

Economic Consequences of Quebec's Educational Childcare Policy

Early Years Economics Forum

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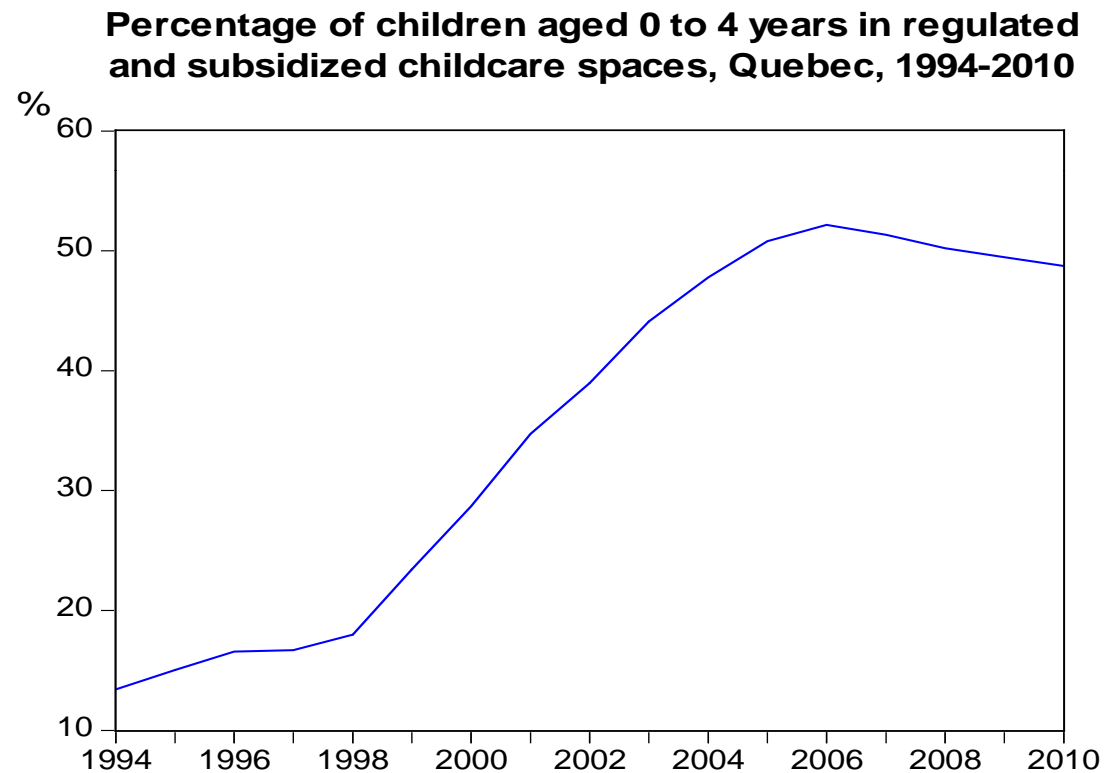
Three Quebec policy measures impacting directly on early childhood

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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

The fraction of Quebec children in regulated childcare has risen sharply



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**

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

Confirmation from macrodata

- I have assembled a panel of data on the labour force participation of women aged 15 to 44 in the

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	717	82	799

Longer-term effects will be larger

- **On net, for every dollar spent on ECEC the provincial g**

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

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

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

Family income

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 s**

**Eliminating universal ECEC would not
liberate the funds required**

References

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