

CITY A.M.

Government should let us make free choices, not subsidise our productivity

Ryan Bourne

February 7, 2017

Often the most misguided ideas in politics sound the most innocuous.

If we were to hear a minister say that the government wanted to ensure that “every man or woman achieved their full potential”, it would be tempting to nod along unthinkingly. Who could disagree with such a positive-sounding goal? The problem is that things that sound like good ambitions in a general sense often morph into misguided policy when applied rigidly.

Take the common debate about government spending on childcare. Over the past 15 years, the stated aims of the UK government in subsidising and regulating the sector have multiplied to include everything from child development to affordability.

Some politicians now say that government funding is necessary as part of a wider desire to enable women to maximise their economic contribution. The former secretary of state for education Nicky Morgan MP has previously claimed that “equalising women’s productivity and employment to the same level as men’s could add almost £600bn to our economy”. It is widely said that more generous childcare provision would encourage more women into the labour market.

The assumption here is that women who choose to take significant time off to care for their children do so largely because of the prohibitive cost of having someone else care for them.

There is some evidence for this – around 18 per cent of women with pre-school children who did not use childcare in 2012-13 said that a reason was the high cost. Yet often unmentioned are the wishes of others, with as many as 77 per cent saying that they simply wanted to care for their own children, and other survey evidence in fact suggests that a high proportion of mothers who do work full-time would prefer to work part-time or not at all were they financially able to.

Herein lies the problem with Morgan’s argument. For when free to choose, not all of us always decide to maximise our productivity or our employment. Many men and women choose to take time out of the labour force to care for loved ones, young and old. Many engage in charitable or civil society activity outside of the formal measured economy, in turn trading off time where they could be earning a wage. Many others choose, despite being qualified for high-paid roles in sectors such as financial services, to pursue teaching or other more vocational careers.

In other words, labour market outcomes, including the decision to go to work or take a job or take time out to build up human capital, which increases your productivity, are a product of individual preferences. While one element in those preferences could be the cost of childcare, as well as transport costs, training costs and other factors, freely-reached decisions themselves should not be said to be “bad for the economy” simply because they do not cause measured GDP or recorded female pay to be maximised.

It’s not GDP that government should be setting policy to maximise, but general economic welfare – and this is best proxied in most cases by allowing people to pursue their own ambitions.

Think about it: the logical end point of assuming that the government’s role is to maximise individuals’ recorded economic contribution would be to suggest subsidies to a host of other groups which do not reach their “full potential” in the labour market. For example, able-bodied retirees, or non-working partners in single-earner households with no children. We might also subsidise geographical or occupational mobility on a large scale. All this would cost money, and in order to subsidise some groups, governments would have to tax others, undermining their economic potential.

Thankfully, we are not there yet. Thinking that the role of government is to shape our choices towards formal market participation though has contributed to the chorus of demands we now hear for more childcare subsidies, particularly from business lobby groups such as the CBI. No doubt the Treasury likes the thought of more formal income taxpayers too.

Rather than pursuing this line of thinking, we’d be better off taking a step back and asking what is the best way of allowing individuals to pursue their own goals.

Ryan Bourne occupies the R. Evan Scharf Chair for the Public Understanding of Economics at Cato. He has written on a number of economic issues, including: fiscal policy, inequality, minimum wages and rent control.