

Should Alberta have \$10/day childcare? ^[1]

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EXCERPTS

Marina Adshade, the professor of economics at UBC and author of *Dollars and Sex* (Harper Collins, 2013) says yes.

If you are like me, and believe the role of responsible government is to spend your tax dollars wisely, then you should support a program that provides \$10/day daycare for families. Universal daycare programs have proven to be the most cost-effective approach to achieve much-needed increases in both worker productivity and the supply of labour, an approach that will be necessary if Alberta hopes to remain competitive. With female labour force participation rates that are among the lowest in the country, the economy of Alberta is operating at less than full potential output.

A 2017 report by McKinsey Global Institute predicted Alberta could raise annual incomes by 6 per cent, or \$21-billion over 10 years, by making improvements in three areas: increasing women's labour force participation rate; increasing women's work hours; and encouraging more women to work in high-productivity sectors such as mining and technology. Often when we think about benefits of affordable daycare we think about the relatively short period of our lives when we're raising preschool children. In reality, access to childcare affects the decisions that women (in particular) make over their entire work lives. To understand the economic benefits of investing in childcare we need to consider those lifetime decisions.

First, young women who anticipate little or no access to affordable childcare are more likely to choose career paths that lead to jobs where they won't experience big losses in income if they take years off work for family caregiving. This is one reason why 56 per cent of women working in Alberta are employed in retail trades, food services, education and health. We should want more young women to make career decisions that lead to jobs in high-productivity fields such as engineering, mining and technology. In fact, almost half the economic growth predicted from increased gender equality in the workplace is from encouraging women to work in these sectors.

Second, parents who take time away from the workforce because they can't find affordable childcare not only forgo income during the years they care for young children but also earn lower incomes over the remainder of their work lives as a result of losing years of on-the-job training and experience. In the absence of affordable daycare, families who remove one parent from the workforce might be making the best financial decision in the short run, but the cost of that decision accrues both to the individual and to society in the form of lower labour-force participation rates and less-productive workers.

Finally, when childcare is difficult to find, older workers (mostly older women) often leave the workforce early or reduce their work hours to help care for grandchildren. These choices are costing the economy the contributions of some of our most experienced workers. And, perhaps more importantly, they are increasing the rate of poverty among senior women.

Vincent Geloso, the assistant professor of economics at George Mason University, Virginia says no.

The popularity of universal (i.e., heavily subsidized) childcare has been growing among politicians, mostly recently the federal Liberals. Two justifications are typically given. First, these programs will pay for themselves by favouring earlier re-entry for mothers into the labour market. Second, early childhood development is so crucial to later life outcomes that these proposals will have large long-term benefits. For both claims, Quebec is often used as an example.

There are three problems with the first justification. First, labour force participation rates for mothers in Canada today are far higher than they were in Quebec when that province adopted subsidized universal daycare. As a result, it's unlikely that the "proposed" effect can be replicated. Second, peer-reviewed articles show that many Quebec mothers returned to work, but not in numbers sufficient to offset the program's cost (less than half was recouped). Third, we can doubt the magnitude of the program's effects. Existing estimates are based on comparing Quebec with the rest of Canada before and after the implementation of subsidized daycare. The (incorrect) assumption is that Quebec was the only province to get a policy intervention that helped increase the labour force participation of mothers. But the federal government also enacted employment insurance reform, which disproportionately affected Atlantic Canada and Quebec. As such, the proper comparison is with Atlantic Canada only. Adjusting estimates to arrive at an apple-to-apple comparison reduces the number of mothers who returned to work as a result of the program. As such, the "self-financing" claim doesn't hold water.

In regard to the second justification, the empirical evidence is clear that early childhood development is crucial in securing better later-life

outcomes. But that doesn't mean subsidized universal daycare is the best channel to secure such gains. If the goal is to reduce childcare costs so that more kids go to childcare centres with trained educators, there are better ways.

First, economists Diana Thomas and Devon Gorry have shown that childcare costs are driven by heavy regulatory burdens unrelated to the actual quality of the service. Reducing these would make childcare more accessible. Second, the cost of childcare is not only measured monetarily (i.e., the fees); the cost is expressed relative to the returns of going back to work. This brings in the role of income taxes. Women's labour market decisions are considerably more sensitive to income and payroll tax rates than men's labour market decisions. Reducing income taxes, especially on lower-income groups, would have the same effects as subsidies for childcare. Finally, there is good evidence amassed by Michael Baker of the University of Toronto and Catherine Haecck of the Université du Québec à Montréal that the program in Quebec had either negative or zero effects on the cognitive outcomes of children. All of this augurs poorly for federal involvement in childcare.

Marina Adshade responds to Vincent Geloso

There is certainly no disagreeing that the labour force participation rate of Canadian women, on average, is higher today than it was when Quebec implemented its daycare program almost 25 years ago. The problem for Vincent Geloso is this statement only reinforces my main argument; Alberta is falling behind the rest of the country in realizing the economic gains from female labour force participation.

When Quebec implemented its \$5/daycare program in 1997, 78 per cent of women of childbearing age (25–44) in that province participated in the labour force. Today, 88 per cent of those women work outside of the home, a higher share of women than in any country around the globe. Over the same time frame, the share of women working in Canada as a whole has increased from 80 per cent to 84.5 per cent—gains for sure, but not as significant as those seen by Quebec.

How has Alberta done over the last quarter of a century? Alberta has seen no gains in terms of female labour force participation over this time; in fact, it has experienced a slight decline, from 83 per cent to 82 per cent. Alberta is the only province in Canada in which the female labour force participation rate has fallen over the past 25 years.

The good news for the province, however, is that significant economic gains can be made by implementing programs that get women not only into paid employment but also investing in the skills and training needed to work in the most productive sectors.

Alberta has fewer children under the age of 6 in childcare than any other province in Canada (41 per cent compared to 52 per cent nationally) and has more parents who report that the reason their children are not in daycare is because it's too expensive (15 per cent compared to 9 per cent nationally).

Geloso argues that this problem of price could be addressed by reducing the regulations that dictate the qualifications needed to be a childcare worker and the minimum number of caregivers required for a group of children, citing a study based on US regulations as evidence. The truth is that today more than half of families in Alberta (57 per cent) depend on unregulated childcare arrangements, and those arrangements impose economic and non-economic costs on those families. University of Alberta researchers Kerryn Colen and Rhonda Breitzkreuz found that unregulated care might be cheaper than licensed daycare, but the care is generally of lower quality, and mothers are being forced to reduce their employment because of the precarious nature of that unregulated care.

"Universal childcare is not only the right thing to do for mothers and families, it's the smart path to long-run growth."

Likewise, Geloso challenges the idea that universal childcare is essentially self-funding, citing a limited 2008 study on the short-run costs and benefits of the daycare funding in Quebec. More recent research that takes into consideration the medium- and long-term effects, and all forms of taxes and benefits (including child benefit payments), finds that the program more than pays for itself over time, with significant savings for both provincial and federal governments.

The author of that more recent study—one of the most celebrated economists in Canada, Université du Québec à Montréal's Pierre Fortin—reported in May that "the University of Sherbrooke's tax simulator has shown that one additional dollar spent on child care by the provincial government generates a combined increase in tax revenue and economic benefits totalling \$1.75 for the federal and provincial governments."

Of course, even those government revenues do not capture all of the economic benefits of universal childcare, including younger women investing in more-specialized training in expectation of fewer work-life disruptions, increases in the human capital of mothers who are able to spend more years attached to the labour market, and older women remaining in the workforce until they are ready and able to retire without economic insecurity.

My perspective is that investing in universal childcare is not only the right thing to do for mothers and families, it's the smart thing to do in terms of long-run growth. Good evidence shows that the daughters of those women who would invest more in their own education today, knowing that in the future they too will have access to affordable childcare, will spend more time in school as a result of having a better-educated mother. Likewise, the daughters of women who remain in the workforce when their children are young will, as adults, have higher levels of labour force participation as a result.

As we look toward an economic future in which the strength of the workforce and the competitiveness of the economy are based almost entirely on skills and training, access to affordable childcare is no longer a luxury; it is a prerequisite for modern economic growth.

Vincent Geloso responds to Marina Adshade

Are mothers adversely affected by childcare costs after they decide to participate in the labour force? Indubitably. Is making childcare cheaper a desirable policy objective? Absolutely. Is universal subsidized daycare an efficient way to do so? Absolutely not! To believe that is to hold on to a fool's hope.

The universal daycare program in Quebec, which is often cited as the gold standard for similar policy proposals in Canada, has been immensely costly and has achieved very little. Concentrating only on peer-reviewed estimates published in academic journals, the general finding is that the program did stimulate labour force participation for mothers. However, the number of mothers returning to the labour force earlier (and with fewer penalties, due to less time away from paid employment) has not been sufficient to offset the fiscal costs of the Quebec model. An article published in 2015 in *Labour Economics*, which echoed a slew of earlier peer-reviewed articles, found that the program's net cost (i.e., once you've factored in the tax revenues gained from mothers' return to the labour market) was \$1.2-billion. Moreover, this net cost estimate doesn't account for the fact that some fathers adjusted to universal daycare by reducing their own working hours. Quebec's policy wasn't cost-effective at all.

If there were ever a place where the program could have been cost-effective, it would have been Quebec. For a long time Quebec had some of the lowest participation rates of all Canadian provinces (with the exception of Atlantic Canada) for women in the labour market. Today, Quebec has a rate of women labour force participation slightly below Alberta's. It is unlikely that Alberta, with such a high rate already, will be able to replicate even a fraction of Quebec's track record. There is thus no reasonable prospect for this program to be cost-effective in Alberta.

"Daycare in Quebec, often cited as the gold standard, has been immensely costly and has achieved very little."

Moreover, all of this is probably overestimating the number of mothers who returned to the paid workforce in Quebec. As I pointed out in my opening argument, the simultaneity of unemployment insurance reform and the onset of universal daycare in Quebec biases up our estimate of mothers who returned to work. This is because it assumes that the evolution of mothers' labour force participation in the rest of Canada is the correct counterfactual for Quebec's daycare policy. However, because unemployment insurance reform affected Atlantic Canada and Quebec most, the former region is the proper counterfactual for the effect of universal daycare. In short, a more accurate comparison would deflate Quebec's numbers.

More importantly, universal subsidized daycare in Quebec crowded out private daycare centres—something that can be observed in data—as well as many informal daycare arrangements, including children being left with grandparents. Some peer-reviewed articles in the US find that the presence of grandparents in family care arrangements tends to increase labour force participation of mothers by 15 percentage points on average, and that this effect is mostly concentrated in socio-economically disadvantaged backgrounds. Many studies that attempt to measure the effect of universal daycare on mothers' labour force participation are unable to control for this effect. In other words, all of the "unknowns" push in the direction of overestimating the effect of Quebec's daycare model on mothers' rejoining the paid workforce.

Finally, the costs of universal daycare are also understated. Many proponents of universal daycare focus only on the fiscal considerations, but these aren't the only costs. In essence, universal daycare crowds out private arrangements such as those involving grandparents. While we know little about the comparative quality of these arrangements, a strong literature ties quality time with grandparents to positive later-life outcomes, including education persistence and income growth, through the development and nurturing of cognitive and non-cognitive skills. We also have good evidence that universal childcare in Quebec adversely affected cognitive and non-cognitive skills; as arrangements involving grandparents were crowded out, universal daycare provided lower-quality childcare overall. This created a higher cost to universal daycare in Quebec than is apparent if we focus only on government expenditures.

If we really want to reduce the cost of daycare in Canada and increase the labour force participation of mothers, Quebec-like policies are not the way to go. The way to go is deregulation: opening doors for educational entrepreneurs, eliminating policies that indirectly raise the cost of daycare (e.g., restrictive land-use bylaws in cities, which drive up rents), cutting personal income taxes and targeting financial help to lower-income households.

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