A FAIR PROSPERITY THROUGH REWARD FOR EFFORT

SPEECH TO THE PURSUING OPPORTUNITY AND PROSPERITY CONFERENCE

WAYNE SWAN, SHADOW MINISTER FOR FAMILY AND COMMUNITY SERVICES, MELBOURNE THURSDAY 13 NOVEMBER 2003

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CHECK AGAINST DELIVERY

INTRODUCTION

Last time I attended a Melbourne Institute gathering was in February - the occasion of the 30th anniversary of the Melbourne Institute.

It was an event I had been looking forward to, because of the respect I have for the venerable institution founded by the late Ronald Henderson and its path-breaking work on poverty in Australia.

On that evening, I listened to a speech by Treasury Secretary Ken Henry, and remembering the reasons for my admiration of the Melbourne Institute, I'm sorry to say his words just made me angrier and angrier as he went on.[1]

His case was the same as the Government's *Intergenerational Report* in 2002 - that one of the central planks to increasing participation and sustaining growth is to cut the lifeline to thousands of disabled Australians.

Measures to address the faltering tax, welfare and service systems, which combine to crush the aspirations of Australian families, no matter how hard they work just didn't rate a mention.

Ronald Henderson would have turned in his grave.

I don't mean to single out Ken, he has a responsibility to argue the Government's case but I do want to challenge the new orthodoxy that dominates the economic and social debates we have in this country today.

My message to you is that the medicine being shoved down our throats – cuts on cuts, a smaller and smaller role for government and more and more inequality is an ideological, not a measured prescription.

We are in the grip of a new conservatism. Today few economists or opinion leaders care about a fair prosperity.

The new conservatives who inhabit the Government benches and the favoured think tanks would have us believe that you motivate the well off with tax breaks and the battlers with a stick.

They are indifferent to whether increasing wealth comes through proper reward for everyone's efforts or from a windfall to the few, so long as it comes.

The new conservatives import ideas from United States – the ultimate user pays society – where you can't afford to get sick unless you are well off and where you make minimum wages only when you are lucky enough to get tipped.

There is much to admire in America but that admiration should not allow us to abandon the things we do better.

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[1] Dr Ken Henry *Address to the Melbourne Institute's 40th Anniversary Dinner*, 7 February 2003

Australians have in the past shown a capacity to find our own balance on these issues, and frequently we have led the world in putting the principles of social justice into action.

One hundred years of nationhood has allowed us to shape a unique compromise between government and market that has ensured our relative prosperity and delivered opportunities to the great bulk of the people.

That compromise – the *Australian way* - has delivered Australians a minimum wage, universal education and health services and a modest safety net.[2]

At various times over the last Century the *Australian way* has even encompassed significant economic action by Governments to ensure our prosperity and opportunity.

At the time of the Second World War for example, the Curtin and Chifley Governments planned for greater economic growth in order to ensure a healthier social dividend for the Australian people.

Even less ambitious governments have kept faith with the will of the people and their belief in the fair go by at least ensuring a fair distribution of wealth.

Until now.

The *Australian way* is not oppositional, anti-reform or protectionist. Nor is it averse to short-term pain if there is to be a long-term gain.

For instance, Australians put their votes and their shoulders behind the reforms of the1980s and 1990s, which ushered in the low inflation growth economy Australia is today.

But Labor provided the crucial quid pro quo of investments in the social wage - in health, education, family payments, and training to compensate and help people adjust.

In this context it is important to acknowledge that during this recent period of reform, in some areas Labor failed to meet its own aspirations.

Personally, there was no greater tragedy than the miss timing of our efforts to address the situation of those workers who were displaced by economic reform.

Working Nation was the right response but it came too late to rescue many men and women.

But all this is a world away from the welfare reform debate today where we hear diatribes about how the real reform obstacles are a few thousand disadvantaged Australians in receipt of the Disability Support Pension.

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[2] For a discussion of the *Australian Way* see Bettina Cass and Paul Smyth (eds) *Contesting the Australian Way: States, Markets and Civil Society* (1998)

I for one don't fight for economic and social reform in this country for it to end up nickel-and-diming vulnerable pensioners.

This is not to say that the disability pension is not in need of renovation, just that the motivation for change should be loftier than a naked attack on the living standards of our most vulnerable.

There has been - and this is indisputable and undisputed - a dramatic widening in the distribution of wealth in Australia in recent years. But we have come to the wrong place when the argument ends up being that the poor - such as disability support pensioners - are doing too well.

Sure we can reduce the generosity of the safety net and we will save some money. But that will not change one Australian's life for the better or ensure the investment necessary to sustain prosperity for the next three decades are made.

And it ignores the real challenge – growing inequality and poverty of opportunity in Australia.

It ignores the fact that when you look today at the interaction of the tax and welfare systems the link between hard work and reward has been severed.

The bulk of the people who've worked hard to make our economy strong are not getting their fair share.

In Australia today the already wealthy are streaking ahead.

The incomes of the top 20% have grown seven times faster than the bottom 20% and fifty percent faster than middle-income earners over the last four years.

So while the bottom 20% saw their weekly incomes increase by just $3 between 1996 and 2001, the top 20% saw their weekly income surge by $109 over the same period.[3]

Yet in the face of all the evidence that we have a serious problem with incentives at the bottom and in the middle of the tax system – one that will impede economic growth in the future - all we ever hear are the special pleadings from the top end of town.

The new conservatives have a vision of growth coming through more and more incentives for the wealthy rather than rewarding the effort of the great bulk of income earners.

That is a recipe for greater inequality and let me say that in the long run inequality matters.

Inequality diminishes opportunity, wastes human potential and delivers significant social and economic costs upon our community down the track.

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[3] ABS 6523.0 *Household Income and Income Distribution* 2000-01 (July 2003) Table 1 P 13

Governments have a choice about whether to fight inequality or not.

We in the Labor Party believe that for the sake of future generations of Australians, it is a fight worth having.

So my first point to you today is that while I am unashamedly pro-growth, there is a way of securing a high growth future without compromising the fair go, without jettisoning the social safety net.

We are being hoodwinked by the new conservatives into accepting an unacceptable trade off – the loss of the *Australian Way*.

The answer lies in addressing the lack of tax and welfare incentives for the vast bulk of Australians, in re-establishing the relationship between effort and reward.

These are difficult reforms, which require a lot of hard and creative thinking.

POPULATION, PARTICIPATION AND PRODUCTIVITY

The challenge posed by the Intergenerational Report is how we sustain growth to sustain our standard of living.

Ken Henry gives particular attention to *the three P's* – population, participation and productivity.

He is keen that we identify and address the factors that will affect future growth - the size of the working age population, the participation and unemployment rates, overall hours worked as well as labour productivity.

The Government advocates further labour market reform, toughened social security measures and pushing up the retirement age and it disputes the need to address declining birthrates.

Let me undress this argument a little.

It means lower wages and a reduced and meaner social security net instead of tax incentives, active labour market programs and a greater investment in education reforms - in short, a failure to see that the quality of our workforce is the key to growth.

It means keeping older workers in harness rather than investing in work and family and tax reforms aimed at creating a means for young workers to make room in their busy lives for children.

It is about longer hours of intensified work instead of fostering smarter workers and encouraging high-yield growth industries like education and information and communications technology.

In my view, all the things that Henry and others hold dear - labour productivity, participation and unemployment - can be improved if the right incentives are built into our tax and welfare system and we are prepared to investment in our workforce.

In fact I would go so far as to say that this is the key to enlarging and motivating our workforce.

Today I want to focus on the welfare to work divide and the situation of low and middle-income families – two areas much talked about but completely ignored by government.

ADDRESSING THE BARRIERS BETWEEN WELFARE AND WORK TO INCREASE PARTICIPATION

In Ken Henry's speech at the Melbourne Institute which I have already spoken about, the Treasury Secretary tried to bring focus to the issue of participation by claiming only 15 per cent, or some 390,000 of the 2.6 million workforce-age Australians on welfare were required to look for work.

These are stark figures, until you scratch the surface.

If you further discount the number for female age pensioners under 65 - a disappearing group; students who are required to study as a condition of their benefits; others who have earnings in any case such as the near one third of parenting payment recipients in employment, you have accounted for 1.3 million of the 2.6 million.[4]

The remaining 1.3 million, are suffering temporary illnesses, have disabilities or are caring for those with disabilities, are people approaching age pension age who have little or no workforce experience, or are parents caring for young children

Now I agree that future participation rates are important.

But it is obnoxious when the figures have to be caressed to steer everyone to the Government's conclusions.

The Government's 2001-02 Budget decision to cut the fortnightly pensions of 200,000 Disability Pensioners by more than $50 came not after strenuous efforts to improve financial incentives to work or after offering access to capacity-building programs.

No. It came after eight years of unwinding of active labour market initiatives and neglect of incentives save for the reinstatement of Labor's working credit initiative.[5]

Despite the initial promise of an activist welfare reform program aimed at increasing participation headed by Patrick McClure, the agenda we have ended

[4] *Family and Community Services Annual Report* (2001-02) and *Family and Community Services Labour Market and Related Payments* (June 2002)
[5] Note, the introduction of the Working Credit on 20 September 2003 followed the DSP Budget decision of 2002-03.

up with has been one of squeezing the pips out of ever smaller groups of ever more disadvantaged Australians.

I think Patrick's critical comments about the decision to target Disability Support Pensioners at the time spoke volumes about how far the government had departed from a balanced reform program.[6]

It is hard then to escape the conclusion that the new conservatives have deliberately allowed the problem to snowball to justify what is an ideological assault on the Australian social safety net.

As I said earlier, we do need to encourage the participation of those who are currently on payments who have a capacity and who now describe themselves as outside the workforce.

If we engaged just 30% of the one million or so workforce age pension recipients for example, we could lift the current participation rate of 63.5% by two percentage points. By engaging 50% of this group, the participation rate could be increased by a further percentage point.[7]

How do we do this?

At the heart of the problem is our failure to seriously engage with pensioners and to deal with the problems created by effective marginal tax rates.

Increasing participation

There is no doubt in my mind there are some people receiving Disability Support Pension today who in a fair world would be in some form of work – in particular, the high proportion of men and women aged 50-64.

It is not their fault they remain on income support. It is our failure to invest in their rehabilitation.

This group must be grinding their teeth at the suggestion that after years of neglect by this government, no active assistance, no action to address discrimination in the labour market, they are now being told their participation is the key to our future.

Consider these facts:

- In the last financial year just under 10% of people on DSP have employment related earnings – that is around 63,000 people out of a population of 673,000;[8]

- Australia has the 7th lowest employment rates for disabled people;[9]

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[6] For example see 16 May 2002, *ABC Radio National Breakfast Program*.
[7] ABS 6202.0 *The Labour Force* (September 2003)
[8] *Family and Community Services Annual Report* (2002-03)
[9] *OECD Employment Outlook: Towards more and better jobs* (2003)

- According to the 2003 OECD Employment Outlook, disabled Australians had just over 40% chance of employment compared to non-disabled people who had between 70% and 80% chance of finding work; and

- Nearly two thirds of the OECD countries measured had better employment rates than Australia for disabled persons when compared to non-disabled persons.

The poor outcomes are hardly a surprise given that less than 3,000 people last year had access to a wage subsidy and only 236 accessed Government-funded workplace modifications.[10]

That is, one in every 225 disabled pensioners gets a wage subsidy and one in 2,800 is assisted with workplace modifications – in other words, access employment assistance has become a lottery.

In terms of active rehabilitation and training assistance, the OECD has pointed out that Australia offers fewer places than the total number of new entrants to the Disability Support Pension each year.[11]

We must be prepared to work intensively to ensure new entrants to DSP remain on payment for shorter spells and that there is a clear pathway to work if and when they are able to participate.

This means a more active response from Centrelink than has yet been envisaged - one that includes early intervention, rehabilitation and work subsidies.

Both anecdotal evidence and the earning patterns of Disability Pensioners suggest a reluctance to leave benefit because of the financial cost of participation and the withdrawal of payment.

One of the most significant work disincentives among DSP recipients appears to be the fear that a temporary period of work may preclude them from returning to a payment that is worth $60 more than unemployment benefit.

This is logical enough.

For this reason we need to consider whether we extend the current capacity to return to DSP following a period of work – we must encourage them to try when they are able.

We must accept that for many people, the Disability Support Pension will be a long-term source of income. **However the capacity of many others on the payment to participate remains untested because we have failed to invest in the capacity-building programs that would give them a chance.**

[10] *Family and Community Services Annual Report* (2002-03)
[11] *OECD Employment Outlook: Towards more and better jobs* (2003)

The picture is the same across the ranks of the unemployed.

Some would argue the Government's bare bones labour market programs are all that are required when unemployment is less than six percent.

My response is that whilst the headline unemployment figure looks good, a decade of economic growth has failed to budge very long-term unemployment and or curb new entries to the Disability pension.

In fact the number of people claiming unemployment benefits for more than two years has doubled under the current government to 281,300.[12]

And the average duration on activity tested income support payments has increased in the last three years from 150 weeks to 202 weeks – in other words from three to four years.[13]

Incentives for jobseekers

We all know the figures - the unemployed lose almost 90 cents of each additional dollar they earn. Sole parents and the disabled lose up to 70 cents of each additional dollar earned.

Once the costs of employment are factored in the returns are very marginal indeed.

With incentives as poor as these it is no wonder we have a problem with participation.

Also for disabled pensioners in particular, the risks associated with work – that is the prospect of being shuffled onto a lower level payment, coupled with the costs of participation – make work an almost illogical economic proposition.

Clearly as a matter of urgency we need to reconsider the incentives for people to move from welfare to work

It is curious that despite considerable awareness of the disincentives at the bottom end, we have not acted to help the people in our community who are paying the highest effective marginal rates of tax.

It is worth repeating that the new conservatives believe you motivate the wealthy by giving them more and the battlers by giving them less.

We need to send a strong message to people trying to move from welfare to work that in crossing the divide they will be rewarded for their effort.

The recently reinstated Working Credit goes some way to encouraging greater contact with the world of work. However, it is only of temporary benefit with the gains disappearing rapidly once an individual establishes a regular pattern of work.

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[12] *Senate Community Affairs Committee Budget Estimates* 5 June 2003
[13] *Family and Community Services Annual Reports* (2000-01) and (2002-03)

There are two possible longer-term solutions that address the problem of punitive effective marginal tax rates:

- Further easing of the tapers applying to benefits; and/or

- Tax incentives.

I believe providing tax incentives are preferable because they directly reward income earned through work and not other sources.

A carefully designed tax credit could dramatically improve the incentives for the unemployed, sole parents and those with disabilities to work while avoiding significant increases in effective marginal tax rates up the income scale.

As well as addressing work disincentives a tax credit could be paid once specific goals are met such as continuity of employment.

We need to reward the efforts of those who have been excluded because their participation is important to the nation’s future productivity.

POPULATION, PARTICIPATION AND PRODUCTIVITY - LOW AND MIDDLE INCOME WORKING FAMILIES

The importance of the family unit as an anchor for a good society is unchallenged.

But its important contribution to both our population and ultimately the participation rate has been discounted by the current Government.

The work and family debate in Australia has to date been expressed as both social and a political terms. It is time it was recognised in economic terms.

I say to those looking to Australians of mature age to come out of voluntary or enforced retirement to prop up participation rates what about first clearing the economic path for parents to be good workers?

The current conflict between work and family life is a brake on worker productivity and damaging to the lives of too many parents and their children.

The tax and family payments system is short changing families.

And when you add to this, the absence of quality children’s services and leave arrangements, you begin to wonder how parents cope at all.

Witness the extreme shortage of childcare places for parents looking to work a few extra hours a week.

Properly constructed work and family policies should aim to eliminate the friction caused by the competing elements of families’ lives.

They should aim to provide a family with a set of financial incentives, leave arrangements and services that allow them to concentrate their efforts on work in sequences that are compatible with family life.

I will deal with the problem of financial incentives first and then consider the basket of services and other assistance for families.

Incentives for families

It is curious that we can be debating future productivity and participation when we continue to ignore the impact on productivity that arises because it is not economic to work harder.

We have a family payment system that punishes families who work harder or leave the workforce to have a child and deliberately intimidate many families, particularly the working poor into claiming less than their full fortnightly entitlement

The release last month of research done by NATSEM for the Prime Minister's department into the problem of effective marginal tax rates belled the cat on the lack of incentive for families on low and middle incomes to work harder.[14]

The research simultaneously confirmed Labor's analysis, vindicated Tony Abbott and exposed how out of touch the rest of the Howard Government Cabinet is with families.

In a speech to the Young liberals in January, Tony Abbott admitted that effective marginal tax rates are problem that requires a solution.[15]

But he was immediately slapped down by the Prime Minister and Treasurer.

Sensing the impenetrability of the new conservative front, Amanda Vanstone took a less noble path.

She sought to deploy the time-honoured tactic of heaping the problem back onto the shoulders of families.

In a speech titled *The Needy and the Greedy* to the Institute of Public Affairs, she tried to argue that the value of working was greater than the combined effect of disincentives.[16]

It was a sorry attempt to badge hard working families as welfare rorters.

The dilemma faced by Australian families caught in the welfare-tax pincer cannot be brushed aside with facile or hateful rhetoric.

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[14] Department of Prime Minister and Cabinet – *Research findings on EMTRS for secondary income earners* (June 2003)
[15] Tony Abbott, *Reform with a Social Conscience*, Speech to the SA Young Liberals, 11 January 2003
[16] Amanda Vanstone, *The Needy and the Greedy*: Speech to the Australian Liberal Students Federal Council, 7 July 2003

In Australia, assistance to families was never considered a *welfare* benefit until the Howard Government needed to characterise it this way to justify its recouping of the debts its reforms visited on families.

Ever since the introduction of a universal maternity allowance by the Fisher Government in 1912, payments made to families have been on the basis that they helped recognise the considerable costs of having children.

Progressively the benefits have become more generous in value, particularly for low-income families but also more targeted to ensure the enhanced levels of assistance are delivered to those families most in need.

This redistributive mechanism has been especially important for families over the last three decades as work and wages have become more insecure and the notion of a single breadwinner family become unsustainable.

While the system has worked relatively well in augmenting family earnings it is the withdrawal of these benefits that is now sapping incentive.

With families more likely to now have variable earnings the impact of effective marginal tax rates on families has become a pressing issue.

Government's have been grappling with how to address these disincentives for some time.

For example, the previous Labor Government unstacked the income tests that applied to low-income couple families where one parent received parenting payment.

And in December 1995 a detailed Ministerial Submission was prepared by the Department of Social Security, which canvassed wide-ranging reforms to transfer payments for families.[17]

This submission provided a blueprint for the incoming Howard Government, but was ignored.

While the New Tax System Reforms in 2000 saw a modest reduction of family payment tapers from 50% to 30% coupled with the increase in the income free area subsequent analysis by NATSEM[18] has revealed the reforms made very little impact.

Indeed, detailed figures show the number earners facing effective marginal tax rates in excess of 60% have almost doubled since 1997 to almost a million families.

The problem is the relaxed family payment taper shifted the pain of high effective marginal tax rates to a much broader group. And cuts to Youth Allowance in 1997 via an extension of parental means testing, negated in part the subsequent unstacking of allowance tapers and family assistance tapers.

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[17] Department of Social Security - Low-income traps for working families Ministerial Submission ref: 1058 (October 1995)
[18] NATSEM, *Work Incentives under A New Tax System* (2002)

Another key change that exacerbated the impact of effective marginal tax rates on families came with the introduction of an income test for the new Family Tax Benefit based on future income.

As a result of these changes any increase in income affects a family's current year entitlement.

This differed from the Family Allowance system in which increased earnings normally didn't impact on entitlements until the subsequent year.

This added some elasticity to the earnings - take-home benefit equation.

Under the new system increased earnings are immediately felt through a reduction in benefits. It is this zero tolerance policy that has resulted in more than one in three families accruing FTB debts averaging $900 per year[19].

On balance the reforms have been a failure, resulting in effective marginal tax rates spiking to new levels for middle-income families.

In fact our effective marginal tax rates problem is now one of the worst in the OECD. [20]

Among thirty OECD countries studied in 2001, Australia had the third worst performance when examining the work incentives for a couple on average earnings with two children.

They lost 61.5 cents for each additional dollar earned – 22.4 cents more than the OECD median.

For a single parent on two-thirds average earnings with two children, Australia was dead last. Single parents losing 70 cents of each additional dollar earned – 32.8 cents more than the OECD median[21].

As a redistributive tool to help families with the cost of raising children the new system also appears to have failed to deliver the boost in assistance that the Government has claimed.

Initially the Government claimed the rolling of twelve benefits into three would deliver $2.4 billion extra[22]. However this was subsequently downgraded to $2 billion.

But this claim has not been independently verified[23].

In light of the clawback of benefits that this new system visits on families each year, the true figure is likely to be significantly less.

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[19] Senate Community Affairs Committee Budget Estimates November 6, 2003
[20] OECD 2003 – *Taxing Wages* 2001-2002, Table 17
[21] OECD 2003 – *Taxing Wages* 2001-2002, Table 17
[22] Peter Costello made the $2.4 billion claim in a *3LO Radio Interview*, 12 May 1999. He made the revised claim of $2 billion in an answer to a Question Without Notice, 5 December 2002
[23] Senate Community Affairs Committee Budget Estimates November 6, 2003

While the jury is still out, indicative figures suggest a shortfall in spending that could amount to one in every two Australian children missing out on the GST compensation promised through the family payments system.

The failure to properly reform the tax/family payments interaction has left us with incentive deficit.

Individuals and families striving for financial independence gain depressingly little from their efforts.

As a matter of urgency it must be addressed. The question is how do we go about it?

We can address effective marginal tax rates in a number of ways. However most traditional approaches are flawed.

Increasing income free areas and reducing tapers on payments can reduce effective marginal tax rates, however as we have found with the Government's latest efforts it usually results in shifting the problem to another group. The same applies to changes to the tax scales.

Such approaches also blunt the re-distributive goals of our tax and social security systems.

Such broad-brush changes are costly because they apply to everyone, whether they increase their income or not.

These problems also apply to what Tony Abbott describes as *maxi reforms* that would see a seamless integration of tax and social security. [24]

While these proposals sound appealing in theory, in reality there would be significant costs both in helping those who do not need help and in compensating those who would lose out from change.

A better approach would be to consider targeted reforms to the existing system coupled with an innovative new tax incentive.

Targeted reform could include:

- Dealing with the 100% + effective marginal tax rates of families with a dependent Youth Allowance recipient; and

- Changes to Family Tax Benefit.

We need to rid the Family Tax Benefit system of the inbuilt debt trap by stopping the stripping of tax returns and moving to a more regular adjustment of payments in line with income changes during the course of a year.

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[24]*Sydney Morning Herald: PM backs Abbott's radical 'maxi' welfare reform* (13 January 2003)

In particular, changes need to be made to Family Tax Benefit Part B to ensure mothers returning to the workforce don't accrue crippling debts as a result of their decision.

On the ***tax incentives*** front we need to look beyond tax credits as we know them.

Labor proposed a family income tax credit in the 1998 election.

While a well intentioned idea, the truth is families didn't and still don't fully understand tax credits.

Also, in their traditional form tax credits would have made modest improvements to work incentives for those who were moving through the *phase in* range – broadly speaking, incomes of less than $40,000.

The problem however was that the tax credits also needed to be *phased out* – actually increasing effective marginal tax rates of those families who were losing eligibility – we are talking here about incomes of more than $55,000.

For mainstream families however, I believe a new and innovative approach needs to be taken.

This is where traditional tax credits ought to be thrown out the window.

Let me explain why.

Effective marginal tax rates are only a problem when income increases - or when a person is contemplating an increase in their income.

But traditional tax credits are paid to both those who earn more and those who do not – making it expensive to deliver a real incentive to families.

What we need is a mechanism that specifically rewards those who work harder and earn more but who are presently being punished for their extra effort.

The answer is simple. Why not hand back some of the additional tax paid on extra income earned?

Such a tax cash-back could offset both additional tax paid and the withdrawal of family and other benefits.

Children's services and leave arrangements

The second element of the work-family equation is time.

If we can provide families with the time to negotiate parenthood while maintaining their work effort we can address participation and fertility rates and productivity in the one go.

This is one the blindspots in the current Government's analysis of our economic future.

Paul Kelly recently argued that the Prime Minister and the Treasurer wouldn't acknowledge the significance of our declining birthrate because they believe governments can't make a difference.[25]

In my view the future wellbeing of our children as well as our economic future depend on government making a difference.

While the Government has spoken often about the need for work and family policies, we are yet to see action on childcare places, industrial reforms to give parents more flexible leave arrangements or Paid Maternity Leave.

At the present rate, the generation of children born around the time the Prime Minister first promised to act on these issues will be in school by the time anything is done.

We are talking about hundreds of thousands of Australian children who will be the poorer for the lack of time with their parents during their critical early years.

As I have said before in the new 24-hour economy children are lead weights in the saddlebags of the modern worker.

As a consequence our birthrate at 1.7 is already well below replacement levels and tracking downwards to a baby bust.

If governments do not act to restore the partition between work and family life, couples will continue to defer starting a family or limit the number of children they have.

Paid Maternity Leave, parental leave and childcare together help families construct a set of care arrangements that fit with their working responsibilities.

While governments and business both need to invest in flexible work practices and leave, reform is not just about more money.

We must also deal more effectively with how pre-school age children are cared for when their parents are at work.

We currently fund at a local, state or Federal level multiple models of care for our kids.

We have invested in duplicated infrastructure much of which is not flexible enough to respond to the needs of modern working parents and their children.

I believe working parents want a number of things from children's services:

- a safe play environment for their children while they work;

[25] *The Australian: It's breeding obvious*, Paul Kelly (4 September 2003)

- a developmental environment, including one that introduces their child to sport and other activities;

- an affordable service - childcare fees can be a major disincentive to work;

- an accessible service that is close to schools and operates during the hours a parent works.

What do they confront in most cases?

A choice between long day care, preschool, family day care, after school care and other environments, which are rich in only one or two of the things families want and unable to provide care for different amounts of time to meet changes in parental work patterns.

If parents want it all they must cycle between services – almost a full time job.

This is the kind of reform task our leaders once attempted to broker through institutions like COAG. Today the Federal Government has no ambitions in this area at a great cost to parents and their kids.

We need to arm families with more options:

- Payments that provide support when they need it

- Leave arrangements that give families concentrated time with their children in return for concentrated effort at work.

- Services that match families' working arrangements and their aspirations for their children's development. They must be convenient but also flexible enough to provide a mix of basic care, structured play and educational stimulus.

And most importantly, families – not government - should decide how to fit the pieces together.

If we can get the balance of incentives and services right we will reduce the work and family friction that threatens children's development and parents workforce performance.

CONCLUSION

Let me finish with this thought: our light on the hill is the fair go. It is recognising the dignity of ordinary people and the value of their work.

It lies in the basic universal institutions that have distinguished this nation as the land of the fair go – of opportunity.

A living wage – a fair reward for a fair days work, something for something.

Universal health and education and affordable housing - these are the ladders to a better and longer life.

That's why Labor has already made a down payment of $4.2 billion package of health and education opportunities.

This is the Australian way.

The greatest threat to the Australian way, to a fair prosperity, is the loss of faith in the concept of nationhood and the power of government.

Today, the equilibrium between government and market that has made us what we are is under threat from the ideology of the new conservatives.

But the new conservatives' economic justification is a spurious one. We can sustain our growth without throwing away our egalitarian traditions.

And I don't believe Australians want to buy any more of what the new conservatives are offering.

While we are not shy of effort, Australians will not stomach economic prescriptions that create further inequality.

The new conservatives and their boosters would do well to remember that in a nation where voting is compulsory, no political party can construct a mandate on the support of those who are already winners.

Our priority must be to go for growth by addressing the most critical brake on productivity, participation and our population – the tax and welfare system.

Reform must deliver a fair prosperity; it must preserve the fair go.