



REPORT FOR ACTION

The Economic and Social Impacts of an Accessible, High Quality Child Care System in Toronto

Date: September 25, 2017

To: Economic Development Committee

From: General Manager, Children's Services and General Manager, Economic Development and Culture

Wards: All

SUMMARY

This report responds to a directive from Council to assess the economic and social impacts of more affordable childcare on Toronto's economy. Extensive and compelling literature exists on the positive short-term and long-term socio-economic impacts of investing in a high quality, accessible early learning and child care system. This report summarizes the literature and, where possible and appropriate, applies a Toronto lens to the documented impacts.

Toronto City Council recently adopted Toronto's 10 year Licensed Child Care Growth Strategy, which lays out a roadmap for building the more accessible child care system that Toronto families need. To achieve its vision, the plan requires significant, sustained investments from all three orders of government. This report clearly lays out why these investments make sense not only for Toronto's children and families, but for its economy at large.

RECOMMENDATIONS

The General Manager, Children's Services and the General Manager, Economic Development and Culture recommend that:

1. the Economic Development Committee receive this report for information.

FINANCIAL IMPACT

This report has no specific financial impact. Major costs associated with expanded child care are discussed in other reports. The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On November 8 and 9, 2016, based on a report that outlined the findings of a Licensed Child Care Demand and Affordability Study, Council directed the Deputy City Manager, Cluster A to assess the economic impact, social impact and importance of affordable childcare on Toronto's economy and report to the appropriate Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.CD15.2>

On April 26, 2017 Council adopted the City's 10 year Licensed Child Care Growth Strategy, which lays out a plan to improve the affordability and availability of quality licensed child care programs in Toronto. The plan aims to achieve the following:

- Grow the child care system to serve 50 per cent of children from birth to age four
- Increase fee subsidies to serve 40 to 50 per cent of all spaces
- Provide operating grants that reduce parent fees by 25%-40%
- Support a thriving early learning and child care workforce

A combined total of \$610M for Operating and \$1.4B to \$1.9B for Capital in additional investments are required in total from all three orders of government over the 10 year period to achieve this ambitious and important plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CD19.2>

The provincial and federal governments have since announced significant investments in child care. The Province released its renewed Early Years and Child Care Policy Framework and Expansion Plan and announced an investment of \$1.6 billion province-wide over five years. The federal government has committed an investment of \$7.5 billion nation-wide over the next 10 years and has signed a new Canada-Ontario Early Learning and Child Care Agreement 2017. Toronto's 2017 allocation of these investments is a combined total of \$55.95 million in additional funds. These investments signify recognition by the provincial and federal governments of the societal importance of creating an accessible high quality child care system, as well as their respective commitment to making this happen.

A report that provides updated Growth Strategy targets that reflect these investments will be considered by the Community Development and Recreation Committee on October 23, 2017.

COMMENTS

Quality early learning and child care programs provide enriching experiences and interactions that have been shown to shape all areas of development during a child's most critical period of brain development. It also provides parents, primarily mothers, with an opportunity to pursue employment, education or training opportunities. Economists, neuroscientists and social researchers alike have long recognized the wide-reaching and long-term impacts of an affordable child care system: for children, parents and the broader economy.

These benefits translate into a valuable return on investment for governments. Studies have shown a return range of \$1.5 to almost \$3 for every dollar invested in affordable, quality child care programs. For more vulnerable children, the return is exponentially higher in the double digits.¹ The Centre for Spatial Economics found a \$1.36 return to Toronto's GDP.² One study of Quebec's universal child care program found it to now be contributing an "estimated annual net gain of over \$200 million to the provincial government".³ The long-term improvements in the labour force outcomes for mothers in Quebec were so strong that several researchers have calculated that the program increased tax revenue at all levels of government by more than the cost to subsidize child care.⁴

While numerous return on investment studies have been conducted for early learning and child care programs, they must be reviewed with some caution: they are typically based upon a number of assumptions and often include a large margin of error. The results commonly factor in increased employment and increased taxes, as well as reduced government costs through decreased reliance on social programs.

The socio-economic impacts of accessible, high quality child care

Investing in accessible, high quality early learning and child care programs provide impacts in each of the following areas, with the impacts ranging from moderate to substantial:

- Potential economic stimulus (ie multiplier effects)
- Increased labour market participation, particularly by women
- Reduced poverty and decreased reliance on government-funded programs
- Improved child development outcomes
- Increased social and support networks for families

a) Economic stimulus (ie multiplier effects)

An increase in expenditure (either government or private) in the child care sector will have several potential impacts. The most commonly identified impact is the multiplier effect, which occurs when an economic stimulus (in this case an increase in public funding for child care) works its way through the economy.

These impacts are generally divided into three categories: direct, indirect and induced.

Direct impacts: As per the Council-adopted licensed child care growth strategy, an increase in child care funding would result in an increase in the number of child care

¹ Alexander, C, and Ignjatovic, D., (2012). Early childhood education has widespread and long lasting benefits. *TD Economics*.

² The Center for Spatial Economics (2010). *Early learning and care impact analysis*. Milton Ontario.

³ Macdonald, D. and McInturff, K., (2015). Time to grow up: Family policies for the way we live now. *Canadian Centre for Policy Alternatives*. p.15.

⁴ Fortin, P., (2017). What have been the effects of Quebec's universal childcare system on Women's economic security? *Brief Submitted to the Standing Committee on the Status of Women (FEWO) of the House of Commons, Ottawa*.

spaces in Ontario. The direct impact of this would be an increase to the number of workers in the licensed child care sector. Child care is a very labour intensive industry. In Toronto, on average, over 80% of the total expenditures at licensed child care centres goes towards staff compensation (based on the 2017 budget submissions of child care operators who receive funding from the City).

The very labour intensive nature of the child care sector and the low compensation of early childhood educators and other child care workers has resulted an employment multiplier for the sector that is the largest overall of all sectors (36.92 jobs per \$1 million of expenditures).

Indirect impacts: The provision of child care requires some indirect inputs (eg. food, toys, rent), which are the outputs of other industries. Indirect impacts are relatively small for child care, like for most service industries, because indirect inputs make up a relatively small proportion of the total expenditures.

Induced impacts: These impacts reflect the degree of local spending by direct and indirect labour. Wages for Early Childhood Educators and Assistants are lower than average in Ontario. People in lower income professions typically have less means to save and a lower tendency to travel and consume costly imports; therefore, they tend to spend a greater proportion of their incomes, typically on local expenditures, as compared to others who earn higher wages. This implies that the induced multiplier effect from expenditures by child care professionals is larger than for other industries that provide higher salaries.

Off-setting impacts: An increase in child care expenditures would likely be funded by public sector funds, which are ultimately sourced from taxation. If governments were to spend more on child care, they would either have to reduce other expenditures, or increase revenue, presumably through taxes. This needs to be factored into an assessment of economic impacts.

Since the child care industry is labour intensive and pays lower than average wages, it is expected that an increase in child care spending, if accompanied by tax increases of a similar amount, would be mildly stimulative.

The multiplier effects contributed by the child care sector led TD bank to conclude that "early childhood education not only provides significant benefits to children, families and the economy, but it provides a better return on investment than many other sectors".⁵

However, an economic shock will only provide economic stimulus if the economy is not at full employment. In this example, there must be unemployed and qualified child care workers in Toronto ready and available to take the additional jobs that would be created in order for this economic shock to have a stimulative effect.

In a 2013 survey of child care operators in Canada, "63.3% of employers reported challenges trying to fill a vacant position, with 'applicants' lack of skills' being the most

⁵ Alexander, C, and Ignjatovic, D., (2012), p. 5

common challenge".⁶ In Toronto, low compensation and a limited pool of qualified staff have reportedly created challenges in filling vacant positions in child care programs. This may currently limit the stimulative effect of increased government investments in the child care sector. Toronto Children's Services continues to work with the province, colleges, and the child care community to strengthen the early learning and child care profession and workforce. Building a thriving workforce is a key goal of Toronto's Licensed Child Care Growth Strategy.

b) Improved female outcomes in the labour market

One of the most profound impacts of increasing access to child care is increased opportunities for parents to enter or re-enter the workforce or improve their education and employable skills. Studies have shown that the impacts of this are much larger for mothers than fathers. It is estimated that for every 4-5 child care spaces created, 1 additional full-time female worker enters the labour force.⁷

This has translated into increased female participation in the labour market. Studies that examined the impacts of Quebec's universally subsidized child care program, which was phased in between 1997 and 2000, found that women's participation in the labour market increased 12 percentage points (from 63% to 75%) between 1998 and 2008 – a faster rate than rest of Canada. The increase was much greater for vulnerable mothers, including single mothers and those with low education (a 22 percentage point increase, from 46% to 68%). The rate of women's employment was sustained long-term, including remaining stable through the 2008 recession, whereas it dropped in Ontario and other parts of the country.⁸

With its ability to enable women to enter or re-enter the labour market and/or upgrade their employable skills, affordable child care is recognized as a key factor in reducing the gender gap in today's labour market. Addressing inequalities in child care was one of five key drivers of change for advancing women's equality in Canada, identified in a 2017 study by McKinsey & Company. The study found that increasing female participation in the labour market, increasing the number of hours worked by women, and reducing the gender gap particularly in high-productivity sectors could increase the national GDP by \$150 billion by 2026. Since the city of Toronto represents 9.5% of national GDP, the impact in Toronto of reducing the gender gap could be estimated at \$15.8 billion.

c) Poverty reduction and decreased reliance on government-funded programs

By enabling parents to enter or re-enter the labour market, move into full-term positions, and upgrade education and skills, affordable child care has been shown to be a key lever in helping families move out of poverty and earn higher and more stable family incomes. "For low-income families or single parents, the ability to work while children

⁶ Halfon, S., (2014). Canada's childcare workforce, *Moving Childcare Forward Project*. P.10

⁷ The Centre for Spatial Economics (2010).

⁸ Fortin, P., (2012). *Impact of Quebec's universal low-fee childcare program on female labour force participation, domestic income, and government budgets*. Quebec, Canada.

are young can mean the difference between [relying on income supports such as social assistance] or rising above the poverty line".⁹

Toronto City Council has endorsed accessible child care as a key driver in reducing poverty. In the City's 20 year Poverty Reduction Strategy, which was unanimously approved by Council in 2015, improving access to child care programs is the focus of several key actions.

The research of this impact area is clear. In Quebec, the poverty rates for single mother households dropped from 52% before the introduction of universal child care to 31% by 2011. During this time, 104,000 single mothers and their children moved out of poverty.¹⁰ Between 1998 and 2008, single-parent families on social assistance in Quebec decreased by 55%, while their average median net income increased by 81%.¹¹ The benefits are long-term. The Toronto Dominion bank found that the more one works or becomes educated, the higher the potential salary is throughout their lifetime.¹²

The reverse is also true. The longer someone is out of the workforce, the harder it may be to gain employment later on, possibly leading to sustained poverty. The concept of hysteresis when applied to employment suggests that employable skills and competencies can be lost if not applied for a lengthy period of time. Even just a few years out of the workforce can lower wages in the long-run and increase the chance of long-term unemployment. One study found a 4% to 6% wage penalty for women that left the workforce for 3-5 years.¹³

Lower rates of poverty and higher overall income also reduces dependency on government-funded programs, such as social assistance, and improves health and safety outcomes, including higher high school completion rates and lower rates of drug and alcohol use, smoking, teen pregnancies and criminal behaviour.¹⁴

d) Improved child development outcomes and a stronger future workforce

The literature shows a strong link between participation in high-quality early learning and care programs and more advanced cognitive development, which in turn, has been shown to improve educational success and attainment and overall wellbeing later in life. The quality of a program is a critical factor in the degree to which these impacts occur.

Research shows that a child's cognitive functioning is largely established in their early years. The scope of lifeskills impacted is extensive, including "how well children speak, how they perform in school, their skills in math or music, and their ability to form friends,

⁹ Alexander, C, and Ignjatovic, D., (2012), p. 4

¹⁰ Macdonald, D. and McInturff, K., (2015).

¹¹ Fortin, P., (2012).

¹² Alexander, C, and Ignjatovic, D., (2012).

¹³ Anderson, L., and Fairholm, R., (2017). *Socio-economic impact analysis of the \$10 a day child care plan for British Columbia*. Centre for Spatial Economics.

¹⁴ Alexander, C, and Ignjatovic, D., (2012).

enjoy life, and become a responsible and productive member of the community”.¹⁵ This critical development period begins in infancy when formation of neural circuits in the frontal lobes of the cerebral cortex begins. Between ages three and six, rapid development in a child’s frontal lobe and prefrontal cortex builds the foundation for a number of skills, including attention, problem-solving, planning, understanding quantity, and using symbols.

Studies of early childhood education programs by neurosciences and biological sciences have concluded that participation in high-quality early childhood education programs advances a child’s cognitive development.¹⁶ Impacts of pre-school education on cognitive development were found to be similar to an increase of “7 or 8 points on an IQ test, or a move from 30th to 50th percentile for achievement test scores”. The difference was considered significant enough to “reduce by half the school readiness gap between children in poverty and the [US] national average”.¹⁷ A longitudinal study that began in 1962 showed that children who attended high-quality preschool programs and had weekly home visits had a 50% higher high-school graduation rate and a higher proportion went on to university, compared to those who did not attend early learning programs. By age 40, the early learning program participants still showed better literacy test scores.¹⁸

Participation in early childhood education programs can also help detect learning or developmental delays sooner; this can help parents connect with specialized services and help children with learning disabilities reach better outcomes.¹⁹

Improving cognitive functioning and education early in life can set the stage for a stronger future workforce by building workers that are “more productive, more innovative, and earn higher wages, [with] fewer in poverty”. Demographic forecasts predict a global shortage in high-skilled workers. Investing in high quality early childhood education programs could reportedly offset this future risk. As stated by TD Economics, “shaping a county’s future workforce now will prove to be extremely beneficial down the road”.²⁰

e) Increased social and support networks for families

Although limited literature exists on the impacts that early learning and child care programs have on a parent’s social and support networks, the findings when coupled with anecdotal evidence point to a strong connection. Child care centres can serve as a centralizing hub within a community, connecting parents with a network of other supports and services. They can also reduce the isolation and exclusion felt by some

¹⁵ McCain, M. N., Mustard, F., and Shanker, S., (2007). *Early years study 2: Putting science into action*. Council for Early Child Development. p.26

¹⁶ Ibid

¹⁷ The Centre for Spatial Economics, (2009). Literature review of socioeconomic effects and net benefits. *Child Care Human Resources Sector Council*. p.11

¹⁸ McCain, M. N., Mustard, J.F., and Shanker, S., (2007). p.52.

¹⁹ Alexander, C, and Ignjatovic, D., (2012).

²⁰ Ibid. p.4

parents, particularly in disadvantaged communities²¹. One study found that parents with increased friendships made through child care experienced greater psycho-social benefits, including less isolation and lower rates of depression, than parents who had not formed these friendships.²² Reportedly, parents often build relationships with other parents when picking up and dropping off their children from child care. These relationships can also provide increased peer support for parents as they grapple with the common decisions and challenges faced during parenthood. In the City's directly-operated child care centres, the majority of families come from the local community, creating greater opportunity for parents to connect with other local parents.

Quality early education programs that address "racial, religious, and ethnic tensions and incidents" can also confront prejudices and can help increase a sense of belonging for children and their families.²³ Many quality child care programs in Toronto have integrated diversity and inclusion into their programming to foster a stronger understanding of Toronto's diverse families from an early age. Through its Assessment for Quality Improvement program (AQI), the City annually assesses the quality of over 700 child care programs that receive funding from the City, including how they foster an understanding of diversity and inclusion.

For newcomer families, the impacts can be broader. As indicated in Toronto's Newcomer Strategy, child care centres and schools are often the first social institutions that newcomer families access in their new country. Teachers and child care providers can be an important source of information and support for both children and parents, assisting newcomer families to understand and access the network of services available to them.

The importance of access and quality:

The literature shows that in order to recognize the full extent of the socio-economic benefits outlined in this report, the system must be universally accessible (meaning that licensed programs must be affordable and available for all families who wish to access child care services) and it must provide quality programming.

Access:

For the potential socio-economic benefits to fully materialize, families have to be able to access the early learning and care programs. Affordability is a critical part of access and is currently a significant challenge for Toronto's families. A licensed child care demand and affordability study, commissioned by Toronto Children's Services and led by Dr. Gordon Cleveland and Dr. Michael Krashinsky at the University of Toronto, found affordability to be one of the most important factors impacting demand in Toronto. Seventy-five percent of families in Toronto would have to pay more than 10% of their

²¹ Pascal, C. E., (2009). With our best future in mind: Implementing early learning in Ontario. *Report to the Premier by the Special Advisor on Early Learning*.

²² Sethi, M.L., (2012). How child care boosts social capital. *Greater Good Science Centre, UC Berkley*. Retrieved 2017.08.09 from https://greatergood.berkeley.edu/article/item/how_childcare_boosts_social_capital

²³ McCain, M. N., Mustard, J.F., and McCuaig, K., (2011). *Early years study 3: Making decisions, taking action*. Margaret & Wallace McCain Family Foundation. p.26

family income on child care costs. Middle income families are being squeezed out and there are not enough fee subsidies for low income families.

The availability of child care spaces is also a significant issue in Toronto, with parents facing limited options and long waitlists. As of February 2017, there was only enough capacity to serve 31% of children under age 4, living in Toronto.

Universal approaches are key to improving access. The 2009 report by Charles Pascal found that:

Vulnerable children are not limited to low-income families since many “vulnerabilities” are not income sensitive. ... While poverty is associated with risks for young children, policies targeted solely to disadvantaged communities actually miss the majority of vulnerable children. A universal approach to program provision, in which dedicated poverty reduction initiatives are embedded, has been found to magnify the social, economic, and academic benefits.²⁴

When Quebec capped child care costs for families at \$7 a day, the proportion of children aged 0-5 in regulated child care increased from 16% to 43% over a ten year period. During the same time period, the proportion of Ontario children aged 0-5 in regulated child care remained close to 20%.²⁵ If child care were more affordable and available, more families would access the programs, and thus, a fuller extent of socio-economic impacts in Toronto could be realized.

High-quality:

Studies have also found a direct link between the quality of early learning and child care programs and children's developmental and socio-emotional outcomes. Where divided results of the impact of early childhood education and care programs on the socio-emotional development of children were found, the quality of the program was shown to be a key correlating factor.²⁶

A quality child care program will include activities, materials and staff-child interactions that create exploratory and enriching opportunities for children, which in turn, fosters advancements in all areas of child development. Programs that focus primarily on health and safety components with little attention to fostering early learning, show limited advancement of developmental skills and abilities. High quality programs are critical for achieving cognitive development advancements and the subsequent long-term human capital impacts that are outlined in this report. For this reason, Toronto Children's Services, with the Ontario Institute for Studies in Education (OISE), developed a validated Assessment for Quality Improvement (AQI) tool to assess and support higher levels of quality across the system.

²⁴ Pascal, C. E., (2009). p.11

²⁵ Macdonald, D. and McInturff, K., (2015).

²⁶ For example: Alexander, C, and Ignjatovic, D., (2012); The Centre for Spatial Economics, (2009); McCain, M. N., Mustard, J.F., and McCuaig, K., (2011).

Qualified early childhood educators (ECE) are also a critical component of high quality child care programs. Through its 10-year licensed child care growth strategy, the City is supporting a stronger ECE workforce, including supporting its professionalism and providing base funding to support more adequate compensation.

Conclusion:

Through the implementation of Toronto's Child Care Growth Strategy, Toronto Children's Services will continue to work closely with other orders of government to transform the availability and affordability of child care in Toronto and support a qualified, thriving ECE workforce to advance quality. These three goals are intricately linked and are each critical for achieving the breadth of socio-economic impacts outlined in this report. A report considered by the Community Development and Recreation Committee on October 23, 2017 will lay out the first phase of achieving these three goals.

Accessible, high quality child care is a fundamental part of a healthy, thriving, and equitable society. Not only are there clear benefits for children and families, but also for the broader economy at large. It is with this recognition that the Federal and Provincial governments have announced \$billions in new child care investments and Toronto City Council near-unanimously adopted Toronto's 10 year Licensed Child Care Growth Strategy. The socio-economic impacts outlined in this report underline why sustained investments in child care provide strong value for a prosperous and fair Toronto, today and well into the future.

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