

Intelligence MEMOS



From: Janice MacKinnon and Alexandre Laurin
To: Canadians Concerned About Childcare
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Re: PAYMENTS TO PARENTS: THE BETTER CHILDCARE ANSWER

Providing parents with funding to access childcare has many advantages over a universal, government-run childcare system: the ability to link benefits to income, more inclusive access, simplicity and uniformity across Canada and affordability. As an example, one of the country's most successful social programs, the Canada Child Benefit, which has been instrumental in reducing child poverty, provides benefits directly to parents.

Paying parents directly allows the government to link benefits to income so that those who struggle most to afford childcare get the greatest support. A universal program provides the same benefits to wealthy and poor parents; should Canadian taxpayers be providing sizable subsidies for daycare to wealthy parents? Is it not fairer to link the size of the benefit to income?

Also, experience shows that universal programs lead to wait times for care. Canada's medicare, when compared to health programs in comparable countries, has longer wait times. Similarly, Quebec's universal childcare program has long waiting lists and often upper-income parents are better at accessing limited spaces.

More inclusive options for childcare can result from direct payments to parents. Childcare advocates support a not-for-profit or public daycare model that works well for 9-to-5 working parents in major urban centres. But what about shift workers, who need childcare from midnight to 8 a.m., or gig workers whose needs vary from day to day or farm families who need seasonal childcare during harvest?

Childcare of this kind is often provided by private operators, typically small female-owned businesses. Paying parents allows parents to choose which kind of care works for them and is more inclusive since funding can be provided for different models of childcare.

Moreover, parental payments for care can be implemented quickly, simply and in a uniform way across Canada. Negotiating a universal model with provinces can produce delays in implementation and significant differences among provinces.

The main advantage of a licensed, government-run childcare system is quality control. However, governments can enforce the quality standards they desire even in a cash-based system. They could mandate providers to meet quality markers to be able to issue receipts eligible for the cash benefit.

The financial hurdle for a parent considering the merits of working versus staying at home to care for young children can be extremely high – especially at lower income levels, where incremental work hours are taxed heavily by the clawbacks of income-tested government benefits.

Mothers, in particular, are hit hard by absence from the workforce and face larger wage penalties the longer they are away from paid work. Subsidizing childcare, whether directly or through cash-based inducements, encourages parents to participate in the workforce, thus boosting the economy through higher household incomes. As an added bonus, the extra income generates increased tax revenues, substantially offsetting the initial cost of the subsidy for governments.

The federal universal plan is budgeted to cost more than \$8 billion annually. Increased tax revenues from greater workforce participation could recover about half of that, leaving a net cost of about \$4 billion for the federal government alone (the provincial net cost would be a bit higher because they would recover less taxes). On the other hand, because the generosity of a cash-based system can be tailored to family income, its cost for governments is much lower.

A 2017 study estimated that replacing the inadequate federal child care expense tax deduction with a generous refundable tax credit, as the Conservatives have proposed, could pay for itself over the long term, especially after adding in the fiscal dividends for the provinces of extra tax revenues at no cost to them. These dividends and cost savings could be used to expand their own licensed childcare systems.

Increasing the supply of childcare will be quicker and more successful if it comes from direct payments to parents, which can easily coexist with subsidized licensed care. It is the same as the Child Benefit, which reduced the number of people on provincial welfare; the agreement was that the provinces would use those savings to enhance other poverty-reduction services.

For those worried about the precarious financial situation of governments post-pandemic, cash-based inducements would be a much more affordable place to start. The impact on lower-income families would be immediate, giving provinces more time to increase their supply of licensed child care as budgetary considerations permit.

In time, a hybrid system of cash-based inducements and subsidized licensed care would leave no parents behind, while giving them more flexible options.

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