

## **The social and economic benefits of good quality childcare and early years education**

### **1) Foreword**

Childcare and early years education have emerged as an important issue for the European Commission in its annual process of policy coordination – the European Economic Semester. Each year the Annual Growth Survey (AGS) sets out the priorities for the coming Semester and for 2015 this includes the “[...] need for simplified and better targeted social policies complemented by affordable quality childcare and education [...]”.

The main elements of the AGS are then taken up in the Commission’s Country-Specific Recommendations and several Member States (nine in 2012, 11 in 2013, 10 in 2014 and six this year) have been urged to address in various ways the provision of affordable childcare.

For the Commission, the main driving force behind this policy is the extent to which it can help increase the participation of parents, particularly women, in the labour market. However, the provision of high quality, affordable and accessible childcare delivers a range of important short and long-term social and economic benefits. These include helping to reduce the poverty and inequality that impairs children’s educational and social development; providing employment in the sector itself and contributing to closing the gender pay and employment gaps.

EPSU is the European trade union federation that brings together the vast majority of trade unions representing childcare workers across Europe and it very much welcomes this focus on childcare and early years education. In fact, EPSU wants to see the case for increased funding and investment in the sector made much more strongly. The Country-Specific Recommendations should continue to press for increased provision but with greater emphasis on quality as well as access and affordability.

Investment in childcare facilities should also be a priority. The latest Annual Growth Survey conceded that many Member States had cut back on areas of public investment that would contribute to economic growth. EPSU argues that urgent action is needed in this area and significant investments in childcare should feature prominently here, not only because they can deliver increased employment and improved access to labour markets for working women but because of the long-term social and economic benefits.

This briefing brings together the evidence to support EPSU’s argument for increased investment in quality childcare. It was written for EPSU by Clare Ruhemann, Labour Research Department (LRD), and finalised in June 2015. The studies quoted here clearly demonstrate the social and economic benefits from such investment and EPSU hopes that this will contribute to pushing childcare up the political agenda.

EPSU, Brussels, 2015

Jan Willem Goudriaan  
EPSU General Secretary

## 2) Summary

The social and economic benefits of good quality childcare and early years education are wide-ranging, evidence from studies in a growing number of countries shows. The short and long term benefits can be categorised as follows:

- Enabling more women, particularly mothers of young children, to take up employment, and to increase their lifetime earnings. These effects have fiscal and other economic benefits in both the short and long-term.  
(European Commission 2014, OECD 2014, IPPR 2011)
- The creation of childcare/early years employment, with the consequent tax receipts to exchequers and reduction in spending on benefits.  
(AKÖ 2013, Müller and Bauer 2001)
- Enhanced educational achievement and social development in the children taking part in such provision, bringing social benefits to populations.  
(Cleveland and Krashinsky 1998, Sylva et al 2003 and 2014, Melhuish 2004)
- Reduced problems in adolescence and adulthood from those having participated in good early years provision, bringing economic benefits to taxpayers and populations.  
(Schweinhart 2003, WSIPP 2004, nef 2009)

Cost-benefit analyses show that there are net benefits to be obtained from investment in good-quality childcare/early years provision, taking into account some or all of the above benefits.

### **3) Introduction**

At the Barcelona Summit of 2002, the European Council set targets for provision of childcare for all EU Member States. The targets were to provide childcare by 2010 to at least 90% of children between three years old and the mandatory school age and at least 33% of under-threes and were primarily aimed at removing disincentives to women's participation in the labour market. However, it has now become widely accepted that, while this is still a very important reason for expanding the availability of good quality childcare and early years education, the economic and social benefits go much wider.

In 2008-09 the European Commission's Expert Group on Gender and Employment issues set out the key reasons for the importance of affordable and good quality childcare services (European Commission 2009). Its report acknowledged that: "Affordable and good-quality childcare services may improve the reconciliation of work and family life and thus foster labour market participation and gender equality."

But it went on to state: "Childcare facilities may also provide an important answer to declining fertility rates, by lowering the cost of childbearing in terms of labour market and career opportunities. Finally there is a growing tendency to see childcare services from a social pedagogical perspective. In this perspective the main policy rationale is no longer the reconciliation of work and care, but rather the contribution of childcare services to child development and socioeconomic integration."

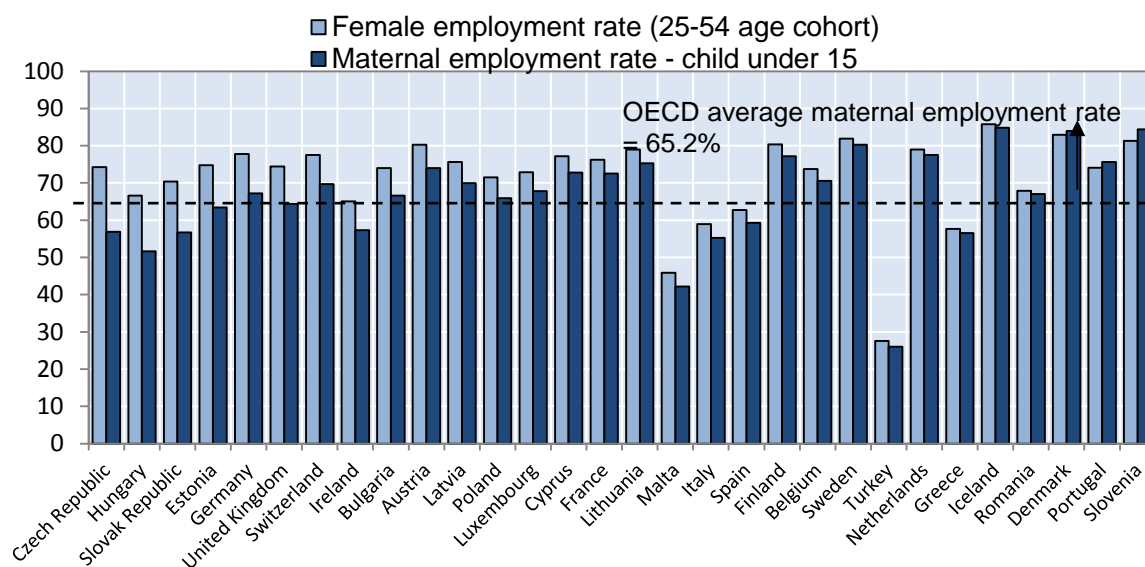
In evaluating the benefits of increasing childcare provision, researchers have also examined the financial returns arising from the creation of jobs in the sector.

#### 4) Helping more women into employment

A 2014 European Commission report provides further evidence of the rationale behind the Barcelona childcare targets – to remove the barriers to female labour market participation (European Commission 2014). It notes that women's employment rates have grown across Europe in the past decade, but mothers of young children are still less likely to be in employment than other women. It states: "motherhood remains negatively correlated with employment across most EU Member States ... For the EU-27 as a whole, the difference between the employment rate for women with and without children under twelve is greater than 10 percentage points."

This difference between women's employment rate overall and the maternal employment rate (for women with children under age 15) is key. For example, figures for European countries from the Organisation for Economic Co-operation Development (OECD) show that the UK and Germany have relatively high female employment rates but a large gap (more than 10%) between that and maternal employment. The Czech and Slovak Republics also top 70% for women's employment but the gap in those countries is even larger (17% and 14%).

#### **Maternal employment rates compared to female employment rates, 2011**

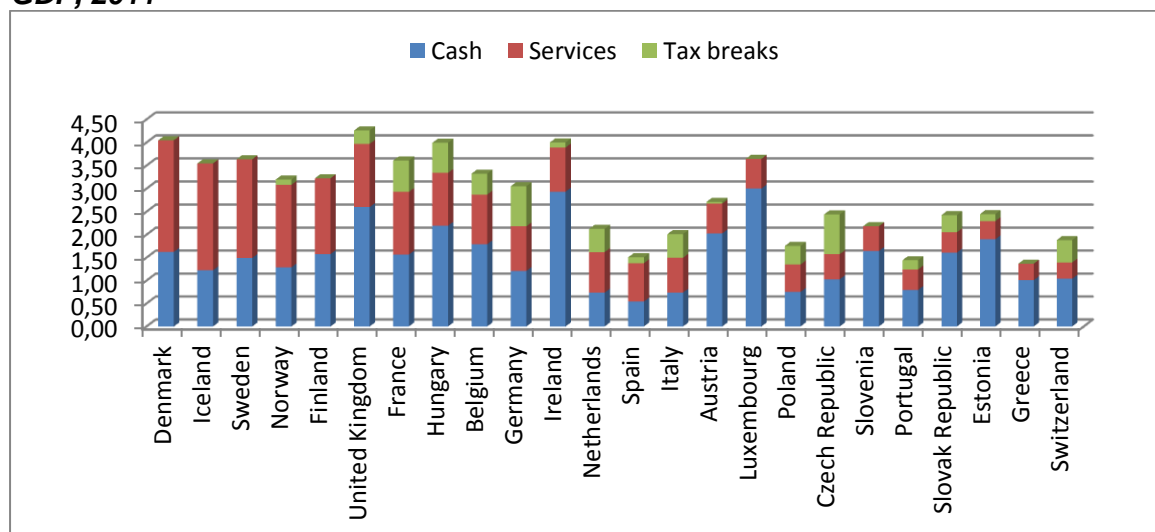


Source: OECD

Parental decisions on whether to work after having children are heavily influenced by childcare costs, particularly for low-income families. Taking account of the changes in tax and social security payments and benefits as well as childcare costs, a couple opting for childcare to allow the second parent to work can face a significant increase in their outgoings. On average across the OECD, parents see their total tax, social security and childcare bill increase from 34% of their income to 52% when they start paying for childcare (IPPR 2011).

As a general pattern, in countries where there is a comprehensive parental leave scheme and universal and affordable childcare, maternal employment rates are relatively high (for example, Iceland, Sweden, Denmark). And in Denmark, Portugal and Slovenia, the maternal employment rate is actually higher than the female employment rate. A key element here is the level of public spending on childcare services (as distinct from tax breaks or cash for families) is highest in Iceland, Sweden and Denmark, OECD figures show:

**Public spending on family benefits in cash, services and tax measures, in per cent of GDP, 2011**



Source: OECD

## 5) Quality of jobs

The benefits of childcare provision in terms of increasing women's employment rates are likely to be enhanced by the quality of jobs on offer. An ETUI briefing on women's labour market participation notes that job quality, as measured by job prospects, intrinsic job quality and working time quality, is an important factor affecting women's labour market attachment. It found that women returners with children under age 5 were more likely than women with no children to be in good-quality jobs on these measures, suggesting that job quality may be an important factor in attracting mothers back into work.

## 6) Cost-benefit analyses of employment effects

Boosting maternal employment rates not only increases family income, and maintains a woman's connection to the labour market, but also increases the tax base, generating a positive cost-benefit return to public finances. A further effect is to reduce the "motherhood penalty", in which women face short- and long-term gender inequality in earnings if they have children. This in turn gives mothers and families higher spending power across the duration of their employment.

A number of cost-benefit analyses have shown the net benefits to public finances that accrue from universal systems of childcare as a result of allowing more mothers to return to the labour force.

In the UK, the Institute for Public Policy Research (2011) conducted an analysis of the economic effects of introducing a nationwide public system of universal and affordable childcare. It shows that this model would provide a net return to the government over four years of between £4860 (€6840) and £20050 (€28200) per woman who returns to paid employment. The lower figure in this range assumes that the women return to work on the existing pattern of full- and part-time working, whereas the higher figure assumes that more of them return full time as a result of the childcare available (IPPR 2011).

A 2009 Danish analysis indicated that highly subsidised, universal childcare and comprehensive parental leave policies would bring a return to public finances of €37000 over the course of a woman's lifetime (IPPR 2011). It suggests that the system's effect in allowing more mothers into employment reduces the "motherhood penalty" and creates better labour market attachment for women.

### **Case study 1: The results of a universal early years policy in Quebec**

Evaluations of the impact of introducing a system of a universal early childhood education and care policy are provided by the province of Quebec. The policy, introduced in 2000, included heavily subsidised childcare for all children aged 0-4 alongside enhanced parental leave provision. Between 1996 and 2008 the maternal employment rate for women with children under 6 in Quebec increased by 11 percentage points to 74%, with a significant proportion of the increase from women with lower-level qualifications.

Analysts suggest that this added 3.8% to women's employment rates in Quebec and 1.7% to Quebec's economic output. The knock-on benefits include increased household spending, bringing further benefits to the economy.

Source: IPPR (2011)

## **7) Jobs in childcare**

In assessing the impact of investment in childcare, it is important to take into account the jobs created in the sector itself in addition to the improved opportunities for parents to take up employment. These jobs bring their own impact in terms of tax and social security receipts and potential savings in benefits.

An Austrian cost-benefit model considers all these elements. It looks at the employment impact of a €100 million national programme of childcare with that funding matched by the regional authorities (AKÖ 2013). It projects the creation of jobs in childcare itself – 14,000 – and a further 2,300 through increased demand in other sectors. In addition it proposes that between 14,000 and 28,000 parents, who currently cannot work because of their caring commitments, would be able to do so.

The study estimates that the public sector income from the taxes and other contributions of these individuals, as well as the savings in the area of unemployment benefit, will from the fifth year onwards, be greater than the costs of the new childcare. Depending on how the economy develops, this surplus will be worth between €14 million and €168 million annually.

## **Case study 2: Economic benefits of nurseries in Zurich, including childcare employment**

A cost-benefit analysis of 201 nurseries for 0-6 year-olds and day care centres for 3-6 year-olds in the city of Zurich included the financial benefits resulting from the employment of childcare workers. Overall, the analysis indicated that the establishments brought direct benefits worth three or four times as much as their cost (Müller and Bauer, 2001).

The study identified the following direct economic benefits:

- allowing parents to work, so paying more taxes and being less dependent on state benefits;
- giving them higher earnings potential, and providing a reasonable income in old age; and
- tax receipts from 942 employees of the childcare establishments.

The value of the direct benefits amounted to 136.7-157.5 million CHF and the costs (which were split between taxpayers, parents and companies) were 39.1 million CHF. The study also identified a range of social benefits, such as the children facing fewer problems in adolescence, which were on top of the direct benefits.

However, it must be remembered that good-quality childcare depends on a good-quality childcare workforce, which also costs money. In the UK, the New Economics Foundation (NEF) has proposed that high-quality childcare requires an increase in the wages of childcare workers and improved routes of progression within the sector (NEF 2014).

In 2013-14 it modelled the effect of paying childcare workers at three rates: the then current wages levels, the Living Wage (at 2012 rates); and on a par with primary school teachers. NEF concluded that increasing the wages of childcare workers and improving their training and career development would make the childcare affordable to all only if there were financial support from government. NEF proposed that, if a standard working week across the board were reduced from 40 to 30 hours a week, fewer hours of care would be necessary, and the cost of full-time, high quality, formal childcare would be substantially reduced.

## **8) Educational and social benefits for children**

As long ago as 1998, Canadian economists carried out a cost-benefit analysis of public investment in good quality childcare, looking both at the benefits of increased parental involvement in the labour force and those arising from the impact on children's educational and social development (Cleveland and Krashinsky 1998). It found that, under quite cautious assumptions, the benefits would significantly outweigh the costs while noting that it was difficult at that time to put a put a figure on the benefits arising from children's enhanced development.

However, there has been much more evidence on this over the last decade and there is now widespread recognition that good quality childcare and early years education have significant positive impacts on children's educational achievement and social development. The first major European longitudinal study of the effects of pre-school education, the Effective Provision of Pre-School Education (EPPE) Project, followed over 3,000 UK children who attended a range of pre-school provision and compared them with a sample of children with no or minimal pre-school experience.



Its first findings, published in 2003, looked at the children's intellectual and social/behavioural development at the point of entering primary school (Sylva et al, 2003). It found that the intellectual and social/behavioural development of three- to four-year olds who had attended pre-school was better than that of those who had not. The research report noted that "disadvantaged children in particular can benefit significantly from good quality pre-school experiences." Some settings are better than others in promoting intellectual progress, but in general, it said: "the findings indicate pre-school has a positive impact on children's progress over and above important family influences."

The children have continued to be monitored at various stages of their lives, most recently and finally at age 16. The results led the researchers to conclude that:

- attending pre-school has a positive influence on educational attainment at 16. It corresponds with higher scores in the standard qualifications (GCSEs) taken at 16 in English and maths and with achieving five or more good GCSEs;
- high-quality pre-school corresponds with better self-regulation, pro-social behaviour and lower levels of hyperactivity; and
- high-quality pre-school still influences social behaviour at 16, but the effects are weaker than at an earlier age (Sylva et al 2014).

The research report concluded that the project "identified the positive role of pre-school education and the continuing contribution of pre-school quality to sound development, particularly for children whose parents had low qualifications."

The EPPE project backs up a number of studies from the US in particular, which have found positive effects of pre-school programmes for disadvantaged children. These include the well-known HighScope Perry Pre-school and Abecedarian programmes. These found that positive effects for children who attend pre-school stretch into adolescence and adulthood. Those who had attended were found to be less likely to require special education, more likely to graduate from high school and to hold a job, have higher earnings, commit fewer crimes and less likely to be involved in child maltreatment. They also showed less drug use, lower rates of teenage pregnancy and better social adjustment. The Abecedarian study also found that mothers of the children attending achieved higher educational and employment status.

The UK government's spending watchdog, the National Audit Office (NAO) has conducted a review of such "randomised control trial" (RCT) studies (Melhuish 2004). It concluded that the studies were "generally rigorous, and produce a consistent pattern of results. The RCT studies all show the clear benefit for disadvantaged children of high quality pre-school childcare provision, whether started in infancy or at 3 years of age."

The NAO found there were some cognitive developments arising from early years interventions, but the main advantage is that they: "Boost children's confidence and social skills, which gives them a better foundation for success at school (and subsequently in the workplace). It is the social skills and improved motivation that lead to lower levels of special education and school failure and higher educational achievement in children exposed to early childhood development programmes. Often this educational success is followed by increased success in employment, social integration and possibly reduced criminality."



A Global Monitoring Report produced by the Education for All movement for UNESCO (EFA 2007) reviewed a number of ECCE (Early Childhood Care and Education) programmes in a range of countries which showed such benefits, particularly to children from poor backgrounds. In Turkey, for example, the Early Enrichment Project in low-income, low-education areas of Istanbul, comprising parenting skills and pre-schooling, resulted in 86% of the children still being in school after seven years, compared with 67% for nonparticipants. Over the long run, participant children had higher school attainment, were more likely to attend university, began working at a later age and had higher occupational status.

## 9) Cost-benefit analyses of social effects

Good-quality childcare and early years programmes can provide a high financial return on investment in terms of countering social problems, particularly of children from low-income families. Cost-benefit analyses of individual projects show the ratio of benefits to costs as 7.16:1 for the HighScope Perry Pre-School and 7.10:1 for the Chicago project (Schweinhart 2003). These ratios only include the benefits to the public – as taxpayers and potential crime victims (that is, they do not include the economic benefits to programme participants, such as higher earnings).

In 2004 the Washington State Institute for Public Policy carried out a major cost-benefit analysis of a wide range of state-funded early intervention programmes for youth, ranging from early childhood education to juvenile offender programmes (WSIPP 2004). In this US context, the potential benefits were assessed as the extent to which the programmes contributed to reducing crime, lowering substance abuse, improving educational outcomes, decreasing teenage pregnancy rates, reducing teenage suicide attempts, lowering rates of child abuse or neglect and reducing levels of domestic violence.

While results varied widely across the types of programmes, the analysis found that “Early childhood education for low income 3- and 4-year-olds ... provide very attractive returns on investment.” The average effects of a range of programmes in this category produced a net benefit (benefits minus costs) ratio per young person of almost \$10,000 (2003 value).

The UK government's spending watchdog, the National Audit Office, has reviewed cost-benefit analyses for childcare as a form of intervention for disadvantaged families, such as the HighScope Perry Pre-school Project. It concluded: “The results of these analyses are unambiguous in showing substantial benefits.” It says that, even if the assumptions made are very generous, the size of the benefits allows a very substantial margin of error and would still be economically worthwhile.”

A detailed analysis of the societal benefits of a national universal programme, rather than the individual projects examined above, has been modelled for the UK by the New Economics Foundation (NEF 2009). It calculated that a sharp increase in investment in the short-term in good-quality childcare– side by side with well-funded parental leave – would provide large net savings over a 20-year time span. NEF notes that the UK spends more money on means-tested transfers (such as welfare benefits) to poor parents than Scandinavian countries do, but spends less on universal childcare provision and parental leave. Scandinavia does much better on reducing child poverty.

The NEF model factors in not only the financial gains made by reducing young people's dependence on "targeted services" but also the future reduction in costs of intervening in relation to their own children, who are likely otherwise to also have social problems. In other words, improving the development of this generation "locks in" the benefits by putting their own children on a good path. And spending on universal provision now would also result in lower benefits spending in relation to those children in 20 years' time.

NEF calculates that the cost of maintaining the status quo in the UK over the next 20 years will cost £4 trillion. But with its proposed initiative, that would also involve a major shift in working time patterns from a mainly 40-hour to 30-hour week, the savings will break-even with the cumulative costs within nine years of its launch. Even a much more cautious estimate of the efficacy of the initiative shows it is worthwhile on purely financial grounds within 20 years.

## **10) Conclusion**

The latest European Commission evaluation of progress towards the Barcelona targets found that only six Member States had met both targets while 12 had reached neither. This underlines the urgent need to a major boost to investment in childcare across Europe. While this implies a short-term cost, this briefing makes very clear that in the medium and longer term this investment will produce significant social and economic benefits that will more than justify the initial outlay.

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