

Smarter Reform: Moving beyond Single-Program Solutions to an Early Care and Education System in the United States

Louise Stoney

Alliance for Early Childhood Finance

Anne Mitchell

USA

Mildred Warner

Cornell University

Proposals to improve early care and education (ECE) in the United States are often based on narrow conceptions of the value, benefits, and appropriate structure of services. The result is an increasing number of initiatives that focus only on a single aspect of the system (e.g., preschool for poor children) and assume this limited intervention can produce large results. This paper argues that to realize ECE's potential to benefit children, families, and the US economy, the focus of reform proposals must broaden. The paper highlights the need for public investment that recognizes our children's full worth and that reflects the value of family caregiving by supporting unpaid as well as market care. The paper presents an alternative proposal that takes into account the complexity and special nature of ECE markets and that calls for a range of investment strategies and a commitment to a level of institutional support commensurate with a high-quality ECE system.

Keywords: early care and education system reform, finance, policy, child care markets

Across the United States there is now broad consensus that high-quality early care and education (ECE) programs¹ help young children prepare for school

We would like to thank Leslie Calman and Dave Edie, as well as the anonymous reviewers for their comments on early drafts of this article. Many thanks to Susan Blank for editorial assistance.

This work was funded in part by funds from the W. K. Kellogg Foundation. An earlier version of this paper appeared in a 2006 special issue on "The Economic Importance of Child Care for Community Development" in *Community Development: The Journal of the Community Development Society*, 37(2), 101-115.

Correspondence concerning this article should be addressed to Louise Stoney, co-principals of the Alliance for Early Education Finance, 308 Thais Road, Averill Park, New York 12018, USA. Electronic mail may be sent to louise.stoney@gmail.com.

and life (Barnett, 2002; Brown & Scott-Little, 2003; Gilliam & Zigler, 2004; Shonkoff & Phillips, 2000) and that investment in these programs can result in substantial economic returns (Lynch, 2004; Rolnick & Grunewald, 2003; Warner & Liu, 2005, 2006). Brain research has further underscored the importance of early experiences (Shore, 1997). And in a very positive trend, leaders from many domains are calling for greater investment in ECE services, while numerous organizations are crafting proposals for how those investments should be made. But many of these proposals, and the research on which they are based, are built on narrow conceptions of the value, benefits, and appropriate structure of early care and education services. For example:

- Cost-benefit analysis of preschool programs for

disadvantaged preschoolers is often used to justify U.S. public investment limited to three- and four-year olds. Yet brain research indicates that learning begins much earlier, and common sense tells us that needs for ECE services are not restricted to this age group. A more comprehensive approach will offer even greater returns (Morrissey & Warner, 2007).

- There is a misconception that ECE reforms need not concern themselves with mainstream American families, who can find affordable services in the private market.
- Many proposals for expanding ECE services in the US rely exclusively on either market-based or government financing. But ECE, an industry sector with unique markets, encompasses both kinds of financing. Indeed, there is little research on, or policy analysis related to, the distinctive ECE market.
- Rather than capitalizing on broad systemic approaches to ensuring the quality and accountability of ECE services that numerous US states have adopted -- for example, Quality Rating Systems that assign "stars" to programs based on their quality -- many proposals aim to measure success either by creating new standards that are narrower than the ones already in use, or worse, by testing individual children.
- Research on the economic returns from ECE investments typically focuses only on the long-term costs of failing to invest in early education for poor children. A narrow focus on at-risk children misses a host of new, cost-effective investment opportunities that, by including parents and employers as key partners in early care and education finance, could benefit a broad spectrum of families.
- Unlike many other nations, U.S. public policy has ignored the key role of workforce reforms and family supports such as paid family leave. Although the United States has become a dual earner/dual career society (Gornick & Meyers, 2005), its workplace policies have not kept pace, resulting in increased stress for working families (Halpern,

2004). Working families make a large and significant contribution to the U.S. economy but receive little public support. Rather, the corporations for whom they work, and society at large, reap the financial rewards of their labor (Folbre, 2005, 2006; Longman, 2004).

This paper argues for a broader approach to ECE research, policy development, and investment structured around five key principles: 1) systemic reform; 2) giving families "universal access" to child care; 3) improved quality, with clear performance indicators to measure accountability; 4) respect for the *value* of children and the families who raise them; and 5) increased public investments in the services and leadership to secure these investments. To demonstrate that it is entirely possible to craft and finance an ECE system that embodies these principles, this paper concludes with a concrete proposal.

Systemic Reform

Unlike universal, free public education systems in the United States, which include Kindergarten through 12th grade (K-12) and public systems of higher education which have their own financing and administrative practices, ECE services cannot be accurately described as a system. Instead, a hodgepodge of center- and home-based care and education programs has emerged in response to family demand and/or government initiatives. One key reason for the lack of a systemic approach is that caring for children is typically viewed as a private problem. Mona Harrington says it eloquently in *Care and Equality* (1999):

We don't see a collapsing care system because we don't see care as a system to begin with. We see individuals making private decisions about who takes care of the children ... We see families using the private market for services they don't have time to provide themselves

... . We don't add all of this up and call it a system that is working well or badly. When things go wrong, when a mother leaves children alone because she cannot afford day care while she works, when marriages fail under the stress of jobs and family demands, when unsupervised teenagers in cities and suburbs turn to sex and drugs, we generally see specific problems--moral, economic--but not an entire care system in trouble. (p. 25)

Attempts to solve a narrowly framed ECE "problem" typically result in creating a new initiative - something with a catchy name, aimed at a specific and generally limited group of children, something that will fix the problem because it is finally the "right" way to provide services, such as publicly funded pre-kindergarten initiatives that are limited to only low-income four-year-olds. Funds are allocated for the initiative and a whole new set of standards, rules, regulations, and monitoring practices -- another bureaucracy - are established to ensure accountability. But focusing solely on creating new initiatives for specific children of specific ages in specific communities misses important realities about the children who need good care and early education: They live in families, with siblings of all ages and in many different kinds of communities, and they move in and out of programs. They need a continuous, dependable set of services that respond to their developing needs for care and learning, and to the distinctive needs of their families.

The misconceived assumption that new initiatives must be created means that reformers tend not to build on the many successful programs that already exist. In fact, abundant research shows that there are identifiable key elements of high-quality ECE that are not unique to a particular initiative or funding stream but that can be embodied in many different program designs. Thus, rather than looking to any specific initiative as the "answer" to child care problems, we should be open to a wide range of programs but prepared to measure them by criteria that research

shows are essential for gauging quality (Barnett, 1996; Clarke-Stewart, Gruber & Fitzgerald, 1994; Fiene, 2002; Finn, Gerber, Vandell & Wolfe, 2002; Howes, 1983; Munton et al., 2002; NICHD Early Child Care Research Network, 2000; Phillips, Mekos, Scarr, McCartney & Abbott-Shim, 2000; Phillipsen, Burchinal, Howes & Cryer, 1997; Shonkoff et al., 2000; Volling & Feagans, 1995). Those criteria are:

- Structure - the size of the group of children and the ratio of staff to children in the group;
- Staff qualifications and characteristics - the teacher's formal education, specific training and experience; the administrator's experience; and the level of staff compensation and turnover, and
- Program dynamics - a category that encompasses: *curriculum* (to promote growth and learning in cognitive, language, social and emotional domains), *the nature of the learning environment* (teacher-child interactions positive teacher behaviors, small-group activities, and implementation of the curriculum), and *the engagement of parents* (especially reading to and talking with children).

If the US is to reap the benefits of early education, we need an expansive *system* of ECE services that extends over time and effectively connects the resources of business, government, communities, and families. This system should build on existing initiatives and funding streams, and encompass not only structured early learning programs but also networks of family, friend, and neighbor care. The system should include business and employment reforms that give parents more flexibility to care for their children and reduce the high stress levels that burden today's working parents and their families. Needed reforms include periods of paid leave, part-time and flexible work hours, shorter work weeks, job-sharing opportunities, and employment benefits for part-time work (Gornick & Meyers 2003; Halpern, 2004; Meyers & Jordan 2006).

Universal Access

American ECE policy is built on the assumption that non-poor families can fend for themselves in the private market. Only a small percentage of parents receive significant help. Few employers include child care as an employee benefit, and publicly funded care and early education are typically limited to families at or near the poverty level. The primary tax benefit for most American families who purchase ECE -- the non-refundable Child and Dependent Care Tax Credit -- increased slightly in tax year 2003 but still provided only modest benefits -- on average, a claim of a few hundred dollars per child. Similarly, the broad federal tax exemption for families with dependent children (which is not pegged to child care expenses per se) has significantly decreased in value since it was established in 1948.

Finding and paying for high quality ECE are problems that cut across class lines. Market prices, even at current, mediocre quality levels, exceed that of public college tuition in all but one state (Schulman, 2003). Few employed parents -- even professionals -- can afford as much caretaking and learning as their children need. Many working parents limit expenses by juggling schedules, piecing together arrangements of friends and family, and racing home from work to assume caregiving roles. Even parents in high-income, demanding jobs may conclude that their only option is to hire illegal immigrant caregivers. In short, the system of private responsibility for ECE fails at every income level (Harrington, 1999).

Some economists recommend that public support for ECE services focus only on low-income children, because investing in this group yields the highest economic returns (Heckman & Masterov, 2004; Lynch, 2004; Rolnick & Grunewald, 2003). But this argument fails to acknowledge that preschool benefits all children (Gormley & Phillips, 2003; Henry, Henderson, Karoly & Bigelow, 2005; Peisner-Feinberg et al., 2001; Ponder & Gordon, 2003). Data from the Early Childhood Longitudinal Study-Kindergarten

Cohort provide compelling evidence that poor school achievement is not limited to children who are disadvantaged. The gap between academic abilities of entering kindergarteners and optimal academic performance is nearly as large for middle-income as for low-income children (Barnett, Schulman & Shore, 2004; Schulman & Barnett, 2005). Furthermore, research indicates that besides being inherently unfair, targeted preschool programs are not the best way to ensure that poor families receive the services they need and that verifying eligibility for these services has hidden costs. A universal approach removes the stigma associated with targeted programs and strengthens public commitment to quality (Barnett, Brown & Shore, 2004).

Finally, a non-universal approach ignores the key role that ECE services play in supporting working parents and their employers (Kimmel, 2006; Morrissey & Warner, 2007; Warner, 2006; Warner, Ribeiro & Smith, 2003). With 78% of married employees in dual-earner couples (Bond, Thompson, Galinsky & Protta, 2003), and working parents comprising a large percentage of the U.S. workforce, business clearly depends on many employees who, in turn, need care for young children.

Based on the conviction that an educated citizenry is the cornerstone of democracy, the United States has decided that education is a public good and a public responsibility. We have built a system of free public education, grades K-12, for all children, regardless of income, while a heavily subsidized system of higher education blends public and private funds to make college more affordable. Similarly, we have decided that the lifelong economic contributions of the elderly entitle them to compensation in old age. Yet the economic contributions of families of young children -- which are not only substantial but help ensure that our future workforce is educated -- are not assigned similar value.

Improved Quality and Accountability

Experts concur that a significant percentage of American ECE programs are of poor or mediocre quality (Cost, Quality and Child Outcomes Study Team, 1995; Helburn & Bergmann, 2002; Phillips, 1995; Vandell & Wolfe, 2002). Given that high-quality services are costly, and that our ECE system largely depends on tuition and fees, this finding should come as no surprise. It is, however, deeply disturbing. Policy makers and funders are starting to seek policies that link program funding to quality. This important trend is a promising one *if* the standards used to drive funding are effective measures of quality.

Research on ECE quality indicators is not new, and results are consistently clear: early development and learning are rooted in relationships. If young children are to succeed in school and life, teachers (who include family members and other caregivers) must have a deep understanding of child development, the skills to encourage and promote early learning, and the time to focus on individual children.

In developing guidelines for early learning – that is, what young children should know and be able to do – experts focus on the following five dimensions: physical health and motor development; social and emotional development; approaches to learning; language and literacy; and cognition and general knowledge (National Education Goals Panel, 1998; Scott-Little, Kagan & Frelow, 2005). Each of these dimensions can be translated into specific standards to which ECE programs and practitioners can be held accountable – for example, teacher qualifications or ratios and group sizes. Moreover, an extensive and convincing body of research definitively links measures of program quality to child outcomes (Barnett & Ackerman 2006, Minnesota Department of Human Services, 2005; Vandell & Wolfe, 2002; Phillips et al., 2000; NICHD Early Child Care Research Network, 2000; Munton et al., 2002; Clarke-Stewart et al., 1994; Howes, 1983; Phillipsen et al.,

1997; Volling et al., 1995).

In short, it is entirely possible to establish a set of program and practitioner standards, coupled with monitoring to measure compliance, which is known to produce good child outcomes. If these standards are clear and easy to understand, they can act as a helpful guide for consumers as well as for funders, regulators, and policy makers. This is precisely the kind of system that more and more states are seeking to put into place as they launch quality rating and improvement systems (QRIS). These systems, which encourage consumers to “count the stars” when selecting programs, apply a common set of standards to programs with various funding sources, auspices, staffing patterns, and approaches. QRIS systems also embody a commitment to continuous improvement and often include direct support for programs and providers (Mitchell, 2005).

However, although US states have been increasingly focused on QRIS, and on professional development of teachers and caregivers to strengthen quality and accountability in ECE programs, some planning groups are suggesting an alternative approach – testing. Why not measure the success of early childhood programs as the U.S. does now in K-12 education, by testing young children? Wouldn't it be far easier than establishing and enforcing consistent standards for teachers and programs?

Leaving aside questions about the adequacy of testing for gauging the effectiveness of schooling at any level (Raudenbush, 2004), there are particular reasons why testing very young children is an inappropriate way to ensure program accountability. First, early learning is nonlinear and episodic (Epstein, Schweinhart, DeBruin-Parecki & Robin, 2004; Meisels, 2003; Wagner, 2003; National Education Goals Panel, 1998). Young children acquire knowledge and skills in fits and starts, two steps forward and one step back. The same child will do well if tested when she's at the top of her latest learning curve, or poorly if tested on another day. Neither test accurately assesses her overall knowledge and abilities or predicts her future

school endeavors (Kagan, 2005). Furthermore, although group testing of older children can produce accurate results, young children must be tested individually, which is costly (Rock & Stenner, 2005). Adding to the cost, accurately assessing school readiness is a complex task. The National Education Goals Panel asserts that assessments that are used for accountability purposes and that are reported by individual student must meet the most stringent standards for technical accuracy (Epstein et al., 2004; Barnett et al., 2004; National Education Goals Panel, 1998).

There is an important place for child assessment in the early childhood system. Indeed, all ECE teachers should have the skills and resources they need to assess children's progress regularly and use this information to improve their own practice, select teaching strategies, identify children with special needs, and communicate with families. But individual child assessments should not be the measure used to make decisions about program funding.

Increased Public Investment and Leadership

In contrast to practices in other advanced industrialized countries, the U.S. government has never assumed a leadership role in developing or financing an ECE system (Kamerman, 2001; OECD, 2001; Warner, 2008; Witte & Trowbridge, 2005). Rather, in response to rapidly increasing family and government demands for ECE, a diverse array of center- and home-based programs has emerged. While a few government initiatives (such as Head Start and public pre-kindergarten) fund programs directly, most ECE funding is market-driven. Parent fees comprise the largest share of child care revenues and represent the primary source of revenue for most early childhood programs (Mitchell, Stoney & Dichter, 2001; Cost, Quality and Child Outcomes Study Team, 1995). Government child care subsidies

to low-income families are typically administered as vouchers to purchase care in the private market. Thus, most American families, regardless of income, must find and purchase ECE services through a market system of for-profit; nonprofit; and family, friend and neighbor care.

Market Challenges

Early care and education is a special market sector because it serves both public and private needs (Warner, 2006). As a private good, it enables parents to work. As a public good, it prepares children for school, enhances the productivity of our educational system, and helps strengthen our future workforce. But the public good aspect of ECE services is vulnerable to market forces, which are focused on short-term factors such as price and convenience, rather than the long-term benefits of quality early education. And children, the primary beneficiaries of ECE, have no consumer voice in the child care marketplace. All of these factors work at cross purposes with what is needed to support the long-term health of our economy – high-quality ECE services.

Moreover, as a market sector, ECE can be described as “underdeveloped” (Warner, 2006; Warner et al., 2004), meaning that it suffers from the following problems:

- *Lack of effective demand* for high-quality services. High-quality ECE is costly; far more than most families can afford, even at current levels of questionable quality,
- *Low profitability* because labor expenses are high because of high staff/child ratios necessary for high-quality services,
- *Few economies of scale*. Early care and education is largely composed of very small businesses, reducing opportunities for cost reduction (Stoney, 2004), and
- *Insufficient product differentiation*. It is extremely difficult both for consumers to get objective

information on the quality of ECE services and for programs that offer high-quality services to distinguish themselves in the market.

All of these market challenges contribute to an undercapitalized, economically fragile industry.

Unlike almost any other U.S. educational institution, most ECE businesses rely solely on tuition revenue. To remain economically viable, programs must set fees high enough to cover costs, maintain full enrollment, and collect fees (or publicly funded vouchers in lieu of fees) in full and on time. For many programs, these conditions are simply not possible to fulfill. Fluctuating external conditions -- for instance, children getting sick, families moving, an upsurge of unemployment in a community when a local business closes, reductions in child care subsidies -- affect the programs' revenues much more than their costs, which are largely fixed. It is not surprising that ECE providers frequently go out of business or worse, cut corners by offering less costly, lower-quality services.

Savvy early childhood directors have learned that one way to attain financial stability is to tap into one (or more) third-party sources that can provide direct operating subsidies -- such as Head Start, pre-kindergarten initiatives, or employer subsidies -- in addition to parent fees and child care vouchers. But blending funds is no easy task. It requires that a program comply with the funding and accountability standards of each funder. And compliance often means producing separate budgets; following multiple quality standards, monitoring, rate and eligibility policies; and filling out multiple forms. And programs that blend funds must always be prepared to deal with accusations that they are "double dipping."

Some advocates suggest that an appropriate ECE financing strategy would be to eliminate market-based strategies and to fund ECE programs fully. Currently, government funds are typically limited to part-day, part-year services for three- and four-year

olds from poor families -- a strategy designed to hold down public expenditures by targeting services to a limited group of children for a limited period of time. The rationale for targeting is understandable. Fully-funding ECE services for *all* young children is not only costly but also risks losing the significant sum that families currently invest in ECE, estimated to be at least \$46 billion annually (Overturf, 2005). Given these considerations, the cost-sharing strategy is warranted, but the question is *how* costs should be shared. The current "siloed" approach -- fully funding selected ECE programs mainly for preschoolers when most programs operate in a market-driven, fee-for-service system -- can have deleterious effects on the ECE sector as a whole, leaving programs serving younger children or mixed-age children from families at all income levels starved for resources (Morrissey et al., 2007).

Carefully crafted market-based financing strategies that reach *a broad range of families and ECE providers* can curtail these problems. These strategies can also make it easier for parents to choose among ECE programs. U.S. citizens place high value on parental choice in ECE arrangements and there is great diversity among providers (Helburn et al., 2002; Lombardi, 2003), so in theory, families can choose among them. The problem is that there is no real choice without a sufficient supply of affordable, high-quality programs and without parents having access to information that can help them make informed choices. The QRIS approach that many states are adopting is one way to address the lack of product differentiation among child care services, and if a QRIS is linked both to financial aid for families (e.g., if a more highly ranked program commands higher scholarship reimbursements or tax benefits) and to grants to programs (as in Pennsylvania, Montana and Louisiana²), the system can help increase effective demand for quality services.

Market interventions can also help strengthen ECE businesses. ECE leaders, in partnership with private foundations, have recently begun to explore shared-

service strategies to help stabilize the industry and facilitate more economies of scale in program management and administration (Stoney, 2004).³ Although a full discussion of these alternative approaches is outside the scope of this paper, they suggest that it is entirely possible simultaneously to promote economies of scale, stabilize the workforce, and strengthen ECE businesses.

In short, the United States has the resources and ability to strengthen ECE markets, make a host of financial supports available to families, and ensure that all children and their families have access to affordable, high-quality services.

Valuing Children and Families

The standard rationale made for the economic value of investing in ECE fails to acknowledge the important contributions made by families. And it ignores a vital reason for ECE investments: *because our children matter*.

The long-term cost-benefit studies, which were typically used to argue for investments in ECE (for example, the Perry Preschool and Chicago Parent-Child Centers evaluations), only measure the *marginal* benefits of early education. They measure how much improvement results from preschool attendance and compare the returns from these investments to the preschool costs. The social, emotional and cognitive skills children have gained from their families before preschool begins are not measured, even though the largest economic returns come from this initial skill base: Children who are raised in families that have the time and resources needed to nurture young minds are most likely to become successful, productive adults who contribute to the economy (Heckman et al., 2004). Thus, parental contributions should count.

And these contributions are generous. American families spend significant sums on their children's care and education. Longman (2004) estimates that

the opportunity cost of raising a single child through age 18 exceeds \$1 million. Mothers contribute the highest share of this cost because they are most likely to leave the paid workforce or take lower-paying, part-time work to be available for their children (Crittenden, 2001; Folbre, 2005; Kimmel, 2006). Because a significant amount of the time spent caring for children takes place outside the market economy, we tend to overlook that it is an investment that is crucial to economic growth (Folbre, 2005, 2006; Warner, 2007, 2008).

Of course, the time spent is also an altruistic act, and indeed American parents place tremendous value on children. Writing for the Washington, DC based Invest in Kids working group, Robert Dugger (2005) cites findings from a series of focus groups conducted with voters.

The final result was remarkable. At some point almost all the subjects answered that the reason [a particular issue] mattered to them personally was the well-being of their children or children in their family The researchers concluded that children were their subjects' highest personal priority. (p.16)

Given this collective valuing of children, why don't American families request more support for childrearing? Why does the priority placed on children have so little effect on public policy? Although our historical conception of caring for children as a private responsibility is part of the answer, Longman (2004) points to a deeper reason. He suggests that most citizens are completely unaware of their increasing dependence on the quantity and quality of our nation's children:

What could you buy with your Social Security check, or your IRAs for that matter, if everyone else in your generation had simply forgotten to have children or had failed to invest in them? (p. 2)

Despite the significant sums parents spend on the

care and education of young children little, if any, of this investment is returned to them. When their children grow up to be successful, productive, tax-paying citizens, it is society at large and the corporations for whom they work -- not parents -- that reap the financial rewards of their skilled labor (Longman, 2004).

Moreover, public benefits like social security are equally available to individuals who never have children. In fact, mothers may receive smaller pensions than those received by women who never raised children because retirement benefits are based on lifetime earnings (Folbre, 2005; Longman, 2004). And while everyone, including parents, is encouraged to join the paid labor force, relatively few parents receive significant help with ECE costs.

Another reason why the high value we place on children may not affect public policy is that voters find it difficult to express support for something they have not experienced or cannot visualize. Few Americans have experience with high-quality ECE programs, paid family leave, or flexible workplaces. When something feels foreign, our first reaction is often rejection. A recent poll suggests, however, that when voters experience a high-quality ECE system, they advocate for increased public funding for the system even in tight fiscal times. Over the past ten years, North Carolina has built a community-focused, family-friendly ECE system called Smart Start. A recent poll of registered voters revealed overwhelming support (81%) for the initiative, both among voters who considered themselves to be “mostly” Republican or “leaning toward” that affiliation and among those who identified as Democrats (Hart Research Associates & American Viewpoint, 2005).

An Alternative Proposal: Early Care and Education as a 360° Partnership

It is time for the United States to craft policies that

give all families and children the support they need to succeed in the 21st century; policies that are rooted in three realities: that most parents participate in the paid workforce, that caring for young children is a very hard and important job that makes a vital contribution to our nation, and that the market alone cannot satisfy family needs. This section describes an alternative proposal that embodies our key principles. Although the changes recommended are far-reaching, we believe our goals are entirely achievable. Our system would have the following features.

Institutional Support

Funding would be available to a diverse array of structured early learning programs, including center- and home-based care, and education programs operated by community-based organizations, government agencies, and private sector proprietary and non-profit businesses. This Institutional Support would be tied to compliance with uniform quality standards, based on statewide QRIS systems, with funding levels contingent on the level of quality the program attained. (Parent tuition, and/or subsidies in lieu of parent fees, which will be discussed next, would be added to these direct funds.) This conception of Institutional Support as direct subsidy establishes clear financial incentives to ensure that ECE programs comply with quality standards, and it ensures that programs can offer high-quality services at affordable prices.

Financial Aid for Families

Although Institutional Support can help make high-quality ECE programs available, many families will need additional financial assistance to afford services. To meet that need, portable financial aid would be provided through a variety of means, including (but not necessarily limited to) the following strategies.

- Early Care and Education Scholarships for low-income families. Scholarships would be used for

any type of ECE service the family chooses, including care provided by family, friends and neighbors, so long as the program or individual provider complies with state regulatory requirements or is legally exempt from regulation. The value of the scholarship would vary, based on the quality (star) level attained by the program or individual. As in the realm of higher education, scholarships could be funded and/or administered by public or private entities.

- A Refundable Dependent Care Tax Credit⁴ for all employed families. The allowable credit would be structured to provide: 1) a base percentage of the average, annual price paid for ECE indexed for inflation, and 2) increments based on the quality (star) level attained by the program in which a child is enrolled. (Thus, all parents would receive some benefit, and those who use a five-star ECE setting would receive a bigger tax credit than parents who use a one-star setting.)
- Employer-Provided Scholarships. These could include employer-paid scholarships and/or tax-free funds deposited into a flexible benefits plan, and also linked to QRIS.

Support for Non-Market Care and Education

Much of the work of caring for and educating young children is unpaid. Although this work is not part of the traditional market, the time spent has economic value (Folbre, 2006), which can be quantified as lost earnings, lost career trajectories, or lost future and current benefits. Economists are developing means to incorporate the value of household care in National Income and Product Accounts on which GDP is based (Pratt, 2007, Landefeld & McCulla, 2000). Valuing non-market work means supporting what Gornick and Meyers (2005) refer to as a dual earner/dual-career society, by offering:

- Paid family leave for those who choose to stay at home with their own children.

- Work place regulations that encourage -- and policies that require government contractors to provide -- benefits for all workers (whether full or part time) including vacation, sick leave, parental leave, and health care, as well as flexible work schedules and reduced work hours to support parents in their dual roles as parents and workers.

A Publicly Funded Infrastructure

This includes (but is not limited to) support for a statewide system to sustain each of the following functions:

- Professional development: to ensure a sufficient supply of qualified ECE teachers and the education supports to build and maintain that supply.
- Program monitoring: to track compliance with statewide quality standards.
- Program support: so that ECE programs that are not performing well have access to the technical assistance they need to improve.
- Consumer education and parent support: to help families learn about child development and how to evaluate and secure needed ECE services and supports.
- Employer education and assistance: to help employers structure and implement work-life policies that support families.
- Data collection: to ensure consistent, industry-wide information on the location and quality level of all ECE programs, the number of children enrolled, the cost and price of care, the current educational qualifications of the ECE workforce, and other information needed for planning.

The system we envision would be *universally accessible*. Families at all income levels would have access to high-quality services, and all families would benefit from a sector that has the financial support needed to provide those services at affordable prices. The financial aid package would vary, based on family need. Children from low-income families

could receive fully funded services (institutional support + scholarships + refundable tax credit), while higher-income families might receive partially funded services (institutional support + a tax credit). Employers could help adjust this mix by adding their own funds. The combined-funds structure is analogous to the one now used for funding other essential services such as higher education, transportation, and health care (Stoney, 1998).

Who Pays?

At present, families pick up most of the cost of early care and education in the U.S. (Mitchell et al., 2001). But the amounts they pay vary widely, based on circumstances that are often out of their control. Families who were once on welfare and who have a connection to the state social services department may have their costs paid in full. Low-income families with a three- or four-year-old child who live in a community that has a Head Start or public pre-kindergarten program with openings may be similarly lucky (but may get no help for their infants or school-age children). Other families find bits and pieces of financial assistance available -- at various points in time, based on their children's ages and the availability of subsidized programs near their home or work. But most American families receive little or no ECE financial assistance.

Our approach would change this picture. All families would receive some help. Depending on the family, help might come only in the form of institutional and infrastructure supports for the system as a whole, or, as noted, it might include scholarship assistance that is more targeted. The bottom line is that costs would be shared among government, families, and the private sector. No family would be expected to shoulder the full cost of high-quality services.

Several key assumptions undergird our proposal. First, public ECE funding must increase significantly. Precise cost estimates are beyond the scope of this paper, but research suggests that the effects on state

and local budgets would be a small fraction of what is currently spent on K-12 education (Brandon, Thompson, Galinsky & Prottas, 2004). And when long-term fiscal benefits are taken into consideration, it is clear that expenditures for universally available ECE services can more than pay for themselves (Belfield, 2005; Karoly et al., 2005; Morrissey & Warner, 2007). In addition, costs can be phased in, so that the system incrementally expands to include an increasing number of children and programs.

Second, we assume that funding currently spent on ECE services -- on subsidized child care, Head Start, and public pre-kindergarten, along with private philanthropy, parent fees, and other sources -- would remain in the system. We suggest designing a common financial, administrative, and accountability structure that can be used by all of these funding sources so that they help finance a *system* rather than an isolated, individual initiative (For more information on how this system would be structured and financed, see Mitchell & Stoney, 2006).

A final assumption is that effectively implementing this approach will require careful planning and budgeting. If institutional support levels are too low, or scholarships are available to only a small percentage of low-income families, the system will not work. Implementing the proposal in phases could help avoid these problems.

A host of new financing strategies that could support our proposal have yet to be tried. For example, the endowed, public-private Early Childhood Development Fund suggested by Gruenwald and Rolnick (2004) could be one way to help fund Institutional Support. The National Partnership for Women and Families has recommended using an existing social-insurance strategy such as Temporary Disability Insurance or Workers Compensation to finance paid family leave (Bell & Newman, 2003). Depending upon how the plan is structured, this kind of social-insurance approach is extremely cost-effective, especially given the high cost of infant care. The State of Louisiana has recently enacted a package of school-

readiness tax credits that will provide annual payments to parents, early childhood programs, early childhood teachers and practitioners as well as those who invest in the early care and education sector (Stoney & Mitchell, 2007). Longman (2004) also suggests substantial tax relief and extra benefits to parents. Gornick et al. (2005) recommend labor-market regulations to protect part-time employees and shorter overall work hours, and Folbre (2005) focuses on family allowances. Thus, there are many good ideas for finding the funds needed to support a comprehensive ECE system.

In sum, the ECE sector is critical to the well-being of children and families and the development of communities. High-quality early care and education, strong families and balanced work lives are important for both current and future economic development. Early care and education services – and markets – are complex, and simple policy proscriptions won't work. Framing policy around the key principles outlined in this article, however, can help us design better policy to meet the needs of children and parents and to secure the prosperity of the entire society.

References

- Barnett, S. (1996). *Lives in the balance: Age-27 benefit-cost analysis of the High/Scope Perry Preschool program*. (Monographs of the High/Scope Educational Research Foundation, No. 11). Ypsilanti, MI: High/Scope Press.
- Barnett, S. (2002). Early childhood education. In A. Molnar (Ed.), *School reform proposals: The research evidence*. Greenwich, CT: Information Age Publishing.
- Barnett, S., & Ackerman, D. J. (2006). Costs, benefits, and the long-term effects of preschool programs. *Community Development: The Journal of the Community Development Society*, 37(2), 86-100.
- Barnett, S., Brown, K., & Shore, R. (2004). *The universal vs. targeted debate: Preschool policy matters*. (NIEER Policy Brief, Issue 6). New Brunswick, NJ: National Institute for Early Education Research.
- Barnett, S., Schulman, K., & Shore, R. (2004). *Class size: What's the best fit?* (NIEER Policy Brief, Issue 9). New Brunswick, NJ: National Institute for Early Education Research.
- Belfield, C. (2004). *Early childhood education: How important are the cost-savings to the school system?* Albany, NY: Center for Early Care and Education.
- Bell, L., & Newman, S. (2003). *Paid family & medical leave: Why we need it and how we can get it*. Washington, DC: Family Caregiver Alliance.
- Bond, J. T., Thompson, C., Galinsky, E., & Prottas, D. (2003). *Highlights of the national study of the changing workforce*. New York: Families and Work Institute.
- Brandon, R., Maher, E., Guanghui, L., & Joesch, J. (2004). *Orchestrating access to affordable, high-quality early care and education for all young children*. Seattle, WA: Human Services Policy Center.
- Brown, E., & Scott-Little, C. (2003). *Evaluations of school readiness initiatives: What are we learning?* Tallahassee, FL: Southeastern Regional Vision for Education (SERVE).
- Clarke-Stewart, K. A., Gruber, C. P., & Fitzgerald, L. M. (1994). *Children at home and in day care*. Hillsdale, NJ: Erlbaum.
- Committee for Economic Development. (2002). *Preschool for all: Investing in a productive and just society*. New York: Author.
- Cost, Quality and Child Outcomes Study Team. (1995). *Cost, quality and child outcomes in child care centers*. Denver, CO: University of Colorado.
- Crittenden, A. (2001). *The price of motherhood*. New York: Metropolitan Books.
- Dugger, R. H. (2005). *U.S. workforce quality, fiscal sustainability, a ten-year plan*. (Working Paper, No. 4). New York: Committee for Economic Development, Invest in Kids Working Group.
- Epstein, A., Schweinhart, L., DeBruin-Parecki, A., & Robin, K. B. (2004). *Preschool assessment: A guide to developing a balanced approach*. (NIEER Policy Brief,

- Issue 7). New Brunswick, NJ: National Institute for Early Education Research.
- Fiene, R. (2002). *Thirteen indicators of quality childcare: Research update 2002*. Boulder, CO: University of Colorado: National Resource Center for Health and Safety in Child Care.
- Finn, J. D., Gerber, S., Achilles, C., & Boyd-Zaharias, J. (2002). The enduring effects of small classes. *Teachers College Record*, 103(2), 145-183.
- Folbre, N. (2005). Eliminating economic penalties on caregivers. In J. Heymann & C. Beem (Eds.), *Unfinished work: Building equality and democracy in an era of working families*. New York: The New Press.
- Folbre, N. (2006). Rethinking the child care sector, community development. *The Journal of the Community Development Society*, 37(2), 38-52.
- Gilliam, W., & Ziegler, E. (2004). *State efforts to evaluate the effects of prekindergarten: 1977 to 2003*. New Haven, CT: Yale University Child Study Center.
- Gormley, W., & Phillips, D. (2003). *The effects of universal Pre-K in Oklahoma: Research highlights and policy implications*. (Working Paper, No. 2). Washington, DC: The Center for Research on Children in the United States.
- Gornick, J. C., & Meyers, M. (2003). *Families that work: Policies for reconciling parenthood and employment*. New York: Russell Sage Foundation.
- Gornick, J., & Meyers, M. (2005). Supporting a dual-earner/dual-career society. In J. Heymann & C. Beem (Eds.), *Unfinished work: Building equality and democracy in an era of working families*. New York: The New Press.
- Gruenwald, R., & Rolnick, A. (2004). *A proposal for achieving high returns on early childhood development*. Paper presented at the conference of on the Committee for Economic Development. Washington, DC. Retrieved December 8, 2008, from http://www.minneapolisfed.org/publications_papers/studies/earlychild/highreturn.pdf
- Halpern, D. F. (2004). *Public policy, work, and families: The report of the APA presidential initiative on work and families*. Washington, DC: American Psychological Association.
- Harrington, M. (1999). *Care and equality: Inventing a new family politics*. New York: Routledge.
- Hart Research Associates & American Viewpoint. (2005). *North Carolina voters on early education: Findings from a statewide survey among registered voters, conducted April 18-21, 2005*. Washington, DC: Pre-K Now.
- Heckman, J. L., & Masterov, D. (2004). *The productivity argument for investing in young children*. Retrieved December 8, 2008, from http://jenni.uchicago.edu/Invest/FILES/dugger_2004-12-2_dvm.pdf
- Helburn, S., & Bergmann, B. (2002). *America's childcare problem: The way out*. New York: Palgrave.
- Henry, G., Henderson, L., Ponder, B., & Gordon, C. (2003). *Report of findings from the early childhood study: 2001-02*. Atlanta, GA: Georgia State University, Andrew Young School of Policy Studies.
- Howes, C. (1983). Caregiver behavior in center and family day care. *Journal of Applied Developmental Psychology*, 4, 99-107.
- Kagan, S. L. (2005). *Creating a comprehensive early learning and assessment system*. Paper presented at the Early Childhood Finance Reform Meeting. Greensboro, NC: National Smart Start Technical Assistance Center.
- Kammerman, S. B. (2001). An overview of ECEC developments in OECD countries. In S. B. Kamerman (Ed.), *Early childhood education and care: International perspectives*. New York: Institute for Child and Family Policy, Columbia University.
- Karoly, L. A., & Bigelow, J. H. (2005). *The economics of investing in universal preschool education in California*. Santa Monica, CA: RAND Corporation.
- Kimmel, J. (2006). Child care, female employment and economic growth. *Community Development: The Journal of the Community Development Society*, 37(2), 71-85.
- Landefeld, J. S., & S. H. McCulla. (2000). Accounting

- for nonmarket household production within a national accounts framework. *Review of Income and Wealth*, 46(3), 289–307.
- Lombardi, J. (2003). *Time to care: Redesigning child care to promote education, support families and build communities*. Philadelphia, PA: Temple University Press.
- Longman, P. (2004, March, 1). Raising hell: How the punishing costs of childrearing imperil us all. *The Washington Monthly*. Retrieved December 8, 2008, from <http://www.washingtonmonthly.com/features/2004/0403.longman.html>
- Lynch, R. (2004). *Exceptional returns: Economic, fiscal, and social benefits of investment in early childhood development*. Washington, DC: Economic Policy Institute. Retrieved December 8, 2008 from [http://www.epi.org/books/exceptional/exceptional_returns_\(full\).pdf](http://www.epi.org/books/exceptional/exceptional_returns_(full).pdf)
- Meisels, S. (2003). Can Head Start pass the test? *Education Week*, 22(27), 44/209.
- Meyers, M., & Jordan, L. (2006). Choice and accommodation in Parental Child Care Decisions. *Community Development: The Journal of the Community Development Society*, 37(2), 53-70.
- Minnesota Department of Human Services. (2005). *School readiness in child care setting: A developmental assessment of children in 22 child care centers*. St. Paul, MN: MN DHS.
- Mitchell, A. (2005). *Stair steps to quality: A guide for states and communities developing quality rating systems for early care and education*. Alexandria, VA: United Way of America, Success by 6.
- Mitchell, A., & Stoney, L. (2006). *Financing early childhood care and education system in the States: A standards-based approach*. Houston, TX: Rice University Baker policy Institute, Texas Program for Society and Health.
- Mitchell, A., Stoney, L., & Dichter, H. (2001). *Financing child care in the United States: An expanded catalog of current strategies 2000 edition*. Kansas City, MO: The Ewing and Marion Kauffman Foundation.
- Morrissey, T. W., Lekies, K. S., & Cochran, M. M. (2007). New York's universal prekindergarten program: An exploratory study of impacts. *Early Education and Development*, 18, 573-596.
- Morrissey, T. W., & 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
- Munton, T., Mooney, A., Moss, P., Petrie, P., Clark, A., & Woolner, J. (2002). *Review of international research on the relationship between ratios, staff qualifications and training, group size, and the quality of provision in early years and child care settings*. London: Thomas Coram Research Unit, Institute of Education, University of London.
- National Education Goals Panel. (1998). *Principles and recommendations for early childhood assessments*. Washington, DC: Author.
- NICHD Early Child Care Research Network. (2000). Characteristics and quality of child care for toddlers and preschoolers. *Applied Developmental Sciences*, 4, 116-135.
- OECD. (2001). *Starting strong: Early childhood education and care*. Paris: Author. Retrieved December 8, 2008, from <http://www.childcarecanada.org/pubs/bn/startingstrong.html>
- Overturf, J. (2005). *Who's minding the kids? Child care arrangements: Winter 2002*. Retrieved December 8, 2008, from <http://www.census.gov/prod/2005pubs/p70-101.pdf>
- Peisner-Feinberg, E., Burchinal, M., Clifford, R., Culkin, M., Howes, C., Kagan, S. L., & Yazejian, N. (2001). The relation of preschool child-care quality to children's cognitive and social developmental trajectories through second grade. *Child Development*, 72(5), 1534-1553.
- Phillips, D. (1995). *Child care for low-income families: Summary of two workshops*. Washington, DC: National Academy Press.
- Phillips, D., Mekos, D., Scarr, S., McCartney, K., & Abbott-Shim, M. (2000). Within and beyond the classroom door: Assessing quality in child care centers. *Early Childhood Research Quarterly*, 15(4),

475-496.

- Phillipsen, L. C., Burchinal, M. R., Howes, C., & Cryer, D. (1997). The prediction of process quality from structural features of child care. *Early Childhood Research Quarterly*, 12, 281-303.
- Pratt, J. E. (2007). "An input-output approach to valuing non-market household time." *International Journal of Economic Development*, 9(4), 239-268.
- Raudenbush, S. (2004). *Schooling, statistics and poverty: Can we measure school improvement?* Princeton, NJ: Educational Testing Service.
- Rock, D., & Stenner, A. J. (2005). Assessment issues in the testing of young children at school entry. *The Future of Children*, 15(1), 15-34.
- Rolnick, A., & Grunewald, R. (2003, December). Early childhood development: Economic development with a high public return. *Fedgazette*. Retrieved December 8, 2008, from <http://www.minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm>
- Schulman, K. (2003). *Key facts: Essential information about child care, early education and school-age care*. Washington, DC: Children's Defense Fund.
- Schulman, K., & Barnett, W. S. (2005, March). *The benefits of prekindergarten for middle income children*. (NIEER Policy Report). Retrieved December 8, 2008, from <http://nieer.org/resources/policy-reports/report3.pdf>
- Scott-Little, C., Kagan, S. L., & Frelow, V. F. (2005). *Inside the content: The breadth and depth of early learning standards*. Greensboro, NC: SERVE.
- Shonkoff, J., & Phillips, D. (2000). *From neurons to neighborhoods: The science of early child development*. Washington, DC: National Academy Press.
- Shore, R. (1997). *Rethinking the brain*. New York: Families and Work Institute.
- Shore, R., Bondrova, E., & Leong, D. (2004). *Child outcome standards in pre-K programs: What are standards; what is needed to make them work?* (NIEER Policy Brief, Issue 5). New Brunswick, NJ: National Institute for Early Education Research.
- Stoney, L. (1998). *Looking into new mirrors: Lessons for early childhood finance and system-building*. Boston, MA: Horizons Initiative.
- Stoney, L. (2004). *Collective management of early childhood programs: Approaches that aim to maximize efficiency, help improve quality and stabilize the industry*. Raleigh, NC: Cornell University and the National Smart Start Technical Assistance Center.
- Stoney, L., & Mitchell A. (2007). *Using tax credits to promote high quality early care and education services*. Washington, DC: Partnership for America's Economic Success.
- Vandell, D. L., & Wolfe, B. (2002). *Child care quality: Does it matter and does it need to be improved?* Madison, WI: Institute for Research on Poverty, University of Wisconsin-Madison.
- Volling, B. L., & Feagans, L. V. (1995). Infant day care and children's social competence. *Infant Behavior and Development*, 18, 177-188.
- Wagner, S. L. (2003). Assessment in the early childhood classroom: Asking the right questions, acting on the answers. *Applied Research in Child Development*, 4 (4), 1-16.
- Warner, M. E., Adriance, S., Barai, N., Hallas, J., Markeson, B., Morrissey, T., & Soref, W. (2004). *Economic development strategies to promote quality child care*. Ithaca, NY: Department of City and Regional Planning, Cornell University.
- Warner, M. E., Ribeiro, R., & Smith, A. (2003). Addressing the affordability gap: Framing child care as economic development. *Journal of Affordable Housing and Community Development*, 12(3), 294-313.
- Warner, M. E. (2006). Putting child care in the regional economy: Empirical and conceptual challenges and economic development prospects. *Community Development: The Journal of the Community Development Society*, 37 (2), 7-22.
- Warner, M. E., (2007). Child care and economic development: Markets, households and public policy. *International Journal of Economic Development*, 9(3), 111-121.

- Warner, M. E. (2008, forthcoming). (Not) Valuing care: A review of recent popular economic reports. *Feminist Economics*, 15(3).
- Warner, M. E., & Liu, Z. (2005). Economic development policy and local services: The case of child care. *International Journal of Economic Development*, 7(1), 25-64.
- Warner, M. E., & Liu, Z. (2006). The importance of child care in economic development: A comparative analysis of regional economic linkage. *Economic Development Quarterly*, 20(1), 97-103.
- Witte, A. D., & Trowbridge, M. (2006). The structure of early care and education in the United States: Historical evolution and international comparisons. *Tax Policy and the Economy*, 19, 1-37.

Notes

- ¹ Throughout this paper, the term "program" is used to mean a supplier of early care and education services. The term "initiative" is used when referring to a particular funding stream or grant program.
- ² Louisiana recently enacted a package of school readiness tax credits, linked to the state's Quality Start ECE rating system, that essentially provide annual grants to ECE programs, practitioners, investors and consumers. For more information see <http://www.earlychildhoodfinance.org/ArticlesPublications/Tax%20Credit%20paper-formatted%20PDF%20in%20color%20from%20PAES.pdf>
- ³ For more information about shared services in the early care and education industry, go to www.earlylearningventures.org
- ⁴ Current U.S. tax law also provides for employers to set up a Dependent Care Assistance Plan (DCAP) that allows employees to set aside up to \$5,000 tax-free to pay for work-related child care. These should be increased in value, indexed for inflation, and linked to quality.