



INSTITUT **C.D. HOWE** INSTITUTE

COMMENTARY
NO. 595

Aggressive Incrementalism: Strengthening the Foundations of Canada's Approach to Childcare

*Can we get better childcare policy without reinventing Canadian federalism?
Yes, in fact that's the only viable path forward. This paper argues that there are clear roles
for federal and provincial governments to play in expanding access to affordable childcare,
but no order of government can do this alone.*

Ken Boessenkool and Jennifer Robson

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COMMENTARY No. 595
March 2021



Daniel Schwanen
Vice President, Research

\$12.00

ISBN 978-1-989483-61-9

ISSN 0824-8001 (print);

ISSN 1703-0765 (online)

THE STUDY IN BRIEF

Accessible and affordable childcare will play an oversized role in determining whether parents, primarily mothers, can return to their pre-COVID trajectories of employment and wages. That matters because growth in family income during the '80s and '90s came largely from rising female labour force participation rates and, since then, largely from rising average female wages – specifically “the increased representation of women in high-paying managerial and professional occupations” (Moyser 2019).

A number of recent childcare proposals have echoed long-standing calls for what we describe as a “big bang” approach to childcare (e.g., Yalnizyan et al. 2020; Bezanson, Bevan and Lysack 2020 and Pasolli 2019). Three common characteristics of these proposals are: a significant shift to federal national leadership in setting priorities and standards; substantially increased government provision of services; and eventual universal childcare services at low or no cost to parents. This *Commentary* will discuss the merits and concerns we see in the “big bang” approach and describe our preferred approach – what we call aggressive incrementalism. Our aggressively incremental reforms include both demand- and supply-side solutions.

First, we recommend that the existing Child Care Expense Deduction (CCED), a regressive tax deduction that reinforces patriarchal gender roles for parents, be replaced with a more generous, progressive and more frequently paid refundable tax credit.

Second, we recommend that provinces redouble their efforts to increase childcare spaces by increasing operating and/or capital grants for licensed providers.

Third, we recommend that existing and any new federal dollars for childcare be consolidated into a single, dedicated and permanent transfer to provinces. We suggest that this transfer be focused first on expanding the supply of licensed childcare spaces. Here too, we are not prescriptive in how such a transfer be structured so much as we prescribe that federal dollars should be focussed on leveraging provincial efforts to expand supply. For example, we would support the federal government consolidating (and growing) existing transfers using geospatial data to leverage expanded provincial operating grants to licensed childcare facilities. We prefer this approach to the pattern in which a broad set of federal priorities results in principles-based bilateral deals with individual provinces that accede to provincial priorities.

This incremental approach – building on what exists – should not mask the importance or challenge of getting childcare right. We do not have the luxury of time to reinvent early learning and care from the ground up or to waste months, if not years, renegotiating the division of responsibilities in Canadian federalism. We need immediate attention and incremental but aggressive reforms to get this right, for women, for families and for Canada as we emerge from the pandemic.

Policy Area: Education, Skills and Labour Market.

Related Topics: Child and Family Policies.

To cite this document: Boessenkool, Ken, and Jennifer Robson. 2021. *Aggressive Incrementalism: Strengthening the Foundations of Canada's Approach to Childcare*. Commentary 595. Toronto: C.D. Howe Institute.

C.D. Howe Institute Commentary© is a periodic analysis of, and commentary on, current public policy issues. James Fleming edited the manuscript; Yang Zhao prepared it for publication. As with all Institute publications, the views expressed here are those of the authors and do not necessarily reflect the opinions of the Institute's members or Board of Directors. Quotation with appropriate credit is permissible.

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Over the last year, thousands of Canadian families have experienced what it is like to try to work without childcare. Temporary shutdowns forced full-day and after school programs to close.

During re-openings, additional health and safety operating expenses, combined with temporary reductions in program enrolment, have meant that many more childcare providers have been at risk of permanently closing.¹ In a given year, some childcare centres will close while others re-open. But the pace of closures during COVID has accelerated and few if any new entrants seem to be opening. The supply of early learning and childcare in Canada, which has never been generous, now looks like it may be permanently hampered unless provincial and federal governments take action.

Accessible and affordable childcare will play an oversized role in determining whether parents, primarily mothers, can return to their pre-COVID trajectories of employment and wages.² That matters because growth in family income during the '80s and '90s came largely from rising female labour force participation rates and, since then, largely from rising average female wages – specifically “the increased representation of women in high-paying

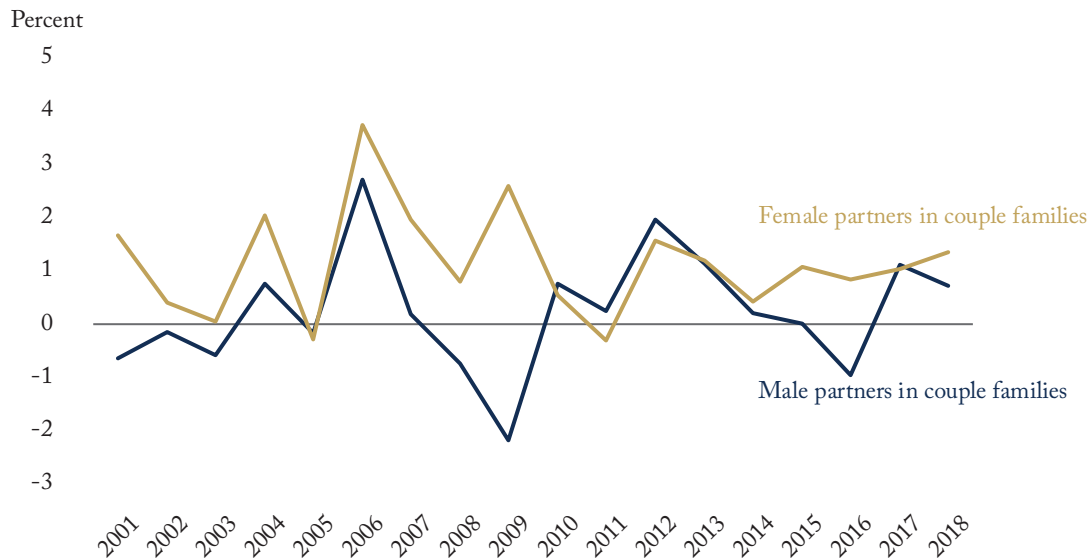
managerial and professional occupations” (Moyser 2019).³ Figure 1 shows that female employment income growth in dual-earner, male-female couples, including those with and without children, has been higher and more reliable compared to income growth for their male partners over the last two decades. Among male-female couples with one child, median maternal employment income between 2008 and 2018 rose more than twice as much as median parental employment income (11.7 percent vs 5.4 percent).⁴

Access to early learning and childcare also matters to inclusion. A recent RBC Economics study, Desjardins and Freestone (2021), documented that job losses during the pandemic have been most pronounced amongst mothers in lower-wage work. Many of these mothers worked in sectors that were especially hard-hit by the pandemic – retail, hospitality and personal services. In addition to employment services and retraining to reach long-termed unemployed workers in

The authors thank Parisa Mahboubi, Alexandre Laurin, Rosalie Wyonch, Rob Gillezeau, Christopher Rastrick, Munir Sheik and anonymous reviewers for comments on an earlier draft of this paper. Their comments provided important guidance as we revised and resulted in a much stronger paper. The authors would also like to note that this paper is the result of a collaboration between the authors who bring distinct perspectives to the topic of early learning and care among other policy issues in Canada. The final paper reflects a negotiated area of common agreement and it is our hope that differences, partisan, regional and otherwise, can likewise be resolved between governments in Canada to rapidly advance the expansion of childcare for families.

- 1 See, for example, media coverage by D. McGinn (2020). “Low enrolment, PPE costs push child care centres across Canada to edge of insolvency,” *The Globe and Mail*, September 25; and L. Meyer (2020). “132 Ontario childcare centres closed since March,” NewsTalk 1010.
- 2 See Laurin and Milligan (2017) for a summary of this literature and application to a specific proposal.
- 3 The wage gap between women and men closed by one-third since 2000 (see Figure 1 in Schirle and Sogaolu (2020)).
- 4 Authors’ calculations on median real employment income using Statistics Canada Tables 11-10-0013-01 and 11-10-0029-01.

Figure 1: Annual Change in Median Real Employment Income, by Gender in Male-female Couples



Source: Authors' calculations using Statistics Canada table 11-10-0022-01.

distrupted sectors, the RBC authors note that families with children will need access to affordable and reliable early learning and care to be able to take part in those re-employment interventions. Furthermore, when families have access to good-quality programs, over the full range from early years family drop-in centres, through to full-day childcare programs, children and families are better supported in their communities. COVID shut-downs of schools, childcare and even playgrounds have reminded us all how much kids and families rely on their communities for learning, play and support. With an aging population and the prospect of slower economic growth in the long

term, Canada should be doing far more to invest in opportunities that allow kids and families to thrive.

Our focus here is not short term reforms motivated just by the COVID-19 pandemic, which we have written about previously,⁵ but on incremental and structural reforms to increase the quantity and quality of childcare in Canada.

The public policy childcare infrastructure in Canada is shared between the federal and provincial governments – with larger municipalities also in the game – and has reasonably well-delineated responsibilities. The federal government has taken primary responsibility for tax support and direct family benefits while the provinces have primarily

5 See K. Boessenkool and J. Robson (2020). "Thoughts on forestalling the coming childcare crisis." Intelligence Memo. C.D. Howe Institute.

provided direct funding to providers and oversight of delivery. This isn't to say that there hasn't been any overlap between those roles.

A number of recent childcare proposals have echoed long-standing calls for what we describe as a “big bang” approach to childcare (e.g. Yalnizyan et al. 2020; Bezanson, Bevan and Lysack 2020 and Pasolli 2019). Three common characteristics of these proposals are: a significant shift to federal national leadership in setting priorities and standards; substantially increased government provision of services; and eventual universal childcare services at low or no cost to parents. This *Commentary* will discuss the merits and concerns we see in the “big bang” approach and describe our preferred approach – what we call aggressive incrementalism. Our aggressively incremental reforms include both demand- and supply-side solutions.

We make a number of recommendations for reform – some modest but with potential high impact, and others more ambitious. We direct our recommendations to both provincial governments as the policy leaders on early learning and care, and to a federal government that has already signalled it is ready to spend money in this sector.⁶ Our recommendations are rooted in a recognition of Canadian federalism and the comparative advantages of each of the federal and provincial governments. Among our recommendations are three changes that build on existing demand- and supply-side instruments to support early learning and care.

First, we recommend that the existing federal Child Care Expense Deduction, a regressive tax deduction that reinforces a patriarchal ‘breadwinner’ model of Canadian families, be replaced with a

more generous, progressive and more frequently paid refundable tax credit.

Second, we recommend that provinces redouble their efforts to increase childcare spaces by increasing operating and/or capital grants for licensed spaces. We discuss the merits and drawbacks of different ways such funding could be distributed, including the use of geospatial data or new-birth data in the province.

Third, we recommend that existing and any new federal dollars for childcare be consolidated into a single, dedicated transfer to provinces and that this transfer be focused on assisting provinces with increasing supply of early learning and childcare services. A permanent block transfer would provide provinces and providers with greater certainty for expansion and would avoid the cyclical negotiations and stakeholder expectations that surround bilateral agreements. While those deals have included well-meaning and hopeful, if vague, statements of intent and principles, they haven't yielded the hoped-for changes on the ground for Canadian families.

Our approach – building on what exists – should not mask the importance or challenge of getting childcare right. We need aggressive attention to incremental reforms to get this right, for women, for families and for Canada.

CANADA'S EARLY LEARNING AND CHILDCARE INFRASTRUCTURE

This childcare infrastructure is far from neat and tidy, but it does have an overarching logic to it that reflects Canadian federalism. Ottawa provides broad-based income support, conducts and supports research, and supports provincial, territorial and

6 The 2020 Speech from the Throne, for example, committed the government to “build on previous investments, learn from the model that already exists in Quebec, and [to] work with provinces and territories to ensure that high-quality care is accessible to all.” Privy Council Office (2020). Available online at: <https://www.canada.ca/en/privy-council/campaigns/speech-throne/2020/stronger-resilient-canada.html>

First Nations' roles through intergovernmental transfers. Provinces and territories oversee childcare on the ground. They regulate and license providers, provide operating and capital grants to providers, transfer funding to local authorities for local publicly run programs, and offer different forms of targeted supports.

The non-governmental side of Canada's childcare infrastructure includes a rich mix of providers and childcare options. There are fully public providers in publicly owned buildings at one end of the spectrum, all the way through to nannies privately employed directly by families at another. In between are charitable and non-profit providers, and for-profit providers. There are family or day-home providers, licensed and unlicensed care,⁷ and informal care provided by parents, relatives, or friends. To add to this, there are early learning and childcare development programs that take place in high-quality care settings and others that depend on parental involvement or drop-in models.

Without getting into the specific details or variations in the provincial/territorial policy approaches to early learning and care, and also postponing our discussion of intergovernmental transfers to later in our paper, we can generally say that provincial policy operates primarily on the supply side of the childcare equation while federal tax measures and transfers to families operate primarily on the demand side. In the next section, we summarize the existing policy instruments that

currently shape early learning and childcare across the country.

Provincial

Our focus in this section of the paper is principally on provinces and territories outside of Quebec where investments in early learning and care have been, historically, more modest. It would be impossible in the space we have available to describe all of the different provincial supports for childcare. Broadly, provincial supports can be grouped in one of the following three categories:

- *Licensing and Regulation:* Provinces oversee the licensing and regulation of childcare providers – primarily via child/caregiver ratios, child/physical space ratios, education/training levels required for caregivers, licensing and inspections for health and safety compliance. In some provinces, municipalities also play an important role in regulatory oversight.
- *Spaces:* Provinces provide funding to providers in the form of operating and capital grants and sometimes wage subsidies for early learning and childcare (ELCC) workers. For example, Ontario has an annual capital fund for construction or renovation of new childcare spaces but only in public school properties.⁸ The province also offers a Wage Enhancement Grant of up to \$2 per hour to licensed providers to boost wages paid to eligible staff.⁹ In BC, new or unlicensed childcare providers (including homecare providers) who want to upgrade their facility to meet provincial licensing can apply for a start-

7 Not all childcare providers in a province will hold a licence, although licensing is often a condition of direct financial support through subsidies and operating grants. Generally, all childcare providers, including those without a licence, are subject to some minimum regulations to protect the safety and wellbeing of children in their care.

8 Ontario Ministry of Education (undated). "Capital Investments – Modernizing Ontario's Schools and Child Care Spaces." Webpage, Government of Ontario. Available online at: <http://www.edu.gov.on.ca/eng/parents/capital.html>

9 Government of Ontario (2019). "Ontario Supporting Child Care Professionals." News release, April 18.

up grant to cover some of the costs.¹⁰ Eligible licensed childcare providers in the province can also access operating funding through base funding, wage subsidies and funding to reduce fees paid by families.¹¹ Quebec, which spends more than all other provinces combined, offers substantial operating funds for eligible childcare providers to reduce parent fees, and established a sector-wide pension plan for ELCC workers in the province.¹² In all provinces, licensed childcare services are operated by a mix of non-profit, for-profit and public-sector providers. Even in Quebec, for-profit providers make up the largest share of centres.¹³ In addition to centres, there are both licensed homecare providers in all provinces and unlicensed homecare providers, who are still subject to certain key regulations, such as limits the number of children they can provide care for. The current mix of space, in short, includes a range of providers, in a range of settings, and supported using a range of provincial funding mechanisms. Expanding the supply of early learning and care services, while meeting the diverse needs of Canadian families, will require investments in everything from programs for

parents at home with infants, to homecare services, to childcare centres. Canadian families need it all to be able to balance paid work and unpaid care.

- *Targeted Supports:* All provinces also provide more targeted childcare supports through subsidies on spaces. When these subsidies are attached to providers, as in Quebec, families must shop around to find a subsidized space and often face lengthy waiting lists for those lower-cost places.¹⁴ In Ontario, Alberta and BC, income-tested subsidies have been converted into portable benefits that follow a child, even though the subsidy is paid directly to an eligible provider.¹⁵ Quebec has the most comprehensive and complete suite of provincial supports that includes subsidized spaces as well as a generous refundable credit,¹⁶ which helps to offset some of the costs for families using the nearly 25 percent of spaces that aren't subsidized.¹⁷ Ontario has also recently converted the provincial portion of the Child Care Expense Deduction on personal income taxes to a more generous refundable credit.¹⁸ It should, however, be noted that the change was accompanied by a significant

10 Government of British Columbia (undated). "Start-up Grants for Becoming a Licensed Child Care Facility." Webpage. Available online at: <https://www2.gov.bc.ca/gov/content/family-social-supports/caring-for-young-children/running-daycare-preschool/start-up-grants>

11 Government of British Columbia (undated). "Child Care Operating Funding." Webpage. Available online at: <https://www2.gov.bc.ca/gov/content/family-social-supports/caring-for-young-children/running-daycare-preschool/child-care-operating-funding>

12 Details of the pension plan are available at: <https://www.rrcpegq.ca/>

13 Cleveland, Mathieu and Japel (2021). "What is 'the Quebec model' of early learning and child care?" *Policy Options*, Institute for Research on Public Policy.

14 Ibid.

15 <https://www.ontario.ca/page/child-care-subsidies> For Alberta, see <https://www.alberta.ca/child-care-subsidy.aspx> For British Columbia see <https://www2.gov.bc.ca/gov/content/family-social-supports/caring-for-young-children/child-care-funding/child-care-benefit> More comprehensive summaries can be found at Child Care Canada here: <https://childcarecanada.org/sites/default/files/ECFEC2016-QC.pdf>

16 <https://www.mfa.gouv.qc.ca/en/services-de-garde/parents/Pages/index.aspx>

17 <https://www.mfa.gouv.qc.ca/fr/services-de-garde/portrait/places/Pages/index.aspx>

18 <https://www.ontario.ca/page/ontario-child-care-tax-credit>

reduction in capital grants for childcare in the province and no growth in operating transfers to providers.¹⁹

Federal

The Child Care Expense Deduction (CCED) allows parents to deduct from their taxable income up to \$8,000 per child (under 7 years of age) in expenses for childcare, with different amounts for older children and children with disabilities. On an annual basis, this deduction costs approximately \$1.5 billion in forgone federal tax revenues,²⁰ before counting provincial income tax impacts. This tax support is only available to the extent that the lower income spouse, who must claim the deduction, earns enough money to qualify because the deduction cannot exceed two-thirds of the claiming spouse's income. As a deduction, the CCED is also more valuable to families with higher taxable income and therefore tax liability.

In principle, the CCED is available to all families with eligible childcare expenses, but because it is a deduction rather than a refundable credit, and because of the two-thirds²¹ and lower-income spouse rules, the CCED is significantly more generous to higher income families.²² Lower income families also report paying lower out of pocket fees on childcare, as we illustrate in Figure 2, but the CCED does little to enable lower and modest income families to afford more or better quality early learning and childcare.

By treating out-of-pocket childcare costs as a cost of employment for the lower-earning spouse, the CCED reinforces the idea that the income of the lower-income spouse is somehow discretionary and worthwhile only in so far as it exceeds the costs of early learning and care for dependent children by at least 33 percent. The CCED was originally intended as a measure to recognize a cost of labour market participation facing mothers who work outside the home. That's the origin of the rule requiring that the deduction be claimed by the lower-income parent. It is based on out-dated "breadwinner" model of Canadian families and incorrectly treats childcare only a cost of mothers working, instead of a family cost of providing care and early learning to young children. The design of CCED presumes that the lower-earning spouse could, hypothetically, otherwise be at home providing the care to children. This reinforces inequalities in the bargaining power between spouses on work and care according to the net value of their paid labour, after tax and childcare costs. So long as women remain disproportionately more likely to be the lower-earning spouse, the design of the CCED requires that they claim the deduction, reducing the net value to the family and reinforcing the framing that childcare costs are a trade-off for maternal earnings only. While we are strong here in our criticisms we don't share the views of some who have called for the CCED to be cancelled.²³ We recognize that the CCED does not generate a

19 Authors' calculations using the Public Accounts of Ontario, Vol. 1 for fiscal years 2017/18 through 2019/20, Ministry of Education, Child Care and Early Years Program. Capital spending on childcare was \$38 million in 2017/18, rising to \$94 million in 2018/19 but fell to \$6 million in 2019/20. Direct operating transfers to providers were \$1.6 billion in 2017/18, rising to \$1.9 billion in 2018/19 and remained at \$1.9 billion for 2019/20.

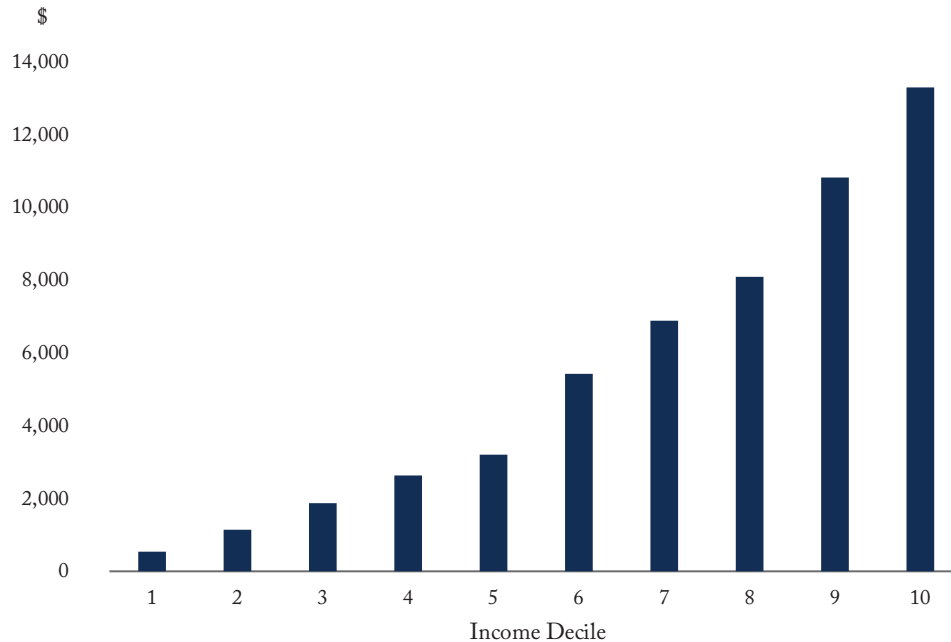
20 Finance Canada (2020). "Report on Federal Tax Expenditures." Available online at: <https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures/2020/part-4.html>

21 The claim for childcare expenses cannot exceed two-thirds of annual income.

22 Laurin and Milligan (2017). See Table 1.

23 See <https://childcarecanada.org/documents/research-policy-practice/19/04/why-ontario-tax-credit-child-care-bad-idea>

Figure 2: Mean Annual Childcare Spending (self-reported) by Income Decile, Families with 1+ Children under 6 (2017)



Source: Authors' calculations using the Canadian Income Survey, 2017.

supply of early learning and care, but in our view the challenge ahead is large enough that Canada needs both supply- and demand-side solutions.

Both Conservative and Liberal federal governments have, at various times, argued that federal child benefits should be counted as part of total federal spending on childcare. We acknowledge that is a matter of considerable debate. Our view is that, in practice, child benefits may be used for a wide range of goods and services that enhance the development and well-being of

children, including, but not limited to, early learning and care. The primary federal cash transfer to families with children is the Canada Child Benefit — an income-tested per child benefit that pays up to \$6,765 for children under 6 and up to \$5,708 for children aged 6 to 17.²⁴ Families with less than \$31,711 in adjusted family net income receive the maximum benefit. Our recommendations, described later in the paper, do not suggest any changes to this cash transfer. In our view, the purpose of the cash transfer is to support the well-being of children.

24 Supplementing this for lower-income families is a GST/HST Credit that pays benefits based on income and includes a supplement for each child. Finally, the federal government has a modest wage subsidy program – the Canada Workers Benefit – for lower-income workers.

Families in Canada need both adequate income to meet the needs of their children and access to services. Our focus in this paper is on accelerating the supply of early learning and care services.

Since 2017, the federal government has also made annual transfers to provinces of \$400 million under bilateral agreements intended to implement the 2017 Multilateral Early Learning and Childcare Framework.²⁵ This is on top of the existing \$250 million annually in the Canada Social Transfer that is notionally earmarked for childcare. These amounts are, it needs to be said, very modest relative to the costs of building and sustaining an adequate supply of childcare. As part of the Multilateral Framework, the federal government also committed money to close gaps in data and research. The initial agreement was signed for three years between 2017 and 2020, and extended for the 2020/21 fiscal year. In addition, the federal government announced a one-time “Safe Restart Agreement,” a COVID related transfer of \$19 billion that included \$625 million for childcare across all provinces. In the November 2020 Fall Economic Statement (FES), the federal government announced it would make Budget 2017 funding permanent at 2027/28 levels by providing \$870 million per year and ongoing, starting in 2028/29.²⁶ Of this total amount, \$210 million would support Indigenous early learning and childcare programming. Again, we see this as a relatively modest investment and one that is delayed well into the future. What remains to be seen are the terms of any new agreements between governments on how that money can be used, whether that timing might be accelerated, and whether further investments might be available.

Families have different needs for learning and care and no single form of programming

and provider can meet all their needs. Childcare provision is far from a one-size fits all approach. It is, rather, a rich tapestry of options where parents are best able to determine what their own family needs. The problem, however, is that many families don't have real choice in practice. They are constrained by what they can afford and by what options happen to be open in their community when they are looking.

It is clear that there are increasing demands from parents – and citizens – that childcare be about more than child minding. Parents want and need early learning and care services that provide an enriched environment for children.

This system faces stresses during the COVID-19 pandemic and as we emerge from that pandemic, it will need to become even more resilient.

But how ?

A BIG BANG?

A number of recent childcare proposals have echoed long-standing calls for what we describe as a “big bang” approach to childcare.²⁷ These proposals generally revolve around a large infusion of conditional federal cash to leverage either voluntary agreements with provinces or to serve as a platform for greater federal involvement on common national standards for childcare services, and expansion of spaces in non-profit or public programs at low or no cost to parents. Some have included calls to gradually expand provincial public education systems to include full-day programs to pre-kindergarten kids, subject again to national standards and conditions on federal transfers.

We share the deep frustration of many of these authors at the current state of childcare

25 <https://www.canada.ca/en/employment-social-development/programs/early-learning-child-care/reports/2017-multilateral-framework.html>

26 Minister of Finance (2020). Fall Economic Statement. See page 77.

27 For example, Yalnizyan et al. (2020); Bezanson, Bevan and Lysack (2020) and Pasolli (2019).

infrastructure in Canada, and in particular the failure of governments across the country, and of all political stripes, to prioritize this issue during the COVID recession.²⁸ We also share the view that, especially now, the federal government has comparatively much more fiscal flexibility than is the case for provinces. This is true even though the federal government has borne the large brunt of income support during the pandemic. Assuming these pandemic expenditures are not made permanent, the federal government continues to have a stronger balance sheet than do the provinces.²⁹ As we argue below, we agree that the federal government should play a larger role in financing childcare infrastructure, just as they have played a much larger role – under different stripes of government – in delivering family benefits that have done so much to reduce child poverty in Canada. We enthusiastically support calls for childcare to move to the top of the public policy agenda as Canada navigates the pandemic and recovery. We also echo others who have called on governments at all three orders in the federation, and regardless of partisanship, to set aside political differences and work collaboratively to address Canada’s childcare infrastructure deficit. Our primary reservation about the “big bang” approach is that we aren’t convinced that giving a new and expanded role to the federal government will be the panacea some hope for. A resilient and inclusive network of childcare infrastructure across Canada must respect jurisdictional roles in a decentralized federation like Canada.

The federal government has, in recent years, increased its presence through the Multilateral Early Learning and Childcare Framework and the

associated bilateral agreements with provinces (\$1.2 billion total provided from 2017 to 2020 and \$400 million provided in 2020/2021). This has more than doubled annual federal transfers to provinces for childcare from \$250 million to over \$600 million annually (in addition to transfers to territories and First Nations governments). Looking at the text of those bilateral deals, we see a lot of variation in how federal and provincial governments have agreed on how new money should be spent. Rather than a common set of standards or systems, we have seen provinces negotiate individual bilateral agreements that reflect existing provincial priorities. As illustrated in Figure 3, we also see a great deal of variation amongst provinces in the per-space costs of expanding childcare, as implied by the projected number of new spaces that would be supported by new federal funding.

We see no meaningful signs that provinces would be willing to accept national standards or other forms of federal oversight in an area of exclusive provincial jurisdiction. It is unclear why a provincial government would or should agree to national standards and conditional funding when more flexible arrangements that respect jurisdictional differences and the principles of fiscal federalism have been the established norm.

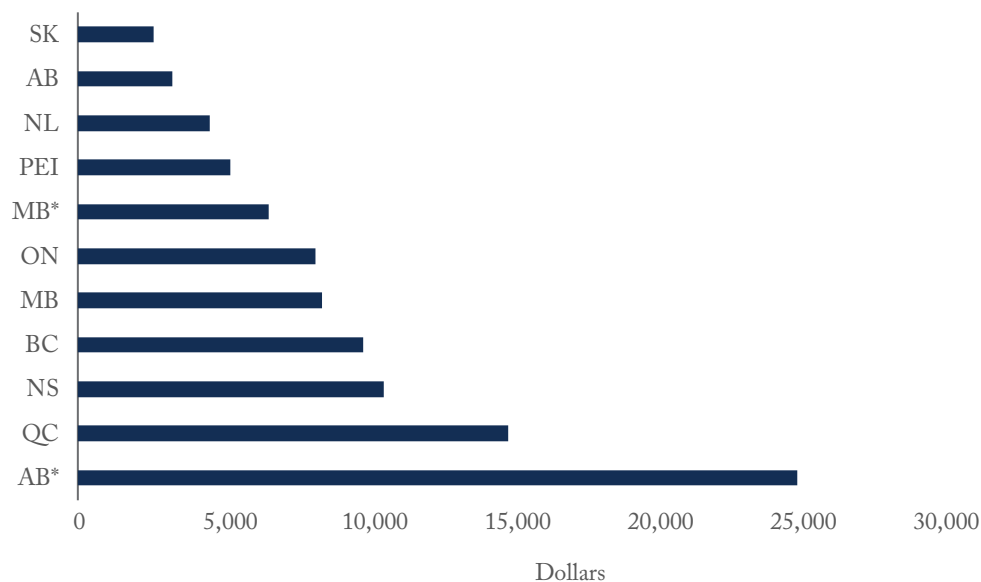
Setting aside the issue of jurisdictional politics, we question the practicality of federal monitoring and enforcement of provincial actions in the area of early learning and childcare. Even with a rigorous reporting mechanism that extends beyond the current system of annual reports,³⁰ Ottawa has no experience overseeing childcare supply or regulation. If provinces were to report against common national standards, how would officials

28 See Ken Boessenkool. 2020. “Why the tepid response to the crisis of childcare.” The Line. August 6. <https://theline.substack.com/p/ken-boessenkool-why-the-tepid-response>

29 See, for example, Trevor Tombe’s analysis: <https://www.macleans.ca/wp-content/uploads/2020/11/Trevor-Tombe.jpg>

30 See for example: <https://www.canada.ca/en/employment-social-development/programs/early-learning-child-care/reports/2019-national-progress.html>

Figure 3: Implicit Cost-per-space Derived from Federal-provincial Bilateral Agreements on Childcare, 2017 and 2020



Data with an * indicate 2020 renewals. All other data reflect 2017 agreements.

Alberta is included twice to reflect differences in the financial information contained in the two agreements that were available as at the time of writing. The level of information in those agreements is not sufficient to fully explain the difference in implied costs.

Source: Analysis of data in the ELCC bilateral agreements signed in 2017 and 2020.

in Ottawa have any independent knowledge of the reality on the ground? As in other areas of bilateral or even block transfers, the federal government is largely beholden to the information that provinces are willing to share. If anything, public accountability is likely to have a stronger impact on policy choices the closer a government is to the services delivered.³¹ Provincial policy can and does move to reflect the preferences of their citizens.

In fact, provinces like Ontario, BC and PEI that have launched full-day, full-week kindergarten have done so independently of federal policy priorities and have kept their systems despite changes in government.

The challenge of the “Big Bang” approach is that it is an attempt to shift some or all of responsibility for childcare policy from the provinces to the federal government. If the federal government is to

31 See William Robson and Alexandre Laurin, Chapter 6. “Adaptability, accountability and sustainability: Intergovernmental fiscal arrangements in Canada.” In Kim, J., and S. Dougherty (eds.) (2020), *Ageing and Fiscal Challenges across Levels of Government*, *OECD Fiscal Federalism Studies*. OECD Publishing, Paris, <https://doi.org/10.1787/2bbfbd8-en>; and Ken Boessenkool. 2010. “Fixing the Fiscal Imbalance: Turning GST Revenues over to the Provinces in Exchange for Lower Transfers.” Calgary: School of Public Policy). December.

get involved, it should focus its involvement where it can do the most good, rather than try to do too much, and do it badly.

AGGRESSIVE INCREMENTALISM

We favour an incremental approach that builds on what is currently in place in both the supply and demand side of childcare policy in Canada, but pursued aggressively. This is not to say all of our recommendations are minor – they are not. It is more to say that we start with what is and ask ourselves what the next step towards a better outcome might be. Not all of our reforms need be pursued by all governments. While we hope governments across the country might embrace all of our recommendations, different governments may find different reforms more attractive to their economic and fiscal realities. Other provinces can then observe and learn. That is one of the great strengths of a decentralized federation. As Stéphane Dion argued more than two decades ago, when Canada’s social union is working well, best practices from one jurisdiction can inform and create “an incentive for a race to the top.”³²

Our reform ideas are not temporary, needed only until we get a grip on the pandemic. Rather, our proposals are intended to permanently improve childcare quality and quantity.

Our reforms are grouped into three sections: provincial policy, federal policy and fiscal arrangements.

Recommended Provincial Reforms

One of the more challenging aspects of childcare is the creation of new spaces. Provinces have tried various methods to increase supply – from

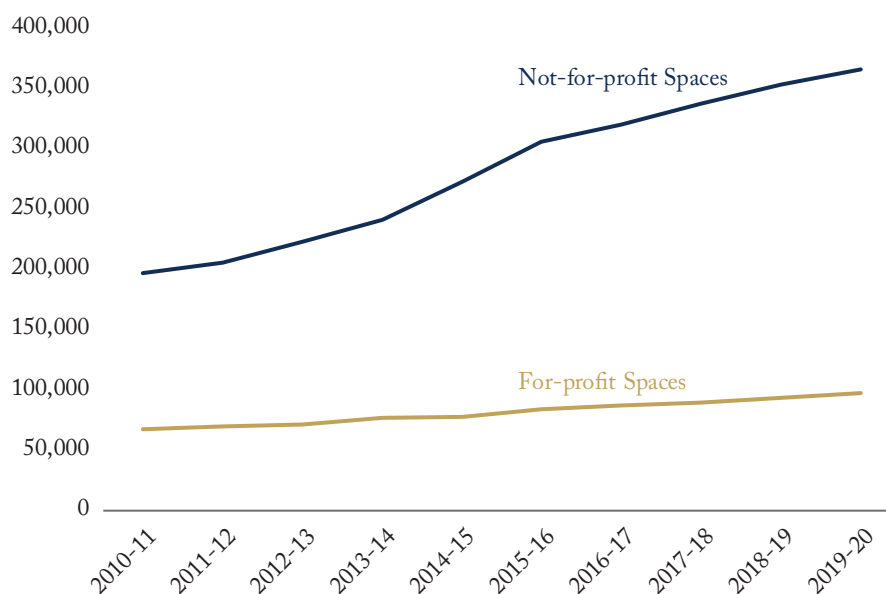
spaces funded and operated in the public sector to boosting parental support, to support demand. In other provinces, particularly Quebec, the focus for new investments might instead be better directed towards improving the quality of the early learning and care spaces they already have.

Parents want and need early learning and care services that provide an enriched environment for children. We think it is important, particularly for families with multiple needs or at-risk families, that funding continue to flow to programs housed in multi-service organizations so that communities can provide wrap-around programs that tackle different but interrelated needs. This is especially true for services that operate outside of standard hours or provide programming that includes parents in the activities (i.e., parent and toddler programs). Even Quebec’s system, which serves as the example for returns on investment in terms of maternal employment and earnings, also includes support for a range of community programs that promote child development through parental engagement. The parental employment impacts are real and important, but if we’re serious about a child-centred system then we need childcare infrastructure that is diverse and flexible on the ground. This includes recognition of a clear demand for different types of community-based care such as homecare and not-for-profit options to suit different families and their children.

We believe most provinces need to prioritize an aggressive expansion in the supply of early learning and care services. We discuss the issues around financing this in the next section. Looking at data for Ontario in figures 4 and 5, we see evidence that expansion of spaces in childcare centres has not been matched by an increase in the number of providers.

32 Dion, S. (1999). Testimony, Sub-Committee on the Status of Persons with Disabilities of the Standing Committee on Human Resources Development and the Status of Persons with Disabilities, House of Commons, 36th Parliament of Canada. Available online at: <https://www.ourcommons.ca/DocumentViewer/en/36-1/SSPD/meeting-9/evidence>

Figure 4: Trends in the Supply of Centre-based Childcare Spaces in Ontario, For-profit vs Non-profit (2010-19)



Source: Ontario Early Years and Childcare Annual Report 2020. Dates are fiscal years.

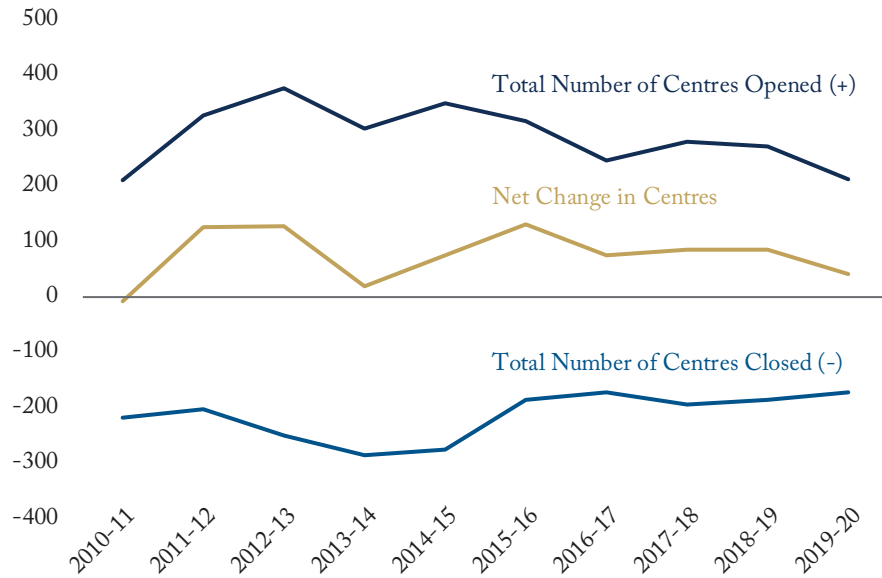
The data above suggest, in our view, a limited capacity for expansion in the province under the status quo. Existing providers will eventually hit a limit on the number of new spaces they can provide while still respecting important provincial regulations to protect the quality of care. It could also mean existing policy does a relatively poor job at encouraging new facilities and/or new entrants into the market. To meet the need for a real expansion of childcare supply, Canada needs to get serious about grants to providers.

The first issue is whether these grants should be operational or capital grants, or a mix of both. In part that will be driven by the nature of the delivery mechanism that we discuss next – is it based on incremental growth in children needing childcare or the existing base of children accessing childcare? Provincial funding arrangements might also include smaller grants to assist with ongoing operations,

or much larger capital grants tied to the expansion of the number of spaces, including construction of new locations for programs. We view the expansion of cash from the conversion of the CCED to a more progressive refundable tax credit that will benefit lower- and modest-income families as a boost to the operational side of childcare through demand-side funding. If so, provincial grants might prioritize an expansion of the number of spaces and providers.

Second, these provincial grants should be directed to licensed spaces. This means such grants will create some incentives for providers to maximize their revenues by becoming provincially licensed entities – moving more childcare to licensed care. These grants should also, as much as possible, be community-based and reflect the unique demands and challenges of local communities.

Figure 5: Trends in Opening, Closing and Net Changes in Childcare Centres in Ontario (2010-2019)



Source: Ontario Early Years and Childcare Annual Report 2020. Dates are fiscal years.

Which takes us to potential delivery mechanisms for such grants.

Many government grants and programs are delivered on a simple per capita basis. This is the easiest method to administer and, perhaps, the easiest to defend politically, given competing inter-jurisdictional interests. But we would like to put other options on the table for determining the allocation of funding for new spaces. Here we consider three possibilities that might be used to allocate provincial grants to providers. These alternatives to simple per capita funding might also be used to determine intergovernmental transfers from federal to provincial governments, described in the next section.

One option is grants distributed based on number of new childbirths per capita. This could even be done at a neighbourhood rather than

municipal level. Under such an arrangement, urban neighbourhoods that are home to young families, for example in parts of Calgary, Toronto and Halifax, would receive the largest share of resources to meet local needs. This would, however, place families in rural or remote communities, or communities with more rapidly aging populations, at a relative disadvantage. Over the longer term, this method might lead to changes in migration patterns as families try to relocate to neighbourhoods with better childcare infrastructure.

A second option would instead aim to identify and prioritize “childcare deserts” – neighbourhoods with low density in supply of childcare and higher average distances to a childcare provider for local families with children. Over the years, the federal government has developed more sophisticated platforms for integrating and sharing rich geospatial

data.³³ These databases could be used to support a more sophisticated way to direct funding to neighbourhoods that need it most, taking account of both the rate of change in the number of young families as well as existing infrastructure. This approach would also align with the evidence that location is the leading criterion used by parents in selecting care. However, communities with older populations and more dispersion in the locations of young families might still be penalized. Likewise, this option depends on having accurate and up to date information on the location of childcare spaces and the physical infrastructure that supports them.

A third option might instead give every new parent the ability to direct a one-time sizable grant to the childcare provider they chose.³⁴ One of the many stresses of being a new parent is worrying about whether and where a childcare space might be available when needed. It's already not uncommon for parents to sign up to waiting lists when their child is born (or adopted) or even sooner. This option would assist those new parents by giving them additional bargaining power and flexibility when looking for a childcare space. Of course, since money is fungible, such a program would have to anticipate and thwart potentially perverse incentives – such as childcare centres catering only to very young children. Furthermore, such a system could favour existing service providers rather than supporting new ones, and might reward

those providers best able to communicate early with parents of very young children.

The bottom line is that, whether operational or capital grants are chosen, provincial governments should be more thoughtful, creative and flexible in how they allocate funding so that grants find their way where they are needed most.

Provinces also regulate and license childcare providers. There are two challenges with addressing provincial regulation and licensing of childcare. In the first place, there are 10 provinces and 3 territories and some but limited commonality across Canada. For example, in British Columbia, providers offering spaces to infants must maintain a minimum ratio of 1 staff person for every 4 infants.³⁵ By contrast in Quebec, providers offering care to infants can have 1 staff member care for up to 5 infants.³⁶ We don't know whether there is a meaningful difference in the quality of care provided to infants in BC compared to Quebec

The interprovincial differences in regulation are not necessarily a bad thing – different provinces can react differently to different local economic and other realities, and different approaches can allow us to evaluate which ones work best. Furthermore, there is an inherent tension between parents (and the public) wanting to maximize affordable and ample childcare, with the understandable desire of parents to know that their child will be safe and well-cared for. Regulations are a primary tool for

33 See for example: <https://www.nrcan.gc.ca/science-data/science-research/earth-sciences/geomatics/canadas-spatial-data-infrastructure/geospatial-communities-canada-ce/federal-geospatial-platform/11031>. One example of new geospatial analysis of data for policymaking includes a study of income distributions and mixes within high-rise apartment buildings published by Statistics Canada, January 2020 (available online at: <https://www150.statcan.gc.ca/n1/pub/11-633-x/11-633-x2020001-eng.htm>).

34 <https://www.mcgill.ca/maxbellschool/article/articles-max-policy/child-care-baby-bonus>

35 Government of British Columbia (undated). "Understand the Different Types of Child Care in B.C." Website. Available online at: <https://www2.gov.bc.ca/gov/content/family-social-supports/caring-for-young-children/how-to-access-child-care/licensed-unlicensed-child-care#licensed>

36 Government of Quebec (undated). "A sufficient number of qualified staff." Website. Available online at: <https://www.mfa.gouv.qc.ca/en/services-de-garde/legal-illegal-reconnu/services-garde-reconnus/Pages/personnel-en-nombre-suffisant-et-qualifie.aspx>

parents overcome the informational asymmetries with providers and to ensure good-quality care.

All else being equal, more stringent licensing will mean higher costs to deliver the same volume of spaces. For providers that are unlicensed, more stringent regulation without adequate financial support can make licensing more difficult. Yet parents count on government licensing and regulations for quality assurance. The available evidence is that parents look first at location and cost in picking childcare (Minha 2014). Licensing systems could be made faster and easier, but adequate regulation is essential because of parental information asymmetries – providers will always know more than parents about the quality of care provided to children. Therefore, any change (whether an increase or decrease in stringency), should be evidence-based and clearly informed by some understanding of how licensing and regulations impact outcomes not just for providers and parents, but also for kids.

So where does that leave us? Licensing and regulation needs to be stringent enough to provide proper signals and comfort to parents that they can expect quality of care. In addition, there needs to be more of an inter-jurisdictional effort to study and document the relationship between different regulatory standards and outcomes for kids and operational costs. There are trade-offs here, and we need to be open-eyed about what they are. More accessible and lower-cost care will boost labour force participation for the present, but may have long-run deleterious effects on the kids if not consistently matched with quality (Baker, Gruber and Milligan 2019).

Recommended Federal Reforms

Step one for the federal government is to replace the Child Care Expenses Deduction (CCED) with

a refundable tax credit as proposed and modelled by Laurin and Milligan (2017), preferably paid monthly rather than refunded annually at tax time.³⁷ This would build on the tax treatment of childcare expenses now in place in both Quebec and Ontario. Laurin and Milligan (2017) suggest a rebate of 75 percent of childcare expenses for families with incomes below about \$35,000. The rebate falls to 26 percent for families with incomes above about \$155,000 (See Appendix).

This refundable tax credit could be designed to provide rebates to families who qualify for amounts based on reasonable income and benefit thresholds. For example, a family with two children under six years old could qualify for up to \$1,125.00 per month even if they owe no taxes and could not therefore claim the CCED. This money should be available to them on an ongoing basis rather than waiting over a year for their annual tax return.

If the CCED was converted to a generous and progressive refundable tax credit for childcare expenses based on family income, it would eliminate the current discrimination against lower-income spouses due to the two-thirds income replacement rule. It would also benefit middle-income families who do not qualify for provincial or local subsidies but cannot afford the out of pocket costs of childcare and who receive less benefit from a tax deduction than do higher-income parents who are already best able to afford to pay out of pocket for childcare. A refundable credit should also have a significant and positive effect on female labour force participation. When more women are working, tax revenues for governments rise and this revenue lowers the net cost of the rebate. According to Laurin and Milligan's estimates, the rebate would result in between 15 and 22 percent of stay-at-home mothers moving to employment in the long

37 Much of this next section draws from Ken Boessenkool and Jennifer Robson (2018).

run.³⁸ At a time when the federal government is clearly in search of options to support women in regaining lost economic ground during the pandemic,³⁹ we think a conversion of the CCED has much merit.

In its 2018 budget, the Ontario government converted the provincial portion of the CCED into precisely this kind of refundable tax credit, though we note that they coupled this with a reduction in operating grants to providers. This example might sound like an either/or proposition, but we would encourage governments to do both tax-based support for parents and operational grants for suppliers.

A second step for the federal government would be to expand the efforts under the Multilateral Early Learning and Childcare Framework to improve data collection and reporting. We need a far more significant investment to close data gaps in childcare and conduct additional research on the efficacy – for example, longitudinal surveys of child development and health – of childcare in Canada. Big data and research gaps remain on the supply and distribution of spaces, as well as on the actual fees paid (versus the sticker price). We do not have a robust model of: operating expenses for providers; impacts on family finances and parental use of childcare; or the impacts on child well-being and development from different types and styles of childcare. To inform policymaking and public accountability, we simply need more data and information on childcare in Canada.

Other reforms the federal government might consider include:

- **Direct support to providers for the costs of renting or purchasing physical space for care services:** The federal government has the capacity to deliver direct help for one of the largest cost-drivers of childcare, namely the costs of adequate physical space that providers pay in mortgages and/or rental costs. We note, for example, that a prominent Ottawa-area childcare provider had to shutter when they could no longer pay their \$14,000 per month rental fee to continue to operate, and this on federally owned property.⁴⁰ During the pandemic, rental relief programs were put in place.⁴¹ Before the pandemic, the Canada Mortgage and Housing Corporation (CMHC) had initiated an innovative program of shared-equity mortgages to assist first-time buyers. In a shared-equity arrangement, the CMHC would retain a portion of the equity in the home, reducing the cost of borrowing to the homebuyer, but also providing some security to the lender. We think both measures might inspire policy options to reduce the costs to providers of renting or purchasing the physical space required to provide early learning and childcare (ELCC) services. We would caution, however, that coordination with provinces here is preferable to avoid clawbacks to provincial operating grants and duplication of any existing provincial programs.
- **Direct wage support to ELCC workers:** The wages of ELCC workers tend to be very low, leading to high turn-over in the sector.⁴² To complement provincial operating transfers and to increase the wages for these essential workers, but without driving up costs to families, the federal government might also consider a direct wage subsidy for non-profit and licensed childcare providers to attract and retain childcare workers. The Early Childhood Educator Wage

38 Laurin and Milligan (2017).

39 Department of Finance (2021). “Government announces members of new Task Force on Women in the Economy.” Press release, Government of Canada. March 8.

40 CTV News (2020). “Daycare closing.” News clip. Available online at: <https://ottawa.ctvnews.ca/mobile/video?clipId=2061417>

41 See, for example, the Canadian Emergency Commercial Rental Assistance <https://www.cmhc-schl.gc.ca/en/finance-and-investing/covid19-cecra-small-business>

42 See http://www.ccsc-cssge.ca/sites/default/files/uploads/About-CHRSC-Docs/childcarewages_e.pdf

Enhancement program in BC could be one model for such a national measure,⁴³ though we note that Ontario and Quebec also have their own provincial wage subsidy programs. We argue that there may be advantages to a program at scale and administrative cost savings that only the federal government can bring. The pandemic saw the creation of the federal Canada Emergency Wage Subsidy, which might also provide some lessons.

- **Provide targeted education and training support for future early educators:** Current bilateral agreements between the federal government and some provinces include professional training for early childhood educators. We also note that the 2020 Fall Economic Statement committed to providing \$420 million to provinces and territories to support the ELCC workforce through, for example, grants and bursaries to students in ELCC programs.⁴⁴ We see this as a positive step. To support the development of a highly skilled workforce that can deliver quality services, the federal government might consider also using federal post-secondary financing tools such as targeted student grants or loan forgiveness, grants to students and operating grants to training providers to boost the supply of well-trained caregiving staff.

Recommendations on Fiscal Arrangements

None of what we have proposed in provincial or federal policy domains is cost-neutral. But we note that studies of Quebec's system have documented large fiscal returns to governments in the form of higher personal tax revenues from increases in maternal employment (Fortin, et al. 2013). Likewise, Laurin and Milligan's proposed conversion of the CCED into a progressive refundable credit comes with an estimate that, in the longer term, the increase in labour force

participation from women could generate enough revenue to make the change almost revenue neutral for the federal government alone, and even providing a net consolidated government revenue dividend when taking provincial revenues into account. Given the recent damage to maternal employment in Canada, we argue that the cost of the policy change needs to be evaluated not on a comparison to the CCED cost *prior* to the COVID recession, but compared to what the impacts in the recovery period would look like with a status quo CCED versus a more generous refundable tax credit that prioritizes lower- and middle-income families who have suffered worse job losses than higher-income families.

With regards to operating or capital grants to providers to expand the network of childcare systems across the country, we recognize that new early learning and care spaces and providers cannot and should not be created overnight. Funding has to be secure for the long term and it should build on successful programs. As we argue above, provinces can and must continue to be the order of government to set priorities, allocate funding to communities and hold providers accountable for quality, accessible and affordable services to families.

However, we echo other authors on childcare in calling for a significant increase in federal *fiscal* responsibility. In fact, we offer three arguments for why and how a federal government ought to cover most, if not all of new costs.

First, coming out of this pandemic the federal government is much less fiscally constrained than the provinces.⁴⁵ Relative to every subnational government, only the federal government has the fiscal capacity to make a long-term, significant and incremental investment in our national network of childcare infrastructure. Though even the federal

43 https://www2.gov.bc.ca/assets/gov/family-and-social-supports/child-care/ece_we_funding_guidelines.pdf

44 Minister of Finance (2020). Fall Economic Statement. See page 78.

45 See Trevor Tombe (2020).

government will need to consider fiscal adjustments – such as tax increases – if large incremental increases in permanent spending are proposed following the pandemic.⁴⁶

Second, and to build on our own arguments against a federal role that is too broad, if the federal government is going to have a larger role in childcare, then it should pick a lane. Instead of doing a lot poorly, it should focus on a priority and do that well. We suggest that a new federal transfer to provinces should initially prioritize increasing the supply of new licensed spaces across the country. This would be a departure from the principles-based bilateral agreements signed in 2017 that have seen provinces selectively pick and choose among a wide range of possible policy goals.

As noted above, the federal government is currently renegotiating the bilateral multi-year agreements on childcare. The September Throne Speech has signalled the government's intent to increase federal investment in childcare and the Fall Economic Statement promised permanent funding at a significantly higher level than we have seen to date. We see these as very promising signals.

We do not see a path forward that leads to a unitary national childcare system. As in other areas of provincial jurisdiction, such as public education and healthcare, federalism demands a network of systems that recognize variation in local needs and priorities. And like other areas of provincial jurisdiction that provide essential social infrastructure to Canadians, we see merit in establishing a dedicated and permanent transfer to provinces. This new transfer could consolidate the \$250 million notionally ear-marked for childcare in the Canada Social Transfer with federal funding currently being allocated through time-limited bilateral agreements. At the level promised by the

FES, this would represent a \$1.12 billion annual transfer to provinces for early learning and care. But the FES proposes that this begin only in 2028. We set aside, for the moment, whether this level is adequate or ought to be increased, and argue that the pace of spending must be accelerated. Canadian families cannot wait until 2028. A commitment to stable and visible funding would give provincial governments, childcare providers and parents greater certainty. An ongoing transfer will reduce the perpetual friction of intergovernmental negotiations that is inherent in ad hoc renewable funding agreements. Finally, a dedicated transfer would provide greater visibility and transparency to support public accountability by all governments involved.

This new federal transfer should focus on expanding spaces by supporting provincial operating or capital grants for licensed care. As indicated earlier in our paper, funding levels from federal to provincial governments, and from provincial governments to local providers could either continue as simple per capita funding or be determined using one of the three methods we reviewed – using local live births, using geospatial data to address “childcare deserts,” or through portable benefits for new parents.

Third, it is becoming increasingly clear that women with young children are among the groups slowest to return to their pre-COVID employment levels. This is a national challenge that will be an important determinant of our national recovery. The federal government has the fiscal capacity – though increasingly constrained – to support new investments that will ensure that mothers and families across the country can participate in that recovery. But it is provincial governments that have the constitutional responsibility, knowledge

46 See C.D. Howe Institute Fiscal and Tax Working Group Communiqué #3: “Permanently Higher Federal Spending Threatens GST Hike.” Toronto: C.D. Howe Institute, November 27, 2020 at https://www.cdhowe.org/sites/default/files/attachments/communiques/mixed/CWGR_2020_1127.pdf

and accountability to administer the much-needed expansion of Canada's early learning and care systems.

CONCLUSION

This tour of Canada's early learning and childcare policy offers a number of suggestions – modest and otherwise, but all grounded in quickly improving the systems we have – for reform. Among our more modest suggestions: federal direct supports for costs that drive up operational costs for providers, including rent or purchase of space, wages for qualified staff, and workforce training and education. We have urged that provincial regulation and licensing balance parental demands for flexibility, affordability and quality. We also propose three larger reforms that build on current measures.

First, we recommend that the existing Child Care Expense Deduction (CCED), a regressive tax deduction that reinforces patriarchal gender roles for parents, be replaced with a more generous, progressive and more frequently paid refundable tax credit.

Second, we recommend that provinces redouble their efforts to increase childcare spaces by increasing operating and/or capital grants for licensed providers.

Third, we recommend that existing and any new federal dollars for childcare be consolidated into a single, dedicated and permanent transfer to provinces. We suggest that this transfer be focused first on expanding the supply of licensed childcare spaces. Here too, we are not prescriptive in how such a transfer be structured so much as we prescribe that federal dollars should be focussed on leveraging provincial efforts to expand supply. For example, we would support the federal government consolidating (and growing) existing transfers using geospatial data to leverage expanded provincial operating grants to licensed childcare facilities. We prefer this approach to the pattern in which a broad set of federal priorities results in principles-based bilateral deals with individual provinces that accede to provincial priorities.

This incremental approach – building on what exists – should not mask the importance or challenge of getting childcare right. We do not have the luxury of time to reinvent early learning and care from the ground up or to waste months, if not years, renegotiating the division of responsibilities in Canadian federalism. We need immediate attention and incremental but aggressive reforms to get this right, for women, for families and for Canada as we emerge from the pandemic.

APPENDIX: ONTARIO CHILDCARE REBATE

Table A1: Ontario Childcare Rebate											
Family Income (\$)		Rebate (<i>percent</i>)	Family Income (\$)		Rebate (<i>percent</i>)	Family Income (\$)		Rebate (<i>percent</i>)	Family Income (\$)		Tax Credit Rate (<i>percent</i>)
More than	But not more than		More than	But not more than		More than	But not more than		More than	But not more than	
0	34,800	75	43,830	45,110	67	95,380	136,925	57	146,015	147,310	40
34,800	36,090	74	45,110	46,390	66	136,925	138,230	54	147,310	148,595	38
36,090	37,385	73	46,390	47,695	65	138,230	139,525	52	148,595	149,900	36
37,385	38,665	72	47,695	48,985	64	139,525	140,820	50	149,900	151,195	34
38,665	39,955	71	48,985	50,270	63	140,820	142,120	48	151,195	152,505	32
39,955	41,240	70	50,270	51,555	62	142,120	143,420	46	152,505	153,800	30
41,240	42,545	69	51,555	52,850	61	143,420	144,710	44	153,800	155,095	28
42,545	43,830	68	52,850	95,380	60	144,710	146,015	42	155,095.	or more	26

Source: Laurin and Milligan (2017), Appendix Table A 1.

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NOTES:

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