

# THE ECONOMIC CASE FOR INVESTING IN ECE

**Craig Alexander**  
Vice President of Economic Analysis

November 2015

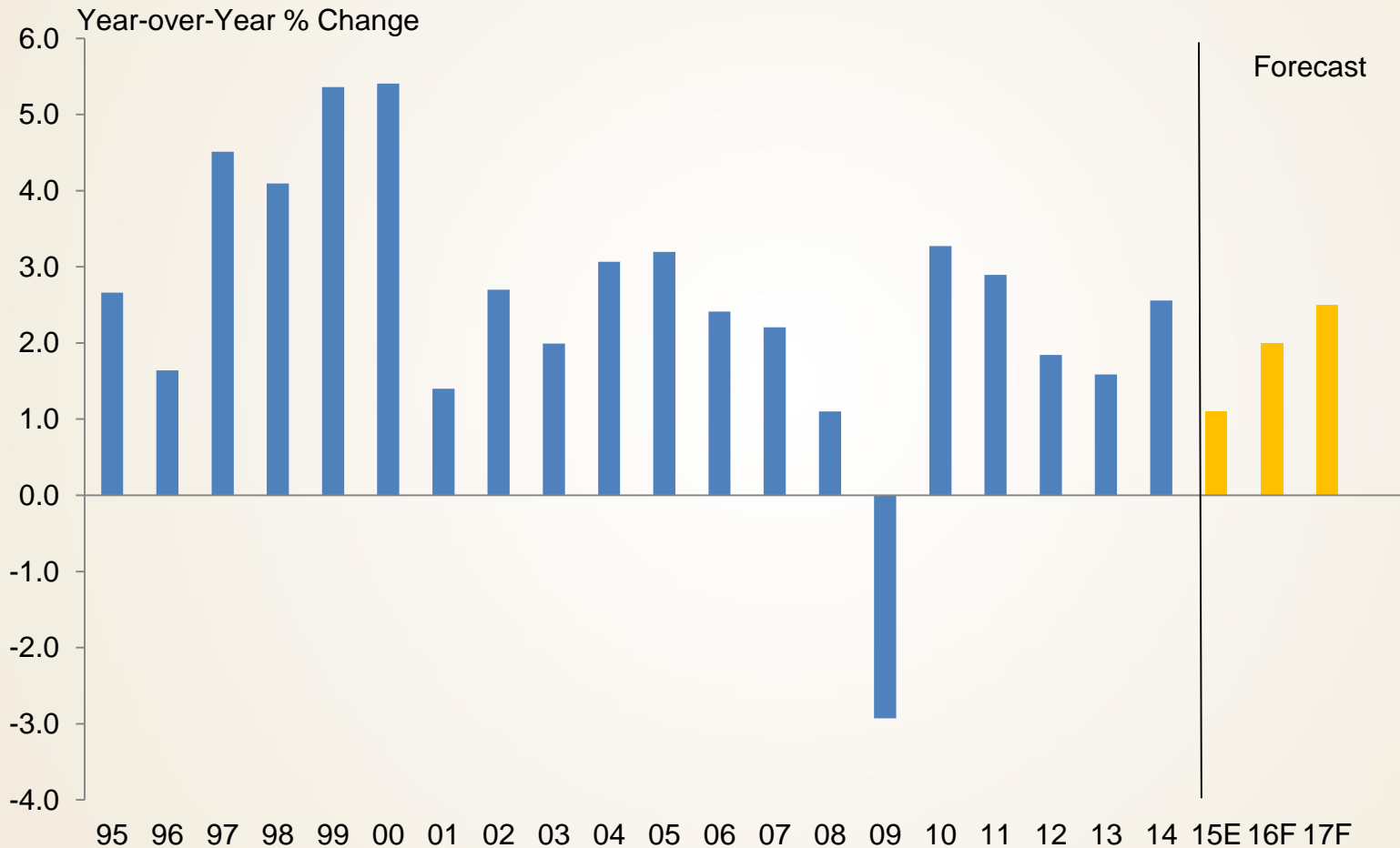


INSTITUT **C.D. HOWE** INSTITUTE

*Essential Policy Intelligence | Conseils indispensables sur les politiques*

# CANADIAN ECONOMY DELIVERING MODEST GROWTH

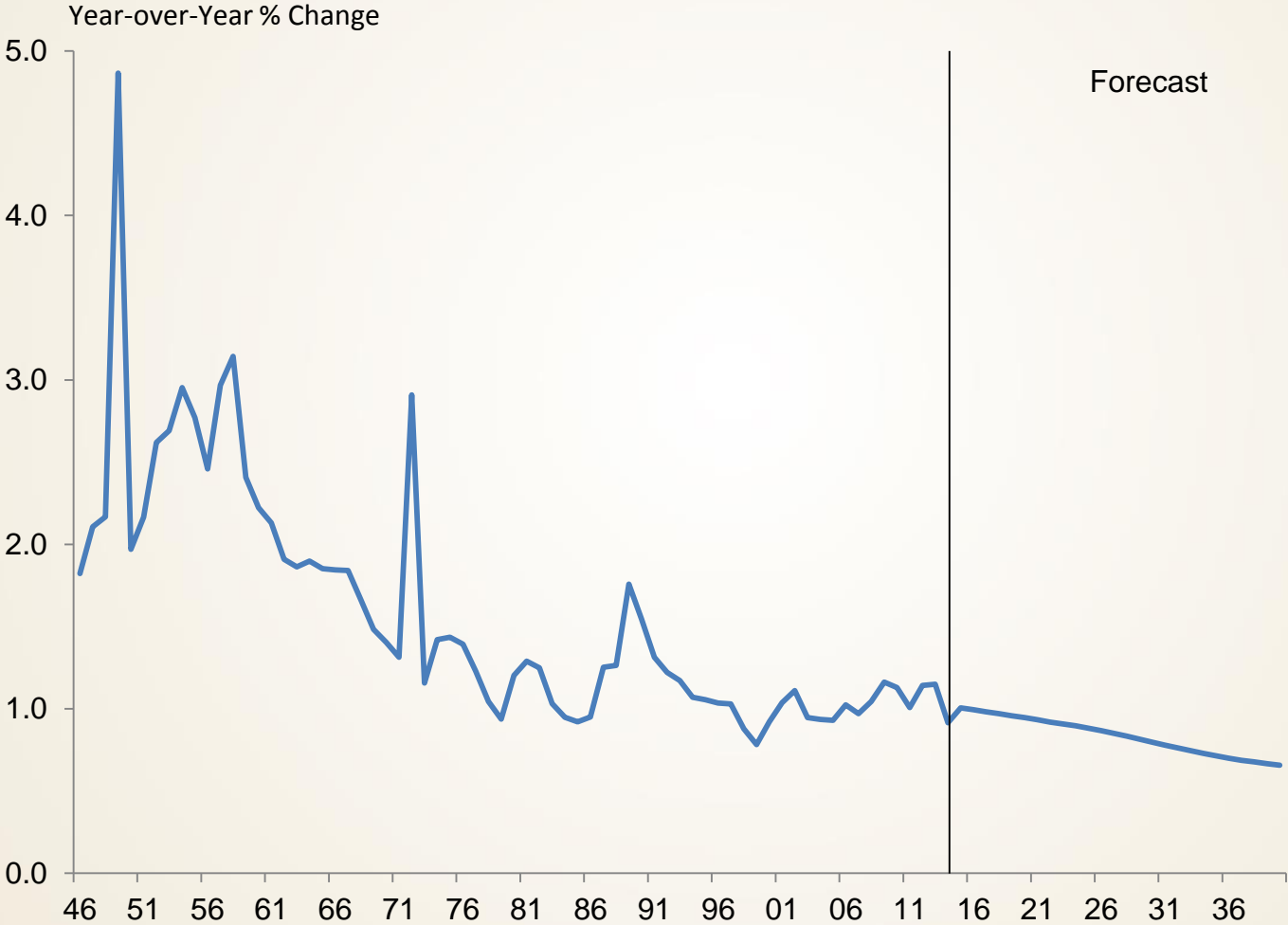
## CANADA REAL GDP



Source: Statistics Canada, Forecast by Bank of Canada

# QUEST FOR CANADA IS TO RAISE INCOME GROWTH, BUT HOW TO DO SO WITH AGING POPULATION?

### Canadian Population Growth

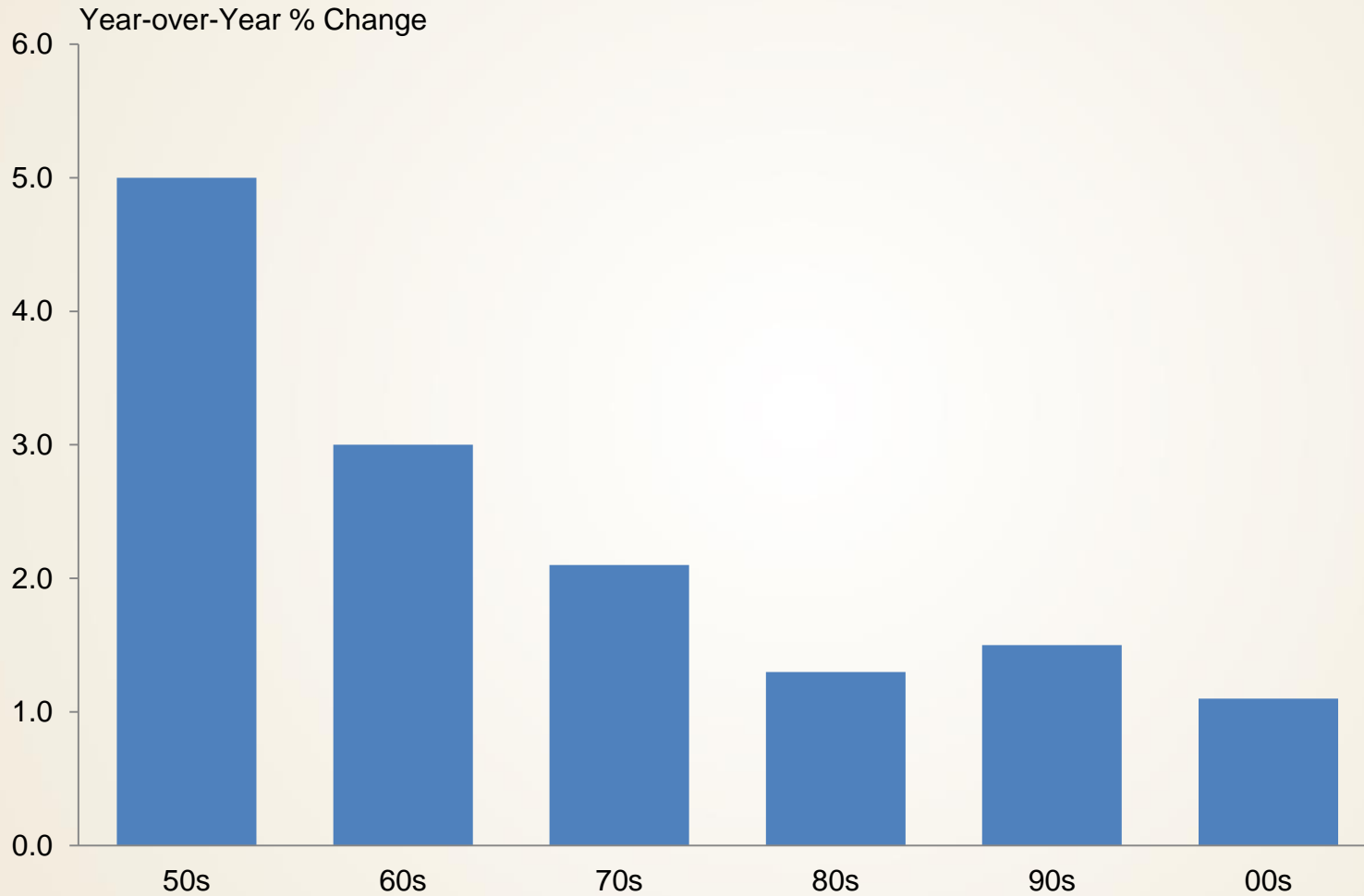


Source: Statistics Canada



# CANADA HAS A PRODUCTIVITY PROBLEM

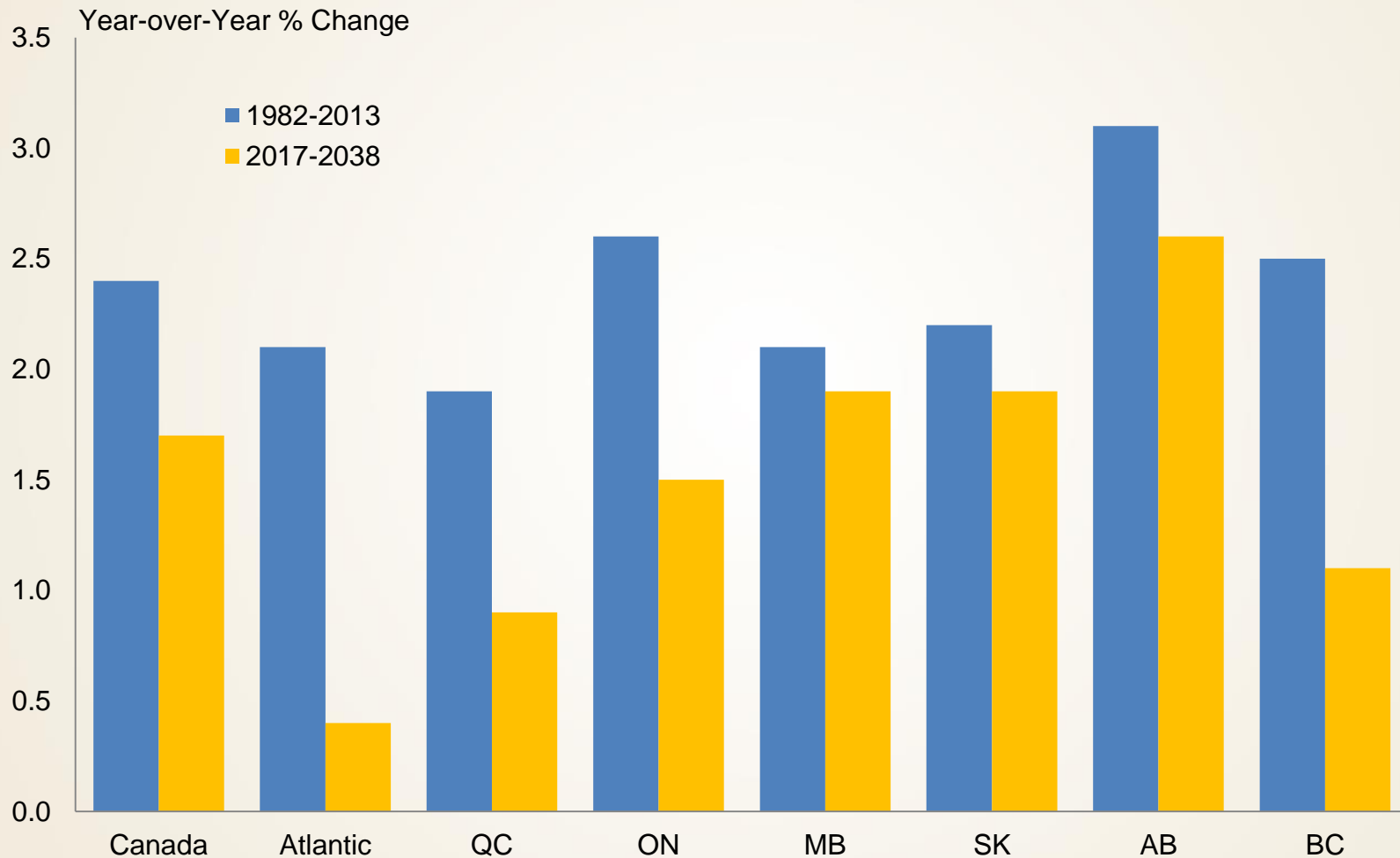
## CANADA BUSINESS SECTOR LABOUR PRODUCTIVITY



Source: Statistics Canada, Centre for Study of Living

# UNLESS WE CHANGE TACK, ECONOMIC GROWTH AND RISE OF STANDARD OF LIVING WILL SLOW

## HISTORICAL & PROJECTED LONG-TERM GROWTH



Source: Statistics Canada, Forecast by TD Economics

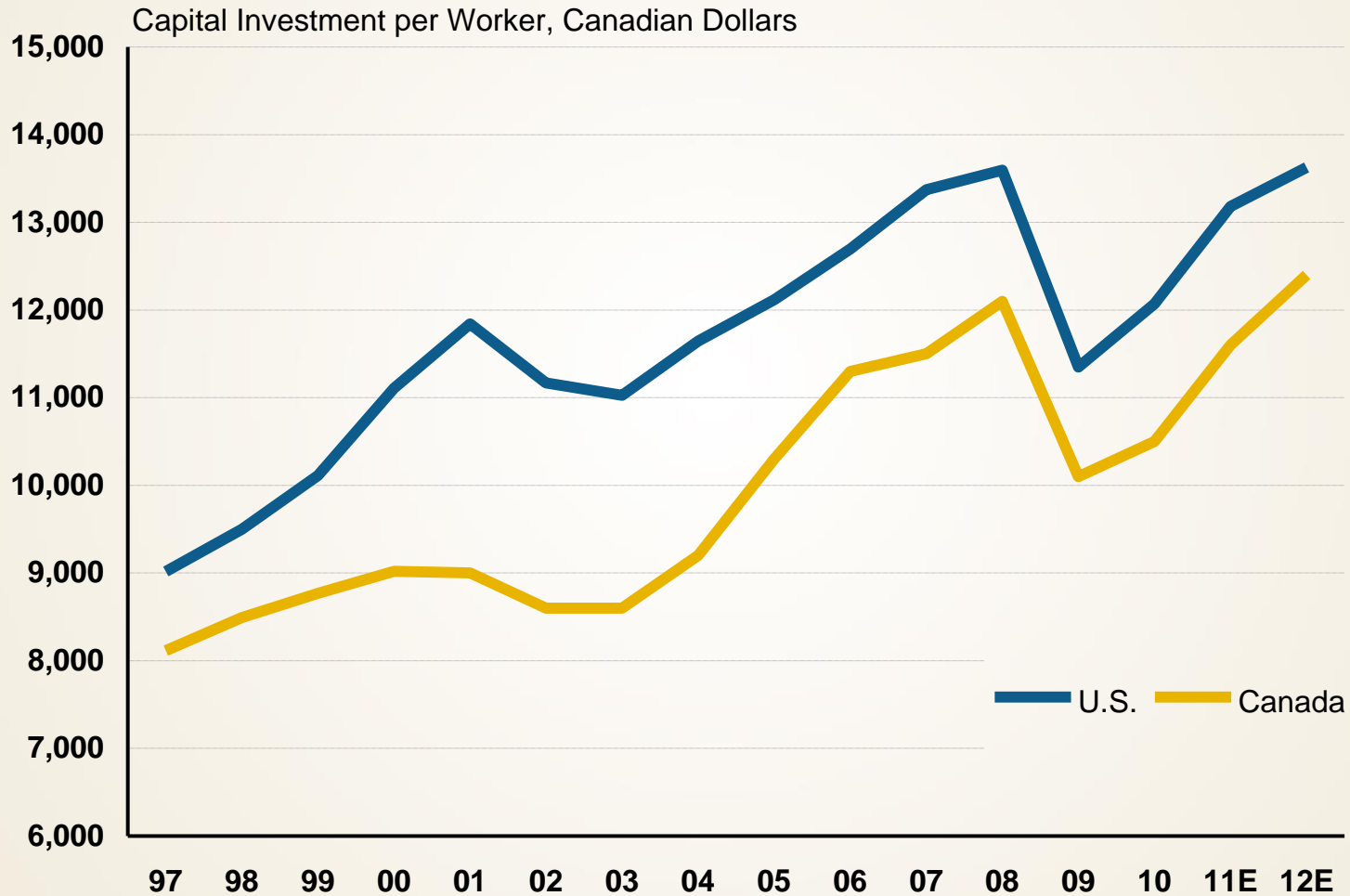


INSTITUT  
C.D. HOWE  
INSTITUTE

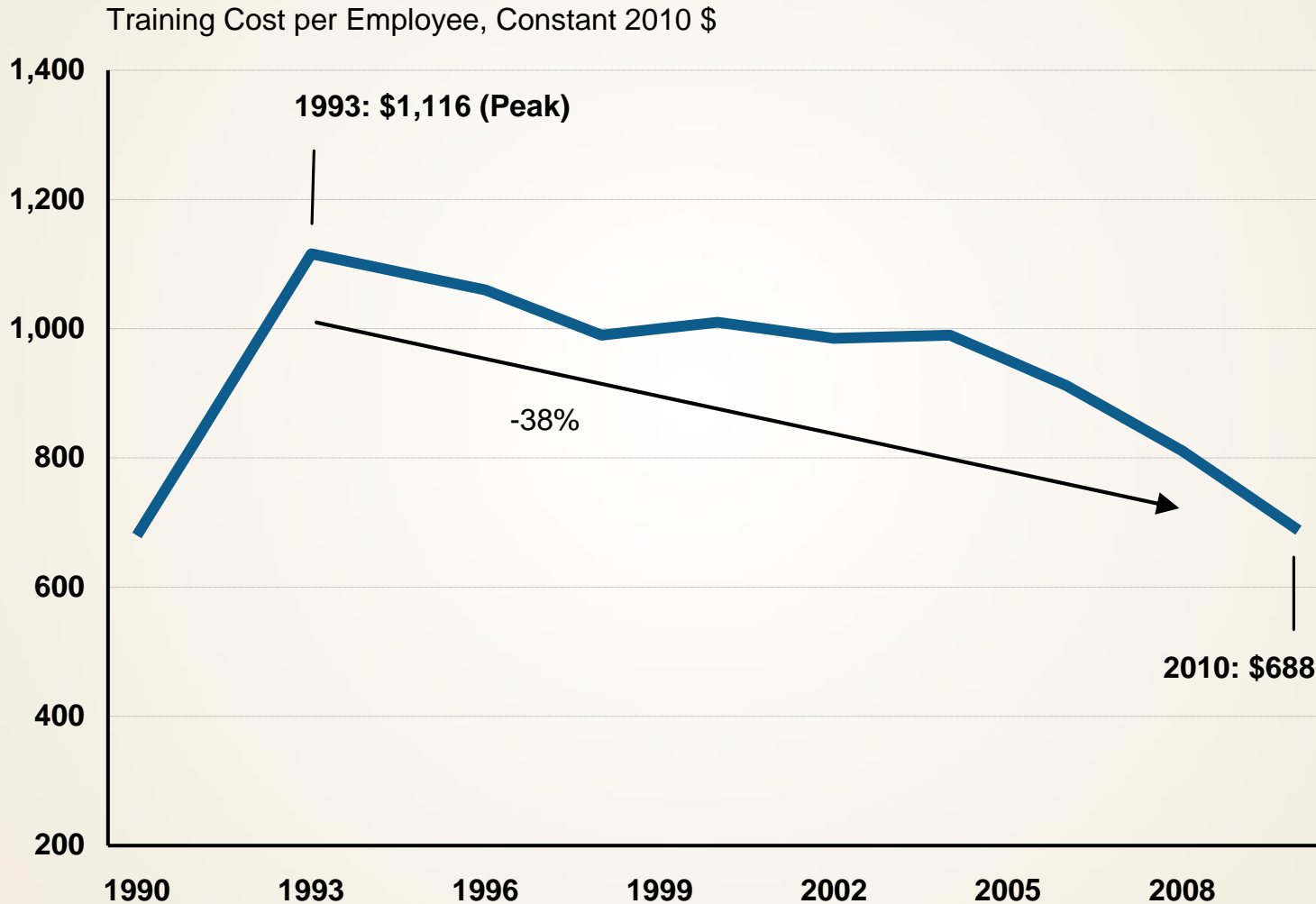
# WHY DOES CANADA HAVE WEAK PRODUCTIVITY?

- Under investment in capital
- Fewer large cap firms
- Weak commercialization of R&D
- Inadequate venture capital market
- Excessive risk aversion by business leaders
- Weak entrepreneurism, barriers to entrepreneurs
- Skill mismatches

# CANADA UNDER-INVESTS IN CAPITAL, MORE RELIANT ON LABOUR

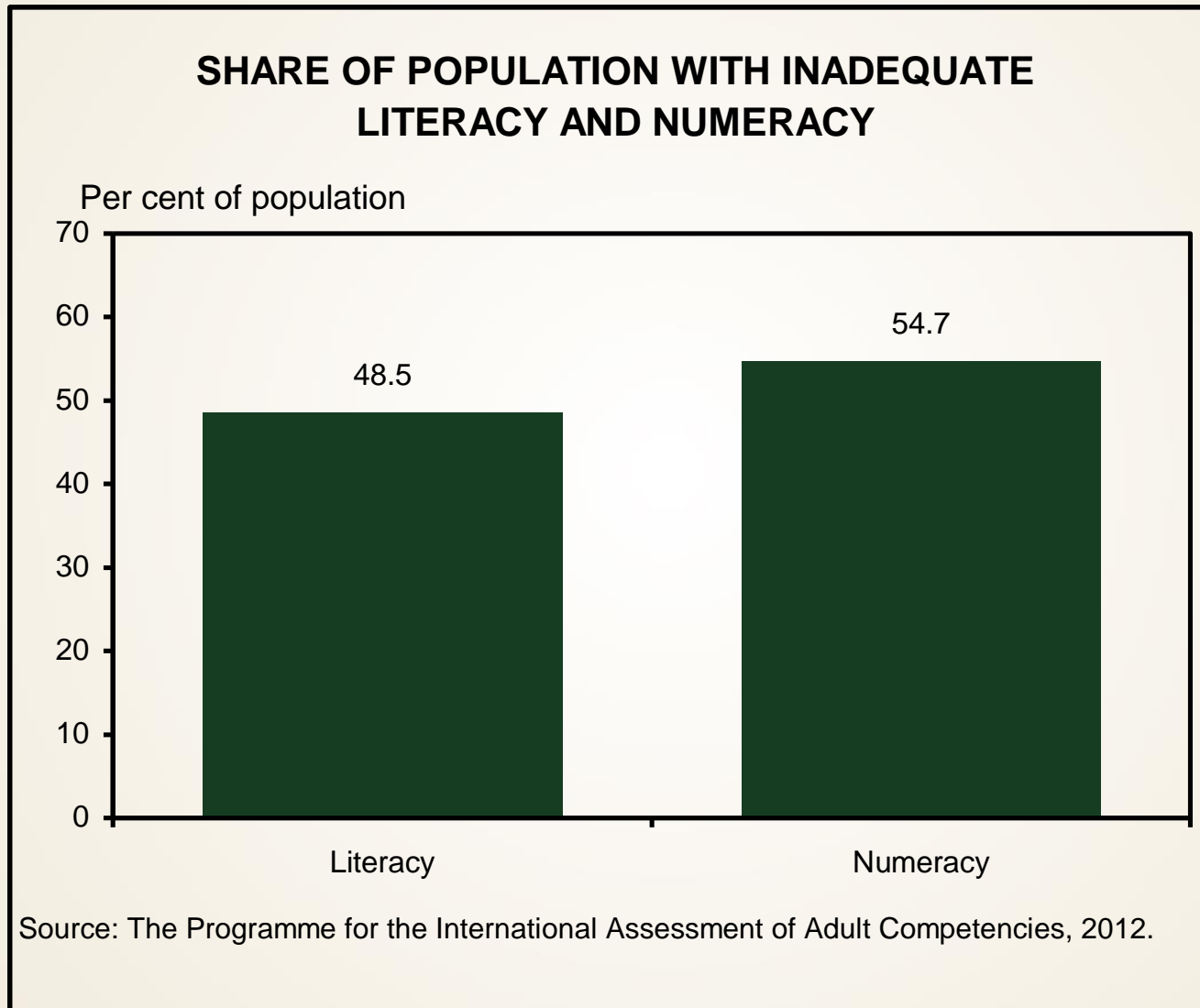


# RELIES ON EDUCATION RATHER THAN TRAINING



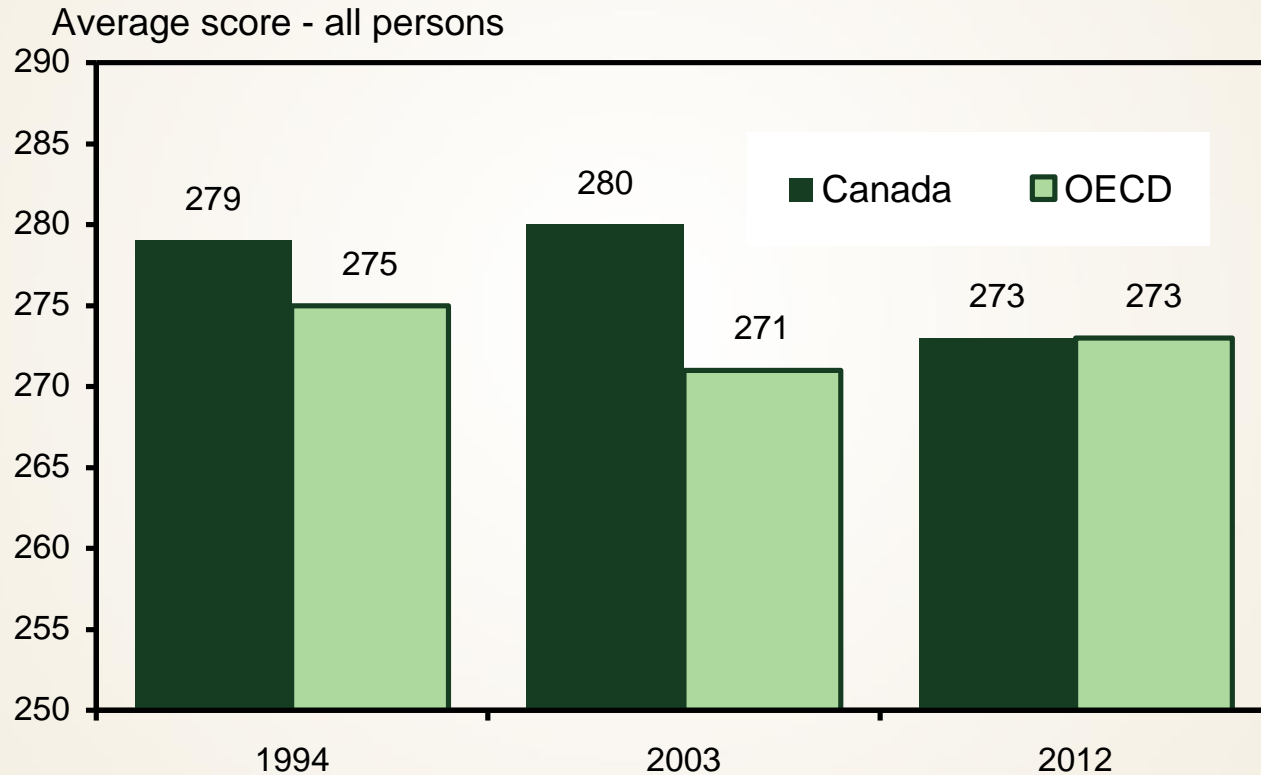


# CANADA HAS AN ESSENTIAL SKILLS CHALLENGE



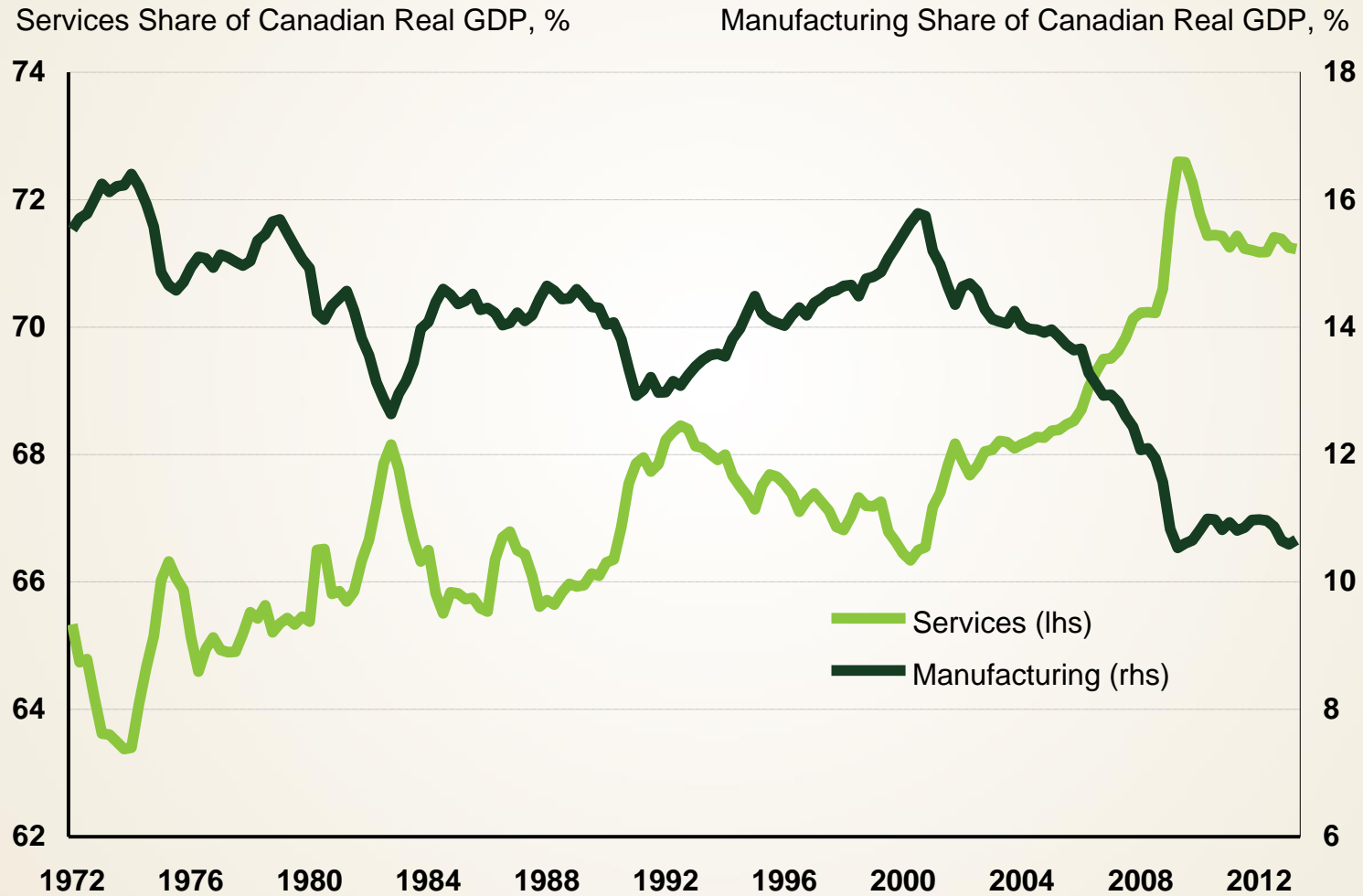
# NO SIGNS OF IMPROVEMENT

## CANADIAN LITERACY SCORES RELATIVE TO OTHER INDUSTRIAL COUNTRIES



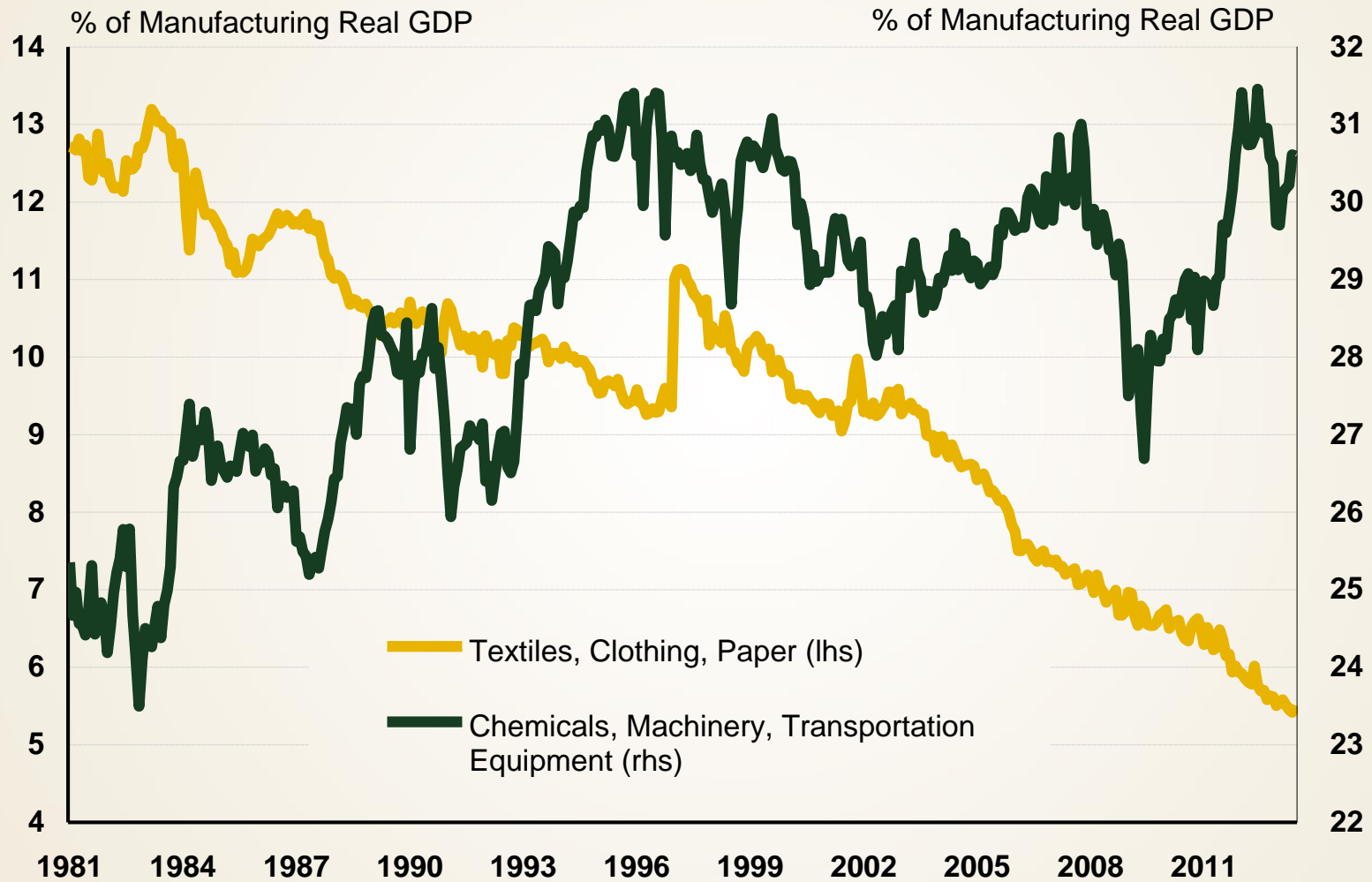
Source: The Programme for the International Assessment of Adult Competencies, 2012.

# ECONOMIC CHANGES REQUIRE A MORE SKILLED WORKFORCE



Source: Conference Board of Canada

# MUST SHIFT TO HIGHER VALUE ADDED ACTIVITIES TO PROSPER, AS SEEN IN MANUFACTURING



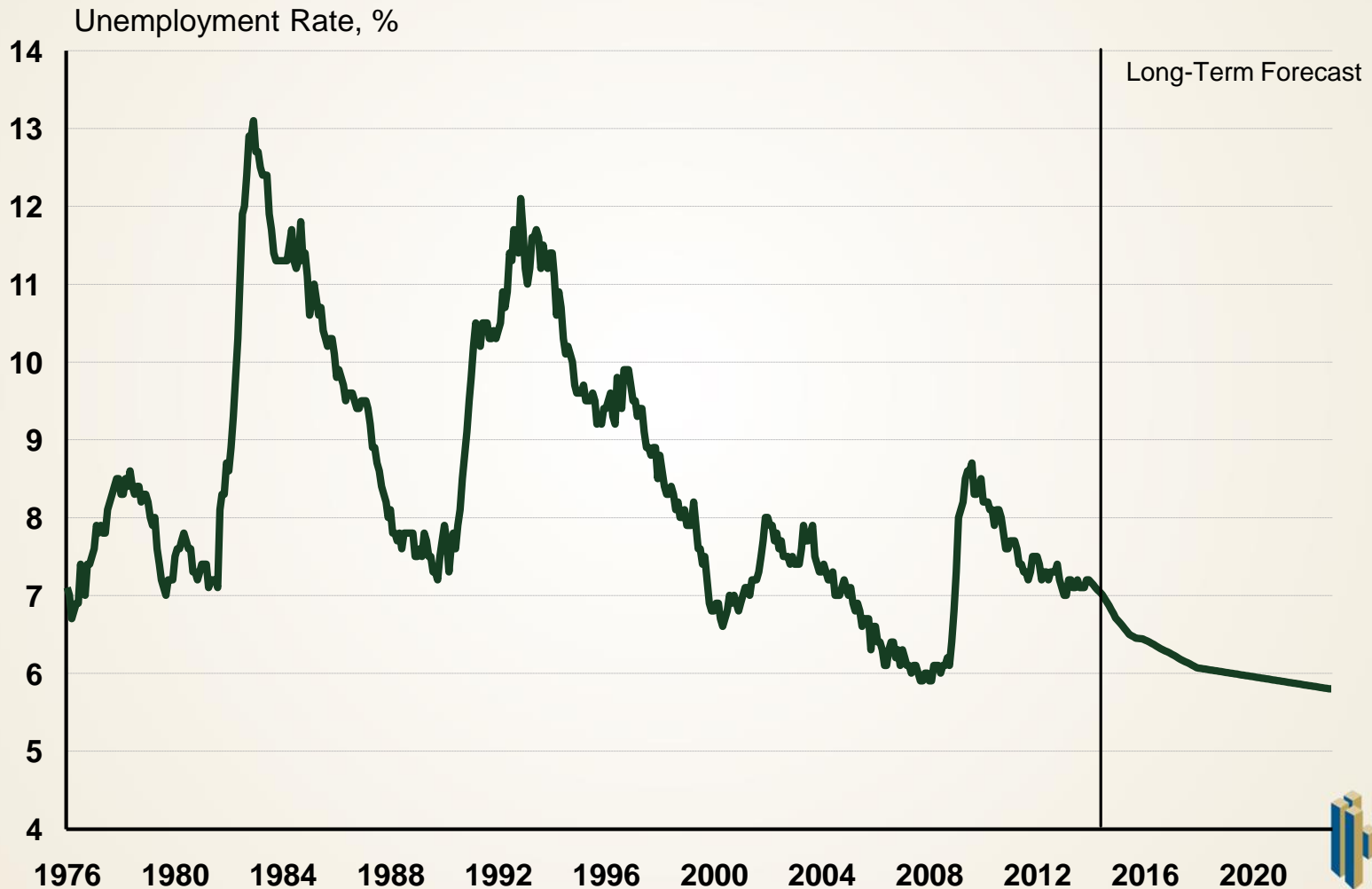
Source: Statistics Canada



# ESSENTIAL SKILLS DEVELOPMENT IS CRITICAL

- Stronger essential skills:
- Increases likelihood of employment
- Decreases odds of unemployment
- Reduces duration of unemployment
- Increases range of occupations
- Lifts lifetime earnings
- Raises standard of living

# AGING POPULATION CALLS FOR UPSKILLING OF FUTURE LABOUR FORCE...

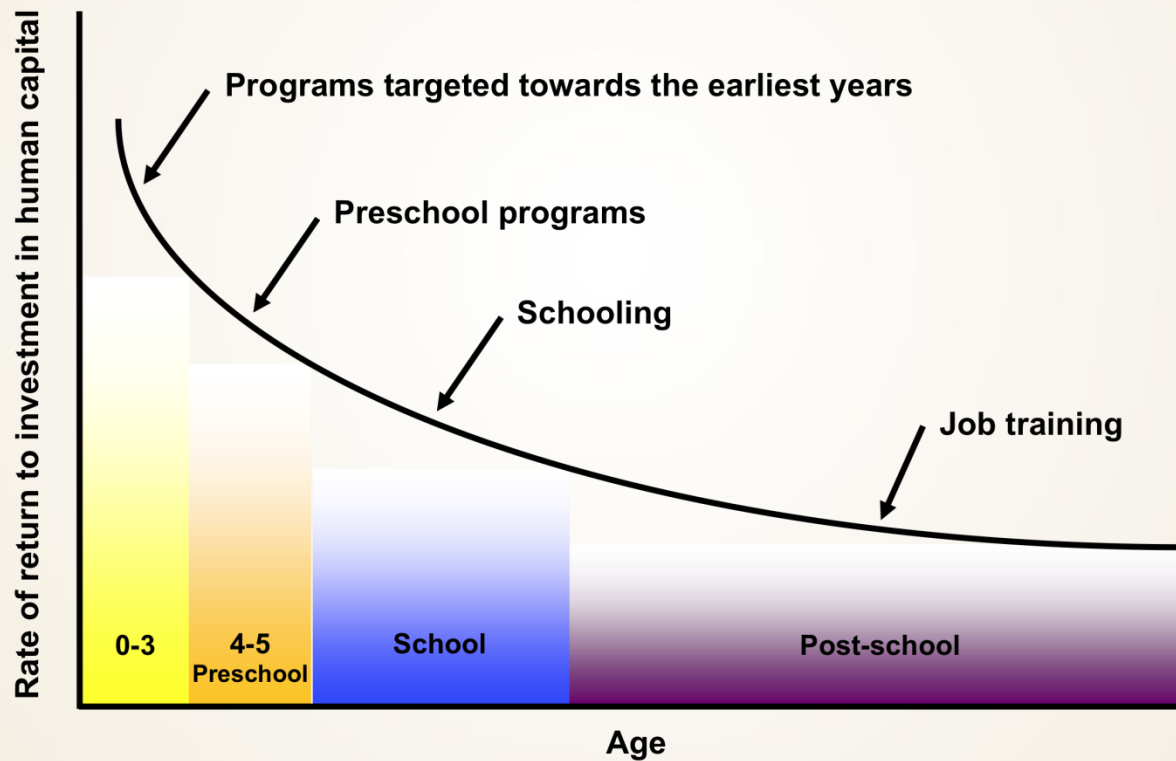


Source: Statistics Canada/Haver Analytics; Long-Term Forecast by TD Economics

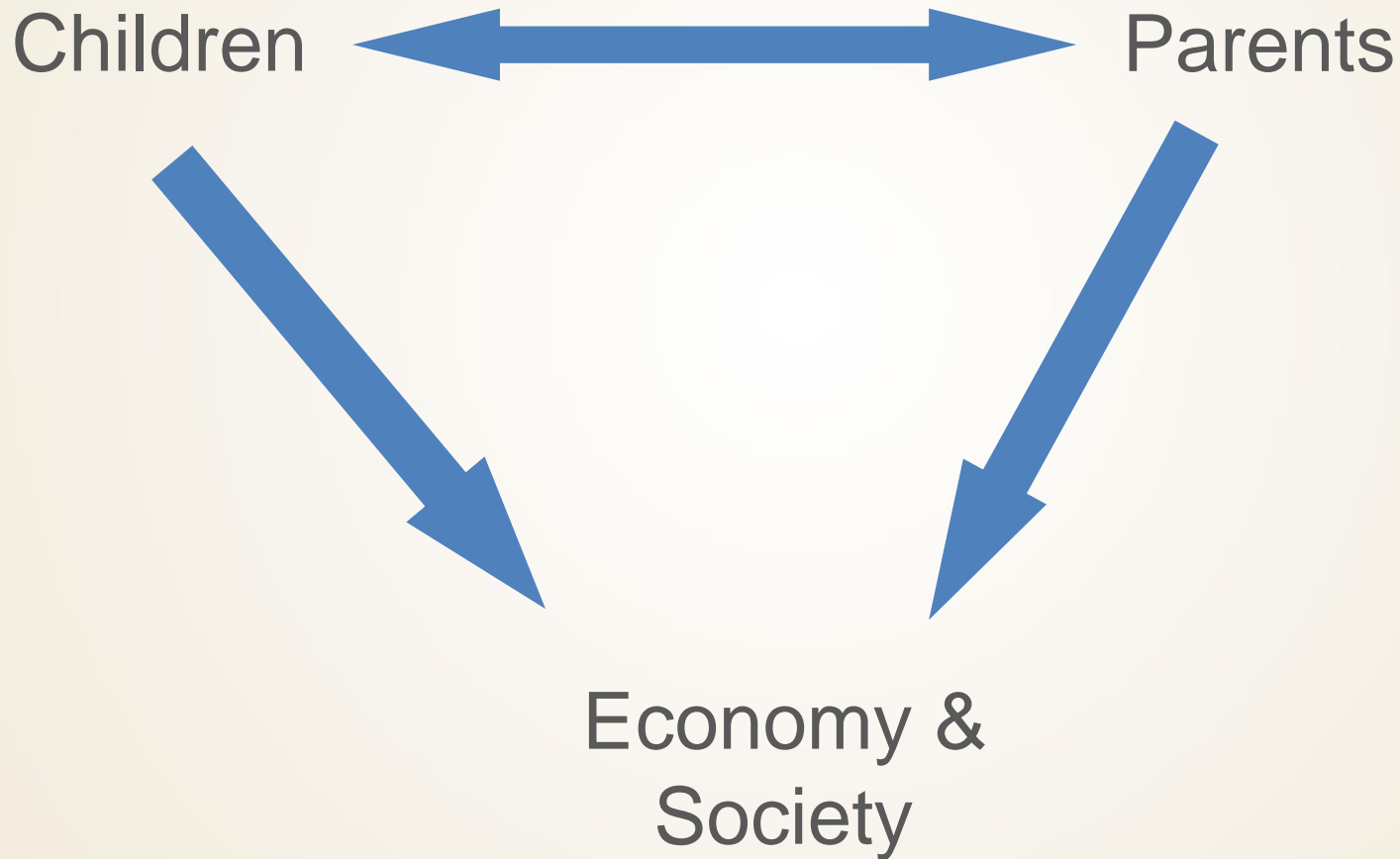


# ...AND THAT MEANS INVESTING MORE IN CHILDREN

## Rates of Return to Human Capital Investment at Different Ages: Return to an Extra Dollar at Various Ages



# THE BENEFITS OF EARLY CHILDHOOD EDUCATION ARE WIDESPREAD

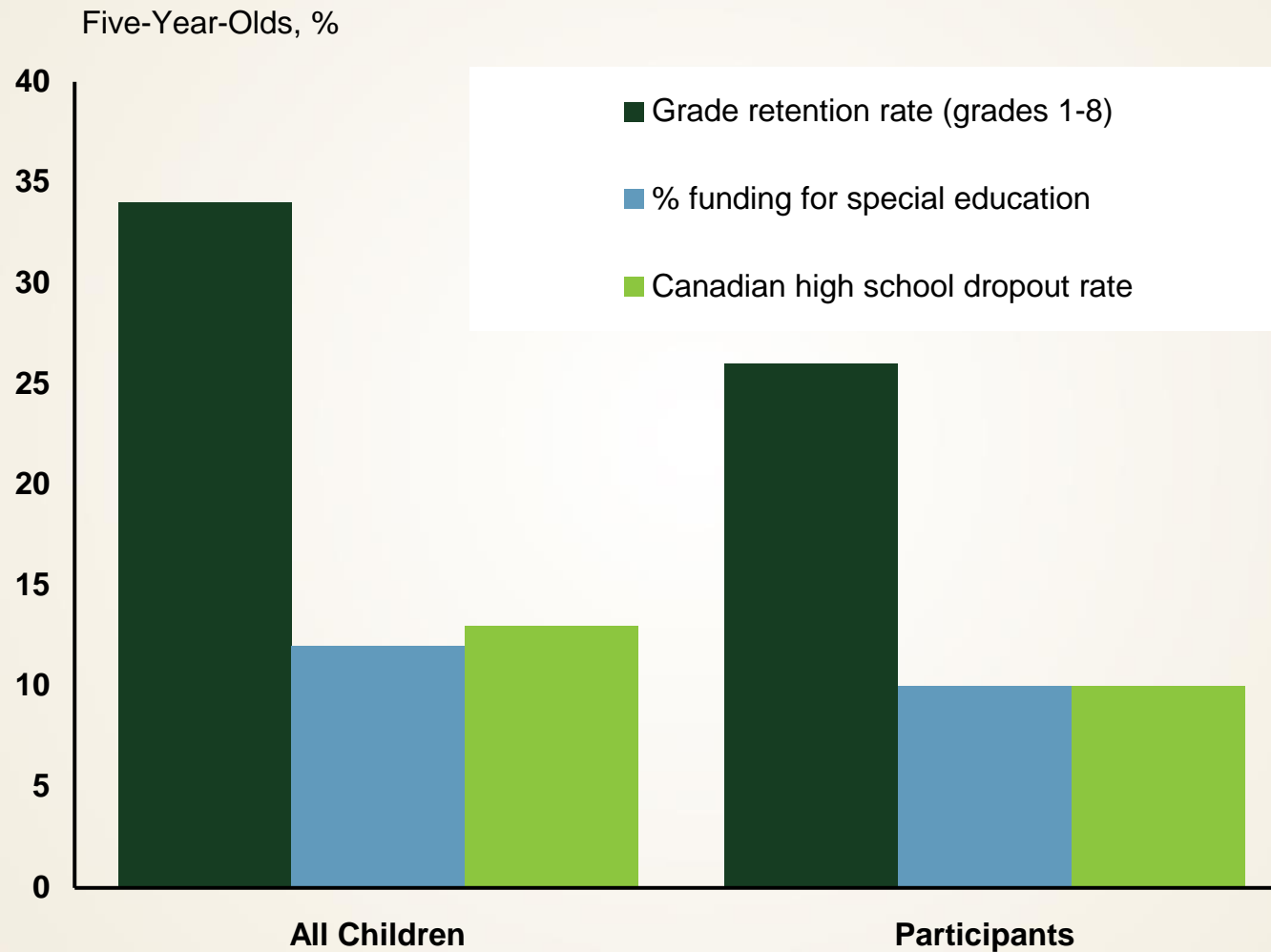




# THE FIRST YEARS OF LIFE CAN IMPACT ECONOMIC AND SOCIAL SUCCESS

- Research has challenged prior misconceptions. Human abilities driven more by environment (80%) than genetics (20%)
- Basic abilities can be altered early in life as genes respond to life experiences
- It is more difficult to improve a child's learning abilities later in life
- Pre-primary education leads to cognitive and language development

# LEADING TO BETTER EDUCATIONAL PERFORMANCES



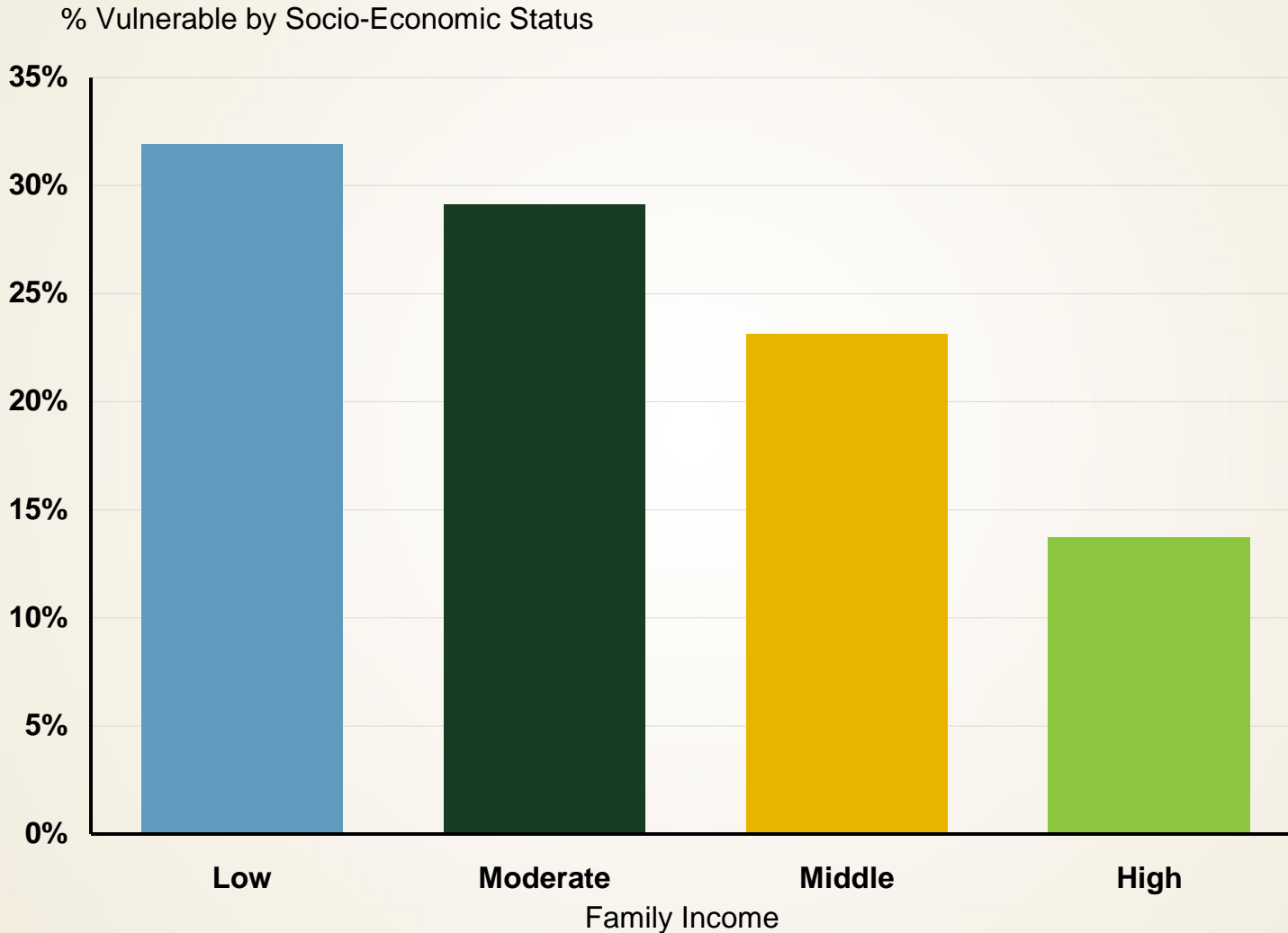
Source: Child Care Human Resources Sector Council; 2005

# ECONOMIC AND SOCIAL OUTCOMES ALSO IMPROVE

<b>ECONOMIC AND SOCIAL OUTCOMES</b>		
	<b>Participants* (%)</b>	<b>Control Group (%)</b>
Smoked	41.5	50.7
Used hard drugs	22.2	29.3
Used soft drugs	45.3	54.4
Treated for drug/drinking problems	22.2	33.9
Owned a home	36.7	26.6
Owned a car	73.8	60.9
Had life insurance	66.5	53.8

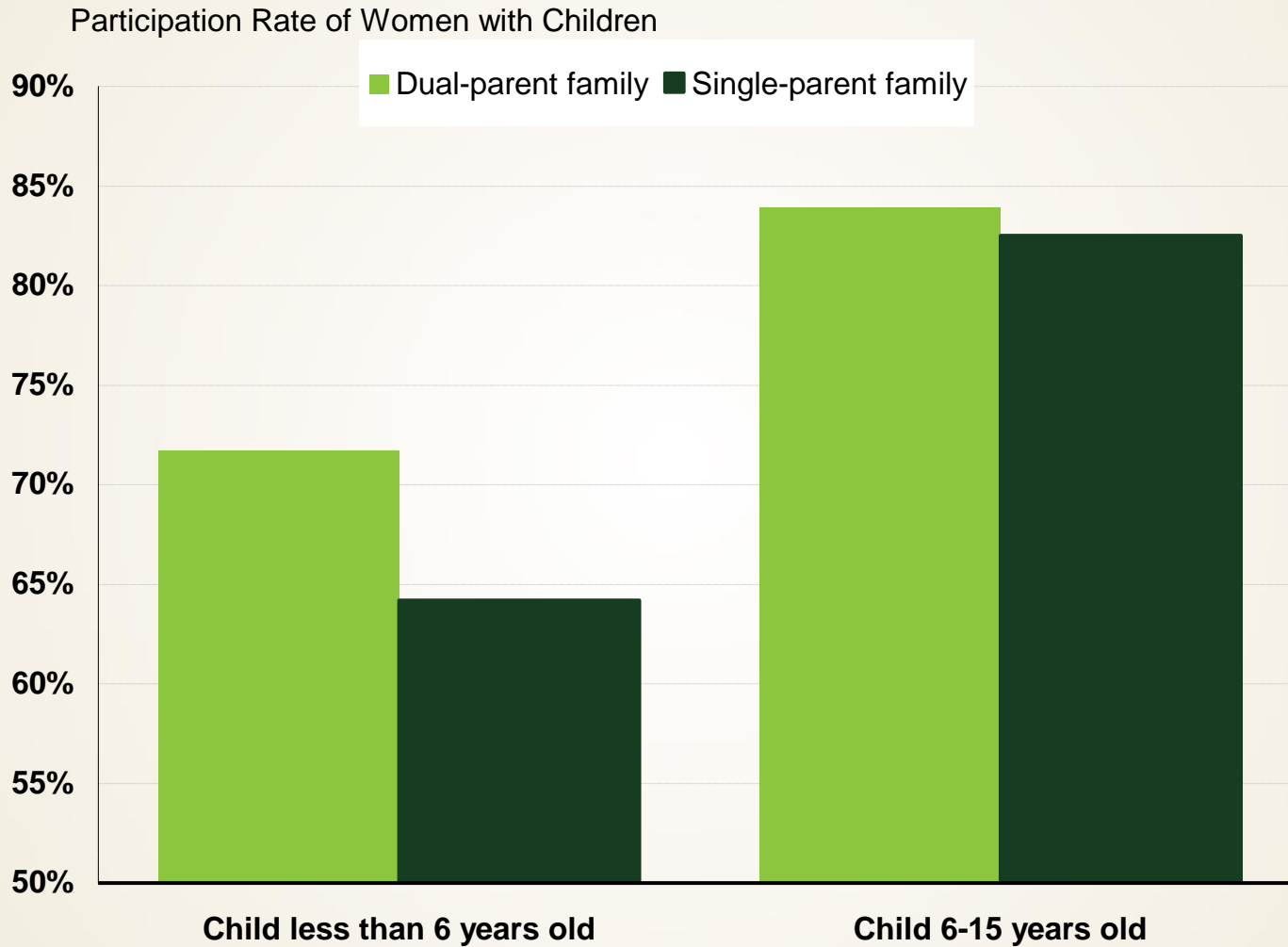
Source: Child Care Human Resources Council  
 \*Participants of the High/Scope Perry Pre-School Program

# ALL CHILDREN BENEFIT FROM ECE, BUT DISADVANTAGED CHILDREN BENEFIT MORE



Source: Report to the Premier by the Special Advisor on Early Learning, Charles E. Pascal

# ECE PROGRAMS ALLOW MOTHERS TO WORK, INCREASING FAMILY INCOME



Source: Statistics Canada, 2011

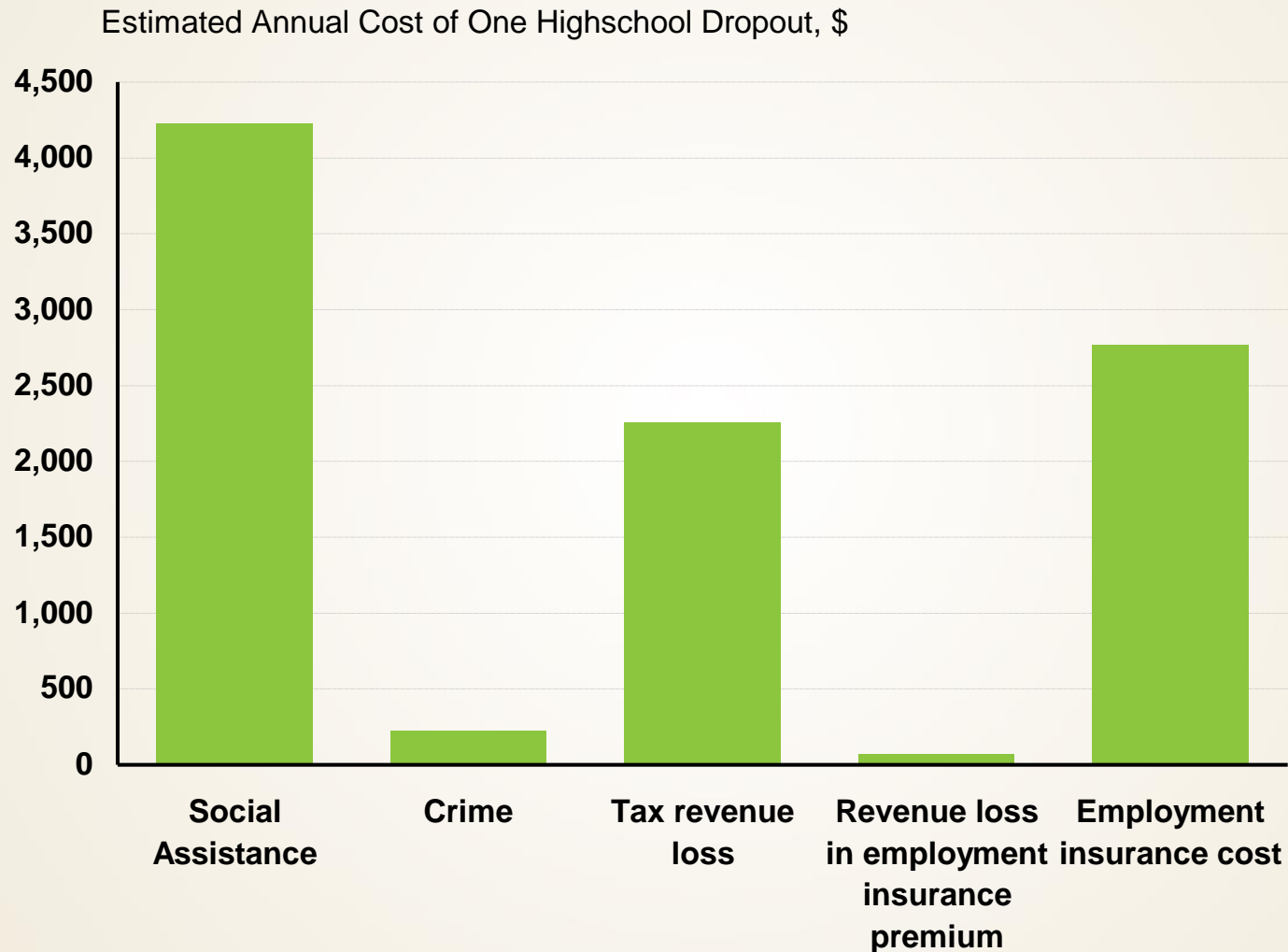
# ECONOMY NEEDS MORE SKILLED WORKERS

- Population is aging, labour force growth is slowing
- Labour shortages will be encountered
- Virtually all net job creation will be for PSE graduates
- Life-long learning and skills development will be critical
- Economy must compete on value-added output, which will demand higher skills
- Increasing productivity is essential, and won't be successful without highly educated workers

# BENEFITS TO PARENTS

- Increased labour force participation – for women
- Increased average hours work
- Can reduce stress, addressing challenges that results from that stress

# CAN RESULT IN LOWER SOCIAL COSTS



Source: Canadian Council on Learning



# MANY STUDIES SHOW THE BENEFITS OUTWEIGH THE COSTS

<b>STUDIES OF COST-BENEFIT ANALYSIS OF ECE PROGRAMS</b>	
<b>Study</b>	<b>Benefit / Cost (\$)</b>
Economic Consequences of Quebec's Educational Child Care Policy, by Fortin, Godbout & St-Cerny, 2011	1.49
Better Beginnings, Better Futures by Peters et al., 2010	2.00
Workforce Shortages Socio-Economic Effects, by Fairholm, 2009	2.42
Child Care as Economic and Social Development, by Prentice, 2007	2.78
The Benefits and Costs of Good Child Care, by Cleveland & Krashinsky, 1998	2.00
Source: Early Years Study	

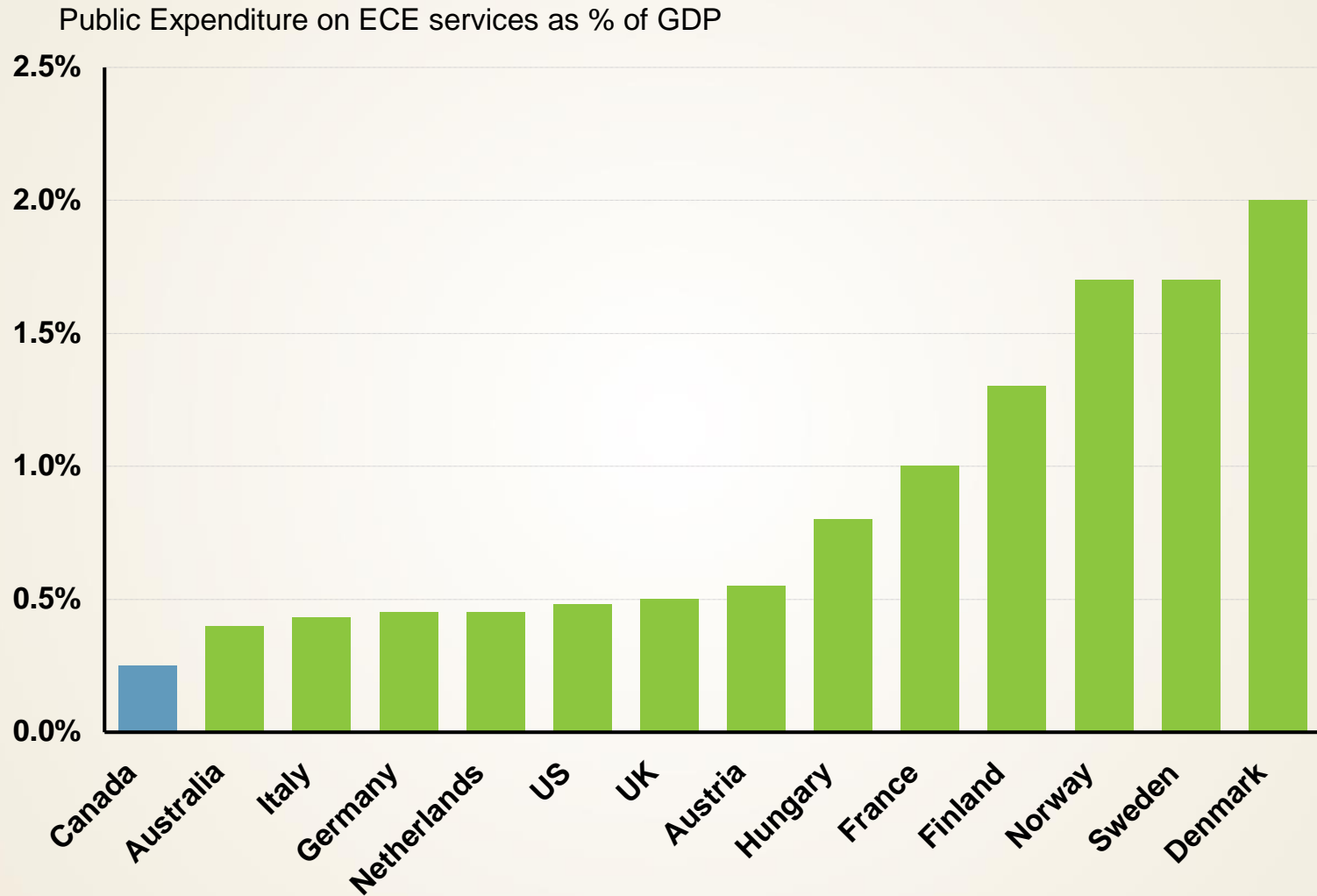
# BUT THERE ARE LIMITATIONS TO THESE FINDINGS

- Costs can run over budget
- Quantifying benefits is difficult
  - Several assumptions made
  - In the long run, things change – many unknowns
- External factors can affect results
- Location and program design/implementation matter

# ANALYSIS TENDS TO TELL A COMMON STORY

- All studies show that benefits are greater than the costs despite analyzing different programs
- In most parts of Canada, there is a gap between the end of parental leave and formal schooling
- Evidence that accessibility and cost are key issues
- Current system is fragmented
- Suggests increased investment and maximizing impact of the system would be beneficial

# PUBLIC SPENDING IN CANADA HAS FALLEN SHORT OF MANY OF ITS PEERS



Source: OECD

# ALL OF THIS SUGGESTS THAT CANADA IS UNDERINVESTING

- To move more in line with other comparable OECD countries, public investment in early childhood education in Canada would have to rise by \$3-4 billion
- But, governments face binding budget constraints
- Focus is giving parents financial support, rather than investment in a public program

[www.cdhowe.org](http://www.cdhowe.org)



**@CraigA\_Eco**