

MATERNITY LEAVE MISH-MASH

While the headlines in the populist press portray the Productivity Commission's draft parental leave scheme as a bonanza for working mothers, the reality is the scheme is so poorly crafted it produces widespread perverse results.

Firstly, for birth of a first child, partnered mothers who have always intended to stay home, perhaps intending never to work again, will mostly qualify for the higher parental leave payment, since over 85 percent work full-time until the birth of their first child. This is because there is no obligation to refund any of the payment if the mother does not return to work. They will collect eighteen weeks at \$544 per week, or \$9,792 per year. There will be a strong fiscal incentive to give birth at the start of the tax year, in which case the leave payment, which is taxable, will fall below the tax-free threshold. It will reduce her \$3,694 Family Tax Benefit Part B by \$1,053, so the net benefit is \$8,739. If her partner's income is between about \$65,000 and \$95,000, under \$43,000 or over \$102,000, FTB Part A won't be affected.

On the other hand, a woman with one or two children working full-time for \$50,000 a year, married to husband on \$65,000 to \$70,000 per year (about the average for a prime-aged male breadwinner with children), will be severely disadvantaged under the parental leave option. The new baby is due in February and after using up her annual and other leave entitlements she applies for 18 weeks of the new parental leave.

The sting is that the working mother's parental leave is both taxed and reduces her entitlement to FTB Part A, in this case a combined rate of 65.5 percent (30 percent tax rate, 30 percent FTB Part A clawback, 4 percent Low Income Tax Offset clawback and 1.5 percent Medicare Levy). She gets to keep \$3,378. To hide its embarrassment the Productivity Commission suggests she should therefore be entitled to the Maternity Allowance (the Baby Bonus renamed) plus FTB Part B for the time she's off. The problem is she won't be eligible under the Return To Work provisions of FTB Part B because she'd have to be back at work for 4 weeks before June 30 of that tax year, so she'll get just \$5,000.

The partnered stay-at-home mother gets the \$5,000 Maternity Allowance plus 18 weeks of FTB Part B or \$1,125, total \$6,125. Because neither is taxable or reduces family tax benefits, she keeps the lot.

The real winners out of this scheme are women who work a minimal 10 hours per week for, say, \$15 per hour (typical of arrangements in family SME's to maximize income splitting, superannuation and welfare entitlements, and may not involve any actual work at all.) They get a replacement wage more than 3.6 times their normal weekly wage and probably escape tax entirely.

Since the Productivity Commission stresses that parental leave is to be seen as an incentive payment to encourage six months' contact between mother and newborn, it is rather odd that the highest payments are for those women who loudly proclaim that they

would never put their child in a crèche like their greedy, selfish sisters do, and to women who already have 158 out of 168 hours of contact a week. The lowest payments go to mothers who otherwise would have the shortest contact.

In fairness to the Productivity Commission, to some extent they had to play with the hand they were dealt, a tax system distorted by years of “Howardism” i.e. as a married mother you should have the “choice” to stay home if you want to. If you make the “right” choice and stay at home, you will be showered with truckloads of taxpayers’ money. If you have the effrontery to make the “wrong” choice and try and work full-time, most or all of the largesse will be taken away and you will be hammered with tax on top, as much as a 50 percent or more average tax rate, before paying for any of the additional (non tax-deductible) expenses of working. However, if you mend your ways and work only minimal hours, we’ll let you keep most of the handouts. This was implemented in successive budgets by Treasurer Peter Costello over 11 years of the Howard Government and caused enormous damage. Workforce participation for partnered women with children on a full-time equivalent basis stagnated. Studies into persistence, a measure of workforce attachment, show that mothers who absent themselves from the workforce for years, or return to minimal hours part-time work after maternity leave, are much more likely never to return to work, or drop into and out of part-time jobs, even after the kids have left home. The depressing effects of Howardism on female labour supply will last a generation or more at great cost to the economy and our competitiveness.

All the while this was being implemented, any calls for assistance to working mothers – child care, maternity leave - was portrayed as handouts unfairly being paid for by single income families. Of the family tax benefits paid to couple families with children (a large part goes to sole parents) I estimate that over three-quarters goes to single income families or those where the mother works only minimal hours. By contrast, the budget for child care is a pittance. The cost of the child care tax rebate while capped at the seemingly large \$7,500 per year, is a miniscule cost to revenue. (See page 9.3 in the Productivity Commission’s draft report on Paid Parental Leave). And in any case, some reports suggest that up to a third of recipients of subsidized childcare are in fact mothers who are not actually working – something the Howard Government studiously avoided doing anything about.

So when consideration came to providing paid maternity leave, this completely fallacious justification of unfair subsidy was used to pay the Baby Bonus to all mothers whether they worked or not. The simple fact is that the Baby Bonus was extremely bad public policy. (It certainly didn’t increase fertility rates as Costello likes to claim – the recent blip upwards was the consequential result of delayed first births).

My complaint against the Productivity Commission is that it ought to provide frank and fearless advice, not start playing political games. It should have recommended the abolition of the baby bonus. Single income families survived for years quite well without it. Although it acknowledges that there are problems with the tax system which are being examined by Treasury, it should have recommended that parental leave benefits should not be taxable until these problems are fixed. In any case, it is doubtful whether the size

of a payment of this nature should be affected by the date during the tax year at which a woman gives birth. We don't need log jams in maternity wards! And the qualifying hours per week for the parental leave component should be raised from 10 to 20, to reduce the kind of absurdity I have outlined above. I haven't discussed the impact of the proposal to compel employers to pay superannuation contributions on parental leave. It is of little merit and I'm assuming it will be the first of the recommendations to be dropped.

The only real issue is whether the Rudd Government will have the political bottle (or is it ticker?) to unwind the disastrous mess the Howard Government created with the personal tax and family tax benefit systems, in the face of high decibel screeching from the traditional housewife lobby, various Christian evangelical family groups, talk-back radio shock jocks and the usual right-wing ranters in think-tanks and the press. Wayne Swan says he wants to have a go. We shall see.

Peter Apps