



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON FAMILY AND HUMAN SERVICES

Reference: Balancing work and family

TUESDAY, 16 MAY 2006

SYDNEY

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FAMILY AND HUMAN SERVICES

Tuesday, 16 May 2006

Members: Mrs Bronwyn Bishop (*Chair*), Mrs Irwin (*Deputy Chair*), Mr Cadman, Ms Kate Ellis, Mrs Elson, Mr Fawcett, Ms George, Mrs Markus, Mr Quick and Mr Ticehurst

Members in attendance: Mrs Bronwyn Bishop, Mr Cadman and Ms George

Terms of reference for the inquiry:

To inquire into and report on:

How the Australian Government can better help families balance their work and family responsibilities. The committee is particularly interested in:

1. the financial, career and social disincentives to starting families;
2. making it easier for parents who so wish to return to the paid workforce; and
3. the impact of taxation and other matters on families in the choices they make in balancing work and family life.

WITNESSES

APPS, Prof. Patricia Frances, Professor of Public Economics, Faculty of Law, University of Sydney	2
BAIRD, Dr Marian Pam, Senior Lecturer, Women and Work Research Group, University of Sydney	27
JOHNSON, Mr Andrew, Director, Australian Council of Social Service.....	51
MACFIE, Mr Gregor, Policy Officer, Australian Council of Social Service.....	51
McLACHLAN, Ms Edwina Anne, Private capacity	40

Committee met at 9.39 am

CHAIR (Mrs Bronwyn Bishop)—I declare open this public hearing of the House of Representatives Sanding Committee on Family and Human Services for its inquiry into balancing work and family. To date, the committee has received almost 200 submissions and taken evidence from 60 individuals for the inquiry. Balancing work and family is clearly an important issue for Australians. The committee is investigating the disincentives to starting families, how to make it easier for parents to return to the workforce and how tax and other matters affect the choices families make.

Today the committee will take evidence from Professor Apps from the University of Sydney, who has conducted research into the interaction of family tax benefits and tax systems. We will also hear from Dr Marian Baird from the University of Sydney, who has investigated the take-up rate of parental leave following the birth of a child. Our witnesses also include the Australian Council of Social Service, the peak council of the community services and welfare sector. Copies of witnesses' submissions are available on the committee's website. This hearing is open to the public and a transcript of what is said will be made available via the committee's website.

[9.40 am]

APPS, Prof. Patricia Frances, Professor of Public Economics, Faculty of Law, University of Sydney

Witness was then sworn or affirmed—

CHAIR—Welcome, Professor Apps. We have your submission and we have received a supplementary submission, which I think is going to constitute your opening statement. Is that right?

Prof. Apps—Yes. I am not sure how much time I am allowed, but I would like to spend 10 minutes or so.

CHAIR—That is quite in order. Before you commence, did you say you were a professor of ‘public economics’?

Prof. Apps—Yes, public economics is taxation and public expenditure.

CHAIR—Interesting.

Prof. Apps—I am an economist.

CHAIR—Please make your opening statement.

Prof. Apps—I have done a series of studies on successive Howard government budgets and I obtain the same results almost every time. I think there seems to be very little understanding of how the system works, because the main structural changes never seem to be reported in the media. I would like first of all to point out that working families are now taxed at rates that are set by four key policy instruments: the personal income tax rates, the low-income tax offset, family tax benefits and the Medicare levy. The Howard government has, over successive budgets, used these policy instruments to introduce changes in effective tax rates that shift the burden to two-earner families to such an extent that many now pay close to the same amount of tax as a family in which only one parent needs to work to earn the same income while the other works full time at home. This is the defining feature of joint taxation—in other words, we have effectively moved almost to a system of income splitting.

The central assumption of the argument for joint taxation is that the combined gross incomes of parents provide a reliable measure of family living standards and should therefore be used as the tax base. However, household survey data show that parents with the same gross wage rates and child-care responsibilities make widely different work choices. In a large proportion of families—approximately one third—one parent, typically the mother, works full time at home providing child care and related services and in another—an almost equally large proportion—the mother works full time in the market and uses her income to buy in substitute services. Thus, unless a mother who works full time at home is dismissed as unproductive, which I think is very offensive, joint taxation cannot be said to be fair.

Clearly, a young family in which both parents work full time to earn, say, \$40,000 per annum does not have the same standard of living as another in which one parent alone earns \$80,000 while the other works full time at home. A family tax system that imposes equal or near equal burdens on two such families is obviously unfair. It is also seriously damaging to the economy because equal taxation of family incomes is only achieved by putting very high effective tax rates on married mothers with highly responsive labour supplies. As a result, a joint tax system or an income-splitting system contracts the tax base required for family support and, moreover, the fall in labour supply has been shown to be associated with a dramatic fall in household saving. It has also been shown to reduce fertility.

In a recent study using ABS unit record data for 2002, I calculated that the average in-work family tax burden in 2005-06 was \$14,116. This is the sum of \$7,923—the amount that the families would pay if they had only one earner—and \$6,243, the additional amount they actually paid due to having a second earner. In other words, if all working families had only one earner or, equivalently, if all second earners withdrew from work in 2005 and 2006, the average tax per family in the sample would have fallen by 44 per cent, to \$8,358. This dramatic fall is due to the very high, not marginal but average, rates on second earners. In other words, we are taking a third to a half—and over a half in some cases—of the incomes from working mothers who are married to fathers who are earning within the range of \$40,000 to \$60,000 and lower.

I have now repeated the analysis for the 2006-07 budget changes. The results reveal that the 44 per cent has risen to around 50 per cent, and that the government has also increased in absolute terms effective tax burdens on working married mothers in average-wage families. I did the same study in 2003-04, and I showed that, contrary to the statements made by the Treasurer at the time, the budget had not reduced average tax rates on the second earners in working families. Overall, it had increased them.

I would now like to spend a little bit of time explaining how this has been achieved—and on how it is being achieved in the present budget, because the mechanism that is being used to achieve it in the present budget is particularly alarming. First of all, I would like you to compare the changes in the marginal rate schedules that have been introduced in this last budget. That information is contained in table 1. The table also shows the true changes in the marginal rate structure due to the low income tax offset, which has been increased to \$600. You will see that the rise in the threshold from \$21,600 to \$25,000 provides a tax cut of \$510 per annum for an individual within the income ranges of \$25,000 to \$63,000. In other words, that is due to effectively shifting the tax threshold to \$10,000. At an income of \$75,000, the individual receives an additional tax cut on top of that of \$1,440 and, at an income of \$150,000 per annum, a total tax cut of \$6,200.

As I have noted, the low income tax offset has been increased to \$600 per annum and, because it is an offset, it is withdrawn at 4c in the dollar on an income over \$25,000. Its effect is to raise the zero-rated threshold to \$10,000 and to create a new MTR, or marginal tax rate, of 34c in the dollar from \$25,000 to \$40,000. The offset is in fact an entirely redundant policy instrument. The changes could have been announced simply and more transparently as a new marginal rate schedule, under which families on incomes from \$25,000 to \$40,000 simply paid a higher marginal rate. The usual justification for an offset is because one is concerned with helping those on lower and average incomes as much as possible, and if you simply provide a shift in the tax

threshold from \$6,000 to \$10,000 then that \$600 goes to everybody. So the offset prevents that and saves money, seemingly.

CHAIR—As it does for seniors—self-funded retirees.

Prof. Apps—Yes, absolutely.

CHAIR—But that is policy.

Prof. Apps—But that argument cannot be used to support the tax offset in this case, because the government has given much larger tax cuts further along the distribution line. So it has one sole purpose: to deny that tax cut to average-income families. However, not all families are denied a tax cut; to the contrary.

CHAIR—You will not be surprised if I disagree, will you?

Prof. Apps—No. The purpose of the offset is to deny those within a wide band of lower to average incomes—specifically, \$40,000 to \$63,000—the tax cut of \$600 while simultaneously providing much larger tax cuts at higher income levels. That is clearly its role. Not every parent is denied a tax cut. As in previous budgets, single-earner families and those in which the second earner's income is marginal are compensated through the family tax benefit system. It is only two-earner families with a more equal division of income who are left out in the cold. The increase in the lower income threshold for the withdrawal of family tax benefit part A from \$33,361 to \$40,000 provides a tax cut of \$1,238 per child up to the previous threshold at which it was entirely withdrawn. For the two-earner family in which the second earner has a more significant workforce attachment, this gain can be entirely lost because family tax benefit part A is withdrawn on joint income.

I will now go through an example. I have taken the case of a family with three children under 12 and one under five. In fact, I get exactly the same results if I take a family with two children and move further up the distribution of income. Table 2 lists the tax paid, the ATR and the tax cut at the upper threshold of income bands in \$10,000 increments up to \$80,000. Table 3 shows how much tax a two-earner family pays as the second earner's income rises to \$40,000 and it also lists her effective average tax rate—not the marginal rate—and tax cuts as her income rises. I have used 2005-06 incomes and FTBs—in other words, I have not indexed them because the figures are not available yet. We can see what happens. The tax cut figure for the second earner shows that, as her income approaches that of the primary earner, her effective tax burden actually rises. So this budget has actually increased average tax rates on second earners with a significant workforce attachment. Under the budget changes, when her income reaches \$40,000 she will pay \$18,490 in income tax, Medicare levy and loss of family tax benefits. Her family will pay \$10,567 in tax. This is a gain of twice the \$510 due to the shift in the threshold from \$21,600 to \$25,000 for the 15 per cent tax rate. This gain is not sufficient to compensate for bracket creep. In contrast, the single-earner family with the same joint income will receive a tax cut of \$2,050—more than twice the amount the two-earner family receives with the same joint income.

This outcome is due to the increase in the threshold for the 30c tax rate from \$63,000 to \$75,000 and the reduction in the marginal tax rate above \$75,000 to 40c. By giving a tax cut to

single-earner families that is more than twice that of the two-earner family with the same joint income, the 2006-07 budget has achieved a further shift towards joint taxation—or, equivalently, income splitting. Changes of this kind apply across primary earnings. In other words, if you rank all households by the income of the primary earner—which I have done in these papers—you find that, for families across quintiles 2 to 4 of primary income, the second earner's average tax rate actually goes up. It is by combining higher rates on second earners with lower rates on primary earners that the 2006-07 budget has raised the share of the tax burden on working families—financed by the second earner—from 44 per cent in 2005-06 to around 50 per cent.

This is very important because, if we keep women out of the workforce when the children are young, the data shows that they stay out of the workforce thereafter. Not all of them do, but a large proportion do. The result is a contraction of the tax base and in GDP growth that, in an ageing population, can be expected to make the current level of family tax benefits ultimately unsustainable.

To illustrate the sorts of differences that you see between Australia and other countries, I have included in my submission two graphs showing the life cycle profiles of female and male labour supplies of couples in Australia and Sweden. For those who have had children or the children have left home, if you look at the profile in the first figure, you will see the inverted U-shape profile. That represents the average hours worked by married men who have children in families in which the wife is aged under 40. For the rest of the life cycle profile, you cannot identify whether they have had children and the children have left home.

Nevertheless, what you see is that, in the case of Sweden and in the case of Australia, the male labour supply profiles are very similar. The female labour supply profile for the same group begins with a very low inverted U-shape profile and, in comparison to the profile for married women with children in Sweden, and those in which the children have left home, you can see that it is much higher. In fact, the average hours worked by married women with children in Australia is 37 per cent of male hours. In Sweden, it is close to 75 per cent.

CHAIR—I will start on that point. In comparing Australia with Sweden, people who do this frequently fail to point out that the rate of taxation in Sweden is vastly higher than it is in this country, being over 50 per cent, whereas ours is far lower than that. You just argued that high levels of taxation keep women out of the workforce, yet in Sweden they are paying higher levels of taxation but they are still in the workforce. How do you reconcile that?

Prof. Apps—It proves that point, actually. Sweden has a system of progressive individual taxation. Under a system of progressive individual taxation, lower income earners are taxed at lower marginal rates.

CHAIR—Not compared to here. They still pay more tax than we do.

Prof. Apps—It is not a question of paying more tax. It is a question of how much of your income you lose when you go out to work.

CHAIR—But that is what a higher tax rate is.

Prof. Apps—Sweden has an individual progressive tax system.

CHAIR—So do we.

Prof. Apps—No, we do not.

CHAIR—Irrespective of the interaction with which I do not agree, because it is government policy to use things like the low-income threshold to do precisely what you set out to do—

Prof. Apps—Which is to save money—

CHAIR—You give them a different threshold.

Prof. Apps—Yes, for the—

CHAIR—And to stop thresholds flowing through to upper income earners.

Prof. Apps—But if you are already giving \$2,000 to upper income earners, why are you worried about the flow-on?

CHAIR—Because if you up the threshold to \$10,000 for everyone then it flows through to everyone and the loss of revenue is much greater. That is why we have rebates, for instance, which we cap at 30 per cent, because that is the same as a tax deduction for 80 per cent of people who pay no more than 30c in the dollar.

Prof. Apps—I am an economist and, to me, a dollar is a dollar. If you are going to give the upper income groups very large tax cuts, targeted at those groups, and at the same time use a tax offset so that only lower income earners—

CHAIR—And seniors.

Prof. Apps—And seniors; I am talking about working families—receive it then the overall result is one in which you have given the bottom a tax cut, the top a tax cut and you have used the low income tax offset to deny the tax cut to the middle-income earners. Only the middle has not got the tax cut.

CHAIR—They got a tax cut as well, and if you are a family of two, with two income earners or even one income and the family tax benefit, your income goes up. For instance, here is where we really see differences: for a single person earning \$40,000 a year—where 54 per cent of taxpayers are earning an income between \$20,000 and \$50,000 or \$60,000—that taxpayer, just prior to the tax cut, was paying nearly \$9,000 a year in tax. If you are a couple with no children and one wage earner was earning two-thirds of the \$40,000 and the other earning one-third, you would have a tax bill of \$5½ thousand. If you are a husband and wife or a couple with one income of \$40,000 and two children under five then not only will you pay no tax at all—it will be netted out—but you will actually get a top-up just short of \$1,500. You can apply that across the board, so you can say there is a tax threshold, if you like, for families with children between \$40,000 and \$50,000.

Prof. Apps—Absolutely.

CHAIR—So the threshold is a moveable thing.

Prof. Apps—No.

CHAIR—There is nothing accidental about that.

Prof. Apps—I was referring specifically to the policy instrument of the personal income tax. I can assure you that I am really aware of the fact that we now have a negative income tax and that the last budget has put three-child families on average weekly earnings below the negative tax threshold. I am very aware of that. What I am concerned about is the overall rate structure. It is very carefully designed so that those sorts of tax reductions accrue predominantly to single-earner families and families in which the second earner has a marginal workforce attachment. The figures that I have calculated show very clearly that if you are a family in which you are trying to combine work and family and the second earner is trying to work full time, you lose.

CHAIR—I want to deal with the question of the term which has become very commonplace and which most people do not understand at all—that is, the so-called effective marginal tax rate. It has become a term which has gained a life of its own. What we are really saying, is it not, is that when your income reaches a particular level, because of the income test and because the subsidies are withdrawn, you are returning to the situation of a person who never had the subsidy? Is that not right?

Prof. Apps—Could you say that again?

CHAIR—Supposing you have qualified for a subsidy because you are below an assets test and you have done something that attracts the subsidy, like having two children under five.

Prof. Apps—I think I understand. One of the very strong points I tried to—

CHAIR—Hang on. When it is withdrawn, is somebody not simply returning to the situation that they would have been in as somebody who did not get the subsidy?

Prof. Apps—Yes, that is absolutely true.

CHAIR—So if you are concerned about equity, are you concerned about a couple with no children who would desperately like to have some and are trying to save up to get into a position where they feel that is economically possible for them and who are, in effect, subsidising other people?

Prof. Apps—I am very concerned about that couple.

CHAIR—But you did not mention them.

Prof. Apps—I have in my submission. I did the simulations on that couple as well. What I have observed in the data over time is that additional revenue obtained from bracket creep—that is, from allowing the personal income tax to become much less progressive by shifting the tax burden across the middle and, in particular, to couples and singles, together with the GST, which is regressive and has raised a lot of revenue—is being used to fund family tax benefits, which I

do not object to at all; I think they are right. But it is being used to fund them in such a way that it is discouraging female labour supply. It has been effectively used to shift the tax system to a system of income splitting or joint taxation, and the problem with that is that the distribution of average tax rates—which are what you get in the end as a ratio of your income—across single and two-earner families is unfair.

In using all those devices to produce this type of system we have created an effective schedule of marginal rates that now exhibits an inverted U-shape schedule. In a country in which you have a system of joint taxation, one would normally see a progressive marginal rate schedule on joint income. In Australia we do not even have that; we have an inverted U-shape schedule.

CHAIR—It has been expressed to us in a different way by other people who have given evidence by saying that taxation is based on a single income—and it is—and welfare, or social policy, is based on family income. That is probably a fair statement of the way it is. But when you criticise a reduction in the top rate, there are two things to say about that. There is a desire to see incentive built into the economy, so that people will work harder and do so for a reward. There are people who see it as very important to have the top marginal rate closer to the corporate rate, which is also a valid comment. Also, this government has made an undertaking that 80 per cent of taxpayers will basically pay no more than 30 cents in the dollar in income tax. That is what this budget has restored in terms of that outcome.

Prof. Apps—The difficulty with that is that the empirical evidence shows that higher tax rates on higher income earners have no incentive effects whatsoever—they have no labour supply effects.

CHAIR—That is not true at all. We have seen plenty of studies that may disagree with your opinion, and their opinion may be more or less valid than yours. That is for people to determine. But there is plenty of evidence around that says that if you do not want to lose your best and brightest overseas then you must let them be remunerated properly in this country.

Prof. Apps—There is actually a very large amount of European literature on this which rejects that hypothesis.

CHAIR—Our birth rate is a lot better than the European birth rate.

Prof. Apps—It is not a lot better than all countries.

CHAIR—It is a lot better than Italy, Spain, Germany, Greece—

Prof. Apps—The other country I wanted to include but did not have time to was Germany. Germany does everything you should not do. It has a system of joint taxation, very poor child care and school hours finish at around one o'clock.

CHAIR—And they did not have a baby boom.

Prof. Apps—And it has a fertility rate of around 1.4.

Ms GEORGE—Other evidence clearly presented to us shows that our rate of participation of married women with children in the labour market is much lower than the rate in a range of comparable OECD countries. There is a whole range of reasons for that. I do not think we can go into the pros and cons of all the tax changes, but thank you very much for this latest analysis of the budget. This is what I take from it—and tell me if in lay terms this is not right. A lot of women in my electorate say to me: ‘Jennie, the cost of returning to work is not worth while. My family allowance will be cut, I can’t find child care and, if I can, it’s not affordable.’ So they make an economic judgment about whether it is worth while to stay at home or go back to work in a two-income family.

There has been a lot of talk about effective marginal tax rates, and there was an opportunity in this budget to address the issue of the disincentives at a time of an ageing population, when we have a large supply of experienced women who are not back at work because they make the judgments that policy instruments and government policy are not amenable to that choice. Are you actually saying that the situation in this budget is now worse for those women—that the average tax rate is now higher than it was before the budget?

Prof. Apps—I would like to make a couple of points. First of all, it is higher across the middle of primary incomes. It is lower in the bottom quintile of primary income and lower in the top. But it has been increased, on average, for part-time and full-time workers across the middle.

Ms GEORGE—Then you make the contrast between the position of the non means-tested family tax benefit part B—

Prof. Apps—I think that family tax benefit part B should be either eliminated or made universal.

Ms GEORGE—Then from 1 July we have a situation for single mums when their children turn eight. Where will they fit in? Have you had a chance to look at the impact of the tax changes? The last lot of the figures that I looked at it from NATSEM showed that their effective marginal tax rates could be as high as 60 to 70 per cent. On top of the benefit, in terms of disposable income, if they were to go to work, they would be working for in the range of \$2 to \$3 an hour. Have you had a chance to look at some of that?

Prof. Apps—No, I have not looked at the data on single parents. I point out that, if we are so determined to keep married woman with children out of the workforce, it is rather strange that we insist that they go into the workforce if they get divorced. I think the single-parent problem would become much less of a problem if we stopped discriminating in our tax system against married women.

Ms GEORGE—I guess I find it hard to defend when I am talking to my constituents and they say: ‘If you’re on family tax benefit part B you can stay home regardless of the primary income earner. And here am I, trying to raise children, and I have to go to work and the social welfare system imposes tests on me that aren’t imposed on another category of women.’ They find that quite an unjust situation, if they have the luxury of being able to stay at home.

Prof. Apps—Given the way that family tax benefit part B works—and I have given an example in an earlier paper—families on very low incomes, families in which both parents earn

\$25,000 and end up with just \$50,000, do not get family tax benefit part B, and yet a single earner gets it in a family in which the mother can stay at home and look after the children. Family tax benefit part B cannot be classed as a payment or benefit that supports families. It clearly does not. If it does not support the two-earner family on the same income, on a low income, and it supports the single earner who can work 40 hours to earn the same income, it cannot be considered a benefit to assist families; it is purely for the purpose—

CHAIR—Except that it is paid directly to the mother. There can be households with big incomes that—

Prof. Apps—I would really like to come back to the literature that worries about the intra-household allocation of resources. If you look at my CV you will see that I am one of the leaders internationally in that literature. I started it about two decades ago, but the reason that I focused on that issue was that I was concerned about what women faced outside the home. You cannot get systematic inequality within the home unless you have it outside the home, because you always have an alternative option. There is the whole question of the literature on bargaining and the determination of relationships of women in the home. The opportunities you give women outside the home really matter. What we are doing is reducing, in effect, their net wage by almost 50 per cent.

I would like to come back to a point that you made. You referred to effective marginal tax rates. I feel a little bit guilty about that because a group of us might have started that fashion about two decades ago. We have since left it. What matters when you go out to work is how much income you get for feasible hours, when you go out to work part time or full time. So it is much more important to look at the average tax rate. What we are doing is taking almost half the income from a lot of women when they go out to work to earn relatively low incomes. It is very important to look at how much we are taking away from women when they go out to work.

CHAIR—Where did you get the ‘half’ figure from when low-income earners are paying 15 cents in the dollar up to \$25,000?

Prof. Apps—In economics, we recognise that a family tax benefit is simply a negative tax. A dollar is a dollar. If you take a dollar away from someone, it is a tax; if you give them a dollar, it is a negative tax.

CHAIR—Effective marginal tax rates by another name?

Prof. Apps—No, that is not marginal; that is absolute. In other words, a dollar is a dollar.

CHAIR—But it is a subsidy, isn’t it?

Prof. Apps—No, it is not. Ultimately—if you really want the sound economic argument to justify family tax benefits—it is based on the failure of capital markets and insurance markets. There is no way a young family with three children can pay fully for their children for child care, education and so on. How would they do it? In a perfect capital market, a child would be able to borrow to pay for themselves. There is no way that can happen, so the parents would have to borrow.

CHAIR—Many of them do.

Prof. Apps—They would be a risk to the lender and have to pay high interest rates. What you would end up with is a country with a very low level of education. You would end up as a Third World country unless you put heavy investment into children and their education. So those are the arguments. It is not a subsidy; it is a correction for market failure. That is very important, because to argue that it is a subsidy implies somehow that it demeans the whole role of family benefits. It is support for children that is absolutely necessary.

CHAIR—Absolutely. It is not demeaning at all. It is a perfectly legitimate way of saying, ‘This is what we want to achieve’—

Prof. Apps—Absolutely.

CHAIR—with which I am completely in agreement.

Prof. Apps—But we cannot achieve it by denying it to mothers who go out to work.

CHAIR—What I am saying is that, because we means test, at a certain point as the subsidy or benefit—call it what you will—is withdrawn you are returned to the same position as someone who has never attracted it in the first place because they did not have the requisite family shape.

Prof. Apps—Sure. There are two issues. If you means test it, you are changing the marginal rate schedule, and whether that is good or bad depends on efficiency arguments. But what we are doing now is means testing it in such a way that we are denying low-wage families the family tax benefit. So we are being very unfair, and I think that is the point. In one paper I have given the case of a family where both parents are earning, say, \$35,000. To take away family tax benefit part B and to withdraw family tax benefit part A from that family while allowing another family where the primary earner has a higher income to keep it is just unfair. It is also inefficient, because you create this—

Ms GEORGE—You do not have any dispute with me about that.

CHAIR—But it is government policy that we want to recognise a family where one parent stays home and takes care of the children with that payment. That is the policy.

Prof. Apps—If we are going to recognise it then we must also admit that it contributes to the family’s standard of living, in which case we must take it into account when we determine the size of the subsidy. So we cannot on the one hand say we recognise it—

CHAIR—But we do.

Prof. Apps—No, we do not.

CHAIR—That is why they have reduced the taper.

Prof. Apps—No. That does not recognise it.

CHAIR—It depends where you come from.

Ms GEORGE—But isn't this the point of the inquiry? If we are looking at the reasons why we have a pool of women not in the workforce and what the disincentives are, you would have to conclude that the interface of the tax and welfare system and the way it works is making a lot of women come to the conclusion that for what they earn it is not economically worth while to return to paid employment. That is what they tell me, and they work it out.

CHAIR—There are two things to say about that, though. There are those families that make a conscious decision that that is what they want, and it is not a question of whether they want to return to the workforce. That is the aim of the government. But then we look at the other question—and that is how difficult it is for women to make arrangements for child care, which comes up time and time again. I would ask you this question: would you favour tax deductibility for child-care expenses?

Prof. Apps—There are two answers to that question. The first one is that, if we provide tax deductibility then we are providing the same tax treatment to child care for the woman who works as is provided to the mother who stays home and provides the child care herself. That is untaxed. A mother who stays home provides child care and domestic services that are untaxed. The Treasurer's argument that you need something like family tax benefit part B to compensate for the loss of the tax threshold is entirely based on the assumption that the mother at home is unproductive, that she does not provide child care and is not providing the same services untaxed. It is a nonsense argument.

CHAIR—Not really, because we make the distinction between being in the paid workforce and not being in the paid workforce. That is the outlook.

Prof. Apps—And if you are in the paid workforce—

CHAIR—So let's talk about paid work. If you are going back into paid work, don't you think it is fair—I certainly do—that you have tax deductibility for child-care expenses, if you can get it for your car, your furniture in the office, your computer or whatever?

Prof. Apps—No, that is not the reason. The reason it is there is that the mother who stays home provides the same services and does not pay tax on them. That is the reason.

CHAIR—We come to the same end point for different reasoning.

Prof. Apps—But it is very important that my answer to the question recognises that the mother who stays home produces domestic services and child care—

CHAIR—So does the mother who goes to work.

Prof. Apps—and the mother who goes out to work has to buy them in and pay tax on—

CHAIR—Oh, come on! She does both.

Prof. Apps—I am sorry, but when I was at work I was not allowed to bring the children to work with me. I had to buy child care, and I paid tax on it.

CHAIR—And when you went home? You cooked the meals, you did the shopping and—

Prof. Apps—No, I did not.

CHAIR—You are a privileged one!

Prof. Apps—There was no way, by the time you got home at six o'clock, having left at six o'clock in the morning to take one child to whatever—

CHAIR—But that is what mothers are doing every day.

Prof. Apps—When am I going to do 12 hours of housework between six in the evening and six in the morning, unless I have no sleep? Time-use data show that women who go to work do not do as much housework as women who do not go to work.

CHAIR—Which probably means it does not get done.

Prof. Apps—No, you end up buying in services on which you pay GST. You buy them out of taxed income. If you really wanted to place working married women in the same position as women who stay home and provide—

CHAIR—There is no GST on wages.

Prof. Apps—We do not need to tax the women who stay home. So, from that point of view, it is fair. That is the first response to your question. The second response is that I think it is a mistake to pursue or to develop a child-care policy that relies largely on the private sector and subsidies to the private sector. What you need to do in the area of child care is to develop a highly, carefully planned and coordinated system in which the government gradually accumulates all the assets and infrastructure for the system, because young families will never be able to afford child care. If we leave it to the private sector, what they will ultimately have to do is not only pay for the salaries of staff but also for the rent on the property. Think of it this way: what would happen if you took the first year of primary school, sold all the assets and put it in the private sector? It would be very expensive, parents—

CHAIR—A third of them are already in the private sector. People are leaving the public sector and going to the private sector.

Prof. Apps—Yes, I am not surprised—because of the lack of investment in the public school system.

CHAIR—To the contrary.

Prof. Apps—The point is that private schools and private universities overseas that are very successful are not run for profit.

CHAIR—Do they run for losses or for surpluses?

Prof. Apps—No, they run for the interests of the students, usually; and they are very successful.

Mr CADMAN—Professor, what would you regard as the key factors in the choice that particularly a woman makes about whether to go to work or not?

Prof. Apps—I summarise that in my submission. I point out that it is a very difficult choice. Both options are fraught with dangers and problems. The woman who decides to stay home can avoid tax on the services—

Mr CADMAN—Do you think that she stays home to avoid tax?

Prof. Apps—No—don't be silly. She can produce child care herself without having to buy it in the market and pay tax on it, she can do domestic services, she avoids the GST and, of course, she gets lots of family tax benefits. But the problem is that she faces a risk. The risk is that her market wage will decline. If in fact she should find herself as a single parent, she is going to find that when she goes out to work she is not going to be able to earn enough to support her children. On the other hand, if you are a mother who decides to go to work, what you have to weigh up is the fact that you have to pay all these taxes, you are going to lose family tax benefits part A and part B and you may have to borrow at a high interest rate to fund child care.

Both are faced with the problem of trying to predict what their wage will be in the future. If you go out to work, will you be able to afford to repay the debt? If you do not, is that very risky? Will your marriage last? Will you be able to support yourself if necessary later on? Neither gain. This type of regime benefits no-one. But in the short run you can see very clearly—

Mr CADMAN—You would adopt a more prescriptive approach, would you?

Prof. Apps—No. I would adopt a more choice approach.

Mr CADMAN—Explain to me how that works. You are very critical, apparently, of income splitting and moving down that track. So what are you supporting?

Prof. Apps—I am supporting a tax system based on individual incomes at progressive marginal rates. To see the advantage of that you can look at, say, why a flat rate tax is not a policy that achieves fairness between families where in one the mother decides to work and in the other she does not. If you take two families that are absolutely identical—the fathers go out to work and earn the same incomes—except that in one the mother decides to stay home and provide child care and domestic services and in the other the mother goes out to work and buys those services, those two families have the same standard of living.

Mr CADMAN—Just a minute. I need to backtrack. I just need to check that I have understood what you have said. You have said that a flat tax rate which would apply to—

Prof. Apps—Incomes.

Mr CADMAN—incomes of either—

Prof. Apps—Anyone who works. Let me get to the next step. Under a flat rate tax those two families have the same standard of living. The two-earner family pays twice the tax under a flat rate tax. The single-earner family avoids tax because the second earner stays at home and produces the same services that the mother who goes out to work buys and pays tax on. The problem is that the two-earner family is then effectively subsidising the one-earner family. We will always have that—

Mr CADMAN—Excuse me. There are no transfer payments. How can they be?

Prof. Apps—Normally under this sort of system the revenue is used to fund a child benefit to each family.

Mr CADMAN—So you accept there must be a transfer payment as well?

Prof. Apps—No, I accept that under such a system the two-earner family is paying twice as much tax yet both families may have the same standard of living. Do you see the problem of horizontal equity that arises? The way to get around that—

CHAIR—But you are saying equity is equality—that everything has to be levelled to the same common denominator to be equitable. That seems to be your definition.

Prof. Apps—No. I do think that families that have the same standard of living should be taxed the same amount. I see that as fair.

Ms GEORGE—What would be the impact on labour market participation rates for women if we were to move away from the existing family tax benefit A and B to a universal payment which is not means tested and is based on the ages of children?

Prof. Apps—I think that is the way to go.

Ms GEORGE—Is that a fairer way to go in the long run?

Prof. Apps—Absolutely. But it is absolutely crucial to raise the revenue to fund that through a progressive, individual income tax, as in Sweden, because under such a system second earners pay a lower tax. That is absolutely essential. Otherwise you get into this horizontal equity problem of forcing—

CHAIR—There is no way in the world Australians would pay the same rate of tax that Swedes pay—fact. It would not be tolerated in this country.

Prof. Apps—My point is that when a woman goes out to work in Sweden she is not as heavily penalised as she would be in Australia. Australian men may not—and certainly Mr Hendy may not—want to pay the same amount of tax, but women would pay lower taxes.

CHAIR—You seem to be saying that the justice of the tax system is in comparing yourself with what somebody else is paying. So it does not matter if you are paying a higher rate of tax if

somebody who is earning more than you is paying a much higher rate of tax. That seems to be your definition of equity; it is not mine.

Prof. Apps—Usually one assumes that you relate tax burdens to capacity to pay.

CHAIR—No, I relate tax burden as the amount of money that needs to be raised to look after those things which the private sector cannot or will not do and to provide for those people who cannot provide for themselves. If you raise any more than that, you should give it back to the people you took it from.

Prof. Apps—The only difficulty with that argument is that you end up with marginal tax rates which discourage incentive—they discourage labour supply.

Ms GEORGE—But isn't that the problem that we have at the moment? The intersection of tax and welfare will always, no matter what governments do, create a problem. That is why I suggested that maybe a better way to look at it would be by having a direct universal payment based on the age of the children. I think the chair is right by saying that, wherever that intersection occurs, you will create a new problem.

Prof. Apps—That is right. The argument for that is precisely that it handles the interface in the best possible way. That is the point. 'In the best possible way' means that there is a marginal rate schedule on individuals which results in a lower disincentive effect and less destruction of the economy.

Mr CADMAN—The argument I hear against that is that a single-income earner on, say, \$50,000 under your proposal is paying a lot more tax than two earners both on \$25,000.

Prof. Apps—Yes, that is right, because they should. They have—

Mr CADMAN—And yet they may have the same number of dependants.

Prof. Apps—Yes, that is right, but they have a higher standard of living because the mother who stays home—

Mr CADMAN—Why? They are paying more tax.

Prof. Apps—But they have a higher standard of living because the mother who stays home provides child care and domestic services.

CHAIR—Who is the higher standard of living for? Whether or not she is totally dependent or self-sufficient, why do you argue that she has a higher standard of living if she is totally dependent? I do not buy that argument.

Prof. Apps—If the family can spend 40 hours in the marketplace to earn \$80,000 and the mother can stay home and provide child-care services and so on, that family is much better off than a family in which both parents have to go out to work for 80 hours a week—

CHAIR—That is a hell of a subjective assessment to make and one I would violently disagree with. There are many households in which both people going out to work provides a very happy household and a very high standard of living, thank you.

Prof. Apps—Yes, if they are on \$100,000 each, I am sure they do.

CHAIR—No, if they are earning less than that.

Prof. Apps—But you cannot possibly argue—

CHAIR—You have left one thing out. What about women who we spend a lot of money on to educate? We give them aspirations, they have a work ethic and they have skills that they want to use. You are saying that they should be staying at home and doing nothing but child care.

Prof. Apps—I am not saying that at all; I am saying exactly the opposite. I am saying that they should not be forced to stay home and do child care.

CHAIR—But you are saying that if she stays home she has a higher standard of living. You take no account of—

Prof. Apps—No, I did not say—

CHAIR—You did.

Prof. Apps—I said that if you compare those two families, the family—

CHAIR—I am interested in individuals in families.

Prof. Apps—The two individuals in the family—

CHAIR—What about the aspirations of the woman? Why does that not contribute to the standard of living?

Prof. Apps—I think you have misinterpreted what I said. What I am arguing for is a tax system that does not force her to stay home.

CHAIR—But you have taken no account at all of the aspirations of individuals.

Prof. Apps—I have indeed. That is the whole purpose of the—

CHAIR—But you have said that a family where the mother stays home—

Prof. Apps—Are you saying that she is so unhappy that it negates any contributions she—

CHAIR—She may well be.

Prof. Apps—I absolutely agree. That is why there are losses associated with both options. So you are saying that the mother who stays—

CHAIR—You made a categorical statement. You said that the standard of living is higher when she stays home, and I disagree with that.

Prof. Apps—So you have introduced the assumption that she is so unhappy that, even though the husband can work for only 40 hours to earn \$80,000, the negative effect of her unhappiness reduces the whole standard of living? You are quite right—they would probably end up divorced if that were the case. But in terms of consumption and what you can buy with \$80,000—

CHAIR—But you kept saying that buying in services to the home attracts the GST. There is no GST on wages. If you are buying in services to provide child care in your own home, you are paying a wage for that and there is no GST on that.

Prof. Apps—If you buy takeaway meals—

CHAIR—Why would you buy takeaway meals? If she is making a sandwich, there is no GST on the food.

Prof. Apps—The point is that there are goods that attract the GST—

CHAIR—So where is she paying the GST?

Prof. Apps—I found that when I went out to work I had to buy all sorts of equipment so that when I got home in the evening I could cook the dinner very quickly. So you buy—

CHAIR—What did you have to buy that you otherwise would not have had in your kitchen?

Prof. Apps—All sorts of labour-saving devices.

CHAIR—Like what?

Prof. Apps—In those days there were things like crockpots and all sorts of things, so that when I got home the dinner was cooked.

CHAIR—Why would you buy that only because you were going out to work? Are people who stay home not entitled to have those?

Prof. Apps—Because the food you cook with them is awful.

Ms GEORGE—Getting back to the issue of equity, we talked about some who perceive inequities in the way the current system operates. I imagine you could mount a reasonably strong argument against the notion of a universal payment regardless of a person's income level. For example, a wife in a millionaire family could benefit from family tax benefit part B. Is a millionaire family entitled through the state to a universal payment for their children regardless of their income level? What argument would you use?

Prof. Apps—That was the issue that motivated me to write this earlier paper. The key concerns in evaluating a tax system are equity, fairness and efficiency. You want to design, if you like, the interface of the family benefits with the income tax system in such a way that the marginal rates have the least effect on incentive while at the same time managing to redistribute income, or achieve fairness in the distribution of income. My argument for a progressive individual income tax with universal benefits is that you can show that such a system achieves that. It also achieves a fairer distribution of the tax burden between single- and two-earner families. It is a mistake to dissociate the transfer payments from the tax system.

Ms GEORGE—So it would not be open to the charge of middle-class welfare.

Prof. Apps—No. Family tax benefit B was once the dependent spouse rebate. What you really need to do if people have that misperception is put them into the same administrative office. People need to see that the true tax they are paying is the tax they pay less their transfers. In the case of child benefits, that really makes a lot of sense, because it is not a benefit that is related to being unemployed and so on. It should simply be seen as part of the tax system. In fact, in the tax literature that is exactly how it is treated. It is only non-tax economists who see these two things as separate. That was the point I tried to make in the recent paper that I wrote called *Family taxation: an unfair and inefficient system*.

Ms GEORGE—In economic terms, the argument for the need to reduce taxation rates to provide an incentive. What would you say about that theoretical argument in terms of its application to the Welfare to Work changes? It seems to me, as a noneconomist, that it is a great inconsistency that you need to encourage people at the top end by cutting their tax rates but you need to take the stick at the bottom end and force people to work at very high effective marginal tax rates.

Prof. Apps—The idea of having to cut the top tax rate has never really gained any support.

Ms GEORGE—So there is no empirical or theoretical evidence?

Prof. Apps—No.

CHAIR—Where has it never gained support?

Prof. Apps—In the international economics literature.

CHAIR—Do you mean certain economic literature?

Prof. Apps—No. Heckman, for example, who summarises this literature, shows that it is generally agreed that—

CHAIR—But the whole of your proposition depends on increasing the rate of tax in the one that the budget has just brought in, doesn't it? You would need a greater tax take to pay for what you want to do.

Prof. Apps—No, not necessarily. I think that you have a lot of money. I think the Future Fund should be used for acquiring assets for child care and that, if you did something like that—

CHAIR—To nationalise the child-care industry you would use the Future Fund.

Prof. Apps—I think that the government really needs to take the problem of child care very seriously.

CHAIR—Is that what you are proposing—that the government should nationalise all the private sector child-care places and they should use the Future Fund to do it?

Prof. Apps—No, I do not think that you could do that. I am not proposing that at all. I am proposing that one be very careful about—

CHAIR—How are you proposing to nationalise the private child-care places?

Prof. Apps—I must say I think that what the Labor Party has proposed, at least in providing child care attached to schools, is good.

CHAIR—But you have criticised the private sector involvement. You wanted to nationalise that. How would you do it?

Prof. Apps—I did not say I would nationalise it. Once the private sector has it, you cannot nationalise it. That is the problem. It is also very costly. So we want to direct resources so that we can develop a high-quality—

CHAIR—You want to price it out of the market.

Prof. Apps—No—

Ms GEORGE—No, I do not see it that way.

CHAIR—Are you happy to leave it then?

Prof. Apps—I think that it has to—

Ms GEORGE—I thought what was being suggested was that the earnings in the future fund can be targeted at different levels of infrastructure investment—

Prof. Apps—Exactly.

Ms GEORGE—and that child care could be one such area of appropriate targeted infrastructure investment, both human and physical.

Prof. Apps—Including training. Training is extremely important, and the last thing we want is a nanny system. The United States has a nanny system and it is a disaster.

CHAIR—What is a nanny system?

Prof. Apps—A nanny system is where you have no child care—I know this from one of my children—and you are working like crazy. You have a baby. You have to interview 20 nannies before you find one—in the United States—that speaks English. You cannot find one that has finished high school. No teacher wants to do it because, even if you offer twice the salary, they point out that there is no career path and in 10 years time they will still be unskilled. I quite frankly think it is an absolute disgrace that the United States allocates children to unskilled nannies, unmonitored and so on—but what can you do? I would hate to see Australia go down that path.

CHAIR—We have looked at the proposition of having nannies if they attained a level 2 certificate and were registered. Then they ought to attract the same CCB and 30 per cent rebate as an institutional place does.

Prof. Apps—I do not know. As a mother, it always worried me if I left my children in an environment where there was not a relatively large number of people for reasons of monitoring.

CHAIR—Don't you think there should be choice?

Prof. Apps—I just worry about monitoring. If the child is very young or a baby, you cannot ask, 'What happened to you today?' I think monitoring is an extremely important problem, and I think you need a larger organisation to do that.

CHAIR—So you deny women the choice.

Prof. Apps—I have not said anything about denying choice.

CHAIR—I asked, 'Shouldn't they have a choice as to whether they want individual care in their own home or in an institution?'—

Prof. Apps—Fine, but—

CHAIR—and attract the same taxation treatment.

Prof. Apps—at least do not deny me the choice of having—

CHAIR—I am not denying you any choice; I want more choice.

Prof. Apps—I was, actually. I put my name down for a child-care place before my child was born, and seven years later I got an offer of a place. It was very difficult. I think it has had a very negative effect on fertility.

Mr CADMAN—Can we just go back to my previous question about the two-income family, each earning \$25,000, and the single-income earner with \$50,000, who you say is better off than the two-income family paying a lower tax? That is what you said, isn't it?

Prof. Apps—I think that that would be fair.

Mr CADMAN—That is what you said, though, that with a flat tax rate—

Prof. Apps—With a flat rate of tax, if they both go out to work then they are both paying tax. The single-income earner is only—

Mr CADMAN—You are talking about a progressive system, or just a flat rate of, say, 25 per cent—

Prof. Apps—I am trying to explain why the structure of a flat rate tax is essentially unfair.

Mr CADMAN—I think what you were really doing—and I was asking you what your preferred system was—

Prof. Apps—A progressive individual tax with universal family benefits.

CHAIR—With a higher rate of so-called progressive tax.

Prof. Apps—No, not necessarily, because there would be such an increase in labour supply that, in fact, you would probably be able to lower the rates.

CHAIR—What about the proposition that—

Mr CADMAN—Sorry, could I just get my mind clear: on the one hand, you seemed to say to me that you wanted a flat tax rate—

Prof. Apps—No, I did not. I do not want a flat tax rate.

Ms GEORGE—It was just an example.

Mr CADMAN—Why did you raise it then? I do not understand why you raised it.

Prof. Apps—Because it is very important to understand that a family—

Mr CADMAN—No, I asked you your preferred system and you brought in a flat tax system in your response to me. I am sure the *Hansard* will show that.

Prof. Apps—I was explaining why a flat rate tax is not the solution.

Mr CADMAN—Okay. What is the solution?

Prof. Apps—The solution is an individual based tax at progressive marginal rates where the revenue is used to finance universal child benefits. And, as you have said, preferably on the basis of age.

CHAIR—We have a progressive rate of tax.

Mr CADMAN—So, therefore, on the same family income, what we have is the high-income earner on, say, \$50,000 subsidising the two low-income earners who decide to work. Is that right?

Prof. Apps—No.

Mr CADMAN—Yes.

Prof. Apps—If we have a progressive tax—

Mr CADMAN—Yes, that is what you said.

Prof. Apps—No, to the contrary.

Mr CADMAN—You said that high incomes should subsidise low incomes.

Prof. Apps—To the contrary. Take the case of a household in which both parents can earn \$50,000. If one parent goes out and earns \$50,000 and in the other they both go out to earn \$50,000—

Mr CADMAN—No. They both go out and earn \$25,000—the same family income, the same amount coming into the household. Exactly the same amount: the proposition I put to you—clearly; before and, again, now—was \$50,000 into both.

Prof. Apps—Okay. Those two households are not equal. To argue that they should pay the same amount of tax—

Mr CADMAN—No, I think you made the statement—

Prof. Apps—They should not pay the same amount of tax under a progressive tax system.

CHAIR—They do not.

Mr CADMAN—I think you said to me that the one on \$50,000—

Prof. Apps—Under a joint tax system they do.

Mr CADMAN—Excuse me! You did say that the one on \$50,000 was better off.

CHAIR—Yes, because the assumption was that if the wife stayed home they had a high standard of living, which is something I dispute.

Mr CADMAN—Didn't you say that?

Prof. Apps—Of course. It is generally considered to be true, unless your value of the wife staying home is zero.

CHAIR—Taking out the guilt factor.

Prof. Apps—Unless you are saying her contribution to the family is completely outweighed by the guilt factor that makes the family so unhappy that it is no better off than a family that has to work 80 hours to earn the same income.

CHAIR—I find that a very weird argument.

Mr CADMAN—I am sorry but I just do not understand how a very low marginal tax rate on \$25,000 is a much worse situation than somebody on \$50,000 with a much higher rate of taxation, a progressive system. If there is one income of \$50,000 compared to two incomes raising \$50,000, then the two incomes raising \$50,000 will pay very little tax but the one income of \$50,000 will pay more tax, much more.

Prof. Apps—Not much more.

Mr CADMAN—And you say that that is—

Prof. Apps—That is fair. It is fair because—

Mr CADMAN—I have nothing against the progressive system, but to say that they are greatly advantaged—I do not understand the logic behind that.

Prof. Apps—The only condition under which you would say they are not greatly advantaged is if you dismiss the contribution of the mother who stays home as being worthless.

CHAIR—You are saying that the mother who goes out to work is not equal in value to the mother that stays home. I find that totally unacceptable.

Prof. Apps—I am not saying that at all.

CHAIR—Yes, you are. You are saying they are all better off if she stays home. You have written it here in your submission—which I had better move that we accept.

Mr CADMAN—I will have to read it because I have completely misunderstood what you have been saying.

CHAIR—It says clearly that a young family with both parents working full-time earning \$40,000 each per annum does not have the same standard of living as another in which one parent alone earns \$80,000 while the other works full time at home. So you are saying that there are differing treatments of tax but that the family where, presumably, the mother—I suppose it could be the father—stays home will have a higher standard of living because she stays home. That is a proposition that I do not think exists.

Ms GEORGE—No, it is the costs of the two parents going to work, the costs of child care, the costs of transport, the forgone costs—

CHAIR—No. The basis of Professor Apps's submission is that there is a need to put a value on staying home to do child care, which has an economic worth—

Prof. Apps—That is right. I would have thought so.

CHAIR—and that the mother who goes out to work is going to buy in all those services. Like hell she is; she is going to do both jobs. That is what women do.

Prof. Apps—They do not.

CHAIR—They do.

Prof. Apps—The data does not support that.

CHAIR—Come on! They do. I do not know what your income was, but try women on lower incomes. They do not buy it all in and—

Prof. Apps—That makes it worse!

CHAIR—a crockpot is not considered to be a—

Prof. Apps—You asked me this silly question. If they do not buy it in then they are working even longer hours.

CHAIR—Correct.

Prof. Apps—And that is a disaster.

CHAIR—Is it?

Prof. Apps—Yes.

CHAIR—They might be capable of doing it. I think the assumption that someone staying home gives the household a better standard of living is pretty biased.

Ms GEORGE—That is in economic terms.

Prof. Apps—If we take the view that a family that has to work 80 hours a week to earn \$80,000 is just as well off as the family that can earn the same income in 40 hours—if in fact we are going to take the view that that is equal—then I am very alarmed, because it implies that the value of the traditional role of the mother is worthless. I do not hold to that view.

CHAIR—I do not agree with that at all.

Prof. Apps—But you have just stated it.

CHAIR—No, I have not. I said that women who work do both. You cannot say they are lesser parents because they do, which is what you say.

Prof. Apps—So you are giving no value to leisure?

CHAIR—No value to leisure? Is leisure the only thing that gives enjoyment and pleasure—there is no enjoyment and pleasure out of work?

Prof. Apps—Not if you are having to work 40 hours in the marketplace and then 40 hours at home. I did not find it all that much fun. Maybe there are women out there on very low incomes who love doing it, but that is new to me.

CHAIR—Thank you very much for coming. It was a good vigorous exchange and very useful in our inquiry. Is it the wish of the committee that the submission from which Professor Apps read at the beginning of the presentation be accepted as evidence for publication? There being no objection, it is so ordered.

[10.52 am]

BAIRD, Dr Marian Pam, Senior Lecturer, Women and Work Research Group, University of Sydney

Witness was then sworn or affirmed—

CHAIR—Welcome. We have received a written submission from you. Would you like to speak to it and make an opening statement?

Dr Baird—Actually, you have not received a written submission from me.

CHAIR—I beg your pardon. It is an exhibit.

Dr Baird—Yesterday I was invited to attend today.

CHAIR—Indeed, and we are most grateful to you, because one of the witnesses who had accepted to appear today who was coming in from New Zealand was unable to come. So we are doubly grateful to you for being able to come. It is my error—it is an exhibit. It is a published article by you, which we have just received. Is it the wish of the committee that we receive the exhibit as evidence? There being no objection, it is so ordered. Would you like to speak to the exhibit and make an opening statement?

Dr Baird—Yes. This is a great opportunity to present some of the research we have been doing in the area. I am an academic at the University of Sydney. My background is in industrial relations and human resource management. My focus of research has been the workplace and the making and regulation of employee conditions and entitlements. In particular, I am interested in the impact of women's employment conditions on women's ability to combine work and family. Since 2000 I have researched maternity leave entitlements in Australia and compared them with those in other advanced nations. More recently my research has broadened to encompass parental leave in Australia as well as an examination of the business case for parental leave and the experience in organisations of the use of parental leave and related policies. With this background I believe I am best equipped to comment on the committee's two major concerns as listed in your terms of reference: first, the financial, career and social disincentives to starting a family in Australia; and, second, how we could make it easier for parents to return to the paid workforce.

The committee would probably be aware that the changing demographics of the Australian population necessitate making it easier for women and men to return to or, indeed, enter the paid workforce. This is usually regarded as the business case argument—that is, the need to attract and retain workers, whether it be at the national scale or the organisational scale. I am also interested in the social case for making it easier and fairer for women to return to or, indeed, enter the paid workforce. The business case and the social case are not mutually exclusive and, to my mind, we need to recognise and advocate both. In some situations there is not a business case for organisations to introduce policies that attract women to return to paid work. That does not mean that we as an advanced nation should not also consider the social case for enabling

women's paid employment on equitable terms with men's paid employment and lifetime work experiences.

I note that my research was on paid maternity and paternity leave entitlements. The data showed that award and enterprise bargaining has delivered limited outcomes over the last decade. Furthermore, these results have rarely reached international standards, nor have they progressed much in 30 years. Individual bargaining through AWAs delivers even less. For instance, by the end of 2005, just 114 federal awards included a reference to paid maternity leave and 49 included a reference to paid paternity leave. The average was 12 weeks for maternity leave and one week for paternity leave. In New South Wales, for example, just 60 awards referred to paid maternity leave and 22 to paid paternity leave, the average duration being nine weeks for maternity and one week for paternity. Under enterprise bargaining, we see that, overall, only 10 per cent of enterprise agreements in Australia make reference to paid maternity leave and six per cent make reference to paid paternity leave. The average is six weeks for maternity leave and one week for paternity leave. Even fewer AWAs refer to maternity leave and paternity leave provisions—seven per cent and four per cent—with the average duration being six weeks for maternity leave and one week for paternity leave.

The committee would also be cognisant of the legislation with regard to parental leave in Australia. At present the law, following a test case at the Australian Industrial Relations Commission, provides for 52 weeks unpaid parental leave. This has been available for both parents for over a decade and is now one of the five new Australian fair pay and conditions standards. The question one must ask of any legislation or policy is: does it address the needs of the population at whom it is aimed and, if not, how should the policy be amended?

With this question in mind, we conducted research—included in my submission—which was published in an *International Review of Psychiatry* special issue on worker wellbeing. I believe the committee have been made aware of this research, even if you have not had a chance to read it to date. The research aimed to document (1) the use of the existing unpaid parental leave provision and (2) access to paid maternity leave. The research was based on a nationwide survey of 1,032 employed members of the Australian workforce. It was conducted by telephone in November 2002. Data was collected with the aid of a computer aided telephone interviewing system. The data was weighted to give a representative sample of the Australian workforce.

Questions were asked about the availability of paid maternity leave and the use of unpaid parental leave at the time of birth of the youngest child. The survey found that 60 per cent of employers in Australia provide some form of paid maternity leave, although we know from other research that that varies considerably. Employment in the public sector increases the probability of access to paid maternity leave. Women outside the public sector are less likely than men to have access to paid maternity leave in their organisations. Collective bargaining associates positively with one's likelihood of accessing paid maternity leave, as does the size of the employing firm.

With respect to the use of unpaid parental leave, 27 per cent of those workers eligible actually availed themselves of the unpaid parental leave benefit. Further, one sex was the only statistically significant predictor of unpaid leave use—that is, women are more likely to use unpaid leave than men, with career and financial consequences for women over their working lives. What are the implications? Unpaid parental leave policy, it would seem, is rarely used,

particularly by men. Men may feel it impedes their career prospects due to the prevailing workplace norms that tend to encourage full-time, long-hours work cultures. This leaves women to carry the double burden of reproduction and interrupted career progression.

The limited spread and uneven provision of paid maternity leave also inhibits women's guaranteed return to the labour market. It may also mean that many women cannot afford to take time off work to have children. The results also suggest that an overall low utilisation of unpaid parental leave, the legislative provision, raises questions about the real value of this policy. Without legislative provision of paid leave, the low-paid non-unionised private sector female employees will continue to go without. For them, the business case will also be difficult to advocate and sustain.

I would like to provide a brief comment on my latest research, which is based on organisationally specific case studies of the availability and efficacy of parental leave. This research has found that the use of family-friendly leave policies, including parental leave policies, is affected by a complex set of interactions. These interactions occur between supervisors, who are often regarded as the major barriers to leave use, but their behaviours are influenced by the interaction of family-friendly policies with other policies of the organisation—for example, pay structures, staffing levels and accounting methods.

Employee agency is an important aspect in enabling an employee to utilise the policies that are available. Employee agency is related to employee security, union representation, gender, autonomy and position in the organisation. Finally, there are the organisational norms, especially around the concept of who the ideal worker is. The resilience of the traditional male model in organisations often precludes men from utilising family-friendly policies.

What we can say from the research available is that parental leave policies within organisations are accessed by women much more than men. This reinforces the gender division of labour both at home and at work. We also know that these policies are more available to and more easily accessed by white-collar workers, reinforcing differences with blue-collar workers. We have also found that women are both family centred and career centred at the same time, and what I would argue is that policies that enable them to achieve both are what is most needed in Australia. In particular, our qualitative research indicates strongly that quality part-time work is what women most need in order to facilitate their return to work.

In conclusion, as we move to a more self-regulated and market driven workplace system we can predict that parental leave and family-friendly outcomes will become more contingent on the business needs of an organisation rather than employees' needs or the social needs of Australia. This will lead to increasing divergence, variability and inequity in the provision of these policies. I believe we need to provide paid parental leave—both paid maternity leave and paid paternity leave—if we are to encourage both men and women to participate in child raising.

We need to continue to monitor the impact of changes in the regulatory regime on the availability of entitlements to parents. We need to much more deeply interrogate the notion of the ideal worker and we really need to give renewed attention to job size, job design and work organisation, especially with regard to that period after maternity or paternity leave—the return-to-work phase—when we know most parents, and especially women, strike many of the problems associated with combining work and family.

CHAIR—Thank you very much, Dr Baird. On the question of your desire to see paid maternity and paternity leave, whom would you see paying for that and what would be the period of time available for maternity and paternity leave?

Dr Baird—I will begin with the second part of your question. The ILO recommends 14 weeks paid maternity leave. That would be a good benchmark, I would say, but we need not restrict ourselves to that. The United Kingdom provides 26 weeks paid maternity leave and is extending that to a full year. In terms of paid paternity leave, internationally Australia lags the world quite considerably. One week is the period most commonly found, and there are not that many people who actually have access to it. We need to really consider what we want men to do in Australia and that would determine the length of time that we should recommend. My research on that is in its early phases and I would not want to make any hard and fast assessments of what is desirable for men at this stage.

As for who should pay, there has been considerable discussion over the past five years in Australia, as you would be aware, on this very matter. The recommendation of the Human Rights and Equal Opportunity Commission was that the government would pay. The advantages of that system mean that small businesses do not have to bear the burden of an added labour cost.

Many large businesses already pay or provide some maternity leave. It varies according to the industry sector. It is most noted in the public sector. I think a model that allows a baseline provided and paid for by the government which can be topped up through individual or enterprise bargaining would be the most appropriate for Australia. To me that would fit in with our trajectory of industrial relations entitlements being provided for workers and would enable us to move between a welfare system and an industrial rights system.

CHAIR—You say the government should pay. But governments do not have any money; they only have the money they take from individuals or companies, from the effort that they produce, by way of either personal income tax or corporate tax. So small businesses would in fact be paying—wouldn't they?—because they would have to contribute money to the government. The government would pay, so they would still be paying more. What do you estimate would be the cost?

Dr Baird—To pick up your first point, I thought the government had quite a large surplus at the moment, so to say that governments do not have any money would seem to be—

CHAIR—It is not their money. It is only the money they have taken away from individuals or businesses, so they have got to give it back

Dr Baird—Frankly, I think that is splitting hairs. So give it back to the whole community through—

CHAIR—No, give it back to the people who earned it.

Dr Baird—But we all earn it. And a paid maternity leave system would benefit children the most. They cannot earn it until they enter the workforce. A tax system is a system of redistributing income.

CHAIR—No, it is not.

Dr Baird—I am not a tax expert but I cannot understand—

CHAIR—It is to pay for the things that the private sector—this is from my philosophical perspective—cannot or will not provide and to provide for those who cannot provide for themselves.

Dr Baird—I heard you say that before. I do not want to enter that debate. I am here to talk about paid maternity leave. The cost estimated in 2002 by the Democrats when they put a private member's bill to parliament was not that high. I have not got the figures with me. I am sure the committee—

Ms GEORGE—It was several hundred million dollars.

Dr Baird—But it could be done within the money that Australia—

Ms GEORGE—The government has made a start, hasn't it?

Dr Baird—The government made an interesting start in providing a baby bonus, so in a sense the government did find that money.

CHAIR—Absolutely.

Dr Baird—It found that money from everyone—to use your argument, Chair—so it is not as if they do not agree with that. The problem with that system, as I see it, is that it makes no recognition of women's paid workforce participation. It encourages—well, we do not know what it actually does. It is a bonus for having a baby. It has nothing to do with linking returning to work and employment participation—and I thought the terms of reference of this committee were to determine a way of doing that.

CHAIR—Absolutely. Does the combination of that bonus and family tax benefit parts A and B really equate to at least 14 weeks paid maternity leave?

Dr Baird—I do not know.

CHAIR—I guess it is tax free too.

Ms GEORGE—What I found very useful in your analysis—and a bit disturbing also—is the slow spread of paid maternity leave, in particular outside the areas that historically have always had it. The Sex Discrimination Commissioner, when she gave evidence, said there needed to be monitoring of what happens in future under the new industrial relations regime. I cannot help but think we might have to change historical practices in Australia because, unlike some of the European countries, we have relied on the industrial relations system, through test cases, to spread a lot of these conditions throughout the whole workforce. Subject to the High Court decision, one assumes that will not apply in future. I think government will have a much more important role in legislating for good social policy across the board. In that regard, I am interested also in the fact that the British government has had to legislate to provide the option of

returning to part-time work. Has any of your research picked up on what is happening in the UK and how well or effectively the system of guaranteeing by legislation the option of quality part-time work on return to the workforce—or at least forcing employers to seriously consider it—is operating?

Dr Baird—I think your analysis of what will happen is quite accurate. We are shifting from a system of employment entitlements regulated by a third party to one which requires government legislation. We have seen some moves to do that. The baseline is quite low and we had an opportunity to improve our conditions. It is a bit disappointing that we did not go further in those five minimum standards. You also pointed out that diffusion has been very slow—and that is absolutely correct. In 1973, federal public servants received 12 weeks paid maternity leave, and that is really where it stayed for the next 30 years. The state governments have only caught up in the last couple of years; some now provide 14 weeks. So to move through that system, it would seem, is quite difficult, and I think it requires government leadership—an opportunity which, as I said, I think we have just missed.

As to the British system, from which I think Australia could learn a lot, they have been very innovative. Similarly, they been struggling with the issue of female participation rates and how best to provide a system that enables families to bring up their children in the best conditions possible and enables employers to manage their workforces. So the introduction of the right to request was a very important move in the United Kingdom. The family provisions test case decision in Australia went some way towards adopting a similar provision, but that has, one might say, dissipated under the new system whereby parties will no longer have the right to put that in awards, as far as I understand it.

I did not do the research on the UK, so I can only speak from what I have read. The reports from the UK government and academics who have analysed their system show that employers have adapted very quickly to the right to request and that it has had quite a significant uptake. The sky has not fallen in on the United Kingdom even though they have introduced quite a radical change in their employment conditions. Maternity and paternity leave provisions are paid for by the government. I think they pay 105 per cent to small business to compensate them for the additional administrative work they have to do.

An interesting aspect of their scheme is that it is paid through the employer to the employee. I think that is a really important indicator of the link that they are trying to make with participation, child care and labour force participation, so that the employer receives the money and pays it to their employees but it is funded by the government. I cannot really add much more to that. There is a lot of research. The Department of Trade and Industry's website in the United Kingdom provides some very good reports on their scheme.

Mr CADMAN—I have only just received your paper, *Rethinking work and family policy: the making and taking of parental leave in Australia*, so excuse me if I cannot give it the attention it deserves. Just for clarification, you say in the introduction that we do not have comprehensive statistics documenting the use of existing unpaid parental leave. As you go into the paper, you talk about this topic using fresh data from a cross-sectional survey of Australian employees. I cannot find in your paper how large a sample that was. Can you help me there?

Dr Baird—Certainly. It is in the paper.

Mr CADMAN—I have no doubt about that. It is just that trying to read it quickly, and with the size of the print, I found it hard—

Dr Baird—That is all right. You will be able to lie in bed at night, as I tell my students, and read it.

Mr CADMAN—You then launch into hypotheses of various types. I am not criticising that, but what is the basis of the hypotheses? I guess that is what I am asking.

Dr Baird—The way an academic paper is written—

Mr CADMAN—No. Where in your paper is the size and the scope of the survey mentioned?

Dr Baird—It is in there, but I will tell you. I also read it out this morning. The survey was done by CATI, which is a computer aided telephone interview. It is a recommended and used method. The survey was of 1,032 employed members of the Australian workforce. This was a representative sample and the data is weighted statistically to represent the whole workforce.

Mr CADMAN—So the male and female demographics—

Dr Baird—Absolutely. Age—

Mr CADMAN—and workplace status?

Dr Baird—That is right.

Mr CADMAN—So for each category there is quite a small sample, I suppose.

Dr Baird—The point of this sort of work is that, statistically, the models enable you to use a sample of that size which is statistically relevant and valid to model your outcomes.

Mr CADMAN—I see you got between a 65 and 70 per cent predictability result. Would you regard that as statistically significant?

Dr Baird—This paper has been through a review process internationally which also checks all the statistical processes and data used.

Mr CADMAN—I am not talking about the process—

Dr Baird—That is where the validity and reliability are checked and, yes, it is a valid and reliable test.

Mr CADMAN—Okay.

Ms GEORGE—It is about the same sample that Newspoll, for example, uses.

Dr Baird—It is a bigger sample than the ABS uses.

Mr CADMAN—I am now starting to understand how you did this.

Dr Baird—Sampling requires particular scientific expertise. There are standards and regulations that people use and we have followed all of those in this paper.

Mr CADMAN—How did you develop the hypotheses? I am sorry, but I cannot get through this in time.

Dr Baird—I understand that. The way in which a paper like this is written is that it builds on previous research, surveys and data.

Mr CADMAN—So you selected data that you think is interesting and wanted to tease out and test against the survey—

Dr Baird—We do not select data which we think is interesting; we go to all the research that is—

Mr CADMAN—Excuse me, that is a question. I am not making a statement. I am asking you to tell me.

Dr Baird—I am answering the question. We do not just—

Mr CADMAN—Let me finish and we will be fine. How did you decide which hypotheses were the ones you wanted to explore and where did you gather the data from? I assume it was from the survey. The questions were available for you to tease out the answers you wanted from that, or the answers to the questions you wanted to ask. Is that the way it worked?

Dr Baird—Shall I answer the question?

Mr CADMAN—Yes, please.

Dr Baird—The way it works is like this. One develops a survey and contributes questions to that survey. The questions I particularly wanted asked in this particular survey were, firstly, about who uses our unpaid parental leave policy and, secondly, who has access to paid maternity leave. The survey itself had a number of other questions which are not analysed in this paper because they were not relevant to this particular survey.

Mr CADMAN—Fine.

Dr Baird—They are the questions. The hypotheses come from previously published scholarly and peer reviewed research. One builds up hypotheses based on what the literature already says. The statistics give you an ability to test those hypotheses. We were testing those hypotheses against the discussion in Australia about the availability of paid maternity leave and the use of unpaid parental leave.

Mr CADMAN—I think the results are very interesting and somewhat surprising, because I felt that unpaid maternity or paternity leave was a way of assuring re-employment in a similar

position without the loss of earning capacity and of giving the worker a choice, but your information shows it is basically unused. That is fascinating. To what degree was it used?

Dr Baird—I summarised that in my presentation this morning and it is in the paper as well. Twenty-seven per cent of those workers who were eligible to use it at the time that the survey was taken used unpaid parental leave.

Mr CADMAN—Are males and females about the same?

Dr Baird—No.

Mr CADMAN—Males were less, I think.

Dr Baird—Much less.

Mr CADMAN—That is fascinating.

Ms GEORGE—As a matter of interest, have you been able to correlate your results with some of the other databases that have been held by, say, the Employment Advocate or other research groups? They appear to me, from what I have been reading, to be fairly consistent.

Dr Baird—Yes. The paper also says—and this is one of the reasons we have been doing this research—that there was quite a significant gap in Australia in our understanding and knowledge of the use of all parental leave policies. The last major survey was undertaken by Helen Glazer in 1985, I think. ABS was not collecting this data until the last year or two and has only this year begun to collect similar data.

Data exists in different forms. I do check with the EOWA and I have very good relationships with the federal government agency. I am actually a judge on their work and family policies. The EOWA collects data from large organisations about whether or not the policies are in place. In this sort of survey and later research we were trying to find who can use those policies. There is a difference between organisations providing the policies—and that is the figure we have had for some time—and actual take-up.

CHAIR—Did you explore the reasons?

Dr Baird—You cannot explore the reasons very easily in big surveys, but that is the research I am doing now. We have about 10 to 12 case studies exploring those very issues being run at the moment in organisations. What enables an employee to use the policies that are available and what prevents them from doing that? Why do organisations introduce those policies and what forms are those policies taking? That research is in progress and I can talk about that a little bit at the moment, if you wish, otherwise we can—

CHAIR—Yes, I would like you to.

Dr Baird—I think it is very interesting. We are finding, first of all, that organisations are introducing quite a range of different policies now. We find that women particularly are still the ones who make use of those policies. Men in some organisations would like to make more use of

their policies but, as I mentioned briefly in my opening address, they are prevented from doing so because of what we refer to as either organisational culture or social norms within that workplace.

CHAIR—It is not blokey.

Dr Baird—Exactly. The blokey culture is still very strong, and it surprised me how strong it still is. Not only is it a blokey culture; the resilience of that traditional male breadwinner model is still very strong, coupled with the long working hours culture. And lean organisations, which we find everywhere, do not give much slack to replace people who are on leave, which puts a lot of pressure on managers, supervisors, team leaders and workers, and so we find that people do not use the policies to the extent that perhaps they could.

CHAIR—When we are discussing these areas we all use the term ‘family-friendly’. Yet if I start to look at some of the international research and compare the fact that Australia has the higher birth rate, at 1.77, versus, say, Spain or Italy at 1.12, what really seem to make the difference are female-friendly policies. Bob Birrell in his publication points out that in Australia the difference in the birth rate is really made up of women who are prepared to have children outside partnering, outside marriage.

Dr Baird—Sorry, I missed the bit before.

CHAIR—The difference in our birth rate and Spain and Italy’s birth rates is that in our culture women are prepared to have children outside of marriage. In those cultures which are very paternalistic, they are not. So they walk away and do not have children at all. When looking at the question ‘what is a disincentive to having children?’ we constantly use the term ‘family-friendly’. But should we make a separation from things that are family-friendly and things that are female-friendly? I do not know of anything, other than this paper that I have seen by Bob Birrell, that starts to make that distinction.

Dr Baird—That is a very good point. We made an argument in 2002, the first time I presented data on paid maternity leave in Australia, to say that we should keep calling it ‘paid maternity leave’ because it is women who use it and it is women who give birth. There is quite a debate in academic circles and policy-making circles, both in Australia and elsewhere, about whether you should actually de-gender those policies and make them ‘parental leave’ or ‘work-life’ policies, even more broadly.

CHAIR—If we could share the pregnancy bit, maybe it would happen.

Dr Baird—I tend to agree with you. On this issue I am in favour of keeping policies that specifically recognise female difference. The one area where women are different is that they give birth to children. I am very much in favour of policies that state that. That does not mean I am opposed to policies that will enable men and fathers to assist as well.

CHAIR—Absolutely.

Dr Baird—But I am in favour of policies that stipulate and recognise the difference. In the USA, for example, where the debates about discrimination took a slightly different turn, they are not allowed to have paid maternity leave because it has been ruled discriminatory.

CHAIR—‘Discrimination’ used to be a word that had a positive connotation, not only a negative one.

Dr Baird—To discern and discriminate are important things to do. From the data in Australia of female participation rates and females’ work-life experiences over their whole lives, we know that interruption due to childbirth has an impact on lifetime earnings and superannuation. We know that it impacts on pay equity. We also know that it impacts on return to work decisions and decisions about where women work and what incomes they earn. In one of our case study organisations 50 per cent of the women who returned to work after taking paid maternity leave returned to work at a lower pay rate than the one they were on before they left. This is a point I think we need to be very aware of in Australia. It goes to Alan’s question about our policy on guaranteeing the right of return to work. That really needs much more investigation. The data and the research we have done show that a number of things happen.

Mr CADMAN—It is interesting that you should say that, because there is one aspect of your work that worried me a little. We do not really know what is behind those decisions and those facts, and it would be really good to do extra work.

Dr Baird—I would like to enlighten you, to let you know that we have got an ARC funding grant that is looking at that very question at the moment. We have industry partners doing that. The results of that research will be released this year, and next year we will be doing household surveys, which will really dig deeply into how people make those decisions within the household.

The point that I wanted to pick up on was that, although the government legislation that has been around for some years says that there is a guaranteed right of return to work, we know that, in practice, people lose their jobs, they are discriminated against or they simply resign because they know the job that they would want to come back to is not going to be there.

Ms GEORGE—Or they are told, ‘You can’t come back part time; you’ve got to come back full time,’ and then they have to make the choice.

CHAIR—Or sometimes they would say, ‘I really don’t want to go back.’

Ms GEORGE—Yes, sure.

Dr Baird—That is also happening, so there are a range of issues. But under the new legislation I am not as confident that there is that guaranteed right of return to work at the same level. There is, I think, an opt-out possibility for employers, which worries me.

CHAIR—Can we look at another aspect. Basically, women in the workforce earn less than men—except for women in positions like ours, actually. So with women becoming a larger and more significant part of the workforce and bringing with them really good skills, they are actually bringing all those skills into the workplace at a lesser rate of pay. Think of the

productivity from the women who come into the workforce, who take up a new job. I cannot remember the statistic but I think it was that two out of every three new full-time jobs are taken by women. That is a statistic I will have to check; I could be wrong. But supposing you have a new job, and you have a male and a female: if the female were to take the full-time job she would come in at a lesser rate of pay, which would mean her productivity would be greater.

Dr Baird—Exploitation is greater, using exactly that analogy.

CHAIR—They are emotive term. But in terms of actual productivity from that person, it is likely to be greater, isn't it?

Dr Baird—It depends on how you are defining productivity. If productivity is a measure of units produced in an hour, it bears no relationship therefore to what you are paying for that person. What you are actually referring to is profitability. The employer makes more profit out of a woman in that situation than he does out of a man, using exactly the example you gave.

Ms GEORGE—We now have the highest share of the national cake going to business and employers, so the profit share of the cake is the highest ever. I think there is a really strong argument that that correlates with the increased numbers of women who have come to work but who are working at lower rates of pay than men would have been, so it is the participation rate of women that has made possible the shifts in—

CHAIR—Prosperity.

Ms GEORGE—Yes—in the share of profit.

CHAIR—There is also a correlation between the percentage of total expenditure that results in profit, versus wage cost, and the size of unemployment when the overall wage cost exceeds, I think, 58 per cent. If it gets to 62 per cent you are in real trouble. So the entry of women into the workforce in large numbers, in full-time positions in particular, has to have had quite a dramatic effect on our economy and the way it behaves. Have you done any work in that area?

Dr Baird—I have not done that particular work, and I do not know that I want to be recorded in *Hansard* as agreeing exactly with what either of you have said, because I am not sure that the macroeconomics work exactly in that way. We do know that women's participation rates are increasing. They are increasing at a faster rate than men's. However, it is still the case that much of that participation is in part-time work, not full-time work. I do have those figures but, unfortunately, I did not bring them with me today. They are fairly widely available.

The other question—and I rather like the argument you are making but I have never written about it—is about whether women's entry into Australia's paid workforce has increased the profits of companies. I do not know that it is a good outcome but it is an interesting argument. I have not seen that research, I have to admit, to say that there is a direct relationship there. But I want to make the point that there is a difference between productivity and profitability, and the example that you were using was about women increasing profits at that individual scale.

Ms GEORGE—It makes sense, doesn't it, if you look at the loss of full-time employment opportunities for mature age men, the fact that a lot of women have come back on a part-time

basis and that there is gender inequity in wages and when you look at the shifts between profits and wages, the wages and profit share. I listening to an interview the other day with George Megalogenis, who has just published that new book on the last 10 years. I think he has done quite a bit of statistical analysis into this phenomenon. It was very interesting.

Dr Baird—That would be interesting. I cannot comment any further on that, I am sorry.

Ms GEORGE—It is worth exploring further.

CHAIR—I think there is an article in the *Economist* that said that women entering the workforce has had a greater impact on productivity than the growth of both India and China as traders on the world scene.

Dr Baird—We all know the abilities of women far outweigh those of men.

CHAIR—Any other questions?

Mr CADMAN—No. I think I have been bagged out enough here!

Dr Baird—I didn't think you were paying attention!

CHAIR—We thank you very much for coming. We appreciate your being able to come at such short notice as well.

Dr Baird—A pleasure. Thank you.

CHAIR—We appreciate the contribution you made today.

Dr Baird—I look forward to your report.

CHAIR—Thank you. If you had those figures handy that we were just discussing and it was no trouble to send them in—

Dr Baird—The participation rate figures?

CHAIR—Yes.

Dr Baird—I can send you a graph.

CHAIR—That would be terrific. Thanks very much.

Proceedings suspended from 11.38 am to 11.49 am

McLACHLAN, Ms Edwina Anne, Private capacity

Witness was then sworn or affirmed—

CHAIR—We are obliged to you for your personal testimony this morning. We have received a submission from you, and I ask that a committee member move that it be formally accepted as evidence to the inquiry.

Ms GEORGE—I move that way.

CHAIR—Would you like to make an opening statement?

Ms McLachlan—Thank you for your invitation to appear today. My submission outlines my background and my experience of the work-life balance, which I understand is the focus of the inquiry's terms of reference. Would you like me to read through the submission?

CHAIR—You can either read through it or refer to it, whichever you find the more comfortable.

Ms McLachlan—As I have not afforded you much of an opportunity to read my submission, I would prefer to read it and see how we go.

CHAIR—All right then.

Ms McLachlan—I am 42 years old and have two children, aged 10 and six. I am a qualified lawyer and practise in the area of tax litigation. I obtained my degree as a mature age student and studied at the University of Technology in Sydney between 1991 and 1995. To support myself I worked five days a week as an associate to a judge on the New South Wales Supreme Court, and I have cleared my HECS debt. I graduated in September 1995, and my first child was born two months later in November 1995. I had my second child four years later in November 1999. In 1995, with the birth of my first child, my family circumstances were as follows: both of my husband's parents were deceased, my mother was deceased and my father was not in a position to provide us with support. As a result, I have never had access to family-sourced assistance in the raising of my children.

From the time of the birth of my first child in November 1995 to the present, I have worked a minimum of five days per week. The reasons for this arose out of necessity. Without having family support it has always been clear to my family that, to provide for our children, we would have to earn money to pay for resources. Although my husband and I have always been aware of the support the government could provide, as we are both tertiary educated we took the view that we had skills that would allow us to provide those resources through paid work. In 1997, we purchased our home and had to meet mortgage repayments.

Having graduated in 1995, two months before the birth of my first child, I had not had an opportunity to secure my career or any savings through the financial progression of having a career. Consequently, it was clear to me that I would have to return to work within the first year

of my child's life. It was also clear that I would not be able to commence my career as a lawyer until after the early years of my child's life. The reason for this can be summarised as my awareness that the practising of my profession would demand working hours of between eight and 10 hours per day, five days per week. I never considered it possible to accommodate these hours whilst I was entrusted with the care of my young child. The compromise I made was that I would remain as a judge's associate and forgo financial progression as a lawyer in return for the peace of mind arising from my family's wellbeing. I regard myself as fortunate to have been able to make this compromise.

From March 1996, when my baby was four months old, I returned to full-time work. My husband was at that time also in full-time work, as a journalist employed by the New South Wales department of education. From March 1996 we initially had family based child care outside of the family home. It was terrific care. However, the constraints on that kind of care were its propensity to be unreliable and, as my child developed her social and language skills, her need for the company of other children.

From there we secured long day care, run by the Communicare network. I cannot praise this care highly enough. It was compassionate and intelligent. My children, who are now in years 1 and 5 of their primary schools, can visit the centre whenever they wish, and many of their carers are still there. Many of their friendships at their schools were made at this centre. In addition, as a family we have real and supportive links through the centre with other families in the community, which is not a community we grew up in. For a parent in my position, without family support, the presence of affordable community based child care of such quality has meant I have been able to work, pay taxes and provide for my family, rather than become dependent on welfare.

In 1997 my husband was retrenched from his then full-time position. Since then I have been the principal provider for my family. This is not a situation that I expected, but I accept that at the age of 48 my husband seems to fall within the demographic of those who will struggle to obtain full-time employment again. Therefore, to supplement the family income, from 1998 I took extra work lecturing part time at the universities of Sydney and New South Wales in my chosen fields of law and taxation. This entailed preparation time of another eight to 10 hours per week—in addition I worked five days per week for the judge—and attendance at a two-hour lecture once a week for each 13-week semester. This took time away from my family but meant we were able to continue to pay our mortgage. However, we were unable to save any money at this time and became increasingly reliant on unsecured credit.

In 1999 my second child was born. Approximately one to two months after her arrival I recognised that I was likely to experience postnatal depression and extended my maternity leave from four to six months. As the principal provider to my family, I was indebted to my then workplace, the Attorney-General's Department, for accommodating me with the extra time to recover from this situation. I believe part of my experience at this time was how to reconcile the duality of being a committed and loving parent with the reality of being the principal provider for my family. During this time it became apparent to me that to increase my income I would have to move from a moderately-paid but family-friendly workplace to one that would not be family friendly. In 2001 I entered private practice. This enabled my family income to be available from one place—the principal workplace—instead of two, so I no longer had to lecture part time to supplement the family income, and it eased the burden of managing two jobs and

two children. It also meant that my husband could mind the children for some of the week and ease the burden of long day care centre fees.

Implicit in this reorganisation was the realisation for my husband that it was unlikely he could seek a permanent position without rearranging our children's care arrangements. From 2000 to the 2001 tax year and continuing into this tax year, I have been dogged by debts arising from family assistance and the child care benefit. About that, what I am about to say is a bit pessimistic, but I would like to say that I am very glad that it is there. Women in my position, who are just over the cut-off limits and do not earn enough money to have the cash flow to repay the overpayments outright, honour our obligations but we continue to be dogged by the fact that, after tax, whatever incremental percentage pay rises we get—which are in the range of three per cent—all go back to repaying these debts. From 2000-01, when I entered private practice, until 2005, when my youngest child started school, I have required long day care and kindergarten care. For each year I have exceeded the income limits by approximately \$1,000 per annum. The principal reason for this is that the system under which I am paid involves a discretionary bonus, which is not unusual in my profession. I have always declared what it will probably be, as the act and schedules to the act require, although invariably there is a discrepancy in these figures.

The real consequence of this system is that, whilst I have been excluded from items such as the baby bonus by being a mere \$300 per annum over the cut-off limit, I have always had an additional impost by way of repayment. This has been in circumstances where my income has never been sufficiently greater than the cut-off or means tested to allow me to repay the debt without difficulty—I have just never had the cash flow. Consequently, I carry debt each year which I cannot repay in a lump sum. I find myself in a situation where I am taxed at the highest rate for the last 10 per cent of my salary, and cannot free myself from the extra impost. To further compound matters, to stop recovery proceedings against me by Centrelink, I must continue to receive the child-care benefit so that my entitlement will be applied to reduce the debt arising from my eligibility to receive the so-called benefit. The consequence is that I continue to receive the benefit to stave off recovery proceedings for a debt that is of a size sufficient to commence bankruptcy proceedings—that is, greater than \$2,000.

In addition, I find the administration of family assistance and the child-care benefit inconsistent. I frequently am in the position of having to explain the difference between gross family income and taxable family income to establish the cut-off limit. I find myself in the situation of explaining that the department must have my tax file number, because, at the very least, it must be on file to reconcile my overpayments through the taxation system. I find myself in a position of having to constantly supply the details of immunisation, without which payments are not made, which leads to a situation of me allegedly being in default of my payments and the threat of recovery proceedings commencing again. The attitude is always that I have somehow lied to or cheated the department, and I find that attitude perplexing and unfair. From anecdotal evidence, my experience is not uncommon.

With respect to before and after school care—which is a situation that I would now take advantage of if it were available—from 2001, in respect of my eldest child, my family tried to obtain reliable before and after school care. No suitable care was available. After several attempts, resulting in unreliable care, food poisoning and one memorable afternoon when my child was not collected and the community funded care could not tell us where our child was, we

decided that it probably was not very responsible care and decided to cease using it. Again, my experience is not uncommon.

There is no question in my mind that, in the absence of what I would call responsible and reasonable before and after school care, my husband must be available to drop my kids off to and pick them up from school. This has deepened the restrictions on my husband re-entering the workforce. Clearly, he cannot work during the hours of nine to five. This makes him completely dependent on hours that allow him to start at 9.30 am and leave at 2.30 pm in the local area. His experience is that these workplaces are completely arbitrary and provide no certainty of work, pay or conditions. This has been the cause of great personal humiliation to my husband.

Regarding our financial position, for the reasons stated above the combination of what I regard as quite heavy personal taxes on the last percentage of my salary and the inability to get relief through the family assistance program have had real consequences for my family. We rely heavily on unsecured credit card debt to fund our obligations over and above food and mortgage, we do not have a new car, we do not go on holidays, we have no private medical benefit care—my husband cannot afford much-needed dental care—and we have no savings other than the equity in our home. That ends my opening statement on quite a bleak note but, of course, like any mother, I would not change my situation at all.

CHAIR—Edwina, thank you very much for coming and giving your testimony. It gives us an insight into the life of a professional woman who is working very hard and facing the difficulties of being the major breadwinner for the family and balancing the emotional fallout of that. We are very grateful to you for coming and sharing that story with us. I will start by asking about what I hope has been a bit optimistic for you: did the budget help you?

Ms McLachlan—Yes, of course. My commitment to myself is that I must move forward in my career. I cannot give up. I cannot look back. I am also a role model for my children, so I cannot give up for that reason as well. I have also had the advantage of a first-class education, so there is no reason to give up. But it is incredibly difficult to feel discriminated against because you have children and because you need child care for them. If I had a mother or other family member who could have minded my children I would have chosen that option—and not just for the financial reasons, which are undoubtedly beneficial in the culture that I am working in, but also because it would have been better for my kids, I think. But that just was not available; it was never an option.

CHAIR—If your child-care expenses had been tax deductible, would that have helped you?

Ms McLachlan—In my circumstances, for me there is no question that the expense of child care is ‘necessarily incurred’ in the way in which that phrase is used in the tax laws—in section 8.1 of the Income Tax Assessment Act. For me, whichever way you cut it, it is an expense that is necessarily incurred. The question is whether it is incurred on a black market cash basis or through quality accredited care.

CHAIR—So the answer is yes, it would help you.

Ms McLachlan—Yes, it would help me.

Ms GEORGE—If you had the means to implement family-friendly policies and you were in our position, what are the two or three main issues that you think we could productively address in this report that would help in cases like yours and many others? What do you think are the main issues?

Ms McLachlan—The first and easiest issue is the one which prompted me to come today, which is that the circumstances of some families mean the expense of child care will be incurred to enable them to work. The second thing of course would be recognition that there are fundamental benefits to our society in having community based quality care. It creates a community, it allows a community to be fostered and it gives children a community—and that has been the experience of my children going from a long day care centre, where there was longevity and certainty in the staffing, to a school where there are several of their friends from the centre and the ones who are not at their school are at surrounding schools. And there is the fact that the families now network in the event of someone running late or if a train breaks down or something like that. So it has created a community where the opportunity for a community may not have been there.

CHAIR—The school gate has been very productive.

Ms McLachlan—It has.

Ms GEORGE—That is an interesting take on it—the creation of community through child-care arrangements. I had not thought of that before. Thank you for that.

Ms McLachlan—Yes. This is not a community we grew up in. I had a very privileged upbringing and I am now living in an area that has a different demographic. In my daughter's primary school, I am one of only two or three parents I have met who is a working mother. Most of the families are two, five or seven in number. Women in the smaller families would love to get back to work, but they struggle to obtain part-time work that enables them to drop the children off and pick them up, because there is no reasonable before and after school care. For women in the larger families, it is just not possible. What I find interesting is that I am one of the only women who are the principal provider. Most of the women have accepted that they will not work again, and I think it causes them anxiety about what will happen down the track as their children become more independent: what will they do with their lives? That is not what I see as a forefront issue; it is just an observation.

CHAIR—Also, what happens to them if their marriage breaks up?

Ms McLachlan—Many of these women are in rental accommodation. Their husbands are in low-paid jobs, which is why they cannot afford child care. Most of them are not tertiary educated; therefore, they will be looking at low-skilled jobs. Their experience is pretty similar to that of my husband: part-time jobs; arbitrary, uncertain hours; and no certainty of work. So those women will be left without principal assets, without superannuation and without immediate skills that they can—

Ms GEORGE—Future poor.

Ms McLachlan—Yes, indeed.

Mr CADMAN—So would your husband.

Ms McLachlan—Occasionally I remind him of that.

Mr CADMAN—You seem to have had more trouble with before and after school care than you did with preschool care.

Ms McLachlan—That is correct.

Mr CADMAN—You seem to have managed both the finance and the availability of preschool care but not of before and after school care. Has inconsistent quality been the biggest problem?

Ms McLachlan—At the moment, because our children are at primary school, there is no responsible before and after school care in our area.

Mr CADMAN—Really?

Ms McLachlan—Yes.

Ms GEORGE—That is not uncommon, Mr Cadman.

Ms McLachlan—We have tried several providers: Anglican providers, federal government funded providers and private families. Private families obviously were optimal but inherently unreliable.

Mr CADMAN—What you are really saying is that it is about supervision and management. It is available but not of the quality that you want?

Ms McLachlan—Correct. It is not responsible.

Mr CADMAN—That is a concern.

Ms McLachlan—It suffers from a lack of qualified carers, which is not what you see in centres like Communicare. All their carers are qualified, dedicated and committed.

Mr CADMAN—It is a different service. But you are saying that the quality is not there.

Ms McLachlan—Yes. I have seen children injured at after school care due to a lack of supervision. I have seen older children bash younger children because they were unsupervised. I have seen children who are unruly and not being controlled by the supervisors because they are afraid of the children.

Mr CADMAN—That is a good comment. Thank you for that.

CHAIR—If you were able to have tax deductibility for someone to come into your home, be at home when your children come home and care for them until you come home, would that help your circumstance?

Ms McLachlan—Yes. It would change my life.

CHAIR—For the positive, I take it?

Ms McLachlan—It would change my life for the positive because it would mean that the underlying anxiety that I have as a working parent, which is that I am not with the children, would be removed and I would have a responsible person who I could ring and ask: ‘Are you okay? Are the kids okay? Are they doing their homework? Don’t let them eat chocolate.’

Ms GEORGE—You made a big point about building community. In terms of your children, would the trade-off be worth while if they had home based care for themselves rather than being in a centre with others?

Ms McLachlan—From my experience, there is a definite separation between preschool care and how that fostered and added a sense of community for both my children and me. I am aware that many professional women prefer and can afford nanny based care, which is home based care. That was never an option for me, so I cannot comment on that experience because I have not had it. In terms of preschool care and primary care, the sense of community that came from our centre was a benefit which I had not predicted. As a rational professional, I was not really sure what the outcome would be. My primary focus was to make sure that my children were adequately cared for. The lesson that has come through about community is something which I did not expect, but I believe that it is a wonderful benefit for the community in which I live.

In terms of before and after school care and having somebody coming into my home, I believe my children’s sense of community is well established. Being the ages they now are and because the community is well established, having someone to come in and make sure that the homework has commenced, the dinner is cooked, the uniforms are hung up and that they are not running around in the street unsupervised would not impact on the children’s appreciation or sense of community. At this age, friends come over after school and children go to the park. My children have a music lesson one afternoon a week, which they would need to be taken to and returned from.

Ms GEORGE—You have had some experience with family day care, so if we were to recommend that the model were expanded so that the parents had the option of either in-home or out-of-home—

Ms McLachlan—That would be the optimum—

Ms GEORGE—or individual—

Ms McLachlan—I have heard rumblings of this kind of policy through the media, which is my only access to these policies, and I would certainly regard a policy such as the one that Ms George has just touched upon as a matter of commonsense. It is one that would support communities and assist families in remaining within communities.

CHAIR—Your ideal would be for the preschool period to be in a preschool—

Ms McLachlan—Such as the one I experienced, yes.

CHAIR—institution like the one you experienced and then, when they move into ‘proper’ school, to have the ability, through having tax relief, to have someone in your own home who could manage that part for you.

Ms McLachlan—My preference would be to have the care you described but, if what was on offer were an extension of long day care, I would be open to that as well. It would not have to be in my home.

Mr CADMAN—If before and after school care were run properly and you could depend on it, you would accept that as well?

Ms McLachlan—Yes.

Mr CADMAN—It is the unreliability of it and the quality of it that you worry about?

Ms McLachlan—Yes.

Mr CADMAN—That would release your husband, too, wouldn’t it? I think in your submission you say that at the moment he is limited to working between 9.30 and 2.30.

Ms McLachlan—Yes.

Mr CADMAN—And if you had a reliable extension to the child care, your whole family would be better off?

Ms McLachlan—Yes. My husband has never complained about his circumstances, but I think work is important for your identity as a person. I think that it is preferable that people have some sense of self through work, be it part-time or full-time work.

Mr CADMAN—I think that is generally the case. I agree with you.

CHAIR—And you think that applies to both men and women?

Ms McLachlan—My experience is of the other side of the illusion, I suppose. Having seen the sacrifices my husband has made, yes, I do.

Mr CADMAN—I just want to check what Jennie said. The concept of family day care extended into before and after school care—is that what you were saying, Jennie?

Ms GEORGE—No. I meant even in terms of the preschool years. If you have the option of long day care, family day care, and in-home and out-of-home individual care, so that you have a range of options—

Mr CADMAN—I was wondering whether there was a thought that family day care could be adopted for before and after school care. So you have three or four children together in a home, being cared for by somebody who is properly qualified, because family day care does not usually extend to long day care, although it can.

CHAIR—But then you could ask yourself: why would it not be equally fair for three families, for instance, to share a nanny in one person's home?

Mr CADMAN—Exactly.

CHAIR—It does not have to be the mother of one of the families, does it?

Mr CADMAN—That is right.

Ms McLachlan—I think that proposition is one that many working mothers explore. It has the attraction of being able to pool resources and reduce costs; however, I am yet to meet a family that has been able to successfully implement that, which only demonstrates that my experience is that it is uncommon. I am not saying that it would not work.

Ms GEORGE—We have had evidence of it working, particularly in the case of shift workers, such as people who work for the airline industry. They were pooling resources.

CHAIR—We took evidence from a firm in Melbourne that has formed a business of matching up parents to share a nanny.

Ms McLachlan—That is great.

Ms GEORGE—I guess part of the problem is that, when you talk about nannies, people just imagine that it is for the top-income elite. That is why I prefer to use the term 'in-home care' rather than 'nanny care'.

Mr CADMAN—I think that is a better description.

Ms McLachlan—My experience has not been of the extent to which the debate is capable of being hijacked by middle-class notions. I live in a working-class suburb. I need to work. Most of the families, if not all of the families, I know in my area and with whom I have shared care have all needed child care. The idea of an elitist debate has not been my experience, because that has not been a choice.

CHAIR—I think the thing that always confounded me was the finding of the High Court that said, 'Yes, this person could not work without having child care, but it still does not meet the provisions of the act.' I find that a very hard decision to come to terms with.

Ms McLachlan—Yes. I think it was more the way the case was run in the first instance.

Mr CADMAN—Have you had a look at that?

Ms McLachlan—Yes.

Mr CADMAN—I would not mind hearing from you on that. Surely we are creative enough to write laws and create provisions that would meet the High Court's expectations.

CHAIR—Basically, the court said: 'This is a political problem, not a legal problem. If you want it to be a tax deduction then you have to legislate that way in the parliament.' That is basically what they said to us.

Ms McLachlan—That is right. It is probably not a matter for extensive debate by me today. However, it does create an interesting dilemma. If you can be self-employed or employed through a service company as a contractor—and, provided you satisfied the 80-20 test, all of the costs associated with running your business, even though you are principally self-employed, become deductible—it would seem that a test could be formulated along the lines of the 80-20 rule about the principal source of income, with similar facts to be collected from the taxpayer about circumstances.

Ms GEORGE—What are your views about fringe benefit tax concessions to employers and how that might be reconstructed to provide more options for people?

Ms McLachlan—The difficulty with fringe benefits for the provision of child care is, first of all, the associated costs of starting, implementing and carrying out child care by employers—and that experiment seems to have failed—and so you come back to whether or not employers should provide direct payment to child care from the gross salary—

CHAIR—Do you mean salary sacrificing?

Ms McLachlan—Yes. I assume that is the model you are exploring.

CHAIR—Yes, we have taken evidence on that too.

Ms McLachlan—I think a concessional rate, perhaps one or two percentage points under what it is now, may be required to make that attractive to employees, because the effect of FBT, as you know, is that it is still grossed up on your salary, so you are still left with the dilemma of affordability. As my submission touched upon without giving detailed facts, my experience is that the time of your life when you are having children is usually between the early 20s and mid 40s. That is the time at which you would expect most people—certainly from their 20s on—to be establishing their careers, their savings and equity in their home.

The reality of those situations coming at a time when you have a young family is that there are a lot of outgoings at that point in your life. That means that child care, which may be affordable when you are more established and have some savings, becomes a real strain on the family budget. Without the tax relief through the FBT being a few percentage points lower, after the FBT benefit is grossed up the tax system is not really able to assist you. What you would get would be an inequality in the benefits that are provided, and, if it were not firmly set in train as trying to direct peoples' behaviour towards taking child care, you would have a situation where it would seem unfair—and that is to be avoided.

CHAIR—So are you saying that, even though an exemption were granted to the employer from FBT, the fact that in the hands of the employee it is grossed up means that you are still not getting the full benefit of the salary sacrifice?

Ms McLachlan—Yes.

CHAIR—That is a fair comment.

Ms McLachlan—And the other thing to remember about FBT is that FBT works once you get over those thresholds and you are into the 47 per cent tax bracket—

CHAIR—It is 45 now.

Ms McLachlan—Not yet.

CHAIR—And not until you get to \$150,000!

Ms McLachlan—Not till 1 July! The other thing that happens is that the behaviour that is driven by FBT is usually the behaviours of people who are in a unique position of affordability in any event. The principal concern is the bulk of people who need child care. That is my perspective.

CHAIR—Thank you very much, Edwina. That has been most enlightening for us, and we do thank you for it.

[12.26 pm]

JOHNSON, Mr Andrew, Director, Australian Council of Social Service

MACFIE, Mr Gregor, Policy Officer, Australian Council of Social Service

Witnesses were then sworn or affirmed—

CHAIR—The committee welcomes representatives from the Australian Council of Social Service. We do have a submission from you, for which we thank you. Would you like to make an opening statement?

Mr Johnson—Yes, I will make a short introduction and then open it to questions. Just for the record we want to say that the Australian Council of Social Service is the peak body for the community and welfare sector and the national voice for the needs and interests of people affected by poverty and inequality, which, in entering this debate, is what we are most interested in. We really do want to thank the chair and the committee for taking on a very important issue not only for middle-income Australians but particularly for low-income and disadvantaged Australians. One of the themes of this inquiry is the capacity of families to nurture its members. While outside the terms of this particular committee, we did want to remind people here about the 1.5 million jobless Australians who are also trying to find the capacity to nurture the members of their own families.

The other major point we want to highlight is in a general sense around the levels of casualisation in the Australian workforce. In 2004 Australia had the second-highest rate of part-time employment in the OECD. The vast majority of these workers were casual. We are ranking in the bottom three or four in the OECD on that issue.

In general, before we turn to child care, in our view balancing work and family requires workplaces that are able to respond flexibly to family responsibilities of employees; access to supports that enable good family functioning, such as health and community services; and policies and programs that promote good quality employment for all who want and are able to work. This means, for example, better parental leave arrangements; setting and defining the minimum wage benchmark based on a wage level that enables single full-time workers to live a decent standard of life; reducing excessive work time in return for higher productivity; ensuring child and youth payments are adequate to meet the minimum direct costs of raising a child in order to prevent child poverty; easing social security income tests that result in high effective marginal tax rates for the unemployed; ensuring all households have access to appropriate and affordable housing; ensuring all households have access to good quality health and community services; and greater investment in labour market programs for disadvantaged jobseekers.

Today, as you have outlined, we are focusing on access to good quality early childhood education and care, which is a critical determinant of the ability of individuals, families and communities to balance work and family responsibilities. What is particularly important is that early childhood education, while it is important for all children, is specifically important for children from low-income and disadvantaged families. Studies both here and overseas indicate

that those children who get the most benefit out of a good quality accessible system are those children from low-income and disadvantaged families.

Firstly, we would like to say that we do support the directions taken by the government in relation to tightening up compliance around quality standards in child care, including the introduction of unannounced spot checks, which was called for in our 10-point plan. We also support the proposed national child-care management system, and it would be good to talk to the committee about extending that even further than what has been announced. We also support the expansion of JET Child Care, which helps meet the gap fees for low-income parents. However, we do have some concerns about the uncapping of family day care and outside hours care and whether this will actually deliver the places where they are needed most.

Moving straight to the paper ACOSS submitted, *Fair start: 10-point plan for early childhood education and care*. In summary, the recommendations were to publish a scheduled government recommended fee for service so parents can compare costs and quality of different service providers; and replacing the 30 per cent child-care tax rebate with a 30 per cent child-care benefit guarantee so all families will be paid at least 30 per cent of government rates. The other important thing is linking the rate of child-care benefit to the actual cost, and the actual cost also incorporates a quality element. We have heard from the previous speaker, and I am sure you have heard from many other people giving testimony around child care, how important the quality element of that is. So it is about ensuring that the child-care benefit is making child care accessible and affordable but also ensuring quality, which is around the training and the wages of those people working in the industry.

We were pleased to see announcements from the federal government about providing 20 hours of state funded preschool education for all children. Child care has been and is a bit of a lottery depending on where you live in Australia. The states differ by up to 20 per cent or more in relation to the percentage of children who are able to access free preschool education. You would also have heard from many other people giving testimony that, depending on where you are, there could be long waiting lists and issues of affordability. The last point, and one on which we think the government has made some positive moves, is a better planning system for childhood education and care that identifies and responds to demand across the country. We will leave our testimony there. We are happy to answer any questions you may have.

CHAIR—You said you had concerns about the 30 per cent tax rebate, which I happen to think is a real breakthrough. For the first time people will get some of their own money back that they have worked hard for.

Mr Johnson—Sure.

CHAIR—Child care has been a necessary expense to them to achieve that. I see that as a very equitable policy. Is your statement on the question of good quality child care code for saying something else?

Mr Johnson—No, not at all.

CHAIR—So you do not have any problem about the private sector versus the public or community sector?

Mr Johnson—We know that many people prefer community based child care and, given who we are—ACOSS, the Council of Social Service—of course we are going to say that that provides great child care. That is also backed up by international studies. But the issue is not about private or community based child care; what we are on about is that often the child-care debate is not located around the best interests of children. We want to see a system which addresses the need for all children, no matter where they are living in Australia, to have good quality, accessible child care. We would argue that one of the better ways to do that is through community based child care and we would call upon government to do more in relation to assisting community based child care.

CHAIR—What I have noticed creeping into the argument is a disparagement of the private sector and the notion that only community based child care could possibly be good child care. We have to be careful that we do not let ‘quality’ become code. I think most privately run child care is very good and I think it is a shame if people start to say otherwise. I have not met anyone who is running something to make a loss; they either want to make a surplus or a profit. It just depends on the nature of their enterprise. If you are running something well commercially, you will usually get a good outcome. Does ACOSS have a problem with having tax deductible child-care expenses?

Mr Johnson—That is not the problem per se. One of the issues we have with the tax rebate, particularly for low-income earners, is the waiting period. You could wait up to 18 months. You could actually be expending those costs and then, through the tax system, waiting up to 18 months. You have to collect all your receipts. It is a difficult and at times, for some, people a cumbersome process to actually get the return back. That is why we wanted to expand on what the government has already been doing in relation to the child-care benefit. We agree with you that people should be able to get return from the money that they are expending on child care, and we share that agenda. We are saying that, through the expansion of the child-care benefits system, people will get their payments up front. But, beyond that, we link the child-care benefit to the real costs of child care, which looks at issues of quality, payment of workers and those kinds of things, as well as putting in the spot checks.

The other thing we called for in relation to the child-care benefit was an increase in the rates, particularly for low-income families. We think we can achieve the goal we are talking about, not through the rebate but through the expansion of the system, which we think has many assets, to have a 30 per cent child-care guarantee under the child-care benefit rather than a tax rebate.

CHAIR—A tax rebate of 30 per cent is the equivalent of 80 per cent of people getting a tax deduction, because 30 per cent is the rate that 80 per cent of people pay. That is a way of capping it, if you like, and then it is capped at \$4,000 anyway. I think it is an important principle that we are at last acknowledging that it is necessary to have child care to earn assessable income. I think that is an important breakthrough for us. With regard to different families having different needs, does ACOSS have a problem with there being a system which would meet the needs of different parents and families? That is as distinct from their having to meet a model that is laid out, so it would be possible for people—as we were talking about with the last witness—to have care in the home, in an institution or in family day care. That would give people choice that will suit them. Some people like to have their child care near their home; others like it near their work, which makes the planning question quite difficult. Do you have a problem with any of that?

Mr Johnson—No. We actually think that people should have choice but, at the end of the day, we are all interested in having affordable, accessible, quality child care. We do not have a view on which kind of child care is better than others. That is for parents to decide for the children. What concerns us is which people get the choice in Australia about child care. For those people who are low income and disadvantaged, is there a choice? We find, particularly in disadvantaged areas, that there are no child-care centres or there is not a lot of choice or it is just not affordable. For us entering into the debate, while looking at the whole system, we think what we have outlined in the 10-point plan advantages all Australians. But in particular for us it is about what can we be doing for disadvantaged and low-income Australians, and one of the most important things is to work within a demand model.

We are looking forward to speaking to Minister Brough about how the system is going to be rolled out. What we need to be doing is getting capital infrastructure in areas that need it most. Then there is the question of what demographic changes are happening in Australia. Rather than just asking what the snapshot today is, we need to be asking what we need to be doing in the medium to longer term in planning so that particularly low-income families have access to quality child care.

Mr CADMAN—That sounds nice. We have relied on states until now to provide that information, haven't we? I see in your submission that you are suggesting that the Commonwealth monitor that or, if not, take charge of finding out what types of needs are arising to put some predictability into the process. Do you have a preference for the Commonwealth to do that, or do you think the states need to tighten up and administer their areas a little better.

Mr Johnson—I will get my colleague Gregor, who is our senior policy officer, to talk in more detail about the planning model. The federal government already has a planning model in place. There are committees that are meeting to address needs. As you know, the federal government also has a fund to assist people to set up child-care centres.

Mr CADMAN—We cannot say, 'Put it there, because that's where the demand is.' We have never done that.

CHAIR—We would have to work with the states.

Mr Macfie—One of the problems is that the planning model is not that transparent about what goes into it and what comes out of it. From my understanding, there is state and local government planning information, although it seems a bit patchy. What goes in and what comes out is probably very good in some areas; it might be very bad in other areas. The Commonwealth also uses information from the Australian Bureau of Statistics, such as demographic information. All we are saying is that we want a slightly more logical and open planning process so that we are able to measure demand a little bit more effectively so we can pre-plan.

Our only concern with the proposed national child-care management model is that it is more likely to be just about where the current spaces are and where there are not enough spaces at this point in time. What we are saying is that we need a model that is able to predict a little bit more things like demographics, work places, transport and so on. You could also build in parental and family preferences for the type of care. We can find out through surveys and other things what

kind of care people want. As we say in the paper, one of the strengths of the Australia system is that there is a variety of different kinds of care. There is in home care; there is occasional care.

CHAIR—There is very little in home care.

Mr Macfie—Yes, but it is one of those areas where there could well be expansion. It certainly suits people like shift workers and others much better. That is the kind of information we think we need to have in this.

Mr CADMAN—From your experience, do you think the aged care sector offers any model? It is at the other end of the spectrum, of course.

CHAIR—Of course it does.

Mr CADMAN—I want to hear from these people—I know what you would think, Chair! Do you think the way those assessments are done through state committees and the way that works for placement of retirement facilities could be used for child care? Have you looked at that?

Mr Macfie—That is not an area that we have done recent work on, so I do not think that we are qualified to say.

Mr CADMAN—If you felt inclined to do so, I suggest that that might be useful in terms of coming forward with some sort of model that might be applicable to the early childhood serves.

CHAIR—Alan, the problem with that is that the number of people who need aged residential care is only eight per cent of people over 70. There are services for another 12 per cent. The other 80 per cent have a very nice life until they drop off the perch. With children, 50 per cent of children get access to child-care places and there are at least another 30 per cent who are desperate to get there. They are relying on friends, mum and dads or latchkeys.

Mr CADMAN—The choice should be very open. I think that is a very sound proposition. Predictability has been a problem. I have an oversupply—some centres are half-filled in my area. I know that in Blacktown it is the same. But in other parts of Sydney there is a dearth of places.

Mr Johnson—That is right. There is also the affordability issue, which is why, rather than the rebate, we say that the government under the CCB program should say to people, ‘Let us have a scheduled list of fees.’ The government should look at the affordability issue and link CCB to the real cost of child care.

CHAIR—That sounds like an awful parody of the Medicare system—a scheduled fee and so on. I do not think so.

Mr CADMAN—I think the cost of child care will rise in relationship to the government subsidy in that process.

CHAIR—Absolutely. I am all for giving people back some of their own money to let them spend it as they see fit.

Mr Johnson—A lot of the evidence coming out is that there are long waiting lists or—you raised this issue—not a lot of choice. People have to get in where they can get in. One of the issues around giving a scheduled set of prices, which would be done in consultation with the community sector and the private sector, would be that parents would actually be able to say: ‘Well, this is interesting. I am being charged X amount more than the scheduled fee. Why is that? What else am I getting for the services that I am paying extra for?’

CHAIR—Yes, but if that is the only spot you can get it is not a very relevant argument.

Mr CADMAN—They do that already.

CHAIR—They do.

Mr CADMAN—Listen to mums talk—and men alike: they know what they are getting for the value of their dollar.

CHAIR—They also know which is their preferred home, where the kids that they want their kids to play with are.

Mr CADMAN—That is true.

CHAIR—We talked about networking at the gate. I have still got friends who were parents of kids who went to preschool with my kids.

Mr CADMAN—You also suggest an almost universal access to preschool. I do not hear much of a demand for preschool, I have to say.

Mr Johnson—It depends on which state you are in. There are some states which have a coverage in the nineties, in terms of universal preschool. There are some states where it is around 70 per cent or 60 per cent.

Mr CADMAN—In New South Wales it is about 54 per cent. Is that the right figure I picked up?

CHAIR—New South Wales is running behind everything on everything.

Mr CADMAN—Whether it is long day care, short day care or anything else.

CHAIR—Or employment or anything else.

Mr Macfie—New South Wales is 58 per cent, whereas WA and Tasmania are close to 100.

Mr CADMAN—That is interesting.

CHAIR—That is interesting.

Mr CADMAN—Do you do any survey work or heavy research, or do you just react to your membership?

Mr Johnson—Both. One of the things we do, not specifically on child care, is a survey of the sector each year, talking about unmet demands and needs and where the community sector is. But we will be looking at child care more specifically this year.

CHAIR—I was particularly interested in the statement that you made that the people who benefit most are children of low socioeconomic groupings. What we have learned in the course of this inquiry is that most marriage break-ups occur in low socioeconomic groups. They are least likely to partner. So they are on struggle street. To have that resource, I can see, could give a degree of certainty in the lives of small children, in terms of behaviour in a group setting, which could be very valuable. Is that what you found?

Mr Johnson—Yes. It is not that all children do not benefit, but when you see the gains of children, as you rightly point out, it is most in lower socioeconomic groups. There is also the interplay with the changes that will come in in July 2006, particularly for single mums who are struggling. As you know, if two single-parent families apply, one in January and one in September, the person who applies in September will be on the dole rather than the pension. There is also the interrelationship with participation. ACOSS and our members agree with the participation agenda, but we want to make sure that it is done appropriately and we want to ensure that the supports and training are there for mothers to return to work.

Also, is the child care available? The Prime Minister has made some guarantees around not being forced to accept a job pursuant to your obligations unless there is appropriate child care. But one of the issues people talk about is that even if child care exists it may not be appropriate. Who is going to decide what is appropriate? What happens if a child has particular problems within that child-care centre? They should be able to take that child out and explain to Centrelink and other officers: ‘Look, I had really big problems. My child’s not doing particular well or is being damaged in this place. Can I go somewhere else?’

Also there is the work-life balance, particularly for single mothers. As you know, single mothers face multiple disadvantages. If you look at poverty indicators, it is single mums who are doing it toughest—escaping domestic violence, having issues of homelessness, trying to bring up their kids if their kids have got sickness. Child care is incredibly important but particularly for those single mums who will go onto the dole rather than the pension. Are we going to have the supports and services in place for those women?

Mr Macfie—That is one of the reasons we support the child-care benefit as a way of delivering fee relief for people. It is a highly progressive and equitable way for government to meet some of the costs of child care, particularly for lower income groups. They do benefit less from policies such as the 30 per cent child-care tax rebate.

CHAIR—That is because they have to wait for it, and they are probably not paying any tax—

Mr Macfie—Yes, and the way it interacts with it because they are getting more from CCB.

CHAIR—One of the things that I have come to learn anecdotally, just from talking with people generally who are aware of the inquiry and want to talk about it, is that domestic violence seems to be a far more commonplace cause of break-up in families than I think is recognised. Do you have any research on that?

Mr Johnson—We do. We can send that through to the committee. We did a report on the myths and facts around single parents at the time of the Welfare to Work changes, so we can send that through. The other thing, which you have highlighted in some of your comments here today but which is often overlooked, is the financial strain when you are doing it tough. If you are a single mum and you have obligations, if you are trying to find child care and you are living off a very low income or very low welfare payments, then it is the stresses and strains of those, let alone all those other compounding issues.

That has certainly come out in our research. What we have been finding from the community and welfare sector, particularly in the last two years, is that when asked, ‘Are your client needs getting more complex?’ the vast majority of service providers are saying yes. So when you are looking at those people who are doing it tough there are multiple issues that they are dealing with. It is not just domestic violence; it is homelessness and a whole range of issues. So in policy setting, particularly for low-income and disadvantaged people, we need to understand the complexity of their need, and when you talk to those people at the coalface they tell us that that is increasing.

CHAIR—You said you were in agreement with the work participation desire that underpins the Welfare to Work. Who do you see as benefiting most from that policy?

Mr Johnson—The participation in general or the specific legislation?

CHAIR—The participation legislation requiring you to be actively involved in either getting into the workforce or being in the workforce.

Mr Johnson—First and foremost we are talking about a lot of Australians who are missing out on the economic growth right now, so we have this golden opportunity to invest in those people who are doing it really tough. What we do know is that training is a very important way out of poverty, particularly for single mothers and single parents. That is a very important time to be able to ensure first and foremost the care of their children but also, during that time, to be able to get the skills necessary to get into the workforce.

We often hear about two things going on at the one time. One is that we have a labour shortage in particular areas, but that labour shortage is not always being matched by those people who are unemployed, so we need to be looking at what supports and services, particularly around training, we need to have for those people out of work. We need to see that they are given access through the child-care benefit. We must ensure that there are places and ensure that they are affordable and accessible in their area.

CHAIR—A lot of those workplace skills shortages, though, are of basic tradespeople—plumbers, electricians, construction workers and those sorts of things. A single mum who has been on the single parent benefit is not really going to be able to be trained up in a short time to any of those occupations.

Mr Johnson—I think it is about return on investment, though, isn't it?

CHAIR—Yes, it is.

Mr Johnson—We do have the time now.

Mr CADMAN—We do have the time now—you are right. I think that we must use that well. That is good. I like that point.

Mr Johnson—We can put small amounts of investment in to get people over the line.

CHAIR—I agree with that, but do you realistically see the people we are talking about becoming plumbers, electricians or construction workers?

Mr Johnson—I think it is possible for people if they desire to be trained in a skill. One of the things that we often forget is that 60 per cent of those people currently on the PPS, which is parenting payment single, have a year-10 education.

CHAIR—Yes, I know. That is why I asked the question.

Mr Johnson—What we need to be doing with Job Network providers and with policy setting is working out what the skills are that we need to invest in with this disadvantaged group to assist them to get into a meaningful job that they can progress in and ensure that they are getting a decent wage for themselves and their family. That is what we think the emphasis should be on in the package.

CHAIR—How would that work? Supposing we want to put them into trade apprenticeships, how do we do that?

Mr Johnson—First and foremost, we need to look at some of the disincentives in the current package around training.

CHAIR—This is under JET?

Mr Johnson—There are JET Child Care and JET—

CHAIR—JET training.

Mr Johnson—Yes. If you look at those people who would have been on the pension but are now on the dole, what is the real incentive for people to go into further training? The incentives have actually been reduced. For example, if you are on the pension, there are subsidies that are really important.

CHAIR—That there are not on the dole.

Mr Johnson—That there are not on the dole. In moving them onto the dole, we particularly need to look at those people with disabilities. To give you a very stark example, for people in

exactly the same circumstances in January and September this year, if a person with a disability wanted to further their career or increase their chance of being able to get a job, you would think, 'They want to study full time.' If they study full time—and even if a single mother wants to study full time—then they will now be placed on Austudy, which is a much lower payment than the dole. When you look at the combined effect of those things that a single person with a disability cannot get, you see that they are \$155 worse off per week.

So there is a very big disincentive once people have moved onto the dole. For both people with disabilities and single parents there is a big disincentive about the change in payments and having to study full time. It is also in relation to having the resources there to assist people trying to get into work. Do they have enough resources to pay for courses? Right now, there are very short courses. But if we are going to make a really big difference with unemployment and in relation to participation then we need to be asking: what are the skills and training that this person—taking an individualised approach—needs to get them into the workforce? While there are some efforts being made in the current program, there are not enough to get us across the line. So we are halfway down the field but we are long way from getting the goal.

Mr Macfie—In relation to the skill shortages, another area of skill shortages is human services. I think there is real potential there, where there are no services and where we need more services, for potential reskilling and investment. There may be more opportunities there for the people you mentioned.

Mr CADMAN—Thank you for your presentation. I found it very interesting.

CHAIR—Yes. I thank you for coming and giving your evidence today.

Resolved (on motion by **Mr Cadman**):

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

Committee adjourned at 12.59 pm