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

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Despite the emerging consensus of the benefits of parental leave, Australia currently has one of the least generous parental leave schemes in the developed world. Both the length and payments rate of the leave for both mother and fathers are low compared to other OECD countries. Changes to Australia’s Paid Parental Leave (PPL) scheme in 2022 will likely exacerbate the relative meagreness of the scheme for fathers by removing what little father-specific entitlement to government funded parental leave they previously held.

The arrival of children is a key inflection point for Tasmanian couples that contributes to a more gendered division of paid employment and unpaid work in the home. While the arrival of children results in a significant decrease in the number of paid work hours and increase in the number of unpaid work hours undertaken by women, the composition of men’s time allocation remains relatively unchanged. On average, Tasmanian women undertake almost double the hours of unpaid work per week compared to men.

Parental leave, by intervening at this transitionary period in the life of couples, has been demonstrated to act as a moderating influence gendered division of work within households. For example, studies from Quebec find causal evidence for reduced gender specialisation between couples in response to the introduction on “daddy only” leave entitlements, with evidence from Australia similarly concluding that longer periods of men’s parental leave taking is associated with a decrease in women’s time in unpaid work of 3 hours per week.

In this paper we assess the impact of several potential changes to the PPL scheme that provides new fathers with parental leave on a ‘use it or lose it’ basis, as well as bonus weeks of leave to families who utilise all their individual paid leave entitlements.

Despite the benefits of father’s leave taking found in the international literature, the evidence in Australian context is less developed. Given this uncertainty and the significant cost of the proposed reforms, we consider a scenario where the changes to the PPL scheme are made exclusively in Tasmania. This would be done to develop a less costly evidence base which can guide future national policy changes.

Tasmanian women have made significant progress in the realm of paid work over the past 50 years, with female labour force participation rate increasing 17 percentage points since 1978. However, there remains a significant disparity in the labour market experiences of Tasmanian men and women. Women are less likely to participate in the workforce compared to men and are more likely to work part-time. Not only Tasmania women’s labour market outcomes poor compared to Tasmania men, but they are also worse than women in Australia more broadly and when compared to other OECD countries.

Tasmania has lowest labour productivity in the nation, the lowest labour force participation in the nation and historically low population growth. Increasing labour force participation in a structurally less well-off State (such as Tasmania) will not only support a more robust workforce (by reducing reliance on importing labour to support local activities), but it would boost household spending and encourage investment.

To quantify the likely economy-wide impact of changes to the PPL scheme on the Tasmanian economy we deploy the Deloitte Access Economics Regional General Equilibrium Model (D.Impact), a recursive dynamic regional Computable General Equilibrium (CGE) model. D.Impact represents a system of interconnected markets with appropriate specifications of demand, supply and the market clearing conditions determine the equilibrium prices and quantity produced, consumed, and traded.

To estimate the economic impact of the changes to the PPL scheme, we introduce a shock to Tasmanian labour supply as represented by additional workers who transition to the Tasmania labour force or work additional hours as a consequence of the policy change.

The shock is informed by the international literature on the uptake of parental leave and the resulting consequence for inter-household decisions making. It also draws from Australian evidence on the impact of father’s taking parental leave on household specialisation. We also introduce a shock to productivity represented by a decrease in the gendered misallocation of talent in the workforce.

Under this scenario, Tasmanian Gross State Product (GSP) and employment is shown to be multitudes better off than otherwise would have occurred with no policy intervention. Beyond the direct economic benefits, the policy intervention will also help address historical systemic issues between male and female between division of household labour in Tasmania. Allowing government policy makers to better understand how a change to the PPL scheme can result in a substantial economic benefit for an economy and help address long running systemic issues in society.

# Key Words

Parental leave, gender economics, Computable General Equilibrium