

Unlocking Tasmania's economic potential through changes to paid parental leave

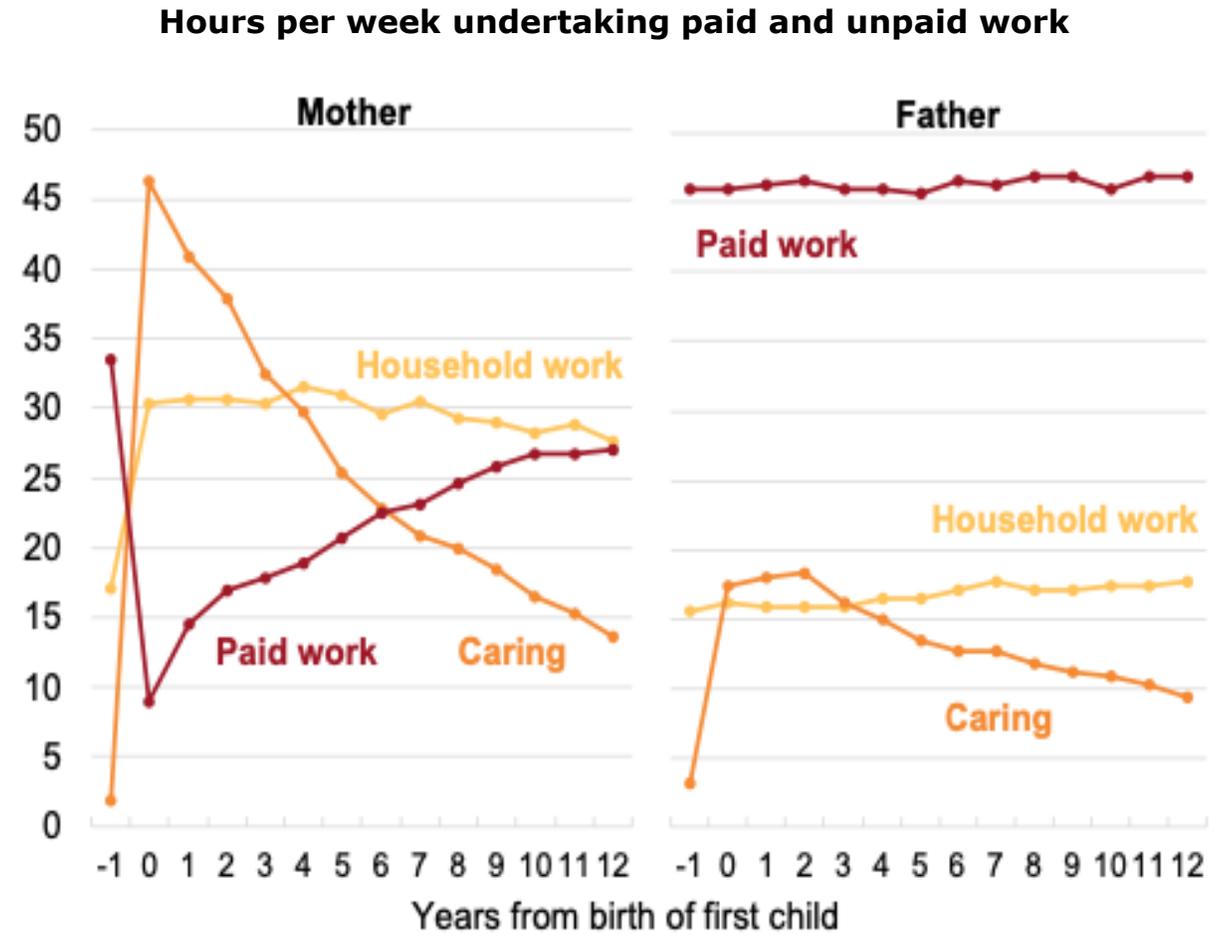
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Motivation

The arrival of children is a key inflection point that results in families specialising along gendered lines

- Childbirth and the transition to parenthood is a key inflection point in the lives of families that results in a more gendered division of work (Yavorsky, 2015); (Baxter, 2019)
- The disproportionate amount of unpaid work undertaken by women limits their ability to engage in paid work.
- Encouraging fathers to take up parental leave is a policy intervention that has been demonstrated to moderate this impact of children.
- Australia has one of the least generous parental leave schemes in the developed world, particularly for fathers.



Source: Grattan Institute (2020)

The economic case for change

In addition to improving gender equity, there is an economic dividend to levelling the playing field

The potential economic benefit of addressing gendered disparities in the labour market is large:

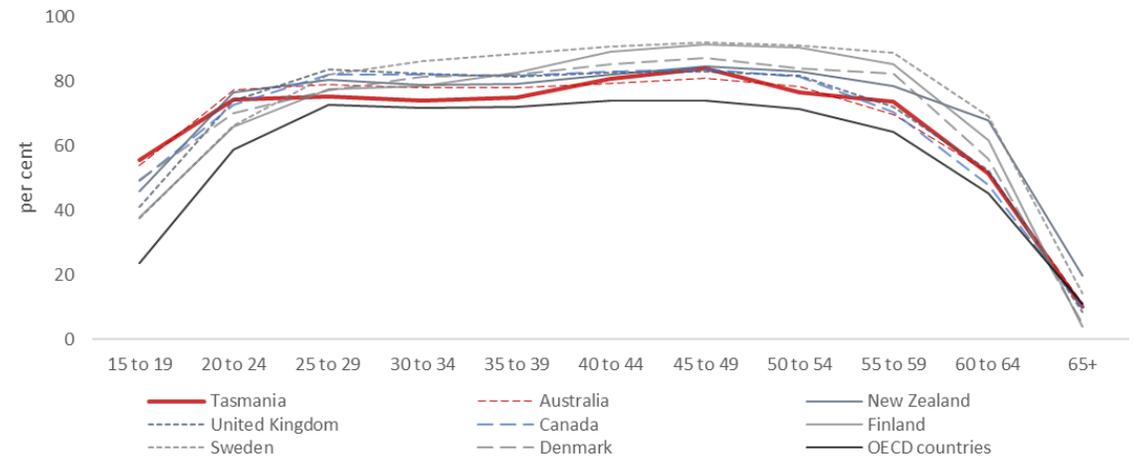
- If women's labour force participation increased to be the same as men's over the next 20 years, the NSW economy in 2060-61 would be 8 per cent larger (NSW, 2021)
- If couples allocated shared the load according to their stated preferences, New Zealand's economy could increase by an average of \$1.5 billion or 0.5 per cent of GDP per year (Deloitte Access Economics, 2021).

Australia is a laggard on gender outcomes and family policy:

- Australian women are less likely to participate in the labour force and more likely to work part-time
- This is despite Australian women being more educated on average than their male counterparts
- Public spending on parental leave per birth is low compared to most other counties.

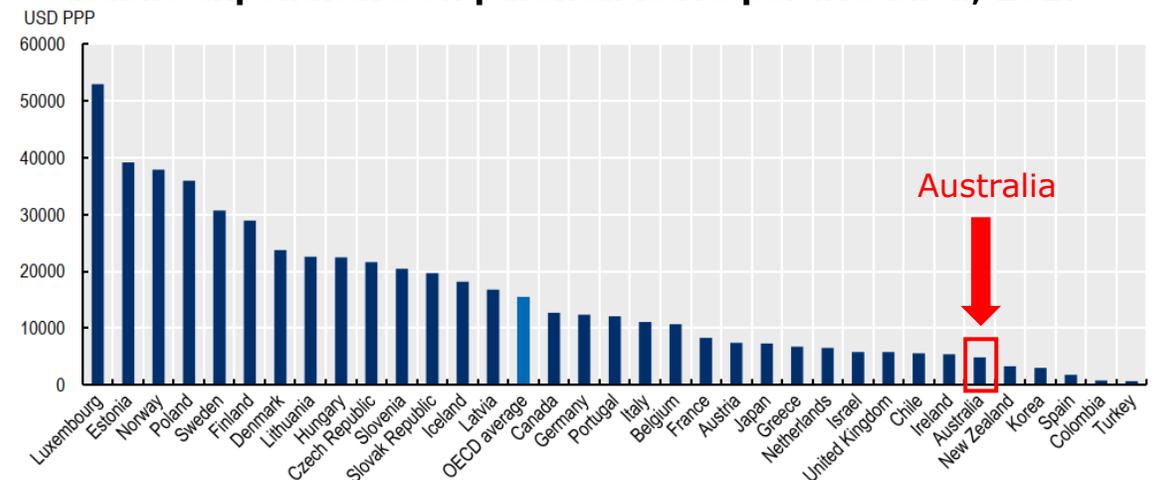
Given these factors, the returns to parental leave policies may be significant in the Australian context.

Participation rate for women by age, 2020



Source: OECD Statistics, ABS Detailed labour force

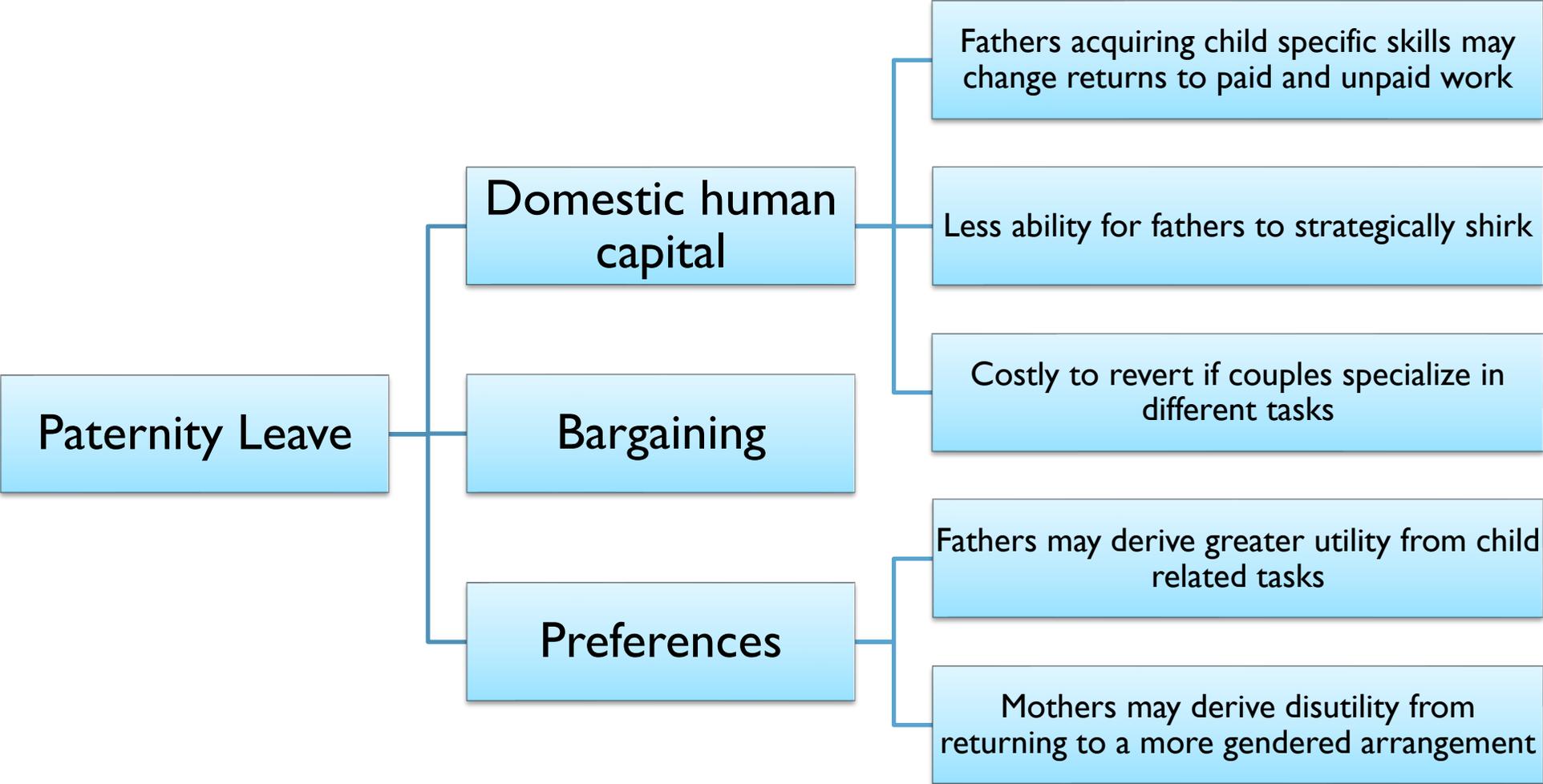
Public expenditure on parental leave per live birth, 2017



Source: OECD Family database, parental leave systems

Channels of impact

There are a range of ways that fathers taking parental leave can alter the division of paid and unpaid labour within households



Source: Becker (1985), Brines (1994) and Patnaik (2019)

The literature

There is a growing literature demonstrating that fathers taking parental leave can have a positive impact on mother's labour market outcomes

A range of papers assess the impact of the introduction of parental leave schemes for fathers finding reduced gender-based specialisation **3 - 15 years after birth** [see Kotsadam & Finseraas (2011), Rege & Solli (2013), Dunatchik and Ozcan (2021), and Patnaik (2019)].

Only a handful of papers assess the impact on hours worked:

- Dunatchik and Ozcan (2021) which finds that the introduction of a leave for fathers in Quebec is associated with:
 - a 5 percentage point **increase in women's workforce participation** and
 - A 5 percentage point **increase in full-time work** hours.
- Patnaik (2019) similarly estimated that mothers of children aged between 1 and 8 were doing **five extra hours of paid work per week** as a result of the policy.
- These papers find a substitution effect with husbands work hours of between 50% and 67%.

The Grattan Institute assessed a range of paid parental leave reform options finding an annual economic benefit to GDP of between \$0.7 - \$3.5 billion.

Research question and methodology

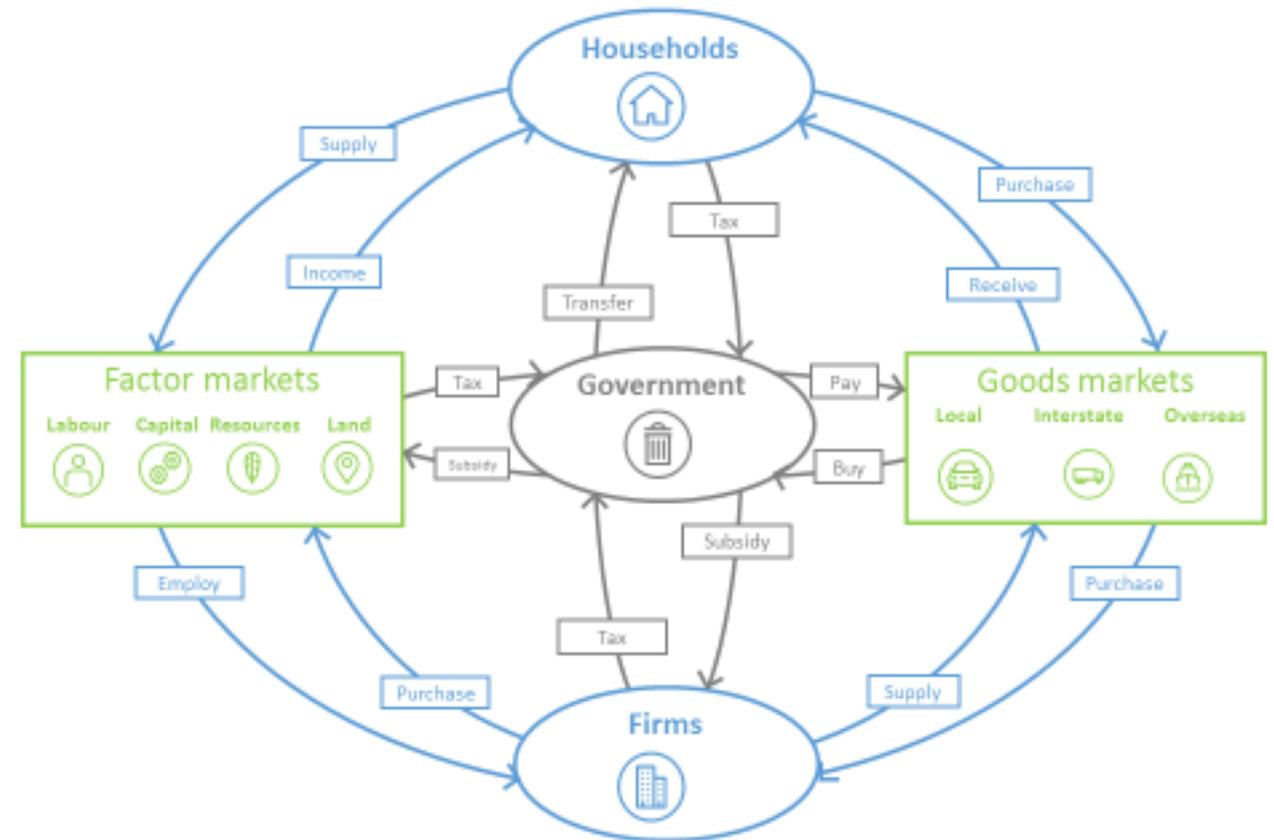
We employ D.Impact to assess the examine changes to the Australian Government Paid Parental Leave scheme

Key question: Assess the economic impact of various changes to the Australian Government Paid Parental Leave scheme in Australia with a focus on Tasmania.

There is a wide suite of available economic models to help answer this and similar questions that show how the economy transitions overtime.

CGE models are the preferred method for quantifying how the economy, as a whole, could react to potential changes in policy, technology or other external factors.

Visual representation of D.Impact



Measuring the benefits

To estimate the economic impact of the change to the PPL scheme we introduce a change to Australian labour supply

Calculating the benefit



Number of fathers taking PPL: Scenario take-up rate for a given year * the birth projections



Change in mothers [fathers] hours: number of fathers taking PPL * change in mothers [fathers] hours * weeks per year



Value of mothers [fathers] hours (\$): Change in mothers [fathers] hours * mothers [fathers] hourly earnings



Net change in value of hours (\$ per year): Change in mothers value hours – change in fathers value hours

Key parameters / data sources

Birth projections

- Australian birth projections to 2071 (adjusted for multiple births¹ and single parents)

Change in weekly paid hours

- Mothers: Increase 3 hours per week
- Mother-father substitution effect: 0.67
- Father: Decrease 2.01 hours per week

Hourly earnings

- Mothers: \$34.6 per hour
- Father: \$37.5 per hour

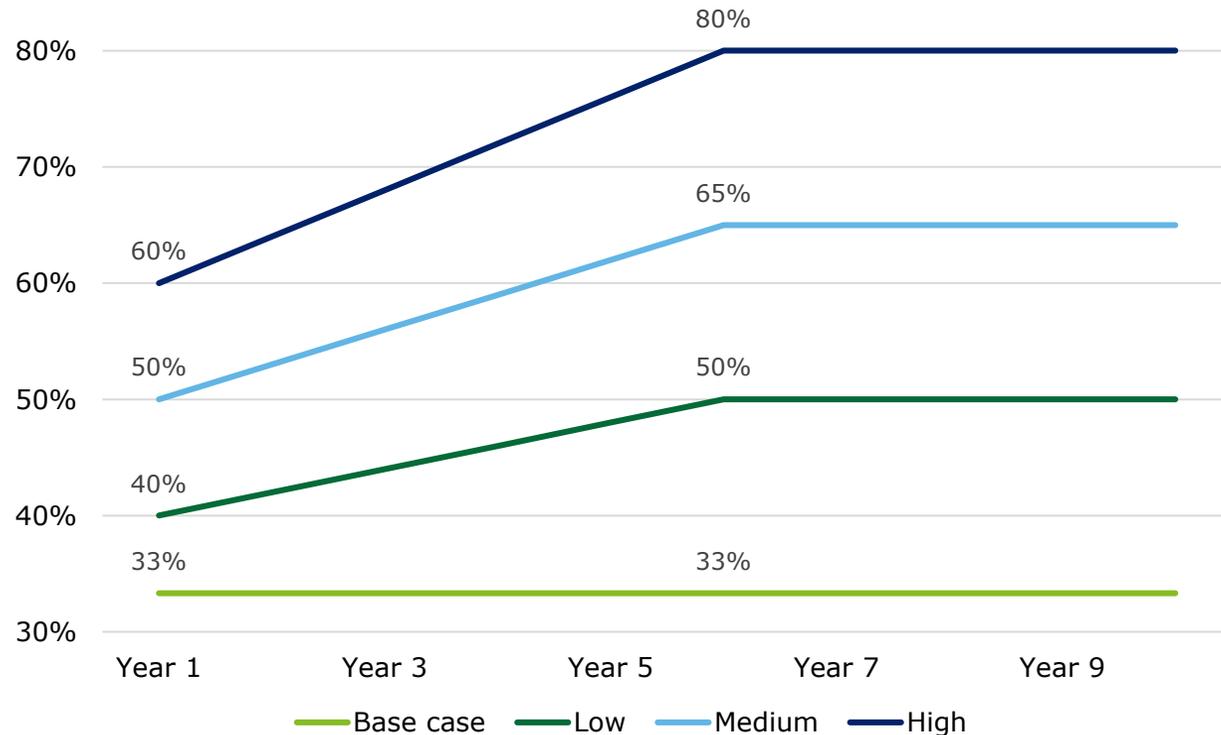
Other assumptions

- Share of one parent families: 15%
- Length of effect after children: 8 years
- Study period: 2022 to 2071
- Impact lag: 1 year

Measuring the benefits

We introduce changes to PPL take-up for fathers across multiple scenarios

Modelled changes to the paid parental leave take-up rate for fathers



Source: Deloitte Access Economics

Note: Starting year differs due to an immediate change in PPL take-up rates for fathers

Indicative parental leave schemes

Low

- Schemes that retain low wage a low wage replacement rate but longer periods of leave and design features such as bonus leave if both parents utilise individual entitlements
- Limited increase in cultural acceptance and a level of up-take below the OECD average.
- Similar to those in Germany, Belgium and Estonia.

Medium

- Generous schemes with lower cultural acceptance, or
- less generous schemes with stronger cultural acceptance.

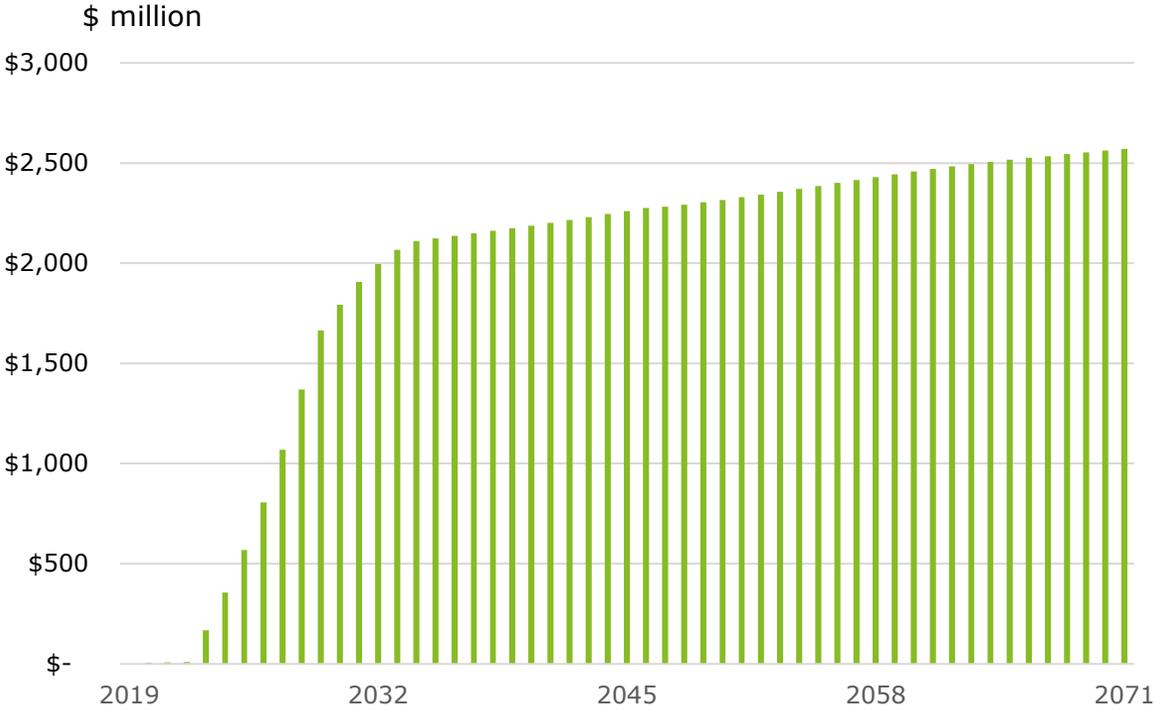
High

- Schemes that offer extended father specific leave at an attractive replacement rate
- Strong cultural acceptance
- Countries / regions with schemes similar to these (such as Norway, Iceland or Quebec) approach 80% take-up by fathers.

National results for the medium scenario (up-take rises to 65%)

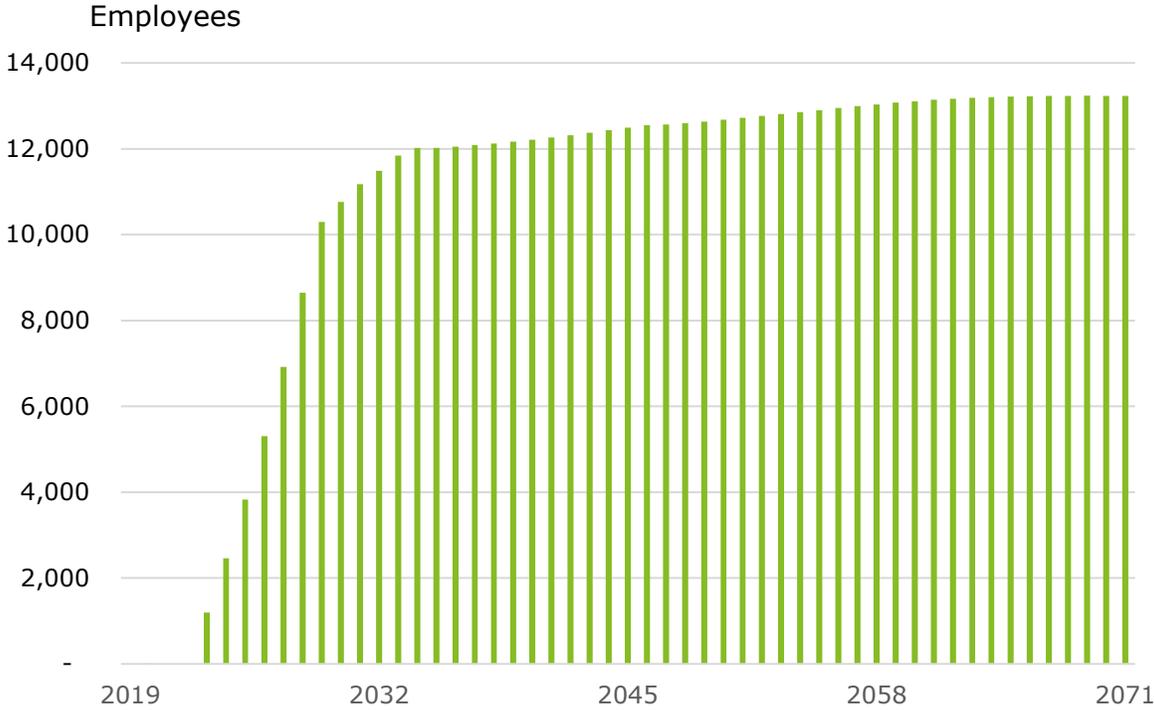
Australia's GDP (in present value terms) is projected to increase by \$21 billion and peak at an annual change of \$2.6 billion by 2071

Change in Australian Gross Domestic Product



Source: Deloitte Access Economics

Change in Australian Employment

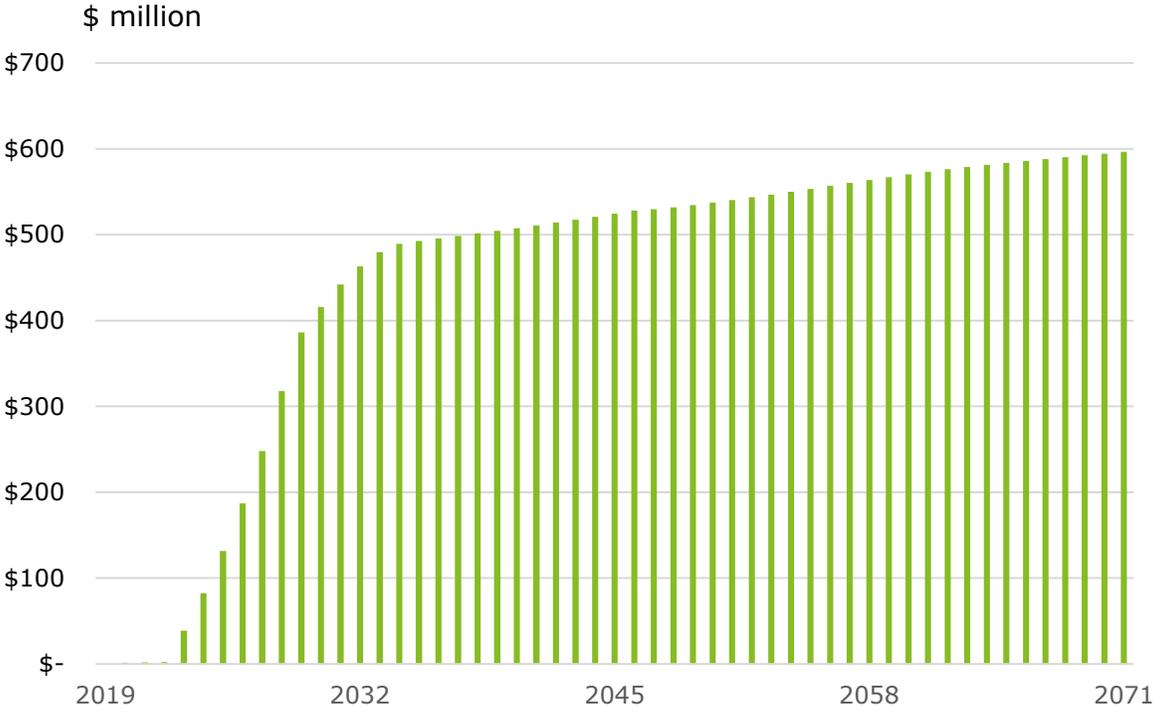


Source: Deloitte Access Economics

National results for the medium scenario (up-take rises to 65%)

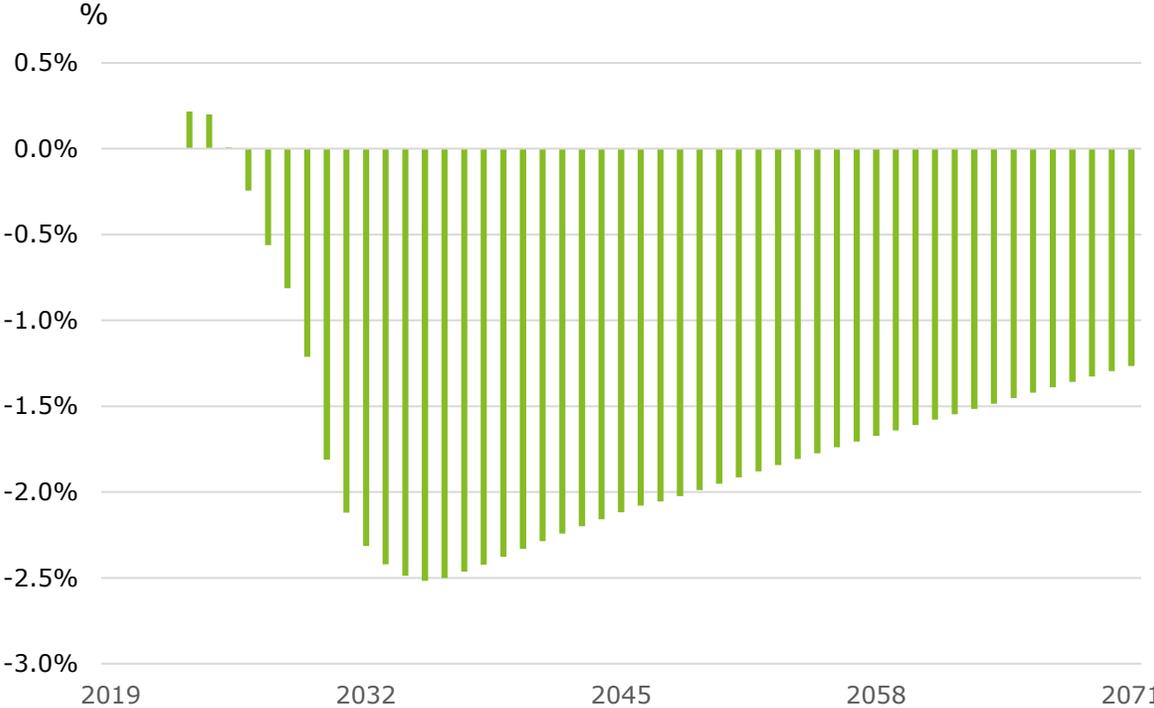
Given the increase in Australian employment, tax revenue is expected to increase by \$450 million per year

Change in Australian tax revenue



Source: Deloitte Access Economics

Change in Australian nominal cost of labour

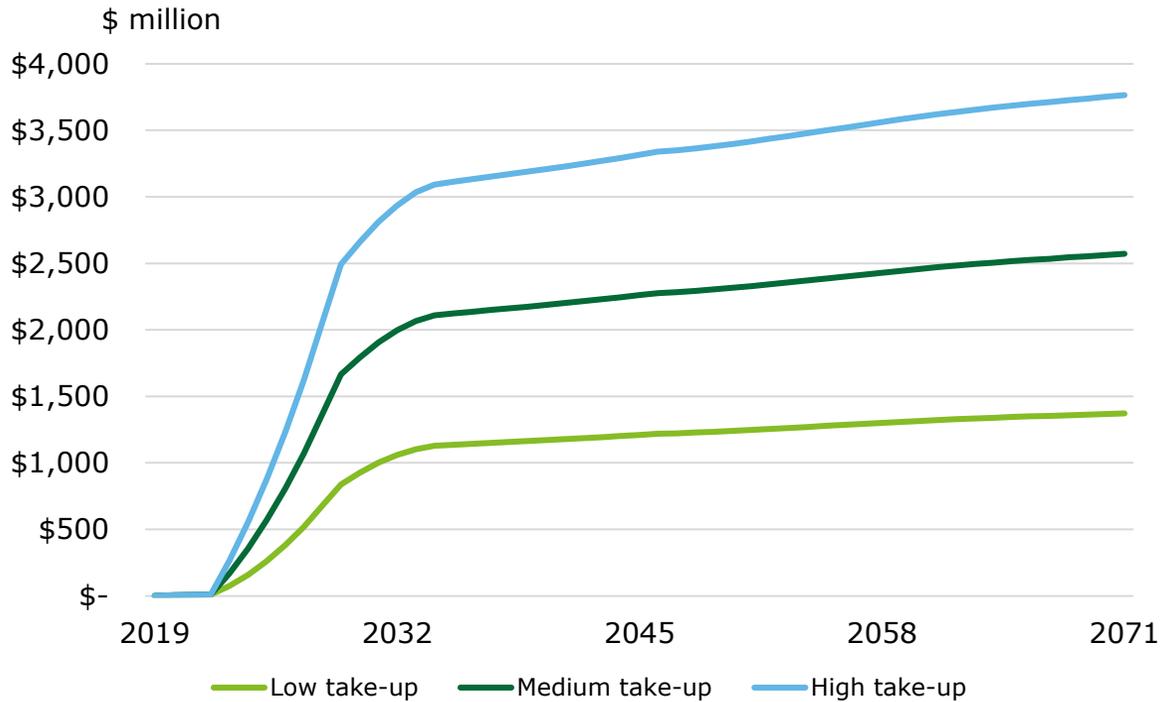


Source: Deloitte Access Economics

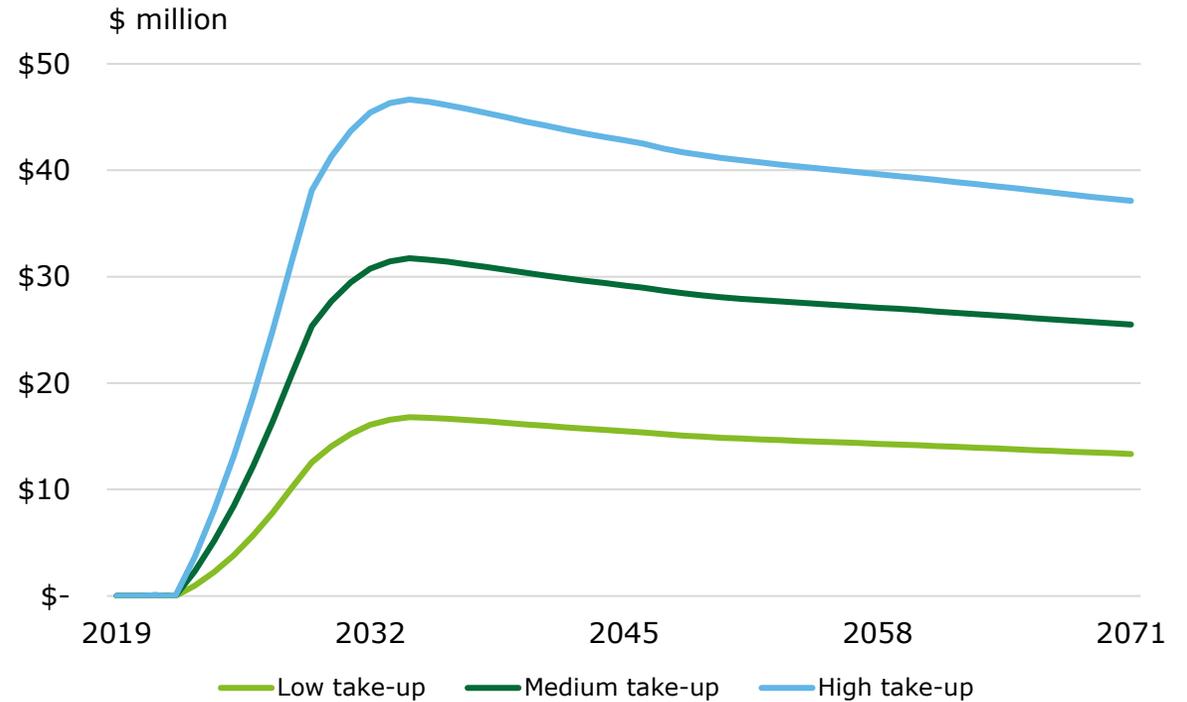
How does Tasmania compare?

Despite Tasmania's GSP being projected to increase under all scenarios, Tasmania's share of the benefit is falling over time

Change in Australian Gross Domestic Product



Change in Tasmanian Gross State Product



Source: Deloitte Access Economics

Source: Deloitte Access Economics

Policy implications

- Large positive change in Australian (and Tasmanian) GDP and employment
- This is associated with a large tax dividend as more people are working and contributing to Australia's tax in-take
- Challenges of a policy that injects more people into the labour market
- Important to consider the structural differences between Australia and Tasmania

How can this analysis be expanded?

This work can be refined and expanded to reflect other likely impacts beyond female labour market participation:

- Provide a more specific sectoral split for industries where female participation (and male PPL update) is more or less concentrated.
- Include a shock to productivity represented by a decrease in the gendered misallocation of talent in the workforce.
- Likely long-term benefits for the baby due to greater caring roles from both parents.
- Likely benefits for fathers in terms of life and job satisfaction, as well as increased health and wellbeing for both parents.

Reference list

ABS Population Projections Australia – medium scenario

Australian Institute of Health and Welfare (AIHW) Australia's mothers and babies

Dunatchik and Ozcan (2021), Patnaik (2019), HILDA analysis

ABS Labour Force Survey

ABS Employee Earnings

ABS Labour Force Status of Families

Dad days: How more gender-equal parental leave could improve the lives of Australian families

OECD, family policy data



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