

“Can parents afford to work?”

Childcare costs, tax-benefit policies and work incentives

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20 April, 2007

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Background

- Family-friendly policies: Reform debates in OECD countries (see e.g. OECD series *Babies and Bosses* and *Starting Strong*)
- Range of different **policy objectives** and measures
 - child development/well-being
 - promote parenthood
 - improve resources of disadvantaged families
 - remove barriers to parental (maternal) employment
 - promote gender equity
- To understand **overall effects of policy packages**: not sufficient to look at isolated measures

This study: financial aspects of work decisions

- A **family perspective**: What is the overall effect of existing policy packages on
 - family resources?
 - payoff from work?
- In particular:
 - how costly is childcare
 - role of other policy measures (taxes; social benefits)
- What types of policy to help reconcile work and family life?
- Forthcoming as a chapter in 2007 edition of *Benefits and Wages*.

Outline

1. Approach and scope
2. Childcare costs in OECD countries
3. Work incentives for parents of young children
4. What are institutional barriers to combining work with raising children?
5. What are possible reforms to address them?
6. Summary, conclusion

Approach

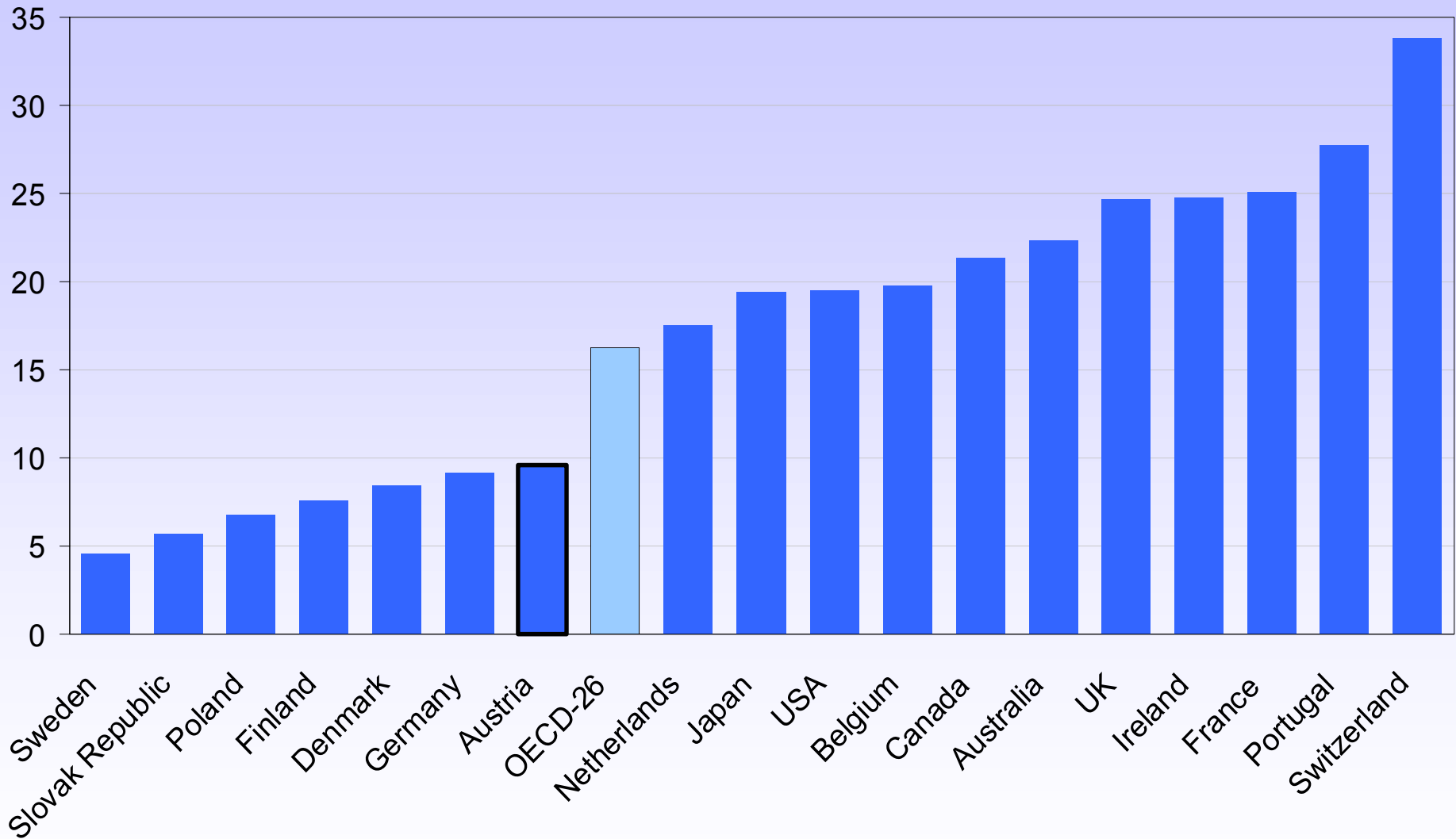
- Extension of well-known tax-benefit model calculations
- Combine information on childcare prices with detailed policy rules for relevant taxes and transfers
- Calculate family resources **after** childcare expenses for different family situations and earnings levels
- Compare “with” and “without” childcare scenarios
→ **net childcare cost**
- Compare “with” and “without” childcare & employment
→ **net gain from employment**

Scope

- Parents of young children aged 2 and 3
- Two-parent couples and lone parents
- Type of childcare:
 - Centre-based and full-time when all parents in work
 - Home-based parental care when one parent out of work

Costs of childcare from parents' perspective

“Typical” childcare fees...

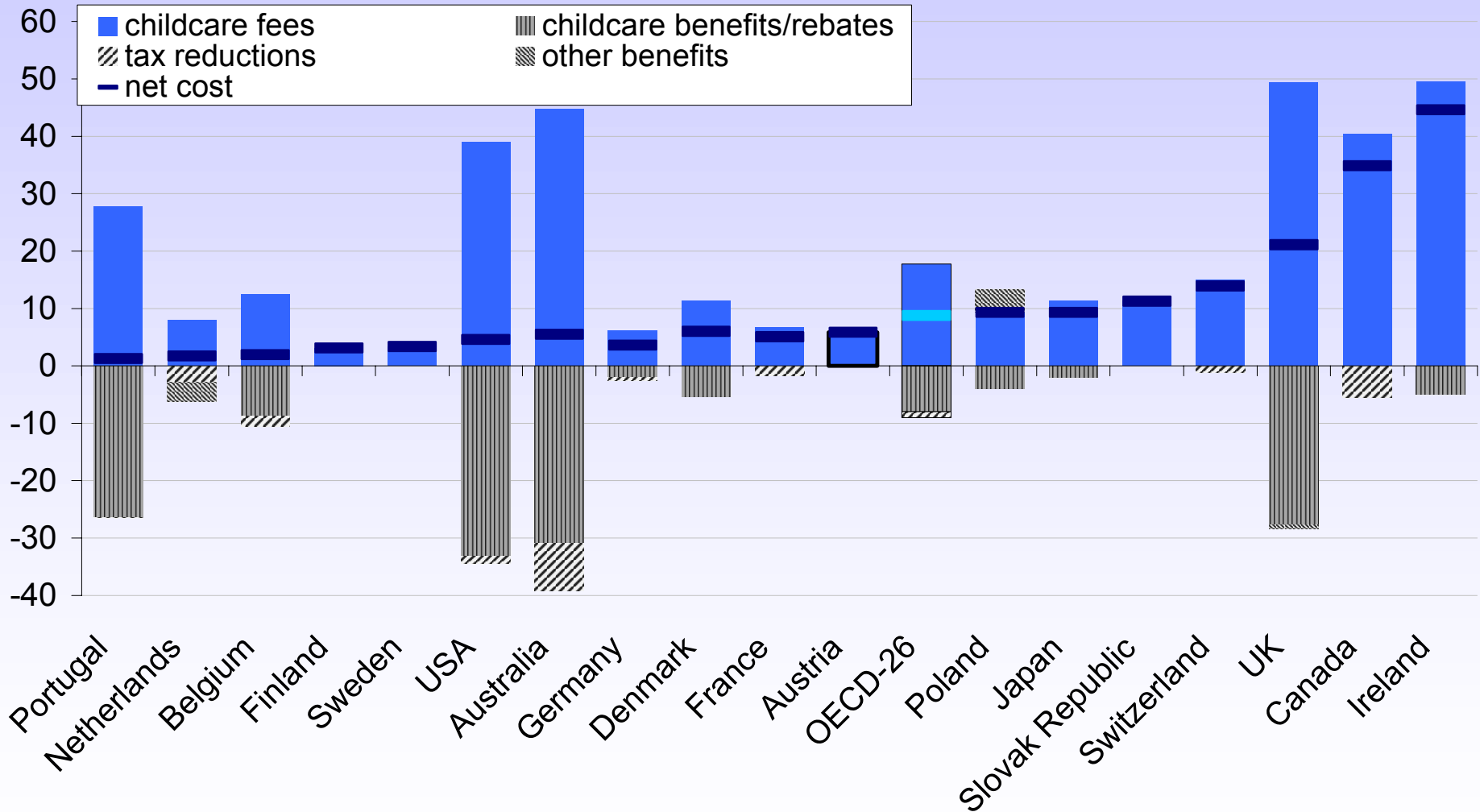


Full-time centre-based care for a two-year old in % of average wage
Maximum fees are shown where they vary by age, income, etc.

...are only one element of net childcare costs

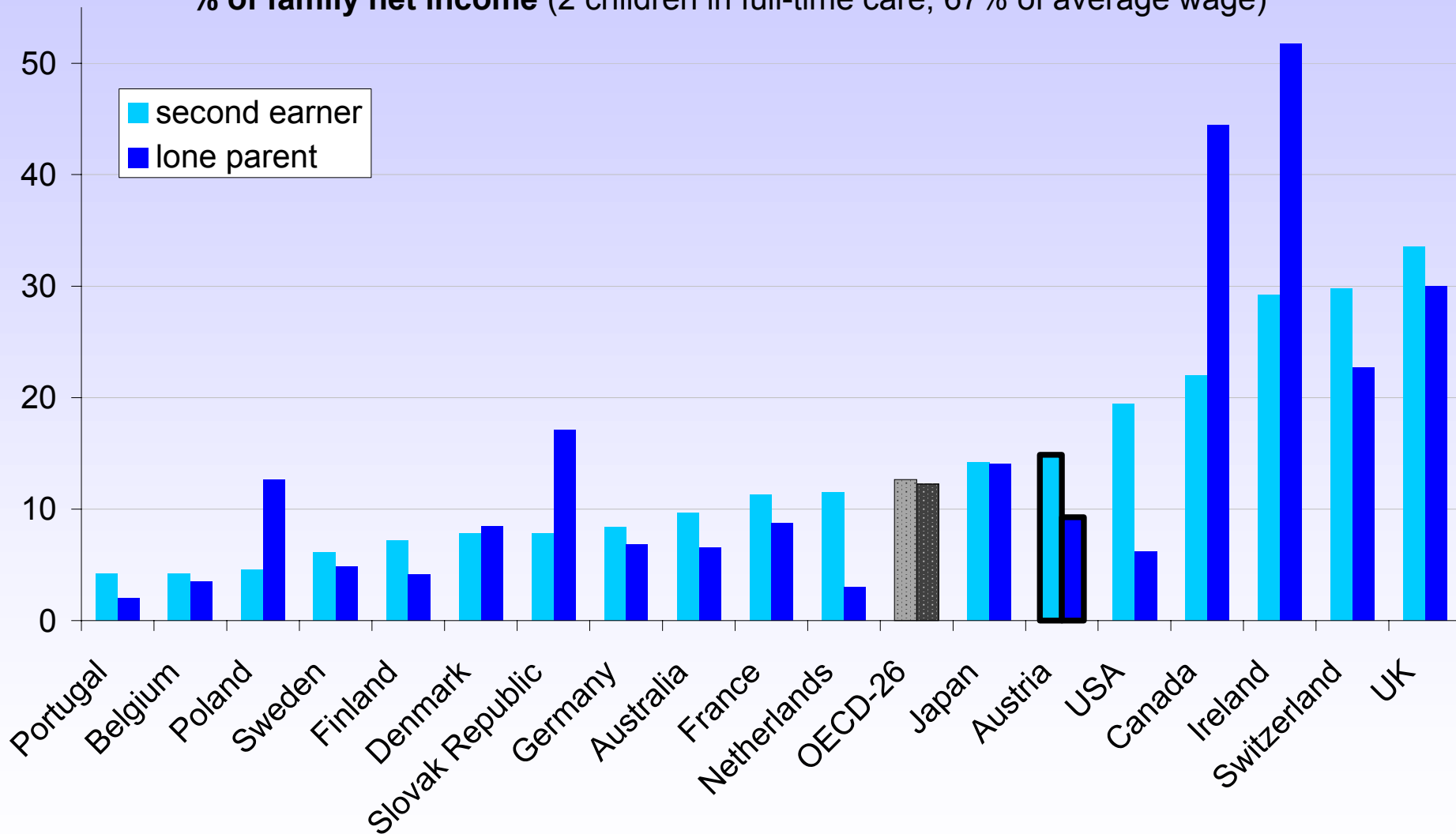
components of net childcare cost, % of average wage

(lone parent, 67% of average wage, 2 children in full-time care)



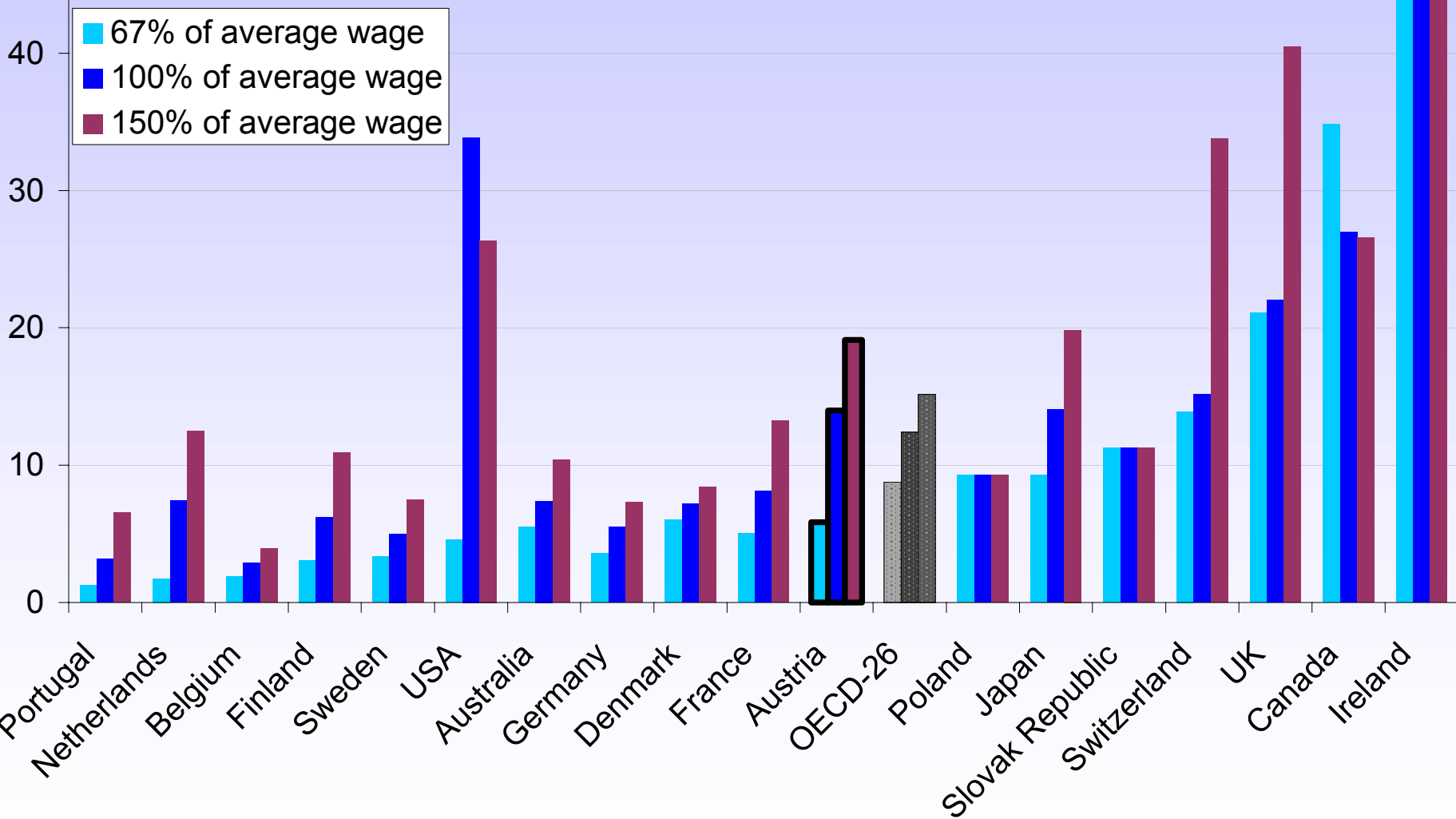
Cost of centre-based care can be prohibitive

% of family net income (2 children in full-time care, 67% of average wage)



Targeting support to low-income families can be efficient

net childcare cost, % of average wage (lone parent, 2 children in full-time care)



Summary “childcare costs”

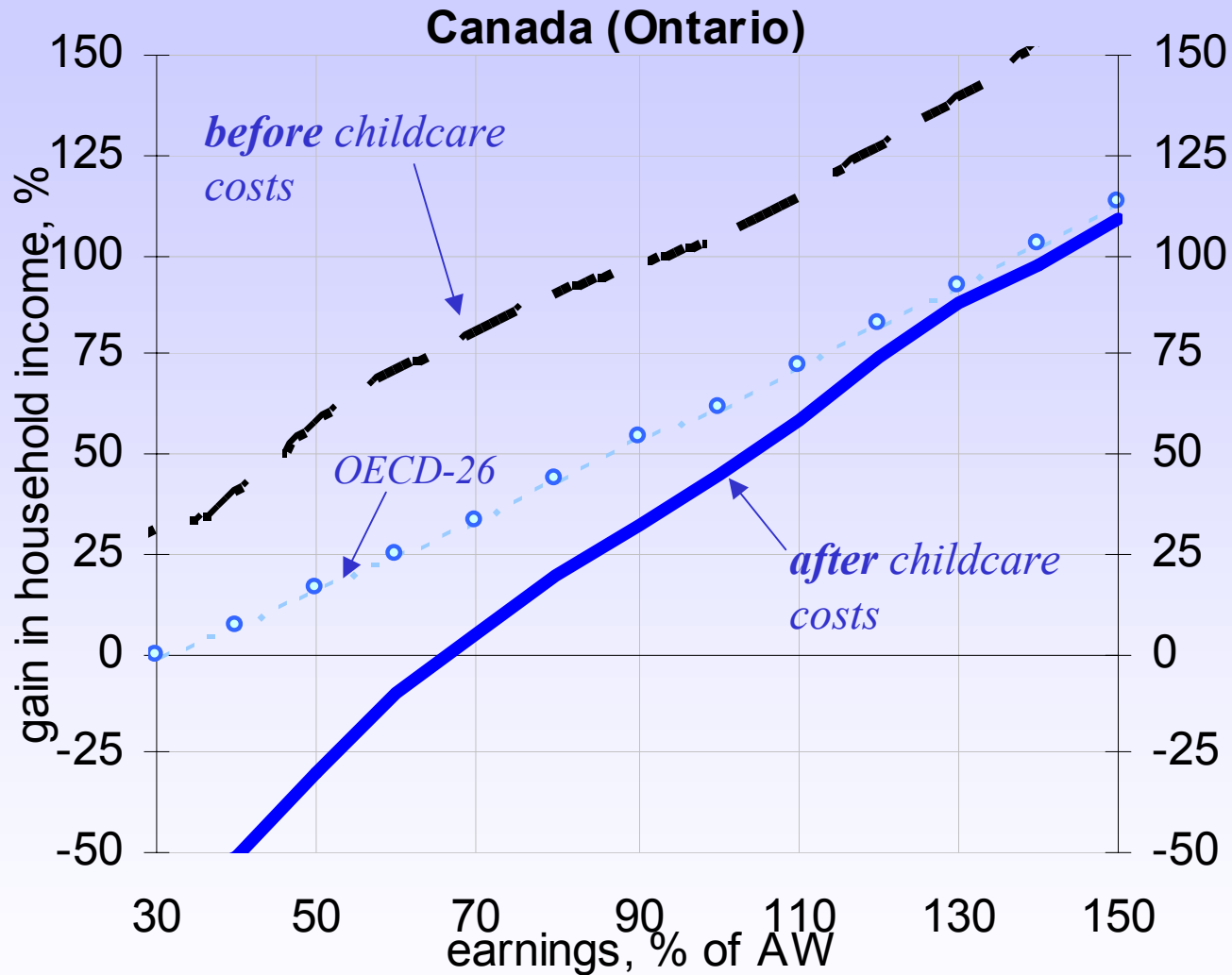
- **Net** childcare costs depend on multitude of different policies
- Fees (i.e. the prices charged by providers) alone give a very misleading picture of cross-country variation
- Centre-based childcare can be **very expensive** in a number of countries

e.g. > 1/3 of total family budgets in CHE, GBR, IRL, NZL, USA

***Financial work incentives
for parents of young children:***

Does work pay?

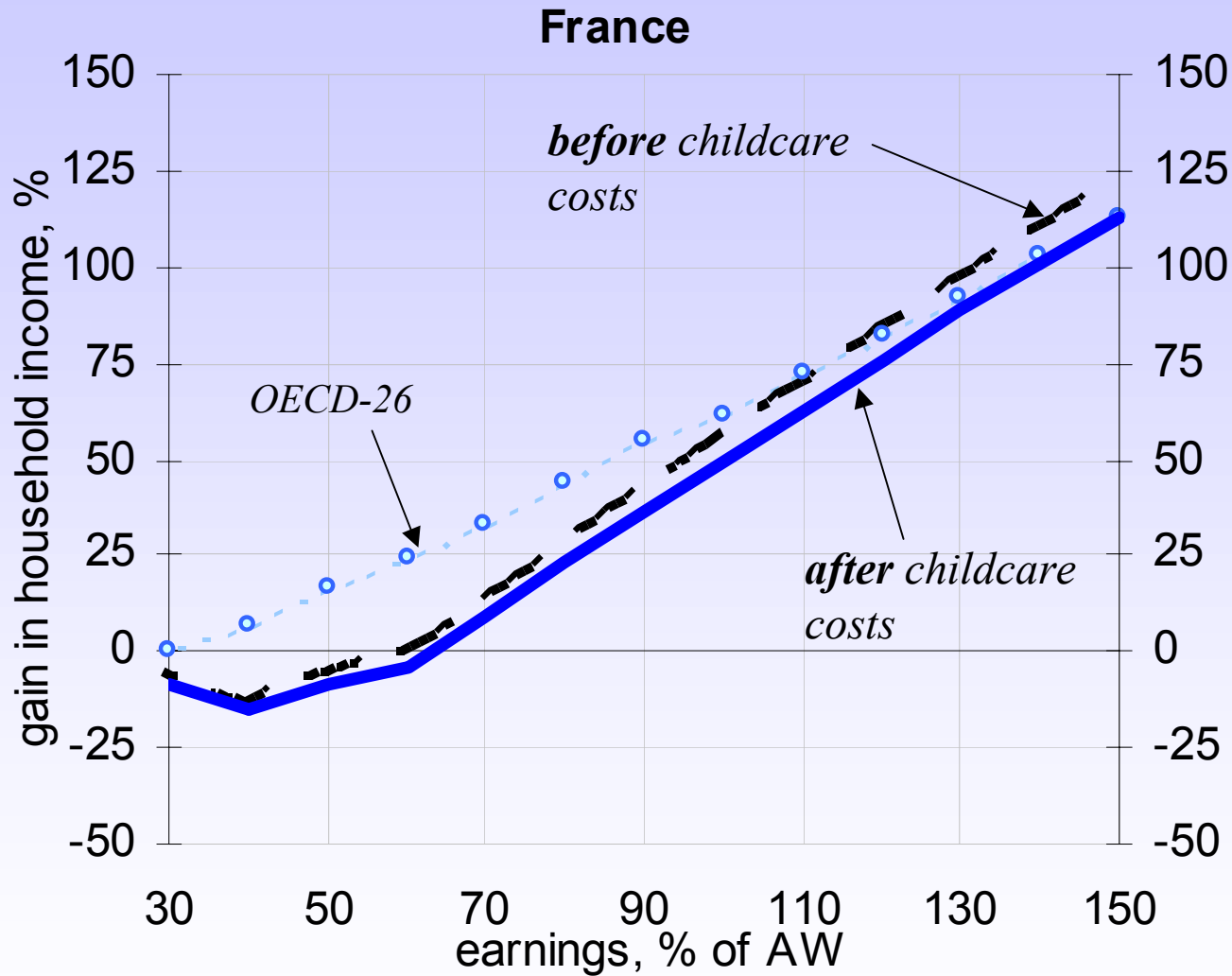
Income gains from employment can be low...



...due to expensive childcare

(lone parent with two children aged 2 and 3)

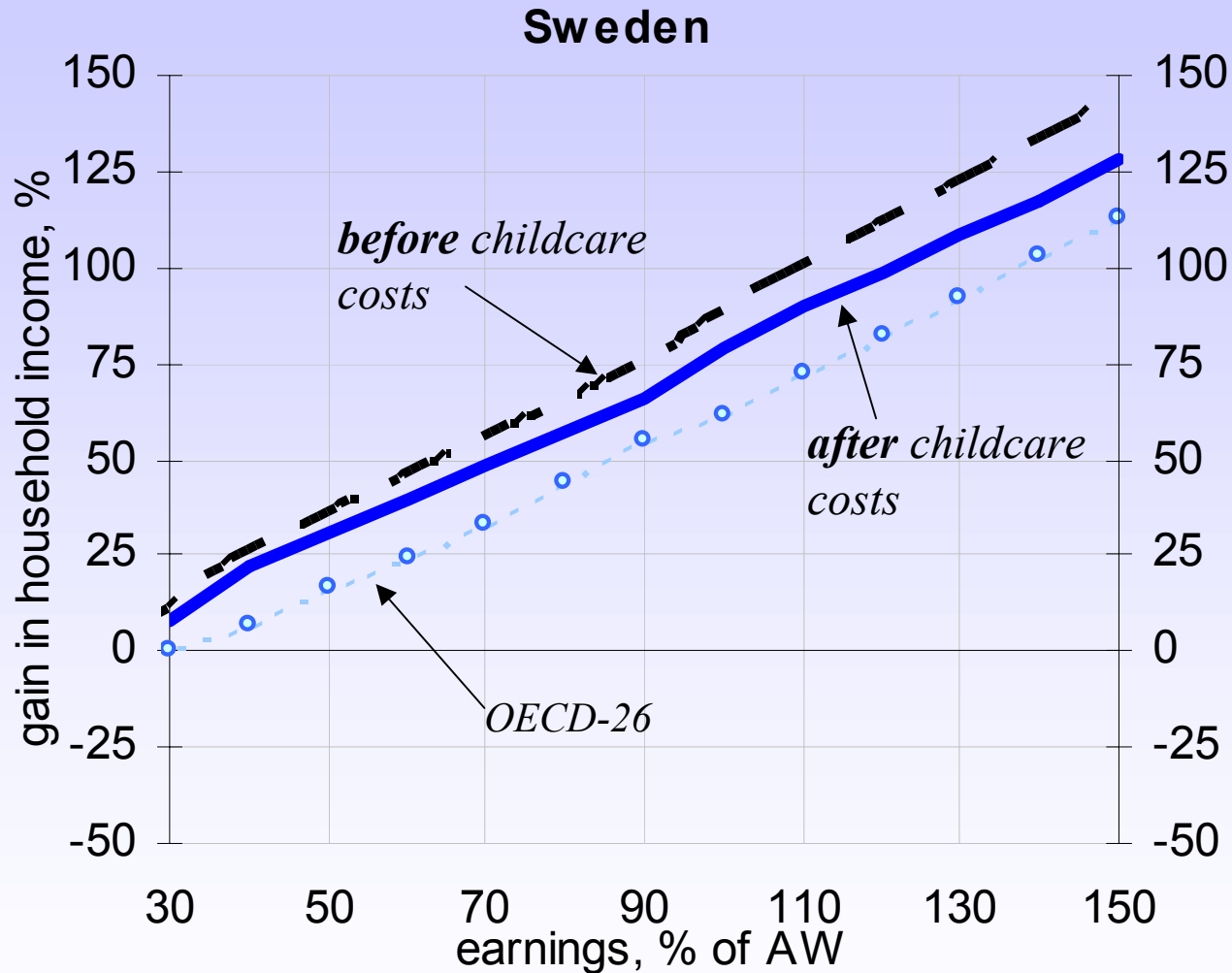
...or low because of other factors...



... in spite of affordable childcare

(lone parent with two children aged 2 and 3)

Income gains from employment

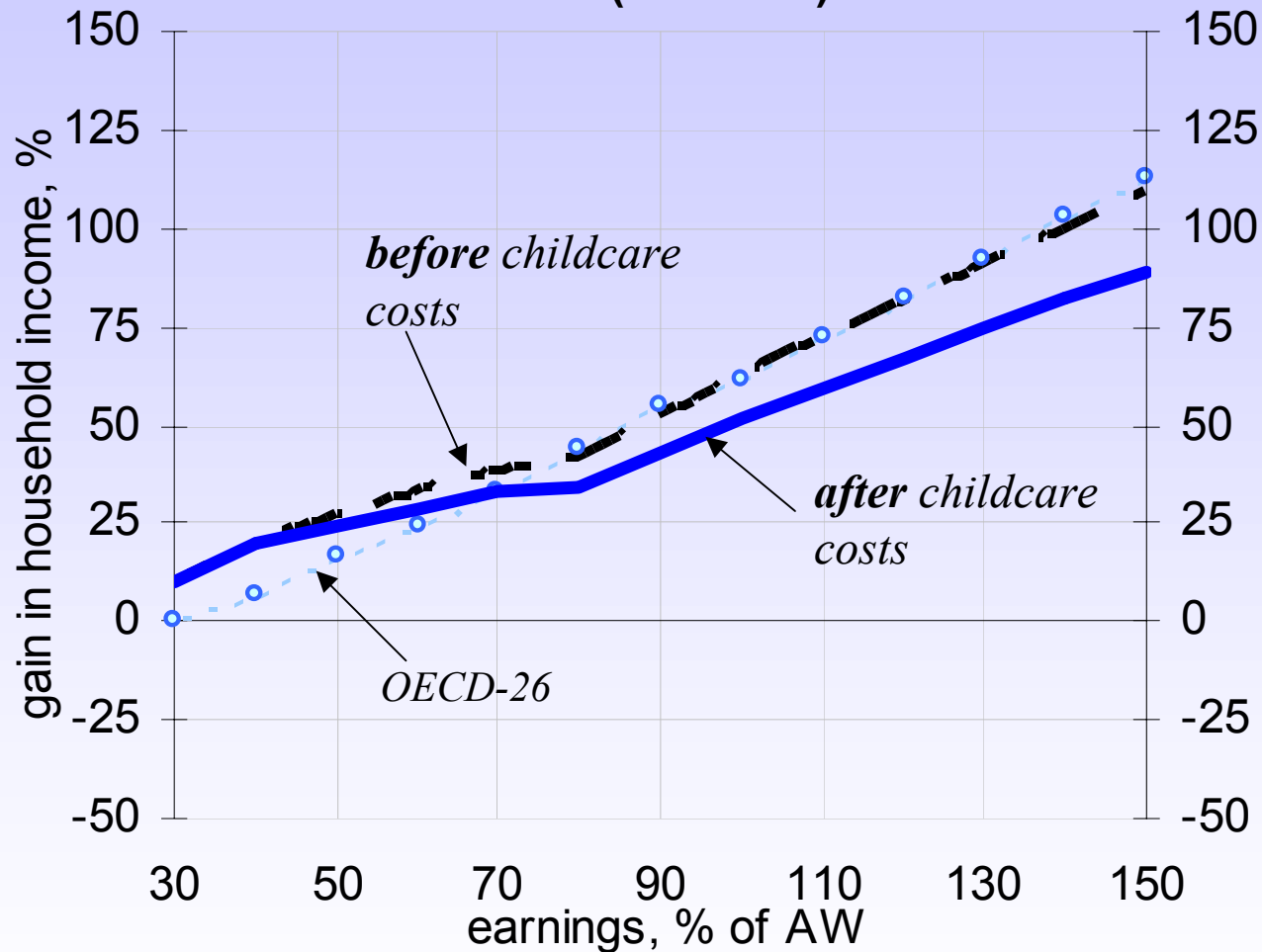


...high

(lone parent with two children aged 2 and 3)

Income gains from employment

Finland (Helsinki)



...high for those targeted by support measures

(lone parent with two children aged 2 and 3)

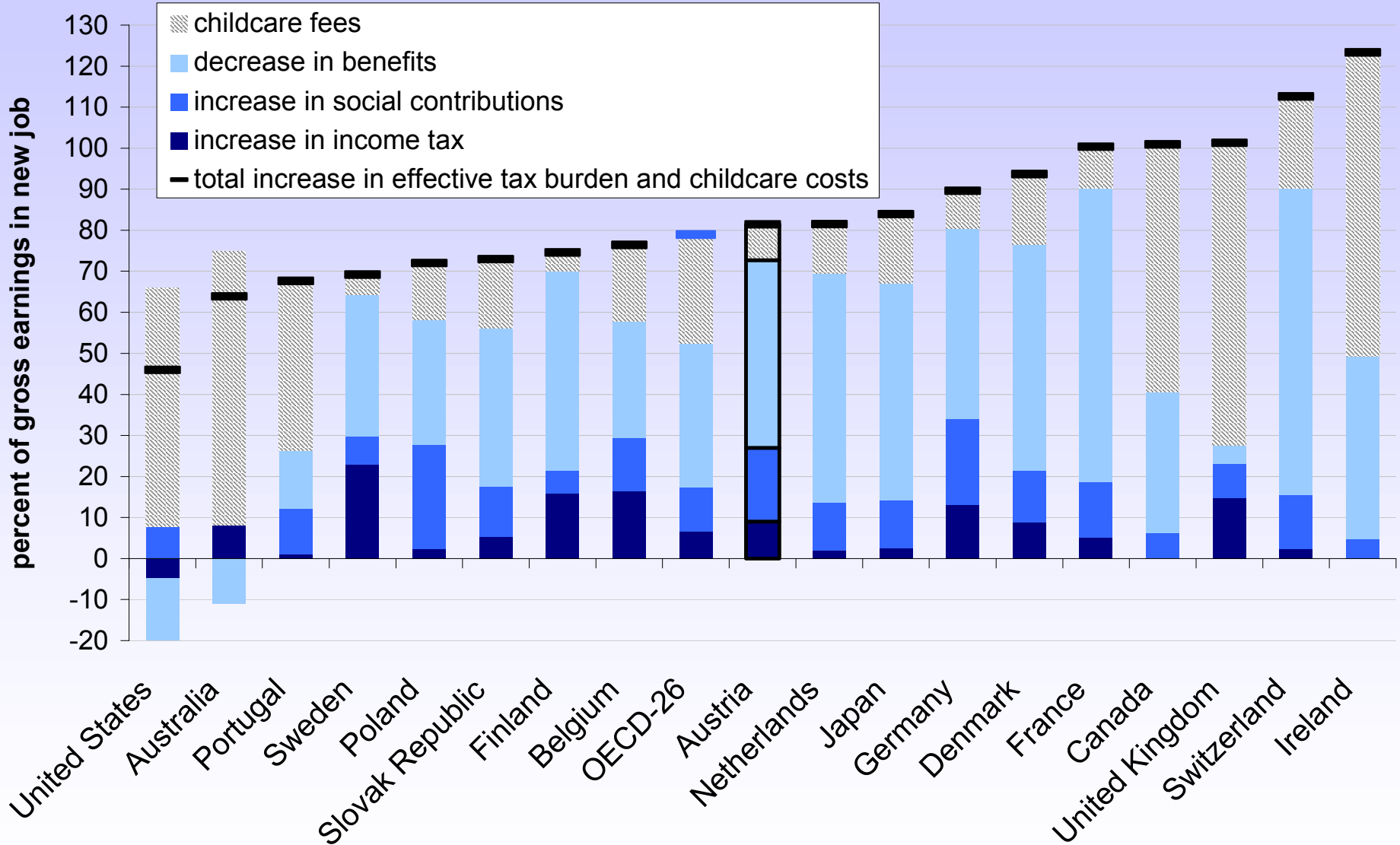
Financial incentives to take up employment (net income gain)

		<i>low</i>	<i>moderate</i>	<i>high</i>
Impact of childcare cost on income gain	<i>low</i>	Denmark France (-) Poland (+)	France (+) Germany (-) Luxembourg (-) Netherlands (-) Poland (-)	Belgium Finland (-) Greece Hungary Norway Sweden (-)
	<i>moderate</i>	Czech Republic (-) Finland (+) Germany (+) Iceland New Zealand (-) Portugal (-)	Australia (+) Czech Republic (+) Japan (-) Netherlands (+)	Australia (-) Austria (-) Sweden (+) United States (-) Luxembourg (+)
	<i>high</i>	Austria (+) Canada (-) Ireland Korea (-) New Zealand (+) Slovak Republic (-) Switzerland United Kingdom	Canada (+) Japan (+)	Korea (+) Portugal (+) Slovak Republic (+) United States (+)

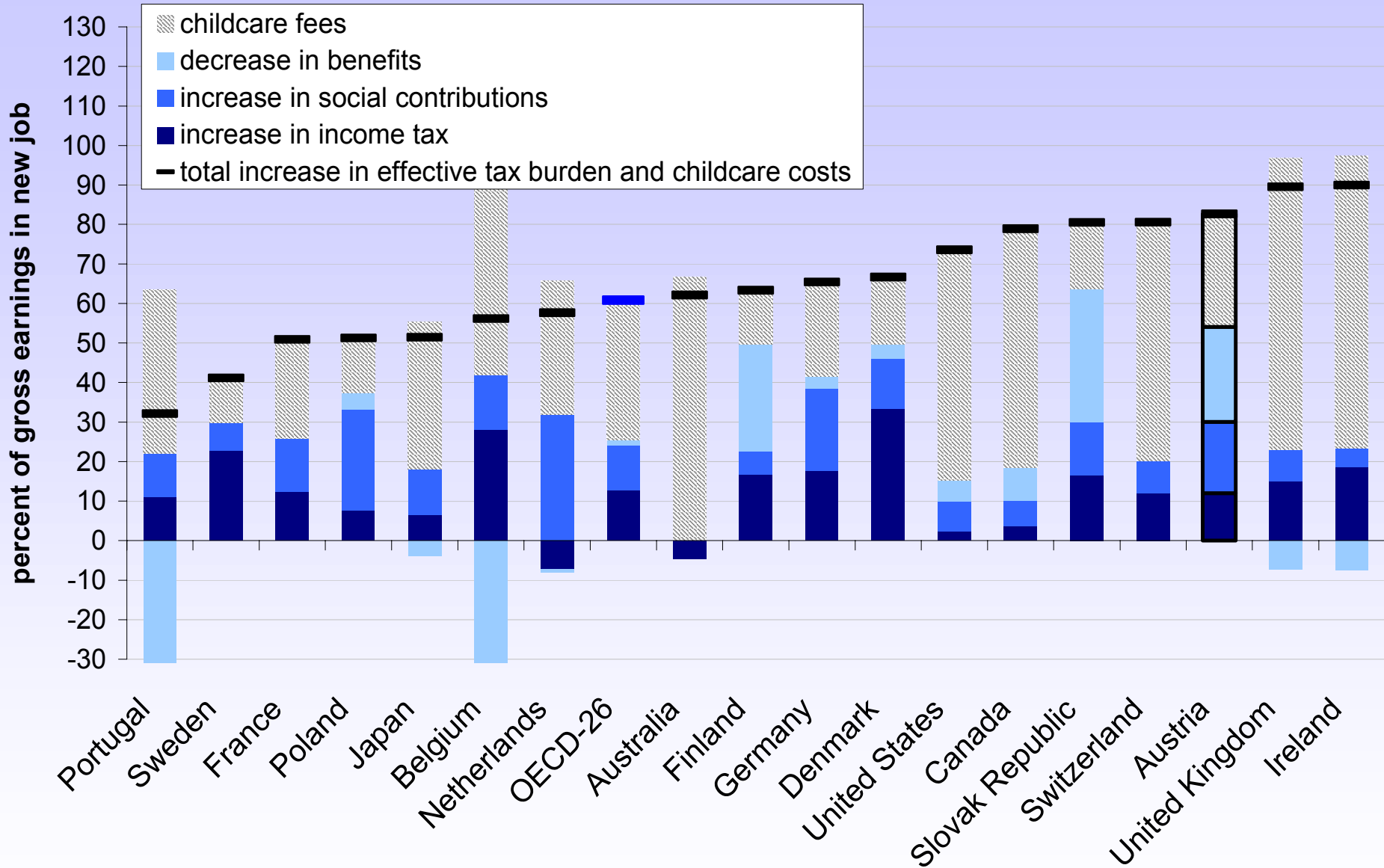
Classification relates to lone parents
(see OECD, 2007, forthcoming, for second earners)

***What are institutional barriers
to combining work with raising children?***

Different policy packages... can have similar effect



“Average Effective Tax Rates” when moving into a low-wage job
(lone parents, two children, 67% of average wage)



“Average Effective Tax Rates” when moving into a low-wage job (second earners, two children, 67% of average wage)

What reforms?

- No “one size fits all”
- If parents’ **childcare costs** are **high**:
 - ☺ public provision ... expensive
 - ☺ Reduce cost of private childcare:
start-up subsidies, in the case of centre-based care
combined with direct support to parents (vouchers)
and properly enforced quality standards
... encourages competition and tends to extend choice
 - ☺ Improve targeting of existing support
- ☹ Price controls without addressing underlying shortages
- ☹ Unconditional transfers to parents
(e.g. an increase in universal child benefits)

What reforms (2)

- If **earnings are low** when returning to work:
 - ☺ Encourage labour market attachment during employment breaks
 - ☺ Encourage human capital investment and work experience prior to child bearing
 - ☺ Provide incentives for shortening employment breaks
- Promote gender equality

What reforms (3)

- If **work incentives** are **low** despite affordable childcare:
- ☺ Re-balance tax-benefit system
(possibly targeting tax reductions or in-work benefits to second earners and lone parents)

What reforms (4)

- If **childcare utilisation** is **low** despite affordable childcare:
 - ☺ If insufficient number of places → Supply-side measures (public provision, subsidies to private providers, etc.)
 - ☺ Address quality problems
 - ☺ More generally, do existing childcare arrangements satisfy parents' and children's needs (quality, group sizes, opening hours, holidays)

Summary: “policy reforms”

- Earnings potential is critical
 - importance of preventing depreciation of skills and human capital during parental leave
- Even without childcare, adverse financial work incentives in some countries. e.g. DEU, FRA
- Maternal employment rates and use of non-parental childcare low in some countries despite relatively affordable childcare
 - childcare costs are not most pressing obstacle to stronger employment in these cases
- No simple policy prescriptions for removing employment barriers
- Needed: Co-ordination and consistency of policies in different areas

Further work

- Look at other family circumstances
 - different number of children
 - different age groups (pre-school, after-school care)
- Look at other modes of formal childcare
 - childminders
 - residential care
 - part-time care
- Importance of data on
 - patterns of childcare use
 - costs and characteristics (“quality”) of different types of care

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