

To: Back to Work Virginia Task Force

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Date: 8/26/20

In this memo I will make an audacious proposal--purely to spur our thinking as a team, as requested by our fearless leader, *not* because I think this is the only way to go. Indeed, many on our taskforce will raise sensible objections that may reveal this idea to be an also-ran. Still, I think it is worth consideration and ideally, will sharpen why we think whatever we end up thinking.

The proposal is to simplify our approach dramatically by having the taskforce (only) advocate that:

Virginia provide low-income families with either vouchers, or direct state-level enhancement of the EITC, in an amount substantial enough to fund comprehensive all-day, year-round high quality care and enrichment for our pre-K and early year (K-6, say) children, and pay for those vouchers by redirecting existing subsidies and monies, including those currently flowing to higher education.

The premise that we should work to improve child care delivery is supported by some key consensus views: (1) we know that child care is a necessity for working parents, (2) we know that children's early environments play a large role in later life outcomes, and that lower-income families have less access (from the perspectives of both availability and affordability) to high-quality child care and pre-K education, and (3) we have felt, via COVID-induced distancing, the hugely disruptive effect on employees, and employers of people not having reliable and high quality child-care environs. From these perspectives, public coordination of childcare is appealing indeed, and the search for better models of childcare makes good sense; it's why we're gathered.

Still, the fact that improving child care would be desirable does not necessarily imply that greater funding for, and provision of, child care should be a *policy* objective. But for now, I will set that question aside and defer further discussion to the end of this document.

The remainder is organized as follows: The first part of this memo will provide a high-level view of existing childcare policies and subsidies in the United States and review some economics literature on universal versus targeted subsidies. I then propose that rethinking universal subsidies for higher education could be a means toward providing targeted subsidies for childcare and early childhood education. Lastly, I return to the issue of whether any of this is justified to begin with. Even if it is, we should as a group be able to address that question head on as we move to any recommendations we might ultimately make.

Child Care Policies/Models

In early childhood, care can be provided either by the parent/guardian or by a paid caregiver (see Waldfogel 2001 for a look across countries). Parental leave policies enable parents to provide childcare themselves and typically include protections that enable the parent to return to the job that they held before going on leave. That the U.S. provides far less paid parental leave than peer countries is well-documented. However, there is less agreement on the optimal duration of paid parental leave. Longer leaves for mothers are associated with better health outcomes for both the mother and the child. They

may also increase female attachment to the labor force because women may be more inclined to work before childbirth if they know that they can take time off when needed.

In the second and third year of a child's life, however, there may be gains to child development from interactions with other children; and there may be parents who wish to return to work sooner even if there's more generous parental leave. Thus, *a combination of parental leave and childcare policies may go furthest in supporting early childhood development.*

Childcare policies support the provision of childcare by a paid caregiver. Such childcare may be provided directly by the government through publicly funded programs (as is usually the case in Europe) or in the form of subsidies and tax credits that reduce the cost to parents of privately provided care (as in the United States). (See appendix for an overview of parental leave and childcare policies in OECD countries.)

In the United States the primary programs are the Child and Dependent Care Tax Credit, flexible spending accounts (FSAs) for dependent care, and Child Care and Development Block Grants (CCDBG). These programs arguably do not go far toward offsetting the cost of childcare, particularly for lower-income families. For example, the Child and Dependent Care Tax Credit covers only *between 20 percent and 35 percent* of up to \$3,000 (for one child) or \$6,000 (for two children) of childcare expenses, depending on family income. Both parents must work to receive the credit. The maximum benefit is \$2,100. According to an analysis by the Urban-Brookings Tax Policy Center, in 2020 12 percent of families with children will benefit from the credit. Because the credit is nonrefundable, families in the lowest income quintile, who owe little or no income tax, do not receive any benefit from the credit. Among families who do receive a benefit, on average it reduced their taxes by \$574 (Tax Policy Center 2020). In comparison, the annual cost of having an infant in center-based care ranges from about \$8,600 (average in Idaho) to more than \$16,452 (average in California). In Virginia, the annual cost averages \$14,560, or nearly 14 percent of the median income for a married couple and nearly 50 percent for a single parent (ChildCare Aware of America 2019).

FSAs allow workers to set aside up to \$5,000 of their salary to pay for childcare. Only one worker in a household can use an FSA. This income is not subject to taxes. Overall, 39 percent of civilian employees have access to an FSA, according to the Bureau of Labor Statistics. But this varies considerably by sector and by income; only 19 percent of workers in the lowest income quartile have access to an FSA compared to 60 percent in the highest quartile (Bureau of Labor Statistics 2014).

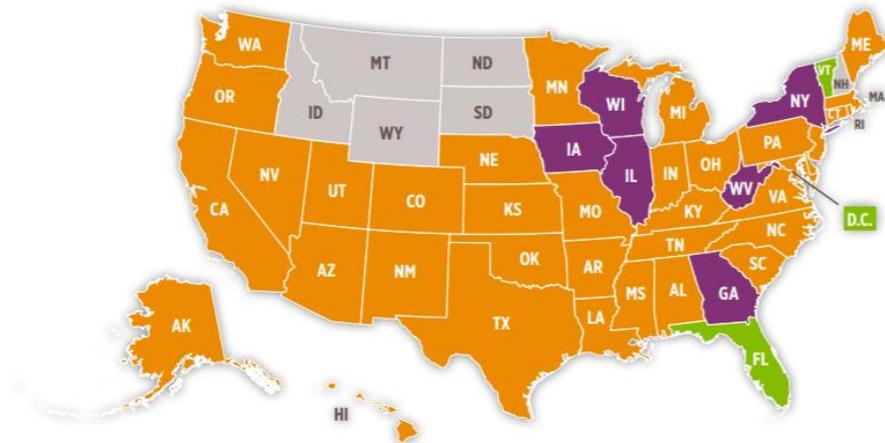
The CCDBG program was created in 1991 and reauthorized in 2014. Federal funding is administered to the states through block grants to provide childcare assistance for low-income families. Current funding is \$1 billion less than FY 2001 levels (when adjusted for inflation). The nonprofit ChildCare Aware calculates that fewer than 1 in 6 children who are eligible for support receive it. (Maryland recently increased the share of families using the program 35 percent by raising annual income limits and increasing provider reimbursement rates.)

Many of the United States' peer countries also offer universal pre-K education for 3 and/or 4-year olds. A few U.S. states offer pre-K with varying degrees of universality (see map below). There is no federal pre-K program, although federal funding does support the Head Start program, which is administered through a mix of state, local, and private agencies. It is open to low-income families and also provides health and social services. In many cities, there are long wait lists for available Head Start slots; in

others, slots go unfilled because parents are not aware of the program or because the enrollment process and criteria are complicated (Berardi 2016). In Virginia, the Virginia Preschool Initiative provides state funding to schools and community groups to offer PreK to at-risk 4-year-olds who aren't served by Head Start.

Pre-K Programs Across the Country

- FULLY UNIVERSAL PRE-K
- MOSTLY UNIVERSAL PRE-K
- NON-UNIVERSAL, STATE-FUNDED PRE-K
- NO STATE-FUNDED PRE-K



Map from <https://www.ecs.org/wp-content/uploads/How-States-Fund-Pre-K-A-Primer-for-Policymakers.pdf>

Universal vs. Targeted Subsidies

Research into early childhood programs (both those that begin at birth and those that begin at age 3 or 4) generally finds that the gains are larger for children from more disadvantaged backgrounds (Garcia et al., 2019; Currie 2001). This raises an important question for policy: Should the provision of childcare aim for universality, and what are the implications for quality? A recent review by Elango, Garcia, Heckman and Hojman (2015) finds that the benefits of high-quality programs targeted at disadvantaged children exceed the cost. Interpreting work done by Havnes and Mogstad (2011, 2015), which studied the introduction of universal childcare in Norway, it concludes that the benefits of universal childcare accrue to disadvantaged children, and are the result of children being moved from lower-quality informal care to higher-quality formal care. This underscores the importance of quality in publicly provided programs.

Elango et al (2015) also review the effects of the introduction of universal, subsidized center-based childcare in Quebec. This was a change from the previous policy in which only low-income families received subsidies. The effects of the policy change were found to be negative for two reasons: 1) Low-income children did not gain much because subsidies for them were already in place and 2) Changes in take-up therefore came largely from higher income families. Children from these families saw reduced time spent with their parents relative to the status quo, a loss that outweighed the benefits. The conclusion is that it is important to consider what any new policy is replacing.

Funding and Provisioning of Early Childcare

The research described above, as well as parallels we can draw with the U.S. higher education system, suggest possible paths forward for the funding and provision of early childcare. The U.S. has a hybrid model for higher education, in which parents can choose publicly provided “care” for their college-age children delivered by in-state schools and community colleges. Parents also have the option of sending their children to private colleges and universities. Note that subsidized tuition at in-state schools amounts to a blanket subsidy—the lower rate is available to all regardless of their income. This results in a high net cost because part of the subsidy accrues to those who don’t need it—they would have chosen to enroll in college even without it (Athreya, Ionescu, Neelakantan, Vidangos, 2020).

If the central problem that we wish to address is the lack of high-quality childcare that is affordable for low-income families, then the existing research described above, as well as the higher education experience, suggests that universality may not be the most efficient solution. Rather, the focus should be on targeting funding to make childcare accessible to low-income families. A possible means of delivering such funding is via vouchers. For example, families below a certain income threshold (say 200% of the poverty line) would be eligible for vouchers that would pay for the care of their children at a center of their choice.

Where would the funds for the vouchers come from? I propose that funds can be redirected away from existing programs listed above, and also—importantly—from the blanket subsidies currently in place for college. The latter has not been previously considered (and hence may be a third rail, as the general discussion of public policy in the U.S. typically has to do with how to transfer from the rich to the middle class, not to the poor). And the scale is comparable: In 2018, there were 7.7 million children under the age of 5 below 200 percent of the federal poverty level, and 9 million students enrolled in public, four-year colleges/universities. (Sources: [Census Bureau](#) and [National Center for Education Statistics](#).)

Moreover, a coherent argument can be made that a sizable fraction of college enrollees are what economists call “*inframarginal*”—they would continue to enroll in college even if it were not subsidized. These students also graduate at high rates and reap high returns from college (Athreya and Eberly 2020; Athreya et al. 2020). If the subsidies that currently flow to these students were replaced with targeted subsidies that were offered only to those students who relied on them to enroll in college, the savings could be substantial. The savings could be redirected toward effectively targeted vouchers for early childhood. It is worth noting that the benefits of this funding reallocation would accrue to colleges as well, since children with better early childhood experiences would be better prepared for college and therefore more likely to enroll and complete.

It is also worth noting that changes to our early childhood system could have ripple effects throughout the educational system. Currently, research indicates that some number of poorly prepared students choose not to enroll in college because they perceive they have a low chance of finishing (Athreya and Eberly 2020) or for more subtle reasons having to do with implicit bias and unfamiliarity (the “undermatching” issue). But improving child care would likely increase the number of students who are prepared for college and who choose to enroll—which could lead to an increase in the college subsidy

take-up rate and thus to larger taxpayer obligations.¹ It could also increase the potential for misdirection of subsidies, as well-prepared students who know they have a good chance of graduating—and thus of earning the higher wages that accrue on average to college graduates—are more likely to attend college regardless of a subsidy. Thus, if we are going to improve and expand early childhood education, we likely need to better target our public support for college to manage current and future obligations.

The simplicity of expanding the EITC is attractive for a couple of reasons at least. 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. Indeed, the steady expansion of the EITC over time is a big policy win in terms of providing a form of general “wage insurance” (inherent in its structure). Second, one key dimension of the EITC—*as it already is*—is its sensitivity to the presence of dependent children. Here, we again have experience with expansions to make it more generous to those with kids. In fact, the EITC is very sensitive to children’s needs in its generosity: it treats single wage-earners very differently from those with dependents. It does this while rewarding work—it is a tax credit on earned income after all. Its effects seem positive on women’s labor force participation as well. This is important because economists have long suspected that participation plays a role in gender-wage gaps, which may be part of a pernicious loop marginalizing women in the workplace, including in the human capital investments they make prior to, and on, the job. Lastly, the EITC-based solution would not require policymakers to make decisions about providing or administering child care.

Helping families’ pay for childcare of course does not solve the problem of availability of early childcare. One might hope that once a voucher system is introduced, private providers would come forward and make such care available. (There is certainly evidence that the provision of childcare *reduces* when funding is *taken away*.²) However, *how to ensure quality, even if such care is provided, remains an open question*. This will strike some as a minus but concerns about “product safety” can—I think—be separated from the need to deliver the service via public-sector machinery. Indeed, on the narrow matter of physical plant, one can imagine that schools rent their space to private care providers to deliver the after-school enrichment, and in events of school disruption, the system toggles over to being an-all day provider of high quality care for those temporary periods.

¹ Conversely, if there were a large increase in the number of college graduates, basic supply and demand implies that the college premium would decrease, which could eventually put a damper on the number of inframarginal students.

² See, for example, <https://www.americanprogress.org/issues/early-childhood/reports/2018/12/06/461643/americas-child-care-deserts-2018/>

Optional Reading: A Bigger Picture Task for Our Team

Our group should ultimately (I think) be able to fully answer a logically prior question, “*What is the source of the fundamental need for coordination, or even policy, at all?*” After all, many services are delivered without coordination (think of clothes, gasoline, automobiles, or even Coca-Cola, as trivial an example as that is).

One response is immediate: *decentralized or “uncoordinated” outcomes cannot be counted to deliver income and wealth equality, and in turn, equality of opportunity.* Our task force cares about this and so it makes good sense that we are working together now to propose alterations to the “decentralized status quo, and this mean public-private coordination.” So far so good.

But inequality can be addressed much more directly-- through a narrowly defined tax and transfer system: it does not by itself make the case for more *complex* delivery of goods and services via the kind of public-private coordination we are considering in the taskforce, and by the complex schemes currently in places as described above (a mix of public financing, public provision, the coexistence of rationing via queue and unallocated slots, etc.). Indeed, such coordination opens the door for more complicated ties between the two that may be far from ideal.

On this note, we might ask how we can unpack the more fundamental problems here, which are potentially separable, and in each be able to speak to the need for coordination that goes beyond the simplest of voucher systems:

1. Short-run problem: The need to coordinate businesses and education to allow families to plan and execute childcare arrangements in a predictable manner, given the “pivotal” nature of public-school decisions that families have for arranging for childcare. That is: no in-person school=high childcare burden for families and hence demand for alternatives. On the short-run dimension, a couple of things come to mind:
 - a. Do businesses have a role to play in meeting this demand on behalf of their employees? I think the answer is not so clear, because drawing lines is very tricky—internal equity considerations alone are hard to navigate. Moreover, businesses can—and are best positioned to--solve this optimization problem on their own (i.e. what extra benefits they should/should not offer during the pandemic to maintain workforce productivity). Beyond that, there may not be a role for businesses (and if we do see one now, then why not during non-pandemic times?)
 - b. Is the best role of this group to convey that poorly coordinated school-business decision making will hurt our kids, and the most vulnerable among them the most?
 - i. What barriers to nimble “supply-side” responses do we think exist, so that schools can make decisions based heavily on child safety without leaving parents in terrible binds in which no care is available should schools not run in-person instruction?
2. Long-run Problem: Are the persistent achievement gaps we see in kids from different socio-economic and ethnic groups amenable to remediation? That is, are there models for childcare that necessitate coordination--perhaps to ensure quality standards other than what parents would choose given their incomes? These would require coordination of the kind we are thinking about. They’d also likely reflect we’d want to implement even in a no-pandemic

world—and is now is a good time to reimagine that? (I think answer is yes, clearly so—so this to me is another part of what justifies our work). On the long-run dimension, I certainly want to address three things:

- a. *What's different about childcare?* Is it the presence of “deserts”? Why are there deserts—is it (perhaps perfectly sensible) regulatory burden to ensure child safety that makes for high fixed costs and hence for the unviability of small-scale care operations? There's no neighborhood on earth where you can't get a Coke, but maybe that is wrong thing to point to. But why?
- b. *To what extent is this NOT an “income problem”*—i.e., is it a problem even for the *rich* in a given geographic area? If not (and I will not prejudge) then the usual economist edict “Not every price is wrong, or every market missing, so just use the tax/transfer system to deliver resources” applies.
 - i. If our goal is more to avoid disparate harm to kids from poorer backgrounds during this period, then is it about helping them access (by providing them funds) these resources more than it is about coordination? That is, should we be thinking of this as an “insurance problem” first and foremost?
- c. *How should we think about the question of “Financing vs. Provision”?*
 - i. Currently, K-12 is publicly financed *and* publicly provided with no choice. College is a publicly financed and publicly provided but with choice—hence it's a like a voucher scheme. This preserves competition and perhaps keeps costs more manageable than otherwise.

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Appendix (Tables from Thevenon 2011)

APPENDIX TABLE A1 Key characteristics of childcare leave policies

Country	Spending per child as % of GDP per capita 2005	FTE ^a paid length of maternity leave (In weeks) 2007	FTE ^a paid length of parental leave/home care ^b (In weeks) 2007	Total length of available maternity and parental leave (paid or unpaid) (In weeks) 2007	Total FTE ^a paid length of maternity and parental leave ^c (In weeks) 2007	FTE ^a paid length of father-specific leave ^d (In weeks) 2007
Australia	7.2	0.0	0.0	52.0	0.0	0.0
Austria	15.4	16.0	21.7	112.0	37.7	0.4
Belgium	15.8	11.3	2.6	27.0	13.9	1.2
Canada	21.4	8.4	19.3	50.0	27.7	0.0
Czech Republic	60.8	13.7	50.3	164.0	64.0	0.0
Denmark	47.4	18.0	32.0	50.0	50.0	2.0
Finland	58.0	16.9	35.8	173.5	52.7	5.7
France	27.5	16.0	31.1	143.0	47.1	2.0
Germany	23.0	14.0	34.6	162.0	48.6	0.0
Greece	8.9	17.0	0.0	28.0	17.0	0.4
Hungary	67.7	16.8	72.8	108.0	89.6	1.0
Iceland	44.3	10.4	0.0	26.0	10.4	10.4
Ireland	5.5	18.2	0.0	62.0	18.2	0.0
Italy	18.7	16.0	7.8	47.0	19.6	0.0
Japan	13.6	8.4	31.2	58.0	39.6	0.0
Korea, South	1.0	15.0	42.3	67.0	57.3	0.0
Luxembourg	39.0	16.0	12.1	40.0	28.1	0.4
Netherlands	12.9	16.0	0.0	29.0	16.0	0.4
New Zealand	4.4	6.0	0.0	12.0	6.0	0.0
Norway	53.7	9.0	38.4	109.0	47.4	6.0
Poland	24.6	18.0	16.1	174.0	34.1	4.0
Portugal	18.5	17.0	0.0	29.0	17.0	2.0
Slovakia	51.3	15.4	30.7	156.0	46.1	0.0
Spain	14.5	16.0	0.0	162.0	16.0	2.0
Sweden	59.4	9.6	52.8	84.0	62.4	9.3
Switzerland	0.0	12.8	0.0	16.0	12.8	0.0
United Kingdom	10.3	9.3	0.0	52.0	9.3	0.3
United States	..	0.0	0.0	12.0	0.0	0.0
OECD-28	26.8	12.9	19.0	78.7	31.7	1.7

.. Data not available

^aFull-time equivalent is the length of full-time leave that the same amount of leave would cover at 100 percent of the average rate of pay: FTE = duration of leave in weeks x payment (as a percent of average earnings). Benefits and payment rates applicable as of 1 January 2006. "Home care" or "childrearing" allowances are included, although they are not necessarily linked to employment protection. "Top-ups" of state leave payments by employers are not included. When two options are available to parents of a young child, I consider the option that applies specifically to working insured parents (as, for example, in Hungary). Part-time options are not considered here.