

Is the Federal Daycare Program Achieving Its Stated Goals?

Philip Cross

Summary

- In its April 2021 budget, the federal government announced plans to spend up to \$30 billion over five years to create 250,000 childcare spaces by 2026 with a subsidized fee of \$10 a day.
- The stated goals were three-fold: to provide more jobs in the childcare industry; to enable parents (especially mothers) to join the labour force in greater numbers; and, to provide better care for young children.
- This paper looks at whether the government is achieving its first two goals.
- As of June 2023, the introduction of the federal day care program has had little impact on the trend of employment in the childcare industry.
- For example, in June 2023 there were 175,913 people employed in child care in Canada. This figure is almost exactly what the projected employment of 181,100 people would have been if the average annual growth of 5.9 percent a year from 2004 and 2020 had continued through 2023.
- There is also little evidence that the federal government is achieving its goal of boosting the labour force participation of women with children.
- The total labour force participation rate for women was 61.5 percent in September 2023 compared to a high of 61.7 percent in 2015.
- And recent increases in the size of the female labour force were concentrated in Quebec and among women with adolescent children, both groups that are unaffected by the new federal program.

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Introduction

In its April 2021 budget, the federal government announced plans to spend up to \$30 billion over five years to create 250,000 childcare spaces by 2026 with a subsidized fee of \$10 a day (Department of Finance, 2021). The stated goals were three-fold: to provide more jobs in the childcare industry; to enable parents (especially mothers) to join the labour force in greater numbers; and, to provide better care for young children (Finance, 97-98). It is remarkable that in justifying the childcare initiative, Finance Minister Chrystia Freeland's speech made no reference to lowering the financial burden on working parents as a benefit. Freeland's reliance on the three goals, to the exclusion of parental financial benefits, suggests either a lack of confidence that the provinces (which control its implementation) would provide enough spaces, or simply a lack of planning and poor communication by the federal government.

This paper looks at whether the government's childcare program is achieving the first two goals of raising employment in the childcare industry and enabling more women with children to join the labour force. However, addressing the costs of employing more workers in childcare and the benefits to female labour force participation are key to assessing whether Canada will benefit overall from the program and whether, as many of its proponents claim, it can pay for itself. Although the question of whether children benefit from formal centre-based programs is an important one, this paper does not attempt to analyze this aspect.

Some may argue it is too soon to evaluate the progress the government has made in delivering childcare. However, almost three years have passed since the

federal government announced its program—enough time to evaluate whether it is having any measurable effect, even if its full impact may not be known for some time. The 2023 federal budget boasted how “(a) lready, six provinces and territories—Quebec, Manitoba, Saskatchewan, Newfoundland and Labrador, Yukon, and Nunavut—have delivered \$10-a-day or less regulated childcare and the remaining provinces have reduced fees by at least 50 per cent” (Department of Finance, 2023: 4)¹. Furthermore, only a little more than two years remain for the government to meet its 2026 target for reducing fees to a national average of \$10 a day.

Quebec's childcare policy

When introducing its childcare program, the federal government cited Quebec's childcare program as a template “for the rest of Canada to learn from” (Finance, 2021). Quebec's program was conceived in 1996 by former Premier Lucien Bouchard as part of a grand bargain coupling a durable commitment to a balanced budget² with family policy changes, of which heavily-subsidized childcare was the centerpiece. The new family policies adopted in Quebec included full-day kindergarten for children aged five years and half-day kindergarten for four-year-olds, along with near-universal childcare at \$5 a day. It is important to recognize that day care in Quebec was explicitly linked to a balanced budget, sending the message this was not the beginning of a marked expansion of government's overall place in the economy.

Quebec's day care program started in 1997 and was fully operational by 2000. Despite the initial promise of universal low-cost day care, Quebec today has a hybrid system. About half of all children are cared for in government subsidized non-profit day care,

1 The Department of Finance neglected to mention that the six provinces and territories adopting \$10-a-day care accounts for only 30.2 percent of Canada's population (Statistics Canada table 17-10-0009-01 Population estimates, quarterly).

2 The law requires that when Quebec runs a deficit of \$1 billion or more, the government must commit to a plan to eliminate the deficit within five years.

Is the Federal Daycare Program Achieving Its Stated Goals?

family-based caregivers, and subsidized for-profit day care centres. From the outset, demand greatly exceeded the supply of government subsidized non-profit early childhood centres (centres de la petite enfance or CPEs), which is why the Charest government in 2009 allowed the expansion of tax credits at for-profit child care (Fortin, 2019: 10). In 2019, 11 percent of children were in for-profit care that charge full fees. Another 40 percent of children were cared for at home or in unlicensed care (Fortin, 2019: 5). Quality of care varies greatly among these different categories.

Besides variable quality, there are major challenges in providing childcare for all working parents, which may limit its uptake by mothers wanting to join the labour force. One of the problems with government childcare is that it is usually available only during core working hours in the “standard” workweek, making childcare virtually synonymous with day care. One advantage of unlicensed home-based care is that it is more likely to provide services to parents working non-standardized hours, especially nights and weekends.

Another challenge for universality is that rural areas and low-income neighborhoods have difficulty attracting workers to staff day care centres. Upper and middle-income parents in Quebec have proved most adept at exploiting the system for their own benefit.³ As a result, 77 percent of high-income parents access good-quality childcare versus 41 percent of low-income families (Fortin, 2019: 12). This contradicts the stated goal of universal coverage and implies that many of the benefits of subsidized day care go to families that do not need the subsidy. Indeed, this is a common problem, as Fortin (2019: 12) notes that: “In every country childcare systems have a hard time attracting children from low-income families.”

It is a conundrum for many social programs that providing universal coverage, instead of targeting

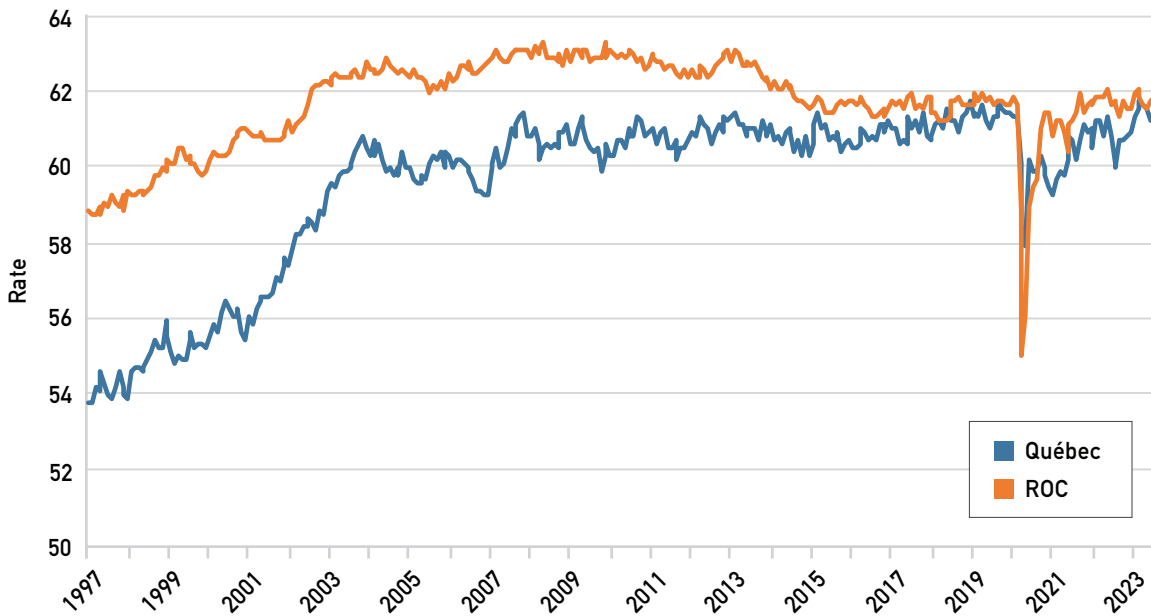
low-income families, inevitably means high and middle-income families reap unneeded subsidies from government. This increases the overall cost of social programs with few benefits to society, raising the question of “Why is it good public policy to provide cheap daycare to wealthy Canadians?” (MacKinnon and Mintz, 2021). Conversely, targeting low-income families risks middle- and high-income families losing the motivation to support social programs since they no longer benefit from the government services that they pay hefty taxes to support (especially in Quebec, the most highly-taxed province in Canada). Wilbur Cohen, one of the architects of Social Security and Medicare in the United States, remarked how a “program for the poor will most likely be a poor program” (Berman, 2022: 117). Fortin defends Quebec’s low-fee approach to day care as a useful attempt to reconcile the two approaches, but concedes that even low fees are a barrier to some families using the service (Fortin, 2019: 12).

Quebec’s day care system helped boost the labour force participation of women, at least in its early years. The participation rate for women in Quebec was five percentage points below the national average when the program was introduced in 1997. What is rarely remarked on, however, is that the rest of Canada (ROC) had a higher rate of female labour force participation than Quebec, even without comprehensive day care programs. This reflects how labour force participation is determined by much more than just the availability of childcare. By early 2015 the gap between the ROC and Quebec essentially had been eliminated (Figure 1). Since then, the participation rates of women in Quebec and the rest of Canada have moved in tandem (outside of the onset of the pandemic in 2020), with a dip of 0.6 percentage points in Quebec and no change in the rest of Canada between March 2015 and August 2023. Some of the drop in Quebec reflects

³ Another factor is that women want to have more children as income rises (Stone, 2023).

Is the Federal Daycare Program Achieving Its Stated Goals?

Figure 1: Participation rate for women 15+, Québec and ROC



Source: Statistics Canada Table 14-10-0287-01

its population is aging faster, meaning some women left the labour force altogether for retirement.

The federal government obviously is hoping to duplicate Quebec’s initial surge of women’s labour force participation with its own childcare program. Freeland’s budget speech explicitly cited that Quebec moved from having below-average female labour force participation to “among the highest labour force participation of women with children under three, in the world” (Department of Finance, 2021: 19).

However, not all of the increase in Quebec’s women’s participation in the labour force was due to expanded childcare (which may be why its apparent stimulus has been waning in recent years). For example, another reason women joined the labour force in Quebec after 1997 was stagnant real incomes, which Fortin (2019: 4) interprets as meaning “(n)owadays it takes two incomes to make a decent family living.” However, Fortin’s paper

documents that in a rich society it is not necessarily true both parents must work. GDP per capita in New York state was \$87,000 in 2018, nearly double Quebec’s \$48,000 (converted to US dollars at purchasing power parity) (Fortin, 2019: 3). With such a high level of income, there is less pressure on both parents in New York to enter the labour force to support their family (although this also raises the opportunity cost of not working). The gap in incomes is the most striking comparison of Quebec and New York state, not the difference in participation rates that Fortin focuses on (the rate in 2018 for women between 25 and 54 years old was 87 percent in Quebec versus 75 percent in New York state).

More broadly, the federal government appears to have adopted the Quebec model for delivering childcare out of political necessity, not because it works particularly well. From its inception in 1997, childcare in Quebec had long waiting lists (currently 51,000 are on waiting lists, although

Is the Federal Daycare Program Achieving Its Stated Goals?

desperate parents may be applying at more than one facility, as noted by Ward, 2015: 7). The combination of a shortage of day care spaces, coupled with the rising costs due to unions quickly organizing and going on strike for higher pay, ultimately forced the government of Quebec to allow the private sector to expand the supply of care. As noted earlier, the Quebec childcare program is not universal, with benefits heavily-skewed to upper and middle-income households. This structure disadvantages lower-income parents who work more in areas without access to day care or who work a non-standard workweek that does not align with the 9-to-5 schedule of most centres. This has led some political commentators to argue that the federal government adopted the Quebec model because it would have been difficult to tell Quebec it would only receive federal funding if it adopted the federal program. This would give the appearance of a massive federal intrusion into dictating how Quebec should govern. Alternatively, designing a better program for the ROC would make it challenging to explain to the ROC why Quebec was receiving the same funding for delivering an inferior program (Coyne, 2021).

The federal childcare program and the provinces

The federal government announced its plan for a national day care program in April 2021. At that time, there were only enough daycare centre spaces in Canada for 28 percent of the children up to the age of five, although this calculation does not include home-based care. However, it had to negotiate the program's implementation with all the provinces, who have jurisdiction over education and health-care. By early 2022 nearly every province and territory had signed the Early Learning and Child Care Agreement deal to lower child care fees and expand the availability of spaces. In April 2022, there were 12,664 centres across Canada that provided care for

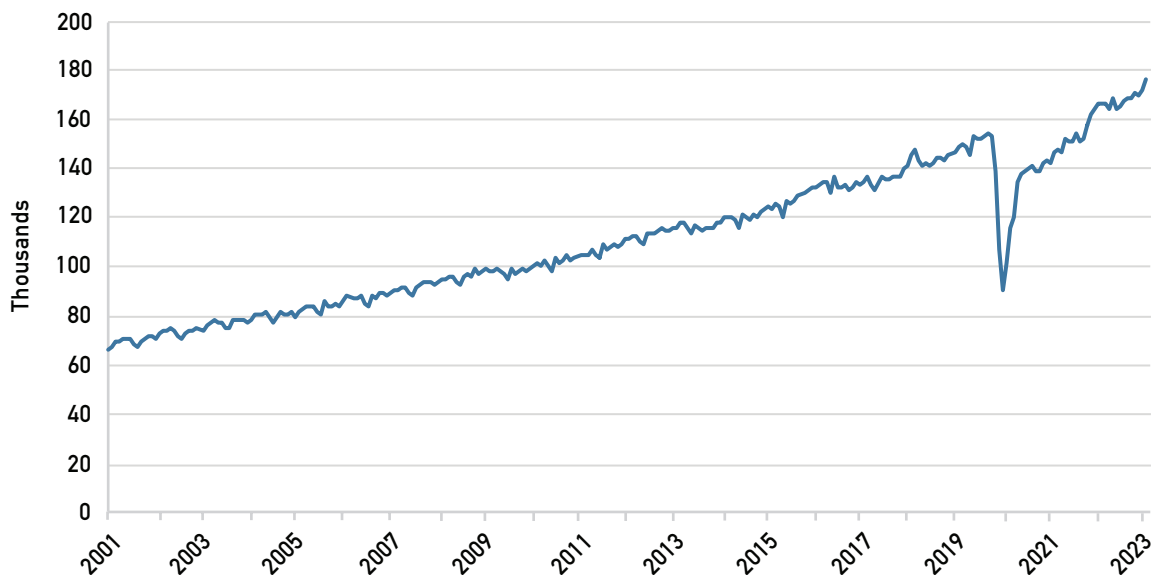
717,200 children between zero and five years old (Charters and Findlay, 2023: 11).

The fact that the federal government is funding a program administered by the provinces inevitably compromised the efficient and prompt implementation of childcare from its beginning. Experience shows that when more than one level of government is responsible for a program, there is a lack of political as well as financial accountability. Blame for any problems that arise can be shifted to the other level of government. Take health care, for instance, where the provinces blame the federal government for a chronic lack of funding. Meanwhile, the federal government wants more evidence that the provinces are spending federal transfers efficiently. This dynamic is akin to when two government departments share responsibility—when something goes wrong, both blame the other and the program becomes “an orphan” no matter who its father may be (Savoie, 2015: 119).

Donald Savoie, one of Canada's leading experts on public administration, calls programs administered jointly by the federal and provincial governments “hyphenated federalism” that creates “another level of government, one that can operate outside of accountability requirements” (Savoie, 2019: 121). Besides reducing accountability, Savoie (2019: 122) argues that hyphenated federalism increases costs since 14 bureaucracies must be created in Canada's federal, provincial, and territorial governments to administer a jointly funded program. Transfer payments—such as the federal government makes to the provinces for child care—further “undermine accountability and can contribute to an escalation of costs” when politicians do not have to raise taxes to fund programs (Tindal et al., 2017: 210).

It is also worth noting that, unlike Quebec's program in 1997, the federal government's child care initiative in 2021 followed a huge expansion of federal spending during the pandemic. The timing of its announcement, along with other government

Figure 2: Employed in child day-care services, Canada



Source: Statistics Canada Table 14-10-0201-01

initiatives such as funding for dental care, was symptomatic of a government that resisted returning spending to its pre-pandemic level. Furthermore, the federal government has boldly intruded into areas of provincial responsibility, such as childcare and dental care, while under-funding areas such as national defense (Canada's defense spending of 1.3 percent of GDP is well below the two percent target required by NATO) (Department of Finance, 2023) and the protection of borders that are exclusively under its jurisdiction.

Employment in child care

There is little evidence that the federal government is achieving its stated goal of improving employment opportunities in the childcare industry. As of June 2023, the introduction of the federal day care program has had little impact on the trend of employment in the childcare industry. Figure 2 shows the number of jobs in the child care industry, according to Statistics Canada's payroll employment data (the data are not seasonally

adjusted, which is why there is a dip every year during summer vacations in July and August). In June 2023 there were 175,913 people employed in child care in Canada. This figure is almost exactly what the projected employment of 181,100 people would have been if the average annual growth of 5.9 percent a year from 2004 and 2020 had continued through 2023. The temporary declines in 2020 and 2021 were attributed to the pandemic. The inability to shift the trend of employment in day care is reflected in continued long waiting lists for spaces (Peesker, 2023).

One reason employment in the childcare industry has been slow to accelerate is the difficulty of attracting workers. In spring 2022, 90 percent of childcare centres reported difficulty filling vacant positions and 78 percent had active waitlists (Statistics Canada, 2023). Governments are raising wages in response to labour shortages. For example, Ontario has mandated childcare workers be paid a minimum of \$18 an hour, rising by \$1 an hour per year until it reaches \$21 in 2026. While

Is the Federal Daycare Program Achieving Its Stated Goals?

higher wages can help alleviate labour shortages, they inevitably increase the cost to governments in providing services. Governments must either pay workers more or increase subsidies to non-profit care providers (even as the fees collected from parents decrease as promised by the program).

Governments will find it increasingly difficult to devote more fiscal resources to childcare as interest rates rise on the large amount of debt issued during the pandemic, ensuring that debt servicing costs eat up an increasing share of government spending. Pay hikes will be needed to attract the growing number of workers needed as parents attempt to shift to subsidized day care. Already, day care spaces across much of Canada are in short supply (e.g., Quebec), leading to pressure to cut back on quality or forcing parents to place children in higher-fee private care or keep them at home.

Higher wages for day care workers reduce the overall benefit of the program to society, as well as costing governments more money. To benefit Canada's overall economy, working mothers of children in childcare have to earn more from employment than what childcare workers are paid. This gap narrows as governments legislate higher wages for childcare workers and lower ratios of children to childcare providers. So, while it makes sense for individual women to send their child to day care and enter the labour force when the cost of day care to the individual is subsidized, the economy as a whole benefits less as childcare costs increase.

Women's labour force participation is little changed

There is little evidence that the federal government is achieving the second goal of boosting the labour force participation of women with children.

Overall, there has been a small increase in the size of the female labour force since 2021, but this only recouped declines during the pandemic. The total labour force participation rate for women was virtually unchanged in September 2023 at 61.5 percent, versus a high of 61.7 percent early in 2015.

Furthermore, recent increases in the size of the female labour force were concentrated in Quebec and among women with adolescent children, both groups that are unaffected by the new federal program. More broadly, women's labour force participation has risen in Canada and in the United States, reflecting factors besides childcare that induced women to join the labour force. These factors include the squeeze on household incomes from soaring inflation and employers maintaining some of the flexibility about working from home established during the pandemic—which is especially attractive to women with children.

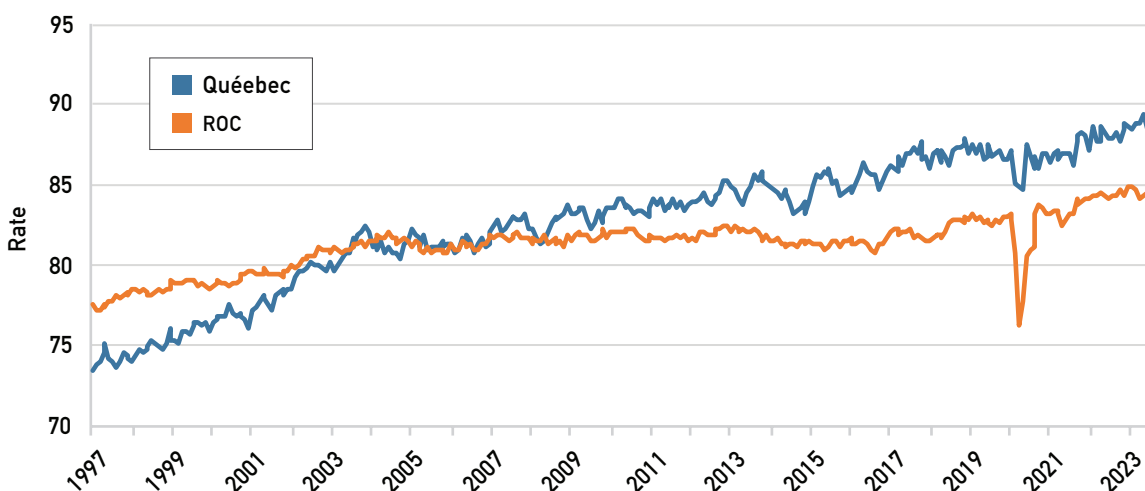
Figure 3 shows the labour force participation in Quebec and the ROC for women between 25 and 54 years of age. Since the federal day care program was announced in April 2021, this group of women has posted a much larger increase in their labour force participation in Quebec than the rest of Canada (up 1.9 percentage points versus a 1.2 point gain in the rest of Canada). In other words, Quebec has seen the largest increase in female labour force participation, despite not being affected by the adoption of the federal program. Moreover, proponents attribute the increase in female participation in Quebec to its childcare program, but are silent on why the ROC had a higher participation rate before 2005 without comprehensive childcare. Clearly, some determinants of female labour force participation are not understood by researchers, who nevertheless loudly endorse Quebec's initiative.

4 The data are from a special tabulation provided by Statistics Canada's Labour Force Survey, available on request. Only employment data for women by the age of their child are available.

5 The analysis stops in June 2023 to avoid the large seasonal drop in employment in July and August due to vacations.

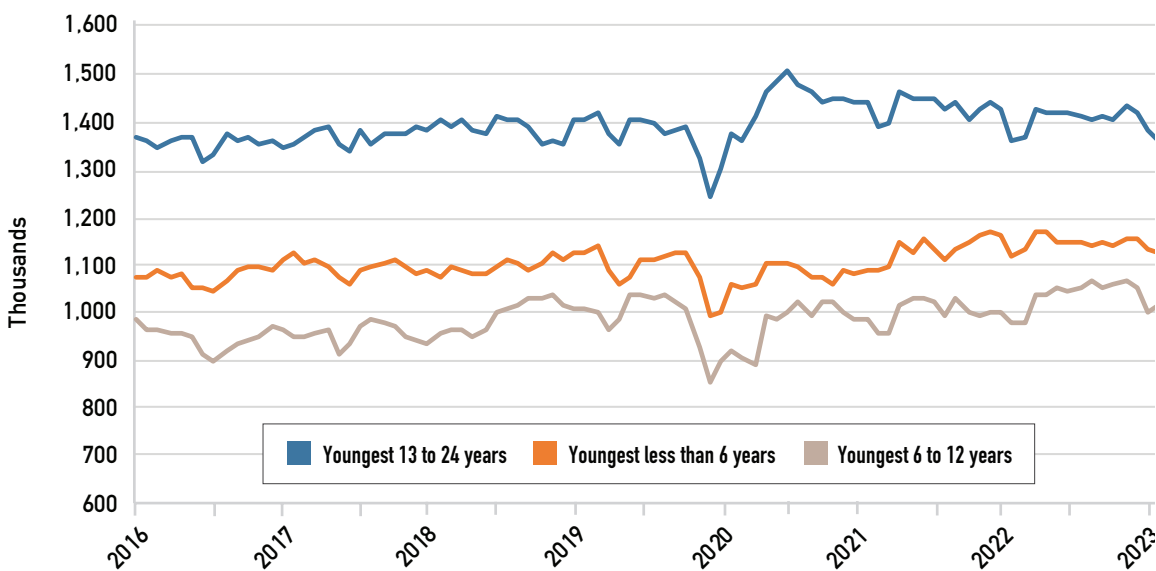
Is the Federal Daycare Program Achieving Its Stated Goals?

Figure 3: Participation rate for women 25 to 54, Québec and ROC



Source: Statistics Canada Table 14-10-0287-01

Figure 4: Total women employed with child



Source: Statistics Canada, Labour Force Survey, custom tabulation.

Figure 4 shows that employment in Canada has risen the most for women with older children, who are not covered by the new federal program for day care (unlike all the other data in this paper, employment for women with children are not seasonally adjusted).⁴ Between its pre-pandemic level in January 2020 and June 2023,⁵ the data on employment

of women whose youngest child was 13 to 24 years old rose by three percent, more than the 2.9 percent gain for women whose youngest child was six to 12 years and the 2.7 percent increase when the youngest child was less than six years old. These trends are the opposite of what was happening before the pandemic and the introduction of the federal day

Is the Federal Daycare Program Achieving Its Stated Goals?

care program, with employment for women with the youngest children rising by 4.8 percent between January 2016 and January 2020, versus growth of 3.6 percent for mothers with children between six and 12 years and one percent for women with older children. Together with the finding that Quebec women have posted the largest increase in participation rates, this points to the importance of factors other than the federal program.

Canada is not alone in experiencing a rise in women's labour force participation coming out of the pandemic. In the United States, labour force participation for women aged 25 to 54 reached a record high of 77.8 percent in June 2023,⁶ without the prod of government-provided day care. So clearly there are other forces besides childcare that are inducing women to join and remain in the labour force—ranging from a tight labour market and a policy by many employers to allow more work from home, to the need to raise incomes in the face of higher inflation.

Without improving either the number of employees in childcare or raising the labour force participation of mothers, it is hard to maintain that childcare “can essentially pay for itself” as many proponents maintain given the huge cost of the federal initiative (Poloz, 2022: 231). This raises the risks to provincial

governments that the federal government eventually will reduce its financial contribution, just as it has in health care (Ibbitson, 2006: 157).

Conclusion

To date, the federal government initiative to expand childcare and raise the labour force participation rate of women has produced few results. The roll-out of day care (an area under provincial jurisdiction), has not accelerated employment in the industry. Meanwhile, female labour force participation has shown little change. In fact, the most notable increase in participation has been for women in Quebec and women with older children, both groups that are unaffected by the federal childcare program.

The federal day care initiative is symptomatic of the current government's focus on boosting labour supply while ignoring the challenge of raising the productivity of all workers. This fixation is reflected in Canada's declining real GDP per capita over most of the past decade. While the labour supply component of Canada's economy has expanded since 2015 (driven mostly by higher immigration), overall real GDP per capita has been hamstrung by falling business investment and merchandise exports. These declines are symptomatic of lagging productivity and innovation in Canada's economy.

6 Bureau of Labor Statistics, <<https://www.bls.gov/web/empsit/cpseea08b.pdf>>, (as of January 16, 2023)

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