

What Works for Women with Children: Parental Leave Mandates and Childcare Assistance

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Labour Force Participation and Economic Growth Workshop
14-15 April 2005

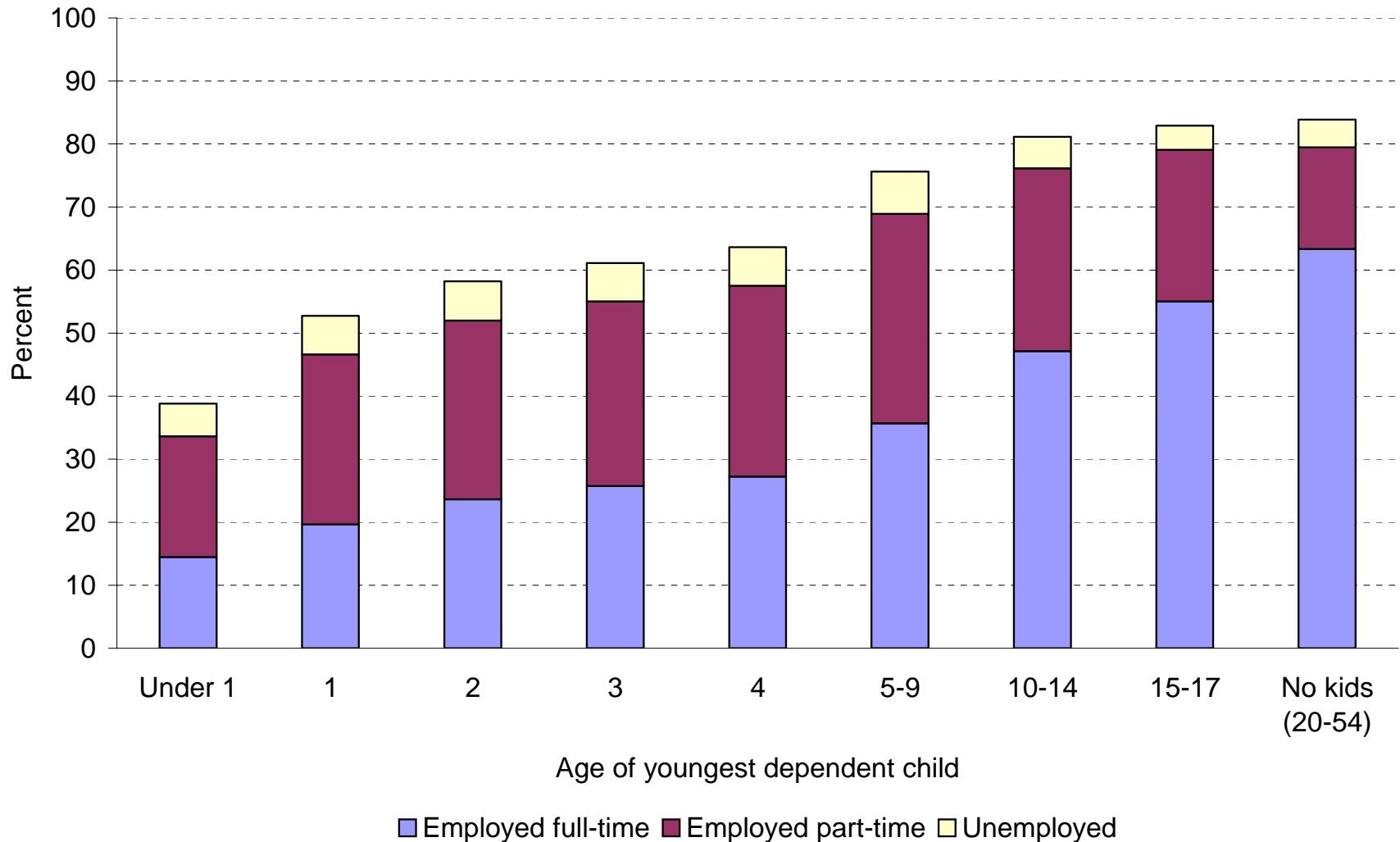
Presentation Outline



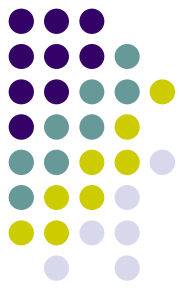
- Brief outline of NZ picture
- Key findings (theory & evidence) from international literature
- Some considerations for NZ policy debate

- Nick Mays: What works for disabled

Childcare, PPL & LFP: Why are we interested?

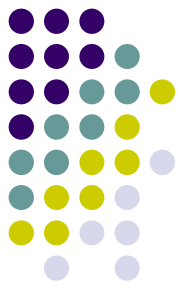


1. Features of NZ Childcare System



- Licensed provider quality standards relatively high
- Most govt funding paid direct to licensed providers:
 - Maximum 6 hours per child per day
 - Increases with quality standards
 - Not uniform across provider types
- Additional assistance for low income parents
- Most financial support for families not conditional on LFP or childcare use

Childcare Subsidies: Theory



- LFP decisions influenced by price of childcare relative to potential income
- ➔ Greater price-sensitivity among low-skilled, low-income, lone parents, full-time workers, families with young children
- Subsidising demand more effective than supply

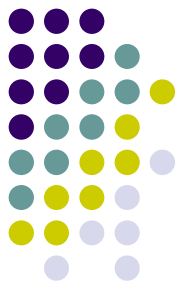
Childcare Subsidies: Evidence



Evidence suggests only small effects – why?

- Parental preferences
- Substitution of funded care for unfunded care
- Deadweight costs
- Income effects
- Access costs: administrative or “psychic”
- Parental awareness
- Responsiveness of supply (regulation)

Childcare Regulation



- May reduce access if:
 - Restricts licensed provider number/type/hours
 - Quality is costly to provide
 - Achieving quality standards has compliance costs
- May increase take-up through quality assurance for parents
 - Net effect unclear
- Limited evidence suggests regulation raises costs, reduces use of quality care and LFP



Considerations for NZ

- Further subsidisation costly relative to LFP effects – though careful targeting may help:
 - Focus on most price-sensitive groups
 - Conditional on LFP & paid childcare use
- Create more even playing field for providers
- Focus subsidies on demand rather than supply
- What proportion of care needs to be *high* (ECE) quality?

2. NZ Parental Leave Policies



- 12 months unpaid leave mandate following 12 months employment
- 13 weeks taxpayer-funded paid leave (capped), following 6 months employment - increasing to 14 weeks this year
- Parental Tax Credit

Unpaid Leave Mandates

Theory: Employers



Positive:

- Improved staff retention
- Improved staff morale/firm loyalty

Negative:

- Re-organisation of work responsibilities
- Deterioration of human capital

Unpaid Leave Mandates

Theory: Labour Supply



Data issue: unpaid leave is classified as employment

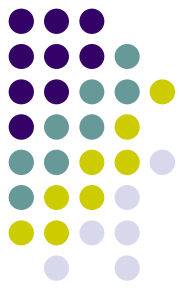
Positive:

- Reduces job-search costs (psychological & financial)
- Encourages some individuals to take less time out

Negative:

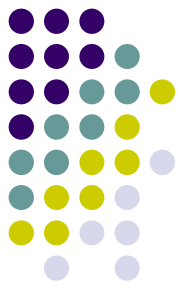
- Encourages some individuals to take more time out

Unpaid leave mandates: Evidence



- 12 weeks unpaid mandate in US since 1993:
 - Modest increases to number/rapidity of returning mothers
 - Less evidence on total employment effect: one study suggests mildly positive
- Some cross-country evidence for small positive effects on total employment

Additional effects of *paid* leave mandates: Theory



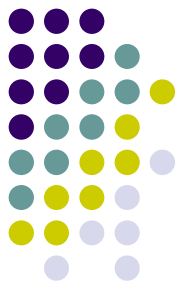
- Demand effects depend on form of funding:
 - General revenue or payroll taxes (more common)
 - Direct employer funding
- Supply effects generally positive:
 - Incentive to work before having a child (effective earnings subsidy)
 - New entrants may develop ongoing attachment
 - But income effect may increase length of leave taken

Paid leave mandates: Evidence



- Individual/cross country studies suggest small positive effect on employment
- Part of measured gains due to classification of maternity leave as “employed”
- Positive effects peak at 5 months leave
- Little comparison between paid/unpaid leave

Considerations for NZ



- Optimal leave mandates are short
- Extending paid leave is costly, additional LFP benefits largely pre-birth
- Payroll/general taxation revenue funding reduces risks of employer discrimination

Concluding thoughts



- Only considered LFP implications of two policies areas relating to women with children
- Evidence suggests relatively small effects from these policies on LFP – implications for NZ debate about raising female LFP
- But other objectives likely to remain important

