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Early Childhood Development As Economic Development

By Rob Grunewald

INVESTMENTS IN YOUNG CHILDREN CAN IMPACT THE WORKFORCE OF TODAY AND THE FUTURE

Investments in early childhood development (ECD) programs can have a substantial impact on economic development and children's future. Long-term research studies show that investments in high-quality ECD programs can yield annual inflation-adjusted returns as high as $16 returned for every $1 invested, particularly for children from disadvantaged environments. In addition, when access to affordable child care is scarce, parents may decide not to enter the labor force. And for those who do work, unstable child care arrangements can lead to lower productivity and higher absenteeism, affecting business profitability. Economic development officials and business leaders can play key roles in helping expand access to high-quality ECD programs.

early childhood
DEVELOPMENT AS ECONOMIC DEVELOPMENT

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Tight labor markets, long-term demographic trends, and a growing demand for workers with strong skills have economic development officials looking to an unlikely candidate for investment: young children.

With low unemployment rates and fewer applicants for open positions, businesses are finding that child care availability can be a factor in whether talented parents with young children decide to work at their companies. In areas with a relatively low supply of affordable child care, parents may decide not to work. And for those who do work, unstable child care arrangements can lead to lower productivity and higher absenteeism.

Investments in child care and other types of early childhood development (ECD) programs also have a long-term impact on the future labor force. The first few years of life are a critical period for healthy brain development with life-long implications. Attending a high-quality ECD program can help children arrive at kindergarten prepared to succeed in school. These children are more likely to graduate from high school, acquire additional education, and fill job openings.

Long-term research studies show that investments in high-quality ECD programs can yield annual inflation-adjusted returns as high as $16 returned for every $1 invested, particularly for children from disadvantaged environments, such as poverty. Cost savings to government accrue from reductions in remedial education, social services, and crime costs, as well as increased earnings and tax revenue.

This article first explores how investments in ECD can affect economic development by helping build the foundation for future workforce skills. Second, the article looks at how child care supports parent participation and productivity in the labor force. The article concludes with examples of how economic development officials and business leaders can help increase the availability of child care and promote family-friendly workplaces in their communities.

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EARLY CHILDHOOD DEVELOPMENT AS THE FOUNDATION FOR ECONOMIC DEVELOPMENT

Talent. Soft-skills. Productivity. Team player. STEM. Economic development officials often refer to these words and phrases in reference to the quality of a region's labor force. A talented and productive workforce is a top consideration among businesses when they consider where to locate a new operation or office. Business leaders often look for workers with solid cognitive, communication, and teamwork skills. The foundation for all these skills begins in early childhood.

The science of childhood development shows that the first few months and years of life have a strong influence on the skills a child cultivates in school and brings to the workforce as an adult. Neuroscience and child psychology research describe the types of early experiences that help children thrive, including stable and nurturing rela-

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tionships with caregivers, language-rich environments, and encouragement to explore through movement and senses. With supportive early experiences, children are more likely to start kindergarten prepared to succeed in school and beyond.

Research also describes experiences that hinder healthy development. Adverse experiences and chronic exposure to "toxic stress" can lead to a brain wired for negligence or threat, impairing learning, memory, or the ability to self-regulate. Economically struggling families living in low-income areas are more likely to suffer exposure to such negative experiences.

These disadvantageous circumstances can interfere with children's early skill development, leading them to underperform relative to their peers even before kindergarten. One research study documented that, on average, by the age of three years, children in families with college-educated parents have twice the vocabulary of children in low-income families.[1]

Early adversity not only affects school success but is also associated with mental and physical health issues later in life. According to the Adverse Childhood Experiences study, adults who suffered multiple types of adverse experiences in childhood were more likely to suffer from health problems, including heart disease, diabetes, substance abuse, and depression, compared with adults who did not have an adverse experience.[2] For better or worse, early experiences have lifelong implications for education, health, and success in the workforce.

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Early investments produce high public returns …

In response to the science of ECD, public investments in young children are designed to provide resources to children and families that promote development. Investments include maternal and child home visits for families with pregnant women and young children, family health and nutrition programs, early learning programs (including child care), and early childhood mental health services. A number of investments are targeted to children and families who face risks for starting school behind their peers.

Four key longitudinal evaluations demonstrate that early interventions can have a positive impact on young children from disadvantaged environments that lasts well into adulthood.

The Perry Preschool Program in Michigan[3] and the Chicago Child-Parent Centers[4] provided preschool at ages three and four, the Abecedarian project in North Carolina provided full-day care and education for children from a few months old through age four,[5] and the Elmira Prenatal/Early Infancy Project in New York provided home visits by a nurse to high-risk mothers during pregnancy until the child turned age two.[6]

The studies used well-matched comparison groups and cost-benefit analysis, and have demonstrated inflation-adjusted average annual rates of return from 7 percent to about 20 percent, depending on the size and timing of benefits relative to the cost of the program. Benefits include reductions in special education, grade repetition, incidences of juvenile and adult crime, as well as increases in earnings and tax revenue. While children and families benefit from these investments, the majority of benefits accrue to the rest of society and are still observed decades later.

…and a stronger future workforce

Results of these studies along with more recent research findings suggest that investments in ECD can help buffer the impact of projected trends in labor force growth and quality over the next few decades. The following three facts provide important context. First, the average annual growth rate for adults age 18 to 64 is expected to drop from above 1 percent from 1990 to 2010 to below 0.5 percent during the next four decades.[7] Second, the fastest employment growth rates through 2026 by occupations is expected in those that require a postsecondary degree or credential.[8] Third, in 2017, 22.6 million adults aged 18 to 64 did not hold a high school degree or equivalent, over 11 percent of this segment of the U.S. population.[9]

With labor supply growth slowing, demand for skilled workers growing, and plenty of room to increase the share of workers with higher levels of education, ECD investments have the potential to assist in making sure there are enough skilled workers to fill open positions over the next few decades. The long-term research studies cited above show that attending a high-quality ECD program can increase education attainment levels in adulthood. ECD investments today can help lay the groundwork for a strong workforce and economic development in the future.

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CHILD CARE EMERGING AS AN ECONOMIC DEVELOPMENT ISSUE

While investing in ECD programs has implications for decades down the road, the provision of child care has a number of immediate effects and can help address some of the challenges businesses face today in finding workers. That is, child care is an ECD investment that can have a two-generation impact, both on child development and the ability of parents to participate in the labor force.

Almost two-thirds of children under age six (about 15 million) have all of their parents in the workforce.[10] These children require non-parental care at some point during the week. Consistent with these data, 54 percent of respondents to the 2016 National Survey of Children's Health with a child under age six in the household noted that the child received care for at least 10 hours per week from someone other than the child's parent or guardian.[11]

When parents have reliable, high-quality child care, they can go to work confident that their children are in a stable and stimulating environment. But when child care arrangements fall apart during the day, parents may be distracted at work or need to leave to attend to the situation. Unstable child care can also put parent employees at risk of losing their jobs. As evidence, about 8 percent of respondents to the 2016 National Survey of Children's Health with a child under age six reported that during the past 12 months, they or someone in their family had to quit a job, not take one, or greatly change the conditions of a job because of problems with child care.[12] A recent survey of parents with children under the age of five in Louisiana showed that over 40 percent of respondents had missed work during the previous three months because of child care issues.[13]

While instability of child care affects parental employment and household finances, these issues also affect the bottom line of businesses. An analysis by Clive Belfield at Columbia University estimates that U.S. businesses lose nearly $13 billion annually in reduced revenue and hiring costs due to inadequate child care for children under age 3.[14] Inversely, availability of affordable child care can lead to stronger employment levels. One study found that availability of child care subsidies increased labor force participation rates for mothers of children aged three or younger. A threefold increase in funding for child care subsidies would lead to an estimated 376,000 more mothers being able to find work.[15]

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Challenges of the Child Care Business Model

The U.S. child care industry comprises a large number of small businesses, including 75,000 child care centers and 693,000 small home-based family child care providers.[16] Across child care centers, family child care providers, and federally funded Head Start centers, the industry comprises about 2 million employees or small business owners.[17] Research shows that relative to many other industries, U.S. child care providers tend to buy a greater share of services and materials from local businesses, and child care workers tend to spend more of their earnings locally.[18]

Operators of child care centers and family child care homes face a number of challenges with the child care business model. First, the primary source of revenue, tuition payments, is constrained since parents with young children are typically in the early earning years of their careers and face costs associated with family formation, such as housing and transportation. Second, the reimbursement rates for government-funded child care subsidies for low-income families often fall short in covering the cost of providing care. Third, the largest costs of providing child care are related to labor and are hard to lower due to required staff-to-child ratios designed to help provide a safe and enriching environment for children.

While child care providers face challenges with financial sustainability, the cost of child care can be a substantial hurdle for families. In 2017, the national average annual tuition for an infant in a child care center was estimated at $11,502, and for a family child care provider it was estimated at about $9,345.[19] The same study finds that for a 4-year-old, average annual tuitions in 2016 were $9,139 at a child care center and $8,905 at a family child-care provider.[20] For states with child care subsidy reimbursement rates that fall short of tuition prices, families or the provider end up covering the difference.

ROLES FOR ECONOMIC DEVELOPMENT IN CHILD CARE

Economic development officials and business leaders are in a position to help expand access to high-quality child care. First, they can help analyze and share information about local child care supply relative to demand and participate in local initiatives to expand child care. Second, economic development officials can work with

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business leaders to disseminate best practices for supporting parent employees with young children. Third, they can add their voice to policy discussions about investing in child care and in ECD programs more broadly.

Supporting Local Child Care Initiatives

While federal and state policy and funding streams have a large impact on child care, much can happen at the community level. Economic developers and business leaders can help communities develop solutions regarding the supply of child care, such as opportunities to expand or repurpose buildings, mentor local child care operators on business practices, and work with local governments on zoning and regulation issues that can sometimes stall the development of new child care programs.

One example is Missoula, Montana. At a community forum on child care in April 2018, a number of members and board representatives of the Missoula Chamber of Commerce expressed concerns about a shortage of workers in the area and how a lack of child care was a contributing factor. In response, leadership at the Chamber started working with community leaders and organizations to investigate solutions.

In November, the Chamber helped field a survey of residents to better understand the demand for child care in the city. The Chamber also partnered with a child care center operator, an architect, and local businesses about potential options to expand child care. Together they are looking at six different models that could lead to new child care spaces in the city.

The child care business model can be a particularly challenging fit for rural areas where population levels are often too sparse to sustain providers, particularly child care centers. For example, an analysis of child care in Wisconsin shows that children living in rural areas have fewer child care spaces per young child than in more populated areas.[21]

First Children's Finance recently developed the Rural Child Care Innovation Program in rural Minnesota with funding from the state's Department of Human Services. The program uses a community engagement process, which includes local community leaders, child care providers, economic development officials, and the business sector to develop solutions to increase the supply of high-quality and affordable child care in Minnesota's rural communities. In 2017, 19 communities participated and helped create 533 new child care spaces.[22]

Workplace Best Practices for Parents with Young Children

Workplace practices can help support parents with young children and also serve as recruiting and retention tools. In northwestern Wisconsin the United Way St. Croix Valley's Success by 6 program developed Family Friendly Workplace certification to increase business and community linkages to support families and ECD programs. The initiative is also designed to help attract families to the area by bolstering the region's reputation as a supportive place to raise a family.

Businesses in a three county area that borders Minnesota (two counties are part of the Minneapolis-St. Paul Metropolitan Statistical Area) are eligible to participate in the program. A few examples of family-friendly practices include paid leave, flexible schedules for family activities, offering tax-saving options for childcare expenses, and providing a private location for breastfeeding and lactation. To-date there are 19 companies from a variety of industries listed on the Family Friendly Workplace website.[23]

Business Leaders Add Their Voices to Policy Discussions

In many parts of the country business leaders have played a key role in supporting efforts to improve access and quality in child care as well as other ECD programs. For example, from 2006 to 2011, business leaders in Minnesota raised $20 million to fund ECD initiatives and research through the Minnesota Early Learning Foundation. This led to a statewide roll out of Parent Aware, Minnesota's child care quality rating and improvement system, and the Early Learning Scholarship program, which provides $70 million annually to help low-income families enroll their children in a high-quality early learning program.[24]

More recently the Minnesota Chamber of Commerce and Minnesota Business Partnership participated in a workgroup focused on finding solutions to the state's child care shortage and persistent achievement gaps by race, ethnicity, and socioeconomic status. The workgroup released a report ahead of this year's state legislative session that included recommendations on program administration and funding for child care.[25]

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The Pennsylvania Early Learning Investment Commission is an example of business leaders who stay abreast of new ECD research and policy issues facing the state and advocate for ECD investments. Members of the Commission work with the state "executive and legislative branches to provide advice and support for policies and investments that are educationally, economically and scientifically sound and that serve an increased number of at-risk children."[26]

ReadyNation International is a resource available to business leaders and their networks to promote public policies and programs that build a stronger workforce and economy through investments in children and youth. The organization has helped business leaders develop advocacy strategies and media pieces to boost state and federal resources for young children. In November, ReadyNation hosted a Global Business Summit on Early Childhood in New York City with over 200 business leaders.[27]

MINNEAPOLIS FED CONNECTS EARLY CHILDHOOD DEVELOPMENT AND ECONOMIC DEVELOPMENT

Over 15 years ago the Minneapolis Fed published the paper, "Early childhood development: Economic development with a high public return", by then director of research Art Rolnick and economist Rob Grunewald.[28] The first few sentences read, "Early childhood development programs are rarely portrayed as economic development initiatives, and we think that is a mistake. Such programs, if they appear at all, are at the bottom of the economic development lists for state and local governments. They should be at the top."

The paper highlights research from long-term studies that show investing in young children can achieve a high public return. It also makes a case that long-run returns to early health and education programs can eclipse those of economic development initiatives that use subsidies and preferential tax treatment to entice companies to expand or relocate in specific areas.

Since 2003, the Minneapolis Fed has hosted six conferences and published a number of articles and reports on ECD issues. Minneapolis Fed economists have also presented at meetings with policymakers and business leaders across the country. For more information visit minneapolisfed.org.

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