

The Many Economic Benefits of Investing in Early Childhood Education

When families have access to affordable and reliable early childhood education (ECE) it can help make it possible for caregivers to work, afford necessities like groceries and rent, and save for retirement. ECE is commonly used to refer to both child care and pre-K focused on kids younger than age five. These programs can also help improve children's academic outcomes and future job prospects. In addition, investing in ECE benefits teachers, businesses, and society as a whole. Unfortunately, investments in ECE are often deprioritized, with women and other caregivers paying the price. Addressing the funding shortfalls and widespread market failure requires government intervention.

The private ECE market cannot meet the needs of every family. That makes government funding for ECE programs essential for the United States to reap their maximum economic benefits. States like New Mexico are already leading the way in providing accessible child care and pre-K to every family, but federal funding is crucial to cutting the cost of care for families while maximizing economic returns to the country as a whole.

Skyrocketing costs of ECE limit families' ability to pay for necessities.

ECE centers don't have enough slots to meet demand, resulting in long waitlists and high prices. Even before the pandemic exacerbated the industry's challenges, over half of people in the United States (51%) and in New Mexico (53%) lived in a child care desert, which can be [defined](#) as a census tract with either more than 50 children under age five but no licensed child care teacher or with more than three children for every child care slot. Though this definition does [not](#) include license-exempt child care (including family, friend, and neighbor [care](#)), it reflects the industry's low supply, which results in long [waitlists](#) for families.

The industry's low supply coincides with its high prices—at a [staggering](#) \$10,853 or 10% of a married couple's income on average in 2022. Before the pandemic, ECE prices were growing faster than overall inflation. Though this trend reversed in 2021 and 2022, prices in this sector are again [growing](#) faster than the prices of other items, meaning the cost is increasingly eating up larger shares of family income. Prices for ECE are all too high, but prices for center-based care for infants and toddlers are most [expensive](#) because younger children require smaller classes and more teachers.

Though families currently spend an average of 10% of their income on child care, the Department of Health and Human Services [recommends](#) that families' child care out-of-pocket costs not exceed 7% of their family income. Capping the national average [cost](#) for children under age five in the United States at 7% could help cover over three months of groceries for a family of four with two young children. More ambitious programs—like New Mexico's [program](#) that makes child care free for nearly all families—can help families redirect their spending to cover even more necessities.

As a Result of Recent Investments and Policy Changes in ECE, Nearly All Families in New Mexico Will Have No Copay, Helping Them Cover Other Important Purchases.

For families in New Mexico with infants in center-based care, these savings would cover:

- Just over seven months of the median rent or;
- 10 and a half months of the average cost of groceries or;
- Over a year of in-state tuition at a New Mexico public four-year university or;
- 61% of the average down payment on a house.

For families in New Mexico with toddlers in center-based care, these savings would cover:

- Over five months of the median rent or;
- Nearly eight months of the average cost of groceries or;
- Just over a year of in-state tuition at a New Mexico public four-year university or;
- Nearly half of the average down payment on a house.

The money has been transformational for providers and families, according to preliminary research from the University of New Mexico's Cradle to Career Policy Institute. Interviews with families found that the assistance helped them get back to work and school, start new businesses, and reduce their stress around finding care. A survey of providers found that some were able to improve facilities, increase the quality of care, increase educator wages, increase the number of children in care, and hire more staff.

Affordable and reliable ECE helps parents support their families and save for retirement.

Though estimates vary in size, research is clear that ECE can boost employment and earnings for parents who want to work or need to work, especially if the care is affordable. An overview of academic [studies](#) finds that in the United States, a 10% reduction in the price of ECE is associated with a 0.25-11% increase in maternal employment.

Using a simulation, a 2021 National Women's Law Center [report](#) estimates child care would help increase the earnings for a woman with two children by \$97,000 over her lifetime. Using a different simulation, a 2022 Urban Institute [report](#) found an even higher estimate of \$237,000 in lost lifetime employment income when factoring in caregiving responsibilities for both children

and other family members. In total, researchers estimate that inaccessible child care costs anywhere between [\\$8.3 billion](#) and [\\$78 billion](#) in lost wages every year.

When parents can access affordable ECE and increase their earnings, they can both save more for retirement and accrue larger benefits from employment-based retirement plans like 401ks and Social Security. The Urban Institute [report](#) estimates this amounts to \$58,000 over a lifetime across these sources of retirement wealth. The National Women’s Law Center [report](#) estimates the Social Security component alone would amount to \$10,000 over 15 years—and highlights how it would reduce senior poverty among women by about 21%.

Research repeatedly shows that ECE provides enormous benefits for children, both in the short run and long into adulthood.

In addition to the economic benefits that ECE provides for parents, ECE creates numerous advantages for participating children, especially for those in high-quality pre-K programs. A 20-year [study](#) of Tulsa, Oklahoma’s universal pre-K program found the long-term benefits exceeded the short-term costs by 2.65 to 1. Participants in this program were more likely than nonparticipants to later enroll in AP or IB courses, less likely to fail courses, less likely to be chronically absent, and more likely to graduate from high school on time. Students [eligible](#) for the federally-funded Head Start pre-K program are also more likely than ineligible students to finish high school, attend college, finish college, and work when they are adults.

Other research shows ECE’s [benefits](#) for children’s reading and math skills, self-control, and ability to build positive relationships. Some studies find these benefits wane over time, but this likely reflects the quality of the program or schooling that follows it. While all of these benefits are critical for children and their futures, fostering an educated citizenry and future workforce also has benefits for employers, taxpayers, and the broader economy.

Investments in ECE have additional economic benefits for teachers, businesses, and taxpayers.

Investments in ECE are vital for families, and they also have economic benefits for other groups, including those who are involved in the sector and otherwise through important indirect benefits to the broader economy. For example, ECE investments can help raise the too-low wages of ECE teachers when centers are unable to. ECE teaching positions generally offer low [pay](#) and have high [turnover](#), along with much [slower](#) wage growth than other low-paid occupations. Despite high prices, centers often do not generate enough profits to pay teachers more: 60% of child care providers [indicated](#) that they have less than one month of operating funds in the bank, far below the recommended two to three month buffer.

Studies like last fall’s [analysis](#) of the pandemic-era Child Care Stabilization Funds, conducted by the Council of Economic Advisers, show that federal investments help raise wages for providers. Subsidizing ECE so teachers are paid even just the median salary can help them support their families and communities—benefits that would be even larger if the industry’s hiring needs were met.

If each [child care](#) and [pre-K](#) teacher were paid the [median](#) salary, they would be paid an additional \$11,960 and \$5,150 a year, respectively. This would result in nearly \$14 billion in total income annually at current levels of employment, or over \$16 billion in total income if all of the industry’s job openings were filled. This money could help teachers put money back into their communities and purchase necessities like food and rent—or cover their own caregiving needs.

Improving ECE Providers’ Wages Nationally Can Support Them and The Broader Economy

Type of ECE Worker	Median Salary, 2022	Annual Difference From The Median Salary For All Workers, 2022	Number of Workers, 2022	New Total Income at Current Employment	New Total Income at Full Employment
Child Care	\$ 28,520	\$ 11,960	945,900	\$11.3 Billion	\$13.1 Billion
Pre-K	\$ 35,330	\$ 5,150	512,300	\$2.6 Billion	\$3.0 Billion

Source: JEC calculations using data from the Bureau of Labor Statistics, Census Bureau, and FRED.

When parents are forced to leave work because of insufficient child care, businesses have to spend time and money hiring and training their replacements. A February 2023 [Strong Nation report](#) merged national representative survey data with labor market data to model how insufficient child care for children under age three affects the economy. The report found that the lack of adequate child care costs businesses \$23 billion annually in reduced revenue and extra hiring costs. Insufficient care also costs the broader economy \$21 billion in lower income tax and sales tax revenue.

Taxpayers also see indirect benefits from investments in ECE. A cost-benefit [analysis](#) of the Perry Preschool Program in Michigan, for example, found that the program has some benefits for broader society though reduced crime and less future spending on welfare programs. Investments in children and their development can spur long-term benefits for themselves and society overall.

Programs like the Child Tax Credit and other federal programs make ECE more affordable and can help ensure maximum economic benefits.

Federal tax credits and programs help families recoup some ECE expenses and are good investments in the economy. Unfortunately, the United States provides less [relief](#) than nearly every [other](#) peer nation in the Organisation for Economic Co-operation and Development (OECD). Importantly, the Child Tax Credit (CTC) allows parents to offset costs associated with raising a child. Many parents use the [credit](#) to afford basic necessities such as food, child care, rent, utilities, and clothing. An [expanded](#) version of the CTC included in the American Rescue

Plan was transformational for families, helping to reduce child poverty to its lowest level on record in 2021.

The Child and Dependent Care Credit (CDCC) provides tax [relief](#) for families who paid for someone to look after their child in order to work or look for work. Additionally, the 45F Tax Credit allows businesses to reduce their income tax liability by up to [\\$150,000](#) if they incur expenses providing child care for their workers. This could include [expanding](#) their facilities to include a child care facility or contracting with preexisting licensed child care facilities and programs.

However, this tax credit is [underused](#), relies on businesses to take the proactive step of providing care for their workers on top of their standard operations, and forces workers to stay with their employer to get care. Though [studies](#) show employer-provided child care has benefits for employee productivity, presence, recruitment, retention, career progression, and job satisfaction, not all businesses can or want to subsidize the high cost of this essential service.

The Child Care and Development Block Grant (CCDBG), a part of the Child Care and Development Fund (CCDF), [authorizes](#) federal funding to help subsidize the cost of child care for low-income families, though current funding allows less than 15% of [eligible](#) families to be served. The Biden-Harris administration recently [released](#) a final rule for CCDF that helps lower costs for families, improve payments to teachers, increase options for families, and make enrollment more efficient. Given the way the already fragile and vital child care industry was hard-hit by the pandemic, additional [funding](#) was allocated to CCDBG and the newly created Child Care Stabilization Funds in 2020 and 2021.

[Head Start](#) is an additional federal ECE program through the U.S. Department of Health and Human Services that provides educational, social-emotional, health, and nutritional services to children up to age five and their families. To support Head Start, the Biden-Harris administration [released](#) a proposed rule aimed at improving program quality and supporting its workforce. Additionally, the [2023 Child Care Nutrition Enhancement Act](#) would increase reimbursement rates for nutritious meals in Head Start and other qualifying programs through the federal Child and Adult Care Food Program to help ease program costs. A [fully funded](#) Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is also important for helping families save on nutrition costs.

The Biden-Harris administration is exploring other creative solutions to improve access to child care. The CHIPS and Science Act, for example, [requires](#) certain grant recipients to submit a plan to provide affordable child care for their workers. Additionally, the administration laid out steps to reduce child care costs for [military](#) families and announced new [funding](#) through the Small Business Administration to support small businesses in the child care sector—applicable for 95% of child care businesses.

State funding and programs can also move the needle.

While state funds and programs are not enough to address a nationwide broken market, they are still important ways to support families and the economy. 11 states and Washington D.C. have

universal pre-K eligibility, meaning all four-year-olds are eligible to enroll in pre-K in that state. As of 2023, [New Mexico](#), Hawaii, Colorado, Illinois, Michigan, Maryland, and Rhode Island are close to reaching that benchmark, with many of these states declaring a [commitment](#) to working toward universal pre-K. Of the 12 mentioned above, Florida, Oklahoma, Vermont, and Washington D.C. have met the universal enrollment benchmark of [70%](#) set by early education research and advocacy groups.

To continue their important work, states like New Mexico have adopted creative funding opportunities. In 2021, voters in New Mexico took the impressive step of [amending](#) the state constitution to pull an additional 1.25% annually from its Land Grant Permanent Fund (LGPF) to fund additional investments in education and work toward universal pre-K. The LGPF is funded through leases and royalties on oil and gas production in New Mexico and investment returns. This vote built on nearly a [decade](#) of state legislative action to get the amendment on the ballot, but also required Congressional action because the LGPF was created by the federal government. In December 2021, JEC Chairman Martin Heinrich and Rep. Melanie Ann Stansbury of New Mexico [sponsored](#) the New Mexico Education Enhancement Act that approved the amendment, a bill that they successfully [included](#) in the FY2023 appropriations bill.

ECE funding in New Mexico saw an annual \$150 million increase from this amendment and is expected to expand access to pre-K by [40%](#). This transformative effort is on top of the state's creation of its [Early Childhood Education and Care Department \(ECECD\)](#) in 2019 and creation of [its Early Childhood Trust Fund](#) in 2020, streamlining services and ensuring sustainable funding for the industry.

Using these funding streams and money from their General Fund, New Mexico has taken important steps to [cut costs](#) for families through their Child Care Assistance Program. In 2021, the cap was increased to include more middle-class households; in 2022 all copays were waived for qualifying families; and in 2023, the copay waivers were continued. If copays are reinstated, the ECECD will give families a three-month advanced notice and families earning less than 185% of the Federal Poverty Line will still not have copays while families earning above 185% but below 400% will never pay more than 5% of their household income. The state also recently created its own state-run Child Tax Credit that will [provide](#) up to \$600 per child to 292,000 families.

Conclusion: Federal and state investments in ECE produce wide-ranging economic benefits.

Increasing federal funding for programs like CCDBG and Head Start are critical for increasing access to ECE and supporting the economy. Though state efforts like New Mexico's can't solve a nationwide market crisis, they are important supplements that can make a meaningful difference for families, kids, businesses, and the overall economy. These investments not only support parents' employment, earnings, and retirement savings, but also benefit children in the short- and long-term, and are advantageous for teachers, businesses, and taxpayers, posing high returns on investment.