

REFORMING FAMILY SUPPORT POLICY IN AUSTRALIA

Peter McDonald

What has happened to the Prime Minister's 'barbeque stopper' issue — reform of policy to support the combination of work and family? Halfway through this term of parliament, we have no new policies on this issue from either the Government or the Opposition. Despite this relative silence, it seems that the issue will not go away. This paper first discusses the problems with the present family support system in Australia within a framework of desirable principles. The principles addressed include recognition of the social value of children, neutrality in the tax-transfer system in relation to the work arrangements of parents, gender neutrality, the acceptance of changes that involve people who lose from the changes that are made, coordination of family supports provided by government with those provided by employers, simplicity and transparency, and the need for quality early childhood education. On the basis of this assessment, the paper then proposes a multi-faceted, essentially cost-neutral reform package.

PROMISES BUT LITTLE ACTION

Early in the term of the present parliament, the Prime Minister, John Howard, declared that providing a better balance to the combination of work and family was his highest priority for this term of office. Later, famously, he described the issue as a 'barbeque stopper'. Two budgets into the term, however, no substantial reforms have been made. Worse, the so-called Baby Bonus, introduced as part of the last election platform, has proven to be a fizzer in its first full year of operation. While it is difficult to get exact details because the information has not been published by the Government, the 'word' around Canberra is that the Baby Bonus take-up rate is abysmally low. Certainly expenditure on the Child Care Benefit has increased during this parliament through the provision of more places but the most recent Australian Bureau of Statistics (ABS) *Child Care* report shows that demand still far outstrips supply.¹

On the other side of politics, the work-family issue was not on the agenda of the Beazley-led Labor Party at the two previous elections. In the present parliament, the Labor Party has been very vocal in its criticisms of existing family

support policies but, as yet, much less vocal about the reforms that it might implement. At the recent Federal Budget session of parliament, neither the Treasurer nor the Opposition Leader in their budget speeches made any reference at all to this area of reform. Instead, a tax cut was provided that all commentators, even members of the Coalition Party itself, described as trivial or next to meaningless. Yet, it needs to be kept in mind that this tax cut, trivial as it is, would have funded the Sex Discrimination Commissioner's (Pru Goward's) proposed maternity leave scheme six times over and is almost twice the amount that is presently spent on the Child Care Benefit.

IS REFORM STILL ON THE AGENDA?

Do we conclude from the above that reform of family support policy is off the political agenda for the time being? It seems not. Soon after the budget, Pru Goward, speaking on ABC Life Matters (16 May), expressed her view that this area of policy was still very much on the Government's agenda. On 21 May, Shadow Treasurer Bob McMullan announced at the National Press Club that a

Labor Government would abolish the Baby Bonus and reallocate other existing government funding to finance policy reform in this area. Political commentator, Ross Peake, in the *Canberra Times* following an interview with McMullan concluded:

This time next year the fight for votes will be shaping over family-related policies. Both sides of politics will promise the earth over what Howard calls the barbeque stopper — the great debate on balancing work and family.²

THE REFORM AGENDA: THE INTERDEPARTMENTAL TASK FORCE

Pru Goward in her ABC Life Matters interview took confidence that reform was on the agenda from the existence of an Inter-departmental Task Force on Work and Family Policy that would report to Cabinet in the coming year. It is worth citing government statements that accompanied the announcement of the formation of this task force:³

The Government has established an inter-departmental task force chaired by the Department of the Prime Minister and Cabinet to review all of the options that might better facilitate choice for parents in balancing their work and family lives.

The problem for parents, particularly young parents, of balancing work and family responsibilities is a key policy challenge for this term of government.

Across the spectrum of policy, the aim is to recognise the social good that comes from children and from the families that help Australia maintain its decent and cohesive society. Balancing work and family is an issue that engages everybody's interest and concern. Businesses, parents and governments need to work together to find a sensible balance in supporting where possible the choices parents want to make

about their working and caring arrangements.

The Government will also be examining the current range of financial supports for families, childcare arrangements, and how the workplace relations system is delivering family-friendly practices. It will also be looking at how all of these arrangements might better assist couples in the transition to parenthood, and assist parents who have been caring full-time in the transition back into paid work.

The key features of these statements are:

1. Headed by the Department of Prime Minister and Cabinet, the agenda of the task force is placed at the very centre of policy making.
2. It is a key policy challenge in *this term* of parliament.
3. The review is broad and wide-ranging. The task force is asked to consider *all of the options*, including financial supports for families, childcare arrangements and how the workplace relations system is delivering family-friendly policies.
4. It takes a 'life course' approach by directing attention to policies that will better assist couples in their transitions between parenthood and paid work. This is in sharp contrast with policy discussions that have portrayed women as divided between those oriented to work and those oriented to children.
5. The reform agenda needs to involve businesses as well as government.
6. The underlying rationale for reform is recognition of the social value of children.

In addition, the statement indicates that reform will progress in tandem with the development of a National Agenda on Early Childhood, the key features of which are early child and maternal health, early learning and care, and supporting child-friendly communities.

From my perspective as a long-time commentator in this area of policy, this reform agenda is highly laudable. However, I have grave doubts that either the Government or the Opposition will realise the promise of this agenda in any substantial way. The potential is present for comprehensive reform of family support policy in Australia and it is important, as argued by both sides of politics, that Australia does not miss this opportunity. However, despite the broad agenda of the inter-departmental task force, there is little evidence as yet of anything other than limited change. As described below, there are many entrenched positions that will not be shifted easily. Nevertheless, this paper describes the areas that require reform and suggests concrete proposals for reform. The reform proposals are very much in keeping with the principles cited above from the interdepartmental task force agenda. I preface the proposals for reform with a lengthy discussion of the principles upon which the proposals are based and an assessment of how each principle stands in current public debate. It is these assessments that leave a sense of pessimism about the possibility of meaningful reform.

PRINCIPLES OF REFORM

My starting point is that the existing family support system is a mish-mash of new and amended policies bolted together over five decades. Each 'bolt-on' may have had its rationale in its time but the outcome for contemporary society is an illogical, inefficient, complex jumble of conflicting principles or, in short, a mess. I am not alone in this assessment as I have been at public forums where Ministers Vanstone and Abbott and Shadow Minister Swan have described the 'system' in like terms. It must be concluded that we now have an

inter-departmental task force with a very broad reform agenda because the system needs broad reform.

1. The social value of children and horizontal equity

The underlying rationale for government involvement in support of families, as expressed in the statement setting up the task force, is recognition of the social value of children. Fundamentally, children are tomorrow's citizens and tomorrow's workers. Recognition of this principle led to the introduction and funding by government of free, compulsory education of children more than a century ago. Today, countries that have had very low fertility rates for the past 20-30 years are already feeling the impact that their low birth rates are having on the supply of young workers. In each generation, young workers assimilate new technology and, as such, are vital to productivity improvement. It does not take long for continuation of very low fertility rates to lead to excessive ageing of the population. Economic malaise in Japan at present has been attributed in large measure to a demographic malaise caused by excessive ageing and a shortage of young workers.⁴ This is the economic value of children to society but it is also strongly asserted that becoming a parent is a right that should be protected in all societies and, accordingly, social institutions should be organised in such a way that this right can be exercised without excessive penalty.

Recognition of the social value of children gives rise to the principle of horizontal equity in the tax-transfer system. Taking two couples on the same level of income, the couple with children has considerably higher expenses than the couple without children, expenses that, by law, cannot be set aside. The principle

of horizontal equity argues that, in recognition of the social value of children, the tax-transfer system should redress this discrepancy in claims on income through providing benefits to those with children that are not available to those without children. In its pure form, redistribution should apply at any income level. The champion of horizontal equity for families with children in Australian history was Robert Menzies. Menzies introduced generous tax deductions for children and for certain child-related expenses such as education and health. In 1976, in recognition that tax deductions favoured the wealthy and were not available to those who did not pay tax, or who paid insufficient tax to benefit fully from the deductions, the Fraser Government's Social Security Minister, Margaret Guilfoyle, shifted horizontal equity from the tax system to the social security system through the introduction of the Family Allowance.⁵

However, since 1976, horizontal equity for families with children has been progressively eroded in the Australian tax-transfer system. First, the real value of the Family Allowance fell during the years of the Fraser and Hawke Governments.⁶ During the Hawke-Keating years, the phrase 'middle-class welfare' was invented and the emphasis in all social programmes was upon income-testing. Accordingly, the Family Allowance was removed from high-income families. At first, less than 10 per cent of families lost Family Allowance as a result of their high incomes but, over time, as increases in incomes have outstripped increases in prices, the percentage of families excluded from receipt of Family Allowance has risen to almost 25 per cent. This trend will continue so long as Family Allowance thresholds are indexed to increases in the Consumer Price Index.

That is, each year, more and more families become ineligible for Family Allowance (now the base rate of Family Tax Benefit Part A — see Appendix for explanations of current payments). The same problem applies to the Child Care Benefit (CCB) introduced by the Hawke Government. This was income-tested from the outset. This means that, as incomes rise faster than prices, more and more recipients become eligible for only the minimum amount of CCB. While increases in the Age Pension are now determined by increases in wages, most changes in the family payments system remain indexed to changes in prices. In the long term, this leads to very substantial discrepancies in the value that society accords to the aged compared to children.

Horizontal equity was also severely eroded with the introduction of the goods and services tax (GST) by the Howard Government. At corresponding middle levels of income, compensation for workers with the additional costs of children due to the GST was almost zero (90 cents per child per week). The unfairness of the GST package to middle-income families with children was the principal reason that Senator Harradine voted against the GST's introduction. Irrespective of one's view of this vote, Harradine was right in this respect. No subsequent change has restored the balance.

Despite the fact that, year after year, horizontal equity is eroded for middle-income families, any attempt to even partially redress the balance is met in some quarters of government with the 'middle-class welfare' veto. The inconsistency of this position is evidenced by the current provision of Family Tax Benefit Part B and the Baby Bonus to the wealthiest families in the country — provided they are one-income

families. The First Home Owner Grants Scheme is another pertinent example. Between June 2000 and June 2002, the Federal Government provided almost three billion dollars in grants under this scheme. The grant was not income-tested. Because the distribution of first home buyers is skewed towards persons of higher income, this means that a disproportionately higher percentage of this money went to the wealthy end compared to the middle and poor end.⁷ Furthermore, business benefits such as the diesel fuel tax rebate are not income-tested. That the concept of 'middle-class welfare' is reserved solely for discussions of the situation of middle-income families with children is overwhelming evidence of how far we have retreated from the concept of horizontal equity for families with children, that is, from recognition of the social value of children.

Unfortunately, the welfare lobby, rightly concerned about the needs of low-income families, also often raises the 'middle-class welfare' veto even though it is to the middle class that their constituents aspire. A new study has shown that, as German society has moved away from the support of its children and as German families have responded by having fewer or no children, German society has become less child-friendly and new generations have taken on anti-child preferences not previously evident.⁸ Such a trend is not beyond the bounds of possibility in Australia if horizontal equity is allowed to erode continuously. The prominence of the 'middle class welfare' veto in government generates pessimism that the family payments system will be changed in a way that restores horizontal equity to anything like its level in the mid 1970s.

In the proposal below, I suggest that horizontal equity should apply up to a relatively high level of family income,

around \$100,000 per annum, and that this threshold should be indexed to changes in wages rather than to changes in prices.

2. Rights versus 'no losers'

Another significant obstacle to reform of the family payments system is the political motive that there should be no losers from any reform or, at least, no easily recognisable losers. The relative losses experienced by middle-income families with children with the introduction of the GST were not easily recognisable. There is a fear that losers will vote against the party that has made the proposal even if they have little ethical entitlement to the payment they are receiving. The 'no losers' principle inevitably leads to the entrenchment of all the historical baggage of the existing system.

Inequities in the existing system, such as the receipt of Family Tax Benefit Part B by the wealthiest people in the country, cannot be removed unless there are losers. In this case, the political principle overrides the ethical principles. If there are to be no losers then, inevitably, costs are increased and reform is rejected on the basis of cost. The Maternity Leave proposal made by the Sex Discrimination Commissioner, for example, allows people to opt for either the new Maternity Leave Scheme or to maintain their entitlements under the existing system. This option must have been included to protect the proposal from the charge that some people would gain less from the proposed maternity leave proposal than they are entitled to receive at present (theoretically, at least) through the Baby Bonus. In practice, the provision of this option would be impossibly complex for the recipient and the administrator because it requires people to make difficult choices. For the recipient, the choice between the two options would be

based on their projected labour force participation in the **next** five years. They do not all have crystal balls that enable them to see the future health of their child, the future work opportunities, the future availability of child care, the future status of their relationship and their future attitudes to the combination of work and family. All of these unknowns will determine their future labour force participation upon which their decision is supposed to be based. To avoid presenting people with choices such as this, to enhance simplicity and to restore fairness, there are losers in the proposals that I outline below.

Substantial reform also implies the abolition or severe modification of some existing programmes. In the family payments system, the main candidates for abolition or major modification are the new Baby Bonus and Family Tax Benefit Part B. Both of these are recent introductions of the current government. While 180 degree turns are possible in politics (recall, ‘no GST’), abolition of recently introduced programmes requires considerable political strength. This is another reason that substantial reform of the family payments system will be difficult. Parties not currently in government can take the axe to programmes recently introduced by their predecessors more easily.

3. Neutrality of working circumstance and the tax-transfer system

If a ‘life course’ approach is to be the basis of a family support system, then couples need to be able to change their work-family arrangements without incurring major penalty. The present system assumes that couples have very precise and definite plans about their work-family arrangements and that these plans do not change. As described above, a future work-family situation is relatively

unpredictable. This is where the existing system is at its worst. Under the existing system, as a woman increases her work input as her child gets older, the couple progressively loses entitlement to Family Tax Benefit Part B, the Baby Bonus and their entitlement to Child Care Benefit. If her husband has a low income, the couple also loses their entitlement to the Parenting Payment and to the maximum or part rate of Family Tax Benefit Part A. If her husband has a relatively high income, the couple loses their entitlement to the base rate of Family Tax benefit Part A. A woman who returns to work, like all other workers, also incurs substantial costs of working such as transport, clothing and additional household expenses. These losses do not have a neutral effect on behaviour; that is, they prevent people making the choices that are best for themselves and for their children.

The existing system also requires couples to predict their incomes in the coming year. A woman who has given birth often does not know precisely when she will return to the labour force. If she accepts benefits that are consistent with the family income level that would result if she were to be out of the labour force for the first year of life of the child, a return earlier than she intended involves very substantial disincentives because she will be required to repay the benefits already received. Anecdotal evidence suggests that women do not take payments to which they are entitled out of fear that they may place themselves in a position where major repayments will have to be made if they return to work earlier than expected. They also do not apply for relatively small entitlements because the processes involved are too complex. The application form for the Baby Bonus, after explaining the gross

complexity of applying for the benefit, ends by suggesting that the applicant consult a tax agent.

Another ludicrous aspect of the existing system is that, because it is incorporated in the tax system, entitlements can vary according to the month of the tax year in which the woman gives birth. This is also a problem with proposed government-funded, maternity leave schemes. If your three months leave payment happens to fall in the last three months of a financial year in which you have been working full-time, you lose a large proportion of your leave payment in tax. If your birth occurs in July and you do not return to work during the first year of life of the child, you get the full entitlement untaxed. There is also the complex question as to whether a maternity leave payment is counted in family income and thus reduces the entitlement for other payments.

4. Gender neutrality

Until the introduction of the Baby Bonus, the family tax-transfer system was gender-neutral. While it is overwhelmingly the case that mothers rather than fathers take time out of the work force to care for children, a gender-neutral system means that the rules apply equally in cases where the reverse is true. As it becomes more common that the earning potential of the mother exceeds the earning potential of the father and as a new generation takes a more enlightened approach to gender equity, more couples are likely to prefer arrangements that involve father-care. A gender-neutral system facilitates this choice. The Baby Bonus is based on the tax paid by the mother in the year prior to the first birth. As such, it is not a gender-neutral approach even though it is payable if the

father rather than the mother remains out of the labour force to care for the child. Paid maternity leave is also not gender-neutral, but, in this case, for a period of around three months after the birth, there is a health argument that justifies discrimination. Where possible, specification of a benefit as an entitlement of the child rather than as an entitlement deriving from the circumstances of either parent will ensure gender neutrality. Overall, there seems to be little opposition to the principle of gender neutrality in the present debate.

5. The interaction of employers and government: paid maternity leave

The starting point for employers is that they should have the right to determine the employment conditions of their workers in line with competition and profitability in their industry. Over the course of history, government has impinged on employment conditions in fundamental ways such as occupational health and safety, minimum wages, maximum hours and unpaid parental and family leave entitlements, sometimes to fulfil international obligations.

The contemporary discussion is about whether or not government should impose a system of paid maternity leave upon businesses. Employers have argued that paid maternity leave should remain a condition of the employment market that is freely negotiated between workers and employers at either an individual or enterprise level or, alternately, it should be government-funded. The central argument is that paid maternity leave is a high cost - low risk circumstance that, by chance, could have severe differential effects especially on a small business. And, indeed, if a small business with three employees were suddenly faced with the payment of paid maternity leave

to two of its workers it would encounter major difficulty. Such a case would be rare but possible and therefore the employer's argument has validity. All the indications are that a compulsory, employer-funded paid maternity leave scheme is off the agenda. The proposal to the government from the Sex Discrimination Commissioner is for a government-funded scheme.

When the market is not in a position to implement a universal benefit to employees can the government step in to mirror what it thinks the market should have done? For reasons of competition and incentive, the market inevitably provides larger benefits to those with the skills that are in demand. If the government is to mirror the market, should it also operate in this way by providing higher benefits at taxpayer expense to those who already receive higher benefits in the market? The Baby Bonus does this thus making it a form of paid maternity leave but, obtusely, one that is paid when the woman does not return to work. However, despite its linkage of maternity benefits to wage levels, the Baby Bonus has been severely criticised for being regressive because it provides higher payments to women who had higher incomes in the year before the birth of the child.

In general, there is strong objection to government-funded benefits that are regressive. This is the central argument against tax deductions for children or for child-related expenses such as child care. Thus, there would be opposition to the government providing wage-related maternity leave payments. This argument is accepted in the current proposal of the Sex Discrimination Commissioner as it provides a flat rate of paid maternity leave irrespective of the woman's wage. However, in order to mirror paid maternity leave in the market, there has

been a tendency to argue that government-funded paid maternity leave should be taxed, as is maternity leave paid by employers. As already described, taxation of a birth-related benefit in the year of birth leads to the ludicrous situation that the after-tax benefit depends upon the month in which the woman gives birth. While this is a vagary of the wage system, it should not be a built-in feature of a government cash benefit.

Another difficulty that arises from a government-funded maternity leave scheme that attempts to mirror employer maternity leave is that many employers, especially public employers, already provide paid maternity leave to their workers through industrial agreements. This means that a decision has to be made about whether those who already receive maternity leave payments from an employer should also receive them from the government-funded scheme. Linkage of the two is greatly complicated by the variability in existing employer-funded paid maternity leave entitlements. Present entitlements range from as low as four weeks to as high as 12 months. Federal Government employees presently receive 12 weeks paid maternity leave. Would objections be raised if they were to receive another 12 weeks under a universal, government-funded scheme? If so, could they be excluded from the new, universal scheme? Then, why should they be excluded if equivalent workers receiving paid maternity leave in the private sector are not excluded?

If all women who currently receive paid maternity leave from their employers were to be excluded or discounted in the operation of the new scheme, then the scheme would effectively penalise employers who have already done the right thing. Such a scenario would provide a

message to employers who do not presently provide paid maternity leave not to do so in the future. Employers would argue that paid maternity leave is a government responsibility. This would almost certainly undermine the growing demand for wage-related paid maternity leave claims in industrial negotiations. If it is proposed that the government-funded payment to the worker is channelled through the employer, this will exacerbate the problem because many employers will claim that they are already providing paid maternity leave. Also, employers who presently provide paid maternity leave may pass on the government funding to their workers in place of what they themselves were previously providing.

Finally, the political question arises as to why the government in providing a cash benefit to a new mother should favour workers over non-workers or full-time workers over part-time workers, or, effectively, those having first births over those having a higher order birth. The only response to this is that paid maternity leave should be a condition of employment. There is strong political support for this position especially among progressive women's groups and, as such, paid maternity leave has taken on a symbolic value. Much as I sympathise with the views of the women's groups who make this claim, it is evident from the above discussion that I consider the proposal for a government-funded paid maternity leave scheme to be a mistake.

In my view, women will gain more through achieving improved, generalised benefits from the government while maintaining their right to negotiate with employers for wage-related paid maternity leave. In effect, political concessions that must be made in a government-funded paid maternity leave

scheme shift the outcomes of the scheme so far away from what would be the outcome in labour market negotiations that the scheme is no longer a maternity leave scheme but just another complex bolt-on to the existing family payments system. Nevertheless, entrenched positions are likely to direct debate toward the pros and cons of a government-funded paid maternity leave scheme.

6. Simplicity and transparency

It is important that the family payments system is simple and transparent. Complexity is an outstanding characteristic of the existing system. No one disagrees with this. Offering a choice between the existing system and a new maternity leave system presumes that everyone knows their work force futures precisely and is able to handle the complex calculations involved in assessing future entitlements. People should know what they are entitled to, they should have a simple means of obtaining their entitlement and their entitlement should not change with every dollar change in their income, every additional hour that they work or according to the month of the year in which they give birth. Achievement of these aims involves a payment system that is largely neutral as people change their incomes and work force participation. It also implies that payments are not taxable. Given the choice, the overwhelming preference of Australians has been to receive their payment in the form of cash through the social security system. There is little rationale for maintaining the family payment system as a component of the tax system.

Under present arrangements, potential beneficiaries often have little idea of what their entitlement will be or how it will be affected by changes in their work

force behaviour. This is evidenced by the vast number of over-payment bills that the government sends out each year to surprised families. Complexity and lack of transparency hides the raw deal that is presently provided to middle-income families, although they quickly realise their situation when they receive the demand for repayment — now able to be repaid by credit card at 20 per cent interest. Taxation of government-funded paid maternity leave is another example of lack of transparency. After taxation, the benefit for many mothers is considerably less than they might have expected. Complexity and lack of transparency is an obvious reason for the poor take-up rate for the Baby Bonus. Complexity also involves high administration costs. A transparent system would enable parents to easily determine their entitlements in advance of their decision-making. People would be able to plan with confidence instead of living in fear that they will incur a debt to the government.

7. The interaction of employers and government: work hours

Some European countries now provide parents with a right to part-time work in their own job. The right is usually restricted to working at 75-80 per cent of normal hours. In exceptional circumstances, the employer can argue that the job cannot be done on a part-time basis. The choice to work full-time or at 80 per cent lies with the employee. Australian governments have legislated in the area of work hours and unpaid leave in the past and there seems to be little reason, other than employer objection, that this could not be done in respect of a limited right to part-time work for parents. In some countries, the right has been extended to all workers recognising that they may have other ways in which they

can contribute to society in an unpaid manner. While it may seem hard to believe that altruism remains alive in the age of new capitalism, this possibility is accepted in some countries.

This policy proposal has been on the agenda in Australia in the past 12 months but there is little indication that it is favoured by the government or, at least, that the government is willing to take on employers in this area. However, this entitlement is emerging in industrial agreements. For example, women have the right of return to part-time work in the Commonwealth Public Service following the birth of a child.

8. Early childhood education and care

The identification of early childhood education and care reform with Australian of the Year, Fiona Stanley, promotes some optimism that change may be possible in this area. However, again, there are substantial obstacles to be faced, in particular, the need in this area to achieve agreement between the Commonwealth and the States and Territories, the shoal upon which much social policy reform in Australia is wrecked. The other difficulty is the history that has led to the present, dual system of early childhood education and care in Australia consisting of day care centres on the one side and pre-schools on the other side. In an earlier paper,⁹ I have proposed that the pre-school system and the child care system should be merged into a new unified system of early childhood education and care that has as its centrepiece the universal provision of 20 hours per week of education to all three- and four-year olds. Child care for longer hours than this and for children of other ages would hang off this firm foundation. The benefits to

children and parents of merging the two systems are overwhelmingly obvious but entrenched positions of lobby groups and differences in systems between States and Territories are obstacles.

The history has been that pre-schools (usually State-funded) have had sessional hours that did not mesh well with standard working hours and, as such, were in keeping with a male breadwinner model of the family. Mothers could shop or engage in other unpaid activities while their children were at pre-school. Directly counter to the pre-school approach, Federal Government support for child care has always been provided in the context of support to enable women to be engaged in paid employment. Change has been occurring slowly and, in some States, the two systems have been moving closer together. The proposal of 20 hours per week of early childhood education for 3-4 year-olds is also in keeping with behavioural change. The proportion of 3-4 year-old children who were in some type of formal care rose from 59 per cent in 1995 to 73 per cent in 2001, and their average number of hours in care in 2001 was 16 hours per week.¹⁰ Nevertheless, it is hard to believe that substantial change can be negotiated in the provision of early childhood education and care within the term of the present parliament. However, there may be optimism that a commitment can be made to the process.

While, in theory, the delivery of government-funded services by the private-for-profit sector is not a major difficulty, corporatisation of the child care industry may raise problems in any policy reform if ownership of centres was concentrated in a very small number of companies.

9. A life course approach

The agenda proposed here is based on the notion that families have lifetime

strategies based on notions of their likely lifetime income streams. That this is the case is evidenced by the Australian way of borrowing to purchase housing. Most young couples expect to have a relatively reduced income stream when they have very young children but they also expect that their income stream will improve as the children get older and as the main carer is able to increase her (almost always, her) participation in the labour force. To do this, she must maintain her human capital or her value to the market place. The accumulation of human capital by both men and women, but especially by women, prior to the birth of the first child has been the driving force behind the delay of the first birth. Women when they become mothers want to be ensured that, during the period of more intensive care of the child, the family income will be adequate and that, after this period, they will be able to return to the labour force. This implies intensification of government income support in the early years and neutrality of payments in relation to return to work.

The labour force participation rate of Australian women aged 25-39 years (the main childbearing and early childrearing years) is presently around 76 per cent. This compares unfavourably with the rates in many other advanced countries: Sweden, 91 per cent; Denmark, 90 per cent; Finland, 86 per cent; Norway, 85 per cent; France, 83 per cent; and the United States, 80 per cent. Note all of the listed countries have 'sustainable' fertility rates while countries with lower labour force participation rates at these ages have unsustainably low fertility rates: Greece, 64 per cent; Spain, 65 per cent; Italy, 70 per cent; Korea, 70 per cent; Switzerland, 71 per cent; Singapore, 73 per cent; Japan, 76 per cent and Germany, 77 per cent.¹¹ Maintaining the attachment of women to

the labour force makes effective use of scarce human capital and raises taxation revenue. In today's world, it also seems to raise the fertility rate in countries that provide adequate support for the combination of work and family.

**A COMPREHENSIVE REFORM
AGENDA: WHERE THE MONEY
COMES FROM**

The following reform agenda flows from the discussion of the nine principles above. It is also highly consistent with the stated objectives of the Inter-departmental Task Force. Restructuring of the existing system implies that some existing schemes could be abolished or the expenditure on them reduced. Specifically the proposed reform would involve the abolition of the Baby Bonus, Family Tax Benefit Part B, the Child Care Benefit, the base rate of Family Tax Benefit Part A for children aged 0-4 and the non-introduction of government-funded paid maternity leave. But it does involve the use of the money that it would cost. In specifying the reform agenda, I have calculated how much money could be obtained through the savings thus generated and have applied this money in equal proportion across all children aged 0-4 years in Australia. The outcome was a figure of \$6,500 per child per annum for the first five years of life of the child. Beyond age five, existing entitlements would continue except for the provision of Family Tax Benefit Part B.

The only substantial anomaly that arises from the implementation of the reform is that the abolition of Family Tax Benefit Part B for low-income families with children of any age would cause difficulties and so an adjustment would have to be made to the maximum and part rate payments in Family Tax Benefit Part A to compensate for this loss. This would involve additional expenditure. Additional

expenditure could be found through return of bracket creep¹² in the form of family assistance rather than in the form of tax cuts. If there is more money available from bracket creep, the proposed system can easily be geared to a higher level. Furthermore, if the reforms, as expected, lead to higher labour force participation rates for Australian women, then additional taxation revenue would be raised and could be used for funding of the package.

THE PROPOSED REFORM AGENDA

All the proposed cash payments can be used for any purpose including child care payment. The payment would be payable in four lump sums during the year to the principal carer of the child. Note the entitlement is attached to the child by virtue of its age. It does not vary as either parent varies his or her labour force attachment.

1. Introduction of a new universal cash payment for all children aged nought to the value of \$6,500 per annum. Part of this payment would be made up of the existing Maternity Allowance, payment of which would be contingent upon the mother of the child remaining out of the labour force for three months following the birth of the child (to fulfil the health criterion of maternity leave).
2. Introduction of a new universal cash payment for all children aged one to the value of \$6,500 per annum. Part of this payment would be made up of the existing Immunisation Allowance, payment of which would be contingent upon the child being fully immunised.
3. Introduction of a non-contingent cash payment of \$6,500 per annum for all children aged two.
4. Introduction of a non-contingent cash payment of \$2,500 per annum for all

children aged three and four years. Allocation by the Commonwealth of \$4,000 per head per child aged three to four years to a new, jointly-funded Commonwealth-States early childhood education and care scheme. States and Territories would contribute matching funds. All three and four year-old Australian children would have a right of free access for 20 hours per week to early childhood education and care provided by this scheme. The new system would also deliver child care upon payment by parents to three to four year-old children beyond the free hours and to children of other ages.

5. The payments described in Proposals one to four would be available to all families with children up to a threshold of around \$100,000. Low-income families (incomes under \$30,000 approximately) would receive higher payments through receipt of the maximum rate payments of Family Tax Benefit Part A. The detail of the intersection of the proposed system with maximum and part rates of Family Tax Benefit Part A and with the Parenting Payment remain to be determined. Again, simplification is a desirable principle.
6. To prevent future erosion and to keep up with increases in tax revenue in the future, all payments and thresholds in the family payments system would be indexed to changes in wages rather than to changes in prices.
7. Development of an enhanced, universally accessible out-of-school hours care program for primary school age children funded jointly by the Commonwealth and the States and Territories (not costed at present).
8. Legislate a right to part time work in their own job (80 per cent) for all parents of children of primary school

age or lower, including both fathers and mothers.

9. Extend the existing unpaid leave entitlement of each parent following the birth of a child to 18 months.
10. Incentives for employers to provide family-friendly workplaces and additional parental leave entitlements, especially wage-related paid maternity leave (and, with time, paternity leave).
11. Incentives that in all areas of life promote a child-friendly society.

The proposed agenda is affordable and in keeping with the aims of the Inter-departmental Task Force on Work and Family Policy. It is in keeping with the aims of the National Agenda on Early Childhood. What makes it unachievable? Politics and entrenched, dated, value positions. I have suggested in the past that broad reform will only be achievable in this area through a broad-based independent review.

I remain pessimistic that the political process will produce worthwhile reform in the term of this parliament. Indeed, I fear that attempts to appear to be addressing the issue will make the problem worse than it is now. At base is the issue of horizontal equity for middle-income families. The relative incomes of middle-income families with children, after taxes and transfers, have been grossly eroded in the past 25 years. As most Australian children live in middle-income families, this represents a substantial fall in the social value that Australians attach to children. The long-term consequences of this direction are already being experienced by countries that have very low fertility rates.

Appendix: Existing Government Family Payments

- **Family Tax Benefit Part A** — paid to low- and middle-income families with dependent children under 21

and/or dependent full-time students aged 21 to 24. It is paid for each dependent child in the family. The payment is subject to an income and assets test. There are three rates of Family Tax Benefit Part A: Maximum rate, payable below a low-income threshold; Part (or Broken) Rate, payable for families with incomes between the low-income threshold and the Base rate threshold; and the Base Rate, which is payable for families with incomes above the Base Rate Threshold and below the means-tested threshold. Maximum and Part Rates of Family Tax Benefit Part A vary with the age of the child, with payments increasing for teenagers and young people.

- **Family Tax Benefit Part B** — provides additional assistance to single-income families, including single parents, with a child under 16 or a child aged 16-18 years studying full-time. Higher rates are payable where families have a child under five. The payment is not means-tested for single parents. For couple families, the payment is means-tested on the income of the partner with the lower income (secondary income).
- **Parenting Payment** — income support payments for one parent with the responsibility for caring for a child under 16 years of age. The two main streams are the Parenting Payment (single) paid to single parents with no income or a low income and Parenting Payment (partnered) paid to the primary carer in a couple family where both parents have no income or a low income. For couple families Parenting

Payment is income-tested on family income.

- **Maternity Allowance** — an income-tested lump sum payment for each newborn or adopted child in the family;
- **Maternity Immunisation Allowance** — payable at age 18 months for fully immunised children (appropriate for the age);
- **Child Care Benefit** — paid to families for their use of approved or registered child care. The payment is per hour of usage. Families using approved care can claim up to 50 hours per week for work, study or training purposes, or up to 20 hours per week otherwise. The level of the payment is indexed according to the level of family income. The maximum rate of \$2.66 per hour (for one child) is payable for incomes under \$30,806, part rate is paid for family incomes up to \$88,000. A minimum rate of \$0.44 per hour is paid for all higher income levels.
- **Baby Bonus** — a tax offset which repays mothers for the tax that they paid on their income (up to a limit) in the year before the birth of their first child or (if they already have a child) the first child born to them after 1 July 2001. The refundable tax offset is paid each year until the child is five years. Mothers who had no earnings or who were low-income earners in the year before the child's birth are entitled to a minimum payment each year. The Baby Bonus is means-tested on the mother's taxable income after the birth of the child.

References

- ¹ *Child Care*, June 2002, Cat. no. 4402.0, Australian Bureau of Statistics (ABS), 2003, Table 18
- ² R. Peake, *The Canberra Times*, 24 May 2003, p. B4
- ³ John Howard, Address to CEDA, November 2002, <http://www.pmc.gov.au/leadership/strategicleadership6.cfm>, <http://www.pm.gov.au/news/speeches/2002/speech1996.htm>

- ⁴ D. Asher, Is history repeating itself in contemporary Japan?, <http://web.mit.edu/ssp/spring00/asher.htm>, 2002
- ⁵ In 1975, tax deductions were replaced by tax rebates by the then Labor Government.
- ⁶ Australian Institute of Family Studies (AIFS), Families and Tax in 1989, AFIT Bulletin No. 5, AIFS, Melbourne.
- ⁷ *Australian Social Trends 2003*, ABS Cat. no. 4102.0, 2003, pp. 172-174
- ⁸ J. Goldstein, W. Lutz and M. R. Testa, 'The emergence of sub-replacement family size ideals in Europe', Vienna Institute of Demography, Research Papers, 2003, No. 2
- ⁹ P. McDonald, 'Issues in child care policy in Australia', *Australian Economic Review*, vol. 35, no. 2, 2002, pp.197-203.
- ¹⁰ *Australian Social Trends 2003*, op. cit., p. 29
- ¹¹ A sustainable fertility is a rate that is able to sustain the future population at around zero growth with the addition of a manageable level of immigration. For most countries, this means a rate of 1.7 births per woman or higher. A fertility rate below 1.5 births per woman is unsustainable in any country; that is, it cannot continue over a very long period of time without leading to a sharp, spiralling downwards of the population size.
- ¹² Bracket creep refers to the increase in taxation revenue resulting from increases in incomes while the income thresholds that determine how much tax people pay remain the same.