



15 *by* 15

A Comprehensive Policy Framework for Early Human Capital Investment in BC

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Executive Summary

The stock of human capital in British Columbia is key to its long-term economic success. This means early child development is a critical issue for business leaders, because the years before age six set in motion factors that will determine the quality of the future labour force. Today, only 71% of BC children arrive at kindergarten meeting all of the developmental benchmarks they need to thrive both now and into the future: 29% are developmentally vulnerable.

While the poor are more statistically likely to be vulnerable, the majority of vulnerable children in BC reside in the more populous middle-class. Early vulnerability is a middle-class problem.

A rate of child vulnerability above 10% is biologically unnecessary. At three times what it could be, the current vulnerability

rate signals that BC now tolerates an unnecessary brain drain that will dramatically deplete our future stock of human capital. Economic analyses reveal this depletion will cause BC to forgo 20% in GDP growth over the next 60 years. The economic value of this loss is equivalent to investing \$401.5 billion today at a rate of 3.5% interest, even after paying for the social investment required to reduce vulnerability. Unnecessary early vulnerability in BC is thus costing the provincial economy a sum of money that is 10 times the total provincial debt load.

The implication is clear: governments, businesses, bankers and citizens have ten times as much reason to worry about the early child vulnerability debt as we have reason to worry about the fiscal debt. Reducing early vulnerability is therefore necessary for BC

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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, or in job skills training for adults.

Unnecessary early vulnerability in BC costs the provincial economy a sum of money that is ten times the total provincial debt load.

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 interaction of nature and nurture "sculpts" the developing brain and other biological systems such that children who do not benefit from optimally nurturing early environments risk genetic adaptations that will limit their life-long well-being and productivity.

The early development research is now so compelling that there is a growing consensus among economists, such as Nobel Laureate James Heckman, that the most cost-effective human capital interventions occur among young children. Heckman (2008) concludes that "a major refocus of policy is required to capitalize on knowledge about the life cycle of skill and health formation and the importance of the early years in creating inequality in America and in producing skills for the workforce."

Recognizing the importance of early human capital investments, the Government of

British Columbia's (2009c) Strategic Plan commits to lowering the provincial rate of early vulnerability to 15% by fiscal year 2015/16. This *15 by 15* goal is an ambitious but reasonable signpost along the way to our ultimate goal of reducing early child vulnerability to 10% by 2020. Presently, however, 93% of BC neighbourhoods have vulnerability rates that exceed even the intermediate target of 15%. Significant changes across the entire province are therefore required to create broad and equitable access to the conditions that help children and families thrive.

The requisite public policy response is a bold one. BC suffers unnecessarily high early vulnerability across income classes because it is relying on old post-war thinking to address 21st century social and economic issues. In the absence of a system of early learning and child care services, public policy in BC and much of Canada remains nostalgic for a time when some women stayed home to rear young children while some men served as sole breadwinners on behalf of their families. This nostalgia ignores the current reality: most mothers today are employed, helping to compensate for real declines in male wages, or in order to stave off persistently high rates of child and family poverty. As mothers allocate more time to employment, households struggle with less family time, in part because fathers have not managed to fill the care void. For men and women alike, work/life conflict is pervasive irrespective of earnings, and time to care personally is a common casualty.

New policy thinking is therefore in order. International research reveals that the best strategy to reduce early vulnerability is found in comprehensive government policy which supports parents (men as much as women) to synchronize caring and earning. The implications of this research for BC means citizens and businesses must support

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governments to invest \$3 billion annually in the following *15 by 15* Policy Framework for Optimal Early Human Development. Half of the \$3 billion investment will support families to enjoy more time and resources to care personally, while the other half will strengthen community services.

Time Recommendations

- *Build on maternity and parental leave* to enrich the benefit value, and to extend the total duration from 12 to 18 months, reserving additional months for fathers.
- *Build on existing employment standards* to support mothers and fathers with children over 18 months to work full-time for pay, but redefine full-time to accommodate shorter annual working hour norms without exacerbating gender inequalities in the labour market.

Resource Recommendations

- *Build on income support policies to mitigate poverty* among families with children.

Service Recommendations

- *Build on pregnancy, health and parenting supports* to ensure monthly developmental monitoring opportunities for children from birth through age 18 months, as their parents are on leave.
- *Build on early education and care services* to provide a seamless transition for families as the parental leave period ends in order to make quality services for children age 19 months to kindergarten affordable and available on a full- or part-time basis, as parents choose.

- *Build on the work of local Early Child Development (ECD) coalitions* in community planning to enhance program coordination between all local services that support families with children from birth to age six.

These six recommendations identify the public policy changes required to reap the dramatic economic returns available from reducing early vulnerability from 29% to 15% by 2015, and to 10% by 2020. Over a 60 year period, the benefits to society outweigh the costs by more than 6/1. Since a 2/1 ratio is a great return on investment, the 6/1 ratio shows that the proposed early human capital strategy is a phenomenal investment.

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 elementary, secondary and (sometimes) post-secondary education systems 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 *15 by 15* investments will personally contribute dividends to the economy. Clearly, this investment strategy requires patience as a virtue.

In response, we propose policy changes that will 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.

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.

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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.

In short, the *15 by 15* Policy Framework proposes a fundamental shift in how we think about health care and human capital.

We recommend shifting from treating illness after the fact, to promoting health from the outset of the human life course. The research evidence makes clear that this shift will accelerate economic growth enormously over the long-term, and that the economic case for the *15 by 15* Policy Framework is solid even in the near- and medium-term. The Framework provides a detailed blueprint for policy reform, and offers HELP's world-renowned monitoring and evaluation capabilities to guide the way.

The private sector, including business, stands to capitalize the most from the economic growth that well-designed family policy will generate. It is therefore time for the BC business community to actively join the call for evidence-based human capital investments which target the life course stage that will pay the greatest return: when parents and communities care for citizens in their early years. Only this bold policy reform will prevent the brain drain that is most threatening to our economy: the future human capital losses that result from high child vulnerability today.

The Human Early Learning Partnership (HELP) is an interdisciplinary collaborative research institute that is directing a world-leading contribution to new understandings of early child development.

HELP's mission is to create, promote and apply knowledge through interdisciplinary research to help children thrive.

The opinions expressed in this document are those of the authors and do not necessarily reflect those of the Business Council of British Columbia. HELP thanks the United Way of the Lower Mainland and the Vancouver Foundation for their funding contribution to this report.

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