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Income Inequality & the Role of ECE in Closing the Gap

Presented at the Centre for the Study of Living Standards



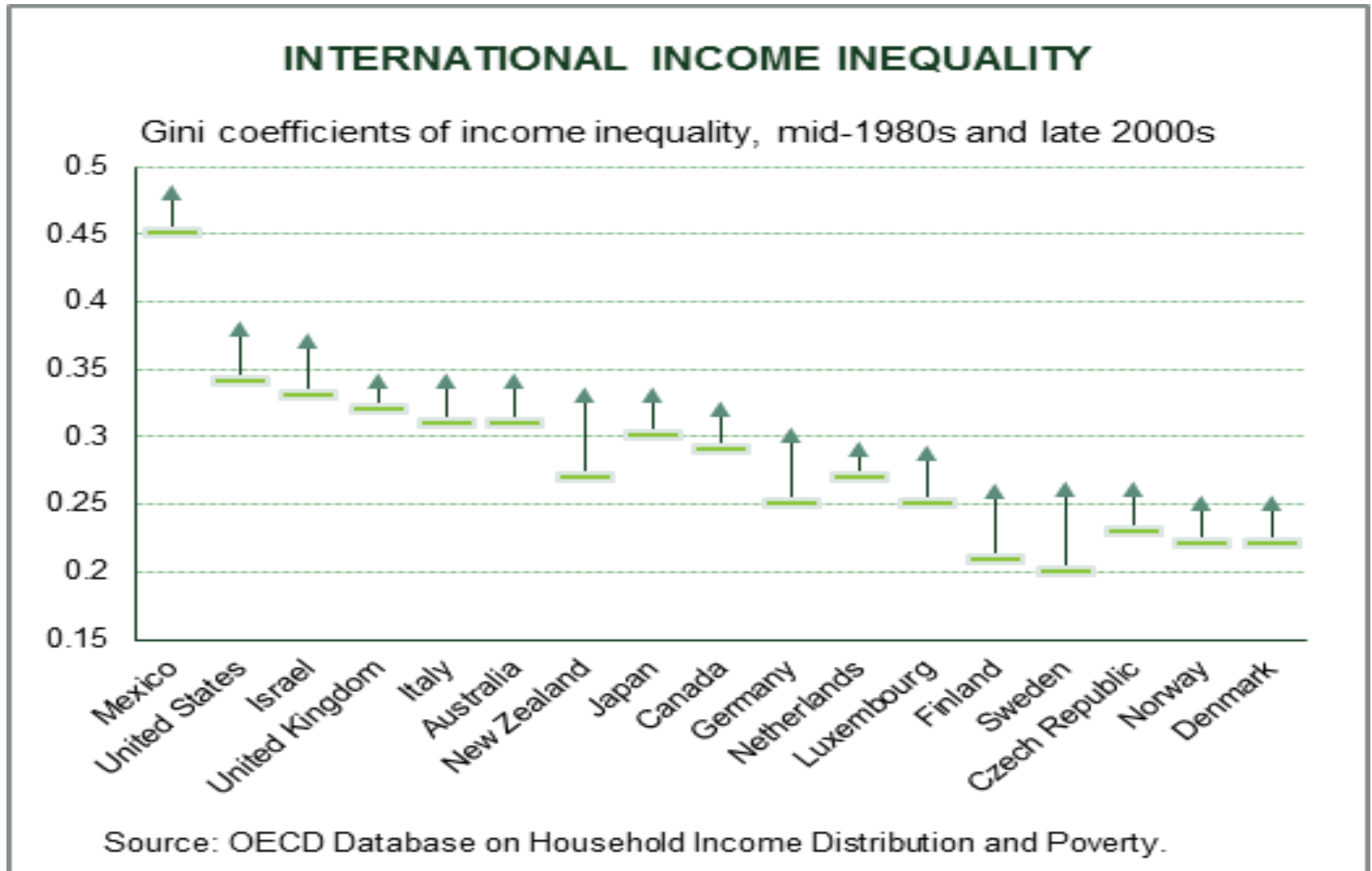
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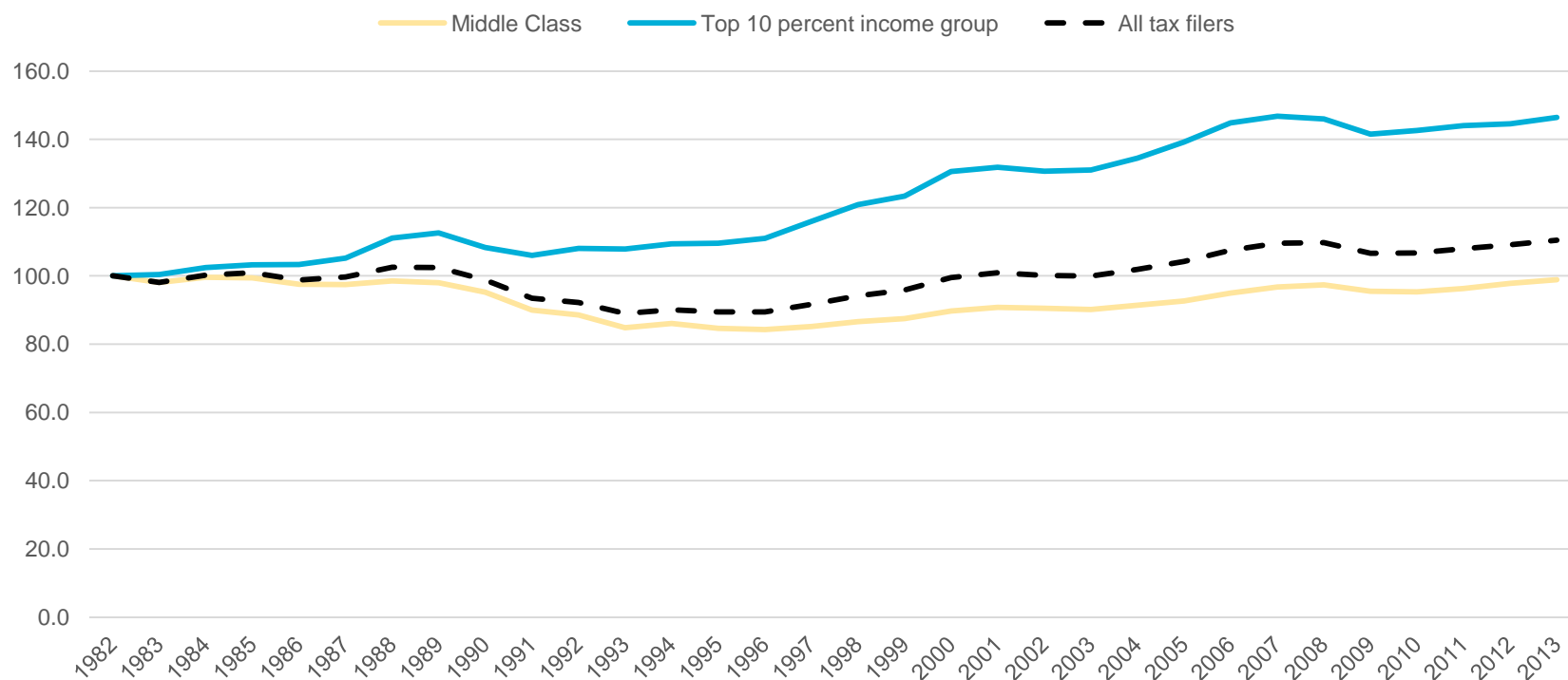
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Rising Income Inequality a Global Challenge



Modest Middle Class Income Growth over Last Two Decades

index of average incomes of the 50th to 90th percentile, top ten per cent and all tax filers, 1982-13



Source: CBoC, Statistics Canada.



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Why has Income Inequality Surged?

- Main factor behind the increase in inequality has been technological change and globalization
- Globalization has resulted in low value-added manufacturing jobs moving to developing countries like China.
- Global competition has reduced union employment and reduced labour bargaining power
- But, technical change has had the greatest impact in disrupting labour demand
- Technology fundamentally changing demand for labour skills



How to Address Rising Income Inequality?

- Redistribute more income through higher taxes on wealthy.
- Problem is greater taxation on the top 1% or 10% won't solve the problem. They are simply too few in number.
- So, need higher taxes on middle income individuals. Less politically appealing and they have had weak income growth
- A more impactful, approach is to remove barriers to opportunity.
- Help improve labour outcomes for low and middle income workers
- ECE can do this. It can help raise future income prospects of disadvantaged kids and can lift labour participation of women



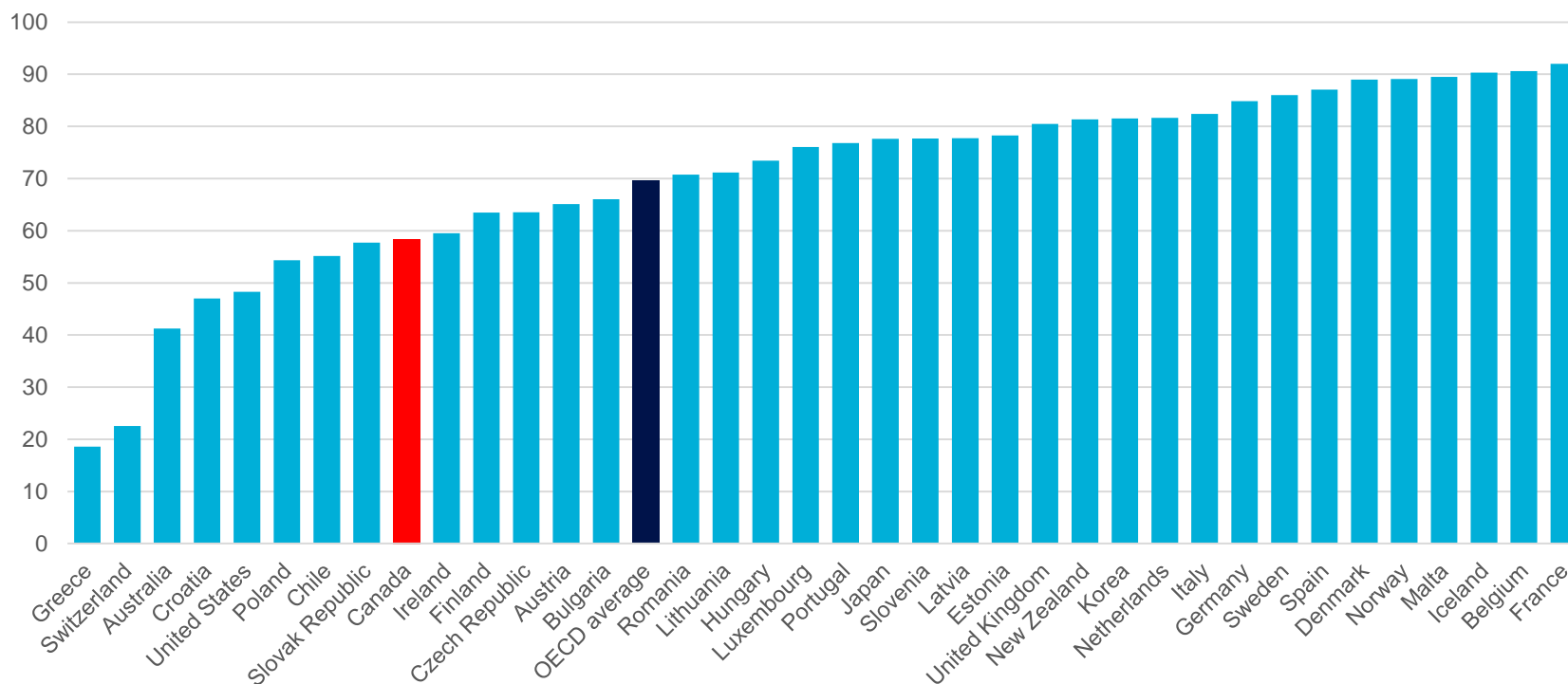
Investment in ECE Creates Significant Gains

1. Access to affordable early childhood education will boost maternal labour force participation
2. Early childhood education improves labour market success of children
3. Expanding ECE enrolment has broad-based economic and social benefits
4. Early childhood education can help reduce income inequality



Canada falls substantially below the OECD average for Children Under 5

International ECE Enrolment Rates, Children Age 2–4



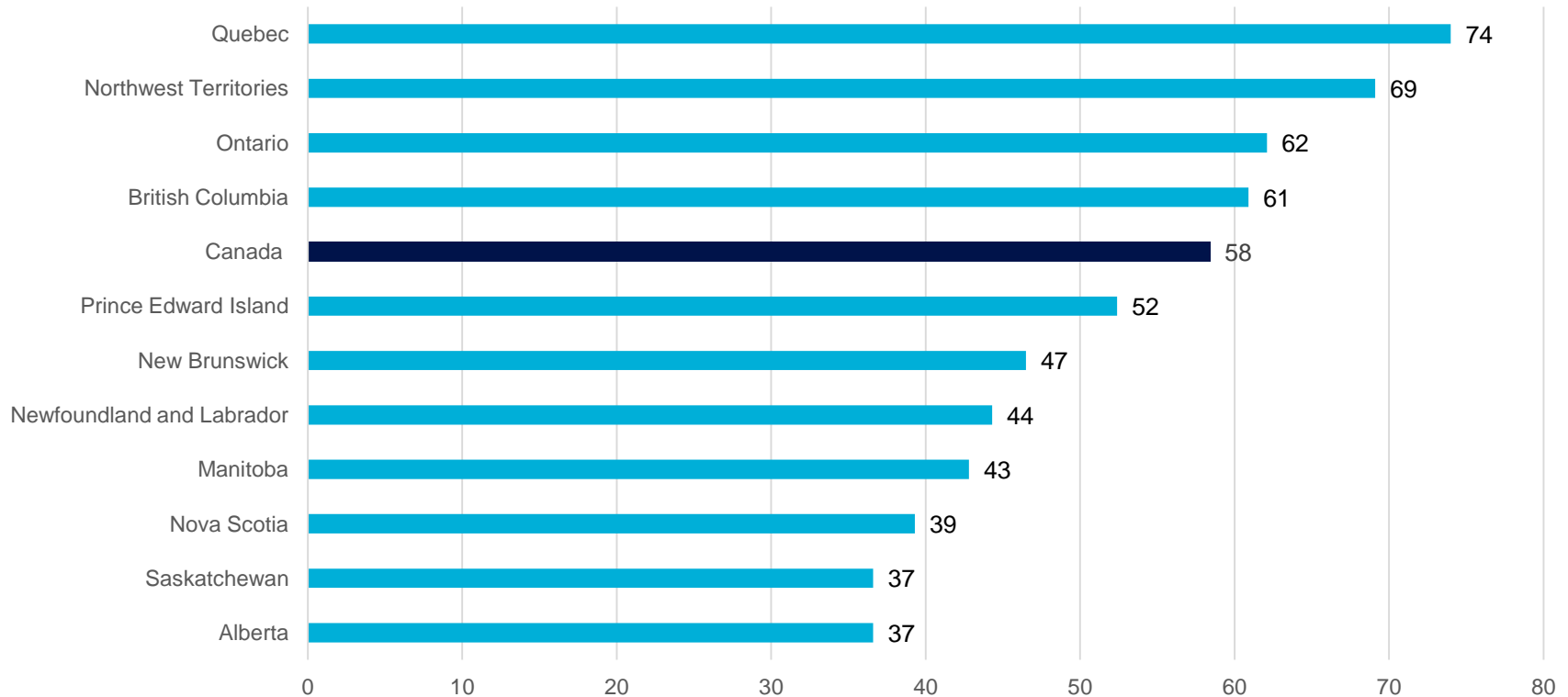
All figures in per cent

Source: Organization for Economic Cooperation and Development (OECD), The Conference Board of Canada



2-4 years old enrolment in ECE as a share of population age cohort

percent

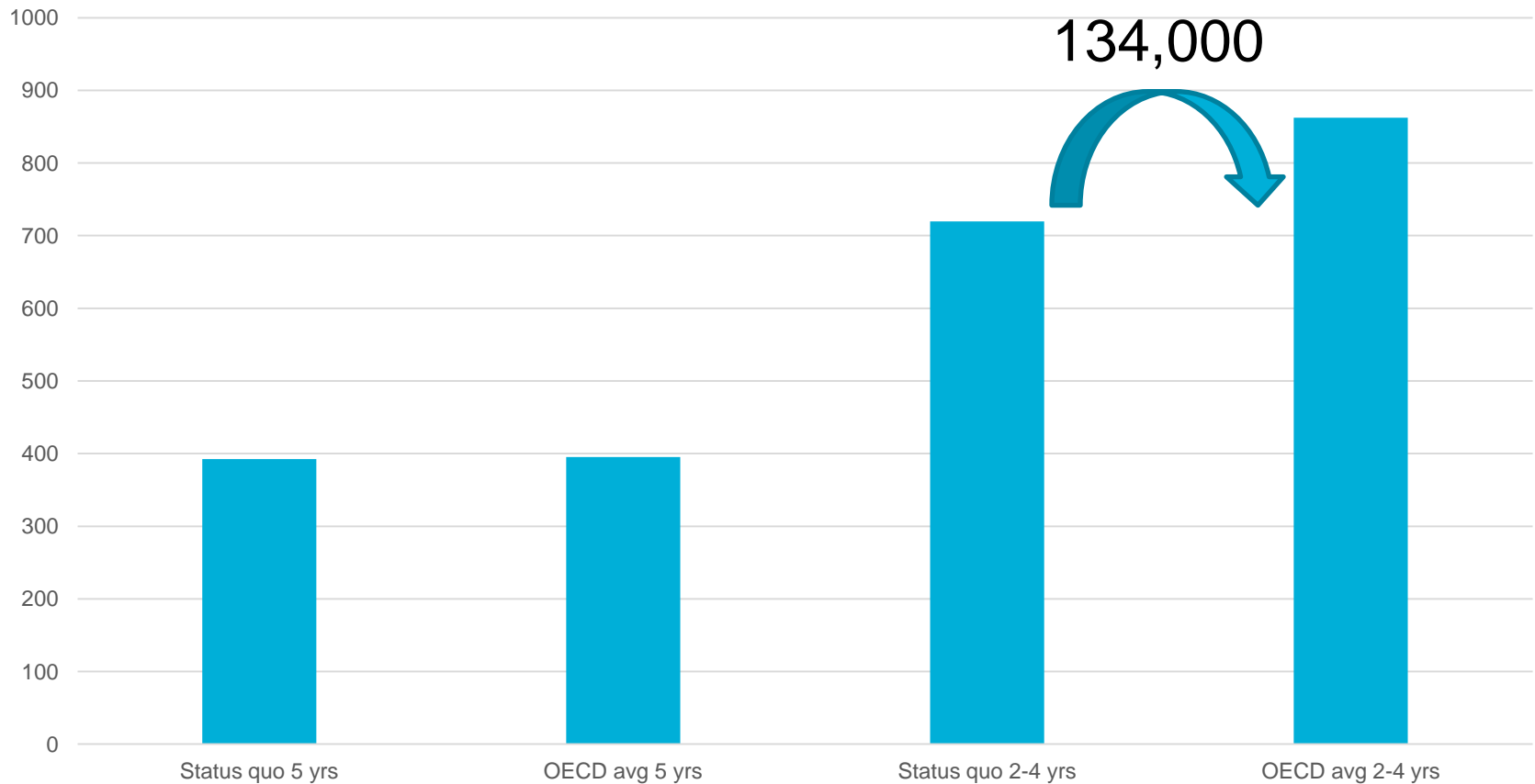


Source: Early Childhood Education Report 2014 - Provincial/Territorial Profiles



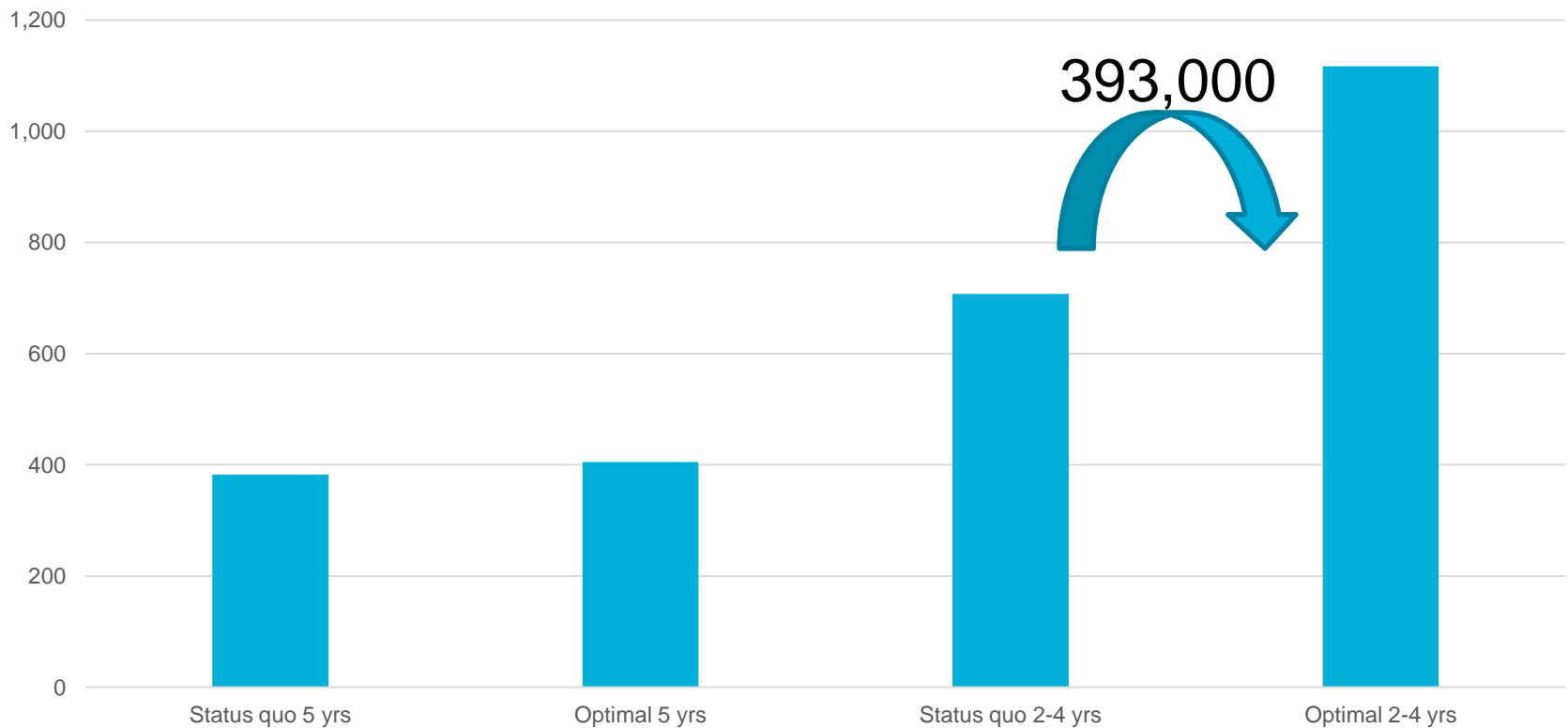
Increasing Demand for ECE to OECD Average

number of children, OECD avg. vs current enrollment, 000s, 2017



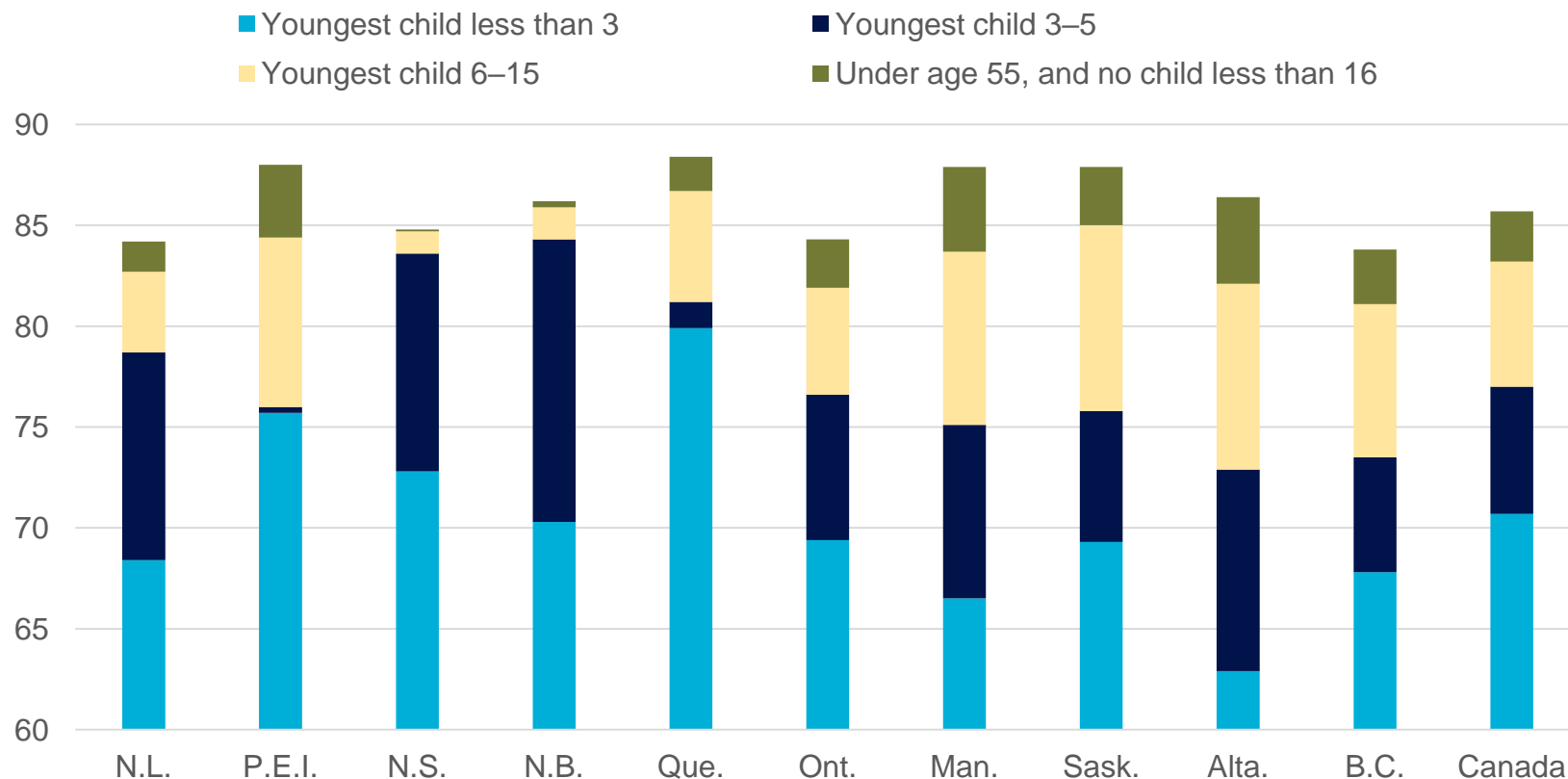
Increasing Demand for ECE to Top 3 OECD Performers

number of children in programs, optimal vs current enrollment, 000s, 2017



Participation Rate of Woman with Young Children is Significantly Lower

percent, 2016

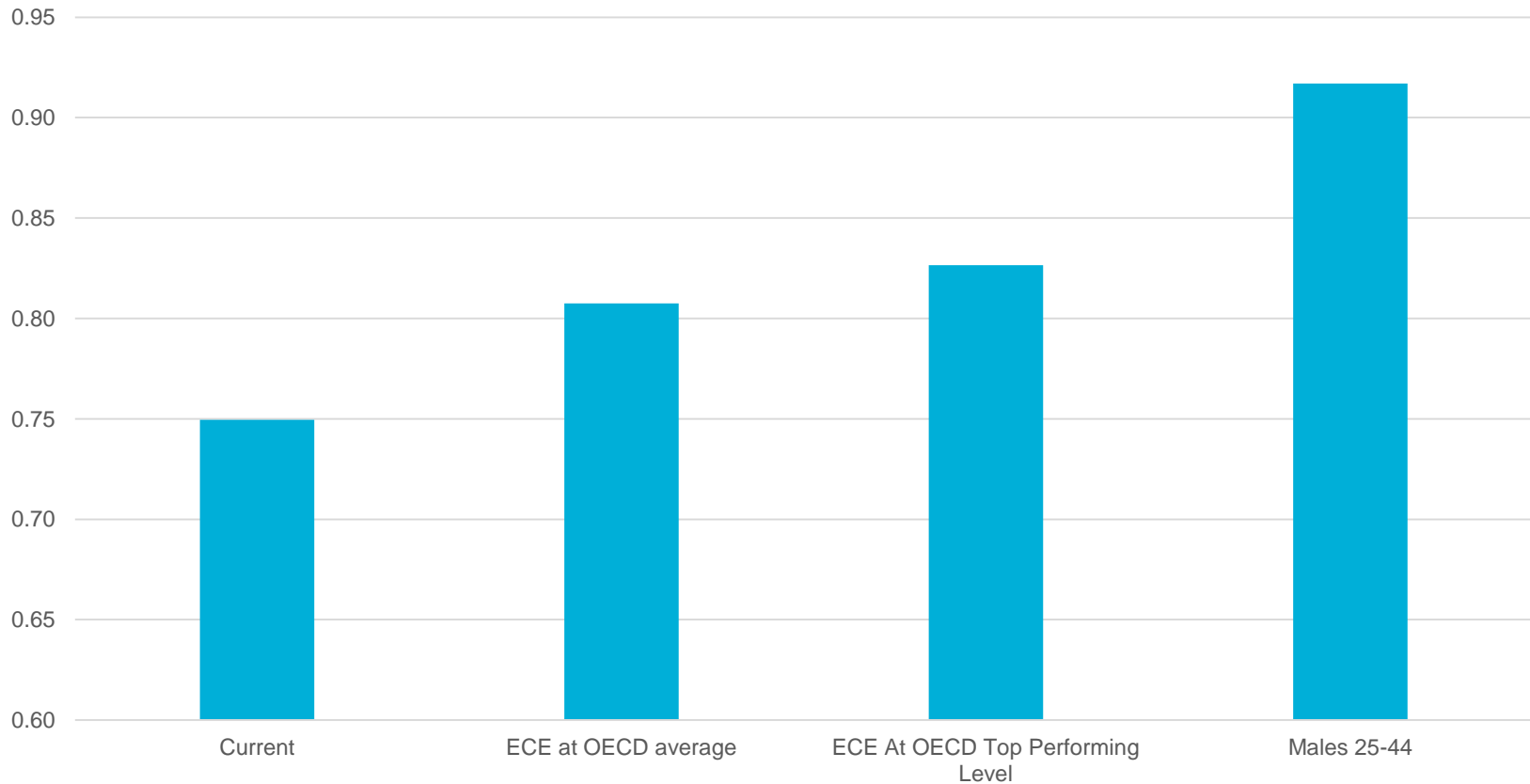


Source: Statistics Canada.



Participation Rate of Woman with Children

percent, 2016



Source: CBoC, Statistics Canada.



Expanding ECE Would Result in a Substantial Increase in the Labour Force

- If ECE enrolment rates were to reach only the OECD average, an additional 57,600 women would enter the labour force.
- If we increase ECE enrolment to 93.5 per cent for children aged 2–5 (equal to the best performing countries in the OECD) this would result in an additional 76,500 women in the workforce.
- Would help address some of the nation's demographic challenges from an aging workforce.



ECE Prepares Children For Life

- Education is the great enabler. Weak educational outcomes especially prevalent for children from disadvantaged families.
- Children attending ECE programs develop stronger essential skills (literacy/numeracy). Also benefit from improved self regulation and ability to interact with others.
- More likely to complete high school, which greatly lowers unemployment rates and raises income prospects. More likely to attend college or university.
- Higher education translates to lower unemployment and higher incomes



Assumptions in Cost-Benefit Analysis

- Assume an educator to pupil ratio of 1:14 in kindergarten and 1:8 in for children aged 2 and 3.
- Classroom includes one teacher and one ECE instructor
 - Teacher salary set to Ontario teacher salary, ECE's to 60 per cent of teacher salary (currently 44 per cent).
 - Operating expenses add 18.5 per cent (based on current shares in the public system).
- Total cost of reaching OECD optimal enrolment when fully phased in is \$3.3bn in operating costs in 2022 and a total of \$3.7 billion in infrastructure requirements.



NPV Benefit to Cost Ratio's

	OECD Average	OECD Optimal
Ratio from 2018 to 2050	3.62	1.67
Ratio from 2018 to 2093	5.83	3.44

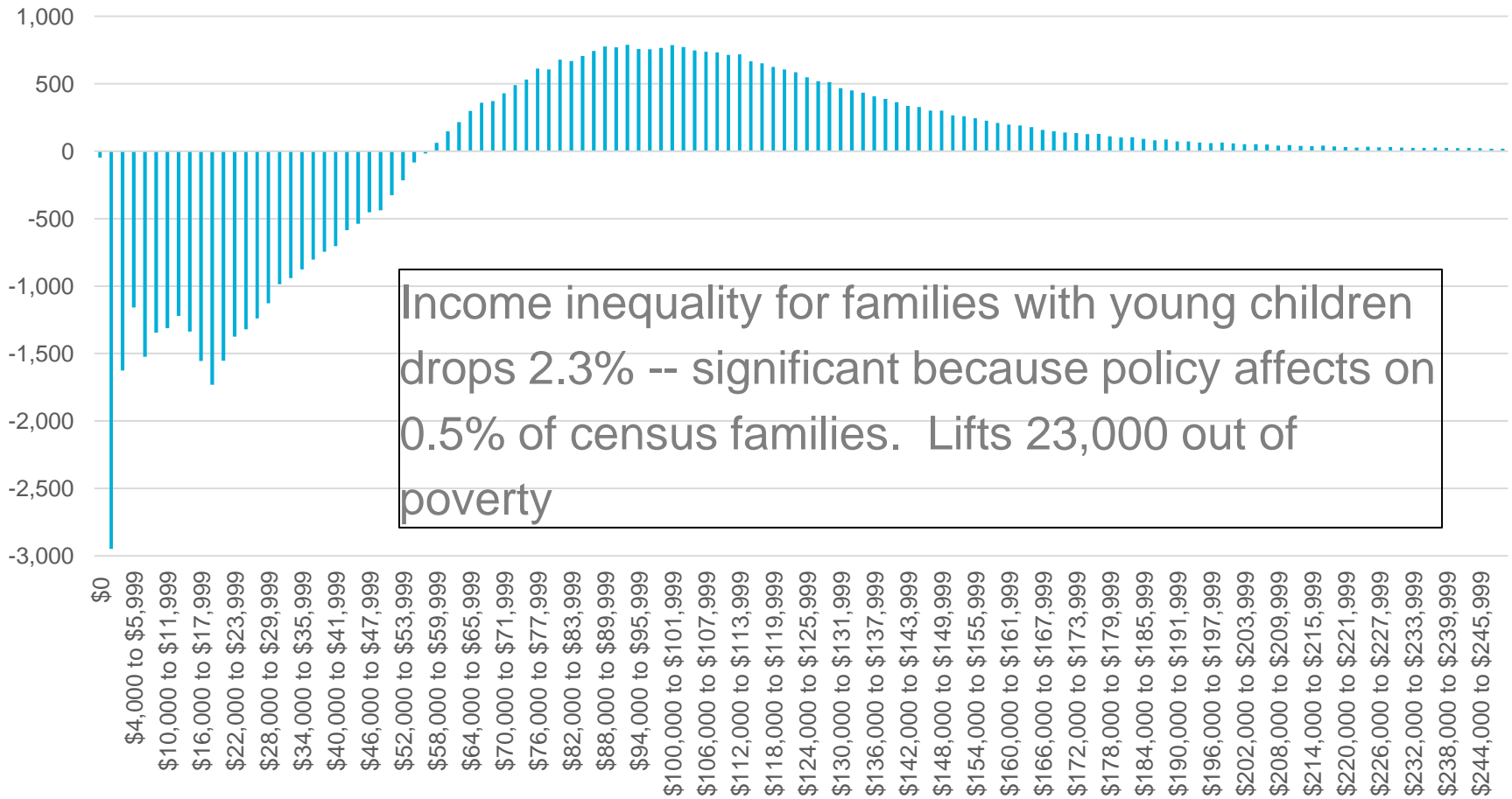


ECE Can Reduce Inequality

- In 2015, 43 per cent of families where the mother was not employed had income below \$36,000 compared to 12 per cent of families where the mother is working.
- What happens to income inequality when 76,500 women enter the labour force thanks to expanded ECE provision?
- We estimate that 23,000 of families could be lifted out of poverty.



Change in Number of Families with Children Aged 0-4 in each Income Bracket



Source: The Conference Board of Canada.



Affordability is a Problem

- The top 10 per cent of families in Canada have after tax income of around \$150,000 per year or more.
- This high income enables these families to provide their children with quality childcare, extracurricular activities and have a high probability of attending university.
- Conversely, families in the bottom 20 per cent generally earn less than \$38,000 after taxes per year, less than half the national average.
- The high cost of quality ECE programs are unaffordable to many low and middle income households and can deter labour participation. (e.g. Ottawa \$20k a year).



Other issues

- Fiscal capacity of governments to expand spending.
- Costs – borne upfront, concerns about cost overruns.
- Benefits – estimates vary
- It is the job of policy-makers to make difficult fiscal choices.
- Based on the evidence from our research, ECE is very likely to provide future benefits that outweigh the cost of the investment.



Recommendations

- Ensure that all Canadian children aged 4 and 5 have access to full day ECE.
- Some provinces have already met this standard but 316,500 children across the country aged 4-5 are either in part time programming or do not have access to public ECE.
- Cost of expanding to all 4 and 5-year-olds is estimated at \$2 billion annually plus \$1.8 billion for new infrastructure.
- Also target expansion of ECE programming to children aged 3 – universal program would cost \$3.2 annually.



Summary

- Additional investment in ECE will boost maternal labour force participation.
- Providing access to at least more than one year of ECE can improve math scores.
- Our cost benefit analysis aligns with other research: ECE is a good investment, with many gains, including reducing inequality.
- Indeed, boosting female labour market participation lowers the Gini coefficient for families with young children and lifts many families out of poverty.
- Additional investments in ECE are recommended.





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