Western Australia said:

International best practice is to provide a provision for paternity leave, for the father or partner of the employee giving birth as a component of a paid paternity leave scheme. The provision of partner leave allows the non-primary care giver parent to remain at home with the child for a number of weeks immediately after the birth and facilitates parent/child bonding as well as supporting maternal health and recovery after the birth. (sub. 231, p. 13)

And, the Family Action Centre, University of Newcastle contended that:

Fathers develop their own attachment relationships which are important for their children's healthy development. It should not be assumed, for example, that the best model of parental leave is one which recognizes only the 'primary carer' and precludes mothers and fathers taking time together. Indeed, when up to one in five mothers may be experiencing postnatal depression it will be important to allow families to chose an arrangement which allows a father to support the mother and at the same time, form a crucial secure attachment with his infant. (sub. 34, p. 7)

Other participants' views on the benefits of paternity leave are provided in box 4.8.

Many participants argued that paternal leave should be on a 'use it or lose it' basis suggesting that unless a short specified period was exclusively designated for fathers, employers might tacitly discourage leave, and fathers would not take it. The Public Interest Advocacy Centre, for example, said:

Such leave should be compulsory and to be taken on a 'use it or lose it' basis. In countries that have adopted similar models, such as Norway, Iceland, Denmark and Sweden, leave taking by fathers has almost doubled in recent years. (sub 226, p. 10)

Box 4.8 Some views on the benefits of paid paternal leave

South Australian Men's Health Alliance:

Interpersonal relationships are critical to men's health and wellbeing, even though this is usually portrayed as the domain of motherhood. However, evidence shows that fathers' involvement in their children's lives has positive impacts on the child's development generally, but particularly in areas including self-esteem, emotional well-being, capacity to love and be loved, and their ability to participate in society. Of course, men also benefit from being part of these rich and rewarding relationships. (sub. 132, pp. 2–3)

Family Action Centre, University of Newcastle:

... up to 20 per cent of fathers when they return to work are leaving a mother who is not coping too well, who is doubting her ability to mother and who may not get into synch with her new baby. This is precisely when paternity leave is particularly helpful because paternal involvement can ameliorate the effect of post natal depression on the mother and on the baby. (sub. 34, p. 7)

The Construction, Forestry, Mining and Energy Union:

... most Australian males would recognise the importance of being around and being helpful at a critical point in their partner's life at the point at which the child is born and those first few weeks, and that's the point at which the woman needs the most assistance. Both parties from my personal experience, don't get a lot of sleep in that period of time. ... that is a time when both partners need to be there for each other ... it's good for the family to have paternity leave. It's good for the country. It's good for productivity, for employers to understand that's a critical time in the life of the male worker, just as it is for the woman involved, and we need to get paid paternity leave into the picture. (trans., p. 201)

What Women Want (Australia) Inc:

Any parental leave policy should also seriously consider a Government funded two-week paid leave period for fathers. This could be taken up at any time of the paid maternity leave period; either at the same time or at the end of the maternity leave period. Paternity leave taken towards the end of the mother's paid maternity leave will enable an extra period of time before formal child-care needs to be used. ... By enshrining two weeks paid leave and a six month unpaid component (in the second 6 months of a child's life) for either parent, we act to promote the role of father and make an impact on workplace culture in relation to paternity leave. (sub. 64, p. 3)

Public Interest Advocacy Centre:

There is evidence that babies benefit from close attachment to their fathers independent of their attachment to their mother and that fathers can also offer important support to mothers with postnatal depression. PIAC is concerned by evidence that shows that fathers are unlikely to take unpaid paternity leave. A paid leave entitlement should increase the percentage of partners actually taking leave, and this in turn should promote a better sharing of family responsibilities between men and women, hopefully leading to shifts in workplace culture. (sub. 226, p. 8)

The National Children's & Youth Law Centre:

The conjunctive payment for the initial 2 weeks after birth or adoption will support bonding with the second parent and allow support for the recovery of the birth mother. (sub. 152, p. 12)

Currently one week of unpaid parental leave at the time of the birth of a child can be taken simultaneously with leave taken by the primary care-giver of the child. The new National Employment Standards (scheduled to come into effect on 1 January 2010) extend the amount of unpaid parental leave that can be taken concurrently to three weeks.

As discussed in chapter 3, most Australian fathers (around 75 per cent) take some leave around the birth of their child. On average, fathers take two weeks leave, with 60 per cent taking paid annual/holiday leave, 27 per cent paid paternity leave and around 9 per cent unpaid paternity leave.

The most common reasons given by fathers for using non-parental types of leave are that paid paternity leave wasn't available (46 per cent) and they weren't eligible for paternity or parental leave (22 per cent) (Australian Institute of Family Studies, sub. 138, p. 15).

The fact that fathers typically rely on some form of paid leave is not surprising given that new fathers are often balancing the need to be the main source of family income (and income is an important predictor of child wellbeing), and wanting to spend time with their new baby and providing support to their partner.

In the LSAC Wave 1.5, mothers were asked which of a range of policy options would have improved things in the period of the birth of their child. About one-quarter said that more or some paid paternity/parental leave would have helped. Just 3 per cent said that more or some unpaid leave paternity/parental leave would have helped (Australian Institute of Family Studies, sub. 138, p. 16).

Whitehouse et al. (2007), found that Australian fathers were considerably less likely to take leave if they were working fewer than full-time hours, were in non-permanent positions, or if they worked in a small organisation. Employment in the public sector and membership of a union were also factors found to enhance the likelihood of fathers taking paternity leave. And, fathers were less likely to take leave in situations where their partners chose to exist paid employment or where there was more than one child in the family. Based on these findings, Whitehouse et al. argued the need for universal access to paid paternity leave:

Reflecting on the policy implications of these findings, we argue that they not only underlie the importance of universal access to paid paternity leave, rather than having it as a privilege available to those in public sector jobs or some large private corporations, but also draws attention to the kinds of labour market divisions that are likely to continue to affect utilization of leave, even in the context of more generous policy provisions. (Whitehouse et al. 2007, p. 402).

Evidence of benefits from paternity leave?

The literature on the role of fathers and the impact of policy initiatives designed to encourage fathers to take more leave on child health and wellbeing is relatively sparse. That said, there is some evidence to suggest that fathers' involvement with their children at an early age leads to increases in the father's continuing involvement throughout childhood. Haas (1992, 1996) found that Swedish fathers taking parental leave were more likely than others to share with mothers the general responsibility for child care. The longer the leave period fathers took the greater their involvement with their children, although even short leaves facilitated notable increases in fathers' involvement later.

A recent study by Tanaka and Waldfogel (2007), using data from the UK Millennium Cohort Study, also found taking leave and working shorter hours to be related to fathers being more involved with their babies. Fathers who took leave (any leave) after the birth of their child were found to be 25 per cent more likely to change nappies and 19 per cent more likely to feed their child and to get up at night when the child was age eight to twelve months. And, fathers with access to parental leave or paternity leave were found to be five times as likely to take some leave after the birth as otherwise comparable fathers who did not have such rights. While cautioning against definitive causality claims, Tanaka and Waldfogel concluded that policies which promote parental leave or shorter work hours could promote greater father involvement with infants:

... these results suggest that policies that provide leave coverage may result in fathers being more likely to take leave post-birth and more likely to be involved in their child's care at 8 months to 12 months, while policies that provide flexible hours options may result in fathers working shorter hours and being more involved in their child's care. (Tanaka and Waldfogel 2007, p. 421)

An association between paternal leave taking and higher levels of father involvement was also found by Nepomnyaschy and Waldfogel (2007) in a US study using data from the Early Childhood Longitudinal Study, but only for those fathers who took two weeks leave or more. The association between longer duration of leave and greater involvement by fathers in caring for their children was maintained after controlling for a range of selectivity factors including indicators of paternal pre-birth commitment (attendance of antenatal classes and the birth itself).

The evidence suggests that early father involvement in a child's life is of particular importance for the child's later emotional, cognitive and social well-being. Father involvement can also act to protect child wellbeing when mothers return to work early in a child's life. For example, Gregg and Washbrook (2003) found that in households where mothers return to work when their children were still young, fathers are substantially more engaged in parenting. And, greater involvement of

fathers in child rearing appears to have strong beneficial effects for later child outcomes in the areas of cognitive development and educational achievement.

Dex and Ward (2007) suggest that developmental problems are more likely to occur when fathers have left all home-based child care to their spouses, take no paternity leave around childbirth and have not used flexible working options. The OECD, however, notes that a direct causal link between taking a few days of paternity leave and child development can be hard to prove and suggest that:

Positive effects of flexible working practices and spending more time with children over a sustained period intuitively seems to be a more important factor in the paternal enhancement of child development. (OECD 2007, p. 111)

Taking time off work in the early stages of a child's life may also provide emotional benefits to fathers. Huttunen (1996), in a survey of Finnish fathers who had taken parental leave, found that the opportunity it gave to develop a closer relationship with their infants was highly valued by the fathers. Norwegian research also suggests that fathers who take 'daddy quota' in a 'home alone' manner become more aware of infant life than those who take parental leave with their partners (Brandth and Kvande 2003).

Other research shows that fathers can be an important source of support for mothers in terms of establishing and maintaining breastfeeding (Bar-Yam and Darby 1997, Pisacane et al. 2005). Chatterji and Markowitz (2008), using data from the US Early Childhood Longitudinal study, also found that having a spouse that did not take any paternal leave after childbirth to be associated with higher levels of maternal depressive symptoms.

Lessons from other countries

A number of other countries, by legislating periods of paid parental leave exclusively for the use of fathers (generally between two to four weeks), have tried to get fathers to spend more time with their children. And, these policies have had some success, but, as observed by the OECD they have not resulted in fundamental behavioural changes:

There is some success, as many fathers use these short (two to four weeks) periods of paid leave. However, taking a few weeks of leave after childbirth or around summer and Christmas holidays does not reflect a fundamental behavioural change. Paternal attitudes are not the only issue, as mothers frequently seem reluctant to give up leave in favour of their partner. (OECD 2007, p. 22)

The countries with the highest paternal participation rates are those with non-transferable leave programs (Sweden, Norway, Iceland) that also offer high-wage replacement rates (Marshall 2008).

Iceland has gone the furthest entitling each parent to three months paid leave with a further three months to be shared among parents. Fathers in Iceland now use about one-third of the available parental leave days, higher than in any other OECD country. The OECD suggests that ‘one way forward would be to increase the importance of individual entitlements to paid leave’ (OECD 2007, p. 119).

Participants’ views on two weeks paternity leave

Many participants supported the Commissions draft report recommendation of two weeks paternity leave (available on a ‘use it or lose it’ basis) to eligible fathers, or in same sex couples to the non-primary carer, to be taken concurrently with paid parental leave taken by the mother of the child. The Australian Human Rights Commission, for example, said:

The two weeks of paid paternity leave ... which is also available to same-sex supporting partners, is an advantage of the model. It provides recognition of the role of fathers, will help partners to support mothers, and provide health and wellbeing benefits to infants and the family as a whole. Paid supporting parent leave also operates as a signalling device that supports male workers with family responsibilities within the workplace and broader society. (sub. DR377, p. 7)

BPW Australia also said:

We support the introduction of two weeks paid paternity leave on a use it or lose it basis. Enabling participation of partners at this early stage of birth allows for bonding with the child as well as increased support for the mother. Introduction of such leave stimulates employer and employee notions that time off when children are born is not only offered but supported and promoted. BPW Australia suggests that this will facilitate the gradual decline of gender based stereotypes that have seen the caring and nurturing role being placed exclusively on the female. (sub. DR321, p. 2)

An extended period of paternity leave (typically 4 weeks), as a way of gaining greater involvement by men was also advocated by several participants. For example:

I also see the supporting partner’s leave of only two weeks as inadequate. Two weeks is not enough time to allow for times when the primary carer may need support as well as emergencies where both parents are required. Parenting is a shared job, and having such disproportionate leave periods would unfairly place the burden on the one parent. (Nicholas Curtis, sub. DR277, p. 1)

And, others called for more flexibility in terms of how paternity leave could be taken. The Commissioner for Children and Young People, Western Australia, for example, said:

I agree with the Commission’s recommendation of an additional two weeks of paternity leave reserved for the father or same sex partner. However consideration could be

given to this being provided in a more flexible manner, allowing the greatest capacity to achieve the aim of attachment between the father and the child. In some families this might be best achieved through the leave taken as one day a week over a longer period. This would be little more of an impost on a father's employment in terms of payroll administration than taking a two week block. (sub. DR311, p. 2)

The Australian Human Rights Commission also supported longer periods of paternity leave but suggested that this could be part of the second stage of reform (sub. DR377, p. 15-16).

Others, however, did not support the paid paternity leave part of the Commission's proposed scheme. The Australian Industry Group, for example, was opposed to paid paternity leave reflecting concerns about further entrenching attitudes about gender roles and maximising 'additionality':

Including paid paternity leave as an element of the scheme could conceivably encourage the view that paid parental leave is appropriately the domain of women, whereas the (much shorter) paid paternity leave is the part carved out for men. The existence of a separate paid paternity leave component may also encourage the perception that paid parental leave is not in fact available to fathers who are the primary care giver. ...

In Ai Group's view, a likely outcome of paid paternity leave is that fathers who take the paid leave will not increase their period of leave and will merely receive the additional income (by way of paid paternity leave payments) on top of what they would otherwise have received (noting that fathers typically take paid leave at this time in any event). This would not advance the goals sought to be achieved by paid paternity leave. (sub. DR 363, pp. 12-13)

The Australian Industry Group argued that to the extent that societal and cultural factors influence fathers' leave, educational and informational initiatives promoting the role and value of fathers may be more cost effective in achieving change.

Where does that leave us?

The evidence suggests that paternity leave has emotional benefits for fathers, facilitates bonding between fathers and children, positively affects children's emotional and educational achievements and provides support for the mother. While the research is relatively thin, there is some evidence of a relationship between paternal leave taking and higher levels of father involvement when fathers take two or more weeks leave.

The Commission recommends two weeks of paternity leave reserved for the father or same sex partner. Extending the paternity leave period and allowing greater

flexibility in terms of how the leave is taken should be considered as part of the three year review of the statutory paid parental leave scheme.

4.6 Choosing an optimal leave period

Overall, there is compelling evidence of child and maternal health and welfare benefits from a period of absence from work for the primary carer of around six months and a reasonable prospect that longer periods (of up to nine to 12 months) are beneficial. There is also evidence of gains from fathers participating in care in this early period. The gains do not only accrue to parents, as society often has to pay for health costs and other consequences of poorer outcomes for children and parents. There may also be long run productivity benefits in the same vein that the Commission anticipated gains from early childhood education and health initiatives in its National Reform Agenda modelling.

While there is no exact science about choosing a postnatal leave period, the goal in designing a paid leave scheme is to provide enough leave, that when supplemented by parents' private efforts, achieves an appropriate length of absence from work.

The Commission's draft report advocated a postnatal leave period of 18 weeks. Participants' view on the most appropriate length of leave were diverse (box 4.9).

While many participants supported the 18 week period of leave, others questioned the discrepancy between the recommended six month period for enhancing child and maternal health and wellbeing and the 18 week period (and argued the need for 26 weeks). Some argued that a period of leave of up to one year was required to achieve optimal child health and development, while others considered the period of leave to be too long based on additionality grounds.

The duration of any paid statutory leave scheme does not have to be equal to the period of absence that most helps parents and their children. Parents already use many co-funding options such as voluntary paid maternity schemes and past accumulated leave, savings (or reduced consumption), borrowings on the basis of housing equity to fund a period of leave from work to care for their babies. With the evidence pointing to a period of around six to nine months as being the optimal period of exclusive parental care, a paid parental leave scheme of 18 weeks of postnatal leave would involve parents co-funding around two to five months leave, which most families would find affordable.

The Commission estimates that an 18 week period of statutory paid parental leave will provide the overwhelming majority of parents with the option of taking at least 26 weeks of leave without undue financial stress.

Box 4.9 Participants' views on the 18 week postnatal leave period

Tasmanian Women's Council:

Given that the Productivity Commission's recommendation is 18 weeks and research tells us that the majority of women will be able to use other forms of leave to stretch this out to 6 months (and beyond), the Council considers the 18 weeks of paid leave for parents of newborn children appropriate at this time. (sub. DR307, p. 9)

Business Council of Australia:

At a time when preventative health measures are considered as a key strategy to address chronic disease, the research you have presented reflects well the consensus among health professionals that an absence from work of up to six months has a major health benefit for both mother and child, not just in the short term but also in the longer term. ... Since the BCA's view is that Australia must work to improve its health and education outcomes, this investment in paid parental leave to enable absence from work through the first six months, is an important development. To the extent that this assists lower SES groups who typically do not share in the health and educational outcomes of average Australians this proposal can be seen as an important aid to breaking the cycle of disadvantage. (sub. DR288, p. 2)

NIFTeY NSW:

Offering less than 6 months while acknowledging the compelling evidence for the need for 6 months seems both contradictory and unethical, as well as poor economic sense if we know that not providing sound conditions for the baby's development means paying more later to try to make up for what was lost in health, secure emotional attachment, intellectual and social development. In terms of future productivity, it's hard to think of a more effective investment than providing conditions for a sound start to life. (sub. DR386, p. 1)

NSW Commissioner for Children and Young People and National Investment for the Early Years:

... we are disappointed that the Productivity Commission has not paid sufficient attention to the evidence that a paid parental leave scheme of at least 12 months is needed to provide the best long term outcomes for children's wellbeing, particularly in terms of mental health and literacy, as well as for the community. ... Providing payment for only 18 weeks will disadvantage those children of women who do not have access to an employer paid parental leave scheme or other forms of accrued leave in order to co-fund at least eight weeks of leave. We are concerned that vulnerable families, such as those where parents work casually and/or are from lower socio-economic backgrounds, will be particularly disadvantaged. (sub. DR373, pp. 1-2)

The Australian Industry Group:

While Ai Group appreciates that the appropriate duration of a scheme is influenced by a number of factors, it expresses some reservation about the necessity and cost of the Commission's proposed duration. The Commission notes research from the Longitudinal Study of Australian Children indicating that mothers who did take leave around the time of childbirth took an average of 37 weeks (over 9 months). Only 29% of mothers in paid employment prior to childbirth returned to work within six months of childbirth On the basis of this research, it is not clear why the Commission considers 18 weeks paid leave necessary. (sub. DR363, p. 11)

While not all will use this option, the Commission's analysis, supported by international evidence, suggests that the proposed scheme would significantly increase mothers' current time away from work around the birth of a baby. Our estimate is that, on average, eligible employed mothers would increase their absence from work by around an additional 10 weeks (appendix G). Consequently, more mothers will be able to have longer, beneficial interactions in the early phase of their babies lives and to breastfeed for longer.

The effects on duration are estimated to be greater for lower income, more financially constrained families. And, while most women already take more than 26 weeks of leave, the scheme would enable a significantly greater number to reach this duration and also allow many of those taking six months to increase their duration to nine months.

As such, the Commission continues to recommend an 18 week period of statutory paid parental leave (with no prenatal leave period). It is also the Commission's assessment that it is preferable to have a longer postnatal period of leave than allocating the leave over both the pre and postnatal periods as it is in the postnatal period where behaviour is more likely to change.

The Commission recommends that the statutory paid parental leave be used up in the 12 months after birth (the draft proposed a limit of six months) as part of a continuous period of parental care. The 12 month limit is based on the Commission's assessment that there are child welfare benefits of exclusive parental care up to six months, and a reasonable prospect that longer periods of up to nine to 12 months are beneficial. The 12 month limit also means that most parents electing to take privately negotiated paid parental leave at half pay could continue to get full access to the statutory paid parental leave.

The Commission also proposes two weeks of paid paternity leave (which cannot be transferred to the mother) on a 'use it or lose it' basis. Leave quarantined for fathers (also covering same sex partners) recognises the benefits of their involvement early in the life of a child and acknowledges the lessons from overseas experiences that men rarely take paid parental leave if it is at the expense of the mother using the leave.

Duration for special groups

Multiple births. Mothers having twins or more require a similar period of time to recover from childbirth as those mothers having a single baby, although the return to full functionality may be slower (higher levels of fatigue likely). Given that the baby bonus is currently paid per baby, the Commission considers that mothers

eligible for paid parental leave giving birth to more than one baby should be entitled to the same period of paid parental leave as those mothers having a single baby, and should also receive the baby bonus for any additional babies (subject to the income test), but not family tax benefit B.

Stillborn babies. Around 2 000 babies are stillborn (death of a baby in uterus or shortly after birth weighing more than 400 grams or more than 20 weeks in gestation) every year in Australia. The death of a baby is a devastating experience for parents involving a period of intense grieving. Mothers who have stillborn babies not only need time to physically recover from childbirth, but also require time to recover mentally and emotionally. As the National Council for Women Queensland said:

Families experiencing grief and loss associated with a stillborn child or death soon after birth should be entitled to maternity leave entitlements in the same manner as any other person with a live child. The devastating effects of the loss of a child require support and care for both parents to minimise the development of mental illness. This must be noted as particularly important for the mother as she has the added hormonal changes associated with childbirth in the absence of the joy of motherhood. (sub. DR392, p. 2)

There is some evidence (although based on small samples), to suggest that mothers who have stillborn babies are at higher risk of depression and anxiety, particularly in subsequent pregnancies.

In the draft report the Commission recommended that the full period of the paid parental leave scheme be available to eligible parents who have an infant that dies in uterus (20 weeks in gestation or more) or shortly after birth. In response to this recommendation, Family Voice Australia noted that the rules for birth registration (babies weighing more than 400 grams or more than 20 weeks in gestation) also apply to babies who die shortly after birth as a result of procured abortion and argued that ‘it would be inappropriate and offensive for the baby bonus, a maternity allowance or paid parental leave to be funded by the taxpayer in the circumstances of a procured abortion’ (sub. DR298, p. 3). While statistical data on abortions in Australia is not systematically collected, international evidence suggests that a small proportion of abortions (around 1 per cent) occur after 20 weeks of gestation and the vast majority of these are undertaken because of foetal abnormalities or to protect the health of the mother.

As such, the Commission continues to recommend that mothers having stillborn babies that meet the requirement for birth registration in Australia be eligible for full entitlement to paid parental leave.

Death of mother/primary carer. In the situation of the death of a mother/primary carer, families would have already factored in the income they would have received

from the statutory scheme. Given that, and the potentially traumatic nature of these events for the child and partner concerned, the Commission recommends that the new primary carer be eligible for the full period of the parental leave scheme (or remaining period of paid leave) in the event of the death of an eligible primary carer. The new primary carer in this situation would not need to meet the employment eligibility test.

Surrogate mothers: Surrogate mothers require a period of leave to physically recover from childbirth. The Commission considers that a period of 12 weeks leave to be an appropriate period of leave for postnatal maternity recovery. The treatment of the custodial parents is more complex, as different Australian jurisdictions have varying legal provisions for surrogacy. In March 2008, the nation's Attorneys General agreed to develop a uniform framework to allow conditional, non-commercial surrogacy and in mid January 2009 released a consultation paper.² The Commission proposes that paid parental leave provisions for parents taking custody of infants from surrogate mothers be finalised when Australian Governments have determined that framework. However, the Commission considers that, in principle, any arrangements should be the same as those for parents of adopted children and indeed this may be the outcome of the new framework.

Parents adopting children. Mothers adopting a child do not require time to physically recover (and very few breastfeed), but parents adopting children need time to develop a relationship with the child. As Families with Children from China-Australia argued, it is not the needs of the mother, but rather the child, that means that a period of parental care is required:

Adoption provides a family to a child that does not have one to care for them. It's a child-centred practice. It's the needs of the child rather than those of the mother or father that necessitate that one parent care full-time for a newly adopted child. (Karleen Gribble, Families with Children from China-Australia, trans., p. 466)

Most of the children adopted in Australia (576 in 2005-06) are adopted from overseas (almost three-quarters). The majority of adopted children are younger than five years (76 per cent) and more than half of these are aged less than one year (AIHW 2006). Many of the children adopted from overseas have spent time in institutional care. Because of this, and the fact that adopted children are adapting to very different environments and types of care, adoptive parents can find the early period of time with their new child particularly challenging. The state Departments of Community Services acknowledge this and require, or strongly encourage,

² Joint Working Group of the Standing Committee Of Attorneys-General, Australian Health Ministers' Conference, and Community And Disability Services Ministers' Conference 2009, *A Proposal for a National Model to Harmonise Regulation of Surrogacy*, January.

adoptive parents to have one parent at home full-time with the adopted child for between six and 12 months (requirements vary by jurisdiction).

Currently, to qualify for unpaid adoptive leave, the child must be less than five years of age at placement. But, as argued by a number of participants, often the older the child at adoption, the more difficult the transition period and the more intensive the parental care required. The Australian Breastfeeding Association, for example, said:

... adoptive families should be included in the scope for eligibility for paid leave since their need to establish a relationship with their new child is just as important as other new parents. There should be no age limit on the adoption leave for parents as many overseas adoptions involve much older children, and beginning a new family with these children requires a considerable investment of time. (sub. 249, p. 5)

The House of Representatives Standing Committee on Family and Human Services (2005) also recommended that the age limit to qualify for leave be removed. In its draft report the Commission recommended that eligible adoptive parents should be entitled to the same period of parental paid as biological parents (commencing at the time of placement), regardless of the age of the child. Since then the *Fair Work Bill* has proposed the National Employment Standards incorporate provision for unpaid leave for adoption placements involving children up to the age of 16 years (previously school-age children were excluded). A Senate inquiry (to be completed by the end of February 2009) is considering all aspects of the Bill as a prelude to its passage through the Senate. Given that the Bill has not been passed yet, the Commission reiterates its position that leave for adoption should include all ages of children up to and including 16 year olds.

While some participants argued for parents of ‘known child’ adoptions to be included under the statutory paid parental leave scheme (Office of the Child Safety Commissioner, sub. DR314, p. 2, Australian Women Lawyers, sub. DR389, p. 6-7), it is the Commission’s view that ‘known child’ adoptions (where a pre-existing relationship with the child exists – often involving a step parent) do not usually involve the same challenges as non-familial adoptions in terms of developing relationships with the adopted child or adapting to a new environment. For this reason, the Commission considers that ‘known child’ adoptions be excluded from eligibility for the statutory paid parental leave scheme.

Nevertheless, there may be special circumstances when it is appropriate to allow eligibility to statutory paid parental leave for known child adoptions. For example, one case may be if there has been significant demonstrated trauma experienced by the child that requires intensive care by the new parent/s. The Commission proposes a capacity for administrative determinations of eligibility in special circumstances.

Primary carers but not biological parents

The primary carer of a child may not always be one of the child's biological parents (for example, where there is no responsible father and the mother is very ill). A number of submissions noted the role that grandmothers and 'aunties' play in caring for children in Indigenous communities (Western Australian Department for Communities' Office for Women's Policy, sub. DR371 p. 4; The Office of Women's Policy in the Northern Territory Government, sub. DR414, p. 4; National Women's Centres, sub. DR310, p. 5), and the need to extend paid parental leave to such carers.

As discussed in chapter 2, there is already some capacity under the proposed National Employment Standards for paid leave for care of 'immediate family' in the event of an emergency, which could encompass care by a grandparent of a grandchild. The provisions, however, are relatively narrow in their reach and would not cover all of the circumstances where a primary care role for a baby might desirably be exercised by a relative. Accordingly, the Commission proposes that statutory paid parental leave (or the balance not taken by the mother) could be allocated to a non-parental primary carer, but only if:

- there are genuine problems in the parents fulfilling that role (such as a child protection issue or death of the parents), *and*
- the relevant primary carer meets the work tests for eligibility *and*
- the carer has a 24 hour a day and long-term responsibility for the care of the child *and*
- the carer is not making use of the carer's leave entitlements under the National Employment Standards if these apply to them.

An appropriate definition of a formal primary carer would also need to be determined by FaHCSIA (chapter 2).

The above approach would cover care by 'aunties' and grandmothers in Indigenous communities, but only where the above criteria were met.

5 The labour market impacts of paid parental leave

Key points

- There are sound rationales for stimulating women's labour force participation rates due to the particular penalties imposed by the welfare and tax system on female incentives to work.
 - Some other arguments — such as those based on the inherent desirability of labour force participation, or the need to allay the labour supply impacts of population ageing have a weaker foundation.
- Existing incentives and the impacts of childbearing have marked impacts on female labour market involvement. Women:
 - experience much higher rates of part-time employment than men during the main childbearing years
 - have lower wages and accumulated superannuation balances. Forgone female earnings amount to an average of over \$300 000 in 2007 prices in a representative family with a single child
 - with young children tend to work in jobs that have flexible work arrangements, but fewer opportunities for career development.
- Changes in the economic and social environment over time have considerably increased the capacity for women to play an active part in the labour market, suggesting that labour market behaviour is responsive to environmental factors.
 - In contrast, fathers have scarcely changed their employment behaviour. The increased engagement of women in paid work has not reflected a re-assignment and broadening of male roles.
- Evidence (and theory) suggests that a statutory paid leave scheme would:
 - be likely to promote employment prior to childbirth to qualify for the benefits
 - decrease women's work in the period immediately after childbirth (an intentional outcome), but maintain their link to the labour market. A statutory scheme of 18 weeks would increase leave currently taken by around 10 weeks
 - have long-term beneficial impacts on employment. It is conceivable that an 18 week leave period could increase the average Australian women's *lifetime* employment by around half a year
 - result in a slight reduction in wage growth for females given the increase in female labour supply.

A major claimed goal of paid parental leave arrangements is to enhance mothers' labour market prospects – whether by encouraging greater lifetime labour participation and full-time jobs, increasing wages, or improving the quality of their jobs.

While the focus of most discussion on this issue concerns women, parental leave arrangements may also affect the experiences of fathers in the labour market. This reflects the fact that they too may qualify for, and take, parental leave, and because, even if they do not, their labour market behaviour may be altered by the effects of paid parental leave on family income or the labour market participation of their partners.

Labour market impacts extend beyond parents too. For example, paid leave may affect all employees' wage rates and entail discrimination against all women of reproductive age – regardless of their actual fertility intentions – because employers are aware that female employees might have children in the future. It may also affect the labour force decisions by grandparents or substitute carers.

This chapter explores the potentially positive and negative labour market impacts of paid parental leave, taking into account the likely effects on different types of employees.

5.1 The dimensions of labour market impacts

Labour markets comprise many elements. For this inquiry, the most important element is how a statutory paid parental leave scheme might affect the incentives facing employers and employees.

On the employer side, there are greater incentives for sex discrimination if statutory paid parental leave raises the costs to businesses of employing women of reproductive age. (We consider that issue in chapter 8.)

On the employee side, incentives to be inside the formal labour force, to take part-time or full-time jobs, and to choose a given occupation and employer are affected by the various costs and benefits of these choices. These costs and benefits need not take a monetary form:

- People undertaking caring or domestic tasks 'outside' the formal labour force are nevertheless in a job, and get benefits from being so. They are eligible for more welfare transfers and receive value from the (untaxed) work that they do. But they may be socially and economically marginalised.

-
- People ‘inside’ the (paid) labour market get wages, but they also get benefits from leave entitlements, childcare rebates, the workplace social environment or other aspects of job quality. On the other hand, they may find it stressful balancing continuing caring and domestic work with paid work.

People weigh up these respective benefits and costs when making their choices. By altering the balance of these benefits and costs, social change (such as a greater willingness by men to take on child caring roles) or new policies, such as statutory paid parental leave or income-tested family welfare benefits, can alter people’s choices.

The labour market impacts of statutory paid parental leave also depend on:

- existing labour market regulations, and in particular, the role of legislated arrangements for unpaid parental leave
- how a scheme may change social attitudes to combining caring and working (chapter 6)
- the extent to which wages fall for females of reproductive age or for workers in general which will fundamentally be affected by how a statutory paid parental leave scheme is financed (chapter 8)
- the tendency for a person to remain in the same labour market state rather than another (‘state’ dependence). So, if a person is outside the labour force, they are more likely to be still outside the labour force next month than they are to be in, or actively looking for, a job. This is important because it means that changing a labour market decision can have prolonged impacts on a person’s labour market outcomes
- the long-run consequences of people’s choices, some of which may not be fully anticipated. For instance, while paid parental leave decreases the time spent working around the birth of a baby, it may actually increase the *lifetime* employment of women. These employment effects have implications for skills too. Greater lifetime employment helps to build up paid-work skills. On the other hand, an associated impact may be greater erosion of skills that relate to unpaid work (for example, child-rearing skills). Similarly, hours worked in the formal market will tend to crowd out hours spent in unpaid work that is important to the community at large, such as volunteering.

It is particularly important when thinking about the labour market effects of family policies such as paid parental leave to see unpaid activity as a job too, with its own qualities, social value and ‘employee’ costs and benefits. In that sense, paid parental leave alters the mix of jobs in the economy, rather than creating or destroying jobs per se.

5.2 The female labour market experience

Unlike men, women currently accommodate family life through prolonged absences from the workplace and by working reduced hours. As a result, women have both lower attachment to the formal labour force (figure 5.1) and, when employed, a greater tendency to have part-time jobs (figure 5.2). As noted by the APESMA (sub. 204, p. 13), survey evidence of professional women found that around 80 per cent thought they would need to downgrade their career ambitions in order to start a family.

Mothers' lifetime earnings are significantly lower than non-mothers. For example, Breusch and Gray (2004) find that a woman of middling education forgoes around 31 per cent of their potential income for a first child, an additional 13 per cent for a second child, and a further 9 per cent for a third child. In 2007 prices, forgone earnings amount to over \$300 000 on average for a single child (Lattimore and Pobke 2008). Such lower lifetime income stems from several aspects of mothers' labour market experiences. Mothers:

- are absent for long periods from the labour market
- tend to choose occupations that are more flexible so that they can combine work and family responsibilities, but these occupations (such as aged care and retailing) tend to pay less than many other occupations
- experience punctuated careers, which reduces the wage premium associated with job experience and leads to lower quality jobs (less autonomy, training, diversity, power and entitlements).

Often women say that they prefer these patterns of labour market involvement, given their role in caring for children, but that is set against a background where other choices may be limited. For instance, fathers continue to play a weak role in direct care of children and, indeed, in domestic work generally.

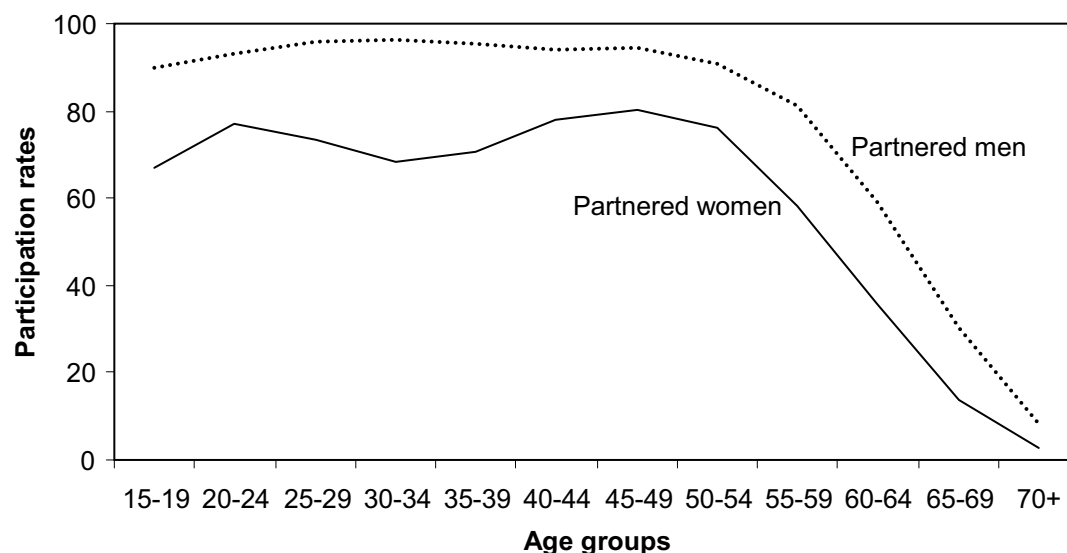
Moreover, a mother's often tenuous attachment to the labour market when her children are young can affect her wages and prospects for the rest of her life. Among other things, this can make her more economically vulnerable if her relationship breaks down, even when that occurs years after the birth of her children. Women's lower lifetime earnings also mean that their superannuation entitlements are significantly lower than men's (Kelly et al. 2001 and Nielson 2008, p. 14).

An often-mentioned goal of a statutory paid parental scheme is to help address these lifetime economic impacts of mothers' childbearing and caring roles. For instance, many participants in this inquiry have urged the inclusion of superannuation

benefits in a paid parental leave scheme to increase women's retirement earnings. (We discuss this issue in chapter 8.)

Figure 5.1 Labour participation rates are lower for women

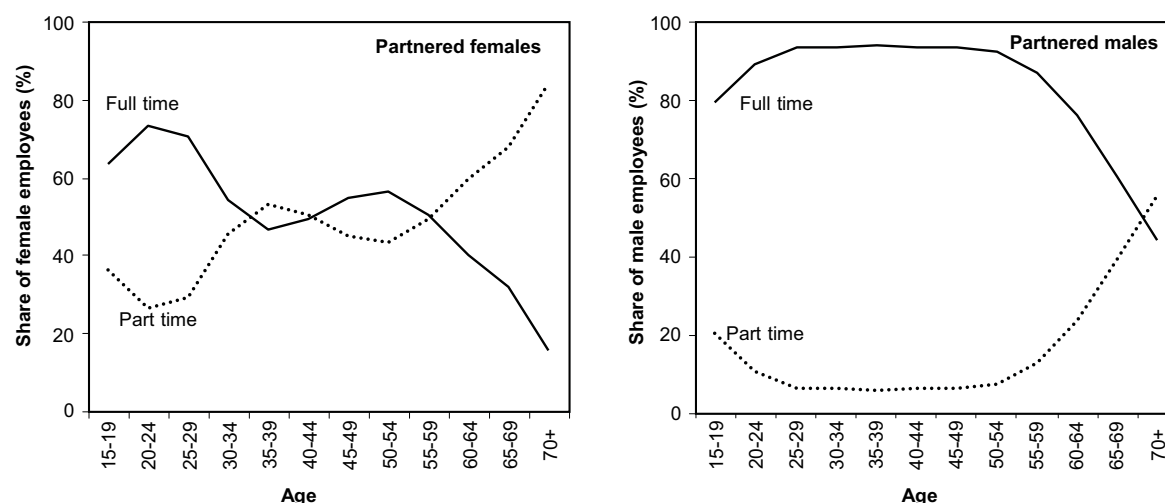
Partnered men and women, 2007-08



Data source: ABS (*Labour Force, Australia, Detailed - Electronic Delivery*, Jun 2008, Cat. no. 6291.0.55.001, July).

Figure 5.2 Women's child rearing affects their work patterns

Part and full-time employment shares, partnered women and men, 2007-08



^a Partnerships includes social marriage-like arrangements (that is, de facto) as well as registered marriages. Consequently, categorisation by partnered status is likely to identify that group of women and men most likely to have children.

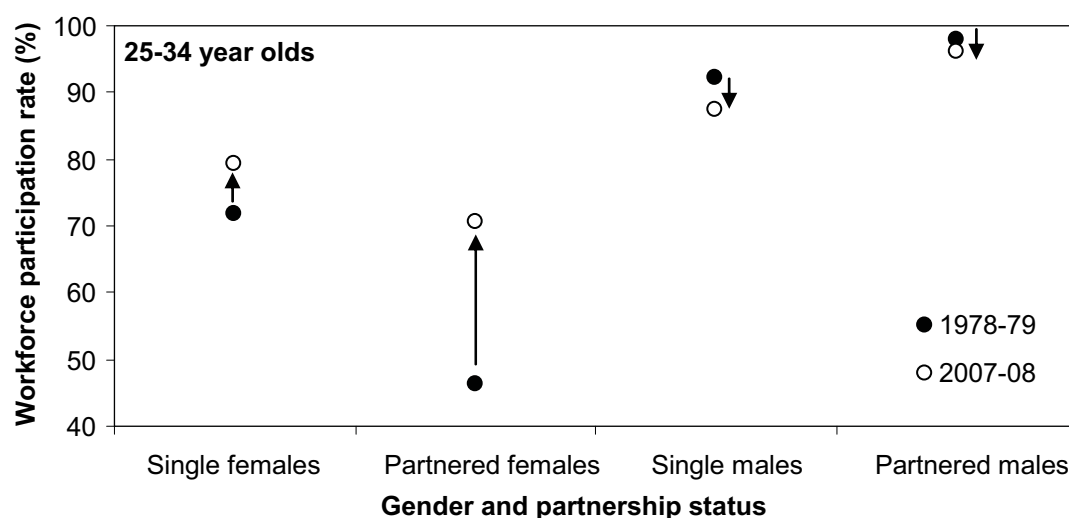
Data source: ABS (*Labour Force, Australia, Detailed - Electronic Delivery*, Jun 2008, Cat. no. 6291.0.55.001, July).

The snapshots in figures 5.1 and 5.2 only tell part of the story. Women's labour market experiences have changed significantly over the last five decades and are likely to do so over the coming decades. These changes provide an indication of the likely relative importance of paid parental leave compared with other factors shaping labour market outcomes for females.

Female participation rates have increased dramatically over the last 30 years, testimony, among other factors, to the impacts of cultural change; greater educational attainment; the switch to a services-based economy; lower fertility rates; provision of child-care; and increased productivity in domestic chores.

In particular, those women most likely to have children (married women aged 25–34 years) have shown a particularly large increase in their engagement in the labour force (figure 5.3). And over the last 25 years, mothers of very young children (those aged 0 to 4 years old) have shown about the same percentage points increase in their employment rate as mothers of children aged 5 to 9 years (table 5.1).

Figure 5.3 Workforce participation by partnered women has risen
Female and male workforce participation rates, 1978–79 and 2007–08^a



^a Partnerships includes social marriage-like arrangements (that is, de facto) as well as registered marriages. Consequently, categorisation by partnered status is likely to identify that group of women and men most likely to have children. The data above only relate to people aged 25–34 years (the prime years of childbearing).

Data source: ABS (*Labour Force, Australia, Detailed - Electronic Delivery*, Jun 2008, Cat. no. 6291.0.55.001, July).

Table 5.1 Mothers of young children increasingly work

Employment rates, married couples, 1982 and 2006–07

	<i>Age of youngest child</i>	
	<i>0 to 4 years</i>	<i>5 to 9 years</i>
	%	%
Mothers 1982	28.8	50.5
Mothers 2006–07	51.0	74.8
Fathers 1982	93.1	93.8
Fathers 2006–07	93.6	94.7

^a The data relate to couple families in which the youngest child is 0 to 4 years old and 5 to 9 years old. Data on single-parent families are not available on a comparable age basis for 1982. However, the share of single mothers not working in 1982 with a youngest child aged 0 to 9 years was around 74 per cent compared with 52 per cent in 2006–07, suggesting a similar increase in the propensity for working among single mothers.

Data sources: ABS (*Labour Force Status and Other Characteristics of Families, Australia*, July 1982, Cat. no. 6224.0); ABS (*Family Characteristics and Transitions, Australia, 2006–07*, (Reissue), Cat. no. 4442.0, 15 July).

Regardless of any initiatives in paid parental leave, several factors will tend to encourage further female labour force engagement, so that the picture portrayed by contemporary female labour force participation rates across ages will underestimate the true extent of female *lifetime* workforce participation:

- the same forces that historically have pushed up female participation rates are continuing
- increases in the educational attainment of women mean that a much greater proportion of recent birth cohorts of women will have tertiary training than men, with possible implications for relative wages and decisions about future child rearing roles (Lattimore and Pobke 2008)
- lower completed fertility rates imply briefer interruptions to work, and, given lower child care costs, increased incentives for carers to work
- the increasing age of mothers for their first nuptial confinement¹ enables women to advance further along their career path, gaining experience that secures greater long-run attachment to the labour force. Later births also mean that a woman is a mother for less of her otherwise working life. These two effects more than offset the fact that the wage costs from later childbearing are higher than earlier (Breusch and Gray 2004).

Nevertheless, during their prime reproductive ages, Australian women's participation rates are still significantly lower than many other OECD countries

¹ ABS (*Births Australia, 2006*, Cat. no. 3301.0), p. 23.

(Abhayaratna and Lattimore 2006, p. 51).² For example, in 2005, labour participation rates for females aged 25–44 years were more than 80 per cent in Sweden, Iceland, Denmark and Finland, compared with less than 75 per cent in Australia. The current projections for recent birth cohorts of women suggest that this gap will close, but only partially.

Implications

There are two broad lessons from the above observations:

- Fathers have scarcely changed their employment behaviour – the increased engagement of women in paid work has not reflected a re-assignment and broadening of male roles.
- Experiences over the last three or four decades show that changes in the economic or social environment can have persistent and large impacts on women's employment patterns. That, combined with the fact that participation rates of Australian women in their prime reproductive years are comparatively low by OECD standards, suggests that there is at least scope for further cultural changes and policies, such as parental leave, to raise significantly workforce participation rates for women of these ages. Of course, by themselves, international benchmarks do not provide a rationale for increasing participation rates since what other countries do may reflect their own social characteristics, people's personal preferences, or the outcome of poor policy settings.³

5.3 Labour market outcomes as a rationale for action

Many people see more female labour participation by women and other labour market outcomes as a patently legitimate objective of paid parental leave schemes (chapter 1). There are two ways of evaluating such labour market objectives. One is to ask whether parental leave actually does promote female lifetime employment while increasing the time spent away from work around the birth of the baby. That is the subject of the analysis in section 5.5.

² This is *after* adjusting for the fact that published statistics for many OECD countries count women on paid maternity leave as in the labour force, whereas women on unpaid leave in Australia are not.

³ It is notable that even after controlling for a range of economic and environmental factors, including parental leave schemes, Jaumotte (2003) finds that different countries have inherently higher or lower participation rates than others that are likely to reflect country-specific preferences, social institutions and norms (showing up as so-called country-specific 'fixed effects'). These are particularly important in explaining high participation rates for some countries, like the United States and Portugal.

The other complementary question is to assess whether achieving these changes is desirable in the sense that they make the community as a whole better off. Chapter 4 provides good evidence that the short-run labour market outcomes – increased time away from work around the birth of a baby – is likely to be beneficial. But would any potential impacts of a paid parental leave scheme on lifetime workforce or workplace participation by women also be beneficial?

Is paid work necessarily beneficial?

It may seem obvious that more lifetime female labour participation is always worthwhile. After all, at the individual level it usually implies greater immediate family income, more security for women, and better retirement incomes. And, at the aggregate level, it implies greater employment, national output and greater consumption – which, among other things, many see as an important antidote to the economic implications of an ageing Australia.

However, *by themselves*, effects of these kinds do not provide a strong argument for promoting workforce participation. Labour force participation (and the outputs from it that are measured in GDP) is not an end in itself, but something that usually reflects people's preferences. People face tradeoffs between work and non-labour market activities, such as leisure and the outputs from unpaid work (care for others and domestic tasks). People generally choose the outcome that best suits their individual circumstances, so that using government policy to change those choices runs the risk of producing worse outcomes. For example, few would contend that leisure in retirement was bad because it reduced labour force participation. Likewise, most Australians would not want to emulate the employment rates of the least developed countries, where people work from their early teenage years to a short period before death.

The argument that policy needs to increase labour force participation rates because of the effects of ageing on aggregate labour supply growth and its consequent implications for national output is, at best, partial.

It is true that ageing will slow labour supply growth and that this will retard economic growth per capita (PC 2005, IGR 2007). But that may not matter. The reason that ageing affects the labour supply and economic growth is because more people are in the stage of their lives when they want to work less and enjoy more leisure. Making them work more could address the aggregate economic impacts of this demographic transition, but to the extent that people's choices were individually optimal, this would actually make Australians worse off (Lattimore and Pobke 2008).

A better reason for promoting labour force participation is that governments may not make adequate provisions for the high future costs of providing older people with health and aged care, and pensions. Inadequate provision could imply excessive taxes on workers in the future, which could affect efficiency and intergenerational equity. Raising labour force participation may help resolve this, but better designed intergenerational welfare arrangements would probably be the best-targeted policy.

Generally, arguments about the desirability of labour force participation must rest on something that adversely affects people's choices between paid work and its alternatives, rather than on the aggregate economic effects of labour participation or the apparent desirability of work for its own sake.

What about workplace attachment?

Paid parental leave schemes may increase the likelihood that women stay with a given employer – ‘retention’ – avoiding the costs of looking for a job with another employer and allowing the employee to gain a wage premium for skills specific to their original employer. In themselves, these are valuable benefits. However, people not covered by paid parental leave arrangements are aware of these benefits too, and can decide voluntarily whether to return to their original employer or to seek a job with another employer. Presumably, at the margin those who decide to forgo the opportunity to return to their original employer believe it is not worth it for some reason. Given this, a statutory paid parental leave scheme would not pass a benefit-cost test on retention benefits *alone*.

That does not rule out consideration of the retention benefits of a statutory scheme. There would simply have to be other benefits from a scheme sufficient to make up the residual gap between benefits and costs (of the kind discussed later in this chapter, and in chapters 4 and 6).

In any case, the Commission's scheme requires workforce rather than workplace participation as the key eligibility criterion for the cash component of our scheme (chapter 2). So, in the main, our scheme does not explicitly subsidise employee retention, though as discussed later it has retention as an incidental (beneficial) effect.⁴

⁴ We have proposed a *workplace* eligibility requirement for access to the potential modest superannuation element of the Commission's scheme, but that reflects the fact that employers would be paying this.

Obstacles to individual work choices provide a strong argument

Social and gender equity arguments for greater labour force participation

Some see raising workforce participation rates as improving gender equity. Greater labour force participation reduces the disparity in outcomes for females and males in the labour force, with resulting benefits for retirement incomes, preservation of skills and financial independence. However, people's preferences matter, and chapter 6 explores in more detail some of the complex issues that arise when considering the social and cultural implications of paid parental leave schemes.

Taxes and government transfers

On the economic front, there are several reasons why decisions to take up paid work may be distorted. In particular, taxes and welfare eligibility rules may distort people's consumption choices and alter their incentives for raising income.

Unpaid activities (and leisure) are not taxed, unlike other labour market activities. At the margin, this encourages people to produce their own untaxed services, such as child care, cleaning and cooking, and home maintenance, rather than to undertake more paid work and buy services from others. All other things being equal, this reduces labour force participation rates below the level they would be were all transactions and work subject to neutral tax treatment.

Welfare eligibility rules may worsen this bias against work. Families are the recipients of various family benefits and other welfare payments. Australia, like other Anglo-Saxon countries, tends to favour transfers that are targeted at low-income groups rather than, as in most European countries, benefits that are universally applied regardless of income. As a result, in Australia, the value of welfare benefits depends on the *monetary* income of families. This is distinct from economic income, which would include the capacity to raise consumption through unpaid work.

Consequently, when a carer – typically a woman – enters the labour market, this increases household income, but requires taxes to be paid and involves reductions in welfare benefits. This lowers the returns from working for carers.

In theory, where income-contingent welfare benefits are based on family income, the disincentives to work fall on both men and women. However, in practice many jobs have fixed full-time hours, so that workers in such jobs cannot reduce their hours of work to avoid the withdrawal of welfare benefits. The greatest responsiveness to the work disincentives posed by welfare payments occurs for

people who can exercise some control over their hours worked. These are people who can work overtime, those in casual and part-time jobs and those who are not working, but could do so. Women dominate the latter three categories. Therefore, in practice, family income-contingent benefits are mainly likely to affect the work incentives of women. In empirical work, this shows up as much greater responsiveness of women to wages (Jaumotte 2003).

Moreover, some income-contingent family transfers are based on the dependent spouse's income only (mainly the woman). In particular, while family tax benefit B may address the potential equity problems posed by the incapacity for households to income-split for tax purposes, it also creates a significant barrier to employment by a stay-at-home spouse seeking part-time or low paid work (chapter 9).

As a result, for many women (and some men), working may make them worse off because the net monetary returns from working are insufficient to compensate them for the forgone (untaxed) benefits of unpaid work and leisure. Indeed, in some cases, even the net *monetary* benefits from working can be negative if more than one dollar of ultimate income is lost for every additional dollar from working (this equates with effective marginal tax rates of above 100 per cent appendix F).

Against this, there are also in-work benefits, such as the child care tax rebate, and concessional tax treatment of superannuation savings and fringe benefits, which tend to favour labour force participation. However, for many women, the net impact of the tax and welfare system continues to provide a disincentive to paid work.

There are tradeoffs and practical realities that constrain the capacity of policy to deal with the barriers to work posed by the tax and government transfer system. Leisure cannot be realistically taxed. If universal benefits were introduced, this would reduce high effective marginal tax rates for some, but with progressivity of the tax system, require higher marginal taxes for others. Reduced progressivity might address this, but this undermines the equity goals on which progressivity is based.

As argued by the Centre for Independent Studies, significant changes to the family welfare system could improve work incentives:

Reforming the existing system may be more effective than a paid parental leave scheme in helping mothers to overcome obstacles to greater participation in the workforce. A more flexible system may remove disincentives for parents to start work or increase their working hours. (sub. DR284, p. 6)

However, the potential for reform of this kind is largely outside the scope of this inquiry (though it is incidentally taken into account when considering the financing

of a paid parental scheme). The Australian Future Tax System Review Panel will cover these issues.

In the absence of systematic welfare reform, policies that provide increased in-work benefits, such as paid parental leave, will partly address the current disincentives to paid work.

Short-sightedness and misperceptions

People may not realise the long-term implications of their work/non-work choices. For example, a teenager having a baby may not be aware of the likely consequences for their future education and job prospects. Similarly, people who respond to the short-term disincentives to working may ignore the long-run benefits of entering the labour market. Being in a job allows a person to learn skills, develop networks, establish a positive reputation and boost their self-esteem. Such outcomes can help people to obtain better jobs later, where the payoff exceeds the benefits of forgone welfare benefits and unpaid work. If people fail to account for these dynamic effects, this may reduce workforce participation below desirable levels.

Prior paid employment is an appropriate pre-condition for eligibility

Given the above, it is appropriate that a statutory paid parental leave scheme encourage workforce participation. That suggests that only parents with sufficient prior involvement in the paid workforce would be eligible for statutory paid parental leave. That raises the question of what should be ‘sufficient’ prior involvement and how the scheme should be designed to maximise its positive effects on workforce participation. That, in turn, depends on the impacts of different designs of statutory paid parental leave schemes on parents’ labour market behaviour.

5.4 The labour market impacts of paid parental leave

The conceptual framework and its implications for scheme design

A statutory paid leave scheme affects whether, and how long, parents stay in or out of the labour market at certain critical points in their lifetimes. As implied by the discussion above, the impacts of paid parental leave on parents’ labour supply depends, among other factors, on whether it offsets the high effective marginal taxes on working imposed by present social welfare transfers. Consequently, while it will be important to provide continued transfers to home-based carers outside the

labour force, the net benefits of paid parental leave must exceed those that a carer would obtain were they to resign.

Where eligibility depends on attachment to the labour force for some period then it encourages women to enter work prior to the birth of a child in order to qualify for a benefit. In effect, paid parental leave acts like a wage increase, stimulating labour supply.

The direct effects

The direct influence of paid leave on encouraging labour supply occupies a relatively brief period for primary carers (mostly women) and the strength of its incentive effects depends on time.

- Under the Commission's proposed scheme, parents would need to have at least 10 months of paid work in the 13 months prior to the expected date of the birth or adoption to be eligible for statutory paid parental leave. Given this, a woman would face a strong incentive to work in the months immediately prior to attempting conception (given conception is uncertain).
- Once pregnant, the incentive effects rise steeply as time to birth diminishes the cost of resigning just before birth is very high.
- After birth, there are strong incentives to stay employed, but strong disincentives to actually work since paid parental leave is conditional on absence from work. A person returning to work early would forfeit (at least a portion of) the remaining value of their leave entitlements. In effect, early return to work is (intentionally) 'taxed' by a paid parental leave scheme to achieve the child and maternal health and welfare benefits associated with longer durations away from work. Similarly, complete exit from the labour market through resignation is also penalised. Even so, for some groups, employment may still increase even in the immediate period after childbirth (Klerman and Leibowitz 1997). This is because some people who would otherwise have resigned to take more leave than was previously allowed, find it worthwhile to return to work earlier to maintain the benefits of the original employment relationship (such as social links and the wage gains from firm-specific human capital).
- After the parental leave period expires, the process begins anew. If the parent wishes to have another child, there are reasonably strong incentives to return to work to re-establish eligibility for future parental leave.
- If no new children are planned, then the value of future parental paid leave is low and accordingly, so too are the incentives it provides to supply labour. It may still provide insurance in cases of unanticipated pregnancies, but this insurance value declines with age (reflecting mounting subfecundity) and

reaches zero at some point. However, paid parental leave may still provide labour supply incentives for older people if they aim to adopt children.

Given these various stages of influence, the expected *direct* labour supply incentive impacts of paid parental leave mainly occupy the period just before planned conception to completion of fertility (primarily between the ages of 25 and 34 years).

Indirect effects would be more sustained

However, paid parental leave is likely to lead to more sustained increases in labour force participation due to its indirect effects.

Probably, the most important of these is the fact that the likelihood of a transition from one labour market state to another is dependent on people's initial labour market state (the so-called 'state dependence' noted earlier). This implies that if people are in a job prior to the birth of their child and during its early caring period, then they are more likely to return to a job sometime after the birth of their child.

In part, this reflects the underlying characteristics of parents that determine their employment probability in the first place. So, a highly educated women is more likely to have a job than a less educated one, and for that reason is also more likely to return to a job. However, it appears that there is state dependence even after controlling for such personal traits, reflecting:

- perceptions of what constitutes a 'customary' state for a person (being an employee or a parent caring for children full time)
- continued social and other links to a workplace during leave
- general employment skills⁵ built up with prior employment increase the capacity to return to work (noting that employers value people with experience)
- given 'right-to-return' policies, the capacity to retain (and build on) the benefits of job-specific skills and knowledge, and to avoid search costs associated with finding a job with a new employer.

These indirect effects have the important implication that if a paid parental leave scheme increases attachment to the workforce *prior* to birth then it is likely to increase the chance of a return to a job. This in turn is likely to raise the parent's future wages, job security and quality, given the benefits of additional job experience in moving up career ladders.

⁵ Those associated with being employed in the past, and not specifically those associated with a given job or employer.

Paid parental leave intentionally reduces work in the short run

While a paid parental leave scheme encourages women to stay connected to their employer, a scheme is also *designed* to reduce the amount of paid work around the birth of a baby. A scheme achieves longer durations away from work in the early months of a baby's life in two ways.

- Paid parental leave is not paid if an employed parent on leave returns to work early ('use it or lose it'), so encouraging time away. This 'use it or lose it' feature affects people who may have otherwise gone back to work during the leave period of any statutory scheme. Given most people take time off work for at least three months, the effects of 'use it or lose it' on the time away from work probably increase with longer statutory leave periods.
- Paid leave provides income, which helps overcome some of the financial constraints of young families, allowing them to stay away longer from their job. If parents save this income then they can delay the return to work, even after the cessation of the paid leave period. These income effects depend on the magnitude of parental payments and the responsiveness of families' leave decisions to additional income.

The net effects of a scheme's generosity and duration on lifetime employment are complex. On the one hand, greater generosity of paid leave increases the effective wages of women, encouraging them to get (and keep) a job prior to getting pregnant. On the other hand, more generous payments increase the length of absence away from work, as do longer durations of paid leave. At some point, the long-run employment benefits of pre-birth attachment to employment may be undermined by excessive periods of post-birth absence from work, which could erode work skills and 'normalise' being at home, rather than working. However, the empirical evidence (discussed later) suggests that this loss of skills is not likely to be a problem with leave periods under six months.

Women's wage growth will be a reduced a little

If paid parental leave increases female labour supply, and labour demand is not very responsive to the cost of labour, then wages would grow less strongly for women than they would have otherwise. The effect is not likely to be large – perhaps resulting in long run wages falling by 2 per cent compared with the counterfactual.⁶

⁶ As noted later, the Commission's scheme might increase the female employment to population ratio by around 1.5 per cent. Much of this increase is likely to occur as women currently undertaking few or zero hours of work undertake at least 330 hours of work over the qualifying period. In addition, some women will stay in the labour force after the birth of their child, which will probably show up as more part-time jobs. Given this, the effect on the labour supply

Wage growth might also be reduced if long periods of leave increase disruption costs for employers (chapter 7).

Finally, so long as duration of leave is not too long, the greater lifetime employment experience of women should build skills, enhance productivity and increase female wages, at least partly offsetting the wage depressing effects discussed above.

People have varying labour market responsiveness to paid leave

A paid parental leave scheme should take into account the varying responsiveness of different groups of people to its generosity and duration, as well as considering how the welfare system affects that responsiveness.

Poorer families

A paid parental leave scheme needs to give particular attention to lower income families:

- The beneficial employment effects of a leave scheme are most likely to be experienced by less well-educated and lower skilled females. Empirical evidence shows that higher effective wages do more to encourage these women to work than more educated, higher paid women.
- Poorer families have less recourse to savings and cannot necessarily support themselves on a low single income, hastening their return to work.
- Lower income families face the greatest barriers to work given the incentives of the welfare system.

Altogether these aspects of poorer families suggests that a statutory paid parental leave scheme must be sufficiently generous to encourage parents to be employed, and when employed, to take a sufficient leave of absence from work around the time of the birth of their babies.

Replacement wages – sometimes the basis for paid leave schemes overseas – would provide weak incentives for lower income families to work, depending on the nature of welfare payments available to those out of the labour force. For example, say that a woman worked in a casual job at \$20 an hour for eight hours a week (an

measured in hours is likely to be less than 1.5 per cent. A back-of-the-envelope calculation suggests that an increase in the labour supply of around 1 per cent is plausible. Based on a demand elasticity of -0.5 (the middle value for all types of labour given by Lewis 2006, p. 5), a 1 per cent rise in female labour supply would result in long run wages falling by 2 per cent compared with the counterfactual. This glosses over some complexities, such as the effects of binding minimum wages on some women.

income of \$160 weekly), and that paid parental leave paid replacement wages for 18 weeks funded from removing the baby bonus for people in work. In that case, a woman in this position would get a gross benefit of \$2880, while had she resigned she would have got the \$5000 baby bonus and family tax benefit B payments. Accordingly, simple provision of replacement wages or prorating of a fixed entitlement based on hours worked would not create the appropriate work incentives for the (probably) most responsive group of people.

Given the above, in the draft report, the Commission proposed setting the payment rate at the federal minimum wage (currently \$543.78 per week), as have past assessments of statutory paid parental leave schemes in Australia. The minimum wage typically exceeds the replacement wages of lower income parents (since many work less than full-time hours) and would have generally desirable labour market impacts:

- It would create good incentives to work for lower income females, since the payment is significantly more than the value of income support for women working in the unpaid sector.
- A payment equal to the adult minimum wage for 18 weeks would allow lower-income families to extend their leave to an adequate length, yet would avoid skill losses associated with very long leave periods. (In any case, the skill losses for lower skill jobs are likely to be small.)
- Capping of benefits at roughly the minimum wage would limit the benefits paid to well-off families who often already have access to privately negotiated paid parental leave and have a strong capacity for self-financing leave.
- Unlike means-testing of welfare payments, capping is not likely to elicit undesirable labour supply responses by women earning above the capped amount. This is because they would still earn the capped amount provided they took leave (whereas in mean-tested systems, people start to lose benefits when their income exceeds a threshold).

While the Australian Industry Group agreed that the federal minimum wage was an appropriate benchmark payment rate, it questioned its use for those earning less than this prior to the birth of their child:

Ai Group submits that it would be more logical and consistent with the objectives of the scheme for those receiving a wage less than the FMW prior to going on leave to receive the same wage on paid parental leave under the scheme and indeed would be more likely to reinforce the connection with paid employment as opposed to the perception of a welfare payment. Under the Commission's model, those receiving as little as \$143.10 per week for 52 weeks (i.e 10 hours per week at the FMW hourly rate) would be entitled to the full payment of \$9788.04 (18 weeks at the FMW of \$543.78). For an employee earning \$143.10 per week, this is equivalent to over 68 weeks at full

replacement income. ... The recommendation that payments be made at a flat rate of the FMW therefore has cost implications for the scheme. Putting to one side the issue of the interaction with the Baby Bonus, consideration could be given to setting a 'floor' on payments where an employee's pre-birth income is lower than the FMW. (sub. DR363, p. 7)

However, as argued above, interactions with other welfare payments need to be taken into account when determining the most appropriate payment for those earning less than the minimum wage. This is exemplified by the case of juniors, who, as discussed in chapter 2, would earn considerably more from welfare payments were they outside the labour force system than from replacement wages while on paid parental leave. (It is for this reason that the Commission has reconsidered its draft position that this group should only get a proportion of the federal minimum wage and has proposed instead that they get the same benefits as other eligible parents. Equal treatment was supported by many participants.⁷)

The Australian Fair Pay Commission (sub. DR406) raised questions about the *general* desirability of using the federal minimum wage as the basis for payment, given its concern that it might affect the wage determination process. However, we do not consider this a substantive risk, so that on balance, we still consider that the minimum wage is the appropriate benchmark for payment for all participants in the scheme (chapter 2).

In addition to proposing an adequate level of payment in the scheme, the Commission has also recommended that statutory paid parental leave payments not be counted in means tests for eligibility for income support payments particularly parenting payments (chapter 2 and chapter 9). This increases the attractiveness of statutory paid parental leave for lower income women.

Sole parents

Sole parents face greater challenges in reconciling work and family demands in the absence of support from a partner. Around 30 per cent of sole parent mothers have less than 12 months tenure with their employer. On the other hand, *if they work*, sole parents tend to work 20 hours or more (some 94 per cent of this group).

Moreover, because of the interaction between the tax/welfare system and statutory parental leave, a sole parent with an existing child tends to receive considerably greater net benefits from a statutory paid parental scheme if they are working fewer hours. Accordingly, the work incentives associated with a paid parental leave

⁷ For example, Terri Butler (sub. DR273, pp. 2–3), Clair Stimpson (sub. DR362, p. 1), the National Children's and Youth Law Centre (sub. DR327, p. 3) and the ACTU (sub. DR365, p. 16).

scheme are strongest for sole parents working fewer hours. As an illustration, for a representative single parent with one three year old, the net benefits of a statutory paid leave scheme of 18 weeks at the federal minimum wage is around \$2500 if the woman works eight hours a week prior to birth of her new child, but around \$500 if she works 24 hours a week.⁸

The implication is that the employment test for eligibility to a statutory paid parental leave scheme should not be set too high. Requiring that women have worked a significant number of hours per week prior to birth would limit the eligibility of precisely those sole parents whose labour participation might be most responsive to the scheme. (There is a similar, but much weaker effect for a primary carer with an employed partner.)

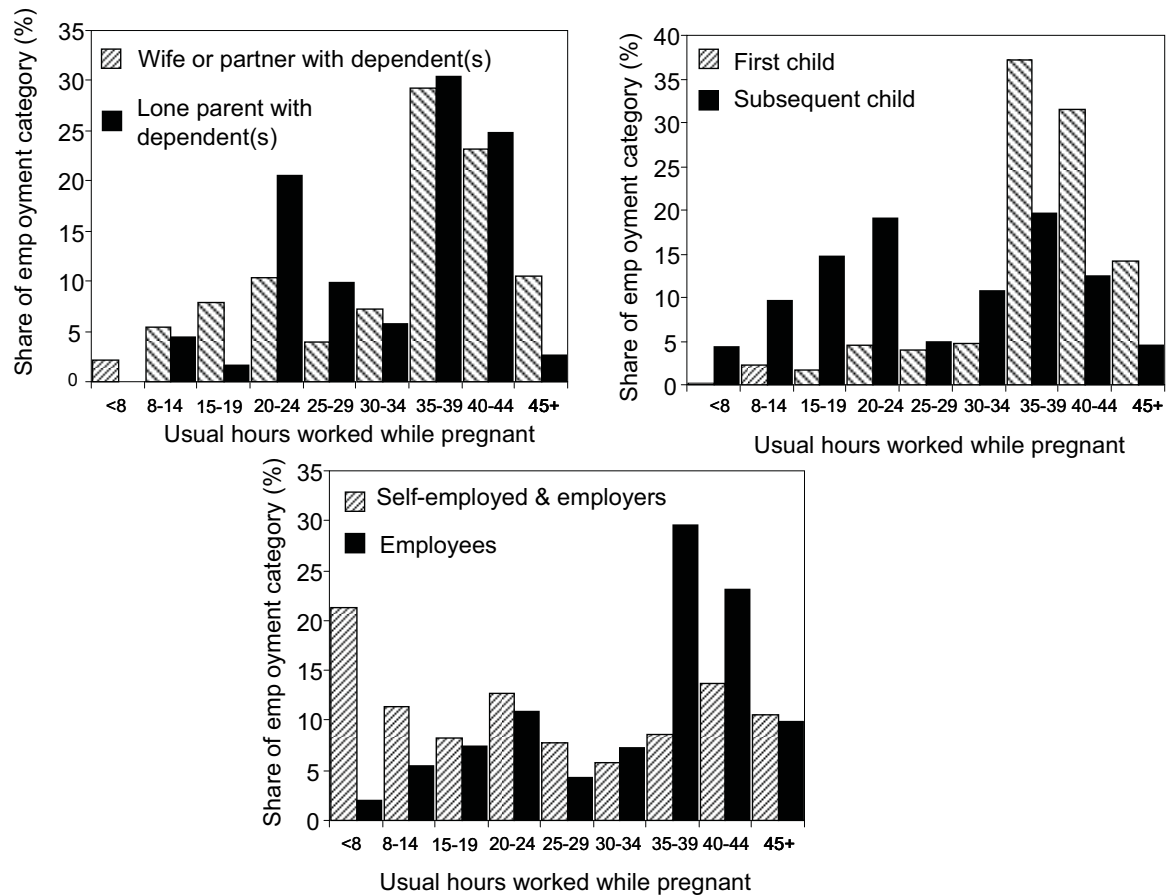
Women who have already had one or more children

Women who already have children tend to return to work for shorter hours to achieve a balance between work and family commitments and have lower employment tenure (appendix J). Around 30 per cent of such carers have worked less than 20 hours a week prior to the birth of their second or subsequent child compared with around 4 per cent of new mothers (figure 5.4). And while there is a less marked difference, about 20 per cent of existing mothers have worked for less than 12 months compared with under 16 percent of first time mothers (table 5.2).

The above pattern of working for this group has implications for the employment test used to determine eligibility for the scheme. Using a high eligibility threshold for hours (say 20 hours) might encourage a greater number of mothers who already have at least one child to work more hours to re-qualify for paid parental care. However, it may also discourage existing mothers outside the labour force from attempting to qualify at all, given the large working hours commitment such qualification would entail. Encouraging greater contact with the workforce for those mothers who would otherwise be completely outside the paid labour force may be more beneficial than encouraging those who are already employed to work more hours, especially if the latter is associated with long hours of child care for infants (with its potential child welfare shortcomings chapter 4).

⁸ The 'representative' family in this example has a woman working 8 (or 24) hours a week for \$25 an hour. The family has one three year old already. The additional child is born on 30 December 2008 and is cared for exclusively by the mother before her return to work 12 months later. The net benefits are calculated over 2008-09 and 2009-10 to account for the fact that the scheme has impacts on earnings and welfare entitlements spanning two fiscal years. If the 'representative' family was a couple with the father earning \$1250 a week, and identical in other respects, the net benefits of participating in the scheme were the woman working 8 and 24 hours per week prior to the date of birth would be around \$2000 and \$1500 respectively.

Figure 5.4 Distribution of hours worked while pregnant
For mothers who had at least 10 months of tenure with an employer^a



^a The ABS *Pregnancy and Employment Transitions* dataset used to undertake these calculations only had job tenure with a given employer, rather than in the workforce.

Data source: ABS (*Pregnancy and Employment Transitions, Australia, Expanded Confidentialised Unit Record File, November 2005*, Cat. no. 4913.0.55.001).

The self-employed

The self-employed return to work much more rapidly than any other type of employee. For example, by the time their child is three months old, around 50 per cent have returned to work, whereas on average only around 10 per cent of all mothers have returned by this time (Baxter 2008, p. 10, p. 13). This probably reflects several factors:

- First, by definition, the self-employed do not get access to any employer-funded paid leave, whereas around half of all working women do, so the self-employed need to return to work for financial reasons.
- Second, the viability of many single-person businesses would be at risk were they to be ‘closed’ for long periods.

- Third, as noted by Baxter (2008), such businesses can often be highly flexible and can involve short hours, so enabling a parent to reconcile child rearing and working more readily than other employment types.

Table 5.2 The tenure experiences of employed mothers

Months tenure with employer	By family size		Employment status		By family type	
	First child	Subsequent children		Self-employed and employers	Wife or partner with dependent(s)	Sole parent
	%	%	Employees	%	%	%
<2	0.6	2.2	1.3	1.2	1.2	3.2
2 to <4	2.3	1.9	2.2	3.8	1.9	4.5
4 to <6	3.0	3.7	3.3	7.2	2.8	9.6
6 to <10	6.9	7.1	7.0	7.0	7.0	6.0
10 to <12	2.9	4.5	3.6	0.0	3.5	4.8
12 to <24	12.1	9.7	11.0	3.3	10.2	20.8
>=24	72.2	70.8	71.6	77.5	73.4	51.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
< 12	15.7	19.5	17.4	19.3	16.4	28.2

^a Tenure relates to a given employer, rather than in the workforce.

Data source: ABS (*Pregnancy and Employment Transitions, Australia, Expanded Confidentialised Unit Record File, November 2005*, Cat. no. 4913.0.55.001).

To the extent that the first of the above factors is decisive, a statutory scheme covering the self-employed would be likely to increase their duration of absence significantly. To the extent that the latter two effects dominate, a paid leave period would not make much difference to the time away from work – it would have poor ‘additionality’. However, even in that case there are grounds for still providing leave payments to the self-employed:

- income also has an effect on infant welfare
- their exclusion could be seen as inequitable
- exclusion would reduce the incentives for entrepreneurship.

The effects of a statutory paid parental leave scheme on labour market participation for this group are also not clear cut. Reflecting the flexibility of self-employment, many more women in this employment category work relatively short hours prior to birth (figure 5.4). For example, more than 40 per cent work less than 20 hours per week prior to birth compared with less than 15 per cent of employees (and 20 per cent of the self-employed work less than 8 hours weekly compared with 2 per cent of employees). Given the capacity for flexible working hours, a statutory paid leave scheme may have relatively strong incentive effects for this group, encouraging more hours of work for those women working less than the required

hours for eligibility to the scheme, and potentially encouraging more women outside the labour force to take up self-employment opportunities.

On the other hand, there are challenges in verifying claims made by the self-employed that they meet the employment test in a statutory paid parental leave scheme. There are clearly risks that some self-employed working less hours required by the employment test will claim that they exceed the threshold. While a business has records that can be used to objectively verify the eligibility of its employees, there is no party that is both at arm's length and informed who can attest to the eligibility of the self-employed. In New Zealand, this problem was resolved by requiring a witnessed self-declaration and verification by a chartered accountant of a self-employed person's eligibility. This issue is explored further in chapter 2.

Men

Men's working hours are not as responsive to wages as women. Men already have full access to unpaid leave entitlements, so paid leave acts like an implicit wage increase. Overseas (and domestic) evidence suggests that men generally do not take advantage of the option to take paid parental leave when it is offered unless it assumes a 'use it or lose it' form. Accordingly, the expected value of most forms of paid parental leave to men would probably be small and, consequently, is unlikely to have any large effects on their labour supply. However, that need not matter for policy purposes since men's labour supply is already high.

While this is probably true for most men, it may not be for all. Some men have a weaker attachment to the labour market than their partners, and some of these may wish to assume the prime caring role for their children. Paid leave may stimulate pre-birth labour supply for this distinctive group of men.⁹

The Commission's employment test

An employment test is necessary to reduce perverse outcomes. Were the scheme to require only minimal past employment hours or tenure, a woman planning to have a baby could secure a one-off job lasting a few hours in order to gain access to paid parental leave. Such a one-off job would be unlikely to have enduring labour market benefits, while also having no impact on the duration of home care of the baby. It would simply represent an impost on taxpayers. On the other hand, the threshold cannot be so high that women outside the labour force consider it too difficult to meet.

⁹ As well as including a short period of paternity leave, the Commission's scheme includes a capacity for a mother to assign all or some of her paid parental leave to her partner if he is also eligible. This may help promote labour supply by some men.

In the draft report, the Commission proposed that to be eligible, employees must have worked 12 months prior to expected birth for an average of 10 hours a week. There is some precedence for a 10 hour test. FaHCSIA uses a 10 hour work test to trigger the so-called ‘quarantining’ provisions of family tax benefit B, which allows women to access FTB(B) in the period prior to returning to work, even if their financial year income would usually make them ineligible for benefits. New Zealand has a 10 hour, six month tenure requirement, while Canada has a 600 hour requirement in the year prior to expected birth, which on a weekly basis, constitutes a similar test (Hanratty and Trzcinski 2006).

However, a variety of participants considered that the Commission’s proposed test was overly restrictive. As one participant said:

I have no doubts that women will return to work earlier than they would like in order to qualify for paid parental leave. In order to qualify for paid parental leave a woman would need to put her child in childcare (or if she is fortunate some other arrangement) for at least 10 hours a week so that she could work at least 10 hours a week. Most childcare centres take bookings by the day, so two days of care would need to be paid for in order for the 10 hours to be worked. As referenced in appendix D, many experts have concerns about long hours of daycare (more than 10 hours per week). (sub. DR359, p. 2).

Women and Work Group also said:

The 10 hour work eligibility requirement does not recognise that many traineeships and university study programs limit work to a maximum of 8 hours per week. (sub. DR283, p. 1)

The Commission also recognises the fact that a 10 hour, 12 month test might overly limit the involvement in the statutory paid parental leave scheme of parents who already have children, undermining the scheme’s labour market and social impacts. As discussed above, women wishing to re-qualify for statutory paid parental leave for a second or subsequent birth typically work on a part-time basis and have worked for less time than women having their first child. (A 10 hour, 12 month employment test also has some other potentially undesirable effects on birth spacing chapter 2.)

Given these concerns, the Commission has adapted its employment test. The Commission proposes that parents must have worked for at least 330 hours in 10 of the 13 months prior to expected birth, (but with no requirement that this would have to be with the same employer). The 330 hour requirement allows the eligibility of a parent who has worked an average of one conventional day a week (7.6 hours a week) for the relevant 10 months. A 330 hour, ‘10-13’ employment test appears to be neither so high as to deter workforce participation by those parents who can only manage some labour market involvement, nor so low that it encourages only

spurious employment outcomes. The broad form of the Commission's employment test is commonplace among schemes around the world. Private voluntary schemes also usually have at least some tenure requirement.

The Commission's eligibility conditions are relatively simple to apply and exclude very few employed people (figure 5.4). Importantly, the employment test does not exclude certain disadvantaged groups, such as lone parents.

The Commission considered an alternative employment test aimed at allowing the broad involvement by parents in the scheme, while maximising its workforce incentive effects. Under this approach, all those working prior to birth would be eligible for participation in the scheme, regardless of their hours, but with perverse effects controlled through a tiered payment structure (described in appendix E). The essential idea would be to provide:

- a sufficient weekly minimum payment that people have incentives to be in work rather than receiving welfare payments outside the labour force
- *plus* a share of people's actual wages so that people find it worthwhile to work more hours rather than having the perverse incentive to be merely marginally attached.

While, in principle, a tiered payment could allow for all of these benefits, many people would find it hard to calculate the value of their entitlement, and that would then affect their labour market decisions. The Commission's proposed employment test is therefore the easiest to apply.

In addition to its tenure and hours requirements for eligibility, the Commission proposes some degree of continuity of employment to remove eligibility for a person who was dropping in and out of the labour force for long periods during the qualifying year (chapter 2). However, the Commission's approach is not intended to disqualify casuals who have reasonable continuity of employment (for example, those taking unpaid leave periods that would be commensurate with paid leave periods taken by permanent employees). The Commission's proposed eligibility requirement for work for 10 months out of 13 also would allow some interruptions to work for such casuals. As with the tenure requirement, continuity of employment could still occur if an employee worked for several employers during the year.

5.5 The empirical evidence

Some warnings

Ideally, the impact of paid parental leave would be assessed in the same way that clinical trials are used in the pharmaceuticals industry to consider the efficacy of new drugs. One randomly selected group of parents, the ‘treatment’ group, would be eligible for paid leave for a given period, while another randomly selected group of people would not be eligible (the ‘control’ group). By randomly selecting the different groups, it can be assumed that they are the same except for their access to paid parental leave. It would then be possible to consider the short and long-run impacts of paid parental leave on parent’s employment outcomes, wages, job quality and so on.

No such formal experiments have ever been conducted anywhere. Instead, various statistical techniques and so-called natural experiments (where for example, one province in a country introduces a change in policy, while another one does not) attempt to mimic such experiments to assess the impacts of paid parental leave. Any weaknesses in those statistical methods will bias the measures of the effects of paid leave. This explains some of the equivocal findings in the literature.

Moreover, that literature relates mainly to countries with different social institutions, regulations, preferences and labour markets to Australia, so it will not always be clear that the results will carry over to an Australian context. For example, Australia now has widespread voluntary provision of paid leave. The impact of mandated parental leave in that environment might well be different from those apparent in countries where the impetus for leave has long been regulation.

In addition, it is often hard to distinguish the impacts of paid leave from an unpaid leave period with a job return guarantee. In some countries, the period of paid leave and the job guarantee period coincide. This is important in the Australian context because an unpaid job guarantee period is already available. The relevant question is what *additional* labour market effects may occur if some or all of that unpaid period is now paid.

All these factors suggest that it is unlikely that the existing literature will provide a precise estimate of the employment or other labour market impacts of paid parental leave in Australia. Nevertheless, some patterns emerge.

Short term absences from work

The empirical evidence generally supports the view that extensions in paid (and unpaid) leave increase the duration of absence by women from work, while maintaining their connection to employment.

Women often say that they return to work when their leave runs out, so extensions in leave should promote longer work absence. Typical comments from mothers were:

I planned to return to work as soon as my paid leave ran out. If I had less long service leave and maternity leave I would have returned earlier (Angela Budai, sub. 17, pp. 1 2).

So, why after waiting so long and going to considerable lengths to have our child, did I go back to work relatively soon [7 months]. Well, the bills don't stop. (Dr K. Stephenson, sub. 189).

I think I would have had to return to work earlier if I had not been able to access paid maternity leave. (L. Jeffery, sub. 175, p. 1)

Financially, because of the unavailability of paid maternity leave and income being the primary one, I had to return to work when my baby was seven months old. This was difficult for me, not only emotionally, but also practically, because I wanted to keep breastfeeding until the baby was twelve months. (Hilary Surman, sub. 35)

Large-scale survey data show that these experiences are commonplace, even for women whose absence from work has been prolonged (table 5.3). More than 40 per cent of mothers away from work for 9 12 months felt that lack of paid maternity leave forced them to return early. This is no different from that for women away from work for less than three months. The importance of financial constraints generally is further highlighted by the fact that around 50 per cent of women said they returned to work at 9 12 months because of 'lack of money', rather than a desire per se to return to work. Consequently, by alleviating families' financial pressures, paid parental leave would be likely to extend leave periods taken.

Moreover, a special institutional feature of the Australian workplace system suggests that paid parental leave of 18 weeks will still have impacts on leave taken by women who are already taking 18 weeks or more of leave. Many Australian mothers have a job return guarantee of one year (soon to include the right to request an extension to two years) under the National Employment Standards. Accordingly, they could put aside some or all of the payments received while on the 18 weeks of statutory paid parental leave and use this money to fund a longer leave period.

The story would be different were the job guarantee to be aligned with the paid parental leave period (as is often the case overseas). In that case, many women

would be forced to go back to work at the end of the paid parental leave period to keep their jobs. The option of saving and taking leave later would vanish. This might explain why some overseas studies find that ‘short’ paid leave periods made little difference to the duration of absence from work. For example, this appeared to be the case for the initial scheme used in Canada (Baker and Milligan 2008a). Given the complementary impact of the job return guarantee, we would expect even short periods of statutory paid parental leave to increase leave absences in an Australian context.

Table 5.3 Why did women return to work earlier than they wanted?

<i>Months taken off work</i>	<i>Lack of paid maternity leave caused early return</i>	<i>Lack of unpaid maternity leave caused early return</i>	<i>Worries about job caused return earlier than desired</i>	<i>Returned earlier than desired because of a lack of money</i>	<i>Maintaining household income was difficult while on leave</i>
	%	%	%	%	%
0 to less than 3	44.0	7.0	22.9	45.5	37.9
3 to less than 6	60.0	2.5	16.0	58.7	34.0
6 to less than 9	60.8	1.7	7.2	60.2	40.4
9 to less than 12	43.8	4.8	5.3	51.8	45.5
12 to less than 15	34.9	19.4	5.4	24.3	43.7
15 to less than 18	32.5	7.8	14.3	26.3	31.7
Total to 18 months	47.4	8.1	9.1	45.3	40.7

Source: LSAC Wave 1.5.

Australian evidence based on LSAC shows that women able to access voluntary paid leave schemes have longer spells away from work. However, workplaces that offer paid parental leave typically do so because of the special characteristics of their employees, such as their skill levels, shortages of supply or high gains from retention. It is possible that employees with these characteristics take longer leave after birth regardless of the existence of paid parental leave. In that case, it will *appear* that paid parental leave has an impact on leave duration when it really reflects the different characteristics of employees eligible and not eligible for paid parental leave (‘selection’ biases). The Commission undertook some econometric analysis to control for the different characteristics of the women in these two groups and still found a significant effect of paid maternity leave on the duration of time away from work. However, we were not satisfied that the results were reliable given the continued likelihood of selection biases. We were also unsure that the results would necessarily indicate the magnitude of the impacts on leave that might be anticipated from the introduction of a statutory scheme, whose design is intrinsically different from private schemes.

Accordingly, the Commission modelled the aggregate impacts of a statutory scheme by considering the likely behavioural responses at the individual level by respondents to the LSAC survey. The results suggest that a statutory scheme of 18 weeks would increase leave taken by an average 10 weeks, but with a smaller effect for those women taking less than 26 weeks of leave already (appendix G). These are large impacts once account is taken of the fact that, under the Commission's scheme, eligible parents would be taxed on their leave pay, and lose access to the baby bonus and some other social transfers (chapter 9).

While the Commission's empirical analysis is supportive of a duration effect, it is still relatively weak evidence because it is difficult to control for all of the relevant characteristics of women that affect their access to paid maternity leave. Accordingly, the Commission looked at the impacts of *extensions* to statutory schemes overseas on leave durations (summarised in table 5.4). As natural experiments, these are less likely to be affected by the selection biases described above. The international studies generally suggest that statutory paid leave increases time off work while employed.

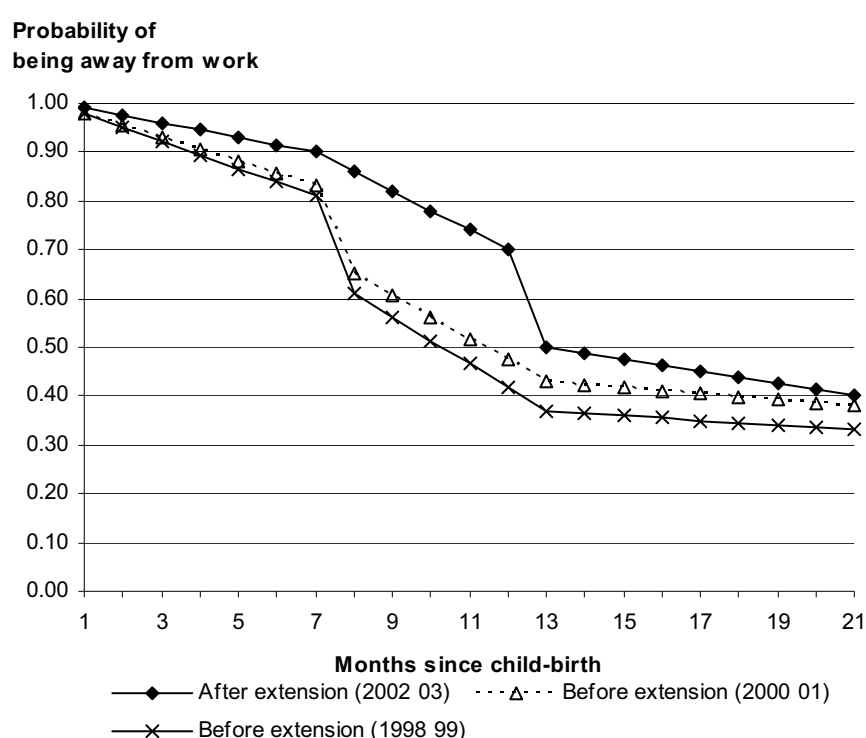
Figure 5.5 below illustrates the effect on time off work in Canada of increasing paid parental leave from 25 to 50 weeks on the probability of being absent from work. There was a large impact for the period from seven months to 12 months, with the effects rapidly dissipating in the following months, until at 21 months, both groups have a roughly equivalent likelihood of being absent from work. After controlling for other economic and demographic traits, the share of mothers remaining at home for 12 months increased from 47 per cent to 67 per cent following the change in statutory leave arrangements.

The effects vary markedly between some groups of women, with negligible impacts of extended mandates for those who did not complete high school (and who already have high probabilities of being away from work for long periods). However, it is important to note that, compared with the scheme proposed by the Commission for Australia, the Canadian system is less generous particularly for the lowest income employees and has more stringent eligibility requirements. Consequently, impacts on lower income employees might be expected to be greater in an Australian context.

Other recent Canadian evidence confirms the above findings, with Baker and Milligan (2008a,b) finding that the extension of paid leave beyond 25 weeks had substantial impacts on time taken off work. For example, the expansion of the Canadian leave entitlement from 25 to 50 weeks increased leave duration by more than three months.

However, Baker and Milligan (2008a) found that statutory leave entitlements of 17–18 weeks did not change the time mothers took off work, speculating that this was because mothers had recourse to private leave arrangements prior to the statutory provision. This finding may be less relevant to Australia given the complementary effects of the job return guarantee discussed above (and the fact that most women do not have access to voluntary paid parental leave of anything like 18 weeks).

Figure 5.5 Impact of the 2000 extension to Canadian paid maternity leave on time away from work^a



^a The figure shows the effect of a major extension to Canadian paid maternity leave arrangements. Two periods prior to the extension are shown to indicate that the rise that occurred is not the outcome of a general trend in leave taken. The probabilities shown above control for demographic and other characteristics, so they should reflect the impact of changes to leave mandates alone.

Data source: Hanratty and Trzcinski (2006).

Table 5.4 Impacts of parental leave on time off work and long-run employment^a

<i>Study</i>	<i>Which country/ies</i>	<i>Impact on leave period after birth</i>	<i>Long run employment effects and job continuity</i>
Women			
Marshall 2003	Canada	Extension of leave from 10 to 35 weeks increased leave taken by 4 months	..
ten Cate 2003	Canada	..	An increase in mandated job-protected unpaid leave from 0 to 52 weeks led to a 2.8 to 3.6% increase in the employment rate of women whose youngest child is aged 0 to 2.
Baker and Milligan 2008a	Canada	Leave entitlements of 17–18 weeks did not change the time mothers spent away from work, but extensions beyond this did so significantly	All leave entitlements increased job continuity with the pre-birth employer
Baker and Milligan 2008b	Canada	Increase in leave entitlement from 25 to 50 weeks increased leave taken by more than 3 months	..
Rönsen & Sundström 1996	Norway and Sweden	..	Women with a right to paid leave are more likely to resume employment (3 times as fast as other women in Sweden and >2 times as fast in Norway)
Pylkkänen & Smith 2003	Denmark and Sweden	Greater compensation rates while on leave increased duration. More leave for fathers (in Sweden) decreases leave by mothers	..
Hong & Corman 2005	Sweden	Significant increase in leave taken	..
Waldfoegel et al. 1998	United Kingdom, Japan and United States	..	Large impacts on job continuity (Maternity leave coverage increased the probability of returning to the same employer within 12 months of birth by 76% in Japan, 23% in the US and 16% in the UK)
Burgess et al. 2002	United Kingdom	..	Large impacts on job continuity (Maternity leave coverage increased the probability of returning the mother's previous job before seven months by 19 percentage points)
Zveglic & van der Meulen Rodgers 2003	Taiwan	..	Women's working hours increased by 4.5% and their employment rose by 2.5 percentage points. The increase in total labour input was about 7%
Merz 2004	Germany	Increased	Increase in employment to population ratio, but decrease in average weekly hours worked
Schönberg & Ludsteck 2006	Germany	Increased leave strongly when leave period increased from 2 to 6 months, but weaker effects for subsequent extensions	No long run labour supply impact (hours or participation rates). Reduces wages below counterfactual.

Table 5.4 (Continued)

<i>Study</i>	<i>Which country/ies</i>	<i>Impact on leave period after birth</i>	<i>Long run employment effects and job continuity</i>
Spiess & Wrohlich 2006	Germany (behavioural microsimulation model)	..	Significant positive impacts in the second year after birth (12% increase in hours of mothers and increase in participation rates from 36% to 39%)
Lalive & Zweimüller 2005	Austria	Significant increase (0.4 to 0.5 months of additional time off work for every additional month of statutory leave)	
Ruhm 1998	9 European countries	..	A 20 week paid entitlement increased the total female employment to population ratio by around 4%
Jaumotte 2003	17 OECD countries	..	Positive impacts on participation rates of women aged 25–54, but with diminishing effects after 20 weeks
Pronzato 2007	9 European countries	The right to paid leave decreases the probability of being at work by 35 percentage points when the child is between 0 and 3 years old	1 year more of leave increases the probability of employment by 4 percentage points when the child is 4–5 years old
Han et al. 2009	United States	Unpaid leave access led to a 6.7 percentage point reduction in within 12 weeks of birth	Access to unpaid leave led to a 4.7 point increase in work probabilities at 9 months after birth
Del Boca et al. 2008	15 European countries	..	Positive but decreasing effect of leave duration on the probability of working for low educated women; not statistically significant
Men			
Eckberg et al. 2005	Sweden	Fathers took 15 extra days of leave after 'Daddy month' leave period was introduced; mothers took 20 days less	..
Eydal 2007	Iceland	Significant effect on leave taking	..
Gíslason 2007	Iceland	Significant effect on leave taking	

^a The table excludes (the many) studies from the United States because the mandated leave period is unpaid and short (12 weeks), and so probably provides less guidance about the impacts of a longer statutory paid scheme as proposed by the Commission. Baker and Milligan (B&M 2008a) summarises the United States literature, finding that there is reasonably strong evidence from a range of studies that maternity leave increases job continuity with employers. This is also supported by a study, Hashimoto (2004) (not covered by the B&M review) that finds maternity leave had significant impacts on business retention rates and a small positive impact on weeks worked, declining to zero 8 years after birth. Only two studies of the US reviewed by B&M find positive effects on leave duration. However, Han et al. (2007) (not covered by the B&M review) also finds significant impacts on leave durations in the US.

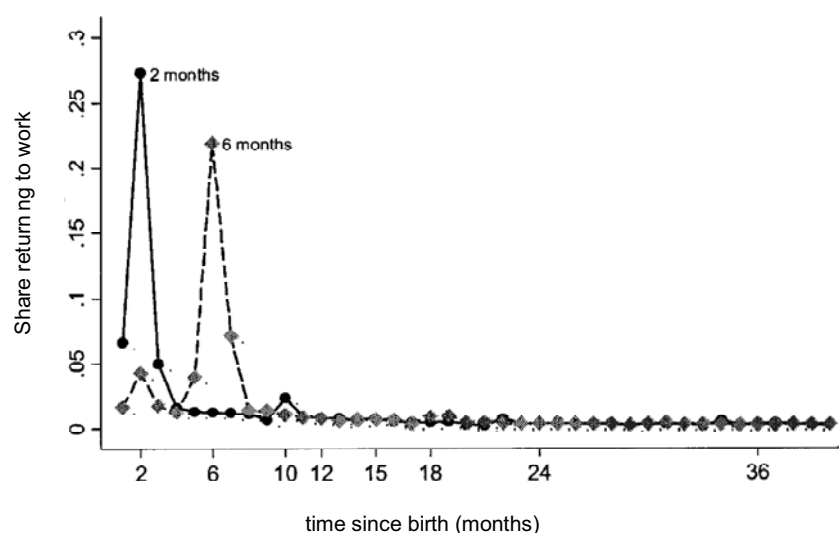
Data on job return behaviour often show spikes at the point where paid and unpaid periods end. In the latter case, this suggests the importance to women of the capacity to return to their original employer (if nothing else to exploit the benefits

of firm-specific human capital). In the former case, it suggests the role of financial constraints in determining period of absence – when the money runs out, people go back to work.

Spikes show up clearly in the German case (Schonberg and Ludsteck 2007). The initial scheme gave a woman two months of highly paid leave after the birth of her baby with a job return guarantee.¹⁰ The subsequent scheme extended the job return guarantee by a further four months, but with a low level of pay for that supplement. The probability of returning to work under the initial scheme was highest at two months (figure 5.6). With the extension, the peak probability shifted to six months, testimony of the sensitivity of work absence to leave arrangements. The proportion of women working two months after childbirth dropped by almost 35 percentage points, from about 41 per cent for women who gave birth prior to the extension to leave to about 5 per cent for women who gave birth after the extension.

However, notably under the extended scheme there was only a small peak at two months, when paid leave rates shifted from high to low rates. Had financial constraints been the most decisive factor determining the return to work, a larger peak at two weeks would have been expected.

Figure 5.6 Impact of extensions of the German maternity leave job-return guarantee on the probability of returning to work^a



^a This shows the effect of shifting from a 2 months post-birth (high wage replacement) paid parental leave scheme to a scheme that provides paid leave to six months (with three months of this paid at a low rate).

Data source: Schonberg and Ludsteck (2007).

¹⁰ A paid leave period of one month prior to birth was also introduced.

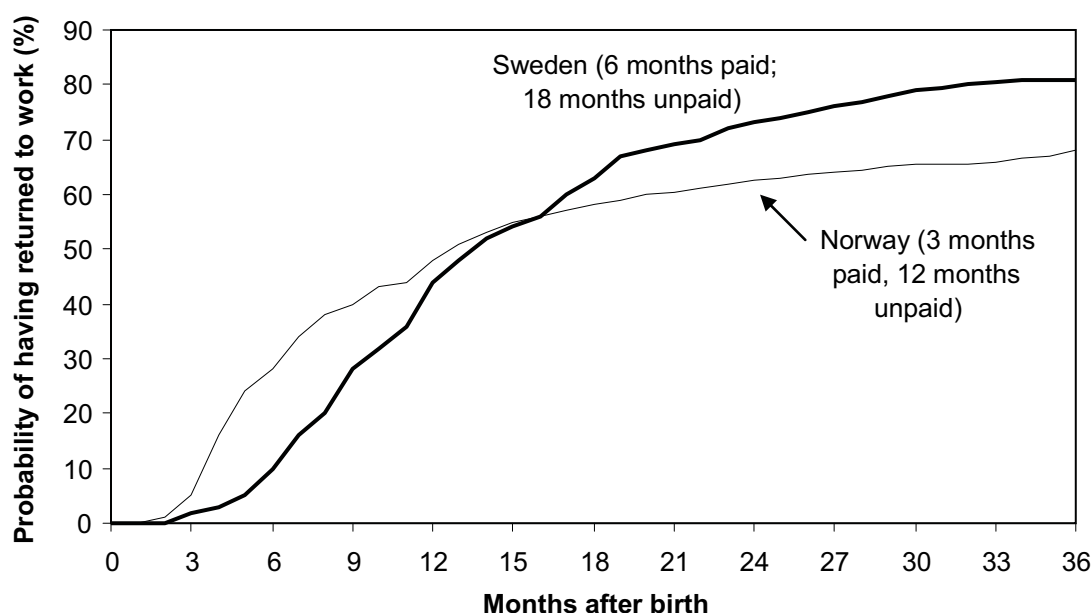
Longer run impacts

The initial negative effect of parental leave on labour supply is not an adverse finding – it is a major goal of such leave arrangements. The other key labour supply issue is whether women increase their labour supply prior to birth and over the long run following the early infant years of their children. Unfortunately, most studies do not examine the impacts specifically on employment prior to birth, and some that consider the post-birth employment experience of women on paid leave examine a period that may be too short to identify its ultimate impacts.

Nevertheless, the evidence suggests that there are long run impacts (table 5.4). The employment outcomes after birth in Sweden and Norway illustrate these (figure 5.7). Sweden's more generous paid parental leave arrangements lead to lower work return rates initially, as it makes staying home an affordable option for many parents. In the longer run, however, Swedish work return rates eclipse those of Norway. This is consistent with a greater share of Norwegian women resigning in the absence of longer leave provisions, which then reduces their scope for re-entry to the labour market.

Figure 5.7 **More generous leave arrangements appear to raise long-run labour force participation**

Norway compared with Sweden



Data source: Rönson and Sundström (1996).

In part, the different outcomes may reflect differences in the characteristics and preferences of the two societies, and in the details of the parental leave schemes. For instance, at the time, Sweden had a highly flexible leave scheme that allowed

parents to save leave until later periods, provided significantly greater access to child care, and had different eligibility criteria, all of which may partly explain the higher long-run employment rates.

Either way, parental leave in both countries prompts higher rates of return to work in the longer run. Statistical methods that control for factors like education, age and parity, amongst other factors, suggest that women eligible for paid leave resume employment around three times faster than other women in Sweden, and two times faster in Norway.

Other studies also support significant long-run leave impacts.

In the United Kingdom, Burgess et al. (2002) found that for women with similar labour force attachment, maternity leave coverage increased the share of women returning to their previous job by 19 percentage points.¹¹ However, this outcome reflected both the availability of a six month paid leave period and a job return guarantee, with the latter almost certainly an important factor. The greatest impact of paid leave was for women in lower skilled groups, while managerial and professional women tended to return later at the end of the unpaid leave period. This suggests the importance of the financial considerations for poorer families.

In Australia, there is already provision for a long period of unpaid leave. Given this, smaller retention gains are likely from the introduction of a paid parental leave scheme than observed in the UK. Increases in retention are likely to be highest for less educated and lower skilled women. While the benefits to employers from higher retention rates are lower for these types of employees than others, they may nevertheless be important.

The empirical evidence from such studies is reinforced by the personal stories of women participating in this inquiry, who resigned from work because they did not have access to paid leave. For instance,

After the birth of my daughter, I decided to quit my job as the lack of benefit made me indifferent to keeping the job. (Stella Ng, sub. 13)

It should be emphasised that retention benefits do not necessarily imply large employment effects. As an illustration, suppose that before paid parental leave 30 per cent of women returned to their original job after one year and that this increased to 50 per cent after paid parental leave – a large increase in retention. Suppose also that 60 in every 100 women returned to employment after one year

¹¹ Also in the United Kingdom, Waldfogel et al. (1998) found that maternity leave had significant positive impacts on retention with the former employer. The probability of retention within 12 months increased by 16 percentage points.

prior to maternity leave provisions and that this increased to 65 after paid parental leave, an increase of five percentage points. In this example, the main effect of paid maternity leave is diversion. It reduces the likelihood that a woman gains a job with another employer while increasing attachment to the original employer. The relevance of diversion appears to be borne out by other empirical analysis (below).

One of the most widely cited assessments of the long run labour market impacts of parental leave entitlements Ruhm (1998) considered the experiences of nine European countries from 1969 to 1993. The study found significant aggregate impacts of female employment to population ratios (table 5.5). For example, a 20 week paid entitlement increased the total female employment to population ratio by around 4 per cent. For women aged 25–34 years — the prime reproductive years — the effect is around double this.¹²

There are three main provisos regarding Ruhm's results. First, in many of the countries studied, a period of absence from work while on parental leave is still classified in the official statistics as 'employment'. Ruhm conjectures that around one quarter to one half of the employment effect shown in table 5.5 is probably a statistical illusion. Second, other employment policy initiatives — such as more family friendly policies or greater child care provision — often accompany paid leave measures, and these may have contributed to the result. Finally, other factors — such as greater female educational attainment or labour shortages — may expand female labour supply, at the same time placing political pressure for the introduction of paid leave. In the Australian context, it is evident that the large rise in the employment of professional women and their advocacy of paid leave is a major contributing factor to the decision to introduce some kind of leave scheme. The causation then is partly from employment to paid leave, and not just the other way.

Other methods of analysis also suggest lower employment responses. Taking account of the effective wage increase from the introduction of paid leave and labour supply elasticities suggests that a three month paid leave scheme would increase female employment to population ratios by around 0.4 to 1 per cent (Ruhm 1998). Longer leave schemes — such as proposed by the Commission — could have bigger effects.

To appreciate these potential effects on years worked by women, suppose that overall a scheme of the kind proposed by the Commission were to raise the female employment to population ratio by 1.5 per cent. In 2007-08, the ratio was

¹² The magnitudes found by Ruhm have been broadly replicated in other settings, such as ten Cate for Canada, Zveglic and van der Meulen Rodgers for Taiwan, Pronzato for a sample of European countries, and Jaumotte for OECD countries, but not so clearly by Del Boca et al. — see table 5.4.

55.4 per cent in Australia. There are 56 years of potential work from ages 15 to 70 inclusive, which, with the present employment to population ratio, implies around 31 average years of employment per woman over her working lifetime. With the assumed parameter, the employment to population ratio would rise to 56.3 per cent under a scheme or an increase in lifetime employment of around half a year.¹³ To put this in an historical framework, average female employment years per woman were around 22 years in 1978-79. Accordingly, 30 years of economic social change have had nearly a twenty times greater effect on employment of Australian women than the indicative impact of a paid leave scheme. That is still worthwhile, but paid leave is unlikely to be transformative. (As a comparison, the male employment to population ratio was around 70 per cent in 2007-08.)

Ruhm also found lower wages, consistent with the wage depressing effects of paid leave described earlier, suggesting that a statutory leave scheme in Australia would reduce female wage growth below its counterfactual rate (table 5.5).

Table 5.5 Impacts of parental leave entitlements on aggregate employment and wages

Nine European countries, 1969 to 1993

<i>Number of weeks of paid entitlements</i>	<i>Impact on female employment to population ratios^a</i>	<i>Impact on female wages</i>
	%	%
10	2.8	-1.7
20	4.2	-2.8
30	4.2	-3.4

^a So if the E/P ratio of women was 50 per cent, a 2.8 per cent increase in the ratio implies an E/P of 51.4 per cent (1.028 times 50) or an increase in the ratio of 1.4 points.

Source: Ruhm (1998).

Overall, the long-run studies suggest that moderate paid leave periods can stimulate female employment and workplace participation.

A final issue is the impact of leave on erosion of a woman's work skills. Long periods of absence may well reduce work-related skills (while building up others that may still be socially valuable). As noted in this inquiry:

Whilst on leave, I wasn't concerned about maintaining skills or advancing my career. I just wanted to maintain my position, so that I had an option to come back to work when I and my child were ready. However, since returning to work, I can see the importance

¹³ This is a measure of increased numbers of employees per capita. It is not the same as hours per capita, which would probably increase by less since most of the impact would probably take the form of additional part-time jobs.

of maintaining some involvement in paid work in order to maintain skills and networks. After being away for a year, I feel a lot of things have changed and my networks with other colleagues have been eroded. (Jane Martin, sub. 170)

Any system of paid parental leave should consider the need to assist employees to update their skill levels before they return to work. (Pharmacy Guild of Australia, sub. 245)

Ruhm (1998) finds an eventual negative impact of leave on employment, but it only occurs for very long leave periods. Jaumotte (2003) finds that the impacts of parental leave on participation rates peak at around 20 weeks and then slowly reduce, but her estimates are insufficiently precise to estimate when leave duration would actually reduce participation rates. Overall, skill depreciation is not likely to work against a (practically implementable) paid parental scheme:

- The groups of women most responsive to paid parental leave are those whose occupations tend to have lower skill requirements which are also those that are less subject to skill loss.
- To the extent that paid leave promotes greater lifetime labour force and workforce attachment, work skills may be preserved more than they are eroded.
- Medium periods of absence are probably not realistically associated with significant skill loss. Moreover, parents also acquire skills in looking after children and the benefits of unpaid work are ignored in orthodox analysis.

Nevertheless, the Commission proposes a ‘keeping in touch’ provision, like that used in the United Kingdom, to maintain links between the employee and employer, which could reduce the erosion of skills and networks (chapter 2).

Men again

The impact of paid parental leave on male labour force behaviour has rarely been explored as meticulously as that for women. Access to parental leave could affect men’s labour market decisions through several avenues.

First, some men increase their hours of work when their children are born, presumably to make up for the income lost when their partners are not in work. Paid parental leave should, in principle, reduce the income pressures on families, and allow fathers to spend more time at home.

Second, men can access paid parental leave under the Commission’s proposed scheme (as they usually can in statutory schemes abroad), so this should affect their leave behaviour after the birth of their children. However:

-
- where men and women can share access to parental leave, the overseas evidence suggests that men rarely take much leave
 - where men get exclusive ‘use it or lose it’ paternity leave, such as Sweden’s ‘Daddy month’, there is evidence that they do take more time off work, but not by much (table 5.4). In the UK, apparently only around one in five men take advantage of their new paternity leave arrangements (Bennett and Ahmed 2008). Only in Iceland have very large effects been observed. Iceland has far more generous paternity leave arrangements than any other country – three months of ‘use it or lose it’ paternity leave at 80 per cent of replacement wages (and access by fathers to an additional three months of leave that can be shared with the mother). On average men take around 100 days of parental leave, far more than is apparent in contemporary Australia, or any other country for that matter (Gíslason 2007). Interestingly, increases in use of parental leave by men appears to increase labour supply responses by women, as they often return to work when the father assumes the primary care role (Ekberg et al. 2005).¹⁴

Moreover, paternity leave has not achieved the goal of increasing the long-term role of fathers in caring for children, for example, when the children were sick (Ekberg et al. 2005).

In an Australian context, the Commission’s proposal gives men a ‘Daddy fortnight’ and access to the full 18 weeks of parental leave if they pass the employment test and the mother gives consent. Given the international evidence, fathers will not generally take advantage of the parental leave component. It is harder to assess their reaction to the ‘Daddy fortnight’, but the UK experience suggests that initially a relatively small share will use it. Changing social attitudes and workplace cultures may change that over time, while having the leave available may stimulate such cultural change.

5.6 The bottom line

We do not know enough to be definitive about the size of the employment, labour force participation or other labour market benefits of a paid parental leave scheme. However, a reasonable judgment is that a scheme of 18 weeks would promote lifetime labour force engagement by women, while (appropriately) reducing actual work undertaken in the immediate period after childbirth.

¹⁴ A participant in this inquiry noted just such a situation, when the father’s access to (unpaid) parental leave allowed the mother to continue to work (Michelle Edmonds, sub. 68).

6 Social and cultural issues

Key points

- Most participants saw paid parental leave as helping to achieve broader societal objectives in the areas of:
 - the balance between paid work and family life, especially for mothers in the paid workforce
 - the involvement of fathers in the early months of a child's life
 - gender equity in the home and workplace.
- Some participants also felt that paid parental leave would further signal the importance of children in society and that the design of any scheme should focus on impacts and outcomes for children as much as for parents.
- While it is difficult to be definitive about the capacity of paid parental leave to achieve these objectives, the introduction of a statutory scheme should contribute to a more conducive workplace environment for parents of newborn children.
 - It would provide a strong signal that having a child and taking time out for family reasons is viewed by the community as part of the normal course of work and life for parents in the paid workforce.
 - It could stimulate further cultural shifts and attitudinal changes in the workplace and in the community more generally.
- A common view, reflected in the Commission's recommendations, was that paid parental leave should, as far as reasonably possible, be structured like other normal leave arrangements, such as those for recreation, illness and long service, rather than being seen as a social welfare measure.
- Some expressed the view that an employment eligibility test for paid parental leave based on employment in the paid workforce devalued the work of those parents (predominantly mothers) who choose to look after their children full-time. However:
 - paid parental leave seeks to address specific employment-related objectives and needs; the needs of parents who look after their children full-time are different and are recognised through the social transfer system
 - a common payment to all parents would undermine the objectives of paid parental leave and significantly increase its costs, without the associated benefits
 - by making it possible for more parents to take care of their children themselves, the scheme design acknowledges and affirms the critical importance of parental care.

6.1 Introduction

While many participants saw paid parental leave primarily in terms of immediate health and wellbeing benefits for the mother and child, and better longer-term workforce attachment outcomes for mothers, others pointed to broader societal objectives that may also have the capacity to generate worthwhile benefits to the community over time.

Many advocated paid parental leave as supporting a better balance between paid work and family life, or to facilitate a greater role for fathers, or on more general gender equity grounds. Many of these aims are in fact intertwined and difficult to separate. Some participants argued that seeking to achieve these outcomes ought to be explicit objectives of any government-mandated paid parental leave scheme.

For some objectives, such as better health and child development outcomes and greater long-term workforce participation for women, the rationales can be linked to particular private and community benefits for which there is an evidence base that can shed light on improvements that could be made, and the value of doing this. However, objectives such as improved gender equity and the ability to better balance paid work and family life are more difficult to evaluate in these terms.

Many participants argued that ‘cultural shifts’ and attitudinal changes would be required, both in the workplace and in the broader community, to achieve the objectives they identified as important. In their view, significant benefits would come only with greater acknowledgement by the community, and workplaces in particular, that many in the paid workforce need to take an extended break from their employment to have and raise children, and that this should be facilitated. They saw a government-mandated paid parental leave scheme as helping to signal the legitimacy of this interruption to paid work, irrespective of whether it is a stated objective of the scheme.

These issues need to be considered and weighed in the design of a paid parental leave scheme. How they are used to influence policy design depends in part on sometimes differing views about community norms (what they are and whether they are changing) and about what constitutes equity (for example, equity for whom?). While protecting or advancing the health of a mother and her child are norms that are widely accepted and understood, the meaning of family/workplace balance and gender equity, and the extent to which they should be encouraged, are more contestable.

In part, these issues relate to community and workplace perceptions about having children and undertaking paid and unpaid work. They also involve people’s preferences, social norms and the roles people feel they are expected to play

because of social pressures. People's circumstances (for example, incomes, job attachment and partnered or unpartnered status) vary considerably, as do their preferences for the sharing of paid and unpaid work and for the nature and extent of their future workforce attachment. Many participants commented on the difficulty of reconciling their personal and family preferences to the expectations of the workplace. Indeed, the argument for explicit recognition and acceptance by the community of parents (mostly women) as both carers and paid workers has been a strong theme in this inquiry.

This chapter looks at these issues and considers their implications for a government-mandated paid parental leave scheme.

6.2 Supporting people's efforts to balance paid work and family life

Some participants reported that their employers and workplaces responded positively to their pregnancy, subsequent parental leave and return. Examples were given of employers extending unpaid parental leave beyond the statutory requirement, facilitating return to part-time work and being supportive in relation to matters such as start and finish times, work-related travel, use of sick leave and breastfeeding at work (one participant referred to her 'breastfeeding-friendly workplace').

But the experience of others is that the workplace can be unsympathetic and unaccommodating to parents who attempt to juggle their roles in the paid workforce with the care of small children, with some alleging active discrimination. HREOC referred to complaints it had received about the treatment of women once they announced their pregnancy (trans., p. 424) and the Kingsford Legal Centre provided examples of:

... the large number of women who ... have been discriminated against during their pregnancy and also those who have had difficulty returning to work after a period of maternity leave ... (trans., p. 431 and sub. 27)

When pregnant and still at work, 22 per cent of respondents to the ABS Pregnancy and Employment Transitions survey reported problems such as missing development opportunities or receiving 'inappropriate or negative comments' (ABS 4913.0). However, 78 per cent said they did not face any particular workplace difficulties. Evidence from LSAC also indicated few concerns during pregnancy.

After the birth of their child, however, mothers experienced a range of difficulties, including employer hostility, pressure to return to work earlier than planned,

resistance to extending maternity leave, and difficulty in negotiating part-time work or more flexible working arrangements. (As noted in chapter 5, mothers typically seek part-time work after the birth of a child.) Some found that the same job was no longer available to return to, or they were offered a redundancy. More generally, parents can face workplace hostility when taking leave to look after sick children, or leaving work early to perform caring roles, even if these absences have little or no effect on workplace output.

Participants generally characterised these concerns in terms of the difficulty of achieving an appropriate work/family balance, arguing that benefits would arise were society and workplaces to make greater allowances for the requirements of family life. They saw a government-mandated scheme as an endorsement by society that it is normal and worthwhile (rather than a nuisance or inconvenience) for people in the paid workforce to take leave to have children, while maintaining their ongoing connection with their employment. In this vein, Prof Joshua Gans argued that parental leave should seek to allow parents to ‘pause’ their working life, take time off to spend with the baby and then to ‘resume’ their role in the paid workforce where they left off prior to the birth (sub. 24, p. 1).

Current workplace cultures may stigmatise the achievement of a smooth transition or blending of roles. And they affect outcomes. For example, employers’ and employees’ ambivalent social attitudes to the joint role of caring and work may reduce women’s capacity to take an active and sustained role in the workforce with the consequences spelt out in chapter 5. As the OECD observed:

As long as women rather than men take advantage of care provisions, there are employers who perceive women as less committed to their career than men, and are therefore less likely to invest in female career opportunities ... (OECD 2008, p. 21)

Paid parental leave that explicitly endorsed a period of leave for maternity reasons, and facilitated continued workforce involvement by mothers (and others who have caring responsibilities), can ameliorate such adverse attitudes and help legitimise the coexistence of caring and workforce responsibilities. But to have this effect it would need to be more than just a token arrangement. The views of many participants who argued for a scheme mandating a minimum of 12 to 14 weeks, and the observation that this is consistent with what some other countries offer, suggests that a mandated scheme of about this duration would be seen as signalling the legitimacy of the above objectives.

Recent announcements of new employer-provided paid parental leave schemes and the extent of support for a mandated scheme evident during this inquiry suggests that there may already be some attitudinal changes underway. Employer groups are also supportive, although on the condition that the scheme be wholly-government-funded. And, they point out that there are disruption and other costs when staff take

parental leave (even if this were to be paid for by government) that can hinder efforts to balance the needs of employers with the preferences of employees. The Australian Federation of Employers and Industries cited problems in such areas as:

- finding and training temporary replacements for an uncertain period of time, and reallocating responsibilities among other staff
- coping when staff extend their maternity leave, take maternity leave on multiple occasions, or do not to return to work
- retraining employees on return to work after extended leave
- handling requests for revised work arrangements for the employee (such as reduced or flexible hours) that may not fit the needs of the business (sub. 202, pp. 14 15).

Other employer representatives, such as the New South Wales Business Chamber and Australian Business International (sub. 134), Commerce Queensland (sub. 172) and the SA Wine Industry Association (sub. 137), while also supporting government-funded paid parental leave, made broadly similar comments.

Equally, though, several also pointed to the efforts businesses have made to help staff balance work and family, including by way of:

... flexible rosters and hours, flexible leave arrangements, time off in lieu of overtime, part time employment, job sharing, job rotation, home based work, voluntarily offered paid maternity leave and employer participation in child care arrangements (Commerce Queensland, sub. 172, p. 5)

The view that there would be benefits if there was greater recognition and acceptance of the dual roles of people as parents and as workers is shared by the OECD, which noted the importance to individuals and societies of reconciling paid work and family life:

Parents who wish to care for their children by giving up work should have their choice respected. Often, however, parents see no way of giving their children the care and attention they need other than by staying at home. Yet children whose parents are not in paid work are more likely to be poor, while mothers who have interrupted their careers to care for their children are at higher risk of poverty when they are older. ... The ability to generate income in a fulfilling job and the desire to provide the best for one's children, giving them the care and nurturing they need, do not have to be mutually exclusive. Policies can help parents find the right balance. (Adema 2005)

Some participants' views on these matters are contained in box 6.1.

Box 6.1 **Balancing paid work and family life: some participants' views**

Lauren Calder:

I have chosen my specific job role because I believe it is a much better work / life compromise. (sub. 23, p. 2)

Gill Coall:

I will return to work part time instead of full time ... It will be a number of years before I earn a full time wage due to the work life balance I wish to maintain, for the benefit of myself and my child. (sub. 16, p. 1)

S. Kanowski:

My primary concern on returning to work was about balancing professional demands with my responsibilities (and joys!) as a mother – I have returned part-time as a result ... (sub. 197, p. 5)

H. Cameron:

I am so grateful to my employer, they were so generous with me, if it wasn't for their flexibility and generosity I doubt if the last two years would have been as happy and blissful as they have been. (sub. 5, p. 1)

Dr Stephenson:

I felt (whether this was reality or not) that it was expected that I return to near full time work relatively quickly compared to staff in more junior positions, or else be diverted into a different position ... This felt unfair ... (sub. 189, p. 1)

Luke Bain:

Numerous studies have outlined the importance of both parents in any child's life; therefore both parents need to be able to adjust their lives so that they can have equal relative input. This may not mean that both parents are home fulltime for any period; nor must it mean one parent stays at home while the other works fulltime. Rather it is about supporting parents in achieving a work-life balance. (sub. 115, p. 1)

Jane Martin:

... it is harder for my employer now, since I have returned to work, because I am now working part time when previously I was working full time. The position I was in requires a fulltime workload and is not suited to job-sharing, therefore my employer has had to make special arrangements to accommodate me and the person who acted in my position while I was on maternity leave. ... Working part time is complicated – both for me as an employee and for my manager ... I have found it very difficult to adjust to working part time – I feel much less productive and motivated compared to working full time and I often feel like I am missing out on opportunities because they happen on days I am not at work. (sub. 170, p. 3)

S. Perrella:

With my third child, I have returned to work after 9 months primarily because I have been keen to return to a work project that is of great interest to me. I am only able to do this because of flexible work arrangements (ie. I am contracted for 12 hours per week, but can work from home for half of this time) and I am very fortunate to have access to on-site child care where I can continue to breastfeed and interact with my baby during my working day. (sub. 173, p. 1)

(Continued next page)

Box 6.1 (continued)

UnitingCare Children, Young People and Families Services:

A paid maternity, paternity and parental leave scheme would greatly assist families with the practical challenges of parenting. It also sends a message to parents and the broader community that parenting is important, that it takes time to learn the skills to do it well and that it is okay, in fact appropriate, to make parenting a priority. (sub. 104, p. 4)

Families Australia said it agrees with the OECD when it said:

Finding a better balance of work-family commitments is a key policy challenge as it influences parental labour market outcomes, family outcomes and the shape of future societies. (sub. 113, p. 5)

The Association of Professional Engineers, Scientists and Managers, Australia:

Women are leaving the engineering profession faster than men and ... one of the major reasons for this is the difficulty faced balancing work and family. ... Members ... told ... of problems they faced accessing entitlements, workforce cultures that weren't supportive of family friendly practices and a lack of options such as part-time work when going back to work. (sub. 204, pp. 2, 3)

Women Lawyers' Association of New South Wales:

Many women as well as men in the legal workplace feel pressured by their perception of how others in their workplace will perceive them. While various firms and organisations have come a long way in introducing flexible arrangements and programs to the legal workplace, the toughest barriers to overcome are attitudes based around the individual. Firms and organisations can introduce part time, job share, work from home or other arrangements, but until individual-based attitudes are overcome, men and women will not be encouraged to take advantage of the options that are available. (sub. 143, p. 5)

The South Australian Premier's Council for Women:

If women continue to be the only parent with access to extended leave for child-rearing it will undermine the position of women in the paid workforce and continue to exacerbate existing inequity in household and caring responsibilities. (sub. 233, p. 8)

Some participants argued that a mandated scheme would also encourage or at least facilitate shared responsibility between men and women for the care of children, and by extension, a greater sharing of paid and unpaid work. Conversely, others expressed concern that paid parental leave may sustain gender stereotypical roles, noting that, in Australia as elsewhere, parental leave is mostly taken by women, with men continuing their role in the (generally full-time) paid workforce. This is reinforced by the preference of many women to return to work on a part-time basis after the birth of a child. Gender equity issues are discussed later in this chapter.

6.3 Greater opportunities for fathers

Also related to the issue of work/family balance are questions about the desirability of increasing opportunities for fathers to take a greater parenting role, especially when the children are young. Some participants argued that paternity leave provides positive effects for children's longer-term emotional and educational development and support for the mother in the weeks after the birth. There is some evidence of the benefits to fathers of greater early involvement with their children (chapter 4). The OECD also referred to the key role of fathers, noting that:

If both fathers and mothers were to take time off to look after young children, there would be far less conflict between work and child development considerations. ... However, in practice, fathers rarely take off six months to care for a child on a full-time basis. Men's hours of work actually tend to increase after becoming fathers. Even among dual earner couples, women spend more time on both housework and childcare than their partners, and many feel pushed into a home-making role, whether they wish it or not. Gender inequality in care-giving within families remains widespread. (Adema 2005)

Some of this underpins proposals for partners to have the right to share parental leave, or for a separate scheme for paternity leave. The CFMEU said that:

... a policy focus on provision of paid leave to fathers will go some way to addressing gender imbalances where women continue to shoulder more of the burden of child rearing and career responsibility than their partners. (sub. 206, p. 2)

Australian Mines & Metals Association said that a recent survey of its (mainly male) membership indicated that:

... the majority of respondents were in support of paid parental leave benefits being made available to both males and females, when the primary caregiver. (sub. 121, p. 9)

HREOC found that men in full-time work voiced concern about lack of access to family life (a point that was made 'repeatedly' in HREOC consultations and focus groups):

This lack of access to family life is due in large part to workplace barriers and historical and cultural stereotypes, despite a growing interest by men in sharing the hands-on care of their children ... (sub. 128, p. 32)

There is also evidence, noted in chapter 4, that when men care for infants they are likely to be more involved in the care of their children over the longer term.

Many participants considered that unless a specified period of paid leave was exclusively designated for the father (or other alternative primary carer), employers might tacitly discourage leave, and fathers would not take it. Indeed, several

participants said that it can be difficult at times for fathers to get access to parental leave.

Exclusive ‘use it or lose it’ arrangements have been introduced in the Nordic countries and Portugal, with a significant percentage increase in their takeup (albeit from a relatively low base). Such arrangements help overcome some of the obstacles to men’s involvement in caring for newborn children. It signals that it is legitimate for them to take parental leave, and, as HREOC observed:

... sends a strong symbolic message that fathers are carers as well as breadwinners. ... this would help break down the restrictive norm of the ideal worker by normalising the practice of men taking leave from work to care for children. (sub. 128, p. 38)

A scheme that, one way or the other, explicitly includes fathers might also help break down less than sympathetic attitudes in the workplace to the difficulties women face from juggling parenthood and a job. A survey of men in the EU found that over 20 per cent indicated that a more sympathetic attitude towards parental leave from superiors and colleagues would help encourage men to take up the right to parental leave.

But a scheme should not be too prescriptive, as there is no ‘one size fits all’ model. Parental preferences have an important role to play. Different couples will undoubtedly prefer different leave and care arrangements, according to their own family preferences. As NIFTeY pointed out, ‘families differ in their needs’:

In some families it is the woman who has the permanent job and the career path or it may be the father who has a particular affinity for the baby. In these families there will be more economic advantage and possibly personal reward, and/or better parenting, if the mother returns to work. In an increasing number of families, the father more strongly desires the role of basic carer of the young child. (sub. 55, p. 8)

Moreover, it is common for men to increase their hours of paid work on becoming fathers, whether to increase family income at an expensive time or to enhance job security. Evidence from the OECD shows this is also the case in many other countries (Adema 2005). In this inquiry, many participants talked of the financial stresses that affected both the timing of the mother’s return to work and the intensity of the partner’s work effort.

6.4 Gender equity objectives

Consideration of the balance between paid work and family responsibilities and the respective roles of mothers and fathers are gender-related matters. Some participants saw paid parental leave as first and foremost a gender equity issue,

discussing parental leave explicitly in terms of women and the paid workforce. For example, Jane O’Sullivan said:

The primary aim of a parental leave provision should be *gender equity in work and careers*. (sub. 161, p. 2)

Others commented on gender equity in the context of the sharing of paid and unpaid work. For example, HREOC said that a national paid parental leave scheme for parents:

... will contribute to greater gender equality between men and women, particularly in the ability to engage in paid work, and to participate in the sharing of care for children. (sub. 28, p. 3)

Indeed, some took the view that, irrespective of the formal objectives determined for paid parental leave, its implementation would help to further gender equity aims. For these participants, paid parental leave is seen as addressing the disadvantages women face in the workplace and recognising the value of unpaid work that women do as mothers. It is also seen as increasing the degree of equity among women in the paid workforce, by providing paid parental leave to a much wider range of women than are covered by voluntary, employer-provided schemes.

Some participants argued that there would be significant benefits to women, but also to fathers and to the broader community, from measures that encouraged greater gender equity in the home and in the workplace, as well as more widespread recognition and acceptance of the dual roles of women as mothers and as employees. Some argued that both genders may be disadvantaged by stereotyped rules which see women as prime carers and men as prime breadwinners, as men miss out on the emotional benefits of bonding with their infant and women miss out on opportunities outside the caring role.

As discussed in the previous chapter, some see raising workforce participation rates of women as improving gender equity. Unlike fathers, mothers meet the demands of caring for children through lower workforce participation rates and, on return to work, a much greater propensity for part-time employment in the years usually most important for career progression. Consequently, women face more fractured careers than men and tend to have significantly lower lifetime wages. Greater labour force participation by women reduces the disparity in outcomes for females and males in the labour force, with resulting benefits in terms of retirement incomes, preservation of skills and financial independence. Indeed, some participants saw paid parental leave as providing a degree of recompense for the disparity that is currently evident in these areas.

While gender segmentation may often reflect a preferred division of labour within families, this is not always the case. And more generally, if a relationship breaks

down, a woman usually has less employment experience than her male partner, reducing her future wages and job quality, and making her (and possibly the children of the relationship) economically vulnerable.

Can parental leave improve gender equity?

Quite apart from the extent and nature of gender inequalities associated with the labour market experiences of men and women, a key question is how much paid parental leave would ameliorate such inequalities. The evidence from chapter 5 is that a carefully designed statutory scheme would improve lifetime labour market outcomes for women in several respects. However, as noted in that chapter, those gains should not be overstated:

- they would be small set against the historical improvements in women's lifetime labour market involvement
- by itself, paid parental leave will not reduce by much the gap between male and female labour force participation rates.

Some argue from a social or philosophical perspective that gender-split preferences for caring or 'breadwinning' are inappropriate socially-constructed mores that should be challenged. In that instance, encouraging female labour market engagement may help to erode those conventions. However, as in many debates underpinned by ethical and ideological beliefs, others see nothing wrong with what they view as freely chosen gender roles. What is perceived by some as undesirable from a gender equity viewpoint may be seen by others as their preferred way to organise their household.

As was apparent from submissions to this inquiry, many women prefer to stay at home full-time during their child's early life, and to later return to work on a part-time basis only. One participant expressed disappointment that:

... much of the talk around 'choice' with child care ignores the choice many parents want to make: that of being the primary carers for the babies and very young children. (sub. 197, p. 4)

Survey evidence also shows that Australian mothers working part-time were more likely to be satisfied with the hours they worked than mothers working full-time, with more than half of mothers working full-time stating that they would prefer to work fewer hours. The positive effects of work on family life were greatest for those employed mothers working 16 to 24 hours per week. Part-time hours were associated with greater wellbeing for the mother, with mothers employed full-time reporting poorer health, higher levels of psychological distress, a poorer quality

relationship with their partner and more time pressure (Baxter et al. 2008, pp. 15–16).

Indeed, some expressed concern that stereotyping of parents who choose to care for their children full time creates obstacles to choosing that option. Some submissions and personal feedback to this inquiry considered that a paid parental leave scheme would accentuate the view of some in society that paid work is what really matters.

Against that, it could be argued that paid parental leave signals the importance that society places on the unpaid work that (mainly women) do in caring for their children. A paid parental leave scheme gives a wider range of families the choice to provide one-on-one care in the early months of a child's life. Far from undermining the role of parents in caring for their children, submissions in favour of paid parental leave have overwhelmingly emphasised the value and importance of parental care, with a common theme that more – not less – parental care would be valuable for society.

Some arguments push in different directions

The arguments can push in different directions. For example, some participants, while strongly advocating paid parental leave for mothers, often on gender equity grounds, acknowledged that a consequence might be a strengthening of a gender-based division of labour – with the mother taking extended parental leave to raise the infant and organise the household while the father/partner continues in the paid workforce (commonly, as noted earlier, with greater intensity of effort – longer hours and more shifts, for example). Baxter reported that fathers of infants work an average of 46 hours a week, with a substantial number working 55 or more hours. In contrast, the average usual working hours of employed mothers with an infant was 20 hours a week (Baxter et al. 2008, p. ix). This gender-based division of labour can be exacerbated when, as is common, the mother returns to the workforce on a part-time basis.

This perspective received some recent support from the United Kingdom's Equality and Human Rights Commission, which said that generous maternity benefits had entrenched the assumption that only mothers brought up children, and had failed to achieve a greater equality of sharing of the responsibility for caring for their family (Brewer 2008). Evidence from Canada also showed that providing longer parental leave entitlements in 2001 increased the gender gap in the takeup of parental leave, reinforcing the gender division of time spent in paid work and in caring for children. Indeed, data on the amount of leave that men claimed suggests:

... that there is a ceiling on the amount of time Canadian fathers will spend at home, away from their jobs, caring for young children. ... Men may be less prepared to stay

away from their jobs because of potential consequences (such as losses in wages and/or promotions); it may also reflect their own (and their partners') inclinations and preferences. (Evans 2006, p. 124)

Similarly, in Sweden, which provides generous and flexible parental leave and includes the right to transfer leave between the parents, most parental leave days are still taken by mothers, making it difficult for women to compete on equal terms with men in the jobs market. As one participant to this inquiry put it:

For a woman, the decision to have kids impacts enormously on her career and job prospects. There is just no way around it. (Mary Doyle, sub. 45, p. 2)

While families resolve these matters according to their own preferences, part of the issue concerns societal attitudes. Social surveys (such as the World Values Survey) have shown changes in attitudes about appropriate gender roles and the capabilities of women, as has the repeal of various regulations (such as that which required women in the Australian Public Service to resign when marrying). Younger men tend to believe more in gender equality and its implications for fathers' roles in caring and in domestic duties than older generations, which also suggests changing societal norms. HREOC also cited 'attitudinal research that shows that 90 per cent of Australian men and women believe in sharing parental care' (sub. 128, p. 32).

The symbolism of paid parental leave

The absence of an explicitly named parental leave scheme clearly has strong symbolic resonance for many people so much so that a variety of suggested schemes to this inquiry involve relabelling of existing family payments into a formal paid parental leave scheme. Indeed, the social survey evidence, while not conclusive, suggests that the majority of women see universal paid parental leave as an important symbolic and ethical issue. It is supported by high income women who already have employer-based paid parental leave. Moreover, most men also support such leave, as do older people outside their reproductive years. Julia Perry provided evidence from a 2007 Newspoll survey to the effect that:

76.4 per cent of respondents were in favour of paid maternity leave, including more men than women, and a majority ... of respondents and across all other demographic categories. (sub. 8, p. 6)

As noted in chapter 1, while the consensus was not complete, the weight of views to this inquiry (whether underpinned by ideology or simply by the practical difficulties of balancing paid work and family life, especially for women) was supportive, as are comments on media websites and various media polling (although support was

somewhat moderated in polls that mentioned that paid parental leave has a price tag.)

For similar reasons, a common argument was that paid parental leave should be structured like other normal leave arrangements, such as those for recreation, illness and long service, rather than structured like a social welfare payment. Julia Perry said it should be seen as ‘income replacement for a suitable period’ (sub. 8, p. 6). The Union of Australian Women said it is not a welfare payment but should be part of all women worker’s entitlements, like long service leave, sick or annual leave (sub. 82, p. 4). Barb McGarity referred to the ‘false assumption’ that paid maternity leave is a ‘cash handout’, arguing that it is employment leave:

... just as paid sick leave or compassionate leave or paid long service leave are employment leave. It is not welfare. Nor is it a baby bonus, and the two should not be confused, as they are separate issues. (sub. 83, p. 2)

The Australian Federation of University Women SA said that women receiving welfare payments for any reason are made to appear a burden on taxpayers. In its view, paid parental leave should be viewed as ‘an earned entitlement, just as superannuation ... is seen as an earned entitlement’ (sub. 56, p. 1).

While the Commission has recommended a taxpayer-funded scheme payable at a flat rate, it sees benefits in incorporating design features (such as using employers as the paymaster) to mimic the features of other leave entitlements that have long formed part of employment contracts (chapter 2). However, several participants saw this approach as somewhat disingenuous. For example, Eris Smyth expressed concern that the proposal ‘pretends’ that the money is coming from the employer to avoid it being tainted as ‘welfare’, noting that it actually comes from the same source as the baby bonus (sub. DR394). Julia Perry said:

The Commission has stressed that its proposal should not be seen as welfare. However it is welfare, defined as a government paid flat rate payment. It is not possible to convince the community (or anyone else) that it is not welfare. (sub. DR309, p. 3)

While correct up to a point, the importance of these objections can be overstated. The taxation and transfer system serves many objectives, and not all government transfer payments can be characterised as ‘welfare’. Indeed, there are a number of transfer payments designed to support people as employees (such as child care subsidies, which facilitate workforce attachment, and student study assistance, which helps build human capital for future employment).

In any case, the distinction between entitlements provided by way of government regulation, and those provided through budgetary measures, is not clearcut. For example, from an economic viewpoint, a government requirement for employers to provide certain leave entitlements to their employees may also be broadly

interpreted as a form of tax on employers, matched with a transfer payment to employees. However, while the effects may be similar, they are not exactly the same. Recreation and sick leave entitlements, for example, are now long-standing and deeply embedded as a legitimate workplace entitlement. On the other hand, government payments and programs funded through the budget are perceived as less certain, and subject to review and change at short notice. So the way that entitlements are provided and structured can affect how they are perceived by the community.

For these reasons, the Commission has recommended that the administrative arrangements for paying statutory paid parental leave, and certain design features, be made similar to those applying to existing leave. The intention is to signal that paid parental leave should be perceived as a normal feature of employment arrangements, notwithstanding that it would be taxpayer-funded and therefore perceived by some as welfare. The Commission considers its approach should also help stimulate changes of attitude towards parents in the paid workforce who attempt to balance paid employment and family life.

6.5 Reflecting society's norms

There are (private) benefits to mothers and their partners of mandated paid parental leave of any duration. This was clear from the many submissions and personal feedback responses that talked of the difference that a period of paid parental leave would make or would have made to them. It would generate clear private benefits in the form of additional financial assistance for an unchanged period of leave, or would provide the choice of taking a longer period of leave. (For example, mothers could extend their leave, or return to work at the same time they initially planned and save recreation leave or not have to take unpaid leave.)

Such private benefits to individuals are not sufficient to make a case for government-mandated paid parental leave. The Commission has focused on how a scheme might achieve public benefits – that is, outcomes that are of value to the community but that would not arise from people's private decisions. Foremost among these are the health, wellbeing and workforce attachment issues discussed in chapters 4 and 5.

Any mandated scheme necessarily imposes costs on others, according to how it is financed and implemented. Those costs can in turn lead to other outcomes that are more equitable or less equitable (as, for example, some of the costs may fall on lower income households). This area is especially complex and centres on the treatment of employed women (and men) with children, mothers who are not in the

paid workforce, and others in the community who have to finance paid parental leave, such as those on lower incomes. Indeed, a common complaint by people on modest incomes was the perceived unfairness of being asked to shoulder a larger tax burden (or an impost on their wages) to finance what they see as the private consumption expenditure of others. Adam Johnston said:

... my concern with the whole concept is that it makes yet another part of private family life a public commodity and public controversy. Additionally, it generates yet another transfer payment (if provided by the Government) or will involve the quarantining of still more of our income (if financed by superannuation-style contributions). (sub. 63, p. 1)

As noted earlier, paid parental leave is also about work/family balance, facilitating a greater role for fathers, and improving gender equity, and such objectives have been put forward by many as desired explicit goals for paid parental leave. While there is no ‘gold standard’ that can indicate what social or ethical perspective on all of these issues is right, there are clear signs that, within the community, there is greater acceptance or agreement with at least some aspects of these views. One significant area where norms have undoubtedly been changing is in respect of the numbers of women with dependent children who are in the paid workforce.

In recent years there has been increased emphasis on work-family balance by some employers and employees, and more employer-provided parental leave. There is evidence of a shift of view within the community to favour government support for those seeking to juggle family life with a continuing role in the paid workforce. Indeed, the argument is now couched in terms of mothers taking leave from the workforce, rather than whether to work at all, as was more usual a few decades ago. Chapter 1 also noted the weight of views to this inquiry (irrespective of whether underpinned by an ideological viewpoint or simply by reference to the practical difficulties of balancing work and family life, especially for women). That chapter also noted various views advocating that there are certain rights that ought to be accepted and built into a paid parental leave scheme.

One such argument concerns the rights of children. While most submissions saw important benefits for newborn children from paid parental leave, some argued that any mandated scheme should focus explicitly on the impacts and outcomes for children, as much as for parents. The National Children’s and Youth Law Centre argued for the rights of children to be ‘a primary policy objective’ (sub. 152, p. 11), while others saw the introduction of paid parental leave as providing a clear signal that society values its children (for example, Commissioner for Children and Young People WA, sub. 75 and Commissioner for Children Tasmania, sub. DR281). As noted in chapter 1, the Commission sees the health and welfare outcomes for newborn children and their mothers as key objectives of paid parental leave. Its assessment of the nature and extent of these benefits is discussed in chapter 4.

A related issue concerns the impact of paid parental leave in cases where children are cared for by family members other than a parent. In particular, some participants expressed concern that the Indigenous kinship system often meant that grandparents and ‘aunties’ who had a primary role in the care of children in Indigenous communities would not have been eligible under the Commission’s draft proposals (YWCA Australia sub. DR410, p. 4). Several participants expressed concern that the scheme’s design should seek to address, or at least not exacerbate, Indigenous disadvantage (for example, the National Children’s and Youth Law Centre (sub. 152), the Western Australian Department for Communities Office for Women’s Policy (sub. DR371) and the Office of Women’s Policy in the Northern Territory Government (sub. DR414)).

As noted in chapter 2, the Commission is now recommending that statutory paid parental leave (or the balance not taken by the mother) could be allocated to a non-parental primary carer, in certain circumstances (recommendation 2.8). This approach would cover care by ‘aunties’ and grandmothers in Indigenous communities in those cases where the specified criteria are met. In particular, the Commission intends that the provision would typically only apply to relatives of the child or people with a kinship connection, and is not intended that paid parental leave be used as a substitute for foster care arrangements or as a way of funding child care (such as when a grandmother cared for a child while the mother went back to work).

Paid parental leave is a workforce issue

Some viewed the Commission’s proposals as involving inequitable treatment of mothers in the paid workforce and those who care for their children full-time, essentially creating two classes of mothers and two classes of families. Some participants described this as discrimination against mothers who care for their own children full time (Mrs Pearce, sub. DR393).

However, the statutory scheme proposed has particular objectives that are different to those of the welfare system (chapter 1). To be able to deliver on those objectives, the scheme needs to provide an incentive (and the financial capacity) for mothers in the paid workforce to:

- increase the time that they take off work to be with their newborn babies
- remain attached to the workforce.

The Commission expects that the scheme it has recommended will lead to improved maternal and child welfare outcomes, and increased workforce attachment by women. It should also help reduce the negative impact of the existing tax and

welfare systems on incentives for people, especially second earners in a family, to work. And it should to some extent help reduce the difficulties of juggling paid work and family life.

These are not issues for mothers who have chosen to remain outside the paid workforce to care full-time for their newborn babies. But they are central to achieving better outcomes where the mother is in the paid workforce, and where many are forced back to work early by financial circumstances. (And as noted elsewhere in this report, the evidence is that the benefits will be greater for women on low incomes. Paid parental leave may also help address the social inequalities that are an important determinant of health inequalities – see Amir and Donath (2008) on socioeconomic status and breastfeeding initiation and duration.)

Paid parental leave is a scheme that is targeted at a specific group of mothers, to achieve specific intended outcomes. It is not a universal payment because the intended impacts do not apply universally.

For the benefits of statutory paid parental leave to be forthcoming, there needs to be a financial incentive for mothers in paid work to take additional leave to spend with their newborn babies, rather than opt to take the baby bonus and limit their leave to what is already available from other sources (or exit the workforce). Paying the same amount to all mothers, as some participants have suggested, would provide much less incentive for mothers in the paid workforce to take that extra time off (or, indeed, to stay in paid work) for the same budgetary cost. Thus, much of the rationale for the proposed scheme, and most of its anticipated benefits, would evaporate. What would remain would be little more than a transfer payment (essentially, a bigger baby bonus), at a significantly higher cost than the recommended model. While this would generate clear private benefits for the recipients, it is far from clear that there would be a public policy rationale for such a payment.

There is already a wide range of government programs targeted at different families in different circumstances (and, indeed, payments to families are generous by OECD standards). Benefits such as the baby bonus, family tax benefits and child care subsidies each have their own objectives, meet the needs of benefiting families with a variety of payment and eligibility arrangements, and necessarily have different impacts (chapter 9). Such benefits are payable to families in a wide range of circumstances and at different stages of their lives. The purpose of the proposed paid parental leave scheme is to address only one particular set of needs and circumstances.

Implications for design features

The Commission was aware of a very wide range of views when finalising the design of the recommended model (chapter 2), which seeks to make gains in relation to health and workforce objectives without at the same time inadvertently adding to the disadvantage that women and their partners already face in the workforce. For example:

- the proposal that the scheme be government-funded, rather than employer-funded, is intended to avoid incentives for employers to discriminate in their hiring practices against women in the prime childbearing years
- the model allows for parents to optimise child-caring roles by proposing that mothers have choice about which partner takes the parental leave, and by proposing that a portion of leave should be quarantined for the use of fathers/partners only, on a ‘use it or lose it’ basis
- the model incorporates several design features intended to ensure that paid parental leave comes to be seen as a normal part of employment arrangements.

Implementation of the Commission’s model should lead to a range of consequential benefits in these areas, benefits that have been strongly advocated by some participants. In particular, it should lead to a greater acceptance within workplaces and the community that:

- people in the paid workforce have multiple roles over their lifetimes, including as participants in the workforce and as parents
- fathers should have the opportunity to take time away from work in the early months of their children’s lives.

Commonly held social attitudes can legitimately lead to policy changes that reflect them. While universal paid parental leave cannot be achieved through individual action, it is legitimate for governments to support widely held social norms. A government-mandated scheme would provide a signal that having a child and taking time out of the paid workforce for childrearing is viewed by the community as a normal part of work/family life for people in the paid workforce, and compatible with ongoing attachment to their employment. There was considerable support expressed during the course of the inquiry for these goals.

7 Business impacts

Key points

- The cost to business, and associated implications for female employment, of direct employer financing of paid parental leave was raised as a major concern during the course of this inquiry. General government revenue funding will avoid both the (mainly transitional) costs to business from direct employer responsibility and discrimination against female employees.
- Existing entitlements to unpaid parental leave already impose compliance and other costs on business. The additional effects on business from the Commission's specific paid parental leave proposal will mainly depend on the way the proposal influences:
 - current decisions about the duration and number of parental leave absences
 - labour force participation over the longer term
 - the provision of voluntary paid parental leave arrangements.
- The Commission's proposal will impose some compliance obligations on businesses, but the impacts on individual businesses (small and large) will be modest, and will only be felt if a parental leave occurs in any given year.
- Where employers act as 'paymasters' for eligible employees with sufficient workplace tenure, advance payment of leave instalments to employers will avoid any cash flow consequences from the paymaster function. Statutory parental leave payments made via employers should not be included for determining payroll tax or workers compensation premiums.
- Continuation of superannuation entitlements during paid parental leave absences for certain eligible employees will add to business costs. While a prima facie case for employer provision of superannuation exists, the compliance burden associated with the scheme's initiation phase and current economic circumstances suggest that implementing the superannuation component should be deferred. It should be implemented following a review into the scheme three years after its inception, subject to consideration of its impacts at that time.
- A range of program design features have been incorporated to help reduce the potential uncertainty, disruption and administrative costs associated with a statutory paid parental leave scheme, especially for small firms.
- Voluntary paid parental leave schemes reflect firm-specific employment circumstances. However, a statutory leave scheme will still deliver some benefits to firms not currently offering paid leave voluntarily. But a mandatory scheme has the potential to devalue the signal that voluntary schemes send of a firm being an employer of choice. To avoid this devaluation, the Commission anticipates that many existing voluntary schemes are likely to be retained by employers.
- The scope for a statutory scheme to crowd out voluntary arrangements also depends on its relative generosity. Firms that may have considered introducing paid parental leave in the future could choose other family friendly policies as alternative employment benefits. To the extent that such substitution reflects a set of working conditions that are more highly valued by employees (perhaps due to changing societal norms), crowding out could be viewed as a positive outcome.

7.1 Introduction

A poorly designed statutory paid parental leave scheme has the scope to affect business performance adversely, with potentially severe consequences for those firms operating at the margin of viability. Mitigating those potential risks is therefore an important consideration in scheme design. But implementation by the Australian Government of the Commission's proposed scheme itself is unlikely to pose major financial or other risks for the business community, primarily because the proposal does not involve a large direct financial contribution by firms (see chapter 8). That said, the extent to which paid leave affects parental choices about the duration and number of absences from work and parental engagement with the workforce more broadly would have both beneficial and detrimental implications for the business sector.

Importantly, those effects need to be viewed in the light of existing rights to unpaid parental leave and the many diverse voluntary schemes currently offered in Australian workplaces. This chapter looks at the impacts of the proposed statutory paid parental leave scheme on employers, with a particular focus on examining potential differences in outcomes across industries and between firms of different size. A summary of the specific business impacts from the Commission's proposal is provided at the end of this chapter.

7.2 Business costs

Employee absences impose a range of costs on firms regardless of the purpose for which the leave is taken. Those costs may include expenses incurred in hiring and training replacement staff, reduced productivity (from both the temporary and returning employee) and the costs of leave administration. The nature and magnitude of those costs will depend to some extent on the duration of leave taken, with lengthier absences (such as for long service or parental leave) generally associated with greater disruption for firms than shorter breaks.¹ Disruption costs may also be magnified in the case of parental leave because of the uncertainty about when (or even whether) an employee will return to work. Equally, the greater financial security that the paid parental leave scheme provides may make return dates more certain for a proportion of employees.

Business costs will also depend on firm-specific training investments, employee skill levels and the employment size of the firm. Larger firms employing less

¹ Alewell and Pull (2001) note the possibility that parental leave schemes that offer employees leave of intermediate duration may involve the highest disruption costs because they render work-sharing inefficient while employing replacement staff remains impractical.

specialised workers are likely to have greater scope to redistribute workloads to other employees and thus lower the potential cost and loss of productivity from training a temporary replacement. Smaller employers, on the other hand, are more likely to require replacement staff and this will entail a range of administrative and financial costs in addition to the direct wage burden.

The combined submission from NSW Business Chamber and Australian Business Industrial described the nature of the options open to firms and the associated costs:

When employees take parental leave, employers bear the expense of advertising and recruiting for replacement staff. Employers bear the substantial ‘on-costs’ associated with engaging new staff, including induction and training, and the inevitable period during which the new employee has reduced productivity. Then, before the employer is able to extract any significant return on investment, the employee on parental leave is due to return. Alternatively, some employer’s choose to ‘make do’ without the employee for the period of leave in which case, other employees are expected to work harder to pick up the slack and/or the employer loses some business capacity.

Small businesses and businesses in regional areas are particularly disadvantaged. In most cases they are not in the position to easily cover staff absence, particularly when skilled or professional staff are involved (sub. 134, p. 8)

And the Chamber of Commerce and Industry Western Australia (sub. 147, p. 15) estimated that the costs associated with employing a replacement employee were between 20 and 35 per cent higher than the employee being replaced.

Existing parental leave employment provisions already impose costs on firms

The impact on firms of the Commission’s proposal will depend on how it affects current employee decisions about leave duration and fertility. Those effects need to be viewed in the context of existing rights to unpaid leave (which will rise from 12 to 24 months under the National Employment Standards from January 2010) and the availability of paid leave (of variable duration but typically at full pay) to more than 50 per cent of women and men in paid work. The distinction between the cost of complying with existing employment conditions and the additional costs associated with a statutory paid leave scheme was explicitly recognised in submissions by most employer groups, including that from the South Australian Wine Industry Association:

If paid parental leave is fully government funded then the direct administrative and financial impacts on employers are basically unchanged. However, indirect costs would increase with any increase in participation, i.e. more employees taking paid parental leave, as employers would be required to recruit and fill the job for a temporary period. (sub. 137, p. 4)

Currently, rights to paid and unpaid leave and access to other forms of leave (such as annual and long service) mean the average length of maternity leave absences in Australia is around 37 weeks – considerably longer than the Commission’s proposal for 18 weeks of paid parental leave at the adult minimum wage. While this suggests *overall* duration effects might be modest (assuming voluntary schemes continue in their current form), the average figure masks considerable variability in the leave experiences of women and the industries and firms in which they are employed. As discussed in chapter 3, self-employed women and those on lower incomes typically return to work much earlier than more highly paid female employees (who are also more likely to have access to paid maternity leave).

The design of the Commission’s proposed scheme (particularly the setting of the payment rate at the adult federal minimum wage) will provide proportionately greater financial relief for women on lower incomes (especially those working part-time) and should elicit the greatest extension of leave duration from that cohort. But as mentioned earlier, disruption costs for firms from this group of employees is likely to be lower than for more highly skilled workers – at least for larger employers. Employer costs also need to be viewed in light of the relatively low risk of a paid parental leave event actually occurring for a particular firm in any given year, either currently, or under the Commission’s proposed scheme (see table 7.1 and appendix K).

However, for smaller firms with a high concentration of female employment, such as in community pharmacy, childcare services or hospitality industries, the risks will be greater (as will the associated variability and uncertainty) than the industry- and economy-wide averages shown in table 7.1. Indeed, in arguing against employer funding of paid parental leave the Pharmacy Guild of Australia observed that:

... women are over-represented both among professional pharmacy staff and pharmacy assistants. Over 85% of all persons engaged in community pharmacy are female. Between 40% to 50% of the female cohort are in the prime child bearing age range. (sub. 245, p. 4)

A range of factors determines the risk to a firm of a parental leave event occurring in any year, including the number of female employees and their age-specific fertility rates. The most common age for women to give birth is 31 years, with a fertility rate of 13 births per 100 women. As such, a small business employing five women of that specific age would face a 50 per cent probability that one or more staff members would have a child in that year. While this hypothetical example suggests *disruption* costs for certain small firms could conceivably be quite high, those risks already exist under current parental leave entitlements (paid and unpaid). The Commission’s leave proposal would only add to those disruption costs

substantively if it induced a large increase in fertility rates² an unlikely outcome according to a recent study into Australian fertility trends:

Family policies are more powerful in providing income support, improving child and parental welfare, and serving other social goals than in affecting fertility rates. (Lattimore and Pobke 2008).

Table 7.1 Expected number of female paid parental leave events, by industry^a and firm size
per 100 total employees, per year

<i>Industry</i>	
Finance and insurance	2.3
Health and community services	2.3
Accommodation, cafes and restaurants	2.2
Education	2.0
Retail trade	1.9
Cultural and recreational services	1.9
Personal and other services	1.9
Government administration and defence	1.8
Property and business services	1.8
Communication services	1.3
Wholesale trade	1.1
Transport and storage	1.0
Electricity, gas and water supply	1.0
Mining	1.0
Agriculture, forestry and fishing	1.0
Manufacturing	0.8
Construction	0.5
All industries	1.6
<i>Firm Size</i>	
Less than 20 employees	1.1
20 employees or more	1.9
All firms	1.6

^a Estimates derived by applying age specific fertility rates to the age and sex structure of each industry. Eligibility for paid parental leave is based on the criteria outlined in chapter 2: that is, approximately 85 per cent of all employed females are assumed to be eligible under the Commission's proposed scheme. The above estimates will exaggerate the actual incidence of the use of statutory paid parental leave since not all of those eligible will actually choose to take the leave.

Sources: ABS 2007 (cat. no. 3301.0); ABS 2008c (cat. no. 6105.0); ABS 2008g (cat. no. 8155.0); Productivity Commission calculations.

In addition, for the vast majority of smaller firms, the risks of disruption from parental leave would be considerably lower than those suggested by the contrived illustration shown above. By way of example, a recent press report covering the

² The extent to which labour force attachment increases will also increase the number of women potentially eligible for paid parental leave.

introduction of paid maternity leave by a Melbourne-based recruitment firm noted that with around 60 female employees (many aged in their twenties and thirties), only about two or three of those employees were anticipated to be on maternity leave a year (Nader 2008). Citing the general manager of workplace relations policy at the Victorian Chamber of Commerce and Industry, that report also highlighted the spread of paid parental leave across firms and that such arrangements were no longer confined to larger organisations.

But participants in sectors with a high concentration of female employment argued that the Commission's estimate of the average risk facing firms across the economy significantly understated the actual risk facing their industries. Some provided anecdotal evidence of just how high the risk of a parental leave event occurring was. The Pharmacy Guild of Australia, for instance, said:

The Guild does not agree with the Productivity Commissions assumption that the chance of an employee taking parental leave is 1.1% per year as this is not accurate for the community pharmacy industry. In fact, there is currently an example of a small pharmacy in ACT with a staff count of 20 which currently has three (15%) women on un-paid maternity leave. This example shows that the 1.1% estimate may be inaccurate for our industry. (sub. DR325, p. 2)

Hair and Beauty Australia similarly commented at the draft report hearings:

In our industry it's a very, very high probability. Looking at the career of a person, they come in as an apprentice, they do their four years, they may work for a few years and then they go off and have a baby. It's inevitable probably for close to about 95 per cent of employees. So despite the fact that the commission report recognises that it's a low probability, generally in our industry it's a very, very high probability. (DR trans., p. 500)

And in a child care context, Tadpoles Early Learning Centres (sub. DR334, p. 1) pointed to just over 10 per cent of its 261 employees (around 85 per cent of whom are aged between 20 and 40 years) being pregnant during 2008.

In line with the specific examples presented by these participants, the Commission again acknowledges that individual firms will, from time to time, face greater risks than the industry-wide averages shown in table 7.1. But equally, those risks (and the associated disruption costs) already exist under existing parental leave provisions.

For small businesses generally, the Commission estimates that just four per cent of firms with less than 20 employees will experience a parental leave event in any given year.

Employer provision of superannuation

The draft report noted that the Commission's recommendation that superannuation entitlements continue during parental leave absences would add to business costs (at least until they can be passed on to employees in the form of slower wage growth). However, the magnitude of the costs is likely to be modest, even for small firms, given the design features of the broader proposal. Superannuation contributions during parental leave would relate to the employee's wage or the federal minimum wage, whichever was the *smaller* (though employers could voluntarily pay more), would only be available to a subset of current beneficiaries as they will need to meet two sets of employment eligibility criteria, and would be a tax deductible business expense (chapters 2 and 8).

The Commission estimated the *maximum* cost to an affected business in a single year of a woman taking statutory paid parental leave would be around 3 per cent of her pre-existing employee compensation (see chapter 2). The *expected* cost to businesses in any given year would be much lower than this and would depend again on the probability of a parental leave event actually occurring.

Drawing specifically on the above example (see also box 7.1):

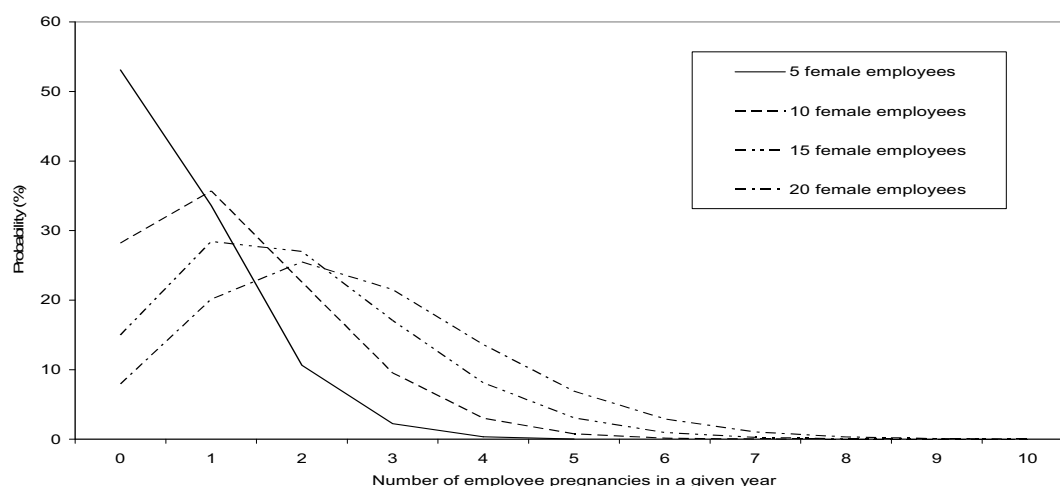
- at worst, the *expected* annual cost of superannuation contributions for a business employing just one female permanent part-time employee on the adult minimum wage would be less than half of one per cent of her annual wages (using the highest age specific fertility rate – that is, 0.13×3.1 per cent)
- a small business employing five such women would face an *expected* annual cost of just under 2 per cent of the total wage bill ($0.13 \times 5 \times 3.1$ per cent)
- the relevant share would be lower for women on higher wages because the maximum superannuation contribution payment would be 9 per cent of the federal minimum wage (though employers could voluntarily pay more) and also lower for female casuals, as they may not meet the eligibility criteria proposed by the Commission.

Importantly, from a cash flow perspective smaller firms, in particular, may need to provision for the full 3 per cent of employee compensation to meet that liability when the parental leave event actually occurs.

Box 7.1 Examples of the likelihood of employee births in small firms and the potential impact of the superannuation component of the proposed leave scheme.

The figure below depicts the likelihood of employee births for four hypothetical small businesses. These businesses employ five, ten, fifteen and twenty women who are all between the ages of 30 and 34 years — the ages at which women are the most likely to have a child. As most small businesses would not have staff solely comprising women in these age groups, the estimated costs shown below of the superannuation component of the proposed paid parental leave scheme should be regarded as maximum potential impacts.

Figure 1 : Likelihood of employee births by firm size — some hypothetical cases¹
30 -34 year old females



On the basis of these likelihoods, the Commission estimates the expected cost of employer contributions to superannuation for these four hypothetical businesses would represent just 0.3 per cent of their total payroll each year (if all female employees were earning \$35 000 per year).²

A more realistic example of the actual employment and age structure of a small business might be a firm with five female and five male employees with two women aged under 25 years, two women aged between 30 and 34 years and one 45 year old woman. Using fertility rates associated with these age groups, the expected cost of employer contributions to superannuation would be even lower, at only 0.09 per cent of total payroll per year (if each employee earns \$35 000 per year).

Notes: 1) The likelihood of an employee birth in firm is estimated using age-specific birth rates for 5 year age groups. The probability of a birth occurring for a group of women in the same age group is assumed to be Poisson distributed.

2) The Commission also estimated the expected cost of superannuation contributions would be around 2.4 per cent of net profit before tax. This assumes total payroll represents 60 per cent of gross income (which is typical of service intensive industries such as child care but much higher than the figure for industries such as retail and hospitality services). Operating profit before tax assumed at 8 per cent of gross profit.

Source: Productivity Commission estimates based on ABS (2008e).

In responding to the draft report, Catalyst Australia (a public policy network comprising unions, academics, individuals and other organisations) compared the magnitude of the financial burden on employers with the overall benefits to them from a largely taxpayer-funded scheme. It said the maximum cost to business of around three per cent:

... is very modest when balanced against the retention benefit to an employer and to the economy more generally. For this reason, we consider employers can meet the cost of paying superannuation and meeting existing [leave] accruals ... (sub. DR374, p. 3)

But many employer groups were not convinced that the costs associated with the superannuation proposal were modest and they opposed the superannuation component on those grounds. The South Australian Wine Industry Association, for example, said that even with the low risk of a parental leave event occurring, the higher cost base would result in discrimination against female employees:

Superannuation payments by employers in this instance are a direct increase to the cost of employment with no resultant productivity. While the incidence of parental leave may be low for some smaller organisations, it does not belie the fact that business costs will increase and this could act as a deterrent to employing a woman of child bearing age where that choice exists, or where 2 candidates, one male and one female, are equally considered for the vacant position. (sub. DR323, p. 2)

Others were concerned about the disproportionate impact on industries with a high concentration of female employment. In that context, Childcare Associations Australia (CAA) called for a pooled arrangement (an option not endorsed by the Commission in the draft report) to spread the cost across all firms:

CAA believes that the employer [superannuation] contributions should be a contribution from all employers and not be limited to those employers whose employees access maternity leave. Under the proposed arrangements the burden of employer contribution will be high in those industries that have a high dominance of female employees – this includes but is not limited to Early Childhood Education and Care (ECEC) service providers. It is also worth noting that many employers are subject to payroll tax and superannuation payments are included in this tax. CAA would prefer a “pooled employer” contribution as the benefits of female workforce participation are shared across the whole community – not just at the individual business level. (sub. DR407, pp. 1–2)

As touched on by CAA, some also suggested the Commission had underestimated the total costs faced by employers because the wage and/or superannuation payments made to employees during parental leave absences could be subject to (varying rates of) payroll tax and workers compensation premiums, depending on the jurisdiction and the gender of the employee. The Australian Mines and Metals Association said in that regard:

While Victoria, New South Wales, Tasmania and South Australia's legislation provides an exemption from payroll tax in respect to wages payable to employees on maternity or adoption leave, other jurisdictions (Northern Territory and Western Australia) do not. Moreover, the exemption provided in section 53 of the *Victorian Payroll Tax Act 2007* applies only to female employees taking maternity leave and male and female parents taking adoption leave and is limited to a maximum of four weeks pay, which would quite obviously be inconsistent with the Commission's proposed scheme. Furthermore, Queensland's *Pay-roll Tax Act 1971* subjects superannuation payments to payroll tax treatment, which would result in further additional costs to employers which could be avoided if the Government were to make these payments directly to all eligible employees. (sub. DR348, p. 10)

Clubs NSW referred specifically to the likely treatment of the superannuation component of the proposed scheme for payroll tax liability in New South Wales and the uncertainty surrounding whether the parental leave payment would be classified as wages:

... it would seem that employers would be liable for payroll tax under Section 17 of the *Payroll Tax Act 2007 (NSW)* ("PTA") to pay payroll tax on superannuation contributions. However, an additional complication is the lack of clarity of whether parental leave payments are considered wages or not, especially in the case when the employer makes the payment directly. Section 10 of the PTA defines taxable wages as wages payable for services performed by the employee, thereby suggesting government funded parental leave payments may not be wages. However sections 13, 14 and 46 leave open an interpretation that government funded parental leave payments might be wages.

We note that s53 of the PTA states that 14 weeks paid parental leave is not 'wages' but anything beyond this amount is, and hence attracts payroll tax obligations for non-excluded employers. Accordingly, we would assume that the first 14 weeks of paid leave will be exempt from payroll tax but not the remaining 4.

Overall, it is not clear whether or not the proposed government funded paid parental leave would attract (the state based) payroll tax. If it is deemed to then we would seek this is met by the Federal Government, as the funder of the scheme, and not employers. (sub. DR328, pp. 7 8)

The NSW Business Chamber and Australian Business Industrial were also concerned more generally about whether workers' compensation and payroll might apply to taxpayer-funded parental leave payments and the potential for increased business uncertainty:

The Draft Report has no discussion about how the system will interact with the workers' compensation and payroll tax systems. This has the potential to increase the cost of the scheme for employers. As a further complication, the definition of 'wages' for the purposes of workers' compensation and payroll tax varies across jurisdictions, although recently there has been some progress towards interstate harmonisation, particularly between New South Wales, Victoria and Tasmania. Using NSW as an example, it is clear that the interaction between these obligations and the current paid

parental leave proposal is unclear, complicated and overly dependent on the particular circumstances of the employee. (sub. DR340, p. 11)

In response, the Commission reiterates that from an employer's perspective, an employee covered by the proposed paid parental leave scheme would not be on paid leave, but rather would be using the unpaid leave provisions of the National Employment Standards. Therefore, the Commission does not consider that parental leave payments funded by taxpayers would be treated as wages for the purposes of determining payroll tax or workers compensation premium liabilities. That said, any residual legislative uncertainty regarding the treatment of the taxpayer-funded component of the scheme should be addressed through appropriate amendments to payroll tax and workers compensation statutes in each jurisdiction before the scheme is introduced.

But as noted by the participants above, any employer-funded superannuation payments would be subject to payroll tax (for those firms not exempt on the basis of their payroll size) in some jurisdictions. Using Queensland as an example, this would increase the maximum gross cost to larger employers (those with an annual wage bill in excess of \$1 million) by around \$41 per employee on parental leave (4.75% of \$881).

Although the aggregate employer impost from the superannuation component of the scheme would still be considered modest in light of the retention benefits accruing to employers, the Commission is mindful of the business compliance burden (particularly for small firms) associated with the scheme's establishment phase and at a time of considerable economic uncertainty.

Therefore, while the Commission continues to see a *prima facie* case for employer funding of superannuation on statutory paid parental leave, it is proposing delayed implementation. The Commission recommends that the Australian Government should implement this component of the scheme following a review of the statutory paid parental leave scheme three years after its inception, but subject to consideration of its operation and impact at that time (recommendation 2.14 in chapter 2). That review could also canvass issues such as whether a cash 'opt-out' on this element of superannuation would be warranted to meet the immediate financial needs of lower income families in particular (see chapter 8).

Compliance costs, cash flow consequences and increased uncertainty

The Commission noted in the draft report that the operation of the proposed scheme would also impose compliance and other obligations on firms in order for:

- an employee's eligibility to be verified

-
- parental leave payments to be made via the employer (see chapter 8)
 - the operation of the scheme to be monitored, reviewed and fine-tuned if necessary.

Employer obligations would include completion and lodgement of a parental leave pro forma detailing items such as employment duration and status, hours worked, expected leave start date and so on for each leave event. Self-employed parents, on the other hand, would need to complete and submit statutory declarations on their eligibility status and possibly provide supporting financial documentation (perhaps via a registered tax agent).

Dedicated record keeping requirements to enable program performance monitoring and government auditing (to minimise the risk of fraud) would also impose a burden on employers and the self-employed compared to current parental leave arrangements. In addition, payroll and leave systems (manual or automated) would be likely to require modification to facilitate the separate identification and distribution of the parental leave payment and, where relevant, to differentiate existing superannuation entitlements from the capped arrangements under the Commission's proposal (see chapter 2).

The Commission also noted that employers would face cash flow consequences from the Commission's preferred approach to payment delivery because there would be a delay between a business actually making the payment to its employees and then being reimbursed through reduced PAYG withholding remittances to the ATO. However, the Commission estimated the cash flow impact would be modest.

But small business representatives in particular (where parental leave absences are more likely to require temporary replacements) took exception to the Commission's view regarding cash flow consequences. Clubs NSW, for example, said that its:

... members' concern with this proposal is that this would create a cash-flow burden, especially on smaller clubs. Such clubs would already be paying the wages of the replacement employee, often subsuming the reduction in productivity until the employee gets up to speed, and may not have the sufficient cash-flow to also pay the employee on parental leave and wait to be reimbursed. (sub. DR328, p. 5)

Similarly, Master Grocers Australia commented that:

It has to be borne in mind that any employee on parental leave has to be replaced by another employee and the wages normally paid to the absent employee are provided to the replacement. Even if there was a short delay before the reimbursement is made by the Federal Government the process would place an administrative and financial burden on the employer. There is not only the additional "red tape" involved in making and claiming the reimbursement, but there is also the problem of cash flow for any small business. (sub. DR324, p. 4)

The Pharmacy Guild of Australia referred to the unique circumstances of its constituency that would exacerbate the cash flow impact of the Commission's proposed paymaster function:

About 70% of an average pharmacy's revenue is derived from the dispensing of drugs listed on the Pharmaceutical Benefits Scheme (PBS). Of this, only 20% is received at the time of dispensing the drug. The remaining 80% is paid by the Federal Government. This government reimbursement component is claimed through Medicare Australia and takes between 9 and 16 days to reach the pharmacy after the date of dispensing.

This, combined with GST being paid on stock purchased but not being charged on sales, results in pharmacies being in a significantly more difficult cash flow situation than most small businesses. ...

Therefore, unlike other small businesses, pharmacies are always in a negative cash-flow situation and this in turn creates a need to lodge monthly Business Activity Statements in order to retrieve the money paid out as soon as possible. (sub. DR325, pp. 2 3)

Hair and Beauty Australia even raised the prospect that very small employers may not have a sufficient PAYG liability to offset the initial parental leave payment:

The other issue is that given they're microbusinesses often, that's with less than five employees, if you have an employee going off on [maternity leave] and you pay your PAYG on a monthly basis, it could well be that PAYG instalments of your few other staff is not sufficient to cover the wages being paid to the employee on maternity leave. The complexity, I would imagine, in trying to recoup the difference or the cash flow issues with having to wait until such time as you have amassed enough credit in your PAYG instalments is just untenable for some of these businesses. They don't work on that level of margin that they can afford to have an extra \$2000 out of their business on a monthly basis. (DR trans., p. 499)

The Commission acknowledges these concerns, particularly given that current difficulties in accessing business credit to address short-term cash flow shortages might exacerbate such risks. Furthermore, information provided by the ATO and FaHCSIA suggests that providing credits through PAYG withholding payments would be very costly to implement compared with alternative public sector delivery systems (such as those used by Centrelink) and would also not adequately manage compliance risks (see chapter 8).

Accordingly, the Commission proposes an alternative delivery mechanism through fortnightly *prepayment* to employers of statutory parental leave entitlements by Centrelink, typically commencing around the time of the birth of the child (and triggered by the same processes that lead to payments to parents of the baby bonus). The employer would then pay eligible parents as part of their normal pay cycle. While such an approach continues to involve administrative costs for government, it

would overcome the cash flow consequences of the Commission's draft proposal and would allow more appropriate risk management by the Australian Government.

The draft report also acknowledged that the Commission's proposal might sometimes increase business uncertainty about whether an employee would return to work. This uncertainty would arise because sometimes an employee who otherwise would have formally resigned prior to the birth of their children would delay such notification in order to qualify for the higher parental leave payment as opposed to the baby bonus.

While the Commission recognises the additional compliance burdens and costs for business, it again notes the employers would only experience any impacts if an eligible mother were to give birth. In addition, the Commission has also proposed a range of measures to reduce the uncertainty, disruption, compliance and other costs associated with its paid leave scheme (see chapter 2). Those measures include:

- closely aligning the design of the proposed scheme with the forthcoming National Employment Standards
- advance payment of statutory parental leave instalments to employers acting as paymasters to avoid any cash flow impacts on those firms
- providing evidence-based guidance to employers on how to minimise disruption costs
- increasing the proposed notice period required under the National Employment Standards for employees extending leave beyond the originally indicated date from four to six weeks
- introducing a 'keeping in touch' provision similar to that in the statutory United Kingdom parental leave scheme and a range of voluntary Australian paid schemes (see, for example, BP Australia, sub. 210 and Diversity Council of Australia sub. 239).

7.3 Business benefits

Many firms currently provide paid maternity leave on a voluntary basis. These firms are typically, but not exclusively, larger employers of professional and other highly skilled workers operating in primary labour markets. Key motivations for the introduction of paid leave arrangements have been to:

- provide a signal that the employer is 'family-friendly' and values female staff (and hence is an employer of choice)
- increase employee loyalty and promote higher retention rates (thereby avoiding re-hiring costs and fully exploiting investments in training).

A number of submissions from employer groups pointed to these and other specific benefits from voluntary paid parental leave, including that from the Diversity Council of Australia (an employer advisory and strategy organisation), which said:

Leading employers have long recognised the benefits of paid maternity leave to productivity and business which include:

- Attracting and retaining talented employees;
- Protecting the significant investment in training and developing employees;
- Improving staff retention and reducing turnover; and
- Supporting family-friendly practices in workplaces as crucial to keeping skilled workers. (sub. 239, p. 4)

GM Holden focused on retention issues and the associated loss of firm-specific training investments as key determinants in the introduction and modification of its scheme:

... the inability to retain more than one third of these female employees [even with 6 weeks paid maternity leave] was a significant issue given the investment over time in their skill development and the loss of corporate knowledge. (sub. 222, p. 5)

Empirical evidence does indeed point to retention benefits from paid leave schemes. Studies in the United Kingdom, for example, have found maternity leave entitlements induced more women to return to their previous employer within seven months than would otherwise have been the case (see chapter 5). Interestingly, the greatest impact was for less educated lower skilled women, highlighting the importance of financial constraints for low-income families. These findings also imply that the introduction of statutory paid parental leave in Australia would disproportionately affect the labour force participation rates of women on lower incomes (see below).

Increasing recognition of retention benefits have led to a proliferation of voluntary schemes over the past five years, which has extended coverage of paid parental leave to over 50 per cent of women and men (see chapter 3). But while that trend could be expected to continue in the absence of a statutory leave scheme, it is unlikely to lead to (anywhere near) universal provision because attraction and retention are less important issues for firms that mainly employ lower skilled workers who are less costly to train and replace.

In arguing against employer funding of paid parental leave, the Australian Federation of Employers and Industries specifically cautioned against assuming the benefits from voluntary schemes were relevant to all firms:

Why hasn't paid maternity leave, or more recently parental leave, with all its purported benefits been more widely adopted? ...

Where benefits are derived, for example, where staff retention is an issue, in attracting skilled staff, or for corporate marketing purposes, employers will offer whatever benefits they see as relevant for their circumstances and which may be sustainable. However, where there are no offsetting gains, parental leave is an additional on cost incurred as for other payments for time not at work arising from various forms of leave annual, long service, study, public holidays, personal and carers etc. (sub. 202, p. 14)

That view regarding the differential nature of retention benefits among firms from paid parental leave, and the implications for funding a statutory scheme were shared by other employer interests including the Australian Chamber of Commerce and Industry (sub. 135), Australian Industry Group (sub. 182) and the Chamber of Commerce and Industry Western Australia (sub. 147). However, while the value of employee retention may be outweighed by the cost of paid leave for those firms that do not currently provide paid leave, a paid leave scheme would still be of some benefit to them (and that benefit should be realised under a largely taxpayer-funded scheme). The importance of retention to all firms is also likely to vary in line with the business cycle and labour market conditions, with Australia's experience of widespread labour shortages in recent years a case in point.

More broadly, there would be other benefits (beyond retention) accruing to all businesses from a statutory scheme if it were to:

- reduce wage pressures (in general and for lower skilled women in particular) as a result of increased workforce participation of women
- raise productivity as a result of improved maternal well-being and morale from more preferred work/life choices.

However, there is also a risk that a statutory scheme (regardless of how it is funded) would devalue the signal that voluntary leave arrangements send to existing and prospective workers about firms being an employer of choice. As a result, firms on the cusp of introducing their own paid leave schemes could be dissuaded from doing so. While this could affect the ability to retain and attract staff, the actual outcome would depend on how firms currently offering paid parental leave respond to the introduction of a statutory paid leave scheme.

7.4 Effects on existing voluntary schemes

The impact of a statutory scheme on the behaviour of firms currently (or prospectively) offering paid parental leave will depend, in part, on the relative generosity (duration, payment level and eligibility conditions) of existing arrangements compared to the taxpayer-funded alternative (see box 7.2).

The more generous the statutory scheme, the greater the potential that a firm will withdraw or reduce the generosity of its own arrangement. The Commission noted in the draft report that should the government introduce a statutory scheme, a firm currently (or prospectively) offering paid leave could respond in several different ways, including by:

- abandoning its scheme (or plans for one), with employees then relying solely on benefits provided by the statutory arrangement (in other words the statutory scheme crowds-out existing and future voluntary schemes)
- continuing existing parental leave benefits in parallel with statutory entitlements
- topping-up payments from the statutory scheme to full replacement wages for the duration of the statutory arrangement
- providing alternative/additional employment benefits in order to differentiate itself from other firms and signal it is an employer of choice.

Participants' views on the likely outcome were mixed. Some considered the risk of crowding-out was high. For example, the Centre for Independent Studies noted:

It must be assumed that if a taxpayer-funded scheme is introduced, some employers who currently offer paid maternity leave will stop providing it, transferring a cost that is now borne by business to the taxpayer. (sub. 89, p. 9)

The Brotherhood of St Laurence shared that view and commented on the efficiency implications:

A relatively straightforward option to administer is for the government to fund a paid parental leave scheme out of general revenue. A universal system would be expensive, however, and could lead to higher taxes which might not be politically desirable. As many employers already provide paid leave, this kind of system would crowd out this funding and thus not be a very efficient way of spending taxpayer dollars. (sub. 92, p. 3)

Others, including the ACTU (sub. DR365, p. 11), referred to a recent media report stating that six of nine firms surveyed had '... refused to commit to keeping their schemes once the Government introduced its own.' (Rehn 2008). The ACTU (and a number of other participants) then called for the application of a 'no disadvantage' test to ensure no employee was worse off as a result of the introduction of the statutory scheme (see below).

Box 7.2 **Features of selected voluntary paid parental leave schemes**

AMP Limited

- full pay for the first 14 weeks of leave or half pay for the first 28 weeks
- leave can be taken as a single block or over multiple time periods
- available to male and female employees and for adoption

ANZ Banking Group

- a lump sum of 12 weeks full pay at the beginning of parental leave, or full pay for the first 12 weeks of leave or half pay for the first 24 weeks of leave
- no minimum service period to qualify

Australian Securities Exchange

- 6 weeks of leave at full pay with an additional week of paid leave for every year of service up to an additional 6 weeks

GM Holden

- 14 weeks leave at full pay or 28 weeks half pay for employees with two years service (6 weeks full pay or 12 weeks half pay if service period greater than one year and for casuals with more than one year's service)
- can be taken as a lump sum at beginning of leave period
- available to male and female employees (as primary carers)

Goldman Sachs JBWere

- 16 weeks leave at full pay with the option to take half pay for 32 weeks

Lend Lease

- 14 weeks at full pay to all employees (male and female) after 12 months of service

McDonalds Australia Limited

- 8 weeks leave at full pay after 12 months continuous service (or part-time equivalent), 4 weeks paid on commencement and 4 weeks on return

Myer

- 6 weeks leave at full pay for permanent staff with at least 18 months service

National Australia Bank

- lump sum of 12 weeks full pay at the beginning of parental leave, or normal pay for the first 12 weeks of leave, or half pay for the first 24 weeks

Rio Tinto

- 12 weeks leave with 8 weeks paid at commencement (by normal pay cycle, lump sum or half pay for 4 months) and 4 weeks on return (no minimum return period)

Slade Group

- \$100 per week for up to 52 weeks for female employees with at least two years service history (\$150 per week for those with at least four years service history)

Woolworths

- 8 weeks at full pay with 6 weeks paid at commencement and two weeks on return, for staff employed continuously for two years on full or permanent part-time basis

Sources: Gough 2008, Nader 2008, sub. 222, sub. 239, sub. 251.

But employer groups took a different position. Commerce Queensland, for example, highlighted the importance of being an employer of choice as a key reason why firms would maintain existing arrangements:

HREOC believes that it would be unlikely that employers who currently provide paid parental leave would seek to remove this entitlement if the Government introduced a national paid parental leave scheme that provided a minimum entitlement for women in paid work. Commerce Queensland shares this opinion. Those employers that currently provide paid parental leave do so on the basis of the business case in their workplace and in order to be an employer of choice. Providing a payment above the government minimum entitlement will continue to benefit these businesses. (sub. 172, p. 15)

The Catholic Commission for Employment Relations added that employer of choice motivations were an accepted theme in human resource literature.

Attraction, recruitment and retention are crucial issues facing Australian employers. Becoming and remaining an ‘employer of choice’ is a constant theme in human resource management literature. Retaining existing private paid parental leave schemes is one mechanism to distinguish one employer from another. (sub, DR337, p. 8)

The Chamber of Commerce and Industry (CCI) Western Australia went further in pointing to the statutory obstacles that would prevent crowding-out:

CCI submits that an employer already offering a voluntary scheme would not be able to either abandon, continue in “parallel” or “top-up” an existing scheme in response to the introduction of a statutory scheme without altering the contract of employment (any such alteration requiring agreement with both parties). If an employer has provided for paid parental leave in their employment contract, they will be required to continue with this payment to all existing eligible staff, who would receive their employer entitlements on top of their statutory entitlements. (sub. DR316, p. 5)

The Commission acknowledges the protections provided to existing employment conditions by industrial relations legislation³ including through a ‘no disadvantage’ test applied to collective agreements and designated awards by the federal Workplace Authority.⁴ But it also notes the information provided in the submission by the Finance Sector Union (sub. DR306, pp. 17 21), which highlights the divergence between parental leave benefits contained in some industrial agreements (the basis of the employment contract) and the more generous benefits actually provided by employers (at least in the finance sector). In that context, some employers could reduce the duration of their voluntary schemes without being in breach of the employment contract.

³ Under the Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008.

⁴ The no disadvantage test to be introduced on 1 July 2009 under the Fair Work Bill 2008 will only apply to the minimum employment conditions contained in the NES.

Other employers put on record their intention to maintain their existing schemes or introduce hybrid arrangements. For example, the Tasmanian Government said it:

... expects to continue the existing parental leave benefits for State Service employees in conjunction with the proposed new statutory entitlements, but notes the Productivity Commission's findings that full replacement wages during the additional proposed 18 weeks statutory leave for highly paid women would be very costly and, given the already high level of attachment to the workforce, would have few incremental labour supply benefits. (sub. DR411, p. 8)

And GM Holden reported that its employees would be no worse off following the introduction of a statutory scheme:

Although only at the exploratory stage, GM Holden would be interested in combining any new statutory arrangements with those we have already in place for our employees.

GM Holden would therefore want to have the ability to combine the two schemes into a hybrid arrangement as long as our employees would not be disadvantaged. For example, in relation to the leave for the mother or primary carer, GM Holden would be interested in re-organising the funding provided by the statutory 18 weeks paid leave at minimum wages and combining it with our current provisions to form some kind of hybrid arrangement. (sub. DR388, p. 6)

Finally, the Business Council of Australia (which represents Australia's top 100 companies) stated that the introduction of a statutory scheme:

... will allow investments to be made by them in some other supports that facilitate the work/family operation. Access to reasonably priced and quality child care, flexible working arrangements and breast feeding facilities are three of those most highly valued. (sub. DR288, pp. 1-2)

On balance, the Commission continues to consider that, given the specific proposed design of the scheme, it is unlikely that there would be a wholesale withdrawal of existing paid parental leave schemes. This is because of the higher (full-wage) payment rate under voluntary schemes for most employees (see below), the negative signal regarding the firm being an employer of choice that outright withdrawal would send to a firm's workforce and, to a lesser extent, the industrial relations attention that such a response would inevitably invite.

Even were crowding out to occur sometimes, there are potentially considerable difficulties in applying a no-disadvantage test. These include that:

- a proper test would need to take account of the fact that employers can re-configure the package of benefits. A test would then need to consider how all elements of the package of employee benefits might have changed after the introduction of a statutory scheme. In practice that would often be difficult and time-consuming

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- any response by an employer might take some time, and it would be hard to determine the appropriate counterfactual against which to measure disadvantage. For example, say that one month after the government introduced a statutory scheme, the employer reduced their leave provisions, but paid a wage increase of two per cent. It could be that the two per cent represents reconfiguration of the package of benefits or it could be an increase that was going to happen anyway.
 - sometimes particular employees might be disadvantaged, even if many employees were advantaged by a change in a private scheme. For instance, suppose an employer initially offers 8 weeks of full replacement paid parental leave. After introduction of a statutory scheme, it then offers to substitute its existing scheme with one that top ups the statutory scheme to full replacement wages for the full 18 weeks. So an employee getting \$1200 a week for 8 weeks would now get a total of \$21 600 instead of \$9600, with the employer contribution rising by \$2212. However, an employee getting \$700 week would have a reduced net employer contribution of \$2800. This raises the question of whether a no disadvantage test would need to apply at the individual or enterprise level, with the former more difficult than the latter.

Nonetheless, the Commission cannot say with certainty how businesses generally will respond to the introduction of its proposed scheme. Anecdotal evidence from the operation of the taxpayer-funded leave scheme in New Zealand indeed suggests that firms continued to offer their voluntary arrangements (in addition to the statutory provisions) after the statutory scheme was introduced. Against that background, the Commission would expect that many Australian businesses would restructure their existing leave schemes to top-up government funded leave to full replacement wages and then use the balance (if any) to extend the period of leave at full pay.

However, the Commission also presented examples in the draft report of firm-specific employment circumstances that may be affected by its proposal. For instance, a minimum wage payment could be considerably more generous for part-time employees than the parental leave benefits currently offered by their employers (especially if voluntary payments are taken at half pay). On that basis, firms with a high concentration of part-time staff may be influenced, other things being equal, to withdraw a voluntary scheme (or restrict eligibility to full-time staff alone).⁵ Conversely, if voluntarily provided benefits are comparatively low, the provision of an additional statutory payment may increase retention levels for these firms.

⁵ Equally, the eligibility conditions in the Commission's proposal are much broader than some voluntary schemes in that they do not exclude casuals or non-permanent part-time employees and require only 10 of the previous 13 months in continuous employment (rather than 18 month or 2 year eligibility periods with the same employer for some schemes). Those features may also influence decisions on the nature of existing voluntary arrangements.

Overall, it would be prudent to, at the very least, monitor the reaction of firms that presently offer voluntary paid leave schemes. Should a pattern of behaviour emerge indicating that firms were systematically abandoning voluntary schemes, some form of policy response may be appropriate. Given that large scale withdrawal would undermine the objective of increasing the time parents can spend with their newborn children, re-consideration of who finances the statutory scheme (either in whole or part) would be one policy option worth investigating. An assessment of the statutory scheme's impact on voluntary arrangements and the most appropriate response should be an element of the review of the scheme to be undertaken three years after its introduction (chapter 2).

Finally, the use of voluntary paid parental leave schemes as signals that firms are employers of choice means the availability of a statutory scheme may (depending on the relative generosity) serve to lessen the strength of that signalling. This may motivate firms that may have considered a voluntary scheme in the future to offer an alternative benefit to specific employees they wish to attract or retain (such as other family friendly policies like in-house childcare facilities). To the extent that such substitution reflects a set of working conditions that are more highly valued by employees (including because of changing societal norms), crowding out could be viewed as a positive outcome.

Box 7.3 **Summary of business impacts**

The impacts on business from the Commission's paid parental leave proposal would be constrained by:

- government initially funding all of the scheme's cost, with the possible future implementation of superannuation contributions by business
- deferring the implementation of the superannuation component until completion of a review of the scheme three years after its inception, and subject to consideration of its legal and other administration issues for government, and its effects on the viability and compliance costs of the business sector at that time
- limiting the *mandated* super contribution rate to the statutory rate (currently 9 per cent), even if the business usually paid more than this (but with scope for parties to privately negotiate higher amounts)
- restricting these contributions to employees who
 - passed the eligibility requirements for statutory paid parental leave (in particular, the 330 hour, continuous employment test) and
 - received super entitlements before going on paid parental leave and
 - were eligible for unpaid parental leave under the National Employment Standards (NES)

The maximum financial cost (including superannuation) in respect of any employee would be 3.1 per cent of usual annual salary cost (reducing for those on higher incomes). A significant number of small businesses would not face any costs from parental leave in any given year.

The employer would act as the paymaster for government. Using their usual pay cycle, they would pay an employee on paid parental leave the federal minimum wage, but only where the employee was entitled to unpaid parental leave under the NES.

Where an employee worked with multiple employers, the employer allocated the tax free-threshold for PAYG withholding purposes would act as paymaster.

The government would fully reimburse the employer in advance for any paid parental leave payments to be made to eligible employees.

The business would only face additional compliance costs when an employee was on paid parental leave — with no change otherwise.

Compliance costs would be minimised by using existing administrative systems, advance payment of statutory parental leave instalments and better leave notice arrangements than under the current NES.

Business would benefit from a scheme through higher employee retention rates.

8 Financing and delivery options

Key points

- Mandated paid parental leave, whether financed from general government revenue, businesses or employees, affects people's choices about investment, consumption, saving and employment. The extent to which those choices are altered is a measure of the economic or efficiency costs associated with financing parental leave.
- Direct employer financing would place most of the costs of a scheme initially on those businesses that have higher proportions of female employees, with:
 - risks of discrimination against potential parents — particularly younger women
 - significant transitional impacts on those businesses, including increased failure rates, as wages and prices cannot be changed quickly
 - long-run downward pressures on wages in female-intensive occupations, such as child care services — accentuating gender wage inequality.
- A pooled employer funding arrangement that spread the costs among all firms and (ultimately) employees would avoid the problems of direct employer financing. This would operate like a small payroll tax, with generally low long-run efficiency costs. But it would involve adverse transitional impacts to firms until future rounds of wage negotiations, a comparatively high administrative and compliance burden and goes against the principle of tax simplification.
- Parental leave savings accounts are another funding option. Such accounts would deliver much the same benefits as a common funding pool, but would be more complex to design and involve higher efficiency costs. They would also share the disadvantages of pooled funding.
- Income contingent loans used to supplement a base taxpayer-funded scheme would give families the choice of extending the time spent with young children beyond that needed to meet the primary objectives of the Commission's proposed scheme. Should the Government consider increasing the generosity of the scheme in the future, income contingent loans could provide an appropriate low cost option for doing so.
- A concessional business tax arrangement would encourage business 'top ups' of a statutory scheme, but would favour employees more likely to have access to paid parental leave, involve budgetary risks and have scope for unintended outcomes.
- While government funding is likely to involve higher efficiency costs than a pooled employer funding arrangement, the current review of Australia's tax and transfer system provides an opportunity to reduce those costs. Redirection of baby bonus and other expenditures to the paid parental leave scheme will also reduce the efficiency costs of raising additional government revenue. Administrative and compliance costs are likely to be lowest using government financing, and it spreads the cost of any scheme broadly among the community.
- Centrelink would be the most effective administrative vehicle for the scheme. Where an employee has sufficient workplace tenure, Centrelink should forward payment (in advance) to their employer, who would then pay eligible parents as part of their usual pay cycle. Other eligible parents should be paid directly by Centrelink. There is a prima facie case for employer provision of superannuation contributions, but its implementation should be deferred. It should be implemented following a review into the scheme three years after its inception, subject to consideration of its impacts at that time. Accrual of other leave entitlements could be revisited at that time.

8.1 Introduction

Explicit policies mandating the provision of paid parental leave are well-established features of employment arrangements in a number of countries. Most rely on social insurance financing that pool contributions from employees and employers. However, in some countries (for example, New Zealand and the United Kingdom), funding is provided through general government revenue sourced, ultimately, from taxpayers. And in countries like Germany, employers are required to contribute a substantial share of an employee's remuneration while on parental leave. Participants to this inquiry suggested a range of financing options, some of which involved a 'user-pays' component. Those options included employer provision (direct or pooled), portable leave savings accounts, income-contingent loans, business tax concessions and funding from general government revenue.

This chapter evaluates alternative financing options for a mandatory paid parental leave scheme in Australia. In particular, it focuses on the incidence of, and incentives created by, different models and their implications for economic efficiency, equity (or fairness) and simplicity. It also discusses the options against the backdrop of some specific issues raised by the terms of reference, namely:

- the employment of women, their workforce participation and earnings and the workforce participation of both parents more generally
- the cost-effectiveness of alternative models.

Ultimately, the choice of funding source will influence the effectiveness of a program in meeting its objectives. As such, the relative ranking of different objectives will be an important issue in choosing the best funding model. A summary table of the advantages and drawbacks of each individual funding option is presented at the end of this chapter.

8.2 Direct employer financing

In considering the desirability of alternative funding sources, an important issue is the extent to which each of those options affects the behaviour of firms, employees and taxpayers. Generally speaking, the greater the behavioural response to a specific funding alternative, the higher the associated economic or efficiency cost. However, those impacts should not be confused with the desirable behavioural change that a paid parental leave scheme is designed to elicit – primarily to extend the time parents spend with their newborn children and to strengthen workforce attachment of women. But the benefits of this intended behavioural change will need to be weighed against the efficiency costs associated with raising revenue to fund the parental leave scheme.

In the context of direct (or mandated) employer provision, the risk of unemployment looms as a major efficiency concern because employees that take parental leave will impose higher costs on firms than those who don't. As discussed in chapter 7, those costs may include expenses incurred in hiring, training and paying replacement staff, reduced productivity (from the temporary and returning employee), leave administration and the uncertainty that lengthier absences inherently involve.

The risk of discrimination (especially for younger women employed in smaller firms) was the focus of a number of participants to this inquiry in arguing against employer funding. The submission from Professor Joshua Gans outlined the nature of the problem in the following way:

... by making leave a mandated entitlement, it increases discrimination toward those who are statistically or have revealed themselves to have a preference to actually take that leave. This is because employers face costs of temporary worker turnover (something that is more likely to be an issue for smaller than larger firms) and so, in choosing which workers to hire, promote and train, there will be a commercial bias toward the non-family oriented. (sub. 24, p. 4)

The Brotherhood of St Laurence commented specifically on the skill characteristics of the women most likely to be at risk:

... requiring business to pay is likely to lead to discrimination against women of child-bearing age and adversely affect the hiring of women, particularly those with low skills. It could also adversely affect small business. (sub. 92, p. 3)

And employer groups such as Commerce Queensland highlighted the implications of employer funding for industries with a high concentration of female employment:

Existing gender demographics in the workforce would mean that the cost of paid parental leave would impact disproportionately on certain industries and businesses (sub. 172, p. 10)

In assessing the likelihood of these outcomes, the Commission notes that employer funded mandates are widely used in the United States and Europe to provide a range of *universal* employment benefits such as health and unemployment insurance, workers compensation and pension entitlements as well as *group-specific* benefits related to childbirth expenses and parental leave, which raise the cost of employing a demographically identifiable group of employees.

A range of studies have sought to determine the economic consequences of these arrangements, with the general findings being that the costs of mandates are largely, if not completely, shifted to the wages of the employees receiving them, with little impact on employment (see, for example, Gruber and Krueger 1991, Krueger 1993, Gruber 1994a, 1994b and Ruhm 1998). While this suggests the risk of job

discrimination is low (with low associated efficiency costs) from employer funding, it also means greater wage inequality – a concern raised in the submission by the Centre for Independent Studies in the specific context of parental leave:

While the relationship between wages and employment conditions is complex, this may suggest that universal employer-funded maternity leave would push women's wages down and increase the gender gap. (sub. 89, p. 9)

Over the longer term, the greatest impact on gender wage equality is likely to be felt in occupations dominated by female employees such as child-care services, health and community care, retail trade and the hospitality industries. But there would still be significant transitional impacts on firms in those industries until wages were able to adjust or prices raised (see below).

Importantly, the international evidence implies barriers to wage adjustment, such as anti-discrimination laws, relative pay norms (like equal pay for equal work) and minimum wage conditions, are not active in those countries where the research was based. But this is highly unlikely to reflect the situation in Australia for two reasons. In the United States, for example, the minimum wage is considerably lower than that in Australia and applies to a much smaller proportion of employees.¹ Secondly, the share of Australian women whose pay and conditions are set through collective agreements and industrial awards (which to the Commission's knowledge would not provide scope for employees to receive different pay rates in lieu of employment conditions for which they might prospectively be eligible) is also considerably higher than in the United States.²⁻³⁻⁴

The different nature of Australia's industrial landscape therefore means that employers would bear at least some of the cost of providing paid parental leave and

¹ Around 10 per cent of employees are paid at the minimum wage in Australia (currently \$14.31 per hour). According to the US Department of Labour, 2.3 per cent of all hourly paid workers had wages at or below the minimum in 2007 (currently \$US5.85 per hour) though this figure does not include salaried and other workers not paid by the hour but whose effective hourly earnings may be at or below the minimum.

² According to the ABS (2007), 68 per cent of Australian female employees had their pay set either through an award or collective agreement in 2006. The remaining 32 per cent were subject to an individual agreement. The recent prohibition of new Australian Workplace Agreements will reduce the latter share in the future. According to AMMA (1999), collective bargaining coverage in the United States was less than 20 per cent.

³ As the costs of paid parental leave provisions in awards and collective agreements will be passed on to all employees covered by those arrangements (regardless of whether they benefit from such a provision), this implies that there will be larger associated efficiency costs compared to paid parental leave provisions negotiated in individual contracts.

⁴ The Commission notes recent Australian research (Edwards 2006) which found evidence of negative wage differentials associated with eligibility for maternity leave in the Australian labour market. That study did not explicitly address this issue of institutional wage rigidities.

this will increase the risk of employment discrimination against younger women. It also means that the financial viability of smaller firms and those with a high concentration of female employment could be compromised. (As discussed in chapter 7, the magnitude of the financial risk will depend on the probability of a parental leave event actually occurring.)

In summary, the Commission does not favour direct employer financing, either as a stand-alone funding option, or as a compulsory top-up to a taxpayer-funded scheme (as suggested by several participants) because it would place most of the costs of the scheme initially on those businesses with higher proportions of female employees, with:

- risks of discrimination against potential parents particularly younger women
- significant transitional impacts on those businesses, including increased failure rates, as wages and prices cannot be changed quickly
- long-run downward pressures on wages in female-intensive occupations, such as child care services accentuating gender wage inequality.

8.3 Pooled levy arrangements

The financial risks to employers and the potential for gender-specific discrimination from a mandated parental leave scheme would be considerably reduced through the introduction of a pooled funding arrangement. Such an arrangement, typically involving a levy on all wages and salaries, would spread the cost of providing leave across all employers and all employees irrespective of whether any employees actually took parental leave. The breadth of that levy base also means it would be a potentially efficient financing mechanism because it would require a comparatively low tax or levy rate to raise the necessary funds. Indeed, based on the Commission's estimate of a \$1.4 billion gross funding requirement per year (including the superannuation component), this represents around 0.3 per cent of total economy-wide wages and salaries in Australia in 2006-07 (ABS 2008d).⁵

A number of participants acknowledged the advantages of a pooled funding approach and some also commented on the specific form that it should take. For example, the joint submission by the Australian Catholic Council for Employment Relations and Catholic Social Services Australia said:

Pooled funding would avoid disproportionate impacts on sectors employing more women and would be an important safeguard against gender-based workforce

⁵ By way of comparison, the Medicare levy which is set at a rate of 1.5 per cent of taxable income, raised \$6.1 billion in 2005-06 (ATO 2008d).

discrimination. Employer contributions should be assessed on a measure such as staff numbers or payroll, rather than on the number of staff actually using or likely to use paid parental leave. All employers, not only those employing many women of childbearing age, should contribute towards the scheme. (sub. 225, p. 15)

The Public Interest Advocacy Centre concurred in recommending that a levy-based pool be used as a supplement or top-up to government funding. It suggested:

... that the Federal Government fund 26 weeks paid maternity leave at the minimum wage level and that employers should pay the gap between minimum wages and the worker's actual wages; this could be achieved by employers paying a contribution into a central pool, to be distributed as needed. The size of the contribution employers would be required to make would be determined by staff numbers or payroll size, thus relieving the burden on small business. Potentially, businesses deemed too small to pay payroll tax could even be exempt.

This type of arrangement, which creates a collective responsibility for funding paid maternity leave, reduces the prospect of discrimination against women of child-bearing age. (sub. 226, p. 11)

Others considered that both employers and employees could share responsibility for a pool that would supplement existing baby bonus expenditures. In that regard, the National Foundation for Australian Women (sub. 54) and Julia Perry (sub. 8) commented that as well as providing portability of benefits (which would promote workforce attachment), such an arrangement would not be administratively burdensome for employers as it could be incorporated into existing PAYG tax collection arrangements. Julia Perry suggested the scheme:

... would be funded through a levy on employers of around 0.5 per cent of the total wage bill and on all employees of around 0.5 per cent of wages. The Government's contribution would be the Baby Bonus (re-named maternity allowance) which is provided to all women giving birth regardless of previous workforce attachment and, at \$5000, is equivalent to \$192.30 a week over 26 weeks. (sub. 8, p. 4)

Some called for even more generous benefits, with Dale Key (sub. DR294) proposing that employees, employers and the Government each contribute five per cent of an employee's gross annual wage to fund a parental leave benefit equivalent to 75 per cent of that wage after five years.

Employer interests, on the other hand, argued that Australia was relatively inexperienced in the use of pooled funding arrangements (especially compared to European countries that rely on mandated social insurance schemes to finance an extensive range of welfare and other benefits). That inexperience meant their application in the paid parental leave area would be costly, problematic for administrative and governance reasons and also inevitably lead to demands for the pool to be expanded to cover additional entitlements such as long service leave and

redundancy payments. For example, the Australian Industry (Ai) Group said in this regard:

Social insurance/trust fund models pose particular problems. These include administrative costs and complexities, compliance and enforcement issues, and difficulties with meeting funding requirements particularly in the initial phase. (sub. 182, p. 24)

But this position ignores several well-established models of pooled funding used in an Australian context. Prominent examples include compulsory third party insurance arrangements that pool risk to provide benefits for individuals injured in motor vehicle accidents and workers compensation schemes that apply to those injured or incapacitated in a work-based context. In those cases, premiums are collected, pooled and managed according to specified prudential standards either by public statutory authorities or private firms in order to provide sustainable benefits to individuals injured or incapacitated on a no-fault basis.

In looking at the impact of a pooled levy arrangement, it is important to recognise that the distinction between a levy imposed on employers or employees is largely artificial because the actual burden of the levy will *eventually* fall on employees.⁶ This outcome was explicitly acknowledged by some participants to this inquiry with the Centre for Independent Studies, for example, commenting that:

... levies imposed on all businesses will ultimately be absorbed by all employees' wages ... (sub. 89, p. 9)

In the short-run, however, the fixed duration of existing collective agreements and individual contracts means that employers would bear the cost of the levy at least until those arrangements expire. Similarly, time lags involved in the review and amendment of minimum pay rates (which would take account of changes to employment costs and the capacity of employers to pay higher wages) means there would be a de facto increase in minimum wages in the near term. Those rigidities would place additional financial pressures on some businesses, possibly making some firms unviable.

Adjustment costs aside, the key issue in deciding whether to collect the levy from employers (through say a payroll tax) or employees (as is the case with the Medicare levy) and how those funds should be administered comes down to which option involves the lowest administrative, compliance and efficiency cost. As noted by the National Foundation for Australian Women (sub. 54), employers already have systems in place to pay a range of taxes related to their payroll. Existing PAYG withholding arrangements, for example, require employers to remit

⁶ Again, minimum wage legislation limits the extent to which wages can adjust to the levy (see the section on direct employer financing).

payments to the Australian Taxation Office (ATO) on a regular basis with the frequency depending on payroll size.

But while the PAYG system would facilitate the timely *collection* of a parental leave levy, it would involve additional compliance costs for firms and administrative costs for the ATO because, for example, Business Activity Statements, accounting and information technology systems would need to be modified to separately identify the payment and to ensure firms have complied with their obligations.

An alternative to PAYG collection involves a levy on employees as part of the annual personal income tax lodgement and assessment process in much the same way that the current Medicare levy operates. But a potential disadvantage of this approach is that taxable income is much broader than earnings from wages and salaries and includes income derived from capital sources such as dividends, capital gains and royalties.⁷ This could effectively mean an additional tax being imposed on capital with relatively high associated efficiency consequences given the mobile nature of capital flows compared with other factors of production. In addition, a range of exemptions (including a comparatively high income threshold currently applying to the Medicare levy) raise other efficiency issues related to the breadth of the revenue base.

An employee levy may also involve concerns about fairness, a point raised by the Real Estate Institute of Australia:

It would be wholly inappropriate to apply a specific ‘parental leave levy’ to all employees given that some will not have children, there will be variations in the number of children born to any one employee and that many employees will already have had children upon inception of the levy. (sub. 51, p. 4)

The scope for a pooled levy arrangement to avoid many of the problems associated with direct employer financing suggest it is worth considering as a funding option. But the Commission noted in the draft report that the introduction of what would effectively be a hypothecated payroll tax in Australia to collect a tiny proportion of wage income may not be worth its potential administrative and compliance burdens and would go against the principle of tax simplification embraced by the current review of Australia’s taxation and transfer system. Importantly, because levy funding would involve regular and ongoing administrative and compliance obligations on employers, it would be a more burdensome arrangement than one requiring payment only when a parental leave event occurs. An event-based payment is a key feature of the Commission’s proposal (see chapter 2).

⁷ The Commission acknowledges these income items are separately identified on tax returns for employees.

At the draft report hearings, Julia Perry contested the Commission's arguments against pooled funding and argued that the duration and payment level in the taxpayer-funded proposal were inadequate to meet the developmental needs of children. In terms of the key scheme parameters, she considered that:

... paid parental leave needs to be available at full wage replacement until the child is six months old. ... The Commission's proposal that this length of leave could be provided by 18 weeks worth of the minimum wage is not adequate. Low-income women are unlikely to have other leave entitlements or sufficient resources to make up the time. Higher-income women are likely to have their income locked into housing costs. (DR trans., pp. 429-430)

Noting the likely budgetary resistance to expanding the Commission's proposal, Ms Perry suggested that this furthered the case for a pooled funding model.

However, as discussed in chapter 2, the Commission considers that the proposed 18 week duration will, in combination with other current forms of leave, provide scope for nearly all primary carers to take at least six months of parental leave. Importantly, the impact of the scheme on leave duration would be greater for lower income, more financially constrained families. This outcome also reflects the setting of the payment rate at the adult minimum wage (which would be much closer to full wage replacement for lower income earners).

Moreover, discussions with the ATO since the release of the draft report have amplified rather than allayed the Commission's concerns about the administrative and compliance costs associated with collection of a parental leave levy through the PAYG withholding and BAS reporting systems (see the discussion on delivery issues below).

On these grounds, the Commission continues to view a pooled funding arrangement as a relatively less effective means of financing the proposed paid parental leave scheme.

8.4 Portable leave savings accounts

Some participants proposed the introduction of portable parental leave savings accounts similar in character to the long service leave arrangements used for building and construction workers in New South Wales since 1975. The submission from the Australian Rail, Tram and Bus Industry Union (representing a sector with a small ratio of female employment) specifically referred to the New South Wales scheme in saying it:

... supports an employer funded pooled contribution scheme designed to operate in a manner similar to the NSW Building Industry Long Service Leave Payments

Corporation, which operates a pooled levy scheme to ensure that building workers obtain paid long service leave in an industry which requires workers to move from employer to employer over the qualifying period for long service leave. (sub. 127, p. 6)

Catalyst Australia (a public policy network comprising unions, academics, individuals and other organisations) went further in arguing that Australia's existing system of parental leave was poorly aligned with the increasingly casual and part-time nature of employment, which effectively prevented many women from accessing either paid or unpaid leave entitlements.

As a remedy, Catalyst suggested the creation of a leave savings account for all employees, funded by an employer levy and supplemented by a universal parenting payment that redirected baby bonus expenditures into a fourteen week payment at the federal minimum wage. A range of novel design features to facilitate the proposed duration and payment level were also canvassed, including allowing: drawdown of accruals in advance; leave transfers between parents; incorporation of long service leave entitlements; and employer or government top-ups. Catalyst outlined the nature of, and benefits from, the proposal in the following way:

A leave account is a simple leave bank account for workers' that moves with them from job to job over the course of their working life. The account would be drawn upon to pay for a minimum of 12 weeks time off for parenting. Employers would contribute to the leave account in the same way that they contribute to superannuation accounts, ie by a small percentage quarterly payment. Leave accounts are analogous to [and would replace] existing long service leave entitlements but would begin to accrue from day one in the workforce and would be portable.

They have the added benefit of spreading the cost of funding parental leave across firms. Each employer contributes a small share that accrues into a bigger entitlement. In this way, a leave account is a savings focused scheme. It would be available to both women and men. The leave account proposal is relevant and practical to today's labour market and to the Australian employment context which has experience in administering similar arrangements for superannuation. (sub. 167, p. 3)

Importantly, the administrative and operational cost of establishing and maintaining the leave accrual register, managing the funding pool and distributing benefit payments need not be that great given the experience with the New South Wales construction industry long service leave scheme where those costs accounted for just 1.7 per cent of the pool in 2006-07 (BCILSPC 2007).

The pooled nature of the proposal would also avoid the potential for discrimination and related problems with direct employer funding noted earlier.

However, the proposal has several limitations:

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- In its current form, the Catalyst proposal appears to remove the requirement for a given period of employer tenure as the basis for eligibility for long service leave. As in a variety of other industrial relations contexts – including unpaid parental leave – the quid pro quo for employers of a statutory requirement to give a benefit to employees is some gain in employer retention rates. Employers value higher retention rates, but they also mean that employees are more likely to get adequate training. And the desirability of mixing parental and long service leave is not clear, especially as it would increase the number of employees (and the cost to employers) eligible for long service leave.
 - As currently formulated, the scheme provides a leave bank to all employees, regardless of whether they take it as parental or long service leave. Some would see this as an advantage in that all employees, regardless of whether they had children or not, could benefit from the scheme. But its broad scope and its payment at replacement rates implies a much bigger impost on business than schemes focused on paid parental leave alone. The distortions created by taxes rise more than proportionately with higher tax rates.
 - Some of the suggested features also increase the complexity of the scheme and could lead to unintended outcomes. For example, how would an employee who does not intend returning to work be prevented from accessing an advance draw down of leave that they would not be in a position to make up?

More broadly, however, a portable leave account arrangement suffers the same limitations of the pooled funding model discussed earlier, with additional complexities and higher costs. As in the case of the pooled funding model, levy-based financing would require a new tax at a time when consideration is being given to simplifying Australia's taxation system.

Some of the disadvantages associated with employer funded leave accounts could be addressed by shifting that responsibility to the employees who will ultimately benefit from paid parental leave. Such a proposal was indeed put forward by the Centre for Independent Studies (CIS) which argued for the concessional tax treatment of savings by prospective parents as a means of funding parental leave:

In a savings scheme, individuals are required to keep their personal account at a minimum balance, which needs to be topped up through future earnings if drawn upon. Alternatively, individuals can choose to save more than the required minimum. Contributions (to a ceiling) are tax-privileged, making saving a more attractive proposition. ... Unused savings could be used to pay for school fees, put towards the purchase of a house, or rolled into superannuation (sub. 89, p. 11)

Aside from issues surrounding the potential use (or abuse) of tax privileged savings accounts for non-parental leave purposes, the CIS proposal would also provide the greatest financial benefit to high income earners (paying higher marginal tax rates)

those likely to already have access to paid parental leave. In addition, given low income employees the group in most need of parental leave support would value current period income more highly than future income drawn from a compulsory saving regime, the desirability of the CIS's proposal could be questioned on both equity and welfare grounds.

The Commission notes that a tax-preferred 'life course saving scheme' assisting employees to fund various types of unpaid leave (including parental, long-term care and pre-pension) was introduced in the Netherlands on 1 January 2006 with a related aim of increasing female labour force participation. That *voluntary* scheme provides a tax reduction (or credit) equivalent to 50 per cent of the statutory minimum wage for male and female employees to fund up to 13 weeks of parental leave in addition to the statutory entitlement of 16 weeks paid maternity and two days paid paternity leave. According to Moss and Korintus (2008), just 5.5 per cent of eligible employees participated in the scheme in its first year of operation and only 6 per cent of those participating employees did so to finance parental leave. This low utilisation rate may reflect a range of factors, including that low income earners can make better use of current period income.

8.5 Income contingent loans

An alternative funding option proposed by some participants involved the use of an income-contingent loan arrangement, specifically as a top-up or supplement to other parental leave funding sources. Income-contingent loans have been employed in the provision of tuition assistance for Australian university students through the Higher Education Contribution Scheme (HECS) since 1989. The key features of HECS are described in box 8.1. In a parental leave context, such loans could address the financial constraint facing (currently) low income parents around the time of childbirth by allowing them to fund parental leave (for a period beyond that provided by a base government scheme) from their future income.

A feature of this approach is that decisions regarding extensions to the duration of leave provided by base government funding and the associated income requirements are left in the hands of parents. This potentially means more efficient choices regarding employment and the optimal overall duration of parental leave (assuming parents are well informed about child and maternal welfare see chapter 4). Another advantage is that because individuals finance at least some of the leave themselves, this reduces the efficiency cost associated with complete government financing (discussed later).

Box 8.1 **Australia's Higher Education Contribution Scheme (HECS)**

HECS provides income contingent loans from the Australian Government to students to pay for course fees for undergraduate education. It was established in 1989 and partially replaced existing taxpayer funding of higher education, therefore representing a move toward a user-pays system. The system provided around \$1.2 billion in 2005, about 30 per cent of annual recurrent university costs. It has recently been extended to cover tuition fees for all post-graduate courses, all private sector higher education institutions and a subset of vocational education and training courses (known as FEE-HELP). A large number of other countries have also adopted this approach as a means of partially financing higher education expenditures.

Loans are indexed to inflation in line with the consumer price index (CPI) and are repaid by graduates according to specific repayment rates and income thresholds. CPI indexation implies a zero real interest rate on such loans. As such, the government provides a subsidy to students the size of which depends on the long term government bond rate, the level of the debt and the time taken for repayment, if this occurs. In terms of non-repayment, the doubtful (unlikely to be recovered) debts ratio under HECS varied from around 17 to 22 per cent between 1998-99 and 2002-03.

In 2007-08, the repayment rate was set at 4 per cent of assessable income once an income threshold of \$40 000 was reached. Where assessable income falls below this amount in any given year, there is no payment required for that year. Repayments are made annually when an individual lodges their personal income return to the Australian Taxation Office. Currently, administrative expenses associated with HECS are estimated at less than 4 per cent.

Undergraduates receive a 20 per cent discount for up-front payment of the university tuition charge while FEE-HELP students (other than for post-graduate tuition) face a 20 per cent surcharge for the use of the income contingent loans system. While the surcharge can be viewed as an arbitrary form of real interest rate, which might involve a negative subsidy if the loan were repaid very quickly, a recent study has shown that the interest rate subsidies associated with FEE-HELP in the private education sector are typically in the order of 25–30 per cent (Chapman and Lounkaew 2008).

Source: Chapman, Higgins and Lin 2008.

Commenting specifically on the application of income-contingent loans in the parental leave area (as a supplement to direct government grants and employer tax credits – see below), the submission by Professor Joshua Gans said:

... because individual households fund their own leave ... it is very low cost in economic efficiency terms making it far superior to schemes that directly fund paid parental leave. (sub. 24, p. 6)

While those participants supporting this model did not propose the *stand-alone* use of income contingent loans, it is worth highlighting why that option would not be consistent with several major objectives of paid parental leave. In particular:

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- To the extent that paid parental leave aims to address a legitimate barrier to long-term female workforce participation, the reduced level of (effective wage) subsidy in a stand-alone scheme would elicit a lower female labour supply response compared to alternative schemes involving higher wage subsidies (particularly grant-based arrangements).
 - If parents are not reasonably well informed about the impacts of greater duration of parental leave on child and maternal health and welfare (because of information asymmetries), then a system based primarily on self-financing may not deliver the best outcomes.
 - Complete self-financing fails to recognise the broader value to the community of a parent taking leave to care for children. Those social benefits (or externalities) suggest that the community has a role to play in supporting (and paying for) such arrangements.
 - Similarly, self-financing is not compatible with the view that parental paid leave should be an employment entitlement like other leave, which at least many in the community (as reflected in submissions) regard as an important norm to be reinforced.

Some participants were staunchly opposed to the use of income contingent loans as a stand-alone funding mechanism because of the financial burden it would place on women. The Australian Federation of University Women, for example, said:

We very strongly oppose any notion of an income-contingent loan. In our view this would simply be in fact creating a disadvantage for these women. We believe it would in fact probably lead to some women feeling that they would not take up maternity leave at all. Frankly we think it's an outrageous suggestion. (DR trans., p. 207)

But others voiced support for supplementing a base government-funded scheme with a loan arrangement. The Smith Family said in that regard:

In addition to the primary provisions of the parental leave scheme, The Smith Family recommends the exploration of voluntary saving schemes and personal loans to allow parents to stay at home for longer periods, and that any leave arrangements longer than 12 month should be subject to negotiations with employers. (sub. DR387, p. 6)

In line with these views, the Commission concluded in the draft report that the application of an income-contingent loan scheme to parental leave could only realistically be viewed as a supplement or ‘top-up’ to a primary funding alternative.

Should contingent loans be used as a ‘top up’?

Prima facie, there are better arguments for introducing income contingent loans as a *supplement* to a base level of government funded leave because the government

scheme could deal with the labour supply aspects, parental information asymmetries and the social issues (externalities) that would not be adequately dealt with by a stand-alone arrangement. Were there to be genuine capital market failures preventing private sector borrowing by young families, it is possible that government loans might address these.

A recent research study co-authored by the architect of the HECS system in Australia (Chapman, Higgins and Lin 2008) proposed such supplementary use of income contingent loans as an optional means of extending the leave available under a grant-based parental leave scheme funded by government. A key argument made for public provision of the loan component was that borrowing from private banks would not be possible for most families interested in financing parental leave due to a lack of collateral as security for the loan (Chapman, Higgins and Lin 2008, p. 9).⁸

A loan arrangement involving fixed fortnightly payments at the federal minimum wage to fund 26 weeks of additional parental leave (following an initial period of leave financed by taxpayers) was modelled to explore the implications for families and government of an income-contingent loan.⁹ Using several hypothetical demographic and financial scenarios of potential borrowers and detailed design parameters (with respect to coverage, duration, payment and repayment thresholds, rates and conditions), which included a debt surcharge as ‘a blunt form of applying a real interest rate’, the authors noted the results highlighted two key features:

- Median and high income earners would be deterred from participation in the scheme because the faster loan repayment combined with the surcharge resulted in a small negative subsidy for those groups. This was arguably beneficial from an equity perspective.
- Families in most financial need in their lifetimes received the highest positive subsidies. Single mothers, particularly those on low incomes, benefitted most from concessional indexation rates applied to the debt given the length of time taken for repayment (if repaid at all).

Despite those features and the conceptual elegance of the proposal, the Commission noted in the draft report that the disadvantages of such an approach (which the authors sought to address – see box 8.2) may well outweigh its advantages:

⁸ In that case, it was argued that any social spillovers from paid parental leave would not be delivered.

⁹ The authors also noted the possibility that employers could share the loan repayments with their employees conditional on the parent returning to their original employer. The benefit to the employer would be the preservation of firm-specific training investments.

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- Contingent loans mean that people face disincentives to exceed the income threshold at which repayment occurs, reducing their incentives to work at the margin ('moral hazard') especially when the loan interest rate is subsidised. So long as the borrowed amount was capped at a reasonably low level, those disincentives would be reduced, but also would add to an already significant group of barriers to work for low-income families.
 - The loan provides the greatest subsidy to parents least likely to pay it back (households whose income will not exceed the threshold for repayment) and parents that will only be required to pay back the loan a long way into the future. Such 'adverse selection' increases the cost to government of the scheme, while probably not significantly changing the duration of parental care for babies.
 - To the extent that there is a failure in capital markets, then this would imply an income contingent loan should be available for any purchases of young families, not just paid parental leave. Moreover, there is no guarantee that prospective borrowers would use the loan to finance additional parental leave (above what they would have otherwise taken) rather than for non-parental leave purposes.
 - The externalities that might reinforce support for an income-contingent loan (in addition to the goal of addressing perceived capital market imperfections) would probably have been significantly exhausted given a base government scheme. That would imply a relatively small loan amount but then that would raise the question of whether all the work of designing, implementing and managing a relatively complex scheme was worthwhile.
 - Finally, scheme design errors would be difficult and costly to reverse. By its nature, an income contingent loan scheme involves financial flows that potentially endure for decades. Winding up a scheme were it not to function properly, would involve a considerable period of time and administrative expense.

There are partial antidotes to some of these problems (box 8.2), and the authors of the proposal emphasised that designing an effective scheme involved many challenges:

... there are critical issues of policy design with respect to the roles played by adverse selection and moral hazard, and what these behaviours might mean for the availability, collection parameters and taxpayer subsidies of income contingent loans. All of this promotes the case for a financially cautious initial approach in the application of income contingent loans for [paid parental leave]. (Chapman, Higgins and Lin 2008)

On the grounds noted above, the Commission concluded in the draft report that it was sceptical there was a strong enough case for income-contingent loans in this area of public policy.

Box 8.2 Careful design can help mitigate the risks of an income-contingent loan scheme

As noted by Chapman, Higgins and Lin (2008), the risks of an income-contingent loan scheme may be mitigated by several safeguards including:

- putting a cap on the available loan size
- obligating repayment responsibility to both parents (in those cases where this is applicable). As long as one parent earns an income in excess of the threshold (and for a sufficient period of time), the loan is eventually repaid. In circumstances where parents separate (on either a bona fide or contrived basis), the outstanding balance remains a liability of both parties. While single (and low) income couples earning less than the threshold would still effectively receive a non-repayable grant, this might be justified for some on equity grounds
- debt-loading — setting the initial debt level at a certain percentage above the actual cash amount loaned, but otherwise increasing outstanding debt levels only by the CPI. This would deter higher income households (who are less likely to be financially constrained) from accessing the loan. This is because such households would be required to pay the loan back quickly, so that the debt loading would act like a relatively high real interest rate. In contrast, poorer, more financially-constrained, households would pay back over a longer period, and the real interest rate may then be negative. That helps target the scheme at parents whose leave duration is more affected by financial constraints
- using eligibility criteria based on past workforce attachment to discourage borrowing by parents with a low likelihood of entering or re-entering the workforce. This would reduce the demand for loans and increase the probability of repayment.

The Commission argued in the draft report that these safeguards involve their own limitations and complexities, and can only moderate some of the problematic incentives created by such a scheme. Notably, HECS suffers fewer of these limitations because higher education and working are complements.

But the proponents of this funding mechanism subsequently responded to the Commission's analysis by modelling the impact of a 10 week loan arrangement (compared to the original 26 week proposal) to demonstrate that the concerns raised in the draft report could be addressed through appropriate scheme design. In particular, they contended that:

- Given the maximum loan amount of approximately \$5500 per child (10 weeks at the minimum wage) equated to a repayment liability of just \$10 per week once the income threshold was reached — this level of financial burden was unlikely to reduce the incentive to work (especially as the repayment liability would be shared by both parents). In support of this conclusion regarding the risk of moral hazard, the designers pointed to experience with HECS (involving considerably

larger debt levels) where no evidence had been found of debtors remaining below the income threshold to avoid repayment.

- Even under highly unrepresentative modelling assumptions that would illustratively overstate the take-up by ‘high risk’ parents (the adverse selection issue) ‘... the aggregate subsidy and the scheme costs [which totalled around \$21 million] are still very manageable and negligible, even under some extreme circumstances.’ (DR trans., p. 109).
- Quarantining the loan for parental leave purposes was not a significant concern because unlike the Commission’s grant-based arrangement (which the proponents argued could be questioned on additionality grounds) the loan would eventually be repaid by the majority of borrowers.
- The role of income contingent loans as a top-up arrangement was not to address externalities but to enable access to finance that would not be provided by private firms.
- The administrative cost of the scheme (and hence the cost of winding it up) was insignificant given that parental leave debt collection would be made through the existing income tax collection system (as in the case of HECS).

As outlined in chapter 2, the Commission considers the primary objectives of its taxpayer-funded proposal (promoting child and parental wellbeing and workforce attachment) will be achieved by an 18 week arrangement paid at the federal minimum wage. Those objectives will also be delivered in a fiscally prudent manner. But the Commission is also mindful of the likely future pressures that will bear on Government to extend the duration of the scheme beyond 18 weeks and to increase the payment rate. International experience almost universally points to such pressures over time. Many participants to this inquiry also expressed the view that the Commission’s proposed duration and payment rate were either manifestly inadequate in delivering child and maternal health goals or just a first step in the journey to a longer and more generous parental leave scheme (see box 8.3).

Against that background, and in light of the persuasive supplementary input from the proponents of the income contingent loan scheme, the Commission has reconsidered its draft report conclusion (subject to the modifications below) regarding the place for such loans as an optional top-up to a taxpayer-funded base scheme. Accordingly, should the Government consider extending scheme duration and/or the payment rate at some point in the future, the Commission now believes that income contingent loans could provide an appropriate low cost option (given the efficiency costs associated with taxpayer funding) for doing so.

Box 8.3 Participants' views on scheme duration and payment level

Catalyst Australia:

There may be funding constraints around immediate introduction of a 26 week scheme. These can be dealt with by treating the 18 weeks as a starting point and increasing this incrementally over a period of two to four years. (sub. DR374, p. 2)

National Investment for the Early Years (NIFTeY):

In the strongest possible terms we argued for 12 if not 24 months' paid leave; the need for this time is acknowledged by the new Commonwealth entitlement to 2 years' unpaid parental leave. If 12 months is not to be countenanced at this time, then the very minimum should be 6 months (26 weeks), with the option of part-time employment to follow and the use of other forms of leave to extend time with the baby beyond 6 months. (sub. DR386, p. 2)

Family Day Care Australia:

... paid maternity leave should be at least 26 weeks (6 months) in duration, funded by government at the average wage and that supporting parents should be provided four weeks supporting partner leave. (sub. DR379, pp. 1–2)

Australian Human Rights Commission:

... following the implementation of the proposed paid leave scheme an independent review be carried out two years into its operation in order to make the necessary modifications and improvements and so that a second stage of paid leave measures be introduced so that in total the scheme provides for [52 weeks of paid parental leave] ... (sub. DR377, p. 6)

Office of the Anti-Discrimination Commissioner (Tasmania):

The proposal ... of 18 weeks is a good starting point and will not be a significant financial burden on businesses. The proposed duration should however be reviewed, with a view to increasing the period over time [as should the level of payment]. (sub. DR379, p. 4)

Commonwealth Public Sector Union:

... the 18 weeks recommended by the Productivity Commission [is] a good first step and will [contribute to] our aim of 26 weeks paid leave at full income replacement and usual superannuation through collective bargaining. (sub. DR376, p. 1)

Association of Professional Engineers, Scientists and Managers, Australia:

... there [should] be a staged increase of primary care giver leave to 26 weeks over five years. (sub. DR335, p. 1)

Australian Rail, Tram and Bus Industry Union:

... the Commission to review its position on the length of the proposed scheme from 18 weeks to 26 weeks [and from 2 weeks to 4 weeks for the partner]. (sub. DR326, p. 6)

Western Australian Commissioner for Children and Young People:

... I am calling for a six-month paid maternity system ... with a view to Australia moving towards a 12-month paid maternity leave system in the future. (sub. DR311, p. 1)

Independent Education Union of Australia:

... supports 26 weeks (6 months) as the most appropriate quantum for paid leave to provide support and care for mother and child. (sub. DR308, p. 1)

(Continued next page)

Box 8.3 (continued)

Tasmanian Women's Council:

... would like to see in future the possibility of extending the paid leave component beyond the 18 weeks so that most women may have the opportunity to have 1 - 2 years leave, should they choose, following the birth of a baby. The Council considers that this proposition should be considered as part of the Governments review process ... (sub. DR307, p. 10)

Finance Sector Union:

The FSU seeks, therefore, the inclusion of transitional arrangements in the Scheme to increase the quantum of leave from 18 weeks to 28 weeks (2 weeks before and 26 weeks after the birth of child) within 5 years. (sub. DR306, p. 8)

Unions NSW:

Unions NSW ... recognizes the economic necessity of getting the first stage of an evolving scheme in the 2009 Federal Budget. Nonetheless, it is important to recognize this part of the scheme as a first step that must be a stage in further action ... that will see a system of six months universal parental leave, paid at full wage replacement by 2013. (sub. DR350, p. 3)

Australian Breastfeeding Association:

We consider the proposed 18 weeks inadequate and maintain our position in recommending a minimum of 6 months paid leave after the birth of the child. (sub. DR391, p. 2)

That said, the Commission considers that the effectiveness of the income contingent loan option in the parental leave area could be improved by the following design changes:

- setting the interest rate on the loan at the current mortgage interest rate (as opposed to using a debt surcharge)
- piloting the scheme before its universal introduction.

The first of these design elements would dissuade parents from applying for a loan simply because it offered better terms than a commercially available option were that to be available (including for use in non-parental leave endeavours). Further, to the extent that publicly provided loans are viewed as an antidote to a failure by capital markets to extend credit to parents that lack loan collateral, the key objective is to provide access to such credit rather than to do so on non-commercial terms. Moreover, given the existence of a lengthy statutory scheme, arguments about providing interest rate subsidies for low income parents on equity grounds become much less forceful. Charging a commercial rate of interest will also provide a greater incentive for parents to return to work because the size of the debt will continue to rise the longer they remain outside the workforce.

Secondly, the cap on the available loan size (as suggested by Chapman et al.) could also serve as a de facto pilot scheme that limits budgetary risk (including those resulting from any scheme design errors).

8.6 Concessional business tax arrangements

While support for an income contingent loan scheme also featured in the submission by Professor Joshua Gans, he argued that because such arrangements did not reduce the (replacement and other) costs faced by employers during periods of parental leave, they would not address the issue of employment discrimination. As such:

... there is a fundamental conflict between [all] policies that create an incentive to exercise parental leave opportunities and discrimination in terms of employers having incentives to favour employees who are less likely to exercise that option. (sub. 24, p. 6)

In response, he proposed a combination of policies to deliver a set of mutually exclusive parental leave objectives. These covered:

- **Minimum-wage parental leave**, paid for by the government, for one parent (for 3 to 6 months). This element is to cover the social security element of having children and would provide incentives for parental leave to be taken in contrast to existing payments such as the Baby bonus which do not. This leave could be means-tested.
- **Income-contingent loans**, secured by the government, based on previous and future household income (for 3 to 6 months). This would address the liquidity issue associated with taking parental leave. It would promote child development but would have a minimal fiscal impact on tax-payers. Consequently, it is equitable in contrast to schemes that involve lump-sum government hand-outs.
- **Return to work tax credits**, paid for by the government to employers who have employees take parental leave and then return to work (for a minimum period). These payments would be made contingent upon criteria that demonstrated re-integration of the employee with their career in the firm. (sub. 24, p. 8)

Return to work credits would involve a tax credit provided to employers (at a suggested rate of between 150 and 200 per cent) for the wages paid to employees while on parental leave. Professor Gans argued that making the tax credit contingent on an employees' return to employment would create incentives for employers to:

- encourage employees to take parental leave
- provide employment conditions (such as flexible working arrangements) that facilitate a return to work
- encourage more highly paid employees (including males) to take parental leave.

The Commission notes the introduction of a family tax credit in France in 2004, which shares at least one of those specific aims – encouraging employers to develop family-friendly policies for their employees (Moss and Korintus 2008). The credit provides a 25 per cent tax deduction up to a ceiling for expenses related to parental and other forms of leave such as training programmes (rather than actual wages).

In the Commission's view, while concessional tax treatment would probably encourage business top-ups at the margin, it would also provide tax concessions to any of the existing negotiated parental leave entitlements. As a result a significant part of the revenue cost of the scheme would support behaviour that was going to occur anyway.

The scheme would probably also tend to favour higher-skilled and better paid employees where retention benefits to employers are highest (and who are already covered by voluntary arrangements), and tend not to increase coverage of lower-skilled or casual employees. This raises equity and efficiency issues.

In addition, the administrative costs associated with the suite of proposed funding policies proposed would be higher than alternative financing options.

Finally, the proposal could also involve a high risk to government revenue. That risk stems from the uncapped nature of the proposal; the size of the suggested tax deduction; and the incentive for some employers to act strategically in order to maximise their returns from the scheme (especially for higher income earners). In the latter case, by either reclassifying or actually shifting employee remuneration from wages to parental leave (to the extent this is possible), employers could artificially increase the value of the taxation benefit from the program without incurring any net increase in financial outlays.

There are precedents for such unwanted behavioural responses to other government programs. One example is the Research and Development (R&D) tax concession which was introduced in 1985 to stimulate private sector investment in research and development activity. It was subsequently found to have prompted some firms to reclassify certain business expenditures as R&D (such as feedstock) when those expenditures were not the specific target of the program (see Lattimore 1997). As a result, the budgetary cost of the program was much greater than anticipated and necessitated a tightening of the eligibility criteria.

Conversely, the proposal could involve costs for some firms who were encouraged to provide parental leave and other family friendly benefits only to find the employee has chosen either not to return to work or, at least, not to their previous

employer. The prospective financial benefit to an employer from a returning employee may even result in undue pressure being applied to ensure that outcome.

On all these grounds, the requisite design parameters to target employees most responsive to paid parental leave, limit budgetary risk and the scope for unintended outcomes would appear to present a significant challenge. The Commission does not, therefore, favour this funding alternative.

8.7 Parental leave financed through general government revenue

A large number of submissions across a broad cross-section of participant interests, including individual employers and representative organisations, state and territory governments, welfare and other advocacy groups, parents and non-parents, considered that taxpayers alone should bear the bulk of the funding burden of a universal paid parental leave scheme for Australia. Arguments advanced in support of taxpayer funding revolved around perceptions that this would variously:

- spread the cost of the scheme across the whole community
- involve comparatively low administrative and compliance costs
- reduce financial stress for parents (including, in some models, those not in the paid workforce and the self-employed)
- avoid an unsustainable financial burden being placed on employers (especially those with a high concentration of female employment) not currently providing paid parental leave on a voluntary basis
- lessen or remove the potential for workplace discrimination against women of child-bearing age
- increase female workforce participation.

But while there are advantages from public financing, there are several often little appreciated costs that need to be considered.

- The costs of raising tax revenue include the cost of compliance, enforcement and collection (the latter borne by the ATO and employers who withhold and remit taxes on its behalf), which rise in line with the complexity of the tax system, and ‘rent seeking’ costs, where one group in the community attempts to divert resources from another. While those combined costs are large in their own right, they can (depending on the nature of the tax system) be dwarfed by the disincentive or distortionary costs associated with taxation systems.

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- Distortions arise when decisions about working, saving, investing and consuming are altered by a tax and, as a result, a less preferred (valued) choice is made to that which would have otherwise occurred. A recent study suggested that the distortionary costs associated with raising an *additional dollar* of taxation revenue from *all sources* in Australia could be between 15 and 65 per cent (Robson 2005). This implies that the return to the community from introducing a new program funded by raising additional taxation revenue must be at least 15 per cent and possibly up to 65 per cent to be economically justified.¹⁰

But not all taxes are alike. Generally speaking, the more broadly a tax is applied and the lower and more uniform the tax rate, the lesser the distortion and associated efficiency cost.¹¹ Indeed, the broad base, low rate features were a key motivation for introducing the GST in Australia and reducing personal income tax rates at the same time.

That might suggest the Commission should identify a particularly efficient tax either new or existing that should be the source of the funding for a paid parental leave. However, to do so would invite the question: if that is true for paid parental leave, why is it not true for other government spending? The Commission would then, in effect, be undertaking a review of the Australian tax system. However, the Australian Government has already announced a comprehensive review of Australia's tax and transfer system to be completed by December 2009. The review's goal is to set out a tax structure that enhances Australia's future economic and social outcomes (box 8.4). As noted in the terms of reference for the review:

Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational), and minimise complexity for taxpayers and the community. (Swan 2008)

In light of the wide-ranging nature of that process, the Commission considers that it is not appropriate for it to identify a particular tax earmarked to paid parental leave.

Indeed, the discussion paper released as part of the review process attributed the current complexity of Australia's tax-transfer system, in part, to incremental policy development over time.

¹⁰ The total efficiency costs of taxation in Australia have been estimated at around 6 per cent of GDP (Freebairn 1998). According to the Australian Treasury (2008), that estimate is consistent with rules of thumb of efficiency costs of taxation in the United States.

¹¹ The actual impact will depend on how sensitive demand and supply are to a price change and the scope for substitution. The design of some taxes also serve equity objectives with the most obvious example being the progressive nature of personal income taxes.

Box 8.4 Review of Australia's tax and transfer system

A discussion paper released as part of the review of Australia's taxation and transfer system highlighted a range of features of Australia's current tax system and compared that system with international experience. Key findings included:

- There are at least 125 taxes paid by Australians every year. Just 10 of those taxes collected 90 per cent of the \$320 billion in total tax revenue in 2006-07. Personal income tax, company tax and the GST dominate revenue collections (68 per cent of the total). There were around 40 cash transfers paid by the Australian Government in 2006-07 costing over \$70 billion. Around \$18 billion (or 26 per cent) of that total was paid to families and children.
- The tax and transfer systems are separate but combine to affect the disposable income of individuals and families, and their incentives to work, save and invest (including in skills). There are different bases of assessment between and within the two systems, including the definition of income, the unit of assessment, the period of assessment and the basis of eligibility. These differences largely exist to achieve a targeted system, but the result is the system as a whole is complex.
- All taxes are ultimately borne by individuals on the earnings from three factors of production: labour, capital and land. Individuals end up paying taxes in a range of ways, including as consumers through higher prices, as employees through lower wages, or as shareholders through lower profits. All taxes affect choices by encouraging individuals to shift from higher taxed to lower taxed goods and services or activities, and by lowering their available income.
- The legal incidence of a tax (the person required to pay) can be quite different to the economic incidence of that tax (the person who ultimately bears the burden). Taxes can be shifted from one person to another through changes in the prices of inputs to the production process, the price of goods produced or through the distribution of returns to economic activity. Taxes will tend to be shifted to goods or factors of production of which the demand or supply is relatively less sensitive to price changes, has fewer available substitutes or is less mobile.
- Compared with other OECD countries Australia has a low share of tax revenue from labour income. This reflects the significant use of social security contributions in other countries which are levied on wages, salaries and similar income. Australia has the greatest reliance on tax revenue from capital in the OECD — a result highlighted as surprising given the mobility of international capital flows.
- The level of complexity of Australia's tax-transfer system is likely to be greater than the optimal level for society as a whole. This is due to the incremental development of tax-transfer policy over time, based on partial assessments of the associated benefits and costs, and income maximising behaviours of taxpayers and transfer recipients. Broad reforms provide an opportunity to take a systemic view of the tradeoffs between simplicity and other policy objectives (economic efficiency and equity).

Source: Australian Treasury 2008.

Given the relatively modest cost of the Commission's leave proposal and the problem associated with earmarking, it considers that general government revenue should form the basis of funding, at least until the new tax landscape is in place. This cautious approach and the need to consider parental leave funding as part of the broader tax-transfer review was supported by the submission from CPA Australia:

We consider that if a mandatory paid parental leave scheme is to be introduced, it should be publicly funded from government revenue and that it should be paid by way of a transfer payment rather than through the tax system. Given this view, we recommend that a mandatory paid parental leave scheme should be considered as part of Australia's Future Tax System Review, so that it can be examined as a potential component of all the support the Government provides to families, rather than looked at in isolation. (sub. 157, p. 1)

That said, in the absence of any new revenue initiatives, and given the deterioration in the Australian Government's budgetary outlook as a result of the global financial crisis, this implies funding paid parental leave from general revenue would likely require the redirection of expenditure from an existing program. Importantly, the opportunity to use funds allocated to an existing policy measure in a more targeted and effective manner provides scope to reduce the efficiency costs associated with general government revenue funding.

Redirecting expenditure from an existing program

The obvious candidates for redirection of funding from existing programs are the baby bonus and, in part, family tax benefit B, since these are already used to provide support for parents of newborn babies but have several deficiencies. While the baby bonus is administratively simple and involves low compliance costs, several social and economic commentators (see, for example, Guest 2007) have argued that it also:

- lacks clear objectives
- is poorly targeted
- involves a high cost to government revenue relative to the benefits.¹²

On that basis, a redesigned program provides the scope to reduce the economic costs associated with achieving the policy aims of the baby bonus. As of 1 January 2009, the baby bonus provides a means-tested grant of \$5000 for new parents, paid

¹² The total cost of the program was around \$1.2 billion in 2007-08 and is expected to rise to \$1.4 billion in 2008-09 (FaHCSIA 2008a).

in 13 fortnightly instalments.¹³ This is equivalent to 14 weeks (the funding duration sought by many participants) at 65 per cent of the adult minimum weekly full-time wage in Australia. In terms of objectives, the Australian Government recently remarked that the baby bonus payment:

... recognises the extra costs associated with birth or adoption of the child, including the loss of income while on unpaid maternity leave. (FaHCSIA 2008a)

In that context, the baby bonus shares one of the mooted objectives of paid parental leave (alleviating a potential liquidity constraint). Indeed, at least one submission to this inquiry considered that the baby bonus and the policy initiative that preceded it (the maternity allowance) were explicitly designed as a social security alternative to private sector provision of paid maternity leave. In chronicling the historical development of these policies, that participant, Dr Hazel Moir, commented:

The Australian Baby Bonus parallels the social security provision of paid maternity leave in some European countries, except that in many European countries the level of payment is earnings-related ... The very substantial increase in the amount of maternity leave payment means that currently it provides the equivalent of over 18 weeks' income, albeit at the level of social security income. To suggest, as many do, that Australia does not currently have paid maternity leave is to ignore the very substantial outlay by Australian taxpayers providing a sum equivalent to over 18 weeks' income for all mothers of new babies. (sub. 158, p. 5)

The ACTU corroborated this view of the baby bonus (and its predecessor) as a 'de facto' paid parental leave scheme:

Our campaign history includes advocacy for paid maternity leave in the early nineties which resulted in the maternity allowance in 1993 and support for HREOC report "Time To Value" which resulted in the Baby Bonus in 2005. (sub. 69, p. 2)

While some participants said the baby bonus payment should be quarantined from, and therefore additional to, paid parental leave, many considered it should form the basis of a new parental support program. For example, the Ai Group and the ACTU commented respectively:

Options to offset the fiscal impact of a government-funded model should be explored. Ai Group's preferred approach is for the Baby Bonus to be abolished. (Ai Group, sub. 182, p. 25)

Given the existing commitment to the current Baby Bonus, the Australian Government is now in a unique position to convert that budget expense into a paid maternity leave scheme that reflects international standards and sets a sound policy base on which to build future improvements. (ACTU, sub. 69, p. 31)

¹³ From 1 July 2009, families earning in excess of \$75 000 in the six months following the birth or adoption of a child will be ineligible for the program.

Unions NSW (sub. 181, p. 38) went further in drawing attention to the offsetting savings for its proposed scheme from expenditure on both the baby bonus and other family support payments.

The National Foundation for Australian Women similarly viewed the baby bonus as a component of a composite funding model that included employer and employee contributions. It said:

The funding arrangements proposed by this model include a contribution from the Commonwealth government equivalent to the Baby Bonus which will be \$5,000 from 1 July 2008. This proposal therefore involves no extra funding commitment from the government. The remainder of the maternity and paternity leave payments would be funded by pooled funds from an additional payroll tax levy on employers and an income tax levy on employees earning more than \$10,000. (sub. 54, p. 34)

The current form of the baby bonus also conflicts with a number of desirable objectives of a paid parental leave scheme. These include that the payment is:

- unrelated to leave duration and therefore to the optimum length of absence in terms of maternal and child health (although the additional income would encourage at least some women in work to take longer periods of leave)
- not employment-related or contingent on women returning to work and therefore does little to encourage workforce attachment
- viewed as welfare rather than a work-based entitlement, like other leave, that legitimised the dual role of working and caring for children.

As discussed in chapter 2, amalgamating the baby bonus and family tax benefit B expenditures into the Commission's preferred model for paid parental leave would address some of these drawbacks for the group that would be eligible. Those not eligible would still be able to claim the baby bonus (subject to its recently-introduced means test). Family tax benefit B would also continue to be paid to that group, but not to parents accessing paid parental leave during the period of that leave.

8.8 Delivery options

Although taxpayers would provide the funding base, an important administrative issue is deciding how those funds should be delivered. Currently, most child-related income support payments are made directly through the Australian Government's Family Assistance Office (FAO).¹⁴ The main exceptions are family tax benefit payments, which families have been able to claim through the Australian Taxation

¹⁴ The FAO is a virtual office encompassing the ATO, Centrelink and Medicare.

Office (ATO). However, from 1 July 2009, the taxation system will no longer be an available payment option for family tax benefit payments.

Aside from issues of comparative administrative efficiency, the choice of public sector delivery agency can also have a bearing on the way the payment is viewed by recipients and the broader community. For example, the fact that parental leave payments in New Zealand are made via the Inland Revenue Service rather than a social welfare department has been argued (by the program's administrator) to have removed the stigma of the payment being labelled welfare.¹⁵

That said, some participants to this inquiry disputed whether a payment ultimately sourced from taxpayers would ever be viewed as anything but welfare or government assistance (see, for example, Julia Perry sub. DR309, p. 4 and Chamber of Commerce and Industry Western Australia, sub. DR316, p. 2).

The Commission noted in the draft report that to the extent this feature is viewed as important, it is likely to be an even stronger 'framing device' if the taxpayer-funded payment were actually made by employers. That delivery option (which is also the approach used in countries like Singapore, the Philippines and the United Kingdom) was favoured by a number of participants to this inquiry on the grounds that it would also:

- signal the payment as a normal work-related entitlement
- encourage greater employee loyalty
- improve workforce and workplace attachment.

Qualified support for the paymaster function came from employer representatives such as the Motor Trade Association of South Australia (MTA SA) which said it recognised:

... that employers must play a role in the provision of paid parental leave. Generally employers support the scheme, as it encourages retention of quality staff and female participation in the labour market. MTA SA supports the employer obligation to act as paymaster and guarantee employment. (sub. DR339, p. 1)

Ai Group voiced conditional support provided '... the employer and employee agreed to the employer acting as paymaster (which might well be common in practice, at least for larger firms)' (sub. DR363, p. 15).

Some individual firms also backed the paymaster feature, with GM Holden, for example, supporting the broad features of the Commission's scheme subject to the condition:

¹⁵ New Zealand Department of Labour (personal communication).

That employers pay these leave payments initially to employees and seek reimbursement from the government, via a workable method of speedy reimbursement as described [in the draft report]. (sub. DR388, p. 3)

Tadpoles Early Learning Centres – an employer of around 260 female staff (85 per cent of whom are aged between 20 and 40 years) – concurred:

Despite functioning with a small administrative team and only one payroll officer we believe that we will be able to act as ‘paymasters’ for the government-funded scheme on the condition that the proposed reimbursement mechanism is a credit to ‘pay as you go’ withholding payments to the Taxation Office. (sub. DR334, p. 1)

However, a number of employer groups disagreed. Many were opposed on the grounds of the perceived administrative burden involved. Examples included the combined submission from the NSW Business Chamber and Australian Business Industrial:

... any ‘normalcy’ benefit, derived from having business as the administrator and paymaster, is outweighed by the significant administrative and cash-flow burdens this will cause. (sub. DR 340, p. 4)

Similarly, ACCI argued that the Commission’s proposed scheme should use existing public sector administrative and payment processes as they would avoid:

... the confusion inherent in employers continuing to pay “wages” or some quasi wage-like payment on behalf of government to employees who are no longer working for them in a daily or active employment relationship. (sub. 135, p. 50)

The Australian Mines and Metals Association also considered the paymaster function would be administratively complex:

Not only would the identification of employers’ responsibilities be time consuming and costly, the process of actually making the payments would involve immense administrative complication, with the potential to increase organizational costs and administrative pressures for employers. (sub. DR348, p. 9)

Others called for compensation to be paid to employers for taking on the paymaster function. For example, the Chamber of Commerce and Industry Western Australia said:

In the event that the scheme cannot be administered by the government, employers must be reimbursed for incidental costs, such as upgrades to payroll systems, training of staff or the greater time spent on payroll functions. (sub. DR316, p. 3)

And the Canberra Business Council called for assistance to small firms in particular:

If the Government wants to transfer administration costs of the proposed scheme to businesses acting as paymasters then it must reimburse small business ... and ensure

that reimbursement is received promptly and that compliance documentation is minimal otherwise it will simply add yet another layer of red tape. (sub. DR341, p. 1)

On the issue of compensation, the Commission notes that agency roles have often been assigned to firms and even individuals to act on the Government's behalf (collection of income tax being a prominent example) without any recompense for the costs involved. Those arrangements typically reflect the most cost-effective means of achieving a particular policy objective. While the payment of compensation in the case of paid parental leave would not be that expensive (given the low likelihood of parental leave absences), it would open the door for similar claims across a whole raft of agency arrangements and that would be prohibitively expensive. The Commission also considers that the administrative burdens on firms delivering taxpayer-funded parental leave need to be weighed against the retention benefits that the proposed scheme will deliver to many, if not most, employers not currently offering paid parental leave voluntarily.

More broadly, as the Commission said in the draft report, the kinds of arguments raised in opposition to the paymaster function ignore the role already played by employers in the provision and/or administration of a range of employment related entitlements including annual, long service, sickness, voluntary paid and statutory unpaid parental leave.¹⁶ Indeed, it is arguable whether there would be any material addition to administrative costs, not only for large employers with access to sophisticated payroll and human resource management systems, but also for smaller firms because (as acknowledged by some participants) the probability of an employee actually being on parental leave at any point in time would be quite low (see chapter 7). The National Foundation for Australian Women supported this assessment as part of its proposal for a pooled levy arrangement (discussed earlier):

The potential administrative burden seems over-stated. ... Employers already pay recreation, sick and long service leave entitlements to employees. The potential addition would be in reclaiming the funds from the Commonwealth Agency, and this should be made as efficient as possible. (sub. 54, p. 7)

But the Chamber of Commerce and Industry Western Australia took issue with this assessment:

The argument ... that employers already play a large role in the "provision and/or administration of a range of employment related entitlements", does not recognise that the scheme proposed would not form part of the contract of employment or part of the employment relationship and as such is significantly different to other leave entitlements such as sick leave, annual leave or long service leave. (sub. DR316, p. 2)

¹⁶ The exception may be for those casual employees that would be eligible for parental leave but who are not currently entitled to provisions such as annual leave, long service leave and unpaid parental leave.

All that said, the dissenting groups did not quantify the cost associated with the paymaster function, nor did they take issue with evidence presented in the draft report suggesting relatively low administrative costs for employers from the operation of the United Kingdom's *Statutory Maternity Pay* (SMP) program. As the Commission noted, recent analysis of the impact of potentially moving from employer payment to a direct government payment system found that the administrative cost to the 85 000 employers paying SMP is around £2.8m (about £9 per employee recipient), of which about 40 per cent is borne by small firms. That analysis also found substantially higher costs from direct government delivery with an estimated establishment cost of as much as £75m and annual operating costs of £50m (HMRC 2005).

Furthermore, it is worth noting that public sector delivery can still be very costly, even when a new payment is added to existing administrative and payment frameworks. For example, removing administrative responsibility for family tax benefit processing from the Australian Taxation Office (which represented around only seven per cent of total claims activity) is expected to provide a budgetary saving of around \$100 million over four years (FaHCSIA 2008b).

Nevertheless, the efficiency with which the payment from government is made to employers will be critical to avoiding potential cash-flow problems and other risks. This is especially the case for smaller firms employing eligible part-time and casual workers earning less than the minimum wage (the payment rate under the Commission's proposed parental leave model).

The Commission noted in the draft report that allowing employers to reduce their regular PAYG withholding remittances to the ATO by the amount of the parental leave payment (with credits available where parental leave payments exceeded the amount of tax otherwise owing) was potentially the most efficient method of reimbursing employers acting as paymasters. That option was favoured by those employer groups not opposed to the paymaster function. In addition to the comments from GM Holden and Tadpoles Early Learning Centres noted above, Ai Group said:

Reimbursement through a credit to 'pay as you go' withholdings would be greatly preferable to a system of cash reimbursement, which in practice could take many months. A requirement that only those businesses making at least monthly repayments would also lessen the cash flow implications of being required to act as paymaster. (sub. DR363, pp. 15 16)

However, following the release of the draft report the Commission held detailed discussions with both the ATO and FaHCSIA in relation to delivery issues, which included the establishment and ongoing administrative costs associated with the proposed scheme, monitoring and compliance safeguards and the administrative

impact of specific scheme design elements (the paymaster function, in particular). As a result of those discussions, it became clear that the operational framework used by the ATO is not well suited to either the delivery logistics of the proposed scheme or to ensuring satisfactory risk management outcomes in this specific area.

Specifically, the ATO uses a self-assessment model that does not typically involve routine checking or verification of the eligibility status of individual or business clients. Nor does it reconcile payments not separately listed on Business Activity Statements (which would be the case here without changes to those reporting systems) at least until financial year end. The ATO's approach to risk management also focuses on auditing potential high cost outcomes (as opposed to vetting all claims) and, unlike agencies such as Centrelink, the ATO does not make regular periodic payments to its clients. While the ATO's systems could be modified to accommodate the more effective delivery of the Commission's proposed scheme (including through amendments to BAS reporting requirements), this is likely to involve a considerable cost and meet with significant opposition from the business community.

Centrelink, on the other hand, operates in a manner that appears suited to delivering the Commission's proposed scheme in a way that best manages potential compliance risks. Centrelink checks/verifies the eligibility status of individual clients, makes regular periodic payments to those clients and its major role in administering other family benefit payments, such as family tax benefit B and the baby bonus (both of which would cease while an individual was on statutory paid parental leave), means that consolidating delivery to that one agency would streamline the delivery of statutory paid parental leave. Centrelink's ability to collect and cross-match personal and income details of parents as a combined family unit (rather than as separate individuals in the case of the ATO) will also reduce the potential for scheme abuse (such as cases where both parents might apply for primary carer status).

Moreover, the Commission's discussions with FaHCSIA suggest that the:

- administrative costs of implementing and delivering the proposed scheme would be likely to comprise a relatively modest share of total scheme costs, and so need not in themselves present a barrier to a cost-effective scheme
- ongoing costs of implementing the paymaster function will not vary significantly from those involved with direct payment in effect, both involve a similar process for payments just with different destinations. There will, however, be significantly greater setup costs associated with the paymaster function, though not of a scale that make it uneconomic to include this feature in the scheme.

The precise administration costs associated with the proposed scheme will need to be determined by the Government, and will ultimately depend on its final design, degree of risk management and extent to which clients seek information about (or need assistance in applying for) the scheme.

The issue of prompt payment to employers remains critical to addressing at least the cash flow concerns of firms (see chapter 7). Accordingly, the Commission recommends that fortnightly *prepayment* of statutory parental leave instalments be made to employers by Centrelink. These payments would commence around the time of commencement of statutory paid leave (usually, but not always, at the birth of the child) and be triggered by the same processes that lead to payments to parents of the baby bonus. The employer would then pay eligible parents as part of their normal pay cycle.

With respect to those employees eligible on the basis of their overall workforce attachment, but with less than 12 months service with their current employer, the Commission continues to consider that direct government payment is the most efficient delivery option because of the administrative costs an employer would face in tracking employment history. Direct government payments would also be made to the self-employed, including contractors.

In terms of the administration of direct government payments, the earlier discussion regarding Centrelink's comparative suitability as the delivery mechanism suggests that it should also be responsible for administering direct payments. The documentary evidence needed to determine eligibility for employees with less than 12 months service at their current workplace (such as payment summaries) and the self-employed (such as taxation returns) are also typical features of the verification requirements employed by Centrelink for a range of payments administered by that agency.

Finally, Centrelink would also be responsible for dispute resolution and the imposition of penalties for compliance breaches associated with the proposed scheme.

Overall, the Commission continues to consider that the administrative and signalling benefits from assigning payment responsibility to employers are sufficient to favour that approach over direct government payment in most cases. This view is reinforced by the fact that such assignment will only add to compliance burdens on firms when a parental leave event actually occurs. But there will be other compliance issues facing firms from the Commission's proposed scheme (see chapter 7).

Related employment entitlements

In many instances, employees are entitled to ancillary benefits apart from wages including employer contributions to superannuation and various kinds of paid leave (including annual, long service and sick leave) as well as unpaid leave. Several participants in this inquiry emphasised the need for paid parental leave to be given the status of a normal workplace entitlement. As a consequence, they argued for provision of such entitlements particularly superannuation while on a statutory paid parental leave scheme.

Superannuation

On the superannuation front, several submissions argued that the compulsory superannuation guarantee (currently nine per cent) be included on top of the actual leave payment. Most suggested that employers be given responsibility for funding that component to reflect, in part, the benefits that would accrue to firms from an initiative that strengthened workforce and workplace attachment. In addition, some argued that the provision of superannuation while on parental leave was important because it would go some way to addressing the inequity between male and female retirement savings due to the traditional role of mothers as primary care givers. For example, the ACTU said that:

... this is an important equity measure, and would address in part the disadvantage that women face in saving for their retirement. While women live longer than men, their retirement savings are significantly less than men's savings. This is due to lower salaries, broken employment, and high levels of part time employment. (sub. 69, p. 27)

On the specific question of gender equity, it is clear that a woman's lifetime earning potential from bearing children is often reduced because of the loss of human capital associated with lengthy absences from the paid workforce. But the link between that and the adequacy of retirement savings is less straightforward because married women currently have equal rights in law to the superannuation balances of their spouses (including upon death, divorce or bona fide separation) and legislation currently before the Australian Parliament aims to extend those rights to de facto and same-sex relationships.

More broadly, however, given low income earners the group in most need of financial support and for which paid parental leave would have the greatest impact are likely to value current period income much more highly than a payment quarantined until a distant future preservation age, the desirability of providing superannuation (as opposed to a cash equivalent) for low income earners could be questioned on a number of grounds.

That point was echoed up by the Master Grocers Association:

... it is difficult to comprehend how the payment of superannuation contributions into an employee's superannuation fund by the employer could be seen as providing a financial benefit to an employee, at a time when actual financial support is most required. A female employee, whose age could range approximately between 18 years and 40 years, cannot access a superannuation fund until retirement age. Therefore, there is no immediate benefit or value to an employee who is absent from the workforce, in having superannuation entitlements paid into a fund. (sub. DR324, p. 4)

The Hair and Beauty Association similarly contended at the draft report hearings:

... we support fully that immediate need to provide some financial assistance to mums and their children and the rationale between trying to make a link between the employer and the employee. But superannuation is effectively looking towards when this person is 60 and we have very few people who are employed in our industry - or any industries [for] who the superannuation would have some benefit to that immediate cause. (DR trans., p. 497)

Putting that issue aside for the moment, the Commission noted in the draft report that there was currently no statutory requirement under the *Superannuation Guarantee (Administration) Act (SGAA) 1992* for employer superannuation contributions to be made during periods of paid or unpaid parental leave. So in a statutory sense, superannuation contributions have not been a normal workplace entitlement (though this has not precluded employers offering voluntary paid parental leave from providing such benefits customarily). But the Commission also said that the SGAA could be amended to make superannuation contributions during all paid parental leave absences mandatory, and therefore, normal.

Indeed, subsequent to the release of the draft report, the Australian Taxation Office issued a Draft Ruling (ATO 2008c) which, if reproduced in the final ruling, would make employer superannuation contributions during privately negotiated paid parental leave absences obligatory effectively elevating the status of such leave to a normal workplace entitlement. However, the spirit of the Draft Ruling (and the accrual of other types of leave during parental leave absences) was opposed by employer interests, primarily on the grounds that the Commission's taxpayer-funded proposal should not be regarded as normal in an earnings context. Business SA said in that regard:

... the obligation on employers to pay superannuation contributions is applicable to 'ordinary time earnings'. Business SA would not see any Government funded PPL scheme as 'earnings' and therefore attracting any employer contributions.

Business SA also raises concerns on any unintended consequences falling from any PPL scheme on employers. For example, Business SA would not support the ongoing accruals of leave entitlements including annual leave, sick leave and long service leave during such absences. (sub. 139, p. 3)

Similarly, the Australian Federation of Employers and Industries said:

Entitlements to paid leave and superannuation are determined by the hours worked and earnings of employees while they are employed. The entitlement to parental leave is not derived from the employee's work but from a statute conferred right to be absent from work. (sub. DR339, p. 3)

The Commission, however, considers that broadening entitlement to superannuation benefits to cover statutory parental leave payments would be consistent with the goal of making the statutory scheme mirror, as much as reasonably possible, leave arrangements more generally. It would emphasise that the statutory scheme is a work-based benefit (with potential retention benefits) and that a period of caring for children while employed is a commonplace feature of employment. Accordingly, the Commission considers that there is a *prima facie* case that the Australian Government amend the SGAA to mandate superannuation contributions on statutory paid parental leave payments for the relevant group of eligible parents.

The Commission estimates the gross cost to employers of providing superannuation entitlements would be around \$85 million a year (chapter 2). The draft report argued that while this could be considered a modest contribution by employers compared to the overall size of the taxpayer funded component, it is important to recognise that those employer costs would *eventually* be borne by employees through slower wage growth where barriers to wage adjustment were not binding. In support, it cited the head of government relations at a private sector financial services provider, who recently remarked with respect to the superannuation guarantee (SG):

Small business employers who are obligated to pay the SG suffer a form of sticker shock when they calculate the 9% they must pay below their wages line ... [but] were it not to exist, their actual wages bill would be commensurately higher. (Dowling 2008)

But the Australian Federation of Employers and Industries disputed this contention on the grounds that it was a:

... theoretical argument, and assumes that labour market conditions will allow this outcome, including that there will be no employee resistance to the implicit reduction in disposable income. (sub. DR339, p. 8)

In contrast, the Commission's theorising was supported by another participant Angela Budai – a finance industry employee with access to voluntary paid parental leave. She provided an insight into how the trade-off between pay and entitlements such as superannuation plays out in the real world:

I work under a union enterprise agreement that in the last round of negotiations we were able to achieve an increase to our superannuation from 13% to 15%. This benefit was gained at the expense of other things including a more generous across the board pay increase. (sub. DR329, p. 2)

However, for those women at or near the minimum wage, these additional employer costs would increase the risk of discrimination. That risk would be reduced by requiring income for superannuation contribution purposes to continue at an employee's regular wage level for employees earning less than the minimum wage and be limited to the minimum wage for all other employees (consistent with the ceiling on paid parental leave). Nevertheless, this would require modifications to automated and manual payroll systems (typically used by smaller firms) and add to the compliance burden on employers. For instance, firms paying above the statutory contribution rate (currently nine per cent) would have to split contributions into the statutory component and other rate in their accounting systems.

Such compliance burdens resonated strongly with business interests, with the Australian Metals and Mining Association, for example, arguing that:

The compulsory provision of capped (9% of the minimum wage) superannuation contributions will not only impose an additional cost on employers (which would not be reimbursed), but also cause administrative complexities for business. For example, the difference between the employee's usual salary and paid parental leave payment will require a re-assessment of employee's earnings in order to alter their superannuation contributions. (sub. DR348, pp. 7-8)

The NSW Business Chamber and Australian Business Industrial were more specific noting that:

... requiring additional superannuation contributions imposes an administrative burden, especially for small businesses that are often reliant on off-the-shelf accounting software packages to do the day-to-day running of their business. These systems automatically calculate payments, such as superannuation, and use these to generate key reports such as payrolls, profit & loss and general ledgers. But under the proposed scheme some superannuation payments would need to be calculated manually and the accounting system overridden. Many small businesses would be left needing to consult with expensive accounting professionals in order to understand how the manual overrides should be accounted for and entered. (sub. DR340, p. 8)

And Ai Group said the additional obligation on employers would compound the adjustment costs related to the move to the new industrial relations environment (under the National Employment Standards):

As Ai Group pointed out in its previous submissions, employers will need to adjust to a new system of obligations and rules under the NES, including some which are highly relevant to this area (eg. the right to request flexible working arrangements and to extend the parental leave period by an additional 12 months). Introducing additional obligations on employers, especially those involving a direct cost, is not warranted. (sub. DR363, p. 18)

But again employer interests did not estimate (even indicatively) the size of the administrative cost burden that would be imposed by the superannuation obligation.

And while the Commission accepts that the new industrial relations landscape will involve some level of adjustment, the legislative changes (including those in the specific parental leave area) have been flagged well in advance.

However, there are several concerns associated with the immediate inclusion of mandated employer-financed superannuation contributions in a statutory paid parental leave scheme. Most particularly, the Commission is concerned not to add unduly to the compliance burdens experienced by employers (particularly small firms) during the scheme's establishment phase and at a time of considerable economic uncertainty (chapter 2). Those considerations suggest that the immediate introduction of an additional direct cost to firms would not be prudent. Accordingly, the Commission proposes that the government defer the introduction of mandated employer-financed superannuation contributions until after a three-year review of the scheme. Employer superannuation contributions on statutory paid parental leave should then be implemented, by amending the *Superannuation Guarantee (Administration) Act 1992*, but subject to:

- a final tax ruling by the ATO determining whether the payment of superannuation on privately negotiated parental leave is mandatory and therefore would become 'normal' practice
- reconsideration of the impacts on business or legal and other administrative problems for government that may be involved. At present, these do not seem to be significant.

Deferring the superannuation component of the scheme will also have the advantage of allowing firms time to adapt to their additional obligations and the new industrial relations environment. In addition, off-the-shelf payroll software incorporating parental leave calculators dealing with the specific obligations associated with the scheme should be available well before the additional direct financial cost of superannuation was imposed (provided sufficient notice is given to deal with the administrative obligations associated with the scheme).

The detailed arrangements for paying the superannuation contribution could also be considered after the three year period, including whether it would be feasible to provide (lower income) employees with the option of taking the entitlement as a cash payment to meet their immediate financial needs or as a standard superannuation contribution.

Finally as a point of clarification, some participants questioned how the Commission's proposal for capped superannuation entitlements would affect defined benefit superannuation schemes. For example, the Finance Sector Union was 'concerned about the potential impact of a reduced contribution level for those employees who are members of Defined Benefits Funds' (sub. DR306, p. 4).

Similarly, GM Holden sought clarification about the interaction of the proposed scheme with that firm's defined benefit scheme:

The majority of our employees are covered under a defined benefits superannuation scheme where the employee contributes 5% of gross income and the company contributes a supplementary 4%. Following 10 years employment, the company matches the employee 1:1. We are seeking clarification from the Productivity Commission about the impact, if any, of the proposed superannuation payments for the statutory leave periods would have on this defined benefits scheme. (sub. DR388, p. 8)

In response to these specific concerns, the Commission advises firstly that the 'capped' superannuation component of its proposed leave scheme is not intended to impose a mandatory ceiling on any current superannuation arrangement (defined benefit or otherwise). Employers would be free to contribute amounts above the cap should they choose to do so.

More broadly, by their very nature, defined benefit arrangements require employers to periodically make contributions at a level (determined on an actuarial basis) that will meet a fixed financial liability (that is typically expressed as a proportion of an employee's final salary) at some point in the future. Any requirement under a statutory paid parental leave scheme for employers to make additional contributions into a defined benefit fund would not provide any benefits to employees as the employer would offset that contribution level against the actuarial contribution requirement. The Commission does not favour any change in the defined benefit schemes to address this since that would entail considerable complexity and compliance costs.

Accordingly, the Commission considers that for employees of defined benefit superannuation funds, contributions during periods of statutory paid parental leave could be either placed in an accumulation style fund of the employee's choosing, or the employee could be given the option of cashing-out the superannuation component. As discussed in chapter 2, both of these options could be examined as part of the review of the broader paid parental leave scheme three years after its introduction.

The Commission notes that the marked (and ongoing) shift away from defined benefit to accumulation style super schemes over the last two decades means that very few employees in the key childbearing age cohort are likely to be covered by defined benefit arrangements, though what happens in relation to these funds is still of importance to those that are covered.

Accrued leave entitlements

Dealing with accrued leave entitlements is more problematic. Currently, long service leave provisions are governed by specific legislation enacted in most jurisdictions that differ in terms of their entitlements, rates of accrual, qualifying periods and eligibility conditions.¹⁷ Parental leave absences do not count as service for long service leave accrual purposes (except for paid parental leave in Victoria).

Entitlements typically accrue on the basis of hours worked and are paid at the ordinary pay rate when long service leave is taken.

The Commission argued in the draft report that, consistent with the ceiling on paid parental leave under its proposal, long service accrual for the period of paid parental leave would need to be capped at the relevant hourly equivalent of the minimum wage for each individual. This would be in breach of statutory requirements (unless they were changed). It would also require the establishment of an ongoing dual accrual and payment system for each affected employee, with compliance burdens on most employing businesses. Notably, as leave often carries across several years, firms would need to keep track of such leave entitlements, even in years where no staff member has a child. The alternative, an uncapped scheme, would resolve many of these compliance burdens, but would add considerably to the cost of the scheme and the risk of discrimination. Similar arguments could be mounted against sick and annual leave accrual.

In addition, the Commission said that while it recognised the value of paid parental leave being seen as being like other leave, there is no single set of commercial and legislative requirements for entitlements on current forms of leave so that it is not easy to gauge what is ‘normal’. And, particularly with respect to mandating the accrual of leave entitlements while on parental leave, there would be a significant financial and (ongoing) compliance cost imposed on employers and legislative burden placed on Governments in order to amend the relevant industrial relations legislation (potentially with other broader consequences). Accordingly, the Commission expressed the view that this would preclude leave accrual being considered a practical component of its proposed scheme. However, the Commission also said that if evidence emerged that those obstacles could be overcome in a cost-effective manner, it would have cause to reconsider its position.

Business interests responded by arguing that the design of the Commission’s scheme made leave accrual an impractical proposition. Ai Group, for example, noted that the complexities associated with leave accrual would compound the adjustment costs associated with moving to the new industrial relations landscape:

¹⁷ A uniform national system of long service leave is currently being developed.

Imposing a payment rule based on the [Federal Minimum Wage] for the period of leave accrued during paid parental leave would be problematic and confusing. It would introduce unwarranted complexity into the accrual and payments rules for other types of leave and, as the Commission notes, would require amendment of the NES. These new complexities would come at a time when employers and employees will be adjusting to a range of new entitlements and rules under the NES. (sub. DR363, p. 20)

Some were concerned about the additional costs that would be imposed on employers, particularly given the actual payment rate for the accrued entitlements. The Chamber of Commerce and Industry Western Australia said:

The result is the accrual of around 3.4 days of personal leave and around 6.8 days of annual leave, to be paid out to the employee at the employees' *current* rate of pay, which is highly likely to create the anomalous situation of exceeding the minimum rate at which they accrued the hours. (sub. DR316, p. 7)

The South Australian Wine Industry Association estimated that:

Employees would be entitled to additional 96 hours of paid leave, at their rate of pay at the time of taking the leave (which may be significantly higher than the paid parental leave rate of \$544 per week). This cost is borne by the employer and is not subject to any productivity improvement. The minimum additional cost to an employer, based on an employee receiving the adult minimum rate of pay of \$14.31 per hour would be \$1,374 per employee. Costs will be higher for employees receiving higher rates of pay in line with higher classifications, grades or non award covered employees.

And Hair and Beauty Australia voiced particular concerns about small firms:

... if other leave entitlements [accrued], that would devastate the small business industry let alone our industry which has quite a few small businesses. It is just our position that the benefits are greatly outweighed by the burden on the industry in relation to the continuing accrual of other leave entitlements. (DR trans., p. 500)

Other employer advocates suggested that the Commission's deliberations on this issue were academic because under both current legislation and the proposed National Employment Standards, unpaid leave (from the employer's perspective) does not and will not count as service for the purposes of leave accrual. The combined submission from NSW Business Chamber and Australian Business Industrial said in this regard:

The proposal to consider accrual when on the proposed national paid parental leave scheme overlooks/does not appreciate/misunderstands the fact that the employee will be on unpaid leave from their employer, given that the Federal Government is the payer in the scheme. As the NES are currently drafted, no other type of unpaid leave (except community service) allows employees to keep accruing other leave entitlements while on leave. (sub. DR340, p. 13)

But the Australian Federation of Employers and Industries was less certain:

It is also possible that, with changes in the substantive legislation and the introduction of the 10 National Employment Standards on 1 January 2010, periods of unpaid parental leave will also count as “service” for the accrual of other forms of leave. This raises issues of the rate of pay at which leave will be accrued - the rate immediately prior to taking leave, or the rate of payment while on leave. (sub. DR339, p. 10)

In turn, the ACTU argued that the uncertainty surrounding the issue could be clarified by simply changing the unpaid leave provisions of the NES and specific State-based long service leave legislation so that periods of *unpaid* parental leave were counted as service for leave accrual purposes.

Amend the National Employment Standards and long service leave legislation to provide that unpaid leave for the purposes of taking statutory parental leave is counted as service for the purpose of accrual of annual leave, sick leave, and incremental salary progression. (sub. DR365, p. 9)

Formal written advice received from the Department of Education, Employment and Workplace Relations pointed to a similar potential antidote:

To avoid any uncertainty, it would be desirable for legislation establishing the scheme to be clear whether a period of leave for which a payment is made counts as service. (personal communication)

Based on that advice, the legislative hurdles to accrual of other leave entitlements during statutory paid parental leave do not appear that onerous (particularly if a uniform national long service leave system is implemented). But the Commission has not been swayed from its view that the initial compliance burden on firms would be too heavy given the design features of its proposal (though this may change in the future). Moreover, in line with the discussion on superannuation above, the imposition of an additional direct financial burden on employers during the establishment phase of the scheme and at a time of considerable economic uncertainty would be imprudent.

Therefore, the Commission recommends that the issue of accrued leave entitlements be revisited as part of the review of the scheme three years after its introduction. This would allow for a reassessment of business compliance costs which, at this time, provide the strongest argument against the inclusion of this component in the proposed statutory parental leave scheme.

Table 8.1 Pros and cons of alternative financing options

<i>Option</i>	<i>Features</i>
Direct Employer Funding	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Involves lower efficiency costs compared to other alternatives <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Risk of discrimination against women • Significant transitional costs on firms • Increased gender wage inequality
Pooled funding	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Potentially lowest efficiency cost compared to other alternatives • Reduces risk of discrimination and accentuation of gender wage gap • Spreads cost broadly <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Some transitional costs for firms • Comparatively high administrative and compliance burden • Increases complexity of the tax system
Portable leave/savings accounts	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Same as for pooled funding • Decisions regarding parental leave duration left in the hands of parents <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Same as for pooled funding • Broader scope of proposal involves higher efficiency cost • Diminishes the retention benefits from long service leave
Income contingent loans as a supplement to government-funded base scheme	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Reduces efficiency costs of full government revenue financing • Decisions regarding parental leave income and duration left in the hands of parents • Low-cost option for increasing the generosity of a base taxpayer funded scheme <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Detailed design requirements • Involves some risk to government revenue
Concessional tax arrangements	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Decisions regarding parental leave duration left in the hands of parents • May encourage business top-ups <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Provides tax concession to existing schemes • Favour employees likely to already have access to paid parental leave • Incentives for employers to act strategically • Involves some risk to government revenue
General government revenue	<p><i>Advantages</i></p> <ul style="list-style-type: none"> • Administrative machinery for collection already exists • Avoids problems of discrimination and greater gender wage inequality • Spreads cost broadly <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> • Potentially high efficiency costs

9 Interaction with social welfare payments

Key points

- The suite of family benefits currently provided in Australia is relatively generous by OECD standards (including most countries with paid parental leave schemes).
- The Commission has recommended folding some of the existing family benefits into the proposed paid parental leave scheme.
 - Parents ineligible for the statutory paid parental leave scheme will continue to have access to existing family payments (including the baby bonus if they meet the baby bonus means test).
 - Eligible parents will have the choice of either the statutory paid parental leave or existing family payments — so the introduction of the proposed scheme should make no family be worse off.
- The Commission is also proposing that statutory parental leave payments would not be counted as income when determining eligibility for income support payments (primarily parenting payment).
 - Of the families who could be eligible for the proposed paid parental leave scheme, as many as one-third may also access parenting payment while the mother is on unpaid leave.
 - If statutory parental leave payments were counted as income for parenting payment, it is possible that these families would be financially better off not taking the proposed paid parental leave pay.
- Under the proposed parental leave scheme, budget costs would increase by around 1.2 per cent of existing government outlays on family assistance measures.
- Payments under the proposed paid parental leave scheme should be taxed. As such:
 - low income earners would receive greater benefits than middle income earners and most high income earners
 - however, some families previously ineligible for the baby bonus would also receive relatively large net benefits
 - taxing the proposed payment assists in offsetting the disproportionate gain that some high income families would receive
 - a taxed scheme would also encourage additional leave to be taken compared to an untaxed scheme with a comparable budgetary cost

There are several substantive interactions between the tax and welfare system and the proposed parental leave scheme. This chapter explores these interactions and examines their implications for the design of the proposed paid parental leave scheme and for some existing welfare payments.

The chapter does not provide a detailed explanation of the Australian tax and transfer system. Rather, it examines how the proposed parental scheme will interact with the elements of the tax and transfer system that are particularly relevant to families with new children. This information enables the Commission to identify changes to existing arrangements that are required to improve the effectiveness of the proposed paid parental leave scheme. Additional information on these social welfare policies is provided in appendix F.

9.1 Interaction with other government payments

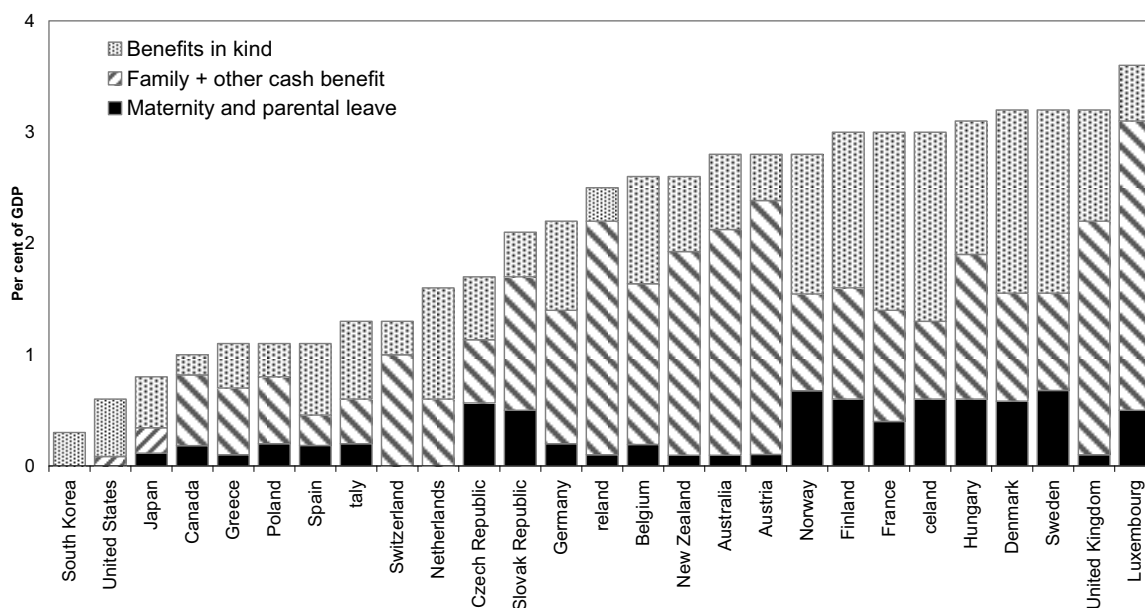
Families with young children may be entitled to a number of government payments, including the baby bonus, family tax benefit (A and B), parenting payment, the child care benefit and the child care tax rebate. These payments are generally subject to means testing, so not all families qualify.

International comparisons suggest that, family payments in Australia are relatively generous by OECD standards (figure 9.1).¹ And, the statistics for most other OECD countries include government outlays on paid maternity or parental leave schemes.

Australia currently spends around \$25 billion on family assistance (figure 9.2). The proposed paid parental leave scheme is likely to increase family related payments made by the federal government by around 1.2 per cent. Overall, the proposed scheme will have a net cost to taxpayers of around \$310 million a year (appendix B). While raising the budget outlays that Australia makes on family related payments, the proposed paid parental leave scheme is unlikely to change Australia's ranking among OECD countries.

¹ The family payments data also includes in-kind provision of services. The largest component of the in-kind provision of family services is child care. In many European countries, governments directly fund child care centres, so those payments are not treated as a monetary transfer to families but a service provided to families. For Australia, both the child care benefit and the child care tax rebate are considered direct transfers to families.

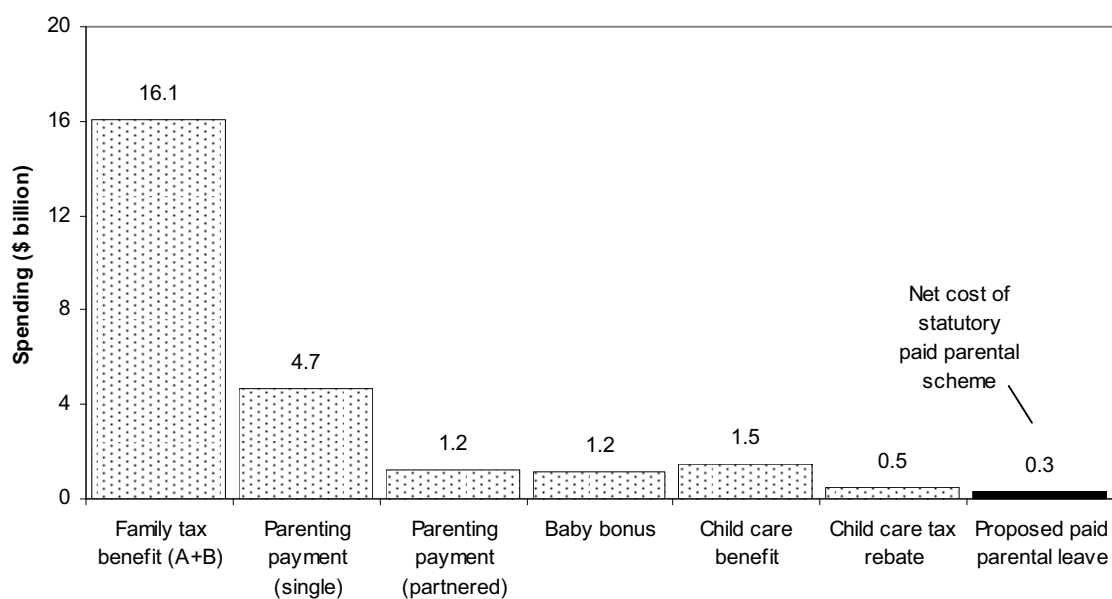
Figure 9.1 Family payments as a share of GDP in 2005^a



^a Family payments include family allowances, maternity and parental leave, other cash benefits and benefits in kind (which include transfers to subsidise child care).

Data source: OECD.

Figure 9.2 Budgetary outlays on main family benefits in Australia
Outlays in 2006-07



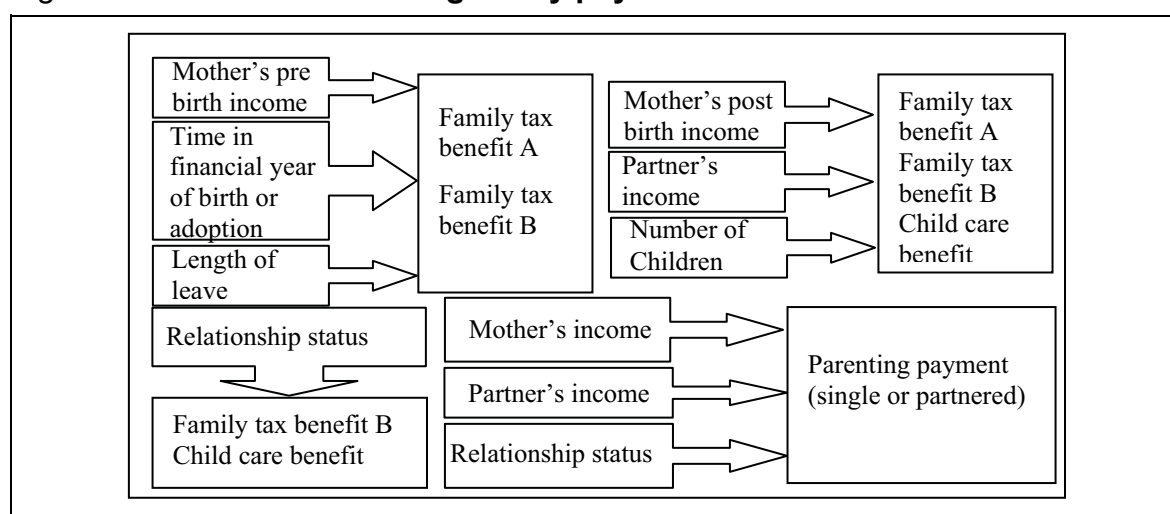
Data source: FaHCSIA 2008, *Pension Review Background Paper*, August and Productivity Commission calculation.

While family payments are available to most Australian families, the amount of support to each family differs. The factors that influence the extent of payments to families around the birth or adoption of a child include:

- the mother's income before birth or adoption
- the mother's income after birth or adoption
- whether they are a sole or partnered parent
- the partner's income
- the number of children in the family
- when during the financial year the birth or adoption occurs
- the length of leave taken.

A graphical representation of the factors that determine eligibility for these key family payments and for parenting payment is provided in figure 9.3. These seven family characteristics influence the eligibility for support and/or the amount of payment each family actually receives (see appendix F for more detail).

Figure 9.3 Factors affecting family payments



The set of family policies discussed here provide the context in which the proposed paid parental leave scheme will operate. Most of the existing payments are directed at specific groups and designed according to their needs. Similarly, paid parental leave is, by definition, aimed at assisting certain groups in society – primarily women in paid employment who have a baby. The needs of other groups, such as families where one partner has exited the labour market for a number of years in order to become a primary carer, are more appropriately addressed by policies explicitly targeted towards them.

Scale of existing government payments

A key objective of a paid parental leave scheme is to encourage parents to extend their time off work. One of the main means of achieving this objective is to provide families with additional financial assistance around the birth or adoption of a child. In order to place the scale of the proposed parental leave payments into context, it is useful to understand the scale of existing government payments.

McDonald (2008) provides an illustrative example for a couple with two children. He examines the levels of lifetime family assistance associated with different patterns of workforce participation. He considered four cases:

- ‘stay at home mum’ the mother provides full-time care and the father works full-time
- ‘one and a half incomes’ the father works full-time while the mother works part-time until the youngest child turns 13 and then full-time after that
- ‘equal sharing’ both mother and father work three quarter time until the youngest child turns 13 and then both work full-time after that
- ‘two incomes’ both mother and father work full-time.

McDonald notes that the stay at home mum couple benefited most from family tax benefits A and B. The equal sharing couple benefited most from family tax benefit A. Both the one and a half incomes couple and the two incomes couple benefited most from the child care benefit and child care rebate.

The stay at home mum couple were the largest recipients (\$168 000 by the time the youngest child turns 18), which is largely due to their lower overall income and eligibility for family tax benefit B. Interestingly the two incomes couple receive a relatively high amount (around \$113 000), which is almost entirely driven by the unusually high use of subsidised child care (50 hours per week for the first five years of both children’s lives) assumed in McDonald’s example.

The one and a half incomes couples and the equal sharing couples which McDonald suggests more accurately portrays parents’ preferences receive more modest entitlements, of around \$45 000 and \$42 000 respectively, by the time their youngest child turns 18 years old.

Another way of looking at the scope of existing family payments is to estimate the payments that some actual families would receive. The LSAC database provides sufficient information to estimate the level of family assistance for about 1700

families had their child been born or adopted in 2008-09 (table 9.1).² The estimated payments reflect family income, the timing of birth and the amount of leave taken by parents. The evidence shows that the size of payments are strongly related to family income:

- A family where the mother's pre birth annual income was below \$20 000 and her partner's annual income was below \$30 000 received, on average, just under \$44 000 in government payments. These amounts include payments both in the year the baby was born and in the following financial year.³
- In contrast, for families where the partner earns \$90 000 or more a year and the mother has an annual pre birth wage of \$50 000 or more, the family would receive less than \$5 000 in government benefits over two years.

Table 9.1 Payments to families with newborn children

Average payments to families who would be eligible for the proposed scheme

		<i>Mother's annual pre birth income^b</i>		
		Below \$20 000	\$20 000 to \$49 999	\$50 000 +
Partner's annual income	Below \$30 000	\$43 988	\$34 472	\$23 890
	\$30 000 to \$59 999	\$25 088	\$15 810	\$8 504
	\$60 000 to \$89 999	\$18 560	\$10 965	\$7 379
	\$90 000 +	\$15 857	\$7 309	\$4 716

^a The payments include the baby bonus, family tax benefit (A and B) and parenting payment (single and partnered). Payments are the sum of payments received in the year of birth and the following financial year. The calculations assume no behavioural change from the introduction of the proposed paid parental leave scheme.

^b The income is equivalent to 52 weeks of each mother's pre birth weekly wage.

Source: Productivity Commission calculations using LSAC database.

² There are 1716 families in the LSAC database where the mother would be eligible for the proposed paid parental leave scheme and where there is sufficient information to determine the value of family payments they would be entitled to if they had a child in 2008-09. As the LSAC income information relates to the 2003-04 financial year, the income has been adjusted by the growth in the consumer price index to reflect changes in income that have occurred between 2003-04 and 2007-08 (the latest complete year of inflation data).

³ For around a third of families, the proposed paid parental leave scheme will be paid over two financial years. As the family tax benefit payments and tax liabilities are based on financial year income, it is necessary to examine the financial impact on families of the proposed paid parental leave scheme across the year in which the birth or adoption occurred as well as the subsequent financial year.

In fact, the value of government payments indicated in table 9.1 is understated because child care related assistance has not been included.⁴

The existing generous levels of family welfare payments have to be considered in designing any statutory paid parental leave scheme. In particular, a statutory paid parental leave scheme must provide a sufficient gap between the payments received while on welfare and those received while participating in the scheme, so that parents are encouraged to take leave while maintaining a longer-term link to the workforce. Such a gap could be achieved by continuing to pay existing welfare benefits and supplementing these with an additional modest statutory leave payment.

Alternatively, the same gap could be achieved by reducing access to some welfare payments for those taking statutory paid parental leave and paying a more generous statutory payment. The latter approach – which the Commission proposes – is more consistent with the goal of making the leave payment like other work-based entitlements, rather than a conventional welfare payment (chapter 6). Moreover, the latter approach penalises the early return to work by a person on statutory paid parental leave to a greater degree, helping to facilitate the longer leave durations that are important for child and maternal welfare (chapter 4).

While, in theory, it is the gap between welfare and in-work payments that provide the most important motivation for remaining attached to the labour force, the absolute size of the statutory payments and their timing may also be important considerations, potentially encouraging higher long-term labour force participation by women (chapter 5).

Some financial assistance currently provided to families is not available immediately. For example, part of the family tax benefit A and B is paid in the following financial year. If a family chooses to participate in the statutory paid parental leave scheme then they will lose some family tax benefits. The reduction will influence both the fortnightly family tax benefit payments and the end of year supplementary payments. Many parents may not know exactly how much family tax benefits they will ultimately receive by the end of the financial year. In contrast, all of the proposed paid parental leave would be paid within an 18 week period.

Given the greater certainty and timeliness of statutory paid parental leave payments, families are more likely to use the money to extend their leave. Accordingly, a family may still change their leave behaviour even if they receive benefits under the

⁴ Child care benefit and child care tax rebate have not been included in this analysis because the LSAC database has insufficient information to estimate the benefits families receive.

proposed paid parental leave scheme equivalent to those arising from current tax and welfare arrangements.

The following section assesses what changes to existing family assistance may be necessary for families to benefit from the proposed paid parental leave scheme. Based on advice received from a number of government departments on the draft report proposal, the Commission has modified the proposed approach. Most notably, the interaction between the proposed paid parental leave scheme and income support payments – especially parenting payment – has been substantially altered.

Existing policies that assist families with new children

The Commission is principally interested in increasing the length of leave parents take around the birth or adoption of a child. However, given the wide range of existing policies that influence parents of new children, it has also been necessary to examine any indirect impacts that access to existing payments could have on the effectiveness of the proposed paid parental leave scheme.

The baby bonus

The baby bonus provides families with a \$5000 tax-free payment, regardless of their workforce status. Since January 2009, a means test has been applied to the baby bonus. Only families who will earn a combined income below \$75 000 in the six months after the birth or adoption of a child are eligible for the baby bonus. In addition, since January 2009, the baby bonus is paid in 13 fortnightly instalments to eligible families.

While many families already use the baby bonus to finance some of their parental leave, this is not the case for all families. As such, the Commission looked at ways to design a scheme that:

- did not diminish the ability of families to finance some of their leave through government support, but
- also provided an incentive for families to use government support for financing an extension of their leave where they are not currently doing so.

A way of achieving these two objectives is to fold the existing baby bonus into the proposed paid parental leave scheme for eligible parents – with parents only receiving the parental leave payment if they take time off work.

Family tax benefit B

The Commission proposes that families using statutory paid parental leave would lose access to family tax benefit B payments while they were on statutory leave.⁵ This would partly finance the scheme, while helping to maintain the gap between welfare and an in-work benefit that is necessary to achieve the objectives of the scheme.

The Commission could have adopted the alternative strategy of leaving intact the existing family tax benefit B arrangements, and making budget savings as the additional income from statutory paid parental leave reduced parents' family tax benefit B entitlements. Under this scenario, were the Government to pay parental leave at the federal minimum wage then under the current family tax benefit regulations, most families would lose all of their family tax benefit B payments while receiving the proposed parental leave payment. However, a significant minority of families – particularly single parents – would remain eligible for a significant level of family tax benefit B payments while on statutory paid parental leave. Consequently, a statutory paid parental leave scheme structured so that parents would still be potentially eligible for family tax benefit B would be more expensive. That additional cost might have been justified if it had significant positive effects on the leave and labour force behaviour of the relevant group of parents who would continue to get family tax benefit B payments. However, we do not believe that to be the case.

Parenting payment

There is a reasonable likelihood that families currently accessing parenting payment during unpaid leave would not be financially better off under the proposed statutory paid parental leave scheme. As a result, these families could be expected to opt out of the scheme and into welfare, potentially weakening the positive impacts of a statutory paid parental leave scheme on women's lifetime workforce participation. While the Commission is uncertain of the number of affected families, we believe it to be a more significant number than initially estimated in the draft report (box 9.1). For this reason, the Commission is now recommending that payments from the proposed parental leave scheme not count as income for determining eligibility for either parenting payment – single or partnered.

⁵ Currently, while the mother is on unpaid parental leave, nearly all families are eligible for the maximum rate of family tax benefit B (currently \$125.02 a fortnight).

Box 9.1 **Who gets parenting payment while on leave?**

There is considerable uncertainty about how many mothers receive parenting payment during any period of parental leave.

Centrelink administrative data supplied to the Commission by FaHCSIA indicates that 24 per cent of families with a child aged under one year old were in receipt of parenting payment in late November 2008. It is likely that additional families with newborn children would have accessed parenting payment at some time during the year — but not on that date. As such, we would expect more than 24 per cent of mothers with newborn children to receive parenting payment during the first year of their child's life. Unfortunately, the Centrelink administrative data only relates to specific points in time, and accordingly, cannot identify how many of those families would have a mother eligible for the proposed paid parental leave scheme.

Using data from the LSAC database, 26 per cent of all families with newborn children reported receiving parenting payment at a point in time. In comparison, just 10 per cent of families where the mother would be eligible for the proposed paid parental leave scheme reported receiving parenting payment when they were interviewed. And, most of these families were only eligible for part of the parenting payment. Based on this information, in the draft report the Commission did not recommend changes to the eligibility provisions for parenting payment.

However, according to the income and leave data available in the LSAC database, as many as a third of families where mothers would be eligible for the proposed paid parental leave scheme could qualify for parenting payment some time in the first twelve months after the birth of their child. Most of these families would only be eligible for parenting payment while the mother was on unpaid leave.

In fact, it is likely that less than a third of mothers who would be eligible for the proposed paid parental leave scheme would receive parenting payment for any part of the first year after the birth or adoption of a child. This is because:

- some of these families will not meet the asset test for the parenting payment
- some parents who are eligible for parenting payment will not apply for it.

As such, we do not know how many parents eligible for the proposed paid parental leave scheme will actually receive parenting payment, nor the rate of payment or its duration. However, it is likely to be considerably higher than the initial 10 per cent figure estimated by the Commission in the draft report.

More generally, the Commission is recommending that the proposed parental leave payments should not count as income for any allowances or pensions ('income support' as defined under section 23 of the *Social Security Act 1991*). This can be operationalised by including any statutory paid parental leave payments in taxable income, but excluding them from the calculation of 'ordinary income'. This will result in the paid parental leave not influencing a mother's entitlement to parenting

payment or in her partner's entitlement to such arrangements as newstart or the disability support pension.

Child care benefit and child care tax rebate

While most of the tax transfer system in Australia discourages labour force participation by new mothers, child care assistance actually encourages parents to return to work. Child care assistance encourages labour force participation by lowering the costs families face when returning to work.

Child care assistance can both undermine and complement the objectives of the proposed paid parental leave scheme:

- if assistance with child care encourages parents to return to work during the first six months of a child's life, it works against the objectives of child and maternal wellbeing
- but, if it encourages parents to return to work at a later time, it can complement the workforce participation objective of a paid parental leave scheme.

An examination of the use of child care by Australian families with a new baby gives some insight into whether child care assistance could undermine the effectiveness of the proposed paid parental leave scheme.

Assistance with child care is provided by two payments, a child care benefit and a child care tax rebate.

- The child care benefit is typically taken as a reduction in the fortnightly fee charged by 'approved' or 'registered' child care providers for eligible families.
 - the maximum hourly subsidy for 'approved' child care is between \$3.47 and \$4.63 an hour
 - ... the maximum hourly subsidy varies depending on the number of children in care and the weekly hours of care
 - for most types of registered care, the current maximum rate is less than 60 cents an hour.
- The child care tax rebate reimburses parents each quarter for half of the out of pocket expenses for 'approved' child care up to a maximum of \$7500 a year per child (FAO 2008c).

The combined effect of the child care benefit and the child care tax rebate is that most families with a child under the age of one year who use 'approved' child care services are likely to have at least half their child care costs subsidised through the

child care benefit scheme and the child care tax rebate. Lower income families will receive even higher subsidies.

Based on LSAC data, only 2 per cent of babies are placed in long day care or family day care – the predominant providers of ‘approved’ care – before six months of age. While around a quarter of mothers who return to work in the first six months do utilise formal child care, this is a very small group of children.

Most parents still bear part of the cost of ‘approved’ child care. As such, families with children in family day care or long day care must spend part of their net income on child care costs. If the primary carer extended their leave, the family could save money by not having their children in care. The amount of compensation those families will need to encourage the primary carer to extend their leave is likely to be less than for a family on the same income without child care costs.

Of the families with babies under six months of age using long day care or family day care for work purposes, it is estimated that three quarters would financially benefit from the introduction of the proposed parental leave scheme.⁶ In addition, all those families who would benefit from the scheme are estimated to take the entire 18 weeks of paid parental leave. As such, the current level of child care subsidies is unlikely to negate the incentives offered by the proposed paid parental leave scheme. However, further increases in child care subsidies for children under six months old would work against the central objectives of the proposed paid parental leave scheme.

Most of the remaining mothers who would not be financially better off taking the proposed parental leave payment are earning high incomes.⁷ As such women are less likely to respond to the proposed paid parental leave scheme generally, it is unlikely that the child care assistance they receive would undermine the objectives of the proposed paid parental leave scheme.

Throughout our inquiry, a number of participants indicated that gaining access to a preferred child care provider can alter the planned return to work date (for example Ms Roberts NTEU, transcript p. 219 and A Harris, sub. 201 p. 3). Parents typically need to register their interest in using a child care centre, and when they have reached the top of the waiting list and a place becomes available, they are offered that place. If they wish to accept the child care place, they must begin to pay for the care within a given period. If a child care place is offered at a preferred centre

⁶ Appendix G provides details on the approach used for estimating the benefit from the proposed paid parental leave scheme.

⁷ But not so high that they would be ineligible for the baby bonus if they did not use statutory paid parental leave.

before the intended return to work date, it is likely that the family will accept child care placement and the primary carer will then return to work. It is unlikely that a parental leave payment will alter this behaviour.

Child care assistance may also alter the timing of return to work for families who already have at least one child in care when a parent begins parental leave. In those circumstances families may:

- keep the older child in care during parental leave typically with reduced hours
- withdraw the older child from care, but at the risk of having no care place for the older child if the parent returns to work.

For those families who choose to pay for child care while the parent is on leave to guarantee ongoing access to a care position, there is an incentive to return to work earlier.

Nevertheless, overall it can be expected that parents currently using formal child care would extend their time off work under the proposed parental leave scheme. Consequently, there is likely to be a reduction in very young children in ‘approved’ child care. However, it is not clear that there would be a long-term reduction in child care use or an associated budget saving. Part of the objective of the proposed scheme is to increase the lifetime workforce attachment of women (see chapter 5), which could partly or completely offset short-run budget savings.

Interaction with other government programs

The proposed parental leave payment will also affect eligibility for other welfare payments including family tax benefit A and carers allowance.

More families with children under two years of age receive family tax benefit A than receive family tax benefit B. Around 70 per cent of families with children under the age of two years receive family tax benefit A, compared to 62 per cent for family tax benefit B. The maximum payment rate for family tax benefit A (per child) is around \$20 a fortnight higher than the (per family) maximum payment of family tax benefit B.

The interaction between the proposed parental leave scheme and family tax benefit A is likely to be less critical for the design of the proposed scheme than the interaction with family tax benefit B. This is because:

- eligibility for family tax benefit A is based on both parents’ combined income for the entire year, rather than just the income of the primary carer

-
- unlike family tax benefit B, there is no quarantining arrangement⁸ for family tax benefit A, so there is a less direct link between the duration of leave taken by the primary carer and the amount of family tax benefit A paid
 - reductions in family tax benefit A payments only occur in specific income ranges, so some families will not lose any family tax benefit A payments if they receive the proposed parental leave payment.

Given the nature of these interactions, the Commission is not recommending any changes to the family tax benefit A arrangements. The entire tax and welfare system is currently being examined by the *Australian Future Tax System Review Panel*, hence the Commission has only recommended changes to the welfare system that are considered essential for the effective operation of a paid parental leave scheme. It may be necessary to alter the design of the proposed paid parental leave scheme after the completion of the tax and welfare review to ensure that the interaction between the schemes would still deliver the desired outcomes.

The carer allowance is a means tested payment, with benefits declining at relatively low income levels (FAO 2008c). As such, recipients of the carer allowance who are eligible for the proposed parental leave scheme were among those most at risk of being worse off by accepting the proposed parental leave scheme from the draft report. As the Commission is recommending that the parental leave payments not be included for the means testing of income support payments, families where the mother or partner are receiving the carer payment are more likely to benefit from the proposed parental leave scheme.

9.2 Interaction with the tax system

Ultimately, the tax paid by a person depends on their annual income. However, in any given period, the ATO withdraws tax based on the income at that time. Consequently, at the end of the financial year, it is often necessary to reconcile the actual amount of tax paid and the appropriate tax liability. This is especially true for mothers who have interrupted income flows around the birth of their children, with the result that they are usually due a tax refund.

⁸ Quarantining is explained in appendix F. It allows one parent in a family to be paid the maximum amount of family tax benefit B for a continuous period of unpaid leave, subject to some additional conditions. Usually, access to family tax benefit B is based on income over a full financial year. The quarantining provision treats the unpaid parental leave as a separate period. This reduces the scope for families to incur a family tax benefit liability if the mother earns more money when she returns to work than has been expected.

The pay-as-you-go tax withholding system would apply to the proposed parental leave payment. For each recipient, \$120 of the payment would be withheld each fortnight,⁹ but the ultimate tax liability each mother would incur would depend on her income throughout the financial year.

For most mothers who would receive the proposed parental leave payment, the increase in their tax liability for the year would exceed the amount of tax withheld from their parental leave payment, reflecting the fact that their income for the rest of the year would be higher on average than that received while on paid parental leave. The outcome for most mothers would be a smaller tax refund than if there was no paid parental leave scheme. The overall size of their ultimate tax liability would be influenced by:

- when during the financial year the child was born or adopted
- how much paid leave the parent is entitled to
- how long a period off work they choose to take.

There would also be a small group of mothers who would not be liable for additional tax at the end of the year. Using the LSAC database, around 8 per cent of mothers who would be eligible for the proposed parental leave scheme would not be liable for additional tax if the government introduces the proposed scheme. For these mothers, \$120 of each of the proposed fortnightly parental leave payments would still be withheld, and these parents would receive the withheld tax back at the end of the financial year.

Because the tax implications depend upon the specific circumstances relevant to each family, the following section uses household level data to assess how the proposed paid parental leave scheme will interact with the existing tax and welfare system.

How much new money will be provided?

While the Commission's proposed parental leave payment is for 18 weeks, it also involves the repackaging of some existing payments, increased tax liabilities and some loss of government benefits. Taking all of that into account, on average, the additional new money eligible families would receive from the parental leave component would be around \$1750.¹⁰

⁹ Based on 2008-09 tax tables, assuming that the person is eligible for the full tax free threshold.

¹⁰ This is the net benefit after annual tax liabilities are considered. Families may also receive some benefits from the paternity leave component of the proposed scheme and, if this feature is introduced after the mooted three year review of the proposed scheme, from employer

Who we expect to opt into and out of the scheme

Based on an analysis of the financial impacts of the proposed scheme, around 86 per cent of families are expected to opt into the parental leave component of the scheme. There are two groups with a particularly high expected opt in rate:

- every family in the sample that was not eligible for the baby bonus is projected to opt into the scheme. These families need to receive a payment for only a small number of weeks to obtain a benefit from the scheme
- 90 per cent of eligible families having their first child are projected to opt into the scheme.

Some of the factors that increase the likelihood of families opting out of the scheme include:

- families with a larger number of children
- being eligible for large amounts of government payments such as family tax benefits and the baby bonus.

While most eligible families are expected to opt into the proposed paid parental leave, families with combined incomes between \$40 000 to \$80 000 are expected to be the most likely to opt out of the proposed scheme. Typically, these families would not opt out because the proposed parental leave is insufficient, but because they already receive substantial government assistance that they could lose. On average, families in this income range would currently receive over \$25 000 in government benefits across the financial year of the child's birth or adoption and the following financial year.

Average benefits for those opting into the scheme

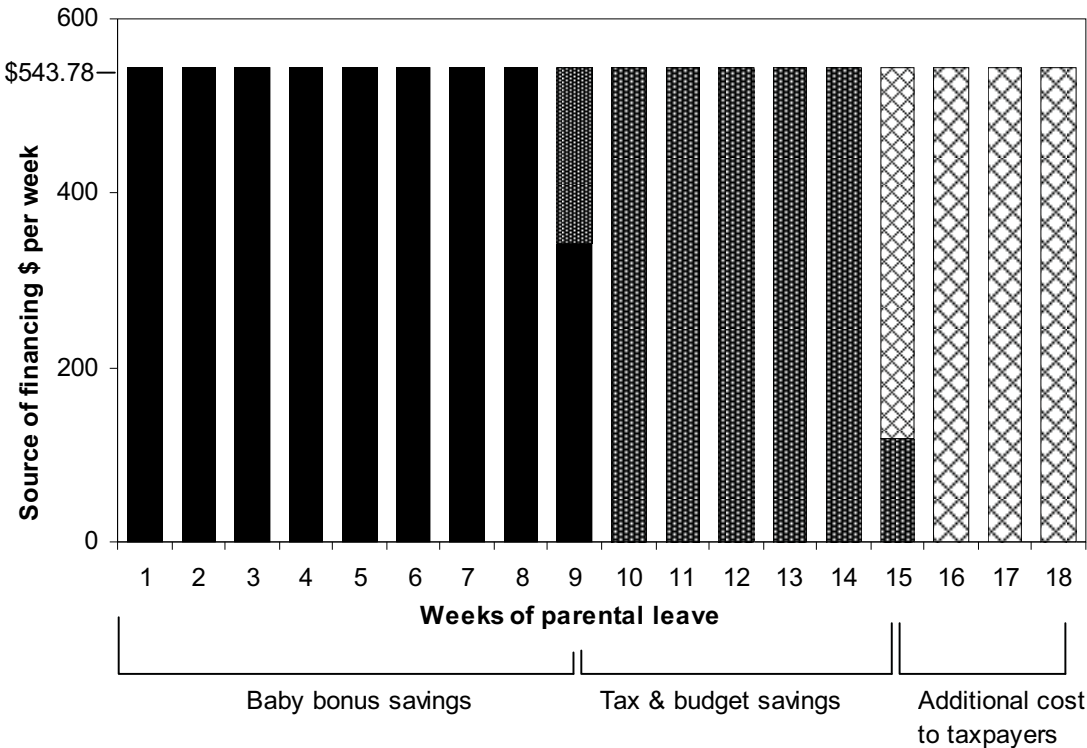
The average net benefits from those expecting to *use* the statutory paid parental leave scheme (some 86 per cent of eligible families) is estimated to be \$2042 per family. As shown in figure 9.4, the replacement of the baby bonus for parents eligible for the paid parental leave scheme will fund nearly nine weeks of the scheme at the federal minimum wage.¹¹ The equivalent of nearly six weeks of the paid parental leave payment would be lost because of additional tax liabilities or reduced family tax benefits. Therefore, the average family who would benefit from

superannuation contributions on statutory leave payments (chapter 2 and appendix B). In the remaining part of this chapter, 'net benefit' refers only to the net gains from parental leave payments, and so does not incorporate all the benefits families may gain from using the scheme.

¹¹ Figure 5 in the overview shows a similar chart, but also depicts the paternity leave component of the scheme.

the scheme would receive slightly under four weeks worth of new money – that is, money in addition to what they would have received in the absence of the paid parental leave scheme.

Figure 9.4 How much of the parental leave payment is new money?
 18 week parental leave payment^a — average for families who receive a benefit



^a This figure is based on the average for mothers who opt in to the proposed paid parental leave scheme. However, it is projected that only 17.95 weeks of paid parental leave will be used on average by mothers who opt into the scheme. To represent the averages over an 18 week period, each component has been increased by approximately 0.23 per cent.

Data source: Productivity Commission calculations.

How do different families fare?

A key objective of the proposed scheme is to extend the length of leave that families take immediately after the birth or adoption of a child. The main means of achieving this objective is by providing families with sufficient financial incentives for them to change their leave behaviour. For this reason, we are interested in the magnitude of benefits that the scheme provides to different families.

As the proposed paid parental leave scheme will interact with the tax and welfare system, the actual benefits received by any family will often vary from the average.

Using the information in the LSAC database, it is possible to indicate how the benefits from the proposed 18 week parental leave scheme will vary by income (table 9.2). We have calculated the average net benefits only for families projected to benefit from the scheme (as other families will choose not to use the scheme). The average benefits are presented for ranges of the pre-birth incomes of mothers and families.

Table 9.2 Net financial benefit of the proposed scheme

Average net benefit to families who opt into the proposed scheme by mother's pre-birth annual income^a and family's pre birth income^b.

<i>Mother's pre birth income</i>	<i>Average benefit</i>	<i>Family's income</i>	<i>Average benefit</i>
\$1 to \$10 000	\$2419	up to \$30 000	\$2021
\$10 001 to \$20 000	\$2239	\$30 001 to \$60 000	\$1869
\$20 001 to \$30 000	\$2018	\$60 001 to \$90 000	\$1695
\$30 001 to \$40 000	\$1958	\$90 001 to \$120 000	\$1709
\$40 001 to \$50 000	\$1888	\$120 000 plus comprising:	
\$70 001 plus	\$2172	- those eligible for baby bonus ^c	\$1709
		- those not eligible for baby bonus	\$6490
		- all families with this income	\$2833

^a The income data for mothers relate to the pre-birth income — as such, they are not affected by the proposed payment. In the LSAC database, a mother's income is in income ranges. As such, there are no observations for mothers' incomes between \$50 000 and \$70 000. ^b The father's income is pre-birth income from the LSAC database. ^c Eligibility for the baby bonus depends on family income earned in the six months after birth — income for determining eligibility for the baby bonus does not include the proposed statutory parental leave payments.

Source: Productivity Commission calculations utilising LSAC wave 1 and 1.5 data.

For most income ranges, the average benefits are of a similar magnitude, ranging from \$1695 to \$2419. The Commission's recommendation that income from statutory paid parental leave not be included in income testing of parenting payments and other income-support payments increases prospects for net benefits from participation by lower-income families. However, inevitably, the interaction between the tax and welfare system can result in some people losing most of any additional income earned. The extent to which this occurs is considered in appendix L.

It is notable that those families not eligible for the baby bonus (around 5.5 per cent of eligible families) tend to receive an average benefit of \$6490 — higher than the average for other families. It is important to explain why this outcome occurs and how to interpret its significance.

Families ineligible for the baby bonus

A small group of higher-income families are ineligible for the untaxed \$5000 baby bonus payment and are also generally ineligible for family tax benefits A and B. As a result, if such families use statutory paid parental leave, they could not lose access to any welfare payments. Under the proposed scheme, they would receive a net benefit equal to the proposed 18 weeks of parental leave payments, but taxed at the mother's marginal tax rate. The overall implication is that this particular group of families would be likely to receive a larger net benefit in *absolute* terms than most other families (table 9.2).

The only way of avoiding the relatively high absolute benefits for this small group of families would be income-tested access to the statutory paid parental leave scheme. This would be markedly at odds with several of the main objectives of the scheme:

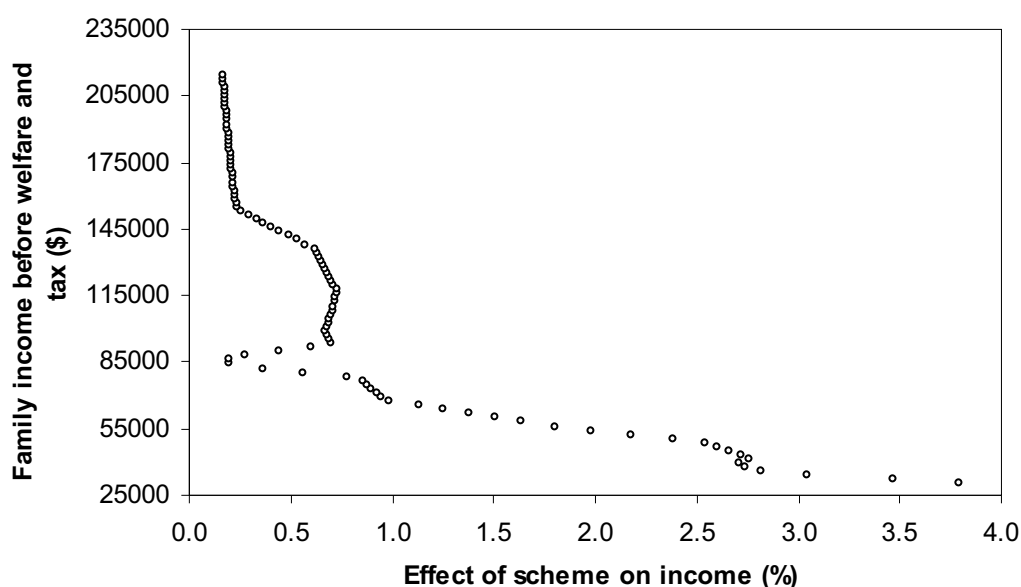
- as part of the social policy goals articulated for a statutory paid parental leave scheme, it is intended that the scheme functions as a work-based entitlement, like recreation leave, rather than as a conventional welfare payment. Work-based entitlements are not income-tested. Notably, statutory paid parental leave schemes around the world generally recognise this goal and are not subject to such tests. Indeed, many of these overseas schemes involve payment at replacement wages, which would increase even further the benefits gained by high-income families
- a major goal of the scheme is to promote child and maternal welfare benefits by encouraging longer leave durations for families. This rationale for a scheme applies to families regardless of their income level.

As emphasised throughout this report, the objective of the scheme is not income redistribution, but rather behavioural change. Income distributional goals are best achieved through other policy measures. That said, even when the distributional issues are considered, the story is much less clear cut than may first be apparent:

- The absolute dollar benefits associated with any policy measure are a poor guide to its underlying distributional impacts. Higher-income families face both higher average tax rates and pay significantly higher absolute amounts of tax over their lifetimes. Since the proposed statutory paid parental leave scheme is taxpayer-financed, such families will bear a disproportionately greater responsibility for financing the scheme than lower-income families. As such, seen in lifetime terms, the real net benefits that high-income families receive will be considerably less than those suggested by the snapshot analysis shown in table 9.2.

- The benefits from a statutory paid parental leave scheme are much lower as a share of family income for higher-income families than lower-income families (figure 9.5).

Figure 9.5 **The *relative* impacts of the scheme by family income**



a The figures relate to a family having their first child and shows the effects of a statutory paid parental leave scheme on the net benefits they receive as a share of family income (before any welfare payments or taxation) as income is progressively increased.

Data source: Productivity Commission calculations.

Should the parental leave payment be taxed?

In developing the proposed paid parental leave scheme, a key objective was to limit the overall cost of the scheme. Had the scheme been untaxed, it would have been necessary to either reduce the duration of the scheme or the payment rate in order to maintain a similar budget. Some benefits of taxing the proposed parental leave payment include:

- those on the lowest incomes are likely to be most responsive to the scheme and will be less affected by taxing the payment than higher income earners. Therefore, taxing the payment makes the scheme more effective in delivering longer leave periods around the birth of a child, and greater lifetime workforce attachment than an untaxed payment
- taxing the payment reduces the disproportional benefit that some higher income families receive – particularly those families not eligible for the baby bonus.

- it is then consistent with the tax treatment of other forms of paid leave, increasing the desirable perception that this is a leave payment, not welfare.

We can compare what impact taxing the proposed paid parental leave scheme would have on the distribution of benefits by comparing it to an untaxed scheme that provides a similar average benefit. An untaxed scheme of 14 weeks of paid parental leave is estimated to provide an average benefit of \$1939 for those families who opt in to the scheme and can be used for comparison.

As illustrated in table 9.3, taxing the proposed paid parental leave scheme would be expected to result in women with a pre-birth income under \$40 000 receiving substantially larger benefits than they would under an untaxed scheme with a similar average benefit. Conversely, women with pre birth incomes over \$100 000 would gain an even higher benefit from an untaxed scheme.

Table 9.3 Distribution of benefits under taxed and untaxed paid parental leave schemes that provide a similar average benefit^a

By mothers' pre-birth income

	<i>Average benefit under 14 week untaxed payment</i>	<i>Average benefit under 18 week taxed payment</i>
\$1 to \$10 000	\$1008	\$2419
\$10 001 to \$20 000	\$1440	\$2239
\$20 001 to \$30 000	\$1450	\$2018
\$30 001 to \$40 000	\$1730	\$1958
\$40 001 to \$50 000	\$2070	\$1888
\$70 001 to \$80 000	\$2392	\$2419
\$100 001 plus	\$3403	\$2631

^a The figure compares the distribution of benefits of a taxed paid parental leave scheme of 18 week duration (average benefit of \$2042) with a 14 week untaxed paid parental leave scheme (average benefit of \$1974).

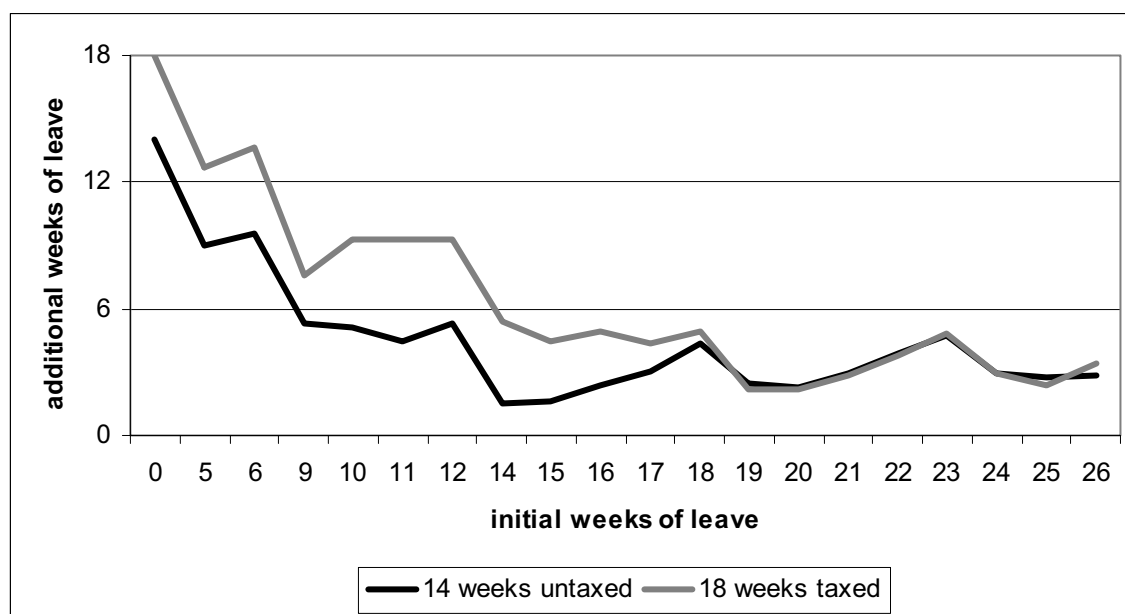
Source: Productivity Commission calculation utilising LSAC data.

Implementing a taxed paid parental leave scheme would also be expected to increase leave by more than an untaxed scheme with the same average benefit. This difference in additional leave is most notable among mothers who initially took less than 26 weeks of leave (figure 9.6).¹²

¹² In addition to the initial length of leave data contained in the LSAC database, the Commission has included an estimate of the increase in leave families would take following the introduction of the baby bonus. The methodology for this adjustment is outlined in appendix G.

Figure 9.6 Difference in estimated additional leave for taxed and untaxed schemes^a

Average initial and additional weeks of leave for mothers who are projected to benefit from the proposed parental leave scheme



^a The figure illustrates the estimated increase in leave from a taxed paid parental leave scheme of 18 week duration (average benefit of \$2042) and a 14 week untaxed paid parental leave scheme (average benefit of \$1974). Only mothers with an initial length of leave of 26 weeks or less are illustrated.

Data source: Productivity Commission estimates.

As such, a taxed paid parental leave scheme is expected to better meet the objectives for such a scheme than an untaxed scheme with the same average benefit. In particular, taxing the paid parental leave scheme is expected to result in greater benefits flowing to lower income families – those most likely to respond to the additional assistance. As such, a larger increase in leave would be expected among people currently taking less than 26 weeks of leave – a key target group given the objectives of the scheme.

9.3 The bottom line

While Australia does not have a statutory paid parental leave scheme, by OECD standards, it already provides relatively generous levels of family payments – in some instances exceeding the benefits offered by countries with paid maternity leave schemes. The proposed paid parental leave scheme will increase the value of Australian Government assistance to families by just over one per cent.

The Commission is proposing to incorporate some existing payments into the statutory paid parental leave scheme, as well as adding sufficient additional benefits to encourage parents to take leave around the birth or adoption of their children. The Commission is proposing that families who receive the proposed parental leave scheme not be eligible for the baby bonus or receive family tax benefit B while receiving parental leave payments. This will require some changes to the baby bonus and family tax benefit B regulations.

To minimise the risk of families being disadvantaged by the proposed scheme, parents would still be able to opt out of the scheme and receive the family benefits they are currently eligible for.

On average, families eligible for the proposed paid parental leave scheme would benefit by an average additional \$1750 per family. In general, lower income families will receive higher benefits than higher income families.

Given the current review into the tax and welfare system in Australia, the Commission has attempted to make minimal suggestions for changes to existing tax and welfare arrangements. However, at the conclusion of the tax and welfare system review, it may be necessary to revisit the proposed parental leave scheme to ensure that it will still achieve the desired objectives.

A Consultations

A.1 Conduct of the inquiry

Following receipt of the terms of reference, the Commission placed advertisements in national and metropolitan newspapers and sent a circular to a wide range of individuals and organisations, inviting participation in the inquiry.

In April 2008, the Commission released an Issues Paper and a Personal Feedback Paper inviting public submissions and personal responses, and indicating some particular matters on which it sought information. In total, 416 public submissions have been received and placed on the inquiry website, 163 of which were received after the release of the draft report. A full list of public submissions is contained in section A.2.

In addition, the Commission received a few confidential submissions and several hundred (mainly unsigned) emails that expressed opinions on paid parental leave and in some cases advised of their personal experiences. Some emails subsequently became public submissions. A selection of the remainder was placed on the inquiry website for participants to read.

During the early stages of the inquiry, the Commission consulted with a range of interested parties in Australia to obtain an overview of the key issues. While on a visit to New Zealand, the Commission took the opportunity to discuss the operation of that country's paid parental leave scheme. A list of people and organisations that the Commission met with is contained in section A.3.

During May and June 2008, a first round of public hearings was held in most state and territory capital cities. A list of those participants who took part is contained in section A.4. Commissioners held a community consultation in Dandenong, and one with its own staff, to discuss people's personal experiences of combining childbirth and ongoing employment. Commissioners and staff also took part in several community consultations convened by other organisations. A second round of hearings was held after the release of the draft report in September 2008 (section A.4).

The Commission thanks all those who have contributed to this inquiry.

A.2 Submissions

The following is a list of all public submissions received. Those with the prefix DR were received after the release of the draft report.

<i>Participants</i>	<i>Submission no.</i>
ACT Council of Social Service	129
ACT Government	232
ACTU	69, DR365
Adams, Sarah	243
Alcoa of Australia	DR312
Allen, Hilary	DR269, DR282
Amnesty International Australia	216
AMP Limited	251
Apps, Peter	DR369
Association of Consulting Engineers Australia	155
Association of Professional Engineers, Scientists and Managers Australia	204, DR335
Australasian Institute of Mining and Metallurgy	185
Australasian Society for HIV Medicine Inc	57
Australian Association for Infant Mental Health	25
Australian Breastfeeding Association	249, DR391
Australian Bureau of Statistics	DR332
Australian Catholic Council for Employment Relations and Catholic Social Services Australia (joint submission)	225, DR322
Australian Chamber of Commerce and Industry	135, DR399, DR403
Australian Education Union	140, DR354
Australian Education Union – SA Branch	DR291
Australian Fair Pay Commission	DR406
Australian Family Association	205
Australian Federation of Employers and Industries	202, DR339
Australian Federation of University Women	7, DR320
Australian Federation of University Women — SA	56
Australian Human Rights Commission	DR377
Australian Industry Group	182, DR363
Australian Institute of Family Studies	138
Australian Institute of Superannuation Trustees	131
Australian Manufacturing Workers' Union	53
Australian Mines and Metals Association	121, DR348

Australian Nursing Federation	163, DR347
Australian Public Service Commission Better Practice Group	98
Australian Rail, Tram and Bus Industry Union	127, DR326
Australian Rail, Tram and Bus Industry Union, Brookvale Bus Depot Division	DR398
Australian Rail, Tram and Bus Industry Union, Women's Campaign Committee, NSW Branch	DR397
Australian Retailers Association	60
Australian Services Union	119
Australian Women Lawyers	143, DR389
Australian Women's Coalition	DR381
Australian Women's Health Network	149
Australian Workers' Union	187
Bain, Luke	115
Ball, Olivia	52
Barnes, Renae	DR257
Barron, Dan	193
Bartels, Lorana	9
The Benevolent Society	DR302
Black, Christine	71
Black, Veronica	96
BP Australia Pty Ltd	210
BPW Australia	142, DR321
BPW Central Coast	145
Brooker, Leanne	6
Brotherhood of St Laurence	92
Brown, Robert	12
Brus, Mischa and Matt Schlitz	DR263
Budai, Angela	17, DR329
Burnett, V. D.	223
Business and Professional Women Maitland	93
Business Council of Australia	81, DR288
Business South Australia	139
Bussenschutt, Lisa	207
Butler, Terri	DR273
Calder, Lauren	23
Calilhanna, Gerard and Andrea	208
Cameron, Hannah	5
Canberra Business Council	DR341
CareerMums	228

Carpenter, Tracey	203
Catalyst Australia	167, DR374
Catholic Commission for Employment Relations	224, DR337
Catholic Women's League Australia	86
Centre for Independent Studies	89, DR284
Centre for Women's Studies and Gender Research	99
Chamber of Commerce and Industry Queensland	DR300
Chamber of Commerce and Industry Western Australia	147, DR316
Chamber of Minerals and Energy of Western Australia	DR352
Chapman, Bruce (Prof), Tim Higgins, and Lynette Lin	244
Chapman, Bruce (Prof) and Tim Higgins	DR415
Childcare Associations Australia	DR407
ClubsNSW	94, DR328
Clune, P.	33
Coall, Gillian	16
Collis, Alison	DR259
Commerce Queensland	172
Commissioner for Children and Young People, Western Australia	75, DR311
Commissioner for Children, Tasmania	DR281
Community and Public Sector Union	160, DR376
Community and Public Sector Union – State Public Services Federation Group	124, DR346
Conroy, Kate	44
Conroy, Stella	21
Construction Forestry Mining and Energy Union	206
Cook, Dr Peter	DR349
Cowling, Rachel	39
CPA Australia	157
Crocker, Anne	191
Crows Nest Medical Practice	61
Curtis, Nicholas	DR277
Dads on the Air	122
Damnics, Melissa	195
Davies, Lynda	DR274
Department of Education, Employment and Workplace Relations	164
Department of Families, Housing, Community Services and Indigenous Affairs	141
Department of Health and Human Services	DR296
Deverell, Trent	DR261
Diversity Council Australia	239, DR289

Doyle, Mary	45
Duncan, Karen	DR382
Early Childhood Australia	237
Edmonds, Michelle	68
Egginton, Jo	199
Eldridge, Sally	171
Electrical and Communications Association	DR285
Ellery, Sue MLC	227
EMILY's List Australia	65, DR331
Employment Law Centre of WA	236
Equal Opportunity for Women in the Workplace Agency	97
Families Australia	113
Family Action Centre, University of Newcastle	34
Family Day Care Australia	186, DR379
Family Voice Australia	DR298
Federation of Ethnic Communities' Council of Australia	102
Festival of Light Australia	88
Finance Sector Union of Australia	194, DR306
Finlaysons	2
Fleetwood, Ros	DR278
Flood, Jason	DR361
Flowers, Ceri	218
Gans, Joshua (Prof)	24
Garvan, Joan	248
Gelsi, Rebecca	79
Georgeson, Laurence (Dr) OAM	151
Gifford-Cock, Helen	32
Glen, Simon	DR287
GM Holden Ltd	222, DR388
Goedhart, Darryl	196
Gordon, Tom	28
Government of South Australia	DR401
Government of Western Australia	231
Grant, Linley OAM	77
Guerin, Nikki	198
Hair and Beauty Australia	DR266
Hall, Phillip	76, DR260
Harris, Anne	201
Hayes, Fran	14

Headlam, Freya	213
Helel, Shahar	DR385
Hemlof, Loris Erik Kent	DR270
Hendriks, Max	59
Herbert, Jim	130
Heron, Alex	DR404
Hines, Lorraine	26
Hobart Women's Health Centre	DR313
Houghton, Carol	200
Human Rights and Equal Opportunity Commission	128
Hurley, Susan	148
Independent Education Union of Australia	72, DR308
International Survey Center	241
Jeffery, Lisa	175, DR357
JobWatch	112
Johnson, Leonie	179
Johnston, Adam	63
Jolley, Susan	230
Kanowski, Sarah and Nigel Pearn	197
Kay, Susan	29
Ker, Margaret	103
Key, Dale	DR294
Khoo, Fiona	4
Kingsford Legal Centre	27
Klein, GR	1
Law Institute of Victoria	DR405
Levy, Anne	DR292
Lewis, Chelsea	22
Li, Bo	168
Liquor, Hospitality and Miscellaneous Union	238
Liu, Siu Yin	DR364
Lleonart, Martine	DR359
Local Government Association of Queensland	DR279
Lording, Ros	146
Lovering, Kerry OAM	36
Marshall, Emma	DR360
Martin, Jane	170
Martinez, Richie	3
Master Grocers Australia	73, DR324

Maternal and Child Health State Coordinators Group	212
McAuslan, Kate	DR356, DR383
McGarity, Barbara	83
McKerrell, Jo OAM	178
Men's Confraternity	180
Moir, Hazel V. J. (Dr)	158
Moment by Moment	144
Morgan, Ainsley	169
Morrison, Lisa	DR268
Mosbauer, Alicja	10, DR367
Moser, Sara	11
Motor Trade Association of South Australia Inc.	DR338
Muscular Dystrophy	DR290
National Children's and Youth Law Centre	152, DR327
National Council for Women Queensland	DR392
National Council of Women New South Wales	87
National Council of Women of Australia Inc	DR295
National Council of Women of Queensland	DR301
National Council of Women of Western Australia Inc	DR297
National Council of Women Tasmania	192
National Farmers' Federation	183, DR317
National Foundation for Australian Women	54, DR319
National Investment for the Early Years (NIFTeY) NSW	55, DR386
National Pay Equity Coalition	116, DR342
National Tertiary Education Union	108, DR344
Newcastle Montessori	190
Next Wave Policy Group	174
Ng, Stella	13
Nicholson, Leanne	67
North, Sally	DR272
NSW Business Chamber and Australian Business Industrial	134, DR340
NSW Commission for Children and Young People and National Investment for the Early Years (NIFTeY) (joint submission)	234, DR373
NSW Government	250
NSW Government, Minister for Industrial Relations and Minister for Women	DR351
NT Association of Community Legal Centres	DR299
O'Donnell, Carol	19, DR366
O'Neil, Nesha	DR255
O'Shea, Peter	DR265

O'Sullivan, Jane	161
O'Sullivan, Meghan	DR390
Office of the Anti-Discrimination Commissioner	DR378
Office of the Child Safety Commissioner	120, DR314
Office of the Commissioner for Equal Opportunity SA	78
Office of Women's Policy – NT Government	DR414
Older Women's Network	215
Page, Leah	DR293
Paton, Jim	20
Pearce, Mrs Kath	DR393
Pech, Jocelyn	154
Percy, Andrew	41
Perrella, Sharon	173
Perry, Julia	8, DR309
Pharmacy Guild of Australia	245, DR325
Phelps, Juliana	221
Philips, Peter	229
Piercy, Julie	15, 188
Pocock, B (Prof) and Elizabeth (Dr) Hill	220
PolMin	95
Premier's Council for Women, South Australia	233, DR280
Preston, Melissa	37
Public Health Association of Australia	117
Public Interest Advocacy Centre	226
Public Service Association and Professional Officers Association Amalgamated Union of NSW	DR380
Public Service Association of NSW	107
Queen Victoria Women's Centre	DR402
Queensland Council of Unions	118, DR333
Queensland Government	246
Queensland Nurses' Union	125, DR303
Queensland Working Women's Service	105
Radical Women	85
Real Estate Employers Federation of WA	80
Real Estate Institute of Australia	51
Recruiting and Consulting Services Association	100
Redfern Legal Centre	165
Refugee Advice and Casework Service (Australia)	159
Reiger, K. (Dr)	176

Retail Confectionery and Mixed Business Association Inc	DR318
Rickard, Scott	DR271
Ritchie, Allison MLC	240
Rogers, Sally	DR409
Rose, Skye	DR286
Russell, Judy	211
Russell, Kirsty	18
Scarr, Dr Lorraine	DR256
Schembri, Michael	DR258
Scott, Andrew (Dr)	90
Scurry, Susanna	252
Sessions, Robert	48
Sheb'a, Aviva	40
Shop, Distributive and Allied Employees' Association	114, DR330
Smith, Belinda (Dr)	133
Smith, Tracey	47
The Smith Family	DR387
Smyth, Eris	DR394
Somerville, Louise	DR267
South Australian Men's Health Alliance	132
South Australian Wine Industry Association Inc	137, DR323
Squarey, Natasha	177
Stephenson, Katrena (Dr)	189
Stimpson, Claire	DR362
Stott Despoja, Natasha (Senator)	106
Such, Hon. Dr Bob MP	DR416
Sullivan, Martin	214
Surman, Hilary	35
Sustainable Population Australia	62, 101, DR275
Suttor, Gail	247, DR254
Tadpoles Early Learning Centres	DR334
Tasmanian Government	253, DR411
Tasmanian Women's Council	DR307
tasmanianjobs.com	109
Taylor, Cheryl (Assoc. Prof)	43
Textile Clothing and Footwear Union of Australia	217
Thompson, Ruth	46
Ting, Gary	30
Toming, Bridget	42

Union of Australian Women (Victorian Section)	82, DR304
Unions NSW	181, DR350
Unions Tasmania	162, DR400
UnionsWA	50
United Services Union	126, DR372
UnitingCare Children, Young People and Families Services	104
Vanha, Martin	31
Vial, Kathrine	DR384
Victorian Equal Opportunity and Human Rights Commission	DR305
Victorian Automobile Chamber of Commerce	123, DR375
Victorian Children's Services Association Inc	58
Victorian Government	235, DR413
Victorian Trades Hall Council	DR370
Victorian Women's Trust	110, DR358
VIEW Clubs of Australia	DR315
Vogels, Belinda	209
WA Council of Social Service	156
Walker, Beverley	66, DR345
Wallsend Area Community Carers	74
Walsh, Kieran	49
Walton, Hayley	DR276
Wand, Amy	DR355
Wells, Jeane	136
Western Australian Department for Communities, Office for Women's Policy	DR371
What Women Want (Australia) Inc	64
Whitehouse, Gillian, Marian Baird and Sara Charlesworth	153
Whiteman, Caitlin	DR396
Williamson, Brian – Workplace Law	DR264
Women and Work Group, University of Sydney	DR283
Women in Social and Economic Research (WiSER)	91
Women's Action Alliance, Australia	166
Women's Council for Domestic and Family Violence Services (WA)	DR353
Women's CPA Network (Vic Div)	150
Women's Electoral Lobby Australia	111, DR262, DR336
Women's Electoral Lobby Victoria	DR368
Women's Employment Rights Project	DR412
Women's Health in the North	DR343
Women's Legal Centre	DR395

Women's Legal Services Australia	219
Working Women's Centres (South Australia, Northern Territory, Queensland)	70, DR310
Work Life Association	38
YMCA Australia	184
YWCA Australia	84, DR410
Zacharias, Nadine (Dr)	242
Zonta International District 24	DR408

A.3 Visits and meetings

Australia

ACTU

Australian Chamber of Commerce and Industry

Australian Industry Group

Australian Institute of Family Studies

Australian Taxation Office

Australian Breastfeeding Association

Business Council of Australia

CFMEU Western Australia

Chamber of Commerce and Industry WA (teleconference)

Childcare Associations Australia

Community and Public Sector Union

Construction Forestry Mining and Energy Union

Department of Education, Employment and Workplace Relations

Department of Families, Housing, Community Services and Indigenous Affairs

Early Childhood Australia

Australian Fair Pay Commission (teleconference)

Human Rights and Equal Opportunity Commission

Marian Baird (Assoc. Prof)

National Foundation for Australian Women

NSW Commission for Children and Young People

NSW Government departments
Queensland Department of Industrial Relations
Rio Tinto
Shahar Helel (teleconference)
South Australian Government
Tasmanian Government departments
Telethon Institute for Child Health Research
The Treasury
Unions NSW
Victorian Government departments
Western Australian Government departments
Young Women's Christian Association of Australia

New Zealand

Business New Zealand
Dr Paul Callister and Dr Judith Galtry, Victoria University
Department of Labour
Families Commission
New Zealand Council of Trade Unions

A.4 Public hearings

<i>Participants</i>	<i>Transcript pages</i>
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Canberra — 7 May 2008

National Foundation for Australian Women	2 – 17
Public Health Association of Australia	18 – 28
Australian Centre for Economic Research on Health	29 – 48
Community and Public Sector Union	49 – 75
Prof Bruce Chapman and Tim Higgins	76 – 91
Unions ACT	92 – 103

Hobart — 12 May 2008

Council of Small Business of Tasmania	105 – 115
---------------------------------------	-----------

Catholic Women's League	116 – 127
Ceri Flowers	128 – 135
Pamela Cooke	136 – 137
Unions Tasmania	138 – 147
National Council of Women, Tasmania	148 – 158
Tasmanian Chamber of Commerce	159 – 168
Hair and Beauty Tasmania	169 – 175

Melbourne — 13 and 14 May and 11 June 2008

Women's Action Alliance	177 – 197
Construction, Forestry, Mining and Energy Union	198 – 208
National Tertiary Education Union	209 – 229
Australian Breastfeeding Association	230 – 246
PolMin	247 – 256
Australian Chamber of Commerce and Industry	257 – 273
Robert Hitchcock	275 – 290
Australian Federation of University Women	291 – 305
Shop, Distributive and Allied Employees Association	306 – 318
Victorian Women's Trust	319 – 328
Work/Life Association	329 – 341
ACTU	874 – 888
Australian Institute of Family Studies	889 – 901
Australian Retailers Association	902 – 912
Dr Andrew Scott	913 – 921
Miles Parry	922 – 932

Sydney — 20 and 21 May 2008

Community and Public Service Union	477 – 493
Business and Professional Women Australia	494 – 504
National Investment for the Early Years	505 – 517
Catalyst	518 – 527
Public Service Association of New South Wales	528 – 542
Family Action Centre	543 – 553
Kelly Laing	554 – 564
Women's Employment Rights	565 – 574
National Children's and Youth Legal Centre	575 – 587
Australian Industry Group	343 – 356
Liquor, Hospitality and Miscellaneous Union	357 – 370
Senator Natasha Stott Despoja	371 – 384
Unions New South Wales	385 – 401
Diversity Council of Australia	402 – 414
Human Rights and Equal Opportunity Commission	415 – 430

Kingsford Legal Centre	431 – 438
Women's Electoral Lobby	439 – 457
Angela Budai	458 – 465
Karleen Gribble	466 – 475
Angela Budai	533 - 543
Family Day Care Australia	544 - 552
Katherine Vial	553 - 557
New South Wales Commission for Children and Young People	558 - 570

Adelaide — 28 May 2008

Working Women's Centre SA Inc	589 – 598
SA Unions	599 – 609
Australian Federation of University Women	610 – 616
Business and Professional Women Australia	617 – 627
Bridget Partridge	628 – 638
Young Women's Christian Association	639 – 655
Australian Association for Infant Mental Health	656 – 672
Early Childhood Australia	
National Investment for the Early Years	
Australian Mines and Metals Association	673 – 682
Grace Portolesi MP	683 – 698

Perth — 29 May 2008

Unions WA	698– 710
Centre for Work and Life	711 – 726
Chamber of Commerce and Industry WA	727 – 736
Shona Guilfoyle	737 – 745
Sheena Regan	746 – 755
Equal Opportunity Commission, Western Australia	756 – 769
Men's Confraternity	770 – 775

Brisbane — 5 June 2008

Equal Opportunity for Women in the Workplace Agency	777 – 785
National Tertiary Education Union, Queensland Division	786 – 797
Commerce Queensland	798 – 808
Queensland Council of Unions	809 – 819
Family Day Care Australia	820 – 832
Australian Catholic Council for Employment Relations	833 – 844
Queensland Nurses Union	845 – 856
Geoffrey Bullock	857 – 863
Children by Choice	864 – 871
Heather Price	872

Draft report public hearings

Adelaide — 12 November 2008

Australian Mines and Metals Association	2 – 16
Australian Women Lawyers	17 – 29
Australian Federation of University Women	30 -34
Working Women's Centre SA	35 – 45
SA Unions and Australian Services Union	46 - 62

Canberra — 18 November 2008

Joan Garvan	63 - 69
Queensland Public Sector Union	70 - 76
Unions ACT	77 – 85
National Foundation for Australian Women	86 – 95
Public Health Association of Australia Inc	96 – 102
Sarah McFarland	103 – 107
Prof Bruce Chapman and Tim Higgins	108 - 123

Melbourne — 21 November 2008

Australian Nursing Federation	126 – 134
Mischa Brus	135 – 144
Womens' Action Alliance	145 – 162
Endeavour Forum	163 - 173
Beverley Walker	174 – 181
Australian Council of Trade Unions	182 – 194
Victorian Child Safety Commissioner	195 – 206
Australian Federation of University Women	207 – 214
Australian Council of Commerce and Industry	215 – 229
National Tertiary Education Union	230 - 238
Victorian Trades Hall Council	239 - 250

Brisbane — 25 November 2008

Queensland nurses Union	252 – 261
Young Women's Christian Association	262 - 271
Australian Services Union	272 - 282
Chamber of Commerce and Industry Queensland	283 – 294
Jane O'Sullivan	295 – 303
Patricia Johnson	304 – 309
Child Care Queensland	310 – 318
Queensland Council of Unions	319 – 330
University of Queensland	331 - 338

Sydney — 26 November 2008

Community and Public Service Union	340 - 351
Australian Human Rights Commission	352 - 361
Shop Distributive and Allied Employees Association	362 - 373
Construction, Forestry, Mining and Energy Union	374 - 380
Australian Industry Group	381 - 394
Unions New South Wales	395 - 404
Lactation Consultants Association	405 - 416
Zonta International	417 - 428
Julia Perry	429 - 437
Workplace Law	438 - 446
Public Service Association of New South Wales	447 - 462
Women's Electoral Lobby	463 - 472

Sydney — 27 November 2008

Finance Sector Union	474 - 485
Centre for Independent Studies	486 - 496
Hair and Beauty Australia	497 - 508
Women and Work Group, University of Sydney	509 - 525
National Children's and Youth Law Centre	526 - 532

B How much will it cost?

Key points

- The Commission's proposed scheme involves a gross cost to the community of around \$1.3 billion.
- However, the net cost is smaller at \$310 million:
 - paid parental and paternity leave payments would be taxable, would often reduce access to the various tax offsets and slightly increase medicare levies
 - parents eligible for paid parental leave would not generally be eligible for the baby bonus
 - families using paid parental leave may lose some family welfare payments, particularly family tax benefit A and B, but not income support payments, such as parenting payments and the disability support pension.
- The Commission's cost estimates do not take account of behavioural changes, such as increased lifetime employment, but the overall impacts of these changes are not likely to materially alter the estimates.
- The total net cost to government from each additional week of paid parental leave rises with the duration of the scheme.

The Commission has provided cost estimates of its proposal. The starting point of the estimates are the number of expected births (285 000)¹ and then, given multiple births, the associated number of mothers (around 281 000), as measured by confinements. Of these confinements, around 145 000 mothers would have sufficient employment tenure and hours of work to qualify for statutory paid parental leave. Given the greater employment rate of fathers, around 225 000 fathers would be eligible for paid paternity leave.

The Commission has used survey data² to estimate these eligibility estimates, so they should provide a reasonably accurate estimate of the initial size of the beneficiary groups.

¹ The estimated number of live births in 2007. The Commission's estimates do not incorporate the costs associated with payments to parents of stillborn children. These costs will be small since the fetal death rate is low. The Commission's estimates also do not cover adoptions — which are again small in number.

² Particularly the LSAC survey and the ABS survey of Pregnancy and Employment Transitions.

However, given the behavioural modelling undertaken by the Commission, not all parents can be expected to take up such leave (appendix G). We estimate that around 125 000 women would actually take up parental leave (a lower share than in the draft report, reflecting more sophisticated analysis). We expect a lower takeup of paid paternity leave, consistent with experiences with overseas schemes. The model is based on the assumption that, on a weighted basis, around 55 000 fathers will use their entitlement.³

Gross government budget costs are then relatively straightforward to calculate, as the multiple of the size of the relevant eligible group times the number of weeks used times the payment rate (figure B.1).

While the Commission's proposal does not initially include a superannuation contribution by employers, we have proposed that this feature be considered as part of a three year review of the scheme. Accordingly, we have also assessed the costs of implementing this feature. Gross business costs involve some additional complexities since the super contributions:

- are only made to the subset of employees with (a) sufficient workplace tenure (as distinct from employment tenure) and (b) who are also covered by the job return guarantee of the National Employment Standards⁴
- depend on whether an employee's weekly wages are above or below the adult minimum wage. We used data from the ABS survey of Pregnancy and Employment Transitions (2005d) to estimate the proportions of eligible fathers and mothers above and below the minimum wage and, for the latter group, the actual weekly wage earned. (Where a person earns above the minimum, we used the minimum weekly rate to calculate super entitlements.)

We estimated net costs by taking account of:

- business tax deductions for super contributions (which are then transferred to the government as a budget *cost*)
- the offsetting impact on budget costs of lost claims to the baby bonus, and to family tax benefits A and B. The aggregate effects of the scheme on child care

³ The *full-time equivalent* usage of the paid paternity leave is assumed to be 25 per cent, noting that in addition to men choosing either none, or the full two weeks, of leave, some men may use only one week. Accordingly, the 25 per cent estimate is consistent with some use of paternity leave by a greater proportion of fathers.

⁴ In fact, the most important criteria for qualifying for the job return guarantee is tenure anyway. The element to (b) that is not in (a) is sufficient employment continuity. Since no data are available to measure this precisely, (b) has been ignored in making the calculations. (Analysis of various ABS data on labour force experiences suggest that this assumption is likely to make little difference to the estimates.)

benefits and the child care tax rebate are not included, mainly because of data limitations in the LSAC database. Other analysis undertaken by the Commission suggests that the effects would be modest. The impacts of the scheme on parenting payments and other income support measures is, by design, zero, since the Commission has proposed that income from the statutory paid parental leave scheme does not count as income for means tests on these payments. The Commission has taken account of family traits (number of children and income distribution) in estimating these offsets.

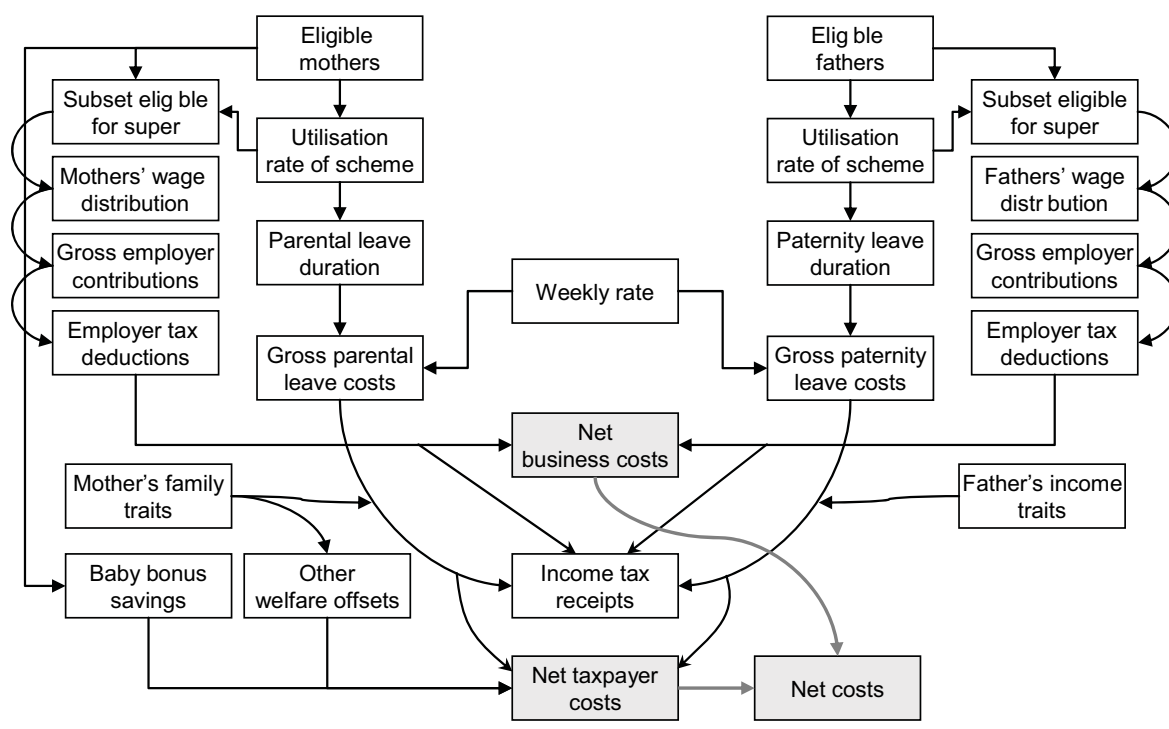
- the offsetting impact on budget costs of income taxes collected by government on paternity and parental leave payments (and on superannuation earnings). Low income, pensioner and beneficiary tax offsets are considered in making these calculations. While the medicare levy is also considered, we ignore the fact that statutory paid parental leave may sometimes push families into the income brackets where the medicare levy surcharge is applied. While ostensibly this might lead to further potential savings for government, our analysis suggests the savings are unlikely to be large. First, the family circumstances where this could occur are relatively infrequent. Second, analysis of the HILDA survey showed that the families in the income ranges most likely to be affected often already had private health insurance and would therefore not have to pay the surcharge. Finally, where people did not have insurance beforehand, many would actually take out private health insurance, so limiting budgetary savings for government.

It should be emphasised that, as well as involving several assumptions, the cost estimates only partly consider parents' behavioural responses:

- Women will take more leave, reducing their working hours around the birth of their child, decreasing their income (and income taxes) and increasing welfare transfers. On the other hand, we expect that over a longer period, women will increase their net employment rates, with the opposite effects.
- As some women will change their employment behaviour to meet the eligibility criteria, there will be more eligible women than those on which the cost estimates are based.
- Child and maternal welfare benefits may translate to savings in health costs and subsequent productivity improvements, again with impacts on taxes and welfare transfers.

Overall, it is not feasible to estimate these various behavioural effects with any precision, but the Commission's view is that these are not likely to materially change the net costs of the scheme.

Figure B.1 The cost model



The Commission used its model to calculate the total costs of the scheme associated with different leave durations and whether various scheme elements were included or not (tables B.1 to B.3). While the Commission has rejected the option of including a business contribution through accrued leave entitlements, the model also costs this proposal since this issue will be revisited as part of the three year review. (That costing involved additional calculations of eligibility, since casual employees would not be eligible for such entitlements.)

The tables illustrate the various tradeoffs between leave duration and model options. For example, a scheme of 20 weeks parental leave duration, superannuation benefits and accrued leave entitlements and two weeks of paternity leave would cost \$550 million net to the community as a whole (table B.2). The equivalent funding would nearly be able to buy 24 weeks of parental leave by itself (table B.1). The appropriate tradeoff needs to take account of the key objectives of the scheme.

The net costs to business of the various scheme options are not explicitly identified in tables B.1 and B.2, but can be derived by taking the difference between the net cost to the economy and the corresponding net cost to government. For example, were a scheme to be 18 weeks long, the full net business costs of providing super and accrued leave entitlements would be $433 - 304 = \$129$ million or 30 per cent of the total net cost of the scheme (table B.2).

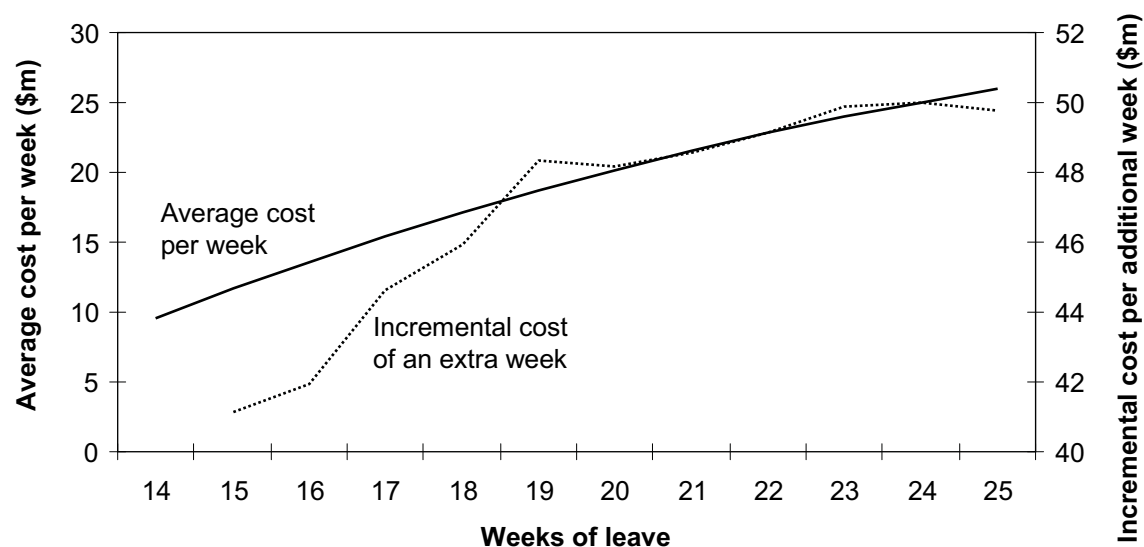
It is notable that for any option, an increase in a given number of weeks of duration of leave has varying impacts on the cost of the scheme depending on the base number of weeks (figure B.2). Accordingly, for a scheme with paid parental and paternity leave, but no super or leave entitlements,

- an increase in the duration of leave from 14 to 18 weeks leads to an increase in the net costs of the scheme of \$173 million
- while an increase in the duration of leave from 18 to 22 weeks leads to an increase in the net costs of the scheme of \$195 million (table B.1).

These variations in the costs per additional weeks reflect:

- the fact that the bulk of the baby bonus savings are common to all durations
- the extent to which people opt out of the scheme depends on its duration, with high opt out rates for low duration schemes and low opt out rates for high ones
- that the difference between the entitled duration of leave and the actual leave taken also varies with as the scheme duration increases.

Figure B.2 Average and incremental costs of weeks of leave



^a This is based on a scheme in which there are paternity and parental leave payments, but no accrued leave or super entitlements. The average cost per week is the total cost of a scheme of a given duration divided by the total duration, while the incremental cost is the increase in the total cost of the scheme as one additional week of leave is added. For example, the incremental costs of moving from 14 to 15 weeks would be around \$41 million, while the incremental costs of moving from 25 to 26 weeks would be around \$50 million (or about 20 per cent greater).

Data source: Productivity Commission calculations.

Why are these estimates different from the draft report?

The Commission's draft report estimated a net economy-wide cost of its design for statutory paid parental leave scheme of around \$530 million, compared to the \$307 million estimate for the current design. Part of the difference is that the scope of the initial scheme has been reduced to exclude super contributions by business. Were super included in the proposal, the current scheme's cost would be \$379 million. The main sources of the remaining differences are:

- the greater share of people estimated to opt out of a statutory paid parental leave scheme because their welfare and tax treatment is so attractive when they are outside the labour force (appendix G). The Commission has modelled the 'opt-out' decision in a more sophisticated way in the final report
- significantly higher estimates of the savings on family tax benefits and from greater offsets to the budget from taxes collected on higher family incomes
- a more comprehensive treatment of the effects of the scheme on use of the baby bonus, including better estimates of the impacts of income-testing. The extent to which the baby bonus acts as an offset to spending, while still large, is less than in the draft report because we estimate that a greater share of mothers will opt out of the scheme.⁵

⁵ In the draft report, the Commission proposed that the government remove income testing of the baby bonus. This would have had some budgetary implications for government, though we assessed these as very small at the time. More recent analysis suggests such a proposal would cost considerably more, which was a contributing factor in the Commission's decision to reverse our draft report proposal. The savings from the change in the recommendation does not contribute to the lower cost of the final versus draft proposal, since the original costing was for the paid parental scheme alone and not for incidental policy changes.

Table B.1 Annual net cost of various scheme options^a
Including the Commission's proposed scheme

<i>Period</i>	<i>No paternity, super, or accrued leave benefits</i>		<i>Paternity but no super or accrued leave benefits</i>		<i>Super but no paternity or accrued leave benefits</i>	
	Net cost govt	Net cost economy	Net cost govt	Net cost economy	Net cost govt	Net cost economy
Weeks	\$m	\$m	\$m	\$m	\$m	\$m
14	83	83	134	134	89	118
15	124	124	175	175	132	170
16	166	166	217	217	175	219
17	211	211	261	261	222	272
18	257	257	307	307	269	326
19	305	305	356	356	318	381
20	353	353	404	404	368	436
21	402	402	452	452	417	490
22	451	451	502	502	467	545
23	501	501	551	551	518	600
24	551	551	601	601	569	655
25	600	600	651	651	620	709
26	650	650	700	700	670	763

^a The net costs are measured as the direct costs to government and business, less budget offsets from reduced welfare benefits and increased tax receipts from families participating in the scheme. The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The net cost to the economy is the addition of government (taxpayer) and business contributions to the scheme. The costs of the Commission's proposed scheme is shaded and marked in bold. The net economy and government costs are the same in this instance because the business sector is not making any monetary contribution.

Source: Productivity Commission estimates.

Table B.2 Annual net cost of various further scheme options^a

<i>Period</i>	<i>Super and paternity, but no accrued leave benefits</i>		<i>Super, paternity and accrued leave benefits</i>	
	Net cost govt	Net cost economy	Net cost govt	Net cost economy
Weeks	\$m	\$m	\$m	\$m
14	140	171	136	204
15	183	223	176	262
16	226	272	217	317
17	272	325	260	375
18	320	379	304	433
19	369	434	351	491
20	418	489	397	550
21	468	543	444	607
22	518	598	493	665
23	569	653	542	723
24	620	708	591	781
25	670	762	640	838
26	720	816	688	895

^a The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The net cost to the economy is the addition of government (taxpayer) and business contributions to the scheme. The net cost estimate *for government* associated with an option that includes employer-funded accrued leave entitlements and superannuation (the last two columns above) is shown as lower than the Commission's preferred option of a fully taxpayer-funded scheme (the bold figures in table B.1). This reflects the fact that while government will contribute to the funding of accrued leave entitlements through business tax deductions, the employee beneficiaries will also pay tax on these additional entitlements and lose some welfare benefits. The net cost estimates for this option are less reliable than for the other options as they involve assumptions about the magnitude of the welfare and tax savings, rather than empirical estimates, as for other options.

Source: Productivity Commission estimates.

Table B.3 Annual gross costs of various scheme options^a

Including the Commission's proposed scheme

<i>Period</i>	<i>No paternity, super, or accrued leave benefits</i>	<i>Paternity but no super or accrued leave benefits</i>	<i>Super but no paternity or accrued leave benefits</i>	<i>Super and paternity, but no accrued leave benefits</i>	<i>Super, paternity and accrued leave benefits</i>
Weeks	\$m	\$m	\$m	\$m	\$m
14	615	675	657	720	772
15	798	858	852	915	981
16	933	993	996	1059	1136
17	1078	1138	1151	1214	1302
18	1218	1278	1300	1363	1462
19	1332	1392	1422	1485	1593
20	1446	1506	1544	1607	1724
21	1551	1611	1655	1718	1843
22	1640	1699	1750	1813	1945
23	1731	1791	1847	1910	2050
24	1818	1878	1941	2004	2150
25	1903	1963	2031	2094	2247
26	1983	2043	2117	2180	2339

^a The gross costs are measured as the direct costs to government and business. The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The costs of the Commission's proposed scheme is shaded and marked in bold. The costs combine government (taxpayers) and business costs.

Source: Productivity Commission estimates.

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C Trends in parental leave

Key points

- In 2007, paid parental leave was available for approximately 54 per cent of female employees and 50 per cent of male employees. It has become much more common than it was in 2002, when it was available to 41 per cent of female employees and 31 per cent of male employees.
- While there had been considerable growth in the availability of parental leave across the 2002-07 period, the growth was somewhat slower in the years following 2005.
- In general, the growth of availability of paid parental leave from 2002 to 2007 has been greater for groups of employees that already had higher rates of availability in 2002. These include employees:
 - earning higher incomes
 - working full-time as opposed to part-time
 - aged between 25 and 60 years.
- The rates of availability for paid parental leave have grown in both the public and private sectors. Public sector employees are still more likely than private sector employees to have paid parental leave available to them.
- Of mothers in paid work prior to childbirth, 11 per cent return to paid work within three months of childbirth, 26 per cent within six months, 57 per cent within 12 months, and 74 per cent within 18 months.
- Early returns to paid work for mothers are positively associated with:
 - high incomes and very low incomes (compared with mothers earning middle incomes)
 - casual employment
 - self-employment
 - mothers who change employers before childbirth.
- Returns to paid work for mothers in the longer run are positively associated with:
 - non-permanent employment
 - lower education and income
 - shorter duration of employment prior to childbirth
 - greater numbers of children.

C.1 The growth of paid parental leave

In the absence of a legislated scheme of paid parental leave, there has been considerable growth in coverage of such leave in the Australian workforce. However, the growth in availability of paid parental leave has not been uniform across all groups in the workforce. This section follows ABS (2008c) in outlining which groups of employees have experienced increases in the availability of paid parental leave. In contrast to ABS (2008c), this discussion is based on data that have been adjusted to account for survey respondents who ‘did not know’ whether they were eligible for paid parental leave.

Growth in availability

From both adjusted and unadjusted ABS figures, the prevalence of paid parental leave has grown by at least 10 percentage points between 2002 and 2007 (table C.1). The rate of growth in availability appears to have slowed more recently. The differences between adjusted and unadjusted figures highlights the extent to which both male and female employees are unsure of whether they are eligible for paid parental leave.

Growth in availability and age

The availability of paid parental leave has grown across the board, although not particularly strongly for employees under 20 years of age. This may reflect a range of factors related to lifestyle or to the early stages of working careers. Both men and women over the age of 45 experienced considerable growth in the availability of paid parental leave (figure C.1). This indicates that the overall growth in availability of paid parental leave was boosted somewhat by older employees who generally account for less than 1 per cent of total births (ABS 2007).

Table C.1 Availability of paid parental leave by gender, 2002–07^a

Percentages

Year	Female employees entitled to paid maternity leave		Male employees entitled to paid paternity leave	
	Unadjusted	Adjusted ^b	Unadjusted	Adjusted ^b
	%	%	%	%
2002	31	41	20	31
2003	37	46	28	41
2004	35	44	21	31
2005	42	51	33	48
2006	45	53	36	50
2007	45	54	36	50

^a While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). ^b The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2).

Source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Growth in availability and earnings

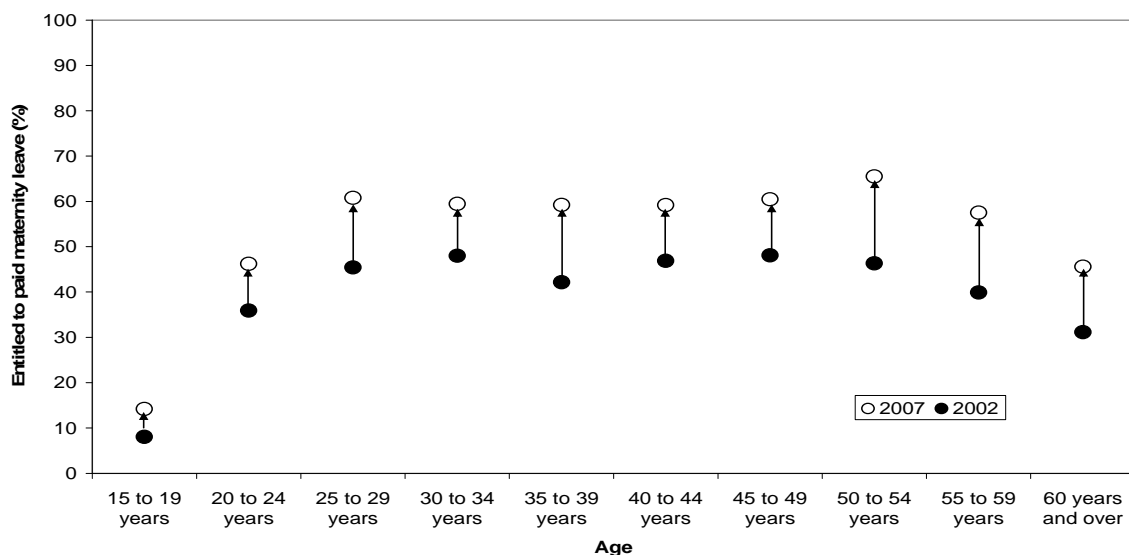
Paid parental leave has been more commonly available at higher incomes. The growth in paid parental leave since 2002 has also been somewhat concentrated at higher incomes (figure C.2). The most dramatic increases in availability are for women earning between \$1400 and \$1600 per week, and for men earning \$1600 to \$1800 per week. In contrast, there has been little growth in the availability of paid parental leave for employees earning gross weekly incomes of \$300 or less.

Growth in availability and hours of work

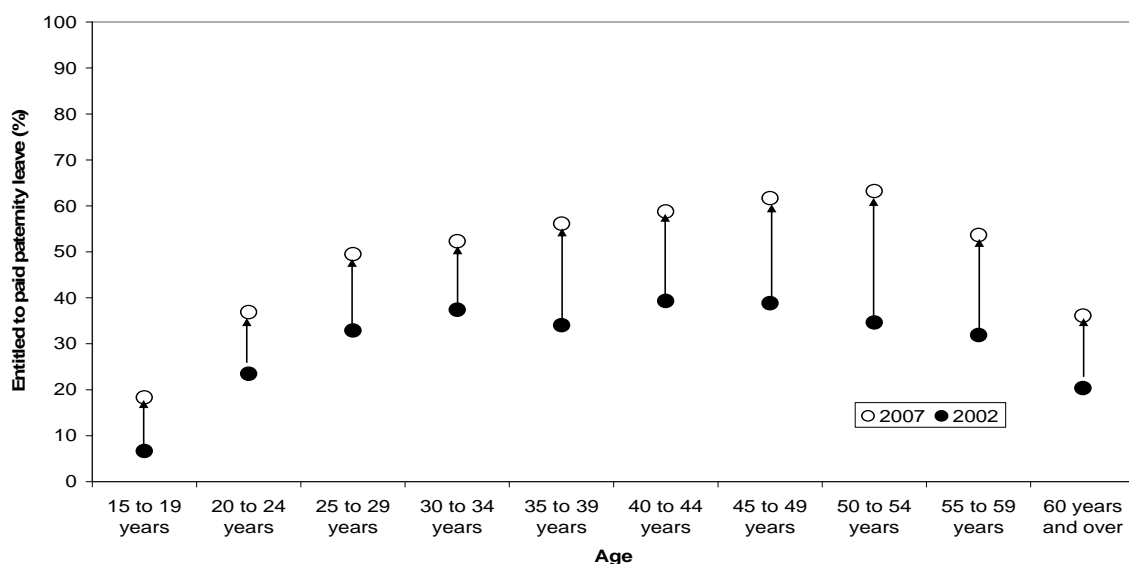
Full-time employees (both men and women) are more likely than part-time employees to have access to paid parental leave. This is partly due to the inherent differences between full-time and part-time jobs. For instance, a high proportion of part-time jobs are casual; whereas it is likely that more senior and better paid positions would be full-time (PC 2008a). In both 2002 and 2007, male and female employees were more likely to have paid parental leave available to them as full-time workers (figure C.3). The growth in availability of paid parental leave is higher for full time workers, particularly among men.

Figure C.1 Availability of paid parental leave by age, 2002–07^a
Percentages

Proportion of female employees with access to paid maternity leave



Proportion of male employees with access to paid paternity leave

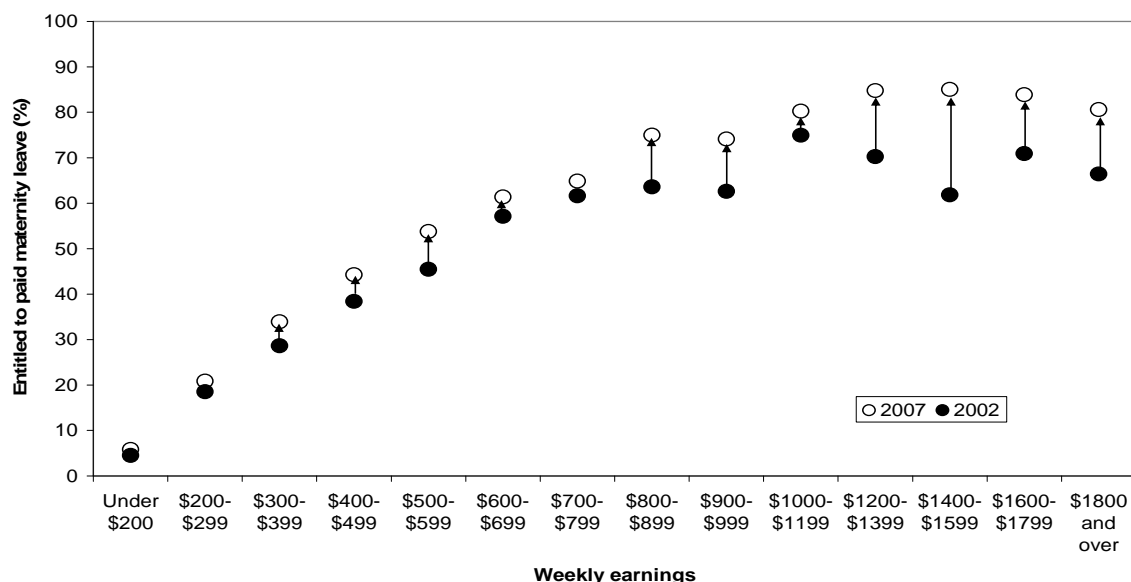


^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

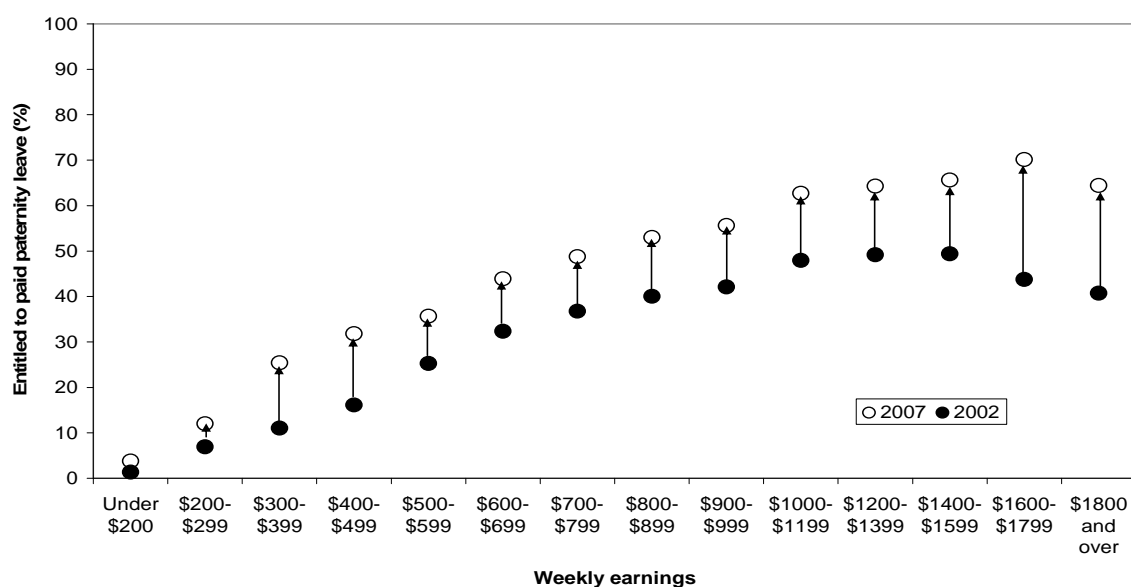
Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Figure C.2 Availability of paid parental leave by weekly salary, 2002–07^a
Percentages

Proportion of female employees with access to paid maternity leave



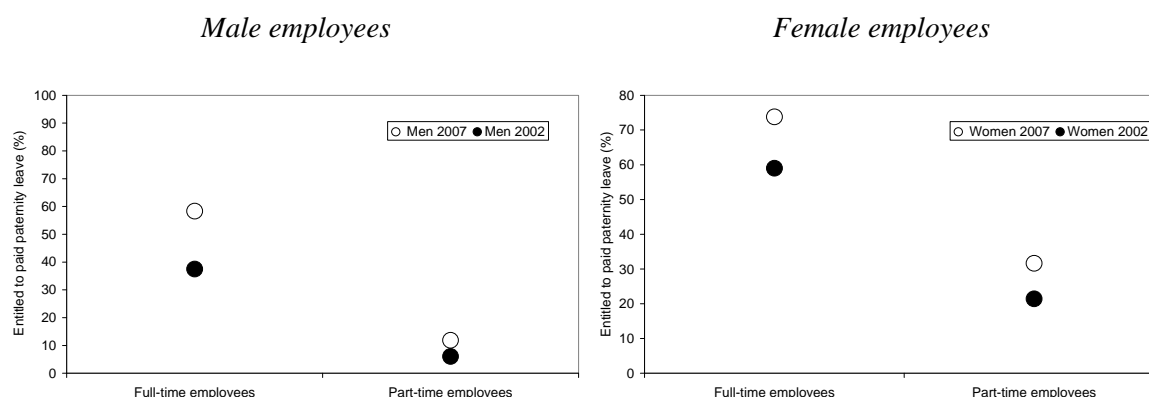
Proportion of male employees with access to paid paternity leave



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

Figure C.3 Availability of paid parental leave by hours of work, 2002–07^a
Percentages



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

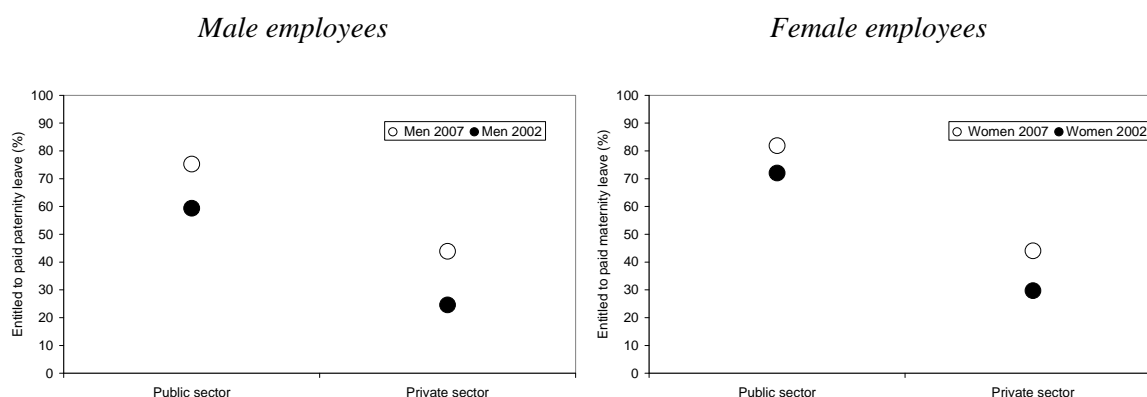
Growth in availability by sector

The increased availability to paid parental leave has been of a similar magnitude in the private and public sectors over the last five years. A similar gap, therefore, has remained in the availability of paid parental leave between public and private enterprise (figure C.4). Given that the private sector accounts for around 72 per cent of the workforce, the main driver of the overall growth in availability has been its growth in private enterprise.

Summary

Paid parental leave has grown in its coverage of employees in the Australian workforce. For many groups of workers, the availability of paid maternity and paternity leave is considerably greater than it was five years prior. Generally, groups with higher rates of paid parental leave availability in 2002 were likely to have larger increases in their rates of availability up to 2005. Thus, the overall growth in paid parental leave coverage has not led to a more even distribution of availability across different groups in the workforce.

Figure C.4 Availability of paid parental leave by sector, 2002–07^a
Percentages



^a The Commission has based these estimates on survey respondents who indicated that they knew whether or not they were covered by paid parental leave, disregarding unsure responses (see box 3.2). While it is not shown in the data, men and women who are eligible for paid parental leave are likely to have access to different durations of leave (see table 3.2). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

Data source: Estimates based on: ABS (*Employee Earnings, Benefits and Trade Union Membership, Australia, August 2007*, Cat. no. 6310); ABS (*Australian Labour Market Statistics, Australia, July 2008*, Cat. no. 6105.0); ABS, unpublished data.

C.2 Mothers' return to work after childbirth

In terms of its effect on paid work, evidence suggests that childbirth impacts considerably more on the mother's career than on the father's. Mothers' leave tends to be much longer and is more likely to include extended periods outside the workforce. One of the most important implications for any scheme of parental leave would be its effect on the timing of mothers' returns to work. The desirability of longer or shorter lengths of leave are discussed elsewhere in this report.

Baxter (2008) has examined mothers' leave and the circumstances of their return to work in some detail. Following Baxter, and in accordance with data limitations, this section focuses on the mother's return to work in the first 18 months after childbirth using the LSAC Wave 1.5 database. By analysing the return to work in terms of months after childbirth, there may be some discrepancies with the number of weeks of leave taken, particularly for: mothers who took substantial leave before childbirth; mothers who left the workforce; and those whose answers reflect imperfect memory.

The timing of mothers' return to work is usefully described by Baxter (2008) through the cumulative proportion of mothers who return to work, and the hazard (or probability) of returning to work in a given month. The cumulative return to

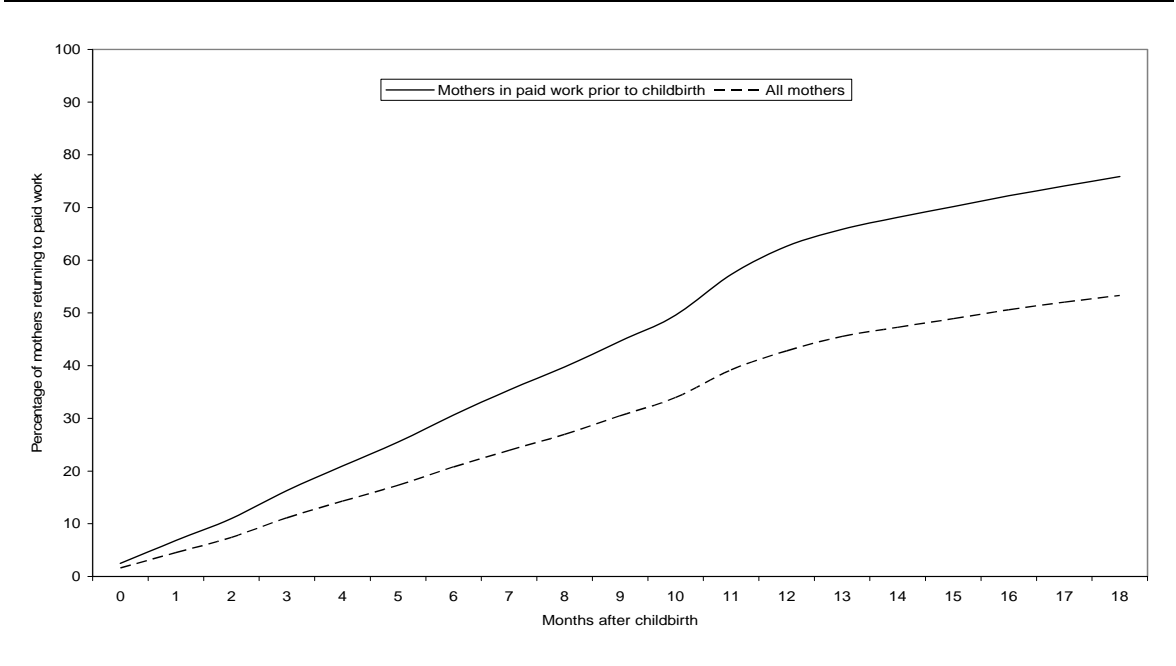
work is used here — it shows the proportion of mothers in each group who have returned to work by a certain time.

When do mothers return to work?

Among mothers who had been in paid employment in the 12 months prior to childbirth, around 74 per cent had returned to work before their child was 18 months old (figure C.5). Around 11 per cent had returned before the child was three months old, 26 per cent before the child was six months old, and 57 per cent before 12 months old. Conversely, when looking at the population of all recent mothers (regardless of whether they worked prior to childbirth), a considerably smaller proportion returned to work within 18 months (52 per cent).

Several factors are likely to influence the decisions and limitations mothers have regarding leave and their return to work, and it is possible to see how behaviours differ between different groups of mothers. However, from the analysis in this section, it is not clear to what extent the observed patterns reflect randomness, nor is it clear whether there is a causal effect (this is investigated further in appendix G). The differences in behaviour observed for different groups of mothers in this section must be interpreted carefully.

Figure C.5 Cumulative proportion of mothers returning to work



Data source: LSAC Wave 1.5.

Return to work and employment type

Self-employed mothers are more likely to return to work early. These mothers take an average of 23 weeks of leave around the birth of a child, which is much lower than employees. The rate of return to work is higher for self-employed mothers at every point of the 18 months after birth (figure C.6). Around 61 per cent of self-employed mothers return to work before their child is six months old. Earlier return to work may reflect the greater responsibility that self-employed persons have at the workplace. It may also reflect a greater facilitation of childcare through work flexibility.

Along with greater workforce attachment, self-employed mothers have higher rates of workplace retention than employees. This may not be surprising, given that owner-managers are likely to be more personally invested in their workplace. Of the 85 per cent of self-employed mothers who had ended their leave within 18 months of childbirth, almost 90 per cent returned to their own businesses.

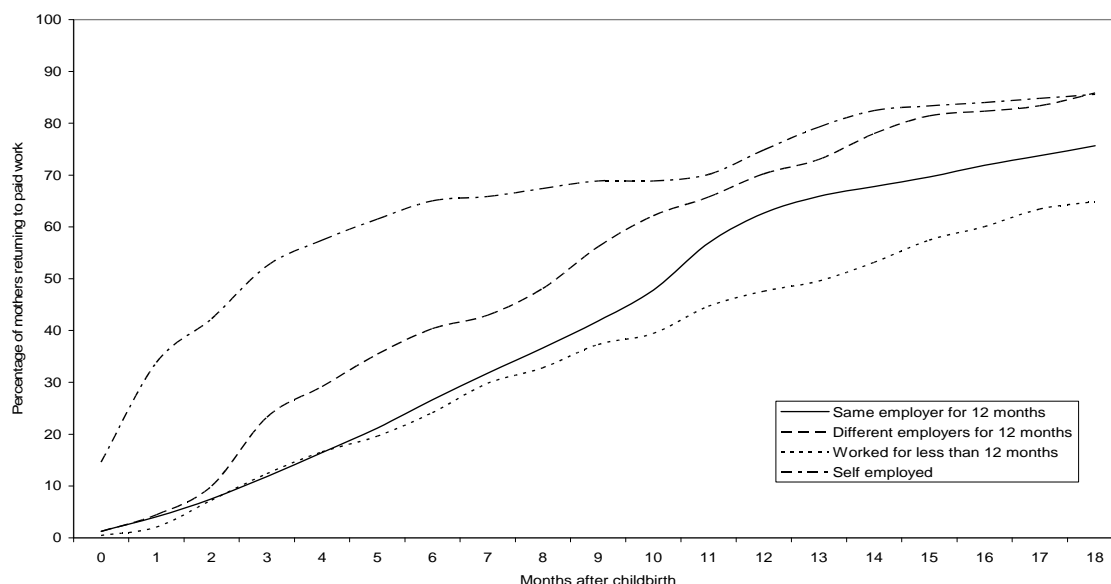
Among employee mothers, those who were in paid employment for less than the full 12 months prior to childbirth are, overall, less likely to return to work within 18 months of childbirth. This indicates that workforce attachment after childbirth is linked to workforce attachment prior to childbirth.

Among mothers who were paid employees for at least one year before childbirth, those who changed employers during this last year were much more likely to return to work early. This is particularly evident in the proportions of mothers returning to work after three months and before six months (figure C.6). This shows that early returns to work are somewhat related to workplace attachment.

Return to work and income

A mother's income appears to have some influence on when she returns to paid work after childbirth. First, for mothers with gross incomes of \$1000 per week or less, there tend to be more mothers returning to work early at lower income levels (top panel of figure C.7). Mothers at lower income levels are also less likely to return to work overall. This implies two groups of low wage mothers: those returning early to paid work, most likely due to their financial needs; and those who may not return to work in the longer term, possibly due to their relatively weak attachment to the paid workforce.

Figure C.6 Cumulative return to work for mothers by type of employer prior to childbirth^a



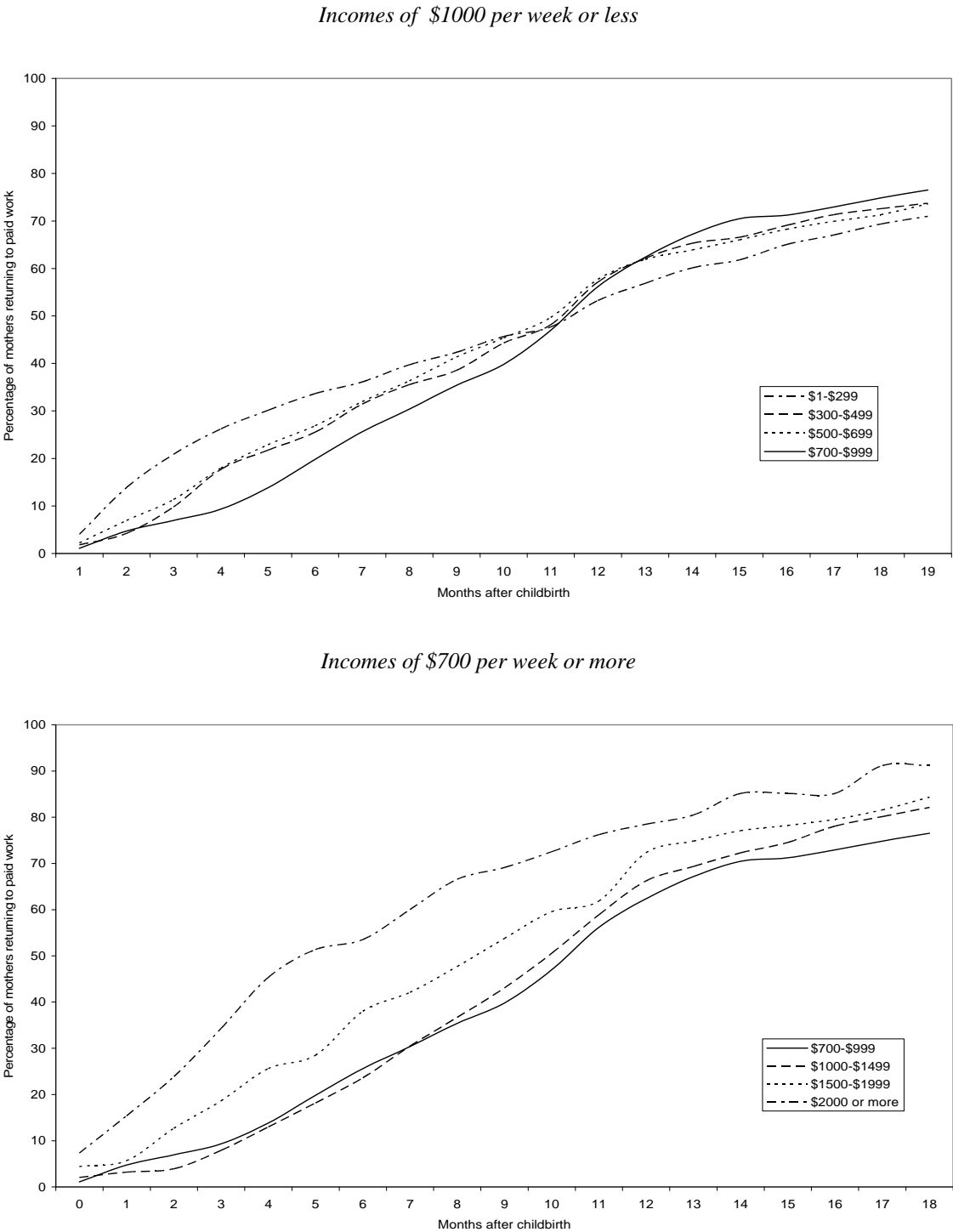
^a Types of employer are mutually exclusive in the LSAC survey.

Data source: LSAC Wave 1.5.

In contrast, mothers at high weekly incomes show a greater tendency to return to work throughout the first 18 months, including the earliest months after childbirth (bottom panel of figure C.7). Half of mothers who were earning gross wages of \$2000 per week or more returned to work before their child was six months old. The reasons for these mothers to return to work early are likely to differ from those mothers on very low weekly wages.

These results suggest that across all wage levels, there is a trend towards greater workforce attachment for mothers who were earning higher wages prior to childbirth. The exception to this involves mothers earning very low incomes prior to childbirth who return to paid work early. That is, for those earning less than \$700 per week, there is a trend of earlier return to work for mothers with lower incomes.

Figure C.7 Cumulative return to work for mothers by mother's income prior to childbirth

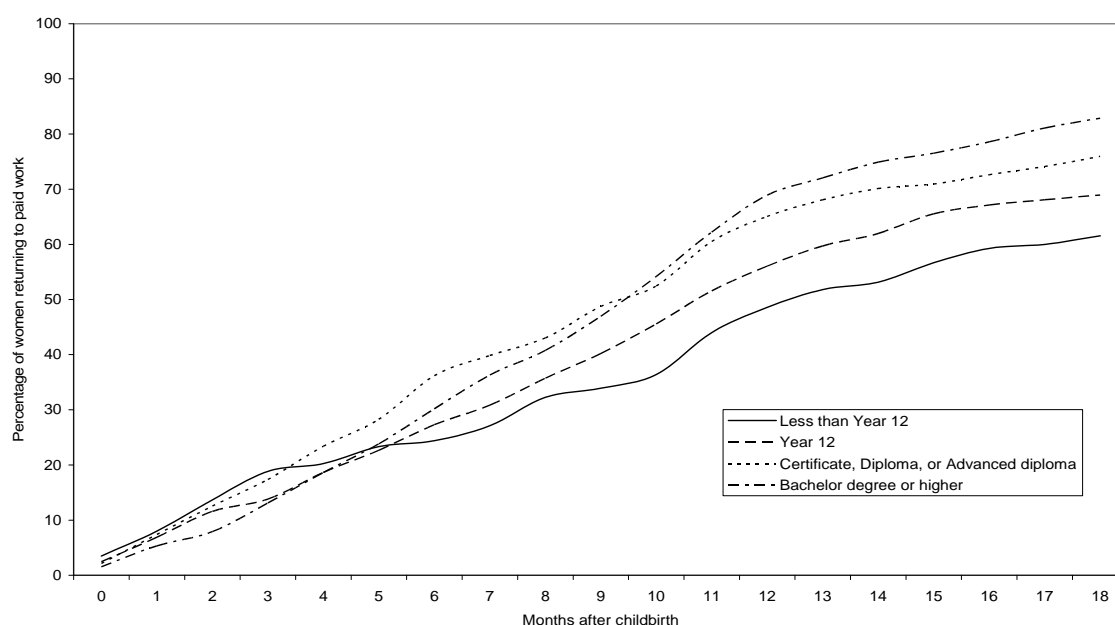


Data source: LSAC Wave 1.5.

Return to work and education

The timing of a mother's return to work differs according to her level of educational attainment. This difference becomes clearer over time, in that mothers with higher levels of education have higher rates of return to work by the time the child is 18 months old (figure C.8). In the first six months, the trends are less clear. However, mothers who had not completed Year 12 were the most likely to return to paid work within three months.

Figure C.8 Cumulative return to work for mothers by mother's highest educational attainment

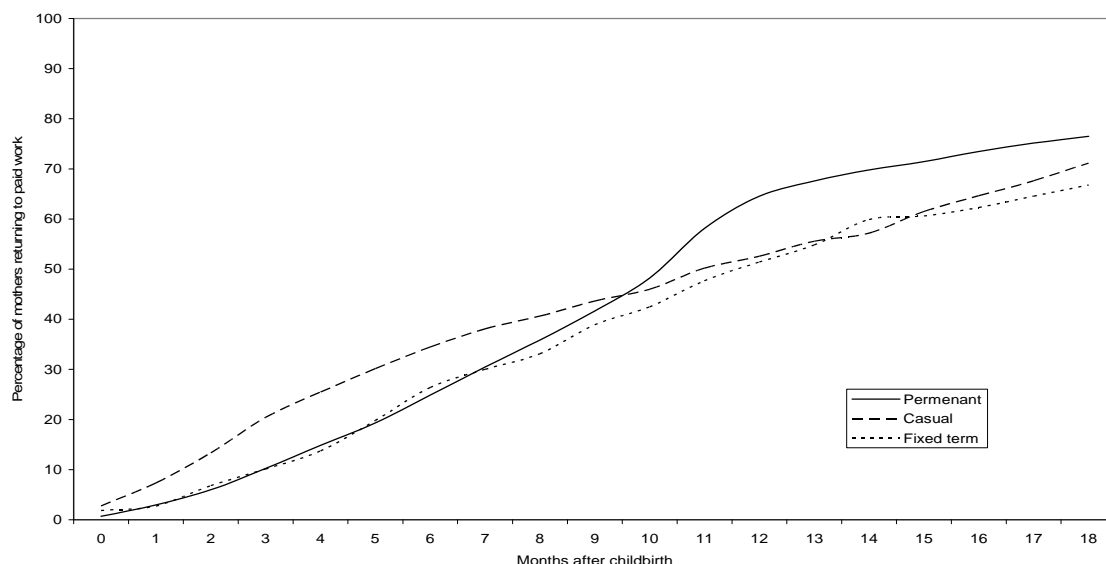


Data source: LSAC Wave 1.5.

Return to work for casual employee mothers

Mothers who are casual employees are more likely to return to the workforce in the first five months after childbirth than permanent or contract employee mothers. However, permanent employees have higher rates of return to work after 10 months, more considerably so after 12 months (figure C.9). Permanent employees appear to be markedly more likely to return at 12 months or after. This may relate to the influence of the 52 week limit on unpaid maternity leave, which is more likely to be taken by permanent workers (due to their greater likelihood of eligibility).

Figure C.9 Cumulative percentage of mothers returning to work by contract type



Data source: LSAC Wave 1.5.

Return to work and the number of children

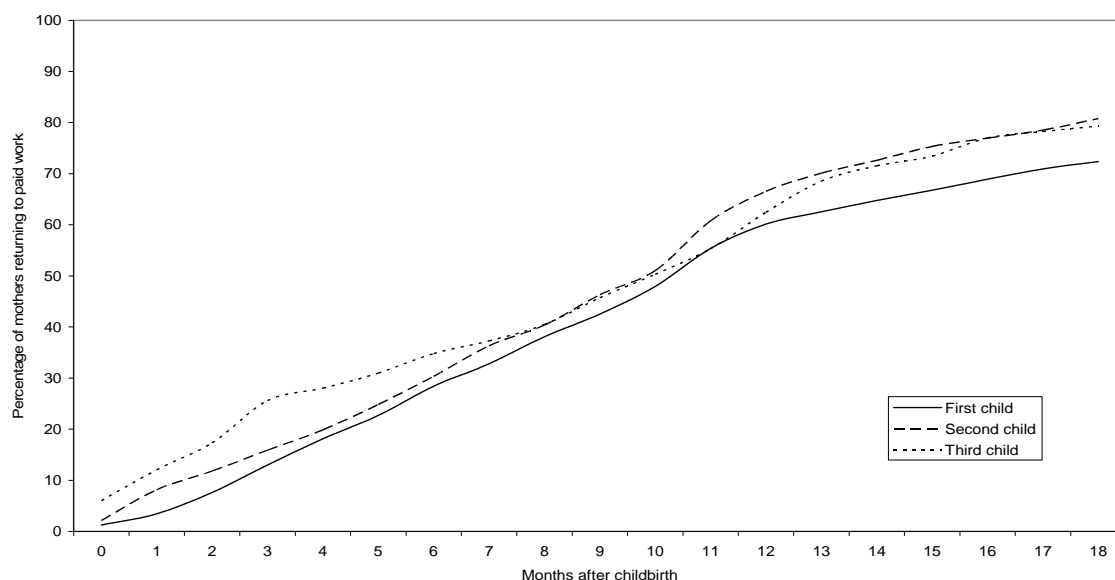
Patterns of return to work for mothers show some differences according to the number of children present in the household. It appears that women with more children are more likely to go back to work throughout the first 18 months after childbirth, including the early months (figure C.10). As mentioned in chapter 3 of this report, the idea that women with more children have higher rates of return to work may not be surprising because a significant proportion of women with more than one child opt out of the workforce prior to pregnancy. Those who do not opt out are likely to have a high innate attachment to the workforce and so are likely to return to work after subsequent children.

Summary

The majority of mothers in paid work prior to childbirth do not return to their jobs within the first six months of childbirth. By the time the child is 18 months old, the majority of mothers who had been in paid work prior to childbirth have returned to paid work. Yet, it is clear that different groups are likely either to return to paid work early or to stay outside the workforce in the longer term. Mothers returning to paid work in the first six months after childbirth is associated with casual employment, low incomes, and changing employers in the 12 months prior to childbirth. However, such early returns to paid work are also associated with high

incomes and self-employment. It is very likely that these groups have different reasons for returning to work early.

Figure C.10 Cumulative return for mothers by number of children



Data source: LSAC Wave 1.5.

In contrast, the proportions of mothers returning to paid work within 18 months appear to differ according to factors that are generally related to poorer employment outcomes. That is, lower rates of return to work within 18 months of childbirth are associated with:

- non-permanent employment
- lower education
- lower income
- shorter duration of employment prior to childbirth.

Mothers who are outside the workforce at 18 months after childbirth could potentially remain outside of paid work for much longer periods, although the duration of such periods can not be determined from the current analysis.

D Child welfare and development

Key points

- A child's experiences in their first years can have prolonged impacts for development.
 - The continuous interactions provided by primary caregivers are especially important, affecting an infant's ability to 'self regulate' their emotions and 'attend' to the world.
 - But, while learning may become more difficult with age, the brain's ability to learn from new experiences is retained into adulthood for most competencies.
- The evidence on the impacts of non-exclusive parental care on child development is mixed. On balance, however, the evidence is most compelling that exclusive parental care for around six months fosters improved development outcomes. And, there is a reasonable prospect that up to 12 months could be beneficial (particularly if the counterfactual is lower-quality care for extended hours).
 - Although, the few studies looking at policies that increase exclusive parental care beyond 6 months fail to find noticeable improvement in child development outcomes.
- Beyond 12 months, the evidence suggests that many of the risks of non-exclusive parental care become progressively less evident as the age of the child increases (although this is dependent on the quality of, and hours spent in child care and the extent to which parents continue to play an active role in caring for the child).
 - Cognitive gains from high quality child care kick-in around this time, and while some studies find evidence of behavioural problems, these are usually small and short-lived.
- These are 'average' effects across whole populations of families, and outcomes for specific families can be very different.
- Around two-thirds of Australian children are cared for exclusively by their parents in the first year of life. And, for those in non-exclusive parental care (typically to facilitate the mother's employment):
 - It is usually a part-time, informal arrangement (in most cases care by a grandparent).
 - The reduction in hours of parental care is typically not equivalent to the number of hours the mother is in paid work.
- While the quality of child care in Australia appears reasonable compared to some other countries, anecdotal evidence provided to this inquiry suggests that it is of insufficient quality to substitute for parental care of infants under 12 months. The evidence finds that specialised training and stability of carers are particularly important.
- Government programs supporting parents with children under two years are more fragmented and poorly resourced than those for older children. The Commission is uncertain of the desirability of additional support but considers that efforts to better integrate services for parents of young children should be continued.

D.1 Introduction

This appendix looks at the evidence on factors affecting child development in the early years of life. It focuses on the extent to which a mother's return to paid employment, and the use of early child care and education, is associated with health (breastfeeding aside), cognitive and behavioural outcomes for children.

Informed by an expanding knowledge about the biological underpinnings of human development, neuroscientists and developmental psychologists broadly agree about the importance of a child's early years, with experiences during this time thought to affect future learning, educational attainment and job prospects, and the building of strong relationships throughout life. But, how different experiences in the first months and years of life might be expected to influence a child's development in practice remains an empirical question. This is because outcomes for child health and wellbeing are heavily dependent on the context in which a mother makes a return to paid work (and uses child care arrangements).

The quantitative study of early child development is a complex area that is hamstrung by data and methodological issues. As most studies rely on observational data, selection bias problems feature widely (which arise because unobserved factors, which are associated with decisions about parenting, child care and employment, may also have a bearing on child development outcomes). And, while studies usually attempt to control for biases — for example, by using family and child characteristics — the extent to which such variables are included varies significantly (with many not including them). This can limit the meaningfulness of results, since either strong assumptions are necessary in the modelling or only correlations are able to be reported.¹

While these limitations make it difficult to arrive at firm conclusions, broad trends and directions can be identified from the evidence. That said, while particular types of care might be good for some, or good on average, this does not mean that it will be good for all. It is important to be mindful of the effects for particular groups and individuals.

D.2 The science of early child development

The science of early child development supports the view that both a child's genetics and experiences shapes their brain development. With sophisticated new

¹ A very limited number of studies use data or modelling techniques that enable causality to be established — including, for example, the recent study by Dustmann and Schönberg (2008) employs an extensive data set consisting of broad ranging variables observed both before and after a policy change in paid leave duration.

technologies and focussed research on brain chemistry, much has been learned over the last few decades about the mechanisms through which the capabilities of a young child's brain expands, including the extent to which different types of experiences count towards a child's cumulative development over time (Mustard 2006).

The biology of human brain formation and its bearing on child development

The human brain is made up of billions of neurons that are connected via synapses to create neural pathways that communicate with each other to perform a specific range of functions including, for example, vision, hearing, language and behaviour. The early childhood period is a time of rapid brain development in terms of synapse formation and also when neural pathways (and the expression of genes) are particularly sensitive to the dose and range of experiences provided by a child's environment. This makes early childhood a period of simultaneous opportunity for enrichment and vulnerability to harm.

The richness and appropriateness of experiences that children are exposed to during 'sensitive periods' for brain development (figure D.1) affect the strength of the connections (synapses) formed in neural pathways and, in turn, lock-in the way that the body responds to various intellectual, emotional, psychological and physical stimuli. As the stabilisation, or locking-in, of brain functions is occurring at a faster rate than any other phase of development, synapse development in this stage can have more enduring effects (either positive or negative) than any other developmental period.

Also, the early childhood period is important because each stage of neural pathway development rests on another, so that the complexity of brain circuitry, and in turn, its ability to perform a range of complex functions — such as movement, coping, language, cognition and biological processes — build over time. Because of this hierarchy, if lower level circuits are not wired correctly, the development of higher level circuits may be jeopardised. Research is finding that making corrections at this later stage is often more difficult:

Getting things right the first time is more efficient and ultimately more effective than trying to fix them later (National Scientific Council on the Developing Child 2007, p. 12).

However, there is also the countervailing effect of 'brain plasticity' to consider — the ability of the brain to change with learning. The ongoing interactions between a child's genetics and new experiences means that neural pathways are likely to be either maintained, strengthened or pruned over time, so that the presence or absence of experiences will either enhance or diminish inborn potential. But, if a child is not exposed to certain 'brain building' experiences during particular developmental phases, there appears to still be scope to intervene to restore a normal brain architecture and mitigate any detrimental effects on future learning (box D.1).

Box D.1 Clarifying the science

Redefining critical periods in child development

A 'critical period' in child development is uniquely important for development, such that an experience *must* be had within that time frame for development not to be permanently altered (Waldfoegel 2006). This is consistent with a model of development characterised by fixed developmental phases and necessary experiences. But, for human brain development the term has the potential to be misleading since time limited windows of opportunity are exceptional rather than typical, and the brain's capacity for thinking, feeling and adapting is life long (Thompson 2004; *From Neurons to Neighbourhoods* 2000, p. 183). While a 'critical period' may hold meaning in some developmental contexts² or as applied to basic processes in animals, for human development and higher-level functions the concept is likely to be less informative (*From Neurons to Neighbourhoods* 2000; Bailey 2002 et al.).

Since finding that some processes formerly believed irreversible (following the stabilisation or locking-in of neural pathways) may not be so entrenched (Bailey et al. 2002; Thompson 2001), the more flexible development model of 'sensitive periods' is now used more widely (see Thomas and Johnson 2008). Nevertheless, while a model of 'sensitive periods' in human development incorporates brain plasticity (the ability of the brain to change with learning), it still recognises that learning new things does become more difficult with age.

Some unfounded assertions in the name of science

The science of early child development is an evolving field of research, characterised by much uncertainty that can sometimes lead to misleading messages entering the public domain. According to the National Scientific Council on the Developing Child:

- There is no definitive scientific evidence that the influence of relationships is more important at one stage of a child's life compared to another.
- There is no credible scientific evidence to support the claim that multiple close relationships with different caregivers (within or outside of the family), especially early in a child's life, interfere with the strength of the young child's primary relationship with his or her parents.
- Although the importance of sustained, reliable relationships within the family is well understood, the need for stable and predictable relationships in child care settings is acknowledged less frequently, and the disruptive impacts of the abrupt changes related to high caregiver turnover are too often disregarded. (NSCDC Working paper 1 2004, p. 4).

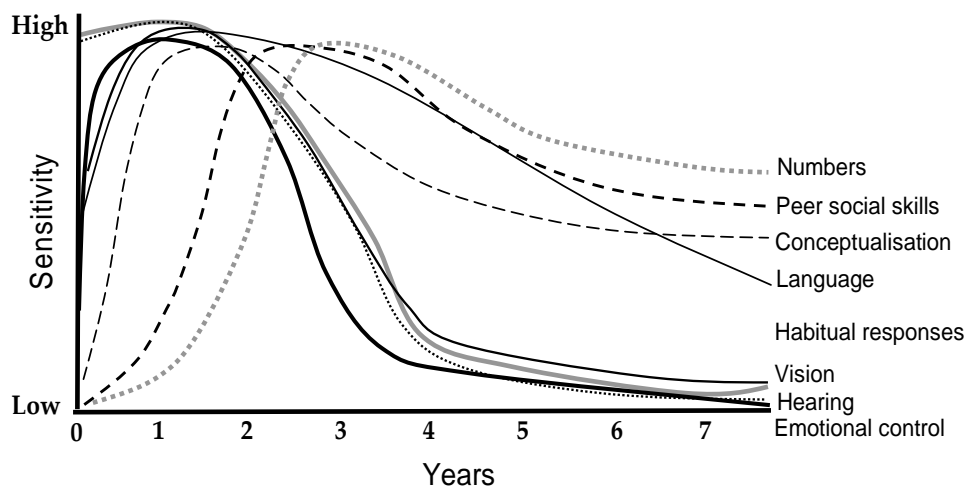
That said, while brain plasticity is retained into adulthood, not all parts of the brain are equally plastic. Some neural pathways that are highly plastic around birth remain so only for a short window of time. But, debate still surrounds which neural pathways and brain functions are characterised by this higher sensitivity to the timing and dosage of experiences. Recent studies have found that some brain formation processes that were

² The brain pathway that conveys visual signals from the retina to the visual cortex is often cited as a developmental function requiring critical experiences for normal development. Other critical periods exist for sound and touch (Tessier et al. 1998; Klinke 1999).

previously thought to be locked-in or irreversible after some point in time, may not be so fixed, and there remains the possibility that brain development continues into maturity in yet unknown ways (Bailey 2002; Thompson 2001; box D.1).

In addition, much of what is known about the impact of early experiences on brain architecture comes from experiments on animals (which raises issues about transferability to humans) or human studies of deprivation (the impacts of deprivation do not necessarily mean that enrichment results in measurable benefits). And, even when clear relationships between the nature of early child experiences and developmental outcomes are agreed, the context is often extreme and usually not applicable to the mostly small differences in experiences observed between children in practice.

Figure D.1 Sensitive periods in early brain development



Data source: McCain and Mustard (1999); Shonkoff (2000).

The role of caregivers in providing brain building experiences

Current scientific thinking³ on optimal early childhood experiences focuses on the quality of interactions between an infant and their caregiver(s), and how this provides sensory stimulation affecting early brain development and later mental and physical health. An emphasis is placed on the reciprocal nature of continuous interactions between a caregiver and child, based on shared gaze, vocalisations, touch and smell, so that:

...both members of the dyad enter into a symbiotic state of heightened arousal.
(McCain, Mustard and Shanker, 2007, p. 27)

³ by developmental psychologists, developmental neuroscientists and behavioural scientists.

The nature of the relationship between young children and their parents (or other primary care givers) is dynamic, and often described as a ‘serve and return’ process — infants seek out interaction through babbling, facial expressions, words, gestures, and cries to which the adult responds, and the process continues back and forth. These interactions (actions and reactions) are considered most fruitful when they are mutually rewarding to child and adult, and are:

... embedded in an ongoing relationship between a child and an adult who is responsive to the child’s unique individuality (National Scientific Council on the Developing Child 2007, p. 6).

It is via these endless interactions between a child and caregiver that a child’s ‘self regulatory’ system⁴ becomes fully functional. They are also considered important for the caregiver as their ‘mindreading’ abilities can ‘only be attained through countless caregiver-child interactions that nature designed us to experience in the first year of a baby’s life’ (Greenspan and Shanker 2004; sub. 234, p. 7).

Of course, experiences can also be negative, including exposure to maternal depression, family violence and poverty, which can affect brain structure and have future implications for the building of relationships and wellbeing more generally. Outcomes that are often attributed later in life to adverse early childhood experiences include, but are not limited to, depression, anxiety, post traumatic stress, aggression, hyperactivity and substance abuse (Teicher 2003).

Some particular combinations of early childhood experiences and genetic vulnerabilities are believed to produce many of the behavioural problems commonly diagnosed in children, such as Attention Deficit Hyperactivity Disorders and autism. The environmental trigger to these problems is not always well understood but, among other things, may include pregnancy and delivery complications or a dysfunctional family environment. Recent studies into autism suggest that it may result from an impaired ability of the brain to process sensory stimulation, ultimately limiting an infant’s ability to engage in reciprocal relationships necessary for the development of higher-level neural networks. It is important to note, however, that no link has been established between different types and qualities of early childhood care and the incidence of these types of conditions in young children.

With the expansion in knowledge of how early childhood experiences affect the development of children, developmental psychology and neuroscience have sought to identify ways that positive experiences can be supported. The term ‘positive care giving’ — care that is sensitive and responsive — is often used to describe

⁴ Self regulation refers to the set of abilities that enables a child to control their emotions and behaviour, interact positively with others, and engage in independent learning.

characteristics of care that are thought to provide the building blocks for positive relationships and learning:

- sensitivity is about the appropriateness of the care to the individual child's needs
- responsiveness indicates that the care adapts to changes in the child's needs and status over time.

Characteristics of positive care giving are usually assessed through direct observation of carer behaviour and their interactions with the child. Features of the physical setting can also be assessed (the presence of age-appropriate equipment, books and other stimuli). Other characteristics of child care generally associated with desirable outcomes include care that is individualised, age-appropriate, less-authoritarian, applies consistent disciplinary skills and is routine (Vandell 1996).

D.3 What do the econometric studies tell us?

Econometric analysis provides a useful tool to disentangle the effects of a range of factors potentially impacting on a child's development, including the particular effect of maternal employment and the associated use of child care arrangements. Such analysis enables researchers to discern what is happening empirically on average, but in drawing conclusions it pays to remain mindful that:

...what is best for one child or the average child may not be best for another child or for all children (Waldfogel 2006).

Long standing policy interest means that there are a large number of studies in the field, but it is a complex area of research, hamstrung by methodological and data limitations that make drawing solid conclusions problematic. There is also some disagreement within the literature, with the direction of effects from maternal employment or child care often not well established and the timing and dosage of 'treatments' yet to be discerned with much reliability. The diverse results are likely to reflect:

- how well selection bias problems (which result from the presence of unobserved factors associated with maternal employment and child care decisions that also account for child development outcomes) are addressed. Those studies that attempt to control for these unobserved factors generally use:
 - background variables in their models to approximate unobserved factors
 - propensity matching techniques (to restrict comparisons to individuals with closely matched characteristics — see, for example, Berger et al. 2005)
 - instrumental variable approaches or other more sophisticated modelling techniques

-
- the size of the sample and particular groups being analysed
 - how well contextual differences are accounted for.

A meta-analysis of 32 studies⁵ (Bernal and Keane 2006) found that results often varied depending upon contextual differences, such as the group studied, the timing of maternal employment and the child's age at initiation of child care. Roughly one-third of the studies reviewed reported mostly positive effects from a mother's employment and child care on cognitive development, one-third reported negative effects, and the remaining one-third found varying or insignificant results.

Consequently, the evidence is by no means clear about the effects on child welfare from a mother's employment and associated use of child care. To better distil the impacts, studies need to distinguish more clearly how measures of child development are affected by changes in:

- the timing of a mother's return to employment (and age of entry into child care)
- the quality of a mother's maternal care (and the quality of the child care setting)
- the number of hours that a mother spends caring for her child (and the hours of child care used).

While some studies are able to analyse child development outcomes with attention to many of these characteristics, data limitations mean that it is rare for the full suite of influences simultaneously affecting child development to be included in the modelling.

A snapshot of the evidence

Most of the more recent evidence tends to support the view that the use of *non-parental care*/child care (usually necessitated by maternal employment) when initiated within the first year of a child's life can contribute to behavioural problems and, in some contexts, delayed cognitive development (Han et al. 2001; Hill et al. 2001; Waldfogel et al. 2002; Brooks-Gunn et al. 2002; Baker et al. 2005). Evidence of problems is generally stronger when child care is initiated very early (3 to 4 months or less), when maternal employment is full-time and when the child care arrangement is for long hours and of low quality.

The evidence is mixed however, with some studies not finding maternal employment or child care to be detrimental for various measures of child development across a range of ages, including within the first year of a child's life.

⁵ Including 16 studies looking at the effects of maternal employment on cognitive ability using US data; and another 16 studies looking at the effects of child care on children's cognitive ability.

But, the emergence of positive effects (mostly cognitive) from early child care experiences tend to be confined to situations where:

- child care is initiated at least after six months of age (NICHD 2000)
- maternal interactions remain sensitive and responsive (NICHD 2006)
- maternal employment is not full-time (Berger et al. 2005; Gregg et al. 2003).

For children aged one year or older, the empirical work focussing on the effects of maternal employment and child care is more divided about the magnitude, or even direction, of the effects on child wellbeing. Studies do tend to find, however, that many of the potential risks associated with the use of child care for younger children are less evident as the age of the child increases, especially if the care is of high quality:

...cumulative experience in high-quality, centre-based care starting in the second year of a child's life may be particularly beneficial for cognitive development (From *Neurons to Neighbourhoods*, p. 312).

What is less concrete from the existing body of evidence is the point in time that these benefits start to kick in. For example:

- maternal employment when children are one to four years old has been associated with small positive outcomes, particularly in reducing anxiety levels in children (Joshi and Verropoulou 2000)
- full-time maternal employment when a child is less than 18 months old has been found to have negative effects on cognitive and behavioural measures of child development, but where employment was part-time or initiated after 18 months, no detrimental impacts were evident (Gregg and Washbrook 2003).

Effects are usually small and other factors are stronger predictors

Even though some studies find evidence of detrimental impacts from a mother's employment and the use of child care, the size of the impact is typically small on average, and often not statistically significant. Variance in child wellbeing is generally more strongly predicted by a range of family characteristics including, for example, household income, maternal education and psychological adjustment, parenting quality and child rearing attitudes (NICHD 2006; Belsky et al. 2007).

But, it is important not to downplay the significance of small negative effects that can have broad scale consequences when experienced by large numbers across the population. In addition, a small *average* negative effect will disguise variations in the effect across different sub-groups. For instance, children facing disadvantage or at risk of less sensitive and responsive care in their home setting may benefit

significantly from early exposure to high quality child care and the extra income generated by their parents employment.⁶

A small negative effect may be particularly significant if it is enduring over time. But, research on the persistence of outcomes over time struggles to ascertain whether differences in developmental outcomes are directly the result of differences in early childhood experiences, or from other factors that are difficult to adequately control for in the modelling.

Consistent with the importance of the family environment and its influence on an infant's child care experiences, co-variation between indicators of parenting quality and that of the child care environment is also observed (NICHD 1997a). This means that a child having a sensitive and stimulating home environment will often be more likely to be placed in a child care arrangement also having those same characteristics. In particular, the influence of family cash resources has been stressed by a number of studies as important for successful cognitive development (discussed below).

Effects on cognitive development

Cognitive development is usually assessed according to IQ as well as levels of general development and the achievement of specific learning and communication skills. Many cognitive skills do not start to develop until around 9 months of age, and these predominately build from the amount of language stimulation.

If maternal employment is full-time in the first year of life, studies generally find negative impacts of child care use on cognitive development. But, there are a number of countervailing influences that mean a child will not inevitably be harmed by entering child care early, this is especially if the care is of high quality and the experiences provided stimulating. Also, maternal education remains a strong predictor of a child's cognitive development, with higher educational attainment tending to offset any negative effects of lower quality care.

For children over 12 months of age, the studies suggest that, on average, cognitive development would not be impeded from child care use; with an increasing potential for positive effects as children get older. The benefits are thought to mainly derive from the amount of language stimulation that a qualified child care teacher provides, which requires particular knowledge and experience of ways of teaching and interacting with young children to foster early language and cognitive skills. Reflecting these carer

⁶ Income from maternal paid work, especially the move from low to moderate income, has been shown to have a positive effect on an infant's wellbeing (Brooks-Gunn and Duncan 1997, Mayer 2002). The children of the least educated mothers appear overall not to be disadvantaged when their mothers work, leaving the negative effects concentrated amongst the children of more educated mothers.

characteristics, the type of child care does matter, with mostly positive cognitive effects attached to centre-based child care (NICHD 2000), particularly those having more qualified carers and an emphasis on providing a rich learning environment.

Whether cognitive effects from exposure to early maternal employment are sustained or wear off over time has not been extensively researched, but there is some evidence pointing to their persistence over time. For example, some positive effects of maternal employment were found in the UK for maths and reading performance at age ten; and employment status at age 26 (Joshi and Verropoulou 2000). But studies vary, with a US study by Haveman and Wolfe (1995) concluding that early maternal employment does not have a substantive long-term influence on a child's development, although the authors do identify the benefits of a positive role model and additional income.

Even still, the findings of studies about the persistence of developmental impacts over time remain of limited use because they do not inform at what time the initiation of maternal employment matters for future development, or what characteristics of child care arrangements are associated with better or worse outcomes in later years.

Effects on social and emotional development

While some studies report a relationship between behavioural problems and child care use, the effects are often intermittent over time, emerging and withdrawing within different developmental periods, so that any link is difficult to discern with much confidence. Also, behavioural effects are usually only very small and not diagnosed at clinical levels.

Compounding uncertainty in the empirical results are problems of defining what constitutes good and bad behaviour — gastroenteritis is unequivocally bad, but is shyness? In addition, behavioural variation in children tends to reflect individual characteristics of children more so than maternal employment and child care use, and disentangling these influences can be problematic.

Consequently, assessments of child behaviour rely heavily on value judgements about the criteria used to identify problem behaviour, which is further biased by who reports it. For example, it is generally found that child care workers who observe children in group settings are more likely to report problems than parents. The size of the child care group and instability within the group and among carers is also thought to be related to the development of externalising behaviours in children (Waldfogel 2006). In particular, behavioural problems (often measured by the Behavioural Problems Index) tend to be revealed through a heightened display of aggression and impulsiveness.

Lower child care group numbers and lower child-adult ratios are sometimes associated with fewer behavioural problems and, in turn, are associated with better quality experiences provided in the child care setting. This may be because a child has to compete less for attention and the particular behaviour of a child may be responded to more readily. Nevertheless, if behavioural problems do emerge, many studies find that the effects are short lived and generally not evident around the time of school entry (Han, Waldfogel and Brooks-Gunn 2002; Ruhm 2003).

An Australian study by Harrison (2008) found that for children aged two and three, child care had overall positive effects (albeit that the effects were small and explained less than 0.5 per cent of the variance) on social and emotional wellbeing. Importantly, this study controls for the effects of care quality and found similar results to a number of international studies that attribute higher quality care to more positive socio-emotional outcomes (Love et al. 2003; NICHD ECCRN et al. 2003; Peisner-Feinberg et al. 2001 and Sylva et al. 2003). Harrison's modelling, however,

- relies on self reported data, rather than external measures of care quality
- does not include background controls for family and child characteristics.

Studies that control for family influences generally find a positive association between higher quality child care arrangements and a child's superior:

- ability to self-regulate
- social skills, levels of co-operation and attachment to adults

But the age of entry and intensity of child care use seems to matter. Studies generally conclude that the use of centre-based care (other care settings tend not to show any significant interaction) at less than two years of age will have negative behavioural effects compared to children in exclusive parental care (Loeb et al. 2007). And if centre based care is initiated before one year of age (Loeb et al. 2007), or for extensive hours each day (Belsky 2006), negative behavioural effects are even more pronounced. In addition, children rated as having more difficult temperaments at six months of age tend to be more affected by the subsequent initiation of maternal employment and child care.

Independent of the quality of child care, assessments of a child's ability to form secure attachments are not generally found to be affected by child care use.⁷ There is some evidence from the NICHD network to suggest, however, that some children (especially boys) may be slightly more vulnerable to less secure attachments in some low quality child care settings or if maternal care is not sensitive and responsive (NICHD 1997b).

⁷ But, research is not clear that a secure attachment in life will guarantee healthy psychological outcomes any more than an insecure attachment will ensure later difficulty (Thompson 2001. p. 26).

Effects on child health

The impacts of maternal employment and child care on child health are often linked to:

- visits to health care professionals, routine immunisations and other health checks
- the monitoring of child health by parents
- breastfeeding (initiation and duration).

On balance, the evidence finds that longer periods of maternal (or parental) leave are associated with better health outcomes. The strongest evidence of this is reflected by lower rates of infant mortality, as borne out by cross-country comparisons of parental leave schemes. For example, a study by Ruhm (2000) using aggregate data from 16 European countries between 1969 and 1994 found that more paid parental leave has the effect of reducing deaths in infants and young children and that the estimated effects are substantial (especially where a causal effect of leave is most plausible).

Ruhm found that a 10 week increase in paid maternity leave could reduce infant mortality rates by between 2.5 per cent and 3.4 per cent. Ruhm suggested that one reason for the association between longer leave periods and lower infant mortality was an increase in periods of breastfeeding and additional time afforded by leave for parents to care for their infants. Ruhm concluded that ‘parental leave may be a cost-effective method of bettering child health’ and that parental time is ‘an important input into the well-being of children’ (p. 933). Ruhm’s study, however, did not control for other social policies, such as support for public health programs, that may have accounted for some (or all) of the effects.

A study by Tanaka (2005) that extends Ruhm’s work also find longer periods of paid leave are correlated with reduced infant mortality. Tanaka also finds that while paid leave significantly decreases infant mortality, unpaid leave has no significant effect.

Nevertheless, while the literature has consistently drawn a linkage between the length of leave taken surrounding birth and better health outcomes, the timing of these effects and underlying source of benefits is unclear. Increasingly as scientific knowledge builds, however, breastfeeding is thought to be an important associated factor with enduring effects (appendix H). Other factors, but typically of a more transitory nature, include a heightened risk of illness or infection from child care (especially when children’s immune systems are less developed).

Berger, Hill and Waldfogel (2005), looking at the relationship between maternity leave and child health outcomes found that a new mother’s return to work in the first six weeks was significantly associated with negative child health outcomes. Effects observed

included being less likely for children to have regular medical check-ups in the first year of life, less likely to receive timely vaccinations and less likely to be breast-fed.

Child care and infectious diseases

Parental leave may result in less exposure to infectious disease. There is some evidence to suggest that children in child care are more likely to get ear infections and upper respiratory infections than children cared for in their own homes (NICHD 2006; Warren, Levy; Kirchner; Nowak and Bergus 2001). Infants tend to be highly susceptible to infectious diseases, having less developed immune systems, and child care centres catering for large numbers of children create a higher risk of transmission (Galtry 2002, Osterholm 1994).

The impact of child care quality on development

Research studies generally find that positive impacts on child development are more likely to result from child care that is high quality (see, for example, Duncan-NICHD 2003; Peisner-Feinberg et al., 2001; Belsky et al. 2007). Similarly, studies that effectively control for the quality of child care in their modelling often find that developmental outcomes for children in child care do not systematically differ from children in exclusive maternal care (NICHD 2000).

But, the positive effects of child care quality are mostly confined to cognitive development rather than behavioural outcomes. For example:

- Gregg and Washbrook (2003), found that the use of centre based care can enhance cognitive development in some cases beyond exclusive care at home by a parent.
- Belsky et al. (2007), found that higher quality centre based care was associated with higher vocabulary scores but more teacher-reported behaviour problems.

But, studies often find both cognitive and behavioural gains from high quality child care for infants in a home environment that places them at risk, with high quality child care serving a compensatory function for less sensitive and stimulating interactions provided at home.

Determinants of child care quality

Key drivers of child care quality are those affecting the ability to provide sensitive and responsive care (individualised care that is adapted over time to the child's changing needs), and will usually be divided into 'structural' and 'process' factors:

- Structural features of child care generally include child-adult ratios, group sizes, staff qualifications and health and safety characteristics.

-
- Process features of child care are usually informed by direct observation of the child care setting, with particular attention paid to child's interactions with care givers, other children and the activities and materials provided.

Structural features of child care are found to predict process features, which by influencing the daily experiences of the child, impact on child behaviour and development.

The weight of research evidence corroborates that child-adult ratios are significantly associated with the quality of the care provided. Rarely, however, is causality established, so it is not possible to specify exactly how a greater number of carers per child might drive better outcomes for child development, other than improving the probability of more interactions between carers and children. While there is some evidence that the child-adult ratio is a stronger predictor of outcomes for infants than toddlers and older aged children, most studies examine the effect of ratios for children aged 3-5 years and older (Cleveland et al, 2007; de Schipper et al. 2006).

Reducing the ratio of children to adults is usually found to have a non-linear effect on the quality of care and child outcomes, with the most significant improvements observed when moving from a ratio that provides inadequate care for a substantial number of children, to a ratio supporting adequate care (de Schipper et al. 2006). Reductions below 1 adult per 3 children are less frequently associated with any significant increase in the quality of care to foster improved developmental outcomes.

While varying from state-to-state, a ratio of one carer for every four or five infants is typically observed in Australia (box D.2). But, when describing characteristics of high quality care, the Australian Association for Infant Mental Health said:

...care must be consistent, responsive, nurturing and predictable which means that carers need to have time to be responsive (a child ratio of even 1:3 would make this difficult...) (sub. 25, p. 4).

Similarly, the Australian Family Association discussed what are, in their opinion, some child care deficiencies:

Child care has not been shown to be a perfectly satisfactory and equivalent substitute to mother care or other care by significant loving attachment figures in a child's life...If we recognise the seriousness of infant needs to be cared for in the context of an attachment relationship, then it becomes imperative that child care be of very high quality providing a care ratio of at the most 1:3 and preferably 1:1 for infants. (sub. 205, p. 24).

Studies consistently find that stability in care providers is strongly related to child outcomes (Loeb, Fuller et al. 2004; Huntsman 2008), mainly because care that is responsive to changes in each child's developmental status is difficult to deliver if caregivers are not sufficiently familiar with the infant's individual needs and signals.

Box D.2 The quality of child care services in Australia

Measures guiding the quality of regulated child care services in Australia include state-based licensing regimes, with associated performance monitoring and inspections; and a national quality assurance system that links funding to outcomes (via parents eligibility for the Child Care Benefit). Licensing of providers is the responsibility of State and Territory governments, with minimum regulatory requirements set for safety, staff qualifications, child/staff ratios, and child health and development. However, despite having jointly developed national standards (agreed to be fully implemented by 2000), the way that licenses are implemented and monitored, and the quality of child care that ensues, varies across jurisdictions. For example:

- In some states, long day care centres require a child to carer ratio of 4:1 for 0-2 year olds (including Western Australia; Queensland; and, most recently, New South Wales); all other jurisdictions require a ratio of 5:1. Similarly, some jurisdictions specify a maximum group size (often around 8 for under 2s), while others do not.
- Inspections by authorities are usually announced in all jurisdictions except Victoria (where around 94 per cent are impromptu) and Queensland.
- Based on the Infant Toddler Environment Rating Scale (ITERS: a global rating of quality), the Australian mean score is 5-6 (good or better), but scores also drop as low as 3.3 (minimally adequate).⁸

Although consistent data is not often available across jurisdictions, indicators of child care service quality as used in the Report on Government Services (PC 2008, p. 3.27) include:

- The proportion of qualified staff:
 - roughly 70 per cent of primary contact staff in Australia have formal qualifications⁹ or at least 3 years of relevant experience. But if referring only to staff with formal qualifications, the proportion (53 per cent) is low by OECD standards (OECD, *Starting Strong II* 2006, p. 270).
- The rate of ongoing staff development:
 - more than 60 per cent of staff in Australian Government approved child care services undertook relevant in-service training in 2006.
- The proportion of services achieving quality accreditation:
 - nationally, over 92 per cent of centres that were fully assessed up to June 2007 were successful at gaining accreditation.
- Performance against the National Child Care Accreditation Council's 10 quality areas and 35 principles:
 - nationally, over 86 per cent of long day care centres were rated as satisfactory or better in 2006-07 according to the NCAC's criterion for 'health, nutrition and wellbeing'

⁸ Nevertheless, US ratings for infant-toddler care are significantly lower than Australia, at 3.2 to 3.9 on average (Harrison 2008).

⁹ It is estimated that it costs up to \$10 000 to train a qualified staff member but reportedly 1 in 5 leave each year (SMH, 2 September 2008).

In addition, some argue that instability in child care providers (particularly in formal care settings with annual rates of turnover around 30 to 50 per cent (Fenech, Sumsion and Goodfellow, 2006)) does not support a child's attachment security and ability to build future relationships. Similarly, adult-child ratios that are too high might also reduce a child's ability to make secure attachments. For example, Sagi, Koren-Karie, Gini et al. (2002) found a greater likelihood of an infant's secure attachment to their mother from an adult-child ratio of 1:3 versus larger ratios.

Caregiver education and training is generally found to be a better predictor of care quality than child-adult ratios (Burchinal, Howes and Kontos 2002). In particular, higher levels of specialised training appears to be the most important contributor for infant children (Howes, Whitebook and Phillips 1992), but the statistical significance of formal teacher education has been questioned by recent studies that find no impacts on pre-reading or maths skills for pre-kindergarteners (Early et al. 2006).

The countervailing effect of income

Studies generally find that a mother's income can offset what may otherwise be a negative effect on child welfare from a mother's early return to employment (see for example, Baum 2003; Gregg and Washbrook 2003). Some studies, including the NICHD Study of Early Child Care and Youth Development (2006), also conclude that family characteristics, such as household economic positions, are often a better predictor of child development outcomes than characteristics of child care.

An important factor associated with the positive contribution that a mother's income makes for child development is the ability to purchase more time saving conveniences, which relieve household responsibilities and enable more time for active parenting. Guryan et al. (2008) find that as parental income and education rises the amount of time allocated to home production (basic household duties) falls and time spent in active parenting increases.

How either higher education or income might enable more time for parenting, or increase the effectiveness of that time for enriching child development, is not always clear. Indeed, the effects of income can easily be confused with the effect of education, and visa versa. Nevertheless, studies that control for maternal education continue to observe mostly positive effects from higher maternal income.

Maternal income also affects the propensity to return to employment after birth, since it reflects the opportunity cost of choosing to remain at home as a primary carer. And while a mother having a higher income will usually be associated with a higher likelihood of making an early return to employment, other sources of

household income may counter this. In addition, a range of other factors will also influence a mother's return to employment including, for example, maternal education — Guryan et al. (2008) finds that more highly educated parents often view their time spent parenting as an investment in which it is important to devote their active attention.

Nevertheless, even though a parent may have a clear preference to stay at home as the exclusive carer of their child, it is still necessary to be mindful of their finances, at least, to avoid worsening their financial situation to the point of financial hardship and poverty. The Commission's proposal for a statutory paid parental scheme will have an incidental impact of relieving the potential for such hardship in the post-natal period — albeit that key objectives of the proposed scheme are to encourage greater parental time at home and stimulate lifetime employment. That said, because there is strong evidence about the detrimental effects of insufficient income or poverty for child health and development, the fact that the scheme helps to alleviate financial hardship is significantly beneficial.

Specific benefits of reduced financial hardship are said to accrue from reduced rates of mortality; lower risk of injuries resulting from accidents or physical abuse/neglect; less respiratory infections and incidence of asthma; less gastrointestinal problems; better general health and fewer nutritional deficiencies; and improved scores on a range of developmental tests (see for example, Aber et al. 1997; Goodwin 2007).

While the evidence on the effects of very low income is consistent across studies, causality is generally not well established, with only more recent studies specifically addressing the issue (though not in a manner consistent enough for a meta-analysis). Nevertheless, after controlling for other predictors of income poverty, including mediating factors such as education and family structure, income poverty is still found to independently affect child welfare.

The impact of increasing maternal care through longer leave duration

Very few studies analyse the effect of delaying a mother's return to employment (and increasing the period of focussed maternal care) by expanding paid maternity leave duration. Nevertheless, of those studies that have analysed this effect, no noticeable improvement in child development outcomes is generally found.

Baker and Milligan (2008c) looked at the effects of Canada's change in paid maternity leave from six to twelve months. Despite a considerable increase in maternal care (an

extra 3 months on average, or an increase of 50 per cent), no significant developmental benefits emerged, at least as manifested in children by the age of two.¹⁰

Analysing the longer-run effects (in terms of education and labour market outcomes) of expansions in maternity leave coverage in Germany, Dustmann and Schönberg (2008) found no evidence that any of the policy reforms (1979, 1986 and 1992) improved children's long-term outcomes. In particular, they looked at the effect of policies increasing paid maternity leave duration from two to six months and six to ten months. This is a significant finding, both because a specific objective of each change in leave policy was to improve child welfare, and also because Dustmann and Schönberg used a large data set and are able to imply causality from their results (since observations are recorded pre- and post policy changes).

While it may simply be that many of the benefits arising from expansions in paid parental leave do not feature in the aggregated statistics, based on the small sample of studies available, it does seem prudent to avoid placing too much emphasis on longer periods of parental care as being particularly beneficial for child development.

D.4 Parenting support services

While the quality of child care in an institutional setting is heavily monitored (and the subject of ongoing reform in Australia) to promote positive child outcomes, governments have directed relatively less attention to educating and supporting parents to raise their children, especially infant children under 2 years. This is despite the evidence on the importance of positive interactions between infants and parents, which can have a pronounced influence on the way that children grow and learn:

Parenting behaviour has an effect on children's behaviour into adulthood and many children learn, develop and establish problem behaviours because parents lack, or inconsistently use, key parenting skills. It is therefore important to provide support for parents and opportunities for them to develop their parenting skills. This needs to be done using evidence based programs that are effective in promoting positive interactions between parents and their children. (Hutchings, Bywater and Davies, 2007)

In the same way that it is accepted that poor nutrition stunts an infant's physical growth, it is believed that parenting behaviour can contribute to the establishment of early onset behavioural difficulties (Hutchings, et al. 2007). Higher rates of problem behaviours in young children are generally connected to:

- a lack of a warm, positive relationship with parents and insecure attachment

¹⁰ The study relied on parent reported data obtained through interviews (which may result in some systematic biases) although the authors did not view this as a significant problem.

-
- harsh, inflexible, rigid, or inconsistent discipline
 - single parent families, parental substance abuse, frequent changes to parental figures, marital problems, poor parenting skills and parental psychological adjustment (especially maternal depression) (Sanders 2003).

There is also some evidence that poor parenting and family conflict are powerful early predictors of behavioural disorders at older ages, including drug abuse, delinquency and academic under achievement (Sanders 2003) and that supportive family relationships and positive parenting can protect against future behavioural problems (Collins et al. 2000).¹¹

A statutory paid parental leave scheme will increase the duration of exclusive parental care following birth, and this offers an opportunity to give earlier and more focussed attention to how parents can enhance their confidence and competence in raising young children, and in turn, positively influence their child's development. Recognising this, participants to this inquiry called for further support for parenting:

Paid parental leave and Parent and Child Centres are two sides to the one coin. The leave gives the parents, especially the primary care-giver, likely the mother, the time to engage with the baby in the endless interactions that facilitate new neural pathways in the brain that will build the baby's attachment to the mother, and shape the baby's emotional and intellectual development. Parent and Child Centres, with their array of inputs into building support for parenting, help the parental interaction to be most effective, and to assist parents when they need contact with others, reassurance, information and at times direction (NIFTeY NSW, sub. DR386, p 5)

The South Australian Government also said:

... to achieve strong early childhood outcomes, the interaction of parents with quality programs is of utmost importance. (sub. DR401, p. 4).

Currently, only a minority of parents participate in parent education programs, with participation by parents facing disadvantage particularly low. The arguments for providing parenting support and education include:

- strategies at a population level could reduce the prevalence of behavioural and emotional problems in children and adolescents (Sanders 2003)
- fragmentation of the family structure, often due to geographical separation, limits a new parent's access to the traditional avenues of support and information.
- evidence of improvements in maternal mental health from parent-training programmes (Hutchings et al. 2002; Barlow, Coren, Stewart-Brown 2009).

¹¹ Australian prevalence surveys indicate that 14-18 per cent of children and adolescents show significant behavioural and emotional problems (Sawyer, Arney, Baghurst et al. 2000).

Ways of delivering education and support services to parents

Education and support services to parents are delivered in a number of ways — including group classes, home visits, online, phone hotlines and mass media strategies (box D.3).

Box D.3 Delivering education and support services to parents

- *Informal supports, such as family and social-based networks:* these are an important source of on-going information and assistance to parents. Informal networks have the benefits of broad reach for the dissemination of messages and reduced reliance on professional services. It is also easier to target community based networks than individuals, so if there is a need for more specific intervention services, networks can effectively connect parents to more specialist services.
- *Home visits by trained parent educators:* these can be effective at delivering non-medical care and helping to correct family and child problems (particularly for disadvantaged families likely to drop out of other programs). But, improved language and behavioural development from home visits are mostly confined to programs for 3 years olds and older, with small positive or inconsistent impacts on development found for programs targeting 0-3 year olds. Subgroup analysis for different cultural groups has often found more positive results (around a 1 month developmental improvement in children for every 10 home visits), but these are often associated with more intensive interventions.
- *Telephone advice (including help lines and telephone triage services staffed by paraprofessionals):* these have the advantage of being relatively cheap to deliver and avoid parents having to make appointments and travel sometimes large distances from rural and regional locations. But use of telephone services is typically limited among lower income and less educated families. Telephone services are unlikely to be a useful measure to impact parenting skills and child welfare on their own, but by linking callers to further help and information they may provide a useful arm to a multi-pronged strategy. There are currently 11 national, toll free parenting hotlines in Australia, plus additional hotlines in each State and Territory.
- *Mass media strategies:* these have broad population reach but are usually a high cost option and have a level of effectiveness that is difficult to gauge, particularly in terms of increasing knowledge and creating behavioural change. In the health domain there is some evidence that they may be useful to raise awareness (Sanders 2003), but retention of the message being delivered is often low, so campaigns conducted over a longer period are sometimes more effective. For example, in New Zealand a 13 week television series containing a weekly 5–7 minute Positive Parenting Program (box D.4) segment was used as part of a mass media strategy to address child health and behaviour problems. Randomised trials of the effectiveness of this strategy reported significant reductions in child behaviour problems post-treatment (Sanders, Montgomery and Brechman-Toussaint (2000)).

Continued next page

Box D.3 (continued)

- *Online parenting resources*: these have become a popular mode of delivering information to parents and linking them to more targeted support services, but such material has to be reputable and accurate, so government endorsement is usually valued by parents. Evidence of the effectiveness of web-based material is not yet well tested, so the effectiveness of changing parent behaviour and child outcomes is not known. Several parenting websites operate to assist Australian parents, and the Raising Children website¹² stands prominent among these.
- *Parent training classes*: these are mostly conducted over a series of weeks or months and can be highly effective at creating long-term change in parenting behaviour, especially if programs are tailored to the specific needs of the class. For example:
 - Parents of children identified as having Attention Deficit Hyperactivity Disorder may benefit from a focussed program that teaches them strategies to address the particular needs of their child.
 - Prenatal classes have been found effective at producing healthy birth outcomes, particularly those programs targeted to ‘at risk’ mothers (Landis, 2006). Prenatal care and education programs typically provide advice and counselling about nutrition, alcohol and drug use, rest and stress management and basic post-partum care of the baby.
 - A meta-analysis by Barlow and Parsons (2009) found some evidence that group parent-training programmes can be effective at improving emotional and behavioural adjustment in 0-3 year old children.
- *Written information and handouts*: these have been found particularly useful for delivering more complex messages and teaching skills that involve multiple steps (such as behavioural management in children). Presentation of the information is important, however, and is best delivered with a personalised approach that engages parents’ interest and motivation and is mindful of literacy levels. Written material can be useful to reinforce messages from mass media campaigns.

Source: Centre for Community and Child Health, Parenting Information Project, 2004

Since late 2007, the Australian Government has distributed a ‘Parent Pack’ to all parents of newborns. A variety of communication methods are used in the Pack, including written information about day-to-day parenting and child care skills, demonstration graphics, a comprehensive DVD and information about telephone hotlines and other sources of information and support for parents. For parents of newborn babies, the Parent Pack is a good platform to inform parents about their

¹² The *Raising Children* website is supported by the Australian Government to provide the best available information about the science of parenting, child health and development. It is guided by nearly 100 expert reviewers and input from a range of stakeholders (including health, education and child care professionals and parents), and provides online links to a range of parent support services.

role and the variety of supports that are available to assist them. It is not a direct means of changing parent behaviour but is a useful tool to connect parents with the resources that they are likely to need down the track. While there is little evidence on the efficacy of DVD-based communication with parents, from the DVD, 21 per cent of a sample of parents either used a service or joined a group as a direct result of the information provided on the Parent Pack DVD (Maternal and Child Health Nurses' Conference, October 2008).

Other State and National programs that provide education and support for families of infant children include the national *Good Beginnings* program; the NSW *Families First* early intervention and protection strategy; and the Victorian *Best Start* program.

But how effective are parenting programs?

Despite growing investment in policies relevant to parenting, there is a paucity of evidenced-based research on the effectiveness of programs at raising parents' skills and improving child outcomes (Shulruf et al. 2008). Evidence is especially thin for programs targeting parents of children 0–2 years, and much of the research that identifies positive outcomes of parenting programs is confined to randomised controlled trials and is yet to be replicated using real life programs (Scott et al. 2001; Hutchings et al. 2007).

To help overcome this, program funding is increasingly tied to program evaluation agreements, and so it is expected that greater clarity about the effectiveness of a range of parenting programs will be revealed in the coming years. In particular, there are several randomised control studies in progress internationally; including one to assess the relative merits of the *Incredible Years*, *Triple P* and *Strengthening Families Strengthening Communities* programs. It is important, however, that the effectiveness of programs be assessed for different developmental periods (including newborns, infants, toddlers, preschoolers and beyond), since the expected returns to policy interventions for these groups would be expected to vary.

Nevertheless, there is some international evidence that parenting skills training (as used by the Positive Parenting Program (box D.4) and the Incredible Years program) reduce child behaviour problems, with post evaluations finding that these outcomes are generally maintained over time (Sanders, Markie-Dadds and Turner 2003; Antcliff 2007). The strongest effects are found for more targeted interventions (mostly directed at disadvantaged or 'at risk' families), with the usefulness of brief and universal parent-child support programs less clear and still the subject of ongoing research.

Box D.4 The Positive Parenting Program (Triple P)

Triple P is the most widely available, evidenced-based parenting and family support program in Australia and is also used widely overseas. Developed by the Parenting and Family Support Centre at the University of Queensland, the program is supported by 25 years of clinical research into ways that parents' skills, confidence and teamwork can be enhanced to prevent severe behavioural and emotional problems in children. 5 core principles underpin the program, each addressing specific risk and protective factors associated with developmental and mental outcomes in children. These include a safe and engaging environment; a positive learning environment; assertive discipline; reasonable expectations, and taking care of ourselves as parents.

There are 5 levels of intervention, starting with a universal media and communications strategy to raise community awareness about parenting resources, with subsequent levels progressively targeting children most at risk of problems. Triple P interventions are also made age appropriate; with a range of interventions specifically designed for infants.

Methods of delivering Triple P include broad-based media strategies, face-to-face contact, group programs, self help programs, or a combination of formats. This enables parents to participate in ways that suit their individual circumstances, regardless of their geographical proximity to services.

Source: Sanders 2003; Sanders, Markie-Dadds and Turner 2003.

Current arrangements for delivering support services to parents

In Australia, government policies and programs directed at better equipping parents to raise their infant children are in a transitional phase of development and delivery. All levels of government have shown a greater commitment to the early childhood area in recent years, and broad changes to the delivery of parent-child support services are continuing, mainly to better coordinate services and to improve access by parents.

While the delivery of on-going, local support services to parents is largely a joint state/territory government and local council concern, the Australian Government also has an important coordinating role in guiding a more national approach to parenting skills development and capacity building. The broad direction of early childhood policies at the state, territory and national level is coordinated mainly through the Council of Australian Government's National Agenda for Early Childhood, which recognises that supporting families is central to ensuring longer term outcomes for children. But, a national framework for the early childhood area is still being consulted on, and differences in the funding streams of state and federal

governments¹³ means that a national approach to parent training programs is yet to become operational (Antcliff 2007).

While the greater level of interest by governments has driven a general improvement in the range of parenting education and support services available, opinions differ about the adequacy of these services and some participants to this inquiry expressed discontent about funding (Australian Breastfeeding Association, sub. DR391, p. 3). In addition, the availability of services and the way that they are delivered varies, both from state-to-state and between rural, regional and urban centres, and it is claimed that support is generally orientated to 'at risk' families only (Australian Breastfeeding Association, sub. DR391, p. 3; Shulruf et al. 2008). It has also been found that the level of awareness about the availability of support services and information for parents is generally low (FaCS 2004).

In response to concerns about the range and adequacy of parent-child support services, along with some dissatisfaction from parents about early childhood services being inaccessible, fragmented and out-of touch (Taylor et al. 2005), some States and Territories have undertaken extensive reviews. Most commonly identified by these reviews is poor coordination between services, resulting in gaps and overlaps, less cost effective service provision and constricted access by parents. In particular, feedback from consultations and focus groups consistently reveal that parents want streamlined provision of early childhood services, perhaps brought together by a single, universal access point for all child health and development, education, child care and parenting support services.

Similarly, an interim report by the National Health and Hospitals Reform Commission (NHHRC 2009) has identified:

- significant inequities in access to early childhood health services among families
- a fragmented early childhood health system, reflecting a combination of Commonwealth, state and territory government and privately funded and delivered health services, with services generally operating as separate systems and no sharing of information across services
- that some families may fall between the gaps and receive conflicting advice (p. 107).

In response to these shortcomings, the interim NHHRC report proposes a number of changes to how the health system meets the needs of young children and their parents, commencing at the antenatal period. This includes a tiered, national system of universal, targeted and intensive care and support programs (weighted towards the first three years of a child's life). In particular, the report suggests that a

¹³ For example, Australian Government funding has traditionally been restricted to time-limited initiatives rather than on-going service delivery.

universal home visit take place at least within 2 weeks of a baby's birth — monitoring child health, development and wellbeing (including a child's socio-emotional wellbeing and parent-child attachment), family risk factors, disease prevention and the need for more targeted support. Visits would act as a pathway for more targeted allied health care and specialist services where need arises and provide early support for parenting. This would include support for parents facing maternal depression (affecting around 15 per cent of women in the perinatal period, affecting the wellbeing of both mother and child (DHA 2008)).

Integrated parent and children centres

All levels of government have started to act on advice to reduce fragmentation of parent-child support services. This has variously taken form through a range of cross-agency and community-driven initiatives — mainly through the creation of all-in-one centres that provide a single entry point to a full range of services relevant to newborns, preschoolers and sometimes school aged children.

Policy activity by State and Territory Governments is varied. Some have focussed their attention on improving the coordination of their dedicated early intervention and prevention programs in particular (for example, the *Families First* program in NSW). Other States have directed their efforts at better integration of services and programs made universally available to all parents and children. For example, South Australia now has 24 *Children's Centres* either in operation or in-train, providing universal access through a one-stop facility to a complete range of child care, education, health and family support services (sub. DR401, p. 4). Queensland has similarly started to integrate its early childhood services through *Child and Family Support Hubs*, which provide a universal entry point to services including parenting education, family support, resource libraries and pre- and post-natal health care (sub DR302, p. 10).

Following the 2020 summit in 2008, the Federal Government flagged its plan for all-in-one centres to be made universally available for all mothers and babies. While yet to be detailed in policy, the idea is that these centres provide an 'education passport' for children's parents, similar to the current 'immunisation passport',¹⁴ but with more detailed information covering broader issues facing parents with young children, including practical, tangible advice for parents (Department of Prime Minister and Cabinet, 2008).

The policy activity of Australian governments is consistent with international approaches, including those adopted in the UK (Sure Start Children Centres) and

¹⁴ This tracks the various vaccinations administered to a child over time, regardless of the patchwork of clinics and venues used to deliver the required immunisations.

Canada (Ontario Early Years Centres) (NIFTeY NSW, sub. DR386, p. 4). And, there is some international evidence to suggest that parent education programs, provided by a single point of access to a range of services, can improve child outcomes¹⁵ (Antcliff 2007, p. 45; Benevolent Society, sub. DR302 p. 10).

In summary, changes are in-train to the way that education and parenting programs are delivered in each jurisdiction. And, while there are some obvious deficiencies in the way that many services are co-ordinated, the Commission is unconvinced that there is a need for further services. This is notwithstanding that equipping parents with the appropriate skills and supports can positively influence their child's development, but strong evidence about the effectiveness in practice of universally available education and support programs is lacking.

D.5 How do Australian families balance work and parenting?

Maternal employment

Around one-third of Australian mothers with infants aged between six to eight months participate in paid employment. This figure increases with the age of the infant so that towards the later stages of infancy (at 19 months) around half of mothers will be in paid employment, albeit to varying degrees (FaCSIA 2007).

The leave taking behaviour and employment patterns of mothers surrounding birth reflect a range of factors including individual preferences, education and occupation, beliefs about the risks of maternal employment, access to child care, and other family characteristics such as the number of siblings. Family finances also play a role, with the labour supply literature finding that women with children are generally more responsive than many other groups to the financial incentives attached to paid employment. Indeed, the reliance on a dual income structure within the family budget has significantly increased in recent decades, often tied to long-term financial commitments such as mortgage payments.

Maternal employment or study commitments are the main reasons that parents use non-parental care (either formal or informal child care arrangements), however, the extent that parents substitute between paid employment and undertaking parental care responsibilities varies across families. For example, around one-third of parents balance work and parenting without regular use of child care (although this is

¹⁵ However, the parenting programs used overseas are primarily targeted towards disadvantaged communities, which may not significantly raise parenting skills for the broader population.

usually enabled by the mother working short part-time hours and is less common during the initial months of a child's life), and single parents tend to rely on child care arrangements more than coupled parents.

A mother's employment will often have less of an impact on the amount of time and interactions spent with her children than might be expected (Bittman, Craig and Folbre 2004; Nock and Kinston 1988; Bianchi 2000). Survey data indicates that one hour of employment does not mean a child will receive an equivalent reduction in maternal time and have fewer interactions with their mother. In fact, the reduction in a mother's time with her infant due to employment is only 2 hours per day on average. This is because mothers tend to restructure their time when balancing work and family, usually by working reduced hours and focusing on particular types of interactions with their children. For mothers working full-time, each hour of employment is associated, on average, with around half an hour less time with their child, resulting in a daily reduction in time spent with their infant of 3.7 hours. (Baxter et al. 2007).

Notwithstanding what seems in many instances (particularly if employment is part-time) to be a relatively small impact of a mothers' employment on maternal care time, the possibility of increased maternal time pressures may be a cause for concern, especially if a father's time-use makes less of an adjustment to his partner's employment. But surveys generally find that a mother's return to work is accompanied by greater participation in household responsibilities by the spouse, as compared to if the mother stayed at home as the full-time primary carer (Darling-Fisher et al. 1990; Lamb 1999)

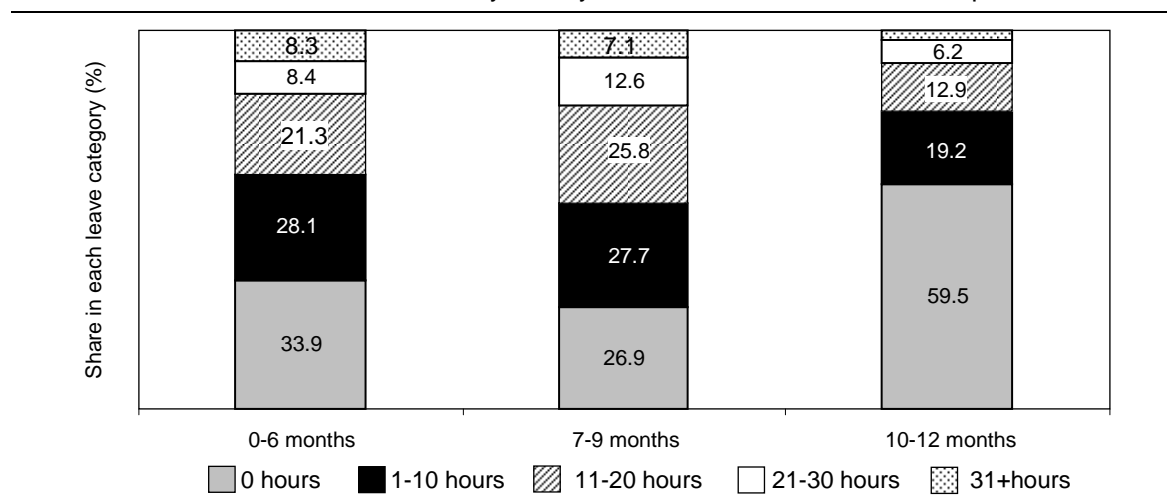
The timing of a mother's return to employment will also be affected by financial imperatives, and these vary significantly from family-to-family. For example, according to LSAC data, a significant proportion (22 per cent) of mothers on very low average weekly wages return to work within 3 months of birth, which is more than double the proportion of mothers earning \$1,000–\$1,500 per week. But the effect of finances on return to work patterns is not straight forward — for example, although nearly a quarter of mothers earning less than \$300 per week return to employment within three months, this earnings group also has the highest proportion of mothers not at work 18 months after birth.

Child care use in Australia

Despite an overall increase in child care use over the past decade in Australia, this trend has not been evidenced for infants under 1 year and it remains that around two-thirds of children are cared for at home by their parents in the first year of life (ABS, 2005c). Nevertheless, a significant proportion of children will be placed into various child care arrangements early in life, and sometimes for extensive hours each week. For example, over 8 per cent of children entering child care at less than 6 months of age will experience more than 31 hours in care each week (figure D.2, box D.5).

Figure D.2 Leave duration and child care use

Months of leave taken by weekly hours in child care for first ever placement



Data source: LSAC Data, Wave 1.5

Mostly informal child care settings are used for young children under 1, and particularly if the mother's return to work is part-time. Informal child care arrangements are unregulated and typically include care from grandparents, friends, neighbours, baby sitters or nannies. But care by grandparents has been decreasing in recent years, in part, reflecting that they are often less available, either because of distance obstacles or their own work commitments (NIFTeY, sub. 55). Often a combination of formal care (regulated) and informal arrangements will also be used, but less than seven per cent of children will be cared for using formal arrangements alone, such as long day care centres (used for less than 5 per cent of children under one year of age).

The use of child care is much more prevalent for children over 1 year of age, with around 60 per cent of children aged between 1 and 2 participating in child care (ABS 2005). And while there is greater use of formal care arrangements (usually centre-based day care) at this age, formal care use is at its highest for children aged two to three, with just over 70 percent of these children placed in formal care arrangements.

The point to emphasise about this is that most formal care occurs in long day care centres, often involving extensive hours. While this may not pose a risk for children aged two to three years if the centre provides a stable and stimulating learning environment, there may be risks for infants under 1 year of age, particularly if the care is for long hours and not of high quality.

Box D.5 Some facts about early child care use in Australia

- For infants whose mothers return to employment within 6 months of child birth:
 - 62 per cent are either not placed in child care or are in care for not more than 10 hours per week.
 - 8 per cent are in child care for more than 31 hours each week.
- The type of arrangement that parents use as their infant's first child care placement seems to reflect the number of hours required:
 - If over 20 hours is used per week, use of centre-based day care tends to increase.
 - If less than 20 hours are needed, grandparents are used most popularly, particularly by mothers returning to work within 6 months of child birth.
- For families where the mother makes a return to work 6 months after child birth, household income¹⁶ may relate to the length of time away from work and a reliance on longer hours of child care:
 - If household income is greater than \$100 000 per year, around 43 per cent of infants will be in child care for more than 20 hours per week, compared to 29 per cent when household income is between \$50 000 and \$100 000. If income falls below \$50 000, it is less common that extensive hours of child care are used.
- A mother's return to employment, will not always require the use of child care. Often interim arrangements within the family unit and flexible employment conditions enable a mothers (usually part-time) return to work, with the use of child care not occurring until some months later:
 - 22 per cent of infants with mothers that return to employment within 6 months of birth will not be placed into child care before they are 1 year old.

Source: Productivity Commission estimates, LSAC Wave 1 and 1.5.

D.6 What can we conclude?

For child health outcomes, the evidence consistently finds that longer periods of focussed parental care are associated with better outcomes. Many of the negative health effects related to child care, however, are transitory and arguably less of a long term concern, while the main health benefits from exclusive parental care stem from increased breastfeeding and lower rates of infant mortality.

The evidence is less clear, however, about how maternal employment and child care impact on a child's cognitive and behavioural development. On balance, the

¹⁶ Before tax, superannuation and the Medicare levy, but including pensions and allowances from government.

evidence points to a greater potential for negative effects on child development if exclusive parental care is not provided for at least 6 months, and a greater potential for positive effects if exclusive parental care continues for around twelve months. But the evidence is inconclusive about a mother's return to employment (and the use of non-parental care arrangements) between six and twelve months. Refining this window of uncertainty which is not informed by the current evidence requires more precise knowledge in an Australian context of:

- How the child development benefits of additional parental care might be expected to accrue beyond six months in leave duration (or beyond 6 months of exclusive care by a primary caregiver)
- What impact the quality of child care (box D.2) can have in substituting for reduced maternal time.

And, although the evidence is not always consistent, studies tend to find that many of the risks of non-exclusive parental care become progressively less evident as the age of the child increases (although this is dependent on the quality of, and hours spent in child care and the extent to which the parents continue to play an active role in the care of the child). So, while the most compelling evidence is that exclusive parental care for at least 6 months fosters improved developmental outcomes, there is a reasonable prospect that a period of up to 12 months could also be beneficial (particularly if the counterfactual is lower-quality care and care is for extended periods of time).

But, at some point (likely to be around 12 months depending on the context), developmental gains (mostly cognitive) from child care can kick-in, although the evidence is not consistent about the point in time that development benefits start to emerge. The evidence on the behavioural effects of child care is even less clear, and likely to be more dependent on a range of other factors including individual characteristics of the child and their family.

It should be emphasised that these are 'average' effects across whole populations of families, and that outcomes for specific families can be very different. This stresses the importance of understanding the effect of maternal employment and child care use for different groups in Australia. For instance, the effect of maternal employment and child care on child development is found to vary depending on — poverty and household income; maternal depression; mother's education; and child rearing beliefs. There is consistent evidence that finds children facing disadvantage or at risk of less sensitive and responsive care in their home setting may benefit significantly from early exposure to high quality child care and the extra income generated by their parents employment.

In addition, differences between groups of women making an early return to employment would affect how maternal care would respond to a policy change. This means that the

expected impact of introducing a period of paid parental leave needs to be clearly understood for different groups of women (chapter 9), especially since it appears that those mothers making an early return to employment are not of similar characteristics — usually having either especially high or low incomes prior to birth.

The Commission recognises that breaking down the uncertainty about how the benefits of longer leave periods might accrue in an Australian context is a worthwhile undertaking (especially since a large number of children are likely to be affected by returns to employment occurring six to twelve months post birth). But, it is a task that is presently hamstrung by a paucity of data on the quality of Australian child care. If, for instance, generally high quality child care is available, it would be less likely to impede the development of young children and, in turn, would tend to detract from arguments for longer periods of exclusive parental care. Anecdotal evidence provided by participants to this inquiry suggests that child care for infants under 12 months in Australia is not generally of sufficiently high quality (largely reflecting child-adult ratios) to substitute for parental care. The evidence suggests that adult-child ratios are associated with the quality of care provided (particularly for infants, although rarely is causality established), but that caregiver education and training is a better predictor of care quality than child-adult ratios. Stability of care providers is also strongly related to child outcomes.

In the Commission's view, government programs to help educate and support parents of children under two years appear more fragmented and more poorly resourced than those aimed at older children. But, while there may be scope to improve the coordination of services, the apparent 'messiness' of arrangements nationally may not be a problem if it reflects differences in each communities priorities and needs. And, given the relative newness of these types of programs, variations in resourcing and program types across Australian jurisdictions may well be the kind of experimentation that reveals the best programs. Re-consideration of the issue since the draft report has not changed this position. It is not appropriate to specify additional resourcing requirements or directions for policy without a robust evidential base.

E Eligibility requirements

Key points

- Given its objectives, a paid parental leave scheme needs to target parents with genuine attachment to the workforce and workplace.
 - Parents not attached to the paid workforce have different needs, which are best met by more traditional welfare support measures.
- Access to the paid parental leave scheme proposed by the Commission requires employed parents to work an average of eight hours or more weekly and to have tenure with the workforce of at least 10 of the last 13 months.
 - Given Australia's current fertility rate and population, around 145 000 (or nearly 85 per cent) of the 173 000 women in a job around the time of birth would be eligible for the Commission's proposed scheme.
 - There is poorer data on fathers' likely eligibility. Nevertheless, the Commission estimates that of the 235 000 fathers with direct caring responsibilities who are in a job around the time of birth, around 225 000 (or about 95 per cent) would be eligible for paid paternity leave. Subject to the eligibility and preferences of their partner, they would also be eligible to parental leave.
- The Commission has outlined the possible future introduction of mandated employer super contributions on statutory parental leave for those parents who would be covered by the National Employment Standards and eligible for super in their job prior to birth.
 - Under these rules, around 115 000 or 79 per cent of mothers eligible for the statutory paid parental leave scheme would also be eligible for super contributions by their employers during the statutory leave period.
 - For men, about 135 000 or 60 per cent would be eligible for super contributions. (The higher numbers who are eligible reflect the higher workforce participation of fathers, while the lower percentage arises because many are self-employed or employers, rather than employees).
- The Commission has rejected any requirement for employers to provide accrued leave entitlements for parents who were eligible for statutory paid parental leave. However, survey evidence suggests that were such a feature included in a scheme, around 95 000 mothers and 110 000 fathers would be eligible.
 - These estimates assume that a person eligible for such an entitlement would also have to be eligible for unpaid leave under the National Employment Standards and for accrued leave entitlements on their usual paid leave.
- Employers would act as paymasters on behalf of government for some employees. An estimate of the number of employees covered by these paymaster arrangements is equal to those who would be eligible for superannuation.
- Not all people eligible for the various elements of the scheme will actually choose to participate in these.

This appendix has several purposes. It sets out:

- the basis for the Commission’s eligibility criteria
- the relevant proportions of parents fitting the eligibility criteria for access to various possible elements of a statutory paid parental leave scheme and their derivation
- where the data permits, the implications for access to a paid parental leave scheme of more or less stringent criteria.

E.1 What determines the appropriate eligibility conditions?

The appropriate eligibility conditions for a paid parental scheme depend on its objectives (chapter 1), on the nature of payments received by those participating in a leave scheme (chapter 2) and on how the social welfare system is structured (chapter 9).

Objectives

In an Australian context, the primary objectives are to promote family welfare by extending leave taken from paid work around the birth of a baby, to overcome some of the biases against undertaking paid work present in the current welfare system, and to assist a better balance between employment and family life for those in the paid workforce. These objectives necessarily imply that a paid parental leave scheme would only apply to people in employment, either as employees or self employed. This is the international norm.¹

Parents who are not attached to the paid workforce have different needs, which are appropriately acknowledged through more traditional welfare support measures. Treating these two groups in an identical manner would actually undermine the key objectives of a paid parental leave scheme. Meeting the differing needs and objectives of parents in different circumstances therefore requires targeted approaches.

¹ Finland is a rare exception. There, all mothers, whether employed or not, get access to paid maternity leave at a minimum rate, with higher amounts paid to those with labour earnings.¹ Their system is a universal scheme with open eligibility because its payments involve a two part structure for payments — a minimum amount for all (somewhat like Australia’s baby bonus) and an additional entitlement that is proportional to labour earnings. However, in all other countries, the welfare and paid parental leave systems are separated, with payments made to parents outside the labour force being made separately from in work entitlements.

Nature of payments

A high minimum level of payments under a scheme would stimulate labour force participation because working would be more attractive than not. However, if eligibility conditions were very open, this could have unintended impacts by encouraging ‘hit and runs’ — people only notionally participating in the labour market to qualify for the benefits. As an illustration, people could easily meet a requirement to have worked just one hour in the past year. A high minimum payment with open eligibility conditions would effectively make a paid parental leave scheme a de facto universal payment, with no prerequisite for genuine labour market attachment. This would be contrary to the goals of a scheme.

Social transfers for those outside the labour force need to be considered

A paid parental leave scheme can only achieve its objectives if the amount government pays is greater than the benefits parents would get had they exited from the labour force. As discussed in chapter 9, such family assistance measures provide significant benefits to families in which the primary carer is unpaid. Accordingly, the payments have to be sufficiently high to encourage the use of paid leave, but not so easy to get as to encourage people to work only notionally to qualify.

E.2 Design implications for eligibility criteria

Accordingly, a paid parental leave scheme has to either:

- provide a base level of payment that makes taking an in-work benefit attractive compared with welfare, combined with a level of payment proportional to the extent of people’s employment activity to reduce the incentives for ‘hit and runs’ by people with low labour force attachment (akin to the Finnish scheme — Moss 2008)
- *or* allow a high minimum payment, but require reasonably stringent eligibility conditions to control ‘hit and runs’.

Open eligibility with structured payments

The first option would allow all employees to participate in a scheme, but would involve a relatively elaborate design to work well. Box E.1 sketches one possibility.

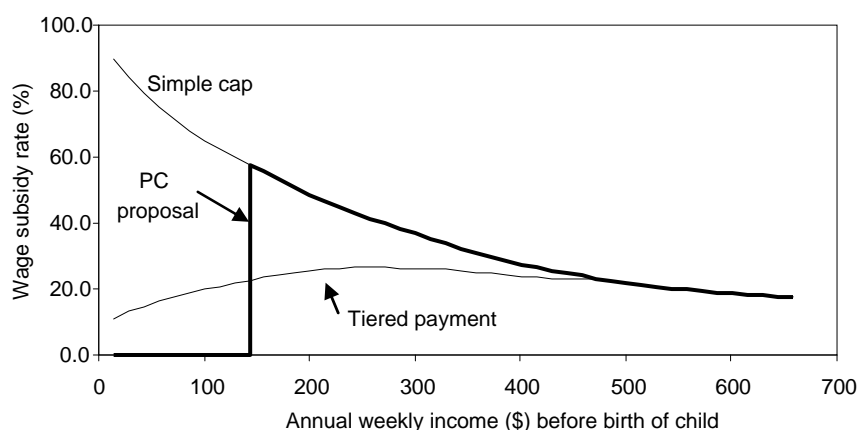
Box E.1 Tiered payments allow for easier eligibility but entails greater complexity

One approach for payment would be to set benefits as the sum of:

- the weekly welfare payments that an employee would get were the employee to be outside the labour force. (The main relevant payment would be the baby bonus of \$5000 or if the leave period was 18 weeks as proposed by the Commission, \$278 per week on a pro rata basis.)
- a fixed supplement per fortnight that is independent of the employees past earnings
- a fixed share of the employee's average fortnightly earnings over the past year or a threshold amount, whichever is the smaller.

While the above approach *looks* complex, it is no more than a flat amount paid per week to everyone on leave and a capped share of average earnings. As an illustration, with a supplement of \$25 per week, a fixed share set at 50 per cent, and a threshold weekly amount of \$482, every parent would get a lump sum weekly payment of \$303. In addition, they would get 50 per cent of their actual weekly salary or of \$482, whichever was the smaller. The maximum weekly benefit would be the adult minimum wage of \$543.78. Someone earning \$200 a week in their job prior to birth would still get paid parental leave of \$403 weekly, \$125 better than the baby bonus, while someone earning a pre-birth wage of \$20 weekly, would get parental pay of \$313 weekly, around \$35 more than the baby bonus.

In contrast, a simple limit provides everyone with a gross additional income of \$543.78 per week. This provides very large returns from just entering the labour force (and more muted incentives to increase their hours above the minimum). Tiered payments lead to much more stable wage subsidy rates than flat benefits (see figure below). Tightening eligibility criteria reduces the excessive subsidy rate associated with the simple cap (the bold line in the chart).



(a) The subsidy rate is calculated as $100 \times (W_{PPL} / W_{Prescheme} - 1)$ where W_{PPL} is the after tax annual wage of someone working for six months in a year, and then giving birth on January 1st and then getting access to paid parental leave during the following 18 weeks, before taking 8 weeks of unpaid leave; and $W_{Prescheme}$ is the after tax annual wage of someone with the same working pattern, but getting access to the baby bonus rather than paid parental leave. An hourly wage rate of \$20 is assumed. The subsidy rate also takes account of the provision of superannuation.

This possible approach:

- still limits payments to the adult minimum wage — assisting cost effectiveness
- provides more benefits for those with greater attachment to the workforce — increasing the return from working more than the minimum and overcoming some of the perverse incentives for merely marginal attachment
- has a floor that is higher than welfare payments — overcoming incentives not to work
- provides eligibility for nearly all people so that, even if they start with only several hours of work a week, they can establish a pattern of working, and develop their job skills and networks. This may provide a stepping-stone to future jobs with longer hours.

The administrative costs for government of such an approach would probably not be excessive. Indeed, the many overseas models basing payment on prior earnings have demonstrated its practicality (for example, the New Zealand scheme).

However, the Achilles heel of tiered payments is that employees would probably find it hard to calculate their entitlements. This might undermine the capacity of a statutory paid parental leave scheme to change labour supply behaviour, since people's decisions about whether, or how long, to work depend on knowing the returns from working. Accordingly, as noted in chapter 5, the Commission has proposed a simpler scheme that involves some eligibility hurdles.

More stringent employment tests are more practical

Given the need for eligibility hurdles, the critical issue is the appropriate labour market engagement necessary for eligibility for statutory paid parental leave and for any business contributions.

Most countries with paid parental leave have eligibility criteria based on some minimum hours of work and tenure with either the employer or the workforce, or they have more open eligibility, but only pay a share of earnings. Some representative requirements are:

- Belgium — open eligibility for earnings-related paid maternity leave, but for parental leave, one year's employment with same employer over the last 15 months

-
- Canada — differs by province, but most provincial schemes require a year of continuous service with a single employer. The federal scheme requires 600 ‘insured’ hours of work in the past year²
 - Czech Republic — to be eligible for maternity benefit, an employee must have contributed to sickness insurance for at least 270 days during the last two years
 - Greece — one year’s continuous employment with their present employer
 - Denmark — 120 hours in 13 weeks preceding the paid leave
 - Ireland — to be eligible for maternity benefit, an employee or self-employed person has to have been employed for 39 weeks during which Pay Related Social Insurance was paid in the 12-month period before the birth of the child.
 - New Zealand — an average ten hours of work per week and six months tenure with the current employer prior to the expected birth time
 - Norway — employment for six of the last ten months prior to delivery and earnings at least half the basic national insurance benefit payment over the previous year
 - Portugal — six months of insurance contributions
 - United Kingdom — for maternity leave, 26 weeks and a minimum earnings test, while for parental leave, one year of continuous service with the same employer.

In devising its scheme, the Commission was mindful of these kinds of eligibility criteria. We looked at various dimensions of labour market attachment as the basis for eligibility, including:

- employment status
- time in the workforce (workforce tenure)
- time in the workplace (workplace tenure)
- the average weekly number of hours of work
- the nature of employment (casual, contractor, self-employed, permanent employment and so on).

We examine each of these dimensions below and, in particular, the implications they have for the proportions of parents who would be eligible for a paid parental leave scheme.

² Insured hours include the hours paid by the employer while on normal leave.

E.3 Employment status

A paid parental leave scheme applies to parents who are genuinely employed around the time of birth. This group of women obviously excludes those who were not employed at all while pregnant. It would also exclude many women who were employed for only a part of their pregnancy, although the exact circumstances when these women should be excluded are difficult to define precisely.

For instance:

- on the one hand, a woman whose employer went out of business three months into her pregnancy (roughly six months before the expected date of birth) and who failed to find another job would reasonably not be recorded as ‘employed around birth’ and would not be eligible for participation in a statutory paid parental leave scheme
- on the other hand, a woman whose employer went out of business only one week before she was due to give birth would reasonably be recorded as ‘employed around birth’ for the purpose of eligibility to a paid parental leave scheme.

Accordingly, at some time between early and late pregnancy, a woman who loses her job because of retrenchment or business closure and who does not find another job would not be even considered for eligibility for paid parental leave. Similar issues arise for temporarily employed women whose job ends just prior to birth.³

The Commission has not made detailed recommendations about the exact cutoffs that would determine when a woman employed at some time during pregnancy would be outside the scope of a paid parental leave scheme and it will be a matter for more detailed consideration by government in implementing a scheme. The Commission’s recommendation that the tenure requirement would be ten months of work out of the last 13 months prior to expected date of birth will deal with many cases where a parent is made redundant or otherwise loses connection to the labour market for a short period prior to birth. However, it would not deal with all cases — for instance a woman who would have got to 10 months tenure, but for her employer going into receivership two weeks before birth.

To provide an indicative measure of how many mothers would be even considered for eligibility (and to cost our proposed scheme), the Commission had to make some assumptions about how many women who left work before birth may be regarded as employed.

³ For example, in the United Kingdom a female employee who has been working in a temporary job for the same employer for 26 weeks by the 15th week before the due date of the baby is eligible for paid maternity leave.

We have also taken account of the likelihood that some mothers who would have left work during their pregnancy in the absence of a statutory paid parental leave scheme will now stay on to qualify in its presence. (In effect, many women currently resign from work because they do not have access to paid parental leave, so their behaviour could be expected to change when a scheme is introduced.)

The Commission examined the eight reasons women gave for permanently leaving their jobs prior to birth⁴ by two periods of time before birth when they left their jobs (based the ABS *Pregnancy and Employment Transitions Survey* (PaETS)).⁵ Then for each of the resulting 16 possible combinations, we assigned probabilities that these employees would be employed (or deemed to be employed) around the time of the birth of their child *after* the introduction of a paid parental leave scheme. In general, where a woman left her job within two months of the date of birth, it was assumed that she would still potentially be eligible for participation in the scheme. If she left earlier than that time, there was a lower probability that she would meet the initial hurdle of ‘being employed’ for potential eligibility in the scheme.

Using PaETS, we found that the majority of women employed while pregnant would be *potentially* eligible for the paid parental leave scheme (figure E.1). (They would still need to meet the hours and tenure tests to participate in the scheme). Changes in the assumed probabilities discussed above did not make a material difference to the numbers of potentially eligible mothers.

E.4 Time in the workforce and workplace

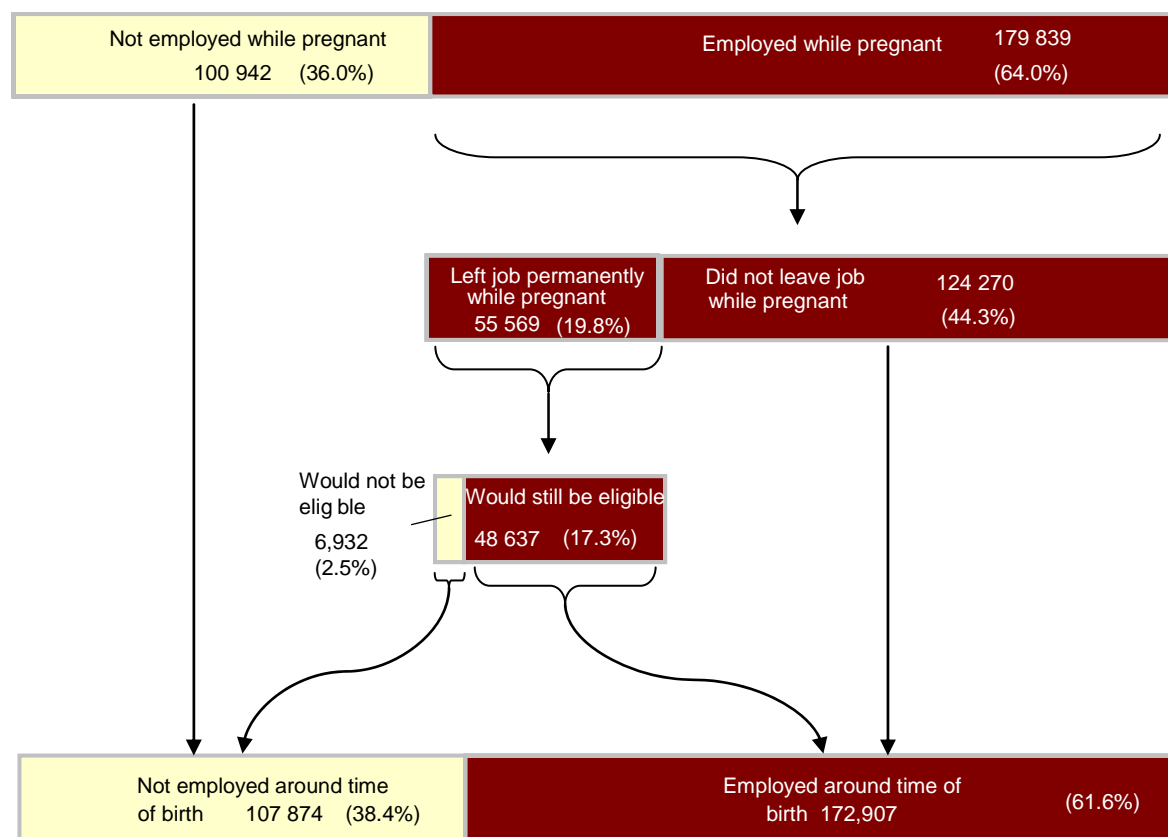
Most mothers employed before birth have more than one year of tenure in the labour force (figure E.2). For instance, nearly nine in every ten employees have more than 12 months tenure in the workforce prior to birth. The figure is only a little lower for the self-employed and employers.

Similarly, about 80 per cent of mothers employed prior to birth have had tenure with their employer (or have run their own business) for longer than 12 months (figure E.3). This is strongest for mothers in couple relationships, but even around three quarters of sole parent mothers have had employer tenure of 12 months or more. Altering the qualification period to six months would include an additional 11 per cent of employees and 7 per cent of the self-employed and employers.

⁴ These were retrenchment and dismissal; failure of business or cessation of a temporary job; felt an obligation to leave; unsatisfactory conditions of employment; no longer wanted/needed to work; to care for a child; problems with child care; and other.

⁵ The time periods examined were within 8 weeks of birth and 8 or more weeks prior to birth.

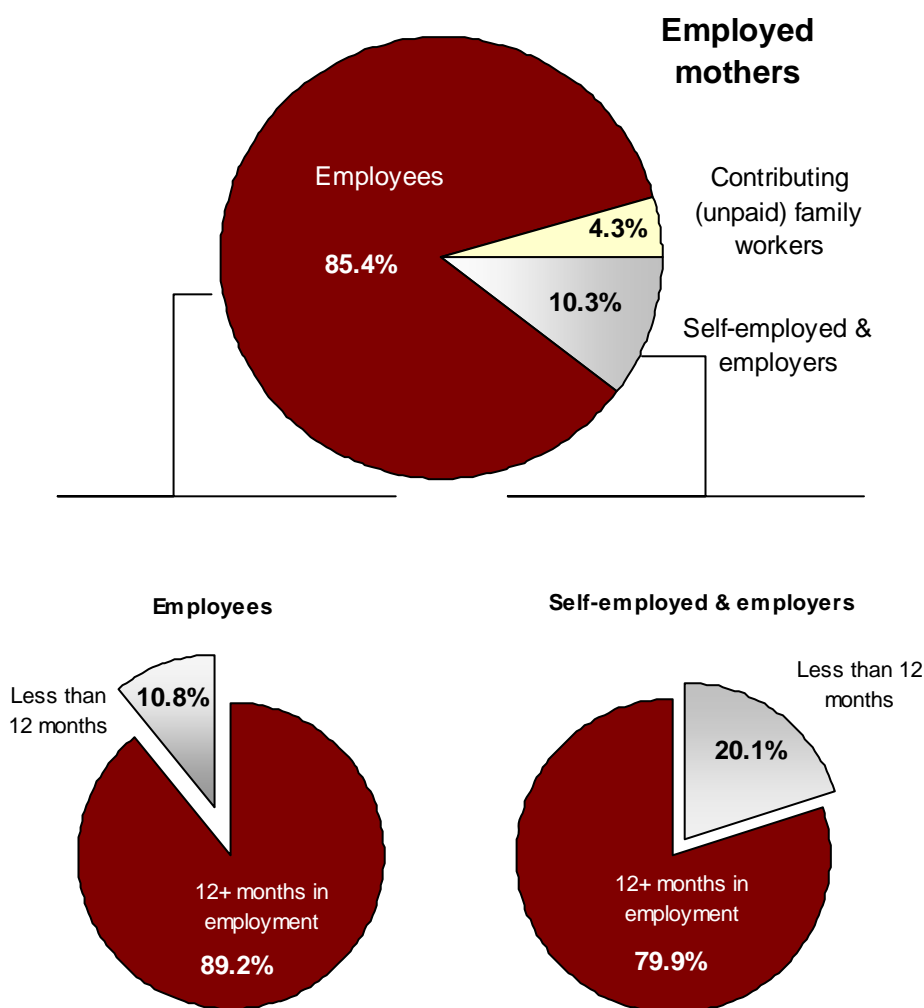
Figure E.1 The employment status of mothers^a



^a Percentages are calculated as shares of total mothers in 2007 (confinements of around 281 000). Those employed around the time of birth would not necessarily be eligible for statutory paid parental leave, and would need to meet the tenure and hours tests to qualify. Figure E.4 shows the proportion of those employed who would be eligible to participate in the scheme.

Data source: ABS (*Pregnancy and Employment Transitions, Australia*, Expanded Confidentialised Unit Record File, Nov 2005, Cat. no. 4913.0.55.001).

Figure E.2 **Employed mothers by *workforce* tenure^a**



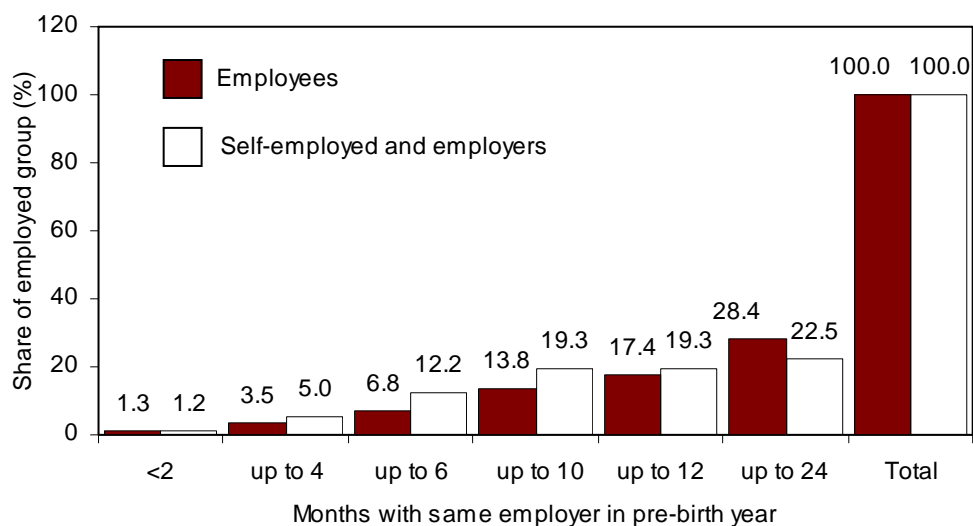
^a The data on the share of mothers of newborn children by type of employment (self-employed, employees and family workers) are from PaETS, as is the estimate of the share of the self-employed and employers in business for 12 months or more. PaETS does not have workforce tenure for employees. The estimate of workforce tenure for employees was obtained from LSAC. It is not possible to examine *workforce* tenure for different sub-periods below 12 months in LSAC.

Data source: LSAC wave 1.5 and ABS (*Pregnancy and Employment Transitions, Australia*, Expanded Confidentialised Unit Record File, Nov 2005, Cat. no. 4913.0.55.001) (*PaETS*).

Figure E.3 **Workplace tenure^a**

Cumulative share of mothers by months with same employer prior to birth

By type of employment



By family status

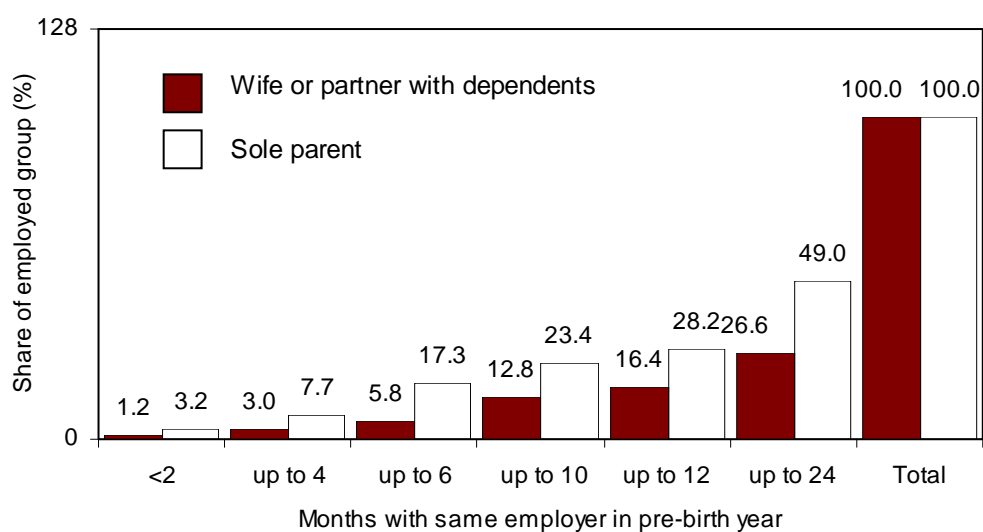
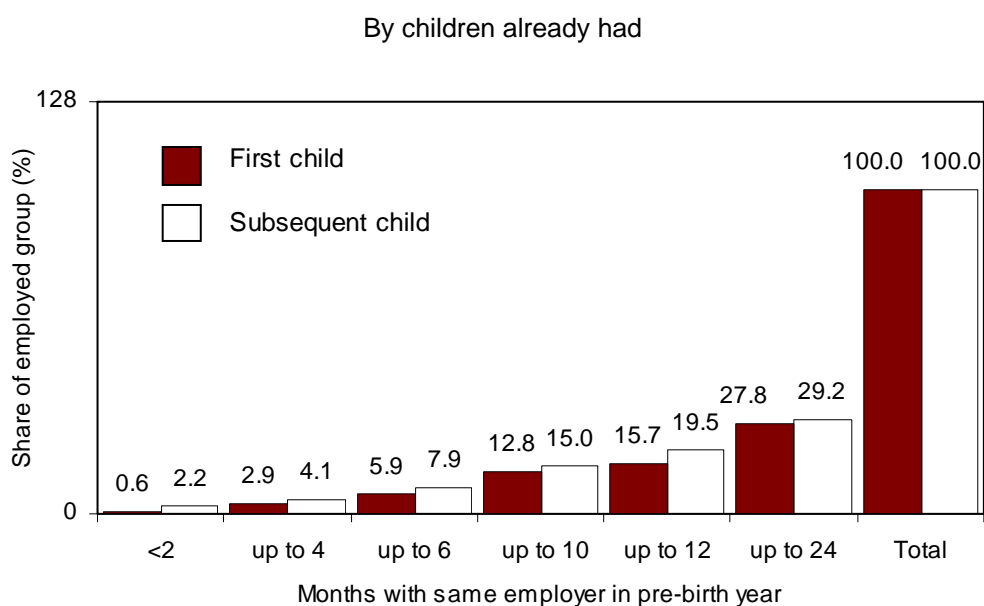


Figure E.3 (continued)

Cumulative share of mothers by months with same employer prior to birth



^a The data show the cumulative share of employed mothers with different periods of tenure. For example, the above graph shows that 19.5 per cent of mothers who had already had at least one child had worked for less than 12 months with their employer (and therefore 80.5 per cent had worked for 12 months or more). Similarly, 7.9 per cent of existing mothers had worked for less than six months (and therefore 92.1 per cent had worked for six months or more). Accordingly, changing the eligibility condition from 12 to 6 months would enable an additional 11.6 per cent of mothers who had already had children to participate in the scheme.

Source: PaETS.

E.5 Hours worked

Of employee mothers with tenure of 10 months or more with their employer, 85 per cent worked more than 20 hours a week on average in their jobs prior to giving birth and 98 per cent worked eight hours or more per week on average (table E.1). Coverage is less complete for the self-employed/employers who have been running their business for one year or more. Around 60 per cent of this group worked more than 20 hours a week and about 80 per cent worked more than 8 hours a week.

These data relate to mothers with a year or more of *workplace* tenure from PaETS. Less detailed data on hours are available from the *Longitudinal Study of Australian Children* (LSAC), but they tell the same story. Of those mothers with workforce tenure of one year or more, 96 percent worked for an average of ten hours or more per week (table E.2).

Table E.1 Distribution of working hours of mothers employed before birth^a

<i>Hours ranges</i>	<i>Employees</i>	<i>Self-employed and employers</i>
	%	%
<8	2.0	21.3
8 <15	5.5	11.4
15 <20	7.4	8.3
20 <25	10.9	12.8
25 <30	4.3	7.8
30 <35	7.3	5.8
35 <40	29.5	8.5
40 <45	23.1	13.7
45+	9.9	10.5
Total	100.0	100.0

^a Only relates to those mothers who had at least ten months of tenure with her employer prior to birth. The results are based on the usual weekly hours worked in last main job while pregnant, before any change in hours associated with pregnancy. A small share of women changed their hours (typically downwards) as a result of being pregnant, but the average reduction was only 1.6 hours per week.

Source: PaETS.

Table E.2 Workforce attachment of employed mothers before birth^a

	<i>Less than 10 hours a week</i>	<i>10 hours or more</i>	<i>Total</i>
	%	%	%
Employees with			
12+ months in employment ^a	3.8	96.2	100.0
less than 12 months	11.1	88.9	100.0
Self employed (all periods of tenure)	19.5	80.5	100.0
All employed	6.3	93.7	100.0

^a Relates to the 12 months prior to the birth of the child.

Source: LSAC wave 1.5 (questions apl01, apl21 and apl07).

Bringing the hours and tenure tests together

Of the around 281 000 mothers giving birth in 2007, around 173 000 were employed around the time of birth, and of these, 145 000 (around 84 per cent) would satisfy both the hours and tenure tests and, accordingly, would be eligible for paid parental leave under the Commission's scheme. So roughly, half of all mothers (52 per cent) would be eligible for the Commission's proposed paid parental leave scheme.

E.6 Employment type

In the Commission's proposed paid parental leave scheme, all those in paid employment meeting the hours and tenure test would be eligible for paid parental leave, with only unpaid family members contributing to a business not eligible. Nevertheless, the nature of employment affects whether:

- (i) an employee would be eligible for a superannuation contribution by their employer (if this feature is introduced following a review three years after the scheme's inception)
- (ii) an employer would be obliged to act as paymaster for the government
- (iii) an employee would be eligible for accrued leave entitlements while on paid parental leave (subject to this ever being a component of any future scheme).

Superannuation eligibility

Under existing requirements, employers must make superannuation contributions of a minimum of nine per cent of the employee's 'earnings base'. The earnings base is currently defined as an employee's ordinary time earnings, which, according to a recent draft tax ruling, includes privately negotiated paid parental leave (though the ATO has not yet released a final ruling).

An employer does not have to make any super contributions to employees aged under 18 years old *and* working with the business for less than 30 hours a week; employees to whom the business pays less than \$450 a month; those receiving payments under the Community Development Employment Program; and some contract employees.⁶ We have ignored these exclusions in modelling the possible impacts of a possible future employer obligation to pay super on statutory paid parental leave, as they would make very little difference to the numbers of parents eligible:

- people on CDEP are not counted as employed for the purpose of access to the Commission's paid parental leave
- women below 18 years old have low fertility rates
- given the Commission's eight hour employment requirement and the statutory requirement to pay the adult minimum wage rate for most employees, the typical

⁶ There are several other exclusions, but these involve small groups.

wages paid by a business to an employee eligible for the Commission's proposed scheme would be \$457 a month, already in excess of the \$450 threshold.⁷

However, the Commission's (contingent) proposal for employer superannuation contributions would have a narrower application than other mandated super obligations. An employee would not only have to be eligible for super contributions by their employer prior to taking up paid parental leave, but would also need to qualify for unpaid parental leave under section 67 of the proposed National Employment Standards (the Fair Work Bill 2008).

The National Employment Standards requirements include one year of continuous tenure for permanent employees. For a casual employee the position is more ambiguous. To have eligibility for unpaid parental leave under the National Employment Standards — and therefore access to an employer super payment under the statutory scheme — a 'casual' employee would need to meet two conditions. They would need to have:

- been engaged by the employer on 'a regular and systematic' basis for a sequence of periods of employment during a period of at least 12 months. For instance, a casual employee working regular shifts over a one year period would probably be eligible for unpaid leave under the National Employment Standards, while one with irregular earnings from month to month would not
- a reasonable expectation of continuing engagement by the employer on a regular and systematic basis (but for the birth or expected birth of the child, or the placement or the expected placement of the child). Evidence from the ABS suggests that around 95 per cent of casual employees had an implicit contract for ongoing employment, so this condition may be easy to meet.⁸

The case law regarding 'regular and systematic' engagement is complex, so that it is hard to establish how many casuals are, in effect, genuinely 'permanent' employees with the same rights to unpaid parental leave as other employees generally. And while the ABS periodically collects data on casual employees,⁹ these do not indicate whether the jobs involve regular hours or earnings, which is the determining test for access to unpaid parental leave entitlements.

⁷ That is $8 \times \$14.30 \times 4$. However, it should be noted that in some instances, employees might work for several businesses, meeting the employment test proposed by the Commission, but earning less than \$450 with any given employer.

⁸ ABS (*Forms of Employment, Australia, November 2007*, Cat. no. 6359.0, April, p. 31).

⁹ The ABS has two definitions: those not able to access paid leave entitlements; and employees nominating themselves as casuals.

PaETS nevertheless sheds some light on this issue as it asks the main reason why an employee did not take unpaid maternity leave, with one of the answers being ‘not available/not offered by the employer’. Of those employees who met the 8 hours work test and who were with their employer for one year or more prior to birth, around 18 per cent were casual workers (where casual is defined as an employee not having access to paid leave entitlements). Of those casual workers, 17.9 per cent say that their employer did not offer unpaid maternity leave. These employees would not be eligible for super contributions paid by employers under the Commission’s proposed scheme because they would not be eligible for unpaid leave. These results suggest that only around 3 per cent of employees with one or more years of workplace tenure and undertaking an average of 8 hours work a week would be ineligible for superannuation contributions from their employer.¹⁰

The Commission has proposed that employers act as paymasters for those employees who are eligible for the statutory paid parental leave scheme *and* who are eligible for unpaid parental leave under the National Employment Standards. With a few exceptions, those employees able to access superannuation under the above rules and those who would initially be receiving their paid parental leave entitlement through the employer would be the same. The main exceptions are that employers would sometimes have to act as a paymaster for juniors working under 30 hours a week and for very low paid employees, even though these do not qualify for employer superannuation contributions. (In fact, few of these would meet the eligibility conditions for unpaid leave under the National Employment Standards and the Commission’s proposed paid parental leave scheme.)

The other implication of the above analysis is that some women eligible for statutory paid parental leave would not meet the requirements under the National Employment Standards to qualify for unpaid parental leave. These mothers (some 25 000 in number and around 18 per cent of those on statutory paid parental leave) would not get a job return guarantee. (The Commission has not investigated the complex issues concerning who should get a job return guarantee in the National Employment Standards, as it involves issues well beyond those relating to a paid parental leave scheme.)

Eligibility for accrued leave entitlements

While the Commission’s proposal for a scheme excludes eligibility for paid leave entitlements, we have nevertheless modelled the costs were such eligibility included (appendix B). A person would only get access to such entitlements if they had access to paid leave entitlements already, had worked for the employer for at least a

¹⁰ That is 0.179 times 0.18 is around 3 per cent.

year and worked an average of ten hours a week over this period. Based on PaETS, around 70 per cent of *employee* mothers eligible for the statutory paid parental leave scheme would be able to access such entitlements.

E.7 Overall eligibility by mothers

Figure E.4 summarises the overall picture of eligibility by women for the different components of the Commission's proposed paid parental leave scheme. The chart shows estimates of the number of mothers in each category based on the latest data on confinements for 2007 (and also shows the share of total mothers).

Put simply, the results show that around half of all mothers would be eligible for paid parental leave. However, more importantly, this represents 84 per cent of all mothers in a job around the time of birth of their child.

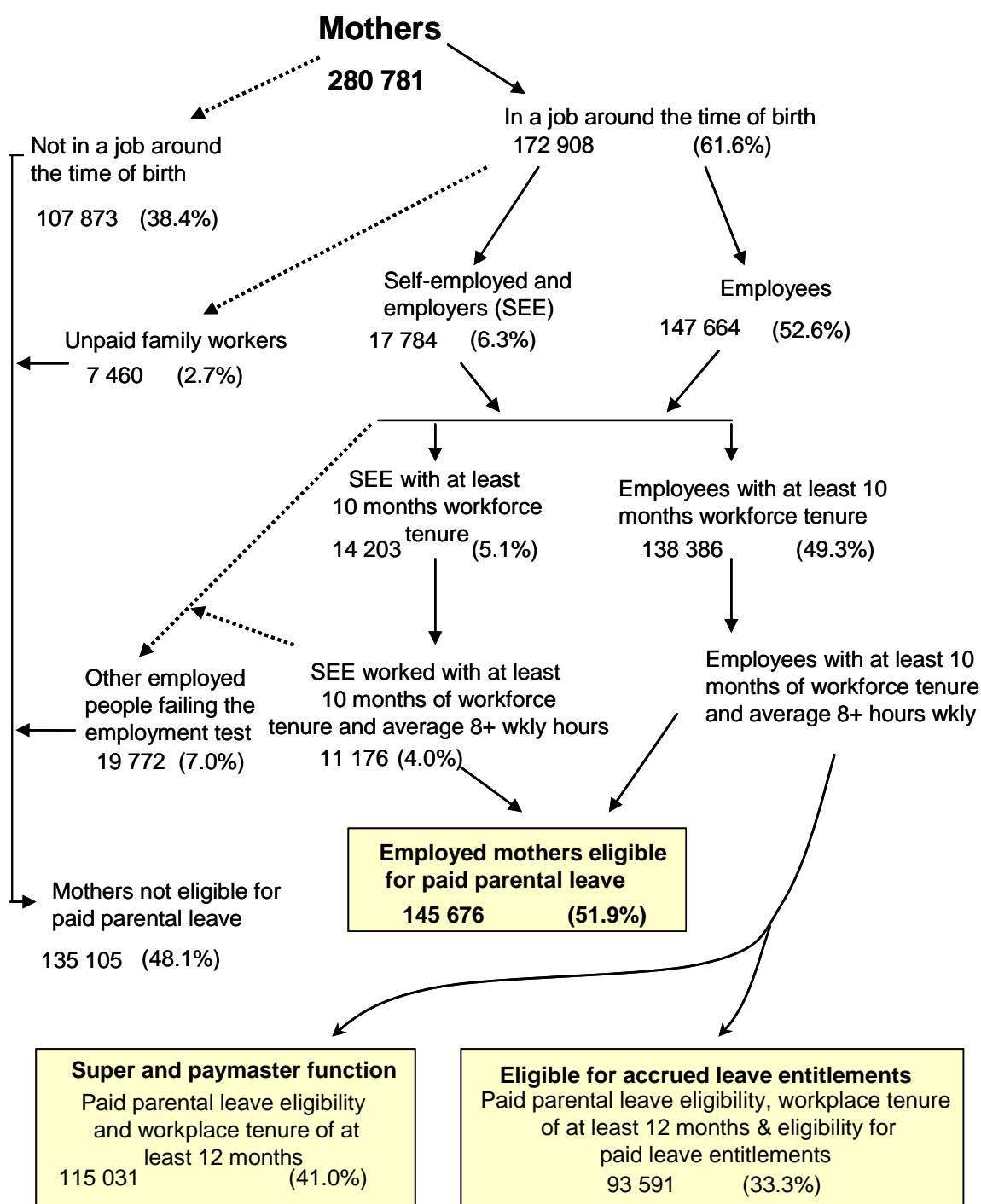
It should be emphasised that these estimates relate to the *opportunity* for participation in the scheme, not the *actual* level of participation, which will depend on parents' preferences and personal circumstances.

E.8 Eligibility of fathers

While fathers would receive different entitlements to mothers under the Commission's proposed paid parental leave scheme, the eligibility criteria are the same. While less is known about the characteristics of fathers' jobs around the time of birth of their children, it is still possible to estimate the number of fathers who would be eligible for the different elements of the Commission's proposed scheme (figure E.5). Overall, the estimates suggest that a larger proportion of fathers would be able to access *paternity* leave than mothers gaining access to parental leave. This reflects the higher employment rate of fathers prior to the birth of their child. (As discussed in the main body of the report and in appendix B on the costing of the scheme, it is likely that many men will not actually take statutory paternity leave even if they are entitled to it.)

However, men would only be able to access *parental* leave if he and the mother were both eligible for participation in the statutory paid parental leave scheme, and if she gave consent. Accordingly, the overall share of fathers able to access parental leave will be smaller than the share of mothers able to do so.

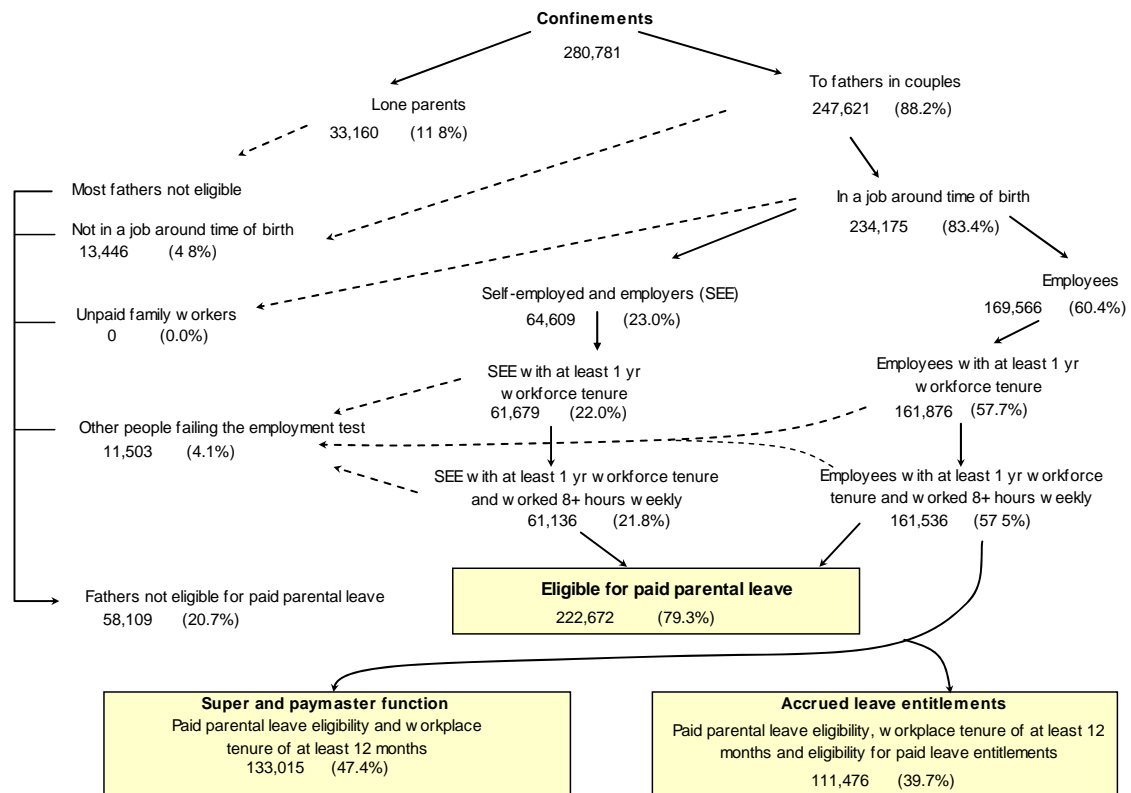
Figure E.4 **Mothers' eligibility for the Commission's paid parental leave scheme^a**



^a Shares are of total mothers giving birth in 2007. The total number of mothers does not make an adjustment for multiple births. The dashed lines indicate groups of mothers (worked out residually) who would not be eligible for statutory paid parental leave.

Data sources: Productivity Commission estimates based on LSAC and PaETS.

Figure E.5 Eligibility of fathers for paid paternity and parental leave^a



^a The shares shown are of total estimated fathers. The dashed lines indicate groups of fathers (worked out residually) who would not be eligible for statutory paid parental leave.

Data sources: Productivity Commission estimates based on PaETS; ABS 2007, *Labour Mobility*, February 2006, Cat. No. 6209.0; and ABS 2008, *Employee Earnings, Benefits and Trade Union Membership, Australia*, August 2007, Cat. No. 6310.0, released 14 April; and ABS 2008, *Australian Labour Market Statistics*, Cat. No. 6105.0, October.

F Eligibility for government payments

Key points

- Australian families receive a wide variety of government financial support in the form of payments, tax offsets and levy reductions. As most of these are contingent on income, they will be affected by the proposed paid parental leave scheme.
- Families who elect to receive the proposed paid parental leave scheme, and who also receive family tax benefit A and family tax benefit B (in the period after paid leave has finished), will usually have their entitlements to these payments decreased. Receiving the proposed paid parental leave scheme will also increase the medicare levy and the medicare levy surcharge for those families required to pay them.
- By design, parents who elect to receive the proposed paid parental leave scheme will forgo any entitlement they have to the baby bonus, as well as family tax benefit B (whilst on paid leave). The interaction between the proposed scheme and the Low Income Tax Offset (LITO) and the Pensioner Tax Offset (PTO) will differ according to income:
 - for families who, under current arrangements, would not receive the entire offset they are eligible for because they do not pay enough tax, the proposed scheme would increase the financial benefit they receive from LITO and PTO
 - for families whose income is in a region in which the offset amount is subject to a taper, and who have sufficient tax liability to access their entire offset, the proposed scheme would decrease the financial benefit they receive from LITO and PTO.
- Child care assistance reduces the cost to parents of returning to work. For mothers with infants, child care assistance will partially counterbalance the financial incentive to extend leave associated with a paid parental leave scheme. While the current level of child care subsidy is not likely to negate the incentives offered by the proposed paid parental leave scheme, any increases in the child care subsidy for children under six months old would work against the central objectives of the proposed scheme.
- The proposed paid parental leave scheme will not affect other entitlements to government allowances and pensions, because of the design feature that excludes paid parent leave from the means test for these payments. The major payments *not* affected by the proposed scheme include: the parenting payment, Newstart (for partners of the recipients of paid leave), carer payment, carer allowance and the disability support pension.

This appendix sets out the current range of Australian Government payments available to Australian families with newborn children and the various eligibility criteria for those payments. The effectiveness of any statutory paid parental leave scheme will depend, in part, on how it interacts with existing family support and tax arrangements, as well as the financial situation of families. This appendix provides information on a range of government payments provided to families with newborn children and identifies how many families are using those payments. It further outlines the possible interactions between those payments and the proposed parental leave scheme.

F.1 Family payments

Box F.1 outlines the major payments available to families with newborn children. These include family tax benefits A and B, the child care benefit, the child care tax rebate, the baby bonus and the parenting payment. Collectively, these payments represent the majority of the direct financial assistance given to families. These payments are subject to income tests, which means that families' entitlement to them may be reduced due to the additional income they receive from paid parental leave.

Box F.1 Income support for Australian families

Baby bonus: A one-off tax-free payment of \$5000 that is available to parents upon the birth or adoption of a child and is delivered in 13 fortnightly instalments of \$384. This payment is restricted to families where the expected combined income in the six months after birth is less than \$75 000.

Family tax benefit A: An ongoing payment to families with children under the age of 21 (or dependents between 21 and 24). The payment is made per child and is subject to a family income test. The maximum payment is \$151.34 per fortnight per child under 13 years if family income is below \$42 559 per year. In addition, a supplement of up to \$686.20 per child is paid at the end of each financial year.

Two further payments are usually included in family tax benefit A:

- *rent assistance:* A payment of \$129.36 per fortnight that is available to most families renting a private dwelling.
- *large family supplement:* A payment of \$10.36 per fortnight for every child after the second.

Box F.2 (continued)

Family tax benefit B: An ongoing payment aimed at assisting families with one main earner (including single income families) and dependant children under the age of 18 years. The maximum amount is \$128.80 per fortnight for families where the youngest child is under five, or \$89.74 per fortnight where the youngest child is between five and 18. The payment is subject to an income test on both the primary earner and the secondary earner (the person earning the lesser amount) in the case of two parent families. In addition, a supplement of up to \$335.80 per eligible family is paid at the end of each financial year.

Prior to returning to work for the first time following the birth of a child, family tax benefit B is available at the maximum rate so long as no employment income is earned. This is known as the 'quarantined' period.

Child care benefit: This benefit is available when parents use approved forms of child care, such as long day care centres, occasional care centres and family day care providers. The benefit is provided either as a fee reduction at the time of purchasing child care services, or a quarterly lump sum payment. The child care benefit is subject to an income test and the 'maximum' payment is \$3.47 per hour in approved child care (a slightly higher rate is available if multiple children from the same family are in child care, if child care is used on a part time basis and for family day care services). The maximum rate is available for families with a combined income under \$36 573.

Payments are also available for some forms of informal care. To be eligible, a carer must be registered with the relevant government agency. People who can provide registered care include relatives outside the immediate family, such as grandparents, friends and nannies. The maximum payment rate for registered care is 58.1 cents per hour for a maximum of 50 hours per week for each child.

Child Care Tax Rebate: A rebate covering 50 per cent of out-of-pocket child care expenses for approved forms of child care, up to a maximum of \$7500 per child each financial year. Parents are paid this rebate each quarter. No rebate is available for registered care, such as that provided by grandparents or friends.

Parenting payment: An ongoing payment aimed at supporting families with low income. The payment is subject to both an income test and an assets test and the maximum payment is \$405.40 per person per fortnight for partnered recipients and \$562.10 per fortnight for single recipients.

Source: Family Assistance Office 2008b and the Family Assistance Office website. Payment rates are effective from 1st January to 19th March 2009

Baby bonus and family tax benefit A and B

As parents receiving the proposed paid parental leave are not eligible for the baby bonus, the interaction between these payments is straightforward. (Families using statutory paid parental leave would lose any entitlement to the baby bonus).

Due to the broad availability of family tax benefit A, many families are likely to be affected by its interaction with the proposed paid parental leave scheme. This per child payment is paid at a flat rate if family income is below \$42 599 and subject to a complex schedule of taper rates based on income and number of children beyond this. However, the taper rates are designed so that even families on relatively high incomes are still eligible for some payment. For example, a two parent family with two children under the age of 13 who rent a private dwelling and have a family income of \$100 000 would be eligible for more than \$3300 per year.

By increasing family income, paid parental leave will decrease many families' entitlements to family tax benefit A (in a way that would be very difficult for families to anticipate). It is estimated that around 53 per cent of families eligible for the proposed paid parental leave scheme, would lose some of their family tax benefit A.

Family tax benefit B interacts with the proposed paid parental leave scheme in two ways. Firstly, if the proposed scheme reduces the amount of unpaid leave taken following the birth of a child, then the amount of quarantined family tax benefit B (see box F.1) that would have been available to families at the maximum rate, will be reduced.

Secondly, in some cases, paid parental leave may reduce the amount of family tax benefit B available to families after the primary carer returns to work. The maximum rate of family tax benefit B is available for two parent families where the lower income earner makes less than \$4526 per year. Every dollar of income above that level reduces family tax benefit B payments by 20 cents, until no benefit is payable when the lower income exceeds \$22 995. In families where the primary carer returns to work in the same year as going on leave, the additional income from paid parental leave may reduce their entitlement to family tax benefit B if their income lies in the region in which the payment is tapered.

Child care benefit and child care tax rebate

While most of the tax transfer system in Australia represents a financial disincentive to labour force participation by new mothers, child care assistance works in the opposite direction by lowering the costs families face when returning to work.

By encouraging additional labour force attachment by parents, child care assistance can either complement or undermine the aims of the proposed paid parental leave scheme, depending on the time period when it is most influential. If the child care payments encourage parents to return to work:

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- during the first six months of a child's life, then the effects of child care assistance will work against the child and maternal health objectives of the proposed paid parental leave scheme
 - at a later time, then the effects of child care assistance will complement the labour force attachment objectives of the proposed paid parental leave scheme.

We focus on the former effect in this section as the potential for direct interaction between existing child care assistance and the proposed scheme is greatest in the year the leave is accessed. To determine if current child care subsidies could undermine the effectiveness of the proposed paid parental leave scheme, we need to examine the patterns of use of child care by families with new children.

What is the difference between 'approved' and 'registered' care?

Assistance with child care is provided by two payments, a child care benefit and a child care tax rebate:

- the child care benefit is typically taken as a reduction in the fortnightly fee charged by 'approved' or 'registered' child care providers for eligible families
- the child care tax rebate reimburses parents each quarter for half of the out-of-pocket expenses for 'approved' child care, but not for 'registered care'.

The subsidy rate for child care benefit for 'approved' care dramatically exceeds the subsidy for 'registered' care. For most types of 'registered' care, the current maximum rate of child care benefit is less than 60 cents an hour. In comparison, the maximum hourly subsidy for part time users of 'approved' care can be as high as \$4.60 per hour.¹ For 'approved' care, parents are also reimbursed for half of their out-of-pocket expenses — up to a maximum of \$7500 a year per child (FAO 2008a).

So how subsidised is child care?

The following example illustrates the nature and generosity of child care subsidies.

- A family who was eligible for the maximum rate of child care benefit and had one child in long day care for 50 hours per week would be entitled to a fee reduction of \$173.50 per week.

¹ This rate applies for families with a single child using less than 38 hours of family day care per week. The maximum rate is usually reported as \$3.47 per hour, which applies if the family uses 50 hours or more of family day care, or 38 hours or more of long day care. Less frequent users receive a higher 'loading' in recognition of the higher cost of part time access to child care.

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- If their child attended a service charging \$300 for long day care, then the family would need to pay \$126.50 per week and would receive half this money back through the child care tax rebate. Accordingly the net cost to the family would be \$63.25 or about 21 per cent of the actual cost of the service.

If a family was not eligible for any fee reduction under the child care benefit scheme, they would have to pay the full fees up front, but receive half the fees back as a child care tax rebate. As the cap on the child care tax rebate is \$7500 per financial year per child, families with children in care for an entire year would receive the full 50 per cent rebate of fees so long as the weekly fees (after any child care benefit fee reduction) were under \$289. But most newborn children will not be in care for an entire financial year, so that families with children under the age of one using ‘approved’ child care with much higher fees could still receive half their money back through the child care tax rebate.

Most families with a child under the age of one year who use ‘approved’ child care services are likely to have at least half of their child care costs subsidised through the child care benefit scheme and the child care tax rebate. Lower income families will receive even higher subsidies.

Use of long day care and family day care services by very young children

The subsidisation of child care has the potential to undermine the objectives of paid parental leave only in so far as it induces child care use amongst parents with very young babies. Around 20 000 children aged less than one year are in approved care at any point in time (sub. 164, pp. 15–16).

However, relatively few babies are in formal child care when they are aged under six months. Based on the LSAC data,² only two per cent of babies are placed in long day care or family day care before six months of age because of their mother’s work commitments. While around a quarter of mothers who return to work in the first six months do use formal child care, this affects a small group of children.

Accordingly, while existing child care subsidies encourage parents to return to work earlier than otherwise, in practice the subsidies appear to have only modest effects

² Information on how old a child was in months when they initially attended child care is available in the LSAC database. Although this database does not directly distinguish between approved and registered child care, it does provide information on the type of care arrangements being used, which can serve as a proxy for approved care. Specifically, using formal arrangements, such as long day care and family day care, usually implies the use of approved care. Likewise, the use of informal care, such as registered carers, usually implies the use of non-approved care.

on parental employment behaviour during the most critical early period of a child's life.

Moreover, in many cases, families would still find it financially beneficial to take paid parental leave than to return to work and pay for even subsidised child care. Of the families using long day care or family day care for work purposes where the child is under six months old, over three quarters would be financially better off if the mother stayed on leave and used the Commission's proposed parental leave scheme. As such, the current level of child care subsidy is not likely to negate the incentives offered by the proposed paid parental leave scheme. However, further increases in child care subsidies for children under six months old would work against the central objectives of the proposed scheme.

Throughout our inquiry, a number of participants indicated that gaining access to a preferred child care provider can alter the planned return to work date. Parents typically need to register their interest in using a child care centre. When they have reached the top of the waiting list and a place becomes available, they are offered that place. If they wish to accept the child care place, they must begin to pay for the care within a given period. If a child care place is offered at a preferred centre before the intended return to work date, it is likely that the family will accept child care placement and the primary carer will then return to work. In areas where child care is particularly scarce, it is unlikely that a parental leave payment will alter this behaviour.

Despite the prevailing child care subsidies, parents currently using formal child care would be expected to take more time off work if the proposed paid parental leave scheme was adopted. That said, it is not clear that there would be a reduction in child care use over the *life* of the child (or an associated budget saving). One of the objectives of the proposed scheme is to increase the lifetime workforce attachment of women (chapter 5). If this occurs, it may increase child care use for older children, which also increases parent's access to child care subsidies. Thus the net effect on child care use, and the net budgetary effect, is unclear.

Parenting payment

The parenting payment (single and partnered) is a relatively common form of support to low income families with children. The maximum payment is \$405.40 per fortnight for couples or \$562.10 per fortnight for singles and is subject to both an income test and an assets test. According to the income and leave data available in the LSAC database, as many as a third of families where mothers would be eligible for the proposed paid parental leave scheme could qualify for parenting payment some time in the first twelve months after the birth of their child. For most

of these families, they would only be eligible for parenting payment while the mother was on unpaid leave.

Due to the size of parenting payment and its steep taper rates, the draft report noted that many recipients of this payment would be better off opting out of paid parental leave. However this is no longer an issue as, in this report, it is proposed that paid parental leave should not affect eligibility to the parenting payment.

F.2 Other government support to families

In addition to the more widely available payments discussed above, statutory paid parental leave may have implications for a number of other pensions. These include: the carer payment, the disability support pension and Newstart (for partners of recipients of paid parental leave). A statutory scheme may also affect the extent to which a family is eligible for various tax offsets (the low income tax offset, the pensioner tax offset and the beneficiary tax offset), and their exposure to several taxes (the medicare levy and medicare levy surcharge).

Pensions

The draft noted that a number of income tested pensions may be affected by the introduction of the proposed paid parental leave scheme. These include:

- *the carer payment*: a payment for people whose caring responsibilities inhibit or prevent them from undertaking paid employment. The payment is subject to both an income test and an assets test and the maximum payment is \$469.50 per person per fortnight for partnered recipients and \$562.10 per fortnight for single recipients
- *the disability support pension*: a payment for people with a disability that prevents them from working. The payment is subject to both an income test and an assets test and the maximum payment is \$469.50 per person per fortnight for partnered recipients and \$562.10 per fortnight for single recipients
- *Newstart*: a payment for unemployed people looking for work. The payment is subject to both an income test and an assets test and the maximum payment of \$405.40 per fortnight is available to partnered recipients (other payment rates apply for different family circumstances but only this rate is relevant here).

Contrary to the draft report, this final report proposes that income from the paid parental leave scheme should not be counted for the purposes of calculating these income support payments. For this reason, entitlements to these payments will not be affected by the introduction of the scheme.

Beneficiary Tax Offset (BTO) and Pensioner Tax Offset (PTO)

Recipients of the parenting payment may be indirectly affected by the proposed paid parental leave scheme through the effect the additional income has on the PTO. Recipients of parenting payment (single) and the carer payment are eligible for the PTO so long as their annual income is less than \$29 614. For singles, if their income is less than \$20 195 this amounts a potential reduction in tax liability of \$2129.³ This offset is reduced by 12.5 cents for every dollar of additional income between \$20 194 and \$37 227. The offset is smaller and tapers at a lower income range for couples.

As the proposed paid parental leave scheme increases taxable income, it may actually increase or decrease entitlements to the PTO. For families:

- whose income is in a region in which the offset amount is subject to a taper, and who have a sufficient tax liability, receiving paid parental leave will decrease the amount of PTO received
- who, under current arrangements would not receive their entire PTO because they do not pay enough tax, the receiving paid parental leave would increase the benefit they receive from PTO.

Recipients of the parenting payment (couple) who received payments over \$6000 are eligible for the BTO. For every dollar of parenting payment received between \$6000 and \$34 000, a BTO of 15 cents is available. Thirty cents to the dollar is paid for payments above \$34 000. As this offset is based on the amount of parenting payment (couple), it will not be affected by the proposed paid parental leave scheme.

Low Income Tax Offset (LITO)

The LITO lowers the income tax burden to low income earners. In effect, it increases the tax free threshold to \$14 000 per year for those earning less than \$34 000, with the maximum offset amount of \$1200 tapering at four cents to the dollar for income above this. Similarly to the PTO, the interaction between LITO and the proposed paid parental leave scheme depends on the income of the recipient.

- If the income of the recipient is less than \$14 000 per year, then receiving paid parental leave will increase the amount received from the LITO as their increased tax liability increases the offset they are entitled to.

³ The offset received cannot exceed the recipients total tax liability.

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- If the income of the recipient falls between \$14 000 and \$34 000 and would remain in this range after the introduction of the proposed paid parental scheme, then their LITO entitlement would remain unchanged at \$1200.
 - If the income of the recipient is beyond \$34 000 then the introduction of the proposed paid parental leave scheme will reduce their entitlement to the LITO.

It is estimated that 89 per cent of mothers who would be eligible for the proposed parental leave scheme will also be eligible for the LITO. Of these, it is estimated that the proposed scheme would increase the LITO entitlement for around half the recipients of the scheme and decrease the entitlement for the other half.

Medicare levy and medicare levy surcharge

The medicare levy and the medicare levy surcharge are income based taxes that are used to partially fund the health care system in Australia. The standard rate of the medicare levy is calculated at 1.5 per cent of income. However, some low income families are not required to pay the levy, or pay a reduced amount. Reductions to the medicare levy are based on:

- personal and family income (the reduction amount decreases as income increases.)
- eligibility for the PTO (which decreases the medicare levy)
- the number of children in the family (additional children decrease the medicare levy for those eligible for a family reduction)

By increasing taxable income, the proposed paid parental leave scheme will increase the medicare levy for those parents who are required to pay it (that is, those with individual and family incomes that are above the minimum thresholds). Families who are eligible for a medicare levy reduction will also pay the medicare levy at a greater rate than they did previously.

A medicare levy surcharge of one per cent of income applies to individuals who do not have private health cover and have a family income of over \$140 000. The income threshold increases by \$1500 for every dependent child in the family. It is possible that the additional taxable income derived from the proposed scheme will push family income above the critical threshold for some families who were previously not subject to the surcharge. However, very few families would be likely to be affected in this way.

G Paid parental leave and return to work

Key points

- The Commission estimates that new mothers are likely to extend their leave from work by an average of *ten weeks* following the introduction of the proposed statutory paid parental leave scheme.
- Mothers who, based on previous patterns of leave taking, would be likely to take less than 26 weeks leave, are estimated to take on average an additional six weeks.
 - The average of six weeks is for all eligible mothers who would be likely to take less than 26 weeks leave — including those expected to opt out of the scheme
 - For those mothers likely to take less than 26 weeks leave and expected to opt into the scheme, the average increase in leave is expected to be eight weeks
 - There is greater uncertainty than these estimates suggests since they reflect several assumptions, required in part because of imprecision in the base data.
- The greatest change in leave is expected among those groups that experience financial constraints:
 - those on lower incomes who were likely to take a short period of leave
 - most of the families who were likely to take less than two months of leave
- Of the families eligible for the proposed scheme, at least 86 per cent are projected to benefit from the 18 week parental leave payment, and therefore to use the statutory paid parental leave scheme. The 86 per cent estimate is more likely to be an underestimate given the uncertainties associated with the data.
 - Families opting in are expected to be better off by over \$2000 on average, excluding paternity leave or superannuation benefits if introduced.

The key results and how to interpret them

A core objective of the proposed paid parental leave scheme is to allow women to take a longer period of leave around the birth of their child if they wish to do so. This appendix sets out the likely impacts of the proposed scheme on the duration of leave that new parents take from work.

The sections below spell out the Commission's approach on this issue, but the bottom line is that a statutory paid parental leave scheme would be likely to have significant impacts on leave durations of mothers.

It is important to clearly differentiate the outcomes for two broad groups.

Users

The first group are those eligible mothers who ultimately *use* the scheme. The impact of the scheme on this group is measured as the total additional weeks of leave from the scheme divided by the number of mothers actually using the scheme. Since budgetary costs only relate to those mothers who use the scheme, this provides one measure of the effectiveness of the scheme for users. A measure of the cost-effectiveness of the scheme could be obtained by calculating the total number of weeks of additional leave and dividing by the net scheme cost, to give the net cost per week of additional leave.

We found that the average increase in leave of this group to be around 12 weeks. For mothers who initially take less than 26 weeks of leave, we estimated that the average additional leave taken would be around 8 weeks. For a small proportion, the increase in leave would be 14 weeks or more. These would be largely low income mothers taking very short leaves prior to the scheme.

All potentially eligible mothers

This group is the overall target of a statutory paid parental leave scheme. The outcome for this broad group is the total additional weeks of leave from the scheme (as above), but divided by the *total* number of mothers eligible for the scheme, regardless of whether the mothers actually take the leave. Were many eligible women to opt out of the scheme, then it would show up as a relatively small number of additional weeks per eligible woman. This would suggest that the scheme had fallen short of its goal of changing leave duration for a broad range of women.

We found that the average increase in leave of this group to be around 10 weeks. For mothers who initially take less than 26 weeks of leave, we estimated that the average additional leave taken would be around 6 weeks. The lower amount of average leave reflects the fact that around 14 per cent of this group are projected to opt out of the scheme.

Our analysis suggests that single mothers would be unlikely to substantially alter the leave they take.

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- The vast majority of low-income single mothers do not return to work in the first two years of their child's life.
 - High-income single mothers would be unlikely to receive sufficient compensation from the proposed paid parental leave scheme to encourage a later return to work.

Partners

While most partners would be eligible for paternity leave, it is estimated that many will not be very responsive to the proposed scheme. This estimate is based on their current patterns of leave taking, as well as their financial comparisons between the paternity leave payment and at work incomes. Nevertheless, around one third of fathers may use the paternity leave provisions by (section G.4).

G.1 Estimating additional leave by mothers

The Commission's estimates of mothers' leave responses are based on the likely financial impacts of the scheme on each family. In measuring these benefits, only the gains from paid parental leave are included, with no consideration of the benefits from the proposed paternity leave payment and any potential superannuation contributions by employers. To determine the financial impact, information from a representative sample of families has been used.

The financial impacts of parental leave

Following the introduction of the proposed statutory paid parental leave scheme, many parents will increase their initial duration away from work. Two effects can underlie this behavioural response.

The price effect

Paid leave lowers the price of taking leave, where the price is measured as the income forgone from taking a week of leave. For instance, a woman may have a job paying \$650 a week that she could go back to after the birth of her child. If she has to take unpaid leave, then each week of leave costs her \$650 of forgone earnings (\$650 is the 'price'). If she gets paid parental leave of \$543.78 a week for 18 weeks then the cost of each week of leave in forgone earnings is now around \$105 a week — a more than 80 per cent reduction in the price of leave. (In this discussion, to explain the basic concepts, we are abstracting from the complex interactions that

may arise from the tax and welfare system. However, we have incorporated these interactions in the empirical analysis we have undertaken.)

As the ‘price’ of leave falls with statutory paid parental leave, it increases the amount of leave taken because it changes the balance of the benefits from unpaid time spent caring for their children (which is highly valued by most parents) compared with paid employment.

The income effect

This is the usual tendency for demand for a ‘good’ — in this case, leave taking — to respond to higher income levels. It recognises that financial constraints affect how much leave parents can take and that higher income can help them to prolong their period of exclusive parental care.

The difference between the ‘price’ and ‘income’ effect

The role played by the price and income effects depends on the circumstances of the families using statutory paid parental leave.

In some instances, a statutory paid parental leave scheme means that there is no forgone income from taking leave — in effect, families in this position face a negative price. As an illustration, a woman who could return to a job paying \$300 per week would face a price of \$300 a week for taking leave if she only had recourse to unpaid leave, but, after the proposed statutory paid parental leave scheme, would get an additional \$240 in income per week from taking leave. As such, these families would be expected to take every week of paid parental leave that they are offered. The price effect approach allows us to identify which families fall into this category and to ensure all those families are estimated to take at least the 18 weeks of paid parental leave offered to them.

Parents who already take more than 18 weeks of leave also face a negative price of leave for the proposed period of paid parental leave. This is because taking a week of statutory paid leave concurrently with existing leave (as is permitted under the Commission’s proposal) does not result in any forgone income. If a mother was getting \$600 a week for 18 weeks of privately negotiated leave and took statutory paid leave at the same time, she does not give up the \$600, but gets \$543.78 on top of that payment. However, it is in this situation that the income effect comes into play. In this instance, the woman has additional income of around \$9800, which can be expected to increase her overall length of leave.

One of the reasons that a statutory paid parental leave scheme is likely to increase leave by more than payments like the baby bonus is that a leave scheme exploits both the income effect and the price effect.

Some mothers will not be very responsive to the scheme

Some mothers who will not extend their leave even if the proposed paid parental leave scheme is introduced, including those:

- whose monetary and non-monetary rewards from a job are very high
- who have lower preferences for full-time caring of their child
- who have sufficiently high financial pre-commitments (for example, mortgage repayments) that can only be adequately met by returning to work.¹ While financial pressures are more typically associated with lower income levels, around a quarter of families with recent children where the post birth income of the mother exceeded the federal minimum wage had faced at least one financial constraint in the year before the interview.²

The theoretical structure

The change in leave behaviour arising from the introduction of the proposed scheme depends on the scheme's effects on families' net incomes. From the LSAC database, a sample of over 1500 families who are deemed to meet the eligibility criteria — our 'eligible' sample — have been used in our estimates (box G.1).

Estimating net income before paid parental leave

We calculated the net income of each of the families in the 'eligible' sample for the financial year in which their child was born and for the following financial year. The net income comprises

- the mother's wages from work
 - based on the weekly pre-birth wage of the mother for each week worked before the baby was born, as well as for each week of paid leave taken

¹ The capacity for families to deal with these pressures by increasing the father's earnings is usually limited since most fathers already work full-time hours.

² In the LSAC survey, financial constraints include not being able to pay a utility bill on time; going without food because of a lack of money; missing mortgage or rent payments; seeking help from a charitable organisation; and not being able to afford to heat or cool their home.

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- the weekly post-birth wage of the mother for each week she worked after completing her parental leave
 - the partner's wages from work
 - less income taxes and medicare levies payable by the family
 - including the impact of the low income tax offset and the low income medicare reduction. For families receiving parenting payment (single), the pensioner tax offset has been included and for those receiving parenting payment (partnered), the beneficiary tax offset has been included.
 - plus the value of government payments that the family may be eligible for
 - the payments covered in this analysis are the baby bonus, family tax benefit A (including rent assistance and the large family supplement), family tax benefit B and parenting payment (single and partnered).

Estimating net income with paid parental leave

To estimate the net income families would receive under the paid parental leave scheme, the above analysis was repeated, but with the mother receiving the paid parental leave payment in addition to her wages. The mother would receive

- 18 weeks of paid parental leave at the rate of \$543.78 per week if she were taking at least 18 weeks of leave
- if she were taking less than 18 weeks of leave, the mother would only receive parental leave payments for the number of weeks of leave taken
- but the family would not be eligible for family tax benefit B while receiving paid parental leave and the family would be ineligible for the baby bonus

The ordering of leave could also make a difference to the benefit families would receive. It was assumed that each mother would use any paid leave from her employer at the start of her parental leave period. If mothers took at least 18 weeks of unpaid leave, they were assumed to begin receiving the paid parental leave

- from birth if they had no paid parental leave
- after their paid leave ceased.

While the proposed scheme would allow mothers to take paid parental leave concurrently with other forms of paid leave, mothers were only assumed to take leave concurrently if they took fewer than 18 weeks unpaid leave. Analysis of this option indicated that families would, on average, be worse off (primarily for tax reasons) if they chose to take statutory leave concurrently with other paid leave rather than receiving the paid parental leave payment while on unpaid leave.

The initial and final estimate of benefit

The benefit a family would receive from the 18 week parental leave payment is calculated as the amount by which their net income, when receiving the parental leave payment, exceeds their net income in the absence of the payment. For each family in the sample, two estimates of benefit are made — an initial and a final benefit estimate. The initial estimate

- uses the leave data from LSAC to estimate each mother's income and entitlements to government benefits
- is used to estimate how much additional leave a mother might take from the introduction of the proposed paid parental leave scheme
- cannot be negative, as families are assumed to opt out if the paid parental leave scheme does not provide a net benefit to them.

The final benefit is the estimate of benefit quoted throughout this report. It

- is based on an estimate of leave for each mother that includes the estimated increase in leave that may occur because of the proposed scheme
 - the revised leave data is used to estimate net income with and without the paid parental leave scheme
 - all additional leave is assumed to be unpaid leave and replaces an equivalent period of post-birth paid work

Families who do not receive a positive estimate of final benefit are assumed to opt out of the scheme. Their estimated benefit is zero and they are assumed not to change their leave behaviour.

Possible need for further analysis

The interaction between the tax and welfare system in Australia is very complex. While the estimated benefits should address the circumstances faced by the majority of families, some circumstances have not been addressed. If the proposed parental leave scheme were to be implemented, it may be necessary to consider what impact the scheme would have on families who experience events not covered by the analysis. For instance, the analysis does not cover families where parents are separated and have joint custody of the child, or instances where there are complex maintenance arrangements.

Estimate of additional leave

This section outlines the method used to estimate the degree to which a statutory paid parental leave scheme increases primary carers' leave durations (L_{add}). For all families in our 'eligible' sample (box G.1), we estimated the additional leave based on the 'income' approach. We also estimated the additional leave based on the 'price' effect for those families where the mother initially takes less than 18 weeks leave. For those families where both price and income effects indicated increased leave duration, we assumed that the actual change in leave duration was the larger of the two estimates.

Income effect approach

A statutory paid parental leave scheme would increase family net income around the birth or adoption of a child. One of the ways families can spend that additional income is to finance an extended period of leave, estimated as:

$$L_{add} = L_{ini} \times \left(\frac{Y_{ini} + Benefit_{ini}}{Y_{ini}} \right) \times \eta - L_{ini} \quad (G.1)$$

where L_{ini} is the initial length of leave, Y_{ini} is the initial net income of the family, L_{add} is the additional length of leave in weeks, η is the income elasticity of demand and $Benefit_{ini}$ is the initial estimated benefit a family would receive if the proposed paid parental leave scheme were introduced.

The income elasticity (η) used for the income effect differs with family net income, so that a family with a lower income increases their leave by more than a higher income family who otherwise have the same characteristics. The elasticity for a family is given by

$$\eta_i = 1 + \left(\frac{\sum_{i=1}^{1716} (Benefit_{ini}^i \times weight_i)}{\sum_{i=1}^{1716} (weight_i)} \times \alpha \right) \times \frac{1}{NetIncome_i} \quad (G.2)$$

where $NetIncome_i$ is the initial net income for family i , $weight_i$ indicates how common a family type is in the population and α is a constant. We considered that a plausible weighted *average* elasticity was around 1.2. With $\alpha=12$, the weighted average elasticity was 1.16, in line with that prior. Accordingly, in calculations of the individual income effect, we used $\alpha=12$.

With the above parameters, we found that a 1 per cent increase in net income would increase leave duration by 1.7 per cent. Sensitivity analysis around that elasticity is explored in section G.2.

Price effect approach

We also estimated the potential role of a price effect in increasing the leave durations of families where the mother initially took less than 18 weeks of leave. The effect on the leave duration of this group was assumed to be the higher of the effects stemming from the price and income changes resulting from a scheme.

If a mother returns to work because their family faces financial constraints, providing that family with additional money at that time could encourage an extension of leave. The ‘price’ of parental leave measures the amount of net income a family must forgo for taking an extra week of leave. It compares the weekly net income of a family based on a mother returning to work and the net income if the mother remains on leave for a week. As such, it only examines payments and taxes that occur or are withheld on a weekly or fortnightly basis.³

For families who have a higher net income if the mother returned to work, the estimate of additional leave based on the ‘price’ effect is given by

$$\text{IF } L_{ini} < 18 \text{ and } P_1 > 0 \text{ then } L_{add} = \frac{(P_1 - P_0)}{P_0} \times L_{ini} \times \varepsilon - L_{ini} \quad (\text{G.3})$$

where P_0 is the net amount of money forgone from taking an additional week of absence from work (taking into account lost wages and any offsets from social welfare payments or reduced taxes) before the introduction of the statutory paid leave scheme; P_1 is the equivalent price after the introduction of the scheme; and ε (the elasticity) is the responsiveness of time taken away from work to the cost (or price) of taking that time off work. An elasticity of -1.0 has been used, which implies that a 10 per cent decrease in the price of leave increases the amount of leave taken by 10 per cent.⁴

³ As such, it does not account for supplementary family tax benefit payments or tax offsets.

⁴ In order to provide an estimate of the increase in leave, a specific value for the elasticity had to be set. However, we have no information on the appropriate value of this elasticity. For many consumer goods, an own price demand elasticity between -1.0 and -1.2 is common. We chose a (conservative) elasticity of -1.0 in this range, which would result in the smallest estimated change in leave duration. We undertook sensitivity analysis to examine how uncertainty in the value of the elasticity influences the estimated increase in leave.

When a family would not need to forgo money for taking leave under the proposed paid parental leave scheme (when P_1 is less than or equal to zero), then we assume they will take the full 18 weeks of paid parental leave offered to them. In those cases the increase in leave can be represented by

$$\text{IF } L_{ini} < 18 \text{ and } P_1 \leq 0 \text{ then } L_{add} = 18 - L_{ini} \quad (\text{G.4})$$

The impact of the baby bonus

Families surveyed as part of the infant cohort in the LSAC survey were selected because their babies were born between July 1 2003 and June 30 2004. The policy that is now called the baby bonus was first made available for babies born on or after July 1 2004 — with families entitled to a payment of \$3000 per baby. As such, none of the families in the LSAC database received that payment for the leave period being studied.

As the baby bonus provides parents with additional income, the baby bonus should have encouraged parents to extend their parental leave. Any such increase in leave would be additional to the initial length of leave contained in the LSAC database.

Accordingly, an estimate has been made of the likely additional leave that families in the LSAC database may take because of their access to the untaxed baby bonus payment. The additional leave induced by the baby bonus is calculated using the ‘income’ effect method. The only difference is that for each family, instead of using the estimated benefit of the proposed paid parental leave scheme, the net gain from the baby bonus is included.

The net gain from the baby bonus is calculated by taking the amount of baby bonus the family would now be entitled to (as of January 2009) less the amount of maternity allowance they were entitled to when their baby was born. Those families were eligible for an untaxed maternity allowance worth between \$822 and \$842 depending on when the baby was born.

Overall, mothers are estimated to take on average an additional ten weeks of leave if they receive the \$5000 baby bonus payment — for mothers with shorter initial leave lengths, the increase in leave will be smaller. For mothers initially taking up to nine months of leave, it is estimated that the baby bonus would extend their leave by three weeks. The reliability of these estimates depends on the plausibility of the assumed value of the income elasticity. We explore the consequences of different parameter assumptions in section G.2.

The initial leave period used for this analysis includes the leave measured in the LSAC database, as well as an estimate of the leave those families would have taken had they received the current baby bonus payment.

G.2 Reliability of the estimates

Good policy advice typically requires quantification of the likely benefits. However, in this instance, simply providing an estimate of the benefits could be misleading. In particular, the measurement of the initial and additional length of leave for individuals is imprecise. This imprecision affects the ability to accurately project a key objective of the proposed scheme — the proportion of mothers taking at least 26 weeks of leave after the birth of their child.

Imprecision in the initial length of leave

The exact date of birth and return to work is not recorded in the LSAC database, so that the calculated length of a mother's postnatal leave is imprecise.⁵ For example, the birth of a baby may be recorded as occurring in March 2004 and the timing of the mother's return to work could be recorded as May 2004. Using the example of a baby born in March and a mother returning to work in May of the same year, the estimated length of post birth leave will be two months (or 61 days). Yet the actual length of leave could differ by up to 30 days from this estimate:

- if a child was born on March 31 and a mother returned to work on May 1, the actual length of post birth leave would be 31 days. In effect, the calculated length of leave could overstate the actual leave by a month
- similarly, if a child was born on March 1 and a mother returned to work on May 31, the actual length of post birth leave would be 91 days. As such, the length of leave could understate the actual leave by a month.

Because of the imprecision of recording dates in the LSAC database, it is only possible to say with confidence that a mother initially took less than 26 weeks of leave if she were recorded as taking less than 21.5 weeks of leave. To be confident that a mother actually took at least 26 weeks of leave initially, she would need to be recorded as taking more than 30.5 weeks of leave.

⁵ Only the month that events occur in is recorded in the LSAC database.

Imprecision in the estimate of additional leave

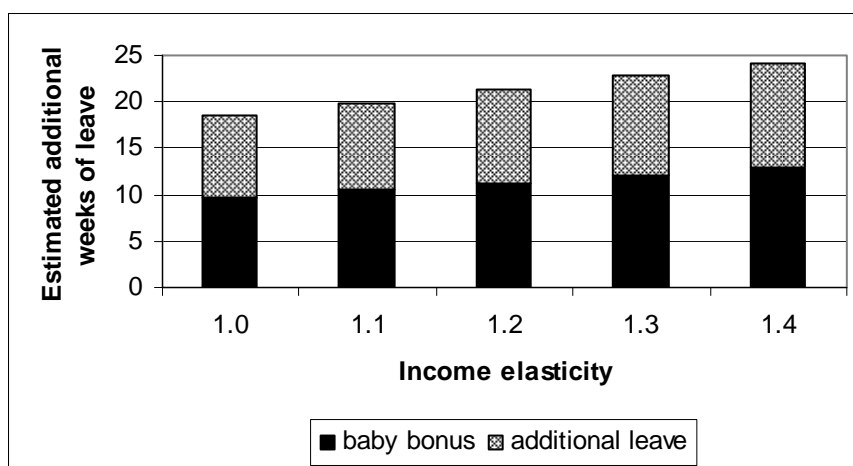
Two methods have been used to estimate the additional leave — the ‘income’ effect and the ‘price’ effect. Calculations based on the ‘income’ effect will be particularly susceptible to imprecision. Part of that imprecision will arise because of the problems with the leave data in the LSAC database and some will arise because of uncertainty over the chosen income elasticity.

The ‘income’ effect methodology has been used to estimate the effects of the baby bonus and statutory paid parental leave on additional leave. The ‘income’ effect calculates an amount of additional leave as a proportion of the original leave.

- For example, if a family were estimated to increase their initial leave by 50 per cent and their recorded length of initial leave was eight weeks, then the estimated additional leave would be four weeks.
- However, if the actual length of initial leave was ten weeks, the additional leave should be five weeks.

Inconsistency can also arise due to the choice of income elasticity. For this study, we have used an average income elasticity of 1.16, but different assumptions would obviously alter the estimated outcomes. From figure G.1 it can be seen that a change in the income elasticity by 0.2 could alter the estimated leave differences by around three weeks. This difference would appear to be evenly split between the estimated additional leave because of the baby bonus and the additional leave because of the proposed 18 week parental leave payment.

Figure G.1 **Sensitivity of additional leave to changes in income elasticity**
estimated weeks of additional leave with different income elasticities



Data source: Productivity Commission calculations.

For mothers initially taking fewer than 26 weeks of leave, the additional leave from the 18 week paid parental leave scheme is largely determined by the ‘price’ effect measure. In fact, approximately 5.7 weeks of the average 6.1 weeks of additional leave is due to the ‘price’ effect. The additional imprecision in the estimated length of leave for this group will be small

- this group will still be affected by the imprecision of the ‘price’ effect in relation to the baby bonus induced additional leave — likely to be in the order of a week
- there will also be some impact from uncertainty over the price elasticity of demand — but estimates using a wide range of price elasticities changed the average leave for this group by less than a week
- analysis of the additional leave arising from the introduction of the baby bonus indicates that the estimated increase in leave related to that payment may be underestimated — at least for mothers taking short initial lengths of leave.

The combined impact of this imprecision

A key objective for the proposed paid parental leave scheme is to encourage parents to take additional leave around the birth or adoption of a child. In particular, there are substantial health and welfare benefits that flow from a child having at least six months of full time parental care. As such, there is likely to be detailed focus on the proportion of parents taking at least 6 months (or 26 weeks) off work.

When combined, the three sources of imprecision dealt with above could result in any observation being as much as six or eight weeks from the true length of leave. Fortunately, the level of imprecision is likely to be less for mothers taking shorter initial lengths of leave — with the largest errors being closer to five weeks. But even that level of imprecision is very significant when compared to the key measure of mothers taking at least 26 weeks of leave. While some of this imprecision should be averaged out when examining aggregate level data, the estimates should be considered broad indicators rather than precise estimates.

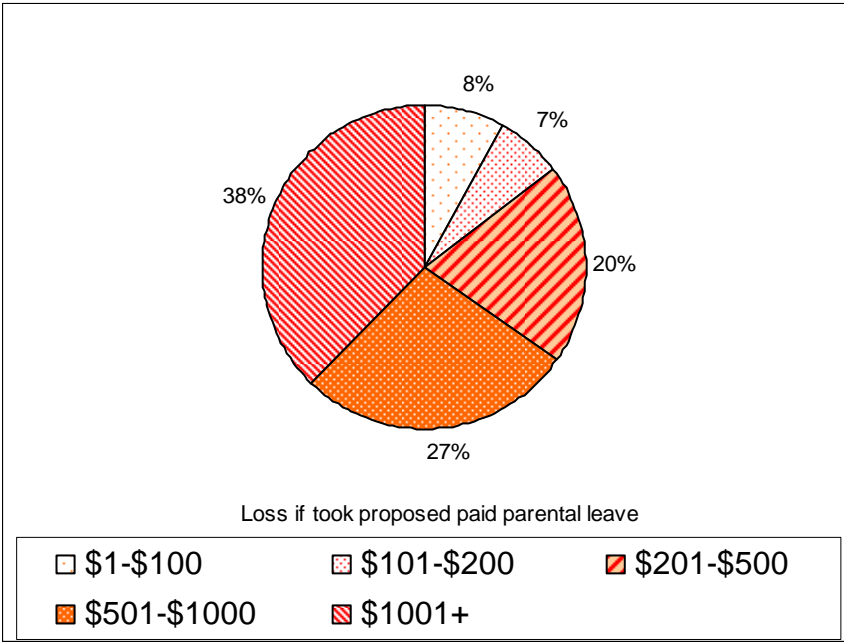
The imprecision in the length of leave data from LSAC results in further estimation errors. For example, as the average family would need to receive at least 14 weeks of parental leave payments to obtain a benefit from the proposed scheme, imprecision in the length of leave data will result in some families incorrectly being assumed to opt into or out of the scheme.

To examine the potential impact of this imprecision on the opt out rate, figure G.2 examines the financial impact of the proposed scheme on those families where the mother takes less than 26 weeks of leave and where the families are estimated not to benefit from the scheme — this group account for just 6 per cent of the ‘eligible’

sample. This analysis is artificial because families who do not benefit from the scheme can opt out and be no worse off. However, this analysis lets us assess the proportion of people who may incorrectly be projected to opt out of the scheme.

If families are projected to make small losses from opting into the proposed 18 week parental leave payment, imprecision in the estimated length of leave increases the likelihood that these families have been incorrectly projected to not benefit from the scheme. Around a quarter of families where the mother initially took less than 26 weeks leave are estimated not to benefit from the scheme. Of these families, 15 per cent were estimated to lose less than \$200 (figure G.2). If these families had their initial length of leave underestimated by as little as two weeks, it is likely that they would benefit from the scheme. As such, it is quite possible that the opt out rate will be smaller than the estimated 14 per cent of eligible families.

Figure G.2 **Estimated scale of potential loss for families not benefiting^a**
 Families with mothers initially taking 26 weeks of leave who are estimated to have a negative benefit from the proposed 18 week parental leave payment



^a This is only a 'potential loss' because families can opt out of the scheme. Families in this group comprise just 6 per cent of the mothers assessed to be eligible for the proposed scheme.

Data source: Productivity Commission calculations.

G.3 **Estimated benefits of the scheme**

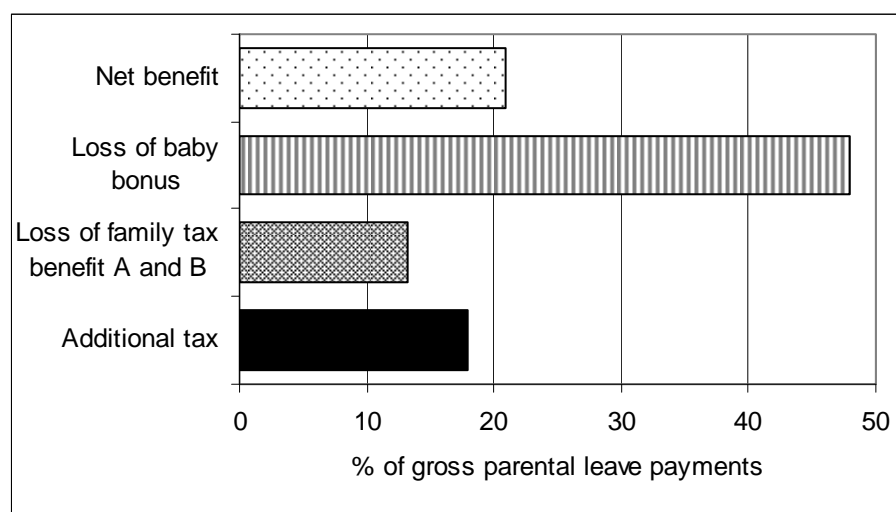
Based on the analysis of LSAC data, 86 per cent of eligible families are projected to benefit if the proposed 18 week parental leave payment were introduced. The

estimated average benefit for these families would be approximately \$2050. That average benefit is just over 20 per cent of the gross proposed parental leave payment (figure G.3). When this benefit is averaged over all eligible families — including the 14 per cent projected to receive no benefit — the average benefit would be \$1750.

Figure G.3 outlines what would be expected to happen to the nearly \$10 000 in parental leave payments received by families. On average, the loss of baby bonus would account for half the gross payment. Another 18 per cent of the gross payments would be paid in additional tax. Families would also be eligible for less family tax benefit A and B — the loss of these benefits would be approximately equal to 13 per cent of the gross payment.

Based on the proposed scheme, 86 per cent of families would be projected to benefit from the scheme. The vast majority of these families would be expected to receive a full 18 weeks of paid parental leave payments. But a small number of families, primarily those who would be ineligible for the baby bonus, are projected to opt into the proposed paid parental leave scheme, but not to take the full 18 weeks of leave.

Figure G.3 What would happen to the parental leave payment



Data source: Productivity Commission calculations.

Does paid parental leave encourage bunching of births around the start of the financial year?

The expected behavioural change projected in this appendix stem from the expected financial impacts of a statutory paid parental leave scheme on families. Part of those benefits flow from the complex interaction between the tax and welfare system,

whose effects vary with the timing of the birth of the child. Peter Apps in his article ‘Maternity Leave mish-mash’ (see sub. DR369) suggests that the introduction of a taxable paid maternity leave scheme would influence the timing of new births. He argues that entitlement to an additional taxable payment creates an additional incentive to alter the timing of births so that they occur at the start of a financial year.

Given this concern, we assessed the scope for families to time the birth of their children to maximise tax and welfare gains. To calculate the potential incentives to have births at different times during the financial year, we have analysed the tax implications of births spaced at three month intervals across the financial year. The results suggest that in some situations tax is minimised when the birth occurs at the start of the financial year, but in other circumstances tax is minimised when births occur towards the middle of the financial year. While we did not find systematic evidence of financial benefits for families having children at the start of the financial year, we found evidence of benefits from choosing other birth times for some families.

To assess the potential for birth timing effects, we explored various scenarios. For these scenarios, we assumed an annual full time wage of \$50 000 for mothers, that mothers work full time before the birth but return at half-time hours after the birth, and that mothers take six months of maternity leave. In addition, the impacts of both wholly paid leave and wholly unpaid leave were calculated (see table G.1 and figure G.4).

Table G.1 Income received and tax paid over two years with six months of maternity leave

	<i>Income</i>	<i>Tax^a</i>	<i>Net income</i>	<i>Percentage tax</i>
Unpaid leave				
Birth at 0 months	62 500	8375	54 125	13.4
Birth at 3 months	43 750	1713	42 037	3.9
Birth at 6 months	50 000	2900	47 100	5.8
Birth at 9 months	56 250	4613	51 637	8.2
Paid leave				
Birth at 0 months	62 500	13 850	48 650	22.2
Birth at 3 months	43 750	11 850	31 900	27.1
Birth at 6 months	50 000	12 788	37 212	25.6
Birth at 9 months	56 250	14 250	42 000	25.3

^a Includes income tax and the low income tax offset.

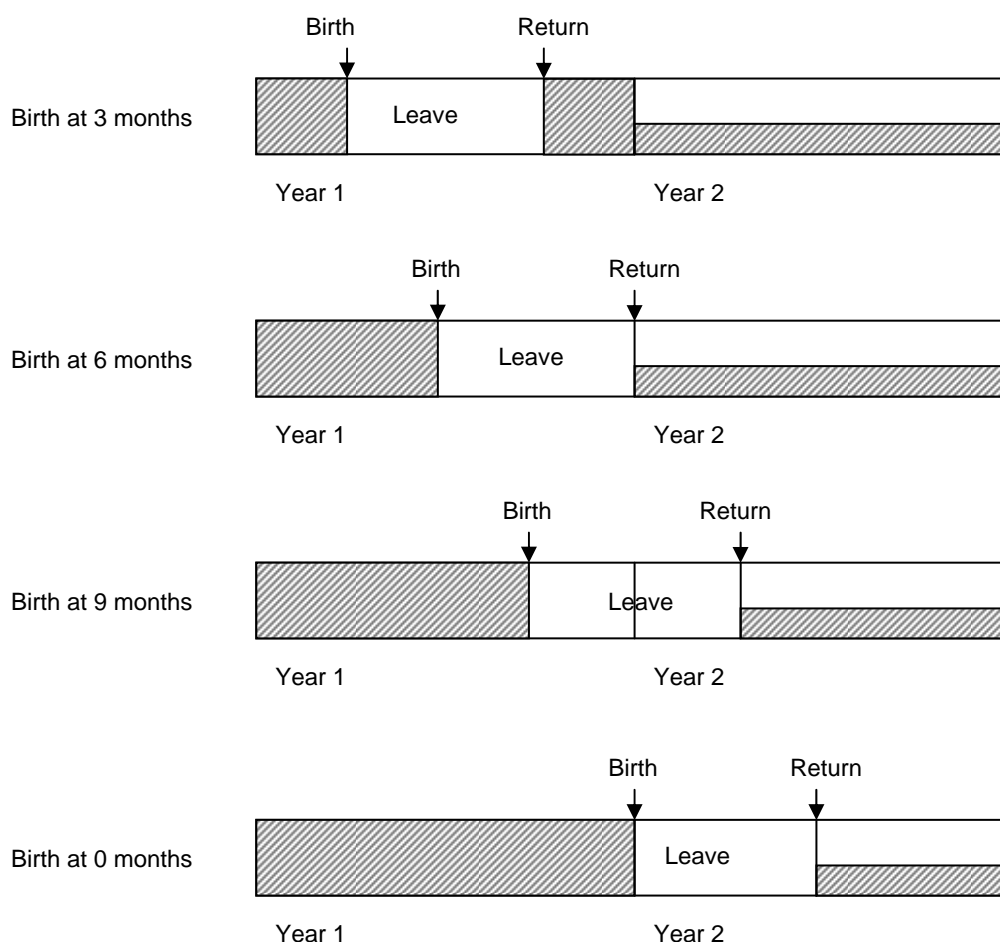
Source: Productivity Commission calculations.

The results suggest that the more unpaid leave there is, the greater the potential incentive to have births towards the middle of the financial year rather than at the very beginning of the financial year. That is, in theory there could be incentives to either bring forward or delay births.

However, the apparent incentives to move births to the middle of a financial year to minimise tax may not be very strong. For example:

- reproductive decisions are unlikely to be made in such a calculating way
- there is a great deal of uncertainty in the timing of a birth, even once a decision to have a baby is made
- other factors, such as having reached a sufficient level of income or having accumulated enough savings or leave, are more likely to be important in the decision-making process
- having paid leave lessens the amount of tax reductions that can be gained by having a child in the middle, rather than at the start, of a financial year
- starting maternity leave in the middle, rather than at the start of a financial year also usually minimises the amount of family tax benefit lost
- bringing forward having a baby requires foregoing a large portion of a year's income
- pushing back having a baby may also push back a mother's return to full-time work — delaying future earnings
- children bring benefits that will be discounted by any decision to delay having a child
- there are many parents who wish to have children as soon as possible, especially those who have partnered later in life.

Figure G.4 Taking leave at different times during the financial year



Nevertheless, there is scope, using existing data, to test whether birth timing is influenced by the desire to minimise tax. Were strong incentives to exist to have births at particular times during the financial year then we would not have to wait for the introduction of statutory paid parental leave scheme to observe them — they should be affecting the timing of births right now. This is because existing tax structures already provide some degree of financial incentive to alter the timing of the date of birth.

Moreover, there are other financial benefits generated by having a baby, such as privately provided paid maternity leave. For example, mothers who already have access to paid parental leave should be subject to the same financial incentives that Apps anticipates that future recipients of the proposed statutory paid parental leave scheme will experience. This means that we can look at the current data to see if we can observe such effects.

Statistical tests of the timing of births

The Commission undertook a set of statistical tests based on mothers surveyed in the LSAC wave 1.5 parental leave mail-out survey to determine whether tax structures caused birth timing for a number of comparable groups. These groups include:

- mothers in paid employment versus mothers not in paid employment
- mothers in paid employment, who have access to private paid maternity leave, versus mothers not paid employment
- mothers in paid employment, who have access to private paid maternity leave, versus mothers in paid employment who do not have access to private paid maternity leave.

There was no evidence of a difference between the distribution of births over the year of mothers in paid employment and those not in paid employment, despite the very different rate of taxation that would be applied to women in these two groups. The same was true when comparing mothers in employment with and without paid parental leave, and when comparing mothers in employment with paid parental leave to those not in employment.

In conclusion, analysis of the LSAC data base revealed no evidence that mothers respond to incentives to minimise taxation or maximise family payments by arranging births to occur at particular times of the year.

Minimising risk of families making the wrong choice

The analysis above tests the hypothesis that some families will attempt to alter the timing of their child's birth to maximise the financial incentives available to them. However, the technical details of the tax and welfare system would make it difficult for most families to distinguish between choices that would be to their financial benefit or detriment.

The addition of the proposed paid parental leave scheme would further complicate the existing interactions between the tax and welfare system. Because of the means-testing of existing welfare arrangements it would be possible for families to be worse off by incorrectly opting into (or out of) the proposed scheme. As such, families may require assistance to determine their optimal strategy — either to opt into or out of the parental leave scheme.

How people are deemed to be eligible

To estimate the additional leave that families could take if the Australian Government introduces the proposed paid parental leave scheme, household level data from the LSAC database has been used to develop an ‘eligible’ sample that closely represents families that would be eligible for the scheme (box G.1).

Box G.1 Identifying the ‘eligible’ sample

To be eligible for the proposed scheme, mothers would have to meet an hours test and an employment tenure test (appendix E).

All families in the LSAC database who clearly meet the eligibility criteria have been included in the ‘eligible’ sample for detailed analysis. However, the LSAC database does not provide sufficient information in all circumstances to identify whether families would meet the proposed eligibility criteria or not.

- The LSAC database indicates what range of hours people worked per week in the year before birth. As one of the ranges is people working less than 10 hours a week, it is not possible to identify who in this group would have worked at least 330 hours during the qualifying period.
 - Only people indicating that they worked 10 hours or more a week were included in our ‘eligible’ sample.
- For employees, the LSAC questionnaire differentiates people who have been employed for at least 12 months (either with the same employer or with different employers) and people who have less than 12 months attachment to the labour force.
 - Only employees who had been working for at least 12 months were included in our ‘eligible’ sample.

For self-employed people, no employment tenure question was included in the LSAC questionnaire. To be included in the ‘eligible’ sample, self-employed people were not subject to a workforce tenure test.

Because of the uneven application of the employment tenure test, self-employed people are likely to be over represented in the ‘eligible’ sample.

Families were also excluded from the ‘eligible’ sample if they did not provide information on the income they earned or if there were inconsistent responses about the amount of leave they took. After these adjustments have been made, the ‘eligible’ sample comprises information on 1716 families. All analysis using the eligible sample has been weighted according to the sample weight (the ‘aweight’ variable) from the LSAC database.

G.4 How much additional leave will be taken by partners

While an eligible partner of either sex can take the proposed paternity leave, most eligible partners will be men. The high level of labour force attachment of Australian men suggests that most fathers will be eligible for the proposed paid paternity leave (appendix E).

Significant proportions of men already take some leave around the birth or adoption of a child (table G.2). Around 26 per cent of fathers already take some unpaid leave, and would be expected to use at least part of the proposed paternity leave provisions. Fathers who earn the minimum wage or less (around 12 per cent of fathers eligible for the proposed scheme) would also benefit financially from taking the proposed paternity leave. After accounting for the overlap between these two groups, they make up 33 per cent of eligible fathers. The financial incentive may also encourage some men to increase the amount of leave they take. In general, financially constrained fathers who have lower non-pecuniary costs associated with leave from the workplace are the most likely to respond to the provision of paternity leave. For example, the self-employed, casuals or those who work on short term contracts may have the flexibility to extend their leave in the presence of financial support.

It is also possible that the widespread provision of paternity leave will normalise leave-taking by men around the birth of a child and, accordingly, increase the amount of paternity leave taken. It is hard to predict the magnitude of the effect.

Given some fathers using leave will actually use less than their full entitlement of two weeks, we have used a 25 per cent ‘weighted’ take-up rate in our costing of the scheme — appendix B.

Table G.2 Fathers who worked at least ten hours while partner was pregnant

As a share of total fathers^a

<i>Father's income</i>	<i>Not applicable</i>	<i>Paid leave only</i>	<i>Unpaid leave only</i>	<i>Paid and unpaid leave</i>	<i>Took leave (not further defined)</i>
	(%)	(%)	(%)	(%)	(%)
\$1500 plus	3.9	12.2	4.1	0.5	0.5
\$1000 to \$1499	3.5	16.6	3.5	1.2	0.2
\$800 to \$999	3.3	10.4	3.3	1.5	0.2
\$650 to \$799	2.6	7.5	4.1	0.5	0.3
\$550 to \$649	2.4	3.0	1.9	0.3	0.2
\$450 to \$549	1.4	0.7	1.8	0.1	0.0
\$300 to \$449	1.3	0.8	1.6		
less than \$300	2.4	0.8	1.3		

^a A blank cell indicates no observations were present for that cross tabulation.

Source: ABS Pregnancy and Employment Transitions confidentialised unit record file.

H Breastfeeding — evidence of health benefits

Key points

- Despite the volume of research on the health benefits for infants, children and mothers, evidence of a causal relationship between breastfeeding and health benefits has been difficult to obtain as most studies are observational. Results from the Promotion of Breastfeeding Intervention Trial, a large cluster-randomised controlled trial in the Republic of Belarus, have more recently strengthened the evidence base.
- Breastfeeding is considered the optimal form of infant feeding and a key determinant of infant health.
- Based on the evidence available, international and Australian guidelines outlining optimal breastfeeding practices now recommend exclusive breastfeeding for six months.
- The evidence suggests that breastfeeding reduces the incidence and severity of a number of infectious diseases in infants (including gastrointestinal illnesses, respiratory tract infections and middle ear infections). More exclusive and longer periods of breastfeeding are also associated with lower rates of infant illnesses.
- *Possible* protective effects from breastfeeding have been found against sudden infant death syndrome in the first year of life, the incidence of insulin-dependent (type 1) diabetes, and some childhood cancers (but more research is required).
- And, there is increasing evidence that breastfeeding may have longer term effects including the reduced incidence of high cholesterol, blood pressure, obesity and diabetes in later life and better cognitive development. Results from the Belarus trial also provide evidence of better cognitive development from more prolonged and exclusive breastfeeding.
- For mothers, the evidence suggests that benefits include — promotion of maternal recovery, reduced risks of breast cancer and ovarian cancer and possible reduced risk of post-menopausal hip fractures.
- The evidence suggests that interventions to promote and support breastfeeding (including education, professional and peer support, professional training and hospital practices), can improve breastfeeding initiation and duration.

This appendix looks at some of the evidence on the health benefits to infants, children and mothers from breastfeeding and the evidence on the effectiveness of interventions to promote and support breastfeeding.

H.1 Assessing the evidence

The biomedical literature on breastfeeding is voluminous and the claimed health benefits for infants, children and mothers extensive.

But, despite the volume of research, evidence of a causal relationship between breastfeeding and health benefits has been difficult to obtain. This is largely because almost all the studies on potential health benefits of breastfeeding are observational.¹ Observational studies have well-recognised sources of potential bias (including selection bias, confounding variables and reverse causality), which puts questions around the credibility of inferences. As Kramer et al. said:

Current evidence that breastfeeding is beneficial for infant and child health is based exclusively on observational studies. Potential sources of bias in such studies have led to doubts about the magnitude of these health benefits in industrialised countries. (Kramer et al. 2001, p. 413)

Baker and Milligan also commented that:

... it is possible that unobservable characteristics drive both the health outcomes and the decision of when and how long to breastfeed.

This concern over causality is not pedantic. Two recent studies that more carefully address the question of causality find some results from the literature survive a more rigorous test while others do not. (Baker and Milligan 2008b, p.873)

The strongest evidence comes from randomised trials — studies that randomly assign one group (the treatment group) to receive an intervention and another (the control group) to not receive it and measure the effect of the intervention by comparing the change in outcome between the two groups (table H.1). But, it is difficult to undertake randomised trials to test breastfeeding benefits, largely because it is unethical to assign infants breast milk or formula.

And, a well-known confounder in breastfeeding research is differences between those mothers who breastfeed and those that don't (for example, mothers who breastfeed tend to be older and better educated). Also, infants that become very ill are often switched to alternative methods of feeding. While it is possible to control

¹ An observational study draws inferences about the effect of a treatment on subjects, where the assignment of subjects into a treated group versus a control group is outside the control of the researcher.

for some of these factors, as Ip et al. (2007, p. 12) said ‘it is not always possible to control for behavioural or attitudinal factors intrinsic in the desire to breastfeed’. Similarly, Leon-Cava et al. said:

Although there are many variants of [these] basic observational designs, all are flawed by the mother’s simple act of choosing an infant feeding method. As long as the feeding method is not randomly assigned, like placebos and real medicine in clinical trials, there is a good chance that other characteristics of the mother (such as her education or income) or of the infant (such as pre-existing illness) are associated with the chosen method of infant feeding or may have actually caused it. Then it becomes difficult to know what is responsible for the association between breastfeeding and the outcome of interest. (Leon-Cava et al. 2002, p. 2)

Table H.1 Levels of evidence

<i>Level of evidence</i>	<i>Study design</i>
I	Evidence obtained from a systematic review of all relevant randomised controlled trials
II	Evidence obtained from at least one properly-designed randomised controlled trial
III -1	Evidence obtained from well-designed pseudo-randomised controlled trials (alternate allocation or some other method)
III-2	Evidence obtained from comparative studies (including systematic reviews of such studies) with concurrent controls and allocation not randomised, cohort studies, case-control studies, or interrupted time series with a control group
III-3	Evidence obtained from comparative studies with historical control, two or more single arm studies, or interrupted time series without a parallel control group
IV	Evidence obtained from case series, either post-test or pre-test/post-test

Source: NHMRC 2000.

That said, consistent evidence from well designed observational case-control and cohort studies have contributed to the evidence base. The evidence is also built by pooling the results from several studies (applying stringent methodological criteria), where possible from different populations, either through systematic reviews or meta-analyses (see, for example, Kramer and Kakuma 2002, Leon-Cava et al. 2002, Heinig 2001, Oddy 2001, Bick 1999, Heinig and Dewey 1996, Horta et al. 2007, Ip et al. 2007). Recent sibling analysis (which provides a method of controlling for hereditary and household factors) has also added to the evidence base (Der et al. 2006).

Leon-Cava et al., while acknowledging the flaws of observational studies, argued that the evidence in sum is convincing:

... no single study is as conclusive as a randomized controlled trial could be. However, as the epidemiological evidence favouring breastfeeding is generally derived from

multiple studies in a variety of situations, the evidence is in sum, convincing. (Leon-Cava et al. 2002, p. 3)

In addition, a dose-response relationship between breastfeeding and health outcomes (that is, an indication that the benefits of breastfeeding are a function of the duration and exclusiveness of breastfeeding) is frequently identified in the studies providing further support to the evidence base.

While it is not ethical to randomly assign whether an infant is breastfed or formula fed, it is considered ethical to promote the duration and exclusivity of breastfeeding among mothers who have already decided to initiate breastfeeding. This is the strategy used in the Promotion of Breastfeeding Intervention Trial (or PROBIT), a large cluster-randomised controlled trial in the Republic of Belarus. Maternal hospitals and their corresponding clinics were randomly assigned to implement or not to implement the Baby-Friendly Hospital Initiative (in the intervention group, duration and exclusivity of breastfeeding were higher). Results from this trial of breastfeeding promotion and outcomes (covering more than 17 000 mother and baby pairs), have significantly improved the evidence base (Kramer et al. 2001, Kramer et al. 2007, Kramer et al. 2008). Follow-up of these children should also provide further opportunities to study the long-term effects of breastfeeding (Horta et al. 2007).

H.2 Health benefits for infants and children

Breastfeeding is considered the optimal form of infant feeding and a key determinant of infant health. The American Academy of Pediatrics (AAP) state that:

Human milk is species-specific, and all substitute feeding preparations differ markedly, making human milk uniquely superior for infant feeding. (AAP 2005, p. 496)

Australia's National Health and Medical Research Council also state that:

It is now clear that the composition of breastmilk is uniquely suited to the neonate, at a time when growth and development are occurring at very high rates yet when many of the infant's systems — such as digestive, hepatic, neural, renal, vascular and immune systems — are functionally immature. Many of the nutrients contained in breastmilk are in readily absorbed and bioavailable forms.

Breastmilk is not only a high-quality food; it also contains many components — ... that facilitate optimal function of the infant's immature systems. The living cells found in breastmilk are also important functionally.

Furthermore, the young of various mammals are born at very different stages of maturity, and it is not easy to modify the milk of one species so that it optimises the metabolism of the young of another species. (NHMRC 2003, pp. 317-8)

Evidence of early benefits for infants from breastfeeding

A range of studies find protective health effects for breastfed infants when compared with formula-fed infants (AAP 2005, Heinig and Dewey 1996, Bick 1999, Leon-Cava et al. 2002, Ip et al. 2007 — see box H.1). Summarising the evidence on the benefits of breastfeeding, Leon-Cava et al. said:

The greatest and most obvious benefits of breastfeeding are for the immediate health and survival of the infant. Rates of diarrhea, respiratory tract infections, otitis media, and other infections, as well as deaths due to these diseases, are all lower in breastfed than in non-breastfed infants. ...

These benefits, resulting from stronger immunity and reduced exposure to infectious agents, are greatest in younger infants and where hygiene and sanitation are poor. However, the research described here also suggests that these health and survival benefits extend beyond infancy and to well-off Western populations. (Leon-Cava et al. 2002, p. 3)

A review of the epidemiological evidence among developed countries undertaken by the American Academy of Pediatrics also reported that there was strong evidence that breastfeeding decreases the incidence and/or severity of — gastroenteritis, diarrhoea, respiratory tract infection and otitis media (ear infection), necrotizing enterocolitis, urinary tract infection, bacterial meningitis, bacteraemia, and last-onset sepsis in preterm infants (AAP 2005).

More recently, a summary of the literature conducted through the Evidence-Based Practice Centre program at the Agency for Health Research and Quality (screening over 9 000 abstracts) concluded that a history of breastfeeding was associated with a reduction in the risk of non-specific gastroenteritis, severe lower respiratory infections, acute otitis media and necrotizing enterocolitis, but that a relationship between breastfeeding and infant mortality in developed countries was unclear (Ip et al. 2007).

The biological plausibility of protection against infectious diseases relates to the immunological and antibacterial properties of human milk. Commenting on the specific immune factors of human milk, the National Health and Medical Research Council's Infant Feeding Guidelines for Health Workers said:

Immunoglobulin A (IgA) is the most abundant antibody in breastmilk. It is manufactured in and excreted by the breast in response to specific bacteria and viruses to which the mother is exposed. This provides protection against pathogens the infant is most likely to encounter in his or her local environment. IgG and IgM antibodies offer further protection against specific pathogens. (NHMRC 2003, pp. 319–320)

Breastfeeding also eliminates exposure to pathogens that could be introduced through the preparation and delivery of formula feeding (Allen and Hector 2005).

Box H.1 **Some evidence on breastfeeding and infant illnesses**

Gastroenteritis and diarrhoea — Many studies find an association between breastfeeding and protection against diarrhoeal illnesses (Heinig and Dewey 1996, Heinig 2001, Leon-Cava et al. 2002, Ip et al. 2007). For example:

- Dewey et al. (1995) found the incidence of diarrhoeal illness among formula fed infants to be almost twice that of breastfed infants during the first year of life.
- US longitudinal analysis of 2615 mother-infant pairs (infants aged 2–7 months) found that infants fed only formula (compared with exclusively breastfed infants) had an 80 per cent increase in the risk of developing diarrhoea (Scariati et al. 1997).
- Experimental interventions conducted as part of PROBIT (largest randomised trial), found a 40 per cent reduction in the risk of gastrointestinal tract infection in infants exclusively breastfed to six months compared to those exclusively breastfed for three months and partially breastfed to six months (Kramer et al. 2001).

Respiratory illness — Heinig's (2001) review found half (four out of eight) of the studies showed a protective effect against respiratory illness from breastfeeding. Also:

- Chantry et al. (2002) found infants breastfed for six months to have a significantly lower risk of respiratory infections (first two years) compared with babies fully breastfed for four months. Chantry et al. (2006), also found that infants exclusively breastfed for four months but less than six months were four times more likely to suffer from pneumonia than those breastfed for six months or longer. Similarly, Bachrach's (2003) meta-analysis of seven studies reported a 72 per cent reduction in the risk of hospitalisation due to lower respiratory tract diseases in infants less than one year of age who were exclusively breastfed for four months or more.
- However, results from PROBIT found no significant reduction in respiratory tract infection from longer and more exclusive breastfeeding (Kramer et al. 2001).

Otitis media (OM) — 'ear infection' — Dewey et al. (1995) found that during the first year of life, the incidence of acute OM was significantly higher among formula-fed infants than breastfed infants (0.53 versus 0.45), as was the number of episodes per year (1.78 versus 1.53). Scariati et al. (1997) found breastfeeding to be protective against OM in a dose-response manner. And both Duncan et al. (1993) and Duffy et al. (1997) found a two fold increase in the incidence of OM in formula-fed infants compared to exclusively breastfed infants (four and six months respectively).

Urinary tract infection — Both Pisacane (1992) and Marild (2004) found breastfeeding to provide substantial protection against urinary tract infection.

Necrotising enterocolitis (NEC) — A Cochrane review of eight randomised controlled trials found that in preterm and low birth weight infants, feeding with formula (compared with donor breast milk) increased short-term growth rates but was also associated with a higher risk of developing necrotising enterocolitis (Quigley et al. 2007).

Sources: Heinig & Dewey (1996), Heinig (2001), Leon-Cava et al. (2002), Ip et al. 2007, Dewey et al. (1995), Scariati et al. (1997), Kramer et al. (2001), Chantry et al. (2002), Chantry et al. (2006), Duncan et al. (1993), Duffy et al. (1997), Pisacane (1992), Marild (2004) Hector et. al. 2004b, Quigley et al. (2007).

Evidence of a dose-response relationship

The evidence also points to a dose and duration response relationship between breastfeeding and some infant illness. Raisler et al. (1999) looking at the association between breast-feeding dose and illnesses in the first six months of life (covering 7092 infants from the US National Maternal and Infant Health Survey) found that full breastfeeding was associated with the lowest illness rates, while minimal breastfeeding was not protective. Compared with no breastfeeding, full breast-fed infants had lower odds ratios of diarrhoea, cough or wheeze and vomiting and lower mean ratios of illness months and sick baby medical visits. Breastfeeding was found to confer health benefits on infants from all socio-economic groups.

Experimental interventions conducted as part of the PROBIT study (a promotion program based on the WHO-UNICEF Baby Friendly Hospital initiative where the infants from the intervention group were much more likely to be breastfed at twelve months and exclusively breastfeed at three and six months) found a significant reduction in the risk of gastrointestinal tract infection (40 per cent) and atopic eczema (46 per cent) in the intervention group. No significant reductions, however, were found in respiratory tract infections (Kramer et al. 2001).

In 2000, a World Health Organization (WHO) commissioned Cochrane Systematic Review of the scientific literature on the optimal duration of exclusive breastfeeding concluded that:

Infants who are exclusively breastfed for six months experience less morbidity from gastrointestinal infection than those who are mixed breastfed as of three or four months, and no deficits have been demonstrated in growth among infants from either developing or developed countries who are exclusively breastfed for six months or longer. ... the available evidence demonstrates no apparent risk in recommending as a general policy, exclusive breastfeeding for the first six months of life in both developing and developed-country settings. (Kramer and Kakuma 2002, p. 2)

The review led to the WHO revising its recommendation of exclusive breastfeeding from four to six months.

More recently, Chantry et al. found that infants exclusively breastfed for more than four months but less than six months were four times more likely to suffer from pneumonia and twice as likely to suffer recurrent ear infections than those breastfed for six months or longer (protection was found independent of factors known to be associated with respiratory illness, including age, smoke exposure, day care, race/ethnicity, family size, education, and socioeconomic status). The authors concluded that:

Our findings add to growing evidence that breastfeeding benefits are dose-and-duration responsive and support current recommendations that infants receive only breast milk during the first 6 months of life. (Chantry et al. 2006, p. 431)

Based on the evidence available, international and Australian guidelines outlining optimal breastfeeding practices now recommend exclusive breastfeeding for six months.

Possible protection from other child illnesses

Possible protective effects from breastfeeding have also been found against sudden infant death syndrome (SIDS) in the first year of life, the incidence of insulin-dependent (type 1) diabetes, and some childhood cancers (leukaemia, lymphomas, Hodgkin's disease) (AAP 2005).

- The larger and better studies looking at the protection against sudden infant death syndrome indicate that formula feeding is a risk factor for SIDS (Alm et al. 2002, Ford et al. 1993). A meta-analysis of seven case-control studies found that a history of breastfeeding was associated with a 36 per cent reduction in the risk of sudden infant death syndrome compared to those without a history of breastfeeding (Ip et al. 2007).
- Two meta-analyses (Gerstein 1994, Norris and Scott 1996) of case-control studies suggest that breastfeeding for at least 3 months reduces the risk of childhood type 1 diabetes compared with breastfeeding for less than 3 months. A number of studies published since the meta-analyses report similar results (Visalli et al. 2003, McKinney, et al. 1999). Ip et al. (2007, p. 5) suggest that the results be interpreted with caution because of 'the possibility of recall biases and suboptimal adjustments for potential confounders in the studies'.
- A number of studies show a protective effect of breastfeeding against different childhood cancers (Davis 1998, Kwan et al. 2004, Guise et al. 2005, Ip et al. 2007). A meta-analysis by Kwan et al. 2004 indicated that both short and long term breastfeeding reduced the risk of childhood acute lymphoblastic leukaemia (ALL) and acute myeloblastic leukaemia. A meta-analysis by Ip et al. (2007) found breastfeeding of at least 6 months to be associated with a 19 per cent reduction in the risk of ALL.

There is conflicting evidence for the protective effect of breastfeeding against asthma and other allergies. A number of studies show protective effects of breastfeeding against asthma and atopy (Oddy et al. 1999, Chandra 1997, Mimouni Bloch et al. 2002), and some report increased protection with more exclusive and prolonged breast feeding (Dell and To 2001). Other studies, however, report no reduction in risk or even an increase in risk associated with breastfeeding,

particularly in children with a family history of asthma and allergy (Purvis et al. 2005, Stabell Benn et al. 2004). As Kramer said:

Whether breast feeding protects against the development of allergy and asthma has been frequently studied and hotly debated for more than 70 years. Research findings indicating a beneficial effect have been more consistent for atopic eczema during infancy, but the evidence on asthma and other atopic outcomes (including hay fever, food allergies and positive skin tests) has been far more mixed. (Kramer et al. 2007)

The PROBIT study failed to find evidence of reduced risk of asthma, hay fever or eczema at age 6.5 years, or reduced prevalence of positive skin prick tests, with large increases in the duration and exclusivity of breastfeeding (Kramer et al. 2007).

A recent Canadian study using the National Longitudinal Study of Children and Youth, looked at the impacts of the increase in maternity leave entitlements in Canada and corresponding increases in breastfeeding duration (breastfeeding duration increased by over a month and the proportion of women exclusively breastfeeding for six months increased by 40 per cent) and found no effect on most self-reported indicators of infant health outcomes. While finding some evidence of beneficial impacts on asthma, allergies, chronic conditions and ear infections at ages seven to twelve months, sensitivity testing raised ‘doubts about their robustness, persistence, and relation to breastfeeding/increased maternal care’ (Baker and Milligan 2008b, p. 884).

H.3 Evidence of longer term effects

There is increasing evidence that breastfeeding may have longer term effects on the development and risk of chronic diseases including the reduced incidence of cholesterol, blood pressure, obesity and diabetes in later life (Arenz et al. 2004, Fewtrell 2004, Owen et al. 2002, Martin et al. 2005, Schnack-Nielsen and Michaelsen 2006, Ip et al. 2007, Horta et al. 2007).

And, many (but not all) studies find that children who are breastfed do better on intellectual and motor development tests than those who are not breastfed (Evenhouse and Reilly 2005 compared with Der et al. 2006, also Anderson et al. 1999, Leon-Cava et al. 2002, Kramer et al. 2008). Studies that adjust for maternal intelligence (including sibling analysis) tend to find little or no evidence of an association between breastfeeding in infancy and cognitive performance (Ip et al. 2007).

A recent systematic review conducted by the World Health Organization (Horta et al. 2007), concluded that subjects who were breastfed experienced lower blood pressure and total cholesterol, as well as higher performance in intelligence

tests. The prevalence of overweight/obesity and type 2 diabetes was also found to be lower among breastfed subjects (table H.2).

Ip et al. (2007), while finding an association between being overweight or obese in adolescence and adult life were unable to confidently characterise a relationship between breastfeeding in infancy and the risk of cardiovascular diseases (because of possible biases and limitations in the studies reviewed).

A study by Lawlor et al. (2005) suggested that *exclusive* breastfeeding to six months and longer term reduces systolic blood pressure in older children (based on 2192 randomly selected school children aged 9 to 15 from Estonia and Denmark). The magnitude of the effect was found to be comparable to the published effects of salt restriction and physical activity on blood pressure in adult populations.

New evidence from the PROBIT study also shows that prolonged and exclusive breastfeeding improves children's cognitive development as measured by IQ and teachers' academic ratings at age 6.5 years. Compared with the control group, the intervention group had higher means on all the Wechsler Abbreviated Scales of Intelligence measures. Cluster-adjusted mean differences were +7.5 for verbal IQ, +2.9 for performance IQ and +5.9 for full-scale IQ. Teacher's academic ratings were significantly higher in the experimental group for both reading and writing. The authors concluded that:

Because protection against infections in developed country settings does not have the life-and-death implications for infant and child health that it does in less-developed settings, cognitive benefits may be among the most important advantages for breastfed infants in industrialised societies. (Kramer et al. 2008, p. 583)

What remains unclear, however, is if the cognitive benefits of breastfeeding are due to the makeup of breast milk itself or the social and physical interactions between mother and infant inherent in breastfeeding. The authors suggest that the higher frequency and duration of breastfeeding compared to bottle feeding results in increased verbal interaction between mother and child which might also have a stimulatory effect on cognitive development.

Table H.2 Estimated long-terms effects of breastfeeding, based on five meta-analyses^a

<i>Outcome</i>	<i>Pooled effect size (95% CI)</i>	<i>Conclusion</i>
Blood pressure (mean difference in mm Hg. 95% CI)		The effect of breastfeeding was found to be significant, but smaller than the effects of other interventions such as diet, exercise and modest salt reduction.
- Systolic	-1.21 (-1.71 to -0.70)	Publication bias was found to be unlikely but residual confounding could not be excluded.
- Diastolic	-0.49 (-0.87 to -0.11)	
Total serum cholesterol among adults (mean difference in mmol/L 95% CI)	-0.18 (-0.30 to -0.06)	The effect of breastfeeding was found to be significant and larger than the effects of other interventions such as diet (-0.13) and multiple risk factor (-0.14). No significant effect was observed in children or adolescents.
Overweight or obesity	Odds ratio 0.78 (0.72 to 0.84)	The effect of breastfeeding was found to be significant (22% reduction) while other interventions showed no effect. In spite of evidence of publication bias, a protective effect continued to be observed among larger studies (>1500 participants).
Type 2 diabetes	Odds ratio 0.63 (0.45 to 0.89)	Studies assessing the risk of Type 2 diabetes reported a protective effect and of similar magnitude to the effect of other interventions such as diet and physical activity. Two studies failed to report an association between a measure of insulin resistance and breastfeeding duration and a study on fasting blood glucose levels was also negative. The study concluded that it was not possible to draw firm conclusions about breastfeeding on the risk of Type 2 diabetes and related outcomes.
Intelligence test scores	Mean difference 4.9 points (2.97 to 6.92)	The effect of breastfeeding was found to be significant with a substantial effect size. But the study noted that the practical implications of a relatively small increase in the performance in development tests in childhood may be open to debate. Evidence from three studies on school performance in late adolescence or young adulthood indicated that breastfeeding is positively associated with educational attainment.

^a The authors stress that the table is intended for illustrative purposes only and should be interpreted with caution as it includes a comparison of the effect of actual interventions (without perfect compliance levels) with the gross difference of the effect between breastfed and non-breastfed subjects, which corresponds to an intervention with 100 per cent compliance.

Source: Horta et al. 2007.

Other evidence

Other research suggests an increased risk of developing ulcerative colitis, Crohn's disease and celiac disease in individuals who were formula fed as infants (Davis 2001, sub. 249). And, research based on the Western Australian Pregnancy Cohort Study found breastfeeding to be associated with reduced risk of depression and anxiety in teenagers (Oddy et al. 2007).

There is also some evidence of associations between not breastfeeding and dental occlusion and decreased lung capacity in children (sub. 249, sub. DR391).

H.4 Benefits of breastfeeding for mothers

The literature points to a range of health benefits from breastfeeding for mothers, including:

- the promotion of a mother's recovery from childbirth. Breastfeeding increases levels of oxytocin resulting in accelerated uterine involution and less postpartum bleeding (reduces maternal mortality and preserves maternal haemoglobin stores) through reduced blood loss, leading to improved iron status.
- earlier return to pre-pregnancy body weight and a prolonged period of postpartum infertility (AAP 2005, Chua et al. 1994, Dewey et al. 1993, Kennedy and Visness 1992, Labbock and Colie 1992). A dose-response relationship has also been identified. The pooling of results from two Hondurian trials showed that women from the six-month exclusively breastfeeding group (versus breastfeeding for 3 to 4 months followed by mixed breastfeeding) showed a longer period of postpartum infertility and lost on average 0.42 kg more than the group of women who breastfed exclusively for four months (Kramer and Kakuma 2002). Ip et al. 2007, however, found that results from seven studies consistently showed that many factors other than breastfeeding had larger effects on weight retention or postpartum weight loss.
- reduced risks of pre-menopausal breast cancer with longer periods and more exclusive breastfeeding being more protective. A meta-analysis covering 47 studies (including 50 302 women with breast cancer and 96 973 women without the disease), found that the relative risks of breast cancer decreased by 4.3 per cent for every 12 months of breastfeeding in addition to a decrease of 7 per cent for every birth. The study concluded that:
... the longer women breastfeed the more they are protected against breast cancer. The lack of a short lifetime duration of breastfeeding typical of women in developed countries makes a major contribution to the high incidence of breast cancer in these countries (Beral 2002, p. 187).

-
- possible reduced risk of ovarian cancer. While some studies find a dose-response (for example, Rosenblatt and Thomas 1993), Labbok (2001) in a review of literature concluded that while there was evidence of protective effects of breastfeeding against the occurrence of ovarian cancer, a dose-response relationship was not supported.
 - possible reduced risk of post-menopausal hip fractures and osteoporosis. Some studies show that, although bone mineral density decreases during lactation after weaning, women who have breastfed have a higher bone mineral density (decreasing the risk of post-menopausal hip fracture) than those who have not breastfeed (Cumming et al. 1993). Other studies, however, indicate no relationship (Rea 2004, Labbok 2001). Ip et al. 2007 found little or no evidence from six moderate quality case-control studies for an association between lifetime breastfeeding duration and the risk of fractures due to osteoporosis. Two large cohort studies (Rea 2004, Jacobsson et al. 2003) indicated protective effects for rheumatoid arthritis with some suggestion that there is a dose response effect.
 - decreased maternal depression (Mezzacappa 2004, Ip et al. 2007). Ip et al. 2007 on reviewing six prospective cohort studies found that the studies of moderate quality reported an association between not breastfeeding or short duration of breastfeeding and postpartum depression but note that more research was needed to determine the nature of the association.

Many participants indicated that breastfeeding creates a special bond between mother and baby and offers unique interactions which create a greater sense of security for the child. The National Health and Medical Research Council's Infant Feeding Guidelines for Health Workers states that:

Breastfeeding can be an important factor in the bonding between mother and infant. The interdependence between the breastfeeding mother and infant, the regular close interaction, and the skin-to-skin contact during breastfeeds encourage mutual responsiveness and attachment. (NHMRC 2003, p. 322)

Hart et al. (2003), assessed infants on the Brazelton Neonatal Behavioural Assessment Scale (BNBAS) when they were 8.95 days of age and found that breastfed infants surpassed formula-fed infants on items of orientation, motor, range of state, and state regulation dimensions of the BNBAS. Breast-fed infants were also found to exhibit fewer abnormal reflexes, signs of depression, and withdrawal. Hart et al. suggested that:

In addition to promoting breastfeeding and on the basis of its known benefits to infant health, it can be advanced on the basis of findings that breast-fed infants are more alert and responsive, and thus more likely to facilitate favourable parental attention and the formulation of attachment. (Hart et al. 2003, p. 533)

Fergusson and Woodward (1999) also found that children breastfed for longer tended to perceive their mothers as more caring and less over-protective, while Ainsworth's (1973) research showed that a secure attachment to the mother through breastfeeding enabled children to form attachments to others and to become more independent (compared to a group of bottle-fed infants).

H.5 Support for breastfeeding

Despite the evidence that breastfeeding decreases the risks for a range of diseases, and international and Australian guidelines recommend exclusive breastfeeding for six months and continued breastfeeding for at least 12 months (box 4.5), most Australian mothers exclusively breastfeed for much shorter periods. While the majority of Australian women commence breastfeeding (92 per cent of babies are breastfed at birth), just 14 per cent are exclusively breastfed at six months. The rate of exclusive breastfeeding falls to 71 per cent at one month, declines steadily over the next three months and then falls rapidly after the fourth month — from 46 per cent to 28 per cent at five months.

While Australia's breastfeeding initiation rate meets the National Health and Medical Research Council's target (in excess of 90 per cent), the rate of breastfeeding at six months is well below the Council's target 80 per cent (a goal considered by the Council to be achievable in Australia).

The main reasons given by Australian women for discontinuing breastfeeding include:

- problems in producing adequate milk (30 per cent)
- felt it was time to stop (23 per cent)
- other problems with breastfeeding (10 per cent)
- resuming work (8 per cent) (ABS 2003).

What this suggests is that paid parental leave by itself is likely to be only partly effective in increasing breastfeeding duration with complementary measures also playing an important role in improving the prospects that paid parental leave will encourage mothers to breastfeed for longer.

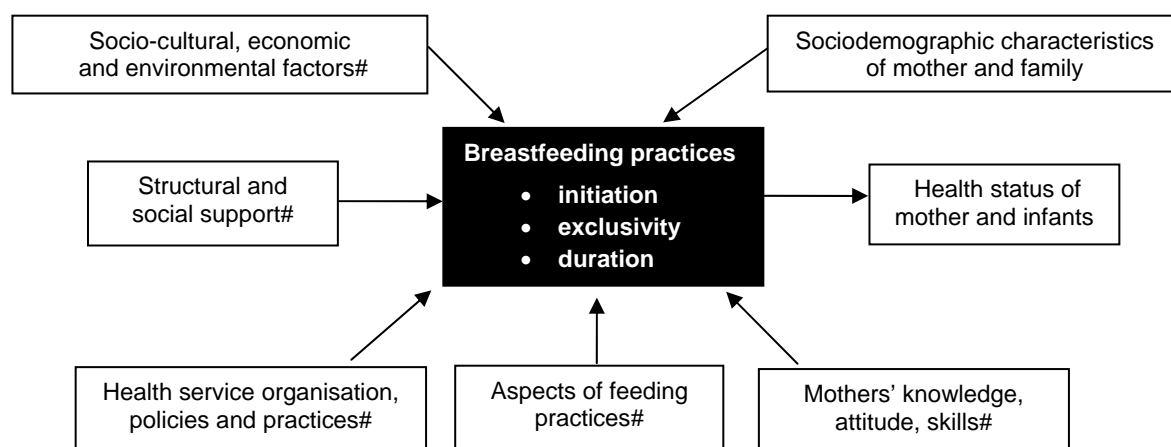
Researchers have identified a range of factors that influence breastfeeding rates. The seven main categories of factors thought to contribute to breastfeeding practice include:

- the socio-demographic characteristics of the mother and family

- structural and social support
- health and risk status of mothers and infants (including birth and neonatal experiences of mothers and infants and health behaviours of mothers)
- mothers' knowledge, attitudes and skills
- aspects of the feeding regime/practices
- health service organisation, policies and practices (including hospital and health facilities)
- socio-cultural, economic and environmental factors (figure H.1).

The importance of linking interventions to contributing factors is highlighted within health planning guidelines, such as the National Public Health Partnership's Planning Framework for Public Health Practice (National Public Health Partnership Secretariat 2000). However, not all factors contributing to breastfeeding practices are amenable to intervention (figure H.1).

Figure H.1 Determinants of breastfeeding



Amenable to intervention.

Source: Hector, King and Webb 2004, p. 5.

Interventions to support breastfeeding include — educational and social support strategies (peer or professional), reorientation of health services (health professional training, organising health services, such as hospital practices, to provide support for breastfeeding), the promotion of supportive environment strategies (such as interventions to support breastfeeding in public places and workplaces), public health policy (such as limiting the promotion and marketing of infant formula) and community action and advocacy strategies (Hector, King and Webb 2004).

What's the evidence about the effectiveness of interventions?

There are a number of published reviews of interventions to promote breastfeeding initiation and duration, including several Cochrane Reviews, reviews by the US Preventative Services Task Force, the World Health Organization and NSW Health (Dyson et al. 2005, Britton et al. 2007, Chung et al. 2007, Fairbank et al. 2000, Oliveira et al. 2001, WHO 1998, Hector, King and Webb 2004).

The systematic reviews and meta-analyses of interventions to promote and support breastfeeding indicate that:

- breastfeeding interventions are more effective than routine care in increasing short and long term breastfeeding rates
- a variety of educational formats are effective in improving rates of initiation and short-term duration of breastfeeding (although not all studies find education to be effective), with one-to-one education and/or small group programs appearing most effective. The isolated use of written materials is consistently shown to be ineffective and may be detrimental
- both peer and professional support strategies appear effective in increasing duration and exclusivity of breastfeeding. These forms of support appear to be particularly effective in areas where initiation and continuation of breastfeeding is not high
- strategies that depend mainly on face-to-face support are more effective than those that rely primarily on telephone contact and the effectiveness of support is enhanced by home visits
- postnatal support by a health professional and/or trained peer counsellors (including one or more of the following — early intervention services, parenting groups, face-to-face contacts and home visits) appear effective in promoting the duration of breastfeeding between four and six months
- health service policy and professional training can be important in enabling the consistent and integrated adoption and implementation of recommended practices (including the Baby Friendly Hospital Initiative and the WHO's Ten steps to successful breastfeeding). A Cochrane review indicated that exclusive breastfeeding was prolonged when care was provided by health professionals who had undertaken WHO/UNICEF training courses
- combining prenatal and postnatal interventions and inclusion of lay support in a multicomponent intervention may be beneficial

There is also some evidence that early skin-to-skin contact between baby and mother, rooming-in babies and avoiding inclusion of infant formula or material marketing infant formula in commercial hospital discharge packs, can be effective

in improving breastfeeding initiation and short-term duration (Moore, Anderson and Bergman 2007, Rosenberg, et al. 2008, WHO 1998).

While the systematic reviews provide some insights into the effectiveness of interventions to promote breastfeeding, there are also limitations to the conclusions that can be drawn from the reviews because:

- they rely on statistically measurable outcome variables while interventions to promote and support breastfeeding are relational and not easily captured in quantitative outcomes alone
- there is large heterogeneity of interventions, settings, outcome measures and comparison groups
- studies tend to look at the effectiveness of individual interventions or specific combinations of interventions which makes it difficult to identify an optimal overall strategy or combination of interventions
- while some studies examine how strategies differentially affect initiation and duration, there are a number of interventions that increase initiation that also have a positive effect on duration (Hector, King and Webb 2004).

Considerable gaps in the evidence also remain. This is particularly the case for strategies related to public policy, supportive environments (such as interventions in the workplace to support breastfeeding and physical facilities in public places) and community action. For example, a recent Cochrane review on interventions in the workplace to support breastfeeding for women in employment was unable to identify any randomised controlled trials or quasi-randomised controlled trials (Abulwadud and Snow 2007). There are also gaps in the evidence in terms of the effectiveness of strategies that specifically support breastfeeding continuation between three and four months, and strategies for promoting exclusive breastfeeding up to six months and breastfeeding beyond the six month period (Hector, King and Webb 2004).

H.6 Summing up

Breastfeeding is considered the optimal form of infant feeding and a key determinant of infant health.

The evidence indicates breastfeeding reduces the incidence and severity of a number of infectious diseases in infants including — gastrointestinal illnesses, respiratory tract and middle ear infections. More exclusive and longer periods of breastfeeding are also associated with lower rates of infant illnesses (particularly gastrointestinal illnesses). Possible protective effects from breastfeeding against

SIDS in the first year of life, the incidence of insulin-dependent (type 1) diabetes and some childhood cancers have also been found, although more research is required.

There is also increasing evidence that breastfeeding may have longer term effects, including the reduced incidence of obesity, diabetes, blood pressure and high cholesterol in later life. And some (but not all) studies find an impact on later intelligence.

For mothers, the evidence suggests that benefits include — promotion of maternal recovery, reduced risks of breast cancer and ovarian cancer and possible reduced risk of post-menopausal hip fractures.

The evidence on the effectiveness of interventions to promote and support breastfeeding suggests that — educational, professional and peer support interventions, as well as professional training and hospital practices that support breastfeeding — can improve breastfeeding practices. Combined prenatal and postnatal support interventions also appear to be beneficial.



I What payment level?

Key points

- The structure and magnitudes of payments in a statutory paid parental scheme need to reflect the objectives of the scheme. Payments:
 - need to be seen as a wage to meet the social policy objectives of a scheme
 - have to be high enough to encourage women to maintain labour market connection and to finance an adequate period of leave to achieve child and maternal welfare benefits.
- While many countries' paid parental schemes are based on replacement wages, these are parts of wider social insurance schemes. Against the background of the Australian social welfare system, payment at replacement wages would:
 - not be sufficient to achieve the above objectives for the lower paid
 - represent a significant impost on taxpayers for highly paid parents.
- In that context, a flat rate payment is appropriate in an Australian context and has the virtue of simplicity and affordability. Use of a flat rate payment has significant precedents in overseas models for at least some categories of employee. Additionally, a flat rate payment does not preclude additional voluntary or collectively bargained 'top ups' by employers.

I.1 What determines the 'right' payment level and type?

The payment rate for a statutory paid parental leave scheme aims, like other design elements, to achieve the objectives of the scheme. Accordingly, as much as possible, the payment should:

- (a) be high enough to allow women to take sufficient time off after birth to care for their infants and to recover from birth (chapter 4)
- (b) facilitate labour supply and to reduce resignation from work (chapter 5)
- (c) achieve the social policy goals of the scheme, consistent with current and strengthening community norms around this area. In particular, while there are clearly some different perspectives about such norms (chapter 6), a key

element of this social policy goal is to provide a strong signal that having a child and taking time out for family reasons is viewed by the community as part of the normal course of work (and life) for parents in the paid workforce. This implies that a payment should be structured so that it is not perceived as a welfare payment, but as an employment-related payment or wage.

To achieve objectives (a) and (b), paid parental leave payments must be higher than the value of alternative welfare payments that would be obtained were women to resign from their jobs or take unpaid leave.

As emphasised through this report, there can be tradeoffs in achieving these benefits. Setting a payment to achieve the above objectives has to take account of:

- the equity and efficiency consequences of financing a statutory paid parental leave scheme on Australians generally, taxpayers and employers. For instance, increased income taxes typically reduce efficiency by distorting labour supply and investment decisions. Similarly, since not all families receive the same entitlements, a statutory paid parental leave scheme has distributional consequences, whose appropriateness needs to be judged by the community
- its administrative ease
- its clarity for employees and employers, noting the problems identified with otherwise conceptually elegant tiered payments (appendix E)
- the risks of unintended consequences.

I.2 Models for paying leave

Complex models are not practical

While paid parental leave increases the average duration of leave taken, promotes labour force participation and alleviates the financial stresses of having a baby, the strength of these effects varies for different groups of parents — as shown in appendix G. For example, every additional \$1000 of paid parental leave per parent is likely to have greater impacts for lower income employees than for those on the highest incomes. Responsiveness varies by factors such as educational attainment, number of existing children, income and self-employment status.

While in principle, a statutory paid parental leave scheme could be designed to maximise its cost effectiveness by varying payments according to the responsiveness of parents, in practice, such an approach would involve major drawbacks. It:

-
- would be complex, creating additional administrative costs for government and business, and making it hard for people to know the value of their entitlement in advance
 - could encourage some people to game the system to try to obtain a high payment
 - would still ignore the heterogeneity within any group (for instance, some high-income women would be highly responsive, and some low income women would not be responsive)
 - may be seen as unfair (for example, mothers having a second or third child may be less responsive, but the community might assess their need as higher)
 - would not be consistent with the goal expressed by many in the community that a statutory paid parental leave scheme be an employment-based *entitlement*.

That said, while complex rules and payment levels appear impractical, decisions about the features of payment systems, such as whether they have caps or floors on payments, or use earnings-related or flat-rate payments, partly depend on whether these features effectively target those parents whose leave duration and workforce participation is most responsive. For example, a flat rate payment would probably stimulate average duration more cost-effectively than earnings-related payments because flat payments represent a bigger share of the pre-birth earnings of low income women.

Earnings-related payment systems

In earnings-related payment systems, maternity pay is equal to the weekly wages of the woman over some period prior to birth (so-called ‘full replacement’ earnings) or a sizeable fraction of such wages. A full-replacement wage model means that a woman earning \$2500 a week in a full-time job would continue to receive that income while on maternity leave, while similarly a woman earnings \$150 a week in a part-time job would continue to receive that income for the maternity leave period. This model of payments is like most other leave entitlements — like recreation, sick and long service leave — where full replacement wages are paid for employees temporarily away from work.

Full (or at least, near complete) wage replacement is the dominant model for maternity payments around the world (table I.1). There are sometimes floors to payment rates to ensure a basic level of payment to lower income parents and ceilings to payment rates to limit costs. The full replacement wage model is typically just one element of a broader set of social insurance arrangements. Under these arrangements, employers, employees and, more rarely, government, make mandatory contributions to a pooled fund that meets a range of employees’ lifetime

social needs, such as income support for maternity leave, incapacity, sickness, unemployment; and retirement. The self-employed, contractors (and indeed, the unemployed and students) are often also eligible for maternity payments. Where social insurance arrangements are used as the financing method, payments are not usually subject to periodic indexation adjustments, since employees' earnings rise automatically with productivity and wage pressures.

The desirability of payment based on full (or near full) replacement wages in an Australian context depends on funding arrangements and on the social transfer system generally:

- Full wage replacement would have large fiscal impacts were the Australian Government (taxpayers) to bear the full cost. It could also entail significant efficiency costs if the revenue was financed through increases in general taxes.
- These fiscal costs could be managed in a hybrid system — as proposed by the ACTU — in which the Australian Government funded a minimum standard of pay, with employers statutorily required to top up incomes to their full pre-birth levels. However, these arrangements do not pool the varying risks of parental leave liabilities faced by employers, raising the potential issue of discrimination against women. They would also impose significant financial stresses for some employers, especially small enterprises with largely female workforces (such as hairdressers).
- Payment of full replacement wages might be more justified under social insurance arrangements. This is because mandatory social insurance contributions falling on employers and employees are akin to payroll taxes — a relatively efficient tax if designed well. Moreover, since the effective incidence of social insurance contributions is mainly on labour, the beneficiaries (as a group) are also the ones paying.

However, it is not practical for Australia to establish a social insurance model — with all the fixed costs that would entail — as the vehicle for financing paid parental leave alone. In addition, in Australia, a significant proportion of mothers have pre-birth earnings that are well below the welfare benefits they could receive post-birth if they decided to resign. Consequently, in an Australian context, full replacement earnings would not be sufficient to maintain workforce attachment for many low income women, a situation that may be less severe in the many OECD countries that provide less generous cash family benefits.

Flat rate payments

Maternity payments for employed mothers — or a subset of that group — are sometimes paid at a flat rate regardless of pre-birth earnings. Where this occurs, the minimum wage, or some multiple of it, is used as the floor or ceiling to payments. This is the case in Estonia, Hungary, Luxembourg, Morocco, the Netherlands, Romania, Serbia, Slovenia, Spain and Tunisia (table I.1). For instance, in the Netherlands, the Social Security Agency pays a self-employed mother a pregnancy and maternity benefit equal to the gross minimum wage, provided that she worked at least 1225 hours as a self-employed person in the year before the benefit begins. For women working less than these hours, entitlements are based on annual profits, but with the minimum wage as a ceiling.

Similarly, flat rate payments — not linked to the minimum wage — also feature in schemes for some employees or for some part of the leave period (such as in New Zealand; Iceland; Sweden; United Kingdom and Jersey). Though a rare model, in some instances these flat rate payments are indexed to average earnings, so that effectively the maternity payment is a fixed share of average weekly earnings (Jersey, New Zealand).

The Commission's proposal of a flat rate payment is consistent with the distinctive Australian social welfare system and commonly emulated in other countries. It should achieve most of the goals set out in section I.1. As observed above, the use of the minimum wage as a benchmark for payment is common in overseas schemes. The reasoning behind its recommended adoption in an Australian scheme is explored in more detail in chapter 2.

The Commission recognises that employers may provide additional top ups or supplementary benefits on a voluntary basis or as part of collectively bargained industrial agreements, which would further enhance the benefits to mothers attached to the workforce.

Table I.1 Payment systems around the world

<i>Country</i>	<i>Maternity leave payments</i>
Austria	100% of pre-birth earnings for employees; flat rate for self-employed, freelance workers & temporaries
Belgium	in the first month after birth women receive 82% of pre-birth earnings plus 75% for the remaining weeks with a ceiling of €86.34 per day; statutory civil servants receive full salary
Canada	55% of average insured earnings for the national scheme (70% of average weekly earnings in Quebec) up to an absolute cap in payments
Czech Republic	69% of pre-birth earnings; the same rate is paid for self-employed women
Denmark	100% of pre-birth earnings up to a ceiling
Estonia	100% of pre-birth earnings (calculated on employment in the previous calendar year); there is no ceiling on the benefit; the minimum wage (€280 per month in 2008) is paid to mothers who did not work during the previous calendar year but have worked prior to the birth of a child
Finland	70 to 90% of pre-birth earnings (depending on duration) with an absolute cap.
France	100% of pre-birth earnings, with a floor and a ceiling
Germany	100% of pre-birth earnings, with no ceiling
Greece	100% of pre-birth earnings, with no ceiling
Hong Kong	80% of an employee's pre-birth normal earnings
Hungary	70% of average pre-birth daily earnings, with no ceiling on payments; in cases when there has been previous employment (i.e. the pregnant woman is eligible) but no actual income can be determined on the first day of eligibility (e.g. the pregnant woman is on sick leave for several months, or is self-employed and does not have an actual income), the payment is twice the amount of the official daily minimum wage; in this case, payment is made by the Treasury, not the National Health Insurance Fund
Iceland	80% of pre-birth earnings up to a ceiling for those who have been in the workforce during the preceding 24 months; the payment to a mother working shorter part-time hours, i.e. between 25–49% of full-time hours, is at least €630 per month, and for a mother working longer hours, at least €830; others (including students) receive a flat-rate payment
Ireland	70% of pre-birth earnings (calculated by dividing gross earnings in the relevant tax year by the number of weeks worked), subject to a minimum of €151.60 per week and up to a ceiling of €232.40 a week
Israel	the benefit is equal to 100% of the insured's average daily net income in the 3 months preceding the day on which the insured woman ceased work because of the pregnancy
Italy	80% of pre-birth earnings with no ceiling for salaried workers; for home helps, self-employed workers and temporary agricultural labourers, earning is 80% of 'conventional earnings' determined each year by the law

Table I.1 (continued)

<i>Country</i>	<i>Maternity leave payments</i>
Japan	60% of the average basic wage in the relevant wage class; payment is reduced if the mother receives a private benefit
Luxembourg	100% of an employee's pre-birth earnings with a minimum payment equal to the social minimum wage
Mexico	100% of pre-birth earnings
Morocco	100% of insured earnings up to a maximum and with a floor equal to 2/3 of the legal minimum wage
Netherlands	for employees, 100% of pre-birth earnings up to a ceiling equivalent to the maximum daily payment for sickness benefit (€177); from 1 July 2008 onwards, the self-employed get an entitlement to a 16-week payment up to a maximum of 100% of the statutory minimum wage (€1,335 a month before taxes)
New Zealand	NZ\$407.38 in 2008-09, indexed to average ordinary time weekly employee earnings
Norway	100% of pre-birth earnings (or 80% over a longer leave period)
Poland	100% of pre-birth earnings
Portugal	100% of pre-birth earnings
Romania	maternity benefit at 85% of pre-birth earnings and maternity risk benefit at 75% of pre-birth earnings; the maximum earnings are a multiple of the gross monthly minimum wage
Russia	100% of pre-birth earnings
Serbia	100% of an employee's pre-birth earnings with a minimum payment equal to the social minimum wage. Indexed (monthly) to changes in the national average wage
Singapore	100% of pre-birth earnings
Slovenia	100% of pre-birth earnings for women working for the full 12 months prior to birth. Women employed prior to birth, but without all of the necessary qualifications for the above payment, receive payments that are based on the minimum wage
South Africa	31% to 59% of pre-birth earnings for those insured
Spain	100% of an employee's pre-birth earnings for insured mothers and the minimum wage for non-contributory mothers
Sweden	390 days at 80% of pre-birth earnings up to a ceiling with a subsequent 90 days at a flat-rate payment. Payments indexed to CPI.
Switzerland	100% of pre-birth earnings, but with some variations by canton
Tunisia	2/3 of the average daily wage up to a ceiling of twice the legal minimum wage
Turkey	2/3 of pre-birth earnings
United Kingdom	90% of woman's pre-birth earnings for 6 weeks with no ceiling, plus a flat-rate payment for 33 weeks

Source: Moss 2008 for most countries, and from Social Security Administration, *Social Security Programs Throughout the World*, for Africa (for 2007), Asia (for 2006) and Europe (for 2008) for the remainder.

J Short birth spacings and eligibility

Key points

- Some participants argued that with the eligibility criteria proposed in the draft report (continuous employment for 12 months prior to expected date of birth and an average of 10 hours a week of paid work), parents having second or subsequent children within a short period of time would find it difficult to requalify for the statutory scheme.
- Looking at the latest possible return to work date under a range of continuous employment work tests, the minimum birth spacing that would allow a mother to take 26 weeks leave (desirable from a child and maternal welfare perspective), and still qualify for the statutory scheme is:
 - 18 months under a 12 months work test
 - 16 months under a 10 month work test
 - 12 months under a 6 month work test
- Short birth spacings will prevent only a small proportion of mothers being able to take at least 26 weeks leave to care for a previous child and requalify for the proposed paid parental leave. According to LSAC data — less than 1 per cent of mothers (who previously would have qualified for the statutory scheme) had another child within 12 months. Less than 6 per cent of these mothers had another child within 18 months.
- Empirical analysis undertaken by the Commission (looking at birth spacings together with leave taken by mothers between pregnancies) also suggests that only a small proportion of mother having subsequent children would be ineligible for the proposed statutory paid under a 10 month work test.

This appendix looks at the issue of birth spacings and the incentives created by the proposed eligibility criteria of the statutory paid parental leave scheme. Specifically, it addresses the concern that women who give birth to subsequent children within a relatively short period of time may not be able to requalify for the proposed statutory paid parental leave scheme.

J.1 Participants' concerns about eligibility and subsequent pregnancies

A number of participants responding to the draft report proposal argued that with the proposed eligibility criteria of continuous employment for 12 months prior to the expected birth date and an average of at least 10 hours a week, parents having second or subsequent children within a short period of time would find it difficult to re-qualify for statutory paid parental leave. For example, CPSU said:

The requirement for working continuously for 12 months prior to the expected birth date is problematic especially when parents are trying to qualify for a subsequent birth and amounts of paid parental leave. (sub. DR376, p. 8)

Family Voice Australia said:

It would be hard for any mother to qualify for the proposed paid parental leave if she had children whose births were spaced less than a full 24 months apart. (sub. DR298, p. 2)

And Unions Tasmania said:

The requirement for parents to have 12 months workforce tenure will however exclude some women who choose to have several children within a short timeframe and take 12 months off work each time as they are entitled to do under the NES. These employees should be able to access the scheme. (sub. DR400, p. 3)

The Public Service Association and Professional Officers Association Amalgamated Union of NSW also indicated that following the draft report they had been contacted by members claiming that under the Commission's proposed eligibility criteria they would be ineligible for the paid parental leave scheme despite long periods of previous workforce attachment and ongoing employment simply because their babies will be born too close together (sub. DR380, p. 15).

Others expressed concern about the incentives created by the eligibility criteria. It was suggested that some mothers would return to work earlier in order to requalify for the statutory scheme and, as a result, they may return earlier than would be desirable on child health and wellbeing grounds. Concern was also expressed about older women delaying subsequent pregnancies in order to re-qualify for the statutory scheme (box J.1).

Box J.1 Participants' views — possible adverse incentives for subsequent pregnancies

The Public Service Association and Professional Officers Association Amalgamated Union of NSW, said:

Many families plan their children close together and parents may not have the opportunity to return from a period of prenatal leave for 12 months before proceeding on the next period of parental leave.

... We believe eligibility criteria that exclude workers who have a genuine attachment to the labour force may produce a perverse outcome and act as a disincentive to maintain connection with the workforce. (PSA, sub. DR380, pp. 14–15)

Meg O'Sullivan suggested that:

... you may find that parents are returning to work earlier than they otherwise would have, in order to meet the employment test to be eligible for paid leave for a subsequent birth. This is surely a perverse outcome. (sub. DR390, p. 1)

Martine Lleonart said:

I have no doubts that women will return to work earlier than they would like in order to qualify for paid parental leave. In order to qualify for paid parental leave a women would need to put her child in childcare (or if she is fortunate some other arrangements) for at least 10 hours a week so that she could work at least 10 hours a week. Most childcare centres take bookings by the day, so two days of care would need to be paid for in order for the 10 hours to be worked. As referenced in appendix D, many experts have concerns about long hours of day care. (sub. DR359, p. 2)

Also that:

The age of first time mothers has risen steadily, with many women leaving it to their mid-to-late 30s before starting a family. For example, a 37 year-old women has a child, she takes a year 'out' to care for the child, then returns to work part-time. She needs to plan the birth of her next child so that she has been working at least a year so that she qualifies for paid parental leave. That takes her to 39 when she has her next child. (sub. DR359, p. 2).

J.2 Choosing an appropriate eligibility criteria for subsequent pregnancies

A work qualification period is required in order to target the receipt of statutory paid parental leave as much as practicable to those with genuine attachment to paid work. In deciding on the most appropriate eligibility criteria for subsequent pregnancies there is a need to ensure that the objectives of the statutory paid parental leave scheme are met and undesirable outcomes are avoided. Undesirable outcomes that could occur under particular eligibility criteria include:

-
- women with strong preferences for short birth spacing reducing their time away from work to below six months to re-qualify or working many hours in a short period of time in order to requalify
 - women significantly delaying having further children in order to re-qualify for a subsequent round of paid parental leave (particularly women having children later in life)
 - a large group of mothers failing the employment test because of short birth spacing (around a year or less apart).

While it is theoretically possible that a work test, combined with high enough paid parental leave payments, could encourage mothers with short birth spacing to return to work earlier than they may otherwise have done, undesirable outcomes from the Commission's proposed work tenure test are unlikely to be large because:

- the size of the net payments being proposed are unlikely to produce significant incentives to alter birth spacings (those not qualifying for statutory paid parental leave can access the baby bonus and family payments)
- unpaid maternity leaves — which protect the jobs of mothers away from work because of the birth of a child — are not affected by the proposed statutory paid parental leave scheme
- few parents can have rigid preferences for birth spacing because conception is by nature variable and difficult to time to within a few months.

What is the minimum amount of leave consistent with child welfare objectives?

Any work test has the potential to affect the leave taken to care for earlier infants or to encourage changes in birth spacing. From a child and maternal welfare perspective (chapter 4), it is desirable to avoid a work test where a large group of mothers would be encouraged to take less than six months of leave after the birth of their child in order to requalify for statutory paid parental leave for a subsequent pregnancy.

Looking at the latest possible return to work date under a range of work tests, the minimum birth spacing that would allow a mother to take 26 weeks to care for an earlier infant is 16 months under the Commission's proposed 10 month work test. Under a 12 months work test the minimum birth spacing is 18 months while it is 12 months under a 6 month test (see table J.1 and figure J.2).

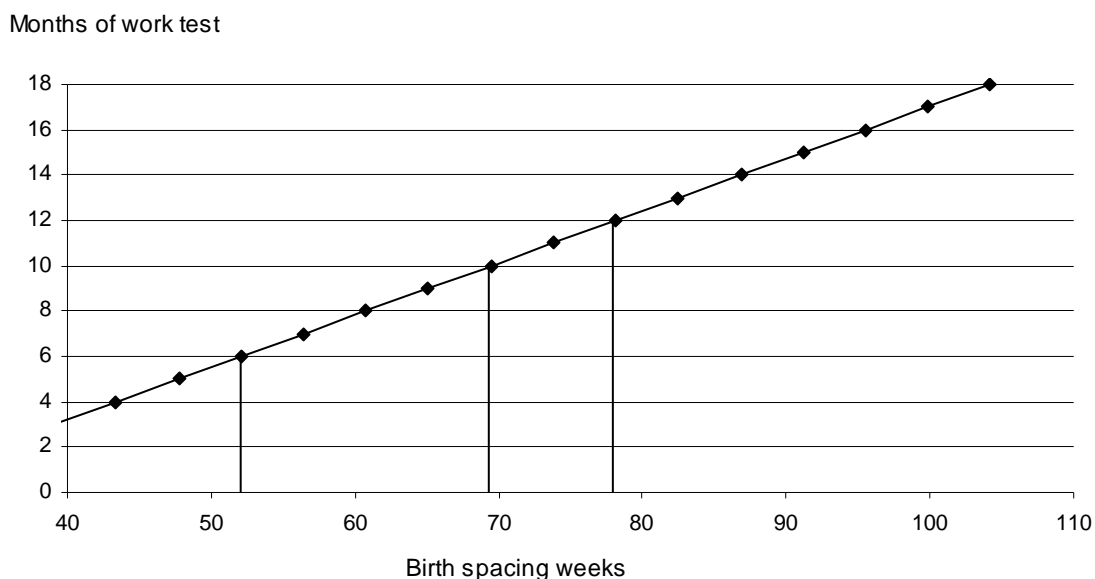
Table J.1 Minimum birth spacings required for 26 weeks of leave to care for a previous child

	<i>12 months work test</i>	<i>10 month work test</i>	<i>6 month work test</i>
Work test days	365	304	182.5
6 months of leave (days)	182	182	182.5
Total (days)	547	486	365
(weeks)	78.1	69.4	52.1
(months)	18	16	12

Source: Productivity Commission calculations.

For example, under a 12 month work test, a mother wanting to space her children 70 weeks apart would need to return to work at around 18 weeks after her initial birth in order to requalify for a second round of statutory leave. This is less than the desired six months of leave to care for a child (chapter 4). If she decided to take off six months to care for her first child, in order to requalify for the statutory scheme, she would have to delay conception and the birth of her second child.

Figure J.1 Months of work test required to give leave of 26 weeks



Data source: Productivity Commission calculations.

J.3 What do we know about birth spacings and leave taken to care for previous children?

The extent of the effects of the various work tests depends on the distribution of birth spacings among women with an attachment to the workforce. LSAC data sheds some light on birth spacings and the group of mothers at risk of not requalifying under the various eligibility criteria. Data are available regarding the birth spacing between the study child (for whom data is recorded) and any younger siblings. The same data are not available for the study child's older siblings.

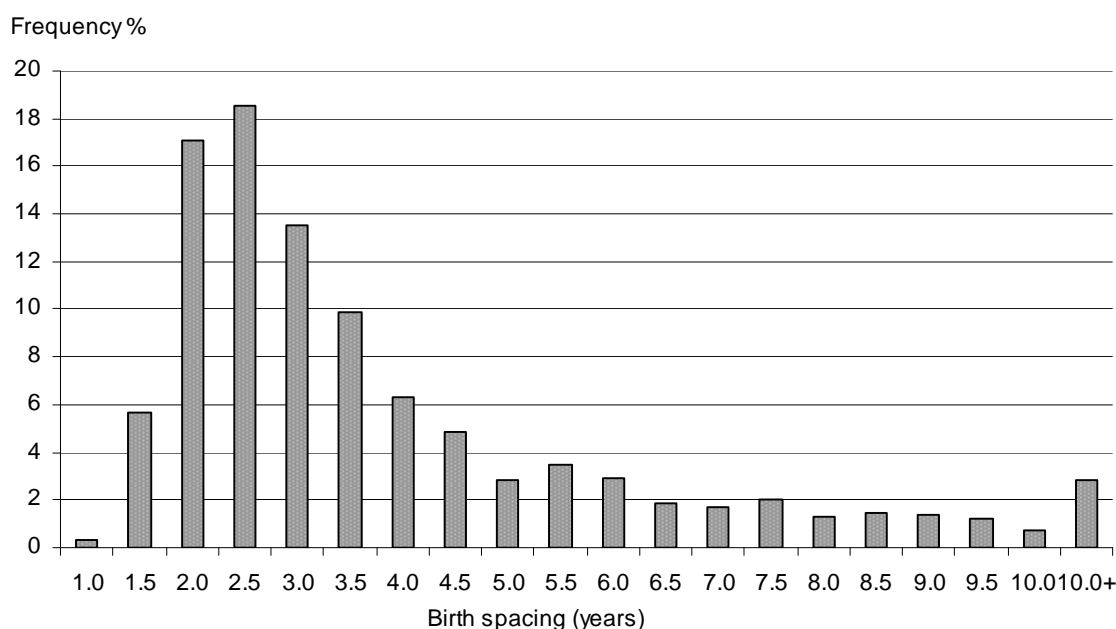
The LSAC data indicate that short birth spacing will prevent only a small proportion of mothers having subsequent children from being able to take at least 26 weeks of leave to care for a previous child and requalify for the proposed statutory paid parental leave scheme. Of those mothers who would have been eligible for the statutory paid parental leave scheme for their previous child:

- less than one per cent had a subsequent child within a year of having their previous child
- around six per cent had a subsequent child within 18 months of having their previous child (with 18 months being the minimum birth spacing under a 12 month work test)
- the majority (77 per cent) did not have a subsequent child until more than two years after having the previous child (figure J.2).
- Bringing together data on birth spacings¹ and the period of leave taken by mothers between pregnancies, it is possible to estimate the size of the group of mothers at risk of failing to requalify for the statutory paid leave scheme under various eligibility criteria.

Empirical analysis undertaken by the Commission looking at both birth spacing together with leave taken between pregnancies also suggests that only a small proportion of mothers having subsequent children will be unable to take at least 26 weeks of leave to care for a previous child and requalify for the proposed statutory paid parental leave scheme under a 10 month work test.

¹ LSAC data base contains information about the time between the birth of the child for which maternity leave was taken and the birth of previous siblings — but (usually) not information on the birth date of subsequent siblings. The Commission has assumed that on average birth spacings are the same between earlier and later births.

Figure J.2 Frequency of birth spacing for eligible^a mothers having subsequent children^b



^a Includes mothers who would satisfy a work test of 12 months of work for an average of 10 hours per week prior to having the child. While this slightly under-estimates the numbers of mothers under a 10 month and 7.6 hour work test, the approximation was necessary because the LSAC database does not provide specific information on mothers working for less than 12 months or working for less than an average of 10 hours per week prior to birth. ^b The category labels show the upper end of the interval — for example, category 1.5 shows the frequency of mothers with birth spacings from just over 1 year to exactly 1.5 years.

Data source: LSAC wave 1 and 1.5 data.

J.4 Putting the results together

From a child and maternal welfare perspective, it is desirable to avoid a work test in which a large group of mothers would have an incentive to take less than 26 weeks leave after the birth of their child in order to requalify for the proposed statutory paid parental leave scheme. The minimum birth spacing that allows a mother to take 26 weeks leave (desirable from a child and maternal welfare perspective) is:

- 18 months under a 12 months continuous employment test
- 16 months under a 10 month test
- 12 months under a 6 month test.

Short birth spacings prevent only a small proportion of mothers having another child from being able to take at least 26 weeks leave to care for their previous child and requalify for the proposed paid parental leave scheme — according to LSAC data less than 1 per cent of mothers who previously would have qualified for

statutory parental leave had another child within 12 months. Six per cent had another child within 18 month.

Empirical analysis undertaken by the Commission looking at both birth spacing together with leave taken between pregnancies also suggests that only a small proportion of mothers having subsequent children will be unable to take at least 26 weeks of leave to care for a previous child and requalify for the proposed statutory paid parental leave scheme under a 10 month work test.

K Businesses affected by parental leave

Key points

- Around 4 per cent of small businesses — those with less than 20 employees — would have to act as paymasters for the Government under the statutory paid parental leave scheme in any given year.
 - The same proportion would have to pay superannuation on statutory leave if the Government implements employer super obligations in the future.
- Medium businesses with 20 to 199 staff had a 60 per cent chance of having an employee giving birth, while larger businesses were all but certain to have at least one employee birth in a given year.
- Industries with higher probabilities of employee births were those with a greater concentration of larger businesses and/ or higher rates of female employment:
 - The industries where businesses were most likely to have an employee birth included Education (39 per cent), Electricity, gas and water supply (23 per cent), and Health and community services (22 per cent)
 - The industries where businesses were the least likely to have an employee birth were Construction (2 per cent) and Agriculture, forestry and fishing (2 per cent).

K.1 Introduction

Employers would bear some costs associated with the proposed statutory paid parental leave scheme, such as sometimes having to exercise a paymaster function for government and bearing some compliance costs in the general operation of any scheme (chapter 7). The costs to business would be more significant were superannuation obligations also introduced following the proposed three year review.

Participants raised particular concerns about the effects of a statutory scheme on businesses with few employees or those with a strong presence of female employment. For instance, Hair and Beauty Australia said:

Given that: (a) 97% of hair and beauty salons in Australia are classed as ‘small business’; and (b) 98% of the 60,000 workers employed in the hair and beauty industry in Australia are female, the likelihood of such businesses being faced with these

‘additional compliance and cash flow costs’ on a continual basis is far higher than businesses in any other industry. (sub. DR266, p. 5)

The Retail Confectionery and Mixed Business Association said:

When a SIR [small independent retailer] employing 4 part time staff has one person who is entitled to PPL the business owner has to find a 25% increase in wages to cover this employee. It is highly unlikely that a business with 100 staff would ever have 25 people claiming PPL at the one time. It also means Superannuation costs also increase by 25% during this period and this can not be recovered. (sub. DR318, p. 6)

And Business South Australia said:

Up to 90 percent of South Australian businesses are small businesses which do not have the capacity to take on policies such as paid maternity leave. They do not have the capacity to pay. Business SA would not support any proposed legislation that fails to appreciate the realities of operating small businesses. (sub. 139, p. 3)

Given these concerns, it is important to assess how many employers, and particularly small businesses — would be affected by the scheme. That is the goal of this appendix.

K.2 How many small businesses would be affected?

Datasets such as ABS (2005d) and LSAC make it possible to estimate the number of mothers who would be covered by the paymaster function (and if implemented in the future, employer obligations to pay superannuation). In addition, these datasets have information on the size of the employing firm prior to the date of birth. Combined with information on business numbers, it is then possible to estimate the *maximum* number and share of small and other sized firms that may have to exercise the paymaster function (or pay superannuation) in any year. This is a maximum because some firms may account for more than one birth. For instance, large businesses will usually have several employees giving birth in a given year. Nevertheless, a measure of the maximum share of businesses that may have to make superannuation contributions or fulfil the paymaster function is useful as it indicates the maximum exposure by the small business sector.

Based on the patterns of employment and births in 2007, around 33 000 Australian small businesses would have to act as paymasters under the statutory paid parental scheme (table K.1) or 4.3 per cent of the over 750 000 small employing businesses. The actual share will be slightly less, as some businesses, particularly those just at the threshold of becoming medium-sized, will have more than one employee on statutory paid parental leave.

While small businesses account for 90 per cent of total employing businesses, they account for only 28 per cent of mothers who would be annually covered by the paymaster function.

Table K.1 The maximum number of firms acting as a paymaster for a mother
2006-07

<i>Size of firm employing eligible mother</i>	<i>Employees eligible for paymaster function (and super contributions)</i>	<i>Number of employing businesses affected</i>
	People	Businesses
Small businesses (1-19 employees)	32 930	757 200
Medium & large (20+ employees)	84 677	84 117
Mother did not know size of firm	1 267	..
Total	118 874	841 317

^a In order to calculate the maximum number of small businesses affected by paid parental leave, we used the expanded CURF from the ABS *Pregnancy and Employment Transitions survey* (PaETS) (ABS 2005d) to estimate the number of mothers working at least eight hours a week for at least one year with one employer prior to the date of birth. Under the Commission's proposal, this group of mothers would be paid through their employer while on statutory paid parental leave (the paymaster function). They would also be eligible for superannuation contributions on their statutory paid leave were the government to introduce this feature in the future. We assumed that no two mothers worked for the same business. This assumption, combined with data on the counts of employing businesses, makes it possible to estimate the maximum affected number of businesses. (This is why the number of affected employees working in medium and large businesses actually exceeds the number of such businesses.) The results above are estimates calibrated to confinements in 2007 — the latest dataset on the number of mothers.

Source: ABS (*Counts of Australian Businesses, including Entries and Exits, Jun 2003 to Jun 2007*, Cat. no. 8165) and ABS (2005d) (PaETS).

K.3 What about different industries and other sized businesses?

The analysis above provides reasonably accurate estimates of the maximum number of small businesses that would have to exercise the paymaster function or, at a later stage, potentially make superannuation contributions. However, it is also useful to investigate how a broader range of business sizes and industries might be affected by a statutory paid parental leave scheme. PaETS is not suitable for undertaking this analysis because the sample size is too small to estimate accurately the numbers of mothers for more finely graduated business sizes and industry groups.

Accordingly, the Commission has adopted an alternative, indirect, method for estimating the impacts of a statutory paid parental leave scheme on business. Three provisos should be noted:

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- the following analysis relates to *all* female employees giving birth and not just to those women eligible for a statutory paid leave scheme, let alone the even smaller group meeting the eligibility criteria for the paymaster function.¹ As such, these estimates will considerably overstate the impact of the proposed paid parental scheme on the business sector. (While businesses may face costs relating to the leave taken by all mothers, where firms do not have specific obligations relating to the statutory scheme, these are costs that would occur anyway.)
 - the estimates presented in this section are indicative only. This is partly due to the indirect statistical methods and the assumptions required in the analysis, which result in a wider margin of error. It is also because several parameters used in the analysis, such as how many employees each business may employ in a given year and how many will be female, are likely to change in a dynamic labour market
 - the analysis in this section focuses on private sector businesses.² This is because the potential costs of paid parental leave, (particularly if superannuation contributions are made mandatory), are of greater consequence for private sector businesses than for businesses in the public sector, given that private businesses do not have recourse to tax revenue to address any cost increases.

We used several datasets to estimate the number and proportion of businesses that have at least one female employee giving birth in a given year ('employee births'):

- ABS, *Births, Australia, 2007*, Cat. no. 3301.0
- ABS, *Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003
- ABS, *Australian Industry, 2005-6*, Cat. no. 8155.0.³

We made an initial estimate of employee births by industry by using national age-specific fertility rates and data on the age and gender breakdown of each industry.

Secondly, we estimated the distribution of births within each industry across business sizes, based on data showing the breakdown of each industry by business

¹ It also relates to births, not confinements as in table K.1.

² Some calculations were also made for the public sector. However, two particular issues were evident. First, it is difficult to define a 'business' within the public sector. Second, a comprehensive dataset would be required at the levels of cost centres or workplaces to derive reliable measures. Clearly, all major departments are large employers that would expect at least one pregnancy per year. Estimates show 88 per cent of agencies in the Australian Public Service and 98 per cent of local government councils could expect at least one pregnancy per year.

³ Some data for the Finance and Insurance Services industry were supplemented by ABS *Small Business in Australia, 2001*, Cat. no. 1321.0.

size, in terms of the aggregate numbers of both businesses and employees. Therefore, the expected aggregate births for each industry were divided into business sizes according to the distribution of employees across business sizes. This provided the expected aggregate number of births for each ‘type’ of business (for each size and industry).

From this, it is possible to derive the expected average number of employee births that an individual business of each type would have. For smaller businesses, this was always less than one. The expected average number of employee births was used as a parameter in a Poisson distribution,⁴ thereby deriving the expected probability that a business of each type would have at least one employee birth. This final probability estimate was the basis for the expected numbers of businesses with employee births in a given year (tables K.1 to K.3).

We made several important assumptions in deriving these estimates:

- age and gender distributions differ between industries, but are constant within each industry across different business sizes
- the likelihood of having children for all women was assumed to follow the national age specific fertility rates
- the probability of observing an employee birth among a group of businesses is approximately proportional to how many businesses are in that group
- the probability of an employee birth within an individual business is consistent across similar businesses

The numbers of the self-employed giving birth

We also estimated the number of births among self-employed women in a similar fashion to those for employing businesses. The estimates were based on the age and gender profiles of ‘own account workers’ and ‘employers’ in each industry. Again, using national age-specific fertility rates, the expected number of births per self-employed woman was calculated. This latter figure was used as a parameter in a Poisson distribution, thereby providing a probability of births for self-employed women in each industry.

In the case of the self-employed, the main interest of the estimates is not in the possible compliance or other burdens on business stemming from the scheme, as the parties potentially affected by the scheme are also its (voluntary) beneficiaries.

⁴ The Poisson distribution was used as a means of estimating the distribution of pregnancies among businesses, given that information was available for the average number of pregnancies per business but not for other parameters such as variance.

Instead, these estimates indicate the extent to which a statutory paid parental leave scheme may benefit this part of the business community.

Results

Given that larger employers have more employees who have a chance of giving birth, not surprisingly, the percentage of small businesses with at least one employee birth is around one tenth of medium sized businesses and 1/16th of large businesses (table K.2).

Table K.2 Businesses expected to have at least one employee birth in a given year by business size
Private businesses

<i>Business size</i>	<i>Operating employing businesses</i>	<i>Expected operating employing businesses with at least one employee birth</i>	
	No.	No.	%
Small <20	810 388	49 393	6.1
Medium 21-199	39 441	23 687	60.1
Large 200+	3 395	3 391	99.9
Total	853 224	76 472	9.0

Source: Productivity Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-07*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

The number of businesses with employee births differs considerably between industries (table K.2). This reflects the distribution of each industry's workforce and the distribution of business sizes. For instance, while the mining industry tends to have a relatively high proportion of male workers, it also tends to have larger businesses. By contrast, the manufacturing industry has a high proportion of female workers, but tends to have smaller businesses. For this reason, there is a greater percentage of businesses in the mining industry that would be expected to have at least one employee birth than in the manufacturing industry.

The number of expected births for self-employed women also differs between industries (K.3). This reflects three main areas where industries differ from each other:

- the age and gender distribution of employers
- the age and gender distribution of 'own account workers'
- the prevalence of employers and 'own account workers'

Industries with the highest number of expected births to self-employed women included property and business services, retail trade, and personal and other services.

Table K.3 Businesses expected to have at least one employee birth in a given year by industry
Private businesses

<i>Industry</i>	<i>Operating employing businesses</i>	<i>Operating employing businesses expected to have at least one employee birth</i>	
	No.	No.	%
Agriculture, forestry and fishing	69 874	1 525	2.2
Mining	2 987	369	12.3
Manufacturing	62 298	6 181	9.9
Electricity, gas and water supply	905	204	22.6
Construction	118 447	2 783	2.3
Wholesale trade	47 450	3 462	7.3
Retail trade	125 658	13 579	10.8
Accommodation, cafes and restaurants	40 558	6 850	16.9
Transport and storage	37 716	2 203	5.8
Finance and insurance services	35 547	3 400	9.6
Communication services	8 672	378	4.4
Property and business services	173 692	11 920	6.9
Education (private)	11 119	4 310	38.8
Health and community services (private)	55 132	12 153	22.0
Cultural and recreational services	20 229	2 449	12.1
Personal and other services	42 940	4 708	11.0
Total	853 224	76 472	9.0

Source: Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-7*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

Table K.4 Incidence of births to self-employed women by industry

Private sector

<i>Industry</i>	<i>Expected births to own account workers</i>	<i>Expected births to employers</i>	<i>Expected births to total 'self employed'</i>
	No.	No.	No.
Agriculture, forestry and fishing	749	223	973
Mining	0	0	0
Manufacturing	578	153	731
Electricity, gas and water supply	15	0	15
Construction	890	353	1 242
Wholesale trade	163	133	296
Retail trade	1 237	792	2 029
Accommodation, cafes and restaurants	186	217	403
Transport and storage	212	62	274
Communication services	150	7	158
Finance and insurance	92	18	110
Property and business services	2 153	348	2 501
Government administration and defence	38	0	38
Education	463	89	552
Health and community services	1 243	202	1 445
Cultural and recreational services	675	51	726
Personal and other services	1 247	448	1 694
Total	10 093	3 096	13 188

Source: Commission estimates based on ABS (*Births, Australia, 2007*, Cat. no. 3301.0); ABS (*Labour Force, Australia, Detailed, Quarterly*, Nov 2008, Cat. no. 6291.0.55.003); ABS (*Australian Industry, 2006-7*, Cat. no. 8155.0); ABS (*Small Business in Australia, 2001*, Cat. no. 1321.0).

K.4 Conclusions

The experiences of businesses will differ by both size and industry. The likelihood that an individual business will have a birth to an employee in a given year depends on the share of women employed, their age profile, and number. Very large businesses are all but assured of having at least one birth to an employee in a given year, while the overwhelming majority (94 per cent) of small businesses are unlikely to have an employee birth in any given year. And when the tighter eligibility criteria applying to the paymaster function and any future super obligations are considered, some 96 per cent small businesses (table K.1) would not have to act as paymasters for the government in the statutory paid parental leave scheme in any given year.

The industries where businesses were most likely to have an employee birth were, not surprisingly, those with a greater proportion of very large businesses and/ or high rates of female employment. Similarly, the industries with the greatest number of expected births among self-employed women were those with greater concentration of young females, and with a greater share of the self-employed generally.

L Distributional impact

Key points

- The Australian Government already provides generous payments to families with newborn or adopted children.
 - families with combined incomes below \$50 000 typically receive over \$30 000 in government benefits within the first two years of a child's birth or adoption.
- The proposed parental leave payment, excluding paternity payments, is expected to provide an average additional benefit of \$1750 to families following the birth or adoption of a child. However, due to the interaction with the taxation and welfare system, the distribution of benefits differs substantially according to family income:
 - high income families who would not be eligible for the baby bonus would typically receive benefits in excess of \$4000
 - families with a combined income below \$40 000 tend to have benefits above \$2000
 - high income women who are single or have lower paid partners tend to benefit the least
 - once account is taken of those families who would opt out of the scheme, the net benefit per family is estimated to be around \$2040.
- The magnitude of the expected benefit will be a key determinant of whether parents choose to opt into the scheme.
- There are profound challenges involved in attempting to predict changes to leave behaviour. For this reason, the pattern of behavioural change amongst families with different incomes is highly uncertain.

If introduced, the proposed paid parental leave scheme would provide additional financial benefits to most eligible families. However, the amount of benefit each family would receive will be influenced by a range of factors, including the income that families already earn and the other government payments they are entitled to. This appendix examines how the expected financial benefits of the parental leave component of the proposed scheme will vary by parents' income. How the size of the net benefit differs according to family income is relevant when assessing the likely behavioural change that could reasonably be expected following the introduction of the scheme.

The Commission considers that financial assistance is a design feature of the scheme rather than an objective. Financial assistance is important because it is the mechanism through which parents will be encouraged to take more leave. As such, this appendix is not attempting to analyse how well the proposed scheme provides income support to low income families — rather, it attempts to or overly sufficient payments to achieve the objectives of the scheme and where they would not.

If income redistribution to low income families were an explicit objective, the scheme would have been designed very differently. (Chapter 1 explains how the objectives of the proposed paid parental leave scheme were selected.)

L.1 The basis for the income distribution data

In order to examine the impact of the proposed paid parental leave scheme on families with different income levels, information on several critical variables is required. The most important of these are:

- the initial distribution of income and how income is split between partners
- the initial value of government payments that families would be entitled to, and
- the initial length of leave that mothers are taking.

Only one of these variables relates directly to the objectives of the scheme — the length of leave taken by mothers. However, a good indication of how well targeted the proposed parental leave payment is could be provided by information on the change in financial assistance that families receive.

Two surveys were considered for this analysis –the *Pregnancy and Employment Transition* (PaETS) survey undertaken by the Australian Bureau of Statistics and the *Longitudinal Study of Australian Children* (LSAC) managed by the Australian Institute of Family Studies.

While the PaETS survey has several attractive features (it is slightly more current and provides greater detail on income and the length of workforce attachment), the LSAC survey was selected as it provided greater scope to interrogate and manipulate the unit record data. This, in turn, facilitated more rigorous testing of the estimated various government payments required for this analysis, as well as the ultimate distributional impacts.

Sample selection

For the purposes of this analysis, we wish to focus only on families where the mother would be eligible for the proposed paid parental leave scheme. A mother was deemed to be eligible if she met the following criteria

- the mother indicated that she had been working for the same firm for 12 months OR she had been working for a total of 12 months for more than one firm OR she was self employed¹ and
- the mother indicated that she was working 10 or more hours per week while pregnant.²

In addition to the families where mothers were deemed not eligible for the proposed paid parental leave scheme, two additional groups of mothers have also been excluded from this analysis:

- any family where no income information was supplied (either for the mother or for the partner – but only for mothers indicating they were partnered)
- any family where contradictory information was supplied that could influence the analysis
 - such as mothers who had not indicated a post-birth return to work date, but had indicated that they took leave and that they were working post-birth.

How incomes were calculated

When analysing income distribution around the birth of a baby, a decision must be made on how the mother's income will be represented. For a period around the birth of a child, there are potentially three ways to calculate the income for the mother

- using the mother's actual income earned in the year the child was born
- using the mother's pre-birth income or
- using the mother's post-birth income.

¹ The LSAC database provides information on tenure for employees as being for either 12 months or more or less than 12 months. As such, it is not possible to accurately apply the 10-13 month tenure test. The LSAC survey does not ask for length of tenure for mothers who were self employed prior to birth. As such, all self employed mothers are assumed to meet the 10-13 month tenure test.

² Most mothers who only worked few hours per week while pregnant would be classified as working less than 10 hours per week in the LSAC database. As such, any mother indicating she worked less than 10 hours a week in the LSAC database is assumed not to meet the work hours test.

As the income earned in the birth year will be affected by arbitrary factors, such as birth timing and the amount of leave taken, it is an inadequate indicator of the actual financial position of the family. The mother's post-birth income (when she re-enters the labour market) is a better indicator but, as many women had not returned to work by the time of the LSAC survey, the data is incomplete for this item. As such, the estimate of the mothers' incomes has been based on the pre birth weekly wage.³

Mother's pre birth weekly wage range is recorded in terms of nine different income ranges. In order to predict what government payments families would be entitled to, the income ranges were evaluated at their midpoints. For ease of presentation and interpretation, the results for each midpoint are re-classified into income ranges that are consistent with the ranges for partner's income. One implication of this is that it creates a small number of income ranges where we do not have data points with which to analyse the effect of the proposed parental leave scheme.

If a partner was present in the household, the partner's annual income was calculated by taking 52 weeks of their pre birth income. Partners are less likely to take extended periods of leave or reduce their income after the birth, so the pre birth wage should provide a reasonable indication of the partner's income around the time of the birth.

The pre birth wage information from the LSAC sample relates to wage rates that were earned in the 2003-04 financial year. To make those incomes more consistent with those currently prevailing, all earnings have been increased to account for inflation. For the purposes of the analysis in this appendix and appendix G, all income measures were increased by 13.19 per cent.⁴

While a pre birth annual income has been calculated for mothers and partners, this has only been used to categorise what part of the income distribution each family falls into. When determining if families are eligible for various government payments and programs and determining what payments they may attract, the actual income earned in the relevant period has been calculated.

³ This is a reasonable approximation of the mother's potential wage. However, in practice, many mothers trade off salary in favour of more flexible hours and earn substantially less after returning to paid work. This representation of mother's income is only used to determine what part of the income distribution a family is in. To determine access to government payments and the potential benefit families could receive from the paid parental leave scheme, the actual income earned by the mother for the financial year of their child's birth and the subsequent financial year has been used.

⁴ That amount is the change in CPI deflator between the 2003-04 and 2007-08 financial years. This CPI deflator is based on the ABS quarterly CPI index numbers from ABS 6401.0 Consumer Price Index Australia, Sep 2008 - series A2325846C.

L.2 Income distribution and length of leave before the introduction of the scheme

The initial income distribution of households

The income distribution of families where the mother is deemed to be eligible for paid parental leave is illustrated in table L.1. This data is drawn from the LSAC sample and comprises 1716 families we have identified as meeting the eligibility criteria for the proposed scheme. For each cell in the table, the number indicates the share of eligible families in the sample with that particular combination of mother's income and partner's income. For example 2.9 per cent of eligible families have a mother earning between \$20 001 and \$30 000 and a partner earning between \$30 001 and \$40 000.

The cross tabulations presented here effectively divide the 1716 families into 112 income categories. This means that estimates relating to less common combinations of income will be based on a very small sample. Any combination of incomes that accounts for 0.1 per cent of the sample is probably based on just one or two observations. Such a small number of observations does not provide sufficient variation in key variables such as birth timing or length of leave, and are unlikely to accurately indicate the impact for families with such incomes. While the tables presented in this appendix are useful as a rough indication of the distributional impacts of the proposed paid parental leave scheme, unexpected or unusual results for income combinations based on a small number of observations need to be interpreted with considerable prudence.

That said, many income combinations are based on sample sizes that are large enough to provide reasonable ground for inference. For example, over a third of households have a mother with pre birth income in the range of \$20 001 to \$50 000 and a partner with income in the range of \$30 001 to \$70 000. And 19 per cent of households have the partner income being zero or negative.⁵ Given the larger sample size for these components of the income distribution, greater confidence can be placed in the accuracy of estimates for these income groups.

⁵ This group is evenly split between single parent families and two parent families.

Table L.1 **Income distribution of families where mother would be eligible for proposed paid parental leave^a**

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
		no income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000 plus
Partner's annual income	no income or loss	0.1	0.1	2.4	4.1	3.2	3.9	4.1	0.9
	\$1 to \$10 000	0.0		0.3	0.3	0.3	0.4	0.2	0.2
	\$10 001 to \$20 000		0.0	0.6	0.4	0.4	0.4	0.1	0.2
	\$20 001 to \$30 000	0.1	0.1	0.8	1.6	1.6	0.8	0.5	0.3
	\$30 001 to \$40 000		0.2	2.0	2.9	3.2	2.1	1.0	0.2
	\$40 001 to \$50 000		0.3	1.5	3.1	2.8	3.0	1.6	0.5
	\$50 001 to \$60 000		0.1	1.7	3.0	2.8	4.8	1.9	0.6
	\$60 001 to \$70 000			0.7	1.7	1.8	2.0	2.0	0.4
	\$70 001 to \$80 000	0.1		0.7	1.3	1.1	1.7	1.3	0.5
	\$80 001 to \$90 000		0.1	0.2	0.5	0.9	0.8	1.1	0.4
	\$90 001 to \$100 000			0.4	0.8	0.2	0.9	1.2	0.1
	\$100 001 to \$1100 000			0.2	0.3	0.4	0.5	0.3	0.4
	\$110 001 to \$120 000			0.1	0.1	0.2	0.6	0.3	0.4
	\$120 000 plus			0.3	0.6	0.6	1.3	1.2	1.5

^a A blank cell indicates there were no observations for that particular combination of incomes. Cells with a reported percentage of 0.0 had observations in them, but after weighting, represented less than 0.05 of the population and were rounded down.

Initial value of family payments by income distribution

Australian families can be eligible for a wide range of government payments and benefits. Almost all of these payments are means tested, so the value of payments differ substantially by parents' income. The following payments are available to families with children and have been included in this analysis

- the baby bonus — a \$5000 tax free payment available to families where the expected combined income in the six months after birth is less than \$75 000
- parenting payment (single or partnered) — an income supplement to low income families that is subject to both an income and an asset test
- family tax benefit A — a supplementary payment that is subject to a test on the parents' combined income
- family tax benefit B — a supplementary payment that is subject to a test on the secondary earner's income. This payment is also restricted to families where the higher earner in a couple, or a sole parent, earns less than \$150 000 per year.

The extent of these existing transfers to families with newborn children is illustrated in table L.2. The value of the payments includes the sum of the baby bonus, family tax benefit payments and parenting payments that families receive during the financial year of a child's birth and during the subsequent financial year. Among families who would be eligible for the proposed paid parental leave scheme, there is a large variation in other government benefits received — this occurs because different families are eligible for different rates of payment from various government schemes.

While mothers who did not work before the birth of their child will be ineligible for the proposed parental leave scheme, those families would be eligible for other existing government payments. Given the nature of the income tests on those payments, families where mothers did not work prior to the birth of a child are likely to receive substantially higher benefits from existing payments than families who would be eligible for the proposed paid parental leave scheme⁶.

⁶ The benefits available to these families will be consistent with families where the mother is earning no income.

Table L.2 **Gross government benefits received by families who would be eligible for the proposed paid parental leave scheme**

Sum of benefits in the financial year of birth and the subsequent financial year. Includes family tax benefit A and B, baby bonus, parenting payment, pensioner tax offset and beneficiary tax offset (but does not include paid parental leave)

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
		No income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000+
Partner's annual income	no income or loss	\$58 228	\$66 267	\$47 255	\$44 520	\$39 396	\$35 057	\$30 510	\$28 532
	\$1 to \$10 000	\$52 833		\$36 891	\$42 247	\$28 610	\$34 903	\$41 631	\$20 610
	\$10 001 to \$20 000		\$28 818	\$44 979	\$39 048	\$38 964	\$29 614	\$23 692	\$18 040
	\$20 001 to \$30 000	\$44 077	\$52 302	\$33 068	\$29 153	\$25 890	\$18 184	\$16 412	\$17 768
	\$30 001 to \$40 000		\$33 737	\$29 231	\$23 639	\$20 945	\$18 227	\$13 312	\$15 088
	\$40 001 to \$50 000		\$31 131	\$24 177	\$22 054	\$16 971	\$15 003	\$11 737	\$12 792
	\$50 001 to \$60 000		\$23 776	\$25 080	\$18 084	\$15 008	\$15 513	\$11 179	\$6 926
	\$60 001 to \$70 000			\$22 926	\$17 724	\$15 431	\$12 291	\$10 370	\$8 393
	\$70 001 to \$80 000	\$16 273		\$19 108	\$17 848	\$14 109	\$12 479	\$9 603	\$10 106
	\$80 001 to \$90 000		\$19 013	\$17 499	\$15 540	\$14 583	\$11 103	\$9 435	\$6 570
	\$90 001 to \$100 000			\$20 338	\$13 109	\$9 518	\$8 898	\$8 060	\$5 331
	\$100 001 to \$110 000			\$23 913	\$9 493	\$10 680	\$9 370	\$7 788	\$6 150
	\$110 001 to \$120 000			\$14 249	\$9 338	\$11 522	\$7 126	\$3 683	\$4 248
	over \$120 000			\$5 038	\$8 269	\$3 349	\$3 710	\$3 737	\$3 455

In addition to the payments covered in table L.2, families with newborn or adopted children can receive other government payments depending on their circumstances. The most common payments among these are the child care benefit and the child care tax rebate. At least 2 per cent of families from our sample who would be eligible for the paid parental leave scheme used formal child care arrangements before the child was six months old.

Depending on the period children are in care for, and the number of children each family has in care, the value of the child care related assistance that families would receive could be as high as \$10 000.⁷ While families are unlikely to have newborn babies in care for an entire year, the transfers to families indicated in table L.2 would be understated due to the absence of child care related government assistance.

In gross terms, most Australian families with newborn children already receive substantial amounts of government payments in the first two years of their child's life. In addition, most of these payments continue to be available for most of the childhood period. The greatest assistance is provided to low income families, with benefits declining markedly as the income of either partner increases. For example, families with combined incomes below \$50 000 are, on average, estimated to receive benefits exceeding \$30 000.

A useful way of describing the magnitude of the financial benefit that government payments represent is to express them in terms of a net transfer between government and families (table L.3). This approach takes into account the amount of tax that families pay, in addition to the financial benefits they are eligible for, and is summarised in table L.3. A negative number indicates that families with that combination of income pay an amount of tax that is greater on average than the value of government benefits they receive. Conversely, a positive number indicates that the value of government payments exceed the tax liability for that combination of income.

For example, a family where the mother earns between \$30 001 and \$40 000 and the partner earns between \$40 001 and \$50 000 on average pays \$184 less in tax than they receive in government transfers. In effect, the average government transfers that flow to families in this income range just negate the income taxes that they pay.

⁷ Under the child care benefit, families can receive up to \$9828 if a child is in full time care for an entire year, subject to a means test. In addition, under the child care tax rebate, families using some forms of care can be reimbursed up to half of the fees not covered by the child care benefit (up to \$7000 per child per year). The child care tax rebate is not means tested.

In general, families with a combined household income below \$60 000 still receive net benefits of \$20 000 over the two years. In contrast, families begin to pay more tax than they receive in government benefits with combined household incomes as low as \$70 000. While these higher income families are still paying tax in net terms, they would not pay as much net tax as a couple earning the same income who do not have children.

Initial length of leave by income distribution

One of the key objectives of the proposed scheme is to encourage people taking relatively short periods of leave after the birth or adoption of a child to extend their leave. Tables L.4 and L.5 provide an indication of how prevalent early returns to work are within a given income distribution. Each cell in table L.4 indicates the percent of families who return to work within six months, out of all families that have that combination of income. For example, out of all the eligible families where the mother was earning over \$100 000 and the partner was earning between \$1 and \$10 000, 72 per cent returned by 6 months.

For some combinations of incomes, there is a relatively high rate of return both at the three and sixth month mark.⁸ Notably, mothers with a pre birth wage exceeding \$100 000 have a high rate of returning to work before three as well as before six months. Outside of this group, there is no strong association between income levels and the timing of the postnatal return to work of mothers.

⁸ As noted in section L.3, the LSAC data relates to births between July 2003 and June 2004. As such, none of the families were eligible for the \$3000 maternity allowance (commonly called the baby bonus) that was introduced on 1 July 2004. The initial length of leave for each family has been adjusted to estimate the additional leave that families would take if they received the current baby bonus of \$ 000. The basis for this approach is discussed in appendix G.

Table L.3 **Net government benefits received by families who would be eligible for the proposed paid parental leave scheme**

Sum of benefits and taxes in the financial year of birth and the subsequent year. Includes FTB A and B, baby bonus, parenting payment, pensioner tax offset and beneficiary tax offset (but not paid parental leave) less tax and medicare levy for mother and partner

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
Partner's annual income		No income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000+
	no income or loss	\$58 228	\$66 267	\$47 255	\$43 869	\$37 596	\$29 158	\$15 949	-\$6 892
	\$1 to \$10 000	\$52 833		\$36 835	\$39 517	\$23 776	\$29 790	\$36 093	-\$33 035
	\$10 001 to \$20 000		\$28 818	\$44 600	\$38 758	\$37 776	\$23 463	\$7 740	-\$21 445
	\$20 001 to \$30 000	\$41 867	\$50 231	\$29 265	\$23 623	\$18 497	\$7 075	-\$6 799	-\$17 624
	\$30 001 to \$40 000		\$26 049	\$20 947	\$14 218	\$10 641	\$4 067	-\$12 289	-\$26 212
	\$40 001 to \$50 000		\$18 510	\$8 780	\$6 495	\$184	-\$4 453	-\$19 435	-\$25 036
	\$50 001 to \$60 000		\$2 955	\$2 457	-\$5 155	-\$9 513	-\$10 913	-\$26 605	-\$50 515
	\$60 001 to \$70 000			-\$6 276	-\$12 216	-\$15 642	-\$21 918	-\$31 749	-\$50 106
	\$70 001 to \$80 000	-\$17 919		-\$16 021	-\$18 181	-\$22 157	-\$27 141	-\$38 111	-\$40 519
	\$80 001 to \$90 000		-\$26 015	-\$24 613	-\$28 947	-\$30 144	-\$37 145	-\$45 803	-\$68 828
	\$90 001 to \$100 000			-\$30 032	-\$38 218	-\$39 495	-\$45 575	-\$50 352	-\$72 350
	\$100 001 to \$1100 000			-\$32 396	-\$49 674	-\$48 901	-\$54 115	-\$60 699	-\$80 062
	\$110 001 to \$120 000			-\$51 376	-\$58 539	-\$57 706	-\$65 616	-\$83 431	-\$87 741
	over \$120 000			-\$113 756	-\$102 165	-\$105 934	-\$133 799	-\$115 996	-\$145 902

Source: Productivity Commission calculations using the LSAC database.

Table L.4 **Share of mothers who returned to work by six months after birth or adoption**

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
		No income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000+
Partner's annual income	Return by six months								
	no income or loss	100	100	34	13	28	11	12	51
	\$1 to \$10 000	0		71	29	64	12	0	72
	\$10 001 to \$20 000		0	43	22	12	8	0	64
	\$20 001 to \$30 000	100	46	27	39	34	26	30	35
	\$30 001 to \$40 000		51	35	23	15	14	18	28
	\$40 001 to \$50 000		68	42	26	25	16	24	39
	\$50 001 to \$60 000		0	43	25	24	20	31	25
	\$60 001 to \$70 000			23	19	18	26	15	38
	\$70 001 to \$80 000	0		22	25	25	23	15	0
	\$80 001 to \$90 000		0	20	42	22	15	4	58
	\$90 001 to \$100 000			28	31	29	23	20	0
	\$100 001 to \$110 000			74	19	33	0	25	71
	\$110 001 to \$120 000			0	44	0	19	0	31
	over \$120 000			0	32	28	23	11	36

Source: Productivity Commission calculations based on LSAC database.

Table L.5 **Share of mothers who returned to work by three months after birth or adoption**

	Return by 3 months	<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
		No income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000+
Partner's annual income	no income or loss	100	100	24	3	12	11	4	25
	\$1 to \$10 000	0		45	29	21	0	0	19
	\$10 001 to \$20 000		0	43	0	0	8	0	33
	\$20 001 to \$30 000	100	46	12	21	24	12	9	14
	\$30 001 to \$40 000		51	26	9	10	2	8	28
	\$40 001 to \$50 000		40	34	1	10	7	8	19
	\$50 001 to \$60 000		0	22	11	6	9	3	6
	\$60 001 to \$70 000			23	16	6	12	0	26
	\$70 001 to \$80 000	0		13	0	12	0	3	0
	\$80 001 to \$90 000		0	20	32	5	8	0	16
	\$90 001 to \$100 000			28	20	0	4	11	0
	\$100 001 to \$1100 000			23	19	11	0	0	32
	\$110 001 to \$120 000			0	0	0	8	0	15
	over \$120 000			0	32	18	10	5	24

Source: Productivity Commission calculations based on LSAC database.

L.3 Distribution of benefits from proposed parental leave payment

The Commission has estimated that most families eligible for the proposed paid parental leave scheme would benefit from its introduction. The benefits considered here are realised in two ways:

- the direct financial benefit associated with the scheme
- the benefits that arise from being able to take additional leave.

This section analyses how these types of benefits are distributed amongst families with different incomes.

Income distribution of financial benefit from proposed parental leave payment

There is substantial disparity in the financial benefit that different families could obtain from the proposed parental leave payment. While the average benefit available to eligible families (excluding paternity leave) is around \$1750, benefits to individual families range from zero or a few hundred dollars to many thousands of dollars, depending on their income (table L.6).

Some of this variation in benefit is strongly linked to the income of parents. In particular:

- high income women who are single or who have lower paid partners tend to benefit the least
 - a large proportion of these women are expected to return to work within 18 weeks. Many of these women are projected to take the untaxed baby bonus payment and to opt out of the paid parental leave scheme
 - because the loss of the baby bonus and family tax benefit B payments will typically be combined with the tax on the paid parental leave at higher marginal tax rates, a greater proportion of these mothers will not be financially better off opting into the proposed scheme

Table L.6 **Average benefits per family from proposed parental leave payment**

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>							
		no income or loss	\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 000 plus
Partner's annual income	no income or loss	\$3229	\$3236	\$3133	\$2363	\$1353	\$864	\$411	\$287
	\$1 to \$10 000	\$4630		\$3525	\$1851	\$1249	\$885	\$1551	\$0
	\$10 001 to \$20 000		\$3422	\$2340	\$2951	\$2272	\$987	\$2251	\$0
	\$20 001 to \$30 000	\$2133	\$1688	\$2072	\$1074	\$1254	\$1409	\$976	\$1221
	\$30 001 to \$40 000		\$2568	\$1109	\$1105	\$1316	\$1183	\$1112	\$442
	\$40 001 to \$50 000		\$1874	\$1418	\$1256	\$1746	\$1279	\$1251	\$1065
	\$50 001 to \$60 000		\$2877	\$1964	\$1738	\$1914	\$1424	\$1369	\$2342
	\$60 001 to \$70 000			\$2171	\$1876	\$1723	\$1286	\$900	\$711
	\$70 001 to \$80 000	\$3736		\$2763	\$1522	\$1423	\$1551	\$1432	\$2680
	\$80 001 to \$90 000		\$2387	\$2516	\$1555	\$1609	\$1735	\$2137	\$1250
	\$90 001 to \$100 000			\$1271	\$1125	\$2533	\$1975	\$2667	\$2662
	\$100 001 to \$1100 000			\$416	\$2233	\$2559	\$1257	\$1982	\$724
	\$110 001 to \$120 000			\$2236	\$1997	\$1901	\$2757	\$5831	\$3172
	\$120 000 plus			\$6870	\$4002	\$6308	\$5997	\$5257	\$4244

Source: Productivity Commission calculations based on LSAC database.

-
- the largest average benefits are received by families with very high combined incomes
 - these families typically have no government payments to lose (no baby bonus, no family tax benefit and no parenting payment)
 - families with lower combined incomes also tend to receive above average benefits
 - this is evident where the pre birth income of the mother is below \$30 000 and the income of the father is below \$20 000

The average benefit received across most of the remaining income distribution ranges from \$1500 to \$2500, but there are numerous income combinations where the average is below \$1300. Many recipients of below average benefits fall into parts of the income distribution where a high proportion of parents are projected to opt out of the scheme. As the average benefit includes these families, the average benefit to those families expected to opt in would be higher than indicated in table L.6.

Benefits arising from the change in leave behaviour

By reducing the financial constraint experienced around the birth or adoption of a child, many families will be able to extend their leave. The Commission has estimated that an average ten weeks additional leave would occur if the proposed parental leave payment were introduced (appendix G).⁹ This increase in leave is an average across all eligible families, including those that already take very extended time off work around the birth of a child.

Of greater policy relevance is the response of the (relatively smaller) group of parents who tend to take shorter periods of leave. It is estimated that on average, mothers who initially took less than 26 weeks of leave would increase their leave by 6 weeks (see appendix G to interpret this estimate).

Table L.7 describes the estimated change in leave by mothers initially taking less than 26 weeks of leave for the different combinations of income. For each combination of parents' income, the table shows the initial average length of leave

⁹ The Commission's analysis of the change in leave behaviour has focused on leave taken by the mother. As outlined in chapter 4, the Commission recognises the benefits that could stem from parental care being provided by the father or partner. The leave data for fathers in LSAC is collected as a number of days. It is likely to be much more accurate than data on leave taken by mothers. However, as the potential discrepancy in the length of leave taken by each mother greatly exceeds the leave taken by most fathers, including the leave taken by fathers could imply a false sense of accuracy to the leave estimate.

(to the left of the arrow \Rightarrow) and the estimated average leave after the introduction of the proposed parental leave payment (to the right of the arrow \Rightarrow). For example, for a family where the mother has a pre birth income between \$20 001 and \$30 000 and the partner earned between \$10 001 and \$20 000, the average length of leave is estimated to increase from 20 weeks before the scheme, to 25 weeks after the introduction of a scheme (20 \Rightarrow 25).

Table L.7 shows that the intended goal of 26 weeks of leave is achieved by five income combinations (out of the subsample of women who initially took less than 26 weeks leave), which equates to around 13 per cent of mothers. Part of the reason that this number is less than what may have been expected is that around a quarter of mothers not taking 26 weeks of leave in our sample are not predicted to realise any financial gain from the scheme (due to their higher than average entitlements to other payments), and would therefore opt out of the scheme. As the group opting out is assigned zero weeks of additional leave, the average of the whole group is brought down — despite the fact that the women who opt *into* the scheme actually take considerably more leave than table L.7 suggests.

Moreover there are several reasons to suspect that the actual opt out rate may be lower than the estimate used for this analysis (discussed below). If this is the case, the actual number of women who extend their leave beyond the 26 weeks (who were previously not able to do so) will be higher than is estimated here. Nevertheless, the opt out rate used here was consciously constructed so that the bias is more likely to be upward than downward. This means that the reported estimate of the increase in leave behaviour will tend towards the lower bound of what could be expected. Wherever possible, this principle has guided the modelling decisions used for this analysis.

However, much of the uncertainty surrounding these estimates cannot be reduced. Despite the wealth of information available from the various surveys, there are serious limitations as to how well the complexities of parental leave decisions can be modelled. For this reason, the Commission suggests that a more accurate assessment of the effectiveness of the scheme should be included as part of the mooted three year review after implementation of the scheme.

Based on the available evidence, the provision of 18 weeks paid parental leave appears to be appropriate. While this will not guarantee that all women will actually take at least 26 weeks of maternity leave, it is expected to provide the vast majority with the financial capacity to do so. The relatively small group of women who may not take 26 weeks of leave would still benefit from an increase in the parental leave they do take.

Table L.7 **Estimated average leave before and after proposed parental leave payment**

Average leave in weeks (before ⇒ after) for families initially taking less than 26 weeks leave

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>						
		\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 001 plus
Partner's annual income	no income or loss	0⇒18	10⇒22	21⇒27	13⇒21	12⇒19	16⇒20	10⇒18
	\$1 to \$10 000		13⇒23	11⇒11	15⇒21	16⇒21		16⇒16
	\$10 001 to \$20 000		12⇒21	20⇒25	25⇒31	16⇒23		12⇒19
	\$20 001 to \$30 000	17⇒26	14⇒22	13⇒17	10⇒18	13⇒22	15⇒22	12⇒19
	\$30 001 to \$40 000	0⇒18	11⇒20	14⇒18	16⇒22	16⇒21	18⇒23	0⇒18
	\$40 001 to \$50 000	16⇒23	7⇒20	17⇒20	16⇒23	14⇒22	14⇒20	14⇒20
	\$50 001 to \$60 000		13⇒21	15⇒21	17⇒22	14⇒21	18⇒22	16⇒17
	\$60 001 to \$70 000		3⇒18	7⇒19	13⇒20	15⇒21	21⇒22	4⇒18
	\$70 001 to \$80 000		11⇒20	22⇒26	15⇒19	21⇒23	17⇒22	
	\$80 001 to \$90 000		10⇒19	6⇒17	18⇒23	17⇒23	20⇒22	19⇒21
	\$90 001 to \$100 000		5⇒19	9⇒16	20⇒22	21⇒24	10⇒21	
	\$100 001 to \$110 000		19⇒26	0⇒18	13⇒21		19⇒20	9⇒14
	\$110 001 to \$120 000			15⇒20		18⇒23		9⇒13
	\$120 001 plus			6⇒19	11⇒20	12⇒20	15⇒17	9⇒18

Source: Productivity Commission estimates.

Of mothers estimated to initially take less than 26 weeks leave, 56 per cent are projected to reach 20 weeks of leave based on the Commission's conservative estimates. As such, if the projected increase in leave is slightly understated or the proportion of families who are expected to opt out is overstated (discussed below), the performance of the scheme could be superior than these projections indicate.

Further, as most women take at least eight weeks of leave under the current arrangements, the provision of an additional 18 weeks should be sufficient to allow nearly all mothers the opportunity to take a total of at least 26 weeks of leave. This is especially the case as any statutory paid leave would be in addition to the already generous support that families with young children receive from the government. As parental leave decisions are also informed by factors other than financial concerns, it may not be practically possible to get all mothers to take at least six months leave, and indeed, that may not be what all families want.

L.4 Caveats with these findings

While detailed analysis of the projected additional leave has been presented, there are compelling reasons why caution should be used before basing policy decisions on this analysis. Foremost amongst these is the issue related to small sample size (discussed in section L.2), which is compounded when looking at the *subset* of women who take less than 26 weeks of leave.

Beyond this, there are three other main reasons why the individual estimates of financial benefit and change to leave behaviour will not be accurate for all families. These are discussed below.

Because of the broad uncertainty over the estimated response of individual households to the proposed paid parental leave scheme, the Commission is being particularly cautious about recommending policy responses based solely on the estimated change in leave.

The original leave data is imprecise

As only the month that leave was started and ended is recorded in the LSAC database, the actual leave taken by each individual could be a month above or below the actual length of leave taken. This is not a problem for the average leave taken overall because as many families would have overstated leave as understated leave. However it is problematic when examining leave behaviour of individuals – particularly when dealing with short periods of leave. For example, if a mother is

listed as taking four months off work, she could have taken as few as three and as many as five months off work.

There is considerable uncertainty as to the responsiveness of families to the paid parental leave scheme

As discussed in appendix G, the overall responsiveness of parents to the paid parental leave scheme is sensitive to the assumed level of income elasticity. Moreover, responsiveness to the scheme will be affected by both the financial and non-financial benefits families receive from extending their leave. The combinations of income considered here belie a wide array of unmeasurable variables that arise from the different situations and priorities families face, and feed into the non-financial benefits in potentially non-uniform and unpredictable ways. If, for a given income combination, these unmeasurable variables are significantly different in the broader population than they are in the sample, the observed effect of introducing the proposed paid parental leave scheme could be very different from the predicted effect.

There is uncertainty over how many families will opt out

A change in leave behaviour can only be estimated if a family is expected to benefit from the proposed paid parental leave scheme. (An average family would need to be paid for 14 weeks of paid parental leave to recoup the loss of baby bonus and other government payments). Due to the methodology employed in appendix G, it is possible that the imprecision of the leave data may cause some families to be incorrectly categorised as not receiving a benefit. This is most likely to occur for families where the mother took a short period of leave.

If families are incorrectly deemed to have opted out of the proposed scheme, this reduces the estimated average benefit for families to below its true value (overall and at each income combination). This in turn will cause our estimate of the additional leave taken to be biased downwards. The proportion of eligible families who are predicted to opt out of the scheme is given in table L.8.

Unsurprisingly, income combinations where the estimated average increase in leave is small also tend to have a high rate of opting out. This is especially true for families where the mother's pre birth income is between \$20 000 and \$50 000 and the partner earns between \$20 000 and \$60 000. It is possible that the true benefit, both financial and in terms of additional leave, could be greater for these groups than is predicted here.

Table L.8 **Income distribution of families estimated to opt out of the proposed scheme**

Families by income estimated to opt out as a percentage of all eligible families^a

		<i>Pre birth income of the mother (52 weeks of weekly pre birth wage)</i>						
		\$1 to \$10 000	\$10 001 to \$20 000	\$20 001 to \$30 000	\$30 001 to \$40 000	\$40 001 to \$50 000	\$70 001 to \$80 000	\$100 001 plus
Partner's annual income	no income or loss	0	0	0	0.61	1.76	2.25	0.53
	\$1 to \$10 000		0	0.09	0	0.11	0	0.22
	\$10 001 to \$20 000	0	0.05	0	0	0.12	0	0.19
	\$20 001 to \$30 000	0	0	0.53	0.39	0	0.04	0.10
	\$30 001 to \$40 000	0	0.20	1.14	0.49	0.38	0.15	0
	\$40 001 to \$50 000	0	0	0.72	0.11	0.18	0.15	0.05
	\$50 001 to \$60 000	0	0	0.14	0.06	0.51	0.52	0.15
	\$60 001 to \$70 000		0	0	0.12	0.40	0.30	0
	\$70 001 to \$80 000		0	0.24	0.21	0.16	0.05	0.12
	\$80 001 to \$90 000	0	0	0.08	0.20	0.06	0.18	0.07
	\$90 001 to \$100 000		0	0.11	0	0	0	0
	\$100 001 to \$110 000		0.05	0.06	0	0	0	0.14
	\$110 001 to \$120 000		0	0	0	0	0	0
	\$120 001 plus		0	0	0	0	0	0.11

^a Overall, 14.6 per cent of eligible families are estimated to opt out of the scheme.

Source: Productivity Commission estimates based on LSAC sample data.