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Submission on the 2022 Cheaper Child Care Bill

Danielle Wood, Kate Griffiths, and Owain Emslie

Summary

We welcome the opportunity to comment on the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022.

Boosting women's workforce participation is one of the biggest economic opportunities for the Australian Government. And making childcare cheaper is the biggest policy lever available to reduce barriers to women's workforce participation and support women's long-term economic security. Making childcare cheaper will also enable more children to receive the benefits of early learning and care.

Australia's tax and welfare settings, combined with high out-of-pocket childcare costs, make it barely worthwhile for the primary carer (generally a woman) to work 4 or 5 days a week. A typical Australian woman with young children is employed 2-to-3 days a week, much less than women in many other countries.

Childcare costs are a substantial contributor to workforce disincentives right across the income spectrum. Reducing the cost of childcare would give families more choice in their work and care arrangements and enable women who want to do more paid work to do so.

We commend the Cheaper Child Care Bill for boosting the Child Care Subsidy and improving its design so that second-earners take home more pay from additional hours of work. We would recommend going even further – to a 95 per cent subsidy for low-income households.

This would be a major economic reform. We estimate that higher workforce participation from the additional investment in childcare would boost GDP by more than twice the budget cost.

Making childcare cheaper would also help to ease some of the current labour shortages. Australia has a large group of workers who are trained, ready, and eager to work but are sidelined by the prohibitively high cost of childcare. In particular, more than one-third of mothers work in the health care, social assistance, education, and training industries, so this policy would help to boost the number of teachers, nurses, childcare educators, and aged care workers.

Making it easier for mothers to do more paid work if they choose would improve women's lifetime earnings and therefore their long-term economic security.

Boosting the childcare subsidy is preferable to other options often canvassed such as tax-deductible care. While tax-deductible care rightly recognises childcare as a cost of working, it would leave almost all families substantially worse off, and further reduce work incentives.

Further detail about the need for and nature of these reforms is provided in the **attached** 2020 Grattan Institute report, *Cheaper childcare: A practical plan to boost female workforce participation*.

1 Supporting women’s workforce participation is a big economic opportunity

1.1 Australian women have high rates of part-time work by international standards

Women’s workforce participation has been steadily rising for four decades. But child-rearing remains the most important explanation for the gap in labour force participation between women and men.

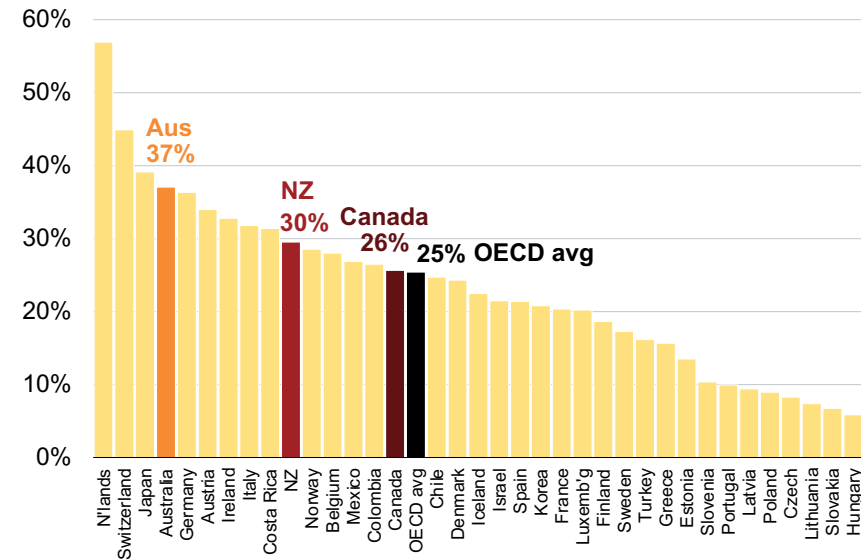
Australia has higher rates of female workforce participation than many OECD countries. But we also have much higher rates of part-time work than comparable countries (see Figure 1).

The main reason women work part-time is to care for children.¹ Among women in their 30s and early 40s who have children, part-time work is the most common work arrangement – almost 40 per cent work part-time, despite these being the ‘prime’ working ages. And women who have given birth at some point in their life are more likely to work part-time in their 50s and 60s, than women who have never given birth.²

The typical woman with at least one child under 6 works 2.3 days a week.³ The typical woman with primary school-age children works 3 days.⁴ The ‘1.5 worker household’ is very much the norm among couple families with young children in Australia.⁵

Figure 1: Australia’s rates of part-time work for women are among the highest in the OECD

Percentage of employed women working fewer than 30 hours per week in OECD countries, 2019



Notes: Women working less than 30 hours as a share of all women aged 15+ employed full-time or part-time. Definitions of ‘part-time’ vary by country, so this chart uses a common definition of less than 30 hours per week to compare between countries.

Source: OECD (2019).

¹ Cassidy and Parsons (2017).

² Women who have given birth are just as likely to be employed in their 50s and 60s as women who have never given birth, but they are less likely to work full-time (51 per cent of those employed, compared to 63 per cent): Grattan analysis of Census 2016.

³ ABS Survey of Income and Housing, 2017-18.

⁴ Includes women whose youngest dependent child is aged 6-to-12: ABS Survey of Income and Housing, 2017-18.

⁵ Among heterosexual couples with pre-teenage children, the most common arrangement is a man working full-time and a woman working part-time (40 per cent of couples with children 12 or younger): ABS Survey of Income and Housing, 2017-18.

1.2 Australian women face a range of barriers to participating more in the workforce

Women's decisions about whether to do paid work, and how much, reflect a range of economic, social, and cultural influences. Some might argue the patterns of paid and unpaid work are just about people's preferences: but preferences do not form in a vacuum, they are shaped by social norms and policy settings.

Many women with children say they want more paid employment,⁶ but face substantial barriers to shifting their work patterns.

Childcare cost is the reason most commonly nominated by mothers for not doing more hours of paid work.⁷

Even if women decide it is worthwhile increasing their hours, finding suitable childcare can be a barrier. Some may travel further to find the right care, some may pay more, and others may decide not to work that extra day. These adaptations impinge on parents' ability – usually mothers – to commit to more paid work.

Social norms, particularly around flexible work and the division of unpaid work, also play a role in women's 'choices'. Australian women do more unpaid labour – home duties and caring for children – than women in most developed countries.⁸ Many

⁶ 27 per cent of women with pre-teenage children and who are not in employment or are working part-time would prefer to work more hours. And a further 7 per cent 'may' prefer more hours: Grattan analysis of ABS Survey of Income and Housing, 2017-18.

⁷ Of mothers who would prefer to work more hours and have pre-teenage children, about 30 per cent nominated childcare cost as the main factor preventing them from working more. Another 30 per cent nominated various other kinds of childcare problems, and about 40 per cent did not nominate childcare as the problem: ABS Survey of Income and Housing, 2017-18.

women simply don't have the time or mental energy to do more paid work.

1.3 The economic opportunities

1.1.1 Boosting GDP

Supporting women's workforce participation would substantially benefit the Australian economy. The three key drivers of economic growth are population, participation, and productivity, so a boost to any one of these three is likely to have a big impact.⁹

If Australia looked more like Canada – with more women doing paid work and a higher proportion working full-time – this would be about a 6 per cent increase in women's working hours. While an increase of this size should be achievable, even an increase of just 2 per cent would boost GDP by about \$11 billion.

There are very few policy levers for government with equivalent 'bang for buck' in boosting the economy.¹⁰

The biggest limitation of using GDP to measure the impact of an increase in female workforce participation is that it does not measure unpaid care. Some of the boost to GDP from increased female workforce participation occurs because unpaid care within

⁸ OECD.Stat: <https://stats.oecd.org/index.aspx?queryid=54757>.

⁹ Treasury refers to these drivers as the '3Ps' framework: Hockey (2015). This framework assumes that growth in labour supply is met by an increase in labour demand. Even if there is an initial delay in demand response, growing female workforce participation increases competition, enhancing productivity and encouraging demand response. As women do more paid work, they also have more income to spend, boosting economic growth via consumption.

¹⁰ Daley (2012).

the home is converted to paid care outside the home.¹¹ But there is still a real boost to economic activity.¹² And the size of the potential boost grows as women are more educated.¹³

1.1.2 Easing labour shortages

Signs of the tight labour market are everywhere: unemployment is at a 50-year low, under-employment is falling, and workforce participation is at an all-time high.¹⁴

But Australia has a big group of workers who are trained, ready, and eager to work but are sitting on the sidelines because of prohibitively high out-of-pocket costs of childcare. Tackling these costs would release a pressure valve for the labour market.

More than one-third of mothers work in the health care, social assistance, education, or training industries, meaning Australia could effectively boost the number of teachers, nurses, childcare educators, and aged care workers, relieving significant shortages.

1.4 Greater access to paid work would improve women's long-term economic security

The 'lifetime earnings gap' between men and women is more accurately a gap between men and women *with children*.

¹¹ This has a GDP effect, but it also directly affects women's economic independence and ability to consume and save, because if they use paid care to enable paid work, they earn wages and superannuation.

¹² The economic value of a parent's paid work is usually higher than the economic value of parental childcare – partly because non-parental childcare offers efficiencies of scale with each childcare worker caring for multiple children. See Wood et al (2020) for a fuller discussion.

¹³ More than 70 per cent of Australian women aged 25-44 have a post-school qualification: ABS Education and Work (2019).

If current working patterns continue, the average 25-year-old woman today who has at least one child can expect to earn more than \$2 million less over her lifetime than an average 25-year-old man who becomes a father. This gap is largely driven by changes in working patterns after the birth of the child.¹⁵

A recent Treasury paper found that women's earnings are reduced by an average of 55 per cent in the first 5 years of parenthood, while men's earnings were unaffected, regardless of who was previously the breadwinner.¹⁶

This may be less important if all couples stayed together for life. But for every 10 marriages there are 4 divorces, and about half of divorces involve children.¹⁷

The average divorced mother has less than 75 per cent of the total assets of the average divorced father, and less than half of the superannuation of the average divorced father, even only one-to-four years after the divorce.¹⁸

And whatever the split of assets, the mother does not get a share of the 'human capital' that the father has built up through many additional hours in the paid workforce. The father is therefore

¹⁴ ABS Labour Force (2022).

¹⁵ Panigrahi (2017) estimates that 44 per cent of the gender earnings gap in Australia is explained by children, mainly as a result of reduced labour force participation and hours worked by women.

¹⁶ Bahar et al (2022).

¹⁷ ABS Marriages and Divorces (2018).

¹⁸ Brown and Li (2016).

likely to have much greater future earning capacity than the mother.¹⁹

Single parents are especially vulnerable to poverty and deprivation (being unable to afford essentials).²⁰ More than a third of single mothers live in poverty, compared with 18 per cent of single fathers.²¹

And women who feel financially vulnerable may be more reluctant to leave an unhappy or abusive relationship.²² A recent report by Anne Summers highlights the difficult choice women face between staying with a violent partner or risking poverty with their children.²³

Removing barriers to women working more paid hours would help mitigate these risks for women.

¹⁹ Vaus et al (2014).

²⁰ CEDA (2015).

²¹ Poverty is defined as having household income less than 50 per cent of median income: ACOSS (2020).

²² Hill (2019). Also, the National Plan to Reduce Violence Against Women identifies 'improve women's economic participation and independence' as a key action to reduce domestic violence by advancing gender equality.

²³ Summers (2022).

2 The high cost of childcare reduces work incentives

For many women, re-entering the workforce after children, or increasing work beyond a part-time load, simply doesn't pay. Even after subsidies, childcare is expensive, and families tend to assess this cost against the wages of the family member who is most likely to 'flex' their hours – generally the mother.

The cost of childcare combined with additional taxation and loss of family benefits means that for many women there is little or no financial benefit from increasing their paid work beyond about three days a week.

Reducing the financial barriers offers a big payoff: women with children are some of the most likely to respond to improvements in the financial returns to paid work. Reducing out-of-pocket childcare costs would do more than any other policy to improve incentives to paid work. And there is good evidence that many women would choose to do more paid work if childcare was more affordable.

2.1 The financial returns of paid work

For a mother making the trade-off between paid work and unpaid care, whether it makes sense to work an extra hour – or, more likely, an extra day – will depend crucially on the incremental income from that day.

This incremental income is the income she will take home after tax, net childcare costs, and any reduction in family benefits and childcare subsidy for the days she is already working.²⁴

Australia's tax and transfer system features steep taper rates, which help to deliver benefits more efficiently but can also create significant barriers to paid work.

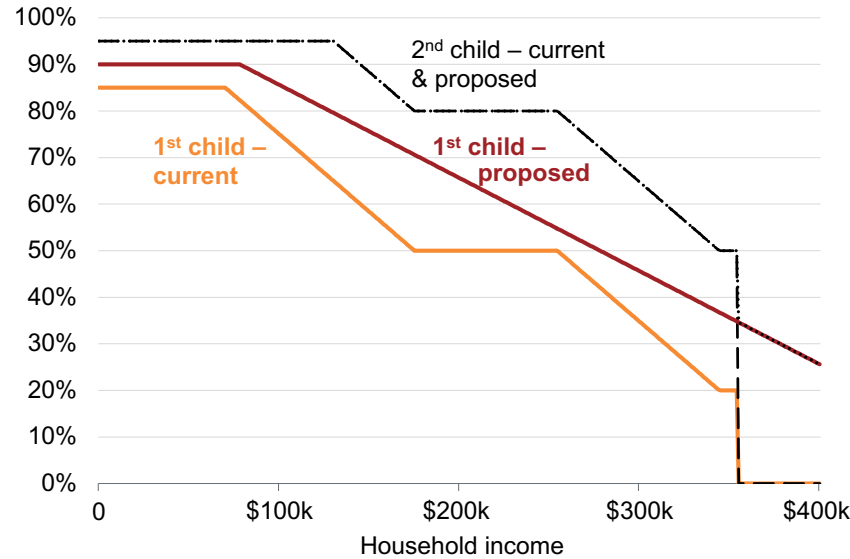
The Cheaper Child Care Bill raises the Child Care Subsidy and reduces the steepness of the taper rate (see Figure 2).

Together, these changes would improve incentives to work for second-earners with children, mainly women, right across the income spectrum. And especially for women who want to work 4 or 5 days per week (see Figure 3).

²⁴ See Stewart 2017 and 2018; and Ingles and Plunkett 2016. Estimating precise returns of paid work is complex, and most families are probably not precisely calculating this. But most probably do have a reasonable handle on the key

components – income tax and incremental childcare costs are very visible. And most will have some sense of the reduction in family payments and other benefits as their incomes rise.

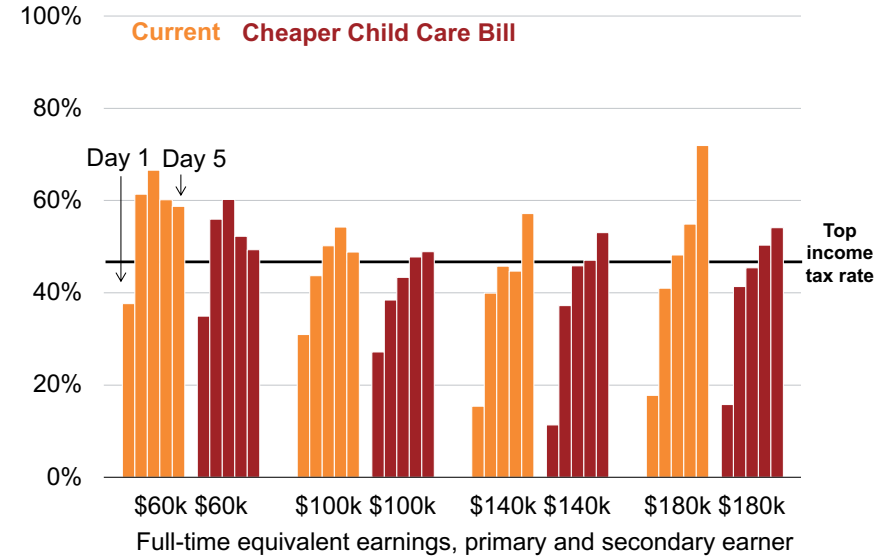
Figure 2: The Cheaper Child Care Bill increases the subsidy and reduces the steepness of the taper rate for the first child in care
Child Care Subsidy percentage



Notes: 'Current' scenario is post-March 7, 2022. Under the Cheaper Child Care Bill, for families earning more than \$355k, the subsidy for the 2nd child is the same as the subsidy for the 1st child.
Source: Grattan analysis of Department of Social Services rules and proposed policy.

Figure 3: The Cheaper Child Care Bill reduces workforce disincentives for almost all families with children in care

The proportion of a second-earner's income lost through higher taxes, lower family benefits, and higher child-care costs for families with one child under 6 in care



Notes: 'Current' scenario is post-March 7, 2022. FTE = full-time equivalent. Primary earner works full-time. One child who requires childcare. Every day of work for the second earner results in exactly one day of approved childcare. Cost of childcare assumed to be \$110 per day. Renting, and paying sufficient rent to get maximum Commonwealth Rent Assistance if qualify under income test.
Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

3 Boosting the Child Care Subsidy is the best approach

Boosting the Child Care Subsidy is the best way to make childcare more affordable and support women's workforce participation. In a 2020 Grattan Institute report, we canvassed a range of policy options to support women's workforce participation. Boosting the Child Care Subsidy offered the greatest benefits relative to costs.²⁵

3.1 Go further to 95 per cent for low-income households

We recommend the Government go further than proposed in this Bill and increase the Child Care Subsidy to 95 per cent for low-income households, with the same simpler, flatter taper rate. This would cost more, but the benefits to GDP would be more than twice the budget cost.²⁶

A move to universal low-cost care, regardless of income, would offer even larger economic benefits, but at a substantially higher cost.²⁷ A universal approach also raises questions about fairness. Historically, childcare subsidies have been means-tested. Unsurprisingly, high-income families would get the greatest increase in benefits if the means test was removed.

But a universal approach recognises the broader societal benefits of childcare in supporting women's workforce participation and children's development. Just as government provides universal support for schools there are strong arguments to provide such support for early education and care.

3.2 Tax-deductible care won't help

Tax-deductible care rightly recognises childcare as a cost of working. But making childcare tax-deductible would be a backward step.

Most families, and especially low-income families, would be worse off than under the current subsidy. And work incentives would be worse than they are now.²⁸

Even an opt-in system – where parents can choose between tax-deductibility or a subsidy – would add complexity and risk for limited benefit. Only a small number of high earning families would be better off opting into tax deductibility and for others it brings the risk that they make the wrong choice and pay a much higher price than they should.

3.3 Design issues and complementary reforms

Ensuring the subsidy boost is as effective as possible

The Government has asked the ACCC to investigate the drivers of childcare fee increases. This inquiry will be important to understand the cost drivers including whether providers and/or landlords have been successful in extracting 'excess profits' from the sector. The ACCC recommendations should inform changes to the regulation of prices and provider conduct in the sector.

²⁵ See Wood et al (2020).

²⁶ See Wood et al (2020), Section 5.2.1.

²⁷ Wood et al (2020), Section 5.2.4.

²⁸ See Emslie (2020) for a full analysis.

The government should also request the ACCC monitor prices following the subsidy boost to prevent any opportunistic providers offsetting the benefits of the subsidy through increasing prices.

Tackling workforce shortages and worker pay

Making childcare more affordable will increase demand for childcare and the sector is already experiencing workforce shortages. The Australian Children's Education and Care Quality Authority estimates Australia will need an extra 39,000 early childhood workers by 2023.²⁹ And 11 per cent of services have requested waivers from staffing requirements because they simply can't find the workers to meet the current staffing ratios.³⁰

High workloads and low pay are pushing people out of the sector. The federal government should work with state governments on workforce issues, including workforce training.

Tackling worker pay will also be critical to attracting and retaining more early childhood educators. Early childhood workers are paid the same or less than workers in many roles that don't involve the same challenges and complexities. Indeed, a qualified early childhood carer earns a similar rate per hour to someone working at Bunnings, McDonald's, or in road traffic control.

The proposed changes to the Fair Work Act to make gender pay equity an objective are welcome. If early childhood workers bring

a case to the Fair Work Commission then the federal government should support the case and commit to fully funding the pay increase, as they have done for aged care workers.

More gender-equal parental leave would help too

Family choices around work and care should be further supported through changes to parental leave. The Government's recent announcement that it will expand paid parental leave to 26 weeks by 2026 is welcome.³¹

It is important that the increased allocation include a substantial boost in the use-it-or-lose-it component for each parent (for example 6 weeks each), with the remaining weeks to be shared between them as they choose.³²

Overseas experience suggests a significant allocation to fathers will increase the likelihood they take leave. Fathers that do take leave are more likely to be engaged in the early years of their children's lives. This has benefits for family relationships, parents' life satisfaction, and children's development.³³

A more gender-equal scheme would also support women's workforce participation by creating more equal sharing of unpaid care. It would cost the budget an extra \$600 million a year. But it would also boost GDP by about \$900 million a year thanks to increased workforce participation by mothers.³⁴

²⁹ ACECQA (2019).

³⁰ <https://www.abc.net.au/news/2022-02-09/australian-childcare-sector-crisis/100814160>

³¹ <https://www.pm.gov.au/media/boosting-parental-leave-enhance-economic-security-support-and-flexibility-australias-families>

³² See Wood et al (2021).

³³ See Wood et al (2021).

³⁴ See Wood et al (2021).

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