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The Effect of Early Childhood Education and Care (ECE) Costs on the Labour Force Participation of Parents in New Zealand

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Abstract

New Zealand suffers from labour and skill shortage, has a record low official unemployment rate, one of the highest figures of working hours per capita per annum and at the same time one of the lowest labour force participation rates of women in the 25-34 age group among OECD countries. The feminist economic literature stresses the unfair distribution of paid and unpaid (mostly caring) work between men and women. Moreover, it also emphasizes a strong causal link between childcare arrangements and labour force participation and success. Based on these arguments we suggest that the comparatively low female labour force participation rate of mothers with dependent children in New Zealand can be explained at least in part by how childcare is organized. Evidence from the relevant literature supports this contributing to policy changes. The transaction cost approach is also used to explain the participation patterns for women in the 25-34 year age-group and questions whether provision of childcare should be public or private. In conclusion we suggest a variety of avenues for New Zealand to make better use of its labour force and achieve a more potentially more efficient balance between paid and unpaid activities.

Introduction

The New Zealand early childhood education and care sector is in a state of flux as it adjusts to changes in the regulatory and funding environment. Efficient early childhood education and care expands the employment and education options of parents, their potential productivity and equality. This paper first provides an overview of the nexus between childcare and labour market activity found in the relevant economic literature, including recent insight provided by the feminist critique. We then look at recent patterns in female labour force participation and time budgets in New Zealand and describe recent developments in the childcare sector in terms of provisions and funding arrangements. This leads us to question recent emphasis on more market based provisions. Our focus then shifts to transaction and other costs incurred by parents using outside home childcare and further examine the question of private versus public provisions of childcare. We conclude the article by examining alternative models for family and labour market policies from Scandinavia in order to identify a more efficient distribution of paid and unpaid work in New Zealand.

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Feminist Economics on the nexus between care and labour market activity (theory)

All OECD countries have a persistent or ever growing need for caring (unpaid) labour (OECD, 2006 and Folbre, 2001) which, as in the past, is still mostly provided by women (Statistics New Zealand, 2001). At the same time, developed countries are experiencing increased female (waged) labour force participation. This leads to a dilemma because what may be regarded as good for gender equality might actually lead to neglect of children, the elderly and other persons dependent on care. It could also be accompanied by the so-called double burden and result in an experience of overworking among many mothers with dependent children (Folbre and Bittman, 2004) and/or a decline in fertility rates exacerbated by aging populations (Folbre, 2001; 2003).

So long as the traditional gender division of labour within and outside the household persists and the assumption that child welfare is strongly related to the care given by parenting persons, the problem of child welfare is placed at the core of this dilemma resulting in less time devoted to childcare. The OECD in its report *Starting Strong II* explicitly stresses that aiming at increasing women's labour market participation, reconciling work, family responsibilities on a more equitable basis for women and addressing issues of child poverty and educational disadvantage are linked (OECD, 2006: 19). Moreover, these goals can be achieved simultaneously by governments investing in early childhood education and care (ECE)[1] (ibid: 19). How can social policy in New Zealand tackle this trade-off between labour market productivity and care? Several Treasury papers, written to develop a logical basis for social policy evaluation, try to address this policy and welfare inherent problem in modern family life. However, as criticised by Kesting (2007) the Treasury papers by Jacobsen and others (Jacobsen, May, Crawfod, Annesley, Christofeel, Johnston and Durbin, 2002; Jacobsen, Fursman, Bryant, Claridge and Jensen, 2004; Bryant, Jacobsen, Bell and Garret, 2004; Varuhas, Fursman and Jaconsen, 2003) suffer from two major shortcomings. First, their pluralist approach does not include the feminist critique of Human Capital Theory, nor does it discuss the alternative economic theory developed by feminist economists and philosophers like Folbre (2001) and Nussbaum (2000). However, without questioning the assumptions underlying orthodox economics (see Kesting, 2005), any integration with other social science approaches, which are not based on methodological individualism and some variant of rational choice can hardly be successful in an attempt to develop social policy that ensures care and supports labour market productivity. Some feminist economists have, at least in part, already demonstrated how such an integrative approach could work (see for example Himmelweit, 2000; England and Folbre, 2002; Himmelweit and Sigala 2004). Although feminist economics has many debates and strands, one of its defining characteristics is the particular attention to the gendered division of labour.

Female labour force participation and time budgets in New Zealand

New Zealand has a relatively high labour force participation rate (the 6th highest in the OECD) which, consistent with developments in other industrialised countries, is largely due to increased participation by women. However, as highlighted in a recent Treasury paper, New Zealand has a relatively low participation rate amongst women of the key child bearing age (25-34). In 2001, participation for this group was amongst the lowest in the OECD, ahead of only Italy and Japan (Bryant et al. 2004: 16). Three of the top five countries in terms of labour force participation of women in this potentially highly productive age group are the Scandinavian welfare states (Iceland, Norway and Sweden); the other two are the USA (the "Overworked American", see Schor, 1992) and Canada.

As Lindert (2004) points out, interrupting work by mothers leads to a loss in human capital and consequently lower life-time earnings compared to childless women and men. This is not only because mothers do not work and do not get paid in the period of their life while caring for children, but also because of the discontinuity resulting in "statistical discrimination". In other words, the perception that there is less need to invest in the careers of young women because childbearing is likely to take them out of the labour force. He presents some indicative evidence that government investment in infant day care, noticeably in Finland and Scandinavia, seems to erode the aforementioned disadvantages for mothers (2004: 256). This effect is much lower in countries where childcare demands are only met in private markets. In general, he concludes: "even though specific numbers still elude us, it makes sense that the more committed welfare states' career supports for mothers are likely to have a strong payoff in jobs and GDP" (ibid. 257).

Callister (2005) integrates the problems of care (that is children's well-being), labour market productivity and gender equality in his contribution to the Treasury's working paper series. He draws on the feminist economists' arguments about the unequal distribution of paid and unpaid work between men and women as an obstacle for the support of replacement fertility levels and growth of business productivity. Moreover, his enquiry is based on a wide range of cross country comparative statistics including Sweden and Finland.

According to Callister, "overwork" is common for the average New Zealander:

> "a comparison of the proportion of employees working 50 or more hours per week among a selection of OECD countries shows that New Zealand has one of the highest proportions of workers putting in long hours of paid work (Messenger 2004). When considering couples, international comparative data also suggest New Zealand is at the high end of the working hours spectrum" (Callister, 2005: 8).

However, this phenomenon has a particularly strong gender dimension in New Zealand as it is fathers who, on average, work long paid hours, while mothers do most of the unpaid care work: "As Johnston (2005) shows, New Zealand has relatively low employment rates for mothers with young children, but when total paid working hours are considered across the whole of society, New Zealand is near the top of the OECD" (Callister, 2005: 9).

In this general context, Callister identifies what might be called a *life cycle squeeze* for families with young children in New Zealand[2]. This life cycle squeeze is characterised by an extreme scarcity of time and/or money in a particular phase of family life:

> "When the New Zealand sample is restricted to partnered men and women with a child under five, Stevens (2002) demonstrates that total hours of work (paid and unpaid) are higher for parents of young children than for men and women without children. Again, this is a pattern seen in all industrial countries" (Callister 2005: 14).

However, there are basically two extreme models of dealing with the problem of the life cycle squeeze: the Anglo-Saxon and the Scandinavian way. Callister picks the USA and Sweden as examples of these two scenarios:

> "Comparing the United States and Sweden, which are both high-income countries with a high level of gender equity, reveals two quite distinct models. In the United States the high level of gender equity is achieved by both partners in couples working relative long hours. In contrast, both mothers and fathers work relatively short hours in Sweden" (Callister 2005: 13).

The US model is based on "low-income professionalism" that is, middle class children are cared for by low-skilled immigrants. In Sweden, government policies provide universal entitlements to paid parental leave and universal, high-quality subsidised childcare. This is embedded in an overall trend to support relatively low working hours and high income equality (Callister 2005: 17). The Swedish model allows parents to avoid the life cycle squeeze and instead to achieve a much more positive work-life balance compared with many other countries.

According to Callister, surveys demonstrate that mothers would prefer to spend more time earning money while fathers would want to have more time available for their children. Thus, considering overall family welfare, gender equality and sense of autonomy over one's own life, New Zealanders would probably wish to follow the Scandinavian example. Watkin (2005) verifies this citing Statistics New Zealand reports on the September quarter 2004: "… only 2200 women were working, wanted to work more, but couldn't because of a lack of suitable childcare. Another 3200, who weren't seeking work, gave a lack of childcare as their "main reason" for not working" (2005: 26). The recent introduction of free childcare is an attempt to alleviate these pressures.

The pre-school care industry in New Zealand

The provisions of childcare in New Zealand are undertaken by a wide range of groups, both private and community owned, and attract considerable State funding. In July 2007, there were 4,479 establishments providing childcare to nearly 191,000 children (Ministry of Education, 2007). Nevertheless, childcare can be expensive, according to White (2006), parents in Auckland typically pay fees for different kinds of ECE providers varying between $275 and $475 a week.

> "The Early Childhood Council Survey of Fees of its members nationwide found that, for a child over two, hourly fees ranged from $2 to $15 per hour, with an average of $5.13 per hour. The average weekly rate for 30 hours of childcare was $144.75 per week and the range from $10 to $255 per week. The average weekly rate for more than 30 hours was $161.58, ranging from $40 to $360" (White 2006: 30).

In terms of financial burden, the mean rate per week reported by White equates to 12.75% to 14.24% of average household income as recorded in the 2006 census. Moreover, White points out that expensive does not necessarily mean better. Not-for-profit centres are able to provide high quality care at the low end of the fee spectrum. Childcare centres received relatively substantial state subsidies beginning in March 2005 to cover the costs of employing qualified staff. The net effect was a subsidy of approximately 50% of average cost of providing childcare in 2006, however, according to White, none of them reduced their fees. One might conclude that private ownership in this sector leads to publicly subsidised profits hence, can be regarded as an expensive way to ensure quality in ECE. Statements by industry experts confirm this: White quotes Anthony Gilbert of ABC Affiliate Business Consultants as saying: “Childcare is profitable, and there is a big demand for it” (2006: 32). Demand generally outstrips supply, for example, in inner Auckland suburbs, it is so high that a place for a two-year old has to be secured more than year in advance (White, 2006: 30) and there are long waiting lists (White, 2006: 34 and Watkin, 2005: 24). As a consequence, parents are obliged to pay for services at times that they do not need for fear of not having them when they will need them in the future. The OECD report on ECE (2006) points to problematically high childcare costs for parents in other “liberal economies” like Canada and Ireland.

Parents in New Zealand do not seem to question why they have to pay for ECE in the first place and why it is not a government responsibility paid for mostly by the tax payer as in a lot of other countries (OECD, 2006). Moreover, fees are not the only type of costs parents have to bear. The recent changes to government funding of childcare is discussed below.

As White observes, in the case of Auckland,

> “Childcare is booming. Across the city, there are myriad ways other people will look after your children, in kindergartens, in home-based care, and in all sorts of daycare centres, otherwise known as crèches, childcare centres, preschools and early education centres” (White 2006: 28).

This diversity means that parents need to gather all kinds of detailed information to evaluate the kind of service they will get for their child (White, 2006: 28). In other words, choice among a large variety of providers leads to transaction costs for parents. Reports on the quality of specific providers by the Education Review Office website only partly reduce these information gathering and evaluation costs. Similarly the booklet of the Ministry of Education “Choices in Early Education”, helps identify the different types of childcare options. “It also provides an extensive check list of what to look for in a licensed childcare centre, such as the parent-child ratios, the quality of resources, their approach to discipline and so on” (White 2006: 30).

A report prepared by the New Zealand Institute of Economic Research (NZIER) for the Early Childhood Council entitled *Putting Children First – Early childhood education for a new tomorrow* defends the relatively unique policy of moving toward almost exclusively private provision of childcare that was introduced in 1989 and pursued in the 1990s (NZIER, 2005). The report claims that currently in the New Zealand Early Childhood Education (ECE) sector: “Quality is generally good” and “Participation in early childhood education is high” (NZIER 2005 executive summary: IX). Nevertheless, as acknowledged in a footnote in the main text (pages 27 and 28) of the report, this is a very crude indicator because it does not show the amount of time that each child attends. As observed above, given the relatively high fees in this model of provision, parents tend to minimize attendance. An aspect of this is the unequal distribution of the availability of places, as a Salvation Army report points out:

> “The availability of early childhood education (ECE) opportunities appears to be heavily biased against poorer urban communities. Between 2001 and 2006 there was a 25% increase in licensed ECE centres and a 7% increase in the number of pre-school children attending these centres. These increases have almost entirely been in the for-profit sector while the not-for-profit and community sector has lost ground with the numbers of kindergartens, play centres and kohanga reo actually falling” (Johnson, 2008: 5).

Statistics show a clear bias against poorer areas:

> "In both 2006 and 2005 the age standardised enrolment rate for pre-schoolers in ECE centres was 64.9% up from 59.7% in 2001. There is however significant variation around this national average with average enrolment rates of nearly 86% in Tauranga City down to 44% in Manukau City. The availability of ECE places in poor urban suburbs is nearly half the national average suggesting a large and lingering inequality of access for poor…" primarily Maori and Polynesian children (Johnson, 2008: 6).

Johnson (ibid) emphasises this disparity observing that in Otara there were ECE places for just 33% of pre-schoolers; 35% in Mangere and Manurewa; just 31% in the Massey ward of Waitakere City and 37% in Poriura East.

While the government programme of *Working for Families* seems to entice sole parents into work it also creates a dilemma in terms of the 'care versus paid work' trade-off:

> "The incentive appears to have worked in part by encouraging single parents with dependent children to take up work. … A question emerges around who is looking after the children given that early childhood education facilities and after school care is least common in low-income communities where single parents and welfare beneficiaries most commonly live" (Johnson, 2008: 18).

Although the aforementioned NZIER report points out that market based provision creates difficulties in terms of "information on the quality of provision [being] poor", "child protection and agency issues" and "equity issues" (NZIER, 2005) which according to the OECD all apply to early childhood education (2006), it overlooks the relevance of these problems for the ECE industry in New Zealand where: "Indeed, the ECE sector is virtually all privately owned" (ibid. 17). The report bases its conclusions merely on Anglo-Saxon examples overlooking Scandinavian best practices. Since early child care education is a public good, according to feminist economist Nancy Folbre[3] and the OECD (2006), private provisions leads to undersupply in certain areas and to inflated user costs with potential negative consequences for labour market participation of parents. A treasury paper by Varuhas et al (2003) confirms this conclusion: "Changes in the relative costs and benefits will change the payoff to working at home or in the market" (2003: 21).

Since transaction costs for parents are quite high, there is good reason for government ownership of childcare facilities. Moreover, the State has also a role to play in setting and monitoring quality criteria (OECD, 2006). Again, this is in the best interest of ECE consumers (children and their parents) because of the quite substantial transaction costs involved. The easiest way to do this is through ensuring staff are highly qualified (e.g. a requirement being that staff hold at least a Diploma of Teaching), which is a standard practice in schools and universities, and to ensure low child-staff ratios, be it for private or public childcare facilities.

In New Zealand the qualification required since 2000, is a diploma in Early Childhood Education. Since 2005, the government set a financial incentive structure which rewards high numbers of staff with such a diploma present on the floor and leading childcare centres. "By 2007, half the number of staff required to meet government teacher-child ratios – must have the diploma. By 2012, all staff meeting the government ratios will be obliged to have it" (White, 2006: 31). The State also provides for institutions and training incentives to attain this qualification. While the replacement of formally unqualified staff with employees holding the diploma seems to create some difficulties for the industry (White, 2006; Watkin, 2005), the empirical evidence of best practice models in other OECD countries seems to support such policies (Fallow, 2004; Eichhorst and Thode, 2002, BMFSFJ, 2005; OECD, 2006). Ministry of Education (2007) statistics show that approximately 90% of ECE establishments were 'teacher-led' by July 2007. Moreover, OECD research (2006) suggests that diversity as well as high and uniform quality can be better provided in a mixed, however, publicly dominated system: "Another option is to avoid complicated regulation of dispersed systems, and opt for a well-funded, universal public system based on decentralisation and democratic participation, including the participation of private providers within the public system" (OECD 2006: 119).

In the 2007 Budget, it was announced that the government would provide funding for up to 20 hours per week in teacher led ECE services for all 3 and 4 year olds. The policy was designed to boost the level and quality of participation in the labour market by reducing the costs for parents. The initial take-up of the free service has been documented by the Ministry of Education which reported an overall take-up of 62% of all eligible entitlements. Significantly, the take-up was higher in the rural sector (over 90% in Northland, Gisborne, The West Coast, Southland and Tasman) than in the urban sector (just 51% in Auckland) with 76% of community owned establishments joining the scheme compared to only 57% of those that are privately owned. Funding is made available to providers on the condition that they do not charge any additional fees for the free hours. This change in policy has led to increased funding for the ECE sector and should alleviate some of the issues highlighted in this section although it does not change the ownership structure within the sector.

Principal Agent Model and transaction costs

It is not only evidence from best practice models that can be used to question the market based provision of ECE. Modern economic theory can also demonstrate why reliance on privately provided childcare is bound to be sub-optimal and why state regulation and/or public provision is necessary to ensure an efficient and satisfactory quality and quantity of childcare. The market for childcare provision is characterised by uncertainty about the future and asymmetric information. Child health and mental development is contingent on a plethora of influences, therefore, the formation of a child's personality and capabilities are hard to predict. The latest OECD report on ECE lists a plethora of standards and quality criteria that are nearly impossible for parents to monitor (OECD, 2006). Not surprisingly, parents, thus, find it hard to control whether childcare providers act in the best interest of their child. To leave the child at the gate of the childcare centre clearly constitutes a situation of asymmetric information in the sense of New Institutional Economics (NIE). It is probably also safe to assume that most parents are rather risk averse when it comes to the safety and comfort of their children (Himmelweit and Sigala, 2004).

Since the conditions described above with respect to the parent child care centre relationship seem to fit with all the usual elements of the principal-agent-model we decided to apply this concept to it. To our knowledge, such an application of one of the core models of NIE has not been done before[4]. Some applications of NIE to the family have been attempted. However, they focus on transaction costs and use this concept to analyse merely internal family relations (Pollak, 1985 and Wittman, 2005).

In New Institutional Economics, a situation where someone leaves a task to be done with someone else can be modelled as a principal-agent relationship. In a principal-agent model where the parents are the principals and childcare providers the agents, Q or the outcome would be an optimal child development in terms of health, social skills and personal development as well as educational achievement. In other words, Q broadly stands for the human capital gains of the child. If the aforementioned characteristics of uncertainty about the future, asymmetry of information and highly risk-averse principals are included, formal modelling shows that principals will not be able to maximize Q solely with the help of a carefully calibrated incentive structure (Furubotn and Richter, 1997; Sappington 1991). In other words, even if parents are willing and able to pay very high and/or performance based fees, a welfare optimum is not attainable in a market for childcare provision.

In formal modelling, such an incentive structure: $w = r + \alpha Q$, $0 \leq \alpha \leq 1$, where w represents the childcare centre fees, which would include r as an outcome independent component of remuneration and α as the reward paid dependent on the achieved human capital (Q) in the child. Since privately owned childcare providers have little interest in attaining a high Q because it would drive up their costs and the variance for modelling the high uncertainty of Q will be substantial. According to the logic of the principal-agent model r will have to be high and α will be close to zero. Consequently, there will be little scope for setting incentives to ensure high performance and optimal conditions in childcare centres. In the terms of formal modelling, the achieved human capital Q is going to be dependent not only on reward (α) but also effort (e) plus some random effect (μ). In other words: $Q = \alpha e + \mu$. However, the variable e (effort), which in our application stands for the quality of care cannot be sufficiently controlled and, as a consequence, the model would predict a "second best solution" with unavoidable welfare losses (Furubotn and Richter, 1997).

Following the logic of the principal-agent model leads to the further conclusion that in a private market for ECE, owners will become managers, in other words, parents will care for their children themselves. This will only change if the agent (childcare provider) is a participant in Q or has an interest in attaining high levels of human capital (in the wider sense) in children. This seems to be the case where the State acts as a public provider of regulations and facilities. State regulation can play an equivalent role to signalling in principal-agent models. It basically works towards the exclusion of false opportunistic signals (Erlei, Leschke and Sauerland, 1999). In this setting State subsidies may be distributed according to quality rankings of childcare centres in cases where they are private (Erlei et al. 1999; Sappington, 1991). The more optimal outcome associated with State provision of childcare is even more compelling given the principal-agent model is based on the assumption that e (the effort of the agent) is observable which is not the case in childcare provision as argued above. Publicly regulated and provided childcare also reduces search costs for parents. These transaction costs are not included in the principal-agent model.

According to Textor (1998), to reduce information asymmetry, parents need to gather or be given the following measures of quality for particular childcare centres: First, the number of children in class expressed in the ideal teacher: child ratio. The maximum should be "… 1:4 for children under 2 years of age, 1:6 for 2-year-olds, or 1:10 for older preschool children" (Textor, 1998: 168). Second the classroom: "… important is that the room is furnished according to children's needs and that play materials are of high quality" (ibid. 168). The number of materials or the size of the room are much less important so long as the room is not overcrowded. Third, Textor lists and explains the importance of teachers' behaviour. He stresses the continuity in the teacher-child relationship and the amount and quality of interaction between teacher and child as well as between children: “Much of the work of good teachers is observing the children in order to be able to give feedback, to help if aid is needed, and to give new ideas to children who are bored” (ibid. 168). A further criteria, he mentions, is the carefully and clearly structured balance of time between teacher-guided activities and free play, expressed in a curriculum and yearly and/or weekly plans.

Fourth, Textor highlights: “High quality childcare is also characterized by frequent contacts, intensive communication and a good cooperation between teachers and parents” (ibid. 168). For the teacher, this involves being open to any relevant information about the child and its family, informing parents about the goals of the centre and even trying “… to influence children’s development indirectly by improving their families’ childrearing” (ibid. 169). Last and definitely not least: “All of this requires a very high qualification of teachers” (ibid. 169). However, Textor cautions against this general emphasis on qualification, emphasising that too much routine and too much academic orientation can have a negative effect. In addition, good, open and people-oriented leadership of childcare centres, which involves parents as well as parent-staff communication, is important for ensuring high quality childcare institutions. These criteria for reducing the ECE transaction costs for parents were summed up well in a recent *Listener* article:

> “A reasonable teacher: child ratio. For under twos 1:4, and for over-twos: 1:8. Staff involved with professional development, keeping up with trends. Strong interaction between teachers and children, and parents and teachers. Happy and busy children” (Nippert, 2005: 25).

The OECD report *Starting Strong II* (2006) supports Textor’s particular emphasis on ECE teachers’ qualification as the most important of all quality criteria. Nevertheless from an economic point of view, high quality has its price:

> “However, governments often fear the funding consequences of raising staff qualifications. Higher qualifications can be followed by increased wage demands, which, in turn, contribute significantly to the costs of services. Although the evidence is strong that improved training and qualification levels raise the quality of interaction and pedagogy in ECE services – similar evidence exists in favour of teacher qualifications” (OECD, 2005: 161).

Governments tend to ask: Is this the best way to spend the available budget? An emphasis on funding of ECE by the government, however, is a conscious decision to invest in human capital of future generations. In other words, it is an investment in the overall productivity of the labour force. The OECD report suggests that good remuneration and conditions of work for teachers as well as diversity of staff in terms of gender and ethnicity are key to achieving high quality ECE (ibid. 2006). A similar argument is put forward by May (2001; 2007) reflecting on the history of ECE in New Zealand. Moreover, transaction costs for information processing by parents can be avoided if the government moves to direct provision of ECE or somehow guarantees quality standards.

Private versus public

Since the debate of private versus public ownership and/or regulation in social philosophy as well as economics was present as an undercurrent in the development of the argument so far, an explicit discussion of its application to the ECE sector is appropriate. May (2007) has traced the ideological discourse back to the ECE policy development in New Zealand. According to her, public sentiment was in favour of regarding ECE as a private matter until in 1960 when the government took some responsibility in regulating childcare after a scandal of abuse in an Auckland centre. However, funding remained low until the late 1980s. May quotes former Prime Minister David Lange who described the deprived state of the sector as follows: “Like Cinderella, early childhood education has had three sisters – primary, secondary and tertiary, not necessarily ugly, but who have in various ways, bullied, ignored and exploited her … yet early childhood was the sister with potential (Lange, 1988)” (2007: 136).

Peculiarly, Lange forgets to mention the role played by the mean stepmother in the fairytale. To take the analogy a bit further, it is actually her neglect which curbs Cinderella’s potential much more severely than the behaviour of her sisters. Thus the government in the role of the stepmother acted in New Zealand in the 1990s. May (2007) points to the ideological short-sightedness that led to under-funding and under-regulation of the ECE sector as follows:

> “Disappointment followed as the ‘door’ did not open fully (Dalli, 1994) because of a change of government and a philosophical shift favouring a downsizing in the role of government. One consequence was a rise in the private childcare sector and a ‘market forces’ approach to provision that sharpened the divide between community and private sector interests. Similarly, there was a deregulation of training providers that led to a plethora of different training programmes that were not always inclusive or integrated” (May, 2007: 137).

This policy direction changed considerably in 2002 when the Prime Minister Helen Clark launched *Pathways to the Future – Ngā Huarahi Arataki* (Ministry of Education, 2002). “The government made a commitment to new funding and regulatory systems to support diverse early childhood services to achieve quality early childhood education” (May 2007: 138). This shift in interest and focus of the government in the ECE sector ensued, according to May (2007), from researchers and activists who had fired up the public debate in the preceding years. However, as May sceptically emphasises that universal access to high quality childcare still hinges on an ideological debate under the spell of neo-liberalism and is:

> “…complicated by the growth in the privately owned childcare sector, which has seen investment opportunities in an area attracting increasing government funding. The government does not intend to be a provider of early childhood services and, in the main, leaves the initiatives to community and private interest” (2007: 140).

Her arguments are indicating that private ownership and provision of ECE curbs quality and affordability. In economic terms this is not an efficient institutional arrangement for the industry and its consumers.

Kamerman and Waldfogel (2005) support such a conclusion in their evaluation of the mostly private ECE sector in the United States:

> "The private sector may have a role in delivering of early childhood education and care (ECEC) programs in the United States and internationally, and it certainly has had, both historically and at present. But we would argue that the private sector should not have the dominant role because there are larger public interests involved, such as equality of access and opportunity, and because there are good reasons to believe that markets in this area will fail – in particular, with regard to the quality of care provided in general and the supply and quality of infant and toddler care" (2005: 186).

There are three reasons for this conclusion which Kamerman and Waldfogel weigh as more or less important. Market failure in ECE is due to problems of limited information (as one would expect from our application of the principal-agent model), imperfect capital markets, and the issue of externalities. The authors stress particularly the third one which moves away from the view that parents and their children are the only beneficiaries of ECE. Instead, it is particularly the positive externalities of ECE which make a strong case for government investment. A further justification they give is based on equity grounds. The inequity of childcare provision is well documented for New Zealand in the *State of the Nation Report from the Salvation Army* (Johnson, 2008). Kamerman and Waldfogel emphasise, for the USA, that: "Children of affluent families and children in families with highly educated parents are far more likely to be enrolled in ECEC than poor children or those with parents with limited education" (2005: 198).

As Kamerman and Waldfogel note the private sector in the United States consists mostly of for-profit providers and fewer not-for-profit providers. This is seen as a problem since the weight of the evidence suggests that these providers do operate differently and that, on average, for-profit providers offer lower quality care Kamerman and Waldfogel (2005). Anecdotal evidence seems to suggest that a similar conclusion can be drawn for New Zealand. Mike Bedford on Childcare Forum in Wellington January 2008 told the audience that commercial operation (in tendency) leads to just meeting the minimum requirements to cut costs. According to Bedford, an example of the negative impact of commercialisation is the use of safety surface instead of grass in outdoor play areas. This is done to reduce costs not because of health or safety issues. In a study comparing for-profit with not-for profit centres in the USA, Helburn (1995) found that: "…structural elements of quality (staff-to-child ratio, group size, staff qualifications and training) varied with profit status and were significantly higher in nonprofit than in for-profit centres" (cited in Kamerman and Waldfogel 2005: 203).
The study also documents lower staff turnover in not-for-profit compared to for-profit centres although the process quality (e.g. caregiver interactions with children) seems to be equally good in both. The Helburn study also underpins our conclusions of applying the principal agent model in that it confirms the existence of information asymmetry. A problem of inadequate consumer knowledge "… arises because parents simply do not have the information, lack the ability to evaluate quality, or do not understand that differences in quality make a difference in the impact on their children" (Kamerman and Waldfogel, 2005: 203). Thus Kamerman and Waldfogel conclude that regulation by the government is indispensable. However, regulation requires monitoring which is costly and tends to focus on merely measurable quantities (2005: 204) leads to their recommending a dominance of public provision in a mixed system.

The OECD is also largely in favour of public provisions because of the public good aspect of ECE:

> "Despite current economic orthodoxy, the experience of the OECD reviews suggests that for the moment at least, a public supply side investment model, managed by public authorities, brings more uniform quality and superior coverage of childhood populations (1 to 6-year-olds) than parent subsidy models" (OECD, 2006: 114).

The report argues society, as a whole, would benefit if children were in high-quality ECE (OECD, 2006), because it allows for reconciling work and family responsibilities on a basis that is more equitable for women and alleviates child poverty and educational disadvantage (e.g. for immigrant children). In their report for the Australian government, Wise, da Silva, Webster and Sansan, (2005) further support the importance of including externalities in an encompassing cost-benefit analysis of early childhood interventions[5]. While a monetary evaluation of such spill-overs is riddled with conceptual and empirical difficulties, Wise et al. (2005), review of international studies point to lower crime rates and fewer welfare dependants as examples of positive externalities arising from early childhood intervention.

Scandinavian benchmark and best practice model

The OECD emphasises that the European Union basically agreed to Scandinavian standards in ECE for Europe:

> "The move towards universal provision in Europe has been given a further stimulus by the 2010 objectives set by the European Union at its Barcelona meeting in 2002, encouraging member countries to supply subsidised full-day places for one-third of 0- to 3-year-olds, and for over 90% of all 3- to 6-year-olds" (OECD, 2006: 77).

The bulk of the countries already fulfilling the benchmark criteria are Nordic:

> "To date, about five countries – Belgium (Flanders), Denmark, France, Norway, and Sweden – have reached the Barcelona targets for both groups of children, although at different levels of quality. Finland also may be said to have reached the target as although the coverage rate for children under 3 (municipal and private) is 24.7%, if children under 1 are left out (in Finland, almost all parents take leave) the percentage rises to 36.7%" (ibid. 78).

The OECD report also provides an overview of entitlements to ECE provision across OECD countries. Half day free care is standard for 3-6 year olds in Finland and Sweden (ibid). The percentage of 0-3 year olds using licensed childcare arrangements: Denmark 83%, Sweden 66%, Norway 44%, USA 38%, Finland 35.7% and UK 26%, Ireland 15% (ibid. 86).

Sweden is probably the most advanced of all Nordic countries with respect to ECE provisions. What is important from a New Zealand perspective is the clear cap on what parents will have to pay for decent ECE services:

> "In the middle and late 1990s, Sweden guaranteed a place for all children of working parents and students from the age of one year and shifted the administration of its ECE program from the National Board of Health and Welfare to the Ministry of Education. In the early twenty-first century, Sweden set a maximum fee for ECE programs for all

> children at no more than 2 to 3 percent of family income and guaranteed a place for all four- to five-year-olds even if their parents were not in the labor force" (Kamerman and Waldfogel, 2005: 191).

An important social policy complementary to subsidised universal high quality childcare is parental leave legislation. Again, it is the Nordic countries (Sweden, Finland, Norway and Denmark) that lead the way. However, some central European countries (Hungary, Czech Republic, Austria and Germany) provide as generous or effective (number of weeks weighted by the level of payment) parental leave provision as the Nordic countries (OECD 2006). The parental leave legislation in Sweden is one of the most generous in Europe so far:

> "The parental insurance is probably the most important part of Swedish family policy. It is for parents, not just for mothers. It started at a relatively modest level in 1974, but has been gradually extended over the years, and the current situation is that there is a parental cash benefit for 480 days, roughly 16 months, most of which is paid at 80% of the parents' qualifying income" (Bernhardt, 2007: 141).

This Swedish social policy is, however, grounded in a particular cultural value system which may or may not be agreed to and taken up by other countries:

> "The desire for greater equality between the sexes is an important reason why childcare is a priority issue in Swedish public policy. This is also one of the important reasons behind the extensive system of childcare centres (both public and private) all over Sweden – the provision of childcare should enable parents to combine parenthood with employment or studies, i.e. the purpose of childcare centres is not only to create conditions which are beneficial for children, but childcare is also for the sake of parents. It is important to understand that the Swedish welfare state is based on a dual breadwinner model. The majority of families with children in Sweden have two incomes, i.e. both parents are employed. Therefore, the benefits that encourage work and make work possible for parents, such as availability of childcare, tend to be more important than the level of, for example, child allowance" (Bernhardt, 2007: 141).

There is more emphasis on the latter in German public policy, but growing understanding among policy makers (see BMFSFJ, 2005)are such that individual payouts are less successful than the Scandinavian investment in social infrastructure (these countries mainly use supply funding instead of subsidies paid to parents. OECD, 2006).

Conclusion: adopting a Scandinavian Model?

The essence of the recommendation following from the arguments above can be found in this quote from the OECD report: "Another option is to avoid complicated regulation of dispersed systems, and opt for a well-funded, universal public system based on decentralisation and democratic participation, including the participation of private providers within the public system" (2006: 119). Given the historical development of the ECE sector in New Zealand it is likely a mixed system is more viable. However, a greater role in terms of public provision should be aimed for by policy makers. This could be achieved through:

- Continued regulation according to international quality standards.
- Turning public Kindergartens into full time providers.

- The purchase of private childcare centres to increase the share of publicly owned and administered centres.
- Opening new publicly funded and run child care centres in undersupplied areas.

The funding of up to 20 hours free ECE for every 3 and 4 year olds is an encouraging start. However, it is important to emphasise that ECE policy should not be looked at in isolation from other social policy as issues such increased working time flexibility and improved support for parental leave also impact on child care options.

In this critical review of recent literature regarding the interlinked economic issues of child welfare and parental labour market productivity and equality, a high emphasis was placed on the missing feminist economic theory and Scandinavian best practice role models in social and economic policy advice. The practical examples are universally provided high quality childcare, universal entitlements for parental leave and facilitating change in cultural role models for fathers. We do not include in our analysis whether parents prefer to stay at home with their kids or not. The interesting question, whether a shift from a culture of "maternalism" and the "male breadwinner family model" toward dual earner parenthood is happening in New Zealand remains unanswered in this article[6]. We simply start from the assumption that being financially independent and having work as a means of self-fulfilment and self-confidence is potentially beneficial for both parents. Moreover, from a macro-economic perspective well-educated, highly skilled and motivated stay at home mothers are a loss of potential economic growth.

However, the question is: "What is needed for New Zealand to overcome the trade-off between equality and efficiency and to follow the lead of Denmark, Finland, Norway or Sweden?" Apart from an (unlikely) acceptance of much higher per capita and much steeper progression of tax levels (Callister, 2005), there are a number of other considerations. For example, partially because of strong and sustainable labour unions, and a tradition of tripartite consensus oriented negotiation in employment relations, Scandinavia has a much higher average wage level compared to New Zealand. Are such path dependent traditions transferable from one country to the other? Moreover, a different institutional and ideological context led to the prevailing perception in Scandinavia that raising children is a public responsibility not solely a private one. Additionally, it is more widely accepted that fathers have a distinctive and active role to play in child rearing. Thus, while the vision might be attractive, the question of a possible transformation toward a 'Scandinavia of the South Seas' would require far more sweeping change.

Notes

[1]In much of the international literature the acronym ECEC is used emphasising the social pedagogy approach to care, in New Zealand the shorter version ECE is used interchangeably

[2] The term *family life cycle squeeze* was coined by Valerie Kincaid Oppenheimer (1975) 'The Life-Cycle Squeeze: The Interaction of Men's Occupational and Family Life Cycles', in *Demography,* 2(2), 227-245 to describe particular periods when families find it financially difficult to make ends meet. She empirically demonstrated that the squeeze is experienced by working class and middle class families at different points in their life time (considering the age of parents and children) and with different degrees of tightness.

[3] "To say that children are public goods is not to say that everyone should raise them or that we need a greater number of them. Rather, it is to say that once they are brought into this world, we all have something to gain from fully developing their capabilities. Parents should take responsibility for their children. By the same token, the

public should accept responsibility for recognizing, rewarding, and supplementing parental efforts" (Folbre, 2001: 111).

[4] Others have applied this model to social policy areas like: 'transfers to families' (Cigno, Luporini and Pettini, 2003) or 'long-term care insurance' (Zweifel and Struwe, 1998).

[5] Note that interventions as used by Wise et al. include more than just provision of childcare

[6] A recent study that began to explore this question by examining the decisions related to paid work made by people with child care responsibilities was undertaken by Gendall and Fawthorpe (2006), see also McPherson (2006).

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