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# Increasing Federal Investment in Children's Early Care and Education to Raise Quality, Access, and Affordability

Elizabeth E. Davis and Aaron Sojourner

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## MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers—based on credible evidence and experience, not ideology or doctrine—to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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# Increasing Federal Investment in Children's Early Care and Education to Raise Quality, Access, and Affordability

Elizabeth E. Davis
*University of Minnesota, Department of Applied Economics*

Aaron Sojourner
*University of Minnesota, Carlson School of Management*

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# Abstract

The core challenge our proposal seeks to address is how to ensure that every American family and child has access to high-quality, affordable early childhood care and education (ECE) services in a critical period of human development, breaking a shortage of investment in young children. America's status quo asks the most of parents when they have the least. The public invests only about $1,500 per child annually in care and education in children's first 5 years of life, when parents have the least earning and borrowing power, and then invests $12,800 per child annually for the next 13 years, when parents have more. Under this proposal, every family can choose to access affordable ECE services at qualified, high-quality center-, home-, and school-based providers using either a slot that providers have been contracted to provide or a scholarship. Families in poverty can choose Early Head Start and Head Start with the option of full-time, full-year services. Total family financial payments are capped and depend on family income-to-poverty ratio. The combination of family and public payments to providers will adjust to be sufficient to cover the local costs of efficiently producing high-quality care and services. Competition focuses in three domains: procurement competitions for local service contracts that reveal information about local production costs, competition between providers about how best to use a localized sufficient care-labor budget to attract, develop, motivate, and retain care talent, and competition between providers to serve local families better.

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# Introduction

Children in the United States do not have equal or equitable opportunities, especially in the first five years of life. Where the child lives, their parents' incomes, and their race and ethnicity all factor in to their early experiences and the resources provided to them. Disparities in early life lead to differences in preparation for school at kindergarten entry and grow into disparities in opportunities and outcomes in adulthood. Notably, income-based gaps in child skill widen steadily during the first five years of life but stop widening once public investment ramps up at kindergarten (Council of Economic Advisers [CEA] 2015, fig. 3). Improving children's access to high-quality care experiences in the first five years of life can prevent these gaps from opening and, as a result, children from low-income families would have much more similar development trajectories to those of higher-income children (Bartik 2014; CEA 2015; Duncan and Sojourner 2013; Heckman 2011). Waiting until kindergarten to promote equitable opportunity for American children is too late.

In the past 30 years the science of human development has brought to light critical connections between early childhood experiences and the physiological processes of development. A child's experiences and environment in the first years after birth are critically important for establishing a positive trajectory for cognitive and socioemotional development and lifelong health (Currie and Rossin-Slater 2015; National Academies of Science, Engineering, and Medicine [NASEM] 2019). While scientists, policymakers, and parents increasingly recognize the importance of experiences in early childhood for promoting children's healthy physical, social, and intellectual development, insufficient public investments in early childhood undermine American children's ability to thrive in schooling and adulthood (Brain Architects Podcast 2020). The current fragmented and underfunded early care and education (ECE) system creates highly unequal experiences in early childhood, exacerbating disparities, denying equal opportunities to all children, and resulting in an underproductive future for our children and country.

The core challenge our proposal seeks to address is how to ensure that every American family and child has access to and can benefit from high-quality, affordable ECE services in the years before kindergarten entry. Our objective is to set out a vision for increased public funding for ECE to ensure that adequate resources are invested in this period of life; doing so will aid in the fight against the reproduction of intergenerational inequities (Elango et al. 2016; Johnson and Jackson 2019) and ensure that all American children have the opportunity to reach their potential.

# Background

Nearly two-thirds of young children live in homes where all available parents work, and most children spend time with nonparental caregivers in the years prior to kindergarten. About 66 percent of mothers and 95 percent of fathers with a child under age six were employed or searching for work in 2019 (Bureau of Labor Statistics [BLS] 2020a, 2020b). About 60 percent of young children, up through age four, spend some time out of parents' care weekly, averaging about 33 hours in nonparental care every week.[1] The COVID-19 pandemic has highlighted the critical role of child care as part of the nation's economic infrastructure. When schools and child care facilities closed in early 2020 parents faced enormous challenges managing their children's care and schooling along with managing their own work; some, especially mothers, left their jobs. A recent study from the Federal Reserve Bank of Minneapolis found that 11 percent fewer mothers with children under age five were in the labor force in the fall of 2020 compared to the prior year, a much larger decline than for fathers or for workers with no children at home (Grunewald et al. 2021). Even prior to the pandemic, lack of availability and access to affordable child care were widely cited as concerns not only for families, but also for employers. The US Chamber of Commerce Foundation estimated costs to employers ranging from $400 million to $2.88 billion per state due to child care related absences and employee turnover (US Chamber of Commerce Foundation 2019). The United States fell from sixth to 17th in female labor-force participation among 22 industrialized counties between 1990 and 2010, due in part to a lack of family-friendly policies such as government support for child care and paid parental leave (Blau and Lawrence 2013).

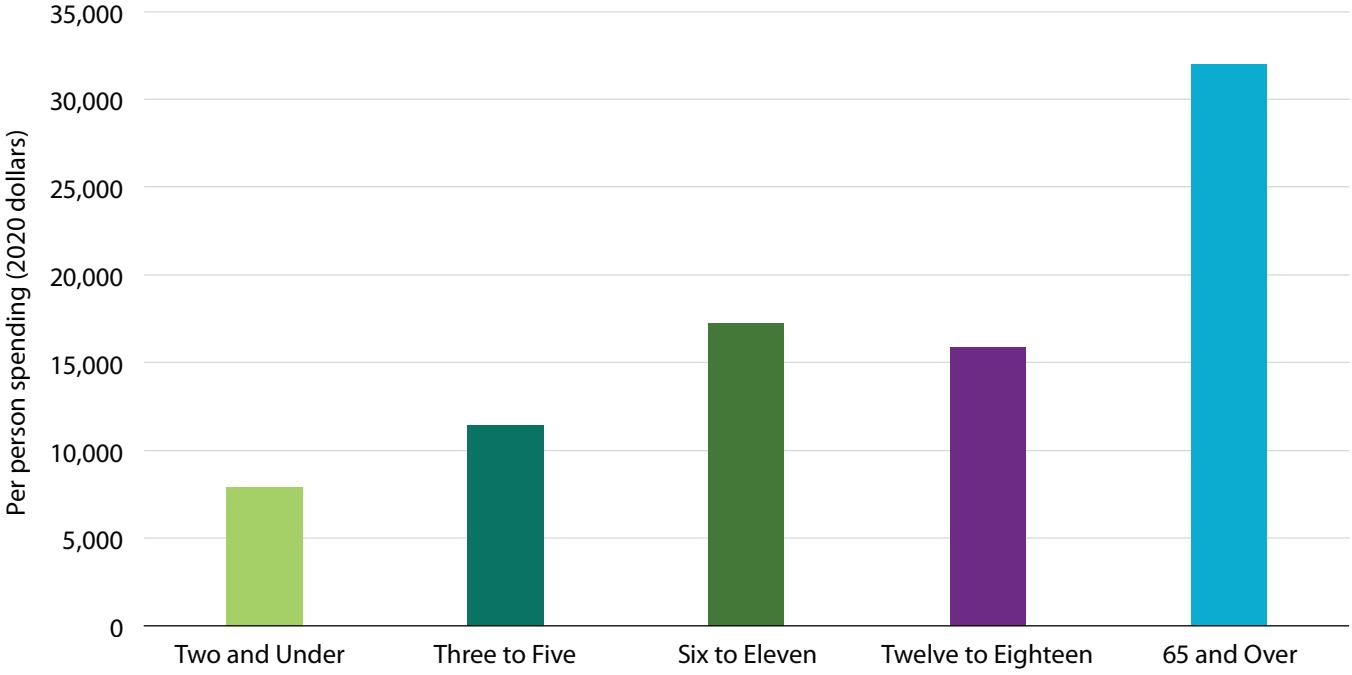
ECE plays a dual role in the lives of young children and their families. ECE encompasses both "child care," a term typically used to describe regular nonparental care arrangements for children while parents work or engage in other activities, and "early education," a term that refers to early childhood programs with explicit goals to support children's cognitive and socio-emotional readiness for kindergarten entry. For young children, care and education are intertwined and continuous, yet federal and state policies often address them separately. Policies to support care for children while parents work often do not have a child-development lens, and early education programs might have part-time schedules that do not meet the needs of working parents. Overall, the current underfunded and fragmented set of ECE policies and programs in the United States relies heavily on parents' ability to pay; the lack of public resources limits providers' ability to provide high-quality care. The science demonstrating the critical role of early childhood development for lifelong health and positive outcomes underscores the importance of shifting the focus of public investment in young children to support child development and equitable opportunities (National Academies of Sciences, Engineering, and Medicine [NASEM] 2019).

Research has shown that high-quality ECE has positive short-run effects on children's cognitive skills and desirable effects on longer-run outcomes including an increase in educational attainment, greater adult earnings and employment, better health, reduced criminal activity, and less use of public benefits (CEA 2015; Elango et al. 2016). Much of the early research was based on randomized control trials comparing outcomes of participants to children who typically did not attend a center-based program. Studies of Head Start also find both short- and long-run positive effects compared to children in home-based-care settings (Bauer 2019). More recent research supports earlier findings that Head Start has led to sizeable gains in educational attainment, including completion of high school and college (Griffen 2018; Kline and Walters 2016). Even when short-term effects on skill and academic achievement measures fade out in the medium term, large effects can reemerge as increased adult earnings and productivity (Bailey, Timpe, and Sun 2020; Barr and Gibbs 2017; Chetty et al. 2011). Altogether, the research provides rigorous evidence of positive outcomes for children and families in both the short and long runs from attending high-quality ECE, and positive returns to public investments, particularly for more-disadvantaged families.

In addition to the established benefits of improved child outcomes noted earlier, there is evidence that having children spend time in high-quality nonparental care settings can support better parenting (Elango et al. 2016). Early Head Start raised both children's cognitive skill and the quality of parental care (Love et al. 2005). Free, full-day center-based care for children aged one and two years also raised the quality of parental care as well as the child's cognitive skill, especially for children from the least-advantaged families (Chaparro, Sojourner, and Wiswall 2020). Head Start participation has been found to increase positive parenting and

FIGURE 1.

## Total Public Spending in 2015, by Age Group




Source: Isaacs et al. (2018); Isaacs et al. (2019); author's calculations.

Note: The totals include information on federal, state, and local programs for 2015, inflated to 2020 dollars using the Bureau of Labor Statistics consumer price index. Per Isaacs et al (2019), the totals are computed using a conservative methodology designed to err in favor of counting expenditures on families toward children and in favor of undercounting spending on the elderly. Estimated spending on the elderly includes expenditure information from 16 federal and 2 state programs and does not attempt to estimate tax reductions benefitting the elderly. Isaacs et al (2019), Hahn et al. (2019), and our text provide more details.

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parental investments beyond the time in the program (Bauer and Schanzenbach 2016). This growing body of research demonstrates that public investments in high-quality ECE will have payoffs for many years.

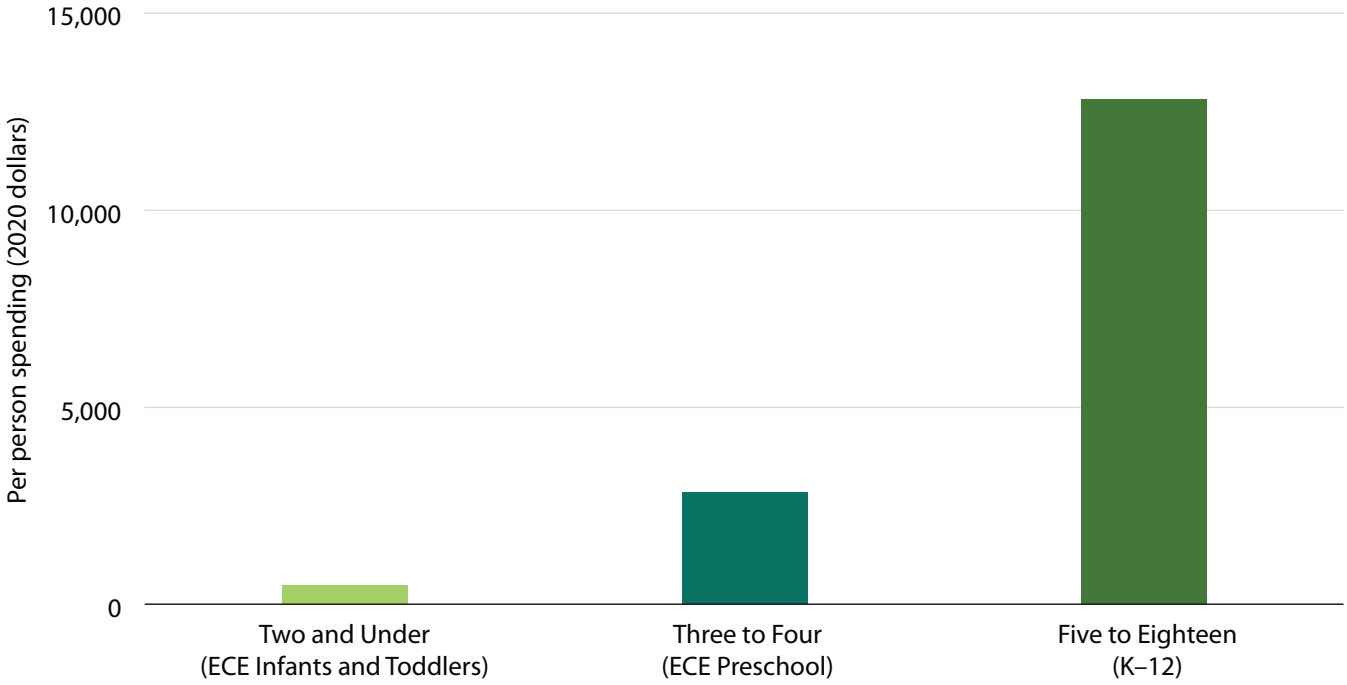
Despite the positive returns on public investment in ECE, the United States invests much more in older children than in younger ones, and overall spends much more for older Americans than for younger Americans (figure 1). Public spending is about $9,400 more annually per child once children reach elementary school age (six to eleven years old) than in their first three years of life when counting all forms of public investment (program expenditures and tax credits for health care, nutrition, education, child care, cash assistance, and others) across federal, state, and local governments (Isaacs et al. 2018).[2] Counting only family cash and tax benefits plus spending on care and education, the United States is an outlier among rich countries in deploying such a small share of its expenditures for children and families in the earliest years of children's lives, ranking 31st out of 32 countries in the Organisation of Economic Co-operation and Development (OECD) data (OECD 2017). Furthermore, every year the public invests $24,100 more per person in older Americans than it does in the youngest Americans.[3]

Focusing on only on investments in children's care and education in particular, public investment is especially imbalanced across ages. In 2019 public spending amounted to less than $500 per child in care and education during the first three years of life, and about $2,800 per child for children ages three to four, compared to $12,800 per child for elementary-age children (figure 2).[4] Even with Head Start and prekindergarten programs for children ages three to five, the level of public investment during these early years remains very low. On average, per capita annual public care and education expenditures averaged about $1,500 for children from birth to age four across all public care and education programs. These amounts are far below public spending on public elementary and secondary school.

Even for children from low-income families (below 200 percent of the federal poverty line [FPL]), levels of investment in young children's ECE fall far short of the $12,800 investment made in K–12 education per child annually. We invest less than $1,000 per child-year in children from low-income families during their first three years of life and less than $5,500 per year during ages three and four (figure 3). Public investment levels fail to serve all low-income children who are eligible under program rules. Early Head Start serves only 11 percent of eligible children and Head Start

FIGURE 2.

## Federal, State, and Local Government Spending on Child Care and Education in 2019, by Age Group




Source: Cascio and Schanzenbach (2013); Census (2020); Crandall-Hollick and Boyle (2021); Friedman-Krauss et al. (2020); Joughin (2019); NCES (2020); NSECE (2016); OCC (2019a; 2019b; 2021); Office of Head Start 2020; author's calculations.

Note: Expenditures include spending on the school-based prekindergarten programs, Child Care and Development Fund, (Early) Head Start, Child and Dependent Care Credit, and K-12 education. For additional details, see endnote four.

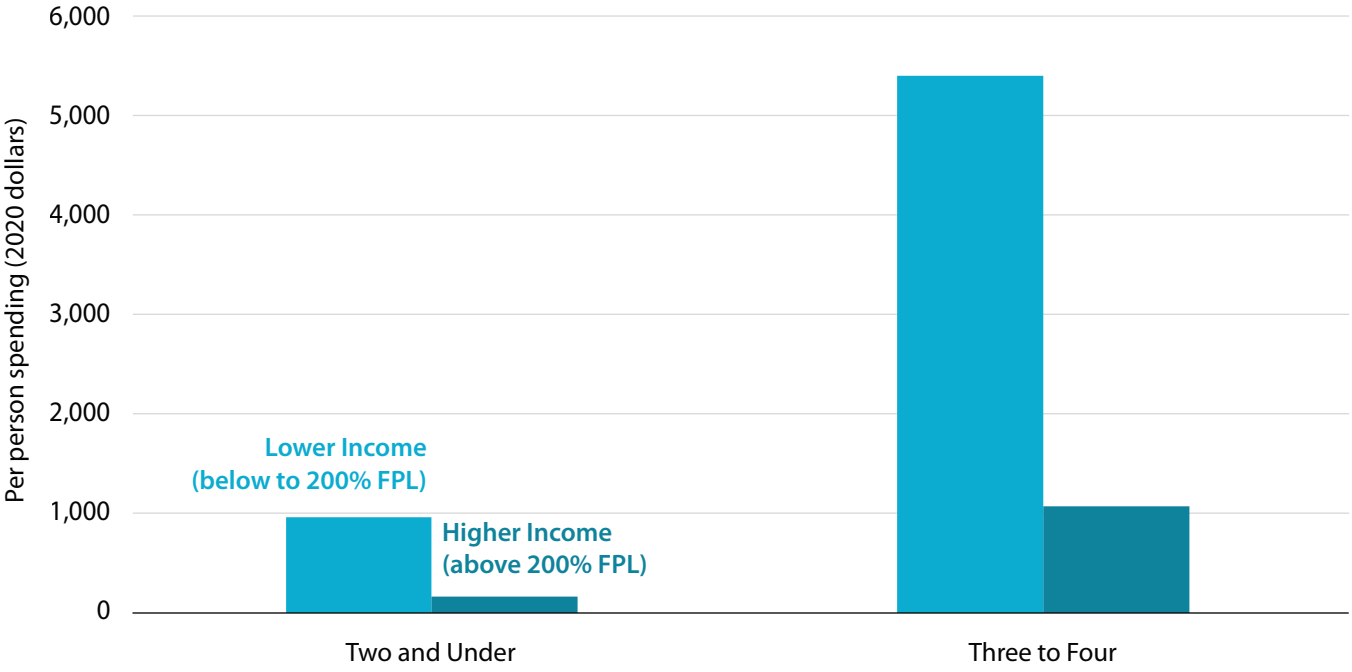
only 36 percent, with wide variation in both rates across states (National Head Start Association [NHSA] 2021). Only 14 percent of federally eligible children received subsidies through Child Care and Development Fund (CCDF) in fiscal year 2017, the most-recent year of data available (US Government Accountability Office [GAO] 2021). Despite recent increases in the CCDF block grant, underfunding continues to block a majority of eligible children from access to these resources.

Private and public resources are more limited when children are younger despite needs that are higher. When children are younger, high-quality care requires more-individualized attention from adults. One adult can provide quality care for only a few infants. In elementary schools, one adult often teaches more than 20 children. Per child, the elementary teacher's salary spreads across many students but the infant caregiver's salary cannot. Despite this, the public invests more in care and education per elementary student than per child under age five.

The lack of public investment in ECE represents a lost opportunity for the nation as a whole. The United States spends a smaller proportion of GDP on ECE than most other rich countries—0.33 percent of GDP for the United States compared to an average of 0.74 percent among OECD countries and 1.3 percent or more in France, Norway, Sweden, and Iceland (Gould and Blair 2020; NASEM 2018; OECD 2019). The United States relies more on parents' ability to pay and the private market to provide ECE services than other countries, which results in underinvestment in young children and limits providers' ability to provide high-quality care, as we discuss next.

FIGURE 3.

## Federal, State, and Local Government Spending on Care and Education, by Age Group and Income-to-Poverty Ratio




Source: Cascio and Schanzenbach (2013); Census (2020); Crandall-Hollick and Boyle (2021); Friedman-Krauss et al. (2020); Joughin (2019); NSECE (2016); OCC (2019a; 2019b; 2021); Office of Head Start 2020; author's calculations.

Note: Expenditures include spending on the school-based prekindergarten programs, Child Care and Development Fund, (Early) Head Start, and Child and Dependent Care Credit. For additional details, see endnote four.

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# The Challenge

Given limited public options and limited financial support under current policies, many parents shoulder the full cost of child care themselves, which places a huge strain on their finances and affects their decisions about whether to join the labor force and how many children to have (Malik 2019; Miller 2019). For many families, the burden of ECE expenses is heavy. The US Department of Health and Human Services (HHS) recommends that families' out-of-pocket child-care expenses not exceed 7 percent of their income, but low-income families who pay for care spend roughly 30 percent of their incomes on child care, while moderate-income families with child-care expenses pay 10–14 percent (Federal Register 2016; Malik 2019). Parents of young children either must forgo a parent's earnings or spend large amounts on care—in some regions more than on housing (Child Care Aware of America 2019). The dual responsibilities of care and earning an income squeeze parents especially hard when their children are youngest (Stanczyk 2020). In addition to the financial burden, under current policies there are stark differences in the use of ECE services exist since some families are priced out of the market. Some children miss out on the benefits of participating in high-quality ECE experiences prior to kindergarten.

## Market Failures in Early Care and Education

For a good or service where all benefits and costs of a transaction flow to only the buyer and the seller, and if neither party faces credit constraints or information problems discerning quality and there are no spillovers on others, market prices allocate resources efficiently. Where those conditions do not hold, as in ECE, market prices alone do not allocate efficiently and well-tailored policies might help to do so. Market failures in ECE occur due in three primary ways: spillovers, difficulty judging quality, and severe credit constraints on young families.

While ECE services have benefits to parents (the buyers), there are additional consequences for the children, their future neighbors, and the public. In many cases, parents will underinvest in ECE services for their children relative to what society needs in part due to these spillovers (CEA 2016a). ECE quality can be difficult or time-consuming to observe, opening up the possibility that public quality assessment, certification, and information dissemination can create value (Borowsky 2019; Herbst 2018).

Families with young children face an especially tight squeeze on their resources. Parents have the most private financial responsibility for their children at the point in their own lives and careers when they have fewer resources. Families with young children have lower incomes and higher credit costs than those with older children (CEA 2016b). Tighter credit constraints can cause many parents, especially parents with the least earning power, to underinvest in their young children's development (Caucutt and Lochner 2005, 2012; Caucutt, Lochner, and Park 2015; Cunha 2013; Heckman 2000). Compared to when their children are older, parents of young children have less private resources – less past income, lower current earning power, and less access to their future income. Parents do have more future income when their children are younger. However, parents tend to have lower credit scores when their children are young (CEA 2016b), meaning they tend to have less ability to borrow against their future income than they will when their children are in K–12 or college.

Because of these three market failures in ECE, relying on the private market and parents' ability to pay results in underinvestment in ECE services from society's point of view.

Instead of compensating for families' lack of private resources when children are younger, the age-imbalance in US public policy exacerbates the problem, as noted earlier. As a society we provide less support to families in the early years than when children are older, despite evidence of the benefits of investing when children are young in order to have a positive impact on children's healthy development and lifetime outcomes.

## Outcomes in the Current Fragmented and Underfunded System

For childcare providers public underinvestment means low wages, high turnover, and an inability to expand or

improve services (Whitebook et al. 2014; Workman 2018). Those working in the child-care field earn among the lowest average wages of any occupation, and pay and benefits lag well below the earnings of workers with similar educational credentials (Vogtman 2017). Quality in ECE depends on the stability of nurturing relationships between adults and children, but high turnover of staff due to low pay disrupts those relationships (Caven et al. 2021). One study found that the average annual turnover rate of child-care staff was 30 percent, which imposes significant costs on child-care businesses and also impacts the quality of care by disrupting child-teacher relationships (Porter 2012). As a result of under-resourcing of ECE, the sector has been unable to pay workers anything close to their marginal social value. The system should provide resources so that ECE workers' earnings are at a level that recognizes the value they create and permits ECE employers to attract, motivate, and retain talented caregivers. Furthermore, our society underestimates the value of care work, connected to the fact that women, and especially Black and Latina women, disproportionately do this work. More than 93 percent of ECE workers are women. Non-Hispanic white Americans make up a 13 percent lower share of the child-care workforce than their share of the population, while Black Americans make up a 24 percent higher share. Furthermore, Black educators were more likely to work in low-wage child-care centers (Caven et al. 2021; Data USA 2020). Recognizing the full value this work creates in our community by directing more resources to the workforce would constitute concrete progress against racism and sexism in the labor market.

The current fragmented and under-resourced ECE system results in unequal and inequitable opportunities for all children and families to have access to high-quality and affordable ECE. Availability of licensed providers is low in certain places, and nearly 60 percent of rural census tracts have been identified as child care deserts (Malik et al. 2018). Furthermore, 60 percent of American Indian/Alaska Native and Hispanic families live in areas with little supply compared to about half of non-Hispanic white families (Malik et al. 2018). In 2019 more than three-quarters of families that searched for ECE reported difficulty finding it and more than three-quarters of those families said the main problem was either cost, lack of open slots, or quality (National Center for Education Statistics [NCES] 2021). Recent research points to the lack of both affordability and access for many Black and Hispanic families.[5] Among those who work full time, 69 percent of Black parents and 72 percent of Hispanic parents live in areas with unaffordable full-time center-based care (i.e., there is only center-based care priced at more than 7 percent of their incomes) compared to 60 percent of white parents. For families with incomes below 200 percent of the FPL, the price of full-time center-based care averages 28 percent of their incomes (Baldigam Maura et al. 2018).

The lack of public investment and heavy reliance on families' limited resources makes it difficult for ECE providers to invest in and maintain high-quality services. Caring for young children is labor-intensive, and caregiver qualifications and compensation as well as staffing ratios are major cost drivers. In addition to staffing costs, additional cost elements include costs of training and professional development, facilities, curriculum, and other non-personnel items. Estimates of the costs of producing high-quality ECE exceed current average prices, often by a large margin (NASEM 2018). In order to invest in higher compensation and other supports for high quality, ECE providers need sufficient and stable funding. In contrast, most private ECE providers operate on small margins and receive most of their revenues from fees paid by parents.

This lack of private and public resources focused on children's first five years of life leads to chronically low compensation and high turnover for caregivers; withering budget crunches and lack of accessible ECE services for families; stressed and burned-out parents; and unstable, low-quality care experiences for young children based on family income, location, race, and ethnicity. The multiple crises facing the sector are entirely predictable and inevitable given the combined lack of private and public resources devoted to this critical time in human development.

Investments in the quality of children's care experiences in their first years of life set a foundation for later success as students, workers, entrepreneurs, parents, and neighbors. Other investments in young children and families also show evidence of benefits, including paid parental leave, nutrition supports, health insurance, stable housing, peaceful communities, parental mental health, and child allowances. We offer this proposal to advance thinking about how to structure investments in ECE and will discuss the context of other kinds of investment in the last section.

# The Proposal

These four guiding principles underlie the proposed changes to the provision of ECE in the United States:

- All families have the right to affordable access to ECE services before K–12 entry.
  - No family would be pushed into deeper poverty by ECE costs and there would be a progressive cap on the share of income any family pays for ECE.
  - Public payments would be made to providers so families do not have to pay full costs in advance and await reimbursement via tax credit.
  - Services would be open to all children regardless of parental time use.
  - There would be equitable opportunities for all children with differentiation in service access as appropriate.
- Care would be of high quality, and there would be resources to attract, develop, motivate, and retain talent in the sector.
  - Quality standards and measures would be consistent across funding streams and would account for differences across types of providers as well as parents' cultural and linguistic preferences.
  - Care workers' compensation would rise substantially and would be indexed to local market wages to better reflect the social value they create, and to reduce turnover.
- Supplemental services would be available as appropriate, with full-day, full-year Head Start model as the minimum service bundle for children from low-income families.
- Competition would be focused to promote quality, access, and public value.

In a nutshell, we recommend an approach that includes automatic funding of ECE services so that every eligible child and their family has access to the services for which they qualify:

- Every family can choose to get affordable care and education services at qualified, high-quality center-, home-, and school-based providers using either a slot that providers have been contracted to provide or a scholarship at a qualified provider of their choice.
- Families in poverty can choose Early Head Start and Head Start with the option of full-time, full-year services.
- Total family financial payments would be capped and would depend on the family's income-to-poverty ratio (IPR).
- The combination of family and public payments to providers is sufficient to cover the local costs of efficiently producing high-quality care and services.
- Eliminate the Child and Dependent Care Credit for child-care expenses, tax-advantaged employer-provided flexible spending accounts, and tax credits for employers who offer on-site care since these are made redundant and provide benefits disproportionately to children where public investments have the lowest returns.

There would be two primary federal funding streams to support ECE services: Head Start and state-federal partnerships. The first expands Head Start and Early Head Start, enabling them to serve all families that choose them with the option for full-time and full-year if the family chooses. This expansion would establish Head Start as a real, meaningful option for all low-income families. The second stream combines and expands federal funding from the Child Care and Development Fund (CCDF) and preschool development grants into a federal-state partnership to provide universal, sliding-scale access to care without a parental work requirement. This partnership stream will fund both (a) provider procurement competitions for direct multiyear contracts, similar to those used in Head Start and in some state CCDF programs (Weber and Grobe 2015), to provide care in a given area for a prespecified number of children; and (b) individual, portable scholarships to children for families to use at qualified, participating providers. The competition for these contracts and scholarships would be open to any qualified provider, including school-based, private center– or

BOX 1.

### An Example

In a sealed-bid design to contract for a certain number of slots, any prequalified potential provider could submit a supply-curve bid and a list of potential quantities, each with an associated cost. The procurer would clear the market by awarding contracts to the set of providers who could supply the given number of total slots at the lowest cost and pay each of them at the per child cost of the lowest rejected bid.

Rather than awarding contracts strictly on low cost among qualified bidders, other considerations could be included. To promote parental choice within each area, one could set a minimum number of providers receiving awards within a local area. Competitions could be structured more like grant competitions, wherein each is assessed holistically for best expected value. Competitions would be expected to reveal imperfect information about the costs of producing care.

home-based providers; and Head Start providers. All ECE providers funded through these streams will meet a unified set of quality standards and funding levels will be sufficient to cover the local costs of quality care and services.

Coordination at the state level of the two programs and expansion of funding will be needed to ensure families do not fall through the cracks and that all families have access to affordable, high-quality ECE. Families may choose to access ECE services at a single provider or divide their use across a portfolio of providers throughout the day, week, or year subject to a participating provider being willing to serve them in the desired mode. Some states have experience handling families' use of multiple providers for maximum numbers of authorized hours and combining subsidies with family financial payments through CCDF child-care voucher programs and state-specific early childhood scholarship programs. Federal and state partnerships will need upgraded data systems to reconcile use and payment as well as for performance monitoring and informing parents about options. Within a range of acceptable quality, the system will allow quality-differentiated payments and enable informed parent choice through continued investment in Quality Rating and Improvement Systems (QRIS), local child care resource and referral networks, and networks for home visiting and parent engagement. Other components of the ECE system, such as licensing, home-visiting nurses, early childhood screening and developmental services, and other forms of parental engagement and support would be expanded and improved.

## Right to Affordable Access to ECE Services before K–12 Entry

Every American family and child will have a right of voluntary access to high-quality, affordable ECE services in the years before kindergarten entry. Each family will have multiple provider options with maximum costs for the family similar across providers. Families decide if they want to use care and, if so, how much and at which providers. Because all families have the right to access ECE services, there are no eligibility criteria. There are only differences in the service bundle assessed as appropriate for them and in the maximum family financial payment based on their circumstances. Of course, every family also has the right to opt out of using the system and to provide parental care or make private arrangements without subsidy.

In order for families to have meaningful access to ECE services, no family will be pushed deeper into poverty by ECE expenses and, above the FPL, family payments would be on a sliding scale depending on the family's IPR. The largest public investments are made in children from the least-advantaged families because investments in high-quality ECE experiences make the biggest positive impact in the lives of children from more-disadvantaged families.

## No Parental Time Use Requirement

Children would have access to high-quality ECE services regardless of parental employment status. Currently, most states require parents to be engaged in work-related activities a minimum number of hours per week in order to qualify for CCDF subsidies. However, K–12 schools, Early Head Start, Head Start, and state prekindergarten programs do not have parental work requirements. A program without parental time use requirements will ensure access to high-quality ECE services if parents judge these will benefit their child and family.

## Quality of ECE Services

Incentives and resources will be provided to produce high-quality care and to equip families with information, resources, and incentives to choose high-quality providers. Development of a consistent set of quality standards regardless of the source of funding is needed. Most importantly, sufficient resources will be required to attract, develop, motivate, and retain the talent to provide high-quality ECE services for all children regardless of setting or location. Every family will have access to a bundle of high-quality

BOX 2.

## Appropriate Care-Labor Cost Benchmark

What is an appropriate care-labor cost benchmark? Teachers and other employees in America's elementary and secondary education industry earn an average of $53,120 annually, about the same as the $53,490 average for all workers nationally. In contrast, employees in child care currently earn an average of $30,540 annually, 57 percent of the all-worker average (BLS 2019).

Pegging ECE care workers' average earnings at 90 percent of all average earnings would translate to about $48,000 annually or $24 hourly, raising the average annual labor cost of an average ECE care worker to about $70,000 with fringe benefits and taxes.

This increase in care wages implies a 35 percent increase in total care costs per worker, computed based on employer costs of employee compensation and labor's share of total care costs from Workman and Jessen-Howard (2018).

ECE services, including high-quality care and education and parent engagement services. Additional services—such as development and occupational therapies, transportation to and from care, and enriched parenting supports—would be available to children and families based on their circumstances and whether they are expected to benefit from these services.

# Cost Sharing Among Federal and State Governments and Families

A major expansion of federal dollars is needed to expand access to high-quality, affordable ECE services for all families for children up to kindergarten entry. The program will be financed through a combination of federal, state, local, and family resources. Total funds flowing to a provider for serving a child and their family depends on the cost of serving them and does not depend on family income per se but on an assessment of what investments will be productive and appropriate for that child and family. The family payment to cover these costs depends on the family's IPR and their participation in the ECE program. Public investment will cover the remainder of costs. Where states and local governments choose to provide universal, free programs, they can combine the federal funding with their own dollars to reduce families' payments, as long as quality standards are maintained.

# Ensure Access and Quality and Focus Competition on Value

A mixed delivery system can harness the benefits of competition to ensure quality, access, and public value. Expansion of public funding requires careful consideration of funding, distribution, and oversight mechanisms to ensure access and quality while spending public dollars efficiently. Provider competition can be used as a means to ensure that public investment is spent efficiently. However, a risk with requiring providers to compete over cost is that they may reduce care quality in order to reduce costs. At the same time, relying solely on a system of public or quasi-public contracted providers may not meet the needs of all local families. Furthermore, higher prices or higher payments levels will not necessarily flow into higher compensation for the care workforce.

The proposed overall system would include both contracts with certain providers that go through a bidding process and scholarships that follow children to any participating provider. These two parts of the system are complementary. Slots contracted through Head Start and state-federal partnerships ensure that reliable supply exists locally to serve a base number of children. The focused competition process reveals information about the local costs of ECE production. Current Early Head Start and Head Start and state CCDBG contracted slot competitions resemble this kind of competition in some ways. At the same time, scholarships help ensure that families always have multiple provider options and offer a flexible way to facilitate changes in local capacity so local supply and demand equilibrate.

The value of any family's scholarship would depend on the difference between a total payment amount the participating provider is due and the family's payment:

*total payment to provider = family payment + scholarship value*

We first discuss the family payment, then the total payment. Providers serving children through either arm of the partnership program—contracts or scholarships—would be required to limit their total charges to families based on program specifications.

TABLE 1.

## Examples of Family Payments for Famillies at Various Income-to-Poverty Ratios

| Income-to-Poverty Ratio (IPR) | Maximum family contribution as share of income | Share of families with a young child in this IPR range | Income of family of 4 with 2 eligible children | Maximum annual family contribution | Weekly family contribution per child |
|---|---|---|---|---|---|
| 100 | 0.0% | 21% | $26,200 | $0 | $0 |
| 200 | 5.0% | 21% | $52,400 | $2,620 | $26 |
| 300 | 6.7% | 16% | $78,600 | $5,240 | $52 |
| 400 | 11.3% | 12% | $104,800 | $11,790 | $118 |
| 500 | 14.0% | 9% | $131,000 | $18,340 | $183 |
| 500+ | 14% to 25% | 20% | | | |

Source: U.S. Census Bureau American Community Survey (2017); Ruggles et al. (2021); author's calculations.

Note: These calculations are based on the 2017 five-year sample.

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# Family Payment

The number of age-eligible children in the family and the IPR dictates the maximum family payment, which would be paid if all eligible children were in full-time care all year.[6] The family's weekly payment for full-time care per child would be the family's maximum payment divided by the number of age-eligible children and by 52 for weeks in a year. Table 1 gives examples for families at various IPR. For a family of four with two young children and $52,400 in income, they are at 200 percent IPR and would be expected to pay 5 percent of their family income toward care if they used full-time, full-year care for both children. That would be $26 per child-week and $2,620 annually. If the family makes $131,000, they would be at 500 percent IPR and their weekly payment per child would be $183 and maximum annual payment for both children would be $18,340. Participating providers would bill the scholarship program the difference between the appropriate total payment rate and the family payment amount. Participating providers cannot charge parents more. Part-time enrollments would be supported by mutual consent of the provider and parent with family and public payments to providers scaled down appropriately.

# Total Payments

The total provider payment per child should vary locally, and there would be some differentiation by quality level and for supplementary services for which the family and child qualify and that the provider supplies. A central challenge is determining how to set the payment level for participating providers in a way that would provide enough resources for quality and access, and would provide enough incentives for efficiency in production and responsiveness to variation in local families' demand and costs of production. To promote efficiency, we propose focusing provider competition in three primary domains, each of which reveals different information and provides efficiency discipline on a different part of the system (Table 2).

The mechanism for the first domain is public procurement competitions for contracts to provide a bundle of ECE services within a local service area to a specified number of children. The contract will pay the provider the agreed amount based on the number of children served. What differentiates contracts from scholarships is that the public takes some enrollment risk off the provider in return for the provider supplying auditable information on costs of production. Provider competition for these contracts puts efficiency pressure on those providers. Head Start and partnership contracts will be used to supply only a fraction of projected demand for a local area, with the balance served via scholarships. Failure to attract and serve children near the contracted number would result in the provider being barred from future contract competitions.

An important role of the procurement process is to reveal information about the local cost of high-quality ECE service provision. Economic research on multi-unit auctions can be used to inform the design of these competitions. Potential bidders would undergo prequalification, and would agree to performance standards and ongoing performance monitoring. Bidders could include private or public entities: home-based providers and their networks, centers, school districts and charter schools, and Head Start providers.

Some preference might be given to new entrants to stimulate entry and competition and contracts could be directed or tailored to specific areas and types of care where analysis provides evidence of unmet demand, such as care during nonstandard hours or service in a particular language.

A risk with requiring providers to compete over cost is the incentives created to reduce care quality. Care quality is difficult to observe and monitor and so competitions focused

TABLE 2.

## Three Primary Domains to Promote Efficiency

| Domain | Information | Mechanism |
|---|---|---|
| 1 | Costs of producing high-quality care locally | Public procurement competitions for long-term, local service contracts |
| 2 | How to best attract, develop, and retain care talent | Competition between providers over best use of a sufficient care-labor budget |
| 3 | Kinds of care local parents demand | Sliding-scale scholarships carrying a subsidy per hour of care |

Source: Davis and Sojourner (2021), author's calculations.

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only on cost will tend to create downward pressure on quality. One way to guard against this lowered quality is to define, monitor, and manage to clear performance standards; these actions are a central part of quality assurance in this proposal. Head Start uses provider competition over long-term service contracts coupled to a rigorous set of performance standards and monitoring to produce its services. Many school districts, especially those in rural areas, also contract out provision of prekindergarten services to private partners. Some states also use contracted providers to increase supply of care in certain areas or for certain types of children (such as infants and toddlers, or children with special needs) using CCDF subsidies, although these are not always linked to quality standards.

The second domain of competition addresses the challenge of ensuring that ECE employers have sufficient resources to cover costs associated with attracting, developing, and retaining the talent they need to produce high-quality services. One approach is to use care-labor cost modeling to complement the contract procurement competitions as a way to guard against labor cost pressure eroding care quality. Resources for care-labor compensation would be set based on an expected quantity of labor (derived from the set of children who would be cared for under the contract) and a price of labor (indexed to average wages in the local labor market). This basic labor cost of care would be specified up front in the procurement process and would be common to all bidders.

Given this, potential providers in the procurement competitions would try to find the best ways to (a) use a predetermined, sufficient care-labor compensation budget consistent with staffing regulations, and (b) efficiently manage factors beyond care labor, such as managerial expertise, facilities, and materials costs. The procurement process would focus competition between providers on how to best use a sufficient labor compensation budget instead of creating pressure to reduce care-labor costs. Providers will innovate and compete in their staff recruitment, applicant screening, job design, training and development, monitoring, compensation, evaluation, and firing policies. Care labor is the primary expense in producing ECE services and the quality of care depends heavily on the quality of the staff. In the status quo, too few resources flow toward care staff, the sector faces high turnover and workforce stress, and quality suffers.[7] When an ECE provider bids for a contract, they will specify a set of children in each age group for whom they would provide care. Given the required adult-to-child ratios, the provider can calculate the expected number of care workers needed. To set the care-labor budget, an average compensation level could be pegged to overall local earnings so that the sector remains competitive with workers' alternative earning options so that when the local wages rise in other sectors, ECE providers will automatically have resources reflecting that value. The benchmark of average earnings could be localized by commuting zones to reflect labor market boundaries.[8]

The number of expected ECE care workers and their relevant, local average annual costs of compensation determines the expected (total) labor cost of care. Payments to participating providers would be structured to support this level of labor compensation based on the number of children enrolled. ECE employers would compete with one another and with employers in other sectors to attract, motivate, and retain top talent, and they would have resources to be competitive. Because payments are premised on sufficient care-labor costs, providers would document that care-labor expenses averaged at least the funded amount, given the slots contracted and the children served.

The third domain of competition between participating providers is focused on how to best meet parents' needs using the sliding-scale scholarship model; this domain includes Head Start, contracted providers, and any providers choosing to remain outside the program. Providers with contracts and Head Start providers can choose to accept children with scholarships in addition to their contracted numbers. Providers without contracts can opt to serve families via scholarships after passing a certification process and as long as they maintain performance standards that would be managed by the state. Given that more families will have resources to afford higher-quality care, some existing providers will expand and new entrants will open, giving families more and better options than they currently have.

When serving a child with a scholarship, the provider's per child payment is the sum of the scholarship payment and the family's payment. Scholarships enable flexible supply

that adapts quickly and indicates where and how demand is changing. Families could use scholarships at participating Head Starts, school-based pre-kindergartens, private centers, and home-based providers. Any provider can apply to the state for certification as a qualified provider where children can use their scholarships. For example, Minnesota, Louisiana, and some other states have forms of scholarship programs with some of these key features (Louisiana Policy Institute for Children n.d.; Minnesota Department of Education n.d.). Scholarship providers will be monitored and expected to provide at least the minimal bundle of high-quality services.

This third domain of competition focuses on satisfying local demand through competition between participating providers to best serve families, given informed parent choice and a sufficient per child payment. The program ensures that a provider receives enough payment to cover the cost of high-quality, appropriate services for any child whose family prefers to use that provider. Current competition between providers to serve families with CCDF vouchers resembles this kind of competition in some ways (e.g., parents pick a provider), and the per child budget here is conceptually similar to the maximum reimbursement rates used in many state CCDF programs. The payment rate for the proposed scholarship program would be substantially higher than current CCDF subsidy payment rates, however, because it would be pegged to having sufficient funds for the care-labor budget described above.

The proposed system envisions a combination of contracted providers and scholarships to support a mixed delivery system to meet the varied needs of families, ensure access to high-quality care, increase compensation to those providing ECE care, and contain costs. Contracted providers—which can include school districts, Head Start providers, private centers, and home-based providers—must accept, enroll, and serve at least as many children and their families as their contract specifies. They also have the option to serve additional children and families beyond the contracted number through scholarships while being confident that payments will be sufficient to cover the costs of providing high-quality care.

## Quality Assurance

The starting point for the definition of quality assumed in this proposal are the recommendations of the NASEM consensus study report on financing ECE (NASEM 2019). The NASEM report makes specific recommendations with regards to staffing ratios and structure, staff qualifications, levels of salaries and benefits, and supports for noncontact professional activities such as planning, coaching, and mentoring as well as non-personnel costs to support quality such as curriculum, supplies, and facilities. The cost estimates in this proposal are based on the NASEM estimates of the on-site costs of producing ECE that meets the specific standards and improvements noted in that report. These costs include the cost of lower child-to-caregiver ratios, an increasing share of lead teachers with a bachelor's degree or equivalent, significantly higher salaries and benefits like health insurance and retirement plans, and funding to cover time spent on professional activities such as planning and ongoing training. While we do not endorse every recommendation from that report, it provides a comprehensive assessment of the cost of providing care that meets well-specified standards. The key assurances of quality in this proposal come from having sufficient resources—built on these costs estimates—for low child-to-caregiver ratios and competitive caregiver compensation in the context of parent choice and competition for contracts.

Quality in the system would be defined, monitored, and managed to clear performance standards. Provider performance would be supported with technical assistance and monitored, building from the research, experience, and toolkit from licensing standards, QRIS, and CCDF and Head Start standards. A uniform and consistent set of quality standards across funding streams is needed. Performance standards should be regularly reviewed and updated to reflect research findings on which components or aspects of care lead to improved child outcomes. Standards or requirements that do not result in meaningful improvements in child outcomes should be eliminated. Both standards and assessments of quality should account for differences in care settings (such as settings that are home based) and should address the issues of bias embedded in quality standards and tools used to document quality.

The quality standards would not necessarily specify educational credentials, since the evidence for requiring particular educational credentials for ECE is mixed. A NASEM study on the ECE workforce noted the importance of foundational knowledge of child development and called for strengthening competency-based qualification requirements (Institute of Medicine and National Research Council 2015). The NASEM report (2018) recommended that a bachelor's degree and child development specific training be required for lead teachers. At the same time, the report noted that the evidence that bachelor's degrees result in better child outcomes is inconclusive. If additional educational credentials are required, it would be important to ensure that incumbent workers have free access to obtain such a degree. Access to the required credential for new workers could be promoted with loans that would be forgivable based on years of service in the sector. There is some evidence in favor of requirements for continuing professional development courses and coaching. However, requiring higher levels of formal education may create barriers for many incumbent workers to continue to serve in the sector, limits the supply of potential workers to the sector, and has high costs without solid evidence of effectiveness. Additional research is needed to

establish the effects of requiring additional credentials on the quality of care and ultimately on child outcomes.

Every family would have access to a child care resource and referral agency to facilitate their search for a provider. In addition, these agencies can provide support for research about the efficacy of different providers. For example, adding systematic variation into referrals of similar children and families (e.g., different orders of lists supplied) could be used to facilitate credible comparison of how children's development that is initially similar differed depending on provider. Monitoring of provider performance would be a key component of the competition process.

## Differentiation of Services

The current Early Head Start and Head Start program model would be expanded and resourced to allow participating families access to full-day, full-year care and eliminating the distinction between the two programs. The Head Start model would define the minimum service bundle for children from low-income families and would include home-visiting and referral services. Children from moderate- and higher-income families could screen into eligibility for additional services. Supplemental services beyond the minimum bundle would be based on assessment of the potential benefits for the child and family. These assessments would be carried out locally by expanding the existing screening networks of medical providers, county public health staff, home-visiting nurses, and ECE providers. Such screenings would take account of child health and development status and the family's resources. Once a family qualifies for additional services, they can claim these from qualified local providers that might include their ECE provider.

In addition to child care and education services, families can also have access to parental supports such as nurse home-visiting, e-communications systems, developmental screening, and appropriate special education and developmental therapy services. Largely, any service a family qualifies for is offered regardless of whether the family is participating in the ECE program.

## Expansion, Innovation, and Entrepreneurship

The proposal would substantially increase the flow of resources into the ECE sector, which will enable existing providers to expand their capacity, improve quality, and improve efficiency; the proposal would also facilitate entry by new providers. Sustainable private and public models of high-quality ECE service provision can flourish around this program. Public efforts to smooth entry, expansion, efficiencies, and competition would complement this new investment. By increasing providers' expected sustainability and the sector's total resources, the program will increase access to private financing through commercial lending. In addition, Small Business Administration resources could be targeted to this sector. Investments in private or public revolving loan funds specialized to the ECE sector could help expand capacity and facilitate high-quality care provision. Expansion of the role of Community Development Financial Institutions in supporting child-care businesses is one such avenue (Bipartisan Policy Center 2020). States that simplify and centralize the start-up and licensing processes will smooth entry.

Business process innovation could be supported through investments in research and development competitions as well as dissemination efforts by the US Institute for Education Sciences, Department of Health and Human Services, and state, local, and community partners could spur innovations in the sector's pedagogical and organizational processes. Each home-based provider and small center has a particular, similar set of business process needs in marketing, billing, purchasing, client communications, human resource management, child assessment, and instruction. The sector's thin margins have provided weak incentives for tailored innovation but innovation could drive improved efficiencies. Provider networks and shared management services can be used to make back-office functions easier and to let providers focus more of their attention on care (Bromer and Porter 2017). Innovations such as microcenters may prove to be models for providing better access to high-quality ECE for families in different settings (Opportunities Exchange 2019). National experts have called for expanded innovation, experiments, and evaluation, particularly focused on improvements and integration of services for the under-age-three population (Chaudry et al. 2017; Shonkoff and Fischer 2013).

The development and deployment of state or local e-communications systems could be used to support parents in achieving their own goals for their children's development. This can be a very potent complement to investments in the quality of nonparental care. Children under age five average 19.7 hours weekly with nonparental caregivers, with the remaining 148.3 hours weekly in their parents' care (Wiswall et al. 2021). Very-low-cost, scalable e-communication systems that engage parents have been shown to have remarkably cost-efficient impacts on children's development. A one-year schedule of text messages that cost about $1 per child raised preschool students' early literacy skills substantially by helping parents keep a consistent schedule of literacy-promoting activities with their children, with larger benefits in more-disadvantaged families (York, Loeb, and Doss 2019). Communications can be culturally appropriate (Gulamhussein et al. forthcoming). Other systems have also shown good results (Maloney et al. 2015; Mayer et al. 2019). Federal innovation grants could bear the fixed cost of developing content, technology, and organizational capacity.

With fixed costs paid, local leaders can bear the marginal costs to scale with potentially very large benefits. Counties and states are well positioned to implement the innovations. Counties register all births, and federal funding streams already provide resources to counties to communicate with new parents about vaccinations. Shifting some of those resources from paper mail to e-communications could improve effectiveness, reduce costs, and enable a wide array of new supports.

More generally, investments in innovation to develop efficiencies in the production of high-quality care experiences for children, more accurate and reliable measurement of care quality, evaluations of policy variations, as well as engagement with providers and parents to drive adoption of innovative practices in the field would drive greater value and better outcomes. Aggressive funding of research, development, and dissemination could yield large dividends.

## Costs, Family Payments, and Public Payments

Substantially increasing ECE quality and access would deliver large benefits to children, families, and the future. This proposal aims to increase resources flowing toward providing high-quality care experiences for young children. To set the baseline, in nationally representative data from 2012, young children averaged 19.7 hours weekly in nonparental care and parents spent about $60.3 billion out of pocket annually in 2020 dollars for that care.[9] If full-time care is defined as 45 hours weekly, that is full-time care for the equivalent of 8.6 million young children, or 44 percent of children now living in the United States, at a family out-of-pocket cost of about $7,000 per full-time child. There are 19.6 million young children in the United States today (Census cite) and the average family with any young children has 1.3 young children (authors' analysis of American Community Survey 2017 5-year data from IPUMS-USA). The public spent $28.5 billion or $3,300 per full-time equivalent (FTE) child in care, for a total average cost of $10,300 per FTE child in nonparental care ($89 billion in total spending for 8.6 million FTE).

To help illustrate how the proposal would compare to these current expenditures, we present results from a simulation model of program take-up, costs, and benefits. The model makes three main assumptions. First, the model assumes that use of ECE will increase 40 percent above current levels in each age group, implying both an 8.7 child-hours per week average shift from parental to nonparental care, and that 61 percent of potential hours are taken up overall (48 percent among those in the first year of life, 58 percent among those aged one to two, and 70 percent among those aged three to four). Some will prefer to stay outside the system; we do not model their costs since they will not receive public subsidy. We present FTE participation rates even though many families will choose part-time care, especially at younger ages. Therefore, the share of children and families served will be higher than the FTE participation rate. Second, increased quality assurance lifts average provider cost of full-time, full-year care to a national average of about $16,600 per child, an estimated cost we derive by blending high-quality care cost estimates across ages and provider types using statistics from a recent NASEM consensus study report inflated to current dollars (NASEM 2018). This represents a 61 percent increase in current costs per child, allowing financial space for sustainable, substantial increases in care-labor compensation to improve providers' ability to attract, motivate, and retain talent and to finance reduced child-to-adult ratios consistent with higher-quality care. Increased caregiver compensation accounts for about three-fifths of the increase. Interacting age-specific costs, share of care in centers and homes, and participation rates yield an effective blended participation rate of 59 percent.[10] Third, within each age group we assume the same take-up rate for children across families with young children. Given a family's structure, income, and IPR, we use nationally representative microdata from the American Community Survey to capture the joint distribution of income, family size, IPR, number of children from birth to age four, and race and ethnicity; we then use those data to simulate take up, cost of care per family, family payment, and value of the public benefit.

The proposed annual total private and public cost of providing nonparental care is about $9,800 per young child in the overall population, or $12,600 per family given effective participation rates and averaging across all families with young children in the population, and not just those who take up (see table 3). Following the NASEM report (NASEM 2018), we budget another 10 percent of total provider costs, $1,000 per young child, for system improvements.[11] The model estimates that the $9,800 per child and $12,600 per family in costs going to providers would be split 31 percent out of pocket and 69 percent by the public. Given that current public investment in ECE equals about $1,500 per young child in the population, this expected cost of care would require an increase of $5,300 in public investment per young child for contracts and scholarships and $6,300 when adding system improvement costs. For context, the proposed $7,800 per child of public expenditures is far below the current $12,600 spending on public education per K–12 age elementary-age child and far below the $32,000 the public spends annually per American over age 64 to provide them security and dignity.

Under the proposal, families with greater income would bear a larger share of their ECE costs and the value of the public subsidy diminishes, as figure 4 shows. The public covers the cost of ECE for families in poverty to avoid care expenses pushing the family deeper into poverty. Children in these families face the largest disadvantages, and public

TABLE 3.

## Annual Costs in Terms of Young Child and Families with Young Children, Participating Full Time and Overall

| | Per young child | | Per family | |
|---|---|---|---|---|
| | Now | Proposed | Now | Proposed |
| **Participating full time** | | | | |
| Total cost of care | $10,300 | $16,600 | $12,200 | $21,400 |
| Family payment | $7,000 | $5,100 | $9,000 | $6,600 |
| Public payment | $3,300 | $11,500 | $4,200 | $14,800 |
| Effective participation rate | 44% | 59% | | |
| **Overall population** | | | | |
| Total cost of care | $4,600 | $9,800 | $5,800 | $12,600 |
| Family payment | $3,100 | $3,100 | $3,900 | $3,900 |
| Public payment | $1,500 | $6,800 | $1,900 | $8,700 |
| Public: system improvement | $0 | $1,000 | $0 | $1,300 |
| Public total | $1,500 | $7,800 | $1,900 | $10,000 |
| New public expenditures | | $6,300 | | $8,100 |

Source: Census (2020); NASEM (2018); NSECE (2012); U.S. Census Bureau American Community Survey (2017); Ruggles et al. (2021); author's calculations.

Note: These calculations are based on the 2017 five-year sample.

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investments in high-quality care experiences have the largest positive impacts on their development and generate the highest rate of return to the public. Family payments will rise as family resources increase. Consider families with at least one young child and with incomes between 100 percent and 200 percent of the FPL. These families have, on average, 1.3 young children and $36,200 in income. As the second bar on the figure shows, expected cost of ECE averages $12,700 per year, though for a specific family the cost depends on the number of young children in the family and take-up, family payment averages $700 per year (light purple) and the expected value of the public subsidy averages $12,000 (dark purple).[12] Those with higher incomes, fewer young children, smaller families, and lower take up would receive less public investment.

Among families using full-time, full-year care, family payments would average 3.0 percent of family income for families in 100–200 percent of FPL, 5.9 percent for families in 200–300 percent of FPL, 9.1 percent for families in 300–400 percent of FPL, 12.5 percent for families in 400–500 percent of FPL, and 10.7 percent for families with incomes above 500 percent FPL. Most families would receive some public subsidy.

Looking across American families with at least one young child by parents' race and ethnicity gives a sense of the expected value of benefits, given group differences in income and family structure. The value of public subsidy to all white families with a young child would average about $8,000 a year while these families' payments would average about $4,800 or 4.2 percent of income. For Black families, the value of public subsidy would average $10,700 and family payment would average $1,900 or 2.2 percent of income. Hispanic and Native American families have similar payments and benefits. These differences reflect group differences in income and family structure such as the average number of children, and these differences drive the amount of public investment.

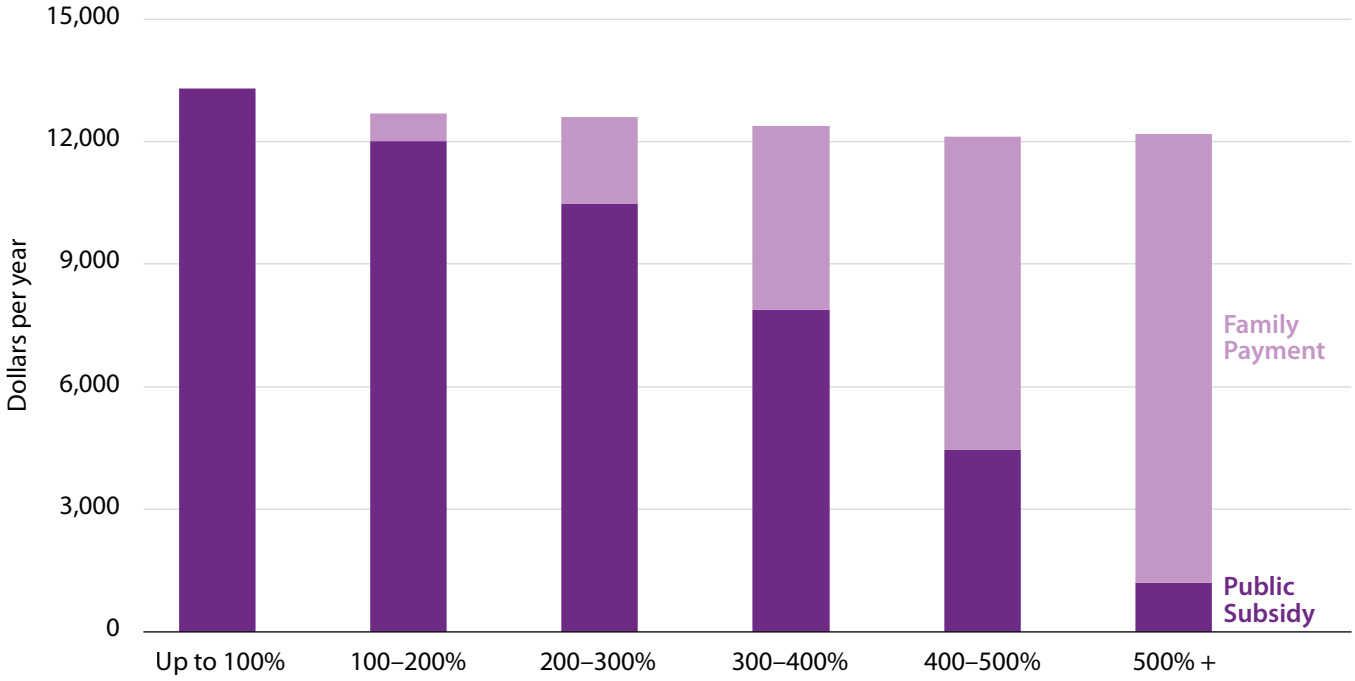
## Total Costs and New Public Expenditures Required

We estimate that public ECE expenditures under this proposal would increase by about $6,300 per young child annually above current levels of $1,500 per child. This would bring public expenditures on ECE to about $7,800 per capita, still well below the $12,600 of public K–12 education expenditures per child aged 5 to 17. Given America's 19.6 million young children, the $6,300 in new spending translates into about $123 billion in new annual public cost before taking account of any positive revenue effects from increased parental earnings[13] and increased child-care workers' earnings,[14] or offsets from cutbacks to redundant existing programs.[15] If those total about $44 billion, new public expenditures would net $79 billion. New public costs might be shared between federal, state, and local governments.

Changes in total costs can be broken down into (1) change in costs per child among those currently getting care, (2)

FIGURE 4.

## Projected Average Public Subsidy and Family Payment, by Family Income-to-Poverty Ratio




Source: U.S. Census Bureau American Community Survey (2017); Ruggles et al. (2021); author's calculations.

Note: These calculations are based on the 2017 five-year sample. The total cost of payments to providers is the sum of public subsidies and family payments. Those are per-family averages across the whole population of families with young children, not just those using services. Differences across income groups in projected total cost derive from differences in the number of young children per family. Differences in the share paid by the public or families reflect primarily the sliding-scale structure of cost sharing.

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change in costs from expanding care among those currently getting care, and (3) change in costs for the new children due to the change in cost per child. First, the total cost of care per child, including system improvement, increases 71 percent. This is about equally divided between increased compensation per worker and increased costs from reduced ratios, time for professional development and planning, home visiting, parent information and data systems, and the like. Second, the effective number of children served rises by 40 percent; and third, this expansion occurs at the new cost per child.

The economic benefits from investments in high-quality ECE primarily occur in terms of increased earnings and reduced criminal harms many years later in their adulthood and outside the horizon typically considered for public budget impacts. Some benefits—reduced need for special education services and grade retention in K–12—occur earlier. There is a large evidence base on the costs and benefits and rate of return to investments in high-quality care and education (Bartik 2014; Duncan and Magnuson 2013; Elango et al. 2016; Hendren and Sprung-Keyser 2019; Magnuson and Duncan 2016). Returns tend to be higher for investments in children from more-disadvantaged families and in investments closer to kindergarten, when child-to-teacher ratios are higher and care per child is less expensive. Beyond having a positive economic rate of return and even a rate of return exceeding returns to capital in the private economy (Heckman et al. 2010), many direct investments in low-income children's education clear the much higher bar of paying for themselves fiscally (Hendren and Sprung-Keyser 2019). Investments in higher-income children and younger children's care and education are unlikely to pay for themselves fiscally, however.

# Questions and Concerns

### *1. How different is this from just expanding the budget for Head Start and Early Head Start?*

Fully funding Head Start and Early Head Start to accommodate all eligible children whose families choose to participate is the most-important and simplest step to ensure that children from the most-disadvantaged families, where public investments have the biggest impacts on children's development, have access to high-quality ECE services. However, limiting the programs to families with incomes below the FPL results in lost potential benefits for other children and increases socioeconomic segregation. Furthermore, Head Start should be resourced to allow any eligible family access to full-day, full-year care.[16] While expanding Head Start funding is a critical component of an improved ECE system, it is not sufficient to reach the goal of ensuring access to affordable, high-quality ECE services for all families. Many families with incomes above the FPL currently struggle to afford high-quality ECE services for their young children. The proposed increases in the quality of ECE services and improved compensation for the workforce will also increase the price of these services, exacerbating the affordability problem for moderate-income families. To ensure that all children have access to affordable, high-quality ECE experiences, public investments must expand beyond those supporting families at the lowest income levels.

### *2. Why not simply expand CCDF?*

Another approach to expanding support for ECE would be to fully fund the CCDF. This approach has some merits, including the fact that states have programs in place that could be scaled up with additional funding. The CCDF is currently severely underfunded such that only about 14 percent of eligible children receive subsidies (Chien 2020). The current block grant structure means that there is no guarantee that funds will be available for all eligible families who choose to use a subsidy. In addition, eligibility requirements and other key program parameters vary considerably across states (Dwyer, Minton and Tran 2019), resulting in families in similar circumstances having different levels of support. In most state child-care subsidy programs, there are limited incentives for providers to raise quality and for families to choose high-quality providers.

Despite having dual objectives of supporting parent employment and child development, the focus of most state CCDF-funded child-care subsidy programs has been as a work support. These programs provide incentives for families to work rather than receive cash assistance through the Temporary Assistance to Needy Families (TANF) program. But tight work requirements and limited incentives and supports for quality impede the ability of the CCDF programs to improve child outcomes. Payment rates to ECE providers are often well below prices in the market and have rarely been set by states at the 75th percentile of market price as recommended by the federal government. The Child Care and Development Block Grant (CCDBG) Reauthorization Act of 2014 required states to make a number of changes (including enhanced monitoring and provider background checks and continuing eligibility for 12 months) that moved in the direction of supporting child development, but expansion of CCDBG alone is unlikely to be sufficient to reach the goal of every family having access to affordable, high-quality care. Low payment rates and limited incentives to support quality as well as high copays in some states result in differing levels of support for families across states. Expanding CCDBG as a strategy would also not directly address the issue of low compensation for the ECE workforce.

### *3. What is the role of state prekindergarten programs in this new, unified system?*

A number of states and local authorities have implemented prekindergarten programs serving three- and four-year-olds in public schools (Friedman-Krauss et al. 2020); expansion of these initiatives can be complementary to this proposal. Evidence of what lifts effectiveness in the short and medium run at policy scale has been valuable, although these have not operated long enough to see effects on adult outcomes (Barnett 2011; Cascio and Schanzenbach 2013; Wong et al. 2007; Yoshikawa et al. 2013). The proposed federal-state partnership contracting and scholarship funding streams could be directed to fund school-based prekindergarten programs that meet quality standards. If they did not operate full-day, full-year programs, the payment due to the provider from the family and the partnership would be pro rated accordingly. Families could include school-based prekindergarten in their portfolio of providers and blend with

care at other qualifying providers as well to access full-time, full-year care. States and local authorities could also supplement partnership funds with their own funds to eliminate or reduce family payments or enhance services.

### *4. Why should children's care and education be subsidized if parents are not required to work?*

While some may be concerned about subsidizing care for children whose parents are not working, such concerns are not expressed with regard to K–12 education, existing prekindergarten programs, or Head Start. A work requirement increases the burden of applying and maintaining eligibility for parents, as well as increasing monitoring costs for state agencies. Most parents of young children are working now, and more may work if they have access to affordable, high-quality ECE (Morrissey 2016). Others may seek additional education or training while their children are in care. Shifting the focus of public investment in young children to support child development and equitable opportunities warrants elimination of existing restrictions on access based on parent activities such as employment. Mullins (2020) structural meta-analysis of evidence across multiple welfare-to-work experiments concluded that work requirements had little effect on parental labor force participation. On balance, the costs and hassle of implementing work requirements seem high in contrast to the benefits of greater access to high-quality ECE.

### *5. Should payment to providers differ between settings such as centers, home-based providers, or schools?*

All participating providers will have to provide high-quality care meeting a uniform set of standards. Rather than favoring differentiated payments to providers by type (home-, center-, or school-based), we emphasize the goal of providing ECE services in the high-quality settings that best match what families want and what is most efficient to produce in local conditions. Within the range of acceptable quality, payments can be differentiated based on quality tiers to enable and incentivize quality improvement. In some locations, centers would be the location that can most efficiently provide the kind of high-quality care that parents demand. In other locations, home-based providers, public schools, or Head Start contractors may be what families prefer. Qualified, participating providers can compete and find ways to best serve the children and families in their communities.

Currently, compared to centers, Head Start, and school-based prekindergartens, home-based providers tend on average to provide lower-quality care and to cost less per child (Bassok et al. 2016). To help ensure that home-based providers produce high-quality care more reliably, we would consider reducing their child-to-staff ratios as well as expanding programs by which Early Head Start and Head Start providers partner with local home-based providers to build the community's supply of high-quality care. Given the higher per child payments that would be available through the new system, a home-based provider would be able to sustainably produce high-quality care serving only a handful of children. Home-based providers are also more costly per child for states to monitor so licensing and certification fees for home-based providers should reflect these higher costs.

### *6. What is the role of family, friend, and neighbor care in the proposed system? Can relatives receive payments for providing care?*

Some families choose to rely on caregivers for their children who are relatives or friends, especially for infants and toddlers; this is sometimes called family, friend, and neighbor (FFN) care. Some parents prefer FFN caregivers for reasons related to trust, safety, and maintaining ongoing relationships. For other parents, cultural and language compatibility are very important factors in choosing a caregiver. Parents may need someone to care for young children during hours when most licensed providers are not open—such as evenings, overnight, or on weekends—because of their work schedules. And, in some cases, parents may use FFN care because it is the only option that is affordable. While we acknowledge the importance of FFN care as an option for parents, some FFN caregivers will not want to meet the regulatory or licensing standards required to receive publicly subsidized payments even if quality standards include different indicators for care during nonstandard hours as well as for different types of providers. While some FFN care may be of high quality, much of it is not.[17] The burden is placed on families to ensure quality in unregulated settings and, with very weak quality assurance, public returns on investment are in doubt. Current differences in use of regulated ECE across income groups suggests that, for at least some low-income families, cost constraints and lack of supply of licensed care rather than preferences predominantly drive their use of FFN care. This proposal will alleviate those constraints and create new options for every family.

Quality standards that include different indicators for care during nonstandard hours and different types of providers may allow certain FFN providers to participate in the subsidized program and receive higher payments and support for achieving quality levels. It will be important to expand efforts to define and develop quality standards and measures that are evidence-based and tied to child outcomes. Evidence that quality ratings can be linked to development outcomes is mixed and limited (Schwartz et al. 2014). In the past, quality rating systems were often developed without sufficient involvement of home-based providers and the families they serve. Licensing policies and quality measures might not be equitable in concept or application if they do not reflect the needs and perspectives of diverse communities (Adams, Ewen, and Luetmer 2021).

Medicaid often pays family members to work as personal care aides for those with disabilities. Certainly, young children also require care. This model could be adapted to support FFN child care as well. However, this would mean that quality assurance on public investment would rely entirely on parents' choices. An alternative approach beyond the scope of this proposal is an expanded child allowance, which would provide additional funding for parents with young children that they could use to pay FFN providers or to support themselves in providing care to their children. A child allowance does not affect the marginal price of parental versus nonparental care. Again, those resources will not necessarily be devoted to the children's development and there is more scope for parents to use it for purposes beyond the child.[18]

### 7. What is the role of tax credits in financing ECE?

We propose eliminating the Child and Dependent Care Credit, Child Care Flexible Spending Accounts, and employer tax credits for operating child-care facilities and redirecting the resources to the proposed uses. All of those programs primarily benefit higher-income families who would instead access benefits through this new, unified structure. These tax-based programs also impose work requirements or other restrictions on parents' choices. With employer tax credits, there is little reason to encourage businesses in other industries to try to simultaneously enter the child-care industry. Employers who want on-site care for employees can rent out space in their facility to a child-care provider at low cost or help the provider find a site nearby. Tying a worker's child care to their employer can create extra barriers to labor market mobility. It is preferable for the public to support parents by giving them many choices for care providers.

### 8. Why subsidize high-income families at all?

The ECE expenses of higher-income families are currently subsidized through the Child and Dependent Care Credit and universal prekindergarten programs. In designing any subsidy program, reducing subsidies abruptly creates an incentive cliff, which we want to avoid. The proposed substantial increase in child-care subsidies for low- and moderate-income families will tend to raise market prices, increasing the need to provide subsidies to moderate- and higher-income families. Families with incomes above a threshold would face rising expenses without any benefit. The exact impacts over time are uncertain. A gradual phase-out makes price changes manageable and equitable for families. Although some families will face substantial family payment to use care, for most families the payment will be lower than the child-care expenses they face now and the quality will be higher. This change in the relative cost of work promotes parental employment, especially for families with lower wages.

### 9. How does this proposal fit together with other investments and supports in families with young children, such as a child allowance or other forms of support?

When the public invests resources for young children's development, restricting the use of these resources to high-quality care and education services helps ensure that children experience excellent care, rather than having the resources diverted for other purposes. Parents who have the option to spend less time parenting may parent better, so high-quality care access can improve the quality of children's development through raising the quality of both nonparental and parental care time (Chaparro, Sojourner, and Wiswall 2020).

Assistance provided to families in the form of cash rather than assistance in ECE services does not lower the price of nonparental care relative to parental care. Those concerned about reducing parenting time would tend to support cash transfers, which enable parents to provide parental care with less necessity for time in the labor market. Cash to parents is also simpler to administer and more flexible for them to use. However, directing public funds to participating programs that meet quality standards can lead to overall improvements in ECE quality, resulting in benefits that may not accrue as a result of cash assistance directly to families.

One way to reduce the public cost of the proposal could be through the implementation of a paid parental leave program. Paid parental leave would provide multiple benefits to children and parents by providing time and support for bonding and has been shown to support positive child development outcomes (NASEM 2019). Given the very high costs of infant care, subsidizing parents to care for their infants can be a wise public investment, but this issue is beyond the scope of this proposal.

### 10. What is the appropriate level of government to fund ECE and to run procurement competitions?

Current federal ECE funding relies primarily on two types of funding streams: (1) direct federal grants to local agencies for Head Start programs and (2) block grants to states for CCDBG child-care subsidies. For Early Head Start, states can also be grantees, and states contribute their own funds for child-care subsidies (through maintenance-of-effort requirements and additional funding) and, in some cases, add on to funding for Head Start and Early Head Start. The question of funding shares and procurement competition can be separated in practice.

### 11. How and by whom will the quality standards be set?

While this proposal asserts the need for a uniform and consistent set of quality standards regardless of funding

source, substantial work will be needed to understand what these standards should be and how to support programs to achieve them. Many criticisms of current standards exist, including that they do not account for differences across care settings and cultural contexts, and new standards must address the biases embedded in current measures and assessments of ECE quality.

### *12. Could ECE be provided in a fully school-based system instead?*

An alternative to the proposed mixed delivery approach would be to fund direct public provision of ECE services in each local area. Funding K–12 schools to expand service into early childhood would be a sensible way to accomplish this. This approach has many advantages and several potential disadvantages, including limited parental choice and a more general concern about maintaining operational efficiency and cost containment. Public K–12 education does not have parent activity requirements or copays and presumably neither would be required for early childhood services offered by public schools. Working parents likely would prefer full-day, full-year service, which would mean additional services or alternative arrangements outside of standard school hours. The scholarship value could be split across providers. Federal funds can be braided with state and local funds to eliminate family payments, for instance, in school-based prekindergarten programs. Expanding access to ECE services through the current mixed delivery system, which includes a variety of types of care providers, including home-based and center-based providers as well as some public elementary schools, will allow parents to choose the type of provider or mix of providers to meet their specific needs.

Another alternative, similar to K-12, would be to dispense with the sliding scale family payments and to raise revenue through appropriate tax vehicles.

### *13. What role should for-profit providers play?*

As the scope of public payments in the sector increases, the possibility grows for making excess profit by gaming the difference between subsidy value and delivered quality. This issue has arisen with for-profit providers in other human service sectors, such as K–12, higher education, and health care. If gaming becomes a problem, states could consider barring for-profit centers other than B Corporations from participating to ensure resources remain focused on quality and access.

# Conclusion

Expansion of funding and greater access to high-quality ECE will benefit America's children, especially those who currently face the unjust side of disparities in opportunities. The rapid brain development that occurs in the first few years of life sets the child on a trajectory for learning and health over their lifetime. Eliminating the income-related gaps in child skill with larger public investments in the first few years of life will help reduce disparities in later outcomes, giving all American children the opportunity to thrive. While children benefit, savings will also accrue to society as a whole through reductions in the need for special education, improved health outcomes, higher future earnings, and reduced crime and welfare program participation.

Current policies and funding disadvantage younger children relative to older children and adults. We ask the most of families when they have the least. Lower costs of ECE will reduce the financial strain on families with young children, and access to reliable high-quality care will increase parents' ability to work productively. Thus, while this proposal calls for an ambitious expansion of federal funding for ECE, economic benefits will accrue in both the short run and the long run.

A key part of raising quality across the ECE landscape is to raise the compensation of the ECE workforce. Higher pay will benefit those working in these important positions, and will improve ECE quality by reducing worker turnover and stress. Higher pay will make it easier to attract, motivate, and retain the skilled workforce needed to support positive development experiences for young children. Supporting high quality in ECE settings is necessary in order to reap the benefits of this expanded public investment in ECE.

Through this major expansion in public funding, children in the United States will have a better chance at equal and equitable opportunities so that their success is not heavily influenced by where they live, their parents' incomes, and their race and ethnicity. Despite widespread recognition of the importance of experiences in early childhood for promoting children's healthy physical, social, and intellectual development, public funding for investments in early childhood have been insufficient to ensure that all American children have the foundation to thrive in their schooling and adulthood.

# Endnotes

1. Authors' analysis of the 2012 National Survey of Early Care and Education (NSECE) data.
2. The figures are based on statistics published in Isaacs et al. (2018) and Isaacs et al (2019), subsequent correspondence with Julia Isaacs, and authors' calculations. Figures are based on 2015 spending inflated to 2020 dollars. They use a conservative methodology, designed to err in favor of counting expenditures toward children. According to Issacs et al., for programs that serve children only, all program expenditures (benefits and associated administrative costs) are assumed to go to children through either a direct service (e.g., education) or a child benefit paid through parents or guardians (e.g., Supplemental Security Income [SSI]–disabled children benefits) with no attempt to account for any child benefits that parents may spend on themselves. For programs that provide direct services to children and adults (e.g., Medicaid), they calculate the share of expenditures that go to children. For programs that provide benefits only to families with children and determine benefit size by the number of children (e.g., the child tax credit and dependent exemption), they assume all program expenditures go to children. For programs providing benefits to families without breaking out the parents' and children's share, they estimate children's share based on the number of children and adults served and assuming equal benefits per capita. For example, in a two-child, one-adult family, two-thirds of housing, energy assistance, welfare, or SNAP/food stamp benefits would go to the children and one-third to the adult.
3. According to Isaacs et al. (2018), their estimated spending on the elderly includes expenditure information from 16 federal and 2 state programs and does not attempt to estimate tax reductions benefitting the elderly. Calculations include spending through Social Security, Medicare, Medicaid, SSI, SNAP, veterans benefits, Railroad Retirement, unemployment compensation, federal civilian retirement, military retirement, Special Benefits for Disabled Coal Miners, veterans medical care, annuitants' health benefits, housing, the Administration for Community Living (previously the Administration of Aging), and the Low-Income Home Energy Assistance Program as well as the state share of Medicaid spending on the elderly and state spending on supplemental SSI benefits.
4. Authors' analysis of the flow of federal, state, and local funds to ECE services for children before age five in 2019 through Early Head Start ($0.81 billion, all for low-income children from birth to two years), Head Start ($9.97 billion: 100 percent for low-income children aged three to four years), CCDF ($6.79 billion: all low-income, 53 percent for children from birth to two years and 47 percent for children aged three to four years), prekindergarten programs ($8.75 billion: 48 percent for low-income and 52 percent for higher, all children aged three to four years), and the Child and Dependent Care Credit ($2.19 billion: 5 percent for low-income children from birth to two years, 4 percent for low-income children aged three to four years, 50 percent for higher-income children from birth to two years, 40 percent for higher-income children aged three to four years), drawing on data from (Cascio and Schanzenbach 2013; Census 2020; Crandall-Hollick and Boyle 2021; Friedman-Krauss et al. 2020; Joughin 2019; NSECE 2016; OCC 2019a, 2019b, 2021; Office of Head Start [OHS] 2020). This totals $28.50 billion. Census data implies about 4.7 million low-income children from birth to two years and 3.3 million children aged three to four years, and 6.8 million higher-income children from birth to two years and 4.7 million children aged three to four years (Census 2020). Spending during K–12 uses the $741 billion in public elementary and secondary school public revenues less prekindergarten spending divided by the population of 57.9 million children aged five to 18 (NCES 2020).
5. Families from other race and ethnicity groups may also experience lack of ECE access and affordability, but studies are less likely to report findings due to the smaller sample sizes.
6. The maximum family payment is built up from marginal rates: 0 percent marginal rate on income up to 100 percent of the family's FPL, 10 percent marginal rate on income between 100 percent and 300 percent of the FPL, and 25 percent on income above 300 percent of the FPL.
7. Blau and Mocan (2002) studied the effect of wages on quality in centers and found that "policies that would be relatively straightforward to implement—such as across-the-board child-care price and wage subsidies—would have moderately large effects on the average level of child care quality supplied." Many studies have found correlations between pay, turnover, care quality, and child outcomes (Bassok et al. 2021; Foster and Lee 2015; Howes 2005; Kashen, Potter, and Stetter 2016; Rhodes and Huston 2012; Ruffini 2020). Recent evidence from a field experiment in Fairfax County, Virginia, found that randomly assigning a $1,500 payment to ECE workers reduced turnover rates by almost half (Bassok et al. 2021), a factor that has been tied to care quality (Rhodes and Huston 2012). Evidence on how wages impact care and education quality is also available from other sectors. Increases in compensation increase retention among home health-care workers (Howes 2005). Minimum wage increases raise nursing-home workers' wages and the quality of care (Ruffini 2020). Laws that allow nursing homes to pass costs of wage increases to state Medicaid programs also increase care quality (Foster and Lee 2015).
8. In general, too-fine localizations will tend to reproduce neighborhood inequalities. Too-coarse localizations will tend to decouple costs from local wages. Rather than pegging care workers' wages to local-worker earnings, they could be pegged to K–12 teachers' wages. Supply and demand play out more directly in all-worker earnings and represent changes in the value of parents' time more directly.
9. Average weekly nonparental care hours are 15.3 for infants in the first year of life, 18.6 for toddlers aged one to two, and 22.5 hours for preschoolers aged three to four, according to authors' analysis of data from the 2012 National Survey of Early Care and Education.
10. The effective FTE-blended take-up rate is weighted to reflect the interaction of assumed age-specific costs, participation rates, and population shares. This is lower than the raw participation rate because assumed participation is lower when children are younger and care is more expensive.
11. This addition covers improvements to QRIS, child care resource and referral, support for innovation and entrepreneurship, home visiting, early childhood screening and assessment, data system improvement, parent engagement, and the like.
12. Among the families in this income range that take up full-time care, the expected public subsidy would average $20,400 and family payment $1,200, averaging 3.0 percent of income.
13. Two studies have found substantial increases in employment related to receiving a child-care subsidy in the presence of a work requirement (Blau and Tekin 2007; Davis et al. 2018). A summary of the literature on how child-care prices affect maternal employment reports that most estimates cluster in the range of a 0.5 to 2.5 percent change in maternal employment for a 10 percent decrease in child-care prices (Morrissey 2016). While the reduction in child-care expenses proposed here could promote parental employment, these effects may be smaller in the absence of a work requirement. On the other hand, Mullins's (2020) structural meta-analysis of evidence across multiple welfare-to-work experiments concluded that work requirements had little effect on parental labor force participation. One study estimates that the increase in mothers' labor force participation due to reduced child-care costs would increase GDP by at least 1 percent, or about $210 billion (Gould and Blair 2020). Studies of ECE subsidy programs without parental work requirements have found evidence of modest labor supply effects (Chaparro, Sojourner, and Wiswall 2020; Fitzpatrick 2012; Griffen 2018; Wikle and Wilson 2020). To be conservative, we do not assert any offsetting revenue from increased parental earnings.

14. We approximate that $40 billion in costs would be offset by consequences of increased ECE worker earnings. About half of child-care workers now use public benefits but, at higher wages, most of this $2.7 billion in current dollar expenditures would cease (Kashen, Potter, and Stetter 2016; Palladino and Mabud 2021). Average ECE workers' earnings would increase from about $30,000 to $48,000. Prior research looked at the tax revenue effects of increasing ECE workers' wages to equal K–12 educators' wages in the context of expanding the sector broadly; with that increase in ECE workers' wages, which was about 11 percent greater than the level than we propose, tax revenues would be boosted by an estimated $43 billion (Chaudry et al. 2017; Gould and Blair 2020).
15. We recommend $4.2 billion in cuts from eliminating the Child and Dependent Care Credit for child-care expenses ($3.3 billion) and employer-provided child-care credits for direct provision and tax-exempt flexible spending accounts ($0.9 billion) (Isaacs et al. 2019, technical appendix). These programs have no quality assurance and the benefits are regressive (Tax Policy Center [TPC] 2020).
16. Griffen (2018) finds positive cognitive effects of Head Start among participants but likely even larger among eligible nonparticipants and if eligibility increased to include higher-income families. Expanding from part-time to full-time work has a very large positive effect.
17. After welfare reform, increased nonparental care in formal settings like centers had positive effects on children's cognitive development whereas FFN care had negative effects on average (Bernal and Keane 2010). In nationally representative data, compared to centers or professional providers supplying care in their homes, FFN caregivers were less likely to read books to the children in their care every day, had the children watch more television each day, had lower education levels, and had lower care-quality based on observer ratings of child caregiver interactions (Bassok et al. 2016). That study concludes, "A growing body of research finds that children enrolled in informal [early childhood care and education] programs underperform relative to their peers enrolled in formal settings. Our study corroborates these findings and documents that the formal sector offers higher quality care across a wide variety of program and caregiver measures."
18. For example, Griffen (2018) finds that Head Start for three- and four-year-olds is more effective at raising child skill and maternal labor supply than the equivalent-cost cash transfer. Similarly, Chaparro, Sojourner, and Wiswall (2020) found that access to high-quality care during ages 1 and 2 had a four times larger, positive effect on children's cognitive skill than a cost-equivalent cash transfer to the parents and also resulted in much greater maternal labor supply.

# About the Authors

## Elizabeth E. Davis

Elizabeth E. Davis is a Professor of Applied Economics at the University of Minnesota. She recently served as a member of two National Academies of Sciences, Engineering, and Medicine Committees, which produced the consensus study reports *Transforming the Financing Early Care and Education* (2018), and *Vibrant and Healthy Kids: Aligning Science, Practice and Policy to Advance Health Equity* (2019). Dr. Davis conducts research in economics and public policy related to low-income families, child care and early education, and low-wage and rural labor markets in the U.S. Her recent research has focused on disparities in access to high-quality child care and the role of child care subsidies in families' decisions about employment and the type, quality and stability of child care arrangements. For over twenty years she has advised state and federal agencies on child care subsidy policy. Dr. Davis earned her Ph.D. and M.A. in Economics from the University of Michigan-Ann Arbor.

## Aaron Sojourner

Aaron Sojourner is a labor economist and associate professor at the University of Minnesota's Carlson School of Management. His research focuses on (1) effects of labor-market institutions, (2) policies to promote efficient and equitable development of human capital with a focus on early childhood and K-12 education systems, and (3) behavioral economic approaches to consumer finance decisions. *The Proceedings of the National Academies of Science*, *Economic Journal*, *Journal of Human Resources*, *Journal of Public Economics*, *ILR Review*, *Industrial Relations*, *Journal of Policy Analysis & Management*, and other journals have published his work and he serves on the *ILR Review* international editorial board.

Sojourner has a wide range of policy experience and community service. He is a member of the Minnesota State Advisory Council on Early Childhood Care and Education. He took leave for the 2016-'17 academic year and spent the year in Washington, D.C. serving as senior economist for labor at the U.S. President's Council of Economic Advisers (CEA) for Presidents Obama and Trump. At the White House, CEA gives objective economic advice on the formulation of economic policy. Previously, he served on Minneapolis Mayor Betsy Hodges's Cradle-to-K Cabinet advising the city on how to reduce racial disparities through policies affecting children's first three years. He also served as a member of the Human Capital Research Collaborative's steering committee, a director of Spring Bank, a community bank in the Bronx and Harlem, N.Y, and a fellow in the U.S. Senate's Labor Policy Office. He is a research fellow at IZA, the leading European labor-economics research institute, a visiting scholar at the Minneapolis Federal Reserve Bank, and a fellow of the Roosevelt Institute.

Sojourner completed his Ph.D. in economics at Northwestern University in 2009 and was a pre-doctoral fellow in the university's Multidisciplinary Program in Education Sciences. He also has an M.A. in public policy analysis from the University of Chicago and a B.A. in history from Yale University.

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# Highlights

Income-based disparities in U.S. children's development open up in their first five years of life, in large part because young children's care experiences depend heavily on parents' ability to pay. Many children who would benefit from high quality early care and education (ECE) are excluded, and the cost of child care imposes large burdens on families when they can least afford it. This proposal aims to unify and improve quality standards across providers, increase compensation for child-care workers, and move from a system that reproduces inequities intergenerationally toward equal opportunity.

## The Proposal

In this proposal, Elizabeth E. Davis, Professor of Applied Economics at the University of Minnesota, and Aaron Sojourner, Associate Professor at the University of Minnesota's Carlson School of Management, propose an ambitious plan to increase funding and access to high-quality affordable ECE services:

**Ensure every family has access to affordable high-quality ECE services.**

- Families would have multiple child-care provider options with families' costs capped at specified maximums that rise with income.
- Placing a cap on the total family financial payment for child care would ensure no family goes deeper into poverty to pay for care for their young children.
- All children would have access to high-quality care regardless of parental time use.

**Create two stable funding streams for ECE and ensure those funds are efficiently spent.**

- The first funding stream would expand the Head Start and Early Head Start Programs, while the second would combine and expand the Child Care Development Fund and the Preschool Development Grant program.
- All providers funded through those streams would share unified quality standards and funding levels to cover the cost of care.
- Eligible providers may be home-, center- or school-based and would be paid through contracts with providers and scholarships to families.
- A contracting and bidding process among some providers would reveal information about local costs of production, which would then help set the value of scholarships. Competition between providers to serve families' varying needs creates incentives for providers to be responsive and efficient. As a result, federal payments to providers would differ based on local conditions and services provided.

**Significantly increase federal support for the ECE system to increase compensation among caregivers, thereby reducing turnover and increasing care quality.**

- Average compensation levels would be pegged to overall local earnings so that the sector remains competitive with workers' alternative earning options.
- ECE employers would have: sufficient resources to compensate well; incentives to compete with one another to use resources efficiently; and the financial resources to compete with employers in other sectors to attract, motivate, and retain top talent.

## Benefit

Elizabeth Davis and Aaron Sojourner propose to unify the ECE system under clear funding streams and quality standards. This would significantly improve compensation for child-care workers and ensure efficient use of funds. Together, the reforms would ensure that all American children can benefit from receiving high-quality early care and no family will fall deeper into poverty while trying to pay for it.

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1775 Massachusetts Ave., NW
Washington, DC 20036

(202) 797-6484

BROOKINGS