

Economic Consequences of Quebec's Educational Childcare Policy

Early Years Economics Forum

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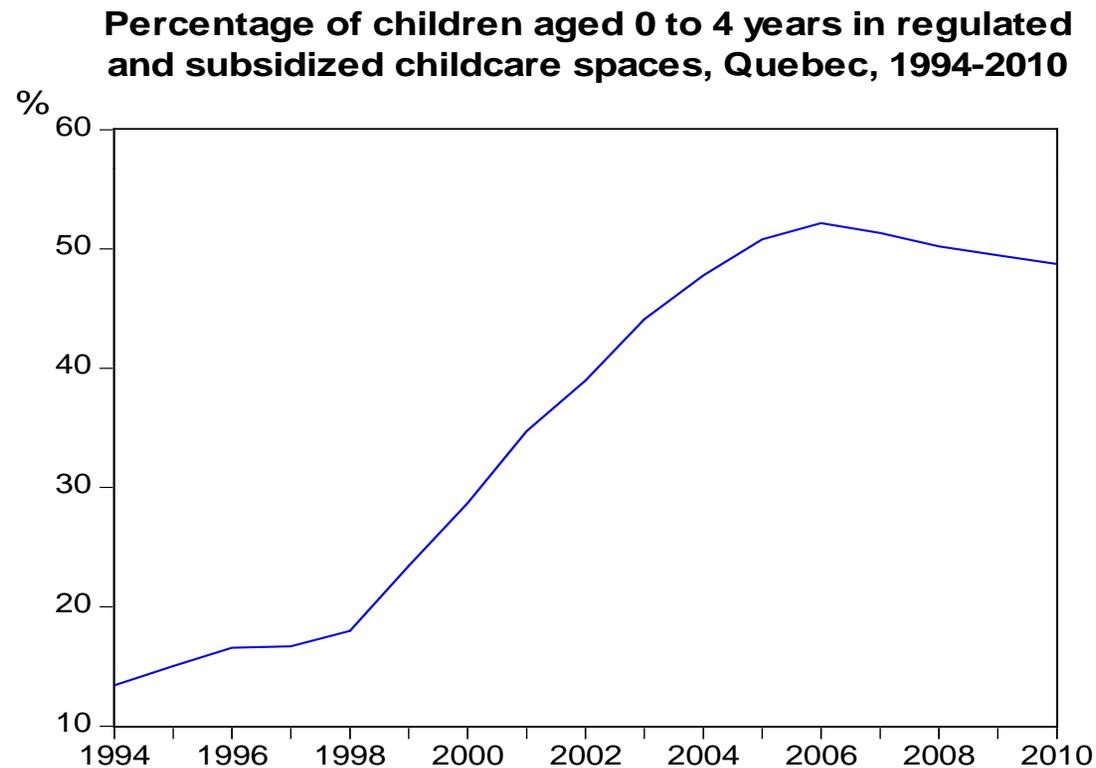
Three Quebec policy measures impacting directly on early childhood

- 1) Full-day kindergarten has been offered to all children aged 5 since September 1997**
- 2) Early childhood education and care (ECEC) at \$5 a day has been offered to all children aged 0 to 4 since September 2000, mainly through regulated *Early Childhood Centres (CPE)*; \$7 since 2004**
- 3) Before and after-school programs for children aged 5 to 12 have also been made available at \$7**
- 4) A Parental Insurance Plan (PIP) has provided new mothers and fathers with enhanced parental leaves over the EI-based national program since 2006**

Objectives, expenditures and tax treatment

- The Educational Childcare Act set two goals:
 - 1) to “foster the development and well-being of children and provide them with equality of opportunity”
 - 2) to help parents “reconcile their parental and professional responsibilities”
- Government expenditures in 2010-2011 were \$2.1 billion, or \$10,000 per subsidized place
- The federal income tax deduction applies to all child care expenses, but the Quebec refundable tax credit is not allowed for the \$7-a-day expense

The fraction of Quebec children in regulated childcare has risen sharply



Sources: Ministère de la Famille et des Aînés; Statistics Canada.

Quebec's ECEC program has had a huge impact on demand for centre-based care

Percentage of children aged 1 to 4 years in centre-based care, Quebec and all other provinces, 1998 and 2008

<u>Region</u>	<u>1998</u>	<u>2006/08</u>
Quebec	19%	60%
All other provinces	10%	18%

Note: the 60% figure is for 2008; the 18% is for 2006.

Sources: NLSCY and Ministère de la Famille et des Aînés.

Low-fee childcare is very popular

- In 2009, 92% of users of low-fee childcare said that ECEC matched their preferences (ISQ, *Enquête sur l'utilisation 2009*, Table 6.8)
- Further, 66% of users of nonsubsidized regular childcare arrangements said they would prefer the low-fee alternative (*Ibidem*, Tables 4.2 and 9.1)
- There are two implications:
 - 1) universal low-fee childcare is hugely popular and therefore most likely to stay
 - 2) there remains some excess demand for low-fee childcare to serve ($\approx 10\%$ of all children)

Three macroeconomic impacts

- Quebec's ECEC program has had major macroeconomic consequences:
 - on women's labour force participation
 - on gross provincial income
 - on federal and provincial finances

Comparative increase in women's LFP in Quebec and Ontario since 1996

Labour force participation rate of women aged 15
to 64 according to the age of the youngest child

<u>Less than 6</u>	<u>2008</u>	<u>Change since 1996</u>
Quebec	74	+11
Ontario	71	+4
<u>Between 6 and 15</u>		
Quebec	87	+14
Ontario	84	+5

Source: Statistics Canada, *Labour Force Survey*.

Estimates from microdata

- Baker, Gruber and Milligan (2008) have found in NLSCY that:
 - the employment rate of mothers of 0-to-4-year-olds has increased by 8 percentage points following the program
 - as a result, the net of income taxes and transfers has risen by a combined amount of 38% of gross subsidization cost
- With 2 more cycles of longitudinal survey data on hand, Lefebvre, Merrigan and Roy-Desrosiers (2011) have found that:
 - the employment rate of mothers of 0-to-4-year-olds has increased by 12 percentage points following the program
 - as a result, the net of income taxes and transfers has risen by a combined amount of 42% of gross subsidization cost
- Studying persistence in labour market attachment, Lefebvre, Merrigan and Verstraete (2009) have found that:
 - the employment rate of mothers of 6-to-11-year-old program alumni has increased by 7 percentage points
 - the increase all comes from mothers without a B.A.

Confirmation from macrodata

- I have assembled a panel of data on the labour force participation of women aged 15 to 44 in the ten provinces over 1985-2009 (250 observations)
- The results I get are very close to what one can derive from Lefebvre, Merrigan and co.
- The common estimate is that in 2008 there were about 70,000 more Quebec women at work than without the ECEC program (cum PIP)
- This was adding 3.8% to women's employment, or 1.8% to total provincial employment

Impact on gross provincial income

- Over time, in general economic equilibrium, such a shock on the number of labour force participants tends to generate a proportional effect on gross domestic income (with positive effects on investment income and profits as well as wages and salaries)
- This theorem is due to Nobel Laureate Bob Solow (1956, 1957), and has been re-verified against data by IMF's chief economist Olivier Blanchard (2000)
- Adjusting for hours of work and productivity of the new participants, it is found that the program was adding 1.7% to Quebec's GDP in 2008

Impact on taxes and transfers

- **Increased family incomes generate more tax revenues and lower government transfers and credits**
- **All types of tax revenues increase, not only income and payroll taxes, and all levels of government benefit, not only the provincial level**
- **Tax revenues are about proportional to GDP**
- **Since the the \$7-a-day childcare expense does not qualify for Quebec's refundable tax credit, net cost of program to province is smaller than gross cost**
- **The UofS tax-transfer simulator and the SLID are used to estimate the tax and transfer feedback**

Tax and transfer feedback in 2008

<u>Millions of dollars</u>	<u>Federal</u>	<u>Provincial</u>	<u>Total</u>
More tax revenues	617	1,538	2,155
+ Lower transfers	100	180	280
= Total feedback	<u>717</u>	<u>1,718</u>	<u>2,435</u>
Gross cost of ECEC	0	1,796	1,796
- Lower NRTC	0	160	160
= Net cost of ECEC	<u>0</u>	<u>1,636</u>	<u>1,636</u>
Net gain for govt.	<u>717</u>	<u>82</u>	<u>799</u>

Longer-term effects will be larger

- **On net, for every dollar spent on ECEC the provincial government harvests \$1.05, and the federal government gets 44¢ for nothing**
- **The persistence effect will probably grow over time as pre-ECEC mothers aged 50 to 65 are replaced by post-ECEC mothers**
- **This implies that the long-term effects on gross provincial income and government net revenue will also be larger**

Summary

- **By 2008, Quebec's ECEC program:**
 - had increased women's employment by **70,000 (+3.8%)**
 - had increased provincial GDP by **\$5.2 billion (+1.7%)**
 - was entirely self-financing within the provincial budget
 - was procuring **\$717 million** in additional revenue to the federal government
- **Due to persistence of higher women LFP, longer-term impacts will probably be larger**

Next steps

- Purely economic benefits are neither necessary nor sufficient for the program to be a good program
- The Quebec program clearly helps parents “reconcile their parental and professional responsibilities”
- It also has to demonstrate that it can “foster the development and well-being of children and provide them with equality of opportunity”
- Japel, Tremblay and Côté (2005), BGM and LMR have shown that future efforts should focus on enhancing the general quality of ECEC services by investing in training
- Children on SA already have free access to a half-week of ECEC services, but the targeting of poor families could still be improved

Two-thirds of low-income working families benefit from low-fee childcare

Percentage of families with children less than 5 using low-fee childcare because of work or study, by family income, Quebec, 2009

<u>Family income</u>	<u>% using low-fee childcare</u>
Less than \$20,000	66
\$20,000 to \$30,000	68
\$30,000 to \$60,000	70
\$60,000 to \$120,000	74
More than \$120,000	75

Source: ISQ.

Concluding remarks on universality

- **Access to Quebec's program is universal**
- **This characteristic is often criticized by well-intentioned observers:**
 - **little benefits are said to accrue to middle-class kids**
 - **middle-class families have the ability to pay much more than \$7 a day**
 - **money would be more effectively spent targeting poor children**

Universality is not always, but sometimes, the way to go

- **To make all social programs universal would indeed be very stupid, as well as financially prohibitive**
- **However, there is a strong case for a universal ECEC system to precede our universal public school system**

The middle class does get important benefits from ECEC

- **For the middle class, a universal ECEC system:**
 - **develops kids' cognitive and noncognitive skills**
 - **allows children to interact positively with children of lower-income backgrounds**
 - **helps parents to reconcile work and family**
 - **helps them close the gap between number of kids they have and number they want**
 - **helps convince young middle-class families that they do get something in return for their taxes**
 - **hence, it solidifies their political support for social policy in general**

Eliminating universal ECEC would not liberate the funds required to finance otherwise needed targeted programs

- **We should definitely invest more to attract and target poor children in preschool education**
- **But abolishing universal ECEC to generate the required cash would be a losing strategy because, as shown in this presentation, as much money would be lost as would be gained**
- **At any rate, the Quebec ECEC program is hugely popular and politically untouchable by now**
- **Better work to improve the system than replay the wars of the past**

References

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