



Early Care and Education: A Regional Economic Framework

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Mildred E. Warner Ph.D.
Dept of City and Regional Planning
Cornell University

<http://economicdevelopment.cce.cornell.edu>



Outline

- Why do we under-invest in early care and education?
 - » Alternative frames for valuing ECE
- ECE is a complex sector, needs a comprehensive view
- The potential and limitations of an economic development frame



The U.S. Crisis of Care

- *We don't see a collapsing care system because we don't see care as a system to begin with.*
 - » *We see individuals making private decisions about who takes care of the children....*
 - » *We see families using the private market for services ...*
 - » *We don't add all of this up and call it a system that is working well or badly.*
- *When things go wrong,*
 - » *when a mother leaves children alone because she cannot afford day care while she works,*
 - » *when marriages fail under the stress of jobs and family demands, ...*
 - » *we generally see specific problems--moral, economic--but not an entire care system in trouble.*

Mona Harrington 1999 *Care and Equality* (p 25) ³



The U.S. Under-Invests in Children and Families

Public Expenditure

- Enrollment in publicly funded ECE
 - » Ages 1-2: U.S. 6%, Europe: 3-74%
 - » Ages 3-5: U.S. 53%, Europe: 66-99%
- Expenditure: US < 0.5% of GDP on ECE, Europe 2-6% of GDP

Work Place Policy

- Full time work: U.S. 40 hrs/week, Europe 35-39 hrs/week
- Required vacation: U.S. 0 days, Europe 20-25 days/year.
- Maternity leave: U.S. 0 weeks, Europe: 12 – 42 weeks

This undermines our global economic competitiveness

Sources: Kimmerman 2001, Gornick and Myers 2003



Why Does the U.S. Under-Invest in ECE?

- It depends on how we frame the debate
 - » **Private Frame** - Early care and education is the private responsibility of parents - Failures are moral, not structural
 - » **Welfare Frame** focuses on poor children only – Head Start, subsidies.
 - » **Education Frame** – Public responsibility for education begins at age 5
 - » **Economic Development Frame** focuses on businesses and physical infrastructure



Potential to Expand all Frames

- **Private Frame** – beginning to see ECE as a public responsibility too
- **Welfare Frame** – expanded subsidies under welfare reform
- **Education Frame** – increased public support for preschool
- **Economic Development Frame** - refocus on workers and role of child care as part of the social infrastructure for economic development



Cautions

- Don't lose sight of the private nurturing role of parents – support them structurally, not just morally
- Welfare approaches can undermine efforts to improve quality and sustainability in ECE
- Expanded preschool alone will not solve the problem
- Economic development approaches can create perverse incentives in a sector like ECE.



No Room for Simple Solutions

- Early care and education field is COMPLEX
 - » New business and economic development partners need to do the basic market research
- ECE experts must be at the table, as leaders, in designing new policy solutions
- Need to conceptualize the issue from the perspective of children, parents, employers and the regional economy, in the short and long term.



A Comprehensive Solution

- **Institutional Support for ECE Programs** to ensure quality.
- **Financial Aid for Families** to ensure access to quality ECE.
- **Work Place Policies** (e.g. paid parental leave, flexible work schedules with full benefits) to ensure parents can pursue careers *and* have time to nurture their children.
- **Publicly Funded Infrastructure** to ensure ECE professional development, program monitoring, consumer education, data collection and employer education.

Source: Stoney, Mitchell and Warner 2006. "Smarter Reform: Moving Beyond Single Program Solutions to an Early Care and Education System"



What is the Economic Importance of Child Care?

- » Children - Human development (cognitive and social skills)
- » Parents – Choice – career ladders, labor productivity
- » Regions – Child care employment, children served, regional economic linkage
- » Society – Sustainability, Social infrastructure





Economic Importance of ECE: Children

ECE promotes human development (cognitive and social skills) for school readiness and long term workforce development of today's children.

As a welfare expenditure, government funding for ECE has been considered an expenditure, a negative (-), in national accounts.

When reinterpreted as economic development, such expenditures become investments, positive (+), from a long term economic development and public finance perspective.

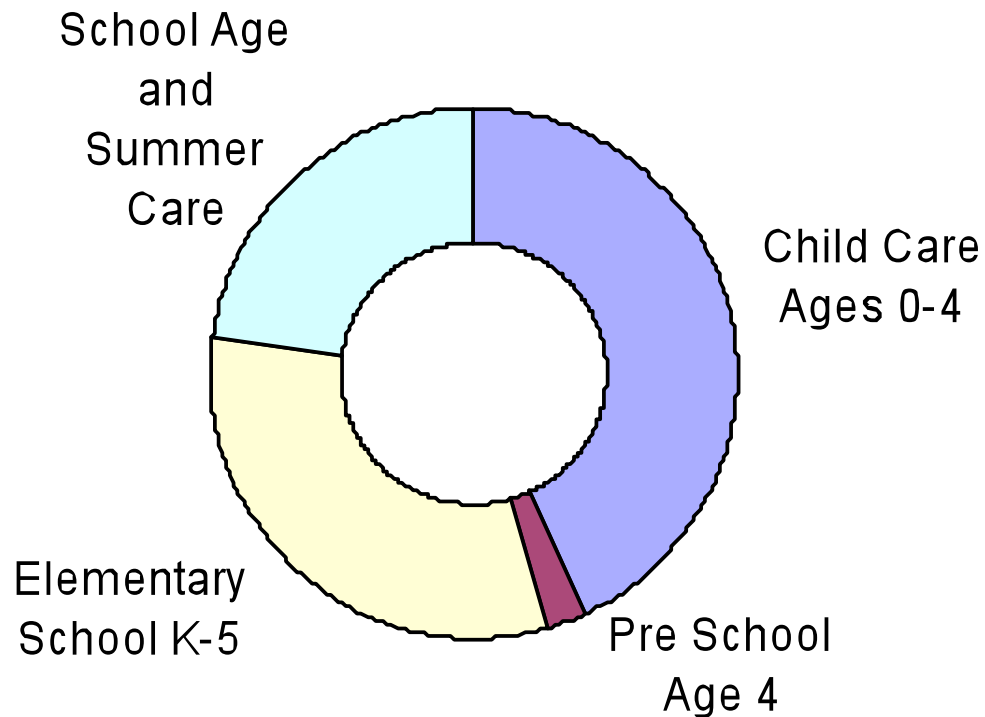
This is the exciting contribution of the economists who are looking at preschool.

But preschool is not enough.



Look at it from a child's view

Where are Children When Parents Work?



Estimate: Proportions based on 9 hours/day spent in out-of-home care from birth to 5th grade



Economic Importance of ECE: Parents

- Comprehensive child care and early education
 - » Promotes labor mobilization of parents as workers
 - Wide range in elasticity (\downarrow fees 10%, \uparrow employment 3-4%)
 - » Improves their productivity
 - 30% report breakdowns in child care, on average 5-9 days missed/yr
 - » Reduces turnover
 - Turnover costs 75-150% of annual wage. Costs business billions
 - » Enhances choice and career ladders, especially for women.
 - Earnings differential is a *Mommy Gap* more than a gender gap - it is largest between women who have children and those who don't.

Sources: APA 2004, Carillo 2004, Shellenback 2004, Gornick and Meyers 2003¹³



Employer and Government Responses

- Employers have expanded work-life policies
 - » parental leave, child care supports, flex time
 - » "In a period of record unemployment, U.S. [organizations] regard **work/family initiatives** as a competitive tool to aid in the attraction, recruitment and retention of world class talent." *Debra J. Nelson, senior manager, DaimlerChrysler, 2000*
- Government created dependent care tax credits in the 1970s but they no longer reflect the cost of quality care.
 - » 1982: \$2400 on child, \$4800 two children
 - » 2002: \$3000 one child, \$6000 two children
 - » If indexed for inflation 2002: \$4600 one child, \$9200 two children



Economic Importance of ECE: The Region

- ECE is an economic sector in its own right.
 - » ECE employment and children served are large and growing.
- ECE is a critical part of the social infrastructure for the economy.
- Economic developers and planners have come together to measure the regional economic impact of the ECE sector
 - » 50 state and local teams in the last 5 years
- ECE needs to think like a sector and explore an additional set of strategies and tools.



Importance of Comprehensive Data

The ECE sector suffers from uncoordinated data systems. Education, welfare, and economic data measure different pieces.

The sector is complex. We need to understand how formal market (paid) care, interacts with informal (paid) care, unpaid family care, and publicly supported preschool.

More comprehensive data is a good place to start.



The ECE Sector in Wisconsin: Employment

- Employment: 29,000 (CBP + IRS 2001) - 43,000 (WI licensing 2005)
- Twice the size of the dairy sector (22,500 workers = 6,500 dairy production + 16,000 dairy processing)
- Does ECE get the same level of economic development attention?



The ECE Sector in Wisconsin Children Served

- 227,000 children in regulated care and preschool.
 - » Less than 88,000 supported by public funds (Head Start, subsidies, public preschool)
 - » 273,000 children in WI under age 6 have all parents working
 - » It looks like WI has a shortage of quality care

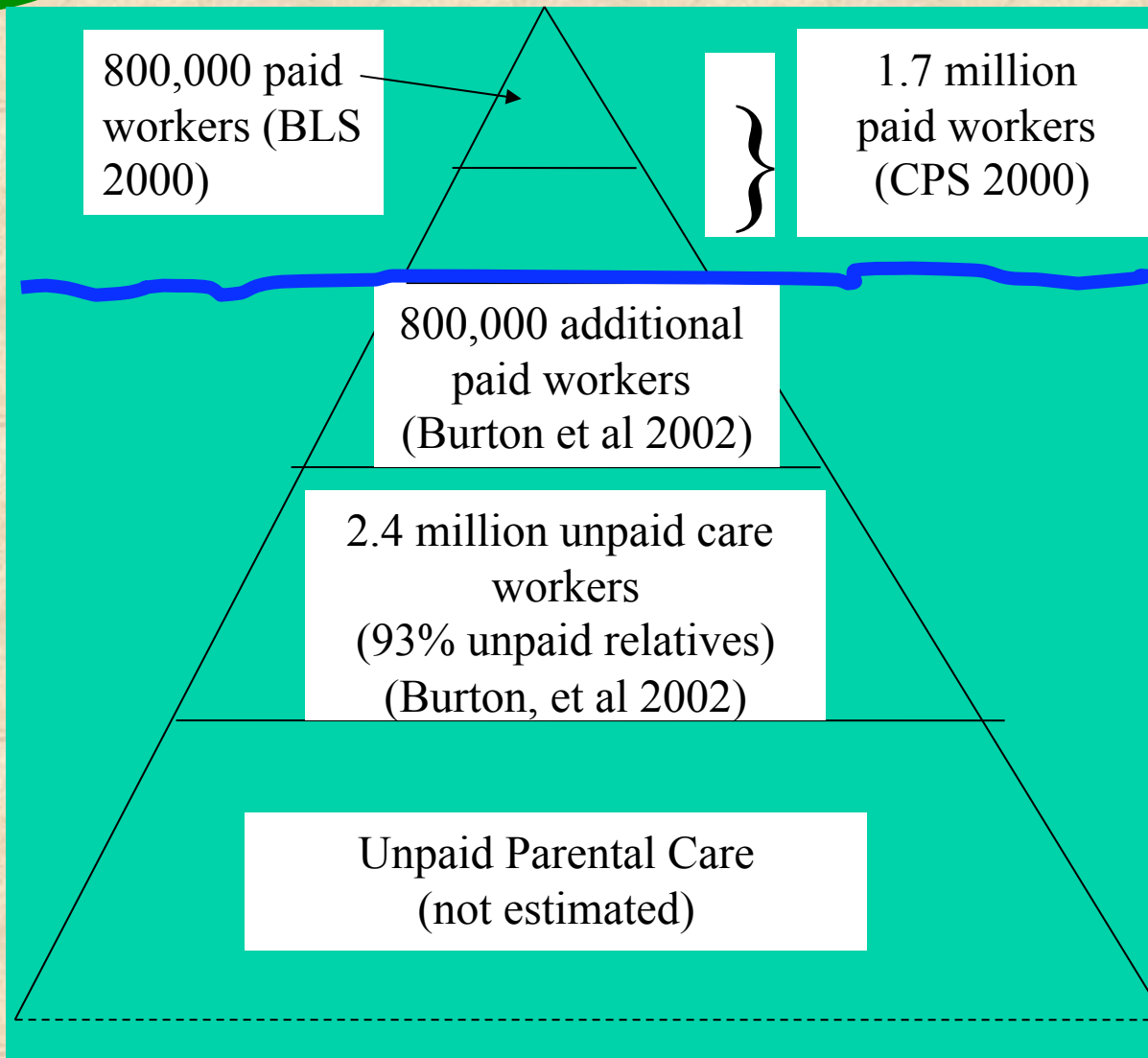


The ECE Sector in Wisconsin: Prices and Wages

- Average cost of care \$7000 - 9350/yr
 - » Costs are too high for parents, but too low for quality
 - » Subsidies cap at 75th percentile of private market. Families earning more than \$36,000 ineligible. How can this encourage quality?
 - » Working families, earning the median income of \$45,000, spend 18% of income on care with one child, 34% if two children. This forces parents out of the formal child care market.
- Average wage in child care \$15,000 - \$20,000
 - » Wages are too low to promote professionalization of the sector



Counting Child Care Workers Nationally : Most of the Iceberg Lies Below the Water Line



Burton, et al. (2002).
Estimating the Size and Components of the US Child Care Workforce and Caregiving Population: Key Findings from the Child Care Workforce Estimate. Washington, DC and Seattle, WA: Center for the Child Care Workforce and Human Services Policy Center..



Public and Private Good

- ECE is both a public and a private good
- As a public good ECE has market failures
 - » Market failures require government solutions
- As a private good ECE suffers from the challenges of an underdeveloped market
 - » These challenges can be addressed with economic development strategies
- Don't confuse the two



ECE is a Public Good

- As a public good ECE improves the human capital critical for a competitive economy.
- Public goods have market failures
 - » Our market based system of care undermines quality
 - » Markets focus on short term, but society needs long term investment
 - » Parents seek convenience and low cost, but children and society need high quality
- This is why our competitor nations provide greater levels of public investment in ECE.

Market failures must be addressed with public sector solutions: investment, regulations



ECE is a Private Good

- As a private good ECE supports working parents and their employers
- ECE is an underdeveloped market sector
 - » Providers lack economies of scale
 - » Low profitability leads to high turnover and suppresses quality
 - » Providers and parents lack information to distinguish quality
 - » Parents lack effective demand to influence supply and quality of care
- Market challenges can be addressed with economic development solutions



Economic Development Policy

- Be careful to distinguish public and private aspects of ECE when crafting economic development solutions.
- Economic development approaches are a complement, not a substitute, to broader public sector support.
- Economic development incentives must be applied with caution, because competition erodes quality in care work.
- Economic development policy itself is often poorly designed.



What is Economic Development?

- » Growth in jobs and income
 - Productivity (Porter)
- » Human development
 - Education, human capital (Schultz, Heckman)
 - Health (UNDP)
- » Choice and Freedom
 - Human Capabilities (Sen)
- » Sustainability
 - Environmental amenities
 - Innovation - Quality of Life (Florida)



Economic Development Policy

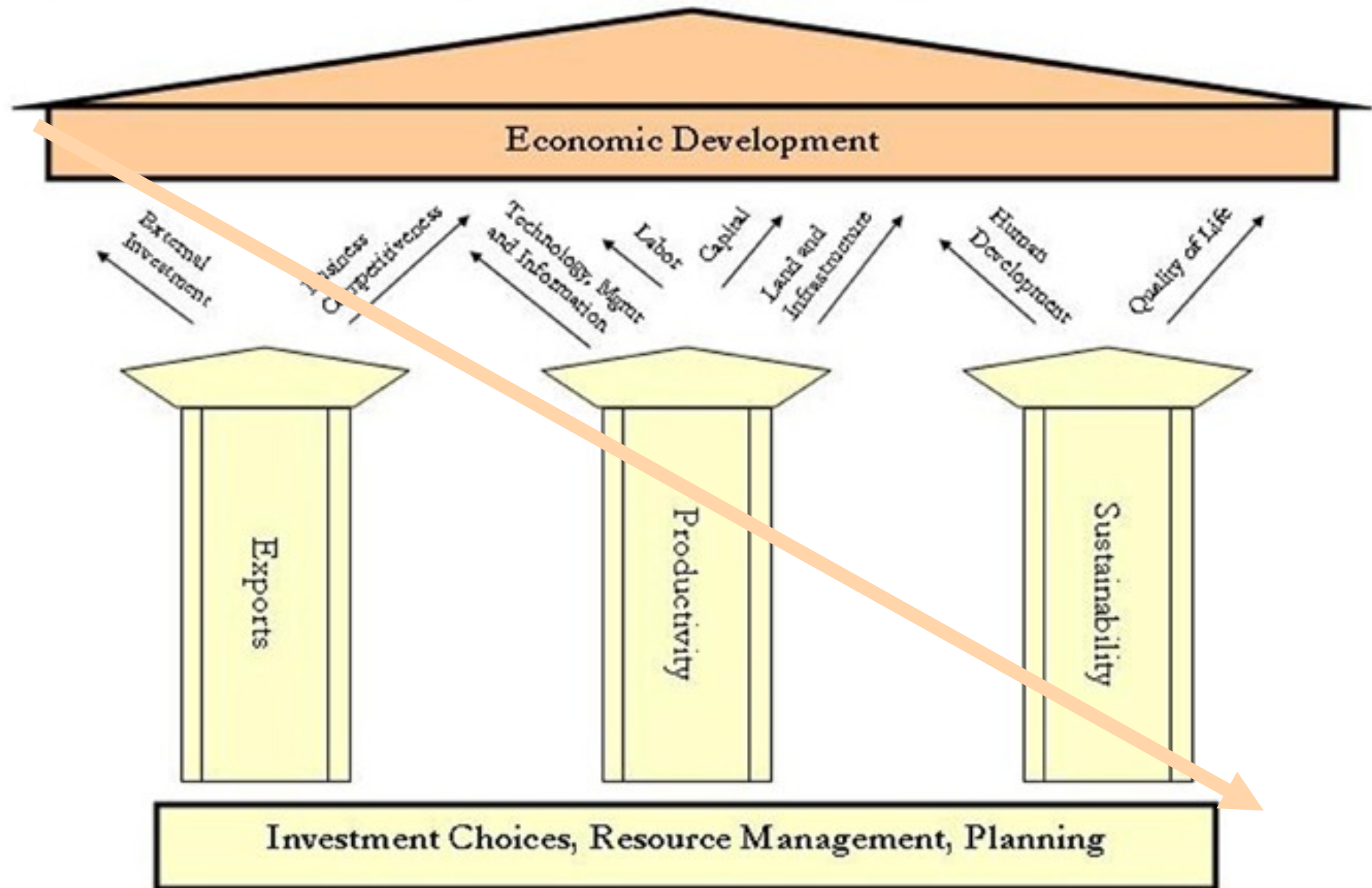
- The Primary Focus is Export Growth Promotion and Industrial Recruitment
 - » Manufacturing and information technology seen as primary drivers.
 - » Tax abatements and infrastructure development are the primary policy tools
 - » Service sectors and local demand are largely ignored
 - » Focus is on industry, not workers



Economic Development Principles and Strategies

- Productivity – Should be the focus
 - » Information/Networking – business clusters, management
 - » Labor – work force development
 - » Capital – finance
 - » Infrastructure – planning, transportation
- Sustainability
 - » Quality of Life – Human Development
 - » Triple Bottom Line – Environmental, social and economic
- These strategies could be applied to strengthen the ECE sector

Figure 1: Economic Development Principles and Strategies





ECE Can Strengthen and Refocus Economic Development Policy

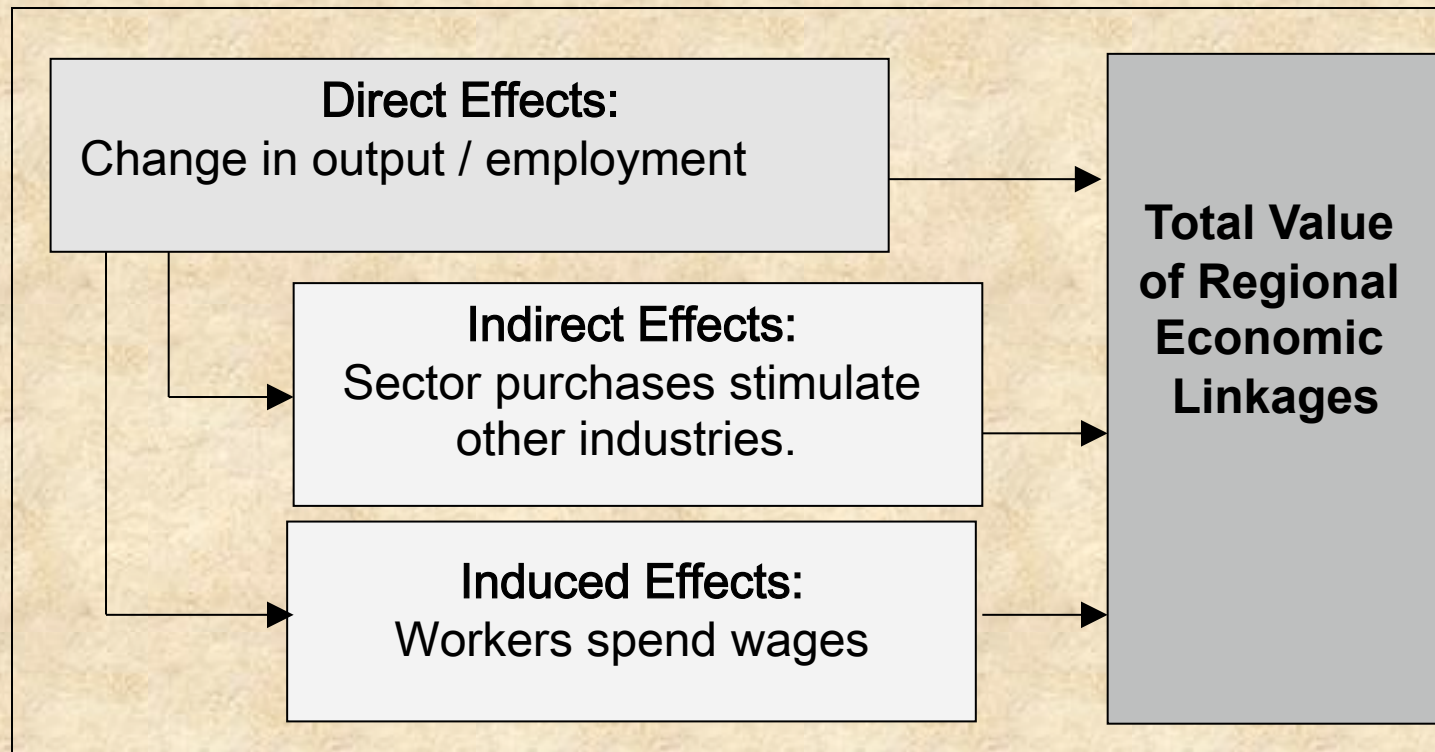
- Bringing ECE to the economic development table, has the potential to rationalize economic development policy
 - » Shift the focus from industrial attraction, to investments in productivity and sustainability
- ECE offers economic development benefits in the short term, not just the long term
- Economic development policy is based on incentives – this would be a new approach to improve sustainability in the ECE sector



Strategies: Tax Abatements

The most common economic development tool

Typically firms command abatements based on job growth and regional economic linkage





ECE Linkage Effects

- ECE sector has linkage effects as large or larger than many sectors which are traditional targets for economic development policy
 - » For every new dollar in ECE final demand, an additional dollar of economic activity is stimulated in the WI economy.
 - » For every new ECE job, an additional half job is created in WI.
- These short term economic impacts do not include the long term educational impact, or the labor productivity effects on parents.



Strategies: Productivity

- **Information**

- » Providers: Need collective management strategies to create economies of scale (in purchasing, fee collection, staffing)
- » Parents: Need better information on quality (Quality Rating Systems)

- **Labor**

- » Improve career ladders and employment conditions in the sector.
 - Professional enhancement (TEACH, quality investment, 4K)
 - Improve wages and benefits (e.g. health insurance to ECE workers)
- » Enhance Work Life Policies for all workers
 - Business support for enhanced tax credits to workers



Strategies: Productivity

- **Capital**
 - » Facility and Operating Finance
- **Infrastructure**
 - » Include ECE in land use and economic development planning
 - » Include in new industrial and housing development
 - Child care in industrial parks
 - » Include as part of transportation planning
 - Journey to work is actually journey to child care and then work



Child Care is Economic Infrastructure

- Roads, airports, and buses enable people to get to work and businesses to get their supplies.

- Child care enables parents to work.



- Riders only pay a “token” amount toward the cost of public transit (26% of cost of urban public transit*)

- Parents pay 87% of the costs in child care centers

*The Urban Transit Fact Book, <http://www.publicpurpose.com/>



New Visions for Economic Development Policy

- Balanced Growth Strategies
 - » Support both export industries and those service sectors (like child care) which enable other sectors to produce
 - supplements the “tradable sectors” focus of most regional economists (Porter)
- Quality of Life
 - » Once considered a product of economic development, it is now considered a *precondition* for it. (R. Florida, Creative Economy)



Broadening Economic Development

Reinterpret investments in care as economic development

- Business – Work Life Policies for productivity gains
- Government – Social expenditures as economic development investments
- Economic Developers – Social investments as infrastructure for economic development

Will ECE broaden economic development policy?

Will interest in ECE extend beyond child effects to acknowledge the challenges of working parents and ECE's role in the regional economy?



Collaboration Challenges

- Will an economic development approach help create a more comprehensive policy response?
- Whose voice will lead – business, economists or child care?
- Business leaders' collaboration with ECE must be as 'power with,' not 'power over'.

Economistic conception of social goods

- » Will this narrow or broaden our conception of citizenship, and our support for care?

Will this approach enhance public will to invest in ECE?



Cornell's Linking Economic Development and Child Care Project Reports

can be found at

<http://economicdevelopment.cce.cornell.edu>