

Subsidized child care, jobs and economic growth ^[1]

This is the most brilliantly simple idea to spur economic growth aired at Davos so far

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AVAILABILITY

Works by Christopher Pissarides:

[Social Europe in a climate of austerity](#) ^[2]

Nagi, L. R., & Pissarides, C. (2011). Taxes, social subsidies and the allocation of work time. *American Economics Journal: Macroeconomics*, 3(4), 1-26. ^[3]

[Read Business Insider online](#) ^[4]

Excerpts from the news article:

At the World Economic Forum in Davos, you hear of a lot of vague platitudes about job creation, inequality and economic growth. Some of the ideas you hear being floated are impossibly ambitious, like Al Gore's \$90 trillion scheme to redesign every city on the planet.

But Sir Christopher Pissarides, a Nobel laureate economist at the London School of Economics (who taught Thomas Piketty as a student!) told Business Insider about a wonderfully simple idea that creates or sustains three jobs for each single job subsidised by government spending.

Conservatives ought to love this plan because the jobs created are entirely private-market driven. Left-wingers will love the plan too, because it creates jobs directly through government spending.

Here it is: subsidised childcare.

Yes, it sounds incredibly modest, even dull.

This is no grand scheme for airports or stadiums or tech hubs or high-speed rail. But the simple act of providing affordable daycare could add significantly to the GDP of any country that wants to take it seriously, Pissarides says.

Pissarides noticed that whenever working parents have kids in countries with minimal daytime childcare provision, one partner frequently stops working because the cost of daycare is so high it makes working 40 hours a week to pay for it seem not worth it. The mere act of having a baby reduces household income by turning a two-earner home into a one-earner home. And no childcare worker is employed because of the cost disincentive.

By providing subsidised childcare, there is an economic multiplier effect: both parents continue working and a third worker in childcare is added to the labour force. All of them pay taxes. Without childcare, two workers are turned into one, and both labour productivity and the tax base shrink by the same.

It doesn't sound like much, but in economics labour productivity plays a huge role in economic growth overall. The more productive a job is, the more an entire nation prospers. The UK's economic growth is currently handicapped because the only jobs we're adding are crappy low-wage, low productivity positions. In the US, the economy is growing nearly twice as fast because tech companies are adding high-paid, high-productivity jobs as fast as they possibly can.

Childcare lets two workers continue in jobs that are likely to be paid more or have higher productivity (the mere act of staying in the labour force is likely to raise your wages over time, of course).

Italy, Pissarides says, is a prime example of how this can go wrong. It has a lower female workforce participation rate precisely because the cost of childcare makes having a job and kids not worth it. (The US also suffers from expensive daycare - if you have kids, or know anyone with kids, you'll know a family where one parent has dropped out of the labour force, lowering the wealth of the household. And, perhaps not coincidentally, tech company jobs are famous for their luxurious side benefits, like childcare).

Sweden is in the opposite position to Italy. The government there subsidises childcare. As a result, "They create at least twice as many jobs in Sweden as Italy," Pissarides says. About 12-15% of jobs in Sweden's economy are care-based he says.

Pissarides is currently working on a larger study of the economic effect of daycare which he hopes will put some harder numbers on its

effect on economic growth. In the meantime, you can get a taste of his thinking here and here.

Region: International ^[5]

Tags: subsidy ^[6]

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