

Labor wants to pay childcare wages itself. A perfect storm makes it not such a bad idea

Written by Warwick Smith, Research economist, University of Melbourne

This article is part of an election series on wages, industrial relations, Labor and the union movement ahead of the 2019 federal election. You can read other pieces in the series [here](#), [here](#)

, [here](#)

, [here](#)

, and

[here](#)

Opposition Leader Bill Shorten [has promised](#) that a Labor government will work to increase the wages of Early Childhood Education and Care (ECEC) workers by 20% over eight years. That's pretty conventional, but the method isn't.

The government will directly fund the salary increases so that neither childcare providers nor parents bear the costs. These increases will be in addition to any changes to the award over these years.

Internationally, such interventions exist, but they're rare. In Ontario, Canada, the government tops up the salaries of childcare workers [by \\$2 per hour](#). For Australia, it's a first.

Childcare workers are among the lowest-paid in the country, with more than 70% reliant on award rates that are not much higher than the minimum wage.

The perfect storm of market failures

There is also limited opportunity for career progression in childcare. These two facts combine to lead to an [extraordinarily high turnover in staff](#).

Labor wants to pay childcare wages itself. A perfect storm makes it not such a bad idea

Written by Warwick Smith, Research economist, University of Melbourne

As long as legal minimum wages and awards are being met, the fact that a job is poorly paid isn't normally enough to justify government intervention.

But childcare is a special case in which multiple market failures coincide.

“Market failure” is a term used to describe a situation economists like to believe is rare – where the workings of the free market lead to bad outcomes. Classic examples include polluting industries where the costs of pollution aren't borne by the polluter itself (an “externality” in economics speak), and street lighting, for which it is impossible to charge users (economists call that a public good).

In economic theory, a market failure will at least justify the consideration of government intervention.

Childcare's benefits are direct, and indirect

The provision of childcare creates both private benefits and public goods.

Mothers who can earn more than the cost of childcare benefit from it because they can maintain and build their skills and careers. Society also benefits because it makes better use of the skills of women.

There is also [clear evidence](#) that quality early childhood education positively affects the prospects of children for the rest of their lives, particularly those from low socioeconomic backgrounds.

It's good for them and their families, but it's also good for the entire community as those children are more likely to make full use of their skills and talents in later life and contribute productively to society. They are also less likely to engage in antisocial or criminal behaviour.

Mothers can't afford to pay good wages...

Labor wants to pay childcare wages itself. A perfect storm makes it not such a bad idea

Written by Warwick Smith, Research economist, University of Melbourne

But if entirely left to the market, childcare would only be affordable to those who earn high wages (and whose children might be the least likely to benefit). The total costs of the staff, venue, and administration needed to provide childcare are beyond most parents' means.

This is why we already have government intervention in the form of means-tested assistance, which subsidises the cost of childcare up to A\$10,190 per year, per child.

However, despite the existence of this subsidy, most Certificate III qualified childcare workers [s till only earn](#) about A\$850 per week (A\$44,000 per year), about half the average full-time wage.

Why aren't they paid more, given that their work is so important?

...in part because they don't get good wages

One answer could be that 96% of childcare workers are women, and about 95% of stay-at-home parents are women. The gender pay gap in Australia is currently [about 14%](#). It's the result of a combination of gender discrimination, gender role expectations in child-raising, and relatively low pay in typically "feminised" industries.

It means mothers cannot easily afford to pay for proper childcare from their wages, and that childcare workers come to accept low pay.

Subsidising quality childcare through both a rebate to parents and a direct increase in childcare workers' wages addresses these dual aspects of the gender pay gap by helping more mothers maintain careers (that will enable them get paid more) and acknowledging and addressing the extent to which the market [won't pay childcare workers enough](#).

There's a case for top ups, but they're not ideal

While Labor's commitment to increasing childcare worker pay is welcome and is addressing an agglomeration of genuine market failures, a specific government top-up for a specific profession leave its workers vulnerable to a change of government policy that cuts or abolishes it.

Labor wants to pay childcare wages itself. A perfect storm makes it not such a bad idea

Written by Warwick Smith, Research economist, University of Melbourne

The long-term solution is to do something more systematic about the undervaluation of care work in Australia. It would be best dealt with by adjusting how the Fair Work Commission sets award wages in light of the public value generated by the industry and an understanding of the historic undervaluing of work performed by women.

Labor has [announced](#) policies that aim to do this, so presumably this wage top-up is a stopgap that provides much-needed pay rises in the short term while longer-term solutions are being put in place.

Read more: [Why Labor's childcare policy is the biggest economic news of the election campaign](#)

Warwick Smith works part-time for Per Capita, a public policy think tank that receives money from philanthropic trusts, the National Union of Workers, the Community and Public Sector Union and the Australian Services Union.

Authors: Warwick Smith, Research economist, University of Melbourne

Read more <http://theconversation.com/labor-wants-to-pay-childcare-wages-itself-a-perfect-storm-makes-it-not-such-a-bad-idea-116272>