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Who Cares?

How the Childcare Industry's Problems Are Every Employer's Problem

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Summary

- **No industry is as central to working women as childcare.** The industry packs an outsized punch when it comes to lifting the economy's labor supply. Access to affordable childcare has been shown time and again to boost labor force participation among mothers in addition to supporting the longer-term outlook for the labor supply via higher fertility rates. Women also account for a higher share of employment at daycares—96%—than any other industry, including nursing and beauty salons.
- **The daycare industry's challenges are making hiring more difficult and expensive for *all* industries right now.** Employment at daycare services remains a stunning 12.4% below its pre-COVID level compared to the 1.9% deficit in total employment. By our estimates, that leaves about 460,000 families needing to find alternative care arrangements, equivalent to just over half the drop in the labor force since COVID. For employers struggling to find workers *now* and facing a *future* of dismal labor supply growth, *improving childcare options for parents means a larger and higher-quality workforce to draw upon.*
- **The core issue for the childcare industry is cost.** Daycare services are labor- intensive, leaving little scope for technology to raise productivity and limit cost growth. Given limits to how many children caregivers can reasonably watch, *the cost is overwhelming for most families, but still low paying for caregivers*. One daycare center spot runs about $11,000 per year on average, or 14% of the median income of a household with a child under age 6. Yet, the average pay for a childcare worker in the industry registered just $12.05 an hour in 2020, or $25,060 per year.
- **Cost sharing is scant, unlike the childcare provided by the K-12 education system.** On a per-child basis, *U.S. public expenditures on childcare and early education are half the OECD average*. There is a chasm of financial support before kindergarten, leaving parents with very young children largely on their own to bear the cost of childcare.
- **If not now, when?** The pandemic has fueled momentum for addressing the structural issues facing the U.S. childcare system. The fiscal fire-hose unleashed by Congress to deal with the economic fallout of the COVID-19 pandemic included more generous tax credits for childcare specifically and children generally via the expanded Child Tax Credit. But this additional financial support was mostly one-off in nature and equated to only fraction of the childcare costs borne directly by families.
- **An overhaul of U.S. childcare and early education policy seems unlikely anytime soon.** Democrats' Build Back Better agenda is currently stuck in the mud and prospects for passage are dim. State and local governments are flush with cash and leading some movement on publicly funded preschool. Yet, we believe changes are likely to be gradual and incremental rather than sweeping and transformative. State and local governments are likely to be somewhat cautious in launching new, large programs with recurring costs in the absence of more federal financial support.
- **We all pay one way or another.** Childcare is unaffordable for many parents, but what often gets overlooked is that it carries a high price for the country as well. A system that does not work well for parents or providers means that we all pay through lower labor force participation, greater hiring difficulties for employers, slower potential growth, smaller tax bases and ultimately smaller families. A rethinking of policy, if done thoughtfully, could offer a substantial return on investment.

Who Cares? How the Daycare Industry's Problems Are Every Employer's Problem

The pandemic laid bare the importance of childcare to the U.S. workforce.

Employers are currently experiencing the toughest hiring market in decades. More businesses report difficulty filling open positions than at any time in the past half century. The struggles come as the labor force is nearly 900K workers smaller since the pandemic began, even as spending has roared back and GDP has more than recovered. Wages have taken off as a result of this sharp imbalance between the demand and supply of workers, threatening to keep inflation raging long after kinks in global supply chains unwind.

While widespread, the severity of staffing challenges across industries are uneven. So too are their ramifications for the U.S. economy. In this report, we look at how the unique challenges facing one relatively small industry—childcare—are rippling across the labor market and making hiring more difficult and expensive for *all* industries right now.

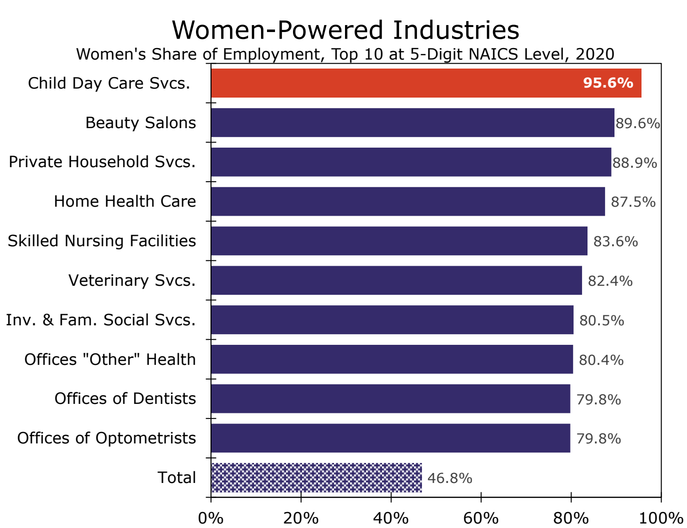
The pandemic laid bare the importance of childcare to the U.S. workforce as millions of school-age children shifted to remote learning, but it also amplified the cracks in an already thin and fragile care system for young children. Not surprising, the shortfalls of the current system continue to land disproportionately on women. A rethink of policy has never been more warranted.

In an Economy Held Back by Labor Supply, the Daycare Industry Punches Above Its Weight

Women comprise 96% of workers in the child daycare services industry.

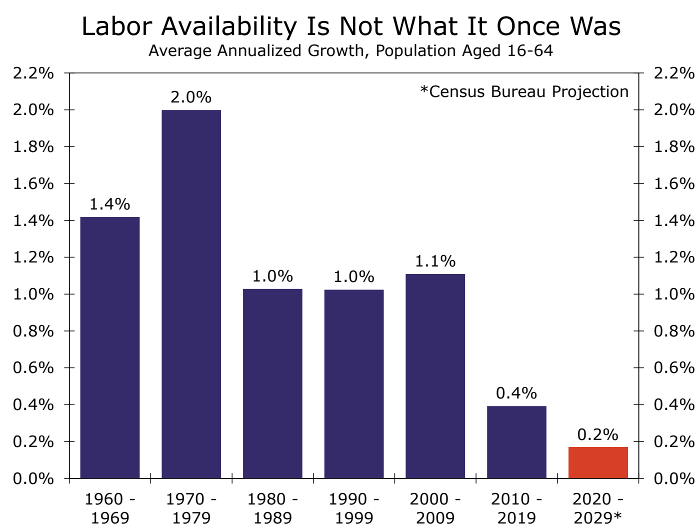
As we think about women's roles in the economy at the start of Women's History Month, one industry stands head and shoulders above the rest in terms of importance to women and the labor market: childcare. Women comprise 96% of workers in the child daycare services industry, more than any other industry (Figure 1). But beyond the industry's direct importance to women as an employer is its indirect role in facilitating employment among women more broadly. Access to childcare has been shown time and again to boost labor force participation among mothers.[1] For employers struggling to find workers *now* and facing a *future* of dismal labor supply growth (Figure 2), improving childcare options for parents means a larger and more experienced workforce to draw upon.

Figure 1



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 2



Source: U.S Census Bureau and Wells Fargo Economics

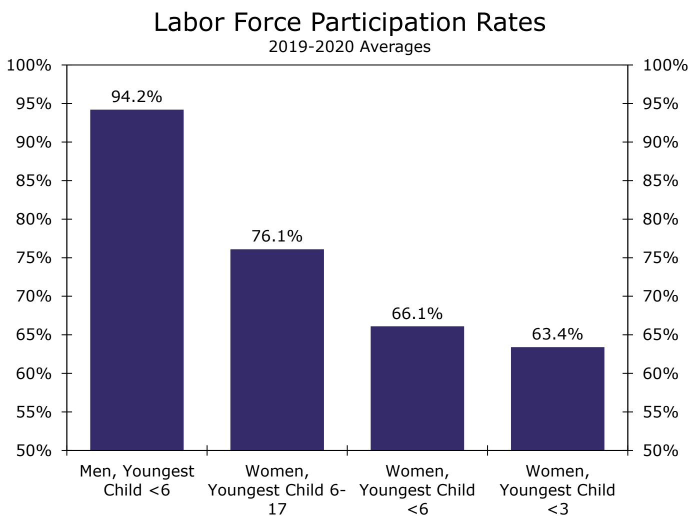
Approximately 28 million individuals, or 22% of the prime-age working population ages 25-54, live with children under the age of six.

Approximately 28 million individuals, or 22% of the prime-age working population ages 25-54, live with children under the age of six. Daycare—whether at a stand-alone facility or licensed in-home provider—is the primary childcare arrangement among working parents,[2] and often is the only way both parents can pursue paid work in an era when grandparents increasingly live in different places and nannies are still out of reach for the typical family.

Yet while reliable, affordable childcare centers provide a crucial service for working moms *and* dads; the reality is that in the majority of two-parent households women are still the second income earner and swing source of labor.[3] Women are also five times more likely to head single-parent households.[4]

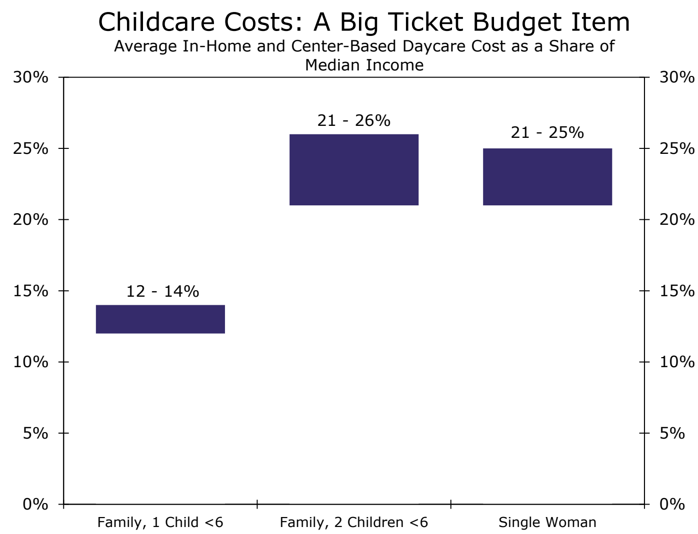
In other words, the availability of childcare has greater bearing on women's labor force participation compared to men's, even in an age when men are shouldering a more equal share of caregiving than ever before.[5] Labor force participation among women with children younger than 6 years old is a stunning 28 percentage points lower than men with young children, and 10 points lower than women with school-age children (Figure 3). If the participation rate of mothers with young children could merely be raised to match the participation rate of women with school-age children—never mind that of men—*approximately one million more workers would be in the labor force today.*

Figure 3



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 4



Source: U.S. Census Bureau and Wells Fargo Economics

The Pay Paradigm: Crippling for Parents, Lousy for Caregivers

The participation gap between mothers of school-age and young children comes as childcare can be prohibitively expensive for many families. Parents of children ages 6-17 receive de facto free childcare during the school day via the public education system, but there is a care desert from birth to kindergarten, as we discuss in more detail shortly.

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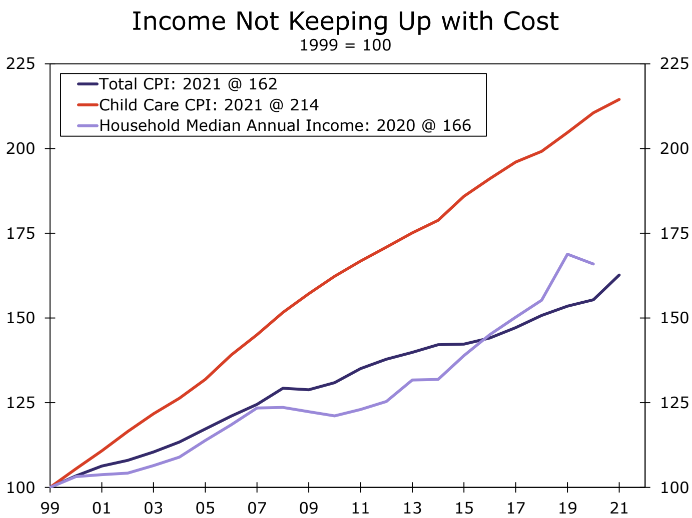
A spot at a center-based care facility runs on average a little over $11K per year, with a licensed home-based facility still costing around $9K per year.[6] For the typical family with one child under age six, that amounts to 12%-14% of *pre-tax* income; for families with two young children or single-female householders, the cost is like taking on a second mortgage (Figure 4).[7] And that is if parents can find a spot at all; wait lists, particularly for infants, can stretch more than a year.

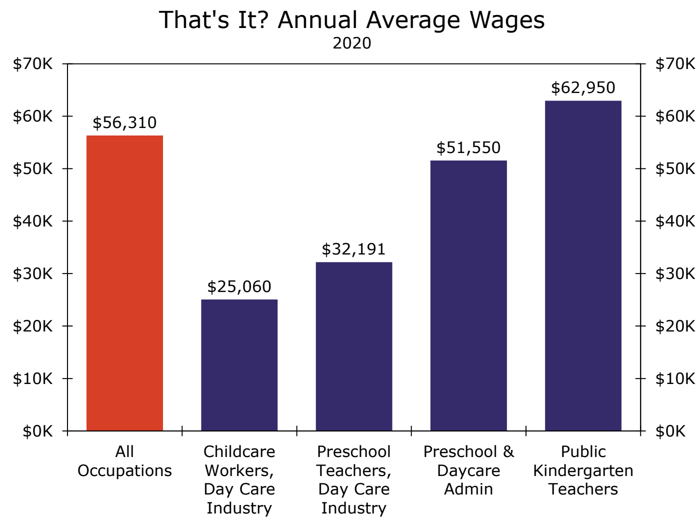
Since labor force participation among prime-age women peaked in the United States in 1999, the cost of daycare and preschool has more than doubled, rising at an average annual rate of 3.5%, according to the Consumer Price Index. That compares to the general cost of living as measured by the CPI rising an average of 2.2% and median household income rising only 2.3% per year (Figure 3).

Figure 5



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 6



Source: U.S. Department of Labor and Wells Fargo Economics

Expensive childcare can strong-arm mothers into career breaks that can be costly down the road in future earnings and retirement savings.

Simply put, for many families, the decision for both parents to keep working, given the cost of childcare, does not make financial sense. The trade-off between a paycheck that mostly, if not entirely, goes to childcare, if quality care is available at all, too often strong-arms women into career breaks that can be costly down the road for future earnings and retirement savings. For employers, it drives too many experienced workers out of the labor force and weighs on the future labor pool and customer base by contributing to lower fertility rates among women.[8]

The relatively steep rise in childcare costs reflects the labor-intensive nature of care. Staff is by far the largest cost.[9] Strict ratios between caregivers and children leave few ways to boost productivity, i.e., provide more care *of the same quality* for the same hours worked. Factor in fixed overhead costs like rent, utilities, maintenance and administration, and childcare is expensive for families, but does not offer much in terms of pay for workers. Median hourly pay in the child daycare industry registered $13.38 in 2020. Basic caregivers, (i.e., not preschool teachers, not administrators) earned an average wage of just $12.05 per hour, or $25,060 per year, putting them in the bottom decile of wage-earners (Figure 6). The low pay is associated with high turnover; even in the weak labor market of 2012 when unemployment was 8.1%, centers for kids ages 0-5 averaged 16.1% turnover.[10] Yet with tuition already demanding such a substantial share of family income, daycare centers are hard pressed to meaningfully raise pay.

From Bad to Worse

The COVID-19 pandemic made what was already a tough hiring environment for the industry harder. The availability of childcare workers through the first year of the pandemic was hindered by many of their own children's schools going remote, making it difficult to take an in-person job. Even as schools have transitioned back to the classroom, the "ask" of in-person childcare remains particularly large in the middle of a pandemic. Children under the age of five are still not eligible to be vaccinated against COVID, and getting adults to consistently and correctly wear masks is hard enough, let alone three-year-olds.

Overlaid with workers' own childcare issues and health concerns is the perennial issue of low pay in an increasingly competitive job market. The challenge has been amplified by emergency unemployment benefits topping up payments by $400/week as recently as September, equivalent to 80% of average weekly pay in the industry.[11] In a July 2021 survey, 78% of providers pointed to wages as the primary challenge to recruiting.[12] Elementary schools' difficulties in bringing staff back have opened up similar but better-paying opportunities (Figure 6). Opportunities outside childcare also abound. Whereas the childcare industry paid 5%-10% more than basic retail and accommodation & food services in the first half of the 2010s, that premium has more or less disappeared (Figure 7), while warehousing and delivery jobs have proliferated and are typically able to offer higher wages *and* benefits.

All told, employment at child daycare centers remains down 12.4% since COVID, far steeper than the 1.9% drop in total employment (Figure 8). The collapse is rippling across the economy. The 131,200 drop in daycare employment equates to 918,000 fewer childcare spots available, or 459,000 families needing another form of care (under the conservative assumption that each affected family is trying to place two children).[13] While some parents may cobble together care—working opposite hours, relying on babysitters or other family members—*the estimated number of families affected by reduced capacity at childcare centers is equal to a little over half the drop in the labor force since COVID began.*

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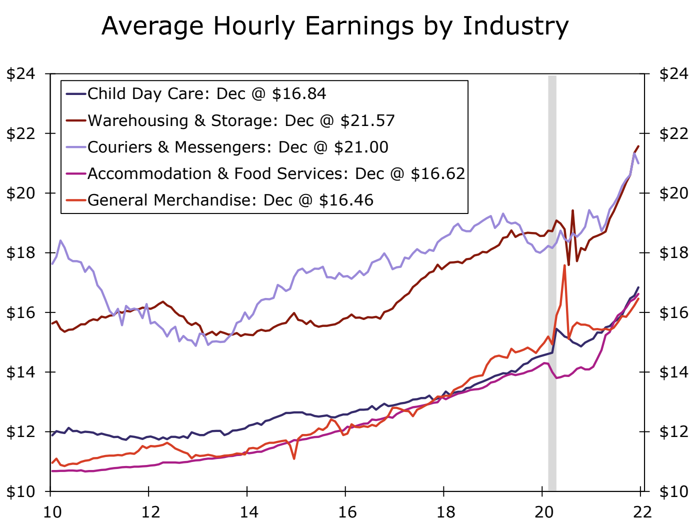
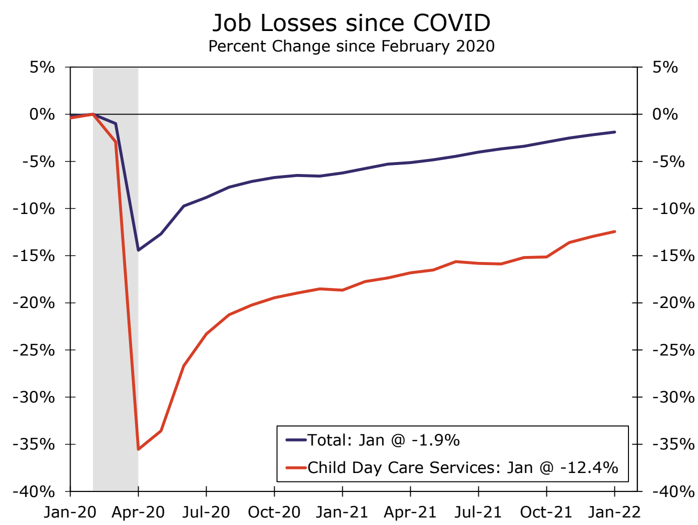
Figure 7



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 8



Source: U.S. Department of Labor and Wells Fargo Economics

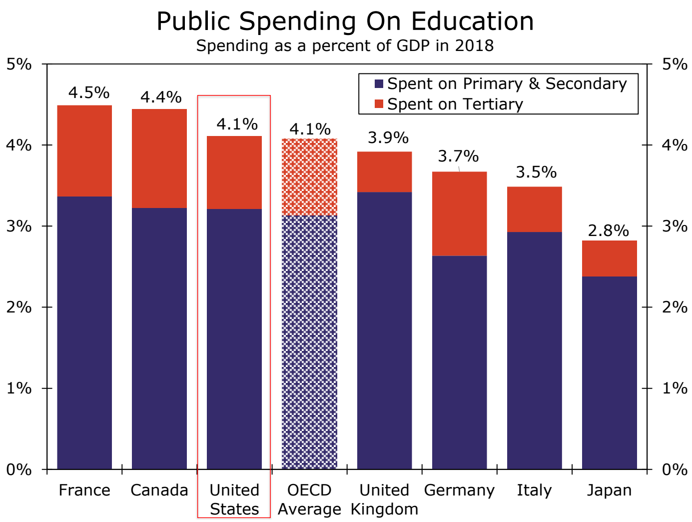
It Takes a Village—and Their Taxes

For U.S. parents with children between the ages of 6-18, publicly funded education is a universal benefit open to everyone. This universal benefit is paid for through broad-based taxes. For example, property taxes are paid by real estate owners regardless of whether they have children in public school, and sales taxes are collected from all consumers. When it comes to higher education, there is cost-sharing with the end user through tuition, but states still subsidize higher education with public funds. All states have publicly subsidized state universities, community colleges, etc., that are open to residents of the state regardless of income level. OECD data show that public spending in the United States on primary, secondary and tertiary education (roughly kindergarten through college/university) is roughly in line with its developed nation peers (Figure 7).

The United States is a notable laggard when it comes to public spending on childcare and early education.

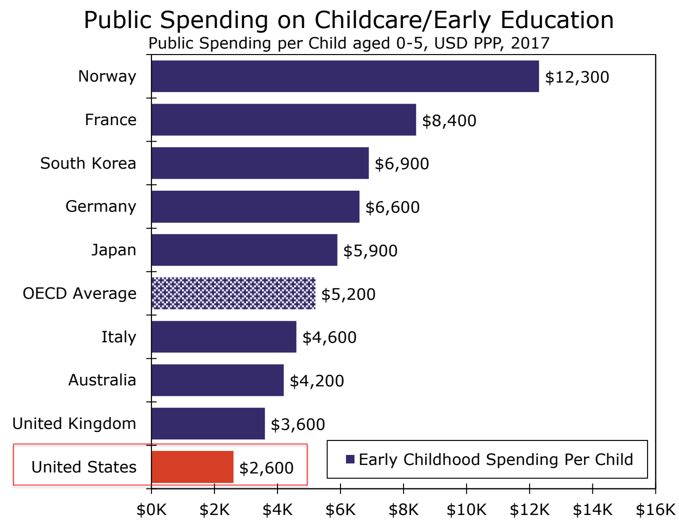
However, *the United States is a notable laggard when it comes to public spending on childcare and early education.* According to OECD data, public spending on childcare and early education in the United States was just 0.3% of GDP in 2017 versus the OECD average of 0.7%. On a per-child basis, U.S. public expenditures on childcare and early education are $2,600, half the OECD average and well below the top spenders (Figure 8). As a result, the financial burden of childcare for young children falls heavily on their parents.

Figure 9



Source: OECD and Wells Fargo Economics

Figure 10



Source: OECD and Wells Fargo Economics

For the average household, federal tax relief for childcare expenses only covers a fraction of the annual cost.

At the federal level, U.S. government financial support for childcare and early childhood education primarily consists of tax credits and funding for programs such as Head Start. Perhaps the closest thing the federal government offers in terms of broadly available financial support for childcare is the Child and Dependent Care Tax Credit (CDCTC). The CDCTC is a nonrefundable tax credit that reduces a taxpayers' federal income tax liability based on child and dependent care expenses.[14] In 2018, the average credit amount was $586 for all taxpayers—*only a fraction of annual childcare costs for the average household.*

Furthermore, the majority of the tax credit dollars flow to middle- and upper-middle income taxpayers. Since the tax credit is nonrefundable, many lower-income taxpayers cannot receive its full benefit as they have little to no federal tax liability. For taxpayers with adjusted gross income between $15,000 and $25,000, the average credit amount was $347 in 2018. In total, the CDCTC cost the federal government $3.5 billion in 2019 or just 0.1% of the $3.5 trillion in tax revenues collected.

The separate Child Tax Credit (CTC) is a much larger tax credit directed to parents. Prior to 2018, the child tax credit could be used to reduce a taxpayer's federal income tax liability by up to $1,000 per child ages 0-16. Unlike the CDCTC, the CTC was fully refundable. The 2017 Tax Cuts and Jobs Act doubled the size of the credit to $2,000 per child, imposed partial refundability (max of $1,400) and significantly increased the phase-out thresholds.[15] In total, the CTC cost the federal government about $120 billion in 2019.

Direct federal spending on childcare and early childhood education primarily consists of targeted expenditures for low-income families.

Notably, however, the CTC is more of a universal child benefit. Benefits flow to parents of children who are well above traditional early childcare ages, and recipients receive the credit regardless of whether they have childcare or early childhood education expenses. For example, a parent with two teenagers in public school receives the same benefit as a parent with two small children still too young for school, holding everything else constant. *And even if the entire $2,000 CTC were put toward childcare expenses, it would only cover about one-fifth the annual average cost of a center-based care facility.*

Direct federal spending on childcare and early childhood education primarily consists of targeted expenditures for low-income families. Two of the biggest programs are Head Start and the Child Care and Development Fund (CCDF). Head Start programs promote the school readiness of infants, toddlers, and preschool-aged children from low-income families. Generally speaking, to be eligible for Head Start children must be ages 0-5 and live in households with income below the poverty line. In 2019, the poverty line for a family of three was just $21,330. Head Start services are provided in a variety of settings, including centers, family child care, and children's own home. Head Start and its family of offshoot programs served approximately one million children in 2019, with federal government support totaling roughly $10 billion.[16] The CCDF is a block grant program that provides funding to state, territory and tribal governments that in turn provide financial support to low-income working families in need of childcare.[17]

These various tax credits and spending programs, as well as a several other, smaller federal initiatives, combined for $20 billion-$25 billion of annual federal financial support for childcare before the pandemic (Figure 11).[18] This estimate could potentially be stretched further by including broader subsidies for children, such as the Child Tax Credit, but as we have previously noted, the CTC and other similar expenditures are not explicitly tied to childcare expenses and include school-age children. To contextualize, federal financial support for childcare in 2019 equated to less than 4% of spending by the Department of Defense ($654 billion) and less than 3% of spending on Medicaid and Medicare ($1.1 trillion).

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Figure 11

Direct Federal Government Outlays on Childcare/Early Education Billions		
	2019	2021
Childcare and Development Fund (CCDF)	$7.2B	$13.6B
Head Start/Early Head Start	$9.7B	$10.3B
Child and Dependent Care Tax Credit	$3.4B	$5.5B
Other Childcare Expenditures	$0.3B	$0.3B
Total Expenditures:	**$20.6B**	**$29.7B**

Source: Congressional Budget Office, Urban Institute and Wells Fargo Economics

Policy Changes: If Not Now, When?

The COVID-19 pandemic created numerous challenges on both the supply and demand sides of the childcare sector. However, the trillions of dollars of COVID relief funding provided by the federal government did include some policy changes in support of parents. The child and dependent care tax credit was made more generous in several ways. These included more than doubling the size of the credit and making it refundable. In total, these changes will increase federal expenditures on the credit from about $3.5 billion in 2019 to nearly $10 billion in 2022. The CCDF received roughly $25 billion of supplemental funds and another $24 billion for childcare stabilization grants. Perhaps most important, the child tax credit increased in size from $2,000 per child to $3,000 per child aged 6-17 and $3,600 for children under the age of—a recognition that caregiving needs take a particular financial toll on families with young children.

However, these more generous fiscal policies dedicated to children and childcare mostly have run their course. The expanded tax credits expired at the end of 2021, and while some funding is still working its way through the pipeline in the form of tax returns and lagged federal spending, once it is exhausted it will not be replenished under current law. Put another way, *unless Congress changes the law, federal financial support for childcare and early childhood education in 2023 will look a lot like what it did before the pandemic*.

COVID relief dedicated to children and childcare mostly has run its course.

President Biden and Democrats in Congress have proposed sweeping changes to childcare and family policies as a part of their Build Back Better (BBB) agenda. The BBB bill that passed the House of Representatives in November contained numerous childcare and early education policy changes. We roughly bunch these policies into four groups: federal funding for states to establish universal pre-K for 3- and 4-year-olds, subsidies to households for purchasing childcare, a federal paid family and medical leave program and an extension of the expanded child tax credit for one year. In total, these programs would inject about $800 billion into this policy space over the next 10 years.[19]

Figure 12

Build Back Better (BBB) Act CBO Score (FY 2022-2031) Billions of Dollars, Increases in Revenue (+), Decreases in Revenue (-), Increases in Spending (+)					
Tax Cuts/Tax Credits		Spending		Tax Increases/Offsets	
Clean Energy and Climate Resilience Tax Credits	-$200B	Provide Child Care Subsidies for Six Years	$270B	Corporate Alternative Minimum Tax of 15% on Book Income	$320B
Clean Fuel, New Vehicles and Other Green Energy Tax Credits	-$135B	Provide Universal Pre-K for Six Years	$110B	International Corporate Tax Increases	$280B
Extend Expanded ACA Premium Tax Credits	-$130B	Establish a Paid Family and Medical Leave Program	$205B	Excise Tax on Corporate Share Repurchases	$125B
Child Tax Credit Expansion through 2022, Permanent Full Refundability	-$190B	Clean Energy and Climate Resilience Investments	$235B	Other Corporate Tax Increases	$105B
SALT deduction cap to $80,000 through 2025	-$275B	Expand Medicaid, Medicare, and Invest in Health Care Workforce	$210B	NIIT/Limitations on Excess Business Losses for Noncorporates	$410B
Earned Income Tax Credit Expansion through 2022	-$15B	Build and Support Affordable Housing	$175B	Surtax of 5% on Income Above $10M, Additional 3% Above $25M	$230B
Other Tax Changes	-$15B	Immigration Reform	$110B	Prescription Drug Price Reforms	$325B
		Other Spending and Investments	$150B	Additional IRS Funding to Diminish Tax Gap	$130B
				Other Revenue Provisions	$340B
Total New Tax Cuts/Credits	-$960B	Total New Spending	$1,465B	Total New Tax Revenues/Offsets	$2,265B
Net Increase (+) in the Budget Deficit over 2022-2031:					**$160B**

Source: Congressional Budget Office, Committee for a Responsible Federal Budget and Wells Fargo Economics

These policy proposals are pointed at the threadbare federal financial support for childcare and early childhood education. However, there are a few problems with this plan, both political and practical. First, the House-passed BBB bill has gone nowhere in the Senate. Even negotiations on a slimmed-down package have failed to gather much momentum. Never say never, but we are skeptical the BBB bill in its current form will become law anytime soon, especially if the 2022 midterm elections yield a divided Congress.

We are skeptical that Democrats' Build Back Better bill will become law in its current form.

Congress also made some of these programs temporary rather than permanent in an effort to reduce the bill's headline cost. For example, under the House-passed BBB bill, the federal subsidies for childcare expenses and universal pre-K would be phased in through 2027, but after that, the funding spigot would be shut off. Thus, the $800 billion cost estimate referenced earlier does not actually reflect the cost of these programs over a full 10 years. An alternative analysis by CBO showed that the universal pre-K and childcare subsidies components would cost about $750 billion over 10 years if made permanent, with another $1.6 trillion for a permanently larger child tax credit.[20] The paid family and medical leave component accounts for another $200 billion or so.

Setting aside the political challenges, perhaps the biggest question we have about these policies is how quickly the supply side of the sector can expand. As we have already discussed, childcare employment has been much slower to recover than overall employment. The BBB bill provides billions of dollars to states to invest in facilities and higher wages for workers in the sector, but whether this would be enough to meet significantly higher demand is an open question. Furthermore, the pandemic has illustrated that it can take time for the supply side of the economy to catch up to a rapid increase in demand. *Even if over the long run the childcare and early childhood education sector found an equilibrium, the near-term impact from robust subsidies and expanded universal pre-K could be even higher costs for either the consumer and/or the government,* depending on how the programs were ultimately set up.

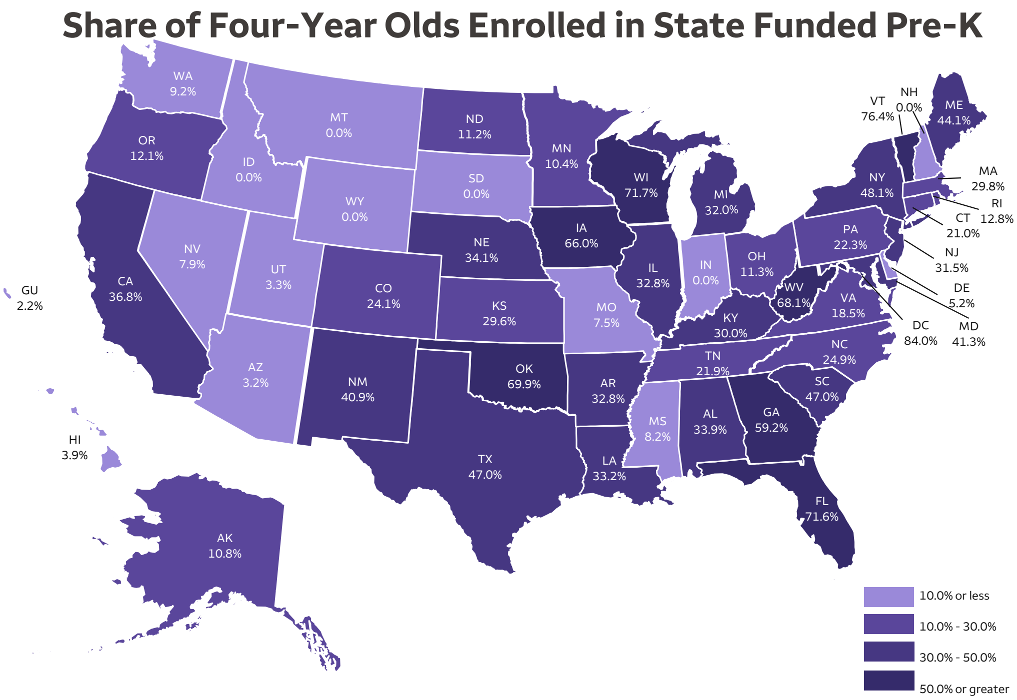
State and Local Governments: The Laboratories of Democracy

State and local governments play a much bigger role than the federal government in public K-12 and higher education. When it comes to childcare generally and preschool specifically, policies and programs vary significantly across states and even within states. A 2019 national survey performed by the Government Accountability Office identified 86 state early care and education programs: 73 preschool programs serving 3- to 5-year-olds and 13 childcare programs serving 0- to 2-year-olds.[21] The National Institute for Early Education Research estimates that in the 2019-2020 school year states enrolled 34% of four-year-olds and 6% of three-year-olds in state-funded preschool.[22]

When it comes to childcare generally and preschool specifically, policies and programs vary significantly across states and even within states.

Washington, D.C., leads the nation in preschool access with 73% of three-year-olds and 84% of four-year-olds enrolled. Vermont, Wisconsin, Florida and Oklahoma also had more than 70% of four-year-olds enrolled in state-funded preschool in 2019-2020. At the other end of the spectrum, eight states served less than 10% of four-year olds in state-funded preschools, and six states did not have a state-funded program (Figure 13).[23] Complete data for 2020-2021 year are not yet available, but preliminary data suggest that the pandemic led to a precipitous drop in preschool enrollment, although some recovery did appear to be taking place by the spring of 2021.

Figure 13



Source: National Institute for Early Education Research and Wells Fargo Economics

Unlike the federal policy outlook, there are some signs of change and innovation at the state and local levels. Of course, prospective policy changes can vary between states and even within them, but the state and local government fiscal outlook is much brighter coming out of the COVID recession compared to the 2008-2009 recession.[24] Many state and local governments are flush with cash amid the sharply rebounding economy, elevated asset prices and robust federal aid. Through the first nine months of 2021, S&L tax revenues were up 8.9% compared to the first nine months of 2019 (Figure 14). S&L governments have received about $500 billion in grants from the federal government since the pandemic began, with more still to come from pandemic aid and the recently enacted Infrastructure Investment & Jobs Act.

Unlike the federal policy outlook, there are some signs of change and innovation at the state and local levels.

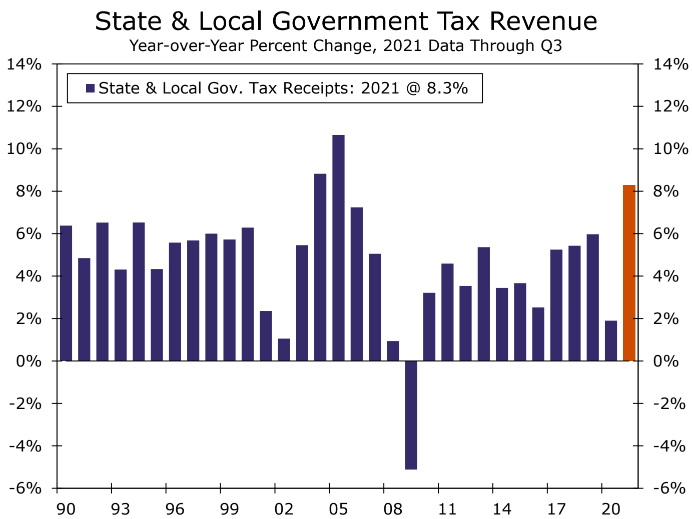
Against this backdrop, several states are initiating new or expanding existing preschool programs. To cite a few examples, in 2020 Colorado voters approved universal preschool for Colorado's four-year-olds, and the program is set to launch in the fall of 2023. The governor of Kentucky's budget proposal released in January included universal preschool for four-year-olds and full-day kindergarten. New York City, which already has a sizable universal preschool program for four-year-olds, is pushing to more aggressively to cover and enroll three-year-olds.

Increased public investment in childcare and early childhood education is encouraging. However, in our view, these changes are likely to be more gradual and incremental. Although some state and local governments have significantly increased spending in these areas, plenty of others have not. And among the ones that have, the steps can sometimes be marginal rather than giant leaps. In Colorado, for example, the universal preschool initiative will guarantee just 10 hours per week, at least at the start.

Increased state and local investment in childcare is encouraging, but we believe these changes are likely to be more gradual and incremental.

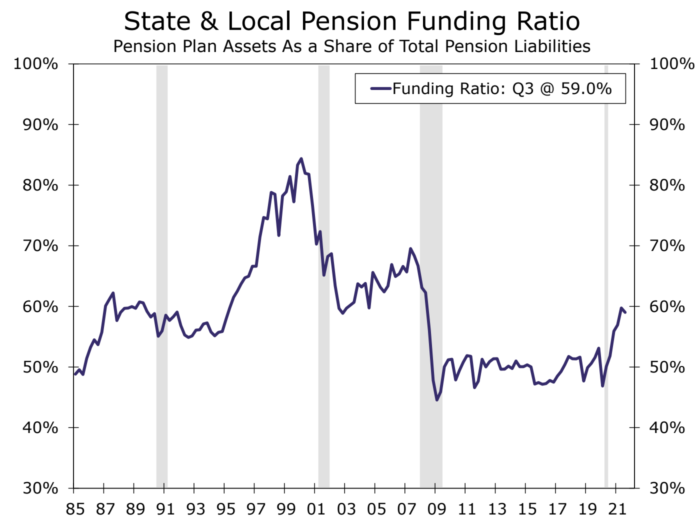
In addition, although the state and local fiscal outlook is brighter today than it was 10 years ago, it is far from perfect. Not all locales have seen their economies boom, as some regions have been hit harder than others by the pandemic and its economic fallout. Federal aid to state and local governments has been generous, but the support is largely one-off rather than recurring. Similarly, the robust revenue growth over the past year will probably slow as employment decelerates and asset price gains normalize. Public pension funding ratios have improved, but they generally remain a long-run headwind for state and local government finances (Figure 15). In short, we suspect state and local governments will still be somewhat cautious about launching large, new programs with recurring costs in the absence of more federal financial support.

Figure 14



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 15



Source: Federal Reserve Board and Wells Fargo Economics

No Action Is Still a Decision

Even before the pandemic, finding and paying for childcare was a challenge for parents of young children. Costs are high largely for structural reasons, and these high costs are borne heavily by the end user, i.e., parents. In addition to the high cost, access is more uneven and patchy than is the case for primary and secondary education. The pandemic further exacerbated these challenges and laid bare the numerous flaws in the U.S. system.

In our view, a rethinking of policy in this area, if done thoughtfully, could offer a substantial return on investment.

This status quo is a policy choice, and changing the status quo would not be costless. Increasing public expenditures in the childcare and early childhood education sector from 0.3% of GDP to the OECD average of 0.7% of GDP would equate to roughly $100 billion per year. Financing this cost would require higher taxes and/or lower public spending on other priorities such as national defense, health care, or education for older children and adults. The costs of tax increase or spending cuts are explicit and easily seen.

That said, *keeping the status quo has costs as well, even if they are more hidden and implicit*. The current system pushes costs heavily to parents and contributes to lower labor force participation, greater hiring difficulties for employers, smaller families and slower potential GDP growth. We believe it is important to note the distinction between whether the United States can afford new investments in childcare and whether it should be a policy priority. *In our view, a rethinking of policy in this area, if done thoughtfully, could offer a substantial return on investment.*

Endnotes

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[24] For more information, please see our December 2021 update on state and local government budgets and employment. (Return)

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