



Brotherhood
of St Laurence

Working for an Australia free of poverty

An inclusive system of parental support

Submission to the Productivity Commission
Inquiry into Paid Maternity, Paternity and
Parental Leave

Brotherhood of St Laurence
June 2008

Brotherhood of St Laurence
67 Brunswick Street
Fitzroy Vic. 3065

ABN 24 603 467 024

www.bsl.org.au

Contact

Rosanna Scutella
Research and Policy Centre
Ph: (03) 9483 1324
E-mail: rscutella@bsl.org.au

Summary

The Brotherhood of St Laurence works to prevent poverty through focusing on those points in the life transitions where people are particularly at risk of social exclusion. One of these key phases is in the care/work transition. Through a combination of direct service provision and research we aim to bring a fresh perspective to issues of poverty and disadvantage. Parallel to our progressive service approach that maximises social and economic participation, the Brotherhood has a substantial record in research and policy analysis to ensure a more effective and responsive employment assistance system for disadvantaged job seekers.

A well-designed system of paid maternity, paternity and parental leave contributes to social inclusion, a priority of the new Australian Government. 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. The challenges of the ageing of the population also make it an economic imperative to improve the human capital of the entire workforce and increase female workforce participation.

The Brotherhood supports a system that:

- prioritises children's development
- recognises the value of care and promotes choice for families
- includes a focus on poverty prevention
- encourages redistribution of resources over the life course
- promotes gender equity in caring and in the labour market
- promotes overall social inclusion.

The Brotherhood supports a mixed funding model in which individuals, business and government all contribute in some form. Three models of parental leave are considered in this submission: expanding current social security entitlements, a defined contribution scheme and a defined benefit or insurance-based scheme. Assessing each of these models against the key criteria for a socially inclusive system of parental leave, the insurance-based system is favoured overall. However, a barrier to a system of this kind is that Australia has no tradition of insurance-based systems of social support.

The Brotherhood also stresses that other work–family measures should be offered in the workplace and that the overall tax and transfer system, including family and child care payments, should be designed to support families to make choices that are best for their individual circumstances. It is important that while care should be valued, broader policies do not discriminate against partnered women with children who choose to move between care and paid employment. These issues must be considered in the wider industrial relations and tax policy settings.

Background on the Brotherhood of St Laurence

The Brotherhood of St Laurence is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is ‘an Australia free of poverty’. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels. We aim to work with others to create:

- an inclusive society in which everyone is treated with dignity and respect
- a compassionate and just society which challenges inequity
- connected communities in which we share responsibility for each other
- a sustainable society for our generation and future generations.

The Brotherhood of St Laurence works to prevent poverty through focusing on those points in the life transitions where people are particularly at risk of social exclusion. This includes supporting families in the transition between work and caring for young children. Programs offered for families and children to help manage this transition include the Napier Street Child and Family Centre, Family Day Care and the Home Interaction Program for Parents and Youngsters (HIPPPY).

Rationale for reform: the importance of supporting families with newborn children

Recognising the value of care

Caring and other forms of unpaid work are productive activities that are of value even if they have no standard market price. However, there are risks associated with taking time out of the workforce for caring activities, for example in relation to labour market position and advancement. And these risks are mostly faced by women.

The Brotherhood supports a system of paid parental leave that provides women and families with genuine choice about the balance between caring roles and paid employment.

Early childhood development

The research on early childhood development shows that there can be adverse effects of being placed in child care too young (generally thought to be under 1 year). Evidence is ambiguous for children aged 1–3 years and then there seems to be a positive effect on children 3 years plus. Therefore, society should support a parent to stay at home with their newborns for at least their first year, and then promote choice for parents for at least the next two years.

There is also evidence that the well-being of families is strongly connected with the position of mothers in the labour market. Countries with the lowest child poverty rates are those with generous social security systems and generous support for maternal employment. Where one or both policies are scarce, child poverty rates are higher (Gornick et al. 1997). Therefore it is important that mothers reconnect with the labour market as soon as is desirable so they do not lose valuable human capital. This reduces the risk of longer term poverty and social exclusion for women, particularly in situations of family breakdown.

Increasing female workforce participation

The participation and productivity of Australia’s workforce will become increasingly important to the economy as the population ages. In 2008, about two-thirds of the population—slightly more than 14 million people—are of working age (15–64 years). This is a historically high rate that will not be maintained. Over the next 40 years, the proportion of the population of working age will

decline (to 60 per cent), and they will be called upon to support an increasing group of older people (Australian Government 2007, pp. xx–xxi).

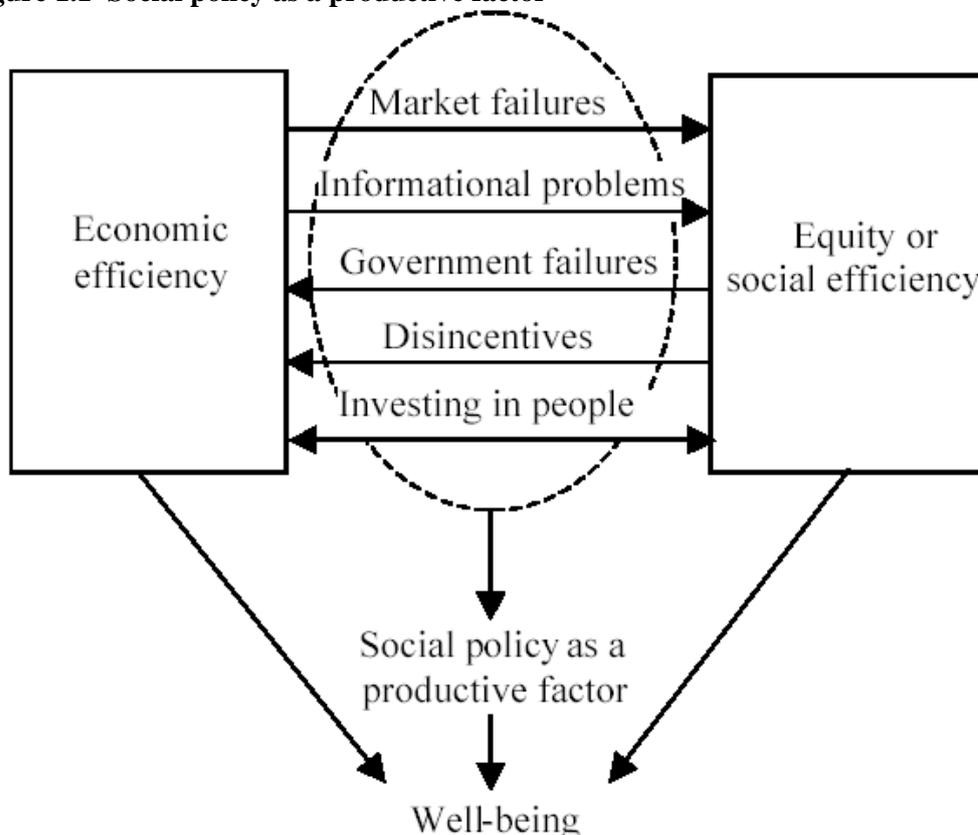
Government and business groups are increasingly concerned about the low workforce participation rates of particular groups of Australians (BCA 2007; COAG 2006; Australian Government 2007). A key group identified with low participation rates is women of child-bearing age (25 to 44 years), where Australia ranked 8th lowest across OECD countries (Productivity Commission 2006). OECD evidence shows that countries with poor work/care regimes (i.e. poor leave provisions, inadequate child care and a tax/benefit system which penalises second earners) have lower female workforce participation rates (Jaumotte 2003).

Enhancing social welfare through government intervention

Well-designed government policy to improve support for parents with newborn children has the potential to improve overall social welfare. Figure 1.1 summarises how social policy can be a productive factor. Informational problems and market failures in general mean that government can use more inclusive and equitable social policy measures to ensure more economically efficient outcomes. Investing in building people’s capabilities to participate in society can be a win–win situation which can improve both social and economic efficiency, leading to overall longer term improvements in wellbeing.

However, the diagram also highlights that not all government intervention is good. Sometimes, private markets are more efficient at providing goods and services if left to operate competitively. Also, even when private markets do not operate efficiently government will necessarily be more efficient. In the following subsection we suggest that in the case of adequate financial support for parents with newborn children, there is a case for government intervention to improve on the current market-based system. However, it is important to get the policy setting right.

Figure 1.1 Social policy as a productive factor



Source: Fouarge 2003, Figure 1, p.10

Current employer provision of paid maternity, paternity and parental leave in Australia

Australia currently has no legislative requirement for paid maternity, paternity or parental leave. It is thus a market-based system where arrangements are negotiated at individual or enterprise level and therefore employers provide maternity, paternity or parental leave where it is needed to attract employees. This has led to uneven access to paid maternity leave, with ABS data showing women on lower incomes have limited access to paid maternity leave relative to women on higher incomes, and access varying by employment status, occupation and industry (ABS 2007). The duration of paid maternity leave also varies, with limited access to the international standard of 14 weeks' paid leave outlined in the ILO Maternity Protection Convention (Revised), 2000, No.103.

In addition, Australia has a targeted, residual social security system—aspects of which, including benefits for parents, have arguably diminishing social support. There is also little capacity for life-course redistribution of the caring/work burden—that is, drawing down on future earnings to support caring at the time it is needed.

The policy framework, while supposed to be largely gender-neutral, does not overtly encourage engagement in caring by men.

Key criteria for a more effective system

The Brotherhood of St Laurence feels that a more effective and socially inclusive system of support for parents of newborn children can be designed than the current market based system. Although we are not recommending specific parameters of the new system, and in particular to the length and amount of paid leave entitlements, we do recommend that in assessing a new system of parental leave the Commission use the following key criteria:

- prioritises children's development
- recognises the value of care and promotes choice for families
- includes a focus on poverty prevention
- encourages redistribution of resources over life course
- promotes gender equity in caring
- promotes gender equity in the labour market
- promotes overall social inclusion.

Assessing models of parental leave

A key question when designing a universal paid parental leave scheme is who is going to pay for it. 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.

Alternatively, government could implement a legal requirement for all employers to provide some form of paid leave. This would also be problematic, as 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.

As there are wider social benefits to an effective parental leave scheme, the Brotherhood supports a mixed funding model where individuals, business and government all contribute in some form. The following considers three mixed funding approaches: enhancing the current market-based system

by expanding social security entitlements to protect those on low incomes; a defined contribution approach; and a defined benefit approach.

Expanding social security entitlements

An option that does not involve a significant departure from the status quo is to simply enhance the current market-based system of employer-provided leave by expanding social security entitlements to protect those on low incomes. This could be achieved with the following measures:

- increasing the level of Parenting Payment
- retain current eligibility (youngest child under 8 years)
- expand entitlement to working families by:
 - increasing free area and/or reducing taper rates
 - part-time activity test for school age children (including education and training)

While it provides a strong safety net for low-income parents, allows a strong focus on poverty alleviation and supports care for a significant period of a child's early years, such an approach is likely to have many undesirable consequences. A particular concern is that since these payments will be targeted to those on low incomes there will be stigma associated with them and they will lack wider public support. This could lead to social exclusion of low-income families. The approach could also act to discourage women with lower levels of education and skills from the workforce and find it difficult to re-enter once their children grow up. This exposes women to risks of longer term poverty and disadvantage, particularly in situations of family breakdown. The overall effect on a child's development is therefore uncertain.

Parental leave accounts (defined contributions)

Another potential model to fund parenting leave is to set up a form of parental leave account, where employees and employers make compulsory contributions into an interest-generating savings account, not unlike the current superannuation system. Contributions could be made on an individual or family basis. Government would contribute a subsidy per person or family, which would be targeted to those on low incomes. Individuals or families could also make voluntary contributions to this account.

For those families that can afford to make voluntary contributions, this type of system enables parents to take parental leave without a significant reduction in their income and thus is a positive for children's development. For those families that cannot afford voluntary contributions and instead rely on the government co-contribution, depending on the size of this co-contribution, the scheme might provide a poor buffer for low-income families to take time out of the workforce to care for their children. It is also unclear how the system would work for the non-employed. Moreover such a system also penalises younger families, as they would not have had time to build any significant asset base. It is unclear how gender equity in caring could be promoted in a model like this, particularly if it is based on individual contributions. Some condition could be imposed to ensure that entitlements were shared between couples, but it is likely to be unpopular and administratively difficult to monitor. Particular problems would arise when parents separate.

Parental leave insurance (defined benefits)

The third model outlined is to fund parental leave out of an insurance-based, or defined benefit, scheme. This type of social insurance model is used by many European countries, particularly the Scandinavian countries. In this model the national government is responsible for running the social insurance fund with compulsory contributions made by both employers and employees. Entitlements are based on prior earnings after a minimum period of contribution. A basic entitlement is made available to protect the unemployed and other low-income individuals or families, with ceilings on entitlements and contributions to contain the benefits provided to those on high incomes.

Again, questions about details of the scheme include: is eligibility based on individual or family contributions, what are the sharing entitlements of couples, are time limits set for each parent's claim (for example, in several Scandinavian countries the limit is 3 years and in some countries fathers must take some of this leave for the family to be entitled to the benefit). The scheme could be set up so that parents share entitlements when they separate: in the European examples the custodial parent gets a greater entitlement and the non-custodial parent a part-payment.

Table 1.1 provides a summary assessment of the three models discussed against the key criteria. The insurance based scheme has the potential to rate quite highly. The main barrier to it is that Australia has no tradition of social insurance, and it would need to be integrated into the current system of social support that funded by a mixture of general revenue and defined contributions (for retirement incomes).

Table 1.1 Summary of models assessed models against key criteria for parental leave scheme

Key criteria	Social security	Parental leave accounts	Parental leave insurance
Children's development	No	Yes	Yes
Values care	Yes	Yes	Yes
Poverty prevention	Yes	No	Yes
Life-course redistribution	Yes	No	Yes
Gender equity	No	No	Yes
Social inclusion	No	Yes	Yes

Other measures to promote social inclusion of parents with newborn children

Improving support for parents for newborn children is about more than just getting the setting of paid maternity/parental leave right. It is also important that other work-family measures are offered in the workplace and that the overall tax and transfer system, including family and child care payments, supports families to make choices that are best for their individual circumstances. It is important that while care should be valued, that broader policies do not discriminate against partnered women with children who choose to move between care and paid employment. We therefore also stress the importance of the Henry tax review taking these issues into account when developing recommendations for the future of Australia's tax system. Particular attention should be paid to the following:

- reducing the high effective marginal tax rates on secondary earners (usually women) with children, which currently discourage many mothers from re-entering the workforce.
- redesigning family and child care payments to promote both economic efficiency and social inclusion.
- introducing some form of in-work benefit as a reward for households in which parents increase their hours of paid work
- positive rather than punitive treatment of sole parent households, given that they are often both time and income poor.

References

Australian Bureau of Statistics (ABS) 2007, *Australian social trend, 2007*, Cat. no. 4102.0, ABS, Canberra.

Australian Government 2007, *Intergenerational report 2007*, Commonwealth of Australia, Canberra, viewed 29 May 2008, <http://www.treasury.gov.au/documents/1239/PDF/IGR_2007_final_report.pdf>.

Business Council of Australia (BCA) 2007, *Employing our potential: ensuring prosperity through participation*, Workforce Participation Roundtable discussion paper, viewed 1 June 2007, <<http://www.bca.com.au/Content.aspx?ContentID=101063>>.

Council of Australian Governments (COAG) 2006, *Human capital reform: report by the COAG National Reform Initiative Working Group*, viewed 1 June 2007, <<http://www.coag.gov.au/meetings/100206/index.htm>>.

Fouarge, D 2003, *Costs of non-social policy: towards an economic framework of quality social policies – and the costs of not having them*, Report for the Employment and Social Affairs DG, European Commission, Brussels.

Gornick, J, Meyers, M & Ross, K 1997, 'Supporting the employment of mothers: policy variation across fourteen welfare states', *Journal of European Social Policy*, no.1, pp.45–70.

Jaumotte, F 2003, 'Female labour force participation: past trends and main determinants in OECD Countries,' Working Paper No. 376, OECD Economics Department, Paris.

Productivity Commission 2006, *Workforce participation rates – how does Australia compare?*, viewed 1 June 2007, <www.pc.gov.au/research/swp/workforceparticipation/index.html>.

Solera, C 1998, 'Income transfers and support for mothers' employment: the link to family poverty risks. a comparison between Italy, Sweden and the U.K', Luxembourg Income Study Working Paper No. 192, viewed 1 June 2008 <www.lisproject.org/publications/liswps/192.pdf>.