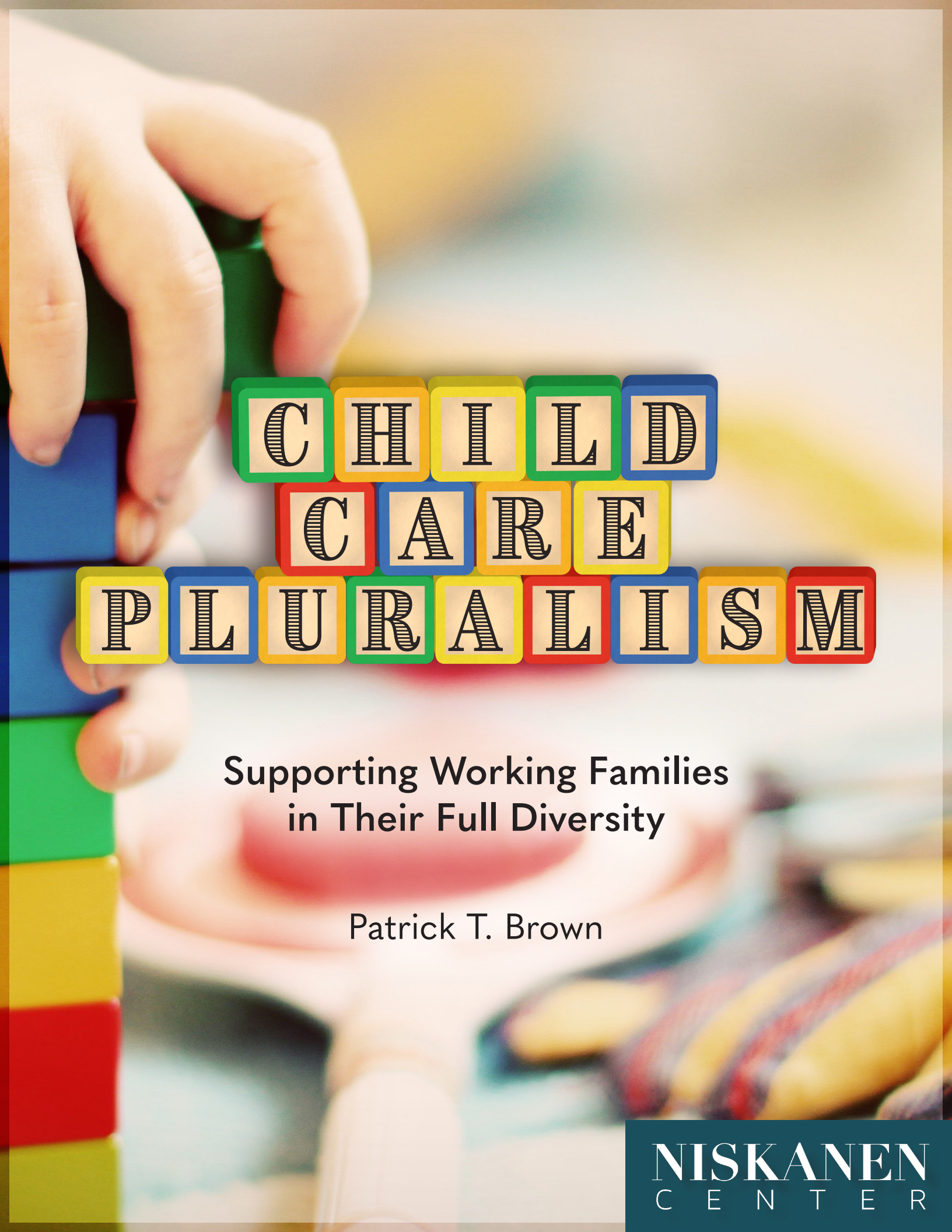

Supporting Working Families in Their Full Diversity

Patrick T. Brown

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Child Care Pluralism:

Supporting Working Families in Their Full Diversity

Patrick T. Brown

June 2021

About the Author

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Introduction

As the pandemic has thrust into sharp relief, families across America rely on child care to meet the demands of both the workplace and the home front. A single mom trying to make rent; newly-married young professionals just starting a family; two working-class parents needing to cover a couple extra hours while dealing with unpredictable scheduling — all at some point depend on a child care arrangement of some kind. Expanding the array of options available to American families, whether it be care by a relative or parent, or a daycare or child care center, should be a prime focus of public policy.

Yet at the same time, polling consistently shows a plurality of mothers say they wish they could work part-time or even stay at home with their children.[1] Two-thirds of women told Pew in 2019 that the ideal situation for a woman with young children was working part-time or not at all.[2] Many families say they wish it was easier for one parent to stay home with their children. These survey results are important, as any policy agenda aimed at making family life easier for parents should, ultimately, be informed by parents' actual preferences.

There has been no shortage of recent conversations about how to make family life more affordable through certain tax provisions and benefits.[3] But family policy is not limited to the tax code. In addition to improving how the tax code treats families, a pro-family agenda should aim to make the market for child care work better.

1 Lydia Saad, "Children a Key Factor in Women's Desire to Work Outside the Home," Oct. 7, 2015, Gallup, https://news.gallup.com/poll/186050/children-key-factor-women-desire-work-outside-home.aspx

2 Juliana Menasce Horowitz, "Despite challenges at home and work, most working moms and dads say being employed is what's best for them," Sept. 12. 2019, Pew Research Center, https://www.pewresearch.org/fact-tank/2019/09/12/despite-challenges-at-home-and-work-most-working-moms-and-dads-say-being-employed-is-whats-best-for-them/

3 Samuel Hammond and Robert Orr, "The Conservative Case for a Child Allowance," Niskanen Center, Feb. 4, 2021, https://www.niskanencenter.org/report-the-conservative-case-for-a-child-allowance/

This report outlines options for improving child care availability and affordability in light of the immense pluralism of American family life. At a high-level, a commitment to "child care pluralism" means policymakers should seek to:

- Dedicate funding to non-profit child care providers through grants, loans, and technical assistance, prioritizing care options embedded in a community context and meeting parents' stated desires;
- Resist the temptation to pile quality-improvement mandates that bear an ambiguous relationship to long-term outcomes onto federal grants, and;
- Improve the functioning of the market for child care by creating incentives to increase supply, develop innovative funding models, and make careers in the sector more appealing.

Instead of adopting a model of family life that gives primacy to productivity and economic growth, or breathlessly reciting numbers suggesting a "crisis" in child care that is not what it seems, policymakers should pursue a pluralistic approach to child care. That means increasing the options available to parents based on their own vision of the good life, rather than imposing a particular model of child care as superior to all others, whether directly or indirectly through reforms meant to influence the tradeoffs parents face. Instead of a heavily-regulated, top-down approach to child care provision, Congress and state legislatures should empower community provision in a way that celebrates the kaleidoscopic diversity of America's ethnic, racial, and religious traditions and scripts around family life.

In particular, policymakers who recognize the importance of intermediary institutions should seek to empower those organizations to be necessary and vital sources of caregiving at the community level. Indeed, reforming our child care infrastructure to make those care options more available and affordable is the most compelling path forward.

Understanding the Child Care Landscape

When their parents are at work, young children need some kind of care. In 2019, about half of both married and single moms with a child under 5 worked full-time, while another 15 percent worked part-time (among those not working, single moms are more likely to report being unemployed and looking for work, rather than out of the labor force, than married ones).[4] That same year, 62 percent of households had their child participating in any kind of regular child care arrangement, according to the

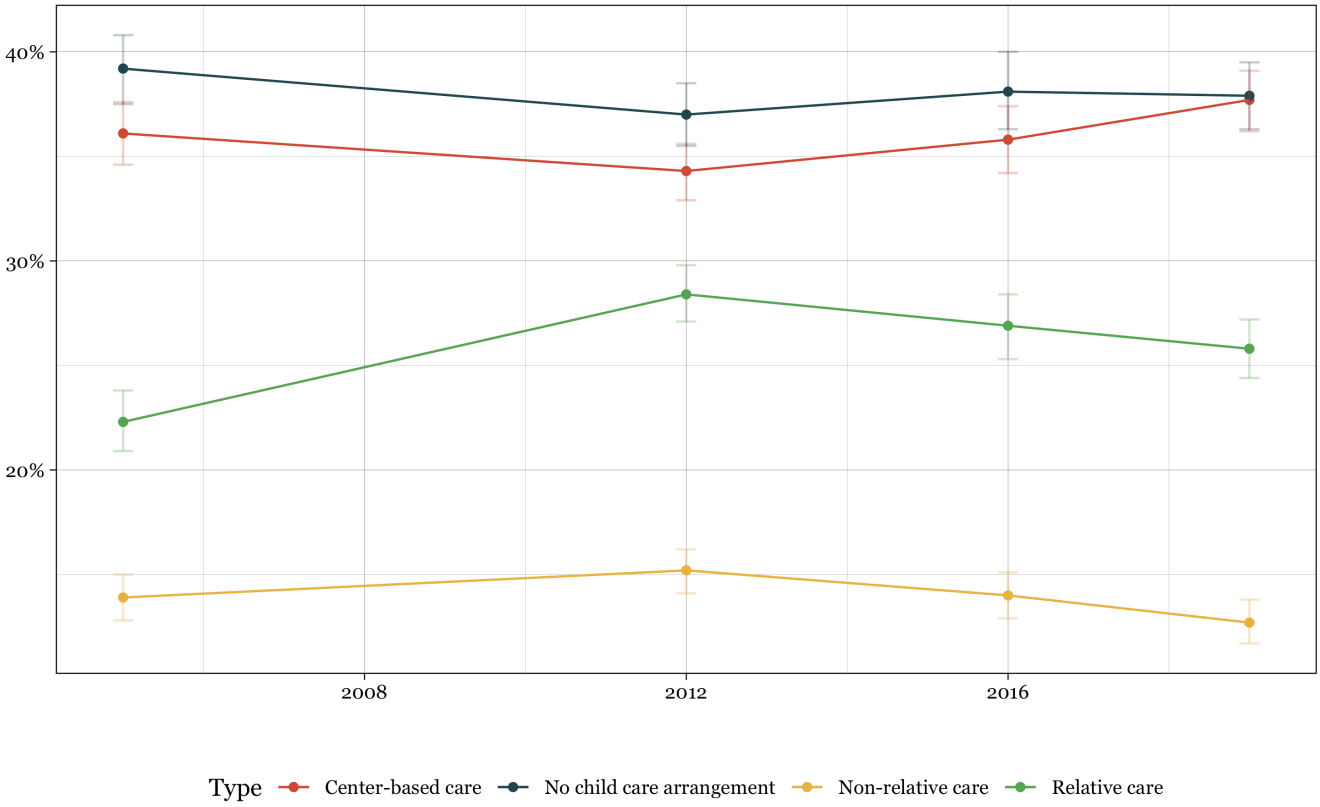
4 Author's calculations from Current Population Survey, accessed via Integrated Public Use Microdata Series (IPUMS-CPS). https://cps.ipums.org/cps/

most recent Early Childhood Program Participation survey (fielded pre-pandemic).[5]

Child care options are usually grouped into three general categories:

- **Relative care**, provided by a sibling, grandparent, aunt or uncle, or other non-parental family members, often in the child's or the relative's home;
- **Non-relative care**, which can include small home-based day cares, nannies, au pairs, or other care provided by adults unrelated to a child; and
- **Center-based care**, including for-profit and non-profit centers, often operated as stand-alone businesses or located at churches or schools, including Head Start and other pre-K programs.

Figure 1. Share of households participating in child care, by type
Selected years (2005-2019)



Error bars show 95% confidence intervals.
Author's calculations from National Household Education Survey - Early Childhood Program Participation Survey.

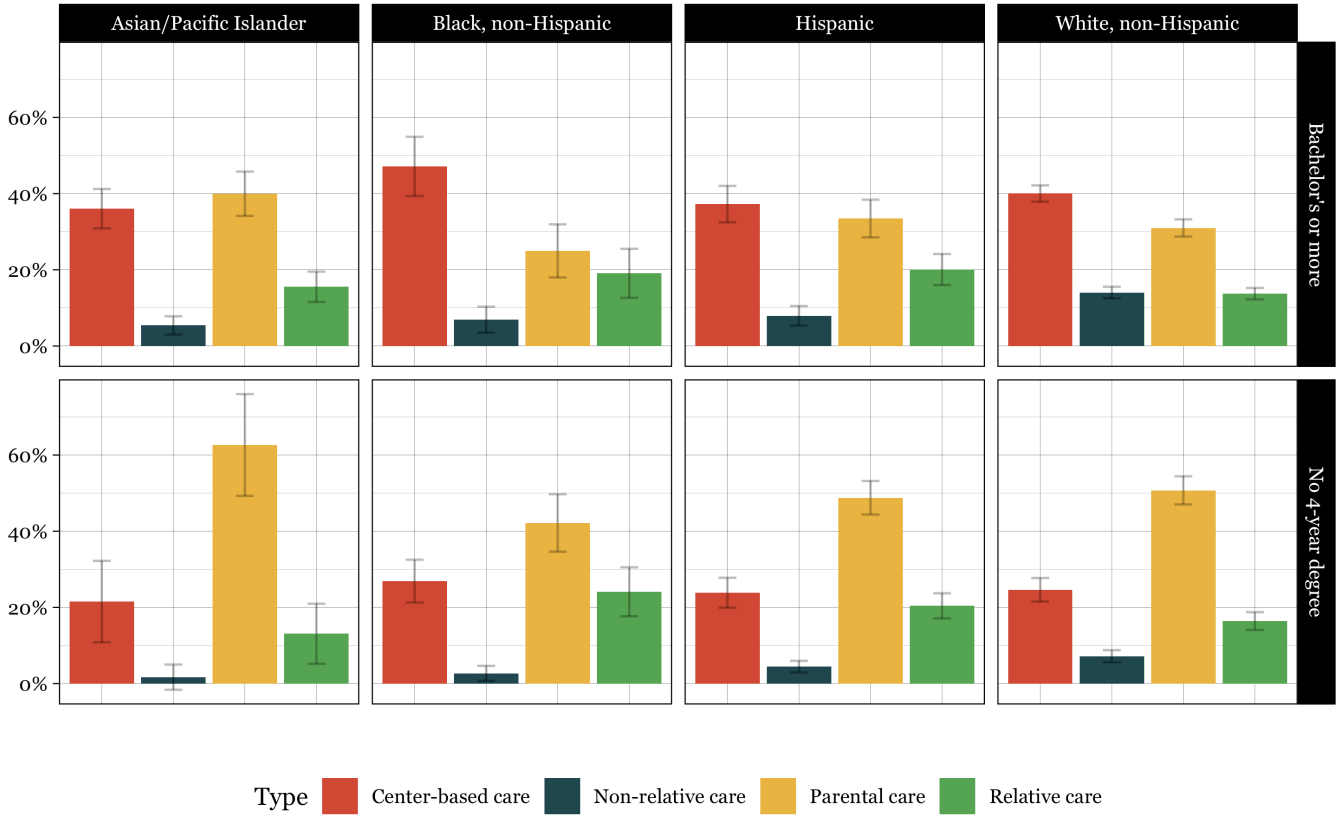
Not all parents use child care, and not all who use it pay for it. The share of working moms who pay for child care has remained largely stable in recent decades and is generally estimated at around 40 percent, depending on the survey instrument.[6] There

5 Author's calculations from National Household Education Survey — Early Childhood Program Participation (2019), https://nces.ed.gov/nhes/dataproducts.asp

6 Brian Knop and Abinash Mohanty, "Child Care Costs in the Redesigned Survey of Income and Program Participation

are significant differences in who pays for care — working mothers with college degrees, for example, are much more likely to pay than those without. And because cities tend to be home to both the better-off and the less fortunate, child care tends to be more necessary, and more expensive, in high-rent urban areas.[7]

Figure 2. Primary care arrangement for children age 0 to 5
By race and parents' highest level of education



Error bars show 95% confidence intervals.
Author's calculations from National Household Education Survey - Early Childhood Program Participation Survey.

The distribution of care arrangements varies slightly across racial groups, but also has a large educational gradient. In 2019, 63 percent of white children participated in a regular child care arrangement, compared to 69 percent of Black, 58 percent of Hispanic, and 58 percent of Asian American children.

The opportunity cost for a parent with high earnings potential who chooses to stay at home is larger than those who would be working in a low-wage industry. A parent who would barely break even in a low-wage job after paying for child care may rationally prefer to stay home on economic grounds alone, not to mention cultural

(SIPP): A Comparison to the Current Population Survey Annual Social and Economic Supplement (CPS ASEC)," Social and Economic Housing Statistics Division, Working Paper #2018-21, U.S. Census Bureau. https://www.census.gov/content/dam/Census/library/working-papers/2018/demo/Child%20Care%20Cost%20Paper.pdf

7 Luke P. Rodgers, "Give credit where? The incidence of child care tax credits," Journal of Urban Economics, (Nov. 2018), 108; 51-71, https://doi.org/10.1016/j.jue.2018.10.002

dynamics and preferences for household structure. Half of white children whose parents do not have a four-year degree spend most of their hours per week with their parent, while only 30 percent of their peers with college-educated parents do. These dynamics may help explains why public opinion polls show larger support for subsidized child care among college-educated respondents, while parents without a college degree tend to prioritize other forms of support for families.[8]

Is Child Care In Crisis?

Media narratives and think tank reports often paint a picture of crushing child care costs. An influential Census Bureau publication found the average weekly child care expenditures of families with a working mother rose by 71 percent between 1985 and 2011.[9] Another widely cited report found that "in 33 states and the District of Columbia, infant care costs exceed the average cost of in-state college tuition."[10] And the Center for American Progress claims that "in no state does the cost of center-based infant or toddler child care meet the federal definition of affordable."[11]

Each of these statements has the merit of being technically accurate. But the actual story is more nuanced than the top-line claims would make it seem.

Have child care costs skyrocketed?

It is true that the average amount spent on child care has risen in past decades. Yet the average amount paid for care *as a percentage of family income among families that pay for it* has remained remarkably constant at about 7 percent.[12] Increases in the average cost can be misleading, especially in a sector in which a small number of families are statistical outliers in how much they spend on high-quality child care. As Arizona State University's Chris Herbst has pointed out, the median weekly child care expenditure — that is, the value at the statistical midpoint of the distribution — rose only 16 percent from 1990 to 2011, rather than the larger increase seen in the mathematical average (mean).[13]

8 2021 Home Building Survey, American Compass, Feb. 2021, https://americancompass.org/wp-content/uploads/2021/03/American-Compass_2021-Home-Building-Survey_Final.pdf

9 Lynda Laughlin, "Who's Minding the Kids? Child Care Arrangements: Spring 2011," Household Economic Studies, Publication 70-135, U.S. Census Bureau, https://www.census.gov/prod/2013pubs/p70-135.pdf

10 Elise Gould And Tanyell Cooke, "High Quality Child Care is out of Reach for Working Families," Economic Policy Institute, Issue Brief #404, Oct. 6, 2015, https://www.epi.org/files/2015/child-care-is-out-of-reach.pdf

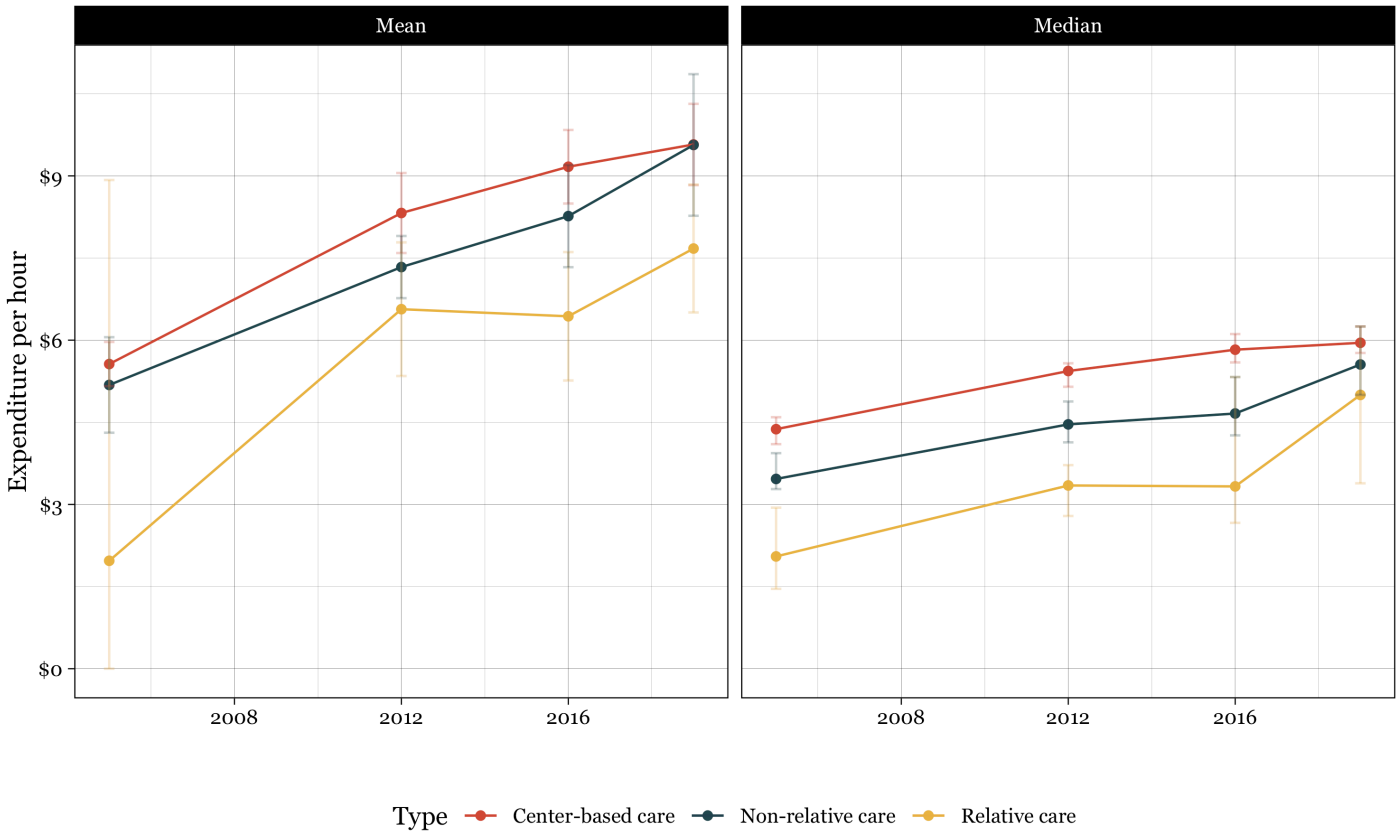
11 Simon Workman and Steven Jessen-Howard, "Understanding the True Cost of Child Care for Infants and Toddlers," Center for American Progress, Nov. 15, 2018, https://www.americanprogress.org/issues/early-childhood/reports/2018/11/15/460970/understanding-true-cost-child-care-infants-toddlers/

12 "Figure 4. Percent Who Make Payments and Percent of Monthly Family Income Spent on Child Care for Families with Employed Mothers: 1986-2011," in Laughlin, "Who's Minding the Kids?"

13 Chris M. Herbst, "The Rising Cost of Child Care in the United States: A Reassessment of the Evidence," Economics of Education Review (2018), 64:13-30, https://doi.org/10.1016/j.econedurev.2018.03.005

The biggest cost increases were felt by parents who were married, college-educated, and in upper income brackets. As Herbst notes, "Hourly expenditures on center-based arrangements by families with low-education mothers declined 18 percent between 1990 and 2011. In contrast, expenses among their high-education counterparts increased 23 percent."[14] Examining the cost per hour or per week is a better unit of comparison, as the increased amount spent on child care can be a function of more care being used, care becoming more expensive, or both.

Figure 3. Hourly expenditure on child care, by type of care arrangement
Mean and median, selected years (2005-2019)



All prices in 2019 dollars (CPI-U-RS). Error bars show 95% confidence intervals.
Author's calculations from National Household Education Survey - Early Childhood Program Participation Survey.

In 2014, the Survey of Income and Program Participation (SIPP) reported an average weekly expenditure of $207 on child care by families with a working mother, with a median of $104. Meanwhile, the Current Population Survey (CPS) reports a mean of $138 and a median of $83 per week. Researchers at the Census Bureau suggest the SIPP systematically overestimates cost burdens due to higher rates of data imputation and its choice of reference month.[15]

It should be noted that more recent data drawn from a different dataset does

14 Herbst 2018.

15 Knop and Mohanty 2018.

show an increase in the amount spent per hour on three different categories of child care, as shown in Figure 3. Yet again the difference between the mean and median increase is essential to note. In my calculations using the Early Childhood Program Participation, the mean amount spent per hour of center-based child care rose by 72 percent from 2005 to 2019. But the median per-hour expenditure rose from $4.37 in 2005 to $5.56 in 2019 (adjusted for inflation), only a 36 percent increase.[16] To be sure, that rise may indeed merit a policy response, but relying on the mean amount paid overstates the increase felt for the median family who pays for child care.

Does child care cost more than college?

The best pricing data comes from the advocacy organization Child Care Aware of America, although their survey of state-based child care resource and referral (CC&R) agencies is far from perfect.[17] The sticker price for full-time infant care can indeed be eye-popping. But the price that gets reported assumes parents are paying the full, unsubsidized price for full-time center-based care. This abstracts away from the fact that many parents may receive financial aid, or assistance through federal or state programs, and may only be paying for part-time care or non-center-based care. And as the federal Administration for Children and Families has noted, CC&R survey methodologies vary widely in quality.[18] So just as very few families pay the full sticker price for college, looking only at the sticker price of full-time, center-based child care is likewise misleading.

Is child care increasingly unaffordable?

In the waning months of the Obama administration, the Administration for Children and Families lowered the benchmark of "affordable" co-payments in federal child care programs from ten to seven percent of a family's income.[19] They based that threshold on the monthly average spent on care by families with children under age 15, which, as mentioned, has hovered around seven percent since the mid-1980s. But school-age children are much less expensive to care for than infants and toddlers.

As the Census Bureau report shows, the average spent on all forms of child care for children below five is already 3.5 percentage points above that seven percent. So the choice of threshold means that the average household paying for care for young children is already well above the new threshold. Whether or not 10.5 percent of

16 Author's calculations, National Household Education Survey - Early Childhood Program Participation Survey (NHES-ECPP)

17 "The US and the High Price of Child Care: An Examination of a Broken System," Child Care Aware of America, 2019, https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/

18 "Market Rate Surveys," National Center on Subsidy Innovation and Accountability, April 2018, https://childcareta.acf.hhs.gov/sites/default/files/public/designing_market_rate_surveys_brief_2.pdf

19 Final Rule, Child Care and Development Fund (CCDF) Program, Administration for Children and Families, Department of Health and Human Services, 45 CFR Part 98, (Sept. 30, 2016), https://www.govinfo.gov/content/pkg/FR-2016-09-30/pdf/2016-22986.pdf

family income is itself too high for a time-limited investment during the early years of life may be worth debating. But the seven percent definition of "affordability" should be treated as what it is — a selected threshold without any adjustment for cost of living, family structure, or household income, instead of a reliable indicator of "relentless" child care costs.[20]

Market Failures In Child Care

Breathless headlines about unaffordable child care are not wrong, per se, but they are misleading. The failures in the child care market are in large part due to supply failing to meet demand, and the opaque (and expensive) tradeoffs around quality. This is why policymakers need to do more than merely increase the size and refundability of the Child and Dependent Care Tax Credit, as was done on a one-year basis in the American Rescue Plan.[21] They should attack the root of the problem.

Shortfalls in supply

In the mid-1980s, young children with working parents were most likely to be in non-relative care, often in a home environment.[22] Home-based care tends to be offered by a sole proprietor, offering a more casual, flexible, and affordable option compared to center-based care, which tends to involve larger facilities with more staff and a more standardized operation. Over time, non-parental care of children has become more professionalized and home-based child care facilities have become less popular, falling from caring for about one in every four preschool-aged children in 1988 to under one in 10 in 2019.[23] Almost 100,000 licensed home-based child care providers closed between 2005 and 2017, a report from the federal National Center on Early Childhood Quality Assurance found, attributing the decline to increased competition, rising regulatory burdens, and demographic factors.[24]

Meanwhile, data from the quinquennial Economic Census show that from 1987 to 2017, for-profit care centers have doubled in number, providing the bulk of growth in the child care market.[25] Non-profit child care providers, who made up a third of day

20 Rasheed Malik, "Working Families Are Spending Big Money on Child Care," Center for American Progress, June 20, 2019, https://cdn.americanprogress.org/content/uploads/2019/06/19074131/Working-Families-SpendingBRIEF.pdf

21 Katie Conner, "How to get thousands back from child and dependent care expenses with this tax credit," Cnet.com, May 25, 2021, https://www.cnet.com/personal-finance/how-to-get-thousands-back-from-child-and-dependent-care-expenses-with-this-tax-credit/

22 Laughlin 2013.

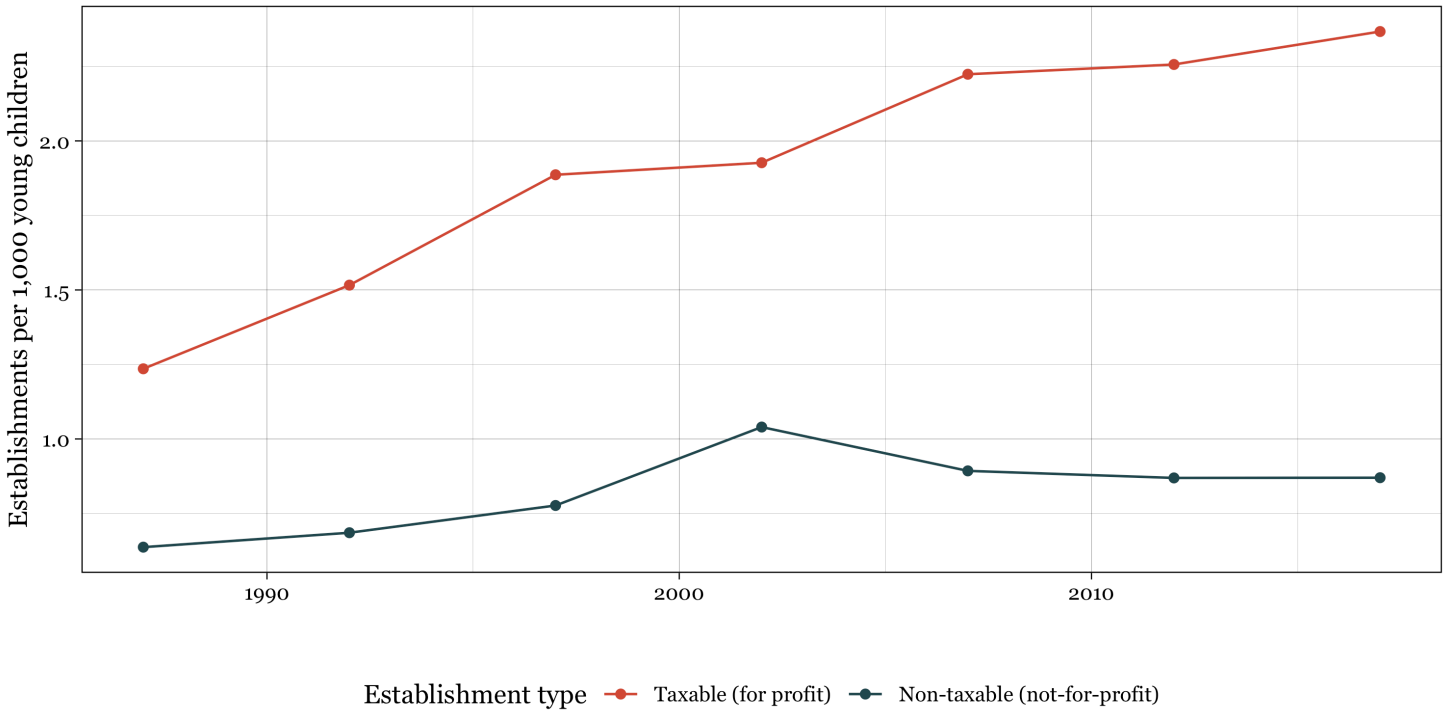
23 Laughlin 2013 and author's calculations from 2019 ECPP

24 "Addressing the Decreasing Number of Family Child Care Providers in the United States," National Center on Early Childhood Quality Assurance, (Oct. 2019 (rev.)), https://childcareta.acf.hhs.gov/sites/default/files/public/addressing_decreasing_fcc_providers_revised_final.pdf

25 Authors calculations from Census Bureau's Economic Census and ChildStats.gov (Table Pop-1). These numbers do not include sole-proprietor establishments that provide child care, such as home-based care providers.

Figure 4. Number of child care establishments, by tax status

Per 1,000 children age 0-5, selected years (1987-2017)



Authors' calculations from Census Bureau Economic Census (Industry Code 6244, Child Day Care Services) and ChildStats.gov (Table Pop-1)

care establishments in the late 1980s, now comprise about a quarter of establishments in the industry and have failed to keep up with population growth since their peak in 2002. According to the Early Childhood Program Participation survey, the number of children participating in a church-based day care program in 2005 was 1.8 million, or about one-quarter of children participating in center-based child care. By 2019, that number was 1.6 million, or one out of every five participating in center-based care..[26]

The shift towards for-profit care may be helping to drive the perceived affordability crisis in child care. Labor costs can account for three-quarters of firm expenses, according to two leading estimates.[27] Firms' other major costs include rent, facilities maintenance, and insurance, all of which can be artificially inflated as a percentage of the budget by regulatory mandates.

The shift into higher-cost forms of care has not created wage growth for child care workers; they continue to earn well below the median wage, without much growth over the past two decades.[28] One explanation is that the industry's low wages lead to high turnover, with workers and home care providers highly sensitive to

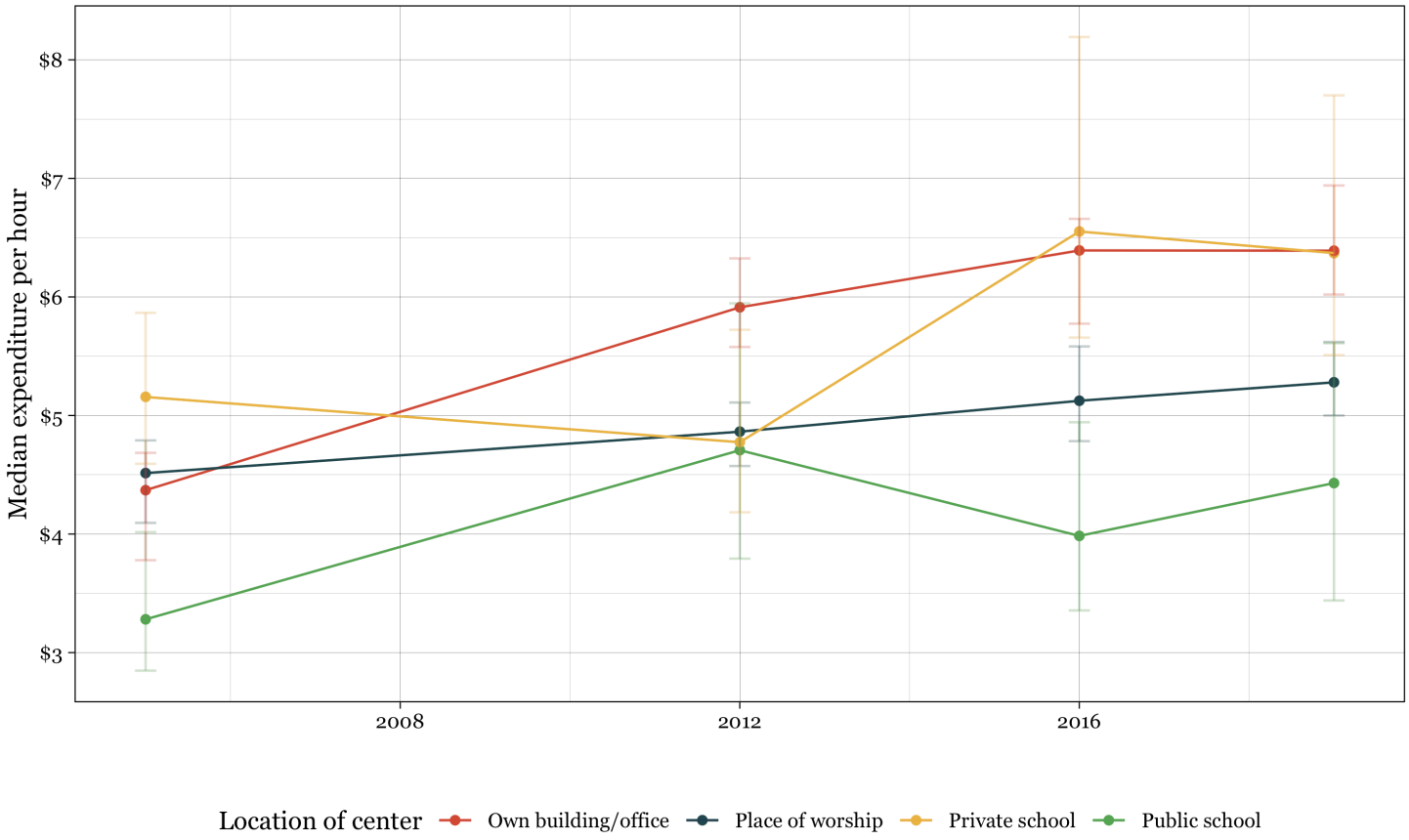
26 Author's calculations from 2019 ECPP.

27 Herbst 2018, also citing David M. Blau, The Child Care Problem: An Economic Analysis (2001), New York: Russell Sage Foundation.

28 Herbst 2018.

Figure 5. Hourly center-based care expenditures, by location

Median among families who paid for center-based care, selected years (2005-2019)



All prices in 2019 dollars (CPI-U-RS). Error bars show 95% confidence intervals.
Author's calculations from National Household Education Survey - Early Childhood Program Participation Survey.

the attractiveness of other, higher-paying options. Empirical estimates suggest child care workers exhibit a relatively high elasticity in their labor supply, suggesting that they readily switch out of child care work into other industries when demand in other fields increases.[29] When the economy grows, workers leave for better jobs, and firms appear to fill their spots with less qualified (and cheaper) workers.[30]

"Quality" control

Another change in the child care landscape is the increased demand for "quality" by high-income parents. Whether driven by an increased recognition of early childhood investments, decreased fertility, or an overall wealth effect, wealthy parents seem more likely to express a desire for high-quality, developmentally enriching child care, helping drive the observed increase in price.[31] While informal or home-based

29 Rodgers 2018, also citing Blau 2001.

30 In fact, a recent working paper found evidence that the child care industry recovers more slowly than the rest of the economy (Jessica Brown and Chris Herbst, "Child Care over the Business Cycle," IZA Institute of Labor Economics, Discussion Paper No. 14048 (Jan, 2021), http://ftp.iza.org/dp14048.pdf)

31 For a discussion of diverging parental preferences in child development along educational lines, see Evrim Altintas,

care arrangements offer a safe place for children during the day, they tend not to be explicitly oriented around school readiness or human capital enrichment the way many center-based facilities are. For example, one study found that two-year-olds in formal care centers watched, on average, 12 minutes of television per day, while those in informal care watched one hour and 22 minutes.[32]

"...the concept of 'quality' in early childhood settings is notoriously elusive."

This leads to income segregation in the market. As Herbst notes, "Advantaged children are increasingly exposed to high-quality early care and education experiences — both in absolute terms and relative to their low-income counterparts."[33] Troublingly, gaps in early childhood investments have been correlated with children's cognitive and socio-emotional outcomes, and, more speculatively, may be tied to long-term outcomes like college graduation rates and earnings.[34]

Yet it is important to note that the concept of "quality" in early childhood settings is notoriously elusive. Assessments and accreditation tend to focus on observable and quantifiable metrics, such as group size and child-teacher ratios. But these visible indicators may not necessarily be picking up holistic dynamics that are more essential for growth and flourishing, and may force centers to invest in nonessential aspects of care that score well on assessments but do not lead to better outcomes.

Every state but Alabama utilizes tiered rating standards, known as Quality Rating and Improvement Systems, or QRIS, to some degree.[35] Forty-four states use their federal CCDF funds to implement these ratings, which are often based on diagnostic criteria that do not show a significant relationship with long-term child outcomes. The Early Childhood Environment Rating Scale-Revised (ECERS-R), originally developed as a guideline for facility self-improvement, has now become one of the most commonly-used measures of quality in child care.[36] But the evidence that

"The Widening Education Gap in Developmental Child Care Activities in the United States, 1965—2013," Journal of Marriage and Family 78 (Feb. 2016): 26—42, https://doi.org/10.1111/jomf.12254

32 Daphna Bassok, Maria Fitzpatrick, Erica Greenberg, and Susanna Loeb, "Within- and Between-Sector Quality Differences in Early Childhood Education and Care," Child Development, 87:5, (Sept.-Oct. 2016), p. 1627-1645, https://srcd.onlinelibrary.wiley.com/doi/abs/10.1111/cdev.12551

33 Herbst 2018.

34 The most well-known proponent for the importance of investment in early childhood human capital development is likely James Heckman and his series of papers, most notably "Skill formation and the economics of investing in disadvantaged children," Science 312 (5782): 1900—1902. (June 2006), http://dx.doi.org/10.1126/science.1128898. His approach is not without its critics; see David Rea and Tony Burton, "New Evidence on the Heckman Curve," Journal of Economic Surveys, 34:2, 241-262, (April 2020), https://doi.org/10.1111/joes.12353 ("While many interventions targeted at young children generate high returns, the average benefit cost ratios for interventions targeted at young children are not higher than those targeting older age groups.")

35 QRIS National Learning Network, "QRIS State Contacts and Map, Current Status of QRIS in States," Jan. 2017, http://qrisnetwork.org/qris-state-contacts-map

36 Jean I. Layzer and Barbara D. Goodson, "The 'Quality' of Early Care and Education Settings: Definitional and Measurement Issues," Evaluation Review, 30:5 (Oct. 2006), 556-576 http://welfareacademy.org/pubs/childcare_

scores on these assessments correspond in any meaningful way with child outcomes is surprisingly weak.

A seminal *Science* paper found that "on most measures of children's learning, programs rated high by QRIS produce outcomes that are not significantly better than those of low-rated programs." The only aspect of conventional QRIS ratings that had an impact on child development is the rather nebulous metric of quality of student-teacher interactions.[37] A meta-analysis in 2017 found only a very weak link between ECERS-R total scores and language and positive behavioral outcomes for students. The conventional method of scoring the ECERS-R leads to penalties for facilities on metrics that are at best tangentially related to social or intellectual development.[38] A newer evaluation system, the Classroom Assessment Scoring System, has also failed to demonstrate anything beyond small associations between observed metrics and long-term outcomes.[39] Yet in the push for "quality" in early childhood education, the flawed ratings systems that make up QRIS continue to serve as the benchmark.

Current Policy Approaches

The Child Care Development Block Grant (CCDBG) was established in 1990 to subsidize the child care costs of low-income families. It became a key provision to support the work requirements included in the welfare reform of 1996. If single parents were required to work as a condition of getting Temporary Assistance to Needy Families (TANF) funds, the logic held, they should be supported in doing so. Three in 10 preschoolers whose parent received TANF in 2011 also received subsidies for child care, compared with one in 20 of those whose parents who did not receive TANF funds.[40] In addition to using the CCDBG, states can also spend TANF dollars on child care services to enable compliance with work requirements.[41]

The CCDBG funds the Child Care Development Fund (CCDF), which offers states a combination of mandatory and discretionary spending, allocated by a formula that incorporates a state's mid-1990's welfare spending on child care and the fraction of

edu/rethinkingchildcare/rethinkingchildcare-layzer.pdf

37 T. J. Sabol, S. L. Soliday Hong, R. C. Pianta, M. R. Burchinal, "Can Rating Pre-K Programs Predict Children's Learning?, Science, (Aug. 23, 2013), 845-846, https://science.sciencemag.org/content/341/6148/845.summary

38 Ken A. Fujimoto, Rachel A. Gordon, Fang Peng, and Kerry G. Hofer, "Examining the Category Functioning of the ECERS-R Across Eight Data Sets," AERA Open, 4:1 (Jan-March 2018), 1-16, https://journals.sagepub.com/doi/full/10.1177/2332858418758299

39 Michal Perlman, Olesya Falenchuk, Brooke Fletcher, Evelyn McMullen, Joseph Beyene, and Prakesh S. Shah, "A Systematic Review and Meta-Analysis of a Measure of Staff/Child Interaction Quality (the Classroom Assessment Scoring System) in Early Childhood Education and Care Settings and Child Outcomes," PLoS ONE, 11(12), (Dec. 30, 2016), https://doi.org/10.1371/journal.pone.0167660

40 Laughlin 2013.

41 Karen E. Lynch, "Trends in Child Care Spending from the CCDF and TANF," Congressional Research Service, Report 44528, (June 16, 2016), https://fas.org/sgp/crs/misc/R44528.pdf

its population under 13 years old. Eligibility for CCDF funds is established by states, which can set thresholds at or below the federal limit of 85 percent of state median income.[42] In a typical month, about 872,000 children under age 6 receive child care through CCDF funds, and three-quarters of them are served in center-based care facilities.[43]

Thirty-three states serve virtually all of the children in their CCDF program through vouchers or cash, while others offer a mix of vouchers to individuals and use contracts or grants with child care providers. Importantly, parents can use their CCDF vouchers to pay for child care services provided in a church facility, even when the program includes religious instruction.[44]

The 2014 reauthorization of the CCDBG required states to establish health and safety standards, annual unannounced inspections, and age-specific child-to-staff ratios.[45] The reauthorization also required agencies to increase the percentage of their CCDF awards for activities to "improve the quality of child care" from 4 to 9 percent (and an additional 3 percent for infants and toddlers), leaving less money available to subsidize the cost of care.[46] This has limited the degrees of freedom available to states in how they design their programs.

On a day-to-day basis, child care regulations are largely driven by states, often grounded in a well-intentioned desire to protect young children. No one wants children to be in situations where they are at risk of abuse or neglect, and regulation can be understood as a way of trying to address the unavoidable difficulties parents face in trying to navigate the many dimensions of child care in a position of limited information.[47]

One favored story is that the piling on of even well-meaning regulations can ultimately drive up the cost of care. While intuitively appealing, the evidence backing up this story is nuanced. One widely-cited estimate by the Mercatus Center suggested a "one-infant increase in the child—staff ratio requirement for infants is associated with a decrease … in the annual cost of child care of between $850 and $1,890 for the

42 Karen E. Lynch, "Child Care Entitlement to States," Congressional Research Service, In Focus 10511, (July 18, 2019), https://crsreports.congress.gov/product/pdf/IF/IF10511

43 "FY 2018 CCDF Data Tables (Preliminary)," Office of Child Care, Administration for Children and Families, U.S. Department of Health and Human Services, Dev. 4. 2019, https://www.acf.hhs.gov/occ/data/fy-2018-ccdf-data-tables-preliminary

44 "Fundamentals of CCDF Administration," Early Childhood Training and Technical Assistance System, Office of Child Care, Administration for Children & Families, U.S. Department of Health & Human Services, https://childcareta.acf.hhs.gov/ccdf-fundamentals/key-provisions-ccdf

45 "Fundamentals of CCDF Administration."

46 Final Rule, Child Care and Development Fund (CCDF) Program, Sept. 2016.

47 Herbst 2018.

average cost of care across states."[48] But the key regression used to come up with that estimate only controlled for state income, leaving out a number of other exogenous factors that could be correlated with both the price of child care and the level of regulations at the state level, making the estimate unreliable.[49]

Other papers suggest that regulation leads facilities to spend less on inputs that are regulated, like labor, as well as pass the increased expenses along to workers in the form of lower pay.[50] College degree requirements and child-to-staff ratios for younger children have been found to lead to reductions in supply, perhaps by making it harder for new firms to enter the market.[51] Another 2011 paper found the effect of regulations on the margin was to reduce the quantity of child care facilities, pushing children from disadvantaged backgrounds out of the market. The net result was higher measured "quality" in child care centers, but accruing to the benefit of families who tend to live in high-income areas.[52]

Part of the reason why state regulations may not play as big a role in affordability as might otherwise be expected is because providers are, in many cases, voluntarily surpassing regulatory standards to meet parent demands. For instance, even in states that do not require child care providers to have work experience, "approximately 88 percent of teacher job advertisements required applicants to have at least one year of experience."[53] State-administered QRIS combine a customer-facing rating system of quality with financial incentives for "quality improvement," which can result in "quality investments" that often exceed the states' standards, even though they are not strictly mandatory.[54] So simply rolling back on state regulations will on its own not be enough to make child care more affordable.

48 Diana Thomas and Devon Gorry, "Regulation and the Cost of Child Care," Mercatus Center at George Mason University, Working Paper (Aug. 2015), https://www.mercatus.org/system/files/Thomas-Regulation-Child-Care.pdf

49 "For example, suppose some states may have a high proportion of parents who prefer to provide their children with high quality child care—and are willing to pay for it—while the parents in other states do not. Furthermore, suppose that parents vote their preferences and either support or oppose the imposition and stringency of regulations as a way to promote higher quality child care. Then failure to control for the potentially unobserved differences in the distribution of tastes across states—as well as other differences across states and over time—will result in biased estimates of the effects of policy on the outcomes of interest." V. Joseph Hotz and Mo Xiao, "The Impact of Regulations on the Supply and Quality of Care in Child Care Markets," American Economic Review, 101:5 (Aug. 2011), 1775-1805

50 David M. Blau, "Unintended Consequences of Child Care Regulations," Labour Economics, 14:3 (June 2007), 513-538, https://doi.org/10.1016/j.labeco.2006.01.003

51 Herbst 2018.

52 Hotz & Xiao 2011.

53 Casey Boyd-Swan and Chris M. Herbst, "The demand for teacher characteristics in the market for child care: Evidence from a field experiment," Journal of Public Economics, 159 (March 2018), 183-202, https://doi.org/10.1016/j.jpubeco.2018.02.006

54 "QRIS Resource Guide," National Center on Early Childhood Quality Assurance, Office of Child Care, Administration for Children & Families, U.S. Department of Health & Human Services, https://ecquality.acf.hhs.gov/sites/default/files/QRIS_Resource_Guide_2018.pdf

With all of these factors at play, it becomes difficult to argue the child care market is a perfectly competitive one in the classical sense. Geographically-constrained markets mean that one center or network could influence the market price; there is a wide range of heterogeneous products that are difficult to directly compare; regulatory barriers such as zoning make it more difficult for upstart firms; firm and household mobility is very sticky in the short run; and the opacity of prices, while strategically advantageous for firms, leads to information asymmetries that make it difficult for consumers to achieve full knowledge of their options.[55] As such, there is a compelling interest for the state to act in making the market work more effectively. Proposals to boost parents' spending power through the tax code are welcome, but demand-side subsidies alone will not address the failures in the child care market.

Should child care be a "public good"?

For parents, long-term outcomes are obviously unknowable, and they may measure quality on observables that make sense to them but have little bearing on their child's development. For example, parents are often fairly inelastic on location, giving heavy preference on facilities that less than 15 miles away from home or work, regardless of quality.[56] Additionally, most firms tend to strategically conceal their prices, making it difficult for parents to easily evaluate the price-quality tradeoff.

Some believe these market failures are fatal, and that child care should become a public good. One example of this is Senator Elizabeth Warren's recently reintroduced Universal Child Care and Early Learning Act, which would essentially make child care a federally funded universal program. Families making below 200 percent of the federal poverty line would pay nothing for these services, while no family would pay more than seven percent of income. (Moody's Analytics scores the bill as costing the federal government $1.07 trillion over 10 years, before the dynamic effects of increased labor force participation are accounted for.[57]) The focus in the legislation is on getting federal dollars to cities, schools, and counties to run child care centers, with nonprofit organizations a distinct afterthought.

The federal government's lone experiment with providing child care came during World War II, when the Lanham Act instituted care for women entering the workforce due to the war. The approach seen in the Warren bill would seek to recreate that level of commitment, in the pursuit of making sure every family "can access high-quality,

55 Naci Mocan, "Can consumers detect lemons? An empirical analysis of information asymmetry in the market for child care," Journal of Population Economics, 20 (2007), 743—780, https://doi.org/10.1007/s00148-006-0087-6

56 Hotz & Xiao 2011.

57 Mark Zandi and Sophia Koropeckyj, "Universal Child Care and Early Learning Act: Helping Families and the Economy," Moody's Analytics (Feb. 2019), https://www.warren.senate.gov/imo/media/doc/Moody's%20Analysis_Child_Care_Act.pdf

affordable child care."[58] But those two demands are inherently in tension with each other, and presuming the federal government can optimize that tradeoff better than parents is folly.

Practical considerations abound: How much of GDP would we be willing to dedicate to guaranteeing affordable access, knowing that there is a natural ceiling on how efficient child care will ever be? (Without advances in babysitting technology, wages for child care workers will rise commensurate with those of the general population without increasing productivity, a phenomenon known as Baumol's cost disease.) What would happen to child care options not deemed worthy of inclusion in the national scheme? Should we extend the framework of public education all the way down to infancy, at the risk of crowding out home-based and religious child care providers?

"...it is important not to lose sight of parents' stated preferences in favor of a single-minded focus on boosting economic growth."

And while the practical considerations are challenging, the biggest reason to oppose a federal network of child care providers would be the ratification of an implicit expectation that would be set by guaranteeing child care to all families. In a world in which every family had access to free or low-cost child care provided by the federal government, families who chose to have a parent watch children at home would inevitably be seen as drags on social welfare, unwilling to outsource the demands of parenting to increase economic efficiency and weighing down macroeconomic growth. In both popular culture and public policy, staying home with children would no longer be one choice among many, but a fallback to be pitied or discouraged.

While it may be countercultural to argue against the dominant mindset that prioritizes labor force participation, it is important not to lose sight of parents' stated preferences in favor of a single-minded focus on boosting economic growth. Given the uncertain tradeoffs and inadequate measurements of long-term quality, the best thing we can do is broaden the choice set of parents and let them pursue the care situation that is best for them. Our current approach to child care policy fails to do that.

58 Office of Sen. Elizbeth Warren, "Warren, Jones and Colleagues Reintroduce Universal Child Care and Early Learning Act and Call for President Biden to Invest $700 Billion in Child Care," (April 27, 2021), https://www.warren.senate.gov/newsroom/press-releases/warren-jones-and-colleagues-reintroduce-universal-child-care-and-early-learning-act-and-call-for-president-biden-to-invest-700-billion-in-child-care

Policy Recommendations

The American Family Plan, recently introduced by the Biden administration, takes a demand-side approach to making child care more affordable, proposing a $225 billion partnership with states to fully cover child care expenses for the lowest-income workers, and capping expenses at 7 percent of income for those making 150 percent or less of their state median income. It also proposes $200 billion for a universal pre-kindergarten program for all three- and four-year-olds. There are two major ways in which this approach could drive the cost of child care even higher:

- The 7 percent cap means that neither the families nor the care providers will have any incentive to curb costs, leading to even higher growth in the sticker price of child care for families not eligible for subsidies and a larger-than-expected federal price tag.
- The introduction of universal pre-K, grounded in specious long-term returns on investment based on limited experiments,[59] will also cause regular child care providers to have to raise costs, as three- and four-year-olds typically cross-subsidize the provision of care for younger children.[60]

On the demand side of the equation, there is no reason to restrict support for families just to child care expenses. Proposals to expand parents' child care choices through the tax code have been developed elsewhere, including my own for the Joint Economic Committee.[61]

In this spring's American Rescue Plan, Congress and the Biden administration quadrupled the size of the Child and Dependent Care Tax Credit (CDCTC) and made it refundable, ameliorating some of its distributional flaws while still favoring parents who pay for formal care over those who rely on relatives or friends. Senator Mitt Romney's Family Security Act, which would fold the CDCTC into a broader child allowance, would be a smarter and fairer way to treat child care expenses in the tax code.[62]

But in addition to helping put more money in the pockets of parents, a constructive

59 Samuel Hammond, "The False Promise of Universal Child Care," Institute for Family Studies blog, (Feb. 28, 2019), https://ifstudies.org/blog/the-false-promise-of-universal-child-care

60 Kendra Hurley, "How Universal Pre-K Drives Up Families' Infant-Care Costs," Bloomberg CityLab, (Dec. 13, 2019), https://www.bloomberg.com/news/articles/2019-12-13/how-universal-pre-k-affects-infant-daycare-costs

61 Patrick T. Brown, "Expanding Child Care Choices: Reforming the Child and Dependent Care Tax Credit to Improve Family Affordability," Social Capital Project, Joint Economic Committee, United States Congress, SCP Report 2-21 (Feb. 2021), https://www.jec.senate.gov/public/index.cfm/republicans/analysis?id=0A45EA4E-15A1-4EAA-A97E-9F649A53DF84

62 Office of Sen. Mitt Romney, "The Family Security Act," (Feb. 2021), https://www.romney.senate.gov/sites/default/files/2021-02/family%20security%20act_one%20pager.pdf

family policy agenda should make it easier for new firms to enter the market, with a specific focus on making it easier for faith-based and neighborhood organizations to provide care. Child care advocacy groups, the accreditation industry, and well-networked for-profit providers often favor increased quality requirements and licensing requirements for self-interested reasons, ostensibly grounded in child well-being. But as we have seen, there is little policy rationale for favoring heavily regulated and professionalized child care over informal or semi-professional care, such as that provided in a church or home setting. States should avoid imposing quality requirements above and beyond a certain baseline of health and safety. Non-profit and home-based care providers are the most likely to be adversely impacted by costly regulations and are often heard from least in policy conversations, yet they provide an essential and cherished role for many parents.

"Church-operated child care is cheaper than center-based care and is often woven into community life."

The Bipartisan Policy Center conducted a poll of parents' preferences both before and after the onset of COVID-19. They found that parents' ideal child care arrangement would be to provide care for their own children. Their second-best option? A child care center affiliated with a faith-based organization, ahead of secular centers, home-based providers, pre-K, or other options.[63] One-third of parents participating in center-based care said the religious orientation of the facility was "somewhat" or "very" important in their decision, according to the 2019 Early Childhood Program Participation survey.[64] A policy push that makes it easier for parents who wish to stay home to do so, and for others to have easy and affordable access to faith-based day care providers, would be responding to parents' desires while strengthening families and intermediary institutions, two core institutions of society.

As noted, church-operated child care is cheaper than center-based care and is often woven into community life.[65] Many places of worship already have a hall or building on site, and additional grants to help them get a program off the ground or technical assistance to ensure compliance with regulations and requirements could help them build out enough capacity to break even. For denominations grappling with empty pews and an exodus of young people, opening a child care center could provide a new

63 Bipartisan Policy Center, "Parent Child Care Preferences: Are They Changing?" (Jan 2021), https://bipartisanpolicy.org/event/parent-child-care-preferences-are-they-changing/

64 Author's calculations from NHES-ECPP (2019).

65 For more about the importance of intergenerational "closure" in the lives of young people, see Patrick T. Brown, "Multiple Choice: Increasing Pluralism in the American Education System," Social Capital Project, Joint Economic Committee, United States Congress, SCP Report 7-19 (Dec. 2019), https://www.jec.senate.gov/public/index.cfm/republicans/analysis?ID=BFFED882-7A9E-4462-AC0B-69ED4E67D663

sense of purpose and way of serving families. Inner-city Catholic schools struggling to cover the budget could open a pre-K classroom and use the influx of child care dollars to help keep the doors open.

Churches would not have to be the only targets for a social capital-infused approach to increasing child care supply. Civic organizations, such as Goodwill and the United Way, already sponsor child care centers, and other groups might consider starting one if the grant application process was sufficiently advertised and user-friendly. The appeal of a nonprofit-centric approach to child care makes it easier for local organizations to spring up in response to community needs and interests, whether that's a church-based strategy in Salt Lake City that celebrates the nuclear family or a collaborative space that affirms a diverse array of family structures in Brooklyn.

The Child Care Development Block Grant's laudable emphasis on parental choice makes it ill-suited for a supply-side intervention of this kind. Instead, stabilization funds set up in the Biden administration's American Rescue Plan might serve as a model for this kind of approach. A plan to increase the supply of non-profit child care could direct state agencies to set up an application process available solely to faith-based, neighborhood, and other non-profit organizations, with forgivable loans to cover start-up or expansion costs or recurring grants to provide a wage subsidy to workers.

There is a sound rationale for prioritizing non-profit child care centers in public policy. The power of competition to hold costs in check may be essential to long-term fiscal sustainability, yet can lead to a race to the bottom without appropriate safeguards (for example, one recent National Bureau of Economic Research working paper found that when nursing homes are taken over by private equity firms, care goes down and profits go up.[66]) Non-profit firms are certainly not exempt from committing abuses, but being responsible to a broader community, rather than shareholders, holds them accountable to a different set of pressures. And an approach to public policy that seeks to strengthen the capacity of intermediary organizations, like churches and civic groups, should recognize that a preference for making nonprofit organizations an integral part of family life is a feature, not a bug.

CCDF vouchers are considered assistance to parents, and thus are statutorily permitted to be able to be used at religiously affiliated day cares, even those that provide sectarian instruction. Similar logic could be applied to non-profit capacitation grants.[67] Policymakers could also explore federally subsidized reinsurance programs

66 Atul Gupta, Sabrina T. Howell, Constantine Yannelis & Abhinav Gupta, "Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes," NBER Working Paper No. 28474 (Feb. 2021), https://www.nber.org/papers/w28474

67 Child Care and Development Fund, 45 C.F.R. § 98.30 (c, 4-5).

for non-profit child care providers.

States would not necessarily have to wait for Congress to take steps along this road. One study found 16 states offer religiously affiliated day cares waivers from certain regulatory mandates (though such waivers should, of course, not be taken as permission to ignore basic health and safety regulations.)[68] Reducing or subsidizing filing fees for licensing and background checks could help ensure children are protected without placing an unnecessary burden on providers. The state of Michigan is launching a pilot project to split the cost of child care between employees making between 150 and 250 percent of the federal poverty line, their employers, and a state agency, a model that could be adapted elsewhere to specifically subsidize costs at non-profit centers.[69]

In addition, the next authorization of the Child Care Development Block Grant should roll back the new requirement that states spend nine percent of funds on "quality improvement" (plus an additional three percent on quality of care for infants and toddlers), giving states more financial flexibility and resisting the allure of an outcome that, as we have seen, is opaque and non-guaranteeable. And the seven percent threshold for "affordability" in co-payments set by the Obama administration should be restored to the prior benchmark of 10 percent of family income, in line with the average amount of family income spent on care for young children, rather than children of any age.

"Reducing or subsidizing filing fees for licensing and background checks could help ensure children are protected without placing an unnecessary burden on providers."

While regulations may not be a major cost driver, they can prevent new firms from entering the market and push marginal ones out of business. A vivid recent case of regulatory overreach was the decision of Washington, D.C.'s Office of the State Superintendent of Education to require all lead teachers, even those of infants, to have an associate's degree.[70] Congress could consider ways to incentivize states to scale back regulations so that the only ones with any teeth are those with a direct relationship to the health and safety of young children.

In the interest of increasing transparency in the marketplace, states could require

68 Robin Fretwell Wilson, The Contested Place of Religion in Family Law, (2018) Cambridge: Cambridge University Press, p. 327.

69 Office of Gov. Gretchen Whitmer, "Child care more affordable through innovative, bipartisan cost-sharing program," (March 18, 2021), https://www.michigan.gov/coronavirus/0,9753,7-406-98163-554799--,00.html

70 "New Education Requirements for Child Development Staff," Office of the State Superintendent of Education, District of Columbia (Feb. 12, 2020), https://osse.dc.gov/publication/new-education-requirements-child-development-staff-frequently-asked-questions-faqs-early

providers to disclose their prices online. State child care resource agencies could be given funding to operate real-time databases of price and capacity information at day care providers, allowing entrepreneurs to develop innovative technology solutions that better match parents to care options and potential subsidies, including nanny sharing and informal co-ops.

One pathway to better wages for child care workers could be by increasing the attractiveness of careers in child care. The Bureau of Labor Statistics reports the median child care worker made $24,320 in 2019.[71] Some older empirical work suggests that child care workers at non-profit establishments are able to work more flexible hours and may find their careers more rewarding.[72] Other avenues to a more stable and remunerative career in child care provision could be an early childhood Registered Apprenticeship program, which at least eight states currently offer. That could conflict with a state's interest in reducing the certification process needed to work in the child care sector.[73] But due to child care workers' relatively high labor supply elasticity, certification programs could also lead to child care workers persisting further into their career, decreasing turnover and leading to wage gains.[74] And while child care workers have not traditionally been unionized, 12 states have collective bargaining rights for home-based child care providers, allowing them to accrue sick leave and pursue other benefits.[75]

Policymakers and firms should also think creatively about attracting nontraditional workers. Co-locating child care centers with age-restricted senior communities, or a national campaign to facilitate interest in and availability of classroom aide positions for empty-nest seniors, could matchmake between those with a desire to interact with children and locations that need more adults able to monitor children safely. A database operated by the advocacy group Generations United lists over a hundred programs that offer child care in an intergenerational context.[76]

71 "Occupational Outlook Handbook: Childcare Workers," Bureau of Labor Statistics, U.S. Department of Labor (accessed May 11, 2021), https://www.bls.gov/ooh/personal-care-and-service/childcare-workers.htm

72 H. Naci Mocan and Erdal Tekin, "Nonprofit Sector and Part-Time Work: An Analysis of Employer—Employee Matched Data on Child Care Workers," Review of Economics and Statistics, 85:1, (Feb. 2003), 38—50, http://www.mitpressjournals.org/doi/pdfplus/10.1162/003465303762687695

73 Emily Workman, "Earning While Learning with Early Educator Apprenticeship Programs," New America Foundation (Feb. 21, 2019), https://www.newamerica.org/education-policy/reports/earning-while-learning-with-early-educator-apprenticeship-programs/

74 Abt Associates, "Career Pathways in Early Care and Education," prepared for U.S. Department of Labor (Feb. 2018), https://www.dol.gov/sites/dolgov/files/OASP/legacy/files/4-Career-Pathways-in-Early-Care-and-Education-Report.pdf

75 "Early Childhood Workforce Index 2020," Center for the Study of Child Care Employment, Univerity of California, Berkeley, Feb. 2021, https://cscce.berkeley.edu/workforce-index-2020/wp-content/uploads/sites/2/2021/02/Introduction_2020-Index.pdf

76 Intergenerational Program Database, Generations United (accessed May 11, 2021), https://www.gu.org/ig-program-database/

Conclusion

It's hard to talk about affordability in child care without noting one inescapable fact. Child care is expensive because, in a sense, it should be expensive. Parents entrust their most precious cargo to a center, home, or relative for hours at a time, and, at the bare minimum, everyone involved wants to avoid a worst-case scenario ending in injury or death. Developmentally appropriate enrichment activities are a nice bonus for many families, and some parents pay top dollar to ensure their child has access to high-end meals and individual attention. But even the lowest acceptable standards of care require a labor-intensive business model that does not naturally lend itself to economies of scale or a straightforward prescription of deregulation.

This paper has largely avoided the fraught question of center-based care's impact on child development, which deserves a full-length treatment of its own.[77] The best results from other countries suggest that large-scale day care provision has a leveling effect, increasing outcomes for children from low-income families at the expense of lowering them for more-advantaged ones.[78] As one paper put it, "middle- and high-income families…have been found most likely to be negatively impacted by child care."[79] Some may even see that as a feature, not a bug, as a way of upending the "mechanisms that perpetuate family privilege in families and in our institutions and social systems."[80] But erasing the unearned privilege of being born into a well-off or stable household seems, at the very least, to be mission creep for policy aimed at making child care more affordable.

But ultimately, citation wars over brain development and long-run effects won't suffice to determine the battle over large-scale federal funding child care. In the Nixon era, debates over federal child care spending hinged on the insight that large-scale programs cannot help but put a thumb on this scale in each family's delicate balancing of work and family life. That insight is still valuable.

77 For contrasting perspectives, see Steven E. Rhoads and Carrie Lukas, "The Uncomfortable Truth About Daycare," National Affairs (Summer 2016), https://www.nationalaffairs.com/publications/detail/the-uncomfortable-truth-about-daycare, and Elliot Haspel, "High-Quality Child Care Works For All Families," Institute for Family Studies blog, (Feb. 22, 2021), https://ifstudies.org/blog/high-quality-child-care-works-for-all-families

78 While this paper does not primarily focus on the wide body of research into child care settings and long-term child outcomes, notable papers on the topic include Tarjei Havnes and Magne Mogstad, "No Child Left Behind: Subsidized Child Care and Children's Long-Run Outcomes," American Economic Journal: Economic Policy, 3:2 (May 2011), 97-129, https://www.aeaweb.org/articles?id=10.1257/pol.3.2.97; Michael Baker, Jonathan Gruber, and Kevin Milligan, "The Long-Run Impacts of a Universal Child Care Program," American Economic Journal: Economic Policy, 11:3 (Aug. 2019), 1-26, https://www.aeaweb.org/articles?id=10.1257/pol.20170603; and Michael J. Lehrer and Steven F. Kottelenberg, "Do the Perils of Universal Childcare Depend on the Child's Age?" CESifo Economic Studies, 60:2 (June 2014), 338-365, https://doi.org/10.1093/cesifo/ifu006

79 Rodgers 2018.

80 Bethany L. Letiecq, "Surfacing Family Privilege and Supremacy in Family Science: Toward Justice for All," Journal of Family Theory and Review, 11:3 (Sept. 2019), 398-411, https://doi.org/10.1111/jftr.12338

Many families wish they could have a parent staying at home; we should try to boost wages and support families through the tax code to enable those who seek that goal to achieve it. We especially should not penalize families who turn to relatives or friends for care by only investing in certain types of formal child care. A responsive pro-family agenda should pay heed to the pressures facing the suburban couple with two jobs they find meaning in as well as the single mom struggling to afford the child care she needs to earn enough to put food on the table.

If our goal is to increase the choice set for families, the child care market can be made to work better by empowering nonprofits, religious organizations, and senior citizens who have a desire to help and be around young families. This, instead of a top-down federal approach, will encourage a pluralist approach to child care policy that builds networks of support around parents and actually provides the kind of care they are looking for.

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