Getting less bang for the child care buck – all $6.8 billion of them

Public spending on child care in Canada

From many years of Canadian and international early childhood education and care (ECEC) research, we've learned that *how much* public funding is spent and *how* it is spent are both important. Canada is one of the OECD's lowest spenders on regulated child care and early childhood education but spends substantial public funds on two child care-linked funds—the Child Care Expense Deduction (CCED) and the Universal Child Care Benefit (UCCB). Currently, the Government of Canada is contemplating spending considerable additional dollars on a third fund— income splitting.

There are two main ways to spend public child care funds: "supply-side" funding supports services directly ("base funding") and "demand-side"—indirectly spent funding to parents through vouchers, cheques or the tax system. Many researchers conclude that demand-side spending is weak for improving child care affordability, availability, and is, overall, a poorer way to spend ECEC funds than supply-side funding (see, for example, Turgeon, 2010; OCED, 2006: 14).

All three funds benefit wealthier families most, and none of the three contributes to building a high quality, available, affordable ECEC system to provide real options for families and children. Practically, none of the three helps parents find a high quality child care or nursery school space and all three do little help parents pay fees that—in most of Canada—cost more than university tuition or rent.

Outside Quebec, Canada has this far focused on demand-side funding, and we find ourselves with weak access, affordability and quality relative to most other advanced countries. In other words, Canada is living proof of the failure of these approaches.

The Child Care Expense Deduction (CCED) – $955 million (2013 projection)

Objective - To recognize and offset child care costs incurred by parents in the course of earning income.

This provision of *The Income Tax Act*, first introduced in 1972 and increased several times, recognizes receipted child care expenses incurred by families in the course of earning income. It allows the lower earning spouse to claim portions of child care costs as a deduction from taxable income. The maximum deduction is $7,000/child <7 years; $4,000/child 7-16 years; $10,000/or older children eligible for the Disability Tax Credit.

The CCED has increased steeply in recent years, rising from $545 million in 2005/2006. There has been little research on the CCED, and none recently. Studies such as Young (1994) and Fraser (1978) pointed out multiple flaws with it, Fraser noting that with the CCED, "the more you have, the more you get".

The Universal Child Care Benefit (UCCB) – $ 2.8 billion (2013)

Objective – To provide choice in child care; To "help all Canadian families with young children choose the child care option that best suits their families' needs, whether they work in the paid labour force or stay at home with their children…" (ESDC, 2014).

The UCCB, introduced in 2006, is a taxable $100/month cash payment to families for each child under the age of six ($1200/year per child). No receipt or report-back is required. Although there was a formative evaluation in 2011 that focused on program administration and public awareness of the UCCB, no assessment has been conducted to determine if the UCCB meets its objectives, how it is used, and by whom. There have been multiple analyses and critiques of the UCCB (see, for example, Battle, Torjman, & Mendelson, 2006; and Friendly, 2013).

Income splitting—$3 billion annually (estimated)

Objective – "The Family Tax Cut will make the income-tax system fairer and will reduce tax bills for families" "… By making the tax system fairer for families, we will make it easier for parents to cover the day-to-day cost of raising their kids" (Harper, 2011).

The government proposes to allow couple-families to divide income for tax purposes, taxing total household income at a lower rate than if partners' incomes were assessed separately. Thus, income splitting is of most benefit to one-earner, two-parent families. It has been critiqued by analysts across the political spectrum. David Macdonald (Canadian Centre for Policy Alternative,2014), terming it "inequality by design", notes that it would mean that 86% of families would gain no benefit at all, while the wealthiest 5% would get more benefit than the bottom 60% of families combined. Torjman and Battle (Caledon Institute of Social Policy) note: "Income splitting would be a big tax win for the minority 15% of households—most with high incomes—with a sole male breadwinner and stay-at-home mother. Single parents, childless couples and lower-income families would get nothing" (2014).

A C.D. Howe Institute Commentary by Laurin and Kesselman concluded that:

> … income splitting would fail to achieve its ostensible horizontal equity goal. And if the objective is to provide support to families in raising children, it would distribute most benefits where they are least likely to be needed. Splitting would also be revenue costly and adverse to work incentives (2011: 1).

On the government revenue side, Macdonald calculated that income splitting would cost the federal government $3 billion in lost revenue, with the provinces losing an additional $1.9 billion. A brief from the University of Toronto's Mowat Centre (Johal, 2014) also calculated a $3 billion cost to the federal government and $1.78 billion lost revenue for the provinces.

In summary…

- Canada is the lowest spender on regulated ECEC among OECD countries;
- There is strong evidence that demand-side spending (vouchers, cheques, tax breaks) is ineffectual in providing ECEC options for families;
- The Government of Canada spends $3.8 billion/yr, and could soon be spending $6.8 billion/yr, on child care-linked demand-side funds, with provinces spending billions more;
- Research (Fortin et al, 2012) shows that accessible child care is an economic asset;
- Yet Canadian families cannot find, and many cannot afford, the high quality early childhood education and care they want and need;
- There is no evidence that the three demand-side funds are effective ways to spent substantial ECEC-linked dollars;
- Given this, the idea that Canada "can't afford" to support families with a universal national child care program does not make social or fiscal sense.

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