

3-17-2022

The Economic and Business Case for Ensuring High-Quality Childcare and Preschool

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Citation

Bartik, Tim. 2022. "The Economic and Business Case for Ensuring High-Quality Childcare and Preschool."
Presented at the CEO Summit, Kalamazoo and Battle Creek on March 16, 2022.

<https://research.upjohn.org/presentations/89>

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The Economic and Business Case for Ensuring High-Quality Childcare and Preschool

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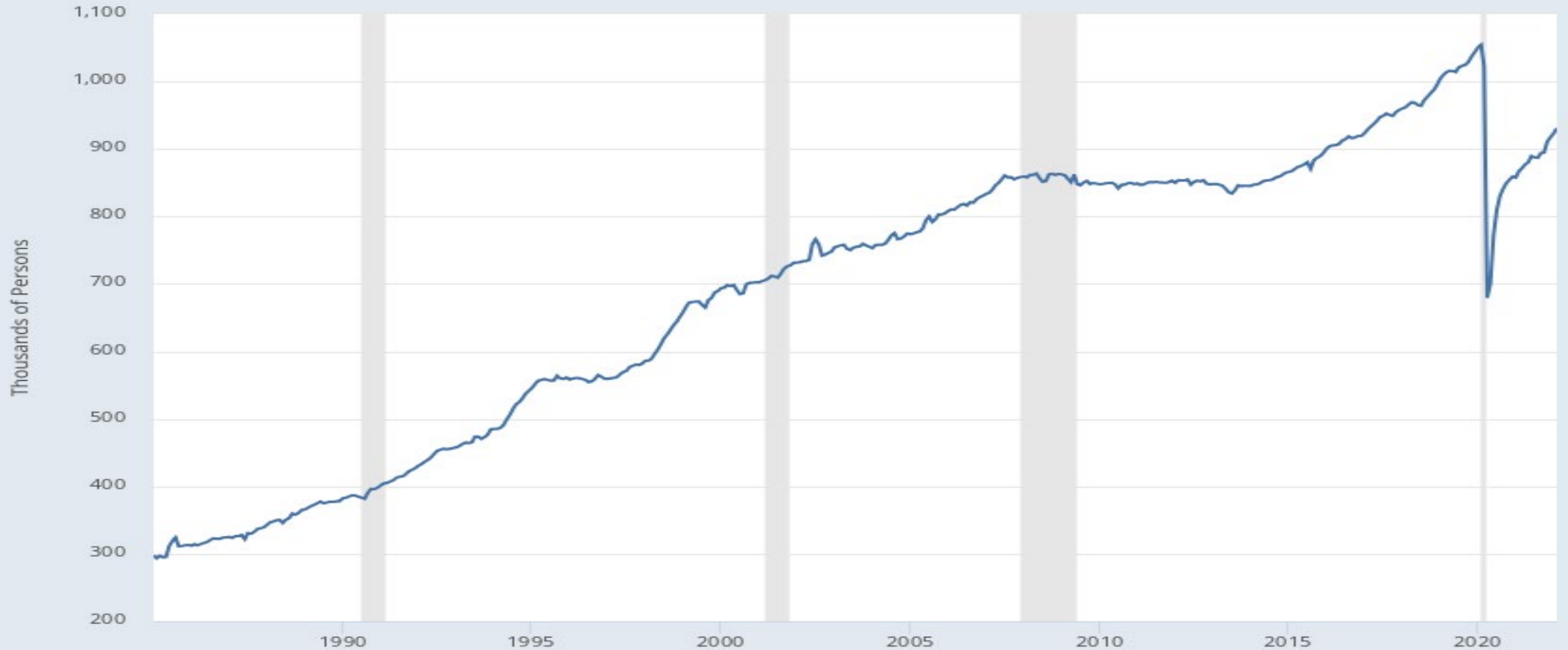
3 Main Points

- **Childcare/pre-K sector** has both **acute** and **longstanding** crises, which have damaged U.S. labor market.
- **We know policies that will work to solve these problems:** expanded support for high-quality childcare and pre-K has **benefits far greater than costs**.
- **There is a strong “business case” for addressing these problems:** Both from the **“enlightened self-interest”** of individual businesses, and from the **collective interest** of the business community, helping ensure high-quality childcare and pre-K makes sense.



Childcare capacity still well below “normal”, by at least 10 to 15%

FRED — All Employees, Child Day Care Services



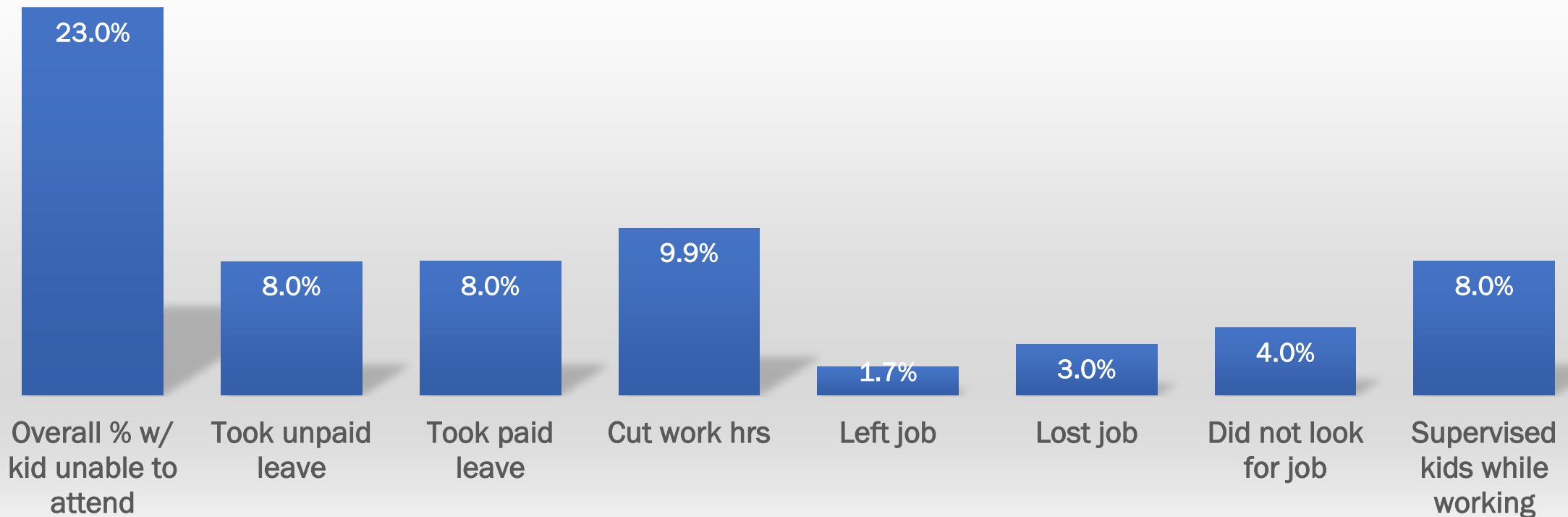
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

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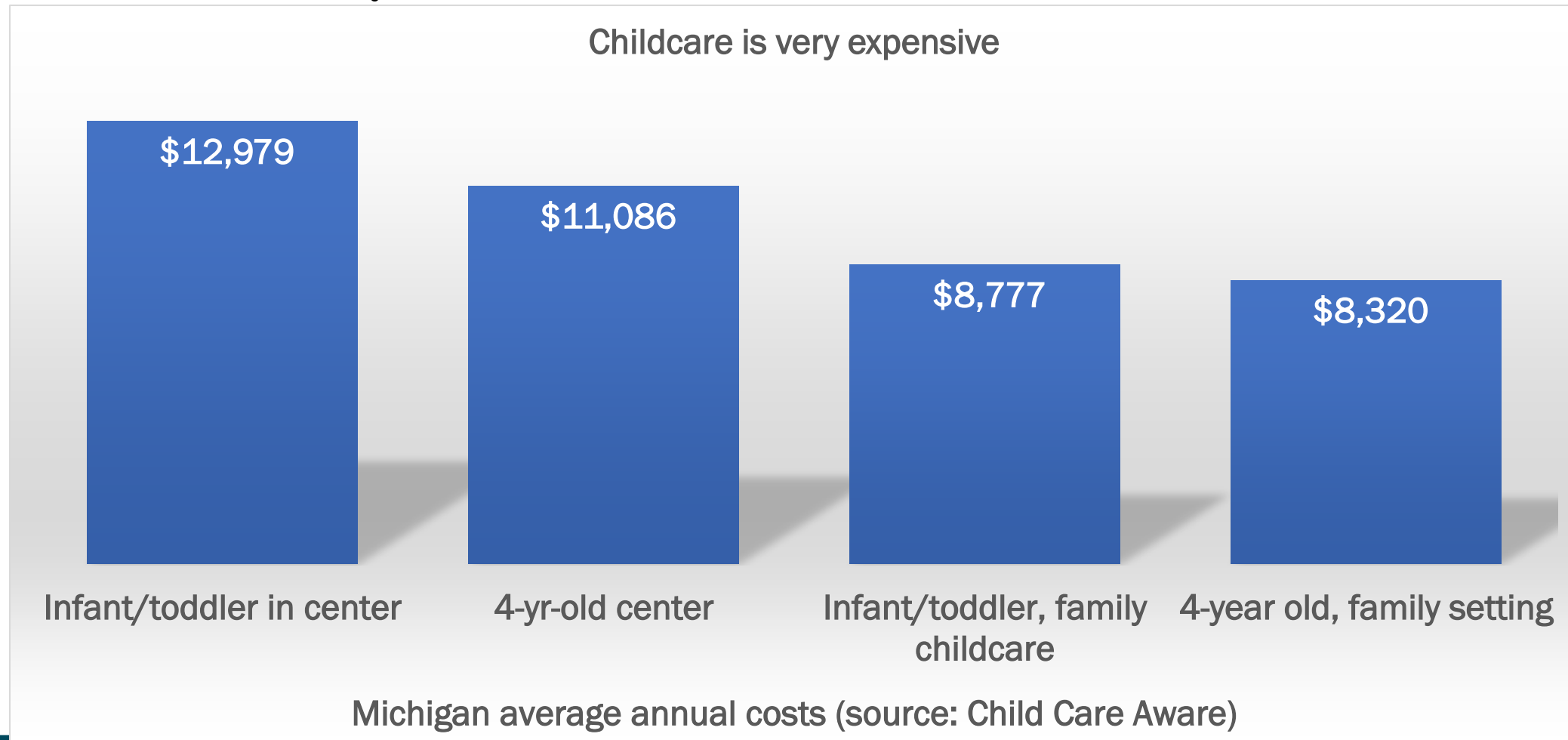
Childcare problems in Michigan have caused major problems for many Michigan workers with young children (Feb. 2022 data from Census)

Child care now is often unreliable, interferes with work



% of households w/ kids <5 who in last 4 weeks had kid unable to attend childcare, Michigan, week ending Feb. 7, 2022, and what adults did to care for kids (Source: U.S. Census)

But there is also LONG-TERM childcare/preK problem: Costs are too high to be affordable for many households....



...and yet wages for childcare/preK workers are much too low to ensure quality. Why both high costs and low wages? Early childhood programs must have low class sizes to provide even minimally-adequate quality; >60% of costs are labor.

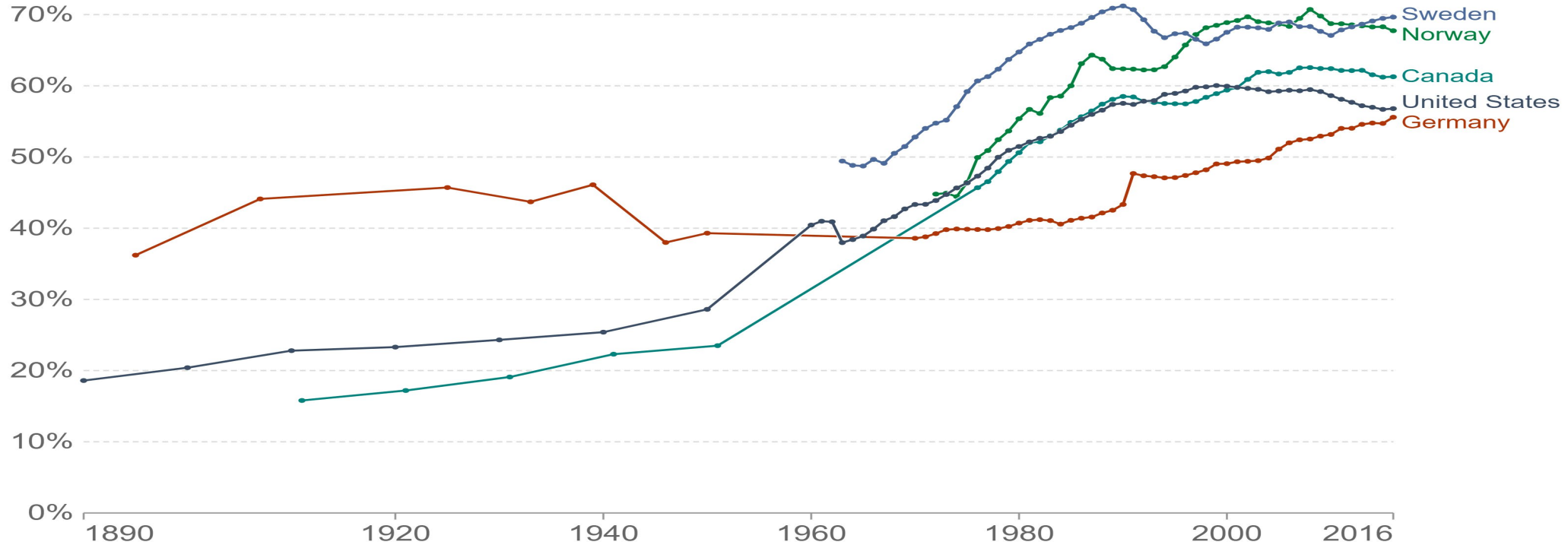


High and growing childcare costs increasingly are causing the U.S. competitiveness problems, by depressing labor force participation rates of women compared to other advanced industrial countries, e.g. in Europe

Long-run perspective on female labor force participation rates, 1890 to 2016

Our World
in Data

Proportion of the female population ages 15 and over that is economically active. Data is available for OECD member countries, as well as for non-member countries publishing statistics in OECD.stats.



Source: Our World In Data based on OECD (2017) and Long (1958)

Note: For some observations prior 1960, the participation rate is taken with respect to the female population 14 and over. See sources for details.

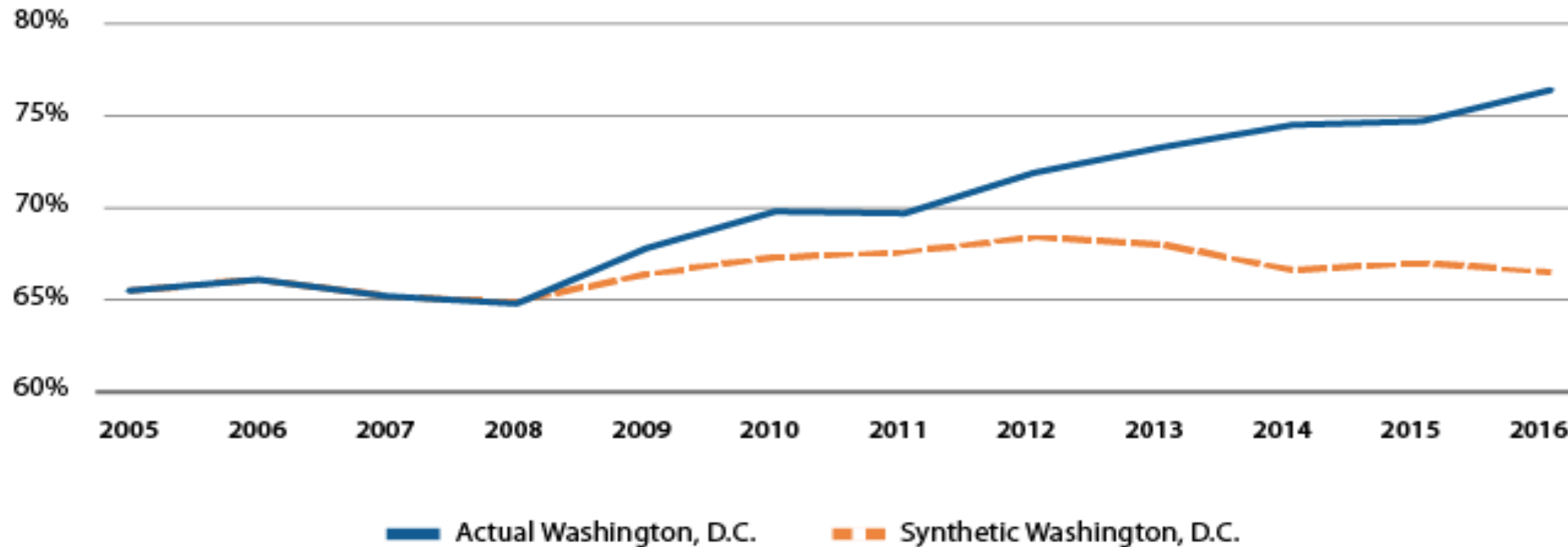
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Universal pre-K for 3- and 4-year-olds in DC (free, 6.5 hrs/day, 180 days/yr), implemented 2007-2009, increased labor supply of women with under-5 child by 10 percentage points (15 percent on base rate) (Source: Center for American Progress)

FIGURE 1

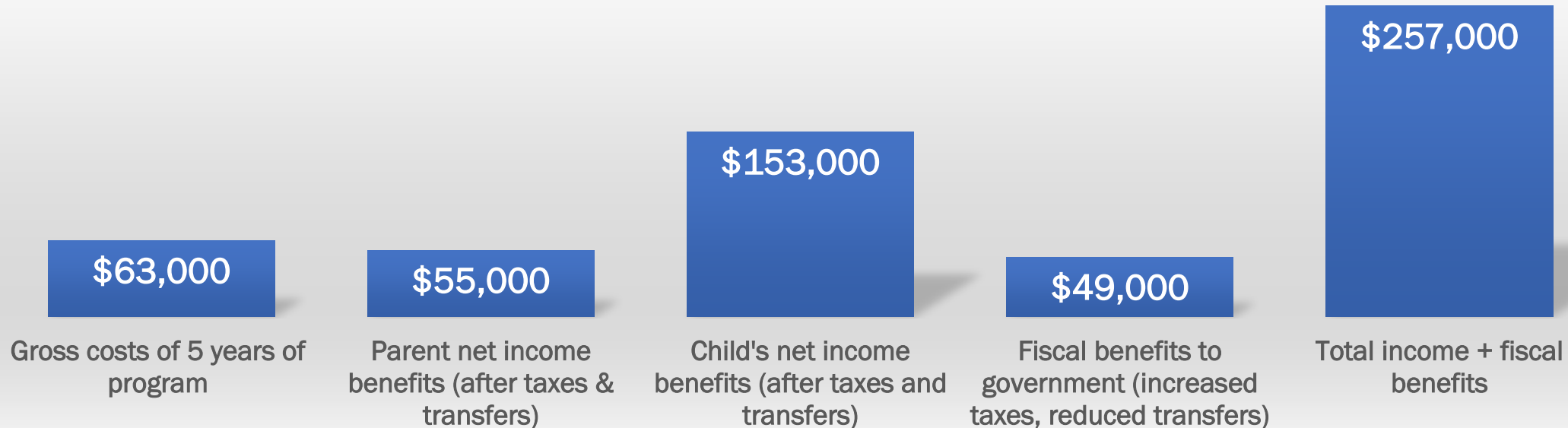
Universal preschool has increased labor force participation by 10 percentage points in Washington, D.C.

Washington, D.C., and synthetic Washington, D.C.



Abecedarian Program, experiment begun in North Carolina in 1972, provided full-time high-quality childcare & preK, from 6 weeks of age to age 5. Results: benefits at least 4 times gross costs, due to effects for parents, children, government.

Childcare/preK program that costs \$12K/yr conservatively yields benefits over 4x gross costs. May be self-financing



Partial benefit-cost analysis of Abecedarian childcare/preK program, per child figures in today's \$ (Source: Hendren/Sprung-Keyser, "A Unified Welfare Analysis of Government Policies")

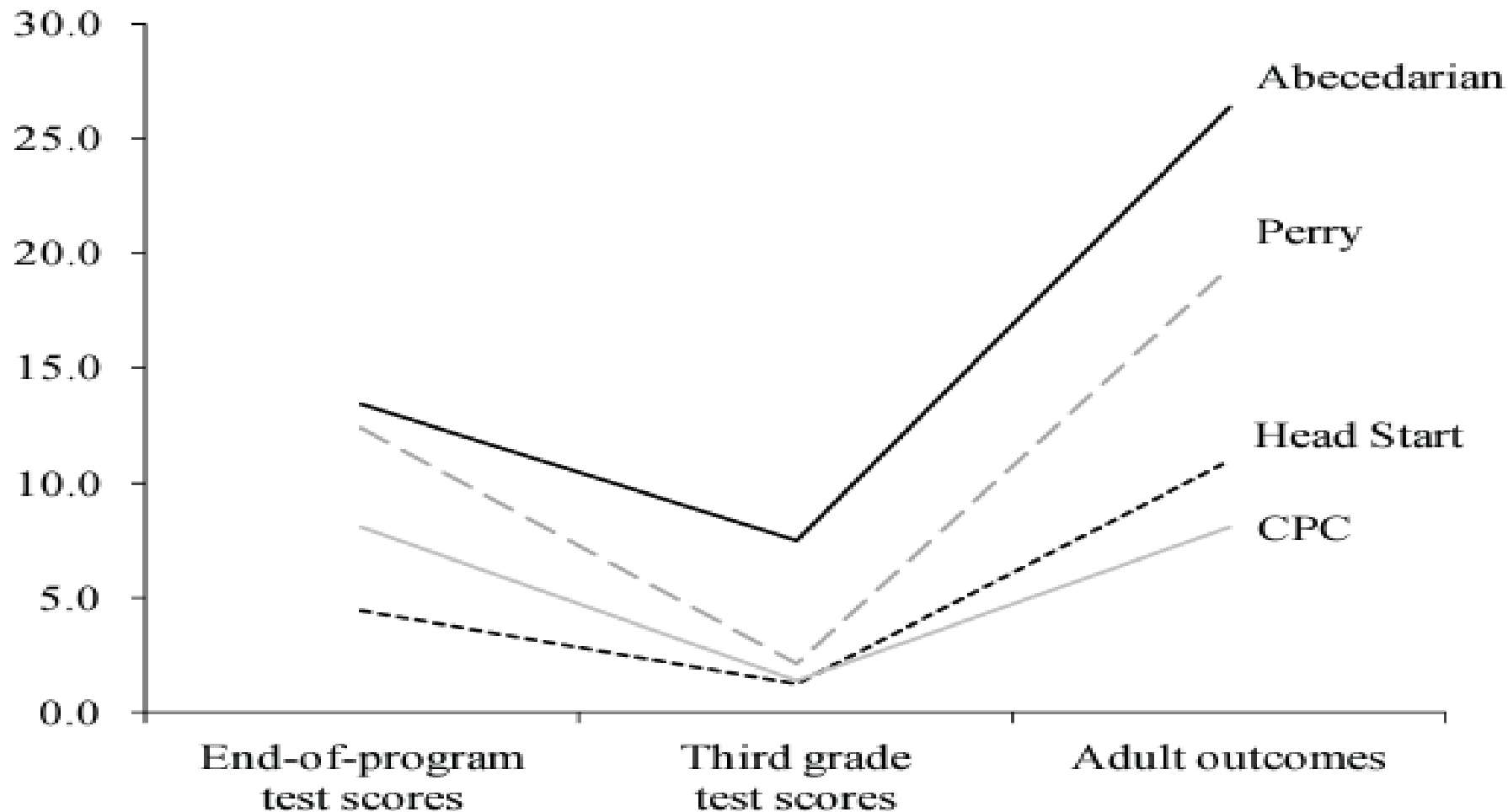
Why does childcare/pre-K increase employment and earnings of parents?

- Only in part due to **labor supply effects while childcare provided**
- Also in part due to **childcare allowing parents to get further education**, which increases long-run employment and earnings: in Abecedarian study, by time kids were 21, the percent of moms in treatment group with post-high school education was **over one-half**, compared to **one-third** in control group.
- Also in part due to **labor supply effects in short-run increasing the parent's work experience and job skills**, which increases long-run **employment and earnings**: in Abecedarian study, by time kids were 15, **86%** of moms in treatment group were working, compared to **72%** in control group.



Why does childcare/pre-K increase future adult earnings of child participants? Answer: soft skills; “Success begets success” (Source: Bartik, *From Preschool to Prosperity*)

Figure 4.1 Predicted Percentage Effects on Adult Earnings of Early Childhood Programs, Based on Test Scores versus Adult Outcomes



Why should individual businesses be willing to invest in childcare and pre-K, in their own “enlightened self-interest”?

- (1) Reduces employee **turnover costs** (average 20% of worker’s annual compensation, to deal with vacancy, find new worker, and train that worker to productivity standard).
- (2) Reduces costs of **employee absenteeism**, which easily might be equal to or greater than hours missed times worker hourly pay.
- (3) Increases **worker productivity**, as workers are less worried about reliability and quality of their childcare and pre-K arrangements.
- (4) Fringe benefit of ensuring reliable and quality childcare/pre-K **attracts job applicants**, which increases the productivity of who the firm is able to hire.



Summary and a path forward

- Summary of **problem: inadequate supply of high-quality affordable childcare/pre-K**, which damages U.S. labor supply and U.S. competitiveness
- Summary of **solution: greater support by society (government, families, business) for ensuring affordable and high-quality childcare/pre-K**
- **Individual businesses:** In their enlightened self-interest, help support greater availability of **childcare/pre-K for their employees**. Federal and state programs can help: federal “Employer-Provided Child Care Credit”; Michigan “Tri-Share” Childcare Pilot Program.
- **Business community:** Greater **government support** for childcare/pre-K should be key part of business advocacy for better “**business climate**”.
- Childcare/pre-K policy only ONE of needed policies to enhance quantity and quality of U.S. labor supply, but **this policy is something we know how to do**, and is affordable.
- Free download of Bartik, *From Preschool to Prosperity*, available at [Upjohn website](#).

