

4. ECEC and labour force participation

Key points

- ✳ **Early childhood education and care (ECEC) contributes to greater labour force participation by enabling families, particularly mothers, to balance paid work and care. Informal care by grandparents also supports this but there has been an increasing reliance on formal care in recent years.**
 - Many families with children aged 0–3 do not use ECEC. Compared with those who do, the families typically have lower incomes, are receiving income support, live in low-socioeconomic areas and have mothers who are not in paid work and have lower education levels.
- ✳ **The participation rate of mothers with a child aged under 15 increased from 65% to 75% between 2009 and 2021, mostly due to an increase in the participation of mothers with children aged 0–4. The share of mothers working full time also rose – from 40% to almost 50% – but some prefer working part time so they can spend more time caring for children. The participation rate of fathers was consistently high (over 90%) and higher than for men without children.**
 - Mothers' preferences for paid work are shaped by many complex factors, including the affordability, accessibility and quality of ECEC. Mothers also factor in the trade-offs that come with paid work, such as spending less time with children and increased stress in balancing paid and unpaid work.
- ✳ **Parents' stated preferences for paid work suggest there is some scope to increase the participation of mothers, but limited scope for fathers. In 2020-21, most fathers were employed full time, whereas one in five mothers (or 507,000) stated they would either like a job or to work more hours.**
 - About 85,000 parents (mostly mothers) wanting a job or to work more hours nominated ECEC-related reasons as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this. If barriers were removed, these parents may be able to work their desired hours.
 - Affordability is most frequently reported as a barrier but parents tend to report multiple ECEC-related barriers including a lack of availability and flexibility.

*** Removing all ECEC-related barriers could see an upper-bound increase in labour supply equivalent to 118,000 full-time workers.**

- Looking at parents' stated preferences suggests that, if all reported ECEC-related barriers were removed for those parents who indicate they would like a job or more hours, the equivalent of an additional 44,000 full-time workers could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4), those who are more likely to have not completed high school and those who are single parents.
- If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time equivalent workers could be added to labour supply.
- These estimates are upper bounds. The analysis assumes that all ECEC-related issues are solved and that non-ECEC barriers do not prevent these parents' engagement in the labour force. The estimates also do not reflect the increases in subsidies that took effect from July 2023. Analysis that takes these caveats into account is presented in paper 6.

*** Many policy settings interact to help shape parents' work and care choices, such that tackling only ECEC expenses might have marginal impacts on labour supply.**

- The responsiveness of mothers' labour supply to a decrease in the price of ECEC is estimated to be small on average – a 1% decrease in the price of ECEC leads to an increase in participation of between 0.02-0.29% and hours worked of between 0.02-0.65%.
- Effective marginal tax rates (EMTRs) are high for many mothers, which creates a financial disincentive to working more than 3–4 days per week, but the disincentive is mainly created by the tax and transfer system rather than out-of-pocket ECEC expenses.

Parents make choices in the best interest of themselves and their children. Some choose to care full-time for their children, and not to take on activities such as paid work, studying or training or volunteering. For others, choosing to engage in such activities while their children are young, and to use some form of care provided by others while doing so, is a better fit for them (perhaps due to financial considerations or preferences).

A well-functioning, affordable and accessible early childhood education and care (ECEC) system is integral to supporting the choices of families. Not only can the system aid in the development of children (paper 1), it can also enable families to strike a balance between the time spent caring for children and engaging in paid work and other activities. For example, centre-based day care (CBDC) can allow mothers with young children to return to work, while outside school hours care (OSHC) may enable parents to work longer hours than a regular school day. The ECEC system can also be a gateway to other family services (paper 7).

Some families want to use ECEC, or use it more, but face barriers to doing so. For example, ECEC may be considered unaffordable or inaccessible, of poor quality or is unavailable in their local area. These barriers constrain families' choices.

This paper explores how the ECEC system supports families' choice to participate in the labour force and when it does not. It begins by outlining how families make decisions about work and care, including how formal and informal care support these decisions, and considers families who do not use ECEC and the reasons why (section 4.1). It then examines the state of, and trends in, parental labour supply, with a focus on mothers (section 4.2). The paper then analyses the extent to which ECEC-related barriers prevent parents from working (section 4.3) and concludes by considering the scope for increased labour force participation (section 4.4).

4.1 ECEC enables choice for families

The terms of reference for the inquiry describe the ECEC sector as ‘integral to Australia’s economic prosperity as a powerful lever for increasing workforce participation’. The system supports parents – especially mothers – to make choices about labour force participation and care that work for them.

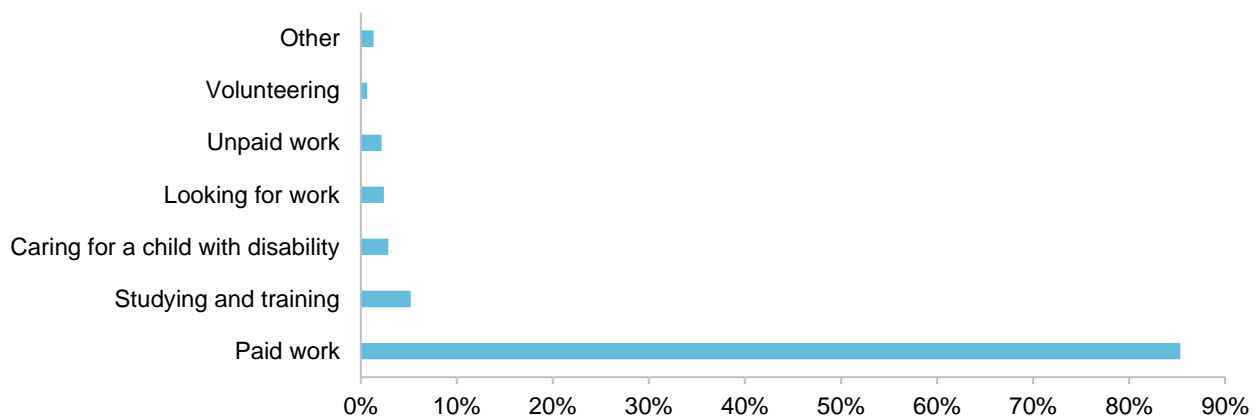
The draft national vision for Early Childhood Education and Care recognised:

an affordable and accessible ECEC system supports parents to work and study, especially women. This in turn supports the Australian economy to grow and prosper. (DoE 2023b)

Parents also use ECEC to support other activities such as studying or training, volunteering, looking for work, and engaging in unpaid work (including working in a family business, an unpaid internship or setting up a business), but these are less common than engaging in paid work (figure 4.1). Therefore, this paper mainly focuses on parents’ decisions to engage in paid work; there is also a focus on secondary income earners and mothers.

Figure 4.1 – Most people use ECEC to enable paid work^{a,b}

Main activity reported for the activity test, June 2022



a. Data is self-reported by parents and is provided for the activity test requirement of the Child Care Subsidy (CCS). The data is for a reference week in June 2022. Preschool attendance within CBDC is covered in the CCS activity test data, but dedicated preschool is not. **b.** Almost 20% of parents report undertaking multiple activities. Their main activity, in terms of hours, is reported in the chart. ‘Other’ includes unpaid leave, own disability or illness or other activity reported.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Many factors determine mothers’ decisions to engage in paid work

Parents decide how much of their time each week to spend in paid work and how much to spend in other activities, such as caring for children, housework and leisure. But these decisions are subject to constraints – there are only so many hours that family members can work in a given week. And similarly, there are only so many hours in a week that family members can spend in other valuable activities such as caring for children, housework and leisure (Kalb and Lee 2008, p. 284). As such, if a family wants a higher income, assuming the same wage rate, a parent must sacrifice some of their non-work time (such as time spent caring for children or leisure time) and increase hours worked.

In a typical two-parent household, mothers tend to adjust their work arrangements when children are present while fathers continue to work (Baxter et al. 2016, p. 7; Broadway and Kalb 2022, p. 182). This is because mothers tend to bear a disproportionate share of time in taking care of children (Gong and Breunig 2017, p. 16).

The decisions mothers make about their level of labour force participation are influenced by a complex range of factors (PC 2014, p. 200). Often, these decisions will be based not only on a mother’s own preferences, characteristics, and situation, but also take into account the needs and preferences of other members of the household, broader policy settings and economic conditions, and societal norms (figure 4.2).

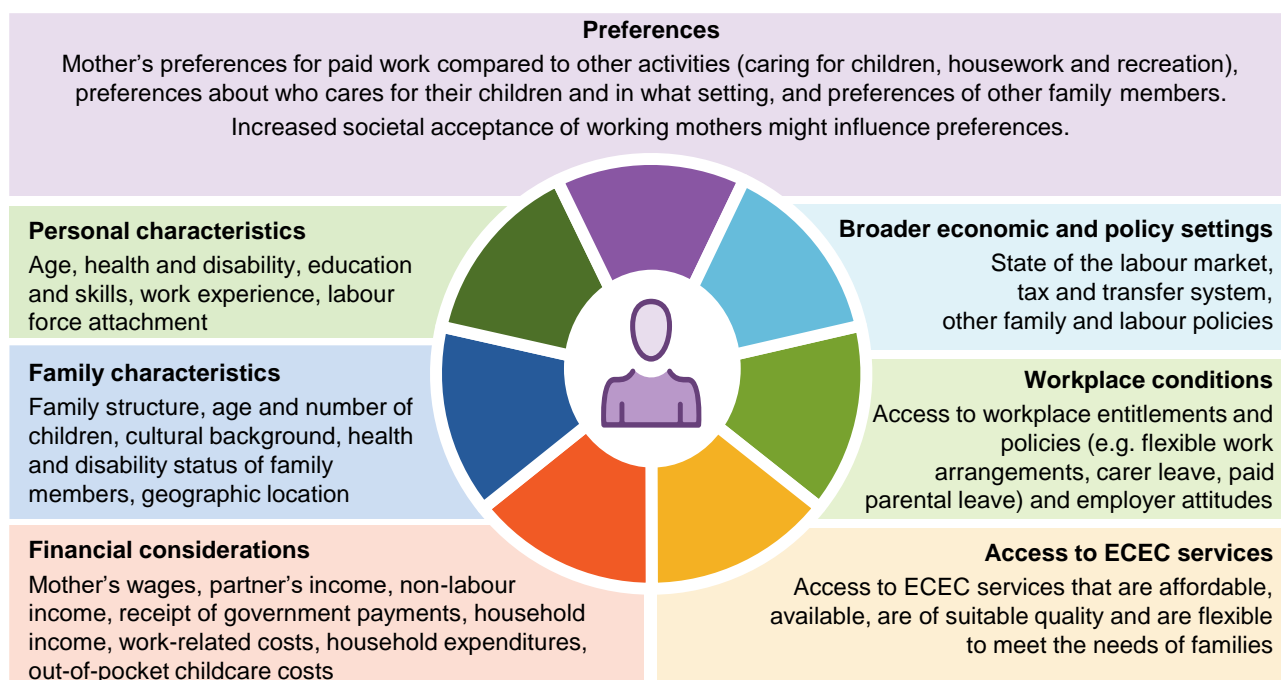
Mothers – sometimes in conjunction with partners – make decisions about participating in the labour force by weighing up the benefits and costs of doing so.

Choosing to join the labour force or working more hours has benefits for mothers. Financial benefits, such as from wages and superannuation, can contribute to a higher standard of living (for example, greater access to quality food, housing, health services and education) and ease cost-of-living pressures. Working can also offer greater opportunities for career progression and on-the-job training, which can increase future earnings, and make use of any investments in education. Other work-related benefits include improving the financial security of mothers and reducing reliance on income support, improved social networks through engaging with others in the community beyond the family, and the satisfaction that can come from working.

However, participation comes with trade-offs for parents, which include reducing time spent with children. There are also:

- effects on unpaid work and other activities undertaken by mothers, and the sharing of household duties between parents (PC 2014, p. 227; Wilkins et al. 2020, pp. 88, 95; Wood et al. 2020, pp. 38–41). Increased participation for mothers can lead to reductions in unpaid work, but may increase their total workload consisting of both unpaid and paid work (Apps et al. 2016, p. 1663; PC 2014, p. 227)
- additional stresses or pressures from maintaining a work–life balance (Wood et al. 2020, p. 39)
- effects on a partner’s labour force participation (typically the father) (PC 2014, pp. 228–229)
- effects on the labour force participation of extended family members, such as grandparents, who may be providing informal care (PC 2014, pp. 229–231).

Figure 4.2 – Mothers’ labour force participation decisions are shaped by many factors



Source: Based on Baxter et al. (2016, pp. 7–10) and Productivity Commission (2014, pp. 200–202).

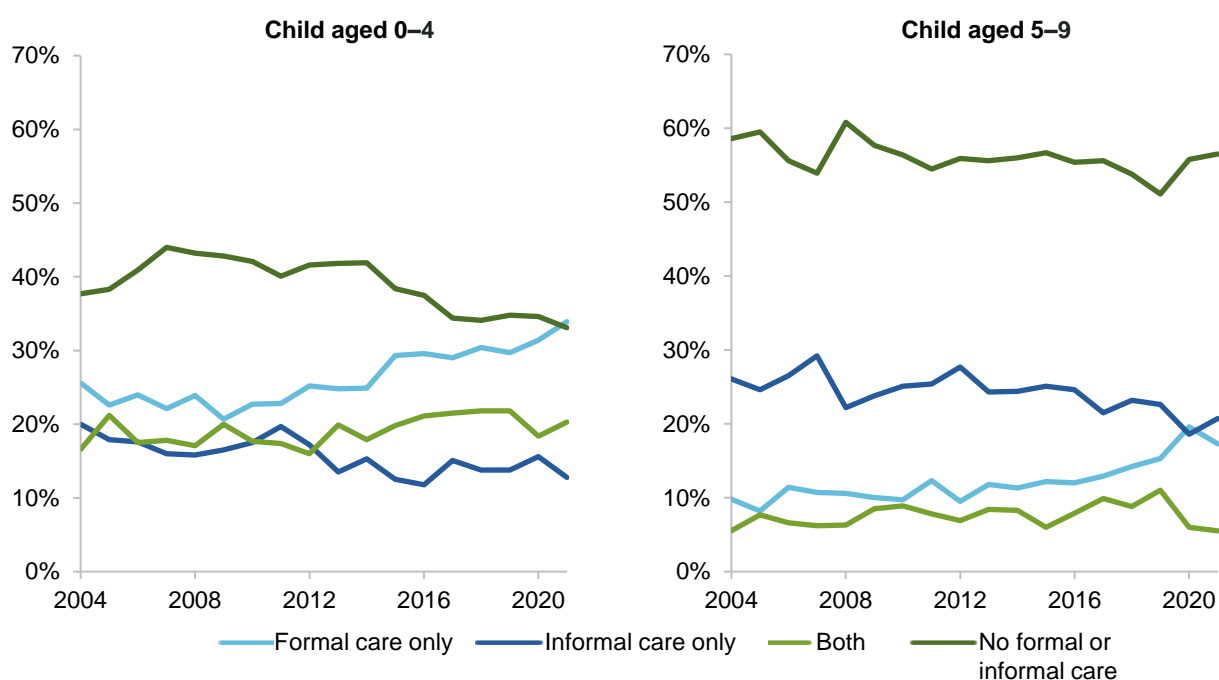
Formal and informal care assist families to balance work and care

Formal and informal care for children play an important role in supporting the wellbeing and choices of families. Non-parental care of children helps families to function, balancing the needs of children to learn and develop and parents to work or study, go shopping or attend appointments and social activities.

- **Formal care** refers to regulated care and early learning services for children – that is, ECEC. These services are government regulated and most receive public funding and/or subsidies. They include, for example, CBDC, OSHC, family day care (FDC), In Home Care (IHC) and preschool.
- **Informal care** refers to non-regulated care and includes care provided by relatives, friends, neighbours, nannies, au pairs and babysitters both on a paid and unpaid basis.

Formal care is playing a much more important role in society today than previously. Families' use of formal care has increased, while their use of informal care has decreased over time (figure 4.3). Since the early 2000s, a growing share of families has been using only formal care – this trend is especially prevalent for children aged 0–4 for whom formal care only is now the most common arrangement. In contrast, a decreasing proportion of families are using only informal care for children aged nine and under. Some families also use a combination of both formal and informal care, particularly for younger children. Still, a high proportion of families do not use formal or informal care.

Figure 4.3 – Use of formal care has increased while use of informal care has declined^{a,b}
Percentage of families using informal and formal care, 2004–21



a. Panel a shows the proportion of families with a child aged 0–4 that use each type of care. Panel b shows the proportion of families with a child aged 5–9 that use each type of care. **b.** Preschool is included in the definition of formal care to the extent that it is reported in HILDA. There are some concerns that preschool use is underreported in HILDA due to it being asked within a module on ‘childcare’. Therefore, the proportion of families with children aged 3–5 using ECEC is likely understated in the figure as it likely excludes the use of preschool.

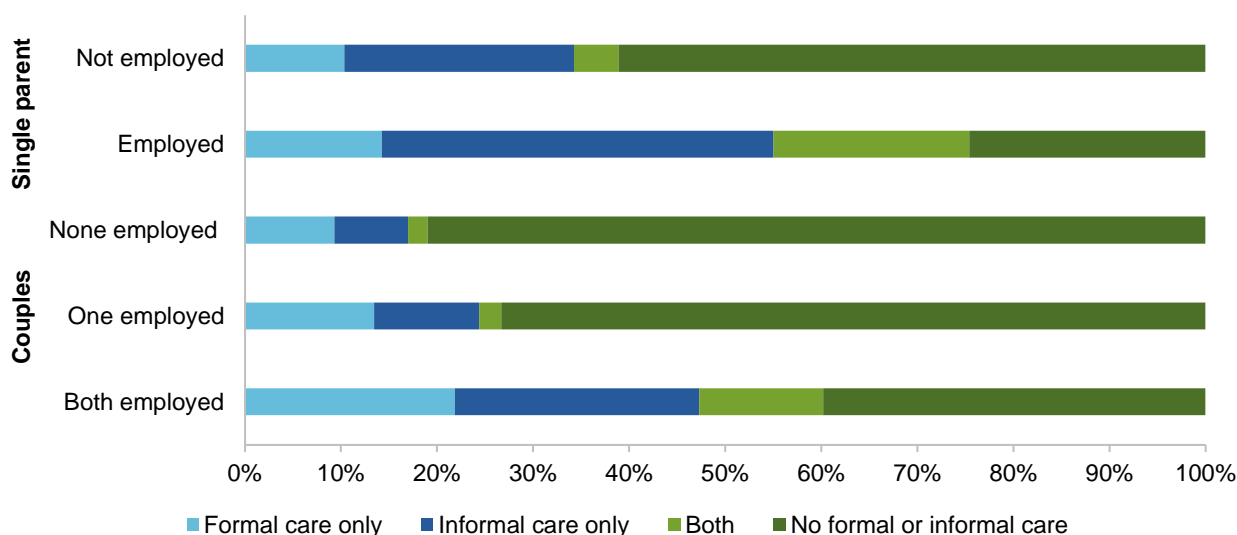
Source: Productivity Commission estimates based on HILDA Release 21.

These trends have been occurring over several decades – ‘in 1984, 18.9% of preschool aged children of couple families with both members employed and employed single parent families used formal care and

47.8% used informal care, by 2017 these proportions were effectively reversed' (Bray and Gray, sub. 14, p. 35). These changes are consistent with expansions in the formal ECEC sector over this time, and with increasing rates of labour force participation among grandparents, the primary providers of informal care (as discussed below).

Looking more closely at how care types are used, formal care is more common among families who have at least one parent employed (figure 4.4). And some research has found that employed mothers work longer hours if they use both formal and informal care; for partnered mothers this was due to an increase in hours of childcare available, and for single mothers it was due to increased flexibility (Brady and Perales 2016, p. 321).

Figure 4.4 – ECEC is more important for families with at least one parent employed^a
Percentage of children aged 0–12, 2017



a. Under the ABS definition, preschool is not counted in formal care, and is therefore not depicted in the chart.

Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Other families with at least one employed parent may use informal care because the formal system cannot support their current work requirements. For example, parents with jobs that are characterised by short shifts, fluctuating hours, precarious shifts and rosters and non-standard hours (such as retail), may find it hard to access formal care within the structure that it is provided (SDA, sub. 72, p. 2). These parents could substitute towards formal care if it becomes more accessible or affordable.

While there has been a shift towards formal care over time, it is not a perfect substitute for informal care. Some parents likely have strong preferences for care provided by family and friends (for example, mothers who work shift hours may prefer if their child stays with a grandparent overnight). These parents are less likely to substitute towards formal care, even if it becomes more accessible or affordable. To the extent that substitution occurs, the effects of expanding ECEC access on increasing labour supply may be dampened. For example, Yamaguchi et al. (2018, p. 8) found that substitution effects were a key reason for the small impacts of a childcare expansion on labour supply in Japan. Similarly, in the Netherlands, an expansion of subsidised childcare for children aged 3–6 caused a small increase in maternal labour supply but a large decrease in informal care (Havnes and Mogstad 2011, p. 1456). Therefore, any policies that aim to expand ECEC access to increase labour supply need to consider the extent to which expansions might simply crowd

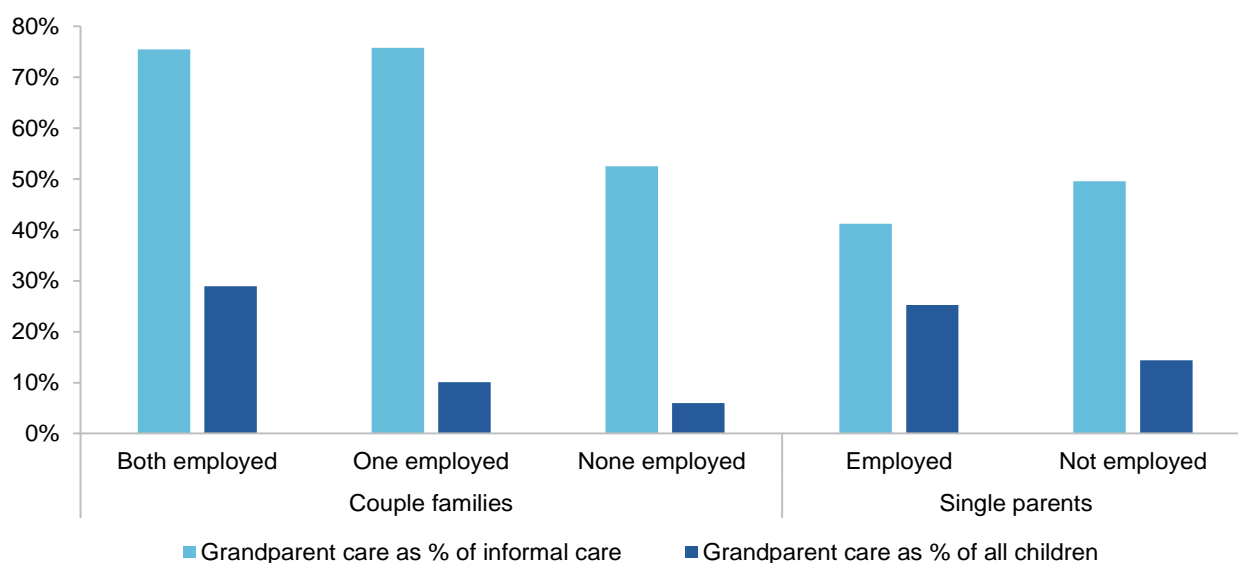
out informal care arrangements. That said, there might be an increase in labour force participation among those who had been providing that informal care.

Grandmothers are providing the bulk of informal care

Grandparents – typically grandmothers (Craig et al. 2019, p. 151) – are performing the bulk of informal care, and they tend to provide more care if parents are employed (figure 4.5). In couple families where at least one parent is employed and they are using informal care, over 70% are using grandparent care. The share is lower for employed single parents reflecting that non-resident parental care is included as informal care in the data underpinning the figure. Grandparents are more likely to provide care if they are not working full time and if they live close by to the child (AIFS 2022, p. 15). Grandparents typically provide fewer than 10 hours of care per week, but about 6% of children are cared for by grandparents for 30 hours or more (ABS 2018, tbl. 6).

Figure 4.5 – Grandparents do the bulk of informal care^a

Children usually in grandparent care as a percentage of children using informal care and all children aged 0–12, 2017



a. Single parent estimates include non-resident parent care as informal care, which is almost as prominent as grandparent care.

Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Families use grandparent care for a range of reasons. For example, grandparent care is mostly unpaid, it allows children to develop relationships with their grandparents and it helps to supplement the care provided by the formal ECEC system (Jenkins 2010, pp. 5–6). One of the key reasons grandparent care is used is because of its flexibility and responsiveness compared to other forms of care (Jenkins 2010, p. 5). For these reasons, grandparent care is relied upon during school holidays, and on weekends and week nights, for example (Jenkins 2010, p. 5).

Most grandparents undertaking this role find it rewarding, but it can create stress. A recent survey found that 97% of grandparents (mostly female) enjoyed providing the childcare (AIFS 2022, p. 1). And although some grandparents found that childcare was tiring, some found it energising (AIFS 2022, p. 27). Lack of choice

over childcare responsibilities or long or nonstandard hours can have a negative effect on grandparents' wellbeing (Hamilton and Jenkins 2015, p. 5).

Caring for grandchildren may also become a barrier to work for grandparents or may result in them reducing their hours worked to be able to provide care.

Many grandparents were 'working around care', balancing work and care responsibilities and making significant adjustments to their work as a result. Among those surveyed, 70% altered the days or shifts they worked, 55% reduced their working hours, and 18% had even changed their job because of their caring commitment. (Hamilton and Jenkins 2015, p. iii)

In the US, becoming a grandmother reduces hours worked by 30% (with the effect largest for those grandmothers working few hours prior to the birth) (Rupert and Zanella 2018, p. 89), while in Austria the birth of the first grandchild increases the chances that a grandmother leaves work by 9% (Frimmel et al. 2022, p. 1645). These results suggest that efforts to expand the use of the formal care sector may strengthen the labour market attachment of grandmothers.

Families do not use ECEC for a range of reasons

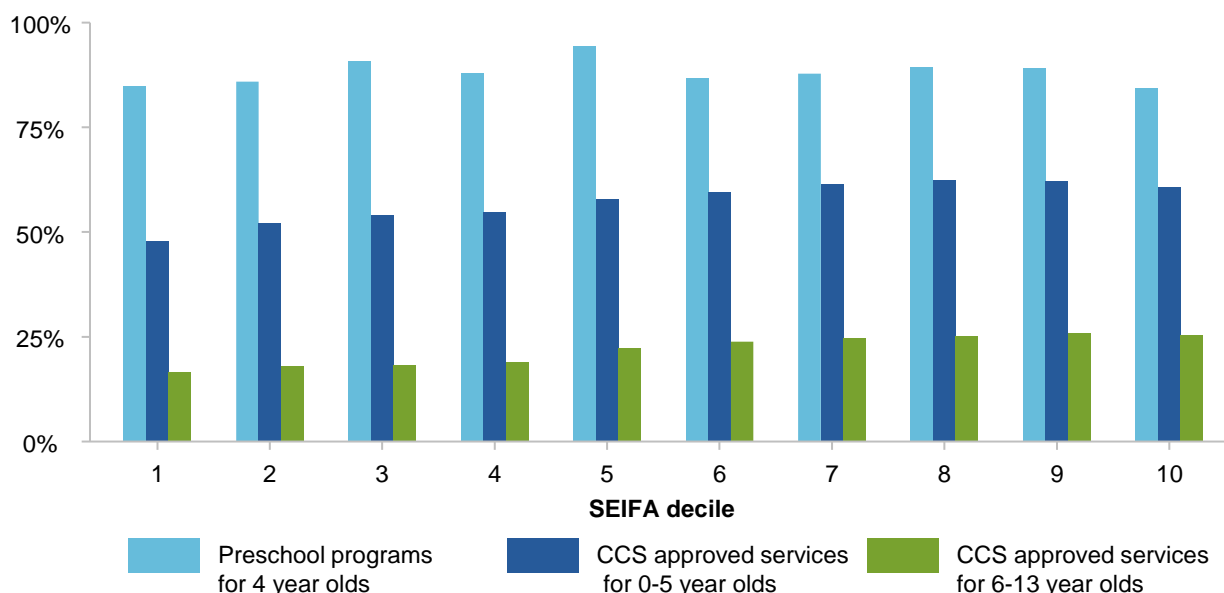
There are families who do not access the ECEC system. In 2021, 88% of children aged four were enrolled in a preschool program, and 57% of children aged 0–5 and 22% of children aged 6–13 attended a CCS-approved service at some point during the year (Productivity Commission estimates based on DoE administrative data and ABS Preschools data).¹ As children age they are more likely to care for themselves after school hours and not use the formal system. From a policy perspective it is important to understand the characteristics of these families and the reasons why they may not be using ECEC.

Families living in low socio-economic areas are less likely to be using ECEC than children from high socio-economic areas (figure 4.6). The pattern is less pronounced for preschool, but still exists.

Consistent with this, mothers in couple families and single parents who are not using ECEC tend to have lower family incomes (paper 6) and other characteristics that are often associated with lower incomes – such as lower education levels, receiving income support and not working (figure 4.7). Children from these types of families tend to be the ones who can benefit the most from ECEC participation (paper 2).

¹ These estimates refer to any use of ECEC across the year. As some children move in and out of ECEC across the year, point-in-time estimates are typically lower, for example, in the 2021 December quarter, 48% of children aged 0–5 years used ECEC (DoE 2023a). Many of the children in the DoE administrative data are enrolled in preschools within a CBDC. There is no way to distinguish this type of preschool use from only CBDC use in this data.

Figure 4.6 – Children in low socio-economic areas are less likely to use ECEC^{a,b,c,d}
Proportion of children in relevant age group attending ECEC, 2021



a. DoE administrative data is used to identify the number of children who *attended* CCS-approved ECEC services (CBDC, FDC, OSHC and IHC) at any time in 2021 by Statistical Area 2 (SA2). Age is calculated as at 1 July 2021. ABS 2021 preschool data is used to identify the population of children *enrolled* in preschool by SA2. **b.** Preschool and ECEC counts overlap for children aged four. Many children in the DoE administrative data are enrolled in preschool programs within a CBDC, but there is no way to distinguish the use of preschool programs in CBDC and CBDC use only. Similarly, the ABS preschools data assume that children attending CBDC of the appropriate age are receiving a preschool program. **c.** Socio-Economic Indexes for Areas (SEIFA): 1 denotes the most disadvantaged area; 10 the most advantaged area. SEIFA is based on SA2s. **d.** A similar trend for preschool is observed if the age is expanded to include children aged three and five.

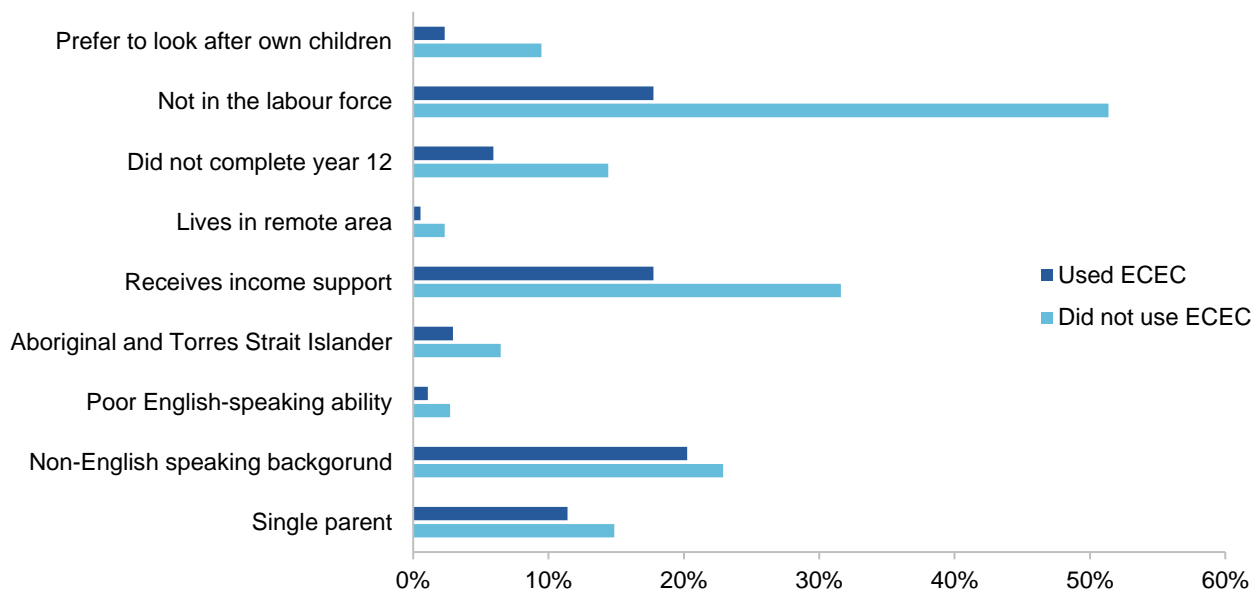
Source: Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021*; *Tablebuilder, Preschool Education, Australia, 2021*); DoE administrative data (unpublished).

Many families who do not use formal ECEC tend to have a parent at home to care for children or an available friend or relative (figure 4.8). This is perhaps unsurprising given the strong link between formal ECEC use and mother's employment. Families also reported not using ECEC because they wanted to develop stronger bonds with their children – some non-users have a preference to care for their own children. Non-users are more likely to have traditional views about parental roles and women's labour force participation (figure 4.9), to prefer home-based care, to have younger children and to have a child with a major health issue (NSW PC 2023, p. 13).

Some non-users also reported barriers that prevent them from using ECEC (figure 4.8). The cost of ECEC is the most frequently reported barrier. Concerns around flexibility, accessibility and the quality of ECEC appear to be less significant barriers for non-users compared to cost. Findings from qualitative studies have indicated that these factors are generally not absolute barriers on their own, but they can 'tip the balance' for families not using ECEC when combined with other factors (The Front Project 2021, p. 25). A more detailed discussion of ECEC-related barriers is provided in section 4.3.

Whilst families may not use formal care due to both preferences and ECEC-related barriers, there is often overlap between the different factors that influence families to not use ECEC. For example, some families may have a parent at home to care for children because they also report ECEC being unaffordable.

Figure 4.7 – Many characteristics of non-users are correlated with lower income^a
Shares of mothers in couple families and single parents with a child aged 0–4, by use of ECEC, 2018–21

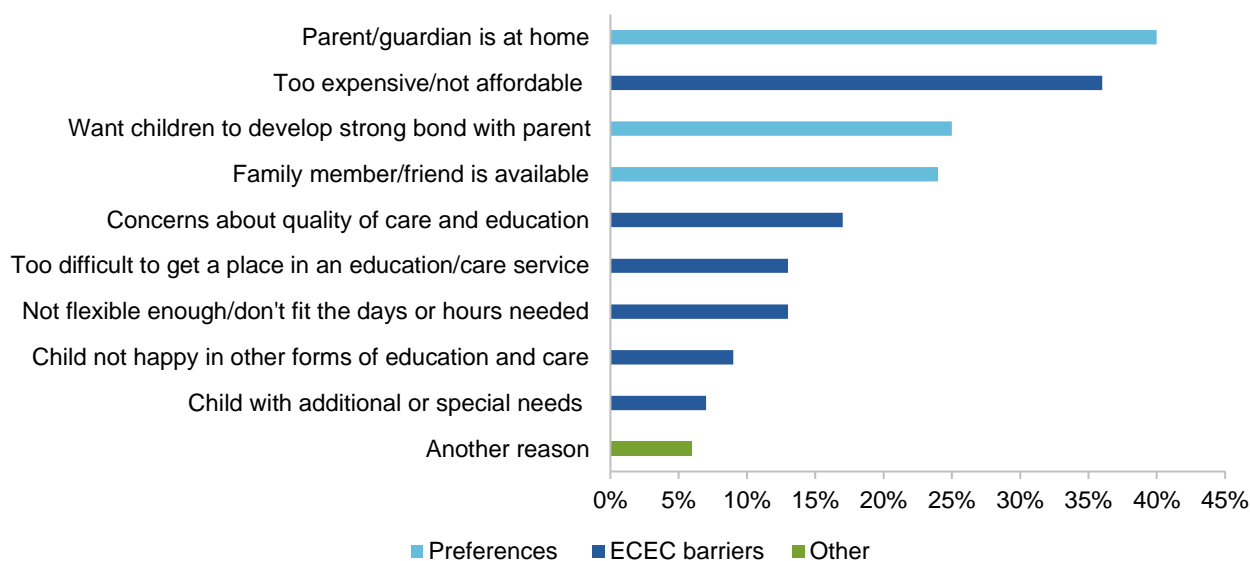


a. The preference to look after own children is only asked of people who are not in the labour force. All differences are statistically significant at the 5% level. Respondents are mothers in couple families with a child aged 0–4 and all single parents (the majority of whom are mothers) with a child aged 0–4.

Source: Productivity Commission estimates based on HILDA Release 21.

Figure 4.8 – Having a parent at home was the most commonly reported reason for not using ECEC^{a,b}

Responses from parents of children aged 0–5, Feb–Mar 2021

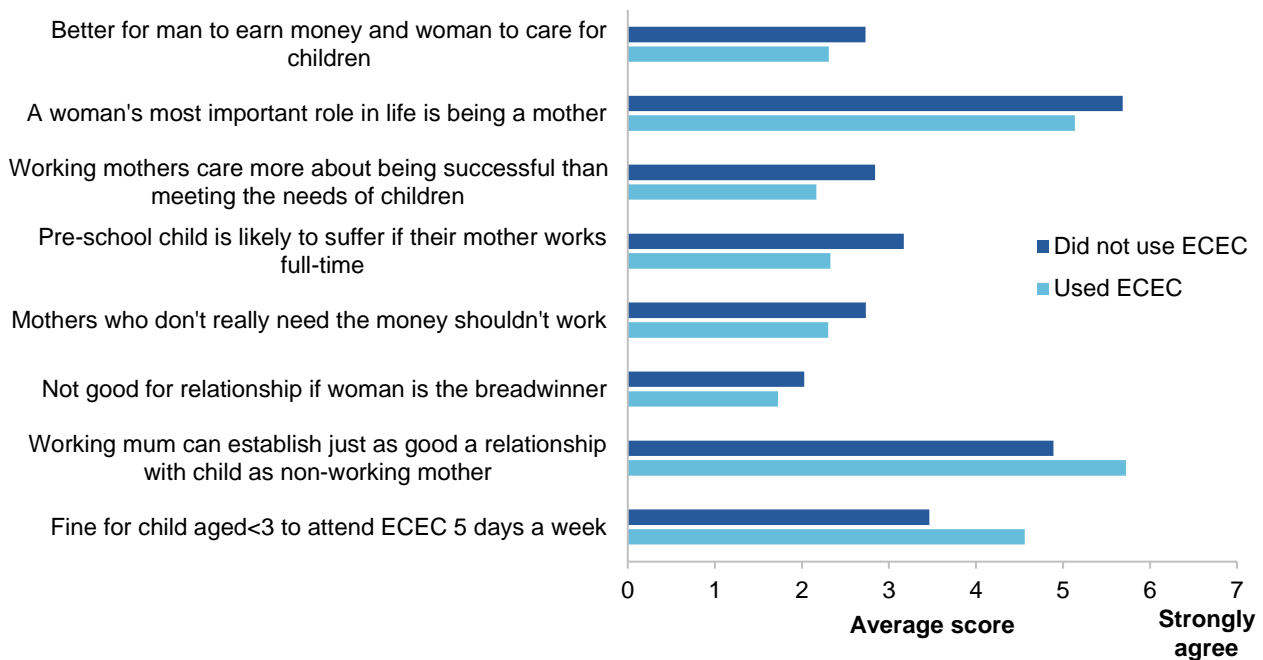


a. Results are based on a quantitative survey (1,695 parent respondents), and qualitative research (bulletin board, narrative interviews and a co-creation session) with 26 users and non-users of ECEC. Respondents were allowed to choose multiple responses. b. Responses are divided into those that may more likely reflect preferences and those that represent ECEC-related barriers to use.

Source: The Front Project (2021, p. 25).

Figure 4.9 – Users and non-users with young children have slightly different attitudes towards ECEC and women’s labour force participation^a

Attitudes among mothers in couple families and single parents with a child aged 0–4, by using and not using ECEC, 2018–21



a. Responses are given on a 7-point Likert scale, where 1 is strongly disagree and 7 is strongly agree. The chart shows the average responses of users and non-users. All differences are statistically significant at the 5% level.

Source: Productivity Commission estimates based on HILDA Release 21.



Draft finding 4.1
Low-income families are less likely to use ECEC

Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training or volunteer. ECEC is also a vital link to broader support services.

Families who do not participate in ECEC typically have lower incomes and are more likely to be unemployed or not in the labour force, have a lower level of education and to be receiving income support than those who do participate. They also tend to have more traditional beliefs about gender roles and live in low socio-economic communities.

Families are less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences or barriers that prevent them from accessing ECEC is difficult to disentangle. Some families may want to use ECEC but find it too expensive or inaccessible; others may have concerns over the quality of care.

4.2 The state of parental labour supply

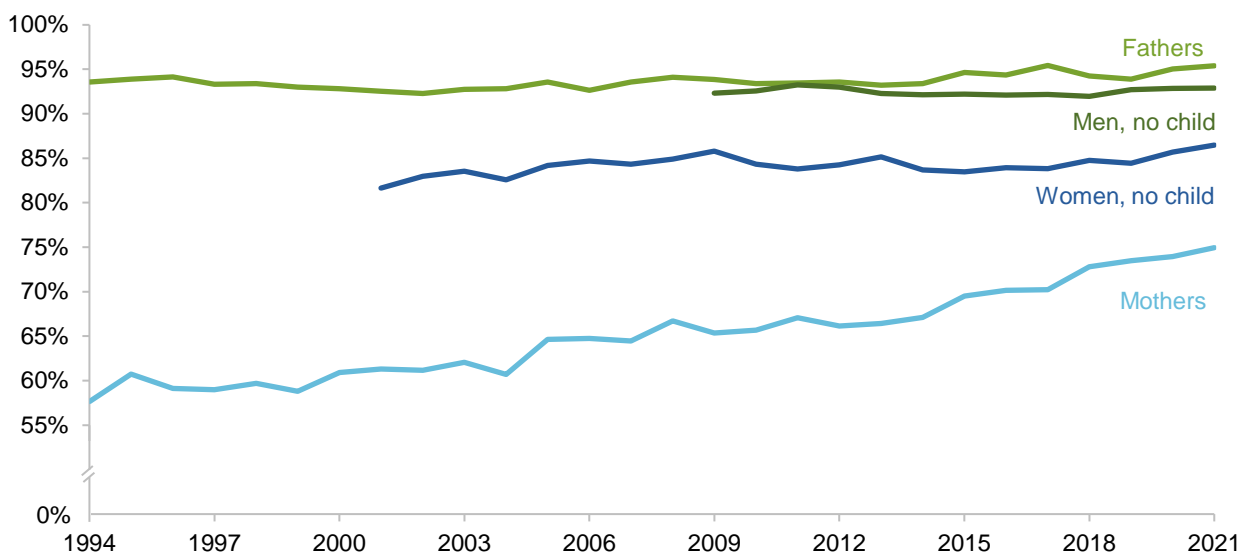
Mothers are increasingly likely to be employed

Over at least the past 30 years, the labour force participation of mothers has increased (figure 4.10). At least in part, this reflects increasing levels of education among women and women’s desire to combine a career with child rearing and increased societal acceptance of mothers engaging in paid work. The number of women holding a bachelor’s degree or above increased from 4.2% in 1982 to 33% in 2019 (National Skills Commission 2021), which has contributed to women building a stronger labour market attachment and increases the likelihood of them returning to work after childbirth (Baxter 2005, p. 16). Stronger labour market connections are also evident for grandmothers (box 4.1).

Mothers’ participation, however, remains considerably lower than fathers’ and relative to women of a similar age who do not have children.

Fathers have a slightly higher participation rate than men without children of a similar age range (figure 4.10). Most fathers also tend to work full time (section 4.3). Single fathers, on the other hand, have lower participation rates than partnered fathers and are more likely to be engaged in part-time work (Baxter 2023b, p. 18). This group is small – single fathers accounted for 15% of single parent families with children aged under 15 and only 3% of all families with a child aged under 15 in 2022 (ABS 2022a).

Figure 4.10 – Mothers’ labour force participation has increased but is lower than others^{a,b}
Participation rates for parents, men and women aged 25–54, 1994–2021



a. Participation rates are for fathers and mothers with a dependent child aged under 15 years for the period 1994–2014, fathers and mothers aged 25–54 with a dependent child aged under 15 for the period 2015–2021. Participation rates for men without children relate to coupled men (husbands and partners). **b.** Data was compiled from three sources: the ABS Labour Force Status and Other Characteristics of Families for 1994–2014 (as used in the Commission’s 2014 ECEC inquiry), ABS Participation, Job Search and Mobility for 2015–2021 and ABS, Labour Force Status of Families for men without children (2009–2021).

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022; Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*); PC (2014, p. 189).

Some gendered employment patterns exist in same-sex couples with children too.² Male same-sex couples are much more likely to have both parents working full time than in other couple families, but they are also more likely to have both parents not employed (Baxter 2023b, p. 21). Female same-sex couples are more likely than other couples to have at least one parent working part time (Baxter 2023b, p. 21).

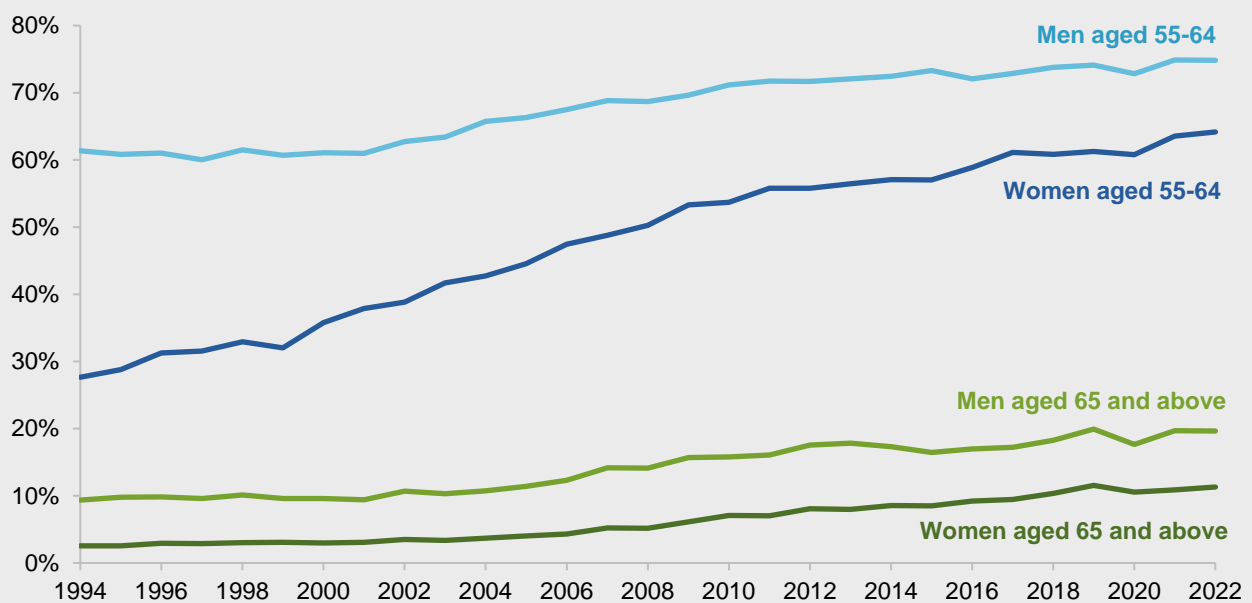
Box 4.1 – Older women are increasingly likely to be employed

Older women are participating more in the labour force than before. The figure below shows the striking increases in female employment between 1994 and 2022 at older ages. For example, the participation rate of women aged 55–64 increased from 28% to 64%. Participation among older men also increased but to a lesser extent – their rates of participation remain higher than for older women.

Many factors have contributed to the increase in participation such as increases in the retirement age and life expectancy, improvements in overall health and changes in social and demographic trends (such as increased educational attainment, decreased fertility rates and increased availability and use of flexible work, childcare and maternity leave), increasing connections to the labour market across the lifetime (AIHW 2023; Baxter 2023a).

About half of employed older women work part time – a trend that has been consistent for over 30 years (ABS 2023c). They have strong preferences for part-time work because it can help transition to retirement and accommodate caring for relatives or their own health issues (Cassidy and Parsons 2017, p. 21).

Growth in the labour force participation of older men and women



Source: ABS (*Labour Force, Australia, detailed, May 2023*).

² This group is typically too small to be picked up reliably in most sample surveys, but census data that cover the entire population can be used to provide some insights into this group.

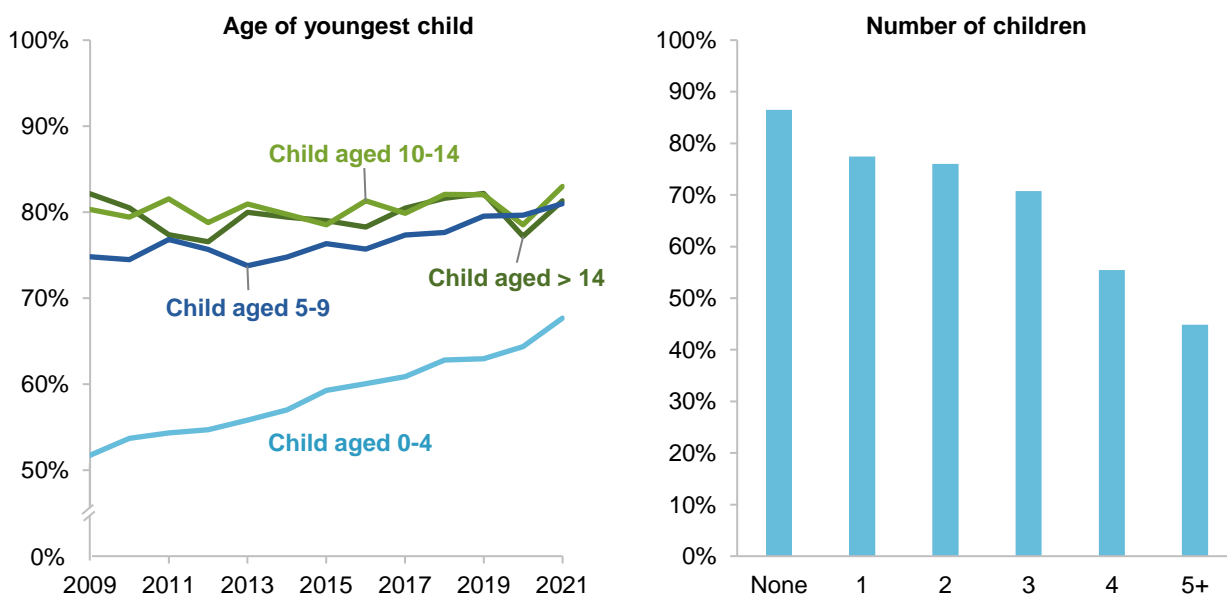
Mothers of children aged 0–4 have substantially increased their participation

The increases in participation among mothers have been particularly strong for those with children aged 0–4 – the participation rate increased by 16 percentage points from 52% in 2009 to 68% in 2021 (figure 4.11). This group is one of the main contributors to the rise in mothers’ participation observed in figure 4.10 above. Better access to quality ECEC, paid parental leave and workplace flexibility are contributing to mothers returning to work, but factors like rising education and changing social norms have also contributed (Tuohy 2023).

While there has been growth in participation among mothers of young children, they still have lower participation rates than other groups. Lower participation rates are seen among:

- mothers of younger children (figure 4.11)
- mothers with more children (figure 4.11)
- single mothers when compared with partnered mothers – with the gaps being largest when children are young (figure 4.12).

Figure 4.11 – Increases in participation have been strong among women with children aged 0–4; but mothers with younger and more children have lower participation rates^a
Participation rates of mothers by age of youngest child (2009–21) and number of children (2021)

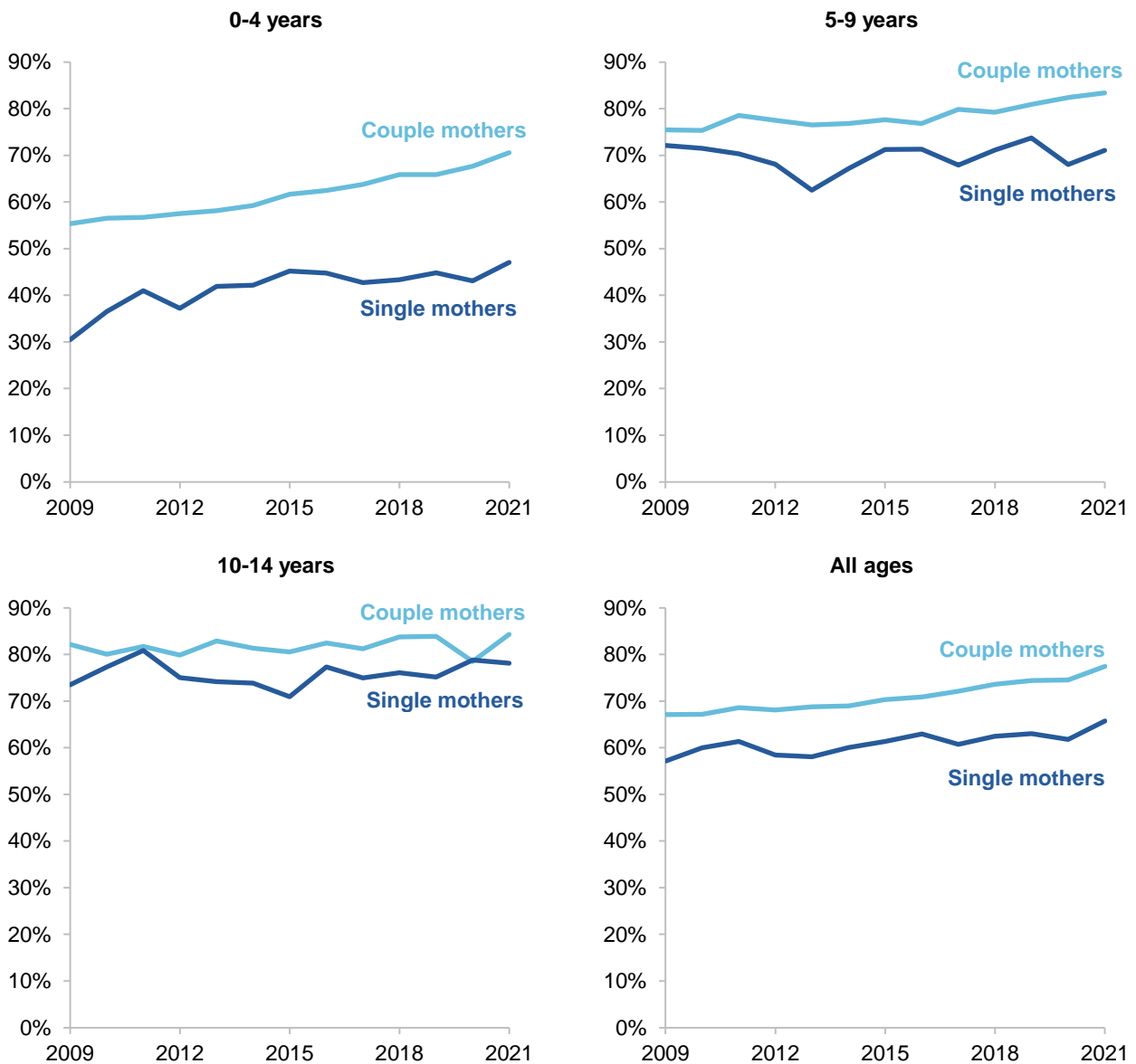


a. Panel b shows participation rates for women aged 25–54 years by number of children aged 0–14 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022; Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*).

Figure 4.12 – Participation gaps between single and partnered mothers are greater when children are younger^a

Participation rates of single and partnered mothers by age of youngest child, 2009–21



a. 'All ages' includes children aged 0–14 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*)

Despite improvements in participation a 'motherhood penalty' still exists

Long periods of being out of the labour force or working part time can negatively impact mothers' careers (box 4.2). Evidence also shows that the longer a woman remains out of the labour force the less likely she is to return. NSW Treasury (2022a, p. 17) noted:

the probability of women not returning to work after a short period away for non-child-related reasons is 10 per cent, while the probability of women who take longer, child-related career breaks never returning to the workforce is 30 per cent.

ECEC, especially for mothers whose children have not yet started school, and other policies that strengthen labour market attachment (such as, paid parental leave and workplace flexibility) will likely contribute to reducing the ‘motherhood penalty’ by providing avenues to help mothers to return to work earlier.

Box 4.2 – The ‘motherhood penalty’

Having a child is a significant event that can have repercussions for the labour market outcomes of mothers. While fathers tend to continue working (or even increase hours), mothers tend to face larger disruptions. Mothers tend to reduce their participation around the birth of a child, with some returning to paid work, in some capacity, as children age and others remaining out of the labour force.

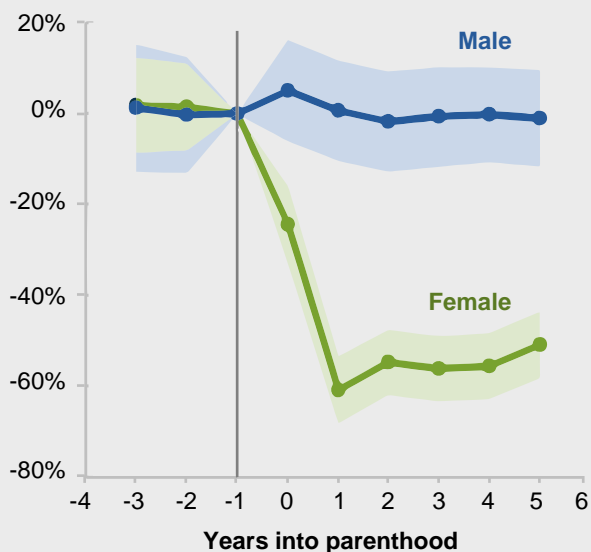
This employment disruption can affect future labour market outcomes of mothers (such as, earnings, career progression and superannuation).

The arrival of children creates a large and persistent increase in the gender earnings gap. Women’s earnings are reduced by an average of 55 per cent in the first 5 years of parenthood. The gap in earnings – termed the ‘motherhood penalty’ – remains significant a decade into parenthood. (Bahar et al. 2022, p. 37)

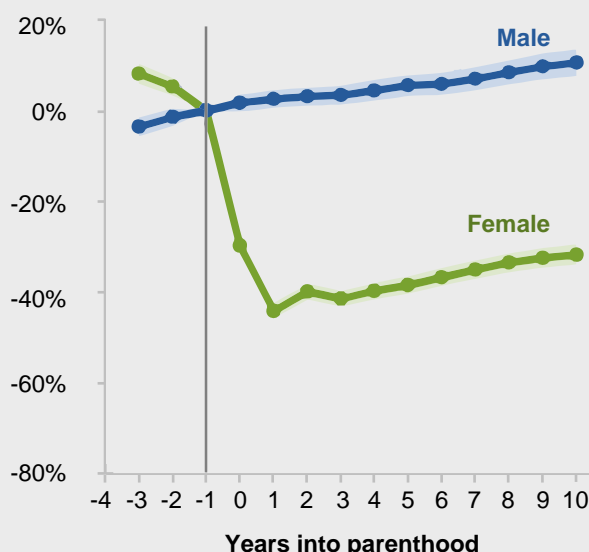
The motherhood penalty can come from three margins: employment; hours of work; and the hourly wage rate. While all three margins contribute, the effects of employment and hours worked are the largest drivers of the penalty in Australia (Bahar et al. 2022, p. 37). But unlike employment, which makes a modest recovery after five years, hours worked does not. This suggests that hours worked may be even more important in its contribution to the motherhood penalty.

Estimates of the motherhood penalty on wage and salary earnings in Australia^a

a) Short run motherhood penalty (HILDA)



b) Long run motherhood penalty (Alife tax data)



a. Motherhood penalty estimated after running an event study of the form specified in Kleven et al. (2019). Estimated magnitudes across panels will differ due to different data sources. Shaded area shows 95% confidence intervals, based on robust standard errors.

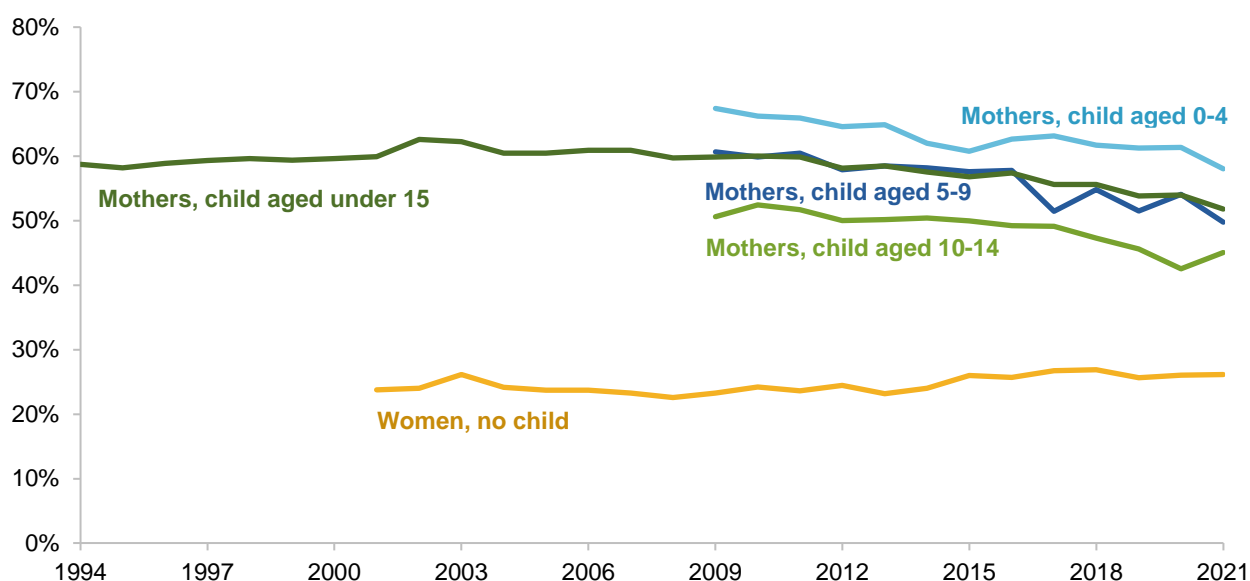
Source: Bahar et al. (2022, p. 38).

Full-time work among mothers has increased

The share of employed mothers working full time has increased in the past decade (figure 4.13).³ There was little change in the share of part-time employment between 1994 and 2011, but since then there has been a gradual decrease in the share from about 60% to 50%. This implies there has been an increase in full-time work such that 50% of mothers now work full time. This trend is evident among mothers with children across all age groups – for example, in 2011 about 34% of mothers with children aged 0–4 worked full time, and this share had increased to 42% in 2021.

Mothers with younger children and multiple children tend to have higher rates of part-time employment (figure 4.14), perhaps reflecting a greater caring load which means they have less time to engage in work or prefer to care for younger children. Single and partnered mothers have similar part-time rates of employment. In 2021, single mothers had a part-time employment rate of 53% compared to 52% for partnered mothers (ABS 2022b).

Figure 4.13 – The share of part-time work has decreased – full-time work has increased^a
Share of part-time employment for mothers and women without children, 1994–21

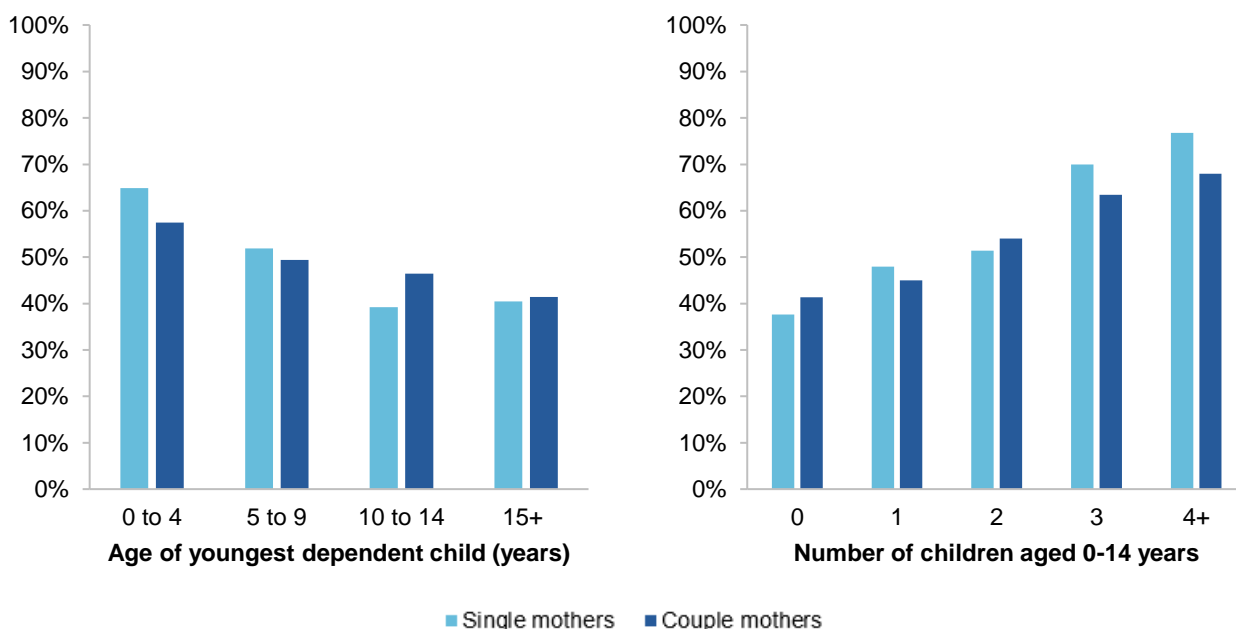


a. Data was compiled from three sources. For 1994–2014, data come from the ABS Labour Force Status and Other Characteristics of Families used in the Productivity Commission’s 2014 ECEC inquiry. For 2015–2021, data for mothers come from the ABS Labour Force Status of Families. For 2015–2021, data for women without children come from the ABS Participation, Job Search and Mobility, Australia. Women without children are aged 25–54 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*; *Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*); PC (2014, p. 191).

³ Full-time employment is defined as working 35 hours or more across all jobs in a usual working week (ABS 2023d).

Figure 4.14 – Part-time employment is more common among mothers with younger children and multiple children, but the rates do not vastly differ by partner status
Part-time employment rates for mothers, 2021



Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*).

Mothers have increased their average hours of paid work over the past two decades. Mothers who work part-time tended to work about 19 hours per week on average in 2001, and this had increased to almost 23 hours per week in 2021 (Productivity Commission estimates based on HILDA Release 21). Meanwhile, average hours worked for mothers employed full time has not changed over time – they work about 42 hours on average.

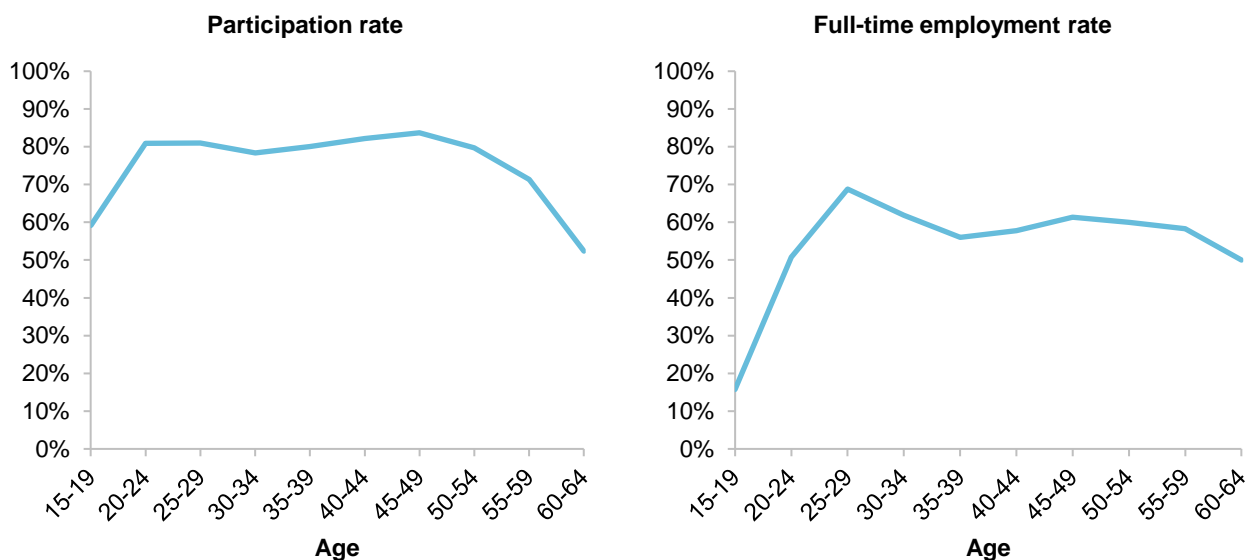
Some mothers work jobs with irregular or less predictable hours. For example, in 2022, 17% of working mothers were employed on a casual basis, about 18% did not work the same hours each week and about 13% were engaged in shift work (ABS 2023b). Working in these types of jobs can make finding suitable childcare arrangements more challenging (paper 7).

The proportion of women working full-time differs across life stages

Women experience a decrease in both participation and full-time employment across their child-rearing ages. While participation recovers as children grow up, the decline in full-time employment does not fully recover (figure 4.15). This is still the case in some countries but not the case in others (OECD 2018). For example, the Nordic countries do not seem to experience the same dip in female employment at child-rearing ages that Australia does. Not only do women in Nordic countries tend to stay employed they also continue to work full time during their child rearing years (Grudnoff 2022, pp. 16–17).

The dip in participation and full-time employment seen at child-rearing ages, however, is becoming less pronounced among newer generations in Australia (ABS 2021).

Figure 4.15 – Women’s participation and full-time employment falls at child rearing ages
Female participation rate and share of full-time employment by age group, 2021



Source: ABS (*Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*).

Is part-time work a result of preferences?

Part-time employment has become a common feature of the Australian labour market generally. The share of part-time employment has risen steadily since the 1960s such that part-time employment now represented over one-third of total employment in Australia in 2017 (Cassidy and Parsons 2017, p. 19). While this trend is common in other advanced economies, Australia has one of the highest part-time employment rates among OECD countries (see below). A large share of this is explained by students (aged less than 25) who are working part time (Cassidy and Parsons 2017, pp. 19–20).

The increase in part-time work has been a result of both labour demand and supply factors (Abhayaratna et al. 2008, p. XVI; Cassidy and Parsons 2017, p. 19). Changes in demand for part-time workers reflects the following factors.

- A transition to a service economy has resulted in growth in tourism, hospitality, education and health sectors where the nature of work involves irregular hours and as such there is more scope for part time and casual work.
- There is evidence that some firms are using part-time employment to respond to cyclical fluctuations in demand for their output and to increase the flexibility of their business models and manage costs effectively (Cassidy and Parsons 2017, p. 22).

Labour supply factors have also been important. The demographic of the labour force has changed with greater entry of women into the labour market, increased levels of employment of young people still engaged in education (including international students and working-holiday makers) and greater numbers of older people working. These groups have typically preferred to work part time and the Australian labour market has accommodated these preferences (Abhayaratna et al. 2008, p. XX).

A large majority of mothers attribute their part-time work status to either caring for children or preferences for part-time work. In 2021, about 67% of mothers state they are working part time (rather than full time) because they are caring for children, 20% state they prefer working part time and a mere 3% state they

could not find full-time work (Productivity Commission estimates based on HILDA Release 21). As children age, mothers tend to less frequently report caring for children as the main reason for working part time and to more frequently report a preference for part-time work.

Does 'caring for children' reflect a preference or the inability to work more hours due to other factors such as being unable to find or afford adequate ECEC arrangements? Looking at stated preferences to work more hours can shed some light on this question. In 2021, of the mothers working part time who said they were doing so because they were caring for children, only 16% expressed a preference to work more hours (given their current circumstances and state of the ECEC system) (Productivity Commission estimates based on HILDA Release 21). This implies that for almost 85% of mothers, there was a stated preference to work part time so that they can also care for children. Further, for those mothers who were not working full time, the most important incentive they reported for looking for work or more hours was 'the ability to work part-time hours', that is, these mothers wanted a job where they could work part-time hours (ABS 2023a). Preferences are therefore a significant factor in the decision to work part time. As Goodstart (sub. 125, p. 92) noted, '[u]ndoubtedly, some women's workforce participation decisions are not driven by [workforce disincentive rates] or by financial incentives as part-time work reflects their preference'.

Participation rates are lower and part-time rates are higher in Australia than in other OECD countries

Participation rates of men and women in Australia are lower than in other developed countries. In 2022, for men aged 25–54, the participation rate was about 91% for Australia – about the OECD average – but Australia ranked 29th out of 38 OECD countries because rates were quite similar across countries (OECD 2023c). For women, the participation rate was about 82% – higher than the OECD average of 75% but lower than many other countries (a ranking of 27 out of 38) (OECD 2023c). Australia's participation rate for women is in line with the average of other English speaking countries, but is about 5 percentage points lower than the Nordic average (figure 4.16).⁴

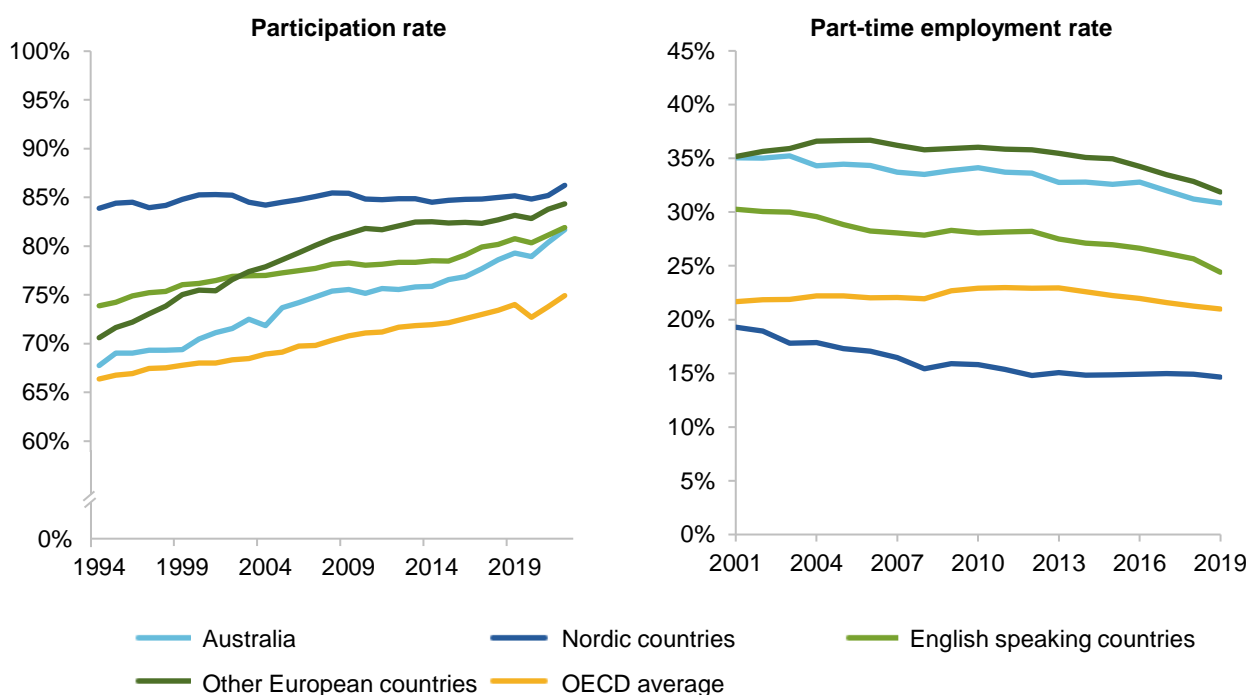
As noted above, part-time employment rates in Australia are higher than most OECD countries – this trend persists across age groups and sex (OECD 2016c). Australian men are participating in more part-time work than ever before, but women still account for the majority of part-time employment (78% in 2019) (OECD 2023a). Women's part-time employment rates are above other OECD countries, but show a downwards trend (figure 4.16). In 2019, about 31% of employed women were employed part time in Australia – higher than the OECD average of 21%. Part-time work among mothers specifically is common in Australian and in other OECD countries (Bray and Gray, sub. 14, p. 35).

Participation rate differences between Australia and other OECD countries are due to several factors such as differences in total fertility rates, tax and welfare systems, industry composition, paid parental leave policies, childcare policies, social norms and attitudes. Population coverage in national labour force surveys and the treatment of persons on maternity leave, for example, also contribute to differences (OECD 2023b; PC 2014, pp. 822–825). These differences need to be considered when making comparisons and judgements about whether Australian mothers can reach the high participation rates of other countries.

⁴ Australia's maternal participation rate is below most OECD countries, and Australian mothers have higher part-time employment rates (OECD 2023d, p. 2). However, making comparisons using this data about mothers specifically should be cautioned as there are differences in the collection approaches and definitions used across countries (OECD 2023b).

Figure 4.16 – Australian female participation has increased, but part-time employment remains high compared to other countries^{a,b}

Average participation rates (1994–2022) and part-time employment rates (2001–19) for women aged 25–54 by region



a. Nordic countries include Denmark, Finland, Iceland, Norway, and Sweden. English speaking countries include Canada, New Zealand, the United Kingdom, and the United States. Other European countries include Austria, Belgium, France, Germany, and the Netherlands. **b.** Part-time employment is defined using the common definition of working less than 30 hours per week in the main job. Data for Australia are not available for 2020 to 2022. The United States is not included in English speaking countries for the average part-time employment rate as the data was not available.

Source: OECD (2023c, tbl. C3, 2023a, tbl. H1).



Draft finding 4.2

Mothers' participation in the labour force has increased markedly

The labour force participation rate of mothers (with a child aged under 15) increased from 67% to 75% over the decade to 2021 – mostly due to an increase in the participation of mothers with a child aged 0–4 years.

Full-time employment among mothers is on the rise, but the part-time employment rate of Australian mothers is still higher than most OECD countries. High rates of part-time work are a feature of the Australian labour market and evidence suggests that preferences are a significant factor in mothers' decisions to work part time.

4.3 ECEC-related barriers deter some parents from working

The terms of reference for this inquiry state:

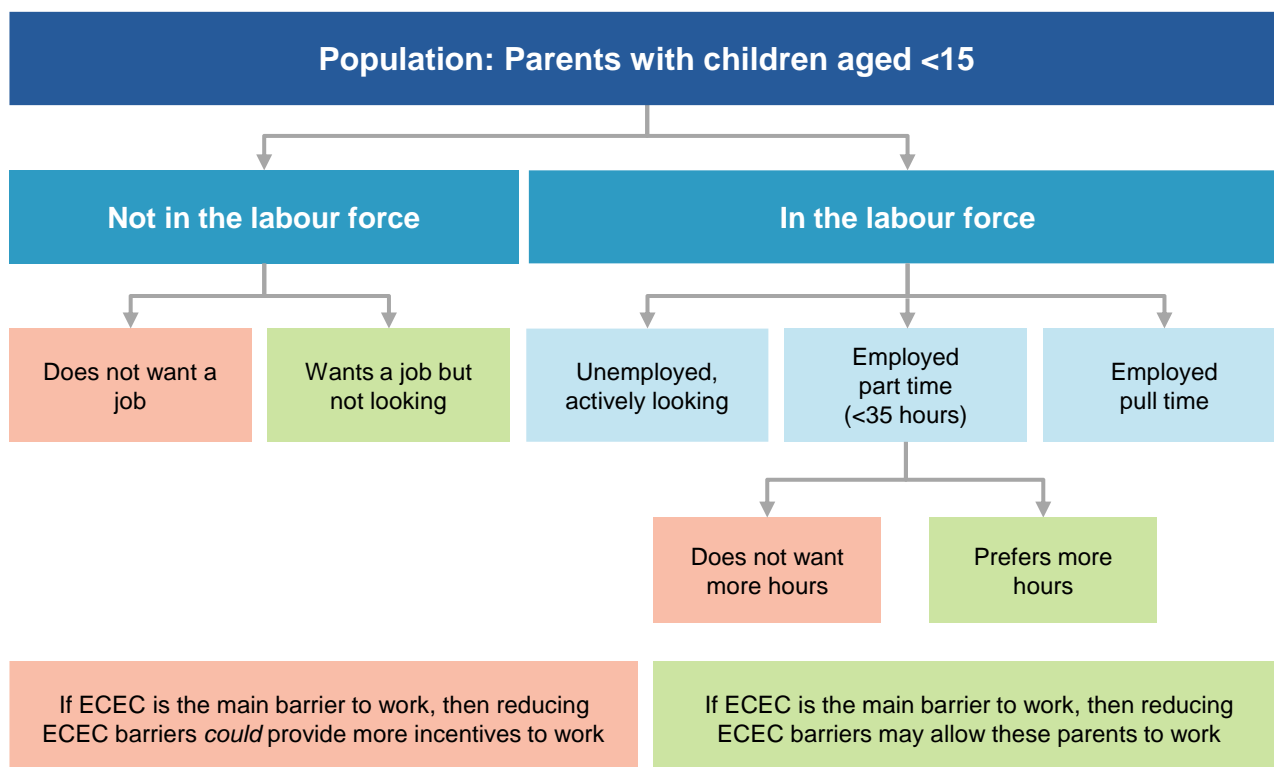
Cost and availability continue to be barriers to accessing ECEC, and for parents and carers achieving their preferred level of workforce participation. The Government believes more accessible ECEC is one of the most powerful initiatives it can pursue for increasing workforce participation, particularly for women.

This section considers the prevalence of different ECEC-related barriers to employment and how they have changed over time.

The ABS regularly surveys Australians on barriers and incentives to employment (ABS 2023a). Parents are asked about the effects of a range of potential barriers to them entering work or working more hours, among them ECEC-related factors such as cost and availability.

Information gathered in the survey depends on a parent’s labour force status (figure 4.17) – whether or not they are in the labour force and, depending on the answer to that question and their current employment situation, whether or not they would like work or more hours.

Figure 4.17 – Labour force situation of Australian parents^{a,b}



a. Framework is based on the ABS’s Barriers and Incentives to Labour Force Participation. b. Unemployed persons are those that actively looked for work in the past four weeks.

If parents are not in the labour force they are not working or actively looking for a job. Some do not want a job, while others want to work but face barriers to doing so. For example, they may have a long-term disability, face difficulties in finding suitable care, lack qualifications or experience, or live in an area where there are few available jobs. Lowering barriers to ECEC could provide an incentive to seek employment.

Parents who are participating in the labour force can be either unemployed or working. The unemployed may face challenges to finding work but the fact that they are actively looking suggests ECEC-related factors are not a significant barrier to their labour force participation. That said, reducing any barriers may make the process of finding a job and matching ECEC arrangements easier.

Among parents who are working, a proportion are in part-time employment and some of this group would prefer to work more hours. Reducing ECEC-related barriers might support them in achieving this outcome. Others report that they do not want more hours but a reduction in ECEC-related barriers might provide an incentive to seek more hours.

There is also a possibility that some working parents may wish to reduce their hours worked, but have not done so because of job requirements or a need for income.

Figure 4.17 summarises this classification of a parent's potential labour force situation. ECEC-related factors can be considered from the perspective of:

- those who want a job or more hours – for them, a reduction in ECEC-related barriers might support greater labour force engagement
- those who do *not* want a job or more hours – for them, a reduction in ECEC-related barriers might create an incentive to seek a job or more hours.

The distinction is drawn because those who want a job or more hours (and report ECEC as the main barrier) are more likely to increase their participation than those who do not want a job or more hours.

Parents' preferences for work

The ABS survey results suggest there is not much scope to increase the participation of fathers, but considerable scope to increase the participation of mothers (table 4.1). Only about 4% of fathers (or 95,000 persons) wanted a job or to work more hours. In contrast, about 19% of mothers (507,000 persons) wanted to participate more.

Table 4.1 – A higher proportion of mothers, rather than fathers, want to work more
Labour force status of parents (with child aged <15) by sex, 2020–21

	Fathers		Mothers		Total	
	('000)	%	('000)	%	('000)	%
Employed						
Employed full time	2009.1	84.3%	846.5	31.3%	2855.6	56.1%
Employed part time						
Prefers more hours	67.3	2.8%	239.0	8.8%	306.3	6.0%
Does not prefer more	108.1	4.5%	758.0	28.0%	866.1	17.0%
Unemployed	60.1	2.5%	101.7	3.8%	161.8	3.2%
Not in the labour force						
Wants a job	27.7	1.2%	268.3	9.9%	296.0	5.8%
Does not want a job	111.7	4.7%	494.5	18.3%	606.2	11.9%
Total	2383.9	100%	2708.2	100%	5092.0	100%

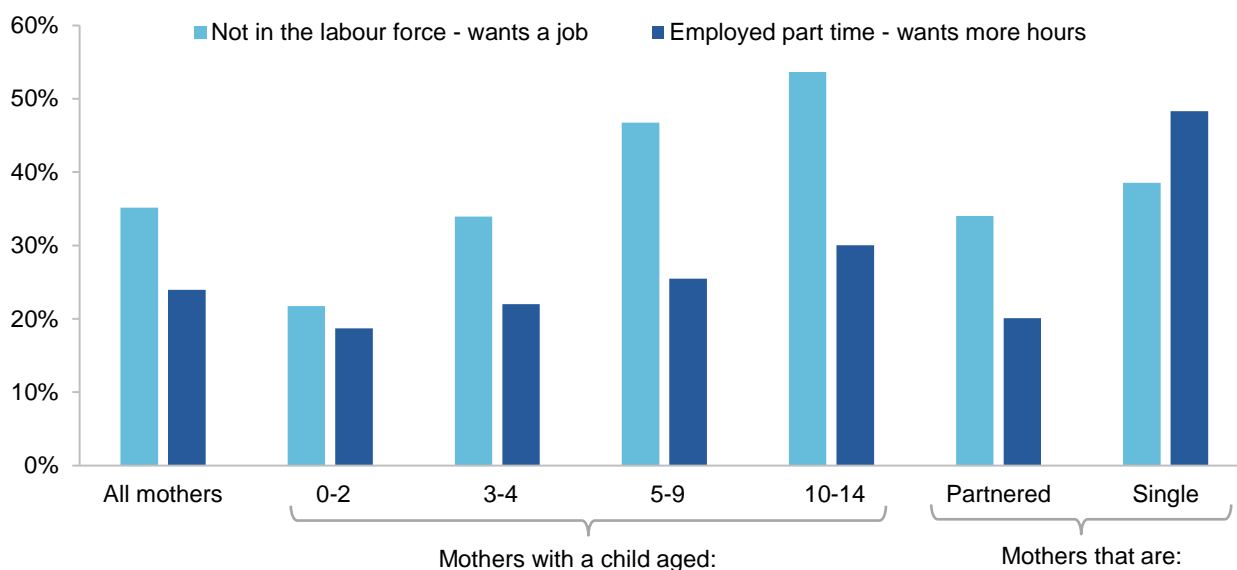
Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Mothers employed part time who wanted more hours typically worked about 19 hours a week with a stated preference on average for about 31 hours per week. Mothers not in the labour force but who wanted a job stated they wanted to work 20 hours per week on average (that is, most of them wanted part-time work).

A substantial proportion of mothers (46%) did not want a paid job or to work more hours. The extent to which these stated preferences reflected a genuine desire by mothers to look after their own children or result from other factors such as difficulties associated with the affordability or accessibility of suitable ECEC services is unknown.

Mothers' preferences for work change as children age (figure 4.18).⁵ In 2020-21, of mothers who were not working, only 22% wanted a job when their child was aged 0–2, but this increased to 34% when children were aged 3–4 and continued to increase as children age. Single and partnered mothers tend to have similar preferences for wanting paid work if they are not in the labour force. For those working part time, however, 48% of single mothers prefer more hours compared with only 20% of partnered mothers. The proportions are consistent with the Productivity Commission's (2014, p. 203) findings in its previous ECEC inquiry suggesting that these preferences are relatively stable over time.

Figure 4.18 – As children age a greater share of mothers want to work^a
Proportion of mothers who want work by different characteristics, 2020–21



a. Each column can be interpreted as the proportion of mothers in each category who want to work or want more hours. For example, the first column indicates that 35% of mothers who are not in the labour force want a job (implying 65% of mothers who are not in the labour force do not want a job), the second column indicated that 24% of mothers who are employed part time want to work more hours (implying 76% of mothers working part time do not want more hours).

Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Comparing mothers working part-time who did and did not want more hours sheds light on the characteristics of mothers who could enter the labour force (or work more). The analysis (figure 4.19) reveals that those wanting more hours:

- had an older child (6.7 compared with 5.5 years old)
- had lower household gross weekly incomes (\$1,524 compared with \$2,172)

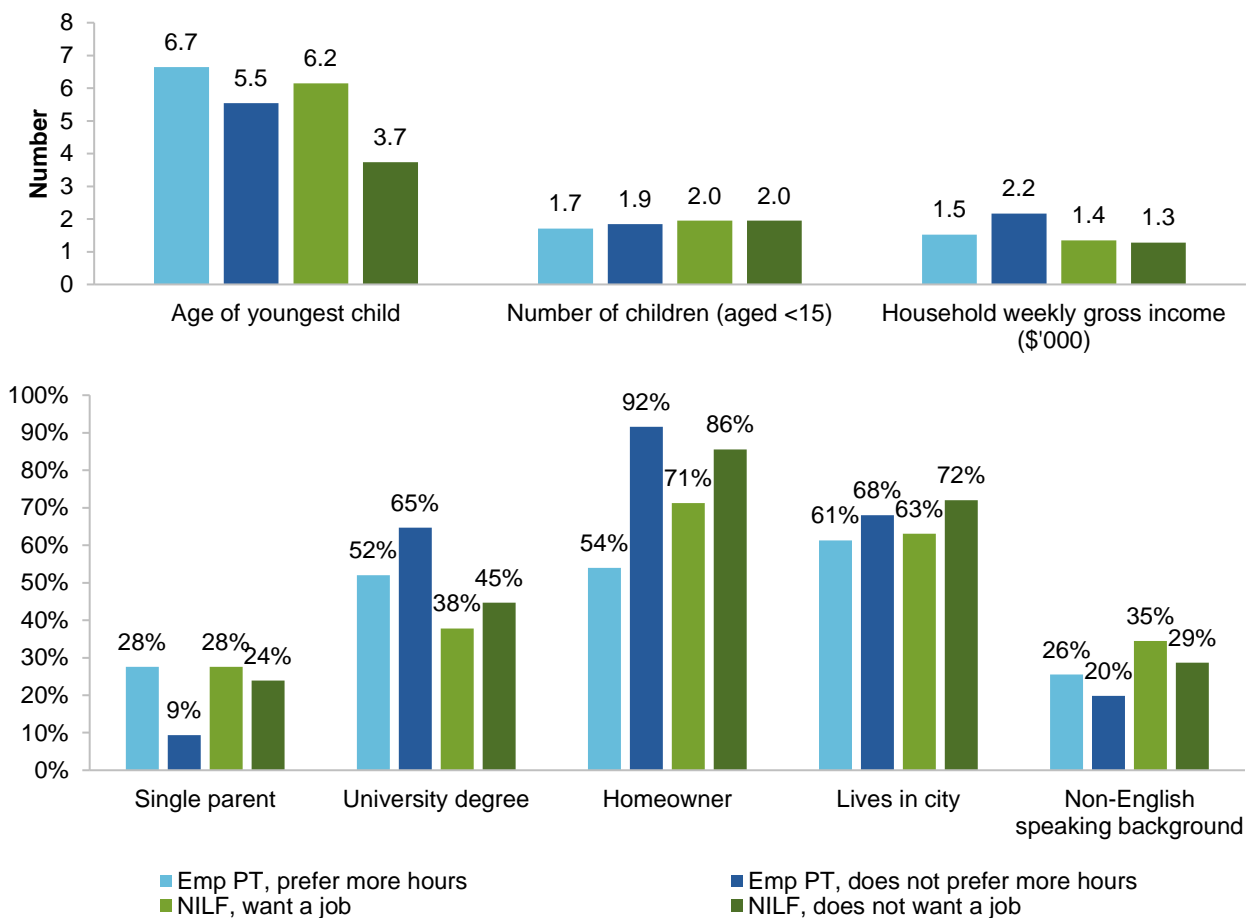
⁵ Because the sample of fathers who are either not in the labour force or employed part time is small, statistics in figure 4.18 could not be calculated reliably.

- were almost 20 percentage points more likely to be a single parent
- were about 10 percentage points less likely to have a university degree
- were much less likely to be a homeowner (including paying a mortgage)
- were slightly more likely to be from a non-English speaking background.

Differences between mothers not in the labour force who did and did not want a job are similar but typically less pronounced, with the exception of a large difference between the age of the youngest child – those who do not want a job tended to have much younger children compared to other mothers.

Figure 4.19 – Mothers who want to work or want more hours tend to be from lower income households^{a,b}

Characteristics of mothers (with a child aged <15) by labour force status, 2020–21



a. 'Emp PT' refers to 'employed part time' and 'NILF' refers to 'not in the labour force'. **b.** Each bar in the top chart depicts the average characteristic by group (for example, the average household income for a mother who works part time and wants more hours is \$1,500 per week). Each bar in the bottom chart depicts the proportion of mothers with the characteristic by labour force status (for example, 28% of mothers whose labour force status is 'working part time and wanting more hours' are single parents).

Source: Productivity Commission estimates based on ABS (*Microdata, Barriers and Incentives 2020-21*).

Parents who wanted paid work reported more ECEC-related barriers than those who did not want paid work

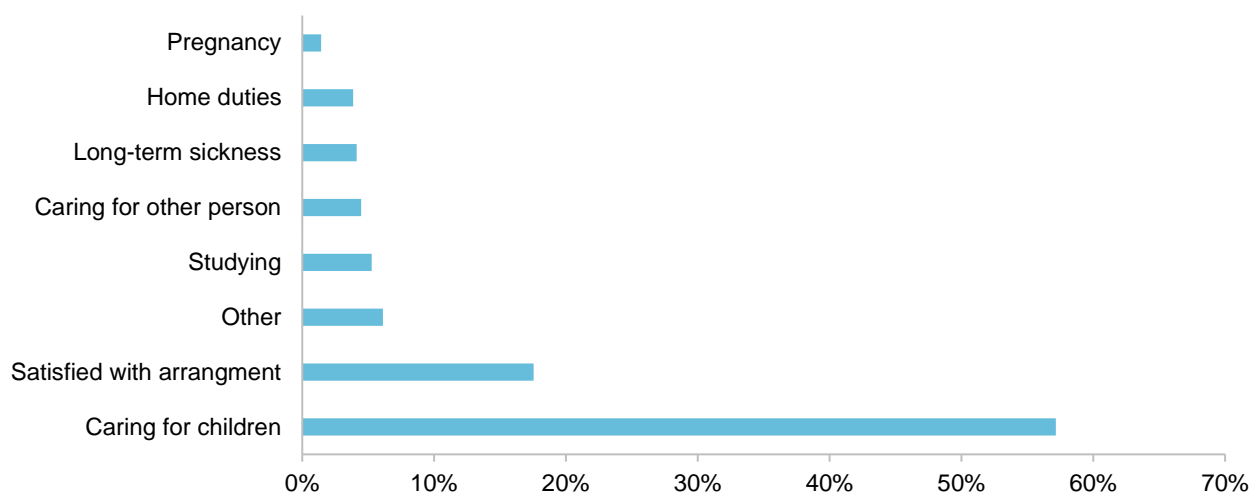
Caring for children is an important factor in the labour force participation decisions of many parents.

- About 30% of parents (or about 180,000 people) who wanted a job or more hours nominated caring for children as the main barrier to them achieving this outcome.
- And nearly 60% of parents who reported that they did not want a job or more hours (or 840,000 parents), nominated caring for children as the main reason for their employment situation (figure 4.20).

The majority of parents nominating ‘caring for children’ as a barrier to work (about 95%) were, perhaps unsurprisingly, mothers.

Figure 4.20 – Caring for children is the main reason most parents do not want paid work or more hours^a

Main reason for not wanting work or more hours, 2020–21



a. Other includes permanently retired, welfare payments may be affected, short-term sickness or injury, moving hours, taking holidays, and other.

Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Parents were asked for details about why caring for children influenced their work choices with response options including their preferences and ECEC-related factors. Parents were able to nominate both the main reason and all reasons.⁶ About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours, but reported ECEC barriers as their main reason for this.

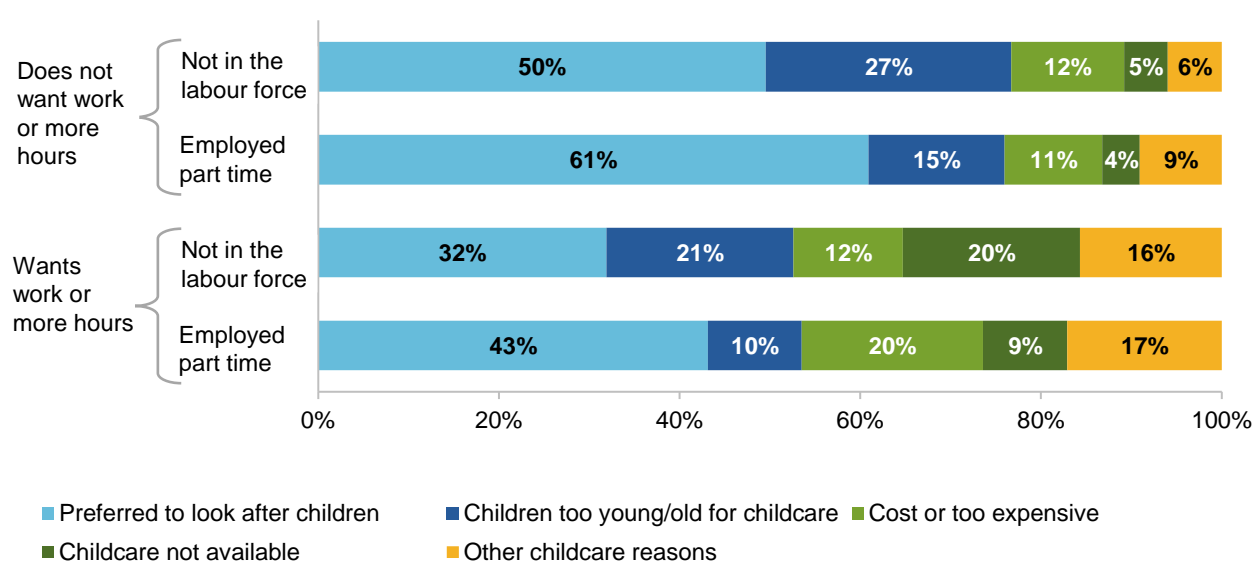
In terms of *main reasons*, regardless of their preferred work situation, parents’ preferences to care for their own children were strong. For example, among parents who were employed part time and did not want more hours, 61% reported the main reason that caring was a barrier was because they preferred to look after their own children (given the ECEC context at the time of the survey), while an additional 15% believed their children were too young or too old for ECEC; only 24% reported that ECEC-related barriers were the main

⁶ The ABS Barriers and Incentives survey does not ask parents about *all* ECEC-related barriers. Data from the ABS’s Survey of Income and Housing (2017–18) is used to supplement analysis in this section because it does ask about *all* ECEC-related barriers.

reason that caring for children was a barrier to them working more (figure 4.21). Parents who wanted to work or work more tended to report more ECEC-related barriers than those who did not want to work.

Cost was the most frequently reported ECEC-related barrier for many parents. An evaluation of the Child Care Package (Bray et al. 2021, p. 273) found similar results, in that parents who wanted to increase their hours of care noted affordability as the main barrier (78%).⁷ However, for one group of parents – those who wanted work but were not looking – availability of childcare was the key impediment.

Figure 4.21 – ECEC-related barriers are more prominent for parents who want to work^a
Main reason caring for children is a barrier to work, 2019–22



a. Chart includes data from June 2019 to December 2022 to increase sample size and be able to extract the information from the ABS datalab environment.

Source: ABS (*Microdata, Barriers and Incentives, multiple releases*).

About 60% of parents who reported that caring for children was a barrier to work nominated *multiple reasons* why that was the case.⁸ For example, of parents who reported the cost of ECEC is a barrier, about 37% of them also reported a preference to care for children and 22% reported that the times and days of available ECEC were not suitable (figure 4.22).

These results suggest that there is a strong relationship between the cost of ECEC and parents' preferences to care for their own children. Parents are likely weighing up the value they place on caring for their own child against the value of sending them to ECEC. That is, parents may be assessing the value of their potential wages and any value placed on potential developmental benefits to the child against the out-of-pocket expenses of ECEC. If parents believe the cost of ECEC is too high this may strengthen their preference for looking after their own children. Therefore, changes to the out-of-pocket expenses of ECEC may result in some parents changing their decisions about caring for children.

⁷ The authors also found that the other most common barriers for this group were the flexibility in work hours, availability of suitable work, the flexibility of childcare and the ability to obtain more hours of care.

⁸ Of the 40% that report one barrier, 51% report cost as the barrier and 36% report preferences to look after their own child or that the child is too young/old for ECEC.

Figure 4.22 – Parents tend to report multiple ECEC-related barriers

If parents report this barrier:	Prefer to care for children	Cost of ECEC
Then a proportion of them also report this barrier:	Cost of ECEC (55%)	Prefer to care for children (37%)
	Child too young/old (38%)	Child too young/old (25%)
	Time/days available not suitable (16%)	Time/days available not suitable (22%)
	ECEC not flexible enough (14%)	ECEC not flexible enough (19%)

Source: ABS (*Survey of Income and Housing, 2017-18*).

Overall, regardless of preferences for work, ECEC-related barriers were the main barrier to labour force participation for about 275,000 parents, of whom about 95% were women. Among this group the main ECEC-related barrier reported was:

- cost for 114,000 parents
- availability for 69,000 parents
- other ECEC-related factors for 92,000 parents.

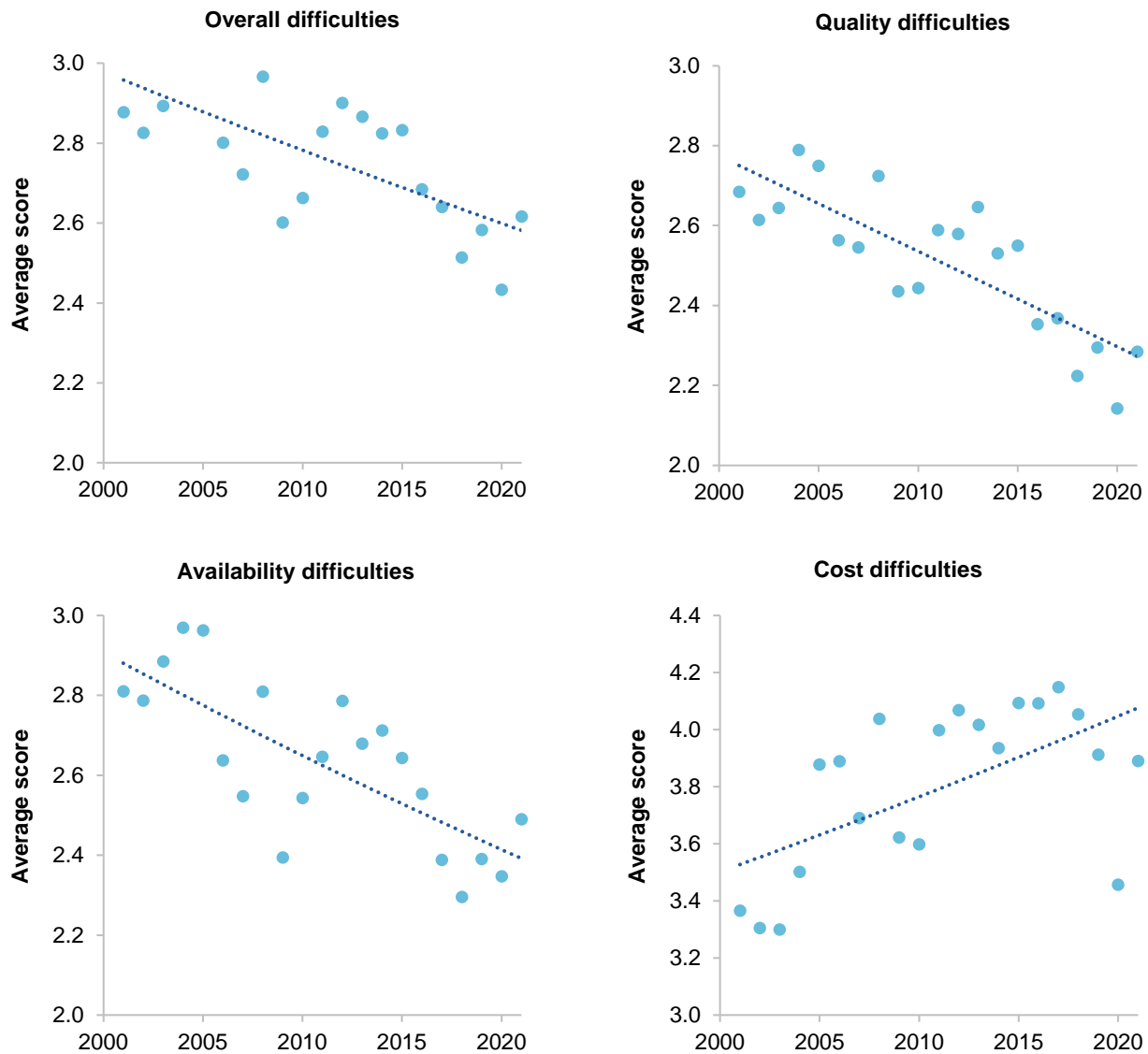
Affordability difficulties are reported to have increased while other barriers to ECEC use have decreased over time

The Commission has used data from the HILDA survey to track families’ reports of difficulties relating to the ECEC system over the past 20 years (in a replication of a figure from Breunig et al. 2023).

Overall, reports of difficulties fell (figure 4.23) due to a reduction in reports of challenges with:

- quality of ECEC (which refers to difficulties in finding quality childcare, the right person to care for child or care that children are happy with)
- availability (which refers to difficulties in finding care for the hours needed, in the centre of choice or in the right location, and in juggling multiple childcare arrangements).

Figure 4.23 – Most ECEC difficulties have declined, with the exception of cost^a
Average responses to difficulty with childcare questions in HILDA, 2001–21



a. HILDA asks each household with a child aged under 15 a set of questions about the difficulties they face with ECEC on a scale of 0 (Not a problem at all) to 10 (very much a problem). These questions can be grouped into difficulties with availability, quality and cost, and average responses for each domain are calculated.

Source: Productivity Commission replication of Breunig et al. (2023) based on HILDA Release 21.

However, the average level of cost difficulties families report increased over the period.

There was a noticeable drop in reports of difficulties with the quality of ECEC around 2014. The National Quality Framework was introduced in 2012 which introduced tighter regulations around qualifications of staff among other things. Since then, the proportion of services meeting the NQS standard overall has increased (ACECQA 2023, p. 6). Parents using ECEC may have noticed improvements in quality and/or may have been more aware of the policies to improve the quality of services, giving them greater confidence in the quality of services.

Difficulties with availability of ECEC services also decreased, likely reflecting strong growth in the supply of ECEC services and number of approved places for children. Presumably, a smaller proportion of parents have faced difficulties in securing their child a place at a service over time.

Reported difficulties with the cost of ECEC show an increasing trend. As illustrated by the CPI, the cost of ECEC has risen more steeply than general prices over the past two decades (figure 4.24). 'Adjustments to subsidies and introducing new programs have typically been associated with strong falls in costs to parents in the short term' (AIFS 2023, p. 8), but price growth tends to return to trend. As a result, the cost of ECEC has been particularly salient in the media, as well as other cost of living pressures, which may contribute to increased reports of difficulties with affordability.



Draft finding 4.3

ECEC is not the main barrier for most women who want a job or more hours

Parents' stated preferences when it comes to whether, and how much, they work suggest there is limited scope to increase the participation of fathers in the labour market but some scope for mothers. Most fathers are already employed full time, whereas about one in five mothers with a child aged under 15 years (or 507,000 women) stated they would like a job or to work more hours.

About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this position. If barriers were reduced, parents might be able to work their desired hours. Affordability is the most frequently cited ECEC-related barrier, but parents typically nominated others as well including availability and flexibility.

4.4 Reducing ECEC-related barriers could enable more parents to work

As seen above, there are parents who would like to participate more but may face ECEC-related barriers to doing so. This section explores the potential impacts of changing ECEC barriers on parents' participation. In considering these effects, it is important to also consider how other family policies interact with the ECEC system to shape parents' work choices.

The potential effects of reducing ECEC-related barriers

Responsiveness of participation to the cost of ECEC

Predicting parents' likely responses to a reduction in ECEC-related barriers to labour force participation is not straightforward. In the case of costs, for example, cheaper ECEC creates both an incentive to work more, because working delivers higher hourly pay net of costs, but also an incentive to work less, because that higher net hourly rate of pay means the same total income can be achieved with fewer hours worked (box 4.3). The net effect on hours worked by parents will reflect these opposing effects.⁹ In the case of

⁹ Raising taxes to pay for an increase in ECEC subsidies may have negative employment effects as well.

availability of care, as noted above, the extent to which a parent's preferences to care for their children might change if they had better access to ECEC is unclear.

Box 4.3 – A simple labour supply model

In a simple labour supply model, a parent has a few key decisions to make.

1. What time do they spend engaging in paid work and engaging in other activities (typically described as leisure, and can include things like parental care, housework, studying or volunteering)?
2. If they engage in paid work or other activities outside the home, how are their children cared for – what mix of formal and informal care works best for them?

For parents who are not in the labour force, lower ECEC costs may increase the incentive to take up paid work because lower costs reduce their 'reservation wage' (that is, the lowest net hourly wage rate (post taxes and ECEC expenses) at which a person would be willing to accept a job). Lower ECEC expenses translate into a higher net hourly wage.

Predicting the effect of a reduction in ECEC expenses for parents who are already working is more complicated. An increase in the ECEC subsidy means that a parent's net hourly wage increases (out-of-pocket expenses decrease assuming ECEC prices are unchanged). There are two economic effects of this:

- the substitution effect – an increase in the subsidy means that the economic cost of not working increases as working becomes more attractive. Parents have an incentive to *increase* hours worked
- the income effect – an increase in the subsidy means that net income increases and spending time on non-work activities becomes more affordable. Parents have an incentive to *decrease* hours worked.

The observed change in hours worked depends on which effect dominates. If the substitution effect is stronger, then hours worked increase. If the income effect is stronger, then hours worked decrease.

As Bray and Gray (sub. 14, p. 38) noted 'actual individual responses will depend upon the relative weight individuals place on the value of time in and out of paid employment'. The degree to which people respond to these two effects is called their labour supply elasticity (or the percentage change in hours worked in response to a percentage change in wages) and it is shaped by their individual preferences.

Studies have found that mothers generally increase their labour force participation in response to decreases in ECEC costs, but the responses are relatively small.¹⁰ Generally speaking, a 1% decline in ECEC costs leads to a considerably smaller than 1% increase in participation, on average. Studies for Australia imply a 1% decrease in ECEC costs could increase¹¹:

- the labour force participation of mothers by 0.02–0.29%
- the hours worked by mothers by 0.02–0.65% (table 4.2).

These estimates are consistent with international evidence, despite differences between countries. For example, an extensive literature review (Morrissey 2017, p. 1) found that, among US studies, a 1% decrease

¹⁰ There is limited research on the effects of ECEC prices on fathers' employment responses. Mumford et al. (2020) is one of the few papers that considers fathers. They find a 1% decrease in ECEC costs increases fathers' participation by a mere 0.01% and hours worked by 0.01%.

¹¹ Excluding the results from Kalb and Lee (2008) which finds a zero elasticity for both participation and hours worked.

in the cost of childcare would most likely increase maternal labour force participation (employment) by 0.05–0.25%, while estimates for other countries are typically smaller.

These estimated effects of changes to ECEC costs are also much smaller than the effect that wages have on labour force participation. For example, the NSW PC (2022, p. 8) found that labour force participation is 4.5 times more responsive to a percentage increase in wages compared with ECEC costs.

Table 4.2 – Responsiveness of mothers’ labour supply to ECEC prices^{a,b,c}

Author(s)	Children’s age	Family type	The effect of 1% increase in gross ECEC prices on:	
			Participation	Hours worked
Kalb and Lee (2008)	0–12	Partnered	0%	0%
Doiron and Kalb (2005)	0–12	Partnered	-0.02%	-0.02%
Apps et al. (2016)	0–12	Partnered	Not estimated	-0.25%
Gong and Breunig (2017)	0–5	Partnered	-0.08%	-0.11%
Mumford et al. (2020)	0–4	Partnered	-0.15%	-0.20%
Breunig, Gong and King (2012)	0–13	Partnered	-0.29%	-0.65%
Doiron and Kalb (2005)	0–12	Single	-0.05%	-0.05%
Kalb and Lee (2008)	0–12	Single	-0.19%	-0.16%
NSW PC (2022)	0–4	Both	-0.07%	-0.16%

a. Elasticity estimates are typically estimated for a 1% increase in price, such that the interpretation is a 1% increase in price results in a decrease in participation of 0.29%, for example. The models used to estimate elasticities impose symmetry such that the interpretation for a decrease in the price has the same magnitude of effect in the opposite direction **b.** Estimates of gross price (the price charged by providers) elasticities are presented rather than net prices (the price paid by families after subsidies are received). Some studies estimate both. **c.** These studies do not differentiate between short-term and long-term effects.

But some groups of mothers may be more responsive to price changes than others. Gong and Breunig (2017) estimated elasticities for different subgroups and found mothers who:

- had lower education levels were about 25% more responsive than mothers with a tertiary education
- had more than one child were twice as responsive than mothers with one child
- lived in lower income households were about 50% more responsive than mothers in higher income households.

Other studies found larger elasticities for single mothers compared with partnered mothers (Doiron and Kalb 2005; Kalb and Lee 2008). These results are also consistent with the international literature (Morrissey 2017, pp. 16–17) and help to inform which groups are most sensitive to changes in ECEC costs and which groups might have the largest labour supply response.

There is some discussion in the literature that the estimated elasticities would be larger if models were able to control for the availability of childcare. That is,

shortages may also mask the responsiveness of women to child care prices and EMTRs [effective marginal tax rates]. If child care is rationed, then this restricts the parents' choices, taking out the combined employment and child care use option, or at least reducing the availability of this option. This is likely to lead to fewer women in the labour force than would occur if child care was readily available. Accounting for rationing of child care substantially increased the price elasticity of child care use and of labour supply. (Kalb 2017, p. 141)

Despite this gap, elasticity estimates like those presented in table 4.2 and the models underlying them have been used to estimate the potential effects of changes in policy that aim to reduce ECEC costs (Gong et al. 2018; PwC 2019, p. 59; Wood et al. 2020).

The effects of increasing ECEC subsidies on participation have been limited

Changes to the Australian ECEC system have aimed to make costs cheaper for families (figure 4.24). However, major policy initiatives have only been successful in alleviating out-of-pocket expenses increases in the short term – once the immediate effects of these policy changes have abated, out-of-pocket expenses continue to grow much faster than general prices (CPI). That said, these policy initiatives have been successful in curtailing sustained increases in out-of-pocket expenses especially since the introduction of the NQF which put upwards pressure on costs to improve quality. For example, without the introduction of the Child Care Rebate (CCR) in 2004, out-of-pocket expenses may have continued to grow at a high rate and could therefore have been substantially higher than they currently are.

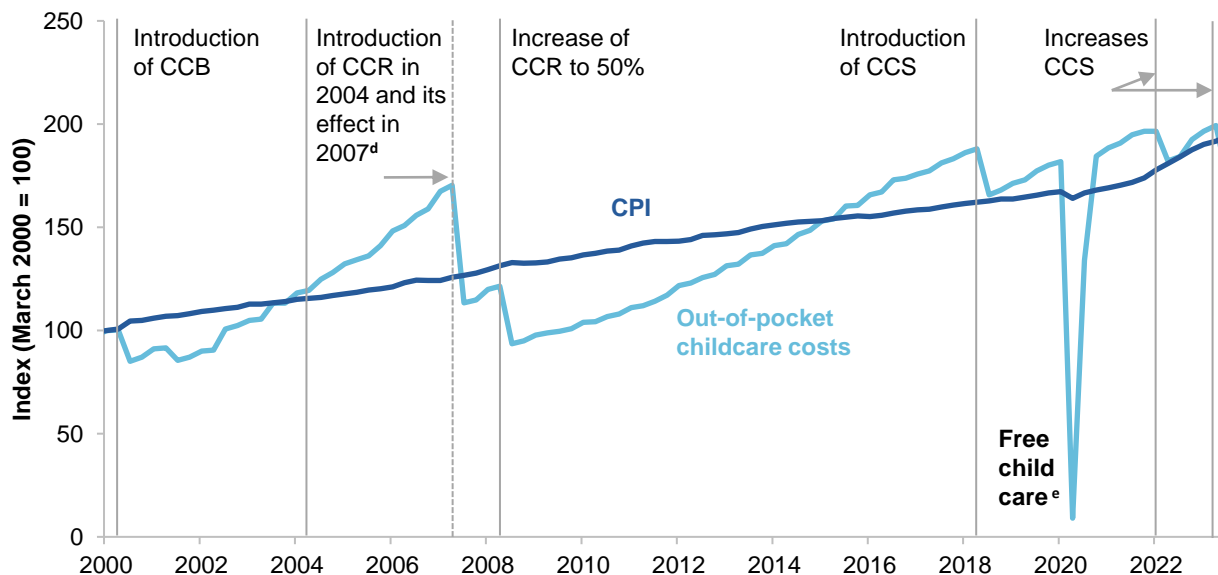
Consistent with the small estimates of the responsiveness of parent labour supply to changes in ECEC costs (table 4.2), most studies that have examined the 'on-the-ground' impacts of Australian policy changes have found limited effects on the labour force participation of parents.

The introduction of the Child Care Tax Rebate (commonly known as CCR) in 2004 produced an increase in hours worked of about one hour on average across mothers and increased the probability of being employed (for non-workers) by 5.6 percentage points. Effects were larger for single mothers (Gong and Breunig 2014, pp. 932–936).

Prior to its introduction, it was predicted that the Jobs for Families Child Care Package in 2018 – in which the CCS replaced the CCB/CCR – would encourage more than 230,000 families to increase their involvement in paid employment (Porter 2016). An evaluation of the package found a small increase in employment – hours of activity increased by 1.4% for single parents and by 0.3% for couples – but that the increase was consistent with the historical trends in employment (Bray et al. 2021, pp. viii, 280). That is, the increase in participation could not necessarily be attributed to the package itself but to existing trends in employment among families. As noted by Bray and Gray:

The evaluation found no significant impact on workforce participation, access to, or flexibility of, childcare services, nor in moderating cost increases for care. (sub. 14, p. i)

Figure 4.24 – Policy changes had short-run effects on out-of-pocket ECEC expenses^{a,b,c}
Quarterly index of childcare subgroup of CPI, March 2000–September 2023



a. CCB = Child Care Benefit; CCR = Child Care Rebate; CCS = Child Care Subsidy. b. The CCR was initially a tax rebate that allowed families with a tax rebate to offset 30% of their childcare expenses and was known as the Child Care Tax Rebate (CCTR). It was renamed the CCR in 2009. c. In March 2022 there was an increase in the CCS for families with more than one child aged under five years in childcare (DESE 2022, p. 1) and in July 2023 Cheaper Child Care was implemented. d. The ABS did not include the CCTR/CCR in the childcare CPI estimate until late 2007. This is the reason why there is a sharp drop in childcare prices in 2007 rather than in 2004. e. Free childcare was introduced in response to the COVID-19 pandemic, and lasted from April 2020 to 12 July 2020 (Hurst 2020; Klapdor 2020).

Source: ABS (*Consumer Price Index, Australia, Sep 2023*).

There are many reasons why only limited increases in labour force participation are observed

Some reasons why only limited increases in labour force participation are observed are explored below.¹²

It takes time for parents to find work

The effects of policy changes are not always immediate. Parents need time to enter the labour force, to find a job and to overcome any other barriers they face (see below). Therefore, studies may find small immediate effects of policies but greater effects as parents are able to adapt and change their employment levels. Brewer et al. (2022, p. 2) found effects of an expansion in childcare in the UK were 3 times larger after the first year.

The results of evaluations of policies can depend on the amount of time that has passed since the policy change. For example, Gong and Breunig (2014, p. 929) investigated the likelihood of being employed multiple years after the introduction of the CCR and found positive effects, whereas the evaluation of the 2018 Jobs for Families Child Care Package used data for a single year after the reform and found small, insignificant effects (Bray et al. 2021). A re-evaluation of the effects of the package using more data might find larger effects (assuming that the study can use methods to isolate the effect of the policy change on participation and not conflate it with other changes in the sector or policies that also impact participation of

¹² In addition, it may be difficult to isolate the effects of one policy change from the others that also affect family decisions. Technical methods are typically required.

parents). However, the authors of the study noted that part of the reason no effect was found was because the changes decreased the subsidy for some families (Bray and Gray, sub. 14, p. 37).

Labour market rigidities and inflexible contracts may also make it hard for parents to adjust labour supply, on the margin, in response to policy changes. Parents who are already employed and want to increase their hours worked might need time to adjust. Increasing hours worked is dependent on whether an existing employer can accommodate an increase in hours (which depends on flexibility in job contracts) or whether a parent must change jobs to find one that accommodates their desired hours (which depends on the flexibility of the labour market). As noted by Gong and Breunig (2014, p. 937) ‘the ability of policy changes to induce changes therefore may be enhanced or diminished by the degree of dynamism in the labour market’.

The most recent policy change (not depicted in figure 4.24 above) – the introduction of the Cheaper Child Care Bill in July 2023 – is expected to also have impacts on participation (box 4.4). The impacts of such a policy may not be immediate and timely data is not currently available to evaluate it. Any evaluation should bear in mind the factors discussed above.

Box 4.4 – Predicted impacts of Cheaper Child Care Bill 2023

In July 2023, the Australian Government implemented changes to the Child Care Subsidy. This included increasing the amount of subsidy, lowering the taper rate (reducing the ‘steepness’) and removing the annual subsidy cap. These policy changes are intended to make ECEC more affordable, thereby boosting labour force participation of parents.

- The Federal Budget estimated the hours worked by women with young children will increase by up to 1.4 million hours per week in 2023-24. This is equivalent to an extra 37,000 full-time workers (Australian Government 2022b, p. 4).
- Grattan Institute estimated that the policy would result in about 8% more hours being worked by secondary-earners with young children. This works out to about 220,000 extra days worked in Australia every week, mostly by mothers who are currently working part time increasing their hours. This is equivalent to an additional 44,000 extra full-time workers (Emslie 2022).

Not all parents increase work in response to an increase in ECEC subsidies

Not all parents will respond to an increase in subsidy in the same way. For parents who are already working (especially those working long hours), an increase in ECEC subsidy would have an unknown effect on the number of hours worked because the effect depends on whether the substitution or income effect is stronger (Brewer et al. 2022, p. 2). For example, an increase in income might incentivise some parents to reduce hours worked. This was the case for some parents as a result of the Jobs for Families Child Care Package. The evaluation found that ‘some parents reported increasing activity and others reducing’ (Bray et al. 2021, p. viii). This gives rise to consideration of a saturation point where further increases in subsidies may not impact labour force participation rates in the aggregate. Further, the design of ECEC subsidies, such as activity testing and reporting requirements and administrative complexity, could also affect labour force participation (discussed further in paper 6).

Looking at overall or average effects of policies on participation might result in small effects being estimated. Averages mask differences in how sub-populations respond to policies. For example, Gong and Breunig (2014, p. 919) found the positive effects of the CCR reform were concentrated amongst single mothers with

lower levels of education and with fewer and older children. This highlights the importance of looking at effects by subgroups where possible.

ECEC supply may be constrained such that additional demand is not met

An important aspect that is typically overlooked when increasing subsidies is the responsiveness of supply. Economic theory would suggest if the subsidy produces a large enough demand shift and if supply is unresponsive (that is, if supply is relatively inelastic, at least in the short term) this will cause prices to rise, such that some families are crowded out of the market. Over the longer term, supply will expand but costs and prices may not return to levels seen before the subsidy increase if marginal costs of provision rise. This is likely to happen to some extent as a consequence of services bidding up the wages of skilled workers and costs of land suitable for ECEC sites as they seek to expand. The increasing costs of supply will constrain expansion in response to higher demand to some extent, limiting increases in participation for children in ECEC and for parents in the labour market. To the extent that this happens, the benefits of higher subsidies will accrue to providers and families able to get a place. The supply side of the ECEC market is considered in paper 5.

Responsiveness of participation to non-price factors

An important consideration is how responsive parental labour supply is to non-price ECEC factors. Whether there are any (local) shortages of ECEC that are impeding parental labour force participation and how labour supply responds to changes in availability is not well understood or researched as most research focuses on cost. Shortages of ECEC in a general sense (such as, the number of places available) or shortages in terms of ECEC that is of sufficiently high quality to be acceptable to parents, given that ECEC is more than just a means for parents to participate in the labour force, can affect parents' choices about work and care.

There is some evidence that higher labour force participation of mothers is correlated with higher supply of ECEC. For example, the Mitchell Institute showed a correlation between the accessibility of childcare and mothers' labour force participation – 'regions where more people live in a childcare desert also have lower levels of workforce participation for females who have a child aged under five in the household' (Hurley et al. 2022, p. 36; paper 5). However, it is unclear whether a greater supply of ECEC was a response to demand from mothers wanting to work or whether the establishment of the ECEC services contributed to mothers choosing to work. Disentangling these two potential explanations is difficult.

Perceptions of local area difficulties with availability and quality have been shown to impact mothers' labour supply choices. In 2011, Breunig et al. (2011, p. 109) found that 'partnered women and [single] parents who live in areas with more reports of lack of availability, low quality or costly child care work fewer hours and are less likely to work than women in areas with fewer reported difficulties with child care'.

Breunig has recently replicated this paper using data up to 2019 for Australia to see if these observations have changed over time (Breunig et al. 2023). The results suggest that partnered mothers' participation decisions may still be affected by local area difficulties with the availability, quality and cost of ECEC, but that the effects have become smaller over time. These difficulties were found to no longer affect single mothers' participation decisions – there may be other more important factors influencing participation for this group.

Local area difficulties with availability, quality and cost are predictive of the decision to work part time for both partnered and single mothers. More reports of local area difficulties are associated with mothers choosing part-time work over full-time work, and these effects have become stronger over time (Breunig et al. 2023).

Taken together, these results suggest that local area difficulties with ECEC are not having a substantial impact on mothers' decisions to work, but they do affect their choices about their hours worked. This means that improvements in the ECEC system may result in greater marginal impacts on hours worked rather than participation per se.

Reducing ECEC-related barriers may only have marginal impacts on labour supply

The extent of parents' inability to find suitable ECEC services to enable them to work when they prefer to can provide a guide as to the scope for increasing the labour force participation of parents. As found in section 4.3, about 275,000 parents, of whom about 95% were women, reported ECEC-related factors as their main barrier to participation.

Removing barriers for parents who express wanting to work

According to the ABS Barriers and Incentives to Labour Force Participation survey, 2020-21, an estimated 602,000 parents (mostly mothers) of children aged 0–14 stated they wanted a job or wanted to work more hours (table 4.1). Of these parents, about 85,000 reported that a lack of suitable ECEC was the main reason preventing them from increasing their labour supply, that is, affordability, availability or other childcare related issues¹³ (section 4.3). If these ECEC-related barriers were removed, and assuming that these parents could find work or increase work hours to their *self-reported* desired hours, then there could be an increase in labour supply of about 44,000 full-time equivalent (FTE, based on 35 hours work per week) workers.

Most of this increase in hours worked (or about 84%) would come from mothers who are not in the labour force choosing to work, as mothers who already work part time wanted to only increase their hours worked marginally (section 4.3). The mothers who would return to work or work more hours tend to be from lower-income households, have younger children (aged 0-4), and are less likely to have completed high school and be single parents.

The Commission undertook a similar exercise in its 2014 inquiry into ECEC and estimated that 165,000 FTE workers would work if ECEC-barriers were removed (PC 2014, p. 214). This is a much larger number than the 44,000 FTE workers estimated in this inquiry. There has been a considerable increase in mothers' labour force participation since 2014 and ongoing improvements in the ECEC sector to improve affordability, accessibility and quality. These factors may have contributed to lowering the number of parents who cannot find work or increase work hours due to ECEC-related barriers.

Removing barriers for parents who do not want paid work

There are about 190,000 parents who stated they *did not* want a job or to work more hours but reported an ECEC-related barrier as the main reason for this. Some of these parents may change their preferences for work if ECEC-related barriers are reduced. These parents are not asked about their desired hours of work, and so it is assumed that each parent not in the labour force wanted to work 20 hours (the median response for those not in the labour force who wanted a job) and those who wanted to work more hours wanted 10 additional hours (the median increase in hours worked desired by those who wanted to work more hours).

Supposing all these parents would choose to work if barriers were reduced, and making these assumptions about their desired hours, then an additional 74,000 FTE workers could join the labour force.

Summary

Overall, the analysis suggests up to an additional 118,000 FTE workers could be added to labour supply if all ECEC-related barriers were removed. Around 275,000 parents would be affected (some of whom are already in the labour force but would increase their hours worked).

¹³ It is assumed that 'other childcare reasons' are ECEC-related.

Recent increases in ECEC subsidies will have improved affordability for some of these parents, and some might have already sought work as a result. Some will also face non-ECEC barriers to their labour force participation – for example, a lack of suitable jobs, or unsuitable hours. Some might also be deterred by the high effective marginal tax rates that they would face as transfer payments are withdrawn and income tax rates rise with higher earned income. These issues are explored below.

As a result, this analysis should be used with caution as it is an upper bound and there are many caveats (box 4.5).

Estimates of the changes in labour force participation and ECEC demand in response to *specific* policy changes to the CCS design are presented in paper 6.

Box 4.5 – Caveats to the potential increase in labour force participation

The estimated increases to labour supply of 44,000 FTE workers (or 118,000 FTE total) is useful to provide a guide for the scope to increase labour force participation if ECEC-related barriers were removed. But the approach to estimating these numbers has several caveats and should be interpreted in conjunction with them. For example, these estimates are:

- an upper bound as they assume that all ECEC-related issues are solved, that even parents who did not want a job or to work more hours choose to work or work more if their ECEC-related barrier is removed and that parents do not face any other barriers to finding a job or more hours
- based on survey data which may not be representative of the Australian population. Population weights have been used to try to reduce misrepresentation
- based on parents' *stated* preferences for work and *self-reported* ECEC-related barriers to work given the conditions at the time of survey in 2020-21. Since then, further improvements in the ECEC sector, such as the introduction of the Cheaper Child Care Bill, may have enabled some parents to join the labour force and others may have changed their preferences regarding work and care. These changes are not captured in these estimates. (Modelling in paper 6 does not rely on parents' *stated* preferences for work or *self-reported* ECEC-related barriers).



Draft finding 4.4

Removing ECEC-related barriers could see an increase in labour supply equivalent to up to 118,000 full-time workers

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 44,000 full-time workers among those wanting a job or more hours could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4 years), those who are more likely to have not completed high school and those who are single parents.

If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time workers could be added to labour supply.

These figures are upper bounds – the analysis assumes that all ECEC-related issues are solved (including availability) and that any non-ECEC barriers are not sufficient to prevent these parents' engagement in the labour force.

Parents face other barriers to working beyond caring for children

Although caring for children is a significant barrier to participation, parents also face other barriers.

Child care related factors are a barrier to some parents seeking to increase their paid work, [but] it is the sole barrier for a relatively small proportion, and is more significant for those already using child care, with cost being the most frequently cited problem. (Bray et al. 2021, p. 273)

There are many reasons why mothers who are not in the labour force are not looking for work, other than ECEC-related reasons and preferences for caring for children. For example:

- their own illness or disability
- ill health of someone other than self/family reasons
- they are studying or returning to study
- believe there is no suitable job available
- they lack training or qualifications necessary (HILDA Release 21).

Further, those mothers *who are looking for work* face barriers that are not ECEC-related. A key barrier appears to be finding a job that is suitable and flexible (also noted by Bray and Gray, sub. 14, p. 38).

Mothers looking for work tend to report the main difficulties they face in getting a job include:

- unsuitable hours
- there are no jobs available
- too many applicants
- did not have required education, training, skills or work experience
- own ill health or disability (HILDA Release 21).

Mothers may also feel discriminated against in the workplace and consider this a barrier to working. Governments have put in place policies to prevent discrimination from occurring – such as *The Sex Discrimination Act 1984 (Cth)* which makes it unlawful to treat a person unfairly because of their sex, family responsibilities or because they are pregnant. Despite this, in a 2014 survey, almost 50% of mothers reported experiencing discrimination in the workplace at some point during pregnancy, parental leave or on return to work (Australian Human Rights Commission 2014). Further, one-in-five mothers were made

redundant, their jobs were restructured, they were dismissed or their contract was not renewed because of their pregnancy, taking parental leave, or family responsibilities that included the need to breastfeed or express milk at work (Australian Human Rights Commission 2014). A more recent survey suggests that mothers' experience of discrimination persists in Australian workplaces (Potter 2023).

The existence of other barriers to employment means that even if all ECEC barriers are resolved not all parents who want a job may be able to find one. In fact, they may find themselves facing new challenges to finding work or more hours.

Parents' work decisions are also shaped by other policies

Other government policies and the conditions offered by employers can also affect parents' choices about whether to work and how much to work. The provision of ECEC, family-friendly work policies and paid parental leave may make it easier for women to combine paid employment and motherhood. The tax and transfer system, however, can bring about financial disincentives to return to work.

The effects of these policies and the interaction with ECEC policies on parental labour force participation is considered below.

Paid parental leave can improve the likelihood of mothers returning to work

The Paid Parental Leave (PPL) scheme was first introduced in January 2011 and provided working mothers with government-funded parental leave at the national minimum wage for a maximum period of 18 weeks. In 2013, Dad and Partner Pay was introduced to provide eligible working fathers and partners up to 2 weeks government-funded pay at the national minimum wage. Although publicly funded, PPL is provided through employers in the majority of cases (Kalb 2017, p. 142). Many large employers also offer parental leave at full pay (NSW Treasury 2022b) – some offer as much as 26 weeks but the most common length is between 7-12 weeks (WGGEA 2022). Some workplaces also have other measures to encourage mothers to keep in touch over their leave period and to facilitate a return to work (Kalb 2017, p. 142).¹⁴

The PPL scheme has supported women by enabling them to take a temporary break from working to care for their infant child and to maintain a connection to their employer and the labour market. Reviews of the scheme found that:

- most mothers who received PPL took the full 18 weeks of payment (suggesting a preference of mothers to care for children if they are in a financial position to do so) (Martin et al. 2013, pp. xvi, 67)
- although mothers took longer to initially return to work, the probability of returning to work in the longer-term increased, such that more mothers had returned to work by 12 months following birth (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40)
- there was a particularly strong impact on mothers with lower incomes and lower formal education, who were either employed on casual contracts or self-employed before the birth of their child (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40).

As noted by Broadway et al. (2020, p. 50):

By improving mothers' opportunities to stay at home immediately after birth, while simultaneously making a return to paid work more likely later on, the scheme makes a clear contribution to a better balance between paid work and family life.

¹⁴ Under Australian law, all employees are entitled to up to 52 weeks of unpaid leave from their employer when they have a child.

There are concerns, however, that the PPL scheme can reinforce inequities between mothers and fathers. Social and cultural expectations still place the responsibility of caring for children primarily on mothers. As such, mothers tend to have breaks in their employment or reduce their hours worked, while this is typically not the case for fathers.

Many have called for changes to the scheme to improve gender equity. For example, KPMG in conjunction with the Business Council of Australia Women's Participation Taskforce argued that PPL and Dad and Partner Pay should be combined into a new scheme that offers up to 26 weeks to be shared between parents however they choose, with bonuses for more equally shared leave (KPMG 2021, p. 2). And Grattan Institute (Wood and Emslie 2021, p. 3) called for a 'six weeks 'use it or lose it' provision for each parent, and 12 weeks to share between them as they choose', with bonus leave for both parents when both use at least six weeks of leave. The 'use it or lose it' policy is important in encouraging fathers to use PPL; without this policy take up of PPL from fathers is lower (OECD 2016a, pp. 14–15).¹⁵

As a result of concerns of this type, the PPL scheme is being changed to make it more flexible and to encourage both parents to take leave. The 2022-23 Federal Budget announced major changes to the scheme, creating 'Enhanced Paid Parental Leave', and investing \$531.6 million over four years. Changes include:

- the amount of PPL available for families will increase up to a total of 26 weeks by July 2026. From 1 July 2023 the PPL and Dad and Partner Pay entitlements will be combined to 20 weeks, and from 1 July 2024, PPL entitlements will increase by 2 weeks each year until they reaches the 26 weeks
- the introduction of a \$350,000 family income test, which families can be assessed under if they do not meet the individual income test, will expand the number of families eligible¹⁶
- the primary claimant does not have to be the mother such that families can decide who will claim and how they will share the entitlement from 1 July 2023
- the future provision of a dedicated 'use it or lose it' portion for each parent to encourage fathers to use the scheme to promote gender equality and a more equal distribution of caring responsibilities. The Women's Economic Equality Taskforce will advise on the size of the portion (Australian Government 2022a, pp. 40–41, 2022c, pp. 1–2).

These changes will bring benefits to families but are unlikely to have substantial impacts on labour force participation. The scheme will enable fathers to be more involved in the early development of their children and this can have lasting impacts, such as improved cognitive and emotional development for the child and greater life satisfaction for fathers (OECD 2016b, p. 1). Moreover, the 'use it or lose it' measure may encourage more equal sharing of PPL and unpaid work, and fathers taking on an increased share of unpaid work may make it easier for mothers to participate in the labour force (Wood and Emslie 2021, p. 24). However, a substantial review of studies found that evidence on the influence of fathers' leave on gender equality in the labour market remains scarce, and somewhat mixed (Canaan et al. 2022, p. 1). Evaluation of the Australian policy, once it is rolled out, would provide further evidence.

Some have called for further increases to PPL entitlements to 12 months (One Tree, sub. 121, p. 10; Merewether and Bush, sub. 60, p. 3; Parents Work Collective, sub. 73, p. 5; The Senate 2023, p. 183). Proponents argue that this: would enable parents to spend more time with children; may ease pressures on the ECEC system given difficulties in finding care for 0–12-month olds; and would bring Australia into line with the OECD average (OECD 2023f, p. 3). But in the context of labour force participation, extending PPL to

¹⁵ For example, Iceland and Sweden's 'use it or lose it' policies have led to a doubling in the number of parental leave days taken by men (OECD 2016b, p. 2).

¹⁶ Individual income in the year pre-birth must be less than about \$150,000 to be eligible (Services Australia 2023).

12 months or longer has been shown to have negative impacts on mothers' labour market outcomes (Canaan et al. 2022, pp. 13–14).

Consideration of a 12-month PPL scheme would need further investigation to ensure the scheme would provide net community-wide benefits. The 'benefits to children and parents from incrementally longer periods of leave have to be weighed against their (appreciable) budgetary costs' and the trade-offs as to where this money could be spent, such as the ECEC system' (PC 2009, p. XXIV). In 2009, the Commission found that extending leave to 52 weeks would cost about \$7.2 billion and that this would have significant budgetary implications (PC 2009, p. 2.56). The net benefits (or costs) of this type of scheme were not considered. The Commission has previously recommended a PPL scheme that enables families to take up to 26 weeks of leave without financial stress (PC 2009, p. XXI) and the government's proposed changes enable this.

Flexible work and family-friendly policies can encourage parents to work

The availability of flexible work and other family-friendly arrangements are a key positive labour force participation driver. For instance, workplace support and flexibility can increase the likelihood of women returning to work after childbirth (Coulson et al. 2012, p. 39). A lack of flexible working options may cause some mothers to work full time when they would prefer part time, but more typically mothers shift employers or not return to paid work altogether (Wood et al. 2020, p. 77). Flexible work environments are not a substitute for accessible and affordable ECEC, but can be viewed as a complement such that these policies work together to enhance the ability of mothers and fathers to undertake paid employment.

Flexible work and family-friendly arrangements can include:

- changing the hours of work (for example, working part time or changing start or finish times)
- changing patterns of work (such as job sharing)
- changing the place of work (for example, working from home, which has become a prominent feature of many workplaces since the COVID-19 pandemic)
- using leave arrangements
- adopting specific occupational health and safety measures (for example, for pregnant employees)
- having specific employer supports such as onsite childcare or reserving places in a childcare centre.

Under the *Fair Work Act 2009*, certain employees have a legal entitlement to request flexible working arrangements.¹⁷ This includes ongoing and casual employees who have worked with an employer for at least 12 months. Casual employees must also have a reasonable expectation of continuing employment on a regular and systematic basis. The employee must have a valid reason for requesting flexible working arrangements and the Act specifies numerous potential reasons, including an employee being a parent of, or having caring responsibilities for a child who is school age or younger.

The use of flexible working arrangements among men and women is generally similar except when children are young or where multiple children are present (figure 4.25). This could suggest that flexible work is more common among mothers compared to fathers when caring responsibilities are higher. In 2017, 69.5% of mothers used flexible working arrangements specifically to 'care for children', compared to 42.3% for fathers (ABS 2018).

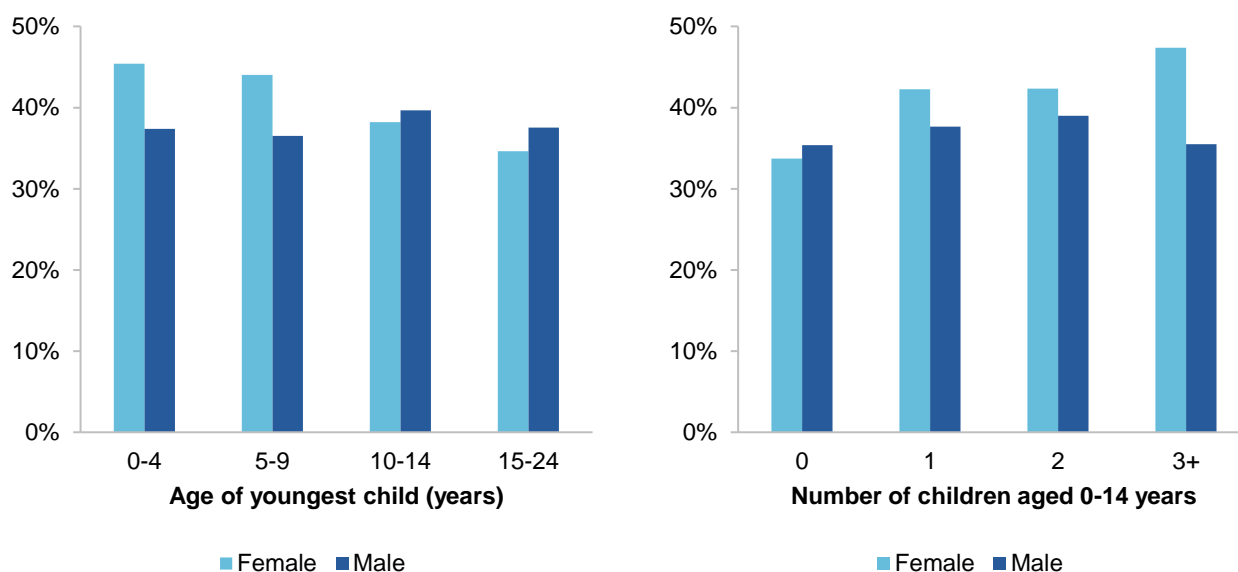
Some fathers are reported to not use flexible work due to prevailing social attitudes (Parents at Work 2019, p. 20). These attitudes include prejudice against fathers for using flexible working arrangements to support caring duties, or attitudes which assert that flexible work is more appropriate for women. Male carers using flexible work report the highest level of exclusion compared to other flexible work users, with 48% witnessing

¹⁷ *Fair Work Act 2009*, s. 65-66.

or experiencing discrimination or harassment in 2021, compared to 28% for male users of flexible work without caring responsibilities (Diversity Council Australia, sub. 71, p. 15).

Figure 4.25 – Flexible working arrangements are more common for mothers with younger and more children^a

Proportion of workers who had a flexible working arrangement in their main job by age of youngest child and number of children, 2021



a. This chart shows the use of flexible work arrangements but does not specifically relate to using those arrangements to care for children.

Source: ABS (*Tablebuilder, Characteristics of Employment, Australia, August 2022*).

The prevalence of flexible working arrangements increased as a result of the COVID-19 pandemic. During the pandemic, working from home became much more common across Australia. Despite the impacts of the pandemic declining over time, these trends in working from home are anticipated to persist to some extent in the future (McKinsey Global Institute 2021, p. 37).

Working from home increased among all workers during the pandemic, but there were greater increases for mothers. In 2021, about half of employed mothers with a youngest child aged 0–14 years were usually working from home in their main job, a 10 percentage point increase from 2019 (ABS 2023b). Over the same period, the share of employed persons usually working from home increased by 9 percentage points among women aged 25–54 years old without children, and 5 percentage points among both fathers with a youngest child aged 0–14 years and men aged 25–54 years without children. The rise in working from home could be explained by evidence that suggests both men and women experienced increases in unpaid work during the pandemic, but there was a greater increase for women (Craig 2020, p. 687).

Mothers with a youngest child aged 0–14 years were already usually working from home in significant proportions (40%) prior to the pandemic (ABS 2023b), with this increasing further during the pandemic as discussed above. As such, working from home may have been a particularly important option for mothers to balance work and care duties following the onset of the pandemic. Working from home may support mothers' labour force participation by improving access to work for those raising children, which are responsibilities that are still mostly carried by women in Australia (PC 2021, p. 82). More broadly, working from home could

also promote a more gender-balanced labour force, as more women than men are in jobs that can be done remotely (PC 2021, p. 83).

Increasing awareness of flexible work options and changing attitudes towards flexible work may further allow parents to balance work and care. The Fair Work Ombudsman (2023) publishes best practice guides for flexible work for managers and employers. These guidelines explain the advantages of taking a best practice approach to flexible working arrangements. Finding ways to promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements is encouraged. Some argue that this could be achieved through employers setting targets for engaging men in flexible work (Lyons 2019). However, beyond policy considerations, change in this area will likely require broader cultural shifts related to perceptions of traditional gender roles and attitudes (Borgkvist 2021, p. 239).

The tax and transfer system can create disincentives for secondary income earners to work

Some submissions have noted the existence of financial disincentives for mothers to work caused by high net costs of ECEC in tandem with interactions with the tax and transfer system (Australian Government Department of Education, sub. 90, pp. 38–39; Brotherhood of St Laurence, sub. 96, p. 11; Bray and Gray, sub. 14, p. 7; Goodstart, sub. 125, p. 92; NFAW, sub. 10, p. 6; The Salvation Army, sub. 56, p. 22).

Australia is characterised by a progressive tax system and a means-tested transfer system. The personal income tax system has a high tax-free threshold followed by increasing tax rates at subsequent thresholds. In the transfer system most payments are means tested to ensure support is targeted to people who need it the most. Families with children are supported with almost universal payments (such as Family Tax Benefit Part A) and low-income parents (mainly single parents) may also be eligible to receive more targeted welfare transfers (such as Family Tax Benefit Part B and the Parenting Payment). The means testing includes a family income test, where transfers are reduced or cut off as family income increases.

The Child Care Subsidy (CCS) also factors into this system. Among other eligibility criteria, whether a family receives a subsidy is determined by a family income test, and the rate of subsidy is tapered so that those families that earn the least receive a higher subsidy rate (paper 6).

A consequence of the design of Australia's tax and transfer system, with taxes levied on individuals and transfers based on family income, can be financial disincentives for parents, particularly second income earners, to enter the labour force or to work full time.¹⁸ The OECD found 'a high tax wedge between second earners and single individuals exerts a negative impact on female participation' (Jaumotte 2004, p. 78). In Australia, government policies have 'counteractive effects' both encouraging and discouraging the engagement of 'secondary' earners, mostly mothers in paid work (Kalb 2017, p. 152). Providing ECEC subsidies and paid parental leave can encourage women back to work, but the *withdrawal* of family benefits (such as CCS, Family Tax Benefit and Parenting Payment) as family income increases can create financial disincentives for women to engage in or increase paid work.

The disincentives for a secondary earner working can be modelled using effective marginal tax rates (EMTRs) or workforce disincentive rates (WDRs). These measure the combined effect on a person's take-home earnings of income tax, the withdrawal of transfer payments and the out-of-pocket ECEC. An EMTR measures how much money a person would lose from earning an extra dollar (box 4.6). Similarly,

¹⁸ This is unlike tax systems in many other countries that allow for transfers of a tax-free range between married and de facto partners (Kalb 2017, p. 136).

WDRs show the proportion of earnings from an additional day of work that is lost to income taxes, the withdrawal of transfer payments and net childcare fees. WDRs tend to provide a ‘more realistic idea of the incentives driving work decisions for secondary earners than [EMTRs] because household decisions are often made about the number of days to work rather than additional hours’ (Kennedy 2023). WDRs are typically estimated for the secondary income earner (typically the mother) in a range of cameo family situations, where the primary earner’s (father’s) income and labour supply is taken as given.

Box 4.6 – What are effective marginal tax rates (EMTRs)?

Most people do not get to keep every cent that they earn. For every extra dollar earned, most people pay income tax (for high income earners, this is as high as 45 cents), some lose part of their transfer payments and, over some income ranges, the rate of Child Care Subsidy for families using subsidised care falls, increasing their out-of-pocket ECEC expenses. The sum of these losses can be referred to as ‘cents in the dollar’.

To illustrate, if a person earns one extra dollar, but pays 30 cents of this dollar in income tax, loses 17 cents of welfare benefits (such as FTB or Parenting Payment) and pays 22 cents towards ECEC costs in order to earn that dollar, their effective marginal tax rate (EMTR) is estimated to be 69 cents in the dollar.

EMTRs of over 100 cents in the dollar imply that the person has no financial gain from working more hours (in fact, they would incur a financial loss). That said, some people may tolerate high EMTRs in the short term if they think that participating in paid work will bring financial gains in the longer term (for example, through career progression and the accumulation of superannuation) or they enjoy being in paid work. Further, EMTRs do not consider that some families also use informal care to enable work, such that they may not incur additional ECEC costs from working an extra day.

EMTRs are high for secondary earners ...

Several reports have estimated relatively high EMTRs for the secondary earner in Australia and suggested this discourages them from working more. The Grattan Institute (Wood et al. 2020, p. 25) found that ‘for second earners, mainly women, right across the income distribution, there is not much – if any – financial gain from working an extra day, particularly beyond three days a week’. They found that WDRs were more than 50% for mothers working between 2–3 days and 110% for between 4–5 days. Both the Commission and KPMG have previously made similar findings (KPMG 2018, p. 3; PC 2014, p. 220). Typically, secondary earners face a higher workforce disincentive as they work additional days.

The largest workforce disincentives typically affect mothers with young and multiple children. Bray et al. (Bray et al. 2021, p. 280) noted that EMTRs particularly affected single parents or partnered mothers with young children who require full-time care on the days they work. Grattan found that women with multiple children in centre-based day care face the highest EMTRs because they have to pay high childcare fees and because they receive a higher Family Tax Benefit A, meaning dollar withdrawals are higher as income increases than for parents with fewer children (Wood et al. 2020, pp. 25–27).

Despite recent changes to make ECEC more affordable and reduce out-of-pocket expenses, EMTRs remain high. An evaluation of the 2018 Jobs for Families Child Care Package modelled the impact of the reform on EMTRs and, across the scenarios modelled, found that after the package:

there was an average reduction of 8.5 percentage points in the impact of EMTRs on the earnings parents would gain from working an additional day. After these reductions, the median EMTR was 67.5 per cent, and a quarter of the scenarios had an EMTR of over 78.3 per cent. (Bray et al. 2021, p. viii)

The Cheaper Child Care Bill introduced in July 2023, which increased the subsidy level and lowered taper rates, is expected to further reduce workforce disincentives for almost all families with children in care (Wood et al. 2022, p. 7). Bray and Gray (sub. 14, p. 40) estimated a decrease in the average EMTRs in the cameos modelled of 5 percentage points.

... but high EMTRs are mostly due to the tax and transfer system rather than ECEC costs

Although out-of-pocket ECEC expenses are a contributor to high EMTRs, there is some consensus that the main reason EMTRs are high lies in the tax and transfer system (figure 4.26). In late 2018, out-of-pocket ECEC expenses accounted for between 10% and 50% of average EMTRs depending on the characteristics of the family (Bray et al. 2021, p. 279). But for many, high EMTRs are mainly due to the withdrawal of benefits and the progressivity of the income tax system. Marginal income tax rates are significant, particularly for higher earners, and Family Tax Benefit A, Family Tax Benefit B, Parenting Payment and Commonwealth Rent Assistance all decrease as family income increases – a phenomenon which particularly affects low- and middle-income households (Wood et al. 2020, p. 27).

Generally, the out-of-pocket ECEC expenses have remained a relatively large contributor to high EMTRs for:

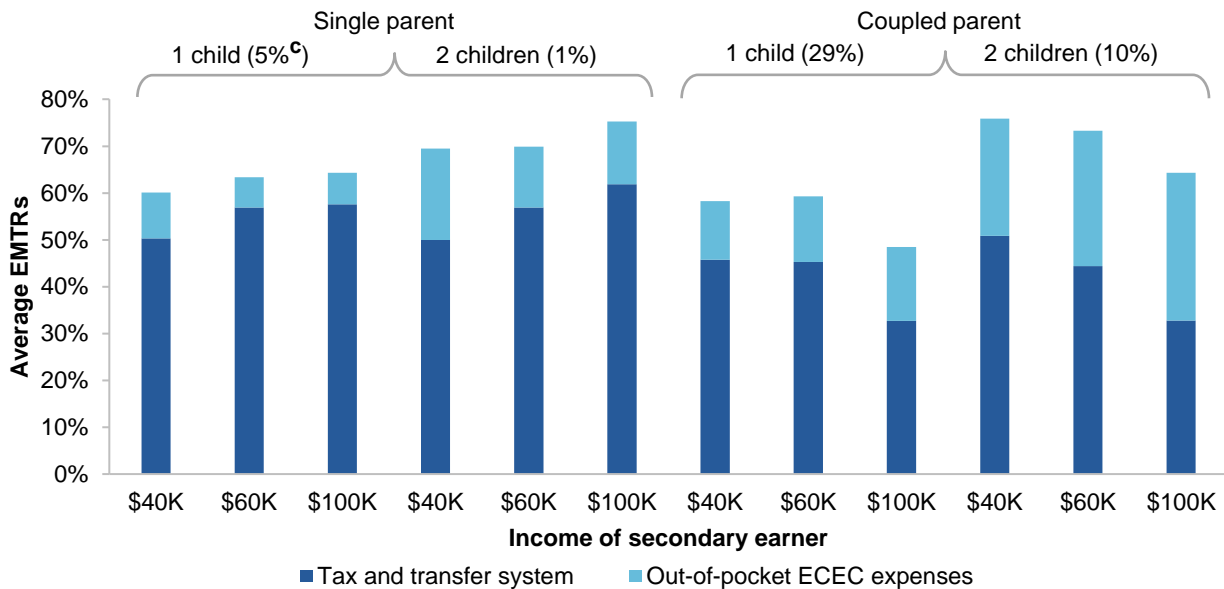
- high-income earners (those with a personal income of \$100,000 per year) with two children aged under 5
- low- to medium-income earners (\$40,000–60,000 per year) with two children aged under 5, who want to work more than 3 days (Bray et al. 2021, figs. 135 and 136).

These high EMTRs are likely ‘biting’ on a small proportion of families – only 11% of all families with children aged under 15 have two or more children aged under 5, the majority of which are in couple families (figure 4.26). The changes to the CCS (under the ‘Higher Child Care Subsidy’) which increased the subsidy for second and multiple children in March 2022 are likely to have reduced these effects (DESE 2022, p. 1). Further, these financial disincentives are not expected to last long because as children reach school age the effects of out-of-pocket ECEC expenses are diminished as ECEC costs fall (Bray et al. 2021, p. 275).

There is no simple solution to high EMTRs. In general, they exist because of desirable design elements of the tax and transfer system – a progressive income tax scale and means-tested benefits that phase out gradually as incomes rise. Careful design can address the highest EMTRs in the system, but generally by smoothing peak EMTRs which can have the effect of raising EMTRs at another point in the income scale. The Commission has previously noted that changes in the tax and transfer system and other policy areas are likely to have a far greater impact on labour force participation than any changes in ECEC policies (PC 2014, p. 16). This remains relevant today.

Figure 4.26 – EMTRs for secondary earners are high mainly because of the tax and transfer system^{a,b}

Average of single-day increment EMTRs and proportion attributed to out-of-pocket ECEC expenses, late 2018



a. Scenarios as defined in Bray et al. For the partnered parent, it is assumed that one partner is already earning a full-time wage at the rate of the scenario, with the partner earning the same annual rate, with their income incrementing proportionally with the number of days they work. Children are assumed to be aged under five. b. Estimates generated after the introduction of the Jobs for Families Child Care Package (2018), but not the Higher Child Care Subsidy (2022) or Cheaper Child Care Bill (2023). c. The proportion of all families with children aged under 15 (2.7 million) that are a single parent family with one child aged under five (ABS 2022a). These numbers provide an indication of the proportion of all families that are affected by these high EMTRs.

Source: Based on Bray et al. (2021, tbl. 102).



Draft finding 4.5

High effective marginal tax rates are largely due to the tax and transfer system

Effective marginal tax rates (EMTRs) are high for many mothers, creating a financial disincentive to work more than part-time hours. However, this is mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses. The contribution of ECEC expenses to high EMTRs has likely been reduced further by the introduction of the 2022 Higher Child Care Subsidy and 2023 Cheaper Child Care reform.

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