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Evidence Brief

Childcare subsidies for early childhood and out-of-school care to increase parental employment

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CHILDCARE SUBSIDIES FOR EARLY CHILDHOOD AND OUT-OF-SCHOOL CARE TO INCREASE PARENTAL EMPLOYMENT

Key points

- One aim of childcare subsidies is to increase parents' participation in paid employment by reducing the cost of childcare.
- Overseas estimates indicate that childcare subsidies and expanded Early Childhood Education (ECE) supply increase maternal employment by 7 to 14 percent. Effects are larger for low-income groups and those disadvantaged in the labour market.
- Childcare subsidies are most effective in promoting employment if they are work-tested, 'sizeable', targeted at parents most disadvantaged in the labour market and accompanied by other policies that assist the choices that parents make about paid employment and childcare.
- Childcare subsidies may have a more limited impact on employment for more advantaged groups of women, those with a strong orientation towards parental care, and parents who find it difficult to access suitable childcare.

Childcare subsidies aim to reduce the cost of childcare and help 'make work pay'. Other aims include improving:

- participation in quality early childhood education (ECE) and childcare
- families' incomes and reducing child poverty.

Childcare costs have a modest effect on participation in paid employment overall.¹ Decreasing ECE costs contributes to increased maternal employment, among other factors, though the cost reduction has to be sizeable to make a marked difference.² Low-earning and single parents' employment decisions are more sensitive to changes in cost of childcare than other more advantaged groups.³

Situation as at December 2009

A 2005 OECD economic survey showed the cost of childcare for pre-school children in New Zealand is high compared to other OECD countries, and the employment rate for women with pre-school children is comparatively low.⁴ Government policies implemented since have aimed to reduce the economic disincentive for parents wanting

¹ Jaumotte (2004), p61.

² Mitchell (2008), p74.

³ Han, W-J. et al. (2009); Bainbridge et al. (2003), p774; Jaumotte (2004), p61; Doiron & Kalb (2005).

⁴ OECD (2005). This is prior to changes in subsidies introduced from October 2004 and 20 hours ECE for three and four year olds introduced in July 2007.

to balance paid work and family responsibilities.⁵ Parents identify the cost of childcare as a barrier to paid work.⁶

Government directly funds approved out-of-school care and licensed early childhood education services. Low- and middle-income families can also access subsidies to meet the cost of formal childcare through two subsidies:⁷

- Childcare Subsidy (CCS) assists families with children under five years old attending early childhood education services
- Out-of-School Care and Recreation (OSCAR) subsidy helps working parents meet the cost of before- and after-school care and school holiday programmes for their children aged five to thirteen years.

There are no New Zealand studies on the effects of childcare costs, or direct effects of subsidies, on parental employment.

What works?

Overseas studies indicate that childcare subsidies can support employment by:

- lowering the cost of paid versus unpaid care, making formal care more affordable⁸
- increasing choice for parents, particularly when offered alongside other policies, such as paid leave⁹
- making it easier for low-wage mothers to comply with employer requests for more work time or different work schedules¹⁰
- supporting stable care arrangements that help sustain employment.¹¹

Effects of childcare subsidies on employment

Evidence indicates that childcare subsidies do increase female labour supply.¹²

Empirical studies that measure the direct effect of childcare subsidies on parental paid employment show varying effects. A review of recent international studies indicates that childcare subsidies and expanded ECE supply increase maternal employment by 7 to 14 percent.¹³ Effects may be larger for low income or disadvantaged groups.

⁵ Working for Families policies introduced from October 2004 increased subsidy payments and extended eligibility to higher income parents. The '20 hours ECE' policy for three and four year old children was introduced in July 2007.

⁶ Department of Labour (1999); Robertson et al. (2006); Robertson et al. (2007); Families Commission (2007).

⁷ A small number of families receive financial assistance for childcare through other smaller subsidies or programmes, including the Early Learning Payment, Young Parent Childcare Payment, Course Participation Assistance, Training Incentive Allowance, and the Transition to Work programme.

⁸ Tekin (2007); Han, W-J. et al. (2009).

⁹ Han, W-J. et al. (2009).

¹⁰ Press et al. (2006).

¹¹ Miller (2005).

¹² Jaumotte (2004), p60.

¹³ Mitchell et al. (2008)a, p73. The empirical studies were of policies in non-US countries (Argentina, Israel, and Canada) that both increased ECE supply and reduced its costs. A body of literature covers a variety of different study populations and reforms, but effects are comparable to the 7-14% range cited in Mitchell et al. (2008). See Blau & Tekin (2007); Blau & Tekin (2000); Tekin (2007) Anderson and Levin (2000) cited in Press et al. (2006). Most studies focus on single women only, and pre-school aged children. Economic models using administrative or census datasets show a larger range of estimation of effects than empirical studies.

There is some evidence that subsidies stimulate full-time more than part-time employment.¹⁴

Childcare subsidies are more effective in increasing employment when:

- eligibility is linked to participation in paid employment or active job search¹⁵
- the effect of the subsidy on childcare costs is sizeable¹⁶
- subsidies are targeted at parents who are disadvantaged in the labour market, such as sole parents and low-income workers.¹⁷

What doesn't work?

Subsidies designed to increase labour market activity may have a limited impact when:

- they are targeted to high income parents, ie more advantaged groups, such as married mothers and those with higher education or skills¹⁸
- parents have a strong orientation towards parental care
- the application process is difficult, which can deter families in need and reduce take-up rates¹⁹
- the supply of childcare services is not sufficient to meet demand, or services are unresponsive to the regulatory requirements of a subsidy programme
- parents find it difficult to access suitable childcare, eg those who work irregular hours, shift work, or in the weekends.²⁰ This group often includes low-income parents for whom subsidies would have the greatest impact.

Subsidies are just one factor in a complex jigsaw that determines parental employment. Others include availability and quality of care. Subsidies alone are unlikely to be sufficient to influence all parents' willingness and ability to access childcare and enter paid employment.

Substitution effects may limit an increase in female labour supply. Studies on the use of ECE show that reducing the cost of childcare can increase its use or shift use from paid formal care among current childcare users.²¹

What don't we know?

The evidence we have about the effect of subsidies on employment is from overseas. We do not know how it might apply to New Zealand's institutional settings and population.

Most studies focus on childcare subsidies for pre-school children. There is little research on the effect on parental employment of subsidising care for older, school-aged children.

¹⁴ Jaumotte (2004).

¹⁵ Jaumotte (2004).

¹⁶ Mitchell *et al.* (2008)a.

¹⁷ Jaumotte (2004).

¹⁸ Rammohan & Whelan (2007).

¹⁹ For a discussion of the different options for delivering child policies and benefits, see Chapter 7 in Chapple & Richardson (2009).

²⁰ Few childcare services can viably provide flexible and non-standard hours.

²¹ Mitchell *et al.* (2008)a, p23, Jaumotte (2004), p61.

Other areas where the existing evidence is limited include the effect of subsidies on:

- employment when subsidies are restricted to high-quality child care²²
- participation in education and training
- child development outcomes
- employment decisions of different delivery models, such as subsidies direct to the user, subsidies to the provider, or family tax rebates
- the effect of subsidies during an economic recession and a tight labour market.

²² Blau & Tekin (2000).

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