

Would a universal childcare system in Canada pay for itself? ^[1]

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EXCERPTS

Days after the federal budget promised additional funding for daycare across Canada, the debate about whether a universal childcare system is fiscally viable and even socially desirable has reignited.

The Vancouver-based Fraser Institute published a paper today calling Quebec's system of subsidized care "flawed." The authors challenged claims that the province's childcare program generates enough government revenue to pay for itself and noted there is little evidence the program offers lasting benefits for children.

A number of researchers consulted by Global News, however, took issue with the study.

Here's what economists are saying. Does universal childcare pay for itself?

What the Fraser Institute said:

The Fraser Institute's Ben Eisen and Vincent Geloso called into question the notion, espoused by universal childcare advocates, that a subsidized daycare system makes up for its cost by boosting government revenue.

The authors cited research by economists at the University of Toronto, the Massachusetts Institute of Technology and the University of British Columbia (UBC), which shows that Quebec's daycare subsidy recouped only about 40 per cent of its cost via an increase in payroll and income taxes and reduction in child benefits due to families' higher incomes.

Cheaper daycare resulted in more Quebecers — especially women — joining the labour force and, consequently, paying payroll and income taxes. But that revenue boost wasn't enough to make up for the province's cost of running the program.

The Fraser Institute also noted that other Canadian provinces may not see as big a jump in labour-force participation after subsidizing childcare as Quebec. When the province rolled out its program in 1997, its workforce participation rate among women was a mere 69.7 per cent. Today, that rate stands at 76.6 per cent across Canada. Given that higher starting point, the workforce boost from cheaper daycare may be smaller, argue Eisen and Geloso.

Finally, the authors question whether Quebec's increase in female workforce participation in the late 1990s wasn't in part the result of a nationwide Employment Insurance reform. The EI change was implemented almost as the same time as Quebec's childcare program and spurred Canadians across the nation to join the labour force.

What others said:

Pierre Fortin, of the Université du Québec à Montréal, said his research found that the Quebec program did cover its costs — and then some — once several forms of government revenue and savings are taken into account.

According to Fortin's study, in 2008, the Quebec program cost \$1.2 billion and resulted in gross revenue and savings of \$2.1 billion for the government.

That \$2.1 billion came from a tax revenue boost from payroll and income taxes, as well as consumption taxes (like the GST and fuel taxes) and corporate taxes. Having more Quebecers in the workforce didn't just boost payroll and income taxes, noted Fortin. It also resulted in more consumption, which is also taxed, and higher production levels, which translated into higher business profits and corporate taxes flowing into government coffers.

Fortin also noted a decline in government transfers to lower-income households.

In general, subsidized childcare has a knock-on effect via increased economic activity, which also benefits the private sector, said David Macdonald of the Canadian Centre for Policy Alternatives.

Paul Kershaw of UBC estimates that the challenges parents face in balancing work and family cost Canadian businesses more than \$4 billion a year, due to factors like increased absenteeism and higher turnover.

Overall, Quebec's childcare program generated a net gain of \$900 million in 2008, according to Fortin.

Of that, however, only \$250 million went to Quebec, with the rest going to the federal government. The finding suggests that it might make sense for Ottawa to participate in the cost of subsidizing provincial childcare, said Fortin.

Fortin conceded that other provinces may not see as dramatic an increase in workforce participation rates as Quebec did two decades ago but noted that subsidized daycare may nonetheless generate enough government revenue, savings and boosted economic activity to pay for itself in other regions of Canada.

Finally, Fortin refuted the notion that the EI reform might have muddied the research results that tie an increase in Quebec's labour-force participation to the childcare program.

Economists who conducted those studies "were very careful that the effect the EI reform had on other provinces would be subtracted from the Quebec numbers," Fortin told Global News. That allowed researchers to isolate the impact that was attributable exclusively to the daycare reform.

Does subsidizing daycare benefit children?

The Fraser Institute also took issue with the notion that universal childcare enhances child development.

Evidence from the U.S. shows that whatever gain kids get from being in daycare in terms of school readiness "tend to fade out quickly over time, and are gone nearly entirely by the third grade," the authors wrote.

In addition, research that focused specifically on Quebec found that subsidized care seemed to coincide with a deterioration in non-cognitive abilities among children, such as increased aggression and hyperactivity in boys.

Fortin, however, noted that while the quality of daycare in Quebec is spotty, that isn't an inherent trait of a government-subsidized system.

Admittedly, he said, the province has work to do to raise daycare standards.

"For the first 20 years, the big challenge [for the Quebec government] was adding [childcare] spaces," he said. "For the next 20 years, it will have to be about quality."

Not necessarily, said Kershaw of UBC.

"There are flaws in that system, no doubt about it," he told Global News.

In order to better serve low-income families, government-subsidized childcare should entail flexible options for parents who are shift workers and have irregular work schedules, said Macdonald of CCPA. That isn't something Quebec has focused on.

And Kershaw argued that cheap daycare — he advocates for capping fees at \$10 per day — is one policy change that's within the government's reach to help young Canadians start a family despite lower earnings and high housing costs.

Childcare, he noted, often adds another "mortgage-sized cost" for parents of pre-school children. That's a challenge previous generations didn't have, he added.

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