

Compensating for child care

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Abstract:

Over the past decades, social protection systems in Western welfare states have designed new ways to facilitate the reconciliation of work and family life. The rationale behind these new policy measures is double. First, it lies in actual social developments, like the increased diversity of family types (e.g. rise of lone parents as well as of dual earner families with each having new demands for social support). Second, it stems from widespread convictions about the social value of employment, with these policies being part of a broader activation strategy.

Often, the new measures were added to existing family policies and family-dependent taxation rules. This has led to heterogeneous policy mixes relating to caring for children, ranging from support of the working mother (e.g. in-work tax credits or benefits, subsidies for formal child care) to measures that are aimed at compensating parents for self-provided care efforts (e.g. through parental leave, tax-share rules or home-care benefits). These policy options often suggest implicit or explicit norms and values regarding good parenthood and social integration. Through this normative framework, but also in their outcomes, these policy options are far from distributionally neutral. Also, they entail complex incentive structures that are not a priori clear.

In this paper, we investigate the different policy measures of both types (work support and home care support) in place in three European welfare states with very distinct care policy systems: Finland, Belgium and Germany. Using microsimulation techniques and survey data, we compare the allocated budget and the distributional outcomes of these policies, both within and between the countries. Our focus is on the differing impacts over the income distribution and for different family types.

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1. Introduction

Over the past decades, social protection systems in Western welfare states have designed new ways to facilitate the reconciliation of work and family life. Often, the new measures were added to existing family policies and family-dependent taxation rules. This has led to policy mixes that are very heterogeneous, inside countries as well as between different countries.

In this paper we compare the entire set of policies that have grown over time to compensate parents for their child care efforts in three European countries: Belgium, Finland and Germany. These three are quite distinct countries in terms of the care policy set that has been developed: Germany has a rationed child care market, and achieves the care for children to an important extent by means of child raising allowance schemes. In Belgium, a hybrid system is in place, where formal child care is heavily subsidized but its use concentrated among higher income families, while traces of the former joint taxation system continue to support single-earner families, but provide no support for lone parents who choose to provide childcare themselves. Finland, finally, is the only country in the comparison that can claim its childcare facilities to be universal, with a sufficient number of places in subsidized day care and the availability of care outside the regular working hours. In addition, with its act on Home Care, Finland provides an allowance to parents who choose to provide the necessary childcare themselves until the child reaches the age of 3.

We group the existing policy measures into two categories: measures that support the working parent, and measures that are aimed at compensating parents for self-provided care efforts. This encompassing viewpoint is relatively rare in the existing literature on care policy, especially when cross-country comparisons are made. We argue that it is necessary: different policy measures within one country are often complementary. Focussing on only one type of policy (e.g. parental leave, or subsidized child care) across countries results in only a very partial truth. We chose to assess therefore all policies that regard the care for children until the age of 6.

In the analysis, we employ a dual perspective. First, we empirically disentangle the distributional flows underlying the care policy set across the income quintiles and the different family types. Second, we draw on the concepts of choice neutrality and equal care capabilities to evaluate the present policy set in the countries. We have organized the rest of the paper in the following way. In Section 2, we outline

the theoretical framework on which the evaluation is based. Section 3 describes the current care policy context in the three countries. The existing policy measures are listed and their size and scope in budgetary terms and in use are compared. Section 4 covers the methodology used, microsimulation modelling. The results are discussed in Section 5, to end with a discussion in section 6.

2. A further clarification of the starting principles

Before we embark on the comparison of the empirical realities of families with young children in Finland, Germany and Belgium, we need to clarify our approach a little further. We are about to compare measures in the field of family policy that aim to help reconcile paid work and parental care responsibilities. This specific aim implies that we disregard various, traditionally strong pillars of family policy. Most importantly, we do not take into account all kinds of measures that have been introduced to alleviate the financial burden related to the upbringing of children, notably child benefits and tax allowances related to the presence of children in the household.

Rather we focus on policy measures that are directly linked to the time conflict that parents experience. This conflict is most pressing for children that have not reached the age of compulsory school, because on the one hand younger children require more active supervision and on the other, the countries at hand all have compulsory school systems that take care of children for a considerable part of the working day and, hence, reduce the time conflict to a great extent. Consequently, we limit our analysis to families with at least one child below 6, which is under the starting age of compulsory school in Belgium, Finland and Germany.

The above limitations may seem to narrow the relevance of our analysis, but we feel the opposite is rather true. In previous studies, authors have often focused on one type of policy measures only (e.g. parental leave or child care services), while there are obvious feedback loops between various reconciliation measures. The main aim of our contribution is therefore to chart the combinations of policy elements as they are at work in three countries and to provide a numerical estimate of the budgetary weight that they represent. Moreover, we add a distributional analysis to show how the policies affect various family types and income groups.

Normatively, we abstain for the moment from the modelling of an optimal benchmark scenario. Yet, our distributional analyses reveal the relative weight of the various measures and hence allow for a comparison of the public support that is given to various types of parental combination strategies. We

leave a theoretical underpinning of a choice for a particular optimal reference for later work. This is not to say that we think that a distribution of childcare subsidies that largely favours the upper income groups (see below for examples) can easily be reconciled with any of the major aims of social policy. Yet, we want to separate a descriptive analysis of distributional outcomes from a discussion of the normative complexities of reconciliation measures (for example, activation versus freedom of choice). For an excellent overview of the latter, we refer to earlier work of Lewis and Guillari (Lewis and Guillari 2005).

3. The current care context

Table 1 gives an overview of the care policy sets over the three different countries for the policy years on which the simulations are based. The budgetary size of each type of measure is expressed as a percentage of the countries' GDP. The usage of the measure is expressed as the share of children targeted with each policy measure that are covered, enrolled or making use of this policy option. As this eligible group differs from policy to policy, and children can make use of more than one type of care arrangement, these percentages are not cumulative. Our focus lies on the children younger than 6 years old. Therefore, we do not take into account out-of-school care for older children.

Table 1: Overview of the care context in Belgium, Finland and Germany (2002-2003)

measure	BELGIUM	budget (as % of GDP)	Use (as % of targeted children)	FINLAND	budget (as % of GDP)	Use (as % of targeted children)	GERMANY	budget (as % of GDP)	Use (as % of targeted children)
Maternity leave (ML), paternity leave (PtL) parental leave (PrL)	ML: 15 weeks at 80%(first month) - 75% (rest) of (capped) earnings PtL: 10 days at 82% of (capped) earnings PrL: 3 (6) months full(part)-time - at a flat rate of €547(FTE)	0.18% (1)	No take-up rate available	ML: 21 weeks PrL: 31 weeks PtL: 3.5 + 2.5 weeks rate: max.70% of earnings, min €11.45/day	0.40% (1)	ML & PrL +/- 100% (5)	ML: 14 weeks at average annual earnings	0.03% (1)	No take-up rate available
home care	tax-share rules	0.62% (2)	13% (2)	home care allowance	0.23% (1)	30% (5)	child raising allowance	0.16% (1)	49% (6)
child care fees in subsidized childcare	Income & family size dependent	-	-	income & family size dependent	-	-	income & family size dependent	-	-
subsidized child care	yes	0.79% (1)	37% (4)	yes	0.93% (1)	54% (5)	yes	0.06% (7)	8.6%(3)
private child care	mostly family day care	N.A.	26.4% (4)	private day care allowance	0.10% (1)	4% (5)	also subsidized		
tax deduction for child care costs	yes (up to 11.20€/day). (small) tax allowance for children not using formal child care.	0.06% (2)	100% (2)	no	-	-	for expenses over €1,548/year. max. deduction: 1,500€	0.01% (6)	7% (6)
pre-primary education	age 2.5 to 6, free of charge (only incidental costs)	0.60% (3)	100% (7)	age 6&7, free of charge	0.20% (3)	100% (3)	age 3 to 6, fees apply	0.40% (3)	93% (3)

Notes: all figures refer to 2003 for Belgium and Finland, and to 2002 for Germany. The use-column corresponds to the children (living in a family) who make use of this measure as a percentage of all children potentially eligible to benefit from this measure (called targeted children). Exception: there is no applicable targeted group of children for the Belgian home care policy measure, which means the value in this column refers to the percentage of children younger than 6 who live in a family making use of the tax-share rules with a net benefit of min. €100/year.

Sources: (1) OECD social expenditure data (2002-2005), (2) own calculations on the basis of BE-SILC2004 and MISIM, (3) OECD Report "Starting Strong II" (2006), (4) Van Keer et al. (2004), this source reflects the situation in the region of Flanders only (5) Statistical yearbook of the Finnish Social Insurance Institution (2004), (6) own calculations on the basis of GSOEP and EUROMOD, (7) OECD Family Database.

The care policy set in **Belgium** follows two distinct tracks. On the one hand, parents are stimulated to remain active on the labour market, with comparatively short maternity, paternity and parental leave (only available to employees), in combination with a relatively extensive market of child care provisions, with both private and subsidized institutions. Both can take the form of day care centres or family day care. An important part of the 0 to 3 year-olds makes use of this ‘formal’ child care, which is organized at the level of the communities in Belgium. Slightly different systems apply in the Flemish, French and German (language) communities. Still, a scarcity of available places prevents a guaranteed place for each child when parents are out of parental leave period, and in most cases a number of months have to be bridged with informal care until the child has a place. Also, parental leave can be supplemented with ‘time credit’. This is a career break measure that is available to all employees, and is not necessarily linked to taking up care for children¹. Fees in the subsidized child care centres are dependent on the parents’ income and the number of children in day care. In 2003, they ranged from €1.26/€1.88 per care day to €22.4/€26.5 in the Flemish/French community. In private day care, fees can be set freely, but on average correspond more or less to the maximum fees in the subsidized day care centres.

On the other hand, tax-share rules are in place for single earner families, unconditional upon the presence of young children in the household, giving a life-long labour market adverse incentive for women who chose to stay home for raising their children. These measures trace back to the policy switch in the late 1980s when joint taxation of families was replaced by an individual taxation system. The most important tax-share measure in the Belgian taxation system, called the “marital quotient”, entails that part of the income of the earning spouse is transferred to the non-earning spouse. Both parts are then taxed as individual incomes, implying a significantly lower average tax rate, from which the net benefit can add up to almost €5000 euros/year. Additionally, for couples in which one partner has a rather small job and income (typically small part-time jobs), tax-allowances can be transferred between the partners if the personal income of one partner is insufficient to make full use of the allowance. From our calculations it appears that 37% of children under 12 live in a family that gains min. €100/year from these tax-sharing rules. At the same time, this group represents only a small fraction of the total group where the measures are applicable: in 77% of the Belgian families making use of these tax-share rules, there are no children younger than 12 years old present in the household. With the

¹ We therefore do not include it in the overview, as it is not available how many workers make use of this measure for the reason of caring for their children.

growing employment rate of Belgian mothers, the system has to a large extent transformed into a subsidy to older cohorts for their past childcare efforts rather than a compensation for childcare efforts of the current generation of parents.

In **Germany**, the care policy set in 2002 is more home care oriented, especially for children under 3.

Many parents make use of the child raising allowance (*Erziehungsgeld*), consisting of a federal allowance (*Bundeserziehungsgeld*) with supplements in a number of states (*Landeserziehungsgeld*). This is an allowance for a parent with children under the age of 2 who work less than 19 hours/week. It is means-tested: during the first six months, a yearly income limit of €51,129 for couples and €38,347 for lone parents applies.² The allowance amounts to €307 per month. From the seventh month onward, the allowance is incrementally reduced for couples and lone parent families with one child whose income exceeds €16,464 and €13,498 respectively. These limits are increased for additional children (according to the year they were born).

The Child Raising Allowance was replaced by a system which follows more the lines of a parental leave scheme (*Elterngeld*) for children born after 1 January 2007. However, we simulate and describe the care policy context as it was in 2002, the latest year that Germany is modelled in the EUROMOD.

Child care for children younger than 3 is organized in *Kinderkrippen*, child care centres, provided by either municipalities or by private, mostly confessional institutions. Both are subsidized. Availability is rather restricted: Per 100 children, there are on average 37 slots in East Germany, and 3 slots in West Germany (Statistisches Bundesamt, 2004, as quoted in Wrohlich, 2006). For children aged 3, 4 or 5, care takes place in *Kindergarten*. With on average 93 available slots per 100 children, *Kindergarten* is nearly universal. Places are nearly all full-time in East Germany, while 82% is part-time in West Germany. Fees for *Kinderkrippen* and *Kindergarten* are largely to the discretion of the providers within the regulation stipulating that fees should be charged as a function of parental income and family size (Wrohlich, 2004). In general, fees for *Kinderkrippen* are higher than fees for *Kindergarten*. In 2002, all costs incurred for formal child care from a yearly threshold of €1,548 onward are tax deductible. The maximum

² The limits are not based on the usual definition of net or gross income, but on a special definition of income in the Federal Child-Raising Allowance Act (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998)

deductible amount is €1,500. Few families reach the yearly threshold cost, which explains the small fraction of families benefiting from the tax deductibility.

The care policy set in **Finland** can be characterized as approximating both universal accessibility and parental choice-neutrality between the different forms of care provision.

Maternity allowance is paid for 105 weekdays (21 weeks) to the mother. For the next 158 days (+/- 31 weeks), the parental allowance can be paid alternatively to the mother or the father, or can be shared between them in a way that both receive partial parental allowance concurrently. Fathers are eligible for a “paternity allowance” for up to 18 weekdays at any point during the maternity or parental allowance period. Fathers who take the last 12 weekdays of the parental allowance entitlement are eligible for an additional 12 weekdays of paternity allowance after the parental allowance period has ended. The replacement rate for these allowances is 70% of average earnings up to €26,124/year. Above this amount, the replacement rate decreases, but there is no maximum limit.

Child care is seen as a children’s right, anchored in the Act on Children’s Day Care as of 1973. The explicit aim is to provide a place for each child between the end of the parental leave period and the beginning of primary school. This responsibility lies with the municipalities, organising day care in centres or family day care. When needed, parents should also be able to make use of provisions for child care outside the regular hours. Fees for child care are calculated according to the family income and size, and range from no fee for low income families to max. €200 per month for the first child (€180 for the second child). Apart from this universal provision, parents can also choose to receive a private childcare allowance, which is paid to the private caregiver of their choice. If the parent wishes to care for the child at home or arrange care with friends or relatives, s/he is entitled to the Child Home Care Allowance until the youngest child in the family is three or enters municipal or private day care. This allowance consists of a base amount of €252 for one child under three, plus a supplement for the number of children that are cared for in this way (€84 for each additional child younger than 3, and €50 for each additional child under school age). A means-tested supplement up to €168 depends on the family income and size. Municipalities can also remit supplements to the home care allowance. Availability, eligibility and amount vary by municipality. The Child Home Care Allowance is subject to tax. During the home care period (parental leave + home care allowance), the parent has full employment security. Some 80% of the families continue the parental leave period by taking home care allowances at least some time. This

means that for children aged 0 to 1 almost all are cared for at home. Pre-primary education starts at the age of 6, and 95% of children are enrolled.

When looking at the shares of GDP that the different policies represent, it is clear that Belgium and Finland spend greater budget shares to care policies than Germany. Parental leave is most extensive in Finland, while the home care benefit is significantly more important in relative terms in Belgium than in Finland and Germany. Finland, however, spends the largest share on child care provisions, just over one percent of its GDP, taking subsidized day care and private day care together.

These numbers, largely from administrative sources, have to be nuanced in a number of ways. First, what we consider as the Belgian home care allowance is not conditional on taking up care. Instead, it is granted to all single-earner couples, consisting of one spouse with an income and one partner without. Second, the administrative accounts contain gross numbers. In this respect, administrative accounts usually do not take into account the interaction with the taxation system: in some countries, benefits are taxed or certain expenses are tax deductible, while in other countries they are not. Especially for cross-country comparison of social expenditures, this can give rise to considerable distortions (Adema and Ladaïque, 2009). In our assessment, this is the case with the Belgian and German fees, which are tax deductible (to some extent), and the Finnish home care allowance and private care allowance, that constitutes taxable income of respectively the parents and the private caregiver. Finally, also subsidies to child care centres are reported in gross terms. Yet, parents' fees make up a substantial fraction of the cost of child care, typically around 15% (this ratio is more or less the same for the three countries).

For these reasons, and to adequately assess distributive effects, we use the method of microsimulation modelling as the tool to perform the cross-country analysis of the countries' care policy sets outlined above.

4. Methodology

Microsimulation techniques are particularly well suited to investigate consequences of policy measures and proposed changes that interact with the existing tax-benefit structure. Relevant examples in this context are benefits that qualify as taxable income, such as the Finnish home care allowance, for which microsimulation modelling allows presenting the net benefit (after taxation) in a comparable context. Also the interaction with eligibility for means-tested benefits is taken into account. A final component in this analysis is the tax deductibility of child care costs. The net gain of this measure differs from tax unit

to tax unit. Finally, these detailed calculations allow us to assign an individual 'net' subsidy at micro-level, which takes into account the intensity of the use of child care, the type of child care that the child attends and the treatment of child care costs in the taxation system.

We make use of the microsimulation model EUROMOD for Germany and Finland, and the microsimulation model MISIM for Belgium. Both models are static tax-benefit models and are very similar in scope, covering the countries' personal income taxes, social security contributions and part of social benefits. As output they can provide both budgetary consequences of policy measures as well as the current distributive and poverty indicators.

Of course, simulation models also have inherent limitations. Our method uses empirical data that are obtained by means of surveys. As such, the accuracy of the results depends on the quality of the data (e.g. adequate information about all income components, socio-economic characteristics, use intensity of child care, and a sufficiently large sample). For Germany, the underlying dataset is the German SOEP 2002. For Finland, the model uses the 2003 Income Distribution Survey. For Belgium, Belgian SILC 2004 is used (containing incomes from 2003).

We model the use of public child care provisions in the three countries, eligibility and take-up of the home care benefits in the three countries, and tax deductibility of child care expenses in Belgium and Germany. Child care fees are modelled in Belgium and Finland, and are taken from the data in Germany. We do not incorporate parental leave policies into the simulation exercise. The reason for this is twofold. First, due to its temporary nature, often only a part is captured in the income reference period. Second, there is no information available with regard to the length, intensity (full-time or part-time) or take-up of the parental leave. This makes it almost impossible to derive the necessary comparable base for an assessment of the real income effects of this measure in a cross-country framework.

Finally, only first-order effects are considered in this article, so no account is taken of possible labour supply effects or other behavioural reactions.

5. Results

In this section we present the results of the microsimulation exercise in the form of average expenditures over the income distribution (by income quintiles) and over six different family types. The income quintiles are constructed on the basis of standardized disposable household income, applying

the modified OECD equivalence scale (1 + 0.5 for every other person 14 years or older + 0.3 for children younger than 14 in the household). The family types are constructed according to the number of adults in the household and their employment status. All households in the family type comparison have at least one child younger than 6. Adults are classified as 'in work' if they have earned income from (self-) employment during the income reference period of at least €100/month on average.

Table 2 presents the distribution of children under 6 over these categories. The patterns differ considerably over the three countries. In Belgium and Finland, children are fairly evenly distributed over the income quintiles, with a slight drop in their concentration in the upper quintile (stronger in Finland than in Belgium). This contrasts with Germany, where a decreasing pattern appears and children under 6 are three times more likely to be situated in the bottom quintile than in the top quintile.

With respect to the family types, children under 6 live four times more frequently with a lone parents in work in Germany in comparison to Finland and Belgium. Most children under 6 live in a dual earner family in Finland and Belgium, while in Germany this is in the single earner family. 11% of Belgian children under 6 live in a family where no adult is working, in Germany 10.3% (the vast majority of them in lone parent families). In Finland, this figure is considerably lower (6.4%)

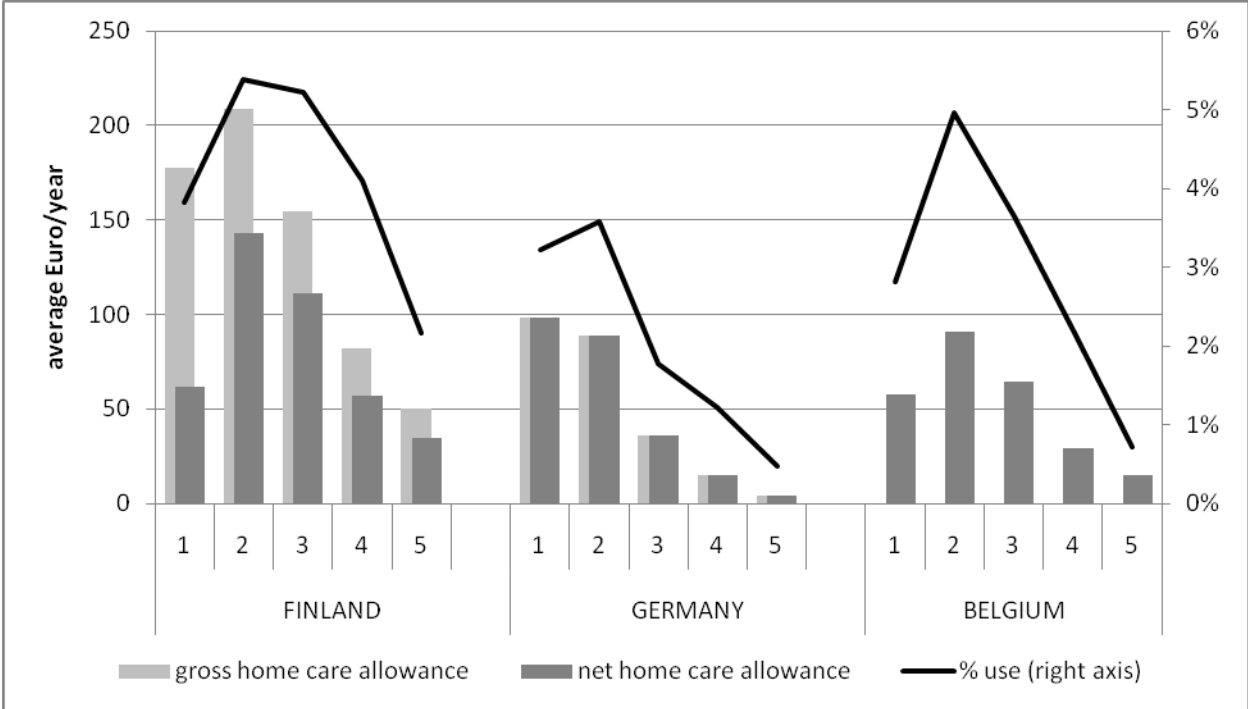
Table 2: Distribution of children younger than 6 by income quintile and family type.

	Belgium	Finland	Germany
Income quintiles	100.0	100.0	100.0
1	19.1	20.1	32.5
2	18.7	22.8	22.6
3	21.1	22.3	19.5
4	23.5	19.6	15.4
5	17.6	15.2	10.0
Family types	100.0	100.0	100.0
lone parent in work	4.4	4.4	16.3
lone parent no work	6.6	3.1	8.3
dual earner couple	56.3	58.9	33.7
single earner couple	23.4	26.5	36.7
no earner couple	4.4	3.3	1.9
other	5.0	3.8	3.1

Source: own calculations on the basis of BE-SILC, Finnish IDS and GSOEP.

In what follows, the home-care cluster and the day-care-cluster of policies are each assessed for the three countries by income quintile and by family type. All amounts are averaged over all families belonging to the presented category, and expressed in Euros/year. The dark line in each graph indicated the percentage of families, by category, making use of the policy measure (right axis). The income flows that underlie their usage are presented in the bars. Positive values indicate a transfer from government to the households, negative values indicate costs to be paid by the household (in this case the child care fees).

Graph 1: Distribution of income flows for home care and use by income quintile.



Source: own calculations on the basis of EUROMOD, MISIM, and the national survey data.

For the home care benefits, we present a gross home care allowance and a net home care allowance (Graph 1). The net home care allowance is constructed as the net difference in disposable income between the baseline scenario where the home care allowance is simulated, and an alternative scenario where it is abolished. The difference is only relevant for Finland, as this is the only country where the allowance is part of taxable income. In the higher quintiles, the difference between gross and net

corresponds to the taxes paid on this higher income. In the lower quintiles, this difference is also made up of a second factor: a changing eligibility for other means-tested benefits. The very low net benefit from home care in Finland in the bottom quintile means that families who are now receiving the Finnish home care allowance, would qualify for e.g. higher housing allowances in case the home care allowance was abolished. These alternative benefits would, to a large extent, replace for the income that these families now receive from the home care allowance.

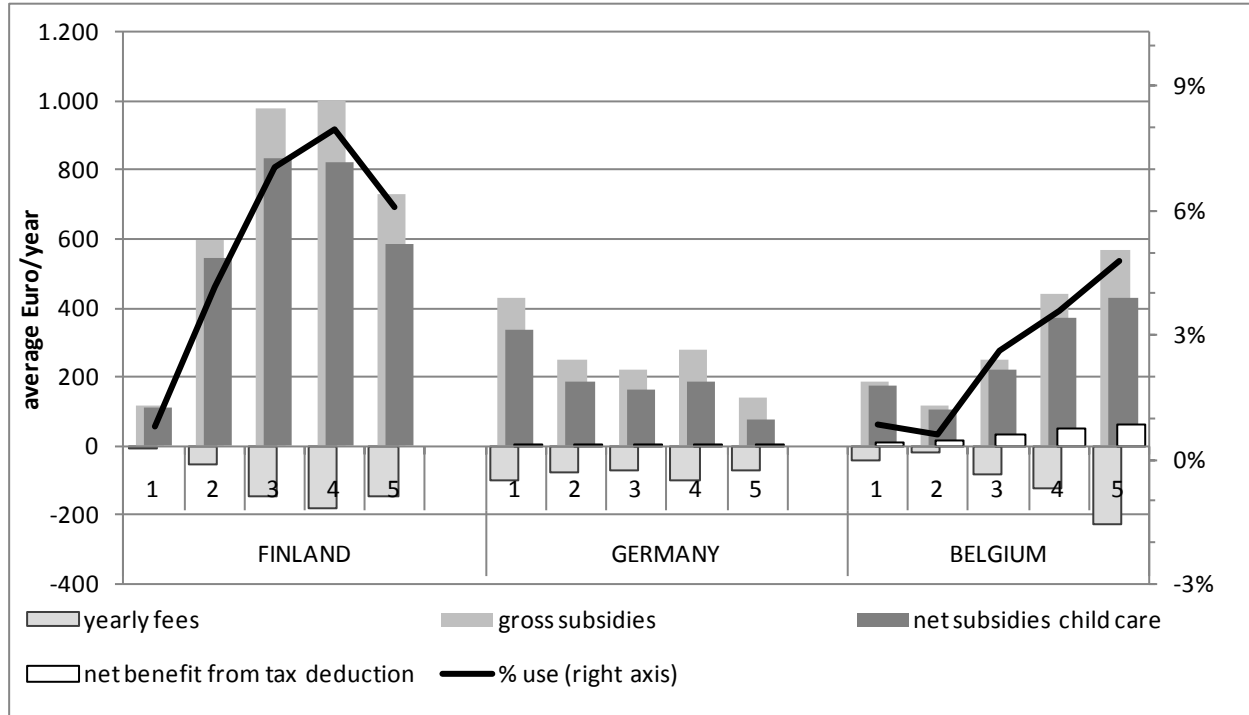
In Germany, the child raising allowance is not included in taxable income, and the gross allowance equals the net benefit. In Belgium, the tax-share system is by construction 'net' of taxes. We only present the average net benefit and use intensity for families with at least one child younger than 6 in the family. The enormous spill-over, caused by the fact that the tax-share rules are not conditioned on having children, is therefore left out of scope. The budget for these measures involved in this comparison is only a fraction of the total budgetary cost of the tax-share rules. From the budgetary cost of 0.62% of GDP that is reported in Table 1, actually only 14% is received by families with young children and effectively compensates current child care efforts. The remaining 86% of this amount can be seen as a subsidy to older cohorts for their past childcare activities, but who never became active (again) on the labour market. They are mostly disregarded in the rest of the analysis.

Even though the policy measures in place in the three countries to compensate for home care are very differently designed, their distributional pattern over the income quintiles is remarkably similar both in take-up as in size. Germany shows the steepest decline over the income quintiles, also because of the important means-test for the child raising allowance and the fact that much more children are situated in the lowest quintiles. In Belgium and Finland, families in the second quintile receive on average the highest gains from the home care measures. The net gain in the first quintile is relatively limited in both countries. In Finland this is explained by its substitution with other means-tested benefits. In Belgium the reason lies with the construction of tax-share rules: the more substantial the taxes due, the higher the net gain. Taxes are on average considerably lower for families in the first quintile, which implies that their potential benefit from tax deduction and sharing rules is inherently limited.

Graph 2 shows the distributional pattern of the income flows underlying child care. It is more diverse between the countries. In Belgium and Finland, the pattern of use is more or less the inverse of the home care use pattern. Child care is here most intensively used in the top quintiles, and comparatively little in the lower quintiles. There is a difference in levels, with childcare being used by a comparatively

small percentage of families in Belgium. However, we have to take into account that Belgian toddlers from the age of 2.5 onward can attend *kleuterschool*, pre-primary education that is institutionally part of the schooling system, with very high enrolment rates. This means that the use of regular child care for this age group drops considerably, as they only need care outside the 28 hours/week that they can attend pre-primary education.

Graph 2: Distribution of income flows for child care and use by income quintile.



Source: own calculations on the basis of EUROMOD, MISIM, and the national survey data.

As enrolment rates in pre-primary education in Belgium and Germany closely approximate 100%, a full comparison of the income flows with Finland, should include them in order to have the complete picture for all 3 countries for the whole age group of 0-6 year-olds. For lack of data, we leave this for later work. Yet, we can already note that adding the net subsidies for child care and the net subsidies for pre-primary education brings Belgium closer to the level of Finland in terms of spending on 0-6 year-olds in formal child care.

When we conclude that usage of child care is highly skewed in Belgium and Finland, the question remains to what extent the progressive structure of the fee calculation (based on family size and

income) corrects for this in the distribution of income flows underlying the provision of child care. For both countries, the progressive fee structure is visible from the graph, with families in the higher quintiles paying substantially higher fees than in the lower end of the income distribution, also when corrected for the intensity of the use. Fees appear to be somewhat higher in Belgium, however, their tax deductibility moderates the real cost to a comparable level as in Finland. At the same time, the fact that the childcare expenses are tax deductible also weakens their progressivity. Higher income families, paying taxes at the highest marginal rate, gain the highest net benefit from this measure. Overall, net subsidies in Belgium closely follow the pattern of use. Subsidies are most to the benefit of the top quintiles, because their use of the service is most intensive. In Finland, a slightly higher degree of progressivity is obtained, as the child care fees calculated are equal to the real cost and are not tax deductible.

In Germany, the reverse pattern applies, and child care is more used in the bottom quintiles and only very little at the top. When taking into account the distribution of children younger than 6 over the income quintiles in Germany (see Table 2), the usage is more or less proportionate, which means that its distributive effect is certainly less regressive than in both other countries. The same counts for the income flows underlying the usage of child care, that are proportionate as well to the number of children in each quintile. This analysis at micro-level confirms what was derived from the administrative budget shares in Table 1 – that Germany on average spends relatively little budget on care policy, and especially child care. This is largely due to the low availability of slots for the 0 to 3 year-old.

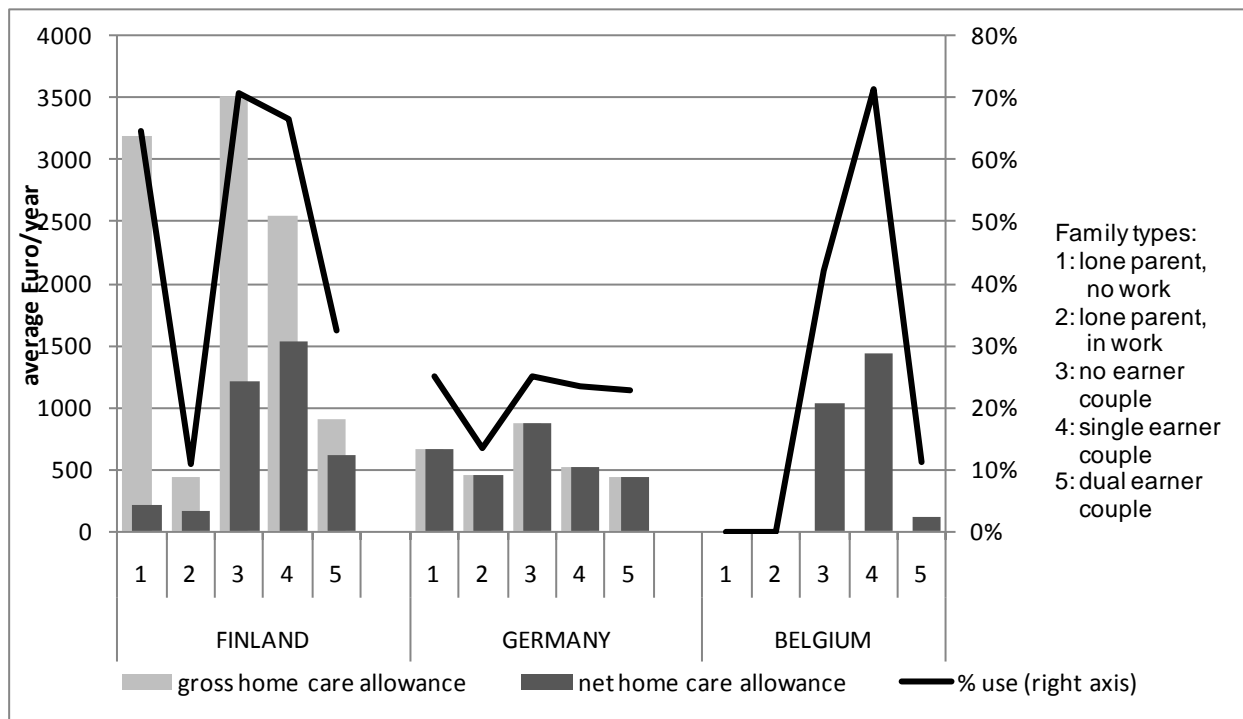
On this basis one can conclude that both clusters of measures – home care and child care – are most proportionally distributed (over the income distribution) in Germany. In Belgium and Finland (to a slightly lesser extent), usage and benefits are strongly skewed according to one's income position – home care towards the lower part of the income distribution and child care towards the higher end of the income distribution.

Also, the income flows involved in subsidizing child care are on average twice as high as the income flows involved in home care allowances in all countries. This is only partly due to the slightly higher use intensity of child care facilities in comparison with home care benefits. This suggests that within the current care policy set and budget, it is more expensive to provide a child care place in subsidized institutions than to compensate parents for providing the lion's share of the care time that young children require themselves. Of course, this first appraisal does not take into account the second round

gains from possible behavioural effects of available good-quality childcare provisions, namely higher employment rates among women and according social contributions and taxes on their earnings.

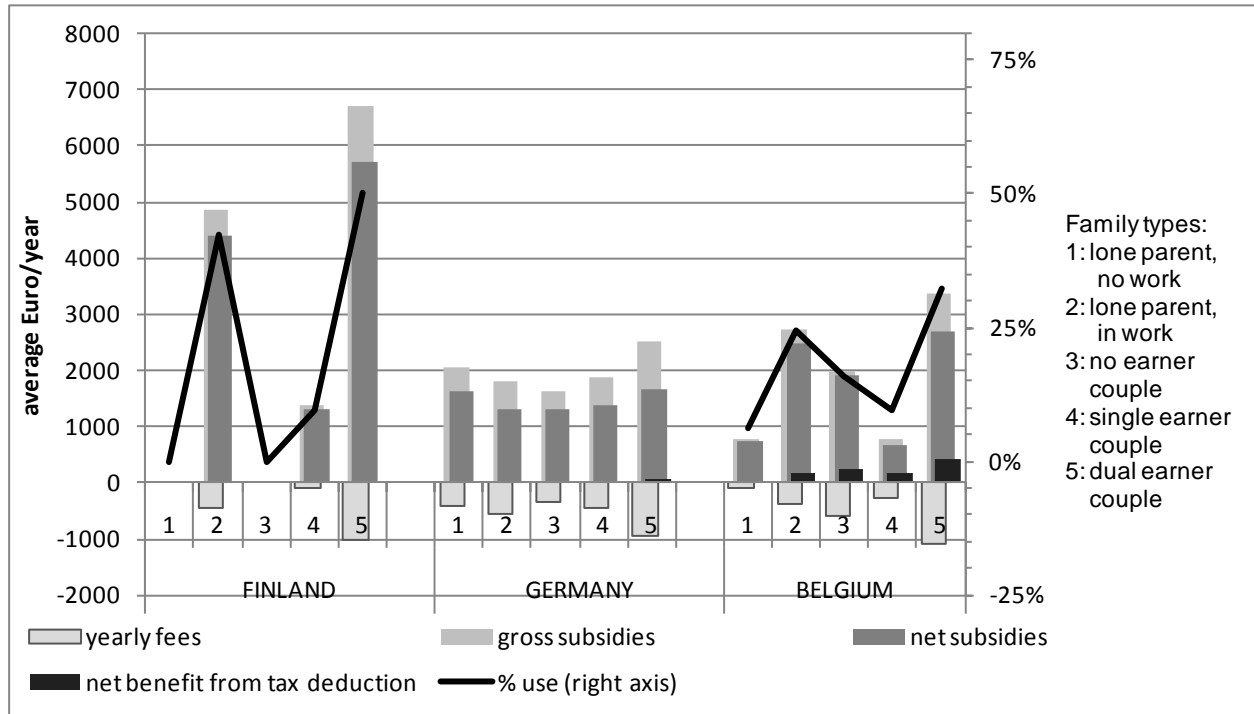
To gain additional insight in the distribution of care policy benefits, we perform a similar exercise in the following graphs, but now distinguish between various family types. This allows us to explain to what extent the distributional patterns can be explained by the “needs” of a family, in the sense that a family with working parents is more likely to be situated in the higher part of the income distribution, but will also use more childcare in order to obtain this higher income from employment.

Graph 3: Distribution of income flows for home care and use by family type.



Source: own calculations on the basis of EUROMOD, MISIM, and the national survey data.

Graph 4: distribution of income flows for child care and use by family type.



Source: own calculations on the basis of EUROMOD, MISIM, and the national survey data.

When we look at the distribution of the net gains of the home care benefits over the different family types (Graph 3), we observe that single earner families make up the bulk of the beneficiaries of the tax-share measures as expected from the fact that (at least) one partner is not gainfully employed.

Meanwhile for dual earner households the net gains are on average very limited. In Belgium, the consequence of the construction of the tax share rules is very clear: lone parents cannot make use of the measure by definition, as it entails a transfer of taxable income between two partners. This means there exist no compensation for the care time that lone parents invest in their children in Belgium.

Alternately, dual earners are the main beneficiaries of the state's investment in child care in all three countries. They pay the highest fees on average, but also gain the most from the possibility of tax deduction for child care costs in Belgium and Germany. They are closely followed by the category of lone parents in work. Although the intensity of their use is slightly lower than for dual earner families, they pay considerably lower fees than dual earners, and approximate the same average net subsidy.

Taken together, graphs 3 and 4 illustrate the different nature and target of the home-care and day-care policy measures. While the former mainly benefit families with at least one parent not gainfully employed, the latter’s prime recipients are families that are fully engaged in paid employment, being lone parents with a job and dual earner couples.

To round up, we provide an indication of the average of the budget currently used (per child per year) for care policy measures in Table 3. It is obtained by dividing the total budget from each measure in the reference period, by the number of children younger than 6 in the country. The Belgian budget from ‘current home care’ is reduced to the share that is effectively allocated to parents with young children (14%), because using the full amount would distort the total picture considerably.

Table 3: Available budget per child younger than 6 from care policy measures (Euro/year)

	Belgium	Finland	Germany
total	2379	5212	2198
from current home care	377	676	438
from current day care	2002	4536	1760

Source: own calculations on the basis of EUROMOD, MISIM, and the national surveys.

The figures in the table allow for several observations. First it shows that governments in all three countries spend far more on day care than on home care. Secondly the table suggests that Finland is spending much more than Belgium and Germany. Yet, here we should reiterate that government subsidies for pre-primary school are not yet included in our analyses. Preliminary analyses for Belgium suggest that their inclusion would almost close the expenditure gap between Belgium and Finland.

6. Discussion and conclusion

This paper looks into the distribution of government funds allocated to reconciliation. In general, we distinguish between two classes of measures, those allowing parents to engage in other activities (direct and indirect subsidies to care services) and those compensating parents for their own care time (e.g. home care allowances).

When we compare Germany with Belgium and Finland, several general tendencies can be observed. First, governments tend to spend considerably more funds on the day care type of subsidies than on home care measures. Second, home care related outlays tend to favour the lower income groups and those families with at least one parent out of work.

For day care subsidies no such general observation is possible, because day care subsidies tend to favour the higher income groups in Finland and Belgium, but not in Germany. At first sight, this may be surprising, because the use (and hence benefit) of subsidized child care is linked to gainful employment which situates benefiting families more than proportionally in the upper income groups. However, we assume that the very uneven geographical distribution of childcare services in Germany explain at least part of the fairly even distribution of childcare subsidies over the German income distribution. Indeed, the disproportionately high use of childcare services in the Eastern part of Germany combined with the continuing lower income position of the average Eastern German family, most likely explains the result found. Future calculations may sustain this hypothesis.

In any case, our analysis according to family type corroborates the fact that child care service use is clearly concentrated among families with working parents (either single parents or couples). When one parent is not gainfully employed, families are not likely to use childcare services and, given the unequal balance of the two classes of reconciliation policy, tend to benefit considerably less from government support of the types that are considered in this study.

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