The Heritage Foundation

# CONGRESSIONAL TESTIMONY

## The Role of Childcare in an Equitable Post-Pandemic Economy

**Testimony before the**

**Subcommittee on Economic Policy**

**Committee on Banking**

U.S. Senate

**June 23, 2021**


**Rachel Greszler**
Research Fellow in Economics, Budgets, and Entitlements
The Heritage Foundation


My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

As a wife and mother of six children, ranging in age from three to 12, I have spent the last 13 years navigating the choices and tradeoffs that millions of parents face when determining the work and child care that is best for them.

If there is one thing I have learned, it is that there is no single work and family balance, nor child care scenario that is best for everyone.

Making decisions regarding work and child care are not easy, but it is important for families to be free to pursue what is best for them, and not what politicians, government programs, or societal norms tell them they should do. I actually think that some of the changes brought on by the COVID-19 pandemic—such as increased flexibility, remote-work, and family-friendly policies—will help more families carve out the pathways that are best for them.

In my testimony today, I would like to briefly review the current state of the economy and the COVID-19 pandemic's effects on parents and women, examine solutions to more accessible and affordable childcare, review families' diverse work and childcare preferences, and consider the unintended consequences of some proposals.

### The Economy Is Strong, but Federal Policies May Be Hurting Instead of Helping

Despite the COVID-19 pandemic lasting longer and causing more devastation than initially thought, the American economy has experienced about as close to a V-shaped recovery as was hoped for. Gross domestic product in the 1st quarter of 2021 was 1.4

percent higher than prior to the pandemic, in the 4th quarter of 2020. Consumer expenditures were up 4.7 percent in April 2021, compared to their previous high in January 2020.

Meanwhile, Americans have saved $2.2 trillion more in the one-year period from April 2020 to March 2021 than they did over the prior year ($3.5 trillion vs. $1.3 trillion),[1] and also paid off a record-high $83 billion in credit card debt in 2020.[2] All of these savings—owing in part to consumers' initial reduction in spending in addition to the unprecedented federal spending through three rounds of stimulus checks and an extraordinary expansion in unemployment benefits—has contributed to high demand for goods and services.

While demand for workers is high, the supply of ready and willing workers is low. There are a record-high, 9.3 million job openings in the U.S. and 48 percent of small business owners report they have unfilled positions (compared to an historical average of 22 percent).[3] Moreover, quits rates are at a record-high (4 million workers quit their jobs in April), while layoffs and discharges are at a record low (1.4 million workers).

The current labor shortage has contributed to employers increasing pay and benefits, providing training, and offering signing bonuses. Even so, some companies have had to limit hours and operations due to a shortage of workers.

The U.S. has never before experienced a situation like the present, where the unemployment rate remains significantly elevated at 5.8 percent (compared to 3.5 percent prior to the pandemic), and yet the labor market is incredibly strong for workers. The last time that the unemployment rate was at 5.8 percent, back in 2014, there were half as many job openings as there are today—4.7 million vs. the current 9.3 million.

Undoubtedly, government policies have contributed to the currently strong demand for goods and services, as well as the shortage of available labor. Most notably the additional $300 per week in unemployment bonus benefits alongside new programs that lack the usual eligibility standards and integrity checks of normal unemployment insurance programs have made it easier for people to not work, and easier for people to receive benefits even if they are not actually looking for work. This latter point is evidenced by the fact that in May 15.7 million people were receiving unemployment insurance benefits while only 9.3 million people were unemployed.

While the labor shortage is contributing to rising wages and compensation that benefit workers, those increases will contribute to inflationary pressure that could result in higher prices for consumers and reduced values of households' savings. Moreover, the massive increase in U.S. debt with no credible plan to reduce or even prevent its growth creates significant risks for the future of the U.S. economy.

**COVID-19's Impact on Parents and Women**

Initially, the COVID-19 pandemic disproportionately impacted families with children—especially mothers—as childcare and school closures forced parents to cut back on work or even stop working. Yet,

[1]FRED Economic Research, "Personal Saving," https://fred.stlouisfed.org/series/PMSAVE (accessed June 21, 2021).
[2]WalletHub, "Credit Card Debt Study," June 8, 2021, https://wallethub.com/edu/cc/credit-card-debt-study/24400 (accessed June 21, 2021).
[3]News release, "Nearly Half of Small Businesses Unable to Fill Job Openings," NFIB, June 3, 2021, https://www.nfib.com/content/press-release/economy/nearly-half-of-small-businesses-unable-to-fill-job-openings/ (accessed June 21, 2021).

surprisingly, the evidence suggests that to-date, childcare struggles have not disproportionately impacted parents' employment relative to non-parents. Moreover, while women initially suffered the bulk of employment losses, that is no longer the case.

**Childcare Impacts on Parents' Employment**. Initially, school and daycare closures had a significant impact on parents' employment. About half of families with young children reported in the spring of 2020 that they were able to manage childcare closures with someone in the home being able to watch their children,[4] but 13 percent of working parents reported cutting back on work hours or quitting a job because of a lack of childcare in the spring of 2020.[5] On average, those parents reduced their work by eight hours a week.

While circumstances varied significantly across the country, childcare providers were generally quicker to reopen than public schools that faced significant pushback to reopening from teachers' unions. Since young children need the highest levels of care (more than the presence of a remote-working adult in the home), the earlier childcare reopenings helped many parents maintain or regain employment. Additional family care, such as from grandparents, also helped significantly.

It is logical that parents with young children would have experienced larger employment declines than parents without young children, and this was likely true at the beginning of the pandemic. Yet, a May 2021 study by Jason Furman (former Chair of President Obama's Council of Economic Advisers), Melissa Kearney, and Wilson Powell III found that childcare struggles have had little to no impact on the jobs recovery. The authors found that "despite the widespread challenges that parents across the country have faced from ongoing school and daycare closures, excess employment declines among parents of young children are not a driver of continuing low employment levels."[6] In fact, parents' employment declined by 4.5 percent, compared to a 5.2 percent decline in employment among workers who are not parents of young children.

While the employment of fathers declined by even less than mothers, the authors found that "any childcare issues that have pushed mothers out of the workforce account for a negligible share of the overall reduction in employment since the beginning of the pandemic," and noted that the impact was "zero, in fact" after controlling for factors like education and industry.

This unexpected finding could mean a number of things, such as: (1) most families' childcare needs may have been met through the reopening of childcare providers and schools or through new modes of care and education (such as grandparent care or education pods); (2) employers may have helped meet workers childcare needs through new childcare and family leave programs, more flexible schedules, or remote work options; or, correspondingly, (3) it could be that workers without young children were less enthusiastic about maintaining their employment or finding new employment after becoming unemployed because they did not have young families to

[4]Bipartisan Policy Center and Morning Consult, "COVID-19: Changes in Child Care," April 2020, https://bipartisanpolicy.org/wp-content/uploads/2020/04/BPC-Child-Care-Survey_CT-D3.pdf (accessed June 21, 2021).

[5]Heather Long, "The Big Factor Holding Back the US Economic Recovery: Child Care," *Washington Post*, July 3, 2020, https://www.washingtonpost.com/business/2020/07/03/big-factor-holding-back-us-economic-recovery-child-care/ (accessed June 17, 2021).

[6]Jason Furman, Melissa Kearney, and Wilson Powell III, "How Much Have Childcare Challenges Slowed the US Jobs Market Recovery?" Peterson Institute for International Economics, May 17, 2021, https://www.piie.com/blogs/realtime-economic-issues-watch/how-much-have-childcare-challenges-slowed-us-jobs-market (accessed June 18, 2021).

provide for or because unemployment benefits replaced a higher portion of their previous wages.

**COVID-19's Disproportionate Impact on Women Has Dwindled**. Early on in the pandemic, women lost more jobs than men and they were also more likely to drop out of the labor force to stay home with children when schools and childcare providers closed. In the first two months of the COVID-19 pandemic, women's employment was down by 1.2 million more than men's, and women's unemployment rate rose to 16.1 percent as men's was 13.6 percent.[7]

Yet, that trend has reversed on most metrics. As of May 2021, men's employment is actually down by 500,000 more than women's, and women's unemployment rate of 5.5 percent is lower than the men's 6.0 percent rate. While more women have left the labor force than men (1.8 million women vs. 1.7 million men), women's earnings have increased at more than twice the rate of men's (a 5.3 percent gain for women vs. 2.2 percent for men between the 1st quarter of 2020 and the 1st quarter of 2021.

Employment is not yet back to where it was prior to the pandemic. Yet, it does not appear that a lack of childcare is disproportionately holding workers back. Lawmakers should not enact policies and create new government programs in response to temporary struggles and disparities that no longer exist.

## Solutions for More Accessible, Affordable, and Flexible Childcare

Although the COVID-19 pandemic caused unique struggles for parents of young children, many of those initial impacts have passed. Yet, childcare was a struggle for many families even prior to the COVID-19 pandemic.

Two-thirds of children ages five and under have all available parents in the labor force—meaning that children's early education programs are fundamental to parents' incomes. A lack of suitable childcare—including affordable, convenient, adequate hours, and a desirable environment—can limit parents' work, causing some to work fewer hours or not work at all. It is important to note that many parents have strong preferences to work part-time or to have one parent or family member stay home to care for children and there is huge value to these investments that parents and family members make in children.

Yet, even families that want or need to use childcare often face difficulties finding affordable options that meet their desires. This was the case long before the COVID-19 pandemic.

Unlike many goods and services that become increasingly abundant and affordable over time due to technological gains and rising incomes, childcare is both labor-intensive and requires significant structural investments. Childcare cannot be automated or outsourced. And the benefit of rising wages for families' incomes is offset by rising wages for childcare workers. Moreover, children cannot be altered to take up less space, require fewer feedings and diaper changes, or to forgo things like cribs and a roof over their heads.

Yet, while childcare will remain relatively expensive—proportionally more so for parents with lower incomes—there are ways that policymakers can help reduce the costs of childcare, increase its supply, and allow for more flexible and accommodating childcare arrangements.

[7] Rachel Greszler, "How Has COVID-19 Affected Women in the Workplace?," Heritage Foundation *Backgrounder* No. 3617, May 6, 2021, https://www.heritage.org/sites/default/files/2021-05/BG3617.pdf.

**Roll Back Unnecessary Regulations That Do Not Improve the Quality of Care.** Childcare licensing and regulations have set an increasingly high barrier to establishing and maintaining home-based childcare. In certain states, non-licensed care is illegal. In Maryland, a mom cannot pay a friend to watch her children after school for a few days a week in the friend's home without that friend having to become a licensed childcare provider.

Becoming a licensed provider is not easy: In addition to implementing potentially costly structural changes to one's home and undergoing multiple inspections, regulations also dictate which toys providers can and cannot offer, which types of beverage can or must be provided at which time intervals, into what size different pieces of food must be cut, which type of tape can and cannot be used in the classroom, and which types of food containers must be used and how they must be labeled.

While most childcare regulations are established at the state level, the federal government could provide guidance to the states based on which regulations significantly improve the safety and quality of care and those which unnecessarily increase costs and limit supply. The Child Care Act of 2021, introduced by Representative Ashley Hinson (R–IA), would require the Secretary of Health and Human Services to provide a report to Congress on state-by-state childcare regulations, including with regard to their impact on safety and quality, and on supply and cost.

**Let Families Keep More of Their Own Money.** Childcare is expensive and can seem unaffordable, which often leads to calls for government-funded, or universal, childcare and preschool. Part of the reason it is so hard for families to pay for childcare, however, is that they pay so much in taxes. In 2018, Americans spent more on taxes than they did on food, housing, and clothing *combined*.[8] Taking even more from households to pay for government-funded early childhood programs—which would cost significantly more than existing private and not-for-profit ones—would leave households with less money to spend on what is best for them and few, if any, choices over childcare.[9] On the other hand, reducing households' tax burdens, including their payroll tax burdens, would leave families with more choices to decide what works best for them, and with greater control over their futures.

**Create Universal Savings Accounts So Families Save For Any Purpose Without Restrictions of Penalties.** It can be hard for families to have enough money to save and invest for their future goals and unexpected life circumstances, but another—sometimes equally significant—barrier can be the fear of those savings becoming inaccessible without penalties for early withdrawals. Policymakers should advance Universal Savings Accounts so that Americans can save and invest in a single, simple, and flexible account, for any purpose and without penalties or additional taxes being owed upon withdrawal.[10] These accounts have been particularly helpful to lower-income and moderate-income households in Canada and the U.K. where a majority of account holders are lower-

[8] Rachel Greszler, "Today, You Pay Your Federal Taxes. Tomorrow Is the Real Tax Freedom Day," The Daily Signal, April 15, 2019, https://www.dailysignal.com/2019/04/15/today-you-pay-your-federal-taxes-tomorrow-is-the-real-tax-freedom-day/ (accessed August 9, 2020).

[9] Rachel Greszler and Lindsey Burke, "Why Uncle Sam Would Make a Bad Nanny," Heritage Foundation *Commentary*, March 1, 2019, https://www.heritage.org/education/commentary/why-uncle-sam-would-make-bad-nanny.

[10] Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings.

income.[11] By enabling parents to save in one place and to withdraw funds without penalty or double taxation, these accounts could help families to pay for childcare or preschool programs, and allow them to be better prepared for many other types of life events.

**Head Start Portability.** Policymakers should update the federal Head Start program to function more like the existing Child Care Development Fund (CCDF). The CCDF, part of the federal Child Care Development Block Grant, is a federal–state partnership that provides funding to low-income families to access childcare. Eligible families are provided vouchers through the CCDF to pay for tuition at a childcare center of their choice, including family-run childcare centers, relative care, and faith-based providers, but demand for CCDF vouchers typically exceeds the supply of available vouchers.[12] In contrast, the federal Head Start program is more widely accessible, but often less desirable as it has proven ineffective and mired in fraud.[13] Moreover, although the per pupil cost of Head Start—about $10,000 per year—exceeds the average cost of childcare in 37 states, the program often operates for only a few hours a day, meaning it is of little help to working families who need childcare.[14]

To help families receive the type of early childcare and education that works best for their families, policymakers should allow parents to take their child's share of Head Start funding to a preschool provider of their choice.

**Expand the Allowable Uses of 529 Savings Accounts to Include Preschool and Homeschooling Expenses.** Historically, 529 savings plans could be used to save for, and pay for, the college expenses of a designated beneficiary, without paying taxes on the accrued investment returns in the accounts. However, as part of the Tax Cuts and Jobs Act of 2017, Congress expanded the allowable uses of a 529 plan to include K–12 expenses, such as private school tuition. Parents can use these plans to pay for up to $10,000 per year per student from kindergarten through college.

Congress should further expand the allowable uses of 529 accounts to include preschool, childcare, and homeschooling costs. Although parents would not have many years to save in a 529 before a child reaches preschool age, other people such as grandparents could contribute to a designated beneficiary's account. Such an expansion would allow the funds to be used to support the growing trend of preschool co-ops and childcare pods.

**Eliminate Barriers to Employers for Offering Early Childhood Education and Care Benefits.** Employers who provide childcare benefits—such as on-site preschool or childcare programs, or subsidies for back-up childcare—can be a huge benefit to working parents and also help employers to increase employee retention. Yet, under the Fair Labor Standards Act (FLSA), employers who provide any kind of on-site childcare or childcare subsidies must include the value of

[11] Organization for Economic Co-operation and Development, "Encouraging Savings Through Tax-Preferred Accounts," *OECD Tax Policy Study* No. 15, 2007, https://www.oecd-ilibrary.org/taxation/encouraging-savings-through-tax-preferred-accounts_9789264031364-en (accessed July 24, 2020).

[12] Office of Child Care, "OCC Fact Sheet," Office of the Administration for Children and Families, U.S. Department of Health and Human Services, June 29, 2020, https://www.acf.hhs.gov/occ/fact-sheet-occ (accessed August 31, 2020).

[13] Jonathan Butcher and Jude Schwalbach, "Head Start's Contagion of Fraud and Abuse," Heritage Foundation *Backgrounder* No. 3467, February 28, 2020, https://www.heritage.org/education/report/head-starts-contagion-fraud-and-abuse.

[14] Dan Lips, "Improving the Value of Head Start for Working Parents," Foundation for Research on Equal Opportunity, December 23, 2019, https://freopp.org/improving-the-value-of-head-start-for-working-parents-739472566ec1 (accessed August 31, 2020).

those benefits in employees' "regular rate" of pay calculations.[15] This complicates and increases costs when workers who are paid hourly work overtime because, instead of just paying the worker 1.5 times their wage, employers also have to add on 1.5 times the hourly value of any childcare subsidy, even though those subsidies are usually fixed benefits.

Policymakers should exclude childcare benefits from the "regular rate" of pay calculations, just as the law already excludes similar benefits, such as retirement contributions and accident, health, and life insurance benefits.[16] This would particularly benefit lower-income to middle-income workers who are more likely to receive hourly wages and thus be subject to the current impediment.

**Allow a Safe Harbor for "Household Employees" Who Prefer to Be Independent Workers.** Currently, if an individual or family pays another individual more than $2,200 per year (the equivalent of $42 per week) for work performed in his or her home, they are required to pay, withhold, and submit multiple taxes. This process requires registering as an employer with the state and federal government, hanging official employee-rights notices in one's home, and can include registering with, and submitting tax payments to, the state and federal unemployment insurance systems, state and federal income tax systems, and the Social Security Administration. In addition to the tax burden, compliance with all the different rules and taxes is both confusing and burdensome, and mistakes can lead to significant tax bills for both the household "employer" and "employee." Under the current rules, a family could not even hire a babysitter at $15 per hour for four weeks before exceeding the $2,200 threshold and having to treat that individual as a legal employee.

The process of hiring and treating someone as a "household employee" is overly complex and burdensome. Meanwhile, the demand for more flexible, part-time, and shared-care (such as co-ops and nanny-shares) has almost certainly grown as remote work and independent work have become more common. In shared situations, it can become extremely complex and confusing to know who is and who is not an employer. The childcare provider may travel to different households; families may not know whether or not they will cross the $2,200 per year threshold, and childcare workers might find their status as an employee versus a contractor varying from one week to another, or from one household to the next.

Congress should create a safe harbor to allow individuals performing household work to choose to be treated as contractors instead of household employees.[17]

**Allow More Flexible Childcare Arrangements.** While childcare struggles are not unique to the COVID-19 pandemic, the changes in work brought about by the pandemic as well as an increase in independent work especially among women could usher in demand for more part-time, flexible, and lower-cost childcare arrangements.

Most center-based childcare programs do not allow for part-time or flexible attendance because of the high fixed costs of center-based care. Small, in-home providers face slightly lower fixed costs because they use their own homes, and it is not uncommon for providers to

[15] U.S. Code 29 USC 207(e)(4).
[16] Ibid.
[17] This choice would allow individuals to receive higher base pay as contractors because of the compliance and tax savings for the households they serve. While those households would have to report any income they pay to individuals that exceeds $600 in a year, they would only have to provide a single document—Form 1099-MISC—as opposed to registering with, meticulously tracking, reporting, and sending taxes to as many as five government entities.

be mothers who are already at home caring for their own children. Consequently, small family care providers cost about 25 percent less, on average, than childcare centers and are typically more able to accommodate part-time childcare needs.[18] But the number of providers plummeted 52 percent between 2005 and 2017 (a loss of 92,400 providers).[19] Excessive licensing requirements and regulations are likely part of the reason for this decline, and it may be that the administrative burden of complying with subsidized childcare programs makes it harder for small providers to play a role in subsidized childcare.

State policymakers should consider ways that they can eliminate barriers to more flexible childcare, including creating optional accreditation standards in lieu of mandatory licensing so that providers can choose (and fully disclose to families) what type of care they want to provide. And in addition to allowing childcare workers to choose between "employee" and "independent worker" status, policymakers should consider ways that they can open up more doors to low- and no-cost care such as parent co-ops.

## Family Preferences Vary, Most Prefer Parental or Part-Time Childcare

Families have unique desires and needs regarding parents' work and children's care.

Since 1997, Pew has tracked mothers' work preferences, finding that working part time was mothers' top choice in every administration of the survey. In the most recent 2012 survey, 47 percent of all mothers with children under age 18 listed working part time as their ideal working situation, 32 percent preferred full-time work, and 20 percent said not working at all was their ideal scenario. Among married mothers, only 23 percent said that working full-time was their ideal scenario.[20]

A recent 2021 survey by American Compass found that only 18 percent of American parents say their ideal work-life arrangement is to use paid full-time childcare. Most parents—58 percent—prefer to have their children cared for at home by a parent (47 percent) or another family member (11 percent), while 17 percent said their ideal arrangement was one parent working part-time and using part-time childcare.[21]

Preferences for childcare arrangements vary across race, education, and income. Only 14 percent of Hispanic families say full-time paid childcare is the best arrangement for them, compared to 19 percent of white parents, 20 percent of Asian parents, and 25 percent of black parents.

College graduates are about twice as likely to prefer full-time paid childcare (27 percent) as non-college grads (14 percent). The biggest

[18]Child Care Aware, "The US and the High Price of Child Care," 2019, https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/ (accessed August 12, 2020). The cost data are for 2018 and pull from "methodology #3" in the report, which uses an "average of program-weighted averages."

[19]National Center on Early Childhood Quality Assurance, "Addressing the Decreasing Number of Family Child Care Providers in the United States," revised March 2020, https://childcareta.acf.hhs.gov/sites/default/files/public/addressing_decreasing_fcc_providers_revised_march2020_final.pdf (accessed August 3, 2020).

[20]Wendy Wang, "Mothers and Work: What's 'Ideal'?" Pew Research Center, August 19, 2013, https://www.pewresearch.org/fact-tank/2013/08/19/mothers-and-work-whats-ideal/ (accessed August 29, 2020).

[21]Wendy Wang, Margarita Mooney Suarez, and Patrick T. Brown, "Familia Si, Guarderia, No: Hispanics Least Likely to Prefer and Use Paid Child Care," Institute for Family Studies, May 26, 2021, https://ifstudies.org/blog/familia-si-guarderia-no-hispanics-least-likely-to-prefer-and-use-paid-child-care (accessed June 21, 2021).

difference in preferences is by income level, with 31 percent of families earning over $100,000 per year preferring full-time paid childcare versus 17 percent for families making between $50,000 and $99,999, and only 15 percent of families making less than $50,000 per year desiring full-time paid childcare. In large part, this difference in preferences across income levels is the natural outcome of families that have higher preferences for parental care sacrificing more paid labor in order to be home with children.

When considering U.S. families as a whole, it appears full-time work for all parents and full-time paid childcare represents only a minority of families' preferences. Yet, this is the outcome that the American Families Plan calls on families to pursue, and proposes higher taxes to subsidize.[22] Pushing families to pursue lifestyles that do not reflect their desires will likely result in unintended consequences.

## Unintended Consequences of Recent Proposals

Despite good intentions to increase families' access to quality childcare that meets their needs and desires, a number of existing proposals—including many in the American Families Plan—could have the unintended outcomes of driving up childcare costs, reducing the supply of smaller family-based and religious-based providers, regressively redistributing resources, and failing to help or even harming children's and families' outcomes.

### $15 Minimum Wage Would Drive Up Childcare Costs an Estimated 21 Percent

The median wage of childcare workers across the U.S. was $11.65 per hour in 2019, so a $15 minimum wage would require significant wage increases, especially in lower-cost areas. Since wages make up the majority of the cost of childcare, and regulations prevent childcare providers from reducing other costs, most of the wage increases from a $15 minimum wage would be passed on to families in the form of higher childcare prices.

Using data on childcare wages across the United States, I estimated that a $15 federal minimum wage would increase childcare costs by an average of 21 percent across the U.S., increasing the average cost for a family with two children by $3,728 and making childcare unaffordable for millions more families.[23] But cost increases would not be equal across the U.S.: Families in lower-cost areas—especially those in the South and Midwest—would experience the largest increases. Childcare prices would rise by more than 30 percent, on average, in 10 states, including a whopping 43 percent increase in Mississippi. Costs would rise by more than $6,000 per year in Iowa ($6,304) and Indiana ($6,028), and by more than $5,000 per year in Kansas ($5,636), Louisiana ($5,487), Oklahoma ($5,602), Wisconsin ($5,227), Georgia ($5,222), and Nevada ($5,019).

These cost increases likely represent a lower bound as they only account for bringing up wages that are currently below $15 per hour to $15 per hour, but realistically, childcare providers would have to raise wages by more in order to maintain a pay scale that adequately compensates more-experienced workers, and also to compete with $15 minimum wages at lower-skilled jobs.

[22] White House, "Fact Sheet: The American Families Plan," Statements and Releases, April 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/ (accessed June 21, 2021).

[23] Rachel Greszler, "The Impact of a $15 Federal Minimum Wage on the Cost of Childcare," Heritage Foundation *Backgrounder* No. 3584, February 11, 2021, https://www.heritage.org/sites/default/files/2021-02/BG3584.pdf.

A $15 minimum wage could push childcare costs for families with two children to 40 percent or more of the median household income in many states, making childcare unattainable for millions of families and leading to a reduction in employment and income among families with children.

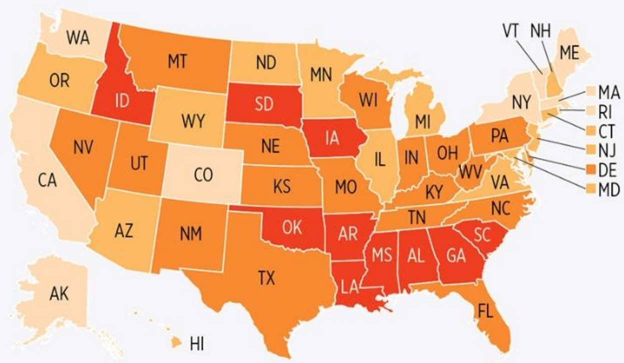
Families have different needs and desires, but they should all be free to decide what is best for them. Some families have one parent at home. Others have both parents working. And most single parents have no choice but to work. By making the childcare that low-income and working families need unaffordable, a $15 federal minimum wage would most hurt the very families policymakers seek to help.

This is what has happened in California, as the state's current path to a $15 minimum wage by 2023 has had unintended consequences for childcare, especially among low-income families. California's Minimum Wage Increase Task Force issued a report that said, "If nothing is done, many lower-income families will lose their child care, and child care programs will close their doors, triggering further job losses and major disruptions to families."[24] The report said that providers' only option is to increase costs, but many families cannot even afford current costs.

Moreover, a minimum-wage hike could cause childcare providers to stop accepting subsidized children as they often provide lower reimbursements than the tuition charged to non-subsidized families.

**$15 Federal Minimum Wage Would Increase Childcare Costs 21 Percent**

Costs would rise disproportionately in lower-cost areas, with 10 states experiencing childcare cost increases of 30 percent or more.




AVERAGE PERCENTAGE INCREASE IN CHILDCARE COSTS

10% 20% 30%

| | | | |
|---|---|---|---|
| Alabama | 35% | Montana | 23% |
| Alaska | 8% | Nebraska | 20% |
| Arizona | 13% | Nevada | 25% |
| Arkansas | 30% | New Hampshire | 18% |
| California | 7% | New Jersey | 11% |
| Colorado | 6% | New Mexico | 25% |
| Connecticut | 10% | New York | 7% |
| Delaware | 23% | North Carolina | 23% |
| Florida | 20% | North Dakota | 17% |
| Georgia | 32% | Ohio | 22% |
| Hawaii | 11% | Oklahoma | 37% |
| Idaho | 30% | Oregon | 10% |
| Illinois | 18% | Pennsylvania | 23% |
| Indiana | 27% | Rhode Island | 9% |
| Iowa | 33% | South Carolina | 34% |
| Kansas | 28% | South Dakota | 30% |
| Kentucky | 29% | Tennessee | 28% |
| Louisiana | 37% | Texas | 25% |
| Maine | 9% | Utah | 24% |
| Maryland | 14% | Vermont | 5% |
| Massachusetts | 4% | Virginia | 19% |
| Michigan | 19% | Washington | 4% |
| Minnesota | 13% | West Virginia | 28% |
| Mississippi | 43% | Wisconsin | 23% |
| Missouri | 24% | Wyoming | 18% |

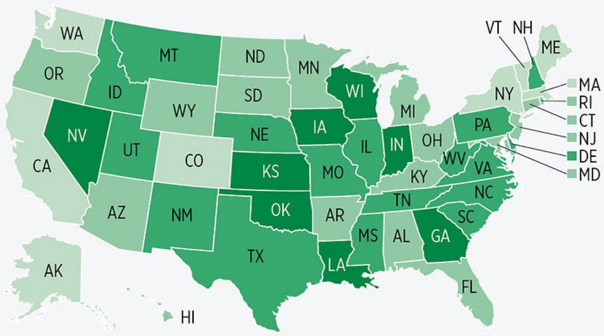
SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, "Child Care Costs by State 2020."

heritage.org

[24]Richard Winefield and Anna Levine, "Impact of Minimum Wage Increase on Child Care," California Department of Education, Minimum Wage Increase Task Force, https://www.cde.ca.gov/sp/cd/ce/minwageimpactintro.asp (accessed February 19, 2021).

## The Impact of $15 Federal Minimum Wage on Childcare Costs

Enacting a $15 per hour federal minimum wage would increase the costs of childcare by thousands of dollars in most states.




AVERAGE YEARLY INCREASE IN CHILDCARE COSTS
FOR ONE INFANT AND ONE 4-YEAR-OLD

$2K $4K $5K

| | | | |
|---|---|---|---|
| Alabama | $3,931 | Montana | $4,094 |
| Alaska | $1,789 | Nebraska | $4,735 |
| Arizona | $2,441 | Nevada | $5,019 |
| Arkansas | $3,695 | New Hampshire | $4,127 |
| California | $1,873 | New Jersey | $2,685 |
| Colorado | $1,788 | New Mexico | $4,091 |
| Connecticut | $2,688 | New York | $1,888 |
| Delaware | $4,611 | North Carolina | $4,071 |
| Florida | $3,309 | North Dakota | $2,981 |
| Georgia | $5,222 | Ohio | $3,842 |
| Hawaii | $2,427 | Oklahoma | $5,602 |
| Idaho | $4,135 | Oregon | $2,301 |
| Illinois | $4,263 | Pennsylvania | $4,950 |
| Indiana | $6,028 | Rhode Island | $2,276 |
| Iowa | $6,304 | South Carolina | $4,423 |
| Kansas | $5,636 | South Dakota | $3,698 |
| Kentucky | $3,872 | Tennessee | $4,547 |
| Louisiana | $5,487 | Texas | $4,070 |
| Maine | $1,641 | Utah | $4,225 |
| Maryland | $3,693 | Vermont | $1,269 |
| Massachusetts | $1,608 | Virginia | $4,736 |
| Michigan | $3,724 | Washington | $1,131 |
| Minnesota | $3,639 | West Virginia | $4,519 |
| Mississippi | $4,406 | Wisconsin | $5,227 |
| Missouri | $4,113 | Wyoming | $3,573 |

SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, "Child Care Costs by State 2020."

(S) DailySignal.com

**Large Subsidies to Select Childcare Providers Will Increase Costs, Limit Supply, and Reward Some Family Preferences Over Others**

President Biden's American Families Plan calls for large childcare subsidies, including free childcare to low-income families, and substantial subsidies such that families earning 1.5 times their state's median income will pay no more than 7 percent of their income for childcare. If the median income referenced refers to median household income ($68,703 in 2019), then eligible families would pay no more than $7,213 per year for childcare.[25] If the President's plan is referring to median personal income, then eligible families' costs would be capped at $3,780 per year.[26]

Across the U.S., infant childcare averages $11,193 per year while care for toddlers averages $10,630, so this would generate very substantial subsidies for many families.[27] Subsidies would be greatest in the highest-income and highest-cost areas such as Washington, DC, where a family with two children earning about $140,000 (1.5 times the median family income),[28] could receive taxpayer subsidies of over $33,000 to cover $43,000 in childcare tuition for one infant and one toddler.

Washington, DC, has some of the most expensive childcare in the country, with an average cost of over $24,000 for infants and $19,000 for toddlers. The added regulations and requirements called for in the American Families Plan could cause childcare costs across the country to mimic those of DC. That is because the American Families Plan calls for things like low child to teacher ratios (DC

[25]FRED Economic Research, "Real Median Household Income in the United States," https://fred.stlouisfed.org/series/MEHOINUSA672N (accessed June 21, 2021).
[26]FRED Economic Research, "Real Median Personal Income in the United States," https://fred.stlouisfed.org/series/MEPAINUSA672N (accessed June 21, 2021).
[27]ProCare, "Child Care Costs by State 2020," https://www.procaresoftware.com/child-care-costs-by-state-2020/ (accessed January 29, 2021).
[28]This assumes that the President's Plan is referring to the median family income, as opposed to the median

requires one teacher for every two children under age two), high educational requirements (DC requires college degrees for most center-based childcare workers), and $15 minimum wages (DC has a $15 minimum wage). Subsidies would be limited to childcare providers who comply with these added regulations and requirements.

Already, onerous regulations on childcare providers have driven smaller, more flexible and affordable childcare providers out of the market. Between 2005 and 2017, the number of small family providers fell by more than half. Significantly increased regulations would further limit the supply of smaller childcare providers and potentially lead to a two-tiered childcare system. Large and likely inflexible government-directed childcare centers would serve subsidized families at a high cost to taxpayers, while non-subsidized families would have to choose from a more limited number of small-scale, more accommodating providers mirroring current childcare costs.

**Government Childcare and Pre-K Unlikely to Yield Positive Returns, Could Hurt Children and Families**

The alleged basis for establishing widespread childcare subsidies and universal Pre-K programs—that is, the claim that such programs are an "investment" yielding positive returns—is both insulting to the investments parents make in children and also fails scientific muster.

Many appeals have been made, including in President Biden's American Families Plan Fact Sheet, to an alleged $7 return for $1 "invested" in early childhood education and care.

As a parent, I understand that to say that my children's future value to society will be seven times higher if I receive childcare subsidies and enroll them in full-time government-directed childcare programs than if I or my husband stay home with them, or if we pursue any other combination of family- and non-government-subsidized childcare.

There is tremendous personal and societal value to having parents or family members stay home with children, and it is wrong for government policies to suggest that income provided for the family is the measure of a mother's (or a father's) worth.

While most single-parent households do not have the option of having one parent stay home, many two-parent households prefer to have one parent stay home full-time or part-time to care for children, and those families should not have to subsidize the childcare costs of other families while also sacrificing their potential incomes to stay home and invest in their children.

Moreover, the alleged $7 return for every $1 invested is not applicable to the proposed programs. This high-dollar return is based on selective studies such as the Abecedarian project and Perry Preschool programs that each served fewer than 60 low-income, African American children, who were assessed to be at high risk of school failure, and who received a boutique preschool program with wrap-around family services five and six decades ago. The results of these programs are hardly transferrable to the proposed childcare subsidies and Pre-K programs serving tens of millions of children across the entire U.S. in 2021 and beyond.

As Professors Dale Farran and Mark Lipsey wrote in a Brookings Institute blog post, "To assert that these same outcomes can be achieved at scale by pre-K programs that cost less and don't look the same is unsupported by any available evidence.[29] Russ Whitehurst of

personal income, when it calls for subsidies for families earning up to 1.5 times their state median income.

[29] Dale C. Farran and Mark W. Lipsey, "Misrepresented Evidence Doesn't Serve Pre-K Programs Well,"

the Brookings Institution suggested that the selective preschool findings "demonstrate the likely return on investment of widely deployed state pre-K programs for four-year-olds in the 21st century to about the same degree that the svelte TV spokesperson providing a testimonial for Weight Watchers demonstrates the expected impact of joining a diet plan. In fact, the evidence suggests just the opposite."[30]

Lindsey Burke from The Heritage Foundation points out that "Perry's findings have never been replicated—the hallmark of rigorous social science research—and the $7-to-$1 return-on-investment figure comes from the fact that Perry participants were less likely than the control group to have been arrested five or more times by age 40. This is hardly a ringing endorsement of the promise of preschool."[31]

There are, however, some larger-scale and current early childhood programs in the United States that provide a better idea of the potential outcomes of subsidized childcare and universal pre-K.

The first is Head Start, for which the U.S. Department of Health and Human Services conducted a scientifically rigorous evaluation that tracked five-thousand three- and four-year-old children through the end of third grade. The study found that Head Start had almost no effect on parenting practices and little impact on children's cognitive, social-emotional, or health outcomes.[32]

Another relevant government program is Tennessee's "model" pre-K program for low-income children. Researchers at Vanderbilt University found that children participating in the program initially showed some positive impacts, but those effects quickly disappeared and then reversed course.[33] By first grade, teachers reported that children who attended Tennessee's pre-K program were less well prepared, had poorer work skills, and more negative attitudes about school. Moreover, these children's achievement deteriorated in the second and third grades.

Lastly, large-scale childcare and pre-K programs that push families into work and childcare settings outside what they would otherwise choose could have significant unintended consequences.[34] When Quebec established a government-subsidized $5-per-day childcare program, it caused a 14.5 percent increase in the number of mothers of young children working outside the home. Based on some of the metrics used to promote the

Brookings Institution, February 24, 2017, https://www.brookings.edu/blog/education-plus-development/2017/02/24/misrepresented-evidence-doesnt-serve-pre-k-programs-well/ (accessed June 20, 2021).

[30]Grover J. "Russ" Whitehurst, "Obama Preschool Proposal: How Much Difference Would It Make In Student Achievement?," The Brookings Institute, June 19, 2013, https://www.brookings.edu/research/obama-preschool-proposal-how-much-difference-would-it-make-in-student-achievement/ (accessed June 21, 2021).

[31]Rachel Gretzler et al., "Why President Biden's Government Solutions Would Actually Weaken the Infrastructure of American Families," Heritage Foundation *Backgrounder* No. 3616, May 3, 2021, https://www.heritage.org/sites/default/files/2021-05/BG3616.pdf.

[32]Exhibit 4.1, "Estimated Impacts on 3rd Grade Cognitive Outcomes: 4-Year-Old Cohort," and Exhibit 4.2, "Estimated Impacts on 3rd Grade Cognitive Outcomes: 3-Year-Old Cohort," in Puma et al., "Third Grade Follow-up to the Head Start Impact Study Final Report," pp. 77 and 78.

[33]Mark W. Lipsey, Dale C. Farran, and Kerry G. Hofer, "A Randomized Control Trial of the Effects of a Statewide Voluntary Prekindergarten Program on Children's Skills and Behaviors Through Third Grade," Vanderbilt University, Peabody College, Peabody Research Institute Research Report, revised September 29, 2015, https://files.eric.ed.gov/fulltext/ED566664.pdf (accessed April 29, 2021)

[34]Lindsey Burke, "Federal Early Childhood Education, Care Doesn't Benefit Kids. Here Are the Facts," Heritage Foundation *Commentary*, February 19, 2019, https://www.heritage.org/education/commentary/federal-early-childhood-education-care-doesnt-benefit-kids-here-are-the-facts.

American Families Plan, such an outcome would be considered wildly successful as it would increase families earned incomes and boost government tax revenues. But those gains could come at a significant cost to children, to families, and to American society.

Researchers that studied Quebec's subsidized childcare system found "striking evidence that children are worse off in a variety of behavioral and health dimensions, ranging from aggression to moto-social skills to illness. Our analysis also suggests that the new childcare program led to more hostile, less consistent parenting, worse parental health, and lower-quality parental relationships."[35]
In addition, teens exposed to the program had significantly higher rates of crime and anxiety and lower levels of health and life satisfaction.

A study of a smaller-scale subsidized childcare program in the U.S. found consequences for family well-being. The authors noted that "child care subsidies are associated with worse maternal health and poorer interactions between parents and their children," including increased anxiety, depression, parenting stress, and physical and psychological aggression by mothers toward their children.[36]

The government's role regarding families and children should be to help create environments in which families can pursue the choices that they desire. Politicians should not use government programs or tax policies to direct parents' choices—especially not in ways that seek to maximize government revenues without adequately accounting for families' and children's well-beings.

## Summary

While many families want and choose to have their children cared for by a parent or family member in their home, many families either need to or want to send their children to some type of childcare. Finding the care that families desire at a cost that they can afford can be extremely challenging, if not impossible. There are limits to how much more affordable childcare can become because it will always be labor-intensive. Shifting the costs of childcare away from families that use it will tend to increase costs and unfairly burden families who do not use childcare. Moreover, imposing extravagant childcare standards onto providers that desire to obtain government subsidies will further exacerbate costs and potentially create a two-tiered childcare system in the U.S. Finally, prodding families into work and childcare arrangements that do not align with their desires could impose significant consequences on children, families, and society.

Instead, by reducing unhelpful and burdensome childcare regulations, by enabling greater flexibility in the provision of care, by allowing families to keep more of their incomes and making it easier for them to save, and by allowing families to use existing childcare subsidies and Head Start funds at a provider of their choice, policymakers can help more families find the care they need, in an environment they want, and at a cost they can afford.[37]

[35] Michael Baker, Jonathan Gruber, and Kevin Milligan, "Universal Childcare, Maternal Labor Supply and Family Well-Being," National Bureau of Economic Research *Working Paper* No. 11832, December 2005, https://www.nber.org/system/files/working_papers/w11832/w11832.pdf (accessed April 29, 2021).
[36] Chris M. Herbst and Erdal Tekin, "Child Care Subsidies, Maternal Well-Being, and Child-Parent Interactions: Evidence from Three Nationally Representative Datasets," National Bureau of Economic Research *Working Paper* No. 17774, January 2012, https://www.nber.org/system/files/working_papers/w17774/w17774.pdf (accessed April 29, 2021).
[37] Rachel Greszler and Lindsey M. Burke, "Rethinking Early Childhood Education and Childcare in the COVID-19 Era," Heritage Foundation *Backgrounder* No. 3533, September 30, 2020,

*******************

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2020, it had hundreds of thousands of individual, foundation, and corporate supporters representing every state in the U.S. Its 2020 operating income came from the following sources:

**Individuals 66%**
**Foundations 18%**
**Corporations 2%**
Program revenue and other income 14%

The top five corporate givers provided The Heritage Foundation with **1% of its 2020 income**. The Heritage Foundation's books are audited annually by the national accounting firm of RSM US, LLP.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position of The Heritage Foundation or its board of trustees.

https://www.heritage.org/sites/default/files/2020-09/BG3533.pdf.