

What Oregon industry supports 52,000 Oregon jobs, \$5.75 billion in sales and \$2 billion in income annually?



The Economic Impact of Oregon's Child Care Industry

To highlight the educational benefits of the industry, the generally preferred term is *childhood care and education*. However, the term *child care* is used here for simplicity and because it is more familiar to most readers.



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Summary

Child care has three distinct roles in Oregon's economy. First, the child care sector is the source of early care and education for thousands of children, preparing them for future success in school and work.

Oregon's child care industry is a significant industry in its own right.

Second, child care is an important workforce support for parents and their employers. Third, child care is a viable industry in its own right, generating millions in annual revenue, creating thousands of jobs and supporting other industries to stimulate economic activity throughout the economy.

The Oregon child care industry:

- Generates more than \$639 million in output, or gross annual revenues;
- Employs at least 14,420 Oregonians in 7,900 small businesses;
- Keeps 90,297 parents on the job, earning \$2.6 billion annually;

- Enables the production of exports each year that support \$5.75 billion in sales, 52,000 Oregon jobs and \$1.99 billion in income; and
- Prepares future generations for school and workplace success.

Despite these economic contributions, the child care industry faces many challenges. Some of the challenges can be addressed through economic development solutions.

More and more, states and communities across the nation are starting to address the role of child care as a critical component in the social infrastructure. The findings of this economic analysis are offered to begin the discussion in our state.



To benefit every Oregonian, child care industry stakeholders – business, government and the child care workforce – must work together to strengthen the child care industry.

About this Report

Child care is not generally recognized as a contributor within a region's economy or even as an industry sector. However, a recent study conducted by Oregon State University (OSU) Extension Service provides evidence that child care is actually a formal part of the economy, contributing in significant ways to the state's productivity.

Although similar studies have been conducted in other states, up to now a study of this type has not been produced in Oregon. To produce the findings, OSU used IMPLAN input-output modeling software, the same methodology used in same other states' studies. IMPLAN provides analysis tools, state data categorized by industry, and with child care data, the structure to generate estimates of outputs, employment and earnings. Child care data were provided by the Oregon Child Care Research Partnership and other sources where noted in this report.

The major difference in Oregon's study is the addition of a quantitative analysis of child care as an infrastructure which enables production and supports the export base that is critical to the economy. In the OSU analysis, the impacts to the state's economy due to the availability of child care were estimated in the form of output, jobs and income. The OSU study methodology is

The major difference in Oregon's study is the addition of a quantitative analysis of child care as an infrastructure which enables production.

detailed in a soon to be published report:

Nelson, Jessica Pearce; Bruce Sorte; Bruce Weber; and Roberta Barsotti Weber. "The Oregon Child Care Industry: An Economic Analysis." Special Report Forthcoming. Corvallis, OR: Oregon State University Extension Service.

Drawing on the findings of the OSU study, the Oregon Child Care Information Partnership, a collaboration of state agencies and nonprofit organizations, produced this report. The purpose is to illuminate the policy discussions surrounding child care funding structures and professionalism of the industry, as well as to inform the public about the relationship between the child care industry and a healthy economy.

reader better understand the child care industry and its issues. These include the demographic changes that drive child care demand, the types of child care available and the market "failures" that contribute to problems of quality, affordability and availability of child care in our state. This report also summarizes recent, important research about the long-term financial benefits to the economy of public investments in child care. In conclusion, a series of recommendations from the Oregon Child Care Information Partnership

In addition to the OSU study findings, this report also presents information from other sources to help the

are offered as a means to engage the business, financial and government sectors in a discussion about generating funds and policies to strengthen the child care industry.

How this report is organized:

- Overview
The Importance of Child Care to a Healthy Economy
- Child Care: So Oregon Can Work
Demographic and Economic Trends Affecting the Child Care Industry
- Child Care: Income-Generating and Job-Creating Industry
The Child Care Industry's Contributions to the Economy
- Child Care: Infrastructure Enabling Production
How Child Care Brings in New Money to the Economy
- Child Care: For Our Future Economic Success
The Important Role of Child Care in Preparing the Future Workforce
- Child Care: Private Market for the Public Good
Why the Child Care Industry Must be Strengthened
- Child Care: An Economic Development Strategy for Oregon
Economic Development Strategies Applied to the Child Care Industry

Overview

There is a relationship between the supply of affordable, quality child care and Oregon's economic growth.

Child care's benefits to parents and young children are generally well known. High-quality care provides a warm, nurturing environment for young children to learn and play and for parents, peace of mind, knowing their children are safe while they work or study. A half-century of research has shown that high quality early childhood settings have a demonstrated, positive effect on children's success in school and later on in life.

Oregon's child care industry is an income-generating, job-creating industry, a vital component of the state's economy.

Up to now, the importance of child care to a healthy economy has largely gone unrecognized. Although comparable in size (through gross annual revenues) to other significant Oregon industries like highway construction and the postal service, child care is rarely viewed in economic terms. Yet, this economic impact analysis clearly shows that Oregon's child care industry is an income-generating, job-creating industry that serves as a vital component of the state's economy.

Investment in human capital is critical to a healthy economy. While child care enables Oregon parents to work and contribute directly to economic stability, quality child care helps prepare the future workforce. High quality child care must be part of a world-class education system that economic development experts

believe will attract businesses to the state. In addition, investments in high quality child care offer substantial financial returns to the public by reducing future outlays in such areas as criminal justice, remedial education, unemployment, and welfare spending.

Despite its important economic contributions, the child care industry has considerable challenges to overcome. The cost of care is too high for many families; for the most part, public investments have failed to bridge the gap between the cost and what families can afford. In addition, child care workers' low wages lead to high turnover in the industry, thus attracting and retaining a well-educated child care workforce is an ongoing challenge. While the demand for child care by today's dual-earner and single-parent families is at an all-time high, there are shortages of child care in many communities, particularly for infants and toddlers and children with special needs. These factors take their toll on the quality of child care and ultimately, the healthy development of young children, our future workforce.

Some of these challenges can be addressed with economic development solutions. These include grants and subsidized loans as well as tax abatements, deductions and credits. Child care businesses can benefit from small business

What do we mean by "quality child care"?

The term quality child care describes care which researchers have found is associated with children's positive development of language and cognitive functioning, social skills, and emotional well-being. Positive development depends on a warm, nurturing caregiver-child relationship, a rich environment and appropriate activities. These quality factors are highly correlated with "structural characteristics" which can be observed and evaluated: group size, adult to child ratio, provider's education and training, provider's compensation, turnover and stability of teachers and staff, accreditation, and licensing complaints.¹

support; workforce development, training and retention; and community development planning. Public and private investments in the child care industry would encourage expansion and quality improvement, make child care more affordable, and allow more families greater access.

To encourage the application of economic development solutions, it is essential to characterize the child care industry in economic terms and assess the industry's role within the economy. Given the child care industry's significance, the value of child care investments is fundamental to the overall growth of Oregon.

Child Care: So Oregon Can Work

The formal child care industry has developed to serve changing family needs and workplace demographics.

The status of child care as a viable and significant industry has its origin in demographic changes, including increased workforce participation by parents, particularly women. Today, single parents and dual-wage earners are in the workforce in record numbers as the need for all adults in the family to work has become more critical to families' economic stability. As a result, child care

Nearly half of all dual-earner and single-parent families purchase child care for their children.

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the family to work has become more critical to families' economic stability. As a result, child care

is a basic need for families in which both parents are employed, and even more so for families that have a solo parent who is employed.

Demographic and economic trends have affected the child care industry:

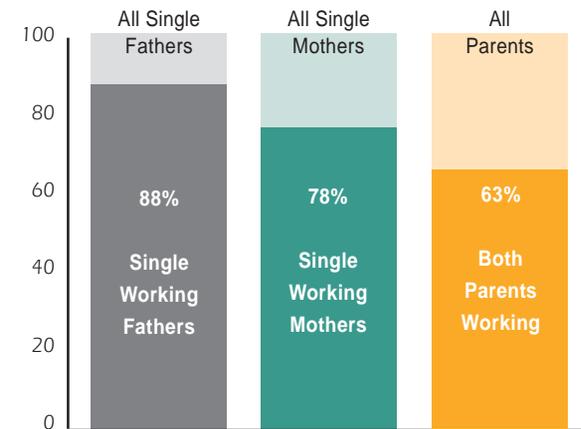
- During the past three decades the percentage of women in the Oregon workforce increased to a record 60% (see Figure 1).
- Some 23% of Oregon children under age 18 live in single-parent households.²

FIGURE 1



FIGURE 2

Percent of Oregon Parents Working (with children ages 0-13)



Source: Kids Count Census Data online, 2000 Census Data Employment Profile for Oregon, Table 22. Own Children by Family Type and Employment Status of Parents by Age Group in the 2000 Census.

- Today, more than half of dual-earner families and the majority of single parents with children under the age of 13 are working (see Figure 2).

The demand for child care has established the child care industry as an integral part of the formal economy:

- Some **90,297 Oregon families** – almost half of all dual-earner and single-parent families and nearly one-third of families with children under 13 – purchase child care for their children.
- There are 164,000 Oregon children – 27% of all Oregon children under age 13 – in paid child care settings.³



In addition to family structure and employment status, the factors that drive the demand for child care are children's ages and household income:

- Of children under age 5, 34% are in some type of paid care, compared to 11.3% of children ages 10 through 12.⁴
- Approximately 27% of families with incomes under \$25,000 use paid care, compared with 33% for families with incomes between \$25,000 and \$44,999, and 34% for families with incomes of \$45,000 or more.⁵

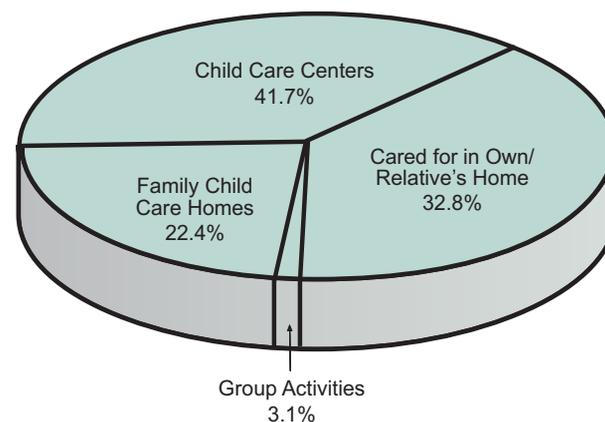
Most working parents seek care and education of their children from a private system of nonprofit and for-profit providers. This system consists of a range of services: formal full-day and part-day child care and early education programs, pre-schools, family child care homes, after-school programs, child care centers, and care provided in the child's own home.

Growth in the child care industry has not kept pace with the demand. As a result, there is a shortage of services – particularly care for children with special needs and for infants and toddlers. These types of care tend to be more costly than others. Infants and toddlers require smaller group sizes and a higher ratio of staff to children. Caring for children with special needs sometimes requires an investment in additional training and equipment.

The shortage of high quality child care not only affects preschoolers, but also puts older children at risk. Parents who work shifts and odd-hours often have great difficulty locating child care to match their schedules. In most families, parents' schedules and children's school schedules do not mesh. This is truer than ever because today's parents are working longer hours. Working mothers and fathers typically arrive home hours after their children finish school, and parents must report to work on many days when schools are closed.

Given the high number of families in which single or both parents are employed, the child

FIGURE 3
Paid Child Care by Type of Child Care Arrangement



Source: Oregon Child Care Research Partnership. *Child Care Policy Research Biennial Report* (2000) Table 2.

The demand for child care outstrips the current supply in many Oregon communities:

- The Oregon Progress Board reports Oregon's supply of child care as just 17 slots per 100 children under age 13. This is in sharp contrast to the state's target of 25 slots per 100 children. ("Child care slots" is used to describe the number of children which child care providers have the capacity to serve.)⁶
- Many local communities engaged in community planning report a need for infant and toddler care, care for children with special needs and care available to parents who work night shifts and odd-hours.⁷

Since the demand for child care exceeds the available supply, increasing access to paid child care could increase the size of the Oregon labor force. If all parents who need paid child care could afford or access it, an estimated 23,700 additional Oregonians could participate in the labor force.⁸

Definition of Child Care in This Report

Child care is defined as paid care, supervision and/or guidance on a regular basis of a child under age 13, unaccompanied by a parent, guardian or custodian, during at least part of the day. The financial analysis of the child care industry presented in this report is based on 123,000 children in paid child care settings outside the child's own home. Although informal child care arrangements do enable parents to work and therefore, add to the economy, it is more difficult to determine their impact. Therefore this report focuses solely on paid care. By excluding care provided in the child's own home, this report's findings are likely to underestimate the total gross receipts and direct employment of the child care industry.



Child Care: Income-Generating, Job-Creating Industry

The child care industry leaves a “footprint” on Oregon’s economy in the form of revenue, jobs and spending.

Estimating the Effects of the Child Care Industry

A proven method for analyzing the contributions of an industry is an input-output modeling technique. This makes it possible to follow the “footprint” of a given industry – who and what the industry touches within the economy.

In this way, the child care industry’s immediate contributions to the economy can be estimated. These are expressed as **output** (gross revenue from the fees that parents pay for services and investments from public and private sources), **employment** (full- and part-time jobs) within the industry and **income** (wages and earnings) of employees and proprietors of child care businesses.

It is also possible to calculate the effects of the purchases of goods and services made by child care providers with their suppliers. **Backward linkages** measure the strength of these purchases as sales, jobs and income in the industries where spending occurs.

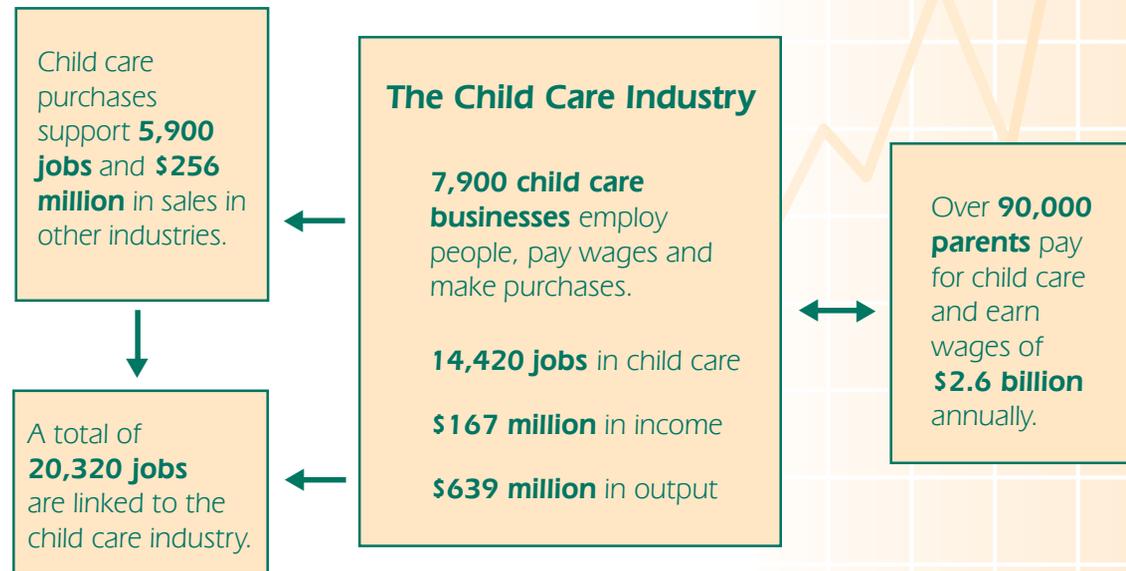
Forward linkages of the child care industry are the sales of child care services to parents and the additional income that parents are able to earn by having child care available.

Child care is a viable industry in its own right, producing thousands of jobs and millions in revenue – equally strong or greater than many other important Oregon industries. In addition to these immediate benefits, the child care industry has linkages to the rest of the economy that support other industries and stimulate even more economic activity.

Child care is a significant industry, generating income and jobs and supporting other industries.

FIGURE 4

Child Care’s Footprint on the Oregon Economy



Source: OSU Extension Service based on edited IMPLAN model – 2001 data, MIG, Inc.

Oregon's child care industry is a sizable industry comparing favorably with other important Oregon industries:

- Through the provision of services to families, the child care industry generates **\$639 million** in revenue – more than milk

production, advertising firms, newspapers, or gasoline stations (see Figure 5).

- The child care industry employs at least **14,420 people**, putting it on par with greenhouses and nurseries, and private colleges and universities (see Figure 6).

Employment in the Child Care Industry

Even as employment grows within the industry, child care workers remain among the most poorly paid in the state. In 2003, the annual average covered wage in the child care industry was \$15,705. The average for all industries was \$34,442. ["Covered wage" means employees covered by unemployment insurance.]⁹

FIGURE 5

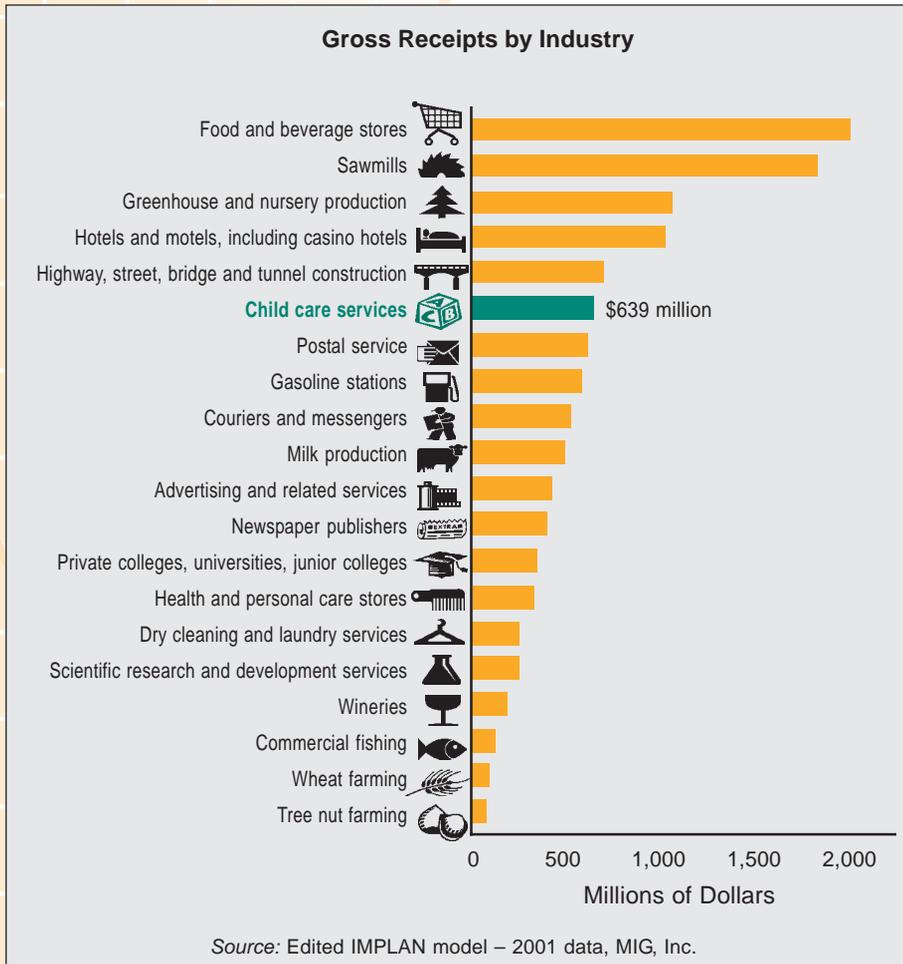
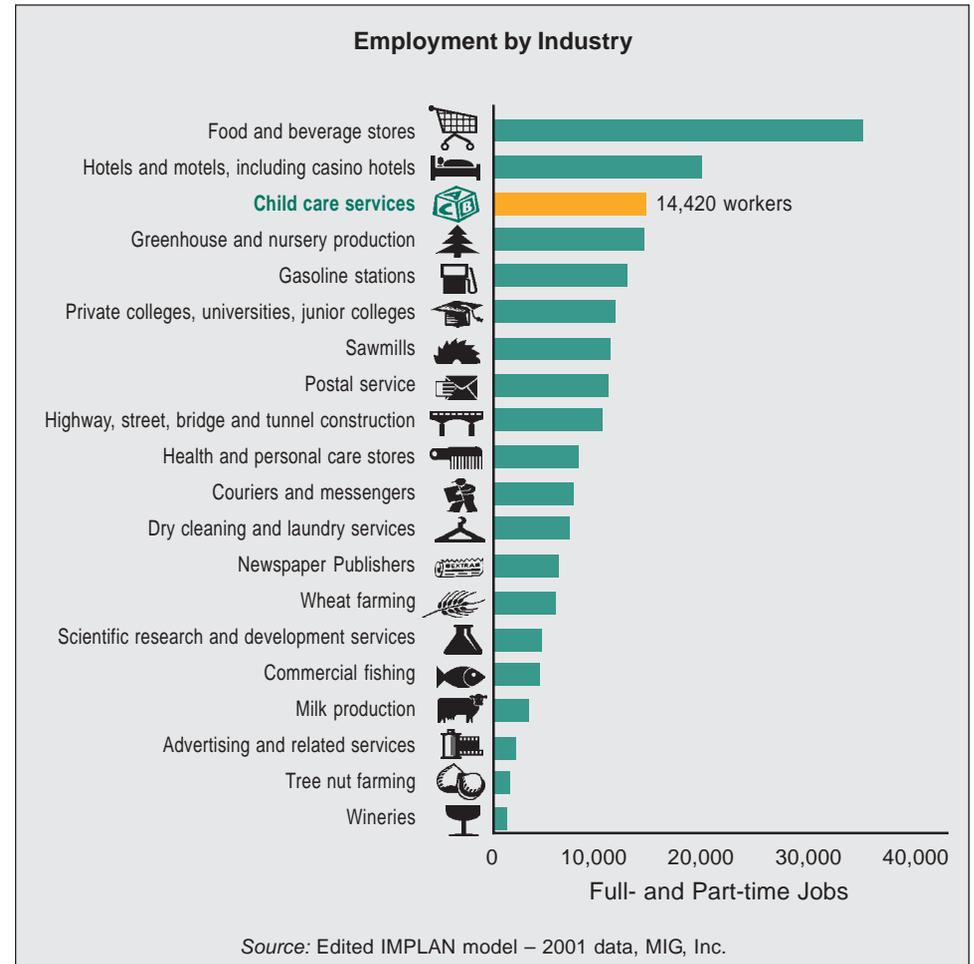


FIGURE 6



Oregon's child care industry is comprised of **7,900 small businesses**, including child care centers and family child care homes. These child care businesses buy goods and services from other Oregon industries, such as buildings, vehicles, equipment, food, books, toys and transportation. When employees in these related industries spend their earnings, there is an additional economic effect in the industries where spending occurs.

Spending in the child care industry affects revenue and jobs in other industries:

- Child care businesses purchase more than **\$256 million** in goods and services annually from other industries within the region (see Figure 7).
- Spending by the child care industry supports nearly **5,900 more jobs** in other Oregon industries (see Figure 8).
- Employment and spending in the child care industry affect over **20,000 Oregon jobs** (child care jobs combined with jobs supported in other industries).

FIGURE 7

Expenditures of the Child Care Industry within the Regional Economy (Millions of Dollars)	
Industry	Total
Wholesale trade	\$26.2
Food services and drinking places	14.7
Maintenance and repair of nonresidential buildings	9.1
Management of companies and enterprises	7.8
Milk production	7.0
Bread and bakery product, except frozen	6.7
Power generation and supply	6.1
Other support services	5.5
Advertising and related services	5.4
Employment services	4.9
Cheese manufacturing	4.3
Telecommunications	4.3
Postal service	3.9
Truck transportation	3.8
Accounting and bookkeeping services	3.0
Meat processing	2.9
Securities, commodity contracts	2.6
Commercial printing	2.5
Management consulting services	2.2
Automotive repair and maintenance	2.0
All other suppliers	131.5
Total Regional Expenditures of Child Care Industry	\$256.4

Source: OSU Extension Service using edited IMPLAN model, 2001 data, MIG, Inc.

FIGURE 8

Full and Part-time Jobs Linked to the Child Care Industry	
Industry	Total
Agriculture, Fishing and Related	181
Forestry and Logging	2
Mining	7
Utilities	27
Construction	158
Manufacturing – Food, Beverages, Textiles & Related	149
Manufacturing – Wood Products, Paper, Furniture & Related	48
Manufacturing – High Tech & Related	8
Manufacturing – Other	113
Wholesale Trade	340
Transportation and Warehousing	284
Retail Trade	590
Information	103
Finance and Insurance	240
Real Estate, Rental and Leasing	594
Professional, Scientific and Technical Services	364
Administrative and Support Services	752
Health Care and Social Assistance	454
Arts, Entertainment and Recreation	272
Accommodation and Food Services	705
Other Services	260
Educational Services	129
Public Administration	114
Total	5,894

Source: OSU Extension Service using edited IMPLAN model, 2001 data, MIG, Inc.



As the base of our economy shifts from natural resources and manufacturing to goods and services that support the information age, there is a need to maximize the creativity and productivity of Oregon's workforce. Child care is a critical factor in this shift. Because child care is available, parents are able to access and train for new opportunities in the changing economy.

The child care industry enables parents' earnings and benefits the bottom line of their employers.

Due to child care, parents experience an increase in their earnings and their ability to purchase goods and services to support the economy. In addition, individual employers benefit because child care helps attract and retain new employees and increases productivity by reducing employee turnover and absenteeism.

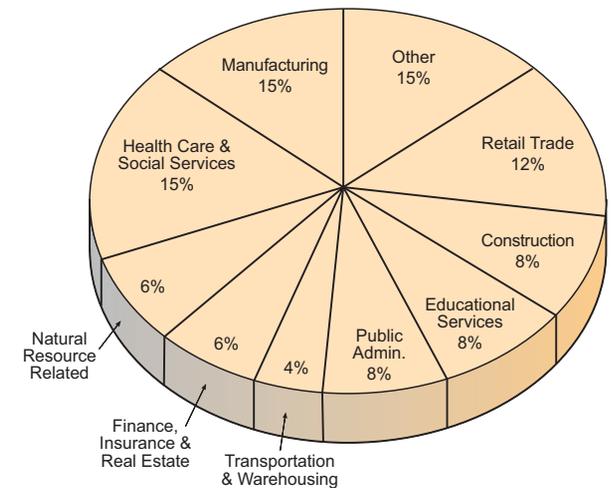
In many ways, child care is like transportation and housing. Without it, employees with children experience barriers to working, and their employers and the economy as a whole suffer.

Child care contributes to the bottom line of many Oregon industries:

- The **90,297 Oregon parents** who use child care span all sectors of the economy (see Figure 9).
- Parents who rely on child care to work earn nearly **\$2.6 billion** annually (see Figure 10).

FIGURE 9

Industries Employing Oregon Parents Who Use Child Care



Source: Percent of parents employed in each sector from Oregon Population Survey data 2002.

Child Care and Work

Good, reliable child care helps families balance the responsibilities of work and raising a family as more families feel the stress of work-family conflict. According to a national study by the Families and Work Institute, American workers report spending about 3.5 more hours a week on the job than they did two decades ago. On the home front, a later version of the study indicates that families also spend more time each day as caregivers than their counterparts of 10 years ago.¹⁰

FIGURE 10

Economic Contributions of Parents Who Use Child Care



Source: OSU Extension Service using Kids Count Census Data Online, Bureau of Labor Statistics 2002 and the Oregon Child Care Research Partnership's *Child Care Policy Research Biennial Report 2000*.



Child Care: Infrastructure Enabling Production

Child care exports boost the Oregon economy.

Child care's benefits extend beyond parent earnings and the productivity of individual businesses. Child care programs attract public and private expenditures from outside the state. These investments generate additional jobs and income. Moreover, the child care industry is an infrastructure that helps support Oregon's export base, which is critical to the health of the economy.

Child Care-Enabled "Export Dependency"

Exports are products and services that, when traded or sold outside the region, bring in new money. Because of the ability of exports to generate revenue and wealth in a community, exports are traditionally the main focus of economic development policy. Communities use export strategies to enhance business competitiveness in external markets and to attract external investments.

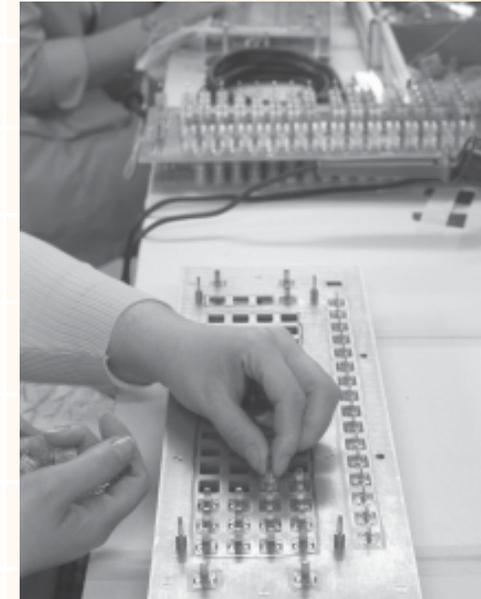
Although not an export industry, the child care industry has two key roles with respect to exports. First, child care brings in *new money* to the economy in the form of federal tax and program expenditures, along with some business and philanthropic expenditures. These investments support jobs both within the child care industry and in other Oregon industries. Second, the child care industry *enables* export production. This is because a substantial number of parents who pay for child care produce exports for sale outside the state. Child care-enabled "export dependency" is based on the assumption that these exports would not be produced if child care was not available. Using input-output modeling, the impacts of child care-enabled exports can be estimated in the form of industry sales, jobs and income.

FIGURE 11

Child Care Expenditures from Outside Oregon (In \$Millions)	
Federal Tax Expenditures	\$28.8
Federal Program Expenditures	\$92.4
Business and Philanthropic Expenditures	\$1.3
Total Expenditures External to Oregon	\$122.5

Federal tax expenditures include child and dependent care tax credits for families who purchase child care. Federal program expenditures are used to fund child care subsidies for low-income families, child care programs for migrant families, child care programs for children with special needs, Head Start programs, licensing, child care resource and referral programs, local programs and quality improvement projects.

Source: OSU Extension Service with data (based on fiscal year 2001) from the Oregon Child Care Research Partnership.



Federal Funding for Child Care

Most of the federal funding that subsidizes education and care for children under age 5 comes from two programs, Head Start and the Child Care and Development Fund (CCDF). Head Start and CCDF provide roughly three-quarters of the federal subsidies available for early care and education. Smaller but still important subsidies flow from Temporary Assistance for Needy Families (TANF), from special education programs, and from Title 1 of the Improving America's Schools Act. In addition to these direct expenditure programs, several tax credits and exclusions help families and employers pay for employment-related dependent-care expenses.

Oregon uses the majority of CCDF dollars to help low-income families afford child care. Other uses include support for licensing, child care resource and referral agencies, provider training and professional development, and activities to improve quality and supply at the local level.

FIGURE 12

**Employment Effects of Expenditures
(\$122.5 Million) on Child Care
from Outside Oregon**

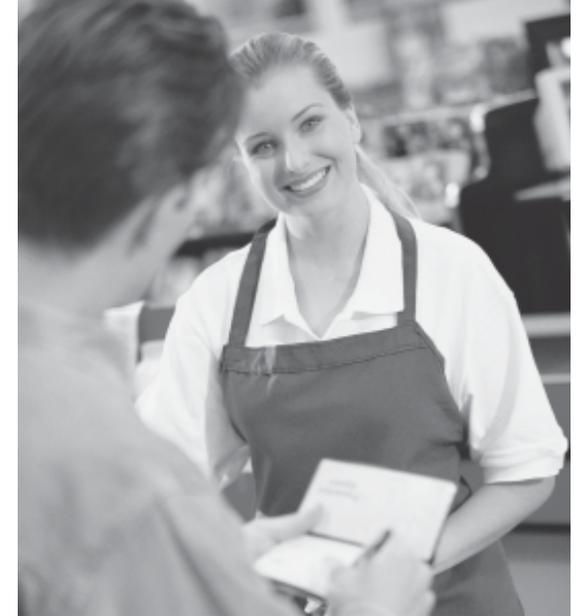
Industry	Full- & Part-time Jobs
Agriculture and Forestry	35
Mining	1
Utilities	31
Manufacturing – Food, Beverages, Textiles & Related	29
Manufacturing – Wood Products, Paper, Furniture & Related	9
Manufacturing – High Tech & Related	2
Wholesale Trade	66
Transportation and Warehousing	55
Retail Trade	114
Information	20
Finance and Insurance	47
Real Estate, Rental and Leasing	115
Professional, Scientific and Technical Services	71
Administrative and Support Services	146
Health Care and Social Assistance	88
Child Care	2,802
Arts, Entertainment and Recreation	53
Accommodation and Food Services	137
Other Services	50
Educational Services	25
Public Administration	22
Total	3,945

Source: OSU Extension Service using edited IMPLAN model, 2001 data, MIG, Inc.

Oregon’s economy benefits from “child care exports”:

- Direct spending on child care from federal expenditures, private foundations and businesses totals **\$122.5 million** annually (see Figure 11).
- The effect of spending from outside the state supports nearly **4,000 jobs** in the child care industry and in other industries, including agriculture, manufacturing and trade (see Figure 12).

Oregon’s child care industry is an infrastructure that enables production, bringing in new money to the state.



Child care enables parents to produce exports for sale outside the state. The industries that employ these export-producing parents also reap the benefit of child care that is accessible to their workforce. Prime examples are high tech products and wood products – two key Oregon export industries – which employ large numbers of parents who use child care.

The production of exports by parents has a ripple effect throughout the economy:

- Of the 90,297 Oregon parents who use child care, some **26,257** produce exports for sale outside the state.¹²
- When sold outside the regional economy, these exports account for **\$5.75 billion** in sales annually.¹³
- The sale of these exports supports **52,000 Oregon jobs** and nearly **\$2 billion** in annual income (see Figure 13).¹⁴

FIGURE 13

Potential Impacts of Export-Producing, Child Care-Reliant Parents

Industry	Parents Employed in Exports (In FTE Jobs)	Output Impact (In \$Millions)	Employment Impact (In FTE Jobs)	Income Impact (In \$Millions)
Agriculture, Fishing & Related	1,893	191.000	4,121	52.806
Forestry & Logging	390	187.291	690	43.869
Mining	1	7.837	64	2.121
Utilities	44	93.692	153	17.814
Construction	847	109.514	1,076	48.757
Manufacturing: Food, Beverages, Textiles & Related	976	323.186	1,300	42.975
Manufacturing: Wood Products, Paper & Furniture	3,593	810.363	4,109	185.953
Manufacturing: High Tech & Related	4,283	745.076	4,373	303.288
Manufacturing: Other	1,503	431.429	2,127	101.735
Wholesale Trade	516	325.693	2,262	124.745
Transportation & Warehousing	350	179.296	1,711	73.364
Retail Trade	3,144	330.369	6,233	149.785
Information	1,227	281.955	1,638	89.186
Finance & Insurance	632	261.049	1,807	82.781
Real Estate, Rental & Leasing	622	259.482	1,913	31.352
Professional, Scientific & Technical Services	55	128.156	1,632	70.730
Administrative & Support Services, etc.	935	200.218	3,481	119.580
Health Care & Social Assistance	2,056	362.562	4,522	182.187
Child Care	466	28.927	607	7.558
Arts, Entertainment & Recreation	3	25.494	767	12.736
Accommodation & Food Services	439	111.982	2,532	46.141
Other Services	694	197.528	2,179	76.521
Educational Services	12	31.744	743	25.853
Public Administration	1,577	130.651	2,006	101.334
Total:	26,257	\$5,754.494	52,045	\$1,933.171

Source: Oregon State University Extension Service using the Oregon 2002 Population Survey and edited IMPLAN model – 2001 data, MIG, Inc.

Calculating the Impact of Oregon’s Export-Producing Parents

To calculate the impacts of export-producing parents, OSU economists first determined the proportion of parents who use child care and work in each Oregon industry that produces exports (from the Oregon Population Survey). Next, the percentage of output for export in each sector was calculated. The “child care enabled export employment” was determined by multiplying the percentage of export production for each industry by the number of child care-reliant parents’ jobs in each industry. It was then possible to isolate the export production attributable to child care-reliant parents and estimate the impacts to the economy in a specific year.



Child Care: For Our Future Economic Success

Preparing our children and our communities for success begins with quality child care programs.

While production, job creation and exports are essential to the economy, these factors alone do not ensure economic health. Attention to the quality of life and human development are equally important to economic development.

High quality child care can be a vital contributor to the healthy development of Oregon's young children:

- More than a third of Oregon children are in paid child care during the most critical stage of their development, from birth to age five.¹⁵
- A majority of early childhood researchers concur that a strong link exists between high quality child care and children's success in school.¹⁶

The child care industry plays a valuable role in human development. However, the nature of that contribution is heavily dependent on the quality of services offered. Several factors can affect child care quality, including the industry's low wages and high turnover.

"The developmental effects of child care depend on its safety, the opportunities it provides for nurturing and stable relationships, and its provision of a linguistically and cognitively rich environment. Yet, the child care that is available in the United States today is highly fragmented and characterized by marked variation in quality, ranging from rich, growth promoting experiences to unstimulating, highly unstable, and sometimes dangerous settings. The burden of poor quality and limited choice rests most heavily on low-income, working families whose financial resources are too high to qualify for subsidies, yet too low to afford quality care."

Source: *From Neurons to Neighborhoods: The Science of Early Childhood Development*, National Research Council and Institute of Medicine.¹⁷

*"Investment in children, their school readiness, and the productivity of our future workforce is a long term investment in human development. This is a critical component in economic development."*¹⁸

– Mildred Warner, Ph.D., Associate Professor
Department of City and Regional Planning, Cornell



The quality of the child care currently available is uneven:

- National studies have found that 65% of child care arrangements for young children are fair to poor. Although such studies have not been conducted in our state, there is no reason to expect Oregon child care to be markedly better.¹⁹
- Some 48 of Oregon's 1,455 child care centers and 10 family child care homes are accredited. (Accreditation is a nationally recognized designation granted to child care facilities that voluntarily meet rigorous standards for physical space, curriculum content and teacher qualifications.)²⁰

The High/Scope Perry Preschool Study

Among several long-term studies of the effects of high-quality early care and education, the High/Scope Perry Preschool study is probably the best known. Conducted over four decades, the study followed a group of low-income three- and four-year-olds into adulthood. At age 40, those who participated in a quality preschool program in their early years were more likely to have graduated from high school and hold a job, had higher incomes and had committed fewer crimes. Overall, the study documented a return to society of more than a \$17 for every tax dollar invested in the early care and education program.

Source: Lifetime Effects: The High/Scope Perry Preschool Study through Age 40.²¹

Investments during the early years reduce spending in the long-term.

Investments in human capital yield economic success not only for those being educated, but for the overall economy as well. Several long term studies show that quality programs, particularly for low-income and disadvantaged children, decrease the likelihood of special education enrollment, juvenile delinquency, adult

incarceration, and welfare participation. In addition to the

long-term educational and social benefits to young children, quality child care is associated with an increase in overall quality of life and reductions in public spending.

Realizing the potential of Oregon's future workforce is imperative to our state's growth and progress. Skilled, educated employees attract new industries and increase economic activity. High quality child care must be part of a world-class education system that economic development experts believe will attract and retain businesses in our state.



"It should go without saying that the future of any state is only as good as the future of its children. To prepare ourselves for economic opportunity, we must prepare our children for it."

– Oregon Governor Ted Kulongoski

Child Care: Private Market for the Public Good

The child care industry suffers from the lack of affordable, high quality care.

Child care offers both a private and public benefit – private services for working parents and employers and a public service, preparing young children for success in school and work. However, market challenges limit both the private and the public benefits of child care and help make the case for strengthening the child care industry.

The biggest challenge is the lack of quality in available child care. Quality depends upon several factors, particularly the relationship between the child and the caregiver. Continuity within the relationship and the caregiver’s training and education affect the quality of care.

Since all parents want quality child care for their children, one would expect that such a demand would ensure the supply of high quality child care. However, the dynamics within the industry do not produce high quality care.

First, the financial circumstances of many child care consumers severely limit their access to quality care:

- Oregon’s benchmark for child care affordability is based on families spending less than 10% of household income on child care. Currently, among all families who pay for child care, 39% have child care expenses that exceed 10% of their budget.²²
- Low-income families spend about one-quarter of their household income on child care. Single parents spend closer to one-third of the income on child care.²³
- In most Oregon communities, low-income families receiving child care subsidies are able to access only about one-fourth or less of child care in Oregon’s child care market. This is because the value of a child care subsidy when combined with the family co-payment amount, does not fully cover child care rates in the market in most parts of the state.²⁴

High quality child care is too expensive for many consumers.



Second, parents currently lack basic information to assess the quality of individual providers. There is great diversity among child care providers and facilities, and in theory, parents can choose among them. Currently, most parents do not have the means to find out about the indicators that are linked to quality. Quality indicators are group size, adult-to-child ratio, provider's education and training, provider's compensation, turnover and stability of teachers and staff, accreditation, and licensing complaints.²⁵

Third, caring for children is labor-intensive. Labor costs are the majority of expenses for any child care business because of the high staff-to-child ratios needed (and required by law). So, to keep costs down, child care establishments tend to pay low wages and rarely offer benefits. This

results in a lower-skilled workforce and high turnover among staff.

Child care providers and child care teachers and staff report low pay:

- Findings from a recent compensation study conducted in six Oregon counties indicate that nearly three quarters (73%) of family child care providers gross less than \$25,000 annually.²⁶
- From the same study, child care center directors report an average hourly wage rate for teachers of \$9.71 – less than the majority of all other Oregon jobs.²⁷

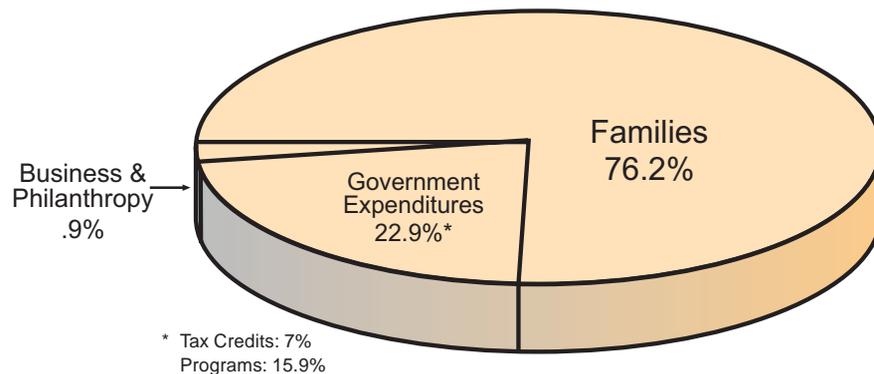
The Child Care Quality Indicators Project

A public-private partnership led by the Oregon Child Care Resource and Referral Network is piloting a project to assess and report the quality of individual child care providers. The project seeks the involvement of local child care providers. Local child care resource and referral programs will share with parents and other decision makers information about providers which research has shown affects child outcomes. As a result, parents will have additional information to help guide their child care choices, while providers have new ways to plan and market their services. For more information about the project, contact the Oregon Child Care Resource and Referral Network, 1-800-342-6712.

There is low profitability in child care due to high labor costs and lack of economies of scale.

FIGURE 14
Who Pays for Child Care?

Total Annual Oregon Child Care Expenditures: \$639,194,000



Source: OSU Extension Service using data gathered by the Oregon Task Force on Financing Quality Child Care.

How much does child care cost?

The cost of child care varies depending on the type of care, the age of the child and the geographical area. Prices generally fall as children's age increases because programs are able to care for children in larger groups. Child care centers and group homes generally charge higher prices than family child care providers. Median monthly prices in urban areas range from \$765 for full-time infant care provided by centers to \$132 for the care of school-age children in a family child care home.

Source: 2004 Oregon Child Care Market Rate Study, Oregon State University, Oregon Child Care Research Partnership.

The child care workforce can benefit from training, in both child development and in business practices. However, high turnover among child care businesses and child care teachers and staff works as a deterrent to investments in training and professional development. Since the child care industry is regulated, some basic training is required to operate a child care business. Currently, there are few incentives for advanced training and education, credentialing of providers and accreditation of facilities.

Further, most child care providers are scattered small businesses. These child care businesses lack the organization and structure that aids other industries in gaining purchasing power with their suppliers. For example, some industries have formed trade associations in order to negotiate reduced rates of liability insurance, health insurance coverage and workers' compensation. The child care industry has no such organization and for the most part, workers are not unionized.

State Regulation of Child Care

State laws enacted within the past decade have sought to improve and ensure the health and safety of children in child care. As a result, child care providers in all regulated child care settings are required to complete basic training, including recognizing and reporting child abuse and neglect, food handling, and first aid and infant and child cardiopulmonary resuscitation (CPR). All regulated providers and staff are also required to have criminal background checks. In addition, all regulated child care facilities, including family child care homes, must maintain health and safety standards and are inspected on a regular basis.

For more information about child care regulation, contact the Child Care Division, 1-800-556-6616 or check the Oregon Employment Department Web site at www.oregon.gov/EMPLOY/CCD.



Child Care: An Economic Development Strategy for Oregon

Economic development strategies should be applied to the child care industry

Sound economic policy seeks to improve productivity, encourage business profitability, promote community sustainability, and thereby, improve the quality of life for its citizens. Strengthening the child care industry is compatible with these goals. Further, child care should be recognized as a public or social good, worthy of public and private investments because families and child care providers are unable to solve the problems of child care quality and affordability on their own. Support should come from both the public and private sectors and should be driven by economic necessity as well as positive outcomes for children.

a unique combination of strengths, resources and challenges that affect the delivery of child care services, there are many common strategies that should be considered to strengthen the child care industry as a whole.

The following are some of the ways in which Oregonians can work together to strengthen the child care industry:

1 Integrate child care in economic development planning.

The primary goal of economic development planning is to create job opportunities in local economies and enhance business productivity. Because child care is an infrastructure that enables production and supports the economy through sales, jobs and income, the child care sector should be targeted in comprehensive plans and other long-range economic development plans. State and local planning entities should consider how child care fits into future economic and community development. Economic planning is a forum for both the private and public sectors to explore a wide range of tools and strategies. These include advertising and marketing, tax abatements to encourage business development, capital investments, workforce development and business productivity, retention and expansion.



2 Enhance the productivity of Oregon's workforce through employer-supported child care and work-life policies.

Workforce productivity can be enhanced through the establishment of work-life policies by Oregon employers. Examples are child care subsidies, child care resource and referral services and dependent care assistance plans (which may qualify companies for tax abatements). Oregon employers including Eagle Crest Resort, Sony Corporation, Intel, Tuality Hospital, Bonneville Power Administration, and Good Samaritan Health Care Services are among Oregon's models. These organizations are already demonstrating how employer-supported child care programs and policies help recruit and retain qualified employees, reduce worker absenteeism and turnover, and improve worker productivity.

"Investment is the base of economic development. When private investment fails to meet a community's particular needs, public investment or public-private partnerships can be applied."

Source: Linking Economic Development & Child Care Project (2004), *Economic Development Strategies to Promote Quality Child Care*.²⁸

State and local government, businesses and employers, and the child care workforce all stand to benefit from a larger role in investing in and planning for improvements in the child care industry. While local Oregon communities have

3 Encourage the use of state and federal tax credits to stimulate private investments in child care.

The Oregon Child Care Contribution Tax Credit is an innovative public-private partnership that offers individuals a return on their investment in tax credits. The sale of the tax credits funds child care quality improvement and supply building in local communities. Currently offered through a pilot program, these tax credits warrant further expansion and support. In addition to this new type of tax credit for individuals, existing federal and state tax credits are designed to encourage more employers to offer child care to their employees. Yet, few Oregon employers know about or use the tax credits. As strategies to help make child care more affordable for working families, these tax credits deserve to be extended and widely promoted.

4 Ensure that Oregon leverages all available federal and state funding to support affordable child care.

State and federal subsidies make it possible for low-income working families to participate in the workforce by helping them pay for child care. In addition to serving as a critical workforce support for families, federal child care expenditures actually bring in new money to the Oregon economy. This infusion of funds creates a linkage that supports Oregon jobs and income. Although federal and state child care expenditures have improved, these investments remain well below the amount needed to serve all eligible families at or near poverty and are not sufficient for families to access most of the available care.

5 Apply workforce development resources to support training, job placement and staff retention for the child care workforce.

With over 14,000 workers, the child care industry is a major Oregon employer. As any large or small employer knows, the key to gaining a competitive edge in the market involves the ability to recruit and retain a well-qualified workforce. Despite its relative size, the child care industry suffers from a low-skilled workforce and high turnover that result from perennial low pay and lack of benefits. Through the application of workforce development funds, child care workers can gain better access to training and education. One example of a viable workforce development strategy is a promising program called Oregon CARES (Compensation and Retention Equals Stability). Currently, a demonstration project, Oregon CARES links the incentive of higher compensation to a career ladder, not only to encourage training and continuing education, but to reduce worker turnover and promote greater retention of qualified individuals within the field.

6 Forge stronger links between small business assistance centers and child care resource and referral programs.

Small business development centers have the expertise to help child care businesses hone business skills to prevent the loss of child care businesses over time and to help stabilize the market. Child care resource and referral programs offer the means to reach child care providers because they already work with providers, matching them with families that need child care. Greater collaboration between these two important community resources will help child care providers and facilities be more competitive while approaching higher standards necessary to promote children's positive development.



7 Strengthen investments in programs that provide age-appropriate, cognitive, social and emotional development necessary for young children to succeed in school.

There is growing evidence gathered from years of study and research that formal education beginning at age five is not enough, particularly for low-income and disadvantaged children. Simply put, children who fail to start school ready to learn will find it difficult to travel the path of prosperity. Not only are they more likely to fail academically, but they are more likely to become disruptive in class, drift into delinquency, and end up with a life in crime and/or dependent on public welfare. It's been shown that investments in quality early childhood programs actually result in a higher return, not just for the children who participate but for the regional economy. These investments in early childhood programs are one of the best forms of economic development a community can make.

"The returns to early childhood development programs are especially high when placed next to other spending by governments made in the name of economic development."

– Art Rolnick, Senior Vice President and Director of Research, and Rob Grunewald, Regional Economic Analyst, Federal Reserve Bank of Minneapolis.²⁹

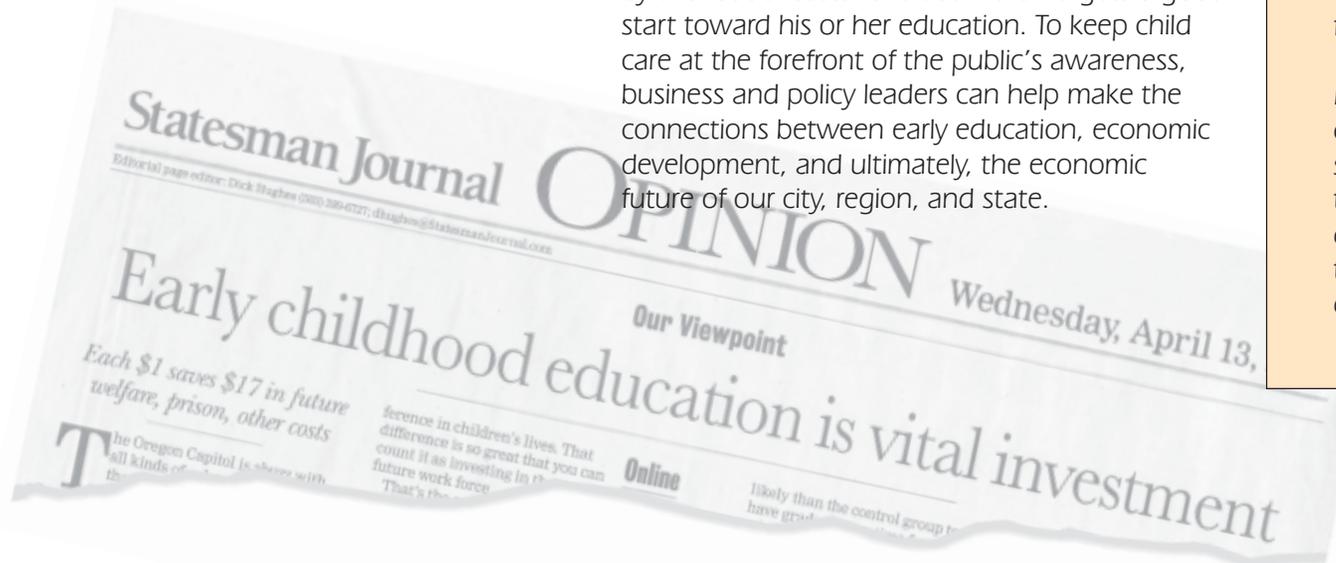
8 Enlist business and government support in promoting the link between child care and economic development.

As the evidence gathers, early education is attracting new advocates. More and more business people, focused on the need for a job-ready workforce, are coming to see early education as a smart investment that pays off many times down the road — a return increased by the “social costs” avoided if a child gets a good start toward his or her education. To keep child care at the forefront of the public’s awareness, business and policy leaders can help make the connections between early education, economic development, and ultimately, the economic future of our city, region, and state.

In Conclusion

This economic analysis demonstrates that child care has a vital role in our economy as support for parents, employers and the future workforce as well as a significant industry in its own right. Through input-output modeling, it can be shown that the child care industry is a worthy target for economic development strategies.

More and more, states and communities across the nation are starting to come together to address the role of child care in economic development. We offer the results of this economic analysis to begin the discussion in our state.



End Notes

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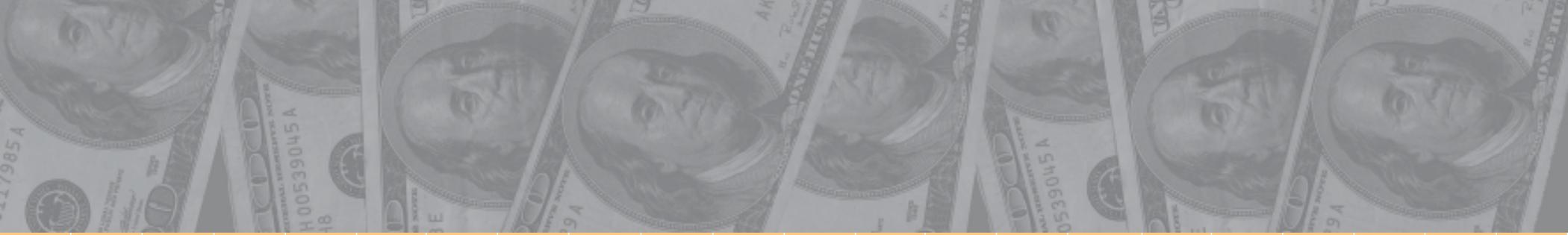
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