Gender and fiscal rules: how can we afford the rising cost of care?

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If society recognized caring as an investment rather than a social cost one element of gender bias in current macro economic policy making might be redressed.

Introduction

UK public spending contains an inherent gender bias arising from the differential treatment of expenditure on human and physical capital. Expenditure on human capital is regarded as a cost, part of current account spending, whilst that on physical capital is seen as an investment, part of capital spending. This bias has real effects when combined with a fiscal rule, such as the UK Treasury's "Golden Rule" that it will borrow only in order to invest and will balance its current account spending and revenues over an economic cycle. The significance of the bias this produces is likely to increase. For the part of current spending which benefits future generations is largely spent on services within which productivity is inherently limited, such as care, health and education services, whose costs will therefore increase. These are also the services in which women more than men are employed, and in which women have a particular stake, since they are the ones whose unpaid labour will produce substitute services if market or state provision is inadequate.

This paper will consider some of the effects of the distortion of public spending that results from adherence to this fiscal rule, a version of which is now being adopted by the Eurozone countries. By taking the example of child care it will examine the effects of treating it not as an investment but as a cost, and a cost that is continually rising, producing pressure on standards of provision and pay. These pressures are exacerbated by the imposition of a fiscal rule that does not allow borrowing to fund spending on human capital, producing problems in the public finances that mirror the failures of capital markets to provide finance for childcare that would reduce the impact of children or women's lifetime earnings. This paper will also show that these costs can be paid for, that the same forces that give rise to these increasing costs also produce the resources to pay for them even from the current generation, before going onto consider how fairer, less gender biased, considerations could shape the financing of childcare and other human capital producing services.

Gender bias in public spending

Much public spending mitigates some of the disadvantages that women and those living in poverty face and therefore benefits those groups disproportionately and reduces gender inequalities in a number of inequalities. Similarly, progressive income tax makes disproportionate demands on the rich and as a result on men, rather than on the poor and women (although many indirect taxes can do the opposite). Such progressive taxation therefore also benefits women and reduces gender inequalities in post-tax incomes. This means that the overall level of government spending and taxation has gender implications, and in general higher levels of both reduce gender inequalities. This much is well-known and generally agreed in gender budgeting circles.

However fiscal rules do not specify any particular level of spending or taxation but rather require a particular relationship between the two. Such rules can appear to be gender neutral, such as a requirement to have a balanced budget. One reason such rules exist is to protect future generations from governments' willingness to spend their way to popularity by building up national debt rather than paying for it by taxation. Fiscal rules therefore have generational implications, but it is not obvious that they have a gender impact.

That women and men are somewhat differently distributed across age bands suggests that fiscal rules have a secondary gender effect. With women on average older than men, for current spending to be financed by borrowing and thus paid for by future generations would slightly benefit women, as a as pay-as-you go state pension schemes do, though the effects of these on rectifying gender inequalities are probably as much if not more to do with women's lesser ability to save for their old age than their greater longevity. However, gender inequalities that gender budgeting aims to rectify include inequalities in the political impact of each gender's concerns. Women's lives are integrally tied up with those of their children and women's involvement in politics has often been to support policies, for example on peace and environmental sustainability, that are consistent with the argument that this generation has a responsibility not to impose unfair costs on future generations, an argument that is often used to support such fiscal rules.

Economic theory does not support rigidly balanced budgets because they do not allow automatic stabilisers[1] to smooth the economic cycle. Further, an excess of government expenditure over revenue can be said to impose unfair costs on future generations only if that spending benefits the current generation alone. Strict adherence to a balanced budget rule could prevent spending on investment projects that are too expensive for current tax-payers alone to finance, because future generations would not be allowed to contribute to the cost. Major infrastructural projects would never have been funded if governments had adhered to such a rule.

Some governments, notably the UK, have taken these points on board in developing the more sophisticated fiscal rules by which they now operate. For example, the UK Chancellor's "Golden Rule" is that the government will borrow only in order to invest and will balance its current account spending and revenues over the economic cycle[2]. This rule, by calculating balance over the cycle allows taxation and spending policies to be used for stabilisation purposes. This rule is said to look after the interests of future generations by ensuring that they will have to repay only the costs of investment from which they themselves will benefit.

However, the distinction between investment and current account spending is based on National Accounts conventions, an interpretation of international accounting standards that does not correspond to the distinction between spending that benefits future or current citizens. The National Accounts distinction incorporates a heavy gender bias. It allocates the contributions to human capital made disproportionately by women to future generations, especially in the fields of care, health and education, to current spending, while those made disproportionately by men to physical infrastructure projects are more likely to count as capital spending. This distinction could be said to be a modern form of the stereotypical devaluation and invisibility of women's "reproductive" work compared with men's "productive" work. The former are constrained by the Golden Rule while the latter counts as investment and therefore borrowing is allowed to finance

[1] Automatic stabilisers are the counter cyclical effects of increased (decreased) tax receipts and decreased (increased) spending on welfare benefits that act to dampen (encourage) aggregate demand in periods of greater (lesser) economic activity around the economic cycle.

[2] In June 2005, the European Council amended its Stability and Growth Pact to make the medium-term budgetary objective for member countries a "close to balanced budget *in cyclically adjusted terms"*.

them; hence the gender bias. This rule results in a distortion of public spending away from "current account" spending that benefits future generations through raising their human capital, towards forms of investment in physical capital that forms part of the "capital account". Borrowing to finance "current account" spending on projects of value to future generations is not permitted. This results in over-investment in physical capital and under-investment in human capital[3]. Further, the welfare effects of such distorted public spending are compounded by the negative environmental effects that much investment in infrastructure has unlike investment in human capital, whose social benefits are frequently higher than their private benefits.

This distortion of public spending has direct gender effects, improving men's and worsening women's employment prospects in a gender segregated labour market. Even if the benefits from investment in health, education and care to future generations are less likely to be gender biased, allocating such spending to the current account artificially reduces the amount available for other genuinely current spending, from which women do benefit disproportionately. Furthermore the distortion is likely to increase the unpaid work load of women as a substitute for reduced public contributions to the development of human capital of members of their families. And it has knock-on effects too, since because of their unpaid work load, women are more likely to 'choose' jobs on the basis of location and working time, especially part time work, rather than according to their existing skills which impacts negatively on their career prospects and lifetime earnings (Darton and Hurrell 2005; Francesconi and Gosling 2005; Joshi and Davies 2002; Manning and Petronogolo 2004; Rake 2000).

In turn these knock-on effects on women's life chances affect the economy as a whole. The 'choices' to work part-time made by women given the level of public services in the UK, have resulted in a 'hidden brain drain' estimated at 5.6 million women working below their potential (EOC 2005) impacting negatively on the government's wider economic objectives for a modern efficient, knowledge based society. Taking account of both the direct effects on the future productivity of children and the indirect effects on women's contributions to the economy, the accountants PriceWaterhouseCoopers, PWC, (2003) carrying out a cost-benefit analysis of the provision of universal childcare on a Scandinavian model in the UK found a net benefit to the

[3] Investment spending is constrained by another rule, the "sustainable investment rule", that over the economic cycle, the ratio of net public sector debt to GDP will be set at a "stable and prudent" level defined as no more than 40%. The government has produced no justification for this figure of a 40% limit on net public sector debt, which works out as considerably lower that the 60% of GDP allowed for gross public debt by the Stability and Growth pact of the Eurozone countries.

economy. This was due to both the increase in the women's employment (an increase that would be higher if women were able fully to utilize their skills as a consequence of wider employment options made available through more comprehensive childcare provision) and the increase in the productivity of children (estimated on the basis of their higher future earnings) arising from greater care provision. PWC recognise that that their proposals would lead to a net deficit in the government's current account of about £2.7 billion but suggest that this could be met through increased taxation or by breaking the Golden Rule, since it fails to allow for borrowing for human capital investment. They caution that their results are highly sensitive to the estimates used but argue that their analysis is useful in terms of opening a debate.

There has been considerable debate in the UK about the best form of care for young children, and its effects on women's life chances and on child poverty. However, so far as we know, there has been little or no discussion of this gender bias in the Chancellor's Golden Rules that would make the finance of such a childcare possible difficult even were its projected economic effectiveness recognized. The Golden Rule compounds the problem that capital markets do not work efficiently in this respect for private finance of childcare either. As Apps and Rees (2002, 2004a and 2004b) point out, one reason that so many women's careers suffer if they cannot "afford" the cost of childcare from the amount they earn when their children are small is that it is nearly impossible to borrow money for child care fees and pay it back from the increased lifetime earnings that result from a mother staying in employment. Just like parents, the government will borrow money to finance bricks and mortar but not for investment in childcare.

In this way, the governments fiscal accounting rules lead to a rather myopic and fragmented approach towards economy that not only results in gender bias but also in a reduced likelihood of wider economic objectives being realised. The allocation of all expenditure on welfare, care, health and education to the current account reflects a tendency to see these as unproductive costs, which should implicitly be saved whenever possible, minimised in pursuit of an efficient, competitive economy. This is unlike expenditure on "productive" investment in infrastructure, tangible objects whose legacy to future generation is physically apparent and therefore can be seen as worthwhile indeed socially responsible expenditure. Mary O'Brien (1981) suggests that it was men's disconnection from human reproduction that left them obsessed with leaving a legacy

[4] Such spending also has what are taken to be negative connotations of being consumption, or unproductive rather than investment or productive and so tends to be minimized in the quest to create an efficient, competitive and modernizing economy

in the form of physical objects. Be that as it may, the result of this inappropriate view of the areas with which women are most concerned is to put continual pressure on such spending, and greater pressure than would be the case if the significant part of such spending that does benefit future generations were regarded as capital expenditure.

The significance of this bias and the pressures it produces is likely to increase. This is because the part of "current" spending which benefits future generations is largely spent on services within which productivity growth is inherently limited, such as care, health and education services. As Baumol (1967) showed the opportunity costs of providing such services rises relative to goods and services where productivity increases do occur. Even though the same productivity increases elsewhere in the economy means that the resources to pay for these services could more easily be found, their increasing relative cost is likely to give rise to political pressures to cut spending on them, particularly given such spending is seen as a current cost rather than an investment in the future. The rest of this paper explores this issue by examining the case of childcare.

The case of child care

This section takes child care as the paradigmatic case of a service that benefits future generations, and considers likely responses to the pressures of rising opportunity costs of provision on different sectors of provision: the unpaid household economy, the private sector, the public sector, the voluntary not-for-profit sector and the self employed. It shows how these rising costs are likely to produce pressures on standards, both of provision and of employment conditions. However, unless particularly disadvantaged workers are recruited, who do not have access to jobs in better paying sectors of the economy, labour shortages may result.

The UK Policy context and forms of childcare provision

Policy on care in the UK has always been driven by other agendas. In the case of adult care, recent policy on care in the community, spending on domestic services and direct payments to older people and younger adults with disabilities to fund their own care, has been driven by the desire to keep people out of far more expensive residential care and to maximise the contribution of unpaid carers. In the case of childcare the agenda has been different. The Treasury, whose influence as the paymaster on all social policy is highly significant, has until recently seen affordable childcare mainly as a means of getting mothers into employment, rather as one might see a good bus service. The Department of Education and Skills, however, sees good quality childcare as a way of improving the future prospects of children, a view that the Treasury has also begun to espouse recently.

This means that a view of childcare as an investment is not entirely foreign to the approach taken by the UK government. The government has expanded the provision of childcare through the National Childcare Strategy (1997 and 2004) in order to reduce the UK's shockingly high rate of child poverty compared with most comparable European countries and expand the employment rate, which is high by European standards. These objectives are related in that parental employment is considered by the government to provide the most secure route out of poverty. This argument relies on the payment of tax credits to those working for low earnings which have been introduced in order to meet another objective of government policy, to 'make work pay' better than the forms of income support available for those out of employment (DWP 2005). Expanded childcare provision, parental leave entitlements and the right to request flexible working arrangements have also been introduced in order to maximize the potential skills of the entire workforce in the development of a more productive, knowledge based economy (DTI 2003).

However, although the government is belatedly moving towards the Nordic model of giving local authorities responsibility for ensuring universal cover for childcare, though not its provision, parents in the UK are left to pay a much higher proportion of the costs of childcare than in comparable EU countries (75% of the costs compared to a European average of 30% Daycare Trust 2006). At present childcare provision is often patchy, inflexible and expensive, which either prevents parents, almost invariably mothers, from returning to employment or forces them to work below their potential by fitting paid work around their childcare (Land 2004; EOC 2005).

The philosophy of childcare in the UK is more similar to that in the USA than in continental Europe being seen as a parental rather than community responsibility, so is characterized by a high proportion of market provision. There is also a clear split between pedagogy and welfare that is not characteristic of other European countries with universal childcare.[6] Childcare in the UK is

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[5] This argument also relies on the payment of tax credits to those working for low earnings which have been introduced in order to meet another objective of government policy –to 'make work pay' (DWP 2005).

[6] In continental Europe the pedagogy side is given higher emphasis. In the Nordic countries and Spain, people working with children 0-6 years are more likely to have a relatively high level of education with at

provided in different forms through different facilities, ranging from live in and live out nannies and au pairs in the children's own homes, who may or may not be highly trained, child minders who use their own homes to provide family day-care, private and voluntary sector not-for-profit all day crèches and nurseries, some of which may be state subsided, to state provided nursery schools and nursery classes in schools for a limited number of hours each day. Given these varied forms of provision the specific costs to parents, and the qualifications, rates of pay and conditions of employment of staff vary widely. People working with young children in formal settings in the UK may be qualified teachers with four years post-18 education at university level, childcare workers with two years post-16 education at non-university level or 'assistants' with no formal qualifications at all. A registered childminder requires only a certificate of satisfactory premises and a small element of training, including first aid.[7] There are no restrictions on whom people can employ to look after children in their own home, though state subsidies, for example through the Working Tax credit, are only available for the employment of registered childcare providers.

Productivity and the costs of care provision

Economic activities use labour in two different ways. Some use labour as an input. In these activities productivity, output per hour, can be raised by capital investment and/or technological improvements. Industries using labour in this way can expect, under sufficiently favourable economic conditions, continually to raise productivity levels. In other activities, labour is not only an input but an output too. Here there is little scope for pure productivity increases, in the sense of simply reducing the amount of time needed to deliver the same output. Baumol (1967) used the playing of a string quartet as an example of the latter type of activity. Neither cutting the number of players nor playing faster could raise productivity without substantially changing its nature. He argued that this is why productivity inherently rises much more slowly in the arts than the rest of the economy. Pure productivity increases, if they occur, are likely to be indirect, small and one-off. Investment, technological improvements and better organisation can improve quality but are unlikely to reduce costs.

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least 3 years of training at post-18 level in order to provide what is recognised as a complex, multi-skilled, demanding and professional job.

[7] A registered childminder is 'checked for references, training, police record and health. Their home is inspected to make sure it's a safe and suitable environment for children. After registration, a childminder is checked every one to three years to ensure they're continuing to provide a safe and suitable service. Childminders are also required to complete a basic registration courses, including first-aid training' (BBC 2006)

Caring is manifestly an activity of that second type in which the output is the caring work itself. (Baumol and Oates 1972; Donath 1996). Care is a personal service requiring the presence of a carer. It takes time, attention and skill. To be worthy of its name, care is also the development of a relationship. This limits how many people can be cared for at one time. After a certain point spreading care over more people becomes synonymous with reducing quality. The relational nature of care also means that having the same, or at least a familiar, carer matters. Carers and care workers are not substitutable in the way in which workers in some other occupations are, which further reduces the scope for productivity increases through better management.

This means that it is hard to raise the productivity of childcare. Unlike the arts where some economies of scale may be possible in their consumption (fitting more people into the concert hall) it is hard to raise the productivity of caring, in either its production or its consumption, without reducing its quality or changing the very nature of the service provided (Folbre and Nelson 2000; Himmelweit 2002; Perrons 2004). While some private nurseries may try to increase productivity by electronic tagging of children, analogous perhaps to the electronic reproduction of music, for the most part childcare can only be provided by physical presence, 'being there for them'(Land, 2003)[8] Indeed, in childcare, as in education, measures of high productivity are specifically taken as indices of low quality. Thus a "productive" childcare unit is one with a high ratio of children to carers, which is not in general seen as a sign of high quality care.

Wage costs are inversely related to productivity. So the wage bill in childcare will inevitably rise faster than in industries where productivity is rising and so wage costs per unit fall. This results in a rise in the real opportunity cost of childcare: as the time taken to look after a child stays the same but that required to produce a typical bundle of other goods and services falls. This rising real cost is not caused by inefficiency (or rising standards) in childcare provision but is an inherent effect of the relational nature of care. In so far as parents are unable to pay such rising costs, in financial time or in terms of their own time, state subsidies will increasingly be necessary.

[8] Forms of 'telecare' can have more positive connotations in elder care, allowing people to remain in their own homes for longer for example by establishing direct connections between smoke detectors and the fire service

This argument is largely accepted. It is for this reason that the government recognises that many parents require subsidised childcare, particularly given high levels of (uncorrelated) inequality in the wages they earn and their childcare needs. However, some implications have not been so well recognised, for example, unless there was a sustained decease in inequality, the need for and cost of subsidies must grow along with the rising costs of care. For example, the government still proposes one–off restructuring funds, such as its recent challenge fund for childcare, to deal with problems that are inherently long-standing issues that will need continual, rising subsidies that rise not fall in value. Similarly the belief that in areas where childcare provision is inadequate start-up grants can help providers to become self-sustaining is based on a mistaken premise. If provision previously would have been unprofitable, often because local incomes are not high enough to pay sufficient fees, then there is no reason to believe that this will be rectified without continued subsidy.

The demand for subsidised childcare

The opportunity cost of a mother giving up or reducing employment to care for her children increases as real wages rise due to productivity increases elsewhere in the economy. Mothers therefore increasingly feel that they cannot afford to take time out of the workforce. However, their problems in finding affordable replacement care do not reduce because the cost of childcare also increases, as a consequence of the same productivity rises in the rest of the economy. So while mothers become more aware of what they are losing through not being in employment, the proportion of their wages that would have to be spent on care if they have to pay the full cost of their replacement care does not change[9].

The decision for a mother as to whether to take employment and outsource childcare or to provide it herself is affected also by social and cultural norms about mothering/parenting and individual preferences. Nevertheless rising opportunity costs of not taking employment are relevant and a factor in breaking down norms that work against maternal employment. This is supported empirically by employment rates among women that are positively associated with the level of education and negatively with the age of the youngest child. In the UK there are also significant

[9] This is more than confirmed by analysis of the British Household Panel Survey which shows that not only has the average cost of childcare risen in real terms, so has the average amount spent on childcare per pound earned by mothers of pre-school children (Data to be included in next draft). However, there are selection effects here too, as not all working mothers pay for childcare, and as the employment rate of mothers increased lower earning mothers became more likely to purchase childcare.

differences in the employment rates between different ethnic groups but these differences are far narrower for those with higher qualifications (Sigle-Rushton and Perrons 2006), reflecting the significance of cultural norms but also how these intersect with qualifications to produce differentiated outcomes within as well as between ethnic groups.

This in turn explains why the cost of being a mother and the gender pay gap varies by class. Highly skilled women that do not interrupt their careers to have children pay higher childcare fees and spend more money on their children than women who are less well educated. However, less well educated women takes more time out of the labour market, because the cost of childcare would make a bigger dent in their incomes and relatedly they may live in a culture in which non-maternal childcare is less accepted. However, the later trajectory has a higher life-time cost in terms of future employment prospects and earnings (Rake et al,….).

This is one reason why the UK government provides subsidies to help lower income parents purchase childcare and some directly subsidised provision in the most deprived areas of the country, through the Sure Start programme of children's centres which include childcare and early years services. Eligibility is not tied to mothers' employment status, although one aim is to encourage and support unemployed mothers (again particularly lone mothers) back into training and a job. Meanwhile their children are receiving services intended to reduce the social and educational disadvantages resulting from social exclusion and poverty.

Another possible motive for such funding of childcare does relate to productivity. Good childcare does not at all ages require a ratio of one carer per child and traditionally family care has been conducted at a much higher ratio. Today with smaller families and a reduction in the time needed for other domestic work, productivity gains can be made if mothers with just one or two children move into the labour market and transfer care to professional workers who care for more children simultaneously. This thinking implicitly underlies the view that there are immediate economic benefits to be had by increasing the female employment rate in the UK and the rest of the EU, as the European Employment strategy does, recognising – in both cases – the consequent need to expand childcare provision.[10]In the UK such childcare subsidies, are finely tuned to those for

[10] The EU Lisbon growth and competitiveness strategy (2000 revised 2005) set targets for the employment rate and childcare: the overall employment rate to 70 per cent, and the female rate to 60 per cent by 2010 and to realize these childcare targets were set in 2002 at the Barcelona council for 90% for children between three years old and the statutory school age, and 33% for children under three.

whom productivity increases are possible. Thus there is no increase in the childcare subsidy for third or subsequent children, perhaps because there is no productivity gain in replacing a mother with three or more children with paid childcare.

Within the paid economy, assuming optimal staff/child ratios have been attained, productivity cannot rise without a fall in standards. Hence the costs of childcare must rise in line with wage levels. If more mothers enter employment and so spend less time in unpaid childcare, this means the amount of time devoted to paid childcare will have to increase. So the proportion of the paid labour force engaged in childcare will grow, and so must the proportion of GDP spent on childcare. (Since only paid childcare is counted in GDP it is not affected by any reduction in unpaid childcare.) Spending on childcare will need to grow faster than the rate of GDP simply to maintain the status quo, faster still if standards are to improve.

This is for spending on paid childcare overall. Unless inequalities in earnings fall so that fewer parents require subsidised childcare, public spending on childcare will have to grow at the same rate. It will have grow faster if pay inequalities continue to increase, as they currently are in the UK, where despite a few women entering the higher echelons of employment, most women are concentrated in poorly paid, labour intensive occupations such as caring, catering and cleaning, sectors where earnings have been declining relatively, despite the growth of employment at this end of the labour market[11]. Public spending on childcare will also have grow faster if additional policy goals to which subsidised childcare would contribute are to be met, such as promoting a faster rise in the employment levels and working hours of mothers to reduce child poverty or to increase the tax base to fund old age pensions. Further, it should be the mark of any civilised society to go beyond this and devote sufficient resources to childcare to share in increasing standards elsewhere in the economy. The UK lags far behind many other European countries in its public spending on childcare[12].

The effects of rising costs on care provision in different sectors of the economy

The rising cost of care has different effects on the different sectors that provide childcare. Private-for-profit providers cannot pass on rising wage costs to customers who are themselves income constrained, unless subsidies and thresholds for the receipt of subsidies rise in line with rising care costs (and were sufficient to start with). The only other way for providers to stay profitable is

[11] See Goos and Manning (2003).

[12] Figures and reference to come

to lower wage costs or reduce standards. But employers cannot recruit or retain workers if they pay wages that increasingly lag behind those available in other types of work. Rising costs and labour shortages produces a tendency to employ less well-trained workers and recruit from groups with few alternatives. That puts downward pressure on standards of care, and training becomes seen as an expensive luxury, except perhaps for those trying to attract higher-paying customers – inevitably a limited market.

A two (or more)–tiered care market is likely to be the outcome. Those who can afford to devote an increasing proportion of their income to paying for care will be able to purchase a high standard of care. Whereas those for whom existing care costs are already a struggle, or rely on state subsidies that fall behind rising costs, will have to accept declining standards if they cannot raise the proportion of their income they devote to care. And since achieving rising standards will require a better trained and paid workforce, a two-tier workforce in paid care is likely to result too.

In London, for example, the typical cost for a week's nursery care for a child under the age of two is £197 but some parents in Inner London are currently paying £350 or more (Daycare Trust 2005). To put these figures in relative terms the median earnings of a childcare worker with the post 16 qualification are barely above the minimum wage in the order of £200 a week see Appendix 2.[13] Nurseries that charge the lower fees are able to maintain their costs at a profitable level only by employing a low cost labour force and not always be adhering to regulation staffing levels (TCR 2000). Private sector nannies charge rates comparable to those for nursery provision. Registered childminders on average charge less, in the order of £130 a week for a full time place rising to £163 a week in inner London, (Daycare Trust 2006) though the range was wide with the highest recorded figure at £500 a week. Care is also provided informally and the rates of pay and quality of service are clearly less well known. What is clear from survey data (Daycare Trust 2006) is that the costs of childcare have risen 27%, four times the rate of inflation, in the past five years.

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[13] For caring and personal services - category 61 in ASHE the mean weekly earnings are £215, median £204 for all workers and £178.5 and £190.2 respectively for full time women workers, which would place these workers (ASHE 2006 data relates to 2003) in the lowest decile where earnings overall have been declining comparatively to other groups since 1997 (see Dobbs 2006 on rising inequality in earnings).

Rising costs also have an effect on public sector provision. Terms and conditions of employment tend on average to be more advantageous in the small remaining pockets of publicly provided childcare than in the private sector, and costs to parents are lower. A local case study found public sector nurseries more likely to employ formally qualified teachers, especially where nursery education was involved, and staff more likely to be unionized (Perrons 2004). Nonetheless the public sector is subject to cost constraints and the difficulty and non-desirability of increasing productivity frequently not appreciated. Rising costs instead are often attributed to inefficiency rather than the consequences of an inherent characteristic of care. Pressures are placed on public sector providers, often local authorities, to apply the discipline of the market: to privatize their childcare provision, to outsource more of their work and to develop a more segregated internal division of labour so that lesser qualified people can be employed for certain forms of work[14] (see next section). Without a specific political commitment, standards of care and training are likely to fall, or where there is a determination to maintain quality and costs consequently rise this may be taken as yet further evidence of inefficiency.

The effects on the not-for-profit sector of low productivity growth are similar. Increasing wage costs create a continual and permanent need for greater funding. In practice, funding tends to lag behind costs, creating problems of insolvency and making it impossible to keep up with wages elsewhere in the economy. Workers, however, are often more understanding of their employers' problems than in other sectors, leading to a tendency to self-exploitation, which is often exploited by government contracts for "best value" providers. In such circumstances, the expectation that providers given short-term funding should eventually become self-supporting is unlikely to be realised. In practice such short-term funding often just leads to churning, whereby existing providers cannot survive once funding ceases and new entrants on similar short-term funding are brought in to fill consequent gaps. This occurred in the first five years of the National Childcare Strategy through which 626,000 childcare places were created but 301,000 closed, this churning almost entirely within the private and voluntary sectors (National Audit Office 2004). More recent data (2006) indicates that the churn factor remains a problem. In response to parliamentary questions the minister responsible has tried to argue that the churn factor is not necessarily higher than in other private sector businesses and that overall there has been a net increase in places[15].

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[14] Such pressures are even greater in the case of local authority provision for elder care.

[15] '*…… there is churn in the private sector part of the child care market. It is not significantly greater than the general figures that I have seen on churn in other parts of the private sector market not related to child care. Private businesses stop trading and operating. The level of that*

However it might be argued that the disruption to children and their parents makes market churn in childcare more significant than in other private sector businesses.

Ways of offsetting the rising costs of care

Given that by the own fiscal rules childcare counts as a cost rather than an investment, governments have been keen to find ways in which these costs might be offset. The tendency for the childcare costs to increase and, unless inequality falls, to make increasing demands on public finances only intensifies this pressure. Ways in which the costs of childcare might be reduced include allowing the earnings of care workers, already on average a low paid group, to fall further behind those of other workers, extending the division of labour within childcare to use cheaper staff and drawing on lower wages elsewhere in the world, through importing migrant workers.

Despite its strategy to expand childcare the UK government has paid little attention until recently to the terms and conditions of the childcare workers themselves. Because of the welfare/pedagogy split in childcare provision in the UK, mentioned above the rates of pay of people working with

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*in the child care market is not significantly greater than it is in other private businesses' (*RT Hon Beverley Hughes (Minister for Children, Young People and Families 2006)

[16]Forms of 'telelcare' can have more positive connotations in elder care, allowing people to remain in their own homes for longer for example by establishing direct connections between smoke detectors and the fire service.

[17] The EU Lisbon growth and competitiveness strategy (2000 revised 2005) set targets for the employment rate and childcare: the overall employment rate to 70 per cent, and the female rate to 60 per cent by 2010 and to realize these childcare targets were set in 2002 at the Barcelona council for 90% for children between three years old and the statutory school age, and 33% for children under three.

[18] Different countries set different ratios for different defined age ranges and also vary in the philosophy for early year's provision, continental Europe following a pedagogic model while the US and the UK have a split system between pedagogy. In addition in countries where there are generous maternity and parental leaves few children under 12 months are in formal care/education so crude cross national comparisons are not warranted. The figures for the UK were set under Volume 2 of the Children Act Guidance and Regulations 1989 [0-23 months 1: 3; 24 -35 1; 4; 36-59 1:8 and 3-5: 1:13 – though this latter ratio is not respected in nursery classes within schools] (TCR 2002).

[19] See Goos and Manning (2003).

[20] For caring and personal services - category 61 in ASHE the mean weekly earnings are £215, median £204 for all workers and £178.5 and £190.2 respectively for full time women workers which would place these workers (ASHE 2006 data relates to 2003) in the lowest decile where earnings overall have been declining comparatively to other groups since 1997 (see Dobbs 2006 on rising inequality in earnings).

children vary widely depending on qualifications and whether they are regarded as educators or carers. Those regarded simply as carers are among the worst paid workers in the UK. Even those with two years post 16 education qualifications are often paid little above the minimum wage so it is difficult to see how these rates could be lowered any further (see Appendix 2).

In the first National Childcare Strategy, reference was made to career progression but the only form of wage protection envisaged was the national minimum wage, and yet this in the UK is only 30 per cent of average wages, the lowest level in the EU apart from Spain (at 28 %).[21] Perhaps in pursuit of cast savings, the government did not want to 'over professionalize' the occupation but rather sought people who *'have a way with kids'* (House of Commons 2000 cited by Cameron, Mooney and Moss 2002: 585 our emphasis). Although not explicitly mentioning women, this displays a traditional and discriminatory attitude to skills that women tend to have, seeing them as personal characteristics that, unlike acquired professional skills, do not need to be properly remunerated.

Current low pay for childcare workers may reflect gender segregation and the gender gap in earnings in the UK, higher than in most other EU countries, partly arising from the fact women are disproportionately concentrated in other labour intensive sectors, with some similar characteristics. However, as women are gaining in confidence and qualifications, labour shortages are appearing and attracting more people to work in childcare may be difficult at such low wages. Even at the apprentice stage there is a pay gap. 'Early years' apprentices who are 97% female, with average weekly pay of £95 per week and some earning only £40, are disadvantaged compared to electro-technical apprentices, 100% male earning on average £187 per week. The only group of apprentices less well paid than the early years workers are hairdressers, who are 93% female and receive on average £90 per week (EOC 2006 and see Appendix One). In hospitality and retail, where the gender ratio is more even the pay is higher although it is also a labour intensive sector.

It would appear that it is not just childcare's labour intensity but also its gender ascription that results in such low pay. But as women gain in qualifications and other opportunities, these factors cannot be relied upon to provide a workforce. Even self employed childminders, with minimum qualifications, who might choose to remain in this sector, because they can care for their own

[21] (See Stewart 2005).

children simultaneously, have been falling in numbers (Mooney et al 2001; Land 2002), despite evidence that in response to increasing demand rates charged by childminders have increased by 47% in the past 5 years (Daycare Trust 2006), though this is from a very low base[23].

Workers with some qualifications do have the possibility of taking more senior positions and with further training be paid better by moving onto the education side of childcare. In contrast to hospitals, where there is a substantive division of labour between doctors and nurses[24], in childcare work any worker has to be responsive to a whole variety of unpredictable demands simply by virtue of being there at the time. Thus the actual work done with children is often much the same irrespective of qualifications, as a Nursery head teacher's comments about her less qualifed childcare workers illustrate:

> *….we regret that they don't get more pay. We try to make things better. They [the nursery nurses/assistants] don't do any paper work, which is tedious. They have an equal say in planning and in contact with the children, there is no difference in the work they do and I shouldn't say this but we let them go home early sometimes*[25]

Likewise as learning support assistants in the same area commented:

> '*… we work in an area where there are a lot of complex social problems that affect the kids . Its not just picking up the paint pots any more … it's a skilled job……Simply we don't get enough money'*

Childcare providers may therefore be able to reduce the costs further by employing such people with no qualifications but 'a way with kids' to do similar work to more trained professionals. However, quality of care is likely to suffer and the problem of where to find people willing to work at such low wages remains[26].

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[22] In detail the number fell from 106,000 in 1997 to 76,000 in 2000. More recent figures suggest???

[23] The numbers of childminders fell from 106,000 in 1997 to 76,000 in 2000. More recent figures suggest???

[24] See Wolkowirz 2002

[25] See Perrons 2004:67

[26]

One solution might be to draw on a particularly disadvantaged labour force such as migrant workers. There is a growing literature on the international care chain which illustrates the varied conditions experienced by migrant care workers, and makes reference also to the varying impacts on children left behind as their mothers care for richer children in distant locations.[27] It is not only private sector employers who make use of migrant workers to reduce costs. The conditions of migrant workers employed in the public sector can also be extremely harsh, especially when they are indirectly employed via agencies and tied into accommodation and travel packages which result in net pay well below the minimum wage (Anderson and Rogaly 2005) and the circumstances of those working in the less formal sectors could even be worse. The UK government has been keener than other older EU states on allowing workers from the new accession states free access to its labour market.

A related way to cut costs would be to move childcare offshore to areas of lower cost labour. This in practice is what has been happening to some extent with elder care, as older people retire to areas in which their standard of living can be higher through lower wage costs, including for the employment of home helps and people providing personal care. There has been a small move to send some older children private schools in India that are cheaper than equivalent schools in the UK and some British parents move abroad to take jobs in countries where the cost of "help" is much cheaper. However, moving childcare offshore is not viable as a strategy for *government* in reducing its spending.

Society as a whole can sustain such rising costs

So far we have argued that the costs to the public purse of maintaining current levels of childcare provision are high and will inevitably rise. Increasing inequality, increasing standards and or increasing demand for childcare to meet other goals will raise costs further. The question then becomes can the costs be paid for?

The key point of our argument is that it is productivity gains elsewhere in the economy that cause the rising costs of care. So in principle resources exist to meet the increasing costs of childcare and still leave more over for spending on other goods and services. However this is not likely to occur while childcare is largely considered to be a cost and paid for out of current expenditure, fiscal rules rule out borrowing to fund such spending and governments remain hesitant to increase taxes. But childcare, and similar services that increase human capital, can be seen as an

[27] See for example Hochschild (2000); Parreñes (2001)

investment, that is a cost that more than pays for itself in the long-run and one from which future generations benefit.

But childcare is an investment only at a societal level, not for an individual. At an individual level. It is parents, particularly mothers, who pay the costs of childcare, whether in terms of their own time or the money they use to purchase childcare, But parents are not the ones who benefit from the human capital that it creates. Parents can no longer rely on children paying back any investment made in them, and family law, in the UK at least, gives parents no rights over their grown up children. The private costs of raising children today are therefore high and enduring, with no specific hope of return for them.

The highest costs are associated with providing childcare for young children. These costs are concentrated at a particular stage in the life course where parental earnings are rarely at their peak. Capital markets do not operate in such a way that parents can use them to spread the cost of childcare to minimise the likely long-term effects of that high concentration of childcare costs ion one period on their labour market prospects. Current fiscal rules extend that failure of capital markets into public accounting, instead of allowing collective payments through taxation or borrowing to help spread these costs over the lifetime and thereby ensure higher quality provision than could be paid for out of the income of parents at the time that they require child care.

One use of such public funding would be to allow (or encourage) movement of care from the unpaid to paid economy, and subsidise high quality care sufficiently that all parents can afford and are happy to use it and to take employment. This would, in line with current trends and European Employment Strategy, be a move towards what Nancy Fraser (1997) called “the universal worker model” with paid care picking up the care deficit in the unpaid economy, funded in part by the state. An alternative use for such funding would be to keep (or increase) the proportion of care done by unpaid work but challenge the gender division of labour in domestic work and childcare, by using the funding to challenge current social norms in relation to the length of working day and reduce working times for full time workers along the lines of what Fraser called “the universal carer model”. Public funds in this case would be used for redistribution to ensure that workers, especially parents, did not have to work over long days in order to make ends meet. Either of these solutions could encourage gender equality, as could a range of alternatives between these two extremes, provided both paid and unpaid care were shared more equally.

Conclusion

This paper has demonstrated the existence of a gender bias in public expenditure owing to the Treasury imposed Golden Rule which discriminates against expenditure on human capital/care related activities by misrepresenting such expenditure as a current cost when part at least might be more appropriately regarded as an investment in future generations. By examining the case of childcare, the paper has also shown how the demand for public funding of human capital creating activities is likely to increase because of specific properties of such work, namely its inherently limited capacity for productivity increases and consequent rising costs. This means that the distortions and gender biases in funding due to adhering such fiscal rules is likely to increase.

Because these rising costs arise from productivity gains elsewhere in the economy, resources exist to meet the rising costs of care and other human capital creating activities even from the current generation. Similarly, in so far as these rising costs arise out of increasing inequalities, those who have gained relatively from those rising inequalities will be in a position to meet those increased costs. And it is quite reasonable that future generations should be expected to contribute to such costs. Indeed, in so far as rising productivity will make future generations better off, equity considerations might lead us to think that the next generation should pay for some spending on this generation, allowing their pensions to rise in line with increasing productivity, for example. To have these debates about inter-generational fairness in a way that accounts properly for contributions to both human and physical capital, a more realistic and less gender-biased view of what constitutes the current and capital accounts would be a first step.

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Appendix One

Modern Apprenticehips: gender segregation and the gender pay gap

Field	*Average weekly pay*	*% male*
Electro technical	£183	100%
Engineering	£167	99%
Customer service	£161	29%
Hospitality	£158	51%
Construction	£141	99%
Motor Industry	£136	98%
Health and Social care	£130	11%
Business administration	£126	24%
Retail	£123	39%
Early Years education	£95	3%
Hairdressing	£90	7%

Source (EOC 2006)

Note: the data relate to 2005

Appendix 2

Just two of a number of advertisements for 2006 from

http://www.jobsearch.co.uk/Nusery_jobs.html

'Senior Nursery Leaders are responsible for planning, co-ordinating and implementing all aspects of the day camp programme for 3-4 year olds. The successful Senior Nursery Leader will lead a small team of staff, allocating activity duties and supervision rotas. You must hold minimum of Level 3 childcare e.g. CACHE, NNEB, BTEC, Montessori or equivalent with at least 2 years childcare experience.

Nationwide Temporary £200 per week (Live in available) published 31/03/2006'

'Nursery Nurse - Room Leader in Watford

This fantastic nursery unit close to the centre of Watford is currently looking for an enthusiastic individual to work as a Room Leader. You will lead the Baby Room and should have at least 2 years post qualifying experience and an NNEB or equivalent. All candidates interested in this fantastic opportunity should e-mail their cvs to Laura ASAP and call A+ Teachers to find out more about this vacancy.

Watford Permanent £12,000 to £14,000 per year (Dependant on candidate) published 03/04/2006'

Calculated on a weekly basis this is £5 a week in the first case, which is marginally less than the minimum wage of £5.05 for 2005, if it is assumed that the working week is 40 hours. The advert indicates that 'live in is available' but almost invariably this would require a deduction from the wage. In the second the pay is higher, between £5.7 and £6.7 per hour.