

Why are childcare costs in Britain so exorbitant?^[1]

Working parents who have to pay for care for their children will know that it costs a lot of money. Indeed, it costs more here than anywhere else in the world.

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EXCERPTS

How much does childcare cost?

According to the Money Advice Service, the average cost of a full-time nursery place in the UK is £263 a week, and £138 a week for part-time care (though these figures will look strikingly low to many parents in London and the south of England). So if you have two young children, that's an average of £526 – or not far off the median salary of £585 a week. "I have been paying for full-time childcare for almost 14 years," says Isabel Oakeshott in *The Spectator* – and like most people I have tried to remain "in denial about the crippling cost". After totting up the total payments, it came to at least £500,000 – and counting. Going for a nanny instead isn't that attractive either – an average salary of £35,000, plus all the hassle involved in becoming an employer.

How do UK costs compare globally?

They are sky-high. Indeed, in terms of how much of an average earner's income is taken up by childcare costs, the UK sits right at the top of the table of rich countries. According to an Organisation for Economic Co-operation and Development (OECD) analysis of net childcare costs (looking at full-time nursery-type childcare for two and three-year-olds), the average costs across all the member countries of the club, for a middle-income two-earner couple, amount to 17% of a woman's median full-time earnings. For some countries, the financial hit is much lower. Net childcare costs (that is, costs after big government subsidies) are very low or zero in countries including Chile, the Czech Republic, Italy and Germany. In other countries, childcare accounts for a much bigger chunk than 17%: in Canada, Ireland, Slovakia, Switzerland and the US the proportion rises to more than a third.

And here?

In only two countries does the proportion rise to more than half – the UK and Japan. That proportion is lower, in almost all countries, when looking at lower earners and single parents, since they typically receive more targeted subsidy. But still the UK remains right at the top: for a single parent on low earnings the proportion is 25%. According to the OECD, more middle-income households say they are not using childcare because they cannot afford it in Britain than in any other of the countries it surveys.

How does our public spending compare?

According to an OECD paper published last year (*Is Childcare Affordable*), the amount of public money spent on "early childhood education and care" varies dramatically across rich countries. Methods of delivering it vary, too: support ranges from direct public provision and/or subsidies to private providers (especially in Europe), childcare fee rebates for selected groups (31 countries), targeted cash benefits for parents (ten countries), to tax relief for childcare expenses (15 countries). But in terms of overall budget, the lowest OECD spenders are Ireland, Turkey and the US (around 0.1%-0.3% of GDP), while the most generous is Iceland (almost 2%). The other big spenders are Sweden, Norway, France, Denmark and Finland, all places where the state plays a far bigger role in the sector, compared to Britain's more market-driven system. The UK is in the middle of the pack, at around 0.7% of GDP (about the same as Germany though far less than France). But it differs from most other countries in that its state spending is almost all on the "pre-primary" state (three- and four-year-olds) rather than on help with very young children (from birth to two).

Why does this matter?

According to the OECD paper, more targeting of help towards those early years is crucial to keeping women in the workforce. A paper published last year from the Institute for Fiscal Studies (*Does more free childcare help parents work more?*) found that the crucial factor in helping women remain in the labour market is full-time free childcare rather than part-time. The study (based on England) found that free part-time childcare "only marginally affects" labour-force participation for mothers whose youngest child is eligible. However, expanding from part-time to full-time free childcare led to "significant increases in labour force participation and employment" – effects that begin immediately and get bigger in the months after the entitlement begins. The study concludes that the government may get more bang for its buck – in terms of encouraging more women back into the labour market – by targeting more support to a smaller number of parents,

rather than less support to everyone.

How has the pandemic changed things?

The coronavirus pandemic has “exposed the previously invisible (or forgotten) link between child care and the economy”, according to economist Alicia Sasser Modestino (and three co-authors) in a recent paper in the Harvard Business Review (HBR) (Childcare Is a Business Issue). In the US, more than 2.3 million women left the labour force between February 2020 and February 2021, accounting for 80% of all “discouraged workers” during the pandemic. That pushed the proportion of working-age women actively participating in the labour market down to 57%, the lowest rate since the 1980s. This highlights the challenge for businesses, who will increasingly be competing for labour.

What can businesses do?

The most successful businesses, the HBR paper predicts, will be those that (a) can adapt to employees’ needs in terms of flexible and remote working, while respecting work/life boundaries; (b) do more to create support structures and a sense of belonging for women at work; and (c) make childcare “part of the business infrastructure”, whether through on-site or local provision, or improved employee benefits. In the future, the provision of such benefits is likely to influence where we choose to work. “Employers that provide high-quality childcare will not only differentiate themselves from the competition but will also create a ‘sticky’ benefit that fosters retention.”

Region: Europe ^[3]

Tags: affordability ^[4]

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