

How America should spend on child care ^[1]

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Source: The Economist - Finance and Economics

Format: Article

Publication Date: 18 Sep 2021

AVAILABILITY

Access full article [via subscription] ^[2]

EXCERPTS

Unlike most rich European countries, America lacks a coherent public child-care regime. But it has come surprisingly close to having one. During the second world war Congress set up federal child-care centres to encourage women to work in factories; these were later dismantled. In 1971 Congress passed a comprehensive child-care plan. But President Richard Nixon vetoed the bill, calling it “the most radical piece of legislation” to have crossed his desk, and arguing that “good public policy requires that we enhance rather than diminish both parental authority and parental involvement with children.” Now Democrats in Congress are trying again, fashioning a child-care system as part of an enormous social-spending package. It is expected to consist of a universal pre-kindergarten programme for three- and four-year-olds and free or heavily subsidised child care for most Americans. The potential gains from more systematic support are large. But there are trade-offs around its design, too.

The case for some sort of state intervention is straightforward. As any new parent will readily confirm, child care across the rich world is eye-wateringly expensive. Women are disproportionately likely to stay at home to look after their children, so encouraging them to work in the formal sector could increase gender equality. For some children, formal care doubles up as education, helping overcome the disadvantages associated with their family circumstances. Some public spending on child care has such vast benefits in later life that in broad terms it is an investment that pays for itself. Research led by James Heckman of the University of Chicago, for instance, has found that spending on some high-quality programmes for children from birth until their fifth year generated an internal rate of return of 14%.

Once convinced that there is a case for intervention, governments must consider how to design their schemes: who should be eligible, and what sort of care to provide. The system must not only free up parents to work and be good for children; the benefits must also exceed the costs to the public purse. There is clear evidence that mothers gain from child-care policy. Many studies find that universal schemes (ie, those that apply to families of all incomes) boost labour-force participation. In 1997 the Canadian province of Quebec implemented a full-time universal scheme, costing parents just C\$5 (and later C\$7, \$4-5.50) a day. This raised mothers’ participation rates by nearly eight percentage points.

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