THE 2006–07 BUDGET AND FAMILY POLICY

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Pre-budget statements by the Prime Minister and other leading politicians aroused hopes that the 2006–07 budget would favour families with children. These expectations were not realised.

On 18 April 2006, the Prime Minister, John Howard delivered an address to the Menzies Research Centre that detailed the government's approaches to family policy.[1] Several of his statements are notable. First, he reiterated the principle of 'horizontal equity'. That is, in recognition of the costs of children and of their social benefit, a family with children should have a lower tax burden than a couple without children (or a single person) on the same income level:

> At a time when there is general dismay at our relatively low fertility rate, what possible public policy justification can there be for affording precisely the same tax treatment to a couple without children on $80,000, compared with a couple with two children on the same income?

Consistent with the principle of horizontal equity, he went on to reject the characterisation of family benefits as 'middle-class welfare' and said that a taxation system that fails to recognise the costs of raising children is a taxation system 'without a social vision'. He also rejected the characterisation of family benefits as 'churning', the inefficient movements of cash out of one pocket, through the government bureaucracy and back into another pocket. This characterisation of family benefits had been made in January 2006 by the Labor Party's Senator Chris Evans and was given some prominence by the chief political journalist of the *Australian Financial Review*, Laura Tingle, in the pages of that newspaper.[2] Howard cited Peter Whiteford of the OECD as showing that Australia had the lowest level of 'churn' of any OECD country and that 'many of the supposed solutions to churning favoured by the Government's critics would likely have adverse distributional consequences for low and middle income households'. In other words, family benefits in Australia redistribute income; they do not simply churn it. Finally, echoing the feminists of the 1970s (including the 1970s Coalition Minister for Social Security, Margaret Guilfoyle), Howard said:

> One of the distinguishing features of FTB [family tax benefit] is that it is paid to the principal carer—overwhelmingly the mother. If simply rolled into a reformed income tax system, the bulk of individual tax cuts would go to men, financed by the withdrawal of direct fortnightly payments to women.[3]

As I have espoused all of these principles in the pages of this journal,[4] this speech, just three weeks before the budget, raised my interest in what might follow in the budget.

Five days before the Prime Minister's speech, on 13 April 2006, the Coalition's Family Policy Group, 40 backbenchers led by Howard's long-time associate, Alan Cadman, released a radical plan for large new universal payments for all children aged under five years.[5] This plan was consistent with what I had proposed in 2003 for children under the age of five and had supported again in an appearance before the House Standing Committee on Family and Community Services (Balancing Work and Family reference) chaired by Bronwyn Bishop in February 2006.[6] The Cadman plan included the abolition of the controversial new childcare rebate, but this part of the proposal was immediately rejected by the Treasurer.

On 30 April 2006, The Family First Senator, Steve Fielding, supported the Cadman plan in a media release.[7] This prelude and subsequent press speculation had led, by budget night, to a strong expectation that this was to be a budget with further major improvements in family benefits and that new benefits would be based on horizontal equity and be targeted at middle-income families with children under the age of five.

This expectation was not realised. Instead the budget provided substantial tax cuts to high and low income earners and superannuation tax benefits that will be enjoyed by the old rather than by young parents. Aside from relatively small tax cuts, middle-income earners with young children received next to nothing. Those with three children received an additional $5 per week. At comparatively little cost to government, child care places in family day care and after school care were uncapped; that is, like long day care, in future, they will be funded according to demand.

Rather than a focus on middle-income families with young children, the changes to benefits in the budget were essentially made in the context of the welfare to work initiative and were identified as such in a press release from the Minister for Employment and Workplace Relations, Kevin Andrews.[8] The main change in the family benefit system was the extension of the threshold for the receipt of the maximum rate of Family Tax Benefit Part A to $40,000. Other welfare to work changes included an increase in the level of rebate from ($235 to $600) and an increase in the threshold for full receipt to $25,000 for the Low Income Tax Offset, an increase in the 30 per cent tax threshold to $25,000 and a reduction of the Medicare Levy phase-in rate from 20 cents in the dollar to 10 cents. These are all measures that will provide incentives for people on pensions and benefits, particularly sole parents to move into work. However, Minister Andrews' press release stretches the imagination somewhat by referring to families with a total family income of up to $40,000 as middle-income families.

With such a huge number of people of working age receiving welfare benefits and pensions (about 2.5 million and, as a percentage of the labour force ages, twice that of New Zealand), sound welfare to work initiatives are welcome. Nevertheless, there remains a curiosity about what happened to the family benefits for middle-income families. Were they seen as being inflationary especially in association with the tax cuts? Were they held back for next year? Or, are they off the agenda?

Finally, in his speech to the Menzies Research Centre, the Prime Minister defended Family Tax Benefit Part B as 'additional support for those families who desire to have one parent—usually the mother—at home full time with children *in their early years* (my emphasis)'.[9] Consistent with this emphasis on children in their early years, Family Tax Benefit Part B has been criticised because it operates as a work disincentive for parents who have near-to-adult children—it can still be obtained with one 18-year-old dependent child. It is anomalous to expect a sole parent to be working from the time her youngest child turns six but at the same time to provide an incentive for a married/partnered woman to remain at home until her youngest child turns 19. This is also bad policy in the context of welfare to work because the single strongest determinant of the employment of sole parent women is their level of attachment to the labour force at the time that they became sole parents. Most sole parents were partnered before becoming sole parents. Finally, if the father and the mother in a couple family decide they will share the time out of the labour force by both working part-time, a laudable choice when children are very young, they will not receive Family Tax Benefit Part B even though one of them is always with the child.[10] If their individual incomes are below $40,000, such a couple will stand to benefit from the extension of the Low Income Tax Offset but so will a similar couple without children. The Prime Minister's emphasis on Family Tax Benefit Part B as a benefit to families with children in the early years, raised some expectation of change for those with older children. This could have been done by 'grandfathering', that is, by wiping out the benefit for all future cases as is being done with the welfare to work initiatives. However, the Cadman plan, released just before the Howard speech, included the continuation of Family Tax Benefit Part B in its present form. The budget made no change to Family Tax Benefit Part B and so this payment will remain hotly debated.

Finally, there were no funds in the budget to support the introduction of universal early childhood education for three and four year olds. This reform has enormous community support and enormous backing from those with expertise in early childhood development. The policy is now in place in the countries with which we like to compare ourselves, New Zealand, Canada and the United Kingdom. Early childhood education has been placed on the agenda of the Council of Australia Governments (COAG) and received a favourable nod at the last COAG meeting. However, with no funding for this policy direction in the 2006–07 budget, we can expect to be waiting a long time yet before young Australian children are given the same educational opportunities as children in New Zealand and Canada.

References

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