

Child CARE

Improving child care services for Canadian families: evidence from Canada and around the world



The Association of Day Care Operators of Ontario

May 2006

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This report was prepared for and released by the Association of Day Care Operators of Ontario (ADCO). ADCO represents a full range of child care options from centre-based to home-care operators. Its members include for-profit, non-profit, independent and franchise child care centres throughout the province. ADCO's membership provides care for over 75,000 Ontario children on a daily basis.

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EXECUTIVE SUMMARY/CARE THEMES

Focusing on a distinction between for-profit and non-profit child care makes little sense from a public policy perspective. While it is popular for some institutional child care advocates to argue that non-profit daycare is better or more virtuous than for-profit commercial operations, this belief is not borne out by observations at home or abroad. Evidence from Canada, as well as other countries, shows that for-profit child is an important component of many successful child care systems. In fact, a strong for-profit presence in the child care sector provides four key advantages (the CARE themes) that warrant particular attention from policy makers.

Canadian Experience

This report reviews current federal and provincial daycare policies in Canada and makes the following observations:

- Provinces that have deliberately excluded the for-profit sector from child care policies do a disservice to parents by reducing access to regulated daycare. Saskatchewan has completely eliminated the for-profit sector in its child care sector and now has the lowest level of child care coverage in the country.
- Provinces that treat for-profit child care centres equally in terms of subsidies and grants display, on average, lower costs per regulated space than do provinces that discriminate against the for-profit sector.
- The oft-cited Quebec model of child care includes an important for-profit component. In fact, the for-profit sector has delivered the bulk of all new spaces in the system since 2004. For-profit daycares receive lower per diem subsidies and yet deliver the same regulated services to Quebec families. The provincial government saves an estimated \$50 million per year because of this fact.

International Experience

A survey of child care policies in other countries includes the following results:

- Australia operates a comprehensive fully-regulated child care subsidy program with broad participation by the for-profit sector, which has proven extremely popular with parents. The inclusion of for-profit operators in government subsidy programs in 1991 made possible a rapid expansion in daycare services.
- In Britain, the for-profit sector accounts for 85% of all day nursery spaces. The Blair government's new Sure Start program, which combines early education with child care services, explicitly includes the for-profit sector. The issue of quality differences between auspice is not evident in Britain as all institutions are inspected and rated according to national standards.

Quality Issues

The academic literature on potential quality differences between for-profit and non-profit daycares is also explored. The findings are that:

- Evidence claiming to show a quality difference between for-profit and non-profit in Canada tends to ignore the fact that many provinces discriminate against for-profit child care centres by denying them grants and subsidies available to non-profit centres. When these factors are taken into account, there is no statistical difference in quality between the two sectors nationwide.
- Academic research in the United States has also shown no quality difference between for-profit and non-profit daycare centres. Further, states recognized as being innovative in terms of child care policy, such as Rhode Island and Wisconsin, have a long tradition of equal treatment between the two sectors in government child care programs.

The Role of the Private Sector and the CARE Themes

This research on the Canadian and international experience in daycare policies yields four major advantages of including the independent/for-profit daycare sector in government policy decisions. These CARE themes are: choice, access, responsiveness and efficiency:

Theme 1: Choice Given equal opportunity, parents appear to pay little attention to differences in child care auspice. The inclusion of an independent/for-profit sector increases the range of choices that families have in selecting child care.

Theme 2: Access Restricting the provision of child care services to non-profit only, as is the case in Saskatchewan and is a policy objective in Toronto, results in reduced access to regulated daycare for children.

Theme 3 Responsiveness Jurisdictions that treat for-profit and non-profit child cares equally in terms of government subsidies and grants have found that the for-profit sector is best able to respond quickly to increased demand. If employer-based tax credits are used to spur expansion of the child care system, the experience of the Netherlands argues for equal treatment between auspice as well.

Theme 4: Efficiency Jurisdictions that treat for-profit and non-profit child care operators equally also display lower costs per regulated child care space than do jurisdictions that discriminate. This phenomenon can be seen most notably in Alberta, B.C. and the Atlantic provinces.

The CARE themes suggest that in the interests of good public policy, the for-profit sector must be considered an important component of a national or provincial child care system.

INTRODUCTION

Child care, and family policy in general, is a topic of current interest around the world. Changing demographics, new work patterns and evolving family structures have made access to child care a top-of-mind issue globally. Countries from Britain to South Korea have recently committed to building or expanding national child care and early education systems. In Canada, debate over child care was a central feature of the 2006 federal election and continues to be a topic of lively policy discussion at the provincial and national level.

And yet despite this international context, the Canadian debate has certain unusual and unique characteristics that distinguish it from other countries. In particular there is considerable emphasis paid to the question of auspice – or ownership status – of child care centres in Canada: either for-profit or non-profit. Many Canadian proponents of a national child care policy have made the distinction between non-profit and for-profit child care something of a Canadian obsession. (Prentice, 2005; Cleveland and Krashinsky 2005; CCAAC, 2004; Doherty et al, 2002) The very use of the word ‘auspice’ to signify child care ownership is in itself a peculiar characteristic of the Canadian child care debate. But how useful is this fixation? Is it relevant to federal or provincial child care policy? And most importantly, how does it serve the interests of parents or children?

This paper seeks to shed new light on the validity of the non-profit versus for-profit debate by examining the real world evidence from Canada and around the world as well as the academic literature on quality issues.

A close examination of the Canadian experience reveals a wide diversity of attitudes among the provinces towards auspice. Some provinces, such as Manitoba and Saskatchewan, have taken a deliberately hostile approach to the private sector. Others, including most Atlantic provinces as well as British Columbia and Alberta, have embraced the private sector. The evidence from this range of natural experiments suggests that an exaggerated focus on child care ownership is misplaced. Given neutral government policies there are no meaningful differences across sectors in terms of quality or service.

Further, those provinces that have embraced the private/for-profit sector appear to have realized certain advantages in meeting parental choice, providing greater access to services, responding more quickly to increased demand and using tax dollars more efficiently.

International evidence yields similar findings. Britain, Australia and the United States are three countries with many similarities to Canada. All have long traditions of private child care and government policies in those jurisdictions do not make a distinction between for-profit and non-profit operators.

Academic and regulatory evidence from both Canada and other countries also shows clearly that there are no significant quality differences between for-profit and non-profit when both auspices are provided with equal access to government assistance.

This brief summary of national and international child care policies suggests that it is

beneficial for the private sector to play a large and important role in providing regulated, licensed child care services. Not only can it provide quality child care equal to the non-profit sector, it can also deliver on four additional advantages. The CARE themes – Choice, Access, Responsiveness and Efficiency – suggest that there are significant benefits to governments, parents and children from the existence of a viable for-profit sector.

CANADIAN EXPERIENCE

There is considerable diversity in child care policy across Canada. This can be readily seen in the Early Learning and Child Care (ELCC) agreements signed between Ottawa and the provinces during 2005. While the new Conservative government has served notice that it will abrogate the ELCC deals on March 31, 2007, they still form a useful starting point for comparing the child care approaches of the various provinces. The diversity in provincial child care policies outside of the ELCC agreements reveals further important lessons for policy makers. While each province will be examined, given the importance of Quebec's experiment with universal \$7 per day child care in the current debate over a national daycare policy, the experience of this province is given greater focus.

One note: it is the practice among some governments and organizations to use the term private sector child care as synonymous to for-profit child care. This is a confusing practice, as private sector child care can also include, by definition, non-profit/non-public delivery. The YWCA, for instance, is a private organization with a large presence in child care, but it is run on a non-profit basis. It is also the case that the independent component of the child care industry can be either for-profit or non-profit. Independent is considered as distinct from municipally-run or being part of a larger chain. Again, a YWCA daycare centre may be private and non-profit, but it is not independent. These distinctions will be made obvious when necessary.

Federal Government

As discussed above, the current Conservative federal government has promised to end the ELCC agreements with the provinces at the end of March 2007. The Harper Government campaigned on a child care platform that promised to scrap the provincial ELCC deals, create a \$1,200 per year Choice in Child Care allowance for all children under the age of six and to establish a \$250 million per year tax credit program to encourage the construction of new child care spaces. It is intended that these programs will replace the existing ELCC agreements. (Flaherty, 2006)

The proposed Community Childcare Investment Program, worth \$250 million per year, deserves a closer look. The 2006 Conservative campaign platform and 2006 Throne Speech stated that tax credits of \$10,000 per space would be made available to employers that open or expand child care centres and will result in 125,000 new spaces over the next five years. However, as it is currently defined, only non-profit daycares would be eligible to partner with employers in order to trigger these credits. For-profit daycare operators will not be able to participate.

British Columbia

Percentage for-profit child care spaces, 2001: 42%
Regulated child care budget 2003/04: \$140.7 million
Number of regulated child care spaces 2004: 80,230
Regulated child care spaces as a percentage of children 0-5: 22%

Source for all provincial charts: Friendly and Beach, 2005

In its ELCC agreement with the federal government, B.C. committed itself to equal treatment for non-profit and for-profit (termed ‘private’) daycares:

“British Columbia will be committing all additional federal money [to] ...support the expansion of regulated early learning and child care in both private and non-profit settings as a key element in developing a supportive social fabric for children and families.” (B.C. ELCC, 2005)

This commitment reflects current provincial practice to provide equal per diem operating grants and low-income fee subsidies to both for-profit and non-profit child care operators. Capital grants, however, are available only to non-profit centres. While the outgoing NDP government proposed a publicly-funded, non-profit child care system similar to Quebec prior to the 2001 election, the current Liberal government has instead emphasized parental choice in making funding available to a wider range of child care options, including increased support for family daycare. (Kershaw, 2004)

Alberta

Percentage for-profit child care spaces, 2004: 54%
Regulated child care budget, 2003/04: \$53.6 million
Number of regulated child care spaces, 2004: 65,726
Regulated child care spaces as percentage of children 0-5: 22%

In similar fashion to B.C., Alberta promised to support private/for-profit daycare operators in its ELCC agreement:

“Alberta agrees to invest federal funds transferred to Alberta under this initiative in provincially regulated and approved early learning and child care programs and services, including public and private providers, for children under six.” (Alberta ELCC, 2005)

In fact, Alberta has a lengthy record of support for private/for-profit child care. This extends back to a conflict with the federal government over the implementation of the Canada Assistance Plan (CAP) between 1980 and 1983. At that time Alberta disagreed with a federal stipulation that CAP money could only be spent on non-profit centres and instead funded all daycares, for-profit or non-profit, on an equal basis. (Kuiken, 2006; Stroik and Jenson, 2000). The current ELCC agreement allows Alberta to spend its federal share on for-profit and non-profit child care as it sees fit.

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Currently, provincial subsidies are provided directly to regulated child care centres and approved family daycare agencies based on parental choice. There is no discrimination between for-profit and non-profit. This extends to funding for special needs and fees paid for training and staff-support. The province also offers a Kin Child Care funding program that allows relatives to receive child care subsidies in certain situations.

Finally, the Alberta government reports that there is a substantial surplus of regulated child care spaces in the province. This suggests the strong private sector component in the province is currently meeting the demand for licensed spaces in Alberta. (Baxter, 2005)

Saskatchewan

Percentage for-profit child care, 2004: 0%
Regulated child care budget, 2003/04: \$19.6 million
Number of regulated child care spaces, 2004: 7,910
Regulated child care spaces as percentage of children 0-5: 10%

Unlike B.C. and Alberta, Saskatchewan made a commitment to spend its federal child care dollars exclusively on the non-profit daycare industry in its ELCC agreement:

“Over the next five years Saskatchewan, with the financial support of the Government of Canada, will develop and enhance its regulated early learning and non-profit child care system.” (Saskatchewan ELCC, 2005)

This commitment highlights the fact that over the past decade, the NDP government has entirely eliminated the private sector child care component in the province for ideological reasons. There are now no for-profit regulated child care spaces in the province. And at 10% child care coverage, Saskatchewan also has the lowest level of coverage in the country, expressed as the percentage of regulated child care spaces per children aged 0-5 years old.

Manitoba

Percentage of child care spaces for-profit, 2004: 8%
Regulated child care budget, 2003/04: \$73 million
Number of regulated child care spaces, 2004: 25,634
Regulated child care spaces as percentage of children 0-5: 34

Manitoba made no explicit commitment in its ELCC agreement regarding for-profit or non-profit child care. However, in an accompanying press release the provincial minister responsible for child care policy, Christine Melnick, promised to spend the \$176 million/five-year funding envelope on “making investments in [the] community-based, non-profit early learning and child care sector.” (Melnick, 2005)

This reflects a long-term policy in the province to eliminate the for-profit daycare sector. Non-profit child care centres in Manitoba are provided with operating grants, start-up grants and subsidies for children with special needs. In contrast, only for-profit centres licensed

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prior to 1991 may receive per-child subsidies, and only for a maximum of 25% of their licensed spaces. All other funding sources are off-limits to the for-profit sector. Newly-licensed for-profit child care centres are unable to access any government support. This explains a significant decline in the share of the for-profit sector in Manitoba over the past fifteen years (Prentice, 2005).

Ontario

Percentage of child care spaces for-profit, 2004: 22%
Regulated child care budget, 2003/04: \$497.4 million
Number of regulated child care spaces, 2004: 206,743
Regulated child care spaces as a percentage of children 0-5: 25%

Ontario's ELCC agreement makes no distinctions between for-profit and non-profit child care. However, it bears noting that previous allocations, such as health and safety grants under the \$9.7 million Multi-lateral Framework on Early Learning and Child Care in 2004, have been provided exclusively to the non-profit sector by the current Ontario government.

Ontario's plan is to use the federal ELCC funding to bolster its new Best Start program. This initiative, announced in 2004, aims to provide child care services for children as young as 2½ years old through the public school system. Best Start has proven to be controversial with existing child care operators as it may render the current private sector stock of child care centres (both for-profit and non-profit) obsolete through competition with the public sector. Best Start will also put extra space pressure on existing schools, many of which are struggling to find the room for the province's requirement that no Grade 1-3 class exceed 20 students.

The province has left the implementation of Best Start up to the 47 municipal and district service managers that oversee the delivery of child care in the province. This has led to a wide diversity of policies with respect to for-profit and non-profit centres. The City of Toronto, for instance, has enacted a policy aimed at eliminating the for-profit child care sector by denying subsidies to any new for-profit centre. (Toronto, 2004) Existing for-profit centres in Toronto are only provided with subsidies on an annual basis and may lose access to this funding source in the future. Other municipalities, such as the Region of Niagara Falls or Hastings County, make no distinction between auspice.

Quebec

Percentage of child care spaces for-profit, 2004: 12%
Regulated child care budget, 2003/04: \$1.560 billion*
Number of regulated child care spaces, 2004: 321,732**
Regulated child care spaces as a percentage of children 0-5: 73%

* cost of \$7/day program only: \$1.4 billion

** spaces in \$7/day program only: 188,000

The case of Quebec deserves special attention. In 1997 the Parti Québécois promised to

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create 200,000 spaces in an exclusively non-profit, publicly-controlled \$5 per day child care system. This initial commitment was never fulfilled. From the beginning for-profit 'garderies' have played an important role in what is now a \$1.4 billion per year program.

Through political pressure, parents of children attending garderies and the operators of these sites were able to convince the PQ government to extend the subsidy program to private/for-profit centres in 1997. However, the stipulation was that the garderies would receive a lower per diem government subsidy. Currently, garderies receive approximately \$29 per day per child and non-profit centres receive \$34 – a 17% difference. It is estimated that the reduced subsidies paid to garderies currently save the provincial government approximately \$50 million per year, or a total of \$436 million over the past 10 years. (Bruneau, 2005)

Despite the higher level of subsidies provided to the non-profit sector, it was revealed in June 2005 by provincial minister Carole Th  berge that 40% of all non-profit centres in the province were running a deficit and that some non-profit centre administrators were earning over \$100,000 per year (The Record, 2005). According to the Association des garderies Priv  es du Qu  bec, which represents the garderies, no for-profit centres were in deficit for 2005. (Levesque, 2005)

The high costs associated with the initial program led to several important modifications. In 2004 the parental co-payment was raised to \$7 per day. The government also ceased capital grants for new centre construction while re-affirming the goal of 200,000 spaces to be reached by April 2006.

In February 2004, the provincial Liberal government announced plans to open the final 12,000 spaces required to meet its 200,000 goal. (Quebec, 2004) The province now stands at 192,000 spaces. Significantly, only 10% of these spaces will be created by the non-profit sector. The bulk of the new spaces in Quebec's \$7 per day program will thus be provided by the private/for-profit sector. And, it bears repeating, at a daily subsidy rate that is below the non-profit rate.

In place of a formal ELCC, Quebec and Ottawa signed an agreement that promised the province \$960 million in unconditional federal funding. This money lacks the restrictions placed on other provinces because: "Canada's goals are very similar to those already pursued by Quebec in its system of educational child care" (Quebec ELCC, 2005.) It is significant to note that Quebec's portion of its ELCC money will support a child care system that includes both non-profit and for-profit child care centres and relies largely on the for-profit sector for its growth.

New Brunswick

Percentage of child care spaces for-profit, 2004: 70%
Regulated child care budget, 2003/04: \$13.9 million
Number of regulated child care spaces, 2004: 11,897
Regulated child care spaces as a percentage of children 0-5: 26%

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New Brunswick was one of the last provinces to sign an ELCC agreement. This deal includes language committing the province to support “public and private” child care services.

New Brunswick has traditionally permitted parental choice in child care by treating for-profit and non-profit centres equally. Fee subsidies (which were raised \$3.50 per day in 2004) are payable equally to either for-profit or non-profit child care centres. The province has increased its number of regulated spaces by 2,200 over the past six years due, in part, to its partnership with the private sector.

Nova Scotia

Percentage of child care spaces for-profit, 2004: 45%
Regulated child care budget, 2003/04: \$19.7 million
Number of regulated child care spaces, 2004: 12,759
Regulated child care spaces as a percentage of children 0-5: 23%

Nova Scotia signed its federal/provincial agreement on Early Learning and Child Care on May 16, 2005. Its agreement makes no distinction between for-profit and non-profit centres.

Prior to 2000 most fee subsidies and grants in Nova Scotia were available only to non-profit centres. Following reforms in 2000, however, basic operating subsidies have been made available to the for-profit sector. Nova Scotia has also introduced an innovative new capital program that provides low-interest loans to for-profit daycares that wish to expand. Non-profit operations are provided with non-repayable grants under the same program.

Prince Edward Island

Percentage of child care spaces for-profit, 2004: 60%
Regulated child care budget, 2003/04: \$4.7 million
Number of regulated child care spaces, 2004: 3,405
Regulated child care spaces as a percentage of children 0-5: 38%

Prince Edward Island explicitly acknowledged the importance of its private/for-profit child care sector in its ELCC agreement:

“Prince Edward Island ... will support the development of regulated early learning and child care in both private and non-profit settings as a key element in developing a supportive social fabric for children and families.” (P.E.I. ELCC, 2005)

P.E.I. has a long tradition of not discriminating between for-profit and non-profit child care. Fee subsidies and grants are available equally to both sectors. And most growth in child care space on the island has been driven by the private/for-profit sector. Since 1995 the share of child care spaces provided by the private/for-profit sector has doubled. (Prentice, 2005) It is worth noting that P.E.I. has the second highest level of child care coverage in the country, trailing only Quebec.

Newfoundland and Labrador

Percentage of child care spaces for-profit, 2004: 73%
Regulated child care budget, 2003/04: \$9.6 million
Number of regulated child care spaces, 2004: 4,921
Regulated child care spaces as a percentage of children 0-5: 16%

Newfoundland does not discriminate between non-profit and for-profit child care operators. Licensed centres in either sector are eligible to receive provincial fee subsidies. The for-profit sector has historically represented the largest share of children under care and has grown significantly over the past decade. (Prentice, 2005)

INTERNATIONAL EXPERIENCE

Australia

Until 1991, Australia operated a command-and-control style system of child care. Government subsidies were provided exclusively for non-profit centres and bureaucrats made the final decisions on the location and size of new child care centres. The result was a dysfunctional system incapable of responding to parental demands. This system was reformed in 1991 to allow government subsidies to follow parents to the child care centre of their choice – for-profit or non-profit. The following excerpt from an OECD report on Australian child care summarizes the impact of this policy change.

“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 centres was transformed with the granting of fee subsidies to families using the private sector. This change in policy provided a stimulus to private sector investment.” (Press and Hayes, 2000)

Permitting the private/for-profit sector to access government subsidies allowed entrepreneurs to serve pent-up parental demand. Within a year the number of child care centres in the country doubled to 2,285. Within a decade it was up to 4,000. There are approximately 4,300 child care centres, both non-profit and for-profit, in Australia today. (FACS, 2004a/b)

The vast bulk of the new child care capacity came from the for-profit sector, which now comprises approximately two-thirds of the child care industry. Significantly, the elimination of capital start-up grants means that growth in Australia’s child care industry is now privately funded, at a substantial savings to taxpayers. And the latest child care census by the Australian government shows that non-profit daycares currently charge an average \$211 (AUS) per week, compared with \$208 (AUS) in for-profit centres (FACS, 2004b). In other words, for-profit centres deliver more regulated child care services at a lower cost to parents than non-profit operators.

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The equal treatment of auspice in Australia has eliminated the quality concerns that dominate the Canadian debate. Australian child cares are licensed and monitored by the states but subject to national standards set by the Commonwealth government in consultation with state governments. Both non-profit and for-profit centres must meet the Quality Improvement and Accreditation System (QIAS) standards in order to receive federal subsidies. Recently family daycares and after-school programs have been added to this quality control system. It is significant that there are no reported quality issues between auspice due to the equal treatment of for-profits and non-profits according to QIAS. In the 2004/2005 annual report on QIAS, 41% of Australian child care centres met the highest quality level across all ten quality areas. (NCAC, 2005)

The child care program is one part of a highly successful Australian family policy. In place of the Child Care Benefit, Australian parents may choose instead to access a stay-at-home parenting allowance called Family Benefit B. There is also a maternity payment unrelated to work status (as opposed to Canada's EI maternity benefits which are dependent on work).

The Australian government thus supports a wide range of choices in its family policy. Parents may choose to stay at home or place their children in child care. If they choose child care, government subsidies support whichever regulated centre the parents prefer – non-profit or for-profit. As a gauge of parental satisfaction, the most recent survey by the Australian Bureau of Statistics (ABS, 2003) found that 94% of parents required no additional child care.

Australia's family policy prompts several conclusions. First, the for-profit sector was able to deliver a massive increase in child care spaces over a short period of time once it was permitted equal access to government subsidies. Second, in a competitive environment, for-profit centres have become the child care option of choice among Australian parents. Third, there are no apparent quality difference issues between the non-profit and for-profit sectors due to national standards administered through the QIAS. Fourth, the expanded private child care system has reduced costs for taxpayers and provided service at a lower average cost than the non-profit centres. Last, Australian parents appear content with the current policy based on recent survey data.

Britain

Historically, child care services in Britain have been delivered by the private/for-profit sector. Of 13,570 child care centres (called day nurseries) in Britain, 85% are privately-owned and operated. The private/non-profit sector accounts for 10% and the remaining five percent are operated by municipalities on a public/non-profit basis. (NDNA, 2005)

The national government has supported child care choices mainly through the tax system. The Child Tax Credit and the Childcare Element of the Working Tax Credit are means-tested subsidies. These benefits are deposited directly into the bank accounts of eligible parents, who then make their own child care choices.

The government also provides an entitlement of 12.5 hours per week for 33 weeks per year of free early education for all three and four year olds. This service is provided to parents

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who may choose their preferred facility, either for-profit or non-profit; the centre is then reimbursed by the municipal government. It thus operates as a voucher-type system.

Employers are also encouraged to assist their employees in obtaining child care. The first \$100 per week in employer contributions for registered and approved child care is shielded from income taxes and other deductions.

The current system thus allows British parents to make their own choices with respect to child care decisions. No distinction is made through government policy with respect to private/for-profit, private/non-profit or public/non-profit child care. And based on the fact that the British child care system currently has a 17% vacancy rate, this suggests that parental demands for space are being met. (NDNA, 2005).

As is the case in Australia, equal treatment between non-profit and for-profit child care centres has rendered the quality issue irrelevant. According to the most recent annual report of Her Majesty's Chief Inspector of Schools, there are no significant quality distinctions between for-profit and non-profit daycares. Sixty-nine percent of day nurseries achieved the top rating of good and a further 30% were rated as satisfactory: "The quality of education remains at least good in most private, voluntary and independent nursery settings." (OFSTED, 2005)

A new system of integrated early childhood learning centres, called Sure Start, is planned for Britain. This 10-year program was announced in 2004. Significantly, Prime Minister Tony Blair has promised that the private/for-profit sector will be a key participant in this new program.

"We want to develop integrated and personalized services through a diverse range of providers – the public, private and voluntary sectors. Schools, nurseries, playgrounds, childminders – all have a crucial role to play." (Blair, 2004)

Summarizing the British experience, it seems clear that the for-profit sector is a vital element of the national child care policy. Given equal funding and treatment by the national government, there is no quality debate between auspice and parents have been provided with sufficient spaces to meet their needs. While Sure Start marks a significant new investment on the part of the Labour government, the prime minister has promised that the for-profit sector will be a key participant in this program.

United States

While the United States has a high degree of child care usage by international standards, it is unique among developed countries in its lack of a co-ordinated national family policy¹. Even more so than Britain, the U.S. has a long tradition of delivering family policies through the

¹ In 2001 33.4% of U.S. children aged 0-6 years attended a centre-based child care program. This can be compared with 13% of Canadian children aged six months to five years who attended a child care centre as their primary form of child care. (Forum on Child and Family Stats, 2001; Statistics Canada, 2005)

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tax system. American families can deduct child care expenses from their taxable income or use shielded payroll deductions to pay for child care. Joint filing for married couples also provides an indirect tax benefit to families that can be used to pay for child care.

Direct government participation in child care is focused on support for low-income Americans. The U.S. federal government currently provides \$11 billion annually to the states via its Child Care and Development Fund and Temporary Assistance to Needy Families programs. (Child Care Bureau, 2005). By law this program “provides for parental choice of child care provider.” (CCDF, 2003) This typically means a certificate that follows the parents, as is the case in Australia, to whichever legally-operating child care provider they select. Wisconsin and Rhode Island offer interesting examples of how such a system can work. Both states are considered to be innovators with respect to child care policy (Mitchell, 2005; Besharov and Samari, 2005).

Wisconsin guarantees all low-income residents access to child care. The state currently does not have a waiting list for subsidized spaces. (Saterfield, 2005) The level of subsidy provided by Wisconsin varies with the form of child care selected and rises as the level of care rises: from certified home care to licensed family daycare to licensed child care group. Operators that meet designated national standards receive a 10% bonus over the posted subsidy rates. Both for-profit and non-profit child care centres are equally eligible to receive these subsidies.

In Wisconsin, all parents are expected to make some contribution to the cost of child care. This co-payment also varies with the level of care chosen and the income of the family. The scheduled rate for one child currently ranges from US\$2 per week to US\$59 per week (Saterfield, 2005).

These graduated fees and co-payments create an important market effect. It encourages providers to compete on quality and service and encourages parents to shop around on the basis of price and service, creating a healthy marketplace for child care.

A similar system of scaled subsidies and co-payments is also in place in Rhode Island. In addition, this state is unique in providing employee health care premium assistance to any licensed child care centre that has 40% or more of its spaces occupied by children receiving a fee subsidy. About one-third of all children in licensed child care receive a subsidy from the state. Again, all of these programs are equally available to non-profit and for-profit child care centres. (Murphy, 2005)

To summarize the American experience, excellence in child care does not require a focus on non-profit centres. Neither Wisconsin nor Rhode Island, two states acknowledged as leaders in child care services, make any distinction between auspice.

Sweden

Sweden is internationally recognized for its non-profit, publicly-operated daycare system for all children over the age of one. This model is frequently held up as a goal for other

countries. However the purity of the Swedish public-only model has been altered in recent years, for reasons of practicality and necessity.

Following budget cuts throughout the 1990s and reforms in 2001 which required an increase in spaces to accommodate children of unemployed parents, it is now the case that the private sector (both non-profit and corporate) provides care for 17% of all children attending pre-school. The private sector receives subsidies equal to those provided to the municipally-run daycares. (Swedish Institute, 2004; OECD, 2002a)

Netherlands

In the mid-1990s Netherlands embarked on a program to build a national child care program. Instead of the Swedish-style public model however, the Dutch decided to make child care a shared responsibility between parents, government and employers.

Tax incentives were structured to make it attractive for employers to fund child care services for their employees. Employers access these tax credits by either opening their own 'in-house' child care centre or contracting with for-profit or non-profit child care centres to purchase space for their employees' children. As a result of this approach, half of all spaces for children aged 0-4 are now employer-provided. The key role for the private sector also made possible a large increase in spaces over a relatively short time. Between 1990 and 1996 the number of regulated child care spaces in the Netherlands increased from 22,500 to 85,000 (OECD, 1999; OECD, 2002b).

South Korea

High-quality education has been at the centre of South Korea's economic and trade miracle. Until recently, however, there has been very little public provision of child care or early education in South Korea. Parents have largely relied upon a privately-provided system (both for-profit and non-profit) to prepare their children for higher levels of education. In particular, 500,000 young children receive pre-kindergarten and kindergarten education through a commercial system of institutions called Hakwons, or 'learning places.' (OECD, 2004)

The country is currently attempting to increase the public provision of child care and early learning services, but expansion has been slow. Because of this, the OECD recently recommended that the various private aspects of the child care network be provided with greater public funding: "The auspices of a service matter little to the children or families who use it, as long as they receive a quality service at an affordable price. We encourage Korean authorities to find means of subsidizing the capital and operational expenses of quality private providers." (OECD, 2004) Korea is thus being urged to publicly support its for-profit child care system.

QUALITY ISSUES

Much of the criticism in Canada with respect to for-profit daycare has been based on the argument that the for-profit sector provides lower quality child care services. This is an important issue, as it should be the goal of all policy makers to provide high quality daycare for all children regardless of auspice.

Concerns over daycare quality arise from a Quebec study: Japel, Tremblay and Coté (2005). This study showed that 61% of all Quebec daycares – regardless of auspice – were considered mediocre on standard quality rating scales and another 12% were considered inadequate. Only 27% of all daycares in the province were considered good quality. This suggests that system-wide improvements are necessary to bring up the performance of all daycares.

Japel and her co-authors also showed that more non-profit centres (35%) scored in the good category than did for-profits (14%). Such a quality difference is a concern, even when considering the overall performance of the provincial system.

However, it is important to understand that the standard quality measurements for the daycare industry (ITERS-R and ECERS-R; see Harms et al, 2004, 2003) are, in part, dependent on inputs such as facilities, staffing levels and professional development of staff. And these inputs are likewise dependent on access to government subsidies. Recall that the for-profit sector in Quebec currently receives 17% less in per diem subsidies than the non-profit system. While both systems must meet the same regulatory standards, observed quality may be different if the two auspices receive different levels of funding.² Providing the for-profit sector with fewer government resources may thus produce lower scores of observed quality.

Using data from 2000 to 2003, the Japel study found that the mean observed quality of the for-profit daycares was 19% lower than that of non-profit centres (3.69 average score vs. 4.58). Yet it was also the case at this time that for-profit daycares received 24% less in government subsidies per child (\$25 vs \$33; Levesque, 2005). This suggests that there is a link between the level of government subsidies and observed quality, rather than a link between quality and auspice. At the very least, more academic research is needed in this area.

A national perspective on the quality question can be found in the recent study by Cleveland and Krashinsky (2005). While their examination of daycares in seven large cities did show a difference in quality between for-profit and non-profit, this distinction disappeared when the study considered data for all areas of the country and after controlling for the fact that non-profits typically receive greater funding from government. Thus the work appears to support the hypothesis proposed above: there is no statistically significant difference in quality between non-profit and for-profit child cares across all Canadian regions when the additional

² It is currently the case that for-profit garderies have a different standard with respect to staff qualifications as compared to non-profit child care centres. However, by 2007 regulations will be consistent across auspice in Quebec in all aspects.

financial resources offered to non-profit centres is considered.

The role played by unequal government subsidies in quality differences was explored in another Canadian study (Doherty et al, 2002). To isolate the effects of auspice as opposed to funding, this report restricted itself to three provinces that did not discriminate in terms of operating subsidies: B.C., Alberta and New Brunswick (although B.C. does not provide equal access to capital grants for for-profit centres). The report found a statistical difference in quality between for-profit and non-profit daycares in these provinces in only one of eight categories. Again, this provides further evidence that when the two sectors are treated equally by governments, quality differences are non-existent or minimal.

It is instructive as well, to consider that quality and auspice do not appear as important issues in our international examples. Australia and Britain both have national standards and a lengthy tradition of treating non-profit and for-profit institutions similarly. This appears to alleviate parental concerns and eliminate any differences in quality between the two sectors. Recall that reports from both countries found that both non-profit and for-profit sectors were providing good quality child care.

While the U.S. does not have national standards, most states treat the two sectors similarly, as we have seen in the cases of Wisconsin and Rhode Island. The question of quality differences between for-profit and non-profit has been the subject of intense research in the U.S, but the results have again shown it to be a non-issue.

The most authoritative study on child care quality in the U.S. is “Cost, Quality and Child Outcomes in Child Care Centres” (Helburn, 1995). According to its author Suzanne Helburn: “the CQO study indicated no over-all differences in quality between non-profit and for-profit centres except in North Carolina.” It bears mentioning that North Carolina has since increased its subsidy program and quality standards. (Mitchell, 2005)

The CQO report found that quality tended to vary within each sector, rather than between the two sectors. For instance, church-sponsored non-profit centres tended to be of lower quality than other non-profit child care centres. For-profit centres that were affiliated with national chains were of higher quality than independents. Overall, the CQO report found that a greater dependence on parental fees led to a decrease in quality. This suggests that equal access to government subsidies across all sectors is the best way to increase system quality.

The argument that there is no link between for-profit or non-profit status and quality is supported by more recent U.S. research as well, including Morris and Helburn (2000) and Blau and Mocan (2002). Morris and Helburn summarize their work by noting that “child care research comparing sector performance should not be limited to profit sector comparisons that can mask differences in performance within the for-profit and non-profit sectors.” In other words, quality varies across all forms of child care and it is inappropriate to fixate on comparisons between the for-profit and non-profit sectors.

THE ROLE OF THE PRIVATE SECTOR AND THE CARE THEMES

Considering the evidence from national and international experience, as well as the academic literature on daycare quality, it is possible to draw out several policy conclusions. In particular, four themes present themselves: Choice, Access, Responsiveness and Efficiency. These are the CARE themes.

Theme 1: Choice

The existence of a private and independent child care sector, whether for-profit or non-profit, allows parents an important element of choice in deciding what form of child care is best for their family.

The entrepreneurial perspective of the independent child care operator means that those centres tend to be more responsive to the needs of parents in offering non-traditional services. This can include faith-based care, emphasis on certain aspects such as etiquette or an alternative educational focus, including Montessori, Waldorf or Reggio Emilia curriculum.

It is also the case that the for-profit sector tends to be the first to respond to demand in rural or un-serviced areas and the first to deliver new service innovations. In Ontario, for instance, the for-profit sector broke new ground by providing child care outside regular working hours for parents on shift work. One for-profit child care centre in Simcoe County, Ontario provides its own bus transportation for children traveling between kindergarten and the facility. (Graham, 2005) These options are typically not available from unionized, municipally-run child care centres.

Internationally, the strong presence of both for-profit and non-profit child care centres in Australia, Britain and the U.S. appears to satisfy divergent parent needs. Australian parents in particular seem satisfied with the level and quality of their child care system.

Theme 2: Access

Table 1 provides a comparison of the share of for-profit child care in Canada by province and provincial child care coverage for children aged 0-5. This table shows the importance of the for-profit sector in providing access to child care services. Across the country, for-profit centres provide spaces for 21% of Canadian children in institutional care.

It is also apparent that provinces that deliberately discriminate against for-profit child care operators through unequal grant or subsidy policies can have a dramatic effect on access by reducing the number of private operators willing to provide regulated child care services. The case of Saskatchewan is again instructive. Saskatchewan has the lowest level of child care coverage for children aged 0-5 in the country and is also the only province to have completely wiped out its private/for-profit daycare component. The two provinces with the best coverage are Quebec and P.E.I. respectively. PEI has a large for-profit sector. While

Quebec has a low level of private sector participation, for-profit daycares have played an important role in that province in providing new capacity, as detailed on pages 9-10.

Table 1: Child care coverage 2003/2004

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Province	Children aged 0 - 5	Regulated child care spaces for children aged 0-5*	Regulated child care as a % of children aged 0 -5	For-profit child care as a % of total sector
Newfoundland	31,400	4,343	14%	73%
PEI	8,800	3,405	39%	60%
Nova Scotia	55,500	12,759	23%	45%
New Brunswick	45,500	11,897	26%	70%
Quebec	443,300	179,755	41%	12%
Ontario	832,500	144,130	17%	22%
Manitoba	75,800	19,508	26%	8%
Saskatchewan	69,200	7,036	10%	0%
Alberta	218,500	47,959	22%	54%
B.C.	255,100	57,141	22%	42%**
Canada	2,035,600	487,933	24%	21%

* *Regulated child care spaces for children 0-5 includes full and part-day care for pre-school aged children plus regulated family child care; excludes school-age child care*

** *Figure for 2001, 2004 for-profit care figure not available*

Source: Friendly and Beach (2005)

Theme 3: Responsiveness

The evidence from Quebec shows that the province has come to rely on the for-profit sector for the bulk of new growth in its \$7 per day program. The lack of new capital grants from the provincial government means that if Quebec is to reach its 200,000 figure, it will be private entrepreneurs who meet this parental demand.

International evidence from Australia and the Netherlands bolsters this argument. Australia was able to double the number of child care centres between 1991 and 1992 by allowing the for-profit sector access to government subsidies. And in the Netherlands, a fully-functioning child care system was established in just six years through the involvement of the private sector and the use of tax incentives for employers rather than by establishing a public sector mandate.

Theme 4: Efficiency

A deficit of licensed and regulated child care spaces is often cited as a major policy issue in Canada (CCAAC, 2004). The new federal government's proposed Community Childcare Investment Program is also based on the assumption that more spaces are needed. If so, then

it makes sense that the goal of provincial governments should be to deliver the most regulated child care spots per (scarce) tax dollar. To this end, Table 2 permits comparisons of the effectiveness of each province's policies in generating child care spaces.

Column C of Table 2 shows the efficiency of tax dollars in generating new daycare spaces. The most efficient provinces are, in order, Alberta, P.E.I. and New Brunswick. The least efficient provinces are Quebec, Manitoba and Saskatchewan.

Table 2: Efficiency of provincial tax dollars in child care 2003/2004

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Province	Provincial budgets for child care (Can \$)	Regulated child care spaces in province age 0-12*	Regulated child care spaces per \$1,000 in provincial spending	For- Profit child care operators as percent of total operators in province
Newfoundland	\$9,636,300	4,921	0.51	73%
P.E.I.	\$4,681,790	4,100	0.87	70%
Nova Scotia	\$19,767,821	12,759	0.64	45%
New Brunswick	\$13,900,000	11,897	0.85	70%
Quebec	\$1,560,000,000	321,732	0.21	12%
Ontario	\$497,400,000	206,743	0.41	22%
Manitoba	\$73,003,600	25,634	0.35	8%
Saskatchewan	\$19,639,000	7,910	0.40	0%
Alberta	\$53,600,000	65,726	1.22	54%
B.C.	\$140,725,000	80,230	0.57	42%**
Canada	\$2,392,353,511	741,652	0.60†	21%

* Includes school-age child care. Note that Table 1 only used pre-school and regulated family daycare in calculating total regulated spaces. Budget figures that break-out school-age child care data are not available.

** Figure from 2001, more recent figure not available

† Calculated as simple average of provincial figures. Canada-wide average = 0.31

Source: Friendly and Beach (2005)

Significantly, the most efficient provinces also tend to be those with the largest for-profit portion of the child care sector. Newfoundland, New Brunswick, P.E.I. and Alberta are the four provinces with the largest private/for-profit child care sectors. All but Newfoundland are above the provincial average figure of 0.60 spaces per \$1,000 in government spending. Similarly, the least efficient provinces (Quebec, Ontario, Manitoba, Saskatchewan) reveal low shares of for-profit child care. Recall from Table 1 that the two provinces with the highest level of child care coverage were P.E.I. and Quebec. Table 2 suggests that P.E.I. is the most efficient of the two in providing high coverage at low cost.

If we assume that government funds are scarce and that policy makers seek to find the most efficient method of delivering necessary services, then it clearly makes sense to include the for-profit sector in any child care policy.

EQUALITY AND EXPANSION

Given the CARE themes, there appears to be clear public policy advantages in establishing equality between for-profit and non-profit child cares. Given current demands for an expansion of the daycare system in Canada, how can this be best achieved?

Traditionally, provincial and municipal governments have attempted to increase the supply of child care spaces through grants to non-profit centres or organizations. Start-up capital grants are rarely provided to commercial operators because this may be seen as directly benefiting the owner of the daycare. The argument is also made that private sector operators are better able to seek out conventional sources of capital via banks or other lending institutions. Additionally, loan interest is tax-deductible for commercial operators in a way that it is not for non-profit organizations.

All these arguments are valid to some degree. However, given the CARE themes – and in particular the responsiveness of the commercial sector to parental demand for new spaces – it seems foolish to ignore the for-profit sector if expansion is a public policy goal. And it should be remembered that some non-profit chains, again such as the YWCA, are better funded and have a greater ability to access capital than many small, independent for-profit operations. If direct grants to private operators are politically unpalatable, there are three other options for harnessing the ability of the private sector to create more daycare spaces.

Enhanced operating subsidies

As we have seen above, Australia solved its daycare deficit by abolishing all capital grants (which were available exclusively to the non-profit sector) and focusing on a national system of operating subsidies and an associated quality inspection system. The federal government guarantee behind these subsidies allowed the daycare industry to seek out conventional sources of capital. The result has been the large and rapid expansion of the Australian daycare system.

Low interest loans

Nova Scotia has pioneered an alternative approach to encouraging greater capacity from the for-profit sector. Its new Child Care Centre Expansion Loan Program provides low interest loans to for-profit child care centres that wish to expand their spaces. The loans are for five, ten or fifteen-year terms and have an interest rate of 1%.

The loan program mirrors a similar program available to the Nova Scotia non-profit sector. Instead of loans, however, non-profits are eligible for grants. Non-profit centres must raise 25% of the cost of the expansion privately in order to receive a grant for the remaining 75%.

It is significant that the obligations of the daycare centres in terms of disclosure and services offered are identical between for-profit and non-profit. The only difference is that for-profit centres receive repayable loans and non-profit centres receive non-repayable grants. This innovation appears to have eliminated the political issue surrounding capital grants for private operators. To date the program has provided grants and loans ranging from \$3,200 to \$750,000. Of the 21 successful applicants in this first year of operation, 17 are non-profit operations and 4 are for-profit centres. (Richard, 2006; O'Connell, 2006)

Employer tax credits

The Netherlands provides yet another approach to increasing capacity in partnership with the private sector. Recall that employer tax credits were used during the 1990s to fuel a rapid increase in daycare spaces in that country. It is significant that employers were given the freedom to make their own decisions on how best to provide daycare for their employees. Employers could open their own 'in-house' child care centre, or contract with either for-profit or non-profit centres. (OECD, 2000)

The Community Childcare Investment Program as proposed by the federal government in Canada is similar in focus to the Netherlands' approach. However, there is one significant difference. According to the 2006 election platform of the Conservative Party: "Employers who create new childcare spaces for their employees, or for the wider community in collaboration with not-for-profit organizations, will be eligible to receive a credit of \$10,000 per space." (Conservative Party, 2005)

An exclusive focus on the non-profit sector was not a part of the Netherlands highly successful tax credit program. Shutting out the for-profit sector will deny children, parents and taxpayers the advantages of the CARE themes and potentially deny the system new capacity. As we have seen, parents typically display no concern about whether their child attends a for-profit or non-profit centre as long as the centre meets their family's needs. The same should be true for employers and government.

CONCLUSIONS

The child care decision is one of the most important and revealing choices that families must make. Parents around the world face a wide range of child care options: from staying at home to using relatives to hiring neighbours for informal family daycare to formal centre-based child care services. Each option has its own advantages and its own costs. The best choice will vary for each family.

Government policies that limit the choice of parents, or make certain options more or less attractive at the expense of other options, interfere with this family-based decision-making process. Providing grants and subsidies exclusively to the non-profit sector is one way in which some provinces have obstructed the right of parents to make their own unencumbered decisions.

In Canada the for-profit sector is an important component of most provinces' existing child

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care systems. It accounts for 21% of national capacity – or approximately 154,000 spaces – in child care centres across the country. However, the for-profit sector has been eliminated by government policy in one province and is threatened with potential extinction in several other jurisdictions. Further, through its proposed Community Childcare Investment Program, the federal government may perpetuate this type of discrimination as part of national policy

Countries with a long tradition of for-profit child care also do not seem to share Canada's obsession with auspice. Government policies in Australia, Britain and the U.S. are neutral with respect to funding and regulations are consistent across all child care sectors. In all these countries the for-profit sector provides the majority of child care spaces.

It is also the case in these countries that there are no significant issues with respect to quality across auspices in those countries. A major U.S. study stated categorically that there was no difference in quality of care between non-profit and for-profit child care centres. The remark from an OECD report on South Korea that parents care little about auspice so long as the quality is high and the service is affordable seems an apt summary of the international experience.

Australia and the Netherlands provide further evidence that the for-profit sector is best able to increase the supply of child care quickly. Even Sweden has relied on the private sector to relieve demand pressures in a timely fashion.

Canadian evidence also shows that tax dollars are most efficiently converted into regulated child care spaces via the for-profit sector. Reliance on the for-profit sector can also reduce the need for capital grants. The rapid growth in daycare spaces in Australia in the early 1990s was funded by the private sector at no direct cost to taxpayers. Alternatively, repayable low-interest loans or employer tax-credits can be used to spur rapid expansion without the need for direct grants to commercial operators.

While the for-profit child care sector is just as capable as the non-profit sector in delivering quality child care if it is given equal access to resources, it can also provide certain distinct and additional advantages to parents, governments and taxpayers. These advantages can be categorized under the four CARE themes:

- Choice for parents
- Access to daycare for children who require it
- Responsiveness to changes in demand and government policies
- Efficiency in the use of taxpayers' dollars

If the policy objective of Canadian governments is to provide families with the option of affordable, accessible and high-quality early learning and child care, then for-profit sector must play an important and integral part of that policy.

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