

11 August 2014

To Wendy Craik,
Presiding Commissioner

Productivity Commission - Inquiry into Childcare and Early Childhood Learning

To Wendy,

Thank you for the opportunity to provide feedback to the Productivity Commission's (PC) inquiry into Childcare and Early Childhood Learning (CECL) and its draft report released on 22 July 2014.

As noted in the draft report, government expenditure for Early Childhood Education and Care (ECEC) has increased significantly in the past five years and now represents an annual budgetary cost of approximately \$7 billion per year. Despite this, the care of children remains a significant cost for Australian households.

I had concerns upon reading the Terms of Reference (ToR) endorsed by Commonwealth Treasurer Joe Hockey for the inquiry, upon their release in November 2013. I believe they restricted the PC in its scope for the inquiry. As a consequence of the policy and budgetary parameters set by the ToR, I believe that the recommended funding models detailed in the draft report are economically inefficient and radically unfair to single income households (SIH) with a stay at home parent (SAHP).

The ToR state that the Australian Government is committed to establishing a sustainable and affordable CECL market, which "supports the community, especially parent's choices to participate in work". Yet Treasurer Hockey in his budget presentation only months after endorsing the ToR for this report stated that "staying at home should be a parents' choice but there are limits to how much support the taxpayer can give". This clear bias from the Treasurer, who is guiding this inquiry via the ToR, is clearly evident in the proposed funding models.

The absence of SIH with a SAHP in the cost-benefit analysis (which is the most cost-effective method to raise children) contradicts Treasurer Hockey's assertion that "there is a need to ensure that public expenditure on CECL is both efficient and effective". While the ToR give licence to the PC to examine government expenditure and associated costs of parental care in its proposed funding models, there is no mention or reference to parental care in any of the proposed funding models.

In the report there is little mention of the opportunity costs of having children. As the costs of children are lessened to an economic construct, the choice whether or not to have children is reduced to a cost-benefit analysis for individual households with the social, emotional and psychological benefits of children placed a distant second to financial outcomes where parents (predominantly mothers) are cushioned by the Australian taxpayer from the self-inflicted "wage growth penalty" they have to endure in order to have children.

As you are aware, one key draft recommendation proposed in the draft report is that all current payments for non-parental care be replaced by a single "means-tested" payment. Initially I commended the PC for recommending the end of middle and upper class welfare endorsed by successive governments by placing a household income ceiling on eligibility for government

subsidies. However; in two of the proposed funding models most likely to receive greatest consideration by Government, households with an annual income of \$300,000 or more will still receive substantial support from the taxpayer (approximately 28 per cent of out of pocket expenses). In these two models there is no upper income limit where financial assistance cuts off. This is grossly inconsistent with government policy effective from 1 July 2014 that eliminates government assistance to SIH with a SAHP with an annual family income of \$100,000 or more. There is no rationale offered in the draft report why there effectively is no upper household income limit where government assistance is refused. Furthermore, under all four proposed models detailed in the draft report, no household earning less than \$130,000 will be worse off.

This represents a clear net wealth transfer from SIH to dual income households.

Please find listed below a number of key points for your consideration, predominantly relating to the scope of the inquiry, the draft recommendations and findings and the cost-benefit framework. Quote and references from the inquiry are marked in red, with my comments, queries or feedback listed below.

I look forward to exploring these issues with yourself and the Productivity Commission in Melbourne on Monday 18 August 2014. I thank you again for the opportunity to provide feedback to the inquiry.

If you wish to discuss these points further or require additional information, please don't hesitate to contact me

Sincerely

Daniel Attard

SCOPE OF THE INQUIRY

1.1. The draft report only considers non-parental care even though the terms of reference stipulate that the scope of the report shall not be limited to "long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care" (pg vi).

Why does the PC draft report not include parental care in its proposed modelling or cost-benefit framework when the terms of reference allow its inclusion?

1.2. The inquiry considers the "out of pocket cost of child care to families" (pg vi).

Why does the PC draft report not consider the monetary sacrifices made by single income households (SIH) who volunteer to have a parent remain at home full-time, including the subsequent economic benefits to government and social benefit to local communities?

DRAFT RECOMMENDATIONS, FINDINGS AND INFORMATION REQUESTS

2.1. **Draft recommendation 12.2** - The proposed Early Care and Learning Subsidy (ECLS) would be made available "for children attending all mainstream approved ECEC services, whether they are centre-based or home based" (pg 45).

What is the rationale for the PC not including parental care being eligible for the ECLS?

2.2. **Draft recommendation 12.2** - The draft report recommended the provision of "a means tested subsidy rate between 90 per cent and 30 per cent of the deemed cost of care for hours of care for which the provider charges" (pg 46).

What is the rationale for their being no fiscal ceiling or household income limit for government subsidisation to cease for dual income households?

2.3. **Draft recommendation 12.3** - In discussing the inclusion of the income of the second earner (pg 47) and the consequential effective marginal tax rate (EMTR), the EMTR for single income households is not included or considered.

Why is the EMTR for SIH not included, considering that SIH incur the highest EMTR as they sacrifice the secondary household income to provide care for their children?

2.4. **Draft recommendation 5.1** - Payment of a portion of the Family Tax Benefit Part A (FTB-A) to the parent or carer of a preschool aged child should be linked to attendance in a preschool program, where one is available (pg 54).

It is not clear why a payment of a portion of FTB-A should be withheld from families who do not enrol their child in a preschool program. What is the basis for this?

2.5. **Draft finding 6.3** - The participation rate of mothers is below that of fathers and women without children (pg 57).

This acknowledges and confirms that there is an opportunity cost of having children. It should remain at the discretion of each household which parent chooses to disengage from the workforce subsequent to the birth of a child.

2.6. Draft finding 6.3 - "Roughly 165 000 parents (on a full-time equivalent basis) with children aged under 13 years could potentially be added to the workforce, but are not able to be, because they are experiencing difficulties with the costs and accessibility of suitable childcare" (pg 57).

This is based on a false premise that:

- i. All parents wish to re-enter the workforce.*
- ii. All parents would re-enter the workforce if it wasn't for the costs and accessibility of suitable childcare.*

The level of government subsidy for non-parental child care is cost-ineffective for government as a parent (predominantly the mother) leaving the workforce would vacate an employment opportunity for another individual who may be currently receiving a form of welfare payment (i.e. Newstart Allowance). In this case, the government is subsidising the childcare of a parent returning to the workforce while providing an allowance to another individual unable to enter the workforce. The cost-benefit of subsidising parents to re-enter the workforce subsequent to the birth of a child is based on a false premise that the employment market is unable to fill vacated employment opportunities.

COST-BENEFIT FRAMEWORK

3.1. Change in demand for ECEC will depend on "parental employment opportunities and wages as well as family views on the child development value of ECEC services" (pg 844).

While the draft report briefly refers to family views on the child development value of ECEC services, support for SIH with a SAHP is absent from the funding models proposed by the Productivity Commission. The reason for this omission is unclear.

3.2. "The first round modelling assumes that these [employment] opportunities are available (pg 845)". I refer to point 2.6 of my submission.

With Australia experiencing increasing unemployment and rapidly increasing youth unemployment, it is grossly cost-ineffective of government to subsidise a parent to re-enter the workforce when other individuals are available and able to fill the role vacated. The benefits of a parent remaining at home in this scenario are:

- i. A previously unemployed individual is now employed.*
- ii. Cost to government is (in most scenarios) reduced.*
- iii. Social and familial bonding between parent and child is strengthened.*
- iv. The recognition of the value to parents of having one parent dedicated to raising their children is something that cannot be quantified as it is highly individual and can reflect the parent and family's culture and values (pg 864).*
- v. An increase in volunteer time which offers both a social benefit to local communities and an economic benefit to governments (pg 865).*

3.4. "The shorter the period workers spend out of the workforce and the closer to full-time hours they work when they return, the less the wage growth penalty. This translates to higher human capital and, hence, GDP over time" (pg 846).

This notion ignores the socio-economic reality of the opportunity cost of freely choosing to have children, ignores the social benefits of familial bonding between parent and child and reduces the raising of children to an economic formula calculating GDP over time. The career costs of children or the wage penalty effect are concepts that must be taken into account by households collectively prior to having children.

3.5. In modelling the impact on the demand for ECEC services, "they [households] are fairly rational in assessing and basing their choices about use on the out-of-pocket cost" (pg 848).

This notion is incorrect as it is based on the false premise that households will generally ignore the benefits offered by a SAHP over non-parental child care. It also does not account for the inherent bias against SIH with a SAHP in both the current government array of payments and subsidies and the proposed future funding models detailed in this draft report.

To illustrate this point, utilising the Commonwealth Government's own Family Assistance / Child Care Payment Estimator, for the 2014-15 financial year, consider a household with four children aged 6, 4, 2 and 1. As stated, a SIH is not entitled to Family Tax Benefit - Part B which ceases once annual household income exceeds \$100,000 as per legislation passed in June 2014. All other government assistance for SIH extinguishes once household income exceeds \$150,000.

However, if the secondary income earner in the household was to return to work with the three youngest children placed in long day care and the oldest child utilising before school care, after school care and vacation care, the now dual income household would be entitled to approximately \$32,259.92 in government assistance for the 2014-15 financial year as detailed in the table below. This does not include the second tax free threshold of \$18,200 for the 2014-15 financial year that only households with two incomes are eligible for.

Government Family Support for One and Two Income Households Utilising Parental and Non-Parental Care		
Government Payment / Subsidy (annual rate)	One Income Earner - One SAHP (Total Household Income - \$150,000)	Two Income Earners - No SAHP Total Household Income - \$200,000
Family Tax Benefit - Part A (MT)	\$0.00	\$0.00
Family Tax Benefit - Part B (MT)	\$0.00	\$0.00
Energy Supplement - Part A (MT)	\$0.00	\$0.00
Energy Supplement - Part B (MT)	\$0.00	\$0.00
Child Care Rebate (NMT)	\$0.00	\$30,000 (\$7,500 x 4 children)
Child Care Benefit (MT)	\$0.00	\$2259.92 (\$13.71/week x 3 children & \$2.33/week - 1 child)
Total	\$0.00	\$32,259.92
MT = Means Tested NMT = Not Means Tested		

This table clearly illustrates:

- i. That EMTR should be calculated over an entire household and not focus exclusively on the secondary income earner.*
- ii. The bias against single income households embedded in the current family assistance models.*
- iii. The cost-ineffectiveness of the current family assistance models.*

3.6. In calculating EMTRs, the current cap on the Child Care Rebate is considered. This is "a feature that the Commission's proposed system does not replicate".

Under two of the funding models proposed by the PC (90-30 linear & 90-30 stepped), households with annual income of \$300,000 or more will still receive a rebate of approximately 28% of out of pocket expenses. Considering that child care costs for households on such high incomes are insignificant relative to their fiscal capacity and do not affect household spending or consumption behaviour, what methodology was used to determine that \$300,000 was an appropriate ceiling to merely limit government subsidisation and not eliminate it. Furthermore, as stated previously, the Commonwealth Government passed legislation relating to FTB-B which now ceases once annual household income exceeds \$100,000. This legislation was proposed by Treasurer Joe Hockey in his 2014-15 budget presentation.

Considering that Treasurer Hockey endorsed the terms of reference for this report, why did the PC not adopt the same \$100,000 annual household income ceiling for households utilising non-parental day care that the treasurer has imposed on SIH with a SAHP? What is the rationale of providing significant subsidies (28%) to households on very high incomes, when the subsidy is highly unlikely to influence household engagement with the workforce. What is the benefit to the taxpayer and the broader economy of this expenditure?

3.7. "If government elects to maintain the existing budget balance, an expansion in expenditure on ECEC will need to be offset by a rise in taxes or a reduction in another area of expenditure (pg 858).

This is correct, with the expansion in expenditure to be borne by the taxpayer and the subsequent increase in funding having a consequential inflationary effect on non-parental child care costs.

3.8. In relation to longer-term labour market effects of child development impact. The draft report refers to the Perry Preschool Program in the 1960s (pg 869).

There is no relevance or comparability to a contemporary Australian setting in this study as the draft report acknowledges. In addition, there are no studies that demonstrate higher child development impacts or outcomes as a result of enrolment in non-parental child care in comparison to being raised by a SAHP.