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A Child Care Win-Win Quebec's low-fee child care programme

Beginning in 1997, the Quebec provincial government adopted an ambitious set of family policies. The main innovation was a universal low-fee child care programme for preschool-age children. This new child care system replaced the traditional one, in which parents normally pay the full cost of child care, but have access to income tax deductions and/or credits. The Quebec programme is unique in Canada. In all other provinces child care has continued to operate in the traditional way.

Inspired by similar programmes in Scandinavia, the Quebec programme was started by the provincial government in September 1997. At that time it cost parents \$5 per day, and was targeted at four-year-olds. Simultaneously, full-time kindergarten was extended to all five-year-olds, and before- and after-class daycare was made available in elementary schools. The \$5-per-day child care programme was then progressively extended to younger children, and was finally opened to all preschool-age children in September 2000.

The daily fee was later raised to \$7 in January 2004, and to \$7.30 in September 2014. In April 2015, the provincial government introduced a set of amendments whose main purpose was to index the daily fee to the cost of living, and to increase it with income. The \$7.30 fee was maintained for annual family incomes below \$50,000, and was

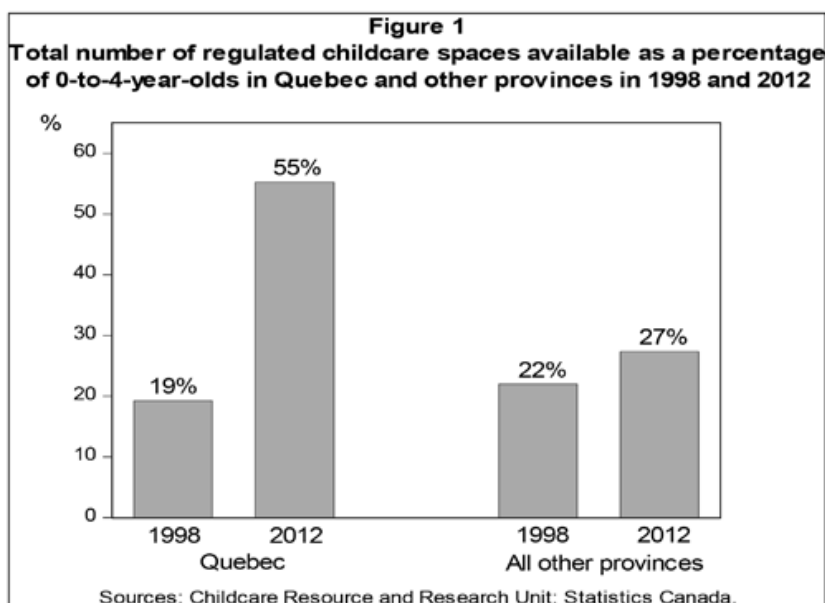
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increased by steps to \$20 for incomes above \$155,000.

The Quebec system is currently run through four types of regulated facilities offering some 280,000 spaces *in toto*. Three of these types are subsidized and charge the low fee: early childhood centres (CPE) (32% of spaces), family-based services (33%), and privately-owned services (16%). The fourth type are privately-owned facilities that are not subsidized and where parents pay the full cost of child care (19% of spaces). Parents of all four types have access to the federal income tax deduction. Additionally, a provincial refundable tax credit is available to parents using the fourth, not-subsidized, type of child care.

At \$2.4bn in 2014-15, the cost of the low-fee child care programme to the Quebec government — including infrastructure development — represented 0.6% of the province's 2014 GDP.

Figure 1 shows that, over the past 15 years, there has been a spectacular rise in the proportion of Quebec children aged four and under attending regulated child care. That jump was from 19% in 1998 to 55% in 2012. Elsewhere in Canada, the attendance rate for children under five in regulated child care in 2012 was 27%. Figure 2 demonstrates that Quebec was able to achieve a reasonably good balance of families from high- and low-income classes using subsidized care.



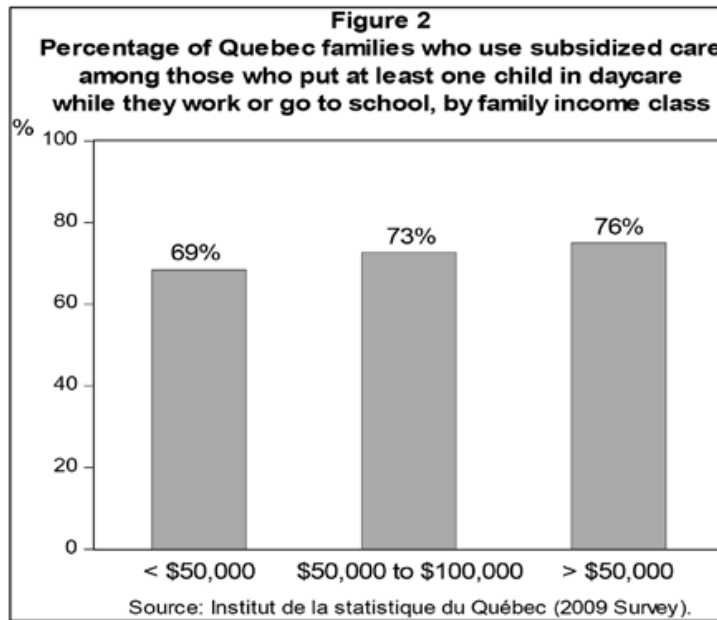
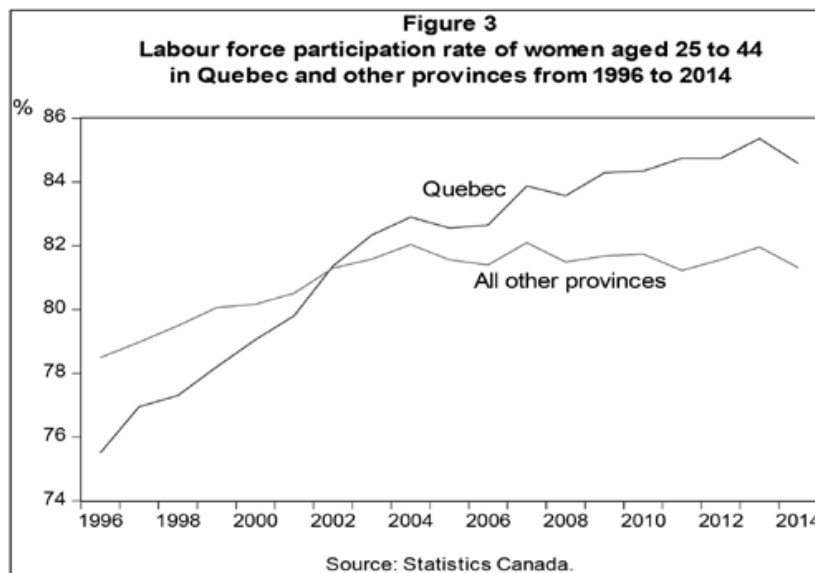
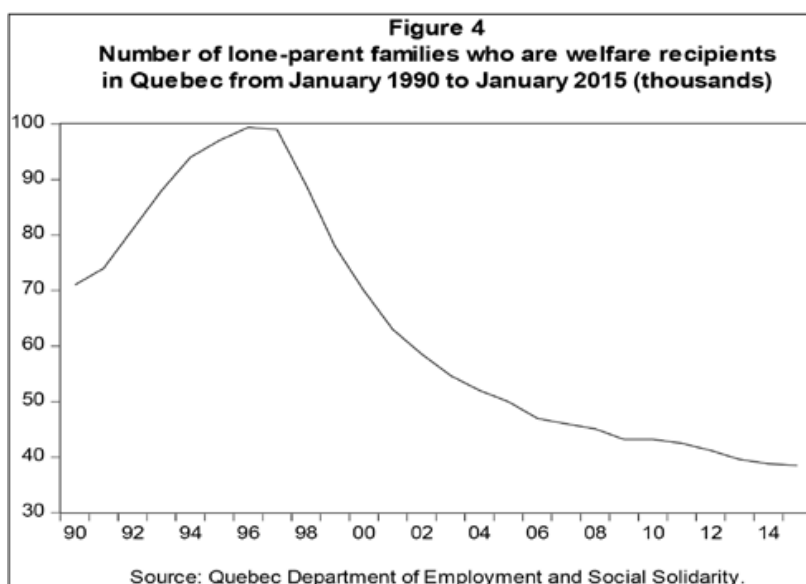


Figure 3 gives a rough indication that the impact of Quebec’s family policy on the labour force participation of mothers has been substantial. The overall participation rate of women aged 25 to 44 went from three percentage points lower than the national average (excluding Quebec) in 1996 to three points higher than average in 2014. Furthermore, Figure 4 indicates that the number of lone-parent families on Quebec social assistance has declined by 60% from 1996 to 2015 — from 99,000 to 39,000.



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The sharp increase in labour force participation among young women and decrease in the number of lone-parent families on social assistance in Quebec are macroeconomic phenomena that are consistent with the new child care system having positive impacts on mothers' presence in the labour market and the financial autonomy of families. But they do not constitute definitive evidence that it has been the only, or even the major, cause these developments. Other events marked the 1996-2006 period and likely played a role, such as the Employment Insurance Act of 1996, the reform of social assistance in several provinces, enhanced parental leaves, the Canadian Child Tax Benefit, or the oil boom in Eastern and Western Canada.

This consideration led researchers to try a different, microeconomic, route to disentangling causes and effects. Viewed as a 'natural experiment', Quebec's child care reform provided them with a great opportunity to get a reliable estimate of the impact of this type of policy on mothers' labour force participation. The key was to use various longitudinal surveys conducted by Statistics Canada on the behaviour of tens of thousands of individual Canadian mothers over time. So far, two teams of researchers have published research in major scientific journals. One team included three researchers from the University of Toronto, the Massachusetts Institute of Technology (MIT) and the University of British Columbia (UBC). The other team came from the University of Quebec at Montreal (UQAM).

One crucial piece of evidence reported by the UQAM team has been that the use of low-fee child care when a child is of preschool age raises the mother's employment rate not only during this early period of the child's life but also later, once the child has entered school. In other words, the programme's impact on mother participation in the labour force is not only static, but also has a dynamic extension: it persists over the long term.

Tallying up and extending the consistent results of the Toronto-MIT-UBC and UQAM teams, a third group, including myself at UQAM and colleagues from the University of Sherbrooke, calculated that, in 2008, Quebec's low-fee child care programme was responsible for about 70,000 more mothers being in work. This means that there were 3.8% more employed women in that year than if the programme had not existed — a large impact by any standard. The long-term increase in provincial GDP resulting from this induced increase in employment would be of the order of 1.7%.

Our UQAM-Sherbrooke team also assessed the impact of the new Quebec child care programme on the combined fiscal balance of the federal and provincial governments. The table below summarizes our results.

Annual gain in fiscal revenue and cost to the federal and provincial governments in 2008 from replacing the traditional childcare system by the \$7-per-day programme in Quebec (millions of dollars)

	Provincial government	Federal government	Total
Gain in fiscal revenue	\$1,450m	\$650m	\$2,150m
Minus: Cost	\$1,250m	\$0	\$1,250m
Equals: Net benefit	\$250m	\$650m	\$900m

Source: Fortin, Godbout and St-Cerny (2013).

We estimated that, in 2008, the replacement of the traditional child care system by the new low-fee programme was making fiscal revenue (including consumption as well as income taxes, and net of tax expenditures and family transfers) larger by about \$2,150m, while the additional cost of subsidies was \$1,250m. The combined fiscal balance of the two levels of government was thus made \$900m larger. On net, the provincial government got \$250, and the federal government, which had nothing at all to pay out, pocketed \$650. An equivalent way

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of putting this is that each \$100 of additional child care subsidy paid out by the provincial government generated a net return of \$75 for the two levels of government (since $900/1,200 = 0.75$), with \$55 going to the federal government and \$20 to the provincial government. The 2015 situation would be an expanded version of 2008 with some minor adjustments.

Put succinctly, the new low-fee child care system is more than paying for itself. Even if it is a costly programme on surface, it does not require the government to increase taxes. On the contrary, thanks to increased employment and economic activity, it generates a fiscal surplus that can be used for tax reduction, increased spending (in healthcare, education, other social programs, etc.), or both. Furthermore, the fact that the federal government gets so much out of this provincial programme implies that a federal contribution to low-fee child care programmes in participating provinces — as the federal New Democratic Party has recently proposed — would be on sound financial footing.

It is in itself interesting and reassuring that Quebec's low-fee child care programme is financially 'profitable' for both the provincial and federal levels of government. However, we ought to remember that what we really want is better child development, a better balance between work and family for parents, and greater long-term financial autonomy for women. Making governments richer is not an objective of child care policy. It is neither a necessary nor a sufficient condition for a programme to qualify as a 'good' one. But the financial success of the Quebec experiment may in the future help convince not only ministers of labour and the family, but also ministers of finance, that a low-fee child care programme is a good idea.

At the same time it needs to be recognised that the rapid growth of the Quebec programme has given rise to a number of challenges. Above all, the demand for subsidized spaces still considerably exceeds the supply. Moreover, the development of new facilities, space assignment rules, the flexibility of operating hours, the quality of educational services (particularly for children from low-income backgrounds), short- and long-term effects on child development, the rate of investment in staff training, and the universal nature of the programme are regular topics of debate. But all that said, it is extremely popular with young families of all incomes and is definitely here to

stay. Many of its problems must indeed be viewed as challenges to be met rather than as threats to the programme's survival.

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