An Overview of the Child Care Market in the United States

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1. Introduction

Child care is an issue of critical importance for millions of American families. Most parents, especially mothers of young children, need child care in order to obtain and retain employment. While parents are at work, children need a place that is safe and healthy for their development. Evidence on the benefits of high-quality child care is overwhelming. Numerous studies demonstrate that high-quality care improves children's cognitive and social-emotional development, enabling them to perform better in school and in the labor market (Dearing et al., 2009; Auger et al., 2014; Herbst, 2013; Barnett et al., 2013; Campbell et al., 2014; Gathmann and Sass, 2018; Gormley et al., 2018). In addition to supporting parents and children, the child care industry plays an economic role in stimulating the growth and development of local and state economies by employing hundreds of thousands of workers.

This report provides an overview of the child care landscape in the United States, and highlights the implications of some of the dynamics in the demand and supply of child care for America's families, children, and the economy. I begin by highlighting the significant increase in the employment of mothers of young children in the last few decades, which has also been the main cause of the rapid expansion of the child care market. This discussion is followed by a description of the problems inherent in the U.S. child care market. Since child care is a service that is purchased and sold in the market, highlighting some of the ways in which this market fails to function is central to understanding the challenges facing parents and children. Then I summarize the main features of the market including the cost, quantity, and quality characteristics of consumers and providers in the market. This is followed by a description of the existing government programs designed to address the problems in the market, most importantly, the high cost of child care for working parents. Then, I discuss some the challenges caused by COVID-19 for the child care market. Finally, I conclude with a description of current government proposals designed to address the problems in the child care market.

2. Labor Force Participation among Mothers of Young Children

Most child care is used to facilitate the employment of the mother. Economic theory predicts that a decrease in the cost of child care would raise returns to employment, and in turn, increases the use of child care and the likelihood that a parent is employed. There is a wealth of research that

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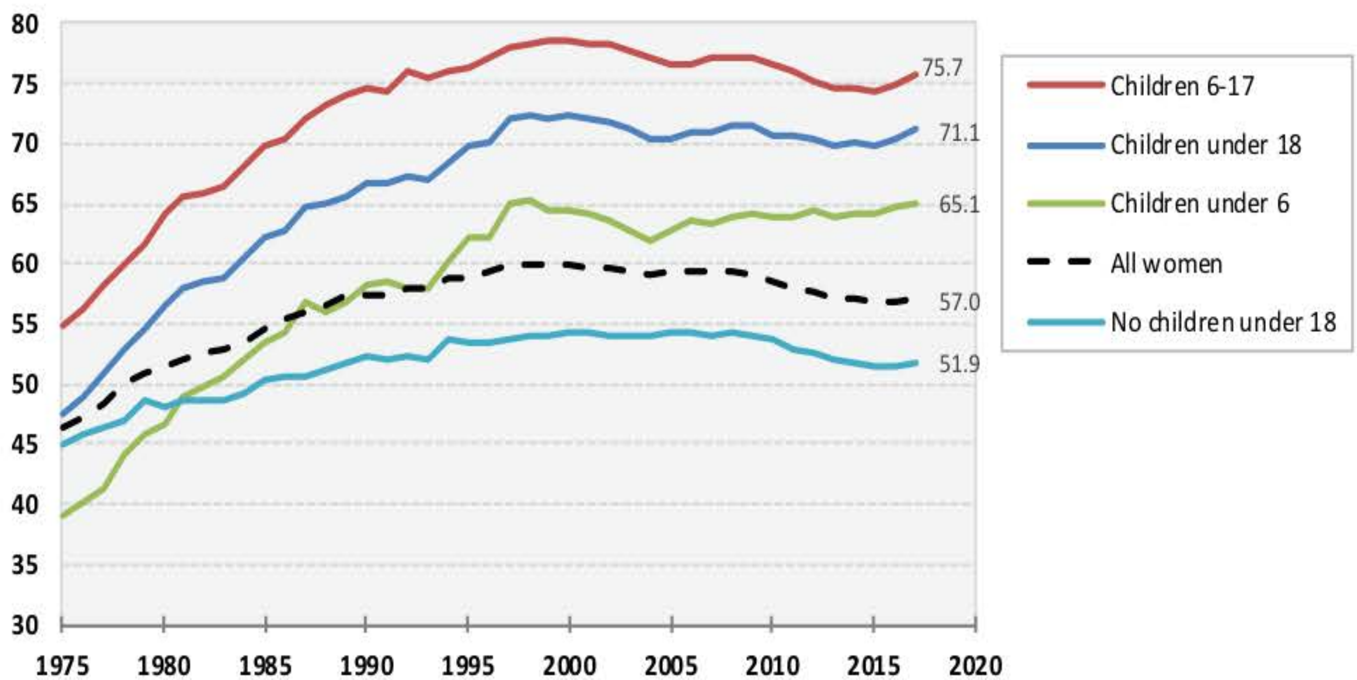
confirms this prediction (e.g., Blau and Hagy, 1998; Blau and Tekin, 2007; Blau and Currie, 2006a, b; Tekin, 2007; Herbst 2010).[1]

Over the past several decades, the expansion of child care market in the U.S. closely tracks the growth in the labor force participation (LFP) of women with young children. Indeed, the proportion of women with preschool-age children in the labor force grew from 39 percent in 1976 to 65 percent in 2016 (U.S. Department of Labor, 2020), which in turn led to a rise in the number and share of children participating in non-parental child care arrangements (Blau, 2001; Herbst, 2018). Overall, the labor force participation rate is significantly higher among women with children under age 18 (71.1 percent) than among women with no children under age 18 (51.9 percent) (Figure 1). The women's labor force participation has stabilized since 2000. In fact, the share of women in the labor force decreased slightly in recent years except for women with children under age 6, whose LFP has continued to increase since 2005. Given the close relationship between women's employment and access to child care, some suggest that the recent stagnation in the labor force participation rates of women of young children could potentially be reversed with expanded access to child care (Black et al., 2017).

Figure 1: The Labor Force Participation Rate of Women with Children



Source: Bureau of Labor Statistics (Obtained from Committee for Economic Development (2019)).

[1] According to this literature, the elasticity of employment with respect to the price of child care ranges between -0.025 to -1.1, with more recent studies documenting estimates typically in the lower end of this range (Morrissey, 2007; Akgunduz and Plantenga, 2018).

3. Market Failures in the Child Care Market

The child care market in the United States operates within a fragmented industry, populated primarily by small, single-establishment firms – both profit and non-profit – relying on private financing. There are several commonly cited problems with this system: high-quality child care is expensive and in short supply for most parents; parents are not sufficiently informed about several aspects of child care; and child care providers earn low wages and experience high turnover. Despite the critical role that affordable and high-quality child care plays in achieving equity in early learning and child development, such care remains unavailable to many American parents as they rely on a patchwork of expensive and unstable arrangements, which leads to frequent disruptions of care.

The problems in child care can be summarized in one phrase: market failure. For example, the benefits of high-quality child care may accrue not only to those who have access to it, but to society as a whole. Indeed extensive research demonstrates that high quality care reduces the societal costs associated with poor education such as low earnings, unstable employment, dependence on social welfare services, increased crime and drug use, and teenage childbearing (Duncan and Magnuson, 2013; Magnuson and Duncan, 2016; Vandell and Wolfe, 2000; Heckman, 2008; Katner, 2011; Heckman et al., 2010b, Currie 2001, Garcia et al., 2021, Reynolds et al., 2002, Belfield, 2006; Carneiro and Ginja, 2014; Sacerdote, 2011). To the extent that parents make their child care decisions without considering these externalities, they may underinvest in high-quality care.

The quality problems in the child care market are further compounded by liquidity constraints – another type of market failure –faced by parents who are unable to borrow against their own future labor income, which may prevent them from investing in their children's early years in life (Caucutt and Lochner, 2004; Cunha and Heckman, 2004).

Another market failure sometimes mentioned when describing the problems in the child care market is parents' inability to recognize high-quality care and underestimation of the societal benefits of such care. (Blau, 2001; Gordon et al., 2021; Herbst et al., 2020; Mocan, 2007). The empirical evidence is largely consistent with this view. For example, child care searches are typically short in duration, with many parents considering just one caregiver or making their decision within one day (Layzer et al., 2007; NSECE, 2014). Furthermore, parents are less likely to inquire about the quality-related attributes of child care (e.g., licensing and turnover) and more likely to inquire about its convenience and cost (e.g., fees and hours of operation) (NSECE, 2014). Accordingly, there are inconsistencies between the quality ratings of parents and of trained observers, where the former consistently rates the quality of their child's caregiver more favorably than the latter (Herbst et al., 2018; Forry et al., 2013; Cryer and Burchinal, 1997; Mocan, 2007). Furthermore, other research finds that various measures of quality do not predict parents' satisfaction with their caregiver (Bassok et al., 2018). Instead, the practical dimensions of child care—related to convenience and reliability—play a major role in parental decision-making and satisfaction (Herbst et al., 2020; Mamedova and Redford, 2013; Layzer and Goodson, 2006; Barbarin et al., 2006; Rose and Elicker, 2008; Sonenstein and Wolf, 1991).

While these market failures provide a strong basis for public interventions in the market, child care in the United States is largely viewed as the responsibility of individual households rather than the government. This is contrary to most other OECD countries, which invest heavily in high-quality education-based care and prekindergarten programs that serve all children.

4. The Composition of Child Care Arrangements

Most child care services in the United States are provided in an organized facility or a home-based setting operating as formal business entities tracked by state and federal regulatory authorities. These two types of providers are typically referred to as center-care and family child care homes. Center-care is usually licensed and regulated, typically provided in for- and non-profit centers, places of worship, and community-based organizations (Brown and Herbst, 2021). Children attending center-care are usually separated into classrooms based on age–so that infants, toddlers, older preschoolers, and school-age children receive care appropriate for their developmental needs.[2] Family child care, on the other hand, takes place in the provider's home or in the home of the child. Providers of family child care usually operate as licensed and regulated programs that function as small, independent businesses and appear on state or national lists of early and education services (Brown and Herbst, 2021).[3]

Information on the breakdown of early childhood care arrangements for children from birth through age of 5 is available from the Early Childhood Program Participation (ECPP) Survey, administered as part of the 2019 National Household Education Surveys Program (NHES). The ECCP survey asks detailed questions about children's participation in relative care, non-relative care, and center-based care arrangements. According to 2019 ECCP, approximately 59 percent of children age 5 and younger participate in regular, weekly care arrangements with a non-parental provider.[4] As shown in Table 1, among children in a nonparental care arrangement, 62 percent were attending a center-care program, preschool, or prekindergarten, 38 percent were cared for by a relative, and 20 percent were care for in a private home by someone other than a relative. The ECCP also asks parents about the various factors that matter to them in choosing their child care arrangement. Reliability is rated as "very important" by parents of 87 percent of children who participate in nonparental care, followed by availability of the provider (75 percent), qualifications of staff (72 percent), learning activities (68 percent), location (60 percent), and cost (55 percent) (Cui and Natzke, 2020). However, parents cited the cost of care as the primary obstacle to finding child care. Specifically, 37 percent of children had parents who

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[2] According to data from the National Survey of Early Care and Education (NSECE), there were approximately 129,000 center-care programs employing about one million teachers serving approximately seven million preschool age children in 2012. (NSECE Project Team 2013).

[3] There are 118,000 workers in this sector providing care for 750,000 children (NSECE Project Team 2016). Aside from center care and family child care, there is an informal sector, which is unlicensed and unregulated. Those within the informal sector can be either paid or unpaid, and include individuals such as relatives, friends/neighbors, nannies, au pairs, and babysitters. The unpaid segment of the informal market includes about 2.7 million providers caring for four million children, while the paid segment employs about 118,000 workers who care for 2.3 million children.

[4] Based on "Child Care in State Economies: 2019 Update" prepared by the Committee for Economic Development. https://www.ced.org/childcareimpact.

reported cost as the main reason for difficulty finding child care, followed by lack of open slots (27 percent), quality (18 percent), and location (7 percent) (Cui and Natzke, 2020).

There is some regional variation in child care use. Nonrelative care is highest in Northeast (66 percent), followed by Midwest (61 percent), South (58 percent), and West (55 percent). There is also considerable variation across states from a low of 32.5 percent in Nevada to a high of 75.7 percent in the District of Columbia.[5]

Table 1: Percentage of children ages 0-5 participating in various weekly nonparental care arrangements

	Weekly nonparental arrangement				
	At least one weekly nonparental care arrangement	Type			No weekly nonparental care arrangement
		Relative care	Nonrelative care	Center-based care	
2012	60	42	24	56	40
2016	60	41	22	59	40
2019	59	38	20	62	41

Source: The author's compilation from Table 2 in Mamedova and Redford (2015), Corcoran and Steinley (2017), and Cui and Natzke (2020).

With respect to family income, the use of nonparental care is more common among families who are at or above the federal poverty threshold (62 percent) than those below poverty threshold (50 percent). Parents below poverty threshold also make a heavier use of relative care (44 percent) than those at or above the threshold (37 percent). However, center-based care appears to be equally common between these two types of parents with 62 percent of parents at or above the poverty threshold and 63 percent of parents below the threshold report using such care.

Among school-aged children, the predominant form of care arrangement is school (Table 2).[6] School is reported as the regular form or care for 93.5 percent of children ages 5-14. Another common form of care among these children is relative care (45 percent). In contrast, market-based care arrangements are much less prevalent among school-aged children. For example, only 5.1 percent of children ages 5-14 receive care from a child care facility and 5.2 percent receive care by a nonrelative in either the child's home or the provider's home. After-school enrichment activities and self-care also represent important forms of care with a prevalence of 15.4 percent and 11 percent, respectively.

An alternative measure of child care usage is the percentage of families with children paying for child care. Paid child care comprises all forms of care including market-based facilities and relatives who provide care on a fee basis. According to data from the Current Population Survey

[5] The state-level figures are obtained from the National Survey of Children's Health (NCHS) administered the U.S. Department of Health and Human Services. The NCHS asks parents about their regular use of nonrelative care for preschool-aged children.
[6] The data on children ages 5 to 14 are based on the Survey of Income and Program Participation (SIPP) administered by the Census Bureau.

(CPS) administered by the Census Bureau, approximately 25 percent of children between ages zero and four received care in a paid arrangement in 2018. The percentage of all children under age 14 in a paid care arrangement was about 32 percent in that year. Based on the CPS data, the share of children receiving paid care remained stable between 2010 and 2018.[7]

Table 2: Child Care Arrangements among Children Ages 5-14 (2017**)**

Characteristic	Number of Children	Share of Total Arrangements (percent)
Total Children Ages 5-14 Years	**41,082,692**	**100.0**
IN A REGULAR ARRANGEMENT		
Relative Care	18,505,842	45.0
Parents	7,700,210	18.7
Sibling	3,326,857	8.1
Grandparent	5,485,854	13.4
Other Relative	1,992,920	4.9
Nonrelative Care	4,233,891	10.3
Care Facility	2,087,669	5.1
Nonrelative In child's home	896,388	2.2
Nonrelative in providers home	1,249,834	3.0
OTHER ARRANGEMENTS		
School	38,416,948	93.5
Enrichment activity	6,327,948	15.4
Self-care	4,511,750	11.0
NO REGULAR ARRANGEMENT	20,907,566	50.9

Source: U.S. Dept. of Education and Census Bureau-2013 SIPP Survey: Spring 2011 Panel
Notes: Category sums may exceed the totals due to multiple arrangements reported for many children. Shares derived from the SIPP survey are used to apportion population of children ages 5-14 in 2017.

5. Cost of Child Care

Cost is the one of the most important barriers to securing child care for most families. According to the Office of Child Care under the U.S. Department of Health and Human Services (DHHS), child care is considered affordable if it costs families no more than seven percent of their income. However, more than 60 percent of working parents in the United States exceed this benchmark. Overall, working parents with children under age 14 spend around 10 percent of their income in center care.[8] There is a sharp divide between low-income and not low-income parents. Low-income parents spend approximately 28 percent of their income on center-based care, compared to 8 percent of income for parents who are not low-income (Baldiga et al.,

[7] Child Care in State Economies: 2019 Update" prepared by the Committee for Economic Development. https://www.ced.org/childcareimpact.

[8] "Working parent" refers to parents who work full time (35 hours or more per week) and year-round (50 weeks or more per year). Low-income families" refers to families with total family income under 200 percent of the federal poverty line (FPL).

2018).[9] In fact, nearly all (95 percent) low-income parents working full-time pay more than the benchmark rate for affordability recommended by the DHHS.

There is also evidence to suggest that child care has become more expensive over time. Between 1995 and 2016, the average payments for families with out-of-pocket child care expenditures increased by 86 percent (Swenson and Simms, 2021). The increase in the cost of child care has occurred in all types of child care and for families in all income levels. For example, the payments for center care increased by 89 percent during that period, while the payments for family child care rose 61 percent. Families in higher-income brackets experienced a steeper increase than those in lower-income brackets. For example, the payments among families at or above 400 percent of the federal poverty threshold had their out-of-pocket payments increase by 87 percent, while those families who are below 100 percent of the poverty threshold experienced an increase of 28 percent in their child care payments (Swenson and Simms, 2021).

According to an annual survey administered by Child Care Aware of America, the national average cost of care was $10,451 for center care and $8,331 for family child care in 2018.[10] These dollar amounts represent a 10 percent increase for center care and four percent increase for family child care home from their levels in 2016, the first time Child Care Aware of America published national averages. Comparing these national averages for cost of care to the national median income for parents with children under age 16 reveals that married couples with children under age 18 spend more than 10 percent of their household income to cover the cost of care for one child, while single parents spend 36 percent of their income for the same purpose (Child Care Aware of America, 2019).[11]

Typically, the cost of care is significantly higher for younger children than for older children. For example, the national average for infant care is $11,896 for center care and $9,027 for family child care in 2018, compared to $9,254 for center care and $7,976 for family child care for four-year-old children. There are also vast differences in the cost of child care across states. For example, in 2018, the average annual cost of center-based child care for infants ranged from $5,760 in Mississippi to $16,452 in California, while the annual cost of family child care for infants was between $4,183 in Mississippi and $12,480 in Nebraska.

Note that the cost figures described above come from a survey of state and local CCCR&Rs and collected by Child Care Aware of America, and provide a picture of average prices that providers charge in each state. Thus, they do not reflect the actual cost of care to parents. For example,

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[9] Baldiga, Maura, Pamela Joshi, Erin Hardy, and Dolores Acevedo-Garcia. 2018. "Data-for-Equity Research Brief: Child Care Affordability for Working Parents." Diversitydatakids.org, November 2018. https://www.diversitydatakids.org/sites/default/files/2020-02/child-care_update.pdf.

[10] Child Care Aware of America administers a survey of state and local Child Care Resource and Referral Networks (CCR&R), in which respondents are asked to provide price data for infants, toddlers, 4-year-olds, and school-age children in legally operating child care centers and family child care homes. Legally operating programs include licensed program and child care programs that are exempt from licensing. The CCR&Rs report these data based on their own databases or state Market Rate Surveys. Child Care Aware of America implements several methodologies to account for differences across states in such factors as number of slots by age group and number of programs. The figures in this report are based on a calculation obtained by weighting to account for differences across states in such factors as number of slots by age group and number of programs. See page 42 in 2019 edition of "U.S. and the High Price of Child Care: An Examination of a Broken System" available at http://usa.childcareaware.org/priceofcare.

[11] Available at http://usa.childcareaware.org/priceofcare.

many parents who qualify for child care subsidies pay less than the amount charged by the providers. Furthermore, many providers have additional costs that may not be captured in these surveys, such as enrollment fees. Accordingly, the cost figures stated above reflect the estimates of the amount that parents are charged on average, and not necessarily the amount that they are actually paying or the cost of operating a child care business.

As an alternative measure of cost, and, perhaps one that is more reflective of the price that parents actually pay for child care, we turn to the responses from the ECCP. According to 2019, among families with any out-of-pocket costs for their primary care arrangement, the per child hourly out-of-pocket costs were highest for center-based care ($8.22) followed by nonrelative care ($7.75), and relative care ($6.05). Comparing these figures to those from the 2012 and 2016 ECCP, one can get a sense of how these out-of-pocket payments have evolved over time.[12] According to Table 3, the out-of-pocket expenses increased for all three types of care - by 23 percent for center care, 47 percent for non-relative care, and 45 percent for relative care – from 2012 to 2016.

Table 3: Hourly Out-of-pocket Expenses for Children from Birth through Age 5 by Type of Child Care Arrangement

	Hourly Out-of-pocket Expense		
Type of child care arrangement	2012	2016	2019
Center-based care	$6.70	$7.60	$8.22
Non-relative care	$5.28	$6.54	$7.75
Relative care	$4.18	$4.99	$6.05

Source: Author's compilation from Table 4 in Mamedova and Redford (2015), Corcoran and Steinley (2017), and Cui and Natzke (2020).

6. The Child Care Industry and the Workforce

The child care industry is largely comprised of a substantial network of employer firms with paid employees (e.g., child care centers) and smaller establishments that are owned and operated by sole proprietor with no paid employees (e.g., family child care homes). According to a report released by the Committee for Economic Development (CED), the industry employed about 1.5 million workers and produced a revenue of 47.2 billion dollars annually in 2016 (CED 2019). Table 4 provides a detailed picture of the key measures of the size and structure of the U.S. child care industry for various years. As shown in the table, Of the 674,000 establishments operated in 2016, about 75,000 of them were employer firms, while the remaining 599,000 were made up of self-employed businesses.

The larger and more organized establishments with paid employees constitute the core of the child care industry in the United States. Most of these entities are traditional child care centers, providing care for approximately three-fourths of all children enrolled in organized care (CED,

[12] When weighted, the ECPP data are nationally representative of children between birth and the age of 5 in a given survey year. However, caution should be exercised in comparing estimates across waves.

2019). A typical firm in this sector employs 12.3 employees on average with an annual payroll of $249,000, resulting in an average employee earning of $20,274 in annual compensation. In 2016, these firms produced $38.2 billion or 81 percent of the $47.2 billion generated by the industry. More than 925,000 of the 1.5 million workers employed by the industry work for these establishments earning $18.8 billion in total compensation.

The rest of the child care industry is made up of much smaller firms that are owned and operated by a self-employed person with no paid employees. Most of these businesses are family day care homes, in which the care is provided either in the child's home or the caregiver's residence. These microbusinesses provided care for about one-fourth of all children served by the child care industry and produced a total revenue of $9 billion in 2016. According to CED (2019), these firms collected a net income of $5.35 billion in 2016 after operating expenses, yielding $8,900 in annual net earnings for a typical owner.

Table 4: U.S. Child Care Industry Statistics

Economic Indicator	1997	2002	2007	2012	2016
TOTAL REVENUE ($ BILLIONS)	19.0	28.8	38.6	41.5	47.2
Employers	14.2	21.8	29.7	32.0	38.2
Non-employers	4.8	7.0	8.9	9.5	9.0
NUMBER OF ESTABLISHMENTS	550,788	688,074	766,401	768,521	674,332
Employers	62,054	69,127	75,112	75,196	75,314
Non-employers	488,734	618,947	691,289	693,325	599,018
RECEIPTS/REVENUE PER ESTABLISHMENT ($)	34,412	41,916	50,413	53,952	69,971
Employers	228,833	315,362	395,410	425,555	507,011
Non-employers	9,726	11,376	12,927	13,650	15,023
TOTAL EMPLOYMENT (JOB EQUIVALENT)	1,117,446	1,370,680	1,546,415	1,566,576	1,524,753
Employers	628,712	751,733	855,126	873,251	925,735
Non-employers	488,734	618,947	691,289	693,325	599,018
EMPLOYEE COMPENSATION AT EMPLOYERS ($ BILLIONS)	7.0	10.5	14.0	15.6	18.8
Earnings per employee ($)	11,075	13,972	16,316	17,851	20,274
Earnings per provider ($)	112,209	151,938	185,749	207,298	249,206
TOTAL EMPLOYEES PER ESTABLISHMENT	2.03	1.99	2.02	2.04	2.26
Employers	10.1	10.9	11.4	11.6	12.3
Non-employers	1.0	1.0	1.0	1.0	1.0
RECEIPTS/REVENUE PER CAPITA ($)	70.78	100.27	128.26	132.10	145.63

Source: Census Bureau – Economic Census and Non-employer Statistics; and Bureau of Labor Statistics

The revenues produced by the child care industry steadily grew over time displaying a 14 percent increase between 2012 and 2016. While the revenue increased, the number of total establishments caring for children fell during this period from 768,500 to 674,000, shrinking back to the levels of 2002. However, Table 4 reveals that the decrease in the size of the industry during this period appears to be almost entirely driven by a reduction in the number of self-employed establishments, while the number of firms with paid employees remained steady since 2002. A relatively larger share of the industry is now comprised of employer firms than that made up of non-employer firms. Consistent with the shift in the mix of establishments in the industry, the revenues generated by the employer firms grew by 19.4 percent between 2012 and 2016, while the revenues in the non-employer segment of the industry fell by five percent during the period.

The changes in mix of establishments discussed above suggests that parents might be shifting away from home-based child care towards more center-care. While the reasons for a potential structural change in the child care industry have not yet been investigated, several potential explanations have been offered. These explanations include increased regulatory burden among family child care providers, low net earnings in home-based businesses, an increase in higher-paying alternatives, and an aging workforce nearing retirement in the home-based sector (Sankar, 2018). It is important to note that low retention rates have been endemic in the child care industry for a long time. Accordingly, the child care workforce has traditionally been highly unstable with a high turnover rate. Some studies show annual turnover rates close to 25 percent—four times higher than that within elementary schools (e.g., Bassok et al., 2013). Given the well-documented evidence in the child development literature highlighting the importance of warm and stimulating relationships (Hale-Jinks et al., 2006; Hamre, 2014; Hamre et al., 2014), a high turnover caregiver rate may particularly be detrimental for the well-being of children (Markowitz, 2019).

7. Public Assistance in Child Care

There are several public assistance programs in the United States designed to improve the affordability and accessibility of child care for parents. The programs are available to eligible parents through a complex system of funding streams and government agencies. The underlying goal of these programs is to alleviate the burden of the cost of child care and facilitate the employment of low-income parents. The bulk of the financing of public programs are provided by the federal government, which typically grants funds to state agencies to provide services.

The primary federally funded child care funding streams is the Child Care and Development Fund (CCDF). Established as part of the welfare reform in 1996, CCDF funding is used primarily to provide subsidies to eligible low-income families with children under age 13 who need child care to work or engage in work-related activities such as training or attending school (Cascio, 2017; Tekin, 2007; Herbst and Tekin, 2016). States have considerable discretion with respect to setting program rules including reimbursement rates, copayments, and eligibility criteria. Parents typically receive subsidies in the form of vouchers that they can use to purchase child care from a provider of their choice including a relative, neighbor, child care center, or after-school program. In the average month in 2019 fiscal year, CCDF subsidies helped fund the care of approximately 1.4 million children and 857,700 families.[13] The total CCDF spending in

[13] See https://www.acf.hhs.gov/occ/fact-sheet/characteristics-families-served-child-care-and-development-fund-ccdf-based.

fiscal year 2019 was $10.3 billion - an increase of about $1 billion compared to 2018 levels. Nationally, 244,055 child care providers benefitted from a CCDF subsidy. The average monthly subsidy paid to providers vary by age group and care type, including $319 for child home providers, $456 for family child care home providers, and $506 for child care centers.[14]

Of the families served by CCDF in 2019, 40 percent were below the Federal Poverty Level. For children receiving CCDF subsidies, 28 percent were infants or toddlers (younger than three years old), another 28 percent were preschoolers (three and four years old), 10 percent were kindergarten-aged (five years old), and 34 percent were school-aged (six years old or older). About 75 percent of children receiving CCDF subsidies were cared in a center-based facility, while 20 percent received care in a family child care home. The majority (88 percent) of children with a CCDF subsidy were cared in a regulated setting, while the remaining children were cared in arrangements legally operating without regulation including family care homes, relatives, and non-relatives providing care in the child's own home. Of those families with reported income in fiscal year 2019 who received CCDF child care assistance, approximately 74 percent paid a copayment, while the remaining 26 percent of the families had no copay. For families who paid a copayment, the average copayment was six percent of family income.

Another main funding stream for child care is through the Temporary Assistance to Needy Families (TANF) program. The TANF provides monthly assistance payments and other services (including child care) to low-income families with children on a time-limited basis. An average of 1.6 million children received TANF assistance each month in 2019. Of the $30.9 billion in total TANF funds in fiscal year 2019, $3.7 billion was allocated for child care assistance; $2.6 billion was spent on pre-kindergarten and Head Start programs; $1.3 billion was transferred to CCDF; and $1.1 billion was transferred to the Social Services Block Grant (SSBG) program.[15]

Head Start is an important program designed to promote school readiness for children in low-income families by offering educational, nutritional, health, social, and other services.[16] Services are provided in a variety of settings including centers, family child care, and children's own home. A key and unique aspect of Head Start is its emphasis on supporting children's social, emotional, cognitive development as well as health and physical development. "Head Start" comprises several different program types, including as Head Start and Early Head Start, which are tailored towards addressing the needs of specific populations that they serve. Head Start programs cumulatively served 1,047,000 children ages birth to five and pregnant women throughout the 2018 and 2019 program year. In fiscal year 2019, the total amount of funding set aside by the Congress for Head Start programs was over $10 billion. Of this amount, $9.7 billion went directly towards Head Start programs including Early head Start-Child Care partnerships, while the rest was spent on training, technical assistance, research, and program support.

A relatively minor child care funding source is SSBG, which allocates funds to states to provide services for at-risk children, adults, and families.[17] In fiscal year 2019, states spent more than a

[14] https://www.acf.hhs.gov/occ/data/fy-2019-preliminary-data-table-15.
[15] See page 10 at https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.
[16] "Head Start Program Facts: Fiscal Year 2019." https://eclkc.ohs.acf.hhs.gov/about-us/article/head-start-program-facts-fiscal-year-2019.
[17] See https://www.acf.hhs.gov/sites/default/files/documents/ocs/RPT_SSBG_Annual%20Report_FY2019.pdf.

total of $2.88 billion in SSBG funding, serving 26 million individuals and their families, including 12 million children. Of the total SSBG expenditures, $0.3 billion was spent on child care, providing small-scale assistance for day care to 4.6 million children.

In addition to these funding streams, the federal Child and Dependent Care Tax Credit (CDCTC) is another major source of child care assistance for families. It allows taxpayers to deduct a certain percentage of expenses incurred for the care of a child under age 13 or a dependent who is unable to care for themselves. Up until 2021, the CDCTC was a nonrefundable tax credit, meaning only families with positive tax liability would benefit from the program. Under this scenario, the CDCTC allowed eligible taxpayers to reduce their federal tax liability, generally by up to $600 for one qualifying individual and $1,200 for up to two qualifying individuals based on their child or dependent expenses.[18] The amount of the CDCTC is calculated as the product of the amount of qualifying expenses and the appropriate credit rate determined based on adjusted gross income (AGI). These expenses were capped at $3,000 for one qualifying individual and $6,000 for two or more qualifying individuals. The maximum credit rate was set 35 percent for taxpayers with AGI under $15,000 and declined by one percentage point for each $2,000 above $15,000 until it reached $43,000. The American Rescue Plan Act (ARPA) provided a temporary expansion of the CDCTC for 2021 by making the tax credit refundable, meaning the amount of the credit is no longer limited by a taxpayer's income tax liability; increased the amount of expenses to calculate the credit from $3,000 to $8,000 for one qualifying individual and from $6,000 to $16,000 for two or more qualifying individuals, and increased the credit rate for taxpayers with an AGI under $125,000 from 35 percent to 50 percent, and allowed taxpayers with an AGI between $125,000 and $400,000 to retain a partial credit of at least 20 percent.

8. COVID-19 and the Child Care Market

COVID-19 has caused massive disruptions to the labor market, childcare, and school routines, which has crippled the economy and pushed millions of Americans into unemployment and to the financial brink. The hardships caused by the pandemic have been particularly severe for parents with young children, who faced significant new challenges as schools and child care centers were forced to close. In many ways, the pandemic has brought to surface the essential role of child care for children and working families.

While COVID-19 took a toll on the employment of both men and women, the damage has been disproportionally more painful for women. While many high paying jobs could transition from an in-person to remote work practices, that is not feasible for the majority of low-wage jobs that require interaction between customers and employees, such as retail sales and hospitality. Since these are also the type of jobs with a high concentration of women, layoffs caused by the pandemic hit women especially hard (Bateman and Ross, 2020). The loss in women's employment was more severe than men even in some industries, such as trade, transportation, and utilities and professional and business services, in which women held the minority of jobs prior to the pandemic (Stevenson, 2021). Furthermore, closures of schools, after school

[18] Congressional Research Service (2021). "The Child and Dependent Care Tax Credit (CDCTC): Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)." https://crsreports.congress.gov/product/pdf/IN/IN11645

programs, and child care centers have increased the family responsibilities of women, who were already carrying a heavier load than men prior to the pandemic. Accordingly, women's employment fell 16 percent during the pandemic-triggered recession in 2020, compared to 13 percent for men (Stevenson, 2021). Millions of jobs have been regained since the beginning of the pandemic. However, men appear to have experienced a stronger recovery than women as they have added back 74 percent of their jobs lost compared to women, who added back 67 percent of their jobs lost (Stevenson, 2021). Consequently, nearly 1.6 million mothers with children under age 17 who dropped out of the labor force during the pandemic are still missing from the labor market (Long, 2021)

If the economic consequences of COVID-19 on the consumers of child care was harsh, its impact on the providers has been devastating. At outset of the crisis, the entire sector was forced to shut down to protect public health and in response to plummeting enrollment. This was at a time when nearly two-thirds of child care providers responded to a survey stating that they could not survive a closure that extended longer than one month.[19] The magnitude of job loss in the child care has been staggering. According to Bureau of Labor Statistics, there were 126,000 fewer child care employees in August 2021 than in February 2020, which represents a more than 10 percent decline from pre-COVID-19 levels.[20] Because many industries are being forced raise wages to address labor shortages, the options are expanding for many child care workers to earn substantially higher wages in other sectors, and it is becoming even more difficult to hire in the child care sector. According to a survey of conducted by the National Association for the Education of Young Children (NAEYC) in Summer 2021, more than a third of child-care providers, inclusive of all settings, said they were considering leaving their child care program or closing their family child care home within the next year, with another 14 percent saying "maybe" they would leave or close.[21] In the same survey, 80 percent of respondents from child care centers report that they are experiencing a staffing shortage, defined as having at least one role unfilled for at least one month. The majority of child care reporting staffing shortages have between one and five open roles, but 15 percent have between six and 15 open roles to fill. Clearly, compensation is both the challenge and the solution for recruitment and retention problems experienced in the child care industry. According to the NAEYC survey, 78 percent of respondents cite wages as the main recruitment challenge because they are so low that potential applicants are either relying on pandemic unemployment or are recognizing they can make more money working just about anywhere else. Consistent with this statistic, 81 percent of respondents say that low wages are a key reason that educators leave the field, followed by 54 percent who cited a lack of benefits. A third of respondents pointed to exhaustion and burnout, while only eight percent said regulations were a key challenge.[22]

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[19] National Association for the Education of Young Children, "Child Care in Crisis: Understanding the Effects of the Coronavirus Pandemic" (Washington: 2020). https://www.naeyc.org/sites/default/files/globally-shared/downloads/PDFs/our-work/public-policy-advocacy/effects_of_coronavirus_on_child_care.final.pdf

[20] https://beta.bls.gov/dataViewer/view/timeseries/CES6562440001.

[21] https://www.naeyc.org/sites/default/files/wysiwyg/user-74/statedata_july2021_gf_092321.pdf.

[22] https://www.naeyc.org/sites/default/files/globally-shared/downloads/PDFs/resources/blog/naeyc_july_2021_survey_progressperil_final.pdf

9. The White House Proposals to Address the Child Care Problem

In March 2021, the government passed the American Rescue Plan Act (ARPA), a $1.9 trillion COVID-19 relief package, which includes $39 billon of additional funding for child care relief to help child care providers and provide support for families who need help affording child care. As part of its Build Back Better Agenda, the White House is now proposing the American Families Plan (AFP), which would make important new investments in child care and early education that would transform the child care industry.[23]

According to the AFP, parents would only pay a certain percentage of their income on childcare on a sliding scale. The plan would fully cover the cost of child care for low-income families and ensure that families earning 1.5 times their state's median income would pay no more than seven percent of their income for child care. The AFP also proposes investments to improve quality and expand access to different options for care, including child care centers, family providers, or Early Head Start. Additionally, the plan would invest in the child care workforce to raise wages and expand training and professional development opportunities.

The Build Back Better Agenda also includes a plan to make permanent the temporary expansion of the CDCTC, enacted under the ARPA. As discussed in Section 7, the expansion substantially increased the generosity of CDCTC by (i) making the tax credit refundable, (ii) raising the amount of expenses to calculate the credit from $3,000 to $8,000 for one qualifying individual and from $6,000 to $16,000 for two or more qualifying individuals or other dependents, and (iii) increased the credit rate for taxpayers with an AGI under $125,000 from 35 percent to 50 percent, and allowed taxpayers with an AGI between $125,000 and $400,000 to retain a partial credit of at least 20 percent.[24]

The White House is also proposing an expanded tax credit to incentivize businesses to build child care facilities at places of work. According to the proposals, employers would receive 50 percent of the first $1 million of construction costs per facility.[25]

Under the AFP, investments would be made to ensure that preschool is free for all three- and four-year-old children in the setting of their choice. To facilitate recruitment and retention of educators, the universal preschool program also includes higher wages for all employees participating pre-K programs and Head Start.[26]

Finally, the AFP proposes establishing a national comprehensive paid family and medical leave program that would allow parents to take time off from work to provide care for their children under the protection of federal law. Under the plan, parents would be guaranteed twelve weeks of paid parental, family, and personal/illness/safe leave by year 10 of the program, and workers would get three days of bereavement leave per year starting in year one. The program would

[23] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/
[24] https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.
[25] https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/12/fact-sheet-build-back-better-investments-in-care-will-boost-economic-growth-and-help-businesses-thrive/
[26] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/

provide workers up to $4,000 a month, with a minimum of two-thirds of average weekly wages replaced, rising to 80 percent of average weekly wages for the lowest wage workers.

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