

Home or Market Childcare? Swapping Child Care Arrangements Across Three European Countries

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Over the past decades, social protection systems in Western welfare states have designed new ways to facilitate the reconciliation of work and family life. Often, the new measures were added to existing family policies and family-dependent taxation rules. This has led to heterogeneous policy mixes relating to caring for children, ranging from support of the working mother (e.g. direct and indirect subsidies for child care) to measures that are aimed at compensating parents for self-provided care efforts (e.g. home-care benefits). This heterogeneity entails complex incentive structures for women that are not a priori clear. Also, the different policy options are far from distributionally neutral and have a strong gender dimension.

In this paper, we use EUROMOD to model the policy measures of both types (work support and home care support) in place in three European welfare states with very distinct care policy systems: Finland, Belgium and Germany. Using microsimulation techniques we introduce the Finnish policy set in Belgium and Germany. To assess the direct effects of this policy swap, the extended use of (subsidized) childcare in Belgium and Germany is taken into account. The distributional consequences of the “Finnish” allocation of public expenditures for the Belgian and German families and children are investigated. We also try to provide insight into the difference in incentive structure for women across these three countries.

According to our simulations, the introduction of the Finnish policy mix in Germany and Belgium would result in a considerable redistribution of funds in the German case. German single parents would generally win from this reform and often increase their purchasing power by more than 20%. Conversely, about half of the German dual earner couples would stand to lose from such a reform, though on average no more than 5% of disposable income. Overall, the German budget for care interventions would decrease, although its behavioural reactions are not taken into account in our first order analysis. The reduction of male breadwinner advantages and the concurrent increase of government funding of childcare facilities, is likely to stimulate German mothers to engage more strongly in the labour market. Over time, it seems therefore likely that the introduction of the Finnish policy mix will expand demand for childcare and, hence, call for a further expansion of the budget for care.

In Belgium the mere introduction of the Finnish policy principles, would immediately lead to a substantial expansion of the public budget. Parents providing home care would get more financial compensations from the state and, concurrently, the state would provide more funds for childcare and pre-school. Not surprisingly, most Belgian families with young children can be

expected to gain from this policy reform. Nevertheless, the Finnish example would also in Belgium result in redistribution within the parent population. Especially families without employment income will gain from the reform and obtain often proportionally important income increase (rises of up to 50% of disposable income). In the upper income quintiles gains are proportionally smaller and the proportions of families not winning income are larger. Conjectures on the behavioural impact of the reform in Belgium are more adventurous. The overall increase in budget and especially the expansion of compensations for home care may stimulate parents to refrain from labour market participation. Concurrently, however, the budget for childcare services will increase which is likely to facilitate the combination of work and care. In future work, we will therefore model the likely behavioural responses explicitly. For now, we conclude that the introduction of the Finnish policy mix may alter the income situation of German and Belgian families with children considerably and foster vertical income redistribution within the group of parents. Additionally, the policy reform would create a policy configuration that offers parents more effective choice in the field of childcare than is currently the case.