

# ROAD TEST: THE CHILD CARE REBATE

Inadequate access to quality, affordable child care services is acknowledged as a major issue by both the Coalition and ALP, but the proposals currently on the table won't take us where we need to go: quality early childhood education and care that is accessible to all children.

## What's under the bonnet?

- The Coalition has promised to pay the current 30% tax rebate in advance, directly to the child-care provider, instead of through parents' tax returns as at present
- The ALP will raise the rebate to 50%, payed quarterly, and increase the cap on claims from \$4,354 to \$7,500 per child

*"If you give more cash for people to consume a product without doing anything to increase supply, you run the risk of that cash being appropriated by the sellers in the form of higher prices"*

*ANZ chief economist Saul Eslake*

## Poor value for money

Basic economics tells us that increasing purchasing power without doing anything to control costs or address supply constraints puts pressure on prices (see the home savings account road test for how this affects housing affordability).

The National Centre for Social and Economic Modelling found that the current child care rebate only lowered parents' spending for a short time after it was introduced – it was shortly swallowed by price hikes.

## Better models available

Rebates are the least effective way to increase quality, broaden access, or address the poor pay and lack of training for childcare staff.

Both major parties have promised other measures. The ALP has promised to spend \$450 million on providing 15 hours of preschool for all four year olds, and has also pledged \$73.5 million for training places/subsidies for staff. Both parties have also promised specific one-off programs to fund the capital costs of constructing new centres: Labor will fund 260 school-based centres, and the Coalition will provide grants of \$1 million to local governments to go towards up to 36 new centres.

However, the spending on these measures is dwarfed by the cost of the rebates, and their impact on supply and accessibility will cut in more slowly than the effect of the rebate changes.

### Key facts

- Most young families now have the primary carer in paid work within the first two years of their children's lives
- ABS 2005 figures show child care usage varies with age but is used by about 30% of children below school age. Usage was limited by costs for many and lack of accessible care for 106,000 children aged 0-4 years
- Richer parents will benefit most from Labor's higher rebate, as they spend more on child care and are taxed at a higher rate.

## Verdict: not roadworthy

Poor design and a lack of awareness of road conditions mean that neither major party really passes the road test. The rebate model fails to meet community standards and leaves taxpayers funding corporate profits, so in the long run funding will need to shift from individual subsidies to contracts with providers.

Reviewed by Eva Cox

## Other reviews

[Making child care count is not just about cost](#), Elizabeth Hill, SMH, November 13 2007

[Parents rebates will drive up fees](#), Stephen Lunn and Paul Maley, The Australian, November 14, 2007

[Canberra fails to meet the work-family benchmark](#), Eva Cox, Centre for Policy Development, September 2007