Income contingent loans for paid parental leave

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Motivation for PPL

Income replacement to compensate for the leave from paid employment necessary around childbirth

Public and Private Benefits:
– Financial benefits
– Greater workforce attachment
– Maternal health, Child health and development

Investment in human capital
Who should pay?

• Government
  – Australian case: 18 weeks at minimum wage
  – Competing fiscal pressures
  – Difficult to isolate private from public benefits
  – Different levels of supplementary support
  – Too much support can erode attachment

• Private funds to cover shortfall
  Barriers:
  – Liquidity constraints
  – Private sources lacking
Benefits of ICL

• Source of funding
• Flexibility in design
• Interstate and intertemporal smoothing
• Low cost of provision

Risks

• Adverse selection and moral hazard
• Excessive leave can hinder attachment
Addressing Risks through Design

• Adverse selection and Moral hazard
  – restrict eligibility to paid labour force
  – have the debt as an obligation of both parents
  – impose a loan surcharge or real interest rate
  – choose low minimum income thresholds
  – other incentives (e.g., co-signing)

• Jeopardizing workforce attachment
  – Limit duration of leave and available loan amount
Cost neutrality

• charge to cover *all* costs (borrowing + cohort risk premium + administration)

• cohort risk premium low
  <5% of parents with young families have incomes<minimum threshold over lifetime

Final comments

• Capital market failure not necessary for intervention because of welfare gains from income contingency

• What is the value of the income contingency?