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Childcare and Early Childhood Learning  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601  
By email: [childcare@pc.gov.au](mailto:childcare@pc.gov.au)

### **Submission to the Productivity Commission on the Childcare and Early Childhood Learning inquiry**

1. The Indonesia Institute (**Institute**) is pleased to make a submission to the Productivity Commission's (PC) Inquiry into Child Care and Early Childhood Learning.
2. The Institute is an Australia-based NGO founded in November 2010 with the aim of promoting Indonesia-Australia relations throughout Australia and in Indonesia. Further information about the Institute can be found in the Annexure to this submission.

#### ***Submission in brief***

3. The Institute submits that immigration and labour regulations should be liberalised to allow carers from Indonesia (and other Asian countries) to work as nannies in Australia at a cost acceptable to both nannies and the majority of Australian families (**Institute's proposal**). The advantages of the Institute's proposal would be:
  - a. Adequate childcare would be affordable to a much greater proportion of Australian families than is currently the case.
  - b. Childcare would need no or substantially fewer subsidies paid by government and would therefore be highly sustainable.
  - c. Existing government support for childcare could be redirected to improving early childhood learning initiatives.
  - d. Reducing the cost of working for Australian parents would narrow the efficiency gap between Australia and countries where Asian nannies are not excluded from providing services.
  - e. Australia would open a new, highly sustainable, avenue of funds to assist developing nations in the Asia Pacific region.
4. While there may be some entrenched protectionist opposition to the Institute's



proposal, the Institute is confident that the great bulk of Australian opinion would recognise the substantial gains from trade that would accrue to both Australian families and Asian nannies. This has support in recent economic literature which suggests that liberalising labour migration would result in estimated gains in global GDP of between 50 and 150 percent (Michael A. Clemens, *Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?*, Journal of Economic Perspectives, Volume 25, Number 3, Summer 2011 83 at 84).

### ***Asian nannies in Australia - how it might work***

5. It will be helpful for purpose of this submission to briefly describe how the Institute's proposal might work. The Institute considers that the following description is realistic, based on the experience in other countries.
  - a. An Asian nanny would be paid approximately AUD 200 per week. This is twice the amount a nanny would earn in Indonesia.
  - b. A percentage of the AUD 200 would be paid to an Australian agency to oversee the scheme (as is done in Singapore). The Institute considers it crucial that an Australian agency would have oversight of the scheme to ensure the welfare of Asian nannies while they are in Australia.
  - c. The host family would lodge a bond with the Australian agency. The bond would be held against the possibility that the nanny was not paid or was mistreated.
  - d. The host family would provide and pay for:
    - i. private medical insurance;
    - ii. accommodation and food;
    - iii. a work clothing allowance.
  - e. The nanny would be entitled to every Sunday off and a return airfare home for 2 weeks every year (as is done in Hong Kong).
6. Some refinements to the above description of the Institute's proposal may be needed in the event it was adopted. The advantages to Australian families should nonetheless result provided the cost was not significantly increased or artificial barriers to entry by Asian nannies were not put in place.

### ***Adequate, affordable childcare for Australian families***

7. The Institute believes that its proposal would result in adequate and affordable childcare being available to a much greater proportion of Australian families than is currently the case.
8. It seems clear from other submissions to the PC that childcare is too expensive for many Australian families. The PC's Issues Paper observes (see page 13) that there



is evidence suggesting that the availability of adequate, affordable childcare impacts workforce participation. On that basis it seems likely that the cost of childcare results in skilled and productive Australian parents withdrawing (partially or fully) from the workforce to care for their children. This is more likely in lower income families.

9. As a second order effect, Australian parents who are absent from the workforce to care for their children for a period are likely to suffer a material diminution of any investment they have made in attaining professional skills and knowledge. This would result in a setback to their careers and, in aggregate, a loss to Australia of investment in professional skills and knowledge.
10. Australian parents who opt to stay in the workforce are faced not only with high costs of childcare but also with household chores and taking their children to and from childcare facilities. The result for these Australian parents is a significant reduction in the quality of life, possibly for little net increase in income.
11. The experience elsewhere in Asia Pacific is that Asian nannies will also assist with household chores such as cleaning and cooking. The Institute submits that an Australian working parent who could arrive home after work to a clean house and the evening meal underway, without the need to collect the children from childcare, could devote his or her energies to being both a better parent and more effective in his or her career.

#### ***Subsidy free, highly sustainable childcare***

12. As is demonstrated elsewhere in the Asia Pacific region (for example, Hong Kong, Singapore and Taiwan) the use of caregivers from developing Asian countries such as Indonesia and the Philippines is market based and therefore highly sustainable. There is no requirement for governments to subsidise the provision of care in those countries.
13. Letting the market solve the affordable childcare problem would allow Australian families to choose to use nannies if that use, and a parent returning to the workforce, provided a net gain to the family. In aggregate those net gains to Australian families will create net benefits for Australia's economy.

#### ***Redirect existing government support for childcare to early childhood learning***

14. The Institute's proposal is primarily directed to providing adequate and affordable childcare to Australian parents. However, the Institute considers that early childhood education in Australia is very important and can benefit from the Institute's proposal by the government redirecting existing (and in the Institute's view, largely unnecessary) support for childcare to improving early childhood learning. This would allow the PC to consider options within current government funding parameters that improved childhood learning in Australia more than would otherwise be the case (see the Treasurer's Scope of Inquiry, 22 November 2013).
15. Increased funding of early childhood learning (through a redirection of government funds from unnecessary childcare subsidies) would allow Australian childcare



workers to move into higher value work providing early childhood education.

### ***Narrowing the efficiency gap between Australia and other countries***

16. The Institute submits that childcare can be viewed as an input to the supply of labour by Australian parents. To the extent that the cost of that input is greater for Australian parents than for parents in other countries, Australian labour will, in aggregate, be more costly and less efficient than those other countries. The cost of childcare in countries such as Singapore and Hong Kong that allow nannies from developing countries in Asia is significantly lower than in Australia - this impacts on Australia's global competitive advantage.
17. In addition, Australia is competing for skilled workers in a global economy. Skilled workers who are parents (or anticipate becoming parents) will be less likely to choose to come to Australia if the costs of childcare are very high, or they will require higher salaries to be paid by Australian employers than would otherwise be the case. Australians who have worked in countries that allow affordable nannies from developing countries are typically highly vocal about the benefits of having an affordable nanny.

### ***A new, highly sustainable, avenue of funds to assist developing nations in the region***

18. The Institute considers that the Institute's proposal would open a new, highly sustainable, avenue of funds to developing nations in the Asia Pacific region. This is highly sustainable because it is not aid but the result of value-adding economic activity. Indonesian expatriate carers typically return to Indonesia with sufficient funds to purchase property or set themselves up in business. This enduring positive effect on developing countries has support in recent economic literature on development.
19. Michael Clemens, an economist with the Center for Global Development in Washington argues that liberalising immigration policy between rich and poor countries could be "the most powerful tool available to spread prosperity" to less developed countries (Michael Clemens, *The Biggest Idea in Development That No One Really Tried*, The Annual Proceedings of the Wealth and Well-Being of Nations 2010). Clemens notes that traditional foreign aid is costly and requires government to actively coerce taxpayers to fund payments abroad whereas liberalising migration only requires a government allowing migration to occur.
20. Clemens also cites research that the US economy has generated enough jobs for every immigrant for over a century and that large scale immigration has either a zero or tiny negative effect on the wages of existing workers at the destination country (Michael Clemens, *The Biggest Idea in Development That No One Really Tried*, The Annual Proceedings of the Wealth and Well-Being of Nations 2010 at 36). However the Institute considers that its proposal may rather *raise* Australians' wages in the following ways:
  - a. Australian parents who return to work, or increase their hours of work, because of the availability of more affordable childcare will directly increase



their wages.

- b. Australian parents who work while shouldering the burden of currently costly childcare will increase their wages *net of the cost of working*.
- c. Childcare workers are likely to move into higher value, higher paid, work in early childhood education.
- d. There is likely to be, at least in part, a reduction in the number of skilled immigrant workers required in Australia through schemes such as the 457 Visa as skilled Australian parents are released back into the workforce.

***Final words; next steps***

- 21. Finally, a common experience for families (including Australian expatriate families) in countries where nannies from developing countries can work is that genuine and enduring bonds of friendship are formed between the host family and nanny. It would be difficult or impossible to measure the economic benefit of such personal connections between Australians and Asian nannies however these could only strengthen ties and engender greater understanding between Australia and neighbouring countries.
- 22. The Institute looks forward to further engaging with the PC in the course of its Inquiry into Child Care and Early Childhood Learning. The Institute would welcome the opportunity to further elaborate on its views in the public hearings for this Inquiry.

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## **Annexure - about the Indonesia Institute**

The Indonesia Institute (Inc) is a fully incorporated association registered in Western Australia. The Indonesia Institute was founded in 2010 by Ross Taylor with the aim of promoting Indonesia-Australia relations throughout Australia and in Indonesia. Ross Taylor is a former WA Government Regional Director to Indonesia and has held senior positions, including National Vice-President, of the Australia-Indonesia Business Council. Ross has also held senior executive roles with Wesfarmers Ltd and Phosphate Resources Limited.

The Indonesia Institute operates as a non-government, not-for-profit organisation. The Indonesia Institute has a current membership of 137 people from varied sectors including social, community, business, political and humanities. Approximately 26% of our membership is Indonesian-born.

Our primary objectives are:

- To improve Australia-Indonesia relations at a cultural, social, business and community level.
- To act as a 'think tank' on matters relating to Indonesia and Australia with a particular emphasis on WA.
- To promote cultural, social, and community activities between Indonesia and WA and, in association with the Australia Indonesia Business Council, build improved trade and commerce links and opportunities.
- To lobby governments in both WA, Australia and Indonesia on matters relating to our bilateral relations.
- To act as a commentator on matters relating to Australia-Indonesia relations.
- To assist the WA Department of State Development in the building and sustaining of the 'Sister-State' Relationship between WA and East Java.
- Develop and maintain close relations with the Indonesian Consul-General in WA and to assist their office where possible.
- To provide Indonesia with a 'voice' in Australia to generate an improved understanding about 'today's Indonesia'.

More information about the Indonesia Institute can be found at the Institute's website, [www.indonesia-institute.org.au](http://www.indonesia-institute.org.au).