



LINKING ECONOMIC DEVELOPMENT AND CHILD CARE RESEARCH PROJECT  
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# Economic Development Strategies to Promote Quality Child Care

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## BACKGROUND

The tools of economic development can help child care planners build more support at the local and state levels. Quality early care and education (ECE) benefits more than parents and children; it also supports the local economy, making child care a good investment in the future of the community. Using economic development tools effectively means making some changes in how we think and talk about the ECE sector. One of the advantages of using the language of business is that it gives those in the business and economic development communities rationales to support child care that are consistent with their worldview. This issue brief -- and the book on which it is based -- uses this language.

## WHAT IS ECONOMIC DEVELOPMENT?

Economic development fosters an economy's capacity to generate wealth for its residents by focusing on job creation. When economic development is done correctly and targets the critical factors—*information and management, labor, capital, and infrastructure*—it is possible to maintain a high level of employment and job quality. But economic development is about more than just jobs and income; it is a strategy that seeks to improve productivity of local resources, encourage business profitability and promote community sustainability and quality of life. Figure 1 (page 2) identifies the three core pillars of economic development—exports, productivity and sustainability—and links them to community action strategies that can be applied to child care.

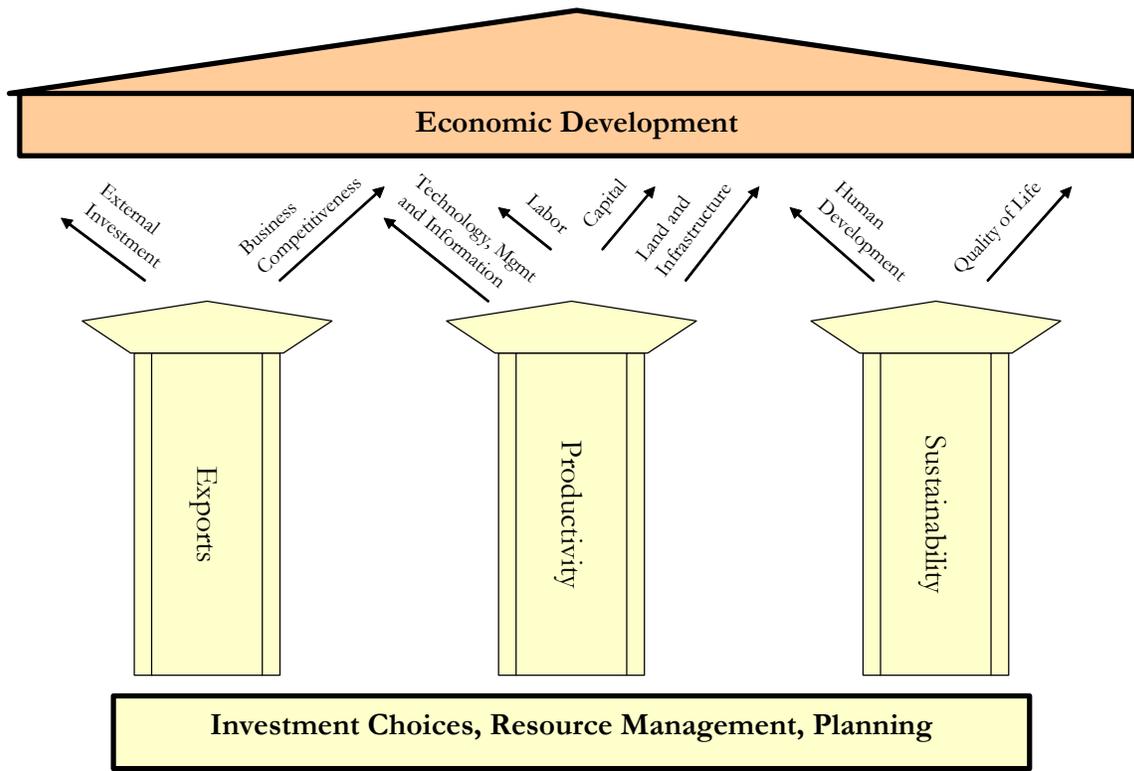
**Exports** are the most traditional form of economic development. The purpose of export strategies is to attract external investment to the community. Tax credits are the primary export attraction strategy. A recent report by the Committee for Economic Development (2004) argues that child care offers greater return and substantially less risk than most economic inducements and “should be included by state and local leaders as a component of their economic development policy toolkit.” Although child care services are primarily consumed locally, states and localities can maximize their draw down of federal funds for child care and this import of new money will have a similar economic stimulus effect to that of other export industries. Tax credits also can be applied to child care (to encourage business, charitable or parental investment in the sector)

**Productivity** enhancement will increase business efficiency and profitability, promote a competitive workforce and a positive business environment. Productivity strategies promote more effective use of the factors of production: information and management, labor, capital and infrastructure. All of these strategies can be applied to child care. CCR&Rs and other intermediary agencies can promote information and shared service networks among providers and between providers and consumers. Child care programs at multiple sites can be managed collectively. Labor strategies can enhance quality and retention of child care personnel. Employer based work-life policies can enhance child care support for parent workers. Access to operating and capital financing is also

critical for the child care sector. Some banks have used child care funding to meet their Community Reinvestment Act requirements. Housing and

transportation are two forms of physical infrastructure which can be used for child care by co-locating child care in new facilities.

Figure 1: Economic Development Principles and Strategies



**Sustainability** is the third pillar of economic development. Businesses recognize that their bottom line is influenced by quality of life and human development. Around the country, coalitions of business and government leaders are coming together to design a more comprehensive child care system. Attention is focused on parental access and affordability, improved quality, and better integration of the early care and education sector with the broader political and economic institutions in the region.

**HOW CAN CHILD CARE LEADERS GET INVOLVED?**

Economic development planning attempts to intervene in the local economy to generate new employment and business opportunities. The planning process represents an effort on the part of the local government, businesses and community-based organizations to ensure that equitable and balanced opportunities for employment occur within the community. While this process can be very political, most communities also recognize the need to engage in a thorough and pragmatic planning process. Before the planning process can begin, a convener needs to create a team of community

actors to participate in the process. Chambers of Commerce and or business leaders are typically involved in economic development planning. CCR&R agencies, and other early care and education leaders, can play a key role in helping the business community recognize the need to integrate child care in the local economy. Getting involved in local planning efforts is a key first step.

*Child care is a unique market sector in that it serves both private and public needs. The sector suffers from the lack of affordable, high quality services. This central problem results both from the underdeveloped child care market and from market failures within the child care sector.*

**Private Good: Underdeveloped Market** - There are four areas where the child care market is underdeveloped and could be strengthened with economic development policy. First, there is a *lack of effective demand* from parents for high quality child care. This lack of purchasing power sends market signals that discourage higher quality. Better consumer information and strategies to enhance affordability (such as expanded parental tax credits and subsidies) can help.

Second, there is *low profitability* in child care due to high labor expenses required by high staff/child ratios. To keep costs down, firms pay low wages, resulting in a low-skilled workforce and high staff turnover. Financial support to help programs enhance wages, linked to the increased training and education of their staff, would help.

Third, the child care sector *lacks economies of scale*. The sector is largely composed of scattered small businesses, reducing opportunities for cost reduction. Economic development can promote cluster and provider networking and collective management or shared services strategies.

Finally, the sector *lacks product differentiation* and intermediaries with enough resources to provide sufficient information so parents can understand differences in child care quality. This is the role of marketing--both by individual programs and collectively as a market (as occurs with system-wide quality rating systems.)

All of these problems can be addressed with economic development solutions, many of them with leadership from the private sector. Table 1 (page 4) describes a few of these solutions. For more detailed examples of a wider array of economic development strategies see the Economic Development Tool Box section of the Cornell University report. <http://government.cce.cornell.edu/doc/pdf/EconomicDevelopment.pdf>.

**Public Good: Market Failures** - As a public good, high quality early care and education prepares children for school and improves the human capital critical for a competitive economy. While economic development strategies can be used to address the challenges of underdeveloped markets, market failures require traditional government policy approaches. Ensuring quality programs and adequate investment for long-term benefits requires public sector regulation and investment. Quality rating systems and parental education create market signals, but market approaches can erode quality if not buttressed with substantial public investment and strong regulatory policy.

## OPPORTUNITIES AND CAVEATS

An economic development frame expands the range of policy tools which can be used to address the challenges of the child care sector. Economic development policy is based on incentives, whereas welfare and education policy typically follows a regulatory approach. Given the strong market involvement in the U.S. early care and

education sector, the potentials for an incentive based economic development approach are strong. Business leaders and economic developers are becoming more interested in the roles they can play to address the challenges of the sector. However caution must be exercised in the use of economic development approaches.

First, the child care community must ensure that business leaders acknowledge and build on the expertise of the early care and education sector. ECE finance is complex and business solutions require careful study and in depth knowledge of the sector – knowledge only ECE experts have.

Second, the public goods aspects of child care can be lost under market approaches. Incentive based payment schemes linked to testing can encourage providers to serve children who test well rather than those who are most in need of ECE. Competition can erode quality in care work, as high staff:child ratios are key to higher quality. For both parents and employers short term priorities (convenience, low cost) often trump long term investment needs (high quality early care and education for children).

The low quality and inadequate supply of early care and education services in the U.S. are a direct result of the lack of public investment in the sector. No other advanced industrialized nation has as strong a reliance on market forms of care provision as in the US, and none spends as little as we do on early care and education and parental supports. This creates a competitive disadvantage for our nation in the global economy.

While economic development tools can help strengthen the child care sector, they are only one part of a comprehensive approach. Expanded preschool is another. Greater supports for parental care are a third. There is no single solution; what is needed is comprehensive, system wide reform. Economic development approaches are an important part of the package. Government regulation and investment, and greater employer support for working parents also must be part of the equation.

## OTHER RESOURCES

Committee for Economic Development (2004). *Developmental Education: The Value of High Quality Preschool Investments as Economic Tools*. A Working Paper by the Committee for Economic Development, Washington, DC.  
Ribeiro, R., & Warner, M. E. (2004). *Measuring the Regional Economic Importance of Early Care and Education: The Cornell Methodology Guide*. Ithaca, NY: Cornell University, Dept. of City and Regional Planning.

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Warner, M. Adriance, S. Barai, N., Hallas, J., Markeson, B. Morrissey, T. & Soref. W. (2005). *Economic Development Strategies to Promote Quality Child Care*. Ithaca, NY: Cornell University, Dept of City and Regional Planning.

Most of these documents can be downloaded as pdfs from the project website.  
<http://economicdevelopment.cce.cornell.edu>

<b>UNDERDEVELOPED MARKETS HAVE ECONOMIC DEVELOPMENT SOLUTIONS</b>	
<b>UNDERDEVELOPED AREAS OF THE CHILD CARE MARKET</b>	<b>ECONOMIC DEVELOPMENT SOLUTIONS</b>
<p><b>Lack of Effective Demand</b></p> <ul style="list-style-type: none"> <li>• Most parents want high quality child care but are unable to afford it so their preference is not 'effective' in influencing the supply of high quality child care in the market place.</li> </ul>	<p><b>Employer Support, Tax Credits, and Subsidies</b>  <i>(especially if linked to quality - see box 4 below)</i></p> <ul style="list-style-type: none"> <li>• Vouchers/subsidies for child care from employers and the public sector</li> <li>• Tax credits for businesses that support child care for their employees</li> <li>• Tax credits for parents using child care</li> <li>• Work/life policies, including on-site child care</li> </ul>
<p><b>Low Profitability</b></p> <ul style="list-style-type: none"> <li>• Low profitability leads to high turnover of child care staff</li> <li>• Limited use of career ladders</li> <li>• Ease of market entry for low-cost providers suppresses quality</li> </ul>	<p><b>Business Retention and Quality Enhancement</b></p> <ul style="list-style-type: none"> <li>• Business retention and enhancement strategies for child care providers</li> <li>• Investment capital to support start-up and expansion; working capital to support cash flow</li> <li>• Wage and education incentives to promote both worker professionalization and provider retention</li> <li>• Support for system-wide professional development and career ladders</li> </ul>
<p><b>Lack of Economies of Scale</b></p> <ul style="list-style-type: none"> <li>• Many scattered small firms lack economies of scale and are economically fragile</li> </ul>	<p><b>Networks and Collective Management</b></p> <ul style="list-style-type: none"> <li>• Networks and purchasing pools for information exchange and shared services</li> <li>• Business management support and collective management strategies (pooled purchasing, shared recruitment and training) can enhance efficiency and increase profitability, enabling providers to focus more on direct care to children</li> </ul>
<p><b>Lack of Information/Product Differentiation</b></p> <ul style="list-style-type: none"> <li>• Hard to assess quality and availability of care</li> <li>• Limited return for investments in quality</li> </ul>	<p><b>Advertising and Coordination</b></p> <ul style="list-style-type: none"> <li>• Stronger information intermediaries, advertising, and parent education</li> <li>• Quality rating systems</li> <li>• Loans, grants, tax-credits and public or private subsidy linked to quality level</li> </ul>

*Acknowledgements:* This brief is part of the larger Cornell University Linking Economic Development and Child Care Research Project supported by the US Department of Health and Human Services, Administration for Children and Families, Child Care Bureau research funds, by the US Department of Agriculture Hatch Research Program administered by Cornell Agricultural Experiment Station, and by the W.K. Kellogg Foundation.