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GETTING THE STATE OUT OF PRE-SCHOOL AND CHILDCARE

Ending the nannying of UK parents

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the Paragon initiative

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This five-year project will provide a fundamental reassessment of what government should – and should not – do. It will put every area of government activity under the microscope and analyse the failure of current policies.

The project will put forward clear and considered solutions to the UK's problems. It will also identify the areas of government activity that can be put back into the hands of individuals, families, civil society, local government, charities and markets.

The Paragon Initiative will create a blueprint for a better, freer Britain – and provide a clear vision of a new relationship between the state and society.

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Summary

- Decisions on childcare arrangements were largely a private matter until the 1990s. A political consensus has since arisen that government action is needed to raise the quality of provision, to make it more affordable and to support parental labour market attachment.
- Childcare and pre-school policy is accordingly a fast-growing area of state intervention. The UK now spends more than £7 billion of taxpayers' money per year on these areas, and heavily regulates the childcare sector.
- Government directly provides childcare, gives financial support (via a 'free' hours entitlement, the tax credit system and the forthcoming 'tax-free childcare') and closely regulates the sector (determining staff-child ratios, qualifications and training requirements, and the Ofsted inspection regime). It makes other interventions through Children's Centres, aimed at disadvantaged children and their families.
- The growing state involvement has been associated with childcare that is expensive by international standards, with high out-of-pocket costs to parents despite increasing levels of state subsidy. Many lower-cost providers such as childminders have been driven out of the sector.
- Childcare subsidies have a significant displacement effect on private sector activity. There is only limited evidence that they increase female labour force participation – and any increases come at a high budgetary cost. Nor do most interventions seem to lead to lasting improvements in child development. There is also a disconnect between parents' preferences and the prescriptions of experts.

- Analyses claiming 'market failures' in childcare are weak: they assume that government has the knowledge and ability to perfectly account for all external effects. Arguments that we should subsidise childcare to maximise parents' economic contribution confuse recorded GDP with general economic welfare.
- Government subsidy and regulation of childcare and pre-school is a 'feel-good' policy which it is difficult to challenge or question. But it should be fundamentally reassessed, under the guiding principle of allowing parents to make free choices about the types and quality of provision they want for their children. Regulation of the childcare and pre-school sector should be scaled back – creating a competitive environment in which costs would fall while government regulation would be replaced by private forms of quality assurance.
- Universal free care should be scrapped, along with 'tax-free' childcare and the Early Years Foundations Stage. Any state intervention should be targeted towards poorer families with low levels of labour market attachment, rather than (as often at present) having perverse redistributional consequences.
- Some groups do badly out of government intervention: there is a hidden ethnic dimension as some minority groups do not make much use of formal childcare, while others have been squeezed out of work as childminders by excessive regulation.
- Failure to change course risks beneficiaries of childcare subsidies - both providers and consumers - becoming entrenched interest groups, continually demanding more taxpayer money for confused and uncertain outcomes.

Introduction

Childcare and pre-school education have been big growth areas for government over the past two decades.[1] Previously left largely to private decisions, these areas are increasingly conflated by government, and are now subsidised by around £7.1 billion[2] annually. There is extensive regulation and oversight of childcare, with an Early Years Foundation Stage effectively setting a 'compulsory curriculum' for very small children in England and similar arrangements elsewhere in the UK. Taken together, policy developments since the mid-1990s amount to a form of creeping state control of this key area of economic, educational and family life – and barely a week goes by where there are not calls for yet more action.[3]

Intervention has grown piecemeal, as has the range of government objectives. Stated aims include (but are not limited to) facilitating maternal employment, improving childcare quality, boosting the future education prospects of children from disadvantaged families, and making childcare 'more affordable'. Though there has been some consideration of the trade-offs between these objectives, assessment of the effectiveness of policy overall is rare.

1 'Pre-school' here refers to policies aimed at pre-primary education, rather than merely the care of children.
2 The £7.1 billion figure is our calculation based on the methodology of Brewer at al. (2014), outlined in detail later. It covers the whole of the UK, although childcare is a devolved responsibility. Policy and provision differ to a certain extent between England, Wales, Scotland and Northern Ireland.
3 'For example, from the CBI on 27 October 2016: http://www.bbc.co.uk/news/business-37785683; the Welsh government on 8 November http://www.bbc.co.uk/news/uk-wales-politics-37900914; British Chambers of Commerce on 13 November: http://www.bbc.co.uk/news/uk-37962800; and a Heriot-Watt University research group on 14 November: http://www.bbc.co.uk/news/uk-scotland-37966847 (all accessed 16 November 2016).

There is only limited information comparing childcare costs internationally, but it appears to suggest that the UK is high-cost: we seem to be almost unique in having high levels of subsidy alongside high 'out-of-pocket' costs to many families.

Evidence presented in this paper suggests that the provision of 'free' childcare leads to significant displacement of private activity; moreover any benefits government childcare provision offers in terms of narrowing educational attainment gaps tend to disappear as children move through school.

Furthermore, studies suggest that many of the types of regulations imposed on childcare providers with the intention of improving 'quality' drive up costs while having little effect on educational or other outcomes.

This evidence, coupled with the confused nature of the theoretical arguments for intervention in the childcare market, suggests that we need a substantial re-think of the government's role and an end to the state nannying of British parents.

Changing society and changing childcare

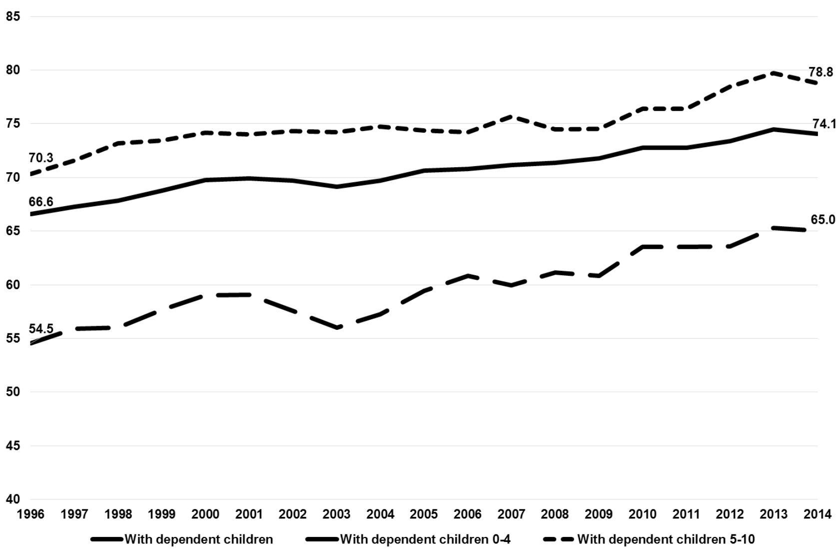
Trends in childcare provision, including the role of the state, reflect changes in society. Today's debates over the tension between childcare as pre-school education or as a means of allowing parents to return to work, are only the latest manifestation of differences in viewpoints about what childcare, and pre-school policy, should be about.

During World War II, for example, the Ministry of Labour was responsible for state-run nurseries, set up to facilitate maternal employment for the war effort (Davis 2015). Yet after the war was over, with state and employer nurseries largely disbanded, some local authorities began to develop their own provision for disadvantaged children. At that time, this was not seen as a parental employment or education issue, but rather as a form of health intervention: nurseries were staffed by nurses with medical training.

British attitudes in this early post-war period were based on the assumption of a 'family wage'. Fathers were expected to earn a wage sufficient to provide for their families. Mothers were expected to look after their own children rather than work in the labour market – not least because of popularised versions of 'attachment theory' and the reported benefits of children spending most of their time with their mothers when very young (ibid.: 45-62). Nurseries were tasked with helping 'problem children' - either those whose parents couldn't cope, or those with single mothers (mainly widows at this time) needing to work for financial reasons. The emphasis of any state involvement was on caring rather than early education - which came much later as part of a concern about disadvantaged groups and limited social mobility.

From the 1960s onwards there has been a growth in women's labour market participation. The female employment rate rose from 56 per cent in 1971 to almost 70 per cent today (ONS 2016). It is unclear whether increased female participation before 1996 was driven by mothers, but data for the last two decades certainly suggest that participation of women with dependent children has been the driving force behind this continuing trend, as Figure 1 indicates. Mothers' participation has increased across all ages of children but especially those 0 to 4 (from 54.5 per cent to 65 per cent between 1996 and 2014).

Figure 1: Participation rate of women with dependent children



Source: ONS (2015)

What accounts for women increasingly returning to work while children are very young? There are several plausible economic explanations. One is the advent of statutory maternity leave (from 1999) which means jobs must be kept open and women do not have to search for a new post when returning to employment. Another is the rising education levels of the female workforce. Women with degrees are likely to return to work earlier as there is a higher opportunity cost (foregone income) of remaining at home. The rising average age of first birth is also likely to be relevant:

around 24 in the mid-1970s, it is marginally over 30 today. First-time mothers are now more advanced in their careers, meaning that withdrawal from the workforce entails a bigger financial sacrifice.[4]

Government childcare interventions may also have played a part. But it is unclear whether state activism is a cause or consequence of the trends shown in Figure 1: extensive childcare intervention is a relatively recent phenomenon. Prior to the 1990s the provision of childcare and pre-school was largely seen as a private matter, with decisions made by parents. Since then, however, we have seen significant growth of state involvement. Its main features are outlined in Box 1.

All political parties now support extensive government involvement in childcare and pre-school education. They seem to share the same ambitions: to raise the 'quality' of care to boost child development, to make childcare more affordable and to make it more accessible, thus facilitating labour market attachment.

These ambitions reflect shifting social and political attitudes which make the 'family wage' framework of the early post-war period seem hopelessly outdated. Former Chancellor George Osborne once even suggested that choosing to look after your own children was now an increasingly unusual 'lifestyle choice' – a term previously used largely in a derogatory way to refer to dependents on state benefits. This is ironic, given that the tax system and extent of childcare subsidies mean that families where one parent stays at home often subsidise those choosing to work. But Mr Osborne's remark reflects a generational shift in thinking, with an expectation that women will normally return to work fairly soon after childbirth, and the state should encourage and support this. This has been linked to concern with the gender pay gap, for which a large explanatory factor is time taken off to care for children (IFS 2016).

4 Both income foregone during absence from work and future income foregone as missed salary progression and promotion possibilities reduces longer-term prospects.

Box 1: Some policy developments in England*

1989 Childcare voucher scheme introduced: employee gets tax relief on salary sacrifice.

1990 Tax relief on employer-provided childcare

1992 Local authority inspection of daycare

1997 £1100 free voucher proposed for nursery education for 4-year olds

1998 First National Childcare Strategy emphasised raising quality of childcare, making it more affordable and more accessible

1998 Sure Start programme began with emphasis on outreach and community development

1998 Free part-time nursery places (initially 12.5 hours per week for 33 weeks per year) for 4 year-olds

1999 Childcare Tax Credit: many subsequent changes

2001 Ofsted took over registration and inspection of daycare and childminding from local authorities

2004 Free nursery places extended to 3 year-olds: numerous subsequent changes of detail

2005 Sure Start switched towards Children's Centres

2006 Childcare Act defined new responsibilities for local authorities to ensure integrated childcare services to support disadvantaged children

2008 Early Years Foundation Stage introduced, setting out detailed learning and development framework for under-5s for all nurseries, playgroups, Children's Centres and childminders

2010 Free childcare places extended to 15 hours per week

2013 Free places extended to 20 per cent of 2 year-olds

2014 Regulations concerning new Childminder Agencies; new early years education qualifications; free childcare places extended to 40 per cent of 2-year-olds

2015 'Tax-free Childcare' scheme begins; Early Years Pupil Premium introduced

2016 Childcare Act extends free childcare places for working parents to 30 hours per week.

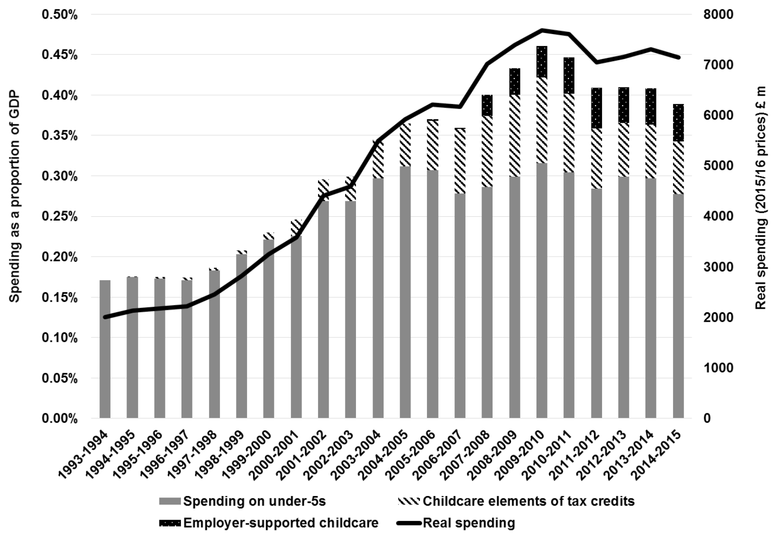
*Scotland, Wales and Northern Ireland have different policies and chronologies

What policy currently involves

The main areas of state intervention in childcare are demand-side financial support, direct provision on the supply side, and regulation.

Overall government spending on childcare and pre-school for 2014/15 was £7.1 billion. This is lower than when it peaked at £7.7 billion in 2009/10 (as shown in Figure 2) but spending is expected to rise again with a commitment of £1 billion extra funds by 2020. Currently expenditure represents around 0.4 per cent of GDP per year – more than double the level of spending seen in the mid-1990s, relative to the size of the economy.

Figure 2: Public spending on childcare and early years 1993/94 – 2014/15



Sources: authors' calculations extending Brewer et al. (2014) analysis. Raw data taken from historic government PESA analyses for spending on under-5s, HMRC data on tax credit awards for childcare element totals and HMRC data on tax expenditures for employer-supported childcare totals. GDP and GDP deflators taken from Office for Budget Responsibility and Office of National Statistics.[5]

5 Public sector expenditure on services for the under-5s: Public Expenditure Statistical Analyses from 2015, 2013, 2009, 2004 and 1999 (https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2015, https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2013, http://webarchive.nationalarchives.gov.uk/20101128151454/http:/www.hm-treasury.gov.uk/pespub_index.htm, http://webarchive.nationalarchives.gov.uk/20101128151454/http:/www.hm-treasury.gov.uk/pespub_index.htm and http://webarchive.nationalarchives.gov.uk/20101128151454/http:/www.hm-treasury.gov.uk/pespub_index.htm); Childcare element of WTC (and its predecessors): Brewer at al (2014) for results up until 2010/11, 2003/04-2010/11: http://webarchive.nationalarchives.gov.uk/20121106034049/http:/www.hmrc.gov.uk/stats/personal-tax-credits/final-award-main.htm, 2011/12 to 2014/15: https://www.gov.uk/government/collections/personal-tax-credits-statistics#other-statistics-information. Employer-supported childcare: Brewer at al. (2014), http://webarchive.nationalarchives.gov.uk/20100407010852/http:/www.hm-treasury.gov.uk/d/pbr09_taxreadyreckoner.pdf

Financial support to parents[6]

Those working for participating employers can currently choose to sacrifice some salary in return for childcare vouchers, which are exempt from income tax and national insurance contributions up to £55 per week for basic rate taxpayers, £28 per week for higher rate taxpayers and £25 per week for additional rate taxpayers. This system is set to be replaced on a phased basis by the confusingly-named 'tax-free childcare'. This has nothing to do with the tax system, but is a co-subsidy regime allowing parents to open an online childcare account, topped up by the taxpayer. Those currently using the employer voucher scheme can continue doing so, but no new entrants to the scheme will be allowed from April 2018.

There is also means-tested demand-side support for childcare spending. Families receiving working tax credit, where each parent works more than 16 hours per week, can claim up to 70 per cent of spending on formal childcare, with a cap of £175 per week for one child, or £300 per week for more than one child. When combined with other benefits, up to 96 per cent of low-income families' childcare costs can be paid by the state. The government has pledged that Universal Credit will for the first time further extend childcare support to parents working under 16 hours per week.

'Free' childcare

John Major went into the 1997 general election with a plan for a £1100 childcare voucher for all parents of four-year-olds. Labour won that election and instead introduced an entitlement to pre-school education for four-year-olds on a part-time basis. This was gradually extended: from 2006 all three- and four-year-olds were entitled to 15 hours a week 'free' childcare for 38 weeks of the year. This was then expanded by the coalition to 157,000 disadvantaged two-year-olds by 2015 (in effect, a means-tested extension to this age group of the universal offer for older pre-schoolers). From September 2017, the offer for three- and four-year-olds will be extended to 30 hours per week for families with both parents working (or one-parent families with the parent working) and incomes per parent between the equivalent of minimum statutory hourly rates for 16 hours per week and £100,000 per year. This has already been rolled out in

6 For fuller details, see https://www.gov.uk/help-with-childcare-costs (accessed 12 October 2016).

certain areas. By then, the cost of this ‘free’ provision will be just under £4 billion (Rutter 2016).

Direct provision

Another development started under Labour, and forming a key element in its National Childcare Strategy, was Sure Start. This initiative was announced by Chancellor of the Exchequer Gordon Brown in his 1998 Autumn Statement. The aim was to improve the life chances of children in poverty, rather than simply subsidising childcare – but it does entail the expansion of state care for certain children, and so is relevant to our discussion.

The scheme was inspired by the US Head Start programme, part of Lyndon Johnson’s War on Poverty dating back to 1965. The American original was believed to have had a significant positive impact on the educational and personal development of the children of the poor – although later research has shown that many apparent gains were short-lived or illusory (US DoH 2010).

The Sure Start idea was to concentrate a range of services and support on young children in poorer areas. Though generously funded, the initial Sure Start Local Programmes scheme was unfocused and over time it morphed into a local authority-organised network of, at its peak, 3500 Children’s Centres.

These Centres have been used by a wide range of families, but do not seem to have been heavily used by the very poorest. A 2006 National Audit Office report suggested that Sure Start gave limited value for money and should target its services more effectively on the most disadvantaged (NAO 2006). Some changes were made as a consequence.

Children’s Centres continue, though funding has fallen since 2010. While still providing a range of services including health and community development, many are less focused on the original emphasis on mitigating poverty.[7]

7 For a recent assessment see Bate and Foster (2015).

Regulation

Regulation of childcare providers has greatly increased over the last twenty years, not least with the introduction of an unprecedented learning and development curriculum for under-5s. Providers of pre-school childcare are required to implement the 'Early Years Foundation Stage' (see Box 2). This and other aspects of provision (such as safety and suitability of premises, formerly the responsibility of local authorities) are inspected by Ofsted.[8] The only types of childcare services not inspected by Ofsted are nannies and au pairs (in the family home), and those after-school services which cater only for children aged eight or over. Even childminders caring for young children in their own homes are subject to all of the provisions of the EYFS.

8 A hugely overburdened organisation which also oversees state schools and FE colleges, teacher training, adoption and fostering agencies and children's social care services.

Box 2: The Early Years Foundation Stage

The Early Years Foundation Stage (EYFS) consists of a range of welfare and safeguarding requirements and a set of Learning and Development goals. The EYFS must be followed by all providing care for children younger than five. Under the 2006 Childcare Act, childminders, nurseries, kindergartens and pre-school classes are obliged to register and adhere to the EYFS in order to operate.

The Learning and Development targets, which are applicable only in England, cover communication and language; physical development; personal, social and emotional development; literacy; mathematics; understanding the world; and expressive arts and design. Ofsted monitors childcare providers' adherence, and requires detailed and comprehensive written records and other evidence (including photographs) of children's progress, with regular detailed feedback (written and oral) to parents.

The EYFS is unusual – possibly unique - internationally in that it is mandatory for children below the age of compulsory education, and applies to providers which may be entirely privately funded. Critics have attacked it as overly prescriptive, costly, potentially harmful to children's development and as a breach of parents' rights to have children educated in line with their own preferences.

For details of the EYFS, see:
http://www.foundationyears.org.uk/files/2014/07/EYFS_framework_from_1_September_2014__with_clarification_note.pdf (accessed 30 November 2016).

The most commonly cited regulations concerning childcare providers, however, include the interaction between mandated maximum staff-child ratios and qualification requirements for those staff. For children aged under two, for example, there must be at least one member of staff for every three children and at least one staff member in the premises holding a Level 3 qualification; for children aged two, the basic staff-child ratio is 1:4 with one staff member required to have a level 3 qualification.

1: Maximum number of children per staff member

	Child's age				
	Under 1	**1**	**2**	**3**	**4**
3	Ireland, UK	UK			
4-5	Austria, Finland France, Germany, Greece	Finland, Germany Ireland	Finland, Germany, UK		
6-7	Belgium, Luxembourg, Switzerland	Austria, Belgium, Luxembourg, Portugal, Switzerland	Austria, Belgium	Portugal, Finland	Finland
8-10	Norway, Portugal	France, Norway	France, Ireland, Luxembourg, Norway, Portugal	Ireland, Luxembourg, Switzerland, UK (Wales, NI, Scotland)	Ireland, UK (Wales, Scotland)
10-15				Austria, Germany, UK (England)	Austria, Germany, Portugal, UK (England)
16-20+				Belgium, Norway	Belgium, Norway
No ratio	Denmark, Spain, Sweden	Denmark, Spain, Sweden	Denmark, Spain, Sweden	Denmark, France, Spain, Sweden	Denmark, France, Spain, Sweden, Switzerland

The ratios are more complicated for providers when dealing with children aged three and four, depending on the type of provider and whether there is a staff member with a Level 6 qualification.[9] If there is, the ratio can be as high as 1:13. If not, it is 1:8 (DfE 2014). The coalition government tried to ease some of these restrictions in 2013 (DfE 2013a), but plans were abandoned following pressure from interest groups and ultimately a veto from Liberal Democrat leader Nick Clegg, then Deputy Prime Minister.[10]

As Table 1 shows, these staff-child ratios are high by Western European standards. In fact, the UK has among the most stringent regulations of the maximum number of children per staff member for early childhood settings.

Childminders also face regulations on the number of children they can cater for – with a maximum of six under the age of 8, three of whom can be young children and only one of whom can be less than twelve months old (DfE 2014).

9 Equivalent to a first degree.

10 The government has in fact since *tightened* regulatory requirements other than ratios. New hires for nurseries must now have good GCSEs in English and Maths to count for staffing requirements – a requirement which reduces the pool of potential recruits and may discriminate against some ethnic groups and people without English as a first language. http://www.bbc.co.uk/news/education-36114767 (accessed 30 November 2016).

Does UK childcare policy work?

There is considerable support for government intervention in childcare. Many seek to extend provision further – the Joseph Rowntree Foundation, for example, recently called for an extra £5.4 billion to be spent over a ten-year period (JRF 2016).

Since the various current interventions have entailed several different objectives, however, the arguments for more public funding are rarely backed up by rigorous assessment of existing provision against aims. Nor do we hear much about the unintended consequences, trade-offs or inefficiencies of policy. Too often the fact that interventions and funds are being allocated towards childcare seems to be enough to leave their effectiveness unquestioned, a problem afflicting other 'feel-good' policies such as foreign aid (Easterly 2016).

In reality, though individually current policies have supporters, most commentators tend to want changes to the overall framework. This is because the competing objectives of intervention would, if pursued independently, lead to very different approaches.

As Lord Sutherland, Chair of the House of Lords Affordable Childcare Committee, has explained (citing the results of the EPPSE study),[11] the means by which support is appropriately delivered would be very different depending on which declared objective was regarded as the most important:

11 A brief overview of this ongoing study into the 'Effective pre-school, primary and secondary education project (EPPSE 3-16+)' can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455670/RB455_Effective_pre-school_primary_and_secondary_education_project.pdf.pdf (accessed 30 November 2016).

> [I]n terms of child development, on the whole the best provision was three hours per day for 5 days a week… However, if you're trying to create employment quite possibly employers will be saying, well we want you for eight hours a day, and it's no good you coming in here at 9 o'clock and disappearing at noon. And so the provision ideally there would be in chunks of time that suits the best employment prospects… there is a tension there, a real tension.[12]

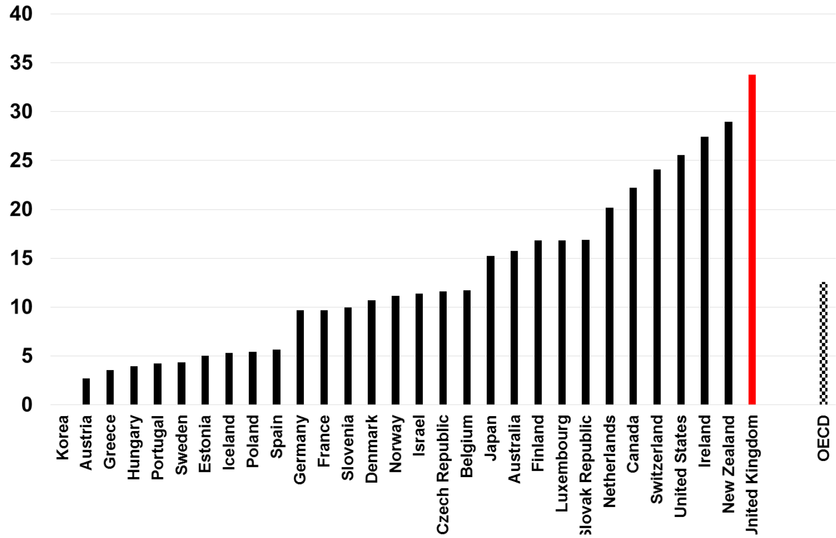
The tension here is one that underpins much of the current policy debate: is the primary aim to improve children's educational and developmental outcomes or to allow parents to return to work? But this is not the only tension. Regulatory measures such as requirements for childcare providers to have certain qualifications and enforced staff-child ratios may increase the measured 'quality' of care. But we would also expect this to raise costs and reduce the supply of potential providers – raising prices and making childcare less affordable.

High cost and high spend

UK childcare is widely understood to be very expensive. In a report for the Family and Childcare Trust, Rutter (2016) provides estimates for hypothetical families, suggesting that the annual cost of a part-time nursery place for a child under 2 is now £117 per week or £6,072 per year. For a family with two children in full-time childcare, the yearly bill can be closer to £12,000. There are, of course, large variations depending on type of care and other variables, such as the age of the child and Ofsted inspection results.

12 Taken from Westminster Education Forum 'The future for childcare and Early Years provision - cost, standards, supply and new providers' transcript 14 July 2015.

Figure 3: Out-of-pocket childcare cost as a proportion of family net income. Comparison for two-earner family for full-time care at a typical childcare centre, 2014.



Note: For a two-earner family with one earner with full-time average earnings and the second earner at 67 per cent of average earnings.

Source: OECD (2016).

Though there is limited comparative international evidence, work by the OECD has suggested these costs are, at least for certain family structures, very high by international standards. Its analysis indicates that the out-of-pocket cost of childcare as a percentage of income for a two-earner family (assuming a two-earner household where one partner earns the average wage and the other partner two-thirds the average wage) is now the highest in the developed world at 33.8 per cent of net income (see Figure 3).[13]

This is despite the fact that the British government now spends so much subsidising childcare and education policies for children under six years

13 Unfortunately, the report does not assess how many families fall into this type of structure.

old. Indeed, UK government spending on childcare, pre-school and education as a proportion of GDP for this age group ranks sixth out of 36 OECD countries.[14]

The OECD figures are inflated for the UK because our start age for formal schooling is lower than many other countries. Nevertheless, part of the reason for this apparent paradox between increasing subsidies and high costs for some groups is the way in which subsidies are focused. Much government support is concentrated on lone parents, through the tax credit system. For *this* group, the OECD data show that the net out-of-pocket costs as a proportion of income are extremely *low* by international standards.

The most obvious way in which the government lowers out-of-pocket costs of childcare for parents is through 'free' pre-school education. The extension of this provision by the Coalition, and the doubling of provision now promised by the Conservatives, certainly reduces the cost of formal childcare for many working parents. But, as with all subsidies, it does not reduce the underlying market price of childcare, because it does nothing to reduce the cost base, meaning that at best it is redistributive. At worst, it might actually increase childcare prices for other groups as providers need to cross-subsidise to remain economic, with perverse distributional consequences.

The policy can amount to a substantial subsidy to better-off parents, especially those where both parents work in well-paid jobs and would purchase formal childcare anyway (Paull and Xu 2015). But it does nothing for groups less likely to take up the offer, where parents stay at home to look after children or where childcare is provided informally by relations or friends. There is a little-discussed ethnic dimension to this, with some communities getting much more benefit from state-funded childcare than others. For example, women of Pakistani or Bangladeshi heritage are around twice as likely to stay at home to care for children and other family members as white British mothers.[15] These groups are correspondingly less likely to access the 'free' childcare offer - or take up tax credit support.[16]

14 Note that the OECD estimates have been challenged: see House of Lords (2015) Chapter 2.

15 http://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/ethnicityandthelabourmarket2011censusenglandandwales/2014-11-13#key-points (accessed 16 November 2016).

16 http://www.runnymedetrust.org/uploads/APPG%20evidence/DaycareTrust.pdf (accessed 6 December 2016)

With government setting the subsidy (albeit the rates vary across areas) there are obvious pressures to keep costs down. The amount paid to the private sector may often be below the underlying market price in an area. This means that nursery fees have to rise for those not entitled to free provision, to subsidise further those who are - as described in DfE (2013b)).[17] In effect, the government's expansion of free childcare acts like a price control on the sector. Funds are distributed at set rates within an area, meaning that areas where costs of provision rise sharply risk becoming uneconomic, or need huge price hikes for parents outside of the government scheme or using unsubsidised provision such as extra hours or wrap-around care for schoolchildren.[18] There is concern that the expansion of the free pre-school offer to 30 hours per week will seriously exacerbate this problem.[19]

Another way that government increases the cost of providing childcare is through its regulatory measures. The period over which Ofsted inspections and greater educational requirements have been introduced has seen a dramatic fall in the number of childminders, from over 100,000 in the mid-1990s to less than half that today (Ofsted 2015). Whilst there is no robust evidence that this has resulted from supply-side, as opposed to demand-side, measures, it is clearly the case that current policy encourages more formal provision. This change has reduced the range of cheaper options available to parents. Remaining providers of childcare also report that complying with regulation is complex and costly, as is administration associated with free entitlement funding (DfE 2015). More recently, media reports have suggested that the requirement for good GCSEs in English and Maths is making it more difficult to recruit nursery staff, pushing up costs.

Media stories may be anecdotal rather than systematic, but robust academic research from the US suggests that staff-child ratios and qualification requirements (which vary greatly between states and regions) have a big impact on prices.

17 See also: https://www.theguardian.com/money/2016/sep/03/free-childcare-may-leave-nurseries-struggling?CMP=Share_iOSApp_Other (accessed 12 October 2016). Note that a similar process of cross-subsidisation occurs in care homes for the elderly, where more affluent residents are charged more as local authorities are not paying enough to cover the costs of residents they fund. http://www.telegraph.co.uk/news/health/elder/11815119/Middle-class-care-home-residents-charged-unfair-50pc-subsidy-to-prop-up-teetering-system.html (accessed 12 October 2016).

18 Pre- and after-school care for school-age children is an important issue, but we do not deal with it in this paper.

19 'Childcare costs to 'sky-rocket' as free scheme expands', BBC News, http://www.bbc.co.uk/news/education-37497545 (accessed 12 October 2016)

Thomas and Dory (2015), for example, find that increasing the staff-child ratio by one child across all age groups can reduce prices by between 9 and 20 per cent, or between 2 and 5 per cent when examining four year olds only. Requiring lead teachers to have a high school diploma (a lower qualification, incidentally, than that required in the UK) is similarly associated with an increase in the cost of childcare of between 22 and 46 per cent.

In the UK, we might expect staff-child ratios and associated regulations to have an even bigger impact (dependent on the overall cost structure of the providers), because our policies tend to be far more restrictive than those in the US samples.

Labour market attachment

A second key declared aim of childcare policy is to increase the labour market attachment of parents, and especially mothers. The basic idea here is that childcare subsidies or direct provision increase the net wage after childcare costs, encouraging more employment (Vuri 2016).

The international evidence on how effective this is at raising female participation or hours worked is very mixed. Subsidies *do* tend to increase the use of formal childcare, but this may not correspond to increased maternal labour supply – implying that formalised care replaces other informal arrangements, or that support is used to purchase more expensive childcare rather than increasing the amount of care used (Givord and Marbot 2015; Bettendorf at al. 2015; Paull 2014). This is especially likely in countries (such as the UK) that already have high levels of female labour market participation and/or high levels of subsidy. Larger positive effects of subsidies on employment tend to be found when subsidies are restricted to single parents and dual-earner households and where women's initial employment rates are low (Vuri 2016).

Similarly mixed results are found for provision of universal access for children by age range, where consequent increases in labour supply often seem to be limited. They are stronger among mothers whose youngest child is affected by the policy (Fitzpatrick 2012; Nollenberger and Rodriguez-Planas 2015). Some studies examining roll-out of free part-time pre-primary school arrangements in Argentina during the 1990s have, though, found stronger general maternal employment effects (Berlinski and Galiani 2007; Berlinski et al. 2011).

The broad conclusion of the research literature is that the effectiveness of policy interventions depends on the extent of existing labour force participation of mothers and other country-specific economic and social factors. In a UK-based study, Brewer et al. (2014) examined the effect of the roll-out of universal pre-school education for three-year-olds in England, finding that an increase in access of about 50 percentage points increased the employment rate of those whose youngest child was three years old by just 3 percentage points – meaning around 12,000 extra mothers in work. This is extremely costly – many only moved into part-time jobs and yet the average cost of the policy was around £65,000 per job. The researchers find significant deadweight losses too, with 'free' care being provided to many that would have paid for it anyway. They conclude that the policy is an economically inefficient way of increasing female employment. Modelling to explore the potential impact of extensions of 'free' provision in Wales came to broadly similar conclusions (Paull and Xu 2015).

Child development

A quite distinct rationale for childcare interventions is to improve developmental and educational outcomes for children – poorer, disadvantaged children in particular. This argument has been used to justify 'free' pre-school provision, Sure Start interventions and various structural regulations.

What originally drove the push for a more formalised sector seems to have been evidence from the US that some intensive support programmes can substantially boost the development of disadvantaged children (Heckman et al. 2010). But these results cannot be extrapolated to the types of policy interventions in the UK, which are much less intensive and cover a wider range of children. Evidence from larger interventions in other countries tends to show small development benefits concentrated mainly amongst disadvantaged children (Brewer at al. 2014).

The UK's Effective Pre-School, Primary and Secondary Education Project study on the impact of pre-school access suggests it 'has a positive and long term impact on children's attainment, progress and social-behavioural development' (EPPSE 2015) relative to no pre-school. This is particularly true of 'high quality' settings. But the effect is stronger for a small sub-set of disadvantaged children. Just because something is beneficial for some groups, need not mean the state should fund it on a universal basis.

Take the supposed long-term educational gains from the UK's free entitlement to pre-school. Blanden et al. (2014) examined the impact of the rollout to 3-year-olds. They found a very small average beneficial impact to educational attainment at age 5 (though somewhat larger for disadvantaged children). Yet this effect weakened by age 7 and had completely disappeared by age 11.

Similarly, a large-scale evaluation programme conducted by a Birkbeck College team found that Sure Start has had some favourable effects on parental life satisfaction and the encouragement of less harsh child discipline. But they conclude that those interventions too seem to have had no lasting effect on children's educational development at age 7 (DfE 2010). A meta-study of findings in the UK (Asmussen at al. 2016) also fails to find strong evidence of success for many of the 75 programmes it reviews.

Structural regulations, such as those on staff:child ratios and childcarers' qualifications, are often justified on the basis that they will improve the quality of pre-school childcare and its outcomes by providing better inputs. But the link between these measures of quality and outcomes tends to be very modest (Blau 2001). In fact, in markets where the demand for childcare is price-elastic, the knock-on effects of tighter regulations, such as more stringent staff-child ratios, may result in employers having to restrain wages within the sector in order to remain financially viable. If this leads to high turnover and difficulty recruiting, the regulatory package can achieve the unfortunate result of simultaneously increasing overall costs but delivering lower quality service to children by attracting lower quality staff.

The literature on the link between input quality measures and child outcomes suggests only tenuous links, with stronger evidence from the much more difficult to measure 'process' quality indicators, which capture the reality of interaction with children. Teacher training tends to be fairly well correlated with these process measures – though maternal interactions tend to have stronger positive outcome effects (NICHD ECCRN 2002). Whilst enforcing training standards for those involved in childcare can involve some trade-off between quality and price, then, a firmer conclusion of the literature appears to be that staff-child ratio regulation raises the cost of providing childcare and reduces staff wages but does little to enhance quality (Thomas and Gorry 2015).

Parents' preferences

A classical liberal position on childcare would be that parents have primary responsibility for bringing up their own children, according to their own preferences and taking into consideration their individual needs and circumstances. Government authorities suffer a 'knowledge problem' – they don't know the families' tastes, desires and goals, or the needs of individual children. Lacking adequate information, governments can only work on general presumptions and whilst their interventions may improve the welfare of some individual children and families, or even average outcomes, they risk reducing welfare for others by shaping decisions which would not be freely chosen in a 'neutral' environment.

Though not an explicit aim of current policy, meeting parental preferences might reasonably be regarded as an end in itself against which government intervention should be judged.[20] While caveats must always apply to survey evidence, there are some indicators that government policy may not be closely attuned to parental wishes:

- There is some evidence that a high proportion of mothers with young children who have full-time jobs would rather work part-time or be full-time carers, yet government policy actively encourages employment.[21]
- Among parents who use childcare for economic reasons, more tend to use informal than formal arrangements, especially using grandparents (Campbell-Barr and Garnham 2010). But policy aimed at boosting employment favours formal settings.
- Among those who did not use childcare in 2012-13 despite having children of pre-school age, only 18 per cent said they did not use care because they could not afford it, and just 2 per cent said it was because the care was of insufficient quality. The vast majority said it was either because they wanted to care for their own children or that they rarely need to be away from them (see Table 2).
- It is certainly true that some parents with pre-school children would prefer to move into work but currently cannot. In England, 28 per cent of non-working parents say that they are not working because of lack

20 Of course, those who favour more government intervention in childcare often suggest that parental choices are not 'optimal' because parents lack information, or are credit constrained, or are short-sighted – as we shall see in the next section.

21 http://www.netmums.com/home/netmums-campaigns/the-great-work-debate (accessed 15 October 2016).

> of adequate childcare provision (Speight et al. 2009). But then other evidence suggests that parents tend to look for different 'qualities' from child care. Parental concerns about physical accessibility, personal attention and hours of opening are not as prominent in politicians' concerns as child care for educational development.

The point is that parental preferences are highly subjective. In fact, 'quality', broadly understood, only makes sense in the context of those preferences. For those parents who simply want a safe and loving environment for their children, 'quality' may mean the ability of childcarers to provide parent-like oversight in a trustworthy and reliable way. For those who take the term to have educational implications, quality may instead be shown through staff qualification levels and staff-to-child ratios. Childcare experts instead define quality through a measurable experience of the child or the benefit to their development, but it is not clear why these should be considered the most important considerations of 'quality'.

Parents make very different use of childcare. For some, it is just a few hours a week. For others, it is virtually full-time. What you want will differ depending on how long you want it for. If your use is just for a few hours for a very young child, you may just require a safe play environment. If the use is for long hours per week, then a structured development programme may very well be a more important consideration.

Table 2: Reasons for not using childcare in the last year (2012-13) - % of total with pre-school children

Rather look after children myself	77
Rarely need to be away from them	15
Cannot afford childcare	18
No childcare providers I can trust	4
Children old enough to look after themselves	7
Children need special care	0
Me or my partner's work or conditions fit around children	0
The quality of childcare is not good enough	2
Children are too young	4
I would have transport difficulties getting to the provider	1
Other reasons	2

Source: Huskinson et al. (2014)

UK childcare policy, then, is not neutrally responding to the preferences of parents. It has been shaping choices towards encouraging greater employment and expanding the use of childcare, but in an increasingly regulated formal childcare sector. Government has therefore been stoking demand for childcare but imposing new costs on suppliers and encouraging parents to use more expensive, formalised care settings. It also regulates most forms of childcare in the same way and requires the EYFS for all, even though different parents use childcare for different purposes.

Is there an economic case for government involvement in childcare?

In this section we step back from evaluating existing UK childcare interventions to review the more fundamental issue of government involvement in this sector. The basic case for *private* provision of both childcare and pre-school education is the same as in any other sector. In markets, prices convey information about structural costs and preferences, and help lead to a relatively efficient provision of services, given available resources (Paull 2014). Competition between providers, including over quality, helps keep costs low whilst meeting the different needs, tastes and preferences of parents. The profit motive induces innovation and the adoption of new methods and practices. But people are also free to set up provision on a voluntary, non-profit basis and develop civil society institutions to offer complementary forms of childcare on the basis of mutual help or philanthropic motivation.

In principle, economists would assume that people being free to make their own choices in free markets with good information would lead to maximised social welfare.

Yet if childcare choices are highly personalised, and private initiative and freedom in provision can in principle deliver a wide variety of different types of care, why exactly do we need such extensive state involvement?

Market failure in childcare?

'Market failure' is increasingly used as a justification for any new government intervention. This seems to involve the assertion that a particular market fails to confirm to a textbook ideal of how a fully-informed perfectly competitive market should behave, and that the government should therefore intervene either through taxes, subsidies, direct provision or regulation to 'correct' it.

In childcare, four major potential market failures have been identified. First, that some parents do not appreciate the importance of good-quality pre-school education for their child's development and so will under-consume it: economists refer to this as a 'merit good' argument.[22] Second, that in a free market it would be under-used in relation to an idealised social optimum, because parents do not recognise the 'positive externalities' of the activity – for example, the benefits to the economy from greater labour force participation by mothers of young children. Third, there may be informational problems in the market. Parents may have incomplete awareness of the range of childcare options and their quality (Brewer at al. 2014). Fourth, they may also be myopic, making bad choices given the difficulties of assessing the highly uncertain long-term gains which childcare provision might bring (Paull 2014).

But to argue for greater emphasis on private initiative and individual choice does not imply a belief that markets are perfect. Rather, it depends on the view that they are more effective in coping with inevitably imperfect information than politicians and civil servants (Pennington 2011). The market for childcare is going to be imperfect, but is government going to be any better? Its record in related areas is far from perfect. Private childcare has few failures as spectacular as the Baby P scandal in Haringey, or the grooming of 'cared for' children in northern towns such as Rotherham (Craven and Tooley 2016), or the abysmal educational records and disproportionate subsequent imprisonment of those who have been in the government's care system.

Take the 'merit good' argument. For some children, no doubt, there may be unforeseen benefits to greater use of childcare. For some parents there may be unforeseen benefits from early returns to the labour market. But

22 This argument has a long pedigree: J. S. Mill recognised that children might need some protection from the ignorance or fecklessness of their parents.

does government really have the knowledge of individual circumstances to trade this off against the impact of higher taxes on family incomes, or the potential negative impact of lower levels of parent-child attachment at young ages, or other effects that government intervention may have on family life? It may be that government can use its centralised information to produce a subsidy structure or regulation that improves outcomes on some particular average metric which it is concerned about. But any intervention is likely to have impacts on other areas of life, where only the individual family can judge their relative importance.

On the provider side, what exactly can quality mean if the concept is divorced from what parents perceive to be best for their children? Quality is inevitably a multi-faceted judgment dependent upon the needs of an individual child. It is difficult to see how the child's parent (who, on average, has much more intimate knowledge of the child's background, behaviour and needs) is likely to be a worse judge than a distant bureaucrat working from aggregate data, or short-termist politicians aiming to win the next by-election.

A similar criticism can be made of the 'positive externality' argument. Even assuming a benevolent social planner who could accurately determine the externality effects of greater labour market attachment to get us to a socially optimal provision of childcare, this picture paints only half the story. Within such a highly theoretical framework, parents should not be incentivised by government to enter the labour market unless the social value of their market output is greater than the social value of other activities that they might be engaged in, which could include their contribution as parents to the development of their own children (which in turn may enhance their children's future productivity), the potential welfare gains from engaging in charitable or family activity or whatever else they may choose. It may be, for example, that there are even greater positive externality effects from these other activities.

A thoroughgoing attempt to internalise all externalities would, as Joseph Stiglitz has argued, require interventions in almost every market. The externality argument also neglects the deadweight costs of taxation necessary to raise the funds for subsidy or direct state provision. If this came in the form of higher marginal tax rates on income, the productive potential of the economy overall could actually be *reduced* as people alter their behaviour in response.

So while there are theoretical arguments for the existence of market failure in childcare, these tend too often to be stated as fact rather than critically assessed - and they are usually only presented in the most generalised way. As Brewer et al. (2014) point out, if there are information issues or constraints on the provision of good quality childcare, this is likely to be most problematic for poorer households. This might be an argument for Sure Start-style interventions or targeted financial assistance. However, as we have seen, the bulk of childcare interventions now apply across the board. And only a small proportion of the £7.1 billion annual government spend is targeted on the most disadvantaged.

Allowing women to maximise their recorded economic contribution and reduce the gender pay gap

If market failure arguments do not get us very far, there are a number of other arguments to justify government support for childcare.

One is that general subsidies are required to allow women to fulfil their productive potential in the economy. This argument has been made mainly by politicians who believe that governments should seek to alter decisions so that employment and productivity levels are maximised, thus increasing measured GDP and the tax base. For example, Nicky Morgan MP (and former Secretary of State for Education) has claimed that 'equalising women's productivity and employment to the same level as men's could add almost £600 billion to our economy, clearing a third of our national debt'.[23] This case is frequently made in discussions about the gender pay gap, as it is now clearly established that time out of the labour force has a significant impact on women's future earning potential (IFS 2016).

It is then seemingly assumed that women who choose to take significant time off to care for their children do so largely because of the prohibitive cost of market-based childcare. Government subsidies should facilitate cheaper childcare for parents, allowing women to return to work and thus boost Gross Domestic Product.

23 http://www.conservativehome.com/platform/2015/09/nicky-morgan-mp-our-vision-for-gender-equality-and-helping-women-everywhere-to-fulfil-their-potential.html (accessed 15 November 2016).

GDP, however, should not be confused with general economic welfare. As far as possible government should surely facilitate free action in the economic sphere so that people can achieve their own objectives unless there is clear damage to others from their choices. Clearly, given free decisions, many may not opt to maximise time at work or productivity (which come at a significant opportunity cost). Some – men as well as women - may obtain more welfare from dedicating themselves full-time to family life. Others may decide to work in jobs from which they gain substantial satisfaction, even if these do not maximise their productivity and wages. It is not obvious that the role of government should be to seek to alter freely-made personal choices, unless, perhaps, these ‘free’ decisions are otherwise subsidised by the state. There may be a legitimate case for highly targeted interventions to encourage long-term benefit recipients into the workforce.

The key point in relation to childcare and recorded salaries is this: labour market outcomes, including the decision to go to work or take a job which increases your productivity, are a product of preferences. Whilst one element in those preferences could be the cost of childcare, as well as transport costs, training costs and other factors, freely-reached decisions themselves should not be said to be ‘bad for the economy’ simply because they do not cause measured GDP or recorded female pay to be maximised.

A related point is that the logical end of assuming that the government’s role is to maximise individuals’ recorded economic contribution would be to suggest subsidies to a host of other groups who do not reach their ‘full potential’ in the labour market - able-bodied retirees, or non-working partners in single earner households with no children. We might also subsidise geographical or occupational mobility on a large scale. But all this would cost money, and in order to subsidise some groups, governments would have to tax others, undermining *their* economic potential.

Finally, childcare subsidies in isolation would not create a neutral environment for families’ economic decision making. The neutral approach would rather be for the state to provide 100 per cent ‘free’ care but also offer a cash equivalent to those parents choosing to stay at home and look after their own children. This would be extraordinarily expensive, yet it is doubtful whether people’s choices would be much different from the status quo.

If maximising recorded economic activity is not a legitimate aim, and full taxpayer support for childcare in its broadest sense is a non-starter, we may still think that some targeted subsidies are necessary for particular groups given other requirements placed upon them (work requirements in welfare provision, for example). But these interventions would be far less extensive than those observed in practice today.

Childcare is expensive

We all wish good-quality products and services were cheaper. Childcare is not unique in this. But there are resource constraints which limit quality and availability. Given the importance of children's welfare to their parents, there are good reasons to expect a high level of spending on childcare. As society gets richer, people tend to spend more on personalised services. The income-elasticity of demand for good quality childcare is high: all parents, given high incomes, would probably like to have a nanny and a team of personal assistants. We could add to this the increased demand brought about by the social changes outlined earlier, and the fact that childcare is a relatively labour-intensive industry even without mandated staff-child ratios. This means the cost to parents is likely to increase absolutely and relatively over time.

But does high cost in itself justify state subsidy? That an industry is labour-intensive or regarded as 'important' is not an appropriate criterion to judge the desirability of government action. The argument is, as we have seen, that expensive childcare represents a significant barrier to parents fulfilling their wish to return to employment or increase their hours of work.

First, as observed earlier, state subsidy does not in itself lower the cost of providing childcare but simply changes who picks up the tab. A large proportion of current government subsidy comes in the form of universal entitlements, meaning that wealthy individuals with children have a chunk of their care subsidised, with the finance coming from general taxation. This creates a large degree of 'deadweight cost' – families having childcare for free which they would have paid for anyway. Even if the expensiveness of childcare is thought to justify some intervention, it should only justify much more targeted assistance to those on low incomes.

A second point is that out-of-pocket childcare costs are high partly because of existing government interventions in the sector. As we have seen, the nature of UK subsidies can inflate prices for those paying out of their own pocket, because of the need for cross-subsidisation to deliver on the government's 'free' childcare offer. This is before we consider the impact on cost of regulations on qualifications and child-staff ratios, which further increases the cost of childcare and drives out low-cost providers such as childminders.

Finally, the childcare sector suffers from the unintended consequences of government action in other policy areas. Britain's tight land-use planning laws and business rates raise the costs of nursery premises. Minimum wage legislation also raises costs: this is being intensified as the new National Living Wage begins to bite. Already some observers are attributing a sharp jump in the number of nursery insolvencies to this policy.[24]

So the fact that childcare is expensive is a weak justification for government intervention, even in principle. In reality government actions directly and indirectly drive up the cost of childcare already. To the extent that expensive childcare may be a problem in inhibiting labour market attachment, this is primarily a problem for those on low incomes: it does not require universal subsidy.

24 'National living wage pushes nurseries towards insolvency', *City AM*, 30 August 2016, http://www.cityam.com/248383/national-living-wage-pushes-nurseries-towards-insolvency (accessed 12 October 2016).

So what role should government have in childcare and pre-school?

The government's role in childcare and early years is currently a mass of contradictions. There are also significant unintended consequences and unclear criteria for success. Policy should be reassessed from first principles. Childcare choices should reflect parental rather than 'expert' preferences. Failure to change course risks recipients of childcare subsidies (both providers and parents) becoming an ever-more entrenched electoral interest group, with constant pressure for increased spending and reform more and more difficult to achieve – a situation which we see in so many areas of government policy.

The starting point should be private provision, mainly through the market but not exclusively so. Family, churches and other non-commercial civil society institutions have an important role to play. Small children can be looked after in an extraordinary diversity of ways: informally by their own parents, family members, friends and neighbours (perhaps on a turn-and-turn-about basis), nannies (as individuals or through agencies), au pairs, babysitters or childminders. More formally they can attend nursery schools, for-profit and not-for-profit private nurseries, go to playgroups, creches, or employer-funded and run nurseries. This is before we even consider different funding methods, which can include employer contributions, savings plans, personal out-of-pocket payments or reciprocal arrangements between groups of parents and friends.

In an environment with significantly less state interference, we might envisage many options, with different providers seeking to meet heterogeneous and multifaceted parental preferences. Some parents might value educational pre-school highly, whilst others simply demand a safe and nurturing home-like casual environment for their child. Those who denounce ‘leaving childcare to the market’ appear to imagine that there is a ‘solution’ to childcare, when in reality markets and voluntary provision offer many different solutions for varied wants and needs.

We would argue that the key principle should be that individual parents are responsible for their children’s care and well-being. This should not be controversial: it has been most people’s assumption for thousands of years.[25] Parents do not get regularly inspected by Ofsted as ‘early educators’, nor are they subject to the raft of regulations that currently apply to childminders. They are capable of deciding who may care for their children without the need for these carers to have formal qualifications or to adhere to complex regulations. This freedom is still just about there, but it is increasingly confined to a privileged few who are able to afford nannies or au pairs working in the family home.

Of course carers, particularly in more formalised settings, might voluntarily choose to obtain qualifications as a reputational mark of quality. Intermediate institutions usually develop in a free economy to provide quality signals. In childcare and early education such brands as Montessori Nurseries and Norland Nannies well predate today’s state regulation. Given modern technologies, online sign-up sites could develop extensive review and quality-assurance systems, where we could envisage the penalty for any bad experiences to be exceptionally high for providers, given the value most people place on their children’s welfare. We already see this type of within-market regulatory intermediation in other sectors.[26]

People may object that such a system would be too risky, having insufficient safeguards for both child protection and the quality of provision. On the former, there may be a case for the state[27] providing a simple registration process which cross-checks against known offender registers. Intermediate institutions might insist on obtaining particular qualifications or training as

25 Albeit increasingly challenged, as for example in the Scottish National Party’s ‘Named Person’ proposal, that every child should have an individual appointed by the state to watch over them.

26 For example, ride-sharing apps such as Uber provide extensive self-regulation through driver and number-plate recognition, tracking and means of redress for customers, which has circumvented the need for much traditional taxi regulation.

27 On the grounds, presumably, that a comprehensive register raises data protection issues which justify state control of this information. This may be contested, but it is not an issue we can explore here.

a mark of ‘quality’. But ‘quality’ itself and the different weights each individual family might put on different components of it are highly subjective and a freer environment for childcare would reflect this.

Policy changes to liberalise childcare

It is possible, then, to envisage rowing back on almost all of the state’s current childcare interventions in the longer term. This is not to say that the costs of childcare need be ignored by the tax and benefit system. But any recognition that children reduce the taxable capacity of a household could be delivered through a neutral system of household child tax allowances or universal child benefit payments. Government intervention should not seek to skew parental preferences towards formal childcare, let alone to such a heavily-regulated sector as we currently face.

As outlined earlier, the childcare mess largely arises because of the government’s multiple objectives. Our own objectives would be simple and non-contradictory: to allow, as far as possible, families to make their own free choices about non-parental care of children, with limited government intervention to support those with currently low levels of labour market attachment to be able to work. This could involve the following policy changes:

Abolishing the universal offers for ‘free care’ and scrapping ‘tax-free’ childcare

The universal offers the government has made for 3- and 4 year olds are costly, with large deadweight losses but only modest measurable impacts on female labour force participation, and no significant long-term impact on children’s educational outcomes. Where other countries have seen benefits from pre-school educational interventions, they have tended to be strongest when provision is highly targeted at disadvantaged children. Universal free offers should therefore be scrapped, particularly given the evident pressure that their expansion is having on the sector.

The new tax-free childcare scheme should also be abandoned. This is a deliberate incentive aimed at creating two-earner families – unlike the previous employer-supported childcare, couple families with one person working will not be eligible for support. Given the weak case for general subsidies to childcare, it is difficult to see the rationale behind this form of middle-class welfare benefit.

Another reason for abolishing the scheme is the interactions that it has with the operation of the tax credit system. Under universal credit, childcare support falls away steeply after family earnings exceed about £30,000 – and the move to much less generous tax-free childcare will create perverse work incentives surrounding promotions or increases in working hours. It would be far better in the interim to maintain one demand-supporting scheme in the form of the universal credit system, particularly given this is more highly targeted at those with lower levels of labour market attachment. The advantage of using the childcare element within universal credit over other interventions is that it is supply-blind, work-contingent, and is a co-payment (and thus still leaves an incentive for parents to seek value for money).

Removing almost all state-led regulation designed to improve the quality of childcare

Childcare regulation raises costs, with few recorded benefits in terms of outcomes. In the case of high staff-children ratios, they have the effect of reducing productivity and thus the earning power of childcare workers and the quality of entrants to the sector. Regulation for child protection purposes could be maintained, but required staff-children ratios should be scrapped, bringing us back into line with other developed European economies. There is rather more evidence that educational requirements for childcarers can have positive effects, so these might be maintained in the short-term, but in the longer term it should be up to parents to judge quality for themselves.

As for the Early Years Foundation Stage, it is unclear what this backwards extension to the National Curriculum is meant to achieve. It seems aimed primarily at those in full-time and continuous childcare, whereas for many smaller children their experience of childcare is part-time and intermittent. We already start formal education much earlier than most other developed countries[28] and it is not obvious that we need such a highly structured and paper-heavy system, which has few parallels elsewhere.

28 Compulsory education starts in the UK at five, whereas most European countries start at six or seven. The average age at which our children actually enter school is nearer four and a half, as schools nowadays expect children to enter at the beginning of the school year in which they will turn five.

Whilst there is evidence that structured pre-school may benefit children, and the EYFS does have some value in suggesting appropriate activities for under-fives, the broader case for a heavily bureaucratic curriculum, rigid adherence to which is necessary for a good OFSTED rating, is unproven. Compulsion to use the EYFS should be scrapped.

Reforms in related areas of policy

As already discussed, there are other policy areas that indirectly affect childcare. The National Living Wage and pension auto-enrolment significantly increase the cost of provision, given that staff costs make up the bulk of expenditure. The effects of these measures are likely to affect small-scale providers in poorer areas of the country disproportionately. Our restrictive land use planning system raises land values and hence property prices, which also makes capital investment more expensive in the sector and deters the building of larger care centres (which could exploit economies of scale) in residential neighbourhoods. A future problem may be post-Brexit restrictions on lower-paid migrants, who might in principle undertake childcare. Clearly there are several areas where other government policies tend to add to costs.

It is beyond the scope of this paper to make recommendations in each of these areas. However, in previous work we have advocated the abandonment of the National Living Wage and the liberalisation of land use planning (Bourne and Shackleton 2016). Such measures could help reduce the cost of childcare in the UK, or at least reduce its rate of increase.

Weighing up

It is very difficult to quantify the likely impact of deregulation of the UK's formalised childcare sector and the effect of abandoning many demand-side subsidies and direct provision. However, the policy package outlined above would increase competition and lower the cost of providing childcare, and this would ideally make childcare more affordable and accessible.

Of course, any fall in the cost of childcare will not necessarily be fully passed on to families directly - particularly those eligible for the childcare element of universal credit, where it might be offset by reductions in tax credit payments. But the reduction in government spending which this would facilitate could just as well be passed through to the family indirectly through tax cuts, including increasing any household child allowance.

Tax reductions might well lead to more families opting to use formal childcare, or the abandonment of policies and regulations that push them in that direction may have the opposite effect. We should not make value judgments on which is 'preferable' – every family circumstance is different.

Our approach, though, recognises that government policy currently restrains the supply of childcare (and hence parental choice) before then offering more in the way of subsidies and 'free' provision to compensate for the high costs it helps induce. This makes childcare cheaper for one group through subsidy, but at the expense of other parents and taxpayers, constraining choices elsewhere.

Instead, we argue that policy should be reoriented towards allowing parents to make free choices and judgments about the types and quality of provision they want for their children. The relatively recent imposition of many government interventions means there is probably still some opportunity to change course. But most interest groups are demanding further steps on the path to the effective nationalisation of pre-school. There are few grounds for believing this is sensible. Yet, as the experience of so many other public services shows, once government control is established it is very difficult to unpick.

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