SUBMISSION ON CHILDCARE

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The Purpose of Childcare

The purpose of childcare is to care for, and keep safe, any child too young to do so on its own. That care can be provided by a birth or adopting parent, the extended family, community groups or individuals or enterprises on a commercial basis. It seems to be a 20th century western obsession that such care can legitimately only be provided by the birth or adopting mother, at least until 5 years of age, when suddenly it becomes acceptable for a school teacher to take over *in loco parentis* for the school day.

This kind of thinking is firmly entrenched in policy makers' minds and has dictated policy on the provision of childcare. Childcare in Australia to enable women to work is widely regarded as unaffordable, and as a consequence Australia has one of the lowest labour supplies by females (both partnered and single) with dependent children in the OECD. It is my contention that this low level is policy-induced by tax and welfare policies as well as the manner of service delivery. This submission deals with these issues at length.

How childcare services should be provided and who should pay for them are economic questions. As with most economic questions there needs to be an underlying framework or model in order to produce logically consistent reasoning with explicit assumptions. Yet families, children, output, production and trade within families have rated little attention in mainstream neo-classical literature. Models are based on generic, gender-free individuals. Households are assumed to involve only consumption and leisure. As *The Economist* newspaper recently put it: "Services – cleaning a home, caring for a relative – are excluded from GDP. The logic is that services are produced as they are consumed: since they could not be sold they are outside the market….But the assumption that there are no market prices for services delivered at home is 1940's thinking." It is the same thinking that pervades government tax, welfare and expenditure policies that create greater distortions and detract more from economic efficiency than mere exclusion from GDP accounting.

It is now fashionable to conflate childcare and early childhood learning (perhaps to make childcare seem more respectable) and this has been done in the Commission's terms of reference. Recent research into brain plasticity suggests that it would be beneficial if formal learning commenced earlier than the normal school age. I have no objection to this. However, during my lifetime, governments and child welfare authorities have never concerned themselves with how parents (meaning mothers) who have full-time care of their infant children develop the child's intellectual capacity (as opposed to physical development and health) in years prior to compulsory pre-school or kindergarten, which is the period during which brain plasticity is most apparent. There are two distinct reforms here, with different, competing calls on resources. My concern is that by conflating the two, the inquiry will consider it has discharged its commission if it recommends sacrificing one at the expense of the other.

The following discussion does not cover care of, or by, the disabled. This is an insurance issue and is best dealt with separately. That does not imply lesser importance.

Economic models of the family

The predominant model for producing and raising the next generation is the couple family. Whilst some 12-15 percent of families with children are sole parent families, most started as couple families but then suffered relationship breakdown. Some 15 percent of couples never have children, whether through infertility or choice. There is a small number of same sex couples, some of whom have dependent children. (Other models – polygamy, cults, communes etc seem likely to remain rare.)

Couple families follow a more or less common life-cycle pattern: couples meet and partner in their twenties or thirties, seek to purchase housing, take the edge off the mortgage, start having children, reach a desired family size or infertility, raise and educate the children to school-leaving or through tertiary education, anticipate the adult children leaving home, from which time the couple focuses on preparing for retirement and then entering retirement. During these last two phases, adult children may begin producing grandchildren, and if they are living in reasonable proximity, grandparents may become involved is some care of grandchildren.

Labour supplies during these life cycle phases show the following typical pattern in Australia: From partnering through to birth of first child, a high proportion (85-90 percent) of both men and women work full-time, seeking to save a deposit and qualify for the largest possible housing loan. After the birth of the first child, labour supply becomes much more diverse. Whilst male employment remains high (90+ percent, most of it full-time), female employment falls dramatically. Less than 20 percent return to full-time work one year out, with another 25 working part-time, typically one or two days per week. After the youngest child turns 5, female full-time employment increases gradually to a bit less than 30 percent by the time children are teenagers, before dropping again as retirement age approaches. Part-time work increase to 40-45 percent. Almost 30 percent never work again right up to retirement age. Male employment rates also tend to decline as retirement age approaches, due to early retirement, unemployment or disability.

(These rates differ markedly from, for example, Nordic counties, where employment rates are partnered women with children typically reach mid 80's percent, with 60 percent full-time.)

Economic models of the family need to deal with this very large heterogeneity. Policy based on averages is meaningless.

A framework for analyzing this heterogeneity can be constructed by regarding members of a couple as two individuals or agents who negotiate with each other over the division of labour between market sector employment and household production, and how the returns from each are distributed. In other words, there is trade within the family. These negotiations are not necessarily a once-only event but may be reopened as circumstances and experiences develop over time.

These arrangements can be regarded as falling within two limiting cases: One member (usually but not exclusively the male) is wholly engaged in market sector employment producing monetary reward and contributes little or nothing to household production, whilst the other (usually but not exclusively the female) provides all of the household production (childcare, cooking, cleaning, laundry, household shopping, transportation, organizing recreation, etc) in exchange for a share of the monetary reward including increases in the value of the couple's net assets, and the benefits of household production. This is usually called the traditional family model. The other, which might be called the gender equality family, involves both members contributing approximately equal time to market sector activity and equal time (perhaps interchangeably) to household production, in exchange for a similar sharing of output. (Note that the Family Court regards this sharing, including any returns accruing to investment of savings, as equal regardless of family type)..

Factors which influence these choices include market sector wage opportunities, not just in the current period but as perceived in the future, perhaps over a lifetime. For example, long hours of (unpaid) overtime in the current period may be thought to lead to promotion to higher paid work in the future. Similarly, in some occupations it may be thought feasible to reduce weekly hours in the current period, then step up to full-time hours in the future, without disadvantage. Other occupations value continuity of employment, so that it may be difficult to return to work after prolonged absence, at least at a similar level. (See Persistence below)

For sole parents and couples where both members work in the market sector at the same time, there may be elements of household production which cannot be undertaken simply because a person cannot be in two locations at the same time. The most obvious of these is childcare, but may also include, for example, preparing meals at times required by hungry children. Time constraints, including the need for rest and recreation, may mean such families also need to outsource some of cleaning, decorating, gardening etc. The additional costs of outsourcing will be taken into account in deciding market sector hours. (Some couples may avoid these by "cross-shifting" where the male works, say, 7 am to 4 pm in factory work, while his partner works 5 pm to 10 pm in a fast food outlet.) There are also costs associated with working: travel to a place of work, purchased meals, additional clothing, which, at least for a second earner will also be taken into account.

Affecting all of these decisions are government tax and expenditure policies (see Tax/Welfare Distortions below)

In addition there may be an overriding consideration that childcare by anyone other than the child's mother in the family home is highly detrimental to the child and therefore must be ruled out regardless of the level of actual or opportunity costs (see Political History below).

Tax/Welfare Distortions

When couples and sole parents make decisions about allocating time between earning market sector incomes, household production (and leisure) these decisions are affected by several categories of government intervention:

- Income taxation, the tax base, tax unit, Goods and Services Tax
- Child Tax Credits (refundable)/Welfare Payments. (Note these are often confused, as when Treasurer Peter Costello thought increases in family tax benefits were welfare payments but Prime Minister John Howard thought they were tax cuts: Australian Financial Review, April 4th & 24th 2006)
- Subsidies for specific services, such as child care benefit, pre-school and school education.
- Income-contingent Loans e.g. HECS/HELP

Income Tax/GST

Under the Income Tax Assessment Act 1997, assessable income is derived from the trade or sale of goods, services or of personal exertion from the market and government sectors, less any exempt income. Taxable income is assessable income less allowable deductions. Allowable deductions can generally be thought of as all costs other than capital incurred in producing those goods and services. However for personal exertion income, particularly salary or wages income, the list of allowable deductions is restricted. Most claims are for small amounts such as uniforms, union fees, books, journals, computers etc. Travel to work is not included. Nor is childcare, cleaning, decorating etc (see above) because these are not considered to be integral to earning income or are excluded because of the general exclusion of expenditures of a private or domestic nature. This principal is enunciated in *Lodge v Federal Commissioner of Taxation 1972* in which a Ms Lodge sought a tax deduction for the cost of child care while she worked as a law clerk. Mason J ruled that the expenditure was an essential prerequisite to earning, but not relevant or incidental to law clerking. He also opined that the expenses were of a private and domestic nature. This is the law today. (Those of us around at the time will recall that it was common for businessmen to spend more on a single lunch while discussing the cricket than Ms Lodge spent on childcare for a week, then charging the cost as an allowable deduction, a situation which continued until 1986).

This is of course necessary to preserve the tax base, otherwise everyone would claim all their expenditure and only savings would be taxed. What is never argued is that this structure of tax ignores trade within the family and household production, and creates an unlevel playing field between the traditional family and the gender equality family. This is because income tax is blind to the income the market sector earner in the traditional family pays to his (rarely her) partner for undertaking his share of household production. Horizontal equity would be satisfied if the traditional family paid half the market sector earner's after tax income to his partner without it being an allowable deduction to him, and she paid tax on it as her income.

GST further complicates this picture. Couples may produce output in the household which is both traded and consumed e.g. a home cooked meal. If that function is outsourced, its purchase is subject to GST but not as part of household production. (Outsourced services purchased by households may escape GST and even (the supplier's income tax) as part of the black or cash economy or being below the GST threshold. Some of that saving may be passed on to the household.)

Lastly, there is a strong lobby to treat taxation of the traditional family as though it where a commercial partnership, or to permit members of a couple to aggregate their incomes and then split them into two for tax purposes. The traditional family clearly isn't a commercial partnership, which also excludes items of a private and domestic expenditure. Joint taxation, whether by taxing the aggregated incomes of the couple, or by splitting the aggregated incomes, was common in many countries before the 1970's. Australia is unusual in that it has always taxed family members' incomes individually. Joint taxation taxes a second family earner at the primary earner's marginal tax rate. This clearly discourages second earners and was the reason for its abandonment by many countries. The USA and Germany kept income-splitting systems, but these have been hedged with special allowances, separate rate scales for singles, (resulting in marriage tax penalties) etc. Economists in public finance generally argue in favour of individual taxation of family members: see Martin Feldstein, Gary Becker. Alberto Alesina proposed that the second earner should be taxed at half the primary earner's rate. Nevertheless, joint taxation seems to be an obsession in some quarters e.g. amongst the accounting profession.

A related argument much favoured by Christian fundamentalist groups is that under a system of individual progressive income taxation, the combined tax paid by two earner couples is less than the amount paid by a single earner couple on the same total family income, therefore income splitting should be allowed or special allowances given to single earner couples to eliminate this difference. Apparently this reasoning only applies to those in a (deemed sexual) relationship. Young men down from the country sharing the cost of rent, utilities, and basic food purchases are not considered to benefit from a tax advantage, nor are residents of a retirement hostel who effectively share the cost of cooking and cleaning services. Nor is any account taken of the hours spent working to earn the family income, or the hours spent working to pay tax for the benefit of the community generally, as distinct from the family. Clearly, these arguments have no merit in conventional, let alone modern, tax theory.

Child tax credits/welfare payments

Tax deductions for dependent children are a common feature of most income tax systems, based on notions of horizontal equity between those with dependants and those without. In Australia in the 1970's it became fashionable to claim that higher income families "got more from the government for their children" (because the deductions reduced income taxed at higher rates).

Dependent deductions were converted to tax rebates, and rolled into family allowances (child endowment), a universal transfer payment for children. However none of the payments were indexed, and in the high inflation 1970's and 80's their value fell to relatively insignificant levels.

As a consequence, child poverty in low income families became an issue. The Family Income Supplement was introduced by Brian Howe, Minister in the Hawke Government in 1987. Accompanying this decision was a move to means-test away existing tax rebates for dependent children based on joint family incomes of about twice male average weekly earnings. The intention was to alleviate poverty for children amongst the working poor. Payments for each child were generous, but were means-tested away by a taper of 30 percent of joint family income above a modest level. Where both members of a couple earned the minimum income or slightly above, they did not qualify. These changes introduced partial joint taxation into income tax for ordinary wage earners, despite moves by other countries to abolish it. It introduced high effective marginal tax rates for secondary earners over and above reliance on welfare payments (unemployment or disability benefits). And it extended poverty traps, whereby efforts to earn income above poverty levels are deemed not worthwhile for the small gain after losses of tax and benefits are taken into account. (See, for example, the speeches of Albert Field, British Labour Party MP).

However, at its inception, the FIS scheme was relatively modest and the adverse effects on work incentives affected relatively few. Nowhere at the time was there any public discussion that if two earners on the minimum wage with one or two children were deemed not to be in poverty, then the government should focus its efforts on getting both parents to work. (Perhaps Treasurer Paul Keating's maiden parliamentary speech view that increasing the number of women in the workforce "is something of which we should be ashamed" was a widely held view in ALP circles at the time).

After the Coalition assumed office in 1996, the FIS scheme was rolled in together with tax rebates for dependent children and renamed Family Tax Benefits. These included significant increases in payments for a dependent spouse with children (FTB part B), subject to a separate more loosely targeted means test than applied to the original dependent spouse rebate. These changes were included in the Coalition's document for the following election called "A New Tax System" (ANTS) introducing the Goods and Services Tax.(GST) In essence, this package took six years of uncompensated income tax bracket creep plus increased direct taxes to disguise ("everyone's a winner!) a massive shift in tax incidence away from the traditional family and onto the two earner or gender equality family and single taxpayers. This prompted the OECD's head of social policy, Mark Pearson to comment: "For women with children there are quite high costs for every extra hour of work, and you are giving them an incentive to work less."

There can be no doubt that the Coalition Government was well aware that its FTB system was creating significant work disincentives for second earners. Means tests imposed on FTB parts A & B on top of normal progressive income tax was creating very high effective marginal and average tax rates on second earners. It moved to lessen disincentives by a token reduction in the initial taper for FTB part A from 30 to 20 percent. Criticism continued. Whilst never making public its motives, discouraging second family earners was clearly deliberate policy (see Politics below).

In subsequent years The Coalition sought to magnify these disincentives by substantially increasing, through both indexation above inflation and ad hoc supplementary payments to minimize disquiet over tax debts created by errors in forecasting income for the means tests.

After entering government at the 2007 election, the ALP government studiously ignored the issue of high effective marginal tax rates. Indexation of the top threshold (approx. $93,000) above which the base rate of FTB part A was tapered to zero, was suspended. The impact of this was to remove some families at higher middle incomes from the FTB system, while increasing the proportion of remaining families facing high effective marginal rates. Increases to FTB as part of its Carbon Pricing compensation, more than reversed any impact from reduced indexation. A small offset occurred by increasing the effective tax-free threshold from $16,000 to approximately $22,000, but increases in the 30 percent tax rate reduced this to almost nothing for those earning above $37,000.

At current exchange rates the maximum FTB payments per child are the highest in the world while Australia has one of the highest minimum wages.

Subsidies for specific services

The Hawke/Keating ALP governments provided grants to community organizations to establish non-profit childcare. This programme was abolished by the incoming Coalition government following its commission of audit on ideological grounds. Childcare should be provided by the private sector, preferably without any government support. Assistance to childcare fell to what amounted to loose change in government expenditure terms. The Child Care Benefit (CCB), which paid a per-hour of care payment to approved child care providers with a means test based on joint family incomes, was introduced. The means test was different from the family tax benefit means test and subject to different indexation. Maximum rates were low, based on community childcare rates, and over time fell well behind what was available in the private sector childcare market.

In 2004, the OECD reported that Australia spent less on childcare and early childhood education than any of its members bar Korea and Turkey! The Coalition was "shamed" into introducing a child care rebate (tax offset) for the 2004 election, which would pay up to $4,000 for 30 percent of the difference between the actual cost of childcare and any CCB received by the provider (out of pocket costs). The introduction of this rebate is informative. It took a long time for legislation to be passed, and claimants would have to wait up to *two years* before receiving the money. (This is in stark contrast to credits for GST on inputs, which the Coalition insisted should be claimable immediately and well before the relevant good or service was on-sold.) Actual claims fell well short of its budget allocation. The 30 percent rate had nothing to do with the actual effective marginal tax rates paid by second earners, which could be 70 percent or more. Unlike the childcare benefit, this payment did not adjust for hours of childcare. In a high priced childcare market, it gave a proportionally larger subsidy to those who worked part-time and used, say, one or two days per week instead of five. Clearly, this accorded with Coalition ideology.

In the 2007 election, The ALP promised to increase this rebate to $7,500 for 50 percent of out of pockets. Initially, the payment was indexed, then, with budget stringency, rolled back to $7,500 again. With rising costs of childcare as a consequence of mandated staff qualifications and carer ratios, this rebate now accounts for about 25 percent or less of out of pocket costs for users of 5 days per week long day care in capital city inner and middle distance suburbs.

The ALP also introduced a tax rebate for school education expenses, subsequently renamed Schoolkid's Bonus, with substantiation no longer required. This is relevant here insofar as eligibility was tied to receipt of FTB part A. and increased effective tax rates where additional family income exceeded the level (between approximately $100,000 and $150,000 per year) where FTB part A was no longer paid.

Some States provide subsidized pre-school education – typically 6 or 12 months prior to compulsory primary school enrollment for school terms between the hours of, say, 10.00 am and 3.00pm. These hours mean that pre-school is not really a substitute for childcare for anyone with serious work commitments. However, some State governments appear to see long day care as a substitute for their pre-school obligations and are restricting provision of the latter, presumably seeking to cost shift to the Commonwealth.

HECS/HELP Schemes

These schemes, which provide for repayment of tertiary education debts on an income-contingent basis (a form of means test), are relevant here to the extent that they exacerbate the problem of high effective marginal tax rates and their effect on labour supply. Those most likely to be affected are second family earners with children with significant outstanding debts who, if their income exceeds approximately $50,000 per year, face compulsory payments which act like an increased rate of tax. For example, a second earner on $62,000 per year and a debt of $30,000 would be required to pay $1,200, equivalent to a tax increase from 34 percent to 44 percent on income above $50,000. This creates an incentive to reduce hours to stay below the threshold. There appears to be no publicly available data on how many members of couples or sole parents with tertiary debts fall below the income threshold after having children, and how long they remain there. Perhaps debt repayment obligations should be extended to the spouse.

Effective Marginal and Average Tax Rates.

The reason for including the section above on Economic models of the family is to show that for couples, decisions about allocation between market sector and household sector engagement are individual responses. Labour market responses to incentives or disincentives are individual decisions, albeit made in consultation with the other member. It is therefore incorrect and somewhat meaningless to average taxes, transfer payments etc across members of a couple. One member, usually the one with the larger market sector engagement, becomes the primary earner, the other the secondary earner. These designations are not immutable over time, nor exclusive to one gender.

Over the last fifteen years I have provided more than fifty worked numerical examples to newspaper letters columns, in articles and on blogs of how high effective average and marginal tax rates impact on incentives and tax incidence. I do not propose to repeat these here. It is a simple enough an exercise for the Commission to produce its own. Suffice to say, effective marginal tax rates around 70 percent and average rates around 50 percent are not uncommon for second earners on less than average weekly earnings. For a mother with two or three children, with at least one of pre-school age, and a partner earning around the average wage, it is not difficult to construct scenarios where, if she works full time, tax, loss of FTB and Schoolkids Bonus, the cost of child care and after school care net of CCB and CCR, and the cost of travel to work and other work related expenses amount to much more than her earnings. Hence, there is a powerful incentive to reduce working hours to one or two days per week, or cease work altogether. (See Persistence below)

Bizarrely, some members of the previous Coalition government's Fair Pay Commission, argued that there should be no increase in the minimum wage, because many minimum wage earners were(partnered) women who faced high effective marginal tax rates! The recent ALP government commissioned a major report on the tax system (The Henry Tax Review) which addressed the issue of high effective marginal tax rates caused by the FTB system. After filling several pages with the evils of high effe4ctive tax rates, the report recommended basically the status quo with minor tweaking of taper arrangements. The recommendations were lacking in sufficient definition to model a comparison with existing provisions, but the message was clear: no serious reform should occur.

Labour Supply Elasticities

Empirical studies of how labour supply changes in response to a change in the net wage were developed by (Nobel Laureate) James Heckman more than thirty years ago. Second family earners (married women) were found to have elasticities several times higher than "prime aged males", and this finding has been confirmed by many other studies since. Note that Heckman assumed that a reduction in net wage (through, for example, higher tax) resulted in a substitution of work for leisure. He did not take into account household production or any price for it. (This difference in labour supply elasticities is the basis for Alesina's proposal that second earners pay half the primary earner's tax rates.)

Apart from tax distortions and the higher costs associated with two earners (and sole parents) outlined above, other labour market conditions affect these results. For example, most men, net of tax and travel costs, can earn more from an hour of overtime than can their partners from an hour of ordinary time work. Working long hours in career type occupations are also likely to lead to much larger gains in income than increasing part-time ordinary time hours by their partners. These are separate from, and above, inherent biases which arise from lower wage rates in female dominated occupations, or any actual discrimination in rates of pay between males and female co-workers undertaking similar work.

The result is that there is a strong and inherent bias in couple families with children towards males working full-time or extended hours and females working reduced or part-time hours, or not at all in market sector employment, sand conversely in household production.
The most noticeable characteristic of Australian labour market data is the long hours worked by prime-aged males and the shortness of hours by females in the same age group.

Much has been made in the popular press recently about couple families with children where the female member is the highest earner. This is most common in families where both male and female work full-time, about 5 percent of such families. There are also families where the female is a full-time earner and the male stays home to provide childcare and household services. Outside of redundancy and unemployment, numbers appear to be small. There is also a widespread view that in families where a male works full-time and his partner stays at home, the male works much longer hours than the male in families where both partners work. Some studies show no such difference, others show slightly higher hours on average. This is consistent with prime aged males having very low labour supply elasticities.

Other labour market conditions may affect changes in labour supply, For example, there appears to be a cluster of partnered females who insist on working (permanent) part time for four days per week, instead of increasing to normal full-time five days per week. Anecdotal evidence suggests this may be in response to workplace bullying in some occupations. Defined part time hours provide resistance to demands to work overtime which disrupt childcare or other domestic arrangements.

A related issue is the use of joint family incomes for the purpose of means tests. A male couple member's income of $70,000 per year and a female partner's income of $50,000 per year is said to be equivalent to that of another couple with a male income of $120,000 per year and a female partner's income of zero. There is an implicit notion of freedom of choice or interchangeability. The male earner in the first couple could simply walk down the road and obtain a job paying $120,000 per year at the snap of his fingers, and his wife could stay home. Clearly that is not realistic.

Persistence

Persistence is a measure of labour force attachment. A person who remains in the labour force (albeit with periods of temporary unemployment) from completion of education through to retirement age shows high persistence. Conversely, a person who works intermittently, or drops out for long periods, has low persistence. Thus the greatest predictor of whether a person will be in the labour force is whether they were in a previous period. Empirical studies show high levels of persistence amongst males with dependent children, but much lower levels for some females, but not all. Long time series data sets are needed for analysis, which are difficult to find in Australia.

Overseas studies can generally be summarized as follows: partnered women with children who return reasonably soon after childbirth (i.e. up to 12 months) tend to show greater persistence, with those returning to full-time work having the greatest. Those who remain outside market sector employment from the first child and until the youngest child reaches school age show much lower persistence after returning to work, and those who return to part-time work show the lowest, dropping in and out of work or abandoning it entirely, even after children have left home. A common perception that women progressively step up hours of work back to full-time work as children get older seems to be overstated.

The role accessibility to affordable childcare plays in increasing workforce persistence is therefore crucial.

Population Ageing

A current concern relates to population ageing as a result of the post war baby boom generation reaching retirement age, and increased longevity due improved medical treatment. The proportion of dependent elderly is increasing relative to the proportion of working aged population in work and paying taxes. It is framed as a problem in terms of government sponsored PAYG pension arrangements and costs of health care for the elderly. It is rarely seen in terms of ensuring enough workers to produce the goods and services to be consumed by a larger aged population, or in terms of inflationary wage impacts from a reduced labour supply relative to consumption.

The issue has been aired in a series of Inter Generational Reports (IGR) the first of which was produced by the 1996/2007 Coalition government. Apart from a somewhat bizarre methodology of projecting increases only in those variables which would cause a deterioration in economic conditions, and holding constant any variables which might result in improvement, the report was noticeable in that it completely ignored potential labour supply increases amongst females after the birth of children, which, as pointed out above, is half their rate before the birth of children and close to half the male rate. Instead the IGR mentioned only increasing the retirement age (followed by the same government's measures to allow any amount of superannuation money to be withdrawn tax-free from age sixty!). Simple arithmetic shows that increasing female workforce participation to, say, Nordic country levels would produce a far greater increase in working aged labour supply than 2-3 year increase in retirement age.

Fertility

Strong declines in total fertility rates (TFR) in developed countries in recent years, especially Japan, Spain, Italy and Germany have opened debate on whether the State should provide incentives for producing children, at least to replacement levels. Paradoxically, countries with smaller reductions in fertility tend to be those which provide the greatest opportunities and/or most favourable conditions for women to work, for example Nordic countries, USA. However the evidence is mixed. In those countries with high levels of partnered female participation, such as the Nordic countries, fertility rates seem more sensitive to economic conditions than elsewhere. Fertility rates drop in periods of high unemployment and rise during economic expansions.

Either way, there does not seem to be much evidence that cash payments of the Baby Bonus type have much impact on fertility. Claims that the Howard government's introduction of baby bonuses was the cause of a reversal in declining fertility seems improbable. A more likely explanation is that these coincided with the end of a transition from commencement of childbearing in early/mid twenties to late twenties/early thirties. After an increase, the total fertility rate has since declined a little, as was expected.

In any case, there is no sound empirical support for policies discouraging women from working if the objective is to increase fertility.

Macroeconomic Issues

A number of studies have attempted to measure the impact of increasing female market sector labour supply on gross domestic product (GDP). These have varied between an 11 percent increase assuming females earn the same market sector incomes as males over their working aged lives (e.g. investment bank Goldman Sachs), to more modest assumptions about female labour supply, such as those of Canada or Denmark, producing GDP increases of 2 - 5 percent. Since household production is not included in GDP, there is some distortion both in the size of the denominator and in adjusting for transfer of some household production to the market sector.

Studies which measure changes to tax revenue as a result of increased female labour supply and transfer of some household production to the (taxed) market sector are hard to find. At the very least, the Commission should assess the cost of childcare subsidies against taxes paid by second earners over their working lives taking into account the impact of persistence as outlined above. It is quite possible that the Australian economy is performing well below optimum, whereby substantial increases in childcare subsidies, together with reform of the FTB and some increase in tax rates on higher earners would be fiscally neutral and lead to increased output without increased inequality. It seems both Treasury and the Commission have studiously avoided any such modeling in the past.

Failure to include household production in GDP estimates, or even recognize its existence, has led to some rather strange pronouncements on productivity. One commentator argued that for the stay-at-home mother to move into market sector employment was bad for the nation's productivity level because women generally engaged in low productivity occupations and therefore lowered the average rate! A certificated child care worker who, instead of staying home to care for her pre-school child, places him in a child care centre and works herself full-time in a childcare centre looking after four children, has not caused an improvement in the nation's productivity. However, if she looked after five children instead of four, that would.

Politics and Working Mothers

Partnered female market sector employment grew rapidly through the 1980's until the early 1990's recession, albeit with a shift to part-time as traditional female full-time manufacturing jobs disappeared. Following recovery from this recession, growth in full time work stalled. This coincided with introduction of the kinds of policies outlined above.

At the same time, there developed a fairly rancorous public discourse on the role of women, with women who worked pitted against those who chose not to work after the birth of children. Much of this discourse, along with funding from evangelical Christian groups, seems to have been imported from the USA, where it was called "Mummy Wars". Women who worked were accused of being selfish, wanting it all, abandoning or harming their children, and so on, whereas choosing to stay home was noble, selfless, and the best outcome for children. Daycare was seen as harming children, making them aggressive, and hard to teach when starting school. There were dark hints that future juvenile delinquency or crime would result. Various psychologists and sociologists opined on maternal deprivation, attachment disorders and the like. These were repeated ad nauseam by newspaper opinion writers and on TV or radio chat shows. Many working mothers became very defensive. There was heavy petitioning of parliament by the stay-at-home lobby.

Politicians soon learned to stay well clear of the subject. Whatever position they took, it might cost them votes. But that does not mean politicians do not have positions or agendas on the issue. Politics as an occupation tends to filter out those who do not have a wife at home to relieve them of all domestic responsibilities. Politicians with partners in substantial, independent occupations are uncommon, certainly less than in business, the professions or academia. Quite apart from ideology, there is a personal unfamiliarity with the issues.

So it is reasonable to judge policies on the impacts they actually have, not the stated motivations or outcomes intended by the politicians who promoted them. The Coalition governments between 1996 and 2007 seem to have had a significant bias against two earner families:

- Removal of assistance to community based childcare (see above)
- FTB and enhancements – throwing truckloads of money at low and middle income single earner families. Taking most or all away if a second earner returns to work, especially full-time
- Replacing the old Commonwealth Employment Service with the Jobs Network, simultaneously restricting access to unemployment benefit recipients i.e. excluding the unemployed partner of a working partner from assistance.
- Maternity Allowance (First Baby tax offset). A carefully crafted payment to pay $500 per year to a mother of her first child for 5 years if she stayed home, and taken away if she returned to work. Replaced by Baby Bonus.
- Child Care Rebate (see delays and claiming difficulties above).
- Refused paid parental leave because not available to non-working women (Baby Bonus instead).
- Campaigned for Joint taxation (according to one report, to be offered at the 2007 election)

In response claims that the Coalition government's policies under PM John Howard were discouraging married women from market sector employment, the government hired Catherine Hakim, a British sociologist, to opine that employment levels merely reflected universal and immutable preferences of such women: 20 percent of women were "work centered", 20 percent were "home centered", and the remainder were "adaptive", meaning they moved in and out of work as the mood took them. The message was that financial incentives or disincentives arising tax, welfare policies, childcare subsidies, or labour market conditions, had no effect on whether women worked or not. Prime Minister Howard returned to this theme in a revealing interview with Piers Akerman reported in the Sunday Telegraph 31 December 2006, in which he added together part-time and non-working women to highlight how few worked full-time under his policies.

The ALP in the 2004 election proposed to remove FTB part B to reduce disincentives to returning to work, but dropped the idea for the 2007 election, at which it promised a substantial Increase in the child care tax rebate and an education tax rebate tied to receipt of FTB part A (along with substantial high end tax cuts). In government, the ALP introduced a minimum wage paid parental leave scheme, perhaps the oddest feature of which was that, as the benefit was taxable included in FTB means tests, the net amount of the payment was likely to be less than the Baby Bonus for a women on average income returning to full time work, so the recipient could opt out and receive the baby bonus instead! Post GFC, the government then reduced and subsequently abolished the Baby Bonus. Changes to FTB's, childcare rebate and tax are outlined above. After the childcare rebate, the ALP avoided any significant reform to work disincentives for second earners. Promises to provide more inner city childcare places were ditched, and after-school care assistance died with the 2013 election loss.

The current Coalition government has not yet undertaken any significant reform, although freezing of further increases in childcare assistance in the light of recent childcare price increases is not encouraging. Prime Minister Abbott's signature paid parental leave scheme was sold to the electorate on the basis of increasing fertility and retaining women in the workforce ("because we need them") but details released so far disclose no mechanism to achieve this or benchmarks to measure success. If the scheme increased the TFR by 10 percent, each additional baby would come at a cost of about $120,000. My rough calculations suggest about 80 percent of money disbursed will be paid to mothers on the birth of their first child. This is because prior participation rates and hours worked are substantially reduced between first and second, or subsequent children for all the reasons outlined above. Costings of the scheme so far announced do not appear to provide for any significant increase participation or hours of work leading up to second or subsequent children. In other words, the scheme is basically an expensive first baby bonus. If the object of the scheme is to increase the labour supply of women with children, the money should be applied to child care.

Standards of Analysis

Economic analyses to answer questions posed by the Commission's terms of reference require data. These data are not always readily available in the form required, but may involve tedious and costly extraction from data sets such as Household Expenditure, Time Use and Income

Distribution Surveys. Some studies in the past have used proxies which can produce quite misleading results:

- Using working hours or earnings data for women aged 25 - 44 years as a proxy for women with children (includes many childless women working full-time).
- Time series data for hours or earnings of women 25 – 44 not allowing for increasing age at birth of first child.
- Combining or averaging variables for sole parents and partnered women with children when circumstances are clearly different.
- Use of workforce participation rates as a proxy for labour supply. A person is included in workforce participation figures if they worked one hour in the reference week. This is particularly misleading in cross country comparisons where full-time/part time ratios differ markedly.
- Use of averages where there are known large variations, e.g. cost of childcare in inner city vs. outer suburbs.
- Distributional analyses based on (joint) household incomes instead of individual incomes, use of equivalence scales. (Distributions should always be based on primary earner income.)

The Commission will need to devote sufficient resources and time to produce reliable results. If this is not done, conclusions or recommendations should be subject to explicit caveats.
Another common practice in the type of investigation the Commission is undertaking is to limit any cross-country comparisons to the UK, USA, Canada and New Zealand, on the basis that these are "comparable countries". If the issue is childcare, clearly the Nordic countries, France, etc should be included. World's best practice in childcare is clearly not in the USA. At the very least, the Commission's report should contain a table comparing labour supply (hours worked) of females with dependent children, effective average tax rates ("the tax wedge") and the out-of-pocket (net of subsidies/tax allowances) cost of childcare for all of the aforementioned countries.

Sociology and Childcare

There is an extensive literature on the purported benefits and harms of institutional childcare and early childhood education. I offer no particular expertise in this area, my knowledge being limited to Googling research abstracts or reading press reports of research. I make the following layman's observations:

- For every "study" concluding childcare is harmful to children, there is another concluding it is beneficial.
- It is a research field that seems to be particularly partisan – some authors write many papers concluding childcare is harmful, others write many concluding it is beneficial. With unbiased inquiry, one would have expected a mixture.
- It is difficult to access long term time series data, so prognostications of harm or benefit are rarely verified medium to long term.

- Like much social research, it is actually quite difficult to get statistically significant, or counter-intuitive results. There is temptation to "torture the data to confess to anything".
- The results of some studies couldn't possibly be statistically significant, based on sample size and the smallness of differences and numbers of variables.
- Great care is needed with some multivariate analytical techniques. Excluding even one key explanatory variable can seriously skew results.
- Irrelevant comparisons e.g. Ascribing "maternal deprivation" to children in daycare when Bowlby's analysis concerned juvenile offenders institutionalized full-time since birth.
- Unexplained conditions e.g. children in childcare found to have higher cortisol (a hormone) levels than stay-at-home children. (Subsequently found stay-at-home children have higher cortisol levels when they start primary school. None of the studies can apparently point to any longer term disadvantage.
- Potential observer bias. Some studies rest on primary school teachers assessing behaviour of children who have attended childcare versus those who had not. An element of turf war between school teachers and childcare workers is longstanding.

If the Commission feels the need to call on experts in this area, it is suggested they call several from each of the different factions.

Childcare delivery: private, public, community or nannies.

There are plenty of self-interested parties able to supply the Commission with cost, revenue and profit data, covering private for profit, community and non-profit, government owned, for profit family day care, nannies and even au pairs. Data on the unregistered, informal or "backyard" care is presumably less accessible because suppliers and users are unlikely to admit to it.

The "leave it to the market" approach of the Howard Coalition and the following ALP governments has failed to deliver enough childcare at affordable or even unaffordable prices since there appear to be few vacancies and long waiting lists. There would appear to be no reason why any of the registered out-of-home options should not deliver an adequate standard of care, given accreditation and credentialising of staff and regulation at both state and federal level.

One aspect of the affordability issue that seems not to receive much attention is the cost of real estate. Childcare premises, whether required by a for-profit or a non-profit operator, usually need to be purchased and therefore incur capital charges, or leased and therefore also incur capital charges indirectly. (A few community providers operate in donated property e.g. a church hall) This means these capital charges must be recouped through childcare fees. Contrast this with public schools, where state governments do not charge users (parents of students) a capital charge for use of the premises, private schools where premises have usually been paid for by endowments or (tax deductable) contributions to school building funds, most road use, use of sports ovals, municipal swimming pools etc. It is interesting to speculate whether governments could maintain a compulsory education or a steady supply of athletes to the Olympics if capital charges (and taxes) for land and buildings or facilities were passed on the parents of users.

A partially privatised for profit/non-profit system exists in the USA but costs appear to be lower due generally to lower land prices and low wages of workers, is less regulated with highly variable and sometimes low standards. In Sweden, childcare is provided at municipal government level, with full day care 5 days per week costing about one tenth of the cost in inner/middle ring capital city suburbs in Australia. Examined in detail, I suspect the latter provides a more efficient and cost effective model.

The USA also relies more on nannies than Australia, many of whom are undocumented or recently arrived migrants with no qualifications and sometimes with poor language skills. They come cheap, but I suspect this is not a system we could tolerate. Nannies – properly qualified and paid - are clearly a useful option for people working non-standard hours. Objections by the tax office that the childcare rebate should not be extended to nannies because they might engage in some housework while supervising their charges is laughable in view of the structure of the tax system as outlined above, and suggests no one in the tax office has ever tried to get a qualified nanny to do the housework.

Subsidies and/ or tax rebates available to childcare users should be extended to users of nannies who are qualified/registered. The cost could be contained by limiting claims to those for one child aged five or under where both parents (or the sole parent) work full-time as an initial step. Note that superannuation tax concessions and PPL both currently require hours of work conditions.

RECOMMENDATIONS

1. There must be reform of the Family Tax Benefit system:

(i) Cease indexation of the maximum benefit and threshold immediately
(ii) Each time Newstart or Parenting Payment (Single), are increased, maximum FTB's should be reduced.
(iii) Abolish the 30 percent taper for FTB (A), to be funded by an increase in income tax rates on individual incomes above $100,000 per year.
(iv) Abolish FTB(B) except for sole parents, to be partially compensated by increases in the base rate of FTB(A) in respect of a child under two years of age.

2. Affirm the principle of a progressive income tax on an individual basis.

3. As a medium term target the government should aim to spend approx. 1.5 percent of GDP on early childhood education and childcare, to be funded from modifying negative gearing, dividend imputation, SGL tax concessions and increased income tax from increased female labour supply. The aim should be for government provision of childcare at either State or Local Government level, rather than a less efficient privatized system.

4. Current childcare assistance is proportionately greater for those who use it one or two days per week, and actively discourages full-time work. This should be reversed by

limiting claims of the child care rebate to usage greater than twenty hours, and increasing the rebate to S10,000.

5. Claims for the CCR for registered/accredited nannies should be permitted, subject to both parents (or the sole parent) working 35 hours per week, in respect of a child under six years of age.