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Putting Childcare at the Heart of the Social Market Economy

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Policy Brief

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Times are changing yet again. Families are becoming smaller, populations are ageing, fertility is declining and mothers are tending to be older. There are also changes in the structure of work, including outsourcing, casual employment, self-employment and zero-hour contracts. This policy brief argues that childcare is essential to enabling women to participate in the workforce. It underwrites women's essential contribution to the economy and promotes gender equality. In an increasingly busy world, it provides families with a greater range of choices. Quality childcare also has positive benefits for the well-being of young children.

Substantial investment is necessary to deliver childcare and to realise its positive benefits: for the economy, for the work-life balance of parents and for women's equality. But childcare does not have to be publicly provided. The Norwegian example illustrates the vibrancy that can arise from local entrepreneurial solutions when a comprehensive regulatory framework is in place. By contrast, the UK example illustrates the uneven distribution, high cost to parents and lack of accountability that result when large private companies providing childcare dominate the market. Childcare then becomes inadequate in its reach and scope and discriminatory against the poorest and most vulnerable families.

The provision of accessible, affordable and high quality childcare is essential for enabling Europe's economy to compete globally in the 21st century. Childcare should become an integral part of a modern social market economic model which is explicit in its support for both parents and children.

Keywords Childcare – Gender equality – Social mobility – Education

Understanding the disconnect between work, childcare and education

One of the most important changes to the labour market over the last 50 years has been the recognition of women's essential and necessary contribution to a competitive economy. The Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) have long emphasised the importance of underwriting women's participation in the labour market by recommending measures to reconcile work and family responsibility through the provision of childcare and related benefits. Where women make up a high percentage of the workforce, the formal provision of childcare is usually—but not invariably—widespread.[1] Generally, however, governments have accepted that it is desirable to provide childcare, either directly, through state funding, or indirectly, through a subsidy scheme.

Women's participation in the workforce varies from country to country, and there are a number of reasons for this. Although there are clear trends, there is not a direct and unambiguous relationship between the provision of childcare and women's labour force participation. Policy trajectories usually have deep roots and are a reflection of wider societal values over time.[2] The age at which children start school varies across Europe. However, there is near-universal acceptance by the OECD and the EU that some kind of formal, education-based preschool experience benefits children's subsequent school performance and enhances equality of opportunity. Education is seen, not as a targeted service, but as a universal one that benefits all children. Education entitlement is generally free and provided by highly trained staff.

Childcare, on the other hand, is seen as a service that families must utilise to allow parents to work and that must be paid for by those who benefit from it.

1 The US is an example of a country where there are high numbers of employed women, but childcare is generally insufficient and can be of extremely low quality.

2 In the Nordic countries, for example, there is a history of poverty, and both men's and women's labour was necessary to survive in the harsh climatic conditions. Collective childcare solutions were deemed necessary for mutual betterment. In some ex-Communist regimes, such as Hungary, all able-bodied women were once required by law to work. The state, for its part, took its obligations to provide the relevant services very seriously. In other countries, such as France or Belgium, the battle for a secular rather than a Catholic state spurred the state to develop services for young children, both *crèches* and *écoles maternelles/Kleuterschool.*

Considerations about children's experience in childcare and how they spend their day (often a long one) have tended to be less important than concerns about providing the necessary coverage of working hours. Childcare staff tend to be less qualified than those working in the education sector and to have lower pay levels and poorer conditions of service.[3]

The key question, apart from cost, is how to smoothly dovetail care and education, so as not to disrupt children's experiences. Some countries and regions within countries have addressed these issues. This is particularly true for the Nordic countries and the Italian province of Reggio Emilia, whose integrated services have become famous and whose children experience continuity of provision. For the most part, however, there is a disconnect, both at a systemic level (e.g. different regulatory frameworks for children under and over three) and in terms of the balance of public and private solutions. Most education is funded and provided by the state, while most childcare is provided informally (although increasingly formally) by the private sector. This means that children experience disruption when moving between childcare and education.

Gendered attitudes are still impacting childcare

There is worldwide acceptance of the right of children to education. This right is enshrined in international as well as national law, and almost all states accept that they have an obligation to provide free education. However, there is much more ambivalence about childcare. This reluctance to develop childcare is partly a reflection of history, of an attitude towards women that for centuries has seen mothers primarily as carers for their children. These attitudes have shifted considerably: it is now societally and economically acceptable—indeed necessary for a competitive economy—for women to work. Men are increasingly involved in general family duties, including childcare.

3 However, most European countries now adhere to the EU's Barcelona target to provide Early Childhood Education and Care (ECEC) for 33% of children under three and 95% of children over three. There is considerable and sophisticated debate about how to measure the implementation of these targets.

The cost of childcare

Many governments, especially where there is a substantial private or non-governmental sector involved in childcare, regulate the maximum price nurseries may charge parents. This ceiling is directly related to household income. But in other countries, most notably the UK and Ireland, fees are not regulated in this way, and there is no limit to what nurseries may charge parents. Where costs are high, childcare inevitably becomes stratified. Private nurseries in wealthier areas tend to charge higher fees and provide a better service; those in poorer areas charge less and offer a lower-quality service. For parents as consumers, the logic is that 'you get what you can pay for'. For parents it is demoralising to perceive that you cannot afford to buy a quality product for your child.

The actual costs of providing childcare vary according to the staffing and premises, but are roughly similar across countries. However, the percentage of net income that parents pay for childcare varies considerably from country to country: in the UK the figure is 33.8%; in Ireland, 27.4%; in France and Germany, 9.7%; and in Sweden, 4.4%. The differences are mostly due to the levels of subsidy for childcare and the efficiency with which they are applied.[4]

Private childcare provision

The rationale of private sector childcare

Given the long-term issues that have arisen in countries where there is extensive private childcare provision—for example, the UK, Ireland, the Netherlands, the USA and Australia—this policy brief argues that it is necessary to consider the impact of privatised provision in more detail. One of the consequences of using a market-based approach is that the quality of provision and equity of access become problematic. In addition, private providers tend to be less accessible for children with disabilities or any kind of special need which involves extra expenditure. Increasingly governments have been turning to private providers and companies to supply formal childcare, especially when rapid expansion is deemed necessary. It

[4] World Economic Forum, *These are the countries where parents spend the most on childcare*, 22 December 2016.

is argued that private provision is more flexible and more responsive to demand, and that a competitive business model ensures quality at reasonable prices.

In the UK this acceptance of the private market happened almost without debate. The market's ubiquitous hold on the sector is rarely discussed and unconditionally accepted (see appendix). Although the UK (along with Ireland) represents an exception when it comes to the extent to which a market philosophy has been embraced, many countries are beginning to follow this approach. The speed with which these changes are being made is quite remarkable, as governments try to respond rapidly to the demand for childcare.

Of course, governments also find it economically attractive to let private entrepreneurs provide the capital for the development of childcare facilities, even if childcare fees are subsidised. In Europe it is the UK, Ireland and the Netherlands in particular that have espoused private-market childcare systems: almost all childcare provision in these countries is privatised. However, it is becoming more obvious that the private market is highly problematic.

Parental choice

Parents cannot merely choose to buy the best product for their child and the most convenient option for their circumstances: their choices are inevitably constrained by income and location. Real choice is limited to those who can afford—and have the mobility—to select between a variety of options.

One of the difficulties of relying on the private market for childcare is that, unless it is very carefully regulated, it is unevenly distributed, since entrepreneurs tend to consolidate and base their businesses in wealthier areas where profits are more reliable. State-funded and voluntary-sector childcare services are more likely to be based on need, and poorer areas are deliberately targeted. In the Netherlands, for example, this has led to a bifurcated system, with fee-paying, full-time private childcare in wealthier areas and part-time playgroups in poorer areas.

Various studies have pointed out parents' preference for local provision, within buggy-pushing distance. Mothers from disadvantaged groups are less likely to have access to cars, and fares for public transport and the time it takes to use it are prohibitive factors when choosing formal childcare. If good childcare provision is clustered in wealthier areas, there is a considerable disincentive for poorer families, quite apart from cost.

There is also evidence that suggests that when parents have chosen to use a formal childcare facility, they are extremely unwilling to change it, whatever the indications of quality. Unlike a faulty consumer product which can be returned, finding and making a new arrangement involves considerable upheaval for both parent and child—in terms of work hours lost, distress to the child and a new settling-in period, let alone new transport arrangements. Parents already using childcare overlook quality to preserve the status quo.

Raising finance in the private sector

The key issues determining the take-up of places by parents are commonly believed to be access and affordability. It is thought that these can be manipulated by the judicious use of the subsidy system and by ongoing support for parents in making choices.

However, the private market is more likely to be volatile. It follows a business economic model. Whilst small businesses may fail, successful childcare enterprises expand and consolidate. In the UK, for example, the private nursery business is estimated to be worth £5.5 billion pounds. Approximately 60,000 places -just under 10% of the total number of places- are held by three global chains.[5] Overall private companies control 57% of the market; sole traders or small partnerships provide 26% of places; charities and non-profits provide 11% and the public sector a mere 7%.[6] Recently French and Chinese companies have bought into the UK market which is seen as an attractive and profitable investment.

Private-sector company provision raises questions of accountability. Business control of the company rests with the owners or shareholders. In a large nursery chain, which owns several hundred nurseries, major decisions may be made at the head-office level, which is distant from the daily work of the nursery, or might even be located in another country. It is notable that although childcare work is heavily gendered—over 95% of childcare employees are women—at senior-management level most childcare companies are run by men, predominantly from a finance or business background. The model of cooperative childcare and democratic decision-making in which staff have a role, and local authorities have oversight and act as co-ordinators and support networks, a model put forward by many childcare advocates , is very far from the reality of most childcare businesses.

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[5] *Busy Bees, Bright Horizons* and *Asquith* were the biggest three companies. However, in 2016, *Bright Horizons*, a US based firm, acquired *Asquith* further reducing competition. Besides the UK, Busy Bees now operates in China, Malaysia, Singapore, Canada, Australia, Ireland and the Netherlands and has now acquired its first nursery in Italy. Takeovers in the sector are frequent, and most of the bigger companies have aggressive acquisition policies.

[6] Figures from Laing Buisson Market Research, *Childcare Market 2018.*

Forensic accounting analysis of company nursery chains reveals an increasing degree of financialisation. Monies are raised through increasing company debt, and manipulating assets against tax. There is excessive emphasis on profitability, with a concomitant increase in the salaries of CEOs and Directors, even if staff wages are stagnant.[7]

Subsidising the private sector

Governments support the private sector through supply- or demand-led subsidies. Supply-led subsidies are, in effect, grants to the childcare provider, which offer them a secure income for a given period of time, usually subject to some kind of performance criteria. This same method is used to subsidise voluntary or non-profit nurseries in many countries, and enables them to operate and plan ahead with some degree of security, based on a fixed income. Demand-led subsidies are based on requests from parents and are attached to the child: the childcare business provider must attract sufficient numbers of children to cover expenditure and make a profit. This is a much more competitive way of operating, and it assumes that, as with any kind of consumer choice, parental choice is paramount.

Most countries offer childcare subsidies to ensure that the private market is affordable for parents, but as recent research notes, these subsidies have to be carefully calibrated to make sure that the poorest parents benefit.[8] To be viable, subsidies have to be realistically linked both to parental income and to the operating costs of the private childcare. This is why the profit margins and funding of the private sector are so important. Most private childcare is reliant on government subsidies to meet its profit targets, so any increase in subsidies fuels the childcare market and attracts the interest of investors.

Currently, the evidence is overwhelming that subsidies are not working as they are intended. For a variety of reasons, in almost all European countries disadvantaged children are less likely to attend childcare than more advantaged children. Privatisation is not the sole cause of this inequality. But unless the particular financing and distributive mechanisms of the private sector are taken into account, the situation is unlikely to improve.

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7 A current study funded by the Nuffield Foundation, and being carried out at University College London (UCL), suggests most big nursery companies rely on debt in order to expand and to lever higher profits; this in turn makes them more vulnerable to collapse and predatory takeovers. More information on this on-going project is available here: https://www.ucl.ac.uk/ioe/departments-and-centres/departments/social-science/private-sector-childcare-england

8 Y. Akgunduz et al., *Cutting from the Future? Impact of a Subsidy Reduction on Child Care Quality in the Netherlands*, Utrecht School of Economics, Tjalling C. Koopmans Research Institute, Discussion Paper Series nr: 13-18 (2013).

Conclusions

This section summarises the findings of this policy brief and discusses their implications.

- Childcare is important because it **underpins women's workforce participation**, which in turn is essential to a competitive economy. Childcare—along with other measures to reconcile work and family life—is increasingly regarded as an infrastructure investment that enables the economy to run more smoothly.

- **Childcare is necessary for gender equality**. Women cannot compete with men on equal terms in the labour market without public support for childcare—along with other measures to reconcile work and family life. Childcare enhances social cohesion and promotes children's well-being, as long as it is provided equitably and of high quality.

- **Substantial public investment is necessary** to deliver childcare and to realise its positive benefits: for the economy, for young children's well-being and for women's equality. But childcare does not have to be publicly provided. The Norwegian example cited in the appendix illustrates the vibrancy that can arise from local entrepreneurial solutions when a comprehensive regulatory framework is in place. By contrast, the UK example illustrates the uneven distribution, high cost to parents, lack of accountability and possibility of risk to children that result when regulations are poorly conceived and childcare is inadequate in its reach and scope.

- Governments that wish to subsidise private **childcare need to set their subsidy level very carefully**, taking into account the fees parents can afford to pay, the costs the childcare business must cover and the quality standards they wish to see achieved. The evidence suggests that if these three criteria are not met, parents, especially poorer parents, will not use the services provided; nursery businesses will refuse to engage with government expansion and inclusion plans (as is currently happening in the UK); and quality will fall as entrepreneurs cut costs. If the subsidy is too generous and/or the regulations are too weak, this fuels the growth of big childcare conglomerates, out for high profits, and is an inefficient and unaccountable use of public money.

Appendix: Comparison of Norway and England

Norway

One of the ongoing debates in Norway was the extent to which the private sector should be supported in the drive to expand childcare provision. The term ‘private sector’ is interpreted differently in different countries. In Norway the private sector provides more than 60% of childcare—and providers are subdivided into 40 different kinds of provider! However, grants are only given to those private kindergartens that fully comply with the relevant legislation, including fee ceilings. A 2003 law stipulated that private and public kindergartens should have equal access to public funding. This obligated municipalities to gradually increase grants to private kindergartens up to the level of grants to municipal centres.

In 2006, to ensure greater coherence between educational institutions and to acknowledge kindergarten as the first stage in the process of life-long learning, responsibility for Early Childhood Education and Care (ECEC) was moved from the Ministry of Children and Family Affairs to the Ministry of Education and Research.

In the national budget for 2015, the Norwegian parliament increased state grants to introduce a nationwide subsidy scheme for low-income families from 1 May 2015 so that these families pay a maximum of 6% of their income for a place in kindergarten. Free core hours in kindergarten for children aged four to five were made available for non-working low-income families.

Norway has also passed legislation to ensure closer cooperation between kindergartens, schools, the child welfare service, the Norwegian Labour and Welfare Service, health clinics and the police. Since municipalities are in charge of most of these services at the local level, they are in a crucial position to ensure their coordination.

This rather complex account is an indication of the prominence of ECEC issues in the public eye. ECEC services have evolved through constant debate and discussion, and continuous monitoring and research, so that adjustments are continually being made. Norway has been extraordinarily responsive to societal change.

Norway spends 1.4% of GDP on ECEC services, one of the highest figures in the world. The country spends over $13,000 on each child annually.[9]

There are three types of kindergarten in Norway. Ordinary kindergartens (*barnehager*) can be public or private. They offer half- or full-day service all year round for children up to and including five years of age. Family kindergartens (*familiebarnehager*) are based in private homes. Here an assistant, supervised and mentored by a qualified kindergarten teacher on a weekly basis, works with a maximum of five children. Open kindergartens (*åpne barnehager*) are part-time drop-in centres with programmes in which parents and children can participate together, led by a qualified kindergarten teacher. While a place in kindergarten is a statutory right for the child, participation in ECEC is voluntary. In 2013, 90% of children between the ages of one and five, including 97.5% of five-year-olds, participated in ECEC. Due to Norway's generous paid parental leave, only 3.2% of children under one were in kindergarten in 2013.[10]

UK: England

Eighty percent of the approximately one million childcare places and over 40% of all nursery education provision is currently being delivered by the private sector.[11] This private sector is increasingly concentrated in the hands of company chains: the three biggest chains between them provide over 69,000 childcare places. The current Government is offering an estimated £1 billion in funding to support childcare and education for three- to four-year-olds and some two-year-olds. This funding will take the form of subsidies to the private and voluntary sector on a per capita basis. The Government is purchasing 30 hours of 'free' childcare for two-, three- and four-year-olds from the private sector. Representatives of the private sector protested that the subsidy level was insufficient to cover costs. In response the government exempted the private sector from adhering to the limits of the subsidy, and nursery owners can also charge whatever 'top-up' fees they see fit over and above the 30-hour subsidy payment. Thus, parents will still be paying an unregulated amount for a nursery place.

New research suggests that most big private companies now refuse to accept parents who are claiming government subsidies, unless they are able to contribute

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9 A. Engel et al., *Norway*, OECD, Early Childhood Education and Care Policy Review (2015),

10 Ibid.

11 J. Lewis and A. West, 'Early Childhood Education and Care in England under Austerity: Continuity or Change in Political Ideas, Policy Goals, Availability, Affordability and Quality in a Childcare Market?' *Journal of Social Policy*, 46(2) (2017), 331-48 provides a good overview of the childcare sector in England.

substantial additional fees.[12] The nursery sector continues to expand at a rapid rate, but only in more well to do areas; nurseries in poorer areas are closing. Poorer families, or families with children who have complex needs are more likely to be refused places, since they are unprofitable and require more resources.

Generally, the new measures that are being implemented favour higher-income parents who are already in work and are already paying for childcare places. The new policy will relieve them of some of their fee payments, and these parents will now get rebates. In addition, as the nurseries with better Office for Standards in Education, Children's Services and Skills (Ofsted) ratings are most likely to be located in wealthier areas, the combination of top-up fees and location deter poorer parents from seeking childcare. There is no fee cap for individual parents. They must pay whatever the nursery demands, even if they are entitled to a subsidy. Nursery fees have risen higher than the cost of inflation for the last few years.

Conscious of the profit margins, the big nursery chains focus on wealthier areas. Small entrepreneurs in inner city areas have opened businesses in downtrodden, poorer areas. Planning regulations have also been relaxed so that premises once deemed unsatisfactory for children—shop fronts, disused warehouse space, small terrace houses and industrial workspaces no longer in use—can be registered for use as a nursery. There is no absolute requirement for outside space for children to play. Many poorer nurseries exist in premises where traffic pollution is high.

Unlike in most European countries, the regulatory requirements are minimal. A national (English) inspection service, Ofsted, exists to measure practice delivery, and to ensure compliance with health and safety regulations, but in the view of many commentators inspections are cursory, and they are currently being revised. There is no local involvement with the inspection process. Crucially, there is no fee ceiling, so even with subsidies, costs to parents spiral. Operators are not required to provide evidence of demand when choosing a location. And even though the market is volatile, and nurseries are continually changing hands, companies are under no obligation to conduct opening-up, closing-down or takeover consultations. Childcare workers' have only minimal workers' rights and pay, and rarely have negotiating powers. Although like all businesses, company childcare providers must submit annual financial returns, childcare providers are not required to submit annual plans or reports, and there is no system of accountability other than a rarely

[12] A current study funded by the Nuffield Foundation, and being carried out at University College London (UCL), suggests most big nursery companies rely on debt in order to expand and to lever higher profits; this in turn makes them more vulnerable to collapse and predatory takeovers. More information on this ongoing project is available here: https://www.ucl.ac.uk/ioe/departments-and-centres/departments/social-science/private-sector-childcare-england

used complaints procedure administered through Ofsted. Government subsidies go only to registered Ofsted nurseries, but are not otherwise subject to fulfilling certain conditions, for example providing initial or in-service training, or paying wages above a certain level.

Further Reading

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