



GORDON CLEVELAND

ECEC Policy in Canada

Availability, affordability and quality

Things have changed a lot in the last 40 years. In 1973, fewer than three out of 10 mothers with preschool children were in the labour force. A majority of children 0-4 years of age with employed mothers used paid child care arrangements, but most of this was informal care. Few of these children (only 7%) were in licensed day care centres or nursery schools.

In 2012, nearly seven out of 10 mothers with a youngest child 0-2 years of age and nearly eight out of 10 mothers with a child 3-5 years of age were in the workforce.¹ In 2010, nearly half (46%) of the children (1-5 years of age) of mothers who were employed or were full-time students used regulated child care (either centres, licensed family care, or nursery schools).² Only 12% used paid care by a non-relative (informal care). The major alternative to regulated care for families with employed or studying mothers (for nearly one-third of these children) is now care provided exclusively by parents (even though, in these families, all parents are employed or students). So two big changes: parents provide most of the unpaid child care, shoehorned in around their own employment responsibilities, and licensed services are the dominant choice of those who can access financial assistance or whose work and income situations allow them to pay the full cost of child care.

The growth in the number of licensed child care spaces corresponds to these changes. In 1973, there were just over 28,000 child care spaces in Canada, more than 26,000 of them for children younger than school age.³ By 2012, there were just over 500,000 centre-based spaces for children 0-5 years of age in Canada, and nearly 140,000 additional regulated family child care spaces, many of which may have served children younger than school age.

It is typical to think of ECEC policy objectives under the headings of availability, affordability and quality. There have been dramatic increases over time in the number of child care spaces. Add to this the recent substantial increase in full-day kindergarten availability and it would seem that simple availability of spaces is not the primary problem. However, many of the new kindergarten spots do not provide for integrated child care solutions that parents may want throughout the school year. And, it continues to be difficult to find licensed spots for very young children. Availability of child care to meet these needs (and child care for special needs and child care with adequate programming for aboriginal children) remains on the agenda.

Affordability is the most obvious need for policy to address. There has been substantial progress over time for some children: parents in Quebec can typically access some type of child care for less than \$2,000 annually, either through having a \$7.30 per day spot in licensed services or through using the very generous Quebec Tax Credit for Childcare Expenses.⁴ The expansion of full-day kindergarten in most provinces has effectively reduced the cost of accessing ECEC services for many families with age-eligible children (although complementary child care – before and after school and in holidays — may be expensive).

However, the cost for many families is still high. In 2012, the median full-time annual fee across Canada for centre care for infants was \$9,132, for toddlers was \$8,412 and for preschool-aged children was \$8,088. The equivalent figures for high-priced Ontario were \$13,284, \$11,100, and \$10,020.⁵ The cost for some families is considerably higher than this. A recent study by the Canadian Centre for Policy Alternatives found that the median cost of centre-based infant care in Toronto was over \$20,000 annually, of toddler care was nearly \$16,000 annually and of preschool-aged care was nearly \$12,000.⁶ In most urban centres outside Quebec, this study found that the cost of full-

time licensed care for one child would be between 25% and 35% of a typical mother's pre-tax income (an even higher percentage of her take-home pay).

The quality of ECEC provided to children is always a central issue, because we believe that the quality of care is directly and substantially related to the effects of ECEC on children's multi-faceted development in the early years. Quality is not easy to describe or measure, but there is evidence that provinces and territories have realized its importance in the last number of years. For instance, most Canadian jurisdiction have now developed curriculum frameworks to support early childhood education and care, and many report regularly to their citizens on progress in meeting policy goals in ECEC.⁷ ECEC reforms have to support and promote quality of services as well as affordability.

A basic description of ECEC financing in Canada⁸

There are two streams of early childhood education and care (ECEC) services in Canada: regulated child care (most of which is centre-based but about 15% of which is regulated family child care, provided in the caregiver's home) and kindergarten (in the year or two before grade school starts). These streams of service are historically separate. Since most kindergarten in Canada is now offered on a full-day basis, these services are becoming better substitutes for parents and more integrated in government planning and policy.⁹

The provision, regulation and financing of early childhood education and care services is primarily a provincial responsibility in Canada, in common with the provision of most education, health and social services. However, the federal government historically has more revenue-raising capacity than the provinces and it can use and has used its spending power to affect the ability of families to afford early childhood education and care services.

It is worth reviewing the main forms of federal and provincial financial assistance to ECEC, with round figures for the current amounts, and with comments about how we should view each of these measures.

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OUR SCHOOLS/OUR SELVES

- 1.** The provinces and territories do the heavy lifting when it comes to providing financial assistance to early childhood education and care. Together they spend about \$5.5 billion on licensed child care services and about \$5 billion on kindergarten services. Kindergarten services are funded through the school system and are provided free-of-charge to parents generally in local schools. The funding of licensed child care is quite different; licensed child care is a service paid for by parents and sold largely by not-for-profit or for-profit providers. Only a very small percentage of licensed child care services is provided by municipal or other public providers. Some parents are eligible for child care subsidies targeted at low- and middle-income families. These targeted child care subsidies used to be the main form of financial assistance to child-care-using families. However, since the late 1980s, there has been considerable growth of direct funding to support the operations of licensed child care providers, or to supplement the wages of child care workers and improve affordability in those services. Direct operational funding now represents the majority of provincial/territorial dollars for licensed child care, but not in all jurisdictions (not in Alberta, and a data breakdown is not available for Ontario). Most provinces/territories (all except Quebec and Manitoba) now spend more on kindergarten than they do on licensed child care services.
- 2.** The federal government spends about \$180 million annually for child care on First Nations reserves, for military personnel, for federal prisoners and for refugees and some other immigrants. Child care for these groups is in federal jurisdiction.
- 3.** The Child Care Expense Deduction (CCED) is a deduction in the tax system available to reduce the effect of child care expenses as a barrier to labour force entry. This deduction reduces the income on which tax is payable for employed single parents and the lower earner in a two-parent family when both parents are employed. The CCED is not properly thought of as a way of financing child care; instead it is a measure to treat individuals (mostly women) equitably in the tax system. If there were no CCED, mothers wishing to enter the labour force would have to pay for their child

care expenses out of income that had already been taxed (making those child care expenses much more expensive). Since, for these mothers, child care expenses are a legitimate work expense, the dollars that pay for child care should not be taxed. The lost federal revenue due to this deduction is a little bit less than \$1 billion annually. Expenses on child care can be deducted up to a maximum whether they are for licensed or unlicensed care. The maximum amounts of child care expenses claimable have recently been raised to \$8,000 for children 0-6 and \$5,000 for children 7-16 years. The Child Care Expense Deduction also affects provincial income taxes collected outside Quebec; Quebec has its own distinct Tax Credit for Childcare Expenses.

4. The Universal Child Care Benefit (UCCB) currently costs the federal government over \$3 billion each year, and with recent changes (described below), the cost will be \$6.7 billion in 2015-16.¹¹ Despite its name, this benefit is not contingent on the use of any form of child care; it is really a form of family allowance payable to families with children. It would be equally valid (or invalid) to call the Canada Child Tax Benefit a child care measure, because it provides financial assistance to over 80% of families with children. When the UCCB was instituted in 2006, it provided \$1,200 per year to families with children under six years of age; this amount was taxable so the net amount of assistance was less. Recently, the Harper government raised this amount to \$1,920 per year for each child under six, and commenced a payment of \$720 annually for each child 6-17 years of age.
5. Provinces and territories are responsible for legislating employment-protected leave arrangements for family members around the time of childbirth or adoption. The federal government is responsible for legislating and providing financial benefits to support parents in taking leave at this time; it does this through Employment Insurance, which is financially supported through contributions by employers and employees. In Canada outside of Quebec, Employment Insurance will provide up to 15 weeks of maternity benefits for mothers and up to an additional 35 weeks of parental benefits for either parent (or split between them).

Mothers are only eligible if they have 600 or more hours of paid employment that is eligible for Employment Insurance in the last year. Many young mothers without permanent work may be ineligible. Eligible parents will receive 55% of their previous weekly earnings up to about \$50,000 (a maximum weekly payment of about \$525 per week). Self-employed persons are now eligible for benefits in Canada. A small proportion of low-income mothers will be eligible for 80% of their previous weekly earnings. Adoptive parents are also eligible for parental benefits.

- 6.** Maternity and parental leave and benefits are both more generous and more flexible in Quebec. The basic plan in Quebec involves 18 weeks of maternity benefit paying 70% of previous average weekly income and 32 weeks of parental leave (which may be shared between parents). The first seven weeks of parental leave are compensated at 70% of previous average weekly income and the next 25 weeks at 55%, up to a maximum. The special plan in Quebec involves 15 weeks of maternity benefit paying 75% of previous average weekly income and 25 weeks of parental leave (which may be shared between parents) also compensated at 75% of previous average weekly income, up to a maximum. There is no two-week waiting period before benefits start in Quebec. There are also paternity benefits available in a basic plan or special plan and available exclusively to the biological father. The basic plan has five weeks of paternity benefits, compensated at 70% of previous average weekly income. The special plan has three weeks of paternity benefits, compensated at 75% of previous average weekly income. Self-employed income is considered eligible under these Quebec plans. Adoptive parents are eligible for parental benefits in Quebec.

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How should the federal government support the care of young children?

The issue of how governments should support the care of young

children is going to be central in this fall's federal election.

So, this is a very good time to take stock of where we are in relation to early childhood education and care services in Canada, and to determine where we think we should go.

What are the NDP, Liberals and Conservatives offering?

What exactly are the parties promising? Mulcair is promising a permanent role for the federal government in helping the provinces and territories pay for child care. Ottawa would cover 60% of new spending by the provinces to expand regulated child care spaces and make them affordable (no more than \$15 per day or less than \$4,000 per year for a full-time child care spot). Mulcair prefers non-profit child care and the Quebec model of a fixed parental fee, but is willing to let provinces fund for-profit child care and/or a sliding scale of fees if provinces insist.¹²

The plan would be phased in over eight years with 370,000 child care spaces being funded in the next four years at a cost to the federal government of nearly \$1.9 billion per year. By the end of eight years, about one million spaces would be funded by this plan at an annual federal cost of about \$5 billion.¹³

The Liberals have not yet announced a child care policy proposal, but Justin Trudeau has said that that his party is "committed to making sure parents have affordable, quality early learning for their kids, there's no question about it." He has not provided details, but criticized Mulcair for a plan that "benefits wealthy families as much as it benefits those who actually need it."

Trudeau has announced major reforms to child benefits, however. The current system of child benefits comprises the Canada Child Tax Benefit, the National Child Benefit Supplement and the Universal Child Care Benefit. All of these would be rolled into a redesigned child benefit that is geared to family income (giving decreasing benefits to families as income rises to about \$190,000), is especially generous to very low income families, and provides extra assistance if a child is under six years of age.

Harper has already begun to implement his proposals, including them in the recent budget legislation. The heart of these measures is income splitting for families¹⁴ with children under 18 years of age,

something that the Conservatives call the Family Tax Cut. The name suggests an income tax cut for all families, but that is very far from the truth. In fact, the Family Tax Cut chooses a certain set of families to receive a substantial decrease in taxes; two-parent families in which one parent has a high-paying job and the other parent earns very little or stays at home. There has to be a substantial disparity in earnings between the spouses for families to benefit; parents who have similar incomes will already be in the same federal tax bracket, so income-splitting will be of no benefit.

In fact, families who receive the largest amount of tax savings (about \$2,000 per year) are those in which the primary earner earns \$80,000 or more per year and the secondary earner earns less than \$20,000. Families in which the primary earner earns over \$60,000 and the spouse earns less than \$10,000 also receive large tax savings. Over half of the families receiving any benefit from the Conservatives plan have one spouse either not in the labour force or employed part-time.¹⁵

These income tax changes decrease the incentive for the second earner (more often the mother) in a two-parent family to be in the labour force, except perhaps part-time. Income-splitting increases the marginal tax rate of the lower earner, so each hour of employment is less valuable to that person. For families with young children, having one parent stay home with the children may become an attractive option. This is the sense in which Harper's income tax reforms support some options for the care of children and not others.

Income-splitting on its own is so grossly unfair that even the late Finance Minister Jim Flaherty could not stomach it. To meet some of these criticisms, the Conservatives have done several things to sugarcoat what might otherwise be a bitter pill. One change was to put a \$2,000 annual limit on the benefits that high income individuals could receive from income-splitting.

However, the bulk of the value of income-splitting goes to families with a high-income primary earner. There is little here for lower income families, even for those with a parent at home. However an increase in the marvellously-misnamed Universal Child Care Benefit (UCCB) will now provide \$1,920 per year (up from \$1,200) for each child under six years of age and \$720 per year (up from \$0) for each child between 5 and 18 years. Because this benefit (a form of family allowance, really)

is taxable in the hands of the lower earning spouse, families with a spouse at home or employed part-time will get to keep more of the benefit than other families.

A third complementary reform tries to provide some appeal to working families particularly in urban communities where the cost of regulated or unregulated child care can be very high; the Conservatives have made a small increase (\$1,000) in the amount of child care expenses that can be claimed through the Child Care Expense Deduction (CCED). The Child Care Expense Deduction allows the lower earner in a family (the one who triggers the demand for out-of-home child care services) to claim her/his child care expenses as a tax-deductible work-related expense. If there were no deduction, this parent would have to pay both the child care fee and the taxes on the income used to pay the child care fee. By claiming child care expenses as a deduction, she only has to pay the child care expenses, not the taxes on the income as well.

An increase in the Child Care Expense Deduction limits will lower the effective price of regulated and unregulated child care, but only slightly. The maximum annual amount claimable under the CCED was set at \$7,000 for a child zero to six in 1997, while the maximum for a child seven to 14 was \$4,000. Inflation has been over 40% since the time that these limits were set, so the \$1,000 increase is much less than the amount by which child care fees have increased over that period.

Together, these three reforms provide a little bit of extra money for all families with children, but with special preference for affluent two-parent families with a main breadwinning parent and another parent less attached to the labour force. Apart from the minor changes to the Child Care Expense Deduction, all of Harper's family policy reforms decrease the employment incentives for mothers who are the second earners in a family.

Assessing the NDP, Liberal and Conservative proposals

The New Democratic Party

Fifteen dollars per day works out to just less than \$4,000 annually, which is much more affordable than current fee levels. The NDP plans to phase in financial assistance over eight years, and the cancellation

of the Income-Splitting/Family Tax Cut would provide enough revenue to do so in the first term without creating any fiscal problems. The NDP plans to offer provinces and territories 60% of the cost of new spending in order to encourage these jurisdictions to co-operate with Ottawa in providing a substantial number of spaces at \$15 per day. Mulcair indicates sufficient flexibility on program details (auspice of providers, whether a flat fee is charged vs. a sliding scale) that most jurisdictions might well be willing to sign on. On the face of it, the NDP proposals appear to be "do-able".

But the plan is silent on many important details:

1. Will Quebec receive cost-sharing on money that is not "new spending"? Quebec already spends much more per child than other jurisdictions do on child care. Quebec does need more spending on expanded service from Early Childhood Centres (CPEs), and on quality enhancement, but it probably wants some federal money to compensate it for what it already spends. Could this be a deal-breaker for Quebec, or could it be the camel's nose in the tent for other provinces to get cost-sharing of spending that is not "new"?
2. \$15 per day is more than most parents currently on low-income subsidies pay for child care. Does this mean that none of the new spending will be directed towards these families? Many are amongst the lowest income families currently using regulated child care. Many would argue that lower income families should be first in line for assistance with the affordability of early childhood education and care services.
3. The typical cost of child care varies a great deal from province to province. Consider these typical annual fees for full-time regulated care for a two to three year-old child in medium to large size cities from the *2010 Survey of Young Canadians*: \$1,820 in Quebec, \$5,517 in Manitoba, \$7,343 in Saskatchewan, \$7,930 in the Atlantic Region, \$9,445 in Alberta, \$11,012 in Ontario and \$11,709 in BC. If the federal government provides enough money to bring the prices of equal numbers of spaces down to about \$4,000, it will be transferring much more money to BC, Ontario and Alberta than it will to Manitoba, Quebec and the Atlantic Provinces. Partly this is a reflection of lower

costs, but partly it is a reflection of a higher priority on child care policy to lower fees in these provinces. Is this fair? Is this a problem?

4. Will the initial phases of federal government cost-sharing be used to lower the cost of child care for those children who are currently using it? This might be appealing, and certainly current users of regulated child care would form a very strong cheering section in favour of fees reduced to \$15 per day. However, over half of the current users of child care come from the top two income quintiles (top 40% by income) and somewhat less than half come from the bottom 60% of families by income. So, helping the current users of child care means helping more people at the top end than at the bottom end. On top of that, offering cheaper child care to these current users will not bring more parents into the labour force; the large majority of current users are already employed — that's why they are using child care. So, Mulcair's predictions of substantial labour force increases due to more affordable child care are unlikely to come true in the early stages of the program.

5. Will substantial expansion of child care services lower quality? It is unclear how many of the 370,000 spaces in the first four years or 1,000,000 spaces over eight years will be newly created spaces and how many will be existing spaces that are now cheaper for parents. If they are all new, that implies increasing the number of child care spaces by about 100,000 — 125,000 per year. It took Quebec about seven years after the 1997 child care reforms to increase child care spaces by 100,000; that required a very substantial effort. And more than 60% of that increase came in the form of family child care spaces, where providers have very little ECE-specific training. Only about 30% came in the expansion of centre-based not-for-profit spaces that are acknowledged to be of much higher quality than other forms of service. A rapid ramping up of services will be difficult because it requires a rapid ramping up of trained staff. There will be pressure to reduce education and training requirements to meet targets.

The Liberal Party

The Liberal Party does not yet (at the time of writing) have a policy on early childhood education and care that we can assess.

However, Trudeau's proposed Canada Child Benefit is impressive. It would apparently give more assistance to all families with children than they currently receive, and is particularly generous for low-income families where extra money has been found to boost child and family outcomes. All such benefit programs discourage labour force participation of parents, but these reforms have been designed to minimize these negative effects. The Trudeau plan gets a thumbs-up from the Caledon Institute: it has studied child-benefit design for decades.¹⁶

The Conservative Party

There are many issues to raise about the Conservative Party's proposals to help children and families. A number of them have been touched on above.

1. Most economists, including those in the Department of Finance, will tell you that the current tax system is (approximately) fair for single-earner vs. two-earner families. A family with both parents working is *not* as well off as a family with a parent at home if the two families have the same income. These two families should not be taxed the same. But income-splitting is not designed to make the tax system more fair.
2. The objectives of income-splitting are partly political — rewarding high income earners who might return the favour electorally. At another level, the objective is to reward families that are closer to the "traditional family" ideal—families who care for their own children at home. This is the sense in which the Family Tax Cut is a type of child care reform, as much as tax reform. Income-splitting increases the taxation on the first dollars that the second earner earns in the labour force. Instead of being taxed at a rate of 0% on her first \$11,000 of earnings and 15% on the next \$33,000 or so, she will be taxed at the same rate as her husband (which might be 22% or 26% or 29% on

her first dollar of earnings). Families therefore have incentives when children are young to have one parent stay at home as a free source of child care and household work, while the other parent does all or most of the paid employment.

3. The Universal Child Care Benefit is only a “child care” benefit in the sense that it was initiated by the Conservative government in 2006 as an alternative to the National Child Care Plan which Paul Martin was creating through federal-provincial agreements. There is no requirement that families spend the money on formal or informal child care or even that they spend it on children. It is a family allowance payment to families with children on the understanding that families with children may have higher necessary expenditures than families without children. Some families will spend the money paying for child care. The way that this benefit is taxed ensures that “traditional families” will get to keep more of it than other families will.

4. The Child Care Expense Deduction (CCED) is a sensible way to improve horizontal equity in taxation between those families who purchase child care services and those that provide their own child care. To do this, the CCED should set maximum amounts claimable that are equal to the full cost of child care of reasonable quality. The limit of \$7,000 for children less than seven years of age is completely inadequate in many provinces, imposing a tax penalty on the lower earner in a family who needs to purchase child care. The \$1,000 increase in maximum amounts claimable is only a small step towards the appropriate deductible amount for many families.

So, the differences between the policies of the major parties on early childhood education and care are dramatic. The NDP apparently sees the increase of employment in two-earner and lone-parent families as a continuing and desirable trend. Government policy should, therefore, be directed to making it possible for families to afford good quality non-parental child care in combination with parental employment. The apparent intent is to provide positive experiences for children and enhanced incomes for parents.

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The Conservative party apparently believes the stick has been bent too far towards employment of parents with young children. It is changing the tax system so as to reduce the taxes of families in which one parent stays at home with children or in which one parent works part-time to facilitate the care of children. In contrast to the NDP, its assistance to families does not favour the use of regulated early childhood education and care, and provides an increased “family allowance” to all families with children. Both of these policies reduce the incentives towards employment of the main caregiving parent in families with young children.

We do not yet know what proposals the Liberal Party will put forward relating to early childhood education and care. They do, however, favour enhanced child benefits in a form similar to the current Canada Child Tax Benefit.

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ENDNOTES

1 Table 9, page 63, Early Childhood Education and Care in Canada 2012, Childcare Resource and Research Unit.

2 The Early Childhood Education Report 2014 finds that 58% of Canadian 2-4 year-olds are regularly attending an ECE program including regulated child care, kindergarten and junior kindergarten or prekindergarten (see Figure 3.3).

3 Health and Welfare Canada, National Day Care Information Centre, Social Sciences Programs Branch, Status of Day Care in Canada, 1973-1986.

4 As of January 1, 2016, Quebec will have a sliding scale of fees with families up to \$55,000 of income paying \$7.30 per day per child and those with higher incomes paying more. Above \$150,000 of family income, the maximum price per child per day will become \$20 per day.

5 See page 57 of M. Friendly, S. Halfon, J. Beach and B. Forer (2013) *Early Childhood Education and Care in Canada 2012*, Toronto: Childcare Resource and Research Unit

6 David MacDonald and Martha Friendly (2014) *The Parent Trap: Child Care Fees in Canada's Big Cities*, Ottawa: Canadian Centre for Policy Alternatives.

7 See E. Akbari, and K. McCuaig (2014) *Early Childhood Education Report 2014*, Toronto: Ontario Institute for Studies in Education.

8 This article provides a brief overview with many important details suppressed for lack of space. For a fuller description of the details of ECEC provision and financing, see M. Friendly, S. Halfon, J. Beach and B. Forer (2013) *Early Childhood Education and Care in Canada 2012*, Toronto: Childcare Resource and Research Unit or E. Akbari, and K. McCuaig (2014) *Early Childhood Education Report 2014*, Toronto: Ontario Institute for Studies in Education.

9 G. Cleveland and S. Colley (2013) "Integration of Child Care and Education in Canada: A Comparison with Sweden, New Zealand, England and Wales" *International Journal of Early Childhood* 42(2): 167-189. Special Issue: National Policies In A Globalised World.

10 E. Akbari, and K. McCuaig (2014) *Early Childhood Education Report 2014*, Toronto: Ontario Institute for Studies in Education.

11 Estimates from Office of the Parliamentary Budget Office (2015) *How Much Does the Federal Government Spend on Child Care and Who Benefits?* Government of Canada. Prepared by Carleigh Malanik.

12 Most of the information in this paragraph is from John Geddes (2014) "Doing the Math on Thomas Mulcair's Daycare Plan". *Macleans* October 14, 2014.

13 Canadian Press (2014) "NDP Proposes National \$15-a-day Child Care Program", Global News web site, October 14, 2014.

14 For a review of the effects of the particular form of income-splitting reform being implemented by the Harper Government see Office of the Parliamentary Budget Office (2015) *The Family Tax Cut*, Ottawa: Government of Canada. March 17, 2015, prepared by: Tim Scholz and Trevor Shaw.

15 See Table 2-1, Office of the Parliamentary Budget Office (2015) *The Family Tax Cut*, Ottawa: Government of Canada. March 17, 2015, prepared by: Tim Scholz and Trevor Shaw.

16 Ken Battle and Sherri Torjmann (2015) *Liberal child-benefit plan makes a lot of sense*.