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STANDING COMMITTEE ON FAMILY AND COMMUNITY
AFFAIRS

Reference: Child custody inquiry

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FAMILY AND COMMUNITY AFFAIRS

Monday, 3 November 2003

Members: Mrs Hull (*Chair*), Mrs Irwin (*Deputy Chair*), Mr Cadman, Mrs Draper, Mr Dutton, Ms George, Mr Pearce, Mr Price, Mr Quick and Mr Cameron Thompson

Members in attendance: Mr Cadman, Mrs Draper, Mr Dutton, Ms George, Mrs Hull, Mrs Irwin, Mr Pearce and Mr Cameron Thompson

Terms of reference for the inquiry:

To inquire into and report on:

- (a) given that the best interests of the child are the paramount consideration:
 - (i) what other factors should be taken into account in deciding the respective time each parent should spend with their children post separation, in particular whether there should be a presumption that children will spend equal time with each parent and, if so, in what circumstances such a presumption could be rebutted; and
 - (ii) in what circumstances a court should order that children of separated parents have contact with other persons, including their grandparents.
- (b) whether the existing child support formula works fairly for both parents in relation to their care of, and contact with, their children.
- (c) with the committee to **report to the Parliament by 31 December 2003.**

WITNESSES

**HARDING, Professor Ann, Director, National Centre for Social and Economic Modelling,
University of Canberra 1**

**McHUGH, Ms Marilyn, Senior Research Officer, Social Policy Research Centre, University of
New South Wales..... 1**

Committee met at 11.04 a.m.

HARDING, Professor Ann, Director, National Centre for Social and Economic Modelling, University of Canberra

McHUGH, Ms Marilyn, Senior Research Officer, Social Policy Research Centre, University of New South Wales

CHAIR—I declare open the 21st public hearing of the House of Representatives Standing Committee on Family and Community Affairs for its inquiry into child custody arrangements in the event of family separation. This inquiry addresses a very important issue which touches the lives of all Australians. Today we will address only one topic relating to the inquiry; that is the cost of children.

I welcome Professor Ann Harding and Ms Marilyn McHugh to today's public hearing. The evidence you give at this public hearing is considered to be part of the proceedings of parliament. Therefore, I remind you that an attempt to mislead the committee is a very serious matter and could amount to a contempt of the parliament. If you would each like to make a short opening statement, and then I will invite members to proceed with their questions.

Prof. Harding—Some years ago, we were commissioned to undertake a study for the Department of Family and Community Services on how much it costs to raise children in Australia today and, although as an economist I should have expected this, I was surprised by how difficult it was to answer the question. It seems to me that there is no true 'answer' in the sense that one can get true answers from the natural sciences. We investigated a range of available methodologies that had been trialled overseas to estimate the costs of children and ended up using one termed an Iso-Prop method. Do you want to me to talk at all about the details?

CHAIR—Yes, I am happy for you to give an overview on how it works.

Prof. Harding—The reason why it turned out to be so hard to estimate what children cost was that you could not just look at the spending of a family with children and a family without children and say that the difference in their spending was how much the child cost. There were a few reasons for that. One was that, if you were a couple without children before the child came along, you might have been having a really exciting life going out to restaurants and spending a lot of money on wine. So your spending as a couple might have been quite high. Once the baby arrived to your family, your expenditure could still stay the same but, in fact, there has been a radical shift in what you are spending your money on. The restaurant meals have been forgotten and the wine cellar is rotting.

Mrs DRAPER—We know.

Prof. Harding—It has all become cots, new baby clothes and so on. So you cannot just look at two families with and without children and say that the difference is due to the child. Additional problems were presented by things like indivisibles: for couples who bought fridges or cars or houses, what proportion of the spending on a particular item was due to them having

children and what proportion would they have done anyway even if they had not had children. So trying to work out exactly how much the children actually cost was very complex.

This method effectively tried to say if we take two different households—one, a couple without children and the other, a couple with children—and we look at what proportion of their total weekly budget is going on a basket of goods or a set of necessities, then when they are both spending the same proportion of their income on that basket of necessities, we assume the difference in their weekly spending is the cost of the child.

In the past to measure that—this goes right back to some original work done by Engels where he said, ‘If I am a couple without children and you’re a couple with children and we’re both spending say 20 per cent of our total budget on food, then that means we have the same standard of living.’ You might be spending somewhat more than me in aggregate and then the difference in what we are spending on aggregate would be the costs of the children. He got criticised for doing that, because people said that there were not economies of scale in food. In your case, you could not feed your second child a hamburger that had already been fed to the first child—you double the costs effectively from having two children if you only looked at food. But, for example, if you took toys, then the second child could ride the bike that the first child had outgrown and wear the clothes that the first child had outgrown. So there were lower additional costs from additional children than perhaps suggested by the original method.

Following overseas research, we took on a wider basket of goods which included food, your fuel charges, telephone charges, things like personal care and services—so toothpaste and hairdressers—and what was called household non-durables, not TVs but the daily things you buy for the household. In essence that was the modelling. We ran it against the ABS household expenditure survey. This latest data was for 1998-99. We had some 2,500 couples in the sample.

The estimates suggested the following: first, older children were more expensive than younger children, as has been suggested in other research as well; and, second, high-income families spend considerably more than low-income families on their children. So how much your children cost you does depend on your family income. If you can afford to spend more, you do. Third, we had high-income families on the whole spending more than twice as much on their children as low-income families. Fourth, the additional costs associated with additional children decreased, so two children did not cost you twice as much as the first child. That is not only that economies of scale issue about how you can hand down clothes and maybe they share a bedroom; it is also that you cannot afford to.

This methodology is not a prescriptive methodology about what you should spend on your children. It is an attempt to say, ‘This is what people actually are spending on children.’ And as the number of kids increase, you just can’t afford to keep spending on them at the same rate as you did when you indulged the very first one. That was the summary of our findings.

Ms McHugh—I must admit that our story from the Social Policy Research Centre is not dissimilar to Ann’s except we used a different methodology altogether. We were commissioned in 1995 to use a budget standards approach. That is the one where you take a basket of goods and you work out for any individual in society—and we did couples with children, couples without children, older couples and single people. We did a basket of goods for them, and we included housing, energy, transport, health, household goods and services, food, leisure and

personal care—so any possible item you can think people would need in their basket of goods, that is how we costed it. We based ours, again slightly different from Ann's research, on what we regarded were people's needs and children's needs. We built up this basket of goods.

To get the cost of a child, we did a couple without children and a couple with one child, and the difference between those two families gives you the cost of the child. We did this at two standards of living: we did a low cost and a modest but adequate cost. The low cost was an attempt to represent probably what the Department of FACS—or Department of Social Security as it was then—should be paying for children if they were looking at an adequacy of income for families to keep them out of poverty. We also did a modest but adequate standard of living, which was to represent what we call middle Australia, and the low cost was around about half of that particular cost.

When we had finished doing the budget standards report, we then published a report called 'Indicative budget standards for Australia'. And since then I have done a bit more work because I had been working in the area of sole parent families. I was very interested in child support because this was about the same time that the Child Support Agency was being introduced. I was involved at that time on some committees in Sydney where we were consulted about what things we thought should be included and what we should be thinking about. So I was around when that happened.

After we had finished doing the budget standards, I produced a discussion paper from the centre which is called the 'Costs of children—budget standard estimates in the Child Support Scheme'. I took the first report from the Child Support Agency and looked at what non-resident parents—or non-custodial parents, as they were called then—were paying through the Child Support Scheme and what the budget standards approach had suggested were the costs of children. I don't think you will find it terribly surprising to know that what we thought were these very basic low costs of children were still not being met by the Child Support Scheme. It was a combination of parents paying money towards child support, but the government probably picking up the majority of the costs. That is my background to looking at the costs of children.

CHAIR—Thank you very much, Ms McHugh.

Mr PEARCE—Thank you both for taking the time to come in today. Professor Harding, your work was largely reported as at October 2002; is that right?

Prof. Harding—That is right.

Mr PEARCE—In our reading, I have noticed that you have suggested there be some differentiation between low, middle and high income in terms of trying to come up with some sort of average or median cost by the number of children as well; is that right? How did you determine low, middle and high income levels? What was the threshold or the formula used there—is it just based from ABS figures?

Prof. Harding—From memory, we put the bottom 20 per cent into low.

Ms GEORGE—That is right, the bottom 20 per cent.

Prof. Harding—And the top 20 per cent into high.

Mr PEARCE—And the rest fitted in the middle, did they?

Prof. Harding—The middle 20 per cent were the middle, so we ignored quintiles two and four.

Mr CADMAN—I noticed your comments about the expenditure relating to family income. Children do not take a percentage of family income no matter what the income because there seems to be a lower limit. That is, high-income families do not spend proportionately more of their income on their children; is that right?

Prof. Harding—That is correct. The earlier estimates we did for Family and Community Services were updated as part of the report with AMP, which is freely available on their web site. I hope that report has been made available to the committee.

Mrs IRWIN—We have that.

Prof. Harding—Figure 2 in that report showed that, although the dollar costs of children were higher in high-income families, if you did that as a percentage of the total income of the family they were actually lower.

Mr CADMAN—So there seems to be an upper limit to what people can spend on children.

Prof. Harding—Unless you were trying to buy your children yachts or helicopters, there probably is some limit to how much you can spend on meeting their needs, yes.

Mrs IRWIN—As you know, in this inquiry our main concern is that no child will be worse off. I really want to look at separated parents. What would be the cost or savings for parents with a 50-50 custody compared with a minimum of, say, two days per fortnight?

Prof. Harding—I unfortunately can't answer that at all. The reason is that we only compared intact families—so couples with children to couples without children. We would very much welcome the opportunity to go back and redo it for sole parent families, possibly on the assumption that you would almost have two sole parent families. If you had shared custody one week on and one week off between the two of them, the costs might not be exactly double what one sole parent family would pay, but we could make some assumptions about that one. Unfortunately, we have not done that in the existing data.

Mrs IRWIN—I think it is something we should really be looking at. Ms McHugh, would you like to comment on that?

Ms McHugh—Could you just give me the question again.

Mrs IRWIN—I was reading this late last night, and it was a question I wrote down. What would be the costs of savings for parents with 50-50 custody compared to a minimum of, say, two days per fortnight?

Ms McHugh—It is really interesting because if you look at parents who are what we call payees—they are the ones receiving child support—predominantly they are likely to be on DFACS payments; they are likely to be in receipt of parenting payment. My understanding is that if we give 50-50, then you are not really entitled to parenting payment unless you have the main custody of the child. Therefore, you would almost end up with two people.

When you look at the logistics of it, I cannot imagine how any family can share a child on a week-to-week basis because if they are in employment, what do you do on the week when you have the kids? You either have to have wonderful child-care arrangements or before and after school care arrangements to allow—and assuming this—both members of the couple to be doing some work. It seems from the research I have read that what happens with these couples is that both of them usually work but they are in part-time casual work. It allows them to be very flexible in their child-care arrangements and their working arrangements. But one would not argue that this is the best situation for the welfare of children.

It is really difficult to start working out on a dollar basis who is winning and who is losing here. But with child support, we have to be very careful about thinking, for instance, of doing 50-50. If we are arguing now that the child support payments that are made to these families are fairly minimal by the non-custodial non-resident parent, if you cut that in half simply because they are now sharing equal custody, you are going to have women in receipt of probably \$20 or \$25 a week on average. When you think about it, how is that going to help them with the cost of their children?

If you split them into shared custody, you have two sole parent families, as Ann said, and there are very few costs that are then not replicated. They both have to have housing and furniture. If you think of the nightmare of the clothing, the books, the computers and the bikes, it beggars belief how anyone thinks you can do this on a 50-50 basis, unless you have the greatest cooperation and goodwill in the world. I think it is an extremely difficult task.

Mrs IRWIN—Very difficult. Let's talk about the custodial parent who might be living with a new partner. How would that affect the costs of raising the child or children, and should that formula reflect that? The reason I ask this is that we have had a number of people who have come before our inquiry who have started a new relationship. If the custodial parent is living with another person—say mum has the children and a new partner has come into the family home—the non-custodial parent is paying child support. What do you feel the formula should be? A lot of people appearing before us are stating that they might be on, say, \$45,000 a year and are putting 20 per cent of that into child support. Mum has a high-profile job, a new partner has come in who is on twice the amount of money, and they feel that that should be taken into account. Would you agree with that?

Ms McHugh—Again, it is a one-off, individual case, and this could be one couple. I will just mention that, every year now, the Child Support Scheme is putting out its annual report. I honestly recommend that the committee at some stage have a really good look at this report, because it shows you the number of families who are sharing custody of children. It is very small in number, maybe about five per cent. At the moment, this shared custody notion is not really happening.

With families that you are talking about, you could argue from the point of view of the new partner, 'Why should I have any responsibility towards someone else's children?' I just think it is almost like playing Solomon. I do not know that these decisions could be made that easily and I do not know the answer to your question.

CHAIR—If I could indicate that there may be a reason why shared parenting is not taking place. That might be because of the barriers associated financially with the 109 nights barrier. That is, once you get above 109 nights, it becomes an issue of less income for the residential parent. There may be barriers in place why this is not happening. During the hearings, and this is the 21st hearing, it has been brought to our attention rigorously that people do want to share residency. However, there is an issue of income and a financial sort of opposition to this—

Mr PEARCE—Particularly the children.

CHAIR—Particularly the children. It might be very well to read that and say it is not happening, but then you have to ask the question: why is it not happening?

Ms McHugh—Can I suggest to you also that what I think is happening more than we probably realise, and it has happened since the Department of Social Security has been around, is that people make their arrangements and they say a certain thing to the department. Both people in a couple when they break up are usually not that spiteful that they don't want someone to be at least entitled to receive DFACS payments.

If you are sharing your kids between the two of you, that is fine. However, what you are telling the department is, 'I really have the main custody,' because that allows you to receive parenting payment; otherwise you have to go on to Newstart or something like that, which is less money and you do not get the same concessions and all those sorts of things. I do not think people are that horrible to one another that they want that to happen. Whilst they have a very low proportion of people sharing the care of the children, I think in practice it is probably quite different. But I don't know how you tease that out.

CHAIR—I just want to make comment on that: we should not be looking at the small percentage of people who are actually do it; we should be looking at why they are not. That is probably our problem because the concern that has been raised with us is that clearly a lot of people are unhappy with the amount of time they are sharing with their children, including the children.

Mrs IRWIN—Following on from that, a number of complaints that we have heard—and, as the chair said, this is our 21st hearing—concern the formula of the Child Support Agency. Do you feel that is fair or would you like to see any changes to that formula?

Ms McHugh—I think an enormous amount of effort was put into actually making that formula as fair as possible when the Child Support Scheme was set up. I think it has been running since 1988 or 1989.

Mrs IRWIN—Correct, about 1988.

Ms McHugh—I think if you asked women, who are normally the people receiving the child support, whether they think it is fair, they would say, ‘No, we are not getting enough.’ If you talked to non-resident parents, they would say, ‘We are paying way too much.’ Again, I do not know how you ever decide what is fair and equitable, because it depends on your point of view. If you look at the numbers of what the Child Support Scheme actually pay, it is not recognising the costs of children. That is just a simple fact.

Mrs IRWIN—A lot of men’s groups have come before the inquiry stating that the child support formula is not fair and they would like to see a change made from gross to net. What would your feelings be on that, Professor Harding or Ms McHugh?

Prof. Harding—I was about to comment on that actually, when you were saying whether there are any changes that might be considered to the formula. I suppose having it as a percentage of gross income takes no account of how the income tax scales change, and they do change over time. So they are certainly different now from how they were in 1988. I would have thought that it should be a percentage of ‘after income tax’ income. That would be my preference.

Mrs IRWIN—That would be a cost to government though, wouldn’t it?

Prof. Harding—You could change the percentages though.

Mrs IRWIN—Change the percentages?

Prof. Harding—Yes, you could.

Mr CADMAN—Make it the same dollar amount.

Prof. Harding—We have done a lot of work at NATSEM about effective marginal tax rates and about pinpointing how hard it is for sole parents in particular but also for those in low-income families to work, with the point being that when your earned income increases by \$1, low- to low-middle-income families can easily lose 80 cents of that \$1 via income tax and the withdrawal of income tested social security payments.

In a sense, I think the non-custodial parent faces the same issue. So if we are concerned about work disincentives implicit in the social security income test systems, we might also be concerned about the impact that it has for non-custodial parents. I am not absolutely familiar with the Child Support Scheme but I understand that, if you have two children and you don’t have the children at all, it is some 27 per cent of your gross income, which is a very much higher proportion of your net income. For those earning more than \$60,000 or so, if you add that to almost 50 cents in the dollar for an income tax rate, then they are keeping only one quarter of every extra dollar of income that the non-custodial parent earns. If earning that extra money is associated with a lot of effort and overtime and so on, then you might well choose not to do it.

Mrs DRAPER—I would like to hear Marilyn’s comment.

Ms McHugh—I think Ann has a valid point but I also believe that, at the moment in the Child Support Agency, there are several exemptions which are available to non-residential parents.

They get the adult rate of full pension taken off their income before the formula is applied. If they have children living with them from either another relationship or a new relationship, 200 per cent of that individual pension is added to that.

CHAIR—Biological children?

Ms McHugh—Yes, biological children or adopted, I think.

Mr PEARCE—But not step?

CHAIR—But not step.

Ms McHugh—Yes. I think there have been some adjustments to the Child Support Scheme in trying to, in a sense, be fairer. Again, I do not know what the correct answer is, if there is one. But as Ann is saying, I think there is a valid point there. But you might only argue that that applies to people on pretty high incomes, whereas I think most of the payees and payers in the scheme are not really high-income earners. It is just a fact of life—they are not.

Mr CADMAN—Do you have any facts to demonstrate that?

Ms McHugh—In that Child Support Agency report.

Mr CAMERON THOMPSON—Professor Harding, your research did not deal with sole parents; is that right?

Prof. Harding—No.

Ms McHugh—We have some costs in here on this—I did send this down to the committee.

Ms GEORGE—Yes, we have that.

Mr CAMERON THOMPSON—So you were able to—

Ms McHugh—We were able to do the cost of sole parent families.

Mr CAMERON THOMPSON—Versus—

Ms McHugh—Versus couples with children and couples without children.

Mr CAMERON THOMPSON—So you were able to assess those impacts. When you stated that the child support system just doesn't meet the costs, are you talking there about at all income levels and at all ages of children?

Ms McHugh—That is a tricky one, because what you get from the Child Support Scheme when they present their statistical data is the average payments made by non-resident parents to resident parents. That is an average, taking everybody and throwing them in the pot and coming out with \$35 a week as an average. However, if you look at high-income earners, they are paying

a much higher proportion. So it all depends on the income that you earn because that is how it varies. But it does not vary by the age of the child; it simply varies by the formula.

Mr CAMERON THOMPSON—That is right. What I am trying to get to is that the amounts that people pay vary dramatically with the ages of the children and vary with the income that they have. What has been presented to us is basically that people on low incomes do not pay enough to meet the costs, that people on high incomes pay more than the costs and that somewhere in the middle it crosses over. Do you agree with that?

Ms McHugh—I think you have so few in the high-income ranges—when you say ‘paying over’, that was not the point of the formula. The child support formula was hopefully to make sure children lived in a similar lifestyle to what they had before the partners broke up. It depends on whether you want the formula to represent the cost of children or whether you want it to represent the previous lifestyle of the families.

Mr CAMERON THOMPSON—I know, but you said that it was not meeting the costs. What I am saying is that in some cases they are paying more than the costs, in other cases they are paying less than the costs and somewhere there is a crossover.

Ms McHugh—Possibly.

Mr CAMERON THOMPSON—Can we look at ways of tweaking that so that it is more representative? You are familiar with the way that formula works now. What sorts of things need to happen to it, in your view, to make it more representative—

Ms McHugh—You mean, to actually meet the costs of children?

Mr CAMERON THOMPSON—In terms of actually meeting the costs of the child rather than doing this other goal of keeping them in the style that they were accustomed to.

Ms McHugh—That is a political decision. At the moment, the Department of Social Security pays these parents parenting payment plus family tax benefit. The whole point of doing that is to prevent these families falling into poverty. If your expectation is that, once the marriage breaks up, the non-custodial parents should be paying all the costs of the child, then that is something you would decide as politicians. That has nothing to do with the child support formula because that is not how it was set up.

Mr CAMERON THOMPSON—No, I am just asking you a question. You are making a judgment about whether it meets the costs or not. I am asking: what has to happen to that formula to be more representative, in your view? I am not asking about government policy or anything.

Ms McHugh—You would probably say that you do not need the formula. If you know what the costs of a child are or you have a rough idea of what the costs of a child are, then you simply say that all parents should meet the cost.

Ms GEORGE—But isn't that the problem, Madam Chair? That is the problem the committee is grappling with. When the formula was first introduced, I think it was predicated on the idea

that the children maintained the kind of lifestyle they had prior to mum and dad separating. If we want to move away from that—Professor Harding said this morning there is probably no true answer to the question about what it costs to raise a child. And that is the real dilemma we are in.

Presumably the formula was there to make sure that kids did not fall into poverty, and I think all the analysis says that has helped keep children out of poverty. Yet when you look at the data, the average cost at the lower end in terms of the transfer from the non-resident parents is \$5 a week, which is nothing like the cost of raising children. Where does this committee go or what modelling needs to be done to be able to have a fairly objective measure, getting away from the formula and maintaining the standard of living to one which actually tries with more precision to give us a figure about the costs of raising children at different age levels and at different income levels? I think that is the quandary we are in. No-one seems to be able to give us a direct answer to that vexed issue. I would like to know where we would go from here.

CHAIR—Professor Harding?

Prof. Harding—Thank you for that, Madam Chair.

Mrs IRWIN—You can take that on notice, if you want.

CHAIR—If I can just chair the meeting for a moment. It would be interesting if you had a thought just off the top of your head.

Prof. Harding—I have not modelled in detail the impact of the current child support rules, but it would seem to me that your committee should either do that before you make a decision or recommend that it be done before a decision is made. In particular, going back to Marilyn's point, I would like to see some estimates of the impact of second families and how they are treated under the current scheme. Like you, some of the feedback I hear about the scheme is that people think their second families are not as well treated as their first families.

Ms GEORGE—That is right.

Prof. Harding—And that if the focus is on children, then there is not necessarily an argument for children being less well treated just because they happen to be the second children that came along rather than the first.

Mr CADMAN—On a point of clarification, wouldn't the introduction of the percentage have related to a notional cost per child at a certain income and what is that point? Because that 18 per cent was brought in for a reason. The reason was a percentage of AWE produces that much money for a child.

Ms McHugh—No, that was not how it was done. It was based on research from both the United States and Australia on equivalence data on the proportion of income spent on children in a two-parent family. So they basically used the data that Ann has been working on in the last few years. When you do the modelling, you can work out how much couples with children spend on their children as a proportion of their income, and that was what the Child Support Agency modelled their formula on.

Mr CADMAN—But if it was a set amount per set income, they would have had a figure in mind. They would have had to.

Ms McHugh—I don't know how they did it. You are asking me a question I cannot answer, except to say that this was based on expenditure. It was based on what couples spent on their children and they came up with that percentage figure.

Mr CADMAN—Eighteen per cent of \$100 a week is a ridiculous figure for a child. And obviously it was not introduced as 18 per cent of \$100; it was introduced as 18 per cent of something which would cover the cost of raising a child.

Ms McHugh—You are right. They must have probably picked a median or a mean.

Prof. Harding—I think it would also be very important to look at how it interacts with the other social security payments. That percentage is no doubt some sort of trade-off between the costs of the children and what was politically saleable to get through at the time, and given the level of support that would otherwise be provided by what was then the sole parents pension if the non-custodial parent was not contributing. So I imagine that some science underlay it, but there was also a lot of politics.

CHAIR—Have you any further questions, Ms George?

Ms GEORGE—I am just interested in the interaction. I think that is the vexed question for us. Understanding the rationale for the formula then may not be the rationale we want to go down, but we do not have enough economic or modelling expertise to be able to ensure there are no winners or losers.

Ms McHugh—Excuse me, Professor Ann Harding has to be the person.

CHAIR—Can I say that it seems to me there may not have been that amount of expertise around when this last thing was being done.

Mr CADMAN—Exactly.

Prof. Harding—That is true.

CHAIR—I think you cannot hold off and just determine that because you have not got the modelling expertise you do not do anything simply because it was not done before either.

Mr CAMERON THOMPSON—Professor Harding, you started off to describe to us what sort of modelling you thought should be done. Can you finish that? We lurched out of the middle of that to something else.

Prof. Harding—I would like to do some modelling of hypothetical families. I take Marilyn's point about it may not necessarily be fair to expect someone who forms a relationship with a non-custodial parent to then have their income become part of the formula. But it seems to me that the assumption implicit in our social security system is that the family is the income unit if we are assessing what child-care rebate you get and what family payments you get. We do not do

it necessarily for the tax system because that is still individually based. But all of the cash that government hands out is done on the basis of family income, and on the assumption that income is pooled and shared within a family. So I would be keen to set up some sort of hypothetical modelling that contrasted the financial circumstances of sole parents at different levels of income with non-custodial parents at different levels of income. And perhaps the modelling could look at both of those with differing custody arrangements too—going from a case where there was no joint custody to a case where there was 50-50 custody.

Ms GEORGE—Do you think there is a weakness there, that the formula makes very little adjustment for the custodial parent who repartners? I would think objectively a woman living on her own with a young child with no income support from paid work is in a much different position from a woman who is working, who has repartnered to a high-income earner. Yet the people that come before us say those circumstances are not properly considered. They say to me that the value the formula puts on the child of the second partnered relationship is less than the value that is attached to the child left with the resident parent. So they point to all these anomalies. If we could get to a situation where we could more objectively define the true cost of raising children at different ages and at different income levels, I think a lot of those anomalies would get taken out of the system. Would you like to say anything about that?

Prof. Harding—Like you, I have not seen research on it, so all I really have is anecdotal evidence of people saying that, when they have repartnered, they think the second children get a very rough deal out of the existing child support formula.

CHAIR—Would you like to comment, Ms McHugh, or not?

Ms McHugh—No, I am happy to leave it at that.

CHAIR—Let us say there was a fixed dollar cost. This committee is looking at shared parenting and at whether or not shared residency is desirable and under what circumstances should it be rebutted et cetera—and then we look at the child support formula, recognising that the two are not legally connected with legislation et cetera, with the 109 nights and the barriers there with respect to the more that you have your child the more money you get, and the less you have the child the less money you get. If the cost of raising a child in various age groups was settled, as Ms George said, perhaps that was the cost we should start from and perhaps do away with the 109 nights. If we just had the cost of raising a child in different age groups, what impact do you think that would have on low-income families? How would you see it being able to be topped up? Looking at a government resource, how would you see that we would need to top up payments?

Prof. Harding—I might just partially answer it and then ask Marilyn to comment. It is clearly going to be more expensive if the children have shared custody. So you could imagine that, in that sense, there might be need for greater top-ups than there currently are. For a child who spends half of her time with both parents, the total cost to our society in a sense would be higher. Although again, from what the earlier evidence showed, the spending patterns of both of the parents, who would have half of the care of the child, would adjust. So in effect their standard of living will fall, because they will be putting more of their total budget towards the children. But you could also imagine there might be a case for government to assist more.

Ms McHugh—I agree with you on that, Ann. I think what would happen is that the government would be paying out a lot more money to these families. It is not an ideal situation now. But I think when you regard one family as having sole care of the child, the focus is just on one family. If you split it into 50-50, you are possibly going to end up with the two families in very similar situations, which means the government will have to make a decision whether both parents are then entitled to receipt of government benefits and how will that work out in the real world. I just think it is going to cost the government a lot of money.

CHAIR—But if you look at the child support outstanding debt now, there is obviously a cost to government as well. If you could look at a fairer way of doing the system, you may not have the level of debt that is associated with arrears in child support payments now, because people may be less inclined. Even though the department believes that there is no evidence to say, ‘Why would people leave well-paid jobs or paying jobs in order to go on to lesser paid jobs or welfare mentality?’ et cetera, the clear evidence at these hearings has been that it absolutely is that way. People do leave their employment. Take into consideration all of the aspects of not getting rent assistance, of paying your way and not getting family tax benefit as well as the costs of accessing and contacting your children over and above that which you pay for child support. In addition, you have to live and feed yourself at the same time and try to give the child quality of time with you when you are having contact. It is much easier, they say, to be able to say, ‘If we move from this higher paying job to a low-paid job below the threshold, we may be able to get some income that we could get in cash income, that would enable us to be able to live a little bit better. We would also have more time to spend with our children and we would not be assessed.’ You may have in one sense people staying in better and higher paid employment because they can see a light at the end of the tunnel. When you say it is a larger cost to government, would you consider that it may reduce the current cost to government or it may even out and just stabilise the cost to government if people saw a fairer system?

Ms McHugh—I actually agree. I think there will be lots of families who will make an enormous effort to both get work and to be sharing the care. I agree with you entirely that it is possible. But we do not know this. I do not know that any country at the moment has gone down the track of doing what you are suggesting: equal sharing care on a 50-50 basis and then seeing what happens to labour market work, what happens to receipt of income support.

As I said before, I think Ann is the sort of person who has the capacity and skills to know how to do modelling for that sort of thing. There is a limited amount of research out there that shows what is already happening with people who share the care of their children. I think that would give people who are interested in that a guide as to what is happening now, what the arrangements are.

CHAIR—Just to follow on, we are not talking about just 50-50 shared care; we are talking about shared care generally—it could be 70:30, it could be 80:20.

Ms McHugh—Whatever they decide.

CHAIR—It could be whatever they can actually cope with. We are talking about a starting point and then from there you negotiate between yourselves. It could be 90:10; it could be anything. We are not looking just at this 50-50 area; we are talking about general shared care.

Mr CAMERON THOMPSON—I want to go onto a different tack altogether and ask about the quantifying of people's incomes. One of the great difficulties and why there is an automatic reaction—certainly in my case—to say, 'Okay, what is the actual cost of raising children?', comes about because of people who can bodge their income up and can dodge their responsibilities to child support by having a business that shows them having no income. Or we have had the case of what happens when you have a farm that has a drought. If they were together, those kids would be provided for, but suddenly they have no income, so therefore there is no child support. We spoke about people taking a lesser job or going onto the dole or something like that. Has any research been done on the prevalence of this kind of thing? I am trying to seek some assistance in relation to trying to deal with that, because obviously there are huge disparities and a great deal of unfairness when these sorts of things can occur without being readily detected.

Prof. Harding—Can I just ask a child support expert: in the child support formula, have there been any of the additional refinements that have been done, for example, with the real means test for Austudy? They have been very keen not to pay out youth allowance to families who have managed to manipulate their incomes in that way. Do you know whether the child support formula in any way picked up on that increased sophistication for the targeting of that particular government program?

Ms McHugh—It is interesting, because the Child Support Scheme initially was tied to the tax department. Now I would argue that the tax department probably didn't have the capacity to do too much of this investigation. But now the Child Support Scheme is with the Department of Family and Community Services and it has been their role for a long time to make sure that people are not doing the wrong thing by the system. So they obviously have the capacity, if they wanted to, to do some testing in that area to see whether people were actually doing what you are saying, and that is avoiding their child support payments simply by misleading the government.

Ms GEORGE—The departmental officers couldn't be definitive. We asked them about that. When you look at the payers in the system, there is a disproportionately high number of unemployed and low-income earners compared to the rate out there in the wider community. I am told by my constituents—non-resident parents—that it is a common thing for people to go out of paid employment onto the unemployment benefit to maximise their income from government sources and to lessen their liability under a system which they believe is not fair. I have put that rather crudely. When we asked the department whether there was any substance in that assertion, they were not able to say that they had done any investigation and that they didn't think it was happening to that extent.

CHAIR—Or they were more concerned, basically indicating they couldn't see the sense—

Ms GEORGE—As to why would people do that.

CHAIR—So when you looked at the figures and at what they might have been able to get; then you looked at the exempt income and at the 18 per cent, 27 per cent and 32 per cent; you looked at family tax benefit payments; and you looked at second families, they said, 'Why would anyone do this? They are still better off working than they are not working.' But the issue is that the people are saying, 'We are not better off because (a) we can't see our children because

we are working, and (b) it is just so hard because by the time we take into consideration the cost of setting up, the additional costs of having the children and having contact with the children, we are better off not to be working.'

Prof. Harding—Did FACS provide you with any numerical evidence that people were definitely better off remaining in work?

CHAIR—Absolutely, yes. They have provided us with tables. In their consideration, there are tables to say that if you are a working parent you are on this income, this income and this income. There are plenty of tables saying this is the income of a family with no dependants, then with dependants et cetera, and if you are on an income of \$30,000, \$50,000 or \$80,000—they are not the exact figures they gave us. But certainly modelling has been done which shows you that, yes, you would appear to have more money by continuing working.

Then there is the presence of people saying, 'We don't because we consider the costs (a) of accessing children and (b) the costs of providing accommodation for ourselves from a start-up point.' When you are looking at a couple who have split up, one ends up with perhaps the house and the car because they may have the residence of the children. Then the other one has to set up from the beginning with the basics. So by the time they do all of that and they incur a debt in order to get themselves into a position where they can have their children comfortably in their homes for visits, contacts et cetera, they are also paying off another debt. They are paying off a debt that they might not have been paying off under the previous circumstances.

It is almost like you are looking at trying to put in place child support under the same circumstances as you were when you were living together, when in fact the circumstances outside of living together are totally different. The anecdotal feedback coming to us is that it cannot possibly be the same because every circumstance has changed.

Prof. Harding—And just in economics, you cannot have two households living as cheaply as they did when they were one.

CHAIR—That is right.

Prof. Harding—You just cannot. So if they are both remaining on the same earned incomes as before, then by definition they will have a worse standard of living.

CHAIR—That is what they are saying is not being reflected.

Mrs IRWIN—It is pity we have not had that research. I have to thoroughly agree with the two of you that we need that research and we need some form of modelling. How long would that take if you were given the money to do that? Would it be 12 months or longer?

Prof. Harding—It would not be that long, but I would appreciate the opportunity to have a more precise idea of what it would be that you would like to look at.

CHAIR—Yes, you cannot just say off the cuff, because it would depend on what was asked of you. But, again, I come back to the fact that it obviously was not done when the first child support process was put into place, because otherwise we would have significant answers.

Ms GEORGE—But I take it that, in any move away from the present system where only about six per cent share equally, there will be costs to government. I think the department said that, for every 10 per cent move from six per cent upwards, it is a cost of about \$120 million. What we do not have a good handle on is the flow-on effects to partnering payment, the family tax benefit and the rest of the social welfare system. We are doing it in isolation when people are making judgments about how they maximise whatever is left in the system.

Mr CAMERON THOMPSON—I want to change tack again. What sort of modelling has been done on the growth and extent of family breakdown and the economic cost of that to the community?

Prof. Harding—That sounds like the Institute of Family Studies to me.

Ms McHugh—Absolutely. The Institute of Family Studies have done and are continuing to do research on that. I think they are the people who would give you the best information.

Mr CAMERON THOMPSON—We have had that.

Ms McHugh—Because they did that huge study after the Family Law Act came in. I think it was in the late 1980s that they did a very big report, but I thought they had continued to do work looking at the social and economic impacts. I thought that the research still indicated, even today, that it is usually the parent left with the care of the children who is the one who is most disadvantaged compared with the person who leaves the home.

The chair mentioned the costs of setting up a second residence, particularly if you want to share care. It is true that it does cost a lot of money, but often they are the people in the position; they do have the wherewithal to do it simply because they have a full-time job. Whilst I am not arguing that it doesn't cost them a lot—it does—but the fact they are able to do it means that they have the capacity to at least go down that path. Whereas sometimes for the custodial parent and her children, unless the matrimonial home has been part of the marriage breakdown settlement, they are often forced to go into private rental—

Mr CAMERON THOMPSON—I understand all that, but I have even greater concerns about wider problems of violence and things like that, which I do not think are covered in that and which really do alarm me. There are always these sorts of reports coming from within the community about a marriage splitting up and the next minute one of them is burning the house down and terrible things like that. That must be having a big impact in terms of policing, the law and the impact it then has on those people. There would be no quantification of that anywhere in the system, I guess.

Ms McHugh—No. I guess the only evidence you can argue where that has been taken into account is where the Department of Family and Community Services does not pursue maintenance claims against the non-custodial parent because the custodial parent is claiming domestic violence or a situation like that. I am not too sure what the percentage is, but I think it is less than 10 per cent who do not have to take out a maintenance claim if they are receiving family tax benefit or a payment from the department because of the violence. But it is an important thing. That is the point: when people break up, they do not sit down like we are sitting here today and have a rational conversation saying, 'What is the best way we are going to look

after the kids and look after one another in our own right.' It is something which a lot of people just do not do.

CHAIR—Could you suggest how we could make the Child Support Scheme fairer or reflect the cost for the resident and the non-resident with respect to residency and contact with their children? I am talking about the cost of the contact and the time spent with the child. Do you have any thoughts how you could make the Child Support Scheme more reflective of the cost?

Prof. Harding—As someone who spent 10 years doing evidence based policy, I would want to have a really good look at how the operation of the current scheme and the rules are played out in practice for different types of families before answering that.

I want to go back to two other points that you both made. One was to say that, to answer a lot of the questions you were raising, what we really need are data about the same people over time, or what we call longitudinal data. There has been a notable deficiency of that sort of data in Australia. But the Department of Family and Community Services set up the HILDA survey, and the second wave of that survey will be out in about the next four weeks. Possibly one of the recommendations of your report might be that, another year or so from now—by which time there will be three waves out so you will have tracked people across three years—you might be able to answer some of the questions about what the comparative economic circumstances are of the custodial and non-custodial or sharing custody parents some years after the split-up has happened.

Mr CAMERON THOMPSON—One thing that has been a hot topic has been the applicability of data or studies and things that we might get from overseas. What is your view on that? Can we take things that have been done in the United States and draw any basic truths about what is going on here? Can we go to data in the UK? What is your feeling about that?

Prof. Harding—That is a hard one. I guess I do always accept the evidence that comes out of those countries from their longitudinal data, for example, that suggests that things that happen to you when you are young have a very long scarring lifetime impact. But I guess I would be more concerned about accepting shorter-term evidence about what happens to people. The problem with the States, of course, is that the society is so much more unequal so that what happens to their custodial parents may be very different from what happens here. And conversely, if you go to Europe, their systems of social protection are often much more comprehensive than ours.

Mr CAMERON THOMPSON—So are you saying more longitudinal data might be more valid? Did I get that from what you are saying or not; or are you saying, 'Just forget about it'?

Prof. Harding—I am not sure; what do you think?

Ms McHugh—I think international data is always worth having a look at, because sometimes they do studies where we could data replicate what they have done. And that is what you do: compare and contrast. In the UK, Jonathan Bradshaw did a survey looking at non-custodial parents and how they made their arrangements with looking after their children—that is a book on its own. If people looked at that and said, 'Could we do something similar here, could we go and talk to all non-custodial parents and find out about their lives, how they manage their labour market, their housing, whether they are in their own homes'—

Mr CAMERON THOMPSON—When was that done?

Ms McHugh—I did not bring it with me, but that was probably in 2000 and 2001.

Mr CAMERON THOMPSON—And whereabouts?

Ms McHugh—That was done in the UK. I can send the reference to the committee, if you like.

CHAIR—That would be very helpful.

Ms McHugh—I don't know whether they have done similar studies in the US looking at that, but I would not be surprised if someone has. It is really difficult these days, and I am sure Ann will acknowledge this, keeping on top of current research.

CHAIR—Everybody is doing it. It has been extraordinarily difficult for us keeping on top of the current research just in this inquiry—and not only that, they all contradict one another. There is not one piece of research that basically backs up what the other piece of research says. It is a very difficult thing to come to terms with. We have an issue that affects the Australian communities at large, because unhappy parents mean unhappy children, and unhappy children mean unhappy school lives, social lives et cetera.

Mr CAMERON THOMPSON—Long-term scarring.

CHAIR—There is. Do you just continue to look at the financial dollar cost of children as against the interests of better, more stable lifestyles for children as well? That is a consideration that we have not been given in these terms of reference. But it is clearly coming out that there is a definite need to understand the way in which the community works with children.

The issues that we are faced with here are to try to come to terms with a relevant cost in raising a child from nought to three or from nought to five, five to 10 and 10 to 15. Again, we had high hopes of your material because we were thinking that it may have quantified the costs. If you look at your submission and you look at these issues, on page 6 you look at different expenditure categories of housing, transport, recreation from nought to four, five to nine et cetera. If we as a committee were to be looking at indicative costs of raising children in age groups, would this perhaps be as close as you could get to understanding what the real costs of raising children are?

Prof. Harding—I think they are not bad. But I could imagine Marilyn saying—

Ms GEORGE—Too low.

Prof. Harding—That they are too low. The dilemma we have is that our best estimate is using fancy econometric techniques of what people are actually spending on their children, and in some cases that might be lower than the work Marilyn does.

Ms GEORGE—And that is in an intact family, isn't it?

Prof. Harding—Yes, that is only in intact families.

CHAIR—This is March 2002. What I am saying is that, at this point in time, from nought to four at best you have about \$102 per week and then you have five to nine at \$164. At the moment what we have is not a sliding scale. We have 18 per cent of gross income, 27 per cent of gross income or 32 per cent of gross income, no matter how old the child is. You have quite clearly reflected in this graph the significant difference—what you are picking up on the swings and roundabouts you are losing out on the merry-go-round. Say we have one child, we are paying 18 per cent from day one. It is the same amount we are paying for a nought- to four-year-old. If we look at these figures it is \$102 per week, say, and we are paying the same amount for a 15- to 17-year-old that is costing \$318 a week. That is the problem in the formula in essence as well—that there is absolutely no sliding scale.

Ms McHugh—Sure, it does not reflect age of child at all.

CHAIR—It does not reflect it. If I am looking at trying to author a report here, and as a committee we are trying to look at recommendations, one would need to start to look at reflecting the ages of the children and the cost of the children, in brackets. For the lack of having anything else, do you think this would be fairly close to what we would require?

Prof. Harding—I would have thought it was reasonable. All of the overseas evidence, even using different methodologies, does seem to suggest that older children cost more. In a way, it is interesting, hearing you talk, to reflect on how different areas of social policy are embodying quite different assumptions. Family payments, for example, accept that older children cost more, and that is built into the structure. But here we have a case where it is not built into this area of social policy.

Ms McHugh—True.

CHAIR—There has to be some critical understanding and assertion made about that clear fact that we are building in to other areas of social policy the cost of children as they get older but it is just not reflected in the child support formula.

Ms McHugh—That is right.

CHAIR—Your resident parent—I am not talking about mother or father because we have lots of resident mums and dads—might say to us that it is not enough after taking into consideration all of these things, but then the non-resident parent may say that it is too much because it is depending on what stage of life the child is at. Just for interest's sake, one of the people that presented last week was paying \$278 a week for an eight-month-old based on their salary, which is well and truly double what we have in the graph here for a nought- to four-year-old.

Mr CAMERON THOMPSON—It is 2.7.

CHAIR—So that person is clearly going to think that they are paying too much for that child.

Prof. Harding—I guess there would be a note of caution there about what the expectations would be about the labour force status of the custodial parent. If we were to say that \$278 was too much, we would probably have to be making the assumption that the custodial parent—

Ms GEORGE—Is not in paid work.

Prof. Harding—Was not in paid work and it was fair enough for them to be existing on a parenting payment, which clearly sounds like—

CHAIR—But then she could be in paid work and get \$36,000.

Prof. Harding—Hard with an eight-month-old, though.

Ms McHugh—If she is in paid employment, the formula is adjusted, because I think that once you receive more than median average earnings, the child support formula changes. It actually reflects more of what the custodial parent is contributing herself but once she is not in work it reverts back to the other.

CHAIR—That is right. But she can earn up to an amount of money and be exempt before it affects her child support payment.

Ms McHugh—That is right.

CHAIR—When you look at the cost of raising a child, if the resident parent has an exempt income—I am not talking about ‘she’ all the time because recently it has been all the ‘he’s’ who have been resident parents. On top of that, when you are getting the child support payment, you are clearly getting a different cost of living than is directed here; you are clearly contributing over and above what it might cost to raise a child.

Ms GEORGE—Because the formula works on the basis of capacity to pay and not on the cost of raising children, and that is what we are trying to move away from as a committee. Marilyn, from the budget standards approach, what would you be saying in response to the figures that Professor Harding has here?

Ms McHugh—I just need to check with Ann: does this represent just an average family?

Prof. Harding—Yes, so ours are lower than yours.

Ms McHugh—Okay. They are lower than our modest but adequate but they are not as low as our low costs. I did the figures for low costs yesterday before I came down, and our figures are \$85 for a young child, \$104 for about five to nine and about \$131 for the 14-year-old. That, again, is based on what I call a low-cost budget. It is more likely to represent what the department will be paying. It is very frugal living at this level. You can get the cost of kids down—I don’t know what the bottom line is to get them down that low. I think these are reasonable and I think Ann’s costs are probably up a little bit. But, honestly, I do not know the answer to your questions that you are posing.

Ms GEORGE—You can see the dilemma for the committee when the people who are experts in the field don't know. And that is the real problem.

Mrs IRWIN—Neither do we.

Ms McHugh—It is like there is no right answer here. I think we are agreeing on this.

Prof. Harding—It is a value judgment.

Ms McHugh—It really is. Someone in the end has to make a decision about which track should we go down: should we give away the formula because it is not fair, and it is not seen as fair, and represent more the real costs of children? Then what will that do to people when you suddenly say, 'But that is what a kid costs,' and someone says, 'It is not what my kid costs,' and you go down exactly the same track again.

CHAIR—But at the moment it is not representative of anything. It is not representative of the sliding scale of what children cost. If we could have a copy of your information there, Marilyn, I would be very appreciative.

Ms McHugh—Sure.

CHAIR—I think what you have put out here, Professor Harding, demonstrates capably that the current formula for child support does not reflect the cost of raising a child.

Ms GEORGE—So it was never based on that, was it? It was based on maintaining the living standard of the intact marriage.

CHAIR—And capacity to pay. But is that the right way—

Ms GEORGE—That is what we are grappling with. Is that the right philosophical underpinning to a child support system?

CHAIR—If you are looking at keeping the child in the way in which it was accustomed prior to separation—I don't think they say that in those actual words but I think that seems to be at times the delivered intent—how do you do that when it is no longer the case? It is not reality to be making decisions when you are not in the position of an intact family. You are in the position of a separated family. Two households do cost more than one household to run and operate. One household has to be markedly less and different in the average than the other—I am not talking about in a very affluent rich family; I am talking about in the average family in the lower income area—because it is just not possible to split those two incomes as though they were still the same household.

Prof. Harding—I want to make one comment—and obviously I haven't been fortunate enough to be at all the consultations that you have been to. But is it possible that there might be scope for refining the formula to make it appear a little fairer to the community while still keeping the essential underlying idea that you are trying to give children, to the extent you can, access to a similar standard of living that they enjoyed before the break?

CHAIR—That is what we are trying to look at. But in order to redefine the formula, there needs to be an understanding of perhaps what it costs to raise a child, because that is the clear criticism or lack of understanding or lack of correlation. If there is a cost of raising the child and you are paying over and above that, then the clear contribution from the payer says that then becomes spousal maintenance.

Prof. Harding—Yes.

CHAIR—If there is going to be spousal maintenance, let it be spousal maintenance; let there be a reflection of that rather than, ‘No, this is for Emily, Jack, John and Jill.’ If that is not what is reflected in the cost of those children in those age groups, then you should not be relating it to their cost.

Prof. Harding—I am wondering if it is possible for you to amend the formula to better take into account the concerns of second families. It seems to me that is one of the key reasons why the scheme is foundering. If you were able in some way to correct that aspect of the formula, having done some assessment of how the formula does treat non-custodial parents who have repartnered, or even partly custodial vis-a-vis the current custodial parent, that would seem to make great strides towards making the scheme more acceptable to people.

I would be nervous if you just ran with these average costs and said, ‘That is the cost of a child and it is going to apply to everybody—we are going to ditch the sliding scale, the 28 per cent of income for two kids,’ because what this report also does show is that there is a clear link between income and what the child costs you. As soon as you can afford to do anything else than feed your child the absolute essentials of life and clothe them from the Salvation Army secondhand shop, then you do. Children in high-income families do have more spent on them. You could imagine that, if you went down this path and said everyone was to have this average, then children from middle- to high-income families would suddenly find themselves plunged into the low but barely adequate bracket.

Ms McHugh—And the other ones would go the other way. You said something about a parent paying \$278 a week for a child. I know we are arguing here about the cost of kids, but what all families do when they are intact is put money away for whatever, for the kids’ future. So you cannot always see that money and then say, ‘The wife is spending it. It is her money.’ It is a really weird situation but I think most mothers if they have extra money put it away for the rainy day and for when they want something else for their children. It could be a holiday, it could be education. All I know is that the parents save as well. They save for their kids’ future. So I don’t think we should always see this—

Ms GEORGE—But what about the counter argument that there is no accountability? I could be providing \$300 a week when the average cost of raising that child at that age is \$100. How do I know that that money is not being spent to prop up the wife—we get this as anecdotal evidence—who goes down to the club and puts it all through the poker machine. There is no accountability in the system. Is it possible that you could have some averages at different income levels and that the rest is then some measure of accountability, if we stayed with the formula, so that it is not just discretionary spending but it is accountable expenditure over and above the basics?

Prof. Harding—Maybe at least you can start by tinkering with the formula so it is a percentage of income for kids of different ages.

CHAIR—If you were looking at absolute essentials being, say, from the nought to four age group as \$102, that is your essential—

Ms GEORGE—That is an average.

CHAIR—That is an average of absolute essentials. And anything over and above that could be totally accountable, although education and child care could be accountable as well. Would you look at having anything over and above that as an accountable process?

Ms McHugh—How would you enforce it, though? Are you going to argue that people have to fill in a form and submit it?

CHAIR—But there is an accountability process at the moment of 25 per cent. You can pay 25 per cent of your child support on to education, ballet fees et cetera.

Ms GEORGE—But very few people know about that.

CHAIR—It could be that X amount of dollars is then discretionary as to what you pay it on. It could be on the school fees, ballet, guitar lessons, soccer—on a whole host of different areas—because it is already in the system.

Ms McHugh—That is right.

CHAIR—You are not doing anything different. I guess the issue is that there has to be some changes and reflections of the realistic workforce now as opposed to what it was in 1988, the tax system now as opposed to what it was in 1988, and the different way in which we work now as opposed to 1988—

Mrs IRWIN—Family-friendly work places, which we should be looking at for the dads as well as the mums.

Ms GEORGE—And the interaction between social security and paid employment, the effective high marginal tax rates, the withdrawal of benefits.

CHAIR—What I am trying to draw out from you regarding this table is whether we are both in agreement that it would be a place we could start from with the cost of children.

Ms McHugh—I do not have any objection to it at all. Yes, I think with the work that Ann has done it is a very good indication of the cost of children.

Ms GEORGE—Of the average cost across all income levels?

Ms McHugh—Yes, using that methodology. That is all I have to argue—it is using that methodology which is different from using budget standards methodology.

Ms GEORGE—Ann, could you extrapolate from your work about what the minimum level of cost would be? Is the low income the absolute rock bottom to maintain a fairly frugal existence?

Prof. Harding—It is what the lowest one-fifth are actually doing.

Ms GEORGE—That is reflecting what is actually happening in families at the low income level. So the \$55 against the \$102—

CHAIR—Which one are you looking at? This one?

Ms GEORGE—The one over there breaks it down into different income levels, so the \$102 is an average. So at the high income it is \$167.

CHAIR—Table 1 as against table 4.

Ms GEORGE—That brings up Mr Thompson's point this morning that, in doing any revision to the system, we have to make sure that we are not penalising low-income earners. If we set a flat rate, which is what some of the discussion has been, it is a much higher proportion of their salary than it is for a high-income earner.

Prof. Harding—That is right. If we were doing this sort of policy process for a government department—and I am sure your support staff can do this for you too—we would set up a spreadsheet where one could play with all parameters. And it would then spit out for you that 'this is what your formula means for these 30 different types of families.' An iterative policy development process would be how a government department would normally try to look at these very complex issues, rather than just saying, 'I am going to make it 18 per cent of something or other.'

CHAIR—That is interesting.

Mrs IRWIN—I think the bottom line and the main gripe that we are hearing through this inquiry from the non-custodial parents, especially with the Child Support Agency, is that they want to know where their money is going. They would like to know that 'this is what is being spent on education, this is what is being spent on food and this is what is being spent on clothing.' It would be very hard. Would you need an account book that you hand over once a week? I hope not.

Prof. Harding—Just coming back to your last point, Madam Chair, I suppose if you were going to say that something over and above these final costs was to be devoted to certain purposes, you could almost have deemed accounts like we have with the superannuation guarantee, for example. So in that area of social policy, your money sits there in a pot with your name on it. You could conceptually do the same thing for children.

Ms GEORGE—That has been raised and that we ought to be establishing trust funds for some of the money for the long-term benefit of the children.

CHAIR—Thank you, Ann and Marilyn, very much for appearing before the committee today at this public hearing. That concludes the proceedings for today. Again, we thank you sincerely for coming in. It has been very good.

Resolved (on motion by **Mrs Irwin**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.27 p.m.