

Economic and Fiscal Return from Social Investment

Example: Potential impacts of improved
childcare provision in Austria

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Outline

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- 2. The European & Austrian context**
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 - What costs are involved?
 - What are the effects on employment?
 - What are the returns?
 - Overall balance
- 4. Summary and conclusions**

Appendix – Details of the calculations

1. Key findings of AK-study (2013)

KEY FINDINGS

- Investing in childcare provision pays off after 4 years in the Austrian example – independent of the different economic scenarios!
- Even in times of budget consolidation in AT substantial funds were & will be invested in social infrastructure (childcare, LTC)!
- Social investment pays off → Step forward to potential paradigm shift concerning social policy?!
- **Returns/benefits** (revenue from positive employment effects & additional consumption, savings in unemployment benefits etc) **from social investment are usually underestimated/not considered in long-term cost projections** in essential fields of (social) policy!
- Social investment → social progress & structural gains

Research results based on:

Buxbaum, Adi and Pirklbauer, Sybille (2013),
SOCIAL INVESTMENT – GROWTH, EMPLOYMENT AND
FINANCIAL SUSTAINABILITY,

Economic and budgetary effects of improved childcare provision in Austria
Austrian Federal Chamber of Labour, Vienna

<http://tinyurl.com/economiceffects> [en]
<http://tinyurl.com/wirtschaftlicheeffekte> [de]

Follow-up study:

*Buxbaum, Adi (ed.) (2015), Perspectives for social progress,
Social Investments have multiple benefits, Chamber of Labour of Vienna, Vienna*
https://media.arbeiterkammer.at/wien/PDF/studien/Sozialpolitik_in_Diskussion_16_englisch.pdf

Reception of the study (2013 onwards)

■ Cited

- Background paper for the workshop ‘Gender sensitive approach to tackle Youth Unemployment’
[http://www.europarl.europa.eu/RegData/etudes/workshop/join/2013/474437/IPOL-FEMM_AT\(2013\)474437_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/workshop/join/2013/474437/IPOL-FEMM_AT(2013)474437_EN.pdf) (p 46-48)
- Eurofound (2013), Caring for children and dependents: effect on careers of young workers - Background paper
<http://www.eurofound.europa.eu/publications/htmlfiles/ef1344.htm> (p 7-8)

■ Discussed

- Meeting of the European Parliament ‘Gender sensitive approach to tackle Youth Unemployment’ (April 2013)
- Demography Forum, Brussels (May 2013)
- Meeting about feasibility on EU-level with the EC (Sept 2013)
- Exchange of best practices in Paris (Nov 2013)
- Seminar on Childcare and Early Childhood Education in Brussels (Dec 2013)
- European Economic and Social Committee (March 2014)
- ...
- **Bratislava** (Sept 2016)

2. The European & Austrian Context

Ad 2. The European & Austrian Context

European level:

- **Austerity vs social investment**

‘strategic inconsistency’ of (crisis) management: recommendation to invest in social infrastructure vs still tight fiscal rules for governments

- **European social model:**

best practices in the field of childcare and economic performance are rather identified within the nordic/continental model (see correlation of female employment rates & institutional factors)

- **Social Investment Package (EC) (20 Feb 2013)**

incl. EC Recommendation on ‘Investing in Children: breaking the cycle of disadvantage’

Structural specifics for Austria:

- **Austria (I):** dominance of ‘male-breadwinner-model’, women’s unfavourable share of unpaid work, labour market segmentation, high part-time employment of women, high gender pay gap etc.

- **Austria (II):** increasing/‘broad’ consensus on improvement of in-kind benefits (childcare, LT care etc.) incl. *Austrian Social Partners (Bad Ischl, 2011)*

- **Austria (III):** Investment in childcare as part of the Austrian budget consolidation strategy (2009+) (part of ‘active measures’ within stimulus packages I/II)

3. Investing in Childcare – the ‘AK-model’ & the Austrian Example

Why invest in social services?

Social investment - an ingenious circle!

Positive effects through better childcare provision

universal provision with high standards

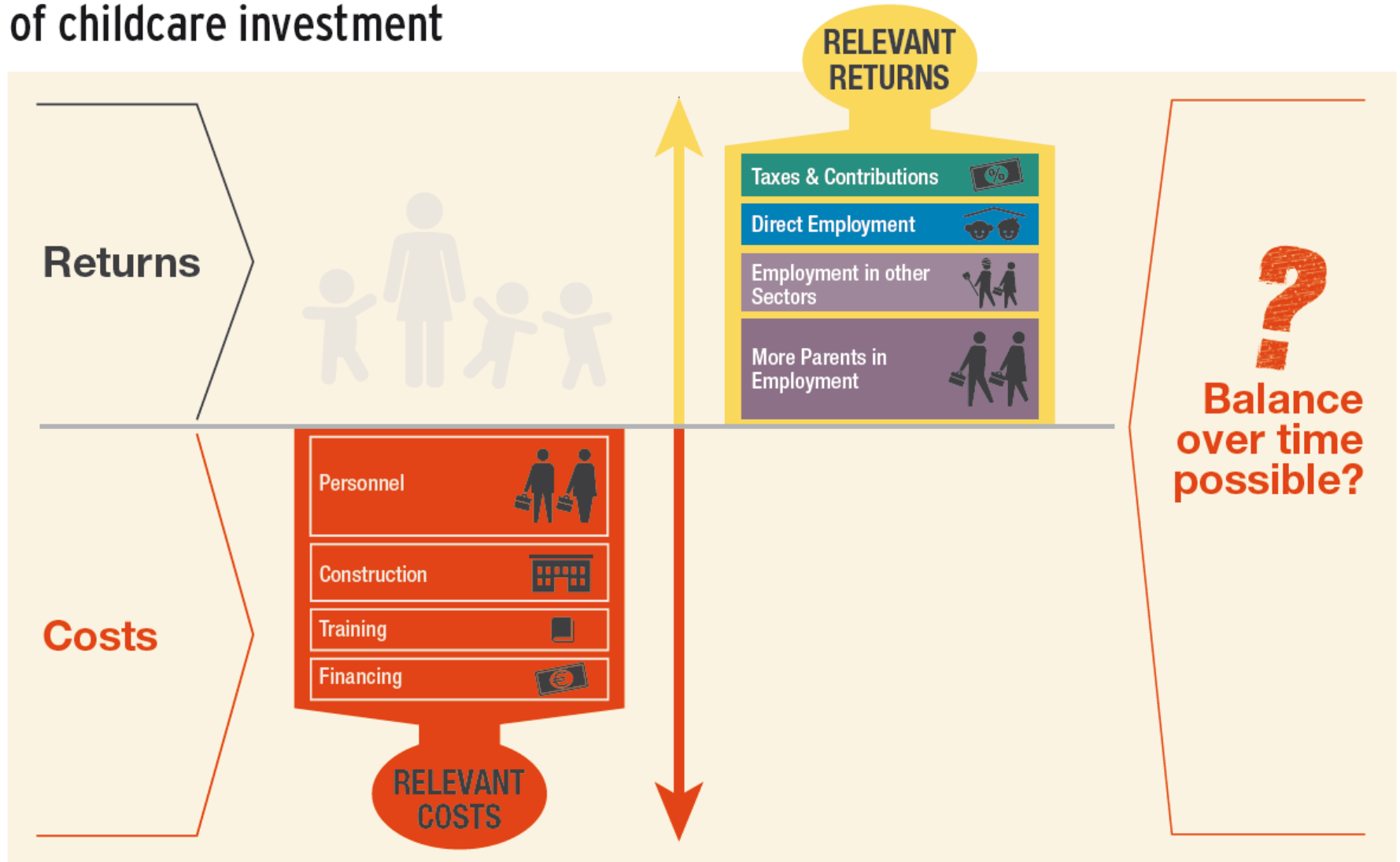
mid- & longterm returns on investment



better career perspectives, lower levels of unemployment

more equal recognition of paid & unpaid work

How to calculate the 'effective/net costs' of childcare investment



Strategy Assumptions for improved Childcare provision in AT

Assumptions on funds required:

Kick-off financing from the federal government!

100 mio € (federal government = 4y-kick-off financing)

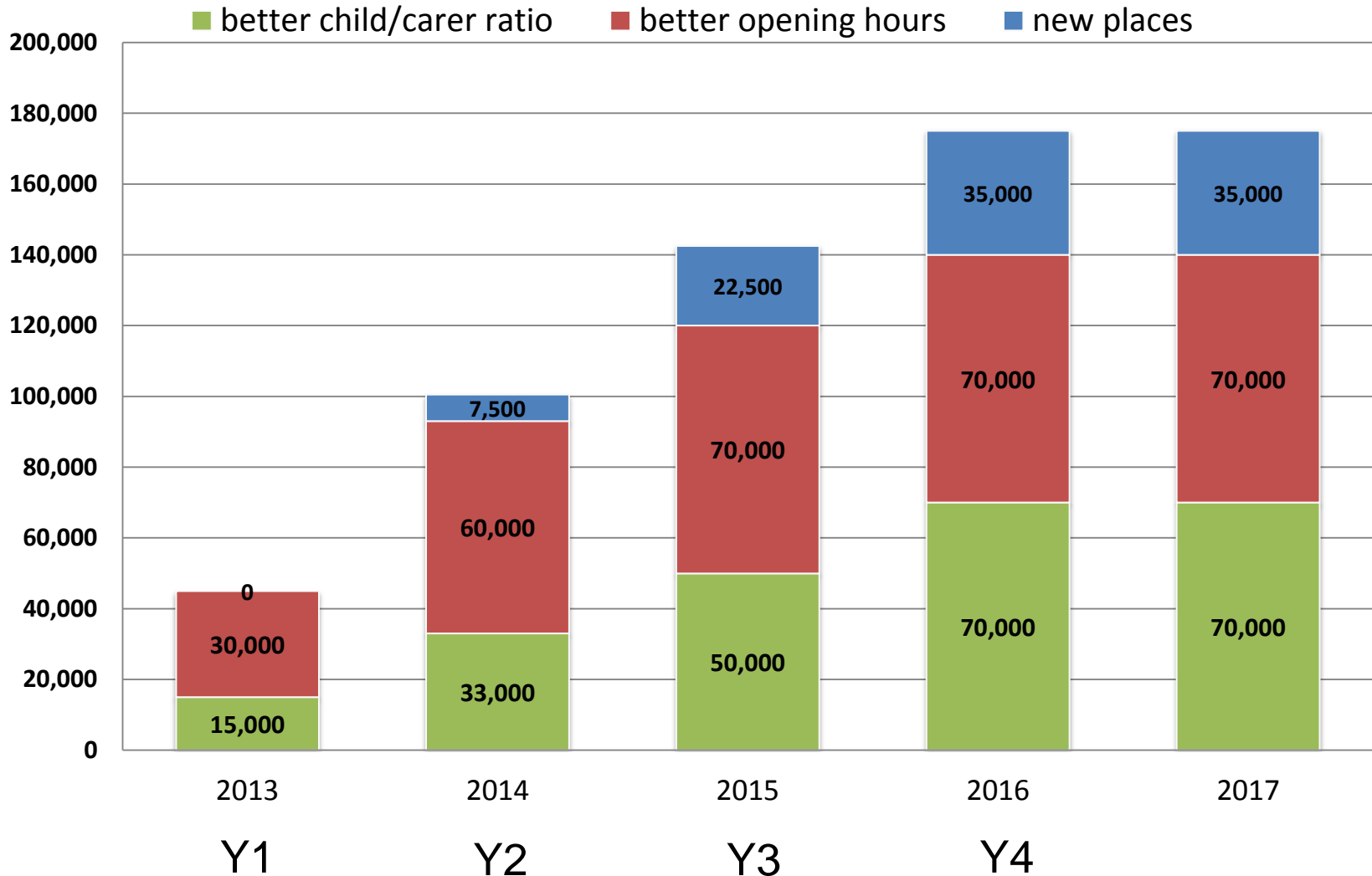
+ adequate funding from Bundesländer/local authorities (> 4 year period)

→ **EXPECTED OUTCOME :**

- **35,000 additional places** for small children (< 3 years)
- improved **opening hours** for 70,000 existing places (3-6 years)
- for all groups of small children **one additional carer (pedagogical staff)**, at least half-day.

Improved Childcare provision: expansion plan 2013-2016

Improvement in Childcare (no. of places)



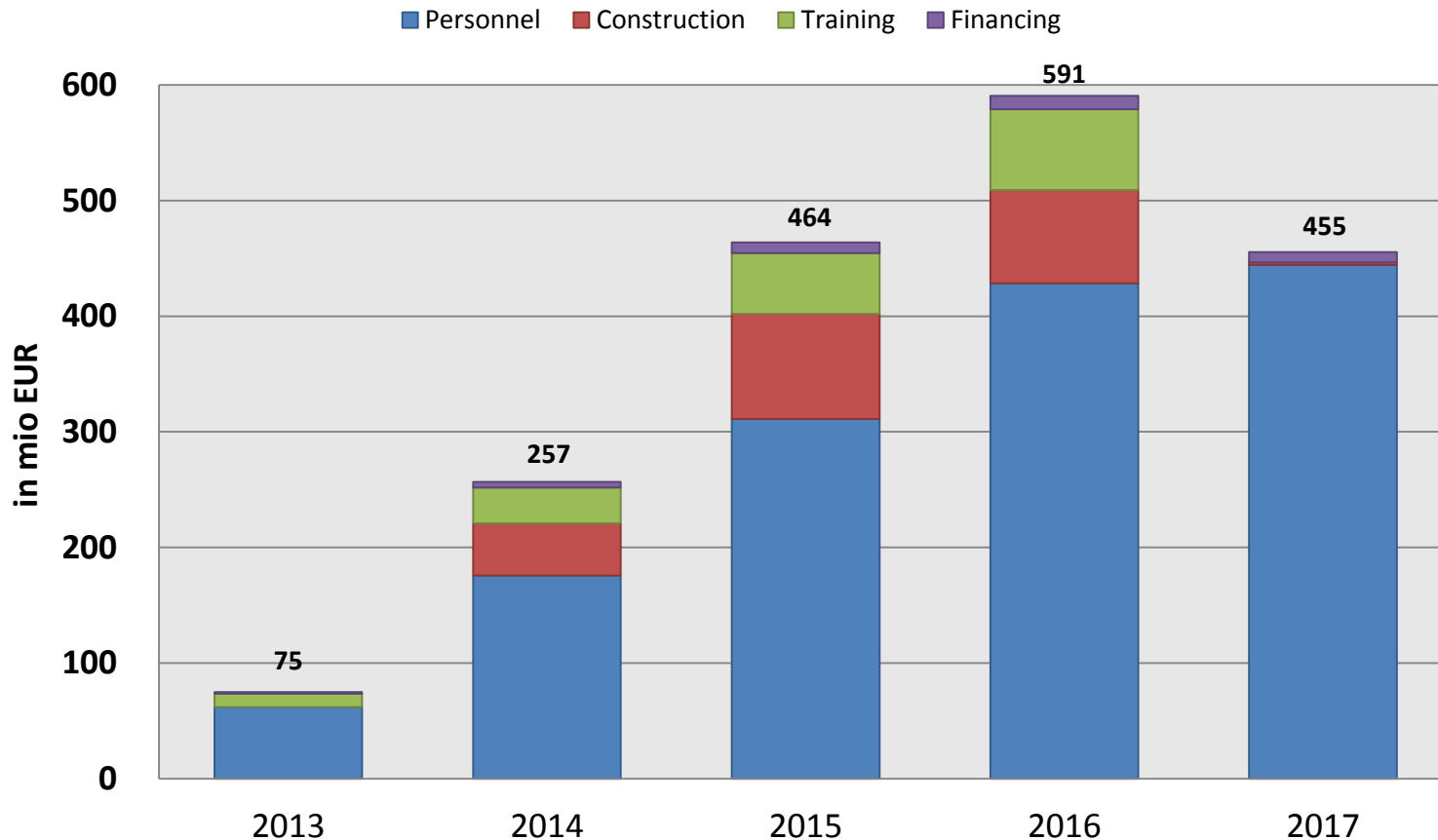
What costs are involved?

Costs of more and improved childcare provision:

- **Construction** or adaption of buildings for the new places
- **Personnel:** child-carers (pedagogical staff)
- **Training:** 50% of the new child-carers need training → somebody has to teach them
- **Financing:** 10 year government bonds

What costs are involved?

Costs of more and improved Childcare Provision

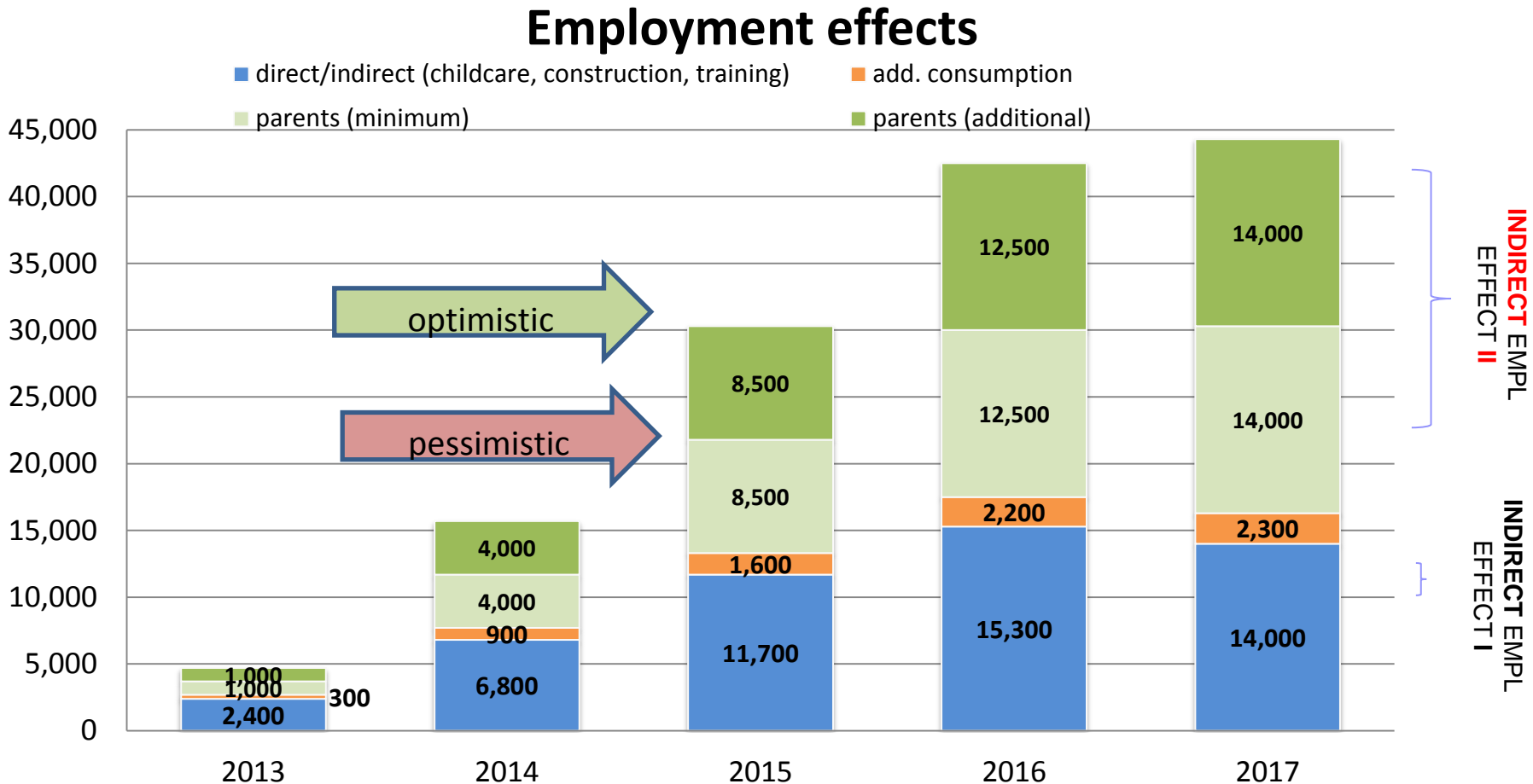


What are the Employment effects?

Additional employment:

- **Direct:** child-carers
- **Indirect I:** jobs in construction and training
- **Indirect II:** better reconciliation of work and family life → parents (mothers) can work (more)
- **Employment through ‘*additional consumption*’:** additional consumer spending due to additional employment/extended working hours (= increased income of employed/households)

What are the Employment Effects?



What are the Returns?

Funds flow back from:

- **Direct and indirect employment:**
social security contributions, income-tax, payroll taxes, etc.
- Savings in **unemployment benefits:** 1/3 of the additional direct/indirect I employment is staffed with previously unemployed persons (= empirical evidence from AT)

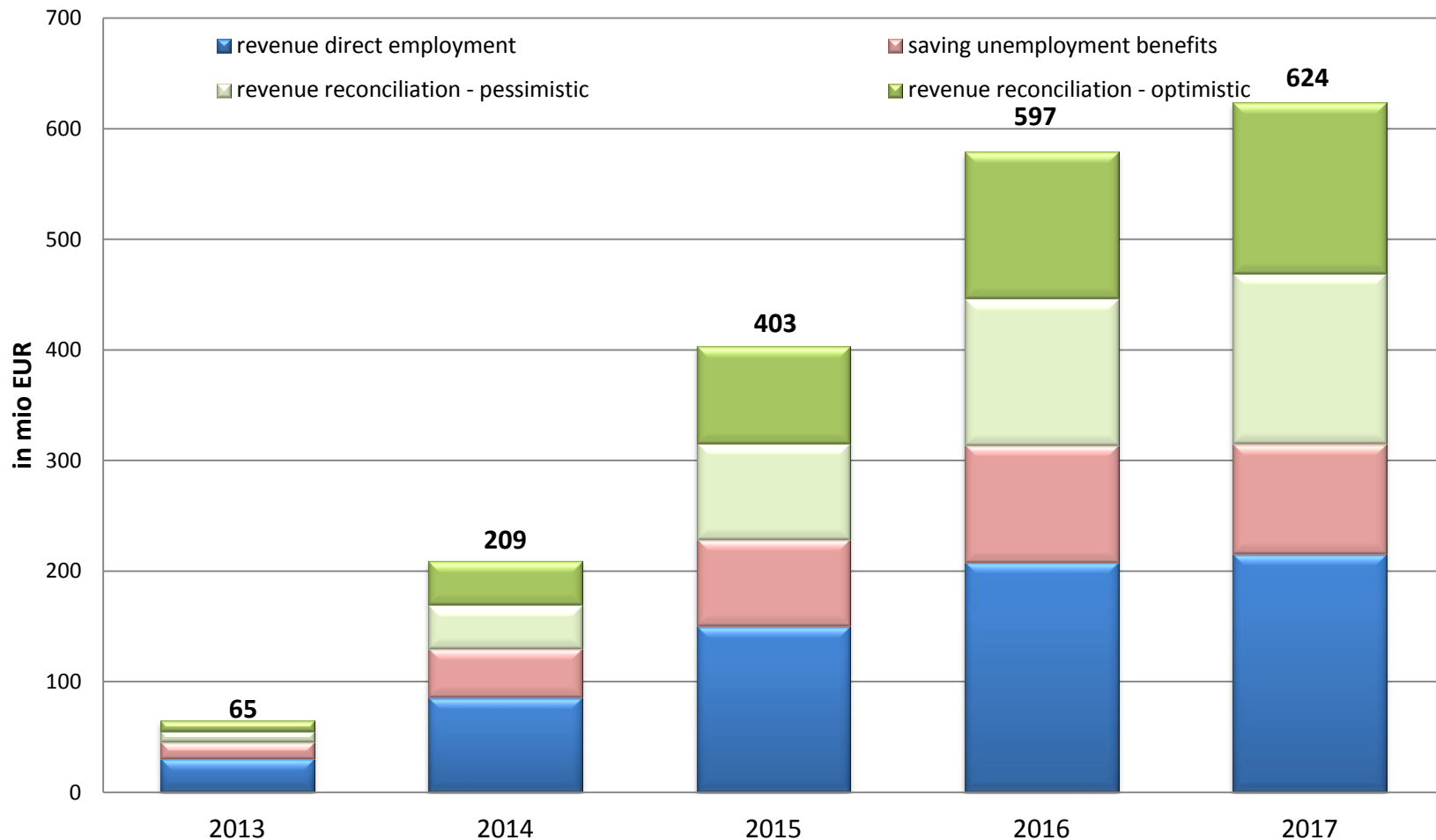
NOT considered in the calculations:

- Consumer spending effects from indirect employment
- Possible savings in unemployment benefits from indirect II employment
career effects through early return from parental leave
- Long term educational gains through early education

→ Returns are underestimated!

What are the Returns?

'Double dividend': Revenue from higher employment and savings in unemployment benefits

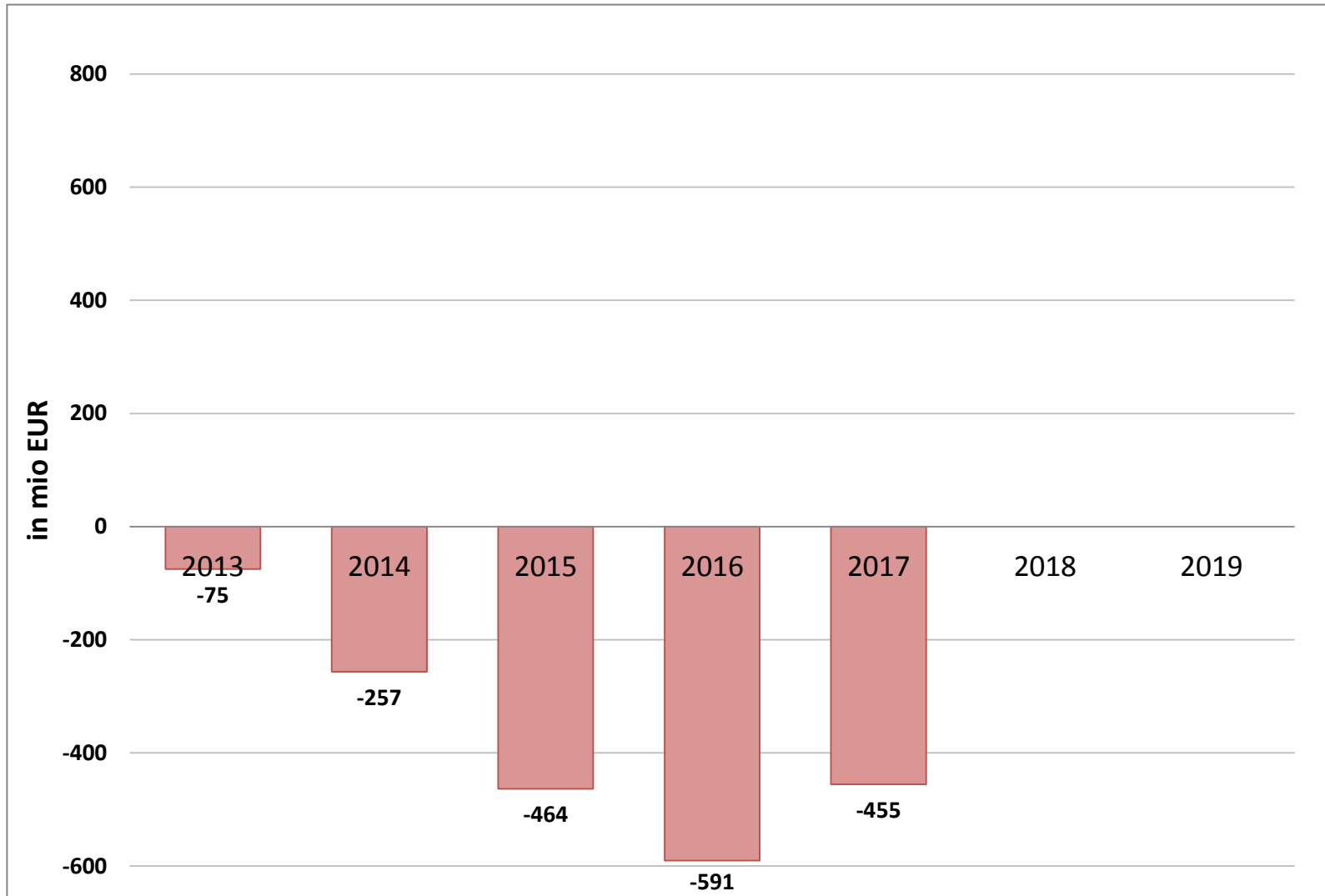


Overall Balance

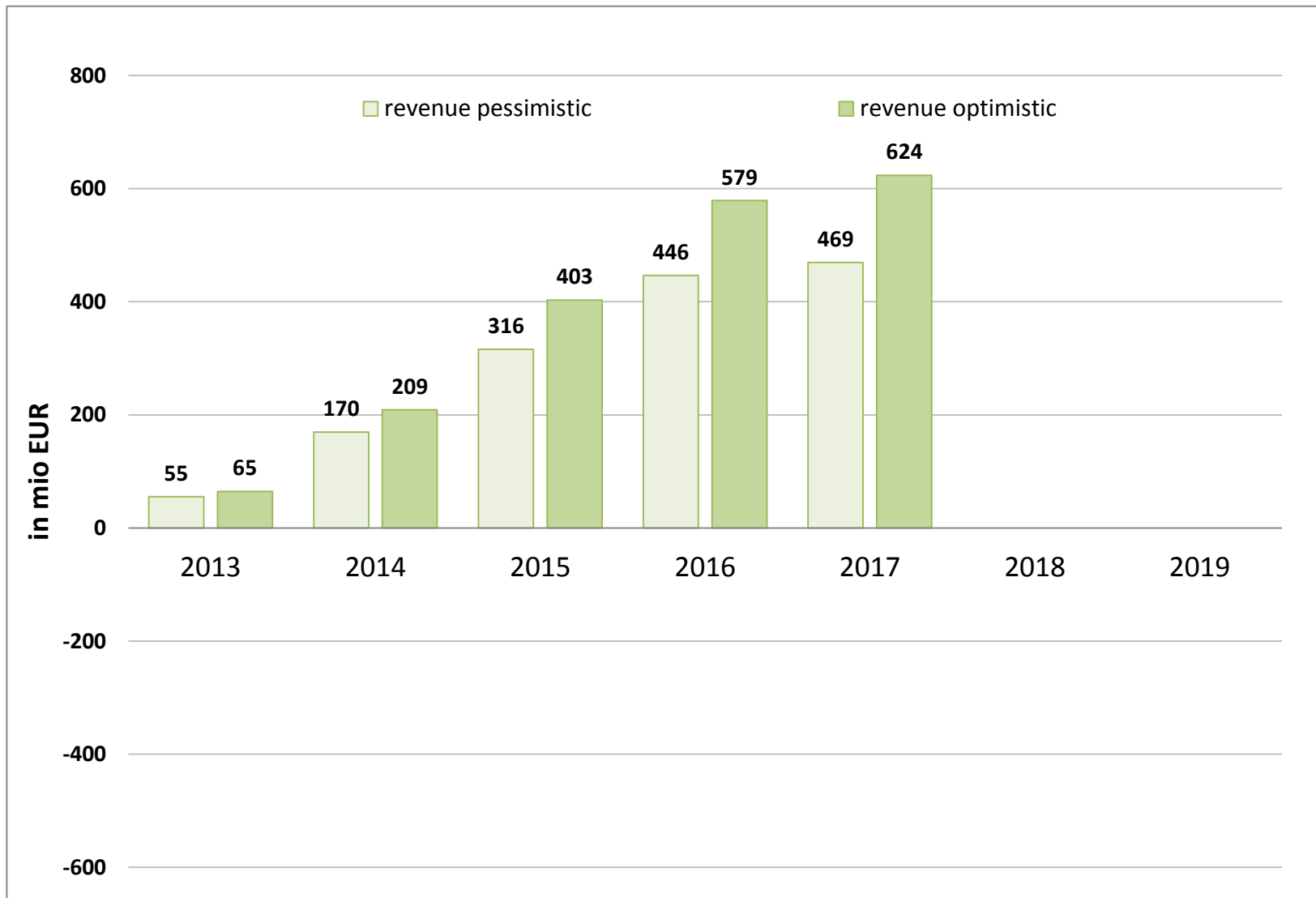
Positive balance:

- **Returns exceed costs** in all cases – even in the pessimistic scenario
- 30,000 - 45,000 people find **employment**
- Much better **reconciliation** of work and family life
- Better **early education** and care for children
→ improves equality regardless of social background

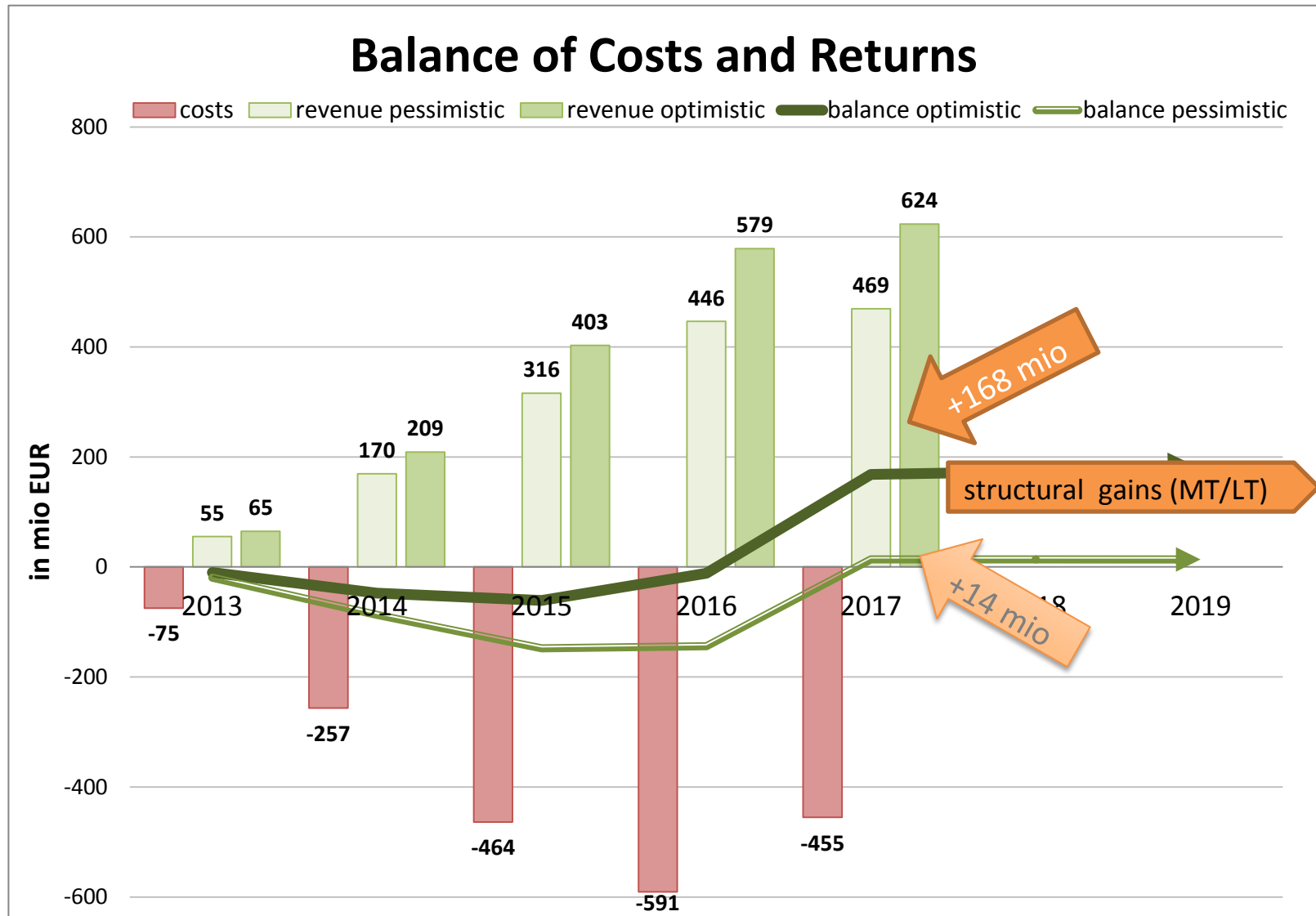
Reminder I: Cost development (2013+)



Reminder II: Revenue development (2013+)

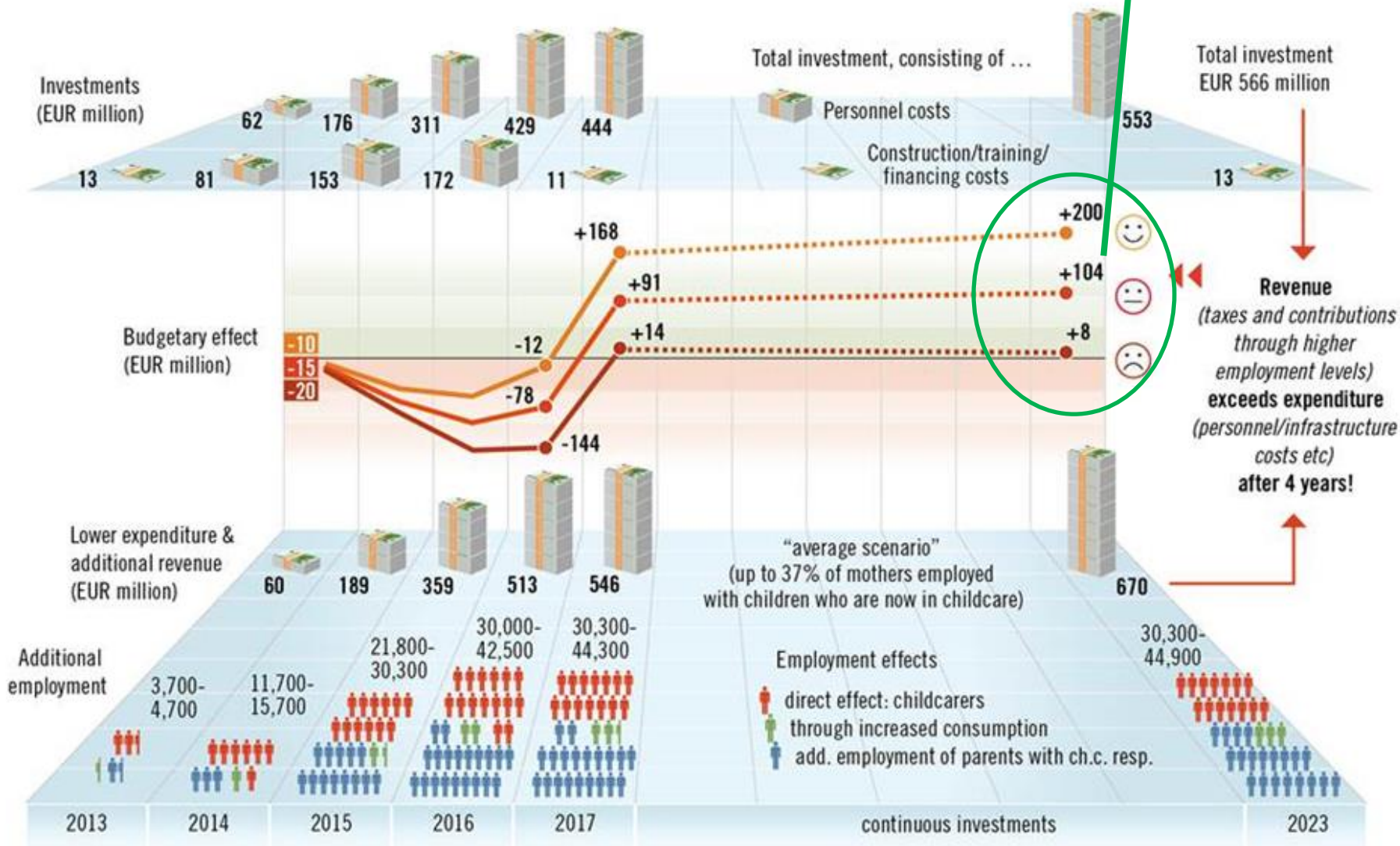


Overall balance & mid-term/long-term structural gains



Investing in social infrastructure → structural gains!

Impact (direct & indirect) from improved childcare provision in Austria



4. Summary and Conclusions

Conclusions I:

- **Costs** of social investment/social infrastructure are **overestimated** (= usually only 'gross costs/categories' are considered) → 'returns' are either not adequately considered or ignored!
- **Investment in childcare** leads to substantial returns on a medium & long-term perspective → depending on the concrete measure they can be **highly self-financing!**
- **Effective/net-cost-approach applies to other fields of (social) policy**

Conclusions II:

- Better conditions for the **reconciliation of work and family life** is crucial for **female employment** and **competitiveness**
- **Costs of NON-Action** should be more considered in discourse on **social policy**
 - **Non-social policy today is more expensive** in the mid and long term in comparison to investing today!
- **Recent arguments/research results are promising!**
e.g. EC (2012, SIP), Eurofound (2013+), EESC (2014), EC (2015, AGS)
- **Historically low interest rates (ECB): window of opportunity to increase investment in childcare/social investment ?!**

Thanks 😊

**Appendix –
Details of the calculations,
selected references**

The AK-model: relationship between different variables & scenarios (not that far away from EC/EF research!)

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
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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
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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
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Costs (net) or exceeding returns over costs (current year, nominal values!)

L/M/N	Balance: (I/J/K) minus E
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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 ...

Overview - Impacts from 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 childcarer : 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 (I): childcarers + 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 bis 2,000	4,000 bis 8,000	8,500 bis 17,000	12,500 bis 25,000	14,000 bis 28,000	↔	14,000 bis 28,000
Employment effects (range derived from different sceanrios)	3,700 bis 4,700	11,700 bis 15,700	21,800 bis 30,300	30,000 bis 42,500	30,300 bis 44,300	↑	30,300 bis 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

What influences the size and direction of the impact of improved child-care provision?

- **Direct effect on employment (+):**
Social Services = sectors of the economy with high labour intensity
- **Indirect effect on employment (I): (+)**
Complementary (initial) investment in ‘social infrastructure’ and ‘appropriate qualifications’ stimulates the construction and training sectors;
size dependent on the macro-multipliers and actual level of infrastructure
(construction of new buildings vs adaption/maintenance)
- **Indirect effect on employment (II): (++)**
better conditions for reconciliation of working and family life
- **Employment through higher consumption: (+)**
here only incomes from direct effects on employment are considered;
in comp. rather small effect (*see marginal propensity to consume!*)
- **Supply-side measures (↑ labour supply & qualifications) need to be embedded in a comprehensive macro-economic context: (0 to +)**
here reference to ‘Medium-term Employment Forecasts for Austria and the Bundesländer. Changes in Occupations and Sectors 2010 to 2016’ (Source: Austrian Institute of Economic Research, 2012)
- **The higher the probability to reintegrate unemployed persons into newly created jobs (directly/indirectly) the higher the “savings” from lower UB will be! (+)**
depend. on qualifications of the unemployed and ALMP regime etc...
- **Higher incomes in the field of Social Services: (?)**
“cost driver”, but: at least partly compensated through higher public revenue & ↑consumption

The AK-Model – a dynamic 10 yr model, assumptions

- **Nominal values** used = in line with ‘budgetary logic‘; ↑ inflation is taken into consideration
- **Personnel costs**: ~ 41,300/FTE (incl. all contributions etc.);
annual↑: +3.7% (2% ‘target‘ inflation + 1.7% real increase in income)
- Relation personnel costs : construction costs = 1:1;
construction costs only temporary, personnel costs are continuous
- **Training intensity**: 50% of child-care workers need training (EUR10,000)
- Evidence-based (AT): number of employed persons in childcare = 1.5 x FTE
- **“Multipliers”** used: 1 bn/investment → X ... total number of induced employment
 - a) Training Sector: +7,900 persons employed
 - b) Construction Sector: +8,600 persons employed
 - c) ↑Consumption: +5,200 persons employed

[Source: Austrian Institute of Economic Research, 2006: in comp. to other institutes ~ pessimistic!]

- Ass. on **income** of new jobs (FTE: EURO 2,000 gross/month and part-time=1/2)
- Add. employment of **persons with childcare responsibilities**: (~ linear ‘cultural change‘)
15 (initial) to 7x (2017+) improved opening hours → + 1 add. person employed
3 (initial) to 2x (2017+) ‘new‘ childcare places → + 1 add. person employed
- **Opportunity costs** of being unemployed: EUR 18,960 (UB+ALMP = direct costs for PES)

[Source: Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012]

- **Reintegration of unemployed** → ‘new‘ jobs: 1/3 of new jobs are filled by previously unemployed persons

Recent arguments for social investment & research

▪ 'Steps to potential paradigm shift':

J. Barroso (State of the Union 2012 Address)

Social Investment Package, EC (2/2013)

Eurofound (2013)

? others

▪ Recent research:

What's wrong in the EU?

→ **Employment and Social Development 2015 (EC, 2016)**

[results show the 'inconsistency' between EU 2020 strategy targets vs 'austerity' programmes]

What could be done?

→ **(Social) Investment/higher labour market integration**

→ **AK-methodology: (dynamic) cost-benefit analysis**

(examples: child-care provision, LTC, training, all-day school provision etc.)

▪ Costs of NON-Action:

→ **Rising unemployment/inequalities =
open field for deeper analysis and research –
negative impacts short/medium/long-term?**

Ad 'Steps to potential paradigm shift' (I):

J. Barroso (State of the Union 2012 Address)

” ... Yes, we need to reform our economies and modernise our social protection systems. But an **effective social protection system that helps those in need is not an obstacle to prosperity**. It is indeed an indispensable element of it.

Indeed, it is precisely those European countries with the **most effective social protection systems** and with the **most developed social partnerships**, that are among the **most successful and competitive economies** in the world.”

Ad 'Steps to potential paradigm shift' (II):

European Commission (2013), COM (2013) 83 final, pg. 3

(= 'Social Investment Package', SIP)

”... **Welfare systems fulfil three functions: social investment, social protection and stabilisation of the economy.** Social investment involves strengthening people's current and future capacities.

In other words, as well as having **immediate effects**, social policies also have **lasting impacts by offering economic and social returns over time**, notably in terms of employment prospects or labour incomes.”

Ad 'Steps to potential paradigm shift' (III):

Eurofound (2013), Social and employment policies for a fair and competitive Europe - Background paper, Foundation Forum 2013, Dublin, p. 16

”... However, this paper suggests very strongly that the orientation of social models is crucial and that **both competitiveness and sound public finances do require a more active or productivist social policy.**

One essential requirement is that policies should promote participation in the labour market, whether it be facilitating the participation of women, keeping people longer in productive activities, or avoiding tax and benefit disincentives to work. **Increased labour force participation is also an essential response to the most certain of all our structural challenges, namely demographic ageing.**” ...

Ad 'Steps to potential paradigm shift' (IV):

EESC (2014), OPINION of the European Economic and Social Committee on 'The impact of social investment on employment and public budgets', Brussels

"... 1.4 The better **social investment** is **embedded within a credible macroeconomic and institutional framework**, the higher the social, economic, fiscal and social benefits, i.e. the "**multiple dividends**" of those investments will be." p2

"... 3.2 There is a **growing recognition**, not only at the EESC but also in research studies and in EU policy, that **investment in the welfare state** not only **brings social progress** but is **also worthwhile in economic and fiscal terms.**" p3

Ad 'Steps to potential paradigm shift' (V):

EC (2015), Annual Growth Survey 2016, p. 9

” ... **Social investment offers economic and social returns over time**, notably **in terms of employment** prospects, labour **incomes** and **productivity**, prevention of poverty and strengthening of social cohesion. Social infrastructure should be provided in a more flexible way, personalised and better integrated to promote the active inclusion of people with the weakest link to the labour market.” ...