Child Care as Economic Development: Theoretical and Empirical Challenges

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Child Care as Economic Development

• What is economic development?
  – Growth in jobs and income
  – Human development (literacy, health)
  – Choice and freedom
  – Sustainability

• How can we count the contributions of the child care sector?

• How can we use an economic development frame to increase public and private support for child care?
What is child care’s economic development impact??

- Localities - Growth in jobs and income
- Children - Human development (literacy, health)
- Parents - Choice, enable them to work
- Society - Social infrastructure, sustainability
Presenting Child Care as Economic Development

- We know child care has long term impacts.
- But economic development focuses primarily on short term impacts.
- How can we count the contributions of the child care sector in the short term?
- Can we use an economic development frame to increase public and private support for child care?
Challenges in measuring child care industry’s impact

1. Most economic data seriously undercount employment and income in the child care sector. Child care industry data is also weak.

2. Much child care demand is local - from parents - but most impact models assume demand is from outside the local economy.
Challenges in measuring child care industry’s impact

3. A critical impact of child care is its productivity effect on parent workers. This effect is not counted in any impact models.

4. Government funding is typically viewed as welfare, not economic development investment.
Counting the Economic Impact of Child Care

- Direct Effects (gross receipts, employment)
- Indirect and Induced Impacts (economic multipliers)
- Impact of Parents’ Earnings: (infrastructure)
- Total Value of Local Economic Linkages (output, employment, linkage)
1. Measuring the Direct Effects of the Industry

Give size and scale of industry

Employment

Gross Receipts - Includes private and publicly funded programs

Other Useful Data:

# establishments, # children served, # parents served

Must know these to calculate economic impact and compare child care to other sectors
Good National Data Are Hard to Get

Number of Workers

- 0.65 million, Implan (1998)
- 1.1 million, Econ Census (1997)
- 4.6 million, Human Service Research Center/CCCW (1999)

Gross Receipts

- $18.9 billion, Econ Census (1997)
- $24.2 billion, Implan (1998)
- $35.6 billion, SIPP est. consumer spending (1995)
- $14.4 billion, Government Funds (UPK, Head Start, CCDF, TANF 2000-01)
## Standard Economic Data Undercount
### Child Care

<table>
<thead>
<tr>
<th>Kansas</th>
<th>Number Workers</th>
<th>Number Firms</th>
<th>Gross Receipts</th>
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<tr>
<td>IMPLAN</td>
<td>5663</td>
<td>NA</td>
<td>$238 million</td>
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<tr>
<td>State Licensing</td>
<td>14,370</td>
<td>8,645</td>
<td>$517 million</td>
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</table>
Direct Effects Allow Comparison to Other Industries

*From IMPLAN Database, 2000, ** State Licensing Data 2002
Counting the Economic Impact of Child Care in Kansas

Direct Effects (gross receipts)
$517 million, 14,370 jobs

Indirect and Induced Impacts (economic multipliers)

Impact of Parents’ Earnings: (infrastructure)

Total Impact on the Economy

$517 million, 14,370 jobs
2. Multiplier Effects

Input-Output analysis calculates the ripple effects of an industry’s spending in the local economy.

**Direct Effects:** Child care centers take in revenue.

**Indirect Effects:** Centers make purchases.

**Induced Effects:** Centers pay worker wages.

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Total Value of Local Economic Linkages
• Type 1 multipliers count only the indirect effect of industry purchases.
  – This would be the most conservative estimate of child care’s economic impact.

• Type II multipliers count the effect of household expenditures and workers spending their wages.
  – Since most child care demand comes from households, some argue Type II multipliers can only be counted on demand originating from outside the local economy - such as government spending.
A Simplified Input-Output Model

Regional Economy

- **Services**
  - Direct Effect: Families Buy Child Care

- **Manufacturing**

- **Agriculture**
  - Indirect Effect: Industries Make Purchases From Each Other

- **Households**
  - Induced Effect: Households Receive and Spend Wages

**Type I Multipliers**

**Type SAM Multipliers**

External Economy

- External Demand
- Leakage

- External Demand
- Leakage

Households and Businesses Pay Taxes and Receive Services and Subsidies
Every $1.00 spent on child care generates $1.20 - $3.00 in the larger economy.

Output Multipliers Increase with the Size of the Economy
Employment Multipliers

Every child care job generates 1.3 to 1.8 jobs in the wider economy

Tompkins County  1.27  Kansas (State)  1.55
New York (state)  1.42  California (State)  1.68
Vermont (state)  1.46  U.S.  1.8
3. Parent Productivity Impact

- There is no established methodology on how to measure this.
- A first step is to determine the number of working parents using paid child care and their incomes.
- Some portion of this is made possible by child care.
- Some studies claim all these wages are attributable to child care. This grossly overestimates the effect.
Child Care Enables Parents to Work

Number of Parents using Paid Child Care: 67,440

Median Income in Kansas: $29,356

Total Impact of Parents’ Earnings: $1.98 billion

How much can child care count as its contribution to the parent wage impact?
Putting it all Together

Counting the Economic Impact of Child Care in Kansas

**Direct Effects**
- 14,370 jobs
- $517 M in Receipts, 100,000 kids served

**Type 1 Multipliers**
- Direct and Indirect Effects
  - Output 1.56
  - Employment 1.32

**Type II Multipliers**
- Direct, Indirect and Induced Effects
  - Output 1.98
  - Employment 1.55

**Working Parents’ Earnings**
- 67,440 parents
- $1.98 B in wages
4. Government Funding as Economic Development, not just Welfare

- Tompkins County, NY used impact analysis to look at child care subsidies.
- Showed a positive return on subsidies as an economic development investment (multiplier effect), and a parent wage impact.
Economic Impact of Subsidies

• In Tompkins County, NY only 1 in 8 eligible children receive child care subsidies.

• We determined if government funded all eligible children in Tompkins County it would return:
  – $9 million in federal and state taxes to the local economy &
  – stimulate $5 million in local economic impact.

• The Chamber of Commerce is sponsoring an employer outreach campaign to Fill the Gap!
Subsidy Gap Impact

• Kansas proposed reducing eligibility level for subsidies from 185 % to 150 % of poverty.
• That this would cause a direct loss of $4.8 million and 217 jobs.
• Economic impact analysis showed a further loss to the broader state economy of $4.7 million and 119 jobs.
Impact of Reduction in Subsidy Eligibility from 185% to 150 % of Poverty, State of Kansas

Every dollar invested in child care generates $1.98 in the Kansas State economy.

Source: Based on estimates from Kansas Department of Social and Rehabilitative Services 2002, and IMPLAN multipliers 2000.
Impact Analysis - Comparison to Other Policy Sectors

• In Kansas, Child Care has economic impacts (1.98) similar to
  – local interurban passenger transit (1.84),
  – job training (1.83),
  – elementary and secondary schools (1.90),
  – colleges and universities (1.86).

  *Kansas Type II output multipliers, Implan 2000*

• Is child care getting a similar level of subsidy?
Leverage Effects of Government Funding

• By supporting licensing and early education, in addition to maintenance of effort and matching requirements, State investments in child care leverage Federal dollars.

• In Kansas, we determined that state dollars leverage roughly $3.00 Federal dollars and each Federal dollar in turn has a total impact on the Kansas economy of $1.98

• Federal dollars represent a source of external demand - economic development.
Child Care as Economic Investment

Every Federal dollar invested in child care generates $1.98 in the Kansas state economy.

Each State dollar invested in child care leverages roughly $3.00 Federal dollars.

Federal Investments in Child Care

$107.2 million

Induced Effect from child care workers spending wages $45.0 million

Indirect Effect from centers and suppliers making purchases $60.1 million

Leverage

Kansas Investments in Child Care

$35.4 million

Economic Impact of Federal Child Care Subsidies in Kansas

$212.3 Million

Source: Based on SRS data for 2001.
Broadening Public Support

• Economic development arguments can help us to broaden the collective responsibility for care.

• Be careful in framing this argument not to undermine the educational and social values of care.

• Remember, economic development itself is now being framed in broader terms - sustainability, human development, choice and freedom.