



Growing the Economy Through Affordable Child Care

By Rasheed Malik | May 24, 2021

In April 2021, more than 200 leading economists signed an open letter to Congress encouraging lawmakers to make long-overdue public investments in the country's physical and care infrastructure.¹ These experts recognize that access to reliable and affordable child care, national paid family and medical leave, home- and community-based services, and higher-quality jobs for care workers are necessary preconditions for not only the financial stability of working families but also economic growth and global competitiveness. Child care is the work that enables all other work; just as physical infrastructure such as roads and bridges allows workers to reach their workplaces, child care allows parents to work while their children enjoy the myriad benefits that come from high-quality care. In fact, researchers estimate that following the Great Recession, had investments in care infrastructure been made in conjunction with the investments in physical infrastructure, they could have yielded twice as many new jobs as those latter investments alone.²

Even still, the United States has repeatedly failed to invest in care infrastructure over the years, while other advanced economies have seen strong returns on their investments.³ This underinvestment has put high-quality, affordable child care out of reach for all but the most privileged, hampering women's labor force participation for decades. And the COVID-19 pandemic triggered an acute child care crisis that only compounded this chronic child care crisis.

In response to the immediate need for investment, President Joe Biden has included \$39 billion in the American Rescue Plan to help the struggling child care sector recover from an unprecedented year of revenue losses.⁴ But in order to build a more inclusive, more productive, and more competitive economy, the United States must solve the underlying problem by finally investing in a comprehensive child care system for working families.

Policy proposals such as the administration's American Families Plan and the Child Care for Working Families Act (CCWFA) would modernize the economy to ease the burden on families, giving parents the opportunity to provide the security and stability that encourage healthy child development. Investments in care infrastructure would combat deep economic inequality while helping address long-standing racial, gender,

and geographic disparities in the U.S. economy. Furthermore, bold child care solutions would create good-paying early care and education jobs, which means not only higher quality child care but also job growth in a vital sector of the economy that cannot be outsourced or undercut by global competitors.

This issue brief dives into the details and design of the CCWFA, which was recently reintroduced by Sen. Patty Murray (D-WA) and Rep. Bobby Scott (D-VA).⁵ The legislation would fundamentally transform most families' experience finding quality, affordable child care options.

The CCWFA would help solve the U.S. child care crisis

In recent years, working parents of young children spent an average of \$13,000 per year on child care, which is a huge household expense for most families.⁶ While low-income families may qualify for child care assistance, the current system has been underfunded for so long that only 1 in 7 eligible children currently receives a subsidy.⁷ Meanwhile, the subsidy rate is too low to cover the cost of providing quality care; this results in obscenely low wages for early care educators, which causes high rates of turnover in the profession and restricts the supply of quality child care.⁸

The 2021 version of the Child Care for Working Families Act (S. 1360/H.R. 2817) would address these problems by:

- **Using a mandatory funding structure** so that states can finally make child care free for low-income working families and affordable for the middle class.
- **Giving parents the choice and flexibility to find a child care program that meets their schedule and needs:** This is not a one-size-fits-all approach; it would fund home-based child care and even neighbor or relative care that meets certain health, safety, and educational standards.
- **Paying early care educators according to their social and economic value:** This would include guaranteeing livable wages for the early care and education workforce, funding professional development, establishing scholarships for workers to obtain educational credentials, and partnering with higher education institutions to develop a pipeline of qualified educators.
- **Focusing on equitable access to preschool:** The CCFWA would most expand access for children from low-income families, children with disabilities, children who are dual language learners, children from major ethnic and racial groups, and children from geographic areas with low child care access.

- **Pairing investments in preschool with major investments in costlier infant-toddler care:** This is crucial to the success of the entire plan. The CCWFA takes a complete birth-to-5 approach to early care and education, recognizing that the success of one part is linked to the success of others.

This bold child care plan would act as a lifeline to mothers, millions of whom have had to leave the labor force or reduce their work hours due to child care issues, both before and during the pandemic. Robust, well-targeted child care solutions are necessary to help women recover their historic employment losses resulting from the COVID-19 pandemic. Investments in the nation’s care infrastructure can help unlock a better economy for everyone, as they would empower women to rejoin the workforce, retrain for an emerging field, pursue an education, or start their own businesses.

Finally, expanding access to high-quality, affordable early care and education is a smart investment in the healthy development of the country’s youngest children. The first few years of a child’s life are a crucial developmental period during which they are continuously learning, forming more than a million neural connections every second. Providing children with nurturing, enriching care when they are not with their parents is therefore an investment in their safety, health, and cognitive development during an important stage in life—an investment that has been shown to have lifelong positive effects, particularly for children from disadvantaged backgrounds.⁹

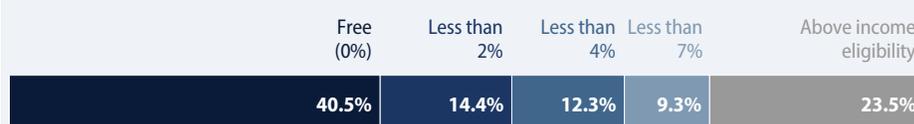
The CCWFA would make child care free or reduced-cost for 76 percent of working families with children under age 6

While the CCWFA covers children up to age 12—when many school-age children may require before- and after-school care and summer care—this issue brief focuses its original analysis on the distribution of benefits among U.S. children under age 6. Using census microdata from the 2015–2019 American Community Survey, the author identified families that met the eligibility threshold of working part time or full time, looking for a job, or enrolling in an educational program, among other activities.¹⁰ Figure 1 shows the income distribution of families eligible for the benefit, with more than 40 percent of children under 6 eligible for free child care and another 36 percent eligible for subsidies that would reduce their families’ child care costs to 7 percent or less of family income.

FIGURE 1

The Child Care for Working Families Act would make child care free or affordable for 76 percent of working families

The share of children under age 6, by family child care copayment as a share of annual income



Source: Author’s analysis using data from Steven Ruggles and others, “Integrated Public Use Microdata Series, U.S. Census Data for Social, Economic, and Health Research, 2015-2019 American Community Survey: 5-year estimates: Version 10.0” (Minneapolis: Minnesota Population Center, 2021), available at <https://usa.ipums.org/usa/>.

A comprehensive review of the CCWFA

The Child Care for Working Families Act is comprised of five major components. Title I, which covers voluntary child care, is the largest section of the bill and the main subject of this brief's summary and analysis. Title II authorizes and appropriates funding for states so that they can establish or expand high-quality preschool programs for 3- to 5-year-olds. Title III recommits to the Head Start program by providing additional funding to local agencies for quality improvements so that all grantees can provide a full school year and full school day of services. Title IV requires states to provide early intervention services and high-quality inclusive child care to children with disabilities. Finally, Title V calls on Congress to increase its investment in the Maternal, Infant, and Early Childhood Home Visiting Program (MIECHV), which helps families access voluntary, evidence-based home visiting services before and after the birth of a child.

Commitments to child care access and affordability

This legislation proposes three fundamental changes to how states' child care systems would be financed:

1. **Guaranteed assistance:** While the bill would appropriate funding for the first three years after its reintroduction—\$20 billion in FY 2022, \$30 billion in FY 2023, and \$40 billion in FY 2024—after that phase-in funding, all eligible families would be able to receive their child care benefit as a guarantee. The system would not be tied to annual congressional appropriations; instead, it would operate in the same manner as Medicaid, which is available to all households that meet the eligibility criteria within a state.
2. **Affordable options:** The bill would cap families' child care expenses at a percentage of their income, with low-income families paying nothing, middle-class families contributing between 1 and 4 percent of their income, and families with above-average incomes paying no more than 7 percent of their income, which the U.S. Department of Health and Human Services (HHS) has ruled is the benchmark for affordability.¹¹
3. **Quality jobs and care:** The bill would fund child care programs according to an approved cost estimation model, to be determined by each state and approved by HHS, that would meet the true cost of providing high-quality care and education to children. This would ensure that early care educators are, at a minimum, paid a living wage, with the goal of making child care and preschool staff salaries on par with the salaries of similarly credentialed and experienced elementary school educators.

By converting the child care system to a guarantee, the CCWFA would vastly expand the scope of child care assistance in the United States. In recent years, only 1 in 7 eligible children under age 13 received child care assistance, and the current system typically sets income eligibility thresholds very low as a result of chronic underfunding.¹²

By decoupling the funding for the program from congressional appropriations, the bill would allow the child care system to grow to meet the needs of families. Moreover, the bill would expand eligibility for CCWFA subsidies to include not just full- or part-time employment, but also job search, self-employment, job training, health treatment, educational programs, Supplemental Nutrition Assistance Program (SNAP) employment and training services, activities to prevent child abuse or family violence, and participation in federal, state, or local paid leave programs. Parents or guardians over age 65 living with children would not be subject to state activity requirements.

The bill would also promote the continuity of care for children, regardless of their parent's job change or a change in custody of the child. This requires that each child who receives assistance be considered eligible for no less than 12 months, regardless of a temporary change in parents' participation in an eligible activity or family income. Currently, redetermination usually happens every six months. Finally, the bill would expand eligibility and reduce the frequency of redetermination—the review of a child and family's eligibility—for children experiencing homelessness, children in foster care, and children in contact with child protective services.

The bill would use a sliding scale to determine parental copays for child care. The scale, which is highly progressive in its structure, ties its income categories to state median income, accounting for differences in cost of living between states as well as the number of children in a family, as larger families often have higher incomes, but also higher child care expenses. The sliding scale is structured as follows:

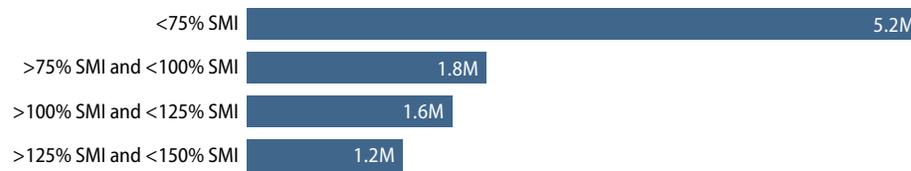
- All eligible families making below 75 percent of the state median income (SMI) would not have to pay for child care.
- Eligible families making between 75 and 100 percent of the SMI would pay no more than 2 percent of their family income in copays.
- Eligible families making between 100 and 125 percent of the SMI would pay no more than 4 percent of their family income in copays.
- Eligible families making between 125 and 150 percent of the SMI would pay no more than 7 percent of their family income in copays.
- Families making more than 150 percent of the SMI would not be automatically eligible for assistance but could continue to use the child and dependent care tax credit (CDCTC) and dependent care spending accounts to reduce their child care expenses.

The author's analysis of data in the 2015–2019 American Community Survey finds that nearly 10 million children under age 6 would be eligible for this child care entitlement under the CCWFA. And if this bill were to become law, it is quite possible that more families would become eligible for child care subsidies over time. The reduction in child care costs would make paid employment worth more to parents who otherwise might have to spend much of each additional dollar earned on child care. Some parents could use the flexibility that comes from quality, affordable child care to pursue more education, switch jobs, or even start their own business.

FIGURE 2

The Child Care for Working Families Act (CCWFA) would make more than 5 million low-income children eligible for free child care

Number of children under age 6 by CCWFA income eligibility group, determined by state median income (SMI)



Source: Author's analysis using data from Steven Ruggles and others, "Integrated Public Use Microdata Series, U.S. Census Data for Social, Economic, and Health Research, 2015-2019 American Community Survey: 5-year estimates: Version 10.0" (Minneapolis: Minnesota Population Center, 2021), available at <https://usa.ipums.org/usa/>.

More than 5 million of the young children eligible for the guaranteed child care assistance live in families that make less than 75 percent of the SMI, meaning that their parents would qualify for free child care, according to the author's analysis of American Community Survey data. (see Figure 2)

Once the bill is phased in, HHS would issue funds on a recurring basis to U.S. states and territories. While states would administer their child care programs and certify eligibility, as they have been doing for the past few decades, the bill instructs states to take the following steps to promote equitable access to quality programs:

- States must accurately estimate the cost of operating a child care program and pay a subsidy rate to providers that covers these costs when combined with parental copayments. This cost estimation should be based, in part, on input from child care providers themselves. There may be differences across various types of settings, such as family child care homes, neighbor or relative care, and care outside traditional hours.
- States must conduct a child care equity review every three years, as part of their state plan, to inform the distribution of funds throughout their child care program. To do this, they would need to collect disaggregated data in order to understand which children do not have access to child care assistance and where there are geographic gaps in access.
- In state plans, states must describe how they will lower barriers to enrollment so that all families can access care, including families with adults or children with disabilities, homeless families, families living in rural areas, and families of dual language learners.
- States must make information about their child care assistance program publicly available, including the income ranges in dollar amounts that correspond to the sliding scale copays. The bill also requires states to consult with parents in the development of their state plan, especially in the development of their child care equity review.

The Child Care for Working Families Act would be just as transformational for the early care educators in this country as for the parents trying to find and afford quality child care. The U.S. Bureau of Labor Statistics estimates that the typical child care administrator makes \$49,200 annually (\$23.63 per hour), the typical preschool educator makes about \$31,900 annually (\$15.35 per hour), and the typical early child care educator makes only \$25,500 annually (\$12.24 per hour).¹³ Without the CCWFA's focus on appropriate compensation for educators, the bill would not be able to achieve the scale or level of quality necessary to see the greatest benefits.

The following policies would seek to raise wages as well as attract, retain, and develop skilled early educators:

- As previously mentioned, more accurate cost estimates would ensure that wages for child care providers are comparable to wages for elementary educators with similar credentials and experience. At a minimum, states must also demonstrate that they are ensuring child care providers are paid a living wage.
- Payments to child care providers would be based on enrollment, not daily attendance, a long-overdue change that recognizes the costs involved in running a quality child care program. Currently, providers are paid based on daily attendance, which is inefficient and needlessly complicates child care administration.
- The bill requires that each state establish pay scales so that more experienced early educators can be properly compensated. States should include child care providers and provider organizations in the development of these wage ladders.
- Finally, the bill devotes resources for professional development activities, establishes scholarships for educational credentials, and encourages states to partner with higher education institutions to develop a pipeline of qualified early educators.

Investments in preschool and Head Start

The CCWFA authorizes and appropriates \$8 billion per year over 10 years to encourage states to take steps toward an equitable preschool expansion. Over the past several years, many states have used money from the U.S. Department of Education's Preschool Development Grant program to develop detailed plans for public preschool, and several have followed through on implementation plans.¹⁴ These funds would likely make those plans financially feasible for many states. The legislation also requires a preschool equity review so that expansions in access to high-quality preschool are targeted to those families and children who would benefit from them the most.

Six key components to preschool expansion

As CAP laid out in a recent report, policymakers should prioritize six key components— included in the CCWFA—in order to ensure that preschool contributes equitably and effectively to the early childhood system:¹⁵

1. Deliver preschool in multiple settings, which can be a mix of public and private schools, child care centers, and home-based child care settings.
2. Continue to invest in Head Start and Early Head Start services.
3. Invest in infant-toddler child care alongside preschool, since public provision of preschool can have an unintentional negative effect on the supply of infant-toddler care.
4. Keep the focus on equitable access to quality programs, as the CCWFA does through its equity review process.
5. Prioritize proper compensation for the early care education workforce, so that early educators are paid well and differences in compensation are not arbitrary.
6. Ensure that preschool programs are accountable to families and value families' voices and diverse needs.

As previously mentioned, the CCWFA would increase federal funding for Head Start by more than \$4 billion over several years so that the program can meet eligible families' needs throughout the year. These additional funds would allow all grantees to extend their hours to a full day and their calendars to the full school year. If grantees are already meeting that minimum, they can use the funds to increase program quality and services. Head Start educators would also qualify for better wages, based on their credentials and experience. Finally, the CCWFA would exempt the Migrant and Seasonal Head Start from the school year calendar so that grantees could ensure continuity of services during the appropriate time of year, while also requiring these programs to offer full-day services.

Supports and services for children with disabilities

Finally, the CCWFA instructs states to devote 5 percent of authorized and appropriated funds to go toward services for children and families with disabilities. CAP research has found that parents of children with disabilities have greater difficulty finding child care that meets their needs, which makes them three times more likely to experience job disruptions because of problems with child care.¹⁶ The CCWFA would help states offer more early intervention services to infants and toddlers through Part C of the Individuals with Disabilities Education Act.¹⁷ It would also encourage states to spend these resources on inclusive, high-quality care for infants and toddlers with disabilities.

Conclusion

The CCWFA is a comprehensive birth-to-5 child care plan that addresses the long-term and structural problems with the current market-based child care system. It expands access to quality care by converting the child care assistance program into a guaranteed subsidy, entitling millions of low-income working families with young children to no-cost child care—while millions more would have their child care costs significantly reduced. Just as importantly, the CCWFA finally invests in the skilled, valuable work that early care educators provide to families and young children. Finally, the program takes a birth-to-5 approach, pairing investments in infant-toddler care with equitable investments in preschool.

As policymakers consider investments in U.S. infrastructure with the goal of creating good-paying jobs and increasing economic growth, they should pursue child care reforms such as the CCWFA.

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Endnotes

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