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Federal Investments in Early Care and Education: A Research Agenda to Inform Policy

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2023 Economic Report of the President

This year's report focuses on the core of the Biden-Harris Administration's economic agenda – building a foundation for steady, sustainable, and shared growth.

We discuss selected areas where the changing economic and social context calls for new approaches to increasing the capacity for economic growth.

To adjust to these changes and confront the attendant challenges, the report highlights policies and strategies to facilitate shared and sustained growth.

2023 Economic Report of the President

In Chapter 4, we focus on the market for early care and education (ECE) as an integral part of that agenda.

We lay out the economics of investing in young children,

including the ***evidence*** on the impact of early care and education on children, their families, and society.

Effectiveness of Early Childhood Investments

ECE experiences—including child care, Head Start, and other preschool programs—can positively affect:

- Children's short-term outcomes, including school readiness and early social-emotional and cognitive skill development
- Children's long-term outcomes, such as educational attainment, executive function, employment, and earnings
- Parental, particularly maternal, employment
- Societal outcomes through greater productivity and economic growth

Evidence → Policy → Practice

Despite the body of evidence that investments in ECE can make a difference for children, their families, and communities, persistent questions remain:

- Can families that need care access a well-functioning market with options that meet their needs?
- And, is the supply of high-quality ECE sufficient from society's perspective?

Challenges in the Market for ECE

- ***Workforce challenges***: ECE workforce is characterized by low pay and high turnover, which are particularly problematic as child–caregiver relationships and staff continuity are important ingredients in ECE program quality.
- ***The high costs of providing high-quality care***: ECE is a labor-intensive industry reliant primarily on families' payments for revenue, so providers have limited options to cut costs or raise revenue to make investments in higher quality care.

Challenges in the Market for ECE

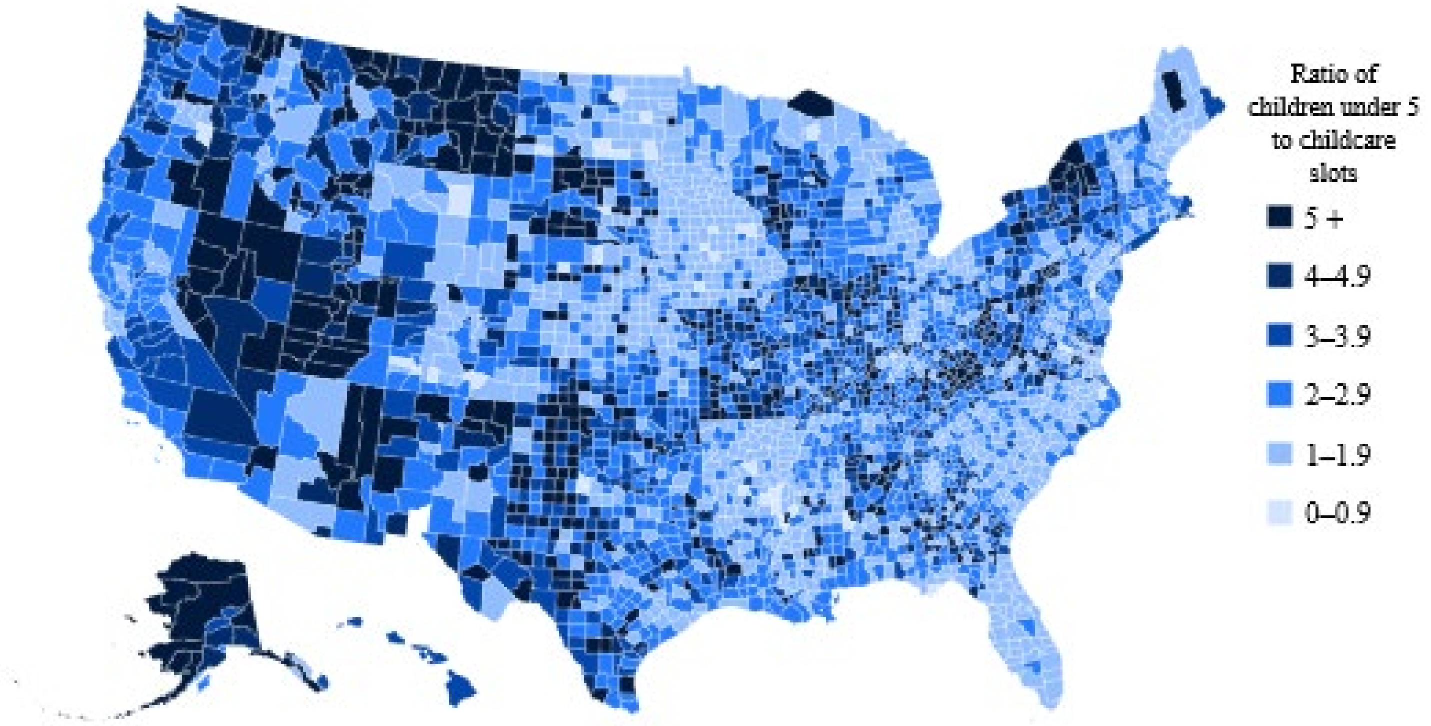
- ***ECE pricing and price-sensitive consumers***: Many families, particularly low-income families, are sensitive to the price of ECE and may respond to higher prices by forgoing market-based ECE services and instead relying on parental care or informal, unpaid, and often lower-quality care.
- ***Business model fragility***: The ECE provider landscape is made up of many small firms, often sole proprietorships (88% in 2018), that face startup costs and thin profit margins, and are particularly vulnerable to economic headwinds.

Participation in and Availability of ECE

Data on ECE participation represent the intersection of *supply of* and *demand for* ECE slots.

- 60% of young children participate in a non-parental care setting on a regular basis.
- Rates of participation in the U.S. lag those of other developed countries, and there are gaps by race, ethnicity, and family socioeconomic status.
- More than half of Americans live in neighborhoods where the number of young children outpaces the availability of licensed childcare slots by 3:1 or more.

Ratio of Young Children to Childcare Capacity in 2018



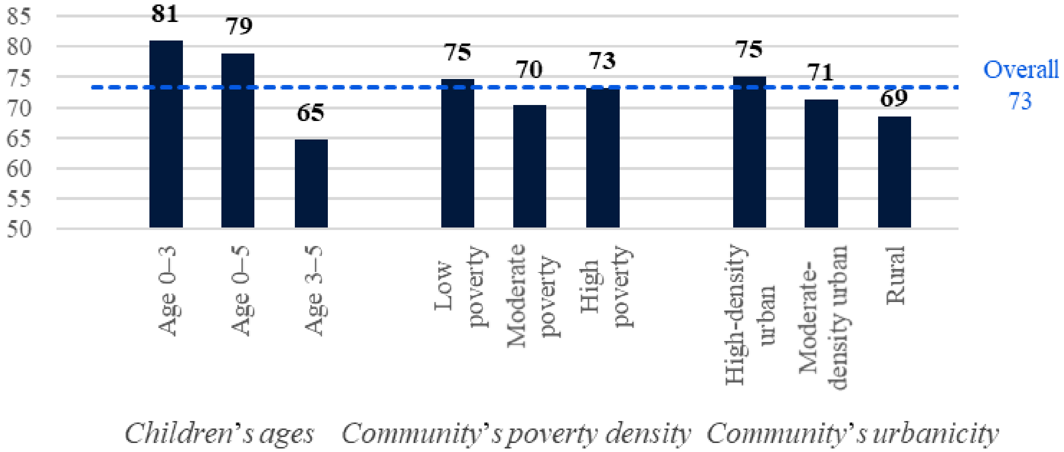
Sources: Center for American Progress (2020); CEA calculations.

Participation in and Availability of ECE

Evidence suggests that an undersupply of ECE slots, due to dysfunction in the market, may contribute to a lack of participation in formal ECE.

Excess Demand by Provider Type

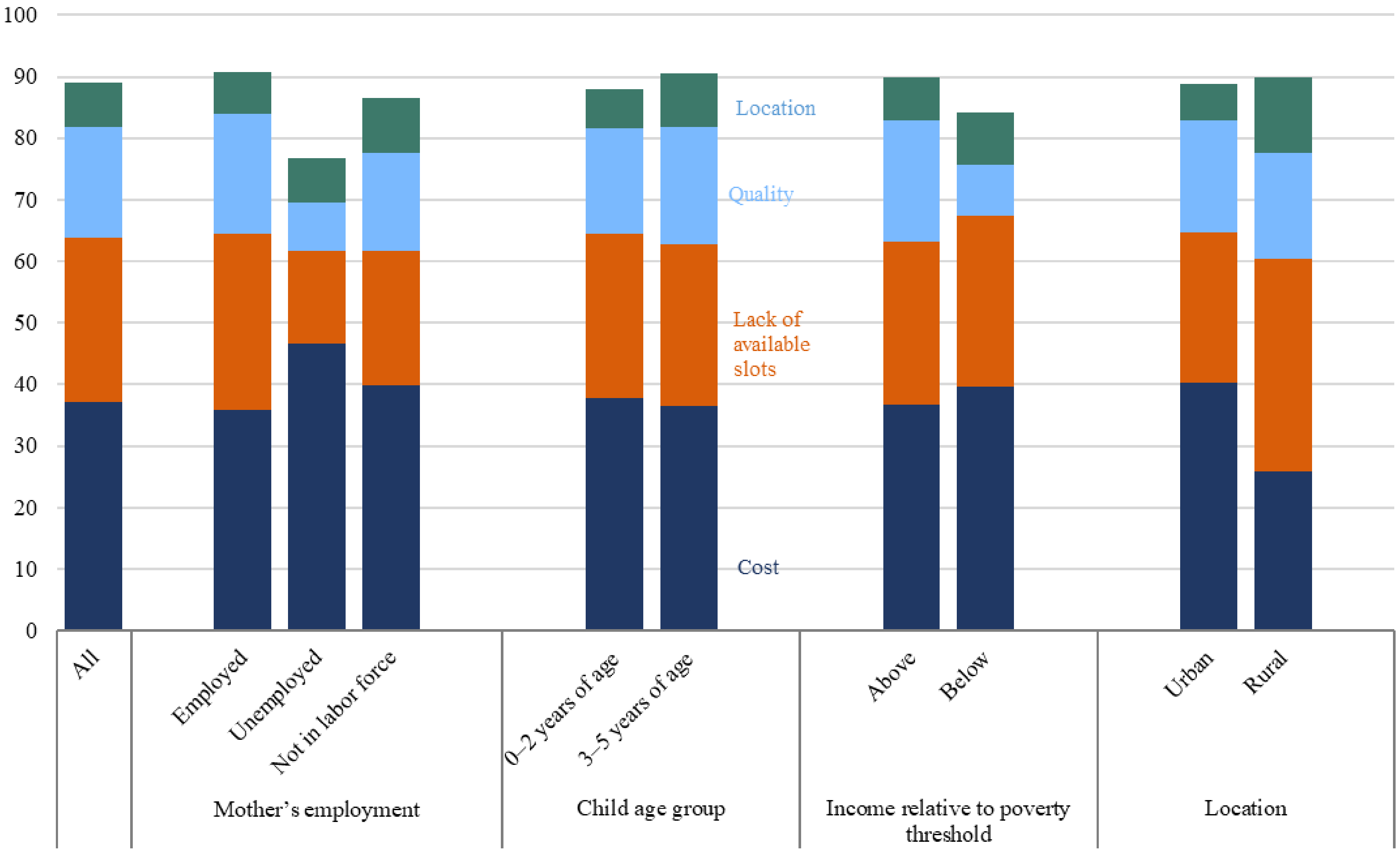
Percentage of providers experiencing excess demand



Sources: 2019 National Survey of Early Care and Education; CEA calculations.
Note: Excess demand is defined by whether providers have turned families away due to lack of capacity or had a waiting list in the past year. Line denotes the overall percentage of providers experiencing excess demand (73.4 percent).

Reasons Households Face Difficulty Finding Care

Percentage of all households that face difficulty finding care reporting primary reason for difficulty



Sources: National Center for Education Statistics (2019); CEA calculations.

Note: Households included are those that reported some or much difficulty finding the type of childcare or early childhood program they wanted for their child, or reported that they did not find the childcare program they wanted. Households are grouped by their response to the question "What was the main reason for the difficulty finding childcare or early childhood programs?" The four most common reasons are displayed, so the bars do not sum to 100.

What does this mean for policy?

Both the demand and supply sides of the market need attention.

Subsidies for both families seeking care and for providers supplying care play an important role in addressing these market challenges:

- Supply-side subsidies tied to the costs of providing high-quality care allow providers to invest in costly quality improvements, and

- Adjusting the price consumers pay based on their income makes it easier for families to accommodate high-quality care in their budgets.

Recent Policy Efforts

American Rescue Plan (ARP) Act of 2021

- $24 billion for the Child Care Stabilization Program
- $15 billion in supplemental Child Care and Development Fund (CCDF) discretionary funds

FY23 Omnibus Appropriations Bill

- Nearly $2-billion increase for the Child Care and Development Block Grant, an over 30% boost above the FY22 enacted level, along with sizable increases for the Head Start program and Preschool Development Grants

Care Workforce Executive Order

- Most comprehensive set of executive actions, involving the efforts of nearly every cabinet-level agency, to improve care for hard-working families while supporting care workers and family caregivers

President's FY24 Budget Proposal

- $600 billion mandatory investment in child care and preschool, with a focus on increasing the supply of high-quality child care and lowering costs for families, in addition to increased funding for existing discretionary programs

Focus on ARP Reach, Use, and Impact

Understanding the effects of this historic investment in child care: important ***both*** for measuring the impact of ARP ***and*** for designing future policy to improve child care availability, affordability, and quality.

- More than 220,000 child care programs in the U.S. have received ARP stabilization support, with capacity to serve as many as 9.6 million children.
- 8 out of every 10 licensed child care centers across the county received assistance.

→ The reach is substantial.

Use of ARP Stabilization Funds

Child care providers used and are using funds for operational costs like wages and benefits, rent and utilities, program materials and supplies, and cleaning and sanitation.

Most states are using funding to add child care slots through child care startup and expansions grants, leading to the creation of an estimated 300,000 new child care slots.

Office of Child Care also estimates that COVID relief funds have helped reduce child care costs for 700,000 children.

Studying Impact of ARP Stabilization Funds

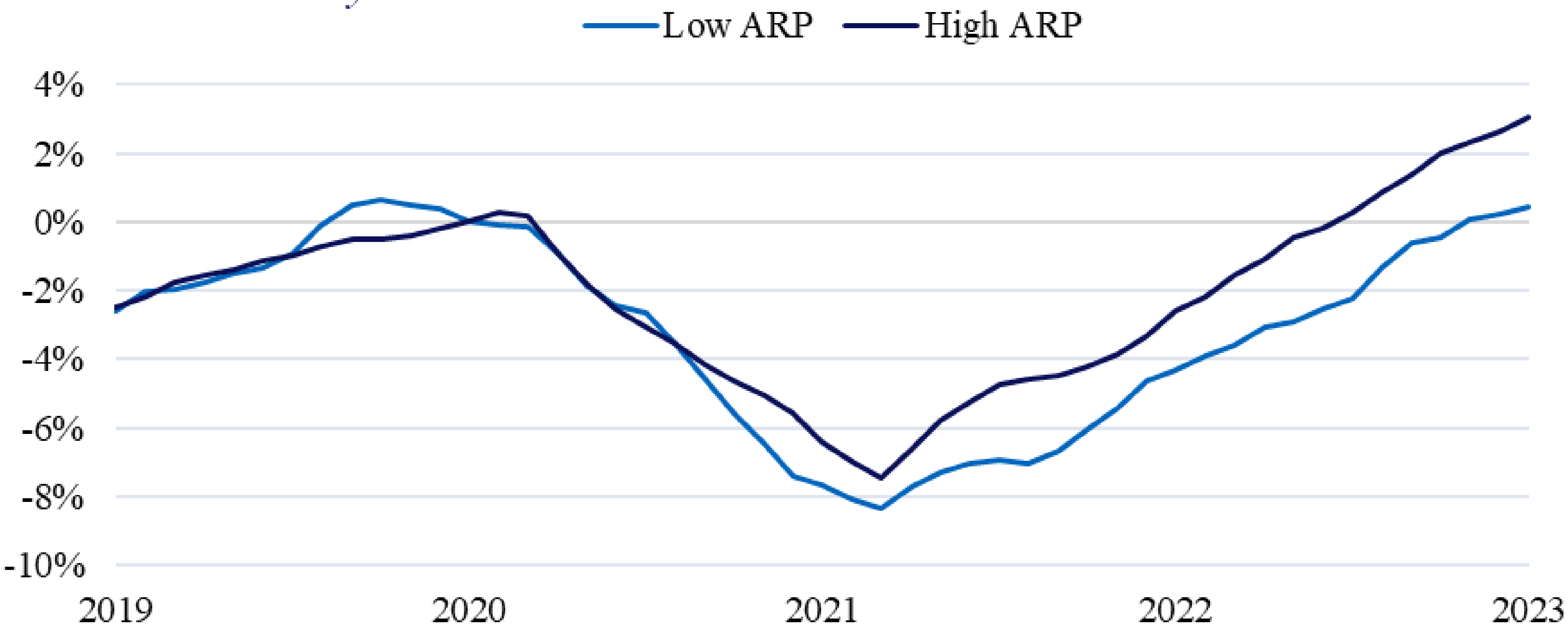
In the 2023 Economic Report of the President, we examined one outcome of interest, ***mothers' employment***:

Mothers' labor market attachment was particularly hard hit at the onset of the pandemic.

We explore employment rates among mothers of young children (under age 6), comparing mothers in areas with greater ARP-funded capacity per young child to those in areas with less ARP-funded capacity per young child.

ARP Stabilization Funds and Maternal Employment

Percent change in the 12-month rolling average of the employment-population ratio relative to January 2020



Sources: Current Population Survey; CEA calculations.
Note: Data are restricted to mothers who have at least one child under six. "Low ARP" refers to employment among those living in the half of core-based statistical areas (CBSAs) with the lowest provider capacity covered by ARP funding per population. "High ARP" refers to employment among those living in the half of CBSAs with the highest provider capacity covered by ARP funding per population.

Research to Inform Policy

Can also apply this approach to other questions on how ARP funds affected the child care industry and those working in it:

- Explore outcomes of interest such as employment in child care, provider stability, staff wages and turnover

- All 50 states and DC are using funds to offer recruitment and retentions bonuses and/or stipends for child care workers; more than 650,000 child care workers have received increased compensation

- NAEYC survey evidence on importance of the funding for child care providers remaining open

Research to Inform Policy

A number of important child and family outcomes that could be directly affected: child development, school readiness, mental health, family resources and wellbeing, and parental stress

→ Explore research questions that would capture the full impact of this investment on our country's vital child care infrastructure

→ Leverage variation across places, over time, or in how funds were used to better understand what works in supporting families and children in their access to high-quality, affordable child care

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