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AK Position Paper

Social Investment

Growth, Employment and Financial Sustainability

Economic and Fiscal Effects of Improving Childcare
in Austria

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Rudi Kaske
President

Werner Muhm
Director

Executive Summary

Investment in social services meets, in many different ways, the high demands of an intelligent, sustainable and integrative growth strategy - on a European level as well as in Austria. Recent studies confirm this.

The consolidation packages in EU countries will contribute in the coming years to a slowdown in economic dynamics. It is therefore even more important to achieve sustainable economic growth through an increase in women's employment by way of strengthening domestic demand. The use of the talents and skills of women and men alike is also essential to successfully facing global competition. This requires an intelligent employment strategy that cannot make do without social services:

- Regarding the increase in employment, the expansion of social services has a greater effect than any other form of public expenditure;
- The Employment target of 75% Europe-wide cannot be achieved without a corresponding increase in women's employment; this makes the abolishment of employment barriers by the relief of unpaid family work necessary;
- This is also an indispensable prerequisite for managing demographic change and to ensure the financial viability of pension systems;

- If social infrastructure is lacking, the result is relocations in the regional labour market due to an exodus of qualified workers, the presence of which is an important factor for the location decisions of companies.

This article illustrates the positive effects of investments in social services using the example of childcare. The new model calculations show that these could, not only have considerable employment effects – depending on overall economic development –, but also make substantial additional revenues for public funds possible. What needs to be said upfront is that even in the case of relatively pessimistic assumptions about growth of the economy and employment the costs of more and improved childcare will at least be neutralized by the additional revenues (more taxes and contributions and savings in unemployment benefits).

A detailed description of the calculation with all details and assumptions can be found in the appendix.

The AK position in detail

1. The European Context

The presentation of the ‘Social Investment Package’ by the European Commission clearly showed that perception of social policy has considerably changed. Henceforth, not only the costs of those measures and programmes are taken into account, but also the positive medium and long-term effects regarding employment and public finances.

The European Commission’s recommendation on ‘Investing in Children: breaking the cycle of disadvantage’ describes the mechanism of potential impacts of (at the best universal and high quality) childcare provision on higher employment rates, stronger social cohesion, poverty prevention and fiscal sustainability.

2. Direct and Indirect Effects of the Expansion of Social Services

The numerous positive effects of the expansion of social services in general and of child-care in particular can be illustrated by four arguments:

Firstly: **Additional and better range of services.** The investments do not only lead to a quantitative larger number of services, but can also contribute substantially to better quality. On the one hand, more personnel and improving the carer–client-ratio can significantly improve the quality of care-services. On the other hand, the additional means invested can be linked to minimum standards for providing these services. High quality is indispensable when e.g. early education of children, care for the elderly or the qualification of unemployed people is concerned. Determining

these standards must therefore not be left to the free market, but should be specified by the public sector.

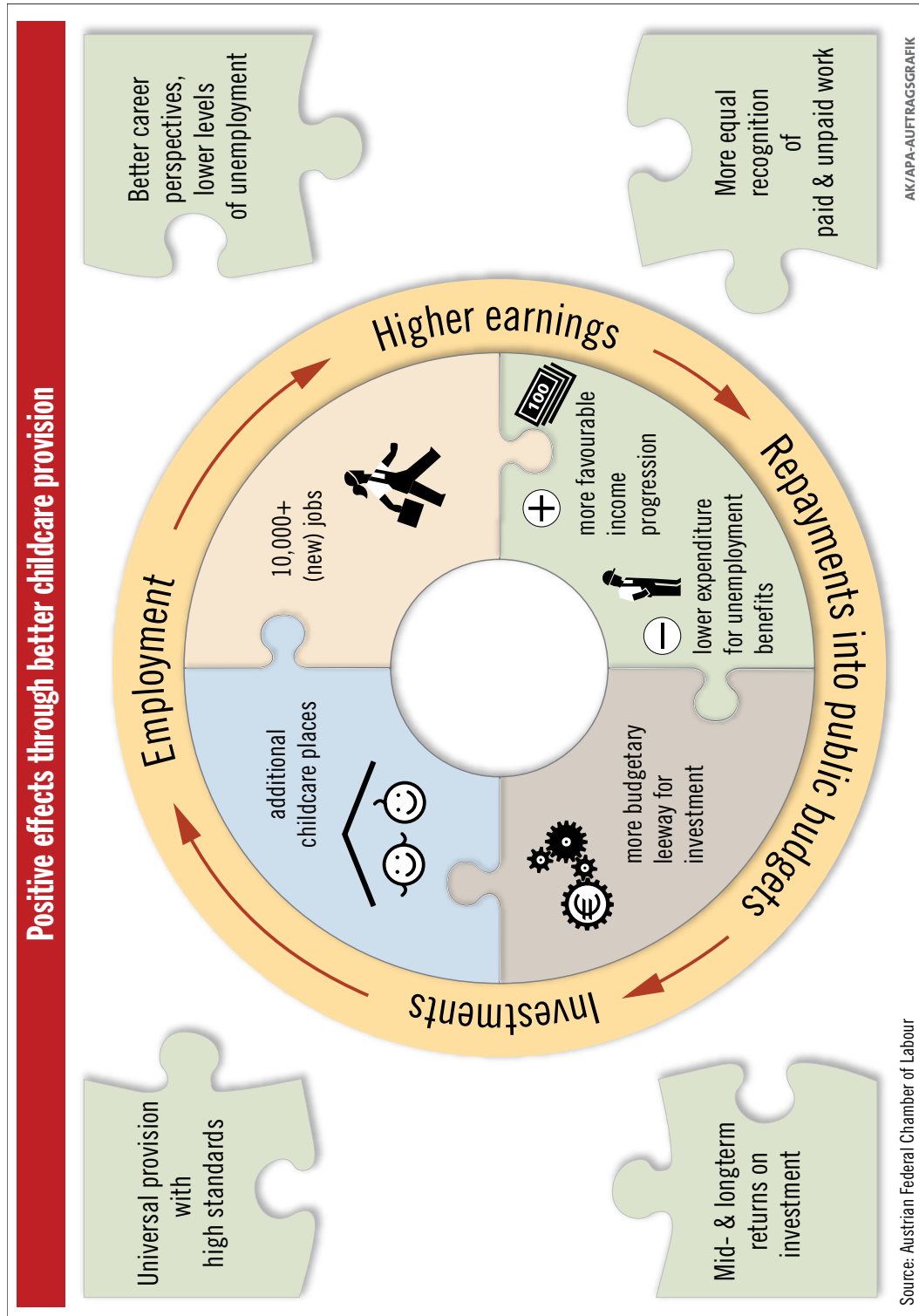
Secondly: **Tens of thousands of new jobs.** The expansion of social services creates, directly and indirectly, new employment. This effect is stronger than in all other investments of public money. Given the 352,000 persons in Austria seeking employment (280,000 unemployed and 72,000 persons in training; forecast for 2013 according to Austrian Institute of Economic Research 12/2012), initiatives in employment and the labour market are indispensable. Considering the only moderate forecast on economic growth and the on-going opening of the labour-market, making use of new and sustainable employment opportunities is imperative.

Thirdly: **Better income-careers.** Women still render the largest part of unpaid care work. Social services are therefore crucial to turn this unpaid work into paid work and exploit the, nowadays, excellent qualifications of women by giving them the opportunity to participate in the labour market.

Fourthly: **Larger budgetary leeway.** In the medium- to long-run, these investments are also a gain for public funds, because revenues permanently exceed expenditure, mainly because of the increase in employment and the savings in unemployment benefits.

Depending on the economic cycle, the employment effects and the revenues for public funds can vary. But even in the most pessimistic scenario the additional revenue would compensate the costs – and the positive effects of better social services are a given in any case.

Image 1: Positive Effects of the Expansion of Childcare



3. Status Quo in Child-Care

Despite the on-going expansion of child-care-services for children of pre-school-age in Austria there are still considerable gaps in this area. Improvements are called for on various levels:

- the number of available places, particularly for small children under three years of age where demand by far exceeds supply,
- although there are sufficient places for children from 3 to 6, there is a lack in terms of services offered as well as afternoon and school holiday opening hours,
- the quality of early education groups needs improving by reducing the ratio of carers to children.

In the case of Austria, financing child-care is the responsibility of the Länder and the municipalities. But as expansion was progressing too slowly, the Federal government started to invest in childcare in terms of start-up financing and plans to continue this effort for two more years. For both 2013 and 2014 15m euros will be made available to the Länder.¹ The Länder are required to co-finance by contributing the same amount and bearing the on-going costs.

If this logic is to be followed, 100m euros per year start-up investment by the Federal Government would be needed for the next four years in order to eliminate the current deficits. The overall investment needed is much higher, but this is also the case for the returns on the investments. The details of the calculation can be found in the appendix.

¹ See http://www.parlament.gv.at/PAKT/VHG/XXIV/I/I_01406/index.shtml

4. Details of the Analysis of the Effects of the Expansion of Childcare

The calculation as laid out in this article is based on the deficits mentioned above. The intention is to implement measures in the following areas: number of places, opening hours and quality. With the here-foreseen funding until 2017 the following would be possible:

- 35,000 additional places for children younger than three years
- improvement of the opening hours for 70,000 existing places
- for all groups for small children one additional teacher, at least half-day.

These results would be a considerable improvement in the care-quality.

The underlying assumption is that the expansion takes place step by step. The longer opening hours as well as the improvement in the quality could already be implemented in the first year. The additional places need more time, because the necessary infrastructure has to be put into place first. Therefore, these were calculated starting with the second year of the implementation.

4.1 Necessary Investments

“Investment” obviously means to accept initial costs with the expectation of gain, usually over a longer term. Based on the already existing agreement, the Federal Government would have to invest on average 100m euros per year starting with 2013. The Länder and municipalities contribute the same amount and take over the on-going costs for the new and improved places.

With this investment the necessary costs for construction, personnel, training, and financing would be covered. It would generate substantial employment effects that would lead to higher revenues and lower unemployment benefits, if these “new” jobs were partly staffed with previously unemployed persons.

In the model the annual balance of costs and benefits was calculated. As *Table No. 7* shows, the gross investments (= costs without returns) vary depending on the stage of improvement. As of the second year they go up considerably due to construction costs. The highest level would be reached in 2015 with 591m euros. After that, investment in construction is fulfilled and only personnel and training costs remain. Accordingly, gross investment declines noticeably.

Depending on the underlying economic development, the net costs (= investment minus returns) vary. They would also reach the highest level in 2015 and comprise, depending on the scenario, between 61 and 148 Mio Euros. Once investment in construction is completed, the returns could exceed the costs by 14 to 168 million euros. But most importantly is that the investments would pay-off after four years in all scenarios!

4.2 Employment and Fiscal Effects

The expansion of childcare provisions would have significant employment effects. Firstly, within childcare itself about 14,000 new jobs are could be created. Furthermore, investments in construction and the additional income for the personnel of childcare facilities would generate more than 2,300 jobs in other sectors.

The effects of enabling persons with childcare responsibilities to engage (more) in paid labour would also be considerable. Even with very moderate economic growth another 14,000 jobs could emerge. Assuming better economic development, up to 28,000 parents – mostly mothers – could find employment. So all in all between 30,000 and almost 45,000 people could find a job due to the investments in childcare.

The potential would certainly be available. In a recent study, more than 140,000 parents said that they would seek employment or work more, if (better) childcare was available.² And also recent medium-term employment forecasts of the Austrian Institute of Economic Research suggest the demand for this potential.

So overall, in the worst case, 30,000 persons could find employment, in the most optimistic scenario up to 45,000.

As a result of this employment direct revenue (taxes, social security contributions) would flow back to public funds. When the savings in unemployment benefits are also included in the calculation, there would be a structural gain from the fifth year on.

In the medium term the improved opportunities to reconcile work and care responsibilities would generate, in any a case, a strong enough employment effect that revenue could exceed the

² Statistics Austria (2010), Vereinbarkeit von Beruf und Familie, Modul der Arbeitskräfteerhebung 2010, Vienna; Download: http://www.statistik.at/web_de/dynamic/statistiken/soziales/gender-statistik/vereinbarkeit_von_beruf_und_familie/publdetail?id=742&listid=742&detail=631

Overview - Impacts of improved childcare provision							
	2013	2014	2015	2016	2017	2018 - 22	2023
Improved childcare provision (places, cumulative)							
Additional childcare places	0	7,500	22,500	35,000	35,000	↔	35,000
Extended opening hours of childcare places	30,000	60,000	70,000	70,000	70,000	↔	70,000
Better childcare : children ratio	15,000	33,000	50,000	70,000	70,000	↔	70,000
Costs (gross)							
Annual personnel costs (EUR million) - cumulative	62	176	311	429	444	↑	553
Annual construction costs incl maintenance (EUR million)	0	45	91	80	2	↔	2
Training costs for additional personnel (EUR million)	12	31	53	70	0	↔	0
Financing costs (10y bonds)	2	5	9	12	9	↑	11
Total sum of investments needed (EUR million)	75	257	464	591	455	↑	566
Impact on employment (cumulative, dep. on scenarios)							
Direct effects+indirect (!): childcare + construction/training sector	2,400	6,800	11,700	15,300	14,000	↔	14,000
Effects through ↑ consumption	300	900	1,600	2,200	2,300	↑	2,900
Additional employment for parents with childcare responsibilities (indirect II)	1,000 to 2,000	4,000 to 8,000	8,500 to 17,000	12,500 to 25,000	14,000 to 28,000	↔	14,000 to 28,000
Employment effects (range derived from different scenarios)	3,700 to 4,700	11,700 to 15,700	21,800 to 30,300	30,000 to 42,500	30,300 to 44,300	↑	30,300 to 44,900
Lower expenditure and additional revenue (cumulative)							
Optimistic scenario: up to 50% of mothers employed with children who are now in childcare	65	209	403	579	624	↑	766
Average scenario: up to 37% of mothers employed with children who are now in childcare	60	189	359	513	546	↑	670
Pessimistic scenario: up to 25% of mothers employed with children who are now in childcare	55	170	316	446	469	↑	574
Budgetary effect							
Optimistic scenario (EUR million)	-10	-48	-61	-12	168	↑	200
Average scenario (EUR million)	-15	-68	-104	-78	91	↑	104
Pessimistic scenario (EUR million)	-20	-87	-148	-144	14	↓	8

Source: Austrian Federal Chamber of Labour (2013)

Table 1: Impacts of improved childcare provision in Austria (2013-2023)

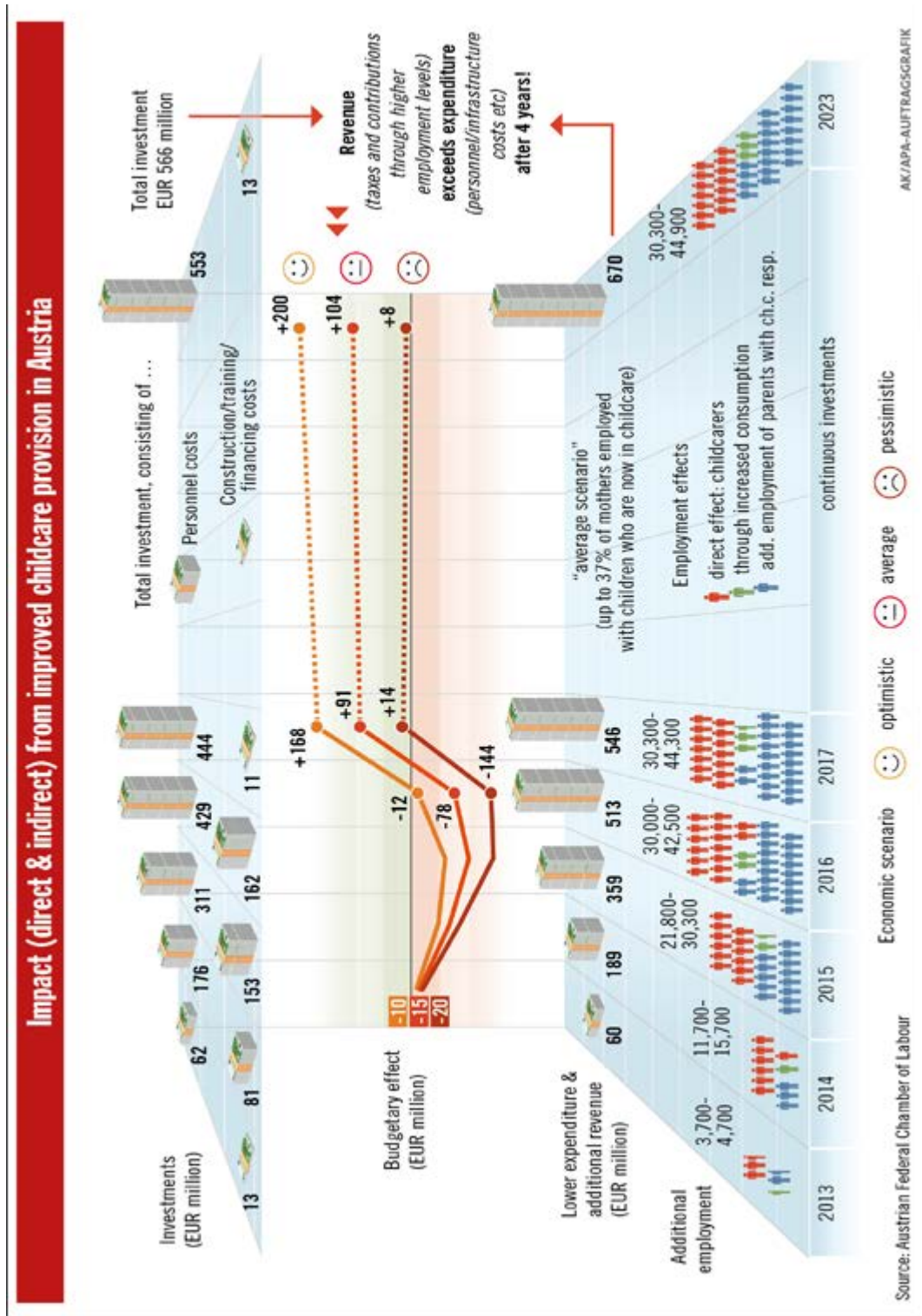


Image 2: Costs and effects of the expansion of childcare provision under different economic scenarios

cost by 14m per year. The improvement of childcare thus being cost-neutral would still improve the reconciliation of work and family life and would improve the early education of small children as well.

Given better economic development, the net return could go up to 90m to 168m euros per year.

5. Summary

Investment in childcare provision could not only eliminate current deficits regarding places and quality but could also generate considerable employment and budgetary effects.

With a start-up financing of on average 100m euros per year by the Federal Government, complimented by the same amount by the Länder, for the next four years 35,000 new places for small children (under 3 years old) and better opening hours for 70,000 existing kindergarten places could be achieved. Additionally, each small children group could get an additional teacher.

With this investment 14,000 new jobs in childcare would be created, another 2,300 in other sectors due to the enhanced demand. Furthermore, depending on the economic development another 14,000 to 28,000 parents who could not work (more) due to their care responsibilities could find employment. Overall 30,000 to almost 45,000 persons could find a job. The taxes from the new employment opportunities and the savings in unemployment benefits would create revenues for public funds that would exceed the costs from the fifth year of the initial investment on. Depending on economic development the excess would be at least 14m euros und could go as high as 168m euros.

In all, these investments would make regions more attractive for business, increase the employment rate especially for those of women as well as public revenues and diminish the structural insufficiencies of family policy. The sustainability of these measures supports the current efforts for budget consolidation.

6. Conclusions & Lessons Learned

As clearly stated in the “Social Investment Package” by the EC (2013), specific investments have the potential to create substantial returns in a medium or long-term perspective. In this sense, they can be partly or even highly self-financing aside from the welfare gain that they offer.

Lessons learned

- **The perception of social policy as investment that pays off might change the debate on austerity measures and put more emphasis on the productive role of social policy.**
- **The more social investment is embedded in an active growth and employment-promoting strategy, the greater the ‘returns’.**
- **Institutions matter: esp. in the field of family policy there is clear empirical evidence that the provision of in-kind benefits (such as social services) have a positive impact on female employment rates.**
- **Higher educational levels generate a ‘double dividend’ as higher education usually is connected with higher incomes – leading to higher revenue and taxes and greater chances for a successful re-integration into the labour**

market after a period of unemployment.

Thus, the calculations for improved childcare provision and the methodological approach used, both might serve as a template for further research in other fields of social policy. This also offers a positive message in times of austerity and provides an active strategy for sound public finance.

7. APPENDIX: The model in detail

The image below gives an overview of what costs and returns were included in the calculation:

Measure: Improvement of childcare provision (in AT)	
"Costs" - Gross	
A	Personnel costs
B	Construction costs (incl maintenance)
C	Training costs
D	Financing costs
E	(Gross) Costs - Total sum Sum A-D
Employment effects	
1	Direct effect: childcarers
2	Indirect effect 1 (construction ind./training sect.) via macro-multipliers
3	Indirect effect 2 (better reconciliation of work and family life)
4	Through increased consumption [only direct employment considered = underestimation]
5	Employment effects Sum 1-5
Lower expenditure and additional revenue	
F	Revenue (taxes/contributions) from 'direct' employment effect
G	Revenue (taxes/contributions) from 'indirect' employment effect
G1-G3	[different scenarios (optimistic/average/pessimistic)]
H	Lower expenditure for unemployment benefits (UB)
I/J/K	Lower expenditure and additional revenue per scenario Sum F-H
Costs (net) or exceeding returns over costs (current year, nominal values!)	
L/M/N	Balance: (I/J/K) minus E
if balance (-): annual costs of investment > annual return	
if balance (+): annual return > annual costs of investment	
as a "rule/interpretation": investments pay off after X years ...	

7.1 Main assumptions:

- Nominal values are used: this is in line with “budgetary logic”; rising inflation is considered
- Personnel costs: ~ 41,300/FTE (incl. all contributions etc.); annual rising: +3.7% (2% “target” inflation + 1.7% increase in income in real terms)
- Relation personnel costs: construction costs = 1:1; construction costs are only temporary, personnel costs are continuous
- Training intensity: 50% of child-care workers are in need of training (EUR10,000)
- Evidence-based (AT): number of employed persons in child-care = 1.5 x FTE
- “Multipliers” used: 1 bn/investment leads to X ... total number of induced employment

a) Training Sector: +7,900 persons employed

b) Construction Sector: +8,600 persons employed

c) Rising Consumption: +5,200 persons employed

[Source: Austrian Institute of Economic Research, 2006: in comparison to other institutes rather conservative multipliers]

- Assumptions on income of new jobs: EUR 2,000 gross/month (FTE)

- Additional employment of persons with childcare responsibilities: (~ linear “cultural change”)
- ‘Opportunity costs’ of being unemployed: EUR 18,960 (unemployment benefits and costs for active labour market policy = direct costs for PES)
- [Source: Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012]
- Reintegration of unemployed leads to “new” jobs: 1/3 of new jobs are would be filled by previously unemployed persons.

Additional employment of parents:

Optimistic Scenario:

15 (initial) to 7x (2017+) improved opening hours lead to + 1 add. parent employed

3 (initial) to 2x (2017+) “new” childcare places lead to + 1 add. parent employed³

At the beginning 15 x better opening hours = 1 add. person employed + 3 additional places for under 3-

For the pessimistic scenario only half of the effect as laid out above is assumed. The average scenario assumes the mean between the two other scenarios.

All the assumptions are mainly based

³ These assumptions are rather moderate: Currently 63% of all mothers of children in childcare are employed (see Statistics Austria (2012), Kindertagesheimstatistik 2011, Vienna).

on evidence from national data. The macro-economic multipliers are used from the Austrian Institute of Economic Research, a kind of variable for “cultural” change in female employment was imputed into the model and it’s important to point out that all the values used are nominal values – so that they fit into a fiscal or budgetary logic better! – and the employment numbers refer to a head-count and not to full-time equivalents (FTE) as part-time work still represents a huge share (>45%) of women’s employment status in Austria and not to under-estimate the effects on an individual level. The effects through additional consumption is underestimated as only the consumption derived from ‘direct’ employment is considered here.

Should you have any further questions
please do not hesitate to contact

Adi Buxbaum

T: + 43 (0) 1 501 65 2373
adi.buxbaum@akwien.at

as well as

Sybille Pirklbauer

T: + 43 (0) 1 501 65 2597
sybille.pirklbauer@akwien.at

and

Christof Cesnovar

(in our Brussels Office)
T +32 (0) 2 230 62 54
christof.cesnovar@akeuropa.eu

In cooperation with: Andrea Casamenti,
Markus Marterbauer, Miriam Rehm, Josef
Wöss, Thomas Zotter and Josef
Zuckerstätter

Bundesarbeitskammer Österreich

Prinz-Eugen-Straße 20-22
A-1040 Vienna, Austria
T +43 (0) 1 501 65-0
F +43 (0) 1 501 65-0

AK EUROPA

Permanent Representation of Austria to the
EU
Avenue de Cortenbergh, 30
B-1040 Brussels, Belgium
T +32 (0) 2 230 62 54
F +32 (0) 2 230 29 73