

Fact Check: NDP Lowballs Daycare Plan Costs

By Vincent Geloso | October 2015

Executive Summary

Since 1997, the cost of the Quebec daycare system has risen more than 700% while total spaces have only risen 166%. The NDP's costing of its proposed federal plan, modeled on the Quebec system, does not account for a significant portion of the cost of a similar federal plan. This would leave an annual funding gap of approximately \$1.3 billion, equivalent to 40% of its cost. Furthermore, a comparison with the increase in female workforce participation rates in the Atlantic provinces (which lack a Quebec-style daycare system) suggests that the increase in female working participation rates in Quebec may be attributable to other factors.

Introduction

Proposals to institute a nationwide subsidized daycare system have been floated by politicians for several years. Most recently, proponents cite the so-called "Quebec model" in support of such a program. Some history: in 1997, Quebec introduced a government-subsidized daycare

service in which parents would pay a low price of \$5 per day (later increased to \$7) while the remaining cost would be borne by the provincial government.¹ Numerous pundits and politicians have claimed that this policy generated important benefits for the Quebec economy, notably by making it easier for women to return to the workforce.

As part of its 2015 federal election platform, the New Democratic Party (NDP) has proposed to implement a similar system across Canada by creating one million subsidized daycare spaces, for which parents would pay \$15 per day. Upon closer examination, the Quebec experience shows that the costs of the program have been underestimated, while the benefits have been overstated. Using the Quebec model as a base, our analysis indicates that the first year of the NDP's program would cost \$233 million (or 80%) more than the NDP claims and cost \$1.33 billion more over a four-year mandate.

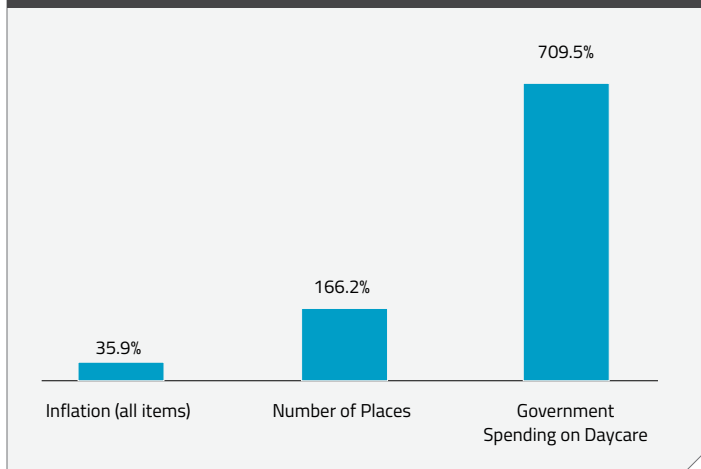
1. Quebec has announced that it will be modifying its system to become a means-tested payment system beginning in 2016.

Underestimated costs

When subsidized daycare services were implemented in Quebec in 1997, the original cost estimate was \$290 million per year. By 2014-15, that cost had swelled to \$2.6 billion. Using the latest available data for the number of daycare spaces and costs, we can see that the inflation-adjusted cost per daycare space has surged from \$4,789 to \$10,715 (in 2014 dollars) between 1997-98 and 2013-14.² From 1997-98 to 2014-15, inflation has been 35.9% and the number of Quebec daycare spaces has risen 166%; meanwhile government spending has risen more than 700%.

The daycare program represents an additional cost to government. And the cost is *higher* than the increased tax revenues accruing from increased workforce participation by mothers. According to a recent paper, "even in the best scenario, the costs [for the government of Quebec] were larger than the benefits" by \$1.2 billion per year.³ Even when one includes increased revenue to the federal government, annual costs still exceed the benefits by roughly \$500 million. Overall, this implies an increase in the tax burden on families in Quebec.

Figure 1:
Evolution Since 1997–1998



Source: Ministère de la Famille du Québec, Annual Reports (several editions); Conseil du Trésor, Volume des Crédits (several editions); CANSIM Table 326-0001. Note: the number of places for 1997-98 stood at 82,302 versus 219,084 in 2013-14 while the respective figures for costs stood at \$290 million and \$2.35 billion.

Barring any significant change in approach, the federal NDP's proposal would face similar cost challenges.⁴ The first year of the plan (2015-16) calls for the creation of 60,000 daycare spaces at a cost of \$290 million, rising to one million spaces by 2023. This represents a cost of \$4,833 per space.⁵ Yet, the last year of data available (2013-14) from Quebec suggests a cost to government of \$10,715 per space, or a total of \$12,465 per space once the parental contribution is added.⁶

2. This does not include the cost to parents.

3. Catherine Haeck, Pierre Lefebvre and Philip Merrigan. 2015. "Canadian evidence on ten years of universal preschool policies: the good and the bad," *Labour Economics*, p. 19

4. Details of the NDP plan are hard to find first-hand on the website of the NDP, but they are well summarized here: <http://globalnews.ca/news/2176583/what-we-know-about-the-ndps-childcare-plan/>

5. Assuming 250 days per year

6. Assuming 250 days per year.

If the Quebec system charged \$15/day rather than the \$7/day it currently charges, the total cost to the government would stand at \$8,715 per space – which is still nearly twice as costly as the NDP’s stated budgetary cost per space.

- If the cost per space for the government were equal to the cost per space observed in Quebec, the total cost for the first year of the NDP’s plan jumps from \$290 million to \$523 million.
- By the end of the stated timeframe, the total cost will have reached \$3.2 billion rather than \$1.9 billion.

It is worth pointing out that Quebec has slightly lower prices and wages than the rest of Canada, which may further understate the real cost of a similar system were it to be implemented nationally.⁷ This implies that the NDP is either

understating the true total cost of its program or simply asserting that that provinces would have to pick up the remainder of the tab.

There are other observed side effects to the program as it was applied in Quebec. Most studies note that households prefer a low upfront cost to a high upfront cost that is tax deductible.⁸ Consequently, it is reasonable to assume that at least part of the popularity of the program is related to low upfront costs. However, it does not mean that households have actually gained financially from the situation. Fiscal simulations which compare the new regime with the previous system of tax deductions show that only the very poor and the very wealthy have gained from this reform. For households whose income is in between these two groups, there was a net financial loss.⁹

Table 2: True cost per place based on Quebec experience

	Parental Contribution (250 days) per place	Government Funding per place	Government Funding per place (if parental contribution was \$15/day)	Shortfall per place	Annual shortfall at end of first NDP mandate
Quebec	\$1,750	\$10,715	\$8,715	-	-
NDP Plan	\$3,750	\$4,833	\$4,833	\$3,882	\$1.3 billion

7. Vincent Geloso. 2014. *Le coût de la vie au Québec: Coûte-t-il vraiment moins cher de vivre au Québec?* Montréal : Centre sur la Productivité et la Prospérité.

8. Daniela Del Boca. 2015. *Childcare Arrangements and Labor Supply*. IBD Working Paper Series No.IDB-WP-569, Washington D.C.: Inter-American Development Bank.

9. Claude Lafférière. 2003. *Les Garderies à cinq dollars sont-elles une aubaine?* Working Paper, Université du Québec à Montréal.

Moreover, the program has not benefited the poor as much as it has benefited the wealthy. Families with higher educational attainments have a higher propensity to make use of subsidized daycare.¹⁰ Indeed, usage of the daycare program is considerably greater in wealthier households: 84% of parents in the wealthiest quartile of the population use childcare services while working, compared to just 51% in the bottom quartile.¹¹ Consequently, subsidized daycare services in Quebec have been a boon for rich households.

In addition, there is a myriad of secondary effects whose impacts have not been properly accounted for. One example is the shift from child care provided by relatives, whose effects were mostly unmeasured, to child care provided by licensed non-relatives whose effects were better measured. In essence, the new program crowded out private arrangements such as those involving grandparents; we know very little about the efficiency or quality of those arrangements. The crowding out of these alternative models of childcare is not generally included in analyses of the program.

Overestimated benefits

In the previous section it was noted that Quebec's daycare program has resulted in a net financial loss for the government. The scale of this loss depends on the net effect of the program upon the workforce participation rate of mothers¹²; by inducing higher workforce participation rates, the government can collect more tax revenue. The problem is that estimates of the direct impact of the daycare program on these increases is likely exaggerated and, even if they were not, they could have been realized through more efficient policies.

Because daycare costs are understood to be a significant cost barrier to many households, they can prevent some mothers who would like to return to the workforce from doing so. This is why most of the studies find that subsidized daycare services increase the workforce participation rate of mothers.¹³

However, the amplitude of this increase has been highly exaggerated in the case of Quebec. First, Quebec had an especially low rate of female workforce participation prior to 1997 – a rate well below the Canadian average. Therefore, the significant increase in the female workforce participation

10. Catherine Haeck, Pierre Lefebvre and Philip Merrigan. 2015. "Canadian evidence on ten years of universal preschool policies: the good and the bad," *Labour Economics*, p.11

11. *Ibid*, p.15

12. For the sake of brevity, "mother" is used throughout this paper as shorthand for the hypothetical parent who is re-entering the workforce, but arguments herein apply equally to fathers in the same situation.

13. Elizabeth Cascio. 2009. "Maternal labor supply and the introduction of kindergartens in American public schools," *Journal of Human Resources*, Vol.44, no.1, pp.140-170; Jonah Gelbach. 2002. "Public schooling for young children and maternal labor supply," *American Economic Review*, Vol.92, no.1, pp.307-322.

rate can partly be attributed to a phenomenon which does not exist elsewhere in Canada. As table 1 shows, the workforce participation rate of women aged 25 to 44 (the primary age group for motherhood) surged dramatically in the years following the introduction of subsidized daycare, to the point of catching up with the rest of Canada. Yet, precisely because these workforce participation levels are already so high elsewhere in Canada, a similar program applied nationally is unlikely to result in a similar increase.

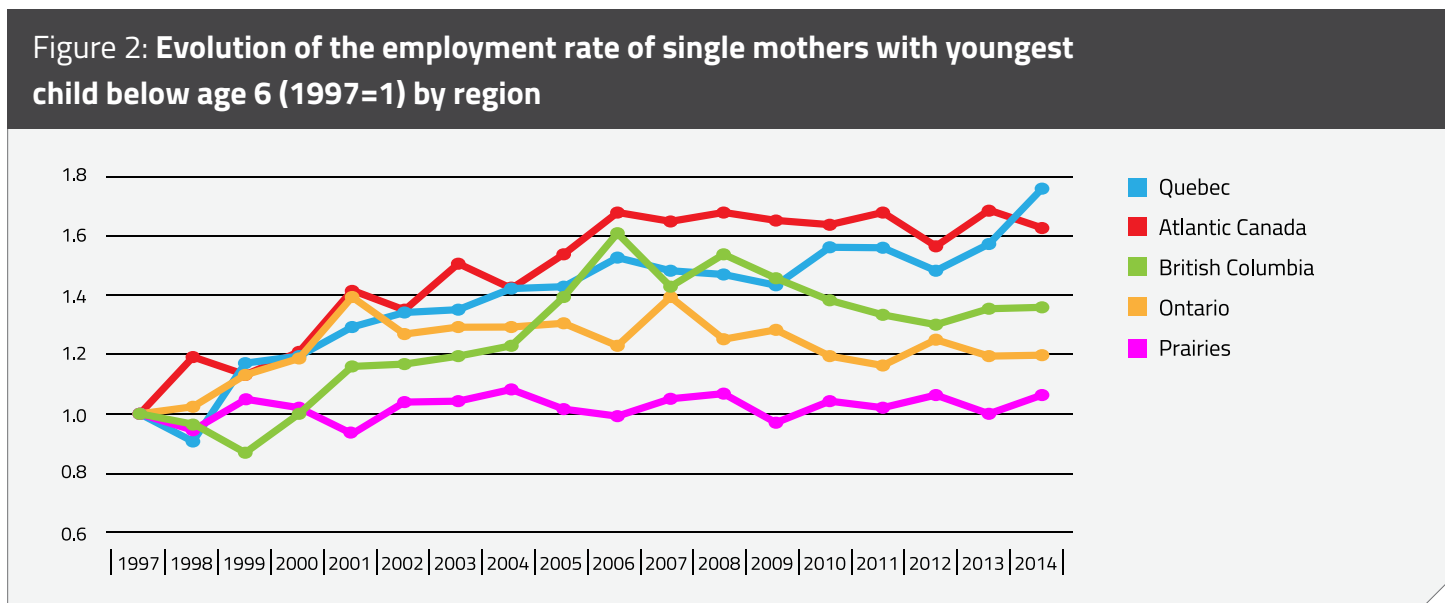
Secondly, the estimate of the causal effects of subsidized daycare upon female workforce participation is biased by the choice of technique. Since Quebec was alone in adopting such a policy, the assumption is often made that any changes in workforce participation in Quebec can be directly traced to the implementation of subsidized daycare, which can then be compared to a "rest of Canada" figure. One problem with this approach is that the rest of Canada is not a homogenous entity; regional differences exist.

Table 1: Employment Rate of Women Aged 25 to 44, selected years, by province

	1997	2015*
Newfoundland and Labrador	59.0%	74.6%
Prince Edward Island	71.0%	80.6%
Nova Scotia	68.7%	79.3%
New Brunswick	65.7%	79.9%
Quebec	69.7%	79.6%
Ontario	72.8%	75.8%
Manitoba	75.7%	78.3%
Saskatchewan	77.3%	79.8%
Alberta	77.1%	75.2%
British Columbia	72.7%	75.2%

Since 1997, Quebec has indeed seen a much steeper increase in women's workforce participation rate compared to the "rest of Canada". However, if we disaggregate the "rest of Canada" by regions (Atlantic, Ontario, Prairies and British Columbia), we can see a different story emerging. Figure 2 shows that single mothers with children under the age of six -- the group presumably most sensitive to the availability of subsidized daycare -- increased their labour market participation in equal proportions in both Quebec and Atlantic Canada.

Source: CANSIM table 282-0001
 Note: the age group from 25 to 44 has been selected as the best representative of potential mothers that could be affected by subsidized daycare.
 *the average for 2015 is based on the months available for that year.



Source: CANSIM 282-0211.
 Note: the selection was made for "female reference person, no husband present" and it is meant as a proxy for "single mothers" with "youngest child less than 6 years" of age.

The same can be observed in general if we concentrate on the female population between age 25 and 44 – the prime age for motherhood.¹⁴ Given that the Atlantic provinces did not introduce a Quebec-style daycare program, at least part of the increase in female workforce participation was a result of other factors. Indeed, one such factor which occurred in the same time period was the reform of employment insurance: EI eligibility criteria were tightened, thereby encouraging people to return to the workforce. Since its pre-reform structure helped explain historically low levels of employment in Quebec and Atlantic Canada¹⁵ it is hard to see how national daycare would have a similarly large impact. This is not to suggest the Quebec daycare program had no effect on workforce participation, but does provide a cautionary tale about attributing causality with absolute certainty.

Accordingly, if the net number of Quebec women who entered the workforce as a result of subsidized daycare was estimated using a comparison with Atlantic Canada, it would be considerably smaller than the figures generally advanced. Consequently, the true benefits directly attributable to Quebec's subsidized daycare are exaggerated and the net cost is greater. For example, if the estimate of the number of mothers returning to the workforce as a result of subsidized daycare was reduced by even one quarter, the net cost of the program to the provincial government would increase by \$125 million per year.¹⁶

Notably, these benefits can be generated through different – and cheaper – policy options. Most studies do not identify the cost of daycare services as the main factor determining the decision but rather a combination of *proximity, availability and cost* with proximity being the most important factor.¹⁷ A recent study by Statistics Canada reached a similar conclusion, noting that affordability is the third most important factor for those deciding to use daycare, well behind proximity, which was the most important consideration.¹⁸ An example of a more effective policy course could therefore be to remove existing barriers – notably payroll taxes, since labour represents a large share of total daycare operational costs – which restrict the supply of privately provided services. Moreover, as previously noted, households prefer low “upfront,” i.e. visible, costs. By allowing households to have tax credits rebated to them more frequently, such as quarterly rather than annually, costs could be reduced.

Finally, if one aims to increase female workforce participation, tax reductions are also important. There is evidence to suggest that women are much more responsive than men to changes in net income, meaning that substantial tax relief would likely have a greater impact on female workforce participation than male workforce participation.¹⁹ This might be even more likely in Quebec where personal tax rates are extremely high in comparison to most other provinces.

14. See CANSIM table 282-0004

15. Thomas Lemieux and Bentley MacLeod. 2000. “Supply side hysteresis: the case of the Canadian unemployment insurance system,” *Journal of Public Economics*, Vol.78, no.1, pp.139-170.

16. This is achieved using the costs proposed by Catherine Haeck, Pierre Lefebvre and Philip Merrigan. 2015. “Canadian evidence on ten years of universal preschool policies: the good and the bad,” *Labour Economics*, p.19

17. Daniela Del Boca. 2015. *Childcare Arrangements and Labor Supply*. IBD Working Paper Series No.IDB-WP-569, Washington D.C.: Inter-American Development Bank.

18. Maire Sinha. 2014. *Les Services de Garde au Canada*. Ottawa: Statistique Canada, p.9

Conclusion

Proponents of the implementation of a nationwide system of subsidized daycare have relied heavily on the Quebec experience as the primary model. Yet the reality is that the costs of this program have been understated and the benefits overstated; on balance, the program represents a net cost to government, while the directly causality of the program on female workforce participation has almost certainly been exaggerated. These conclusions should provide a cautionary tale about attempting any similar effort at the federal level.

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