

Of Beer and Popcorn: Federal Policy on Childcare and Child Benefits

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I. Introduction

The debate over childcare policy raged through the federal election of 2006. The already heightened tension reached new levels in December 2005 when Liberal spokesperson Scott Reid famously quipped that the Conservatives' proposed childcare transfer might be spent by parents on "beer and popcorn" rather than improving the child's welfare.¹ Although the rhetorical heat of the campaign may have subsided since then, the role of parental choices remains central to childcare policy discussions and took a prominent place in the policies announced in Budget 2006.

Economists have a particular approach to analyzing questions of government vs. individual decision making. The economic approach potentially brings some clarity about the conditions under which government or individual decisions should be preferred. In this paper I analyze recent federal childcare initiatives in the context of efficient private and social decision-making. The analysis strongly suggests that the role of parental information and their capacity to make effective choices is central to determining which types of policies are desirable, and is the determining difference between the stances of the two main party positions.

I first describe the childcare policy of the new Government as well as the policy of the previous Government.² I then proceed to examine the general arguments for and against

¹ The quotation in full context follows. "We are not trying to take people's time away from their grandparents but working families need care. They need care that is regulated, safe and secure and that's what we're building here. Don't give people \$25 a [week] to blow on beer and popcorn. Give them child care spaces that work."

² A short note about language: I use the term childcare to describe non-parental care.

undistorted individual decision making in the realm of childcare and provide a discussion of policies that may remedy weaknesses in the market for childcare. Finally, I explore future directions for the federal government in childcare policy.

II. Recent Federal Childcare Initiatives

The new Universal Child Care Plan was announced in the Budget Speech of May 2, 2006. Through this Plan, the new Government carried out one of the key campaign promises of the Conservative Party during the election of 2006. In this section I will briefly describe the new Plan, and provide the context for what it replaced.

The New Plan

The Universal Child Care Plan consists of two components. First, a benefit called the Universal Child Care Benefit (UCCB) of \$100 per month will be paid to the parents for each child aged zero to five. There are no conditions on employment or formal childcare use – it is a transfer of income to recipient families. The benefit will be taxed on the return of the lower earning spouse. The UCCB will not be considered income for the purposes of determining the entitlement to the refundable GST credit and the Canada Child Tax Benefit.

The second component of the Plan is a commitment to assist in creating up to 25,000 new spaces per year, starting in 2007. The information available so far is quite vague, but the

commitment is to put in place ‘substantial and flexible’ incentives in partnership with provincial, territorial, and local governments, along with business, community, and non-profit organizations.³

The Old Plan

The recent election campaign saw much rhetoric about the child care agenda of the previous Government. If one listened to the Liberal Party, it seemed as though new heavily subsidized childcare centres would sprout on every street corner soon after their re-election. On the other hand, if one listened to the Conservative Party, the impression was that the Liberal plan involved mandarins in Ottawa controlling the child-rearing decisions of Canadian families by dictate. The reality was substantially different than the rhetoric on both sides of the fence.

Through 2005, nine provinces signed agreements in principle with the federal government, with no agreements for Quebec or the Territories.⁴ The federal government agreed to provide \$1 billion per year, split among the provinces, for five years in the form of a specific bloc grant. It is instructive to note that Quebec alone spends approximately \$1.5 billion on its subsidized childcare programme, meaning that the \$1 billion contribution of the federal government fell far short of sufficient funds to implement a Quebec-style programme across the federation. Moreover, as with any specific bloc

³ Press reports have indicated the credit will be up to \$10,000 per spot – I have yet to confirm this from official documents.

⁴ This discussion draws on the policy summary in Childcare Resource and Research Unit (2006).

grant, it is possible that the grant crowded out provincial spending on childcare that might otherwise have occurred.

The agreements varied substantially across the provinces, depending on local tastes and conditions. However, the agreements did contain a common core of principles that applied across the country.⁵ Beyond the dollars and some data gathering, this was the only part of the ‘programme’ that was directed from Ottawa. For example, in BC there was an emphasis on choice and flexibility, while in Alberta there was substantial wording directed to the importance of families in the development of their children.

In retrospect it is surprising that childcare advocates defended the agreements so vigorously, given that some agreements contained substantial language about choice and family-provided care. Similarly, it is surprising that a programme with such a small federal component was viewed by opponents as a threat to the constitutional division of powers.

Soon after the election, the new Government announced its intention to cancel the agreements with the provincial governments as of 2007. It is important to note that nothing stops any provincial government that thinks childcare is a priority for its citizens to allocate funds or raise taxes to implement the priorities outlined in its now-cancelled agreement. Indeed, since most of the funding for any large-scale childcare expansion would have come from provincial coffers anyway, very little has actually changed.

⁵ These were referred to as the ‘QUAD’ principles: quality, universality, accessibility, and development.

III. Should Government Be Involved in Childcare Decisions?

In order to analyze the effectiveness of the new UCCB in improving the welfare of children in Canada, I begin by taking a step back and starting with a more general set of questions. Should the government involve itself in childcare decisions? Under what circumstances, and to what end? In this section, I lay out a framework for analyzing childcare policy in an attempt to answer these questions. I maintain a focus on children through this analysis, setting aside the impact of policy in this area on the labour market and gender equality.

If childcare provided clear net benefit to all children in all dimensions, then the question of ‘choice’ would be irrelevant. Everyone would have their children in care and there need be no debate about choices.⁶ However, there is an increasing body of evidence that suggests that there may be some downsides to childcare. For example, Baker, Gruber, and Milligan (2005) find indications of behavioural problems rose among young children in Quebec following the introduction of their subsidized childcare programme in 1997.⁷ It is important to note that a large body of past research finds positive impacts of childcare exposure on different aspects of children’s wellbeing, although there are differences among children of different family backgrounds, age, and for different developmental outcomes. To sidestep this empirical controversy, I restrict the conjecture defended in

⁶ Many childcare researchers apparently hold this view. For example, Kershaw (2004) asserts a ‘gap’ between research-driven policy and policy that favours choice, arguing implicitly that they are mutually exclusive.

⁷ See more references in Baker, Gruber, and Milligan (2005). The format of this paper does not allow for a complete literature survey.

this paper to a relatively weak one: there is reasonable doubt that all young children benefit in all dimensions from exposure to childcare.

The implication of this conjecture is clear. In the presence of conflicting outcomes, tradeoffs must be made. The pivotal question becomes whether these tradeoffs should be made centrally or in a decentralized manner. That is, should the decisions be made by governments or by parents? Decentralized decision making carries the advantage of allowing individuals to react to their own tastes and situations to find the best choice for their families. On the other hand, centralized decision making may offer improvements if the private incentives faced by families aren't closely aligned to what is best for society as a whole.

In one respect, the debate about 'choice' in childcare is misplaced. For decisions about children, governments only rarely involve themselves directly in the decision-making. In contrast, elementary education, for example, is obligatory by law and often allows very little choice within the public system. For childcare, parents retain substantial choice in almost any policy under contemplation in Canada – the threat to individual liberty is minimal. Phrased more carefully, the contrast for childcare is between a policy of providing incentives favouring one option over others and a policy that was neutral over alternatives.

I take the standard economic approach to the question of government intervention. The analytic benchmark used by economists is an economy in which individuals are fully

informed, are rational, and have access to complete markets. In such an economy, decentralized decision-making does as well as the best central decisions. To break the tie, notions of individual liberty can be invoked to favour decentralized decisions. In other words, in the benchmark, government has no role to play in affecting individual choices among alternatives and therefore policy which is neutral among choices is desirable.⁸

The strong assumptions in the benchmark model are quite unlikely to hold in reality – decentralized decision making through markets typically fails in a number of well-understood and pervasive ways. Still, the benchmark is useful as a diagnostic to understand when and why centralized decision making with respect to childcare may be advisable and how policy can improve outcomes. I examine three possible breaches of the benchmark and assess the merits of each argument.

Externalities

When one's own decisions have impact on the welfare on others, the resulting externalities lead to inefficient decision-making because individuals typically will only account for the private rather than the full social impact of the decisions. How could childcare decisions generate externalities that influence other families? There are two possibilities. First, children who go through childcare may impose lower burdens on

⁸ Of course, depending on the redistributive preferences of the society the government may have an important role in ensuring families have sufficient resources. However, in that case the optimal policy would be to redistribute resources and then let families choose among the undistorted options available.

others in society later in life. Second, may learn things in childcare from other children that helps them later in life.

Several experimental evaluations of childcare find some evidence of the external effects of childcare. To take one example, The Perry Preschool Project randomly assigned 123 children aged three to a specialized childcare intervention in Michigan in the 1960s and followed the children to age 27.⁹ The study found significantly smaller use of social services and arrest rates for children in the ‘treatment’ group compared to children in the ‘control’ group. This study has been extremely influential in the childcare debates both internationally and in Canada.

However, some caution is in order before applying the results of this study to other populations and other childcare situations. First, the Perry Preschool Project was an intense intervention involving parental counseling and low ratios of children to the highly trained staff. Second, the children in the study were pre-selected to be those of low intellectual ability from low socio-economic status families. Strong assumptions are required to assert that the benefits for children from any background would be similar. Finally, recent work has shown that many of the key results from the Perry Preschool data (as well as with other similar experiments) fail to hold up to more rigorous statistical scrutiny.¹⁰

⁹ See Schweinhart, Barnes, and Weikart (1993).

¹⁰ Anderson (2006) re-examines the original data sets for the Perry Pre-School Project, the Carolina Abecedarian Study, and the Early Training Project. He finds that girls did receive substantial long-run benefits from the interventions, but boys did not.

The second component of the externality argument involves things learned from being with other children – peer externalities. For example, experience with other children from a variety of backgrounds might open a child’s eyes to diversity and also may help to integrate the children into Canadian society. These are standard arguments in favour of public education, and are not specific to childcare. Like other arguments that view childcare as an extension of schooling, this set of arguments more likely applies better to older pre-schoolers than to younger ones. It should also be noted that opportunities to mingle with other children and neighbours are not restricted to those in certain modes of childcare.

Credit Constraints

If attending childcare brings significant future benefits, then parents with low incomes might want to borrow against those future benefits to fund current investments in their children. Of course, borrowing against future benefits is extremely difficult in practice. This means that positive present value investments may not be made if parents do not have adequate resources. In this way, the poor choices or misfortune of parents may be transmitted into substantially reduced opportunity for their children. Coelli (2005) finds strong evidence that transitory income shocks have a significant influence on post-secondary education choices. If similar constraints affect families with young children, then potentially beneficial investments may be missed.

Lack of information

The final market failure that may influence the childcare market is parents' lack of information about the issue. Parents might not be aware of any benefits that appear in later life and they might not know whether and to what degree these benefits may appear for their children in particular. Moreover, even if they knew all of these things, they may not know how to evaluate the childcare options available to them.

The inability of parents to correctly gauge the quality of childcare has been studied by childcare researchers. For example, Blau (2001) finds that parents are not willing to pay much more for care that is judged by experts to be of higher quality. One possible conclusion to draw from this finding is that parents are correct not to pay more for quality because quality doesn't matter. The other possible conclusion is that parents systematically make mistakes because they lack information – or the ability to process available information. Among children in care, Blau (2001) cites a large body of evidence linking measured childcare quality to later life success. If so, it may be that lack of information leads to poor decision making by parents.

IV. Policy Responses

In response to any of the three market failures outlined in the previous section, a government might decide to intervene in the market for childcare services. If so, what

form should the intervention take? I first discuss the case of the externalities, followed by income constraints and information problems.

One response to the problem of externalities is to get the prices right. That is, if the relative prices of different options properly reflect both the private and the social benefit then the incentives of the individual will be aligned with the incentives of society as a whole. Applied to the case of childcare, this would mean putting in place a set of subsidies (or taxes) such that externality-generating forms of care will have their prices lowered relative to types of care that don't generate externalities.

There are two caveats about using subsidies to correct individual incentives. First, it is important to note that the outcome of this type of arrangement would not have everyone choosing one type of care. Families with different tastes and with different children may make very different choices. Second, getting the prices 'right' may be a challenging task for the policy maker, as evaluating which types of care generate externalities and determining their worth would not be done easily.

For the problems of income constraints and information inadequacies, I analyze them jointly in Figure 1 in a two by two matrix. On the horizontal axis is the degree to which families have and are able to act on good information about childcare. On the vertical axis is the degree to which individuals have sufficient income and liquidity to invest in childcare for their kids. In each cell I note the policy response for families in the indicated situation.

FIGURE 1

	Fully Informed	Poorly Informed
Can borrow/invest	No policy needed	Provide information
Cannot borrow/invest	Vouchers / income support	Subsidize 'good' care modes

The upper-left cell indicates the policy for cases where parents are fully informed and able to invest in their children. In this case, no policy response is needed as the childcare market should function well. The upper-right cell examines the case where parents have the ability to invest, but do not have the information to make the right choices. In this case, the best response of policy-makers is to remedy the problem directly – improve parents' information. Websites, pamphlets, and reference materials could help get facts into parents' hands. Blau (2001) suggests resources should be devoted to referral services that help parents make their childcare decisions.

The bottom two cells bring us closest to the current policy debate. If parents are well-informed but lack the resources to invest in their children, then the best response is to

improve their resources and let them make the best decision for their families – whatever type of care that may be. This could come in the form of a voucher redeemable for childcare services, or in the form of straight income supports. This is one interpretation of the policy role of the UCCB.

On the bottom-right, if families neither have good information nor the ability to invest, then the role of government becomes stronger. Here, government provides some of the financing for care, but only for the types of care that are seen to help children. This is an interpretation of the agreements signed by the previous Liberal Government. In theory, this type of approach need not be restricted to a monolithic subsidized public system such as found in Quebec, but could involve options such as vouchers that vary by the quality of care.¹¹

This analysis suggests that there is substantial agreement between the two main federal parties on the question of whether parents have sufficient resources to make efficient childcare decisions. Both Conservative and Liberal policy seems to emanate from a stance that parents are resource-poor. The substantive difference between their policy positions, therefore, is in their stance on the information that parents bring to their childcare decisions. Liberal policies are more justifiable if one thinks parents are poorly informed or equipped to make decisions about their children, while Conservative policies are more justifiable if not.

¹¹ See Blau (2001) for a fuller description of variable-value vouchers for childcare.

V. The Future of Federal Childcare Policy

In which direction should the federal government take childcare policy? At first pass, the analysis presented in this paper does very little to justify a *federal* role in childcare policy. Any benefits seem quite regional in their impact, and provincial tastes and situations seem diverse enough that the federalism principles of Oates (1972) lead one in the direction of local rather than central control of government policy in this field.

Upon further reflection, however, the federal role in the soon-to-be-cancelled agreements with provincial governments as limited to enunciating some principles and data collection – which seem to be sensible central government tasks. So, an economist concerned with efficient federalism would be hard-pressed to raise an alarm over either a federal evacuation of the realm of childcare or a continuation of the 2005 agreements with the provinces. If anything should excite the alarms of the concerned economist it would be the plan for direct tax credits for the creation of 25,000 childcare spaces – which would be hard to justify as a federal priority.

The UCCB also requires scrutiny. The analysis in the previous section suggests that income supports – such as the UCCB – may be the appropriate policy response to a situation in which some families do not have sufficient income to enable productive investments in their children but where the parents are well-informed and capable of making good decisions about their children’s care. In this section I address whether the particular fiscal form of the UCCB is well-suited to alleviating the income constraints of families.

The structure of the UCCB appears to aim at two distinct goals. One is to help families to have the resources to make better childcare choices for their families, which is the argument made in detail above. The other goal is found in the ‘universal’ aspect of the UCCB. Canada is unique among OECD countries for not having universal recognition of children in the fiscal system.¹²¹³ That is, prior to the introduction of the UCCB, higher income Canadian families saw no change to net burdens in the tax and transfer system if they had children.

In meeting the goal of helping families with insufficient income make efficient childcare choices, the UCCB is ineffective. The families with the greatest need for resources to invest in their children are those with lowest incomes, while the UCCB pays the highest benefits to families with a non-working spouse, no matter what the income of the whole family. If the goal were to alleviate the resource constraints on households, it seems that an expansion of the existing Canada Child Tax Benefit would be a much more effective policy lever than adding the complexity of the UCCB acting parallel to the existing child benefits system.

A policy better-suited to the goal of helping resource-poor families, while still introducing an element of universality to the system, can be conceived. The UCCB could be rolled into the Canada Child Tax Benefit. As happens now, the reformed CCTB would be reduced with family income over some threshold, but the difference from the

¹² Needs fact-checking. This was true in 2000 – it may not still be true.

¹³ See Boessenkool and Davies (1998) for a discussion of equity considerations in the fiscal treatment of children.

present CCTB would be that the benefit reduction would stop at some floor benefit level. That is, every child in the country would get at least some floor amount, but those with middle and lower incomes would get more.

This proposal has three primary advantages. First, it makes the system simpler. The current UCCB acting alongside the CCTB with different rules for benefit levels and tax status renders an already extremely complex child benefits system close to incoherent. By rolling the UCCB into the CCTB, some coherence in the system is restored. Second, it provides recognition for all children in Canada in the tax and transfer system through the universal ‘floor’ amount of the benefit. Finally, an enriched CCTB would help ensure that families have sufficient income to fund any investments – such as childcare – their children need to meet their potential. It might be hard to continue to construe the UCCB as a ‘childcare’ policy if it were folded into the CCTB, but it would be in line with recognizing the UCCB for what it is – an income support program.

VI. Conclusions

Although the 2006 Budget containing the new Universal Child Care Plan has passed through the House of Commons, it is unlikely that the childcare debate in Canada is over. Federally, the minority status of the Government means that a new election may come quickly. There are no signs that the opposition parties have acquiesced to the Conservatives’ way of thinking on childcare, so childcare may continue as a divisive federal policy issue. Provincially, it is likely that some provinces will push forward with at least some aspects of their childcare proposals even without their share of the \$1

billion they received through the soon-to-be-cancelled agreements. Whether they follow Quebec's programme or develop a different approach remains to be seen.

No matter which level of government sees more debate about childcare programs, the role of family choices will be central. The analysis in this paper suggests that the information available to and interpretable by households about childcare decisions is a key determinant of the direction for policy. More research and policy development focusing on this aspect of the debate would be fruitful – and would allow us to move beyond the 'beer and popcorn' arguments.

At some point in the future, a Government of Canada (of whichever stripe) will feel less bound to the promises made in the 2006 election campaign by the Conservative Party. At that time, some changes to the Universal Child Care Plan may be considered. A reform that replaced the UCCB with an enhanced CCTB including a universal component has the potential to improve the effectiveness of child benefits in Canada. As for credits for childcare spaces, data collection and research seem more appropriate tasks for a focused federal government than direct involvement in funding childcare spaces.

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