

America's 'unworkable' child-care system is failing families, Treasury Department says ^[1]

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EXCERPTS

The Treasury Department has determined that the nation's child-care system is "unworkable," saying it is plagued by market failures that put quality care out of reach for many families.

In a report released Wednesday, Treasury details the struggle many parents face to afford child care, especially as bills pile up before their peak earning years.

At the same time, Treasury found that many industry workers are paid low wages, suffer high turnover and face discrimination.

Treasury is making the case for federal government support for paid family leave, universal preschool and significant tax credits for parents and dependent care as Democrats in Congress work to write a social-spending bill that could total \$3.5 trillion.

Treasury Secretary Janet Yellen and Vice President Kamala Harris will highlight those initiatives during a joint speech Wednesday afternoon at the department.

Individual families should not bear the sole responsibility of financing quality care that benefits the economy more broadly, Treasury argues in the report, adding that the system is failing to "adequately serve many families."

"This is not just happenstance — sound economic principles explain why relying on private money to provide child care is bound to come up short," the report says.

"Having a well-functioning child care sector is good for working families. It's good for children. I would also emphasize it's good for the rest of us," said Catherine Wolfram, Treasury's acting assistant secretary for economic policy. "It's critical to a well-functioning economy."

Those programs come with steep price tags. House Democrats estimate two pillars of the agenda — universal preschool and child-care subsidies for low-income families — would cost \$450 billion. A national paid leave program could require roughly \$500 billion more.

Democrats are also proposing a permanent expansion of the dependent care tax credit, worth nearly \$100 billion. The single biggest line item is an extension of the enhanced child tax credit to 2025. The Joint Committee on Taxation projected it would cost \$550 billion over a decade — and many Democrats are pledging never to let it expire.

"That money allowed folks to keep a roof over their heads, to put food on the table, and to be able to pay for the diapers, medicine, and school supplies their kids need," House Ways and Means Committee Chairman Richard Neal of Massachusetts said Tuesday as his committee debated the legislation.

The breadth and cost of the programs have drawn attacks from Republicans, who accuse Democrats of trying to insert more government control and influence into the lives of Americans from the moment they are born.

"We should be focused on ensuring hard-working taxpayers can find the best care for their children rather than blindly throwing money at the problem and calling it a solution," GOP Rep. Virginia Foxx of North Carolina, the ranking member of the House Education and Labor Committee, said during debate over the bill.

The Treasury report found that the average family with a child younger than age 5 must devote 13% of its income on care, which is unaffordable for many families. That inability to pay is what economists call a "liquidity constraint": Parents cannot spend more on child care than they earn on the job, and they cannot borrow from their future earnings to cover the cost.

At the same time, leaving the labor force comes with penalties of its own. The report cites a study by Harvard economists Claudia Goldin and Larry Katz that found that an 18-month break from work was tied to a 41% decrease in earnings for women with MBAs.

Even so, the report shows women's labor force participation has declined over the past 20 years. Other advanced economies such as the United Kingdom, France and Canada now boast higher participation rates than the United States.

Part of the problem lies in the fragmented child-care industry itself, the report found. It cites research showing most for-profit providers in the \$60 billion sector have margins of less than 1%. The average salary for a child-care worker is \$24,230, resulting in more than 15% of them living below the poverty line in 41 states.

According to recent surveys, the child-care provisions in the Democrats' spending package are broadly popular. Nearly three-quarters of registered voters support paid family leave, according to a Morning Consult/Politico poll last month. A separate survey of likely voters by Data for Progress found 60% approve of universal pre-K, including 41% of Republicans.

"During this time of critical negotiations, there is a compelling economic case to be made that this is in the best interest to lower costs for working families," said Rohini Kosoglu, domestic policy advisor to the vice president.

On Wednesday, House committees will finish debating the proposals and then will compile them into a single piece of legislation. Senate Democrats will also want a chance to weigh in, and there's still no consensus on the size or scope of the final package.

But key senators vowed Tuesday to ensure the child-care provisions do not get left out.

"We are leaving our workers in this country in the lurch, and we're stifling our economy," said Sen. Patty Murray, D-Wash. "And that is unacceptable."

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