

# The economics of Yukon child care <sup>[1]</sup>

Early learning and child care turn out to be critical for faster growth

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## EXCERPTS

Early learning and child care are hot topics in economics. And it's not because the profession has cast aside its quantitative models and obsession with economic growth.

Early learning and child care turn out to be critical for faster growth.

Canada's total economic output per hour worked was \$53 USD in 2019 according to the OECD, a club of rich countries. The average American worker produced \$72 USD.

Ouch. That's not good for incomes or for tax revenues.

Nor has our growth been anything for our delegation to the OECD to brag about. Last week's federal budget forecast that our long-term potential growth rate was going to slip from over two per cent annually in the last 20 years to around 1.5 per cent going forward. That may sound small but keep in mind that one percentage point of extra growth over the next 10 years would increase Canada's economic output by about \$6,000 per Canadian.

We have lots of growth-sapping issues. Our population is aging. Interprovincial trade remains unfree. Other than Shopify, the big global tech winners seem to be emerging from other countries. Climate change is going to put pressure on our oil and gas industry. Love it or hate it, it is our biggest export sector and employs some of our highest-value-add jobs.

To boost growth, we need Canadians to either work more hours or produce more in each hour they work.

Which brings us back to early learning and child care. There are lots of studies that show that early learning, when done effectively, significantly boosts educational outcomes and long-term incomes. Access to affordable child care can allow more parents, primarily mothers, to get jobs.

Currently, only 66 per cent of Canadians have formal jobs, although the figure is higher in the Yukon at 73 per cent.

Economists have been studying child care programs in Sweden and Quebec in particular. Sweden's system, for example, is comprehensive, cheap to parents, and is flexible to accommodate parents who don't have traditional (and increasingly uncommon) 9-5 jobs. Meanwhile, Quebec's program is credited with boosting the number of mothers in the labour force.

The Biden Administration is proposing universal child care for three- and four-year-olds. A new Canadian early learning and child care proposal was a major highlight of last week's federal budget. Federal economists think their new child care proposal will allow 240,000 workers to join the formal labour force, increasing our economy by 1.2 per cent by 2040. They call it one of the most positive economic policy changes since the NAFTA free-trade deal.

On a proportional basis, that would work out to 265 Yukoners joining our labour force.

Big change is afoot. In addition to the new federal proposal, which still requires negotiating agreements with the provinces and territories, all three parties in the last Yukon election proposed major new child care programs. There was some drama when the Liberals called the election before passing their budget, which contained the funding for their new child care proposal. But thanks to the NDP agreeing to support the Liberals until 2023, it is now highly likely the funding will pass the Legislature.

The proposal in the Yukon budget identifies \$13 million for Universal Child Care. That's on top of existing programs. The total for Early Learning and Child Care in the Department of Education is now \$25 million. The exact number of children currently enrolled is not public, but consider this very rough estimate. If 75 percent of the 2,413 Yukon children aged four and below participated, the budget works out to \$14,000 per child. That compares to the \$150 million the government budgeted for 5,675 public school students in Kindergarten to Grade 12, or \$26,000 per student.

As negotiations play out, there are a few issues to watch.

First, there is federal-provincial cost sharing. Remember that the federal share of health care costs slipped significantly after universal health care came to Canada. The provinces are wary of another program where the feds get the glory and they get stuck with a large and growing long-term bill.

Fortunately, in the Yukon, we get such a generous transfer payment that the \$25 million for Early Learning and Child Care is a small proportion of the \$1.4 billion we get from Ottawa every year. The Transfers from Canada line in the Yukon budget is going up \$66 million this year alone. Now we will get even more money specifically for early learning.

The second issue is quality. Some serious economic studies flagged issues with Quebec's program. Child care needs to be funded well enough that it is truly early learning and not babysitting. The difference in public school and early-learning budgets per child makes you wonder if the budget for early learning should be even higher. Indexing it to keep up with inflation will also be critical.

Then comes participation. Politicians have been referring to "universal" child care. But currently far less than 100 per cent of Yukon children are signed up. The new programs will make it significantly cheaper for parents, but the percentage of children actually enrolled will be a real marker of how successful the new government program will be.

The median monthly cost for a toddler in Whitehorse is \$850. The proposed \$700 territorial subsidy would reduce that to \$150 per month.

The laws of supply and demand tell you that anytime the government significantly subsidizes something, there will be a surge in demand. In an industry such as early learning, where it takes time to train staff and create new spaces, that leads to shortages.

In 2020, Quebec's auditor general criticized the province's system for having a waiting list of 46,000 children. And that's 23 years after the system was introduced.

The Yukon's early learning providers are working hard to be ready for the surge in demand. We shall see how quickly parents react to the lower price.

Finally, not all parents want institutional child care, live close enough to a facility, or work hours that overlap with nearby facilities. So it is important to maintain other supporting policies, such as tax credits for child care costs.

Various proposals for child care have been on the Canadian political agenda for 50 years. There are good economic reasons to finally do something significant now. And, if we are going to do it, we need to do it well. That means funding it sufficiently, including investing in training enough early childhood educators to match long-term demand.

This is an important investment, but it won't be cheap. Since we don't have infinite resources, it also means in the long run that governments across Canada will need to either raise taxes or spend less on something else.

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**Region:** Yukon Territory <sup>[3]</sup>

**Tags:** economics <sup>[4]</sup>

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