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Parent-leave piggy bank can fly

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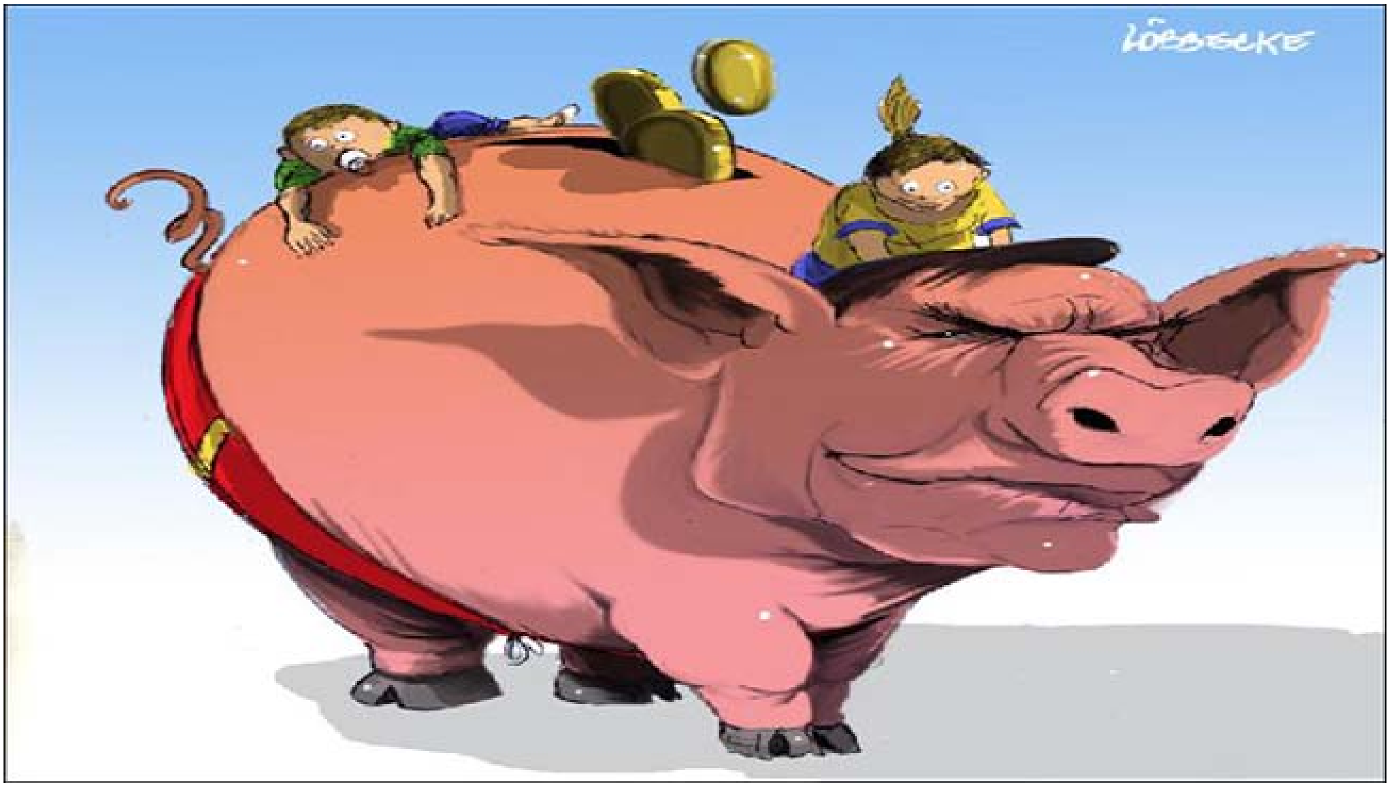

Illustration: Eric Lobbecke Source: TheAustralian

CAMPAIGNING is about raising expectations, governing about managing them. The critical question about Tony Abbott's paid parental leave scheme is whether we can afford it.

The answer, despite all the hyperbole, is yes we can. But there are simple options for making it more affordable.

To assess the Opposition Leader's scheme, one needs to understand the problem it seeks to address and the way our system of public transfers helps individuals deal with problems of that kind.

While part of the system seeks to reduce hardship, much of it helps us deal with the predictable, but costly, events in life such as getting an education, raising a family and, eventually, retiring from the workforce.

This mainly involves helping people to plan for and transfer income between different stages of their life: for instance, saving when working to fund retirement. In carrying out those transfers, the government acts not as a redistributive Robin Hood but as a piggy bank, taking from us at one stage to give back to us at another. The rationale for a government piggy bank is twofold: the community benefits from those transfers being made; and the government can make them more efficiently than we could on our own.

Paid parental leave meets both those criteria. The community has a great interest in parents being able to spend time with their children when they are very young and that underpins longstanding regulations that require employers to make parental leave available. At the same time, many young families struggle to finance desirable levels of parental leave.

Larger employers can bear the burden of financing parental leave, as the size of their workforce, and the scale and stability of their revenues, means the cost is relatively low and predictable.

Small employers, however, could find themselves exposed to sudden devastating increases in their wage bill. Their inability to provide paid leave hinders their capacity to compete in the labour market, while their employees receive compensation packages that do not fully meet their needs.

Parental leave has many parallels in that respect with workers compensation and pensions. Historically, large firms could handle the cost of offering these benefits; small firms could not. The effect was to entrench under-provision of those benefits and to skew the structure of employment. Compulsory provision, funded through taxes and tax incentives, was required to ensure these benefits became universally available.

The desirability of some form of compulsory scheme is therefore common ground between the parties. But Abbott's scheme is significantly more generous than Labor's, leading to criticisms that it is unaffordable and inequitable. Those criticisms are not well-founded.

To begin with, affordability is a matter of priorities: there is no shortage of programs that provide far fewer gains to society, including those throwing billions of dollars at unilaterally reducing our carbon emissions.

As for equity, Labor claims it is inherently unfair to provide taxpayer-funded parental leave on an income-replacement basis. Yet that is exactly what happens in the public service. And it is only those with a "class war" mindset who think it is fair or sends the right signal to offer income replacement at 100 per cent to single mothers who leave school at 18 but at only 30 per cent to the parent who trains as a nurse, an engineer or an accountant.

More fundamentally, Labor's criticism misses the point, which is that these piggy-bank schemes are designed not to redistribute income but to help people smooth out their income across their lifetime. Taxpayer support for retirement savings, for example, aims at ensuring retirees can maintain a reasonable share of their pre-retirement income, rather than at forcing retirees on to a minimum income.

But that doesn't mean such schemes should be open-ended: and the greater the number of recipients who can get more than they pay for, the greater the pressure for unduly generous benefits, funded by inefficient and distorting taxes.

Aligning benefits with lifetime payments is the best way of handling those pressures.

Options include making a component of the benefit a loan, though it is important to avoid creating disincentives to return to work, which could arise if repayments were based on individual income.

But even with an element of repayment, financing such a scheme would impose some call on taxpayers. Ideally, that would be met by reducing other spending. However, if additional revenues are needed, Abbott's proposed levy on major corporates is not the best solution.

That is not to endorse Finance Minister Penny Wong's claim that the levy would hurt the flow of dividends to self-funded retirees (a concern that never troubled her with Labor's mining or carbon taxes). As the Henry review emphasised, and Wong herself said when Labor proposed cutting company income tax (before backflipping on that too), while taxes on company income don't lower long run profit rates, they do discourage investment and reduce productivity.

Given that, it would be preferable to rely on a broader tax on payrolls, with the wider base allowing a much lower rate than Abbott's levy.

Abbott is strongly committed to paid parental leave on an income replacement basis. But he has plenty of time to finesse the details of the scheme design and funding. It easy to forget that the Higher Education Contribution Scheme, a piggy bank scheme now viewed as a significant success, took several iterations to get right. Like Rome, major innovations in social programs are not built in a day - but they are still worth doing.