



THE CATO INSTITUTE

HANDBOOK ON AFFORDABILITY

7. Childcare and Child Raising

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Raising kids is costly, and childcare is often the biggest pinch point. There are some economic reasons for this: Childcare is labor-intensive, as one adult can supervise only so many children. When wages rise elsewhere in the economy, childcare employers must compete for workers who have increasingly lucrative options elsewhere.

Simultaneously, modern parents often invest more in children’s safety and enrichment than past generations. Such forces push up the relative price of childcare, particularly in high-income areas. For instance, the average annual cost of full-time center care in Washington, DC, for infants was as high as \$26,193 in 2024.

Growing a family can feel more expensive still due to other costs: larger houses, bigger cars, more food, and new clothing. The biggest cost for many families is the opportunity cost. For mothers in particular, temporarily exiting the labor force can reduce lifetime earnings or promotion opportunities, an issue exacerbated by regulations discouraging family-friendly or remote-work arrangements.

To support families with children, policymakers often favor increased government spending. But things like baby bonuses or unpriced childcare are expensive and primarily pass on costs to other taxpayers. In the case of childcare subsidies, associated regulations on staffing and government standards of care often drive up the cost of provision, making childcare more expensive, including by eradicating cheaper, more flexible options.

A better approach to make raising a family more affordable is to remove misguided regulations that drive up the costs of raising a family. Chapters 3 and 8 in this handbook detail how such an approach could reduce housing and food prices, respectively—core expenses to families with children. The recommendations below apply

the same approach to childcare and other goods and services associated with raising children.

FEDERAL POLICIES TO IMPROVE CHILDCARE AND CHILD-RAISING AFFORDABILITY

- **Expand the childcare workforce by broadening EB-3 visas.** Congress can treat childcare as a shortage occupation for immigration purposes by exempting EB-3 slots for verified childcare employment. More workers would strengthen competition and moderate prices. Previous research has found that a 10 percent increase in low-skilled immigration may reduce childcare costs by 2 percent.
- **Expand the supply of au pairs.** The au pair program (part of the J-1 visa) lets young international visitors (ages 18–26) live with an American host family, providing up to 45 hours of childcare per week in exchange for room, board, a stipend, and cultural immersion. Congress should raise the age limit (Canada caps au pair age at 35) and lift English-proficiency requirements, while allowing more choice in au pair housing arrangements and employment duration.
- **Simplify in-home care by reducing household-employment fixed costs.** Many families would prefer nannies or nanny-shares but face high administrative and legal fixed costs (including withholding, classification, and reporting). Congress could add flexibility by allowing household employees to work as independent contractors, reducing such costs.
- **Stop federal childcare funding from entrenching state “supply caps.”** The Child Care and Development Block Grant/Child Care and Development Fund

requires that providers receiving grant funds meet group-size limits, age-specific child-to-provider ratios, and staff qualification requirements. These drive up childcare prices by reducing the range of options available to parents. Congress should amend these programs to sever the link between federal funds and restrictive childcare rules.

- **Reform Head Start degree mandates.** Federal law and regulations require that at least 50 percent of Head Start teachers nationwide hold a bachelor's degree (or the equivalent) in early childhood education. These credential floors shrink the pool of workers and encourage state governments to set similar rules for local childcare providers.
- **Remove federal barriers to remote and hybrid work.** Over 90 percent of parents with young children prefer remote or hybrid work, and women's participation in the labor force is at record highs because of more teleworking mothers. Working from home can cut the childcare "coverage hours" parents need by eliminating drop-off/pickup windows and sick days. Congress should ban state "convenience of the employer" rules that subject remote workers to double taxation, modernize tax nexus laws so that states can tax only businesses with a substantial physical presence there, and set minimum residency-and-work thresholds before employees owe state income tax.
- **Eliminate baby formula protectionism.** Trade barriers and other government policies keep over 98 percent of US-consumed baby formula domestic in origin. The 2022 FORMULA Act eased tariffs and labeling rules to allow more imports during a formula shortage, but it has now expired. Lasting mutual recognition of other developed countries' standards and letting European Union-approved formulas bypass FDA labeling requirements could mitigate future shortages and increase supply, lowering prices.
- **Reduce tariffs on big-ticket childhood necessities.** Congress should similarly oppose tariffs that raise the prices of car seats, strollers, high chairs, cribs, and other children's essentials. One 2025 estimate claims such tariffs may cost families as much as \$5,000.

STATE AND LOCAL POLICIES TO IMPROVE CHILDCARE AND CHILD-RAISING AFFORDABILITY

- **Relax staff-to-child ratios and group-size caps to expand childcare capacity.** Easing ratios lets providers serve more children with the same staff, enabling lower-cost offerings. Raising the mandated infant ratio by just one child per staff member may lower childcare costs by 9–20 percent.
- **Eliminate childcare worker credential mandates.** Degree and diploma requirements for childcare workers shrink the labor pool and raise costs. Requiring lead teachers to have a high school diploma may increase infant childcare costs by 25–46 percent. Likewise, adding a year of required director education may reduce the number of day care centers by 3.2–3.6 percent—tightening supply and pushing prices up, particularly in poorer areas. Washington, DC, now even requires childcare providers to possess a college degree, forcing out numerous experienced providers. These mandates should be abolished. Providers would remain free to advertise workers' qualifications and parents could choose what quality-price bundle they desire, broadening the range of affordable options.
- **Make home-based childcare legal "by right" and override exclusionary zoning.** Home day cares are among the fastest ways to expand childcare capacity because they have lower fixed costs than large centers. Zoning and permitting hurdles choke off this supply channel. Allowing home-based childcare by default increases entry, expands neighborhood options, and broadens quality-price bundles for parents.
- **Trim facility mandates that force families to buy bundled "amenities."** Rules like minimum square footage, outdoor-space requirements, and similar childcare center standards raise capital costs and push providers toward pricier models. Eliminating these regulations would let providers compete on different combinations of price and features—improving affordability through unbundling and entry.

- **Reduce unnecessary paid supervision driven by legal ambiguity.** Some families purchase unneeded childcare because of legal risks surrounding when it's reasonable to leave children home. As of summer 2025, 11 states have enacted "Reasonable Childhood Independence" protections that narrow when unsupervised activity is treated as neglect. Babysitting is expensive—UrbanSitter's 2026 national average is \$29.87 per hour for two children—so even small reductions in forced paid hours can translate into meaningful savings.
- **Expand school choice to reduce the "good school" housing premium.** Families bid up home prices to buy access to better schools, pushing up rents and mortgages. Broader school choice—open enrollment, charters not tied to address, portable funding, simpler private-school accreditation—lets families access

quality without paying for a specific neighborhood, compressing the "good school" housing price premium. (This reduces price dispersion but is not a substitute for expanding housing supply.)

- **Subject car seat mandates to cost-benefit review.** Increases in the legal age at which a child must remain in a car seat raise the cost of a third child by forcing parents to buy larger vehicles to accommodate three car seats. In 2025, a new minivan's average cost was \$59,031. The expense makes third-borns so costly that one study estimates extended-age car seat requirements prevent "approximately 8,000 annual births, around 141 times greater than plausible estimates of the number of lives saved." States should subject such mandates to transparent cost-benefit review, a process that would likely mean revising them.