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Women in Scotland's Economy

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The Economic Case for Investing in High-Quality Childcare and Early Years Education.

Although there are substantial private benefits from the consumption of childcare for both parents and child there is also compelling evidence that there are considerable public benefits as well. State intervention to support the development of childcare provision is often justified on the grounds of market failure. Left to itself the market would not provide a sufficient quantity or quality of childcare at an affordable price. This would be damaging to the economy and to society as a whole since the lack of adequate affordable childcare would act as an obstacle to labour market participation by parents and mothers in particular. Increased female participation rates can contribute to higher rates of economic growth, address gender equality issues and also improve the sustainability of welfare provision given the current demographic structure. Childcare can also play an important role in local economic regeneration strategies in terms of dealing with area-based poverty. It offers employment within the local area, gives parents, particularly mothers, the opportunity to access the wider labour market and improves the quality of provision for children in areas of deprivation. In addition access to quality affordable childcare could contribute to an increase in fertility rates by reducing the costs associated with child rearing in terms of the loss of income and career opportunities. There is also a substantial body of research which would suggest that access to formal quality childcare could improve and support the educational and social development of children. Therefore for all of these reasons some form of public subsidy is necessary in order to ensure that childcare provision is at the socially optimal level.

> "In recent decades, childcare services have become a matter of serious public concern. Affordable and good-quality childcare services may improve the reconciliation of work and family life and thus foster labour market participation and gender equality. Childcare facilities may also provide an important answer to declining fertility rates, by lowering the cost of childbearing in terms of labour market and career opportunities. Finally there is a growing tendency to see childcare services from a social pedagogical perspective. In this perspective the main policy rationale is no longer the reconciliation of work and care, but rather the contribution of childcare services to child development and socioeconomic integration." (EC, 2009:7)

Spending public money on supporting high quality childcare and early years education, including not only the construction of new nurseries, but also the staff costs incurred in operating them, is an investment. This is because today's spending generates a stream of benefits for the future, both in the short run, the medium run and the long run. It is only an outmoded accounting convention that treats the pay of construction workers as investment and the pay of childcare workers as consumption. In economic terms the pay of childcare workers is just as much of an investment as the pay of construction workers, in that one creates physical capital, the other creates human capital.

In the *short run*, in the context of a stagnating economy, investment in supporting childcare and early years education serves as a stimulus to growth. The childcare sector is labour intensive and so investment in this sector has a positive impact on employment. In turn those who are employed spend their incomes and have a multiplier effect, creating demand for output in other sectors and stimulating further job creation. The multiplier impact is likely to be high because the majority of jobs in the childcare sector are held by low and middle income women who will tend to spend a high proportion of their incomes on local services. In the formal childcare sector in Scotland a total of 31 560 were employed in 2011 this consisted of around 5760 childminders and 30 800 employed in day care. All of the childminders were female while 97% of the day care workers were female. There is a mixed economy of provision involving the public, private and voluntary sectors. All of the childminders are in the private sector while in the day care sector the private sector accounts for 42% of employees, the public 37% and the voluntary 21%. (Scottish Social Services Council, 2012)

In the *medium term*, when demand has been boosted and recovery is underway, there are benefits from this investment in childcare provision via a positive impact on female labour force participation, as mothers are more likely to participate in the labour market when affordable quality childcare services are available. A UK government report in 2006 suggested that around half of non-working parents mainly women would enter the labour market if they could obtain good quality, affordable and reliable childcare (Bryson 2006). The employment of mothers in the UK lags behind the employment of mothers in many other OECD countries (Plunkett 2011:9-10). The difference is related to public investment in childcare:

> *"Publically funded childcare* has, in general, been shown to have a small but significant positive impact on fertility and large significant positive effects on female employment, though more recent studies have suggested declining marginal returns in countries with very high levels of provision. Affordable childcare has also been shown to have larger effects for mothers with low education, thereby having an equalising impact on the distribution of employment and income. Public childcare subsidies have also been shown to have positive impacts on women's share of earnings within the household and long-term positive effects on post-childbirth earning potential." (Plunkett 2011:14)

The highest rates of employment of mothers in the OECD countries are in Scandinavian countries, where public investment in childcare is high. For example, in 2012 the female employment rate in Sweden was 76.8% compared to 68.6% in Scotland (Eurostat, 2013) .

A higher female employment rate increases economic growth and productivity, and has a positive impact on fertility, making it more likely that population growth will be above replacement rate. Countries with high rates of female employment such as Denmark, Norway, Sweden and Finland also have relatively high fertility rates. According to recent research in Norway the availability of high quality affordable childcare leads to more women making the transition to motherhood (Rindfuss 2007). Earlier research (D'Addio and d'Ecrole 2005) suggests that countries with low childcare costs tend to have higher fertility rates. In 2009 the fertility rate in Scotland was 1.77 below the replacement level of 2.1. In Scotland there are now more people over the age of 65 than there are under the age of 15.

> "The dependency ratio is set to increase more rapidly in Scotland than elsewhere in the UK. Although in-migration can compensate for a low fertility rate (as is the case at present) this is not necessarily a long –term solution as the behavior of migrants in relation to long-term settlement is far from certain." (Scottish Government 2010:37)

Enabling mothers to enter the labour market through the provision of accessible, affordable and quality childcare can help lift families out of poverty, and reduce gender inequality in earnings. Thus investment in the childcare sector has a positive impact in the medium term on almost all of the high level targets in Scotland's National Performance Framework but particularly four, five and eight. In addition, a higher level of female labour force participation increases economic growth and productivity and generates new tax revenues which helps to fund the increased investment in childcare. If Scotland could replicate the female employment rate in Sweden and an additional 8% of women aged between 20-64 would be in work. So you could argue that additional investment in childcare provision which is seen as a prerequisite to increased female labour market participation would more than pay for itself in the medium term.

In the *long run*, there is a return via the positive impact on children, on their education, health, behavior and future earnings with the biggest impact on the most deprived in society. This in turn means, other things being equal, a positive impact on participation in the labour market, economic growth and productivity, reductions in poverty, and income inequality, greater cohesion and increase in healthy life expectancy. It will result in reductions in the kinds of expenditures incurred to provide services to socially excluded people who have not had a good start in life (such as social work and crime prevention) and increases in tax revenue from the gainful employment of more people with higher level skills and higher earnings. Economic analysis has shown that the returns to investment in pre-school programmes of early childhood education are even higher than returns to investment in schooling (for a summary of relevant economic theory and empirical evidence see paper by Noble Prize winning economist James Heckman (2008) and other resources on www.heckmanequation.org). This is because, as brain researchers have shown, the brain develops fastest in the early years of life, and slows with age; later investments in schooling do not make up for lost development opportunities in early childhood. The gains of investment are greatest for the most deprived children. In addition to the educational gains (which lead to gains in earnings), there are also behavioral gains, such as reduced likelihood of risky behaviors, that are detrimental to health, and increased civic and social engagement. Of course, preschool care and early education must be high quality to obtain these desirable impacts (OECD, 2012). The quality of childcare refers to aspects that contribute to the social, emotional and cognitive development of children, although difficult to quantify they would be a function of the level of staff-child ratios and the qualifications of the staff.

Role of the State in Investing in Childcare and Early Childhood Education

Investments in childcare cannot be left entirely to parents and the private sector because of significant market failures, including externalities and information asymmetries. There are benefits to parents and to children and to businesses in such investments but the benefits are not confined to the parents and children and businesses that make the investments, but accrue to the wider society, and to business and government as a whole (as the examples above indicate). Left to themselves, parents and businesses are likely to under invest, since they cannot capture all of the benefits. This is exacerbated by the lack of loans to support this investment, especially for the lowest income parents, where the spillover of benefits is likely to be most pronounced. In addition, there are information asymmetries regarding the quality of the care and education provided, as suppliers have information that parents do not have because they are not present when the care and education is provided. All of this means that there is an indispensible role for the state in regulating the childcare sector and providing funding to support investment in this sector.

Models of state supported childcare provision

Governments differ in the type and degree of support they provide for investment in the childcare sector. As well as regulation of the quality of provision, governments can support investment in the sector through direct supply of public services and /or through financial support for parents to purchase public and/or privately provided services. An OECD report distinguishes a model of maximum private responsibility, into which it places the UK and the USA, and a model of maximum public responsibility, into which it places Sweden, Denmark, Finland and Norway (OECD, 1992). The other OECD countries lie on a spectrum in between these models.

The characteristics of the maximum private responsibility model are:

- to provide a 'safety net' of child care services for the poorest families, as well as for children at risk of physical abuse or neglect
- to encourage the use of private or voluntary services (through measures such as tax breaks, tax credits, and welfare benefits which enable parents to purchase care)

- to regulate for a minimum level of quality for childcare and early education services .

Entitlement to hours of free early years education has been expanded in the UK, but, as detailed below, the system is still far from the maximum responsibility model.

The characteristics of the maximum public responsibility model are:

- Majority of child care facilities operated by the public sector
- Free access to lower income parents, fees charged to higher income parents
- Aim is to create an integrated system linking employment, education and child care services, with universal coverage

In the UK public spending on families is dominated by cash benefits rather than childcare services in countries with the highest female employment rates the opposite tends to be the case. (Plunkett 2011: 16). In 2007 76% of the total expenditure on families was in the form of cash benefits and 24% on childcare services, in Denmark 55% of public expenditure on families was for childcare services and 45% for cash benefits. (Reform Scotland, 2013:27) Moreover UK childcare, like much of UK female employment, is part-time. By contrast, all countries with high full-time female employment rates provide some form of full-time, supply-side care for three and four year olds, and public expenditure is correspondingly higher.

Norway stands out as a model to learn from (Gambaro, Stewart and Waldfogel 2013). Most provision is public, with only a small for-profit sector, which is subject to strong quality requirements for staff and limits on prices and profits. There are fees for use of public provision but these are income related; and access for disadvantaged children is good. Enrolment of children over 3 is on a full time basis.

System of support for investment in childcare system in UK

UK tax and benefit measures for childcare costs

Current measures

There are currently two main forms of subsidies for childcare costs:

i) a scheme that enables participating employers to give parents tax and NICs free childcare vouchers worth up to £55 per week. The intention was that these would normally be provided under a salary sacrifice scheme. In December 2009 the previous government announced that this scheme would be changed so that higher and additional rate taxpayers would gain no more from it than basic rate payers. This change was implemented by the current government with effect from April 2011.

Despite steeply rising childcare prices there has been no increase in the maximum costs eligible for subsidy since April 2006 for childcare vouchers, leading to a fall in the amount of childcare that is in practice eligible for subsidy.

ii) a childcare element in Working Tax Credit(WTC), a means-tested subsidy restricted to lone parents, and couples in which both parents were in employment for at least 16 hours a week each. From 2006 to 2011, this provided a subsidy of 80% of eligible childcare costs of up to £175 a week for one child and £300 for two or more children. In the October 2010 Spending Review the Coalition government announced that from April 2011, the percentage of eligible childcare costs covered by the childcare element would be reduced to 70% (the rate which had previously applied until 2006).

The number of families benefiting from childcare subsidies through WTC fell after this change from 493,000 in April 2011 to 455,000 in April 2012, with the average amount claimed falling from £69.23 a week to £58.25, stabilising thereafter (HMRC, 2013:14)

In practice, few parents receive the maximum subsidy of childcare under WTC because most parents use a combination of paid and unpaid care, and families with two full-time workers typically earn enough so that tax credits do not help them much. The rise in childcare costs has outstripped median hourly earnings, and since 2010 median earnings have fallen in real terms while childcare costs have kept rising faster than inflation.

Changes planned for the future

1) Under universal credit, childcare subsidies will be available to all lone parents and couples, where both members are in employment, regardless of the number of hours they are employed, removing the current requirement for both couples to work at least 16 hours. The government believes this will provide an important financial incentive to those taking their first steps into paid employment.

Otherwise the percentage subsidy and maximum eligible amounts remained the same as under tax credits, though converted from weekly into monthly amounts in accordance with how universal credit will be paid.

2) Budget 2013 announced a major overhaul of the childcare voucher scheme from April 2015. From that date parents will be able to pay for up to £6,000 worth of childcare "tax-free", that is, with a 20% subsidy from the government. This will be available to all parents, except families in which both parents earn over £150,000 or are on Universal Credit, for whom there will be a different scheme. The subsidies will be per child, rather than per adult as the current vouchers are, and not dependent on employer participation. Lone parents or couples with more than one child will gain more from the new scheme and parents already in the existing scheme will be able to stay in it. This scheme will costs £750million and the government estimates that it will reach 2 ½ million families as opposed to the ½ million using vouchers under the current scheme (HM Treasury, 2013)

3) Budget 2013 also announced that from 2016 support under Universal Credit will be increased to 85% of eligible costs for parents who both pay income tax. The government will consult as to the exact eligibility rules to achieve its aims and the scheme will only start from April 2016.This scheme will cost £200 million.

Access for lower income families

YouGov polling showed that people on lower incomes are less able to choose high quality childcare because of cost constraints. Nearly half of parents earning less than £20,000 consider cost an important factor when choosing childcare, compared with 34 per cent of people earning between £40,000 and £60,000 (Waldegrave, 2013) And there is already evidence that children living in the most deprived neighbourhoods are receiving poorer quality childcare than those in more affluent neighbourhoods. Only 64% of nurseries and child-minders in the most deprived areas of the country were judged 'good' or 'outstanding' by Ofsted last year, compared with 79% in the country as a whole (Waldegrave, 2013)

Childcare provision in Scotland

Since the launch of the Childcare Strategy for Scotland in 1998 the provision of affordable, accessible and quality childcare has been a major objective for the four administrations who have governed Scotland since devolution. In the 1998 strategy there was a commitment to provide free nursery places for every 3 and 4 year old whose parents wished it. Currently 3 and 4 years olds are entitled to 475 hours of free nursery care and education per annum. The Children and Young People Bill currently going through the Scottish parliament proposes to increase this free entitlement to 600 hours per annum. These free places can be provided by local authority nurseries or by private /voluntary childcare providers who have a partnership agreement with the local authorities. It is probably fair to say that more attention and investment has been given to early years education and intervention particularly for children located in areas of social and economic deprivation. In part this was because of some the reasons outlined above for example recent research by the Scottish government suggests that if early years interventions are effective then the savings to the public sector in Scotland could be in the region of £131m per year. (Scottish Government 2011:3) Initially this was carried out under the Sure Start Scotland programme which targeted support for families in disadvantaged area with young children but has now been subsumed within the Early Years Framework which was launched at the end of 2008.

Issues

There has been a growing recognition at a UK and Scottish government levels of the economic benefits of increased childcare provision. As a result the level of childcare provision has improved significantly over the last 15 years. However there has been tendency to concentrate provision on 3-4 years old with an assumption that childcare becomes less of an obstacle to labour market participation once children enter school. Consequently out of school care has not been afforded the same level of investment or importance received by early years care. However the economic benefits from out of school care are just as important as the economic benefits of early year care particularly in relation to female labour market participation. Therefore in order to maximize the economic benefits over the long term childcare should not be regarded as being just about the provision of pre-school care but rather about ensuring wrap around care which includes out of school provision.

Despite the provision of some free childcare for 3-4 years old the UK and Scotland have some of the highest childcare costs amongst the advanced industrial nations. In 2011, the UK had the second highest childcare costs as a percentage of net family income among OECD countries, Switzerland was the most expensive. (OECD Doing Better for Families, 2011) In Scotland the average cost of 25 hours of nursery childcare for over two's is £94.52 which is the equivalent of 56% of the average part –time salary, so if you had two children in nursery the costs would be more than the average part-time salary (Daycare Trust, 2012 ONS, 2012)

The cost of childcare for some parents can be reduced through the Working Tax Credit and childcare vouchers. However the operation of the welfare system can act as a disincentive to working extra hours or progressing to a better paid job because of the implications for welfare benefits. For example in the UK second earners lose 68p of every additional £ earned through tax, national insurance and childcare costs compared to the OECD average of 52% (OECD, 2011)

> "improvements in the affordability of childcare over the last decade have not created better work incentives for second earners, largely women, in low to middle income families. Reducing the percentage of disposable income families spend on childcare even to very low levels may not be enough to make work pay because of the negative interaction between childcare costs and means-tested childcare support provided through the tax credit system." (Alakeson & Hurrell, 2012:22)

As a result the beneficial employment effects of childcare provision can be negated due to the way in which means-tested benefits are allocated.

The plethora of different funding mechanisms to support childcare provision in the UK can create problems for the suppliers. The UK is operating a hybrid system of childcare funding which has elements of the market combined with state subsidy either paid directly to the provider or to the parents. Currently, childcare in Scotland is delivered by the public sector usually local authorities, the private sector and the voluntary/social economy sector. The local authority provision largely delivers services in nursery schools and classes, family centres and some day nurseries. The private sector provides childcare predominately in day nurseries and in childminding. The voluntary/social economy sector is mainly but not exclusively involved in out of school care and playschemes. As a whole the sector is characterised by low pay, high staff turnover and insecure funding, however the extent of these problems varies between the different types of providers, with the local authorities exhibiting the highest pay, lowest staff turnover and most secure funding and the voluntary/social economy the lowest pay, highest staff turnover and least secure funding. The economic benefits from childcare are to a large extent dependent upon the quality of childcare delivered which in turn will be a function of the people delivering the service. If they are poorly paid with little prospect of career progression and precarious employment contracts then they are unlikely to be able to deliver the quality of childcare necessary to deliver the economic benefits which have been highlighted throughout this paper.

The current political and economic environment in Scotland provides an opportunity to rethink the way in which childcare is delivered and funded. If we accept the substantial economic and social benefits from the provision of good quality childcare and view as public investment rather than public expenditure then there is a very strong economic case for providing comprehensive childcare free of charge at the point of use. It would enable the government to substantially rationale the plethora of funding mechanisms as well as dealing with the disincentive effects which arise from the operation of the tax and benefit system. It would also make a substantial contribution to the Scottish government goals of increasing economic growth and at he same time promoting equality.

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