Paid Parental Leave: Support for Parents with Newborn Children

Productivity Commission Draft Inquiry Report

This is a draft inquiry report prepared for further public consultation and input.

The Commission will finalise its report after these processes have taken place.
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The Productivity Commission

The Productivity Commission, is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by consideration for the wellbeing of the community as a whole.

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (03) 9653 2244
Opportunity for further comment

You are invited to examine this draft report and make written submissions to the Productivity Commission. Written submissions should reach the Commission by Friday 14 November 2008. If possible, please provide submissions by email.

Public hearing dates and venues

Public hearings will be held at various locations during the three weeks beginning Monday 10 November 2008.

The locations chosen will depend upon the number of participants who wish to discuss their submissions with Commissioners in each location. The Commission will seek to assess this in the period following the release of the draft report.

Public hearing locations and venues will be announced on the inquiry website during October.

A guide to the report

This report is presented in discrete sections.

- A detailed description of the draft model of paid parental leave that the Commission is proposing is contained in chapter 2, which also provides an overview of the reasoning behind each element in the model.

- Evidence pertinent to each of the key issues underlying the model’s design is contained in the subsequent chapters, which include participants’ views, insights from external studies and details of the Commission’s analysis of the evidence.

- Some technical matters are discussed in the appendices, most of which are not reproduced herein but will be made available on our website at www.pc.gov.au.

The final report will be prepared after submissions have been received, and will be forwarded to the Government by the end of February 2009.
Acknowledgment of data used

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 Whitehouse, G., M. Baird and C. Diamond (2005), and was funded through the Australian Research Council Linkage Project.

Commissioners

For the purposes of this inquiry and draft report, in accordance with section 40 of the Productivity Commission Act 1998 the powers of the Productivity Commission have been exercised by:

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
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The following appendices are referred to in the chapters but not included in this draft report. They will shortly be made available on the inquiry website (www.pc.gov.au/projects/inquiry/parentalsupport).

C Patterns in parental leave taking in Australia
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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
HILDA  Household, Income and Labour Dynamics in Australia Survey
HREOC  Human Rights and Equal Opportunity Commission
ILO  International Labour Organization
LSAC  Longitudinal Study of Australian Children
NES  National Employment Standards
OECD  Organisation for Economic Co-operation and Development
WHO  World Health Organization
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td><strong>eligible fathers</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>HILDA</strong></td>
<td>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. HILDA is funded by FaHCSIA and managed by the Melbourne Institute of Applied Economic and Social Research.</td>
</tr>
<tr>
<td><strong>LSAC</strong></td>
<td>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. 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. The study is being conducted by the AIJS, together with researchers from other universities and research institutions.</td>
</tr>
<tr>
<td><strong>paternity leave</strong></td>
<td>Leave that is quarantined for the sole use of fathers or other eligible partners on a ‘use it or lose it’ basis.</td>
</tr>
<tr>
<td>‘<strong>use it or lose it</strong>’</td>
<td>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.</td>
</tr>
</tbody>
</table>
OVERVIEW
Key points

- The Commission proposes the introduction of a taxpayer-funded paid parental leave scheme that would:
  - 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)
  - provide the adult minimum wage (currently $543.78) for each week of leave for most eligible employees, with benefits subject to normal taxation.

- All employees with a reasonable degree of attachment to the labour force would be eligible, including the self-employed, contractors and casual employees.

- A broad range of family types would be eligible, including conventional couples, lone parents, adoptive parents and same sex couples, so long as they meet the employment test.
  - Those families not eligible for paid parental leave would be entitled to a maternity allowance (the equivalent of the baby bonus) and other social transfer entitlements.

- Businesses would also participate in the scheme by acting as ‘paymasters’ for the government-funded scheme, and by providing capped superannuation contributions for employees for the period of leave taken, but only for those employees who are eligible for such benefits before taking leave and who are entitled to unpaid leave.

- Such a scheme would have several advantages. 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 leave absence will increase by up to nine weeks, which will allow the vast majority of children to be exclusively cared for by their parents for at least the first six months after birth
  - stimulate lifetime employment rates of women — potentially contributing around six months of net additional employment per woman
  - increase retention rates for business, with reduced costs for training and recruitment
  - promote some important, publicly supported social goals, and in particular, the normalcy of combining a caring role for children and working.

- The Commission estimates that its proposal will cost around $530 million annually in net terms (of which taxpayers would contribute around $450 million and business $75 million)
  - These costings take account of significant offsets from reduced social welfare payments (including removal of the baby bonus for employed 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

Last year, around 285 000 children were born in Australia. Of these, 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 are a large number of employed mothers who need to take a period of 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 any other time in Australia’s history. For instance, in the key reproductive years of 25–34 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 has recently indicated its intention to extend the right to request an additional 52 weeks of unpaid parental leave through the National Employment Standards. Against the background of the widening statutory entitlement to a long period of unpaid leave, the Australian Government asked the Commission to consider the design and impacts of providing a paid maternity, paternity and parental leave scheme in Australia.

Box 1  Babies and parental leave

Around 285 000 babies were born in 2007, with around 110 000 mothers not employed at birth and 175 000 in paid work prior to birth.

Using adjusted ABS figures, 53 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 (69 per cent for females) than part-time jobs (34 per cent for females).

Only around 10 per cent of women on very low wages had access to paid maternity leave compared with around 80 per cent for those on high wages.

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

<table>
<thead>
<tr>
<th>Mothers returning to paid work after childbirth(^{a})</th>
<th>3 months</th>
<th>6 months</th>
<th>12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>All mothers</td>
<td>11%</td>
<td>20%</td>
<td>41%</td>
</tr>
<tr>
<td>All mothers in paid work prior to childbirth</td>
<td>15%</td>
<td>29%</td>
<td>58%</td>
</tr>
</tbody>
</table>

\(^{a}\) Based on the Longitudinal Study of Australian Children.

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

![Graph showing workforce participation by gender and partnership status from 1978-79 to 2007-08]
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 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 comparatively 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 2**  
Australia is relatively generous to families  
Government spending on family policies as a share of GDP

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 hardship — 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 emerging community norms that taking time away from the paid workforce to care for an infant is a normal part of life and work for many people, including fathers, and should be explicitly recognised. This rationale for paid leave is 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 the scheme must be paid for. Nevertheless, it is an important rationale for the Commission’s approach.

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

**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 child and maternal health and welfare benefits from a period of postnatal absence from work for the primary caregiver of around six months and a reasonable prospect that longer periods (of up to 9–12 months) are beneficial.

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 appear to diminish for periods 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.

_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, 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 (the Royal Australian College of General Practitioners, 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 off 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 15 per cent of mothers who were in paid work prior to childbirth return to work by three months, around 30 per cent by six months and around 60 per cent by the time the baby has reached one year old. Fathers take only very short periods of leave. And in Australia, most women breastfeed for much shorter periods than the six month ideal (and 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 off sufficient time from work to care for their children, the period after the birth of a baby, and the interruption to family income that 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 less 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 the Commission acknowledges that many women need some prenatal leave, women are sometimes able to use sick leave where there is a medical need, and the prenatal period is also covered by several existing 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 goal in designing a paid leave scheme is to provide enough postnatal leave, that when supplemented by people’s private efforts, would achieve an appropriate length of absence from work for most families.

Moreover, 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 and employers around $80 million before clawback through increased income tax receipts and reduced income-tested welfare payments (and around $70 million after these offsets). At some point, other areas of government spending or private consumption are more valuable to people (such as higher quality childcare services, lower hospital waiting lists, or more money to pay mortgage bills). 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 is proposing a leave period of 18 weeks of postnatal leave. The Commission’s own statistical analysis, supported by a significant body of international evidence, suggests that such a 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 5–9 weeks or up to 50 per cent of the proposed length of statutory paid leave.

- This effect is likely to be greater for financially constrained families, who are a particular target of this policy since they often have low representation in privately negotiated paid parental leave schemes. Given that even lower-income families have some financial resources, such as accumulated recreation leave, the overwhelming majority of parents would be able to provide exclusive care to their baby for six months.
- Periods of around nine months or more would generally be achievable for the 50 per cent of women who are already able to access privately negotiated paid maternity schemes.

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 Commission has also proposed two weeks of paternity leave (which cannot be transferred to the mother). Such quarantined leave recognises the benefits of involvement by fathers in the early months of a baby’s life, and 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.

While adequate duration of leave helps promote child and maternal wellbeing, other measures are also appropriate to help support parents of newborn babies. In particular, the Commission has recommended complementary measures to support breastfeeding.

**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.

The key labour supply issue is then whether women increase their labour supply, both over the long run following the early infant years of their children, but also prior to the birth.

Paid parental leave is an in-work benefit, acting like a de facto wage increase for employees. Given that the Commission’s scheme is predominantly tax-financed, rather than funded by employers, the costs of hiring parents do not increase 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 (partially offsetting the disincentives to work posed by existing social welfare payments).

Moreover, decisions by women around the time of birth of their baby are crucial to their future employment. 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. In the Commission’s proposed scheme this would be reinforced by a ‘keeping in touch’ provision, as in the United Kingdom, that allows parents on leave to return to work for short periods to participate in events like training days.
While it is difficult to measure the lifetime employment impact of the proposed scheme, the Commission estimates that a net increase in a woman’s lifetime employment of around half a year is certainly conceivable. 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, it is likely to lower wage growth for women 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 is 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, and given overseas evidence, will not, over the short run, have appreciable impacts on fathers’ willingness to participate in child-related domestic tasks for older infants. 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 Commission’s scheme has recognised this imperative.)

- provide a strong signal that having a child and taking time out of the paid workforce for family reasons is viewed by the government and the community as part of the normal course of life, and work, for parents, rather than a nuisance. A scheme that intends to signal such normalcy should be structured like other normal leave arrangements, such as those for recreation, illness and long service leave, rather than being structured as a social welfare measure.

While many participants in this inquiry say they would value these kinds of social impacts, not all agreed. Some prefer to organise their lives around a more traditional
gender division of responsibilities or 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 government to signal 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.

The Commission’s model

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 Commission’s 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.

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). The Commission proposes payment at the minimum adult weekly wage for all eligible parents,¹ with the exception of those on wage rates below the adult minimum (such as juniors), where the government would apply a lower rate. 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, principally family tax benefit A.

Under the Commission’s scheme, recipients would lose eligibility for family tax benefit B for the duration of the statutory leave and (mostly) would not be eligible for the maternity allowance (the Commission’s replacement for the baby bonus — see later). Parents on paid parental leave would still get substantially more than they would on welfare payments.

¹ The standard federal minimum wage is currently $14.31 an hour, with a weekly rate of $543.78.
Table 1  A snapshot of the Commission’s proposed model

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Duration</strong></td>
<td>18 weeks of paid <em>parental</em> leave. This must be commenced <em>after</em> any period of other continuous leave available at the birth of the child and <em>before</em> 6 months after birth. Leave would only be payable if leave were taken. An additional 2 weeks would be available as <em>paternity</em> leave, and would be reserved for the father (or other eligible partner) on a ‘use it or lose it’ basis.</td>
</tr>
</tbody>
</table>
| **How much?**    | The adult minimum wage (currently $543.78) for each week of leave, generally paid regardless of pre-birth incomes, and subject to taxation  
• special arrangements for those on lower statutory minimum wages (for example, juniors)  
• no access to family tax benefit B while on the scheme or to the new maternity allowance (the old baby bonus)  
For a subset of eligible employees, employer superannuation contributions while on leave, but benefits would only apply to the actual salary of the employee or the adult minimum wage, whichever is lower. Contribution rates limited to the statutory 9 per cent rate. |
| **Who pays?**    | 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  
Employers to fund capped superannuation entitlements to long-term employees (12 months) eligible for these before the statutory paid parental leave period  
An employer would initially pay their employees’ statutory parental leave entitlements, but only (a) for those employees entitled to unpaid parental leave under the National Employment Standards and (b) where there is an efficient and timely way for government to fully reimburse that employer, preferably through a credit to ‘pay as you go’ withholding payments to the ATO for those employers making at least monthly payments.  
• All other employees would be paid directly by the Australian Government. |
| **Eligibility and requirements for use** | Parental leave would be available only for a parent who is a primary carer  
Average of at least ten hours a week of work (with one or more employers) with continuous employment for the 12 months prior to the date of expected birth  
The scheme would cover all employees who met the employment test above, including the self-employed (including contractors) and casual workers  
To get 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 leave  
Eligible mothers can transfer paid parental leave rights to fathers and other eligible partners, if they also meet the required employment tests above. Such partners can access paid parental leave if the mother is not eligible, but only in special circumstances (eg. death of the mother)  
‘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  
No concurrent use of statutory *parental* leave by both parents, but paternity leave could overlap with a mother’s parental leave  
Adoptive parents can get access to leave for children of any age  
Provision for primary carer to adjust leave to ‘keep in touch’ with the business  
Parents giving birth to twins or more would get one leave entitlement, but receive the new maternity allowance for the additional children |
| **Complementary policies** | More support for breastfeeding and possible strengthening of policies that develop the parenting skills of those with newborn children  
Regulatory and information measures to assist business cope with disruption burdens |
| **Non-eligible parents?** | Families not eligible for paid parental leave would be entitled to the equivalent of the baby bonus ($5000) through a new maternity allowance and to other financial support through the social transfer system |
The Commission’s flat rate proposal means that the labour supply effects are greatest for lower income, less skilled women — precisely those who are most responsive to wage subsidies. Full replacement wages for highly educated, well paid women would be costly for taxpayers and, given the high level of attachment to the labour force, would have few incremental labour supply benefits.

**Eligibility**

The Commission proposes that only an employed person who is the parent and primary carer of a child should be able to access the scheme. This reflects the goal of the scheme to encourage exclusive parental care of children, not time away from work per se. Not all employees will be eligible (figure 3).

![Figure 3](image)  
**Who will be eligible?**

A qualifying period of an average ten hours work a week for the year before expected birth would prevent people only notionally participating in the labour market to qualify for the benefits. But 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 as is now customary in family policy, the Commission recognises all of them have legitimate claims for access to a scheme.
Parents giving birth to twins or other multiple babies would be entitled to one set of paid parental leave entitlements, and the maternity allowance for each additional child.

People outside the labour force and employees not meeting the employment test outlined above would be ineligible for mandated paid parental leave. Nevertheless, given the existence of the baby bonus, and the community desire to support all parents of newborn children, those not eligible to paid parental leave would be entitled to some financial support through the social transfer system at least at the same level of the existing baby bonus. (The Commission proposes that the existing baby bonus be replaced with an equivalent, but non means-tested ‘maternity allowance’ only available to those not eligible for 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 ‘stay at home’ parents. However, those concerns have to be placed in context:

- Australia’s tax and transfer system recognises that different families have different needs. In particular, a family with one ‘stay at home’ parent obtains generous family tax benefits and other payments that — over a lifetime — exceed those of other families. This is appropriate given their income circumstances and it recognises that caring for children is a valued activity.

- Employed mothers pay significant taxes, but they also get benefits from childcare rebates and, under the Commission’s proposal, access to a paid parental leave scheme. On average, while these families will gain from a paid parental leave scheme, they will continue to receive fewer lifetime benefits than families where one parent does not work.

- The Commission’s paid parental leave scheme has distributional consequences, but that is not its purpose. Rather, the scheme intends to achieve certain outcomes — 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 stay at home parent 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.)
‘Normalcy’ of parental leave and maximising 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 looking after children while still being employed is just a normal part of working life.

Box 2  Some examples of what parents receive

1. Laura is a mother working in a part-time job earning $400 a week. She is entitled to, and takes, 18 weeks of paid parental leave at $543.78 per week (about $9788 in total). She also receives about $648 in employer contributions to her superannuation fund over that period. Her total package of benefits is around $10 436 in gross terms for the 18 weeks of leave.

   By taking leave, Laura forgoes the new maternity allowance, loses some family tax benefits and pays some tax. After all of these offsets, she receives $3037 more than she would have received without the scheme being in place.

2. Six months before she has her first baby, 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 gets the maternity allowance of $5000, and $654 of family tax benefits, giving her an overall package of $5654 for the 18 weeks after the birth of her child. The paid parental scheme makes no change to the benefits she receives. This is the same for a mother who has never been in the paid workforce.

3. Where a father is eligible for paternity leave and takes the full two weeks of leave available, the family would receive $1088 (gross) from the government. The maximum employer contribution would be $98 if the father qualified for super. The father may pay additional tax and the family may lose some family tax benefits, with the amounts depending on his income.

| Maximum gross payments under the Commission’s scheme |
|---------------------------------|-----------------|-----------------|-----------------|
| Paid parental leave | Paid paternity leave | Total |
| Government contribution | $9 788 | $1 088 | $10 876 |
| Employer contribution | 881 | 98 | 979 |
| Total | **10 669** | **1 185** | **11 854** |
The Commission’s model incorporates several features that would help achieve these outcomes:

- employers would make superannuation contributions for their employees on statutory paid parental leave (as is customary for some other forms of paid leave), but only if their employees were eligible for these entitlements before taking leave and were also eligible for unpaid parental leave under the National Employment Standards

- as in the United Kingdom scheme, employees would generally be paid their parental leave through their employer, though the employer would be speedily reimbursed by the government (The Commission has estimated that the cash flow consequences of firms acting as paymasters for government are negligible.)

- 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).

**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 that depends on the composition of their workforce)

- 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 — again being effectively a variable tax, with its rate depending on the employee composition of an employer.

- (generally elegant) 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 existing taxpayers, specific employers or employees — to contribute at least some amount to the costs of a paid parental leave scheme. Governments themselves never really finance anything since they have to raise the funds from someone else. A government-enforced obligation to pay something might not always be called a tax, but it is one. Accordingly, the choice really is between competing forms of tax (and varying levels of co-contributions by parents).

The Commission has proposed that the cash component of the leave scheme be raised through general revenue — that is, by 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.

Employers would participate in the scheme by providing superannuation contributions to relevant employees, but would otherwise have few obligations beyond those already applying under the National Employment Standards. Providing super contributions would be 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. As a result, many small businesses would not face increases in compliance or financial costs for the vast majority of the time (box 3).

Parents would contribute too. The Commission’s scheme does not provide payment for the full period of leave from work that parents take to care for their children. We estimate that if parents choose to take at least six to nine months off work, they will have to self-fund up to half of the leave period they take.

**How much will it cost?**

The Commission estimates that its scheme would cost taxpayers around a net $450 million annually and the community as a whole around $530 million, reflecting the net business contribution. Taxpayer funding of the statutory paid
parental leave scheme would represent only about a 2 per cent increase in existing outlays by government on family assistance measures.

<table>
<thead>
<tr>
<th>Box 3</th>
<th><strong>Impacts on business</strong></th>
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<tbody>
<tr>
<td>The financial impacts on business would be constrained by:</td>
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<tr>
<td>• capping their contributions to superannuation by applying the contribution rate to the employee’s actual pre-leave wages or the adult minimum weekly wage — whichever is lower</td>
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<tr>
<td>• limiting the super contribution rate to the statutory 9 per cent, even if the business usually paid more than this</td>
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<tr>
<td>• restricting these contributions to employees who</td>
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<tr>
<td>— passed the eligibility requirements for statutory paid parental leave (in particular, the 10 hour, continuous employment test) <strong>and</strong></td>
<td></td>
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<tr>
<td>— received super entitlements before going on paid parental leave <strong>and</strong></td>
<td></td>
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<tr>
<td>— were eligible for unpaid parental leave under the National Employment Standards.</td>
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<tr>
<td>The maximum financial cost in respect of any employee would be about 3 per cent of their 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.</td>
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<tr>
<td>Employers would act as the paymaster for government. Using their usual pay cycle, an employer would initially pay the minimum adult wage to an employee on paid parental leave, but only:</td>
<td></td>
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<tr>
<td>• for those employees eligible for unpaid parental leave under the National Employment Standards <strong>and</strong> where there was an efficient and timely way for government to reimburse that employer</td>
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<tr>
<td>— while there may be other options, the Commission’s proposed reimbursement mechanism would be a credit to ‘pay as you go’ withholding payments to the ATO for those employers making at least monthly payments.</td>
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<tr>
<td>The business would only face additional compliance and cash flow costs when an employee was on paid parental leave — with no change otherwise.</td>
<td></td>
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<tr>
<td>Compliance and cash flow costs would be minimised by using existing administrative systems, quick reimbursement and better leave notice arrangements than under the current National Employment Standards.</td>
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<tr>
<td>Business would benefit from the scheme through higher employee retention rates.</td>
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The cost would have been significantly higher but for the (deliberately crafted) interaction of the Commission’s scheme with the tax and welfare system (figure 4).

Savings arise from taxes on paid leave and forgone baby bonus payments and other welfare payments. There may be other tax and welfare savings too over the longer run. These are associated with the greater lifetime employment of women and from
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.

Figure 4  The net cost of the scheme

Another way of understanding the underlying net cost of the Commission’s scheme is to consider how each of the 18 weeks of leave is funded (figure 5). The first nine weeks of the 18 is funded by removing the baby bonus and replacing it with a maternity allowance only available to those not using statutory paid parental leave. The next four weeks are largely funded by taxes on parents’ earnings from statutory paid parental leave and reduced family tax benefits. Taxpayers really only fund around 5 weeks of leave on a net basis. (The superannuation and paternity elements of the package are shown as ‘top ups’ on the standard weekly benefits in the chart.)
Figure 5  Financing of paid parental leave

(0) Includes the net funding of paternity leave and tax deductions for employers' superannuation.
The Australian Government should introduce a statutory paid parental leave scheme that provides:

- paid leave capped at the adult minimum wage for each week of leave for those covered by adult minimum wages
  - but with lower rates — to be set administratively — for juniors and others with hourly wages below the adult minimum
- payments to be taxed and included in income for assessment of any welfare benefits
- leave benefits for parents having twins or higher multiple births to be equal to those for parents bearing one child, supplemented by a payment equivalent to the new maternity allowance for each additional child (draft recommendation 2.6)
- superannuation entitlements calculated on the going wage of the employee or at the relevant capped amount, whichever is the smaller, but
  - this would only be available for employees who (a) have met the Commission’s eligibility criteria for paid parental leave under draft recommendation 2.4; (b) were entitled to employer superannuation contributions in their jobs before taking paid parental leave; and (c) were entitled to unpaid parental leave under the National Employment Standards
  - super contributions would be limited to the statutory 9 per cent rate
  - subject to its practical feasibility, including consideration of its compliance and administrative costs.

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 parents are on paid parental leave
- replacing the baby bonus with another, differently focused payment as set out in draft recommendation 2.6.
Employers should fund superannuation contributions during the paid parental and paternity leave period, but only under the conditions specified in draft recommendation 2.1.

DRAFT RECOMMENDATION 2.3

The employer should initially make payments to employees under the statutory parental leave scheme, with subsequent reimbursement 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 and
• a workable method for speedy reimbursement of that employer was feasible
  – the Commission’s preferred approach is for employers that make at least monthly ‘pay as you go’ withholding payments to the Australian Taxation Office to receive reimbursement through those payments, with all other employers exempt from the obligation to act as a paymaster.

The Australian Government should pay other eligible parents directly, preferably through a non-welfare agency.

DRAFT RECOMMENDATION 2.4

The statutory paid parental leave scheme should be available for an employed parent (including the self-employed and contractors):

• who has worked an average of at least ten hours a week on a continuous basis for 12 months or more prior to the expected birth date of the baby, and
• who is also the primary carer of their baby.

DRAFT RECOMMENDATION 2.5

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 (and other eligible partners) a two week period of exclusive paternity leave on a ‘use it or lose it’ basis, even if the mother was not eligible for statutory paid parental leave
• 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.
The existing baby bonus should be replaced with an equivalently-valued, non-income tested maternity allowance, payable only to those parents not using statutory paid parental leave (with the exception of multiple births as set out in draft recommendation 2.1).

However, where a parent takes a shortened period of paid parental leave whose value is less than the maternity allowance, the parent would be entitled to a payment equal to the difference.

The statutory paid parental leave scheme should provide a total of 18 weeks of paid leave for parents of a newborn child who meet the employment test, including:

- a requirement that (a) the period of leave must commence at birth, or after a period of other continuous leave that commences at the birth of the child; (b) must be commenced within six months of birth; (c) leave must be taken in one block; (d) only one transfer of paid parental leave between parents would be permitted and (e) there be no concurrent use of paid parental leave by parents
- mothers of a stillborn baby, where the baby meets the requirement for birth registration
- parents of non-familial adoptions, regardless of the child’s age, from the time of placement
- custodians of surrogate children, but subject to its compatibility with an impending uniform framework for surrogacy across Australian jurisdictions, (with provision for 12 weeks of paid parental leave to the surrogate mother).

Parents could take any paid parental leave remaining if their baby died.

Any outstanding leave could be transferred to the partner if the primary carer died.

Paternity leave could be taken concurrently with the mother’s paid parental leave but would have to be taken within six months of the birth of the child.

When the National Employment Standards are next subject to revision, the Australian Government should amend:

- section 21 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
• section 15 to provide job return guarantees to adoptive parents equivalent to natural parents.

DRAFT RECOMMENDATION 2.9

In addition to publicly provided information on the workings of a statutory paid 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 sets out any obligations by employers.

DRAFT RECOMMENDATION 2.10

A 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.

DRAFT RECOMMENDATION 2.11

The Australian Government should provide more resources to allow effective support for breastfeeding during the first six months of an infant’s life, with a focus on the post-initiation stage.

DRAFT RECOMMENDATION 2.12

The Australian Government should undertake:

• ongoing assessments of the interaction of the paid parental leave scheme with the tax and welfare system
• an evaluation of the administrative aspects of the scheme two years into its life
• a comprehensive evaluation of the impacts of the scheme five years into its life.

Requests for feedback

The Commission welcomes feedback on all aspects of its proposed model of paid parental leave — for example, its advantages and disadvantages, unintended consequences and implementation issues. In particular, the draft report has highlighted that the Commission seeks participants’ views on:

XXXVIII PAID PARENTAL LEAVE
• an effective arrangement to deal with the definition of the self-employed/contractors and that would ensure appropriate compliance (section 2.5)
• the practicality and merit of allowing paid parental leave to be taken part-time (section 2.5)
• whether (and if so, how) the scheme could provide fathers with more equal access to paid parental leave, without risks of unintended consequences (section 2.5)
• the likely disruption burdens for employers associated with employees taking longer periods of leave (section 2.6)
• the patchwork of government programs that support parents with children under two years of age, and in particular:
  – gaps in services
  – learning from the existing policy measures
  – policy measures that would increase the effectiveness of existing programs, including coverage, the triggers for parents’ access to services, resourcing, and service delivery. (section 2.8)
• whether other leave entitlements, such as sick, recreation and long service leave, should accrue during the period of paid parental leave, having regard to its costs and appropriateness (section 8.8)
• the costs involved in mandating the provision of (capped) employer superannuation contributions while an employee is on paid parental leave (section 8.8).
1 Objectives of statutory paid parental leave

Key points

- Participants proposed a range of objectives for mandatory paid parental leave including: maternal and child health and welfare; work/family balance; 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 work 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
  - 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 any 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. The Australian Government intends to introduce, through the National Employment Standards, the right for employees 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’, a $5000 payment on the birth of a child, provides virtually all mothers with the equivalent of, say, 14 weeks parental leave 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.
- Greater acceptance of the normality of simultaneously having dependent children and paid work has led to a significant closing of the gap in workforce participation rates of married and unmarried women, and of married men and women.
• 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 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 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) 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). It said it has:

> … undertaken substantial work over an extended period of time on the need for a national scheme of paid leave entitlements for parents, including paid maternity leave, paid paternity leave (described as ‘supporting parent leave’ in [its] submission) and paid parental leave … (sub. 128, p. 4)

**Source:** HREOC, sub. 128, pp. 4–12.
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 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 childcare 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 work-family balance*
- *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’ (transcript, 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 transcript, 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. (transcript, 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.
• 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 such a scheme would facilitate better work-life balance by helping change attitudes and sanctioning the normality of taking a period of leave from work 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. (transcript, 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. (transcript, 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. (transcript, 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)
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 ‘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 about 250 submissions and roughly 500 personal feedback emails, overwhelmingly 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 two years of age, the $5000 baby bonus is payable. It is non-taxable and, from January 2009, will be paid in 13 fortnightly instalments and means-tested to families earning less than $150 000 per annum (as assessed on family earnings in the six months after the birth) (chapter 9).
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 allowance 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:

- enhancing maternal and child health and development
- facilitating workforce participation
• 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 work 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.

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.

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**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.

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. (transcript, 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.

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)

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).

Table 1.1 Objectives and some implications for scheme design

<table>
<thead>
<tr>
<th>Policy objective</th>
<th>Key issues</th>
<th>Possible implications for scheme design</th>
</tr>
</thead>
</table>
| Maternal and child health | • time needed away from 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 | • the length of time away from work to enable maternal recovery  
• the length of time away from work 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 | • 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) | • 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 | • 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 | • 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.
## Table 1.2  Key choices to be made in scheme design

<table>
<thead>
<tr>
<th>Duration</th>
<th>Financing</th>
<th>Generosity</th>
<th>Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarantined leave</td>
<td>Government (state/federal), that is,</td>
<td>Lower than minimum wage</td>
<td>Those eligible for current unpaid leave</td>
</tr>
<tr>
<td>for mother or father?</td>
<td><em>Taxpayers:</em></td>
<td>Minimum wage</td>
<td>Broader groups:</td>
</tr>
<tr>
<td>(eg use it or lose it for men)</td>
<td>• general revenue</td>
<td>Replacement wage:</td>
<td>• casuals</td>
</tr>
<tr>
<td></td>
<td>• payroll tax</td>
<td>• with or without wage caps</td>
<td>• fixed term</td>
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<td></td>
<td>• unspecified</td>
<td></td>
<td>• self-employed</td>
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<tr>
<td></td>
<td>• personal family accounts rolling in family payments</td>
<td></td>
<td>• unpaid family workers</td>
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<tr>
<td>Mandatory periods of leave? (eg antenatal period, maternal recovery?)</td>
<td><em>Employees:</em></td>
<td></td>
<td>Family circumstances:</td>
</tr>
<tr>
<td>Leave in blocks or flexible?</td>
<td>• HECS style loan</td>
<td></td>
<td>• mothers</td>
</tr>
<tr>
<td>Antenatal period</td>
<td>• insurance scheme</td>
<td></td>
<td>• fathers</td>
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<tr>
<td>• 2–4 weeks?</td>
<td>• unpaid leave</td>
<td></td>
<td>• single parents</td>
</tr>
<tr>
<td>Postnatal period:</td>
<td>• superannuation access</td>
<td></td>
<td>• adoptive parents</td>
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<tr>
<td>• 12 weeks (Singapore, New Zealand)</td>
<td></td>
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<td>• same sex partner</td>
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<tr>
<td>• 20–24 weeks (EU &amp; Nordic)</td>
<td></td>
<td></td>
<td>• grandparents/aunties/others who are prime carers</td>
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<tr>
<td>• Longer (Nordic)</td>
<td></td>
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<tr>
<td>Variations in length or starting point by type of family?</td>
<td><em>Mixed:</em> Co-funding by any mix of:</td>
<td>Inclusion of entitlements (super/leave)?</td>
<td></td>
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<tr>
<td>• disability</td>
<td>• Employer</td>
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<tr>
<td>• adoptive parents</td>
<td>• Govt. base contribution or tax credit to business</td>
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<tr>
<td>• stillborn children</td>
<td>• Employee</td>
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<td>• surrogate mothers</td>
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<tr>
<td>Transition issues (eg should longer periods be slowly introduced?)</td>
<td><em>Differential treatment of:</em></td>
<td>Treatment of payment for tax purposes/ family income</td>
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<tr>
<td></td>
<td>• small businesses</td>
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<td>• low income versus high income employees for employee-funded schemes</td>
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<td>• high income employees for employee-funded schemes</td>
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<td></td>
<td>Administrative arrangements:</td>
<td>Contingency:</td>
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<td></td>
<td>• paid directly from govt</td>
<td>• only paid for weeks taken (early return means less money)</td>
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<td>• paid by firm, regardless of financing</td>
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<td>• government subsidies to firms for administrative/cash flow costs</td>
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<td>• integration with existing arrangements</td>
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<td>Transition issues:</td>
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<td>Control:</td>
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<td></td>
<td></td>
<td>• paid to woman or not specified?</td>
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<td>Payement structures:</td>
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<td></td>
<td></td>
<td>• fixed instalments</td>
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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.
• 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.

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. 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).

**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’ babycare behaviour is affected by the length of time the mother stays at home after the birth (Public Health Association of Australia, transcript, 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 Commission proposes the introduction of a statutory paid parental scheme that would:

- be accessed only by an employed parent who is the primary carer of a child and who has an average of at least ten hours employment a week (with one or more employers) on a continuous basis for the year prior to the expected birth date of the child:
  - coverage would extend to all people meeting this employment test, including full-time, part-time and casual employees, the self-employed and contractors
- allow scope for a broad range of families to participate, including adoptive parents, same sex couples, and surrogate mothers
- provide paid leave for a maximum 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)
- provide the adult minimum wage (currently $543.78) for each week of leave for most eligible employees, with benefits subject to normal taxation and with no access to the baby bonus equivalent or family tax benefit B while on statutory paid leave. There would be:
  - lower rates of pay for those on lower statutory minimum wage rates, such as juniors
  - additional entitlements for parents of multiple births
- provide capped superannuation entitlements for the paid parental and paternity leave period for longer-term employees eligible for such benefits prior to the parental leave period
- be largely funded by taxpayers, with employers responsible for superannuation contributions when these are applicable:
  - employers would also act as paymasters where the employee has sufficient tenure with the business, but the government would reimburse them promptly through adjustments to PAYG withholding payments.

The scheme would be supported by complementary measures that:

- enhance support for breastfeeding
- help business cope with disruption burdens associated with greater leave taking

Those families not eligible for paid parental leave would be entitled to the equivalent of the baby bonus ($5000) through a new maternity allowance and to other financial support through the social transfer system.

The Commission estimates that the annual gross costs of the scheme would be $1.5 billion, with the government (taxpayer) funding 93 per cent (or around $1.4 billion) of this.

- In net terms, the comparable figures are $527 million, with the government (taxpayer) funding 86 per cent (or around $450 million) of this, reflecting tax savings and changes to the baby bonus.
2.1 How to view the Commission’s model

The Commission proposes a government-financed paid parental leave scheme of 18 weeks at the minimum wage, with employer-financed superannuation contributions. 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 in subsequent chapters. In most instances, we provide simple and brief explanations for our choices, but for some model features, particularly the desired duration of leave, 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.

The Commission has proposed a specific, preferred model that provides a clear basis for feedback from participants, rather than setting out a wide set of options. 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. That said, in the practical implementation of any scheme, small variations in our model are unlikely to affect its effectiveness materially.

We emphasise that this is a draft report. The Commission frequently alters draft recommendations if evidence or argument is sufficiently strong to do so. We welcome feedback on all aspects of our proposed model, covering its advantages and disadvantages, unintended consequences and implementation issues, among other things. In particular, we would like to note that:

- there are bigger doubts in some model design areas than in others. In the main, this reflects greater uncertainty about the impacts of certain model features or the difficulty in judging how the model should handle emerging norms about gender equity. As an illustration, we prefer that a scheme include a period of leave only available to fathers that they would lose if they did not use it, but we are less certain of the benefits of this measure. Similarly, we have flagged that our proposal for employer contributions to superannuation depends on its practical feasibility, including a consideration of its compliance and administrative costs;

- the Commission’s proposed scheme — like those operating overseas — is complex, reflecting the need to avoid unintended consequences, and to accommodate the various tradeoffs that inevitably arise in a scheme of this kind.
Nevertheless, that complexity has costs for government, business and employees, and there may be ways of reducing it while preserving the integrity of the scheme.

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, and in some instances recommended additions to them. The effectiveness of certain aspects of paid parental leave depend on other policy initiatives.

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 post-natal 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 model. We discuss the details and the reasons for the specific choices in subsequent sections.

### 2.3 How financially generous should the scheme be?

The Commission proposes that eligible parents would generally receive a payment equal to the adult minimum wage, currently at $543.78 a week. (We discuss some minor variations below.) The payment would be at the flat applicable rate, rather than prorated on wage earnings prior to the paid leave period.
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<th>Feature</th>
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<td><strong>Duration</strong></td>
<td>18 weeks of paid parental leave. This must be commenced after any period of other continuous leave available at the birth of the child and before 6 months after birth. Leave would only be payable if leave were taken. An additional 2 weeks would be available as paternity leave, and would be reserved for the father (or other eligible partner) on a ‘use it or lose it’ basis.</td>
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| **How much?**    | The adult minimum wage (currently $543.78) for each week of leave, generally paid regardless of pre-birth incomes, and subject to taxation                                                                                               - special arrangements for those on lower statutory minimum wages (for example, juniors)  
- no access to family tax benefit B while on the scheme or to the new maternity allowance (the old baby bonus)  
For a subset of eligible employees, employer superannuation contributions while on leave, but benefits would only apply to the actual salary of the employee or the adult minimum wage, whichever is lower. Contribution rates limited to the statutory 9 per cent rate. |
| **Who pays?**    | 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  
Employers to fund capped superannuation entitlements to long-term employees (12 months) eligible for these before the statutory paid parental leave period  
An employer would initially pay their employees’ statutory parental leave entitlements, but only (a) for those employees entitled to unpaid parental leave under the National Employment Standards and (b) where there is an efficient and timely way for government to fully reimburse that employer, preferably through a credit to ‘pay as you go’ withholding payments to the ATO for those employers making at least monthly payments.  
- All other employees would be paid directly by the Australian Government. |
| **Eligibility and requirements for use** | Parental leave would be available only for a parent who is a primary carer  
Average of at least 10 hours a week of work (with one or more employers) with continuous employment for the 12 months prior to the date of expected birth  
The scheme would cover all employees who met the employment test above, including the self-employed (including contractors) and casual workers  
To get 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 leave  
Eligible mothers can transfer paid parental leave rights to fathers and other eligible partners, if they also meet the required employment tests above. Such partners can access paid parental leave if the mother is not eligible, but only in special circumstances (eg. death of the mother)  
‘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  
No concurrent use of statutory parental leave by both parents, but paternity leave could overlap with a mother’s parental leave  
Adoptive parents can get access to leave for children of any age  
 Provision for primary carer to adjust leave to ‘keep in touch’ with the business  
Parents giving birth to twins or more would get one leave entitlement, but receive the new maternity allowance for the additional children |
| **Complementary policies** | More support for breastfeeding and possible strengthening of policies that develop the parenting skills of those with newborn children. Regulatory and information measures to assist business cope with disruption burdens |
| **Non-eligible parents?** | Families not eligible for paid parental leave would be entitled to the equivalent of the baby bonus ($5000) through a new maternity allowance and to other financial support through the social transfer system |
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.

The Commission also proposes that many employees would be eligible for a superannuation contribution while on statutory paid parental leave, as is often customary for recreational leave. Entitlement to these benefits is 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 financial arrangements would work as follows:

- For employees earning weekly income below the minimum weekly wage, their superannuation entitlements would be calculated at the 9 per cent statutory rate on their usual wages prior to giving birth.
- Consistent with the ceiling on paid parental leave, the government would cap employer superannuation contributions. Accordingly, employees would receive no more than those on minimum adult wages. It follows that entitlements as a share of employee’s actual pre-birth wages would fall rapidly once the employee

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1 Over 18 weeks of paid parental leave, the maximum employee benefit would comprise a contribution of $881 paid in instalments over the usual pay cycle of the business (often fortnightly) — based on a 9 per cent super contribution of $881 (that is 18 weeks × $543.78 × 9%). 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.
was earning more than the adult minimum wage. The maximum benefit would be 3.1 per cent of annual wages.

The Commission also considered whether employees should be eligible for accrued leave entitlements while on statutory paid parental leave. While in principle, there is some merit to such a proposal, the Commission has identified several significant obstacles to its implementation and has sought feedback on whether these can be cost-effectively overcome (chapter 8).

The overall cash equivalent of the Commission’s package of paid parental leave, comprising its cash and super components, 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. (However, note that it must do so since the baby bonus and family tax benefit B has been withdrawn for everyone on the scheme — and paying them less would simply ‘force’ them to resign.)

**Figure 2.1  Low income earners benefit most from paid parental leave**

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

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The calculations include superannuation contributions as well as the cash component of paid parental leave. The estimates assume that the parent takes all the leave and takes account of taxes. The calculations ignore tax offsets and the loss of the baby bonus to those eligible for statutory paid parental leave. There is no subsidy for very low income earners since they do not meet the hours eligibility requirement.

*Data source:* Commission calculations.

Paid parental leave would be subject to taxation and would be recorded as part of assessable income for eligibility to welfare payments. 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).

We propose that the value of paid parental leave would remain pegged to minimum
wages as set by the responsible regulatory authority.

Arrangements for those on low wages

As noted above, payment for eligible parents would generally be at the adult
minimum wage rate. However, this might create problematic incentives for some
young employees on low wage rates, such as apprentices, trainees or those on junior
wages.2

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).3 Were such a junior to have worked the minimum hours to be just eligible
for paid parental leave, they would have been paid $3349 in the year preceding birth
of their child.4 They then would receive a total of $9788 in direct benefits during
the 18 week paid parental leave period (or nearly three times more than their usual
annual wage), plus any employer superannuation contributions. Parental leave paid
at this rate would create a bigger incentive for having a baby than the current baby
bonus and might trigger short-sighted decisions by some young people.

To reduce the risk of such short-sighted decisions, the Commission proposes that
the Australian Government should set lower rates of paid parental leave for
(relatively few) eligible employees earning below minimum adult weekly rates. The
rates should be set so that:

• they would not be so high that fertility decisions might be materially affected
• compared with welfare benefits, the relevant employees would still have an
incentive to stay employed while on leave caring for a baby.

2 Junior employees are those who are under 21 years of age and are not paid the full adult rate.
3 Clerks’ Award - Hotels and Registered Clubs - State 2003 (AN140068 – Qld). Trainee wages can
be even lower than this.
4 That is $10 \times 6.44 \times 52.$
The appropriate rates could be determined administratively. One relatively simple approach could be to set parental pay rates at 60 per cent of the adult minimum wage, or at the prevailing statutory wage floor for a low-wage employment category, whichever was the greater.

**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 equivalent of the baby bonus (our new maternity allowance), but not family tax benefit B, for any second or more babies. So, for example, a woman bearing triplets would receive a paid parental leave entitlement of a woman giving birth to one child, but would also get the equivalent of two (non-taxable) maternity allowances.

**DRAFT RECOMMENDATION 2.1**

The Australian Government should introduce a statutory paid parental leave scheme that provides:

- **paid leave capped at the adult minimum wage for each week of leave for those covered by adult minimum wages**
  - but with lower rates — to be set administratively — for juniors and others with hourly wages below the adult minimum
- **payments to be taxed and included in income for assessment of any welfare benefits**
- **leave benefits for parents having twins or higher multiple births to be equal to those for parents bearing one child, supplemented by a payment equivalent to the new maternity allowance for each additional child (draft recommendation 2.6).**
- **superannuation entitlements calculated on the going wage of the employee or at the relevant capped amount, whichever is the smaller, but**
  - this would only be available for employees who (a) have met the Commission’s eligibility criteria for paid parental leave under draft recommendation 2.4; (b) were entitled to employer superannuation contributions in their jobs before taking paid parental leave; and (c) were entitled to unpaid parental leave under the National Employment Standards
  - super contributions would be limited to the statutory 9 per cent rate
  - subject to its practical feasibility, including consideration of its compliance and administrative costs.
2.4 Who should finance the scheme?

The Commission proposes exclusive funding of any cash payments for paid parental leave by the Australian Government. 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 of paid parental leave 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.

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 paid parental leave scheme by changing other family payments:

- the current baby bonus would be replaced with an equivalent, instalment-based, (non-means tested) maternity allowance for those parents ineligible for paid parental leave

- the Australian Government would plough the remaining baby bonus funds into the paid parental leave scheme

- family tax benefit B (available for mothers and assessed on her income) would not be paid to those while on paid parental leave, with the resulting savings also ploughed into the leave scheme. The payment would resume after the statutory leave period if the woman 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, employers should provide the superannuation contributions discussed earlier, so long as this does not involve significant business compliance costs or legal and other administrative problems for government. The contribution would only be available to a subset of current beneficiaries of such entitlements:

- 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.

- An employee would only be eligible for such contributions if they also qualified for government paid parental leave. This would impose the additional requirement that the employee would have worked an average of 10 hours or more weekly for the business over the last year.

- In addition, only those employees currently eligible for employer superannuation contributions could receive these benefits.

Overall, the Commission estimates that around 85 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.\(^5\) To provide employer superannuation contributions for current non-recipients would involve higher compliance costs for 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.\(^6\) To do so, would be inconsistent with the underlying goals of superannuation policy generally and with workplace rewards (for example, loyalty to firms).

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\(^5\) 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.

\(^6\) 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.
The burdens on employers of super contributions would also be reduced because they would be:

- paid only at the statutory 9 per cent rate
- subject to ceilings, commensurate with the cap 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.

The Government would mandate the contributions only for the statutory scheme and would not require any obligations in relation to privately negotiated paid parental leave.

Under the Commission’s proposal, 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 (figure 2.2). (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 a business in a single year of a woman taking paid parental leave is around 3 per cent 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.

Some participants in this inquiry have called for mandatory ‘top ups’ by business. The Commission considers that any top up to full replacement wage would be voluntary and privately bargained.

Nor does the Commission favour any measures to require employers maintain their current privately negotiated schemes in the light of a taxpayer-funded scheme. Our view is that most employers will keep their existing programs to ensure they remain ‘employers of choice’. (While anecdotal, that appears to have been the New Zealand experience.) However, if employers and employees wish to re-structure their employee benefits through more family-friendly work environments, higher wages or other employee benefits, they should be free to do so. Not permitting this could frustrate consensual employer-employee arrangements for different types of work-family policies. It is highly likely — and desirable given the intent of a
statutory paid parental leave scheme — that any new packages of employee benefits that employees and employers may privately re-negotiate in the light of a statutory scheme, will be as least as valuable to employees as their current packages.

Figure 2.2  **The business contribution would be relatively small**

The business net cost takes into account tax deductions for business expenses. The government cost takes into account tax savings, and offsets to welfare payments, including the baby bonus. It also includes the implicit government contribution to business-provided super stemming from business tax deductions.

Data source: Commission calculations.

**Arrangements for paying leave**

Given the desire to link paid parental leave to work, where an employee has reasonable tenure with an employer, the employer would pay the parental leave payment and be reimbursed by the Australian Government up to the statutory requirement. 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 business to act as ‘paymaster’ for paid parental leave. This period is consistent with
the tenure requirements that underlie many of the obligations employers face under the National Employment Standards.

Structuring payments in this way strengthens the link between the employer and employee, which should increase retention rates for the business (and lead to higher lifetime employment by women). However, to be workable, the cash flow consequences for employers would need to be addressed through prompt reimbursement. The Commission is canvassing using existing ‘pay as you go’ (PAYG) withholding arrangements, but obviously, there may be alternative options.

Under PAYG withholding arrangements, employers withhold tax from their employees’ salaries and send the withheld amount to the Australian Tax Office (ATO). Employers make payments to the ATO at various frequencies (for example, weekly, fortnightly and monthly), depending on the size of their payroll. The Commission proposes that employers would initially pay employees the statutory paid parental leave entitlements in the way they would other forms of payment. The Government would then reimburse employers in the subsequent withholding period, by reducing withholding payments to the ATO by the amount of paid parental leave paid out (and would provide credits if necessary). For instance, an employer making a weekly withholding payment to the ATO would pay parental leave to their employees in week 1 and receive reimbursement by the government in week 2. Deferred reimbursement involves a small financing cost to business, estimated to cost at most $7 million in aggregate each year (or around $5 per relevant employee per month).7

The Australian Government would make direct payments to a parent, preferably through the Australian Tax Office or another non-welfare agency, where:

- an employee (or a self-employed person) does not meet the required 12 month tenure test with a given employer or
- a business does not make at least monthly withholding payments.8

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DRAFT RECOMMENDATION 2.2

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 parents are on paid parental leave

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7 This estimate is based on the assumption that all employers make withholding payments fortnightly and monthly, whereas employers with larger payrolls pay at higher frequencies (accordingly, with smaller cash flow implications).

8 This occurs when total business withholding payments are below the relevant threshold ($25 000 currently).
• replacing the baby bonus with another, differently focused payment as set out in draft recommendation 2.6.

Employers should fund superannuation contributions during the paid parental and paternity leave period, but only under the conditions specified in draft recommendation 2.1.

DRAFT RECOMMENDATION 2.3

The employer should initially make payments to employees under the statutory parental leave scheme, with subsequent reimbursement 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 and

• a workable method for speedy reimbursement of that employer was feasible
  – the Commission’s preferred approach is for employers that make at least monthly ‘pay as you go’ withholding payments to the Australian Taxation Office to receive reimbursement through those payments, with all other employers exempt from the obligation to act as a paymaster.

The Australian Government should pay other eligible parents directly, preferably through a non-welfare agency.

2.5 Eligibility and requirements for use

The Commission has crafted eligibility requirements for statutory paid leave to give parents as much flexibility as possible, while recognising that excessive flexibility can:

• impose costs on business and taxpayers

• confuse parents about their entitlements

• lead to unintended impacts — such as fraudulent claims.

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 National Employment Standards (where a three week period of concurrent leave is provided for under section 18).
Which employees would be eligible?

A critical prerequisite for eligibility to paid parental leave is genuine attachment to the labour market. The Commission proposes several tests. An employed parent would be eligible for the government-financed cash payment if they had:

• worked an average of ten hours a week in the 12 months preceding the expected date of the birth or adoption and

• been employed ‘continuously’ for the last 12 months, though not necessarily with the same employer (with ‘continuously’ defined so as 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).

These requirements would apply to second and later births as well as the first. The paid parental leave period would be counted as ‘employment’ (as is the case for leave generally), so would not break employment continuity for qualifying for subsequent paid parental leave.

The 12 month tenure and ten hour requirement 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 new maternity allowance.) 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.

The self-employed (and contractors) would also be eligible for paid parental leave with the same requirements above. There are several complexities associated with their eligibility that government would need to consider:

• The definition of the self-employed and contractors would need to be clear. If nothing else, this 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 new maternity allowance.

• An associated issue relates to the hours requirement of the Commission’s scheme. As shown in figure 5.4 in chapter 5, around 25 per cent of self-employed pregnant women work less than an average ten hours per week (the threshold for eligibility in our proposed scheme). 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.

Accordingly, the government would need some process to ensure the reasonable probity of such arrangements. This might involve a statutory declaration by the self-employed person and an accountant regarding hours of work (as in New Zealand) or/and a test to substantiate that the business is a genuine ongoing concern. The Commission seeks feedback from participants on an effective arrangement that would deal with both the definition of the self-employed/contractors and that would ensure appropriate compliance.

The Commission’s proposed statutory paid leave scheme would not extend the job guarantee rights of the National Employment Standards:

- An employee covered by those standards would have a job guarantee if they were on paid parental leave.
- However, an employee who was eligible for paid parental leave, but not covered by the Standards would not have a right to return to their job (for example, an employee who had worked for more than an average ten hours weekly over the last year, but with different employers). They would have to negotiate privately their return to work with their employer.

How would leave be allocated within families?

A single baby has many potential primary carers — the biological parents (whether partnered or not), stepfathers, stepmothers and adoptive parents. In some circumstances — as with estranged couples — there may be disagreements between them 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 are involved in the care of the baby, would receive a short period of paternity leave, even if the mother was not eligible for statutory paid parental leave. 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 currently is required under the National Employment Standards).

There may also be benefits from allowing parents to take 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 much 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. That said, a statutory obligation for employers to agree to this could be disruptive to many workplaces. A need for employer consent might reduce this concern, but employers might still feel obliged to give consent. **Accordingly, the Commission**
has not recommended provision for part-time paid parental leave. However, we seek feedback from participants on its practicality, costs and merit.

Fathers should sometimes get paid leave without the mother’s consent

The Commission’s scheme is more flexible than 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 maternity leave if the mother consents. In addition, the Commission proposes that in some exceptional 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)
- a court may provide joint custody that can only be given effect if the man can access leave independently of the woman’s consent
- 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, but invariably other, as yet unknown, exceptional circumstances will arise that would warrant transfer of paid parental leave rights to an otherwise eligible father or other party if the mother is unable to give consent. The Commission proposes that as in various other ‘special circumstances’ clauses in the Social Security Act 1991,9 the relevant departmental secretary be able to make an administrative determination.

The Commission’s scheme 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. The scheme applies this restriction because where the mother is ineligible, the most likely outcome is that she would be the primary carer of the child, thus

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9 For example, the secretary has the capacity to waive the work participation requirement for eligibility for parenting payments in special circumstances.
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 Human Rights Commission (Father and Child Society 2003). While that 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 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, the Commission seeks feedback on whether (and if so, practically how) our proposed scheme could provide fathers with more equal access to paid parental leave without risks of unintended consequences.

What about parents who are ineligible for paid parental leave?

Employees who do not meet the Commission’s proposed eligibility criteria and those outside the labour force would be ineligible for mandated paid parental leave. Nevertheless, given the existence of the baby bonus, and the apparent community desire to support all parents of newborn children, those not eligible to paid parental leave would be entitled to financial support through the social transfer system. The Commission proposes that the existing baby bonus should be replaced with an equivalently-valued, non-income tested maternity allowance. The allowance would only be available to those parents not using statutory paid parental leave, with the exception of:

- families with multiple births (as addressed in draft recommendation 2.1)
- parents who need to interrupt statutory paid parental leave, thereby losing access to payment for the residual leave period.

As an example of the latter case, a mother may need to resume employment if her small business’s viability depended on it or to meet family income needs on separation with her partner. The Commission proposes that where a parent takes a shortened period of paid parental leave whose value is less than the maternity allowance, the parent would be entitled to a payment equal to the gross difference. As a result, parents taking paid parental leave would not suffer disadvantage
compared with parents who were not in employment.\textsuperscript{10} That would be both 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.

DRAFT RECOMMENDATION 2.4

The statutory paid parental leave scheme should be available for an employed parent (including the self-employed and contractors):

- who has worked an average of at least ten hours a week on a continuous basis for 12 months or more prior to the expected birth date of the baby, and
- who is also the primary carer of their baby.

DRAFT RECOMMENDATION 2.5

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 (and other eligible partners) a two week period of exclusive paternity leave on a ‘use it or lose it’ basis, even if the mother was not eligible for statutory paid parental leave
- 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.

DRAFT RECOMMENDATION 2.6

The existing baby bonus should be replaced with an equivalently-valued, non-income tested maternity allowance, payable only to those parents not using statutory paid parental leave (with the exception of multiple births as set out in draft recommendation 2.1).

However, where a parent takes a shortened period of paid parental leave whose value is less than the maternity allowance, the parent would be entitled to a payment equal to the difference.

\textsuperscript{10} Some residual disadvantage may arise since, for practical reasons, the payment of the difference would probably need to be calculated on a gross, not net-of-tax basis. For example, were a woman to go back to work after six weeks (having received $3263 in gross parental leave payments), she would be eligible for $1737 in payment, adding up to $5000. However, since the $3263 would be subject to tax, the ultimate net value of payments would be less than $5000. Usually this would not make enough of a difference to alter ex ante behaviour by parents.
2.6 The duration and timing of leave

One of the most vexing elements of a paid parental scheme is its appropriate duration. This is because so many factors are relevant to the choice and because 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).

When should leave commence?

Parents would have to commence paid parental or paternity leave before six months after birth and could only initiate leave after the birth of the baby. The former requirement is based on the Commission’s understanding that the child welfare benefits of exclusive parental leave start to diminish with the age of the child (chapter 4). The latter requirement reflects the fact that:

- 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 (chapter 4).

- 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 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 (section 19(2) of the National Employment Standards).

A major advantage of not incorporating a prenatal leave period in a statutory scheme is ‘additionality’ (chapter 1). Since factors other than the existence of paid parental leave appear to determine the length of time women take prenatally, any payment during this period costs taxpayers money, without changing behaviour — poor additionality. Consequently, 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 goal of additionality would also be served by not allowing parents to take statutory paid parental leave concurrently with privately negotiated paid parental leave (or other forms of paid leave). This is normal for paid leave generally, and
would mean that a statutory paid parental leave scheme would be more likely to increase the overall period of leave taken (or if a person returned to work after a spell on a private scheme, would save taxpayers’ money). This would not preclude an employer from ‘topping up’ the statutory payment where it was below the replacement wage of the employee. It may well be that many employers will use ‘topping up’ as a strategy to increase the retention benefits of paid parental leave. (As emphasised earlier, the Commission considers that this should be a purely voluntary decision by employers or part of a bargained arrangement.)

While potentially there are benefits from allowing parents the capacity to stagger their leave, so that it might be punctuated by spells at work, this runs against the child welfare benefits of continuous exclusive parental care. Accordingly, the Commission proposes that parents would have to take leave in one continuous block. An additional requirement to ensure continuity of 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.

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 undisrupted care. Accordingly, the Commission proposes that:

- fathers could take paid paternity leave any time between the birth of the child and six months
- parents could not take statutory paid parental leave concurrently. A father or mother would still be eligible to take three weeks of concurrent unpaid leave after time of birth (or adoption placement) under the National Employment Standards (section 18(5)). In many instances, fathers would probably elect to take recreational leave for this period or to use their paternity 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 be permitted. So, in the example above, if a mother wished to take the first 12 weeks of leave, then
the father would have access to the remaining six weeks of leave, but without the capacity to pass it back to the mother.

Why 18 weeks?

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

- There is compelling evidence of child health and welfare benefits from maternal care of babies until the age of six months, and there is a reasonable prospect that longer periods may also be beneficial. There is also evidence of gains from a father participating in care in this early period. The extent of gains from exclusive parental care probably diminish for periods beyond a year, and at some point, longer leave periods may actually have some adverse impacts on children’s development.

- 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.) A majority of formerly employed women return to work earlier than one year (around 60 per cent); over 40 per cent return within nine months; around 30 per cent return within six months; and about 15 per cent return within three months (chapter 3). Society also has a stake in healthier children — mainly for 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 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.)

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.

- Periods of around nine months would generally be achievable for the 50 per cent of women who are already able to access privately negotiated paid maternity schemes.

- Given that even lower-income families have some financial resources, such as savings or accumulated past paid leave, the overwhelming majority of parents would be able to provide exclusive care to their baby for six months.

A shorter period of paid parental leave would require too much co-funding by parents — so that poorer families in particular would require the main carer to go back to work earlier than desirable. Given the empirical evidence so far considered by the Commission, a longer period of statutory paid leave would produce diminishing benefits for children and parents, 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 paid leave, longer duration of leave increases the overall value to employed women of the entitlement to paid leave. 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 ‘normalise’ staying at home, 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 normalcy (and value) of combining work and caring 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 12–14 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 paid leave per week, the aggregate leave period has to be long enough to make paid leave a more attractive option than the baby bonus equivalent paid to parents at home. The alternative way of creating these incentives — simply increasing the weekly payment for a shorter duration — 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 9 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.

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, we seek feedback from employers on likely disruption burdens associated with longer periods of leave taken by employees.**

**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 and employers around $80 million before clawback through increased income tax receipts and reduced income-tested welfare payments (and around $70 million after these 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 childcare or a better health system.

**Durations for special groups**

Some babies are born in contexts where different considerations 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.

*Death of primary carer or baby:* The death of a baby in uterus or during labour (‘stillborn’) is traumatic 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.\(^{11}\) This recognises the potentially prolonged psychological recovery of 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 to:

- (eligible) parents whose babies 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 baby 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.

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\(^{11}\) 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 practise 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 pregnancy. The Commission’s proposed qualifying period is 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.
Parents of adopted children: As discussed in chapter 4, adopted children have special needs for care, whether they are below school age or not. Australian governments recognise this need, 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 full paid parental leave to the parents of non-familial (so-called ‘placement’) adoptions, regardless of the age of the child. Provision of paid parental leave 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 allowable paid parental leave, which like the National Employment Standards, would commence at the time of placement. However, coverage of all non-familial adoptions would require amendment of section 15 of the National Employment Standards, which specifies that adoption-related unpaid leave only apply to children under school age. If the government did not amend this section, it would mean that some recipients of paid adoption-related leave would not get a job return guarantee.

Surrogacy: The mother of a surrogate baby should be eligible for paid parental leave of 12 weeks. This would allow her to have a reasonable period of leave for adequate post-natal maternal recovery. 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 surrogate baby must generally go though 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 surrogacy. The Commission proposes that paid parental leave provisions for parents taking custody of surrogate 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 — 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.

Long-term foster parents: these parents would not be eligible for paid parental leave because there are existing state and territory foster carer payments (as noted by HREOC sub. 128). Such payments are below the level we propose for paid parental

12 So-called ‘known child’ adoptions, where the adoptive parents have a pre-existing relationship with the child, would be excluded from eligibility. ‘Known child’ adoptions account for about one in ten of all adoptions in Australia.

13 Standing Committee of Attorneys-General, Communique, 28 March 2008.
leave. However, 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.

*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 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
- allow tax planning, where parents would choose a payment regime that reduced their tax obligations or maximised their receipt of social welfare benefits.

That 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).
The statutory paid parental leave scheme should provide a total of 18 weeks of paid leave for parents of a newborn child who meet the employment test, including:

- a requirement that (a) the period of leave must commence at birth, or after a period of other continuous leave that commences at the birth of the child; (b) must be commenced within six months of birth; (c) leave must be taken in one block; (d) only one transfer of paid parental leave between parents would be permitted and (e) there be no concurrent use of paid parental leave by parents

- mothers of a stillborn baby, where the baby meets the requirement for birth registration

- parents of non-familial adoptions, regardless of the child’s age, from the time of placement

- custodians of surrogate children, but subject to its compatibility with an impending uniform framework for surrogacy across Australian jurisdictions, (with provision for 12 weeks of paid parental leave to the surrogate mother).

Parents could take any paid parental leave remaining if their baby died.

Any outstanding leave could be transferred to the partner if the primary carer died.

Paternity leave could be taken concurrently with the mother’s paid parental leave but would have to be taken within six months of the birth of the child.

2.7 Measures to reduce business burdens

An intersecting issue is the period of notice 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 2008 *National Employment Standards* stipulate periods of notice for unpaid leave:14

(a) generally 10 weeks prior notice is required for taking parental leave (section 20)

(b) notice must stipulate the starting and end date, unless that is not reasonably practicable — say for a premature birth (section 20 (2)(b))

(c) employees can extend their leave beyond the originally indicated period, but must give at least four weeks notice (section 21)

---

14 Which also applies to any paid leave (section 25 of the Standards).
(d) employees on parental leave may return to work earlier if the employer agrees (section 23), 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 (c) to six weeks, since employers may well face significant costs if they have to re-arrange contracts with substitute employees.\(^\text{15}\) 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. Given that this is a minor change to the *National Employment Standards*, the government should only implement this when making other changes to the standards. (At the same time, the Australian Government should modify the Standards to give parents of adopted children the same access to the job guarantee as biological parents.)

Another related initiative is evidence-based guidance to employers — especially aimed at small business — on how to adapt business practices to minimise 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.\(^\text{16}\) The Australian Government could combine such guidance with other information for employers associated with the introduction of a statutory paid leave scheme. The Australian Government should develop a web-based calculator that shows which employees would be eligible and sets out any obligations by employers. This would be useful for both employers and employees.

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’ provision. This would allow parents on paid parental leave to work up to 10 days while on paid parental leave 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. 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

\(^\text{15}\) 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.

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 provisions in the UK statute could provide a template for these arrangements. A ‘keeping in touch’ 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.

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.

When the National Employment Standards are next subject to revision, the Australian Government should amend:

- section 21 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
- section 15 to provide job return guarantees to adoptive parents equivalent to natural parents.

In addition to publicly provided information on the workings of a statutory paid 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 sets out any obligations by employers.

A 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.

As a result, the Commission proposes increased support for breastfeeding, particularly in the post-initiation phase, since initiation of breastfeeding is already at high rates. This would increase Australia’s currently low rates of sustained breastfeeding. (For instance, over 90 per cent of Norwegian mothers breastfeed their babies at three months of age compared with two thirds of Australian mothers.) In the absence of such support, the benefits of six months of parental leave would not be fully realised. Such services may need to be targeted at groups with particularly low breastfeeding rates, such as lower-income parents.

The Commission is uncertain of the desirability of other support services for children aged less than 2 years old. 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.

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. But we don’t know this for sure.

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18 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.
For that reason, we seek feedback from participants about services for children aged less than two years, particularly concerning:

- gaps in services
- learning from the existing policy measures;
- policy measures that would increase the effectiveness of existing programs, including coverage, the triggers for parents’ access to services, resourcing, and service delivery.

The Australian Government should provide more resources to allow effective support for breastfeeding during the first six months of an infant's life, with a focus on the post-initiation stage.

2.9 The cost of the scheme

The Commission’s statutory paid parental leave scheme will produce considerable benefits. However, it will also involve significant costs. The annual gross costs of a statutory paid parental leave scheme would be around $1.5 billion (figure 2.3 and appendix B), comprising around:

- for the government (taxpayers), $1.4 billion for the costs of paying eligible parents a minimum wage of $543.78 for 18 weeks of parental leave and 2 weeks of paternity leave
- for employers, $110 million for superannuation contributions to employees taking statutory paid parental leave.

The net costs would be substantially lower than this. The Government would save around $670 million alone from savings to payments of the baby bonus, so just taking account of that, the incremental economy-wide monetary costs would be around $800 million and the cost to taxpayers around $750 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 that the net economy-wide monetary costs would be around $530 million and the net government cost would be around $450 million. (These calculations and the implications for costs of different design elements of a scheme are set out 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 $527 million represents around 10 cents in every 100 dollars of annual employee compensation or around $50 per employee per year (in 2007-08 terms). Were this entirely funded by government it would represent a tax impost of around $37 per taxpayer per year
- looked at in the context of the overall package of taxpayer-financed family assistance measures. Taxpayer funding of the statutory paid parental leave scheme represents about a 2 per cent increase in existing outlays by government on family assistance measures.

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.

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, 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 $2.0 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 $800 million.)

Were leave extended to 52 weeks, then under a full income-replacement model, the comparable cost would be around $6.7 billion. 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 $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 scheme are the most visible, other costs are also important and also need to be set against the benefits of the scheme. These costs include:

- potential compliance and administrative burdens for businesses and government
- potential disruption burdens to business associated with longer absences of women from work
- the disincentive or distortionary costs associated with financing the expenditure through the tax system
- 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 slower wage growth for women associated with greater female labour supply.

The Commission has not attempted to measure the net benefits of its scheme. 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 Evaluation

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.

• In an initial evaluation (say two years after program inception), the scheme should be assessed for its administrative ease for government and business, and to identify any fine-tuning, for example, in relation to eligibility criteria.

• In a second phase, (say five years after program inception), there should be a comprehensive evaluation assessing the scheme’s impacts and any desirable changes in its major design elements.

While paid parental leave has many diverse impacts, the focus of the comprehensive evaluation should be on:

• the extent to which the program cost-effectively enhances:
  – 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

• the changes that might be needed to improve cost-effectiveness.

In proposing a future evaluation, it should be emphasised that the Commission is not proposing that the statutory paid leave scheme should, as a matter of course, become more generous in duration or funding over time. The Commission has proposed a model that we believe is appropriate over the longer run. An evaluation would test that view.
The Australian Government should undertake:

- ongoing assessments of the interaction of the paid parental leave scheme with the tax and welfare system
- an evaluation of the administrative aspects of the scheme two years into its life
- a comprehensive evaluation of the impacts of the scheme five years into its life.
3 Parental leave in Australia today

Key points

- In 2007, around 2 128 300 female employees (53 per cent) and 2 157 700 male employees (50 per cent) had some form of paid parental leave available to them. Several factors influence access to paid parental leave:
  - Access to paid parental leave is higher for full-time workers than for part-time workers.
  - Paid parental leave becomes more common for both men and women as gross wages increase, reaching a plateau around $1400–1500 per week.
  - Access is affected by type of industry and occupation.
- 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, the leave used by mothers in paid work is 37 weeks in duration. Mothers' leave is usually a combination of different types of leave, with unpaid maternity leave making up the majority of leave taken. 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, 15 per cent return to paid work within three months of childbirth, 29 per cent within six months, 58 per cent within 12 months, and 70 per cent within 18 months.
- Self-employed mothers take the shortest amount of leave on average (23 weeks) and are much more likely to return to work early.
- 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. For mothers in the paid workforce, the greater number of their children, the more likely they are to leave the workforce after childbirth.
- An early return to work becomes more likely for mothers earning gross wages above $1000 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.
## Table 3.1  Summary of leave eligibility, leave usage and return to work

<table>
<thead>
<tr>
<th>Sample group</th>
<th>Mothers returning to paid work after childbirth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 months</td>
</tr>
<tr>
<td>All mothers</td>
<td>%</td>
</tr>
<tr>
<td>All mothers in paid work prior to childbirth</td>
<td>11</td>
</tr>
<tr>
<td>Permanent</td>
<td>10</td>
</tr>
<tr>
<td>Casual</td>
<td>16</td>
</tr>
<tr>
<td>Fixed term</td>
<td>9</td>
</tr>
<tr>
<td>Full-time</td>
<td>12</td>
</tr>
<tr>
<td>Part-time</td>
<td>19</td>
</tr>
<tr>
<td>Self-employed</td>
<td>47</td>
</tr>
<tr>
<td>Same employer for 12 months</td>
<td>12</td>
</tr>
<tr>
<td>Changed employers within 12 months</td>
<td>19</td>
</tr>
<tr>
<td>Worked less than 12 months</td>
<td>8</td>
</tr>
<tr>
<td>1 child</td>
<td>11</td>
</tr>
<tr>
<td>2 children</td>
<td>10</td>
</tr>
<tr>
<td>3 children</td>
<td>13</td>
</tr>
</tbody>
</table>

### Sample group  Eligibility for paid maternity/ paternity leave (adjusted figures)\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>% Female employees</th>
<th>% Male employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>Full-time</td>
<td>69</td>
<td>56</td>
</tr>
<tr>
<td>Part-time</td>
<td>34</td>
<td>17</td>
</tr>
<tr>
<td>Public sector</td>
<td>79</td>
<td>70</td>
</tr>
<tr>
<td>Private sector</td>
<td>45</td>
<td>46</td>
</tr>
</tbody>
</table>

### Leave type  Types of leave taken by parents who took some leave

<table>
<thead>
<tr>
<th></th>
<th>Mothers</th>
<th></th>
<th>Fathers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Taking leave</td>
<td>Av. weeks</td>
<td>% Taking leave</td>
<td>Av. days</td>
</tr>
<tr>
<td>Paid parental leave</td>
<td>46</td>
<td>11</td>
<td>27</td>
<td>7</td>
</tr>
<tr>
<td>Unpaid parental leave</td>
<td>71</td>
<td>34</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>Annual leave</td>
<td>41</td>
<td>5</td>
<td>60</td>
<td>15</td>
</tr>
<tr>
<td>Sick leave</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Long service leave</td>
<td>7</td>
<td>12</td>
<td>2</td>
<td>23</td>
</tr>
<tr>
<td>Other paid leave</td>
<td>2</td>
<td>12</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Other unpaid leave</td>
<td>17</td>
<td>29</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Total types of leave</td>
<td>—</td>
<td>37</td>
<td>—</td>
<td>14</td>
</tr>
</tbody>
</table>

\(^a\) Figures based on ABS data. Adjusted figures assume that 50 per cent of respondents who indicated ‘did not know’ had access to paid parental leave, as presumed by the ABS (2008c).

**Source:** Estimates based on ABS 2008, Employee Entitlements 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 parents 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 figured in 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.

During the first week after the child’s birth, both parents may take unpaid parental leave concurrently. Aside from this, fathers may take privately authorised leave (such as annual leave) concurrently with any form of leave taken by the mother. 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).

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). This includes:

- 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 childcare 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 which 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 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

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

DEEWR estimated that paid maternity leave provisions were present in 15 per cent
of workplace agreements, covering 44 per cent of (male and female) employees in the Australian workforce. Workplace agreements which contain paid paternity leave or paid adoptive leave cover the equivalent of 28 and 12 per cent of the total workforce respectively. Employees covered by such agreements may or may not meet the eligibility requirements for paid parental leave at the time of childbirth or adoption. Eligibility for paid parental leave is discussed further in section 3.3.

**Parents not covered by parental leave policy**

The parental leave legislation and employer policies outlined above apply only to parents in the paid workforce. 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. Consequently, a significant number of parents are not subject to parental leave policy.

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**

![Graph showing employment rates of mothers during pregnancy, by birth order and mother's age.]

---

**a** Employment refers to mothers’ employment at any time during pregnancy.

*Source: AIFS sub. 138; p. 10, LSAC Wave 1.*
Another group of parents who are not specifically covered by parental leave policies 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 — 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.

**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?

Among parents who are paid employees prior to childbirth, not all will be eligible for parental leave at the time of childbirth. As mentioned in section 3.2, the eligibility requirements for paid and unpaid parental leave are based largely around
the duration of employment. A number of employees who are covered by parental leave policies in legislation or workplace agreements do not qualify for parental leave.

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 as a supplement to its labour force survey. Data from ABS (2008b) refer to the entire workforce, regardless of whether or not employees are already parents or whether they plan to have children in the future.

Many respondents to the ABS (2008b) survey indicated that they ‘did not know’ whether they were eligible for paid parental leave. The estimates presented here have been adjusted using unpublished data to account for such respondents. Those reporting that they ‘did not know’ are assumed by the ABS (2008c) to have a 50 per cent chance of being eligible for paid parental leave (see box 3.2). As such,
figures presented in this section show a higher level of availability of paid parental leave than previously published in ABS (2008b, 2008c).

Box 3.2 Many employees do not know if they are eligible

It is important to note that for some 650,000 (16 per cent) female employees, it was not possible to establish whether they had paid maternity leave entitlements (i.e. did not know), and this needs to be factored into any analysis of data on paid maternity leave entitlements.

The high proportion of 'did not know' responses can largely be attributed to the Any Responsible Adult (ARA) methodology used in the Labour Force Survey (LFS) and supplementary surveys. Under this methodology, one member of the household answers on behalf of all members of that household. As a result, in some instances the person responding to the survey may not be aware of the various entitlements of other members of that household. Another contributing factor is that some people may not actually be aware of their own entitlements until such time as they are directly relevant to them.

Analysis of the 'did not know' group does not highlight any significant disproportionate distribution across the range of demographic and labour market characteristics. For example, when looking at 'did not know' responses by age, while there was a slight dip for female employees in their thirties, overall the proportion of female employees in the 'did not know' group remains relatively consistent across the ages (generally between 10 to 20 per cent). Therefore, it seems likely that the 'did not know' responses would be spread proportionally across the 'entitled' and 'not entitled' groups.


In August 2007, around 53 per cent of working women and 50 per cent of working men were eligible for paid parental leave as a condition of employment. The unadjusted figures show that 45 per cent of working women and about 35 per cent of working men say that they are currently eligible for paid parental leave (table 3.3). Larger differences between the adjusted and unadjusted figures reflect higher proportions of respondents who were unsure of their eligibility — clearly, men tend to be less aware than women of their parental leave entitlements.

Nonetheless, rates of availability for paid maternity and paternity leave are at least ten percentage points higher than in 2002 (table 3.3). It is evident that a large number of employees are already eligible for paid parental leave schemes provided by their employers, and that the coverage of such schemes has grown strongly in the last five years, although this growth may have slowed recently (see appendix C for further discussion of trends).
Table 3.3 **Availability of parental leave by gender, 2002-07**

<table>
<thead>
<tr>
<th>Year</th>
<th>Female employees entitled to paid maternity leave</th>
<th>Male employees entitled to paid paternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unadjusted</td>
<td>Adjusted</td>
</tr>
<tr>
<td>2007</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>2004</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>2002</td>
<td>31%</td>
<td>43%</td>
</tr>
</tbody>
</table>

*a* Men and women are likely to have access to different durations of paid parental leave.  
*b* Adjusted figures reflect that 50 per cent of respondents who indicated ‘did not know’ had access to paid parental leave, as presumed by the ABS (2008c).


**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 had access to 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 parental leave policies. From this, it would be possible to estimate the approximate scope of a mandated paid parental leave scheme, assuming that the eligibility requirements were to be similar to the current unpaid parental leave scheme.
Figure 3.2 Parents’ employment status and availability of parental leave in Australia

Mothers

<table>
<thead>
<tr>
<th>Babies born</th>
<th>Mother’s employment in 12 months before childbirth</th>
<th>Access to unpaid maternity leave</th>
<th>Access to paid maternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not in paid work (32%)</td>
<td>No (10%)</td>
<td>No (29%)</td>
</tr>
<tr>
<td></td>
<td>Employees (61%)</td>
<td>Yes (51%)</td>
<td>Yes (33%)</td>
</tr>
<tr>
<td></td>
<td>Self employed (7%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Babies born</th>
<th>Father’s employment in 12 months before childbirth</th>
<th>Access to unpaid paternity leave</th>
<th>Access to paid paternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not in paid work (4%)</td>
<td>No (12%)</td>
<td>No (39%)</td>
</tr>
<tr>
<td></td>
<td>Employees (77%)</td>
<td>Yes (65%)</td>
<td>Yes (38%)</td>
</tr>
<tr>
<td></td>
<td>Self employed (19%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a These estimates should be interpreted with care, as they were calculated using different datasets and are not adjusted to account for any factors such as age or income. Respondents unsure of their entitlements were assumed to have a 50 per cent chance of being eligible for paid parental leave, as presumed by the ABS (2008c). Access to leave does not imply use of leave. Percentages may not add to 100 per cent due to rounding.

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. Again using adjusted ABS data, it is possible to consider how the availability of paid parental leave differs according to job and worker characteristics. While it is not clear from this analysis whether any of these factors actually cause the difference in the availability of leave, it is clear that various groups of employees experience varying availability of parental leave.

One example is that the availability of both paid maternity and paternity leave changes, on average, according to 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 3.3 Availability of paid parental leave by age and gender

Percentage of the group with access to paid parental leave

---

*Adjusted figures assume that 50 per cent of respondents who indicated ‘did not know’ had access to paid parental leave, as presumed by the ABS (2008c). Men and women are likely to have access to different durations of paid parental leave.*

Full-time employees are more likely to be eligible for paid parental leave. In 2007, 79 per cent of female full-time employees had access to paid parental leave compared with only 45 per cent of part-time employees. Paid paternity leave was available to 17 per cent of male part-time workers, compared with 56 per cent of male full-time workers.

Employees on higher weekly incomes 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 more generous remuneration packages.

Figure 3.4  
**Availability of paid parental leave by weekly income and gender**

Percentage of the group with access to paid parental leave

---

a Adjusted figures assume that 50 per cent of respondents who indicated ‘did not know’ had access to paid parental leave, as presumed by the ABS (2008c). Men and women are likely to have access to different durations of paid parental leave.


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 3.5 **Proportion of workers in each occupation group with access to some paid parental leave**

Percentage of the group with access to paid parental leave

---

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.

Over two-thirds of female employees and over 50 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.
Table 3.4  Access to parental leave and gender balance of workforce by industry\(^a\)

Percentage of the group with access to paid parental leave

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

\(^a\) Adjusted figures assume that 50 per cent of respondents who indicated ‘did not know’ had access to paid parental leave, as presumed by the ABS (2008c). Men and women are likely to have access to different durations of paid parental leave.


**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 some of the foremost recurring issues they deal with relate to parental leave and the right to return to work. Case examples include women who are dismissed or demoted during pregnancy or during parental leave.

**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 are influential on decisions made by parents regarding leave — 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
- 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, 16 per cent return to work in the first three months. Around 23 per cent return within six months, and 50 per cent within 18 months. The timing of the return to work after childbirth for different groups of mothers is summarised in table 3.5 and discussed further in appendix C.
Use of leave by mothers

Mothers who did take leave around the time of childbirth took an average of 37 weeks. Of the mothers in paid work prior to childbirth, around 15 per cent had returned to work within three months, 29 per cent within six months and 70 per cent within 18 months. Compared with mothers in paid work who did not take leave, mothers taking leave are less likely to return to work within three months of childbirth and are more likely to return to work after six months.

Leave taken by mothers is generally comprised of several different types of leave. Of mothers taking leave, around 46 per cent had taken paid maternity 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.

Among mothers taking leave around childbirth, 86 per cent 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. The average length of paid maternity leave taken was 11 weeks. A number of mothers used types of paid leave other than paid maternity leave, which lasted seven weeks on average.

Use of leave by fathers

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.

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1 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 (i.e. after resigning), while some mothers may have 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

<table>
<thead>
<tr>
<th>Sample group</th>
<th>Mothers returning to work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Within 3 months of childbirth</td>
</tr>
<tr>
<td>All mothers a</td>
<td>%</td>
</tr>
<tr>
<td>Number of children a</td>
<td>First child</td>
</tr>
<tr>
<td></td>
<td>Second child</td>
</tr>
<tr>
<td></td>
<td>Third child</td>
</tr>
<tr>
<td>Mothers’ education a</td>
<td>Certificate</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
</tr>
<tr>
<td></td>
<td>Bachelors degree</td>
</tr>
<tr>
<td></td>
<td>Graduate diploma</td>
</tr>
<tr>
<td></td>
<td>Postgraduate degree</td>
</tr>
<tr>
<td>Mothers in paid work prior to childbirth</td>
<td>15</td>
</tr>
<tr>
<td>Leave taken</td>
<td>Did not take leave</td>
</tr>
<tr>
<td></td>
<td>Took some leave</td>
</tr>
<tr>
<td>Employment type</td>
<td>Permanent employees</td>
</tr>
<tr>
<td></td>
<td>Casual employees</td>
</tr>
<tr>
<td></td>
<td>Fixed term</td>
</tr>
<tr>
<td>Employer type</td>
<td>Same employer for 12 months</td>
</tr>
<tr>
<td></td>
<td>Changed employers within 12 months</td>
</tr>
<tr>
<td></td>
<td>Employed less than 12 months</td>
</tr>
<tr>
<td></td>
<td>Self-employed</td>
</tr>
</tbody>
</table>

(Continued next page)
Table 3.5 (continued)

<table>
<thead>
<tr>
<th>Sample group</th>
<th>Mothers returning to work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Within 3 months</td>
</tr>
<tr>
<td></td>
<td>of childbirth</td>
</tr>
<tr>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

**Mothers’ gross weekly wage**

- $1–99: 18%, 29%, 37%, 51%
- $100–299: 22%, 30%, 49%, 60%
- $300–499: 16%, 28%, 55%, 66%
- $500–699: 16%, 30%, 59%, 70%
- $700–999: 10%, 26%, 61%, 75%
- $1000–1499: 9%, 24%, 65%, 80%
- $1500–1999: 18%, 39%, 71%, 83%
- $2000 or more: 34%, 53%, 77%, 89%

**Business size**

- <5 employees: 22%, 32%, 45%, 56%
- 5–19 employees: 21%, 34%, 55%, 69%
- 20–99 employees: 10%, 24%, 48%, 60%
- 100–499 employees: 10%, 23%, 57%, 70%
- 500 or more employees: 7%, 21%, 64%, 76%

**Work hours**

- Full-time: 12%, 27%, 59%, 71%
- Part-time: 19%, 30%, 56%, 69%

*Includes all mothers regardless of whether they were in paid employment prior to childbirth.

Source: LSAC Wave 1.5.

In terms of the duration of leave around childbirth, around 15 per cent of fathers took more than two weeks of leave and less than 3 per cent took more than one month 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 casual employee mothers. Yet, permanent employees are also more likely to return to work overall and casual employees are more likely to stay out of the workforce. These trends becomes clearer further away from childbirth — table 3.5 shows that at 18 months after childbirth, 74 per cent of permanent employee mothers and 56 per cent of casual employee mothers are back at work.
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.

Similarly, permanent employee fathers tend to take almost two weeks leave compared with one week for casual employee fathers. A large percentage of casually employed fathers who took leave either took 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.

Permanent employees generally have access 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

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. Table 3.5 shows that mothers who change employers within 12 months of childbirth are more likely to return to work in the first six months than mothers who remained with the same employer. Mothers who are in paid employment for less than 12 months before childbirth are more likely to stay out of the paid workforce.

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).

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 take up of paid and unpaid paternity leave was similar for men who had either stayed with the same employer for 12 months, changed employer, or who had not worked the entire 12 months. The uptake of holiday pay, however, 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).

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. This reflects the fact that mothers in full-time work are less likely than are 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.

As discussed in section 3.3, full-time employees are more likely to have access to paid parental leave. 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. While mothers in full-time jobs are less likely to return early and more likely to return overall, 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.

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 incomes prior to childbirth are more likely
to stay out of the workforce (see table 3.5). However, a relatively early return to work becomes more likely at both the high and low extremes of the income range. The reasons that mothers have for returning to work are likely to differ between these groups — liquidity constraints are almost certainly more influential for low income earners.

In terms of the wage level that parents received upon returning to work (after childbirth), higher incomes 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.

Levels of educational attainment may influence parents’ decisions and ability to take leave, however this did not translate directly to longer periods of leave. The average length of leave was between 13 and 15 days for fathers of all educational levels. Among mothers, the average was 39–40 weeks for those with bachelors and postgraduate degrees and 36–38 weeks for those with certificates and advanced diplomas.

Higher educational attainment was linked with higher take-up of paid maternity leave. This ranged from 53–63 per cent for university graduates, 40 per cent for those with an advanced diploma, and 26 per cent for those with a certificate qualification.

**Use of leave and number of children**

Women with more children were less likely to be employed during pregnancy, and less likely to be in paid work in the first 18 months after birth. However, the main difference in the behaviour of these women was their employment (see figure 3.1).

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.
Use of leave and business size

The total leave for mothers increased with the size of the business 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 allow 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, although their reasons for returning 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 employer provisions. Nevertheless, the availability of privately negotiated 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 are largely reflective of trends in the availability of leave, although they also reflect the decisions made by parents and other workings of the labour market. For instance, mothers with particularly high incomes, 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.

Furthermore, there are clear limitations on the role that parental leave policy can play as a vehicle of change for parents and children in Australia. Specifically, paid parental leave would offer no direct benefit to parents who are outside of paid work prior to childbirth. And unless a paid parental leave scheme is made more inclusive than the current unpaid parental leave scheme, there are also several groups from within the workforce who would not benefit — those with insufficient workplace
duration and the self-employed. It would be possible to account for these groups in a more inclusive scheme of paid parental leave, although for some cases it may be more appropriate to rely on other (existing) policy instruments such as targeted welfare.
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. The Commission 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 propose 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. The optimal length of absence from work on maternal recovery grounds 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) and mothers. The evidence also suggests a positive association between paid parental leave and the duration of breastfeeding. Paid parental leave, together with enhanced support for breastfeeding beyond the initiation phase, has the potential to improve breastfeeding rates.
- The evidence is most compelling that six months exclusive parental care fosters improved developmental outcomes. Evidence of problems is strongest where non-parental care is initiated early (three to six months), where childcare hours are extensive and care is of low quality. The evidence suggests positive effects from quality care between 12 and 18 months, but is inconclusive for the period six to twelve months.
- 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 most infants to be exclusively cared for by their parents for the first six months of life.
- 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 Commission proposes two weeks of paid paternity leave (which cannot be transferred to the mother).
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 Organisation (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 (and, if there are benefits to society, how big they are).

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 Education Pamphlet)

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 2006, 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 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 have observed some improvements in sickness absences during pregnancy and premature labour when pregnant women employed in strenuous work were
provided work requiring less physical effort (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 paid leave.

- 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 recent 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).

Optimal period of pre-birth 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 pre-birth 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 pre-birth 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 of work and pre-birth leave decisions, with the decisions about taking antenatal leave being left open to women, in consultation with their employers and their treating doctors.

There is also no systemic evidence that women are taking prenatal leave periods that are too short from a maternal or child welfare perspective. As such, the Commission does not propose a prenatal leave period as part of the statutory paid parental leave 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 4.2).
Box 4.2 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, pp. 6–7)

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 new born. 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)

Commonwealth Public Service Commission:
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)

As noted in chapter 3, around 15 per cent of mothers employed prior to having a baby return to work by three months, around 30 per cent return by six months and 60 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).

- 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 2005, 30 per cent of babies were delivered by caesarean section). 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) also found that health concerns
were greater 5 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 confirms 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 (2004), 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 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) interviewed 2 375 new British mothers six to eight weeks after having a baby and found that having no job to return to after maternity leave significantly increased the risk of a high postnatal depression score. The authors concluded that this may reflect the isolation and low self-esteem experienced by some nonworking mothers, but also acknowledged that those most vulnerable to depression may also be those that don’t seek 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 15 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’s interim position is to allow 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.

The question that then arises is — how much flexibility is desirable (and workable) in terms of leave splitting? There may be benefits, for example, from allowing parents to take leave on a part-time basis, provided that the child received care exclusively from the parents (see section 4.4). For instance, the mother might take
paid leave for 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 wellbeing. That said, a statutory obligation for employers to agree to this could be disruptive to many workplaces. A requirement for employer consent might reduce this concern, but employers might feel obligated to give consent. The Commission seeks feedback from participants on the merits (or otherwise) and practicality of a provision for part-time paid parental leave.

Special cases

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 (there is some evidence, but based on small samples, to suggest that mothers who have stillborn babies are at higher risk of depression and anxiety, particularly in subsequent pregnancies).

The Commission considers that the full period of the paid parental leave scheme should be available to eligible parents who have an infant that dies in uterus (20 weeks in gestation or more) or shortly after birth.

Death of mother/primary carer. The Commission considers that the full period of the parental leave scheme (or remaining period of paid leave) be available to the person who assumes the role of caring for a baby in the event of the death of an eligible primary carer. In this situation families will 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 test.

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, but should also receive the new maternity leave allowance for any additional babies.
Surrogate mothers. Surrogate mothers also require a period of leave to physically recover from childbirth. The Commission considers that a period of 12 weeks leave to be appropriate in this case. Custodial parents, however, should be entitled to the full period of parental leave from the time of placement of the child.

Parents adopting children. Mothers adopting a child do not require time to physically recover (and very few breastfeed), but, as argued by Families with Children from China-Australia, 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, transcript, 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, 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. The Commission considers 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.
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. (transcript, 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 claimed 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 against sudden infant death syndrome 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 (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

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 Organisation, 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 4.3).

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 declines most rapidly after the fourth month — from 46 per cent to 28 per cent at five months.

Box 4.3 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: ‘Breastfeeding is very important for infant nutrition. Exclusive breastfeeding until around six months should be the aim for every infant. If that is not possible, mothers should be encouraged to breastfeed as much, and for as long, as they can. Breastfeeding beyond six months is of continuing value to baby and mother although the maximum benefits of breastfeeding are in the earliest months of life’ (NHMRC 2003, p. 14). 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.

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)

Figure 4.2  **Breastfeeding in Australia, the first 12 months**

![Breastfeeding in Australia](image)

**Data source:** LSAC data, Waves 1 and 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 that 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.

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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.
Some 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. (transcript, 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). A UK-wide longitudinal study, for example, 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 breastfeeding than mothers returning for other reasons (Hawkins et al. 2007).

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. 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 4.4 for participants’ personal experiences and comments).
Box 4.4  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. 9)

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. 11)

Australia’s National Health and Medical Research Council notes that the best way to maintain breastfeeding is to feed according to demand:
Feeding according to need — that is, feeding on demand — offers the best way of maintaining lactation, and if this is prevented by lack of facilities or social acceptance, lactation can be adversely affected. (NHMRC 2003, p. 10)

The NHMRC also acknowledges the difficulties associated with combining breastfeeding and work:

Although it is not an ideal situation, many mothers who return to work are unable to breastfeed exclusively and, rather than using expressed breast milk, carers use infant formulae for some feeds. Although mothers should be supported in this decision — any breastfeeding is better than none — every effort should be made to change the conditions of our society and so make exclusive breastfeeding possible for working mothers. The message should be that many mothers successfully combine breastfeeding and paid employment. (NHMRC 2003, pp. 10–11)

International and Australian evidence suggests that the duration of breastfeeding is influenced by a woman’s decision about returning to work (Lindberg 1996, Visness and Kennedy 1997, Roe et al. 1999, Chatterji and Frick 2003, Baker and Milligan 2007, Cooklin et al. 2008). For example:

- Lindberg found that women (particularly those returning to full time employment) tend to stop breastfeeding in the month they return to paid work. Lindberg concluded that for women to achieve the recommended six months of breastfeeding, maternity leaves of ‘at least six months’ would be required.

- 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).

- A recent 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)

The evidence also suggests that parental leave increases the duration of breastfeeding. Roe et al. 1999, for example, found there was competition between
breastfeeding and employment — each additional week of leave was found to increase breastfeeding by almost one half of a week. Roe et al. also found that mothers not in paid employment tended to feed their infants more feeds than those who had returned to work, a finding that may have implications for exclusive 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 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).

Baker and Milligan (2008b) found that increases in paid maternity leave arrangements 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. For exclusive breastfeeding the increase in duration was around one-half of a month and the proportion of women exclusively breastfeeding for six months increased by almost 40 per cent. The authors estimated that breastfeeding increases one third of a month with every additional month not at work (an elasticity of 0.458), and concluded that:

For public health officials aiming to increase breastfeeding duration it appears the labour market policy may prove an effective way of achieving breastfeeding goals.

(Baker and Milligan 2008b, p. 31)

But, 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. 31).

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 (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 rates.

Complementary measures are likely to improve considerably the prospects that paid parental leave will raise breastfeeding rates. Such policies could include more personalised advice (say from a lactation consultant or maternal health clinic nurse) for mothers in terms of breastfeeding problems that they may encounter within the first few months of breastfeeding and workplace policies that allow continuation of breastfeeding (on-site crèches, safe, clean and private facilities for expressing and storing breast milk, breastfeeding breaks, access to part-time work arrangements and leave for partners to provide support in managing work and breastfeeding). Given that initiation rates are already high, the Commission recommends targeting enhanced support for breastfeeding beyond the initiation phase.

**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 reduced breastfeeding duration) in the period immediately after childbirth. It is among those mothers who are ineligible for any paid maternity leave that you would expect to see the greatest differences between when mothers are actually returning to work and when they consider would be in the best interests of their child (including when they stop breastfeeding). The evidence suggests that 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, according to LSAC data, this group of mothers were 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). 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 (of say 12–14 weeks) are uncertain and 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 rates. 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 leave (of say 18 weeks) is likely to result in women on relatively low wages extending their leave to the full period of parental leave, which together with other funding options (privately negotiated paid maternity schemes and past accumulated leave or savings), would enable mothers to breastfeed for the clinically recommended period.

For those 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. And, for some mothers, paid leave will not change the period of leave taken and hence for these mothers 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 suggest 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 also 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 breast fed 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 4.5).

*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. The brain is made up of billions of neurons and these are determined by genetics. But the way that neurons connect together (via synapse formation), and the strength of the connections in particular, is a function of a child’s environment and experiences.
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).

NIFTeY 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 foundation 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, 2007, p. 1)

The early childhood period is particularly important as each stage of neutral 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)

However, there is also the countervailing effect of brain plasticity to consider — the ability of the brain to change with learning. This means that if a child is not sufficiently exposed to critical 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. As far as studies have been able to discern, for human brain growth, a previously thought-rigid set of experiences that are critical for development would tend to be 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.

Much of what is known about the impact of early experience on brain architecture, however, 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.

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. (Early Years Study 2, 2007, p. 27)

The nature of the relationship of young children to their parents and other caregivers 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 instability in child care providers (particularly in formal care settings) does not support a child’s sense of security and ability to build future relationships while others suggest that long hours of infant care (more than 10 hours) can disrupt a mother’s attachment to her child (What About the Kids, 2006, p.10; NIFTeY sub. 55).
What does the empirical analysis tell us?

Most of the more recent evidence indicates that non-parental care (usually necessitated by maternal employment) in the very early period of a child’s life can result in poorer cognitive development (in some contexts), and behavioural problems in some children (Han et al. 2001; Hill et al. 2001; Waldfogel et al. 2002; Brooks-Gunn et al. 2002; Ruhm 2004; Baker et al. 2005, Berger et al. 2005).

While most of the research on early maternal employment and child outcomes has been conducted in the US, more recently evidence has also become available from the UK and Canada (where patterns of employment, leave arrangements and childcare systems are quite different to the US). Baker et al. 2005, for example, found that increased access to childcare in the Canadian province of Quebec and increased maternal employment may have contributed to children being worse off on a range of behavioural measures (including aggression and motor social skills), as well as resulting in more parental stress (and more hostile, less consistent parenting).

Although the effects of early maternal employment are generally found to be small, and are not found for all children, the evidence of negative effects tend to be strongest when:

- care is initiated early (three to four months or less)
- maternal employment is full-time
- the hours spent in child care are extensive
- childcare is of low quality.

Regardless of how small, however, any adverse effects of non-parental care arrangements, 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.

Some studies, however, find no evidence that maternal employment or child care is detrimental for child development. Neutral or even positive effects (mostly cognitive) have been associated with child care experiences when child care is — initiated after six months of age; maternal interactions remain sensitive and responsive; and when maternal employment is part-time (NICHD 2000, NICHD 2006). The evidence also suggests that children suffering a particularly non-stimulating or impoverished home environment may benefit from non-parental care. And, in cases of maternal depression, the sensitivity of the mother’s interactions with her infant may actually be improved with high quality child care use.
The empirical work on the effects of maternal employment and child care for children aged around one year or older is more divided about the extent, or even direction, of the effects on child development. Some studies have found that many of the potential risks associated with non-parental care are less evident as the age of the child increases, this is particularly the case 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 the point in time at which these benefits start to kick in is not well established. For example:

- Maternal employment when children are one to four years old has been associated with small positive outcomes, particularly in reducing anxiety levels (Joshi and Verropoulou 2000)
- Full-time maternal employment when a child is less that 18 months old has been found to have negative effects on cognitive and behavioural measures of child development, but if a return to employment is part-time or initiated after 18 months, no detrimental impacts are evident (Gregg and Washbrook 2003).

Above and beyond any effects of child care or maternal employment, a consistent finding of the studies is that variance in child wellbeing is more strongly predicted by characteristics of the family setting including, for example, household income, maternal education and psychological adjustment, parenting quality and child rearing attitudes (NICHD 2006; Belsky et al. 2007).

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.

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 childcare 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 childcare for more than 31 hours or more per week and around 13 per cent are in childcare 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 childcare 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 childcare are rare.

The use of childcare 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. Early Childhood Australia, for example, said:

A related significant concern is that the likelihood of consistent and reliable relationships being available in current childcare environments is not high. For example, ratios of one adult to five babies in group sizes of up to 15 for babies under 12 months, the current generally high staff turnover in childcare services and the inability of these services to attract highly qualified staff mitigate against the development of trusting and secure relationships so essential for all young children but particularly for children under twelve months. (sub. 237, p. 3)

Similarly, the Australian Family Association said:

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).

While the evidence suggests that the quality of childcare is important for child development, 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.

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.

*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 childcare is initiated early (in the first three to six months of a child’s life), when the hours of childcare are extensive and childcare 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. Children facing disadvantage or at risk of less sensitive and responsive care in their home setting, however, may benefit significantly from early exposure to high quality childcare and 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 childcare 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, suggest 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 paternal 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. 8)

Other participants’ views on the benefits of paternity leave are provided in box 4.6.

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 the father, 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)

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.
Box 4.6  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. (transcript, 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, pp. 7–8)

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)
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 increased father time investment with 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 childcare. 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 5 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 this was only found 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 also 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 childcare 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. (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).
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 that two weeks paternity leave (available on a use it or lose it basis given overseas experience) be available to the eligible father, 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.

4.6 Conclusions

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.

That said, 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 — voluntary paid maternity schemes and past accumulated leave, savings (or reduce consumption), borrowings on the basis of housing equity — to fund a period of leave from work to care for their babies. Currently only 4 per cent of mothers rely solely on paid parental leave to cover their leave of absence (with the existing guaranteed provision of unpaid leave accommodating that choice).

The goal in designing a paid leave scheme is to provide enough leave, that when supplemented by parents’ private efforts, would achieve an appropriate length of absence from work for most families. While there is no exact science about choosing the precise duration, the Commission proposes a postnatal leave period of 18 weeks.

The Commission’s own analysis, supported by international evidence, suggests that such a scheme would significantly increase mothers’ time away from work around the birth of the baby. The Commission estimates that such a scheme would, on
average, increase employed mothers absence from work by between five and nine weeks or up to 50 per cent of the proposed length of statutory paid leave (chapter 5). This effect is likely to be greater for financially constrained families who are a particular target of this policy as they often have low representation in privately negotiated paid parental leave schemes. More women will be able to have longer, beneficial interactions in the early phase of babies’ lives and to breastfeed for a longer period.

The Commission also proposes two weeks of paid paternity leave (which cannot be transferred to the mother). 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.
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 up to nine 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 different 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

![Graph showing labour participation rates for partnered men and women, 2007-08.](image)


Figure 5.2  **Women’s child rearing affects their work patterns**
Part and full-time employment shares, partnered women and men, 2007-08

![Graph showing part and full-time employment shares for partnered women and men, 2007-08.](image)

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 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 2007–08a

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*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).*

Table 5.1  Mothers of young children increasingly work
Employment rates, married couples, 1982 and 2006–07

<table>
<thead>
<tr>
<th>Age of youngest child</th>
<th>0 to 4 years</th>
<th>5 to 9 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mothers 1982</td>
<td>28.8</td>
<td>50.5</td>
</tr>
<tr>
<td>Mothers 2006–07</td>
<td>51.0</td>
<td>74.8</td>
</tr>
<tr>
<td>Fathers 1982</td>
<td>93.1</td>
<td>93.8</td>
</tr>
<tr>
<td>Fathers 2006–07</td>
<td>93.6</td>
<td>94.7</td>
</tr>
</tbody>
</table>

* 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.


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 confinement\(^1\) 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 childbirth 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

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\(^1\) ABS 2007, Births Australia, 2006, Cat. no. 3301.0, p. 23.
(Abhayaratna and Lattimore 2006, p. 51). 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.

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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 benefitsalone.

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

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4 We have proposed a *workplace* eligibility requirement for access to the 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 childcare 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. Significant changes to the family welfare system could improve work incentives, but the potential for reform of that 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**

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.

**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 one year of prior workforce participation to be eligible for statutory paid parental leave. Given this, a woman would face a stronger incentive to work three months prior to attempting conception (if conception were certain and immediate).
- Once pregnant, the incentive effects rise steeply as time to birth diminishes — the cost of resigning just before birth is very costly.

- 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 highly 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 35 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 ‘normal’ state for a person (being an employee or a stay-at-home parent)
- continued social and other links to a workplace during leave
- general employment skills\(^5\) 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.

*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 how big parental payments are.

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\(^5\) Those associated with being employed in the past, and not specifically those associated with a given job or employer.
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. 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.

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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 ten hours of work a week to qualify for the scheme benefits. 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 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.
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 ten hours a week (an income of $200 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 $3600, while had she resigned she would have got the $5000 baby bonus. 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, the Commission has proposed setting the payment rate at the adult minimum wage (currently $543.78 per week). 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 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).

The Commission proposes that parents must have worked at least an average of 10 hours per week over the last year to qualify for the minimum wage payment (but with no requirement that this would have to be with the same employer). Such a threshold is necessary to reduce perverse outcomes. Were the scheme to require only a very low threshold, 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.

The Commission’s approach is commonplace. New Zealand, for example, has a ten hour, six month tenure requirement, while Canada has a 600 hour requirement in the year prior to expected birth (Hanratty and Trzcinski 2006). Private voluntary schemes also usually have at least some tenure requirement. These eligibility conditions are relatively simple to apply, but it means that some people are not eligible for paid parental leave.

A second approach that we considered is a scheme that provides eligibility for all those who are working, regardless of their hours, but that controls perverse effects through a tiered payment structure (described in appendix E). The essential idea is 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. A simple ten hour threshold is therefore the easiest to apply.
The ten hour threshold excludes very few employed people (figure 5.4). Importantly, it does not exclude certain disadvantaged groups, such as lone parents. The biggest impact of a ten hour threshold is on eligibility of the self-employed and employers, with an apparently significant share of these working relatively few hours.

Figure 5.4  **Distribution of hours worked while pregnant**  
For mothers who had at least 12 months of tenure with an employer

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. While the Commission does not specify the exact continuity requirement, it should be framed so that it would not usually disqualify casuals who had reasonable continuity of employment (for example, those taking unpaid leave periods that would be commensurate with paid leave periods taken by permanent employees). As with the tenure requirement, continuity of employment could still occur if an employee worked for several employers during the year.

**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.

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.

That said, one of the practical challenges in making statutory paid parental leave available to the self-employed (and employers) is determining their eligibility. 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. The Commission proposes a similar test (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.7

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

7 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.
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 5.2). 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 5.2 Why did women return to work earlier than they wanted?

<table>
<thead>
<tr>
<th>Months taken off work</th>
<th>Lack of paid maternity leave caused early return</th>
<th>Lack of unpaid maternity leave caused early return</th>
<th>Worries about job caused return earlier than desired</th>
<th>Returned earlier than desired because of a lack of money</th>
<th>Maintaining household income was difficult while on leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>0 to less than 3</td>
<td>44.0</td>
<td>7.0</td>
<td>22.9</td>
<td>45.5</td>
<td>37.9</td>
</tr>
<tr>
<td>3 to less than 6</td>
<td>60.0</td>
<td>2.5</td>
<td>16.0</td>
<td>58.7</td>
<td>34.0</td>
</tr>
<tr>
<td>6 to less than 9</td>
<td>60.8</td>
<td>1.7</td>
<td>7.2</td>
<td>60.2</td>
<td>40.4</td>
</tr>
<tr>
<td>9 to less than 12</td>
<td>43.8</td>
<td>4.8</td>
<td>5.3</td>
<td>51.8</td>
<td>45.5</td>
</tr>
<tr>
<td>12 to less than 15</td>
<td>34.9</td>
<td>19.4</td>
<td>5.4</td>
<td>24.3</td>
<td>43.7</td>
</tr>
<tr>
<td>15 to less than 18</td>
<td>32.5</td>
<td>7.8</td>
<td>14.3</td>
<td>26.3</td>
<td>31.7</td>
</tr>
<tr>
<td>Total to 18 months</td>
<td>47.4</td>
<td>8.1</td>
<td>9.1</td>
<td>45.3</td>
<td>40.7</td>
</tr>
</tbody>
</table>

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). To address this, the Commission controlled for the different characteristics of the women in these two groups. We found a
significant effect of paid maternity leave on the duration of time away from work. The results suggest that a statutory scheme of 18 weeks would increase leave taken by between 5 and 9 weeks (appendix G). This is a large impact 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 and figure 5 in the overview).

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 5.3). 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 7 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.
### Table 5.3  Impacts of parental leave on time off work and long-run employment\(^a\)

<table>
<thead>
<tr>
<th>Study</th>
<th>Which country/ies</th>
<th>Impact on leave period after birth</th>
<th>Long run employment effects and job continuity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Women</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marshall 2003</td>
<td>Canada</td>
<td>Extension of leave from 10 to 35 weeks increased leave taken by 4 months</td>
<td>..</td>
</tr>
<tr>
<td>ten Cate 2003</td>
<td>Canada</td>
<td>..</td>
<td>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.</td>
</tr>
<tr>
<td>Baker and Milligan 2008a</td>
<td>Canada</td>
<td>Leave entitlements of 17–18 weeks did not change the time mothers spent away from work, but extensions beyond this did so significantly</td>
<td>All leave entitlements increased job continuity with the pre-birth employer</td>
</tr>
<tr>
<td>Baker and Milligan 2008b</td>
<td>Canada</td>
<td>Increase in leave entitlement from 25 to 50 weeks increased leave taken by more than 3 months</td>
<td>..</td>
</tr>
<tr>
<td>Rönsen &amp; Sundström 1996</td>
<td>Norway and Sweden</td>
<td>..</td>
<td>Women with a right to paid leave are more likely to resume employment (3 times as fast as other women in Sweden and &gt;2 times as fast in Norway)</td>
</tr>
<tr>
<td>Pylkänén &amp; Smith 2003</td>
<td>Denmark and Sweden</td>
<td>Greater compensation rates while on leave increased duration. More leave for fathers (in Sweden) decreases leave by mothers</td>
<td>..</td>
</tr>
<tr>
<td>Hong &amp; Corman 2005</td>
<td>Sweden</td>
<td>Significant increase in leave taken</td>
<td>..</td>
</tr>
<tr>
<td>Waldfogel et al. 1998</td>
<td>United Kingdom, Japan and United States</td>
<td>..</td>
<td>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)</td>
</tr>
<tr>
<td>Burgess et al. 2002</td>
<td>United Kingdom</td>
<td>..</td>
<td>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)</td>
</tr>
<tr>
<td>Zveglich &amp; van der Meulen Rodgers 2003</td>
<td>Taiwan</td>
<td>..</td>
<td>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%</td>
</tr>
<tr>
<td>Merz 2004</td>
<td>Germany</td>
<td>Increased</td>
<td>Increase in employment to population ratio, but decrease in average weekly hours worked</td>
</tr>
<tr>
<td>Schönberg &amp; Ludsteck 2006</td>
<td>Germany</td>
<td>Increased leave strongly when leave period increased from 2 to 6 months, but weaker effects for subsequent extensions</td>
<td>No long run labour supply impact (hours or participation rates). Reduces wages below counterfactual.</td>
</tr>
</tbody>
</table>
Table 5.3 Continued

<table>
<thead>
<tr>
<th>Study</th>
<th>Which country/ies</th>
<th>Impact on leave period after birth</th>
<th>Long run employment effects and job continuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spiess &amp; Wrohlich 2006</td>
<td>Germany</td>
<td>..</td>
<td>Significant positive impacts in the second year after birth (12% increase in hours of mothers and increase in participation rates from 36% to 39%)</td>
</tr>
<tr>
<td>Lalive &amp; Zweimüller 2005</td>
<td>Austria</td>
<td>Significant increase (0.4 to 0.5 months of additional time off work for every additional month of statutory leave)</td>
<td>A 20 week paid entitlement increased the total female employment to population ratio by around 4%</td>
</tr>
<tr>
<td>Ruhm 1998</td>
<td>9 European countries</td>
<td>..</td>
<td>Positive impacts on participation rates of women aged 25–54, but with diminishing effects after 20 weeks</td>
</tr>
<tr>
<td>Jaumotte 2003</td>
<td>17 OECD countries</td>
<td>..</td>
<td>1 year more of leave increases the probability of employment by 4 percentage points when the child is 4–5 years old</td>
</tr>
<tr>
<td>Pronzato 2007</td>
<td>9 European countries</td>
<td>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</td>
<td>Positive but decreasing effect of leave duration on the probability of working for low educated women; not statistically significant</td>
</tr>
<tr>
<td>Del Boca et al. 2008</td>
<td>15 European countries</td>
<td>..</td>
<td></td>
</tr>
</tbody>
</table>

**Men**

<table>
<thead>
<tr>
<th>Study</th>
<th>Which country/ies</th>
<th>Impact on leave period after birth</th>
<th>Long run employment effects and job continuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ekberg et al. 2005</td>
<td>Sweden</td>
<td>Fathers took 15 extra days of leave after ‘Daddy month’ leave period was introduced; mothers took 20 days less</td>
<td>..</td>
</tr>
<tr>
<td>Eydal 2007</td>
<td>Iceland</td>
<td>Significant effect on leave taking</td>
<td>..</td>
</tr>
<tr>
<td>Gíslason 2007</td>
<td>Iceland</td>
<td>Significant effect on leave taking</td>
<td></td>
</tr>
</tbody>
</table>

*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.

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\(^a\)

![Graph showing impact of the 2000 extension to Canadian paid maternity leave on time away from work.](image)

*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).*

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.\(^8\) The subsequent scheme extended the job return

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\(^8\) A paid leave period of one month prior to birth was also introduced.
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

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).


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 5.3). 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.

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.

Figure 5.7 **More generous leave arrangements appear to raise long-run labour force participation**

Norway compared with Sweden

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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. 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 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 5.3). For example, a 20

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9 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.
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.\(^{10}\)

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 5.3 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 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.\(^{11}\) 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

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\(^{10}\) The magnitudes found by Ruhm have been broadly replicated in other settings, such as Ten Cate for Canada, Zveglich 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 5.3.

\(^{11}\) 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.
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 mildly depress female wages below their counterfactual levels (table 5.4).

<table>
<thead>
<tr>
<th>Number of weeks of paid entitlements</th>
<th>Impact on female employment to population ratios</th>
<th>Impact on female wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>2.8</td>
<td>−1.7</td>
</tr>
<tr>
<td>20</td>
<td>4.2</td>
<td>−2.8</td>
</tr>
<tr>
<td>30</td>
<td>4.2</td>
<td>−3.4</td>
</tr>
</tbody>
</table>

Table 5.4 Impacts of parental leave entitlements on aggregate employment and wages
Nine European countries, 1969 to 1993

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 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 5.3). 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).12

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.

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12 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

- Many participants saw paid parental leave as helping to achieve broader societal objectives in the areas of:
  - the balance between work and family life, especially for mothers
  - the involvement of fathers in the early months of a child’s life
  - gender equity in the home and workplace.
- 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 of the paid workforce for family reasons is viewed by the community as normal for parents.
  - It could stimulate further cultural shifts and attitudinal changes in the workplace and in the community more generally.
  - Nevertheless, people’s preferences are important: they may voluntarily choose roles that others see as reinforcing gender stereotypes or inequalities.
- A common view, reflected in the Commission’s proposal, was that paid parental leave should 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.

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 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. However, 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 work and family life are more difficult to evaluate in these terms.

To achieve such objectives, many participants argued that ‘cultural shifts’ and attitudinal changes would be required, both in the workplace and in the broader community. In their view, significant benefits would come only with greater acknowledgement by the community, and workplaces in particular, that it is normal for people to interrupt their participation in the paid workforce 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, 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 are about 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 ‘Normalising’ people’s efforts to balance work/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 (transcript, 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 … (transcript, 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 indicated few concerns at that stage.

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 to take leave to have children, while maintaining their ongoing connection with the paid workforce. 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 and normalise 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, taking 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).
Box 6.1 Balancing 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)
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)

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 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 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 male 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 more generally reinforces the normality of men and women both working and caring for children. As HREOC observed, a period of paid parental leave reserved for fathers:

… 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, as noted in chapter 6, it is common for men to increase their hours of paid work on becoming a father, whether to enhance family income at an expensive time or just to ensure job security. Evidence from the OECD shows this is also the case in many other countries (Adema 2005). And in this inquiry it was supported by the comments of many participants who 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 issues concerning work/family balance and the respective roles of mothers and fathers are gender-related issues. 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 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 between working women, 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, as men miss out on the emotional benefits of bonding with their infant.

As discussed in the previous chapter, some see raising workforce participation rates 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, they face more fractured careers than men and tend to have significantly lower lifetime wages. 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. Indeed, some participants saw paid parental leave as providing a degree of recompense for such outcomes.

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 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 them. 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 there may be stereotyping of ‘stay at home’ carers that creates obstacles to choosing that option and that this could be accentuated if society was to signal that paid work is what really matters. Some submissions and personal feedback to this inquiry emphasised this view.

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 effect 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 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).

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, ‘stay at home’ mothers, 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)

While some may see the Commission’s proposal as involving inequitable treatment of mothers in the paid workforce and those who are at home full-time, it needs to be kept in mind that there is a wide range of government programs targeted at families in different circumstances. Family tax benefits, child care subsidies and paid parental leave will all necessarily have different impacts on different families, according to their needs and the intended purposes of the programs (chapter 9).

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 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.
The Commission was aware of all of these views when designing its proposed model, 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 proposed 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 of the normality of:

- people having, over their lifetimes, multiple roles, including as participants in the paid workforce and as parents

- fathers having the opportunity of taking time away from work for family reasons.

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 and compatible with ongoing attachment to the workforce.
7 Business impacts

Key points

- The cost to business, and the 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.

- While the Commission’s proposal will impose some compliance obligations on businesses and effect cash flow, the impacts on individual businesses (small and large) will be modest, and only felt in the low probability event that a parental leave event actually occurs.

- Continuation of superannuation entitlements during paid parental leave absences for certain eligible employees will add to business costs. But those costs are likely to be modest because they would be capped, relevant to a only a small subset of employees in any given year and be a deductible business expense.

- The Commission’s scheme incorporates a range of program design features 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.

- 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 adversely impact on business performance, 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 the introduction of the Commission’s 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 will have implications (both beneficial and detrimental) 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 business impacts associated with the Commission’s largely taxpayer funded parental leave proposal, 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. 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 specialised workers are likely to have greater scope to redistribute workloads to

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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.
other employees and thus lessen 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 specific taxpayer-funded leave proposal will depend on how it affects current employee decisions regarding 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 5, 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 minimum wage) will provide proportionately greater financial relief for women on lower incomes (especially those working part-time) and should elicit the strongest response in terms of extending 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, either currently, or under the Commission’s proposed scheme (see table 7.1).

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)

The risk to a firm of a parental leave event occurring in any year is determined by a range of factors including the number of female employees and their age-specific fertility rates. Given the expected number of births for a woman in her most productive year (at thirty-one years of age) is just 0.13, 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 costs substantively if it induced a measurable increase in fertility rates2 — an unlikely outcome according to a recent study into Australian fertility trends:

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2 The extent to which labour force attachment increases will also increase the number of women potentially eligible for paid parental leave.
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).

In addition, for the vast majority of smaller firms, the risks of a parental leave disruption would be considerably lower than those suggested by the contrived illustration shown above. By way of example, a recent press report covering the 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.

Table 7.1  **Expected number of female paid parental leave events, by industry\(^a\) and firm size**

<table>
<thead>
<tr>
<th>Industry</th>
<th>per 100 total employees, per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and insurance</td>
<td>2.3</td>
</tr>
<tr>
<td>Health and community services</td>
<td>2.3</td>
</tr>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td>2.2</td>
</tr>
<tr>
<td>Education</td>
<td>2.0</td>
</tr>
<tr>
<td>Retail trade</td>
<td>1.9</td>
</tr>
<tr>
<td>Cultural and recreational services</td>
<td>1.9</td>
</tr>
<tr>
<td>Personal and other services</td>
<td>1.9</td>
</tr>
<tr>
<td>Government administration and defence</td>
<td>1.8</td>
</tr>
<tr>
<td>Property and business services</td>
<td>1.8</td>
</tr>
<tr>
<td>Communication services</td>
<td>1.3</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>1.1</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>1.0</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>1.0</td>
</tr>
<tr>
<td>Mining</td>
<td>1.0</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>1.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>All industries</strong></td>
<td><strong>1.6</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm Size</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20 employees</td>
<td>1.1</td>
</tr>
<tr>
<td>20 employees or more</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>All firms</strong></td>
<td><strong>1.6</strong></td>
</tr>
</tbody>
</table>

\(^a\) 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 female employees are assumed to be eligible under the Commission's proposed scheme.

*Sources*: ABS 2008 (cat. no. 6105.0); ABS 2007 (cat. nos. 3301.0, 8155.0); PC calculations.
Employer provision of superannuation

On the other hand, the Commission’s recommendation that superannuation entitlements continue during parental leave absences will add to business costs (at least until they can be passed on to employees in the form of slower wage growth). But the magnitude of those costs is likely to be modest even for small firms given the design features of the broader proposal. As discussed in chapters 2 and 8, superannuation contributions during parental leave would be capped at adult minimum wage thresholds, would only be available to a subset of current beneficiaries as they will need to meet two sets of employment eligibility criteria and be a tax deductible business expense.

The Commission estimates the maximum cost to an affected business in a single year of a woman taking paid parental leave is around three per cent of her pre-existing employee compensation (see chapter 2). The expected cost to businesses in any given year is much lower than this and depends again on the probability of a parental leave event actually occurring.

Drawing on the above example:

- at worst, the expected annual cost of superannuation contributions for a business employing just one thirty-one year old female permanent part-time employee on the adult minimum wage is less than half of one per cent of her annual wages (that is 0.13 x 3 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 x 5 x 3 per cent)
- the relevant share would be lower for women on higher wages (because the superannuation entitlement is capped at the adult minimum wage) or for casuals (because they may not be entitled to superannuation).

Importantly, from a cash flow perspective smaller firms, in particular, may need to provision for the full three per cent of employee compensation to meet that liability when the parental leave event actually occurs.

Compliance costs, cash flow consequences and increased uncertainty

The operation of the Commission’s proposed scheme will 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 will include completion and lodgement of a parental leave pro forma detailing items such as employment duration and status, hours worked, existing paid leave entitlements, expected leave start date and so on. for each leave event. Self-employed parents, on the other hand, will need to complete and submit statutory declarations on their eligibility status and possibly provide supporting financial documentation (perhaps involving 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) are 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).

Employers would also 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. But the Commission estimates the cash flow impact would be modest and amount to around five dollars per relevant employee per month.

The Commission’s proposal is also likely to increase business uncertainty regarding an employee’s return to work to the extent that employees who would otherwise have formally resigned prior to the birth of their children will now have an incentive to delay such notification in order to qualify for the higher parental leave payment as opposed to the new maternity allowance.

While the Commission recognises the additional compliance burdens and costs for business, it notes the impacts will only be felt in the (low probability) event that parental leave actually occurs. In addition, the Commission has also proposed a range of measures to reduce the uncertainty, disruption and compliance 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
• allowing employers to use existing PAYG withholding arrangements to recover parental leave payments they initially make
• 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). But while the value of employee retention may be outweighed by the cost of paid leave for those firms who 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 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 recent experience with widespread labour shortages 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 7.1). The more generous the statutory scheme, the greater the likelihood that a firm will withdraw its own. That said, the Commission would not expect that any employee would be made worse-off from the introduction of its proposed scheme.

Should a statutory scheme be introduced, 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.
### Box 7.1 Features of selected voluntary paid parental leave schemes

**AMP Limited**  
Leave entitlements available to male and female employees and for adoption:  
- Full pay for the first 14 weeks of leave or half pay for the first 28 weeks of leave.  
- Leave can be taken as a single block or over multiple time periods.

**ANZ Banking Group**  
No minimum service period to qualify and employees have the option of:  
- 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 of leave.

**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.

**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**  
- Employees eligible for 8 weeks full pay leave 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 history.

**National Australia Bank**  
Employees have the option of:  
- 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 up to 52 weeks for female employees with at least four years service history.

**Woolworths**  
- 8 weeks at full pay with 6 weeks paid at commencement and 2 weeks on return. Staff employed continuously for 2 years on full or permanent part-time basis eligible.

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)

But employer groups disagreed. 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 Chamber of Commerce and Industry Western Australia concurred and even suggested an administrative delivery system that would facilitate employers topping-up statutory scheme payments:

It is also unlikely that employers who already provide a paid parental leave benefit will remove the entitlement if a government funded scheme is introduced.

One possible solution is to allow employees the choice of which scheme they apply for and offering employers the choice to administer a government funded paid parental leave entitlement to allow them to top up payments … . (sub. 147, p. 18)

In the Commission’s view, the features of the scheme it is proposing (essentially 18 weeks at the adult minimum wage for all employees working at least 10 hours per week over the preceding 12 months) are unlikely to lead to the wholesale withdrawal of existing paid parental leave schemes for several reasons. These include 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.
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.

But the Commission’s proposal may effect some voluntary schemes depending on firm-specific employment circumstances. For example, 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 equal, to withdraw a voluntary scheme (or restrict eligibility to full-time staff alone). Conversely, if voluntarily provided benefits are comparatively low, the provision of an additional statutory payment may increase retention levels for these firms.

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.

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3 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 12 months continuous employment (rather than 18 month or 2 year eligibility periods of some schemes). Those features may also influence decisions on the nature of existing voluntary arrangements.
Box 7.2  Summary of business impacts

The financial impacts on business from the Commission’s taxpayer-funded leave proposal would be constrained by:

- capping superannuation contributions so that they would be equal to the rate required: on the adult minimum wage, or pre-leave wages — whichever is lower
- limiting the super contribution rate to the statutory 9 per cent
- restricting these contributions to employees who
  - passed the eligibility requirements for statutory paid parental leave (in particular, the 10 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 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 minimum adult wage, but only where the:

- employee was entitled to unpaid parental leave under the NES and
- employer made at least monthly PAYG withholding payments to the ATO.

The government would fully reimburse the employer for any paid parental leave payments through credits under the PAYG withholding arrangements.

The business would only face additional compliance and cash flow costs when an employee was on paid parental leave — with no change otherwise.

Compliance and cash flow costs would be minimised by using existing administrative systems, quick reimbursement 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.

- An arrangement in which all employers contributed to a common funding pool, regardless of whether any of their employees take paid parental leave, would mitigate the problems of direct employer financing as it spreads the costs among all businesses and (ultimately) employees. A pooled funding arrangement 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.

- An income contingent loan scheme would help overcome the financial problems faced by families with young children, but it would not meet all the objectives of a paid parental leave scheme, would probably entail greater administrative complexity, be more difficult to adapt over time and risks perverse behaviours by its users. This precludes it from being considered as either a stand-alone or top-up option at this stage.

- 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 perverse outcomes.

- While government funded parental leave is likely to involve higher efficiency costs than a pooled employer funding arrangement, the current comprehensive review of Australia’s tax and transfer system provides an opportunity to reduce those efficiency costs. In the meantime, if a parental leave scheme can act as a substitute for a less effective, but otherwise given, expenditure item (such as the baby bonus), the efficiency costs from raising additional government revenue are reduced. Administrative and compliance costs are likely to be lowest using government financing, and it spreads the costs of any scheme broadly among the community.
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 which 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 option 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.

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 businesses. (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. Firstly, the minimum wage in Australia is more than double that in the United States and applies to a much higher 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 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

1 Around 10 per cent of employees are paid at the minimum wage in Australia (which will be $14.31 per hour from 1 October 2008). 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.
chapter 7, the magnitude of the financial risk will depend on the probability of a parental leave event actually occurring).

For these reasons, the Commission does not favour direct employer provision either as a stand-alone funding option or as a compulsory top-up to a taxpayer-funded scheme (at the minimum wage) as suggested by several participants.

### 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 $1.5 billion gross funding requirement per year, this represents around 0.3 per cent of total economy-wide wages and salaries in Australia in 2006-07 (ABS 2008d).

A number of participants acknowledged the advantages of a pooled funding approach and commented on the form that it should take. For example, the joint submission from the Australian Catholic Council for Employment Relations and Catholic Services Australia said:

> Pooled funding would avoid disproportionate impacts on sectors employing more women and would be an important safeguard against gender-based workforce 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

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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 2007).
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)

Employer interests, on the other hand, argued that Australia was relatively inexperienced in the use of pooled funding arrangements (especially compared to European countries who 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 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 ignores several well-established examples 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 employee’s wages … . (sub. 89, p. 9)

In the short-run, however, the fixed duration of existing collective agreements and individual contracts means that employers will 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 will be a de facto increase in minimum wages in the near term. Those rigidities will 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 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 will involve additional compliance costs for firms, and administrative costs for the ATO, because accounting and/or 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

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\(^6\) Again, minimum wage legislation limits the extent to which wages can adjust to the levy (see the section on direct employer financing).
gains and royalties. 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 as discussed later, 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).

### 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. 225, p. 6)

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7 The Commission acknowledges these income items are separately identified on tax returns for employees.
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 avoid the potential for discrimination and related problems with direct employer funding noted earlier.

However, the proposal has several limitations:

- 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 perverse 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 can be rolled into superannuation [or used to pay school fees or put towards a house purchase]. (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 already 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 2 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).

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)
**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 is 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).


While participants 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:

- 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 (and reflected in submissions) regard as an important norm to be reinforced.

As such, 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 issues, 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 available 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

8 In that case, it was argued that any social spillovers from paid parental leave would not be delivered.
and government of an income-contingent loan.\textsuperscript{9} Using several hypothetical demographic and financial scenarios of loan recipients 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).

However, despite those features and the conceptual elegance of the proposal, the Commission considers the disadvantages of such an approach (which the authors sought to address — see box 8.2) may well outweigh its advantages:

- 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 marker imperfections) would probably have been significantly exhausted given a base government scheme.

\textsuperscript{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.
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 were at pains to emphasise 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 balance, the Commission remains sceptical that there are strong enough grounds for income-contingent loans in this area of public policy.

### 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.
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 financially-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.

But 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.

- **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.

Finally, it could 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 perverse 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 variably:

- 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.

- 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 8.3). 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.

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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 the 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 8.3 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 Australian Government’s stated aim of maintaining a fixed budget surplus as a proportion of Gross Domestic Product (GDP) over the medium term, this implies funding paid parental leave from general revenue will 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. According to several social and economic commentators, while the baby bonus is administratively simple and involves low compliance costs, it also:

- lacks clear objectives
- is poorly targeted
- involves a high cost to government revenue relative to the benefits.12

On that basis, a renamed and redesigned program provides the scope to reduce the economic costs associated with achieving the policy aims of the baby bonus. From 1 January 2009, the baby bonus will provide a means-tested grant of $5000 for new

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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).
parents, paid in 13 fortnightly instalments. This is equivalent to 14 weeks (the funding duration sought by most 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 week’s 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 week’s 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 Australian Industry (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. (Australian Industry 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)

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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 (NFAW) 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.

Similar arguments could be mounted against the design of family tax benefit B payments which ‘…gives extra assistance to single parent families and to families with one main income where one parent chooses to stay at home or balance some paid work with caring for their children’ (FAO 2008c).

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, at least for that group that would be eligible. For those parents ineligible for paid parental leave, the current baby bonus would be removed and replaced with an equivalent instalment-based and non means-tested maternity allowance. Family tax benefit B would 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). The main exception is family tax benefit B which families have been able to claim through the Australian Taxation Office (via reduced fortnightly PAYG tax deductions). However, from 1 July 2009, the taxation system will no longer be an available payment option for family tax benefit B.

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.14

To the extent this feature is viewed as important, it is likely to be an even stronger ‘framing device’ if the payment were actually made by employers. That delivery option (which is also the approach used in 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.

However, employer groups disagreed, primarily on the grounds of the additional administrative burden involved. For example, the combined submission from the NSW Business Chamber and Australian Business Industrial said that it in addition to there being no direct financial burden placed on employers:

> It is also vital that any national, publicly funded scheme should not impose administrative obligations and burdens on employers. Payments should be made to the employee directly by the Government, not through the employer. (sub. 134, p. 10)

Similarly, the Australian Chamber of Commerce and Industry (ACCI) argued that a government funded scheme should use:

> … existing administrative and payment processes to pay an additional entitlement. They do not require any administrative role for employers, nor do they create 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)

But these arguments ignore the role already played by employers in the provision and/or administration of a range of employment related entitlements including

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14 New Zealand Department of Labour (personal communication).
annual, long service, sickness, voluntary paid and statutory unpaid parental leave,\textsuperscript{15} 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 the probability of an employee actually being on parental leave at any point in time would be quite low for smaller firms (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)

Available evidence from the operation of the United Kingdom’s Statutory Maternity Pay (SMP) program suggests relatively low administrative costs for employers. A 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, streamlining administrative responsibility for family tax benefit B payments by removing the option for reduced PAYG deductions (which represent just 7 per cent of total claims activity) is expected to provide a budgetary saving of around $100 million over four years (FaHCSIA 2008b).

That said, 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).

While there may be other options, an alternative to public sector delivery would be to allow employers to reduce their regular PAYG withholding remittances to the ATO by the amount of the parental leave payment (with credits available where

\textsuperscript{15} 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.
8.26 PAID PARENTAL LEAVE

Parental leave payments exceeded the amount of tax otherwise owing. This option was favoured by the Government of Western Australia which noted the workplace and workforce attachment benefits from employer payment:

Consideration should be given to how the reimbursement of paid parental leave payments to employers could be integrated into the Pay As You Go taxation system, to reduce the administrative burden on business. (sub. 231, p. 13)

It also said:

Where reimbursement for employers’ expenses is sought from the federal government through the tax system, options need to be considered to minimise the potential delay of those payments. This is of particular concern when small business employers may have recruited a new employee whilst an existing employee is on parental leave, necessitating the payment of two wages for a period of time. (sub. 231, p. 14)

It is also the approach adopted in the United Kingdom with firms initially making the leave payment and then claiming it back from government as a rebate on their regular monthly tax instalments. That scheme also provides modest compensation (of 4.5 per cent) for smaller firms to cover related administrative expenses. Such a payment was considered a worthwhile means of assisting small businesses by the Chamber of Commerce and Industry Western Australia:

In considering a paid parental scheme it is worthwhile considering the UK model of paid parental leave, which is administered by employers, provides small businesses with a reimbursement of 104.5% of the statutory maternity pay to cover the additional costs of replacement. (sub. 147, p. 16)

While the PAYG system may be the preferred reimbursement mechanism for larger Australian firms (who are required to remit PAYG withholdings on a more frequent basis), it is unlikely to suit those smaller employers who remit quarterly. Where a business does not make at least monthly withholding payments, the Commission considers those firms should be exempt from this administrative arrangement and that the Australian Government would make direct payments to the employee.

The Commission also considers that direct government payment is more efficient for employees eligible on the basis of their overall workforce attachment, but with less than 12 months service with their current employer, 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 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) suggests that assigning responsibility for direct
payment to the ATO may be more cost-effective than either the FAO or Centrelink. ATO involvement would also reduce the risk of fraud and lessen the likelihood of the payment being viewed as welfare. It is possible that ATO definitions may be used, at least in part, in determining specifically which contractors and self-employed are eligible for the scheme as records of hours worked will not always be available.

However, the Commission is mindful of the recent decision removing responsibility for family income support payments from the ATO and the size of the estimated savings (see above). Notably, these savings were made by removing an option for the method in which payment was made — the substantive administrative costs remain with another department. The Commission would have cause to reconsider payment through the ATO if the cost of such an arrangement were deemed too high, though it is not clear why payment through the ATO would be any more costly than through another agency.

Overall, the Commission considers 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 and cash flow 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 and unpaid leave. Several participants in this inquiry have emphasised the need for paid parental leave to be given the status of a normal workplace entitlement. As a consequence, they have argued for provision of such entitlements — particularly superannuation — while on a statutory paid parental leave scheme.

On the superannuation front, several submissions argued that the compulsory superannuation guarantee (currently 9 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 mother’s lifetime earning potential will be 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.

Those arguments about superannuation aside, there are several more general issues raised by the mandated provision of super and leave entitlements while on a government-financed paid parental leave scheme. In most jurisdictions, there is no statutory requirement to provide superannuation and other leave entitlements while an employee is on paid or unpaid parental leave. So in a statutory sense, these provisions are not currently normal.16

While this does not preclude employers from providing those benefits customarily, the firms most likely to do so are those offering voluntary paid parental leave schemes on the basis of the associated attraction and retention benefits of being an employer of choice. What makes the arrangement customary is its reciprocity — the employer acquires a benefit and so too does the employee. Where sufficient reciprocal benefits are not present — such as when retention benefits are not great enough — employers do not provide voluntary paid leave or entitlements attached to it. A mandated requirement to provide entitlements would inevitably lead to net costs for those employers that have lower retention benefits for their employees.

16 The National Employment Standards to be introduced in 2010 will make employer paid leave absences count as service for the purposes of accrued sick and annual leave. Periods of unpaid leave are excluded from the definition of service. Under the Commission’s taxpayer-funded proposal, an employee would legally be on unpaid leave from the employer during a parental leave absence.
This is why these employers do not customarily provide paid leave or such entitlements.

In addition, it should be noted that from an employer’s perspective, an employee covered by the Commission’s paid parental leave scheme is not on paid leave, but rather is using the unpaid leave entitlements of the National Employment Standards. A requirement for an employer to provide entitlements on unpaid leave is at odds with current commercial practice and with industrial relations principles. But from the employee’s viewpoint, there would be an expectation that such benefits would be payable.

Of course, the law could be changed to make superannuation and accrual of other leave entitlements during all parental leave absences mandatory, and therefore, normal. Some participants advocated such change specifically in relation to superannuation. For example, the submission by the Australian Institute of Superannuation Trustees outlined the nature of the required amendment:

Under current law, voluntary or negotiated schemes are not included in the definition of Ordinary Time Earnings for the purposes of the Superannuation Guarantee. Women under these schemes are missing out on superannuation entitlements now. Regardless of the outcome of the Commission’s enquiry we strongly recommend that maternity leave be brought within the scope of the Superannuation Guarantee. (sub. 131, p. 3)

The Commission notes the recent House of Representatives inquiry into certain superannuation issues recommended amending the definition of ordinary time earnings in the Superannuation (Administration) Guarantee Act 1992 to include payments made while on maternity or paternity leave (HRSCEFP 2005). However, a change to the relevant legislation or administrative instrument giving effect to that recommendation is yet to be actioned by the Australian Government.

But the spirit of that proposal (and the accrual of other types of leave during parental leave absences) was opposed by other participants, primarily on the grounds that a taxpayer-funded scheme (the basis of the Commission’s scheme) 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)
The Commission estimates the after tax cost to employers of providing superannuation entitlements would be around $75 million a year given they are a deductible business expense (see chapter 2). 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 are not binding. As the head of government relations at a private sector financial services provider 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 for those women at or near the minimum wage, these additional employer costs would increase the risk of discrimination. While 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 capped at the minimum wage for all other employees (consistent with the ceiling on paid parental leave) 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 mandatory 9 per cent contribution would have to split contributions into the 9 per cent component and other rate in their accounting systems.

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. 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.

Consistent with the ceiling on paid parental leave under the Commission’s 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 baby. 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.

The Commission recognises the value of paid parental leave being seen as being like other leave. However, 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). In the Commission’s view, this would preclude leave accrual being considered a practical component of the scheme it is proposing. However, if evidence emerged that those obstacles could be overcome in a cost-effective manner, the Commission would have cause to reconsider that conclusion. Accordingly, further feedback is sought from participants on whether other leave entitlements, such as sick, recreation and long service leave, should accrue during the period of paid parental leave, having regard to its costs and appropriateness.

But mandating the provision of superannuation entitlements may present less onerous obstacles in terms of the financial and compliance burden on firms (given a payment is only required in the low probability event that an employee is on parental leave) and the necessary legislative change required to provide such benefits. Subject to confirmation that business compliance costs or legal and other administrative problems for government are not excessive, the Commission considers that employer superannuation contributions should continue while an employee is on paid parental leave. However, further feedback is sought from participants on the costs involved in mandating the provision of (capped) employer superannuation contributions while an employee is on paid parental leave.
## Table 8.1 Pros and cons of alternative financing options

<table>
<thead>
<tr>
<th>Option</th>
<th>Features</th>
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<tbody>
<tr>
<td><strong>Direct Employer Funding</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>• Involves lower efficiency costs compared to other alternatives</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
</tr>
<tr>
<td>• Risk of discrimination against women</td>
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<tr>
<td>• Significant transitional costs on firms</td>
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<tr>
<td>• Increased gender wage inequality</td>
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<tr>
<td><strong>Pooled funding</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>• Potentially lowest efficiency cost compared to other alternatives</td>
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<tr>
<td>• Reduces risk of discrimination and accentuation of gender wage gap</td>
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<tr>
<td>• Spreads cost broadly</td>
<td></td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
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<tr>
<td>• Some transitional costs for firms</td>
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<tr>
<td>• Comparatively high administrative and compliance burden</td>
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<tr>
<td>• Increases complexity of the tax system</td>
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<tr>
<td><strong>Portable leave/savings accounts</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
<td></td>
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<tr>
<td>• Same as for pooled funding</td>
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<tr>
<td>• Decisions regarding parental leave duration left in the hands of parents</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
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<tr>
<td>• Same as for pooled funding</td>
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<tr>
<td>• Broader scope of proposal involves higher efficiency cost</td>
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<tr>
<td>• Diminishes the retention benefits from long service leave</td>
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<tr>
<td><strong>Income contingent loans</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>• Reduces efficiency costs of full government revenue financing</td>
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<tr>
<td>• Decisions regarding parental leave income and duration left in the hands of parents</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
</tr>
<tr>
<td>• Influences incentives to work for some households</td>
<td></td>
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<tr>
<td>• Relatively complex and administratively costly to deliver modest leave level</td>
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<tr>
<td>• Involves some risk to government revenue</td>
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<tr>
<td>• Design errors difficult to reverse</td>
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<tr>
<td><strong>Concessional tax arrangements</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>• Decisions regarding parental leave duration left in the hands of parents</td>
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<tr>
<td>• May encourage business top-ups</td>
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<tr>
<td><strong>Disadvantages</strong></td>
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<tr>
<td>• Provides tax concession to existing schemes</td>
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<tr>
<td>• Favoured employees likely to already have access to paid parental leave</td>
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<tr>
<td>• Incentives for employers to act strategically</td>
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<tr>
<td>• Involves some risk to government revenue</td>
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<tr>
<td><strong>General government revenue</strong></td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>• Administrative machinery for collection already exists</td>
<td></td>
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<tr>
<td>• Avoids problems of discrimination and greater gender wage inequality</td>
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<tr>
<td>• Spreads cost broadly</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
</tr>
<tr>
<td>• Potentially high efficiency costs</td>
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9 Interaction with social welfare payments

Key points

- The suite of family benefits currently provided in Australia is comparatively generous by OECD standards (including most countries with paid maternity or parental leave schemes).
- The Commission proposes folding some of the existing family benefits into the proposed paid parental leave scheme to maximise the benefits of the additional government outlays. A parent will need to take leave to access the proposed parental leave payment.
  - Where parents are ineligible for the parental leave scheme, the family will be eligible for existing family payments (including the modified baby bonus – the proposed maternity allowance).
  - To avoid families being disadvantaged by the scheme, families will have the choice to receive existing family payments and the maternity allowance instead of the proposed parental leave payment.
- The proposed parental leave scheme will increase budget costs, but only by around 2 per cent of the existing government outlays on family assistance measures.
- Payments under the proposed paid parental leave scheme will be taxed and will count when determining eligibility for other government payments. As such:
  - low income earners will receive greater benefits than higher income earners
  - lower income earners are more likely to substantially increase their leave in response to the proposed payment
  - taxing the proposed payment is likely to improve the scheme’s effectiveness in increasing the leave taken around the birth or adoption of a child.

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.

This chapter does not provide a detailed explanation of the Australian tax and transfer system. Rather, it explains how the proposed parental scheme will interact...
with some elements of the tax and transfer system that are particularly relevant to families with new children. Additional information on these social welfare policies is provided in appendix F.

## 9.1 Interaction with other government payments

Families with young children are already entitled to a number of government payments, including the baby bonus, family tax benefit (A and B), the child care benefit and the child care tax rebate. These payments are generally subject to means testing, so not all families qualify.

Overall, family payments in Australia are comparatively generous by OECD standards (figure 9.1). And statistics for most other OECD countries already include government outlays on paid maternity or parental leave schemes.

**Figure 9.1** Family payments as a per cent of GDP in 2003a

<table>
<thead>
<tr>
<th>Country</th>
<th>Per cent of GDP</th>
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</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>4.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.1</td>
</tr>
<tr>
<td>Norway</td>
<td>3.9</td>
</tr>
<tr>
<td>Iceland</td>
<td>3.8</td>
</tr>
<tr>
<td>Austria</td>
<td>3.7</td>
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<tr>
<td>Finland</td>
<td>3.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.2</td>
</tr>
<tr>
<td>Norway</td>
<td>3.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>2.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.5</td>
</tr>
<tr>
<td>OECD Total</td>
<td>2.4</td>
</tr>
<tr>
<td>Greece</td>
<td>2.3</td>
</tr>
<tr>
<td>Italy</td>
<td>2.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.1</td>
</tr>
<tr>
<td>Canada</td>
<td>2.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.9</td>
</tr>
<tr>
<td>Spain</td>
<td>1.8</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7</td>
</tr>
<tr>
<td>United States</td>
<td>1.6</td>
</tr>
<tr>
<td>Korea</td>
<td>1.5</td>
</tr>
</tbody>
</table>

a Family payments include family allowances, maternity and parental leave and other cash benefits.

*Data source: OECD.*

The proposed paid parental leave scheme will raise the budget outlays Australia makes for family related payments, but it is unlikely to change Australia’s ranking among OECD countries. Australia currently spends around $20 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 2 per
cent. Overall, the proposed scheme will have a net cost to taxpayers of $452m a year and a cost to business of $75 million (appendix B).

Figure 9.2 **Budgetary outlays on main family benefits in Australia**

Outlays in 2006-07

![Budgetary outlays on main family benefits in Australia](image)

*Data source: FaHCSIA sub. 141 and FaCSIA annual report 2006-07.*

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
- partner’s income
- the number of children in the family
- when during the financial year the birth or adoption occurs, and
- the length of leave taken.

A graphical representation of the factors that determine eligibility for these key family payments is provided in figure 9.3. Each of the seven family characteristics influence either the eligibility for support or the amount of payment each family actually receives (see appendix F for more detail).
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 permanently exited the labour market in order to become a primary carer, are appropriately addressed by policies explicitly targeted at them.

McDonald (2008) provides an illustrative example of how the different family payments combine for different types of representative families. This is done by calculating how cash entitlements change for a couple with two children under different working arrangements. Four cases were considered:

- ‘stay at home mum’ — the father works full-time while mother provides full-time care
- ‘one and a half incomes’ — the father works full-time while the mother works part-time until the youngest child turns 13 and full-time after that
- ‘equal sharing’ — both mother and father work three quarter time until the youngest child turns 13 and both work full-time after that
- ‘two incomes’ — both mother and father work full-time.

The different family circumstances are reflected in the payments these couples receive. McDonald notes that the stay at home mum couple benefited most from family tax benefits A and B, and the education allowance. 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 income couples and the equal sharing couples – which McDonald suggest 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. These couples would be eligible for the proposed paid parental leave scheme, which would represent a 7 per cent increase in their overall payments.

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 will influence parents of new children, it has also been necessary to assess any indirect impacts that access to existing payments could have on the relative attractiveness of the proposed paid parental leave scheme.

The proposed paid parental leave scheme has been designed to:

- increase the length of leave taken around the birth or adoption of a child, and
- encourage female labour force participation before and after the period of parental leave.

Consequently, the Commission is recommending changes to some existing government payments.

**The baby bonus**

The baby bonus provides families with a $5000 tax free payment, regardless of their workforce status. 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.
The Commission is proposing that the baby bonus be replaced by a maternity allowance. Apart from the change in name, there are two proposed changes to the operation of this welfare payment:

- families will only be entitled to the maternity allowance if they are not receiving the proposed parental leave arrangement
- no means test on the proposed maternity allowance.

For horizontal equity reasons, the Commission is proposing that any women eligible for the proposed paid parental leave scheme should also be eligible for the maternity allowance. As such, the Commission is recommending that the maternity allowance should not be subject to a means test.

While the proposed change to eligibility for the baby bonus does not require a name change, the Commission believes that it is important to highlight the change in eligibility by changing the name of the scheme.

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 additional time off work. Under such a scheme, parents could have a financial incentive to resign from their job and access the maternity allowance instead of participating in the paid parental leave scheme. To overcome such a perverse outcome, the Commission proposes that parents could choose to take the maternity allowance instead of participating in the proposed paid parental leave scheme.

To encourage sufficient parents to opt for the parental leave payment over the maternity allowance, the parental leave payment needs to be more generous than the baby bonus. Even though the proposed parental leave payment will be taxable and included in assessing eligibility for other government benefits, it is estimated that people will on average be around $3300 better off under the proposed parental leave payment (for 18 weeks) compared to current arrangements.

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1 Parents cannot receive the proposed parental leave payment while they are on other forms of paid leave from their employer. However, it will be permissible for parents to receive the proposed parental leave payment and have the employer top up that payment to their normal level of pay.

2 To obtain this estimate, the Commission has examined details of actual families contained in the LSAC survey. The comparison accounts for tax implications and eligibility for the main family payments. The tax and welfare payments included in the comparison are income tax (including Medicare, the low income tax offset and low income Medicare exemptions), the baby bonus and family tax benefits A and B.
Family tax benefit B

Nearly all families are currently eligible for the maximum rate of family tax benefit B (currently $125.02 a fortnight) while the mother is not earning an income. Under the current family tax benefit regulations, if the proposed paid parental leave scheme was introduced, most (but not all) families would lose the majority or all of their family tax benefit B payments.

The proposed rate of payment for the parental leave scheme has been set at a high enough level to compensate all families for losing the entire family tax benefit B payment. Under current regulations, some families receiving the proposed paid parental leave payment would still be eligible for family tax benefit B in our scheme even though they would be fully compensated for the loss of family tax benefit B. For that reason, the Commission is recommending that families should not be eligible for receiving family tax benefit B while they receive the proposed parental leave payment.

A similar outcome could be achieved by changing current family tax benefit regulations so all families in receipt of the proposed paid parental leave payment would receive the entire family tax benefit B payment. However, some recent cases have highlighted the complexity of family tax benefit B regulations and the scope for unintended outcomes to occur around the birth or adoption of a child. As such, it was felt that attempting to change current family tax benefit regulations would be more complex and provide greater scope for further adverse outcomes than the Commission’s proposal.

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 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 paid parental leave
- but, if it encourage parents to return to work at a later time, it can complement the objectives 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’ is over $4.50 an hour
  - 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.

As parents still bear part of the cost of ‘approved’ child care, families with children in family day care or long day care are likely to need less compensation to encourage the primary carer to extend leave than 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, over half would be better off if the mother stayed on leave and received the proposed 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 receiving the proposed parental leave payment compared to returning to work are earning very high incomes. As high income women are the least 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, A Harris sub 201). 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 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.

Parents currently using formal child care would be expected to take more time off work if the proposed parental leave scheme was adopted. However, it is not clear that there would be a 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). If this occurs, it is unclear whether child care subsidies will increase or decrease, but if the proposed paid parental leave scheme is introduced, there is likely to be a reduction in very young children in ‘approved’ child care.

**Interaction with other government programs**

The proposed parental leave payment will also affect eligibility for other welfare payments including family tax benefit A, parenting payment 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.

While still important, 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 arrangement 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.

As such, 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.

Both the parenting payment and the carer allowance are means tested, with benefits declining at relatively low income levels (FAO 2008c). As such, recipients of these payments who are eligible for the proposed parental leave scheme are among those most at risk of being worse off by accepting the proposed parental leave scheme. Because families can choose whether to opt in or out of the parental leave scheme, these families need not be disadvantaged if they can receive suitable advice before making a decision between taking the proposed paid parental leave payment or the maternity allowance.

It is expected that most people in receipt of the carers payment will not be eligible for the proposed parental leave payments, although some may be. In 2003, two-thirds of carers were over 45 years old and less than half of primary carers were working. Many of those in work were only marginally attached to the workforce (ABS 2005a, b).

### 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.
The pay as you go tax withholding system would apply to the proposed parental leave payment. For each recipient, $60 of the payment would be withheld each week,\(^3\) but the ultimate tax liability each mother would incur would depend on her income throughout the financial year.

For most mothers who 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 is higher on average than that received while on paid parental leave. The likely outcome is that most mothers would receive a smaller tax refund than if there was no paid parental leave scheme.

In contrast, a small group of mothers will earn so little that they would not have any additional tax liability at the end of the year even if they received the proposed parental leave payment. 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 proposed scheme was introduced. For these mothers, $60 of the proposed parental leave payment would still be withheld each week, and these parents would receive the withheld tax back at the end of the financial year.

For families that would be liable for additional tax if the proposed parental leave scheme were introduced, the factors that will influence the size of their tax liability include

- 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.

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 is proposing a parental leave payment that lasts 18 weeks, this involves the repackaging of some existing payments, increased tax liabilities

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\(^3\) Based on 2008-09 tax tables, assuming that the person is eligible for the full tax free threshold.
and some loss of government benefits. On average, the additional new money families receive from the parental leave component would be around $3200.4

To illustrate this, figure 9.4 shows that the replacement of the baby bonus for parents eligible for the paid parental leave scheme would fund nearly nine weeks of the scheme at the federal minimum wage. The equivalent of four weeks of the paid parental leave payment would be lost because of additional tax liabilities or reduced family tax benefits. Therefore, the average family would receive slightly over five 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 — average for all families

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*Data source:* Productivity Commission calculations.

It is expected that the additional new money available through the proposed paid parental leave scheme will encourage parents to take more time off around the birth of their child. The Commission expects that people will take between five and nine additional weeks of leave because of the proposed scheme (appendix G).

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4 This is a net benefit after annual tax liabilities are considered. Families may also receive some benefit from the superannuation and paternity leave component of the proposed scheme.
While the proposed scheme will provide sizeable benefits on average, the impact will differ across families. In addition to the usual influences (income and number of children), some of the divergent impacts on families will arise because of the length of leave the mother takes and the timing of the birth or adoption within the financial year.

Using household data from LSAC, it is estimated that mothers earning lower incomes will generally benefit more from the proposed paid parental leave scheme than mothers earning higher incomes (figure 9.5). Assuming no change in length of leave, mothers earning the lowest income are nearly $1000 better off than mothers earning over $750 a week.

**Figure 9.5  Net financial benefit of proposed parental leave scheme**

*Average net benefit to families by mother’s pre-tax weekly wage after birth*

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<tr>
<th>Mother’s post birth income $ per week</th>
<th>Average net benefit</th>
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<tr>
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<td>$1 to $250</td>
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Net benefit from proposed parental leave scheme

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*a Based on 18 week duration of proposed parental leave scheme.

*Data source: Productivity Commission calculations utilising LSAC wave 1 and 1.5 data.*

One of the objectives of proposed paid parental leave scheme is to extend the leave taken by new parents. The net financial benefit illustrated in figure 9.5 assumes that parents do not change their leave behaviour. That assumption provides for a simple basis of comparison. But in practice, we expect to see between five and nine weeks of additional leave being taken which will change the outcome.

However, if families extend their leave, they forgo income they would have earned from returning to work. For example, women earning less than $250 a week would receive nearly $4000 of new money on average. This new money represents around
16 weeks of pay for women at the top of this income range. For women earning over $750 a week, the average new money available under the proposed scheme would be worth a maximum of four weeks salary.

**Should the parental leave payment be taxed?**

In developing the proposed paid parental leave scheme, one 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 if the cost was to be maintained. Taxing the payment is also desirable because:

- those on the lowest incomes are likely to be most responsive to the scheme, so 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 makes it more equitable, because it provides the greatest net benefit to lower income earners
- 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.

On average, women eligible for the scheme will have an additional tax liability of $1356. If an untaxed scheme were to have the same net cost as the proposed scheme, the overall level of payment would need to be reduced by $1356 — or the equivalent of two and a half weeks of the proposed payment.

And, the reduced benefit would not fall evenly on all women. Figure 9.6 illustrates the additional tax liability by mother’s pre birth salary level if the proposed taxed parental leave scheme was introduced. Women with a tax liability over $1356 would be better off under an untaxed system with the same net cost as the proposed scheme. As such, women with a pre birth weekly income exceeding $900 would be better off under an untaxed scheme and women with pre birth wages of $600 or less would be advantaged by a taxed system.
For women with pre birth wages of $1250 a week, the additional benefit they would receive through having an untaxed system would be just under half a week’s salary more than under a taxed system. This is the group where the ratio of the benefit of not taxing the system to their pre birth salary would be largest.

In contrast, those mothers with pre birth weekly wages in the range of $200 to $600 will be worse off under a untaxed system with the same net cost as the proposed taxed system. The loss of benefits for this group would be equivalent to losing half to six weeks of salary. As lower income women are less likely to have existing paid maternity leave now, and because they are more likely to respond to a paid parental leave scheme, a taxed paid parental leave scheme is likely to provide more benefits than an untaxed scheme with the same net cost.

9.3 The bottom line

While Australia does not have a statutory paid parental leave scheme, by OECD standards it already provides 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 government assistance to families by around 2 per cent.
The Commission is proposing to incorporate some existing payments into the proposed 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.

To minimise the risk of families being disadvantaged by the proposed scheme, parents should 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 $3200 per family. As the Commission is proposing that the payments be taxable and be included for determining the eligibility for other means tested government payments, lower income families will receive higher benefits than higher income families.

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.

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. To date, over 250 public submissions have been received and placed on the inquiry website. 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 also held a community consultation in Dandenong, and one with its own staff, to discuss people’s personal experiences of combining childbirth and ongoing employment.

The Commission thanks all those who have contributed to this inquiry.
## A.2 Submissions

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**Australia**

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Australian Chamber of Commerce and Industry

Australian Industry Group

Australian Institute of Family Studies

Breastfeeding Association

Business Council of Australia

CFMEU Western Australia

Childcare Associations of 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
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
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
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B How much will it cost?

Key points

- The Commission’s proposed scheme involves a gross cost to the community of around $1.5 billion.
- However, the net cost is much smaller at $527 million:
  - paid parental and paternity leave payments would be taxable
  - parents eligible for paid parental leave would not generally be eligible for the new maternity allowance (the replacement for the baby bonus)
  - families using paid parental leave may lose some family tax benefits.
- 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.
- A given percentage increase in leave duration results in a greater than equal percentage increase in the net cost.

The Commission has provided initial cost estimates of its proposed scheme. The starting point of the estimates are the number of expected births (285 000), and then the associated number of these linked to eligible parents. Of the 285 000 live births, around 175 000 are to mothers who were employed prior to birth. Of this group, around 140 000 have sufficient employment tenure and hours of work to qualify for the Commission’s proposed paid parental leave scheme. Given the greater employment rate of fathers, around 225 000 fathers would be eligible for paid paternity leave.

The Commission has used survey data 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 also provides payments to parents of stillborn children. This has not been costed, but is small since the fetal death rate is small.

2 Particularly the LSAC survey and the ABS survey of Pregnancy and Employment Transitions.
While it is assumed that the vast majority of employed mothers will use paid parental leave, the Commission has assumed much lower takeup of paid paternity leave (in keeping with the experiences of overseas schemes).

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 times the payment rate (figure B.1).

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 Standards.
- depend on whether an employees 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. Effects of the scheme on the use of other family assistance arrangements are ignored (such as the child care tax rebate). 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).

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3 The usage of the paid parental scheme is assumed to be 98 per cent.

4 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.

5 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.)
It should be emphasised that, as well as involving several assumptions, the cost estimates are static, ignoring 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 increase 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). Since the Commission has mooted the option of including a business contribution through accrued leave entitlements if its practical obstacles
could be overcome, the model also costs this proposal. (That costing involved additional calculations of eligibility, since casual employees would not be eligible for such entitlements.)

The table illustrates the various tradeoffs between leave duration and model options. For example, a scheme of 20 weeks parental leave duration, capped superannuation benefits and accrued leave entitlements and two weeks of paternity leave would cost $734 million net to the community as a whole. The equivalent funding would nearly be able to buy 24 weeks of parental leave by itself. 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 to B.2, but can be derived by taking the difference between the first column of table B.1 and the remaining columns. For example, were a scheme to be 18 weeks long, the full net business costs of providing super and accrued leave entitlements would be $592 – $384 = $208 million or 35 per cent of the total net cost of the scheme.

It is notable that for any option, a given percentage increase in leave duration results in an equal percentage increase in the gross cost, but a greater than equal percentage increase in the net cost. Accordingly, for a scheme that included parental, paternity and super benefits (but no accrued leave entitlements):

- an increase in the duration of leave from 14 to 18 weeks would represent a 29 per cent increase in the period
- but would represent a 103 per cent increase in the net cost of the scheme (table B.2).

This lack of proportionality reflects the impact of savings from the baby bonus:

- All of the options shown in tables B.1 to B.2 factor in such savings.
- These savings are one-off. As a result, they have an equal absolute effect on total net costs for any given duration of leave, but reduce net costs by a greater relative amount when costs are lower.
**Table B.1  Annual net cost of various scheme options**

<table>
<thead>
<tr>
<th>Period</th>
<th>No paternity, super, or accrued leave benefits</th>
<th>Paternity but no super or accrued leave benefits</th>
<th>Super but no paternity or accrued leave benefits</th>
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</table>

*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.

*Source:* PC estimates.
**Table B.2 Annual net cost of various further scheme options**

*Including the Commission’s proposed scheme*

<table>
<thead>
<tr>
<th>Period</th>
<th>Super and paternity, but no accrued leave benefits</th>
<th>Super, paternity and accrued leave benefits</th>
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</thead>
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<tr>
<td></td>
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<td>Net cost economy</td>
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*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 costs of the Commission’s proposed scheme is shaded and marked in bold. The net cost to the economy is the addition of government (taxpayer) and business contributions to the scheme.

Source: PC estimates.
### Table B.3  
**Annual gross costs of various scheme options**

Including the Commission’s proposed scheme

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*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 costs of the Commission's proposed scheme is shaded and marked in bold. The costs combine government (taxpayers) and business costs.

Source: PC estimates.
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