



Child Care: Critical to Economic Recovery

Plenary Presentation

State Administrator's Meeting

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1. The Economic Importance of Early Care and Education

- » Children - Human development
- » Parents – Labor mobilization, career ladders and support as caregivers
- » Regional Economy – Businesses and employment, social infrastructure

A nested view is ecological and sustainable.



Endangered Species: Endangered Idea



Economics of the ECE Market

- ECE is a very complex sector which most economists do not understand
- Data is inadequate – resulting in severe undercounting of the sector
- Policy interventions come from a welfare frame – not an economic development frame.
 - » Must understand both the *supply* and *demand* sides of the market in the short and long term.



New Challenges and Opportunities

- Growing interest in ECE from economic developers, business leaders and planners
 - » Bring new frames and new policy tools
- Recession brings new challenges/opportunities
 - » Formal center based child care shrinking
 - » May lose supply & quality gains of the last two decades
 - » Opportunity to use stimulus funds to support ECE
- Administrators need to understand the child care market, reach out to new partners, and employ new policy tools.



Justifying Investments in ECE

Traditional Frames

Welfare – Head Start, CCDF.

- Focused on poor children - have expanded since Welfare Reform

Education – Increased public support for pre-school

- Now in 38 states.
- Investment interest in preschool for long term fiscal balance

Primary Policy Tool- Regulation

New Frame

Economic Development – ECE is a market sector

- Child care as now seen as *critical social infrastructure for economic development*

Primary Policy Tool- Incentives



ECE is a Market Sector

Over 70 state and local teams of business and ECE leaders have studied the economic impact of their child care sectors.

- » *Supply* – size and structure of sector, returns, profitability, size and characteristics of the labor force
- » *Demand* – nature of parental demand and government demand, price sensitivity to quality
- » *Broader Economic Linkage* – multiplier effects in regional economy, parental labor force mobilization

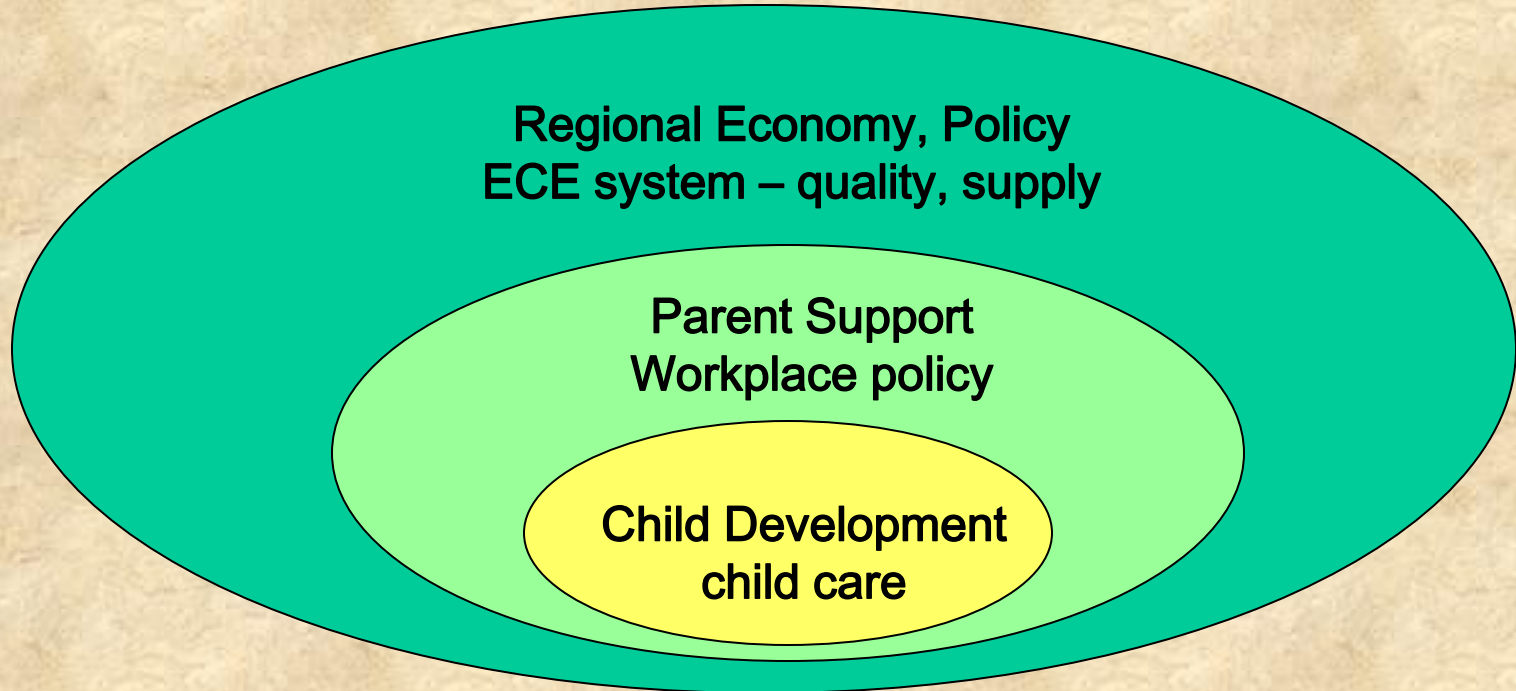
Child care is now part of the economic stimulus package

Even Congress recognizes child care is a critical social infrastructure for economic recovery!



Need a Comprehensive View

Quality child care is provided in the *home*, in the *market* and in *public preschool*. We need a comprehensive system that supports all three.



Morrissey, Taryn and M.E. Warner 2007. "Why Early Care and Education Deserves as Much Attention, or More, than Prekindergarten Alone" *Applied Developmental Science*, 11(2): 57-70.



Economic Importance of ECE: *Long Term: Child Development*

Economists are reinterpreting ECE expenditures as investments, positive (+), from a long term public finance perspective.

This is an exciting new perspective.

Cautions:

High returns from model programs may not be replicated when programs go to scale

Preschool alone is not enough

Long term focus does not motivate short term policy response



Economic Importance of ECE: *Medium Term: Parents*

- Promotes labor mobilization of parents as workers
- Employers have expanded work-life policies
 - » Parental leave, child care supports, flex time
 - » These programs pay for themselves in the short term
 - Reduced absenteeism and turnover, Increased productivity
 - » Most employers do not measure the effects on productivity
 - These policies may be at risk in the recession
- US social supports are primarily run through employers
 - » We need public policy that strengthens an employer role
 - » Human Resource leaders are key business sector partners



Economic Importance of ECE: *Short Term: Regional Economy*

- Child Care is an economic sector
 - » Employment larger than many other sectors
- Child Care - a Critical Social Infrastructure for Economic Development
 - » Key element of quality of life in communities
 - » Over 80% of economic developers believe child care should be part of economic development policy (surveys in NY, WI)
 - Recognize inadequacy of supply
 - Problems with affordability
 - Need for better data



Economic Importance of ECE: *Short Term: Regional Economy*

- National survey of planners finds over 90% see families as critical to viable communities (APA survey 2008)
 - » Link child care to transportation, housing, business development
 - » *Planning Magazine* argues “Child Care is a critical community infrastructure” (June 2007)
- Child Care recognized as “essential service” eligible for FEMA funding
- Source: Israel and Warner 2008



New Opportunities

- Reach out to new partners: business leaders, economic developers, planners
- Maintain a broad comprehensive view - reflecting the full range of ECE services
- Test new policy arenas and new policy tools
 - » Incentives and infrastructure vs regulation
- Remember ECE is a complex market
 - » There are no simple solutions



II. Understanding the Child Care Sector

- Must understand both demand and supply sides of the market
- Recognize parents substitute between formal and informal, paid and unpaid care
- Child Care is an underdeveloped market sector
 - » Information problems, lacks intermediaries, economies of scale, ease of entry/exit
- Public good aspects of child care (quality, access) require public investment
 - » Markets under-supply public goods




Challenges

- Economic Data misses much of the ECE sector
 - » State child care agencies have more comprehensive data
- Economists consider manufacturing and finance more important than local services
 - » Local services are the *MAJORITY* of US employment
 - » Local services provide the quality of life critical to economic development

Counting Child Care Workers Nationally:

Most of the Iceberg Lies Below the Water Line

**1.7 million
paid workers**
(CPS 2000)



800,000 paid workers (BLS 2000)

900,000 additional paid workers (CPS 2000)

800,000 additional paid workers
(Burton, et al 2002)

2.4 million unpaid care workers
(93% unpaid relatives) (Burton, et al 2002)

Unpaid Parental Care

(12% of total U.S. Paid Work Time, 2005 ATUS:
Approx. 17 million worker equivalents)



Recession – Impacts on Child Care

- Formal center care supply is shrinking
- Family and informal care is expanding
- When economy rebounds, informal care will contract as providers return to work in the formal sector
- Crisis – Child care supply will contract precisely when economy is expanding
 - » Will exacerbate labor shortage
- Need thoughtful infrastructure investment now

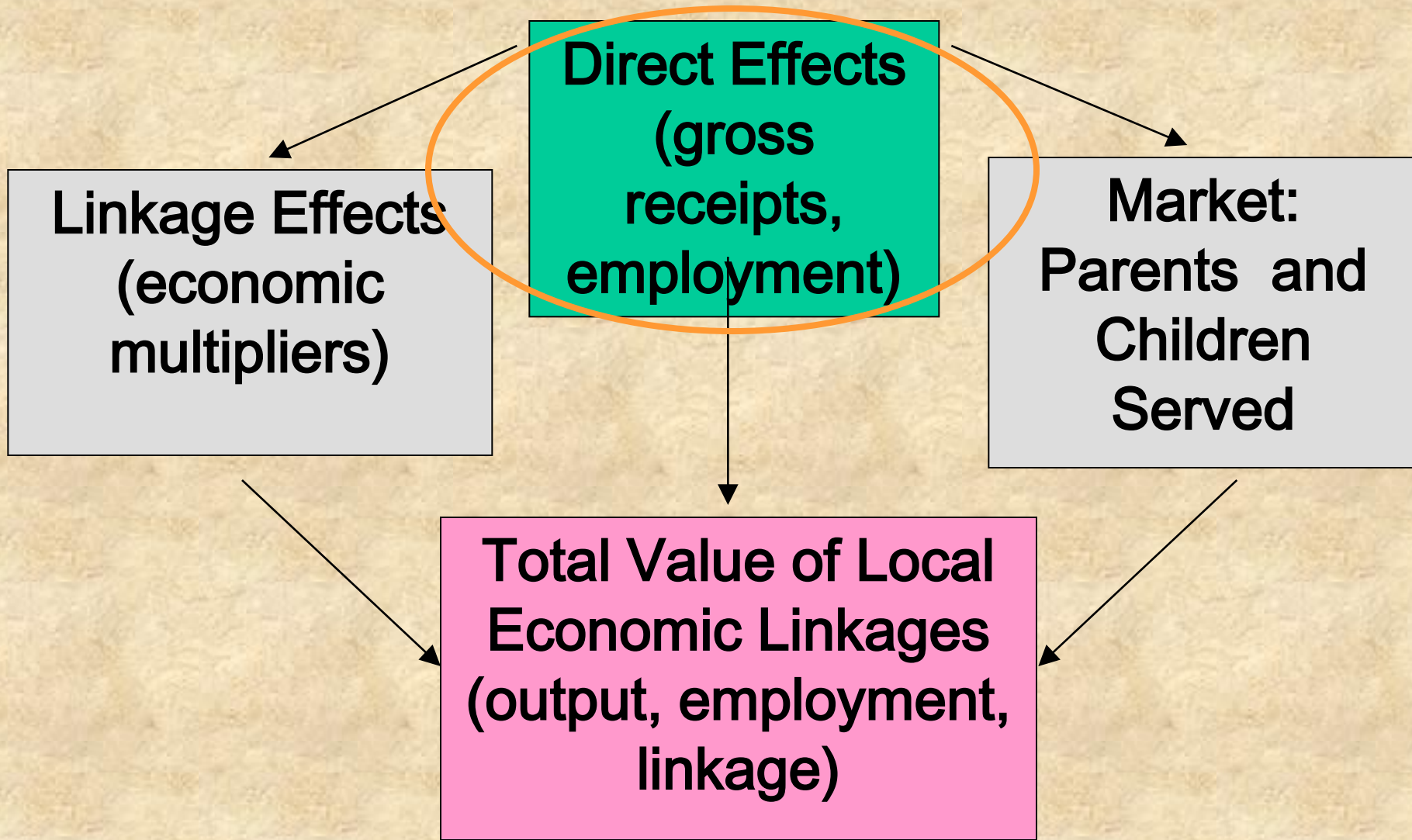


Start with Better Data

- State CCDF lead agencies should know the size of the child care sector
 - » Count *all* forms of care – Preschool, Head Start, Child Care, School Age.
 - » Understand the entire ECE market when making policy
 - Data separated by funding stream does not capture the full market.
- Economic Census captures large providers (> 10 workers)
- IRS captures self employed who pay taxes
 - » Finds 20%-300% more family providers than those included in state licensing data bases
- Try to count informal providers and FFN care.



Counting the Economic Importance of Child Care





Economic Importance of Child Care in New York State

Size of Sector:

\$4.7 billion

119,000 jobs

22,000 businesses

Linkage Effects:

2.04 output (\$)

1.52 jobs

Market

622,000 Children Served

750,000 Parents

(\$30 billion wages)

**Economic
Importance of
Child Care**



ECE Employment in NYS

Employment comparison for selected industries

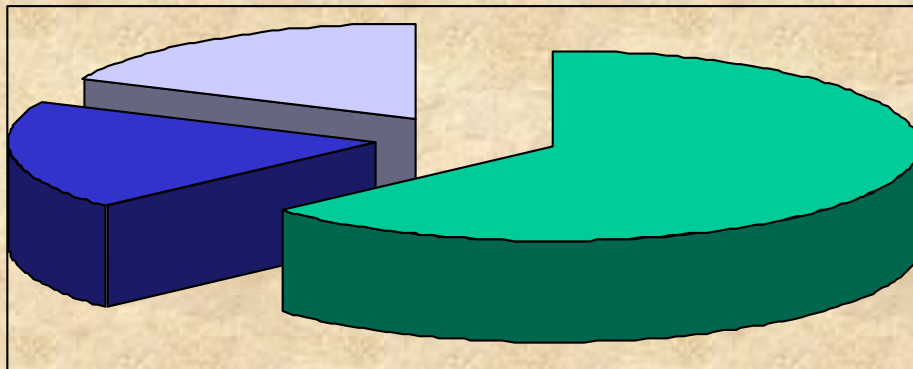


State Admin data finds 65,000 more ECE workers than Economic Census (55,000).



Gross Receipts of the Child Care Sector: \$4.7 Billion

Government funding is only a small piece of the market



(63% Parent Fees)

- Parent Tuition Payments**
- Government Subsidies to Parents**
- Government Investments in Quality and Education (UPK, Head Start)**



ECE Sector is Larger than You Think!

Sectors	Industry Output*	Employment
<u>Child care</u>	<u>\$639</u>	<u>14,221</u>
Local Passenger Transit	\$564	12,306
Colleges & Universities	\$1240	32,205
Hospitals	\$6226	88,939
Water and Sewer	\$140	673

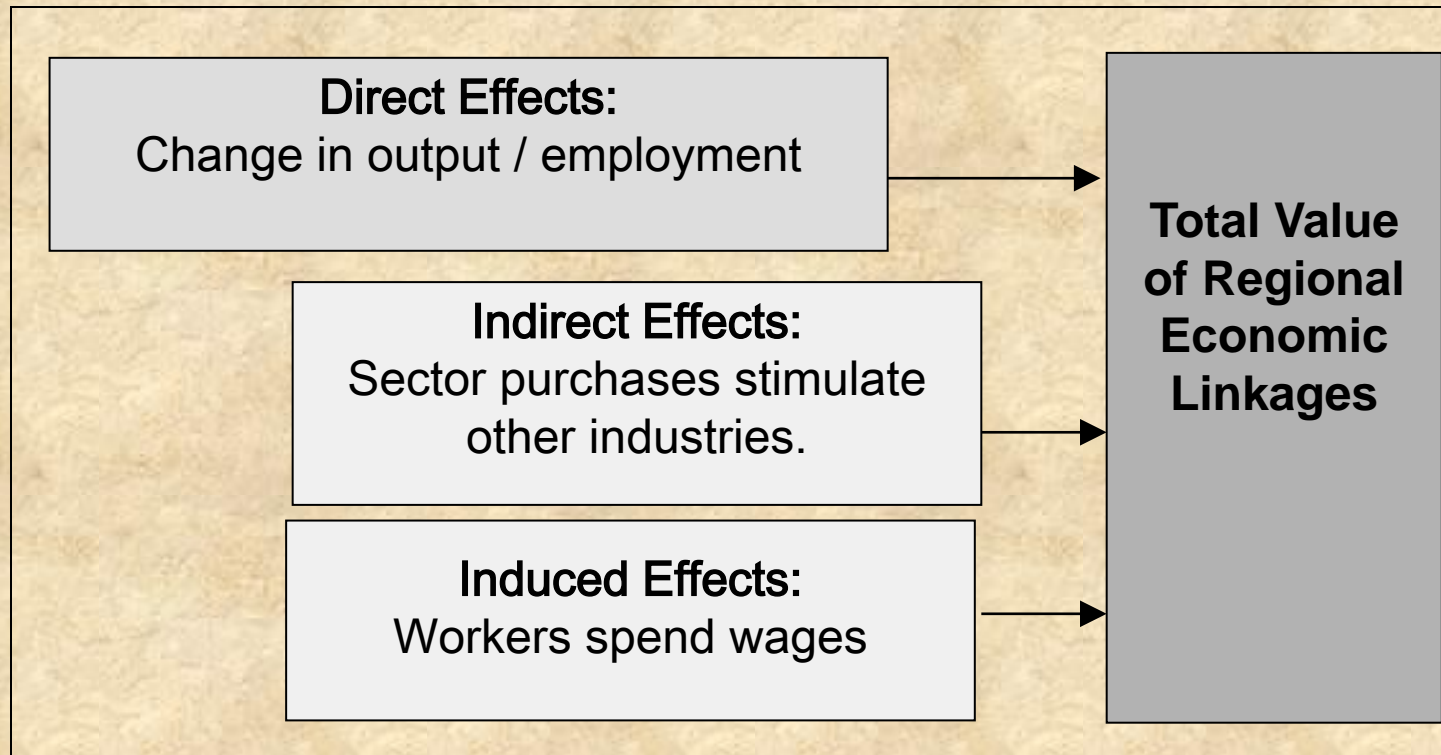
State averages
2000
*\$ in millions

Warner and Liu 2006



Understand Economic Linkage

Multipliers capture the additional rounds of spending stimulated in the broader regional economy



See Ribeiro and Warner 2004, Liu, Ribeiro and Warner 2004
and Warner 2009



Linkage Effects: Multipliers

- Economic Impact
 - For every new dollar invested in ECE, the statewide economic benefit is almost \$2.00
 - For every new job created in ECE, the statewide economic impact is 1.5 jobs
 - These multipliers are higher than for infrastructure, retail or tourism.

This is why child care is logically part of the
Stimulus Package



ECE has Higher Linkage than other Infrastructure Sectors

Sectors	Output Multipliers	Employment Multipliers
<u>Child care</u>	<u>1.91</u>	<u>1.50</u>
Local Passenger Transit	1.72	1.35
Colleges & Universities	1.84	1.37
Hospitals	1.79	1.67
Water and Sewer	1.67	2.68

State averages
2000

Type II
multipliers

Liu et al. 2004



Social Infrastructure Effects

- Child Care is a unique sector - it also has a parental employment effect
 - » Calculate # of parents served * average wage
 - » In NYS: 750,000 parents * \$45,600 avr. wage = \$30.5 billion
- Maintaining Child Care Infrastructure
 - » Centers will close if lose too many children
 - Hard to rebuild center supply
 - » Subsidies can keep centers open for future demand
 - » Can calculate multipliers on losses prevented as well



Avoid Reductions in Programs

- In 2003, Kansas proposed reducing eligibility for subsidies from 185 % to 150 % of poverty.
- That this would cause a direct loss of \$4.8 million (\$3.3 million Federal dollars) and 217 jobs.
- Economic impact analysis showed a further loss to the state economy of \$3.2 million and 77 jobs.
- The total loss to the Kansas economy was \$6.5 million and 217 jobs.
- This logic helped convince the legislature *not* to lower eligibility



III. Policy Options

- Understand Challenges of the Child Care Market
- CCDF Subsidies – Primary Policy Tool
 - » Understand role of subsidies in a market
- Economic Development Tools
 - » Business Management, Tax Credits, Infrastructure Investments
- Role of Employers and Related Gov't Policy
 - » Workplace Policy



Challenges of an Underdeveloped ECE Market

- Information problems – hard to distinguish quality or charge a premium for it
- Ease of entry/exit – undermines stability of higher quality, formal providers
- Lack of intermediaries – for economies of scale, shared services, coordinated supply response
- Need subsidy for quality – parent market alone can not bear the cost



Primary Policy Tool: Vouchers (CCDF)

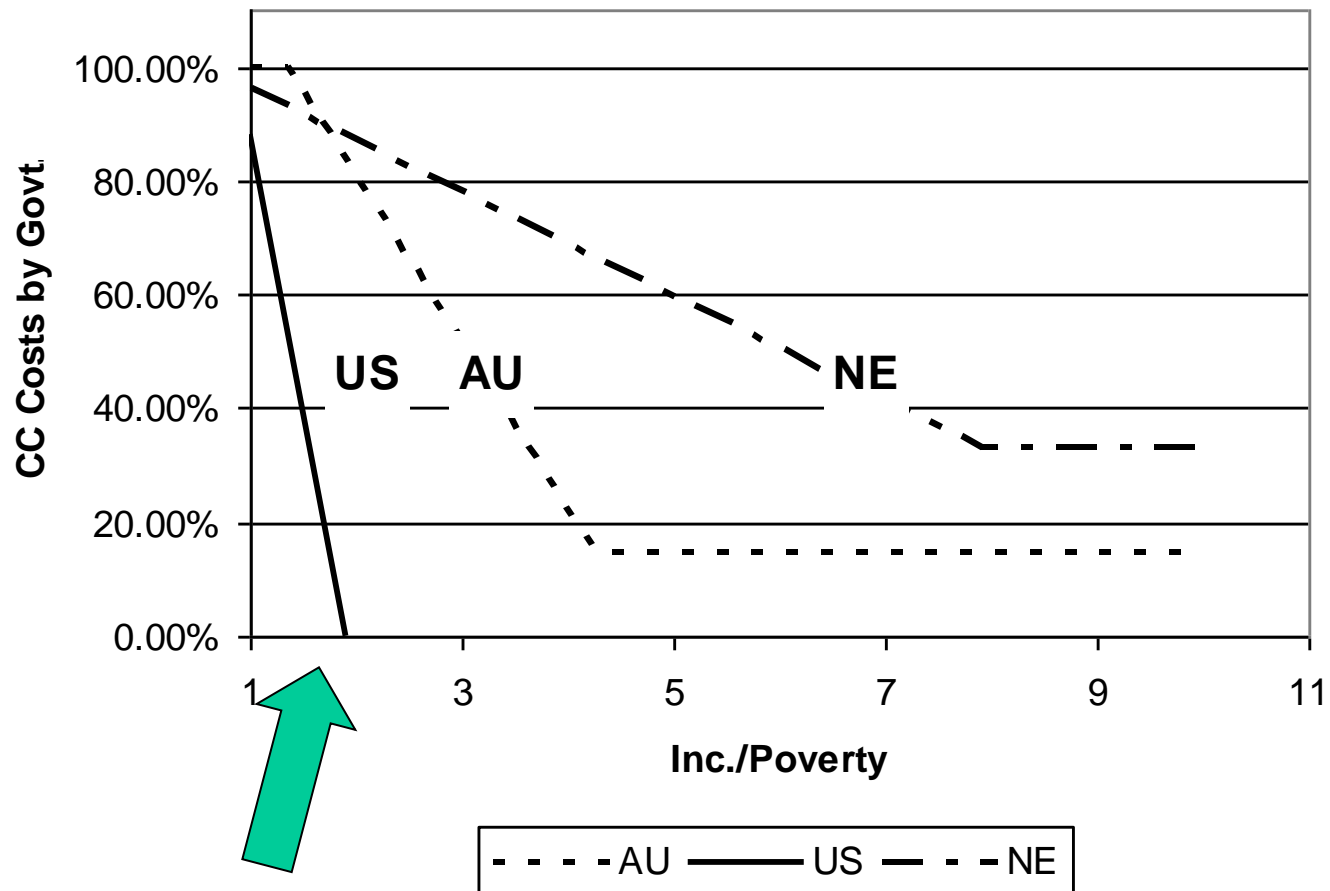
Demand Side

- Increase effective demand and parental choice
 - » Supplement what parents can pay
- Reality of Constrained Choice
 - » Not enough supply of quality child care
 - » Not available at prices parents can afford
 - » Almost no formal quality child care for second and third shift
- Cliff Effect
 - » Leaves out middle income parents
 - » Produces uneven supply response



US subsidy ends at 200% of poverty. Australia and Netherlands have a slower drop in subsidy rate and some subsidy for *all* children.

Figure 2: Subsidy-income scheme



Warner
and
Gradus
2009



Shift in Structure of Supply after Introduction of Vouchers

Figure 3b: Australia

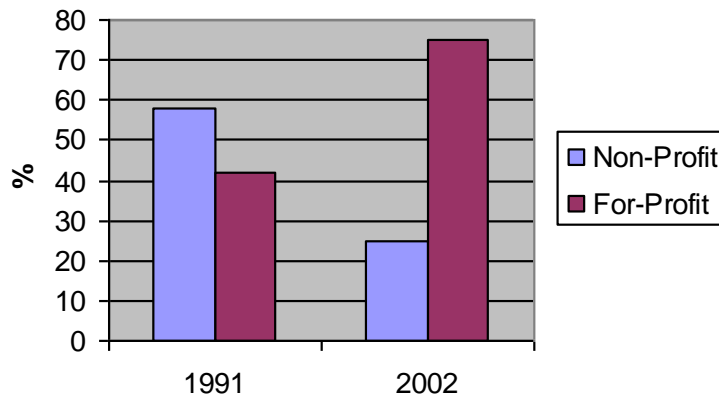


Figure 3c: USA

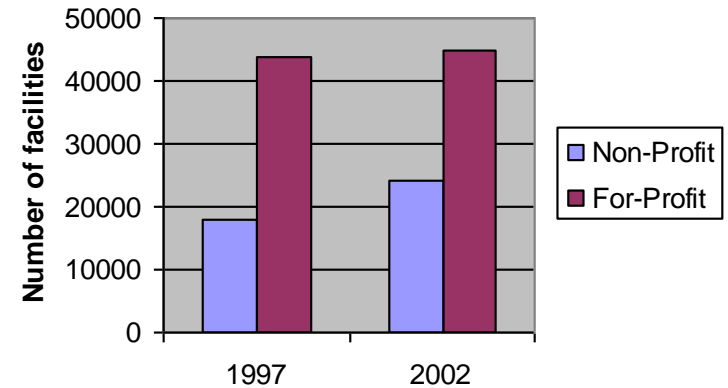
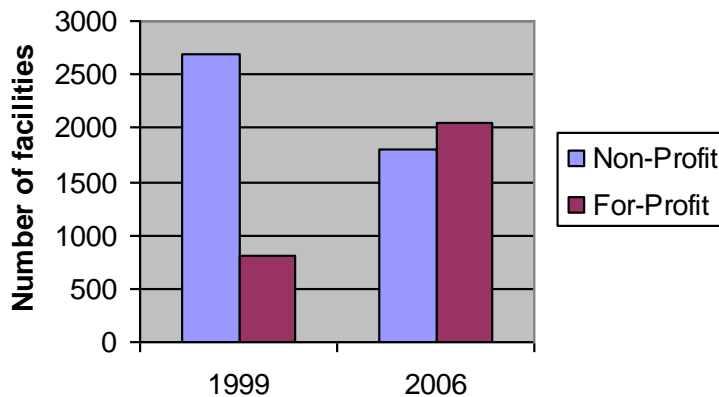


Figure 3a: Netherlands



Australia & the Netherlands set vouchers high enough and made available to all parents - attracted a private sector supply response. The US did not.



What Have Vouchers Bought?

Supply Side

- » Slight improvement in center care in urban minority neighborhoods (Covington 2007)
 - Still inadequate to need and lower than in higher income, white communities
- » Some increase in non profit care
- » Continued dependence on informal care
 - Especially in rural markets and for second and third shift care
- » Little improvement in quality



Role of Government in the Market

- **Pricing**

- » As the largest buyer in some markets, government may be a price maker not a price taker
- » To achieve quality, government should set prices based on what quality programs cost
 - Market Rates in a recessionary market will drive quality lower

- **Quality**

- » Link vouchers to information – QRIS Systems
- » Make vouchers large enough to enable parents to purchase quality
- » Provide provider subsidies to promote quality

- **Coordination**

- » Support intermediaries to achieve scale economies



Economic Development Policy

Economic Incentives vs Regulatory Sticks

- » *Lack Economies of Scale – High Turnover – Low Profitability*
 - Small business management and investment - Shared services, new business and finance models
- » *Skill Upgrading*
 - Workforce development - Tax credits and supplements
- » *Lack of Infrastructure Support*
 - Link to transportation, planning and Stimulus Funding
- » *Information Problems (supply and demand side)*
 - Quality rating improvement systems
- » *Lack of Effective Demand*
 - Subsidies to parents and providers, tax credits

See Warner et al 2004 Economic Strategy Guide



Tax Credits

- Popular economic development policy
 - » Can be applied to child care
- Easy to administer
 - » Link to IRS, encourages people to file taxes
- Structure to reach parents, providers, child care workers and employers.
 - » Reach all parents – not just the poor
- Politically easy to sell
 - » Not subject to yearly budget battles

See Stoney 2007



Workplace Policy

Need Work Place Policy Reform

- Employer Role
 - » Encourage paid time off
 - » Flexible work schedules (for parents, not just employers)
 - » Dependent care supports
- Government Role
 - » Set minimum standards – create a level playing field
- US workplace policy is no longer competitive in a global economy
 - » 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



Link Government Policy to Quality

- **Dependent Care Tax Credits**
 - » 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
 - » Should be refundable – as many states have done
- **Flexible Spending Accounts**
 - » Dependent Care limited to just \$5000 regardless of number of children – never raised, not indexed to CPI, not linked to quality.
- Should reflect the cost of quality care.
- These are the only programs for the middle class!³⁸



Need a Comprehensive Solution

- **Address market challenges of the sector**
 - » Institutional Support for ECE Programs to ensure quality and encourage economies of scale.
 - » Government purchasing to generate a supply response where needed
 - » Publicly Funded Infrastructure to ensure ECE professional development, program monitoring, consumer education, data collection and employer education.
- Government must build the infrastructure critical to an effective child care market.



Need A Comprehensive Solution

- **Financial Aid for Families**
 - » Need to ensure access to quality
 - » Need to address workplace policies – recognize parents substitute between market care and family care – we need to support both
 - » Need programs that serve the middle class, not just poor parents

See Stoney, Mitchell and Warner 2006



Linking Economic Development and Child Care Project Reports

can be found at

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