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**Early Childhood Education and Care Policy:
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Chapter 4 Financing early childhood education and care services[☆]

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Abstract

After exploring how the goals, organization and content of early childhood education and care relate to costs and financing, this chapter addresses three central topics: 1) the level of early childhood education and care spending; 2) the mechanisms used to generate and distribute resources; 3) the financial contributions by governments, business, social organizations, and parents. Special attention is given to the contrasting examples of Sweden, the United States, and Mexico. A final section presents general conclusions and identifies issues for policymakers and academics. © 2000 OECD. Published by Elsevier Science Ltd. All rights reserved.

This chapter will address three primary questions. They are:

1. What is being spent to provide education and care during the early years to children and families within varying national contexts?
2. Where do resources come from? What are some of the different financing mechanisms that are being used or might be used to generate and distribute resources for early childhood education and care (ECEC)?
3. How is financing of early childhood education and care (ECEC) being divided among governments, businesses, social organizations, and parents?

To illustrate how answers to these questions play out in different ways, special attention will be given to the contrasting examples of Sweden, the United States, and Mexico.

[☆] The opinions expressed and arguments employed in this article are the sole responsibility of the author and do not necessarily reflect those of the OECD or of the governments of its Member countries.

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1. Clarifications

Before moving to the central questions, several clarifications are needed. These relate to the goals, organization, and content of ECEC and care that bear directly on spending and financing. Narrowly conceived, financing refers to the process of generating and managing monetary resources. In this chapter, financing is defined to include in-kind contributions of goods or time that are volunteered rather than purchased, resources that, in theory, can be (but seldom are) assigned a monetary value.

Early childhood is defined as the period from conception until entrance into the elementary school, which in most locations takes children up to age 6 or 7. This rather broad age span can (and should) be broken down into various periods related to stages of development of the child (e.g., prenatal, peri-natal, infancy, toddler-hood (all prior to age 4), and pre-school). The type of education and care that is most appropriate for each of these periods differs, affecting financing. For instance, it is common for funding through infancy to come through a health, social welfare, or social security line of funding or through transfers or tax relief, with care more likely to be provided at home. In contrast, the pre-school years are often funded through an education line with education more often occurring outside the home. During early childhood, education and care takes many forms — within or outside a home; provided by parents, relatives, neighbors, servants, paraprofessionals or professionals; through a service provided directly for children or provided to parents and families, usually through some kind of parental education program; and in centers or through home visits.

Yet another distinction: ECEC programs may emphasize preparation for school or they may emphasize care, which is often thought of as including protection, health care, feeding, and sometimes even nurturing and stimulation. Alternatively, programs may be conceived as “child development” programs, taking a holistic view of the child and combining care and education.

Opening a discussion of financing to all of these possibilities, even within the limited early childhood age range, both enriches and complicates the task. Financing a full-day care program for children aged 1 to 3 requires a different level and organization of resources than financing a parental education program for children of the same age or supporting a half-day pre-school program for children aged 4 and 5. Incentives to invest are different, linked in part to the fact that some programs are driven to a large extent by, and often judged by, the benefits they provide to parents in terms of increased work and leisure, whereas others are viewed primarily in terms of their benefits to children, particularly as related to school performance.

It is difficult to talk about mechanisms to finance programs of early childhood education and care without confronting and sorting through a set of social and technical questions that are answered in different ways in different contexts. These include:

- who should be (is being) attended to in such programs?
- what should be (is being) paid for?
- who should pay (is paying) and what is the ability to pay?

2. Who should be (is being) attended to?

A universal approach in which all children are participants will obviously cost more than a targeted approach, for a given program. In Sweden, free health care for children and child allowances are universal. All working parents are entitled to partially paid leaves after a child is born and access to childcare arrangements outside the home is (virtually) a universal right. Municipalities are currently instructed to provide (within a period of no more than 3 to 4 months of application) childcare for all children, ages 1 to 6, whose parents are working or studying, or for children with special needs.

By way of contrast, in the United States free health coverage is not universal for children, cash allowances are not automatically provided for all families with children, and there is no paid maternal leave policy. Some elements of the tax policy in the United States are universal (e.g., dependent deductions), but those tax benefits relating directly to the use of childcare are tied to income levels. Although kindergarten has achieved universal status, almost all government programs supporting childcare and early education for children under five tend to be targeted (e.g., Head Start). Support for childcare may be linked to unemployment status, to training for new employment in several programs, or to single parent status.

In Mexico, most social programs are targeted in one form or another. Schooling is an exception; according to the constitution it must be free and available to all. Although coverage in some kind of pre-school is approaching a level of 90% for Mexican children age 5, the percentage is about half that for age 4 and about 10% for age 3. Childcare is provided only for those who work in the formal sector. A parental education program, established under a loan from the World Bank, is restricted to "marginal" communities. A program of combined health, nutrition, and education, called *Progresa*, is restricted to low-income families in rural and/or indigenous areas of the country and to the poorest families within those areas.

Various criteria have been used to target programs. Examples include: age or developmental status (pre-natal, peri-natal, and the like); family income (often related to a definition of what constitutes poverty); employment (e.g., those employed in the formal sector, or the unemployed, or those in specific kinds of jobs such as government); the condition of children (disabled, malnourished, and so on); the structure of families (e.g., single-parent families), and membership in a particular social group (e.g., gypsies).

Targeting represents one way of adjusting to real or perceived governmental financial limits. The strategy may be justified in terms of a greater economic return on investment in the particular group chosen. But more often, the justification for targeting is made in terms of a social equity rationale.

Perhaps paradoxically, targeting may serve as a strategy for extending ECEC financing because it may permit financing to flow from sources that would not otherwise be willing to use their resources for ECEC. For example, special budget allocations for ECEC abound in parts of governmental budgets that are targeted to special groups and are different from allocations to ECEC provided from the general budget or even from earmarked general allocations to ECEC such as block grants. By defining special groups, it may be possible also to tap private philanthropic or

business contributions for the betterment of these special groups — contributions that would not otherwise be available. Thus, even while limiting the population, the process of targeting may extend the potential pool of funds for ECEC. It also makes counting the investment in ECEC very complicated.

This brief discussion of targeting has at least two implications for the discussion of financing. The most obvious is that the more inclusive a program, the greater the cost and the greater the need to find adequate funding to cover the cost, putting greater pressure on budgets. One response to such pressure is targeting, particularly in difficult economic times. However, targeting may also serve as a “convenient” strategy for those unconvinced of the value of ECEC to put limits on the resources made available for ECEC instead of for another kind of investment. A somewhat less obvious implication of targeting is that, while supposedly limiting who is eligible for support targeting, can also provide the basis for capturing funds for ECEC from a variety of sources, both private and public, thereby increasing the total amount of funding available in some settings. This is especially the case if the level of general funding for ECEC is relatively low. This point is taken up again later in this chapter.

3. What should be (is being) paid for?

The components included in any ECEC program will depend in part on whether the program in question is defined primarily in terms of custodial care, education, or an integrated child development program. In the last case one should expect a more complete and inclusive set of components. What is being paid for will also depend on how central the perceived effects are of ECEC programs in terms of outcomes such as work, family stability, and fertility.

What is paid for also depends on decisions about the particular approaches and models considered most appropriate for providing quality ECEC in particular settings. These decisions require answers to questions such as whether the care and education for young children should be provided primarily in the home by parents (this seems to be the preference in the US and Mexico), by family day care providers, or by experts in center-based arrangements outside the home (as in Sweden for children after the first year). If the preference is for home-based programs, the costs and need for financing may be reduced from a governmental point of view, with the burden of financing falling on individual families. However, if the opportunity cost of keeping parents (mothers) out of the paid labor market to provide care at home is high (the case in Sweden, as contrasted with Mexico) this option may be more costly to the society (in terms of lost productivity of non-working mothers) than the cost of providing care in centers that permit mothers to work. If family day care is to be an option, regulatory questions arise that can affect costs, affecting also both supply and demand.

Continuing to place emphasis on care giving in the home by parents — the predominant form of childcare through the ages — raises two fundamental questions. First, do families have the knowledge and capacity required to provide quality care in the rapidly changing contemporary world? Second, do families actually function as

altruistic “welfare maximizing” units in which the better interests of each child will carry the same weight as the interests of parents. Often families do not act altruistically, raising the question of whether it would be better for benefits to go directly to children¹.

Should programs outside the home be partial- or full-day programs? This decision is closely related to whether or not the program emphasis is on care linked to work by parents or on children’s education or whether the two needs are brought together. Again, the US and Mexico, with most ECEC programs functioning as half-day programs operating on the same schedule as the school system, contrast with Sweden where a high percentage of children 1 to 6 are in day care centers that operate 12 hours a day, all year long.

Other questions remain. What components are deemed essential in a program (e.g., should a program include food and health care, family support, and transportation)? What standard of quality should be applied and should assurance of this standard be built in? Although higher quality does not necessarily mean greater cost, there is a rough relationship, with higher costs implied by such standards of quality as reduced adult-child ratios, higher levels of training, more space, and additional materials. What “technology” is most appropriate? How labor-intensive should programs be? How highly skilled should caregivers be? Both the United States and Mexico are much more likely than Sweden to employ individuals in childcare with relatively low levels of training or none at all. These questions, crucial for determining levels of financing, will not be treated further here. However, they are discussed in greater detail in other chapters in this special issue.

4. Financing ECEC: three questions

The remainder of this chapter is devoted to three questions. The first concerns expenditures, the second, resources, and the third, financing.

4.1. *What is being spent to provide education and care during the early years to children and families within varying national contexts?*

The answer to this question depends upon whether what is being spent is defined from the perspective of the society as a whole or from the perspective of the government, the family, or particular organizations that might sponsor ECEC programs. It also depends on how broad or narrow the definition of ECEC being used. Here, emphasis is on expenditures and financing strategies seen from a national perspective transcending government; furthermore, broad definitions of both ECEC and of what constitutes financing have been adopted.

¹ For a discussion of trade-offs within the family among children with different capacities, between children and parents, and between parents, see Barnett (1993) and Gustafsson and Stafford (1998).

4.1.1. *Estimating total ECEC expenditures*

At a national or system level, many would agree with Stoney and Greenberg (1996) who wrote: "It is impossible to quantify the amount of public and private funding expended on childcare and early education each year" (p. 84). There is, first, a lack of agreement about what should be counted. For instance, when determining parental contributions, some would argue, as is done in this chapter, that the foregone earnings of parents who act as caregivers (or who take time to shuttle their children to and from programs instead of working) should be included. Others restrict themselves to what parents actually pay in cash for ECEC services of one kind or another. Quantifying is also difficult because the database is weak. Government funding for ECEC is often widely dispersed among many sections and agencies making it hard to add up all of what is spent for ECEC. And, although many countries have income and expenditure surveys that would be useful for calculating family spending on ECEC, data on childcare expenditures is not always available from these surveys or is not easy to obtain. Finally, in most places, little data exist describing the contributions to ECEC by private enterprises and even less are available describing and valuing the contributions of time and goods made through social organizations, community groups, and non-profit organizations.

The above notwithstanding, Stoney and Greenberg (1996) attempted to estimate the costs of ECEC in the United States in 1995 by adding up the value of the resources provided for ECEC by the government, the private (business) sector, philanthropy, and parents. To estimate parental contributions, available national household survey data was obtained which showed that 23.6 billion dollars was spent by families for ECEC². Federal and state government subsidies were estimated (in terms of foregone revenue from tax credits and deductions) to be approximately 3.7 billion dollars during 1995. Federal expenditures on seven programs, all or parts of which are used to support ECEC (i.e., Head Start, Child and Adult Care Food Programs, Childcare and Development Block Grants, Aid For Dependent Children, At Risk Childcare Program, Transitional Childcare, The Social Services Block Grant) were added with the result being an estimate of about 7 billion dollars during the fiscal year 1995. A determination was made that these seven governmental programs represented about 80 per cent of the total government effort so that the government program expenditure amounted to about 8.4 billion. States were estimated to spend another 1.4 billion in matching funds and state initiatives. When government expenditures on childcare for its own employees and expenditures by local governments were included, the total government expenditures approached 15 billion. Contributions by the private sector and social and philanthropic organizations were deemed to be relatively small in relation to the family and governmental contributions. In all, the estimate made of funds to purchase and subsidize childcare and early education was set at about 40 billion dollars for that single year. (For another estimate, see Garfinkel, 1996.)

² The survey data was for 1991 but was assumed to be more or less current in 1995 because no more recent data were at hand to show whether changes since then in the economic conditions or in government programs had led to increases or decreases in family spending.

The rough procedure used by Stoney and Greenberg does not pretend to produce results that are 100% accurate. It does, however, provide a reasonably sound basis for conclusions about relative contributions of resources by different actors (see below) and about the relative amount spent on ECEC as compared with other kinds of social expenditures. For instance, the figures allow one to conclude that ECEC expenditures are relatively small relative to Gross Domestic Product (GDP), probably amounting to less than one per cent.

We are dealing here with a moveable target. If such estimates were to be made in 1999 for the United States, they could differ considerably from the foregoing. A major welfare reform in 1996 consolidated and reduced some federal assistance through targeted programs³. At the same time, there seems to have been an important increase in the willingness of many states to commit their own revenues to childcare. In addition, a plethora of programs have appeared intended to promote collaborative efforts and/or to provide private providers with incentives to expand or improve their service.

In Mexico, the entire programmable budget for the government for 1998 approached about 72 billion dollars. Looking at particular sub-divisions within that budget, the author has estimated (for this chapter) that approximately 5% of the public education budget is spent on pre-schools and about 4% of the combined social security budgets are spent on childcare and on maternal benefits. If the expenditure on child health is estimated at about 14% of the health budget (assuming optimistically that children under 6 receive funds proportional to their representation in the population), then care, education, and health expenditures for children under 6 amounts to about three-fourths of a billion dollars. This is a bit more than one per cent of the total programmable budget. The programmable budget in Mexico amounts to approximately 16% of the GDP. Thus, even if the expenditures for early education and care within government programs have been grossly underestimated, the expenditure is not more than 1% of the GDP. As will be seen below, in the presentation of different distribution strategies, Mexico lacks many of the instruments used elsewhere to obtain and distribute funds for ECEC.

In comparison to the United States and Mexico, Sweden apparently spends a much larger amount of its funds on children. According to the OECD publication, "Education at a Glance", in 1993, Sweden was spending 8% of its GDP on support for children, as compared, for instance with 4% in the Netherlands. However, the estimate includes expenditures of children over 5 years of age so it is not possible from these statistics to sort out expenditures for "early" childhood (OECD, 1997a).

4.1.2. *Per unit expenditures*

Another way of getting at what is spent on ECEC is to calculate and report "per unit" expenditures, normally in terms of expenditures per child. Using a restricted

³AFDC, Transitional Childcare, and At-Risk Childcare were consolidated under a new program called Temporary Assistance for Needy Families (TANF) designed to help move families off welfare and to work. At least in theory, all childcare assistance was to be combined under in a new Childcare and Development Fund under which subsidised childcare services are available to eligible families through certificates or contracts with providers.

definition of ECEC linked closely to education, the OECD, for instance, presents figures on unit costs per student in early childhood programs for 18 countries (OECD, 1997b). The cost per child in the United States is placed at \$3000. The range runs from just less than \$2000 in the United Kingdom, Switzerland, Ireland and Spain, to almost \$7500 in Norway, with Denmark, Finland and Sweden spending more than \$6000 per student.

Several other per-child calculations were found for ECEC in the United States. Mitchell, Stoney and Dichter (1996) estimated that in 1993, a family with a pre-school-aged child spent an average of about \$4100 per year for childcare. Kagan and Cohen (1997) concluded that, "When parent and government outlays for full-time care and education are combined, the total averages \$3000 to \$5000 per child per year" (p. 35). Schweinhart (1992) used data from a 1989 survey of 265 accredited, full-time programs and estimated that the annual cost per child amounted to \$4660 (including \$590 of in-kind donations).

These per child calculations may be useful for projecting expenditures when planning for expanded coverage, for setting subsidy levels, and even when comparing relative levels of expenditure for different program approaches. However, the fact that programs have different goals and components makes comparisons difficult, whether among programs within countries or across countries. Moreover, some ECEC programs bring direct benefits to parents as well as children while others do not. When ECEC programs also benefit parents, it might make more sense to calculate a "per-beneficiary" cost for comparison rather than a "per-child cost."

What can be concluded from this brief discussion about what is being spent for ECEC? First, the task of estimating what is being spent is fraught with difficulties, making estimates very rough. Second, total spending on ECEC varies widely, but nowhere does it represent a very large proportion of GDP. Third, it is important to include in estimates of spending the value of foregone earnings by parents caring for their children at home. When this is done it is likely that families continue to provide most of the resources for ECEC, in even greater proportions when the family contribution is taken to be what they spend directly on childcare and education.

4.2. *Where do resources come from?*

Resources for ECEC can come from governments, private enterprise, social organizations, and/or parents. But what is the source of the resources managed by each of these groups?

4.2.1. *Governments: national, state, municipal, and combinations*

Governments obtain their funds by *taxing, by selling rights and licenses, by charging fees, by running government-owned businesses, and sometimes through other activities such as lotteries*. Both the levels of revenue generated and the relative amounts obtained from these different sources of revenue differ a great deal from country to country. For instance, the power of a sales tax will depend to an important degree on the purchasing power of people in a country as well as upon the social and political willingness of people to accept certain levels of taxation. Sweden has a general sales

tax of 25%, Mexico has a 15% tax, and the United States has no general sales tax (at the national level but states and municipalities often do collect such a tax), preferring to tax particular items. Differences also exist with respect to income and corporate taxes. Again, Sweden has been able politically to legislate high income and corporate taxes, relative to Mexico or the United States. Despite recent adjustments that moderated the marginal rates of taxation at the upper end of the income scale, Sweden continues to generate a relatively large proportion of its revenues from taxes. The revenues of the Mexican government, on the other hand, depend to a great extent on the sale of oil (37.5% of the budget in 1997), making it vulnerable to price changes on international markets.

Most of the revenues received by governments are pooled in a general revenue fund and then allocated among the many possible uses, one of which may be for ECEC, through some sort of bargaining process. A very broad spectrum of ECEC options exists for distributing these general revenues. They may be used to set up government-run services, to subsidize private services, or to pay parents, either to stay home and care for their children (as is done in Sweden for the first year of life) or to enable them to purchase services.

Distribution mechanisms may carry restrictions. For instance, until recently, it was not possible in Sweden, for family day care arrangements to obtain federal funds; now that is possible if standards are met. On the other hand, the fact that each family in Sweden receives an unrestricted child allowance permits those funds to be spent for any kind of care. In the United States, restrictions vary from state to state, but the current tendency is to try and tie financing to use in licensed programs, whether that financing goes to parents (e.g., through voucher schemes that restrict choice to licensed arrangements), to private enterprise (as tax deductions related to a company's support for childcare), or directly to providers. In Mexico, very little government support is provided to parents to support private providers, but what is provided is essentially limited to authorized providers.

Funds may be collected and distributed at a federal level, collected nationally and then distributed to state and local governments according to some formula, or collected and used directly by state and/or local governments. State and local governments have a major responsibility for administering ECEC programs in Sweden, Mexico, and the United States. In all three countries, state and local authorities have some revenue generating capacity, but this is more limited in Mexico than in the United States and Sweden. In all three countries, the central government makes block grants to states and local authorities, but the extent to which these must be used for ECEC varies considerably. In the United States, a specific Childcare and Development Block grant (which combines most childcare programs under a Childcare and Development Fund) provides funds to states. However, states may also use funds from, for instance, a Community Development Block Grant to finance certain aspects of ECEC programs. Sweden recently shifted from a system of providing specific childcare block grants to local authorities to a system of including childcare within a broader social welfare block grant. This has meant that childcare has to compete at the local level with other welfare programs for the use of funds coming from the center (EC Childcare Network, 1996).

Occasionally, government revenues are obtained from a particular source and are *earmarked* for ECEC, making a direct link between the origin of the funds and their use. This may seem to give an advantage to ECEC because funds do not disappear into a general pool, with the resultant competition for them among various agencies and groups. But earmarking can work either for or against obtaining resources for ECEC because the existence of earmarked funds is undoubtedly taken into account as the bargaining process for allocating the general fund occurs. It can be an excuse for not allocating general funds to ECEC. The following are examples of earmarked funds for ECEC⁴.

- Revenues from a government-run pawn shop in Mexico are earmarked for private institutions providing welfare assistance, among which is the provision of ECEC.
- The states of Georgia and Florida in the United States have public education lotteries, and a portion of these revenues is used to finance early education.
- The state of Massachusetts earmarks revenue from sales of special automobile license plates for children's programs.
- A special levy has been made on property in Seattle, Washington to fund family and education programs.
- Revenues from a special sales tax in Aspen, Colorado are earmarked for affordable housing and childcare.
- When individuals pay their personal income tax in Colorado, they can stipulate that they would like that tax or some part of it to be used for ECEC.
- Fees have been charged to set up private childcare or education businesses that are then used to support training of caregivers.

Governments can also decide to *forego tax revenues* and use this device as a transfer mechanism. This can be done so as to benefit families with children in a general way (e.g., a tax deduction related to housing) or can be done in a way that is tied more directly to children (e.g., a tax deduction or credit for each child). This strategy is different from a strategy such as the provision of a child allowance because an allowance involves collecting and distributing funds (which carries a cost) whereas tax forgiveness does not. Foregoing taxes can also be used to provide incentives to private enterprises to invest in ECEC.

4.2.2. *Private enterprise*

Two very different kinds of firms are included in this category of resource providers. The first are those that are organized to provide ECEC services as a for-profit venture. The second are those that are in another line of business unrelated to ECEC but that use their earnings to provide child services or funds for childcare.

4.2.2.1. ECEC as a private, for-profit enterprise. Proprietary childcare includes both family day care and care/education in centers organized outside homes. When such childcare services are organized for profit, the main source of funding is not the entrepreneur but the parents who use and pay for the service. If the users are

⁴ The examples from the United States are taken from Mitchell and Stoney (1997).

subsidized by government funds specifically labelled for childcare use, then the financing really comes from the government. Private providers may also benefit from direct government subsidies. However, the ECCE entrepreneur may also contribute in the sense that he or she takes a financial risk. Loans may be involved.

Although one would normally assume that childcare entrepreneurs would pay a fair wage and that financing does not (or should not) occur through foregone earnings of childcare workers in centers, this may not be the case. Indeed, a common observation and complaint in the United States is that childcare workers are underpaid, which contributes to the larger turnover rate. The low pay also suggests that the workers are actually contributing some part of their time to ECEC while they work.

There seems to be a modest trend toward “privatizing” childcare and early education in the three countries studied. In the United States, in addition to the large number of family day care arrangements and to the many relatively small private centers that exist, major childcare companies such as Kindercare which list their stock on the stock exchange have appeared during the last decade or more. Kindercare does not receive government subsidies but is run strictly as a private business enterprise. In some settings, private centers are also eligible for support when establishing or up-grading a center. In Sweden, putting children in a private center has only been an option since the 1990s. Behind this move seems to be a response to parental desires for additional childcare models and options that do not correspond with the limited number of standard models provided in government programs. In Mexico, almost all of the expansion of childcare places within the social security system during 1998 and beyond are scheduled to occur through contracting private operators to establish “community” childcare programs. These arrangements are estimated to cost the government about 70 per cent of what government centers would cost because of savings on personnel costs. In community centers it is not necessary to adhere to the union pay scale (including benefits) and the government avoids the need to invest in facilities which are provided by the entrepreneur.

Privatizing allows a more diverse and direct response to variations in childcare and early education needs of parents. Because it is the parents who are making the decisions and, in the main, using their resources to pay, the process of privatizing induces a shift in financing from governments (even if the government provides some subsidy) to parents as sources of financing, even more than a shift in financing from governments to the private sector as implied by the label.

When resources are provided by private entrepreneurs responding to parental demand, the government can lose some control over standards, raising a question about the quality of services. Behind this question is, once again, the question of whether or not parents have the knowledge and energy to monitor and demand quality in the centers. If they do not, the “profit motive” can lead providers to cut corners in a way that lowers the quality of the service. There is, then, an important monitoring and standard-setting role for governments even as a process of privatization occurs.

4.2.2.2. ECEC and the business community: Important contributions to ECEC can be, and sometimes are, made by business enterprises that are not established specifically to operate an ECEC service. In Sweden and Mexico, the main

contribution of these businesses occurs through mandated contributions to social security, part of which is used directly to benefit children. This amounts to an earmarked payroll tax. Social security does not include childcare benefits in the United States.

Private sector contributions may also be made in the following ways:

- payment of general taxes on profits, a portion of which are used by government;
- mandated contributions to an assurance scheme linked to ECEC (e.g., Temporary Disability Insurance payments);
- on-site provision of services for which there is no government subsidy (which may be mandated for firms over a certain size or with a certain number of female employees);
- provision of direct subsidies to employees for use in childcare, as a company benefit;
- paid leave programs in which services are foregone (mandated through either social security or work laws);
- in-kind donations of goods or services to ECEC programs run by others; and
- participation in Dependent Care Assistant Plans (a program option set up in the United States)

Businesses may pass on to consumers the costs of financing ECEC programs by raising prices. To the extent this is so, it may be the consumer who is financing ECEC rather than business.

4.2.3. *Social organizations*

In this category are non-profit non-governmental organizations such as philanthropies, churches, and various community organizations that take it upon themselves to run ECEC programs⁵. In these cases the resources generated for ECEC may come from:

- earnings from established portfolios of investments of philanthropies;
- donations of facilities and materials (for instance, a church donates space that is idle during the week for operation of a day care program); and
- time of organization members. This time may be donated by individuals or may be paid for by a non-profit organization.

In the United States, programs run by churches and community groups are widespread. A study reported in 1995 found that donations — including goods, space, volunteer hours, and foregone wages of worker — accounted for more than one-fourth the full cost of care (Cost, Quality and Child Outcomes Study Team, 1995). For instance, resources for ECEC have been provided through public solicitation of funds managed through the United Way. Although philanthropy has provide resources for ECEC (Ford Foundation, for instance, has helped some cities set up local funds to support day care), this has not been a major line of activity within the philanthropic

⁵ In some classifications of financing sources, social organizations are incorporated within the private (as distinguished from the public) sector. This may be because the actual amounts contributed are relatively small. It seems appropriate, however to sort also on whether or not a profit motive is involved. Separate policies are directed toward providing incentives to profit and non-profit organizations to obtain funds for social purposes.

community. When foundation funds have been provided, they have tended to be used for research or small experimental programs, or, in the case of smaller family foundations, have concentrated on children with various kinds of special needs.

In Mexico, a range of non-governmental organizations are involved in childcare and early education, but the extent of their contributions to ECEC by the social sector is not known. Philanthropy in Mexico is not well developed, but the same comments made for the United States tend to hold for Mexico. When funds are provided, the tendency is to link them to special needs (e.g., Down syndrome children or children with cerebral palsy or a handicap).

Because the government has taken it upon itself to provide ECEC services on a relatively large scale, programs run by social or community organizations appear to be less frequently found in Sweden than in the United States or Mexico. This raises a question: "To what extent does the provision of public services undercut voluntary contributions and the principle of public service by citizen's groups?"

4.2.4. *Parents*

The resources provided by parents for ECEC may come from a choice to use their own earnings to pay for services or they may be "in-kind" resources in the form of the goods they provide and the time they devote to childcare and education in the home. As indicated earlier, time may be one of the most important, but uncounted, contributions to ECEC.

Governments can help support parents as they contribute to ECEC through strategies that help raise the general level of income, through the kinds of tax incentives linked to childcare that were mentioned above, and by legislating work leave policies. Earlier it was suggested that parents continue to be the most important source of ECEC resources within the larger picture of ECEC financing. Despite industrialization, urbanization, the entry of women into the paid labor force, changes in the structure and functioning of families, the spread of schooling, and the growth of childcare alternatives programs, it is probably fair to say that the main resources provided for ECEC in most if not all countries continue to be those provided by families participating in the direct care of their children. In most cases, the bulk of the family contribution consists of the time that family members — mostly mothers, but also grandmothers, siblings, and fathers — devote to all aspects of bringing up children. This resource is not purchased and because it is not formally valued in the marketplace it remains outside standard national accounting systems. Other resources provided in the home by families, including shelter, food, clothing, and materials to provide stimulation, may or may not be purchased, so they may or may not enter calculations of what is being spent to provide ECEC.

4.2.5. *International organizations*

In this category, resources tapped for ECEC come from outside a country. They may come from:

- foreign governmental revenues provided through bilateral international aid programs or through multilateral organizations such as the World Bank or UNICEF;

- the earnings of international businesses;
- the portfolios of international foundations; and
- private donations.

For Sweden and the United States, this category is not important in terms of receiving resources, but both serve as “donor” countries. Mexico does receive resources from outside for ECEC. In volume, the greatest source of resources among these is the World Bank that, however, provides resources primarily on a loan basis. The fact that they are loans means that, over the long haul, the resources come from the government budgets of the country that takes out the loan.

The above listing has not included explicitly another source of resources for ECEC that deserves to be mentioned but does not fit nicely into the categories chosen. The mass media have an important role to play in ECEC. The media can and do provide programs for young children that can be creative and stimulating or can be stultifying and even harmful. One often hears reference to the growing role of the television as a baby sitter. At the same time, the media can educate and create awareness in parents and in the broader population. In some cases, the media resources can be classified as private enterprise; in others they are government run.

The foregoing says something about where resources come from and a bit about how they are distributed. These need to be combined with strategies for transferring or distributing the resources. Four main strategies can be identified: (1) transfers to families that are directly linked to children, (2) transfers to families that are more general but which should benefit children by increasing family disposable income; (3) services provided that benefit children; and (4) incentives offered to attract private or social resources to ECEC.

When Sweden, the United States and Mexico are compared with respect to these strategies, differences and some similarities appear across the three countries. For instance:

- Sweden stands alone in its universal provision of child allowances. In Mexico, such a policy would run counter to the current desire to reduce fertility. In the United States, the universal provision of child allowances runs counter to the more targeted approach taken to ECEC.
- Tax incentives are more widely applied in the United States than in Sweden or Mexico.
- The United States and Mexico lag Sweden in the provision of health benefits.
- The United States lags Mexico and Sweden in the provision of parental leave.
- Social security and welfare programs in Mexico and Sweden explicitly include childcare, thereby mandating an employer contribution, but this is not done in the United States. Thus, private enterprise (businesses that are not set up to offer an ECEC service) plays a more important role in ECEC in Sweden and Mexico than in the United States.
- Targeting of resources on the poor is practiced more in Mexico and the United States than in Sweden.
- Only Mexico uses international funding to support ECEC programs.

4.3. *How is ECEC financing divided among various groups in society?*

At a general level it is probably appropriate to make the following five statements about the sharing of financial and resource responsibility for ECEC. First, parents and families continue to provide the main resources for ECEC. Second, the share of government involvement is growing. Third, the contribution of private businesses to ECEC remains relatively small and most of that contribution is mandated. Incentives provided to businesses to invest have not been particularly effective. Fourth, there is a growing tendency to “privatize” ECEC, but this tendency is not very advanced. Fifth, there is, presently, a greater tendency for governments to look for partnerships in the provision of ECEC services. What more can be about the sharing of ECEC financing in each country?

4.3.1. *Mexico*

Resources for ECEC in Mexico continue to come primarily from the home without passing through the government. The government provides relatively few resources to support early education and care outside the home, particularly for children below the age of 5, depending instead primarily on the unpaid labor of family caregivers. It is difficult to prove this point because of a lack of good figures about what families spend for ECEC. However, as one way of shedding light on the family contribution to ECEC, assume that only one-half the Mexican women between the ages of 20 and 40 care for a child under the age of 6 at home. If one were to value the time of these caregivers at the minimum wage, the resulting figure would be about 65 billion pesos per year. That figure, which does not take into account the sizeable monetary expenditures incurred by families in bringing up their children, would be more than 10 times the approximately 6 billion pesos (about evenly divided between education and childcare) that the government is currently budgeting for ECEC.

This estimate of foregone earnings associated with care in the home is illustrative and provocative, but is probably not very well grounded economically because there are few paid market alternatives for poorly educated Mexican women who, if they can find work, will work for less than minimum wage and in the informal sector, perhaps even combining work and childcare. As educational levels continue to advance in the country, the level of foregone earnings will increase, probably helping to push more women into the labor force and placing additional pressure on the government to take a more forceful role in providing ECEC services. The estimating exercise would make sense if the principle were accepted that women have a right to work outside the home (as is done in Sweden) or have a right to choose and, choosing to stay home should be compensated (as is done to some degree in Sweden). Neither of these values is established in Mexico.

Businesses in Mexico are mandated to contribute to social security and in so doing contribute toward health insurance, maternal leave benefits, and childcare. The childcare portion of this contribution is relatively small. Very few businesses in Mexico organize childcare centers for their employees.

An unknown portion of ECEC services are being provided in some form of family day care or by private entrepreneurs, often local housewives or social workers who

decide to go into business for themselves. Official statistics suggest that about eight per cent of formal pre-school services are private. However, a recent case study in marginal areas of Mexico City (Myers & de San Jorge, 1998) suggests closer to 25% of the enrollment is in non-governmental institutions in these areas, many of which are unregistered.

4.3.2. *United States*

If one accepts the estimates of Stoney and Greenberg reported earlier, families in the United States are providing about 60% of all resources spent on ECEC. This estimate does not, however, take into account unpaid time of caregivers. In the United States case, this time should probably be valued at more than a minimum wage because the level of education is generally higher than that in Mexico. No attempt will be made here to estimate that contribution. Kagan and Cohen tell us that government funding covers only one quarter of early childhood costs and that parents pay the rest.

The thrust of ECEC policy and the financing arrangements that support it in the United States continues to be toward placing the greatest resource responsibility on families. Although important attempts are being made to involve the private business sector more directly in providing resources, by pointing to productivity gains that might be expected when parents are confident their children receive good care, as well as by providing tax incentives, the role of employers in providing resources is still minor.

4.3.3. *Sweden*

The government takes a much greater responsibility for ECEC than in Mexico or the United States. This is true for the first year of life during which a liberal policy of family subsidies is provided that allows a parent (or parent) to stay at home, but with resources provided through social security. It is also true for subsequent years with extensive coverage provided in full-day, year-long childcare centers. The financing of these centers is shared by the central government and local governments with some minor contributions also from parents. Family day care has grown in recent years, but subsidized by the government.

5. **Concluding comments**

At the outset, a number of "prior questions" were set out, answers to which it was suggested would influence the level and types of financing of ECEC. Social policies and preferences about the populations to be served and about the location, organization, timing, and content of ECEC certainly have implications for financing. However, we must recognize that the reverse is also true, that financing policies and mechanisms and limitations will have important influences on ECEC, perhaps influencing actual policy and implementation more than we care to admit. Consider the six following assertions.

1. The lower the level of available national resources, the lower the access to programs outside the home, the greater the reliance on care in the home, and the

greater the tendency to target programs, seek “cheap” models of ECEC (that may also be of lower quality), and emphasise education of parents rather than provide services (as seems to be the case at present in Mexico).

2. The lower the level of available family resources to pay for childcare, the greater the tendency to care for children at home or to compromise quality when looking for a solution to childcare needs.
3. A liberal family (or maternal) leave policy helps assure care by parents (or mothers) in the home during the first months of life.
4. The use of vouchers, tax exemptions, and child allowances can open up choice (between home and outside care and sometimes of the type of care sought). In contrast, financing government-run services will limit choice. However,
5. Funding mechanisms (block grants or voucher programs, for instance) that require parents to use licensed centers, while intended to foster quality, may reduce the overall supply of childcare options and preclude choice of family day care options functioning outside the system. This may exclude lower income families from care, in situations of low public offerings, because family day care is more likely to charge lower fees that poor families can afford.
6. Thus, funding mechanisms may affect equity in access through mandating standards, but also by targeting and by placing income-related conditions on income transfers provided through allowances or exemptions. These effects on equity can be either positive or negative depending on how progressive the measures are.

Can one extract general conclusions from this overview? The following represents a preliminary attempt to present general impressions (if not conclusions) obtained in the course of writing this chapter, some of which go beyond the information actually presented in the text.

1. The costs of putting together an effective, high quality ECEC program can be relatively high, testing political will, and requiring substantial budget commitments. The governments of the United States and Mexico seem not to have arrived at the level of political will required to provide these higher budget commitments. Nevertheless, the evidence suggests that levels of investment in ECEC are growing and do have an economic as well as social payoff.
2. In a sense, all attempts to increase resources available for ECEC programs require a reallocation of resources because any resources that are found have (or could have) alternative uses. Thus, decisions about the level of financing to be provided for ECEC are influenced as much or more by political or personal values as they are by resource limitations. Thus, an important part of generating resources is the creation of political and personal will that helps to define what is “affordable”.
3. Child-conditioned income transfer policies seem to be effective in redistributing income vertically as well as horizontally, improving equity and helping to bring about reductions in child poverty when the benefits are diversified and generous (Kammerman, 1996).
4. Different systems of financing ECEC seem to be coming closer to each other. This is evident in attempts to combine universal and targeted approaches to distributing

resources as both welfare state and market-oriented approaches seem to be moderating their ideological bases. It is also evident in general trends toward:

- decentralized responsibility and community financing (sometimes instituted without a clear notion of the potential or real effects of the strategy and without any attempt to assure that the programs empower rather than exploit communities and that these are not just an excuse to extract funds from the community without involving it in planning, operation and evaluation).
 - privatization of services and the search for greater involvement of the private sector in ECEC. Although role of the private sector in financing ECEC programs is still small in most places, the search for additional ways of getting the private sector involved is leading to some useful and interesting new modes of financing as well as to insight into what kinds of incentives can be applied to involve businesses.
 - a tendency to recognize and develop “partnerships”, sharing the responsibility for financing ECEC programs rather than expecting one source to cover all or even to be always the major partner. One wonders whether these tendencies reflect effects of globalization.
5. The survival, development, and education of young children seems still to be largely dependent on the resources provided by parents, despite government programs which seem to be on the increase. In this light, there is a need to know more than we do about the actual expenditures of families for ECEC and to look more closely at the real effects of ECEC programs on helping parents (especially women) move into the labor force and obtain better paying jobs. Conversely, we need to know more about the effectiveness of programs using resources to promote better care in the home. We also need estimate of the foregone earnings of parents or other family members if we are to achieve a more accurate estimate of their total contribution to care.
 6. Successful processes for seeking additional financing for ECEC programs are often embedded in larger (or other) social concerns such as educational reform to prepare children better for school, welfare reform, demands for childcare as a work benefit, judicial reform intended to reduce crime, and the human rights and women’s rights movements (Mitchell & Stoney, 1997).
 7. The level of resources made available for ECEC is not directly related to quality. More and more resources do not necessarily result in a program of quality. On the other hand, it is difficult to have a program of quality without a firm and substantial financial base. Many factors can interfere to prevent the translation of additional resources into effective use and improved results.
 8. Despite a number of interesting efforts to create integrated programs of ECEC (through the creation of new public entities or of coordinating councils at national or sub-national levels), progress toward co-ordinated systems of action and oversight has been slight. This remains a challenge almost everywhere. This has implications for the efficiency of use of resources because failure to coordinate efforts may mean that synergisms related to the process of child development are not taken advantage of and that there is also unnecessary overlap and confusion leading to higher administrative costs and poorer choices by users.

From the foregoing, a number of issues emerge that will continue to worry academics and policymakers in the coming years. These include:

- The balance between government and private or civic responsibility for ECEC.
- The search for monetary resources vs. support promoting in-kind contributions of goods and time.
- The feasibility of discovering new resources for ECEC vs. attempts to reallocate existing budgets.
- The conditions under which it is most appropriate to direct resources to parents as contrasted with direct provision for children.
- The appropriate balance between universal and targeted programming.
- The wisdom of using subsidies vs. reliance on tax incentive schemes.
- The balance between choice and obligation.
- How to maintain quality in large scale programs.
- The search for an answer to the question, "How much is enough?"

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