

A false economy: undervaluing childcare

The provision of high-quality, affordable and accessible childcare lies at the heart of the Government's child poverty strategy. And yet childcare as a profession is undervalued. This illustrates a system-wide problem, in which the most valuable occupations to society are among the lowest paid, while those which may be damaging to society, the environment and the economy, may be among the highest paid.

Helen Kersley outlines research findings from two reports which take a radically different look at child poverty.



Paul Box/Reportage

Investment in universal childcare and paid parental leave offers a proven approach to reducing inequality and maximising wellbeing for children, parents and society, and is a central component of the envied Scandinavian welfare system. Universal provision of these services is an important part of a preventative approach which mitigates deprivation, and promotes social mobility. Childcare is a great leveller and persistent under-investment in it is shortsighted and grossly unfair.

The relationship between pay and value

A new report from the New Economics Foundation¹ examining the relationship between the pay and value of different professions, including childcare, follows previous work carried out in partnership with Action for Children,² which made the case for a comprehensive investment programme in children and young people. The inter-related findings of this body of work reveal, firstly, that our system currently undervalues and under-invests in childcare workers and children's services, with a contributing effect on levels of inequality in society and, secondly, that investing for universal provision of high-quality services for children and families has the potential for high net returns to society by reducing inequality and social problems.

In its report, *A Bit Rich: calculating the real value to society of different professions*, the New Economics Foundation chose six professions as case studies to investigate the relationship between pay and social value. Three were high paid (a City banker, a senior advertising executive and a tax accountant) and three were low paid (a childcare worker, a hospital cleaner and a recycling plant worker). These occupations were deliberately chosen to demonstrate the paradox that some of the highest paid in our society destroy more social, environmental and economic value than they create – and that, conversely, some of our lowest paid workers play an indispensable role in holding families, communities and organisations together. In short, the report revealed that what someone gets paid does not tell us what contribution their job makes to the wellbeing and productivity of people and society.

This research has big implications for the way our society and economy are structured. The outcome of the research is not simply to suggest that people in low-paid jobs should receive more, but that there should be a relationship between what we are paid and the value our work generates for society.

LARGE AND RISING wage differentials lie at the heart of the rise in inequality in Britain. Over the past 30 years, the UK has changed from being one of the most equal developed nations to one of the least equal. Wages have been driven down in lower paid jobs, while simultaneously being driven up through the bargaining power of executive elites. Inequality matters, not just because it is unjust, but because it is inefficient and wasteful. It is increasingly clear that the most equal countries perform best on most social, environmental and economic indicators.

Valuing unintended consequences

The system may misjudge value because it fails to recognise that there are unintended consequences or side effects from all forms of activity or work. In economics, such impacts or unintended consequences are known as 'externalities'. These may be remote or hard to see (for example, the social benefit a recipient derives from the delivery of meals-on-wheels), or may not emerge until some time in the future (climate change effects or a reduction in future crime as a result of good early years services), but someone, somewhere, bears the cost or gains the benefit.

The market struggles to build in the value of externalities to prices of goods and services because they are not bought and sold as other inputs or outputs are. As a result, organisations may not have to pay the spill-over costs, often environmental or social, of their activities. This allows the production and purchase of their goods or services to be cheaper and easier than they should be, feeding through to higher profits and wages. We are getting used to the idea that businesses should pay for the cost of the carbon emissions used in the production of their goods and services. Incorporating this cost in prices will mean that carbon intensive, and therefore relatively damaging, activities will be less affordable, less profitable and therefore less attractive.

Conversely, those organisations producing positive externalities, for example the wellbeing and life-course impacts for children of strong and positive early years education and support, cannot easily claim their economic benefit. This means that their return is less than it should be. There are, as a result, fewer resources and incentives available to pay wages which properly reflect the value of the work, and to invest in greater provision of such positive activities, particularly through the market.

Because the costs and benefits of externalities do not show up on the books, financial incentives are not aligned with the true economic, social and environmental value of an activity.

What value a childcare worker?

*You've got lives in your hands ... you've got such an incredible responsibility and get paid nothing for it.*³

For families and societies alike, looking after and bringing up children could not be more important. Childcare workers provide a crucial service, yet childcare is one of the lowest status

and poorest paid sectors in our economy. A UNICEF report from 2008, noted:

*In many countries, childcare professionals stand at the bottom of the wages ladder and have little in the way of either job security or opportunity for career development. In some, including Australia, the UK and the US, employment in nurseries and daycare centres is often seen as suitable for those who are very young, unqualified, transient or all three. Where pay is low, staff turnover rates tend to be high.*⁴

And yet there are clear economic benefits from the provision of good childcare. Parents are able to continue working once they have young children with all the benefits that brings for the individuals, their families, and the economy. And where childcare is reliable and of high quality, employers are likely to see reduced rates of absenteeism and distraction at work.⁵ There are quality of life benefits from being able to work outside the home, particularly for women, and countries with widespread childcare provision have high female employment, so childcare may make a contribution to gender equality.⁶

What is certainly true is that affordable, high-quality care promotes choice among parents about whether or not to return to work. In Sweden, 70 per cent of all mothers and 80 per cent of lone mothers have a job.⁷ This compares with 56 per cent of lone mothers in the UK.⁸ The high rates of maternal employment in Sweden have helped keep child poverty rates very low – at just 4 per cent.⁹

Beyond the economic benefits, there is increasing evidence that children gain from positive early learning opportunities outside the home.¹⁰ Compared with other European countries which invest in universal childcare systems as a critical part of their social investment, the UK carries a much higher financial and non-financial cost burden from social problems.¹¹ Evidence from studies of the life-cycle impacts of early childcare on outcomes for deprived children strongly suggests that the cost of social problems could be mitigated by expanding early years support through high-quality childcare provision.

The New Economics Foundation research, using some of the principles of the robust Social Return on Investment methodology,¹² revealed that for every £1 a childcare worker is paid, s/he will generate £7 of value in terms of releasing parental earnings and £9.50 of value if the contribution made to children's early learning

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opportunities and wellbeing – and consequently to reduced social problems – is included. This means that a childcare worker, earning perhaps £10,000–£13,000 a year, currently gets paid between one-seventh and one-tenth of her/his worth to society.

Inequality and social mobility

Inequality has been growing in the UK and we live in a society of extremes. This is influenced by many factors, but wage inequality is at the heart of them. The disparity between high- and low-income earners has been widening not narrowing. Inequality matters, not only because it is unjust, but also because it is inefficient and wasteful. The most equal countries perform best on most social, environmental and economic indicators.

One of the problems of inequality is its persistence. For many, the most formidable challenge in the labour market is not getting off benefits into paid employment but finding a way to advance out of low-paid work. The policy focus on work as the route out of poverty has signally failed to recognise this problem which means that almost half of all children in poverty live in working families.

In addition, inequality persists across generations and prevents social mobility. Those with more financial resources are able to buy advantageous education or experience for themselves and their children, placing them in a better position to occupy more limited and highly paid jobs. In the UK, social mobility has been flat for some time.¹³

Inequality and issues of low pay disproportionately affect women who predominate in low-paid (and unpaid) work. But many of these jobs are also the high-value ones. The caring professions, systematically under-paid, are mainly staffed by women. Partly because of their historical role as carers and mothers, women may be drawn to work such as childcare. On the other hand, gender itself appears to be one of the determinants of pay. Skills such as caring, which were often historically unpaid, are still undervalued in our society, and on average women working full time earn 18 per cent less per hour than their male counterparts.¹⁴ The difference in hourly earnings increases to 25 per cent when women working part time are included.¹⁵

Reforming and restraining markets so that they support and foster the economic and non-economic aspects of life that people value could arguably do more for women than all the positive discrimination in the world. Positive dis-

crimination, or any measures to promote women in non-traditional roles, fails to recognise the extent to which our very economic structures are male constructs. These structures reflect both the values and strengths of men and existing gender relations. In so doing, the system has a built-in predisposition for wider inequality.

The cost of inaction

Our research with Action for Children on the economic benefits of investing in high-quality universal childcare uncovered some startling results. The *Backing the Future* report put a price for the first time on what it costs the UK economy to allow preventable social problems associated with inequality to continue to arise.

Compared to its European neighbours, the UK consistently comes bottom of league tables that collate the incidence of issues such as crime, mental ill-health and obesity. The cost of continuing to do nothing will amount to almost £4 trillion in the next 20 years. However, we calculate that funding an investment package that includes targeted interventions, universal childcare and paid parental leave could help address as much as £1.5 trillion worth of the cost of these social problems. This would leave the UK in a similar position to European nations such as Finland, Sweden and Denmark which have the best social outcomes. Even after raising a bond to pay for this, the UK would be in a positive net financial position, saving £486 billion within the same time period. More importantly, however, the composition of funding would have changed from crisis intervention to prevention, setting the UK on a new, more progressive and effective path.

Our failure to invest properly in our children means that they have very unequal starts in life. Valuable professions that work with children fare badly in a wage system which fails to reflect externalities. Any exploration of what people really value points to family life, relationships and children, and yet this is not reflected in how our economy is structured. Finally, we have the business case for preventing social problems from arising upstream, rather than trying to tackle them more expensively and less effectively later on.

Universal childcare tackles inequality in three different ways. Firstly, it improves life chances for the most disadvantaged children. But for parents on low incomes who want to confer the advantages offered by early childhood and education, there is a very high marginal tax rate. The upfront cost is prohibitive, so post-childcare incomes become even more unequal.

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Providers have to keep costs low to ensure that families can afford it, and this drives down the wages of staff. Universal state-funded provision can reduce the marginal cost to families and ensure fairer wages for childcare workers. Finally, the principle of universality is important in itself: where the vast majority of children receive the same care, they also get a similar start in life. Universal care acts as an early leveller, not just by reducing disadvantage but by ensuring that the opportunities to buy better care are not confined to the wealthy.

The Nordic countries spend more on the non-poor than any other country but have the best outcomes for the poor. By contrast, patchy services, targeted solely at disadvantaged areas cannot achieve this levelling effect. Targeting can also alienate high-income groups, pushing them to opt out towards private alternatives and to vote against parties that support redistribution.¹⁶ A forthcoming New Economics Foundation project for the Joseph Rowntree Foundation will look at these issues in more detail.

Investing in the future

Clearly, the provision of high-quality staffing, through a well-trained, motivated and fairly paid childcare workforce is crucial to the delivery of universal good care. Raising the pay and status of good childcare workers would open up the profession as one offering a sustainable, rewarding and well-regarded career option. And higher pay would better reflect childcare workers' worth to society, serving the nation's children and families better.

With the UK experiencing some of the lowest levels of child wellbeing worldwide, *Backing the Future* provided the economic and social case for transforming the way we invest in the future of society through our children. Successive governments have recognised the need to intervene early in children's lives to enhance their wellbeing and future life courses. But this requires a more proactive approach, which moves away from public services which intervene only after risk factors are displayed and subsequently identified.

The economic and social case for this investment is persuasive. And yet, in a time of concern about public finances, parties are backing away from any bold spending commitments. Our research shows this may be a false economy, as money not spent now will require more to be spent at a later stage in the criminal justice, health, or benefits system.

In undervaluing the childcare profession itself, we ultimately undervalue and under-invest in our children and their potential. So while it may not be immediately politically expedient, arguments that we cannot afford to provide such a system must be vigorously countered by the compelling evidence that we cannot afford not to. ■

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New report

A new report from the Daycare Trust argues that 'more highly qualified better paid staff' are needed to improve the quality of early childhood education. While costly, it stresses that it would be a wise investment as 'it would provide children with the grounding to reach their potential later in life and will save on other public investment in the long run'.

Further information on *Quality Costs: paying for early childhood education and care* by Kate Goddard and Emma Knights is available at www.daycaretrust.org.uk.