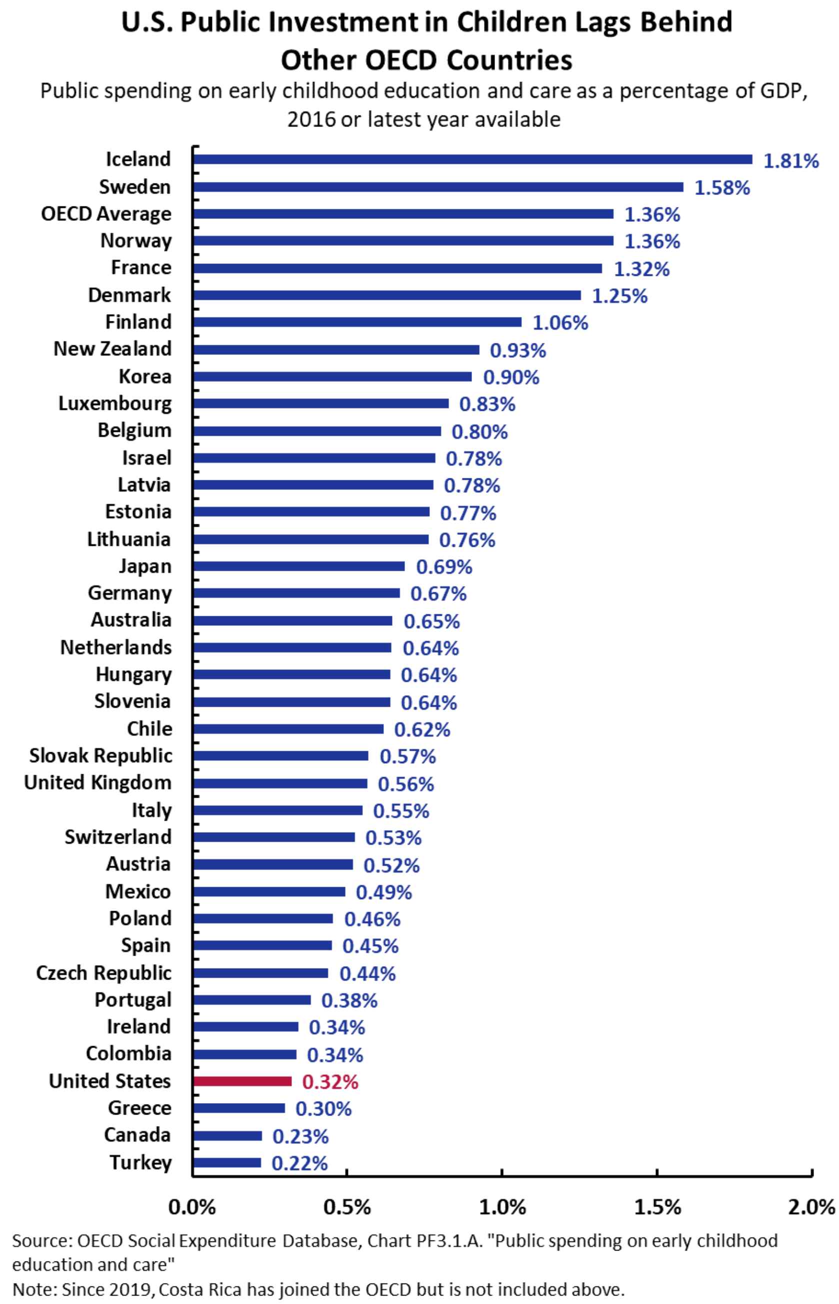
Child Care Investment Is Crucial for Future Economic Growth

High-quality, accessible child care creates a number of economic and socioeconomic benefits on both individual and national levels. Underinvestment in child care and the resulting high prices have prevented the United States from fully realizing those benefits, constraining future economic growth.

Enacting policies to make child care affordable and accessible is crucial to help children, families and the economy. Proposals to address these issues include universal pre-kindergarten and capping out-of-pocket child care costs for parents. These investments will drive economic growth in both the near- and long-term by making it easier for parents to participate in the labor market and increasing the human capital of future workers. Investment in early childhood education alone is estimated to have large returns, yielding up to $9 in future gains for every $1 invested in the current system, creating significant benefits both for participating families and the economy as a whole.

The current child care system in the United States is unaffordable

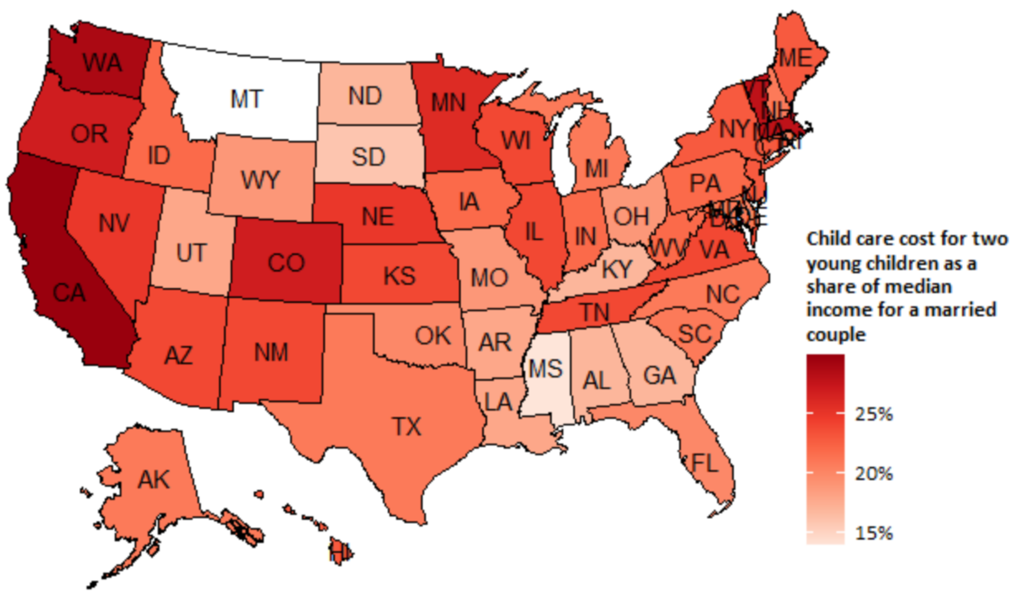
The current U.S. child care system suffers from inadequate public investment, leaving parents and caregivers to foot the bill for the rising cost of child care. Data from the Organisation for Economic Co-operation and Development (OECD) show that the United States invests less in early childhood education and care as a percentage of Gross Domestic Product (GDP) than all but three other OECD countries. This chronic underfunding of the child care system has shifted the burden of rising costs onto families, leaving many unable to afford the care that they need and depriving them of the benefits of high-quality child care.



Recent national estimates find that child care costs for a single child average between $9,200 and $9,600 per year. These costs can be significantly elevated depending on the state and are usually higher for younger children. For a family with two young children—an infant and a four-year-old—average child care costs exceed the median cost of rent in every reporting state and the District of Columbia.

The high cost of child care takes up a significant portion of family income. The Department of Health and Human Services (HHS) has determined that child care is unaffordable if it exceeds 7% of family income. However, in 36 states and the District of Columbia, a typical married couple with an infant and a four-year-old spends on average more than 20% of their income on child care. In eight states, families spend over 25% of their income on child care—more than three times the affordability cap established by HHS. As can be seen in the map below, these affordability issues are found nationwide, with all reporting states and the District of Columbia exceeding the 7% cap.

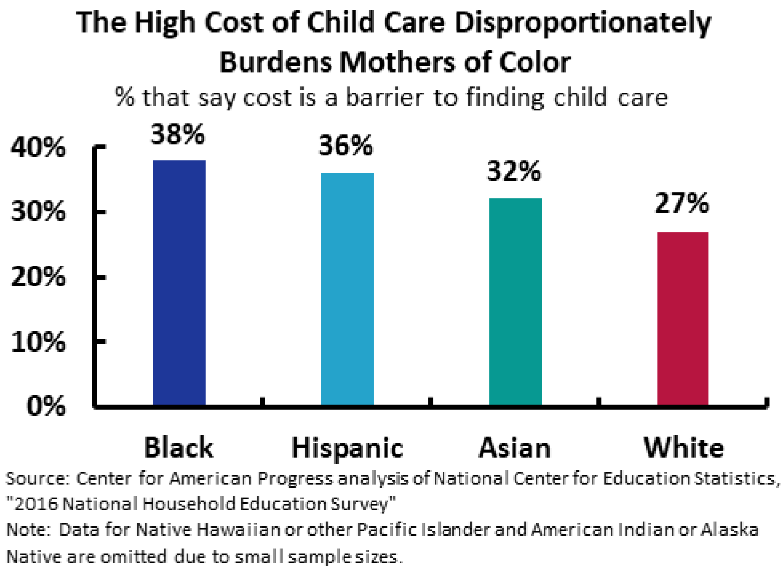
Across the Country, Child Care Is Unaffordable



Source:"Picking Up the Pieces" - Appendices by ChildCare Aware of America
Note: Cost of child care for two children refers to the cost for one infant and one four-year-old in a child care center. Median income for a married couple refers to the median income in that state. Data for Montana is not available.

Jessica Lolley of Greensboro, North Carolina, told the *New York Times* that she and her spouse spent over $2,000 a month—roughly one-third of their income—on child care for their two sons. Ms. Lolley said that she "had no idea child care was going to cost this much" and "there's no way we could afford to have another child."

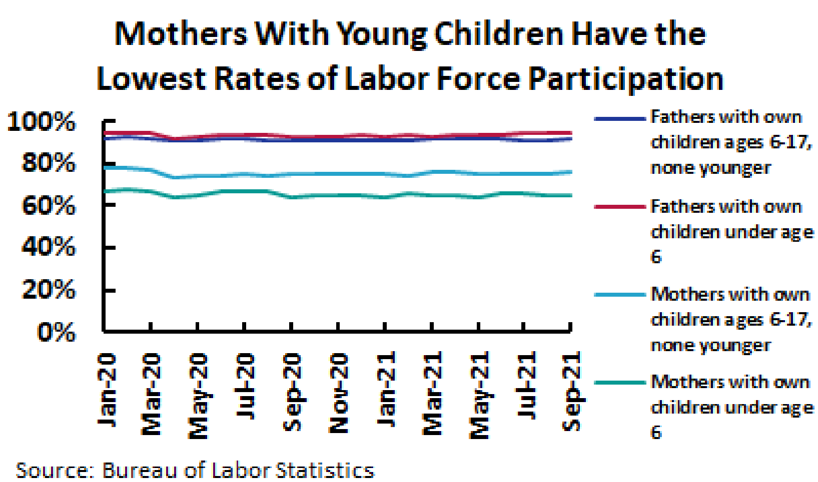
This high cost of child care disproportionately burdens lower-income households and those with mothers who are Black, American Indian or Alaska Native, Hispanic, Native Hawaiian or other Pacific Islander or Asian. Families earning less than $100,000 are much more likely to report being unable to access a child care program that meets their needs, and lower income families are increasingly unlikely to be able to access suitable programs at all, citing cost as the biggest barrier. Ability to access suitable care also differs based on the mother's race and ethnicity. While 6% of families with a white mother reported ultimately being unable to access a care program that meets their needs, this number was double for families with an American Indian or Alaska Native (12%) or Hispanic (13%) mother. Families with Black, Asian and Native Hawaiian or other Pacific Islander mothers also report elevated rates at 8%, 7% and 7%, respectively. For these families, prohibitive costs remain the largest factor preventing them from accessing child care programs that fit their needs.



Limiting out-of-pocket child care costs will increase families' incomes and boost economic growth

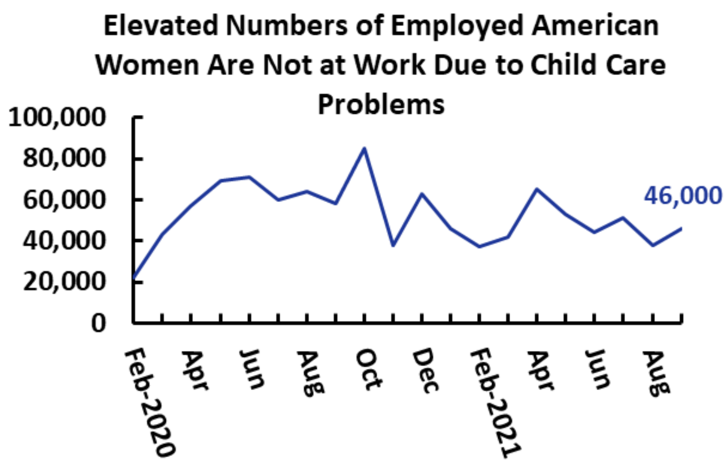
The high and rising cost of child care comes with significant economic consequences. For many families, child care is either entirely unaffordable or so expensive that parents, especially mothers, drop out of the labor force to provide child care themselves, which negatively affects parents' and caregivers' ability to fully participate in the economy. Over two million parents are estimated to have made career sacrifices such as quitting a job or not taking a job due to child care issues in 2016 alone, but it has a particularly negative impact on women.

Mothers' labor force participation is consistently lower than labor force participation among fathers. As shown in the graph below, while child age does not greatly affect fathers' labor force participation, mothers of younger children experience a much larger participation gap. Of all mothers, Hispanic mothers experience the lowest levels of labor force participation. Across race and ethnicity, participation gaps have been linked directly to lack of structural support for women's full economic participation, and lack of affordable, accessible child care is a major factor.



The high cost of child care is slowing some mothers' return to the labor market after the coronavirus pandemic caused them to lose their jobs. For example, Bahar Cetinsoy was a substitute teacher in New York before the pandemic. She and her husband moved to College Park, Maryland, when he got a new job. Cetinsoy told *The Washington Post* that while she wants to return to work, "Child care is a big factor. It's expensive. If I get a part-time teaching job, I would pay more for child care than I would be making," she said. "I have never been unemployed for this long."

Even for women who remain employed, issues with child care can cause them to miss work. Recent data show that in September 2021, 46,000 employed women reported not being at work due to child care problems, more than twice the number of men who reported child care-related absences. These disparate absences, represented in the graph below, show how child care issues are disproportionately harming women's labor force participation, a key input into economic growth. This time away from the labor market can also create long-term scarring effects, decreasing lifetime earnings and negatively impacting families' economic security as well as overall economic growth and resilience.



Source: Bureau of Labor Statistics
Note: Data are not seasonally adjusted.

In order to help boost labor force participation, it is essential that high-quality child care is made affordable and accessible. Limiting the amount that families have to pay for child care as a percentage of their household income allows families to keep more money in their pockets to use for other necessities. Each year, labor force exits due to child care needs are estimated to cost parents and caregivers $30-35 billion in lost income. When lost productivity and revenue due to decreased labor force participation are included, the economic cost may be as high as $57 billion per year. Lost income can restrict families' ability to afford necessities like housing and food. It also depresses overall spending, leading to lost businesses revenue that has a broader economic impacts on hiring and wages.

Studies have found that capping the cost of early childhood education at 10% could generate significant positive economic effects, increasing GDP by 1.2% annually—$210.2 billion each year—by facilitating parents' reentry into the workforce. For mothers and female caregivers in particular, every 1% reduction in out of pocket child care costs is associated with a 0.25% increase in labor force participation. The recommendation for affordability calculated by HHS would put the cap on child care cost even lower, at 7% of household income. By setting the cap under 10%, the benefits to families and the economy would be even greater.

Each $1 invested in high-quality child care today could yield nearly $9 in future returns

Research has found that investment in early childhood education has long-lasting positive effects for the children who receive it and the broader economy in the form of better-educated, higher-earning workers. Furthermore, a growing body of research has found that the positive returns on investment are truly intergenerational, with benefits seen in the children of parents who had themselves attended pre-school.

For example, research conducted by Nobel Prize-winning economist James Heckman into past early childhood education programs has found that these programs generated $7 to $12 dollars in returns for every dollar invested. This is because people who participate in high-quality early childhood education grow up to be better educated and have higher earnings, and they are less likely to access income support programs or be involved in crime. Benefits that accrue to individuals directly, as well as to the economy as a whole, include: better educated workers are more productive, higher earnings translate into higher tax revenues, reduced use of income support programs lowers government expenditures and less crime translates to lower government spending on the criminal justice system. Altogether, every dollar invested in early childhood education today generates up to $8.60 in economic benefits. In other words, investments in early childhood education pay for themselves almost nine times over the long-term.

Furthermore, new research by the same Nobel Prize-winning economist has found that not only are there long-term economy-wide benefits from the children who attend early childhood education, but there are spillover benefits from improved outcomes of the *children* of the children who attended preschool including decreased suspension rates, improvements in their adult health and likelihood of employment and lower rates of divorce.

Given the extensive body of research finding positive returns for the entire economy from investment in early childhood education, focusing on the upfront costs of investments in early childhood education is misguided. There are immediate short-term benefits that balance out the cost of the investment, such as improved parental labor force participation. And in addition to the short-term benefits, the evidence is overwhelming that the long-term, broader economic returns greatly outweigh the initial cost of investing in early childhood education.

Investing in child care will help drive future economic growth

Investing in child care and addressing prohibitively high child care costs will generate immediate short-term benefits that have economy-wide spillover effects, such as providing more parents and caregivers the support they need to return to work. Improving child care affordability will be particularly effective at boosting women's labor force participation, a key contributor to economic growth. It will also have significant long-term benefits for future economic growth through investment in future human capital. These investments will directly benefit the children attending child care and will generate long-term gains for the economy, with early childhood education alone yielding up to nine dollars in economy-wide benefits for every dollar invested.

Child care is a critical part of the U.S. economy, and increased investment is key to ensuring economic growth that is stronger, stable and more broadly shared.

Child Care Is Unaffordable in Every State		
State	Cost of Child Care for Two Children (USD)	Share of Median Income for a Married Couple (%)
Alabama	$14,370	17%
Alaska	$21,679	21%
Arizona	$19,898	24%
Arkansas	$14,170	18%
California	$29,552	30%
Colorado	$27,792	27%
Connecticut	$29,224	23%
Delaware	$20,557	20%
District of Columbia	$43,061	23%
Florida	$16,871	20%
Georgia	$15,080	17%
Hawaii	$23,760	23%
Idaho	$16,594	22%
Illinois	$24,357	24%
Indiana	$19,656	22%
Iowa	$20,343	22%
Kansas	$21,704	24%
Kentucky	$14,415	17%
Louisiana	$16,674	18%
Maine	$20,505	23%
Maryland	$26,353	21%
Massachusetts	$37,010	28%
Michigan	$19,829	21%
Minnesota	$28,611	26%
Mississippi	$11,239	14%
Missouri	$16,605	19%
Montana	Not Reported	Not Reported
Nebraska	$23,400	25%
Nevada	$20,269	25%
New Hampshire	$24,281	21%
New Jersey	$29,470	23%
New Mexico	$17,801	24%
New York	$24,564	23%
North Carolina	$17,909	21%
North Dakota	$17,616	17%
Ohio	$17,879	19%
Oklahoma	$15,964	20%
Oregon	$24,455	27%
Pennsylvania	$22,466	22%
Rhode Island	$21,121	20%
South Carolina	$18,031	21%
South Dakota	$14,103	16%
Tennessee	$19,539	24%
Texas	$19,008	21%
Utah	$15,936	18%
Vermont	$26,750	28%
Virginia	$26,376	24%
Washington	$29,268	29%
West Virginia	$17,290	22%
Wisconsin	$23,408	24%
Wyoming	$17,624	19%

Source: JEC Democratic staff calculations, "Picking Up the Pieces - Appendices" by ChildCare Aware of America

Note: Cost of child care for two children refers to the cost for one infant and one four-year-old in a child care center. Median income for a married couple refers to the median income in that state.

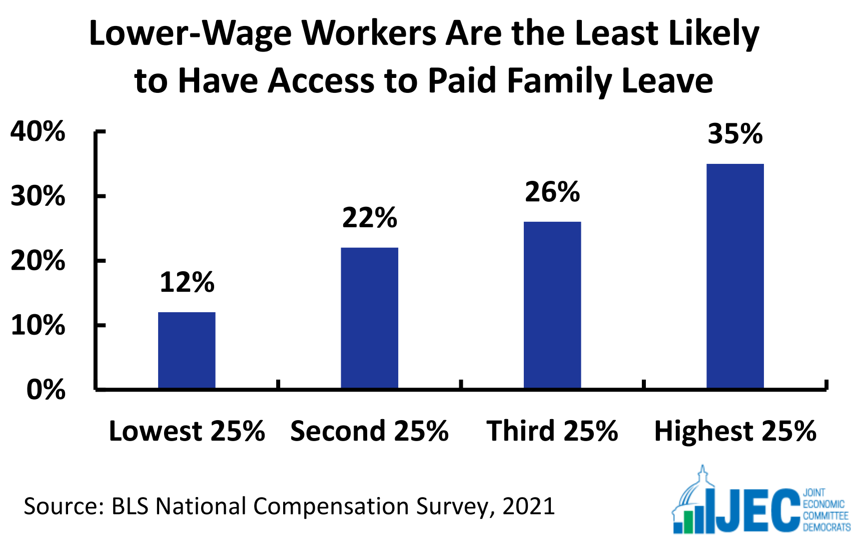
Universal Paid Family and Medical Leave Will Generate Economy-Wide Benefits and Spur Economic Growth

The Build Back Better legislation being considered by the House would provide 12 weeks of universal paid family and medical leave for all U.S. workers, a crucial policy to improve the economic security of families, support small businesses and increase economic growth. The need to take leave is inevitable over the course of a lifetime, whether to care for a new family member, as in the birth or adoption of a child, or to handle a personal health crisis, and yet the United States is the only OECD country that does not require paid leave for new mothers and is one of only two OECD countries that does not require paid medical leave.

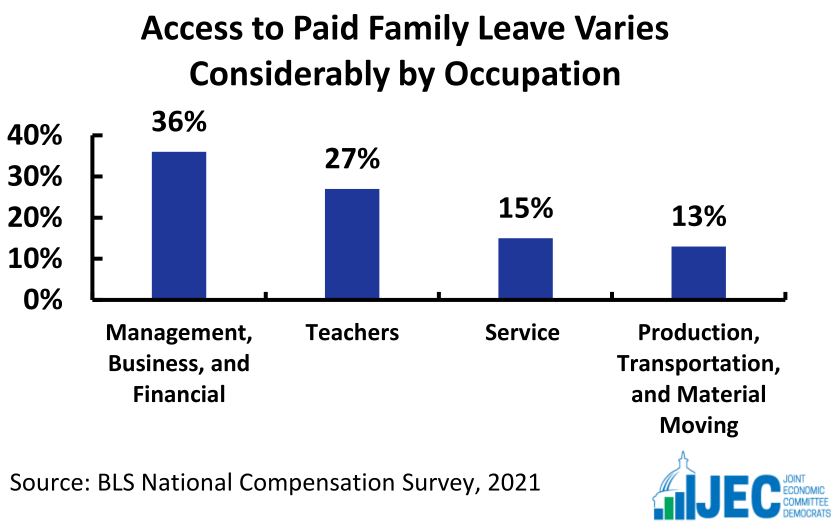
This gap in coverage leaves families economically vulnerable and constricts the productive capacity of the U.S. economy because families lack the support to meet both their care needs and participate in the labor market.

Only 23% of American workers have access to paid family leave, and lower-wage workers are the least likely to have access

Only 23% of the U.S. workforce has access to paid family leave—up only 11 percentage points from a decade ago—but access varies drastically by income, occupation and race. As the average wage increases, access to paid family leave increases: Nearly three times as many workers in the top 25% report having access to paid leave compared to workers with average wages in the bottom 25%.

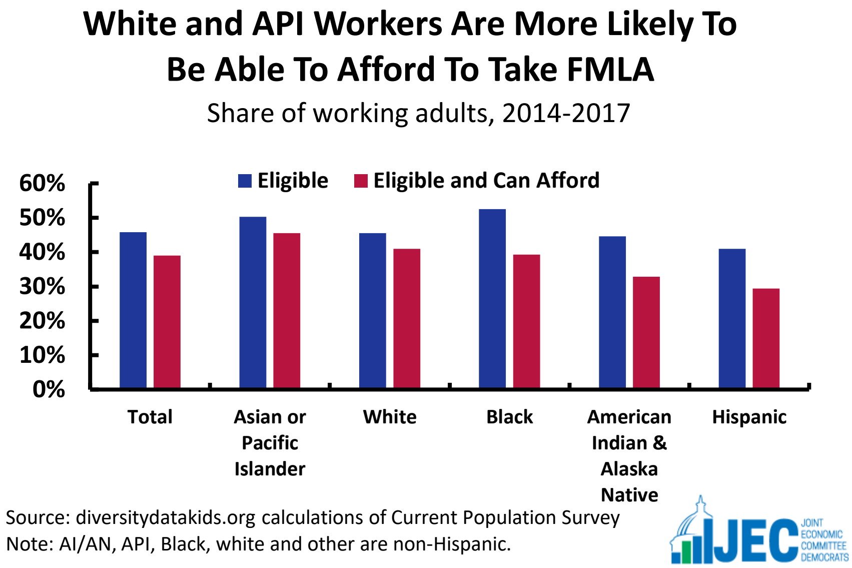


Access to paid family leave also differs depending on the occupation of the worker. Management, business and financial occupations have the highest access at 36% of workers compared to production, transportation and material moving occupations, which have the lowest access at 13%. The biggest driver of these differences is wage. Occupations in management, business and financial occupations tend to have higher average wages and better benefits compared to service or production, transportation and material moving occupations. Another driver of this difference is the part-time or full-time status of the worker, with 27% of full-time workers having access to paid family leave compared to 11% of part-time workers. Far more workers in management, business and financial occupations work full-time.



Less than half the American workforce is eligible for unpaid leave under the Family Medical Leave Act

The Family Medical Leave Act (FMLA), signed into law in 1993, is the closest thing to federally-mandated leave currently available in the United States, but it provides only unpaid time off to some workers. Therefore, it is vastly unequal in terms of who is eligible and who can afford to take unpaid time off. To be eligible, an employee must work at a covered employer (generally a private employer with at least 50 employees) for at least 12 months and have worked for at least 1,250 hours during that time. In the most recent CPS data, on average, only 46% of all working adults were eligible for FMLA, and of those, only 39% could afford to take unpaid time off. Those who are eligible and can afford to take unpaid time off tend to be high income, have more education and be full-time workers. Due to pre-existing inequities in the economy, this means that white and Asian workers are more likely to be both eligible for and able to afford to take FMLA.



While much of the attention on the benefits of paid leave focuses on the need for and benefits of paid time off related to a new child, slightly more than half of people taking unpaid time off under FMLA do so for reasons related to their own health. However, the ability to take this time is highly unequal. For example, Black and Hispanic workers reported the highest rates (14.2% and 8.4%) of needing to take leave—most often to care for their own illnesses or medical care—but being unable to do so, compared to white (7.8%) and Asian (5.3%) workers. Some of the most common reasons Black and Hispanic workers did not take the needed time off were because they could not afford the loss in income or they feared negative employment consequences or leave request denial.

The lack of universal paid family and medical leave means that the current patchwork system is highly unequal across income, occupation and race, exacerbating existing structural inequalities in the economy. Creating a universal paid leave program will lessen some of these racial and economic inequalities. Enacting paid leave also means that families will continue to earn some income at the very time when they need it most – when a family is growing or a member is sick and needs medical care. A universal paid leave program will help close the gap in getting the most vulnerable workers the help they need in the times when it is most needed.

Paid leave could increase families' incomes by over $28 billion

Having universal paid family and medical leave will increase individual families' incomes. Rather than having to take unpaid time off and lose a paycheck, workers will be able to continue to earn a portion of their wages, allowing them to continue to meet their basic needs and pay bills before returning to work.

While debate about whether to enact paid leave often focuses on the cost of providing it, *not* having paid leave has economy-wide costs. Workers lose an estimated $22.5 billion in wages each year due to a lack of paid family and medical leave, wages that could have been used to keep a family afloat and spent in the local economy. Paid leave benefits not only the workers, but also the local businesses that will continue to see demand.

Researchers from the University of Massachusetts Amherst estimate that universal paid family and medical leave could increase household income by as much as $28.5 billion. $19.1 billion would be through wage replacement, and $9.4 billion would be income earned by other workers as those receiving the wage replacement spend it on goods and services. The researchers state that "for every dollar spent on wage replacement as part of the paid leave program, other workers would earn an additional $0.50."

Research has found that access to paid leave reduces the need for government expenditures on income support programs for families following the birth of a child. One study found that "women who return to work after a paid leave have a 39% lower likelihood of receiving public assistance and a 40% lower likelihood of food stamp receipt in the year following the child's birth, when compared to those who return to work and take no leave at all."

State-level data show that paid leave has positive impacts on business performance

Nine states and the District of Columbia have already enacted paid leave laws of their own. Data from these programs demonstrate that businesses of all sizes benefitted from the introduction of paid leave.

One benefit is greater employee retention: one study has shown that women with access to paid leave are 40% more likely to return to work after giving birth than those without access. This increased employee retention leads to reduced operating expenses by lowering the turnover costs of hiring and training new employees. It's estimated that turnover costs a business 20% of an employee's annual salary, so reducing turnover can help a business's bottom line.

Several studies have also indicated that paid leave programs increase worker productivity. Paid leave boosts morale, which leads to higher productivity, and, for employees who are unable to be at their most productive due to medical illness or a new child, the program affords them the ability to take the time they need. In a survey of California businesses, where a paid leave program is already in place, "nearly 90%...said that the program had either a positive effect on productivity or no noticeable effect."

Finally, a universal paid leave program would level the playing field for smaller businesses, which often struggle to attract top candidates because they are unable to match larger employers' paid leave benefits. While 26% of companies with 100 or more employees offer paid family leave, only 13% of companies with fewer than 50 employees do. In California, although nearly all employers reported positive outcomes from the state's paid family leave program, such as improved productivity and lower turnover, overall, small- and medium- sized businesses reported more positive outcomes than large businesses. Nationwide, approximately 70% of small businesses support national paid leave.

In states that have already enacted paid leave programs, data show broad business support for the programs. Overall, businesses have experienced a decrease or no change in operating costs and reported higher morale and increased productivity among their employees. For example, in California, 91% of employers responded that paid family leave had a positive effect or no effect on business profitability and performance. In New Jersey, the majority of both small and large businesses say they adjusted easily. In New York, only one year after implementation of the state's family leave program, 97% of employers were in compliance with the new law.

Paid leave increases women's labor force participation and attachment

In the states and localities that have already enacted paid leave, it has been found to increase women's participation in the labor market. High labor force participation is key to boosting GDP and economic growth, and paid leave policies can boost female labor force participation. The United States has been experiencing a marked decline in female labor force participation relative to its peers. While countries like France, Canada and the UK (countries with paid leave policies) all had female labor force participation rates similar to the United States 30 years ago, their rates have continued to climb while the U.S.'s has declined. One estimate by S&P Global finds that if women's labor force participation in the United States had kept up with that of Norway's (a country with generous paid leave policies), real U.S. GDP growth would have averaged 3.1%, rather than 2.9%, and the U.S. economy would be $1.6 trillion larger than it is today. This is just one illustration of the cost to the U.S. economy of not having universal paid leave.

Research has found that paid leave has a positive effect on women's labor force participation both in the short- and long-term. In California, which has had a paid leave program for nearly 20 years, new mothers are estimated to be 18 percentage points more likely to be working a year after the birth of a child. Other research has found the availability of paid leave continues to have positive labor force participation effects for women for at least 10 years after the birth of a child.

The greater labor force participation that paid leave facilitates for women not only has positive effects for families' short-term economic security but also for the long-term growth prospects of the U.S. economy. Research by the Federal Reserve Bank of San Francisco found that if the employment to population ratios of women had historically matched that of men, GDP would have been $490 billion higher in 2019. Other analysis by the National Partnership for Women & Families estimates that if the prime-age labor force participation of women in the United States had kept up with that of women in select other advanced economies—all of whom have some form of paid leave policies—there would be nearly 4.85 million more women in the workforce. They estimate the economic impact of losing these women from the workforce represents $237 billion in lost wages, which reduces GDP by $650 billion—2.9% of total GDP—every year. Other estimates find that further improving the policy support for women's full economic participation could boost future economic growth by 5-10%.

Passing paid family and medical leave policies now will help ensure future economic growth

The enactment of universal paid family and medical leave is an investment in current and future generations of the American workforce. It will contribute to economic growth by reducing racial and socio-economic inequalities in our workforce, boosting families' economic security, supporting small businesses and ensuring families can participate fully in the labor market while meeting their care needs. A universal paid leave program will help equip the U.S. economy with the infrastructure it needs for the 21st century to ensure future economic growth is stronger, stable and more broadly shared.