

Reforming childcare support can improve equality, both between men and women and between different socio-economic groups

The enrolment rate in early childhood education and care has been low in Finland compared to the other Nordic countries. The possibility for parents to stay home with a child less than three years old and receive home care allowance reduces the demand for early childhood education and care. On the other hand, when Eurostat surveyed access to services, high prices and unavailability prevented Finnish families from using early childhood education and care to a larger extent than parents in the other Nordic countries (Eurostat 2018).

Concerns over the quality and availability of early childhood education and care have repeatedly been raised in the public debate. In a recent survey, somewhat surprisingly, only a minority of mothers had concerns over quality. However, such quality concerns were more common among mothers on long childcare leaves and among unemployed mothers (Närvi et al. 2023).

Finland supports both homecare and public and private early childhood education and care

There is a clear division of responsibility for family policies in Finland. The state is responsible for parental leaves, while the municipalities are responsible for childcare arrangements after parental leave, which includes home care allowance, private childcare support, and the supply of early childhood education and care.

When a child is born, parents can stay home with them and receive earnings-related maternal, paternal, and parental allowances. The recent reform of parental allowances, implemented in the fall of 2022, entitles parents, in turn, to stay

- Finland subsidizes all types of childcare: public and private early childhood education and care, and home care of children

- The use of childcare providers varies by family socioeconomic status.

- High-socioeconomic status families are more likely to use private childcare services and shorter period of home care than other families.

- Low-socioeconomic status families and unemployed mothers are more likely to use home care for longer periods than other families.

- Childcare support should be reformed. That would improve gender equality and reduce sorting into early childhood education and care provider based on family background.

home with their child for around a year. After the earnings-related allowances, parents can choose between a flat-rate home care allowance, universal public and private early childhood education and care. Furthermore, if a parent works part-time, applying for flexible care allowance is possible.

The Finnish municipalities are obliged to offer early childhood education and care to all children under school age. Municipalities can arrange the service themselves or accept

private service providers. All care providers operate under the same jurisdiction and have the same staff dimensioning and quality requirements. Since 1997, families have received private childcare subsidies if they choose a private service provider. In addition, a system of daycare vouchers was introduced in 2009.

The use of private service providers has increased over the years. In 2000, around 6 percent of children were in care arranged by private service providers, and the share reached 17 percent in 2020 (THL 2021).

Municipalities are responsible for the costs related to childcare subsidies and early childhood education and care. The level of private childcare subsidies and home care allowances are regulated nationally, but municipalities can top up the levels with municipal supplements. For municipalities, home care is the most cost-efficient alternative compared to other care alternatives. In addition, private care providers are less expensive for municipalities than public alternatives (Räsänen et al. 2023).

Higher homecare allowance delays mothers return to work

Families decide on childcare leave lengths, mothers' return to employment, and childcare options simultaneously. Consequently, the relative prices for care matter when families make their choices.

Many families extend their earnings-related parental leave with a period of home care allowance. It is mainly mothers who extend their childcare leave period. Therefore, the labor force participation among mothers with small children is low in Finland compared to the other Nordic countries.

In addition, the childcare leave lengths vary with the level of the home care allowance. A 100-euro higher home care allowance supplement prolongs the home care period by 2–3 months on average. For every 10 000 births, this translates into 1 600–4 200 additional years of home care of children instead of employment years among mothers.

In addition, mothers react heterogeneously to varying allowance

levels. Mothers with higher earnings potential use shorter home care periods, i.e., those employed pre-birth, highly educated with higher earnings. However, low-earning mothers might not afford to stay home for long periods. Nevertheless, their return to the labor market is dependent on whether they have a job to return to or can find a job (Österbacka & Räsänen 2022).

The use of childcare subsidies and care provider vary by socioeconomic status

Similarly, the use of early childhood education and care provider is related to the subsidy level. Higher supplement levels increase the use of private alternatives. However, the use of care provider varies primarily by the family's socioeconomic status.

High-socioeconomic status families are more likely to use private care providers, whereas middle- and low-socioeconomic status families are more likely to use public alternatives. Low-socioeconomic status families are, in addition, more likely to use home care for longer periods.

A reason for this division is the price differences. Public daycare fees are based on the earnings level of the family; the higher the earnings, the higher the daycare fees up to a maximum fee level. Private daycare fees, on the other hand, do not necessarily vary by family earnings, but families with low earnings are entitled to a care supplement. Irrespective of private childcare support, public alternatives are less expensive than private alternatives for low-income families. On the other hand, the difference between private daycare out-of-pocket costs and municipal daycare fees diminishes by family earnings (Räsänen et al. 2023, Räsänen & Österbacka 2023).

Nevertheless, the private daycare subsidy does not affect mothers' employment. Instead, higher private daycare subsidies reduce the use of public alternatives. Similarly, higher home care allowance levels reduce the use of both public and private early childhood education and care. Private care alternatives can fill a care gap if public service alternatives are not met (Räsänen & Österbacka 2023).

Children from different family backgrounds sort into different care providers

In summary, we note that the impact of childcare support on employment and care providers vary by individual and family characteristics. In addition, different policy measures, such as increases or reductions in childcare supports, have heterogeneous impacts that are related to family characteristics (Österbacka & Räsänen 2022, Räsänen & Österbacka 2023). As a result, children from varying family backgrounds may sort into different care providers or remain at home.

These choices between care providers and home care affect mothers and children. Long childcare leaves affect women's careers negatively and increase the gender wage gap (Österbacka & Räsänen 2023). In addition, children in long-term home care generally perform worse on several outcome measures than children in early childhood education and care (Gruber, Huttunen & Kosonen 2022).

However, less is known about how much sorting and peers influence children in early childhood education and care. For instance, children could be sorted into different care providers or daycare centers based on their family background, where the groups become alike. As a result, homogenous groups of children interact and the homogenous peer influence may have long-term effects on future outcomes (Neidell & Waldfogel 2010).

Policy recommendations: reforms of childcare support improve equality and promote equal opportunities

Over the past years, most governments have aimed for improving gender equality and reduced childcare fees. The latest reforms of parental allowances in fall 2022 have extended the fathers' parental leave entitlement. One of the aims of the reform was to encourage fathers to participate more in childcare. In addition, coming into effect by 1st of March 2023, the care supplement to low-income families increased with 100 euros in private care allowance and public

daycare fees reduced.

The parental leave reform will likely increase fathers' leave-taking and improve gender equality. However, a few factors threaten this positive progress. The home care allowance entitlement remains unchanged after the reform. Mothers are more likely to stay home with their children for longer periods if they are poorly attached to the labor market pre-birth. Lastly, the public supply of early childhood education and care is strained, especially in growth areas.

We propose two measures to improve gender equality and reduce sorting into different early childhood education and care providers based on family background.

1. Home care allowance aggravates gender inequality. In order to improve gender equality, the periods of home care allowance should be shortened or the allowance level reduced gradually. By reducing the allowance levels according to the child's age, the use of long periods decreases (Österbacka & Räsänen 2022).

2. Mainly high-income families use private daycare subsidies. Families with middle-range or low earnings face comparatively higher out-of-pocket costs for private than public alternatives, which keeps them from using private care providers (Räsänen et al. 2023). Increasing private daycare subsidies to low-earning families and families with middle-range earnings would make private care providers affordable for more families.

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