Sustained Child Care Funding Is Critical to Support Families and the U.S. Economy

The American Rescue Plan, Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) of 2021 provided critical support for the child care industry and, by extension, all parents and guardians who rely on it. However much of this funding is expiring at the end of September 2023. Additional long-term funding is needed to increase the wages paid to child care workers, increase the number of child care staff, ensure sufficient child care availability, and reduce the high cost of care for parents who work.

Many families sit on waitlists for years—often joining them before their child has even been born—to ultimately pay tens of thousands of dollars annually once they get a coveted spot. Many other families, particularly in rural areas, never find available and affordable child care in their community. Growing and stabilizing the child care industry will improve the lives of millions of families, children, and care workers. It will also grow the U.S. economy now and in the future.

Child care providers don't have enough slots to meet demand, resulting in long waitlists and high prices.

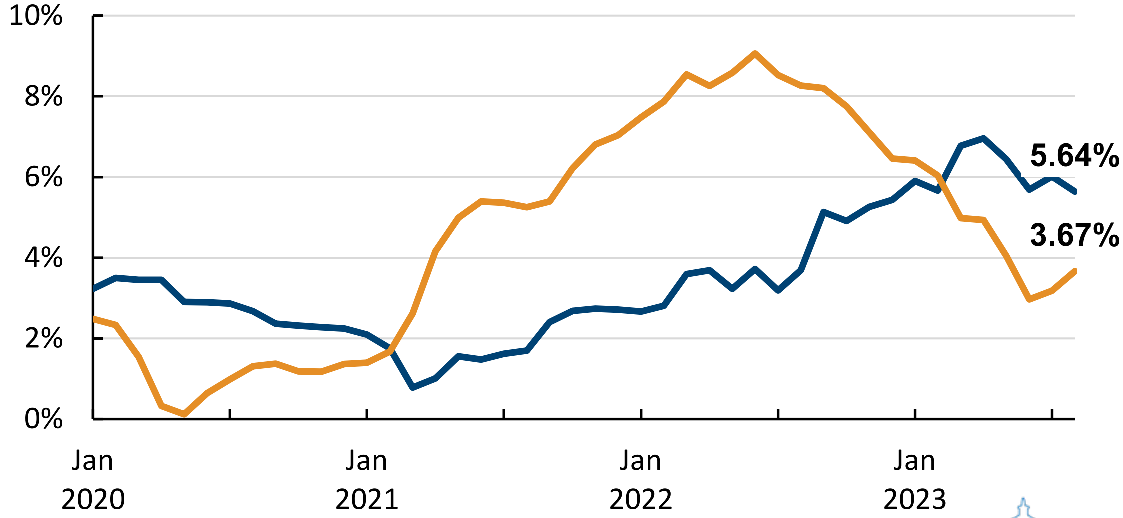
Over half of people in the United States (51%) and in New Mexico (53%) live in a child care desert, which can be defined as a census tract where there are either more than 50 children under age 5 but no licensed child care provider or where there are more than three children for every child care slot. One study found that Latino, rural, and low-income families are particularly likely to live in child care deserts. Though this definition does not include license-exempt, home-based, small-group child care (Family, Friend, and Neighbor Care), it reflects the industry's low supply, which results in long waitlists for families.

The industry's low supply coincides with its high prices. The Department of Health and Human Services recommends that families' child care out-of-pocket costs not exceed 7% of their family income, which was the average cost between 1997 and 2011. Using county-level data, the Women's Bureau at the Department of Labor found that the median price of child care in 2018 ranged from 8% to 19.3% of median family income. More recently, Child Care Aware of America found the average price of child care in 2022 was $10,852—10% of the median income for a married couple and 33% for a single parent. These costs mean that child care takes up even more of the family budget for those with lower incomes.

Before the pandemic, early care and learning prices that include the costs of both child care and paid pre-k were growing faster than overall inflation. Though this trend reversed in 2021 and 2022, prices in this sector are now yet again growing faster than the prices of other items, meaning the cost is increasingly eating up larger shares of family income.

Early Care and Learning Price Growth Surpasses Overall Inflation

Annual Consumer Price Index for day care and preschool and all items, all urban consumers, U.S. city average, January 2020 - August 2023



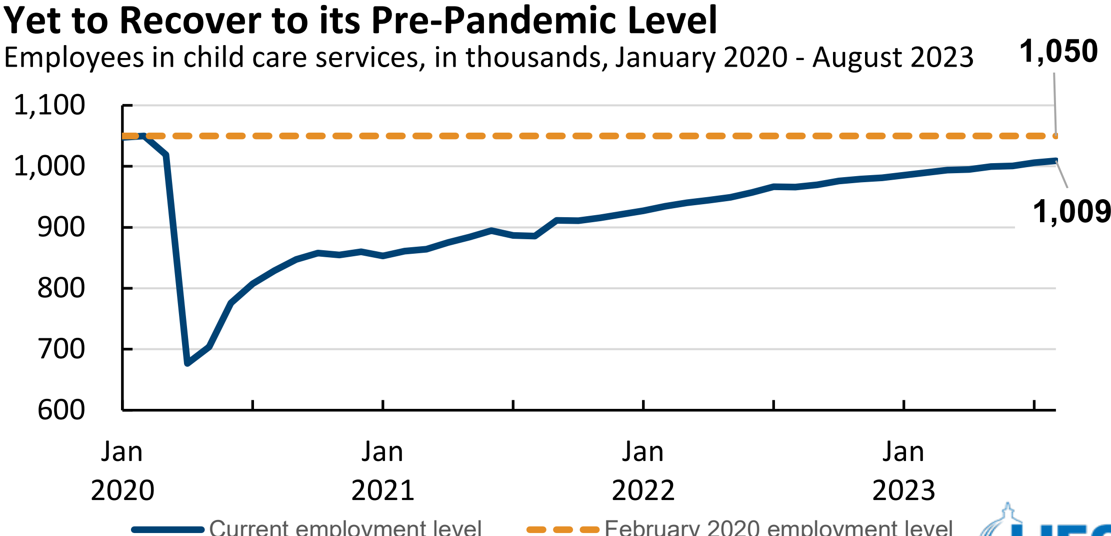
Source: Bureau of Labor Statistics

Hard-hit by the pandemic, the child care industry is having a sluggish recovery.

At the start of the pandemic, many child care centers initially closed their doors with the goal of keeping staff and children safe. This meant the child care industry lost over 370,000 workers between February and April 2020. As many centers reopened later and brought back staff, this left the industry still down 40,500 workers as of August 2023, meaning that more than one in 10 of those child care workers still had not returned to the industry. Amid rising wages in other occupations and the overall recovery in the labor market, many suspect these workers transitioned to different jobs with higher wages and faster wage growth, a trend that has held back employment in a number of lower-paying sectors.

Despite a Strong Labor Market, Child Care Employment Has Yet to Recover to its Pre-Pandemic Level

Employees in child care services, in thousands, January 2020 - August 2023



Source: Bureau of Labor Statistics

Child care workers face lower and more stagnant wages than workers in other industries—and are often struggling to support their own families.

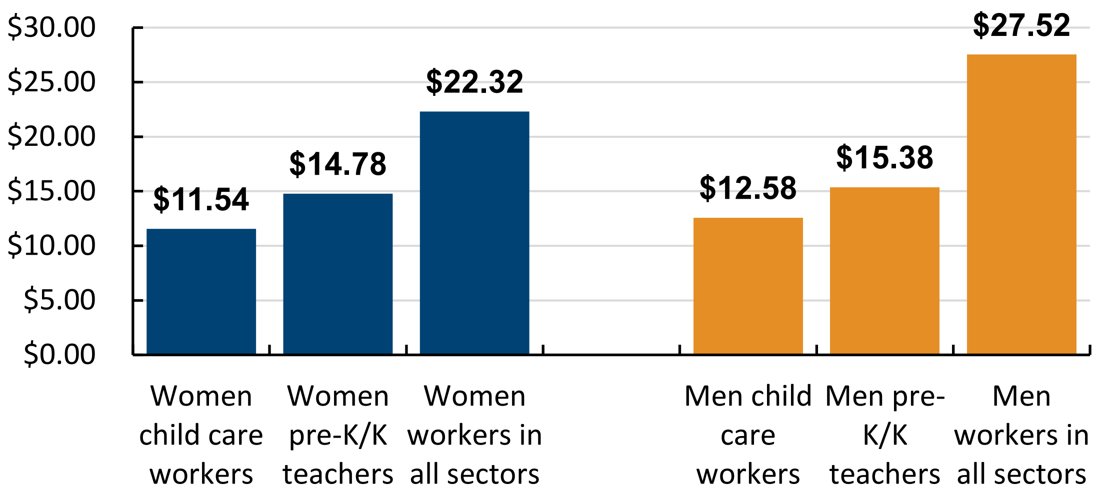
Child care workers—94% of whom are women—earn lower wages than their male colleagues and those in other industries. A recent estimate found the median hourly wage for full-time, year-round child care workers who were women was only $11.54 per hour, compared to $12.58 for male workers in the same field. When looking at similar jobs in early childhood education (ECE), the median hourly wage for full-time, year-round Pre-K/Kindergarten teachers who were women were similarly low at $14.78 per hour. These wages are well below the median wage for women working full-time, year-round in all sectors—which is $22.32.

Wages for child care workers have also grown more slowly than those of other low-wage service occupations in the last few years. Between 2019 and 2022, the median real hourly wages for child care workers grew by only 3.1%, compared to 5.6% for retail sales workers and 8.7% for food and beverage serving workers.

Child care workers are also less likely to have employer-sponsored benefits like health insurance than workers in other sectors. Lower wage levels, slower wage growth, and less access to benefits means child care centers struggle to recruit and retain staff. It also means that child care workers often struggle to support their own families, with a significant portion experiencing economic and food insecurity.

Early Care and Learning Workers Are Paid Less than Workers in Other Industries

Median hourly wages for full-time, year-round workers



Source: National Women's Law Center
Note: Data are from the 2017-2021 American Community Survey 5-year sample

These low wages present a confusing paradox for families who face increasingly expensive child care: why are prices so high when workers' wages are so low? Despite these low wages, personnel costs—including wages—make up over 60% of operating costs for center-based ECE programs. Young children often need more supervision, driving down teacher-student ratios and resulting in a need for more staff at most centers. The rest of the costs are related to maintaining facilities, providing food, and ensuring that centers have enough supplies. In public schools, many of these costs are covered by the local, state, or federal government. But because many child care providers operate in a private market, they must fund these costs themselves to keep their doors open. These high costs are then passed down to families in the absence of robust government funding.

Unaffordable child care is associated with lower levels of maternal employment and labor force participation.

Unaffordable child care increases the burden for women who want or need to work. In October 2022, the Federal Reserve found prime-age women in the United States were seven times more likely (7%) than men (1%) to indicate child care as a reason they were not working. The same study found that 33% of women who had children under age 18 in the home were not working, compared to only 12% of men—likely reflective of women disproportionately bearing caregiving responsibilities within their families. Though not all of these women may want to work, a lack of child care acts as a barrier for many who do or may need to in order to meet their financial obligations.

There is a wealth of research demonstrating how affordable ECE is associated with higher rates of labor force participation and employment among women, especially those with young children. To that end, research shows that child care subsidies—federal dollars that help alleviate out-of-pocket costs for families—are associated with increased maternal labor force participation.

The consequences of unaffordable, unavailable, and unreliable child care can add up over a career and a lifetime. A recent study from the Urban Institute found that, on average, women lose $237,000 in earnings and $58,000 in Social Security and employer-based retirement income as a result of caring for children and other family members instead of working for pay. Another study found that access to child care would help increase the earnings of a woman with two children by $94,000 over her lifetime, resulting in her having more in savings to weather emergencies ($20,000) and additional Social Security retirement income ($10,000). An additional study found that the average woman would earn an additional $4,600 annually if compensated for the time she spent caring for children and other family members.

Even when they are employed, unreliable child care keeps many women from working or fully focusing on work.

On average in 2022, women spent more time than men caring for their children while they were working, according to survey data on time use collected by the Bureau of Labor Statistics (BLS). On an average weekday in 2022, women spent about two-thirds of an hour providing child care for young children under age 6, while at the same time that they were working for pay. Time spent caring for young children while working was not reported for men because it did not meet BLS' publication standards, meaning they were likely too small of a group to analyze. Each woman has unique preferences for work and caregiving. However, this predicament mirrors many mothers' reality during the pandemic when schools and child care centers were closed and they had to balance work and caregiving responsibilities simultaneously.

As a result, access to child care impacts how much a woman is able to work. BLS distinguishes part time workers as part time for economic reasons (i.e. "involuntary") or for noneconomic reasons (i.e. "voluntary"). The share of voluntary part time workers who indicate unreliable or unaffordable child care as their reason for working part time instead of full time has ticked up from 2.4% in 1994 to 3.3% in 2022. Additional polling found nearly 6 in 10 part-time or non-working parents (59%) indicated they would work full time if they had affordable child care. According to BLS, tens of thousands of employed people every month report missing work altogether because of child care issues—a figure that peaked during the pandemic and has remained elevated.

Increasing access to child care can increase labor force participation and grow the economy.

The prime-age (ages 25-54) labor force participation rate for women in the U.S. has been declining relative to that of peer Organisation for Economic Co-operation and Development (OECD) countries. The U.S. rate has fallen from sixth highest among the 22 OECD countries in 1990 to 17th among the 38 countries in 2022—landing over 2.4 percentage points below the OECD average. This is, in part, because U.S. policies have not kept up with the needs of families. Researchers estimate the expansion of "family-friendly" policies—including child care—in other countries accounts for nearly one-third of the decline in labor force participation among women in the United States.

In addition to benefiting workers, reliable and affordable child care benefits the economy, given that higher labor force participation among women is associated with gains in economic output. For example, one study found capping the cost of child care at 10% of a family's income could help increase gross domestic product (GDP) by 1.2% annually—or $210.2 billion—by increasing women's labor force participation. More generous caps like the Department of Human Services' recommended 7% could have even larger benefits.

These benefits for the economy are on top of the benefits for children. A study of a Tulsa early ECE for children 19 months or younger found letter and word identification, vocabulary, oral comprehension and math benefits among participants from kindergarten through third grade. ECE programs also support children's development and school readiness.

ECE programs have a number of positive spillover effects. Yet, given historic underinvestment in the industry, demand has far outpaced supply, resulting in unaffordable and unreliable child care for families along with long waitlists for spots. Furthermore, low-income and families of color bear the brunt of these consequences. All of these factors result in, what Treasury Secretary Yellen called, a "textbook example of a broken market."

Recent public investments have been transformational for the industry, but sustained funding is critical.

Given the way the already fragile and vital child care industry was hard-hit by the pandemic, additional funding was allocated to existing and new child care funding mechanisms in 2020 and 2021. The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) of 2021 allocated a combined $13.5 billion for the existing Child Care and Development Fund (CCDF), which supports child care for low-income families and quality improvements. These funds must be spent by September 30, 2023. The American Rescue Plan Act (ARP) allocated an additional $15 billion for CCDF, which must be spent by September 30, 2024. ARP also allocated $24 billion toward child care stabilization funds, aimed at supporting the sector's operational costs, which also must be spent by September 30, 2023.

As of April 2023, an estimated $34.5 billion of the total $52.5 billion had been spent, stabilizing the child care industry throughout the country. By December 31, 2022, the Department of Health and Human Services found that child care stabilization money had already reached 220,000 providers and impacted 9.6 million children. Among early childhood educators who were surveyed, 92% of those who received stabilization money indicated it helped their program stay open. These dollars were used to recruit and retain educators and improve the affordability, availability, and reliability of child care. New Mexico, for example, allocated $10 million of stabilization funds to create an estimated 800 additional slots. Money flowing through CCDF was used for similar purposes across the country.

These dollars have been critical for child care providers and families and for steadying the industry, yet most of this funding expires at the end of September 2023. Without this funding, child care supply will continue to fall short of demand—and the industry will face the consequences of a stark funding cliff. The Century Foundation estimates this cliff will result in over 3 million children losing access to child care and over 70,000 child care programs closing. These consequences will reverberate throughout the economy, pushing women out of the labor force and costing educators their jobs. States must spend all their allotted money by the deadline to ensure families benefits from these subsidies.

Moving forward, additional long-term funding for child care is critical to help this vital industry thrive and to keep the United States on equal footing with peer countries. The Child Care Stabilization Act, for example, would allocate $16 billion in mandatory funding each year for the next five years to continue the Child Care Stabilization Grant program, ensuring providers continue to have stable and reliable funding. These funds would be a crucial first step towards meeting our country's child care needs, and will help the child care industry continue to serve as the backbone of our economy.