



SEE DICK GROW OLD, SEE JANE RETIRE:

Today's Child Care Policy and
Its Impact on Tomorrow's Labour Shortage

Ian Munro



November 2010

Atlantic Institute for Market Studies

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See Jane Retire:
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Its Impact on Tomorrow's Labour
Shortage

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ABOUT THE AUTHOR

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Ian Munro is an independent consultant based in Halifax, Nova Scotia. During his career Ian has worked for the federal government, for consulting firms, and for AIMS as its Director of Research in 2007 and 2008. He holds a B.A. in economics from Mount Allison University, an M.A. in public administration from Carleton University, and an M.A. in economics from Dalhousie University.

While he has worked as an economist and public policy analyst for almost 20 years, Ian does not profess to be an experienced expert in child care policy specifically. His interest in the public policy aspects of child care provision stems from the births of his two sons in 2008 and 2010 (the elder of whom attends a non-profit daycare) and from dinner table discussions with his wife, who is a professor of psychology and an expert in child development. While Ian is grateful for all that he has learned from her on this topic, and also for the comments provided by two anonymous reviewers, the views expressed in this paper are entirely his own, as are all errors and omissions.

Ian hopes that this paper will help other parents, citizens, and taxpayers as they sort through the myriad claims and counter-claims made by politicians and policy advocates of all stripes.

EXECUTIVE SUMMARY

Government support for child care has been a high-profile – and hot-button – issue for decades, and it may remain so in upcoming federal and provincial election campaigns.

As Canada approaches a markedly different, and perhaps daunting, demographic future, child care and early childhood education policies may represent an important means of mitigating the impact of a shrinking labour force and a worsening ratio between working age adults and dependent children and senior citizens.

A substantial body of research indicates that increased access to child care may result in increased labour force participation rates, higher fertility rates, and, in the longer term, improved productivity from workers who benefited from interventions in their early childhood years.

While many of the benefits generated by access to child care are enjoyed directly by the parents and children involved, broader society also enjoys positive externalities in terms of a more productive work force, a larger tax base, and reduced long-term societal costs for welfare, health care, and correctional services when early childhood programs are successful in improving the school-readiness of disadvantaged and at-risk children.

The presence of these externalities provides an economic efficiency argument for public sector support for child care services.

Given the uncertainty about the existence of long-lasting benefits that early childhood services generate for children who are raised in stable and supportive environments, and the general weakness of public sector finances, support targeted to disadvantaged and at-risk children is recommended, rather than a universal approach. This support should be directed to parents in the form of vouchers that are valid for child care providers (including for-profit providers) that are certified as meeting an appropriate standard of quality.

A great deal remains unknown about how to best design and deliver child care and early childhood education, and for that reason diversity and competition should be encouraged, both within communities and across political jurisdictions.

INTRODUCTION

Since Paul Martin was elected in 2004 with Canada's first minority federal government in a generation,¹ general elections have occurred approximately every year-and-a-half. By that standard we are now past due for another election call. When the next campaign does begin, the government's role in providing or supporting child care services is set to become a major issue.

This will not be the first time. Brian Mulroney promised to introduce universal daycare in the 1980s. Jean Chretien's Red Book contained a similar promise in 1993. The daycare issue was central to the 2005/2006 campaign and was pivotal to its outcome (as connoisseurs of beer and popcorn will remember). Earlier this year Liberal leader Michael Ignatieff said that a national early learning and child care program would be the number one social priority of a Liberal government should they win the next election.

The child care issue also looms large in provincial politics, as the controversy over the plans of the Government of Ontario to introduce all-day kindergarten for four- and five-year-olds demonstrates. Quebec's \$7-per-day daycare program also has drawn substantial attention across the country since its inception (originally at \$5-per-day) in 1997. In New Brunswick, a recent report by an advocacy group called for universal child care to be a key issue in the provincial election held on September 27, 2010.²

Most Canadian adults either have children or expect to have them in the future. Furthermore, even those who do not have children and never plan to have any have a substantial stake in child care policy given the tax dollars that could be involved and the societal benefits that may be generated. Child care issues are, or at some point will be, of significant interest to most Canadians.

Recent work on labour market policy published by AIMS has predicted a looming labour shortage for Canada, with Atlantic Canada to be affected most severely.³ These papers argue that in order for our standard of living to be maintained, the predicted decrease in the number of workers must be offset through, among other means, increased participation among groups currently under-represented in the labour market and increased productivity for the smaller number of future workers who will be in the labour force.

Child care and early childhood education policies could play significant roles in both these means of addressing the impact of a shrinking labour force. Increased access to child care would allow more parents of young children (especially women) to participate in the labour force. Early childhood education programs that are able to better prepare children for success in their school years would lead to a better skilled, and thus more productive, workforce when these children eventually graduate and enter the labour market.

The goal of this paper is to assess how child care and early childhood education policies may help to mitigate the impact of future labour shortages.

¹ Joe Clark's Progressive Conservatives won a minority government in 1979.

² See: <http://license.icopyright.net/user/viewFreeUse.act?fuid=ODYxMjY3MA>.

³ See: <http://www.aims.ca/en/home/issues/labourmarket.aspx>.

BACKGROUND

A Brief History

A very useful discussion of the history of government involvement in child care services is provided in a 2003 report by the OECD.⁴ Highlights are summarized here.

Government involvement in child care was minimal until 1942 when the *Dominion-Provincial War-Time Agreement* was established to provide 50% federal cost-sharing for child care programs that would be used by mothers working in essential war-time industries. Ontario and Quebec signed onto the program, but it was wound down after the end of World War Two in 1945 when Canada's service men returned and women were no longer deemed to be essential workers.

From the end of the war until the late 1970s, the working-father-plus-stay-at-home-mother was by far the most common family model. The role of government in child care provision was limited essentially to the (provincial) licensing of daycare providers and targeted child care subsidization to allow poor mothers to participate in the work force. Kindergarten (for five-year olds), and in some cases junior kindergarten (for four-year olds), also were introduced as part of the public school system in most jurisdictions beginning in the 1950s. In 1972 the Child Care Expense Deduction was introduced to the income tax system.

Beginning in the 1980s, the labour force participation rate of mothers with young children grew steadily and by the mid 1980s public support for broader government support for child care services had grown. By 2002 a Canada-wide survey found that 90% of respondents agreed or strongly agreed that there was a need for government to ensure that all Canadians have access to quality child care.⁵

From the mid 1980s to the mid 1990s three different attempts by federal governments to develop a national child care strategy came to naught. However, in 1997 (the same year that Quebec introduced full-day kindergarten and \$5-per-day-daycare), 2000, and 2003, federal-provincial agreements were signed that provided federal funds to the provinces for the purposes of improving and expanding access by families with children under age six to services that promote healthy pregnancy, birth, and infancy, and to early childhood development, learning, and care. Specific agreements with each province and territory – totalling approximately \$5 billion over five years – were signed throughout 2005.

These agreements, negotiated by Ken Dryden on behalf of Paul Martin's Liberal government, were wound down by the new Conservative government of Stephen Harper after its election in January 2006 and replaced with a (taxable) payment to parents of \$100 a month for each child under age six, a \$2000 per child tax deduction, and a much smaller federal transfer (\$250 million per year) to the provinces to support the creation of regulated child care spaces.

⁴ Doherty, Gillian, Martha Friendly, and Jane Beach, *OECD Thematic Review of Early Childhood Education and Care: Canadian Background Report*, Organisation for Economic Co-operation and Development, 2003, pp. 20-29, <http://www.oecd.org/dataoecd/41/36/33852192.pdf>.

⁵ Note, however, that the OECD report does not provide details on the specific survey questions and methodologies and therefore one cannot determine what, if any, biases may have been imparted to the survey respondents. It is often easy to find support for a policy in a public opinion poll when the matter of *paying* for that policy is not also raised.

The Political and Institutional Context

Aside from a few specific groups – Aboriginal people, military families, new immigrants and refugees – the federal government has no responsibility for delivering child care and early childhood education services. However, as discussed above, the federal government does provide funding in support of these services. To the extent that the public sector is involved in child care provision, it is the provinces (and territories) that are generally responsible for these programs, although in some cases a province may delegate powers and responsibilities to municipalities, school boards, or other subordinate bodies. As Doherty et al note, “Each [province or territory] has a program for child care that includes a system of regulation, child care policies, procedures for fee subsidization for certain families, and, in most cases, a mechanism to provide regulated settings with some operating funds through a system of grants. Each jurisdiction, with the exception of Prince Edward Island where child care and kindergarten are part of the same program, also has a separate program of public kindergarten.”⁶

Child Care by the Numbers

The use of child care services in Canada has been on the rise for many years, coincident with such trends as the increasing levels of labour force participation by women, the increasing prevalence of single-parent families, and the increasing commonness of non-traditional work hours.⁷

Statistics Canada’s most recent comprehensive report on child care in Canada,⁸ released in 2006, reports the following (data are for 2002-2003 unless specified otherwise):

- From 1976 to 2003, the percentage of women aged 25 to 54 who were employed rose from just under 50% to close to 80% and the percentage of women with a youngest child under age 6 who were employed rose from just over 30% to almost 70%.
- In 2002-2003, about 54% of Canadian children aged six months to five years were in some type of non-parental child care, up from 42% in 1994-95.
- In 2002-2003, daycare centres, care outside the home by a non-relative, and care by a relative either inside or outside the home each accounted for roughly 30% of all children in child care. The remaining 10% consisted of nanny-care in the home, nursery schools, and other forms of care.
- The higher the level of parental income, the greater the likelihood that a child was in non-parental care.
- The proportion of children receiving non-parental care was greater in single-parent families than in two-parent families.
- On average, children spent approximately 29 hours per week in non-parental care, and 52% of children were in non-parental care for 30 or more hours per week, (which Statistics Canada defines as “full-time” in its Labour Force Survey).
- For children whose main source of care was outside the home with a non-relative, 39% were in licensed care; the percentage of children in licensed care was only 7% when the care was provided outside the home by a relative.
- Multiple care arrangements were used by 27% of children.
- Of all Canadian households with at least one child aged five or younger, 61% reported child care expenditures in the 2002 Survey of Household Spending, with an average of approximately \$2,500 per household.

⁶ Doherty et al, p. 22.

⁷ Doherty et al, p. 18.

⁸ Bushnik, Tracy, *Child Care in Canada*, Statistics Canada, 2006, <http://www.statcan.gc.ca/pub/89-599-m/89-599-m2006003-eng.pdf>.

ARGUMENTS FOR STATE INVOLVEMENT IN THE PROVISION OF CHILD CARE SERVICES

Child Care in the Context of Demographic Change

Over the past decade AIMS has written extensively on the demographic changes that are taking place in Canada and has warned of a looming labour shortage (particularly in Atlantic Canada) as birth rates remain low, as the Baby Boom generation retires, and as the societal ratio of productive workers to dependants (children and the elderly) falls substantially.⁹

Broadly speaking there are three ways to avoid a drop in the standard of living in the face of such demographic realignment: 1) increase the population through a higher birth rate and/or increased immigration (provided that these immigrants tend to be productive workers rather than, say, retirees); 2) increase the labour force participation rate; and 3) improve the productivity of the work force.

Child care policies potentially present one means of advancing on all three of these fronts (although in some cases the labour force impact will not be felt for a generation).

First, raising a child is an expensive proposition and the cost of an in-house nanny or a space at a child care facility outside the home (or the foregone income of a parent who chooses to stay at home) is substantial. Many families may choose to have fewer children than they otherwise would as a result of these costs. Empirical research has shown that if child care is made less costly and more easily accessible, higher birth rates tend to ensue.^{10, 11}

Second, increased access¹² to child care also would allow more parents of young children (especially women) to resume their participation in the labour force. For those parents already working part-time, access to child care would allow them to increase the number of hours worked.¹³ A study by Statistics Canada reports that in 2006 66% of women with children under age six were employed, versus 77% of all women aged 25 to 54, and that 15% of women who work part-time do so, rather than working full-time, because of child care responsibilities (as do 3% of male part-time workers).¹⁴ Baker, Gruber, and Milligan examined Quebec's universal subsidized child care program and found that the introduction of this program resulted in a strongly significant impact on the labour supply.¹⁵

⁹ See, for example, AIMS' latest publications in this area, *An Economic Future with Smaller Numbers: The Population and Labour Force Outlook for the Atlantic Region* (<http://www.aims.ca/library/PopulationOutlook.pdf>) and *The Developing Workforce Problem: Confronting Canadian Labour Shortages in the Coming Decades* (<http://www.aims.ca/library/WorkforceProblem.pdf>).

¹⁰ Kevin Daly, *Gender Inequality, Growth and Global Ageing*, Global Economics Paper No.: 154, Goldman Sachs, 2007, <http://www.ftd.de/wirtschaftswunder/resserver.php?blogId=10&resource=globalpaper154.pdf>.

¹¹ Eva Mörk, Anna Sjögren, and Helena Svaleryd, "Cheaper Child Care, More Children," Institute for the Study of Labor, January 2009, <http://www.operationspaix.net/sites/politiquessociales.net/IMG/pdf/dp3942.pdf>.

¹² "Increased access to child care" generally may be taken to mean "less costly" child care, although in some cases parents who face no financial impediment to acquiring child care still find themselves on lengthy waiting lists.

¹³ The future productivity of these individuals also would be enhanced as the shorter and shallower the absence from the labour force, the less that skills development and human capital formation are degraded or delayed.

¹⁴ Statistics Canada, *Women in Canada: Work Chapter Updates – 2006*, 2007, pp. 7-8, <http://www.statcan.gc.ca/pub/89f0133x/89f0133x2006000-eng.pdf>.

¹⁵ "Universal Childcare, Maternal Labor Supply and Family Well-Being," Michael Baker, Jonathan Gruber, and Kevin Milligan, National Bureau of Economic Research, Working Paper No. 11832, 2005, <http://papers.nber.org/papers/w11832>.

Third, early childhood education (ECE)¹⁶ programs that better prepare children for success in their school years in turn lead to a better skilled, and thus more productive, workforce when these children eventually leave school and enter the labour market. This phenomenon has become better understood as neuroscientists make new discoveries about brain growth and development. As prominent Canadian child care advocate Fraser Mustard states: “Results from developmental neurobiology studies and animal and human studies provide strong evidence that early neurobiological development affects health (physical and mental), behaviour and learning in the later stages of life. Countries that provide quality universal early development programs for families with young children tend to out-perform countries in which the early development programs are chaotic.”¹⁷

Market Failures

Access to child care may generate financial benefits to parents and their children in terms of higher current and future earnings. So if parents and their children benefit directly from the consumption of child care services, why should the government (and taxpayers’ dollars) be involved?

Mainstream economic analysis calls for public sector involvement when a “market failure” occurs.

One example of a market failure is a natural monopoly. Natural monopolies are markets in which scale effects make it inefficient for more than one supplier to be in the marketplace. Water and sewage systems are one example; it would be prohibitively expensive for multiple firms to build out water and sewer infrastructure in a given community. In order to protect consumers from the exercise of the single supplier’s monopoly power, governments tend either to use a public sector entity (e.g., a municipal water utility) to deliver the service or to tightly regulate a private sector supplier (e.g., a regulated private sector water utility).

Another example is a public good, defined as a good which is non-rival in consumption (my consumption of the good or service does not impact your consumption of the same good or service) and for which exclusion is impractical or impossible. Public goods provide each individual with the incentive to free-ride on the actions of others and result in no private party supplying the good or service. A street lamp is a classic example – my enjoyment of the illumination it provides is not diminished by my neighbour’s enjoyment of the same illumination and there is no practical way to prevent me from benefiting from the well-lit street if my neighbour installs the lamp. If my neighbour pays to provide a lamp for our street, I will benefit from the better-lit street at no cost, but my neighbour faces the same incentive to wait for me to pay to have the lamp installed, and thus we both end up waiting in the dark. In this case public provision, financed through compulsory taxation, provides the benefit to all and ensures that all beneficiaries share in the cost as well.

Other categories of market failures include asymmetric information, moral hazard, and high transactions costs.

¹⁶ Early childhood education (ECE) (also referred to as “high quality child care”, “early learning and child care”, or “early childhood education and care”, among other terms) is distinct from the more general “child care” in that the former refers to regulated care for pre-schoolers that is designed to aid children’s social and cognitive development consistent with recommendations from the scientific literature on the subject, whereas the latter *could* mean no more than, for example, a babysitter who parks the child in front of a television all day.

¹⁷ “Early brain development and human development,” Fraser Mustard, in: Tremblay RE, Barr RG, Peters RDeV, Boivin M, eds. *Encyclopedia on Early Childhood Development* [online]. Montreal, Quebec: Centre of Excellence for Early Childhood Development; 2010:1-5, <http://www.child-encyclopedia.com/documents/MustardANGxp.pdf>.

The market failure of particular relevance to government support for child care services is externalities, which exist when the private transaction between parties A and B has an effect – which could be positive or negative – on party C. Pollution is an example of a negative externality: if household A consumes goods produced in factory B, household C situated next door to the factory may be subject to noise, smoke, and other forms of pollution without enjoying any of the benefits of the goods produced by B and consumed by A. Without taking into account the costs imposed on party C, an economically inefficient level of the good will be produced and consumed.

My reduced risk of being infected with influenza as a result of my neighbours' and co-workers' decisions to receive influenza vaccinations is an example of a positive externality. Unless these additional third party benefits are taken into account, an inefficiently low level of vaccinations may be administered.

Where negative externalities exist governments may impose regulation (e.g., smokestack scrubber requirements or pollution emission limits) and/or taxation (e.g., carbon taxes) to limit or reduce the amount of the negativity externality that is generated. Conversely, where positive externalities exist, governments may directly deliver the good or service in question (as they do with influenza vaccinations), or they may subsidize private transactions to increase the production and consumption of the good or service that generates the spin-off benefit. (For example, one could argue that tax credits are provided for children's sporting activities so as to encourage more physical activity for children, which in turn will lead to lower rates of disease and obesity, and ultimately will reduce the future health care costs that society will have to bear.)

The provision and consumption of child care generates a number of positive externalities. Without access to child care, some parents must remain out of the labour force and some of these unemployed parents will end up on welfare. If the availability of child care allows a parent to move from welfare to work, then society enjoys a cost savings through the reduction in welfare payments. Furthermore, as Richards and Brzozowski note, “[m]ost anti-poverty analysts in the US, UK, and – to a lesser extent – Canada have concluded that the role model of a working parent is important in reducing intergenerational poverty, even in the case of single parents with pre-school children.”¹⁸

Cleveland and Krashinsky¹⁹ also report that high quality child care provides benefits in terms of better societal integration of immigrant children and early screening (and hence a potential reduction in long-term treatment costs) of children with behavioural, social, or cognitive difficulties. As well, improved availability of high-quality child care allows parents to substitute away from low-quality care that can have long-term negative effects on children.²⁰

A celebrated and frequently cited advocate of early childhood education is Professor James Heckman of the University of Chicago, the 1990 recipient of the Nobel Prize in Economics. In recent years he has analysed the returns to early childhood interventions in terms of the longer-term effects on the children themselves. I summarize some of his findings by quoting at length from a lecture delivered in 2007:

“A large literature establishes that children from disadvantaged homes are less educated and more likely to participate in social pathologies, including crime. ...

¹⁸ “Let’s Walk before We Run: Cautionary Advice on Childcare,” John Richards and Matthew Brzozowski, C.D. Howe Institute, No. 237, August 2006, p. 11, http://www.cdhowe.org/pdf/commentary_237_english.pdf.

¹⁹ *Financing ECEC Services in OECD Countries*, Gordon Cleveland and Michael Krashinsky, Organisation for Economic Co-operation and Development, 2003, pp. 9-10, <http://www.oecd.org/dataoecd/55/59/28123665.pdf>.

²⁰ “Quality by design: What do we know about quality in early learning and child care, and what do we think? A literature review,” Martha Friendly, Gillian Doherty, and Jane Beach, Working document – Child Care Resource and Research Unit, 2006, p. 2, http://www.childcarequality.ca/wdocs/QbD_LiteratureReview.pdf.

American society has traditionally appealed to schools to remedy what failed families produce. Current policies such as the *No Child Left Behind Act* are premised on using schools to remedy the consequences of disadvantaged families. Schools can only work with what families give them. Successful schools are those that teach children from functioning families. ...

In addition, the current emphasis in American schools is on test scores, and tests ignore crucial noncognitive components of motivation, persistence and self-control that successful families foster in their children. Both cognitive and noncognitive skills are important for success in school and in life. The enriched early childhood interventions have had their greatest impacts on creating motivation and successful attitudes among participants – traits usually ignored in discussions of educational policy.

A large body of empirical work at the interface of neuroscience and social science has established that fundamental cognitive and noncognitive skills are produced in the early years of childhood, long before children start kindergarten. The technology of skill formation developed by economists shows that learning and motivation are dynamic, cumulative processes. Schooling comes too late in the life cycle of the child to be the main locus of remediation for the disadvantaged. ...

Later remediation of early deficits is costly, and often prohibitively so. ... Children who received ... enriched environments were followed into adulthood. Comparing their social and economic outcomes to those of similar children denied access to these environments by randomization, one finds that the treated children perform better at school, are less likely to drop out of school, and are more likely to graduate high school and to attend college. The treated children are less likely to be teenage mothers and foster a new generation of deprived children. They are less likely to be on welfare and less likely to smoke or use drugs. Treated students have higher test scores. A principal benefit of early childhood intervention is in shaping the noncognitive skills – behaviour, motivation and self-control – that are not considered an important outcome of the schooling curriculum in current policy discussions. ...

The recent evidence on the technology of human skill formation establishes that enriched early environments need to be followed up by good schooling and workplace learning environments. Complementarity of investments at different ages is an intrinsic feature of the human skill formation process. Enriching the early years will promote the productivity of schools by giving teachers better-quality students. Improving schools will in turn improve the quality of the workforce. ...

Redirecting funds toward the early years is a sound investment in the productivity and safety of American society, and also removes a powerful source of inequality.”²¹

With regard to the final point in the prior quotation, most public policy interventions designed to increase equity result in a decrease in efficiency: for example, taxing the rich to fund welfare for the poor has a levelling effect across society, but the taxes also reduce incentives to work and earn and ultimately generate a deadweight loss to the economy as a whole. More colloquially, such policies make each person’s slice of the economic pie more equal in size, but they also shrink the pie in total. However, Heckman and Masterov point out that “[i]nvesting in disadvantaged²² young children is a rare public policy with no equity-efficiency tradeoff. It reduces the inequality associated with the accident of birth and at the same time raises the productivity of society at large.”²³ [Emphasis added.]

²¹ “The Productivity Argument for Investing in Young Children,” James J. Heckman and Dimitriy V. Masterov, T.W. Schultz Award Lecture at the Allied Social Sciences Association annual meeting, Chicago, January 2007, pp. 33-36, http://jenni.uchicago.edu/human-inequality/papers/Heckman_final_all_wp_2007-03-22c_jsb.pdf.

²² It is important to note that Heckman and Masterov argue for programs targeted to disadvantaged children, not for universal, publicly-funded child care. Targeting versus universality is discussed more fully later in this paper.

²³ Heckman and Masterov, p. 2.

Quantitative Assessments of Child Care Programs

Several studies have attempted to calculate cost-benefit ratios or returns-on-investment for different child care programs.

Baker, Gruber, and Milligan report that 40 percent of the costs of Quebec's child care program are recovered through income and payroll tax revenues generated on the addition to the labour force that is induced by the availability of the child care program. They do not attempt to estimate benefits of any educational impacts on children. However, they also identify, without estimating associated cost figures, increased behavioural problems associated with attendance in child care programs.

Heckman and Masterov examine a number of early childhood intervention programs and report substantial benefit-cost ratios (e.g., 9 to 1 for the Perry Preschool Program and 8 to 1 for the Chicago Child-Parent Centres (CPC) program). They also offer several caveats to these findings:

“Much more research is needed on Perry, CPC, and a wide variety of other early childhood program results. Results from these programs need to be put on a common footing to understand better the differences in samples, treatments, and effects. A much more careful analysis of the effects of scaling up the model programs to the target population, and its effects on costs, has to be undertaken before these estimates can be considered definitive.

The gain from the pilot programs is a lower bound on the potential benefit of intervening in the early years: although the costs are well established, many of the benefits cannot be precisely monetized. For instance, we do not yet have a full accounting of how the children of the participants will respond to the intervention, and neglecting this likely understates its effect. Extrapolating from old, small, and local programs to large, national ones in the future is precarious business – a fact often neglected in the early childhood literature. The benefits of these interventions appear to be sufficiently large that the actual or potential program may remain cost-effective even after a large reduction in its efficacy.”²⁴

Prentice²⁵ reviews a range of cost-benefit and “business case” literature and cites a 1998 study by University of Toronto economists Gordon Cleveland and Michael Krashinsky (“Benefits and Costs of Good Child Care”) as the “Canadian landmark study.” The Cleveland and Krashinsky study assumes that publicly funded early childhood education and care services are provided to all Canadian children aged 2 to 5, with parents directly contributing 20% of the total costs (i.e., the state funds 80% of the program's costs). They estimate total costs of \$5.2 billion per year (in 1998 dollars) and total benefits of \$10.6 billion per year, with the latter figure composed of \$4.3 billion in benefits from educational and behavioural gains made by children and \$6.2 billion in benefits from increased labour force participation by parents (mainly mothers).

Prentice also advocates a cautious approach to interpreting cost-benefit analyses:

“[E]xpectations on returns on childcare spending can be giddily unrealistic. The latest Perry/High Scope evidence calculates returns of over 17:1 ... The US-based Fight Crime: Invest in Kids Coalition likewise enthuses about ‘estimated rates of return that would make a venture capitalist envious’ ... Modest returns, therefore, may be judged as inadequate against hyperbolic forecasts.

Moreover, the cost-benefit evidence base to date relies heavily on small-scale studies with disadvantaged populations. The oft-cited Perry High/Scope project, for example, provided part-time care for a small group of disadvantaged and primarily African-American children, over three decades

²⁴ Heckman and Masterov, pp. 32-33.

²⁵ “Childcare, the ‘Business Case’ and Economic Development: Canadian Evidence, Opportunities and Challenges,” Susan Prentice, *International Journal of Economic Development*, 2008.

ago. Returns of over \$17 for every \$1 of initial outlay may well be unrealized at the scale of universal programs.

Further, with very few exceptions, Canadian declarations about economic returns from childcare rely on American findings, despite many significant differences between the two countries. In cost-benefit studies, major savings come from both the health and criminal justice systems – each of which is quite different in Canada than in the US. In Canada, incarceration rates are lower and there is national healthcare. Thus, the assumption of high economic returns on investment must be adjusted by considerations of national variations in other expenditures, including those on social risk.”

Contrarian Views

While many analysts have concluded that there is strong evidence to support increased public sector involvement in and support for the delivery of child care services, the opinion is not shared by all and even among supporters there is disagreement as to the form that public sector support should take.

Many authors who are proponents of early childhood education and expanded child care services are careful to note that the empirical literature contains a wide range of (sometimes conflicting) results, that many studies have focused on small samples of narrow population subsets (e.g., poor African-Americans), that the methodologies employed may be subject to unavoidable biases, and that results of various specific programs may not be generalizable to the broader population.

Eisen’s review of the literature also finds that many of the positive effects attributed to child care interventions fade out after a few years and that long-term benefits tend to be concentrated among poor children.²⁶

Furthermore, some research has suggested possible links between non-parental child care and increased problems for children and parents. In their analysis of the Quebec daycare program, Baker, Gruber, and Milligan state that “we ... find consistent and robust evidence of negative effects ... on a variety of child outcomes, parenting, and parent outcomes. Child outcomes are worse for a variety of parent-reported measures, such as anxiety, aggressiveness, motor/social skills, child health status, and illness. Measures of parenting and family function are also negatively affected, and there is some evidence of deterioration in parental health and a reduction in parental relationship quality. To our knowledge, effects on parenting and family outcomes have not been previously investigated. Therefore, the results suggest that in this instance more access to childcare was bad for children and parents in the dimensions captured in our data. There are, however, interpretations of these findings which are more benign. While some of these explanations appear inconsistent with the data, we cannot rule out the possibility that our findings represent a short-term adjustment to childcare, and not a long-run negative impact.”²⁷

Another major theme of critics is that an expanded public sector role in child care is unwelcome social engineering. According to McMahon, a national day-care programme would reward two income families as the expense of families with a stay-at-home parent and would discriminate against child care provided by family, friends or neighbourhood groups.²⁸

²⁶ “Myths About Child Care Subsidies: A Review of the Empirical Literature,” Ben Eisen, Frontier Centre for Public Policy, 2010, p. 4, http://www.fcpp.org/files/1/PS79_MythsChildcare_F2JA28.pdf.

²⁷ Baker, Gruber, and Milligan, p. 4.

²⁸ “Think about what kind of government we want. How much social engineering is acceptable?” Fred McMahon, Atlantic Institute for Market Studies, *Halifax Daily News*, November 7, 1999 <http://www.aims.ca/en/home/library/details.aspx/529>

ASSESSING THE DIMENSIONS OF CHILD CARE PROVISION

The literature contains substantial evidence that enhanced access to child care services can counteract the negative effects of impending labour shortages in three broad ways. First, as more parents (generally mothers) gain access to child care, they will be able to rejoin and strengthen their attachment to the labour force, so the pool of current workers will increase. Second, the availability of child care will induce some parents to have more children than they would otherwise, meaning more workers than would otherwise be the case in the next generation. Third, at least some children will benefit from early childhood programs through improved academic performance and reduced susceptibility to social pathologies such as crime, substance abuse, and teenage pregnancy, all of which leads to a more productive future workforce.

The economic argument for state support of child care services is based on the positive externalities to broader society that are generated when, for example, adults are able to move from welfare to work and when children succeed academically and go on to productive lives as citizens and taxpayers, rather than ending up in prison or as another loop in a never-ending cycle of poverty. Empirical studies have demonstrated significant net benefits from public expenditures that improve access to high quality child care services, although there is a vigorous debate about the applicability of the results of narrowly focused studies to the general population.

Given these conclusions, this section delves deeper by analysing how such services should be designed and delivered across a number of key dimensions and what role governments should play as regulators, funders, and/or service providers.

Universal Provision or Targeted Support

One of the main points of contention among child care policy analysts is whether government support should be targeted only to poor or otherwise at-risk children, or whether there should be universal, tax-payer funded child care services.

With regard to two of the three means by which child care policy may blunt the effects of the demographic change that is predicted for Canada – increasing birth rates and increasing parents' participation in and attachment to the labour force – state support of child care services is intended to change the financial incentives faced by parents and thereby influence their behaviour. Cheaper or free child care will allow or induce more parents to work and also may remove or lessen financial barriers that some couples face when deciding whether or not to have more children.

It seems reasonable to think that these incentives and effects may be quite significant for a family whose annual income is, say, \$25,000.

It also seems reasonable to assume that affluent families will tend not to make their employment and family-size decisions based on the availability of government support that in total is quite small relative to their income levels. Providing ineffective subsidies to wealthy families would be a very perverse form of inequity. Viewed through the narrow scope of how child care policies may lead to increases in the current and future labour forces, targeting state support to families of modest means is the appropriate course of action. As for the third means through which child care policies may lessen the impact of a dwindling labour force – improving the school-readiness of today's infants and toddlers so that they will be better educated and more productive workers in the future – the matter is less straightforward.

Finn²⁹ (focusing on the United States, not Canada) presents a number of arguments against a universal approach.

He suggests that the motivations of many supporters of universal, publicly funded child care services may be less altruistic than claimed:

“Although the moral energy of the ‘universalists’ derives from the claim that such a program will close educational gaps between America’s haves and have-nots, their political strategy rests on the belief that enacting and funding any such program depends on mobilizing the self-interest of middle-class families who would welcome government-financed day care and an early education advantage for their own kids. ... That strategy relies on gaining the political boost that comes from offering John Q. and Sally Z. Public, both of them now working, the prospect that somebody else will pay for their child care, creating a new middle-class entitlement to government-financed services for their four- (and maybe three-) year-olds, wrapped in much hype about school readiness and social justice for the poor.”³⁰

Citing the research of Bruce Fuller, a sociologist and child development expert at the University of California at Berkeley, Finn reports that few sustained benefits from pre-school programs have been observed for children from middle-class and affluent families.

He also notes that programs cited frequently for providing sustained benefits for children who come from disadvantaged backgrounds, such as the Perry Pre-School Program (in Michigan), the North Carolina Abecedarian Program, and the Chicago Child-Parent Center Program, are highly intensive and thus highly expensive. In a world of government deficits and constrained budgets, universal expansion of these types of programs simply may not be feasible. Furthermore, the implementation of a program with universal aspirations but insufficient funds would result in resources being spread out over a wider base and thus dispersed away from those children with the greatest need for these types of services.

In reviewing cost-benefit analyses he notes that Nobel Laureate James Heckman argues that “investing in young children ... is a fundamentally important national strategy for building human capital, enhancing workforce productivity, and reducing welfare-type outlays,”³¹ but he also cites a 2006 *Wall Street Journal* column by Heckman: “because ‘Children from advantaged environments received substantial early investment’ from their families, ‘there is little basis for providing universal programs at zero cost.’ Doing the latter would be inefficient, costly, wasteful of public dollars, and probably not effective in helping poor kids.”³²

Finn also references a review of cost-benefit studies conducted by a researcher at the University of Wisconsin who concluded that programs targeted to children at 200 percent of the poverty line or less have more than double the rate of return of universal programs.

Richards and Brzozowski examine the question of universality in the Canadian context, particularly Quebec’s nominally universal early child care program. They note that since participation is not mandatory, as with K-12 education, families who choose, say, to have one parent stay at home are forced to financially support the program without receiving any of its benefits. Furthermore, demand for spaces exceeds supply in Quebec and therefore queuing takes place. They cite several analysts who have found that “better-off families have been more adroit at gaining access to the spaces available than the less affluent.”³³

²⁹ *Reroute the Preschool Juggernaut*, Chester E. Finn Jr., Hoover Institution Press, 2009, <http://www.hooverpress.org/productdetails.cfm?PC=1346>.

³⁰ Finn, pages 4 and 6.

³¹ Finn, p. 75.

³² Finn, pp. 75-76.

³³ Richards and Brzozowski, pp. 9-10.

Doherty,³⁴ on the other hand, advocates the universal approach for two reasons. She cites research that does find beneficial effects of non-targeted programs for children from all socio-economic backgrounds. Secondly, she contends that a universal approach would reach a higher proportion of vulnerable children. This argument is based on the premise that targeting would involve only income levels. While the prevalence of vulnerability (being developmentally delayed in terms of the physical, social, language, self-regulation and/or cognitive skills required to benefit from schooling) is highest among poor children, lower among children from middle-income families, and lowest in affluent families, there are fewer children living in poverty or in affluent families than in middle-income families who comprise three-quarters of the Canadian population. Therefore, Doherty argues, targeting programs to low-income children excludes the majority of vulnerable children who actually come from middle-income families. Doherty seems to miss an obvious solution, however: rather than target programs solely on the basis of income, why not also target support to *any* child deemed vulnerable, just as special education programs in the K-12 school system are provided on the basis of need, not family finances?

Profit Status³⁵ of Service Provider

A second major child care policy cleavage exists among those who advocate wide-ranging parental choice, competition, and the inclusion of for-profit operators in the mix of alternative child care providers, and those who believe that profit-seeking enterprises will deliver inferior services and that only non-profit, or perhaps even only government-run, child care operators can be expected to deliver high quality child care.

Cleveland et al³⁶ review a number of studies and find that, on average, non-profit child care centres have scored better on certain quality assessments³⁷ than have for-profit centres. They also note, though, that the reasons behind this finding are unclear, that despite the “on average” finding there are both good quality for-profit centres and poor quality non-profit centres, that the distributions of quality in the two types of centres overlap, and that a number of methodological adjustments may be required to produce a truly fair comparison.

The arguments against for-profit child care typically include the following assertions:

- the profit motive causes for-profit operators to divert resources away from providing quality services and into shareholder returns;
- since the purchasers of child care (parents) are not the direct recipients of the service, they are unable to observe quality and hence do not realize that for-profit providers are delivering an inferior service.³⁸

It is true that most parents likely have not reviewed the CVs of their child’s daycare teacher, nor have they taken a tape measure to determine the relative square metres of outdoor play area at different child care centres. However, most parents are in their child’s daycare twice a day and can see for themselves if the premises appear safe, clean, and inviting. While dropping off or picking up their sons and daughters they can stop to talk with the teacher and get a sense of her (the vast majority of pre-school teachers are women) demeanour and approach and learn about the activities that are planned for the day. Parents also know if their

³⁴ *Ensuring the Best Start in Life: Targeting versus Universality in Early Childhood Development*, Gillian Doherty, Institute for Research on Public Policy, 2007, pp. 30-31, <http://www.irpp.org/choices/archive/vol13no8.pdf>.

³⁵ Some authors and analysts use the term “auspice” rather than “profit status” for this dimension.

³⁶ *FINAL REPORT: An Economic Perspective on the Current and Future Role of Nonprofit Provision of Early Learning and Child Care Services in Canada*, Gordon Cleveland, Barry Forer, Douglas Hyatt, Christa Japel, and Michael Krashinsky, 2007, <http://childcarepolicy.net/documents/final-report-FINAL-print.pdf>.

³⁷ Note that these analyses tend to focus on inputs – teacher-child ratios, teacher credentials, etc. – rather than outputs that actually measure a child’s development and learning.

³⁸ Most parents also likely are not familiar with the child development literature and its findings regarding how high quality early childhood education can significantly impact a child’s life trajectory. Thus beyond a question of being able to *observe* quality, there is an issue of *understanding* what quality means in this context.

little boys and girls are either eager or apprehensive to get to daycare in the morning, and if they are either happy or distraught when picked up in the afternoon.

As for statistics like the size of the outdoor playground area and credentials like teachers' degrees, to the extent that consumers (parents) find these important, all child care providers have an incentive – in a competitive environment – to score well on these measures and to make these good scores well known. Going one step further, requiring daycares as a condition of licensing to fill out a periodic survey on these metrics, with the results to be made available publicly via, say, a Web site and/or a poster near each centre's front door (as with restaurants' health inspection certificates), would constitute a very light regulatory burden and an easy way to get information into parents' hands.

Looking at the measures used as quality indicators by analysts who criticize for-profit centres on the grounds that parents cannot observe quality, it is difficult to find many information points that could not be made available to parents easily and at low cost. Exceptions include measures – such as the ITERS (Infant-Toddler Environment Rating Scale) and the ECERS-R (Early Childhood Environment Rating Scale - Revised) – that are calculated through on-site examination by trained observers. While some cost would be involved in doing so, a daycare centre could request an ITERS or ECERS-R assessment from a qualified professional or an accreditation group, just as other businesses seek out “fair trade” or “organic” or “Better Business Bureau approved” certifications, for example, to provide signals to customers concerned with these attributes.

While parents may be less able to recognize certain quality distinctions among daycares – especially the degree to which the curriculum fosters social and cognitive development – than among some other types of goods or services, it is a stretch to claim that child care services are akin to a used car bought over the Internet.

As for the claim that for-profit child care centres will “divert” resources away from quality, there are several points to be made.

First, quality matters to for-profit firms because reputation effects matter. A child care service that provides poor service in caring for a three-year old likely will not see that child (and his or her parents' money) as a four- and five-year old. Similarly, a business that develops a bad reputation with one set of parents will tend to be avoided by their friends, co-workers, and relatives who hear about the parents' negative experience.

The profit-versus-quality criticisms in some analyses also seem to imply that the individual staff members at a non-profit or public sector organization must be more moral, virtuous, responsible, and dedicated than those who work for a for-profit firm. For the millions of Canadians who get up each morning and do a hard and honest day's work at a for-profit business (be it a restaurant, a shoe store, or a family doctor's office), this is simply offensive.

It is true that different businesses will occupy different places on the quality-price continuum: consumers can choose between Chevrolets and Porsches, between the neighbourhood family restaurant and the gourmet establishment with the Michelin star, and between clothing from The Bay and haute couture, for example. Some child care centres may offer lower fees and, say, have a number of teachers with 1-year college certificates and a smaller playground area while others may charge higher fees and employ more teachers with 2- or 3-year college diplomas and have a larger playground; for parents on tighter budgets, the first option of acceptable quality and lower price is critically important because the alternative daycare option may be financially out of reach.

Analysts who support the inclusion of for-profit providers in the mix of alternatives for child care services note that for-profit businesses who are subject to competition tend to be more cost-conscious and efficient than non-profit and public sector enterprises, and more nimble in responding quickly to changing consumer demands.

It also is important to recognize that advocates of a for-profit option believe that regulations should be in place (as they are in all Canadian provinces) to ensure that children will be in an environment that is safe and healthy and that a threshold level of quality is met.

Taylor³⁹ reviews Canadian daycare policies and experiences and finds that:

- the deliberate exclusion by provincial governments of the for-profit sector reduces access to child care;
- the cost per regulated space is lower in provinces that treat for-profit child care centres equally in terms of subsidies and grants than in provinces that discriminate against the for-profit sector; and,
- in Quebec, the for-profit sector has delivered the bulk of all new spaces in the system since 2004 and for-profit daycares deliver the same services at lower levels of subsidies than do non-profits, generating an estimated annual savings of \$50 million.

LaRocque and Thorne examine the Australia and New Zealand cases and make the following conclusions:

“The pre-K[indergarten] sectors in both New Zealand and Australia have witnessed profound changes in response to labor market and other trends. In both countries, the demand for center-based full day care has grown both in absolute terms and relative to ‘informal’ (family-based) and part-day care. Both countries have also seen the emergence of a much more diverse set of child care providers. The most significant of these has been the entry of commercially operated pre-K services ... Importantly, this significant expansion has not come at the expense of quality provision.

One of the key factors in the success of both systems has been the introduction of a regulatory and funding framework that has supported competition, encouraged private investment and provided parents with an array of child care options to meet the diverse needs of families and communities. The combination of universal subsidies and targeted funding for those most in need has made quality child care both affordable and accessible in both countries. Regulatory and funding frameworks in both countries – including funding that is neutral across provider types, the absence of statutory controls on center fees, the existence of QA systems that are independent and linked to public funding, the use of information to help inform parental decisions and low barriers to entry – have fostered an enabling environment for potential child care providers.”⁴⁰

Beyond the arguments against for-profit child care, there are some who advocate that early childhood care be brought entirely into the public sector as front-end extensions of the public school system. Opponents contend that such a system be subject to the monopoly power of a public sector union and therefore would experience spiralling costs and the constant threat of lengthy and highly disruptive work stoppages. Furthermore, direct government delivery of child care services places the government in the role of both provider and regulator and as such entails a conflict of interest that would be detrimental to consumers (parents and their children).

³⁹ “Child CARE – Improving child care services for Canadian families: evidence from Canada and around the world,” Peter Shawn Taylor, prepared for The Association of Day Care Operators of Ontario, 2006, http://childcaretoday.ca/files/ADCO20child20care20paper_1.pdf.

⁴⁰ “Funding and Regulating Early Childhood Education in Australia and New Zealand: Lessons for Policy Design,” Norman LaRocque and Susan M. Thorne, World Bank Seminar, 2008, p. 12.

Age Coverage

A third dimension that must be considered in the development of any government policy to support the provision of child care services is the range of children that will be included.

This focus of this paper is how child care policies may alleviate the impact of predicted labour shortages by boosting the current and future labour supply and/or by improving the productivity of future workers.

In order to allow more parents (chiefly mothers) to more quickly and fully reengage with the labour market, child care must be more than kindergarten-type arrangements that often are for half-days and/or partial weeks throughout the school year (i.e., not during the summer). If child care policies are to assist mothers in returning to full-time work, then full-time coverage must be available, including early childhood care for pre-schoolers (or pre-kindergarteners where full time kindergarten is provided through the school system) and after-school and summer care for younger school-age children.⁴¹

Viewed only from this perspective, the younger that a baby can be placed in some sort of child care arrangement, the better, as this will allow the mother to return to the labour force most quickly. However, research indicates that although a child's cognitive and social development are enhanced through the structured learning and interaction with other children that come through attendance at daycare, close parental contact is the most important contributor to healthy development in the very first stages of life. New parents already are entitled to approximately one year's worth of maternity/parental leave, and so it seems logical that any government program to subsidize child care services should cover children no younger than one-year old, at a minimum.

⁴¹ An analysis of the age at which children should be considered capable of taking care of themselves from the end of the school day (e.g., 3:00) until the end of the work day when parents arrive home (e.g., 5:00) is beyond the scope of this paper.

CONCLUSIONS AND RECOMMENDATIONS

Canada's future prosperity will be challenged by demographic change. In the coming years and decades the ratio of working-age adults to children and seniors will drop significantly. Our standard of living will drop as well unless the birth rate rises, the labour force participation rate increases, and/or the productivity of the work force is improved.

Early childhood care and education policies have the potential to make advances on all three of these fronts.

Better and cheaper access to child care will allow more parents (chiefly mothers) to return to work more quickly and more fully. It also will reduce the effective cost of having a child and make having more children more financially feasible for more families. High-quality early childhood programs will improve the school-readiness of some youngsters, and research shows that when coupled with quality education throughout a disadvantaged child's school career, improvements in academic performance, graduation rates, and college/university attendance result, along with decreases in crime, teenage pregnancy, substance abuse, and welfare dependency.

Quantitative analyses indicate that not only will there be an equity benefit to disadvantaged children from investments in early childhood care, economic efficiency will be improved because the externality benefits generated by a more productive work force and reduced costs of crime and social assistance outweigh the costs of the early childhood program.

It is not clear that subsidized child care will influence affluent families in a significant way regarding their choices to have more children and to have a parent stay at home. While the positive long-term impact on disadvantaged children of early childhood interventions is widely cited, there is much less certainty about the effects on children who do not come from a vulnerable group. Given that governments face some very difficult budgetary constraints for the foreseeable future and that early childhood care and education programs are expensive propositions, public financial support should be targeted to children from lower income families (and children who are deemed vulnerable due to other factors), perhaps on a sliding scale up to some middle-income level. The poorest families would receive 100% subsidies, but the level of subsidy would be reduced as income, and therefore ability-to-pay, rise.

Government support could be directed to parents in the form of vouchers. This approach provides parents with choice and flexibility and promotes useful competition among child care providers. It also may be useful to channel some resources directly to child care providers who establish themselves in poor neighbourhoods, for example.

Another consistent finding in the literature is that quality matters. In order for the public to reap an externality benefit, children must receive high-quality care. Vouchers should be valid for only those child care providers – including for-profit providers – that are certified as meeting an appropriate standard of quality and that are subject to inspection and audit to ensure that the quality standard is upheld. Furthermore, child care providers should be required periodically, perhaps annually, to provide certain basic input information that has been linked to quality (e.g., staff-to-child ratios⁴²) and this information should be made public so that parents are better-informed consumers. A public education effort to inform parents of the importance of quality in child care provision also may be useful.

⁴² Care should be taken in developing and defining these data points and ensuring that all operators report consistent and meaningful information. For example, a day care operator should not be allowed to inflate its staff-to-child ratio by including the janitor in the numerator.

As noted at the outset of this paper, both federal and provincial governments have been involved in child care policies and programs. As with other areas of Canadian public policy, such as health care and post-secondary education, the split roles of the federal government as funder and quasi-regulator and the provinces more as the front-line service provider, there is great potential for overlap, inefficiency, and diluted accountability as each level of government blames the other when problems occur. Sadly, it is unrealistic to expect, say, the federal government to vacate the field (and the associated tax revenues) to the provinces. As a next-best solution, the imposition of a federal standard across the country should be avoided. There is a great deal that remains unknown about optimal early childhood care policies and thus there is much to be gained from allowing experimentation and a diversity of approaches among the provinces. If New Brunswick comes up with something highly effective and Manitoba tries something else that ends up not working well, then Ontario and British Columbia will learn from these experiences, just as the other nine provinces have learned from Quebec's distinctive approach to child care.

To maximize the effectiveness of this experimentation and learning, all child care programs should be implemented with a goal of capturing rich, long-term data sets. This information will be useful in learning more about what truly drives quality in early childhood care, it will help to assess the relative strengths and weaknesses of different provinces' approaches, and it will provide an additional means for parents to hold child care providers accountable, in the same manner as well-constructed student and school assessments do in the K-12 world.

Finally, it is worth repeating that early childhood care and education programs are expensive propositions. The global economy is fragile, and while Canada has fared better than most, our federal and provincial governments are in difficult fiscal circumstances. The benefits that will be generated from well-crafted early childhood care and education policies are promising, but adding to tax or debt burdens to pay for them would be a mistake. The funding for these programs should be financed by reduced spending in other areas, like corporate welfare and politicized and ineffective regional development funds. It is time to choose our priorities.

Selected Publications from the AIMS Library

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Who Could Have Seen THAT Coming? by Don McIver

An Economic Future with Smaller Numbers by Frank Denton, Christine Feaver and Byron Spencer

The Developing Workforce Problem by Jim McNiven

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