

Old Theory, New Evidence

Rethinking Public Policy Through the Economics of Childhood

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THE R.C. MILLS LECTURE

Public policy is so often about trade-offs.

A common approach in public economics

We want to share. Sharing changes *incentives*.

- Support for families costs money, and money has to be raised
- Taxes and benefits change how much people work, save, and study
- A tension between *equity* and *efficiency*
- Society decides how much sharing is desirable, economists minimize distortions

Is this pure politics?

Childcare is completely out of control. I think we need to have a complete investigation into it, where the money's going.

Pauline Hanson, National Press Club, June 2026

The waste and fraud in entitlement spending – most of the federal spending is entitlements – that's the big one to eliminate.

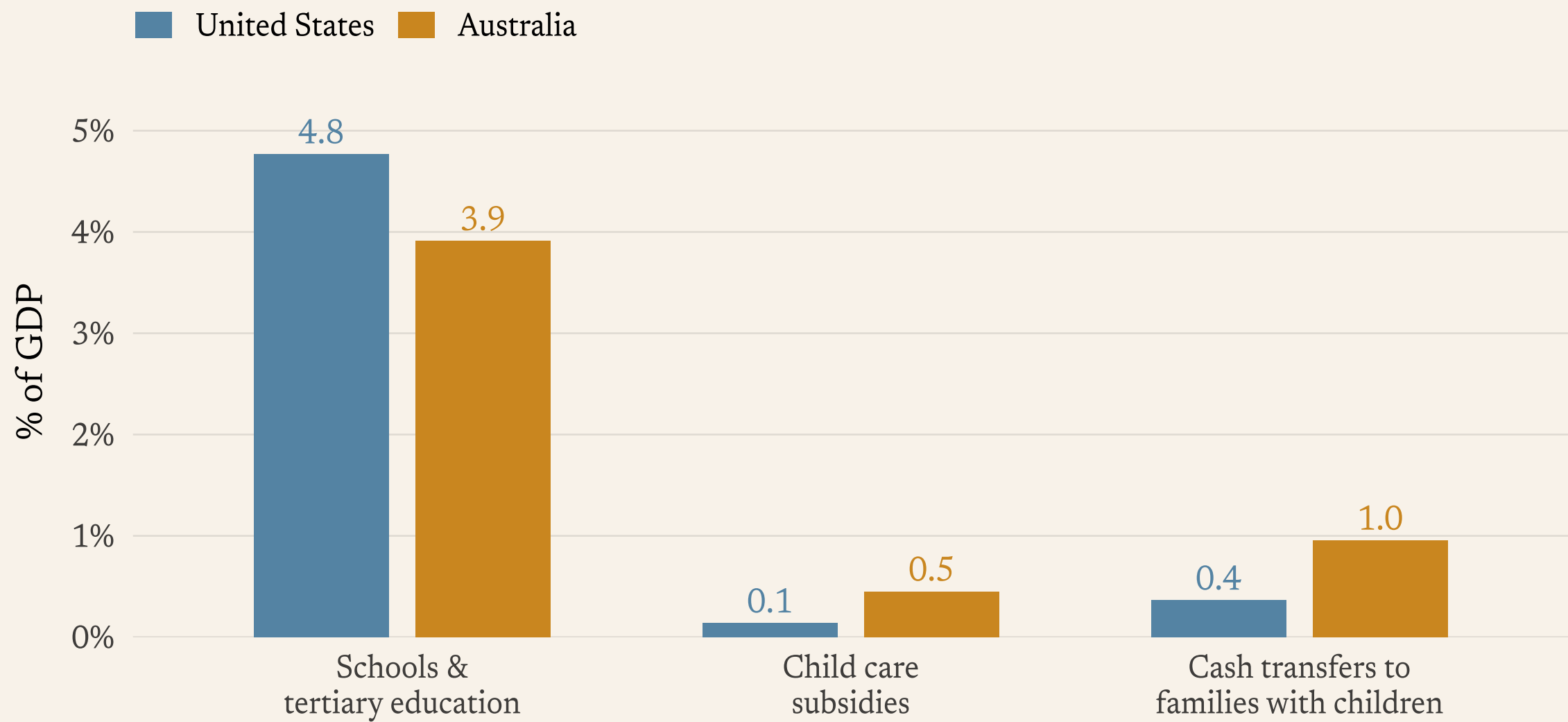
Elon Musk, February 2025

A proposition

**Disadvantage in childhood can be
wasteful, not just unfair.**

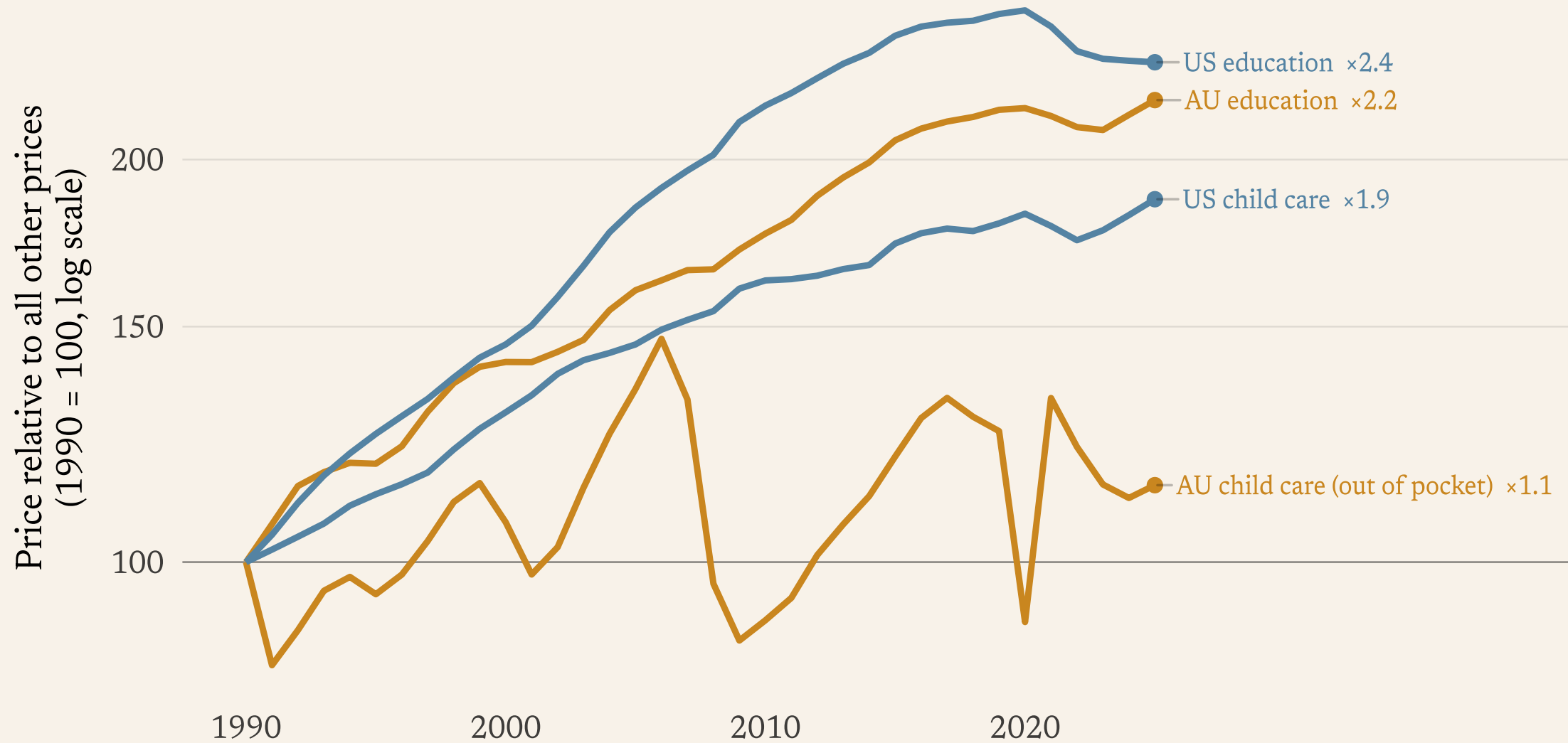
In childhood: equity and efficiency can be aligned.

A picture of current spending



Government spending, 2023. Education (which includes kindergarten, school pre-K and Australian preschool): BEA and ABS. Child care: Head Start and CCDF; Child Care Subsidy. Cash: OECD SOCX, plus the refundable EITC and Child Tax Credit for the US.

A trend to pay attention to



Deflated by economy-wide prices. US: BEA PCE price indexes, "Education services" (which also contains day care). AU: ABS CPI. The Australian child care line is what families pay after subsidies, not the fee charged.

The economics of childhood

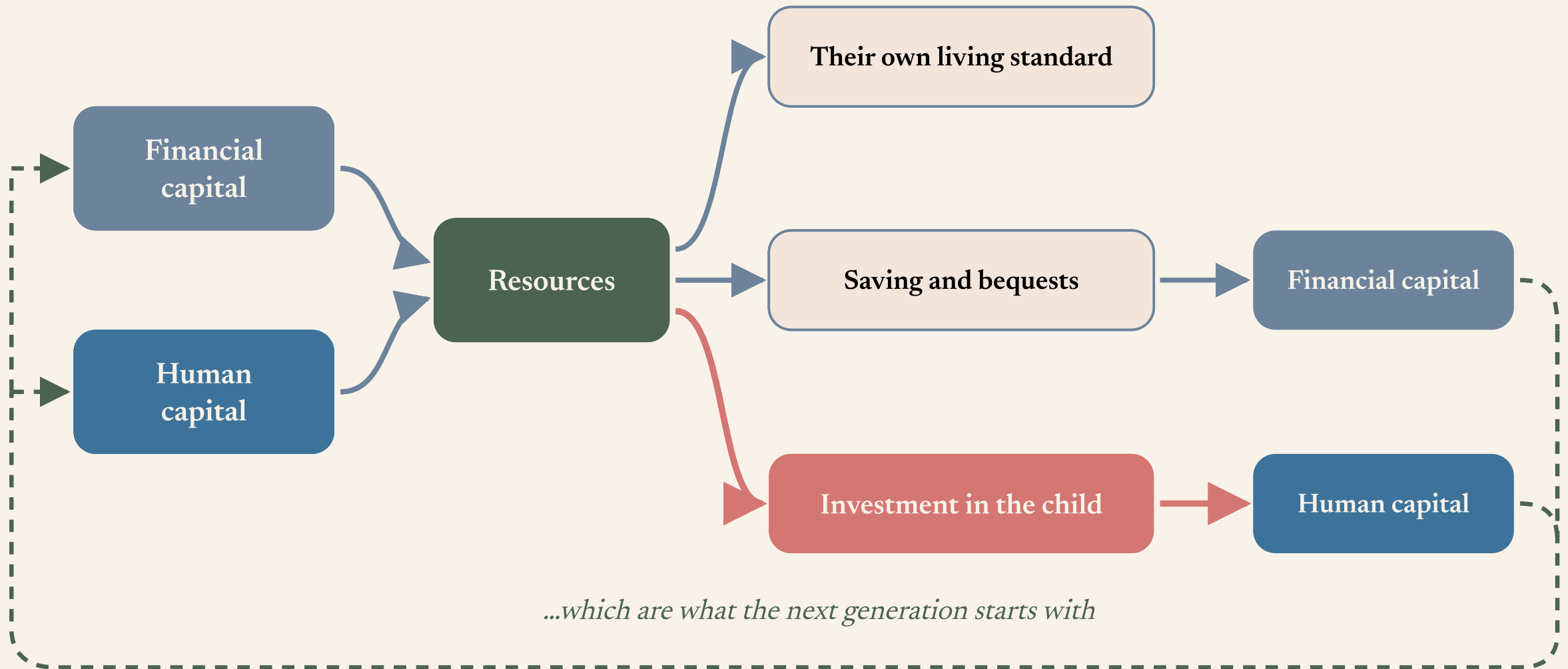
The core theory

Treat skills as a kind of **human capital** (Becker, Mincer, Schultz, Smith)

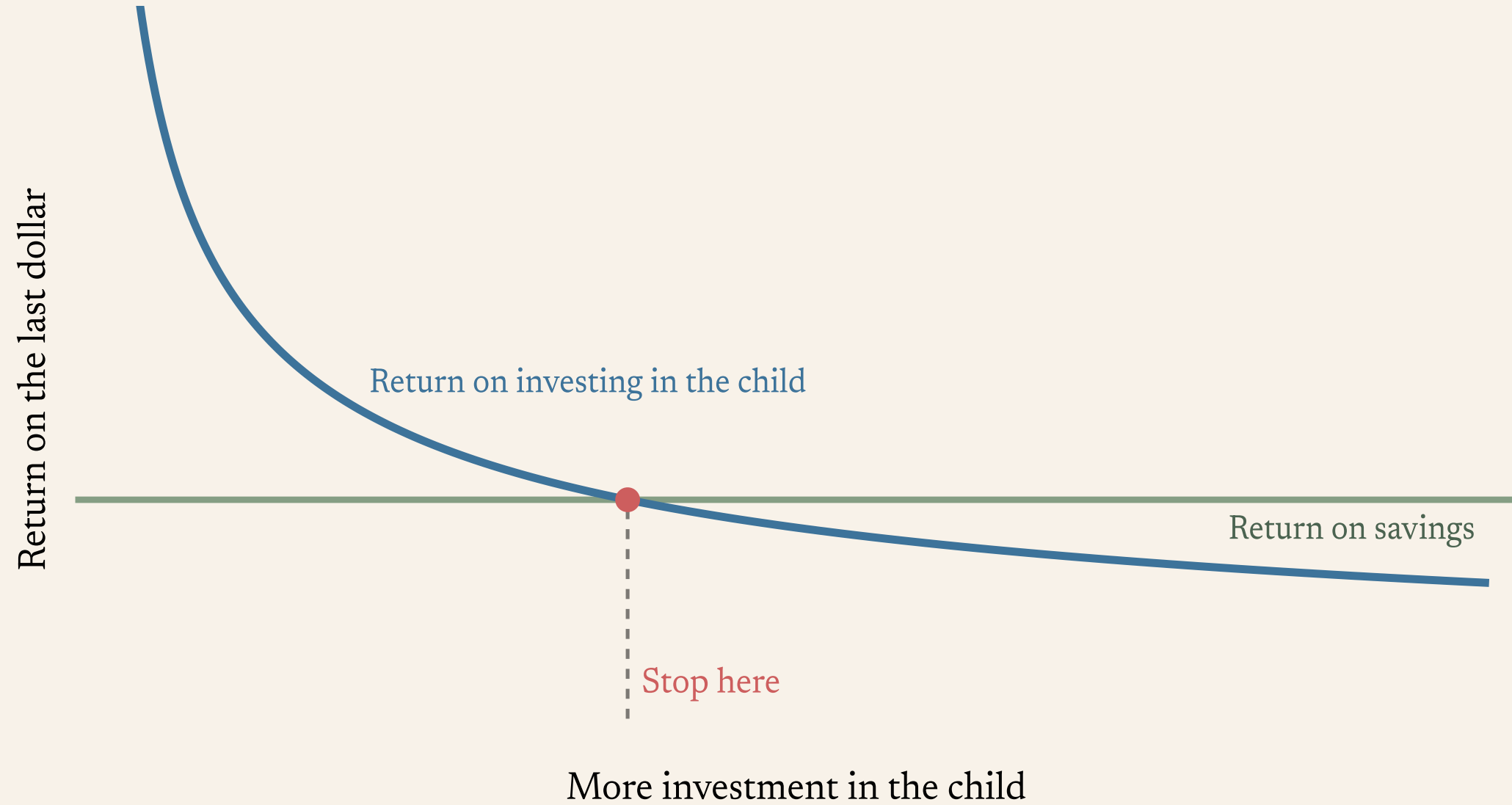
- They are **produced** – by time, money, care, and schooling
- They earn a **return** – the wage
- And they **depreciate** if nobody invests

So a family deciding how much to devote to a child is solving an *investment* problem, whether it thinks of it that way or not.

The basic model

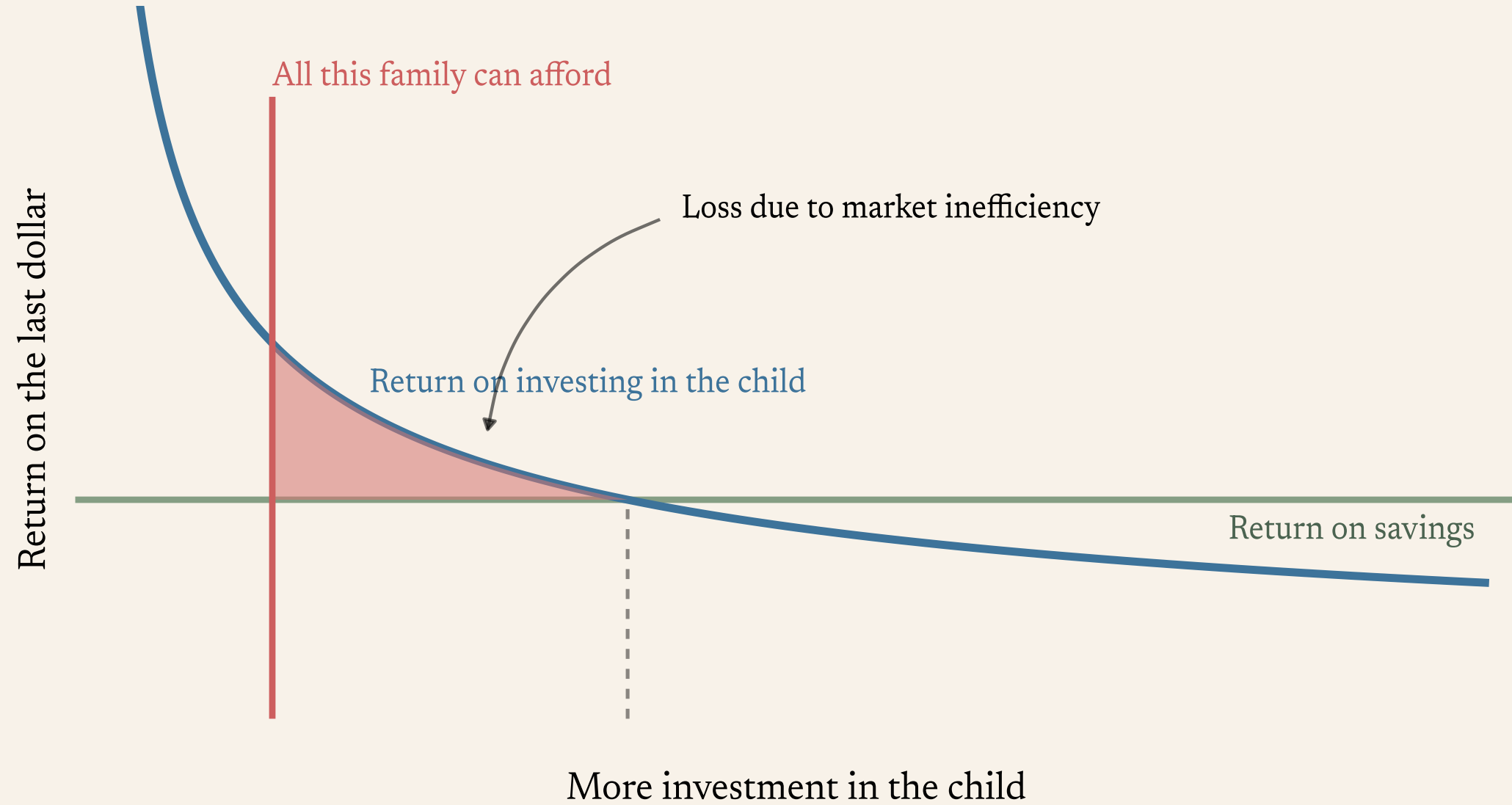


How much should a family invest?

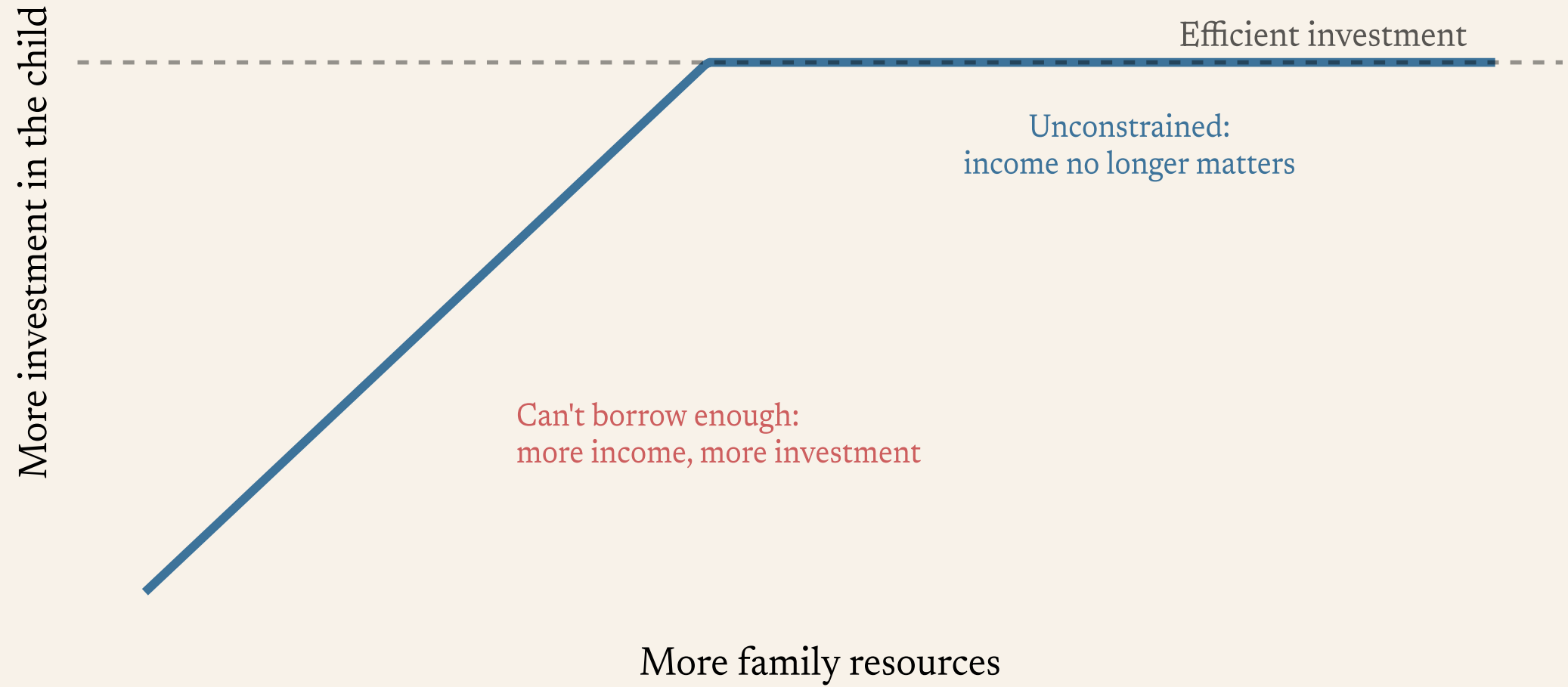


Why would we intervene?

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Investment vs resources



In childhood, equity and efficiency may be *aligned*.

Investing in disadvantaged children creates a better-functioning economy.

R.C. Mills and the Universities Commission: opportunity should be based on merit, not means. Economic rationale behind moral intuition.

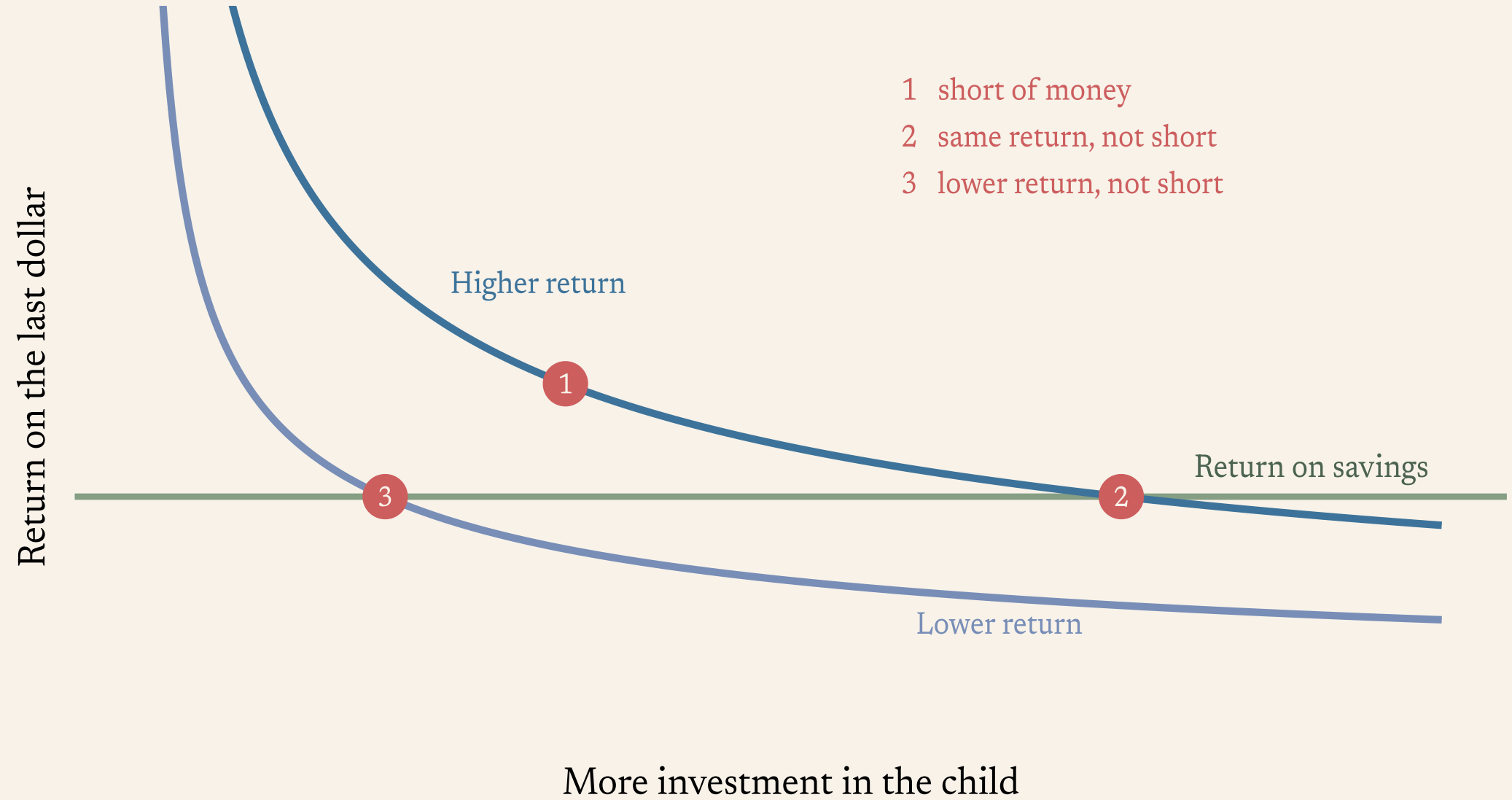
What would be the signs?

Three things would have to be true.

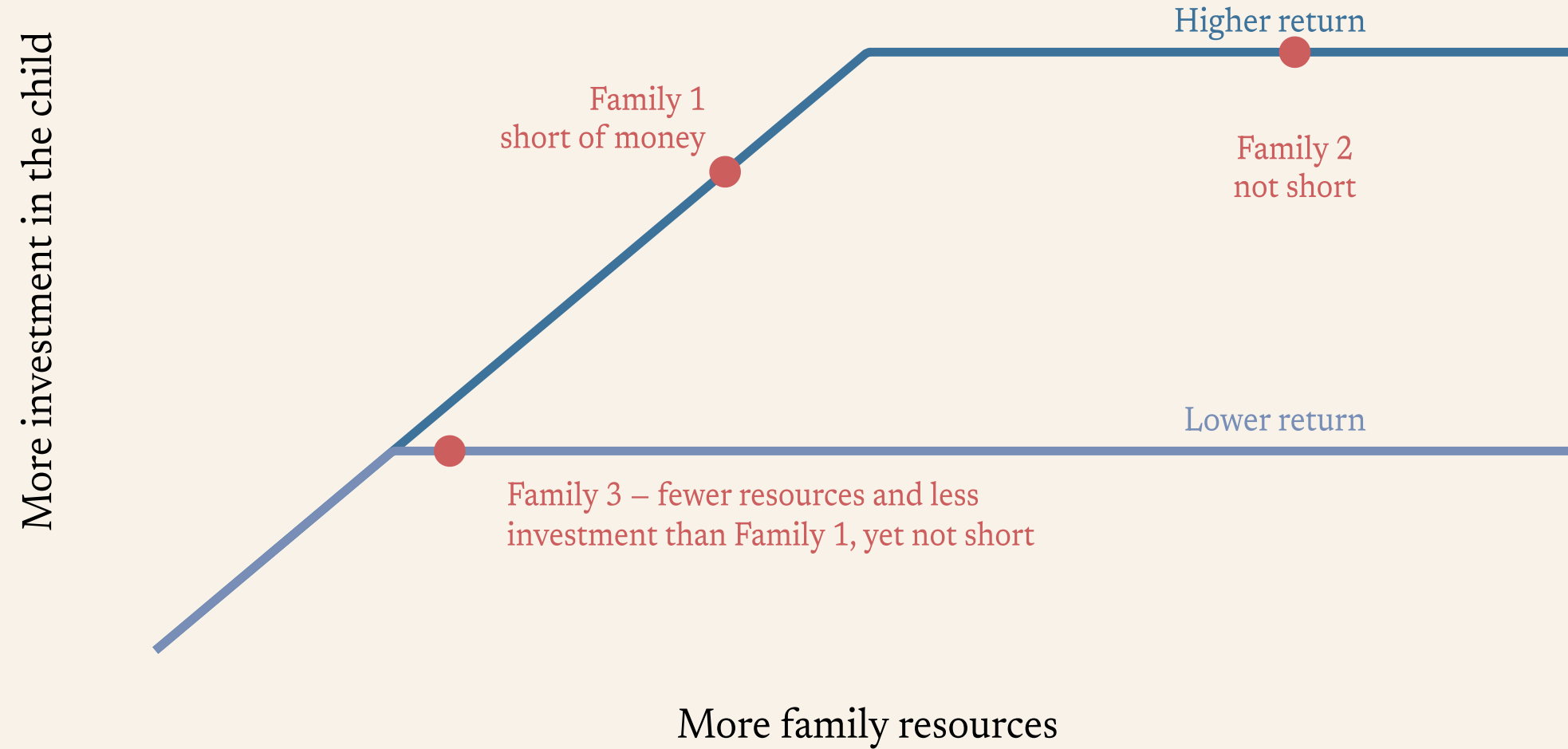
- ① Families with different resources invest **differently** in children
- ② Resources and environments **matter** for how children turn out
- ③ And when we **add** resources – not just observe them – outcomes change

The main challenge: who is constrained?

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The main challenge: who is constrained?

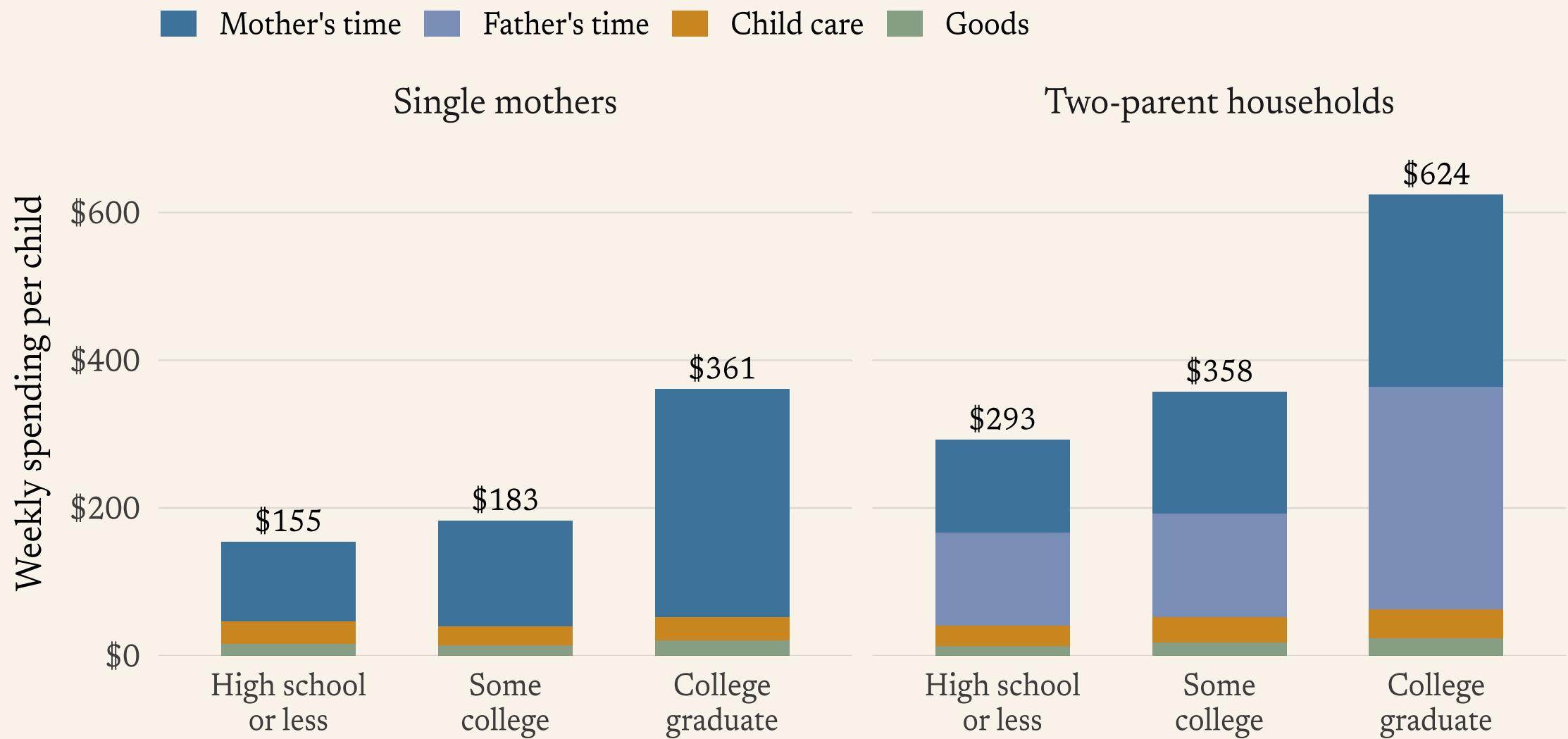


The evidence

Four bodies of evidence

- ① Does family income **predict** how children turn out?
- ② **Safety net** expansions – food stamps, Medicaid, tax credits
- ③ **Early childhood education** – Perry, Abecedarian, Head Start
- ④ **Home visiting** programmes

Families invest very differently



Caucutt, Lochner, Mullins & Park (JPE), figure 2.
PSID Child Development Supplement, 2002; children aged 5-12.
Parental time is valued at the parent's own wage.

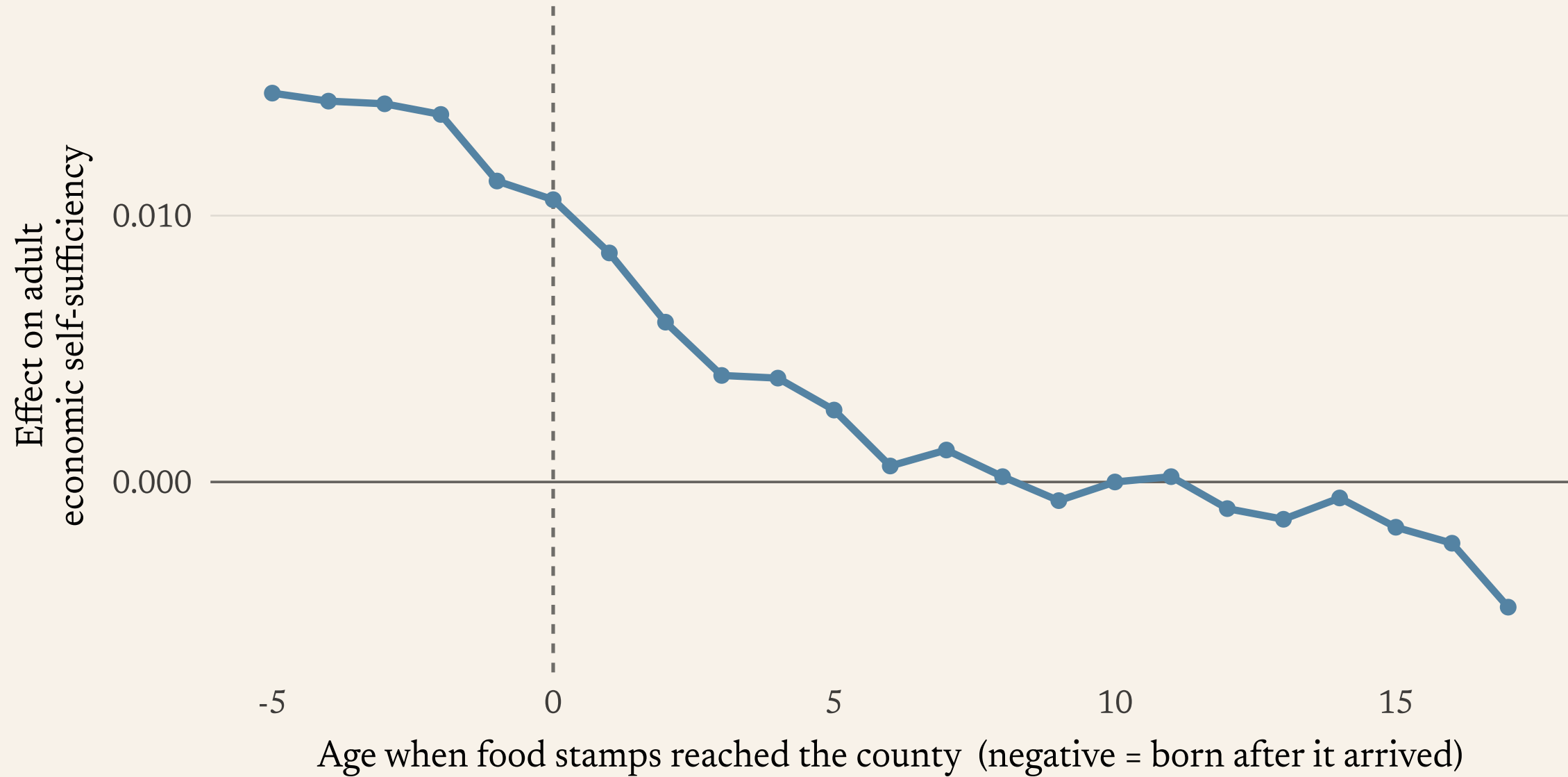
An objection

This is an association. It could have many underlying causes.

We need to look for *exogenous variation* (independent movements in the data that suggest causation).

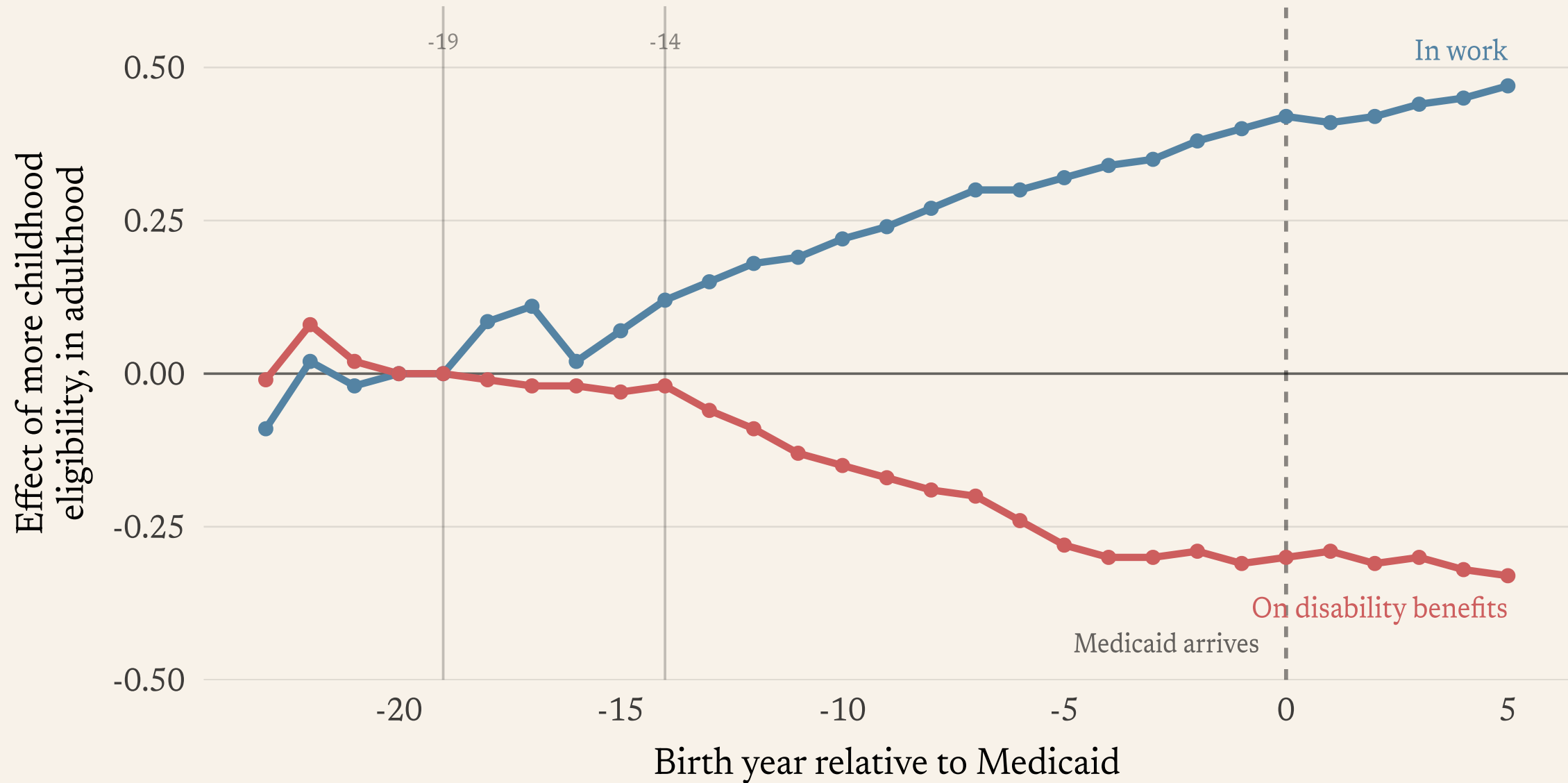
Example: when children get access to the safety net at different times...

Food stamps



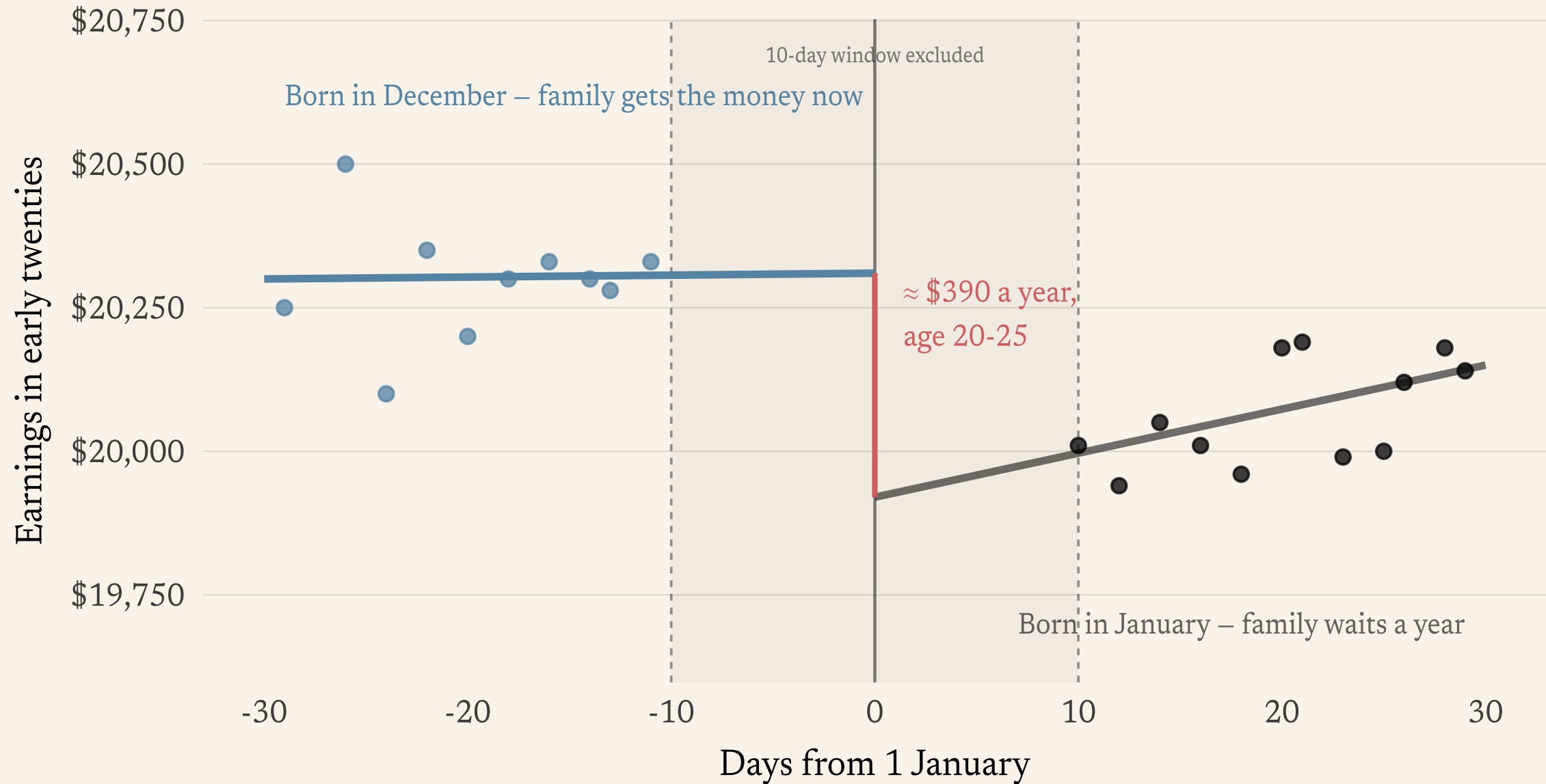
Redrawn from Bailey, Hoynes, Rossin-Slater & Walker (2024), figure 3.

Health insurance



Redrawn from Goodman-Bacon (2021), figure 7 panel B (nonwhite cohorts).

Cash, in the first year of life



Redrawn from Barr, Eggleston & Smith (2022), figure III.

Intensive early education

7–10%

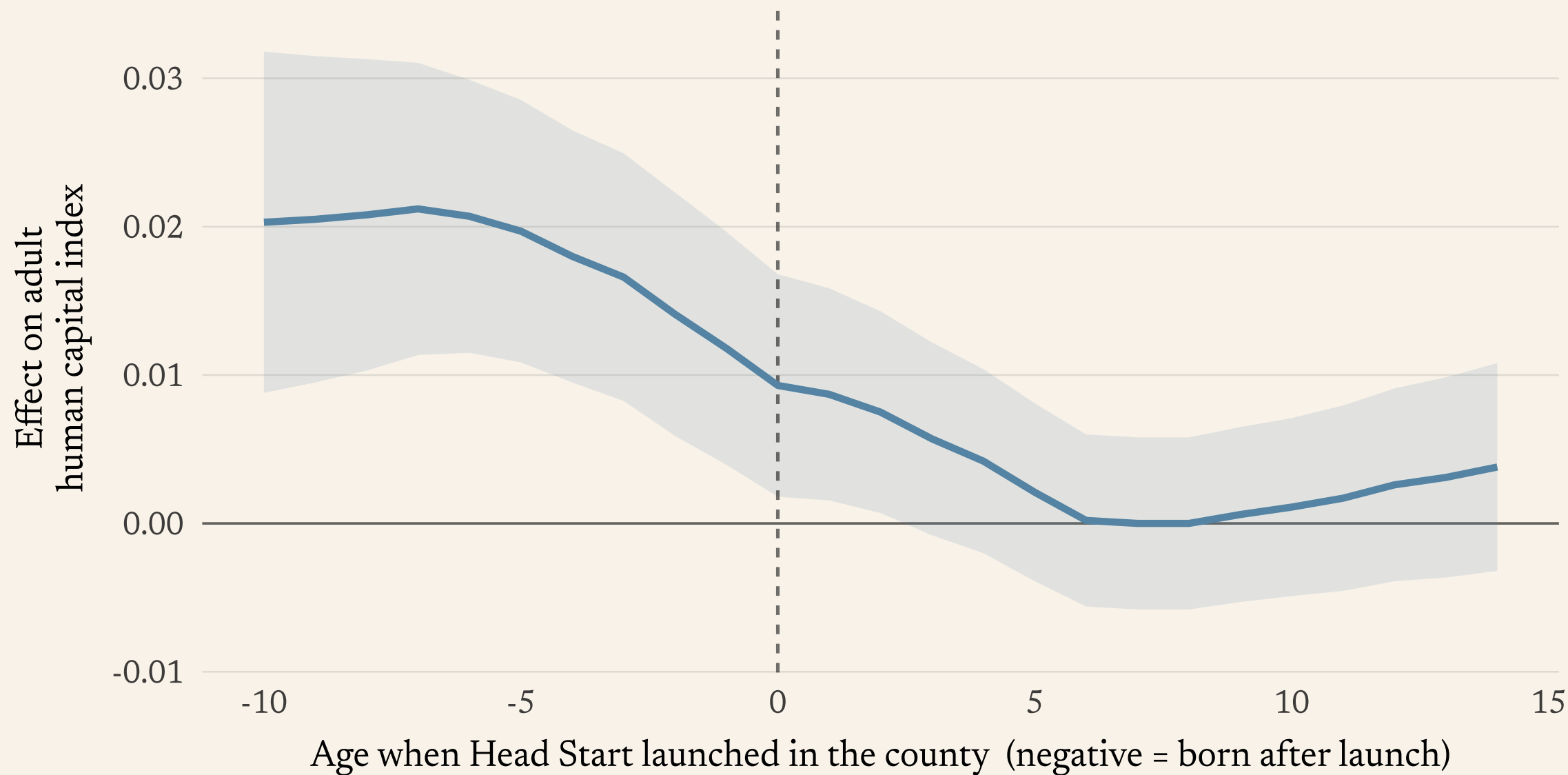
a year – **Perry Preschool**, half-day, ages 3 and 4, 58 children

13.7%

a year – **Abecedarian and CARE**, full-day, from infancy, with health care

Returns per year on the money spent, measured into middle age. Abecedarian and CARE also return **\$7.30 of benefit per dollar spent**. Perry: Heckman, Moon, Pinto, Savelyev & Yavitz (2010). Abecedarian and CARE: García, Heckman, Leaf & Prados (2020), 13.7% (s.e. 3.0), benefit–cost 7.3 (s.e. 1.8).

Head Start, at scale



Redrawn from Bailey, Sun & Timpe (2021), figure 4 panel A. Band is the published confidence interval, approximated.

Home visiting

Trained visitors coach parents on play, language and responsiveness.

- **Jamaica** – Grantham-McGregor et al. (*The Lancet*, 1991), Gertler et al. (*Science*, 2014)
- **Colombia** – Attanasio et al. (*BMJ*, 2014)
- **India** – Andrew et al. (*PLOS Medicine*, 2020)
- Households in comparatively deep poverty. See **large gains in cognition and language**

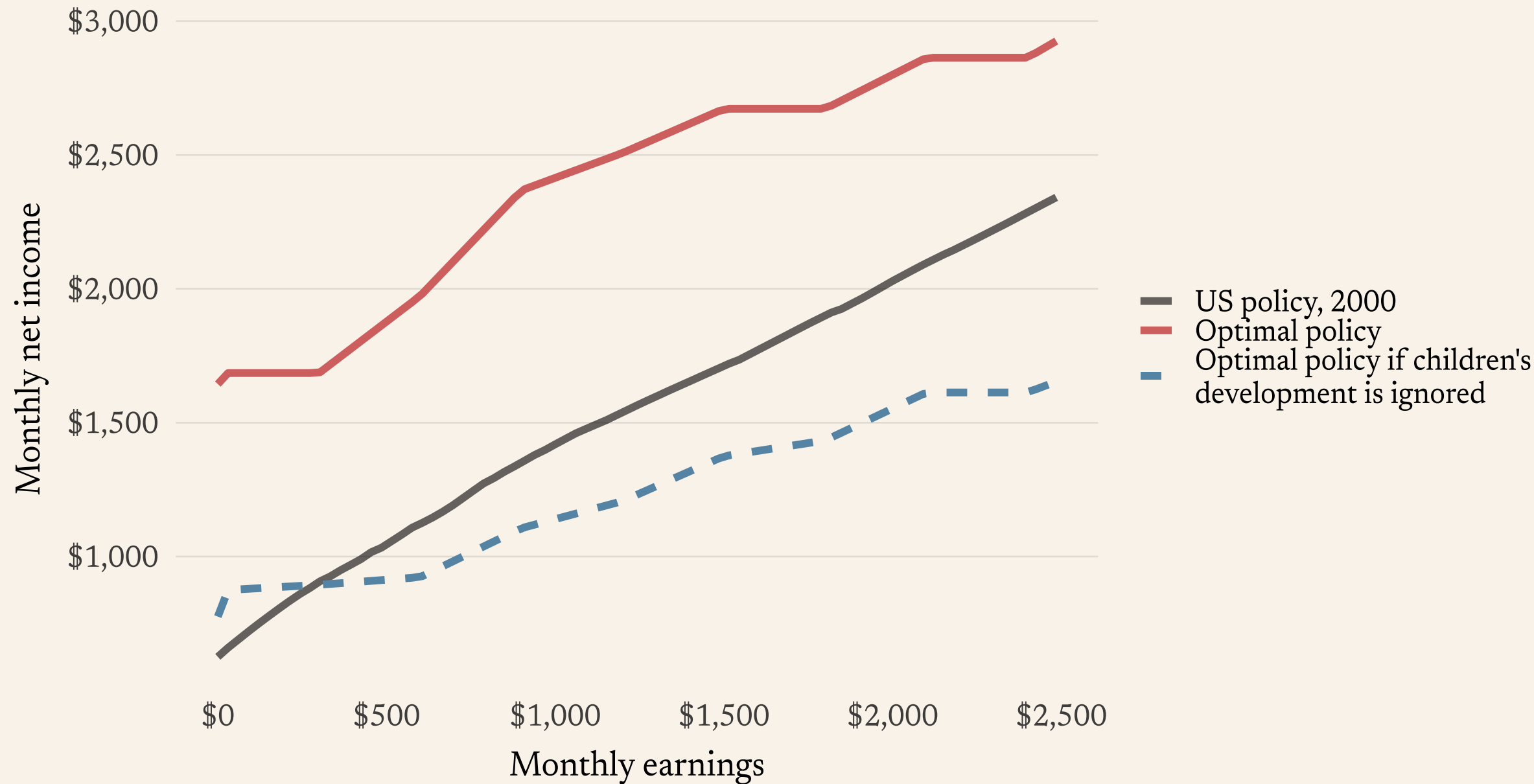
**Skills in childhood are *malleable*
and shaped by resources.**

Investments yield *high returns*.

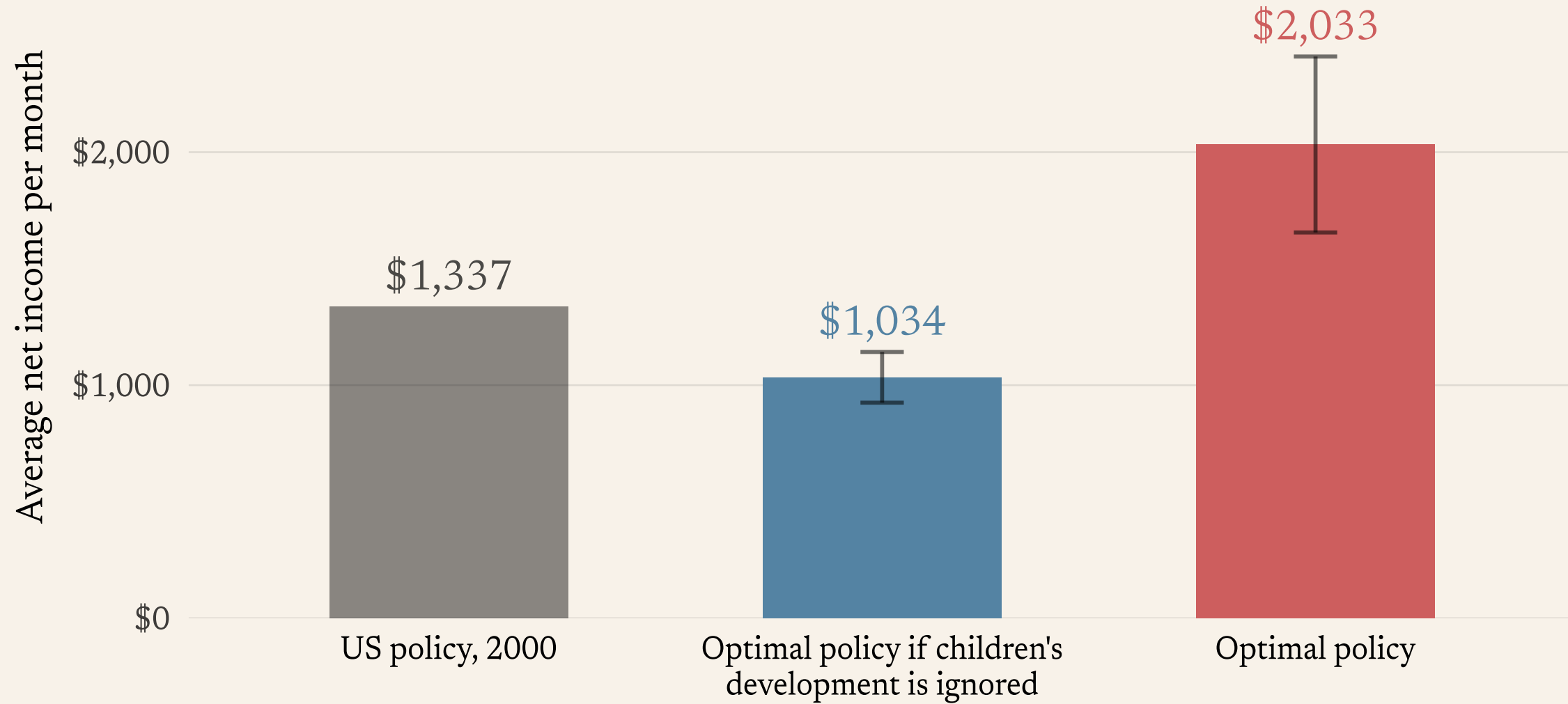
Consistent with case for intervention.

Combining theory and evidence

Designing cash transfers



Optimal transfers are much more generous



Mullins, “Designing Cash Transfers”, optimal generosity table. Single mothers.
Bars are 95% confidence intervals.

Insights when theory meets data

Well-directed policies can shape more productive, more equal economies where income $\neq$ opportunity

- **Early childhood programmes.**

Daruich (2025)

- **Child care subsidies.**

Moschini (2023); Moschini and Tran-Xuan (2025)

- **Transfers**

Caucutt and Lochner (2020); Abbott (2022)

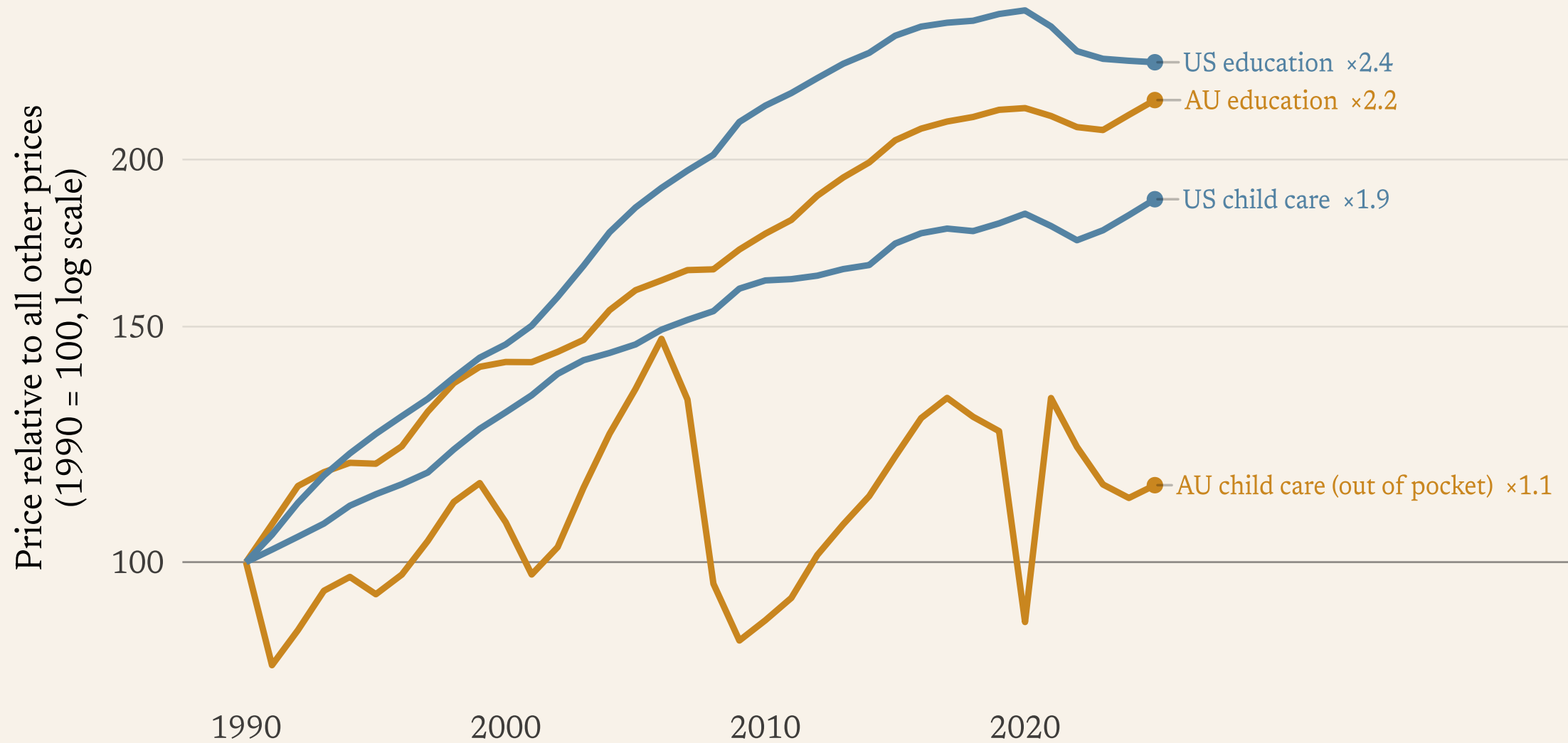
- **School funding.**

Zheng and Graham (2022)



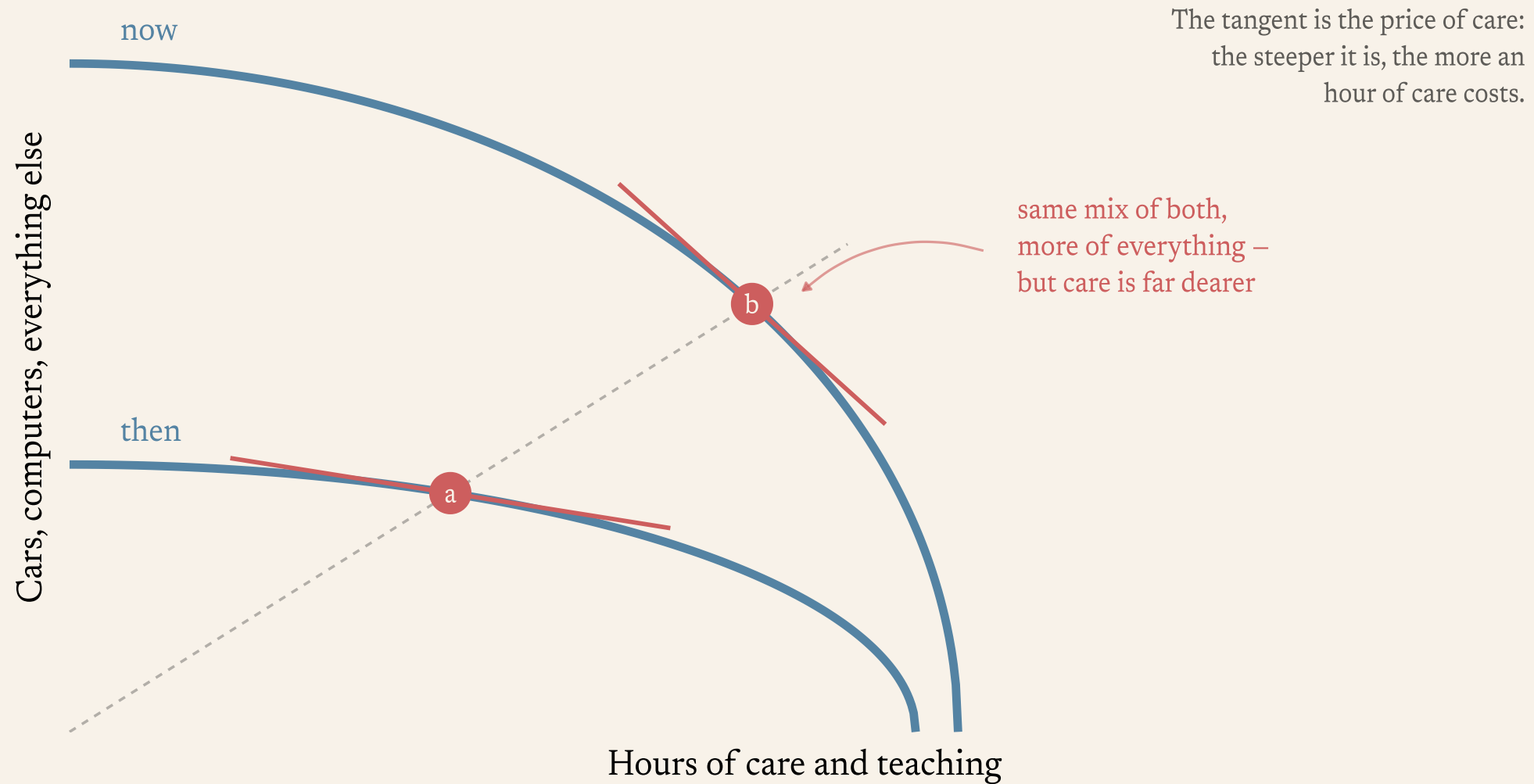
Looking ahead

Prices are rising. Why?



Deflated by economy-wide prices. US: BEA PCE price indexes, "Education services" (which also contains day care).
AU: ABS CPI. The Australian child care line is what families pay after subsidies, not the fee charged.

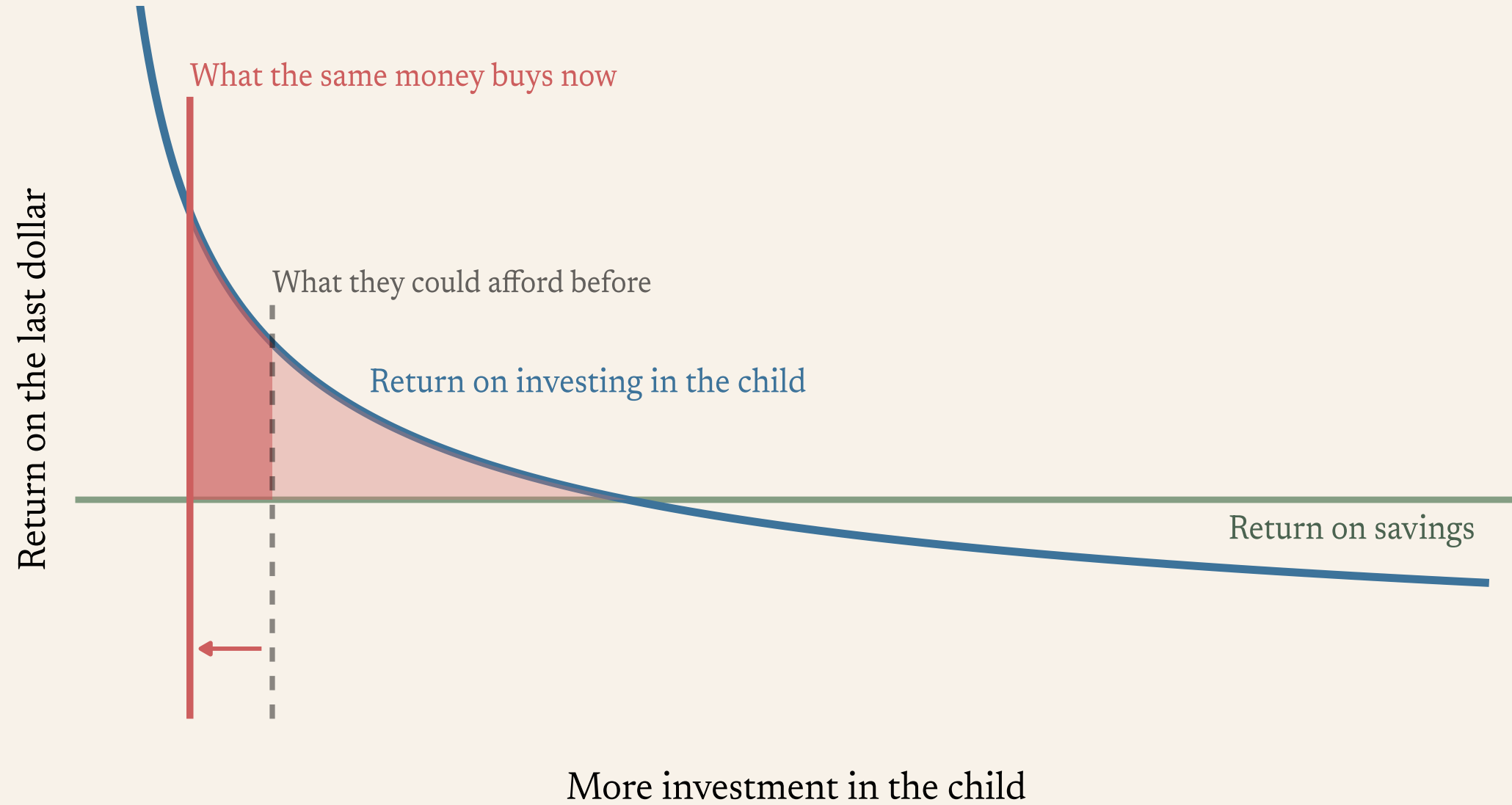
Baumol's cost disease



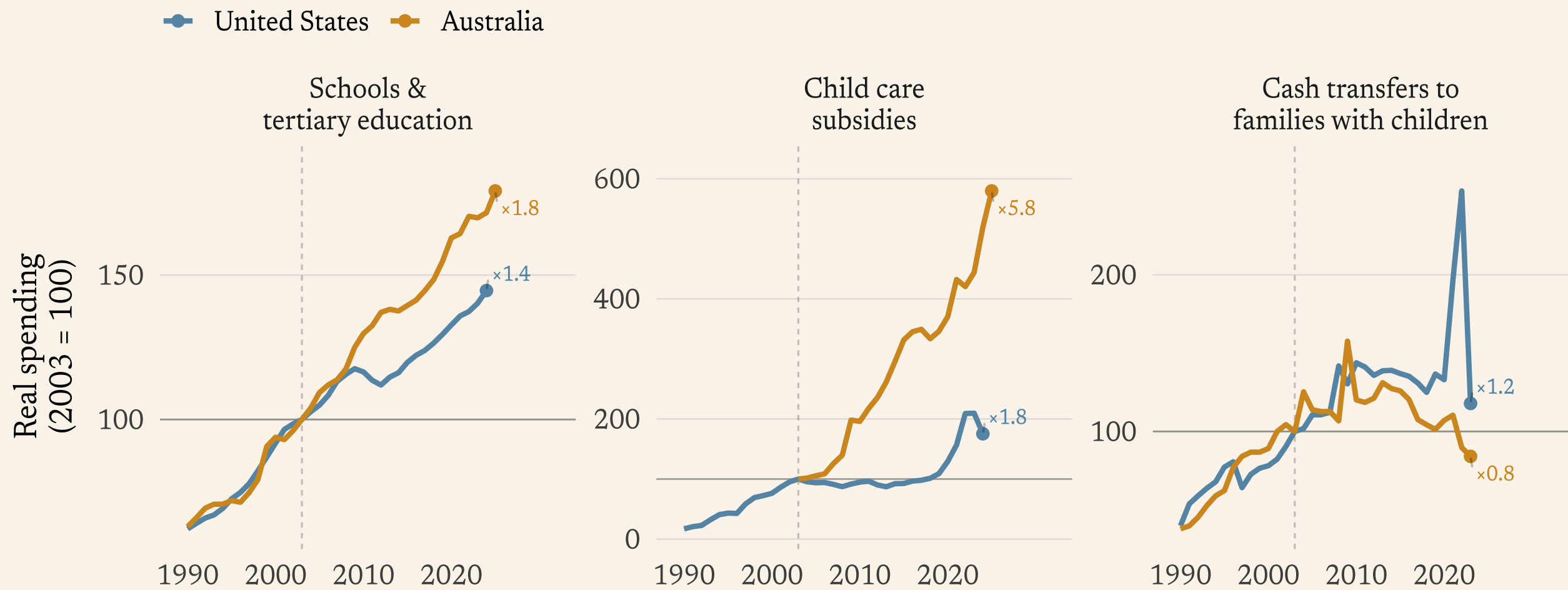
Capacity in goods grows two and a half times; capacity in care hardly moves. After Helland and Tabarrok (2019), “Why Are the Prices So D*mn High?”, figure 22.

Rising costs exacerbate under-investment

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Real expenditures since 1990



Sources: OECD SOCX; OMB Public Budget Database; BEA NIPA 3.15.5 and 3.16; ABS 5204.0; ROGS.
Deflated by BEA PCE prices (US) and ABS all-groups CPI (AU).

**Well-designed policies can alleviate
wasteful disadvantage in childhood
and create a better economy for
everyone.**

Thank you

Data and figures. Public spending: OECD Social Expenditure Database, OMB Public Budget Database, BEA NIPA tables 3.15.5 and 3.16, ABS 5204.0. Prices: BEA PCE price indexes, ABS Consumer Price Index. Family investment: Caucutt, Lochner, Mullins & Park (*JPE*), PSID Child Development Supplement. Policy design: Mullins, “Designing Cash Transfers in the Presence of Children’s Human Capital Formation”.

Evidence from Bailey, Hoynes, Rossin-Slater & Walker (2024); Goodman-Bacon (2021); Barr, Eggleston & Smith (2022); and Bailey, Sun & Timpe (2021). Coordinates were read off the published figures by eye: the shape and sign are faithful, the levels are indicative. The Abecedarian/CARE returns are the published point estimates from García, Heckman, Leaf & Prados (2020).

Sources on spending

Cash transfers and early childhood – OECD Social Expenditure Database, *Public expenditure on family by type of expenditure, % of GDP* ([DSD_SOCX_AGG@DF_PUB_FAM](#)), series TP511–TP513 (cash) and TP521 (early childhood). <https://data-explorer.oecd.org>

US refundable tax credits – OMB Public Budget Database, FY2025 vintage, accounts *Payment Where Earned Income Credit Exceeds Liability for Tax* and *Payment Where Child Tax Credit Exceeds Liability for Tax*. These are the refundable portions, which score as outlays; OECD excludes them from the US social-spending figures, which is why they are added back here. <https://www.whitehouse.gov/omb/information-resources/budget/supplemental-materials/>

US education – BEA NIPA tables 3.15.5 / 3.16, government consumption expenditures and gross investment on education. **Australian education** – ABS 5204.0 table 35, series A85307124C, general government final consumption expenditure on education (consumption only; excludes capital).

GDP – FRED [GDPA](#) for the US; ABS [ANA_EXP](#) quarterly current-price GDP summed to July–June years for Australia.

Harmonised cross-check on education alone (UNESCO via World Bank [SE.XPD.TOTL.GD.ZS](#), 2021): United States 5.4%, Australia 5.3%.