



# POLICY SUBMISSION

## **Public Subvention of Childcare: An Anti-Poverty Perspective**

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**Main points of Agency's policy paper:**

- Public subvention of childcare<sup>1</sup> should form part of an overall strategy of enhancing child welfare, with a particular focus on tackling child poverty. In this context, the policy priority is a substantial increase in child benefit, including a £100 per month payment for children in larger families.
- The profile of poor children suggests that assisting with childcare costs for returning to work parents would play an important role in tackling child poverty.
- Facilitating access to pre-school education for poor children would promote equality of opportunity for a group at high risk of educational disadvantage.
- For all families, childcare costs are greatest for children under 5s, yet there is a major policy gap in the level of public assistance provided at this time.
- Existing tax subsidies for childcare in single-earner families are a poorly targeted benefit and contribute to work disincentives for married women.
- Increasing the provision of childcare, including pre-school education, is best achieved through direct state investment and more family-friendly work policies.
- The Agency presents four policy proposals for subvention of childcare:
  - a childcare disregard under family income supplement;
  - a means-tested allowance for children attending pre-school education;
  - a child benefit supplement for younger children;
  - a universal parental benefit for families with younger children.
- The more expensive universal proposals could be funded by redirecting existing tax subsidies into a single cash payment focused on children.
- A tax-based childcare subsidy is strongly opposed on the grounds that it would primarily benefit better-off families and deliver minimal employment gains.

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<sup>1</sup> Childcare is defined as the care of children either by a parent in the home or through any form of non-parental childcare service, including pre-school. The main focus is on care of children under five years, as this is the age group where costs are greatest and public support is least.

## 1. Introduction

This submission outlines the views of the Combat Poverty Agency on the public subvention of childcare, as the statutory advisory body on all aspects of social and economic planning pertaining to poverty. It is now widely acknowledged that the state has a role in assisting financially with the care of young children (Commission on the Family, 1998; Expert Working Group on Childcare, 1999; NESC, 1999). Despite this, policy intervention in regard to childcare has been slow to develop. This reflects a lack of clarity as to the appropriate objectives, the choice of measures and the required level of public resources (Fahey, 1998). Under the *Programme for Prosperity and Fairness*, the government is committed to adopting an equitable strategy to support parents in meeting their childcare needs. Discussions have commenced with the social partners on this issue, with a view to implementing measures in the forthcoming Budget. The Agency is concerned to contribute to these discussions drawing its considerable expertise on child welfare issues.<sup>2</sup>

Public subvention of childcare can be seen as one of the objectives of child income support policy, which also includes preventing child poverty, supporting low-paid families and providing general assistance for all children (Nolan, 1993). It is important, therefore, to ensure synergy between childcare support and overall child income policy. A separate range of childcare measures would add to the already fragmented structure of child income. Given the limited pool of budgetary resources available for children, it is important to provide support in a coherent manner and to avoid a scattergun approach. At a wider level, childcare support should promote the welfare of children in keeping with the UN Convention on the Rights of the Child.

Given the scale and nature of child poverty, the policy priority in subventing childcare should be to target support at children in low-income families. This would be in keeping with the National Anti-Poverty Strategy, especially the recent proposal to include child poverty reduction targets in the strategy. In this context, the Agency outlines two relatively inexpensive means-tested supports which target children in poor and unemployed families. However, the Agency is of the view that tackling child poverty can best be achieved as part of an overall approach to improving public support for children. Two further policy options are therefore presented which provide universal childcare support. Because of the additional costs involved, these options are linked to redirecting resources within the existing tax/welfare system. The Agency considers that policy reform should exclude a tax-based childcare subsidy on the basis that this would confer the greatest benefit to those who need help least: better-off families, in particular two-earner couples, already in employment.

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<sup>2</sup> The Agency has a range of initiatives in relation to child welfare, including research on child poverty, a review of literature on child wellbeing, a public awareness programme on child poverty, proposals for a national strategy to enhance children's welfare (*A better future for children: eliminating poverty, promoting equality*) and a pilot programme to tackle educational disadvantage. Under the Peace and Reconciliation programme, the Agency has supported a number of children's projects, including early childhood education. On childcare policy, the Agency made a submission to the Expert Working Group on Childcare. It subsequently carried out a 'poverty proofing' analysis of the report of the working group (*Poverty Today* supplement, July/August 1999, 44). The Agency included proposals for childcare supplementation in its submission on Budget 2000 (*Poverty and policy. From wealth creation to wealth distribution*).

## **2. Subventing childcare - an anti-poverty perspective**

Assistance with childcare costs should be seen as part of government policy for tackling child and family poverty, as set out in the National Anti-Poverty Strategy. Recent research highlights the significance of child poverty in determining the welfare of children. It found that a quarter of Irish children live in income-poor households, with a sixth experiencing severe poverty (Nolan, 2000). Though falling, child poverty remains a key policy concern, especially when viewed in a comparative context: children are poorer than adults and Irish children are more at risk of poverty than those in EU and OECD countries (*ibid*; UNICEF, 2000). There is also evidence of the long-term effects of child poverty, with high risks of low educational attainment, unemployment, teenage pregnancy and ill-health. As such, child poverty represents a waste of economic resources as well as a recipe for social exclusion.

The profile of children affected by poverty indicates that parental unemployment is the major cause of child poverty (Nolan, 2000). For younger children the connection is even stronger as their presence has a particularly marked impact on reducing the labour market participation of mothers, thereby reducing family income (Callan and Farrell, 1991). This helps to explain why younger children face a higher risk of poverty than older children (Child Benefit Review Group, 1995; Hill and Jenkins, 1999). The importance of unemployment in terms of child poverty is further illustrated by the finding that Ireland has twice the OECD average of households with children in which no one has paid work (UNICEF, 2000). This reflects both the extent of inactivity among working-age adults (including those out of work due to illness, disability, education and home duties) and the concentration of worklessness (ie multiple unemployment) in certain households (Nolan, 2000; p31).

Recent policy has prioritised reform of income support to facilitate families moving from welfare to work (Expert Working Group on the integration of the tax and social welfare systems, 1996). Government has provided a number of measures to help families back to work, including an enhanced family income supplement and temporary retention of child dependant allowances. However, only one measure, the one parent family payment, incorporates a specific childcare dimension. This scheme allows working lone parents to retain a proportion of their welfare payment up to an earnings threshold of £12,000, in recognition of the childcare and other work-related costs for lone parents. Its success in encouraging lone parents into employment, as well as concerns about its inequitable nature vis-à-vis two-parent families, suggest that the disregard should be extended to all low-paid working families. Targeted support for childcare costs would also improve the labour market opportunities for unemployed mothers, who carry the main responsibility for childcare. Enhancing the economic position of women could be especially beneficial in terms of directing additional expenditure on the needs of children in poor families.

From a child perspective, there would be major benefits in terms of the life chances of poor children if their access to early childhood education was enhanced. To-date, early education is mainly associated with middle class childhood. From an equity perspective, it would be important to ensure that poor children are not disadvantaged at this early stage in their education development. Furthermore, research indicates that early education can be particularly beneficial in preventing incipient educational disadvantage (Department of Education, 1999). Improving access to pre-school education is therefore cost-effective as compared to interventions when children are older. Current provision for poor children is extremely haphazard, with one national scheme catering for 1,500 pupils and a small number of locally-funded projects. Introducing a programme of financial assistance for low-income families would improve their take-up of private pre-school provision. Such support would

complement the focus on improving provision for disadvantaged groups in the government's white paper on early childhood education (*ibid*).

### **3. Childcare subsidies - the wider policy context**

A case for the public subvention of childcare as part of policy to assist with child-rearing costs for all families can also be made. It is acknowledged that public support for children is low in Ireland by European standards (Bradshaw et al, 1993). Even with the post-September increases in basic child welfare payments to £23/£26 per week, these figures remain paltry when compared to the minimum costs of a child (£34 per week, uprated by inflation from Carney et al, 1994) or payments for other dependant categories such as pensioners (£85/£95 per week). It is in this minimalist context that state support with the caring costs of children should be considered. The main support for childcare is the transfer of allowances and bands for one-earner married couples within the tax system, which indirectly subvents the childcare provided by a parent in the home (Fahey, 1998; Commission on the Family, 1998). However, this tax break is poorly targeted in that it does not benefit families outside the tax net, non-married families or families who purchase childcare services. A similar assessment can be made of the new home carer's tax allowance.

The government-appointed Commission on the Family examined the role of income support policies in relation to the 'unacknowledged hidden costs of rearing children'. It identified the limited assistance with the care of pre-school children as a significant gap in policy, especially when compared with public provision for older children:

*In relation to childcare, the state assumes a significant element of the care responsibility for children when they are old enough to attend school through the education system. It is in the younger age groups that childcare responsibilities are most costly. In particular, it is in the years before entry into school that the issue of parents withdrawing (fully or partially) from the paid labour force to care for children, or incurring substantial childcare costs, arises most sharply. (p63)*

The Commission advocated an annual financial investment of £260 million for families with younger children in order to ensure equitable treatment with school-going children. In considering how to allocate this money, the Commission emphasised the importance of supporting parents' choice in relation to how they care for their children. In addition, the Commission explicitly rejected the introduction of tax allowances as a means of supporting childcare costs as inequitable and potentially divisive between one and two-earner families. The Commission suggested a two-prong approach:

- a universal subsidy for children aged 3-4 years attending pre-school (called an 'early years opportunities subsidy', valued at £1,000 per annum);
- a childcare allowance, either per parent (£30) or per child (£20), for the care of children up to the age of 3.

The Commission identified a restriction on the transfer of married couples' tax allowances and bands as a way of funding its childcare proposals. Since then, the Working Group on the tax/welfare treatment of households has further developed the Commission's ideas (1999). The working group approached the issue of child income support from a somewhat different perspective: the consistent and equitable treatment of different household types (married, cohabiting and single parent). It saw enhanced support for children as a means of overcoming present anomalies in the treatment of families. It put forward two policy options based on a redirection of the resources involved in the transfer of tax bands between married couples (giving an

estimated revenue yield of £367 million in 1998/9).<sup>3</sup> Option one was a general increase in child benefit of £32.50 per month (£7.50 per week) and option two was a package including a £30 weekly allowance for parents working full-time in the home, a weekly £20 pre-school education subsidy and an additional £16.50 on child benefit (£3.80 per week). Positive redistributive effects were associated with both options: from non-child households to households with children, from better-off to low-income families, from fathers to mothers and from earning to non-earning households. The first option also significantly improved work incentives for second earners (mainly women) by reducing marginal tax rates, though these would be negated if a 'parent-in-the-home allowance' was the chosen option. A stumbling block to the implementation of either option recorded by the working group was funding, with the Department of Finance and the Revenue Commissioners stating that the elimination of tax transferability would introduce an 'unjustifiable discrimination against one-earner couples'. However, in the light of the tax individualisation reform introduced in Budget 2000, these qualifications no longer hold the same policy weight.

A quite different approach to childcare subvention was adopted by the Expert Working Group on Childcare (1999), based on labour market concerns. Interestingly, its preferred option was to provide a universal childcare subsidy by increasing child benefit. It favoured child benefit on the basis that it goes to all families regardless of employment status or how childcare is provided, removes disincentives to work and 'offers women a genuine choice' (*ibid*; 63). The group suggested a supplementary payment of £20 per week for all children under 13 years as a meaningful contribution to childcare costs. However, at an estimated cost of £728 million, the group rejected this option as too expensive and as not guaranteeing an increase in the provision and quality of (commercial) childcare. As an alternative, the working group proposed a complex package of means-tested subsidies, income disregards under in-work welfare benefits, personal tax relief and tax exemptions for subsidised workplace childcare.

Tax relief was justified by the group on the basis of the disincentives faced by married women in taking up employment. However, these are more effectively addressed by individualisation of tax bands and allowances. Also, it is among low-income parents that the greatest disincentives occur due to a combination of welfare loss, taxation and childcare costs (Expert Working Group on the integration of the tax and social welfare systems, 1996). From an equity perspective, the primary beneficiaries of the proposed £30m expenditure on tax reliefs would be better-off, two-earner households already in work, contrary to the stated expectation of the working group that low-income families would benefit to the greatest extent (p69). Meanwhile, the additional impact on employment of tax relief would be marginal, as the initial beneficiaries would already be in employment. Finally, the exclusion of parents caring for children at home or using informal childcare is contrary to the equitable treatment of households and limits the choice afforded to parents in caring for their children.

#### **4. Increasing the provision of childcare**

There is also a policy concern to enhance the provision of childcare, including pre-school education (Expert Working Group on Childcare, 1999). In this context, the government has allocated £250 million under the National Development Plan to increase the supply of childcare places, along with a further £40 million for commercial childcare provision. Priority in this regard should be on the supply of

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<sup>3</sup> The working group also considered a third option, a general decrease in income tax, but this is not considered here as it has no relationship to the provision of a childcare subvention.

childcare in disadvantaged urban communities and isolated rural areas and among population sub-groups with specific needs, such as Traveller children, children with disabilities and children of lone parents or refugees/asylum seekers. This will require a locally-planned approach to identify any gaps in childcare services. Childcare provision should also become an automatic feature of state education and training programmes. An appropriate allocation of resources is also needed to underpin the provision of pre-school places, again targeting disadvantaged areas and social groups as set out in the white paper on early childhood education. The approach developed under the EU Peace and Reconciliation programme provides a model for future policy in this area.<sup>4</sup> There is also scope to develop after-school childcare within the framework of the education system.

As well as direct provision of purchased childcare, policy should also seek to make it easier for parents to care for children themselves. Here, the expansion of family-friendly employment policies is of crucial importance. Including a paid element in the recently introduced parental leave scheme and extending paid maternity leave are also important reforms in giving parents the choice to care for children themselves.

One of the reasons advanced by the Expert Working Group on Childcare for a general subsidy of childcare costs was to enhance the supply and the quality of childcare provision. The Agency does not believe that this would be the case. Typically, the main benefit of a general demand subsidy accrues to the service provider and not the user. This would be even more likely given the current shortage of childcare places. Linking childcare subsidies to improvements in the quality or type of provision would not be cost-effective and could actually reduce supply and increase costs. Similar questions can be raised with the Commission on the Family's proposal for a general early years education subsidy of £1,000 for pre-school children, when the supply of pre-school places is clearly inadequate. By contrast, direct government intervention to expand provision as outlined above would have the effect of improving parents' opportunities to purchase affordable and high quality childcare.

## **5. Policy options for public subvention of childcare**

On economic, equity and child welfare grounds, unemployed and low-paid families should be the main focus of public subsidisation of childcare costs. A case can also be made for a general subvention of families caring for children under the age of five on the basis of a more equitable tax/welfare system of supporting children across all types of households. Four Agency proposals to support childcare costs are presented below, broken into two categories: those concerned with low-income families and those which benefit all families. The recommended rate of subsidy is indicative and requires further consideration in terms of resource availability and redistributive and labour market effects. The focus in all proposals is on families with children under 5 years, as this is where the need is greatest. While this will result in an income drop after this age, there is a corresponding reduction in costs as children attend school.

Policy proposals exclusively for low-income families are:

1. Include a childcare disregard or equivalent cash supplement of £40 (one child) or £60 (two children) for under 5s as part of the family income supplement where both parents are working (including those on community employment). This

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<sup>4</sup> Further information on this can be got from Roisin Keenan, in the Peace and Reconciliation programme office in Leitrim (email: leitrim@adm-cpa.com).

would be similar to the disregard available to lone parents under the one parent family benefit. Unlike the comparable suggestion by the Partnership 2000 Childcare Expert Group, this would be an automatic benefit. In addition, parents attending state training or education programmes should have their childcare needs met directly as part of these activities.

2. Provide a means-tested pre-school allowance of £30 (one child) or £45 (two children) for all children aged 3 and 4 years attending pre-school or in childcare for specific child development purposes (eg health board referral). This is a more targeted version of the Commission on the Family's pre-school subsidy. The allowance would only be payable for receipted attendance at pre-school. It should be administered as part of the mainline social welfare system.

A childcare disregard would be the most targeted and least expensive policy option as it would be confined to two-earner families on family income supplement. This would maximise the labour market effect, especially among women. By contrast, the means-tested pre-school allowance is focused on preventing incipient educational disadvantage among children of pre-school age (younger children with developmental needs could also be included). This would benefit children in both unemployed and low paid families and would also improve work incentives for families. The downside is that by means-testing both proposals, they could worsen poverty traps and generate take-up problems. Administration costs are also likely to be a factor in proposal 2. Overall, these two proposals represent a cost-effective subvention of childcare costs and could be implemented as a combined employment and pre-school package.

Policy proposals for all families are:

3. Give a general supplement for all children under 5 of £10 per child per week as part of child benefit, as proposed by the Commission on the Family (with a lower age restriction of under 3) and given in principle support by the Expert Working Group on Childcare (cost £133m);
4. Introduce a parental payment for all families with a child under 5 of £20 per week, similar to that proposed by the Commission on the Family (cost £133m).

The third and fourth proposals offer a more inclusive approach to childcare support, with a payment going to all children/families regardless either of income or method of providing childcare. This universal approach would complement current policy direction in favour of a single transparent cash payment targeted at the needs of children. Both proposals are quite expensive and involve a broad-brush allocation of resources. These drawbacks would be substantially ameliorated by abolishing the transfer of tax bands as proposed by the Commission on the Family and the Working Group on the Tax/welfare Treatment of Households. Taxing these payments is another method of making them more progressive, but would involve major administrative changes and increase the churning of resources. Another method of reducing costs is to means test the payments, though this would undermine the principle of a universal approach and introduce poverty traps. Administratively, these two options could be delivered in conjunction with child benefit, but paid on a weekly basis. Neither option has a requirement for receipted childcare expenditure as this would exclude a large number of families. However, the payment is ring-fenced as an additional benefit directed at the caring of children and payable to mothers.

Proposals 3 and 4 represent a choice between a per child payment of a standard family payment. The child benefit supplement links the level of support with the



number of children being cared for. By contrast, the proposal for a parental benefit provides a flat rate of payment for families irrespective of the number of children. As such, it would confer a greater benefit on smaller families. It also offers explicit recognition of the role of parents in caring for children, a particular concern of the Commission on the Family, and extends the principle behind the home carer's tax allowance to all carers of children, regardless of tax/income status or type of childcare provided. Logically, the home carer's allowance (as it relates to childcare) should be abolished under option 4, thereby reducing the costs of this proposal by over a half. A parental payment also recognises the up-front costs of caring for a child in the home in terms of earnings foregone.<sup>5</sup> The Agency strongly advises against a tax relief as a means of general childcare support. UK research demonstrates that childcare tax relief confers the greatest benefit to those at the higher end of the income distribution, with the largest gains going to two-earner couples already in employment (Duncan and Giles, 1996). In addition, these families have been the main beneficiaries of recent budgetary tax/welfare changes, to the detriment of low-income families.

## **6. Conclusion**

A public subsidy for childcare costs should only be considered in the light of general child income support policy. Here, the priority should be on significantly increasing current rates of child benefit as the fairest and most effective way of supporting all families with children, while giving greatest help to children in poverty. Specifically in terms of the indirect costs of children, there is a clear justification for targeting low-income families, both in terms of improving access to pre-school education and of providing employment opportunities for unemployed parents. It is here that the policy impact of childcare support can be maximised in terms of those families who can least afford childcare, who face the greatest barriers to employment and whose children are most at risk of incipient educational disadvantage.

There is considerable merit in adopting a more comprehensive approach to childcare support for all families, but only in the context of redirecting existing tax resources into a unified payment directed at the care of younger children. This would promote the equitable treatment of households and strengthen parents' choice in caring for their children. However, a tax-based childcare subsidy would be counterproductive in this context and should be rejected. Like most tax breaks, this would primarily benefit better-off families and would also deliver limited employment gains. At a strategic level, it would undermine the goal of a coherent policy of child income support and make less likely the development of an efficient, integrated tax and welfare system.

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<sup>5</sup> If such general support was not provided, there should be consideration of targeting childcare support for families with high housing costs, including first-time buyers.

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