WOMEN'S BUDGET GROUP

A Care-Led Recovery from Coronavirus

The case for investment in care as a better post-pandemic economic stimulus than investment in construction

Written by Dr Jerome De Henau and Prof. Susan Himmelweit

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Key points:

- Currently, **UK parents pay the highest childcare costs in Europe** and the second highest in the world, and **1.4 million older people have unmet care needs**. The Covid-19 pandemic has exposed and exacerbated the UK's crisis in care.
- **Investment in care** is not only needed to transform our broken social care system, it is an **excellent way to stimulate employment**, reduce the **gender employment gap** and counter the inevitable economic recession as the UK comes out of lockdown.
- Any investment in care in the UK would produce **2.7 times as many jobs** as an equivalent investment in construction: **6.3 times as many jobs for women** and **10% more for men**.
- Investment in care is **greener** than in construction and more of its costs would be recouped in **increased income tax and National Insurance contributions**.
- A better care system requires a greater proportion of total employment working in the care sector. If, like some Scandinavian countries, the UK had **10% of its employment in care**, a net annual spending of **1.9% of GDP** would be required and would generate nearly **2 million jobs** in the economy as a whole, raise the overall employment rate by 5 percentage points and reduce the gender employment gap by 4 percentage points.
- A better care system also requires that **care workers are better trained and paid**. Paying all care workers the national living wage and, as training and qualifications improved, subsequently raising pay would increase the net cost, eventually to 2.7% of GDP, but still generate **more than twice as many jobs** as the same net spending on construction.
- Investing in care is economically sound not only because it generates employment but also because it helps create a healthier, better educated and more productive population.

This briefing has also been submitted to the UK Women's Budget Group Commission on a Gender-Equal Economy which will report in September 2020. More information is available at: www.wbg.org.uk/commission/

Introduction

The economic crisis of unemployment and inequality consequent upon the Covid-19 pandemic is only just beginning. A recession and consequent job losses are inevitable. This is a bleak picture, but the Covid-19 pandemic has also catalysed a revaluation of our care, health and employment structures, exposing pre-existing problems. This is an important moment for transformative change: for an economic stimulus that focuses on care.

This briefing sets out why much-needed investment in care would promote employment, reduce the gender employment gap and would be a first step in building a resilient, sustainable and more equal economy.

Why a recovery plan is needed now

Despite the government's furlough scheme which has protected many jobs until now, job loss is predicted in many sectors as the scheme is rolled back. Unemployment rates of at least 7% are predicted for the UK in 2021 in all published forecasts, up to 10% if there is a second lockdown[1]. This means between 2.4 and 3.5 million people unemployed[2].

So far, 60% of unemployment claims since the lockdown have been filed by men[3], but that is not necessarily a true measure of the gendered impact so far: women may have been in less of a position to make such claims, at least in part because of greater time spent on childcare[4]. Women in the UK are about one third more likely to work in industries which were shut down completely in the lockdown[5] and female-dominated industries, including retail, accommodation services, and food and beverage service activities, are likely to be particularly hit by social distancing requirements[6]. So, as the IFS suggests, this recession may be different from previous ones in that women's jobs may go in greater numbers than men's[7].

But even before the effects of the forthcoming recession, there was already a gender employment gap to close. One of the few industries in which employment has risen is health and social care, with 40% of businesses reporting increased working hours; 78% of employees in this industry are women[8].

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[1] OECD In their double-hit scenario, unemployment will more than double to 10%. Even with just a single-hit will remain well above 7% in 2021 (https://bit.ly/2VgAFWf). See also OBR (https://bit.ly/3fGlhKl)
[2] ONS, Labour market overview, UK: June 2020, Table 1 (https://bit.ly/3hIivpD)
[3] Lukas Kikuchi, Ishan Khurana and Will Stronge 'COVID unemployment: the regional and age distinctions', Autonomy, May 21 2020 https://bit.ly/311wfpG
[4] Institute for Fiscal Studies 'Trying times: how might the lockdown change time use in families?' https://bit.ly/3emMcL0
[5] Institute for Fiscal Studies 'Sector shutdowns during the coronavirus crisis: which workers are most exposed? https://bit.ly/3empjaB
[6] Monika Queisser, Willem Adema, Chris Clarke 'COVID-19, employment and women in OECD countries, VOX CEPR Policy Portal, 22 April 2020, https://bit.ly/2YjQZHk
[7] Institute for Fiscal Studies 'COVID-19 and inequalities' https://bit.ly/319x9QS
[8] Ishan Khurana and Will Stronge, 'What can we learn from the recent 'Business Impact of COVID-19 Survey' (BICS)? April 13 2020, Autonomy https://bit.ly/3dlRdC7

The Covid-19 pandemic has shown up structural weaknesses in the UK's care system

Childcare

Childcare providers are facing an uncertain future. Parents, even those who have secure employment, remain uncertain whether and when it will be safe to put their children back in childcare. The Government currently continues to pay fees for the childcare places it funds. However, these have been heavily cross subsidised by fee-paying parents in the past, and it's not clear for how long the government will continue to pay for unused places.[9] It is doubtful that a childcare sector dominated by private providers will survive this uncertainty. When parents eventually return to work and consider it safe to send their children to childcare, how many childcare places will be there for them?

Adult social care

The situation in social care is even worse. It is projected that 34,000 older care home residents in England will have died directly and indirectly from Covid-19 infection by the end of June, thought to be a result of "saving the NHS" by discharging untested patients from hospitals, the absence of normal medical care and the failure to provide either the PPE or the testing that would have been required to keep patients and staff safe[10]. These deaths have of course reduced revenue, while safety requirements have greatly increased costs. For domiciliary care, insufficient PPE and failure to test care workers moving from one client to another has left some of the most vulnerable in society exposed. It is unclear how much effective demand for social care places there will be after this tragedy and what that will mean for the sector in the future.

The disastrous impact of Covid-19 on the largely privately-run care sector is a symptom of long-term problems in the industry, caused by the unwillingness of successive governments to invest properly in care. Rather than having a care system reflecting the country's overall prosperity, successive governments have focused on containing public expenditure on both child and adult care. As a result, UK parents pay the highest childcare costs in Europe and the second highest in the world[11], and 1.4 million older people have unmet care needs[12]. Prior to the pandemic, declining pay and working conditions in social care left 122,000 unfilled vacancies[13], a situation being exacerbated by Brexit. Although we are prepared to entrust our young and old to them, most of those working in child and adult care are classified as unskilled, given minimal training, often on zero-hours contracts, with little or no prospects for promotion.

Care provides a better focus from an investment stimulus than construction

It is by now well recognised that regenerating employment will require an injection of public funds into the economy. There is a growing macroeconomic consensus that in a downturn government

[9] In Wales, funding for such places is being withdrawn from June 19th and funding for any places for future cohorts is uncertain (https://bbc.in/37IjD8g): other parts of the UK may follow.
[10] William Laing article in LaingBuisson's online journal *Care Markets* June 2020 https://bit.ly/2YkTDNa
[11] World Economic Forum https://bit.ly/2zMDQNN
[12] Age UK 'New analysis shows number of older people with unmet care needs soars to record high' https://bit.ly/3ehKnit
[13] Kings Fund 'Social care 360' https://bit.ly/37LnAsF

spending can have significant 'multiplier' effects on employment. When nominal interest rates are low, as they currently are, this can easily be afforded without needing rapid fiscal consolidation.[14]

However, the usual focus for an economic stimulus package after a recession is on the construction industry and/or investments in physical infrastructure. The Treasury has already issued a call for "shovel-ready" projects to help the economy recover, suggesting it has mainly construction projects in mind, though it mentions training too[15]. But there are more immediately "ready" and needed projects: to rescue the childcare industry by expanding public support for it and to recruit, immediately train and put to work under improved working conditions the massive numbers of care workers needed to remedy the dire state of social care in the UK.

These are also investments, in this case in our social infrastructure, to enhance the UK economy's resilience. By improving human capabilities, investment in the care sector yields returns to the economy and society well into the future in the form of a better educated, healthier and better cared for population, preventing social costs being shifted to other parts of the public sector, improving productivity and helping prevent the need for greater health and care interventions in the future.

Investing in care is also a far more effective way of generating employment than a construction programme. Any investment not only creates jobs directly in the sector where the investment takes place but also generates knock-on multiplier employment effects on other sectors. These are of two types:

i. "indirect" employment in the industries down the supply chain of that initial industry and, due to the increased spending of directly and indirectly employed workers, and
ii. "induced" employment in the industries supplying the goods and services that households' purchase, such as food, clothing, and entertainment.

In this way, any government investment expenditure has an expansionary impact on overall demand, helping reset economies at a higher level of activity and creating jobs.[16]

Table 1 compares the total number of jobs (for employees) generated by investing 1% of GDP in the care and construction industries, showing that approximately 2.7 times as many jobs are created by investing in care as by investing in construction.[17]

As can be seen on Table 1, not only is investing in care a better generator of employment; the gender effects of investment in the two industries are quite different. While investment in construction increases the gender employment gap, by creating far more jobs for men[18] than

[14] See IMF review by Mineshima et al. (2014), Size of Fiscal Multipliers, Chapter 12, in Cottarelli et al. (eds) Post Crisis fiscal Policy MIT Press (https://bit.ly/2zMEhYr)
[15] https://on.ft.com/3dmMr7A
[16] Input-output tables record how much of the output of different industries is purchased by each industry and the household sector. The tables can be used to calculate the total employment generated by increasing demand, for example by investment, in any sector.
[17] It has to be recognised that any investment in the actual delivery of care, unlike one-off construction projects, would have to be recurrent (though not just "current" because of its long-term benefits). In that sense the comparison being made is with a programme of construction projects stretching over many years.
[18] Estimates of numbers of jobs for women or men are made on the assumption that gender ratios in each industry remain unchanged.

women, investment in care narrows it, although it still provides more jobs for men in industries not directly targeted and overall.

Table 1 The employment effects of investing 1% GDP in the care and construction industries.

	Jobs generated in the industry	Jobs generated in other industries	Total jobs generated	of which for men	and for women
Care	534,000	179,000	713,000	206,000	507,000
Construction	105,000	158,000	263,000	182,000	81,000
Ratio of employment effects care/construction	5.1	1.1	2.7	1.1	6.3

Source: Calculations by Jerome De Henau for WBG, based on 2015 data from Eurostat

Table 2 shows that those greater employment stimulus effects do not depend on the newly created jobs being of poor quality. By simulating employment effects if wages paid in care were raised to the level of those in construction (requiring more than a doubling of wages in care), and measuring jobs created in full-time equivalents (FTEs), it shows that even under these conditions 60% more jobs overall are created by investment in care. Again, the gender employment gap is reduced by investing in care but increased by investing in construction.

Table 2 The FTE employment effects of investing 1% GDP in the care and construction industries, with matched wages.

	FTE Jobs generated in the industry	FTE Jobs generated in other industries	Total FTE jobs generated	of which for men	and for women
Care	246,000	137,000	383,000	140,000	243,000
Construction	102,000	140,000	242,000	179,000	63,000
Ratio of employment effects care/construction	2.4	1.0	1.6	0.8	3.9

Source: Calculations by Jerome De Henau for WBG, based on 2015 data from Eurostat

Revenue and environmental effects

Since investment in care produces more jobs overall it also results in more revenue being recouped through increased income and expenditure taxes and National Insurance contributions, which return roughly 42% of wages to the government. The percentage of revenue recouped is 50% higher from investment in care (33%) than from the same level of investment in construction (22%), making the relative gains of employment from investment in care even greater when net costs are compared.[19] Even in FTEs and with matched wages in the two industries, the relative gains in employment from investment in care are twice as large in total (five times higher for women and the same for men) than those of the same *net* investment in construction.

Investment in care is also greener: Eurostat data suggests that, taking account of multiplier effects, the total impact in terms of greenhouse gas emissions of investing in the care industry is 30% less polluting than that of investing in the construction industry[20] Rebalancing the economy towards more caring activities makes it thus both more socially and environmentally sustainable.

How much should we invest in care?

A better care system requires a greater proportion of total employment working in the care sector. Scandinavian countries, generally accepted to have some of the best care systems in the world, have about 10% of their employed population working in care (Sweden 10%, Denmark 11%, in FTEs[21]).

A better care system also requires that care workers are better trained and paid. If as a first step, the lowest paid care workers' wages were raised to the real Living Wage and other wages raised in line, average wages would go up by 24% (in 2015 prices).[22] If training was also provided and pay increased accordingly to reach Denmark's levels, where care workers are paid about 73% of qualified nurses and teachers, then average wages in the care sector would go up by 45%.[23]

Table 3 shows the total number of jobs that would be generated, the gross spending required and what that is in net terms if the UK were to increase public spending sufficiently to raise employment in care to 10% of total employment. These simulations are shown under four successive wage scenarios: wages at current rates; wages raised by 24% for all care workers; wages raised by 45% for newly employed workers to reflect their better training and qualifications and by 24% for the remainder; and wages raised by 45% for all care workers as improved training and qualifications spread more generally in the sector. The last line shows how many times more jobs the same net investment would generate if invested in care rather than in construction. Figure 1 illustrates this last point by showing the effect on total employment generated for men and women for the two extreme scenarios of Table 3, when the net investment in care is matched for construction.

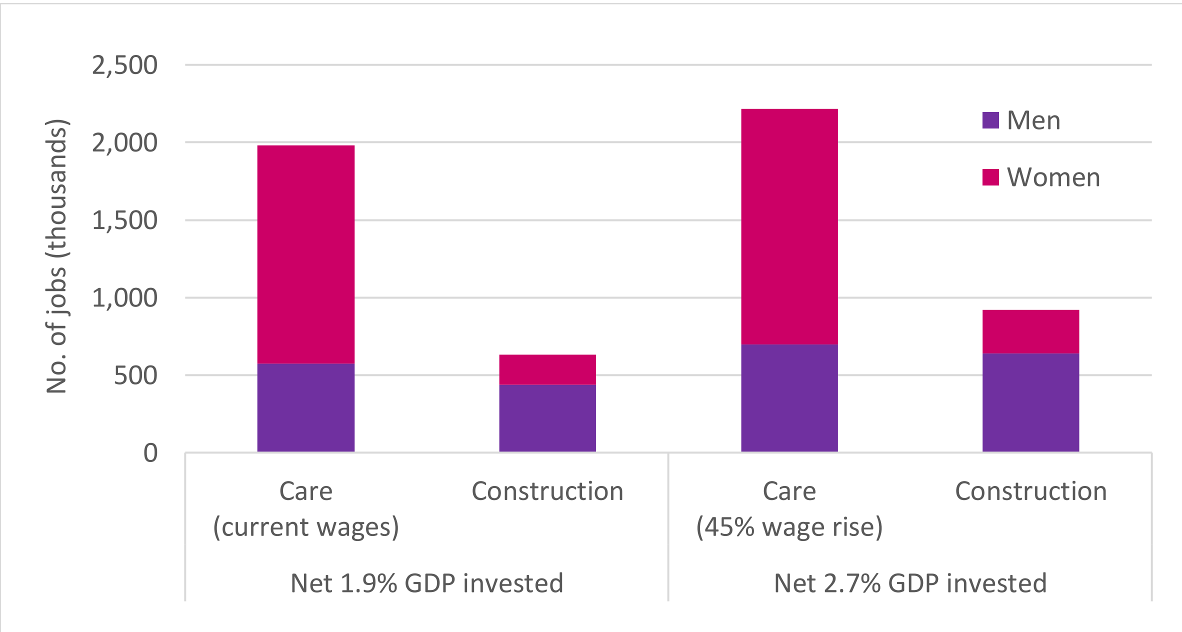
[19] De Henau and Himmelweit (2020) 'Stimulating OECD economies post-Covid by investing in care', Open University IKD working paper no. 85, https://bit.ly/3hPloFe
[20] WBG calculations from Eurostat environmental accounts https://bit.ly/3fN5dGW
[21] De Henau and Himmelweit (2020) op cit.
[22] The Living Wage in 2015 was £7.85 (£9.15 for London), a weighted average of £8.11, 24% above the National Minimum Wage of £6.50 (https://bit.ly/37PQYyk).
[23] Data from Statistics Denmark (https://bit.ly/2CoE9ze)

Table 3 Raising employment in care to 10% of employed population: employment generated and spending required under various wage scenarios

	With wages in care at:			
	Current level	Raised by 24% for all care workers	Raised by 45% for new care workers (24% for existing)	Raised by 45% for all care workers
Total number of jobs generated	1,982,000	2,110,000	2,161,000	2,215,000
of which % for women	71%	70%	69%	69%
Effect on gender employment gap (% pts)	-4.0	-4.0	-3.9	-3.9
Effect on total employment rate (% pts)	4.8	5.1	5.2	5.4
Gross spending required (% GDP)	2.8%	3.6%	3.9%	4.3%
Net spending (% GDP)	1.9%	2.3%	2.5%	2.7%
Multiple of total employment created for same net spending on construction	3.1	2.7	2.5	2.4

Source: Calculations by Jerome De Henau for WBG, based on 2015 data from Eurostat

Figure 1 Employment effects of investing the same net amount in care and in construction



Source: Calculations by Jerome De Henau for WBG, based on 2015 data from Eurostat

At current wage levels, nearly 2 million jobs would be created overall in the economy by investing 1.9% of GDP in net terms in the care industry, more than three times as many as if the same net amount was invested in the construction industry. Although successively raising wages in care will increase the spending required, and spending on wages does not generate as many jobs as directly employing people, even the highest wage scenario would generate an additional 233,000 jobs overall, with the total increase in employment still more than twice as large as for the same net amount invested in construction.

Given that 70% of the increased jobs from investing in care would go to women, this investment would also help reduce the gender employment gap by nearly 4% points as well as increase the total employment rate eventually by more than 5% points.

The above calculations are for the current boost in spending on care needed to transform our failing care system. They do not account for the increased costs of a growing need for care of an aging population. But nor do they account for how the net costs of any programme of investment in care would fall over time as future demand is reduced by preventative care, reduced public spending is needed in other areas to cope with the effects of inadequate care and government revenue grows due to the increased productivity of a healthier, better cared-for population.

But what does investing in care mean?

In the short run, investing in care simply means funding an economy more directed at providing care, with a larger proportion of its workforce employed in the care industry. This is particularly and most obviously needed for adult care, given the level of unmet need. But if the gender employment gap is to be closed and men's and women's working hours converge, more employment in childcare will also be needed (this remains true even if working hours are reduced, because this will apply to childcare workers too).

Government spending will be required to make this change in the distribution of jobs in the economy happen. Given existing recruitment problems, for such a shift into the care industry to be possible, its wages and working conditions will have to improve. Some spending will also have to go towards improving the training of care workers.

In the medium-term, a much broader programme of training should be instituted so that care workers can deliver higher-quality care and a professional pay and career structure can be supported that attracts both men and women.

Some investment in new premises will be needed too; this would best be provided by working creatively with other sectors to solve a variety of social problems. For example, part of the revival of the high street could come from locating community care centres there, from which domiciliary care and other community services could be run, with day care facilities for children and the elderly onsite, bringing such services together in the heart of communities. Similarly, housing could be unlocked by developing a whole range of care compatible housing, from sheltered housing, assisted living or retirement homes/villages, and with residential care facilities in the same locality.

Conclusion

Over the preceding half-century, women entering the workforce have boosted the economy and raised government revenues through the taxes they have paid. Successive governments have failed to invest enough of those revenues in replacing and building on the care women traditionally provided. Instead they have focused on tax cuts and on providing minimal care services as cheaply as possible, using privatisation to enable it to do this. The austerity of the 2010s did not cause this situation, but undoubtedly has made it worse. That the current situation is unsustainable with respect to social care has been recognised, but that the promised Green Paper on how to resolve it still has still not appeared shows that it is not high on the government's agenda.

The Covid-19 pandemic has provided both the evidence for why such a transformation of our care system is urgently needed and hopefully the shift in public opinion required to galvanise the political will to bring it about.

For more information contact:

Jerome De Henau jerome.de-henau@open.ac.uk

Susan Himmelweit susan.himmelweit@open.ac.uk

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