

Quebec's Childcare Win-Win

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Pierre Fortin
Department of Economics
School of Management Science
University of Quebec at Montreal

Introduction

Beginning in 1997, the Quebec provincial government adopted an ambitious set of family policies. Full-day kindergarten was offered to all children aged 5. Before and after-school daycare at \$5 per day was offered to all children aged 5 to 12. From 2005 on, a provincial child support program gave increased family allowances to middle- and lower-income families in addition to the federal CCTB and UCCB. Since 2006, a provincial parental insurance plan has made enhanced parental leaves available to new parents over and above the federal EI-based program. As in a number of other provinces, children were "removed from welfare", in the sense that any child allowances stopped being conditional on being on social assistance.

The key vision of this set of measures was that family policy should be connected with participation in the labour market. A solid connection with the labour market was viewed as the surest path out of poverty and toward greater financial autonomy for lone parents, and women in general.

The main policy innovation was a universal low-fee childcare programme for preschool-age children. This new childcare system replaced the traditional one, in which parents normally pay the full cost of childcare, but have access to income tax deductions and/or credits.

Inspired by similar programmes in Scandinavia and elsewhere in Europe, the Quebec programme was started by the provincial government in September 1997. At that time, it cost parents \$5 per day, and was targeted at four-year-olds. Simultaneously, full-time kindergarten was extended to all five-year-olds, and before- and after-class daycare was made available in elementary schools. The \$5-

per-day childcare programme was then progressively extended to younger children, and was finally opened to all preschool-age children in September 2000.

The daily fee was later raised to \$7 in January 2004, and to \$7.30 in September 2014. In April 2015, the provincial government introduced a set of amendments whose main purpose was to index the daily fee to the cost of living, and to have it rise with family income. The \$7.30 fee has been maintained for annual family incomes below \$50,000. For incomes above \$50,000, the fee now rises by steps up to a maximum of \$20 at \$155,000 and over.

The Quebec system is currently run through four types of regulated facilities offering some 280,000 spaces *in toto* to the 450,000 Quebec children aged 0 to 4. Three of these types are also subsidized and charge the low fee: early childhood centres (*CPE*) (90 000 spaces), family-based services (92 000 spaces), and privately-owned non-profit services (46 000 spaces). The fourth type are commercial facilities that are regulated, but not subsidized, and where parents pay the full cost of childcare at the door (52 000 spaces). Parents of all four types have access to the federal income tax deduction. Additionally, a provincial refundable tax credit is available to parents using the commercial, not-subsidized, type of childcare.

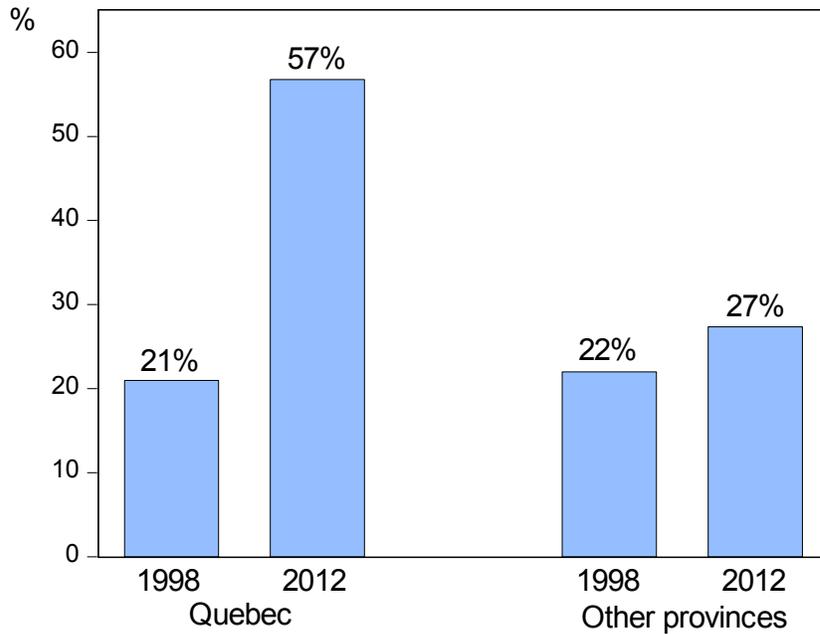
At \$2.4bn in 2014-15, the cost of the subsidized, low-fee childcare programme to the Quebec government – including infrastructure development – represented 0.6 per cent of the province's 2014 GDP.

Macroeconomic outcomes

Figure 1 shows that, over the past 15 years, there has been a spectacular rise in the proportion of Quebec children aged four and under attending regulated childcare – subsidized or not. The jump was from 21% in 1998 to 57% in 2012 (61% in 2014). Elsewhere in Canada, the attendance rate for children of same age group in regulated childcare in 2012 was 27%.

Figure 1

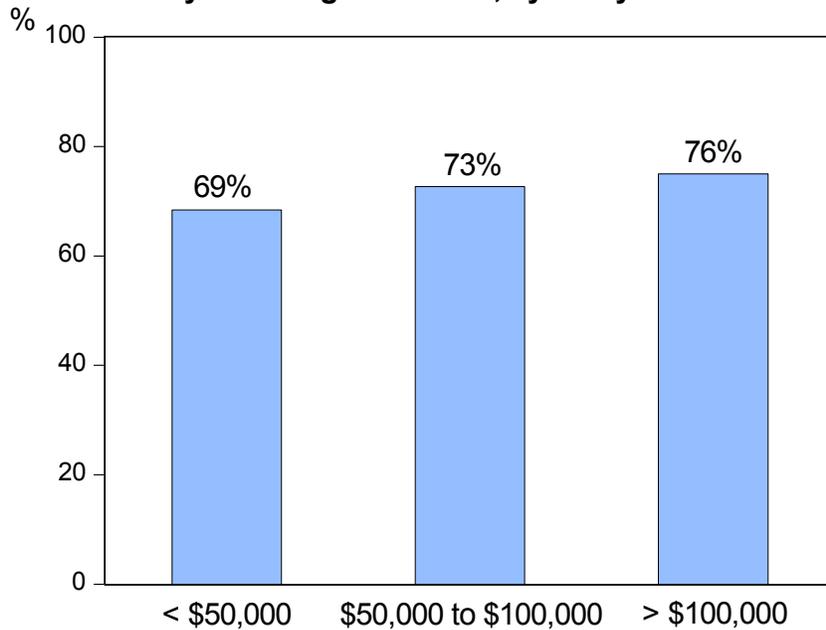
Total number of regulated childcare spaces available as a percentage of 0-to-4-years-olds in Quebec and other provinces in 1998 and 2012



Sources : Childcare Resource and Research Unit ; Statistics Canada.

Figure 2 reports that Quebec was able to achieve a reasonably good balance of families from high- and low-income classes using subsidized care. The differential between families with incomes under \$50,000 and those with incomes above \$100,000 is not large. In 2009, it was 69% against 76%.

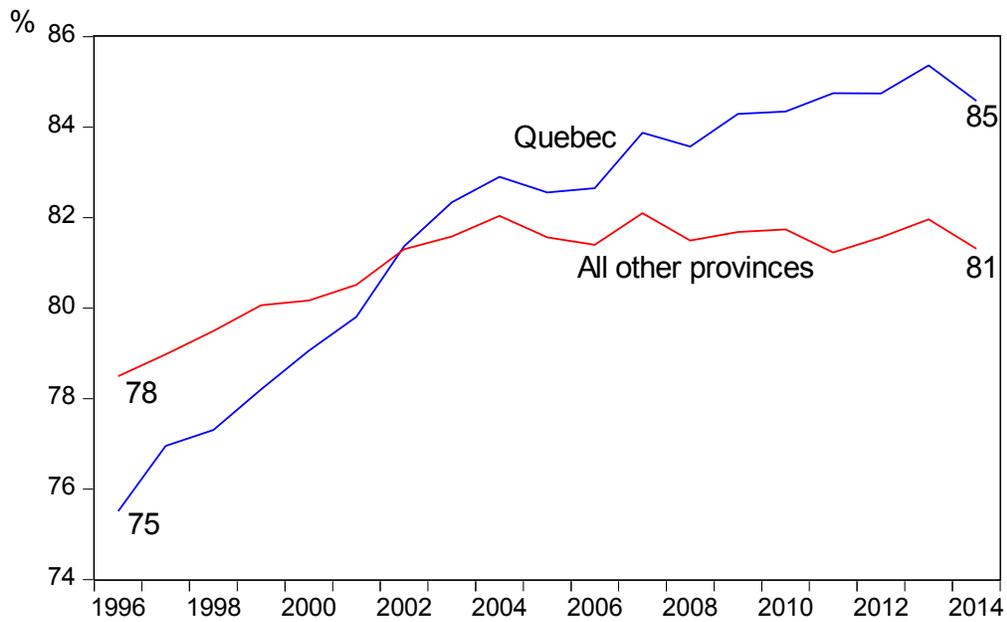
Figure 2
Percentage of Quebec families who use subsidized care among those who put at least one child in daycare while they work or go to school, by family income class



Source: Institut de la statistique du Québec (2009 Survey).

Figure 3 suggests that the impact of Quebec's family policy on the labour force participation of mothers has been substantial. The overall participation rate of women aged 25 to 44 went from three percentage points below the national average (excluding Quebec) in 1996 to three points above the average in 2014.

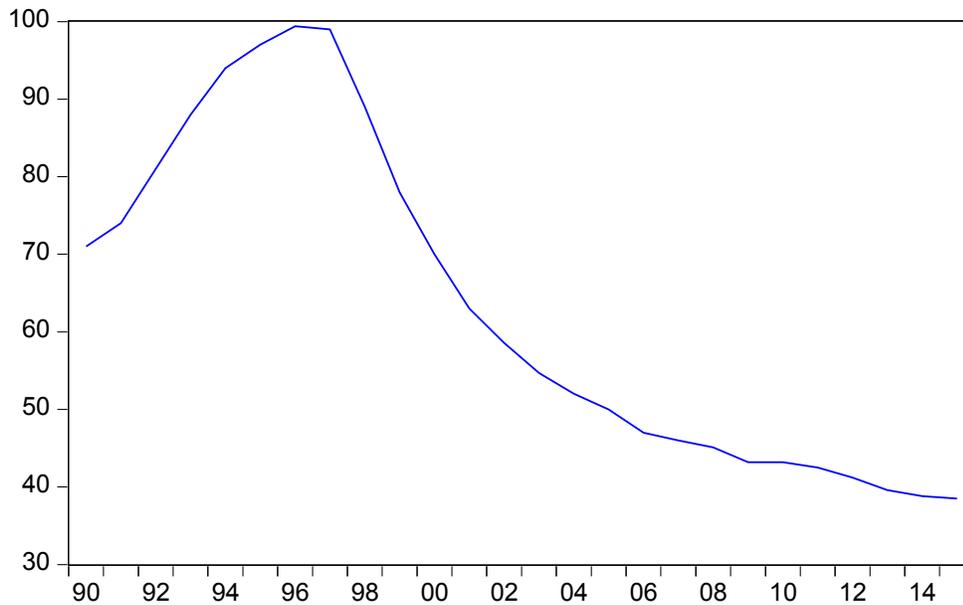
Figure 3
Labour force participation rate of women aged 25 to 44
in Quebec and other provinces from 1996 to 2014



Source: Statistics Canada.

Figure 4 further indicates that the number of lone-parent families on Quebec social assistance has declined by 60% from 1996 to 2015 – from 99,000 to 39,000.

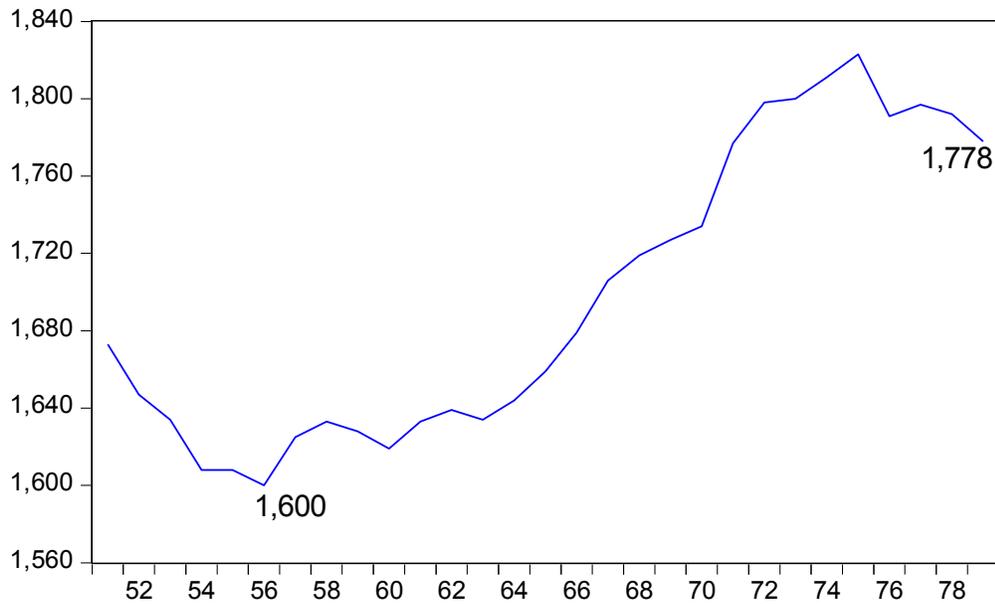
Figure 4
Number of lone-parent families who are welfare recipients in Quebec from January 1990 to January 2015 (thousands)



Source: Quebec Department of Employment and Social Solidarity.

Figure 5 raises the further possibility that the new family policy may have had a modest, but significant impact on fertility. It shows that women who were born in 1956 and had reached the age of 44 before full implementation of the new childcare program in 2000 had only 1.60 child over their lifetime. But those who were born 20 years later in 1976 and were 24 years old in 2000 are now expected to get 1.78 child.

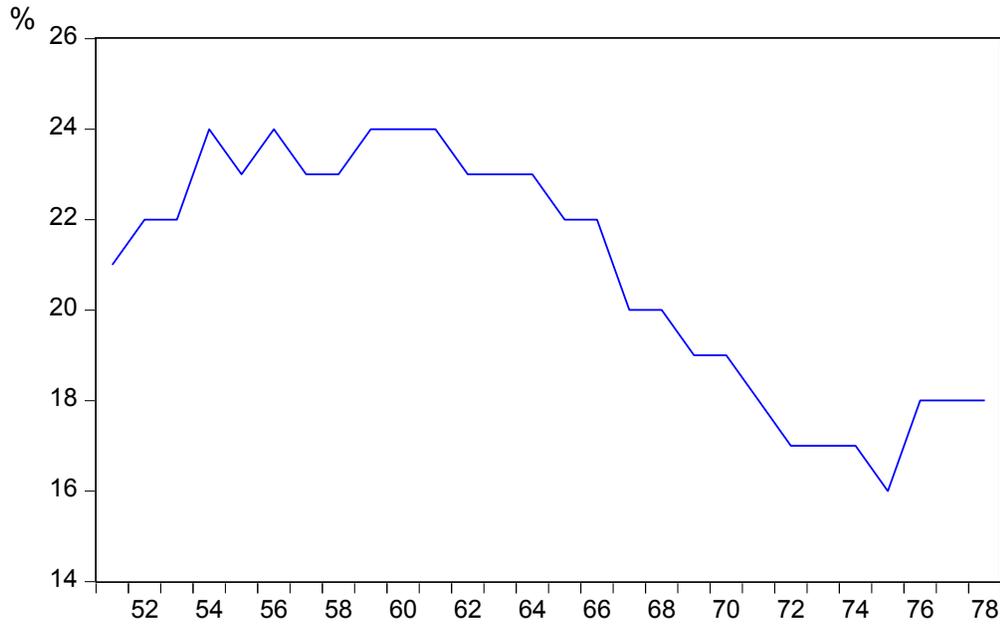
Figure 5
**Completed lifetime fertility of successive cohorts of Quebec women
born between 1951 and 1979 (number of children to 1,000 women)**



Source: Institut de la statistique du Québec.

Figure 6 adds that, over this period, the percentage of women without children has decreased concomitantly from 24% to 18%.

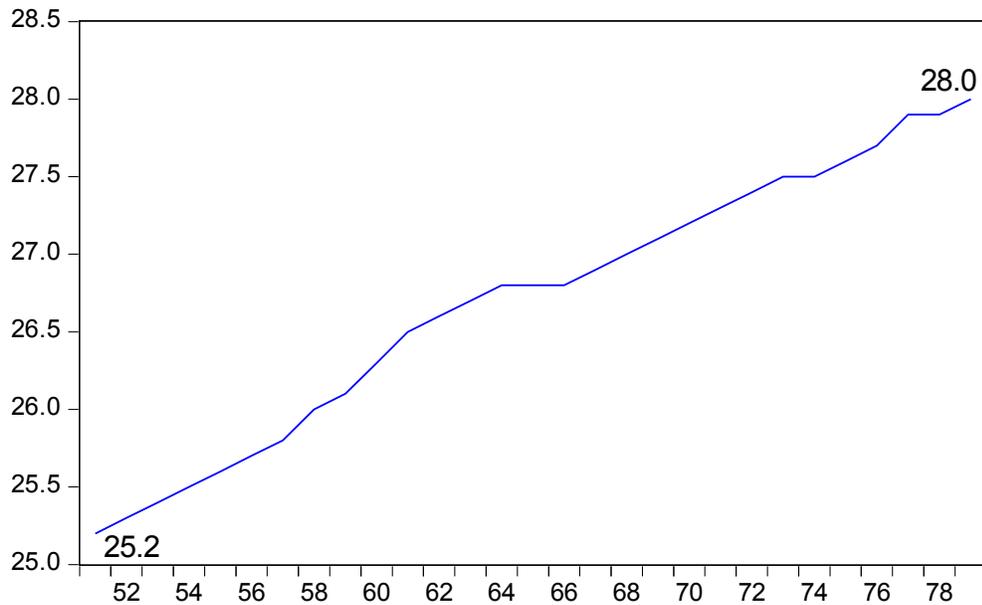
Figure 6
Percentage of women who have had no children
among those born between 1951 and 1978



Source: Institut de la statistique du Québec.

However, according to Figure 7, the average age of mothers at birth of first child has continued to increase year after year and seems to have remained insensitive to the new family policy. Young families have continued to form at a later and later age.

Figure 7
Average age at birth of first child for successive cohorts of Quebec women, by year of birth of mother, 1951-1979 (years)



Source: Institut de la statistique du Québec.

The 2009 Survey of users of child care services by the Institut de la statistique du Québec reported that 92% of users of low-fee child care were fully satisfied with the services.

On quality, the first thorough review dates back to 2005 – 10 years ago. It showed that there was still a lot of room for improvement. The 2012 Survey of Montreal kindergarten children now gives reasons for optimism. It found that, when they enter school, children from low-income families having attended an early childhood centre (CPE) are two to three times less vulnerable than those who had not.

Being extremely popular with Quebec parents, the low-fee child care system is most likely there to stay. The immediate problem is that the supply of spaces still falls significantly short of demand, perhaps by some 30,000 spaces. The Institut de la statistique's survey found that 47% of parents who use a non-subsidized commercial facility would like to shift to a low-fee subsidized space when one becomes available for them. Development of new spaces proceeds, but at a slow rate.

Microeconomic evidence

So far, I have focused on macroeconomic phenomena such as the strong increase in labour force participation among young women, the decrease in the number of lone-parent families on social assistance in Quebec, and the significant increase in fertility. Clearly, these do not constitute definitive evidence that the new programme has been the only, or even the major, cause these developments. Other events marked the 1996-2006 period and likely played a role, such as the Employment Insurance Act of 1996, the reform of social assistance in many provinces, enhanced parental leaves, the Canadian Child Tax Benefit, and the oil boom in Eastern and Western Canada.

This consideration led researchers from 2004 on to try a different, microeconomic, route to disentangling causes and effects. Viewed as a ‘natural experiment’, Quebec’s childcare reform provided them with a great opportunity to get a reliable estimate of the impact of this type of policy on mothers’ labour force participation. The key was to use various longitudinal surveys conducted by Statistics Canada on the behaviour of tens of thousands of individual Canadian mothers over time. So far, two teams of researchers have published papers in major academic journals. One team included three researchers from the University of Toronto, the Massachusetts Institute of Technology (MIT) and the University of British Columbia (UBC). The other team came from the University of Quebec at Montreal (UQAM).

One crucial piece of evidence reported by the UQAM team has been that the use of low-fee childcare when a child is of preschool age raises the mother’s employment rate not only during this early period of the child’s life but also later, once the child has entered school. In other words, the programme’s impact on mother participation in the labour force is not only static or momentary, but also has a dynamic extension: it persists over the long term.

Policy implications

Tallying up and extending the jointly consistent results obtained by the Toronto-MIT-UBC and UQAM teams, a third group, including myself at UQAM and colleagues from the University of Sherbrooke, calculated that, in 2008, Quebec’s low-fee childcare programme was responsible for about 70,000 more mothers being in work. This means that there were 3.8 per cent more employed women in that year in Quebec than if the programme had not existed – a large impact by any standard. A major benefit is that the long-term financial autonomy of women has

been increased. This is a highly welcome development in a world in which the average marital or de facto union lasts less than 10 years, and children remain mainly under the responsibility of their mothers 80% of the time after separation. The long-term increase in provincial real GDP resulting from the induced increase in mothers' employment would be of the order of 1.7 per cent.

Our UQAM-Sherbrooke team also assessed the impact of the new Quebec childcare programme on the combined fiscal balance of the federal and provincial governments. The following Table summarizes our results.

Table. Annual gain in fiscal revenue and cost to the federal and provincial governments in 2008 from replacing the traditional childcare system by the \$7-per-day programme in Quebec (millions of dollars)

	Provincial government	Federal government	Total
Gain in fiscal revenue	\$1,450m	\$650m	\$2,150m
Minus: Cost	\$1,250m	\$0	\$1,250m
Equals: Net benefit	\$250m	\$650m	\$900m

Source: Fortin, Godbout and St-Cerny (2013).

We estimated that, in 2008, the replacement of the traditional childcare system by the new low-fee programme was making fiscal revenue (including consumption as well as income taxes, and net of tax expenditures and family transfers) larger by about \$2.1bn, while the additional cost of subsidies was \$1.2bn. The combined fiscal balance of the two levels of government was thus made \$900m larger. The provincial government, which had to pay out the subsidies, got \$250m on net. The federal government, which had nothing at all to pay out, pocketed \$650m. An equivalent way of putting this is that each \$100 of additional childcare subsidy paid out annually by the provincial government generated a net annual return of \$75 for the two levels of government (since $900\text{m}/1.2\text{bn} = 0.75$), with \$55 going to the federal government and \$20 to the provincial government. The 2015 situation would be a blow-up of 2008 with minor adjustments.

Conclusion

Put succinctly, the new low-fee childcare system is more than paying for itself. Even if it is a costly programme on surface, it did not require the government of Quebec to increase taxes. On the contrary, thanks to increased employment and economic activity, the programme generates a fiscal surplus that can be used for tax reduction, increased spending (in healthcare, education, other social programs, etc.), or both. In particular, this shows that those who argue that a universal

programme such as Sweden's or Quebec's is a misguided allocation of government funds because the focus is not on low-income families are wrong. The universal programme generates a financial surplus that can be reinvested in measures against poverty and other social ills if so desired. The absence of such a reinvestment would be evidence of government neglect, not of the universal programme itself being a "big bad" initiative.

Furthermore, the fact that the federal government gets so much out of this provincial programme implies that a federal contribution to low-fee childcare programmes— as President Obama has mused about in his 2013 State of the Union message and the federal New Democratic Party has recently proposed – would be on sound financial footing in participating provinces.

It is in itself interesting and reassuring that Quebec's low-fee childcare programme is financially 'profitable' for both the provincial and federal levels of government. However, we ought to remember that what we really want is better child development, a better balance between work and family for parents, and greater long-term financial autonomy for women. Making governments richer is not an objective of childcare policy. It is neither a necessary nor a sufficient condition for a programme to qualify as a 'good' one. But the financial success of the Quebec experiment may in the future help convince not only ministers of labour and the family, but also ministers of finance, that a low-fee, high-quality childcare programme is a good idea.

At the same time it needs to be recognised that the rapid growth of the Quebec programme has given rise to a number of challenges. Above all, the demand for subsidized spaces still considerably exceeds the supply. Moreover, the development of new facilities, space assignment rules, the flexibility of operating hours, the quality of educational services (particularly for children from low-income backgrounds), short- and long-term effects on child development, the rate of investment in staff training, and the universal nature of the programme are regular topics of debate. But all that said, it is extremely popular with young families of all incomes and is definitely here to stay. Many of its problems must indeed be viewed as challenges to be met rather than as threats to the programme's survival.

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Note: This is an expanded version of an article of the author published as a *Policy Network Newsletter*, April 9, 2015, at http://www.policy-network.net/pno_detail.aspx?ID=4885&title=A-childcare-win-win