The economics of child care supply in the United States [1]

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Excerpted from Executive summary

The child care sector is a crucial and underfunded part of the American economy. One in every 110 U.S. workers – and one in every 55 working women – makes a living in early childhood education and care. Parents of young children devote a sizeable share of their total income to child care. Children benefit enormously from high-quality early childhood settings that nurture and support healthy development, all while laying the foundation for future success by supporting early learning skills. An extensive body of research describes large potential economic returns to investments in early childhood education and care for preschool children, especially for children from less advantaged families. To allow more families to access high-quality care, capture the return to quality early childhood programs, and enable inclusive growth both today and for future generations, the Build Back Better Agenda proposes important investments in child care and early childhood education.

This report describes the existing child care system in the United States, which relies on private financing to provide care for most children, and documents how this system fails 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. Currently, the average family with at least one child under age 5 would need to devote about 13 percent of family income to pay for child care, a number that is unafordable for most families. Less than 20 percent of children eligible for one of the largest federal assistance programs for low-income families, the Child Care and Development Fund, actually receives funding. Notwithstanding the high costs borne by parents, margins for child care providers are low and many struggle to make ends meet. They survive by keeping costs low. Labor, the main input, is overwhelmingly provided by women, many of whom are nonwhite, who earn low wages leading to high turnover. Many child care workers are paid so little that they rely on public services for their own economic needs.

Several market failures help explain why the current system is unworkable. First, parents are asked to pay for child care when they can least aford it. Parents of young children ofen have little work experience, and most people earn higher incomes as they spend more time in the labor force and their careers progress. Some parents have other major expenses, like mortgages or student loans. And, even though most families' incomes and savings increase as their children age, they are unlikely to be able to borrow against their future savings to cover the costs of care for young children. This is an example of what economists describe as liquidity constraints, a classic market failure, which argues in favor of government support. Second, the spillover aspects of providing children with a high-quality early educational experience – what economists call "positive externalities" – also argue in favor of government subsidies for child care expenditures. Finally, since the vast majority of the workers are women and disproportionately women of color, the sector likely benefits from existing discrimination in labor markets. This does not suggest that child care providers are at fault but is an indication of just how untenable the economics of the industry are.

The President proposes to increase funding in the sector by ofering universal preschool to all 3- and 4-year-old children and providing access to high-quality child care for low- and middle-income children. His child care plan will cut spending in half for most American families so that families do not have to spend more than 7 percent of their income on child care for young children by creating subsidized care and extending the expanded Child and Dependent Care Tax Credit. These steps would directly address the revenue shortfalls created by the market failures we identify: liquidity constraints and the positive externalities associated with child care. While our existing system leads to chronic underinvestment in our children and hinders many parents' ability to contribute to our nation's economy and make a solid living, a well-funded child care sector will help us all achieve more of our economic potential.

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Links
[1] https://childcarecanada.org/documents/research-policy-practice/21/10/economics-child-care-supply-united-states

[2] https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf
[3] https://childcarecanada.org/documents/child-care-news/21/09/treasury-report-paints-grim-picture-us-child-care-system
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