



## Time To Dump Costly Parental Leave Scheme

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In 1975, Malcolm Fraser's Liberal government had the largest parliamentary majority in Australian history. The story is now well known: Gough Whitlam oversaw a massive expansion of the public sector, increasing government spending by more than 40 percent in a single year. The Fraser government, elected on a mandate to fix it and reduce the size and scope of government, instead oversaw a bigger increase, paving the way for the election of a long-term Labor government that was prepared to tackle an economic reform agenda. A future Coalition government would do well to heed the lessons of the Fraser government's failure and ensure that, from day one, rigorous economic policy is at the core of their agenda.

The next Coalition government will have a series of substantial challenges in front of it. The task will be not just to undo the damage done by years of fiscal mismanagement under a dangerously irresponsible Labor government, but also to restart the crucial economic reform agenda that will



keep Australia internationally competitive in the global marketplace.

Economic reform and a deregulation of our economy will not be luxuries. They will be a necessary precondition for securing Australia's prosperity. Take the recent announcement by Holden of the loss of some 500 Australian jobs. In what should be a wake-up call for all Australians, their chairman Mike Devereux declared when announcing those job losses that 'making things in this country is 60 percent more expensive than it was ten years ago.' Perhaps the overwhelming lesson of Europe and failed states like Cyprus, Greece, Italy, and Spain is: avoid that road while you still have the chance. By the time you hit the rocks of financial disaster, it's too late to change course.

That's why, with an election looming, every proposed policy for a new government must be tested and costed and, if we are serious about cutting spending, tested and costed again. There are some simple questions that would form a good test for any proposed policy program: Does this policy make the Australian economy more competitive? Is this policy responsible in the context of budget deficits? Is the policy affordable? Is the policy necessary?

And of course the final great test applied by Australian society is the idea of the fair go. Sometimes seen as threatening, I have always seen it as more of a nod to common sense, the practical approach of a free people in a can-do society.

Australians seem to instinctively know when a government or a political party is being unreasonable. That's why any proposal to expand the government's paid parental leave scheme must be shelved before a future Liberal government is elected.

Let's apply the above tests to the Coalition's proposed scheme, which would offer 26 weeks parental leave at full salary. Do we need it? Women I have spoken to on high salaries understand that this is a stretch. Their attitude is a quintessentially Australian response: 'If you are offering, I'll gladly take it—but do I think it's right, no. Do I need it, not really.' Some of these women also point out that civilisation somehow managed to survive for the last few thousand years without Canberra to administer a PPL. So do we need it? According to many and I suspect most women, the answer is no.

Can we afford it? The gross cost of the Labor party's PPL scheme is \$1.4 billion. The Coalition's proposed scheme would have a gross cost over three times that in its first year alone. Savings from forgone baby bonuses and tax benefits, and from scrapping the current PPL scheme, would together add up to only \$1.5 billion, or less than half of the \$4.3 billion total. The rest would come from a brand new 1.5 percent levy on businesses making over \$5 million per year. In the present economic climate, is such an expensive program affordable? Clearly not.

Is it a good idea to levy a 1.5 percent charge on the country's largest businesses in the current global economy? Will a new tax improve Australia as a destination for investment and make our firms more globally competitive?

I would argue the opposite. Any new levy of this size will add substantially to the cost of doing



business in Australia at a time when our country is already less internationally competitive than it should be. Under this disastrous current government, increased costs, new regulations, and added restrictions on doing business have undercut Australia's competitiveness. Will this new PPL scheme do anything to make Australia more competitive? No.

Will a new levy for PPL be permanent or temporary? Advocates of this proposal suggest that it will be temporary, but then the income tax was also meant to be temporary. So was the 3x3 fuel levy, introduced in 1989, and so were almost all of the taxes and levies no one enjoys paying today. History tells us that temporary levies inevitably become permanent. This is why all new levies, taxes, and charges must be put in place only when absolutely necessary.

What will a levy mean for consumers? As we know, levying the top 3,300 Australian companies will have a number of consequences. Higher prices for customers is the first. The second, more subtle consequence is that shareholders in these companies (almost all of the 3,300 are listed on the stock exchange) could potentially see their returns reduced.

And, of course, many of these companies will see their profits fall sometime in the future, in which case the levy could fail to raise the money it was intended to, unless it were extended.

What about existing welfare mechanisms already in place? The current PPL scheme offers 18 weeks leave at the federal minimum wage, in exchange for which parents give up the baby bonus and Family Tax Benefit B. But the baby bonus and the tax benefit together can add up to the equivalent of 15 weeks of the federal minimum wage— and, unlike PPL payments, that money isn't taxed as income. So even before the current scheme was introduced, new parents had generous welfare mechanisms in place to support them.

Consider that the welfare system cost close to \$120 billion last year, the biggest single item of expenditure in the federal budget. It isn't possible in this climate to continue to expand the welfare state as if it were business as usual, particularly with many more valid demands on the budget, such as the genuine need for a national disability insurance scheme.

A commitment to economic liberalism requires real policy rigour. With the electorate and the media paying heightened attention to poor policy, those ideas that fail important tests must be thrown overboard before they become core policy.



As the Labor party continues to expand the welfare state and re-regulate our labour market, the Liberal party must be mindful not to join them in adding to the burdens on our businesses. At a potential cost of \$4.3 billion, a parental leave scheme at full pay would be an unjustifiable impost on business at a crucial time in the economic cycle. It would also be another levy on success and a tax on expansion. By encouraging companies to stay under the \$5 million threshold, it could act as a disincentive for growth.

An expansion of the PPL scheme is ill suited to an economically Liberal agenda. Most importantly for Australians, the policy does not pass the fair go test. Perhaps we could try giving people back more of their own money through tax reductions and allowing them to plan for their families themselves. That appears to have worked well, in most cases, for the last 5,000 years or so.

A future Coalition government must heed the lessons of the Fraser government and focus on tackling the major economic challenges of our time, not continuing Labor's expansion of the welfare state.