
Critique: Liberal Party's Childcare Strategy

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Introduction

Childcare is a controversial area of Canadian policy that became a popular topic of debate in the last federal election. There are very divergent views between Canadians about not only the state of childcare in Canada, but also what the government's role in childcare should be. This paper will look first at the economic problem created by inadequate childcare. Next, the potential market failures that may arise in the private childcare market will be addressed, helping in part to justify some level of government involvement.

The second part of the paper will be devoted to a critical assessment of the Liberal Party's proposals for childcare. In sum, the Liberal proposal of a national childcare plan cannot be justified on the grounds that it is not universally accessible, does not adequately create spaces for children in the greatest need, and does not provide a significant enough increase in marginal benefit compared with the increase in marginal cost for a large enough number of Canadians to justify its implementation.

Finally, the conclusion addresses possible changes to the Liberal policy that would more adequately address the stated goals of the Liberal policy, while at the same time be more beneficial to the majority of Canadians.

Defining the Economic Problem

There is a growing body of literature stressing the importance of quality childcare during a child's early years as crucial for proper development (Lefebvre and Merrigan 2002). Poor quality childcare puts a child at

a disadvantage starting primary school. If this disadvantage is severe and on a large enough scale, both a social and economic problem are likely to result. First, disadvantaged children are likely to earn a substandard education and consequently have less chance of becoming productive members of the workforce (earning a lower income and hence creating a lower tax base for the government to draw from). Secondly, individuals with a lower standard of living create a higher cost to the government in terms of health, crime and social assistance, taking scarce government funds away from the highest valued alternative.

Sources of Market Failure

There are two sources of market failure that prevent the private childcare market from reaching an efficient solution. One source of market failure has to do specifically with the child. This is because there is a social interest and benefit in the decision on childcare beyond the private interest of the parent (Cleveland and Krashinsky, 1998). Adequate childcare can be provided at home by parents, relatives or babysitters, as well as through private daycare. The majority of parents will be able to reach a satisfactory solution in the private market. However, some parents for various reasons will not be able to pay for, or provide, adequate care to meet the social optimum. In these cases, the parents' willingness to pay is below the cost of the quality of childcare society believes the child should receive, creating an inefficient outcome. If current governments do not address this market failure, future governments will be forced to deal with the

higher social costs of this group, in turn putting a strain on government resources.

The other source of market failure in the private childcare market arises because the effects of taxes on earnings distort parents' decisions on childcare arrangements. If parent provided childcare at home is not taxed, but parents paying for childcare outside the home pay out of after-tax income, an incentive can be created for one parent to stay at home (Vincent and Whoolley, 2000). Additionally, a single parent could face a similar situation and decide that it is more economical to live on social assistance and provide childcare at home, rather than stay in the workforce and pay for care. In both of these cases, tax effects reduce both the number of individuals in the labour force and family income. This outcome left unsolved is detrimental to families and creates a higher social cost for government, justifying once again some method or level of government involvement to smooth out these adverse incentive effects.

Grounds for Government Intervention

The primary basis for government intervention in the childcare market stems from one of the basic duties of government; to help those who cannot help themselves. There is a standard of quality of childcare that Canadians expect each child should receive, irrespective of a parent's ability, or willingness to provide that level of quality. Helping to correct the first type of market failure discussed through government financing or provision of childcare spaces, is a socially agreed upon action the government should take. Doing so helps to reduce inequality and give disadvantaged children an opportunity to head into primary school on equal footing. Further, the government also has a role in reducing the perverse incentive effects of taxation on

personal income, which can be an obstacle for parents trying to reach efficient childcare solutions in the private market.

Until recently, the major financial support for childcare in most of Canada was a childcare subsidy to low-income parents, as well as the Childcare Expense Deduction which allows parents to pay for their preschool-aged children's childcare costs with pre-tax dollars, up to \$7000 annually for each child. Both childcare support schemes are contingent on both parents working (Cleveland and Krashinsky, 2004). These two policies are an attempt by government to respond to the two market failures discussed in the previous section.

Recently, there has been a much more ambitious change in government policy. Before the last federal election, the minority Liberal government agreed to a deal with the provinces to begin a national childcare program. During the election campaign, the policy proposal put forth by the Liberals concerning childcare expanded upon their initial national childcare plan, signalling a continued interest in furthering the government's role in Canadian childcare.

Liberal Policy Proposal

The Liberal policy put forth during the election campaign concerning childcare is to continue implementing a government regulated, national childcare program modelled similarly to that of Quebec's provincial program. The proposal is to extend the childcare deal already signed in principle with the provinces through 2015, spending eleven billion dollars over ten years in the hopes of creating 600 000 new childcare spaces. Essentially, the goals of the Liberal proposal are to ensure improved accessibility and universal inclusiveness to quality childcare. Therefore, reducing inequality is the driving force behind a national daycare strategy. In order to be judged successful this program must create

opportunities for higher quality childcare for disadvantaged children, who given their current private market solution stand to receive the greatest additional marginal benefit.

On the surface, the Liberal proposal will give more parents the opportunity to enrol their children in quality daycare. However, despite the high cost of the program, it is far from universally accessible. If the national childcare plan is modelled after Quebec's provincial daycare plan, it will be heavily subsidised (approximately eighty percent), with a parental contribution to cover the difference. Despite the fact that the large subsidy will be borne by all taxpayers, access to the program would be restrictive. First of all, due to demographics, even if parents want their children enrolled in the government daycare plan, this may not be feasible. Secondly, the plan does not offer any help to parents that work odd hours, and need care provided at odd business hours.

On top of that, the program offers nothing for parents that take care of their children at home, despite these families being taxed to help pay for the subsidy. The program is very paternalistic in the sense that it only provides funding to government regulated daycare centres, where the Liberals believe adequate quality can be achieved and properly monitored. Focusing childcare policy in this way borders on offensive to stay-at-home parents, since it treats raising your kids at home as an inferior, outdated practice, and not a common enough occurrence in today's world to warrant policy consideration.

Even when compared to private daycare centres, it is unclear government regulated daycare centres will offer a substantial improvement in quality at a reasonable enough cost to enough people to justify the program's existence. For instance, government regulated daycare

centres that cannot go out of business have little incentive to be efficient and cut costs. On the other hand, private firms operating to maximize profits have the incentive to be innovative and cut costs. At the same time, if the quality of care at these centres is not satisfactory (assuming in most cases parents can identify proper care), these firms will be forced from the market. While a certain level of quality may be guaranteed at the regulated daycare centres, because of the lack of efficiency it will likely come at a cost too excessive to most taxpayers, especially those parents who have found adequate care privately without a national childcare plan in place.

However, once a policy advocating childcare provisions as an essentially "free" service is in place, parents will have no way of properly comparing the cost and quality of childcare between the private and public markets, as discussed above. This is the result of there not being a price signal for the true cost of government-regulated care. As a result, the majority of parents would see similar quality in public childcare, but not recognize the true cost and will overestimate the benefits of public childcare. Consequently, parents would use the public program, despite the fact that had the proper signal been in place, a private market solution would have been preferred and optimal.

Despite these problems, the most significant drawback of the Liberal strategy is that despite all the new childcare spaces that will be created, nothing has been mentioned about reserving any spaces for children of parents who could not afford proper care under a free market system. As already mentioned, the primary purpose of the Liberals' national daycare strategy was to reduce inequality. However, as Quebec's experience with public daycare has shown, government regulated daycare centres create long waiting lists because of the excess

demand for heavily subsidised spaces. Importantly, these waiting lists are ordered simply by who applies first, regardless of need. As a result, a situation is likely to arise where middle-income parents who could afford adequate childcare in the private market, apply first and take up spaces. Meanwhile, disadvantaged children in improper private care are stuck on waiting lists with their parents forced to buy care in the private market, until a space opens up.

Data reveals this possibility has begun to take place in Quebec. When comparing children from parents with different income levels, a study revealed that fifty-eight percent of children in subsidized daycare are children with parents that have income over \$60 000, while making up only forty-nine percent of children in Quebec. Conversely, eighteen percent of children in subsidised care are those whose parents' income is below \$40 000, despite representing twenty-six percent of all children in Quebec (Lefebvre, 2004).

Therefore, it is clear that childcare policy designed in this way is inherently flawed. Basically, the Liberals would be creating a high-cost government program used primarily by families that can reach an adequate care solution in the private market. Hence, the added extra marginal benefit of the program in these cases will be minimal compared to the added marginal social cost. Disadvantaged children, who would receive significant extra marginal benefit from the government-provided care (which was the justification in the first place), are not getting spaces. Judging by these results, a Liberal policy devised in a similar way would first of all create an added social cost that at the margin exceeds social benefit, and secondly, in contrast to the stated goals of the policy could actually induce increased inequality rather than serve to reduce it.

Beyond the potential structural problems of the Liberals' childcare policy, it

is also important to look at the timing of when the Liberals decided to start implementing their national childcare strategy. Despite plans for a national daycare program from as far back as 1993, it took a minority government on the verge of collapse to agree to implement the program. If the Liberals were truly confident that their daycare plan would be beneficial to everyone, then they should not have needed to be pressured into implementing the program. Further, if the Liberals were sure that the gains of the program far exceeded the costs to the majority of Canadians, then the decision should have been made to make the program truly universal, perhaps starting kindergarten at an earlier age, instead of creating a program that leaves some children out. The fact that they have not done this suggests the Liberals are aware of the policy design flaws, or that there is simply not enough public support at present for a national childcare program.

Either way, the timing of the approval of the national childcare plan suggests that the real motivation behind its implementation was political. The concern for the Liberals around election time was to put forward a platform that was as politically centred as possible, while at the same time differentiating themselves from the Conservatives. The result is a costly program that tries to appeal to the middle-class vote, but does not adequately address the real policy issue of improving childcare for disadvantaged children.

Conclusion

Imperfections in the childcare market provide reasonable grounds for government intervention. However, the Liberal national childcare proposal, while appearing to be socially beneficial, will actually, in practice, provide an inadequate response to market failure if modelled after Quebec's program.

Instead, a potential Pareto-improvement could be achieved by using a combination of the Conservative proposal, and a smaller scale, but more focused version of the Liberal childcare proposal. First, it would be more optimal and efficient to create a substantially smaller government-run program specifically focused on creating spaces for children whose parents cannot reach an adequate childcare solution in the private market. These cases are the only ones that truly justify the added cost of government-regulated care because of the high additional marginal benefit. Focusing policy in this way creates the potential for a Pareto-improvement compared to the Liberal plan, in that it actually creates spaces for those in need, while coming at a substantially smaller cost to taxpayers.

For those families that can reach a private market solution and would not

benefit substantially from government-regulated care, an allowance (similar to that proposed by the Conservatives) could be more beneficial in the sense that it can be granted universally to all parents, regardless of their choice of care, which recognizes consumer sovereignty. Instead of being forced to pay for a restrictive national program, an allowance would give parents a choice on the most optimal use of childcare money.

While this is a simplified counter proposal to the Liberals, it does show there is a potentially more socially beneficial outcome for all children from various family backgrounds, which avoids large-scale government involvement in the childcare market as espoused in the Liberal strategy.

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