

# Eliminating the Early Vulnerability Debt with New Family Policy



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## Eliminating the Early Vulnerability Debt with New Family Policy

**Executive Summary:** Biologically unnecessary early childhood vulnerability costs Canada nearly 7-times the federal government's current debt (accumulated deficit).

Three major family policy changes are required to modernize Canada's human capital investment strategy in order to capitalize on the economic potential that inheres in reducing early vulnerability. The first two fall within federal jurisdiction; the third falls under provincial jurisdiction, but is subject to the influence of federal spending power and policy leadership:

### Federal Jurisdiction:

1. **Expand and enrich parental leave benefits** to make leave more affordable, even for modest-income families, and to reserve time explicitly for fathers without compromising the current time taken by most mothers.
2. **Increase the Canada Child Tax Benefit and National Child Benefit** to reduce poverty among families with children below 5 percent.

### Provincial Jurisdiction:

3. **Increase funding for early learning and child care services** to adequately support provinces and territories to develop high quality, affordable and accessible early learning and child care services. Provinces such as BC now have plans that could begin to fill the gap in these services, but implementation is delayed primarily due to lack of funds.

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### **Background and analysis:**

Nearly 30 percent of children in British Columbia and Manitoba start school with physical, socio-emotional or cognitive vulnerabilities. Data reveal that Canada now tolerates an unnecessary brain drain that will dramatically compromise our future stock of human capital.

Internationally recognized data linkage opportunities in British Columbia allow researchers at the Human Early Learning Partnership to quantify what high early vulnerability means for the economy. Analyses reveal that biologically unnecessary child vulnerability (that above 10%) will cost the economy 20% in GDP growth over the next 60 years because of lost human capital. The economic value of this loss in BC amounts to a \$401.5 billion investment today at a rate of 3.5% interest, even after paying for the social policy required to reduce vulnerability. Projecting the BC analysis for the entire country, we estimate that *unnecessary early vulnerability costs Canada the equivalent of investing \$3.1 trillion, nearly 7-times the Government of Canada's current debt (accumulated deficit).*

The implication is clear: governments, businesses, bankers and citizens have seven times as much reason to worry about the early child vulnerability debt as we have reason to worry about the national fiscal debt. Reducing early vulnerability is therefore necessary for Canada to secure its long-term economic future, while it will also inject a significant economic stimulus now.

Some may hold out hope that we can compensate for high early vulnerability by increasing investments in the final years of school, in expanding post-secondary education, and/or in job skills training for adults. However, human development research warns against this hope because it ignores the genetic and biological reality of the human species: the early years represent the unique window in the human life

course during which citizens' physical, socio-emotional and cognitive potential are especially malleable to the positive effects of strategic human capital investments. The research about biological embedding of social stimuli is now so compelling that there is a growing consensus among economists, including Nobel laureate James Heckman (2008) that the most cost effective human capital interventions will occur among young children.

Since parents and caregivers provide the majority of the human capital today, and they are responsible for the human capital of tomorrow, parents need support to accommodate the realities of modern life and their engagement in today's labour market. No matter what choices families make, all parents need *time* to care personally, financial *resources* and *community support* services. The three policy proposals we identify above work with this framework to defend against the risk that past family policy recommendations have unnecessarily pit at-home parents against employed parents. Instead, the HELP proposals call on government to allocate half of new expenditures directly to families in support of their time and income (leave benefits; enriched CCTB and NCBS); and half to community services (the development of early learning and care services).

The time is *now* for Canada to innovate with these policy changes, because the OECD and UNICEF both find that Canada's investment in early child development is well behind most other countries, including the US. These international findings are confirmed by domestic research.

The reality of early human capital development, however, is that population-level improvements generate significant economic growth only after children work their way through the education system to transition into the labour market. Therefore, it will be 14 years before even the first cohort of children reaping the human capital gains from the proposed family policy investments will personally contribute dividends to the economy. Clearly, this investment strategy requires patience as a virtue.

In the meantime, careful implementation of the three policy recommendations can allow individuals and businesses to recoup a substantial portion of the investment costs in relatively short order: from 33% to 62% of the requisite expenditure during the first electoral cycle; and from 39% to 47% of the expenses over the first three electoral cycles. Given these benefits, the net cost to taxpayers will only be three-quarters of the gross investment during this period.

Immediate returns are maximized when policy innovations support the adults who care for the future stock of human capital as much as the children themselves. These adults can benefit now from the policy reforms and thus generate real economic returns much more quickly than will human capital investments in young children alone. Short- and medium-term benefits include:

- ✓ productivity gains from accelerated labour supply, especially among women
- ✓ productivity gains from reduced absenteeism as a result of improved work/life balance
- ✓ health cost savings associated with improved work/life balance
- ✓ health cost savings associated with poverty reductions
- ✓ child welfare savings, as fewer children enter the foster care system
- ✓ reductions in crime, and government expenditures on the justice system
- ✓ economic stimulus, when invested during an economic recession

Should the investment start while the economy is still in recession, studies reveal that early learning and care expenditures achieve higher multiplier effects for the economy than most conventional economic

development strategies. Thus, during two years of recession recovery, the early learning and care investment would be expected to stimulate an additional \$7.7 billion annually in local economic activity across the country.

"Investing in young children gives you double benefits – stimulus from the extra spending now, and the increase in human capital in years to come. So, yes, there's an extremely good case for governments to include it in stimulus packages." - James Heckman, Nobel Laureate

### Costs:

#### The Annual Additional Cost of a Pan-Canadian Policy Framework for Optimal Early Child Development\*

		<i>Time and Resources</i> 51% of investment		<i>Community Supports</i> 49% of investment	
	%of GDP, per capita	Parental Leave	Income Supports	Early Learning & Child Care Services	Total
Nfld/Lab	1.52%	68	95	256	419
PEI	0.42%	19	26	38	83
NS	2.82%	127	176	251	554
NB	2.24%	101	140	189	430
Quebec	23.28%	1,048	1,453	1,312	3,813
Ontario	38.82%	1,747	2,423	4,146	8,316
Manitoba	3.62%	163	226	347	736
Sask	3.06%	138	191	576	905
Alberta	10.76%	484	671	1,766	2,921
BC	13.14%	591	820	1,576	2,987
Yukon/NWT/Nun	0.34%	15	21	20	56
<b>Total Pan-Canadian</b>	<b>100%</b>	<b>\$4,501</b>	<b>\$6,242</b>	<b>\$10,477</b>	<b>\$21,220</b>

*All \$ figures are millions unless otherwise noted*

\*Per capita extrapolation from British Columbia cost projections.

<sup>a</sup>The Quebec estimates for ECEC services are lower per capita because that province has already invested a greater share of GDP in this area. While Quebec is also further ahead in terms of leave and income support policy, our estimates project combined federal/provincial expenditures at a level that does not penalize Quebec for innovating before other provinces.

### Quotable data / key facts:

Unnecessary early vulnerability will cost Canada the equivalent of investing \$3.1 trillion now, a value equal to 7-times the Government of Canada's current debt (accumulated deficit), for the next 60 years.

The annual cost of reducing the GST from 7% to 5% is equivalent to the annual cost for a quality ECEC system for all Canadian children aged 18 months to 6 years. Although substantial, a \$21.2 billion investment in early child development is modest compared to total federal/provincial spending on health care (estimated to be \$170 billion annually). It is also less than the combined annual federal investment in Elderly Benefits (\$32 billion in 2007/08) and RPP/RRSPs (\$28 billion in 2009).