Transcript
FedTalk: Access to Childcare and Labor Market Participation
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Presentation

Speakers:

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Bruce Fallick:

Good afternoon. I'm Bruce Fallick, Senior Vice President in Research at the Federal Reserve Bank of Cleveland and the host for this month's *FedTalk*. *FedTalk* is the Federal Reserve Bank of Cleveland's public speaker series launched in 2019 in which we share research relevant to our community and ask you to join us for a discussion. All of our events can be found on the Cleveland Fed's website or on our YouTube channel. So if you're interested in viewing any past events, you can find them there. In today's *FedTalk*, we will discuss access to childcare and its effect on labor market participation. Lack of affordable childcare has been an issue for many workers, especially low- to moderate-income workers for some time. The COVID-19 pandemic has highlighted and exacerbated these issues, possibly contributing to the reduced labor supply and high job vacancy rates we currently see.

We have three expert panelists with us today to discuss these issues. Jason Faberman, Senior Economist and Economic Advisor at the Federal Reserve Bank of Chicago; Katie Kelly, Executive Director at PRE4CLE; and Laura Justice, Executive Director at the Crane Center for Early Childhood Research and Policy at Ohio State. A few housekeeping notes before we begin, your microphone and camera have been disabled for this session. If you would like to ask a question, please use the chat function, just type your question into the open chat field and hit enter, your question will then populate within the chat box and note that it will be available for all audience members to view at that point. So I will now turn to the panelists to introduce themselves and their organizations. Let us go in alphabetical order by last name. So Jason, you start.

Jason Faberman:

Great. Thanks Bruce. My name's Jason Faberman. I'm a senior economist and economic advisor with the Federal Reserve Bank of Chicago. I've been at the Federal Reserve Bank for nearly 11 years now. Before that I was at the Philadelphia Fed. And before that the US Bureau of Labor Statistics. I'm a research economist and policy advisor there with a lot of my research covering the labor market pretty broadly on a wide range of macroeconomic, microeconomic issues, and some urban issues related to how firms hire and fire workers, how workers find jobs, and the wages and job levels we see related to that. Thank you.

Bruce Fallick:

Thank you, Jason. Laura, would you go next?

Laura Justice:

Sure. Thank you. Good afternoon. I am Laura Justice, executive director at Crane Center for Early Childhood Research and Policy. And I'm a professor of educational psychology here at Ohio State. I came here in 2007. I love the Buckeyes. I am not an economist. I am a social scientist and I have a very active research agenda largely focused on kindergarten readiness, developmental disabilities, in particular language disorders, language and reading development. And then I have a strong, consistent emphasis on designing and scaling interventions. And relevant to this talk is we can view early learning programs and childcare as an intervention we provide to families and kids. And thank you for having me.

Bruce Fallick:

Thank you. Katie.

Katie Kelly:

Hi, good afternoon everyone. My name is Katie Kelly and I'm the executive director of PRE4CLE which is Cleveland's plan to expand access to high-quality preschool for all three- and four-year-olds in Cleveland. We are part of the Cleveland Metropolitan School District's transformation plan, really borne out of that and focused on expanding the quality of preschooling in Cleveland, expanding eligibility and access, removing barriers to preschool participation and making sure that families are able to access and understand the programs available to them. So my background is really working on early childhood policy and advocacy. Prior to PRE4CLE, I was the executive director of Groundworks Ohio, which works on the state level on early learning policy and funding early childhood health and mental health as well. So really looking at the full scope of need for children, birth through age five in Ohio. And started PRE4CLE in 2014 as a way to really focus on expanding access to high-quality preschool in the city of Cleveland. Great to be here with everyone today.

Bruce Fallick:

Thank you. Come back to you, Jason. So the two other organizations represented here today, PRE4CLE and the Crane Center, it's quite obvious why access to childcare is relevant to their missions, indeed, part and parcel to missions. Tell us why you and the Federal Reserve Bank of Chicago are interested in this topic.

Jason Faberman:

Sure. So I think not just the Chicago Fed, but the Federal Reserve System more broadly, childcare is an important topic for no other reason than our dual mandate as the Federal Reserve System is both price stability and in particular, full employment, right? So to understand why it's important, you have to understand what the Fed usually means by full employment. It means the economy being at its full level of employment given all the constraints facing it, given all the demands and preferences of everyone in the economy.

And the way we usually think about that is where the labor market is in terms of its current employment and where we think the labor market could be in terms of its potential employment. And one of the key inputs into that potential employment is labor supply. How much labor people are willing to supply to the market for whatever various reasons. And obviously childcare plays a big role in that, plays a big role in terms of working moms or moms thinking about entering the labor force. And because of that, it's a big deal for the Federal Reserve System. And that's the main channel by which childcare plays a role for what the Fed cares about. And that's the main reason not the Chicago Fed, but the whole System, cares about childcare in general.

Bruce Fallick:

Thank you. Laura or Katie, would you like to add anything about why this issue is important to the economy as a whole as opposed to the particular parents involved?

Katie Kelly:

Sure. I'm happy to jump in. We've talked about early childhood policy for a long time in Ohio and certainly been part of the national conversation. What we see on the ground especially for women, access to childcare and particularly quality childcare where parents feel confident that their children are being cared for well and are experiencing early learning in those settings is so critical to women being able to participate in the workforce and men certainly. But overwhelmingly the impact of a lack of access to childcare holds women back from either full participation in the workforce or any participation at all.

And so that's a huge issue when we think about family sustainability. And when we think about supporting families to be in the workforce, to participate in our economy. And that's something that I think we struggle with as a community, as a state, as a nation is really shifting our thinking of this from a cost to an investment, both in the current workforce and the future workforce, as those children experience the early learning that's going to set them up for success. And so that's really part of what we talk about a lot with our policymakers is, how do we shift our thinking on this as something that's really an investment in the workforce and the economy and not just an upfront cost?

Bruce Fallick:

So I hear you saying that there are two aspects here. One is the current participation of parents in the labor market, but the other is, if I may, the productivity and economic success of the children years down the road. Laura, do you have anything to add?

Laura Justice:

Yeah, I just want to... I can't speak for why the Federal Reserve might care about this issue from a labor market perspective, but I do just want to raise the issue that when we think about the labor market, especially enhancing women's participation, obviously they need someone to care for their children. They need someone that they trust to care for their children, so their children are thriving, but I do want to just make sure that we put on the table that the other labor market issue is the 5 million providers who are out there. And so we've got roughly 5 million, I'm going to call them early educators, to bring harmony to the many different people who do this work. And that is a market that is not thriving. They weren't thriving before the pandemic. And they have suffered really dramatically in the last two years.

I'm here at Ohio State. I have a school I'm responsible for. And we had many, many, many people who have been working from home for the last two years, but the teachers did it. I think they got about six or eight weeks off and I'm sure Katie can speak to this too. When we look at the labor market of providers, they're significantly underpaid because we under invest in the early education sector. So something like 50 percent are utilizing public benefits. So it's a very underpaid sector and I just want to raise... I'll just make one more comment that the rates of mental health issues within early educators, it's staggering and it's become worse. So when we talk about the labor market there's two, there's the families utilizing care, but then there's the people that we're using. And I think we have to keep both on the discussion board.

Bruce Fallick:

Great. Thank you, Laura. We'll circle back to that issue in a bit, but I'd like to pick up on the question of what the pandemic has done. My reading of the economics literature, at least, seems to be mixed on whether school and childcare closings have been a significant contributor to the decline in labor force participation and one might say labor shortage out there in the economy. What is your take on how large a factor those issues have been in the pandemic and how large they are today? I'll start with Jason on that.

Jason Faberman:

Sure. So I think it's mixed in part because there's two things going on at the same time. And the first is, the closing of schools created an unbelievable burden for working parents and in particular working mothers in terms of substituting for not having teachers there to help their children with online learning, remote learning, and so forth. So there was an unbelievable burden put on working mothers in particular during the pandemic because of the school closings. But from evidence I've seen, that hasn't necessarily translated into a lot of women quitting the labor force to do so. What we've seen more often than not is essentially working women having it worse off. Having to deal with working on top of dealing with the burdens of the additional child rearing, education, and so forth.

I think where it's gotten a bit confusing is, one of the things that was different during this pandemic compared to other recessions is normally during every recession we see a big wave of layoffs. That's a common outcome during economic downturns. And it usually hits men disproportionately more, but this time it hit women a bit disproportionately more in part because it hit a lot of industries that women are overrepresented in. So when we've seen a lot of women out of the labor force or just not employed in general, it's because they've lost their jobs at a higher rate than they normally have. Not necessarily because they're quitting to take care of childcare or other duties, like I said, more often that what we're seeing is women who are still employed essentially pulling double duty more than they've ever had to do before for.

So that's what I've seen in the data. And in my take on things is that this downturn, the pandemic in particular, has been tough on working families and working parents, working mothers in particular, but it's not necessarily because women are quitting their jobs to take care of kids, it's really because they're pulling this double duty of both the additional burdens of child rearing and holding down the job.

Bruce Fallick:

Thank you. I see Katie and Laura both nodding, would you like to add anything to that or has Jason said it all?

Katie Kelly:

I think Jason really captured what's happening with women as far as what we're seeing here as well, but I think one other effect that we're seeing along the lines of that double duty conversation is that children are also... Women are not leaving their jobs, but many children are going to very unregulated suboptimal childcare settings, sort of neighbor, friend, family kind of care. And so that's the other part of that picture too, that's what's allowing some women to stay in the workforce, but again, going back to that conversation of what is the dual impact both on the workforce today, the workforce tomorrow. So that's another ripple effect of that is that women are doing double duty and in some cases really relying on these informal networks where children may not be getting any of those early learning benefits.

So women are cobbling together and parents are cobbling together what they can to make this work, but I do think we've seen some impact here. We did our own survey of families in the Cleveland area with young children. And we definitely had women reporting, and some dads as well, that they are reducing their hours. They're passing up what we see traditionally, but maybe even more exaggerated passing up opportunities for promotions, those sort of things. So maybe they're not leaving the workforce entirely, but they may be missing out on opportunities and sidelining their career in a way that will have really strong economic impact on them throughout the rest of their life. So that's another part of that too is, what are those impacts below just leaving the workforce that many families are going to have to experience over the next set of years?

Laura Justice:

Well, it's funny, Jason introduced the idea of double duty. Katie followed up with it. I actually made it, that resonated with me in multiple levels. I'm an academic and I have academic female colleagues who are single parents who do a full day job. And then they do a full night job and I'm astonished at how they cobble this together. And I think kids are paying the ultimate penalty of the pandemic. The screen time is out the roof. People are living on DoorDash, kids are really paying a penalty.

But as Katie was talking, I was recently reading a report from the US Department of the Treasury 2021 and they shared a statistic about the... They looked at women. These were professional women in three categories. I think it was PhDs, physicians, and MBAs. I think that was the three subgroups. And they looked at the economic costs of leaving the workforce for an 18-month period due to inaccess to childcare. And they showed the really significant life loss of earnings for the professional women who didn't have access to childcare. And as Katie was talking, I was thinking, what penalty are women in the labor market or not anymore going to pay for many years to come due to what we've just gone through?

Bruce Fallick:

Do you think that the large increase in teleworking and remote working has a role to play in having mitigated these problems or mitigating them in the future?

Laura Justice:

I'm just going to jump in briefly and say, if we're talking about teleworking in terms of providing access to the labor force in absence of care. Sure. Absolutely. But as Katie was alluding to, what in the world are the kids doing during the day? I do a lot of work on early brain development. This is the peak of brain development around three years of age. That's when all the neural pathways are being formed that we're going to rely on for the rest of the human lifespan and kids are living abysmally right now. We did a study here at the Crane Center early in the pandemic and little kids on average were spending about 48 hours a week on the screen. And screen time is not good for kids. That's why the American Academy of Pediatrics says no screen time before age three, it's not good for development. And so, sure, teleworking I think offers some economic advantages, but I think it's disrupting our kids' development really dramatically.

Jason Faberman:

Yeah. I'll just add too, Bruce. Building on what Laura is saying, the way really teleworking post pandemic would really matter isn't providing flexibility for parents not necessarily to take care of their young children themselves, but to provide access for children. So there is somewhere and they're interacting with them, stimulating their minds, working with them, providing all the benefits. This long literature across multiple fields shows is good for early childhood education and providing them the flexibility to get back and forth to provide that early childhood daycare, whatever it is, that early childhood investments in education for them and not necessarily put the burden on the parent themselves while working at home and trying to take care of their kid. That's really where the benefit probably would have its biggest impact going forward.

Bruce Fallick:

Thank you. I'd like to pull back at this point from the immediate situation in the pandemic to take the longer view, what would you say are the main structural issues in this area that we have to deal with? The main structural challenges that existed before the pandemic and are likely to exist after the pandemic. So who would like to start on that one?

Katie Kelly:

So I'll start and just say, part of the challenge of... Most of the challenge of early childhood comes in the fact that it grew up as a system that has multiple programs in multiple settings with many different funding streams and eligibility levels. And so unlike the K12 system which has now become a little more fractured with charter schools and other players, but primarily there is a delivery system that is unified, that is delivered by the state. Early childhood has private childcare, it has Head Start which is federally funded, it has state-funded preschool that happens in public schools and other places. And so you have a very fractured way of delivering this service and that has led to, I think, a really difficult system of thinking about how we fund and support childcare in these multiple forms.

And of course, the biggest driver, the biggest stress on the system is the cost, that we are not providing enough public funding to adequately support primarily the labor force within childcare to pay them a living wage, to supply them with benefits in order to attract and retain a quality workforce. And that trying to put that burden onto parents is just not realistic. They can't afford to do that either. And so we have this tension of basically we've been supporting childcare through the very underpaid labor of primarily women in that workforce who are doing this out of passion, out of care for children, out of love of this work, and it's not sustainable. And we're seeing that now play out with the extra burdens that COVID has laid on top of that being the final straw of breaking that system open.

That's the main tension, but then there's also things around who's eligible for childcare. Ohio has one of the lowest, just as an example, one of the lowest eligibility levels in the country that really holds the system back, how we pay providers, providing them with the consistent revenue stream in order to do this work. So there's lots of structural things we could do, but really the workforce issue and the underfunding of this workforce is the central point because it is just a labor driven service. There's no way to automate around caring for children and there's no way to have 20 toddlers with one teacher and make it a quality experience. And so that's really what we're looking at is, how do we provide this service? How do we make the public investment it will really take to make it affordable to families and have the benefits to children that we know will be there?

Bruce Fallick:

Laura you're nodding, would you like to add anything?

Laura Justice:

Well, I think Katie gave a great summary and she started by talking about how fragmented the system is. And I don't know who the participants are, but a lot of people perhaps don't realize how very fragmented the system is. And the typical early provider is a one-off. It's like us here, at Ohio State we have six classrooms back here and we have no other buildings that we operate and that's very, very typical across the United States. And so what you have is amazing heterogeneity across sites and lots of kids cared for in homes. But I think Janet Yellen described childcare in the US as a massive market failure and largely it's because it's not only chronically we under invest in it, but you have this liquidity constraint where you're asking families to pay for childcare when they have the least amount of money.

When I had kids in my 20s, I was poor. I was in college. I was getting my doctorate. We had no money. And so you're asking families to pay for this when they paradoxically cannot bear that expense. And I think across the OECD countries, we're 35th out of 37 in terms of investment in early childhood programmings. And so for parents out there, you get what to pay for. As a country, we get what we pay for. And we have systems that are underfunded and it's not good for parents, it's not good for the providers, and in many cases, it may not be good for the kids.

Bruce Fallick:

Thanks. Oh, Jason, go ahead.

Jason Faberman:

Yeah, I was going to add, related to what both Katie and Laura are saying, there's also the issue in terms of not only is the market fragmented, but in the private sector in particular, it's difficult in many cases to maintain daycare centers in part because not only do these jobs have low wages, but they're often high turnover and the amount of turnover of workers in early childcare centers is pretty high, making it harder to retain workers, to retain good workers, and obviously provide good childcare. The pandemic underscored that too. One of the industries we've seen the weakest rebound in employment is the childcare sector, the sector of daycare centers and so on is still well below its February 2020 employment and it is one of the worst industries in terms of recovering. So there's the added constraint that the industry itself has issues growing or even just maintaining its employment to provide these services.

Bruce Fallick:

Thanks. I'm interested in that, that the childcare sector has had one of the slower employment rebounds. One would've thought that would not be the case because the very sectors or industries and occupations most heavily populated by women, a lot of them have been coming back in a strong way. So what do you attribute that weak recovery in the childcare sector too? Is it income or is it in the supply side of childcare workers?

Laura Justice:

I want to jump in and share something and I'm really eager to hear what Katie has to say up in Cleveland, but this is a bit anecdotal, but I will tell you, a lot of people had to come back very quickly in the pandemic. We were shut down for about six weeks and that was solely based on government orders. Our teachers were terrified being in the classroom. They were terrified because guess what? One- and two-year-old and three-year-old kids can't wear masks. And we also thank you Governor (Mike) DeWine for your wise, wise decision to vaccinate K to 12 teachers, but not your early educators.

So not only were they terrified, but they were insulted by governor actions. So they were not frontline to be vaccinated and they were so scared. They were so scared of getting the virus and bringing it home to their children or their parents. And they were not protected. You can't be protected when you're caring for a two-year-old kid. So we had a lot of teachers who were absolutely sick being here psychologically. And I don't know how much that paid a price, but everybody else got to mask up, but not in these classrooms, they couldn't. Now that's an anecdotal response.

Bruce Fallick:

Thank you.

Katie Kelly:

Yeah. We saw a lot of the same things in Cleveland, certainly fear among providers was very high and it played out that way. Many of our centers did experience multiple outbreaks within their sites. They'd have to close temporarily and reopen. So the labor flow was very uneven here. And I think part of it, too, is that going into this, at least in Cleveland and I think this is similar in other areas, many are primarily women, again the childcare labor force is 96 percent women. Many of them were older women here who also had preexisting conditions. And so they were already in these very low-paying positions, $11 an hour is the average hourly wage here. And many of that is coupled with a lack of benefits as well, doing this job again, out of a passion for the work. But to come back to that and risk your life, risk the health and safety of your family, it wasn't a scenario that they could afford anymore.

And then coming out of that, basically every other job around you pays more, you can get a job at Taco Bell for $22 an hour. And so I think that they're weighing that cost benefit of, can I really afford to do this job even if I love it when I can get a job basically anywhere else for a higher wage and to not continue to risk my health and safety, the health and safety of my family.

And coming back into classrooms, as Laura said, where children have experienced a lot of trauma, their mental health is very challenging. And so you're now dealing with all of that on top of the stuff that is just normally hard being in an early childhood setting. So it's a very challenging... There's multiple facets of this problem, but it's a very challenging place. But I think primarily, the uptick in wages across the other parts of the labor market are going to continue to make it very challenging until we seriously invest in paying childcare workers more than we're doing now.

Bruce Fallick:

Jason, were you about to unmute there? Yeah, go ahead.

Jason Faberman:

Yeah. I think Katie nailed the main points I'd want to say. I think what I'd add to that is, when you look at the data, this is not anecdotal. This is part of a broader trend. Putting what Katie and Laura said in another way is even in good times, a childcare job is not a great job. It's a pretty difficult job to begin with and it doesn't pay well. And what we've seen in the pandemic not just in the childcare industry, but across a broad range of jobs that don't pay well, that have benefits, that have difficult hours in many cases, but also have what we sometimes refer to as high social contact. In other words, they're exposed to a lot of people during the pandemic.

Those are the jobs that haven't come back and they haven't come back in parallel with what the popular press often calls the Great Resignation. The fact that we're seeing a lot of people moving up the job ladders, switching to new careers, switching to new industries, just switching to new jobs in general in short because they can, because there's better opportunities out there. Maybe because during lockdowns, they were able to find more time to finally look for something different, maybe because of the added exposure and the added risks, they went out of their way to look for something else. But there's been a lot of people that have switched out of childcare and out of a lot of other industries that just aren't coming back, they found a better job. They found something with benefits. They found something maybe it wasn't like their dream job, but it's definitely paying more than what it was and the hours and the risks are much lower than what they had.

And because of that, it's going to be very difficult to fill these childcare positions and positions in similar industries going forward. And that's showing up in a broad range of macroeconomic data on the labor market. So yeah, I think Katie and Laura were spot on with everything they described. And I just add to that that these are part of bigger trends we're seeing in childcare and similar jobs. So it's not just some anecdotal evidence. There are big policy and macroeconomic implications because of it.

Bruce Fallick:

Thank you, Jason. I want to come back to this notion of fragmentation for a moment. I'm curious as to how the challenges facing parents when it comes to childcare differ between the lower- and moderate-income communities that I started out in the introduction citing and higher-income families, is that part of the fragmentation?

Katie Kelly:

I think that some of the problems we're describing exist. Lack of childcare workforce exists across lower-income and higher-income areas. I think at least what we're seeing in Cleveland is the higher-income suburbs around the city, enrollment is returning at a much faster rate within the city of Cleveland. And so we see a different pattern here. I don't know about nationally, maybe Jason or Laura can speak to that. But I think that there's just a greater ability to access different kinds of childcare, too, when you have greater resources available to you, maybe you bring in a nanny to your home, maybe you can afford to pay more for private childcare, and so you're in a different position.

So I do think that some of this is going to impact. And then of course the labor force in those areas may be different as well and have different challenges as far as their ability to return to those settings. So I think that's all part of it, but at least here in Cleveland, we're seeing a different pattern in higher-income areas where children are able... Those centers are opening up faster and children are able to return at a greater rate.

Laura Justice:

I want to... I'll jump in, is that okay, Jason?

Jason Faberman:

Yeah.

Laura Justice:

So I just want to touch on a topic that is a tiny bit sort of ancillary to the question, but Bruce, you asked about fragmentation and you asked about sort of implications for our lower-income families and our more advantaged families. And maybe there's a lot of economists paying attention, I have no idea, but the economics really founded the study of peer effects and peer effects are when you have natural groupings of people in a school, a community, rec center, and it's how we're influenced by the people around us. And so there's a long history of this peer effects literature in the economics world. And then now there's much more interest in psychology and education, but the fact is kids affect one another.

So if I'm a four-year-old in a classroom with 16 other kids, my development is significantly influenced by the skills and attributes of the kids in my classroom. And so how is this relevant to fragmentation? Well, we've created this highly fragmented system that's largely driven by the funds that are supporting a program. So if it's federal funds, those are creating Head Start classrooms which only serve low-income kids. If it's private tuition dollars, most private tuition place, the big boxes, the franchises out there, the Goddards, they're not accepting kids on subsidies because it's too difficult. So they're only serving middle, more affluent kids and so on and so forth.

So what we're doing from a social justice perspective, we're pushing kids into classrooms based on how much money the family has. And we all know that poverty is harmful to children and we're clustering lots of lower-income kids into a classroom together. That is not good for their development. And so I just want us to be really cognizant of the fact that, by design, when kids are little, they're two and three and four years of age and we're tracking them into these classrooms and it is not good for their development.

Bruce Fallick:

Thank you. Jason.

Jason Faberman:

Yeah, I'll just add, I think Katie and Laura nailed the main points or the main issues. The one additional issue to think about as well and when thinking about how this differentially affects higher- versus lower-middle-income people is the types of jobs and the flexibility they afford for the families in terms of outside of the wage and what they can afford. People in our jobs, if we have to leave a couple hours early to pick up our kids, it's not a big deal. People as a waitress, as a cashier, someone working on hourly jobs, they don't have that flexibility. Those jobs tend to be the lower-middle-income jobs and that's just an added burden and an added constraint to this access to childcare in general that disproportionately hits those low-wage jobs more. They often come without this added flexibility of being able to improvise or dealing with the schedule of whatever daycare center you can find for your kids to balance with your work as well.

Bruce Fallick:

Thank you, Jason. I'd just like to take a pause here to remind everyone out there that the opinions of our panelists and indeed of me do not necessarily reflect those of the Federal Reserve Bank of Cleveland or the Federal Reserve System. And that includes, I assume, the Federal Reserve Bank of Chicago and includes Jason. So let me just be clear about that and then move into my next question. This is a question that I've long thought about, long been interested in, and it is suggested by something that Katie said and I'm going to also quote a Wells Fargo report that one of our panelists pointed me to, I'm sorry, I don't remember whether it was Katie or Laura. They said, "Daycare services are labor intensive, giving limits to how many children caregivers can reasonably watch. The cost is overwhelming for most families, but still low-paying for caregivers."

Now Katie mentioned both of those things, actually all three and mentioning 20 to one, child to teacher ratio is not good for the kids, but it raises a question in my mind. In most markets, if we were to see that, we might say that from an economic point of view, it means that paid childcare is inefficient. If the parents can't afford to pay the other people enough to watch their kids, then they should be taking care of their kids themselves. Now that's a very private narrow view, and you've already suggested some reasons why we might want to take a more expansive view of the value of childcare. And let me be clear here, this becomes relevant when we're talking about government subsidies. So the question is, why does the public have an interest in helping people find and afford quality childcare?

And a couple of the things that have been mentioned already are peer effects. The effect on what economists would call national human capital down the road. Social justice has been mentioned. That is equality of opportunity, economic opportunity for the parents. And obviously, in some cases we might think that it is in fact more efficient to have one teacher taking care of multiple children, rather than it being one to one parent to child. But I expect that you think there's greater value more than those factors at play here. So who would like to speak to why it is in the public interest? Yes, Laura.

Laura Justice:

Yeah. I'll just comment briefly that it takes very specialized skills and knowledge to educate little children. And so I think we don't realize that because of the way we have crafted many of the childcare positions that are out there, but kids are exploding in their development across multiple dimensions from birth forward, language literacy, numeracy, social competence, mental development, physical development, they're really complicated little beings. By two years of age kids using really complex grammar as any parent knows. So there is a highly specialized skill set that you need to do this job well. If you go over to Denmark, Denmark which has a fully funded universal system starting when kids are babies, every educator in their classroom, I think they call them pedagogues, but they have a university credential that's highly specialized. So we cannot dismiss even though we don't pay for it or value it in America, it actually takes a lot to do this job well.

Bruce Fallick:

Thank you. Katie or Jason, do you have anything to add?

Jason Faberman:

Yeah, I guess I'll just underscore the key benefit, I think, people overlook is the long-run benefit to the kids themselves in terms of early childhood education. I think we don't quite know in terms of how strong the effects are on women's labor supply, but we do know without question that there are huge benefits to investing in early childhood education for the kids themselves and it pays off huge in the long run. And I think that's the one benefit that's being missed out or miscalculated in a lot of these calculations that go into what we're willing to do to invest in childcare, day care, and so on. And that seems the one thing that needs to be highlighted is that benefit there.

Bruce Fallick:

Jason, can you elaborate a little on the nature of those benefits?

Jason Faberman:

Yeah. I think what research has shown, so Jim Heckman at the University of Chicago has an entire research agenda devoted to this, where they've just shown anything from talking some more with your children to an added year of pre-K, anything along those lines, fairly simple things have huge benefits in the kids' performances in school, later on in life, in the probability they'll be engaged in crime or other activities, in their overall mental health. There's a whole wide range of outcomes, both labor related, social emotionally related, and so on, that benefit the kids in early childhood education. And I think Katie and Laura could probably get into the details better than I could, but there are these huge benefits and they start by investing in the children before kindergarten is what the research shows. And by having an underfunded childcare system, we're not doing that.

Bruce Fallick:

Thank you. Katie.

Katie Kelly:

Yeah. And I think that was all right on as far as how we think about why this is such a critical investment. And I think also if families can stay home with their children and provide those benefits, that's a question we get from policymakers often is, don't we want families to be home with their children? And I would say, if that's possible and they have the ability to provide enriching early learning experiences. But of course we know that for many, many families, that would not be sustainable, not unless the state wants to support parents to stay home which I don't think that's on the policy agenda. At least in this country we see a lot of benefits for our parents being able to participate in the workforce.

And then of course, as Jason and Laura just said, the impact on children is so incredible. And that's really why we are doing this work in Cleveland. When we started, only about 50 percent of kids were entering kindergarten either partially or fully prepared. And we know from research from Laura's center themselves, that the impact on children entering Ohio's... On our kindergarten readiness assessment, we can predict how they do on that assessment looking at how they're going to do in third-grade proficiency, it's a very clear path. And so we really wanted to make sure that children had every ability to start kindergarten ready to learn.

And as Laura said, a lot of that can come from, especially for lower-income children, the research shows time spent in high-quality sites. And again, that's why it needs to be high quality with teachers that are trained, with curriculum, with the right kind of supports and assessments to make sure that is an early learning environment and not just care, but when that's present, we really see that impact on children. We see it right here in our own community, in our own state, and then many, many studies across the country and across the world showing that impact.

So that's really [inaudible 00:46:55] this as a cost and also as an investment, it allows families to participate in the workforce. It allows families to find that self-sustainability that I think we all want them to be able to have. And that it also provides that enrichment during that amazing first five years of life when so much brain to development is happening. And so that's why communities across the country are really focused on this as a really critical core investment and support that we want to see put in place.

Bruce Fallick:

Thank you. Now I see we have about 10 minutes left in the program. Is there anyone in the audience who would like to ask a question of our panelists? Well, none yet, but if anyone would like to, please enter it into the chat box and it'll come to me. And while we're waiting for that, I'd like to turn our attention then to what appropriate policy responses would be. So in general, you've all mentioned funding. Perhaps we can be a little more specific in... You've mentioned funding and fragmentation. Those are the two things I might concentrate on and I suppose also the workforce issue, lack of childcare workforce. So perhaps you would like to discuss some more particular policy responses that you think ought to be considered and at what level?

Katie Kelly:

I'll jump in and just building on some of my comments before, there are some specific things when we think about... Obviously, funding is a big part of that answer, but when we also think about structural ways that families access childcare, one is each state receives federal funding and also has a state match for that funding. And then states are able to set what's called an eligibility level that allows them to decide how many families in their state are able to access childcare. Ohio as an example is at 130 percent to 140 percent of the federal poverty level. That's very low, one of the lowest in the country. And that really limits again, leaving families between 140 percent and just 200 percent of poverty, that is very difficult to afford childcare still in that range.

And so that's really limiting for families and it's also limiting for the system. If childcare centers are able to obviously enroll more children, it allows their model of sustainability to increase because the greater their enrollment, the more financially stable they're able to become. And so it's both, it's allowing families to access and it's allowing our childcare providers, and as Laura said, many of these are independent childcare operators, they don't have a large economy of scale to back up what they're doing and so allowing them to reach greater levels of enrollment allows them to reach sustainability. So that's one huge policy that can be put in place right away. It's something that we've worked on for many years is really arguing for that eligibility increase to go up to at least 200 percent of poverty to really get to those first several tiers of income for families. That's one issue that I would put on the table.

Bruce Fallick:

Thank you. Thank you. Before we hear from Laura or Jason, if they want to add something to that, there are a couple of questions that have come in from the audience. One is childcare workers who have left the industry, what do we know about what types of jobs they are moving into? And the question asks anecdotally, if there is harder data on that that anyone knows of, I'd like to hear about that as well.

Jason Faberman:

Sure. I'll take this one. So I don't think we know exactly which jobs those in the childcare industry are moving into. We know in general, where we do see a shift in workers from childcare, retail, hotel, eating and drinking places, so on the places that the industries that really haven't recovered, it's jobs and sectors that have grown quite a bit in response to the pandemic. So essentially all the stuff that's been supporting our consumption while we've been at home. So warehouses, distribution centers, big-box stores, and transportation-related jobs.

So jobs that are paying not a lot better, but somewhat better and have much higher stability in terms of regular hours and benefits. So a lot of those jobs tend to be male-dominated. So it's not clear how many from childcare specifically are going to those jobs. We also know a lot of other more working-class, but white-collar jobs like in administration and so on, what we consider standard 9:00 to 5:00 jobs have been growing quite a bit as well. So anecdotally we'd expect a good chunk of the workers who have left childcare to be showing up in there as well.

Bruce Fallick:

Thank you. Another question that has come in, recognizing the importance of having a sustainable workforce, have you seen any employer-driven solutions to childcare? So that is, this is presumably an issue for employers who are having difficulty these days in maintaining adequate workforce, presumably absenteeism, et cetera, is an ongoing problem for many employers who have staff who have children with childcare difficulties, are you seeing employers take action? I'm seeing Laura shake her head and Katie as well. Not much on that front? Okay.

Katie Kelly:

No. I have. We are not seeing that here. I think COVID has helped us bring some of these childcare issues to the forefront, but I think communities are really slow to grapple with how to deal with it. And I think employers are part of that. At least we're not seeing a very concerted effort from private employers to figure out some solution to this.

Bruce Fallick:

Thank you. Any more questions from the audience? What does the panel think about funding or programs supporting early childcare credentials? So I actually don't know anything about that. Are there programs that provide credentials for childcare providers?

Katie Kelly:

So Ohio has, and states handle this differently, but a lot of states and Ohio is one of them have state funding that goes into teachers obtaining credentials and degrees in early learning. And I think it's an interesting idea to ask, it looks like the question is around, can we in return for that ask people to stay in the workforce in that setting for a certain period of time? That has not traditionally been... There is a part of that is interwoven into that program already where the employer makes a commitment to support that scholarship path as well. And then the childcare teacher or staff member commits to staying in that site for a certain period of time. So some of that is already in place in Ohio.

And I think that's something that's being looked at, too, as people think about using some of these federal relief dollars that are now flowing to childcare sites for signing bonuses or compensation enhancement is part of that, a commitment from the childcare teacher to stay in that setting for a certain period of time. I think some of that is happening and will happen. I just don't know how big of a... It's very much a Band-Aid approach. Those dollars are going to run out and then what? And so I think that it's great that those are there on a temporary basis, but thinking long term it's not a long-term solution.

Bruce Fallick:

Thank you. So we've time for one final question and I'm going to actually be inspired by, but not exactly ask the question that one of our audience members asked, but this person does ask about the notion of school districts providing early childhood education. Now, there's obviously a funding issue there as well, but do you have any thoughts on that as a mechanism for dealing with some of these problems? So nodding from both Laura and Katie, anything to add?

Laura Justice:

There are some school districts that are just doing a fantastic job. I think Boston is exemplar, one of the... And I bet Katie has a strong opinion because I think you're blending public school and community, there's a long, long history of community providers. And so places like Cleveland, they have to be really careful about going all in on the pre-K because you're going to crowd out a long tradition of community-based providers. One other thing I'll comment on is, in the world of early childhood, people really don't want it to be super academic. They want it to be developmentally appropriate where kids can flourish. And sometimes when schools do this, they become super academic. And so there's always a little bit of fear about cranking up the school-based approach to pre-K, but maybe Katie, you can add to that.

Bruce Fallick:

And Katie, we have just one minute, so if you can shorten-

Katie Kelly:

Yeah. Okay. I will wrap it up. I would just say in all of this, part of the reason the childcare early learning market developed the way that it did is because the needs of young children are unique to that time period. Families need flexible hours. There's families who need childcare in the middle of the night. So an 8:00 to 3:00 schedule is obviously not going to fit their need. And also that school districts can't afford or are not built to provide that service to every child. The City of Cleveland has invested a tremendous amount, investing $15 million a year out of our local funds to expand preschool, but they can't nearly serve every child in Cleveland. They don't have the physical capacity to. So I would just say we need an approach, thinking about everything we talked about today, that is flexible, that thinks about the needs of families and of children and of the workforce and takes bigger, bolder, more transformational steps.

We've been working around the edges and cobbling together both on an individual and a system level, our approach to childcare and early learning. And I think this time has given us a chance to really think about this in a more transformational way of, what is it that we really need to invest? What do we want for families? What do we want for our economy? What do we want for children? And what needs to be in place in order to make that happen? And I think that's the opportunity we have now to really think about this in a bigger way than we have in the past.

Bruce Fallick:

Well, thank you very much. We'll have to wrap it up there. Thank you to our three panelists. Thank you to our audience. The information referenced in today's program will be shared in a follow-up email to attendees and a recording of this program and of past *FedTalks* can be found on our website, clevelandfed.org. Thank you all very much. And I hope you'll attend our next *FedTalk*.