

“Can parents afford to work?”

Childcare costs, tax-benefit policies and work incentives

University of Antwerp, 16 January 2006

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Background

- Childcare policies: Reform debates in OECD countries (see e.g. OECD series *Babies and Bosses*)
- Range of different policy objectives and measures
 - child development/well-being
 - promote parenthood
 - improve resources of disadvantaged families
 - reconcile work and family life; remove barriers to female employment
 - ...
- What is overall effect of existing policy packages from a **family perspective**?
- In particular: how costly is childcare and how effective are existing policies at providing affordable childcare options?
- What types of policies would be appropriate for addressing constrained childcare options?



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**

Policy elements

Childcare supply

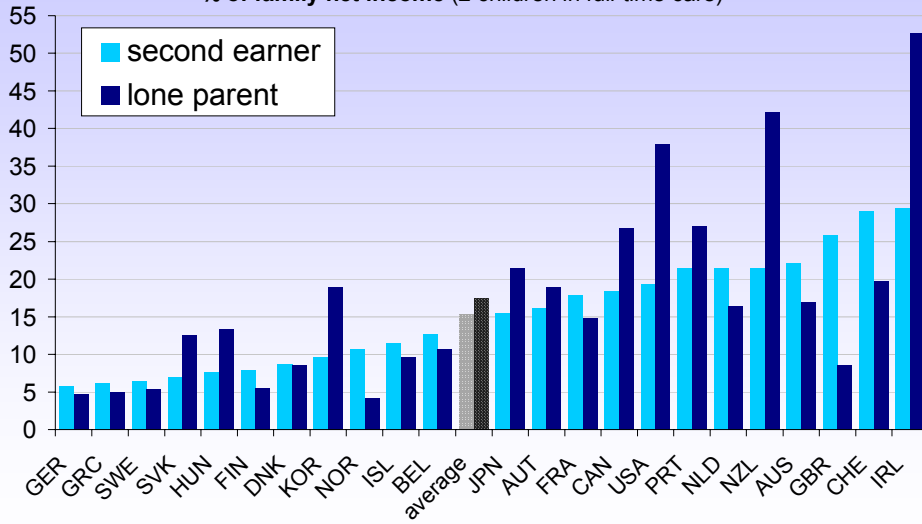
- Licensing / accrediting / quality standards
- Price regulations
- Subsidies to providers
(AUT, BEL, CAN, CHE, FIN, ISL, JPN, NOR, NLD, NZL, PRT, SWE, USA)
- Public provision (DNK, ESP, FIN, FRA, GRC, ITA, KOR, NOR, PRT, SVK, SWE)

Childcare demand

- In-work tax burdens
- Out-of-work benefits
- Family-friendliness of work practices
- Tax concessions for childcare users
(BEL, CAN, FRA, GER, GRC, NLD, NOR, PRT, USA)
- Cash benefit for homecare (AUS, CZE, FIN, FRA, HUN, SVK)
- Cash benefits for purchased care (AUS, CAN, GBR, NOR, NZL)
- Targeted rebates (DNK, GER, HUN, KOR, LUX, SWE)

Cost of centre-based care can be prohibitive

% of family net income (2 children in full-time care)

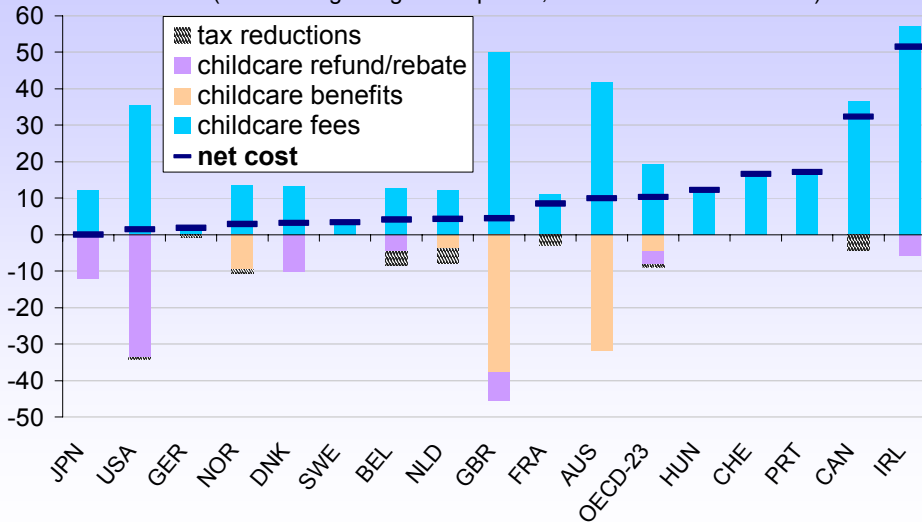


Results relate to 2002. Source: Immervoll and Barber (2005)

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Different policy packages... can have similar effect

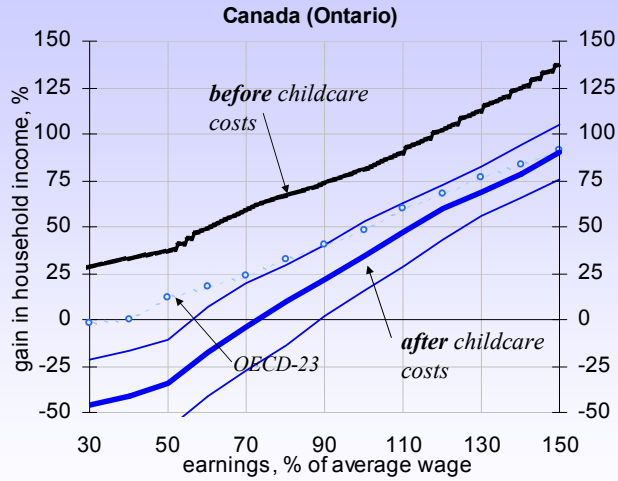
net cost (% of average wage: lone parent, 2 children in full-time care)



Results relate to 2002. Source: Immervoll and Barber (2005)

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Income gains from employment (lone parents)

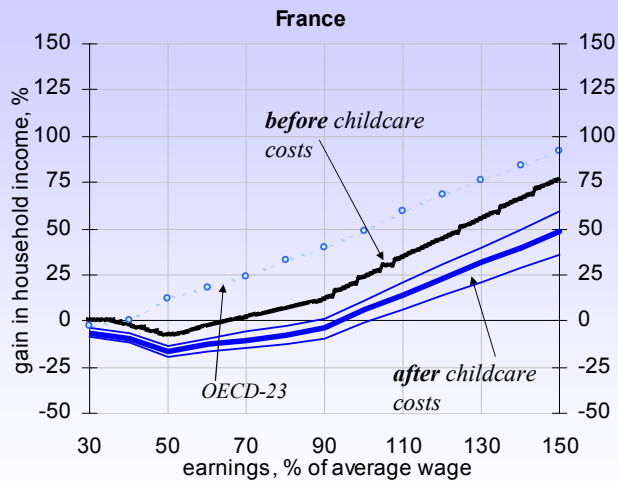


...low due to expensive childcare

Results relate to 2002. Source: Immervoll and Barber (2005)

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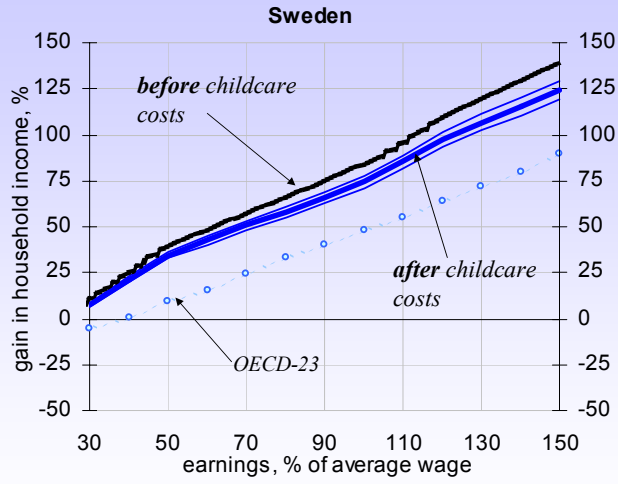
Income gains from employment (lone parents)



...low in spite of affordable childcare

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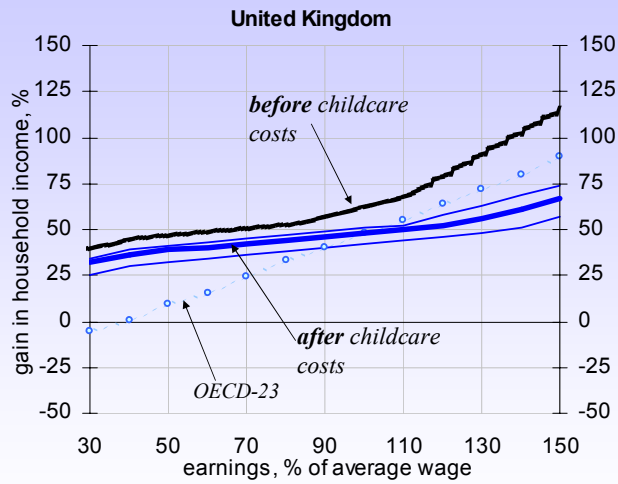
Income gains from employment (lone parents)



...high

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Income gains from employment (lone parents)




...high for those targeted by support measures

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Financial incentives to take up employment (Net Income Gain)				
		low	average	high
Impact of childcare cost on income gain	low	Austria (Vienna) (-) Denmark France (-) Slovak Republic	Belgium Finland Germany Iceland Japan (-) Netherlands (-) Portugal (-)	Greece Norway Sweden United Kingdom (-) United States (Michigan) (-)
	average	Austria (Vienna) (+) France (+) Netherlands (+)		Australia (-) Hungary
	high	Canada (Ontario) Ireland Japan (+) Korea (-) New Zealand Switzerland (Zürich) United Kingdom (+)	Australia (+) Portugal (+)	Korea (+) United States (Michigan) (+)

Classification relates to lone parents (see Immervoll and Barber, 2005 for second earners)

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Conclusions

- Net childcare costs depend on multitude of different policies
- Fees 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
- for families who do **not** need to purchase childcare, even low-wage employment can bring significant income gains
OECD average gain of +50% / +30% for second earners / lone parents
- Payoff from employment much lower if childcare purchased
OECD average income gain about +20% for low-wage employment

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Conclusions

- 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. HUN, FRA, SVK
- 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
- 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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