



The Economic Importance of Early Care and Education

Presented to

**Achieving Equity for Women:
Policy Alternatives for the New Administration**

Institute for Women's Policy Research

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What is the Economic Importance of Child Care?

- » Children – Long Term: Human development (cognitive and social skills)
 - » Parents – Medium Term: career ladders, labor productivity
 - » Regions – Short Term: Child care employment, output, regional economic linkage
- Social infrastructure for economic development





Long Term: Impact on Children

- Early Care and education promotes cognitive social and emotional development of children
- Economists are reinterpreting expenditures (-) as investments (+).
 - » Federal Reserve Bank - 16 % return due to savings in crime and welfare expenditures, higher earnings
 - » Economic Policy Institute – Preschool for 20% poorest kids would offset 20% of Soc. Sec. deficit from 2030-2050
 - » UpJohn Inst. – Universal Preschool would boost national GDP by 2% over 75 yrs



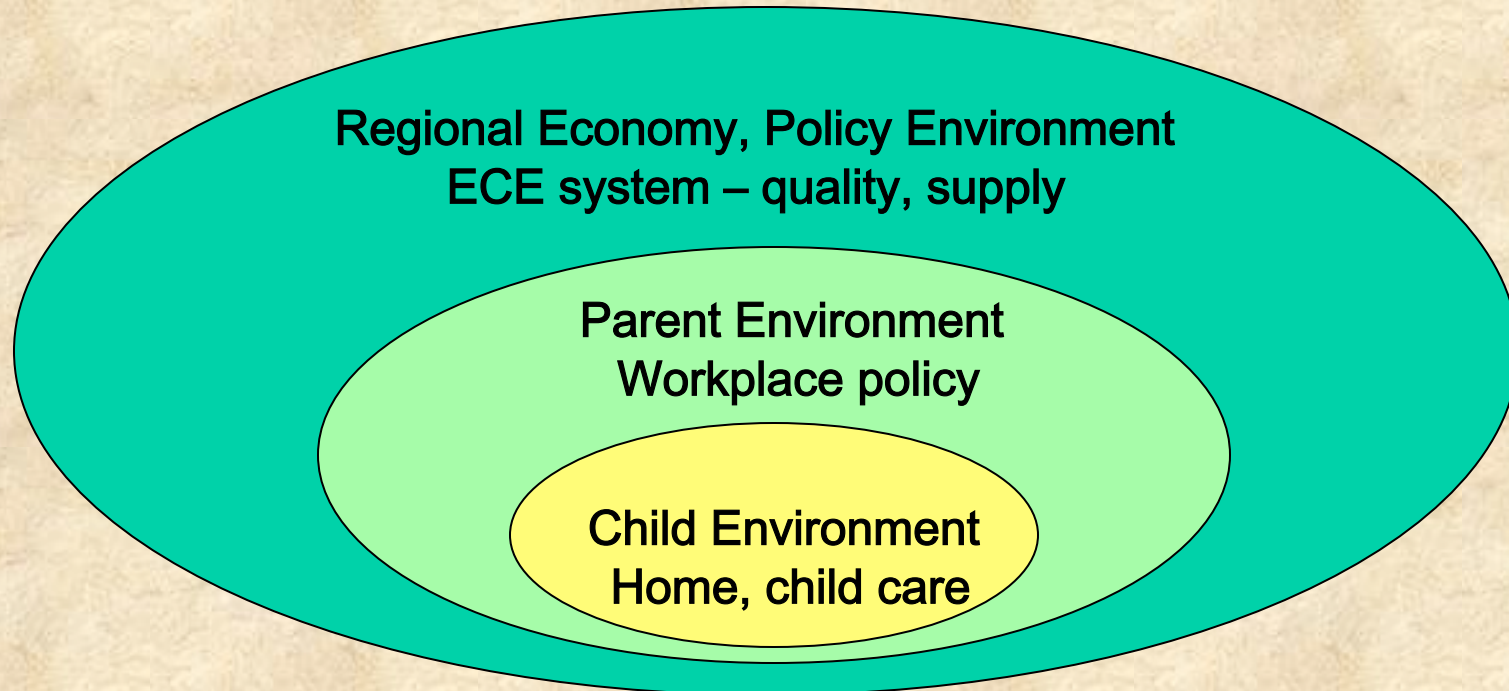
Concerns

- » Too much emphasis given to high returns from model programs
- » Focus on preschool alone is inadequate
- » Targeting misses the importance of quality ECE for middle class children
- » Ignores the context of child care and parental care
- » Women's care work is unvalued
 - Fiscal burden seen as 3x higher for men than women (CED 2006, *The Economic Promise of Investing in High-Quality Preschool: Using Early Education to Improve Economic Growth and the Fiscal Sustainability of States and the Nation*)
- » Long term focus does not build support for policy₄ change in the short and medium term



Need a More 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: *Medium Term: Parents*

- Promotes labor mobilization of parents as workers
- Improves worker 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.
- Attention to parents' needs must be part of workforce policy

Sources: APA 2004, Carillo 2004, Shellenback 2004, Gornick and Meyers 2003,



Employer and Government Responses

- Employers have expanded work-life policies
 - » Parental leave, child care supports, flex time
- Complementary Government Policy is Stagnant
 - » 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
 - » Flexible Spending Accounts
 - Dependent Care limited to just \$5000 regardless of number of children
 - never raised, not indexed to CPI.
- Should reflect the cost of quality care.
- These are the only programs for the middle class!



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

- Surveys of economic developers show over 80% believe child care should be part of economic development policy (NY, WI)
 - » Recognize inadequacy of supply, problems with affordability
- APA survey of planners finds over 90% see families as critical to viable communities
 - » Link child care to transportation, housing, business development
- Federal Government still sees child care from a welfare frame
 - » Underfunds, focuses only on the poor



Taking a Market View

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 part of the economic stimulus package

- Multipliers give us the stimulus benefits
 - » For every new dollar invested in ECE the statewide economic impact is a \$2 increase in output
 - » For every new job created in the ECE sector, the broader economic impact is 1.5 jobs
 - » These multipliers are higher than for other infrastructure expenditures, tourism or retail.

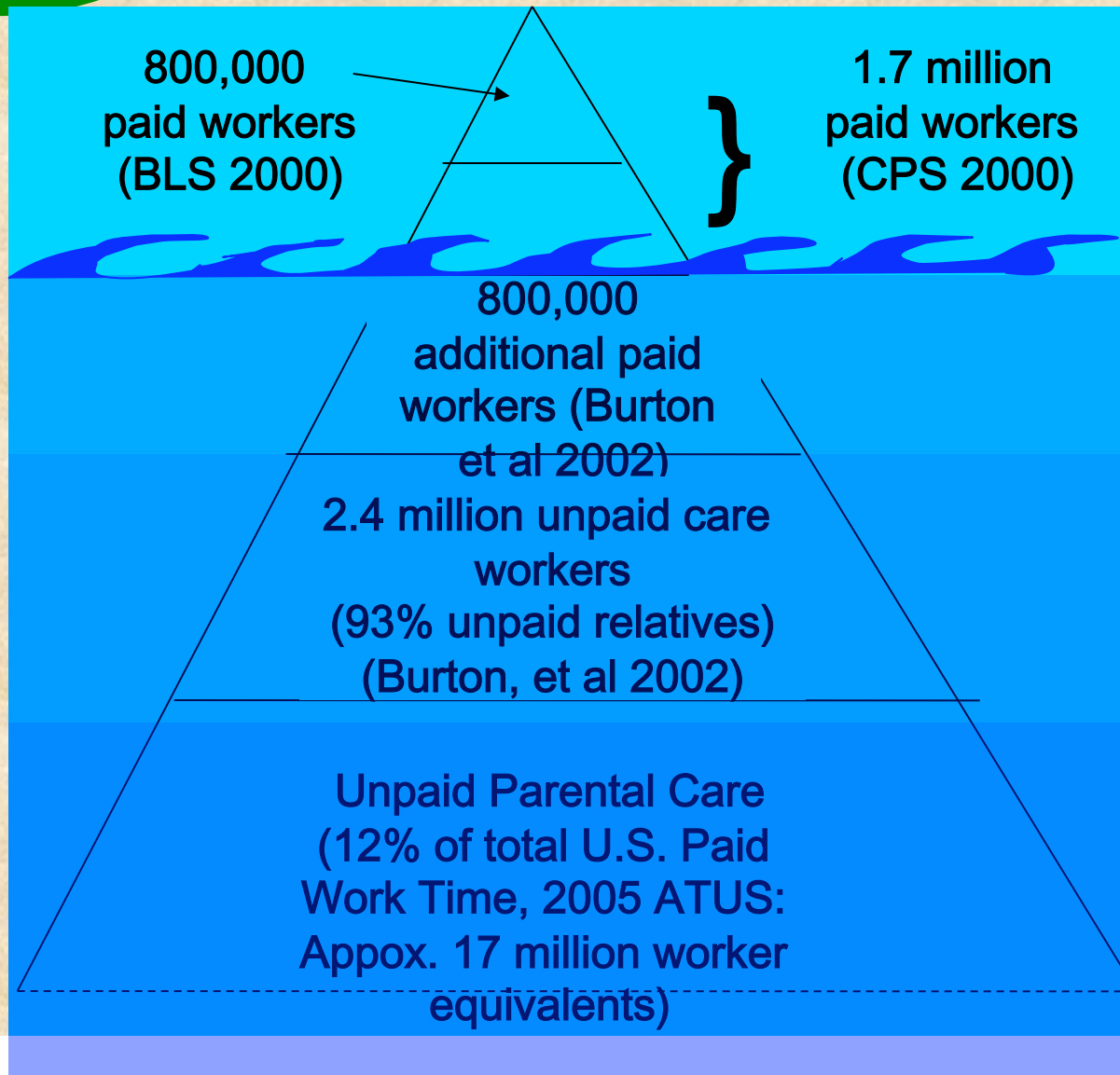


Challenges of Underdeveloped Market Sector

- Supply Side
 - » Providers lack economies of scale
 - » Low profitability leads to high turnover and suppresses quality
- Demand Side
 - » Lack of effective demand by parents
 - » Lack of information regarding quality
 - » Government subsidy/vouchers set too low to stimulate a supply response
- Market challenges can be addressed with economic development solutions



Iceberg: Most child care is outside the formal market



Parents substitute between formal care, informal care, unpaid care and parental care

Formal Market Care
Economic Development and Educational Policy

Informal Care
Strategies to improve quality

Parental Care
Workplace and Tax Policy ¹²



Economic Development Response

- Recession will reduce the supply of formal, quality child care
- Child care sector needs increased investment now
 - » *Small business management and investment* - Shared services, new business and finance models
 - » *Workforce development* - Tax credits and supplements for skill upgrading
 - » *New information technologies* - Quality rating systems
 - » *Infrastructure support* - Subsidies to parents and providers, tax credits, link to transportation & planning
- Economic Incentives vs Regulatory Sticks



A Comprehensive Solution

- **Institutional Support for ECE Programs** to ensure quality.
- **Publicly Funded Infrastructure** to ensure ECE professional development, program monitoring, consumer education and data collection
- **Financial Aid for Families** to ensure access to quality.
- **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.

Stoney, Mitchell and Warner 2006. Smarter Reform: Moving Beyond Single Program Solutions to an Early Care and Education System, *Community Development: The Journal of the Community Development Society* 37 (2): 101-115



Linking Economic Development and Child Care Project Reports

can be found at

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