POLICY BRIEF

This is the third in a series of brief introductions to policy issues that affect the citizens of Jersey. The purpose of these briefs is to educate the public and alert New Jersey policy both in Washington and Trenton. The briefs are not intended to be a comprehensive research project. Rather, they provide a broad overview of an issue, often based on information or reports that already exist, but which may have gone unnoticed.

SUSTAINABLE ECONOMIC DEVELOPMENT: THE ROLE OF CHILD CARE

Introduction

At this important historical moment for southern New Jersey, and more particularly for Atlantic City, multiple strategic approaches are being explored for fostering sustainable forms of local economic (re)development. The aim is to make the local economy more resilient—over the business cycle and in the long run. According to the Institute for Sustainable Communities (ISC):

> A sustainable community is one that is economically, environmentally, and socially healthy and resilient. It meets challenges through integrated solutions rather than through fragmented approaches that meet one of those goals at the expense of the others. And it takes a long-term perspective—one that's focused on both the present and future, well beyond the next budget or election cycle.[1]

Local and regional economic development strategies traditionally focus on maximizing production and income given existing resources within the community. Sustainable economic development, in contrast, recognizes that such resources are not necessarily inexhaustible. Therefore, economic development will only be sustained if there is continuous reinvestment in natural, human, and social capital, in addition to financial capital and manufactured (physical)

[1] Institute for Sustainable Communities n.d.

capital.[2] Economic sustainability is intertwined environmental and social sustainability because economic productivity is dependent on the availability of natural resources, the skills and training of the labor force, and a social and political context that facilitates economic goals.

Maintaining and increasing a community's stock of social, human, and natural capital generally necessitates some degree of planning and coordination by community stakeholders and leaders.[3] The child care sector provides a perfect example. According to several studies by the Cornell University Department of City and Regional Planning, the child care industry has a three-fold impact on regional economic development

(1) It provides social infrastructure for parents and their employers, facilitating mothers' labor force participation and reducing turnover and absenteeism;

(2) It offers long-term investments by better preparing children (especially children from low-income families) to lead productive and fulfilling lives; and

(3) It represents an often overlooked network of small businesses that include non-profit, for-profit, and family providers who circulate income through the local economy, generating multiplier effects.

These benefits are what economists term positive externalities or third-party effects, because they accrue to people and institutions beyond the immediate providers of child care and their customers. Individual businesses are unable to charge third parties for these benefits, and therefore services with positive externalities cannot be provisioned solely through the profit

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motive. Public policy interventions such as grants, subsidies, and tax credits are needed to grow social infrastructure.

This important economic sector is sometimes overlooked by planners captivated by allegedly more exciting industries. The importance of this sector, however, is gaining more attention. This policy brief summarizes the case for including child care investments in plans for redevelopment of the Atlantic City economy. It estimates the potential economic impact of expanding high-quality child care. It also discusses some of the limitations of current policy frames, many of which focus on expanding access to full-day programs that operate during typical school hours. This ignores the rising prevalence of shift work, nonstandard hours, and unpredictable work schedules in service industries such as those that predominate in the Atlantic County region.

Key Findings

- A more sustainable path for the future of the southern New Jersey region will emphasize a planned shift toward more economically diverse and livable communities.
- Child care is one component of efforts to create sustainable communities that support intergenerational well-being and enhance the quality of life in local communities.
- Organized child care—which includes all forms of market-

In the sustainable communities approach, economic development (or continuous growth) is not an end in itself. The ultimate objective is sustainable communities. Building sustainable communities means "a better quality of life for the whole community without compromising the wellbeing of other communities."[4]

Sustainable economic development

appropriate to their skills and interests. People have access to local services. People spend some of their leisure time and consumption spending locally, including on the arts, entertainment, and hospitality sectors as well as retail. And they are able to raise their families within the community—not just temporarily reside there during their twenties. Just as a vibrant community needs to diversify its industrial base, it also needs to avoid overreliance on millennials, the "creative class," or any individual demogrA ȳ are unique and special."[12] It is important to preserve historical, natural and cultural assets. For Atlantic City, this includes an historic connection with tourism. The leisure and hospitality sector has been a critical aspect of Atlantic City's identity since the first planks were laid down on the responsibility."[14] The one exc

investments in this critical social infrastructure. The Cornell project developed a logo of a trillium flower with three petals to symbolize the benefits of child care provisioning for families, children, and regional economies. Their research agenda sought to investigate the role of child care services in enhancing jobs and income, human development, and sustainability:[17]

(1) It provides social infrastructure for parents and their employers, facilitating mothers' labor force participation and reducing turnover and absenteeism;[18]

(2) It offers long-term investments by better preparing children (especially children from low-income families) to lead productive and fulfilling lives; and

(3) It represents an often overlooked network of small businesses that include non-profit, for-profit, and family providers who circulate income through the local economy, generating multiplier effects.

This message is gaining support. In June 2017, the US Chamber of Commerce Foundation, for example, released a new study, *Workforce of Today, Workforce of Tomorrow: The Business Case for Child Care*. They are launching an initiative to explore how high-quality child care strengthens the current and future work force.[19]

The Comparative Multiplier Effect of Child Care Expenditures

Macroeconomists and regional development economists have long recognized the importance of multiplier effects: "Multipliers measure the extent to which purchases of goods and services in one sector stimulate activity in other sectors of the regional economy."[20] Demand-oriented

[17] Warner, Adriance, Barai, Hallas, Markeson, Morrissey, and Soref 2004.
[18] See also Brown and Traill 2006 and Gould and Schieder 2016.
[19] Stevens 2017, 1.
[20] Liu, Ribeiro, and Warner 2004, 2.

multiplier analysis is based on the argument that it is demand for goods and services by consumers and other businesses that ultimately determines the level of production in any industry. When incomes rise, so does demand and this is how economies grow. Therefore, additions to income from business investment or government expenditures (or additions to income from tax cuts) are recycled through an economy via multiple rounds of expenditures. The total impact on a national or regional economy is generally a bit larger than the initial expenditure (or tax cut) local ones, because they capture spending leakages on goods and services from outside the local economy.

Similarly, subsidies and other funds invested in child care services have an initial direct effect of providing an important social infrastructure for employers and employees. In addition, there are four types of multiplier effects. When a child care center purchases paper products from other local businesses, this demand increases income to these businesses (indirect effects). The largest categories of purchases by child care centers are real estate and manufactured goods.[21] The size of the economic impact (direct plus indirect effects) is calculated using a Type I output multiplier. A Type II output multiplier also picks up the economic impact of the child care center employees using their earned income to get their hair and nails done more often (induced effects). As a labor-intensive industry, employee compensation represents almost 44 percent of the costs of providing child care services.[22] The Type I and Type II multipliers are expressed as follows:

Type I multiplier = (direct effects + indirect effects)/direct effects

Type II multipliers = (direct effects + indirect effects + induced effects)/direct effects

In addition to the two output multipliers, there are Type I and Type II employment multipliers with similar formulas. The Type I employment multiplier tells how many jobs are stimulated by the local purchases of the child care center. The Type II employment multiplier includes these effects, and adds the employment created in other sectors by child care employee spending (for

[21] Region Track 2015, 38
[22] Region Track 2015, 38

example, at the beauty salon). Thus, the Type II employment multiplier allows us to estimate the total job creation that arises from each additional child care worker hired.

In 2004, Cornell University's "Linking Economic Development and Child Care Research Project," published the results of a major study on the multiplier effects of child care expenditures.[23] The project's calculations of Type I and Type II multipliers were based on input-output analysis using IMPLAN, an economic impact assessment software used by business, government and academia. IMPLAN uses real economic data from the federal, state, and county levels, though not all data is available at all levels. The software was utilized to calculate production functions for the child care industry in each of the 50 states and the District of Columbia.[24] The project found that the child care sector compared favorably with other sectors that usually draw economic development investment funding, as summarized in the tables below.

Child Care Multipliers: New Jersey and the U.S. State Average (50 States and DC)

	Output Multipliers		Employment Multipliers	
	Type I	Type II	Type I	Type II
New Jersey (IMPLAN)	1.46	1.91	1.21	1.43
New Jersey (RIMS II)	1.50	2.12	1.21	1.45
U.S. Average (IMPLAN)	1.49	1.91	1.27	1.50
U.S. Average (RIMS II)	1.43	2.00	1.18	1.40

Source: IMPLAN from Liu et al. (2004: Tables 3.1 and 3.2); RIMS II from Region Track (2015: Figure 27)

[23] Liu, Ribeiro, and Warner 2004
[24] The methodology focuses on the stimulatory effects of backward linkages (purchases by the child care centers in order to operate their businesses) rather than the forward linkages of stimulating production in other businesses through lower absenteeism, increased employee productivity and morale, and human capital growth.

The first table demonstrates that New Jersey's child care multipliers are similar to the average of all multipliers for 50 states and the District of Columbia. For comparison, this table also presents child care multipliers from a more recent study by the Committee for Economic Development of the Conference Board.[25] This 2015 study on *Child Care in State Economies* uses the other major source for multipliers, the U.S. Bureau of Economic Analysis' Regional Input-Output Modeling

$3.8 billion in output in New Jersey's economy."[26] The employment multipliers are smaller, but still indicate that there are spillover effects that create jobs. For New Jersey as a whole, the Conference Board study estimates that 50,780 proprietors and employees in the organized child care sector generate another $22,900 jobs in other industries.

The second and third tables condense the Cornell study's findings to compare the multiplier impacts of the child care industry with those of other industries. The Conference Board study does not contain these industry comparisons. They comparisons are only available as U.S. averages, but since New Jersey's child care multipliers track close to the U.S. averages, it can be reasonably assumed that the comparisons are relevant for New Jersey as well.

A Comparison of Multipliers in 10 Aggregated Sectors: U.S. State Averages

Sector	Output Multipliers		Employment Multipliers	
	Type I	Type II	Type I	Type II
Agriculture	1.34	1.63	1.27	1.50
Child Care	1.49	1.91	1.27	1.50
Construction	1.35	1.73	1.45	2.03
Fire, Insurance, & Real Estate	1.25	1.64	1.47	1.99
Manufacturing	1.31	1.61	1.47	2.07
Mineral	1.28	1.59	1.35	1.98
Public Administration	1.19	1.71	1.18	1.82
Retail	1.17	1.59	1.07	1.31
Services	1.29	1.79	1.18	1.49
Transportation, Communication, & Utilities	1.29	1.67	1.58	2.40

Source: Liu et al. (2004: Table 3.3)

[26] Committee for Economic Development 2015

and for water supply and sewage systems are 1.72 and 1.67, respectively, compared with 1.91 for child care. Education, both at the K12 and collegiate levels, also generate strong output multipliers, 1.91 and 1.84, respec

And child care is a sector that is ripe for expansion. There is a shortage of high-quality, center-based child care. Focusing narrowly on Atlantic City, nine licensed child care centers have official listings with the State of New Jersey and a national registry.[32] They have a combined capacity for 740 children.

Licensed Child Care Centers in Atlantic City and Who They Serve

Name	Ages	Capacity
Adventures in Learning	0 to 13	50
Atlantic City Day Nursery	0 to 6	87
Boys and Girls Club of Atlantic City	6 to 13	200
Chelsea Heights Head Start	0 to 6	44
Providence Pediatric Medical Day Care, Inc.	0 to 6	56
Robinson Small Learning Center	0 to 13	66

Thus, this one child care center would be expected to contribute over $5 million to the local economy indirect, indirect, and induced spending.

But even when the new center is operational, Atlantic City's center-based child care capacity will be less than optimal. In fact, Atlantic City would qualify as a child care desert under a definition proffered by the Center for American Progress (CAP) in a 2016 study.[36] By their definition, a community (defined by zip code) is a child care desert if there are more than 30 children and the ratio of children to cumulative child care center capacity is less than 3:1. The 2015 American Community Survey estimates there are approximately 3,173 children under the age of 5 within the city.[37] This would suggest that at most 26.4 percent of Atlantic City's preschool children can receive center-based care by the end of this year. Nationwide, the Census Bureau indicates that 23.5 percent of preschool children receive center-based care, so Atlantic City will be slightly ahead of the national average.[38] To bring Atlantic City to the threshold where it would not be a child care desert, however, the city would need at least an additional 220 places in center-based care. This should be considered a minimum target, one that does not accommodate expansion in the number of families moving to the city or their labor force participation rate

Determining an upper-bound target is more challenging and is ultimately something that should be determined by community stakeholders. However, a 2016 fact sheet on "Early Learning in

The Challenge of Affordability

Affordability is another critical concern for families in southern New Jersey, especially for female-headed families. The annual cost of full-time center-based child care in Atlantic County averaged $8,500 to $9,600 per child in 2013 (the most recent available survey of market rates). Family-based care is only slightly more affordable, ranging from $6,800 to $7,600 per year. While these market rates are less expensive than in wealthier New Jersey counties, median incomes are also lower. Atlantic County ranked 14th (of 21 counties) in affordability for infant care and 11th for preschooler care for female-headed families. Child Care Aware calculated these rankings by comparing the market rate for full-time care in licensed child care centers with median income in each county. In contrast, Atlantic County fared well for two-parent families, ranking 2nd in affordability for infant care and 1st for preschool care.[45] For New Jersey as a whole, center-based infant care would take a 13 percent bite out of median family income, which is 3 percentage points more than the 10 percent target recommended by the US Department of Health and Human Services.[46]

The bite is far bigger for Atlantic City residents, whose median family income is only $30,881. Paying outright for either family-based or center-based care for one child would consume anywhere from 22 to 31 percent of the "median family's" annual budget.[47] This is why so many families either rely on family and friends or utilize subsidies.

[45] NJACCRRA 2013, 7-8

[46] Economic Policy Institute 2016. HHS is lowering the target to 7 percent.

[47] Median family income is from the US Census Bureau's American Community Survey.

Child Care and Development Fund subsidies, a federal program administered by the states, are the key policy intervention designed to remedy the affordability problem. Families are responsible for a copayment based on income, family size, and the number of children in care. Current funding, however, is inadequate compared with need. One problem is that the income threshold for child care assistance income eligibility in New Jersey is lower than the federally recommended level of 85 percent of state median income.[48] Further, New Jersey's child care subsidy reimbursement rates have not been increased by the state's Department of Human Services since 2008. Focusing on full-time care in licensed child care centers (instead of home care), the rate is $160.60 per week for infants and $121.60 for preschoolers, according to the organization Child Care Aware of New Jersey (formerly known as the New Jersey Association of Child Care Resource and Referral Agencies). These reimbursement rates are substantially below the market price of child care services in all New Jersey counties, leaving a financial burden for parents. In Atlantic County, for example, the reimbursement rate was only 79.5 percent of the market rate for center-based infant care, according to the most recent analysis.[49]

Child care affordability is a struggle for the working poor, as well those whose income falls below the (inadequate) official federal poverty line. For example, the United Way focuses on a group that it terms "Asset Limited, Income Constrained, Employed" or "ALICE." ALICE households are employed but do not earn enough income to provide an adequate budget for meeting basic needs. Like the federal poverty lines, the ALICE thresholds vary with the size of the household and the ages of its members, but they are calculated for individual states and counties based on the local cost-of-living. While 14 percent of Atlantic County's households fall

[48] Center for the Study of Child Care Employment 2016
[49] NJACCRRA 2013, 14-16 and NJACCRRA 2014, 2

got off her casino shift and he started his; the children wound up briefly (and illegally) on the casino floor and she had to beg security not to turn her in.[51]

Such stories provide anecdotal support of a growing problem confronting employees—and their employers—in industries that operate during nonstandard hours. This problem extends beyond casinos and the leisure and hospitality industry to include hospitals with around-the-clock shifts, universities offering evening classes, and retail outlets that are open nights and weekends—all major employers in southern New Jersey. In addition to this trend, there is also a rise in variable work schedules with unpredictable hours, especially in retail.[52] Finally, the shift to a "gig economy," means that more workers are not employees; instead, more are freelancers or contract workers who offer their services via online intermediaries.[53] According the Child Care Aware of America, more than one-fifth of parents with a child under the age of 13 work nonstandard schedules, and these are often the workers with fewer economic resources to pay for high-quality care.[54] Therefore, shift work, nonstandard hours, on-call scheduling, and other practices that do not provide parents with 9-to-5 work schedules are disruptive for working families.[55]

Despite these business trends toward flexibilization, most child care facilities operate during traditional business hours. This incongruence pressures families out of the organized child care market. Parents may be unable to apply for subsidies because they require a consistent minimum

[51] Mutari and Figart 2015, 111-113
[52] Henly and Lambert 2014 and Alexander and Haley-Lock 2015
[53] Katz and Krueger 2016
[54] Child Care Aware of America 2016
[55] Henly and Lambert 2014, Boushey 2015, and Morsy and Rothstein 2015

number of weekly work hours.[56] The Census Bureau data indicates that 38.7 percent of preschool children have no regular arrangement for care while their primary caretaker is at work.[57] The percentage is presumably higher in Atlantic City, where so much of the local economy is based on industries with shift work and irregular hours.

Further, many current policy proposals, including the expansion of universal pre-Kindergarten, focus on expanding access to full day programs that operate during typical school hours, ignoring the rising prevalence of shift work, nonstandard hours, and unpredictable work schedules, particularly in the service sector. While the policies proposed by these advocates have value, universal pre-K programs may disproportionately benefit workers in professional occupations. In contrast, working-class families need flexible access to formal, affordable, high-quality child care. One possible solution is employer-based licensed child care, as exemplified by the Las Vegas casinos described in Box 1.

In order to enhance Atlantic City as a sustainable community, three issues must be addressed by planners and policy makers: (1) the availability of organized child care; (2) the affordability of this care; and (3) the provisioning of flexibly scheduled care to meet the needs of parents and employers in a modern economy. These issues are examined in more detail in the final section.

Conclusion

> Communities are constantly in flux. They experience periods of prosperity and investment, periods of disruption and challenge, and periods of renewal and

[56] Child Care Aware of America 2016, 15 and Rachidi 2015.
[57] Laughlin 2013, 2

reinvention. The communities that are most resilient and able to grow stronger as they endure these changes are those that have clearly articulated visions for where they are headed and that periodically revisit and revise these visions. (Institute for Sustainable Communities)[58]

Formal, market-based child care is not a huge industry, and economic development planners will not turn around a regional economy just by investing in child care services. The analyses presented in this policy brief, however, indicate that it can be an important piece of a shift toward sustainable economic development policies. Child care provides forward linkages through its role in facilitating labor force participation and work force stabilization. High-quality child care is a long-term investment in a region's human capital. Finally, the oft-overlooked sector has study by the William J. Hughes Center for Public Policy found that 80 percent of New Jersey survey respondents support a paid family leave policy.[60]

2. High-quality child care needs to be affordable for families of all income levels. The U.S. Department of Health and Human Services considers 7 to 10 percent of a family's income affordable. Using the 10 percent threshold, only two states—South Dakota and Wyoming—provide affordable care for the median family income.[61] While poor families, especially the working poor, are often highlighted in policy frames about child care, middle-class families are often best positioned to take advantage of interventions such as tax credits.4t22 598.rareare oew4(m 8-10(e)4(rs1e)-3(y)2h(dv)-9(a(nts i)-e7(a)4(ver(fal s i)-)4(re

access that today’s working families need.

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