

# Stephen Donnelly: Sometimes going to work just doesn't pay <sup>[1]</sup>

The Government has an opportunity to cut childcare costs and create jobs, writes Stephen Donnelly

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## EXCERPTS:

Almost half of working parents would be better off on the dole, according to findings in a paper by Professor Richard Tol and his former colleagues in the ESRI.

As public interest in this finding grew last week, the ESRI withdrew the working paper to give it a proper seeing to. Discussion moved to the airwaves, with some claiming the findings as proof that social welfare rates in Ireland are too high. There were accusations that many on welfare are scroungers or fraudsters, and that welfare rates should be cut to make low-paid jobs more attractive. These comments, though, were in the minority. Most people understood that the vast majority on the dole want to work. That until the crisis, they were working.

The Department of Social Protection pointed out that two-thirds of those on welfare receive €188 or less per week. If employment does not pick up quickly, the €188 will fall. Not because it is too high, but because social welfare accounts for about 40 per cent of total government expenditure and that cannot be sustained by any country for very long. But that is a discussion for another day.

Whether the ESRI's analysis is flawed or not, the core message is absolutely true -- there is a massive disincentive in Ireland for parents to return to paid employment. Not because of welfare rates, but because of the enormous cost of childcare.

Let's assume you're raising two children full time at home, and your partner is working. You are well qualified and would love to take one of the jobs in IT that employers are desperate to fill.

In Dublin, a creche would cost you around €20,000 per year. So would employing a full-time childcare professional at home. The ESRI paper calculates that other costs of working (transport, lunch, etc) would be a further €7,000. Factoring in tax, it would require a salary of about €35,000 just to cover these costs. A salary of €50,000 would leave you better off by about €8,000 a year -- significant, but still just one euro for every six you earn.

And that's assuming you don't receive any social welfare payments.

Childcare in Ireland is not just expensive -- it's one of the most expensive in Europe. Fixing this presents a valuable opportunity, as it would make it possible for many parents to return to paid work. It would help fill job vacancies and it would create thousands of additional jobs in professional childcare -- and it would undoubtedly bring some of those working in childcare from the informal to the formal sector.

This is essential to collecting taxes and providing those workers with social insurance. As an added bonus to the Exchequer, some parents and childcare professionals would be moving off social welfare.

While free or subsidised childcare provided privately or by the State could be considered, the easiest and quickest way to address the problem is to make childcare a tax-deductible expense. The person considering the €50,000 job would see their income, after tax, childcare and working costs, rise from €8,000 to well over €20,000. Additional measures would be required for salaries which would not benefit sufficiently from tax deductions, making it financially viable to go back to work at salaries far lower than €50,000.

Of course, there would also be costs -- parents already at work and paying for childcare would pay less tax.

Analysis is required to estimate this cost against the benefits listed above, though research from the Centre for Spatial Economics in Canada suggests it could well be revenue positive. If making childcare affordable is such an obvious thing to do, why hasn't it happened in Ireland before now?

Essentially, it's a legacy issue. Until the 1970s, women working in the public service had to retire once they got married. There was a belief that, in an economy of limited employment opportunities, it was unfair for a couple to have two jobs, and there was, simply, a belief that a woman's place was in the home.

As the Constitution says: "By her life within the home, woman gives to the State a support without which the common good cannot be achieved."

There has historically been a fear that, by supporting childcare, the State would undermine a woman's 'life within the home'. In these changed times, expensive childcare costs do not just target women, they target an entire generation.

They are yet another barrier to recovery faced by the negative equity generation. People in their 30s and 40s hold nearly 90 per cent of the negative equity in this country. They have growing families, but cannot afford to move to more suitable homes.

If they lose their jobs or they want to seek more productive employment, they cannot move to take advantage of employment opportunities elsewhere in the country because they're stuck in their debt-laden homes. Many have used up their savings to try to stay out of arrears.

Over the course of the bubble, there was a massive transfer of wealth from this generation to their parents' generation, as they bought homes at hugely inflated prices. The unemployment rate for the negative equity generation has trebled in recent years, jumping from five per cent to 15 per cent.

Many are experiencing deprivation. In the past five years, deprivation in Ireland has doubled, and the vast majority (91 per cent) of that increase in deprivation has been experienced not by lower income people, but by those on middle incomes.

This generation is carrying a disproportionate share of the burden of Ireland's economic crisis, and the Government has utterly failed to confront this. This may in part be because the individuals who make up the Government aren't in this situation. The average age of the Cabinet is 57. Only Leo Varadkar and Simon Coveney fit the profile.

Analysts are undoubtedly poring over the ESRI's working paper to check its accuracy. However, the core message holds -- the high cost of childcare in Ireland is an enormous barrier to parents returning to employment.

The Government could solve this problem quickly and effectively if it chooses to. This would reduce public spending on social welfare and get people back to work. Critically, it would provide many in their 30s and 40s with a fantastic tool in working their way out of financial difficulty.

- reprinted from *Independent*, Ireland

**Region:** Europe <sup>[2]</sup>

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