

Vital to Growth

The Early Childhood Sector of the U.S. Economy

In the first comprehensive calculation of its kind, the Partnership for America's Economic Success estimates the annual value of U.S. resources devoted to children from birth to age five at nearly \$400 billion.¹

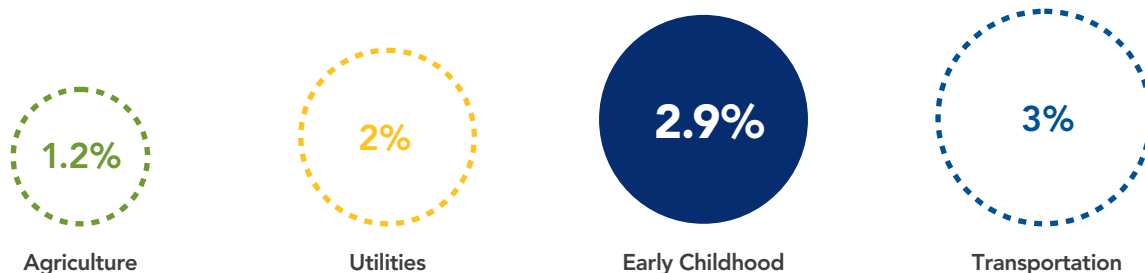
The Partnership examined the early childhood sector (ECS) of our economy to help policy makers:

- recognize the ECS's size and scope and the direct economic contribution of spending on young children;
- assess current unmet needs and inefficiencies in the ECS; and
- evaluate how their decisions affect the performance of the ECS and the economic and social benefits it produces.

This analysis finds that public and private investments in young children are equivalent to 2.9 percent of the gross domestic product (GDP), which calculates the total national value of goods and services. As a share of GDP the ECS is larger than the agriculture (1.2 percent) and utilities (2 percent) sectors and on par with transportation.² This study concludes, however, that this level of investment is not adequate to meet the needs of our nation's youngest children, who comprise over 8 percent of the population and will grow to be our future workforce.

Policy makers increasingly understand that kids, families, businesses and states reap financial rewards from effective early childhood programs. Research shows that laying a solid foundation for

■ Comparing the Early Childhood Sector to Other Important Sectors



Sector values as percent of GDP in 2007 dollars.

health and learning in the earliest years leads to higher earnings in adulthood and significant savings for taxpayers in education, crime and other social services costs. Children's access to quality early learning and care also improves their parents' workplace productivity. As a result, smart ECS investments provide returns that can equal or exceed those of many traditional economic development strategies.

In light of the sector's size and its ability to produce large economic benefits for every dollar invested, local, state and federal leaders must carefully consider how their decisions shape the ECS. Spending that is appropriate in scale to children's needs and focused on evidence-based programs will improve the nation's health, advance school and career success and build the skilled workforce American businesses need to compete. Conversely, spending that is inadequate or not directed to cost-effective programs will limit our nation's productivity and reduce its future economic growth.

Several indicators make clear that the ECS's current resources are too small

and inefficiently allocated to ensure that all children grow to their full potential. High-quality early learning programs are in short supply and unaffordable for many families. Hospital visits account for close to half of young children's health care costs, suggesting a lack of emphasis on preventive measures that could reduce dangerous and expensive emergencies. Hundreds of thousands of children suffer homelessness, and millions live in poverty.

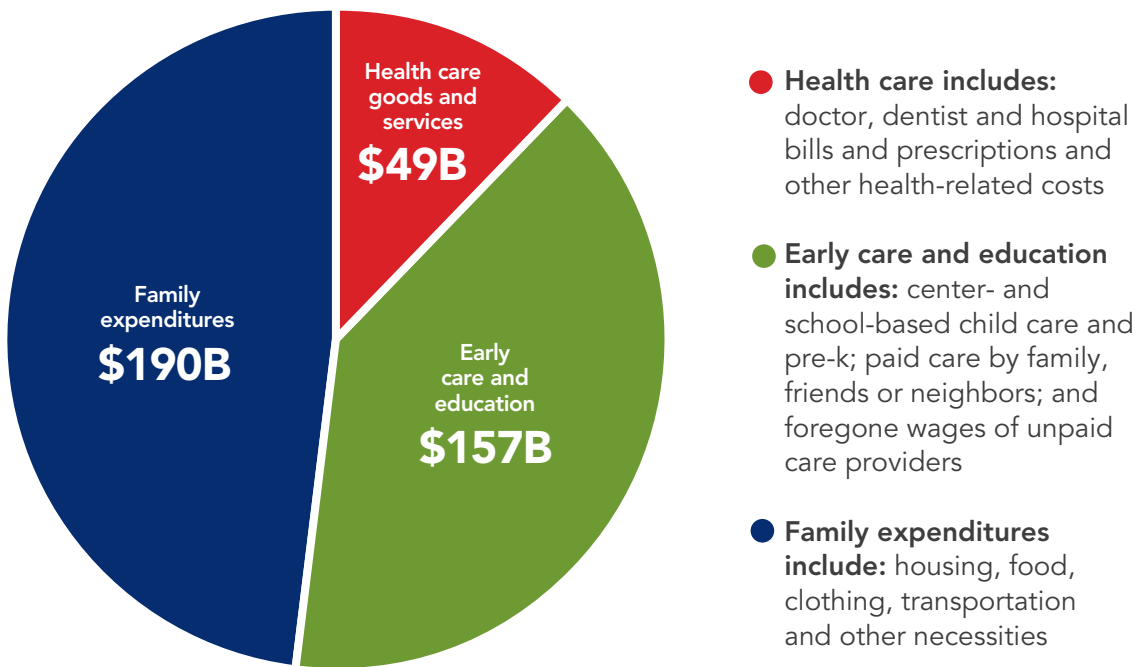
Enhancing the value of the ECS requires that policy makers invest public dollars based on evidence of what works—evidence that is abundant for programs that support young children. That evidence points to a focus on prevention of harm and promotion of wellbeing as the most effective approach for the sector as a whole.

This brief provides key findings and guidance to help policy and business leaders maximize this vital sector's performance. Improving how we invest in young children will enhance the health and education of future generations, stimulate economic growth and create a more competitive 21st-century workforce.

The **Three** Components of the Early Childhood Sector

The ECS can be broken into three components, each encompassing a different set of resources committed to our youngest citizens:³ early care and education; health care goods and services; and family expenditures (food, clothing, housing, etc.). The following sections discuss each component’s contribution to the ECS’s total estimated value; needs that go unmet for many children at the current level of investment; and public policy options to generate better results and returns from the sector.

■ Early Childhood Sector Components



The full report is available at the website for the Partnership for America’s Economic Success, www.partnershipforsuccess.org/earlychildhoodsector and also at www.hspc.org.



Early Care and Education

U.S. public and private resources devoted to the education and care of children from birth until kindergarten entry totals **\$157 billion per year**, equivalent to **1.1 percent of GDP**. This includes:

- center- and school-based child care and pre-kindergarten programs;
- paid care provided by family, friends or neighbors; and
- the foregone wages of parents, relatives and friends who supply unpaid care.

There are indications that these investments are insufficient and not well allocated. High-quality early learning programs are not accessible to all children.

- Two-thirds of all low-income children—and an even larger share of poor minorities—are served in early

care and education settings that lack the level of quality shown to produce developmental gains.⁴

- Paying for a high-quality early education for one child would cost the average U.S. family 25 percent of its annual household income.

Two-thirds of all low-income children are served in early care and education settings that lack the level of quality shown to produce developmental gains.

The economic productivity of this ECS component can be improved through public investments that raise program

quality and access so that more children attend early care and education settings with proven financial returns.

THE EARLY CARE AND EDUCATION WORKFORCE: UNDER SKILLED AND POORLY COMPENSATED

The ECS employs 2.2 million paid workers who constitute 31 percent of all U.S. educators. The vast majority of these employees are women, and on average, they have low skill and education levels relative to teachers serving older children. They also have very low wages; even compared to women with similar qualifications in other occupations, female child care workers earn less, taking home paychecks that are 31 percent smaller.

Policy makers should consider:

- ① Ensuring that all children, beginning with those at highest risk of school failure, have access to high-quality early learning opportunities.
- ② Raising preparation requirements and performance standards for early childhood teachers and investing more in compensation and professional development to secure a well-trained workforce.
- ③ Supporting research-based program quality improvements and rigorous monitoring and evaluation.



Health Care

Annual spending on health care for Americans age five and under totals **\$49 billion**, the equivalent of **0.4 percent of GDP**. These expenses include doctor, dentist and hospital bills and prescriptions and other health-related costs, whether paid through private or public insurance or out of a family's own pocket.

Data on health care services demonstrate that the expenditure level for low-income children has historically been too low and dollars poorly allocated, with opportunities to prevent costly problems often missed.

- Four in 10 children lack a “medical home”—a comprehensive primary care approach that brings doctor,

patient and family together.⁵

Children without this resource are more likely to develop serious health conditions and to be treated in emergency rooms.

- Four out of five children at risk of developmental and/or behavioral delays do not receive recommended screenings.⁶

An estimated 17 million low-income children in America go without dental care each year.

- One out of every five American children between the ages of 1 and 18, or 17 million kids, goes without dental care each year.”⁷

Shifting resources toward prevention and early intervention could reduce health care costs considerably. The recently-passed federal health care reform legislation provides resources to alleviate many of these problems, but targeting them effectively will be critical.

- In 2005, 15.4 percent of all U.S. births were low birth-weight and/or preterm, with a higher rate among low-income and African American women. Improving birth outcomes

could save substantial sums: each complicated birth adds \$9,000-\$40,000 in medical expenses.⁸

- Nearly half of total U.S. health expenditures on young children pay for hospital visits, many of which could be avoided. For example, properly medicating, monitoring and controlling factors that trigger acute asthma can virtually eliminate attacks and substantially reduce medical costs.

Decreasing the potential for a lifetime of high health care costs starts with better attention and resources devoted to children’s early development.

Policy considerations to improve this component’s economic performance include:

- 1 Making certain all pregnant women and children have access to appropriate care, especially preventive services such as pediatric dental check-ups, evidence-based, voluntary home-visiting programs and smoking cessation resources.
- 2 Promoting children’s access to a medical home through policies that encourage pediatricians to locate in underserved areas, as well as policies that improve children’s health insurance coverage.

Family Expenditures

Spending on such children’s necessities as housing, food, clothing and transportation constitutes the largest portion of the ECS, totaling **\$190 billion** a year, equivalent to **1.4 percent of GDP**.⁹

Long-standing and persistent child poverty highlights the challenges families face in providing these basics. In 2009, more than 40 percent of children five and under lived at or below 200 percent of the federal poverty level¹⁰(FPL)—\$44,100 for a family of four—meaning that their parents could not provide for all their core needs without additional support. Nearly one in five young children, or 14 million, lived at or below the FPL¹¹ and 8 percent endured “deep poverty,” defined as half the FPL or less.

- Rising costs for housing, combined with stagnant and declining wages, make it difficult for many low- and



even middle-income families to meet their children’s essential early life needs. In 2008, nearly one in four households with children experienced food insecurity, an increase of 32 percent over 2007.

- An estimated 200,000 children are homeless on any given night, with 1.5 million children homeless at some point during the year.¹²

In 2009, nearly one in every five young children, or 14 million, lived at or below the poverty level.

These financial struggles have serious consequences for taxpayers. Unstable food and housing situations can substantially reduce children's ability to focus and succeed in school. Moreover, research suggests that as many as one in three foster care placements are attributable largely to parents' inability to secure affordable housing. More housing assistance before such a crisis develops could not only prevent millions of traumatic family disruptions

but, according to one estimate, could also save states as much as \$1.9 billion annually in foster care expenses.¹³

Poverty and related effects like housing instability and a lack of consistent, nutritious meals are among the most powerful factors limiting children's cognitive, behavioral and social development, and these conditions are most damaging when they occur and persist in the earliest years.

Policy makers could improve this component's performance and reap the benefits of more healthy and prepared children by:

- ① Ensuring that cost-effective nutrition programs, such as WIC (Women, Infants and Children) and SNAP (also known as "food stamps"), are accessible to all families in need.
- ② Investing in effective programs to stabilize housing and make it more affordable.
- ③ Building families' financial capacity and combating poverty through such evidence-based programs as federal and state Earned Income Tax Credits and such promising innovations as Individual Development Accounts.

Conclusion

Raising children from birth to school entry produces substantial economic activity—activity that has value greater than that of several other sectors which have benefited from serious policy maker attention. Sufficient and wisely-targeted investments in the Early Childhood Sector will enhance its contribution to GDP. As this research demonstrates, current investments

are neither sufficient nor, in some cases, well-allocated, and the fiscal crisis has exacerbated that problem. The economic downturn also presents an opportunity for local, state and federal leaders to make important, evidence-based policy changes that will help the ECS generate better results and position the nation for stronger economic growth.

Endnotes

1 This is the total of the three ECS “components.” All figures in this brief are in 2007 dollars unless otherwise noted.

2 It should be noted that the official calculation of Gross Domestic Product (GDP) does not include foregone wages from unpaid parental and other care of children, which is why this estimate is “equivalent to” 2.9%. Given GDP’s intent of calculating total national economic activity, however, omitting this substantial portion of the Early Childhood Sector would constitute a major undercounting. Indeed, one criticism of the consumption-based method of GDP calculation is that it fails to capture this type of economic activity.

3 Note that there are limited instances in which the portion of resources devoted to young children could not be isolated, or calculated, and is thus not included. These total a very tiny percentage of the ECS as calculated and, if included, would not substantially change the size of the figure.

4 Mulligan, G. & Flanagan, K., (2006) “Age 2: Findings from the 2-year old follow-up of the early childhood longitudinal study, birth cohort (ECLS-B). Washington, DC: U.S. Department of Education, National Center for Education Statistics (NCES 2006-043).

5 National Survey of Children’s Health, Health Resources and Services Administration’s Maternal and Child Health Bureau (2007) accessed at www.childhealthdata.org, statistics from 2005-2006. Definition of “medical home” from American Academy of Family Physicians, American Academy of Pediatrics, American College of Physicians, and American Osteopathic Association. Joint principles of the patient-centered medical home. 2007 Mar.

6 Ibid.

7 *The Cost of Delay: State Dental Policies Fail One in Five Children* (2010). Pew Center on the States, Washington, DC.

8 Weiss, Elaine (December 2009) *Delivering Healthy Babies and Economic Returns*, Partnership for America’s Economic Success, <http://www.partnershipforsuccess.org/index.php?id=7&MenuSect=3>.

9 These estimates are based on the U.S. Department of Agriculture’s (USDA) report of total annual expenditures on children. USDA uses the Bureau of Labor Statistics’ Consumer Expenditure Survey to partial out average per-family spending on children ages zero through five in a way that it is representative of the U.S. population and allows for the exclusion of health care spending, which would double-count if used in this paper.

10 Wight, Vanessa R., Michelle Chau, and Yumiko Aratani (January 2010) *Who are America’s Poor Children? The Official Story*, National Center for Children in Poverty, accessed at <http://nccp.org/topics/childpoverty.html>.

11 Ibid.

12 National Center on Family Homelessness, 2005-06 data on child and family homelessness, accessed at: http://www.homelesschildrenamerica.org/findings_national_extent.php.

13 Harburger, D.S. and R.A. White, (2004) “Reunifying families cutting costs. Housing-child welfare partnerships for permanent supportive housing.” *Child Welfare* 83(5): 493-508, Table 1, Comparison of cost savings.

Authors & Acknowledgments

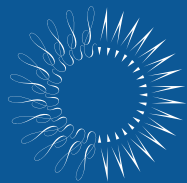
This policy brief, written by Elaine Weiss of the Pew Center on the States and Dr. Richard N. Brandon of the Human Services Policy Center in the Evans School of Public Affairs at the University of Washington, Seattle, is based on the report “The Economic Value of the U.S. Early Childhood Sector.”

Richard N. Brandon, T.J. Stutman and Michelle Maroto of the Human Services Policy Center at the University of Washington wrote the report’s chapter on early care and education and gratefully acknowledge the tremendous contributions of Dr. Marcy Whitebook at the UC Berkeley Institute for Research on Labor and Employment. Elaine Weiss wrote the report’s chapters on health care and family expenditures and thanks Stephen Rhody for his assistance, Brandon Brockmyer for his work on health data and Trevor Higgins for his work on family expenditure data. All of the authors appreciate the excellent peer-review comments and suggestions from Timothy Bartik of the W.E. Upjohn Institute, Janet Currie of Columbia University, Richard Wertheimer of Child Trends and Stephen Rhody of ASR Analytics.

The Partnership for America’s Economic Success amplifies the voice of business leaders in support of early childhood policies that strengthen our economy and workforce. The Partnership is managed by The Pew Charitable Trusts and is funded by Robert Dugger, the George Gund Foundation, the Ohio Children’s Foundation, the Society for Human Resource Management, Paul Tudor Jones and The Pew Charitable Trusts.

The Pew Center on the States is a division of The Pew Charitable Trusts that identifies and advances effective solutions to critical issues facing states. Pew is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.

www.pewcenteronthestates.org



THE
PEW
CENTER ON THE STATES

901 E STREET, NW, 10TH FLOOR • WASHINGTON, DC 20004

WWW.PEWCENTERONTHES STATES.ORG