Financing early childhood education and childcare across levels of government

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Rationale for investing in Early Childhoood Education and Care: *human capital development*

- The global economy is dominated by knowledge-based production, with human capital a key element for countries' economic success.
- Human capital: traditional school competencies (e.g. literacy, numeracy, science), but also, and increasingly, skills and abilities, so-called non-cognitive skills (e.g. use information, adapt, and solve problems, manage stress, communicate, and cooperate, be motivated, self-confident, culturally aware)
- These skills start to form in the earliest years, well before primary schooling, and then accumulate throughout childhood. So also do inequalities (mainly associated with the socio-economic and cultural status of parents).
- Strong evidence on the positive effects of enrollment in quality ECEC (childcare for children below 3 years old and pre-primary for children of between ages 3 and the primary education entry age/usually age of 5 or 6) on skills (e.g. PISA), dropouts from school, attendance in higher education, as well as on technical abilities (Vocational Training), most particularly for poorer and disadvantaged children.
- ECEC is key to develop human capital, and especially now, to address learning loss in post-COVID-19

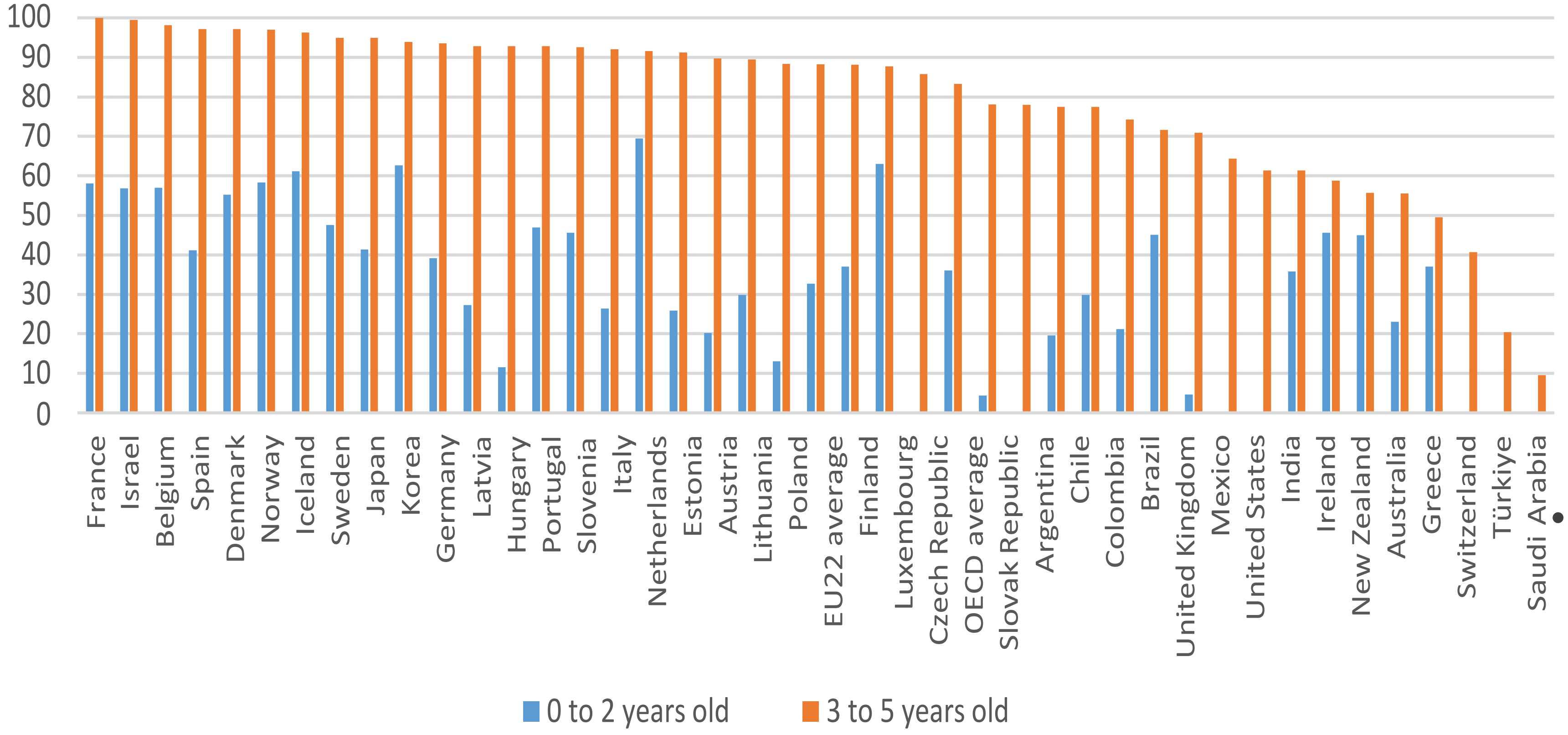
Long and short-term effects of enrollment in ECEC

Evidence also suggests that enrollment in ECEC is associated with :

- Higher employment rates and higher incomes
- Reduced reliance on social welfare (by disadvantaged children when they become adults)
- Better psycho-physical development, health, and reduction of anti-social behaviours
- Increased working opportunities, notably for women, and work-life balance (if ECEC is operating during working hours, complemented by adequate parental leaves)
- Reduced gender disparities
- Reduced market income inequalities
- Strengthened economic growth

ECEC enrollment rates across OECD countries

Figure 1. Enrolment rates of young children in early childhood education and care by age group

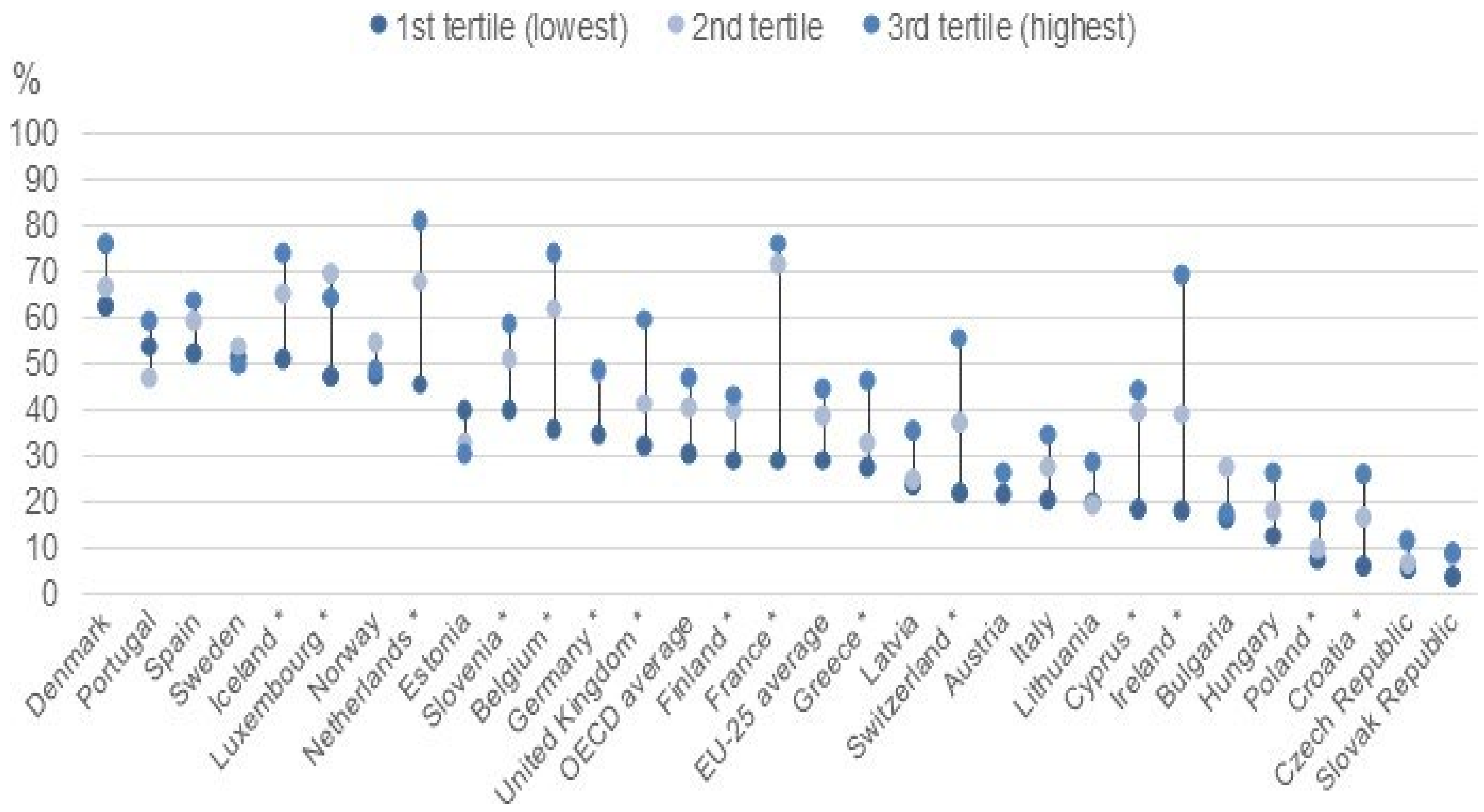


- Enrollment in pre-primary education (children 3-5/yo) reaches 83% across OECD countries (90% in most of EU countries), while childcare (0-3 yo) is less developed, except in some countries, notably in Nordic European (Denmark, Iceland, Norway and Sweden), and the Netherlands, Israel and Korea where enrollment reaches 50%.

- High territorial inequalities within countries.

Inequalities to participation to ECEC

Figure 2. Participation rates in ECEC by income up to 2 years old (2020)



Source: OECD Family database – www.oecd.org/els/soc/PF3_2_Enrolment_childcare_preschool.pdf

- Children from families in the highest income tercile participate in ECEC, on average, almost twice as much (46.4%) as those from families in the lowest tercile (29.9%) in the OECD. Estonia and Sweden show the lowest levels of inequality between family income groups.

- Childcare costs account for 14% of an average family's earnings with two children (OECD). These costs reach 20-30% in countries relying more on private provision (even with financial contributions from parents, e.g. tax credits or subsidies are available)

Factors limiting coverage, equity and quality of ECEC

- **ECEC is usually underfunded compared to other education or social welfare levels/services**
- **This requires parental financial contribution for publicly-provided services and/or increases in the role of private provision**
- **Territories with higher shares of low-income families have less financial means (through either taxation or parental financial contributions) to invest in, and sustain, ECEC services**
- **Alternatively, they can reduce quality to reduce costs**

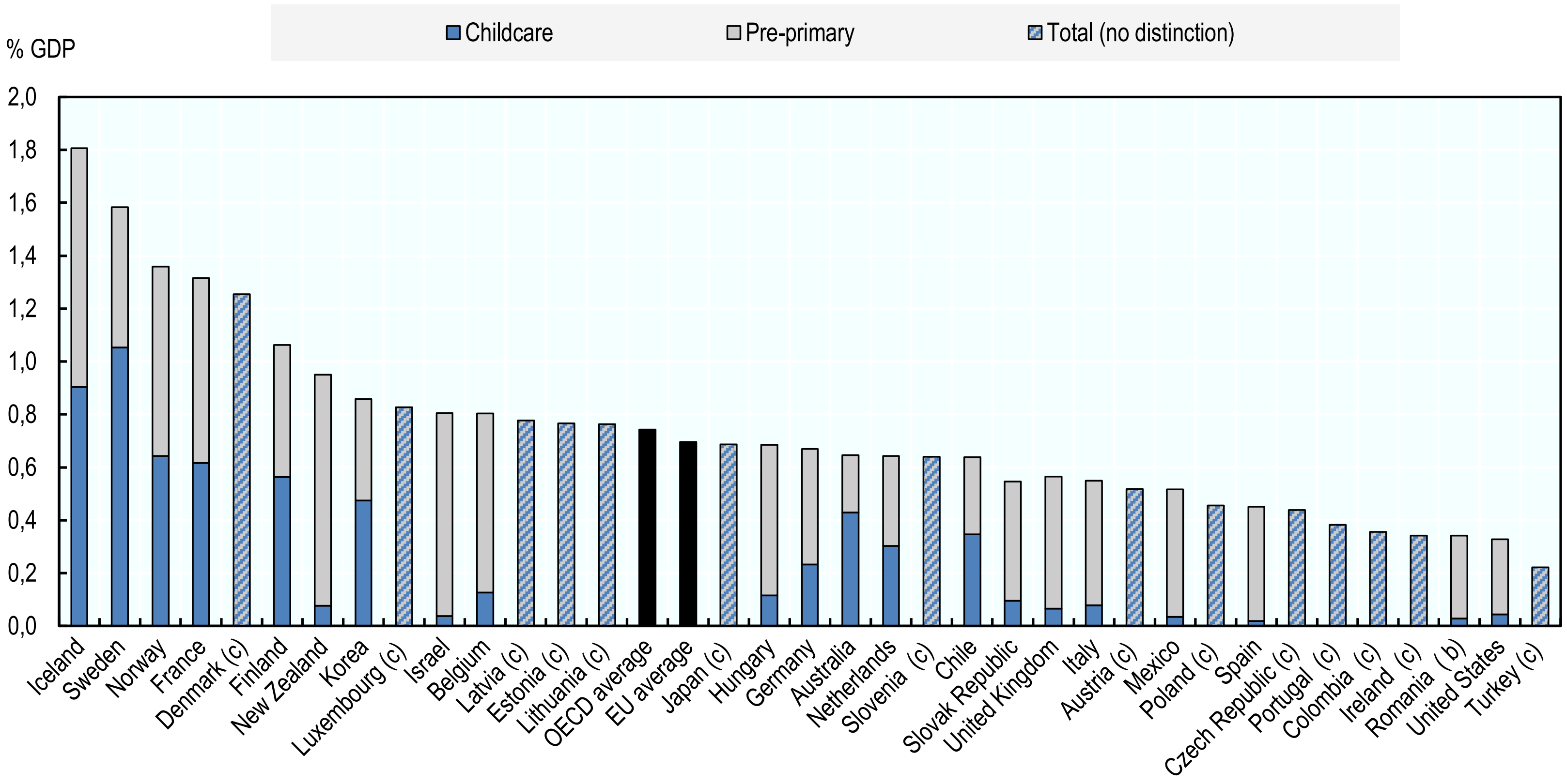
Need to:

a) Expand spending on ECEC

b) But also find mechanisms to prioritise areas with less financial capacity to invest

Inadequate public spending

Figure 4. Public spending on ECEC as a % of GDP (2019)

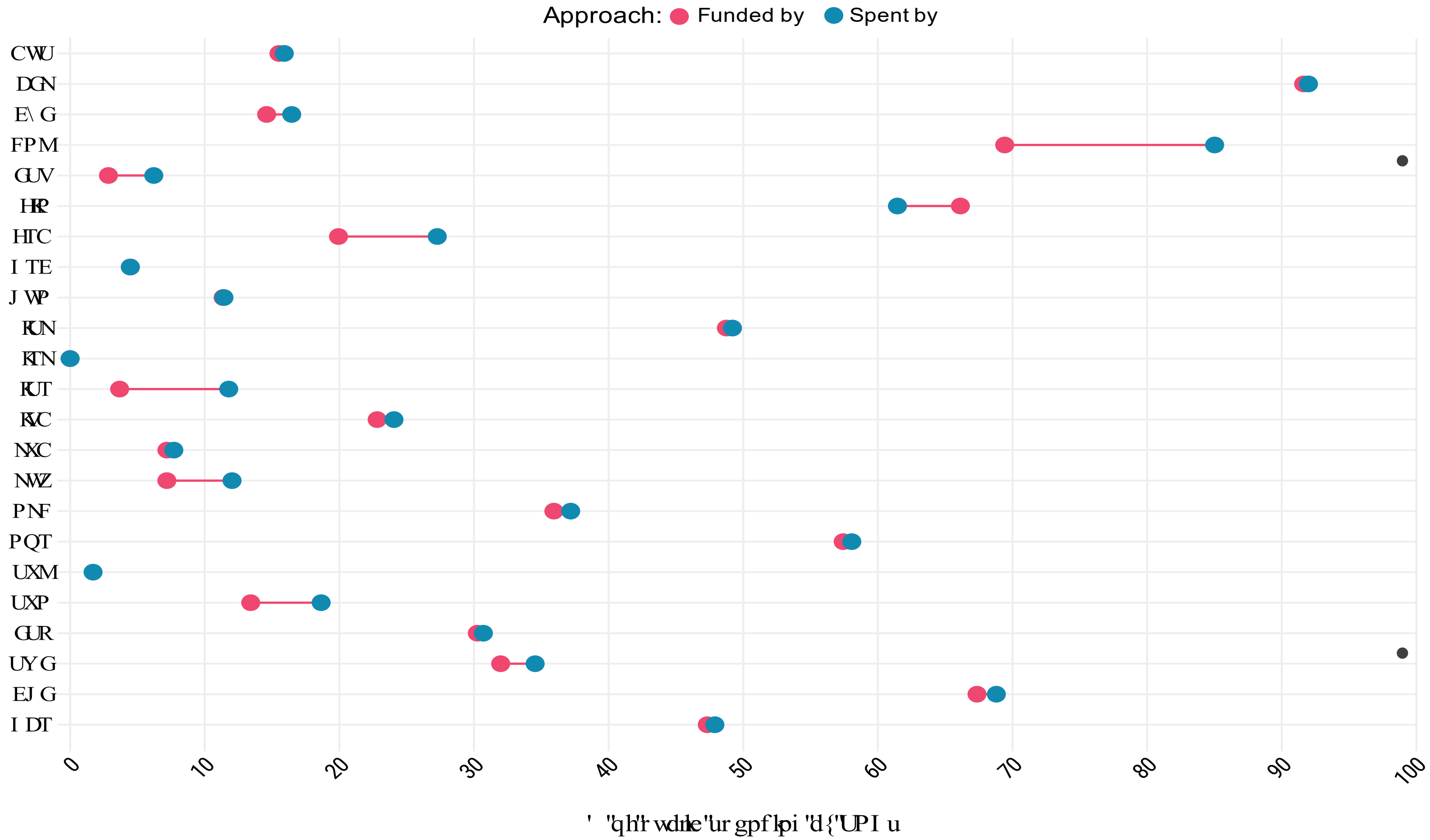


Source: OECD – www.oecd.org/els/soc/PF3_1_Public_spending_on_childcare_and_early_education.pdf

- OECD countries allocated 0.8% of GDP to ECEC with significant variations.
- ECEC is a cost-effective policy with high socio-economic returns.
- Nobel Laureate James Heckman found that high-quality preschool programmes have an estimated rate of return of USD 5.7-8.7 for every dollar spent, with social returns of between 7 and 10%.
- OECD studies found that expanding coverage of preschool education to the highest level in OECD could increase GDP per capita by more than 2% in the long term, with positive effects visible in the medium-term (5 years).

Limited (and not prioritised) transfers from central governments to sub-national authorities

Figure 6. Share of government spending that is subnational for children and family services



Source: OECD Fiscal Decentralisation database – http://oe.cd/fiscalnetwork.

- ECEC services are highly decentralised, with States and local authorities (regions, municipalities) usually playinga key role.

- Transfers (from central government) are essential to avoid unfunded mandates. This is particularly in the case of childcare, less so for pre-primary, which is very often universal and free (e.g. across EU or in US for 5/yo children) and where adequate transfers from central government to sub-national authorities are ensured.

- Inadequate and not prioritised transfers are the main driver of territorial inequalities in coverage and quality.

Policy recommandations to expand coverage, equity and quality of ECEC

- Increase public expenditures for ECEC services, in light of demographics, as they are cost-effective with high social and economic returns.
- Improve affordability by expanding free childcare for lower ages, or with stronger use of progressivity in parental contributions.
- Avoid unfunded mandates by implementing fiscal equalization criteria to reduce territorial inequalities and ensure minimum quality standards for ECEC services.
- Consider targeted conditional grants to expand quality in marginalized areas with lower financial resources.
- Establish effective monitoring systems to help build capacity and ensure minimum quality standards, especially when private providers are involved.