

A welfare analysis of universal childcare: Lessons from a Canadian reform ^[1]

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For Gordon Cleveland's summary and analysis of this paper, see: [New support for the economic benefits of universal child care](#) ^[3]

Abstract

Recent research shows that early-childhood interventions targeted at disadvantaged households can yield large returns on initial public investment. However, the extent to which such benefits extend to universal programs remains an open question. Leveraging the introduction of universal low-fee daycare in Québec in 1997, we evaluate the welfare effect of universal childcare provision. First, using novel data on daycare coverage rates within Québec and a difference-in-differences design, we show that the positive impacts on maternal labor supply and childcare use are larger in areas where daycare expanded more. Thus, childcare availability, rather than just the price decrease, is also responsible for the observed behavioral responses. In the second part of the paper, we estimate the benefit-to-net-cost ratio of the policy while notably taking into account its non-marginal nature. We estimate mothers' utility gains using a model of maternal labor supply and childcare choices, incorporating non-pecuniary benefits for mothers, such as non-monetary costs of childcare use, and childcare availability. Structural estimates indicate that mothers' benefits are more than 3.5 dollars per dollar of net government spending – more than twice that obtained when solely focusing on earnings gains. As such, our findings suggest that non-pecuniary benefits for mothers are a key component of welfare gains of universal policies. Counterfactual simulations suggest that channelling more resources towards opening spots, rather than lowering prices, could have led to even larger social returns.

Related link: [New support for the economic benefits of universal child care](#) ^[3]

Region: Quebec ^[4]

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