

A Further (Brief) Submission to the Productivity Commission *Enquiry on Paid Maternity, Paternity and Parental Leave*, from Bruce Chapman and Tim Higgins, Australian National University, January 12, 2009.

We appreciate very much the opportunity that was afforded us to appear for a second time before the PC's Enquiry on Paid Maternity, Paternity and Parental Leave. We would like to add a further comment on the proceedings. After that we will leave you to your deliberations in relative peace.

At one stage in the proceedings Presiding Commissioner Fitzgerald alluded to the notion that a top-up ICL for paid parental leave could be seen to be "...a very narrow social policy area." (page 112, Transcript of Proceedings), and after this he asked, "Do you have in your thought processes other parts or other areas of social policy where this could be connected?" (page 121, Transcript of Proceedings). We wish to add briefly to our then responses to these questions/issues.

Our broad point is that while an optional income contingent loan for PPL might seem to be a small addition only to social security or work-related government policy, such a scheme could easily become an institutional catalyst for the development of related financing policy interventions. We mentioned several possibilities at the time, but we thought it would be useful to be clearer and more explicit about broad ICL policy reform. There is an intellectual/research historical basis that is important to this context, and this is now described.

- (i) In 1993, the Federal Government introduced the AUSTUDY Loans Supplement, in which higher education students were allowed to trade-in parts of their AUSTUDY grants for higher levels of ICL, repaid according to the HECS rules. While the scheme was discontinued in 2003 its reintroduction in a better form was canvassed in a preliminary way in the recently published Australian Higher Education (Bradley) Review;
- (ii) In 2004 the Academy of the Social Sciences of Australia convened a conference involving a significant number of Australian social scientists on the application of ICL to a host of disparate public policy areas, including for the funding of: R & D; student income support; land development for the indigenous estate; and some aspects of health expenditure;
- (iii) In 2006, Routledge published a book by one of us¹ which explored in considerable detail the Higher Education Contribution Scheme and similar student loans schemes internationally, but importantly offered five additional possible ICL applications written with other Australian social scientists². The

¹ Bruce Chapman (2006), *Government Managing Risk: Income contingent loans for social and economic progress*, Routledge, London.

² The book has been reviewed very favourably in both the *Economic Record* (by Roy Green) and the *Sydney Morning Herald* (by Ross Gittins).

examples of this type of public sector financing covered the funding and/or collection of: drought relief; low level criminal fines; white collar crime; housing credits for low income housing; and social and community investment projects (all of which resulted also in published papers in reputable peer-reviewed academic journals);

- (iv) In late 2008, with financial assistance from an Australian Research Council Learned Academies grant, we convened a workshop at ANU considering the intellectual, research and policy basis of additional applications of, or extensions to, the principles of ICL to the financing of (including): paid parental leave; elite athlete training; drought relief; and mature aged training. The proceedings were invited to form a special issue of the *Australian Journal of Labour Economics*, and this will be published in June 2009.
- (v) In 2008 Bruce Chapman was engaged as a consultant to the Higher Education (Bradley) Review, to examine in part student tuition payment and income support issues, including with respect to HECS and additional ICL income support applications. It is notable that in its submission to the Review the National Union of Students suggested an extension of HECS to student income support;
- (vi) In 2008 the National Innovation (Cutler) Enquiry recommended the use of ICL for the financing of R & D projects, after receiving submissions on the issue from Professors Glenn Withers and Bruce Chapman; and
- (vii) Over the 2005-2008 period Tim Higgins supervised three Honours theses at the ANU involving separate ICL applications, to: child care; paid parental leave; and R & D funding. He is now undertaking a PhD at ANU considering the theoretical and stochastic modelling issues associated with ICL.

The critical point is that applying ICL to different potential areas of policy is neither a new notion, nor is it untested, both in application and in terms of peer-reviewed research. It would seem to us that the PC offering support for an optional top-up ICL for PPL has the potential to provide the basis for an alternative form of government financing intervention with significant prospects of changing the social and economic landscape far beyond what has been described as this "... very narrow social policy area."

A final related point is that while our suggested extension might appear to be moderately small in the context of policy reform, we don't believe that the suggested policy innovation would have inconsequential effects for Australian families. After all, if only 50 per cent of eligible new parents took advantage of a suggested 10 week top-up ICL for PPL, and using the PC estimates, this would imply 70,000 assisted families, with loans of the value of perhaps as much as \$380 million in the first year of operation. We stress that, with our suggested scheme design and from our revenue estimates, we are confident that the longer-term costs to Australian taxpayers would be close to zero.