

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

Question: aet 8

Topic: Paid Paternity Leave

Hansard Page: Written

Senator EGGLESTON asked:

In the Productivity Commission's December release of "PC update" in the section discussing the soon to be released report on universal paid parental leave, you note that the government had indicated its intention to extend the right to request an additional 52 weeks of unpaid paternal leave through the National Employment Standards which could see people returning to employment after two years.

1. Was the issues of unpaid paternal leave examined in any depth during the Commission's inquiries and if not, would it not have been appropriate to include it?
2. Given the current economic downturn, what obligations will employers have to employees on paternity leave, under the proposed model, if there was a need to create redundancies within the workplace?
3. What thought has the Productivity Commission given of the impact that absence of a worker from a workplace for two years will have on their productive capacity, particularly in light of how fast technology is developing?
4. Two major issues which influence families' decisions on if or when to return to the workplace after childbirth are the issue of paid paternal leave and also the cost of child care. Which of these two factors did the Commission find carried greater weight?

Answer:

The comments below reflect the Commission's draft report findings, as the final report has yet to be released publicly.

1. The Commission was aware of the existing legislative arrangements for unpaid parental leave and the proposed amendments foreshadowed in the Fair Work Bill. Since the terms of reference requested that the Commission assess models for *paid* parental leave, the main interest of the Commission in the existing and impending unpaid leave provisions was how they might affect the design and outcomes of a paid scheme. Otherwise, they were not, in themselves, an appropriate key area of interest for the inquiry.

However, we did comment on several facets of the unpaid leave provisions where these related to our proposed paid scheme. In the draft report, we recommended the

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inclusion of (non-familial) adoptive parents in a paid scheme and that the national employment standards should provide mirror rights for those adoptive parents on unpaid leave, so that adoptive parents on statutory paid leave would be able to secure a job return guarantee (Draft rec 2.8). In the draft report, we also recommended a change in the notice period to employers from 4 to 6 weeks for extensions of unpaid leave under the national employment standards as a way of reducing the disruption burdens for employers.

2. The model proposed by the Commission in the draft report is largely funded by taxpayers, so that an employee made redundant while on leave would continue to receive the statutory payment from government at the minimum wage for the remaining period of leave. However, the draft report also proposed payment of superannuation by an employer for certain (long-term) employees. The payment proposed was the minimum of \$48.94 per week or nine percent of weekly earnings for the 18 week paid parental leave period. The Commission did not specify whether the employer would continue to have any superannuation obligations were the employee to be made redundant.

3. The Commission did not explicitly examine the impact of a two year period of absence on productive capacity in its draft report, as the proposed paid scheme was for a much shorter period than the proposed unpaid leave provisions under the National Employment Standards. However, the Commission did consider the issue of skill loss when designing the proposed paid scheme and looked at the evidence of its extent. To quote the draft report, we said:

“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:

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- 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, in its draft report 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).”

4. It is important to emphasise that a statutory paid parental leave scheme has both short-run and long run effects on parental decisions to return to work. Given child and maternal welfare objectives, one major goal is to ensure an adequate period of time of exclusive parental care around the birth of the child, which explicitly delays the return to work. However, over the longer run, the Commission’s draft report noted that a statutory paid parental leave scheme would increase female workforce attachment (chapter 5) — as does subsidised child care provision.

The relative role of child care and paid parental leave policies was not considered in any detail in the draft report. The Commission’s prime task in this area was to consider the extent to which different designs of a statutory paid parental leave scheme would increase the duration of leave taken around the birth of the child, taking as a *background* all other policies, including childcare costs and provision, that might affect that choice. Accordingly, the Commission’s focus was on the *actual* impact of different models of a statutory scheme, rather than the *relative* importance of factors affecting the return to work

However, two ABS surveys that we intensively used in our study pose questions relating to the issue raised. (The Surveys are the Pregnancy and Employment Transitions Survey and the Longitudinal Study of Australian Children).

In these surveys, respondents were asked why they have not returned to work and/or why they have returned to work earlier than they may have liked. In the latter instance, chapter 5 of the draft report indicates that a significant share of women cite the absence of paid maternity leave (32.5% to 60.8% depending on the duration of time spent away from work), giving one measure of the significance of paid parental leave on work/leave decisions (chapter 5, p. 5.23). In the former case, a relatively small share of women say that ‘problems with child care’ explained why they had not returned to work after childbirth (with the main reasons for non-return being to care for children).

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The Commission also noted that current child care policies were not likely to counteract significantly the incentives that a statutory paid parental leave scheme has on taking off time around the birth of a child. As noted in chapter 9 of the draft report:

“... 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.” (p. 9.8)

Beyond these findings and data, the Commission did not consider the *relative* empirical role of childcare provision and paid parental leave on leave durations.