DISCUSSION PAPER

INVESTING IN FREE UNIVERSAL CHILDCARE IN SOUTH AFRICA, TURKEY AND URUGUAY

A COMPARATIVE ANALYSIS OF COSTS, SHORT-TERM EMPLOYMENT EFFECTS AND FISCAL REVENUE

No. 28, February 2019

JEROME DE HENAU, WITH DEBBIE BUDLENDER, FERNANDO FILGUEIRA, IPEK ILKKARAÇAN, KIJONG KIM AND RAFAEL MANTERO

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SUMMARY

This discussion paper makes the case for investing in free universal childcare services of high quality in order to reduce gender inequality in earnings and employment. It estimates the employment-generating and fiscal effects of investing in free universal childcare in three middle income countries: South Africa, Uruguay and Turkey. It calculates the total annual costs of investing in high-quality childcare services that would cover the entire population of children below primary school age, using parameters relevant to each national context. Results show that employment rates can be significantly increased, especially for women, as a result of the combined direct, indirect and induced job creation. Although the total annual cost of such investment can go up to 3 to 4% of GDP, the net cost can be halved thanks to significant fiscal returns stemming from increased employment and earnings, without changing the tax structure itself (rates and bands). Results are compared with those obtained using a similar method for the UK and show that the reach of a country's tax system plays an important role in the funding process. The paper also estimates a theoretical fiscal break-even point, based on longitudinal labour supply effects of mothers closing their lifetime employment and earning gap following such generous childcare offer. In all three countries and the UK, the fiscal return on investment based on this measure is likely to outstrip the total cost of childcare for a typical mother of two children on average earnings.

1.

INTRODUCTION

This discussion paper describes the application to three middle-income countries of a method developed for the United Kingdom (UK) to estimate the annual fiscal cost of public investment in early childhood education and care (ECEC) services.[1] It estimates direct and indirect employment effects and related increased tax revenues. It makes the case for providing universal and free public childcare services to contribute to building a care economy that will promote gender equality and high-quality employment. The three countries studied are South Africa, Turkey[2] and Uruguay.

1.1 Making the case for investing in universal childcare

Universal provision of high-quality affordable childcare is paramount to achieving some of the Sustainable Development Goals (SDGs) set out in the United Nations 2030 Agenda, including gender equality, quality education, well-being and health and reduced poverty. High-quality childcare services benefit young children from birth onwards, with cumulatively positive economic, social and well-being outcomes over their life course.[3] External provision also allows more mothers to stay in or take up employment and earn a decent living by relieving some of their childcare constraints, fostering gender equality throughout their life.[4] As a result, it offers a supply-side solution to demand-oriented stimulus policies in times of chronic underemployment or recessions: Not only would investment in care services, and childcare in particular, create many more jobs than equivalent investment in more male-dominated industries such as construction, it would also release some of the supply-side caring constraints in taking up those jobs, more so than construction investment.[5]

These long-term and wider benefits of providing high-quality childcare services have led to calls for considering such spending as investment and such services as infrastructure—more precisely, social infrastructure.[6] Social infrastructure includes those services such as health care, education, childcare and long-term care that create and maintain the social fabric of an economy, without which it cannot function, exactly as does the physical infrastructure of transport and communications equipment. However, despite evidence of long-term benefits, the care infrastructure has long been neglected by policymakers when macroeconomic policies have been designed by governments and international institutions to prop up a country's economy. In the 2010s austerity era (and even before the 2008 financial crisis), public spending on care services continued to be considered as a cost for the state in many countries, a burden that needed to be reduced through savings and privatization. Yet it is not clear that privatization of collective care provision (either to the commercial sector or to families)

1 De Henau 2017a.
2 The results presented for Turkey derive from Ilkkaraçan, Kim and Kaya 2015 (hereafter IKK), which adopts a different but comparable methodology in costing childcare and estimating the employment impact. A background paper for Turkey was prepared by Ilkkaraçan and Kim 2018 for this study.
3 Garcia et al. 2017; Havnes and Mogstad 2011, 2014; Karoly et al. 2005; Babchishin et al. 2013; Li et al. 2013; Melhuisch 2004.
4 See De Henau and Himmelweit 2016 and De Henau 2017b for a discussion.
5 IKK 2015; De Henau et al. 2016, 2017.
6 De Henau et al. 2016; Ilkkaraçan 2017.

has been in any way effective in delivering high-quality and accessible care. In fact evidence points to the opposite, with unequal access and lower quality of care in countries relying more on private solutions.[7]

Because of this, the case for borrowing to invest public money in social infrastructure is not being heard and remains off the agenda of many countries' economic policy plans. This contrasts with borrowing to invest in physical infrastructure, which is gaining more traction despite both types of investment yielding long-term benefits with positive externalities. Nevertheless, a growing number of organizations, think tanks and campaigners alike have become more vocal about reconsidering the rules for defining public investment versus public current expenditure, as highlighted by the UK Women's Budget Group and others.[8] Long-term economic benefits enable the collection of net fiscal revenue that largely repays the borrowing required owing to increased employment of mothers, better career prospects for children and reduced social spending on other areas such as crime, health and social security benefits.[9]

Even the case for largely tax-funded collective services that would preserve current budgetary discipline through higher taxes (rather than spending cuts) has proven unpopular in a context of widespread 'low-tax/low- spending' rhetoric.[10] Nevertheless, it is possible to assess the extent to which investing public money into universal high-quality childcare services that are free at the point of use is 'affordable' in a short-term or steady state mode if the budget orthodoxy is maintained. This entails calculating the amount of annual investment that can be recouped by increased tax revenue stemming from increased employment, earnings and consumption without changing the tax system. Bearing in mind that this would only be a small fraction of the multiple funding avenues, such fiscal effects are quantified in this paper and are discussed with respect to a wider arsenal of fiscal and monetary considerations that can be deployed to fund adequate childcare provision in a sustainable way. This discussion also includes an indication of how much of employment and earning gains would be needed over the lifetime for mothers (relative to a steady, unaffected pattern for fathers) to claw back the childcare costs in full, based on typical examples.

The paper starts by overviewing the main features of the current systems of childcare in the three countries studied. It then explains the method used to calculate the costs and the specific assumptions for each country. It goes on to summarize the derivation of employment effects and examine the ways in which fiscal revenue can be accounted for. The final sections present the main results for the three countries studied and discuss them in comparison with the UK case.