Statement of William E. Spriggs

"Addressing Labor Force Potential: Child Care"

Testimony prepared for

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"*Child Care and Other Policy Tools to Combat Bottlenecks and Inflation.*"

April 26, 2022

Thank you, Chair Warren for this invitation to give testimony before your committee today on the issue of improving the resiliency of the American economy. I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University's Department of Economics.

The size of our labor force is the key determinant of economic growth. Even a world where machines and computers can do so much, in the final analysis, the determinate of the size of the economy is the number of workers behind the computers and machines and in front of customers to deliver services. The size of our labor force however has some variance. When wages rise, or there is greater certainty of landing a job, the labor force participation rate grows in response. The growth in opportunities for women, from the latter half of the 20th Century fueled a rapid growth in women's labor force participation. That dramatically increased the labor force and potential size for our economy. That allowed for continued stable growth with moderate inflation. But women's labor force participation peaked in 2000 and has been stumbled since then.

The collapse in economic activity in the first quarter of 2020 in response to the COVID crisis unleashed a chain of events that disrupted normal economic activity. The global Pandemic, unlike other shocks, had a simultaneous affect on the world economies. Necessary precautions that delayed the spread of the disease and successfully mitigated worse loss of life, significantly altered consumption. So, while the initial impact was a drop in all consumption, the gradual reopening of some activity led to different patterns of consumption than before the Pandemic. The greatest loss of jobs was in services that required customer interaction and so the brunt of job losses fell on women. Some labelled this a "shecession," because women took the deepest hit, compared to prior downturns that were cyclically sensitive and dominated by the loss of jobs in sectors dominated by men like construction and manufacturing. We are in the midst of continuing to recover in many of those sectors.

It took the quick decisive steps of the Families First Act and the CARES Act to stabilize the economy. These initial steps addressed the obvious shortcomings of an inadequate unemployment insurance system, the lingering effects of the Great Recession that left household balance sheets woefully weak and revealing the lack of resiliency among households to income shocks, the lack of paid sick leave, the difficulties of main street businesses in accessing liquidity even in a time of low interest rates, and the fragility of state and local government infrastructure. These necessary pieces did not anticipate the subsequent waves of COVID and how long the support proved to be needed. So, fortunately, the American Rescue Plan extended support to ensure the effects of COVID would not scar the economy. The American economy ended 2021 with its fastest growth in decades and the strongest recovery of the labor market on record.

But we began this year with the world still struggling with COVID and all the disruptions that have now revealed the scars and fragility of a global system. The continued disruptions to

supply chains plaque all nations. All advanced economies face higher rates of price changes than in the pre-COVID era. This is a natural functioning of markets; price pressures appear every time there is a shock to supply and is not related to differences in fiscal responses.

There are specific reasons the US measure of prices has run higher than for other countries. The US product markets have been criticized for having higher levels of concentration than in Europe because of weaker anti-trust enforcement. (Covarrubias, Gutierrez and Philippon 2019) (Gutierrez and Philippon 2018) (Baker 2003) (Alemani, et al. 2013) (Karabell 2020) Higher levels of concentration make it easier for firms to raise prices, but also make an industry more vulnerable to supply shocks should one firm's workforce be hit harder by COVID.

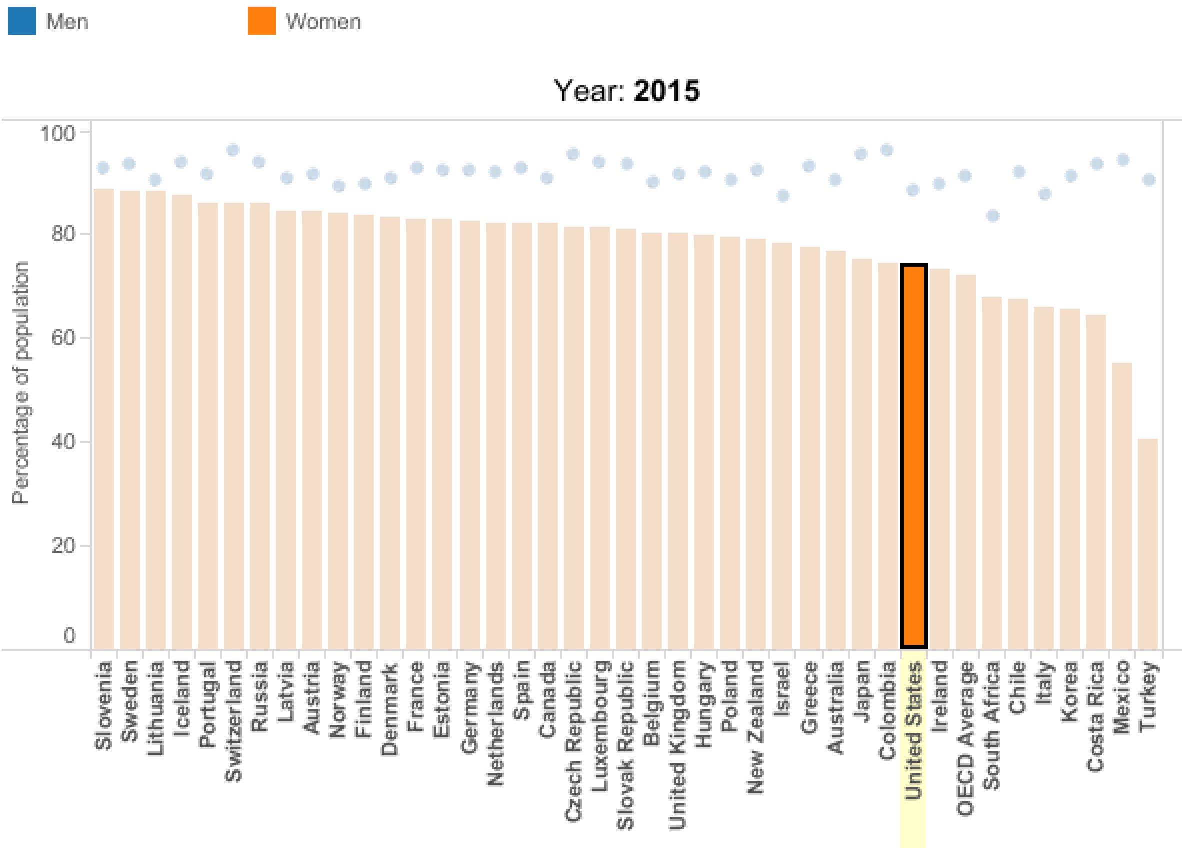
Most other nations' response to COVID was the aggressive use of job retention schemes. These programs directly subsidized firms keeping their workforces during COVID and lowered the frictions being experienced in the United States of trying to recruit workers that were sent to their best devices. Among OECD nations, the US unemployment rate spiked significantly higher than for other countries, and while US unemployment rates have settled near their pre-COIVD level as they have on average for the OECD, total labor hours in the US still have not recovered as they have on average in the OECD—this reflects lower labor force participation rates in the US. The US has low female labor force participation because it lacks the infrastructure of policies to support the care economy present in most OECD nations. Protecting individuals, through beefing up the coverage and generosity of unemployment benefits helped to facilitate shifting workers to sectors that faced rising demand during the initial stages of the COVID crisis but has now slowed the recovery of those sections that had initially faced the greatest spikes in unemployment. And the lack of protection from the virus, and weak paid sick leave coverage in

the United States, meant several industries faced greater losses of workers than other OECD countries. (Chen, et al. 2021) (Bureau of Labor Statistics 2021) Fewer workers died in other OECD countries.

Policies do matter in getting labor force participation to rebound. During COVID, problems in safely educating our children caused disruptions to public schools operating. The effect of schooling and childcare significantly impacted hours worked by parents, exacerbating the gender gap in hours worked. (Garcia and Cowan 2022) (Collins, et al. 2021) Many women have recovered from that initial shock. But, the more pronounced impacts have been on women holding lower wage jobs, both because their jobs involve working in-person, and the struggle to balance the need for childcare and that many of their employers are still recovering. Because of their disproportionate representation in nursing care and other front-line positions, Black women have suffered more noticeably because of disparate exposure to COVID-19. (Goldin 2022)

Comparing the United States to other countries, clearly policy matters. The fragility of our economy, and women's labor force participation, was a problem before the COVID crisis. Prior to the COVID crisis, women were near half the U.S. payroll. So, their importance to the economy is crucial. We must have smart policies to have a strong economy that can compete globally. The U.S. is only slightly above the OECD average for prime age (25 to 54 years old) women's labor force participation, and ranks sixth among the G-7 nations, only ahead of Italy and very noticeably behind our neighbor Canada. Figure 1 shows this for 2015 in the pre-COVID era.

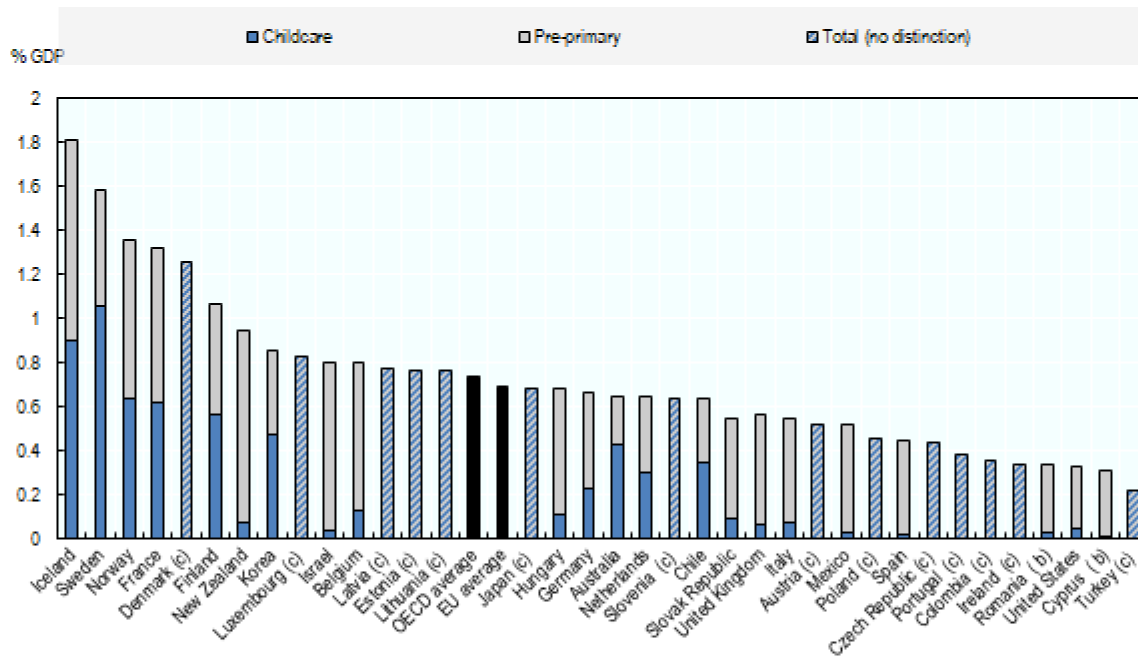
Figure 1



There are glaring gaps in the labor force infrastructure of the United States when it comes to women's participation. These include being the only nation without paid maternity leave among OECD countries, a lack of job protections like paid sick leave, and no federal policies to assure access to early childcare. Our over reliance on the market is hurting women because the median wages of women are not keeping pace with childcare prices. Some have estimated the cost to the potential of U.S. economy of inadequate childcare infrastructure on lower women's labor force participation or reduced work hours as costing $67 billion a year (Belfield 2018) A report from McKinsey estimates just the cost of loss income to workers alone, and thus a direct loss of economic capacity, from reduced labor force participation as half of that cost. (Dua, et al. 2021)

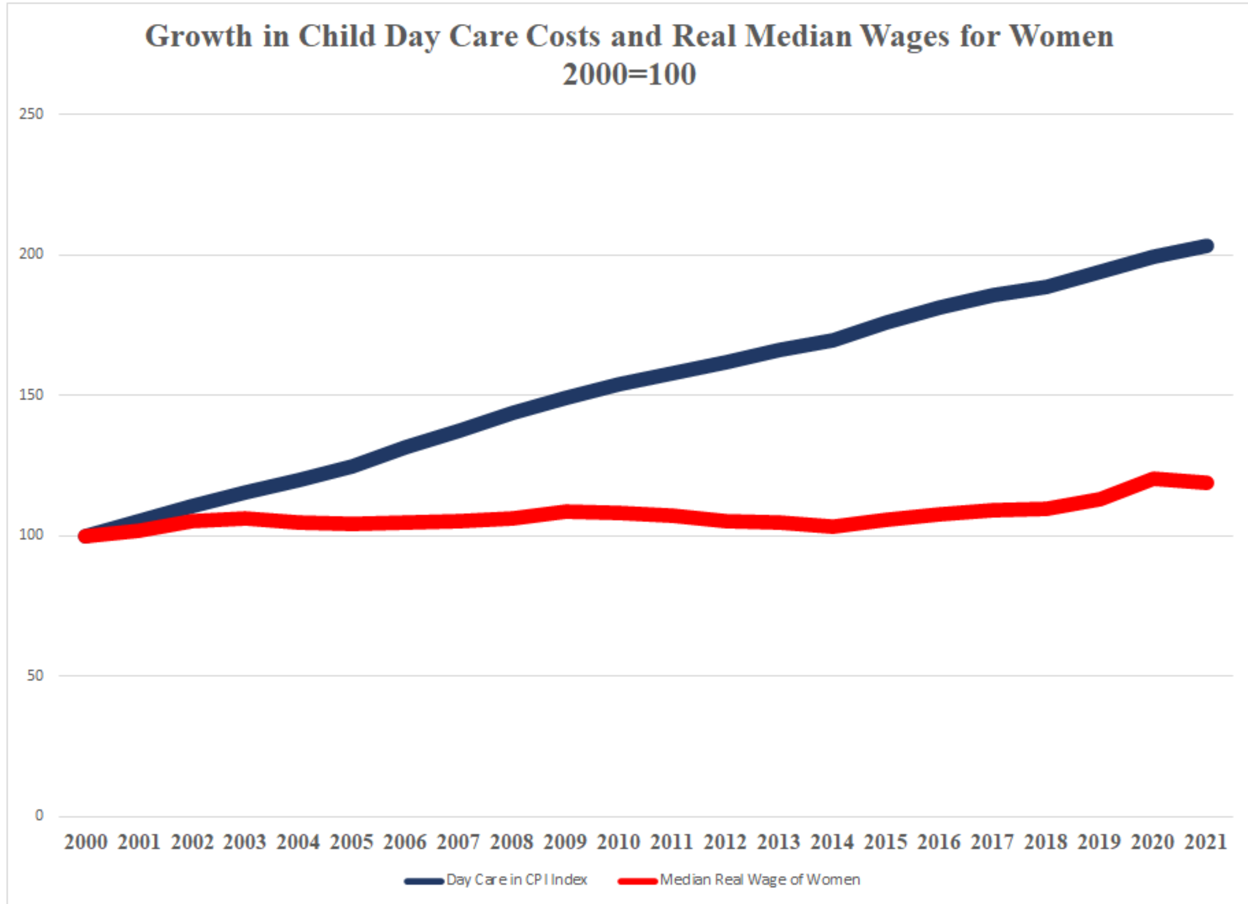
Not coincidentally, 2017 OECD comparative data show that public investment in childcare and early education, as a percentage of GDP is virtually the lowest in the United States among advanced economies. The U.S. invests an embarrassing amount compared to the average for the OECD. Investments in early childhood education, in the United States context, have proven to show a very high rate of return, not just because they could increase women's labor force participation, but because of the improved productivity and positive outcomes for children. The extensive research shows reduced expenditures on crime, improved health outcomes, reduced poverty in adulthood that lowers government transfer costs, increased earnings in later life that increases tax revenue. In all, a dollar invested in early childhood education returns almost ninefold reductions in future costs. (Lynch and Vaghul 2015) (Hendren and Sprung-Keyser 2019) (Rolnick and Grunewald 2003) (Garcia, et al. 2016) (Cannon, et al. 2017) Figure 2 shows the U.S. as the outlier. The consensus is that the same is true in other countries, and a key reason other countries make these investments, though at much higher levels than in the United States. (OECD n.d.)

Figure 2



Because of very low public investment in our children, the U.S. relies heavily on the market to determine our childcare investment. Figure 3 shows the relationship between the growth in real (adjusting for inflation) median hourly wages of women and the Consumer Price Index (CPI) for childcare. Since 2000, the gap between the rising costs of childcare and real wages is driving a deep wedge for working women. The price of childcare is rising faster than the price of other goods and causing stress for the typical working mother to choose decreases in other items (clothing, rent, food, etc.) and childcare. For others, it means being chased out of the labor market.

Figure 3

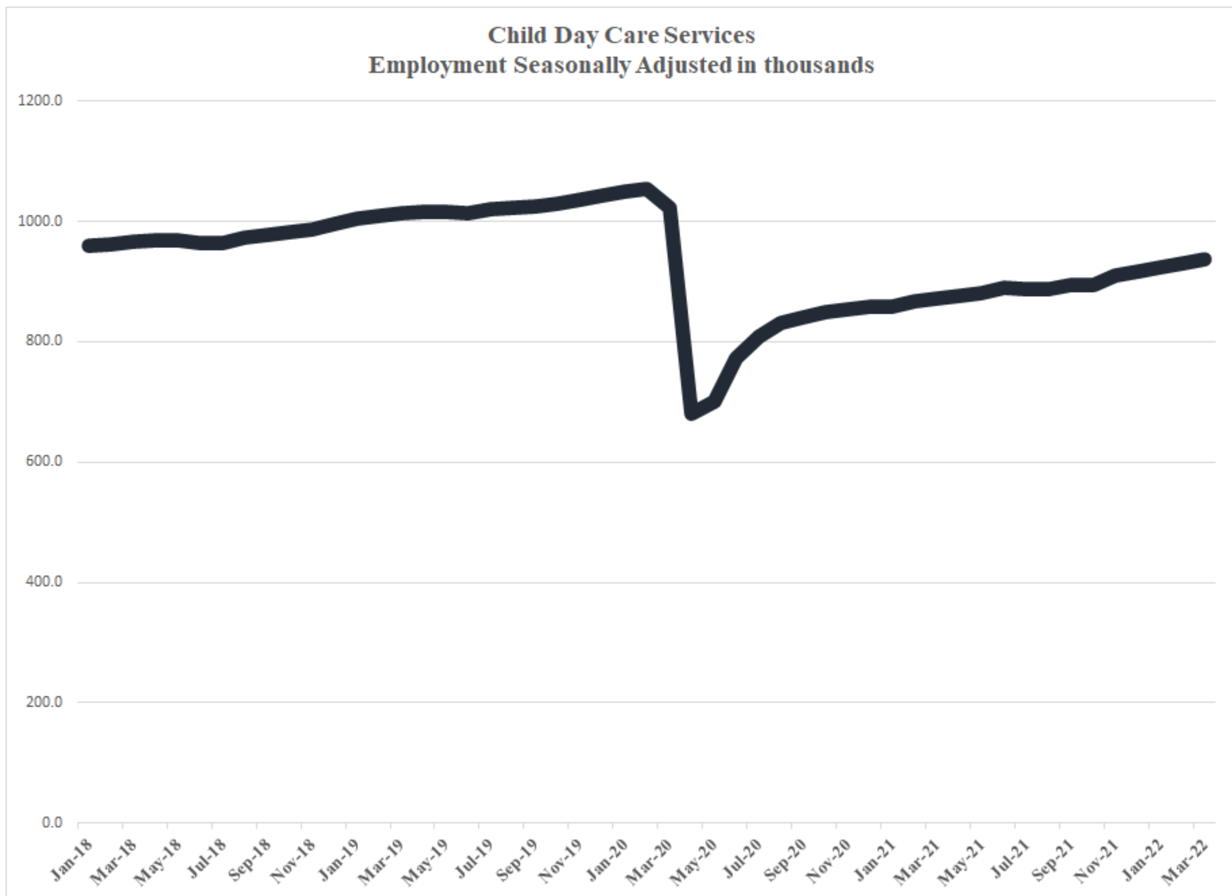


The crisis in affordability of childcare shows in data in every state. Child Care Aware of America, a network of childcare resource and referral agencies, track the price of childcare to assist families in locating family services. Based on a standard set by the U.S. Department of Health and Human Services, childcare should not exceed 10 percent of family's budget to be affordable. According to their analysis, in 2020, in only six states was the average price of a year of childcare less than 10 percent the median household income. But, even for many families in those states, childcare was a burden. For instance, they report that in Louisiana, where center based childcare costs the equivalent of 9.5 percent of median household income, single parents pay 42 percent of their income on center-based childcare, and married parents with

two children who are at the poverty line pay 65.3 percent of their income. (Child Care Aware of America 2022)

The affordability crisis has created a huge challenge in getting childcare centers re-opened. The price gap still creates stress for workers, but also as centers look for workers. This gap in recovery has ripple effects throughout the economy because the shortage of center-based care prevents workers in other sectors from getting work. Figure 4 shows the slow recovery of employment in childcare centers, as reported by the U.S. Bureau of Labor Statistics.

Figure 4



The coalition Child Care Relief surveyed availability of childcare providers in July 2021 and showed high percentage of centers were still closed. For instance, in Massachusetts, they

reported that 44 percent of centers were still closed. In Maryland, 18 percent were still closed. (Children Care Relief n.d.)

The debate now, before the Federal Reserve Open Market Committee is determining how big is the U.S. labor force. Their current stated view is that we have reached the capacity of the labor market. They may well concede that if we had better childcare infrastructure labor force participation of women would be bigger, but it is up to Congress to address that structural barrier, not them. The intent of their current policy is to slow economic growth because they believe continued growth at the current pace will exacerbate inflation by pushing demand for workers beyond the supply of labor.

So, actions by Congress to fail to make investments in early childhood education goes beyond failing our children. It also goes directly to how we set economic policy, the rate of growth we can have and the size of our economy. An economy that is larger benefits us all. And as future growth paths are exponential, a smaller economy today compounds a disadvantage in the future. Which as in the current situation ignites a debate to slow growth, perhaps prematurely.

But there is also the issue of addressing the depths of the issues in addressing the continued crisis in childcare that has been developing this century. The current crisis has made clear the low pay and low working conditions of childcare workers makes it difficult for the industry to compete for good workers, or any workers. This must be addressed to keep turnover rates low, and the industry's ability to recruit and retain the best workers.

A large share of workers do not work standard 9-to-5 jobs. While close to 75 percent of workers start their work between 6 AM and 10 AM, the rest have hours that make finding

childcare difficult. And helping working parents on these alternate schedules can add to the flexibility of workers.

In our construction infrastructure, it is key to make jobs available for working women, too. Ensuring that large shares of positions are open to apprenticeships will help increase the supply of construction workers and ease labor bottlenecks now and for the future. But that would also mean ensuring designing childcare into construction infrastructure projects.

The United States has a lot of fiscal space to make proper investments. The investment in our children is always the best, wisest and most long running investment we can make as a nation. But it is also important, that America make the investment in labor force infrastructure, create pathways to get to a larger workforce and larger economy. As we age as a nation, the sustainability of Social Security and Medicare depend on the worker to dependent ratio. As we age, we need to make investments to increase the number of workers. And to ensure our economic expansions can last longer we need to maximize our labor force. In 2000, we showed we can have a much higher share of workers. We should not lose that vision for lack of foresight to make the right investments.

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