

Tom Barkin

Early Childhood Education: Now More Than Ever



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Highlights:

- College graduates fare better on a variety of outcomes, but many students who enroll in college do not graduate, particularly low-income and minority students.
- Research shows that preparation is key to college completion, and that preparation begins with early childhood education. There are disparities in access to high-quality early childhood education that track with disparities in college completion.
- Pandemic-related child care and school closures risk exacerbating the already-large gaps in educational attainment between children from high- and low-income families.
- Parents are struggling to balance work, virtual schooling and child care. We're seeing negative effects on women's labor force participation, and more parents leaving the workforce could be detrimental to our country's long-term growth.
- Another issue is the health of the child care industry itself. We need to figure out how to operate centers safely, effectively and affordably. One idea is to lower costs by broadening shared services models.
- An intriguing option for making child care more affordable is expanding the Earned Income Tax Credit (EITC) to provide more support to working parents.

Thank you for inviting me to join you, and thank you especially to the Back to Work Task Force, which is doing work that is absolutely critical to the future health and equity of our economy.

This group is well aware of how important early childhood education is, but I'll offer you my perspectives on why. I'll then talk about why that's even more true in the context of

COVID-19 and some of the risks we face if we don't get it right. Before I say more, I'll note that these thoughts are my own and not those of the Federal Open Market Committee or the Federal Reserve System.¹ I'm looking forward to hearing your questions and comments.

Why Early Childhood Education Matters

To talk about the importance of early childhood education, let me actually start with the other end of the educational system: college. We know that there are large returns to a college degree. On average, graduates tend to earn more money, are more likely to be employed, are more resilient to downturns, and even have better health outcomes. Thirty percent of high school graduates don't enroll in either two-year or four-year college.² And for those that do, going to college doesn't always mean graduating — and you only get the benefits if you finish.

Only around 60 percent of students who enroll in a four-year college graduate within six years. For Hispanic students, the share is 57 percent, and for black students, it's just 42 percent.³ Graduation rates for lower-income students are between 10 and 15 percentage points lower than for their higher-income peers.⁴ Richmond Fed research finds that the prospect of not completing makes college risky, especially for students of modest means, and deters many others from investing in college altogether, leaving them unable to reap the large rewards that graduates currently earn.⁵

Why don't more students enroll in college, and why is the dropout rate so high? One likely factor is early experiences. Young children's brains grow at an incredible rate, and we know from a large body of research that early childhood education is critical for building the infrastructure that's required to learn more complex skills later in life.⁶ This is true not only for academic skills, but also for noncognitive or "soft skills." School and early care settings are an opportunity for children to learn to regulate their emotions, to cooperate, to be on time, to keep trying when a task is challenging — and these soft skills are themselves critical for academic success.⁷

But there are large disparities in access to high-quality early childhood education — and where it's available, it's often not affordable or it's not high quality. Sixty percent of rural families and 60 percent of urban families in the lowest-income quartile live in a "child care desert."⁸ And consider that in 28 states and the District of Columbia, center-based infant care costs more than in-state college tuition.⁹

Many families may turn to friends and relatives, but these options don't necessarily offer the same reliability or focused instruction. And programs to subsidize child care in the United States arguably don't go very far to cover the costs, particularly for low-income families.

For example, the Child and Dependent Care Tax Credit is nonrefundable, which means that families in the lowest-income quintile, who owe little or no income tax, don't receive any benefit from the credit. For the 12 percent of American families with kids who do receive a benefit, the credit reduced their taxes by an average of \$574¹⁰ — compared to child care

costs that may be more than \$10,000 per year.

Another subsidy is in the form of dependent care flexible spending accounts (FSAs), which allow families to set aside up to \$5,000 pretax to pay for child care. As of 2019, just under 40 percent of civilian employees had access to an FSA, but this varies considerably by occupation and income. For example, only 20 percent of workers in service occupations had access to a dependent care FSA.¹¹

Pandemic Times

These issues are all the more important now, when we're at risk of exacerbating the already-large gap in educational attainment between children from high- and low-income families. Here in Virginia, for example, many lower-income families depend on the public school system to provide preschool for their children. But that system has been closed. Higher-income families have the resources to pay for private pre-K, a tutor, or to hire a teacher to facilitate virtual learning. At the very least, they have computers at home and reliable broadband access. Lower-income families don't have these same resources, and we should be worried about how far behind their children might fall¹² — a concern that becomes even greater when we think about the number of children in elementary, middle, and high school. We need this system to operate effectively, which includes providing broadband access for all students, so that if virtual learning becomes necessary, no child is at a disadvantage.

We also need to be concerned about children's parents. People are stressed. People are struggling. Balancing work, child care, and virtual learning seems utterly impossible for single parents and workers who can't work from home. I hear this every day in conversations in our Bank.

We're seeing negative effects on women's labor force participation rate in particular. Women are one of a few key groups where we have potential to boost the workforce, to help offset an aging population and declining birth rates. Unfortunately, right now we're seeing things move in the opposite direction.

Research from the Minneapolis Fed found that mothers in states with early lockdowns were more than 50 percent more likely to take leave from work than mothers in states with later lockdowns, whereas there was no difference for fathers.¹³ At the end of July, almost 1 in 3 mothers ages 25-44 reported they weren't working because of pandemic-related child care issues, compared to around 1 in 10 fathers.¹⁴

With fall in full swing, the challenges of virtual schooling and prolonged child care closures are putting pressure on working women. In the latest jobs report, prime-age women had a larger drop in labor force participation than men. Women still shoulder more than their fair share at home: They spend 30 percent more time per day than men on household activities and almost twice the number of hours caring for children as fathers.¹⁵ Weighed against the circumstances, it stands to reason that families are making tough decisions.

It's reasonable to be concerned about the longer-term effects on parents' wages and

attachment to the labor force. A recent Brookings analysis found that nationwide, 70 percent of working parents with young children at home — 23.5 million people — are child care dependent, meaning they don't have another nonworking adult at home to be a primary caregiver.¹⁶ If even half of that group doesn't return to work, our labor force participation rate would drop 2.5 percentage points. That would be a huge blow to our country's potential growth.

I'm also concerned about the overall health of the child care industry. It's an essential one, and we don't have the option of shutting it down or letting firms go out of business. We need to figure out how to operate these businesses safely, effectively and affordably so families can have peace of mind about their children's care and learning environment.

But child care businesses were fragile even before the pandemic. Now they're under enormous pressure as cleaning costs increase, capacity is challenged, and parents worry about infection risk. Almost half of day care providers reported they are likely to go out of business without further financial assistance.¹⁷ Some predict these closures will be more frequent in lower- and middle-income and rural areas, which could put even more strain on working families. Maybe they will have to drive farther, to pay more, to choose less than ideal care, or to quit working altogether.

The Path Forward

I read a great quote from an early childhood educator recently. She said, "There is no economic recovery without child care. As a nation we haven't realized how critical child care is to all facets of our lives."¹⁸ So a silver lining from this crisis might be that it is forcing us to have a national conversation about just how critical child care and education are, which could lead to greater innovation and investment. The Back to Work Task Force is a great example of how that's already happening.

For example, we can rethink delivery models that increase affordability, such as broadening shared services models for smaller day care providers. This can help them keep overhead down by sharing the costs of services like cleaning, IT and human resources. Employers can play a greater role, and we've seen some creative examples so far. For example, I know of an employer in West Virginia who's offering a proctoring service for its employees' children. And of course, we know many European countries provide or subsidize child care.

One option I find especially intriguing is expanding the earned income tax credit (EITC) to provide more support to working parents to pay for high-quality child care. The EITC is a refundable tax credit available to low- and moderate-income households that is designed to encourage work. Expanding it is an attractive option for several reasons. First, the infrastructure for its delivery already exists. It is a matter of increasing the transfer being made, and we have experience with this already. Second, one key aspect of the EITC is its sensitivity to the presence of dependent children. It treats single wage-earners very differently from those with dependents. And it does this while rewarding work — it is a tax credit on earned income, after all. Also, the EITC-based solution would not require

policymakers to make decisions about providing or administering child care.

Of course, this wouldn't address the issue of supply. But there is some evidence that when child care subsidies decrease, the number of centers goes down as well¹⁹ — so it's not a stretch to think that if more people could afford child care, the supply would increase.

There is still a tremendous amount of uncertainty about what the future holds. But solutions are possible, and they begin with the kind of strategic work this task force is undertaking to explore structural and policy changes for early care and education in Virginia. I'm optimistic that our country will find a way to leverage this moment and address these challenges that have been with us for decades, and I am very grateful for all the people here today working to make that happen.

Thank you, and now I'll open it up for questions and comments.

¹ *Thank you to Jessica Brooks and Jessie Romero for assistance preparing these remarks.*

² *Data from the National Center for Education Statistics.*

³ *Based on the 2012 starting cohort. Data from the National Center for Education Statistics.*

⁴ *As measured by Pell Grant eligibility.*

⁵ *For example, see Athreya, Kartik B., and Janice Eberly. "Risk, the College Premium, and Aggregate Human Capital Investment." *American Economic Journal: Macroeconomics*, forthcoming.*

⁶ *For more, visit Harvard University's Center on the Developing Child and The Heckman Equation.*

⁷ *Research has found that individuals in the bottom quartile of measures of noncognitive skills are only one-third as likely to earn a postsecondary degree as those in the top quartile. Diance Whitmore Schanzenback et al. "Seven Facts on Noncognitive Skills from Education to the Labor Market," *The Hamilton Project*, October 2016.*

⁸ *The Center for American Progress defines a "child care desert" as a census tract where there are more than three young children for every licensed child care slot.*

⁹ *"The US and the High Cost of Child Care." *Child Care Aware of America*, 2018.*

¹⁰ *"Key Elements of the U.S. Tax System." In *The Tax Policy Center's Briefing Book*. Urban Institute, Brookings Institution, and individual authors, 2020.*

¹¹ *Bureau of Labor Statistics. "Employee Benefits Survey," February 21, 2020.*

¹² *Pinto, Santiago, and John Bailey Jones. "The Long-Term Effects of Educational Disruptions." *Richmond Fed Economic Impact of COVID-19*, May 22, 2020.*

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