

Progressive Pricing

Making Childcare More Affordable in Manitoba

Susan Prentice



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Introduction

CHILDCARE FEES HURT. The CD Howe Institute argues that childcare expenses present “a challenging issue” in the budgets of many Canadian families with young children (Laurin & Milligan, 2017, p. 2). All across Canada, costs are “too expensive for many, if not most families – low and middle-income alike” (Macdonald & Friendly, 2017, p. 23). Among Ontario families with at least one child 0 to 4 years old, the average household spends approximately 25 percent of their after-tax family income to use childcare (Cleveland, 2018, p. 5). In recent years, researchers have tracked the national rate of change in childcare fees. Parent fees are rising faster than inflation across most the country (Macdonald & Friendly, 2014, 2016, 2017, 2019; Macdonald & Klinger, 2015).

Manitoba is a partial exception, for two reasons. First, Manitoba’s fees are the lowest in Canada outside Québec, thanks to longstanding provincial policy. More than forty years ago, Manitoba crafted a childcare financing architecture that promoted affordability through a flat maximum daily fee charged by almost all childcare facilities (centres and regulated family homes). Second, while Manitoba’s flat maximum parent fee has risen considerably over the years, increases have been below the rise in the cost of living, and haven’t risen every year. This means childcare fees are lower today in ‘real’ dollars than in years past. This is good news for Manitoba parents and children.

But even a relatively low and steady childcare fee can be unaffordable if it eats up a major share of a family’s income. The 2016 *Manitoba Early Learning and Child Care Commission* found that a middle-income Manitoba

family with two children attending a licensed childcare centre pays about 22 percent of their net family income in childcare fees — an alarmingly high cost (Flanagan & Beach, 2016, p. 47).

What is the right amount that childcare should cost a family, if any cost at all? In this report, we discuss the background and context of parent fees, and then review three progressive pricing models. Readers interested in a conceptual discussion of parent fee affordability may wish to consult *What Manitoba Parents Pay: A Childcare Affordability Discussion Paper*. The data used in this report are indebted to the technical expertise of Harvey Stevens.

This report focuses on childcare fees. But it is worth noting that the costs paid by parents are only one barrier to parents who need a well-working childcare system. It is also important to address the availability of childcare spaces and facilities. In Manitoba, childcare is relatively inaccessible: many children live in ‘childcare deserts’: areas where there are either absolutely no, or too few, facilities (Macdonald, 2018).¹ Six in ten Winnipeg children live in a childcare desert and eight in ten rural Manitoban children live in a childcare desert (Macdonald, 2018, p. 28). Across the whole province, there is a childcare space for just 18.8 percent of Manitoba’s children from 12 weeks to 12 years — much lower than the Canada-wide average of a space for 27.2 percent of children (Friendly et al., 2018, p. 146; Government of Manitoba, 2019a, p. 72). In sum, Manitoba has few licensed childcare spaces, irrespective of their cost.

Almost all of Manitoba’s childcare centres are not-for-profit volunteer-led organizations, owned and operated by the parents who use them. This means that centres start up when and where parents organize, fundraise, and establish their own services. There is no coordinated planning to develop programs, nor to ensure growth happens in ‘childcare deserts,’ because the province of Manitoba is not responsible for establishing childcare. This has been called the ‘popcorn’ approach: a new childcare centre will pop up if, when, and where parents and community groups start it, and not because of any public planning. Not surprisingly, this means that childcare programs tend to start up in neighbourhoods with higher social capital than in poorer neighbourhoods (Prentice, 2007).

International studies have shown that lower availability of childcare is associated with higher social inequality in access to those scarce spaces. What this means is that where there are few services available, higher-income families tend to use them disproportionately: in other words, constrained childcare provision hurts lower social classes to a greater degree than it impacts more affluent classes. This phenomenon, which is dubbed the “Matthew effect”

and which is generally explained by accumulated advantage, is found in childcare use in Europe, as well as in Quebec – for reasons that are complex (Pavolini & Van Lancker, 2018; Turgeon, 2014).² But there is one simple factor contributing to the socio-economic gradient in childcare use: parents have differing abilities to pay. Parent fees are a greater barrier to lower income families than to higher income families, even when both families face the exact same bill for service. This means that there is inequitable access to, and use of, the small supply of childcare services that exist in Manitoba: as we will explain below, lower income families are more shut out of childcare than are higher income families.

But first: why do parents pay childcare fees at all? Unlike primary and secondary education, childcare is based on a market model. There is always a “pay to play” requirement. In order to attend a childcare facility, a Manitoba parent must either pay the fee or qualify for a provincial fee subsidy. Childcare is organized very differently from public education. Ever since the *Manitoba Schools Act* of 1890, children have been able to attend school without directly paying tuition to step into a classroom. Education is a public service, and children (and their families) are entitled to service.

What makes early childhood education and care seem so different from public education? History, mainly. While education became a government and public priority early in the 20th century, childcare did not. First called ‘day nursery care’, then ‘daycare’, and now early learning and childcare – it has always been seen as some combination of a private family responsibility, a mother’s job, a matter of charity, a stigmatized social service, or a market commodity. The net result is that childcare in the 21st century remains stuck in a 19th century model: a private service purchased by parents. The market failures of this approach are well-known, and have been thrown into even sharper relief during the COVID crisis.

A system of publicly-funded and universally available childcare should be built for the same reasons that all affluent countries have created public education. Until this happens, however, childcare is firmly embedded in a market model of user fees. Long term, we anticipate childcare will become a public service, as both parent fees and the market model are rejected. Yet in today’s reality, high user fees are a barrier for families and discriminate most painfully against those with the lowest incomes. As soon as possible, early learning and childcare should become a publicly funded service with no user fees at all. Until then, we need a realistic and effective way to ensure that the cost charged to parents is actually affordable. For these reasons, we believe that progressive pricing is an important step forward for Manitoba.

PART I

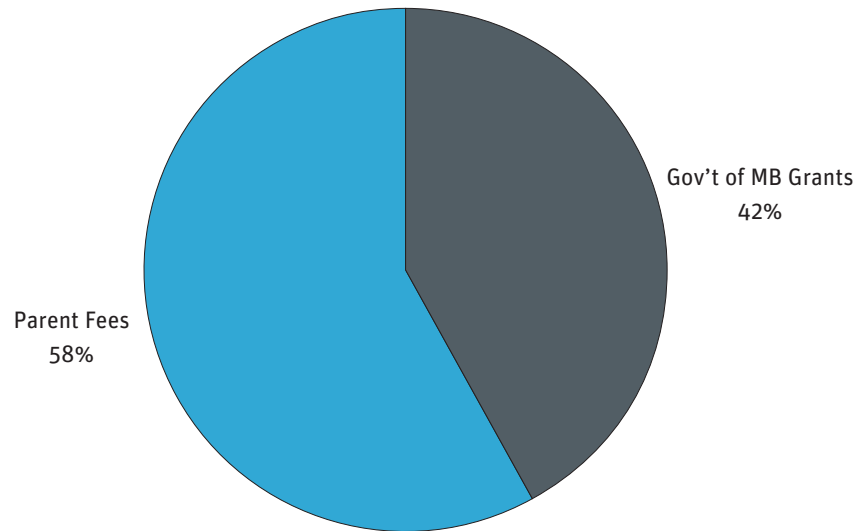
Childcare Fees and Funding

How is Childcare Funded in Manitoba?

CHILDCARE HAS TWO primary revenue streams: parent fees and provincial operating grants. In 2018–2019, Manitoba directly spent \$174.8 million on all aspects of childcare (about \$9 million less than was budgeted (Government of Manitoba, 2019a, p. 71). Some of the funds in the envelope (about \$4.6 million) were to support the administration of childcare (through running the Manitoba Early Learning and Child Care office, including the staff to license and inspect regulated facilities; fund the bookkeeping and administrative systems; and other operational costs); the rest was spent on financial assistance and grants to programs. In Manitoba, parents supply the majority of childcare revenue. The annual provincial reports declare that as a share of annual centre revenue, parent fees for infants make up 42 percent of all program income, 58 percent of income in preschool programs, and 70 percent of in school-age programs (Government of Manitoba, 2019a, p. 73). See *Figure 1*.

Parent fees make up the lion's share of revenues in childcare facilities in Manitoba. But facilities cannot operate on parent fees alone, since the cost to parents would be prohibitive. For close to half a century, the province of Manitoba has provided government grants to support licensed childcare programs.

FIGURE 1 Main Source of Childcare Funding in Manitoba



Who pays for these “government grants”? Under federalism, childcare (like education and all social services) is a provincial responsibility. Strictly speaking, it is the provincial government that is responsible for childcare. But for many years, the federal government has provided money to provinces to help with childcare. The federal government uses its considerable spending power to coax provinces to develop programs they might not be able to do otherwise. Postwar federal funding of childcare was launched in 1966 by the Canada Assistance Plan (CAP) and was then followed by a range of other initiatives, including the most recent Multilateral Framework Agreement (2017).

Since 2018, Manitoba has received dedicated transfers from the federal government, under the Multilateral Framework Agreement on Early Learning and Child Care, a national program that commits more than \$7.5 billion over ten years. During each year of the initial three-year agreement, just over \$15 million each year was sent from Ottawa to Manitoba for childcare. In upcoming renewals over the life of the decade-long agreement, the amounts will increase (Government of Canada and Government of Manitoba, 2018). Under the July 2020 “Safe Restart” COVID recovery agreement, additional dollars will flow from Ottawa (Turnbull, 2020). So Manitoba has more federal funds than ever before to spend on childcare. Under the terms of the bilateral agreement Manitoba signed with Ottawa, each levels of government commits to working toward a “shared long term vision where all children can experi-

ence the enriching environment of quality early learning and child care that supports children’s development to reach their full potential” (Government of Canada, 2017). In more specific terms, both levels of government agree to increase quality, accessibility, affordability, flexibility, and inclusivity in early learning and childcare, with consideration for those more in need.

Funding Model

Over the years, the model of provincial funding to childcare has changed. For nearly twenty years, Manitoba’s funding has been organized by ‘units.’ Every four infants (due to the 1:4 adult-child ratio), every eight preschoolers (due to the 1:8 adult-child ratio) and every fifteen children aged 6–12 (due to the 1:15 adult-child ratio) make up a unit. Each unit qualifies for a sum of provincial operating grant funding: \$11,375 for each infant space; \$4,180 for preschool spaces, and \$1,664 for school-age spaces, with a special program (currently under review) for various kinds of part-day nursery programs. Provincial operating funding for programs has been completely frozen since 2016. Today’s provincial operating grants are worth at least six percent less today than four years ago, as increases in the cost of living reduce buying power.

In funding operating grants to childcare services, Manitoba provides a degree of ‘supply-side’ funding. Supply-side funding, when accompanied with good policy, is widely recognized as the most efficient, effective, and equitable ways to fund childcare services. As the OECD observed,

The evidence suggests that direct public funding of services brings more effective governmental steering of early childhood services, advantages of scale, better national quality, more effective training for educators and a higher degree of equity in access compared with parent subsidy models. (OECD, 2006)

Supply-side funding is a much more effective and efficient way to fund services than ‘demand-side’ models, in which funds are directed to consumers. Tax-credits and vouchers are two the main demand-side tools, and their market failures have been widely studied. Among other failings, demand-side funding is ineffective at addressing maldistributions in service access (those childcare deserts mentioned earlier.) More affluent families derive greater benefits from tax and credit models than lower-income families. Most spectacularly, in providing demand-side funding, governments lose important levers for access and quality. Australia is the clearest cautionary

story of how childcare vouchers directly prompted a childcare debacle. In a nearly-Ponzi-like monopoly, Australia's for-profit ABC Learning bought up most of the country's independent non-profit childcare programs. When ABC Learning collapsed into bankruptcy, the Australian government had to step in with an expensive bail-out program to protect the country's children and parents (Oloman & Brennan, 2009; Penn, 2013; Sumsion, 2006, 2013).

Thanks to supply-side policy, Manitoba's funded programs must respect the provincial daily maximum fee, can enroll subsidized children, and will receive provincial operating grants and some smaller funds as well. Not all licensed facilities in Manitoba receive operating funding: in this case, they are 'unfunded.' Sometimes a facility is on a waiting list for funding; occasionally, some programs (almost exclusively licensed family homes) choose not to apply for funding. Unfunded programs operate on parent fees that are much higher — with fees that can be double or much more — than fees in funded programs. As we will discuss below, all privately owned commercial childcare centres are unfunded. This is prudent public policy to steward taxpayer dollars.

Over recent years, the share of childcare spaces that receive funding has fluctuated, sometimes dramatically. At one point, a childcare centre that opened up a new room or program (for example, a centre that began offering care to infants, or school-age children) would be guaranteed operating grants. This enabled programs to expand with the confidence that they would receive provincial funds. In recent years, this assurance has disappeared. A growing share of centres have applied for funding but not received it. Manitoba has announced the ten criteria it uses for the allocation of funding: the first is that a facility has been waiting for "more than two years." Thus, it is now fairly common for facility to wait 24 months or more to receive provincial funds — a situation that gravely strains the budgets of non-profit and volunteer-run centres.

Funding Pressures

There's a crucial point to remember when considering the funding of childcare services: childcare is a labour-intensive industry. Wages are the biggest expense in a facility's budget, regularly averaging 80 percent or more of a non-profit centre's spending (Cleveland, 2018). Well-educated early childhood educators and childcare assistants (staff without post-secondary early childhood education) are key to quality. All observers of quality in childcare agree that educators are crucial for early childhood education that offers

developmentally appropriate and stimulating care to children. Yet childcare staff in Manitoba, like those all across Canada, earn very low wages.³ The average full-time early childhood educator in Manitoba earned just under \$17/hour, or about \$34,000, in 2018–2019 (MCCA, 2020; Pasolli, 2019).⁴ It is worth noting that almost no facilities are able to meet the Manitoba Child Care Association’s recommended market competitive salary scale: in fact, the current average for all positions is below or slightly above the recommended entry-level starting salary for all positions.

The childcare labour force is nearly all (96–98 percent) women, making it the most female-dominated sector in Canada (Halfon, 2014). As the American Center for the Study of Child Care Employment discovered, “a Bachelor’s degree in Early Childhood Education occupies the dubious distinction of the college major with the *lowest* projected lifetime earnings” (Whitebook, McLean, & Austin, 2016, p. 15 — emphasis added). Early childhood educator wages are suppressed in a market-based system where parent fees are the primary revenue stream. As a society, we accept that professional teachers are the backbone of our school system and we support professional teacher salaries — the same should be true for childcare.

Both high parent fees and inadequate wages are inevitable in a low public investment environment with inadequate supply-side funding. The only policy approach that can ensure parent affordability, as well as worthy wages for staff, is increased operating funding.

What is the Manitoba Fee Model?

Manitoba is a childcare innovator. Back in the 1970s, the province regulated childcare through the *Social Services Administration Act* (Government of Manitoba, 1974).⁵ That legislation specified a maximum parent fee of \$5/day in all facilities. This early innovation has been a centrepiece of provincial policy ever since. Manitoba was decades ahead of the next province to establish a set fee — not until Québec launched \$5/day care in 1997 did another province follow our lead.

The provincial maximum fee has been regulated for over 40 years, protecting parents and blunting some of the worst affordability problems. First set in modern legislation (the *Community Day Care Standards Act*) in 1983 and then followed by the better-named *Community Child Care Standards Act* of 1986, parent fees have been raised eleven times: in 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 2000, 2012, and 2013.

In the early days, there was just one parent fee. Gradually, the fee schedule became more differentiated. In 1986, Manitoba began to specify a special fee for infants. Infant fees were originally very high, and from 1991 to 1998, Manitoba’s infant fees were “substantively above the national average” (Prentice, 2000). Over the years, specific costs for school-age children were introduced. Initially, there were no distinctions between fees charged in childcare centres and family homes; by 1991, a fee gap had permanently emerged. Beginning in 1983, workplace childcare centres were exempted from what the legislation called a “maximum and uniform fee provision” (p. 546, of Manitoba Regulation 148/83, a regulation under the *Community Child Day Care Standards Act*). Worksite childcare was permitted a sliding fee based on family income. In 1990, the province began to regulate fees in for-profit childcare centres, to ensure their parents were charged prices that were identical to prices in non-profit centres. However, within a few years, all references to fee controls in commercial centres were deleted from the provincial regulations.

Manitoba Model: Full Fee Paying Parents

Today, Manitoba regulates different fees for infants, preschoolers and school-age children (as well as different fees between childcare centres and most licensed family homes, and in part-day nursery programs.) This is because quality and education considerations, as well as health and safety guidelines, mean some age groups require more intensive adult care than others.

Because of quality and safety regulations, infant care is the most expensive and school-age care is the least expensive to provide (See *Table 1*). Assuming a child is enrolled in a childcare program for 260 days of a year, the costs paid by a parent range from \$3,413 to \$7,800 annually.

TABLE 1 Manitoba’s Maximum Parent Fees: Childcare Centres, 2020

Type of care	Daily Maximum Fee 2020	Annual cost per child (260 days)
Infant care	\$30/day	\$7,800/year
Preschool care	\$20.80/day	\$5,408/year
School-age	\$10.30 for 190 school days; \$20.80 for 70 non-school days (Professional development, in-service, summer, etc.)	\$3,413/year

Generally, parent fees are reported as a daily figure, since this is how the provincial regulations calculate the rates for administrative purposes. But just like no university student pays a daily tuition rate; no apartment renter pays a daily apartment rental charge; and nobody leasing an automobile for work pays daily, parent fees are properly thought of as an annual cost – which is how we also report them in *Table 1*.

Childcare is Expensive

Indeed – childcare costs are high, and they consume a large share of family income. Yet Manitoba’s fees are lower today than they were in 1986 when the modern Act was passed, if inflation is taken into account. Accounting for increases the cost of living, today’s fees are between 76 to 96 percent of fees in 1986, as shown in *Table 2*. We use 1986 because that was the year Manitoba legislated an infant fee, allowing us to compare costs for all age groups from then until today. The infant fee today is virtually what it was more than 30 years ago, once adjusted for inflation. Today’s preschool fees and school age fees are a little more than three-quarters of what they were in 1986, after taking increases in the cost of living into account.

The fact that childcares fee have risen more slowly than the cost of living is good news for Manitoba parents. In most Canadian provinces, the opposite is true – childcare fee increases have outstripped the cost of living, and climbed much faster than inflation (Macdonald & Friendly, 2017).

While the slow rise in parent fees is good news for families, the other major source of funding has fallen short. In Manitoba, government funding has not increased enough to compensate for today’s less expensive parent fee – particularly over recent years. Currently, childcare facilities must operate on fewer ‘real’ dollars. Parent fees were last set in 2013 and provincial operating grants were last set in 2016. Cumulatively, this has meant a revenue freeze for childcare facilities. Because of frozen revenue, facilities have had to find ways to cut costs. Mainly, this has meant suppressing staff wages, the most elastic budget category.

Chronically low wages have negative effects on quality of care, as facilities find it challenging or impossible to recruit and retain trained staff. Manitoba’s regulations specify good requirements for qualified staff. Yet, about 30 percent of childcare centres chronically can’t meet these standards, because they can’t recruit and retain enough qualified educators, despite official provincial policy (Office of the Auditor General of Manitoba, 2013,

TABLE 2 Manitoba's Maximum Childcare Fees: 1986 and 2020, Adjusted*

	Parent Fee in 1986	Parent Fee in 2020	1986 Fee Adjusted for Inflation	Today's Fee as a Percent of Adjusted 1986 Fee
Infant fee	\$15	\$30	\$31.26	96%
Preschool fee	\$12.65	\$20.80	\$26.37	79%
School-age • School day • Non-school day	\$6.50	\$10.30	\$13.55	76%

* We used the Bank of Canada inflation calculator (<https://www.bankofcanada.ca/rates/related/inflation-calculator/>) to adjust fees between 1986 and 2020, and it relies on Statistics Canada data. There may be slight differences between the national and Manitoba rates.

2017). In consequence, turnover is high and provincial regulations regarding trained early childhood educator ratios are regularly breached.

Loophole No.1: No Maximum Parent Fee in Commercial Programs

Manitoba's regulated maximum daily fee is mandated in all *funded* facilities, which means nearly about 94 percent of non-profit childcare centres and 70 percent of regulated family homes (Prentice, Sanscartier, & Peter, 2016). An important loophole, however, is that any facility willing to forego provincial operating funding can set any fee it wishes. Happily for parents and children, 95 percent of the province's childcare centres are charitable and/or not-for-profit organizations who historically respect the maximum fee and accept subsidized children (Government of Manitoba, 2019a, p. 70).

However, about five percent of Manitoba's childcare centres are privately run as commercial profit-making businesses. These centres charge higher fees. A Winnipeg parent with an infant will pay about \$1,400/month in a profit-making centre, compared to about \$650/month in every funded not-for-profit centre (Macdonald & Friendly, 2019, p. 6). The cost of commercial infant care in the average Winnipeg profit-making centre is exactly the same as average infant fees in expensive Vancouver. The fees in commercial centres are nearly as costly as Toronto, where infant care runs to \$1,774 / month (Macdonald & Friendly, 2020). In unfunded family home childcare, higher fees shut out low-income subsidized families.

High fees in Manitoba for-profit childcare are no exception. Across Canada, research shows that profit-making childcare operations charge parents higher fees than do not-for-profit programs: in Calgary, Edmonton, and Richmond Hill, for example, preschool fees are 50–60 percent higher

at for-profit centres than at not-for-profit centres. In St John's, commercial fees are regularly as much as 40 percent higher than in non-profit centres in the same city (Macdonald & Friendly, 2020, p. 5). Although parents using for-profit centres can pay as much as triple the standard fee, early childhood educator salaries are roughly the same — raising important questions about where the money is going.

For many years, Manitoba has prudently assigned public operating dollars, as well as fee subsidies for low-income parents, exclusively to not-for-profit childcare centres. There are multiple reasons behind this longstanding practice. First: by law, nonprofit organizations must invest surplus revenue back in the organization, rather than distributing it as profit to individual owners. This means that all the money must be spent on the service, enhancing quality for children. In contrast, in a commercial childcare centre, an owner can cut costs and then pocket any surplus profit personally. Thus, taxpayer dollars can be extracted out of the care of children and into a business owner's personal bank account. This is patently unwise stewardship of the public purse.

Secondly, there are different legal rules when different kinds of organizations close down. When charitable and non-profit organizations dissolve, they are legally required to distribute their assets to other not-for-profits. This keeps goods in the public economy, recirculating tax payer dollars to other non-profits. In contrast, when a for-profit childcare centre closes down, the owner privately owns all assets. If over the course of running their centre, a business owner bought a building and paid off the mortgage thanks to parent fees, the owner can sell the property on the private market and keep any gain. The public taxpayer loses the investment.

Finally and critically importantly, there is a very large body of evidence on quality which shows that, on average, quality of care for children is lower in North American commercial programs than in non-profit programs (Cleveland & Krashinsky, 2009; Penn, 2013; Prentice, 2005; Sosinsky, Lord, & Zigler, 2007). Moreover, in jurisdictions where the share of commercial operators is high, the sector organizes to try to influence the regulatory environment, putting downward pressures on quality.

Manitoba's 2016 *Early Learning and Child Care Commission* considered the question of affordability in commercial childcare. It recommended that commercial centres be required to charge parents no more than the regular daily maximum fee, as a condition of licensing (Flanagan & Beach, 2016, p. 51).

Loophole No. 2: No Maximum Parent Fee in a Not-for-profit yet Not Fully-funded Facility

Many childcare centres operate more than one program: for example, for infants, for preschoolers, for a part-day nursery, and for school-age children. If any one of those programs is unfunded, then the Board of Directors of a non-profit centre is actually encouraged by the province to charge higher parent fees (Stephen-Wiens, 2018). This is a quite recent development in Manitoba, dating to just December 2018. For example, in a common example, a centre's preschool program might be fully-funded and is therefore charging parents the regular maximum parent fee, but the newly-established infant room has not yet been funded. In this case, the regular \$30/day infant fee is not actually a requirement, and parents can be charged a higher fee. This is a marked reversal of past practice.

Many non-profit centres have applied for provincial funding, but have not received it. In 2016/17, for example, about 6.4 percent of the spaces in non-profit programs were unfunded (Government of Manitoba, 2018, p. 78), and were waiting anxiously to receive their operating grants.⁶ In December 2018, the province explained

The availability of operating grant funding is dependent upon resources available in the provincial budget. If funding is not immediately available for a new centre or expansion spaces within a funded centre, the spaces are put on a waitlist to be considered for operating grant funding at the next possible opportunity (Stephen-Wiens, 2018).

Today, we do not know how many non-profit spaces are unfunded, because the province made a sleight of hand definitional change in 2018–2019 (Government of Manitoba, 2019a, p. 70). The published *Annual Reports* no longer report the actual number of unfunded spaces. Based on historical averages, we can assume that the figure is close to 10 percent and is trending upwards.

Differential and higher fees in unfunded facilities affects family homes, as well as centres. About one-third of licensed family homes in Manitoba opt out funding, in order to charge higher fees (Prentice et al., 2016). This is a long-term trend in Manitoba. It has disproportionate impacts on rural and northern families, where a larger share of services are family homes rather than centres.

Since 2018, the province has quietly encouraged facilities that do not receive operating funding to raise their parent fees to increase their revenues. The provincial director pointedly noted that unfunded centres “may want

to increase daily fees” to “ensure financial viability and sustainability” (Stephen-Wiens, 2018). At the time of this writing, the Minister of Families is proposing to build this permanently into the regulations. If adopted, two-tiered access will deepen in Manitoba, particularly if the province continues to reduce the number of spaces it funds. This may prove to be an incentive to childcare programs in affluent areas to opt to charge higher fees and forego operating grants altogether. If so, it will mean fewer facilities will accept subsidized children (on whose behalf just the regular fee is paid), and it will worsen affordability for parents. Thus, Manitoba’s maximum daily fee is not *always* a maximum daily fee.

Manitoba Model: Low-income Families and Fee Subsidies

The Province of Manitoba has long recognized that parent fees can be too expensive for low-income families. As early as 1977, the Province was helping low-income parents with fee costs through a parent subsidy. The original eligibility formula was complicated, and has remained so.

Twenty years ago, about half of all parents using childcare received a subsidy; today, just 17 percent, or less than one in five families, receives any fee subsidy (Government of Manitoba, 2019a; Prentice, 2000). Despite the fact that Manitoba subsidizes some fees, most low-income parents in Manitoba are priced out of childcare today. In 2017, just 2.7 percent of the families using childcare in Manitoba qualified for a maximum fee subsidy — and even then, they were required to pay a \$2/day per child surcharge.

Today, a single parent with a preschooler must pay some childcare fees if her net income is over \$16,420/year. A two-parent family with two preschool children must have a net income below \$22,504 to receive a maximum subsidy. Because of the surcharge built into Manitoba’s flat fee, even a parent receiving a maximum subsidy must usually pay for at least \$2/day per child for childcare. As the *Manitoba Commission on Early Learning and Child Care* pointed out, this poses a heavy financial burden on low-income families. Take the case of a typical single parent with two children, earning the median income — namely \$11,252 in 2014. If this parent used full-time childcare and received a maximum subsidy, she would still have to pay \$1,040 (\$2/day for 260 days for each child): a total of 9.2 percent of her total income, on an income that is far below the poverty line.

Parents have to be heartbreakingly poor to qualify for a maximum subsidy in Manitoba, as *Table 3* shows.

TABLE 3 How Poor to Qualify? Net Family Income for a Maximum Childcare Subsidy Compared to the Market-Basket Measure, 2018

	Market-Basket Measure (Winnipeg), 2018	Net Family income for a Maximum Childcare Fee Subsidy, 2018	How much below the poverty line must a parent be to receive a maximum subsidy?
Single-parent, one child	27,141	\$16,420	\$9,723 – \$10,721
Two parents, two children	38,283	\$22,504	\$15,779 – \$23,743

Source Statistics Canada, Low income cut-offs (LICOs) before and after tax by community size and family size, in current dollars, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110024101>. MBM thresholds from Market Basket Measure (MBM) thresholds for economic families and persons not in economic families, 2015, for two and four-person economic families from https://www12.statcan.gc.ca/census-recensement/2016/ref/dict/tab/t4_5-eng.cfm, adjusted from 2015 to 2018 via Bank of Canada inflation calculator, at <https://www.bankofcanada.ca/rates/related/inflation-calculator/>

A single-parent family has to be about \$10,000 below the poverty line to receive a maximum childcare subsidy, and a two-parent family must be about \$16,000 – \$23,000 below the poverty line to qualify. Even then, both poor families would be surcharged \$2/day/per child to use childcare.

It is worth noting that a family who qualifies for a fee subsidy by virtue of extreme low income faces more barriers. First, they can only use their childcare subsidy at a not-for-profit centre or family home that receives provincial operating funding. Second, even if it is a not-for-profit, the centre cannot be a work-site centre, which relies on an exemption in the legislation to charge above the maximum fee. If for-profit commercial centres were to expand, as promised in the 2019 Manitoba Speech From the Throne, subsidized parents would be left even further behind (Government of Manitoba, 2019b, p. 72). If the only option in a family’s neighbourhood were family home care, and the home care provider opted out of funding, then the family wouldn’t be able to use their childcare subsidy at the home facility either. About one-third of regulated family homes refuse operating funds, and so do not accept subsidized children

PART II

Analyzing Parent Affordability

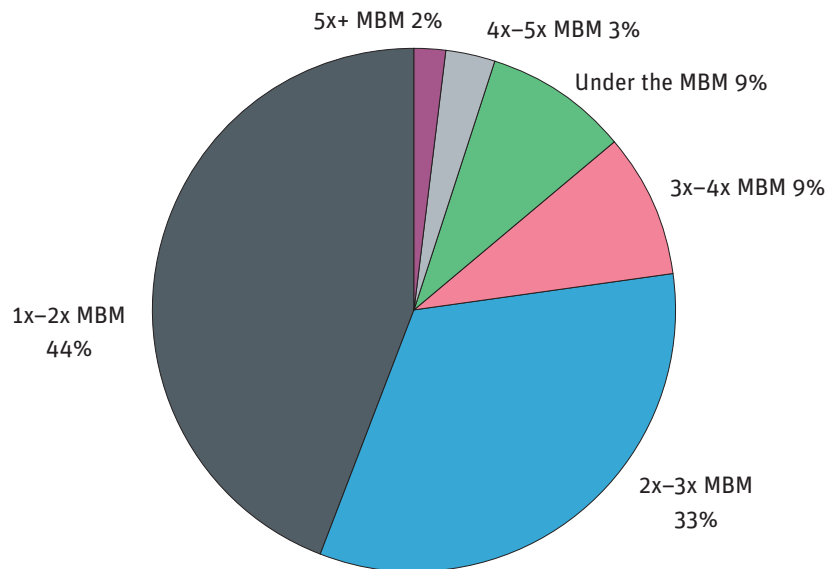
IN ORDER TO understand the share of family income allocated to childcare, we must understand income distribution in Manitoba. In 2018, Canada officially adopted a new poverty measure: the Market Basket Measure (MBM).⁷ The logic of the MBM is simple: The MBM establishes poverty thresholds based on the cost of a ‘basket’ of food, clothing, shelter, transportation and other necessities. Families with disposable (i.e. after-tax) income less than the applicable thresholds, given family size and region of residence, are deemed to be in poverty. In Manitoba, the 2019 MBM thresholds range from \$25,391 (for a two-person family in Brandon) to \$42,898 (for a five person family in a small town), as shown in *Table 4*.

As *Figure 2* illustrates, the majority of Manitoba children are lower income. Slightly more than one-third are moderate income. Fewer than one in twenty can be considered high income. This is an important context when we consider childcare affordability.

TABLE 4 Market Basket Thresholds in Manitoba, 2019

Family Size	Winnipeg	Brandon	Small town (Under 30,000 pop)	Rural area
Two person	\$27,118	\$25,391	\$27,131	\$26,092
Three person	\$33,213	\$31,097	\$34,228	\$31,956
Four person	\$38,351	\$35,908	\$38,369	\$36,900
Five person	\$42,878	\$40,146	\$42,898	\$41,255

FIGURE 2 Percentage Distribution of Manitoba Families with Children Under 12 by MBM Income Group, 2019



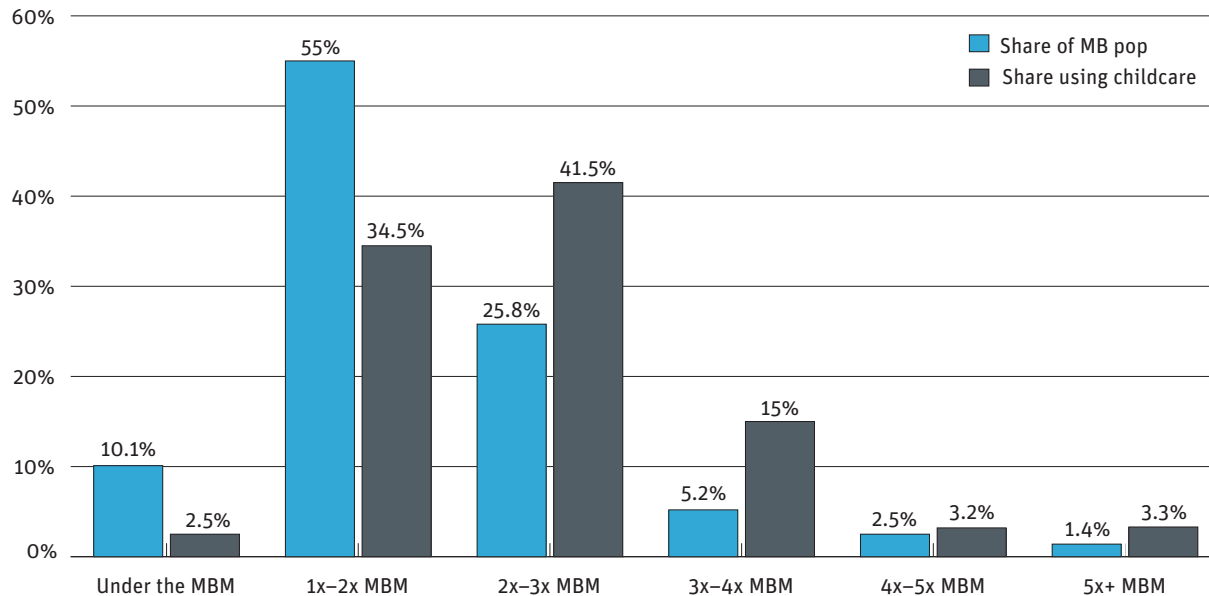
Source: Calculations by H. Stevens, 2020

How Much Income do Manitoba Children and Families Have?

Manitoba is a relatively ‘have-not’ province and so many children live in low-income families. Of Manitoba’s 195,729 children aged 0 to 12 years, almost 60 percent, or 116,850, live on less than two times the poverty line (the Market Basket Measure). Only a small slice of the population enjoys three or more times the MBM. When we look at Manitoba’s 105,734 families, we see a pie that is divided very unevenly.

What is the income distribution of families who use childcare? Surprisingly, there is no readily-available data to answer this question. We don’t have

FIGURE 3 Percentage of Children by MBM in Manitoba Population and Those Using Childcare, 2019



Source: Statistics Canada, SPSPD/M version 28.0 data set. Calculations by Harvey Stevens.

survey or administrative data about the families of close to 38,000 children who use childcare. But we can do our best to estimate what is known about them, by using other data sources.

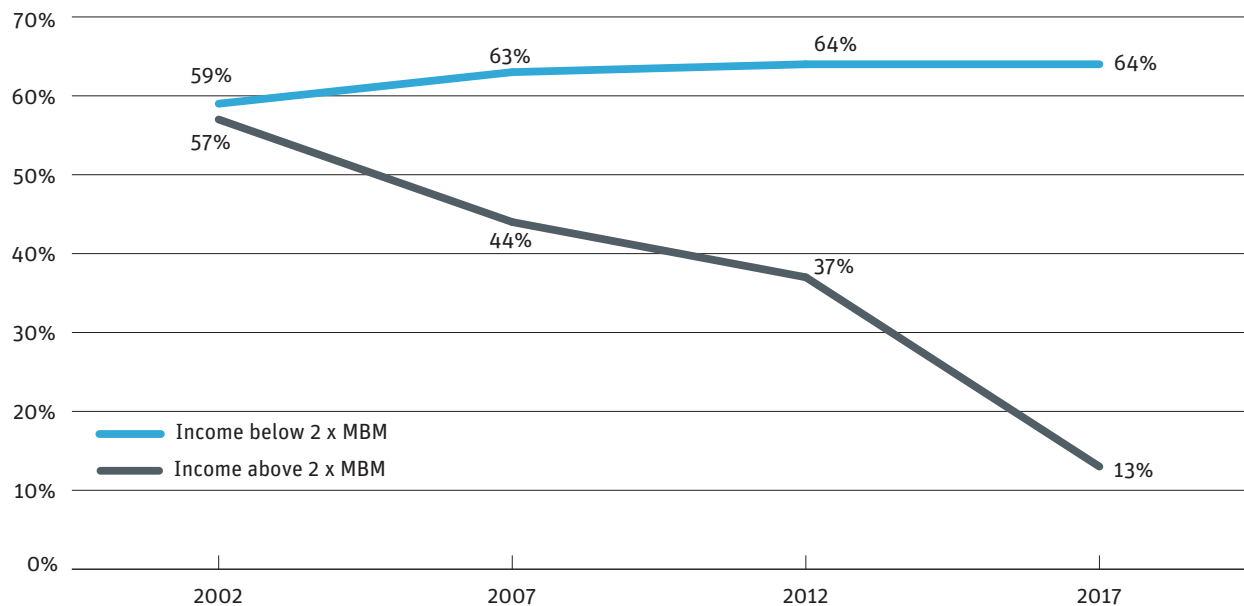
Using a variety of statistical and analytic techniques, we can model the incomes of families who use childcare. Since Manitoba's supply of licensed childcare spaces is so restricted, in every income group only a small number of children are able to attend licensed childcare. Stevens' calculations quantify the *share* of children in each income group using childcare, compared to their share in the general Manitoba population. The shares of childcare use across different income bands is unequal. When we compare the share of all children with (our best simulation of) the share of childcare using childcare, we see a stark income gradient (See *Figure 3*, above). Lower income children are less likely to use childcare than are higher income children. The share is most unequal for children under two times the MBM, and is least unequal for children in families with incomes above four times the MBM. This is empirical Manitoba evidence of the Matthew Effect discussed earlier.

Can We Say Childcare is Affordable in Manitoba in the Context of Net Family Income?

If we take ten percent of disposable family income as the maximum threshold for parent affordability, can we say childcare is affordable in Manitoba? We can track the share of childcare using families for whom childcare costs more than 10 percent of disposable family income from 2002 to 2017. See *Figure 4*. Since 2002, well over half of lower-income families would have paid more than ten percent of their disposable family income on childcare. In the same period, the share of families earning more than twice the MBM who would have had to pay more than ten percent of their disposable income on childcare dropped from over half down to just over 13 percent.

Ten percent is not a particularly generous threshold for affordability. The United States considers that childcare affordability requires spending less than seven percent of the median state income. Sweden and Norway ensure that parents start at three percent of their income, and never rise above six percent. Other countries have different formulae for affordability, and we discuss these in *What Manitoba Parents Pay: A Childcare Affordability Discussion Paper*.

FIGURE 4 Percent of Families with Childcare Expenses who would Pay More than 10% of Disposable Family Income on Licensed Care 2002–2017



Source: Statistics Canada, SPSP/M version 28.0 data set. Calculations by Harvey Stevens.

TABLE 5 Average Annual Current Licensed Net Child Care Fees by MBM Family Income Group – Manitoba 2019

MBM Family Income Group	Per cent of All Families	Average MBM Family Income	Average Current Gross Fee	Average Current Net Fee	Net Fee As a Per cent of Disposable Income	Per cent of Families Paying More Than 10%
Under 1 x MBM	3.2%	\$24,415	\$3,614	\$3,357	7.1%	39.5%
1 to 2 x MBM	30.0%	\$62,682	\$6,990	\$5,538	7.0%	18.8%
2 to 3 x MBM	43.7%	\$93,052	\$8,078	\$5,550	5.7%	6.1%
3 to 4 x MBM	16.5%	\$126,108	\$7,670	\$5,088	4.0%	5.3%
4 to 5 x MBM	3.4%	\$160,500	\$7,777	\$5,062	2.7%	0.0%

Source Calculations by Harvey Stevens

Families who use licensed care are, on average, higher income than those not using licensed care. Nevertheless, a significant number of them face unaffordable child care fees. *Table 5* shows the degree of unaffordable licensed care by the family’s income relative to the MBM poverty line, and defines ‘unaffordable’ as paying more than 10 per cent of disposable family income on the net cost of licensed care.

It is complex to assess affordability, since the federal and provincial tax systems play a role in moderating costs paid by parents. In particular, a large number of parents derive a tax benefit from the Child Care Expense Deduction for paying childcare costs (among other eligible expenses). Nevertheless, nearly 58.3 percent of modest income Manitoba families pay more than ten percent of their net income, even accounting for the redistributive effects of taxes.

PART III

Progressive Pricing: New Models of Affordability

BASED ON THE data we have presented, it is clear that Manitoba has a childcare affordability problem. It is different from the affordability crisis in other provinces, but it is a real issue for a great many Manitobans.

In this section, we model affordability through progressive pricing based on family income and a maximum threshold of family income spent on childcare. Under progressive pricing, there would no longer be a blanket dichotomy of either full fees or subsidy. Instead, there would be a spectrum of parent fees ranging from free (below a certain income level), up to a new and higher maximum daily fee. Progressive pricing build on the strengths of the historical Manitoba model to create much greater social equity by integrating affordability considerations for all families using childcare. We see progressive pricing as an better interim step until childcare is organized as a fully-funded public service.

What is the appropriate affordability threshold for families who use childcare? We firmly argue 10 percent should be the upper limit, and believe that 7.5 percent or 5 percent would be more expansive and generous options.

Based on the affordability threshold, a family's childcare fee would be calculated from their previous year's tax returns.

In our modelling, we assume the maximum daily fee is maintained and improved in several ways. First, the maximum daily fee applies to all children — so that care for infants and preschoolers costs the same, and school-age care is pro-rated.⁸ Second, there should be no supplementary surcharge of any kind — meaning today's practice of surcharging subsidized parents will be permanently ended.

We also propose an increase to the maximum daily fee. The modelling below is based on the recommendation of the 2016 *Commission on Early Learning and Child Care* that the maximum daily fee should be \$25/day in 2016 real dollars, and further that it should be indexed annually to the cost of inflation. As a result, the 2020 maximum daily fee should be no more than \$27.20. The new daily maximum fee is best thought of as representing an increase of approximately 31 percent from the current preschool fee of \$20.80 — since this is the dominant age group of children using childcare in Manitoba. The new fee, however, represents a reduction from the current \$30/day infant charge.

We underscore, as the Commission did, that a condition of licensing in all regulated facilities should be adherence to the maximum daily fee (irrespective of whether a facility is fully funded, partially funded, or unfunded; not-for-profit, or commercial). We further recommend that fees be calculated and collected by Manitoba's Department of Early Learning and Child Care, rather than the childcare facility itself. The province has the technical and administrative resources and required expertise to relieve the ELCC sector of this administrative burden. This will free early childhood educators from the administrative burden of managing receivables, and will reduce inequities within and among users and their facilities.

In our modelling, we propose that families living in poverty should not be required to pay any childcare fee. Most researchers and social policy advocates agree that no family below the MBM poverty line should be expected to pay any cost for childcare. Thus, in our models below, fees are not charged to any family living under the MBM.

The point at which childcare costs cross over into 'unaffordability' is open to debate. In the Manitoba Commission, the experts recommended a maximum threshold of 10 percent, a figure also recently used in Ontario (Cleveland, 2018; Flanagan & Beach, 2016, p. 48). Thus, in our modelling we use 10 percent. We also show calculations on the effects of a 7.5 percent threshold (the figure used by the US), and 5 percent (roughly the Nordic

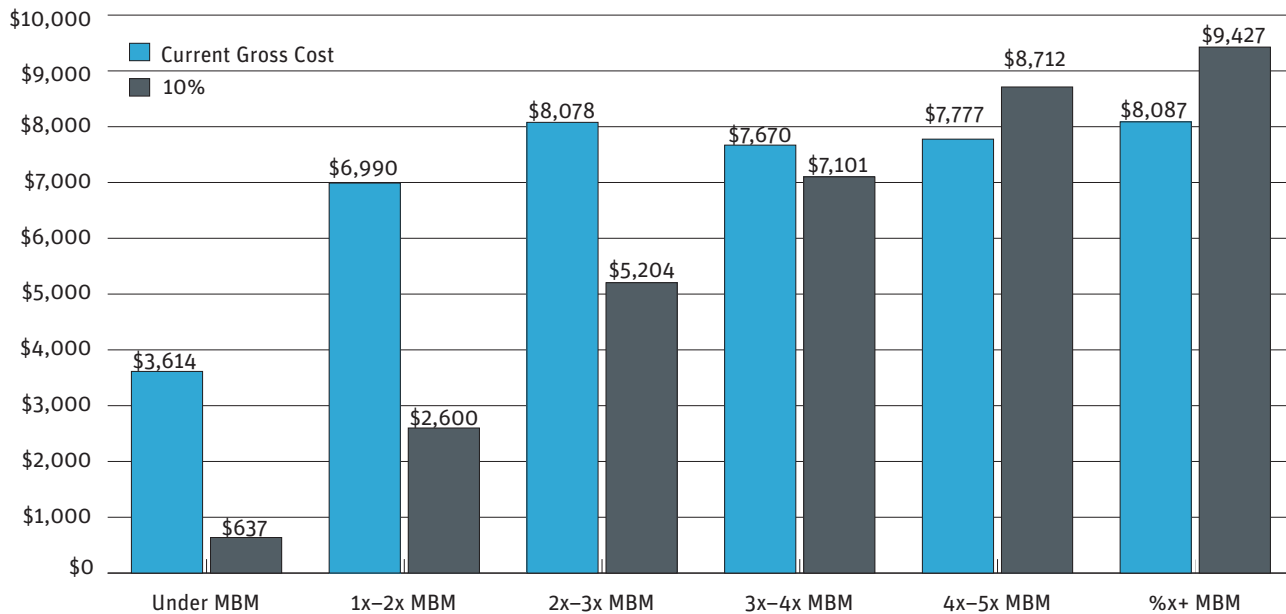
model). Thus, in the various figures presented here, readers can see how these three thresholds compare to today's fees.

What does progressive pricing look like, if parent fees increase to a maximum daily fee of \$27.20 for all children (pro-rated for school-age children) and we compare today's fees against various affordability thresholds? Let's begin by looking at a scenario of a 10 percent maximum threshold.

We can see the results of implementing a maximum threshold of 10 percent of family income for childcare, alongside a revised and increased maximum daily fee, in *Figure 5*. Families under the MBM who currently average \$3,614/year of gross childcare costs, would pay an average of just \$637/year under a 10 percent threshold. Families earning one to two times the MBM would also experience a dramatic drop from \$6,990 annually to just \$2,600. In fact, everybody below four times the MBM would see their fees reduced.

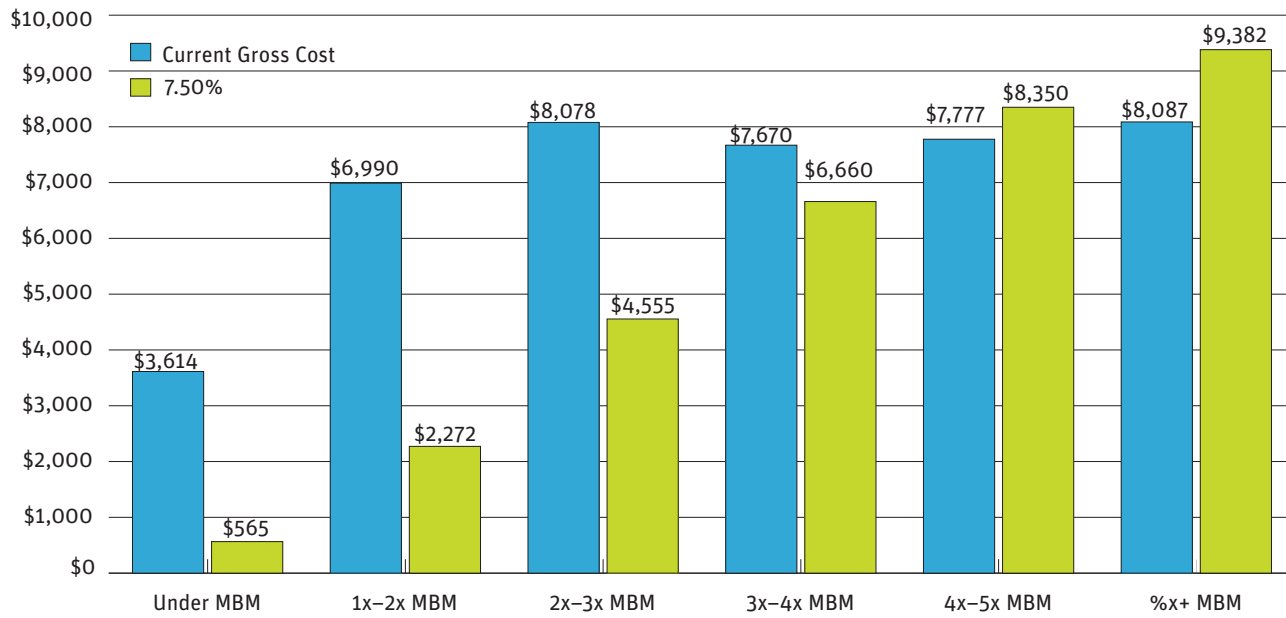
More fee relief occurs if Manitoba implements a 7.5 percent maximum threshold along with a new maximum daily fee, as *Figure 6* illustrates. The poorest families, those below the MBM, would see their annual fees just \$565, instead of today's \$3,614. Other low and moderate income families also see a reduction. At 7.5 percent of net family income, again all families under four times the MBM pay lower fees.

FIGURE 5 Comparing Current Gross Childcare Costs to Progressive Pricing at 10% by Family Income



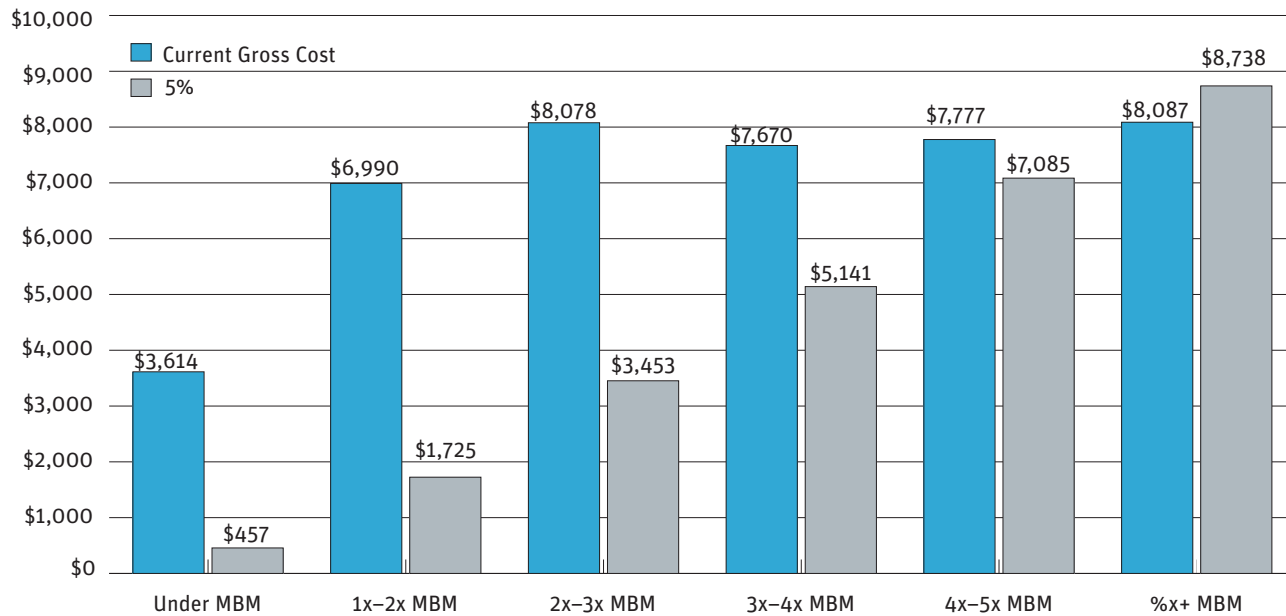
Source: Calculations by Harvey Stevens.

FIGURE 6 Comparing Current Gross Childcare Costs to Progressive Pricing at 7.5% by Family Income Group



Source Calculations by Harvey Stevens.

FIGURE 7 Comparing Current Gross Childcare Costs to Progressive Pricing at 5% by Family Income Group



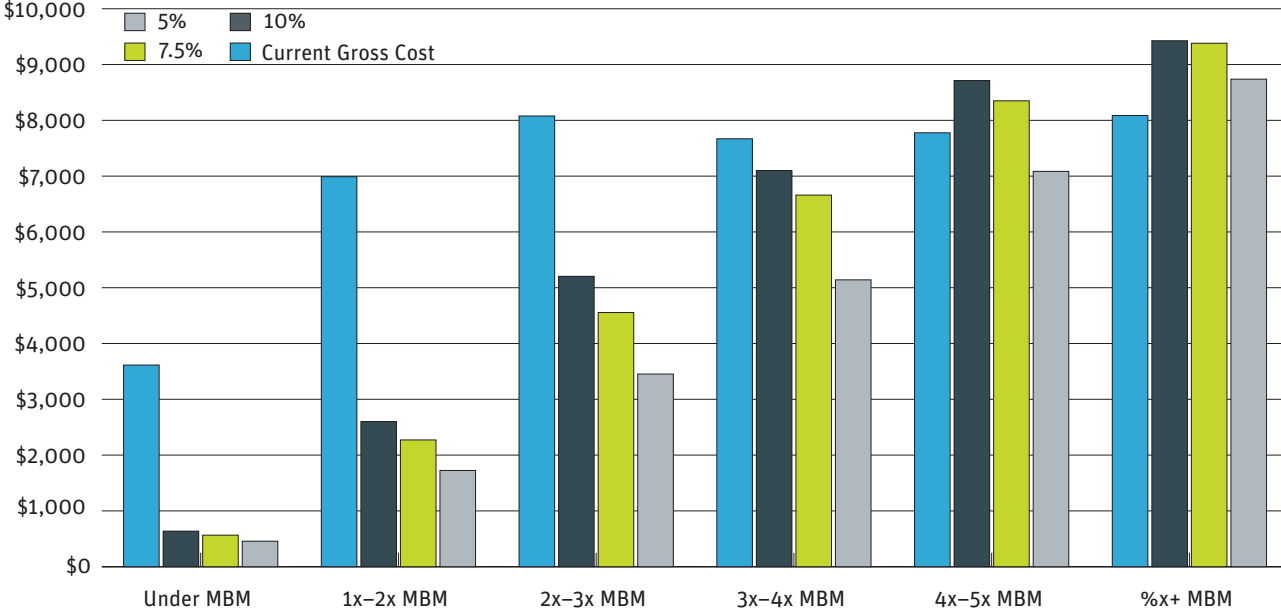
Source Calculations by Harvey Stevens.

The most generous and inclusive threshold is 5 percent, and this is illustrated in *Figure 7*. In this model, virtually every family experiences fee relief. If we compare the prices Manitoba parents today against what their fees would be with a maximum threshold of 5 percent of income and a new maximum daily fee, even families at four times the MBM see a small fee reduction. Under this scenario, only the most affluent (at 5 or more times the MBM) would pay more: every other income group would have a lower annual cost. Recall that only about two percent of Manitoba families with children under age 12 earn five or more times the MBM.

For ease of comparison, we summarize all three thresholds in a single *Figure 8* below.

In a nutshell, under progressive pricing, Manitoban families would see their gross childcare costs fall overall. Thus, if Manitoba simultaneously raised the maximum parent fee, standardized a revised maximum fee for all ages of children; and used a share of family income threshold (5%, 7.5%, or 10%), more than 19 of every 20 families using childcare would pay lower parent fees. The reason is simple: the current fee structure is unaffordable for most parents with young children.

FIGURE 8 Comparing Current Gross Childcare Costs to Progressive Pricing Options”



Source: Calculations by Harvey Stevens.

Progressive pricing offers a more fair and affordable way to set the costs that parents pay to use childcare. Progressive pricing would be an enormous advance over today's model — but it would not be as universal and accessible as a fully publicly-funded program like education or healthcare. Until then, progressive pricing offers a way to smooth the socio-economic gradient and make early learning and childcare services more available to children in low and moderate families. Equally, under progressive pricing, truly affluent families would pay more. We believe that for reasons of inclusion and social justice, that progressive pricing is a preferable way to set fees.

Moving To Progressive Pricing

Our analysis raises obvious questions: why isn't the current affordability crisis more visible to political leaders and in public discourse? Why does Manitoba continue to maintain a fee structure in which lower income families pay the highest, and therefore most unaffordable, share of their income? Why do so many elected officials assume that provincial childcare today is affordable, and that fees are not a barrier? Why don't we already have progressive pricing for childcare?

We suggested a partial answer earlier: the common practice of reporting childcare as merely a daily cost, without acknowledging the annual sum. A second, and closely related, factor is that Manitoba's maximum daily fee seems so much lower than prices we hear about in other Canadian provinces. Because Manitoba's fees are reported on a daily basis, it is easy to mis-estimate annual costs. Moreover, when annual costs are tallied, Manitoba's sums are lower than costs everywhere else (save Québec). This can lead to the automatic confidence that Manitoba's fees are *de facto* affordable — a confidence that is misplaced for almost all income groups, as we have shown. The widespread belief that the general fee is affordable means that successive Manitoba governments have mainly left the fee structure untouched.

The current government has repeatedly floated the idea of a parent fee increase. Family Minister Heather Stefanson has acknowledged this is something government should be talking about (Brodbeck, 2019a, 2019b). Premier Pallister's government is austerity-focussed, and relies on market logic and market imperatives. Many believe fees must go up in 2020 simply because they have not been increased since 2013. The analysis presented here shows how misguided this is.

Finally, there is a deep-seated unwillingness to publicly pay for childcare. Despite reams of evidence about the critical role that early learning and childcare plays in the lives of children, families, communities and the economy, provincial political leaders seem unwilling to invest. The plain fact is that progressive pricing will not be revenue neutral, despite a 31 percent increase in the daily maximum fee. Thus governments already unwilling to adequately fund even the current system fail to see the benefits of increased investment.

Perhaps surprisingly, money objections are the easiest barrier to overcome. Childcare investments can generate returns that are greater than their costs. We know this empirically from Quebec, as well as from economic modelling (Cleveland, 2018; Cleveland & Krashinsky, 1998a, 1998b; Fortin, Godbout, & St-Cerny, 2012; Fortin & St-Cerny, 2012; Heckman, 2006) Each of the three affordable fee options results in reduced parent revenues and will require increased public funding to maintain current budgets. But increased expenditures will be offset. As Stevens (2020) has shown, lower childcare fees enable more parents to work and therefore to pay more taxes. While government spending will need to increase, the new expenditures will be more than counterbalanced by the increased tax revenues generated as the provincial GDP grows through higher parental employment made possible by lower parent fees. *Table 7* describes the projected costs and revenues generated by the increased employment of parents for each of the three progressive pricing options. Through economic modelling, we can see that additional revenue will come from the increased economic activity made possible by lower cost childcare. Stevens has calculated the costs, revenues and net income generated by the three affordable fee models, and his data are presented in *Table 6*.

TABLE 6 The Costs, Revenues and Net Income Generated by the Additional Parents Drawn into Employment by the Progressive Pricing Structure

Option	Costs (\$Million)			Revenues (\$Million)			Net Revenue	Increase in Operating Grants	Government Balance
	New Spaces ¹	Grants ²	Total	Provincial Taxes	Fees	Total			
10% AR	\$7.32	\$51.75	\$59.07	\$108.91	\$32.49	\$141.40	+\$82.33	+\$48.37	+\$33.97
7.5% AR	\$7.15	\$52.40	\$59.56	\$106.52	\$28.56	\$135.08	+\$75.52	+\$56.26	+\$19.25
5.0% AR	\$7.17	\$55.25	\$62.42	\$106.52	\$23.76	\$130.28	+\$67.86	+\$68.06	-\$0.20

Source Calculations by Harvey Stevens

¹ This assumes a principal of \$16,000 per space, 25 year amortization, 3% interest rate, fixed 10 year term and monthly payments.

² These are the higher operating grants the province would pay facilities to offset the loss in parent fee revenues. They are net of the higher provincial and federal revenues resulting from the lower parent fees.

The plain and simple summary of these findings is that affordable childcare is either revenue neutral, or actually generates money, for Manitoba. Manitoba will need to build more childcare spaces to meet the anticipated increased demand, but this is more than do-able. In first five to ten years, the capital expenditures would outstrip returns, but by within a decade, the cost of growth will be covered and Manitoba can reap economic as well as social returns from more affordable childcare.

Manitoba has the ability to do right by children and families, and to grow our provincial economy by moving to a system of progressive pricing and more affordable childcare. This will be a boon to families, and a benefit to the economy. Affordable and accessible childcare is, in the words of Nobel-prize winning economist James Heckman, a strategy with high economic returns. As Heckman points out, “It is a rare public policy initiative that promotes fairness and social justice and at the same time promotes productivity in the economy and in society at large” (Heckman & Masterov, 2007).

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Endnotes

1 Specifically, a childcare desert is any postal code where there are more than 50 non-school-aged children, but less than one space for every three children (Macdonald, 2018, p. 10).

2 The “Matthew Effect” (a term coined by American sociologist Robert Merton in 1968) is found in most social services (and in other domains), and explains how ‘to those who have, it shall given,’ or why the rich keep getting richer while the poor get poorer. Possible reasons for it occurring in childcare are wide ranging, and likely include a mix of factors including: human capital (such as the probability that more affluent parents have more experience navigating administrative burdens), differential labour force experiences (many lower-income parents have non-standard work and non-standard employment schedules), and non-inclusive provincial policy and ECE funding (provincial funding barely supports a Monday-to-Friday 9–5 schedule, let alone the additional costs of extended-hours care.)

3 Since 2013, Canada no longer tracks data on childcare educator wages because the federal government stopped funding the Child Care Human Resources Sector Council (archived at <http://www.ccsc-cssge.ca/>). For a review of the childcare workforce in Canada, see Prentice, 2019.

4 The MCCA website contains provincial administrative data showing a range of hourly averages, drawing on funded childcare centre budget information submitted to the ELCC program. For our purposes, we averaged two salary bands: the ECE II hourly wage of a full-time frontline educator without administrative responsibilities (ie: was not a director, assistant director, or supervisor) and the midpoint of the average Child Care Assistant (between those in-training and those not in training) to generate the \$17/hour figure. This tracks relatively close to the Manitoba data reported in a national study (Pasolli, 2019.)

5 In the years since, new legislation and regulations have been introduced. The current legislation that governs childcare is *The Community Child Care Standards Act* and its associated Child Care Regulations (Manitoba Early Learning and Child Care, 2016a).

6 Manitoba has a ten-point priority list for how to allocate operating grants. First priority are facilities that have been waiting for two or more years; then facilities serving infants; then more, including those with greater than 20% of spaces unfunded; region, accumulated deficit, and other reasons (Manitoba Early Learning and Child Care, 2016b).

7 Many social justice and anti-poverty organizations oppose the MBM and prefer alternatives measures. Canada’s Campaign 2000, the national group fighting against child poverty, rejects the MBM in favour of the Low Income Measure (LIM). Nevertheless, given the MBM’s official status with Statistic Canada, we have employed it in our analysis.

8 In this high-order proposal, we set aside the issue of differential fees in family home care and model using centre-based calculations.



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