A case for boosting the female workforce

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*Encouraging women to re-enter the workforce after starting a family could boost Australian GDP by billions of dollars. It worked in Canada, writes **John Daley***

It can be tough being a working mother in Australia. Compared to women in similar countries, they face bigger challenges entering, re-entering or remaining in the paid workforce. Removing these obstacles would not only give many women more choices, it could increase the size of the Australian economy by about $25 billion a year.

Grattan Institute's recent report, *Game-changers: economic reform priorities for Australia*, analysed the reforms that would do most to increase Australia's GDP over the next decade. Three stood out.

First, governments should change the tax mix, by broadening the GST to cover education, health and food, and reducing corporate and personal income taxes. Second, they should encourage older people to work longer by raising the age at which people can access superannuation and the aged pension. Third, they should reduce the powerful disincentives for women with young children to undertake paid work.

These disincentives arise from the way that the tax, welfare and childcare benefit systems interact with the cost of childcare. They make it unattractive for the second income earner in a family to return to work after the birth of a child. In most – though not all – Australian families with children, the second income earner is a woman.

The disincentives are greatest for second income earners who would earn less than $75,000 a year if they worked full time. The system is highly regressive because it leads women who are less well-off to work even less.

The tax problem

One of the biggest potential costs for families is the withdrawal of Family Tax Benefit A and Family Tax Benefit B. Family Tax Benefit A is paid fortnightly to a parent or guardian of a dependent child or student aged up to 22. The precise amount is tied to the number and age of the children, and the family income. A family with a combined income of up to $47,815 receives the maximum payment of $5150 a year per child.

As income rises, the family gets fewer benefits. For example, a couple with two children aged 14 and 12 loses its benefits altogether if they earn more than $112,396.

Family Tax Benefit B – which is designed to assist single parents and families with one main income – starts cutting out very quickly, when the second income earner makes just $5037 a year.

Because both of these benefits depend on the combined family income, a second wage earner's decision to return to work sharply reduces the size of the benefits. Rising family wages also reduce the Child Care Benefit and the low-income tax offset.

Here are two fictional examples of the problem, based on work conducted for Grattan Institute by the National Centre for Social and Economic Modeling (NATSEM).

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Kathy earns $40,000 working in customer service for a large retail chain; her partner, Tom, earns slightly more as a mechanic. When their first child, Billy, turns one, the couple want to put him in long day care so that Kathy can return to work full time and help pay off the mortgage. But when they do the sums, they hesitate.

Kathy's income, combined with Tom's, will increase the family's combined income. The consequent reduction of family tax benefit, child care benefit and rebate, and the low-income tax offset – coupled with childcare costs that we calculated at $8 an hour – mean that Kathy will take home just $259 for a 38-hour week. Fully two-thirds of her gross income will disappear in childcare fees, taxes and lower benefits.

The case of Belinda, a secondary school teacher who earns $70,000, is even more difficult. With two children in childcare, she and her partner, Kim, calculate that it is simply not worthwhile for Belinda to return to full-time employment. The withdrawal of family tax benefit and childcare benefit, coupled with the $8-an-hour cost of childcare, make it impractical. Belinda would take home just $341 a week on her return to full-time work. For the first three days of the week she will be working for 37 per cent of her gross earnings. For the last two days she will work for 10 per cent, taking home less than $4 an hour. Despite having two university degrees, Belinda decides to stay home with the children two days a week.

These cases help to explain why Australian women participate less in the workforce than in most other comparable countries in the OECD. Only 67 per cent of Australian women aged 15 to 64 are in paid work, compared to 78 per cent of men. Only 55 per cent of employed women, compared to 85 per cent of men, work full time. The vast majority of Australian women who do not do paid work, or who work part time, have children. Female workforce participation can only increase significantly if more mothers have jobs.

Australia's workforce participation rate for women aged 25 to 54 is not only below the rates of many European countries but fully six per cent below that of Canada, a country that is culturally and economically similar to Australia. Lifting our female participation rate to match that of Canada could increase the size of the economy by about $25 billion a year, Grattan Institute calculates.

What can be done?

Taking a tough approach, the Commonwealth Government could simply reduce or remove Family Tax Benefit A, which at present costs $13.8 billion a year. NATSEM calculations for The Australian in October show that reducing the benefit for second and additional children could save $5 billion over four years. Similarly, cutting Family Tax Benefit B would also reduce the strain on the public purse. This benefit assists families where one partner earns a relatively high income and is therefore widely seen as a form of middle-class welfare. Yet while cuts to benefits might induce more women to seek work, they are likely to be portrayed as unfair to families with children.

Alternatively, the government could alter the rules for Family Tax Benefits A and B and the Childcare Benefit so that the second income earner in a family takes home more money after tax, welfare and childcare costs. One way to do this would be for all benefits to depend on the wage of the higher income earner in a couple. At present, benefits are means tested on the basis of the couple's joint income. If benefits depend only on the salary of the higher earner, the second income earner can take home more of what she or he earns.

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The changes would come at a short-term cost to the federal budget, but a likely gain over the longer term. More work is required to identify tax and welfare changes that would reduce barriers at an acceptable cost to the budget. However, in total there would be more money in the economy to pay taxes.

For mothers, increased workforce participation would have other long-term benefits. Women who do not work for several years when they have young children are more likely to suffer significant economic disadvantage. After several years of working part time, or not at all, many women fall behind their former colleagues and lack confidence to resume demanding roles. Often they struggle to find meaningful work again. They may miss out on the social connections work provides, and the chance of financial independence, especially in retirement.

Of course, individual women and men must make trade-offs between work hours, the benefits of parental compared to institutional childcare, unpaid and volunteer work, and time spent on leisure and private life. Grattan Institute's report does not say that women 'should' return to work after having children; rather, it urges the government to make policy changes that increase people's choices. The current system discriminates against female choice by discouraging women from undertaking paid work.

The choice to work

The experience of Canada suggests that if these distortions were removed, many more women would choose to work. Female workforce participation has risen strongly in both Canada and Australia since the late 1970s, but in Australia the increase has been mainly among younger and older workers. However, since 1990, workforce participation among women aged 35 to 44 has barely changed.

In Canada, by contrast, the participation rate among women in similar age groups has continued to rise. That is almost certainly because, from 1997, Canadian governments introduced a range of reforms that reduced the disincentives for women to work. Tax cuts for low and middle-income families increased the take home pay of second income earners. Critically, governments also committed to improving the accessibility, and subsidising the cost, of childcare.

Australia would do well to follow Canada's lead. There is compelling evidence that our current tax and welfare arrangements – plus the cost of childcare – create substantial barriers to female workforce participation. There are clear policy levers available. It is time the federal government used them.

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