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Early Childhood Education in the Fifth District: The Challenges and the Opportunities

Quality, affordable early care and education (ECE) serves a dual purpose. First, quality child care enables parents, particularly mothers, to work outside the home — an option that may be important both to families and, in a tight labor market, to the economy as a whole. Second, research shows that early education and a high-quality environment contribute to a child's success in kindergarten, which is a predictor of future achievement in school and ultimately in the workforce. Still, most parents in the U.S. struggle to find quality ECE at an affordable price — a challenge that spans the Fifth District and, indeed, the nation.

There are multiple reasons why the private market might provide too little quality child care. First, while research suggests a high rate of return on investments in early childhood education, that return includes societal benefits that don't accrue directly to the parents — for example, increased future tax revenues from higher earnings, reduced adult health or incarceration costs, and productivity gains from higher educational attainment. One might call this a textbook example of a positive externality, where the price of child care does not account for all the benefits it confers on society. The presence of positive externalities results in an underinvestment because providers are unable to collect payments for all of the benefits they produce if parents alone bear the burden.

But there is more to this than just a classic market failure. ECE is a labor-intensive industry, making it difficult to reduce cost through technological innovation. Combining that with the costs that accompany regulatory requirements — often necessary for children's well-being — makes it difficult to reduce the cost while maintaining the quality that fosters healthy development and accrues those long-run social benefits. Parents in low-income households are most likely to face binding income and credit constraints that prevent them from investing optimally in high-quality ECE, but societal benefits are largest when all families have access to the affordable quality child care that enables them to enter the workforce, should they need or choose to. Since most households cannot afford the full cost of high-quality ECE, it is unlikely that the private sector alone would increase supply to a level that fully meets the needs of families and communities.

According to the Census Bureau's 2023 American Community Survey, more than 14.6 million children under the age of 6, or almost 70 percent of that population, have all available parents in the workforce. But the evidence indicates that our current national model for ECE provision is not working. What is the cost of this failure? And what programs and policies have states and communities put in place to enable parents to work outside the home while children benefit from high-quality preparation for kindergarten?

THE CHILD CARE SHORTAGE AND WHY IT MATTERS

According to a 2021 report from the Bipartisan Policy Center, the supply of child care in the United States in 2019-2020 filled only about 70 percent of the potential need (children under 6 years of age with all parents in the labor force) across the 35 states in their analysis. This gap was worse in rural areas than in urban areas. Estimates of the child care gap vary, and in many areas during the pandemic, but the continued existence of gaps in the nation and in every Fifth District state is consistent across estimates.

For example, a 2023 report by Virginia's Joint Legislative Audit and Review Commission (JLARC) indicated that Virginia needed, at minimum, 140,000 more child care slots to meet demand and most child care providers had a waitlist, some with hundreds of children. In West Virginia, a report prepared for the state's Department of Human Services found that more than half of West Virginia residents lived in a census tract with more than 50 children under the age of 5 that contained either no child care providers or three times as many children as licensed child care slots. Jennifer Trippett, who owns Cubby's Child Care Center, the largest licensed child care center in West Virginia, reported more than 400 children on her waiting list. And centers continue to close.

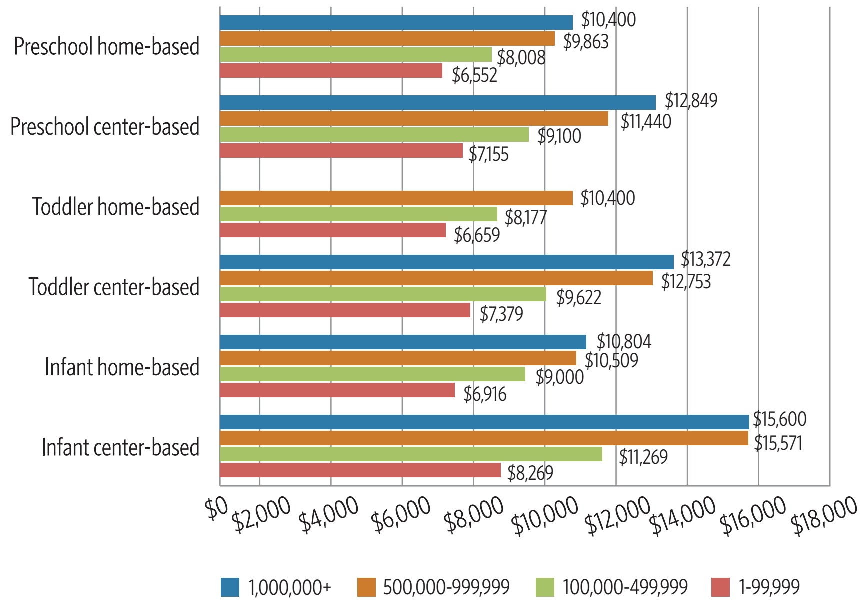
Ready Nation, an organization of business executives that is advised by child care experts and researchers, estimated that 71 percent of Maryland children under age 6 have both parents in the workforce. Yet more than half of Marylanders lived in census tracts with more than 50 children under age 5 that contained either no child care providers or more than three children for every licensed child care slot. The North Carolina Early Education Coalition (NCEEC) classified North Carolina as a child care desert, with an average of more than five families competing for every one available licensed child care slot in the state. Meanwhile, the First Five Years Fund estimated a gap of at least 16 percent in South Carolina. The bottom line to all of this reporting is consistent: Every Fifth District state is struggling to find enough child care to support working parents.

One concern about inadequate child care is that we need parents in the labor force. The U.S. labor force participation (LFP) rate for prime-age men and women (aged 25-54) has been falling. Male prime-age LFP has been falling since the 1950s; female LFP rose from the 1950s to the 1990s but stagnated in the 1990s. Women, whose participation is more likely to be affected by child care duties, have been losing ground in the United States relative to other counties: In 1990, the U.S. ranked number five in female LFP among Organisation for Economic Co-operation and Development countries. By 2019, American women ranked 21st out of 22 countries. A report by the NC Chamber Foundation and NC Child indicated that inadequate child care was costing the North Carolina government and employers billions of dollars in revenue from employee absenteeism and turnover.

There is widespread agreement that policies targeted at young children can improve lifetime educational attainment and other outcomes, including labor market performance. The strongest evidence of the value of ECE comes from small-scale randomized controlled trials (RCTs) where young children from similar backgrounds are randomly sorted into groups and provided quality ECE. One of the most widely cited of these RCTs is the Perry Preschool Project, a high-quality early education program in Michigan in the 1960s that was designed to foster development of cognitive and socio-emotional skills. It is well documented that attending the Perry Preschool program improved several outcomes of participants relative to the control group through age 40. A more recent study showed that the benefits carried through to the children of program participants, who had higher levels of education and employment, lower levels of criminal activity, and better health than the children of control group members. Other examples include the Carolina Abecedarian (ABC) project started in the 1970s in Chapel Hill, N.C., and the Tulsa, Okla., universal pre-K program provided by Tulsa Public Schools. Economist James Heckman and his colleagues found a 13 percent return on investment for comprehensive, high-quality birth-to-5 early education, using a variety of life outcomes such as health, crime, income, schooling, and the increase in the mother's income. Not surprisingly, studies have also shown that the impact of quality early care matters more for low-income families and single-parent households. (There is also research that showed the importance of paid parental leave for the health of the mother and infant in the first months after birth.)

Median Annual Price of Child Chare for One Child

by County Size (population), Child Age, and Care Setting



SOURCE: National Database of Childcare Prices 2022, Women's Bureau, U.S. Dept of Labor.

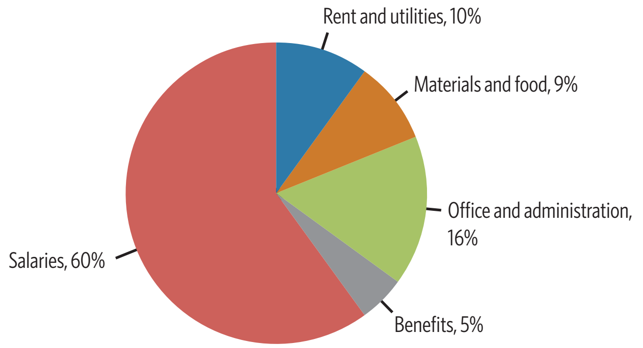
WHAT DO FAMILIES HAVE TO PAY?

ECE is difficult for most households in the U.S. to afford. According to the National Database of Childcare Prices from the Department of Labor, the median annual price of care for one infant in 2022 ranged from $6,916 per year for infant home-based care in the counties with a population below 100,000 to $15,600 per year for center-based care in counties with over 1 million people. (See chart.) U.S. families spent between 8.9 percent and 16 percent of their median income on full-day care for just one child in 2022. JLARC found that the cost of infant and toddler care exceeded the federal government guideline for affordable child care (7 percent of household income) for more than 80 percent of Virginia families.

Not surprisingly, low-income parents are less likely to have child care. According to a 2022 Census Bureau survey, 67 percent of households with annual household incomes under $50,000 reported not having child care, compared with 52 percent of households earning more than $200,000 annually.

Why does child care cost so much, and why is it more expensive for infants than for toddlers? The answer is primarily labor. According to a report from the Center for American Progress, about 60 cents of every dollar spent at a child care center goes to salaries, not including benefits. (See chart on next page.) Importantly, the labor-intensive nature of early childhood education also makes it difficult to find the technology-driven productivity improvements that have driven down costs over time in other industries, such as manufacturing.

Even with the high share of costs going toward salaries, early care



SOURCE: Center for American Progress (2021).

workers have some of the lowest wages in our economy. According to the Bureau of Labor Statistics, the median hourly wage for child care workers was only $14.60 — less than the median wage for food preparation and serving occupations, which was $15.50. Anecdotally, child care service providers report losing workers to food preparation services and to the public school system. The median wage for preschool and kindergarten teachers was $18.91 in 2023. It is not surprising, then, that work by the Cleveland Fed indicated that child care workers had turnover that was 65 percent higher than in a typical job, while attrition among preschool and kindergarten teachers was on par with the typical occupation.

"Solving the conundrum of competitive compensation for a skilled early educator workforce is a top priority to ensure working families can access quality child care for their young children," says Kathy Glazer of the Virginia Early Childhood Foundation, a Richmond-based nonprofit.

The COVID-19 pandemic greatly exacerbated the turnover in ECE. From 2019 to 2021, the number of child care workers in the U.S. declined by more than 20 percent, from around 560,000 workers to less than 440,000 workers. By 2024, the number had risen to around 490,000 workers — still well below the pre-COVID number. Anecdotally, finding qualified workers willing to build a career in the low-wage field of ECE is the single largest challenge in the child care industry.

INNOVATIONS AND POLICY SOLUTIONS

There are a number of ways that states and localities have tried to address the labor challenges. In Virginia, for example, the Virginia Early Childhood Foundation created the Virginia Early Educator Fast Track program that not only helped child care facilities recruit applicants, but also helped with applicant vetting, training, compensation, wraparound support, and ongoing professional development. According to Rupa Murthy, president and CEO of the YWCA of Richmond, which runs the Sprout Schools, an early childhood education program in the Richmond, Va., metropolitan area, "The Fast Track cohort program helped us to hire almost 25 new teachers that had a 55 percent retention rate in the first year — much higher than we were seeing through other recruitment methods." Community colleges have also gotten involved, both in partnership on child care provision and in provider training. It is difficult, however, to unilaterally address the low wages in child care — and without higher wages, providers will continue to spend considerable time recruiting, maintaining high quality will be difficult, and both parents and children will continue to pay the cost of losing quality care.

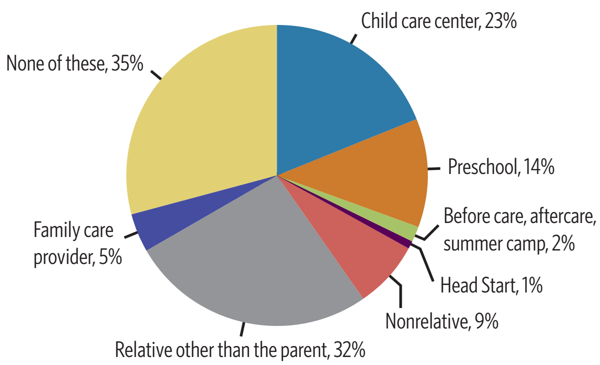
Another challenge of running ECE centers is that centers need both enough children enrolled and the right mix of children to profitably provide child care services. Most centers, for example, lose money on infants because of the low child-to-teacher ratio required for infant care, and thus they rely on having enough 3- and 4-year-old classrooms to make up the difference. Some well-intentioned policy solutions — for example, state-level universal pre-K — can create obstacles for providers looking to offer affordable infant care. In 2002, for example, the West Virginia legislature enacted a law that by the 2012-2013 school year, all 55 counties in the state had to provide a universal pre-K space to all 4-year-olds and certain 3-year-olds with special needs. On one hand, there is evidence that universal pre-K has lasting positive effects on parental earnings and child outcomes. On the other hand, there is evidence that the policy actually resulted in a decrease in supply of infant and toddler care because the publicly provided pre-K programs reduced the number of older children in private care, which made it harder for those private programs to stay in business.

A policy in Maryland addressed this problem. After the COVID-19 pandemic, Maryland started to offer universal pre-K through a mixed delivery system in which parents can choose where to send their child — be it a child care center, a home-based care facility, a Head Start program, or a program housed in their local public school facilities. This has helped to ensure kindergarten readiness while helping private center- or home-based providers to serve a mix of children that enables a sustainable program.

Home-based care — that is, child care in a residential, non-institutional setting — is also a critical piece of the ECE landscape. The 2022 Census Pulse Survey provided evidence that about 45 percent of respondents with children under age 5 had child care arrangements that relied on a nonrelative, relative other than the parent, or a family care provider — all arrangements that would qualify as home-based care. (See chart on next page.) According to Home Grown, an organization that represents home-based care providers, 30 percent of infants and toddlers are in home-based care, compared with 12 percent in centers.

Home-based care can often be the first choice for rural communities, as well as families of children with

Child Care Arrangements for Children Age 0-4



SOURCE: U.S. Census Bureau, 2022 Household Pulse Survey, public-use weighted data on child care, weeks 49-52.
NOTE: Parents can specify multiple options.

special needs or low-income families. For a rural household in a region without a critical mass of households to sustain a center, home-based care might be the only option. Home-based care is often more affordable, but it is also attractive to families because of the small size, the mixed ages of children, more flexible hours, and an opportunity to form a lasting bond with a caregiver. According to Erica Phillips of the National Association for Family Child Care, some of the biggest challenges faced by home-based or family child care providers are the aging workforce without retirement benefits, the lack of health insurance and paid time off, and the low compensation in the home-based care industry. "Higher paying and less challenging jobs can lure home-based providers out of the child care business, especially when labor markets are tight," says Rob Grunewald, a policy and economics consultant who previously worked on ECE issues at the Minneapolis Fed.

THE PRICE VERSUS THE COST

The business model for ECE is difficult to maintain without public or philanthropic support, which is why so many parents and providers rely on it. According to the Center for American Progress (CAP), the high price of child care that full-paying households face often cannot cover even a base quality of care, much less the highest-quality, developmentally appropriate, safe, and reliable child care that provides the best opportunity for the positive social benefits outlined above. According to CAP, the national average for the true cost of licensed child care for an infant is 43 percent more than what providers can be reimbursed for through the federal child care subsidy program and 42 percent more than the price programs currently charge families. This gap exists throughout the Fifth District. (See charts on next page.) The providers with financially sustainable programs rely on federal, state, philanthropic support, and household payments. "This public-private model ensures families pay a share while enabling providers to close the gap between the true cost of high-quality early care and education and available revenue," says Murthy of the YWCA of Richmond.

The biggest gap between base cost (that is, the cost of just meeting licensing requirements) and high-quality cost comes from increasing the compensation provided to professionals. However, cost for higher quality also includes lower child-teacher ratios, more planning time for teachers, and a larger and better-resourced learning environment for children.

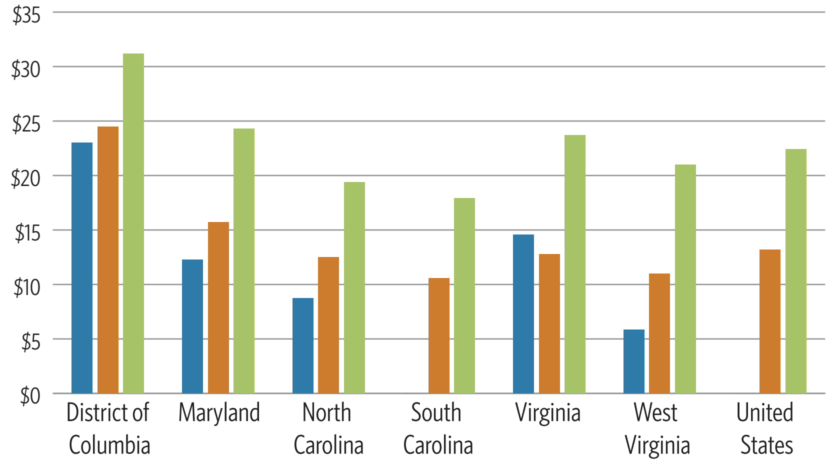
FUNDING ECE AND PARTNERING FOR SUCCESS

Unlike countries where ECE is primarily offered through publicly funded programs, the United States relies on privately provided care and then offers a variety of subsidies and tax credits, with a particular focus on low-income families. (In almost all states, subsidy rates are based on a regional average of price paid by families, not the individual family's cost of care, as outlined above — the District of Columbia, Virginia, and New Mexico are prominent exceptions.) The primary public funding source to help low-income families access high-quality child care is the federal Child Care and Development Fund (CCDF). There are other federal programs, too, such as the Child and Dependent Tax Credit, FSAs for dependent care, and Head Start, which uses a mix of federal, state, and local funding. One important source of federal funding in the last few years has been the $39 billion allocated by the federal government to states and territories for child care through the American Rescue Plan Act (ARPA) signed by President Biden in 2021. That funding was intended to stabilize the child care industry during the pandemic and was used to great effect in many Fifth District states — in fact, ARPA dollars funded the pilot of the Virginia Fast Track program mentioned above. But that funding source is expiring: All ARPA funds had to be obligated by the end of 2024.

There are challenges with the federal subsidy programs. First, depending on your state and income level, the CCDF eligibility criteria and funding availability vary. In addition, some Head Start programs have long wait lists while others have unfilled slots — perhaps in part because parents are not aware of the program, the enrollment process is complicated, or sometimes because the timing of Head Start programs, like many ECE programs, are not consistent with parents' work hours. Second, many families who need support do not meet the eligibility criteria. Third, the value of the subsidy is insufficient to cover the true cost of operating a high-quality child care program. In part for these reasons, almost all states provide additional funding beyond what is required for the federal funding. For example, the Virginia Preschool Initiative delivers state funding to school districts and community groups to provide pre-K to

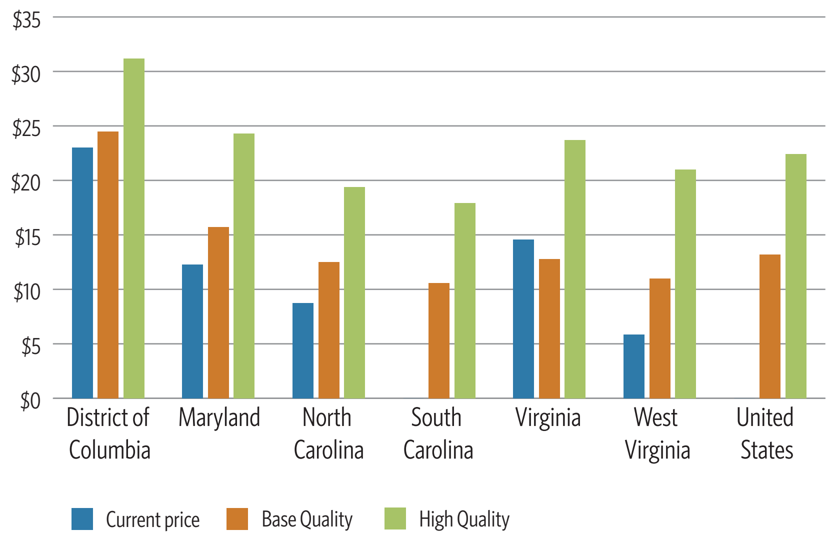
The Price of High-Quality Infant Care

Annual, By State and Quality Level



The Price of High-Quality Preschool Care

Annual, By State and Quality Level



SOURCES: Center for American Progress. Base quality scenarios use default data from www.costofchildcare.org representing a program meeting state licensing regulations.

NOTE: The high-quality scenario includes all quality variables available in the interactive model.

at-risk 3- and 4-year-olds who are not served by Head Start federal grants. The Virginia Department of Education also provides the Child Care Subsidy Program and mixed delivery grant subsidies.

Expanding funding streams has been another source of innovation. Both North Carolina and Virginia are piloting a cost-sharing model that has been successful in Michigan. This model relies on sharing the cost of ECE provision among three primary partners: the government, parents, and employers. In fact, through both chambers of commerce and individual partnerships, employers have increasingly become a critical partner in the search for solutions. Some employers have opened new facilities on or near bases of employment. For example, medical device manufacturer Arthrex partnered with Bright Horizons to open a licensed child care center for children of its employees at its Pendleton, S.C., location.

Sometimes, the regulatory environment can get in the way. Yadkin County, N.C., was looking to house multiple child care centers in one location to reduce non-labor costs for existing child care providers and enable new providers to emerge while increasing the pay offered to workers. To do this, the county partnered with the state to change the regulatory structure in a way that would protect child safety while allowing for multiple small child care centers at one location. Shared administrative services, philanthropic support for food or diapers, and providing opportunities for home-based care to access support through licensure are other ways that states, localities, and individual programs have tried to expand the supply of care. The ubiquitous nature of child care challenges, and the cost to local and regional economies, has created a space for communities to find solutions that work for them. Grunewald notes, “Child care benefits communities, not only families with young children, so it makes sense to foster collaboration among local businesses, economic development, community development financial institutions, and other stakeholders to address child care issues.”

CONCLUSION

Quality early childhood education offers a two-generation solution: It is a way for parents to work outside of the home if they want or need to, and it is a way to help children get quality developmental support before entering the public school system. The benefits of quality early care and education are well known and innovations in the space abound. And everyone — from employers to policymakers to parents to taxpayers — has a vested interest in finding a system that works to ensure we have the labor force to meet demand today and the early care and education that prepares our children and lays the foundation for tomorrow. **EF**