How states would benefit if congress truly invested in child care and pre-K [1]

Author: Kashen, J., Cai, J., Brown, H. & Fremstad, S.
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Comprehensive child care and early learning policy benefits everybody. From the benefits to the American economy and businesses, to the ways it improves healthy child development and educational outcomes, to the prospects for greater gender, racial, and economic equity, everyone in the United States has something to gain from a significant investment in these areas.

This report's analysis reviews the specific ways the child care and universal pre-kindergarten (pre-K) policies that passed the House of Representatives as part of the Build Back Better Act in November 2021, and are still making their way through Congress, would generate economic activity in all fifty states and Washington, D.C. If implemented, the policies would have a tremendous positive impact on two generations of Americans—ensuring children have access to learning environments to give them a strong start in life, and supporting parents and other caregivers to pursue greater opportunities for themselves and their families. This report focuses on the shorter-term benefits to families and communities, but it is crucial to acknowledge that there are additional longer-term economic benefits for the children and communities impacted.

While the pandemic shone a spotlight on the crisis and made it worse, the decades-long failure of the U.S. government to invest in a comprehensive child care and pre-K system has long depressed economic growth in the United States. This report looks at the economic gains, by state, to families, businesses, and state governments that such an investment would provide: (1) $48 billion in increases to economic output from increased parental employment; (2) $60 billion in gains for businesses and state tax revenue from decreased child care-related disruptions; and (3) at least a $30 billion boost to the economy from the expansion of the child care sector and related indirect and induced job increases.

Increased Parental Labor Force Participation and Earnings

When parents—especially mothers—lack affordable and stable child care options, there are serious consequences. The lack of affordable and reliable child care pushes mothers out of the labor force and reduces the hours they are able to work when they are in the labor force. This in turn causes interruptions to job and career advancement, including lost promotions and raises, lost opportunities to build new skills and expertise, and contributes to the motherhood earnings penalty. Over the lifecourse, it means lower retirement savings and higher poverty rates for mothers than for fathers as they age.

Due to the intersecting impact of interpersonal discrimination and other forms of racism, Black and Latina mothers have faced even more acute challenges than their White counterparts, as have working-class mothers of all ethnicities and races when compared to upper-middle-class and higher-income mothers. These results have consequences for mothers, their children and families, and for the greater economic good.

If mothers of children under age had the same employment rate as mothers of children ages 6 to 12, roughly 1.6 million more mothers would be employed. Similarly, if the maternal employment rate in the United States was as high as in other countries that guarantee affordable and reliable child care, many more mothers would be employed. For example, after Quebec implemented affordable universal child care in the 1990s, maternal employment rose sharply. If the United States had the same maternal labor force participation rate for mothers of young kids as Quebec, that would mean roughly 1.4 million more mothers of kids ages 0 to 2 in the labor force, and another roughly 800,000 more mothers of kids ages 3 to 5 in the labor force. In fact, research has shown that gains in women's labor force participation is associated with higher gross domestic product. Conversely, national and state economic growth is slowed by women's lower workforce participation, earnings, and tax revenues.

The pandemic exacerbated these challenges. It decreased the supply of child care options as programs shut down while increasing the costs of providing child care because of health and safety expenses and reduced enrollment. Prices for families rose as a result of those increased costs; at the same time, employment for many parents became more precarious as the pandemic wreaked havoc on sectors where mothers tended to be employed. Even if the pandemic and related disruptions ended tomorrow, the failure of the United States to build a child care and early learning system would continue to hinder maternal labor force participation.

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Before the pandemic (at the end of 2019), 67 percent of prime-age mothers with children under age 6 were working. At the height of the pandemic in 2020, only 58 percent were.11 Mothers without bachelor's degrees (often used as a proxy for working-class status) were especially hard-hit within this group; the share of these mothers who were employed fell by 22 percent, compared to a roughly 8 percent decline in employment among mothers with bachelor's degrees. The child care relief funds enacted as part of the American Rescue Plan and previous pandemic relief packages helped to mitigate some of the challenges and stabilize many child care programs. That helped some mothers return to work, while others reduced hours, struggled to manage child care and work at the same time (especially if they were working from home) or simply patched together care from friends and family as best they could, since they could not afford to lose pay.

Today, overall employment shares have largely returned to pre-pandemic levels. However, employment among prime age working-class mothers of children under age 6 remains below what it was in 2019, and the employment gap between mothers with and without bachelor's degrees has grown by over 25 percent since then. Among those who work part-time, nearly a quarter of mothers without bachelor's degrees cite child care issues as a reason for doing so, an almost 20 percent increase compared to 2019.

What's Possible with Legislation

The child care and universal pre-kindergarten (UPK) provisions in the House-passed Build Back Better Act (BBB) would lower child care costs for nine out of ten families with young children in the United States while improving the quality of the early education they receive, raising wages of poorly compensated child care workers, and covering the costs associated with higher quality care. Universal preschool for 3- and 4-year-olds will finally be available, and parents will have the choice to find the right program for their family in center-based, home-based, family-based, school-based, and Head Start programs. The programs build on federal–state partnerships, setting federal parameters while providing states with funding and flexibility to build the early childhood education system that families have long needed.

All of the costs of the program will be covered by the federal government for the first three years during the phase-in period. States will be able to immediately serve more children through child care funding—those in families with income up to 100 percent of state median income (SMI) in the first year, 125 percent SMI in the second, and 150 percent SMI in the third; and states can opt in to serving families up to 250 percent SMI if they are able. For pre-K, states can begin building out their programs in the first three years with 100 percent federal dollars and will receive significant pre-K dollars to serve their 3- and 4-year-olds (with no income cap) in the fourth year.

States will develop plans for full implementation by year four with stakeholder feedback to reach all eligible families. The policies will also invest in building out the supply of options—in homes, faith-based programs, centers, and, in the case of pre-K, schools, and more—so that families can find safe, nurturing care when and where they need it. That means that parents will have affordable, reliable, stable child care options to support their labor force participation. Since mothers are more likely than fathers to take responsibility for caring for children, employment gains from these policies are likely to be concentrated among mothers.

Expected Economic Impact

While the bulk of the caregiving responsibility is on mothers, fathers are also impacted. This analysis found that the child care and UPK provisions could lead to roughly 3 million more parents—mostly mothers—entering the labor force or increasing their work hours nationally (about 1.1 million due to new entries and 2 million due to increased hours).

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On a state-by-state basis, the estimated earnings increase among parents entering the workforce or increasing work hours ranges from around $70 million a year in Vermont and Wyoming to $1.8 billion in Illinois, $1.7 billion in Pennsylvania, $1.8 billion in New Jersey, and more than $2 billion in states with higher populations such as California ($6.7 billion), Florida ($2.4 billion), New York ($3.1 billion), and Texas ($4.5 billion). These income benefits would have a ripple effect, raising additional tax revenue and encouraging new spending in local economies.

Support Businesses and Raise State Tax Revenues

A robust child care and early learning system gives parents the peace of mind that their children are in safe, healthy, and nurturing learning environments, so that they can minimize disruptions to their work day and increase their productivity. Since 13.4 percent of the workforce consists of parents of young children (ages 0 to 5), and an additional 11 percent of parents of school-age children (ages 6 to 12), how children are cared for while parents are working matters to businesses.

A number of researchers have estimated the impacts of child care disruptions on businesses by looking at the related costs of turnover and absenteeism, as well as the effect on tax revenue. Long before the pandemic, child care disruptions were a major challenge for businesses.

For example, in 2019, the Council for a Strong America published a study that showed that the United States was losing $57 billion each year in economic productivity and revenue losses due to the lack of a child care system. Studies in a number of states—Louisiana, Maryland, Georgia, Washington, and Indiana—found states each lose over $1 billion annually in economic activity due to child care interruptions. In

2021, the U.S. Chamber of Commerce Foundation looked at five states and found child-care related economic losses ranging from $165 million in Alaska to $9.39 billion in Texas.

The pandemic made the child care-related disruptions to business much worse. From exposure-related child care and classroom shutdowns to parents needing to care for their quarantining children (the youngest for whom vaccines are not yet available), both parents and their employers have experienced a number of new challenges, made worse by the lack of a comprehensive system of care and early learning. Business leaders recognize child care is essential to keep them running. U.S. Chamber of Commerce Executive Vice President Neil Bradley noted, "For working parents, access to affordable child care is a key ingredient to be able to enter or return to the workforce… It was an issue pre-pandemic; it's been exacerbated by the pandemic: closures in in-person schooling, child care centers that have closed, lack of available workers for child care centers that are open."

What's Possible with Legislation

Creating a comprehensive child care and early learning system will help parents ensure their children have a safe, nurturing place to go while they are working. That peace of mind won't end all child care-related disruptions to business—even without a pandemic, illness causes child care challenges—but it will substantially decrease them by expanding the array of affordable, reliable, stable child care options for parents. Business leaders are supporting these policies because they know how much the policies will support both their employees and their bottom lines. In December, ReadyNation, a national, bipartisan business network of more than 3,000 current and former executives, wrote to the Senate urging them "to pass a final version of the Build Back Better Act containing significant investments in our nation's early care and learning system."

At the White House in January, Microsoft president Brad Smith pointed out just how important child care and early learning is for his business: "What we see is, we need to do more to help bring Americans back to work and one of the key ingredients that we see is that people can only come back to work if they have a way to take care of their children." Cummins CEO Tom Linebarger, with close to 60,000 employees nationwide, made clear just how essential child care is to running a successful business: "It's clearly an issue that needs to be addressed. We hear about it a lot—I get more notes about that than pretty much anything else I do."

In October 2021, Small Business for America's Future conducted a national survey of of more than 1,000 small business owners across the nation, and found that the majority believe that the lack of affordable, high-quality child care for employees has had a negative impact on their business. Two-thirds of those surveyed support increases in federal funding for child care. Tiara Flynn, president and CEO of Sumnu Marketing in Nevada, put it this way: "The lack of affordable, high-quality child care directly impacts our ability to grow and sustain our businesses. …Small business owners can't reach their full potential if their ability to operate and to hire and keep good employees is hamstrung by high child care costs."

Expected Economic Impact

While the policies advancing in Congress will not eliminate all child care disruptions, particularly in the midst of the pandemic, the policies proposed in BBB will reduce a significant amount of the absenteeism and turnover and raise tax revenue in most states. The authors' analysis found that, nationwide, about $60 billion a year in losses to businesses could be mitigated by these policies.

Investing in the Child Care and Early Learning and Adjacent Sectors

Before the pandemic, the Center for American Progress (CAP) found that more than half of American families with young children lived in a child care desert—that is, in a Census tract where there are more than three times as many children as licensed child care slots. Two-thirds lived in infant and toddler child care deserts, since the need for more adults per child makes it more expensive to care for younger children, which also makes it more difficult to provide that type of care. CAP found that "licensed child care is more than three times as scarce for children ages 0 to 2 than it is for those ages 3 to 5."

A major part of the problem is retaining a talented child care workforce. Early educators and child care staff—nearly all women and disproportionately Black and Latina women—are underpaid, and receive few to no benefits.

Meanwhile, parents are already paying as much as they can for child care, and often stretch their budgets in order to do so. Some parents forego formal care and rely on family, friends, and neighbors because they either can't afford formal arrangements or can't find care options that meet their needs. The pandemic exacerbated these challenges and caused major disruptions by closing down programs or reducing their hours and capacity due to safety concerns, increasing expenses, and decreasing enrollment.

Before the COVID-19 pandemic began, over 1 million people were officially counted by the Bureau of Labor Statistics (BLS) as part of the child care workforce. Today, as a result of pandemic-related challenges, the field is still missing more than 100,000 of those early educators. While many sectors are experiencing staffing shortages, the child care sector is both more limited in its available responses, and the shortages have a more significant ripple effect on the rest of the economy.

For example, the largest child-care provider in Minnesota, New Horizon Academy, has dozens of empty classrooms, but because of staffing shortages, many families still cannot secure a spot in one of the provider's centers. According to the Star-Tribune, New Horizon is looking for 500 teachers and aides to work at their seventy child-care centers around the state. Similarly, in Texas, the Early Childhood Development Center in Grapevine-Colleyville ISD takes care of the youngest children of school district employees while they work, but staffing the center has been a major challenge. Skilled early educators are moving into jobs with higher wages, like fast food restaurants, leaving child care centers understaffed and teachers without care for their own children, impacting their ability to show up for their students.

What's Possible with Legislation

The COVID-19 relief investments Congress has authorized are helping, but they are only addressing immediate challenges.36 The longer-term provisions discussed here will address the underlying market failures by investing significant federal dollars in building a comprehensive child care and early learning system. The plan will address the disconnect between high prices for parents and low wages for educators by using federal funding to both lower costs for families and raise wages. Furthermore, the new funding from the child care provisions will support states to build the supply of child care in diverse settings that families need. This will require recruiting, retaining, and training new early educators and staff to meet the needs of families.

The bill ensures that all early educators and staff in both child care and pre-K are paid wages equivalent to elementary school teachers with similar credentials and experience, and at least a living wage.

With the policy in place, using primarily federal dollars, states will be able to raise early educator wages and hire more educators to meet immediate staffing shortages and fill the ongoing pre-pandemic gaps as well. Specifically, the bill ensures that all early educators and staff in both child care and pre-K are paid wages equivalent to elementary school teachers with similar credentials and experience, and at least a living wage. The plan also provides funding to support training and professional development across programs. For pre-K, similarly, by the fourth year, states must provide for salaries, and set schedules for salaries, for the staff of providers in the state preschool program that are equivalent to salaries of elementary school staff with similar credentials and experience; and furthermore, at a minimum, they must provide a living wage for all staff of such providers.

Expected Economic Impact

Research from Lenore Palladino found that the Build Back Better Act would create 657,000 new child care jobs and support 190,000 new indirect or induced jobs, for a total of 848,566 new jobs nationwide. "Indirect" jobs are jobs created in upstream industries that supply and support core activities in child care, while "induced" jobs are jobs that will be created as workers in directly and indirectly created jobs spend money on goods and services for themselves and their families. Taken together, the jobs created by investing in and expanding the child care sector could yield more than $30 billion in new labor income. In Florida, that will look like more than 66,000 new jobs and over $2.2 billion in additional earnings; in North Carolina and Ohio, it's about 31,000 new jobs and over $1 billion in additional earnings for each state; and in Arizona, it's about 22,000 new jobs and nearly $800 million in new income. This policy would also lead to increases in the child care workforce ranging from 16.1 percent in Alabama to 175.4 percent in Louisiana.

This analysis likely underestimates the total impact of this job growth, as it does not include the additional income tax from the expanded child care workforce and higher wages, which would yield additional benefits, which was outside of the scope of this analysis.

What This Means for How States Will Be Doing in the Fourth Year, So That They Can Meet the State Match

The child care and UPK provisions advancing in Congress are fully funded by federal dollars in the first three years, and include a state match of 10 percent in the fourth year.38 The considerable economic benefits that states will realize from implementing these provisions will far exceed this modest match requirement.

Additional and Long-Term Benefits

For those who are paying for it, the high cost of child care makes a significant dent in family budgets. For example, in California, infant care at a center comprises nearly 17 percent of the median married couple's budget and half of the median single parent's budget. In Arizona, it's 13 percent of the married-couple's budget and 39 percent of the single parent's.39 The BBB policies are projected to reduce annual child care costs to families by about $5,000. These savings can translate into spending in the local economy and improving families' economic stability.

Children benefit from their parents' economic stability in both the short and long term. Making child care more affordable and supporting parental labor force participation has a positive impact on children. Family income impacts children's cognitive development, physical health, and social and behavioral development because it is connected not only to parents' ability to invest in goods and services that further child development, but also to the stress and anxiety parents can suffer when faced with financial difficulty, which in turn can have an adverse effect on their children.

As noted above, additional state tax revenue from labor force participation increases are not fully accounted for in this report's analysis. In addition, even states that do not levy a personal income tax stand to benefit from the economic gains associated with reduced child care disruptions. These states generate the bulk of their tax revenue by taxing sales, making sales volume an integral part of their budgets. Policies that improve child care access can affect sales volume indirectly through increases in business output and worker earnings, and the latter has potential spillover benefits in the form of additional taxable consumer spending.

Public investments in child care and pre-K improve parental economic stability in part by supporting increased earnings for mothers over the long term, as the bias and stigma attached to "working motherhood" decreases. Analysis by Jessica Milli and Julie Kashen found that the wage penalty associated with becoming a mother or adding new children to a family that cannot be explained by other factors, such as seniority or education, can be reduced by child care and preK investments. They found that a significant federal investment could reduce this "motherhood penalty"—a term coined by Dr. Michelle Budig and Dr. Paula England—by as much as one-third.

Finally, positive experiences in early education play an important role in setting children up for success in school, college, and beyond. The first five years are when a child's brain develops fastest and when they learn key social, emotional, and academic skills, skills they'll need during kindergarten and in order to have positive educational outcomes. Good child care and early learning programs have also been associated with other positive health benefits, including higher immunization, screening, and identification rates, as well as with improved mental health.

Conclusion

The policies proposed in the BBB legislation stand to benefit state economies in a number of important ways. Access to affordable and reliable child care and early education will enable parents to increase their workforce participation and thus their earnings. Nationwide, annual parental earnings could grow by over $47 billion. Increased parental earnings are also likely to result in additional state sales tax revenue, to the extent that non-child care spending rises proportionately with parental incomes.

Employers will also benefit from reduced care-related turnover and absenteeism. Total annual business losses due to care disruptions among parents of young children currently top $46 billion, while increased tax revenue is more than $13 billion. In Texas, which bills itself as a “business-friendly” state, child-care issues result in annual corporate losses of nearly $4.2 billion. By shoring up care infrastructure, the policies proposed in BBB will free up money that businesses would have otherwise been forced to spend mitigating care-related losses. This will allow businesses to instead use that money for more economically productive—and state tax-generating—activities.

All of these outcomes depend on retaining talented early educators and staff in the child care industry, in which investment will be economically fruitful in its own right. The BBB proposals would directly create almost 650,000 new jobs in the child care industry itself, along with just under 200,000 new indirect and induced jobs in other industries. Nationwide, these new jobs will result in over $30 billion in additional earnings.

The child care and UPK policies being considered in Congress will support children’s healthy development, family economic security, and gender and racial equity. This report shows that they are also essential to helping state economies grow and prosper.
Region: United States [3]
Tags: child care expansion [4]
economic recovery [5]
public investment [6]
