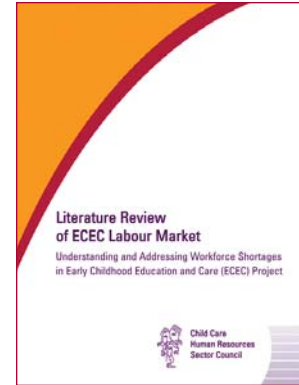


Executive Summary

Literature Review of ECEC Labour Market

Many complex factors affect the demand for and supply of workers in early childhood education and care (ECEC) and have contributed to the workforce shortages in the sector. The *Literature Review of the Early Childhood Education and Care Labour Market* analyzes these factors and is the first in a series of four reports produced as part of the Child Care Human Resources Sector Council's *Understanding and Addressing Workforce Shortages in ECEC Project*. For more information, download the full-length report at: www.ccsc-cssge.ca.



Demand for ECEC Services

The demand for ECEC workers is dictated by the demand for ECEC services. This is because regulations that stipulate staff-child ratios mean that the demand for services translates into an almost equivalent direct demand for workers. Additionally, employers cannot substitute technology for workers in the ECEC sector as they do in many others (Warner et al.'s 2003 U.S. study).

The demand for ECEC services is in turn influenced by a long list of factors, including: economic conditions, family characteristics, government programs and service availability, accessibility and quality.

One of the most important factors in understanding the demand for ECEC services is the price sensitivity of parents, as parent fees have a significant impact on service demand. When fees go up, the demand for ECEC goes down. Cleveland et al. (1996) and Powell (2002) report that a one per cent increase in the price of ECEC services in Canada results in a decline in demand by one per cent or more. Moreover, studies show that parents in Canada are more sensitive to price fluctuations than their counterparts in other countries:

- If the relative price of ECEC services in Canada rises by the same percentage as in other countries, demand drops more in Canada than elsewhere.
- If prices of ECEC services fall, demand increases by more in Canada than elsewhere.
- When mothers' wages rise, demand for ECEC in Canada does not increase as much as in other countries.

The combination of a high sensitivity to price changes with a low tendency to boost demand for services when mothers' wages rise means that price changes are the dominant factor in service demand in Canada. This has direct implications on the demand for ECEC workers.

Demand for Quality Services

Research indicates that parents value quality, but may often misinterpret the signals of quality because they don't have sufficient information. There is also some evidence of moral hazard, found by a U.S. study, where ECEC centres with positive observable traits, such as a clean reception area, tended to produce a lower level of quality for unobservable factors (i.e. staff training). Demand for quality is curtailed where parents cannot distinguish between high-quality and low-quality services. This can be described as a market failure, and is a reason for government involvement to encourage a more socially optimal outcome. One way this type of market failure can be overcome is by providing information about the quality of services offered by ECEC providers. Another way is via regulations.

Higher Levels of Demand in ECEC

The research shows that expansion, replacement and recruitment demand are much higher for ECEC workers than the average for all other workers:

- Expansion demand is larger for ECEC workers since employment is growing more quickly in the sector than in most other occupations.
- Turnover rates are higher in ECEC than in most other occupations and in fact most of the need for ECEC workers is due to replacement demand because of people leaving their jobs due to retirement, maternity leave, other family reasons, going back to school or finding a job outside the sector.
- Since both expansion demand and replacement demand in ECEC are much higher than for other occupations on average, total recruitment demand is also higher. High workforce turnover imposes recruitment challenges and can decrease the quality of care that children receive.

Lower Supply of Qualified Workers

ECEC worker supply is determined by the number of workers and the hours they work. The number of available ECEC workers depends on how many new graduates enter the workforce and the number of workers who choose to remain in the sector. There is evidence that enrolment rates for ECE programs are decreasing in some provinces. As well, many students enrolled in these programs do not go on to work in ECEC—more than half of ECEs do not end up employed in the sector. This has implications for the quality of ECEC services since this is influenced by the quality of the ECEC workers, which in turn is influenced by level of ECE education.

Conundrums in the ECEC Labour Market

There are two major conundrums in the ECEC labour market: *Why are wages low?* and *Why have they not increased along with demand?*

Conundrum # 1: Why are wages low?

One of the conundrums of the ECEC labour market is the low pay of the workers considering their level of education. Census data show that full-year, full-time workers in the occupation of early childhood educators and assistants (NOC-S E217) with a post-secondary certificate or diploma below a bachelor's degree earn roughly 55% of workers in all occupations with this level of qualifications. ECEC workers with a BA earned roughly 46% of all workers with that level of qualification. There are several reasons why wages can remain low:

- There could be non-monetary benefits from working in the sector (see Mocan and Tekin, 2000). The labour donation hypothesis suggests that ECEC workers consider their work important to society, and are willing to work in the sector even for low pay.
- Cleveland and Hyatt (2000) indicate that the low wage for ECEC workers may reflect discrimination, or other institutional factors that lower the wage rate amongst young, untrained, female workers.
- Employers could have some degree of market power, which would result in lower wages than what the employees would normally obtain.
- From the demand side, low wages may reflect a belief by some parents that the purpose of ECEC is fundamentally custodial, and that the base-rate worker need not, therefore, have any special training. As discussed earlier, parents' may also be unable to assess quality due to information asymmetry. These factors will lower demand for quality ECEC services. In turn, this will reduce demand for trained ECEC workers and place downward pressure on their wages.

(Recommendations cont'd)

- Employer characteristics can also influence wages, for example:
 - Non-profit status is linked to an increase in the wage of ECE-qualified workers. Worker wages decrease with an increase in the percentage of for-profit centre revenues coming from fees. However, for non-profit centres, the effect of an increase in fees as a percentage of revenues on wages is not significant.
 - There is some evidence to suggest that a higher number of spaces in centers and a higher number of centers per employer are linked to lower wages.
 - The linkage of centres to schools has a very positive effect on wages.
 - Grants as a percentage of revenues and centres' intake of subsidized children are shown to have no effect on worker wages.

Conundrum # 2: Why have wages not increased along with demand?

The second wage conundrum relates to the relatively small increase in wages despite a very strong increase in the demand for workers between 2000 to 2007. Part of the reason is the price sensitivity of Canadian parents and the sensitivity of the labour supply to respond to even modest wage increases. However, even after taking the greater sensitivity of parents into account, the analysis suggests that the gains in real wages in the sector are less than should have occurred given the increase in demand. This means that some other factor has caused a significant increase in the ECEC labour supply.

Interviews with key informants suggest that during periods of strong increases in child care spaces (and therefore demand for workers) governments might give more educational exemptions for centres needing to employ workers. Therefore, part of the reason for the low real wage increase in the sector is a shift toward lower qualified and lower paid employees during a period of strong demand. If the increase in less qualified staff results in a concerted plan to improve educational credentials, the response should be short-term, and could lead to higher educational attainment, better quality ECEC, and higher wages over time. However, if demand increases put quantity over quality, then wages for qualified workers will never catch up to what they could have been or should be. The pay of these workers will effectively be capped since they are competing against everyone who has a high school certificate or less—a vast supply of potential workers to quickly fill the demand at lower wages.

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