

Fiscal, Behavioural and Redistributive Effects of an Introduction of a Child Care Benefit for Children less than three years

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This report quantifies the micro-economic effects of introducing a child care benefit ("Betreuungsgeld") for children less than three years old in Germany on both the parental labour supply and child care arrangements. The "Betreuungsgeld" consists of a lump-sum allowance to parents who do not utilize publicly subsidised child care facilities.

The first section of our study presents statistical evidence on observed effects from Finland, Norway and the federal state of Thuringia, which have already introduced similar measures. However, the main focus of the report is the ex-ante simulation of the effects of a Germany-wide introduction of the "Betreuungsgeld". The micro-economic simulation model we use is described in the second section of our study. The last section presents the results.

Since the introduction of child care support in 1990 and 1998 in Finland and Norway respectively, the number of children attending a public funded care facility has decreased in both countries. It was also observed that the labour force participation of mothers of young children decreased by four to eight percentage points. From the Child and Youth Welfare Survey ("Kinder- und Jugendhilfestatistik"), we learn that the number of two-year-old children visiting a day care facility slightly decreased after the introduction of the child care support in Thuringia in 2006. At the same time, non-subsidised child care increased, suggesting external child care was substituted for day care in some circumstances.

Because of the weak empirical ex post evidence, we use ex ante micro-simulation to quantify the behavioural effects of the introduction of child care support in Germany.

For the purpose of our study, it is crucial that we consider own as well as external child care endogenously within the household decision process, and so we have to extend the micro-economic model typically used in similar studies. Own and external child care are both introduced in the utility function, giving thus a relative estimate of the preference for the form of child care. Choice of care indirectly affects the household decision since the parental time devoted to child care is not considered as leisure time (as it is usually the case), and the costs of external child care are deducted from the available income. We further consider that access to publicly

subsidised childcare facilities must be rationed, since access to such facilities is less than is demanded.

For the empirical application, we use the pooled waves from 2002-2006 of the German Socio-economic Panel (SOEP). We perform a discrete choice estimation procedure, allowing for random parameters on the preference for consumption.

Statistical evidence from SOEP shows that the share of households with children between 13 to 36 months old who are potential recipients of the child care support varies systematically depending of the household characteristics. Single parents and double earner households tend to profit less from the measure. On the contrary, families with low levels of education or non-German backgrounds are more frequently eligible for the measure.

For the simulation, we have to take into account that, due to the public investment in child care facilities, the parents will no further experience rationing of publicly subsidised child care. Therefore, in presenting the simulation results, we have to disentangle the effects due to the introduction of the “Betreuungsgeld” (150 Euros a month per child) and those due to the end of rationing.

According to our simulations, both occupation and labour supply increase when the rationing of public child care is reduced. Over five percent of the mothers enter in the labour market, predominately in full time positions. Families with low educational levels or non-German backgrounds tend to react less to the higher investment in public child care. On the contrary, single parents and double earner families profit the most.

The introduction of the child care support has moderate but significantly negative effects on the labour supply of the mother, as well as on the demand for external child care. In particular, part time employed mothers are willing to quit their jobs in order to care for their children on their own. The simulations show that almost every second mother with a part time job would withdraw from the labour market after the introduction of this policy measure. Full time employed mothers are not significantly affected. The loss of income through the withdrawal from labour market would

exceed the amount of paid child care benefit by far, making the availability of child care support unattractive.

Total fiscal costs of the measure are estimated to be 1.4 Billion Euro a year.

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