

It's time for the Tories to deliver on childcare deregulation

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Can any rational person comprehend the emotive, knee-jerk reaction that always follows modest proposals to relax minimum staff to child ratios for childcare?

Here are mandates, the details of which barely anyone can recite, introduced within the last two decades, which vary substantially across the world, and which some pleasant countries don't impose at all.

Yet every time Conservatives suggest even limited deregulation of a sector that everybody moans produces services that are too expensive, they generate a Pavlovian response that implies today's exact regulatory details are all that protect children from imminent danger.

Milton Friedman called this reactionary impulse the "tyranny of the status quo" – referencing the reflex-blocking coalition of politicians, bureaucrats, and interest groups.

Given the weight of theory and evidence is on the liberalising side here, Tories should have the courage of their convictions, using today's circumstances to finally overcome such forces.

Reform of staff:child ratios was rebuffed first when Liz Truss's efforts were blocked by Nick Clegg's Liberal Democrats. This time, as the Conservatives scramble for ideas to reduce living costs, blowback comes from Labour and the nursery trade bodies.

A rather minor proposed change is to allow carers of two year olds to look after up to five children at a time (as in Scotland) instead of four. Yes, all the hand-wringing about "endangering children" arises from plans for England to match a policy already implemented north of the border.

The economic case against tight staff:child ratios in childcare is well-grounded. With binding restrictions in such a labour-intensive sector, the costs of supplying childcare to a given number of children grows as more staff are required.

There's also reduced flexibility to accommodate for staff absences or to deliver care for an additional child in unusual situations. This all raises prices by restraining childcare availability.

In the US, where ratios vary by state, researchers consistently find that loosening ratios by just one child across age groups is associated with prices that are six to 20 percent lower. Given a full-time childminder or nursery care place for a two year old averages £11.8k or £13.2k per year; that's equivalent to annual savings of £710 or more.

Quite simply, when you cut the profitability of childcare, the number of providers falls. This might occur directly by raising staffing costs, or indirectly, as tight staff:child ratios reduce the revenue-earning potential of workers, restricting wages available to obtain better staff.

Either way, the regulation makes childcare less productive, so fewer providers operate.

Crucially, research (again from the US) has found that the resultant closures are almost all concentrated in low-income areas. Less availability and higher prices are regressive, forcing poorer households to use other forms of informal care or forego important labour market opportunities entirely.

Given England has about the tightest staff:child ratios in Europe for two year olds, the Government focus on loosening requirements for that age group is understandable.

But the truth is, this logic pushes against having such top-down regulations at all. Denmark, Sweden and Israel have no such restrictions. A lot of people who preach the idea of evidence-based policy, and think themselves internationalists, seem strangely unread and parochial about this.

Instead, their objections either reek of the special pleading of large, formal nurseries who don't want the competition of a more pluralistic sector, or to the busybody tendency that desires one's own preferences being imposed on everyone.

But... these ratios aid child development, no?

Doesn't having fewer children per staff member lead to more staff-child interactions and better child development?

Labour's Bridget Phillipson argued so, but actually, there is little evidence that's true. Meta-analyses on these types of regulation have found "small, if any, associations with concurrent and subsequent child outcomes."

This conventional wisdom ignores the potential for higher wages to improve quality and the possibility that higher prices caused by these regulations drive poorer households towards more informal care or even out of work, also affecting children's development. One cannot just look at the sample of kids who continue to access more expensive care.

Aren't parents opposed to these changes?

Online parents often claim to speak for all in opposing this deregulation on safety grounds. But providers in a market face strong incentives to give parents the assurances they desire.

Some centres would therefore no doubt advertise they are sticking to the pre-reform ratios, or even develop private accreditation – these rules are only minimum standards, after all.

Parents, not governments, should judge the features that constitute childcare quality. Research analysing Yelp reviews suggests high- and low-income households have different average preferences on this. Richer families tend to be more concerned about childcare as a learning environment. Poorer families worry more about its availability and price.

A government policy for tight ratios amounts to imposing richer households' preferences to the detriment of poorer households' needs. Deregulation allows the market to offer various price-feature bundles to suit different families' wants.

Don't only the rich use formal childcare?

Torsten Bell, of the Resolution Foundation, implies deregulation won't help those really struggling, because just 44 percent of poorer parent households use formal childcare, compared with 69 percent of those earning over £45k per year.

This is still a large chunk of the population, however, and at least one of the reasons fewer poor people use formal childcare is precisely because such regulations reduce its availability and raise its price.

Arguing that lower usage rates by poorer households are a reason not to deregulate is as silly as those who think, having constrained housing development around London, that it's not worth building new properties there because the rich will inevitably buy them.

Isn't this a distraction to the real cost of living problem?

The strongest argument for not using political capital on this now is that childcare deregulation will not solve the near-term inflation problem driven by overly expansionary macroeconomic policy and heightened energy prices, which is undoubtedly true.

But the art of politics entails pushing for worthy reforms when opportunities arise.

Our current inflation woes are a good time to reflect on how a range of government policies raise the structural level of prices in regressive ways across important sectors, even if these regulations can't explain the recent living standards squeeze.

As Henry Hill noted, government subsidies and the professionalisation of childcare over two decades have significantly driven up costs of provision, with deeply unsatisfactory results.

Loosening ratio regulations and occupational licensing requirements would not solve all these problems. But it would be a helpful first step to restoring a bit of market sanity to a sector being gradually destroyed by unthinking, cumulative government interventionism.

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