The fiscal rationale for meaningful federal intervention in child care [1]

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Source: Finances of the Nation
Format: Article
Publication Date: 7 Apr 2021

AVAILABILITY
Access online [2]

EXCERPTS

To finally make a national child-care program a reality, Ottawa would need to budget between $7 billion and $9 billion a year. Since child care is a provincial jurisdiction, it's important to explicitly consider the scale of federal fiscal intervention that would be necessary to incentivize all provinces, including those with low fiscal capacity, to participate.

The notion of a national child-care program has been present in Canadian political and policy debates going back half a century to the Royal Commission on the Status of Women. But with the exception of Quebec, public policy interventions in child care have not truly delivered any kind of systemic change or unified model of service provision over the intervening decades.

In the most recent speech from the throne, the federal government promised to outline just such a system in their April budget. While this pronouncement left substantial uncertainty regarding its nature, the federal government did highlight the success of Quebec's universal child-care program, which was introduced in the 1990s. Quebec's model has arguably become the gold standard in Canada, but may be beyond the fiscal means of some provinces at this time.

Given this tension, it's important to explicitly consider the scale of federal fiscal intervention that would be necessary to incentivize provinces to offer a Quebec-sized program and to allow jurisdictions with a low fiscal capacity to participate.

What Does a Meaningful Fiscal Contribution from Ottawa Look Like?

We can reasonably assume that the federal government would need to make a similar fiscal offer across jurisdictions — either as an equal cost-share or similar per-capita funding for eligible children. Using past estimates from Pierre Fortin as a baseline, we can approximate the cost of a national program at roughly $14 billion annually. What is the "fair" share of this cost that should be borne by the federal government? One could argue that would be a 50-50 split with the provinces, meaning a $7 billion contribution from Ottawa. However, the lack of fiscal capacity in some provinces would almost certainly drive the federal share higher, likely approaching $9 billion on an annual basis.[1]

In practice, Ottawa's share of the contribution is likely to be set by negotiations with the provinces which have low fiscal capacity, or which are highly politically resistant.

For example, the total cost of a Quebec-style program in Newfoundland and Labrador would likely fall somewhere in the $140 million to $150 million range annually. At a 50-50 split, Newfoundland's share would be $70 million to $75 million. The province currently spends roughly 30 per cent to 40 per cent of this total on early learning and child development, meaning the federal government would likely have to make up the difference. Similar issues would likely arise in some other provinces — with the province with the lowest fiscal capacity likely setting the cost-sharing ratio with Ottawa.

For those watching Budget 2021 and hoping for a universal or broad-based national child-care program, the $7 billion to $9 billion figure is therefore likely to be the annual federal fiscal allocation required to make this a reality.

At the same time, many of these costs would likely be notional in the short- or even the medium-term. As with the implementation of universal Medicare, Ottawa would likely offer an agreed-upon cost share to provinces that met baseline conditions around accessibility, affordability and quality. Importantly, these funds should be allocated in a matching fashion rather than as lump-sum payments to help ensure system implementation. While some provinces, such as Quebec, will immediately meet those conditions or move to rapidly meet them, some may not. In the long run, however, with a sufficiently generous cost share from Ottawa, it is likely that all provinces would implement such a program, given the relatively low cost and the resulting political pressure to follow the rest of the federation.

It has been a long road to reach this point in our national policy dialogue on child care. At the federal level, the two most recent incarnations of the policy were the national early-learning and child-care program proposed by Prime Minister Paul Martin in the early 2000s and the New Democratic Party's 2015 electoral offer to expand Quebec's universal child-care program across the nation. At the provincial level, the recently re-elected NDP government in British Columbia is pledging to move ahead with a universal system.

Other than those noted above, past governmental actions have typically provided modest levels of spending to incentivize the creation of new child-care spaces through for-profit or not-for-profit providers and to limit direct costs to parents. While measures to limit cost can be particularly meaningful for ensuring equity in access, there is such a limited supply of spaces in many parts of the country that parents looking for both subsidized and market-rate child-care spaces can be left in queues for months to over a year.

Many provincial governments have also launched interventions with the stated goal of creating new child-care spaces. However, there is little evaluation of these programs.

The federal government has similarly engaged in this sort of incrementalist approach through a series of bilateral Early Learning and Child Care Agreements with the provinces. The agreements vary from province to province, but generally feature money for the creation of new spaces, staff wages, training and other measures with a total expenditure of hundreds of millions annually. As with the aforementioned provincial programs, this spending will result in additional child-care spaces, but may also result in crowding out of provincial or private-sector spending in the area.

The Case for an Expanded Federal Role

Child-care provision, either directly delivered or merely coordinated by government, is clearly an area of provincial jurisdiction. In practice, however, the federal government has vast flexibility to enter provincial space using financial incentives. There are reasonable grounds for the federal government to enter the child-care policy space with the consent of all or even just a handful of the provinces. While one could make an argument that there are efficiencies associated with coordinated child-care action across provincial boundaries, the primary rationale for a federal role is the presence of large "fiscal externalities" associated with such an intervention.

Governments regularly desire policies that boost productivity and economic growth, but this has taken on a new significance as the federal and provincial governments look to improve their fiscal position after the large deficits accumulated during the pandemic. As demonstrated by Quebec's novel policy intervention and the American experiment[2] with quasi-universal child care, government provision of low-cost access to child care for families can substantially boost economic growth through major increases in labour force participation.

The large increases in GDP associated with the Quebec's universal child-care model also mean substantial revenue gains for both the province and the federal government. Work by Fortin, Godbout, and St-Cerny finds these increased tax revenues for the federal government to be $673 million and for the provincial government to be $1.48 billion as of 2008. Recent estimates from Jim Stanford alternatively point to a revenue split closer to 50-50 between Ottawa and provinces. While these returns would likely be smaller in real terms today because of intervening increases in women's labour- force participation, they would still likely be sizable.

This return is sufficiently large that some provinces might choose to implement a Quebec-like policy independently. However, even for provinces with sizable existing child-care expenditures, a shift to provision on the scale of the Quebec model would carry substantial costs, accounting for at least 0.6 per cent of GDP or roughly three per cent of all provincial expenditures. For provinces in a relatively good long-run fiscal position such as Nova Scotia, Ontario or British Columbia, this is a viable path, but is still not a fiscally easy one, particularly with the fiscal burden of the pandemic.

Another issue is that the full fiscal return of a Quebec-style model is not immediate, but rather occurs over the medium run. This occurs through both wage-boosting impacts on parents who otherwise may have exited or partially exited the labour force, and changes in career choice from a relatively early age. As such, the full revenue gains are not realized until years, or arguably even decades, after the implementation of universal access to child care.

This fiscal tension of a move to the Quebec model would bind particularly tightly for provinces such as Manitoba, or Newfoundland and Labrador, that are already in a difficult long-term fiscal position. Since provinces may recover only 50 per cent of increased revenues, and those revenue increases may take time to fully ramp up, it is not a practical policy suggestion for these provinces to implement a Quebec-style program independently.

This is a particularly frustrating jurisdictional problem because this kind of labour force participation-enhancing program is the right kind of policy intervention to assist with this fiscal sustainability challenge. This is the impetus for Ottawa to act and to do so in a serious fashion, shouldering a larger fiscal burden, particularly in the early years, to make a universal child-care program a reality from coast-to-coast.

Region: Canada [3]
Tags: budget [4]
federal [5]
