

# Private Sector Can Meet Child Care Demands

by Peter Shawn Taylor

Canada boasts an ample supply of many things: empty space, fresh water, and donut shops, to name a few. Yet there is one aspect of the Canadian landscape that is reported always to be in under-supply: regulated child care.

Some recent examples of the perceived shortage of regulated day care: in 2003 the Childcare Resource and Research Unit (CRRU) of the University of Toronto claimed only 12 percent of Canadian children had access to regulated child care (Friendly *et al.*, 2003). Campaign 2000, which focuses on child poverty, says the number of licensed day care spaces in Canada fell by 2 percent between 2001 and 2003 (Campaign 2000, 2003). And in 2002 a federal Liberal caucus committee proposed that Ottawa spend \$4.5 billion per year on day care for 3- to 5-year-olds because the current system was under-providing for the nation's children (National Liberal Caucus Social Policy Committee, 2002). And yet most of these alleged shortages are ideological constructs. If and where under-supply is an issue, it

has been created by government interference.

Child care is provided through a continuum of services. At one end is the time-honoured method of the stay-at-home parent. Greater preference or need among mothers to work while their children are young has led to increased demand for non-parental arrangements, although 62 percent of two-parent families with at least one spouse working and a child under four years old still rely primarily on parental care. The most popular form of non-parental care is for a relative, neighbour, or nanny to provide care in the parental home. This option provides the greatest flexibility. At greater cost and reduced flexibility are family day care providers, individuals who look after others' children in their homes. They may or may not be regulated. Together, in-home and family day care account for the primary form of care for 32 percent of two-parent families with at least one spouse working and a child under four years old. Finally, the most expensive and least flexible arrangement for child care is the provincially-licensed day care centre, which can be operated on a

for-profit or not-for-profit basis. Centre-based care accounts for only 6.5 percent of two-parent families with at least one spouse working and a child under four years old. Parents may select formal child care for reasons of convenience, structure, or the fact that provincial regulation imparts an air of authority to the centre (Lefebvre and Merrigan, 2002).

While a small minority of parents prefer formal child care, it is the only option that captivates the social policy sphere. The CRRU achieves the 12 percent figure it promotes by dividing the total number of children in Canada aged 0 to 12 by the number of regulated child care places. To argue that 12 percent coverage represents a chronic deficit, as the CRRU does, assumes that all pre-teen children require institutional child care. Such a claim bears no connection to demonstrated parental demand, although it is attractive to some academics and unions for ideological reasons.

That said, the broad issue of whether governments should be encouraging one form of child care over another is beyond the scope of this paper. I propose only to investigate how government policies can lead to an inefficient allocation of resources within the licensed child care sector. If the supply of regulated day care spaces is indeed a concern, advocates should be promoting a greater role for the private sector.

Canada is well-suited to an investigation into the best methods of providing day care since children are a provincial responsibility and the ten provinces have adopted a diversity of policies in this area. In particular, attitudes towards commercial day care centres vary widely from province to province.

Some provinces have a lengthy record of animosity towards for-profit day care

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operators. Policies designed to limit the for-profit sector range from outright moratoriums on new licences for commercial child care centres (Quebec from 1997 to 2002) to denying for-profit centres access to fee subsidies or grants (Saskatchewan and Manitoba currently) to exerting financial and moral suasion to convert existing for-profit day cares to charitable status (Ontario under the Bob Rae NDP government). In addition, federal grants under the Community Access Program (CAP) during the 1970s were reserved exclusively for charitable child care centres. Policies that seek to reduce child care spaces based on ownership status are puzzling given frequent complaints about insufficient supply.

Other provinces have traditionally treated all child care centres equally, regardless of ownership status. These include most Atlantic provinces and Alberta. In fact, Alberta opted out of the CAP grants, at great expense, in order to protect its for-profit sector. These provinces typically allow fee subsidies to flow through parents to the day care of their choice.

It should be noted that provincial regulations imposed on formal day care centres, covering such things as child-staff ratios, staff credentials, floor space per child, and meals, are applied equally to the for-profit and not-for-profit sectors in every province. If it is provincial regulation that makes formal day care attractive to parents, then there is no legitimate argument against for-profit day cares. Approximately one-quarter of all day care spaces in Canada are run on a for-profit basis. It should also be noted that some charitable, non-profit day cares are run in the same manner as for-profit centres, with a view to efficiency and surplus maximization. Most, however, operate as extensions of the public sector and display the traditional failings of that sector.

**Table 1: Efficiency of Provincial Funds in Regulated Day Care, 2001**

Province	Regulated Day Care Spaces <sup>1</sup>	Provincial Government Spending on Regulated Day Care	Regulated Day Care Spaces per \$1,000 in Provincial Government Spending	For-profit Spaces as a Percentage of Total
Newfoundland	4,226	\$7,753,000	0.55	64
Prince Edward Island	4,270	\$4,229,708	1.01	46
Nova Scotia	11,464	\$12,892,278	0.89	43
New Brunswick	11,086	\$11,823,000	0.94	60 <sup>2</sup>
Quebec	234,905	\$1,092,427,654	0.22	14
Ontario	173,135	\$451,500,000	0.38	17
Manitoba	23,022	\$62,876,400	0.37	8
Saskatchewan	7,166	\$16,311,911	0.44	1
Alberta	47,693	\$57,500,000	0.83	56
British Columbia	72,949	\$164,563,000	0.44	42

<sup>1</sup>Includes licenced pre-school, school-age, and family day cares.

<sup>2</sup>Government of New Brunswick estimate.

Source: Friendly *et al.* (2003), *Early Childhood Education and Care in Canada 2001*, Government of New Brunswick; and calculations by author.

What impact does this range in policies towards for-profit child care have on the industry? Table 1 presents data on the efficiency of provinces in using public funds to create day care spaces. It also shows which provinces have the largest for-profit sectors, a proxy for how commercial-friendly child care policies are in that province.

PEI is the most efficient province in providing child care, boasting one child care space for every \$1,000 spent by government. For-profit child care accounts for nearly half the sector in this province. PEI's policies do not discriminate against for-profit centres and provincial fee subsidies are allocated to centres chosen by the parents.

Next in order of efficiency are New Brunswick, Nova Scotia, and Alberta. Again, all three provinces have comparatively large for-profit sectors. In gen-

eral, these provinces do not discern between for-profit or charitable auspices in allocating fee subsidies or other funding, relying instead on parental choice to determine the destination for fee subsidies. Nova Scotia, however, does restrict certain equipment grants to not-for-profit centres.

Provinces that are less efficient in creating spaces, such as Ontario, Manitoba, and Saskatchewan, either discriminate against for-profit centres, or have done so in the past. They all display much smaller for-profit sectors.

The province that is least efficient at creating regulated child care space is Quebec. For every \$1,000 the Quebec government spends on child care, the province produces only 0.22 of a space in a regulated centre. Quebec is the only province to pursue a publicly-funded, universal day care program through its



\$7-a-day child care (formerly \$5-a-day) policy. Restricting private sector supply through a five-year moratorium and artificially reducing the price of public care has distorted the child care market and increased the cost per space to the government.

While Canada is rich in evidence supporting the thesis that the private sector is more efficient than the not-for-profit sector in providing regulated day care spaces, Australia offers even more striking evidence. A bold policy experiment in that country 13 years ago provides irrefutable proof that parental choice and entrepreneurial instincts, rather than central planning, are the best determinants of the child care services market.

Prior to 1991, the Australian federal government provided child care subsidies exclusively to not-for-profit centres. This was motivated by the political belief that it is improper to allow profit-making in the child care industry, as some Canadian provinces argue today. In 1991 the Commonwealth government abandoned the policy with great success, as this OECD report explains:

For almost the decade prior to 1991, the supply of child care spaces through Commonwealth funding was subject to a needs-based planning process and all funding was available only to the community-based non-profit sector. During this time, demand for child care places far outweighed supply... In 1991 the supply of long day care [full-day care] spaces was transformed with the granting of fee subsidies to families using the private sector. This change in policy provided the stimulus to

private sector investment... and unforeseen growth resulted, with some areas experiencing an over-supply of places. (Press and Hayes, 2000)

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By shifting the funding mechanism to one based on parental choice and by allowing the private sector to participate fully, the Australian government was able to boost supply and satisfy parents. A recent survey reports that 94 percent of Australian families are content with their access to all forms of child care (Australian Bureau of Statistics, 2003). Within one year the number of day care centres doubled and a temporary over-supply of regulated day care became the public policy dilemma of the day (Department of Family and Community Services, 2004).

Domestic and international experience, as well as common sense, suggest that the private sector will always be more efficient at allocating scarce child care resources than the public sector. In Canada, provinces that allow commercial operators to participate in fee sub-

sidy and grant programs spend less per regulated child care space than those provinces that discriminate against private operations. And when provided with a choice between for-profit and not-for profit centres, parents do not appear to share the aversion some governments display towards private sector child care. If the supply of child care is a problem and government funding a constraint, then the solution lies in encouraging greater private sector participation.

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