



Aaron Sojourner

Increasing federal investments in early childhood care and education



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Aaron Sojourner has been widely quoted and cited in the national media on postpandemic childcare.

- “While scientists, community leaders, and parents increasingly recognize the importance of experiences in early childhood for promoting children’s development, insufficient public investments in early childhood undermine American children’s ability to thrive.”
- The United States spends much less than other rich nations on early childcare and education and less than it spends on older children.
- Sojourner proposes “an ambitious scale-up of federal investment in high-quality early care and education to help ensure every family can provide children a strong foundation for their life trajectory.”

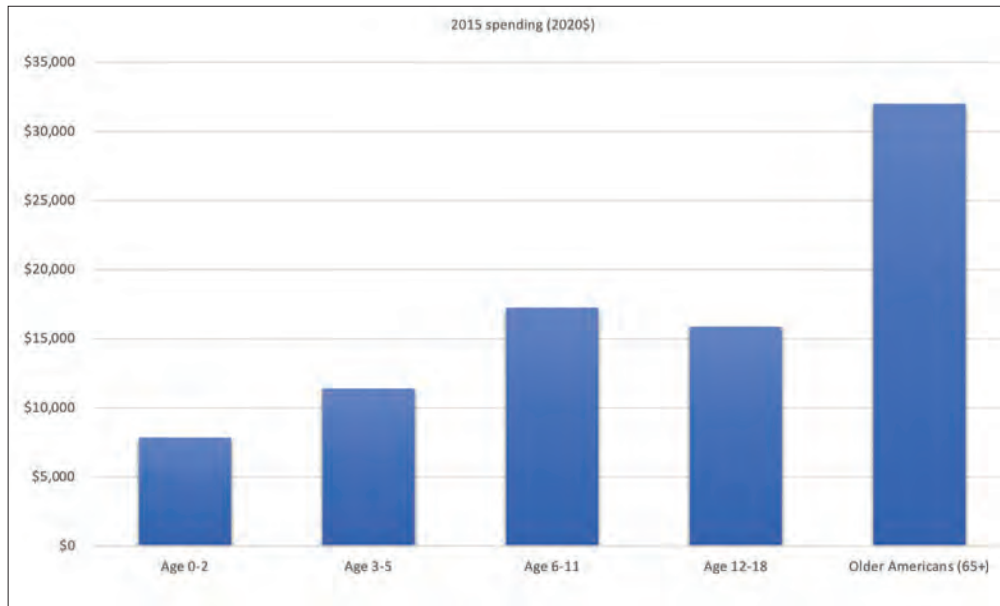
American policy asks the most of parents in a phase of life when they have the least, harming our children, families, and nation in the process. We can do better by expanding public investments in young children and their families. We can do better by structuring those investments well.

Scientific discoveries in recent decades make clear that early childhood experiences influence the physiological processes of human development. Each child’s experiences in the first years after birth influence the lifelong trajectory of his or her cognitive and socioemotional development and health.¹ As the U.S. Chamber of Commerce Foundation noted, “The first five years of life are critical for children to build the strong educational, mental, and emotional foundation upon which future learning is built. The experiences, including access to quality childcare, during these formative years can significantly influence future outcomes.”²

While scientists, community leaders, and parents increasingly recognize the importance of experiences in early childhood for promoting children’s development, insufficient public investments in early childhood undermine American children’s ability to thrive. 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. Access to high-quality ECE increases adult educational attainment, employment, earnings, and health, and reduces criminal activity and use of public benefits.³

Families with young children need public investments the most, yet they receive the least. When children are younger, parents have a harder time pulling together private resources to finance both

Figure 1. Public spending per capita per year by age group



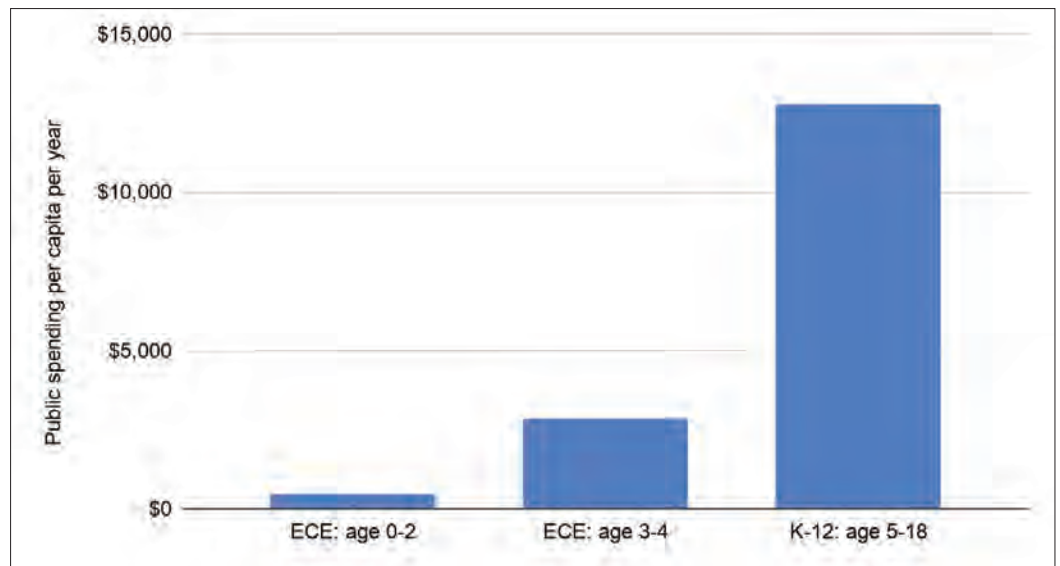
Families with young children need public investments the most, but they get the least.

everyday expenses and long-term investments in their children.

The public invests much more in older children than in younger ones, spending overall significantly more for older Americans than for younger Americans (Figure 1). Annual public spending, including all forms of public investment (program expenditures and tax credits for health care, nutrition, education, childcare, cash assistance, and others, across federal, state, and local governments), is about \$9,400 more per child once children reach elementary school age (6 to 11 years old) than in their first three years of life.⁴ Furthermore, every year, the public spends \$24,100 more per person on older Americans than it does on the youngest Americans.

Looking only at spending on children’s care and education in particular, public investment is especially imbalanced across ages. In 2019, the figure amounted to less than \$500 per child during the first three years of life and about \$2,800 per child for children ages 3 to 4. These average \$1,500 per child under age 5. However, between ages 5 and 17, the public spends far more, an average of \$12,800 per child annually (Figure 2).⁵ These amounts are far below public spending on public elementary and secondary school. Even with Head Start and prekindergarten programs for children ages 3 to 5, the level of public investment during these early years remains very low.

Figure 2. Public spending on care and education per child by age group



Both private and public resources are more limited when children are younger despite needs that are higher. For younger children, high-quality care requires more individualized adult attention. One adult can provide quality care for only a few infants, but one adult often teaches more than 20 elementary school children. Per child, the elementary teacher’s salary spreads across many students, but the infant caregiver’s salary cannot. Despite this higher cost of care per child, the public devotes more dollars per child to the care and education of elementary students than of younger children.

Lack of public investment in ECE creates lost opportunity for our nation. The United States spends a smaller share of gross domestic product (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 Organisation for

Economic Co-operation and Development (OECD) countries and 1.3 percent or more in France, Norway, Sweden, and Iceland.⁶ We tie children's experiences more tightly to their parents' ability to pay and depend on the private market to provide more ECE services than other countries do, which results in underinvestment in young children and limits providers' ability to provide high-quality care.

Two large market failures in ECE translate this reliance on parents' ability to pay into inefficient and inequitable outcomes. 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, market prices allocate resources efficiently. Where those conditions do not hold, market prices alone do not allocate efficiently, and well-tailored policies might help do so. Market failures in ECE occur due primarily to spillovers 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 would underinvest in ECE services for their children relative to what society needs, in part due to these spillovers.⁷

Compared to parents of children under age 3, parents whose youngest child is in high school had more than a decade longer to save, earn 20 percent more per hour, and work 30 percent more hours. Parents of older children are also more likely to have a high credit score. That means families with younger children have less access to every kind of private income — past, present, and future — as a recent White House Council of Economic Advisers brief lays out. Instead of compensating for this, public policy widens the gap by investing the least in the youngest children. Talk to parents whose youngest child recently entered kindergarten: it can feel like the biggest pay raise of their lives.

Families with young children suffer an especially tight squeeze on their resources. Parents have the greatest private financial responsibility for their children when they have few resources. Families with young children have lower incomes and higher credit costs than those with older children.⁸ Tighter credit

Talk to parents whose youngest child recently entered kindergarten: it can feel like the biggest pay raise of their lives.

constraints can cause many parents, especially those with the least earning power, to underinvest in their young children's development.⁹

While parents do have greater future income when their children are younger, they tend to have lower credit scores when their children are young,¹⁰ 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 market failures in ECE, relying on the private market and parents' ability to pay results, from society's point of view, in underinvestment in ECE services.

The gap between resources needed and resources available makes the first years of parenthood an economic and emotional struggle for many American families. We hear about many crises affecting families with young children — lack of available care slots or long waiting lists, lack of quality care, sky-high prices, low staff wages and high turnover, and struggles to recruit and retain staff, to name a few. At the root, these pressures spring from the fact that we ask the most of families when they have the least. The sectors need more resources.

Not investing enough in our nation's youngest also has substantial long-term consequences. There is strong evidence linking better early childhood experiences to a diverse set of benefits, including improved educational attainment, improved health, decreased crime, and increased earnings. In the long run, smart investments in young children will pay for themselves.

My University of Minnesota colleague, Elizabeth Davis, and I proposed an ambitious scale-up of federal investment in high-quality early care and education to help ensure every family can provide children a strong foundation for their life trajectory. We propose a universal right of access to affordable, high-quality care and education services, where families' ability to pay helps determine what they pay but not the care their children can access. Because many families with young children struggle with credit constraints and cash flow, families would not have to front expenses out of their pocket for later reimbursement. Poor families would pay nothing, and family payments would rise with the family's income-to-poverty ratio.

The proposal focuses and harnesses competition in three domains where it would play a constructive role: procurement competitions to elicit information on production costs;



U.S. Navy Child Development Center.

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competitions for talent among employers to ensure that the most value is derived from fixed and sufficient care-labor budgets; and competition among providers to cater to local customers who would have portable, public scholarships. The proposal limits competition in domains where it has been destructive, such as low-wages and low-price competition that also push down care quality and children’s development.

Total payments to providers — combining public and family payments — would be sufficient for the efficient local production of care and education services. The federal government would continue to run procurement competitions to choose organizations to provide local Head Start services, and funding for this program would be expanded to make it a real option for every poor family. Further, each state would run procurement competitions for contracts to provide a small share of services while ensuring providers stick to high performance standards. The procurer would set a sufficient care-labor budget per contracted slot based on relevant child-to-teacher ratios and average earnings in the local labor market. This budget would be a baseline held fixed for all bidders. They would compete over the best way to use that budget to attract, motivate, develop, and retain top talent and the best way to provide real estate, food, and other inputs to care.

The contract competitions together would reveal information about the local costs of high-quality care production, and

this would help set provider payment levels in the scholarship program. As circumstances change, care-labor budgets and provider payments would update too. Any high-quality provider — whether a center, school-based prekindergarten, home-based care, or Head Start — could work to attract local families as customers and get paid through scholarships. Providers would compete to best use the set payments to serve local families and to cater to their diverse preferences. This system of managed competition for customers ensures families would have many local, high-quality options for care. It would substantially increase the ECE sector’s resources, facilitating entry of new providers and allowing existing providers to expand capacity and improve quality. Sustainable private and public models of high-quality ECE service provision can flourish around this program.

We model out how this will change the economics for families and providers. The sector would realize higher quality, greater cost, increased participation, and more public investment, but costs to participating families would in many cases fall. For families using full-time care and earning incomes between 100 and 200 percent of the poverty line, care costs would fall from about 30 percent to about 3 percent of their income. Returns to investment in high-quality care and education are greatest in families with low earning power, and that’s where the subsidies are largest. For middle-income families, care costs would fall from about one-sixth of income to one-tenth. Costs for

This proposal shares many elements of Senator Elizabeth Warren’s and President Joe Biden’s plans.



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higher-income families would likely rise, as the market for care heats up and they receive decreased subsidy.

Given these investments, we advocate eliminating the Child Care Tax Credit, tax credits to employers for providing on-site care, and flexible spending accounts for childcare.

These would become largely redundant, and they provide benefits disproportionately to children from more-advantaged families where public investments have the lowest returns. All of this could be achieved, and the total level of public investment in care and education per child during ages 0 to 4 would rise yet would still remain well below its level during ages 5 to 17.

This proposal shares many elements of Senator Elizabeth Warren’s and President Joe Biden’s plans. However, many providers use a business model wherein they help families finance care by pricing infant and toddler care below cost and pricing preschool-age care above cost. This cross-subsidy allows them to keep infant and toddler care prices lower. A universal school-based prekindergarten program would take over the more “profitable” part of providers’ service and may force them to raise infant and toddler care prices or cut back on supply.

We propose a mixed delivery system with more parent choice and less assumption of a system centered on school-based prekindergarten. For high-income families, we provide some subsidies across all ages rather than the others’ plans for no subsidies during ages 0 to 2 given their proposed phase-outs at 150 percent of state median income and then full subsidy at ages 3 and 4 through school-based, universal prekindergarten.

Going forward, we have work to do to find common ground. Asking the most of parents when they have the least makes no sense. The debate over whether to invest more in families with young children should be over. We now need to decide how, and how much. ■

Aaron Sojourner is an associate professor of economics at the University of Minnesota. He has been widely quoted and cited in the national media during the discussion of the economics of the COVID-19 pandemic.

Notes

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4. The figures are based on statistics published in Julia B. Isaacs et al., “Kids’ Share 2018: Report on Federal Expenditures on Children through 2017 and Future Projections,” Urban Institute, Washington, D.C., 2018; in Julia B. Isaacs et al., “Public Spending on Infants and Toddlers in Six Charts,” A Kids’ Share Brief, Urban Institute, Washington, D.C., 2019; from subsequent correspondence with Julia Isaacs; and from author’s calculations. Statistics are 2015 spending inflated to 2020 dollars.
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