

NEW ZEALAND BUSINESS ROUNDTABLE

**SUBMISSION ON THE PARENTAL LEAVE AND
EMPLOYMENT PROTECTION (PAID PARENTAL
LEAVE) AMENDMENT BILL**

FEBRUARY 2002

Introduction

1.1 This submission on the Parental Leave and Employment Protection (Paid Parental Leave) Amendment Bill (PPL Bill) is made by the New Zealand Business Roundtable (NZBR), an organisation comprising primarily chief executives of major New Zealand businesses. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.

2.0 Key elements of the PPL Bill

2.1 The key elements of the PPL Bill are as follows:

- Parents who have been in paid employment with a single employer for 10 or more hours per week for a full year before the birth/adoption of a child will be eligible to claim the payment.
- The benefit payable is equal to \$325 gross per week or 100 percent of previous weekly earnings, whichever is lower.
- Payment will be provided for 12 weeks and can be shared between eligible partners, including those in same sex relationships.
- The scheme will be funded from general taxation.
- The scheme comes into effect on 1 July 2002.
- Parents benefiting from PPL do not have to return to work at the end of the 12 week payment period.

3.0 Comment

3.1 The NZBR does not support the proposed PPL Bill. There are a number of reasons for this. These are discussed below.

3.2 Proponents often justify the introduction of PPL on the basis that New Zealand is one of only three OECD countries (the United States and Australia being the others) without such paid leave. This ignores the important point that most of the countries cited (eg Sweden, Canada, France, United Kingdom) have a much higher standard of living than New Zealand and hence are much more able to 'afford' more extensive social benefits. While being wealthier does not necessarily justify the payment of tax-financed parental benefits, it is nonetheless the case that New Zealand cannot expect to have a 'first world' social policy lifestyle on a 'second world' standard of living. It is only through a growing economy that New Zealand will be able to afford higher social spending, where such spending is justified.

- 3.3 The New Zealand labour market has changed considerably in recent decades, with an increasingly diverse workforce, a significant increase in the labour force participation rate of women and an increasing proportion of the workforce engaged in so-called 'non-standard' work such as part-time work and self-employment.
- 3.4 The deregulation of the labour market in 1991 through the introduction of the Employment Contracts Act (ECA) recognised the changing realities of the labour market. It did so by putting in place a regime under which employees and employers were free to negotiate mutually beneficial employment arrangements, including non-wage benefits such as parental benefits, health benefits or holiday entitlements.
- 3.5 The NZBR strongly supports the continuation of such a system for regulating employment relationships and the right of employees and employers to negotiate paid parental leave where this is deemed to be mutually beneficial. In our view, a flexible and voluntary system of negotiation over the terms and conditions of employment contracts is the best way of recognising the differing circumstances and preferences of employees and firms and ensuring that the labour market is able to evolve appropriately.
- 3.6 In many cases, New Zealand employees and employers have negotiated paid parental leave provisions as part of their contracts. According to the Equal Employment Opportunities (EEO) Trust, estimates of the proportion of firms offering employer-funded PPL vary from 13 percent to 43 percent. Currently, 35 percent of employees have some form of PPL in their contracts.¹ However, more than 10 years after the deregulation of the labour market, PPL is still not a condition of a majority of contracts. This suggests that most employees and employers feel that the provision is less mutually beneficial than other conditions of employment. Effectively, in contracts that include PPL, employees willingly forgo some element of wages or other benefits for paid leave. Less skilled - and hence lower paid - workers in particular are more likely to prefer higher wage rates than a lower wage/parental leave trade-off.
- 3.7 In our view, the blanket provision of taxpayer-funded paid parental leave as proposed in the PPL Bill is inconsistent with a flexible, voluntary and forward-looking employment contracting system because it overrides the preferences of those directly involved in the employment relationship, namely employees and employers. In our view, parental leave arrangements should be a matter to be freely determined by the parties directly involved, rather than being determined centrally.

1 *Background to Paid Parental Leave*, Equal Employment Opportunities Trust, Auckland, <http://www.eeotrust.org.nz>.

3.8 One of the most common arguments advanced is that PPL can lead to improved labour market outcomes for women and greater gender equity in the labour market. These improved labour market outcomes are thought to arise because access to parental leave allows women (who are the principal users) to:

- maintain their association with a particular firm after childbirth, thus retaining the 'firm-specific' human capital they have built up; and
- retain a good job match, which might otherwise be broken if they were to leave the labour force as a result of pregnancy.

From an employer's point of view, parental benefits may offer a cost-effective way of attracting and retaining skilled staff.²

3.9 Parental leave may also provide benefits by allowing parents to spend more time with their children during the initial months after childbirth, which can improve outcomes for both parents and children. In a recent cross-country study, Ruhm (1998) found that rights to parental leave were associated with substantial decreases in pediatric mortality.³

3.10 Despite the above, the case for parental benefits is not clear-cut. Indeed, the existing literature on the issue suggests that the labour market and social effects of parental leave are complex and uncertain. There are many reasons for this:

- Many of the identified gains would accrue under a system of unpaid mandated leave. The provision of paid leave will only improve these gains to the extent that it encourages additional workers to take leave.
- The size of the benefits from increased job attachment is unknown. In a recent study, Erosa, Fuster and Restuccia (2001) argue that the gains accruing from increased job attachment are small and that parental leave policies lead to aggregate welfare losses.⁴
- Many of the gains are captured by workers themselves, rather than by society as a whole and hence do not provide any justification for public subsidy. These gains can be internalised through contracting between employees and employers.

2 *The Business Benefits of Work and Life*, Equal Employment Opportunities Trust, Auckland, <http://www.eotrust.org.nz>.

3 Ruhm, C (1998), *Parental Leave and Child Health*, NBER Working Paper 6554, National Bureau of Economic Research, Cambridge.

4 Erosa, Andres, Luisa Fuster and Diego Restuccia (2001), *A General Equilibrium Analysis of Parental Leave Policies*, Macroeconomic Perspectives on Families and Inequality: Conference Proceedings, New York University, September.

- Gains from better job matching may be offset by the 'same employer' requirement in the PPL Bill if workers stay in an 'unsuitable' job for a longer period than they would otherwise, in order to qualify for paid parental leave.
 - The literature suggests that short periods of parental leave may increase women's labour force attachment and wages, but that extended periods of parental leave may do the opposite, especially where leave is paid. For example, Ruhm (1998) found that mandated short leaves had only a minor impact on wages, but long duration leaves were associated with large reductions in female wages.⁵
- 3.11 Given the last point above, the economic costs of the policy, even if small now, could grow over time as PPL expands in response to further political pressure. This would appear to be a very real risk, with the Hon Laila Harre already indicating that "[T]his scheme should be seen as a good starting point. It's now up to New Zealanders to decide how it can best be expanded, and how this should be paid for."⁶ The Canadian experience, which has seen the entitlement for maternity/parental benefits expand from 15 weeks to 50 weeks since their inception in 1971, is salutary.
- 3.12 The introduction of PPL will lead to a worsening in the environment for doing business in New Zealand. There are at least four reasons for this:
- It will require taxation to be higher than would otherwise be the case. Businesses and taxpayers generally will have to pay additional taxes to finance the scheme. In addition, the size of the scheme is likely to grow over time and cost more than expected as potential beneficiaries adjust their work patterns to meet the programme's eligibility requirements and as a result of pressure for expansion.
 - The introduction of PPL will add further rigidities to the labour market, thus limiting labour market adjustment and reducing New Zealand's attractiveness as an investment destination.
 - To the extent that PPL increases leave-taking, employers will be faced with the increased costs associated with keeping claimants' jobs open and finding replacement workers during leave periods. This will be particularly burdensome for smaller businesses and in areas where individuals have specialist skills. The tight job market that currently exists is likely to exacerbate these costs for firms.

5 Ruhm, C (1998), 'The Economic Consequences of Parental Leave Mandates: Lessons from Europe', *Quarterly Journal of Economics*, pp 285-317.

6 Harre, Hon Laila (2001), 'Paid Parental Leave Ð a great start', Press Release, Government of New Zealand, Wellington, 7 November.

- PPL will lead to greater administration costs. Much of the administrative detail will be included in later regulations and will not be subject to the select committee process. We commend the submission of Business New Zealand to the Committee's attention on these aspects.
- 3.13 On its own, the impact of PPL on the business climate may not be large. However, it needs to be seen in the context of a number of recent and proposed government initiatives that have adversely affected the operating environment for business in New Zealand, including the re-nationalisation of ACC, the increased regulation of the labour market through the introduction of the Employment Relations Act, successive increases in minimum wages, especially for people under 21 years of age, and the proposed changes to the Holidays Act and OSH legislation. These impacts will be much greater for small business, which employs nearly one-third of all New Zealanders.
- 3.13 The introduction of PPL will see groups such as single individuals, the self-employed, childless couples, older people, and single earner families subsidising the lifestyle choice of two-earner families. There seems to be little justification for this on equity grounds. PPL is unlikely to improve the targeting of government spending toward people on low incomes given that it will benefit predominantly two-earner families and will not be means tested.
- 3.14 PPL is also subject to criticism on social grounds. On the one hand, it can be seen as an extension of the benefit system. Patricia Morgan, in a forthcoming book for the NZBR, argues that, despite good intentions, the domestic purposes benefit, child support and similar arrangements have weakened the acceptance of personal responsibility for the care and support of children and encouraged welfare dependency and lifestyles, such as sole parenthood, that are, on average harmful to children.⁷ PPL can be seen as a further step along the road in which the state progressively assumes roles that should be performed by parents. Rather than extending the benefit system, the broad direction of policy should be to strengthen families by promoting economic growth and higher household incomes, reducing government expenditure and taxes, and allowing people greater scope to use their after-tax income on private activities including the support of their children.
- 3.15 On the other hand, the introduction of PPL can be seen as having an adverse impact on gender equity to the extent that it reinforces traditional gender roles in the family and helps to perpetuate differences in labour market outcomes for men and women. This is a real risk given that parental leave tends to be taken disproportionately by women.⁸ For example, Blau and Ehrenberg (1997) cite the extensive leave provisions in Germany, noting that "rather than facilitating women's attachment to work, such a policy seems virtually an invitation to their

7 Morgan, Patricia (forthcoming), *Farewell to the Family in New Zealand?*, New Zealand Business Roundtable, Wellington.

8 Under the Canadian scheme, 95 percent of those claiming biological parental benefits in 1999/00 were women.

retaining a traditional role within the family."⁹ Indeed, one of the intentions of maternity policies in European countries has been to encourage women of childbearing age to leave the labour force, as women were viewed primarily as caregivers, rather than workers.¹⁰

4.0 Conclusion

4.1 The NZBR strongly supports the ability of employees and employers to continue to negotiate mutually beneficial terms and conditions in their individual or collective contracts. However, for the reasons outlined in this submission, we do not support the introduction of tax-funded mandatory paid parental leave. We have identified a number of concerns with the proposal:

- The potential labour market benefits of PPL are complex and uncertain.
- PPL is likely to have an adverse impact on the business climate in New Zealand. This will affect business generally and small businesses in particular.
- Spending on the PPL scheme is likely to grow over time and cost more than expected as potential beneficiaries adjust work patterns to meet eligibility requirements and as a result of pressure for expansion.
- PPL will have adverse consequences for equity and families.

4.2 The government has made an ambitious commitment to restore New Zealand to the top half of the Organisation for Economic Cooperation and Development (OECD) income rankings. Economic growth is also a priority for many New Zealanders. A recent UMR survey carried out for Business New Zealand, the Knowledge Wave Trust and the Science and Innovation Advisory Council showed that, of those surveyed:

- twenty-one percent felt that the economy was not performing well enough to deliver enough high quality jobs and quality health, education and other social services; and
- eighty-three percent felt that growing the economy was the best way to deliver more quality jobs, better health care, education and other social services.

9 Blau, Francine and Ronald Ehrenberg (1997), *Gender and Family Issues in the Workplace*, Russell Sage Foundation, New York City, p 4.

10 Forssen, K and Mia Hakovirta (2001), 'Family Policy, Work Incentives and Employment of Mothers', in Sigg, R (ed), *Social Security in the Global Village*, New Brunswick.

However, since around 1996 New Zealand's growth performance has been deteriorating, not improving.¹¹ The only way to finance improved social policies and generate higher quality jobs is to increase the country's growth rate.

- 4.3 One of the key tests of any government policy proposal should therefore be whether or not it makes a cost-effective contribution to increasing New Zealand's long-run rate of economic growth. Clearly, paid parental leave fails this test. Indeed, it is likely to have the opposite effect. This is particularly true given that it comes on top of a series of recent anti-growth policy changes that will make it more difficult for businesses to innovate and grow.
- 4.4 For the above reasons, the NZBR opposes the introduction of PPL and recommends that the PPL Bill not proceed.

11 Kerr, Roger (2002), 'Agenda 2002: An Election with Vision', Speech to Rotary Club of Wanganui, New Zealand Business Roundtable, 28 January.