CHILDCARE

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THE ISSUE: STATE AND FEDERAL POLICIES MAKE CHILDCARE MORE EXPENSIVE, THUS WEAKENING PARENTAL CHOICE, WORK INCENTIVES, AND LABOR FLUIDITY

Childcare in the United States is expensive, particularly in some of the country's wealthiest places. High prices hit poorer American workers in the pocketbook and reduce financial payoffs to changing jobs, working more hours, or moving to higher-cost states or cities for better work opportunities.

Child Care Aware of America data show that, for 2020, full-time center-based care for an infant cost an average of $24,400 per year in Washington, DC, and $22,600 in Massachusetts.[1] Family care—that is, childcare in the home of the childcare worker—in these states is cheaper, but it still came in at $18,400 and $14,000, respectively. Given that these figures are averages, they mask much higher prices for childcare in certain counties.

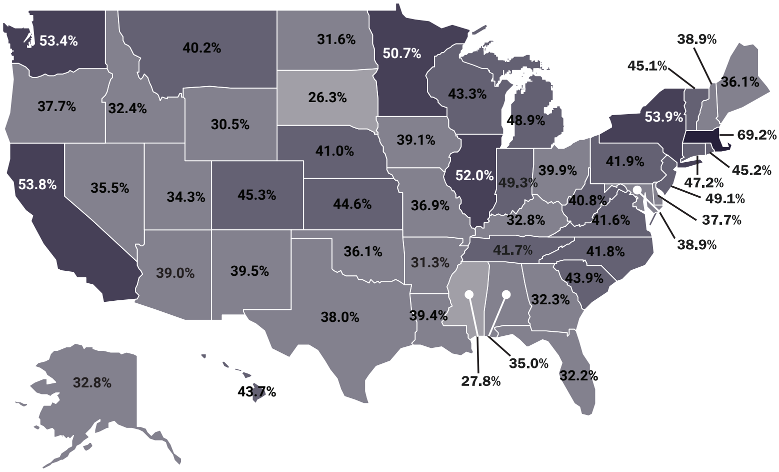
In some states, childcare is significantly cheaper. In Mississippi and Arkansas, for example, full-time center-based infant care costs, on average, only $5,800 and $6,400 annually. But, relative to incomes (which are also lower in these states), childcare in these states is still a very large expense for working families.

For example, average annual prices for center-based infant care for one child in Mississippi (the most affordable state) still reach 7.3 percent of a married couple's median income. This share rises to as high as 16.7 percent in California, despite the state's higher pay. For households that earn less than the median income, childcare costs can potentially take up huge chunks of the family budget. The United States vies with Switzerland and the United Kingdom for having the highest net out-of-pocket childcare costs for an illustrative two-earner family.[2]

For single-parent households on the margins of the workforce, the cost of formal childcare can be astounding. The price of full-time center-based care ranges from 26.3 percent of median income in South Dakota to a huge 79.4 percent in the District of Columbia (see Figure 1). Although these figures may not represent all single-parent households' lived experiences, given their actual childcare choices, the data nevertheless show how unaffordable formal childcare is for single parents. Importantly, it may be that many poorer families are forced into using informal services due to the high costs of formal care, contrary to their true preferences.

The cost of childcare has recently become even more salient because the pandemic has reduced the dwindling supply of childcare services and workers. Between December 2019 and March 2021, the number of home-based and center-based childcare providers decreased by 6,957 and 8,899, respectively.[3] Although much of this decline was driven by a collapse in demand as parents stayed home, it is widely reported that caregivers are leaving the profession permanently, leading to significant staffing difficulties at childcare businesses around the country.[4]

FIGURE 1 On average, childcare costs were 26 to 79 percent of single parent median income in 2020



State	Percent of single-parent median income	State	Percent of single-parent median income	State	Percent of single-parent median income
District of Columbia	79.4%	Wisconsin	43.3%	Oregon	37.7%
Massachusetts	69.2%	Pennsylvania	41.9%	Missouri	36.9%
New York	53.9%	North Carolina	41.8%	Maine	36.1%
California	53.8%	Tennessee	41.7%	Oklahoma	36.1%
Washington	53.4%	Virginia	41.6%	Nevada	35.5%
Illinois	52.0%	Nebraska	41.0%	Alabama	35.0%
Minnesota	50.7%	West Virginia	40.8%	Utah	34.3%
Indiana	49.3%	Montana	40.2%	Alaska	32.8%
New Jersey	49.1%	Ohio	39.9%	Kentucky	32.8%
Michigan	48.9%	New Mexico	39.5%	Idaho	32.4%
Connecticut	47.2%	Louisiana	39.4%	Georgia	32.3%
Colorado	45.3%	Iowa	39.1%	Florida	32.2%
Rhode Island	45.2%	Arizona	39.0%	North Dakota	31.6%
Vermont	45.1%	Maryland	38.9%	Arkansas	31.3%
Kansas	44.6%	New Hampshire	38.9%	Wyoming	30.5%
South Carolina	43.9%	Texas	38.0%	Mississippi	27.8%
Hawaii	43.7%	Delaware	37.7%	South Dakota	26.3%

Source: Child Care Aware of America, *Demanding Change: Repairing Our Child Care System* (Arlington, VA: Child Care Aware of America, February 2022).

Theory and evidence suggest that, if driven by a lack of workers or centers, higher childcare prices can worsen labor market outcomes, particularly for workers with lower levels of attachment to the labor market. For example, research from overseas, such as Powell (2002), has found that higher childcare prices reduce the propensity for parents to work.[5] In the United States, meanwhile, mothers' odds of full-time employment have been found to be lower, and part-time employment higher, in states with expensive childcare.[6] Of course, parents should be free to decide how best to care for their children, but it is nevertheless noteworthy that mothers spend more time caring for their own children both in states where childcare is more expensive and as childcare costs increase, after controlling for other factors.

Statistical analysis has also found that moving to a state with less-affordable childcare lowers the retention rates of married mothers in the labor market.[7] But this is only the observed effect: many relocations simply do not occur because of the deterrent to moving that these sorts of childcare cost differentials create. In other words, some families cannot move (for work or lifestyle reasons) because childcare costs in their desired destination are too high.

Expensive childcare therefore leads to parents being unable to afford the types of childcare they would prefer or that would be better suited to their work needs. This can create a barrier to better job matching, human capital accumulation, and physical mobility that could deliver higher wages or better opportunities, along with a more vibrant and productive economy overall.

That childcare is expensive is not—contrary to what many critics say—a "market failure" in need of government intervention. For starters, that prices tend to be disproportionately higher in places with high incomes might simply suggest that as we get richer, we demand more high quality childcare. Childcare may also suffer from "Baumol's cost disease" because it remains a labor-intensive service that is difficult to automate.[8] That is, as wages throughout the economy rise with productivity growth, childcare providers must compete for workers with other, higher-paying options, so we would imagine that this type of service would get relatively more expensive over time.

Baumol effects and rising incomes are not, however, the only factors putting upward pressure on childcare prices. Many government policies, particularly at the state level, raise the cost of providing childcare, thus constraining supply into the sector—both reducing its availability and raising prices without a proportionate improvement in quality or safety. These state-level requirements include staff-child ratio requirements, occupational licensing requirements, and zoning restrictions.

Staff-child ratio requirements. These requirements raise the net cost of providing childcare by reducing workers' revenue potential. This reduction either lowers wages for childcare providers, thus discouraging them from entering the sector, or makes it more expensive and complicated for some centers to operate at a given capacity, leading to fewer centers or home-based settings. Either way, the supply of childcare is reduced, increasing market prices.

Empirical research confirms that stringent staff-to-child ratios substantially increase prices with little beneficial effect on observed childcare quality. Thomas and Gorry (2015), for example, used variation in state regulation requirements and prices to estimate that loosening the staff-child ratio by just one child across all age groups (regulations tend to vary by child age) would reduce center-based care prices by 9–20 percent.[9] This echoed earlier research showing that increasing the number of children that any care provider could look after by two would reduce prices by 12 percent.[10]

These trends unsurprisingly affect American workers, particularly those with lower incomes. Thomas and Gorry's work shows, for example, that the higher prices associated with a tighter regulation are associated with a small but measurable fall in the number of mothers working.[11] In a separate paper, Hotz and Xiao (2011) found that the effects of these regulations are particularly regressive.[12] Using an extensive dataset across three census periods, the authors found that tightening the staff-child ratio by one child reduces the number of childcare centers in the average market by 9–11 percent without increasing employment at other centers. Crucially, this supply reduction occurs wholly in lower-income areas, leading to significant substitution to home daycare. In other words, this regulation reduces the availability of childcare in lower-income neighborhoods, making it more difficult for poor families to juggle childcare and work responsibilities while increasing prices, which can then deter other households from moving to that area.

Just as importantly, there is no evidence of a net quality benefit from tighter childcare ratio regulation. Contrary to the theory that a higher staff-to-child ratio will lead to more interaction time and better child development, meta-analyses have found "small, if any, associations with concurrent and subsequent child outcomes."[13] Advocates of government-imposed staff-child ratios also ignore the fact that if higher prices induced by regulation drive poorer households toward informal care settings or even out of work, the effects on those affected children's development are wholly unobserved.

Occupational licensing requirements. Educational qualifications and training requirements for caregivers have similarly large effects on childcare prices, albeit with more mixed effects on quality. The economic harms—reduced availability, higher prices, discriminatory effects, etc.—of occupational licensing in childcare services mirror those discussed generally in the Occupational Licensing chapter. Most obviously, tighter educational or training requirements further restrict the pool of potential childcare providers, thus increasing prices. Thomas and Gorry found that requiring lead providers to have even a high school diploma can increase prices by 25–46 percent. Hotz and Xiao likewise found that increasing the average required years of education of center directors by one year reduces the number of childcare centers in the average market by 3.2–3.6 percent.

That childcare experience and educational requirements vary widely by state calls into question the validity and necessity of the most restrictive childcare licensing regimes (as further discussed in the Occupational Licensing chapter). In California, for example, personnel in childcare centers must have at least 12 postsecondary semester credits in early childhood education and development and six months of experience working in a licensed center with children of the relevant age. Center directors must have four years of relevant experience in a center or, alternatively, a degree in child development with two years' experience.[14] In Washington, DC, recent restrictions are even more stringent: center directors must have a bachelor's degree in early childhood education, ordinary childcare providers in centers are required to have an associate's degree in early childhood education, and assistant teachers and home childcare providers need at least a Child Development Associate (CDA) credential by December 2023.[15]

The overall harms of these restrictive licensing systems disproportionately manifest themselves in low-income markets because related quality improvements (proxied by accreditation for the center) overwhelmingly occur in just high-income areas. These types of childcare regulations thus enshrine into law the policy preferences of wealthier childcare consumers but eliminate access and raise prices to formal childcare for poorer consumers, with little improvement in quality.

Zoning restrictions. As discussed in the Entrepreneurship and Home Businesses chapter, many state and local governments have considered home daycares a "problem use" and have therefore used zoning restrictions to ban them. Such restrictions reduce the availability of childcare in the affected neighborhoods and further increase the price of childcare services.

Childcare regulation is overwhelmingly a state responsibility, but the federal government plays a role in two important ways: restrictive federal immigration policies and federal childcare subsidies.

Restrictive federal immigration policies. The supply of potential childcare workers, au pairs, and babysitters is further reduced through lengthy foreign labor certification processes, low visa caps, and limited visa availability for nannies living outside the home of care. Despite these restrictions, more than 20 percent of childcare workers (around 318,400) in 2019 were foreign-born (more than half of those were noncitizens), with substantial benefits for American parents. Cortes (2008) found, for example, that for every 10 percent increase in low-skilled immigrants among the labor force, prices for "immigrant-intensive services," including childcare, fell by 2 percent.[16] Furtado (2015), meanwhile, showed "immigrant inflows are associated with reductions in the cost of childcare and other household services," allowing high-skilled native mothers to work more or have more children.[17] And East and Velasquez (2022) have found that new immigration restrictions tend to reduce these same individuals' labor supply.[18]

Federal childcare subsidies. Meanwhile, federal subsidies entrench onerous state childcare regulations. The Childcare Development Block Grant authorizes and governs the federal childcare subsidy program known as the Child Care and

Development Fund (CCDF), which provides financial assistance to low-income families. The Child Care and Development Block Grant (CCDBG) Act of 2014 requires that providers receiving grant funds meet group size limits, age-specific child-to-provider ratios, and staff qualification requirements, as determined by the state—regulations that, as noted above, reduce supply and increase prices.[19]

THE POLICY SOLUTIONS: LOOSEN STATE REGULATION OF CHILDCARE STAFFING AND LICENSING AND OF HOME-BASED BUSINESSES; EXPAND IMMIGRATION; AND REFORM FEDERAL CHILDCARE SUBSIDIES

Even though rising childcare prices are not a conventional market failure, policymakers and much of the public see it as a problem requiring government action. However, the most common proposals to counteract high out-of-pocket costs largely entail shifting them from parents to taxpayers through state and federal subsidies. The COVID-19 relief bill of March 2021, for example, included $39 billion in childcare subsidies, and President Biden has demanded a major new subsidy program for childcare as part of his Build Back Better legislation.

Subsidies, however, can *worsen*, rather than improve, the affordability problem while also constraining options for certain groups. Around the world, subsidy eligibility requirements associated with childcare subsidies tend to crowd out the use of home-based care. While parents often say they prefer these arrangements, estimates show that 75 percent of children in America receiving subsidies through the Childcare Development Fund are cared for in a childcare center.[20] Furthermore, under the recent Democratic plan, families would either be granted a voucher to use at certain providers or be able to request a government-subsidized slot. This will push up demand, raising prices for those who do not enjoy subsidized care. Or if the subsidy levels are set too low to cover provider costs, then providers might be driven out of business. Subsidies also inevitably come with regulatory strings that raise the costs of provision or lessen the availability of care in certain geographic locations by making it unprofitable.[21]

Rather than throwing taxpayer dollars at demand-side subsidies, legislators should reform policies that contribute to childcare being so expensive in the first place. The best solution to high childcare costs would be for state governments to repeal legislation that entrenches regressive childcare regulations. In a more open and diverse market, providers would still have to work to provide the types of care that households want. Indeed, one can imagine childcare facilities working to deliver voluntary accreditation regimes to assure parents of staff-child ratios or the educational backgrounds of their childcare workers if that is what some parents desire. But this kind of quality assurance does not need to be provided by government, particularly in the internet age where reviews are easily accessible. Voluntary standards are common and successful in other important markets (e.g., food portion sizes), and there is no reason to think that such an approach would not work in childcare too.

State governments should desire a free market in childcare, which would deliver pluralism in the forms of care available to parents, based on their own needs and assessments of quality. There is no inherent reason why a wide range of options should be unavailable, given the large numbers of people with experience caring for children. This would free parents to choose whom to pay to care for their children according to their own preferences about the features of the service, whether that be through babysitters, au pairs, nannies, reciprocal after-school parent arrangements, home daycare, or formal centers.

If full repeal of these sorts of staffing regulations is impossible politically (as it likely is), states can still undertake several specific reforms to reduce childcare costs and help parents. First, given that the industry is so labor-intensive, achieving the biggest price savings requires encouraging states to loosen regulations on childcare staff. These rules are often justified as ensuring children's health and safety, or improving child development outcomes, but often seem to have more to do with protecting large institutional childcare providers or raising salaries for certain workers.

Restrictive staff-to-child ratios and educational occupational licensing requirements on caregivers are especially ripe for reform. The evidence that ratio regulation and staff educational requirements have such a regressive impact on the availability and cost of childcare suggests that these rules—if they cannot be repealed entirely—should be relaxed to expand supply and allow consumers to choose their level of care, subject to a more reasonable regulatory baseline.

Second, liberalizing zoning codes to allow more home daycares to operate in the relevant jurisdictions is another obvious reform to increase childcare supply. As discussed in the Entrepreneurship and Home Businesses chapter, policymakers in at least 18 states—concerned about the rising cost of childcare—have already passed laws to preempt excessively tight local zoning restrictions on home daycares.[22] States should also relax or rescind overly prescriptive rules about the structural layout of childcare properties. In California, for example, childcare facilities must have at least 25 square feet of indoor space and 75 square feet of outdoor space per child.

Third, the federal government should make it easier for migrants—particularly low-skilled migrants—to move here, thus increasing the supply of potential caregivers and further reducing childcare prices. As already mentioned, evidence suggests the arrival of low-skilled immigrants in the United States toward the end of the 20th century led to substantial cost reductions, while also increasing fertility rates of U.S. citizens (allowing more people to have the number of children they would like and could afford in a better policy environment).[23] This effect would be even more powerful for childcare costs in a world where the state regulatory barriers to new childcare supply had been relaxed.

Finally, Congress should abolish direct federal childcare subsidies entirely. Any subsidies to parents should instead take the form of simple strings-free cash transfers to those in need so that parents can decide how best to use those funds in line with their children's and family's specific needs. (See the Welfare Reform chapter for more.) Short of this change in approach, Congress should amend the CCDF and CCDBG programs by removing the link between funds and state childcare regulations to discourage these types of regulation and encourage the aforementioned reforms.

ACTION PLAN

Short of the full repeal of state childcare staffing regulations, state governments should strive to pare down the stringency of existing rules through legislative revisions or curbing the power of relevant agencies.

At a minimum, state governments should amend the relevant laws and regulations to

- relax mandated staff-to-child ratios for children of all ages;
- eliminate any outdoor space requirement regulations;
- carve out exemptions to, or preempt, zoning codes that restrict home-based childcare businesses; and
- repeal licensing provisions that require childcare providers or center directors to hold bachelor's degrees, associate's degrees, or Child Development Associate qualifications.

Meanwhile, Congress should

- eliminate, or at least liberalize, the current statutory restrictions on the visa categories most commonly used for immigrant childcare workers, such as the J-1 visa for au pairs and the EB-3 immigrant visa, while expanding other visa programs such as the H-2B visa for unskilled workers;[24]
- exempt childcare workers from the EB-3 immigrant visa cap and expand the H-2B visa to year-round work rather than limiting its use to seasonal jobs;
- encourage removal of the J-1 au pair program's age cap of 26 and English proficiency requirement, which may be unnecessary in certain childcare settings. Processing of these visas should also be accelerated; and
- amend the CCDF and CCDBG programs to eliminate the link between federal funds and state childcare regulations.

NOTES

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