“Can parents afford to work?”
Childcare costs, tax-benefit policies and work incentives

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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)

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)
Income gains from employment (lone parents)

...low due to expensive childcare

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

Income gains from employment (lone parents)

...low in spite of affordable childcare
Income gains from employment (lone parents)

...high

Income gains from employment (lone parents)

...high for those targeted by support measures
Impact of child care cost on income gain

<table>
<thead>
<tr>
<th>Financial incentives to take up employment (Net Income Gain)</th>
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<tbody>
<tr>
<td>low</td>
</tr>
<tr>
<td>Austria (Vienna) (-)</td>
</tr>
<tr>
<td>Denmark</td>
</tr>
<tr>
<td>France (-)</td>
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<tr>
<td>Slovak Republic</td>
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<tr>
<td>Austria (Vienna) (+)</td>
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<td>France (+)</td>
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<td>Netherlands (+)</td>
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<td>Canada (Ontario)</td>
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<td>New Zealand</td>
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<tr>
<td>Switzerland (Zürich)</td>
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<td>United Kingdom (+)</td>
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Classification relates to lone parents (see Immervoll and Barber, 2005 for second earners)

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
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