



**Submission to the Senate  
Education and Employment Legislation  
Committee Inquiry on the Family Assistance  
Legislation Amendment (Cheaper Child Care)  
Bill 2022**

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**October 2022**

**Dear Senators;**

Thank you for the opportunity to make a written submission to your inquiry into the proposed amendments to the New Tax System (Family Assistance) Act 1999, the Family Assistance Legislation Amendment 2021, and related legislation, to implement larger financial subsidies for families with children in early child education and care (ECEC) programs; strengthen reporting and transparency provisions for participating providers; provide for a base level of subsidised care for First Nations children; and allow participating providers to offer discounted ECEC services to staff.

The Centre for Future Work is a research institute located at the Australia Institute (Australia's leading progressive think tank). We conduct and publish research into a range of labour market, employment, and related issues. We are independent and non-partisan. This submission synthesizes some of our previous research on insecure work and related topics. Please see our website at <http://www.futurework.org.au/> to read our full reports.

We have conducted ongoing research for several years addressing the economic, employment, and gender equity dimensions of ECEC services for Australia's labour market performance. Two of our important recent significant contributions to this body of literature include:

1. ***The Economic Benefits of High Quality Universal Early Child Education***, by Matt Grudnoff (Canberra: Centre for Future Work, 2022).

This report provides original and secondary research regarding the stunted extent of ECEC provision in Australia compared to other industrial countries, and the various economic and fiscal benefits that would be generated by an expansion of ECEC services to match average or best-practice levels elsewhere in the OECD.

Main findings of the report include:

- Australia invests less in ECEC services (relative to GDP) than most OECD countries, and far less than the Nordic countries (with their world-leading ECEC systems). But Australian households pay more toward those services (again measured as a share of GDP) than those in other countries (even including Nordic countries). Australians thus pay more, but get less, from an ECEC system that is both underfunded and disproportionately dependent on private contributions (mainly parent user fees).
- Inadequate and expensive ECEC services deter many families from enrolling their children, and this disproportionately suppresses women's paid work activity. Women's labour force participation, which matches male participation until the late 20s, drops off sharply during prime parenting years – falling as much as 17 points below male participation. Australian women of prime parenting age are 25 percentage points less likely to participate in paid work than their Nordic counterparts. They are also far less likely (relative to both Australian men and Nordic women) to take full-time work, even when they are working. For both reasons, Australia's inadequate ECEC system holds back women's employment, with consequent damage to incomes and national GDP.

- If Australian women had the same participation rates and opportunity to work fulltime as Nordic women, Australia's GDP would be some \$132 billion per year higher. Among many other benefits of that significant expansion of output and income, is the fact that government tax revenue would grow (solely on the basis of existing taxes and tax rates) by some \$38 billion per year. Government revenues would rise by more than enough to pay for a universal, affordable non-profit ECEC system in the first place. In other words, high-quality ECEC is a public service that quite literally pays for itself.
- Not all ECEC providers are created equal, however, and another fundamental weakness of Australia's ECEC system is its unusual and growing reliance on private for-profit providers to deliver ECEC services. About half of Australia's ECEC providers are for-private private companies, and all of the growth in the sector in recent years has been captured by for-profit providers. For-profit ECEC centres must pay out profits to their owners (thus diverting resources away from the core goal of service provision), they pay much higher executive compensation, and face financial incentives to cut corners (with resulting consequences for ECEC quality). This report reviews evidence from numerous sources showing service levels are inferior in private for-profit ECEC centres, compared to not-for-profit or public providers. This poor quality record arises in large part from the inferior working conditions faced by ECEC workers in for-profit centres: in ECEC, as in other human and caring services, the quality of care directly reflects the quality, training, compensation, and stability of jobs for care providers. The focus of private ECEC companies on cutting costs and maximising profit results in more poorly-paid, insecure jobs for ECEC workers – with resulting consequences for the quality of education and care they can provide.
- Another striking consequence of Australia's over-reliance on for-profit ECEC delivery is the dissipation of many of the potential macroeconomic and fiscal benefits of expanded ECEC services. This report estimates the benefits for employment, GDP, and government tax revenue of the future expansion of ECEC services in Australia, using two broad scenarios: one in which the level and composition of ECEC funding is increased to match the average of other OECD countries, and a more ambitious scenario in which it matches the average of the Nordic countries. In both cases the ECEC expansion provides a major lift to employment, GDP, and government revenues – but in both cases those benefits would be much larger if new funding was focused on not-for-profit and public delivery (rather than being siphoned to support the profits of for-profit firms). With an expansion of funding to Nordic levels, fully channelled into public and not-for-profit centres (rather than private firms), GDP would grow by over \$35 billion, and government revenues (at all levels) would increase by over \$10 billion. (This is in addition to the macroeconomic and fiscal gains resulting from women's increased employment, discussed above.) The employment benefits of new funding are almost one-third larger when the funds are channelled to not-for-profit and public providers, instead of private for-profit businesses.

- Considering all of these channels of economic benefit, the provision of Nordic-style universal, publicly-delivered ECEC would support a massive expansion in employment, incomes, GDP, and government revenues. Positive impacts on GDP and tax revenues (for all levels of government) result from the increase in female labour force participation, the greater opportunity for paid full-time work by women, and the direct and indirect jobs associated with ECEC supply. The combined increase in annual GDP resulting from a Nordic-style program totals \$168 billion, generating an additional \$48 billion in government revenues – much more than the cost of providing the ECEC services in the first place. In this light, expanding public access to high-quality ECEC services is very much an economic investment, not a cost.

The full report is available at:

[https://assets.nationbuilder.com/theausinstitute/pages/4012/attachments/original/1649119893/Economic Aspects of ECEC in Australia FINAL.pdf?1649119893](https://assets.nationbuilder.com/theausinstitute/pages/4012/attachments/original/1649119893/Economic_Aspects_of_ECEC_in_Australia_FINAL.pdf?1649119893).

2. ***Educating for Care: Meeting Skills Shortages in an Expanding ECEC Industry***, by Dr Mark Dean (Canberra: Carmichael Centre at the Centre for Future Work, 2022).

This report documents the extent of the vocational training challenges that will be encountered if Australia embarks (as contemplated by this legislation) on a serious effort to expand its ECEC sector in line with best practices in other industrial countries. Ramping up high-quality vocational education for ECEC workers must be an immediate and highest-order priority to meet the workforce needs of expanded ECEC coverage.

Key findings of this report include:

- A long-term commitment to improved funding and service delivery, ideally aimed at matching Nordic-level coverage and quality benchmarks, would require a larger, better-trained, better-supported, and better-compensated workforce. A pro-active strategy for sustainable workforce development should be developed and implemented with input from all stakeholders, including ECEC providers, unions, VET institutions (particularly TAFEs), and government.
- The best possible education and care to Australian preschool-aged children should also be provided by the most highly trained and experienced workers – employed in delivering a public or not-for-profit service, and well-trained in public vocational education delivered through the TAFEs.
- In this sense, developing a universal public ECEC system is a natural analogue to developing a universal public VET system: building a world-class public ECEC system, staffed with top-notch graduates from public TAFEs, provides a dual source of economic and social benefit.
- The report provides three scenarios of forecasts of the vocational training requirements that would be associated with a major ramp-up of ECEC provision in Australia. Depending on the scale of the expansion, and the level of improvement in wages and working conditions achieved (better conditions result in lower staff turnover and hence somewhat reduced training requirements), between 41,000 and

68,000 graduates per year will be required (in part to meet replacement demand from retirements and severance, as well as net growth in the overall workforce). This implies a very substantial call on the VET system to provide more trained ECEC graduates.

- Meeting the goals of high-quality ECEC services thus means recognising that the full and proper funding of Australia’s state- and territory-based TAFE systems must be an essential component of post-pandemic economic reconstruction.

The full report is available at:

[https://assets.nationbuilder.com/theausinstitute/pages/4026/attachments/original/1652240866/Educating\\_for\\_Care\\_FINAL.pdf?1652240866](https://assets.nationbuilder.com/theausinstitute/pages/4026/attachments/original/1652240866/Educating_for_Care_FINAL.pdf?1652240866).

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On the strength of this research and other evidence, we conclude that the expansion of public support for high-quality ECEC services in Australia envisioned in this legislation would represent an important step forward in supporting all parents, but women workers in particular, in making their maximum potential contribution to Australia’s future production and prosperity. Access to affordable, high-quality ECEC is also a vital precondition for women to achieve greater equality in the labour market, and within their own families. The fiscal support provided for expanded ECEC access must be considered as an investment in Australia’s economic and social potential, not just an expense line in the government’s budget. Indeed, the increased labour force participation, employment, output, incomes, and tax revenues supported by a stronger ECEC system will generate a positive return for all stakeholders – including government itself.

Therefore, we endorse the general direction and intent of the amendments being considered, including the enhancement of the CCS subsidy rate. Strengthening Australia’s ECEC system is vital in the effort to achieve greater gender equity in both the labour market and within families. It is also a vital investment in maximising the intellectual, social, and financial well-being of children as they go through their lives. In supporting the general effect and intent of these reforms, however, we would also like to stress the following points for the Committee’s consideration in reviewing and finalising the proposed legislation:

- The crisis in staffing faced by the ECEC sector, if not urgently addressed, will jeopardise the laudable goals of these reforms to extend access to high-quality ECEC services to more Australian families. The harsh reality is that without powerful efforts to lift job quality, stability and compensation; support a better flow of vocational training for new ECEC workers; and enhance staff retention; the sector will simply be unable to deliver the expanded level of service contemplated as a result of these reforms. For all these reasons, investing in improving wages, working conditions, and access to training must be a central provision of any national ECEC strategy.
- In this context, the legislation’s proposal to allow extra subsidies for ECEC services to be provided to ECEC workers themselves is a positive gesture, but we should be under no

illusions that a modest enhancement to compensation of that scale will be sufficient to address the overarching labour supply crisis facing the whole sector.

- Regarding provisions requiring greater transparency in reporting for participating approved providers, we believe those reporting requirements should also include a duty to report on providers' expenditures on staffing: including training and development of staff, as well as salaries and other compensation. Our research and others' has shown that private providers spend less than public and community providers on staffing, and this is a key reason for the consistently poorer quality outcomes associated with private for-profit provision. Reporting information on staff-related spending on a consistent and accessible basis will assist parents and the broader community in evaluating the comparative investments that providers make in their staff, and ultimately help to constrain the expansion of private providers.
- For similar reasons, financial reporting requirements should also compel participating approved providers to disclose details regarding profitability, dividend payments and other disbursements to shareholders, and executive compensation. Here, too, greater transparency for the public regarding these wasteful diversions of public subsidy by private for-profit providers would contribute to great public awareness of the superiority of public and not-for-profit delivery models, and ultimately help to limit the recent expansion of private for-profit care.
- To further strengthen the effect of these financial reporting requirements, we think it should be a provision of the reporting that the submitted data be easily accessible to the public through central, easy-to-use online databases.
- In our view, the 'activity test' should be removed entirely as a condition of access to subsidised ECEC services. We believe the test does not advance the policy objective of providing an incentive for women's workforce participation; rather we are concerned that it undermines workforce participation, does not support the Government's gender equality agenda as intended, and does not facilitate increased access to ECEC for children.
- The increase in base access to subsidised ECEC services for First Nations children to 36 hours per fortnight is a small step in the right direction, but not adequate to be consistent with the goals of 'Closing the Gap'. The relaxation of 'activity test' conditionality for First Nations children would be redundant if our overarching recommendation to remove that activity test in general were accepted.
- The expanded access to ECEC services that would be facilitated by these reforms, would still fall short of what is required to meet international standards for full-time preschool ECEC. Most industrial countries provide two years of publicly funded preschool ECEC services. So in addition to the expanded ECEC support contemplated in these reforms, the Commonwealth should also undertake a program to assure funding for delivery of full-time preschool coverage for 3- and 4-year olds.

We would be honoured to provide any additional information that would be helpful to your deliberations. Thank you again for the opportunity to participate in this important inquiry.

**Sincerely,**

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