

Hardly family friendly

WHEN politics is dressed up as economics, the result is generally bad policy.

Worse, John Howard's \$1.2 billion "baby bonus" is likely to produce bad obstetrics.

The baby bonus is not uniform: a child born into a poor household is apparently worth only \$500 annually, while children from high-earning households are worth \$2500.

Single mothers — who have no other way to support their children — will go back to work, and hence miss out on most of the benefit.

The biggest payout will go to couples where he earns enough to support the family for five years and she made more than \$50,000 in the year before they had the baby.

Beyond equity, the details begin to reveal what a wayward policy this really is.

According to the coalition,

□ **The Federal Budget's 'baby bonus' contains inequities, according to two expatriate Australians.**

families suffer because "the arrival of a child generally leads to a large fluctuation in the family's income".

In each of the five years after childbirth, Mr Howard's new policy allows women to claim back up to \$2500 of the taxes they paid in the year of their pregnancy.

In practice, this means that the way in which women will maximise their benefit is by boosting their earnings in the year before childbirth and then not working for the next five years.

What would you do if John Howard offered you one year of tax-free earnings? If you're like most people, you'd probably work more overtime, put in

extra hours in the hope of getting a promotion, or perhaps even take a second job.

For pregnant women, this is a recipe for disaster. Countless studies show that work stress raises rates of premature birth, foetal anxiety and infant illness.

And after junior enters the world, Mr Howard's baby bonus acts as a disincentive to work.

Not only would these women have to pay tax, but they would also be missing out on up to \$2500 of baby bonus annually.

As a result, some couples will likely respond to this double disincentive by cramming their child-bearing into this five-year window.

► *By Dr Justin Wolfers, an assistant professor of political economy at Stanford University, Stanford, California, and Andrew Leigh, Frank Knox Scholar at the John F. Kennedy School of Government, Harvard University.*