

# Research & Policy Brief Series

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## The Economic Importance of the Child Care Sector

By **Mildred E. Warner**, Cornell University\*

### What is the Issue?

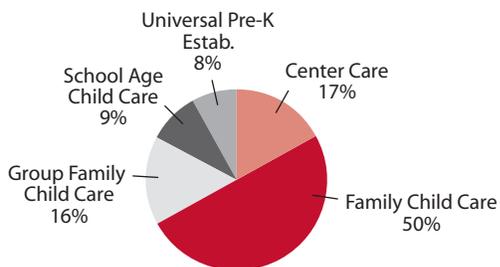
While quality child care has long been recognized as an important social good, states, counties, and municipalities have increasingly begun to understand how it contributes to the local economy. In 2004 the NYS Child Care Coordinating Council partnered with Cornell University's Department of City and Regional Planning to conduct an economic impact analysis of the child care sector (including early child care and education) in New York State.<sup>1</sup> We present results from this study and show how the economic development community in New York State is responding to this issue.

### Economic Analysis of the Child Care Sector

The child care sector is important for two reasons. First, it is composed of many small businesses. Second, it is an important infrastructure that enables parents to enter the workforce. While providing quality care for children, child care broadens New Yorkers' economic opportunities. Data on the child care industry reveal the economic importance of this sector.

- ✓ **22,000 small businesses.** Child care is an important small business sector in New York State. The sector includes not-for-profit and for-profit centers, Head Start and Pre-kindergarten programs and 11,000 family child care providers. Family providers are an especially important source of care for rural New Yorkers.

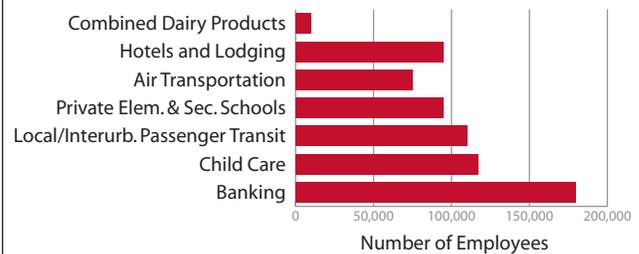
**Figure 1: Licensed Child Care Establishments, New York State**



Source: OCFS Licensing Data, New York State Education Department, 2003

- ✓ **119,000 workers.** Child care teachers, aides and staff represent one of the fastest growing employment sectors in the economy. The child care sector employs four times more people than the dairy sector and is comparable in size to the local/interurban passenger transit system and the hotel and lodging sector (see Figure 2).

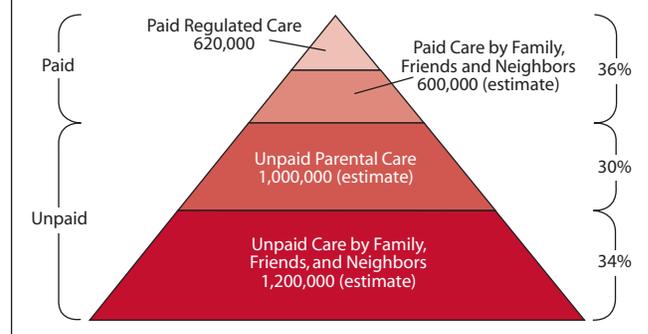
**Figure 2: Employment Comparisons for Selected Industries**



Source: IMPLAN based on ES 202 employment data, 2000; Child Care expansion based on NYS OCFS estimates, 2002.

- ✓ **4.7 billion dollars.** The early care and education sector generates \$4.7 billion dollars annually in New York State. This includes parent fees and government investments in early education programs.
- ✓ **750,000 parents.** Child care is part of the social infrastructure that keeps New York working. By caring for children, the sector enables 750,000 parents to go to work. These parent workers are estimated to collectively earn more than **\$30 billion dollars.**
- ✓ **622,000 children.** Licensed early care and education in New York State provides care for 622,000 children. However, there are 3.4 million children in NYS with working parents. Child care is a complex sector that includes formal regulated paid care, informal paid care, and informal unpaid care either from childrens' own households or other relatives and friends. 1.2 million children are estimated to be in paid care in NYS. With only 620,000 regulated spaces statewide, the other half of the children in paid care are in informal settings. The remaining 2.2 million children are not in market based care, but are cared for by unpaid family, friends or neighbors. (Figure 3).

**Figure 3: The Structure of Child Care in New York State**



Source: Cornell 2006. *Labor Force Trends and the Role of Child Care in New York*, Issue Brief prepared by Cornell University Department of City and Regional Planning: Ithaca, NY. Available at: <http://government.cce.cornell.edu/doc/reports/childcare/research.asp>

<sup>1</sup>"Investing in New York: An Economic Analysis of the Early Care and Education Sector," 2004. M. Warner et al. Prepared for NYS Child Care Coordinating Council and NYS Office of Children and Family Services. Available at <http://economicdevelopment.cce.cornell.edu/doc/pdf/NewYorkCornellReport.pdf>

## Investments in Child Care Are Important for Future Economic Development

Just like roads and bridges, a high quality child care system is part of the infrastructure for economic development by enabling working parents to work, as well as investing in the future labor force (children). Early care and education is important for human development and increases school readiness. Attention needs to be given to the full Early Care and Education system, not just preschool, as children learn in all settings and all settings can be developmental.<sup>2</sup> Investments in brain development are important for the long term future of New York State, because they produce skilled future workers.

### Cost of Child Care is a Challenge

Unlike other infrastructural services, child care receives little public subsidy. Thus, the sector depends primarily on parent fees to cover costs. This creates a price structure too low to support quality and too high for many parents to afford. The average cost to families for child care depends on the age of the child, the type of care, and where they live. In New York State, the average price of full-time center care is \$9,542 (in New York City the cost averages \$11,279). Family and group family care in the state averages \$6,700 - \$7,600 per year. The most expensive child care option tends to be day care centers, the cost of which varies widely depending upon location. (see Figure 4).

**Figure 4: Average Child Care Cost Estimate for NYS, 2002**

	Rest of State	New York City	New York State
<b>Day Care Center</b>	\$ 8,185	\$ 11,279	\$ 9,542
<b>Family Day Care</b>	\$ 6,788	\$ 6,578	\$ 6,692
<b>Group Family Day Care</b>	\$ 7,778	\$ 7,410	\$ 7,641
<b>School Age Child Care</b>	\$ 3,002	\$ 3,284	\$ 3,168

Source: Data was collected from Market Rate Data, OCFS and DOB May, 2003. from 2004 Investing in New York Study

Although New York State is a leader in the knowledge economy, most of the job growth is in the service industry. These sectors face global competition that maintains a downward pressure on wages. For the average worker in retail trade earning about \$20,000 a year, the average annual cost of licensed care represents too large a burden. Figure 5 exhibits the top three industries in terms of job growth in both low and high wage categories (either below or above the state average payroll of \$44,850). Taken together, the health care industry, retail trade, and accommodation and food services created nearly 300,000 jobs in five years. These three sectors hire roughly 37% of all New Yorkers, but are relatively low wage, making the cost of child care prohibitive to many of those parent workers. While a few high-end industries also experienced job growth, the job expansion of these high wage industries reached 160,000, barely exceeding half the growth of low-wage jobs. Clearly, these trends indicate a growing challenge for NYS employees who have to pay the high cost of child care with increasingly lower wages. This also represents a challenge for employers who need to attract and retain parent workers.

<sup>2</sup> Morrissey, Taryn and M.E. Warner 2007. "Why Early Care and Education Deserves as Much Attention, or More, than Prekindergarten Alone" *Applied Developmental Science*, 11(2): 57-70.

**Figure 5: Top Job Growth Sectors in New York**



Source: US Census Bureau, Country Business Patterns 1998 and 2003 (NAICS)

### Child Care is part of New York's economic development strategy

In 2006 Cornell's Department of City and Regional Planning conducted a survey of economic developers and chamber of commerce leaders in New York State. The survey found:

- 83% agree that childcare should be a part of economic development policy.
- 82% recognize that a lack of affordable, quality, convenient child care reduces worker productivity.
- 67% feel that businesses' ability to attract and retain workers is hurt by lack of quality child care.
- 58% acknowledge an inadequate supply of quality child care in their community.<sup>3</sup>

### Investments in the Child Care Sector Promote Regional Economic Development

Regional economic impact analysis shows that in New York State each additional dollar invested in child care generates a total of \$1.52 - \$2.00 in the state economy as a whole.<sup>4</sup> This is higher than other sectors (retail, manufacturing, education) that are more typical targets for economic development or state investment. In addition, each dollar of state spending on child care leverages more than \$3.50 in federal funds. These federal dollars in turn have a linkage effect of \$2, resulting in a \$2.7 billion regional economic impact. The combined impact of these leverage and linkage effects is more than \$7 for every state dollar spent.

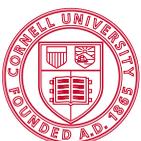
Child care is becoming a key part of New York State's economic development plans. New York is one of a handful of states that has a refundable child and dependent care tax credit. In addition, New York supports roughly 180,000 low wage working parents through the child care subsidy program. Some employers also help through tax-free flexible spending accounts. But more investment is needed. The American Planning Association recently called child care a "critical community infrastructure" and challenged both planners and economic developers to incorporate support for child care into their work.<sup>5</sup> Investment in child care will benefit the state's economy, support businesses and workers, improve the quality of life in our communities, and prepare our future workforce. ♦

<sup>3</sup> Cornell 2006a NYS Survey of Economic Development and Child Care, Issue Brief prepared by Cornell University Department of City and Regional Planning: Ithaca, NY. Available at: <http://government.cce.cornell.edu/doc/reports/childcare/research.asp>.

<sup>4</sup> "Investing in New York: An Economic Analysis of the Early Care and Education Sector," 2004.

<sup>5</sup> Warner, M.E., Kristen Anderson and George Haddow, 2007. Putting Child Care in the Picture: Why this service is a critical part of community infrastructure," *Planning*, (June 2007): 16-19.

\* Professor Mildred Warner co-directs the national Linking Economic Development and Child Care Project which is supported in part by the W.K. Kellogg Foundation. Resource materials on the linkage between child care and economic development can be found at <http://economicdevelopment.cce.cornell.edu>.



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