

Why the Preference for Not-for-Profit and Public Child Care Services?

A submission to the Standing Committee considering Bill C-35
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I am an economist who specializes in the analysis of child care systems and in the design of child care policies and their effects. I have taught economics at the University of Toronto for 24 years. I have published numerous articles analyzing issues related to child care in academic and policy journals. I was the economist for the Special Parliamentary Committee on Child Care established by the Mulroney government in 1986-87. I was the main author of a major report on child care reform in Ontario for the Ministry of Education in 2018. I am currently a member of the National Advisory Council on Early Learning and Child Care but this brief reflects my own opinions, and not those of the Council.

I wish to address the issue of for-profit, not-for-profit and public child care services, a topic which has generated some controversy.

The Legislation

Bill C-35 expresses a clear intent that expansion of early learning and child care services should be predominantly in not-for-profit and public auspices but also that all existing services of whatever auspice should be supported to provide affordable child care services.

Bill C-35 says that the aim of federal investments is to facilitate access to early learning and child care programs and services “in particular those that are provided by public and not for profit child care providers”. The legislation describes this as a “guiding principle” for federal investments in early learning and child care.

This is in accord with the principles articulated in the 2021 federal budget, which said that child care is essential social infrastructure, like the health and education systems. According to that document, the immediate priority is “building the right foundations for a community-based and truly Canada-wide system of child care. This includes working with provinces and territories to support primarily not-for-profit sector child care providers to grow quality spaces across the country while ensuring that families in all licensed spaces benefit from more affordable child care.” (p. 103). All of the thirteen agreements signed by provinces and territories indicate the consent of these jurisdictions to these purposes in the expenditure of federal money – about \$30 billion over 5 years.

What is not-for-profit child care? Not-for-profit child care is defined by its essential purposes. Not-for-profit child care services are those services that spend revenues to enhance the well-being of families and children rather than to enrich the owners of the service. As the Canada-Wide child care agreements say they are “services to a community for a purpose other than generating a profit, including publicly-delivered child care operations. Providers/operations may generate a profit, but the surplus earnings, or other resources, are directed towards improving child care services (for example, improving family or child well-being or development) rather than distributed for the personal benefit of owners, members, investors or to enhance asset growth.”

Why does the federal government favour not-for-profit and public child care? The federal preference for not-for-profit child care derives directly from its desire to follow the example of Quebec in building a publicly-managed child care service for families. This fixed-fee child care system has been effective and popular in Quebec since the late 1990s. Following this model, by 2026, early learning and child care in Canada will be a publicly-managed service available for \$10 a day to families.

Centres de la Petite Enfance (CPEs) are the not-for-profit child care centres that are at the heart of Quebec’s system. These services had a fixed fee, originally of \$5 a day (now \$8.85 per day). Child care services are funded according to the services they provide rather than being funded through money or vouchers given to parents. Because the majority of funds come from

government, these services are financially accountable for how they spend public dollars, and must provide detailed annual reports. There is monitoring and assessment of quality. These fixed-fee services are incredibly popular with parents, in much the same way that kindergarten as a guaranteed affordable and accessible service is very popular with parents in the rest of Canada.

Unfortunately, the organizations that claim to represent for-profit operators have made clear their rejection of this approach to funding and managing Canada's child care services. They are apparently unwilling to accept the fundamental elements that are necessary components of a \$10 a day system: fixed-fees, direct operational funding of services, financial accountability for government funding of nearly 90% of their ongoing costs, government monitoring of service quality, public planning mechanisms to determine direct expansion of services to underserved communities, together with parental choice amongst a variety of different child care service options for their child (e.g., full-time, part-time, forest schools, evening and weekend services, special supports for children with disabilities, etc.)

What's wrong with for-profit child care? In some other industries, the profit motive is a beautiful thing. Most of the goods and services we consume day-to-day are sold to us by private businesses, competing with each other to attract consumer dollars, each business striving to succeed in producing the most attractive and useful product at the best price. Some of these businesses may get out of hand with false advertising or delivery of shoddy goods, but government regulation may be able to control these negative behaviours and leave us with mostly positive results.

Competition is the force in markets that tends to make the self-interest of entrepreneurs broadly consistent with the public interest of consumers. In many markets, it is competition that keeps prices lower, encourages quality improvements and stimulates innovation. For a series of reasons, competition does not play this same role in child care markets – the fact that effective markets for any family are geographically very small, the importance of external benefits and the difficulties of accurately assessing quality. And so, typically, in the child care sector, for-profit providers have charged higher fees and provided lower quality services. In child care markets, self-interest is not curbed by competition; left unchecked, the desire to maximize profit can be directly opposed to the best interests of children and families.

Early learning and child care is a service where minor regulation of private profit-seeking businesses is not enough to deliver good results. Early learning and child care is a sector that has much in common with education. In general, education is much better when providers are public or not-for-profit. Primary and secondary education are delivered in public schools for free. Tertiary education is delivered by not-for-profit community colleges and universities for fees that are subsidized with public dollars.

As a society, we think that a primary and secondary education system that is delivered by public institutions (schools) behaves differently than it would if it were dominated by private profit-seeking businesses competing for the consumer dollar. We think that tertiary education

delivered by profit-seeking businesses would be different and worse than when delivered by not-for-profit community colleges and universities. We think that kindergarten would be different and worse than when delivered by public institutions. There are issues of quality, there are issues of trust in the behaviour of the provider, there are issues of equity of delivery and guarantees of access. All of these make us prefer not-for-profit and public delivery of educational services and not-for-profit and public delivery of early learning and child care.

As Margaret Norrie McCain and Roy Romanow wrote back in 2005: : We have nothing against profit making except when it comes to profiting off publicly subsidized children's services. Child care like schools, libraries or hospitals is a community-based service, not a commodity. Whether a centre opens or closes, where it its located or who it serves are not merely business decisions. They require democratic input. While child care centres should be business-like in their efficiencies; it must be recognized that the business of these organizations should be total fixation on the well-being of children.... The ministers should grandfather those now operating, but restrict expansion dollars to public and non-profit child care providers. ("Stand on guard for child care", Globe & Mail, 4 Feb 2005).

Is this position just ideological? The position is not ideological; it is practical. Not-for-profit and public child care services have a better track record in providing the levels of quality that will best support children's development. The consensus on this is sufficient that the Globe and Mail editorial board recently wrote that "Research here and in other countries has consistently shown that, on average, non-profit child-care centres deliver better care than for-profit ones." (Feb 13, 2023).

Child care systems dominated by not-for-profit and public providers operate differently than those dominated by commercial providers. Just compare co-ordinated child care systems in Norway, Sweden, Finland, and Denmark to wild-west markets for child care in England, Australia and the United States. In child care systems dominated by not-for-profit and public provision, low-income families are better served, the quality of services is higher and more reliable and the costs are lower.

When parent fees drop to an average of \$10 a day by 2025-26, the effective role of competition will be even weaker than it is now. Over 80% of the funds for children 0-5 years will come from government. Parents will be paying less than 10-15% of the full costs of providing care. No matter how you deliver the government assistance, that means that the parent is no longer the main consumer who controls child care providers by voting with their dollars for better quality, more services or lower fees. The main consumer, the main driver of what happens in the child care "market" will be the government, as it is in all levels of education. So, it is, more or less, a purely ideological statement to say that competitive child care markets will make for-profit providers be more efficient, that they will serve parent needs better, that they will provide better quality care, that they will be more responsive to what parents and children need and want.

Notice that the federal legislation and provincial/territorial agreements do not seek to abolish or eliminate for-profit child care. The intention is only to have limitations on the amount of its growth and to regulate its quality and accountability for funds received. Under this legislation, growth will be predominantly in not-for-profit and public services including home child care. Many families now have their children in for-profit services that will continue to get federal government funding and will thrive. So far as I know, there is not a single for-profit service that existed before the rollout of the \$10 a day program that has been refused entry to the program and the funding that goes with it.

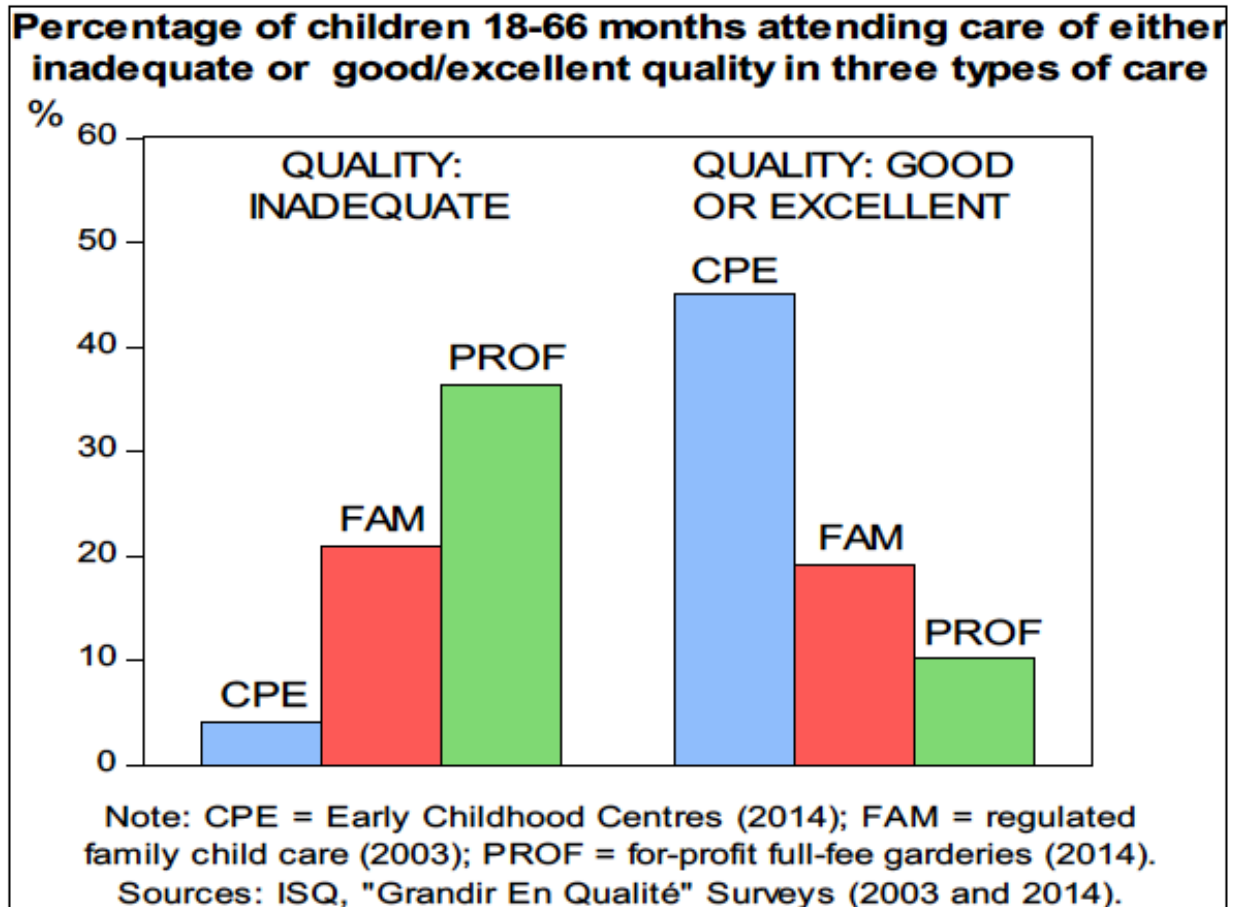
What we need are producers of child care whose primary objective is the provision of quality experiences for children, producers who are willing to make constant quality improvement their watchword. These producers need to be financially transparent and open (because government will need to monitor costs and account for expenditures). These producers need to pay staff well according to established salary grids to ensure stability and quality of services. These producers need to have as a key objective making early learning and child care into a public service at good quality and affordable for all.

If existing for-profit providers are willing to accept these types of conditions on their operation, they are welcomed to continue operation in the \$10 a day system, with operational funding.

We should be aware that there will be substantial downward pressures on quality as the child care sector expands rapidly, even if it is dominated by not-for-profit and public providers. There will be many new staff with little experience, there will be shortages of trained staff, and there will be inadequate numbers of experienced educators to properly mentor new staff. In this circumstance, to rely on providers whose fundamental objectives do not align well with the promotion of quality would be a serious mistake.

Doesn't for-profit child care provide more "choice" for parents? Not really. The "choice" that parents want and need is choice of services that are more convenient for parents in terms of location and hours and better for children in terms of availability of special needs programming, variety in programming (such as outdoor-oriented programs), support for particular cultural and language learning etc. Most of these programs are more expensive to offer than standard child care. For-profit operators, seeking to maximize profit, are less likely to offer them when fees are controlled. For-profit operators will only provide more "choice" in offering ancillary services for which they may be able to charge extra fees.

Is there any evidence that the quality of for-profit child care is worse than not-for-profit child care? There is good academic evidence that for-profit provision tends to be of lower quality. And noted Canadian economist Professor Pierre Fortin has summarized the quality results from two Quebec studies very nicely in this chart.



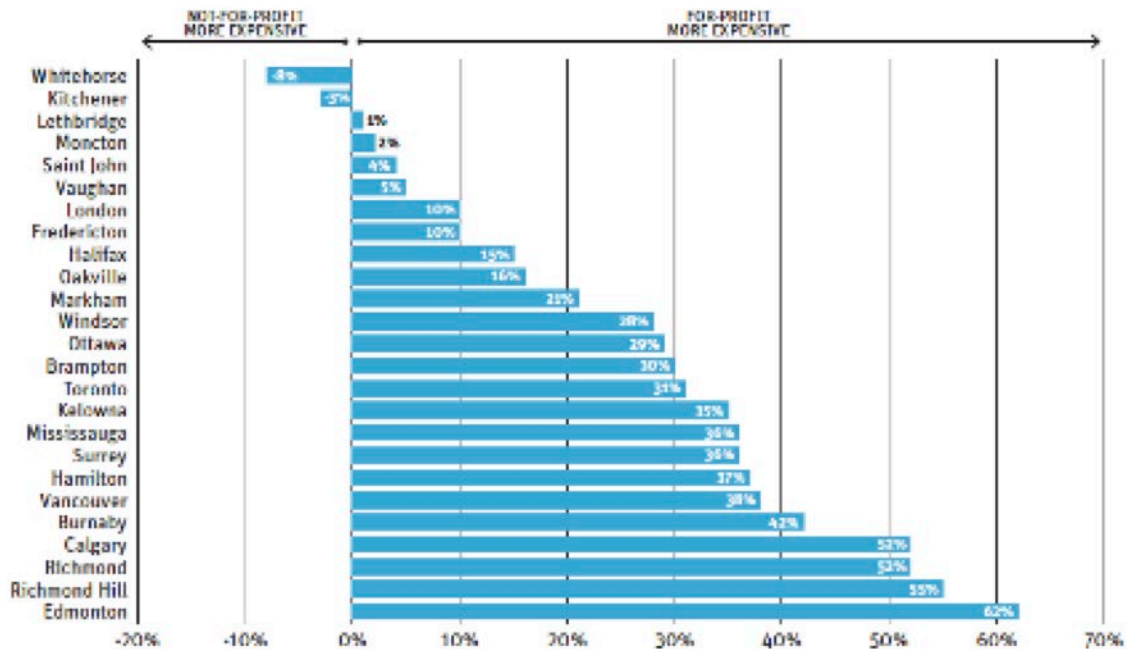
This evidence is based on lengthy and detailed on-site quality evaluations using accepted scales for the measurement of the factors important to children’s development. As the chart shows us, children in not-for-profit CPEs in Quebec have been receiving good or excellent quality child care. Many children in for-profit full-fee child care centres have been receiving child care of inadequate quality.

An important part of the reason is that for-profit child care has historically paid much lower wages to staff than has the not-for-profit sector.

But isn’t it true that public and not-for-profit enterprises are inefficient and for-profit providers can produce services at lower costs? There is little evidence of this. The Canadian Centre for Policy Alternatives recently made over 9,000 phone calls to child care facilities across Canada, inquiring about the fees they charge to parents (Macdonald and Friendly, *In Progress: Child Care Fees in Canada 2019, 2020*). Their conclusion: “We found that for-profit centres generally charge more for preschool spaces than not-for-profit centres do. In 19 of the 25 cities for which we had data (76%) for-profit centres charged at least 10% more than not-for-profit centres. In the more extreme cases (Calgary, Richmond, Richmond Hill and Edmonton), for-profit centres’ preschool-age fees were 50% to 60% higher than their not-for-profit

counterparts.” (pp. 20-21). The chart below from that publication shows that, in 15 of the 25 cities, for-profits charge on average over 20% higher parent fees.

FIGURE 4 For-profit and not-for-profit preschool-age fees in centres in 2019



Note: The cities in provinces with self-fee regimes were removed. Regina, Saskatoon, Iqaluit and Yellowknife have few for-profit centres and were also removed.

It is worth noting that in Australia, with child care provision dominated by for-profit operators, the average cost of full-time care is over \$27,000 a year for all ages of children and has risen by 41% over the last eight years, much more than inflation (Australian Government Productivity Commission *Report on Government Services 2021*).

But isn't it true that for-profits can build spaces faster? When it comes to growth, for-profit child care providers have structural advantages over not-for-profits. Community-based not-for-profit child care centres have typically been unwilling to go into debt, so unless there is a program of capital grants, loan guarantees or social investment to pay for the costs of building new facilities or repurposing existing buildings, it will be hard for not-for-profits to expand.

The mission of for-profit businesses is to make a profit, so expansion is a natural fit, particularly when the government is paying over 80% of the operating costs and therefore guaranteeing a continuing demand for services. Shareholders or banks are always willing to ante up when the government is willing to provide guaranteed funding for profit-making businesses.

But there are ways around these structural barriers faced by not-for-profits. Not-for-profits need two main things if they are to build new capacity quickly. First, is access to capital. Some of this should come in the form of capital grants to not-for-profits or municipalities or school

boards who are willing to move quickly. Some of this can be in the form of low-interest loans. Not-for-profits are allowed to borrow money, but most banks and other sources of funds are unwilling to lend because of perceived high risk of default. But governments can and should guarantee the loans, because, after all, there will be ample federally-provided operating funding for child care centres to pay back the loans over time.

The second thing that not-for-profits need is a development champion – a development agency that specializes in handling all the details involved in building new capacity or renovating existing capacity. This is familiar territory for co-operative housing or not-for-profit housing developments. There are specialized agencies that handle the housing development and then turn the housing over to co-ops or not-for-profit housing agencies to manage and operate.

Neither of these barriers is particularly insurmountable, but they do require governments to facilitate surmounting them. In many cases, public agencies such as municipalities, school boards, and community colleges can help a great deal in supporting not-for-profit and public developments. And the federal government should be open to expansions of kindergarten integrated with before-and-after school care. This is particularly true in Manitoba, Saskatchewan and Alberta that currently have only half-day kindergarten for 5-year-olds.

Ontario shows that rapid expansion of not-for-profit child care services is very possible. The information is available in the annual Ontario statistical report on early learning and child care (*Ontario Early Years and Child Care Annual Report* – various years). Over the last 10 years to 2019-20, centre spaces increased in Ontario by 198,600. Fully 85% of the increase (168,900 spaces) was in not-for-profit child care. As of 2020, there were 462,800 centre spaces in Ontario. Can not-for-profits expand rapidly? Given the right supports, yes they can and they have.

What about the growth of big-box corporate for-profit child care? Some for-profit child care providers are good, some are bad. This is not really a discussion about individual operators. Particularly when small for-profit operations are run by persons knowledgeable about early childhood education, they can sometimes do quite a good job providing child care services. The legislation in front of the Standing Committee does not and most of the provincial/territorial agreements do not exclude some expansion of for-profit care.

The real issue is “Should the early learning and child care systems that we are building in Canada be dominated by for-profit corporate child care operators?” We know that if government policy is agnostic between for-profit and not-for-profit, and generous operating funding for over 80% of costs is made available to both, we will quickly have for-profits dominate new provision of services.

We can look to Australia for evidence. In 2000, the Australian government introduced its Child Care Benefit, providing substantial child care funding for the first time. In 2001, ABC Learning began its corporate life with 43 child care centres. It quickly expanded, gobbling up existing

centres and creating its own. By the time it collapsed in financial scandal in 2007, it had grown to over 1,000 centres – 25% of the entire child care market.

Now that there are billions of federal dollars on the table, corporations who never had any interest in children's or families' welfare are, all of a sudden, very anxious to be able to enter this market and profit from the financial bonanza. Now is the time to decide whether Canadian child care will be corporate or community-based. This legislation declares the intent of the federal government that federal funds should be used to create a community-based early learning and child care system.

Are for-profit operators being excluded from the new Canada-Wide child care system? That, of course, depends on the details of the agreements signed in each province and territory. However, in Alberta and Ontario where there has been the greatest clamour from the for-profit operators, it is clear that for-profit operators are not excluded. In fact, in both provinces, all existing for-profit operators have been invited to join and benefit from the funding guarantees provided by federal dollars.

In Ontario, the provincial government agreed that there could be growth in the number of for-profit spaces, but that the proportion of for-profits could not be greater than they were when the agreement was signed. Discrimination? Hardly. Instead, this is a policy preference of maintaining the existing predominantly not-for-profit and public balance of provision.

In Alberta, more than 60% of child care has been provided by for-profit operators. Most of the growth since the Canada-Wide child care agreement was signed has been in the for-profit sector. An opening for an additional 22,500 for-profit spaces has been recently announced. Does this sound like an ideologically-biased extermination of the for-profit sector? Hardly. If anything, the stick is bent too far in favour of for-profit provision. The federal legislation is a useful reminder that the intent is, over time, to create a child care system that provides a public service in which not-for-profit, public and home child care providers are the dominant group of providers dedicated to the public interest in child care.

Do for-profit child care operators in Canada support the \$10 a day system? For-profit child care operators and their lobbyists want full access to federal dollars, but they don't agree with direct funding of child care services to provide \$10 a day care. They disagree with the fundamental design elements for the program that are laid out in the thirteen provincial and territorial agreements. Instead of accepting direct funding of services, the newly-formed National Advisory Council on Private Child Care says "The Council will advocate for a new approach to childcare that provides funding directly to families."

That kind of tax-credit or voucher-type funding mechanism has been tried in Quebec and has been a failure. As a result of these failures, the current Quebec government has decided to

convert up to 50,000 of the tax-credit-funded spaces (i.e., most of them) to fixed-fee spaces over the next five years.

The voucher-type funding model is similar to the one currently used in Australia where fee rises have been much higher than inflation and where there are few measures of financial accountability of operators for the ways they use over \$10 billion of government money. Rising fees and few measures of financial accountability are very attractive to for-profit operators. But they are not good for parents, children or governments.