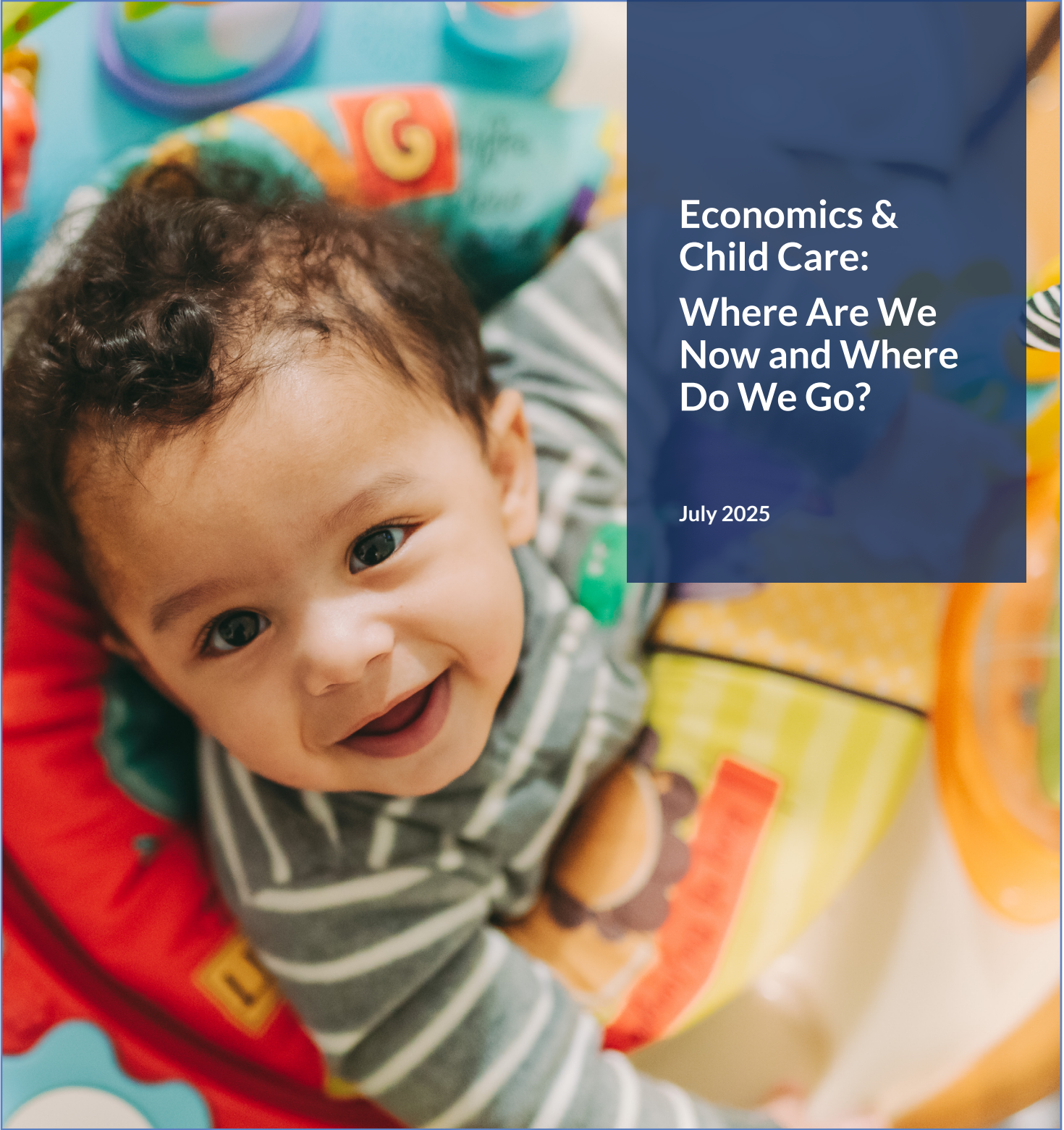




Economics & Child Care: Where Are We Now and Where Do We Go?

July 2025



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Executive Summary

Child Care Aware® of America and the Buffett Early Childhood Institute at the University of Nebraska co-hosted a Roundtable on Economics and Child Care in October 2024, in Omaha. Twenty economists and early childhood experts from across the country gathered to discuss the challenges facing the child care field and make recommendations on how to use what we have learned to improve the child care system. (See Appendix for a list of participants.)

Much is known about the science of early childhood, particularly brain development, and the crucial importance of early experiences. Still, the United States struggles with how to pay for the quality of care that is known to impact a child for a lifetime. Participants focused on potential barriers to improving both the supply and demand for child care as well as affordability, while ensuring the highest possible quality for children. Multiple factors were considered, including direct subsidies to families, parental leave, and tax policies.

The Roundtable conversation was framed around five unanswered questions that are barriers to moving forward in building a comprehensive system that truly meets the needs of those who depend on it: families, businesses, providers, and, most of all, the children who receive care. The five questions were:

1. **Parents and choice:** What is affordable for parents and what can we use to measure affordability? How much does cost impact or limit parent choice?
2. **Regulations, cost, and quality:** What is the impact of regulations on cost, specifically ratios and education requirements? What is the role of government in establishing quality program standards and workforce requirements and pay?
3. **Demand-side and supply-side strategies:** What is the impact of public subsidies on the market, and at what scale can they influence cost or availability of care? What approaches can specifically address the supply deficit?
4. **Who benefits and who pays:** What or who does child care impact, and who benefits (parents, businesses, the economy, etc.)? Should child care be a shared responsibility, and if so, by whom (parents, businesses, local, state or federal public funds)?
5. **Family leave and tax policy:** Who benefits from family leave and tax policy? How can tax policy support parent choice?

Throughout the discussion, there were several recurrent themes. Participants focused on the lack of early learning data, the cost, quality, and general shortage of child care, and the challenges faced by the child care workforce. Several areas of consensus emerged, including:

- The current child care system fails to meet the needs of families, providers, and businesses. To have a viable child care system we must have options that meet the varied needs of families, especially work hours, and the care must be affordable. To achieve this, we need both supply-side and demand-side investment strategies that are tied to quality and are sustainable, transparent, and accountable. Deregulation will not solve the problems of child care inaccessibility and high prices.
- Since child care benefits accrue not only to children and families, but also to businesses and the broader economy, there is a public good aspect to child care. Parents alone cannot bear the responsibility for ensuring there is enough high-quality child care. Investments from federal, state, and local governments are required.
- There are multiple goals for child care and determining which should be prioritized would lead to better informed decision making.
- We need better definitions and assessments of quality. Improving child care quality will require robust, sustained investments that support a range of child care options and parental choice, while supporting a well-prepared and well-compensated child care workforce. Policymakers should ensure that public investments are tied to the quality of care children receive.

Participants also identified several areas for future study and analysis:

- There are several factors that influence the availability of child care and parent decisions about care. These include the price families face, the cost to provide care, demand, family income and affordability, employment, regulations, and existing supply. Understanding changes in any one of these measures and how they impact the child care system is important to determining future policy recommendations.
- To adequately project appropriate funding levels, policymakers also need to better understand the current child care funding landscape. While federal investments are relatively clear, the levels of state and community funding are less well known. Furthermore, program-level funding is not reported in any consistent manner.
- Studies are needed to examine the offset in the need for child care if paid parental leave were available, including how it would impact child care supply.

The Roundtable conversation called attention to the interconnectedness of child care and the economy in multiple important ways. The five unanswered questions posed in this report are barriers to building a stronger child care system. A more expansive examination of these questions, bringing together economists, child care experts, and others, as well as translating lessons learned for policymakers, are important next steps.

Note: Roundtable participants attended as individuals, and their comments do not necessarily reflect the position of their organizations.

Introduction

Twenty of the nation's leading experts on economics and child care gathered in Omaha, Nebraska, in October 2024, to discuss the state of child care in the United States and make recommendations on how to use what we have learned to improve the child care system. The conversation was framed around five unanswered questions that are barriers to moving forward in building a comprehensive system that truly meets the needs of those who depend on it: families, businesses, providers, and, most of all, the children who receive care. Throughout the discussion, there were several recurrent themes. They focused on the lack of data, the cost and general lack of care, and the challenges faced by the child care workforce. The five questions were provided to the group in advance of the meeting included

- What is affordable for parents and how can it be measured?
- How can we address the supply deficit?
- What effect do regulations have on the supply, cost, and quality of care?
- What is the impact of child care subsidies on the market and at what scale can they influence the cost and availability of care? Who benefits and who pays?
- How can tax and leave policies, such as paid parental leave, support parent choice?

The following provides an overview of the conversation and suggestions for what can be done to provide children and families with the quality of care they need and can afford. This summary only skims the surface of what was discussed.

Topic 1:

Parents and Choice

What is affordable for parents and what can we use to measure affordability? How much does cost impact or limit parent choice?

BACKGROUND RESEARCH

Affordability: There is no consensus around what is affordable for parents and how to measure affordability. Many sources cite 7% of family income as an index of affordability, based on the U.S. Department of Health and Human Services' (HHS) rule that limits co-pays for families receiving federal child care subsidies to 7% of family income.¹ This has been widely interpreted to mean that no family should pay more than 7% of the family income for child care. However, the Bipartisan Policy Center (BPC) noted that this 7% benchmark was designed solely as a recommendation for how much a family who receives a child care subsidy from federal funds should pay as a co-payment, not as an affordability metric for all families.² Further, experts have argued that 7% of income could be a large burden for some families, particularly those with low

incomes.³ Recent data from Child Care Aware® of America (CCAoA) shows that the cost of full-time infant care in a center exceeds 7% of median family income in all 50 states and Washington, DC.⁴

A 2021 BPC poll asked parents to identify the maximum amount they can afford for child care.⁵ Two-thirds of respondents reported that the maximum they could afford is about \$10,400 annually per child. While this amount was close to the national average cost of care in 2021, the cost of center-based care in many states exceeds this amount.⁶ Experts at the BPC have argued that affordability metrics should take factors such as income, household size, regional cost of living, etc., into account.⁷ They cite the Economic Policy Institute's (EPI) Family Budget Calculator⁸ as one model for assessing affordability of care, because it determines the minimum household income needed to afford child care and other expenses.

¹ Office of Child Care. (2024, February 29). New rule to improve child care access, affordability, and stability in CCDF. <https://www.acf.hhs.gov/occ/news/new-rule-improve-child-care-access-affordability-and-stability-ccdf>

² Smith, L. K., Suenaga, M., & Campbell, M. (2020, August 31). Demystifying child care affordability. Bipartisan Policy Center. <https://bipartisanpolicy.org/blog/demystifying-child-care-affordability/>

³ Horowitz, B., Kiernan, M. T., & Birken., (2022). Childcare affordability affects labor market and family choices. Federal Reserve System. <https://researchconnections.org/childcare/resources/169256>

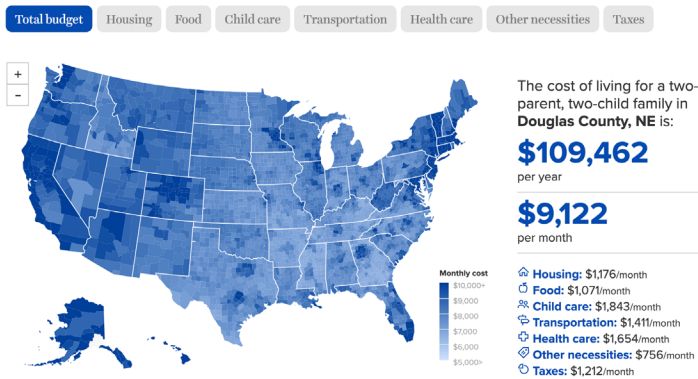
⁴ Child Care Aware of America. (2025). 2024 Price of care: Child care affordability analysis. [Affordability_Analysis_2024.pdf](https://info.childcareaware.org/hubfs/Affordability_Analysis_2024.pdf)

⁵ Smith, L., Tracey, S., & Wolters, B. (2021, February 24). Are parents' child care preferences changing? Bipartisan Policy Center. <https://bipartisanpolicy.org/blog/are-parents-child-care-preferences-changing-overview-of-bpcs-parent-survey/>

⁶ Child Care Aware of America. (2025). 2024 Price of care: Child care affordability analysis. https://info.childcareaware.org/hubfs/Affordability_Analysis_2024.pdf

⁷ Smith, L., Sunaga, M., & Campbell, M. (2020, August 31). Demystifying child care affordability. <https://bipartisanpolicy.org/blog/demystifying-child-care-affordability/>

⁸ Economic Policy Institute. (2024). Family budget calculator. <https://www.epi.org/resources/budget/>



The EPI's Family Budget Calculator "measures the income a family needs in order to attain a modest yet adequate standard of living." Users can obtain community-level cost estimates for 10 different family types (one or two adults with zero to four children), for all counties and metro areas in the U.S.

The Calculator includes the cost of child care and six other categories: housing, food, transportation, health care, taxes, and other necessities (clothing, personal care, household supplies, reading materials, school supplies).

For example, the monthly budget for a family of four (two adults, two children) in Douglas County, NE is:

Housing:	\$1,176
Food:	\$1,071
Child care:	\$1,843
Transportation:	\$1,411
Health care:	\$1,654
Taxes:	\$1,212
Other necessities:	\$756
Monthly total:	\$9,122
Annual total:	\$109,462

Note that child care in Douglas County, NE is 20% of the family budget.

Source: <https://www.epi.org/resources/budget/>

Some suggest that metrics from other sectors, such as housing, could inform the child care affordability debate. However, the 30% rent or mortgage affordability "rule" has a history similar to the HHS 7% benchmark in that it was developed as an index of how much of a public housing tenant's income should be spent on rent.⁹ The 30% index was not intended to be a general rule of affordability, yet it was widely adopted by financial advisors and lenders as such.

Cost and parental choice: Studies show that the price of child care impacts maternal labor force participation, including whether to work and the number of hours worked.¹⁰ Some mothers opt out of the workforce after comparing the cost of child care relative to the income they would make. These mothers lose some retirement savings in addition to lost income¹¹ and typically re-enter the labor market at lower wages.¹² Other families, such as single parents or those with low incomes, do not have this option. These families often rely on low - or no-cost child care from family or relatives, rather than participate in the formal child care system. Cost is not the only factor parents consider. A BPC survey of parents not using a formal child option showed that more than half (57%) of these parents would still prefer informal child care, even if formal child care was free and convenient.¹³

⁹ U.S. Department of Housing and Urban Development. (2014). Rental burdens: Rethinking affordability measures. https://archives.huduser.gov/PORTAL/pdr/pdr_edge_featd_article_092214.html

¹⁰ U.S. Department of the Treasury. (2021, September). The economics of childcare supply. <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>

¹¹ Gutierrez, L. V. (2023). New data demonstrates mothers' retirement insecurity. The Century Foundation. <https://tcf.org/content/report/new-data-demonstrates-mothers-retirement-insecurity/>

¹² Torres, A. J. C., Barbosa-Silva, L., Oliveira-Silva, L. C., et al. (2021). The impact of motherhood on women's career progression: A scoping review of evidence-based interventions. Behavioral Sciences, 14: 275. <https://doi.org/10.3390/bs14040275>



Research on child care subsidies, which make care more affordable for low-income families, shows positive impacts on mothers' labor market participation.¹⁴ Herbst's review of the literature concludes that while studies differ in many respects, their findings are "remarkably consistent" in demonstrating that receipt of child care subsidies increases maternal employment rates.¹⁵

ROUNDTABLE DISCUSSION

Areas of agreement: Participants agreed that many parents are priced out of the current child care system and that it doesn't meet parents' needs. Recent changes in work location, including remote work and increased use of technology, have changed parents' need for child care. The non-traditional, flexible hours of care needed by retail and service industry workers, remote workers, and shift workers seldom fit with the 8 am to 5 pm business hours of many child care programs. The current formal child care system also has not responded to the new world of work and little is known about what would make the supply more responsive to the new demands.

Participants also agreed that no sufficient index of affordability exists and that the 7% benchmark is not adequate. Further, participants argued that there is likely to be no one index of affordability that works for all families. Instead, there should be a flexible index of affordability, based on parents' income. This index needs to be easy for families to understand and not overly burdensome to administer. One possible approach would be to use the Family Budget Calculator, as this elucidates the tradeoffs families are making, including what they are sacrificing because they are paying so much for child care.

Participants agreed that a viable child care system must have a variety of options given families' varied needs. Finally, it was agreed that there is not enough research on parental choice in child care, particularly among those parents who choose not to participate in the formal system.

¹³ Smith, L. K., & Owens, V. (2022, August 8). What keeps employed parents out of the child care system? Bipartisan Policy Center. <https://bipartisanpolicy.org/blog/survey-results-what-keeps-employed-parents-out-the-child-care-system/>

¹⁴ Horowitz, B., Kiernan, K. T., & Birken, B. (2022). Childcare affordability affects labor market and family choices. Federal Reserve System. <https://researchconnections.org/childcare/resources/169256>

¹⁵ Herbst, C. M. (2022). Child care in the United States: Markets, policy, and evidence. <https://www.econstor.eu/bitstream/10419/265768/1/dp15547.pdf>



"I bring up the [Family Budget] Calculator because it helps with the trade-offs. If you're paying for child care, it lays out what else you might be struggling to pay for. That's a good starting ground." --Rob Grunewald

"Child care affordability may not be an exact science, but if practitioners can agree on some reasonable assumptions, and figure out what a sliding fee scale would look like, we would have a better sense of the financial means low-income working families need to cover the costs of putting their children in the care option that works best for them" -- Brittany Birken

"How the market is being used by families is of critical importance. We really just don't know and we're doing a lot of guessing. We should be asking parents when they change (providers) why they are doing that. Some parents, I suspect, are learning something about child care and what they want in the service and are making different decisions after that first initial decision. It would be helpful for us to understand what parents value when they're looking for quality."

--Herman Knopf

Areas for future study and analysis: Several participants raised the need to come to a consensus on what child care is and what the goal of the child care system is. The answer to these questions will impact cost and therefore parental affordability. If the goal is to ensure no parent foregoes desired employment, that system may cost less than one with a goal of optimizing child development. The issues of defining child care and agreeing on the goals of the system were themes that were raised repeatedly and generated considerable discussion.

There was lengthy discussion, but no consensus, about how to best determine the real cost of care. Despite current trends, several participants argued for continuing to use market rate surveys, rather than cost modeling alone, given that cost models can contain many assumptions.

"What is the system you're trying to build, trying to achieve? Is it just that no parent forgoes employment because of lack of access to care? Or is it about children having developmentally appropriate opportunities so that they can grow up and thrive? Those two systems are wildly different in terms of the number of people you're trying to serve, the ages of the children, what kinds of subsidies or public funding you may want to commit." --Rupa Datta



"I'm a little sad to see us move away from the market rate system towards cost of quality measures because I think there are better ways we could have used market rate data. I think the cost of quality modeling approach... relies on a lot of assumptions and it is going to drift, over time it's just going to be totally undisciplined. You could use the [market survey] data differently and you could say we're going to pay everywhere at the market rate paid in the rich communities, because this is a standard of care that people who are unconstrained by budgets, this is what they pay. This is what they provide for their kids and this is the quality of care that all our kids deserve." --Aaron Sojourner

"The point is that there's greater capacity, but that's not what parents want, they don't necessarily want, that [type of] capacity." --Eliot Brenner

Others pointed out that market surveys are not accurate indicators of the true cost of care because funding is so inadequate and constrained by what parents can afford. As a result, the child care workforce is woefully underpaid. An alternative is to use the cost of care models to set prices. However, some participants were skeptical because cost of care models have so many variables. The National Academies of Sciences, Engineering, and Medicine's, "Transforming the Financing of Early Care and Education," study of child care financing¹⁶ provided a cost of quality care estimate, for center-based care and family child care homes. There are also several cost of care models in the field that could be reviewed and improved. The cost of quality varies by state, region, and rural vs. urban, and some states have examined this.

More needs to be done to understand parental choice in child care, particularly among parents who do not use the formal system. Are parents priced out of the market and if so, what level of subsidy is needed to make care affordable to them? Some noted that it is difficult to study choice in a system with such constrained options. Several noted that the research around elasticity in the child care market should be reviewed and updated, to consider the extent to which cost impacts parental choice. There was unanimous agreement that more investment in the system overall is needed and that a first key step in improving access and determining parental affordability is establishing the true cost of quality child care. Also, although there is a need for further study there was agreement that we are not using all of what we do know to inform policies. There is a need to translate existing research for policymakers. For example, existing research on affordability and access could be summarized in a brief for policymakers.

¹⁶ National Academies of Sciences, Engineering, and Medicine. (2018). Financing early care and education with a highly qualified workforce. <https://nap.nationalacademies.org/catalog/24984/transforming-the-financing-of-early-care-and-education>

Topic 2: Regulations, Cost, and Quality

What is the impact of regulations on cost, specifically ratios and education requirements? What is the role of government in establishing quality standards, workforce requirements, and pay?

BACKGROUND RESEARCH

Cost: Various models have been developed to estimate the true cost of child care. A recent effort by Prenatal to Five Fiscal Strategies, for example, posits the following as drivers of cost: setting (center vs. family child care (FCC) home), ratio and group size, number of classrooms, age of children served, staff salaries and benefits, practices that allow family engagement (i.e. teacher conferences), non-personnel expenses (e.g., occupancy) and maintaining an operating reserve.¹⁷ Other models include similar inputs as potential cost drivers.¹⁸ The relationship between some of these factors and cost seems clear (e.g., increasing staff compensation will increase cost, as the BPC determined that staff costs comprise 70-80% of child care program operating budgets).¹⁹ However, the impact of other factors, such as regulations, is less clear (see below).

Quality: Some researchers argue that the floor for child care quality is outlined in state regulations and licensing standards, which aim to keep children safe and healthy. These typically focus on structural components of quality, including health practices, physical environment, staff-child ratios, group size, teacher education and training, etc.

In addition, as of 2023, 42 states and DC also have a Quality Rating and Improvement System (QRIS) that rates child care providers. The goal is to inform parents and incentivize quality improvements (often through financial incentives).²⁰ QRIS ratings go beyond baseline regulations and licensing standards; however, in many states, participation is voluntary and therefore low. Further, Child Trends notes that while QRIS ratings are associated with small differences in quality, the research linking ratings and child outcomes is mixed.²¹ Critics have

¹⁷ Workman, S., & Capito, J. (2024, April). Estimating the true cost of child care in all 50 states. Prenatal to Five Fiscal Strategies. https://www.prenatal5fiscal.org/files/ugd/8fd549_39ca0b6e63124196afdc929a0cd55e97.pdf

¹⁸ Aigner-Treworgy, S., Osborn, C., & Smith, L. K. (2022, November). Charting the path forward for child care. Bipartisan Policy Center. <http://resource.nlm.nih.gov/9918557283306676>

¹⁹ Smith, L. K., & Osborn, C. (2024, March 1). Top-down, Bottom-up: Building a state child care center workforce. Bipartisan Policy Center. <https://bipartisanpolicy.org/report/building-state-child-care-center-workforce/>

²⁰ Quality Compendium (2023). Quality improvement systems. <https://qualitycompendium.org/top-ten/qis-status>

²¹ Diamond, Z., Hilty, R., Keaton, H., Schaefer, C., & Omonuwa, K. (2024, May). Insights on QRIS from six states & a literature review: Findings from an evaluation of Parent Aware, Minnesota's QRIS. Child Trends. https://cms.childtrends.org/wp-content/uploads/1980/05/InsightsQRIS_ChildTrends_May2024.pdf

questioned the value of QRIS, arguing that ratings often fail to assess the key aspects of child care quality, particularly the teacher-child interaction, and are overly prescriptive in defining quality.²² Researchers note that process components of quality, focusing on staff-child interactions and the nature of the child's experience in the child care setting (language environment, developmentally-appropriate curriculum and instruction, social relationships, parent engagement, etc.), are likely most important in contributing to child outcomes, but not measured in most QRIS systems.

Role of Regulations in Driving Cost and Quality:

A comprehensive review of the impact of regulations on child care found mixed results.²³ Research shows that most providers (70%-80%) voluntarily exceed the minimum standards set in regulations. However, studies also reveal that a substantial number of providers do not comply with all regulations. Overall, the research calls into question the impact of regulations.

The same review²⁴ found that econometric studies have demonstrated impacts of child care regulations. On the negative side, stricter regulations can distort incentives in child care labor markets, with a study finding that tougher regulations lead to a reduction in the number of child care job postings. Providers may respond to stricter regulations with "input substitution" by reducing investments in other factors to comply with the stricter regulations (e.g., hiring more, but less skilled, workers to meet regulations on staff-to-child ratios).

On the positive side, stricter regulations have intended consequences (e.g., higher staff-to-child ratios) and reduce racial and ethnic gaps in providers' hiring processes. Due to input substitution, higher investments in regulated

factors are offset by lower investments in other factors, so stricter regulations do not tend to increase price. The review notes that there are very few studies of the effects of child care regulations on quality and findings are mixed.

ROUNDTABLE DISCUSSION

Areas of agreement:

Quality: There was universal agreement among participants that the quality of child care is vitally important but has not been clearly defined. There was also consensus that the quality in the current system is problematic. Questions were raised about who should define quality, with some asserting that the child care profession should do so.

"All professions have their standards. Respect early childhood educators like they're a part of a bona fide profession; allow that profession to set the standards of high-quality practice and then ensure that public funding can pay for it." --Marica Cox Mitchell

It was also noted that we may not be measuring the correct factors to capture the quality of care. For example, several remarked on the lack of relationship between QRIS ratings and child outcomes or even observed quality.

In discussing quality, participants engaged in a discussion on the child care workforce, given that research shows that the quality of care is largely driven by the quality of provider-child interactions. Participants discussed what workforce requirements for providers should be, including higher education. Some questioned the need for degrees and noted that degrees do

²² Policy Equity Group. (2022). QRIS: Building the case for knocking it down. <https://policyequity.com/qr-is-building-the-case-for-knocking-it-down/>

²³ Herbst, C. M. (2022). Child care in the United States: Markets, policy, and evidence. IZA Discussion Papers, No. 15547, Institute of Labor Economics (IZA), Bonn. <https://www.econstor.eu/bitstream/10419/265768/1/dp15547.pdf>

²⁴ Herbst, C. M. (2022). Child care in the United States: Markets, policy, and evidence. IZA Discussion Papers, No. 15547, Institute of Labor Economics (IZA), Bonn. <https://www.econstor.eu/bitstream/10419/265768/1/dp15547.pdf>

"In some ways the early childhood sector has been subsidizing professional development for the school system. Teachers get their degree and after a couple of years of work in an early childhood program they go on to a job in an elementary school." --Rob Grunewald

"There was one program that I interviewed. Capacity 200. Actual number of kids there, 80. And when I asked why not 120? [the response] 'I can't hire teachers. Just can't.' Any conversation about improving the supply or the quality will have to include a conversation about increasing the wage rates. We need updated elasticity studies on the labor supply. If you increase wages by 10%, how many more people do you get to enter that industry?" --Flávio Cunha

"Some of the things that QRIS systems assume are associated with quality have very little evidence that that's the case." --Lynn Karoly

"Child care is an example of what economists call 'an experience good.' You only know how good it is, what its characteristics are, after you've had access to it. ... When we have young children involved, the stakes are high when it comes to consuming an experience good. Regulations serve to communicate, to assure parents some low level of quality ...meeting health and safety standards, that there are acceptable ratios in place." --Chris Herbst

not necessarily indicate that the provider will competently care for children. Several participants noted that the extremely low pay in the child care industry, as well as a lack of benefits, do not attract people with bachelor's degrees, particularly since they can work in state pre-K programs or in the K-12 system and earn much higher wages, with benefits. Again, in this context, participants noted that the goal of child care will influence what level of provider education is necessary. If the goal of child care is to prepare children for school, that will likely require a different level of provider training than keeping children safe while their parents work.

Participants argued that focusing on reducing staff turnover, by increasing provider compensation and other methods, may be key to increasing quality. Yet QRIS does not typically assess teacher turnover. Investing less in inspections, including having multiple regulatory agencies inspecting the same programs, and more in providers, might also enhance quality. Practical and financial assistance to help providers meet regulations could also prove useful.

Regulation: As in the parent affordability discussion, participants again stated that an analysis of child care regulations should include a focus on what child care is and what its goals are. A system designed to optimize child development might need different regulations than one designed to allow parent employment. To effectively regulate child care, stakeholders must articulate the goals of the regulations and the desired outcomes.

Participants questioned who is impacted by regulations because parents bear much of the cost of regulation. Given that many providers operate above the levels set in regulations, participants claimed that some regulations might have a minimal impact on quality but a substantial impact on cost. Participants agreed that some regulations serve an important purpose. Although staff-child ratios are likely the major driver of child care cost they also drive quality. Given the link between ratios and cost, and the importance of ratios for quality, participants were in consensus that deregulation, especially increasing child-staff ratios, will not solve the problem of high child care prices.

Some participants noted that regulations serve as consumer education, communicating to parents what quality is and what quality level they can expect. Others noted that strong regulations are necessary in an under-resourced system where staff are poorly trained and compensated. Finally, some argued that deregulation will increase inequity in the child care system, because parents who can afford quality will still demand and pay for it, while parents who cannot afford quality will have their children in less optimal care.



"If the system is well-resourced, then you might need less regulation. You can incentivize what's important. But if the system is under-resourced, then the providers may be trying to balance their books in ways that are most harmful for children. The more you're squeezing the system the more important it is to have floors that really have some teeth to them to protect families, children, and maybe the workers." --Rupa Datta

"There has been tons of research but how much has percolated up to policy makers and if it's not the case, what are we missing? We have to put this together in a way that it flows to policy makers in a way that they understand." -- Anubhav Bagley

Participants discussed the military child care system, which is often seen as a model. Contrary to common beliefs, the military standards reflected the median state standards at the time they were written. The primary difference is that the standards are strictly enforced and there are consequences for not meeting them. To achieve this, the military developed a standardized, competency-based training program with training completion tied to teacher promotions and wage increases. All training was free, onsite, and provided by degreed training specialists. Training followed the personnel from one location to another. Funding to meet the standards and training requirements went directly to the programs to offset the cost that otherwise would have been passed on to parents.

Participants agreed there is lack of research demonstrating the impact of some regulations, particularly for child outcomes. Provider education was noted in this regard, with inconsistent findings around the benefits of degrees. Moreover, regulations around provider education can have unintended consequences, including reduced teacher-child racial match, input substitution (reduced spending on other items), and increased turnover. Participants noted that during the pandemic, some regulations were loosened or eliminated and some of these changes remain post-pandemic. Participants agreed that regulations must account for differences among various child care types (centers vs. home-based).

Areas for future study and analysis: There is a need to re-examine measures of child care quality and develop better assessments. Measures linked to child outcomes would be especially useful. More studies should be done to determine which regulations impact child care quality. Elasticity studies should be done to determine the effects of regulations on child care supply, prices, and quality to better understand how to best direct resources.

Again, while further studies are needed, participants agreed that existing research is not getting into the hands of policymakers. A brief that summarizes what researchers know about regulations and their impacts would be useful.

Topic 3:

Demand-side and Supply-side Strategies

What is the impact of public subsidies on the market, and at what scale can they influence cost or availability of care? What approaches can specifically address the supply deficit?

BACKGROUND RESEARCH

Supply: Child Care Aware® of America's recent report²⁵ found that the number of center-based programs increased 1.6% from 2023 to 2024, continuing a trend of small but steady increases since 2020. Notably, the number of FCC homes increased 4.8%, reversing the trend seen in recent years. FCC homes had declined approximately 12% from 2019 to 2023, continuing a downward trend that predated the pandemic.²⁶

Understanding the supply of child care is complicated and is hindered by the lack of data at the state level. Existing assessments of child care supply use licensed capacity but this often overestimates the actual spaces available to children.²⁷ In only a few states is there data on the capacity by age of child. This is important

because in many states the number of 4-year-olds who need child care has been reduced because of state pre-K programs. However, due to the higher costs associated with infant-toddler care, spaces have not been reconfigured for younger children; some preliminary research from Virginia indicates that this is the case.²⁸ Smith and colleagues differentiated licensed capacity, desired capacity (number of children programs want to enroll, given staffing and other considerations), and actual enrollment.²⁹ They suggested that states should do point-in-time counts to understand how licensed capacity relates to enrollment. Desired capacity could be examined through provider surveys; this might prove to be the most realistic measure of actual supply.

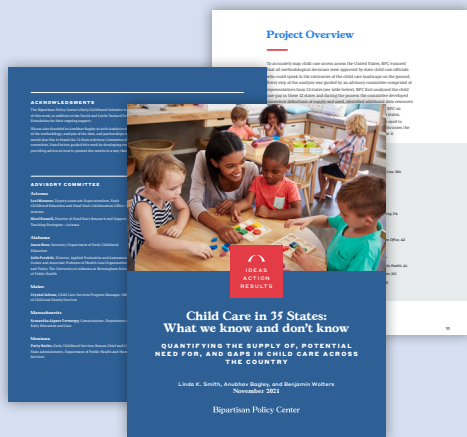
²⁵ Child Care Aware of America. (2025). Child care in America: 2024 price and supply. <https://www.childcareaware.org/price-landscape24/>

²⁶ U.S. Department of Health & Human Services. (2019, December 19). Addressing the decreasing number of family child care providers in the United States. <https://www.acf.hhs.gov/occ/news/decreasing-number-family-child-care-providers-united-states>

²⁷ Miller-Bains, K., Yu, S., & Bassok, D. (2024). Is authorized capacity a good measure of child care providers' current capacity? New evidence from Virginia. *Early Childhood Research Quarterly*, 71, 92-103. <https://www.sciencedirect.com/science/article/abs/pii/S0885200624001716>

²⁸ Miller-Bains, K., Yu, S., & Bassok, D. (2024). Is authorized capacity a good measure of child care providers' current capacity? New evidence from Virginia. *Early Childhood Research Quarterly*, 71, 92-103. <https://www.sciencedirect.com/science/article/abs/pii/S0885200624001716>

²⁹ Smith, L. K., Bagley, A., & Wolters, B. (2021, November). Child care in 35 states: What we know and don't know. https://bipartisanpolicy.org/download/?file=wp-content/uploads/2022/03/BPC_Working-Family-Solutions_V7.pdf



Potential Need vs. Demand and the Child Care Gap

Studies of child care supply gaps typically focus on potential child care need, rather than actual demand. Demand is extremely difficult to quantify, as it can be driven by multiple factors, including needs, preferences, access, affordability, etc.

- 📌 **Potential Child Care Need:** All children under age 6 with all available parents in the labor force
- 📌 **Child Care Demand:** Rate at which parents and families actually utilize or look for formal child care

The child care gap is then defined as the difference between potential child care need and child care supply.

Source: Smith, L. K., Bagley, A., & Wolters, B. (2021). [Child care in 35 states: What we know and don't know](#).

A survey done by the Bipartisan Policy Center examined a sample of 1,000 parents who were using informal child care (e.g., relatives, parents alternating work schedules, a non-live-in nanny). Results showed that these parents were satisfied with their informal child care arrangement, with most (62%) saying formal child care is unappealing to them. More than half (57%) of the parents stated that they would prefer their current arrangement, even if child care were free and in a convenient location.

Source: Smith, L. K., & Owens, V. (2022).

Demand: The field has struggled with quantifying actual child care. Families' demand can be driven by many factors including needs, preferences, access, affordability, available provider quality, etc..³⁰ A typical approach has been to examine potential child care need, using census data on the number of children below school age who have all available parents in the workforce. However, a survey by the BPC shows that more than half of families who use informal child care would continue to do so even if formal child care was free and convenient.³¹ Other research shows that more than one quarter of parents cite primary reasons other than parental employment for placing their children in child care (i.e., enrichment, to provide parents relief from caretaking)³² and it's likely that most, if not all, families need some child care support.³³ More work is needed to develop accurate estimates of child care demand.

Gaps: Despite difficulties in quantifying both supply and demand, child care supply is inadequate. Many parents report that they struggle to find child care, particularly care they can afford.³⁴ Availability is especially limited for families who have infants and toddlers, have low incomes, work non-traditional hours, or live in rural areas. A BPC study of 49 states and Washington, DC found a child care supply gap of 30.3%. The gap in rural areas (33.4%) was larger than that in urban areas (29.2%).³⁵

Eliminating gaps: Efforts to improve child care access have focused largely on the demand side. The most common is child care subsidies through the federal Child Care and Development Block Grant (CCDBG). Subsidies are intended to increase low-income parents' ability to pay for care. Most subsidies are provided in the form of vouchers that allow parents to choose among child care providers if they meet certain minimum requirements. Under federal

³⁰ U.S. Department of Health & Human Services. (2024, May 15). Parental search and selection of child care and early education: A literature review. OPRE Report 2024-82. <https://files.eric.ed.gov/fulltext/ED657258.pdf>

³¹ Smith, L. K., & Owens, V. (2022). What keeps employed parents out of the child care system? Bipartisan Policy Center. <https://bipartisanpolicy.org/blog/survey-results-what-keeps-employed-parents-out-the-child-care-system/>

³² U.S. Department of Health & Human Services. (2024, April). Parental search and selection of child care and early education: A literature review. OPRE Report 2024-82. <https://files.eric.ed.gov/fulltext/ED657258.pdf>

³³ WeVision Early Ed (2023, December). Making the ideal real: How child care can work better for everyone. <https://makingtheidealreal.wevisionearlyed.org/>

³⁴ Saxena, A. (2023). New poll confirms: Unaffordable and inaccessible child care impacts parents' ability to work. The Center for Law and Social Policy. <https://www.clasp.org/blog/new-poll-confirms-unaffordable-and-inaccessible-child-care-impacts-parents-ability-to-work/>

³⁵ Bipartisan Policy Center. (2024). Unpublished data.

³⁶ Schmit, S. (2024, April 2). CCDBG FY2024 state-by-state appropriations distribution estimates and increases. The Center for Law and Social Policy. <https://www.clasp.org/publications/fact-sheet/ccdbg-fy2024-state-by-state-appropriations-distribution-estimates-and-increases/>

rules, to be eligible for subsidies, family income must be less than 85% of the state median income. However, due to underfunding, only 18% of families eligible under federal rules receive CCDBG subsidies.³⁶

Some states, starting with Michigan, have experimented with a model in which the state, parents, and the parents' employer share child care costs.³⁷ To be eligible, a family's income must fall between 200 and 325 percent of the federal poverty level (FPL). This "Tri-Share" model has yielded some preliminary positive results, increasing the number of families with access to financial assistance for child care and reducing their child care costs. However, it also raises concerns, including low uptake from businesses, tying child care affordability to staying in a particular job, and issues around which employers provide this benefit. The model fails to address child care quality or the child care workforce and falls short of reaching all families who need assistance with paying for child care.

Recent research has begun to examine the impact of child care subsidies on the supply of care. The Urban Institute argues that while subsidies have the potential to increase supply, their ability is limited because subsidies are only a small part of the child care market.³⁸ Raising subsidies alone will not increase supply, because providers face other financial and non-financial constraints.

A model examining the impacts of expanding subsidies to families up to 250% of the national median income, and capping parent payments at 7% of income, predicted that the resulting increased demand for child care would increase both supply and provider wages. In addition, maternal employment would increase.³⁹

Preliminary data from new legislation in Vermont that increased subsidy eligibility from 350% to 575% of the FPL found an impact on supply, with 1,000 new slots opening, and more centers and family child care homes opening than closing for the first time since the state started collecting this data.⁴⁰

Other supply-side strategies have been suggested and implemented, including efforts directly targeted to providers: supplementing provider compensation; start-up, operational, and expansion grants; training in business practices; licensing support; and staffed family child care networks.⁴¹ During the pandemic, in the face of a severe drop in demand, the federal government invested heavily in child care through the American Rescue Plan Act (ARPA). Many states used this funding to launch supply-side interventions that prevented the collapse of the child care system.⁴² Research from the Center for the Study of Child Care Employment demonstrated that over the period of ARPA funding, the child care workforce nationwide grew 20%, gradually returning to pre-pandemic levels. Growth since ARPA ended is about 1%.⁴³

³⁷ Rassoul, E., Fortner, A., & Small, S. (2024, August 22). Cost-sharing for child care: Looking at the Tri-Share Model. The Center for Law and Social Policy. <https://www.clasp.org/blog/cost-sharing-for-child-care-looking-at-the-tri-share-model/>

³⁸ Adams, G., Luetmer, G., & Todd, M. (2022, September 14). Using child care subsidy payment rates and practices to incentivize expansions in supply. Urban Institute. <https://www.urban.org/research/publication/using-child-care-subsidy-payment-rates-and-practices-incentivize-expansions-supply>

³⁹ Borowsky, J., Brown, J. H., Davis, E., Gibbs, C., Herbst, C., Sojourner, A., Tekin, E., & Wiswall, M. (2022). An equilibrium model of the impact of increased public investment in early childhood education. NBER Working Paper No. 30140. <https://www.nber.org/papers/w30140>

⁴⁰ Barrett, K., & Greene, R. (2024, August 20). Should Vermont's child care solution be every state's? Route 50. <https://www.route-fifty.com/management/2024/08/should-vermonts-child-care-solution-be-every-states/398927/>

⁴¹ Hartman, C., Johnson, N., Page, A., et al. (2022). Identifying child care deserts & building the supply of child care. Administration for Children & Families. https://childcareta.acf.hhs.gov/sites/default/files/new-occ/resource/files/b-1_stam_2022_identifying_child_care_deserts_updated.pdf

⁴² Aigner-Treworgy, S., Osborn, C., & Smith, L. K. (2022). Charting the path forward for child care. Bipartisan Policy Center. <http://resource.nlm.nih.gov/9918557283306676>

⁴³ Center for the Study of Child Care Employment. (2024). Child care sector jobs. <https://cscce.berkeley.edu/publications/brief/child-care-sector-jobs-bls-analysis/>



"Stability of funding is very important to providers. That's been one of the problems with the subsidy program. As children move in and out of eligibility, providers not only aren't going to be paid as much as they are for private pay families but they're also not stably enrolled."

--Elizabeth Davis

"Providers are not going to base a raise for their people on a voucher because it comes and goes. The stability of the funding is as critical as the funding itself."

--Theresa Hawley

"With public money comes public transparency and public accountability." --Jason Fichtner

Any effort to increase the amount of child care available will require both supply- and demand-side investments.⁴⁴ Simply increasing the supply of child care as it currently exists is not enough; family needs and parental choice must be considered.

ROUNDTABLE DISCUSSION

Areas of agreement: Despite the difficulty and current inadequacy in measuring both supply and demand, participants agreed that there is a gap between the child care that is needed and what is available.

Participants agreed that the child care system needs greater investment, and that the investment must be stable. The subsidy system, as currently administered, does not provide this stability. Families' subsidy eligibility varies over time, so providers cannot rely on subsidy payments. Moreover, the subsidy system only covers a small percentage of children in most child care settings, insufficient to have an impact on the overall stability of funding, and at current reimbursement rates don't incentivize owners to raise teacher wages. A potential alternative is a system with contracted slots. Providers could bid to provide child care services over a contracted period, thus providing stable funding for that time. Contracts would also have the advantage of being able to set requirements to address specific supply deficits (e.g., more infant-toddler slots, non-standard hours of care, etc.) and set and fund teacher wage floors.

Participants universally agreed that the system requires both supply-side and demand-side investment strategies. Several possible strategies were discussed, including expanded subsidies, grants and contracts to protect current supply and grow supply; and separate funding for infrastructure (facilities). Investments could target high-need groups (infants & toddlers, rural communities, etc.). Participants noted that investments must be tied to quality and any future investments should come with requirements to meet quality standards. The group agreed that it was reasonable to require that public dollars come with requirements for public transparency and accountability, as well as for data collection and reporting.

⁴⁴ Aigner-Treworgy, S., Osborn, C., & Smith, L. K. (2022). Charting the path forward for child care. Bipartisan Policy Center. bipartisanpolicy.org/download/?file=/wp-content/uploads/2022/11/BPC_ECI_Cost-Model-Explainer_RV7.pdf

"We need to be thinking of creative ways to measure some of these things and collect data from systems that might have some of this information that we haven't looked at yet. What data is out there that we haven't utilized?" --Rebecca Jack

"I think it comes down to issues of cost and financing. We can tinker a little bit here and there with the system, but until we address the two key questions, what is the cost and how are we going to pay for it? In the current system vouchers are actually worth less than the price of care—they distort the market quite a lot. You only are affecting the payment that's being made to a very small percentage of the kids in the system. You have to start looking at other strategies for getting money into the system whether you want to call them supply side strategies or something else, just using certificates or vouchers and changing the payment rate on those is not going to be enough to change how the system is financed."

--Lynn Karoly

Areas for future study and analysis: Participants identified a need for basic, up-to-date data on child care supply, across settings, and by child age. Data is also needed on current enrollment. Providers could receive technical assistance in using standardized data collection systems.

There is a need for better measurements of child care demand. Most projections define need as "all children under a certain age with all available parents in the work force." This definition does not factor in parents who might not be working due to a lack of child care or the high cost. Also, the recent changes in work (e.g., hybrid or remote work) have potentially changed both the need for care and the location needed.

Studies of child care supply and demand must include a focus on child age, as both vary by child age. In addition, providers' desired capacity, particularly around the ages of children they want to serve, needs to be part of the supply-demand analysis.

"One thing we generally don't know is the difference between licensed capacity and desired capacity, and to break that out by age. I could tell someone today I have a classroom for infants that will take four kids. I have two classrooms that will take toddlers and that adds up to this many kids. And then I have this many classrooms for the 3- and 4-year-olds. Then you know what age groups I desire to enroll in the classroom configuration that I have. Just knowing the supply in terms of licensed capacity is very limited". --Lynn Karoly

Participants cited the need to review and update elasticity research around child care (demand with respect to price; supply with respect to price; workforce with respect to wages). Participants suggested that the research literature on higher education could be reviewed, to study the various impacts of both supply- and demand-side investments.

Researchers should also examine child care "outputs," including results for children and families. Studies should include outputs broadly, from allowing parents to work to impacts on child development (cognitive, language, socio-emotional, motor, etc.). In addition, effects on communities, particularly economic impacts, should be documented. This includes multiple potential benefits, including family economic security (short- and long-term), economic mobility, health, gender equality, workforce development, linking families to services, etc.

Topic 4:

Who Benefits and Who Pays?

What or who does child care impact? Should child care be a shared responsibility, and if so, by whom (parents, businesses, local, state or federal public funds)?

BACKGROUND RESEARCH

Research demonstrates that accessible, affordable, quality child care has significant benefits for parents, children, businesses, and the economy. Child care allows parents, particularly mothers of young children, to participate in the workforce. Businesses benefit, as parents' productivity increases when they have reliable child care for their children. Given these impacts, child care also benefits the economy. And quality child care benefits children, with positive impacts on multiple aspects of development.

Mothers of young children participating in the workforce: Although women with children under age 6 represent just 10% of the total workforce,⁴⁵ two-thirds of women with children this age are in the workforce.⁴⁶ The percentage

of working women with children under age 3 is similar (64%).⁴⁷ Looking at all working mothers (with children under age 18), the most common occupations are education, health care, and social assistance with 40% of all mothers working in these groups.⁴⁸ Child care educators are nearly all female (97%)⁴⁹ and it's likely many are mothers of young children. These professionals earn an average of \$33,140 per year, an income insufficient to afford child care for their own children.⁵⁰

The Committee for Economic Development notes that “access to affordable child care remains crucial for workforce participation, particularly for mothers with younger children.”⁵¹ Economic research⁵² from the US⁵³ and other countries supports a link between child care supply

⁴⁵ Federal Reserve Bank of Atlanta. (2021). Where are they now? Workers with young children during COVID-19. <https://researchconnections.org/childcare/resources/169256>

⁴⁶ USA Facts. (2023, December 29). How many moms are in the labor force? <https://usafacts.org/articles/how-many-mothers-are-in-the-labor-force/>

⁴⁷ USA Facts. (2023, December 29). How many moms are in the labor force? <https://usafacts.org/articles/how-many-mothers-are-in-the-labor-force/>

⁴⁸ U.S. Census Bureau. (2020). The choices working mothers make. <https://www.census.gov/library/stories/2020/05/the-choices-working-mothers-make.html>

⁴⁹ Center for American Progress. (2022, July 22). Still underpaid and unequal. <https://www.americanprogress.org/article/still-underpaid-and-unequal/>

⁵⁰ Child Care Aware of America. (2025). Child care in America: 2024 price and supply. <https://www.childcareaware.org/price-landscape24/>

⁵¹ Committee for Economic Development. (2024). Child care in state economies part 3: Child care and regional economic growth. <https://education.ced.org/child-care-in-state-economies>

⁵² Horowitz, B., Kiernan, K. T., & Birken, B. (2022). Childcare affordability affects labor market and family choices. Federal Reserve System. <https://researchconnections.org/childcare/resources/169256>

⁵³ Morrissey, T.W. (2017). Child care and parent labor force participation: A review of the research literature. Review of Economics of the Household, 15, 1–24. <https://link.springer.com/article/10.1007/s11150-016-9331-3>

and maternal employment.⁵⁴ Looking across 19 states, the Center for American Progress (CAP) found a significant positive relationship between licensed child care supply and maternal labor force participation.⁵⁵ Examining 19 states, CAP found that counties with the highest levels of maternal labor force participation had twice as much infant / toddler child care supply as counties with the lowest levels of maternal labor force participation. A recent study by the Council of Economic Advisors found that ARPA funds increased child care provider employment, a proxy for child care supply.⁵⁶ Subsequently, with this increased child care supply, labor force participation among mothers of young children increased more than five percentage points (compared to less than three percentage points for mothers of older children and less than one percentage point for women without children). A recent randomized study found that increasing the number of hours of care available to parents allowed them to work more hours, increasing their earnings by nearly 22%.⁵⁷ This yielded \$5.51 in after-tax benefits for families for every \$1 spent. Moreover, the earnings boost persisted for at least six years.

Similarly, studies show that the price of child care impacts maternal labor force participation, including both whether to work and the number of hours worked.⁵⁸ Some mothers opt out of the workforce after comparing the cost of child care relative to the income they would make outside of the home. Other families, such as single parents or those with low incomes, do not have this option. These families often rely on lower- or no-cost child care from family or friends, rather than

participate in the formal child care system. A study by the Department of Labor found that a 10% increase in child care prices was associated with a one percentage point lower rate of maternal employment.⁵⁹ A literature review found that impacts of early education costs on maternal employment vary widely from study to study, but most estimates imply that a 10% price reduction would increase maternal employment by 0.5-2.5%.⁶⁰

Additionally, research on child care subsidies, which lower the price of child care for families, show positive impacts on mothers' labor market participation.⁶¹ Herbst's review of the literature found strong evidence that receipt of child care subsidies increases maternal employment rates.⁶² A model examining potential impacts of narrow (up to 85% of national median income) and broad (up to 250% of national median income) expansions of current CCDBG subsidies predicts large increases in maternal employment.⁶³ The narrow expansion would increase maternal employment overall by two percentage points and full-time employment by almost five percentage points; broad expansion would double these impacts. A study predicting the impacts of expanding child care subsidies to all families in DC found that this would lead to \$1.4 billion in economic growth in the first year of the program.⁶⁴ Lack of affordable child care inhibits maternal employment, particularly for those mothers whose low wages would be largely consumed in paying for child care. Subsidies, which make child care more affordable, facilitate mothers joining the workforce.

⁵⁴ U.S. Department of the Treasury. (2021). The economics of childcare supply. <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>

⁵⁵ Jessen-Howard, S., Malik, R., & Falgout, M. (2020). Costly and unavailable: America lacks sufficient child care supply for infants and toddlers. Center for American Progress. <https://www.americanprogress.org/article/costly-unavailable-america-lacks-sufficient-child-care-supply-infants-toddlers/>

⁵⁶ Council of Economic Advisors. (2023). Child care stabilization. <https://bidenwhitehouse.archives.gov/wp-content/uploads/2023/11/Child-Care-Stabilization.pdf>

⁵⁷ Humphries, J. E., Neilson, C., Ye, X., & Zimmerman, S. D. (2024). Parents' earnings and the returns to universal pre-kindergarten. https://www.nber.org/system/files/working_papers/w33038/w33038.pdf

⁵⁸ U.S. Department of the Treasury. (2021). The economics of childcare supply. <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>

⁵⁹ Landivar, L. C., Graf, N. L., & Ray, G. A. (2023). Childcare prices in local areas. U.S. Department of Labor Women's Bureau. https://www.dol.gov/sites/dolgov/files/WB/NDP/508_WB_IssueBrief-NDP-20230213.pdf

⁶⁰ Morrissey, T.W. (2017). Child care and parent labor force participation: A review of the research literature. Review of Economics of the Household, 15, 1–24. <https://link.springer.com/article/10.1007/s11150-016-9331-3>

⁶¹ Horowitz, B., Kiernan, K. T., & Birken, B. (2022). Childcare affordability affects labor market and family choices. Federal Reserve System. <https://researchconnections.org/childcare/resources/169256>

⁶² Herbst, C. M. (2022). Child care in the United States: Markets, policy, and evidence. <https://www.econstor.eu/bitstream/10419/265768/1/dp15547.pdf>

⁶³ Borowsky, J., Brown, J. H., Davis, E., Gibbs, C., Herbst, C., Sojourner, A., Tekin, E., & Wiswall, M. (2022). Fixing child care: What expanded public subsidies could mean for children, families, and teachers. Brookings Institution. <https://www.brookings.edu/articles/fixing-child-care-what-expanded-public-subsidies-could-mean-for-children-families-and-teachers/#top1>

⁶⁴ DC Fiscal Policy Institute. (2024). Expanding child care subsidies would boost the District's economy. https://www.dcfpi.org/all/expanding-child-care-subsidies-would-boost-the-districts-economy/#_edn25

Businesses: Businesses are a primary beneficiary of child care. Studies indicate that child care benefits are a significant factor for job seekers, especially among millennials and Generation Z who prioritize work-life balance.⁶⁵ A report from Moms First and Boston Consulting Group showed that employers who provide child care services see lower absentee rates.⁶⁶ In addition, studies show productivity increases among employees who have reliable child care arrangements and that companies offering child care benefits significantly improved employee retention rates and overall job satisfaction.⁶⁷

The economy: The impacts of child care on maternal labor force participation and on businesses subsequently benefits the economy. The Committee for Economic Development reports that in 2022 the child care industry had an economic impact of \$152.2 billion, \$68.5 billion in revenue and \$83.7 billion in spillover effects on other industries. The industry was responsible for 2.2 million jobs, 1.5 million proprietors and employees, and more than 650,000 spillover jobs in other industries.⁶⁸

Conversely, studies have shown that parents' inability to find affordable child care has significant negative impacts on both businesses and national and state economies. Parents report negative impacts on their work lives (missing work, leaving the labor force, etc.), resulting in costs to

employers and decreased tax revenue. A study by ReadyNation found that child care challenges, for infants and toddlers alone, cost parents, businesses, and the national economy \$122 billion per year.⁶⁹ Studies by the U. S. Chamber of Commerce Foundation have found similar negative consequences of inadequate child care for state economies.⁷⁰

Children: Considerable research demonstrates the benefits of high-quality child care for children's cognitive, social, emotional, and physical development. For example, a longitudinal study of more than 1,300 children found that children in higher-quality child care were better prepared for school at age 4 compared to those in lower-quality. At age 15, they were still performing slightly above their peers and had fewer behavior problems.⁷¹ At age 26, participants from low-income families who spent two or more years in high-quality child care were more likely to graduate from college and had higher salaries, compared to those who had been in lower-quality care.⁷²

In sum, studies have shown significant benefits of affordable, accessible, quality child care for parents, children, businesses, and the economy. Given the benefits for the economy, many have argued that child care is a public good and, as such, should be publicly funded.⁷³

⁶⁵ U.S. Chamber of Commerce. (2024). Understanding America's labor shortage: The impact of scarce and costly childcare. <https://www.uschamber.com/workforce/understanding-americas-labor-shortage-the-scarce-and-costly-childcare-issue/>; KinderCare. (2024). KinderCare Confidence Index. <https://www.prnewswire.com/news-releases/future-workforce-at-risk-as-gen-z-parents-prioritize-child-care-over-careers-302189278.html>; First Five Years Fund. (2024). New employer child care survey from CARE.com. <https://www.ffyf.org/2024/03/13/employer-child-care-survey-from-care-com/>

⁶⁶ Moms First and Boston Consulting Group. (2024). The employee benefit that pays for itself. https://momsfirst.us/wp-content/uploads/2024/03/The-Employee-Benefit-That-Pays-for-Itself_March-2024-2.pdf

⁶⁷ First Five Years Fund. (2024). New employer child care survey from CARE.com. <https://www.ffyf.org/2024/03/13/employer-child-care-survey-from-care-com/>; Schellenback, K. (2004). Child care & parent productivity: Making the business case. <http://mildredwarner.org/s3.amazonaws.com/mildredwarner.org/attachments/000/000/074/original/154-21008542.pdf>; Alliance for Early Success. (2021). Business surveys and findings related to child care. <https://earlysuccess.org/wp-content/uploads/2021/01/ChildCareBusinessSurveysandFindings20211221.01.pdf>

⁶⁸ Committee for Economic Development. (2024). Child care in state economies. Part 3 child care and regional economic growth. https://ced-microsite.files.svdcn.com/production/documents/241002_CCSE-2024-Report_Part-3_Final.pdf?dm=1733774339

⁶⁹ ReadyNation. (2023). \$122 billion: The growing, annual cost of the infant-toddler child care crisis. <https://www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis>

⁷⁰ U.S. Chamber of Commerce Foundation (2020). Billion dollar problem: Working parents leave workforce, postpone school due to childcare challenges. <https://www.uschamberfoundation.org/education/billion-dollar-problem-working-parents-leave-workforce-postpone-school-due-childcare>

⁷¹ Vandell, D. L., Belsky, J., Burchinal, M., et al. (2010). Do effects of early child care extend to age 15 years? Results from the NICHD Study of Early Child Care and Youth Development. *Child Development*, 81, 737-756. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2938040>

⁷² Bustamante, A. S., Dearing, E., Zachrisson, H. D., & Vandell, D. L. (2021, October 18). Adult outcomes of sustained high-quality early child care and education: Do they vary by family income? *Child Development*. <https://doi.org/10.1111/cdev.13696>

⁷³ Alliance for Early Success. (2024). Reform child care financing and fund child care as a public good. <https://earlysuccess.org/child-care-roadmap-reform-child-care-financing/>



ROUNDTABLE DISCUSSION

Areas of agreement: Participants agree that child care benefits accrue not only to children and families, but also to businesses and national and state economies. From the beginning of the conversation, there was agreement that the child care system needs broader investments than those from families and the federal government. State and local governments must also support child care. Participants also agreed that businesses have a role to play, but as of yet, that they are not part of the solution. Just how businesses should support child care was not clear. Several participants cautioned that requiring businesses to help parents afford child care could backfire, as the cost could be passed back to parents through lower wages. It's also possible that there would be a disincentive to hiring parents of young children. To avoid these and other unintended consequences, some participants suggested that businesses could assist through mechanisms such as an across-the-board payroll tax.

"With the cost of the system, we're paying for it now. We're paying for it unequally. Our workforce is paying for it. Parents are paying a lot for it. We are paying for it in lost tax revenue from people who are dropping out of the labor force. Our children are paying for it. We are paying for it, just in these extremely inefficient ways." --Taryn Morrissey

"You wouldn't want it to lead to a situation where employers have this incentive not to hire someone who might become a parent."
--Brenden Timpe

"Small business owners are underestimating the impact child care responsibilities have on employees and their participation in the workforce and the different things that they're juggling."
--Claire Taylor

Regarding parents paying for child care, there was agreement that a politically feasible financing strategy needs to include some level of family investment even if, in practice, families with low incomes pay nothing.

Some participants were reluctant to offer ideas around financing, as it is beyond the scope of their early childhood expertise. However, others noted that policymakers are always concerned about how any policy will be funded. Participants agreed that it might be best to have two discussions: one focused on what we want the child care system to be, and another around ideas for how it might be financed. Once again, the issue of the goals of child care came up, as this decision will impact financing, including funding levels, and, potentially, sources.

Areas for future study and analysis: Participants cited several areas that need further analysis but are lacking data. Knowledge of the current child care funding landscape is incomplete, especially regarding states' child care investments. However, participants agreed that it is very difficult to get this data from states. There are no consistent models or requirements for how states collect and report financing data. Several participants noted that any effort to



improve state data collection must take the resulting burden into account and seek to minimize it. Data elements must be thoughtfully selected, to ensure that states will report the data, and it will be useful in informing policy decisions. Participants noted that in some cases states are collecting important data but not reporting it. There must be clear minimal requirements for states around data systems and reporting. Data reporting requirements could be tied to federal funding, as an accountability mechanism. While participants noted that it would be useful to have data to use for evaluating child care programs (e.g., data on non-participants, for a comparison group), they acknowledged that this is probably not possible, due to the administrative burden.

Participants pointed to the substantial federal investment in research such as that funded by CCDBG through the Office of Planning, Research and Evaluation (OPRE; HHS) and argued that studies should continue to be funded to answer questions relevant to crafting more effective child care policy. Otherwise, policy decisions are made without research data on whether they will be successful in achieving the desired outcomes. Federal funding for child care research should continue to come with the expectation that results will be relevant to public policy. More basic economic research on child care, such as elasticity studies or links between policies and outcomes, would be beneficial.

Child care employs many people and infuses funds into the local economy. Economic development offices and policymakers receive economic impact reports for many sectors; it would be beneficial for them to see this for child care, as well. Documenting child care's benefits to state and local economies could help convince policymakers at both levels to support increased investments in child care.

"When government makes investments, we want those investments to focus on the external benefits, the societal benefits." --Rob Grunewald

Research could also focus on the current role of businesses, examining what businesses are doing around child care and what activities are successful. For example, studies could assess the current status of Michigan's Tri-Share program.

Topic 5:

Family Leave and Tax Policy

Who benefits from family leave and tax policy? How can tax policy support parent choice?

BACKGROUND RESEARCH

As mentioned above (Topic 3), parental tax credits, such as the Child and Dependent Care Tax Credit (CDCTC) and similar state tax credits, are strategies to make child care more affordable for families. However, the impact of CDCTC is limited,⁷⁴ because the amount of expenses that can be claimed is small compared to the cost of child care and the credit is not refundable. Low-income families who need the help most but have no federal tax liability are not eligible. Similarly, the Dependent Care Assistance Plan (DCAP) allows parents to set aside just \$5000 per year in pre-tax dollars for child care, an amount less than half the average cost, and fewer than half of employees work at a company that offers a DCAP.⁷⁵

Paid parental leave might also reduce the need for child care, especially infant care. Census data show that 40% of mothers who worked during pregnancy return to work less than three months post-childbirth.⁷⁶ At the same time, infant care is the

scarcest⁷⁷ and most expensive⁷⁸ type of child care. The federal Family and Medical Leave Act (FMLA) of 1993 provides eligible workers with unpaid leave for specified family medical and caregiving needs, including the arrival of a child (newborn, adopted, fostered).⁷⁹ In addition, several states and DC have paid family leave (PFL) laws, with 13 states (CA, CO, CT, DE, ME, MD, MA, MN, NJ, NY, OR, RI, WA) and DC having mandatory PFL and nine states having voluntary PFL (AL, AR, FL, KY, NH, TN, TX, VT, VA).⁸⁰ Some private employers also offer PFL and are eligible for the federal Employer Credit for Paid Family and Medical Leave.

However, access to paid leave is lacking, especially for low wage and hourly workers. Only 27% of civilian workers have access to PFL.⁸¹ Moreover, younger, lower-wage employees and those employed by small companies are less likely to have access. Lower-wage, hourly workers are also less likely to be able to afford to take unpaid leave under the FMLA.⁸²

⁷⁴Wolters, B., Smith, L. K., & McHenry, K. (2021). The effects of the Child and Dependent Care Tax Credit on child care affordability. Bipartisan Policy Center. <https://bipartisanpolicy.org/report/the-effects-of-the-child-and-dependent-care-tax-credit-on-child-care-affordability/>

⁷⁵Smith, L. K., & McHenry, K. (2021). How two tax policies help working families access and afford child care. Bipartisan Policy Center. <https://bipartisanpolicy.org/blog/how-two-tax-policies-help-working-families-access-and-afford-child-care/>

⁷⁶U. S. Census Bureau. (2011). Maternity leave and employment patterns of first-time mothers: 1961-2008. <https://www2.census.gov/library/publications/2011/demo/p70-128.pdf>

⁷⁷Center for American Progress. (2020). Costly and unavailable: America lacks sufficient child care supply for infants and toddlers. Center for American Progress. <https://www.americanprogress.org/article/costly-unavailable-america-lacks-sufficient-child-care-supply-infants-toddlers/>

⁷⁸Child Care Aware of America. (2025). Child care in America: 2024 price & supply. <https://www.childcareaware.org/price-landscape24/>

⁷⁹Congressional Research Service. (2023). Paid family and medical leave in the United States. <https://crsreports.congress.gov/product/pdf/R/R44835>

⁸⁰Bipartisan Policy Center. (2024). State paid family leave laws across the U.S. Bipartisan Policy Center. <https://bipartisanpolicy.org/explainer/state-paid-family-leave-laws-across-the-u-s/>

⁸¹U. S. Bureau of Labor Statistics. (2023). What data does the BLS publish on family leave? <https://www.bls.gov/ebs/factsheets/family-leave-benefits-fact-sheet.htm>

⁸²Bipartisan Policy Center. (2024). BPC response to Senate, House bipartisan request for information on paid family leave. Bipartisan Policy Center. <https://bipartisanpolicy.org/letter/bpc-response-to-senate-house-bipartisan-request-for-information-on-paid-family-leave/>

Lastly, the Employer-Provided Child Tax Credit (45F) (and similar state tax credits, which exist in an increasing number of states⁸³) has the potential to sustain or increase child care supply.⁸⁴ Employers can receive a nonrefundable tax credit for building or operating on-site child care for employees, contracting with a community child care provider for slots for employees' children, or providing child care resource and referral services. However, the Government Accountability Office (GAO) has identified several problems with the 45F credit, including low awareness among employers and insufficient size to incentivize employer behavior.⁸⁵ Perhaps most challenging, most businesses in the U. S. are small, with 90% employing fewer than 20 people.⁸⁶ Small businesses face challenges in accessing the 45F credit and helping their employees with child care costs. Nonprofits, who do not have tax liability, are not eligible for the credit. As a result of these challenges, the take-up of the 45F credit is extremely low, with less than 1% of businesses claiming it.⁸⁷

ROUNDTABLE DISCUSSION:

Areas of agreement: Participants acknowledged controversy in the child care field around tax and parental leave policies, as some advocates fear that investments in these strategies will replace direct investments in child care. However, others noted that tax credits increase family financial stability, although, as currently delivered (i.e. lump sum payments), are not likely to affect child care choices (because parents pay for child care weekly or monthly, not in a lump sum at tax refund time). As in the above topic discussions, participants

agreed that the policy goal must be determined in order to choose the best course of action. In addition, with the expiration of the Tax Cuts and Jobs Act set for the end of 2025, participants noted that it is an opportune time to advocate for tax policy around child care.

Participants discussed ways to make tax policy meet child care goals more effectively. For example, tax policy could be a means to fund informal care. The Child Tax Credit (CTC) amount could be increased for children under age 6, could be made fully refundable, and paid monthly, as during the pandemic. During the pandemic, participants mentioned, CTC modifications did impact child care—parents used the funds to pay for care. For example, in 2021, the U.S. Census Bureau's Household Pulse Survey found that 25% of families with young children used their Advance Child Tax Credit payments to pay for child care.⁸⁸ Participants also noted that improvements to the CTC could benefit families who don't use child care, making these policy changes more palatable to parents and across the political spectrum.

Participants agreed that paid parental leave should be part of the child care conversation, but that it should be discussed in the context of financing, rather than as part of the child care system. Participants noted that parental leave excludes many families and those most in need are less likely to have access.

"An important input into this conversation is paid family leave. It obviously alleviates a lot of pressure off the system to provide infant care which is the most expensive. If you don't have a robust paid family leave system, then you have families who need care very early."

--Chloe Gibbs

⁸³ Davis, D. (2024, September 18). States are turning to employers to boost child care benefits. The Hechinger Report. <https://hechingerreport.org/states-are-turning-to-employers-to-boost-child-care-benefits/>

⁸⁴ Smith, L. K., Osborn, C., & Walsh, B. (2022). The Employer-Provided Child Care Credit (45 F). Bipartisan Policy Center. <https://bipartisanpolicy.org/explainer/employer-provided-child-care-credit/>

⁸⁵ U. S. Government Accountability Office. (2022). Employer-Provided Child Care Credit: Estimated claims and factors limiting wider use. <https://www.gao.gov/products/gao-22-105264>

⁸⁶ U. S. Census. (2021). Data by enterprise employment size U. S. & states. 2021 SUSB annual data tables by establishment industry. <https://www.census.gov/data/tables/2021/econ/susb/2021-susb-annual.html>

⁸⁷ Congressional Research Service. (2023). The 45F Tax Credit for Employer-Provided Child Care. IF12379. <https://crsreports.congress.gov/product/pdf/IF/IF12379>

⁸⁸ Perez-Lopez, D. J., & Mayol-Garcia, Y. (2021, October 26). Parents with young children used Child Tax Credit payments for child care. U.S. Census Bureau. <https://www.census.gov/library/stories/2021/10/nearly-a-third-of-parents-spent-child-tax-credit-on-school-expenses.html>

Areas for future study and analysis: Participants identified several areas for future research around tax policy and parental leave. First, a study could examine the offset in the child care system due to parental leave and determine how leave impacts child care supply and demand. In addition, investigators could study families already taking parental leave (in states with PFL policies, federal

workers, military families). Finally, participants noted that existing data sets, such as the Early Childhood Longitudinal Study, Birth Cohort (ECLS-B) and the National Longitudinal Survey-Youth (NLSY) could be used for some of these studies, or these longitudinal surveys could be updated with new cohorts.

Summary: Challenges and Consensus

Since child care benefits accrue not only to children and families, but also to businesses and the broader economy, there is a public good aspect to child care. Parents alone cannot bear the responsibility for ensuring there is enough high-quality child care. Thus, federal, state, and local governments and businesses all have a role to play. The two days of conversation called attention to the interconnectedness of child care and the economy in multiple and important ways. The purpose of the Roundtable was to engage leading economists and researchers to discuss the challenges facing the nation and provide possible paths forward. The following challenges were identified. We note where there was consensus.

CHALLENGE: The child care market fails to meet the needs of all concerned, including parents, providers, and businesses, but most of all our children.⁸⁹

CONSENSUS: There was complete consensus on this. Participants agreed that there must be investments in both the supply AND demand side of child care to improve access and that these investments must be sustainable and tied to quality. Deregulation is not a solution to the failed child care market.

CHALLENGE: Although it is widely accepted that the child care market is failing, exactly what is required to fix it remains unclear. Efforts to quantify the supply versus the actual demand for care are stymied by the lack of understanding of current funding levels and good supply data.

CONSENSUS: To adequately project appropriate funding levels, policymakers need to better understand the current child care funding landscape. While federal investments are relatively clear, the levels of state and community

⁸⁹ Economists note that the child care market meets a condition for market failure—an economics term for an inefficient market outcome—due to positive externalities or benefits that spillover to third parties. In the case of child care, benefits spillover to businesses and society which leads to underinvestment in child care quality, supply, and access

funding are less well known. Furthermore, program-level funding is not reported in any consistent manner. A new Child Care Aware® of America study⁹⁰ examined state-level funding, but more work is needed to understand the current funding environment. This will require working with states to understand current state and local investments and to find practical ways to collect relevant data. Multiple forms of investment should be considered (e.g., subsidies, tax policies, parent fees). There should also be more accountability for public funding.

CHALLENGE: The quality of child care is inconsistent.

CONSENSUS: There was consensus that child care quality is vital, but challenges exist to achieve it. We need better measures of quality, particularly those associated with child outcomes. Improving quality will require robust, sustained investments that support a range of child care options and parental choice while supporting a well-prepared workforce. There was agreement that achieving quality will require investments from federal, state, and local governments. Policymakers should ensure that public investments are tied to the quality of care a child receives.

CHALLENGE: There is an overall lack of data that is holding the field back. This includes data on the licensed capacity of programs vs. desired capacity vs. enrolled capacity, all by age of child. We need to know more about why programs are under-enrolled. Is it a lack of staff, lack of demand, mismatch between what parents need and the age of children served in programs? Is the cost too high for parents? What are parents looking for?

CONSENSUS: Federal funding should be contingent upon states collecting and reporting child care data.

CHALLENGE: There is insufficient understanding about how and why parents choose child care.

CONSENSUS: There was consensus that parent choice is not well understood and additional

study is needed, particularly among parents not participating in the formal child care system. For example, if the price of care is reduced or quality is improved, how will that impact parental choice?

CHALLENGE: We do not know the true cost of child care, nor what parents can afford to pay. Thus, the appropriate level of public investment is currently unknown.

CONSENSUS: Previous studies on demand and the supply-demand gap need to be updated. Research must illuminate the true cost of quality child care. There are several market surveys, cost of care models, and studies in the field that could be reviewed and updated or improved. The true cost of care can be used to develop a flexible index of affordability, calibrated to family income. This work can then inform public funding.

CHALLENGE: There are several factors that influence the availability of child care and parent decisions about child care. They include price, demand, income, employment, regulations, and existing supply. Understanding changes in any one of these measures and how it impacts the child care system is important to determining future policy recommendations. Measures of elasticities of supply and demand either do not exist or are outdated.

CONSENSUS: The research around elasticity in the child care market is old and should be reviewed and updated. Policymakers should support efforts to update elasticity measures that will help understand future funding needs.

CHALLENGE: Tax policy and paid family and parental leave policies are part of the solution to child care affordability and access, especially for infant care, but should be considered separate from financing for the formal child care system.

CONSENSUS: Studies are needed to examine the offset in the need for child care if paid parental leave were available, including how it would impact child care supply and if there would be a cost or benefit.

⁹⁰ Child Care Aware® of America. (2025). An uneven start: 2025 state funding for child care & early learning. <https://www.childcareaware.org/an-uneven-start-2025-state-funding-for-child-care-early-learning/>

Conclusions

The Roundtable conversation was framed around the five unanswered questions introduced in the Executive Summary. Without answering these questions, it will be challenging to move forward with a comprehensive system that truly meets the needs of those who depend on it. Throughout the discussion there were several recurrent themes. They centered on the lack of adequate supply, the cost, and challenges faced by the child care workforce, as well as the lack of data across all components of the current system. There was total agreement in two areas: 1) we lack good data on nearly every aspect of child care; and 2) we lack clear definitions and measurements of quality across the spectrum. Participants agreed that there are multiple goals for child care and determining which should be the priority will inform decision making. Furthermore, there is insufficient understanding about why parents choose the type of care they have and how much cost is a factor in their decisions. Despite these knowledge gaps, however, participants were able to use existing research to reach consensus on several important points, summarized in this report. Participants also universally agreed that the current child care system, however it is defined, fails to meet many families' needs. To have a viable child care system we must have

options that meet the varied needs of families, especially work hours, and the care must be affordable. To achieve this, we need both supply-side and demand-side investment strategies that are tied to quality and are both transparent and accountable. Given the limitations of current supply and demand measures, the actual demand for child care is currently unknown. Participants identified several areas for future study and analysis. Some studies could be done if access to existing data could be obtained, and others would require new data.

There was also universal agreement that the current quality of care is a problem caused primarily by low pay, low status of the work, and other challenges facing the child care workforce. The quality of child care is vitally important, and the quality depends almost entirely on the interactions between teachers and children, but we are not measuring this in an ongoing, systematic way. Furthermore, we have no agreement on what the qualifications of the workforce should be. There is research that the quality of the workforce, as indicated by some measures, has declined over recent years.⁹¹ Several in the group commented that the current QRISs do not adequately define and measure quality.

⁹¹Herbst, C. M. (2024). The declining relative quality of the child care workforce. IZA Discussion Paper No. 17351. <https://ssrn.com/abstract=4982098>.



Investigators must re-examine measures of child care quality and develop better assessments. Measures linked to child outcomes would be especially useful.

There are several elasticity studies that have not been updated in decades. For example, what is the impact of non-ratio regulations on the elasticity of supply? Some child care regulations, such as staff-to-child ratios, contribute to quality, while research is lacking for the impact of some other regulations. There was general agreement that deregulation will not solve the problems of child care inaccessibility and high prices.

The cost of care is going up and negatively impacting parents' ability to pay, however little is known about how cost is influencing either parent demand or the quality of care. There was consensus that there is currently no single measurement (such as the frequently referenced 7% benchmark) for what parents should pay. Nearly all agreed that a universal, free, child care system is unlikely and that if parents are expected to contribute, parents on the lowest end of the income scale should have access to subsidized care.

Tax policies have the potential to support parent choice, particularly parents who prefer informal care, however the impact of current tax provisions is limited because of how they are structured. It was pointed out that modifications to CTC and CDCTC during the pandemic did impact parents'

use of funds for child care. Finally, participants agreed that paid parental leave and maternity leave should be part of a systematic approach to child care, but they should be considered separately from funding needed for child care. They also cautioned that the offset should be studied to determine how leave would impact both the demand for care and the supply.

Parent choice is fundamental to the country's approach to child care. Parent decisions about child care are personal and complex and depend on many factors. What can they afford? What is available? What is the quality? Do they trust the provider? Does it fit their work hours? These are only a few of the questions parents consider and the answer to them for many parents is "no." The decision to provide child care is equally personal and often comes at great personal expense. The wages are low, work is intense and challenging, and ability to progress is limited. Businesses also are challenged by a tight labor market, changes in work sites, and the onset of technology. Rather than a system that is a win-win-win we have a failing child care market that is losing on all counts. Parents have few if any real choices and providers barely squeak by. The five unanswered questions posed in this report are barriers to building a stronger child care system. A more expansive examination of these questions, bringing together economists, child care experts, and others, as well as translating lessons learned for policymakers, are important steps.

Appendix: Roundtable Participants

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Note: Roundtable participants attended as individuals and their comments do not necessarily reflect the position of their organizations.



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