

Could the Conservatives' tax credit help create more child-care spaces?^[1]

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Excerpts

EDMONTON -- Access to affordable child care has become a hot-button issue during the federal election campaign, particularly for women, as party leaders vie for the support of parents eager to return to the post-pandemic workforce.

The Liberals, NDP, Bloc and Greens are all in favour of some form of national child-care program, similar to the one Liberal Leader Justin Trudeau's government announced during this year's budget, with promises to prioritize funding for sorely needed child-care spaces.

The Conservatives, on the other hand, have pledged to replace the Liberals' program with a refundable tax credit of between \$4,500 and \$6,000 per child, with an aim to cover up to 75 per cent of the cost of child care for low-income families. According to the party's platform, the money would be paid out during the year to avoid families having to wait until the end of the year to receive the refund.

Their proposal does not, however, specifically mention a plan for directly creating more child care spaces – one of the biggest problems the child-care sector faces in this country.

THE CLAIM

This week, when faced with questions about this gap in his plan, Conservative Leader Erin O'Toole said that the money his policy would inject into the child-care system would promote the creation of those spaces.

"This is a bit an area that is not well understood, it will create more spaces... just by providing more resources to families directly," he said during an interview with CBC. "Is every dollar tied to a space? No. It's tied to allowing the family to make the decision."

In other words, the Conservatives' plan hinges on stimulating the market enough to create more demand and, as a result, more spaces.

ANALYSIS

It's estimated that hundreds of thousands of new child care spaces are needed across the country in order to expand access to every family that needs it.

According to the latest data from Statistics Canada, approximately four in 10 parents who were using regulated or unregulated providers in late 2020 had trouble finding child care, with parents of one- to three-year-olds being the most likely to report difficulties in finding child care.

More than half of Canadian parents, 56 per cent, reported they were unable to find care within their community and 43 per cent had difficulty finding affordable care.

But policies based on the simple argument of supply versus demand may not be enough to create those sorely needed spaces.

"The first thing I'd say is that there is a massive confusion that is thrown out there by politicians when they talk about programs to create spots in daycare -- they're not talking about programs to create spots in daycare, they're talking about policy to increase demand," Vincent Geloso, economics professor at George Mason University, told CTVNews.ca by phone.

"Any form of subsidy, either the universal one from the Liberals or the targeted measures of the Conservatives, are essentially shifts of the demand curve."

Geloso says that it's difficult at a federal level to deliver on promises of increased accessibility because municipal and provincial policies have much more influence in terms of cost and supply.

"Regulations in Toronto, for example, restrict the supply of housing and, by accident, increase rent and the costs of daycare. So, in areas where there's less regulation, prices for daycare are lower because it's easier to open on new spots," he said.

"So, what the federal government can do is very, very limited because the only thing they can do is play with demand. Both policies are

unlikely to yield the large effects that they promised in terms of accessibility. They're not going to yield no effect, but they're going to yield pretty small one."

David Macdonald, senior economist with the Canadian Centre for Policy Alternatives, says that the tax credit doesn't involve an additional transfer to provinces to build more spaces.

More importantly, he adds, without specifying where money is to go, it's just as likely to end up in higher fees.

"The trouble with this type of simplistic analysis is that new money doesn't have to go to space creation, [it] can just as easily go towards higher fees particularly in private for-profit providers," Macdonald told CTVNews.ca by email.

"The example of B.C. should be a cautionary tale in this regard, they set up a set fee reduction (\$100/month preschoolers). However, average fees rose quickly to eat up a portion of what parents were receiving, this was particularly true for cities with more for-profit providers."

The idea of a refundable tax credit for child-care expenses is not new. In fact, three provinces already have them: Quebec, Ontario and Newfoundland and Labrador.

In Quebec, there are two parallel systems, a subsidized program that costs \$8.35 per child per day and an income-linked tax credit that covers up to 75 per cent of the costs to those paying market rates. The latter is very similar to what O'Toole is proposing.

"What we have found is the introduction of the tax credit did, in fact, increase supply of the market-based child care, which has been found to be much lower quality and also very expensive," Morna Ballantyne, executive director of the national child care advocacy association Child Care Now, told CTVNews.ca by phone.

In addition to concerns about higher costs, advocates like Ballantyne – who supports a universal system, such as the one proposed by the Liberals – worry that a market-driven approach to child care may reinforce the existing problems in the system, even if there are small improvements to infrastructure.

"When you rely on the market to fund the demand side, really you're relying on private and individual providers to essentially set up shop. They then are going to rely on parent fees to be able to keep the doors open," Ballantyne explained.

"They then can't respond to the very unique and more expensive provision of child care. For example, what is required to meet the needs of parents who nonstandard hours or meet the needs of children who have special needs."

CONCLUSION

"As an economist, I can't say that a subsidy would not create more demand because that's essentially a subsidy does," said Geloso. "But my claim is that the move would be very small."

Macdonald adds that the overly simplistic demand versus supply argument doesn't always mean that extra money will go towards creating new spaces.

Finally, while Ballantyne says tax credits in Quebec did in fact increase supply of the market-based child care, she maintains that the quality of care lacks under this type of policy.

"The market approach is actually what we have had in Canada forever... and it's been a complete failure," she said.

Region: Canada ^[3]

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