Research Explores Potential Pitfalls of Mandated Childcare Policies

Findings offer insights to policymakers worldwide

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NEW RESEARCH BY UNH ASSOCIATE PROFESSOR LORIS RUBINI CAUTIONS AGAINST GOVERNMENT-MANDATED CHILDCARE POLICIES, USING CHILE’S EXPERIENCE AS A WARNING.

As the United States and other countries consider ways to address childcare challenges for working parents, new research urges caution regarding potential government interventions to finance the cost.

In a study recently published in the Journal of Economic Dynamics and Control, Loris Rubini, an associate professor of economics at the UNH Peter T. Paul College of Business and Economics, uses Chile’s government-mandated policy as a cautionary tale of how a measure intended to help women instead pushed the cost to their employers and led to hiring discrimination and lower wages.

The research found that women in Chile are better off financially without a mandated policy and would benefit more if an income tax was spread among the entire workforce. While the research focuses on Chile, Rubini says it serves as a reminder that assisting with childcare costs is complex.

“Whenever we consider these policies, we need to figure out the costs and who pays for them,” says Rubini. “Not only the monetary costs, but there could be costs for some groups more than others. There are always tradeoffs.”
Rubini and a team of researchers focused on Chile’s childcare policy, which mandates firms with more than 19 female employees cover childcare expenses during the first two years of the child’s life. The research found several unintended consequences to the policy, including firms attempting to stay under the 19-employee mandate by shifting employment opportunities away from women to men and from younger women to women beyond childbearing years.

Additionally, the policy creates wage disparities, with some firms offering lower wages to women because of childcare costs that are disproportionate to their workplace contribution. This disparity is especially prevalent for single, low-educated mothers because they typically earn less, and the relative cost of childcare, compared to their wages, is higher.

“Chile does it this way because the government doesn’t have the funds to pay for it, and their solution was to decentralize it and mandate the firms to do it. That was the wrong thing to do,” Rubini says. "If the government doesn’t have the funds to support a policy themselves, requiring other parties to do it can have a counterproductive effect.”

Chile is considering removing the childcare policy and replacing it with a labor tax. Rubini developed and calibrated a model of Chile’s economy using economic data to run multiple simulations about how it would respond to removing the childcare policy.

The research found that removing the policy would improve the overall economic well-being of most women by creating job opportunities and better wages. For example, overall economic well-being would increase by 2.34%, with women seeing a 3% increase and men 1.66%. Single females without children would benefit most from removing the policy, with an increase of about 3.7% in their overall economic well-being.

Additionally, wages for women of childbearing age could increase by up to 3.3%, and women with less than primary education would see their wages rise by over 3%.

Chile is considering removing the mandate and implementing a 0.1% labor tax. The government would collect and use this income tax on those in the workforce to pay childcare providers directly.
Rubini found that a labor tax of 0.29% would allow the government to come closer to covering the entire cost of childcare and increase average household economic well-being by 13%, particularly helping those sensitive to income changes, like low-income mothers.

“This alternative would benefit the most people because it spreads childcare costs across a broader base, and it doesn’t penalize firms for hiring women,” Rubini says.

Rubini also explored the alternatives of extending the current mandate to all firms and offering childcare to only the poorest people. He found that expanding the current mandate would place a substantial financial burden on smaller firms and impact wages, while providing childcare to only low earners could become an administrative burden and stigmatize recipients.

Since the COVID-19 crisis, there has been more attention worldwide on reducing the cost of childcare to increase female participation in the workforce, which inspired Rubini’s research. The United States has various policies aimed at supporting childcare, but no mandates that require businesses to pay the costs.

Although this study focuses on Chile, it contributes to the overall conversation because the data shows the consequences of placing the financial burden on a specific group, namely the firms, and the potential benefits of spreading the costs.

“If we’re going to try to help a particular group, in this case working mothers, we should be very careful that we don’t help them at the expense of someone else,” Rubini says. “You can argue these policies always come at the expense of someone else, but it’s even more problematic when it’s very directed at who must pay for these benefits.”

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