

Ryan Bourne: The Tories are getting it wrong on childcare

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Cross-party consensuses are invariably wrong. Yet one currently exists on the state's role in childcare. All parties, even the Conservatives, seem to believe that extensive state support for provision and regulation of the sector is both necessary and desirable.

In truth, this is a relatively new phenomenon. Up until the 1990s, pre-school education and childcare were largely the preserve of the private and voluntary sectors. Since then, the reasons for state involvement have cumulated. Government should, we are told: support mothers who want to go back into work, protect the quality of care for child development reasons, make childcare more affordable, and allow women to reach their 'economic potential'.

The result? Government spends £7 billion per year as it gives financial support (via a 'free' hours entitlement, the tax credit system and the forthcoming 'tax-free childcare') and closely regulates the sector (determining staff:child ratios, qualifications and training requirements, and the Ofsted inspection regime). As this important area of social and economic life has become politicised, clarions cries for yet more funds occur regularly: an all-party Parliamentary Group called recently for a financial bailout of the nursery sector, for example. Previously, the CBI, the British Chambers of Commerce, the Welsh government, the Joseph Rowntree Foundation and many others had joined the chorus.

In a new IEA paper, Len Shackleton and I critically examine the growth of state involvement in this area. We find the interventions largely fail to achieve their objectives, that the different aims often conflict and that there are a host of unintended consequences. Far from being a failing market that the government needs to 'correct', we believe many of the problems we see stem from government action and not knowing what policy is supposed to achieve.

Indeed, there are clear trade-offs. If one wanted to make childcare affordable, you would target a lightly regulated sector, and allow parents to make their own decisions on what type of care they wanted. If, on the other hand, child development improvements were the aim, you might heavily control the sector's staffing, but acknowledge this will drive up prices. As with housing, we currently get the worst of all worlds: restricting supply with regulation and formalisation, but then pumping demand at the same time.

The result is high taxpayer contributions but still high out-of-pocket prices for parents at 33.8 per cent of net income. Even with so-called 'free' care, the amount paid by the government to the private sector may often be below the underlying market price in an area. This means that nursery fees have to rise for those not entitled to free provision, to subsidise further those who are. As 'free' care is expanded, nurseries have less capacity to do this, and hence many are finding their whole business models in jeopardy.

Does all this increase female labour market participation? A bit. There is a lot of what economists call 'deadweight' involved with 'free' provision – subsidies going to people who would have paid for childcare themselves anyway. Previous research for England has found though that the roll-out of free pre-school for three year olds meant 12,000 extra mothers in work, but at an extremely high cost of around £65,000 per job.

What about child outcomes? Whilst there is evidence that access to some pre-school improves development, published evaluation reports suggest current policy has little lasting effect on future educational performance. Regulatory expansion, not least the UK's stringent staff:child ratios, have driven up costs, and driven out providers – especially childminders – with little empirical evidence to back up claims that these improve the quality of provision.

What's more, many parents do not even want this. Government policy encourages employment and use of formal care. But a high proportion of mothers with young children who have full-time jobs would rather work part-time or be full-time carers, and many would prefer more informal than formal arrangements. Even among those who do desire more childcare use, they often prioritise physical accessibility, open hours, and degree of personal attention rather than the qualifications of the staff members.

Bizarrely, some believe the whole point of this is for government to seek to maximize the measured productive potential of women. But lots of people make decisions every day to take less productive jobs or care for family members or even do voluntary work that does not maximize their measured contribution to GDP. The aim of government should be to facilitate the conditions for individuals to fulfil their own aspirations, not to cajole people into making decisions to maximize returns to the exchequer.

In short, current childcare policy is an unjustified, unholy mess – with unmet objectives and conflicting aims. It is incoherent. Worse, the floodgates have opened and interest groups now push for more and more government funding on top of the status quo. We are firmly on the slope towards a government takeover of this whole area of life, despite the lack of evidence base. Not only is the government weakening the personal responsibility aspect of having and bringing up children, but it's paternalistically deciding what used to be within the domain of parents. A more classic case of the state crowding out family and civil society through regulation and subsidy is difficult to find.

A complete re-think is needed. I would tear up the status quo and start again, overhauling policy according to the principle of parental choice. This would scrap the range of demand-side subsidies we currently see, but recognise the costs of bringing up children in the tax system – allowing people to decide what type of care they want, if any. There might also be limited support for single mothers looking to get back into the labour market.

But I recognize my views are outside the mainstream. Indeed, we fully expect heap of flak for challenging this consensus – with the industry and a host of lobby groups now dependent on the largesse. At the very least the government should think through what it is trying to achieve, and set much narrower, achievable objectives.

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