

## **PREVENTION: HOW DO WE BUILD TOMORROW'S CAPABILITIES TODAY?**

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### **INTRODUCTION**

I would like to begin by acknowledging the traditional owners of the country on which we meet – the Wurundjeri people of Kulin nation - and I pay my respect to their elders and ancestors.

I would also like to congratulate Professor Fiona Stanley, Dr Lance Emerson and the team at ARACY for their vision and enthusiasm in bringing together such a well-credentialed group of speakers to discuss the important issues of this conference, and I would like to thank them for inviting me to contribute on the topic of 'prevention pays'.

In accepting Fiona's invitation to speak, I was quite taken by the theme of the conference – "transforming Australia for our children's future". These words reflect what is undoubtedly a shared vision of all here today – creating a world that gives our children even better life opportunities than we ourselves have enjoyed.

There are three main messages I would like to leave you with today. The first is that there is an important trade-off for contemporary policy-makers between workforce participation on the one hand and, on the other, the valuable role that parents and carers play in developing the capabilities of our children. Poorly designed policies may create perverse incentives for the participation choices of parents and carers that affect their own capabilities and those of their children.

My second message focuses on the difficult task for all governments in identifying and then meeting the needs of children who are in vulnerable or disadvantaged circumstances. Here, it is especially important to ensure that the tax / transfer and services systems complement one another. Furthermore, if services are to be successful they need to be flexible, multi-faceted, 'owned' and valued by the families who need them most. And they need to work in partnership with communities.

My third message is that cost-effective investments to build the capabilities of our children and youth represent the best form of prevention. Investments in the capabilities of our children have large pay-offs. They allow children the freedom and opportunity to

choose lives of value; and those choices, in turn, are critical, indeed fundamental, to Australia's future prosperity.

### **Role of parents and carers for today and tomorrow**

We can't talk about our children without considering the critical role that parents and carers play in building human and social capital; nor the role of government, in supporting parents and carers.

Parents and carers have primary responsibility for guiding and influencing their child's wellbeing, especially in learning and development prior to, and alongside, formal schooling. Many of us go through years of professional training to equip us for the challenges of the workforce, yet are largely left to our instincts and vague recollections of our own upbringing when taking on one of life's most important roles – parenthood.

The reality, unfortunate as it may be, is that not all parents can offer their children a strong foundation upon which to build their lives.

There are also children who are at risk of disadvantage not primarily because of parental incapacity but because of the circumstances into which they have been born. For example, while parents of children in jobless families (that is, where no parent works) do have more time to spend with their children, long-term joblessness can entrench welfare dependence. An erosion of a connection with the workforce and society can represent a poor role model for children. There is increasingly plausible evidence of a strong association between long-term joblessness and persistent intergenerational disadvantage<sup>1</sup>.

The term 'encouraging participation' is often used to justify particular tax and transfer policies. Many people quite reasonably argue that encouraging full-time workforce participation should not be the primary goal for some groups, including parents with very young children. Even so, over the last couple of generations, the workforce participation rates of women – who have typically been the primary carers of our children – have increased dramatically. So too has the challenge of parenting and caring for children.

Parents now balance participation in the workforce with caring responsibilities – trying to find the right balance between workforce participation and their children's development needs<sup>2</sup>.

Identifying the role and nature of government policy in supporting families across a range of diverse family types and circumstances is a complex business for policy-makers.

For parents in families with significant dysfunction – such as alcohol and drug dependency, domestic violence, significant mental health problems, gambling problems or very low social and/or economic skill levels – quite intensive services may be needed, both to support their caring role and to facilitate their workforce participation.

The probability of there being large social benefits from government programs to assist disadvantaged children<sup>3</sup> seems self-evident, yet it seems plausible also that there are long-term social benefits from government providing at least some level of broad support

to all families to invest in their children's development; that is, in supporting investments by all families in the capabilities of their children.

Government support for the family includes health, education and community services as well as financial assistance (such as Family Tax Benefit and child care subsidies) to ensure that parents, at lower income levels especially, can adequately support their children.

I have noted the importance of policies that maintain a balance between a connection to the workforce and spending time nurturing and guiding children. Of course, incentives (and disincentives) are inherent in any policy design. My point today is that the interactions between the tax and transfer system, if not properly considered, can result in perverse incentives, to the detriment of both the parents and the children we seek to assist. Clearly, there are complex trade-offs here, both within and between generations. These trade-offs are at the heart of the thinking behind the Government's upcoming Intergenerational Report, and in the review of Australia's Future Tax System (AFTS), which I am chairing.

### **Is there really a problem, or is it just distributional?**

To bring some perspective to the issue, both the ARACY Report Card, to which Fiona referred yesterday, and the Australian Institute of Health and Welfare report '*A Picture of Australia's Children 2009*', to which Bill Shorten referred yesterday, suggest that Australian children are faring relatively well. However, areas of significant concern remain, especially for Indigenous children and children from remote areas and with low socio-economic background.

Particularly troubling is the fact that the number of jobless families in Australia has risen (in both couple and single parent households) with the probability of associated declines in their children's social, educational, and employment outcomes. Recent work by NATSEM shows that around 1 in 7 children lives in a jobless household<sup>4</sup>. This rises to 1 in 2 children for single parent households<sup>5</sup>. The rise in jobless households has led to a large increase in the number of poorly resourced families.

Despite the rapid growth of income and opportunities over recent decades at the macro level, increases in wellbeing have, unfortunately, not been enjoyed by all.

### **WELLBEING**

I think we all accept that GDP is not a perfect measure of aggregate wellbeing. The unequal distribution of growth, opportunities and outcomes for individuals suggests that such a 'macro' measure of wellbeing shows an insufficient appreciation of what is going on in society. But its limitations are even more prosaic than that. For instance, it doesn't fully capture the value of the contribution to the economy from unpaid work, such as child-rearing and housework.

Public policy needs more sophisticated concepts.

## **One perspective on wellbeing: Treasury's wellbeing framework**

While I won't go into it in any detail today, I would draw attention to the Treasury's 'wellbeing framework' which is used to provide context for our public policy analysis. It draws on many perspectives. There are five dimensions to the framework: the level of freedom and opportunity that people enjoy; the aggregate level of consumption possibilities; the distribution of consumption possibilities (both in spatial, temporal and inter-temporal terms); the level of risk people are required to bear; and the level of complexity people are required to deal with.

GDP is an important element of this framework because it provides at least a rough measure of the aggregate level of consumption possibilities that society is able to enjoy. But it is a rough measure, and it is far from the only element.

Today I'd like to focus on the dimension of wellbeing that stands at the heart of the Treasury's framework: freedom and opportunity. It is the glue that binds all of the dimensions together. And it's the dimension that is most closely linked to this conference's theme of prevention.

The Treasury's perspective on freedom and opportunity is that society should aspire to provide all individuals with the capabilities necessary to be able to choose to lead a life of value<sup>6</sup>.

At minimum, we are interested in the capabilities that allow an individual to function in society. Clearly, such capabilities are not the same thing as income and, while they include basic civil rights and political freedoms, they are not limited to 'rights'. Some basic capabilities include the capability 'to meet nutritional requirements, to escape avoidable disease, to be sheltered, to be clothed, to be able to travel, and to be educated'<sup>7</sup>.

## **TRANSLATING CONCEPTS INTO PRACTICAL POLICY**

If we are to accept the premise that 'capability development' is the best dose of prevention we can provide – and it is my premise – then we need to consider how to translate this concept effectively into practical policy.

We need to think about the right set of capabilities and the respective roles of parents and government in nurturing them.

Obviously, the capabilities we should be concerned with go well beyond the basics to which I have just referred. They also go to ensuring that children and youth are informed, inquisitive, active and healthy, and that they have all of the skills they will need as adults to contribute to society in a manner of their (adult) choosing.

## **Role of government in supporting children and families**

The remainder of my remarks today go to how government policy can support parents and the community in building these capabilities in our children.

To start with, like all government spending, there is a need to ensure that any activity is cost effective. Government spending that does not pass an appropriately defined cost-benefit test necessarily detracts from Australia's wellbeing. That is, when taxpayer funds are not put to their best use, Australia's wellbeing is not as high as it otherwise could be. It is important, therefore, that policy-advisers are able to access quality evidence and use robust frameworks to assist governments to judge the relative merits of alternative policies.

In Australia and internationally, there is a substantial and growing evidence base for families and children. Several US-based studies<sup>8</sup> provide evidence of significant net social benefits arising from the coupling of targeted government investments in early childhood development programs with visiting the homes of vulnerable families. Evidence from the UK<sup>9</sup> also points to the benefits of pre-school in assisting all children to become 'school-ready'.

Other Australian-based evidence, including the evaluation of the Communities for Children program<sup>10</sup>, points to a range of benefits arising from investments in community-based early intervention and prevention in disadvantaged communities.

There is also evidence<sup>11</sup> that tells us that quality schooling — as measured by performance in various cognitive skills tests — is a key determinant of economic growth. The importance of quality education has been acknowledged by the Government with a package of reforms agreed through COAG to pursue high-quality schooling.

However, there is a challenge in using evidence to evaluate alternative policies. Detailed research and testing of evidence takes time. It cannot be done overnight. Unfortunately, not very much of the evidence base is subject to rigorous cost-benefit analysis. And much of it has yet to be translated into the Australian context. We need to continue to build our policy evidence base if we are going to understand better what works and what doesn't.

As I noted earlier, the role government might play in supporting families and children depends on family circumstances. There is a clear rationale for direct government assistance for 'dysfunctional' and highly disadvantaged families, as well as for generally supporting the dual role many parents and carers play in the workforce and nurturing their children's development.

I have noted that there are inevitable trade-offs to be made in respect of that dual role.

There is also a trade-off between providing some assistance broadly to all families to assist them in developing their children's human and social capital against using the same resources to target more assistance at the most disadvantaged and 'dysfunctional' families.

### **Australia's Future Tax System – implications for the tax and transfer system**

Earlier this year, I spoke to an ACOSS Conference<sup>12</sup> on the implications of equity for the design of the tax and transfer system. In the course of the AFTS review, Panel members

have heard how elements of the family payments system, such as income tests and the rates at which family payments are withdrawn, impact on family decisions about whether and how much to work. When these factors are combined with the taxation of employment income, many members of families are discouraged from working.

For example, the current family payment system puts pressure on families with two income earners to have the secondary earner wind back their engagement with the workforce. Simply providing more assistance can lead to low returns from working, as the same number of hours of work are not required to achieve the same level of disposable income. Such an outcome may have positive consequences for children when they are infants, but disincentives for workforce participation are problematic for parents with older (school aged) children. Decisions around participation in the workforce can have longer-term capability costs – for both parents and their children.

Perhaps the focus of the family payment system therefore needs to be redirected towards providing a higher level of support for parents with very young children when their caring and nurturing role is the greatest, and supporting higher levels of workforce participation for parents and carers as children move into their school years. There would, of course, continue to be a need for assistance to low-income families with older children. But its not only parents whose incentives matter. It is also important that the system sends the right signals to teenagers choosing among study, work or dropping out of school.

### **Different policy approaches – Cash payments or services? Universal or targeted?**

Governments need to do more than hand out money if we are to see a substantial improvement for those families who struggle to build their children’s capabilities. Simply providing parents and carers with additional income support will not necessarily build capability or offer better life pathways for their children.

Government assistance is likely to be more effective for disadvantaged children if it is provided in the form of significant assistance with services – such as maternal and child health services, affordable and quality child care, parenting programs, quality schooling, and community and health services. And yet, delivery must be made in a manner that presumes parental responsibility and builds trust in the services by those who need them most.

Equally important to how governments provide assistance is to whom they provide it – should we aim for universal access for all, targeted assistance, or services provided in specific locations?

Universal access would ensure that all families and children, regardless of means, would receive minimum access to core services. This is the approach we use generally for education and health services. An obvious drawback is cost. Another drawback is that in many cases, the families that would benefit most from the support services might not utilise them. And there is the added concern of ensuring that a universal approach does

not displace the primary efforts of those parents who do have the knowledge, time, and skills to support their children's development.

The tax and transfer system provides a mechanism for targeting government funding. Targeting through means testing is a defining characteristic of the Australian transfer system. Yet targeting government funding according to financial means has its limitations. Significantly, it runs the risk of exacerbating the participation disincentives already in the system. We cannot add further multiple layers of means-tested payments and services on the same groups without, at some point, creating insurmountable barriers to participation.

And ensuring parents maintain a link to the workforce is important in minimising the risk of poverty in children.

But a further difficulty with means test targeting is that financial means are an imperfect indicator of need.

But most importantly, the tax / transfer system can't do it all. When it comes to developing a system that encourages investment in children's capabilities we will have to go beyond tinkering with the various parameters that define the present tax and transfer system. The tax review panel has a strong sense that we need to design a tax/transfer system that is strongly complementary with the service delivery system largely provided by the States and Territories and by non-government and charitable organisations.

To put it in more colloquial terms, the tax and transfer system needs to work 'in sync' with the services system.

Take the case of child care. Child care support is typically under-utilised by special needs families, including low-income families, even though support for 24 hours per week of child care is available without parents having to pass the work-study-training test. Arguably, it is these very families and children who would gain the most from a combination of child care and parenting support programs.

There is a need for mechanisms that can identify the families and children who would benefit from a 'bridging' arrangement, allowing the tax and transfer system to mesh better with the services system. Such an integrated approach might involve a community-based program that helps to identify these families and children and assists them in finding interactions with the tax/transfer system that improve the participation of children in early childhood education and care.

There are a few examples of integrated service approaches in Australia. In October 2008, COAG agreed to establish 35 'Children and Family Centres' in Indigenous and disadvantaged locations to provide a mix of child care, early education, health and family supports. Earlier, I mentioned the Communities for Children program, which includes an integrated approach to families that are at risk of disadvantage but are disconnected from childhood services.

A similar program is the Child Care Links project, which supports and links vulnerable families with local support services and strengthens community networks in the accessing of services such as child care.

The US-based ‘Nurse-Family Partnership’ is another example of a cost-effective bridging arrangement for parents in highly disadvantaged circumstances. This program is currently being trialled in a small number of Indigenous communities as part of the ‘Australian Nurse-Family Partnership’.

To improve outcomes for vulnerable children, multi-faceted and integrated approaches are needed to link support services and the tax and transfer system in ways that are tailored to individual circumstance, cost-effective, and valued. And that probably means that they have to be developed in partnership with the communities in which the vulnerable children live.

I don’t pretend that this sort of approach would be easy or cheap. But it is nevertheless worth exploring.

## **CONCLUDING REMARKS**

There are no simple answers here. There is no ‘one size fits all’ approach to supporting children and families in ways that ensure that all Australians have the capabilities necessary to be able to choose to lead a life of value.

At the heart of this extremely important agenda, there are a number of difficult judgments to be made and trade-offs to be considered. This is not straight-forward policy, as my fellow tax review Panel members, and all of us in the Treasury, know well.

Decisions need to be made at multiple levels and by multiple actors: by governments, families, businesses and communities. That is to say, there is a role for all Australians in supporting the development of our children.

I have noted that one of the most important trade-offs for policy-makers is in balancing workforce participation against the valuable role most parents and carers play in the home, recognising that this balance may change as children age. Workforce participation choices based on poorly designed policy can have detrimental impacts on capability, with long term, generational consequences.

I have noted also that there is a need to ensure that the tax / transfer and services systems are strongly complementary. In particular, a greater emphasis should be placed on developing integrated approaches to meeting the needs of vulnerable children and disadvantaged families, focussed on lifting the capability development of these children.

Cost-effective investments in building the capabilities of our children and youth are the best form of prevention. These investments are not only good for our nation’s wellbeing today, they will also look after the wellbeing of future generations of Australians.

Thank you.

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<sup>1</sup> Pech, J & McCoull, F 2000, 'Transgenerational welfare dependence: myths and realities', *Australian Social Policy*, vol. 2000/1, pp. 43-67.

<sup>2</sup> Evidence indicates that high quality child care can benefit children but long hours, especially in low quality care, may have detrimental consequences. See Waldfogel, J. 2007, 'Parental Work Arrangements and Child Development' *Canadian Public Policy*, 33(2), pp 251-71. Other (US) evidence suggests long working hours by sole parents can lead to higher rates of interaction with juvenile justice systems. See Gennetian, LA, 2004. "How Sibling Composition Affects Adolescent Schooling Outcomes when Welfare Reforms Policies Increase Maternal Employment", *Eastern Economic Journal*, 30(1), pp. 81–100.

<sup>3</sup> Isaacs J 2008, *Impacts of Early Childhood programs*. Massachusetts: DC. Brookings Institution, available at [http://www.brookings.com/edu/~media/Files/rc/papers/2008/09\\_early\\_programs\\_isaacs/09\\_early\\_programs\\_isaacs.pdf](http://www.brookings.com/edu/~media/Files/rc/papers/2008/09_early_programs_isaacs/09_early_programs_isaacs.pdf)

<sup>4</sup> Miranti, R.,Harding, A. Ngu Vu, Q., McNamara, J. and Tanton, R. 2008, 'Children with Jobless Parents: National and Small Area Trends for Australia in the Past Decade', Conference Paper no. CP126, National Centre for Social and Economic Modelling, University of Canberra

<sup>5</sup> Miranti, R.et al. 2008, op cit

<sup>6</sup> Sen, A 1999, *Development as Freedom*, Oxford University Press, Oxford

<sup>7</sup> Sen, A 1983, 'Poor, relatively speaking', *Oxford Economic Papers*, 35, pp 153-69.

<sup>8</sup> Summarised in Isaacs 2008, op cit.

<sup>9</sup> Sylva, K. et al 2008, *EPPE Finale Report form the Primary Phase: Preschool, School and Family Influences on Children's Development during Key Stage 2*, Research Brief, No. DCSF – RB061, available at <http://eppe.ioe.ac.uk/eppe3-11/eppe3-11%20pdfs/eppepapers/Final%203-11%20report%20DCSF-RR061%2027nov08.pdf>

<sup>10</sup> Edwards, B. et al 2009, 'Strong Families in Australia study: the impact of Communities for Children', *Department of Families, Housing, Community Services and Indigenous Affairs Occasional Paper No. 25*, available at <http://www.fahcsia.gov.au/about/publicationsarticles/research/occasional/Pages/ops-ops25.aspx>

<sup>11</sup> Hanushek, E.A. and Wößmann, L. (2007), *Education quality and economic growth*, The World Bank, Washington, DC.

<sup>12</sup> Henry, K 2009, 'How much inequity should we allow?', address to the Australian Council of Social Service National Conference "Building a Fair Australia in Tough Economic Times", 3 April. <http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1515>