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# Comparing Canada's family policy to other nations

by Peter Shawn Taylor

Family policy debate in Canada in recent years has focused almost exclusively on the lack of a national child care program in this country. Groups such as the Child Care Advocacy Association of Canada have argued that Canada should match the efforts of European nations such as Sweden in creating a universal system of publicly-funded, unionized, non-profit daycare centres across Canada. With this end in view, the Liberal government of Prime Minister Paul Martin established a \$5 billion-five year pilot program for a national child care strategy in its 2005 budget. The ultimate cost of a completed national daycare program could exceed \$13 billion per year, using the standard of 1 per cent of GDP set by Sweden.<sup>1</sup>

## Family policy in Canada: A lack of choice

While it is true that family policy in Canada differs significantly from other countries, this difference is not solely due to the lack of a national child care program. While child care is a component of many countries' family policy, there is more to family policy than child care. Other countries offer a wide range of policies that support parental choice in how their children are raised.

For instance, several countries provide payments exclusively for stay-at-home parents in recognition of the sacrifices one-income families make to raise their children and to compensate for government subsidies provided to parents who use formal child care. Other countries offer extended paid parental leave programs—up to three years—that

permit working parents to take time off to raise their children at home. Some countries also allow families to file their income taxes jointly, which can substantially reduce the overall family tax burden. Finally, there are countries which permit parents broad choice in non-parental care for their children, including the ability to use government subsidies to pay relatives or neighbours, as well as for-profit or non-profit daycare centres, for child care services. Canada's federal government currently provides none of these policies.

Given this diversity of family policies in other countries, it seems obvious that the current debate in Canada would benefit from a closer examination of family policies worldwide. With this in mind, we will begin with a review of Canada's current federal family policy. Then we will examine family policies in other countries. Rather than systematically and exhaustively covering all major nations, this survey will focus on a few countries with innovative programs that have proven popular with families.

Differences in demographics and government structure present obvious difficulties in comparing federal family policy across borders in close detail. For instance, it is the case in many countries, including Canada, that lower levels of government provide family programs in addition to the federal government. However, given the many long-standing similarities between Canada and Australia in terms of history, culture, population and political structure, a more detailed and up-to-date comparison is possible between these two countries, with interesting results.

Finally we will point out the gaps in Canada's family policy that are revealed by these international comparisons and

make recommendations to fill these holes.

## Family policy in Canada: A lack of choice

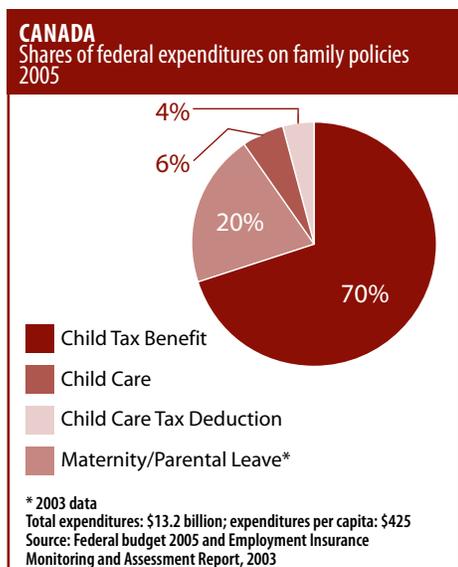
There are three main federal government programs to assist families with children. The centerpiece is the Canada Child Tax Benefit, a means-tested, refundable tax credit with a maximum value of \$1,471 per year for a child under the age of seven. This basic benefit is received by 82 per cent of all Canadian families with children. A supplemental benefit for low-income families, worth an additional \$1,722 per year, is provided to 40 per cent of households. This year the Child Tax Benefit will distribute \$9.3 billion to Canadian families.

In addition, some Canadian parents are eligible for paid maternity and parental leave benefits of up to 50 weeks. In 2003, this amounted to \$2.7 billion. However, it is important to note that these benefits are not actually provided by the federal government, although the OECD considers them to be a federal program. Maternity and parental benefits are paid for through employee and employer contributions to the Employment Insurance Fund. Only working parents are eligible for this benefit and they pay for it themselves through payroll deductions.

With respect to child care, the federal government offers a tax deduction for parents with receipts from a daycare centre. The Child Care Expenses Deduction is worth \$550 million in foregone taxes, according to Department of Finance estimates. In addition, the government has promised to spend \$5 billion over the next five years to establish a national child care strategy with the provinces. For 2005, this

<sup>1</sup>While the Child Care Advocacy Association of Canada promotes a 1 per cent of GDP expenditure on child care for Canada, the group misrepresents the actual cost of this as only \$10 billion. In fact Canadian GDP is \$1.3 trillion and 1 per cent would be \$13 billion.

allocation amounts to \$700 million. Several observations on Canada's federal family policies are in order. First, at less than \$11 billion in actual federal spending (since the maternity and parental leave program is not an expense) the actual outlay on family policy is rather modest. Second, Ottawa does not support parental choice in child rearing through its policies.



The Child Tax Benefit is available to all parents based on income, but only parents using outside-the-house care are eligible to claim the child care tax deduction or stand to benefit from the national child care strategy. And, a \$13 billion per year national daycare program of the sort being promoted by child care advocates would ultimately overtake the Child Tax Benefit as the largest single component of family policy. This in spite of the fact that child care centres are the least popular form of child care in Canada. According to Statistics Canada, only 13 per cent of children between six months and five years old are placed in formal child care.

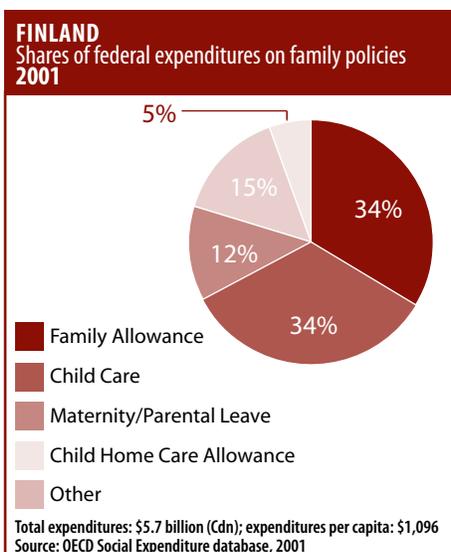
The most popular form of child-rearing in Canada, again according to Statistics Canada, is stay-at-home parenting. For children between six months and five years of age, 47 per cent are raised in a home setting by parents. However, the federal government has no programs that recognize or compensate this group, despite the fact it comprises nearly half of all families in Canada.

Our comparison with other developed countries will show that, like Canada, all offer some form of universal or means-tested family allowance, a maternity and parental leave or benefit program and government subsidies for formal child care. However, these other countries also offer additional forms of family support based on parental choice, particularly with respect to at-home care, that do not exist in Canada.

## Family Policy in Finland: Child care yes, but home care too

The assumption that all Nordic countries follow the Swedish model of universal daycare for all children over the age of one is misplaced. Finland does offer a heavily-subsidized, municipally-run, unionized system of child care to parents. However, Finland also offers parents real choices in child rearing by making benefits available to stay-at-home parents. For babies up to one year of age, Finnish parents can receive a parenthood allowance to compensate for at-home care. For children aged one to three, there is a Child Home Care Allowance, which currently pays \$475 (all figures converted to Canadian dollars) per month. Together, these two programs account for 72 per cent of all children up to the age of three. Municipal daycare centres serve only 11 per cent of children this age.

Because formal school does not begin until age seven in Finland, the percentage of children in daycare rises sharply for ages three to six. Nonetheless, the vast



majority of children are raised at home in their early years due to the existence of the Child Home Care Allowance

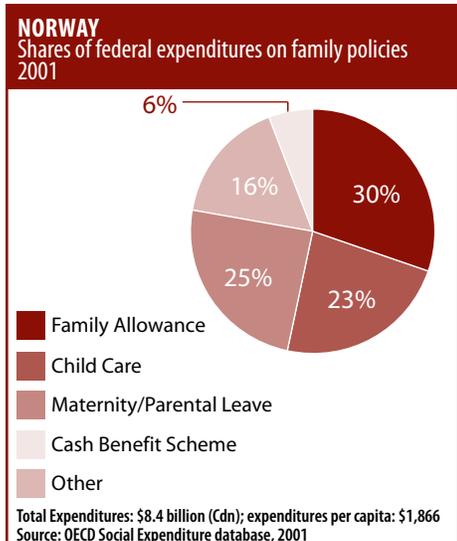
## Family Policy in Norway: Recent reforms let parents stay home

Like Finland, Norway also provides true choice in child care. Family programs include a universal family allowance, a generous one-year maternity and parental leave program (including a four week portion available only to fathers) and a municipally-administered daycare system. In 1998, Norway introduced a Cash Benefit Scheme for parents who choose not to use state-subsidized child care. It is available to parents of children between the ages of one and three and the current maximum monthly rate is \$730. This amount is reduced if parents choose to enroll their children in daycare part-time. It is fully clawed back if a child attends daycare more than 33 hours per week.

The Cash Benefit Scheme provides an important element of choice for Norwegian parents. This money can be used however a family chooses—as income for a non-working parent or to pay a relative, nanny or neighbour for child care—however government surveys report that two-thirds of the recipients are stay-at-home parents.

Government surveys also reveal that the popularity of the Cash Benefit Scheme has increased the prevalence of children raised in a home environment. The average hours per week of non-parental care per child has fallen 2.4 hours per week since 1998. The magnitude of the response from Norwegian parents to this program was unexpected by the government, suggesting parents are eager for greater choice in how they raise their children. According to Laila Dävøy, the Norwegian Minister of Children and Family Affairs: "I do believe that the cash benefit reform has improved the freedom of choice for parents who want to care for their children at home."

In spite of the program's popularity and high rate of take-up, the Cash Benefit Scheme is the least costly of all the government's major family policies. Norway also offers married families the option to file income taxes jointly.



### Family Policy in France: A tax system for the whole family

In addition to a universal family allowance and subsidized child care, many parents in France are eligible for the “Allocation Parentale d’Éducation.” The APE consists of up to three years of paid parental leave for families with two or more children. Qualifying parents must have worked in two of the past five years. The payment is currently set at \$775 per month. The explicit goal of the APE is to compensate families who choose to raise their children at home.

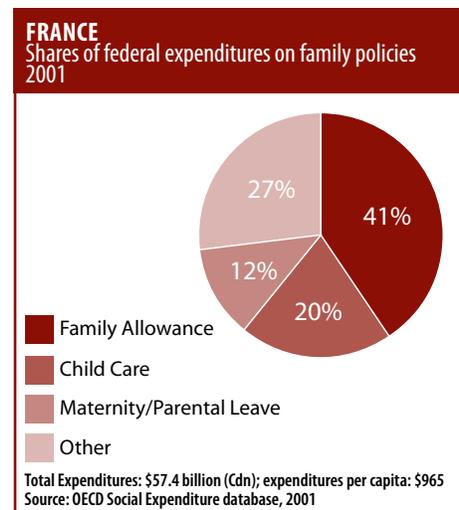
The popularity of the three-year parental leave in France is such that a majority of children are cared for at home, by a parent, in their first three years. According to 2002 figures, 64 per cent of children under the age of three are cared for primarily by their parents.

Another innovative feature of France’s family policy is the provision for joint-filing of income tax and the calculation of tax owing based on family size. Allowing spouses to file jointly can have the effect of reducing tax paid by families in a progressive tax structure. In effect, the total family income is pooled between spouses for tax purposes. While the U.S. system of joint filing has famously created a “marriage tax” in cases where spouses earn equivalent incomes, this is not the case in France due to its design.

France’s income tax is calculated on family size using a quotient system. Husband and wife together are assigned

two adult shares. The first two children in a family are each assigned a half-share. Third and subsequent children are treated as full-share adults. Total tax is then calculated according to a tax schedule using the family quotient. The impact of this system is that an adult in a one-income family of four faces a marginal tax rate 11 percentage points lower than a single individual earning the same income. France offers one of the most family-friendly tax systems among major nations.

It is interesting to note that the Canadian tax system imposes a marginal tax rate on an adult in a one-income family of four that is 18 percentage points *higher* than that of a single individual earning the same income. This is the third highest such differential among major countries.



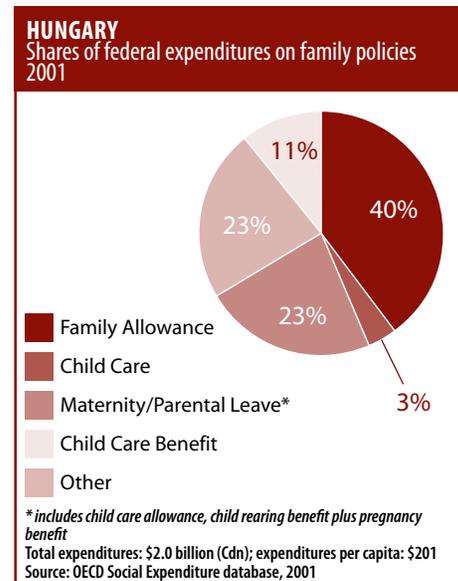
### Family Policy in Hungary: Democracy supports at-home care

While it may not be as rich as other European nations, Hungary has a long history of government support for families. Of note, Hungarian children have been offered kindergarten programs since 1806.

During communist rule (1949-1990), the predominant feature of the national family policy was factory-provided daycare. During these years, child care was seen as a means to boost the female labour supply and increase economic production. In 1980, there were nearly

70,000 Hungarian children enrolled in formal child care. Since the collapse of the Soviet Empire, child care usage has fallen dramatically in Hungary due in part to greater preference for at-home care. In 2000, the number of children in formal child care stood at 30,000. (Similar observations about the prevalence of formal child care can be made in other communist countries. Shortly after the reunification of East and West Germany, for example, child care usage in communist East Germany for children up to three years old was 41 per cent, compared with 2.2 per cent in West Germany.)

Currently, all mothers in Hungary receive a pregnancy benefit of 24 weeks. Parents also receive a universal family allowance and have access to a subsidized child care system. As an alternative to formal child care, the Hungarian government provides three separate benefits for parents who choose to stay at home to raise their children. There is a means-tested child care benefit which permits modest part-time work along with a non-means tested child care allowance. Further, there is a child rearing benefit for families with three or more children. The rates for the child care allowance and the child rearing benefit are each set equivalent to the old age pension benefit (\$128 per month). The child care benefit is a percentage of past earnings, with a statutory maximum.



## Family Policy in Australia: Something for everyone

Australia provides a family allowance with broad coverage for Australian families. Unlike most countries, this Family Tax Benefit has two parts. Part A is paid to all families, is subject to a means test, and has a maximum value of approximately \$4,000 per year. Part B is available only to single-income families—that is, single-parent families or two-parent families with one parent working and one staying at home with children. The maximum amount for this benefit is \$3,000 per year. A means test is applied only to the spouse with the lower income for Part B.

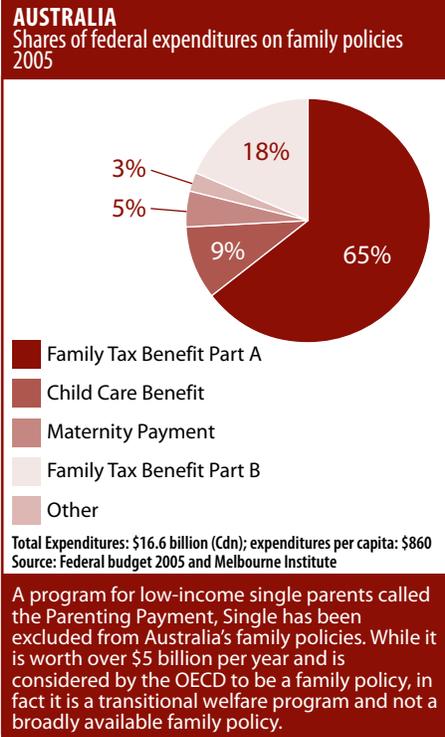
In lieu of a maternity and parental leave program, Australia offers a one-time maternity payment of \$3,000 per child, payable in a lump sum. This is scheduled to rise to \$5,000 by 2008. Unlike maternity/parental leave programs in other countries, such as France, Norway or Canada, this payment is not conditional on the work status of the parent.

Australia also offers a Child Care Benefit (CCB) which may be used by parents for the child care service of their choosing, including non-profit, for-profit or family daycare (also called home daycare) facilities. In rural areas, it can be used to pay for in-home child care services. This voucher-style feature distinguishes the CCB from federal subsidies for child care programs in other countries, such as Finland and Hungary, that flow directly and exclusively to government-mandated, non-profit child care centres.

### A closer look at Australia and Canada: Cousins with a difference

Given the historical and cultural similarities between Canada and Australia as well as the age structure and shared responsibilities of federal and provincial/state governments, a closer comparison of federal family policies in these two countries is possible.

The adjacent chart shows the total expenditures in each of four main categories of federal family policies in Canada and Australia: broad family



allowance, support for at-home care, child care subsidies and maternity/parental leave payments. All figures are expressed in current Canadian dollars and come from 2005 budget documents. The expenditures are also expressed in per capita terms based on zero -14 age populations in each country for greater clarity.

The results show a large difference between the two nations in terms of support for family policies. In sum, Australia's federal government offers 78 per cent more funding per child than does Canada. If the maternity and parental leave figures for Canada are

removed (reflecting the fact that they do not represent an actual expenditure by the federal government), the Canadian total would be reduced even further. It is true that the federal government provides transfers to the provinces for the purpose of funding social programs, which includes child care. However, adding total provincial expenditures on child care (\$2.4 billion in 2003) and deducting EI maternity and parental leave expenditures would not change the results in a meaningful way.

Australia also provides its families with considerably more choice in making child care decisions. Both at-home and out-of-the home care is supported through the Family Tax Benefit Part B and the Child Care Benefit respectively. Additionally, the maternity payment in Australia is not dependent on work status, as the EI-funded program is in Canada. In terms of freedom to choose and financial support, Australia is clearly more generous to its families than is Canada.

## Conclusions and Recommendations

This survey highlights several themes with respect to Canadian family policy. Canada does not offer a maternity/parental leave program of the length or generosity of other countries. France, for instance, offers a three-year paid leave. And the 50 weeks of benefits available in Canada are only accessible by parents in the work force and thus available only to a subset of Canadian families. This is in contrast to the Australian maternity payment which is provided

Major federal government family policies	Canada (2005 budget)	Australia (2005 budget)
<b>Family allowance</b> (CTB and FTB Part A) Per 1,000 children	\$9.3 billion \$1,631	\$10.7 billion <b>\$2,743</b>
<b>At-home allowance</b> (FTB Part B) Per 1,000 children	\$0 \$0	\$3.1 billion <b>\$792</b>
<b>Maternity/Parental Leave</b> Per 1,000 children	\$2.7 billion <b>\$471</b>	\$778 million \$199
<b>Child Care</b> Per 1,000 children	\$1.25 billion \$219	\$1.6 billion <b>\$371</b>
<b>Total</b> Per 1,000 children	\$13.25 billion \$2,324	\$16.1 billion <b>\$4,148</b>

regardless of employment status. Further, Canada's program is offered through the Employment Insurance Fund and, as such, is self-funded by employees and employers through a payroll tax.

Canada also does not permit parents to jointly file their income taxes. Joint filing, as is the case in the United States, France, Germany, Norway and several other countries, can improve the tax treatment of families as compared to single individuals. The ability to split income across all family members, as is the case in France, provides a further and substantial benefit to families with children. Given that most family benefits in Canada (such as the Child Tax Benefit) are calculated on the basis of family income, it is incongruous that adult family members are required to file their income taxes separately.

Finally, Canada is deficient in providing families with choice in how they raise their children. While federal and provincial government support for child care centres is substantial and rising, there is nothing to compensate parents who choose not to use formal child care. This emphasis on formal child care, in the face of evidence that shows nearly half of all parents choose to raise their children at home, is curious. Most countries studied, including Hungary, Norway, Finland and Australia, provide a compensatory benefit for parents who do not use child care. And these programs have proven to be very popular with families, typically accounting for a majority of children under the age of three.

With respect to recommendations, it seems clear that Canada's national family policy should reflect international practice and serve all parents.

The first step in providing real choice for families would be to abandon any further plans for a national child care strategy. Rather than targeting the small minority of parents who use formal child care centres, that money could be put to better use funding programs that meet the needs of all parents.

Next, families should be provided with the ability to file taxes jointly, or on a

family basis as is the case in France. This would address the current inequities in the tax system between single individuals and family members.

Finally, the federal government should permit greater choice in parental decision-making by compensating families that choose not to use subsidized child care. This could be accomplished through the creation of a home care allowance for stay-at-home parents, as is the case in Finland, Norway, Hungary

and Australia. Alternatively, the federal government could establish a universal tax deduction of approximately \$2,000 per child per year as has been advocated by tax experts. The tax savings thus generated could be directed by parents to whatever form of child care is most appropriate for that family: at-home care by a parent, care by relatives, neighbourhood home daycares or formal child care centres. It should be the family, and not government, that makes child rearing decisions. 🍁

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