



## RESEARCH BRIEF

## MAXIMIZING GROWTH:

## Public Sector Investment in Care Benefits the Economy

Economic growth in the 21st century requires public investment in its workforce, yet countries lose access to more than half their workforce when women face insurmountable barriers to meaningful engagement in employment. The burden of unpaid care – of children, the elderly, and the sick – falls disproportionately to women and severely limits women’s ability to participate in the economy. In the absence of publicly provided services: poorer women and their households are heavily affected, as hiring private, market-based care is an expense that well-educated, high-earning women and households are better able to afford.<sup>i,ii</sup>

### INSUFFICIENT PUBLIC INVESTMENT IN CARE PRODUCES SIGNIFICANT COSTS TO INDIVIDUALS, BUSINESSES, AND TO THE ECONOMY.

Without access to quality care services many women withdraw from the labor market or are forced to work part-time, or even in the informal economy to accommodate their caring responsibilities and the imperative to earn. Women who leave the labor market

to care for others or work in the informal economy are less likely to accumulate pensions and social security and be protected against poverty in older age. The costs to businesses from the lack of access to quality care services are also substantial. When women leave the labor market, firms can face high turnover rates, which impact the quality of work and productivity. The challenges of balancing care and work responsibilities can lower morale and create inevitable tensions at

**FIGURE 1. The Costs of Not Resolving Care Needs**



work. The loss of women from the labor market lowers their overall participation rate and reduces the pool of human capital and skills available for employers and the economy. This can translate into lower economic growth<sup>iii,iv</sup> and greater gender inequality in the labor market.<sup>v</sup>

In contrast, investing in women's labor force participation benefits the economy by increasing GDP and improving efficiency and productivity in labor markets.<sup>vi,vii,viii</sup> Moreover, research suggests that gender equality in the labor market may be one of the most important factors in reducing poverty in developing countries.<sup>ix,x</sup>

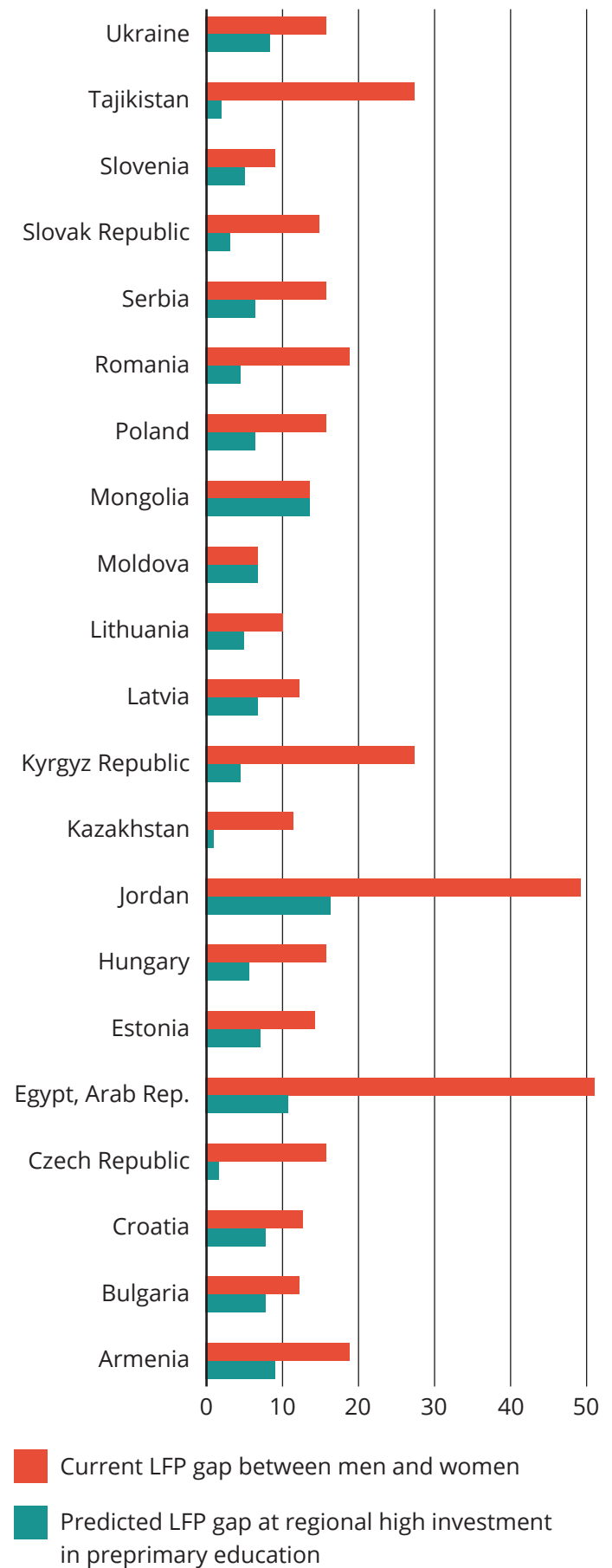
**CARE WORK** describes activities that meet the physical, psychological and emotional needs of adults and children, old and young, frail and able-bodied. Caring includes the services provided to each human being in their homes, in public facilities and in health care and education systems. Care is crucial to human well-being and to economic development.

### INVESTING IN CHILDCARE CAN INCREASE WOMEN'S LABOR FORCE PARTICIPATION.

The public sector has a critical role to play in maximizing workforce participation to ensure economic growth. Currently, there are substantial gaps between women's and men's labor force participation (LFP) as a result of women's additional burden of unpaid care work.

New research shows that if governments were to invest in preprimary education, women's labor force participation would rise significantly in many of the countries where the European Bank for Reconstruction and Development (EBRD) works. Figure 2 shows how much the gap between women's and men's labor force participation would fall if governments were to raise their expenditure on preprimary education to 1.5 percent of total GDP (the highest level of investment in the EBRD region): the average labor force participation gap would be reduced from 21 percentage points to 6.8 percentage points (see figure 2).

**FIGURE 2. Investing in Care Can Increase Women's Labor Force Participation**





## US\$28 TRILLION

would be added to the global GDP by 2025 if women participated in the global economy at the same levels as men.

(McKinsey Global Institute, 2015)\*

### PUBLIC SECTOR RESPONSES TO ADDRESSING CARE WORK CAN VARY.

A number of approaches have been pursued in different country contexts. For example:

**Rights-based law.** In France, the right to childcare is formalized by law. From the age of 2½ months to 3 years a child can be placed in a crèche. Crèches are funded by local authorities, but fees vary depending on the income of the parents. There are three types of crèche: (1) parental crèche, that is managed by a parental association with professional staff; (2) company crèche provided by an employer for its employees, usually in or near the workplace with professional staff; (3) family crèche, where a professional nanny is hired to look after a number of families' children in one home, with the costs divided amongst all the families. A system of taxes, subsidies and fees sustain this ecosystem approach to care.

**Universal services.** Malta chose to increase women's labor force participation and meet care needs by supporting a Free Childcare Scheme that was launched in April 2014. The Government of Malta provides free childcare services to parents/guardians who work or who are pursuing their education. The childcare service is offered through registered Childcare Centers – 117 private childcare centers and 14 Government operated childcare centers. The Free Childcare Scheme builds both social and economic infrastructure in Malta. With the number of mothers in the labor market steadily increasing, this leads to higher state contributions and reduced dependency on state welfare.<sup>xi</sup> The scheme also has had a positive effect on child development and parent's acquisition of new skills.

**Employer mandate.** In India, under a newly amended law in 2017, many employers are required to increase paid maternity leave and offer on-site day care services. Providing crèche facilities is now mandatory

for employers with more than 50 employees and paid maternity leave has been doubled for women working at companies with at least 10 employees.<sup>xii</sup> While many of the challenges of financing this amended law have yet to be resolved, there are innovative models that have been used to provide affordable childcare to workers – even those workers in the informal economy. For instance, the Self Employed Women's Association (SEWA) founded the Sangini Workers Childcare cooperative. SEWA members, who are overwhelmingly informal economy workers, provide funds to support the 13 childcare centers that care for over 450 children. The cooperative also receives some funding from local government under a public support scheme to crèches and in return, provides access to their facilities for public services such as vaccination, primary health care and nutritional advice for parents.<sup>xiii</sup>

**Advocacy and tax incentives.** In Singapore, the government has been actively promoting work-life balance and flexible work arrangements. The government set up a work-life unit in the Ministry of Manpower and has encouraged a tripartite approach between government, employers and unions to enhance family-friendly practices in firms. In Japan, the government developed tax incentives for companies that promote teleworking and family-friendly policies in an attempt to increase women's labor force participation.<sup>xiv</sup>

### THE STATE PLAYS AN IMPORTANT ROLE IN LIFTING THE BURDEN OF UNPAID CARE WORK AND CREATING AN ENABLING ENVIRONMENT FOR WOMEN IN LABOR MARKETS.

As these examples show, the public sector can invest in care services directly, define entitlements to care and paid family and medical leave, ensure that workers' have the right to negotiate with their employers, and develop taxation systems and provide subsidies to secure universal access to quality care services. These actions can provide or promote the high-quality care infrastructure needed to address the care needs of families. The public sector has the responsibility to regulate and oversee care provision to reduce the significant economic drag that unpaid care work creates for families, businesses and economies. The resulting benefits will be a boon for households, firms and economies alike.

## Recommended citation

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\* McKinsey Global Institute. 2015. The power of parity: how advancing women's equality can add \$12 trillion to global growth.

