

5. State and European Union Support for Childcare

5.1 Introduction

This section of the report assesses the extent to which the State and the European Union provide support for childcare services. In practice, this is a difficult task for a number of reasons:

- support for childcare is not concentrated but arises from a number of sources, most of which provide limited funding only;
- in many cases, support for childcare is incidental to the main purpose for which State funds are being expended and expenditure records dealing specifically with the childcare element are not kept;
- a number of sources are sometimes used to fund the same childcare activities, giving rise to the prospect of double-counting of expenditure; and
- expenditure from some sources tends to vary from year to year, making it difficult to encapsulate.

Because of these factors, any estimate is bound to be crude and thus open to challenge.

The approach taken for this study was to consider each of the Government Departments in turn and establish whether they were providing support. This assessment included an evaluation of the support which is channelled through the Operational Programmes for Human Resources and Local, Urban and Rural Development. Finally, consideration was given to the support provided under a number of EU Initiatives.⁹

The next section identifies each of the Government Departments that provide support, summarises their involvement and presents the available data on expenditure. It begins with an assessment of expenditure by the Department of Education and Science and the Department of Health and Children, which have statutory responsibility for the care of children from a number of viewpoints.

5.2 Departmental Expenditure

5.2.1 Department of Health and Children

As part of its statutory duty to promote the welfare of children not receiving adequate care and protection, the Department of Health and Children provides a range of community based services to support children in need through the health boards. Such services, which come under the Child Care (Pre-School Services) Regulations, 1996, exclude after-school services and small-scale childminders not covered by the Regulations. At present, health boards do not provide pre-school services directly, but do extend financial assistance to organisations providing such services.

⁹ We would like to thank ADM for providing information particularly in relation to EU funded programmes. The figures presented, however, are the responsibility of the authors of this report.

Support for pre-school services provided by the health boards arises in the context of their budget allocations for child protection and family support services, which in turn are funded solely by the Exchequer. It should be noted that there is no specific budget for pre-school services within the health board allocations.

Funding for pre-school services during 1997 stood at approximately £2.0 million. Few details of the funding are available. No breakdown of the funding provided for financing of capital and/or running costs is obtainable, although the Department suggests that most of the funding would be for running costs. Operational figures for 1997 indicate that health boards assisted 497 pre-school facilities which in turn provided places for 8,426 children.

As part of the continued implementation by health boards of Part VII of the Child Care Act, 1991, health boards have appointed staff for inspections and duties associated with pre-school services. In 1998, the Department provided approximately £500,000 to health boards for this purpose.

Health boards also assist in funding a number of childcare organisations, such as the Irish Pre-School Playgroup Association. In 1997, through the Eastern Health Board, the Department provided core funding to the National Children's Nurseries Association (NCNA) and the National Childminding Association of Ireland (NCMAI).

5.2.2 Department of Education and Science

The Department's expenditure arises in the context of the Preventative Actions measures under the European Social Fund as well as Exchequer funded programmes such as the Early Start Pre-School Programme.

In the context of the Human Resources Operational Programme of the European Social Fund, the Department of Education and Science is providing support for participants in second chance educational programmes. During 1998 the Department indicated to the Chief Executive Officers of each Vocational Educational Committee that limited provision for funding had been made in the 1998/1999 financial years, with assistance from the Human Resources Operational Programme, for childcare facilities.

In order to co-ordinate the provision of childcare funding from the various State bodies concerned, VECs and Area Based Partnerships were invited to submit joint applications for childcare facilities for participants in the Vocational Training Opportunity Scheme, Youthreach, and senior Traveller training programmes. The application was to be based on the use of established childcare centres that are owned and run by local communities as a social service, and not childcare facilities conducted as a commercial enterprise.

At present, the response to the applications is being prepared, with the Department of Education and Science finalising the amount of support available for participants in the various courses during 1998/1999. A total of £2.7 million has been allocated to this initiative in the Operational Programme.

A further initiative undertaken by the Department of Education and Science is the Early Start scheme. The Early Start Programme, introduced in 1994, is a one year pre-primary school scheme for three year old children in disadvantaged communities. The Programme is currently in place in 40 schools catering for a maximum of 1,680 pupils. All funding for the Early Start projects is supplied by the Exchequer. During 1997 approximately £2.1 million was provided for the scheme.

The Department of Education and Science also provides subsidies for nurseries found in third level education institutions. Generally, subsidies are provided for capital and set-up costs, as well as assistance with overhead costs. Running costs of the nurseries, particularly staff wages, are met by parental contribution with students paying lower fees than employed staff.

5.2.3 Department of Justice, Equality and Law Reform

The Department is the co-ordinator of the various departments and Agencies in receipt of EU funding for childcare measures.

The principal vehicle by which the Department supports childcare is the Equal Opportunities Childcare Programme, managed on behalf of the department by ADM Ltd. The programme consists of three parts:

- *Support for childcare infrastructure projects.*
Financial support is provided by inviting applications for funding for infrastructure and equipment for community based childcare projects. The purpose of this support is to enable childcare facilities to be developed which will allow parents to participate in education, training and employment opportunities which they might otherwise be unable to undertake. In July 1998 the Minister for Justice, Equality and Law Reform announced £2.15 million in grants to 90 projects under this strand.
- *National employer childcare stimulation scheme.*
This is a new initiative developed in conjunction with IBEC; the scheme intends to develop a number of childcare facilities in association with employers in order to demonstrate to the wider business community the possibilities of various childcare provisions and its benefits to employers. The Minister announced funding of approximately £0.9 million to eight Employer Demonstration Projects over the period 1998/1999.
- *Core funding for community based childcare projects.*
This new programme is designed to provide staffing costs for a limited number of childcare services in disadvantaged areas. The programme is still in the implementation stage although the Minister did announce that funding of £2.0 million was being provided to 25 community support childcare projects over the two year period 1998/1999.

Thus, the total amount of funding allocated by the Exchequer to these three new initiatives totals approximately £5.0 million during 1998/1999.

The Department of Justice, Equality and Law Reform also maintains the lead role in ensuring Ireland meets its commitments in relation to adequate provision of childcare under part 4 of the EU Council Directive on the 1998 Employment Guidelines on strengthening the policies for equal opportunities.

5.2.4 Department of Arts, Heritage, Gaeltacht and the Islands

The Department assists in the provision of childcare services through two mediums. The first provides direct assistance to the provision of Irish language-based play-schools through subsidies per child. The second is essentially a training and materials provider for the Irish language based pre-school sector.

Industrial Development Programme - Udaras na Gaeltachta

Udaras na Gaeltachta subsidises the provision of Irish language based pre-school services (Naionrai) throughout various Gaeltacht in the west of Ireland. Throughout the Gaeltacht region, 70 nursery schools are grant assisted with an average of 700 children in attendance and 100 supervisors employed.

The Naionrai are operated on a sessional basis, mornings or afternoons. Each Naionra is operated essentially as a small business, charging fees as they wish. However, most fees are around the £10

level per week for an afternoon or morning session. If fees remain at or under this £10 level, the Naionra receives a supplement of £3.50 per child per week for 33 weeks per year, from the Division of Language, Policy and Culture. During 1997, grant aid provided on this basis totalled £100,000.

In addition, Udaras na Gaeltachta has assisted with the payment of PAYE and PRSI training expenses during 1997 for Naionrai, incurring expenditure of some £20,000. The total expenditure for 1997 of £125,000 was met by Exchequer funding. Udaras na Gaeltachta also received EU funding of £68,000 for 1997/1998. This money is being allocated to research (£26,000) and educational modules (£42,000).

An Comhchoiste Reamhscolaíochta Teoranta

An Comhchoiste Reamhscolaíochta is an organisation designed to establish, assist and monitor Irish-medium playgroups. It produces and publishes educational material for these groups and provides training courses for those involved in the establishment of such playgroups. There are approximately 267 Naionrai currently operating nationwide, employing 280 workers and supervising 3,000 children. There are 10 part-time, essentially voluntary, district officers, who are provided with only expenses directly incurred in their work. An administrator and a secretary staff the head office. Principal funding for the organisation is provided in the form of a grant by Bord na Gaeilge, Dublin. The amount of the grant has been approximately £83,000 per annum in the previous two years (1996 and 1997).

5.2.5 Department of Enterprise, Trade and Employment

The Department of Enterprise, Trade and Employment, under the auspices of the EU Operational Programme for Local, Urban and Rural Development, provides support to 35 County Enterprise Boards throughout Ireland. The Department has estimated that over the four year period to the end of 1997, £0.88 million from the Regional Fund was spent on 142 projects relating directly to the provision of childcare. Such projects created 270 full-time and 27 part-time jobs within commercially viable childcare projects.

As part of the EU Employment Initiative Programme, the provision of childcare facilities may be provided as a support to enable participants to take part in various projects. Under the NOW strand of the Programme a number of specific childcare projects are being funded. These include:

- The development of a common accreditation system in early childcare training by Dublin Institute of Technology;
- A multi-dimensional childcare initiative to facilitate the development of high quality childcare services in disadvantaged rural and urban communities (PAUL Partnership, Limerick);
- The provision of advice and guidance to women in rural areas and the stimulation of the development of local childcare provision through a mobile resource unit (West Limerick Resources Ltd); and
- The provision of community based childcare facilities for people wishing to take up training, education, enterprise creation or returning to work (Ronanstown Women's Group, Clondalkin).

Each of these projects was given funding of approximately £200,000 for the period 1995-1997. The Dublin Institute of Technology project is to receive additional funding of approximately £200,000 during 1998/1999 to further its work.

Additional EU funding under the Human Resources Operational Programme is allocated to FAS projects. At present FAS, in collaboration with Partnerships, provide childcare training in five

Partnership areas (with other areas being negotiated). This training involves 63 persons at Level 2 with 48 others receiving accreditation for prior learning. The cost of this training is approximately £200,000 per annum.

The Department's primary involvement in childcare provision is via the operation of its Community Employment Scheme which aims to help the long-term unemployed through community based employment projects. Only a small portion of the CE budget (the training element) is funded by the European Union, the majority being Exchequer funded.

In 1997, there were over 300 CE projects providing a childcare service throughout the country with more than 1,400 CE staff engaged in childcare. The importance of this essentially subsidised workforce to the viability of many childcare centres is borne out in the Survey of Childcare Providers undertaken for this study. A significant number of centres operating in the community and/or voluntary sector are dependent upon CE workers as their principal source of labour. Such centres are not financially capable of paying commercial wage rates to the number of staff required to operate their centre. The CE scheme provides childcare workers at a minimum cost. Without CE workers, the existence of many community-based childcare centres would be placed in jeopardy. In 1997 the financial value of CE to the 300 projects, including CE personnel and materials grants, is estimated at £10.3 million.

Thus, in addition to the approximately £2.1 million in EU funding allocated via the Department to childcare provision the Department is also responsible for more than £10 million in Exchequer funding for CE projects relating to childcare.

5.2.6 Department of Agriculture and Food

The Department is the national authority responsible for the LEADER I (1991 - 1994) and LEADER II (1995 - 1999) EU funded programmes. The programmes encompass some measures for promoting the equality of women, some of which in turn includes a childcare element.

The Department provides financial support to 36 LEADER Groups throughout rural Ireland. Within the Small Firms section of the Programme the establishment of childcare facilities as viable commercial enterprises has been aided by a number of LEADER groups. The assistance to date has mainly been capital grants for upgrading or extending premises. In a small number of cases LEADER has provided employment grants to childcare workers and assistance toward the cost of training workers.

Financial assistance via EU LEADER funds amounted to £80,000 for 1997 and it is estimated that £200,000 will be spent on childcare initiatives in 1998/1999.

5.2.7 Department of Social, Community and Family Affairs

While the Department of Social, Community and Family Affairs does not directly aid childcare, it provides grants for two types of activity that may indirectly support childcare activities. Firstly, the Department, through its Community Development Programme, provides core funding for resource centres and projects in communities experiencing social and economic disadvantage. The role of a project is to act as a catalyst for social change rather than as a service provider. As such, support for childcare services is not given directly. However, as many of the centres/projects are targeted at women, they often provide crèche facilities as an aid to participants. Departmental funding can aid in making such facilities viable, but cannot be used to support the crèche directly (for example, through the payment of the salary of a crèche worker).

The second type of activity supported by the Department is once-off grants to groups experiencing social and economic disadvantage. In practice, women form the majority of this target group. Many

of the activities take the form of training courses, self-help courses and a capitation grant which is paid by the Department. The Department accepts requests for such grants to cover reasonable childcare costs.

Because of the indirect nature of childcare provision by the Department it is not possible to isolate the actual amount spent by the Department on childcare services.

5.2.8 Department of the Environment and Local Government

Any funding provided by the Department is indirect and by virtue of the way in which it is provided, impossible to measure. For example, monies are paid by the Department or via the National Lottery to provide community sporting facilities such as swimming pools. As part of the overall facility a childcare centre or crèche may be incorporated. However, disaggregating the cost of providing such a childcare centre or the running costs involved in providing the service is not possible given the limited information available within the Department. According to Department officials, any funding for childcare by the Department is likely to be insignificant.

Some local authorities are also involved in support for childcare through actions undertaken through their community departments. It was not possible to gauge the extent of these actions in the context of this report.

5.2.9 Department of Tourism, Sport and Recreation

The Department of Tourism, Sport and Recreation is the lead Department in relation to both the Local, Urban and Rural Development Programme and the Urban Initiative, and it is through these two programmes that it supports childcare provision.

Under the auspices of the Department, ADM manages Subprogramme 2 of the Operational Programme, which deals with disadvantaged areas. This sub-programme provides support to 38 Partnerships, 33 Community Groups and a number of community based organisations. Support for childcare provided by Partnerships can be through infrastructure projects, new initiatives, or the provision of a staff member to co-ordinate facilities within the Partnership area.

ADM has estimated that 2,700 children benefited from these initiatives in 1997 through the support of 75 infrastructure projects. The cost is estimated at £1 million for 1997, with expenditure in 1998/1999 estimated at a further £2.6 million.

The Department also provides financial support for the provision and upgrading of childcare facilities to three URBAN Programme projects in South County Dublin, North Dublin and North Cork. The URBAN programme is an EU funded Community Initiative. At the end of 1997 it was estimated that little expenditure on childcare had occurred under the URBAN Programme, although monies have been allocated for 1998 and 1999.

5.2.10 Department of Finance

The Department of Finance is responsible for administering EU Interreg II Programme (Community Economic Development Measure) funding provided to the Cross Border Rural Childcare Project. The Project is a cross-border initiative designed to address the very low level of childcare provision in the border areas of Northern Ireland and Ireland. The IPPA is one of several partners in a rural research project which involves 6 communities, 3 of which are in Northern Ireland and 3 in the 6 border counties of Ireland. Expenditure on the project, provided by the EU Interreg II Programme, is estimated at £0.3 million in 1998.

The Department of Finance is also responsible for the administration of the Programme for Peace and Reconciliation. Conducted throughout the six border counties, this Programme has allocated significant support to 76 childcare projects under the Subprogramme for Social Inclusion. Of these 76 projects, 31 are infrastructure programmes where £400,000 has been committed. Forty-five of the projects provide support in terms of staff, training, or strategic support. A total of £1.1 million has been committed to these 45 projects. It is estimated that similar expenditure of £1.5 million will occur in 1998/1999.

5.2.11 International Fund for Ireland

The International Fund for Ireland manages the Communities in Action Project, funding 7 projects in the six border counties. All projects provide childcare support for participants and one project is specifically related to childcare provision. The IPPA receives funding under this programme to conduct the High Scope training initiative. A total of £230,000 has been committed to this programme, approximately 50 per cent of which is provided by the EU, the remainder being provided by private sources.

5.3 Summary of State Support

The lack of a central official body monitoring the funding and supply of childcare services makes it impossible to offer anything other than a crude estimate of the level of State expenditure. However, from the above analysis it is estimated that some £20 million of State and EU funds are currently being spent annually on childcare provision. The principal sources are summarised in Table 5.1.

This expenditure is targeted largely at children in need or in disadvantaged circumstances. It is significant that much of the expenditure on childcare arises as a by-product of other activities and does not have improvement in childcare provision as an objective. For example, the major contributor is the Community Employment scheme, which does not have a childcare objective *per se*, but supports childcare through placement of workers in social economy jobs generally.

As mentioned above, any attempt to estimate the level of State funding for childcare provision is hampered by the lack of co-ordination in the funding process. This situation may be overcome in the next 18 months through the database project being undertaken by ADM on behalf of the Department of Justice, Equality & Law Reform. This project is funded under the Technical Assistance Programme of the EU Human Resources Operational Programme.

Table 5.1 Summary of Sources of State and European Union Support for Childcare

Co-ordinating Department	Programmes	Dominant Funding Source
Health & Children	Community based services provided by the health boards	Exchequer
Education & Science	Vocational Training Opportunity Scheme Youthreach Traveller Training Programmes Early Start Pre-School Programme	Human Resources O. P. Human Resources O. P. Human Resources O. P. Exchequer
Justice, Equality & Law Reform	Childcare Infrastructure Projects National Employer Childcare Stimulation Scheme Community Based Childcare Projects	Exchequer Exchequer Exchequer
Arts, Heritage, Gaeltacht & the Islands	Udaras na Gaeltachta An Comhchoiste Reamhscolaíochta	Exchequer Exchequer
Enterprise, Trade & Employment	County Enterprise Board Support NOW FAS Projects Community Employment Scheme	O. P. for Local, Urban and Rural Development O. P. for Local, Urban and Rural Development Human Resources O. P. Exchequer
Agriculture & Food	Capital Grant Expenditure	LEADER II Funds
Social, Community & Family Affairs	Community Development Programme	Exchequer and EU
Environment & Local Gov.	Non-specific Local Authority projects	Exchequer
Tourism, Sport & Recreation	Non-specific projects Infrastructure projects, new initiatives and provision of staff via the County Enterprise Boards and Partnerships URBAN Programme for upgrading childcare facilities	Exchequer EU O. P. for Local , Urban & Rural Development EU Community Initiative
Finance	Cross Border Rural Childcare Project Programme for Peace and Reconciliation	EU Interreg II Programme (Community Economic Development Measure) EU Subprogramme for Social Inclusion
	International Fund for Ireland – High Scope Training Initiative	EU Subprogramme for Social Inclusion and Private funding

6 Economic Role of Childcare: Child Development

6.1 Introduction

This section of the report examines the role of childcare in child development. If childcare promotes the educational, social and psychological development of the child, then it may be expected that it will give rise to economic benefits over the lifetime of the child. In assessing the role of childcare, two particular problems present themselves. The first relates to the fact that the contribution of childcare must be measured against an alternative scenario. The most basic comparison is, of course, between the impact of periods spent in childcare as against similar periods under parental care. However, general comparisons of this nature are difficult to make because of the variation in the quality of both parental and external childcare. In other words, there are caring and less caring parents just as there is high quality and poor quality childcare provision.

Not only are such comparisons difficult to make, they would not be useful for the purposes of informing policy. After all, a general public policy intervention to promote the provision or take-up of external childcare at the expense of parental care is unlikely to find favour with either Government or the population at large. Such an intervention could be justified only in respect of children who are considered at risk in some way. In practice, governments *have* intervened to promote the well-being of children in this manner, and the economic impacts of such interventions is considered in paragraph 6.2 below.

Public policy may also be legitimately concerned with the quality of childcare available to parents who choose to place their children under childcare for whatever reason. In Section 3 of this report, we have outlined the anticipated increase in female participation in the labour force and the implications for the demand for childcare services. If the latter are of poor quality and there is a consequent impact on the development of children, then this may be a concern of public policy. In such circumstances, the role of Government would be to ensure that childcare provision is of a high quality. In order to justify intervention in this way, it must be shown that there are identifiable factors in childcare provision which are conducive to the development of the child. This issue is addressed in paragraph 6.3 below.

Finally, Government intervention would also be justified where parents were either ignorant of the nature of good childcare or were unable because of financial or other reasons to arrange good quality care for their children, or where there are benefits associated with childcare for society as a whole and not just for parents and their children. Paragraph 6.4 evaluates these issues.

Before the results of research on these issues are presented, it is appropriate to begin with a note of caution about the limitations of the research when applied to an Irish context. In the first place, it should be noted that the bulk of the research was conducted in the United States and focused disproportionately on the experiences of middle class children between the ages of two and five years in childcare centres. Although there has been some research focused on infants, there have been very few studies on after-school care. Less is known about the care of children in family day care as in childcare centres and almost nothing is known about the experiences of children who are cared for by relatives. These are serious gaps in our knowledge given the fact that so many children in Ireland are cared for by family day carers and relatives (Hennessy & Hayes, 1997; ESRI, 1998).

Other limitations of the literature include the fact that few studies have focused on children's daily experiences within different care settings or the emotional climate of those settings. Indeed, it is

noticeable that only a handful of studies have sought to gather information on children's own reports of what it is like to attend childcare. Finally, we know little about how the home and childcare environment interact to influence children's development although there is evidence to suggest that this interaction may be very significant for the children concerned.

Despite limitations in the literature on childcare, research in the last ten years has contributed greatly to our understanding of how childcare environments can be designed in a way that will be of maximum benefit to children. The literature can also serve to reassure parents that childcare can be a pleasant, stimulating, enjoyable and beneficial experience for their child.

6.2 Intervention Policies and Child Development

6.2.1 Overview

Government intervention to provide children from disadvantaged backgrounds with educational experiences in preparation for school are relatively commonplace. Since the 1960s there have been numerous intervention programmes in the United States that have provided pre-schooling to children from economically disadvantaged backgrounds. The Early Start programme in Ireland could be seen in a similar vein. In the United Kingdom, local authorities offer support services to childcare providers to complement their role as inspectors of childcare services (Moss, 1996) a similar service has been provided by the Ministry of Education in New Zealand (Smith & Farquar, 1994). Other less common options include the education of parents about appropriate care-giving standards for children of different ages (this has been advocated by Phillips, Howes & Whitebook, 1992 and Blau, 1991).

Governments also make policy choices about the level of funding provided to childcare and how that funding is targeted. All childcare policy choices made by government will have an impact on children, but unfortunately it is a topic that has been researched infrequently. As a result, research on this topic has focused on a very limited range of policy options.

6.2.2 Evaluation of Impacts

The majority of intervention programmes established in the USA offered educational experiences to pre-school children in the two years before they entered the primary school system. The best known include Head Start and the Perry Pre-school project. The many published studies on the pre-schools were remarkably consistent in concluding that children made initial gains in IQ when compared with children from similar backgrounds who had not attended pre-school. Unfortunately they were also very consistent in reporting that the effect 'washed out' by the time the children were in their second year of primary school - in other words the children who had attended pre-school did no better than the control children who had not attended (Lee, Brooks-Gunn, Schnur & Liaw, 1990). However, these pessimistic findings are now being re-evaluated for two major reasons:

- very often the children who were in the control group were not all that similar to the children in the experimental group; and
- very many of the studies focused only the children's cognitive performance completely neglecting the possible effect on self esteem, social behaviour and achievement motivation.

A recently published study has taken the combined data from a number of Head Start programmes in order to look at the issue of the lasting effects in more detail. The programmes they chose had better comparison groups of children than most other similar studies. Lee, Brooks-Gunn, Schnur

and Liaw (1990) had data on a total of 646 children in the United States who came from economically disadvantaged backgrounds. The children had either attended a Head Start Programme, another type of pre-school or no pre-school. The children who had attended the Head Start programme were more advanced than the children who had not attended pre-school in their second year in primary school (Grade 1) both in their cognitive and social ability. A variety of measures of cognitive and social ability were used. This finding is important because most other studies have reported that at this stage in their primary school careers the children who attended Head Start are no longer at an advantage in terms of their cognitive development.

The studies which chose to look at a broader range of behaviours have typically presented a positive picture of the effects of pre-school education. For example, Lazar and Darlington (1982) took data from a large number of different American studies on the effects of pre-school education. In total they managed to find data on 2,000 nineteen year olds who were known to have attended pre-schools for children who came from disadvantaged areas. These teenagers were compared with another group who came from similar backgrounds but who had not attended pre-school and were found to be doing better than them in a number of ways. In particular, fewer of those who had attended pre-school had required special education, they were less likely to have been held back a year during their school career and they had higher employment aspirations. These are substantial differences to remain given that it was some fifteen years since they had left pre-school.

Similar results emerge from an evaluation of the Perry Pre-school programme. This evaluation followed the development of 128 disadvantaged children who availed of pre-school classes usually from 3 years old. Their development was tracked up to age 28, and compared to that of a control group. For the early years, the children's development was assessed in terms of cognitive development, academic achievement and teachers' ratings. In later years, the performance of the children in adulthood in terms of employment history, crime and delinquency, and the extent to which they had to have recourse to welfare payments and other supports was assessed. Based on their development to age 28, predictions were made as to their future development in these terms. A comprehensive cost-benefit evaluation was undertaken which compared the costs of the programme with the benefits. It was established that the programme provided significant benefits in terms of lifetime earnings and reduced crime especially. Overall, the evaluation found that the cost benefit ratio was in excess of seven. In other words, for every dollar spent on the programme, the economy benefited to the extent of seven dollars. It is worth noting that the benefits to the taxpayer arising from reduced criminality, higher tax payments consequent on higher incomes, and reduced expenditure on education accounted for 80 per cent of the total benefits.

These results suggest that Government investment in high quality pre-school programmes can have long lasting beneficial effects for children from disadvantaged backgrounds.

6.3 The Quality of Childcare Provision and Child Development

6.3.1 Introduction

Within the psychological literature on childcare the term 'quality' typically refers to features of the childcare environment associated with the promotion of children's development. Zaslow (1991) identifies three ways of measuring quality in childcare settings: global measures (which require observers to rate features of the environment as well as adult child interactions), structural features of care (such as group size, adult:child ratio and caregiver training) and direct observation of interaction between individuals (particularly adults and children). While all three approaches have proved useful to researchers who wish to understand links between childcare environments and

children's development only the structural features of care can be regulated through legislation and as such have been of most interest to policy makers and legislators. For this reason, the review which follows will focus on the link between structural or regulatable features of care and children's experiences and development. The three most commonly regulated features of childcare include adult:child ratio, group size and caregiver training.

6.3.2 Adult-Child Ratios and Pre-School Care

Many researchers and early childhood workers regard a high adult : child ratio as essential to promote the well-being and education of children of all ages (NICHD, Early Childcare Research Network, 1996). Regulations regarding the maximum number of children that may be cared for by one adult also forms part of the legislation of most EU member states (EU Childcare Network, 1995) although the maximum permitted varies substantially. One reason for the emphasis on adult : child ratio has been the well documented link between high adult : child ratio and adult-child interactions of the kind that are linked to positive child development outcomes (Zaslow, 1991). This link further implies that the optimal ratio will depend on the age group of the children.

One of the largest and most comprehensive studies of infant childcare in the USA has recently reported findings related to the sensitivity of care experienced by six month olds. The NICHD Early Childcare Research Network (1996) collected data on the structural features of care arrangements of 879 infants in ten research sites across the United States. The study included childcare provided by relatives and family day carers as well as in childcare centres. The findings indicated that babies who were being looked after in their own homes by nannies or relatives or in the homes of family day carers were more likely to receive positive care-giving if the adult : child ratio was high. Research by Howes, Phillips and Whitebook (1992) suggests that for infants under two the optimal adult : child ratio is 1:3 or greater.

Further research on adult : child ratio during infancy was conducted by Howes (1990) who followed a group of 80 middle-class children in the United States from infancy to kindergarten (about age six/seven). The results of her study demonstrated that children who entered low quality care (adult : child ratio of 1:6 or lower) were less compliant with parents at 18 months, got on less well with peers in pre-school (age 3/4) and in kindergarten (age 6/7) their teachers rated them as distractable, less task-oriented and less considerate of others. These studies suggest that the adult : child ratio during infancy has implications for children's development both in the short and long term.

It is not just in research with infants that a link has been demonstrated between adult : child ratio and child development. With older children the research findings are more complex and have explored children's experiences in childcare as well as their social, emotional and cognitive development. Howes and Rubenstein (1985) found that children who attended childcare (either a centre or family day care) where there were three or fewer children per adult were more likely to talk and play with the adult. The same children were less likely to be observed crying or having a restriction placed on their activity (being told not to do something) than children where there were more children per adult. Research by Howes, Phillips and Whitebook (1992) suggests that two year olds with an adult : child ratio of 1:4 and three and four year olds with a ratio of 1:9 are more likely to experience positive care-giving.

Vandell and Powers (1983) looked at children's interaction with their peer group and found that three and four year olds attending childcare centres with certain structural features (including an adult : child ratio of 1:5) were less likely to spend time on their own and/or doing nothing than children attending centres without these characteristics. However, the relationship between adult : child ratio and children's interaction with their peers is not simple and other research findings do

not necessarily agree. For example, Holloway and Reichhart-Erickson (1988) found that children were less likely to spend time in solitary play when there were more children per adult. Clarke-Stewart (1987) also reported some beneficial effects of lower adult : child ratio for children's co-operation with peers and adults. Clarke-Stewart sums up her findings by saying that 'bigger is thus neither uniformly better nor inevitably worse' (1987, p. 36).

Research relating to the relationship between adult : child ratio and measures of cognitive/academic progress are much clearer than the research on peer relationships. Howes (1988) found that three year olds in childcare centres with a particular standard (including a ratio of 1:8) were more likely to have appropriate skills when they began attending primary school. The skills which she measured were the ability to work independently, the ability to interact with peers and the ability to participate in classroom activities. Phillips, Scarr and McCartney (1987a & 1987b) found that adult:child ratio was related to verbal intelligence and language development in their study of three year olds in childcare in Bermuda. Although Kontos and Feine (1987) found no relationship between adult:child ratio and child development outcome, the results of the other studies suggest that children attending childcare with lower adult : child ratio generally do better on measures of cognitive development.

The conclusion is that the adult : child ratio is an important feature of childcare settings. From infancy onwards children in childcare with higher adult:child ratios have more positive experiences and have advantages in school performance and cognitive development.

6.3.3 Group size and Pre-School Care

Childcare centres with identical adult : child ratios may differ in the number of children and adults using the same room. Thus a room with a group of six infants and two adult caregivers has the same adult : child ratio as a room with twelve infants and four adults but potentially offers a very different experience to the children and adults concerned. For this reason a number of studies have included group size as well as adult : child ratio in their measurement of the structural features of childcare.

The NICHD Early Childcare Research Network (1996) study found that infants received more sensitive care with nannies, family day carers and in childcare centres when group sizes were smaller. Research conducted by Howes and Rubenstein (1985) suggests that toddlers also benefit from smaller group sizes. The children in their study were between 17 and 22 months old and attended childcare centres and family day care. Children in a group of fewer than eight were observed talking and being spoken to more often and were more likely to be observed playing with an adult. These kinds of interactions with adults are potentially of great benefit to children's language and social development.

In childcare centres adult : child ratio and group size can vary independently. In the case of family day carers who typically work on their own, ratio and group size are inextricably linked. An increase in group size implies a decrease in the adult : child ratio. Legislation on adult : child ratio and group size are therefore very important for this group. Of particular relevance to the debate on adult : child ratio/group size as an element of childcare policy is a study recently completed in California in the United States (Howes & Norris, 1997). The study focused on a change in state licensing of family day carers which permitted them to take two additional school-age children. This brought the maximum number of children up to eight for a single adult and to fourteen for an adult working with an assistant. Researchers found that the family day carers were less sensitive after the arrival of the additional children. The authors suggest that the pattern of findings is consistent with a shift in providers' attention towards the older children.

The studies mentioned so far demonstrate that from infancy on children's experiences in childcare appear to be influenced by the size of the group in which they are cared for. There is also evidence to suggest that these experiences are associated with different developmental outcomes.

Working with a sample of two and three year olds in Chicago, Clarke-Stewart (1987) found that children with family day carers and nannies did better on measures of social knowledge and social competence when there were fewer than five children looked after with them. The effect of group size in the childcare centres was not as clearly positive. The children in larger classes were less sociable with strangers (both peer and adult) but they did better on tests of social knowledge and were less likely to behave negatively towards an unfamiliar peer during assessment. These findings are, however, unusual and most studies find that better social development is associated with smaller group sizes.

Vandell and Powers (1983) used a group size of twenty four or fewer children (3 and 4 year olds) in their definition of high quality care and found that children attending care with such group sizes were more likely to show positive behaviour and were less likely to be solitary and unoccupied. Consistent with this, Holloway and Reichhart-Erickson (1988, 1989) found that four year olds in larger groups gave more anti-social responses and used more anti-social categories and received lower ratings on social competence from their caregivers. The average group size in their study was fifteen.

Smaller group sizes have also been associated with better language and cognitive/intellectual development among pre-school children. Thus, for example, Howes (1988) used small group size as part of her definition of high quality care for two and three year olds. The study was longitudinal and found that the effects of such high quality care could still be detected some three years later when the children were in primary school. The advantages included better teacher ratings of independence, group interaction and participation in activities (collectively referred to as school skills). Kontos and Fiene (1987) found that smaller group size was associated with better current intellectual and language development of children between the ages of three and six.

Research by Howes, Phillips and Whitebook (1992) gives some indication of appropriate group sizes for children of different ages. They found that infants who were cared for with six or fewer others, two year olds with twelve or fewer and three/four year olds with eighteen or fewer were more likely than children in larger groups to experience developmentally appropriate activities.

The conclusion is that group size is an important feature of childcare settings. From infancy onwards children in smaller group sizes benefit in terms of the care-giving which they experience and in terms of their social, cognitive and language development.

6.3.4 Caregivers and Pre-School Care

Any discussion of caregiver education and its relationship to the development of children must distinguish between adults' level of formal education (typically measured by the total number of years spent in full-time education) and specialised training in early childhood education. While the majority of studies have measured both, some studies have focused exclusively on one or the other.

The NICHD Early Childcare Research Network (1996) found that infants (under one year) received more positive care-giving from nannies and family day carers who had specialised training in child development. Howes and Norris (1997) found that family day carers who had more formal education and training were more sensitive following the addition of two children to their group than family day carers with less education and training. In other words the reduction in adult : child ratio had less impact on better trained family day carers. Two further studies reported by Howes (1997) also demonstrate strong links between caregiver training and interaction with children. The Cost, Quality and Outcome Study found that caregivers with at least a two year

degree in early childhood education were more sensitive, less harsh and more responsive than other less well trained teachers. The Florida Quality Improvement Study also found that degree level training in early childhood education was associated with greater levels of caregiver sensitivity and responsiveness. These studies clearly indicate that training is associated with more positive behaviour with children from infancy onwards.

There is evidence from other studies that caregiver training is also associated with children's development. When caregiver training was included as part of a composite measure of childcare quality, children in higher quality centres had more positive interactions with adults, less solitary and unoccupied behaviour (Vandell & Powers, 1983), were more compliant and self regulating and displayed more positive affect during peer play, (Howes, 1990) had better school skills and fewer behaviour problems (Howes, 1988).

In addition, a number of studies with pre-school age children have examined the effect of teacher training on children's development independently of other structural aspects of care. Howes' (1997) studies not only found an association between training and teacher behaviour but also with child development. The results of the Costs, Quality and Outcome Study indicate that children had higher language development scores when their teacher had at least a two year degree in early childhood education. The Florida Quality Improvement Study found that a three year degree in early childhood education was associated with more complex play with objects.

Dunn (1993), Kontos, Hsu & Dunn, (1994) has reported very similar findings to Howes (1997). In Dunn's study children cared for by caregivers with college level training in early childhood education/child development had higher scores on a measure of intelligence and had more complex cognitive and social play. Clarke-Stewart (1987) also found that the children in her study had higher scores on a measure of cognitive ability when their caregiver had specialised training in child development, was older and had been in the centre for longer.

Not all studies measure the specialised training of caregivers as well as their formal education and the latter on its own is not a particularly good indicator of teacher behaviour or child development. Thus, Burchinal *et al*, (1996) found that caregivers' formal education was not related to children's language development at one year. Kontos and Feine (1987) found no relationship between formal education and the language development and social deviance of older children. Thus it would appear that it is specialised training which is important in terms of how caregivers interact with children rather than how well educated they are. The same is also true for children's social and cognitive development. Only one study conducted over ten years ago found contradictory evidence and can be given little weight in the context of a much larger and more recent body of research.

To summarise, specialised training in early childhood education is an important contributor to the way in which caregivers interact with the children in their care. Children who are cared for by an adult with at least two years specialised training do better on measures of social and cognitive development.

Another finding with important policy implications is that caregiver wages are related to the quality of care offered to infants and young children. Both the NCCSS and the CQOS found that caregiver wages were strongly related to the quality of care offered to children. Although wages are related to education and training, the differences in training and education alone do not explain the finding that the more highly paid caregivers offer higher quality care. The authors of the CQOS conclude that higher wages attract better qualified staff who will stay longer in their jobs thus reducing the turnover of staff and improving the quality of the care.

Staff wages are thus a very important predictor of the quality of care that children receive.

6.3.5 After-School Childcare

Unlike the topic of childcare for pre-school children which has attracted significant debate and research in the last thirty years, there has been relatively little interest in the topic of care for children before and after school hours. The one exception to this has been in the case of children who spend their time without adult supervision. The terms 'latch-key' and 'self care' have variously been applied to children in this group. A number of research projects have been conducted to examine the effects of this experience on children of various ages (Galambos & Maggs, 1991; Belle, 1997; Pettit, 1997) and most studies of after-school care include 'self-care' as one of the care arrangements of interest (Marshall *et al*, 1997; Posner & Vandell, 1994; Vandell & Corasaniti, 1988; Pettit, Laird, Bates & Dodge, 1997).

The tendency of researchers to focus on the children in self care before or after school is part of a more general tendency to design research projects which compare the developmental outcome for children in different types of care setting. Thus, for example, children looked after by a parent may be compared with those who attend an after-school programme or family day care. Unfortunately the findings of such research can be very difficult to interpret because knowing that a child attends family day care or an after-school programme tells you little about the child's experiences. Therefore, our understanding of the effects of different experiences after school hours lags far behind our understanding of differing pre-school childcare experiences. It is not possible, therefore, to discuss the adult : child ratios, group size, and caregiver training in the same detail as for pre-school services.

Goyette-Ewing and Knoebber (1997) compared middle class six year olds who were going to family day care, relatives, after-school programmes, self care and home to a parent after school. The researchers used a global measure of quality of care and found that the children in the programmes were more likely to have poor interactions with the adults looking after them and were more likely to be punished than were children in other forms of care. The children who attended these poor quality programmes for two years had poorer social and emotional development than other children as judged by their school teacher. They were also more likely to have problem behaviour, lower social skills with their peers and poorer task orientation. In contrast to this result a study which had a very similar design but a more representative sample of young children between the ages of six and ten found that children attending after-school programmes were better off than their peers (Marshall *et al*, 1997). In Marshall *et al*'s study self care was associated with higher levels of problem behaviour and attending a programme was associated with fewer problems. Although Marshall and her colleagues did not include a measure of the quality of care provided to the children in the study they note that the relationship between type of care and problem behaviour only held for the children from poorer families. In such circumstances it is possible that poorer children lived in more disadvantaged or even dangerous neighbourhoods making self care a riskier option than for children in suburban or rural settings.

There is evidence from another study in the United States that children from low-income families may stand to benefit from after-school programmes. Posner and Vandell (1994) compared a group of children from families with low incomes who had a range of different arrangements for after-school care, including going home to a parent. Again, the researchers did not include a measure of the quality of care received by the children but descriptions of the after-school programmes indicates that they offered children a wide range of activities and were funded by voluntary and public agencies. The children attending these programmes had better academic grades than all other children and better work habits and peer relations than some less formal types of care. We can learn something about the type of programme that will be most beneficial to young children from Vandell, Pierce and Hamm's (1997) work with children attending a variety of different after-school programmes. They found that children who attended more structured programmes had better academic performance and work habits in school and fewer behaviour problems.

On the basis of the research reported so far it is clear that after-school care is frequently associated with children's social and emotional development in a way that cannot be explained solely in terms of the children's differing home circumstances. What we understand less well is how to structure and plan after-school programmes in such a way that they are of maximum benefit to children. Most of all we have little insight into the way in which regulatable features of after-school care are related to children's experiences. Only one study has attempted to explore this relationship. Rosenthal and Vandell (1996) looked at adult:child ratio, group size and caregiver education in 30 different after-school programmes for children between the ages of nine and twelve. Their findings are remarkably similar to the findings already reported for pre-school children. Negative staff child interactions were more frequent when adult:child ratios were lower, when the adults were less well educated and when the proportion of older children in the programme was smaller. The researchers also found that when a greater variety of activities was available to the children they were more likely to give a positive evaluation of their experiences and the observers were more likely to report that adult-child interactions were positive/neutral. Far more research projects like this are needed for a full understanding of the most effective way to design and regulate programmes for school going children of all ages.

The conclusion is that research on after-school care suggests programme structure, adult : child ratio, adult training, activities available and the age mix of children may all contribute to children's development and their satisfaction with programmes. More research is needed on childcare for this age group.

6.4 Market Failures in the Demand for Childcare Services

6.4.1 Introduction

Government may intervene to alter the demand and supply of childcare services through regulation of childcare provision and/or through various supports aimed at either providers or parents. Such intervention must be based on a view that left to itself the childcare market will not operate in an optimum manner.

Government already intervenes to regulate the *quality* of childcare. The Regulations introduced in 1996 under the Child Care Act 1991 set out standards to which childcare providers must conform. It has been argued by some policy makers that regulations about adult : child ratio and maximum group size are relatively easy to avoid, particularly by family day carers. Yet research comparing these structural features of childcare in countries or states with different regulations suggests that the regulations really do make a difference. Blau (1991) cites evidence from a major national US study (the National Longitudinal Study of Youth, NLSY). Because the survey was national it permitted comparison of the structural features of childcare in states with different regulations. The results demonstrate that parental reports of adult : child ratios and caregiver training vary in relation to state legislation. For example, childcare centres are eight times more likely to have trained personnel in states where such training is required by law. This finding was also confirmed by another national U.S. study, the National Childcare Staffing Study (NCCSS) (Phillips, Howes & Whitebook, 1992).

Regulations regarding the structural features of childcare do, therefore, make a difference to childcare services despite difficulties in enforcement.

The issue to be addressed in the context of this report is whether the State should intervene on a broader basis to support childcare services through subsidies, tax breaks or other means. The

argument for so doing must be based on evident market failures. There are three sources of such failures. These relate to:

- imperfect information;
- external benefits; and
- incapacity to pay for childcare services.

6.4.2 Imperfect Information

If parents are aware of the value of high quality childcare for the development of their children, then they may be expected to purchase such care. However, while most parents inevitably seek childcare settings which provide a safe and caring environment for their children, there is concern that they may not be aware of the value of early education or of the attributes of good childcare facilities which have been outlined above (i.e. small group sizes, low adult : child ratios etc.). Moreover, while research has shown many of the benefits of early education accrue in adulthood, parents may not be able to fully perceive benefits which occur twenty years hence.

Although none of the studies mentioned evaluated measures of State provision or subsidisation of education for parents who must make childcare choices, most researchers agree that it is potentially an important contributor to improving childcare quality. Blau (1991) argues that parents who are motivated to seek out high quality care will also serve as monitors of the care offered to their children. Phillips, Howes and Whitebook (1992) argue that childcare centres must be responsive to the demands of parents and that, as such, parents who are aware of the needs of their children may be effective in improving quality. Phillipsen, Burchinal, Howes and Cryer (1997) point out that parent education can help parents to select better quality care in the first place. Unfortunately, parent education has not been widely used as part of childcare policy and its impact has not been evaluated through research on children's development.

However, *a priori*, there is support for the view that the State should intervene to improve parents understanding of the appropriate childcare needs of their children and/or to improve the quality of childcare provision generally so that parents automatically avail of better quality services.

6.4.3 External Benefits

The possibility of external benefits arises because those who purchase childcare services are not necessarily the only beneficiaries of them. Parents may purchase childcare services so that the time they save may be used for leisure or work purposes. However, if periods of childcare also enhance the educational and social development of the child, and parents do not take account of this in purchasing childcare, then under-consumption of childcare services may take place.

The most likely impact of such a market failure is that parents availing of childcare services may tend to opt for lower quality childcare (with smaller child development benefits) than would otherwise be the case.

Market failures of this type are, of course, more likely to occur where parents suffer both from lack of knowledge of the long term effects of good childcare and undervalue the benefits because they accrue to children and not to them. The external benefits will be greater to the extent to which childcare options involve an element of early education. In this respect, the

argument for intervention in childcare is essentially the same as that for compulsory primary education.

It has been demonstrated in Section 6.2 above, that the State and society as a whole stand to benefit from good childcare. This arises both from future savings in educational expenditure and more importantly from the development of adults who are better able to participate in society and less likely to engage in criminal behaviour. These external benefits will arise more substantially in respect of disadvantaged children for whom the childcare environment may offset the inadequacies of the home environment.

6.4.4 Incapacity to Pay

The final, but not the least important, reason for State intervention is that those with low incomes may find it difficult to purchase high quality childcare. That is, even where a parent has full knowledge of the benefits of childcare to the child and society as a whole, he/she may not have the means to demand such care. While there are strong *social* arguments for supporting childcare for this group, it is important to note that there are also very substantial economic arguments. The economic benefits to the State which accrue from the development of adults of good social behaviour are large, and are greater with respect to less advantaged children.

6.5 Conclusions

A number of conclusions emerge from this analysis of childcare provision and child development:

- quality childcare has a beneficial impact on development of children and especially on disadvantaged children;
- this impact is enhanced where the childcare provision includes an element of early education;
- the benefits to children persist through to adulthood and are garnered by both the child, the State and society as a whole;
- there is emerging evidence that the benefit to the State in terms of reduced criminality is large;
- provision of *high quality* childcare is crucial to obtaining these benefits - they are unlikely to be obtained if provision is of low quality;
- high quality childcare is characterised in part by several observable factors - high adult : child ratios, small group sizes, well remunerated and trained caregivers.
- the State already intervenes to regulate the supply of childcare in terms of quality, and to support the take-up of childcare services on a selected basis. There is a strong case for a more generalised system of State support for childcare services;
- the need for State intervention arises because parents in reaching decisions on childcare are unlikely to appreciate or to take account of the full benefits to children and to society as a whole i.e. there is a market failure;
- this market failure will tend to result in parents demanding lower quality childcare than would be optimum; this will be true of parents generally, but particularly true of parents with low incomes;

- the loss to the State arising from market failure is greater in respect of children from the disadvantaged segment of society; thus, there are strong economic as well as social reasons for supporting childcare for this group;
- support from the State should be focused on ensuring that parents have access to *high quality* childcare provision which incorporates a strong element of early education; and
- State support should extend to children generally, but there is a need for a particular focus on the less advantaged.

7. Economic Role of Childcare: Labour Market Participation

7.1 Introduction

This section of the report examines the role of childcare in the labour market participation of mothers. It starts with a brief outline of labour market developments and the role of the labour force in generating growth. Subsequently, the labour force participation rates of women, mothers and married women are outlined, and the barriers imposed by the combination of the income tax system and childcare costs are described. If action is to be taken to relieve the burden of childcare costs, then there must be evidence that (i) there is a need for State intervention, *and* (ii) that intervention will yield positive benefits. Both of these issues are addressed.

7.2 The Current Labour Market

The rapid expansion of the Irish economy continued during 1997, with GNP increasing by at least 7 per cent for the fourth consecutive year. The broadly based nature of output growth has led to major gains in employment across most sectors of the economy in Ireland. Employment growth was approximately 4 per cent in 1997, following similar increases in previous years. Consistent with a high level of employment growth has been the dramatic fall in the level of unemployment, from 230,000 in April 1993 to 179,000 in April 1997.

However, the fall in unemployment has not matched the increase in employment levels, due to a significant expansion in the labour force since 1993. The major factors underlying this expansion have been the increased participation by females in the labour force and net inward migration. Female labour force participation in Ireland has risen from 34.1 per cent in 1992 to 39.2 per cent in 1997. Despite this increase, female participation in Ireland remains below the EU average.

These increases in labour supply have to a large extent succeeded in maintaining relatively low rates of increase in nominal wages and underpinning the competitiveness of the Irish economy. However, there are signs that labour market pressures are growing - the rate of short-term unemployment has dropped below 4.5 per cent. Also, skill shortages have begun to develop across a range of industries. The prospects for the remainder of 1998 and into 1999 are for these labour market tensions to increase, placing pressure on the timing and extent of pay increases awarded under Partnership 2000. Further growth in employment of about 3.25 per cent is expected (Central Bank of Ireland, Spring Bulletin 1998).

7.3 The Labour Force as an Engine of Growth

The dramatic success of the Irish economy during the 1990s has been attributed to many factors, not the least of which is the importance of the role of the labour force. Demographic change and increases in labour market participation by women, along with improvements in human capital accumulation, have had profound effects on the labour market and the potential for long term economic growth in Ireland.

The pattern of human capital accumulation in Ireland contrasts with that in most other EU countries, where the labour force is growing relatively slowly and where the benefits of post-war investment in human capital have already been achieved.

Investment in education in Ireland over the past thirty years has had the effect of reducing the supply of unskilled labour and increasing the supply of skilled labour. Most new labour force entrants now possess at least a Leaving Certificate qualification, compared to the 1960s when only a minority of new entrants did so.

To ascertain the impact of the supply of human capital on economic growth levels, a composite index of the supply of human capital in the Irish economy can be constructed (see ESRI 1997). The ESRI results confirm the notion that the benefits from human capital are occurring later in Ireland than in most other EU countries. The index reflects the fact that as each person in Ireland retires, generally holding only a primary education, they are replaced with a person holding Leaving Certificate or third level education. As a result of this switch in human capital, output rises, as reflected in the increase in average earnings. The growth in the index reaches a peak in the first half of the 1990s, indicating that investment in human capital was contributing over 0.6 percentage points a year to the economic growth rate during that period. As the average educational attainment of the labour force rises, the rate of increase in the index is falling. However, the index still exhibits an increase of over one third of a percentage point a year at the end of the next decade.

The rise in workforce participation rates, particularly those of females, is strongly linked to the recent increases in investment in education. As women's educational attainment has risen, so too has their potential gains from participating in the labour force, encouraging their entry and continued participation in the workforce. The participation rate of highly educated and skilled females, whether with or without children, continues to increase at a rate in excess of projections. The direct economic benefits of this changing workforce structure are borne out by the figures mentioned above.

7.4 Female Participation in the Labour Force

Table 7.1 presents an overview of the composition of the labour force in Ireland from 1971 to 1997.

The relevant measure of population in the context of labour force analysis is the total working age population, i.e. those aged between 15 and 64. The share of females in the total population of working age has remained stable over the period, between 49 and 50 per cent.

The trend in female participation in the labour force is rising over the period. In 1971, women accounted for 25.71 per cent of the labour force. By 1997 this had risen to 36.98 per cent. The annual average rate of growth of females in the labour force over the period 1971 to 1997 (3.5 per cent) has outpaced total labour force growth (1.3 per cent).

Mirroring these trends has been the sustained increase in the female share of the total employed labour force. In the 26 years from 1971 to 1997 the number of women employed grew by 237,200, reaching 512,800 in 1997. This compares with growth of 51,000 in male employment over the same period.

In more recent years women's employment has been growing at a faster pace than previously. Between 1971 and 1981 female employment grew by 54,000 and then by a further 57,000 between 1981 and 1991. Most significantly, the subsequent growth in the years 1991 to 1997 (126,500) outpaced the growth of female employment in the previous 20 years (111,000).

These changes have especially involved married women. In 1971, the 39,200 married women who were in the labour force accounted for 14 per cent of the total female workforce. Over the

following 26 years the number of married women in the labour force grew significantly, and by 1997 almost 47 per cent of the female workforce was married.

Marriage has traditionally played an important role in determining the labour force participation rate of females: participation rates were much higher for single than for married women. However, between 1981 and the early 1990s this pattern altered radically, with the presence of children rather than marital status becoming the crucial factor affecting participation. By 1992 the participation rates for women without children, whether married or single, were almost identical, while the participation rate for single women with children (30 per cent) was below that of married women with children (40 per cent) (ESRI; 1997). That is, mothers had a much lower rate of labour force participation than women who had no children, irrespective of marital status.

7.5 Barriers to Labour Force Participation of Women

7.5.1 Introduction

Despite the substantial increase in the number of women participating in the labour market during the past two decades, barriers still exist which hinder even greater female participation, the most significant of these being the cost of childcare and its interaction with the income tax system as it affects wives. This section illustrates the impact of childcare costs on the financial returns to paid employment for women under various scenarios. The decision by a mother to take up paid employment will be influenced by the expected net gain from work. This net gain is shown to be largely dependent upon the cost of childcare and its impact on net household income.

Table 7.1 Overview of Labour Force Since 1971

	1971	1981	1987	1991	1992	1993	1994	1995	1996	1997
POPULATION AGED 15-64										
Total (000's)	1717.30	2030.70	2142.30	2182.30	2217.90	2249.20	2278.60	2312.00	2352.80	2398.60
Women (000's)	847.90	1002.00	1061.00	1085.40	1102.20	1117.30	1132.80	1151.10	1171.30	1194.30
% of women to total	49.37	49.34	49.54	49.74	49.70	49.68	49.71	49.79	49.78	49.79
LABOUR FORCE										
Total (000's)	1125.00	1272.00	1319.00	1342.00	1361.80	1381.80	107.00	1439.50	1488.50	1485.30
Women (000's)	289.30	370.00	407.70	439.10	454.80	471.70	487.10	507.60	546.30	555.00
% of women to total	25.71	29.09	30.91	32.71	33.40	34.14	34.62	35.26	36.70	37.37
MARRIED WOMEN IN LF										
Total (000's)	39.20	112.00	161.60	179.20	200.30	212.70	224.00	236.70	252.50	258.80
% women to total	13.60	30.20	39.60	41.76	44.04	45.26	45.99	47.10	46.74	46.12
EMPLOYED LABOUR FORCE										
Total (000's)	1050.00	1146.00	1088.00	1134.00	1144.60	1151.60	1187.80	1247.60	1297.20	1338.40
Women (000's)	275.60	337.00	352.50	386.30	401.40	412.00	430.90	459.10	493.60	512.80
% of women to total	26.26	29.41	32.41	34.08	35.07	35.78	36.28	36.80	38.05	38.31
UNEMPLOYED										
Total (000's)	75.90	126.00	231.60	208.70	217.30	230.30	219.20	191.90	191.20	179.00
Women (000's)	13.80	33.00	55.20	52.80	53.50	59.70	56.20	48.50	52.80	48.30
% of women of total	18.18	26.19	23.83	25.30	24.62	25.92	25.64	25.27	27.62	26.98

7.5.2 Barriers Facing Working Households

In attempting to ascertain the impact of childcare costs on the employment take-up decision of mothers, the working status of any partner is significant. Assuming the mother is married and the husband is employed, then the husband's salary level will impact on the salary level at which it is viable for the mother to take up employment. Generally, the higher the male income, the higher the female income will need to be in order for the household to achieve any real increase in income. This is due to the fact that:

- spouses do not enjoy additional tax allowances on taking up work and are thus taxed on virtually all their income at the marginal rate; and
- they incur significant childcare costs.

To determine the impact of childcare costs on the decision by a mother to take up employment, the net gain from working was calculated for a number of family types. This decision to take up employment is determined by the effect that a working spouse has on the net household income of the family. A key issue, then, is: at what salary level does the net family income increase when the mother takes up employment, given that childcare costs must be paid. A number of different scenarios were considered.

In each of three cases the initial position of the household is assumed to be:

Case 1 Male parent employed at a salary of £10,725.

Case 2 Male parent employed at a salary of £16,087.

Case 3 Male parent employed at a salary of £32,174.

Each household is assumed to contain two children of pre-school age. The children require childcare services if a parent is not available to care for them during the day. Childcare costs are assumed to be £65 per week for full-time childcare for the first child and £50 for the second child requiring care.

From these initial positions it is assumed that the mother enters full-time employment. A range of salary levels the mother may possibly earn are modelled. Both children in the household enter full-time childcare as a result of the mother finding full-time employment.

Table 7.2 provides an example of how the financial returns to employment have been calculated. It gives a breakdown of the calculation of the net benefits of a female taking up paid employment for a gross salary of £10,000 p.a. when her husband is already employed at a salary of £16,087 (the average industrial wage). All social insurance, levies and taxes are considered. A travel expense is calculated to reflect the cost of taking up employment by the mother. The cost of childcare is the major expense incurred by the family. Based on the assumption of a two-child family where the cost of childcare is £65 per week for the first child and £50 per week for the second child, the annual childcare bill is £5,520 (based on 48 weeks care). After paying this childcare cost the increase in net income to the household as a result of the addition of the mother's salary is £1,392 per annum. As a result of household gross income rising by £10,000 (the mother's salary), the net increase in household income after additional taxation and childcare expenses is only £1,392.

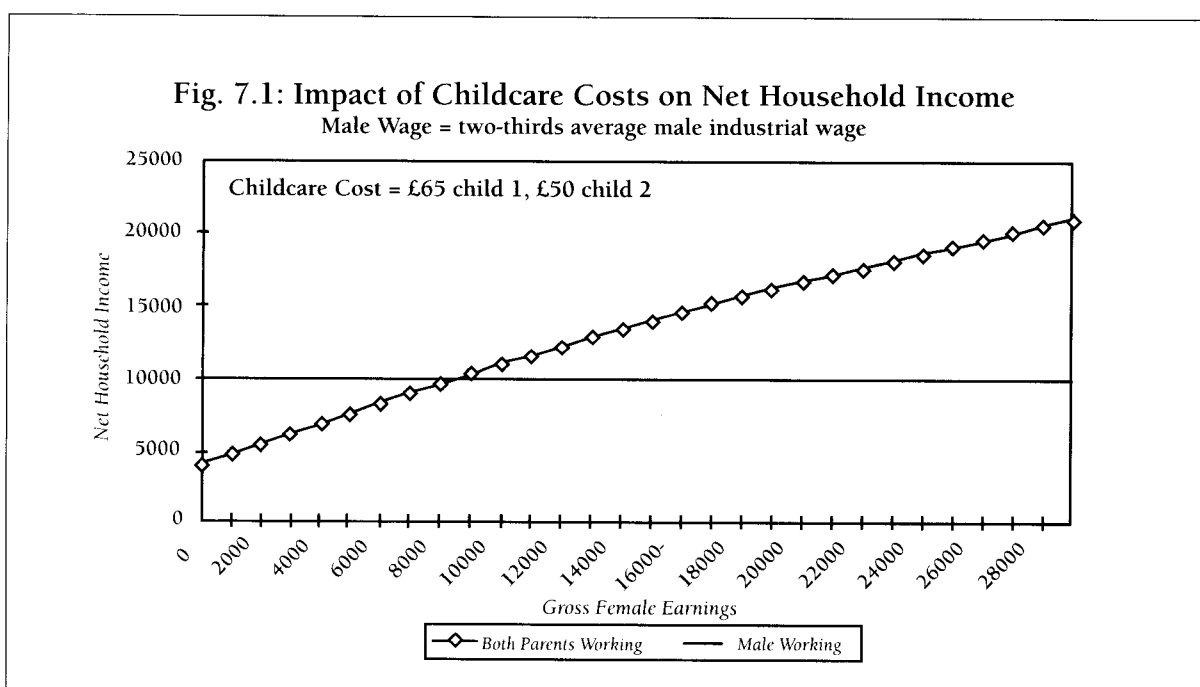
Table 7.2 Net Gain in Household Income From Female Employment, £

Effect of Childcare Costs on Net Household Income	Male Working No Childcare	Male & Female Working Childcare Used
Gross income from work - male	16,088	16,088
Gross income from work - female	0	10,000
Social Insurance/Levies- male	852	852
Social Insurance/Levies - female	0	216
Tax Liability	2,466	3,455
Income after tax	12,769	21,565
Child benefit allowance	756	756
Childcare	0	5,520
Travel Expenses	480	960
Net Household Income	13,045	14,437
<i>Net gain in household income from female working</i>		1,392

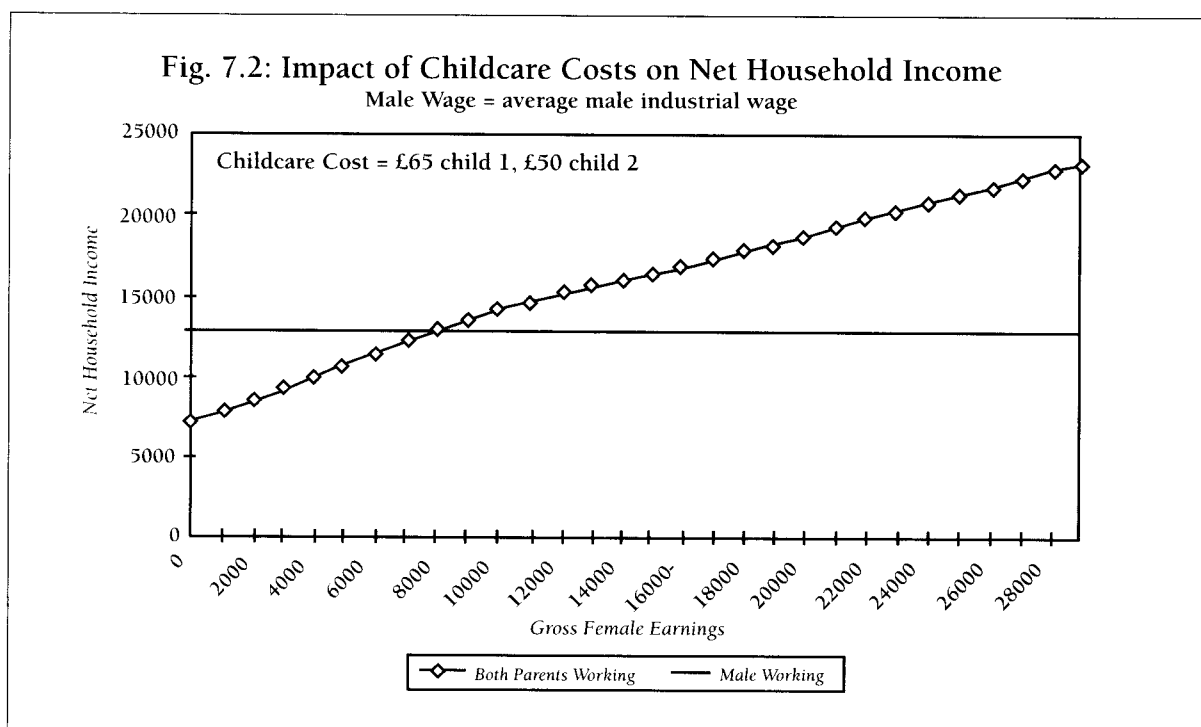
The above calculations have been conducted for each of the three cases outlined, at varying potential female earnings levels. The results of the analysis are displayed in the Figures 7.1, 7.2 and 7.3 which follow. In each Figure, net household income is depicted on the vertical axis and the gross earnings of the woman on the horizontal axis. The Figures show how net household income would change if the woman took up work. This is done for different possible female earnings levels. In each Figure, the horizontal line indicates the household income if only the man works.

The Figures show that where female earnings are low, net household income may actually decline if the woman goes out to work. This arises because the income gain is insufficient to offset the extra tax paid and the costs of childcare. The point at which net household income inclusive of the mother's salary equals the net household income prior to the mother taking up employment is identified and differs for each scenario considered.

Case 1 is depicted in Figure 7.1. In this case, the male parent is employed at two-thirds of the average male industrial wage (£10,725). If it is assumed that the male is the only person employed and earning a gross income of £10,725 per annum, the net household income for the year is £10,022. When the female enters the workforce the children are placed into childcare at a cost of £5,520 per annum. This childcare cost impacts on household net income dramatically. **Only when the female gross wage reaches approximately £9,000 is net household income for the family restored to the same level as when only the male was working (£10,022).** At this point, the net income gain to the family as a result of a second income is £274 per annum.

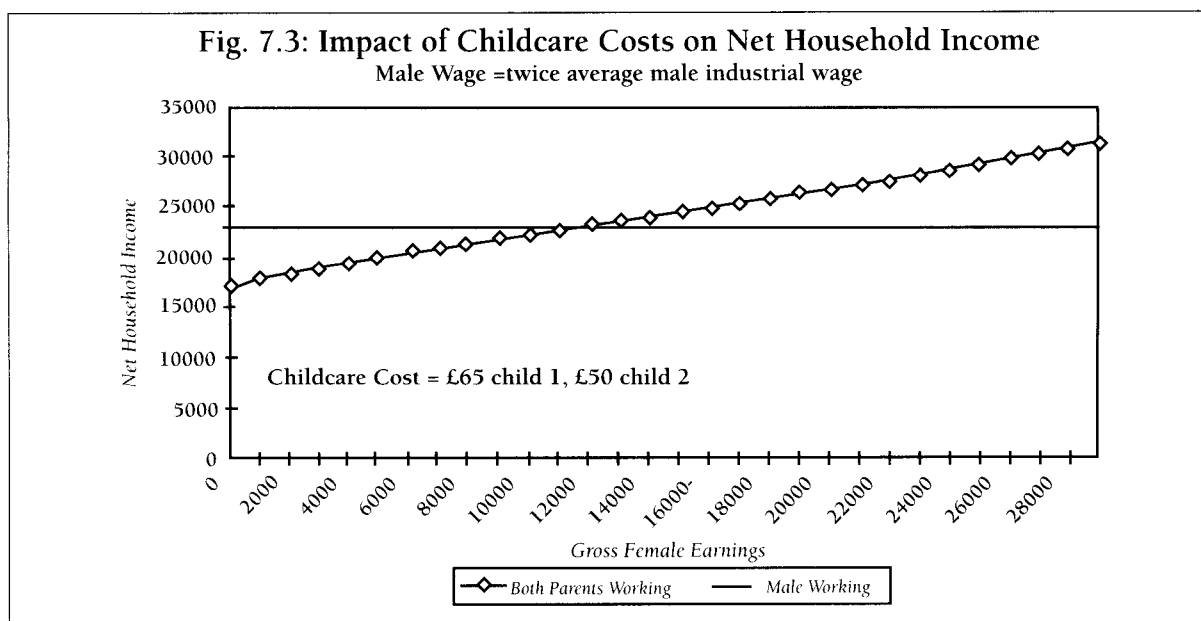


If the female is earning below £9,000 per annum, the return from her employment is negative. By entering the workforce and being forced to pay childcare costs for the care of the children, net household income actually declines below the level incoming when only the father is employed. Thus, the female gross salary must be above the £9,000 level for the family to achieve any net increase in its financial well-being.



Case 2 is depicted in Figure 7.2. Assuming this time that the male is working for a gross annual wage of £16,087 (the average industrial wage), net household income is approximately £13,045. When the female takes up employment her gross wage level must be at least £8,000 per annum for the household income to be equivalent to this original net household income level of £13,045.

Below a female salary level of £8,000 the household faces a reduction in net income due to effect of childcare costs and taxation eroding the benefit of a second household income. **Only when the mother earns a salary in excess of £8,000 will net family income rise.**



Case 3 is depicted in Figure 7.3. In this case, it is assumed that the male gross salary is twice the average male industrial wage. With only one gross income level of £32,174 the net income to the household is £22,952. The gross female wage level required to raise net household income is approximately £12,000. Only when total gross household income reaches £44,174 (£32,174 + £12,000) does net household income equal £23,000, the same net household income level achieved when only the male is employed at a gross salary of £32,174. Childcare costs and taxation levels imposed at higher income levels combine to raise the break-even level of female income required to maintain net household income.

When the mother earns a salary of less than £12,000 the net family income actually declines from the level achieved when only the father is employed. By entering the workforce and incurring childcare costs the family's net income level falls.

The Figures and calculations presented above show that in general terms, mothers taking up work have to have substantial gross earnings to offset the costs of childcare which they incur and the taxation which their earnings attract. Depending on the earnings of the male partner, female earnings have to lie in the range of £8,000 to £12,000 per annum if net household income is to grow, when the female takes up employment. The calculations are based on a family with two children requiring childminding. Where the family has three or more children, the break even female earnings would be even higher, if childcare costs increase.¹⁰

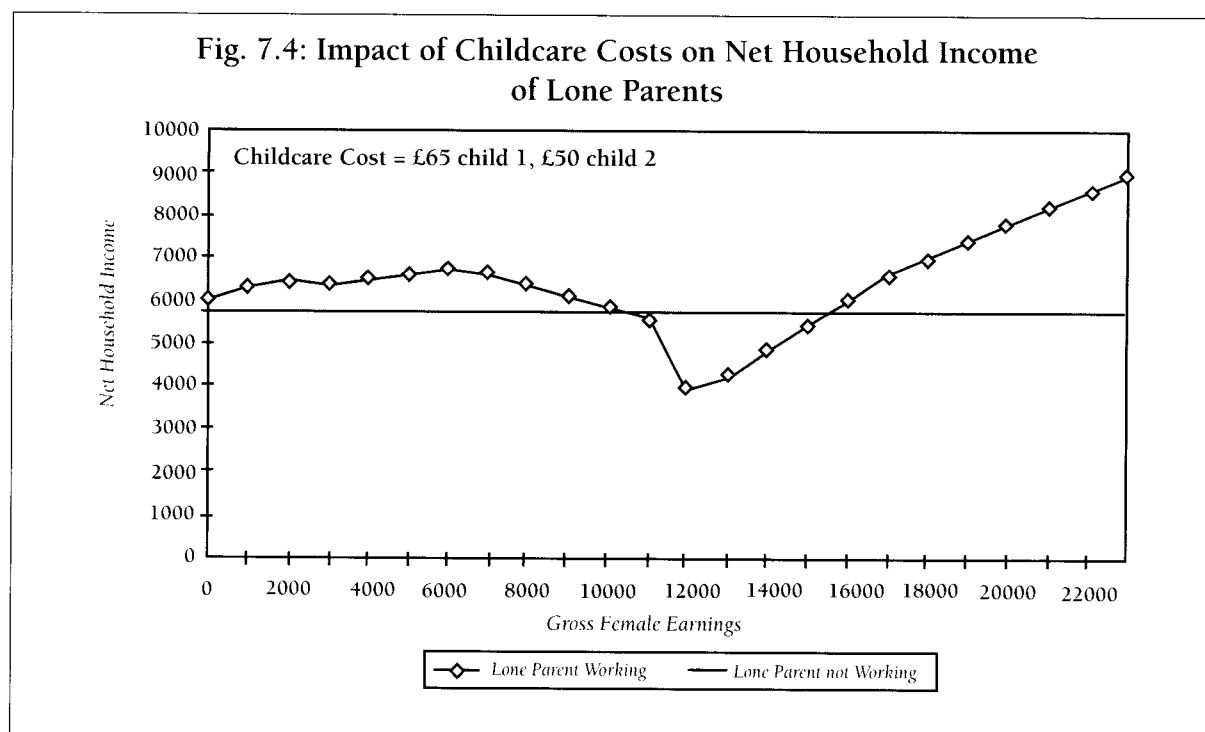
7.5.3 Barriers to Social Welfare Households

Lone Parents

This section considers barriers facing social welfare households. The first household type considered is the lone parent. The usual assumptions with regard to number of children and childcare costs were made.

¹⁰ Childcare costs might not increase, if the children are minded in their own home by a single childminder.

It is assumed initially that a mother of two children is living alone and in receipt of social welfare, an amount of £5,756 per annum. This is the only source of household income.



By taking up employment the lone parent maintains a certain proportion of welfare payments up to the point where her wage income is £12,000 per annum. That is, for example, when earnings are £11,000 the family is also entitled to various welfare payments of approximately £2,800. The figure shows that over a range of earned income the lone parent is better off at work. This is in contrast to the married women as outlined in the examples above. It reflects the various steps taken by the Department of Social, Community and Family Affairs in the last two years to ease the means test as it affects lone parents. However, it may be seen that a poverty trap exists above £12,000 of earnings when the social welfare payment is completely withdrawn.

7.5.4 Other Social Welfare Barriers

No allowance is taken of childcare expenses in determining entitlement to Family Income Supplement (FIS). Currently, there are a negligible number of households on FIS with two earners. This is because two worker households invariably have incomes above the income eligibility limits. This issue is addressed in our recommendations.

7.5.5 Overall Conclusions

It is clear from the above analysis that childcare costs and the structure of the tax system are substantial barriers to married women taking up employment. The married woman's earnings must be substantial for net household income to increase. This is true irrespective of the husband's earnings. Because of recent changes in the means test, lone parents do not face similar barriers.

The survey, which was reported in Section 4 of this report, indicated that childcare providers are likely to seek to raise prices by some 50 per cent in the short term. This rate of increase is unlikely to be matched by growth in wages or incomes, so that the disincentive impact of childcare costs will tend to rise.

7.6 Reasons for State Intervention

In Section 6, when dealing with child development, a number of market failures were identified which were regarded as justifying State intervention in the provision of childcare. Market failures similarly arise in relation to the impact of childcare on labour force participation of women.

7.6.1 The Wider Economic Benefits Associated with the Labour Force Participation of Women

The most obvious market failure in this regard relates to the presence of externalities. These arise where the price of a good or service does not reflect its true social cost or benefit. In the case of childcare, positive externalities arise such that the benefits to the economy at large exceed the private benefits to parents.

If a woman leaves the labour market on having children, her human capital deteriorates. By using childcare and returning to the labour market a woman maintains and extends her skill levels and training. The maintenance and expansion of the skills of the workforce in this respect are likely to be of wider economic benefit.

The continued participation in the labour market of skilled women after childbirth may thus provide positive externalities which improve the overall performance of the economy. For example, society may value continued labour force participation over and above the current wage offered to mothers. In this case, an economic argument can be made for subsidising the continued employment of skilled women where there are bottlenecks, such as skill shortages constraining the economy and generating inflation.

Also, the State may have invested in the human capital of women through training and education. These sunk costs would fail to bring the intended benefits if women could not return to the labour force after childbirth due to the costs of childcare in a free market.

Joshi and Davies (1992) compare childcare models in France, Western Germany, Sweden and the UK and estimate the lifetime earnings of mothers under the different systems. Thus, they present an evaluation of the effect of the total package of policies in each country, combined with the prevailing norms of behaviour.

In the UK, the typical model is that of little access to childcare and the mother of two leaving the labour force for eight years, with subsequent part-time employment. The German model provides more pre-school care, kindergarten, and typically results in two extra years of part-time work whilst the youngest child is three and four. In Sweden, childcare, daycare and after school care result typically in a one-year break for each birth and part-time employment (with long hours) whilst children are under sixteen. The French model of childcare support (access to a nursery or subsidies for private care, pre-primary and the long French school day) also results in the mother taking a one year break for each birth, but full-time employment otherwise.

The results for a British woman with two children who adopts the typical labour market behaviour under each model are as follows. For a woman earning £9,000 at the age of 24, the German model increases lifetime earnings by £5,000 only. However, the Swedish model increases lifetime earnings by £129,000 and the French, £191,000. Their results highlight a number of salient issues: firstly, the importance of pre-school childcare enabling the mother to remain in employment and maintain her employment market skills and, secondly, the importance of childcare for school age children, permitting full-time (or part-time with long hours) employment.

It could be argued that many of these benefits are likely to be garnered by women themselves and, therefore, are not likely to yield positive external effects. However, if the labour supply of women is constrained, this may contribute to inflationary pressure and reduce Gross Domestic Product (Cohen and Fraser, 1991).

These effects are exacerbated in economies where marginal income tax rates are high. High tax rates distort women's decisions as to whether to purchase childcare on the open market or provide it for herself. This arises because, at the margin, the women will compare the net wage to the value of an extra hour's childminding in the home. As the net wage is artificially low due to taxation, greater home based childcare is 'consumed' than would be optimal. While it could be argued that the distortive effects of the tax system impinge on all taxpayers to some degree, and working women should not be singled out for special treatment, the reality is that mothers are more adversely affected by the system because, unlike single women, they often face higher marginal tax rates.

7.6.2 Information Deficiencies

A second market failure argument for childcare subsidies is the existence of imperfect information. Imperfect information occurs where the outcome in a market is not efficient because the participants do not have all the necessary information required to make a fully informed decision.

A free market will only achieve an efficient outcome if all mothers know the full consequences of their decision to leave the labour market. When women are making decisions about returning to the labour market following childbirth, the economic aspects of such a calculation will include comparing the costs of childcare with the likely return from working. This implies that they calculate expected returns from employment over the whole of their future career. However, women may fail to accurately measure the true financial losses of career breaks when making such decisions. For example, the effects of pension rights may not be fully considered when making decisions about labour market participation. If women on average overestimate their expected lifetime incomes following an absence from the labour market, then too many women will leave the labour market after childbirth.

7.6.3 Capital Market Imperfections

Imperfect capital markets are deemed to exist where individuals are unable to smooth out their consumption patterns from one period to the next.

If women calculate correctly that the costs of childcare now will be more than offset in the future by higher earnings, then borrowing money to pay for childcare in the short run may be an option. Such an option depends upon a well functioning capital market capable of securing loans on the potential future earnings of the female.

Capital markets, however, have no real means of verifying this expectation. Market failure exists to limit the availability of such loans because the loans cannot be secured on an asset as intangible as future expected earnings. Unless the woman has sufficient funds now she cannot invest in childcare, despite this being the economically efficient outcome.

Thus, capital market imperfections, which make it difficult to borrow against future earnings, do lead to a case for Government intervention.

7.7 The Effectiveness of Policies to Assist Mothers to Work

7.7.1 Introduction

Childcare policies are of two main types: those affecting the supply of childcare, including its quality, and those affecting the demand for childcare by reducing the cost of childcare to the user. In Sections 2 and 4, it was noted that supply of childcare services in Ireland relies significantly on the informal sector and that even parts of the formal sector do not have a business approach to childcare provision. In this context, the extent to which increasing demand for childcare elicits increased supply is also important.

Lack of Irish data and research is a major problem in evaluating the impact of childcare on the labour supply. This study has necessarily had to rely on research undertaken abroad, and it must be recognised that the transferability of this research to the Irish context may be questioned. However, this is true of very many areas of economic and social policy, and the practical approach is to base policy prescription on the best information available.

A number of factors complicate the assessment of the effectiveness of childcare policies. Firstly, childcare is not a homogeneous good: it varies in quality and parents have preferences over the appropriateness for them and their children of different types of childcare. Consequently, simple models which treat childcare as homogeneous and which discount substitution between different types of childcare, in response to a change in the supply or price of one type are prone to miscalculate the effects of any change. The difficulties are not only of choice affecting preferences and hence substitution between different forms, but also because the availability is differently constrained.

Informal care, in particular, complicates the picture, varying in availability and being outside the market. The other difficulty is that childcare is used for a range of reasons, only one of which is to enable employment. Thus, increases in childcare use and increases in childcare use to enable labour market participation are not synonymous. Policies which expand childcare usage, but are not linked to employment, have leakage into non-employed parents' usage. One way around this is to link childcare support to employment (for example, to make support conditional on the parents, or lone parent, being employed). However, even those policies which are linked to employment encounter problems of substitution, whereby some current employed users of childcare change their usage to benefit from the policy (for example, changing from informal to formal care). In order to estimate the labour market effects of a change in childcare provision, the extent to which formal care would be substituted for informal care needs to be assessed.

Two types of assessments are useful to the current study. The first evaluates the factors affecting the demand or supply of childcare. The most important recent studies are described in the next two sections. The second type of assessment is the evaluation of childcare policies themselves. A number of recent evaluations are described in Section 7.7.4.

7.7.2 Childcare Usage and the Impact on Labour Force Participation

Studies of the use of childcare are important in suggesting how the design of policy may affect the outcomes. Below, the findings of four major studies in this area are discussed.

Using US data, Connelly (1992) modelled the decision to use paid childcare and the amount paid for childcare separately and she found interesting links between income and paying for

childcare and also the types of families most likely to use paid childcare. Family income (excluding the wife's earned income) affected the likelihood of paying for childcare, but not the amount paid, which was affected by the wife's potential wage. The presence of an unemployed male in the family reduced the likelihood of paying for childcare. The presence of a pre-school aged child increased the likelihood of paying for childcare, but that of a school-aged child reduced it. However, the presence of a school-aged child increased the amount paid for childcare. Connelly also found that women who did not pay for childcare appeared to face higher childcare costs should they have paid for childcare, i.e. that potential average childcare costs are higher than the average actually used.

In the UK, Jenkins and Symons (1995) repeated Connelly's analysis, but for lone parents. Unlike Connelly, they found similar influences on the decision to use paid childcare and on the amount that was paid. Lone mothers were more likely to use paid childcare and also to pay more for childcare when there were pre-school aged children in the family and, unlike Connelly, when there were children aged under 10. Income affected use and payments, through maintenance (take up and payments were higher if maintenance was paid regularly) and through expected wage rates (take up and payments were higher the higher the regional wage rate). They also found that use was lower and payments lower where the rate of local authority provision of day nursery places was relatively high.

Childcare costs were found to have a significant disincentive effect on labour force participation. However, the effect was relatively small (an employment elasticity effect of -0.09, which compares with an elasticity in respect of wages of about three times this).

The number and age of children were also an important influence on the impact of childcare costs on labour market participation. Jenkins and Symons estimate the probability of participation for a number of lone mothers with particular characteristics. A woman in their reference category (with one child, aged over 10, no qualifications, living in Greater London, of European ethnic origin, with no religious affiliations, in good health and father's occupation unknown) had an employment probability of 0.26. A ten per cent reduction in her childcare costs would raise her employment probability by one percentage point (i.e. by 4 per cent) and fully subsidising childcare costs would raise the probability by three percentage points. Other approaches (raising the net wage by ten per cent and raising net income at zero hours of work) have similarly small effects (increasing the probability of employment by one percentage point and by four percentage points respectively).

Contrary to Connelly, they also found that women who paid for childcare also tended to pay more for their childcare than non-users might have been expected to pay (if they started to use paid childcare). The difference in findings between Connelly and Jenkins and Symons may have been due to differences in lone mothers' and other mothers' behaviour (the former have less access to informal care and other income is less important) or due to differences between the US and the UK.

Duncan *et al* (1995) took into account the simultaneous nature of the childcare and labour force participation decision for women with children aged under five. They found that measures to increase the take up of childcare had positive work incentives amongst women with young children. They also found indirect income effects of the increased use of childcare on labour force participation counteracted negative direct effects of increased income reducing labour force participation. This suggests that policies based on enhancing non-work income (such as enforcing maintenance payments and enhancing child benefit payments) will not have a substantial negative effect on labour force participation. Indeed, the labour supply effects of regular maintenance payments were marginally positive.

As would be expected, childcare cost effects were negative, indirectly affecting labour force participation through affecting use of childcare: Duncan *et al* estimated that a ten per cent fall

in childcare costs would increase labour force participation of mothers with pre-school aged children by six per cent and would increase their labour supply (i.e. total hours supplied) by 13 per cent.

Georgellis and Papapanagos (1996) examine the effect of childcare costs on employed and non-employed mothers separately. They considered that, for employed women with children, a decrease in childcare costs would encourage longer hours of work by effectively raising the hourly wage, but for non-employed women, the decrease would effectively raise income and so not increase their probability of employment. Their model supports their predictions. However, White (forthcoming) expresses some doubt as to the reliability of the results, due to the exclusion of variables found by Duncan *et al* (1995) to be important and due to the lack of significance of any of the included variables for employed women.

The overall conclusion to be drawn from these studies is that childcare costs do influence the decision to take up work. Elasticities of labour supply with respect to childcare costs would appear to lie in the range of -0.4 to -0.6, implying that a 10 per cent reduction in childcare costs would raise labour force participation by 4 to 6 per cent. It must be recognised that these are tentative results as few studies have been undertaken.

7.7.3 Demand Affecting Supply

Less research has been conducted on the effect of demand on the supply of childcare. Webster and White (1997) analysed the inter-relationship between the supply of childminders and women's economic activity rates in an urban area of Wales. Their findings suggest a mainly, one-way relationship between the supply of childminding and women's economic activity and employment rates. The employment rate of women with children was strongly related to the supply of childminders. However, economic activity rate of women with children had only a small effect on the supply of childminders. The authors suggest that this was due to informational breakdowns (i.e. childminders being unaware of the market) or a market breakdown in that childminders lacked a business approach. They also found that the number of accessible childminders was lower in areas of poor quality housing and suggested this was a regulation effect (with premises failing to meet regulations). White (forthcoming) suggests an alternative explanation, that women in such areas are less likely to have the resources to set up childminding.

7.7.4 Evaluation of policies

The main policies which have been evaluated in respect of mothers' participation in paid employment have related to the subsidy (or provision) of childcare. However, there is also some evidence on the effectiveness of policies to stimulate demand and of more general policies, such as wage increases and employment stimulation. Each of these is discussed in turn. Many of the studies are based on simulation models, i.e. they are idealised and are not based on evaluations of policies in practice. Thus, they do not address some of the practical aspects of policy implementation. Other studies have evaluated policies in the field. Both types are included below.

Childcare policies: reducing the cost to the family

A number of policies which reduce the costs of childcare to the parents have been evaluated. These are described below.

Allowances and Vouchers

Duncan *et al* (1995) assessed the effects of a cash allowance (to be spent on anything, i.e. equivalent to a £10 Child Benefit payment) and a voucher (to be spent on childcare) paid to the

mother. A third scheme was dependent on participation in employment, whereas the first two schemes were not. (The allowance, but not the voucher, counted against means-tested benefits). Unsurprisingly, the labour supply effects were very different for each measure.

Cash allowances were found to have a relatively minor effect on the labour supply. There was little incentive for the unemployed to enter the labour force as the allowance was obtained irrespective of labour force status. Of those in work, almost as many were induced to reduce their working hours as to increase them. Most of the women predicted to reduce their working hours under the allowance scheme had very low childcare expenditures, and the allowance increased their non-wage incomes, making work less attractive. The authors concluded that broad-brush unconditional allowances would be expensive and bring relatively little benefit in terms of increased labour supply.

A higher percentage of the unemployed, ten per cent, were predicted to enter employment under the Childcare Voucher proposal, whilst one per cent of full-timers and four per cent of part-timers were predicted to increase their hours and one per cent of full-timers and two per cent of part-timers to decrease their hours. The Employment-related childcare voucher approach increased employment amongst the unemployed by about the same amount, but had less impact on increasing hours worked.

The Child Allowance scheme was estimated to have £1.6 billion Exchequer costs, which compares with £370 million for the Childcare Vouchers schemes and £220 million for the Employment-related vouchers scheme. However, Duncan *et al* point out that the Voucher scheme might incur higher costs, due to people changing to formal childcare without changing their working patterns.

As has been stated, the Childcare Allowance is equivalent to child benefit. Jenkins and Symons (1995) estimate the effect of an increase in one parent child benefit on the employment participation of lone mothers. They predicted that a £10 increase (almost doubling the 1989 one parent benefit) would increase the employment participation from 40.6 per cent to 45.2 per cent. This was the same as a £10 tax credit or cash grant to working lone mothers for childcare costs (both also lump sum transfers).

The overall conclusion would appear to be that cash allowances have limited impact on labour force participation and are costly to implement. Voucher schemes are more efficient in this regard, especially where it is linked directly to employment.

Childcare subsidy

A number of studies have considered the effects of a childcare subsidy.

Using US data, Connelly (1992) estimated married women's participation rates in employment with differing childcare costs. She found that women with very young children could be expected to participate in the labour market at rates equal to women with older children were it not for the costs of childcare. She estimated that participation rates would rise from 59 per cent to 64 per cent if childcare costs received a 50 per cent subsidy and to 69 per cent with a 100 per cent subsidy. This is a lower sensitivity than that estimated by Blau and Robins (1988), who estimated 87 per cent employment at a full subsidy.

Duncan *et al* (1995) examined a number of types of subsidy: a full subsidy for all under fives (Full Subsidy Scheme), a means-tested subsidy for all under-fives (Means-tested Subsidy), a full subsidy for all three and four-year olds (Age-restricted Subsidy) and a means-tested subsidy for this age group (Means-tested Age-restricted Subsidy). (The means-testing provided a full subsidy to

households with an income of under £200 per week and a contribution of 30p per £1 or earnings above that level up to the full costs of the childcare). It was assumed that parents would have full choice over the type of childcare, and that this would not be restricted by supply.

The *Full Subsidy* was predicted to have large labour market effects, leading to 15 per cent of unemployed women gaining employment and about 20 per cent of full-timers and 20 per cent of part-timers increasing their hours of work. A small percentage of part-timers, two per cent, were predicted to decrease their hours of work.

The *Means-tested Subsidy* was also predicted to have extensive, albeit somewhat smaller effects, with 14 per cent of unemployed entering employment, 14 per cent of full-timers and four per cent of part-timers increasing their hours of work, with only one per cent of part-timers decreasing their hours of work.

Given that employment increases with the age of the child, it was not surprising that the Age-restricted Subsidies were predicted to have much smaller effects.

The *Age-restricted Subsidy* was expected to lead to five per cent of unemployed women gaining employment and ten per cent of full-timers and zero per cent of part-timers increasing their hours (with none reducing their hours).

The *Means-Tested Age-restricted Subsidy* was predicted to increase employment amongst the unemployed by the same amount but to lead to seven per cent of full-timers and two per cent of part-timers increasing their hours.

The Exchequer costs were estimated at £900 million (Full Subsidy), £160 million (Means-tested Subsidy), £490 million (Age-restricted Subsidy) and £140 million (Means-Tested Age-restricted Subsidy) but these estimates do not take into account any switch from informal to formal childcare.

Tax relief on childcare

Tax relief on childcare tends to be an approach which benefits richer families and two-earner couples.

Duncan *et al* (1995) examined the effect on women of tax relief on up to £50 of childcare expenditure (for under fives) per week for employed lone mothers and couples where both partners were employed. They limited tax relief to the lower rate of tax (20 per cent). They predicted that two per cent of unemployed women would be brought into employment and the hours of four per cent of full-timers and three per cent of part-timers to be increased. The main groups to be affected were better-off two-earner couples. There was little predicted effect on lone mothers. The effects of the tax relief were fairly limited. However, the total cost of this reform would be relatively low at £155 million.

It should be recognised that the tax system prevailing in the UK does not bear as heavily on two worker families as the Irish system. Accordingly, it is to be expected that tax relief measures will be more effective in the Irish context.

Childcare disregard

For in-work benefits, all or part of income spent on childcare may be disregarded in the calculation of in-work benefits. Duncan *et al* (1995) assessed the effect for women of a disregard of up to £40 spent on registered childcare within Family Credit in the UK. The labour supply effects were small: about six per cent of unemployed women were expected to enter employment; and five per cent of those working full-time and one per cent of those working part-time were estimated to increase

their hours of work, whilst three per cent of those working full-time were expected to decrease their hours of work. (The average increase in hours of work was 15 hours per week, whilst the average decrease was two).

The main beneficiaries were lone mothers already in the labour market. The effect was limited to those in the bottom half of the income distribution (measured by benefit unit equivalised level), but few in the lowest decile benefited, due to already receiving maximum Family Credit. The measure was predicted to benefit lone mothers on higher hourly rates particularly and to have little effect on lone mothers on low hourly rates. The effect on women with partners was low as few couples qualified for the payment (as both partners were required to be in employment to qualify) and few couples in this situation had earnings within the Family Credit band.

First round costs of the disregard was about £20 million. This low initial cost, combined with the targeted nature of the approach led to an estimated net Exchequer saving of around £8 million. However, Duncan *et al* warn of a high degree of uncertainty in these figures, due to the small numbers affected.

Jenkins and Symons (1995) estimated that allowing childcare (and other work-related) expenses to be offset against earnings for benefit assessment purposes would increase the participation of lone mothers in employment from 40.6 per cent to 44.2 per cent. A smaller disregard would result in correspondingly smaller increases in employment.

Stimulation of supply

A number of policies have sought to operate directly on supply. In the UK, the latest example was the Out-of-School Childcare Grant Initiative. A qualitative evaluation was conducted before assisted projects had exhausted their period of support (Sanderson *et al*, 1995). In the first year, expenditure of £2.2 million led to nearly 200 schemes being started, providing about 4,400 places. Most commonly, schemes involved parents and local voluntary groups, with some run by schools and about half used school premises. Only 15 per cent were for-profit. Given the timing of the evaluation, it was not possible to assess the viability of these schemes once funding ceased. However, the researchers did express some concerns about long-term viability, particularly in less affluent areas. The evidence of the effect of the initiative on labour supply was only inferential. Sanderson *et al* reported that there was some evidence of take-up of work, education and training and extension of working hours and of promotion. However, the majority of provision was substituting for informal care or childminding and the main benefit lay in improved peace of mind about their children, which was believed to improve work performance. A later assessment had similar findings. Gatenby (1988) found that families' ability to pay was a major factor in the continuation of a scheme. Over four fifths of schemes were run on a not-for-profit basis, by the public or voluntary sector and were partially dependent on external funding. In areas of high unemployment and low family income, the scheme was more vulnerable to loss or irregular funding.

Also in the UK, a policy of the last government was to encourage employers to provide workplace crèches. Publicity emphasised the seriousness of future skill shortages (mainly due to demographic changes) and the costs of staff turnover and pressed the business case for the provision of crèches. This approach has never been evaluated and the extent of employer provided crèches not assessed. However, it is known that provision is negligible. The main problem is cost. Even were the policy effective, evidence on the relative desirability of crèches at the place of work, as opposed to close to home is mixed. Workplace crèches are more likely to extend the travelling time of the child to their care.

7.8 Conclusions

The dramatic success of the Irish economy during the 1990s has been attributed to many factors, not the least of which is the importance of the role of the labour force. Demographic change and increases in labour market participation by women, along with improvements in human capital accumulation, have had profound effects on the labour market and the potential for long term economic growth in Ireland.

Despite the substantial increase in the number of women participating in the labour market during the past two decades, barriers still exist which hinder even greater female participation, the most significant of these being the cost of childcare and its interaction with the income tax system as it affects wives.

This means that where a married woman takes up work, net household income may fall when childcare costs are taken into account. This occurs across a significant range of female earnings, irrespective of the husband's earnings. Due to recent changes in the means test, lone parents on social welfare do not face a similar disincentive.

Skill and labour shortages are emerging in the economy which could be mitigated by greater female participation in the labour force; even if these shortages were not present, greater participation on the part of women would yield benefits in terms of the more flexible working of the labour market.

Research supports the view that reductions in childcare costs raise the labour force participation of mothers to a significant extent, although it must be recognised that this conclusion is based on a small number of studies.

There is evidence that childcare supports encourage mothers to remain in the labour market and extend their hours of work, thus reducing the extent to which investment already made in their education and training, their human capital, is lost to the economy. In the short term, particularly, the availability of adequate childcare can help to prevent/reduce skill shortages in particular areas.

The supply of childcare services is not very responsive to demand. This is due in part to the fact that these services are not provided on a business footing.

Measures targeted on childcare costs are more effective in increasing female participation in the labour force than general cash allowances.

8. Policy Proposals

8.1 Childcare Policies and the Economy

The focus of this study is on an examination of the economic impacts of childcare provision and the implications of that impact for the development of childcare policies. This is in some ways a partial perspective as childcare services also have a major social role to play. Having said this, it is clear from analyses undertaken abroad (and reviewed above) that interventions to support childcare have a positive effect on female labour force participation. Interventions with a strong child development focus which are targeted on the disadvantaged sectors of the community also have substantial economic benefits, by ultimately reducing the cost of combating the social ills which arise from early school leaving, unemployment and crime.

The economic case for State intervention in childcare provision therefore revolves around a number of realities:

- skill and labour shortages are emerging in the economy which could be mitigated by greater female participation in the labour force; even if these shortages were not present, greater participation on the part of women would yield benefits in terms of the more flexible working of the labour market;
- childcare costs are a significant barrier to the labour force participation of women; the disincentive operates almost irrespective of the earnings of the spouse and across a significant range of the woman's potential earnings; if as is anticipated, childcare costs are set to rise relative to incomes, the barriers to labour force participation are likely to become more severe;
- there is evidence that childcare supports encourage mothers to remain in the labour market and extend their hours of work, thus reducing the extent to which investment already made in their education and training, their human capital, is lost to the economy; in the short term, particularly, the availability of adequate childcare can help to prevent/reduce skill shortages in particular areas;
- high quality childcare will have a positive benefit on the child's development especially if it contains a significant element of early education, thus reducing later costs to the State arising from early school leaving, delinquency, and unemployment related to lack of educational qualifications;
- apart from reasons associated with labour force development, the need for State intervention arises because parents, in reaching decisions on childcare may not take into account the full benefits to children of *quality* childcare; this will tend to result in parents demanding lower quality childcare than would be optimum; this will be particularly true of parents with low incomes who cannot afford to pay for quality; this suggests a particular focus on supporting childcare for the less advantaged;
- support for childcare is also warranted as an intervention measure aimed at children at risk; intervention of this nature has substantial economic benefits arising from reduced risk of unemployment and crime in later life;
- there is evidence of market failure on the supply side: the increase in demand arising particularly from an increase in female labour force participation, is not resulting in an

increase in supply in the formal, regulated sector due to a variety of reasons: costs of expansion, inadequate return on investment, unfair competition from the black economy, and the increasing problem of retaining qualified labour; there is the prospect that the formal sector will stagnate or even decline, in the face of increased costs of operation arising from regulation; and

- good quality childcare provision, involving early education, is more likely to develop in the formal sector, where providers can attain sufficient scale to be in a position to provide good facilities and qualified staff.

8.2 The Development of the Childcare Sector

These realities suggest that, based on economic considerations, State policies to support the development of the childcare sector should be put in place to:

- ease the transition to work for mothers and to encourage mothers at all levels to remain in the labour force and that such support should be available even where the family's income is relatively high;
- encourage mothers to purchase high quality childcare, thus maximising the positive effects on the development of children, which will ultimately impose economic benefits on society; and
- provide particular and targeted support for low income households to increase their access to quality childcare.

Support for the development of the childcare sector should, therefore, be built around the following types of measures:

- measures aimed at increasing affordability and choice for parents and simultaneously at improving the quality of available supply, thus necessitating both demand and supply side actions;
- measures that will be of sufficient scale to impact substantially on the incentive to work and on the incentive to supply quality childcare services;
- measures that will support the labour force participation of mothers, even where the household income is relatively high, but with higher levels of support going to those on low incomes in order to ease their transition into the labour market and to support child development objectives;
- measures that address identified market failures;
- measures that are clearly and directly linked to the purchase of childcare; and
- measures that are aimed at developing a strong, formalised and regulated sector that can provide quality care at affordable prices, as well as providing opportunities for the development of sustainable businesses and job opportunities.

8.3 Introduction of a National Childcare Strategy

We recommend the adoption of a 7 year childcare strategy in Ireland, with the following long-term objectives:

- opportunity for all children to access quality, regulated childcare services;
- opportunity for parents to exercise increased choice in the way that their children are cared for within their pre-school years;
- opportunity for low income families to access early childhood development services;
- removal of lack of affordable quality childcare as a constraint on women's entry and participation in the labour market;
- development of a high quality, affordable and flexible childcare sector in Ireland which provides satisfactory job and business opportunities for those involved; and
- development of the sector in partnership between the State, social partners, local communities and parents, within a child centred approach.

While this is an ambitious strategy we believe that it can be achieved and will result in long-term benefits to the economy and to society, and will play a vital role in supporting wider national objectives in relation to gender equality, social exclusion and local and community development.

However, we accept that this strategy cannot be put in place all at once. The resources to do so are unlikely to be forthcoming and, even if they were, the capacity to increase the supply of high quality childcare by several orders of magnitude in a very short space of time is lacking.

In framing our proposals we have, therefore, taken the view that the measures adopted, while being significant, will have to be phased; that they should, where possible, build on initiatives already taken and of proven worth; that State intervention to support childcare from an economic viewpoint should address identified market failures and should be directly targeted at the purchase of childcare places,¹¹ and that they should be developed in such a way as to ensure a higher allocation of resources to disadvantaged children.

8.4 Recommended Programme of Action

To begin to implement this strategy we consider that the State should adopt the following range of measures:

8.4.1 Demand Side Measures

We recommend the introduction of a comprehensive package of demand side measures which reflect the economic realities outlined above and which will provide the range of supports required to have a significant impact on the economy. These are:

¹¹ This point deserves some further explanation. Most economists take the view that State supports to households are best given in cash rather than kind and should not be earmarked for any purpose. The reason being of course is the belief that households are in the best position to judge how to spend money to their best advantage. We do not take this view in relation to childcare for a number of reasons. Firstly, the case for State intervention in this area rests on a number of market failures and the policy measures adopted must directly address these. Cash grants which are not focused on childcare will fail in this regard. Secondly, families with low incomes, for whom good quality childcare is most important, are least likely, given competing needs, to use cash grants to purchase childcare. Thirdly, children are not in a position to influence the decisions of their parents in this regard and will suffer if parents make wrong choices. These arguments are particularly relevant to consideration of an increased Child Benefit payment as a means of supporting childcare. The Commission on the Family has given consideration to using Child Benefit in this way. While a policy of increasing Child Benefit could be supported from many viewpoints, we do not believe that it is the appropriate response in relation to childcare. This is not only because, as a cash benefit, it suffers from the drawbacks outlined above but also because it would be very difficult to target such support on specific groups e.g. those on low incomes and on social welfare.

- tax relief on childcare costs;
- increased FIS entitlement for low income two worker families;
- subsidies for the purchase of places in childcare facilities for low income families; and
- abolition of benefit in kind treatment of subsidised childcare.

In our view it is only through providing this range of measures that the objectives outlined above can be achieved, particularly in relation to reducing the costs of childcare for families at all income levels in a targeted, effective and equitable way.

In all cases, these reliefs would be granted solely in respect of childcare services purchased from providers who have notified themselves as childcare providers to the relevant authorities and whose tax and social welfare affairs are in order. (We would also recommend that regulation be extended to the total childcare /childminding sector as a means of ensuring quality within the sector as a whole, and of maximising child development objectives).

The following sections spell out the exact recommendations under each of these headings and the rationale for the proposed approach and level of support.

Tax Relief

In section 7 of this report, the disincentive facing married women in taking up work was outlined. It was shown that over a significant range of potential earnings, the return from working was negative. This arose because the additional earnings were offset by the relatively high marginal rates of taxation and by the costs of providing childcare. The scale of the disincentive is large, implying that any tax relief measure would have to offset a significant portion of childcare costs. At 1998 prices, the annual cost of full-time childcare is in excess of £3,000.

It is also apparent that the disincentive to work applies even where the income of the household is large. This supports the view that tax relief should be generally available to mothers with different levels of family income. However, to ensure some element of equity in the relief, it is considered that it should be granted at the standard tax rate only.

Because a family's childcare costs are directly related to the number of children in childcare, it is considered that the tax relief should be given in respect of each relevant child. However, as we have seen, the price of childcare for a second child is generally reduced by some 20 per cent. Childcare costs are also less in respect of school children who require after school care only. It would be appropriate, therefore, that the tax relief be similarly reduced in these circumstances.

Most importantly, it is considered that tax relief should be given only where childcare outside the home is necessary if the non-working spouse is to take up work. This is to ensure that the relief makes a direct contribution to encouraging labour force participation. As a result, relief should be confined to families where both spouses are earning and to working single or widowed parents.

In light of the above, we are proposing a tax relief measure which would have the following attributes:

- relief on childcare expenses of up to £4,000 per child to be granted to couples where both are earning and to single or widowed parents in employment;
- relief to be granted at the standard tax rate (24 per cent); and

- allowances to be in respect of each child, with the allowance for first child under 5 years at £4,000 per annum, and subsequent children at £3,200; the allowance for school children to be at £2,000 per annum.

Based on the current take-up of vouched paid childcare, the cost of the above tax relief is estimated at £28m. Appendix 3 sets out the assumptions underlying this estimate. If all parents availed of the tax allowance by purchasing childcare in the *formal* economy, the costs we estimate would be £58m per annum. In practice, only a minority now purchase in the formal economy. However, other recommendations which we make are aimed at drawing childminders into the formal economy, so that over time the costs of this concession could rise towards the upper limit of £58m.

It should be noted that this proposal to grant tax relief in respect of childcare costs is not without precedent. Many specifically targeted allowances already exist in the tax code. These include the PAYE allowance, the allowance for employment of a carer for an incapacitated person or their incapacitated spouse, and the more recent Revenue Job Assist Allowance.

The impact of this tax relief proposal on selected family types is illustrated in Appendix 4.

Family Income Supplement

Tax relief will aid two worker families with taxable incomes, but not those whose incomes are so low that they pay little or no tax. There is a need to support the latter group, particularly as their earnings are likely to be low relative to their childcare costs, so that the net return from working is small or non-existent.

At present, to be eligible for FIS, a couple with children must have a combined total of at least 38 hours work per fortnight and have earnings below specified income limits. FIS is payable at a rate of 60 per cent of the difference between the weekly income and a specified income limit for each family size. The scheme was restructured in 1998 and based on income net of tax rather than gross income.

We are proposing a further change in the structure of FIS by raising the specified income limits for two worker families. If the revised FIS scheme were to support a two worker family with one child for childcare expenses of £30 per week, then the specified income limit would need to be raised by £50. Higher increases would be granted to families with more than one child. At this level of payment, low income families would receive a greater level of support for childcare expenses than higher income families would through the tax measure outlined above.

At present, there are very few two earner couples benefiting from FIS. This may reflect the fact that payments under FIS are not sufficient to offset childcare costs. This proposal will result in a situation whereby FIS payments would directly reflect childcare costs and may thus provide an incentive to take up work at low pay levels or on a part-time basis. Because there are few two earner couples currently on FIS, dead-weight costs would be reduced. If the policy successfully encourages increased employment, then the costs are likely to be largely offset by the tax gain to the Exchequer.

Subsidisation of Childcare for Low Income Families

The tax and FIS measures outlined above are targeted at two worker families. This reflects the emphasis on increased labour force participation of mothers as an immediate priority. However, the economic benefits of investment in childcare from a child development viewpoint have been acknowledged and particularly in respect of children from disadvantaged families. In view of this, subsidisation of childcare for low income families is proposed. This subsidy would not be confined to two worker families but would be available to low income families irrespective of employment

status. Thus, parents could avail of the subsidy while undertaking training or self-development courses and work experience programmes as well as while at work.

The Commission on the Family has recommended *inter alia* the introduction of an Early Years Opportunities Subsidy to provide access to quality childcare services to children aged 3 - 5 years. The subsidy would be available to all, irrespective of income or employment status and would amount to £1,000 or approximately £20 per week.

Economic arguments would suggest that such a subsidy would be more efficient if confined to low income households, where children are more likely to benefit from external childcare which is not currently affordable, where the need for training and self development interventions for mothers is greatest, and where monetary disincentives facing mothers returning to work are largest. Accordingly, we would favour a more targeted subsidy which would go further to meeting the childcare costs of low income parents. It is envisaged that this subsidy would be payable on a weekly basis and at a rate of approximately £50. It would be availed of by parents who are primary childcare givers, and who are undertaking short and long term courses, funded by the statutory bodies, the Area Partnerships, and other community based initiatives, as well as by full time workers. It would also be made available on a longer term basis where family circumstances indicate that the child (and consequently the parent) would benefit from some level of care outside the home. Such a subsidy could be administered through the health boards and through the relevant education and training agencies, in the case of mothers participating in education and training courses.

The costs of such a scheme would depend on the precise eligibility conditions and take-up levels. However, up to 20,000 parents could ultimately benefit annually. Based on an average duration of four months per annum, annual costs would be of the order of £16m.¹² In the short term, costs would be considerably less as it would take time to establish such a programme and for take-up to grow.

An important feature of the scheme would be that parents would be free to use the subsidy to purchase places from any regulated/notified childcare provider. This would help counter any tendency for segregation of childcare services by socio-economic group.

Benefit in Kind Treatment of Subsidised Childcare

If tax relief is granted to parents who are purchasing their own childcare, then on consistency grounds free or subsidised workplace childcare should no longer be treated as a benefit in kind for income taxation purposes. Similar benefit in kind/fringe benefit tax exclusions for employer funded childcare facilities have been provided in the UK and Australia.

8.4.2 Impact of the Demand Side Measures

These demand side measures are structured to ensure that childcare costs are mitigated for women at all income levels. Tax relief will benefit mainly those in middle and higher income households, FIS will benefit low income working households, while the childcare subsidy will benefit those in low income and unemployed households. The structure of the reliefs offered is such that low income households stand to benefit to the greatest extent. Table 8.1 summarises the proposed measures and their target groups.

The impact of these measures obviously depends on take-up. However, the evidence presented in this report suggests that there will be positive impacts on the economy through increased labour

¹² This level of funding would also support, say, 3,000 year long courses, 6,000 three month courses and 30,000 three week courses.

market participation, maintenance of human capital, and ultimately through the development of children into productive adults.

Table 8.1 Proposed Demand Side Actions and Target Groups

Target Group	Proposed Action			
	Income Tax Relief	FIS	Childcare Subsidy	BIK Relief
Unemployed Households	no*	no	yes	no
Low Income Worker Households	yes	yes	yes	yes
Middle Income Worker Households	yes	no	no	yes
High Income Worker Households	yes	no	no	yes

* Households where there are currently no workers could benefit if this provision makes it worthwhile taking up a job.

8.4.3 Supply Side Measures

A comprehensive package of supply side measures is also recommended aimed at increasing the supply of high quality providers, at encouraging all providers to move into the formal sector and at improving profitability and employee remuneration within the sector. The recommended measures are:

- tax relief for individual childminders;
- tax relief for childcare companies;
- tax relief for employers supporting childcare provision or purchase;
- expansion of the Equal Opportunities Childcare Programme;
- establishment of a programme of support to assist providers of childcare; and
- amendment of planning provisions to relax existing restrictions on the siting of childcare facilities.

Each of these are spelt out in detail in the following sections.

Tax Relief for Individual Childminders

Individual childminders fall into three categories: those minding in their own home, those minding in the child's home, and employees in group facilities.

Because of their concern to avoid tax, most childminders in the first category do not notify the authorities and thus operate without any monitoring or support from the State. For most such

childminders, earnings would be low and would not justify the costs of substantial control measures to ensure tax compliance, as well as acting as a disincentive to continuing or expanding provision. In order to encourage their entry into the formal economy and recognising that they currently pay little tax, it is proposed to provide temporary tax relief to childminders for a three year period. Two options present themselves:

- a special tax allowance in respect of childminding earnings; or
- complete exemption of childminding earnings from liability for income tax.

Complete exemption of childminding earnings is the only approach which would completely offset the incentive to operate in the black economy. Such an exemption would not be unique in that writers, composers, painters and sculptors solely resident in the country may claim exemption from tax on all earnings from works of cultural or artistic merit.

Similar arguments suggest that relief should be extended to childminders in the other two categories. In relation to childminders in group facilities, tax relief would improve the supply of labour to these facilities, which has been shown to be a considerable problem. Enhanced personal tax allowances rather than complete exemption would be appropriate for these two categories of minder.

To be effective, it is important that these measures are not seen by childminders as a means by which the Revenue Commissioners can pursue past underpayment of tax. They would also be best implemented in the context of an expansion of the scope of the Child Care Act to cover all childminders irrespective of the number of children minded.

The costs of these reliefs are not easily estimated. However, assuming that only childminders engaged as employees are currently in the tax net, that they are predominantly single and that their average income is £8,000 per annum, the tax foregone if complete exemption were to be introduced would amount to some £14m. Enhanced personal allowances would cost less than this depending on the level at which they were introduced.

The advantages of this approach are considerable:

- it would provide a real incentive for childminders to enter the formal economy, thus facilitating monitoring and support measures;
- coupled with other provision, it would provide an incentive for childminders to expand their scale of operation and improve the quality of provision;
- it would encourage new entrants to the industry; and
- it would encourage employees to remain within the sector.

To allow social welfare recipients to take up childminding on a similarly favourable basis, it is proposed that childminding income be disregarded when means testing the spouses of recipients of *social welfare payments*.

Tax Relief for Childcare Companies

In recognition of the fact that the supply of childcare places is currently restrained and that the recommendations aimed at improving the quality of provision, including the existing notification system are imposing, and will impose, costs on providers of childcare, some State support for this sector should be considered. As the current regulations require that buildings used for childcare

purposes be of a particular standard which will result in the sector incurring costs in reaching those standards, support targeted on building refurbishment would be appropriate. Support for construction of new purpose built facilities would also encourage increased supply of places.

The State has taken action to support the construction and refurbishment of buildings on a number of occasions. This action has been in the form of tax incentives involving increased capital allowances and has been applied to urban renewal, resort development and most recently nursing homes.

The enhanced capital allowances afforded nursing homes provides a model for the type of relief which could be provided to group based care facilities. This relief could be extended both to those operating limited companies and *self employed childminders* providing care outside the child's home, for a period of three years. The impact of extending of such relief would be:

- mitigation of the costs of upgrading facilities for those already in the business;
- encouragement of certain providers to enter the formal economy; and
- encouragement of new entrants to the market.

The scope of such relief would extend not only to stand alone facilities but also to the adaptation of residences to provide childcare facilities. For new providers or for those expanding the number of places such relief should be contingent on an allocation of an agreed percentage of such places for babies and for parents requiring part-time care. The cost of this measure would be dependent on take-up.

Tax Relief for Employers

At present, an insignificant proportion of employers provide crèches or support childcare provision for their workers. While large employers may be able to support such measures, small firms operating on tighter margins may find this difficult to do. In order to stimulate interest in this area it is proposed that employers be allowed a double deduction in their accounts in respect of expenditure supporting childcare for their employees.¹³ This expenditure could take the form of provision of childcare facilities, vouchers for childcare, or direct subsidisation of childcare places for their workers. The concession would be granted for a period of three years and be subject to review. The costs of this concession would be determined by take-up.

Expansion of the Equal Opportunities Childcare Programme

The Pilot Childcare Initiative provided valuable encouragement to local communities to develop childcare services for the benefit of both parents and children. This initiative has been replaced by the Equal Opportunities Childcare Programme which will provide *inter alia* for grant support for improvement of facilities and core funding for community based projects. Total funding of about £5m is available for a two year period 1998/99. Expansion of this programme would be a vital component in ensuring that there is a balance in the support for childcare across socio-economic groups. An expanded budget would also facilitate the use of the programme to pilot innovative measures to address specific childcare problems. Initially, an additional £5m budget should be considered for the first year, and be subject to *upward* review depending on demand. Consideration should be given to expanding the scope of the Programme to *inter alia*:

- support the setting up of childminder networks which would provide educational and training support to individual childminders;
- provide financial assistance to representative bodies in the childcare sector;

¹³ A similar concession has been made to employers in respect of the wages and PRSI payments to employees who take part in the Revenue Job Assist scheme, which was introduced in April 1998.

- provide incentives to encourage the use of school premises for after school care; and
- research and support other innovative measures.

Introduction of Support for Childcare Providers

At present, many group childcare providers are operating on, at best, a marginally profitable basis. In addition, there are some community providers which could make the transition to social economy enterprises. There is a need to assist these providers to expand their operations or reach the standards set out in the existing regulations. This could be achieved via infrastructural supports, training and employment grants and through the establishment of childcare networks that could provide advice to local childminders, particularly those wishing to avail of the initiatives proposed here and to enter the formal childcare sector. It is suggested that an initial budget of £5m per annum be devoted to this purpose. This programme of actions could be delivered within the context of a Social Economy Programme which has recently been suggested, or through the local authority or County Enterprise Board structures.

Planning Provisions

There is an apparent inconsistency among local authorities in granting planning approval for childcare facilities. In many instances temporary approval only is granted. The Department of the Environment and Local Government should set guidelines for the granting of planning approval with regard to the establishment of childcare facilities in all areas. Provision of childcare facilities should be considered by local authorities when drawing up their development plans.

8.4.4 Impact of Supply Side Measures

The supply side measures are aimed at stimulating the childcare industry generally, supporting community based childcare enterprises, providing incentives for new entrants to the industry, encouraging existing providers to enter the formal sector and supporting the industry in making the changes to their facilities and operations as required by the 1996 Regulations.

Table 8.2 summarises the proposed measures and their target groups. It may be noted that these measures impact on all the major actors in the childcare sector. These measures are complemented by the expansion of the Equal Opportunities Childcare Programme which will support community based projects and the special support package for community providers making the transition to social economy enterprises.

The exact scale of the benefits of these measures is difficult to quantify. However, the actions taken will increase the availability of childcare, and particularly to the less advantage groups. Most importantly, the quality of childcare provision will be enhanced. These measures together with the demand side measures will yield benefits through increased labour market participation, maintenance of human capital, and ultimately through the development of children into productive adults.

The stimulation of the childcare industry will create significant employment, while formalisation of the sector will ultimately yield tax revenue benefits to the Exchequer.

Table 8.2 Supply Side Measures and their Target Groups

Target Group	Proposed Action				
	Income Tax Relief	Social Welfare Disregard	Capital Allowances	Facilities, Training and Employment Grants	Double Deduction Against Corporation Profits Tax
Individual Childminders	yes	yes	yes	no	no
Childcare Companies:					
Employers	no	no	yes	yes	no
Employees	yes	yes	no	no	no
Employers	no	no	no	no	yes

8.5 Overall Costs of Recommended Programme of Measures

It is estimated that the annual cost of these priority measures would not exceed £70m in the first full year of their operation. In practice, costs might be considerably less due to phased start-up and take-up of measures.

Costs are likely to grow over time as schemes are expanded and more parents and providers avail of the relief's offered. Expenditure of up to £150m per annum could arise, if the measures prove successful, according to monitoring and research.

8.6 Monitoring and Evaluation

Given the range of recommendations made in this report, and the limited knowledge we have at the present time of their likely impact on the objectives outlined for the childcare sector, particularly in an Irish context, we consider that it is essential that each of these recommendations, when introduced be monitored, and after a certain time, fully evaluated. It will be necessary to assess a number of different expected impacts - the impact on the labour force participation of mothers, on child development, and on the development of a strong, formal childcare sector in Ireland.

8.7 Future Research

As this study has highlighted, very little research has been carried out to date in Ireland, not only in relation to childcare but also on the issues affecting the participation of mothers in the labour market. Given the increased importance of mothers in the Irish labour force we consider that a programme of research and collection of relevant statistics in this area should be undertaken.

8.8 Concluding Comment

The potential to develop a strong childcare business sector now exists in Ireland. This will lead to increasing job opportunities for young people and business opportunities for entrepreneurs. It will also support women's re-entry and retention in the labour market as well as having a significant child development impact, particularly on those families that are least able to pay for such a service. However our research indicates that if this sector is to develop in a way that offers adequate returns to the investor, to the employees and to the parents and children involved, the State must intervene to make quality childcare affordable and accessible.