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Toronto Star

THE SATURDAY DEBATE

OPINION

## The Saturday Debate: Is giving parents money the best way to fund child care?

Sat., Aug. 28, 2021

By **Janice MacKinnon, Alex Laurin, Armine Yalnizyan** Contributors



*“Paying parents directly allows the government to link benefits to income so that those who struggle most to afford child care get the greatest support,” write **Janice MacKinnon** and **Alex Laurin**.*

*“Paying parents (also) allows parents to choose which kind of child care works for them and is more inclusive since funding can be provided for different models of child care.”*

*“One lesson from Quebec was that prioritizing the demand side (reduce costs by giving parents cash) made high-quality care less expensive for those who already had it, writes **Armine Yalnizyan**, “but didn’t add more high-quality care. Lower costs don’t guarantee better choices. Simply expanding supply isn’t enough either.”*

YES

NO

YES

**Janice MacKinnon, Alex Laurin**

Former Saskatchewan Minister of Social Services, Director of Research at the C.D. Howe Institute

Providing parents with funding to access child care has many advantages over a universal, government-run child care system: the ability to link benefits to income, more inclusive access, simplicity and uniformity across Canada and affordability. Also, one of the country’s most

successful social programs, the Canada Child Benefit, which has been instrumental in reducing child poverty, provides benefits directly to parents.

Paying parents directly allows the government to link benefits to income so that those who struggle most to afford child care get the greatest support. A universal program provides the same benefits to wealthy and poor parents; should Canadian taxpayers be providing sizable subsidies for daycare to wealthy parents? Is it not fairer to link the size of the benefit to income?

Also, experience shows that universal programs lead to wait times for care. Canada's medicare, when compared to health programs in comparable countries, has longer wait times. Similarly, Quebec's universal child care program has long waiting lists and often upper-income parents are better at accessing limited spaces.

More inclusive options for child care can result from direct payments to parents. Childcare advocates support a not-for-profit or public daycare model that works well for 9-to-5 working parents in major urban centres. But what about shift workers, who need child care from midnight to 8 a.m., or gig workers whose needs vary from day to day or farm families who need seasonal child care during harvest?

Childcare of this kind is often provided by private operators, typically small female-owned businesses. Paying parents allows parents to choose which kind of child care works for them and is more inclusive since funding can be provided for different models of child care.

Moreover, parental payments for care can be implemented quickly, simply and in a uniform way across Canada. Negotiating a universal model with provinces can produce delays in implementation and significant differences among provinces.

The main advantage of a licensed, government-run child care system is quality control. However, governments can enforce the quality standards they desire even in a cash-based system. They could mandate providers to meet quality markers to be able to issue receipts eligible for the cash benefit.

The financial hurdle for a parent considering the merits of working versus staying at home to care for young children can be extremely high — especially at lower income levels, where incremental work hours are taxed heavily by the clawbacks of income-tested government benefits.

Mothers, in particular, are hit hard by absence from the workforce and face larger wage penalties the longer they are away from paid work. Subsidizing child care, whether directly or through cash-based inducements, encourages parents to participate in the workforce, thus boosting the economy through higher household incomes. As an added bonus, the extra income generates increased tax revenues, substantially offsetting the initial cost of the subsidy for governments.

The federal universal plan is budgeted to cost more than \$8 billion annually. Increased tax revenues from greater workforce participation could recover about half of that, leaving a net cost of about \$4 billion for the federal government alone (the provincial net cost would be a bit higher because they would recover less taxes). On the other hand, because the generosity of a cash-based system can be tailored to family income, its cost for governments is much lower.

A 2017 study estimated that replacing the inadequate federal child care expense tax deduction with a generous refundable tax credit, as the Conservatives have proposed, could pay for itself over the long term, especially after adding in the fiscal dividends for the provinces of extra tax revenues at no cost to them. These dividends and cost savings could be used to expand their own licensed child care systems.

Increasing the supply of child care will be quicker and more successful if it comes from direct payments to parents coexisting with subsidized licensed care. It is the same as the Child Benefit, which reduced the number of people on provincial welfare; the agreement was that the provinces would use those savings to enhance other poverty-reduction services.

For those worried about the precarious financial situation of governments post-pandemic, cash-based inducements would be a much more affordable place to start. Its impact on lower-income families would be immediate, giving provinces more time to increase their supply of licensed child care as budgetary considerations permit.

In time, a hybrid system of cash-based inducements and subsidized licensed care would leave no parents behind, while giving them more flexible options.

**Janice MacKinnon** is the former Saskatchewan Minister of Social Services and **Alex Laurin** is the director of research at the C.D. Howe Institute.

# NO

**Armine Yalnizyan**

Atkinson Fellow on the Future of Workers

Every election is in part about affordability. Canada's 44th federal campaign kicked off with a vigorous debate about how to address the cost and lack of child care — a service vital to maximizing parents' ability to get and retain paying jobs.

All four federal parties promise to make child care more affordable. The Conservatives say giving parents more money should be the extent of federal support. They've pledged to rip up the Liberals' recent federal-provincial deals that provide funding for more and better quality services in early learning and child care. New bilateral agreements with seven provinces and one territory account for \$11.4 billion of the \$30 billion on offer by the Liberals over five years and cover almost half of all Canadian preschoolers, welcome news for parents growing more desperate as the pandemic continues.

Only one province is onside with the Conservatives' approach: Jason Kenney's Alberta. Even Ontario was scrambling to sign a deal before the election writ dropped. Conservative governments in Manitoba, Saskatchewan and PEI negotiated mutually acceptable terms for federal funding that advances their own priorities, while Nova Scotia's newly elected majority Tory government has said it would build on the deal, not tear it up, as per Erin O'Toole's plan. Quebec would stand to lose \$6 billion in new funding if Conservatives are elected.

A focus on affordability alone misreads the problem and solution for five reasons.

- **If simply giving parents more money was the fix, we wouldn't have a problem:** From the early 1990s to 2020, federal transfers to parents increased tenfold, from \$2.6 billion a year to \$24.3 billion. Both Conservatives and Liberals almost doubled expenditures each time they were in charge. “More money in your pocket” also came through more generous tax breaks over the course of those years. The Child Care Expense Deduction cost the public purse over \$1 billion in 2018. But parents are still scrambling to find care. Despite gains in subsidized child care capacity, only half of our 2.5 million children ages 0 to 5 are in a paid care arrangement, and only about 27 per cent are in licensed, regulated care. Wait lists are through the roof. Parents need more help, not just cash.
- **The supply problem has worsened:** The pandemic stripped capacity, but we are unsure by how much. There were child care “deserts” before COVID-19, but enrolment has dropped by up to 60 per cent in places like Markham, and 22 per cent Canada-wide. If a quarter of our roads and bridges were out of commission, premiers would have plans to repair this vital infrastructure. No plans exist for the loss of child care. Provinces are cash-strapped. Restoring and adding capacity makes federal funding more needed than ever.
- **Growing the system requires a plan:** One lesson from Quebec was that prioritizing the demand side (reduce costs by giving parents cash) made high-quality care less expensive for those who already had it, but didn't add more high-quality care. Lower costs don't guarantee better choices. Simply expanding supply isn't enough either. Alberta's Bill 39 sought to grow the system by deregulating care: fewer qualification requirements means more people can offer the service. We wouldn't deregulate requirements for doctors, teachers or plumbers to increase supply. Why is this acceptable for educators of our youngest, whose brains are being hard-wired for life?
- **Improvements needed everywhere:** The Conservatives say the Liberal approach is one-size-fits-all and top-down. This ignores how bilateral agreements work. Every province is starting from a different place, so every deal is different. Some put an emphasis on “educating down” — extending full-day junior kindergarten building on existing public infrastructure. (Currently only half our four-year-olds have that opportunity.) Others focus on improving care for underserved communities. Crucially, all deals address the need for better training and pay to recruit and retain qualified child care workers. As health experts Pat and Hugh Armstrong have been saying for years, the conditions of work are the conditions of care.
- **Quality, not just quantity:** Whatever we spend, let's make sure we're maximizing returns. Quebec saw \$1 in subsidies bring in \$1.75 in new revenues due to mothers' higher employment rates. The missing ingredient for future growth is universally accessible high-quality care. By maximizing children's learning potential, we maximize individual and economywide *earning* potential. In Europe and Scandinavia, universal access to high-quality care isn't a political football. Investments produce better labour force and economic benefits plus healthier children who are ready to learn. Tax credits can't deliver such results. Why spend a bundle and still leave money on the table?

*Armine Yalnizyan is an economist and the Atkinson Fellow on the Future of Workers.*