ECONOMIC IMPACT
OF THE EARLY CARE AND EDUCATION INDUSTRY
on Los Angeles County
It is well documented in the research and more widely understood that quality early care and education has tremendous benefits in contributing to children’s abilities to grow up and reach their potential and become productive citizens. Research findings show that the significance of early care and education goes beyond early child outcomes: they extend to later school performance, which in turn has a significant influence on our national, state, and local economies. The health of the economy is therefore impacted by investments in providing early care and education.

An often overlooked factor in discussion of policies pertaining to early care and education is the early care and education workforce, which has a tremendous effect on Los Angeles’ and California’s economic well-being in the form of jobs, revenue, increased economic activity and downstream savings. In the sections that follow, this report describes the early care and education workforce and its effect on the local economy.

Early Care and Education - a Significant Workforce Sector in Los Angeles County

Early Care and Education is a job-creating and income-generating sector of the Los Angeles County economy. Since these jobs cannot be moved offshore or out of state for cost savings, like manufacturing jobs, the payrolls are distributed to local residents. The impact of these jobs on the local economy is enhanced by the fact that much of the revenue they generate is spent locally by both the members of the workforce as well as their employers (for example, child care centers purchase food and supplies for their businesses).  

DIRECT EMPLOYMENT

Within Los Angeles County, the formal early care and education industry provides jobs for more than 40,000 employees (see Table 1).

When counting all full-time equivalent jobs in the early care and education industry, including those employees outside the Child Care Worker and Preschool Teacher classification, the number climbs to over 60,000 workers. Moreover, since many people employed by the early care and education industry work part time, the total number of employees is higher.

As stated in the Center for Community Economic Development’s 2006 study, in terms of direct employment by industry in Los Angeles County, early care and education provides more jobs than many other industries, including construction, automotive repair, legal services, and hotels/motels (see Figure 1).

Table 1: Number of Child Care Workers and Preschool Teachers in Los Angeles County

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>CHILD CARE WORKERS</td>
<td>26,180</td>
<td>30,510</td>
</tr>
<tr>
<td>PRESCHOOL TEACHERS</td>
<td>15,210</td>
<td>18,360</td>
</tr>
<tr>
<td>TOTAL</td>
<td>41,390</td>
<td>48,870</td>
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</tbody>
</table>

The above estimates are likely understated due to the fact that they do not include license-exempt child care centers [aside from those that receive vouchers] or information on the informal sector of the industry – i.e., relatives, friends, and neighbors who regularly care for young children.

**GROSS RECEIPTS**

Gross receipts measure the size of an industry in terms of the overall value of the goods and services produced over the course of a year. The gross receipts for the early child care and education industry are significant, with estimates of $1.7 billion in Los Angeles County and $5.6 billion in California (see Table 2).

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As compared to other industries in Los Angeles County, the early care and education industry generates more in gross receipts than soft drink manufacturers, women’s clothing stores, and spectator sports, to name a few. (see Figure 2).

### Figure 2: Gross Receipts by Various Industries in Los Angeles County (2006)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Gross Receipts (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Food Restaurants</td>
<td>$5</td>
</tr>
<tr>
<td>Television Broadcasting</td>
<td>$4.5</td>
</tr>
<tr>
<td>Internet Service Providers &amp; Web Search Portals</td>
<td>$3.5</td>
</tr>
<tr>
<td>Hotels &amp; Motels</td>
<td>$2.5</td>
</tr>
<tr>
<td>Automotive Repair &amp; Maintenance</td>
<td>$2</td>
</tr>
<tr>
<td>Early Care &amp; Education</td>
<td>$1.5</td>
</tr>
<tr>
<td>Soft Drink Manufacturing</td>
<td>$1.0</td>
</tr>
<tr>
<td>Women’s Clothing Stores</td>
<td>$0.8</td>
</tr>
<tr>
<td>Nursing Care Facilities</td>
<td>$0.6</td>
</tr>
<tr>
<td>Spectator Sports</td>
<td>$0.4</td>
</tr>
<tr>
<td>Fitness &amp; Recreational Sports Centers</td>
<td>$0.2</td>
</tr>
</tbody>
</table>

#### THE “MULTIPLIER EFFECT”

The total impact of the early care and education industry’s $1.7 billion of receipts is further increased by the “multiplier effect.” The industry supports jobs and increased economic output by employing individuals directly, indirectly supporting jobs by allowing parents to participate in the labor force, and inducing jobs at local businesses where those parents and members of the early care and education workforce shop. These factors combine to affect spending in other sectors (e.g., retail, transportation) of the local economy, resulting in purchasing power that adds to the gross receipts for other local industries. An analysis by the Center for Labor Research and Education estimates that, through this multiplier effect, every $1 spent on the early care and education industry in California yields $2 in economic output. In other words, money spent on the early care and education industry in Los Angeles County doubles the gross receipts of $1.7 billion to approximately $3.4 billion.

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Early Care and Education Impacts Labor Force Productivity

The early care and education industry provides support to parents beyond care and education and allows parents to work or attend school. By enabling more parents to work or attend school, the industry supports higher earnings for families, allows more women to join the workforce, and enhances worker productivity. Each of these benefits the local economy.

- **Higher household earnings**: In two-parent households, the availability of child care allows both parents to work, often resulting in a substantially higher household income, compared to one. Higher earnings translate to more money in the local and state economy through higher purchasing power and more taxes. An analysis by the Center for Labor Research and Education at the University of California, Berkeley estimates that parents using paid early child care education services in California have purchasing power of approximately $26.4 billion per year, based on their earnings.9

- **More women in the workforce**: The percentage of women in the workforce is growing, nearing 50 percent in 2009.10 For women with young children, the availability of affordable child care allows them to work, providing more income for themselves and their households. Studies have shown that the high cost of early child care and education is often a barrier for women wishing to enter the workforce. David M. Blau, professor of economics at UNC-Chapel Hill estimates that full government funding of early care and education would increase overall maternal employment by up to 10 percent.11

- **Enhanced productivity at work**: Some experts argue that parents who have access to reliable child care are less likely to be absent from work, stop working in order to care for their children, or be distracted at work due to stress related to child care issues. All these factors affect business productivity. Employee absences cost businesses a minimum of two times the absent worker’s wage, and the cost of employee turnover has been estimated to be between 75 percent and 250 percent of the annual salary of employees.12 Estimates by WFD Consulting show that every $1 investment by employers for back-up child care (off-site child care provided to employees) results in $3 to $4 in productivity and turnover improvements.13 Additionally, work productivity issues related to child care affects employees without children as well.

- **Increased salaries due to higher education**: Approximately 16 percent of parents seeking child care are in school or training programs.14 Access to quality child care allows these parents to become higher-skilled members of the workforce, resulting in higher incomes for the families (through higher paid jobs), higher revenues for businesses (through a higher skilled workforce), increased tax revenues, and less reliance on public services, such as unemployment or government subsidies. A national study has found that 88 percent of government subsidies recipients who earned a four-year college degree were able to move off of government subsidies after earning their degree.15 Moreover, access to quality early care and education makes it more likely that parents attending school will ultimately graduate. Research demonstrates that student-parents using on-campus child care services have higher graduation rates, are more likely to remain in school, and graduate in fewer years than student-parents without such access. Student-parents indicate that the availability of child care is critical to their decision to enroll in college.16

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Moreover, a study by the RAND Corporation calculated the costs and benefits of a universal half-day preschool program for all of California’s 4 year olds regardless of family income, and determined that there would be a return on investment of $2.62 for every dollar spent.  

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The finding that investments in early care and education yield benefits for the participants has been repeated and affirmed in multiple studies. Dr. James Heckman, a Nobel Laureate in Economics and a professor at the University of Chicago, has developed a formula called the Heckman Equation that shows that the earlier an intervention occurs, the greater the payoff; thus investments made for high-quality early care and education yield higher returns than investments made at later stages in life.  

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Savings on Future Public Spending

Investing in early care and education saves on future public spending for criminal justice and social welfare programs.

- **Savings on criminal justice**: Investments in quality early care and education have shown that they save taxpayer money in the long-run by reducing the rate of crime among early care and education program participants. Adults who participated as children in the High/Scope Perry Preschool program had, by age 40, significantly fewer lifetime arrests than those children who were not randomly assigned into the program (36 percent vs. 55 percent arrested five or more times), and had significantly fewer arrests for violent crimes (32 percent vs. 48 percent ever arrested) and drug crimes (14 percent vs. 34 percent ever arrested). Of the public return on investment in the High/Scope Perry Preschool Project, 88 percent came from crime savings. For California, economist Robert G. Lynch estimates that the crime-related savings to individuals from a universal prekindergarten program would total about $17.9 billion in the year 2050.

- **Savings on social services**: Early care and education programs have also provided savings by ensuring that children who participate in quality early education programs become less likely to need government subsidies. The economic return to society of the High/Scope Perry Preschool Project is $2,768 per participant from saving on social services. The social services savings from the economic return from the Chicago Child-Parent Centers is estimated at 1.6 percent and amounts to about $657 per participant in 1998 dollars.

Individuals not needing government subsidies and without a criminal record are more likely to earn higher wages. Thus, in addition to savings from less public spending on social services and criminal justice, high-quality early care and education programs reap the future benefit of higher incomes and higher purchasing power for the program participants, which translate into more money spent in the local economy. In short, maintaining a robust, professional early care and education workforce is an important component of our national, state and local economies and will require continued support of, and increased investment in, the early care and education workforce.

Table 3: Return on Investment for Selected Early Childhood Interventions in 2002 Dollars

<table>
<thead>
<tr>
<th>Program Cost</th>
<th>Lifetime Benefit</th>
<th>Return on Each Dollar Spent</th>
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| **Chicago Child-Parent Centers**
- Low-income children ages 3-5 spend 2 years in a high-quality, child-focused intervention half-day program
  - Program Cost: $7,884
  - Lifetime Benefit: $74,991
  - Return on Each Dollar Spent: $10.01
| **High/Scope Perry Preschool Project**
- Children ages 3-5 were randomly assigned to high-quality, early education half-day public school-based program for 2 years
  - Program Cost: $10,844
  - Lifetime Benefit: $139,066
  - Return on Each Dollar Spent: $8.74
| **Abecedarian Project**
- A group of low-income children were randomly assigned to an early intervention full-day, year-round program that lasted from birth-4 yrs
  - Program Cost: $35,064
  - Lifetime Benefit: $135,666
  - Return on Each Dollar Spent: $3.88

The Los Angeles Chamber of Commerce is the voice of business, helping its members grow and promoting collaboration, the Los Angeles Area Chamber of Commerce seeks full prosperity for the Los Angeles region. As a trustee for the current and future welfare of the region, the Los Angeles Area Chamber of Commerce champions economic prosperity and quality of life.

First 5 LA oversees the L.A. County allocation of funds from Proposition 10, which added a 50-cent tax on tobacco products sold in California. Funds raised help pay for health care, education and child development programs for children from the prenatal stage to age five and their families. First 5 LA’s mission is to increase the number of young children who are physically and emotionally healthy, safe, and ready to learn. For more information, please visit www.first5la.org.

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