CHAPTER 3
The "families should pay for their own children" argument

THE FORM OF THIS ARGUMENT IN THE PUBLIC DEBATE

This particular argument against child care is not usually phrased in as blunt a fashion as suggested by the chapter title. Yet something like this often underlies opposition to public intervention. Stripped of the phrases and terms that are often used to soften this argument, it amounts to a position that what goes on between parents and children is essentially private. In this view, the decision to have children is a consumption decision—no different than the decision to buy a fancy car or a country home. Some families choose to have one or two children; other families have more children; some families have no children. All of these are of course permissible choices. But because the choice is essentially private, the natural next step is to argue that society ought not to play any role in the subsequent decisions on how to raise those children. If parents have children because they derive satisfaction from them, then why should others in society be asked to pay for the costs of caring for and educating these children?

Critics who take this approach will usually concede that the children of the poor (often children in single-parent families) must be provided with some child care. This is especially true for those who believe that encouraging poor mothers to enter the labour force is important. Thus, it is no accident that the first significant public funding for child care occurred through the Canada Assistance Plan in the late 1960s and was limited to children in need or likely to be in need. But the general principle suggested in the chapter's title does not permit an extension of that funding to parents and children whose economic needs are not extreme. If children are essentially a private concern, then why should Canadians pay for child care or early education for children in Canadian families with average incomes or higher?

A statement by Lee Morrison, a Reform Party Member of Parliament in 1996 illustrates this point of view:

> What does subsidized day care mean to you? I will tell you what it means to me as a country boy. It means that a professional couple in Toronto can load their child into a BMW and take it to the Silver Spoon Happy Centre for Lucky Tots (House of Commons debates, November 21, 1996).

This kind of argument mirrors much of what is taught in economics courses and is effectively reflected in the ways in which most people in business and politics think about the economy and about government involvement in that economy. They believe that consumers—all consumers, including the poor—are made better off when government allows markets to function relatively freely; that public funding is inherently wasteful and interferes with the efficient functioning of markets; that private decisions about private goods encourage productivity and efficiency.

BUT ARE CHILDREN A PRIVATE LIFESTYLE CHOICE?

However children are not simply a consumption or lifestyle choice made by their parents and of no concern to anyone else. Society has always had a deep and abiding interest in children. Children are the way in which parents reproduce themselves, but they are at the same time the way in which a society reproduces itself. These two interests are not contradictory: parents want to raise healthy productive children, and as a society, we all want much the same thing.

Thus, parents have a primary interest in the care of their own children, but there is also a public concern about what happens to children. Canada will remain a strong vibrant country only to the extent that our children are well-cared for and are well-prepared for the challenges that will face them. All Canadians stand to gain when there is a well-trained and prosperous workforce able to pay taxes and support our social programs. All Canadians stand to gain when children are well-educated and able to take on the responsibilities of citizenship.

The emphasis on child care as a good economic investment resonates well with most Canadians. The obvious analogy is the one with public education. Even though society has always believed that parents are the primary caregivers for their children, society has also found it necessary to ensure that all children receive a good education. This goal has been achieved by providing free high-quality public schools for all children. Recent research emphasizes that dollars spent educating very young children are even more productive than those spent on school-age children. Yet Canada currently spends less than $1 on pre-schoolers for every $40 spent in the education system, despite the fact that a child in full-time child care would spend almost as much time in child care up to the age of 5 as the child will spend in elementary and secondary school combined (Friendly, Beach & Turiano, 2002). Efficient use of public dollars leads one to conclude that more should be spent on the early education that is part of good child care.

In sum then, the reason why the "rest of us" should care about what happens to young children when their mothers and fathers are employed is that the outcome has significant implications for the welfare of all Canadians. By supplementing the dollars that parents can afford to spend on their children, we make those children and, by implication,their parents better off. But we also make all other Canadians better off-both because of the benefits to the country today when parents are employed, and because of the benefits to the country in the future when children become adults,look for their own jobs,and otherwise participate in the life of the nation.

THE ECONOMIC VERSION OF THIS ARGUMENT FOR GOOD CHILD CARE

Since the argument that the rest of society should not intervene in the private decisions of parents about child care seems to rest on economic logic,it would make sense to look at whether this is what economists in fact do argue. Although economists suggest that most markets work efficiently when left alone to do so, there is also an extensive economic literature on when this logic does not apply. Child care fits much more naturally into the category of markets that require government intervention and not into the more general category of markets that can function more or less independently.

Economists believe that individual consumers make decisions about what to purchase in effective and efficient ways. When an individual chooses to purchase an apple instead of a pear, it is because apples make the individual better off than pears. Were the government to try to affect this decision (by subsidizing pear consumption, for example), it would cause a "bad"—that is,inefficient—decision to be made. It is therefore inefficient for the government to become involved to alter the decisions that individuals make about goods like apples and pears.

What has this got to do with child care? Parents decide whether or not to seek employment and how to care for children. If these decisions are like the decision about apples and pears,then the conclusion about the inefficiency of government involvement follows directly. According to this logic, when a parent decides whether or not to enter the labour force,she does so with the full knowledge of what will benefit her and her family. Similarly, when the employed parent decides on how her children should be cared for, she does so with the full knowledge of how that decision affects both her and her children. If we argue that mothers and fathers make the best decisions,then any government intervention will lead to economic inefficiency.

Most business leaders and politicians intuitively accept the primacy of the market in our society. They are suspicious of arguments that suggest the government should intervene because they suspect that these arguments often arise out of self-interest:all kinds of producers come to the government with their hands out whenever economic conditions penalize them (or even when they are doing well,eager to be doing even better!); all kinds of consumers come to government with hands out asking for subsidies. Although these handouts certainly benefit the recipients, they reduce overall productivity and make the economy generally worse off.

As economists, we are somewhat sympathetic to this argument. The markets for apples and pears work quite well because consumers are familiar with both products and understand their own tastes for them based upon years of experience buying fruit. Apples and pears are provided by a large number of independent producers,and competition forces prices down pretty close to the cost of producing the fruit and getting it to market. Thus, prices communicate to consumers the true costs of producing the two commodities, and consumers make decisions about how much of each to buy based on these prices. Governments do not have to decide what to produce because individual consumers can make those decisions themselves.

The economic efficiency of markets depends on a number of strong assumptions. Consumers must be rational and have full information about prices and quality. They must understand how products work and what benefits they provide. Furthermore, producers must compete. Most important, all benefits must accrue to the purchasers so that the decisions that they make perfectly represent the greatest benefits to society. This last assumption clearly applies to apples and pears. When consumers eat these fruits, it is they who benefit from the taste and nutrition. This assumption is expressed technically by stating that apples and pears are *private* goods.

These assumptions are all quite strong and seldom apply to the absolute extent required by pure theory. However, as long as the assumptions are violated in relatively small ways, markets function fairly well, especially when supported by small interventions by governments. There remain a minority of markets in which the assumptions are violated in serious ways. There is an extensive literature in economics that describes these violations using the term "market failure." What interests us as economists is that virtually all of the standard arguments in favour of child care can be expressed within this framework. This framework also has the additional virtue of being consistent with the underlying ideology of most policy makers and analysts.

We argued in our monograph *The benefits and costs of good child care* (Cleveland & Krashinsky, 1998) that child care represents a clear case of market failure for two distinct reasons. First, good child care provides large and significant benefits to society beyond those accruing to the parents making the child care decision. This is obviously not true for apples and pears. When I bite into a fresh apple, the benefits accrue only to me: I taste the apple, not anyone else; I derive the nutritional benefits from the apple, not anyone else. There may be small additional benefits to the rest of society if apples make me healthier. But because I derive the largest portion of the benefits from a wise choice in what to eat, I have an incentive to make the correct decision on how many apples to buy. As discussed earlier, apples are essentially "private goods". But when commodities provide benefits beyond the individual consumer, economists state that they have "externalities." Another way to say the same thing is that the commodity has significant "public good" aspects. Because society has an interest in children beyond their effect on the well-being of their parents, child care has externalities, and the government should protect that public interest in the welfare of children. Many individual consumers will not spend "enough" on the early education of their young children, and some kind of government intervention will be required.

The second type of market failure occurs because parents have difficulty in making the right decision about child care, even with respect to the private benefits that parents enjoy. Again, this is not generally a problem for apples and pears. Consumers know what the two fruit taste like, what their own preferences are, and they can buy what they want. While appearances can be misleading (e.g., the bright shiny apple can sometimes turn out to be tasteless), consumers are frequent purchasers of fruit and they can readily punish sellers who provide bad fruit. This leads markets to function reasonably well. It is quite easy to argue that child care is not like this, so that the market for child care will not work well and some kind of government involvement will be required to make things work out. This set of arguments will be developed more fully in the next chapter, which looks more carefully at whether parents always know enough to make the "right" decisions for their children. For the balance of this current chapter, we will assume that parents know everything that there is to know about child care and early education.

The rest of this chapter will organize the arguments for good child care and for early learning by focusing on the issue of the "public goods" nature of child care. In this vein, we have found it productive to separate the benefits of good child care into two categories: benefits that accrue specifically to the children themselves, and benefits that affect parents directly. Within each category, we will address the public goods type of market failure discussed above.

Before beginning this analysis, it is worth making one important additional point. The argument that the state should intervene in helping parents to raise children is hardly a new one. In Canada, we already intervene in a number of significant ways. Education is almost entirely publicly funded; health care for young children is essentially free. One could however accept the logic of intervention while still believing that it has gone quite far enough so that additional support for child care is unnecessary.

This argument would be correct only if there had not been a fundamental shift in Canada over the past generation. Two important things have happened. First, mothers with young children have entered the labour force in dramatic numbers. And second, we now understand the effectiveness of early childhood education and the importance of early intervention when children are at risk. Most young children now have employed mothers and many of those children in general are receiving relatively low quality care while their mothers are in the labour force. Since public subsidies for good child care can make a difference, and since there is a public interest in the care that those children receive, there is a clear case for extending the public share of responsibility for children so that it includes substantial financial support for child care and early education.

BENEFITS TO CHILDREN THAT ARE PUBLIC IN NATURE

Most parents care deeply about their children. Can't we rely upon them to purchase the kind of care that provides the right amount of benefit for their children? The answer is that although parents clearly make the decisions that seem best to them, the functioning of the market results in many cases in which not enough money is spent on child care and on early education.

The benefits to children have an obvious public good aspect. Good child care prepares children for later life. Children who are well-cared for early in life grow up to have more success in school, to stay in school longer, and ultimately to be more productive in the labour market. These benefits from later education and productivity are fundamental to the way economists think about economic growth and the wealth of nations. It is only recently that the economics profession has begun to understand the critical role played by early childhood experiences in this process.

If these benefits accrued only to the children themselves through higher wages, then we might imagine that conscientious parents would take them into account when they decided on how much to spend on their children. But the productivity gains linked to early education "spill over" to the rest of society. That is, while the benefits of early education do translate into higher wages, some of those benefits are enjoyed by the rest of society. This occurs for two reasons, both well accepted by economists: high-skilled workers make those around them more productive because they invent new products and start new businesses, and high-skilled workers pay higher taxes which support the economic and social infrastructure that drives our economic engine.

There are also social gains to having well-raised and well-educated children. These children grow up to be creative and responsible adults. They commit fewer crimes, they are healthier, they play a more active role in political discourse, and they are more involved in the arts and in charitable endeavours. And finally they are themselves better parents and do a better job of raising their own children. Again, all of these benefits spill over to others in society.

The child of course derives benefits directly from all this. But the spillovers (or "externalities," as economists often call them) are additional benefits that do not accrue directly to the child who receives the early educational experiences. The parents of that child will not take these spillovers into account when deciding what kind of child care to purchase.

This is not to argue that parents do not care enough for their children. In this "economist's view of the world," even the most caring parent will often not spend enough on his or her children. This is because, in the economic model of consumption, individual consumers continue to spend on commodities only as long as one more dollar spent on that commodity generates more than a dollar's worth of private benefits. For most commodities, this is efficient, because this personal calculation includes all the costs and benefits that there are.

Extending this logic to child care is simple. A parent will stop spending money on a child at the point where an extra dollar spent on the child generates less than one dollar's worth of private benefits. The more the parent cares about the child, the more dollars will be spent before that "equilibrium point" is reached. But at that point, additional spending will not take place. The market failure argument is that there are benefits to society that exist on top of the private benefits enjoyed by the individual parent. Thus, although the parent stops spending exactly at the point where the personal cost-benefit calculations say to do so, in fact, if we account for all the social benefits, it may well still be efficient to increase spending on the child.

When would this not be a problem? If the family is relatively well off financially and if the family places great weight on the welfare of the child, then we can expect that the family will continue to spend up to the point where the child receives considerable benefits. If the mother works outside the home, the family purchases high quality care for the young child. If the mother stays at home, the family purchases all kinds of early educational experiences. At some point, diminishing marginal returns set in and additional dollars spent on the child do not add that much benefit. This would be true for the spillover benefits discussed earlier, so there would be little market failure left to correct.

But if the family is struggling financially—as many young families are—then no matter how much weight the family puts on the welfare of the child, they will be limited in what they can purchase. Without public subsidies, the working parents will be forced to purchase lower quality child care. And if the parent chooses to stay at home to care for the child, then the family will have difficulty affording adequate housing and other necessities, let alone the early educational experiences that most child development experts regard as important. Additional dollars spent on the child will have considerable benefits, including especially the spillover benefits that justify public spending.

Furthermore, even among affluent families, we might expect a variety of attitudes towards raising children. While most parents value children intensely, there may be some families that put relatively less weight on the well-being of their children. In those families, relatively less will be spent on them. Again, additional dollars spent on the child will have considerable spillover benefits and public spending is justified.

One way to get parents to spend more resources on children is to transfer more money directly to the parents. Parents will respond by spending more money on their children but they will also spend more on themselves. Since the market fails (not because parents do not spend enough on their own tennis racquets and restaurant meals, but only because parents are not allocating enough to their children), a general transfer of income to parents that would increase both categories of expenditures would not be efficient.

The largest social returns occur when money is spent on children in poorer families. There are two reasons for this. First, poor families can devote fewer resources to their children than wealthier families. Extra dollars devoted to these children are likely to matter more. Second, our society has a strong commitment to the general concept of "equal opportunity." Providing children with a reasonable chance for success is a fundamental public value. Again, this logic suggests that we transfer resources directly to children rather than to their families because the social value derives directly from making children better off. This is especially true for families that might place less value on their children. Society believes that children have a fundamental right to be well-raised and well-educated, no matter what the preferences of their parents.

The poorest families often have only a single parent. When single parents are not employed, children lose the benefits of seeing within their families the regular attachments that most adults have to the labour force. Enabling single parents to look for jobs—while providing high quality care to their children—may be an important way to break the cycle of poverty.

Because this logic is expressed in terms used by economists, this analysis may initially seem strange. But actually the underlying reasoning should seem quite familiar: because society benefits from well-educated and well-raised children, it has an interest in having more resources spent on them. This reasoning lay behind the enormous subsidies devoted to education. At the end of the twentieth century, Canada spent over $40 billion per year subsidizing various levels of education, from kindergarten through university. This money is spent because we believe that it generates enormous social returns. Without these subsidies, parents would still educate their children. But society wants more resources devoted to children than individual parents might want to spend and access to quality education is a fundamental part of equal opportunity.

But since we already fund education for school-age children, why are we only now considering extending the funding to younger children? The answer is that educational expenditures emerged in a period when virtually all mothers stayed at home full-time and cared for their children. The conventional view was that the educational process did not begin until children were somewhat older (4, 5 or 6 years old, depending on the point of view). Thus, there was little practical way that the government could directly fund child-raising (other than through specific programs like vaccination or through general support to mothers like family allowances).

That situation has changed significantly in the last generation. Mothers with young children are employed in ever greater numbers and are making extra-familial arrangements for the care of their children. The figures are so striking as to be,at some fundamental level,hard to accept (which may be why opponents of child care keep talking as ifpurchased child care was an option rather than a necessity for most families). Thirty-five years ago, in 1967, only 1 in 6 mothers with young children were in the labour force; today the figure exceeds 4 in 6. This participation rate has risen in almost every year in that period (see the discussion in chapter 6). With so many children being cared for outside the home, there is, for the first time,a practical way for the public to support early childhood educational experiences.

At the same time, we now understand just how important these educational experiences can be. Again, when most mothers cared for children full time in the home, it was assumed that young children derived most of their important experiences from the home. We now understand that even those children with full-time stay-at-home parents benefit significantly from group experiences-a fact testified to by the large number of well-off parents who choose to purchase these experiences.

The analogies to education seem clear here too. Prior to the 1960s,most Canadian teenagers did not pursue their education much beyond high school. University was limited to a small percentage of the population and was, in general, not publicly subsidized. In the middle of the twentieth century, it became increasingly clear that a university education was a critical requirement for many workers in a modern economy, and Canadian governments became heavily involved in supporting universities. As it becomes clear at the beginning of the 21st century that early education is critical for future learning, it is equally natural for governments to become heavily involved in that area too. In many parts of the world, that has already occurred. Despite political promises,funding for child care in Canada is still woefully inadequate.

BENEFITS TO PARENTS THAT ARE PUBLIC IN NATURE

Of course, child care is not only about the benefits to children. Most parents who purchase full-day child care (as opposed to 2- or 3-hour per-day nursery school care) are doing it because they have jobs. The benefits which flow directly to the parent (as opposed to benefits to the child, which flow *indirectly* to the parent) are the wages which can be earned by that parent while the child is being cared for. Aside from being an investment in children, good child care can also be seen as a work-related expense for employed parents.

What does economics tell us about this decision by the parent to enter the labour force? This decision should in theory hinge on the simple question of where the parent is most productive. The wage paid to the parent captures the productivity of that parent in the economy. The cost of child care captures the cost of replacing a significant part of the parent's household productivity when the parent goes out to work. Because the parent receives the wages and pays for the child care, the decision can be seen as a simple calculation. The wage must be high enough to cover the child care and compensate for any additional work-related expenses (transportation, lunches, clothes for work) and for any additional lost household productivity. If that occurs, then the parent will move into the labour force. Otherwise, it is in the financial interest of the parent to stay at home full time.

Parallel to the earlier discussion of benefits for children, there are two reasons why this decision will not be made efficiently, again linked to the two types of market failure discussed earlier. First,the decision by a parent to be employed and use child care is not a purely private decision, even looking only at the benefits to parents. Second, even restricting our concern to the private component of the employment decision,there are again peculiarities in the market that might prevent parents from making efficient decisions. We will again consider the first issue—the public nature of the benefits to mothers—in this chapter (the other is discussed in chapter 4).

The calculation which the economic model imagines the parent making will be efficient only if the employed parent receives the entire wage and pays all the costs. What this means is that the decision is entirely a private one, with no benefits or costs flowing outside the family. When considering the welfare of the children, we argued that there was a significant public interest in the child care decision being made by the parent. The same issues arise when we look only at the benefits received by the employed parent.

Problems arise because workers do not in general receive all of their wages. The existence of significant taxes levied on the earnings of the parent means that an efficient decision will not generally be made. The employed parent pays all of the costs of going to work—the cost of child care, the extra expenses of travel and clothes and food, the need to replace lost household functions—but receives only part of the benefit of employment.

A simple example will make this clear. Suppose that a mother produces $20,000 in value in her job for her employer. Child care costs $7000. Other work expenses (travel to and from work, work clothes, lunches) are $3500. The family figures that the loss in other household tasks is worth $5000. If the mother receives the entire $20,000 in wages, then there is a profit to the family of $4500 by having the mother take the job ($20,000 minus the sum of $7000, $3500, and $5000). But if the taxes paid by the worker exceed $4500, then the mother will decide not to enter the labour force, even though it is efficient for her to do so. The problem is that the family does not take into account the productivity contained in the taxes. But this productivity is real, and tax revenue is a real benefit to society (it pays for a wide variety of public services).

It may seem that this analysis goes too far. The $20,000 in potential earnings is not high and income taxes on low-wage workers might seem to be relatively low (because of the basic personal credit and the low income tax rate on earnings under $30,000). But careful examination suggests that this is illusory. Payroll taxes on employees (E.I. and C.P.P. or Q.P.P.) account for about 7% of wages. The federal and provincial sales taxes apply to most consumption purchases and must be treated the same way as a conventional tax on earning. When the mother has a job, the husband loses her as a credit, which costs the family just under $2000. When these are added to the income tax paid by the employed mother directly, taxes of considerably more than $4500 on earnings of $20,000 are not unrealistic.

This tax revenue creates a public interest in having the mother in the labour force. We know that mothers with young children are particularly sensitive to net earnings when they make the employment decision. For that reason, the government needs to encourage parents' employment, and funding for child care is a clear way to do this. This explains in part why the Child Care Expense Deduction has been enshrined in the tax code and has not been eliminated even when other government programs have been under careful scrutiny (this point is discussed in more detail below in chapter 5).

The logic laid out above applies even more dramatically for single parents on social assistance. Implicit tax rates on the earnings of those on welfare can be perilously close to 100% (economists call this the "welfare trap"). When a single parent takes a job, welfare payments drop considerably, a benefit to the government treasury. Public funds are freed up to finance other government programs, or allow for tax cuts, all of which benefits other Canadians. Yet the single parent sees little financial gain from employment, exactly because of this fall off in welfare payments. One way to encourage employment by single parents is to provide generous child care subsidies, and in fact these are available to some single parents in Canada. The investment in child care by the government generates considerable returns in taxes and welfare savings.

The benefits of employment are also not entirely contained in the current wage being paid. We know that future wages depend to some extent on continuing attachment to the labour force. When workers leave the work force for several years to care for young children, there is erosion of skills that reduces future wage rates. Unless workers are protected by parental leave provisions, they may also lose their places in the workforce hierarchy, which again will reduce wages when they return to work. Most contracts allow for yearly increments that are lost when workers are out of the labour force. Again, all of these lost wages mean lost future tax payments, giving the government a stake in a continuing attachment to the labour force.

This explanation also applies strongly for single parents who use child care to take jobs and leave welfare. Once these parents form a permanent attachment to the labour force, their wages begin to rise, making it less likely that they will go back on welfare in the future.

BUT SHOULD WE SUBSIDIZE ALL CHILDREN?

We have identified all the public good aspects of child care. But, as we have suggested, the case for subsidy is strongest for children in poorer families. These families are less able to purchase good child care themselves, and the gains from early education—while significant for all children—are the biggest for children who are disadvantaged. As the quote that we began this chapter with suggested, it is easy to attack child care subsidies that might flow to relatively well-off families.

Having said all that, we generally support universal funding for child care, although we do believe that parents who have high incomes might be expected to pay some fraction of the cost of care. Our position is based on a number of factors. First, for all but the wealthiest families in Canada, good child care will continue to be a considerable financial burden, and many middle class families cannot afford and currently do not purchase what we would consider to be acceptable levels of quality. Because there are significant spillovers from good child care, we would want to help these families buy higher quality care.

Second, there are considerable public advantages from having all children in the same kinds of facilities. The mixing of children from different backgrounds is itself a public good. Equal opportunity for children is also desirable. And, just as important, providing universal funding helps build the political support that ensures high quality care. When middle class parents are not eligible for subsidy, there is considerable resistance to improving the level of quality in subsidized care, because the benefits appear to go only to a minority of children. When all children stand to benefit, parents and those who support their efforts, will favour improvements in quality.

SUMMARY OF THE ARGUMENTS

Opponents of child care funding often have an underlying belief that families ought to be self-sufficient and should pay for their own child care. We believe that there is a strong public interest in good child care, and that this public interest justifies public funding. The reasons for this are as follows:

- Good child care makes children better citizens and workers in the future. This benefits the children and their families, but also benefits other Canadians. Those children contribute to society, both through the taxes they pay and through their citizenship.
- Parents care for their children but most families cannot afford to purchase child care of high enough quality to create all the benefits that society would like. Child care funding will improve quality and generate more public benefits.
- Good child care allows more parents to work. This benefits parents directly through the wages they earn, but significant benefits flow to society through the taxes paid by those parents. This is especially true for parents on welfare because the reduction in public expenditures when poor parents work and get off welfare is significant.
- The benefits from working parents also occur in the future because sustained involvement in the work force increases skills and future wages.