

Intelligence MEMOS



From: Janice MacKinnon and Jack Mintz
To: Canadian Childcare Watchers
Date: May 5, 2021
Re: **SAME OLD FEDERAL THINKING HAMPERS CHILDCARE PLAN**

The federal government's 2021 budget introduces a childcare program, fashioned after Quebec's, as a \$10-a-day, 50/50 shared-cost conditional grant program with the provinces. By adopting a conditional grant program that requires a one-size-fits-all approach without recognizing provincial differences in fiscal capacity, the program will take too long to implement and fail to meet the needs of Canada's diverse workforce.

Childcare regulation is a provincial responsibility and the needed policies to achieve the goal of making it more affordable and accessible vary across Canada. What works in Quebec might not work in Nova Scotia or Saskatchewan. The success of the federal initiative will depend significantly on how much flexibility the provinces have to design programs that suit their unique needs.

The federal budget goes over the top, claiming the program "is one of the most significant actions taken since the introduction of North American Free Trade Agreements to expand economic opportunity for Canadians." While it is true that childcare spending brings economic benefits by encouraging both parents in a family to work, it will not pay for itself. And the price tag is high: its annual cost is expected to be \$18 billion in five years, including the provincial share and Indigenous support and excluding any cost related to Quebec's to-be-negotiated package.

The program's benefits are being exaggerated in three ways. First, the federal government is relying on the Quebec experience, but there is no reason to believe that its increase in employment will hold true for the others. The Quebec daycare plan did produce economic benefits, but a number of studies – including Pierre Fortin's much referenced [estimate](#) that for every dollar spent on childcare the economy grows by \$4 – have significantly overestimated the benefit.

Second, [as pointed out](#) by economists Michael Baker and Kevin Milligan, at-home care has some social and health advantages that should be quantified in any economic assessment. Third, childcare does provide some important learning benefits, but the better response might be an expansion of full-time junior kindergarten, as some provinces have done.

The federal budget cites a TD Economics research review that suggests that every dollar spent on early childhood education brings the broader economy between \$1.50 and \$2.80 in return. Omitted was the qualifier that followed in the same 2012 [report](#): "One needs to acknowledge, however, that quantifying these benefits is not an exact science and a large margin of error likely exists. So, the benefit/cost ratio must be interpreted with caution."

Significant new money to help parents with childcare costs is good news, but at issue is the model chosen to spend federal money in an area of provincial jurisdiction. Ottawa could have used a model like the Canada Child Benefit, a federal program that supports low-income families to encourage parents to move from welfare to work. This has reduced welfare costs for the provinces.

The federal government could subsidize childcare costs by providing [tax credits](#) or transfers directly to parents. Spaces [could be increased](#) by federal subsidies to operators and provinces could focus on enhancing their own offerings.

Instead, the federal government chose a model reminiscent of the 1960s approach to Medicare: a universal program, with federal cost sharing available only to provinces that accept the national standards. The model is outdated and rigid.

In terms of costs, why should provinces move from childcare costs of more than \$1,000 a month to \$10 a day? What if some provinces want to charge more than \$10 a day to fund more spaces?

Why is it good public policy to provide cheap childcare to wealthy Canadians? What if some provinces want to base fee levels on income, so that upper-income people pay more, and the money is used to expand supply? Gearing costs to income and providing more supply to others is arguably fairer than the proposed Quebec-based model.

Flexibility also means subsidizing many kinds of organizations to meet the needs of today's diverse workforce. The budget commits "support primarily for the not-for-profit sector," which would leave out private operators, often small female-owned businesses, many of which accommodate shift workers, more part-time and temporary workers, and people whose needs vary from week to week.

As two female private operators recently [wrote](#): "Failing to enable diverse care models essentially means only middle-class, full-time, permanently employed parents will benefit from a \$10/day model." Surely, we do not want to create a two-tiered system where an elite group of parents get \$10-a-day care, while leaving many others to pay much more for less traditional but equally essential services.

It would have been simpler and more expedient for the federal government to directly fund childcare costs through grants or tax credits. And a focus on affordability for parents needing to work would have enabled the federal government to save some money for other health-related provincial transfers.

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This Intelligence Memo originally appeared as an op-ed in the [National Post](#).