Published on *childcarecanada.org* (https://childcarecanada.org)

Which political party has the best child care plan? [1]

Analysis shows the Liberal plan will massively improve affordability while the Conservatives' would only nibble at the affordability problem.

Author: Cleveland, G.
Source: Policy Options
Format: Article
Publication Date: 10 Sep 2021

AVAILABILITY
Access online [2]

Excerpted from article

Which is better: tax credits or direct funding? When it comes to solving the problem of child care affordability for families, both alternatives are on offer in this election campaign. Some believe it could be the campaign's defining issue. My analysis suggests that the Liberals have a far better plan for making child care affordable, while the Conservatives' tax credit would have only a minor effect on affordability.

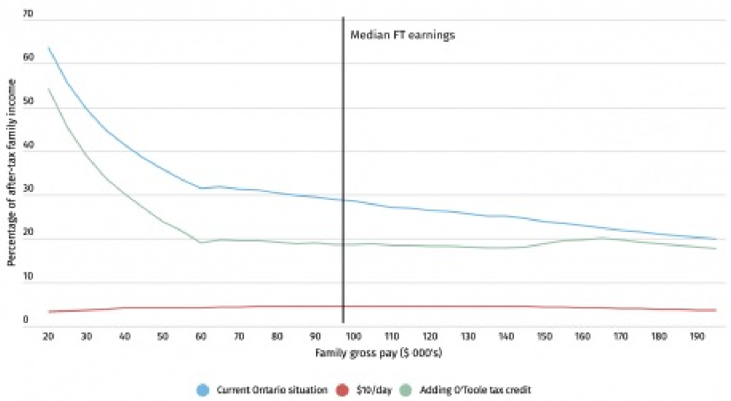
The Trudeau Liberals' plan would provide licensed child care for $10 a day for children under six. It will require provincial-territorial co-operation and when fully developed will cost more than $9 billion annually. The NDP under Jagmeet Singh supports this direction. Erin O'Toole's Conservatives think a tax credit for child care expenses will make any type of child care you want to use much more affordable. The Conservative plan is uncosted, but it has been suggested that it will cost about $1 billion to $2.3 billion per year.

I've modelled these two alternatives for Ontario and the results are fascinating. The two charts below show different measures of child care affordability for three policy situations: the current situation in Ontario; an O'Toole tax credit; and the $10-a-day plan. There's a stunning amount of difference in how these plans would affect affordability.

I've taken a couple family with two children – one and three years of age – as the basis for these calculations. One parent earns 60 per cent of the family income and the other earns 40 per cent.

Figure 1 shows the per cent of after-tax family income that would be eaten up in accessing licensed child care. Figure 2 shows what's called "caregiving parent affordability." It compares the cost of child care to the income gains when the caregiving parents takes up paid employment. The per cent of this earning contribution that gets eaten up in accessing licensed child care is a measure of the size of this barrier to a mother's employment.

Figure 1
What percentage of an Ontario couple's after-tax income goes to child care?



Note: Chart assumes child care subsidy not available.
Source: Author's calculations.

The blue line, highest up on both of these charts, shows the current affordability situation of Ontario families. It incorporates Premier Doug Ford's tax credit for child care expenses that we already have in Ontario and the child care expense deduction. Most couple families do not benefit from low-income child care subsidies, so I do not consider them.

O'Toole wants to layer a federal tax credit for child care expenses on top of Ontario's current funding programs, but also wants to get rid of the child care expense deduction and rip up the existing provincial/territorial child care agreements. In essence, he would be giving with one hand and taking away with the other. This is the green line on the charts.

The $10-a-day-program was announced in the recent federal budget. Eight provinces and territories have signed five-year agreements of major investments to lower fees immediately and reach $10-a-day by 2025. This is shown as a red line on the charts.

The first chart ("family income affordability") shows how much after-tax family income will have to be spent on child care for a typical family. The higher up the line is, the more unaffordable child care is. In the current situation in Ontario, for a family with two children, child care is pretty much unaffordable at any level of income – accounting for 40 per cent or more of total family income at incomes below $40,000 a year, but also accounting for 20 to 30 per cent of total family income even at incomes above this level.

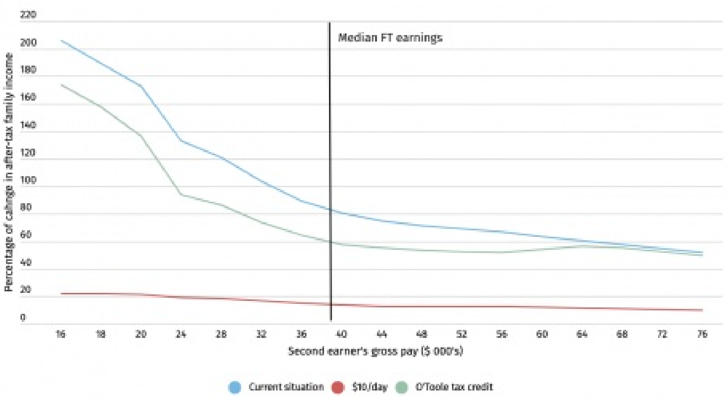
O'Toole's tax credit policy (green line) would make most of these families somewhat better off. Assuming the provincial and federal tax credits are stacked, now "only" 30 per cent or more of after-tax income would be required to pay for child care at incomes below $40,000 a year, falling to about 20 per cent of income above about $60,000.

In contrast, the $10-a-day policy (red line) would mean that families would spend just less than 5 per cent of after-tax income on child care.

The impact of these different policies on child care affordability is radically different. The O'Toole tax credit nibbles at the affordability problem, but many families would find that 20 per cent or more of their after-tax income is still too steep a price to pay. The $10-a-day Trudeau plan supported by Singh would, on the other hand, make licensed child care much more affordable for all families using it.

Figure 2 is even more revealing. A lot of the discussion about the recovery from the pandemic and the "she-cession" has centred on getting rid of child care costs, which have been pointed to as a major barrier to women's employment. Affordability of child care is important for individual families, of course, but the link to women's employment makes it a particularly pressing societal issue. A lot of people believe that family decisions about whether a mother will seek employment generally involve a direct comparison between the cost of child care and the amount of extra income she can bring to the family. If the cost of child care is very large compared to her net earnings after taxes, then many mothers will decide to stay out of the workforce, at least until their children grow older (and cheaper in terms of child care costs).

Figure 2
If a parent returns to work, how much of the change in income is taken by child care fees?



Note: Chart assumes child care subsidy not available.
Source: Author's calculations.

Figure 2 outlines caregiving parent affordability. The blue line shows the current situation of this two-child family at different levels of income for this caregiving parent. For any caregiving parent with two children earning less than about $32,000 annually, there is no financial gain to the family from her employment; child care costs eat up more than 100 per cent of her net earnings. If she earns a lot more than this (and most mothers do not), she can drive this percentage down but child care costs will still consume the majority of her earnings. Employment when children are young may be desirable to maintain a career, but it is not very financially beneficial.

The O'Toole tax credit would nibble at these major barriers to women's employment. The Conservative election platform says that "[n]obody should be prevented from getting back to work because they can't afford childcare." It is clear that the O'Toole tax credit fails this test.

This tax credit would still leave second earners with two children who are below the median income paying more than 80 per cent of their additional earnings for child care. Even at higher income levels, most families would spend at least 50 per cent of their additional earnings to pay for child care if the second earner were employed.

With the $10-a-day plan, families will still have some child care expenses – fees for licensed child care would be about $2,600 annually per child. For lower income earners, that could still eat up 20 per cent of the contribution a second-income earner, usually the mother, makes to family income, but the fees would be much less of an employment barrier than they currently are. Child care subsidies could be re-purposed to reduce these amounts. But for many families, child care costs would be less than 20 per cent of a mother's income and mothers who prefer to be employed would find that employment, finally, financially rewarding. Many studies find that a mother's employment is quite sensitive to the price of child care.

My conclusion? The O'Toole tax credit nibbles at the edges of the child care affordability problem. Most families using child care would be better off, but since the plan includes no controls on future fee rises, this improvement might be temporary. On top of this, tax credits for expenses have been reliably associated with poorer quality child care. On the other hand, the Liberal plan will have a massive impact on child care affordability and, probably, mothers' employment.

Conservatives argue that most families will not be helped if licensed child care is made much less expensive. Recent evidence does not support this view. There are nearly 1.4 million Canadian children under the age of six using non-parental child care on a regular basis; 57 per cent of them use licensed centre-based services as their main arrangement and about another 8 per cent use licensed/regulated family child care. That leaves about 15 per cent using paid informal providers, including nannies. Another 18 per cent are cared for by a relative as a main arrangement, but many of these arrangements are not paid and would not qualify for the tax credit.

In other words, a substantial majority of the Canadian families who pay for non-parental child care will benefit immediately from the new federal-provincial-territorial arrangements to build an affordable licensed early learning and child care system.

Region: Canada [3]

Tags: federal election [4]

affordability [5]

mothers' labour force participation [6]

Source URL (modified on 13 Sep 2021): https://childcarecanada.org/documents/research-policy-practice/21/09/which-political-party-has-best-child-care-plar

Links

[1] https://childcarecanada.org/documents/research-policy-practice/21/09/which-political-party-has-best-child-care-plan [2] https://policyoptions.irpp.org/magazines/septembe-2021/which-political-party-has-the-best-child-care-plan/ [3] https://childcarecanada.org/taxonomy/term/7864 [4] https://childcarecanada.org/category/tags/federal-election [5] https://childcarecanada.org/category/tags/affordability [6] https://childcarecanada.org/taxonomy/term/9076