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Cheaper childcare

A practical plan to boost female workforce participation

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Overview

Increasing female workforce participation is one of the biggest economic opportunities for governments. Australia's female workforce participation rate is above the OECD average, but Australian women are much more likely to work part-time. A typical Australian woman with pre-teenage children works 2.5 days a week.

This report identifies a range of policy and social barriers facing women who would prefer to work more paid hours.

The combination of tax, welfare settings, and childcare costs – the 'workforce disincentive rate' – can be particularly punishing for the fourth and fifth day of work for the primary carer, still generally a woman. Working an additional day for no or virtually no take-home pay is understandably not a choice many find attractive. High out-of-pocket childcare costs bite even more in the COVID-19 crisis for families that have lost jobs or hours.

The Commonwealth Government should boost the Child Care Subsidy and improve its design so that second-earners take home more pay from additional hours of work. We recommend a 95 per cent subsidy for low-income households, gradually tapering for families with incomes above $68,000. Sixty per cent of families would pay less than $20 a day per child for childcare.

This would be a major economic reform. We estimate that higher workforce participation from this additional $5 billion a year in childcare spending would boost GDP by about $11 billion a year. This is on par with the estimated economic benefit from cutting the company tax rate to 25 per cent.

If rolled out immediately, it would also help the economic recovery by ensuring parents who have lost work due to COVID can keep their children in care and be 'work ready'. For governments with an appetite for a bolder, universal scheme, our proposal to lower costs and sharpen work incentives could be an important stepping stone.

Unequal sharing of unpaid work also constrains women's choices. While women are quick to embrace flexibility in their working arrangements after they have a child, men's work patterns and contribution to household duties change very little. A more equal sharing of the physical and mental load from unpaid work would allow greater balance in the paid workload.

The Government should extend the parental leave scheme to offer six weeks 'use it or lose it' leave at minimum wage for each parent, plus 12 weeks they can share between them. This would cost up to $600 million a year but would help fathers to spend more time with their children in the critical first year of the child's life. Countries with more dedicated parental leave for fathers have more even sharing of unpaid work between parents, enabling women to do more paid work.

These policies would also improve women's economic security by reducing the lifetime earnings gap between women and men. Women with children currently earn about $2 million less over their lifetime than men with children. Our changes would boost a typical mother's earnings by about $150,000 over her life.

Policy interventions that yield economic and social dividends of this magnitude are rare. And given the current economic malaise, Australia cannot afford to leave them on the shelf. The Government should make cheaper childcare a key part of its economic reform package.

Recommendations

Reduce the barriers to paid work

The Commonwealth Government should:

- Boost the childcare subsidy for low-income families from 85 per cent to 95 per cent, flatten and simplify the taper, and remove the annual cap.
- Review the hourly rate cap.
- Ask the ACCC to do a market study of the sector to identify areas where lack of competition is putting upward pressure on fees. This should run alongside active price monitoring for a year or two after the subsidy boost.

Most families would be considerably better off under this proposal (and no families worse off). Sixty per cent of families would pay less than $20 a day per child for childcare. The cost to the budget would be about $5 billion.

We estimate this would lead to a 13 per cent increase in hours worked by second-earners with young children, delivering a GDP boost of about $11 billion a year, and boosting lifetime earnings for a typical mother by about $150,000.

Improve childcare availability and quality

The Commonwealth Government should:

- Fund regular quality assessments to ensure national standards are upheld.
- Require providers to publish the number and age of children on their waiting lists.
- Monitor childcare availability and work with state and local governments to develop targeted solutions where problems endure – including workforce training, making space available for new centres, and providing extra support to set up services in disadvantaged communities.

State and territory governments should assess the need for more after-school and holiday care, and where there is a shortage, work with schools and preschools to make space available for these types of out-of-hours care.

Enable shared caring

The Commonwealth Government should introduce a more equal paid parental leave scheme: six weeks reserved for each parent plus 12 weeks to share between them, paid at the current rate of minimum wage. Single parents should be able to get the full 24 weeks. This would cost the budget up to an extra $600 million a year (a 25 per cent increase on the current investment in parental leave).

Employers – including government employers – should continue to make flexible and remote working options available to all employees, wherever possible, beyond the COVID-19 crisis, and offer paid parental leave for both parents.

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1 The economic and social opportunities from higher female workforce participation

More Australian women, including women with children, are participating in the paid workforce than even just a decade ago. But about one third of women who work do so part-time. The average woman with pre-teenage children works 2.5 days a week. The ‘1.5-earner household’ is the new normal for heterosexual couple families in Australia.

But this model isn’t pre-ordained: in most other OECD countries, women choose to do more hours of paid work. Nor is it working well for all Australians: many women report they would prefer to work more, and many men feel trapped in the breadwinner role. Yet there are substantial barriers to families shifting their work patterns.

This report examines what governments can do to help facilitate greater female workforce participation. The payoffs from getting this right are big: higher female workforce participation could substantially boost Australia’s economy and living standards. It would also significantly boost women’s economic security – increasing paid hours among women is the single biggest change that would help to close the lifetime earnings gap between men and women.

As Australia emerges from the COVID-19 crisis, the policies recommended in this report offer a rare advantage: they are good for the short-term economic recovery and good for the longer-term rebuild of the economy.

1.1 More Australian women are working, but part-time work is the norm for women with children

Before the pandemic, more Australian women were participating in the workforce than ever before. They were doing so more than women in many developed countries and almost as much as women in comparable countries such as Canada and New Zealand. But part-time work for women is much more common in Australia than in most countries, particularly among women with children.

1.1.1 Australia’s female workforce participation rate is rising

Women’s workforce participation has been steadily rising for four decades. More than three quarters of Australian women aged 15-64 now do some paid work each week, up from less than half in the 1970s and early ‘80s. This rise in female participation has resulted in a narrowing of the ‘participation gap’ between men and women (Figure 1.1).

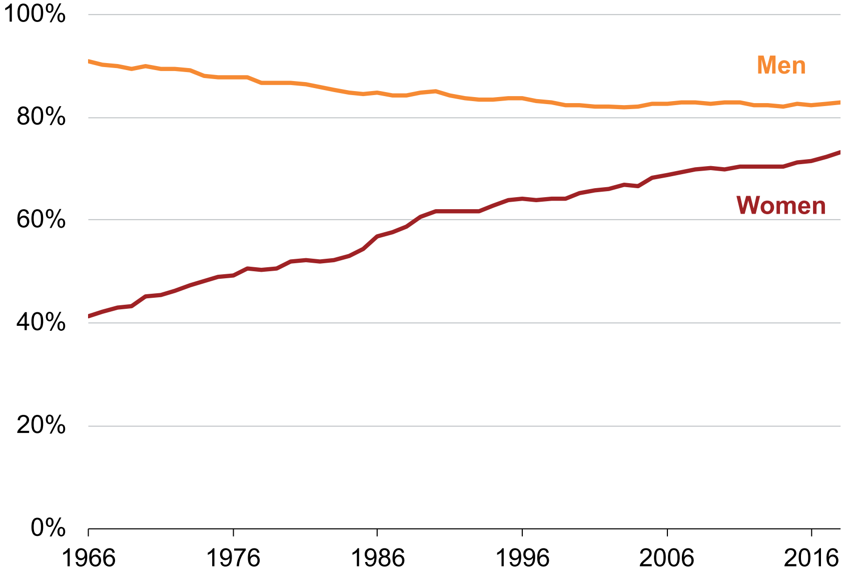
Much of the rise in participation in the 1970s and ‘80s came from younger women – those in their 20s, 30s, and 40s – many with children. More recent rises in participation have primarily come from women in their 50s and early 60s (Figure 1.2).[1]

However, childrearing remains the most important explanation for the gap in labour force participation between women and men. Australia’s workforce participation rates dip for women in their early 30s, the most common age for women to have their first child.[2] Among women with children under 4 who are out of the labour force, 82 per cent nominate home duties/childcare as the reason they are not doing paid work.[3]

1. This is partly because they were in employment through their lives and partly because of the gradual rise in the pension eligibility age for women to align with the pension eligibility age for men. Before 1966, women employed in the public service had to quit when they married: Sawer (2016).
2. OECD (2018a).
3. Melbourne Institute (2018). The situation for men is vastly different: men with young children who are out of the labour force are more likely to nominate leisure (26 per cent) than childcare duties (8 per cent) as the reason they are not doing paid work.

Figure 1.1: The proportion of Australian women in paid work is rising

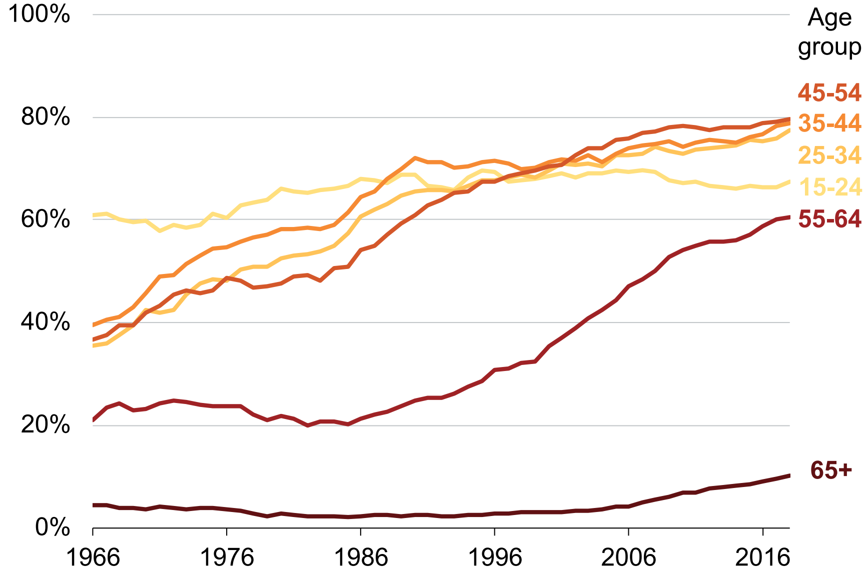
Labour force participation rate of women and men aged 15-64, 1966 to 2018



Source: OECD (2018a).

Figure 1.2: Workforce participation has increased strongly among older women in recent decades

Labour force participation rates of women, by age group, 1966 to 2018



Source: OECD (ibid).

Workforce participation bounces back after women reach age 40, and is currently highest among women in their early 40s.[4]

1.1.2 Australia's workforce participation rate is high by international standards

Australia has higher rates of female workforce participation than many OECD countries. About 73 per cent of Australian women aged 15-64 engage in some paid work each week, compared to an average of 65 per cent across the OECD (Figure 1.3).

This has improved since 2012.[5] In 2014, under Australia's presidency, G20 leaders committed to reducing the gender gap in participation by 25 per cent by 2025.[6]

But there is still a way to go. Australia's rates of female participation remain well below the more gender-equal 'big government' Nordic countries,[7] and a little below some culturally and economically similar countries such as Canada (75 per cent) and New Zealand (77 per cent).

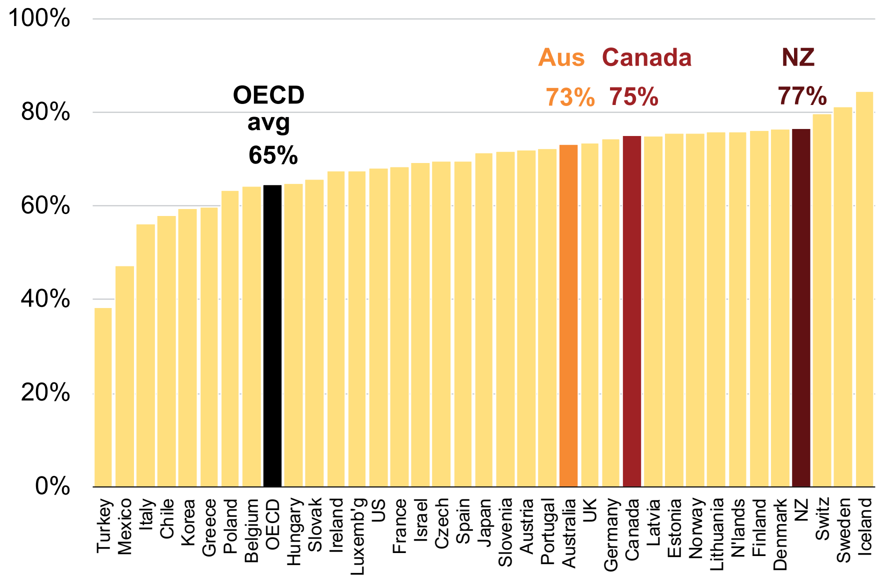
1.1.3 Australian women have high rates of part-time work by international standards

The more significant difference between Australia and comparable countries is the much higher rate of part-time work among Australian women.

About 37 per cent of employed women in Australia work fewer than 30 hours per week, well above the OECD average of 25 per cent (Figure 1.4).

Figure 1.3: Female labour force participation in Australia is high by international standards

Labour force participation rate of women aged 15-64 in OECD countries, 2018



Source: OECD (2018a).

4. OECD (2018a).
5. Daley et al (2012).
6. Australian Government (2017).
7. In particular, Iceland (85 per cent) and Sweden (81 per cent).

Australian men have a higher-than-average rate of part-time work too – 15 per cent, compared to the OECD average of 9 per cent – but Australian men and women have very different reasons for working part-time. The main reason women work part-time is to care for children; the main reason men work part-time is for study.[8]

1.1.4 Women with children work part-time more than any other group

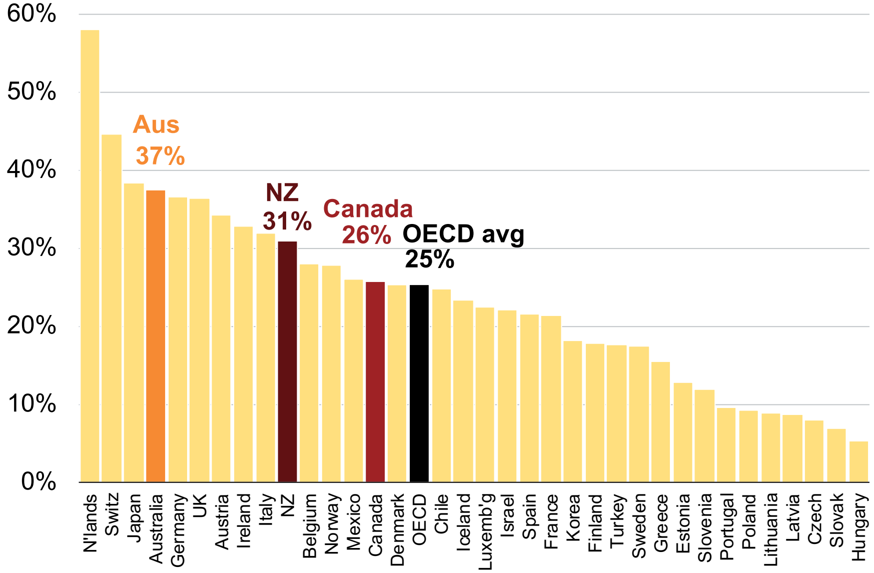
The high rates of part-time work among Australian women are primarily a reflection of the work patterns of women with children.

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 (Figure 1.5). Older women are also more likely to work part-time than men of the same age. This may be partly because of caring responsibilities (Box 1 on page 11) and partly a carry-over effect from having had children earlier in life. 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.[9]

The typical woman with at least one child under 6 works 2.3 days a week.[10] The typical woman with primary school-age children works 3 days.[11] The '1.5 worker household' is very much the norm among couple families with young children in Australia.[12]

Figure 1.4: 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, 2018



Notes: Women working fewer 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 fewer than 30 hours per week to compare between countries. In the rest of this report we use the Australian definition of part-time work, which is fewer than 35 hours per week.

Source: OECD (2018a).

8. Cassidy and Parsons (2017).
9. 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 ABS (2017).
10. ABS (2019a).
11. Includes women whose youngest dependent child is aged 6-12: ABS (ibid).
12. 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 aged 12 or younger): ABS (ibid).

For single parents, full-time rates of work are similar to those of women in couple households. Part-time rates are slightly lower because these parents are a little more likely to be unemployed or not in the labour force.

It is still to be seen whether the COVID-19 shutdown has a lasting impact on female workforce participation. The immediate job losses affected women more than men,[13] and mothers are more likely than fathers to have taken on caring and teaching responsibilities during school closures.[14]

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

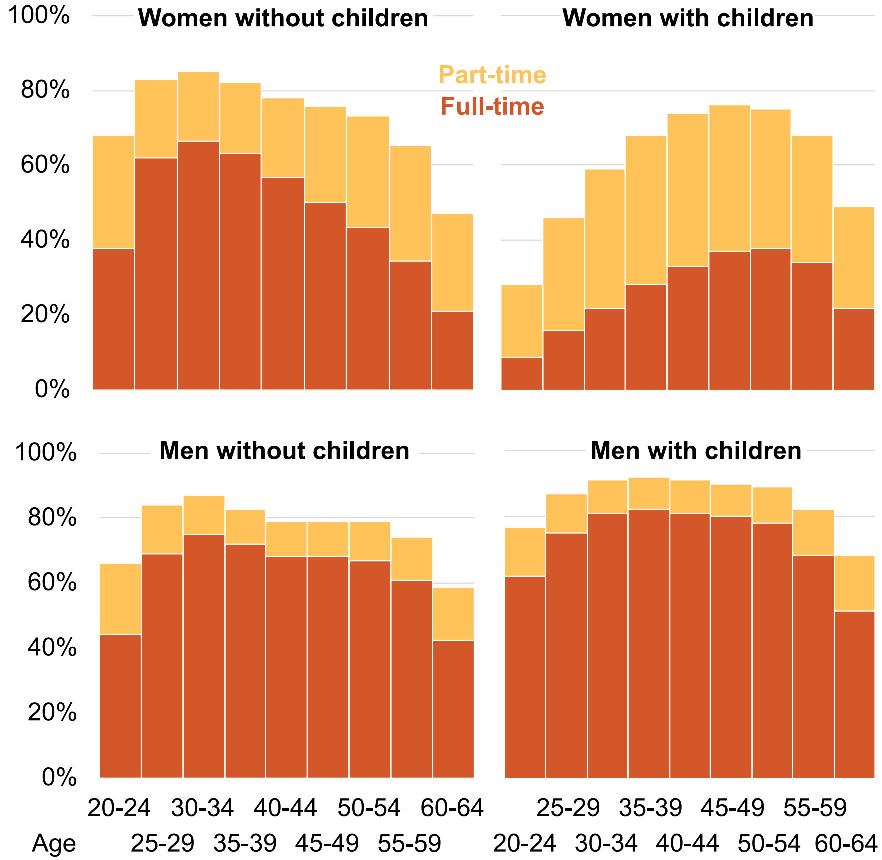
Women's and men's decisions about whether to do paid work, and how much, reflect a range of economic, social, and cultural influences. Some might argue the patterns of paid and unpaid work are just about people's preferences. But preferences do not form in a vacuum, they are shaped by social norms and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

Why do the work patterns of Australian women in heterosexual relationships and with children look so different from those of their male partners? Why is part-time work so common for Australian women compared to women in other developed countries?

Many women with children say they want more paid employment,[15] but face substantial barriers to shifting their work patterns.

Figure 1.5: Children are a big factor for women's decisions about paid work, but less so for men

Proportion in age group by type of employment, 2016



Notes: 'With children' refers to dependent children. A person is classified as working part-time if they usually work fewer than 35 hours per week. The proportion of people unemployed or not in the labour force is not shown.

Source: Grattan analysis of ABS (2017).

13. The number of women in the labour force dropped 5.4 per cent between February and May 2020, while the number of men dropped by 3.6 per cent: ABS (2020a). And total monthly hours worked by women fell 12 per cent between March and May, compared to 7.7 per cent for men: Borland (2020).
14. Ribeiro (2020); and Alon et al (2020).
15. 27 per cent of women with pre-teenage children 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. While there are fewer men in this position, 43 per cent of them 'would' or 'may' prefer more hours: Grattan analysis of ABS (2019a).

This report identifies a range of barriers to Australian women with children making a choice to participate in the workforce or to increase their hours of paid work.

First is **childcare costs and the poor financial payoff from taking on more paid work** (Chapter 2).

Childcare[16] cost is the reason most commonly nominated by mothers for not doing more hours of paid work.[17]

These costs bite more in Australia than elsewhere: full-time net childcare costs absorb 18 per cent of household income for a typical Australian couple, compared to the OECD average of 10 per cent.[18] And these costs are increasing: the average per-hour expenditure on childcare increased by 51 per cent in real terms between 2002-03 and 2016-17.[19] In the 2017 HILDA survey, almost half of parents of children under 5 reported difficulty with the cost of childcare, compared with just over a third in 2002.[20]

But childcare costs are not the only contributor to sometimes poor rates of take-home pay for women. Australia's tax and transfer system is world-leading in many ways, but also creates some barriers to paid work, particularly for women with children.[21]

16. In this report, the term 'childcare' refers to formal early childhood education and care services.
17. Of mothers who have pre-teenage children and would prefer to work more hours, 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 (2019a).
18. This indicator measures the net childcare costs for parents using full-time centre-based childcare, assuming two children aged 2 and 3. For couples, one parent earns 100 per cent of the average wage and the other earns 67 per cent of the average wage: OECD (2020a), based on 2019 data.
19. Wilkins et al (2019, p. 18).
20. Ibid (p. 17).
21. See Box 5 in Chapter 2.

Box 1: Caring is also a barrier for older women

Almost a quarter of women aged 60-69 care for a child who is not their own – most likely a grandchild – compared with 12 per cent of men aged 60-69.[a] And 10 per cent of women aged 45-64 are the primary carer for someone elderly or with a disability, compared to 4 per cent of men the same age.[b]

Grandparent care helps parents with young children to participate in the workforce. Almost half of working women with a child under 2 rely on informal care from a grandparent. And a quarter rely on grandparents as their *main* source of childcare.[c]

Given reliance on grandmother care, a lack of suitable, affordable childcare may also be a barrier to older women's workforce participation.[d] Reducing the costs of childcare for families could free-up grandmothers in their 50s and 60s to stay in the workforce or take on more hours if they wish.

a. This is the peak age for both genders for caring for children other than their own: ABS (2017).
b. ABS (2018a).
c. ABS (2018b, Table 14).
d. e.g. see Ryan (2011).

As women do more paid work and their incomes rise, they tend to lose some of their family benefits[22] and their childcare subsidy[23] on existing days worked. The 'workforce disincentive rate' – the proportion of income lost through higher taxes, lost family benefits, and higher childcare costs – is particularly punishing for women thinking about taking on a fourth or fifth day of paid work in a week (Chapter 2).

Viewed through this lens, the 1.5 earner model looks like an economically rational response to policy incentives.[24]

The second barrier is the **availability and quality of childcare** (Chapter 3). 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.

The third set of barriers are social norms, particularly around the **division of unpaid work and the flexibility of work** (Chapter 4). Many women simply don't have the time or mental energy to do more paid work. Australian women do more unpaid labour – home duties and caring for children – than women in most developed countries.[25] Women are already much more likely to feel rushed,[26] so increasing paid work on top of this load without any other adjustments could hurt women's health and well-being.[27]

22. Family Tax Benefits A and B and the Parenting Payment have steep taper rates, so benefits lost with growing income can be substantial (see Chapter 2 and Stewart and Whiteford (2018)).
23. The Child Care Subsidy is available for all approved childcare services including long day care, family day care, before and after school care, and holiday care (see Chapter 5 on specific design features).
24. Stewart (2017).
25. OECD (2020b).
26. Strazdins et al (2016).
27. Strazdins et al (2016); and Dinh et al (2017).

For women to do more paid work will require men in heterosexual couples sharing the load – something many new fathers say they want to do.[28] But this will require men getting more access to flexible work and, ideally, policies to create room for men to take on the role of primary carer early in the child's life.

Flexible work arrangements are one of the most important determinants of a woman's successful return to the workplace.[29] But flexible work shouldn't be exclusively a woman's domain. Before the COVID-19 crisis, flexible work was more readily available to women than to men, and men were more likely to have their request for flexible work refused.[30] Men were also more likely to feel that they would be damaging their career prospects if they requested flexible work.

But COVID-19 has forced many workers and businesses to rethink how and where we work. While working from home has no doubt been challenging for many, our new widespread capability for remote and flexible work should not be lost on the other side of the crisis. Employers that choose to offer their employees these options beyond the crisis will have access to a much larger talent pool and could boost employee productivity, satisfaction, and retention too.

1.3 Reducing barriers to paid work will boost the economy and women's economic security

Why should government care about reducing barriers to women's workforce participation? First, it is one of the single biggest things that government could do to 'grow the pie' and improve economic outcomes. Second, it would substantially improve women's economic

28. Male attitudes to parenting and work have shifted, with men now less likely to favour a traditional division of labour than they were two decades ago. Agreement with traditional attitudes was relatively low in 2015, although men still tend to have more traditional attitudes than women: Wilkins and Lass (2018, pp. 80–81).
29. Coulson et al (2012); and ABS (2018b).
30. Parents at Work (2019); and Skinner et al (2012).

security by reducing the lifetime earnings gap – or more accurately gulf – between men and women. Third, if the Government acts quickly on the main policies recommended in this report, it would support the COVID-19 recovery by providing an immediate boost to family income.

1.3.1 The big economic opportunity from increasing women's workforce participation

The three key drivers of economic growth are population, participation, and productivity,[31] so increasing female workforce participation would give a substantial boost to the Australian economy.

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. Boosting the Child Care Subsidy as recommended in this report would alone provide a boost of this size.

There are very few policy levers for government with equivalent 'bang for buck' in boosting the economy.[32]

GDP measure has limitations, but there would be a real boost to economic activity

GDP is not a perfect measure of collective well-being, although it is usually closer than other measures. Analysis both across countries and within countries over time indicates a positive relationship between the average level of subjective well-being and GDP per capita.[33]

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 (Box 2 on the next page). Some of the boost to GDP from increased female workforce participation occurs because unpaid care within the home is converted to paid care outside the home.[34] For this reason, we do not factor the boost in paid childcare activity into our GDP estimates – although they will show up in the national accounts.

But there would be a real boost to activity from the changes we recommend. The economic value of a parent's paid work is usually higher than the economic value of childcare – evident in the fact that hourly wages are usually substantially higher than the hourly cost of childcare. This is partly because non-parental childcare offers efficiencies of scale – each childcare worker cares for multiple children.[35]

Unpaid care by those that would otherwise not be participating in the labour force – for example, retired or partly-retired grandparents who use some of their leisure time to care for their grandchildren (Box 1) – also has a positive GDP effect if it frees up parents to do paid work.

And the size of the potential boost grows as women are more educated. More than 70 per cent of Australian women aged 25-44 have

31. Treasury refer to these drivers as the '3Ps': 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.
32. Daley et al (2012).
33. Well-being rises with income, whether comparing people of different incomes within a country, across countries, or comparing the economic growth (GDP) of countries: Stevenson and Wolfers (2008), Stevenson and Wolfers (2013), Lien et al (2017) and Sacks et al (2012).
34. 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.
35. This section solely considers the efficiency gain from paid care, and the resultant increase in economic output. The impact on quality of care from use of paid care is discussed in the following section.

a post-school qualification.[36] Policy barriers to highly qualified women working leave a huge potential resource untapped.

To the extent that families working longer hours outsource other home duties – cooking, cleaning, or maintenance, for example – that are also more efficiently provided by specialists at scale, this would further boost economic activity. However, these 'second-round' effects are not factored into our model.

Are children better off at home than in care?

The other potential concern about the GDP measure is that it might miss a deterioration in the quality of care – that is, that children would be better off at home than in care.

The empirical research on this is not definitive, despite extensive study. It depends a lot on the quality of care available in both a centre environment and in the home,[37] as well as the amount of care in each environment.[38]

36. ABS (2019b).
37. High-quality care can improve a child's outcomes; poor-quality care can be harmful: O'Connell et al (2016, p. 8); PC (2014, p. 148).
38. COAG Reform Council (2012) found that Australian students who had attended more years of pre-primary education performed better on standardised testing in Year 4 (unadjusted for socio-economic status). Warren and Haisken-DeNew (2013) found that Australian students who had attended pre-school performed better on NAPLAN at Year 3, after accounting for the students' socio-economic status. OECD (2014) found that students who had attended pre-primary education perform better in PISA at age 15, after accounting for the students' socio-economic status. Loeb et al (2005) and Vandell et al (2010) found some negative and enduring effects from long hours in centre-based childcare in the US, particularly for younger children in low-quality care. Solheim and Wichstrøm (2013) did not find the same problems in Norway and hypothesise that this could be because of higher-quality childcare in Norway and because Norwegian children are usually not in centre-based care before the age of 12 months.

Box 2: Counting for nothing: unpaid work and the limitations of the GDP measure

More than 30 years ago, economist Marilyn Waring released her ground-breaking book *Counting for Nothing: What Men Value and What Women Are Worth*, highlighting the failure of GDP measures to capture the value of unpaid labour. She argued this reflected a systematic undervaluation of the contribution of women, who do most of the unpaid care.

Moves to overcome these limitations of national accounting methodology have progressed at a glacial pace. However, there have been various ad hoc attempts to put a value on unpaid care.

In 1997, the Australian Bureau of Statistics put the total value of unpaid household work at $237 billion, almost half Australia's GDP at the time, and estimated that women did 65 per cent of it.[a]

More recently, Deloitte estimated that unpaid care and home duties were worth $206 billion in Victoria alone. Again, this unpaid care was mainly done by women, with the average woman spending 13 hours more on unpaid work and care a week than the average man.[b]

a. ABS (2000).
b. Deloitte (2019).

In general, quality of parental care and socio-economic advantage matter more to a child's development than use or non-use of formal childcare.[39] But there is strong evidence for the benefits of preschool education, and for quality early childcare for children from disadvantaged backgrounds.[40]

Studies differ on whether non-parental or parental care is better at different ages and for different kinds of skills, including cognitive and emotional development, social skills, and academic performance.[41] The weight of evidence is that parental care for a child's first six months results in better developmental outcomes, but beyond 12 months there are fewer clear developmental benefits specific to parental care (although this depends on the measurement approach used).[42]

Ultimately, any policy change that creates more options for parents, allowing them to make choices better suited to their family's needs, will improve well-being.

1.3.2 Greater access to paid work will improve women's financial security

The 'lifetime earnings gap' between men and women is more accurately described as a gap between men and women *with children*. If current working patterns continue, the average 25-year-old woman today who has at least one child can expect to earn $2 million less over her lifetime than an average 25-year-old man who becomes a father (Figure 1.6).

This gap is largely driven by changes in working patterns after the birth of the child.[43] Women typically take time out of the workforce when a child is born and then, if they do return to paid work, it will typically be for 2 or 3 days a week.

These women – and it is still almost all women who follow this path – take a double hit to their lifetime earnings. First, they reduce the number of paid hours they work (Figure 1.7). Second, their earnings per hour are on a lower trajectory because people who do flexible part-time work – sometimes revealingly referred to as people on the 'mummy track' – are less likely to advance as rapidly in their careers.[44]

Women with children who do choose to do paid work during the early years of child-rearing (ages ~25-40) are often higher earners, but later in life the average hourly wage for women with children is much lower than for women without children (Figure 1.8).[45]

39. A major longitudinal study of about 1,000 children in the US found that parent and family characteristics matter much more for a child's development than any childcare features: NICHD (2006). But disadvantage can also be offset by quality early childcare: e.g. Tseng et al (2019).
40. Burger (2010); PC (2014, pp. 148–153); Melhuish et al (2015); and Schleicher (2020).
41. e.g. NICHD (2006), Harrison (2008), Huerta et al (2011), Jaffee et al (2011) and Tayler (2016). For reviews see Buckingham (2007); PC (2014, pp. 148–153); and Melhuish et al (2015).
42. PC (2009); and Huerta et al (2011).
43. Panigrahi (2017) estimates that 44 per cent of the lifetime earnings gap for women in Australia is explained by children, mainly as a result of reduced labour force participation and hours worked.
44. Livermore et al (2019). See Riach et al (2018, pp. 17–18) for examples.
45. A Danish longitudinal study showed that women's participation rates, hours worked, and wage rates all took an immediate hit after the birth of a first child, and did not recover over 20 years, but the birth of a first child had little effect on men: Kleven et al (2019). An Australian version of this study found an immediate impact of children on women's participation rates and hours worked but not on wage rates over five years: Panigrahi (2017). Career progression effects may take longer to emerge.

When overlaid with a gender pay gap,[46] this creates a very large difference in earnings over the life course.

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.[47]

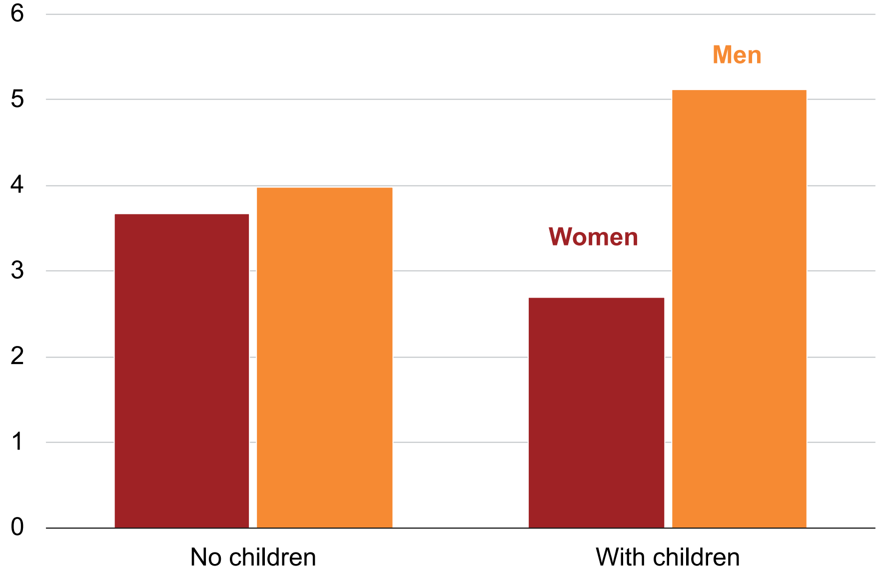
The average divorced mother has less than 75 per cent of the total assets of the average divorced father, and less than half of the superannuation, even only one-to-four years after the divorce.[48]

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. If their working patterns followed the gender norms for heterosexual couples described above, the father is likely to have much greater future earning capacity than the mother.[49]

This leaves many women financially vulnerable if their marriage breaks up. Divorced mothers are much more likely than divorced fathers to suffer financial stress, such as not being able to raise $500 in emergency funds, afford a one-week holiday away from home, or

Figure 1.6: The earnings gap between men and women with children is a gulf

Mean expected lifetime income for someone aged 25 in 2017, 2017 dollars, millions



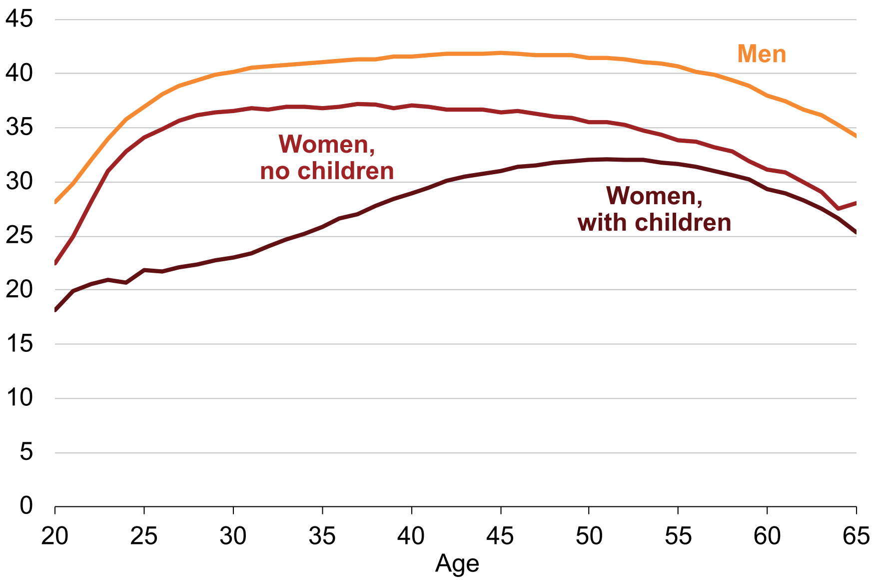
Notes: Allows for earnings from age 25 to 70, excluding superannuation. Uses gross total income from HILDA. Assumes age-wise distribution of earnings from HILDA for people who have, or haven't ever had, children. The current earnings distribution is adjusted for future real wage inflation, assumed at 1 per cent. Earnings at age 60-64 assumed similar to earnings of those currently aged 55-59. Earnings at age 65-69 assumed similar to earnings of those currently aged 60-64. This adjustment acknowledges likely increases in labour force participation at older ages in future.

Source: Melbourne Institute (2018).

46. The gender pay gap in Australia – the difference between the full-time equivalent rates of pay for men and women – currently sits at 14 per cent. KPMG estimates that 39 per cent of the gap is because of care and family responsibilities – the issues identified above. However, another 19 per cent is about occupation/industry segregation – the fact that industries or job classes with more women workers tend to receive lower pay on average than industries or occupations with more men. Almost 40 per cent of the gender pay gap remains unexplained. KPMG posits this portion could be attributed to gender bias – either explicit or implicit discrimination: KPMG (2019). See also Panigrahi (2017) on the gap in Australia, and Goldin et al (2017) on the gap in the US.
47. ABS (2018c).
48. L. Brown and Li (2016) calculations from 2014 HILDA data. NATSEM found that one-to-four years after a divorce, the average total assets for a mother was $330,000 and for a father $426,000. The average superannuation balance for a divorced mother was $64,000 and a divorced father $135,000.
49. Vaus et al (2014).

Figure 1.7: Women with children work far fewer hours, even into their 50s

Average weekly working hours by age and gender

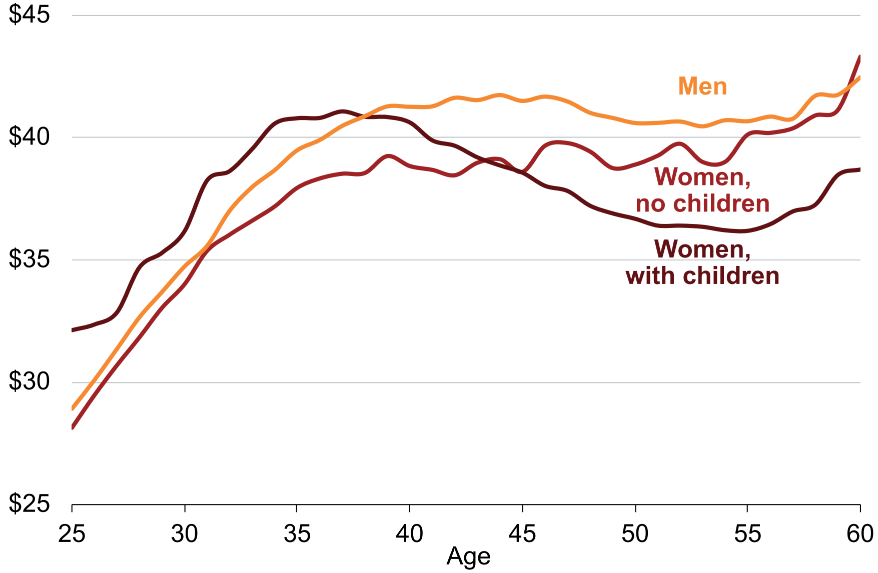


Notes: Rather revealingly, Census data is not collected on whether men have had children. The data is not longitudinal, so includes compositional effects.

Source: Grattan analysis of ABS (2017).

Figure 1.8: Women with children earn less per hour later in their working life

Average hourly wage, for those who worked at least one hour, by age and gender



Notes: Rather revealingly, Census data is not collected on whether men have had children. Hourly wage is derived from gross income and hours worked. The data is not longitudinal, so includes compositional effects.

Source: Grattan analysis of ABS (ibid).

afford school clothing, leisure activities, or school trips for the children (Figure 1.9).

Financial vulnerabilities endure for divorced women, even more than five years later (Figure 1.9).[50] Single parents are especially vulnerable to poverty and deprivation (being unable to afford essentials).[51] More than a third of single mothers live in poverty, compared with 18 per cent of single fathers.[52]

And women who feel financially vulnerable may be more reluctant to leave an unhappy or abusive relationship.[53]

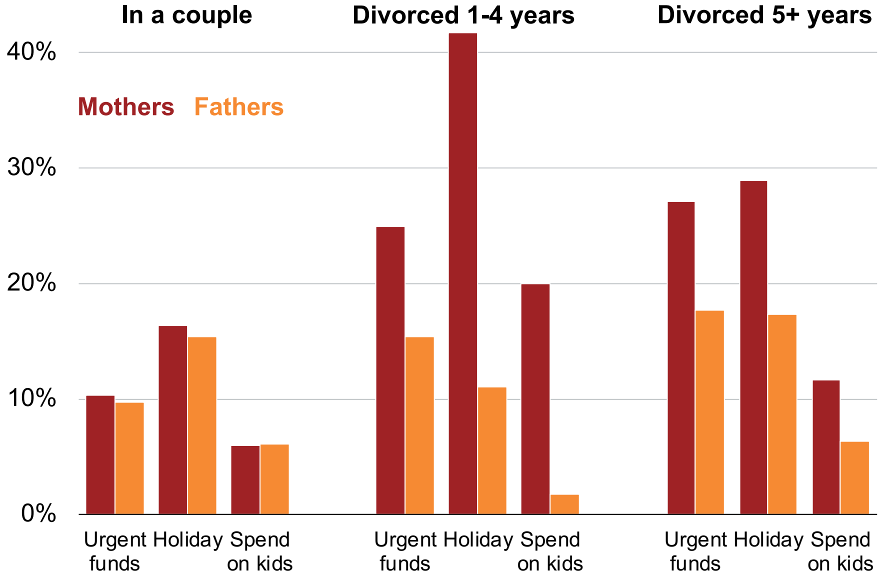
Removing barriers to women working more paid hours, and leaving the door open for men to take on more of the care work, would help mitigate these risks for women. Incremental increases in paid hours can lead to big differences in superannuation balances and to opportunities for career advancement.

The changes to the childcare subsidy that we recommend could boost workforce participation for women with young children by 13 per cent. This is equivalent to a direct boost to the typical mother's lifetime earnings of about $150,000, a meaningful reduction in the gender gap.[54]

50. About 15 per cent of women over the age of 50 are divorced (Grattan analysis of ABS (2017)), and single women who do not own their own home are at greatest risk of poverty in retirement: Daley et al (2018b).
51. CEDA (2015).
52. Poverty is defined as having household income less than 50 per cent of median income: ACOSS (2018).
53. Hill (2019). Also, the National Plan to Reduce Violence Against Women identifies 'improve women's economic participation and independence' as a key way to reduce domestic violence.
54. We estimate that a 13 per cent increase in hours of paid work during the early years of motherhood would close the gap in lifetime earnings between women with and without children by about one-sixth. This is equivalent to an increase of about $150,000 in expected lifetime earnings for a woman having a child at age 25.

Figure 1.9: Divorced women are much more likely to suffer financial stress

Proportion of households experiencing indicators of financial stress, 2014



Notes: The three indicators of financial stress shown are not being able to afford: $500 in savings for an emergency; a week's holiday away from home each year; school clothing, leisure activities, or school trips for the children.

Source: L. Brown and Li (2016) calculations from HILDA wave 14.

1.3.3 Cheaper childcare would support the economic recovery from COVID-19

Decisions made by governments over the next 12 months will have a big impact on how well Australian households, businesses, and the economy emerge from the COVID crisis. Grattan has put forward a comprehensive economic agenda for the recovery phase.[55] Reducing out-of-pocket childcare costs is an important component of this agenda.

Cheaper childcare would boost the economic recovery by putting more money in the hands of families, particularly low- and middle-income families who are most likely to spend it.[56] Crucially, it will also help parents who have lost jobs or hours to keep their childcare place and remain 'work ready'.

A survey of Australian parents using childcare found that more than 40 per cent had lost income since the onset of COVID-19, even before Victoria's second wave, and more than a third were likely to remove their children from care when childcare fees returned after the temporary reprieve (Box 3 on the following page).[57]

Given fees returned only recently, data is not yet available about the full impact on childcare enrolments.[58] But reduced demand would challenge the viability of many childcare centres. Centres that fall below the high occupancy levels required to stay afloat may need to lay off workers and/or close their doors. Parents still working would then need to find new care or reduce their work – a vicious cycle.

The policies recommended in this report – particularly the changes to the Child Care Subsidy – are long-term reforms to boost female workforce participation. But they should be rolled out quickly to capture these short-term economic benefits too.

1.4 The focus of this report

Boosting women's workforce participation is one of the biggest economic and social policy opportunities available to governments.[59]

Decisions about working and hours are complex and are made in response to a range of influences. Government and employer policies, social norms, and family dynamics all play a role in the choices women make.

This report focuses on the role of government policies in the choices families make.

In Australia, current policies directly and indirectly make paid work a less attractive choice for women with children. This report identifies barriers that are big – likely to have a meaningful impact on work decisions for many families – and amenable to shifting through changes in government policies.

Our analysis is mainly focused on heterosexual couples with children, because there are more of them and we have much better data about their patterns of work and care.[60] But our recommendations would equally improve the choices available to other couples.

We also consider the implications of our recommendations for single-parent families. Sole parents are among the most economically

55. Including temporary stimulus, strengthening the social safety net, and business support measures: Daley et al (2020).
56. Most low- and middle-income households had very little in the way of savings going into the crisis: Coates and Cowgill (2020).
57. Dent (2020). Another survey of confirmed a similar proportion of Australian families had lost employment, hours, or wages during the crisis: Hand et al (2020).
58. Early data shows a small fall in enrolments in the first two weeks, but it is likely to take a couple of billing periods before the full impact is evident: Fitzsimmons (2020), Hunter (2020a) and Dent (2020).
59. Daley et al (2012).
60. Of families with children under 6, 88 per cent include a male and female parent, 12 per cent have a single parent, and less than 1 per cent include same-sex couples: ABS (2019a).

vulnerable,[61] and so it is important that policies improve the choices for this group too.

Things this report does not do

There are many other changes that could help support women to do more paid work – particularly supporting men to work more flexibly – that are largely in the hands of employers. Meaningful change will require government, businesses, and other employers to take complimentary actions to accommodate the needs of working families.

Other challenges for working families, such as housing affordability and long commutes, no doubt have an impact on women's workforce participation too. In particular, caring responsibilities mean that women's work options are typically more spatially constrained than men's – limiting them to employment opportunities closer to home that may be lower paid, require fewer skills, or offer fewer hours (known as the 'spatial leash').[62] These broader challenges are beyond the scope of this report, but previous Grattan work tackles many of the issues.[63]

This report focuses on childcare as an enabler of parents' workforce participation.[64] We recognise that care and education are intertwined in early childhood and have significant potential benefits for children's learning and development too. Reforms that enable access to early education for children as well as supporting parents' workforce participation could offer a 'double dividend'.[65]

61. ACOSS (2018) found that more than 30 per cent of sole parents were living below the poverty line (measured at 50 per cent of median household disposable income in 2015-16).
62. Pocock et al (2012); and SGS Economics & Planning (2019).
63. Terrill et al (2019a); Terrill et al (2019b); Daley et al (2018a); Kelly and Donegan (2015); and Kelly et al (2011).
64. We use the language of 'childcare' rather than 'early childhood education and care' to reflect this focus.
65. PWC (2019); PWC (2014); and Garcıa et al (2020).

Box 3: Free childcare has been a lifeline during the pandemic

The government introduced a temporary rescue package for the childcare sector after significant falls in enrolments in the early stages of the COVID pandemic raised concerns about the availability of childcare for essential workers through the crisis.

The package made childcare free for all parents between 6 April and 12 July this year, enabling parents to keep their childcare spot whether or not they were using it. The Government paid 50 per cent of childcare centres' pre-COVID fee revenue, with JobKeeper payments helping fill some of the remaining gap, to help centres keep their doors open.[a]

The support package was scaled back from 13 July, with the pre-COVID Child Care Subsidy (CCS) restored for parents, and some additional support continuing through to 25 September for childcare centres with low enrolments.[b]

Special arrangements are currently in place for childcare centres in Melbourne, which have been forced to close during Victoria's second lockdown.[c]

a. D. Wood et al (2020a).
b. The federal government is paying 25 per cent of pre-COVID fee revenue to childcare services that have experienced a drop in enrolments: Tehan (2020).
c. D. Wood et al (2020b).

But improving policy settings to support early learning and development is beyond the scope of this report.[66]

1.5 The structure of this report

The remainder of this report is structured as follows:

Chapter 2 examines the financial barriers to women with children taking on more paid work. It highlights how the tax and transfer system and childcare costs interact to create a major disincentive to women working more.

Chapter 3 looks at the data on childcare quality and availability. It shows that while problems are typically localised, finding suitable childcare remains a barrier for a significant minority of families.

Chapter 4 explores the unequal distribution of unpaid work, including caring responsibilities, between mothers and fathers, and the resulting constraints on women's choices. It considers why parental leave and flexible work – so instrumental in helping women manage the juggle – have been much less widely taken up by men, and what governments might practically do about it.

Chapter 5 argues that making childcare more affordable is the most effective policy lever for boosting women's workforce participation. It assesses five different policy options to achieve this.

Chapter 6 summarises a suite of supporting recommendations to help Australia realise the economic and social benefits of greater female workforce participation.

66. However, we have taken every care to ensure our recommendations are not detrimental to early education.

2 Financial barriers discourage women from working more

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 three days a week. Many women find their choices hitting up against this ceiling.

Lowering these financial barriers would produce big payoffs: 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 choice families face

Parents of young children face difficult choices about whether to do paid work and how much. Working more means higher incomes and perhaps better future career progression. But more hours spent in paid employment means less time spent with children, and can add to parents' mental load.[67]

In heterosexual couples, women are much more likely to be the 'marginal worker' or 'second earner', particularly during the early years of child rearing. The second earner is the person who is flexing their paid work hours to manage the income/caring trade-off. Single parents, most of whom are women, also have to manage this trade-off.

There are many reasons this 'flex' role tends to default to the woman. Women are more likely to have left the workforce or taken extended leave at the birth of a child, so it can seem natural that they will continue to be the primary carer beyond this period.[68] Women's preferences, societal expectations, and cultural norms around women as the primary caregiver also play a role.[69]

Men are also more likely to be earning a higher income,[70] so many families may make a financial choice for the man to return to work full-time. But the prevalence of part-time work even among women who were the higher earners before children suggest that other factors can trump financial considerations.[71]

For heterosexual couples with young children, the most common arrangement is the man working full-time and the woman working part-time (Figure 2.1 on the next page). The '1.5 earner household' is the new normal for heterosexual couple families in Australia.[72] Female breadwinners are rare.

67. Work-family conflict has been shown to be a risk factor in parents' and children's mental health: Dinh et al (2017) and Strazdins et al (2013).

68. Crabb (2019). Most parental leave is taken by women, see Chapter 4.
69. e.g. Eagly and W. Wood (2012), Egmond et al (2010) and Rose et al (2015).
70. In about 57 per cent of heterosexual couples, the man has a higher hourly rate of earning: ABS (2019a).
71. Of women who were the higher earner in a couple two years before the birth of their first child, about half are working part-time five years after the birth: Grattan analysis of Melbourne Institute (2018).
72. Stewart (2018, p. 16).

2.1.1 Estimating the financial returns of extra paid work

For a second earner who is 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[73] – will depend crucially on the incremental income from that day.

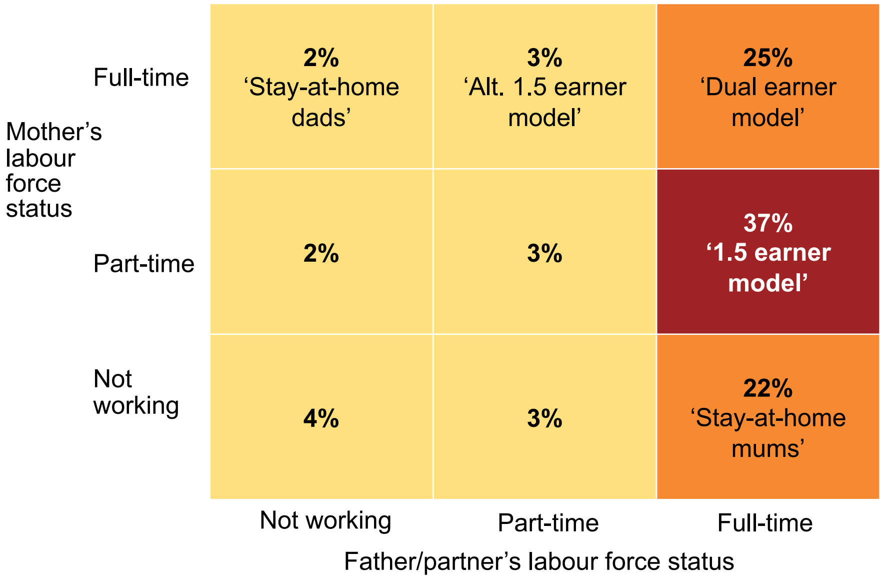
This incremental income is the income the second earner will take home after tax, net childcare costs, and any reduction in family benefits and childcare subsidy for the days he or she is already working.[74]

In this report we use a measure called the **workforce disincentive rate** (WDR),[75] which measures the proportion of a second earner's gross take-home pay from an extra day's paid work that is lost to tax, net childcare costs, and benefit clawback (Box 4 on the following page).[76] A more detailed description of the workforce disincentive rate model and results are shown in Appendix A.

Of course, the workforce disincentive rate is only one factor in the choice families make about the workforce participation of the second earner. Some will have a strong preference to have a parent home more with their children regardless of the short- and long-term financial benefits of working. Others may value the additional health and

Figure 2.1: The 1.5 earner model where the woman works part-time is most common for families with young children

Labour force status of couple families with a pre-teenage child



Notes: Includes heterosexual couples only. Full-time is defined as more than 35 hours per week. Numbers add to more than 100 because of rounding.

Source: ABS (2019a).

73. In most workplaces, part-time work is negotiated based on a number of days per week the person will work. Similarly, long-day care places are charged at a daily rate, so most second earners are making decisions such as, should I increase my paid work from two days a week to three?
74. See Stewart (2017), Stewart (2018) and Ingles and Plunkett (2016).
75. The term WDR was first used by KPMG: KPMG (2018).
76. Our workforce disincentive rate is similar to an effective average tax rate for an additional day worked, except that it includes the cost of childcare (as per Stewart (2018) and Ingles and Plunkett (2016)). We have focused on a standard working day, that is one-fifth of a full-time week, for reasons outlined in Footnote 73. Shift workers face a similar set of incentives when choosing whether to take on extra shifts.

Box 4: Estimating workforce disincentive rates – the Grattan model

Our workforce disincentive rate model operates for a range of cameo households, including couples and single parents at a range of different income levels. For the couples, it assumes one partner works full-time, and a second earner is considering whether to take on paid work, and how many days to work.

Additional paid work will result in extra income, a proportion of which will be lost through taxation, loss of benefits, and increase in the net cost of childcare. The costs of additional work accounted for in the model are outlined below.

Family payments Families with children receive a range of government payments:

- Family Tax Benefit and Parenting Payment are withdrawn as household income increases over certain ranges.
- Commonwealth Rent Assistance is payable for families who are private renters and is also withdrawn as family income increases. The cameo households are renters, and are paying sufficient rent to qualify for the maximum rate of Rent Assistance where relevant given their income levels.
- Other non-cash benefits, such as eligibility for a Health Care Card, which will drop out with increasing income are not factored into our workforce disincentive rate model.

Income tax As a second earner's earnings increase, they pay more income tax. This is estimated based on the marginal tax rate for their income level.

Medicare Levy As well as an individual's Medicare Levy, additional earnings can affect the amount of Medicare Levy payable by their partner in some cases.

A household earning enough to be required to pay the Medicare Levy surcharge is assumed to have private health insurance and therefore avoid the surcharge. But the effect of additional earnings on the private health insurance rebate are accounted for.

Childcare costs The average cost of childcare is assumed to be $110 per day before government subsidies (see Footnote 81 and Appendix C).

While some families have access to free childcare from grandparents or other relatives, for many families, having two parents working requires paid childcare. The model assumes that each day worked by the second earner requires a day of childcare for each child under 6. It makes no allowance for out-of-school-hours care for school-aged children.

Childcare subsidy Subject to an activity test, parents are eligible for Commonwealth Government subsidies on approved childcare. The amount of subsidy claimable decreases as family income increases over certain ranges. There is also an annual cap on the dollar amount that can be claimed per child for families with income higher than $188,163. The model adjusts the childcare subsidy according to all of these considerations.

A more detailed description of our workforce disincentive rate model and results are shown in Appendix A.

well-being benefits from cramming in less paid work in addition to the significant unpaid workload borne by most women (Chapter 4).

On the other hand, it may be better for many second earners to keep contact with the workforce, to improve their employment prospects in later years when child-rearing is taking up less of their time. Mothers also value the mental stimulation and adult interactions of paid work as a change from full-time parenting.[77] These motivations are more likely to lead women to work part-time despite the financial barriers, but are less likely to motivate those already working to take on extra hours.

Estimating precise financial returns from increased paid work is complex, and most families are probably not precisely calculating their workforce disincentive rates. 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.

2.2 Tax and transfer policies discourage mothers from working full-time

The Government says it is committed to ensuring there are financial incentives for women to return to the workforce after having children.[78] Yet childcare costs and tax and transfer settings continue to be a major barrier to women's workforce participation.

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 (Box 5 on page 27), particularly for women with children.

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.

Figure 2.2 shows workforce disincentive rates for a selection of cameo households, all with a main earner working full-time and with two children in childcare. Workforce disincentive rates are very high for second earners – more than 50 per cent for days 2 and 3, and between 65 per cent and 110 per cent for a fourth or fifth day. This is much higher than the top marginal income tax rate of 47 per cent.[79]

For single parents, workforce disincentive rates are also very high across the board (Figure 2.3 on the following page).

Such high workforce disincentive rates mean that many women with young children will earn very little on their fourth and fifth day of paid work. For example, in a household where both parents have the potential to earn $60,000 per year if working full time, the second earner would be working for about $2 per hour on her fourth day, and for free on her fifth day.

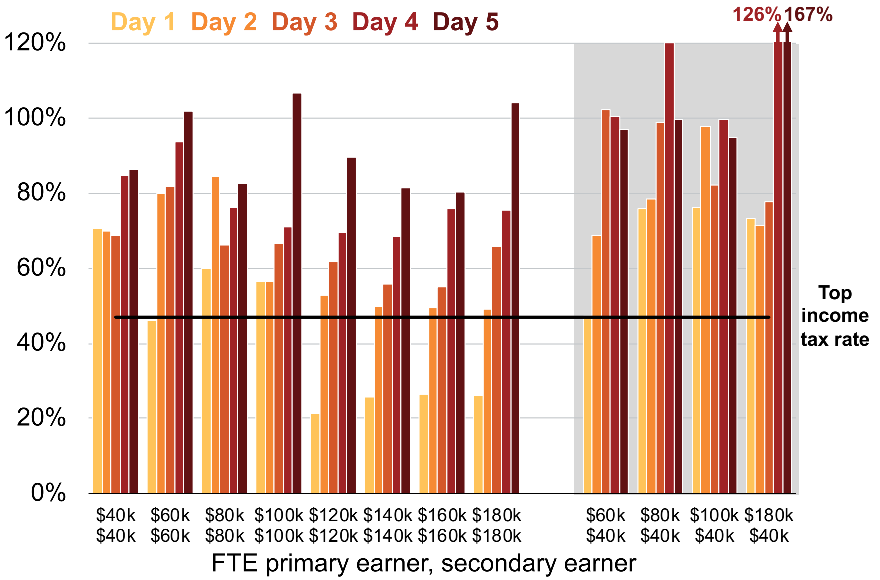
2.3 Women with more children in care face higher workforce disincentive rates

The women with the highest workforce disincentive rates are those with multiple children in long-day care.[80] The average cost of long-day care

77. In an ABS survey, 52 per cent of women who had returned to paid work with a child under two included 'adult interaction/mental stimulation' as a reason for returning to paid work, 51 per cent listed 'maintain career/skills', and 35 per cent included 'maintain self-esteem'. But these are dwarfed by 'financial reasons', included by 84 per cent of women: ABS (2018b, Table 14).
78. Australian Government (2017, p. 24).
79. The top tax rate is 45 cents for each dollar earned over $180,000, plus the Medicare Levy on taxable income of 2 per cent: ATO (2020a).
80. Families using nannies may face higher workforce disincentive rates because costs can be higher and there are no subsidies available.

Figure 2.2: Disincentives to work more are very high for second earners in couple families

Workforce disincentive rate, second earner

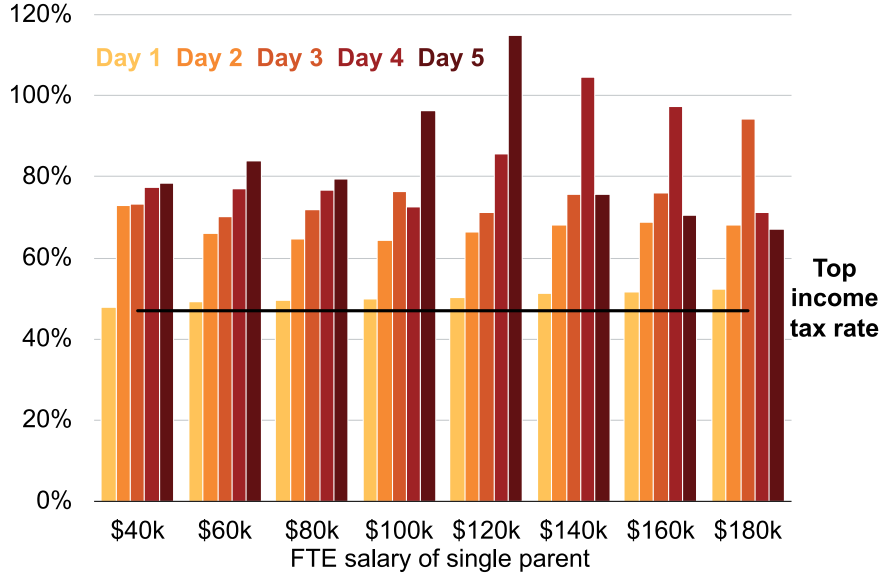


Notes: FTE = full-time equivalent. The workforce disincentive rate represents the financial disincentive from the second earner working an additional day. Primary earner works full-time. Shaded area shows cameos of a primary earner with a higher FTE salary than the second earner. Two children, both require 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 qualifying under income test.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

Figure 2.3: Disincentives to work are also very high for sole parents

Workforce disincentive rate, sole parent



Notes: FTE = full-time equivalent. The workforce disincentive rate represents the financial disincentive from working an additional day. Cameo models of single parent with two children, both require childcare. Every day of work 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 qualifying under income test.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

is about $110 per day (before subsidy).[81] And the costs grow with the number of children in care.

Workforce disincentive rates are also higher for women with multiple children, because Family Tax Benefit A is higher, so the dollar withdrawal is higher as the woman's income grows.

These very high workforce disincentive rates may persist for only a few years. Women with two closely spaced children are unlikely to spend more than four years with both children in long-day care. But discouraging women from working more, even for a few years, can still have lasting impacts on their workforce participation and career progression (Chapter 1).

2.4 Childcare costs are a significant contributor to high workforce disincentive rates at all income levels

Lots of different tax and transfer policies contribute to high workforce disincentive rates. Marginal income tax rates are significant, particularly for higher earners. Family Tax Benefit A, Family Tax Benefit B, Parenting Payment, and Commonwealth Rent Assistance all decrease as household income increases, and have a large impact on workforce disincentive rates, particularly for low- and middle-income households (Figure 2.4 on page 29). More detail about the impact of various components of the tax and transfer system that 'bite' at different income levels are set out in Appendix A.

However, for parents of young children, the net cost of childcare is a significant contributor to workforce disincentive rates at *all* income

81. The average cost of centre-based day care is $10.30 per hour: Department of Education, Skills and Employment (2019). Opening hours vary, but are generally between 10 and 12 hours per day: Baxter et al (2019, p. 49); Care for Kids (2016). The average cost of family day care is $10.45 per hour. The average cost of centre-based day care varies depending on location: $10.50 in major cities, $9.55 in inner regional, $9.30 in outer regional, $9.10 in remote areas.

Box 5: Some of the barriers to paid work are created by Australia's tax and transfer system

Australia's tax and transfer system relies more heavily on means testing than any other country in the OECD.[a] This helps to keep taxes lower than they otherwise would be and helps ensure that government benefits go to people who need them most.

One of the consequences of this model however is steep taper rates – benefits are withdrawn quickly as income increases. This reduces the incentive to earn extra income (taxation has this effect too).[b] The system is further complicated for families, where individual income is taxed but benefits depend on family income. These factors, in combination with out-of-pocket childcare costs, can dramatically reduce incentives to work for the second earner in a family (see Chapter 2).

Australia's tax and transfer system should be celebrated for its efficiency in reducing poverty. But there are also economic and equity implications, particularly for women with children, that are the focus of this report.[c]

a. Stewart and Whiteford (2018).
b. There are always trade-offs between the adequacy of benefits, the cost to taxpayers, and the incentive for people to get off the payment by earning income, known as the 'iron triangle': Henry et al (2010, p. 498).
c. Apps (2015); and Stewart and Whiteford (2018).

levels, and for each additional day of paid work (Figure 2.4). The way in which childcare subsidy reduces as family income increases means that the incremental cost of an additional day of childcare eats up at least 16 per cent (and often 40 per cent or more) of additional income from all but the highest-income women who take on an extra day.[82]

2.5 Many women would choose to do more paid work if childcare was more affordable

Reducing the net cost of childcare could generate a significant increase in women's workforce participation.

More than 40 per cent of children aged between 1 and 5 are enrolled in paid childcare.[83] And women's labour supply is highly responsive to changes in the financial incentive for paid work, particularly the cost of childcare (Box 6).[84]

Surveys tell a similar story. Among mothers who have young children and would like to work more hours, two thirds say they are prevented by lack of childcare. Half of these say the main reason is the cost of childcare.[85] About 45 per cent of mothers say they would work more hours if childcare was more affordable.[86] Women also report that their working hours are affected much more than their partner's working hours by the cost and availability of childcare (Figure 2.5).

International evidence also suggests that reducing childcare costs could produce a big increase in female workforce participation.

82. Assumes gross childcare cost of $110 per day. The marginal cost of an additional day of childcare may be lower than 16 per cent in some cases for very high second-earner incomes, that is, higher than $180,000.
83. PC (2019, Table 3A.15).
84. Jaumotte (2003); Uunk et al (2005); Breunig et al (2011); Breunig et al (2012); and Gong and Breunig (2017).
85. ABS (2019a), includes parents or guardians of children aged 0-12 and who are not working full-time and would like to work more hours or would like a job.
86. YouGov Galaxy poll of 521 working mothers: Joseph and Mueller (2019).

Box 6: Responsiveness of women's labour supply

There is a broad consensus in the empirical literature that women with children are the most likely to change their working hours in response to tax and welfare changes. Changes in the 'effective tax rates' affect both the decision to take on paid work and the number of hours worked for these women. In contrast, men's hours of work are less responsive to tax changes (see Meghir and D. Phillips (2008) and Congressional Budget Office (2012)).

A 2010 OECD paper identified the high effective tax rates in many countries as a barrier to women increasing their working hours.[a] It also identified the importance of childcare costs in women's labour supply decisions. It found that childcare costs were linked to rates of part-time work across countries. This was consistent with its international literature review, which concluded that childcare costs significantly reduce mothers' hours of paid work.

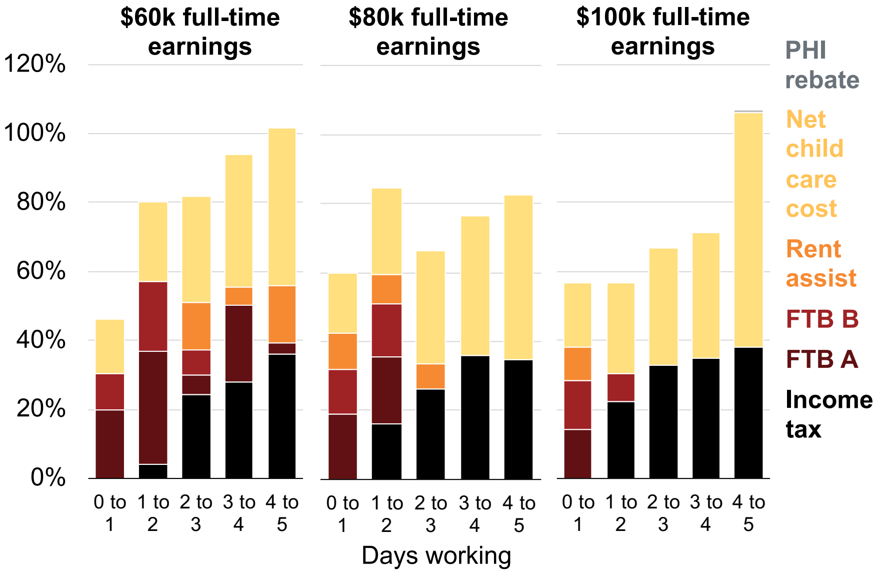
Early Australian research suggested that the cost of childcare had a small or insignificant effect on working hours for partnered women.[b] But, using better data on childcare prices, Breunig et al (2012) showed the measurement error driving earlier research and found that higher childcare cost resulted in a significant reduction in hours for partnered women.

Consistent with this, Connolly and Trott (2014) found that childcare fees have a significant and negative effect on full-time participation for Australian women, and Connolly et al (2015) found a significant and negative effect on part-time work in the long run from childcare fees.

a. OECD (2010).
b. Rammohan and Whelan (2007) and Kalb and Lee (2008). Although Kalb and Lee (2008) did find some effect for partnered women on low wages and with preschool children, and large effects for single parents.

Figure 2.4: Net childcare costs are a major contributor to high workforce disincentive rates

Workforce disincentive rate, second earner

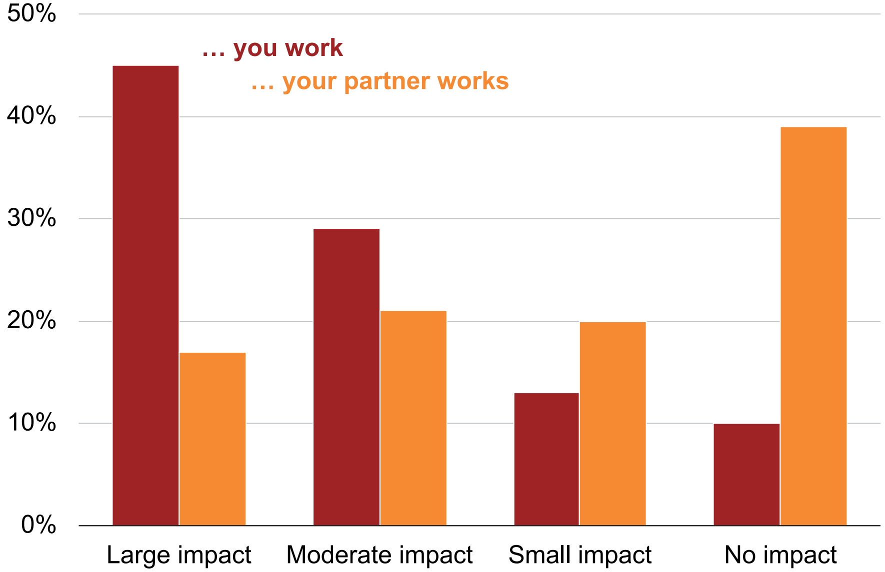


Notes: Cameo models with second earner earning the same full-time salary as the primary earner. Primary earner works full-time. Two children, both require childcare. Every day of work for the second earner results in exactly one day of approved childcare. Cost of childcare assumed to be $110 per day. 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).

Figure 2.5: Childcare cost and availability have a big impact on women's working hours

To what extent does the availability and affordability of childcare influence how many hours. . .



Source: YouGov Galaxy poll of 521 working mothers: Joseph and Mueller (2019).

Schemes introduced in Quebec and Washington DC which reduced the net cost of childcare were accompanied by a significant boost in female workforce participation (Box 7 on the next page).

These examples show that women's work choices are not set in stone – many women will choose to work more paid hours if the financial barriers to doing so are reduced.

2.6 Summing up

The financial barriers to women doing more paid work are significant, and in some cases almost prohibitive. Reducing these barriers would open up greater choice for women and their families and lead to increased female workforce participation. The biggest financial barrier to women working more is the high cost of childcare.

Chapter 3 and Chapter 4 examine some of the other barriers to women doing paid work. Chapter 5 looks at specific options for reform, including how to make childcare more affordable.

Box 7: Quebec childcare and Washington DC preschool schemes

In 1997, **Quebec** introduced a universal childcare program that offers parents low-fee preschool for any children under 5. The cost was initially CA$5 a day[a] and is now CA$8.35 a day.[b] On average, parents pay less than a fifth of their childcare costs. In 2016, this cost the provincial government CA$9,985 for every child in care – about 0.6 per cent of Quebec's GDP.[c]

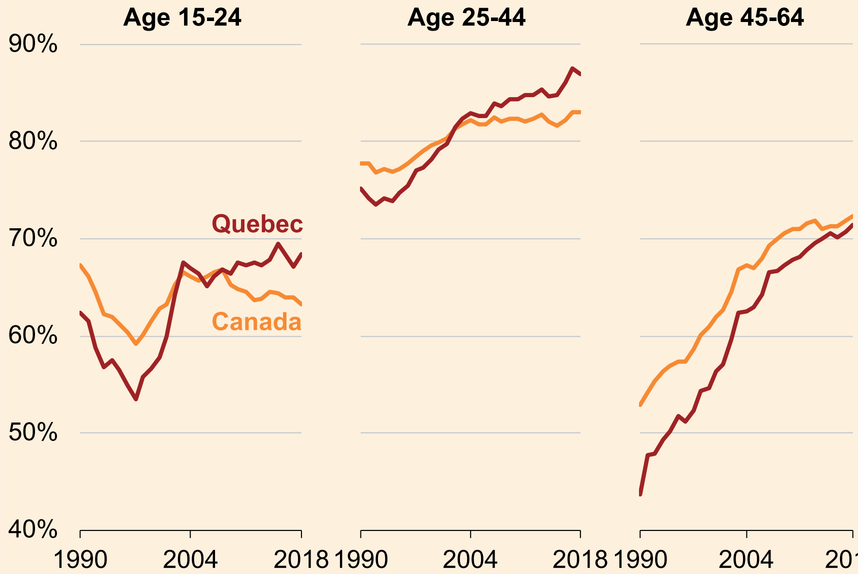
Labour force participation among mothers of young children rose from 64 per cent when the policy was introduced in 1997, to 80 per cent by 2016. Across the rest of Canada, female participation increased by only 4 percentage points over the same period.[d]

The workforce participation rate of other women in Quebec (those without young children) also increased by more than 5 percentage points, while it remained flat in other Canadian provinces.[e] This suggests the Quebec program was successful in boosting longer-term labour force attachment and participation.[f] Greater female participation in Quebec did not come at the expense of men either – men's participation barely changed over the same period.[g]

However, there was a downside to introducing the policy so quickly: it reduced the average quality of childcare services, and subsequent cohorts of children were found to be worse off on some behavioural and health measures.[h]

In 2009, **Washington DC** began providing two years of free, full-day preschool. The goal was to improve children's readiness for school. However, a side effect proved to be an increase in workforce participation. By 2017, about 90 per cent of 4-year-olds and 70 per cent of 3-year-olds were enrolled.[h] And the city's maternal labour force participation rate had increased by about 12 percentage points, mostly attributable to the expansion of preschool.[i] DC mothers with young children now participate in the labour force at about the same rate as mothers with children in elementary school.[j]

Figure 2.6: Female workforce participation has increased in Quebec
Female labour force participation rate



Source: Statistics Canada (2019, Table 14-10-0018-01). Accessed 25/07/2019.

Notes: (a) Fortin (2018); (b) Finances Quebec (2020); (c) Fortin (2018); (d) Fortin (ibid); (e) Fortin (2017); (f) Lefebvre et al (2009); (g) Grattan analysis of Statistics Canada (2019, pp. 1990–2018); (h) Baker et al (2015) and Baker et al (2008); (i) Malik (2018); (j) Malik (ibid).

3 A lack of suitable childcare can also be a barrier

Parents say that the cost of childcare is the biggest barrier to second earners increasing their work hours. But even if childcare was more affordable, getting the right care at the right time and in the right place can still present a barrier for some families.

When parents can't find the right childcare, they adapt. Some may travel further, some may change their work or commute patterns, and others may simply work less. These adaptations are costly for families and can reduce workforce participation.

3.1 Some parents struggle to find suitable childcare

We all know someone struggling to find the childcare they need – whether it be a spot in day care for an 8-month-old, regular after-school care, or a holiday program to help manage the mismatch between the school year and the work year. Horror stories abound of two-year waiting lists, paying to hold a place, and parents driving an hour or more for childcare.[87]

Yet availability problems can be hard to disentangle from affordability and quality issues. While there might be lots of childcare centres with places available, if they're not affordable, within a reasonable distance of home or work, and of sufficient quality, then parents may opt to work less so that they can manage the care themselves.

Surveys show that the cost of childcare is one of the biggest barriers to parents increasing their paid work (Figure 3.1 on the following page).[88] But childcare availability is still a problem for many – 16 per cent of parents for whom childcare is a barrier to paid work report availability problems.[89] Only 3 per cent said the problem was that childcare was 'booked out'. Availability of specific days and flexibility at short notice were the more common problems.

Beyond parent surveys, there are other signs that childcare availability is a problem for some parents. About 16 per cent of children under 5 require more childcare than their parents can access (Figure 3.2 on the next page)[90] – but it is unclear whether this is primarily due to problems with availability, affordability, or quality.[91]

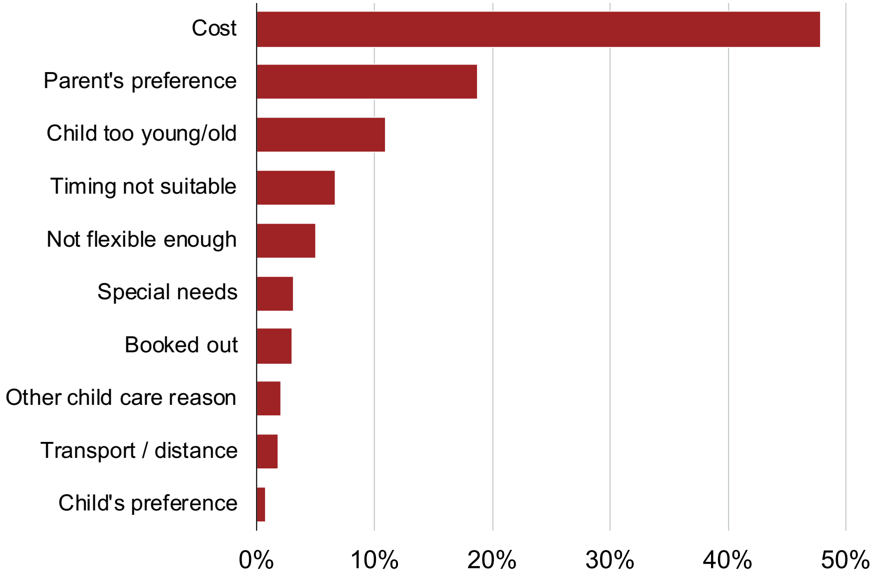
Australia-wide, vacancies in childcare services are common,[92] but for families, a vacancy needs to match their precise needs – for example, a vacancy for a 3-year-old is no use to a 1-year-old, and a vacancy on Mondays is no use if you need to work on Tuesdays.

Under normal circumstances (pre-COVID), many long-day care centres operated very close to capacity.[93] This suggests that places can be hard to find, but it also reflects that high capacity is needed to operate

87. e.g. PC (2014).
88. Also Breunig et al (2011) show that parents in HILDA report greater difficulties with childcare cost, on average, than with availability or quality.
89. Grouping together respondents who said the main problem with childcare was 'time/days available not suitable' (7 per cent), 'not flexible enough' (5 per cent), 'booked out/no places' (3 per cent), and 'transport/distance' (2 per cent).
90. The highest demand for more childcare is in the ACT and SA (22 per cent of children aged 0-5), followed by Victoria (19 per cent): PC (2019, Table 3A.29). Most of those seeking more care are already using some formal care or preschool (i.e. seeking more hours/days) rather than using informal care or not using any.
91. PC (ibid, Table 3A.29). Problems with availability, affordability and quality are also highly correlated: Breunig et al (2011).
92. PC (2014); Department of Education and Training (2018, p. 15).
93. In 2016, long-day care centres were operating at 92 per cent capacity on average, and 65 per cent had no additional capacity: Social Research Centre (2017, p. 29). The situation may have improved for parents since 2016: total vacancies in long-day care increased by 22 per cent between June 2016 and June 2018, partly driven by an 8 per cent increase in the total number of long-day care services over the same period: Department of Education and Training (2018, p. 15).

Figure 3.1: Parents say that cost of childcare is one of the main reasons they can't do more paid work

Of parents who want more work and for whom childcare is the problem, proportion prevented by...

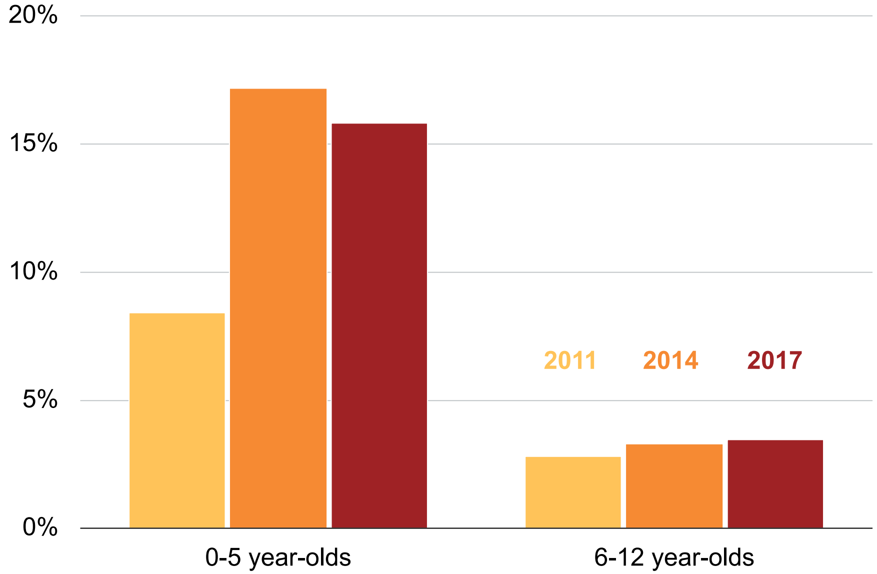


Notes: 57 per cent of parents who want to work more are prevented by a childcare-related problem (and two-thirds of them are women). No specific reasons were recorded for the remaining 43 per cent, for whom childcare was not a problem. Based on a representative sample of 425 parents and guardians of children aged 0-12, who are not working full-time and would like to work more hours or would like a job.

Source: ABS (2019a).

Figure 3.2: Many parents need more childcare, particularly for children under 5

Proportion of children requiring more formal childcare or preschool



Notes: The data do not identify the likelihood that a parent will take steps to find the care or preschool they require. Various factors including cost, location, and the perceived suitability or quality of the service will have an influence on whether parents take these steps. Even so, additional formal childcare or preschool was not available on application for 16 per cent of 0-12 year-olds.

Sources: PC (2019, Tables 3A.28 and 3A.29); PC (2017, Table 3A.69).

sustainably.[94] Surplus capacity was reported as a challenge for the industry in 2018,[95] and is likely to be challenging again in the wake of the pandemic.

In June 2020, centres were operating at only 74 per cent of normal capacity[96] – well below the occupancy levels required to stay afloat – but the vast majority had been able to stay open thanks to the Government's temporary childcare relief package.[97] Out-of-pocket fees returned on 13 July and, given many parents may no longer be able to afford their place, some centres could close their doors, particularly when the support package ends completely in September.[98]

On the whole, it is likely that childcare availability will be less of an issue for parents in the coming months, but if lots of centres fold, then parents' options may be severely diminished.

3.2 Availability problems are typically localised

Some of the families more likely to struggle to find suitable care include those with children under 2, families living in inner-city areas of major cities and some regional areas, and shift workers.[99]

Fewer childcare centres offer places for children under 2 than for 3-5 year-olds,[100] because educator-to-child ratios mean that 0-2 year-olds are twice as expensive to care for as 3-5 year-olds.[101] Fees are typically similar across ages, so large cross-subsidies distort the market.[102]

Accessing childcare is also typically more difficult for the first child than later children, partly because priority is often given to children who have a sibling already at the centre.

Capacity is tightest in inner-city areas of major cities, particularly Sydney, Canberra, and Melbourne.[103]

Childcare availability is also a barrier in some regional areas,[104] and regional and remote children are less likely to be in childcare.[105] Childcare centres in many areas may not be able to achieve a sufficiently high occupancy to be profitable.[106] Indigenous children and children with a disability are also less likely to be in childcare.[107]

Getting suitable childcare is especially hard for shift workers. Many day care centres require children to be booked in for the same

94. The average occupancy of profitable long-day care centres is 85 per cent, compared to just over 70 per cent in loss-making long-day care centres: PC (2014, p. 354).
95. Surplus capacity and low occupancy were reported in 2018 in some areas because of a boom in building new childcare centres: Richardson (2020).
96. Tehan (2020).
97. Hunter (2020b).
98. See Box 3 on page 20.
99. PC (2014).
100. Social Research Centre (2017, p. 32).
101. Educator-to-child ratios are 1:4 for children up to 2 years old; 1:5 for children aged 2-3 (except Victoria, where it is 1:4); 1:10 or 1:11 for children aged 3 to preschool age; and 1:15 for children over preschool age, with some variation between states: ACECQA (2020a).
102. PC (2014, p. 10).
103. Long-day care centres in major cities operate closest to capacity with average spare capacity of just 6.5 per cent, and capacity is tightest in NSW, the ACT, and Victoria: Social Research Centre (2017, Table 13). See also: Ireland (2019). Most parents in inner-city areas spend at least three months searching for suitable childcare (Figure 3.3 on the next page). But a City of Sydney childcare needs analysis in 2019 found supply was now generally meeting demand, after a concerted effort to address a shortfall identified in its 2013 needs analysis: City of Sydney (2019).
104. PC (2014).
105. Compared to their representation in the community: PC (2019, Fig 3.3).
106. PC (2014, p. 354).
107. Compared to their representation in the community: PC (2019, Fig 3.3).

'regular' days each week. Day care centres with spare capacity may accommodate flexible bookings, but this is not the norm.[108]

3.2.1 Local shortages in out-of-school-hours care are often caused by space constraints

Availability problems do not necessarily disappear when children start school. The mismatch between the school day and the work day, and at least 12 weeks of school holidays compared to the standard 4 weeks of annual leave for working parents, means that most working families require supplementary care during the early school years.

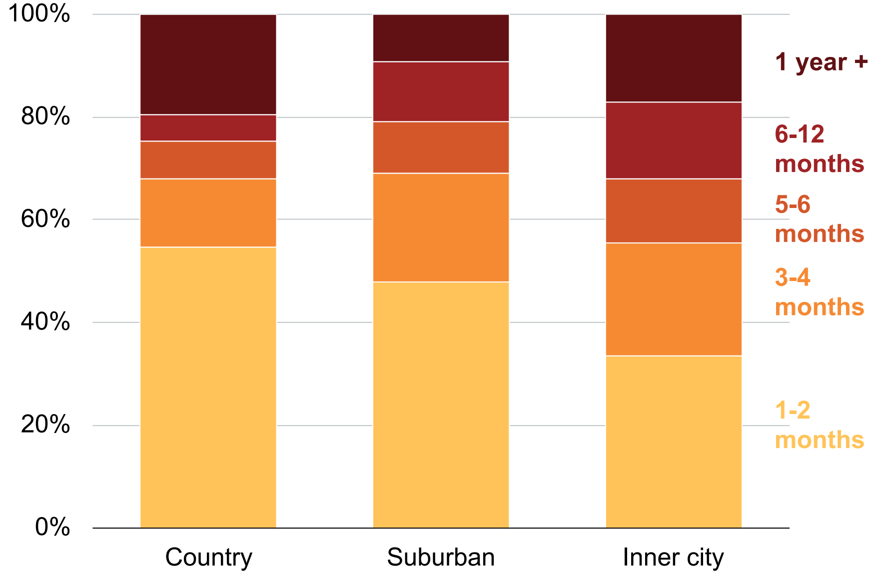
After-school and holiday care capacity are tight in Canberra and Sydney.[109] Several Sydney suburbs have no vacancies in after-school care.[110] In most of these areas, the proportion of families with working parents is above the NSW average, and population growth is higher than the NSW average.[111] Across NSW, 14 per cent of after-school care services and 20 per cent of holiday care services are operating at more than 95 per cent capacity.[112]

Providers say the main problem is finding appropriate and affordable spaces to meet the growing demand for care. Of providers that had not expanded capacity in the past 12 months, 58 per cent cited insufficient physical space as a reason.[113]

108. PC (2014, p. 432). The PC suggests that day care centres with places 'on hold' for children on extended absences could make these places available to other children to give families more flexibility.
109. Social Research Centre (2017, Table 13).
110. Deloitte (2017, p. 51).
111. Ibid (p. 6).
112. Deloitte (ibid, p. 42). The situation may have improved for parents since 2016: total vacancies in before- and after-school care increased by 12 per cent between June 2016 and June 2018: Department of Education and Training (2018, p. 15).
113. Providers that had not expanded capacity in the past 12 months were prompted on a series of reasons for not expanding: 58 per cent agreed or strongly agreed that they did not have sufficient physical space to expand.

Figure 3.3: For many parents, particularly in inner-city areas, it takes a long time to find suitable childcare

Proportion of survey respondents in each location by the time taken for them to find suitable childcare, 2018



Note: Data from a non-representative survey of 1,232 parents.

Source: Grattan analysis of Care for Kids (2018).

The NSW Government plans to respond to shortages in after-school and holiday care by requiring public primary schools to make their facilities available to childcare providers from 2021.[114] The Government is also investing $120 million over four years, mainly in upgrading school facilities and in rental subsidies for childcare providers.[115]

South Australian guidelines for government schools also make it clear that school-age children should have access to out-of-school-hours care, where feasible.[116] But generally, it is up to school principals or school councils to decide whether to make school facilities available during non-school hours.[117]

3.3 Most childcare services meet quality standards, but monitoring is weak

'Quality' of childcare does not emerge in parent surveys as a major concern, but it may be contributing to concerns about suitability and to parents preferring not to use childcare at all.[118]

Quality may also be a tertiary concern – meaning it becomes an issue only once parents have dealt with the primary and secondary concerns of affordability and availability. Quality could therefore emerge as more of a problem for parents if childcare otherwise becomes more accessible (see Chapter 5).

Most childcare services meet national quality benchmarks. About a quarter exceed them, but there remains a quarter of services (about 4,000) that fall short of the benchmark or are yet to be assessed (Figure 3.4 on the following page). The benchmark quality level is also more of a minimum standard, and is not sufficient to lift child outcomes.[119]

Quality varies substantially by area, with fewer services 'exceeding' the benchmark in disadvantaged communities.[120]

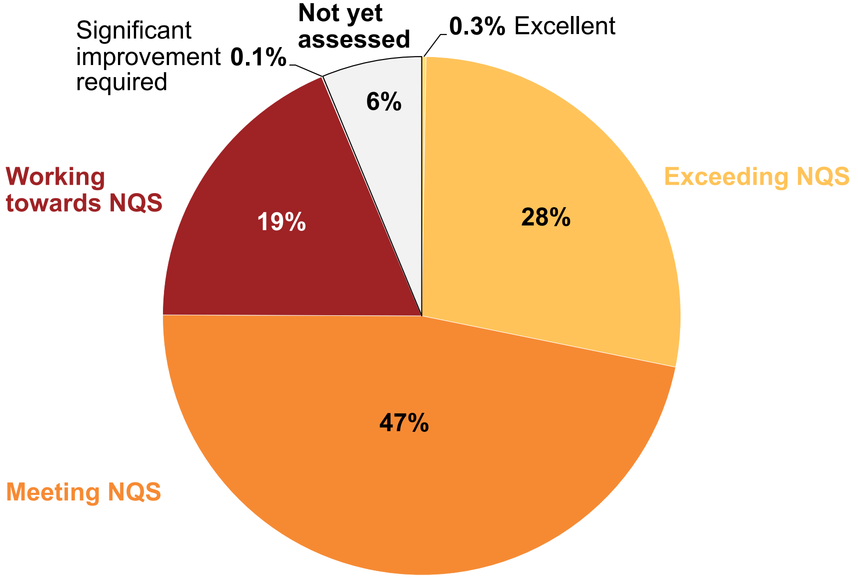
Regular quality assessments are needed to encourage under-performing services to meet – and exceed – national standards. But current monitoring is very infrequent. It can take years for new services to be assessed, and many of the poorest-performing services were last reviewed more than three years ago.[121]

Overall, childcare quality and availability are not the biggest problems for parents, but they still represent a barrier to paid work for a significant minority. A lack of suitable childcare tends to be a highly localised problem, so governments at local, state, and federal levels need to work together, and with the sector, to identify and respond to shortages in local areas (see Chapter 6).

114. This was a commitment made during the 2019 state election campaign: NSW Liberal Party (2019).
115. Government of NSW (2019).
116. SA Department for Education (2016).
117. PC (2014). e.g. Department of Education and Training Victoria (2018).
118. ABS (2019a), see Figure 3.1. The National Quality Framework Annual Performance Report survey identified 'location/accessibility' and 'cost/affordability' as the two most important factors when choosing a children's education and care service. Quality-related factors such as 'the general "feel" of the service', 'highly skilled educators', 'high-quality early learning program', and 'reputation of the service and its provider' were less important, though still relevant: ACECQA (2019).
119. A 2019 study compared National Quality Standard (NQS) ratings to research-based quality scales across 257 providers and found a general correlation, but the quality levels of even NQS 'exceeding' services were 'basic' on the research scales, which focus more on child outcomes: Siraj et al (2019). Most Australian childcare services provide children with a high level of emotional support, but low levels of instructional support to promote learning during play activities: Tayler (2016).
120. Noble and Hurley (2020); Torii et al (2017); and Tayler (2016).
121. Almost 300 of the 1,000 services yet to be quality assessed were approved for operation more than a year ago. And of the 3,000 services below standard, about 600 were last assessed more than three years ago: Grattan analysis of ACECQA (2020b).

Figure 3.4: Most childcare services in Australia meet or exceed the National Quality Standard

Proportion of services by overall quality rating, as at January 2020



Note: There are about 16,000 registered early childhood education and care services in Australia.

Source: ACECQA (2020b).

4 Unpaid work still falls largely on women

There's only so much time in the day – and while the lion's share of caring and household work falls to women, they have less time and energy to dedicate to paid work.

Women in Australia do more unpaid work and less paid work relative to men than in most other countries. Women also take most of the parental leave. And before the pandemic, flexible work was overwhelmingly the mother's domain.

For some families this division works, but for others the default model of a male breadwinner and female carer/second earner doesn't serve them well. Many women would like to do more paid work if it wasn't simply adding to their unpaid load. And many men would like to take on more caring responsibilities but feel trapped by real or perceived barriers to shifting their working patterns.

Government and workplace policies can help give families more choice in the sharing of caring responsibilities. Much of this is in the domain of employers, but governments can lead the way – as major employers themselves, and in the design of government-funded parental leave.

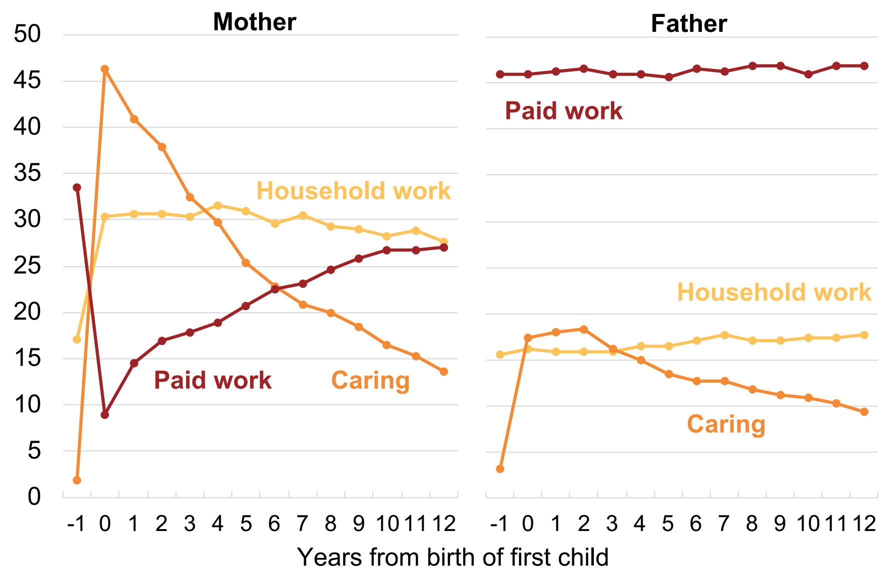
4.1 Couples redistribute unpaid work when they have children

Having a child is life-changing in so many ways – mentally, emotionally, physically, financially. But it also has a significant impact on how people organise their lives.[122] And as Figure 4.1 illustrates, the impact on women's lives is typically far more dramatic than for men.

Mothers typically reduce their paid work to take on the lion's share of caring and household work, while fathers continue their paid work and take on some extra caring. Caring becomes less time-consuming for

Figure 4.1: The nature of work changes dramatically for women after their first child, but not for men

Time use before and after the birth of first child, average hours per week



Note: Age of youngest child = -1 is the year before the birth of the first child.

Sources: Baxter (2019).

122. Riggs and Bartholomaeus (2020); and DeRose et al (2019).

both mother and father as the child gets older, but the division of labour established in those early years endures: the average woman does more caring and twice as much household work even a decade after the birth of the first child (Figure 4.1).[123]

4.2 The workload of a new family is big, and the division of labour often doesn't suit either parent

Families with children have higher daily workloads than those without, and typically having children intensifies the gendered division of labour within households.[124] The gender gap in unpaid and paid work, measured across all ages, is particularly prominent in Australia compared to other countries (Figure 4.2 on the following page).[125] And there are signs that the 'time costs' of motherhood have also increased in recent decades.[126]

This division of labour means that in many families, fathers are working long hours on the job with little time at home,[127] while mothers are working long hours at home with little time on the job – reducing job quality for both parents.[128]

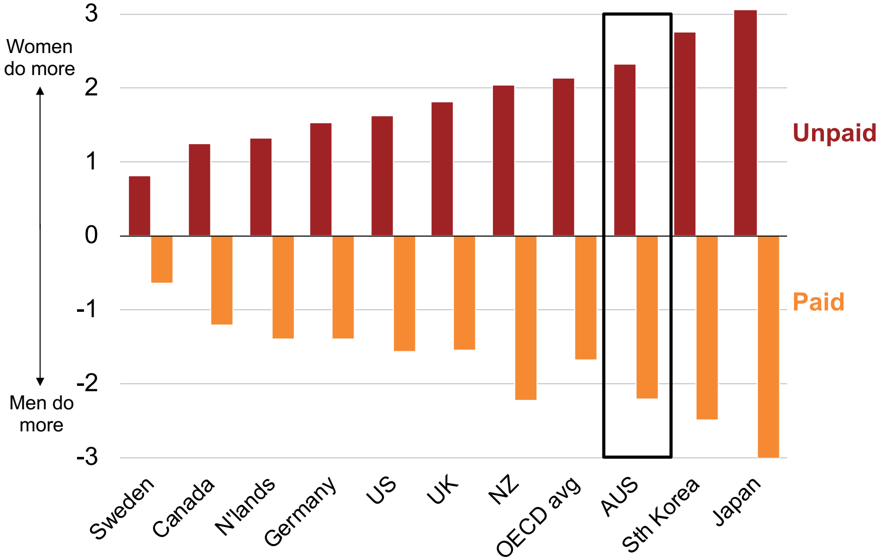
This division of labour still suits many families, but it is substantially less satisfactory for women on average than for men (Figure 4.3 on the next page). Even before the birth of a child, women tend to feel less satisfied than men with the division of household labour. But after they have children, satisfaction with the division of household labour drops for about five years before gradually returning to pre-birth levels. Time-use surveys show that mothers with a child under 5 have a higher total workload (paid and unpaid) than fathers.[129]

Balancing paid work and family is a more common and significant stress for women. Mothers tend to feel more rushed than fathers,[130] and women are more likely to work at high speeds and feel overloaded.[131] But work-family conflict ('incompatibility') is stronger for fathers,[132] who are more likely to feel that they've 'missed out'.[133] The status quo is clearly not working well for many families.[134]

123. Having a child can also change people's attitudes to gender divisions of labour, perhaps partly because institutional arrangements encourage women to withdraw from paid work and take primary responsibility for childcare, and partly because personal experience of parenting leads to changes in self-identity: Baxter et al (2015) and Kuziemko et al (2018).
124. Craig et al (2010); Craig and Bittman (2008); and Barnes (2015).
125. Australian women do substantially more unpaid work and less paid work on average, compared to women in other countries (Figure 4.2).
126. Kuziemko et al (2018) suggest the time cost of childcare beyond infancy has risen.
127. Australia has a high share of employees (mainly men) working very long hours by international standards (OECD (2018b) and OECD (1998)). In 2019, 27 per cent of employed Australian men worked more than 45 hours, and 18 per cent worked more than 50 hours: ABS (2020b). More than half (53 per cent) of Australian fathers with an infant work more than 45 hours: Baxter et al (2007). See also Dinh et al (2017).
128. A study of Australian working parents found job quality was typically highest in full-time work with moderate hours (35-39 hours per week) for both men and women. Job quality was assessed based on workload, job control, perceived job security, flexibility of working hours, and availability of paid family-friendly leave: Charlesworth et al (2011).
129. Craig et al (2010) and Craig and Bittman (2008). Pre-COVID, the ABS had planned to conduct a time-use survey in 2020, which, if it goes ahead, would be Australia's first since 2006 and should shed new light on paid and unpaid workloads.
130. Craig and J. Brown (2017); Strazdins et al (2016); and ABS (2019c).
131. Skinner et al (2012, p. 53).
132. Baxter et al (2007).
133. Sole-earner fathers and those employed for long hours were most likely to report high work-family conflict: Cooklin et al (2016). See also Cooklin (2018).
134. For 60 per cent of two-parent families, one or both parents report high work-family conflict: Wilkins et al (2019). Fathers are most likely to have a substantial mismatch between actual and preferred working hours: half of fathers would prefer to work at least 4 hours less per week: Skinner et al (2012).

Figure 4.2: The gender split in unpaid and paid work is particularly prominent in Australia

Difference in unpaid and paid work between women and men, hours per day

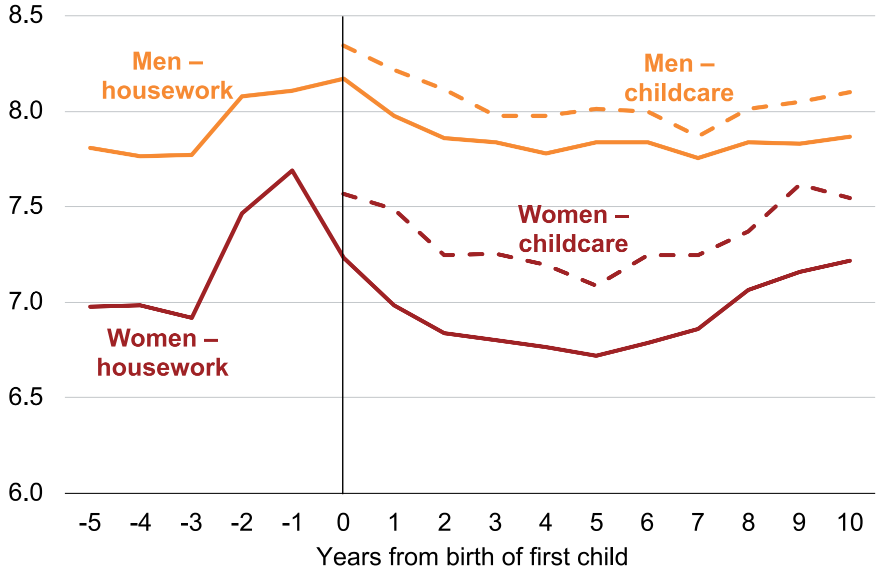


Notes: Total work for both men and women is similar to the OECD average, but Australian women do substantially more unpaid work and less paid work on average. The gender gap is calculated as the average hours reported by women minus the average hours reported by men. Data was collected across various years (2002-2014). Australian data is 2006 for ages 15+, other countries are for ages 15-64. Selection of comparator countries as per Daley et al (2019).

Source: OECD (2018c).

Figure 4.3: The division of labour suits men more than women

Average satisfaction with division of housework and childcare (on a scale of 0-10)



Note: Estimates are for heterosexual couples.

Source: Wilkins and Lass (2018, Figure 5.5, p. 89).

For women to take on more paid work, or for men to take on more of the caring responsibilities, something else must give – there are only so many hours in the day. Surveys show that many working parents want a more equitable division of labour, both at home and at work.[135] But changing these existing patterns isn't easy – they are entrenched through a mix of policy, cultural norms, and social expectations.

The COVID-19 shutdown has been a shock to domestic arrangements in many Australian households, especially those with children. Many parents have been providing significantly more care for their children than under normal circumstances, due to school closures and the health risks of sending children to childcare centres or to grandparents.

Early data suggests that the unpaid workload increased for both women and men during the initial shutdown, and more so for women, but the gender gap in childcare narrowed a little.[136] For some families, new habits formed during this time could lead to greater sharing of caring and household responsibilities beyond the crisis.

4.3 Government and employer policies influence the division of caring responsibilities

Paid parental leave and flexible work are critically important for supporting women's workforce participation. Australian and international research shows that government-funded paid parental leave increases women's workforce participation (Box 8 and Section 4.4).[137] And employer policies can encourage and enable women to return to paid work after having a child (see Appendix B).

But the design of these policies can influence how families share employment, caring, and household responsibilities. When policies are explicitly or implicitly tailored to one or other gender, they can reinforce the traditional male 'breadwinner' and female 'homemaker' model, limiting the conscious and subconscious choices families make.

4.3.1 Parental leave can 'lock in' the mother as the main carer

One of the early decisions for people starting a family is about parental leave – who takes it and for how long? The design of government and employer parental leave schemes can influence this decision.

Under Australian law, all employees (male and female) are entitled to up to 52 weeks of unpaid leave from their employer when they have a child.[138] But paid parental leave policies tend to be gender-targeted – including the government-funded scheme.[139] Most provide very little incentive or opportunity for parents to share the primary carer responsibilities.

In Australia, women are much more likely than men to take parental leave (Figure 4.4 on the following page) – and women take leave for longer, typically about six months.[140] Most women who are employed

135. Baird (2019). Only about a quarter of Australian mothers and fathers agree or strongly agree that the traditional male breadwinner and female homemaker division of labour is better. And about 80 per cent agree that household and caring responsibilities should be shared equally if both parents work: Baxter (2014).
136. The University of Melbourne 'Work and Care in the Time of COVID-19' survey was conducted over three weeks in May, with 2,722 responses from dual-income heterosexual households. Women were still picking up more of the domestic workload than men, but extra childcare by men narrowed the gender gap on that front: Craig (2020) and Daniel (2020). See also Hand et al (2020).
137. WGEA (2017a); K. Jones and Wilcher (2019); Karageorge (2019); and Broadway et al (2016).
138. Employees must have completed at least 12 months of continuous service with their employer. Couples are entitled to no more than 24 months of leave between them and a maximum of 8 weeks of concurrent leave: Fair Work Ombudsman (2020a).
139. Baird and O'Brien (2015).
140. The median total length of leave taken (paid, unpaid, or a mix) by women with a child under 2 who were employed while pregnant is 26 weeks: ABS (2018b).

while pregnant take at least some paid leave, but most also take unpaid leave.[141]

The Commonwealth Government offers paid parental leave that explicitly identifies a primary and secondary carer. The primary carer is eligible for 18 weeks of Parental Leave Pay at minimum wage, in addition to any employer scheme.[142] The secondary carer leave, called Dad and Partner Pay, is two weeks at minimum wage and cannot be taken alongside paid leave from an employer.[143]

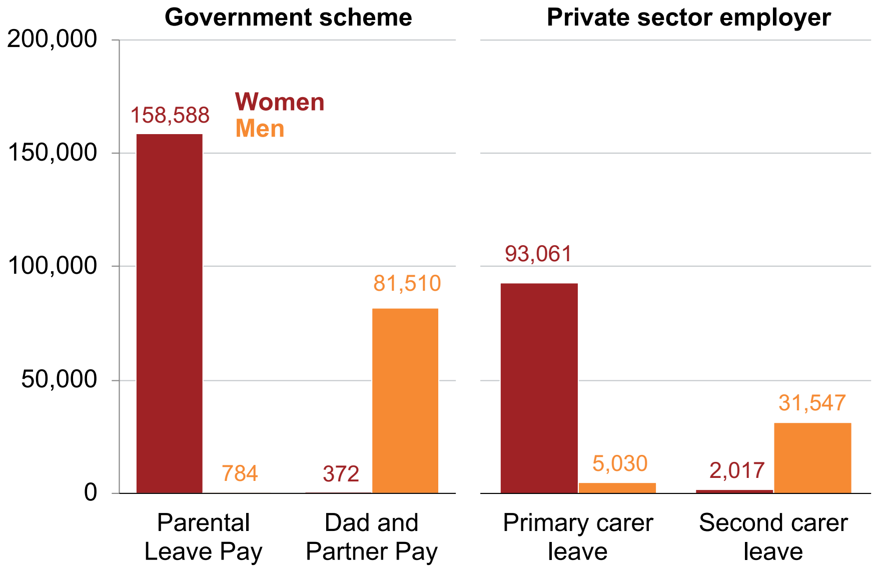
Despite its name, Parental Leave Pay is very much targeted to mothers.[144] It is explicitly for 'the birth mother of a newborn child'[145] – although she can transfer part or all of her leave to the father or her partner under certain conditions.[146]

Almost all Parental Leave Pay recipients are women (99.5 per cent) – only 6,320 fathers have received the primary carer payment since it was introduced in 2011.[147]

141. Three-quarters of women with a child under 2 who were employed while pregnant took paid leave, and the median length of paid leave was 16 weeks. Two-thirds took unpaid leave, and the median length of unpaid leave was 18 weeks. About half took both paid and unpaid leave: ABS (2018b).
142. From 1 July 2020, 12 weeks of this entitlement must be taken in a single block at any time within the first 12 months after the birth, and the remaining six weeks can be taken at any time before the child turns 2: Parliamnet of Australia (2020).
143. The rules say they must be on unpaid leave, although an employer top-up payment is not considered paid leave for the purposes of Dad and Partner Pay eligibility: Services Australia (2020a).
144. Baird and O'Brien (2015).
145. Eligibility is specific to the birth mother, the adoptive parent, or another person caring for a child under exceptional circumstances. The father or partner is not directly eligible, but the birth mother can transfer her leave to them: Services Australia (2020b).
146. Income and work eligibility requirements still apply to the transferee, and leave must be taken in a continuous block, which limits sharing. The partner of the child's other legal parent is also able to receive a transfer of Parental Leave Pay.
147. All male recipients of Parental Leave Pay between 2011-12 and 2018-19 (DSS data (2020) provided on request).

Figure 4.4: Most parental leave – and almost all primary carer leave – is taken by women

People accessing leave, by gender and scheme, 2017-18



Notes: There may be substantial overlap among those accessing government-funded 'Parental Leave Pay' (LHS) and those taking paid or unpaid leave from their private sector employer (RHS). The government scheme for primary carers was designed to enable this.

Sources: ABS (2019c); and DSS data (2020) provided on request.

Dad and Partner Pay is targeted to fathers, as the name suggests. It has almost exclusively been taken by men but has only half the uptake of Parental Leave Pay (Figure 4.4).[148]

Employer schemes similarly encourage a single primary carer. About half of employers (49 per cent) offer paid parental leave, and 44 per cent offer paid leave for secondary carers (Appendix B). While some employers provide generous schemes for both mothers and fathers,[149] very few men take primary carer leave from their employer[150] and schemes for secondary carers are generally minimalist, with average paid leave of just 8 days.[151]

If there is very little paid leave available to the father or partner, the mother almost always becomes the primary carer for the entire period of leave. And this can lock in behaviour well beyond the leave period. As journalist Annabel Crabb explains:

148. DSS (2019). It is easy to see why Dad and Partner Pay has lower uptake – two weeks may not be worth the hassle, and the requirement to take unpaid leave may mean that many prefer to use annual leave instead (if they choose to take leave at all).
149. For example, Accenture and Baker McKenzie offer 18 weeks at full pay, Telstra and Stockland offer 16 weeks, and Medibank offers 14 weeks, available to both parents. Stockland also provides on-site childcare facilities: WGEA (2017b). Most federal government departments offer maternity leave of 14-to-16 weeks at full pay (or 28-to-32 weeks at half pay), but usually only 2 weeks for fathers/partners: CPSU (2016). Some universities offer paid maternity leave of 6-to-9 months, but again, very little paid leave for fathers.
150. Only 5 per cent of parents accessing employer-funded primary carer leave are men (Figure 4.4). This is very low given about half of all employers offer primary carer leave, and in theory, both parents could take primary carer leave from their respective employers at different times. Such low uptake suggests that even where employer schemes exist, they are targeted to the mother (for example by offering a narrow time-frame for use, or by linking the employer scheme to the government primary carer scheme).
151. WGEA (2018).

Box 8: Australia's government-funded parental leave scheme increases women's workforce participation

Australia's parental leave scheme was introduced with the specific aim to 'extend mothers' time away from paid work following a birth, while increasing their lifetime attachment to the labour force'.[a]

An evaluation of Australia's paid parental leave scheme, conducted between 2010-2014, found that more mothers were out of the workforce in the first 18 weeks after birth, but more were back in the workforce 12 months after birth, than before the scheme was introduced.[b]

The biggest increase in workforce participation was among low-income mothers, partly because they were less likely to be eligible for any paid parental leave before the government scheme was introduced.[c]

a. Martin et al (2014).
b. Ibid.
c. Big effects were also seen for those not eligible for employer-provided paid leave, for self-employed women, and for women on casual contracts: Martin et al (2014) and Broadway et al (2016).

> The person who takes the parental leave invariably becomes the person who knows more about nappy-changing, more about which food the kid likes, more about nap times and play dates and which kids at the park have nut allergies.[152]

Making paid parental leave available for both parents can foster a more equal division of caring responsibilities and set up habits for life (Section 4.4).[153]

4.3.2 Flexible work has long been the mother's domain

Before the pandemic, few people worked from home or worked flexibly. Yet these 'alternative' working arrangements were always common among working mothers with young children.

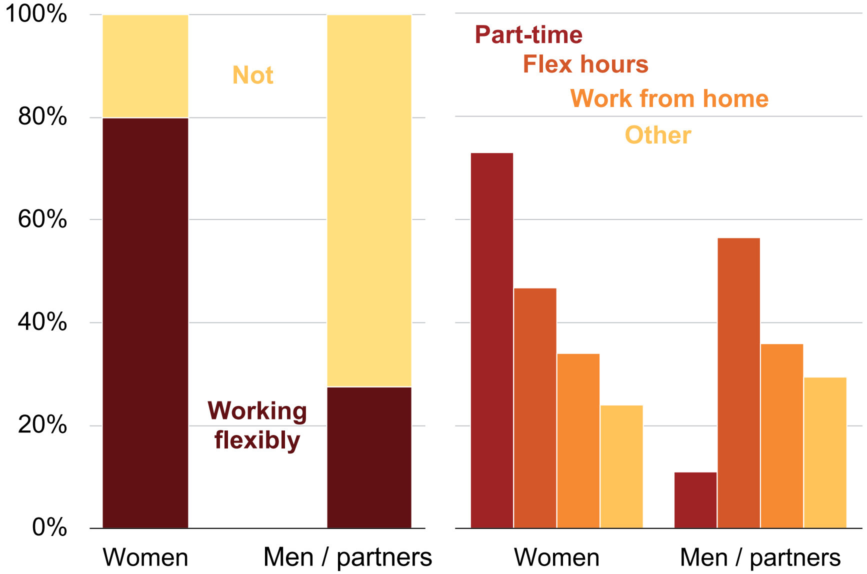
Women with young children are much more likely to be working flexibly – part-time or from home, for example – than men with young children. About 80 per cent of mothers with a child under 2 who had returned to work were using some form of flexible working arrangement to manage caring responsibilities, compared to 28 per cent of fathers and partners (Figure 4.5).[154]

The difference in working part-time is particularly stark. More than three-quarters of women with a child under 2 who work flexibly are working part-time, compared to 11 per cent of men (Figure 4.5). And the low proportion of men working part-time holds regardless of how much the woman is working.[155]

152. Crabb (2019).
153. WGEA (2017a), Parents at Work (2019) and Work and Family Policy Roundtable (2019); see also Section 4.4.
154. ABS (2018b, Tables 15 and 24).
155. Even in couples where the mother is working full time, only 9 per cent of fathers work fewer than 35 hours a week: ABS (ibid, Table 20). And this has barely changed in more than a decade, with only 7.6 per cent of fathers with an infant working less than 35 hours back in 2004: Baxter et al (2007).

Figure 4.5: Women make much more use of flexible working arrangements, and even among those who work flexibly, women are more likely to work part-time

LHS: Parents with a child under 2, by whether flexible work arrangements were used to assist with care of child (if employed). RHS: Type of flexible working arrangement if working flexibly



Notes: The survey data are collected for women with a child under 2 and their partner. The 'other' category includes job sharing, leave arrangements, and shift-work. 'Part-time' hours are not specified in the survey question.

Sources: ABS (2018b, Tables 15 and 24), plus an ABS data request.

In a 2019 survey of 6,000 Australian parents and carers, more than half agreed that 'employers are less likely to support men to take time off to care for family than women'.[156] Flexible working arrangements are more readily available to women than to men, partly because of the persistent belief – held by workers and employers alike – that 'flexible work is for women'.[157]

In families with a child under 2, 40 per cent of working fathers and partners reported that 'flexible work arrangements were not available to use', compared to only 7 per cent of working mothers.[158]

A major 2012 study found that Australian mothers with a child under 5 were much more likely to request a change to their work arrangements (43 per cent) than fathers with a child under 5 (20 per cent).[159] Surprisingly, men's requests showed little variation by parenting status – in fact, studying was the main reason for men making a request, whereas childcare was the main reason for women.[160] While most requests for flexibility were fully granted, men were more likely to have their requests refused (17 per cent) or only partly granted (21 per cent) than women (10 per cent and 18 per cent respectively).[161]

If part-time work is seen – by workers, employers, and society at large – to be the almost exclusive domain of women, then it entrenches the family division of labour that was established immediately post-birth into a long-term pattern.

156. The inaugural National Working Families Survey: Parents at Work (2019).
157. Parents at Work (2019); and Crabb (2019).
158. This is not necessarily gender discrimination by employers; it may be that mothers are less likely than fathers to return to workplaces where flexibility is not available. Fathers were also much more likely to report that they 'did not know if flexible work arrangements were available to use' (14 per cent) compared to mothers (2 per cent): ABS (2018b, Tables 18 and 24).
159. Skinner et al (2012, Table 16).
160. Ibid (p. 66).
161. Ibid (pp. 67–68).

The COVID-19 crisis provides a rare opportunity to reset that social norm. Many employers have now adopted working-from-home and telecommuting options for all employees for the first time. In May 2020, 60 per cent of Australians were working from home, compared to 7 per cent pre-COVID.[162]

Where flexible and remote work is feasible, it can enable people to participate more fully in the workforce, and to live where they choose, not necessarily where they work.

Employers should continue to offer their employees these options where possible beyond the crisis. Those that do will have access to a much larger talent pool and could boost employee productivity, satisfaction, and retention too (Appendix B).

Policies on their own are not enough. Workplace culture and social expectations play a much bigger role in take-up of flexible and remote work – but this is one area where expectations may have permanently changed.

4.4 Lessons from international experience

Governments and employers can do more to enable families to choose how they share employment, caring, and household responsibilities. Government-funded parental leave is the main policy lever available – and there is a lot that Australian policy makers can learn from international experience in designing parental leave.

Overseas, the workforce participation of mothers is considerably higher in countries with both a strong paid parental leave scheme and available, affordable childcare.[163]

162. The *Life during COVID-19* survey ran from May 1 to June 9 2020 and had 7,306 participants from around Australia: Hand et al (2020).
163. Martin et al (2014); Vuri (2016); and Kalb (2018).

All OECD countries except the US have some form of government-funded paid parental leave, and most have a partner/father-specific leave entitlement.[164] But schemes vary widely in terms of length, flexibility, and the level of payment.[165] Around the world, parental leave tends to be used predominantly by mothers and remains mainly targeted to women.[166]

Australia's parental leave offering measures up poorly in terms of length of paid leave and rate of pay (Figure 4.6).[167] This may explain why the take-up of government leave is so low in Australia compared to other OECD countries – for both women and men (Figure 4.7 on the following page).

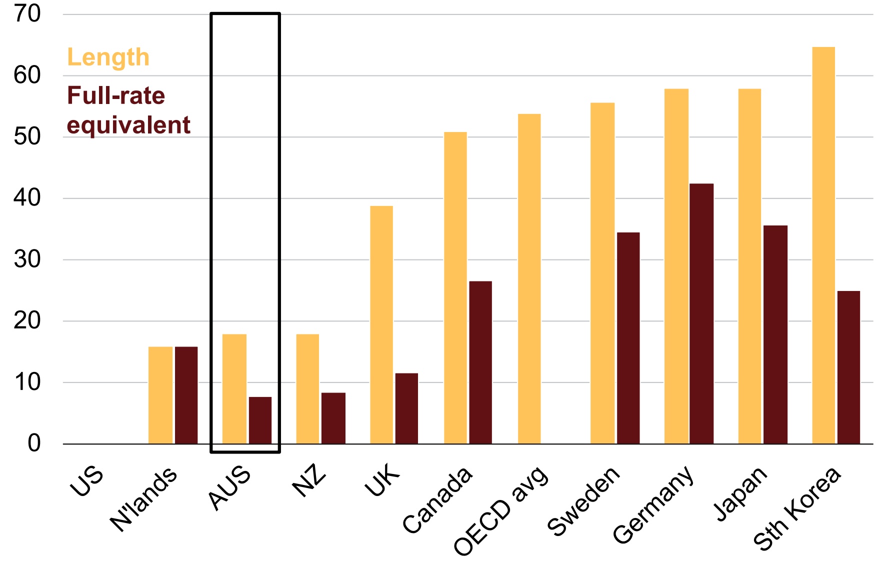
4.4.1 Daddy leave (if it's taken) helps improve the sharing of unpaid care

Many countries have policies that set aside a significant period of parental leave for fathers and partners (Figure 4.8 on page 48), sometimes referred to as 'daddy leave'.

The rationale for such schemes is to provide fathers with the opportunity to spend time with their young children. A period of time as the primary carer allows fathers to develop parenting skills early on that enable them to more actively co-parent,[168] and over time supports more equal sharing of caring and household responsibilities.[169]

Figure 4.6: Australia has one of the shortest and least-generous paid leave schemes for mothers in the OECD

Total paid leave available to mothers, in weeks, as at 2018



Notes: 'Full-rate equivalent' is the equivalent number of weeks of paid leave if the benefit was paid at 100 per cent of average national full-time earnings. Not available as an average for the OECD. Selection of comparator countries as per Daley et al (2019).

Source: OECD (2016, PF2.1).

164. OECD (2019).
165. See Kalb (2018).
166. OECD (2016) and Baird and O'Brien (2015). Australian primary carer leave is particularly skewed towards women (OECD (2016, PF2.2)) – with men making up only 0.4 per cent of users.
167. Kalb (2018).
168. Rehel (2013) reports a shift from a 'manager-helper' dynamic to co-parenting.
169. Several European studies have found more equal sharing of household and/or caring responsibilities as a result of fathers taking a period of extended parental leave: Rege and Solli (2013), Arnalds et al (2013), Schober (2014), Almqvist

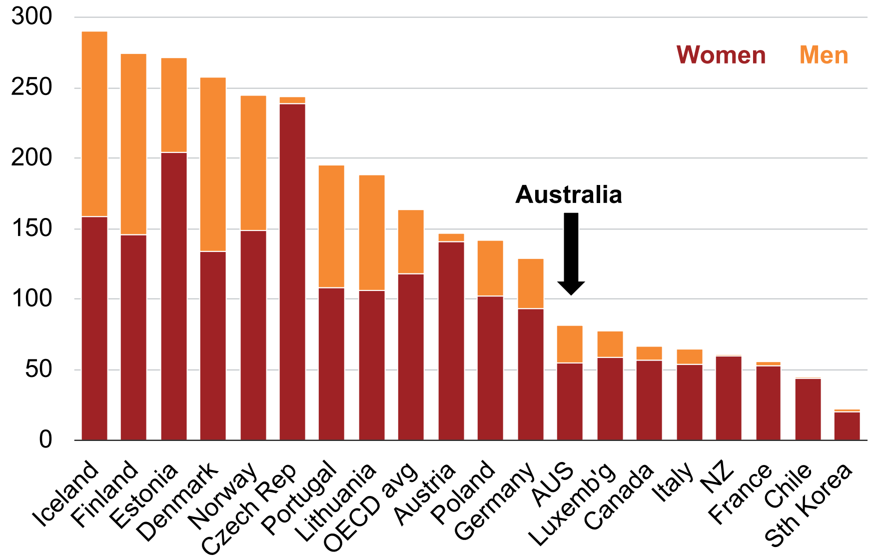
A recent analysis of 35 countries found that countries with more generous parental leave did not necessarily achieve a more equal division of household labour, but that countries with paid leave reserved for fathers did.[170]

Take-up of these schemes by fathers varies across countries (Figure 4.8). Fathers are more likely to use the leave when policies offer an individual 'use-it-or-lose-it' entitlement for an extended period (more than two weeks) and with high income replacement (50 per cent or more of earnings).[171]

But even where generous paid leave for fathers is available, expectations that men and women should have different roles in employment and care can still be a barrier – this is particularly evident in Japan and South Korea where, despite generous schemes, take-up is still low.[172]

Figure 4.7: Use of government parental leave is low in Australia – for both women and men

Number of users/recipients per 100 live births, 2016



Notes: In many countries there are more than 200 users per 100 live births, because parents whose babies were born in the previous year are still on leave, as well as adoptions and stillbirths. Sweden is not included because it dwarfs all other countries (380 female recipients and 314 male recipients). Canadian data does not include Quebec. Dad and Partner Pay is included for Australia, and similar schemes are included for Finland, Estonia, Denmark, Lithuania, and Poland.

Source: OECD (2016, PF2.2).

and Duvander (2014) and Bunning (2015). Studies in the US and UK also found that fathers who took long leave were more involved in childcare beyond the leave period Nepomnyaschy and Waldfogel (2007) and Huerta et al (2014)). In Australia, Hosking et al (2010) found that fathers taking longer leave around the time of childbirth increased their involvement only on weekends. But Huerta et al (2014) found that Australian fathers taking longer leave were more likely to be involved in childcare when the child was 2-to-3. Dad and Partner Pay was not available at the time of either of these studies, so leave taken was typically annual leave.

170. DeRose et al (2019); see also DeRose (2019). In countries with 'daddy leave', 34 per cent of couples with children shared household work equally, compared to 28 per cent in countries without daddy leave, and this difference was statistically significant.

171. O'Brien (2009) compares 24 countries and finds fathers' use of leave is greatest when high income replacement (50 per cent or more of earnings) is combined with extended duration (more than two weeks) and when their access to leave is an individual rather than family entitlement (a 'daddy quota').

172. See Figure 4.8; Brinton and Mun (2016), Mun and Brinton (2015), Salmi and Lammi-Taskula (2014), Morrone and Matsuyama (2010) and Whitehouse et al (2007a).

4.4.2 The effects of daddy leave on female workforce participation are not yet clear

Few studies have been able to link fathers' parental leave use to employment outcomes for women – perhaps partly because schemes have only recently been introduced in many countries, so there has been little opportunity as yet for long-term evaluation.

There are however some positive signs emerging from the Quebec parental leave scheme, introduced in 2006. A 2014 evaluation showed both increased sharing of household labour and increased female workforce participation compared to pre-reform and compared to other Canadian provinces without the scheme.[173] On average, women exposed to the scheme[174] were doing an extra hour of paid work per day, and earning an additional $5,000 per year, while men exposed to the scheme were doing 40 mins less paid work per day[175] – partly but not fully offsetting the increase in female workforce participation.

Elsewhere, there is mixed evidence from the Swedish scheme, where a month of leave reserved for fathers was introduced in 1995 and a second month was introduced in 2002. A study looking at the long-term impacts on income development for mothers and fathers found no significant effects for the population at large but did find a significant improvement for first-time mothers on low incomes.[176] Sweden already had one of the highest rates of female workforce participation in the

173. Patnaik (2014).
174. The study was not able to identify who had taken the parental leave, so instead it compared outcomes for parents aged 18-50, with a child between 1 and 8 years old, living in the Quebec region before and after the introduction of the scheme. It also compared outcomes for parents in Quebec to similar parents in other provinces: Patnaik (ibid).
175. A reduction in fathers' annual earnings was also observed (about $2,000 on average for the whole sample and $11,000 on average for fathers with a child under 3), but neither result was statistically significant: Patnaik (ibid).
176. Duvander and Johansson (2015).

Figure 4.8: International parental leave schemes targeted to fathers

Country	Length (weeks)	Payment (% of income or flat-rate)	Father take-up
Denmark	32^	100%	High
Norway	15-19*	100% or 80%	High
Iceland	13	80%	High
Canada (Quebec)	5	70%	High
Luxembourg	16-80*	100%	Medium
Belgium	16	FR $1,215 AUD eq. monthly	Medium
Sweden	12	78% (plus sharing bonus)	Medium
Germany	8	67%	Medium
Finland	6	Combination	Medium
Portugal	4	100%	Medium
Korea	52	80%	Low
Japan	52	67%	Low
France	24	FR $636 AUD eq. monthly	Low
Croatia	8	100%	Low

*Notes: ^ Each parent is entitled to 32 weeks; however, each family can claim cash benefit only for a maximum of 32 weeks. * Length of leave varies depending on payment option chosen – including part-time payment spread over a longer period.*

Source: Grattan analysis of International Network on Leave Policies and Research (2019) and OECD (2019).

OECD before the scheme was introduced – with about 90 per cent of women aged 25-54 in the labour force in the 1990s and today.[177]

4.5 Summing up: Australia still has a long way to go

The international evidence suggests Australia's parental leave scheme ideally would be longer, higher paying, and include a larger 'use-it-or-lose-it' component for the father. This would support more equal sharing of caring and promote attachment to the workforce.[178]

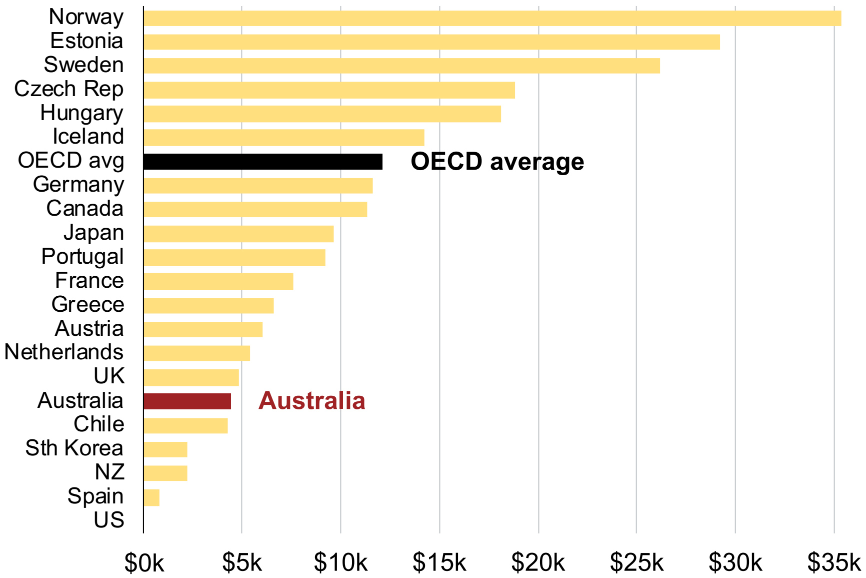
Australia currently invests $2.3 billion per year[179] in Parental Leave Pay and Dad and Partner Pay, which is very small compared to other OECD countries (Figure 4.9).

A best-practice model similar to Iceland's (Box 9 on the next page), would be 3 months of reserved leave for each parent plus 3 months to share between them, paid at 80-to-100 per cent of salary. This would encourage both parents to develop their parenting skills early on, and over time should promote workforce participation and improve the sharing of paid and unpaid work. However, a scheme with government payments based on a proportion of salary is unlikely to be politically palatable in Australia because of the very high cost and the fact that the biggest beneficiaries would be high-income households.[180]

Even if Australia adopted such a scheme but had a flat rate of payment 1.5-to-2 times the current rate, the scheme would still cost 3-to-4 times the current investment in parental leave (an extra $5 billion to $7 billion per year).[181] The evidence suggests making childcare more affordable would be a better use of funds to support female workforce participation (Chapter 5). But Australia could still take steps towards a more equal model for parental leave and flexible work, even with a relatively small investment (Chapter 6).

Figure 4.9: Australia invests very little in parental leave

Public expenditure on maternity and parental leaves per live birth, in USD 2010 PPP, 2015



Source: OECD (2016, PF2.1).

177. OECD (2018a).
178. A longer period of parental leave may also have child health benefits, including enabling women to breastfeed for longer, as per WHO recommendations. See also Work and Family Policy Roundtable (2019) and AHRC (2013).
179. $2.3 billion in 2018-19: DSS (2019).
180. Almost all Australian government payments are strictly means-tested, so a cash payment that is proportional to salary would be a radical departure. Non-means tested payments proposed in the past, such as Tony Abbott's proposal for 6 months of parental leave for primary carers paid at 100 per cent of salary, received strong pushback: e.g. see Macklin (2013).
181. The current investment of $2.2b in Parental Leave Pay covers 18 weeks at minimum wage. Extending the scheme to cover 39 weeks at 1.5x minimum wage would cost about $7b (or $9.5b at 2x minimum wage). This assumes father take-up of the new scheme matches mothers' current take-up of Parental Leave Pay. If actual take-up were lower, then the scheme would be much cheaper, but also less effective.

Box 9: Equal rights to parental leave boosted shared parenting in Iceland

Iceland introduced equal rights to paid parental leave in 2000, with 3 months paid leave available to each parent and a further 3 months for them to divide as they wish. The scheme was introduced to give families more choice in how they organise family life and employment, and to ensure that children enjoy the care of both parents.[a]

Take-up is high: about 90 per cent of new fathers take leave each year, and about 15-to-20 per cent use some of the shared entitlement. Since the scheme's introduction, care is much more likely to be equally shared, particularly after the child's first year.[b]

a. Arnalds et al (2013).
b. 55 per cent of married parents reported equal sharing of care 13 months after birth, compared to 33 per cent before the scheme: Arnalds et al (ibid).

5 Options to make childcare more affordable

Making childcare more affordable is the single most effective policy lever the Australian Government has available to boost women's workforce participation.

This chapter examines a range of options to deliver cheaper childcare, including boosting the existing subsidy, free childcare for second and subsequent children, a universal (non-means tested) subsidy, and making childcare tax deductible.

We recommend the government increase the existing subsidy from 85 per cent to 95 per cent, with a simpler, flatter taper as household incomes increase. This would cost the budget an extra $5 billion a year – less than some of the alternative options – and deliver big payoffs to families and the economy.

Under our recommended model, 60 per cent of families would pay less than $20 a day per child for childcare. We estimate women with young children would do 13 per cent more hours of paid work, and GDP would increase by about $11 billion. This is similar to the economic boost estimated from cutting the company tax rate from 30 per cent to 25 per cent – and our childcare plan will benefit the economy sooner.

5.1 Cheaper childcare is the best bang for buck to increase female workforce participation

The childcare subsidy is the single biggest policy lever the Commonwealth Government has to boost the workforce participation of women with children.

As we showed in Chapter 1, many Australian women, particularly those with children, are employed 2-to-3 days per week. And Chapter 2 highlighted the financial barriers that discourage this group from increasing their work hours. Out-of-pocket childcare costs are the most significant contributor to financial disincentives to work for women at almost all income levels. The Commonwealth Government directly influences the net costs to families of childcare through its Child Care Subsidy.

In 2018, the Government simplified the subsidy scheme, combining two previous payments into a single Child Care Subsidy. The scheme was also more directly targeted to lower-income working families (see Box 10 on page 53). But despite these structural improvements, overall government investment in childcare has changed little. Now is the time to increase government investment in childcare.

Other policy changes could also help increase workforce participation of women with children – including reforms to ensure childcare availability and quality, and a more equitable paid parental leave scheme. These supporting policies and their design are discussed in Chapter 6.

5.2 How to make childcare more affordable

There are several ways the Commonwealth Government could make childcare more affordable. This section lays out five options, from the incremental to the more radical, and evaluates each option against the following criteria:

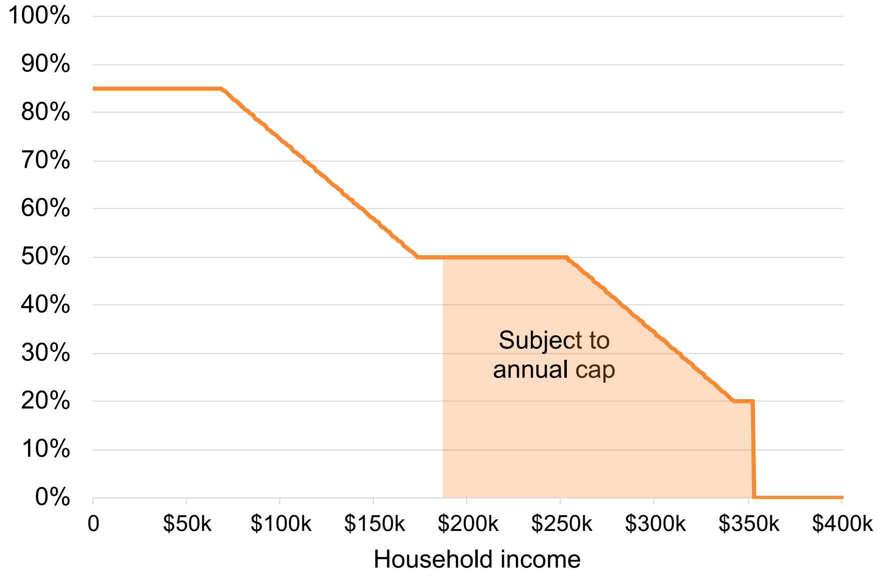
- **How much does it reduce workforce disincentive rates?** Chapter 2 showed that many parents face workforce disincentive rates of more than 80 per cent on their fourth and fifth day of paid work, and for some, more than 100 per cent. These represent a very large deterrent to paid work. Reforms should aim to reduce most workforce disincentive rates to below 60 per cent, and the remainder to below 80 per cent.

- **How much does it cost?** A reform that costs the budget less is preferable, all other things being equal. While ultimately it is a question of government priorities, packages that cost more than $10 billion (0.5 per cent of GDP) a year are more likely to be rejected as incompatible with current fiscal strategy.[182]
- **What's the economic impact?** A reform that enables a bigger increase in workforce participation for a given cost will give more economic 'bang for buck'.
- **Is it simple for parents to understand?** If parents can clearly see the additional childcare cost involved in an extra day's paid work, it improves their ability to make choices in their family's interest. And any change that reduces the mental load of busy families is inherently valuable.
- **Is it straight-forward to administer?** Some options generate greater administrative complexity and risks than others.
- **Is it fair?** A reform that provides benefits to families across the income distribution and particularly helps the vulnerable is more likely to be perceived as fair, and therefore likely to be more politically palatable.

We take the current childcare subsidy design (see Figure 5.1) as a starting point and tackle the features that cause very high disincentives to work. These features include the subsidy level,[183] the taper rate,[184] the annual cap,[185] and the cut-off.[186]

Figure 5.1: The current Child Care Subsidy features steep tapers, an annual cap, and a cut-off

Child Care Subsidy percentage



Source: Grattan analysis.

182. Before the pandemic there had been no budget initiatives costing more than $10 billion a year in recent budgets, and successive Treasurers had kept a tight focus on restraining spending and consolidating the budget position. While the Commonwealth Government has helped to cushion the impact of COVID-19 with an unprecedented fiscal injection of more than $160 billion, almost all of this is temporary.
183. See Figure 5.1 for subsidy levels by household income.
184. The taper rate is the rate at which the childcare subsidy level decreases as household income increases. It can be very important because extra earnings can change the level of subsidy a household gets, and this increases the cost of all previous days of childcare. Currently the subsidy drops by 1 per cent for an extra $3,000 in family income, over certain income ranges.
185. Currently $10,373 and applies only to households with income higher than $188,163.
186. The subsidy drops to zero for families with income higher than $352,343.

We test the following options:

1. Lifting the childcare subsidy to 95 per cent, smoothing the taper rate, and removing the annual cap: the '**subsidy boost**' option
2. As per the subsidy boost option, but also making childcare free for the second and subsequent children: the '**second child**' option
3. As per the subsidy boost option, but basing it on the second earner's income: the '**second earner**' option
4. A high, non-means-tested subsidy: the '**universal**' option
5. Tax-deductible childcare: the '**tax-deductible**' option

The performance of these options against our suggested criteria is summarised in Figure 5.2 and discussed in this chapter. More detail of the methodology used for estimating the cost and impact of each option is contained in Appendix C. Appendix D provides further analysis of the options and their effects on workforce disincentive rates and payments.

These options do not include any changes to the Family Tax Benefits (FTB A and FTB B). Winding back FTB B for couples would improve work incentives a little, particularly for women not currently in the workforce (Box 11 on page 55). FTB changes are difficult politically[187] but would provide an opportunity to offset about $2 billion of the cost of the proposed scheme.[188]

Box 10: The 2018 Child Care Package

Two previous childcare payments were combined into a single Child Care Subsidy from 1 July 2018. The package involved an increase in the subsidy available to most low-income families,[a] and a decrease for most high-income families,[b] along with a more stringent activity test.[c]

The scheme was originally announced as a boost to the subsidy,[d] but a cap and a cut-off point were added during parliamentary negotiations which made the scheme less generous.[e] Government subsidies for childcare have been about $8 billion per year since 2015-16, including in the first year of the new Child Care Subsidy (2018-19). The number of children in approved childcare services grew 2 per cent in the first year of the new subsidy, on par with average growth since 2014.

A preliminary review of the package found that while the proportion of families paying more or less for childcare roughly offset each other, low-income families were more likely to report they were paying less than before.[f] More families reported an *increase* in work hours (rather than a decrease),[g] despite more families *reducing* their use of formal care.[h] A second review of the subsidy was scheduled for 2020,[i] but the subsidy was recently temporarily upended in response to COVID-19.[j]

Notes: (a) A family with income of $65,000 using 40 hours of childcare per week have 85 per cent of their childcare fees subsidised under the 2018 package, compared with about 55 per cent previously: Baxter et al (2019, p. 23); (b) All families with income higher than $251,248 receive a lower proportional subsidy under the 2018 package than previously, albeit with a higher annual cap; (c) To be eligible for the Child Care Subsidy, both parents must complete a certain number of hours of approved activities, such as paid work, study, or volunteering: Department of Education, Skills and Employment (2020a); (d) Porter (2015); (e) K. Murphy (2017) ; (f) Baxter et al (2019, pp. 86–87); (g) Baxter et al (ibid, p. 89); (h) Baxter et al (ibid, p. 88); (i) Brinsden (2020); (j) Box 3 and Klapdor (2020).

187. Coorey (2015); and Creighton (2018).
188. The Commonwealth Government currently spends about $4 billion per year on FTB B. If we assume couples receive about half of this, then the savings would be about $2 billion: Grattan analysis of households' potential eligibility based on ABS (2019a).

Figure 5.2: Options for reform – the pros (darker) and cons (lighter)

Option	Reduces high WDRs	Cost	Economic impact	Simple for parents to understand	Simple to administer	Perceived as fair
Subsidy boost: lift the subsidy to 95%, flatten the taper	Most WDRs under 70%	$5b	13% hours, $11b GDP	One taper, no annual cap	Same information required as under current system	Similar distribution of benefits to current system
Second child: lift the subsidy, 100% for second child	Most WDRs under 60%	$7b	16% hours, $15b GDP	Can be unclear which child gets a full subsidy	Need to collect information about other children in care	Transfers more to families with multiple children in care
Second earner: lift the subsidy, base it on second-earner income	Most WDRs under 60%	$11b	23% hours, $19b GDP	Impact of extra earnings unclear if it's not certain which parent will be the higher earner	Need to collect information about both parents' expected earnings	Transfers more to high-income families than current system. Favours the breadwinner model.
Universal: Universal 95% subsidy	Most WDRs under 60%; many under 40% even with two young children	$12b	27% hours, $27b GDP	Net childcare cost is constant across days, unaffected by income	Fewer questions required than under current system	Transfers more to high earners than current system
Tax-deductible: Deductions instead of a subsidy	Increases WDRs	Saving	Negative	Unclear how much childcare cost will be subsidised until tax time	Administered through income tax return	Most families, and especially low-income families, are worse off

Notes: Darker colours indicate the option more strongly meets the criteria. Grey indicates the option does not meet the criteria at all. WDRs = workforce disincentive rates. Increase in hours refers to 'marginal worker' and single-parent hours in households with at least one child under 6. A 'marginal worker' is the partner in a couple who works fewer hours.

Source: Grattan analysis.

5.2.1 The ‘subsidy boost’ option: lift the childcare subsidy, flatten and simplify the taper, remove the annual cap

Under the subsidy boost option (Figure 5.3):

- The maximum childcare subsidy would be increased from 85 per cent to 95 per cent of the childcare fee, up to the current hourly rate cap.
- The taper would be flatter, with the subsidy dropping by 1 per cent for every extra $5,000 of household income (rather than 1 per cent for every extra $3,000, as at present). It would apply to all family incomes higher than $68,163.[189]
- The annual cap would be removed.

This option would bring most workforce disincentive rates down to less than 70 per cent, although many women would still face workforce disincentive rates of more than 60 per cent for working a fourth or fifth day. With the removal of the annual cap, and the simpler taper rules, parents would be better able to understand the impact of additional earnings on their childcare costs.

This option would cost about $5 billion a year,[190] and potentially deliver a GDP boost of about $11 billion a year.[191]

189. This threshold would be indexed with inflation.
190. About half of this cost would result from additional subsidies on childcare currently being used, while the other half would result from additional use of childcare.
191. The real cost to society would be less than the cost to the Commonwealth budget. The $5 billion estimated would effectively be a transfer from taxpayers to childcare users, not a net cost to society. The reform would cause a net gain to society as long as the economic benefits were greater than the ‘marginal excess burden’ of the additional tax to fund the reform. The marginal excess burden of taxation is estimated to be around 30 per cent on average, but as high as 70 per cent for some taxes: Terrill (2017, p. 33). The marginal excess burden of the proposed reform is likely to be about $2 billion, much lower than the estimated GDP boost of $11 billion.

Box 11: What about changing the Family Tax Benefit?

FTB A and FTB B support low- and middle-income families with the costs of raising a child. FTB A is paid per child and is designed to assist with the *direct* costs of children. FTB B is targeted to single-income families and is designed to help with the *indirect* costs of children – that is, to assist parents (including sole parents) who are not in paid work because they are caring for children.

Because it is targeted to single-income families, FTB B generally increases barriers to workforce participation for second earners in a couple. It also raises equity questions, because it delivers more to families where one parent works very little or not at all, than to families with the same income but with both parents working.[a] FTB B still plays an important role for single parents though.[b]

The Commonwealth Government could consider abolishing FTB B for couples, while maintaining the payment for single parents (or rolling it into the Parenting Payment for single parents). But reforming FTB A or B would not decrease the highest workforce disincentive rates women face. FTB B currently adds to the disincentive to *commence* work, but for most women it does not discourage working a fourth or fifth day, because it completely drops out by the time a second earner’s income reaches $28,197.

FTB reform may be worthwhile but, by itself, will have a much smaller impact on financial disincentives than Child Care Subsidy reform.

a. Henry et al (2010); and NCOA (2014).
b. NCOA (2014) recommended continuing to pay the maximum rate of FTB B to single parents with a child under 8.

All families would be eligible for a higher childcare subsidy. About 60 per cent of families would pay less than $20 a day per child for childcare. Families working more and using more childcare would benefit most, with many low- and middle-income families about $7,000 better off per year.

High growth in fees is an ongoing challenge to keeping childcare affordable.[192] But parents, not providers, would still be the biggest beneficiaries of a subsidy boost (Box 12 on the next page).

The subsidy boost option would be a significant incremental improvement to the existing system. It would use a similar structure to the current childcare subsidy, it would be relatively affordable, and it would be expected to provide a significant boost to the economy.

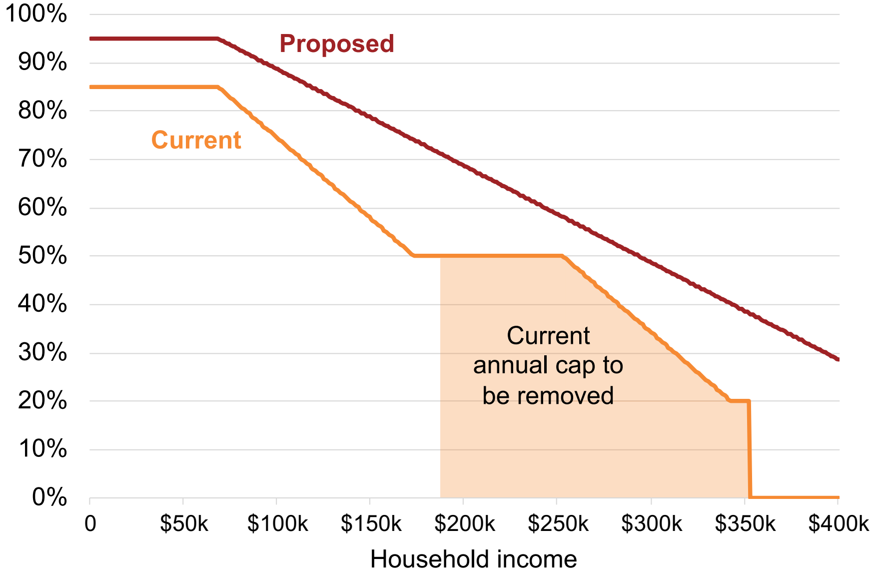
5.2.2 The ‘second child’ option: lift the childcare subsidy and increase it again for the second child

Under the second child option (Figure 5.5), the Child Care Subsidy would be structured the same as under the subsidy boost option for the first child the family has in care, but the subsidy would be 100 per cent for any additional children in care.[193]

Families with multiple children requiring childcare have the highest workforce disincentive rates. By targeting these families, the second child option would reduce most workforce disincentive rates to less than 60 per cent.

Figure 5.3: The subsidy boost option involves a higher childcare subsidy for everyone, with a flatter taper

Childcare subsidy percentage



Source: Grattan analysis.

192. Many things contribute to childcare fee growth, including supply of childcare centres, growth in the wages of childcare workers, and regulatory changes that reduce educator-to-child ratios and/or increase the qualifications and experience required of childcare workers: B. Phillips and Kalb (2017) and PC (2014).
193. The ‘first child’ for the purpose of subsidy calculation would be the child incurring the highest childcare cost. In most cases, this will be the child who is in care for the most days. For a family with one child in long-day care and another using out-of-school-hours care, the ‘first child’ will usually be the one in day care.

Box 12: Won't childcare centres just raise prices?

The price of childcare in Australia has increased faster than general prices for the past 15 years (Figure 5.4). This price growth reflects growth in the costs of inputs (mainly labour and rents), as well as changes in quality (regulatory standards). Market and regulatory settings constrain centres from 'price gouging' in response to a higher subsidy, but greater oversight from the ACCC would also help.

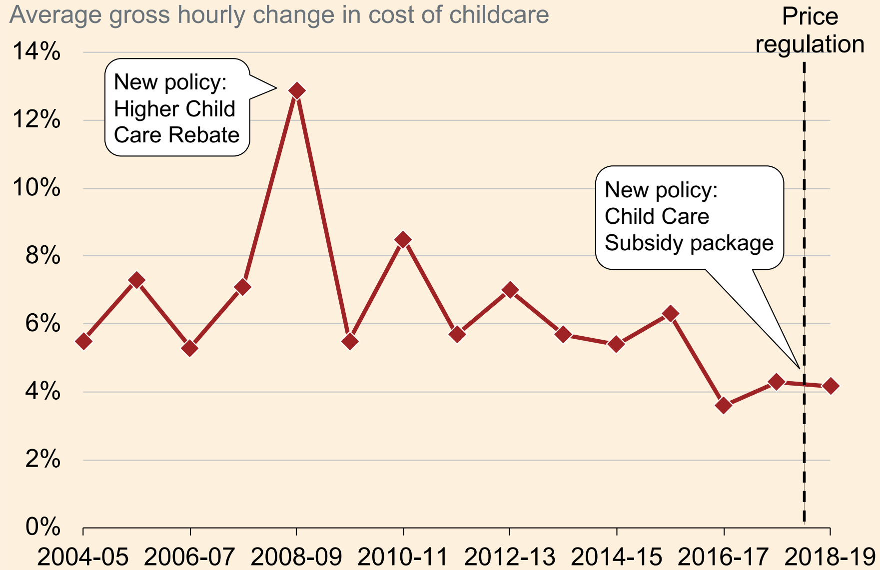
Competition between centres: The childcare sector includes a broad mix of private (48 per cent), not-for-profit (36 per cent), government-run (8 per cent), and school-based (8 per cent) services.[a] Providers set their fees independently, and most local markets support several competitors.[b] Competition may be temporarily muted in local markets if centres are capacity constrained, but this encourages new supply to come online. The ACCC has reviewed childcare centre acquisitions in many local markets and has raised concerns in only a few instances.[c]

Price regulation: Government sets a benchmark price (the hourly rate cap), which is the maximum amount it will subsidise for each hour of care. This provides 'a guide to providers and families about what a high fee might be',[d] and encourages parents to switch if their provider's fees are above the cap to avoid the higher out-of-pocket costs. Only about 12 per cent of providers charge fees above the cap.[e] Under the higher subsidy we propose, parents would have more incentive to seek out providers with fees below the cap.

Recent experience suggests that price regulation and local competition should be sufficient to reduce the scope for childcare centres to profit from a higher subsidy (Figure 5.4). While there was a significant (short-term) increase in price growth when the Child Care Rebate was increased from 30 per cent to 50 per cent in July 2008, there was no price regulation in place at that time. In contrast, fee growth was low after the more modest 2018 changes with price regulation.

Figure 5.4: Childcare prices rose faster in the year of the 2008-09 reforms (but didn't move much after the 2018-19 reforms)

Average gross hourly change in cost of childcare



Source: Department of Education, Skills and Employment (2020b).

Competition and existing price regulation should be sufficient to ensure that parents rather than providers benefit from an increase in the subsidy. But beefing up regulatory oversight would provide further insurance. An ACCC market study into the sector would highlight if there are any excessive returns in the supply chain (including landlords). This could be done in parallel to the ACCC monitoring prices for a couple of years after a subsidy boost.

Notes: (a) ACECQA (2019); (b) Three-quarters of long-day care centres are within 5km of 11+ competitors, and only 5 per cent have no competitors within 5km: PC (2014, p. 370); (c) ACCC (2020); (d) Department of Education (2019); (e) Senate Committee: Education and Employment (2019). These providers are largely concentrated in inner-city areas with very high rents: Ireland (2019).

The second child option would cost more than the subsidy boost option (about $7 billion a year) but it would also deliver a bigger boost to GDP (about $15 billion a year).

The second child option would particularly help families with more than one child under school-age.[194] This situation usually applies for only a few years at most – and these years are important to mothers' longer-term workforce participation.

This option would be more difficult to administer than the current system. To accurately estimate the appropriate subsidy for a child, a childcare centre would need to know the total cost of all other paid care being used by the child, as well as the total cost of paid care being used by all other children in the family.

The second child option would be a more ambitious reform than the subsidy boost option. By targeting families with the highest workforce disincentive rates (those with multiple children in care), the economic reward would also be greater. But most of the 'bang for buck' in this option would still come from the initial subsidy boost.

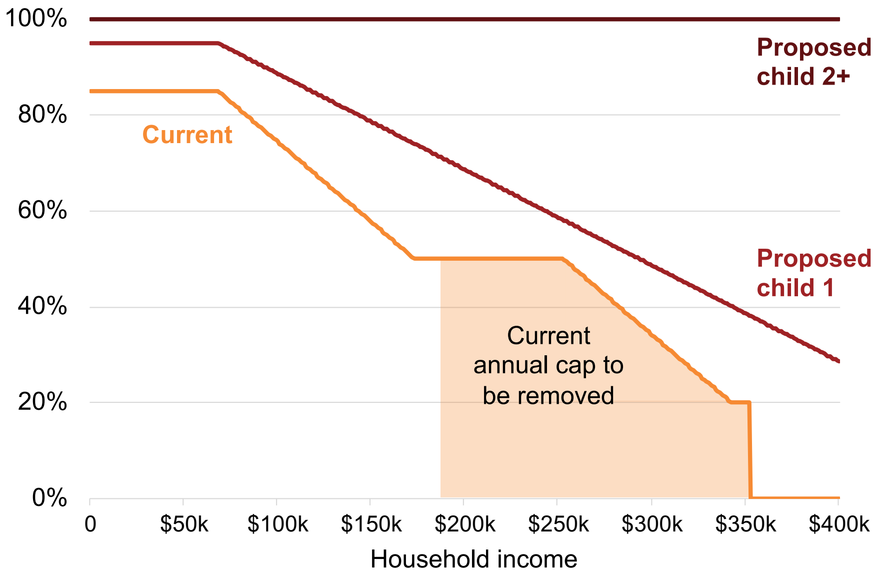
5.2.3 The 'second earner' option: lift the childcare subsidy and base it on the second earner's income

Under the second earner option (Figure 5.6), the subsidy would be based on the second earner's income rather than household income.[195]

The second earner option would result in a higher childcare subsidy for many two-parent families compared with the subsidy boost option,

Figure 5.5: The second child option involves a 100 per cent subsidy for a second child in care

Childcare subsidy percentage



Source: Grattan analysis.

194. As such it treats a family with children born close together differently to a similar family with greater spacing between the children. This could be perceived to be an equity issue.

195. For single parents, the calculation would be based on the parent's income, meaning that for single parents this option would produce the same outcome as the subsidy boost option.

particularly families with one higher earner and one lower earner. The second earner option would reduce most workforce disincentive rates to less than 60 per cent.

This option would cost twice as much as the subsidy boost option (about $11 billion a year) but it would also deliver almost twice the GDP boost (about $19 billion a year).

The second earner option could be perceived as favouring households with a 'primary breadwinner' and a 'minor contributor' over households with a more equal division of paid work. This is because it would offer the greatest benefit to families with a large differential between the incomes of each parent.

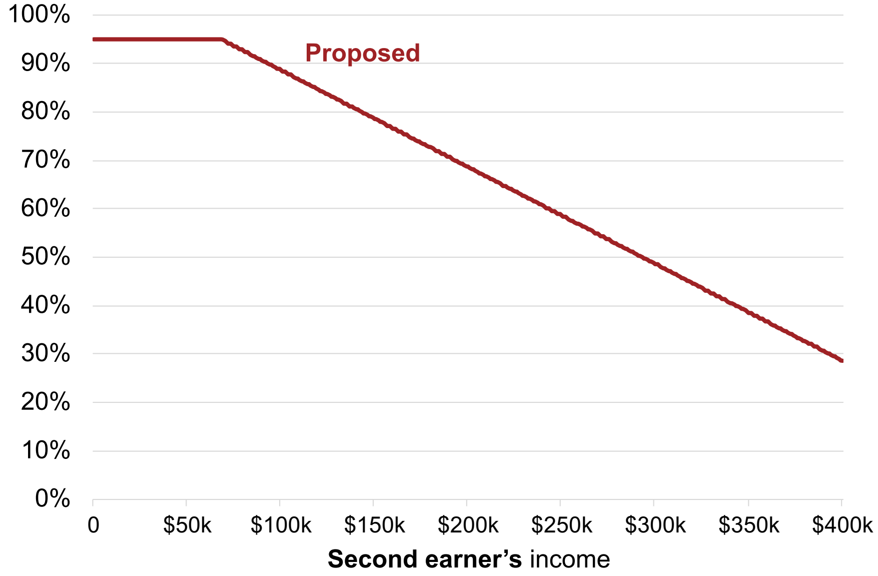
Determining the 'second earner' could also be tricky for some families, particularly as circumstances change. For example, if an extra day's paid work pushed a woman's earnings higher than her partner's earnings, the impact on the childcare subsidy may be difficult for families to calculate.

This option would also be more difficult to administer than the current system. Since the amount of subsidy payable would depend on both parents' incomes, parents would need to provide estimates of both parents' incomes rather than only an estimate of household income, for the subsidy amount to be accurately estimated and paid upfront. This would not be impossible, but nor would it be trivial.

The second earner option would be expected to provide a greater boost to the economy than either of the previous options. But the cost, complexity for parents, and potential for perceived unfairness make it less attractive overall.

Figure 5.6: The second earner option involves basing the childcare subsidy on the second earner's income

Childcare subsidy percentage



Source: Grattan analysis.

5.2.4 The 'universal' option: a universal high subsidy

Under the universal option (Figure 5.7) there would be a universal 95 per cent subsidy on all childcare, provided the family passed an activity test.[196] There would be no means testing or annual cap.

This option would have the biggest impact on workforce disincentive rates. They would fall to less than 60 per cent for most families, and to less than 40 per cent for many.

The universal option would be the simplest for parents to understand; the cost of additional childcare would be very clear. And it would be easier to administer than the current system, because it would require parents to provide less information than at present.

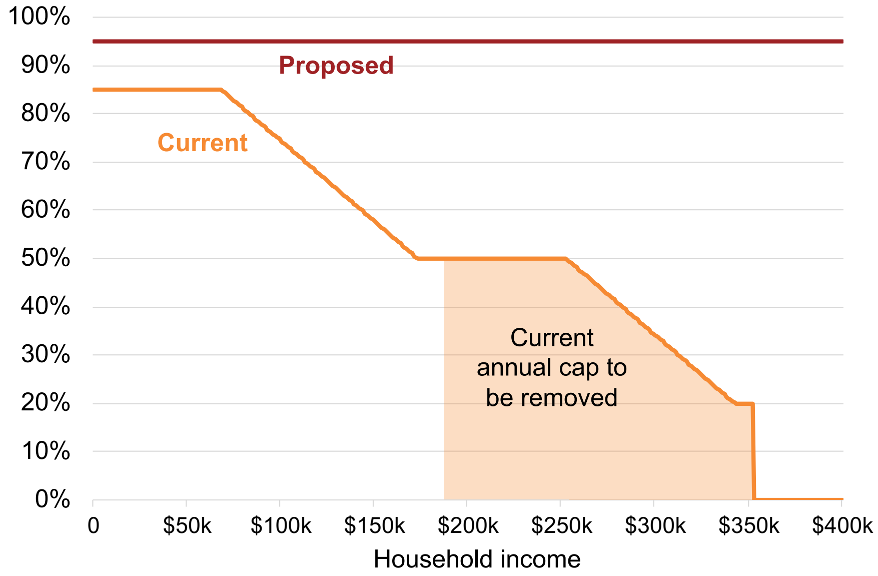
The universal option would deliver the biggest GDP boost (about $27 billion per year), but it would also be the most expensive (costing about $12 billion a year). One way to reduce the upfront cost would be to phase it in, for example starting with universal preschool and care for children aged 3 and 4.

This option 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. A family with two children and combined income of $360,000 normally receives no subsidy. Under the universal option, they could claim more than $50,000 a year in childcare subsidies if both children were in childcare five days a week. In contrast, families with a combined income of $80,000 would receive an increase of only $8,000 a year compared to the current scheme.

The universal option is clearly the most ambitious reform. By removing all means testing, it would involve a fundamental change to the nature

Figure 5.7: The universal option involves a very high, universal childcare subsidy

Childcare subsidy percentage



Source: Grattan analysis.

196. To be eligible for the Child Care Subsidy, both parents must complete a certain number of hours of approved activities, such as paid work, study, or volunteering: Department of Education, Skills and Employment (2020a).

of the Child Care Subsidy. This would bring the government's approach to supporting early childhood education and care more in line with the way governments support primary school.

Making childcare free would probably trigger a very large increase in demand, so such a change would need to be phased in over several years. It would also need to be supported by other policy changes – including to workforce training and quality standards and assessment – to ensure adequate supply at an appropriate quality.

5.2.5 The 'tax-deductible' option: tax-deductible childcare instead of a subsidy

Under the tax-deductible option, the Child Care Subsidy would be abolished and instead, childcare would be fully tax-deductible against the second earner's income. Such an option is often proposed,[197] and is superficially attractive because for many people, childcare is a cost borne because they are working.

However, making childcare tax deductible is a bad idea. Almost every family using childcare would be worse off. A family with two parents working full-time, each earning $40,000, and two children in childcare, can currently claim about $46,000 in childcare subsidy.[198] Under the tax-deductible option, this would be replaced with a tax deduction of $4,500, leaving the family more than $40,000 worse off.

And workforce disincentive rates for low-earning women would be much higher than at present. For second earners earning $40,000, with two children in childcare, workforce disincentive rates would be between 140 per cent and 200 per cent for each additional day of paid work. For these women, working at all would be a very costly choice.

197. Maley (2020); Buncle (2019); and R. Dixon et al (2019).
198. This assumes five days of care are used, with gross cost of $110 per day. See Appendix A.

Only a handful of families would end up better off under this option. All of these would be two-parent families with both parents earning more than $100,000 full-time-equivalent.

This option would save the Federal Government money, but would unwind many of the benefits of the Child Care Subsidy and reduce female workforce participation. It would be a backward step.

Other, more refined versions of tax deductibility have also been suggested – such as splitting the tax benefit, and 'opt in' schemes. But these still provide improved incentives for higher income earners only, and they would be more complex to administer.[199]

5.3 The best option is to boost the subsidy to 95 per cent

The option that performs best against our criteria is the subsidy boost option.

Under this option, all second earners would face a lower workforce disincentive rate and have a clearer picture of the cost of working an additional day. And all families using childcare would receive a higher subsidy. This includes high-income families, but as Figure 5.8 on the following page shows, the vast majority of beneficiaries would be families with combined income of less than $150,000.

199. For example, R. Dixon et al (2019) recommend a model where 50 per cent of the deduction is applied to each parent's income for a two-parent household. Their preferred model allows parents to 'opt in' to tax-deductibility or continue to use the subsidy as per the current system. Sharing of the tax deduction would make this design more generous for some households, but low- and middle-income households would be no better off under either tax-deductibility design. And deduction sharing would do nothing for single parents. Also, an 'opt-in' system would introduce significant administrative complexity, as well as making the system very confusing for parents, and making the financial impact of an extra day's paid work far more opaque.

The budget impact would be partially offset by additional tax takings from increased workforce participation.[200] It could be further offset by abolishing FTB B for couples (see Box 11).

Alternatively, if politicians are looking for a bigger reform vision, then universal childcare, if done well, has the potential to deliver a 'double dividend' from higher female workforce participation as well as improved access to early education. The subsidy boost option could also be a stepping-stone towards this bolder reform vision.

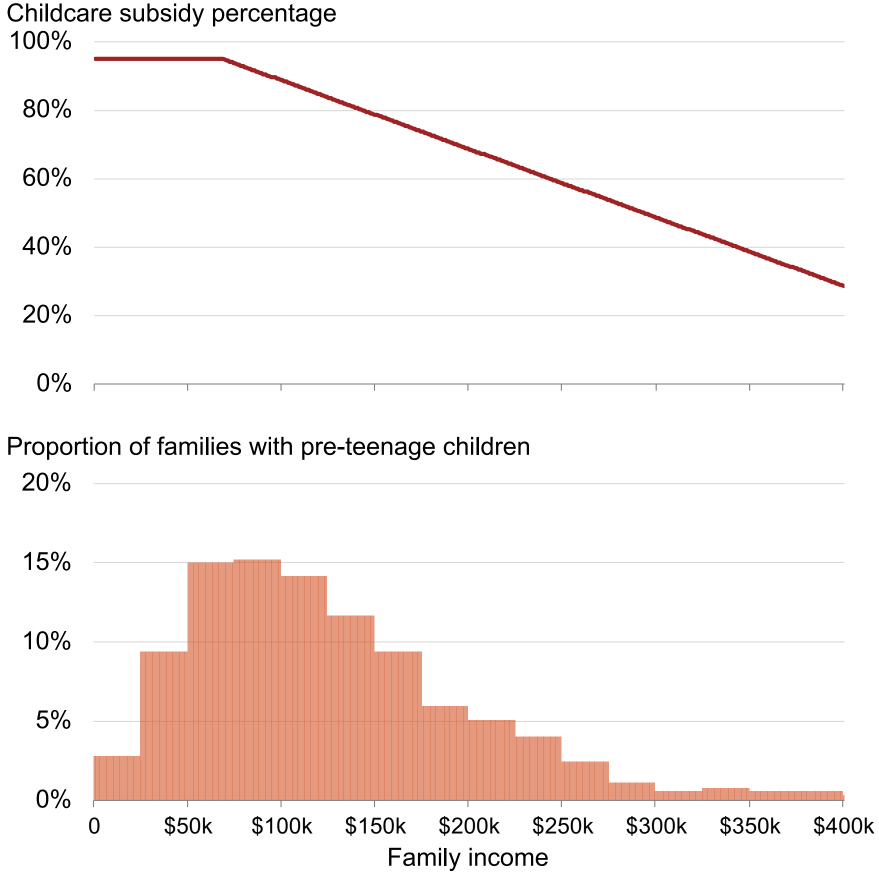
The subsidy boost option could be expected to lead to a 13 per cent increase in hours of paid work by women with young children, at a cost to the budget of $5 billion a year from additional benefits and additional childcare use. This investment would deliver potential economic benefits of about $11 billion a year, comparable to estimates of the economic benefits of cutting the company tax rate from 30 per cent to 25 per cent, but realised sooner.[201]

Moving immediately to the subsidy boost option would also be good economic stimulus – putting dollars in the hands of low- and middle-income families and helping parents who have lost work remain 'work ready' by keeping their children in care (Chapter 1).

200. If total tax receipts remain a similar proportion of GDP, receipts would be about $2 billion higher under the subsidy boost option, and the true net cost to the budget position would be about $3 billion.

201. Treasury estimates – broadly consistent with C. Murphy (2016) but more optimistic than J. Dixon and Nassios (2018) – suggest the company tax cuts will boost national income by around 0.8 per cent in the long run, assuming the cut is funded by a lump-sum tax. This suggests economic benefits of $14 billion per annum, but the upfront cost is higher (about $7.4 billion, see Minifie et al (2017)). The benefits of a company tax cut take decades to be fully realised (Minifie et al (ibid, p. 30)), whereas the labour force response to cheaper childcare is likely to be realised within a year or two.

Figure 5.8: Our recommended reform would benefit all families with children, especially low- and middle-income families



Notes: The distribution of family income is estimated as at 2019-20 from 2017-18 data. A family is defined as a unique income unit in the ABS Survey of Income and Housing.

Source: Grattan analysis of ABS (2019a).

To ensure the subsidy boost is as effective as possible, the Government should also:

- Review the hourly rate cap to ensure it remains an appropriate benchmark price, and consider whether separate benchmarks are needed for centres in different locations and/or for children of different ages.[202]
- Direct the ACCC to conduct a market study of the Early Childhood Education and Care sector to understand the full costs of providing these services, and whether government subsidies are lost to 'excess rents' along the supply chain. This work could also feed into the hourly rate cap review.
- Ask the ACCC to monitor prices for a couple of years after the subsidy boost.

202. For example, inner-city locations tend to have higher rents, and childcare services for children aged 0-2 are typically more costly to provide than services for older children (see Chapter 3).

6 Other policies to support workforce participation

We recommend that the Australian Government make childcare more affordable by raising the subsidy for low-income families from 85 per cent to 95 per cent, and applying a steady taper. This is the single biggest opportunity for governments to boost female workforce participation (Chapter 5).

But there are other policies that would also help Australia realise the economic and social benefits of greater female workforce participation.

The COVID recovery will be a difficult time for working families and for childcare centres. The Government's move to loosen the activity test during this period could make it easier for parents to take whatever work they can get.

Better processes to improve availability and ensure quality of childcare, and a targeted scheme to make parental leave more equitable between the genders, would all affordably complement a stronger Child Care Subsidy scheme.

6.1 Changes to the activity test in light of COVID-19

The Child Care Subsidy is subject to an activity test, to ensure that parents who get subsidised childcare are working or looking for work.[203]

The Government has temporarily relaxed the activity test until October, to help families who are looking for work and/or juggling unpredictable hours during the COVID-19 crisis.[204] This is a good move. It could help families get back to work, and boost childcare demand at a time when the sector is moving away from the 'free childcare' rescue package and centres may be struggling to maintain sufficient occupancy.

This change should only be needed temporarily to support workforce participation. But good-quality early childhood education and care also has benefits for children's development, especially vulnerable children.[205] These benefits are beyond the scope of this report, but the Government could consider building additional access to care into the Child Care Safety Net as a more permanent measure.[206]

6.2 Governments should work together to improve availability and monitor quality

Our recommended subsidy boost would make childcare more affordable – and this has implications for its availability and quality. There are several things federal, state, and local governments, working together, can do to ensure the system is well-placed to respond to new demand for childcare.

203. This includes designated unpaid work such as volunteering. See Department of Education, Skills and Employment (2020a) for a full list of designated activities.
204. Families who were eligible for subsidised care before the crisis but now have a reduced number of hours of work or study can get up to 100 hours of subsidised childcare per child per fortnight: Department of Education, Skills and Employment (2020c). See also Tehan (2020).
205. Tayler (2016); and Tseng et al (2019).
206. As part of the current Child Care Safety Net, low-income families who do not meet the activity test are able to get 24 hours of subsidised care per child per fortnight: Department of Education, Skills and Employment (2020d). Australian studies show that even a small increase in formal care can better equip vulnerable children for school. For example, Tseng et al (2019) show significant learning and development benefits from 20.4 hours per week of formal early years care and education, compared with a control group receiving 15.7 hours per week.

6.2.1 Managing increased demand

In the immediate wake of the pandemic, demand for childcare may dip (Section 1.3.3). But over time, making childcare more affordable will increase demand.

The childcare sector is not static – new centres will open in response to increased demand. But big investments, construction, refurbishments, and approvals take time, so good notice of changes to the Child Care Subsidy would give the sector time to get ready.

Supply of childcare services has responded reasonably well to growth in demand in the past.[207] The approval rate for new childcare centres is also reasonably high.[208] Generally, private providers are better able to build or expand quickly in response to growth in demand,[209] so private long-day care centres may be most responsive to an increase in the Child Care Subsidy.

The Commonwealth Government should work with state and local governments to identify localised availability problems[210] and develop targeted solutions – including workforce training,[211] making space available for new centres, and providing extra support to set up services in disadvantaged communities.

Governments should work with schools and preschools to monitor the need for more after-school and holiday care – and consider making school[212] and preschool facilities available to meet demand. Greater flexibility in access to the Child Care Subsidy for preschools that are expanding their hours would help facilitate this.[213]

Waiting lists are a common stress for families seeking childcare. Most such families end up on multiple waiting lists, and many need to call providers regularly to check their place in the queue. To make it easier for families to organise childcare, providers should publish the number and age of children on their waiting list.[214] The government website, childcarefinder.gov.au, should publish this information too.

6.2.2 Maintaining quality

An increase in demand for childcare should prompt new centres to open and increase pressure on existing centres. Given that current monitoring of quality standards is weak (Chapter 3), enhanced monitoring will be needed to prevent standards from dropping.[215]

207. PC (2014, pp. 358–359).
208. Between 2009-2012, local and state governments granted approval for 86 per cent of development applications for new childcare centres and significant expansions of existing centres: PC (ibid, p. 350).
209. Because they can more easily source capital: PC (ibid, p. 350).
210. The Commonwealth Department of Education collects some data through the Early Childhood Education and Care census, and also manages a website to help parents find childcare in their area: childcarefinder.gov.au.
211. The Education Council is already working on a national workforce strategy for education and care, and this can be expected to become more important when demand for childcare increases: Education Council (2019).
212. The Productivity Commission also recommended this in its 2014 review of the childcare sector: 'State and territory governments should proactively encourage the provision of outside-school-hours care on school sites', including 'placing the onus on school principals to take responsibility for ensuring there is an outside-school-hours care service for their students on and/or offsite if demand is sufficiently large for a service to be viable' (PC (2014, Recommendation 10.2)).
213. Most preschools are ineligible for the Child Care Subsidy unless they operate for at least 48 weeks per year, offer long day care and include younger children (aged 0-3): Department of Education, Skills and Employment (2020e). This discourages preschools from offering 'wrap-around' hours or holiday care, and parents are unlikely to be able to afford additional hours without the subsidy.
214. PC (2014, p. 401).
215. For example, the fast expansion of universal childcare programs in Quebec, Canada, in the 1990s helped to raise female workforce participation rates from 53 per cent in 1976 to 82 per cent in 2012. But the successful workforce reform policy had an unintended effect of lowering the average quality of childcare services. Subsequent cohorts of children were worse off on some long-term behavioural and health measures (see Baker et al (2015) and Baker et al (2008).

The Commonwealth Government has committed to spending $15 million a year for the next three years on the national regulatory system through the Australian Children's Education & Care Quality Authority (ACECQA).[216] But quality assessments are done by state regulatory authorities rather than ACECQA.[217] And Commonwealth funding for quality was previously higher: from 2015-16 to 2017-18 it was about $25 million a year, as part of the roll-out of the National Quality Framework.[218]

Commonwealth funding for regular quality assessments will be needed to ensure national standards are upheld. State and territory governments will also need to boost workforce training and support to ensure quality of childcare services is at least maintained, and ideally strengthened.

6.3 Parental leave and flexible work: towards a better model for shared parenting

A more equal government parental leave scheme, and availability of flexible work for both parents, would give families more choice in how they manage caring responsibilities and would enable more carers to return to paid work (Chapter 4).

The Commonwealth Government should introduce a more equal paid parental leave scheme. For example, six weeks reserved for each parent plus 12 weeks to share between them, paid at the current rate of minimum wage, would mean women could still choose to take the current 18 weeks, but families could also make other choices, and fathers would get more time early on to bond with their child and develop their parenting skills. Single parents should be able to get the full 24 weeks.

This would cost the budget up to an extra $600 million a year,[219] if fathers' uptake was as strong as mothers',[220] which represents a 25 per cent increase on the current investment in parental leave (see Chapter 4).

The new scheme should be evaluated, with a view to extending the duration and increasing the rate of pay (in line with best practice internationally) if the workforce participation benefits (or other benefits) are evident.[221]

Part or all of the current primary carer leave entitlement can be transferred, but it must still be taken in a continuous block, which makes sharing parental leave difficult. A more flexible arrangement would give families more choice in how they share their caring responsibilities.

Eligibility should be based on household income rather than the mother's income. This would also remove one of the inequities in the current design, where households with male breadwinners are favoured over households with female breadwinners.[222]

Employers also have a significant role to play in offering equal parental leave and in making flexible work more available to parents, including

216. Roberts (2019).
217. CELA (2018).
218. From 2015-16 to 2017-18, the Commonwealth funded the states to conduct quality monitoring under a National Partnership Agreement that also included funding for ACECQA. The Commonwealth failed to renew the agreement in 2018-19, and has since funded only ACECQA, leaving funding for most quality assessments up to the states: COAG (2016) and CELA (2018).
219. This is the net cost of increasing the total investment in Parental Leave Pay by a third (six weeks) and abolishing Dad and Partner Pay.
220. This is perhaps a generous assumption, but of course if take-up is lower, then less investment is required but the scheme is less effective. Single parent uptake is also assumed to be as strong as mothers' current uptake.
221. Social and other benefits may also be evident, in which case governments should consider extending the scheme for other reasons.
222. To be eligible for Parental Leave Pay, the birth mother must not earn more than $150,000, even if her partner earns less and she intends to transfer the leave entitlement to her partner. Yet in a family where the father/partner earns more than $150,000 and the birth mother earns less, she is eligible.

fathers. There are clear benefits for employers and employees alike (Appendix B).

COVID-19 has normalised flexible and remote work – at least temporarily – and there are big economic and social benefits in maintaining this new capability. Federal, state, and local governments – in their capacity as employers – can and should be leading the way.

Appendix A: Estimating workforce disincentive rates

Grattan's workforce disincentive rate model operates for a range of cameo families, including couples and single parents, at different income levels. In each cameo family, a 'marginal worker' is considering whether to commence paid work, and how many days to work.

Each additional day of paid work results in extra income, a proportion of which will be lost through taxation, loss of benefits, and increase in the net cost of childcare. The model calculates the benefits and costs of additional paid work.

The first section of this appendix provides a detailed specification of our model. The second section shows a selection of example outputs. And the third section summarises some of the key findings from the model.

A.1 Model specifications

A.1.1 Cameo family details

Our cameo families all have two children, both of preschool age. Couple cameos include a primary earner who works full-time. Our cameos use paid childcare for every day the second earner works. And our cameos rent in the private market, paying sufficient rent to be eligible for the maximum rate of Commonwealth Rent Assistance, if they meet the income test.[223]

A.1.2 Income

Our income measure is net of superannuation, and the workforce disincentive rate relates to take-home pay only. We assume income accrues evenly across days worked, so that one-fifth of the second earner's full-time-equivalent earnings are received for each additional day of work.

A.1.3 Family payments

Family Tax Benefit Part A and Rent Assistance

The amount of Family Tax Benefit A (FTB A) a family is eligible to receive is determined by the age and number of children in the family, as well as family income. For families who are renting (all our cameo families), Rent Assistance is included in the FTB A payment, in the form of a higher maximum rate.[224] For our cameo families, the amount of FTB A (including Rent Assistance) is shown in Figure A.1. The Rent Assistance component is calculated as the difference between the FTB A amount received by the cameo family and the amount that would be received by a similar family who are not renting.[225]

Family Tax Benefit Part A Supplement

The Family Tax Benefit A Supplement is an additional annual benefit calculated separately to the FTB A calculation detailed above. For our cameo families, the FTB A Supplement is worth $1,533 per year, payable if family income is $80,000 or lower.[226] Our model outputs show the FTB A Supplement as part of FTB A.

223. A two-child family paying more than $455.28 per fortnight in rent is eligible for the maximum rate of Rent Assistance, if family income is sufficiently low.

224. Services Australia (2020c, pp. 2–4).

225. The addition of Rent Assistance increases the maximum rate of FTB A received by $4,227 per year. The calculation of FTB A for a homeowning family also includes a 'base rate' test, which is unaffected by the addition of Rent Assistance. With the inclusion of Rent Assistance, FTB A is higher for renters than homeowners, at all family incomes up to $115,900. Effectively, some amount of FTB A is considered Rent Assistance for all family incomes lower than $115,900.

226. Services Australia (2020c, p. 3).

Family Tax Benefit Part B

Single parents with income of $100,000 or lower receive the full rate of Family Tax Benefit B (FTB B), $4,500 per year.[227] Couples with children, where the primary earner earns $100,000 or lower, are eligible for FTB B if the second earner's earnings are low.[228]

Parenting Payment

For our single parent cameos, the maximum rate of Parenting Payment receivable is $20,828 per year.[229] The amount receivable decreases with additional earnings.[230] For our couple cameos, the maximum rate of Parenting Payment receivable is $13,364 per year.[231] The amount receivable decreases with additional earnings for either member of the couple.[232]

Figure A.1: FTB A tapers down for incomes over $54,677

Family Tax Benefit A annual amount ($) for a family with 2 children, including Rent Assistance

Notes: Excludes FTB A Supplement. Families are paying sufficient rent to get maximum Commonwealth Rent Assistance if they qualify under income test. The maximum rate receivable is $13,936 per year. The amount receivable decreases by 20 cents for each additional dollar of family income between $54,677 and $98,988, and 30 cents for each additional dollar of family income over $98,988, hitting zero when family income reaches $115,900.

Source: Services Australia (2020c).

227. This amount includes FTB B Supplement, an annual payment of $372.30.
228. Families with a second earner earning lower than $5,694 receive the full rate of FTB B, $4,500 per year. The amount received decreases by 20 cents for each additional dollar of second-earner income over $5,694, hitting zero when second-earner income is $28,197.
229. Services Australia (2020c, p. 12). This amount includes $162 per year from Pharmaceutical Allowance: Services Australia (ibid, p. 34). Pharmaceutical Allowance is payable to all recipients of Parenting Payment (Single): Services Australia (ibid, p. 12). The amount also includes $313 per year from Energy Supplement: Services Australia (ibid, p. 40). Energy Supplement is payable to all recipients of Parenting Payment: Services Australia (ibid, p. 39).
230. Single parents with two children and income less than $5,543 receive the maximum rate of Parenting Payment. The amount received decreases by 40 cents for each additional dollar of income, hitting zero when income is $57,615: Services Australia (2020d).
231. Services Australia (2020c, p. 12). This amount includes $206 per year from Energy Supplement: Services Australia (ibid, p. 40). Energy Supplement is payable to all recipients of Parenting Payment: Services Australia (ibid, p. 39).
232. Couples with a primary earner earning less than $25,654 per year and a second earner earning less than $2,711 per year receive the maximum rate of Parenting Payment. The amount received decreases by 60 cents for each additional dollar of primary-earner income over $25,654 per year. The amount received also

A.1.4 Income tax

Income tax is assumed to be payable according to 2019-20 tax rules. These include income tax rates and thresholds,[233] the Low Income Tax Offset,[234] the Low and Middle Income Tax Offset,[235] and the Medicare levy.[236] We make no allowance for the Medicare levy surcharge, because we assume that a cameo family with sufficient income to be required to pay the Medicare levy surcharge has private health insurance, and is thus exempt.[237] Any Parenting Payment received is also included in the second-earner's taxable income, but other family payments in the model are not included.[238]

Partner's Medicare levy

For a couple, there are certain instances where additional earnings from a second earner will increase the amount of Medicare levy the primary earner is required to pay.

Low-earning families can claim a Medicare levy reduction, meaning the higher-earning member of a couple pays a lower Medicare levy than would be determined by their individual income.[239] Additional income for the second earner can reduce a family's eligibility for the Medicare levy reduction, increasing the primary earner's Medicare levy.[240]

decreases by 50 cents for each additional dollar of second-earner earnings between $2,711 and $6,622 per year, and by 60 cents for each additional dollar of second-earner earnings over $6,622 per year: Services Australia (2020d).

233. ATO (2020a).
234. ATO (2020b).
235. Ibid.
236. ATO (2020c).
237. This refers to singles with taxable income over $90,000 and couples with taxable income over $180,000, where the second earner also earns more than $22,398: ATO (2020d).
238. Services Australia (2020c, p. 38).
239. ATO (2020e).
240. For our cameo families with family income less than $45,854 per year, the primary earner can claim a full Medicare levy exemption. The proportion of income payable as Medicare levy increases by 0.17 per cent for every additional $1,000 in family income earned over this amount. For family incomes over $57,318, the full Medicare levy of 2 per cent of income is payable; no reduction is claimable: ATO (ibid).

Private health insurance rebate

We assume that a cameo family with sufficient income to be required to pay the Medicare levy surcharge has private health insurance.[241] For high-earning families with private health insurance, additional earnings can decrease the amount of private health insurance rebate they receive.[242]

We assume the cameo family is paying $1,600 per year in private health insurance premiums, before government rebates. The private health insurance rebate has only a small impact on workforce disincentive rates, adding no more than 2 per cent for any of our cameos.

A.1.5 Childcare costs

Our model assumes that each day worked by the second earner requires a day of childcare for each child. The average cost of childcare is assumed to be $110 per day before government subsidies.[243]

241. This refers to singles with taxable income over $90,000 and couples with taxable income over $180,000, where the second earner also earns more than $22,398: ATO (2020d).
242. Families with income up to $180,000 receive 25.059 per cent of their premium as a subsidy. Families with income between $180,000 and $210,000 receive 16.706 per cent. Families with income between $210,000 and $280,000 receive 8.352 per cent. Families with income over $280,000 receive no subsidy: ATO (2020f).
243. The average cost of centre-based day care is $10.30 per hour: Department of Education, Skills and Employment (2020b). Opening hours vary, but 11 hours per day is fairly typical: Care for Kids (2016). The average cost of family day care is $10.45 per hour. The average cost of centre-based day care varies depending on location: $10.50 in major cities, $9.55 in inner-regional, $9.30 in outer-regional, and $9.10 in remote areas.

Our cameo families are eligible for Commonwealth Government subsidies on approved childcare. Families can claim a specified proportion of childcare expenditure based on family income (see Figure A.2). There is also an annual cap on the amount that can be claimed per child for families with income higher than $188,163. For these families, the total subsidy claimed for any one child cannot exceed $10,373 in any one year.

A.1.6 Other aspects not included in our model

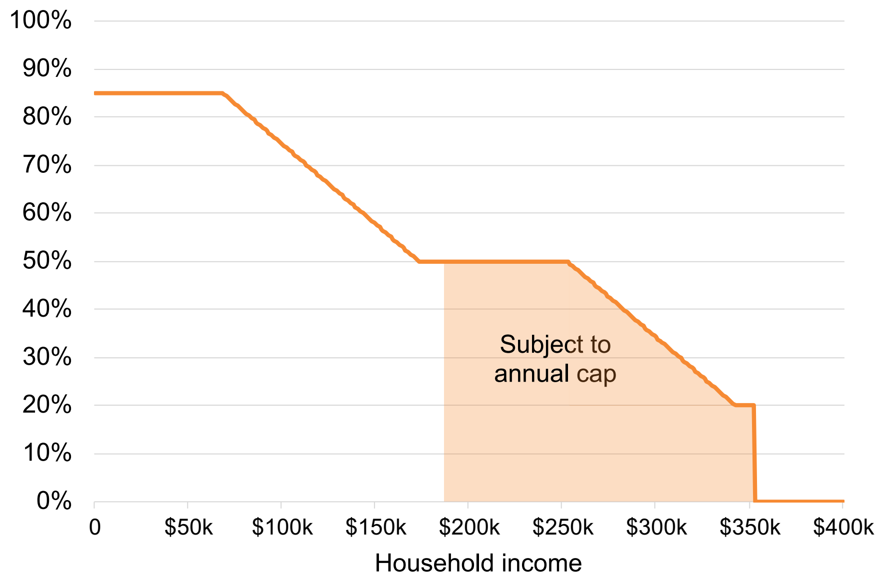
Non-cash benefits, such as eligibility for a Health Care Card, which will drop out with increasing income, are not factored into our workforce disincentive rate model.

We have also not included the impact of additional earnings on any child support a single parent might receive. For many single parents, additional income will result in a decrease in child support received, which will add to the workforce disincentive rate. The amount will depend on several factors, including whether there is another parent, the proportion of care undertaken by the other parent, and the other parent's earnings.

A.2 Model outputs

Figure A.3 and Figure A.4 illustrate the outputs of our model: the workforce disincentive rates that cameo second earners and single parents face for each working day. The charts shows the components of the workforce disincentive rate and how the components change for each additional day of work.

Figure A.2: The amount of Child Care Subsidy receivable

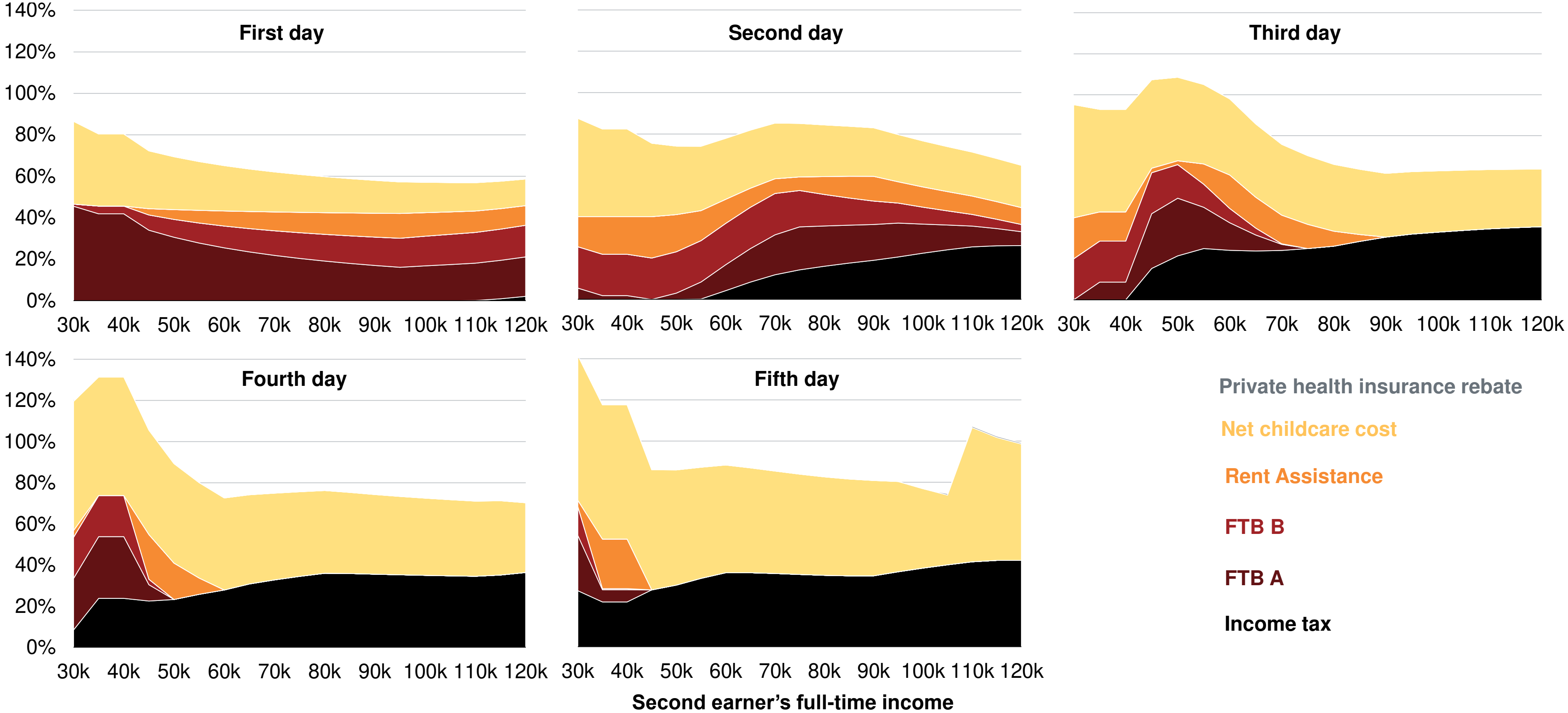


Notes: Families with income less than $68,163 per year can claim an 85 per cent subsidy. The subsidy decreases by 1 per cent for every $3,000 earned between $68,163 and $173,163, and for every $3,000 earned between $252,453 and $342,453. No subsidy is claimable for family incomes over $352,343. For families with income over $188,163, the annual subsidy receivable is capped at $10,373 per child.

Source: Services Australia (2020e).

Figure A.3: Workforce disincentive rates are high at all income levels for each day of work for second earners in a couple

Workforce disincentive rate, second earner with primary earner earning $80,000 per year

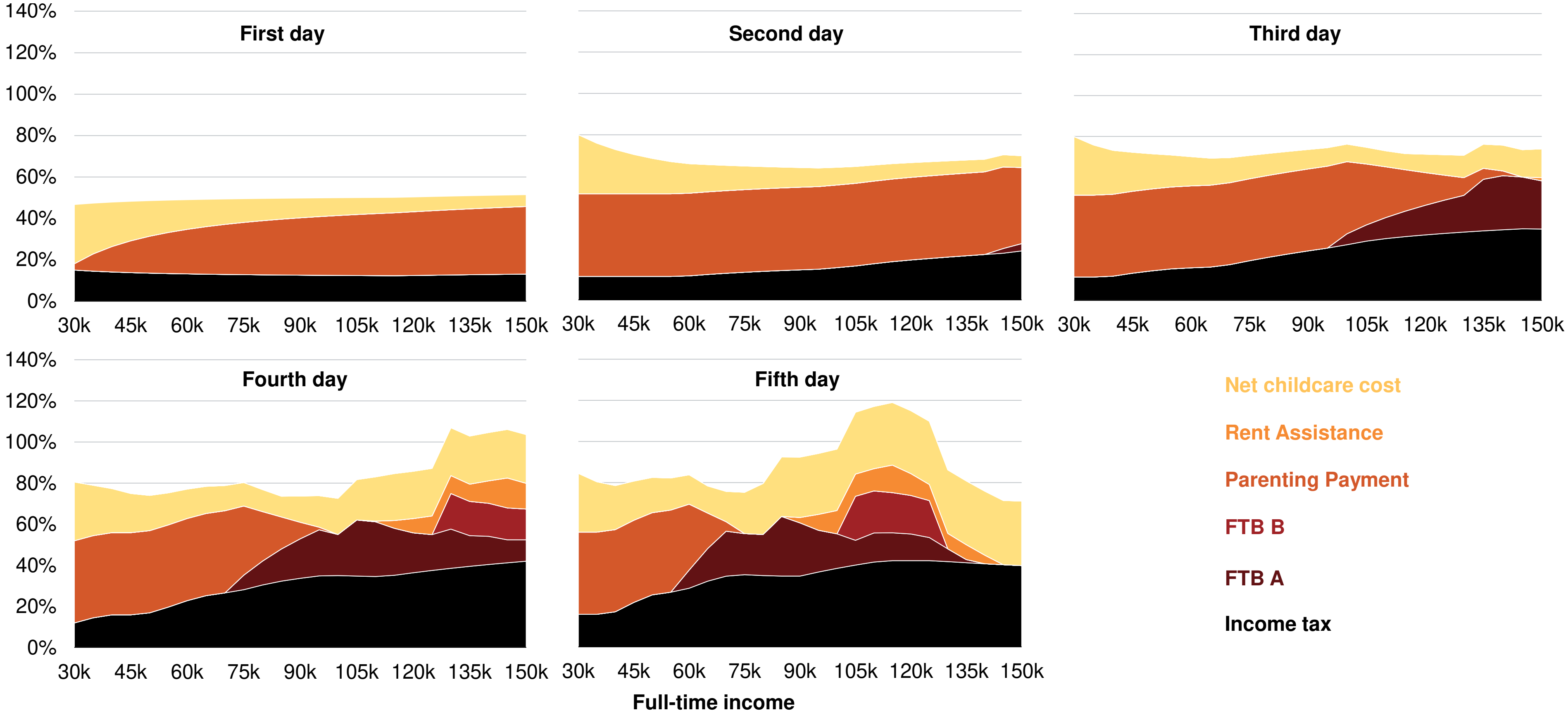


Notes: In this example output, the primary earner works full-time and earns $80,000, which is approximately equal to the average wage and salary earnings for men aged 35-39 (Grattan analysis of ATO (2016)). The cameo families have two children who both require childcare. Every day of work for the second 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. 'Rent Assistance' calculated as the difference between the amount of FTB A a renter and a homeowner with similar income would receive.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

Figure A.4: Workforce disincentive rates are high at all income levels for each day of work for single parents

Workforce disincentive rate, single parent



Notes: In this example output, the single-parent cameos have two children who both require childcare. Every day of work 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. 'Rent Assistance' calculated as the difference between the amount of FTB A a renter and a homeowner with similar income would receive.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

A.3 Key model findings

Workforce disincentive rates are consistently high at all income levels for each additional day of work. But different components of the tax and transfer system 'bite' at different income levels.

For **lower-income families**:

- Withdrawal of the Parenting Payment has a significant impact on workforce disincentive rates for single parents and low-income couples. This effect is largest on the first two days of work for a second earner, and is evident across all five days for most single parents;
- As second-earner income increases between $4,500 and $47,000, Family Tax Benefit B also withdraws, increasing workforce disincentive rates;[244] and
- As family income increases from about $55,000 to about $110,000, Family Tax Benefit A withdraws, further increasing workforce disincentive rates.[245]

For **higher-income families**:

- In families with one high earner and one low earner, the net childcare cost can often be a very high proportion of the earnings of the low earner, well over 100 per cent in some cases, because the subsidy is linked to family income;
- Families with income higher than $188,163 are subject to an annual cap on the childcare subsidy. An additional day's work that pushes the family income above this level can significantly decrease the subsidy amount claimable, making the marginal childcare cost very high; and
- When family income reaches $352,343, the childcare subsidy drops from 20 per cent to zero, leading to a very high workforce disincentive rate for the second earner.

For **families right across the income spectrum**:

- Net childcare cost is a significant contributor to workforce disincentive rates on each additional day of work. An additional day worked leads to an increase in the net cost of all childcare used, not only for the additional day, because the subsidy proportion tapers downward with additional family income. This leads to a high marginal cost of childcare, especially for families with income between $68,163 and $173,163, or between $252,453 and $342,453.[246]

244. Given that the primary earner's income is $100,000 or less. For single parents, Family Tax Benefit B instead drops out completely when income crosses $100,000.
245. The range of family incomes over which FTB A decreases will depend on the number of eligible children in the family, whether the family is renting, and how much rent the family is paying.
246. Families with income between $173,163 and $252,453 are on the 'flat' portion of the childcare subsidy, where a 50 per cent subsidy is claimable. However, families in this range may be affected by the annual cap.

Appendix B: Employer policies matter

The overwhelming majority of people who use parental leave and flexible work are women – and this can establish and then embed them in the primary carer role (Chapter 4). But *not* having access to paid parental leave and flexible work is even worse for women's workforce participation. These policies encourage and enable women to return to work after having a child – and if used by men too, can support sharing of caring responsibilities.

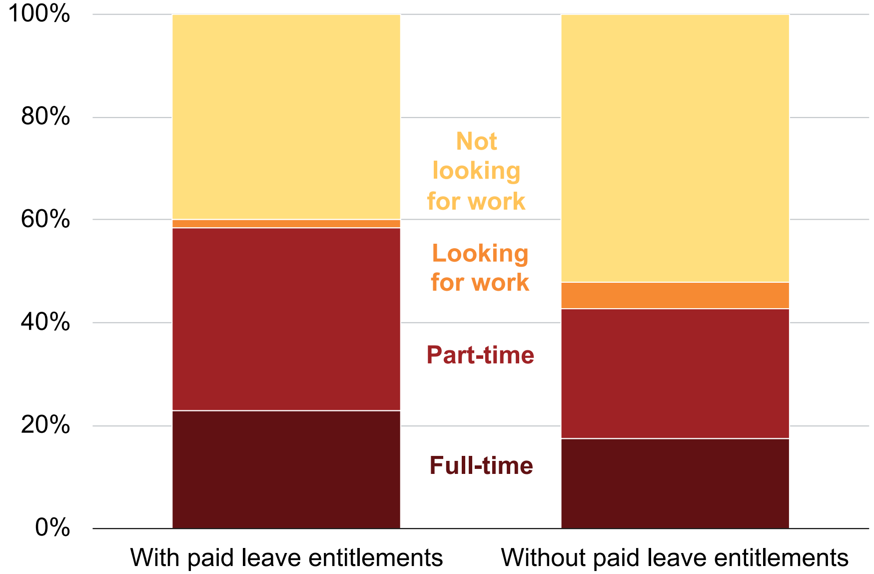
B.1 Paid parental leave promotes attachment to work

Women entitled to paid parental leave are both more likely to return to the workforce (Figure B.1) and more likely to return to the same employer (Figure B.2).[247]

The length of paid parental leave can also influence if and when mothers return to work. If the leave available is too short, it can push women out of the workforce,[248] and may be detrimental to child health too.[249] At the other end of the spectrum, very long periods of leave can reduce workforce attachment and damage longer-term career trajectory.[250] Paid parental leave of about six months is considered to

Figure B.1: Women with paid parental leave entitlements are more likely to return to work and to work full-time

Women with a child under 2 who were employed while pregnant, by current labour force status



Source: ABS (2018b, Table 20).

247. Women entitled to longer paid parental leave periods are even more likely to return to the same employer: Ruppanner and Squires (2020).
248. In the US, where there is no paid leave and only 24 weeks of job protection for new mothers, nearly 30 per cent of working women leave the workforce when they have a child: K. Jones and Wilcher (2019).
249. Cooklin et al (2012).
250. How long is too long is debated: studies show negative effects on workforce participation after seven months in Finland and more than a year in Sweden: Martin et al (2014). An analysis of 30 OECD countries over 40 years concluded that extending paid leave helps women maintain or increase their working hours, but that leave of more than two years has a negative effect on participation and career trajectory: Thévenon and Solaz (2013). Kalb (2018) reviews the literature

be preferable for women's workforce participation and consistent with the World Health Organisation recommendations for child health.[251]

About half of employers offer some form of paid parental leave. Primary carers get about 10 weeks on average, with only 4 per cent of employers offering 18+ weeks of paid primary carer's leave. Employers usually pay parental leave at an employee's normal rate, but about 4 per cent 'top up' the government scheme instead, and some pay a lump-sum, return-to-work bonus, or superannuation only.[252]

Paid parental leave is most common in the education and financial services industries, where more than three-quarters of employers offer paid parental leave for primary carers. Paid leave is least common in industries dominated by small businesses, such as retail and hospitality (only 21 per cent). Male-dominated industries such as construction are also poor performers (32 per cent).[253]

B.2 Flexible work policies can promote return to work

Flexible workplaces give families more choice in how they manage and share employment and caring responsibilities as their children grow up. And availability of flexible work is a critical factor for many mothers in deciding whether to return to work.[254] These policies are largely in the domain of employers (including governments as employers).[255]

Figure B.2: Women with paid parental leave entitlements are much more likely to return to the same employer

Women with a child under 2, who were employed while pregnant, and have returned to the workforce

Source: ABS (2018b, Table 16).

and concludes that after 1 year it may become more difficult for women to return to paid work at the pre-birth level.

251. Work and Family Policy Roundtable (2019); and AHRC (2013).
252. WGEA (2017a) and WGEA (2019). See Fair Work Ombudsman (2020b) for examples.
253. WGEA (2019).
254. Workplace support and flexibility was found to be a significant factor in a study of Australian women's return to work within 12 months of childbirth (Coulson et al (2012)); 4 in 5 Australian women with a child under 2 who have returned to paid work use some kind of flexible working arrangement: ABS (2018b, Table 15).
255. The Human Rights Commission also recommends some changes to Commonwealth legislation, including strengthening employees' 'right to request'

Employers that promote flexible working arrangements – such as part-time work, alternative hours, and working from home – can improve employee well-being, productivity, and job satisfaction, as well as enabling mothers to return to work.[256] Work-family conflict is more likely when parents don't have flexibility at work.[257] Men and women overwhelmingly agree that flexibility at work is important.[258] 'Having more control over where and when I work' is the most important factor for parents in balancing employment and caring.[259]

A lack of flexible working options can push some mothers into full-time work where they would have preferred part-time, but more typically it prevents mothers from returning to paid work altogether[260] or encourages them to switch employers and sometimes careers.[261]

In Australia, pre-COVID, almost three-quarters of employers said they had a policy or strategy for flexible working.[262] Many employers have built a reputation for flexibility as a point of differentiation that enables them to attract and retain talent. Global tech giants such as Google and Spotify have led the way on flexible work and generous parental leave,[263] but many Australian companies have also embedded flexible working into their business, including building flexible working options into all their roles (e.g. Westpac and Telstra).[264]

Other industries still have a long way to go, particularly male-dominated industries such as construction.[265] But many more employers have been forced to adopt flexible and remote working during the COVID-19 shutdown, and some will probably choose to retain these options.

Policies on their own are not enough. Workplace culture and social expectations play a much bigger role in take-up of part-time and flexible work (or lack thereof) – particularly for fathers.[266]

Discrimination in the workplace remains an issue for most working parents, with half of mothers experiencing it at some point during pregnancy or return to work, including almost one in five losing their job.[267] A third of mothers who experienced discrimination went looking for another job or resigned, and 42 per cent said discrimination had hurt them financially.[268] More than a quarter of fathers and partners who took Dad and Partner Pay leave also experienced discrimination on their return to work, despite taking very short periods of leave.[269]

flexible working arrangements under the Fair Work Act 2009, by removing the qualification requirement of 12 months continuous service; introducing a positive duty on employers to reasonably accommodate requests; and establishing an appeals process: see AHRC (2014, p. 12).

256. e.g. Costa et al (2006), McNall et al (2010), Hayman (2010), Nous (2018) and Ruppanner and Squires (2020).
257. Baxter (2013).
258. 86 per cent of men and 90 per cent of women: Baird et al (2018).
259. Parents at Work (2019).
260. Sanders et al (2016, Figure 4). 20 per cent of women who left their job while on maternity leave left because their job was 'too stressful or inflexible hours': Whitehouse et al (2007b).
261. Women are much more likely than men to change jobs for family reasons: ABS (2013).
262. 72.7 per cent in 2018-19, and the figure has been growing each year; up from 57 per cent in 2013-14: WGEA (2019).
263. e.g. R. Jones and Collinson (2015) and Chambers (2018).
264. See McMahon and Pocock (2011). The APS also has a 'flexible by default' approach: Australian Government (2017).
265. Construction is the industry with the lowest proportion of employers with flexible working policies (55 per cent): WGEA (2019).
266. Crabb (2019); and Parents at Work (2019).
267. 18 per cent of mothers reported that they were dismissed, made redundant, their contract was not renewed, or their job was restructured during pregnancy, parental leave, or when they returned to work: AHRC (2014, Chapter 2, p. 27).
268. Ibid (Chapter 2, p. 32-33).
269. Ibid.

Appendix C: Costs and benefits of childcare reform options

This appendix documents the assumptions made in estimating the budgetary cost and impact of the first four childcare reform options shown in Chapter 5.

Our estimates are necessarily approximate, but sufficiently accurate to compare the reform options, and to conclude which options to recommend.

C.1 Step 1: Estimating costs before behavioural change

The first step involves estimating the change in Child Care Subsidy payments that would arise under a given option if use of childcare did not change.

We estimate the distribution of incomes, family types, and working hours of families in Australia from the 2017-18 Survey of Income and Housing (SIH).[270]

For each family with pre-school children,[271] we first estimate the number of days of paid care a family could use if all their pre-school children were in paid care for every day worked by the 'marginal worker'[272] in the family.[273]

We then calculate the amount of Child Care Subsidy the family could receive, based on their use of paid care and their family income.[274]

In the calculation of Child Care Subsidy, we assume the cost of childcare is $110 per day. The average cost of centre-based day care is $10.30 per hour.[275] Opening hours vary, but are generally between 10 and 12 hours per day.[276]

We then calculate the amount of Child Care Subsidy the family could receive under each reform option.

By summing the amounts all families could receive under each option, and comparing it to the amount families could receive under the current subsidy design, we can calculate the proportional increase in total *potential* subsidy payable under each option.

We then estimate the cost of the reform, without any increase in childcare use, as:

Additional cost of policy ***=***

Proportional increase in potential payable amount ***x***

Actual government cost of Child Care Subsidy.[277]

By using the proportional increase, we do not need to assume how much childcare families *actually* use. We instead scale the proportional increase in *potential* subsidy to the *actual* total government cost of the Child Care Subsidy.

270. ABS (2019a).
271. Defined as aged 0-5.
272. For the purpose of this model, the 'marginal worker' is defined as a single parent, or the member of a couple who works fewer hours.
273. SIH captures the number of hours worked per week. We assume 8 hours work constitutes one day, and that each part-day involves a full day of childcare.
274. The amount of subsidy able to be claimed decreases as family income increases over certain ranges. There is also an annual cap on the dollar amount that can be claimed per child for families with income higher than $188,000. For more detail, see Appendix A.
275. Department of Education, Skills and Employment (2019). The average cost of family day care is $10.45 per hour. The average cost of centre-based day care varies depending on location: $10.50 in major cities, $9.55 in inner regional, $9.30 in outer regional, and $9.10 in remote areas.
276. Baxter et al (2019, p. 49); and Care for Kids (2016).
277. $8.3 billion in 2019-20: Commonwealth of Australia (2019a).

Underlying this calculation is the assumption that every type of family with pre-school children uses a similar proportion of the childcare days they could use (based on the days they are in paid work).

This may be inaccurate if, for example, single parents working three days per week typically use more childcare than couples where the second earner works three days per week. Or if high-income parents are more likely to use childcare for their working days than low-income parents.

If this assumption does not hold, our estimate would be slightly distorted. However, the impact is unlikely to be large.

We have calculated the proportional increase in Child Care Subsidy cost before behavioural change based on families with pre-school children only. But we apply the proportional increase to total Child Care Subsidy cost, which includes care for school-aged children. In doing this, we are assuming the income distribution of parents using Child Care Subsidy for school-aged children is similar to that for parents of pre-school children. We estimate that only about 13 per cent of total Child Care Subsidy relates to out-of-school-hours care,[278] so any deviation from this implicit assumption is unlikely to have a big impact on our estimates.

C.2 Step 2: Estimating behavioural change (additional work days and childcare use)

To estimate the cost and impact of a reform, we need to make assumptions about the increase in paid work and childcare use that will result from the reform.

278. Grattan analysis of Department of Education, Skills and Employment (2020b).

We make an assumption about the 'elasticity' of work hours which is similar to that used by the Parliamentary Budget Office.[279] We assume that a 1 per cent decrease in the net cost of childcare will lead to:

- A 0.25 per cent increase in work hours from marginal workers who are already working; and
- Of marginal workers not already in the workforce, 0.13 per cent will enter the workforce.

We apply these estimated 'elasticities' to a marginal worker's net prospective marginal childcare cost. That is, the additional net cost of childcare they will incur from working an extra day compared to the amount they work now.[280]

We assume that the increase in working hours from existing workers will come exclusively from part-time workers. To approximate an overall 0.25 per cent increase in work hours across marginal workers who are already working, we apply a higher elasticity to part-time workers (0.53) and an elasticity of zero to full-time marginal workers.

Thus, for a 1 per cent decrease in a family's net prospective childcare cost, we assume:

- A marginal worker already working 1-to-4 days will increase their work hours by 0.53 per cent.
- Of marginal workers not currently working, 0.13 per cent will enter the workforce and work one day per week.

279. PBO (2020, p. 12), costing of PER305.
280. The elasticities in Breunig et al (2012) apply to parents of children aged 0-12. We apply these elasticities explicitly to parents of children aged 0-5. This is likely to be conservative, because the elasticity is likely to be higher for parents of pre-school children than for parents of school-aged children.

- A marginal worker already working 5 days will not increase their work hours.

We make the same assumptions for single parents.[281]

When estimating the cost of the reform option, we assume that the increase in days of paid childcare used will be 5 per cent higher than the increase in days worked. This allows for some 'substitution effect', that is, the lower cost of paid childcare might mean some parents will use paid childcare rather than informal care (e.g. grandparents) without changing their hours of paid work. Thus, childcare hours might be expected to increase more than work hours. The amount of substitution is expected to be quite small, because parents with access to informal care will generally already be using informal care in preference to formal care.

In estimating cost to the Commonwealth budget, we have not allowed for any increase in taxation revenue from resultant economic uplift. This exclusion of 'second round' effects in costing is consistent with the methodology generally adopted by the Parliamentary Budget Office.[282] In reality, if taxation settings are not changed, there would be an increase in government revenue under our proposed reforms. Thus, the eventual net cost to the budget position is likely to be lower than we have estimated. If total tax receipts remain a similar proportion of GDP,[283] receipts would be about $2 billion higher under our recommended option, and the true net cost to the budget position would be about $3 billion.

We have explicitly modelled the increase in work hours and childcare use from families with pre-school children. In addition, some families with only primary school-aged children are expected to increase their work hours and use of out-of-school-hours care. Total cost of out-of-school-hours care is about 13 per cent of all childcare cost.[284] But the relative impact on work hours and care use from a change in cost of out-of-school-hours care is expected to be lower than for long-day care.[285] We have assumed the increase in total hours worked and total care use for families with school-aged children will be an extra 5 per cent on top of the increase from families with pre-school children calculated in our model.

Our method implicitly assumes that growth in labour supply is met by an increase in labour demand.[286] In particular, our method assumes that labour demand will respond to the particular hours people want to work, for example someone working part-time can change to full-time, or someone working three days a week can switch to four days. In practice, employer preferences may have an impact on these choices, for example if an employer prefers a certain proportion of part-time employees. However, employer preferences of this type are unlikely to significantly dampen the overall increase in hours worked.

We have also not allowed for any wider economic impacts, such as any impact on wages.

281. This is arguably a conservative assumption. Most studies find that the elasticity of labour supply is larger for single parents, including in Australia: Doiron and Kalb (2005) and Kalb and Lee (2008).
282. PBO (2017).
283. About 23 per cent: Commonwealth of Australia (2019b, Table E3, p. 321).
284. Grattan analysis of Department of Education, Skills and Employment (2020b).
285. About one third of families with primary school-aged children also have pre-school children, and thus have already been counted in our model. Also, we expect the elasticity of labour supply with respect to the cost of out-of-school-hours care to be significantly lower than the elasticity with respect to long-day care. This is because cost of out-of-school-hours care is less of a barrier than availability (see Section 3.2.1).
286. 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. This assumption is consistent with Treasury's '3Ps' framework: Hockey (2015).

C.3 Step 3: Estimating the increase in household income

We assume a person working additional hours will continue to be paid at their current hourly rate.

For a person who is not currently in paid work, we cannot calculate their hourly rate. In this case, we assume their hourly rate is the average across marginal workers. This is $37 per hour in 2019-20.

In estimating the increase in household income from our proposed reforms, we have only allowed for the immediate impact from an increase in working hours. In the longer term, women's increased attachment to the workforce during the early years of motherhood is expected to have a magnified impact on lifetime earnings due to additional opportunities for career advancement (see Section 1.3.2). Thus, the increase to household incomes in the longer term is likely to be higher than we have estimated.

C.4 Step 4: Estimating the increase in GDP

We assume that GDP is proportional to household income, so that the proportional increase in GDP is equal to the proportional increase in total household income.[287]

C.5 Sensitivities to key assumptions

Table C.1 shows how our estimates of budgetary cost and GDP uplift would vary if different assumptions were used.

If labour supply is far less responsive to the decrease in net childcare cost than we've assumed ('low elasticity'), the cost and GDP uplift will both be lower. On the flip-side, if labour supply is more responsive ('high elasticity'), costs and benefits both increase.

Table C.1: Sensitivities of cost and GDP uplift estimates to key assumptions

	Cost ($b)	GDP uplift ($b)
Selected model	**5**	**11**
High childcare cost: $130 per day	6	11
Low childcare cost: $90 per day	4	10
High elasticity: 0.4	7	17
Low elasticity: 0.1	4	4

Notes: 'Selected model' assumes elasticities of 0.25 for parents working part-time and 0.13 for parents not working. 'High elasticity' assumes elasticities of 0.4 for parents working part-time and 0.21 for parents not working. 'Low elasticity' assumes elasticities of 0.1 for parents working part-time and 0.05 for parents not working.

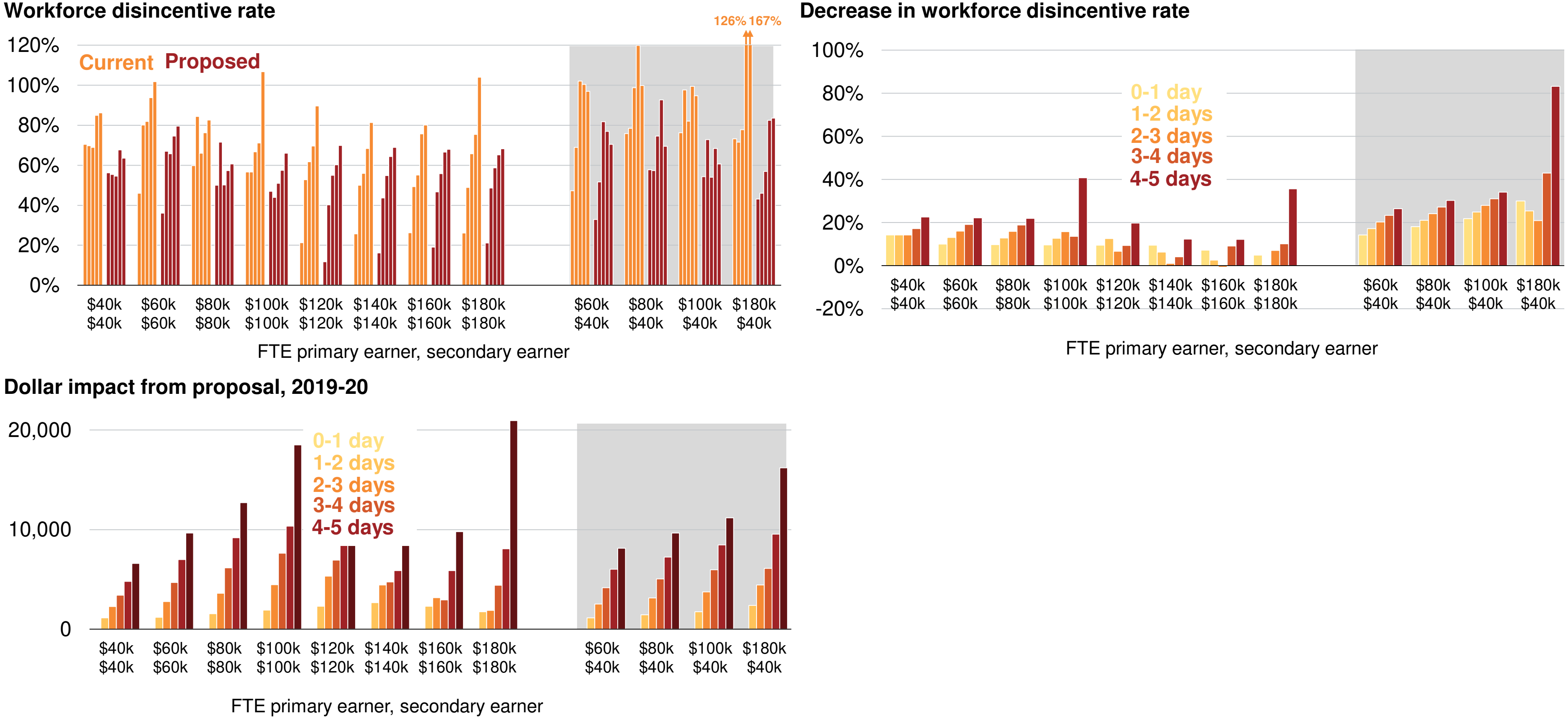
Source: Grattan analysis.

287. This method is used in Bryant et al (2004).

Appendix D: Impact of childcare reform options

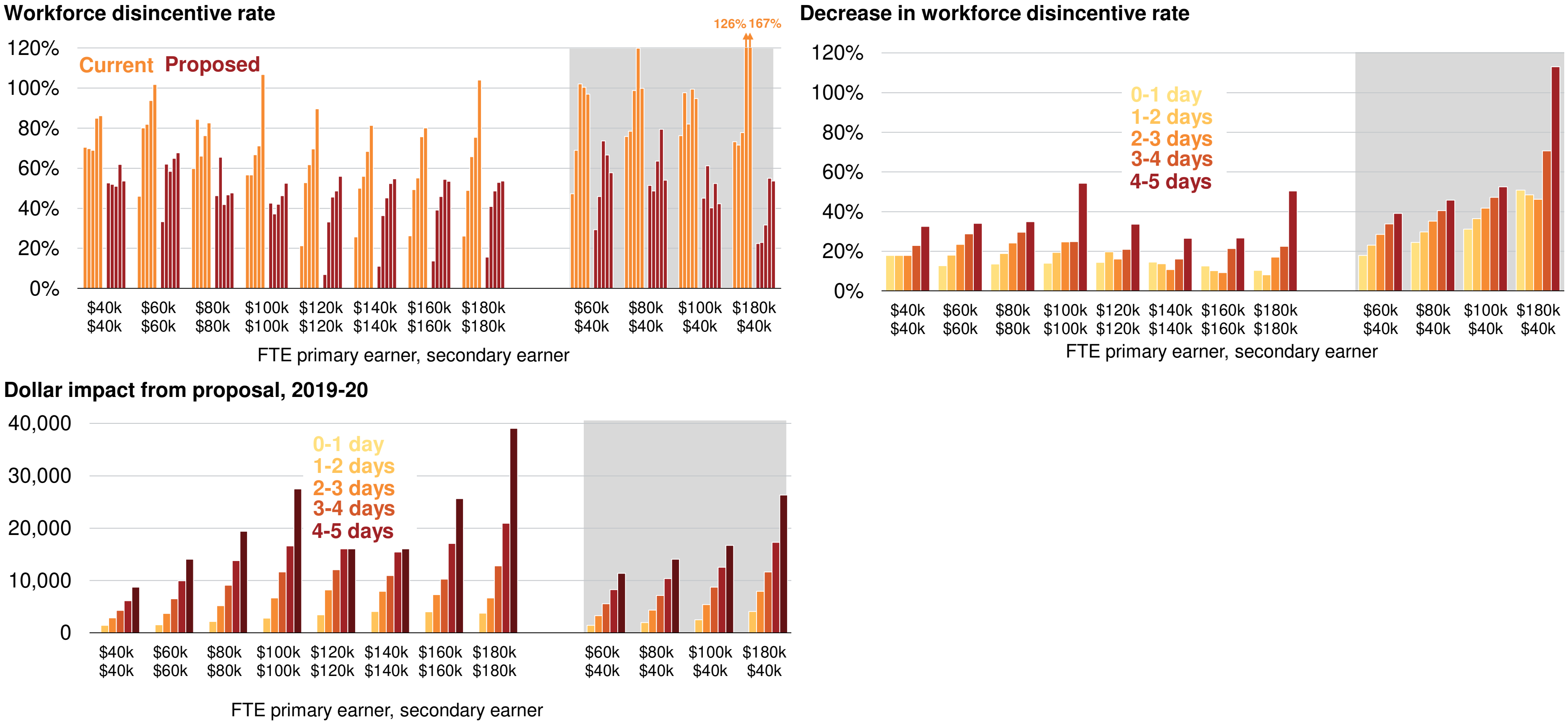
This appendix provides further detail on the workforce disincentive rate impacts of each of the childcare reform options discussed in Chapter 5.

Figure D.1: The subsidy boost option would reduce some of the highest WDRs. All parents would be better off, especially those working more.



Notes: FTE = full-time equivalent. Primary earner works full time. Two children, both require 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. Dollar impact is a windfall gain involving no behavioural change. Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

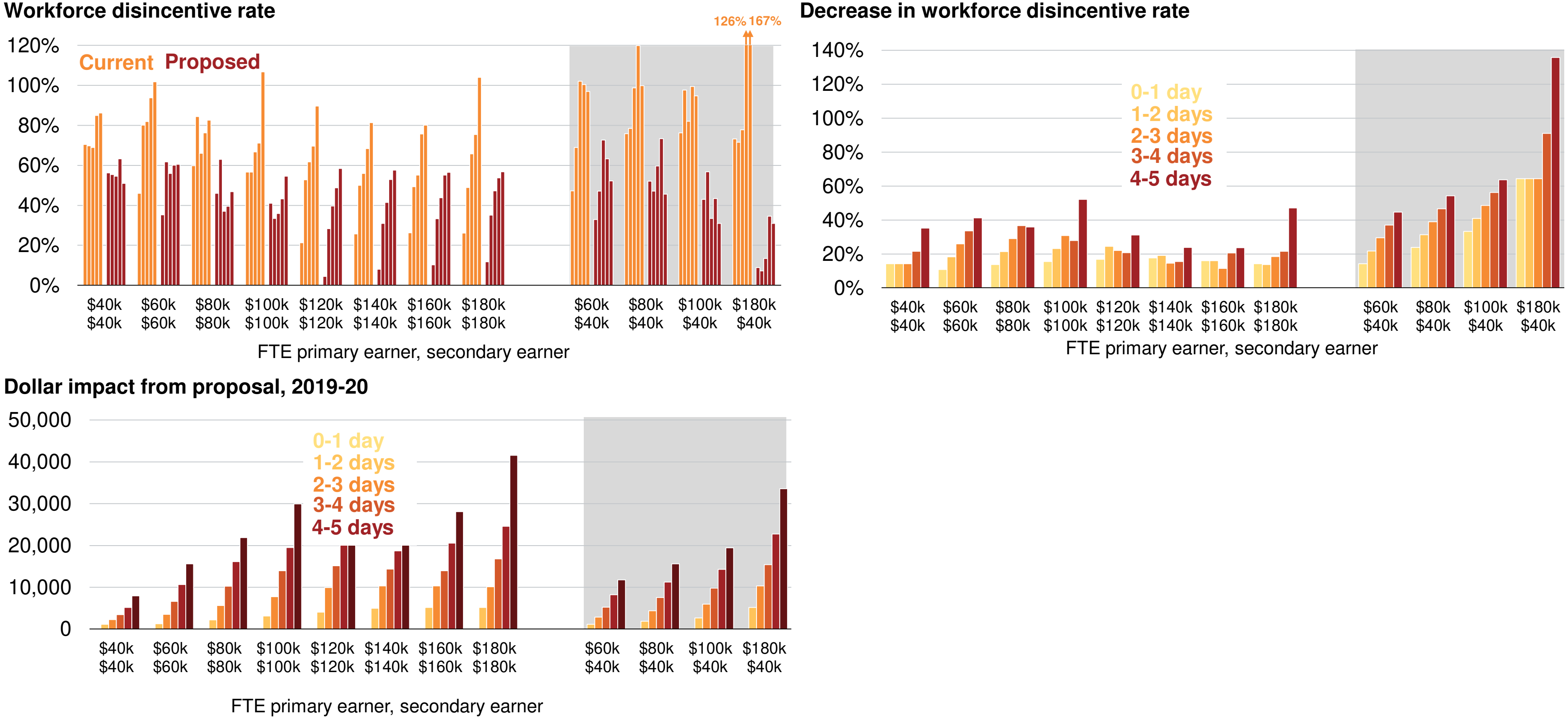
Figure D.2: The second child option would reduce some of the highest WDRs. All parents would be better off, especially those working more.



Notes: FTE = full-time equivalent. Primary earner works full time. Two children, both require 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. Dollar impact is a windfall gain involving no behavioural change.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

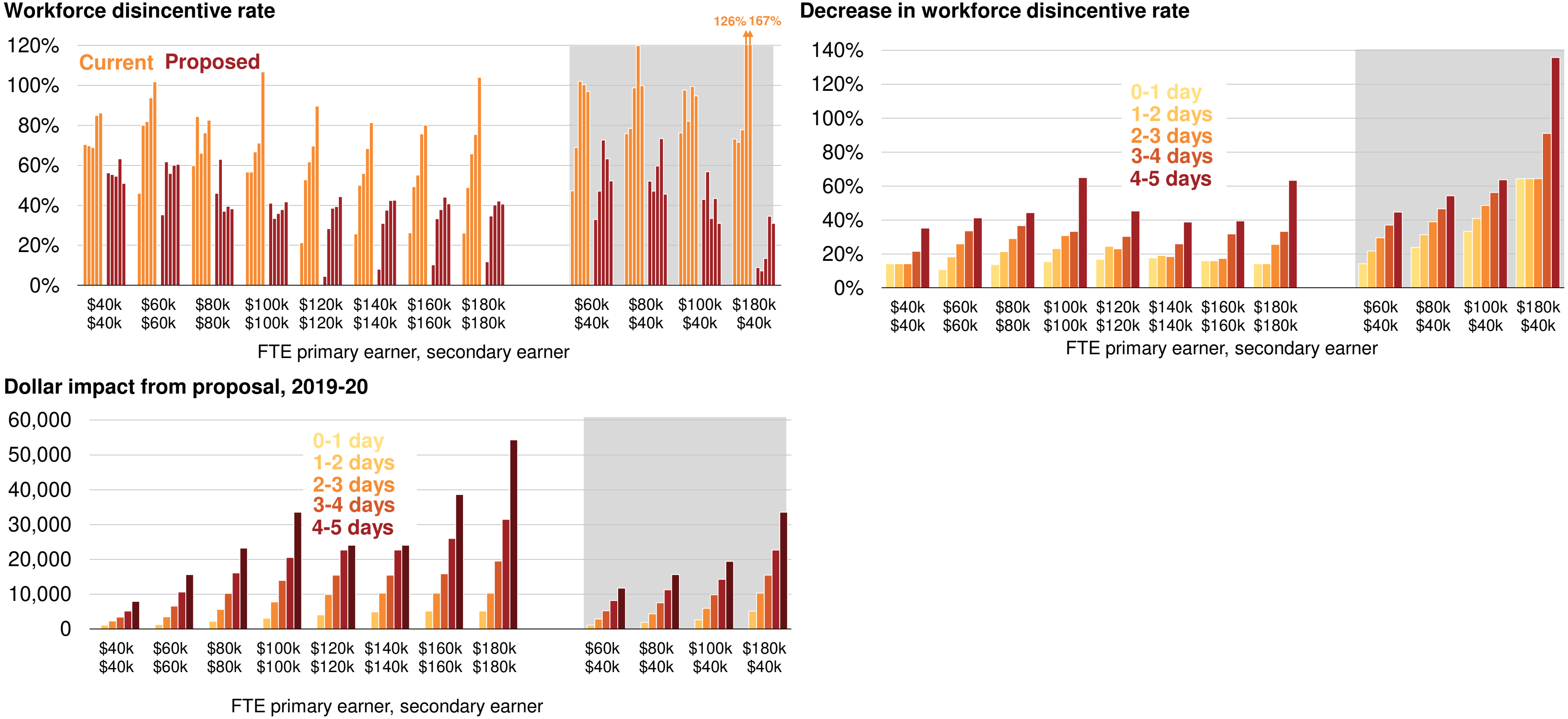
Figure D.3: The second earner option would reduce some of the highest WDRs. All parents would be better off, especially those working more.



Notes: FTE = full-time equivalent. Primary earner works full time. Two children, both require 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. Dollar impact is a windfall gain involving no behavioural change.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

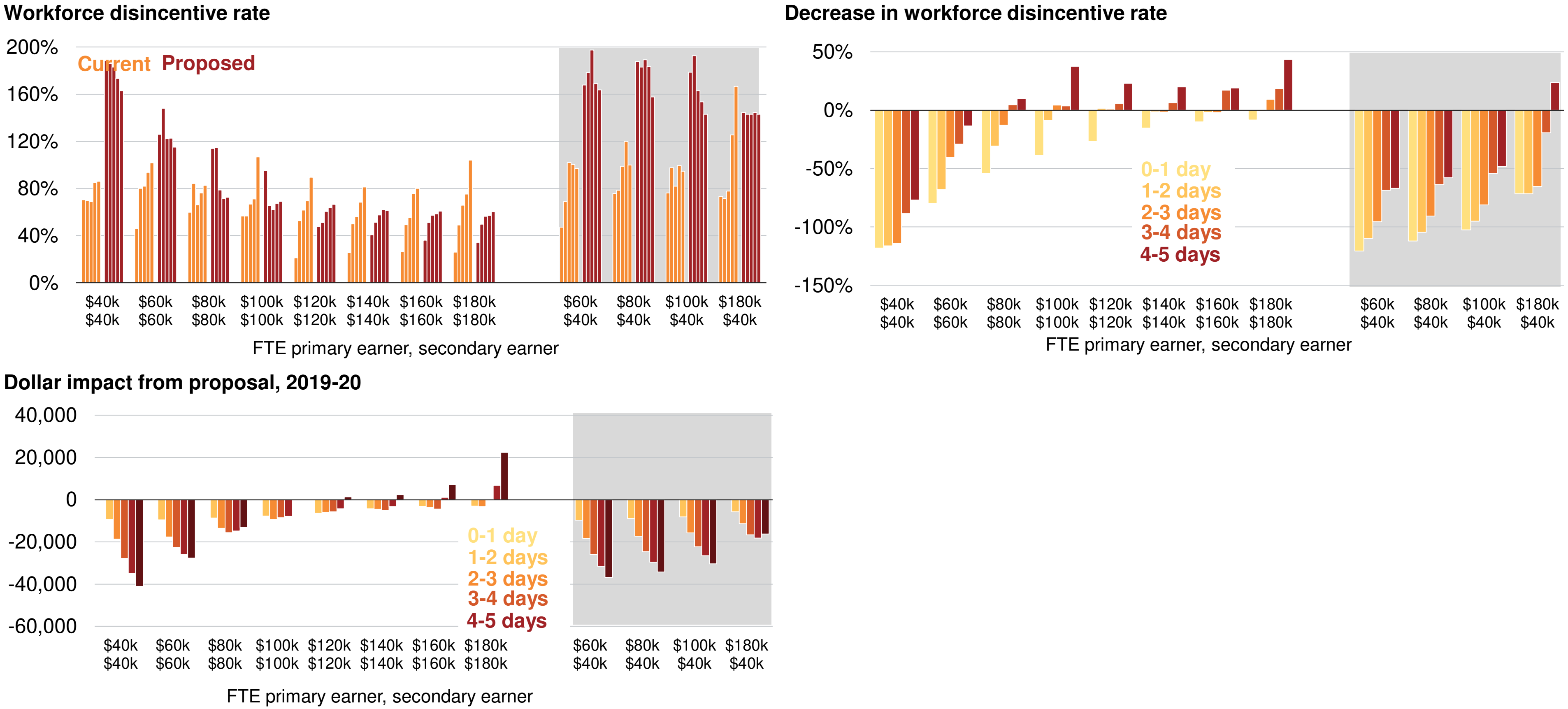
Figure D.4: The universal option would reduce some of the highest WDRs. All parents would be better off, especially those working and earning more.



Notes: FTE = full-time equivalent. Primary earner works full time. Two children, both require 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. Dollar impact is a windfall gain involving no behavioural change.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

Figure D.5: The tax-deductible option would exacerbate high WDRs. Only very high-income second earners would be better off.



Notes: FTE = full-time equivalent. Primary earner works full time. Two children, both require 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. Dollar impact is a windfall gain involving no behavioural change.

Source: Grattan analysis based on the 'daily rate' structure of Stewart (2018) and Ingles and Plunkett (2016).

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