

THE ECONOMIC IMPACT OF PARENTAL LEAVE

AN EVALUATION OF THE BENEFITS AND THE COSTS

PROF EDWARD SCICLUNA MEP

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EXECUTIVE SUMMARY

This paper is being presented as a discussion paper meant to enhance the policy debate in Malta with regards to benefits and costs of extending paid maternity, paternal or parental leave in Malta. Although this paper is presented on behalf of Fondazzjoni IDEAT, the stated opinions are solely those of the author.

The paper is intended to rebalance the stated costs and benefits assumed by the MBB report by referring to some of the extensive scientific studies carried out in countries around the world over the last 30 years, and the projected outcomes for Malta.

The benefits are shown to be quite significant, while the costs are much lower, by about half the sum estimated in the MBB report. The sum is further reduced when corrects for the mis-placed assumption that considers births can apportioned by equal probabilities for active and inactive young women.

It is not the intention of the paper to quibble with calculations based on assumptions most of which can be ascertained by a properly carried out Labour Force survey, which could measure the actual number of women on maternity leave, their level of take up and the wages they receive during their leave. At this stage one can understand the precautionary approach taken by the employers in view that at present it is they who are shouldering the cost.

The paper strongly recommends that such a special Labour force survey on females who have gave birth or who have adopted over the last year be carried out as a matter of importance in view of its economic and social policy implications. However, as of now, if one were to take the MBB estimates as a valid starting point, then the probable aggregate cost of a 6 week extension, for paid maternity leave and a 2 week extension as paid paternal leave, would be found in the region of €5 million.

At present the full cost of the financial burden for paying wages to new mothers for a 13 to 14 week period falls on the employer. This is most unfair to both employer and employee for two reasons. In the former case certain jobs require a higher proportion of females than the national average. The

¹ Member of the Group of the Progressive Alliance of Socialists & Democrats in the European Parliament.

² Research material passed on to me by *Fondazzjoni IDEAT* and the Malta Confederation of Women's Organisations (MCWO), which has been highly useful for this paper, is kindly acknowledged.

employers in these sectors are hit unduly harder than others. For the young female persons seeking work this risk is carried with them and may play a role in their being chosen, and the wage rate they are offered.

It is very strange that while financial risks related to pensions, sickness leave, health services are spread over the whole working population through funded insurance schemes or similar, no such scheme exist in Malta to finance the “risk” or probability of having a child. Any diffusion of this social obligation, together with the introduction of paid paternal leave helps significantly in reducing the actual or potential discrimination against the recruitment of young women of child-bearing age.

Prof Scicluna’s paper has shown in a convincing way that any financial outlays incurred for this purpose can have considerable returns, for the Maltese economy and the business sector. Besides the proven positive benefits on infant and maternal health, the implications for jump-starting Malta’s record low female labour force participation rate (FLFPR) are indeed noteworthy. Malta has the opportunity to see a significant jump in its current abysmally-low prime-age (25-54) female participation rate (FLFPR) by up to a maximum 9 percentage points.

The economic returns of such an increase in Malta labour force participation rate have not been evaluated in this short paper but Prof Scicluna contends that the economic effects are known to be staggering. Malta’s productive capacity and its fiscal possibilities are clearly curtailed by Malta’s low active-to-inactive population ratio.

Prof Scicluna’s own conclusion is that given the Maltese economic aspirations, the cost is well worth undertaking. In fact, more than that, it should be seen as money well invested.

INTRODUCTION

The EU Council (December 2007) and the European Parliament (3 September 2008) have called on the Commission to evaluate the legal framework supporting the reconciliation of work, family and private life, and any need for **improvement** to current legislation on parental leave.

The **current** individual right to parental leave of at least three months for male and female workers on the birth or adoption of a child is given by the existing provisions on issues relating to Directive 96/34/EC, which gives legal effect to the social partners' Agreement of 14 December 1995.

The Directive also provides for the protection from dismissal of workers taking parental leave, for a right to return to the same or an equivalent job and for the maintenance of employment rights during parental leave. It lays down the conditions governing parental leave and the detailed rules for applying it which the Member States and/or the social partners may determine at national level.

A year ago (July 30, 2009) the European Commission adopted the revised Framework Agreement on Parental Leave, a proposal to increase the existing right to take parental leave from three to four months per parent (of which at least one month is strictly non-transferable between parents) and apply it to all employees, regardless of their type of contract. If adopted by Member States in the Council, the proposal would give legal effect to a recent agreement negotiated by European trades unions and employers' organisations and signed on 18 June 2009. All matters regarding income in relation to this agreement are for consideration and determination by Member States and/or social partners according to national law, collective agreements and/or practice, taking into account the role of income – among other factors – in the take-up of parental leave.

A Second Report by Edite Estrela (Socialists & Democrats) from the Committee on Women's Rights and Gender Equality, submits a proposal for a directive of the European Parliament and of the Council amending Council Directive 92/85/EEC. The report notes that the revised Framework Agreement on Parental Leave signed on 18 June 2009 by the European social partners, does not adequately cover remuneration issues and specific types of family-related leave, and therefore does not fulfil its role as an important measure to improve the balance between private and working life for parents.

Basically the proposal is for extending minimum paid maternity leave from 14 to 20 weeks. For fathers it proposes a minimum of 2 weeks paid leave. EU Member States would have 3 years to transpose it into national legislation. The European Parliament has voted to postpone taking a decision as it awaits an impact assessment of this proposal.

THE MALTA BUSINESS BUREAU ECONOMIC IMPACT ASSESSMENT

The MBB Reports is the first and only impact assessment so far to be carried out in Malta on the proposed legislation. It is therefore welcomed as providing a structured discussion document for

evaluation by the social partners. In view of Malta's own circumstances the present author agrees with the MBB that it is productive and useful to evaluate Malta's own economic impact independently from but supplementary to the one to be carried out for the European Union taken as a whole.

The MBB report considers that **possible economic benefits** of these EP proposed legislative changes on the Maltese economy to be **relatively marginal**, given that there is already a significant amount of maternity leave being taken up, while **the costs tend to increase** per week of additional maternity leave granted, **in an exponential manner**.

The report is of the opinion that whereas the benefits can only be estimated, if at all, with a very high degree of uncertainty, the direct costs in terms of loss of output can be quantified statistically.

The report indicates that increasing the **maternity leave** from the current statutory 14 weeks to 20 weeks would potentially cost **the economy €7.5 million worth of value added in a year, equivalent to 0.18% of GDP**. Of this, the cost to private business would amount to €5.3 million worth of value added in a year, equivalent to 0.14% of private sector GDP. In addition, introducing two weeks of **paternity leave would cost the economy another €4.8 million** in terms of value added in a year, equivalent to 0.12% of GDP. Of this, the cost to private business would be €3.7 million in a year in term of value added, equivalent to 0.1% of GDP. These costs are subject to issues of take-up of leave and substitutability of workers. **In total, these measures would dent the economy's GDP by €12.3 million or 0.29% of the total.**

These costs to the Maltese economy, it is stated, will be especially relevant given the predominance of **small and micro enterprises which will be especially hit** in terms of the difficulties they face to substitute for absent workers who are on maternity/paternity leave. Indeed, small and micro enterprises play a significant role in employment levels in Malta, accounting for over 70% of employment in the private sector.

The report states that it finds that firms which are relatively **large employers** and are especially vulnerable to competitiveness pressures will also be **significantly affected** by the proposals. Indeed, the Manufacturing, Wholesale and Retail and Hotels and Restaurants Sectors, which together account for around 40% of private sector jobs, have an especially pronounced dependence on small and micro enterprises and on female employees.

The report furthermore considers the fact that the extension of maternity leave could even **reduce the female employment rate** which in Malta currently stands at a paltry 37.7 per cent of the working age female population compared to an average of 58.6% in the EU. The proposed changes to the Directive would render female labour less competitive on the market-place for jobs and would overall **lead to deteriorating employment prospects** for everyone by increasing the costs of operation to business. Moreover, there is a **serious risk that the persisting wage discrepancies** that currently exist between female and male employees **may widen as employers factor in the potentially additional burden of employing a woman.**

The impact assessment finally discusses the supply-side perspective on the provision of public support measures aimed to stimulate female labour market participation without compromising business competitiveness. The report proposes a number of alternative policy approaches that are better suited to achieve the objective of promoting an improved reconciliation of work, family and private life without indirectly having a secondary negative effect on female employment participation and wage differentials.

STATISTICAL EVALUATION OF MBB REPORT

Having examined the report it could be ascertained that given the assumptions on which the report is based the statistical estimates and conclusions would follow. All data collected by the MBB report is reported and may be checked for consistency. There are, one or two instances of very minor data quirks, but even if these are corrected this is not expected to detract from the main results and conclusions of the report.

What need to be challenged and questioned are the various implicit and explicit assumptions on which the report is based. These assumptions will be taken one at a time.

SURVEY OF THE SCIENTIFIC LITERATURE REGARDING THE BENEFITS

In view of the wealth of experiences gained from successive stages and approaches to parental leave policies around the world over the past thirty years, one is not surprised that there is an extensive scientific literature studying the quantitative and qualitative impacts of these policies and presenting these empirical results.

The literature notes that the first and oldest set of maternity leave policies were targeted to increase female job creation, the second dealt with paternity leave to address gender issues, the most recent policies are focused on parental leave coupled with flexi-job and return-to-work arrangements for the both parents.

The research indicates that public policies are very influential in affecting the labour market and parenting behaviours of employees and the attitudes of employers. The following sections surveys the literature for impact studies linking maternity leave and the infant and maternal health, its impact on the labour force and work performance, and finally gender equity and fertility issues.

IMPACT OF MATERNITY/PARENTAL LEAVE ON INFANT AND MATERNAL WELFARE

The evidence based on OECD cross-country and panel data, particular countries including use of micro data, points to positive links between increased paid maternity/parental leave and improved infant and maternal wellbeing, including reduced infant mortality, Winegarden and Bracy (1995), Ruhm (2000), Gregg and Waldfogel (2005), Tanaka's (2005), improved child behaviour Gregg and Waldfogel (2005: F4), lengthened periods of breastfeeding Berger et al.'s (2005), Guendelman et al

(2009b: 38), reducing caesarean deliveries and prolonging gestation in occupationally strained women (Guendelman et al, 2009a), less infant/child sickness and infections, Moss and O'Brien (2006: 27), improved immunisation rates Berger et al.'s (2005), and reduced maternal depression, Chatterji and Markowitz (2005: 18).

Time spans used in the studies suggest that less than 12 weeks paid maternity leave results in negative outcomes for establishing breastfeeding, infant health and mortality and maternal wellbeing. A 26 weeks paid maternity benchmark is the point at which the health outcomes for baby and mother are more positive than negative, with improved child behaviour outcomes. Beyond 26 weeks up to one year beneficial health and behavioural outcomes are most observed where mothers are in part-time employment in first year after childbirth compared with full-time employment. Maximum benefits are observed when the leave is paid and provided in a job secure context and with secure home and social contexts (Baird, 2000).

IMPACT OF MATERNITY/PATERNITY LEAVE ON THE FEMALE LABOUR PARTICIPATION RATE

There exists here too an extensive economic literature studying the impact of maternal/paternal leave on the labour market, as one key variable amongst others affecting the family decision for the mothers to participate in the labour force. Unless one is referring to countries whose employees already enjoy very generous long term maternity/paternity leave, say over a 70 weeks, and where the female labour force participation rate is considerably high, say over 50%, the literature does not support the claim that “the increase in maternity leave would have certainly deleterious effects on labour market participation and wage differentials” (MBB p.ii).

One cannot but note that Malta does not fit within any of these categories. It suffers from the lowest female participation rate amongst the 27 EU member states and has the shortest period of paid maternity leave in the same Union. (See Charts 1, 2, and 3 below). According to the OECD, the length of full-time equivalent (FTE) paid maternity leave in Malta compared to the remainder of other EU member states, ranks at almost the bottom of the list, just before the UK, as shown in the charts below.³ The top twelve countries provide a median of about 55 weeks (just over a year) of paid maternity leave in full-time equivalent pay, which is over four times that provided in Malta.

Furthermore, in terms of the maximum number of weeks of paid maternity leave, Malta ranks at the bottom of the list with 13 weeks of paid maternity leave, while the top 12 provide 160 weeks (3 years) of paid maternity leave, which apart from Nordic and East European countries, one finds also three large euro area countries like Germany, France and Spain.

³ OECD (2010) Family database, last updated 1st July 2010. Data for Cyprus was obtained from www.Cyprus-mail.com, “New law on maternity leave planned”, by Jacqueline Agathocleous, May 13th 2010.

Charts 1 and 2

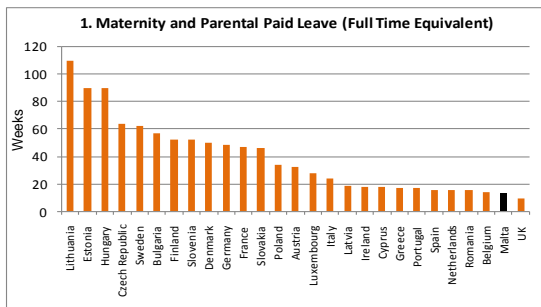
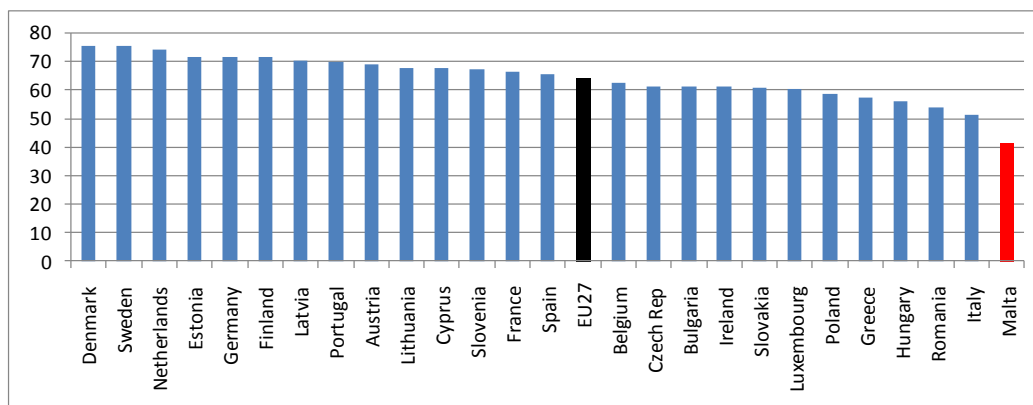


Chart 3: The Female Labour Force Participation Rate (FLFPR) in the EU



Source: Eurostat

For this reason one cannot either support the MBB assertion that “there is already a significant extent of maternity leave being granted”.

The most recent EU wide study on the main determinants of a higher FLFP rate, including maternity/paternal leave, was carried out by European Central Bank. In its 2005 research paper on female participation in Europe, involving a quantitative analysis based on panel data for Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and the UK, concludes that “institutional features aimed at reconciling motherhood with professional life such as maternity leave schemes favour participation of prime-age women (25-54)”.

Using annual data for a panel of 12 EU-15 countries over the twenty year period 1980-2000, this ECB working paper looks into the role that economic, institutional and social factors have played in explaining female participation rates and their developments in the last two decades.

Maternity/parental leave measured in weeks has an encouraging effect on participation if the leave is not too long. According to their estimations, the effect of maternity/parental leave becomes negative after approximately 10 months (around 43 weeks).⁴ See Table with empirical results.

Table 1					
Panel data estimates of participation rates					
Prime-age females 25-54					
	(1)	(2)	(3)	(4)*	(5)*
Institutional determinants					
UB Replc. Ratio	-0.393 (-3.29)	-0.361 (-3.78)	-0.350 (-4.36)	-0.297 (-3.46)	-0.286 (-3.39)
UB duration	-0.476 (-4.2)	-0.410 (-3.69)	-0.538 (-5.31)	-0.581 (-5.30)	-0.581 (-5.35)
Union density	-0.887 (-3.16)	-0.929 (-3.68)	-0.819 (-3.65)	-0.698 (-2.91)	-0.644 (-2.52)
Empl. Protection	0.086 (0.89)				
Taxes	0.354 (1.26)				
Maternity leave weeks			0.033 (3.36)	0.032 (3.06)	0.032 (2.96)
Maternity leave weeks squared*100			-0.047 (-4.51)	-0.043 (-3.83)	-0.040 (-3.61)
Female part-time	0.029 (8.86)	0.029 (8.81)	0.033 (10.06)	0.030 (9.89)	0.028 (9.29)
Obs. No.	196	196	184	184	184

Other determinants (not shown above) include the real wage rate, the unemployment rate and the fertility rate (all having a negative effect on FLPR). For details see Genre (2005).

Note: Except when indicated, estimations are performed by FGLS including time and country dummies. * 2 stages FGLS. Instruments not included in the equation are lagged (4 and 5 lags) fertility, lagged unemployment (2 and 3 lags), productivity and output gap. t-statistics in parentheses. Sample period: 1984-2000. Countries include Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and the UK. For variable definitions see the text and annex.

⁴ See ECB working paper No 454, May 2005, "European Women: Why do(n't) they work?" by Veronique Genre, Ramon Gomez Salvador, and Ana Lamo.

Thus, on the basis of this technical study for 12 EU countries, the proposed extension of paid maternity leave of up to 20 weeks is within the range where the number of Maltese women workers who would normally quit their jobs after a childbirth, would be encouraged to keep their job, while other stay-at-home women would be encouraged to seek work. More significantly is the prediction that all things remaining equal, countries with a low FLFPR like Malta's, **can expect their prime-age (25-54) participation rate to go up by a maximum of 9 percentage points**. See Chart depicting the predicted changes to FLFPR for different ranges of weeks of maternity leave taken.

Unlike previous studies, other proxy childcare and child benefits, including family allowances were not found statistically significant in the chosen sample.

These results confirm studies previously undertaken by OECD Economics Department, May 2004 and Jaumotte (2003), together with Ruhm (1998). Paid parental leaves boost female participation if they are not too long. Overall, the study underlines the financial pressures underpinning women's decisions, especially in low-income brackets, and suggests that enhanced availability of paid leave is more likely to be welcomed than further extension of leave duration.

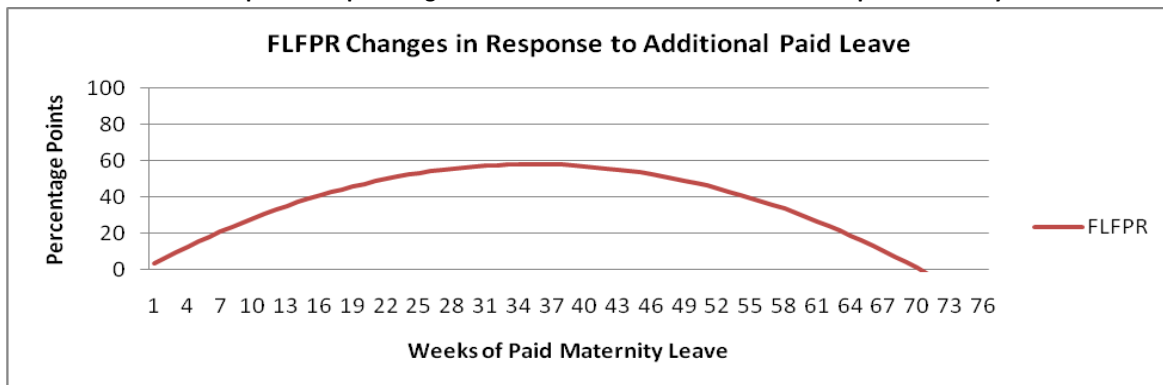
Abstracting from an evaluation report of the Work and Families Act 2006 in the UK by the Department of Business Innovation and Skills (BIS), when paid maternity leave was extended from 26 to 39 weeks, it was observed that between 2006 and 2009 the number of mothers in work with a child under one rose from 54% to 56% and those with a child aged one to two years increased from 50% to 52%.⁵ The report observes that since 2000, participation rates have increased for mothers with children under age of five. Furthermore, a big increase in the participation rate of mothers when their dependent child reaches school age was also noted. This suggests that the extension of paid maternity leave increased the rate of return of mothers to work.

Furthermore, the BIS report also observes that longer maternity leave has resulted in a dramatic decline between 2002 and 2007 in the proportion of mothers who changed employer upon returning to work after childbirth, falling from 41% to just 14%. Thus, the extension of paid maternity leave appears to contribute also to increased job retention, thus reducing costs to employers associated with excessive staff turnover.

For periods beyond one year results are mixed and vary according to various policy mixes including the availability of part-time work, flexi-job arrangements and similar back-to-work adjustment schemes, which try to lessen the noted negative effect of very long term maternity leave.

⁵ Work and Families Act 2006 Evaluation Report, UK Department for Business Innovation and Skills, BIS Employment Relations, March 2010.

Chart 4: The predicted prime-age FLFPR based on the number of weeks of paid maternity leave



IMPACT OF MATERNITY/PATERNITY LEAVE ON FERTILITY RATES

Although there is an established negative relationship between fertility rates and the FLFPR, this is not universal as can be attested by the use of a dummy variable by Genre (2005) in the regression equation of Table 1 to exclude the Nordic countries and the Netherlands, which have a positive relationship between the two variables. However, the research on fertility rates indicates that the relationship between paid maternity, paternity and parental leave policies and fertility rates is complex and the causal relationship between the two is insignificant, Baird (2000).

ESTIMATION OF COSTS

This section would have been very straightforward to calculate were it not for the fact that the statistics on how many births each year occur to women in the labour force who utilise the maternity leave entitlement, and who do not intend to quit their job are not collected. Even the demographic survey which collects births has the full occupational background of the father but not the person who bears the child. The same can be said for the last Population Census.⁶ Through appropriate sampling techniques such data is not difficult or expensive to gather and the NSO are therefore invited to include an appropriate question in the forthcoming Labour Force Survey.

The indirect way of estimating the number of women who would be affected by these changes to arrive at the financial cost of such an extension, say by 6 weeks leave in the case of women workers, is by making a number of assumptions, which by their nature may bias the results.

⁶ A recent PQ made by Dr. Joseph Muscat to the Minister of Finance asking for the data was told such data is not collected.

The critical assumptions made by the MBB report are now tackled in turn:

THE NUMBER OF BIRTHS FOR EACH AGE-COHORT ARE APPORTIONED ACCORDING TO THE PROPORTION OF WOMEN IN OR OUT OF THE LABOUR FORCE.

The economic literature referred to above puts emphases on maternity leave as a means to encourage women to keep their job on marriage and/or the birth/adoption of their child in those countries which have room for increasing their FLPPR. Malta is one such country. The reasons, while admittedly complex, include the cultural belief that the place of the mother is in the home. Therefore it cannot be assumed as the MBB report has, that the probability of a working woman, say at age 20, giving birth to a child is **the same** as that of a woman who has opted out of the labour force for her own reasons (MBB, p11). Apportioning the births according to the share of women in each child bearing age cohort according to the proportion of women in or out of the labour force, tends to **over-estimate** the number of women currently utilising the maternity leave.

Another **marginal over-estimation** is made in view that multiple births are ignored by the report. In 2008, some 66 mothers have been double counted and 2 mothers triple counted, (62 twins and 2 triplets). In other years the number has been much higher.

To this one should add that different exigencies at the place of work and other reasons could contribute to a less than a hundred percent **take-up rate** by women workers who are entitled to it. This last issue, though not the other two above, has been addressed by the MBB report.

THE BEST PROXY FOR THE LOSS IN MARGINAL VALUE-ADDED PER WORKING MOTHER IS THE WAGE RATE.

Economic theory specifies that value-added is produced by both labour and capital. By adding or subtracting a unit of labour (say a week) would diminish by a marginal amount which is not equal to the average value-added per person. This much is stated by the diminishing marginal productivity theory. This is so because capital has a role too in the act of production. The nearest and best estimate of the marginal loss of output in a competitive market is the wage rate itself. The MBB report has opted to include the average value-added which is a combination of wages and profits and thus has **over-stated** the economic loss of withdrawing women who give birth, from the labour force, by the amount of the profit component. Roughly **double that of the wage bill**. The same can be said in the case of the male cost component.

SUBSTITUTABILITY OF WORKERS ON LEAVE

Maternity/paternal leave affects the firm like any other prolonged leave, negatively. Unlike sick leave, maternity leave gives the employer ample notice of its eventuality, and one could plan accordingly. Like any such leave the employer and fellow employees would make arrangements to cover for the absent worker for reasons of sickness or vacation. However this assumes that the

employer is reluctant to bear additional costs to hire temporary staff to substitute in full the worker on maternal/paternal leave. The MBB report estimates various scenarios.

However, if the wages of the person on leave is financed by a private or public funded scheme, and not fully by the employer as under the current scheme and as the MBB report is assuming, then the employee would receive the wages from such a fund, leaving the employer to use the unspent wage bill on employing temporary staff. This will be discussed below under financing schemes.

MICRO ENTERPRISES IN MALTA AND ABROAD

Policy making should be very sensitive to vulnerable business groups which in this context are the micro-enterprises. The point is made that micro-enterprises suffer disproportionately from finding difficulties in substituting members of staff.

There is no doubt that employers may find shorter periods more manageable. There is a suggestion in Australia, however, that small business employers would find the replacement of employees for longer periods (around nine months to one year) more manageable than short-terms replacements (e.g. 14 weeks).⁷

In the UK the BIS reports that the Work Life Balance employers' survey found that only 9% of employers of small businesses claimed that their business performance was adversely affected and that the absence of experienced staff on maternity leave left a skills gap in the organisation for only 8% of small businesses.

According to a study by the Czech Research Institute for Labour and Social Affairs, by Hana Dolezelova (July 2009), entitled "Managing Employee Maternity or Parental Leave", for 30% of the surveyed firms in the Czech Republic who had employees that had either taken maternal or parental leave, this fact did not represent a problem, while for 50% of firms ensuing complications were described as marginal. Only 20% of survey respondents claimed that work absence due to maternity or parental leave was problematic. It needs to be recalled that Czech Republic gives 64 weeks of full-time equivalent pay spread on a maximum of 164 weeks, and which is significantly longer than the 13 weeks given in Malta.

While the MBB repeats the often self-evident claim that Malta is especially characterised by a high degree of micro enterprises, business demography statistics for the Czech Republic and those for Malta show that business firms employing less than 10 persons (micro-enterprises) account for 95%

⁷ Robert Mallet on behalf of the Council of Small Business of Australia in comments given to the Productivity Commission Inquiry into Paid Maternity, Paternity and Parental Leave on 12 May 2008, Hobart:pp.111–112[hansardretrievedfrom http://www.pc.gov.au/__data/assets/pdf_file/0008/79730/hobart-20080512.pdf].

of business firms in both countries, while small firms employing between 10 and 49 persons account for about 4% in both countries, with the remaining 1% of firms employing 50 or more persons.⁸

Furthermore, the distribution of businesses in Malta by employment size is also similar to the EU average, where 92% of firms employ less than 10 persons, while another 7% employ between 10 to 49 persons, with 1% of firms employing 50 or more persons. Thus, the extension of paid maternity and paternity leave should not have any disproportionate impact on Maltese business compared to other EU countries arising from the share of micro-enterprises.⁹ This notwithstanding there could be schemes put in place which help small firms cope with this eventuality, and provide temping services, where suitable.

In cases of highly skilled female employees, employers could also adopt strategies, as in other countries, of keeping in touch with employees, by inviting such employees to corporate working sessions or meetings, informing them about changes at work, enable access to corporate email and company intranet, and also offer home-working.

FINANCING THE COSTS OF AN EXTENDED MATERNITY/PATERNAL LEAVE SCHEME

This paper is intended to rebalance the stated costs and benefits assumed by the MBB report. The benefits have been shown to be quite significant, while the costs are much lower, by about less than half the sum estimated in the MBB report. The sum is further reduced when one considers the births and motherhood cannot be apportioned with equal probabilities between young women irrespective of their economic activity or inactivity. It is not the intention of this paper to undertake calculations based on assumptions most of which can be ascertained by a properly carried out Labour Force survey, something which this paper is strongly recommending. However if one were to take the MBB estimates as a valid starting point, then the probable aggregate cost of a 6 week extension, for paid maternity leave and a 2 week extension as paid paternal leave, would be found in the region of €5 million.

This notwithstanding, any scheme or extension of a current one, has to be financed. At present the full cost of the financial burden for paying wages to new mothers for a 13 to 14 week period falls on the employer. This is most unfair to both employer and employee for two reasons. In the former case certain jobs require a higher proportion of females than the national average. The employers in these sectors are hit unduly harder than others. For the young female persons seeking work this risk is carried with them and may play a role in their being chosen, and the wage rate they are offered.

It is very strange that while financial risks related to pensions, sickness leave, health services are spread over the whole working population through funded insurance schemes, no such scheme exist in Malta to finance the “risk” or probability of having a child. Any diffusion of this social obligation,

⁸ See Eurostat database and the Business Demography 2000-2008, News Release 083/2009, NSO.

⁹ See Key Figures in European Business 1995-2005, 2006 Edition, Eurostat.

together with the introduction of paid paternal leave helps significantly in reducing the actual or potential discrimination against the recruitment of young women of child-bearing age.

This paper has shown in a convincing way that any financial outlays incurred for this purpose have a significant and high return to the Maltese economy, including the business sector.

EMPLOYERS' ACCEPTANCE

While the MBB report is somewhat negative on the impact on extending paid maternity/paternity leave, this outlook is not borne out by the experience of other countries, including those which have similar characteristics, such as a preponderance of micro-enterprises. We have seen that while covering employees while they are on leave was also expressed as a concern by employers in many countries, as has been reported above, the problem is serious only in a small percentage of firms.

Nevertheless, to aid employers, the authorities need to introduce incentives to encourage the use of more flexible forms of working arrangements, such as part-time working; job sharing; flexi-time; working a compressed working week; working reduced hours for a limited period; and working from home.

CONCLUSIONS

This paper has hopefully allayed the somewhat over-blown fears of the MBB report arising from the extension of up to 6 weeks paid maternity leave and 2 weeks paternity leave being proposed by the European Parliament. In the case of Malta the benefits are expected to be partly gained by improved maternal and child health and welfare of the child rearing women in the labour force.

More importantly Malta has the opportunity to see a significant jump in its current abysmally-low female labour force participation rate (LFPR). The economic returns of such a significant increase in Malta labour force participation rate have not been evaluated in this short paper but the economic effects are staggering. Malta's productive capacity and its fiscal possibilities are clearly curtailed by Malta's small active-to-inactive population ratio.

Turning to the costs it has been shown that many of the stated assumptions, on which the estimates were made, contributed to an upward bias, an understandable precautionary choice for employers in view that at present it is they who are shouldering the cost. The recommendation of this paper is not to continue quibbling with the realism or otherwise of the assumptions but find out, through a scientific labour force survey, the real number and the real cost of the current takers of maternity leave on the islands.

This paper's own conclusion is that given the Maltese economic aspirations, the cost is well worth undertaking. In fact, more than that, it should be seen as money well invested.

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