



How States Would Benefit If Congress Truly Invested in Child Care and Pre-K

MARCH 21, 2022 – JULIE KASHEN, JULIE CAI, HAYLEY BROWN AND SHAWN FREMSTAD

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Comprehensive child care and early learning policy benefits everybody. From the benefits to the American economy and businesses, to the ways it improves healthy child development and educational outcomes, to the prospects for greater gender, racial, and economic equity, everyone in the United States has something to gain from a significant investment in these areas.

This report’s analysis reviews the specific ways the child care and universal pre-kindergarten (pre-K) policies that passed the House of Representatives as part of the Build Back Better Act in November 2021, and are still making their way through Congress, would generate economic activity in all fifty states and Washington, D.C. If implemented, the policies would have a tremendous positive impact on two generations of Americans—ensuring children have access to learning environments to give them a strong start in life, and supporting parents and other caregivers to pursue greater opportunities for themselves and their families. This report focuses on the shorter-term benefits to families and communities, but it is crucial to acknowledge that there are additional longer-term economic benefits for the children and communities impacted.

While the pandemic shone a spotlight on the crisis and made it worse, the decades-long failure of the U.S. government to invest in a comprehensive child care and pre-K system has long depressed economic growth in the United States. This report looks at the economic gains, by state, to families, businesses, and state governments that such an investment would provide: (1) \$48 billion in increases to economic output from increased parental employment; (2) \$60 billion in gains in business and tax revenue from decreased child care-related disruptions; and (3) at least a \$30 billion boost to the economy from the expansion of the child care sector and related indirect and induced job increases¹

Increased Parental Labor Force Participation and Earnings

When parents—especially mothers—lack affordable and stable child care options, there are serious consequences. The lack of affordable and reliable child care pushes mothers out of the labor force and reduces the hours they are able to work when they are in the labor force. This in turn causes interruptions to job and career advancement,² including lost promotions and raises, lost opportunities to build new skills and expertise, and contributes to the motherhood earnings penalty.³ Over the lifecycle, it means lower retirement

This report can be found online at: <https://tcf.org/content/report/how-states-would-benefit-if-congress-truly-invested-in-child-care-and-pre-k/>

savings and higher poverty rates for mothers than for fathers as they age.⁴

Due to the intersecting impact of interpersonal discrimination and other forms of racism, Black and Latina mothers have faced even more acute challenges than their White counterparts, as have working-class⁵ mothers of all ethnicities and races when compared to upper-middle-class and higher-income mothers.⁶ These results have consequences for mothers, their children and families, and for the greater economic good.

If mothers of children under age 6 had the same employment rate as mothers of children ages 6 to 12, roughly 1.6 million more mothers would be employed.⁷ Similarly, if the maternal employment rate in the United States was as high as in other countries that guarantee affordable and reliable child care, many more mothers would be employed. For example, after Quebec implemented affordable universal child care in the 1990s, maternal employment rose sharply. If the United States had the same maternal labor force participation rate for mothers of young kids as Quebec, that would mean roughly 1.4 million more mothers of kids ages 0 to 2 in the labor force, and another roughly 800,000 more mothers of kids ages 3 to 5 in the labor force.⁸ In fact, research has shown that gains in women's labor force participation is associated with higher gross domestic product.⁹ Conversely, national and state economic growth is slowed by women's lower workforce participation, earnings, and tax revenues.

The pandemic exacerbated these challenges. It decreased the supply of child care options as programs shut down while increasing the costs of providing child care because of health and safety expenses and reduced enrollment. Prices for families rose as a result of those increased costs; at the same time, employment for many parents became more precarious as the pandemic wreaked havoc on sectors where mothers tended to be employed.¹⁰ Even if the pandemic and related disruptions ended tomorrow, the failure of the United States to build a child care and early learning system would continue to hinder maternal labor force participation.

Before the pandemic (at the end of 2019), 67 percent of prime-age mothers with children under age 6 were working,

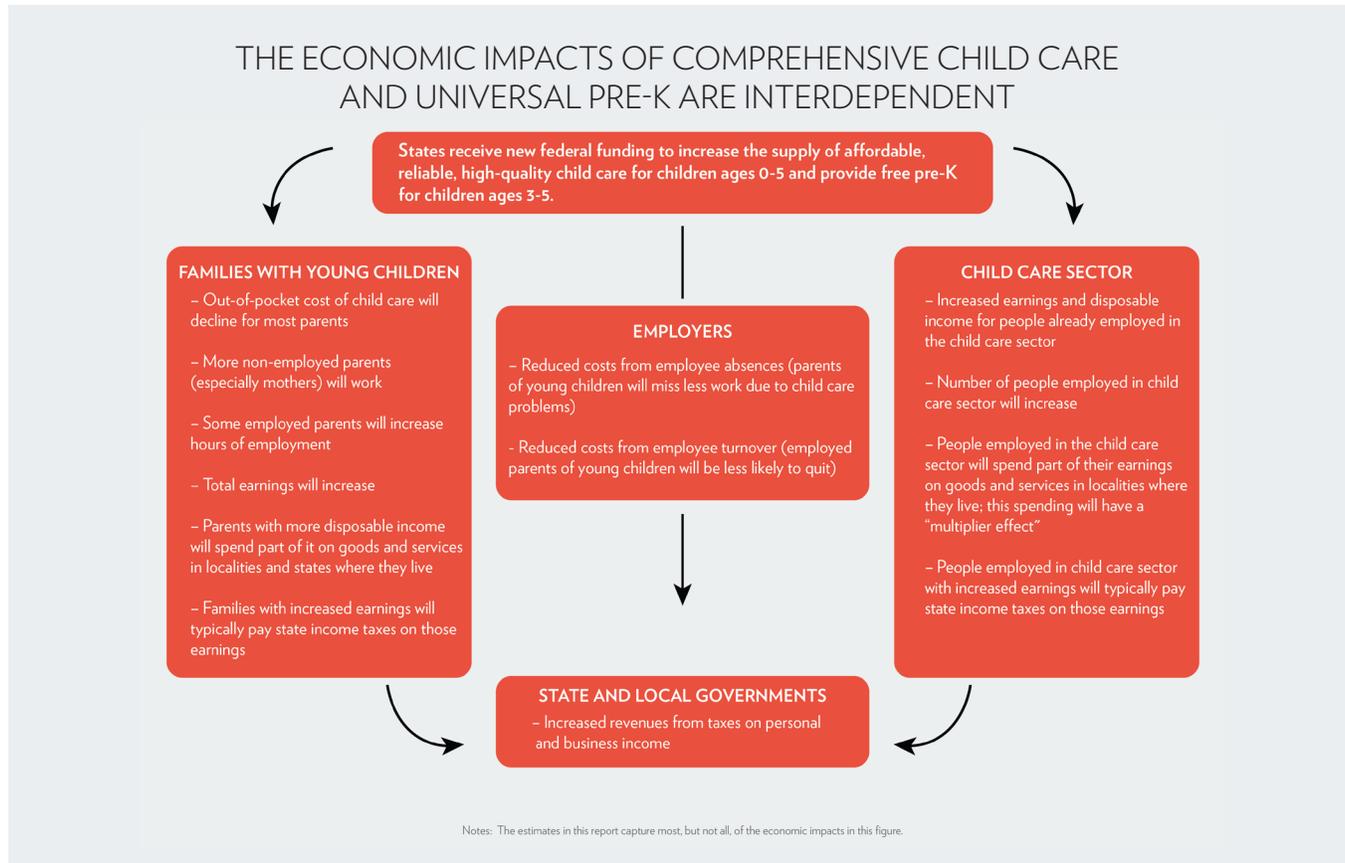
At the height of the pandemic in 2020, only 58 percent were.¹¹ Mothers without bachelor's degrees (often used as a proxy for working-class status) were especially hard-hit within this group; the share of these mothers who were employed fell by 22 percent, compared to a roughly 8 percent decline in employment among mothers with bachelor's degrees.¹² The child care relief funds enacted as part of the American Rescue Plan and previous pandemic relief packages helped to mitigate some of the challenges and stabilize many child care programs.¹³ That helped some mothers return to work, while others reduced hours, struggled to manage child care and work at the same time (especially if they were working from home)¹⁴ or simply patched together care from friends and family as best they could, since they could not afford to lose pay.¹⁵

Today, overall employment shares have largely returned¹⁶ to pre-pandemic levels. However, employment among prime age working-class¹⁷ mothers of children under age 6 remains below what it was in 2019, and the employment gap between mothers with and without bachelor's degrees has grown by over 25 percent since then. Among those who work part-time, nearly a quarter of mothers without bachelor's degrees cite child care issues as a reason for doing so, an almost 20 percent increase compared to 2019.¹⁸

What's Possible with Legislation

The child care and universal pre-kindergarten (UPK) provisions in the House-passed Build Back Better Act (BBB) would lower child care costs for nine out of ten families with young children in the United States while improving the quality of the early education they receive, raising wages of poorly compensated child care workers, and covering the costs associated with higher quality care.¹⁹ Universal preschool for 3- and 4-year-olds will finally be available, and parents will have the choice to find the right program for their family in center-based, home-based, family-based, school-based, and Head Start programs. The programs build on federal-state partnerships, setting federal parameters while providing states with funding and flexibility to build the early childhood education system that families have long needed. All of the costs of the program will be covered by the federal

FIGURE 1



government for the first three years during the phase-in period. States will be able to immediately serve more children through child care funding—those in families with income up to 100 percent of state median income (SMI) in the first year, 125 percent SMI in the second, and 150 percent SMI in the third; and states can opt in to serving families up to 250 percent SMI if they are able. For pre-K, states can begin building out their programs in the first three years with 100 percent federal dollars and will receive significant pre-K dollars to serve their 3- and 4-year-olds (with no income cap) in the fourth year.

States will develop plans for full implementation by year four with stakeholder feedback to reach all eligible families. The policies will also invest in building out the supply of options—in homes, faith-based programs, centers, and, in the case of pre-K, schools, and more—so that families can find safe, nurturing care when and where they need it. That means that parents will have affordable, reliable, stable child

care options to support their labor force participation. Since mothers are more likely than fathers to take responsibility for caring for children, employment gains from these policies are likely to be concentrated among mothers.²⁰

Expected Economic Impact

While the bulk of the caregiving responsibility is on mothers, fathers are also impacted. This analysis found that the child care and UPK provisions could lead to roughly 3 million more parents—mostly mothers—entering the labor force or increasing their work hours nationally (about 1.1 million due to new entries and 2 million due to increased hours).²¹

The aggregate result of this is an estimated \$48 billion annual increase in economic output from increased parental work across the United States. This does not take into account additional state tax revenue that will be raised by this increase, some of which is accounted for in the analysis in the next section.²²

TABLE 1

Estimated Annual Earnings Increases among Parents Entering the Workforce or Increasing Work Hours Due to Proposed Child Care and Pre-K Policies

<i>State</i>	<i>Estimated Number of Parents Expected to Enter the Workforce or Increase Hours Due to Proposed Child Care and Pre-K Policies</i>	<i>Estimated Annual Earnings Increase among Parents Entering the Workforce</i>	<i>Estimated Annual Earnings Increase among Parents Increasing Hours</i>	<i>Total Estimated Earnings Increase among Parents Entering the Workforce or Increasing Hours Due to Proposed Child Care and Pre-K Policies</i>	<i>Estimated Annual Earnings Increase per Impacted Parent</i>
National	3,231,183	\$15,691,377,475	\$32,118,933,434	\$47,810,310,909	\$14,797
Alabama	46,165	\$219,155,291	\$348,443,920	\$567,599,211	\$12,295
Alaska	9,265	\$54,360,194	\$64,505,359	\$118,865,553	\$12,829
Arizona	75,806	\$371,130,732	\$646,964,145	\$1,018,094,877	\$13,430
Arkansas	31,164	\$112,364,725	\$259,924,802	\$372,289,527	\$11,946
California	391,270	\$2,597,365,427	\$4,157,141,502	\$6,754,506,929	\$17,263
Colorado	58,928	\$339,383,548	\$633,171,730	\$972,555,278	\$16,504
Connecticut	27,912	\$145,602,532	\$382,914,351	\$528,516,883	\$18,935
Delaware	8,285	\$31,015,242	\$72,256,212	\$103,271,454	\$12,466
District of Columbia	4,665	\$39,227,280	\$93,238,423	\$132,465,703	\$28,397
Florida	167,343	\$813,249,600	\$1,542,749,376	\$2,355,998,976	\$14,079
Georgia	102,778	\$441,270,421	\$800,477,032	\$1,241,747,453	\$12,082
Hawaii	12,907	\$48,781,340	\$133,144,666	\$181,926,006	\$14,095
Idaho	23,350	\$101,864,297	\$176,478,086	\$278,342,383	\$11,921
Illinois	117,519	\$511,385,620	\$1,279,981,733	\$1,791,367,353	\$15,243
Indiana	68,153	\$286,638,629	\$642,036,103	\$928,674,732	\$13,626
Iowa	33,179	\$79,161,994	\$356,809,082	\$435,971,076	\$13,140
Kansas	33,376	\$113,507,456	\$302,741,032	\$416,248,488	\$12,472
Kentucky	46,452	\$208,822,609	\$358,766,274	\$567,588,883	\$12,219
Louisiana	45,023	\$170,297,551	\$331,080,295	\$501,377,846	\$11,136
Maine	11,379	\$41,638,675	\$102,527,433	\$144,166,108	\$12,669
Maryland	57,841	\$239,487,080	\$738,052,067	\$977,539,147	\$16,901
Massachusetts	59,224	\$400,357,798	\$939,734,484	\$1,340,092,282	\$22,627
Michigan	91,250	\$313,850,933	\$840,417,566	\$1,154,268,499	\$12,650
Minnesota	62,184	\$229,143,761	\$748,053,051	\$977,196,812	\$15,715
Mississippi	26,866	\$116,416,632	\$182,689,895	\$299,106,527	\$11,133
Missouri	63,912	\$243,797,447	\$601,306,650	\$845,104,097	\$13,223
Montana	10,582	\$21,301,156	\$85,451,152	\$106,752,308	\$10,088
Nebraska	22,987	\$42,866,203	\$242,291,281	\$285,157,484	\$12,405
Nevada	32,520	\$150,881,100	\$298,210,743	\$449,091,843	\$13,810
New Hampshire	11,162	\$57,502,304	\$159,340,657	\$216,842,961	\$19,427
New Jersey	84,167	\$608,554,731	\$1,174,953,470	\$1,783,508,201	\$21,190
New Mexico	19,619	\$150,994,208	\$154,195,508	\$305,189,716	\$15,556
New York	175,060	\$1,048,228,996	\$2,125,204,773	\$3,173,433,769	\$18,128
North Carolina	102,138	\$437,331,773	\$846,744,249	\$1,284,076,022	\$12,572
North Dakota	9,535	\$34,525,790	\$115,944,730	\$150,470,520	\$15,782
Ohio	118,434	\$539,299,729	\$1,086,928,841	\$1,626,228,570	\$13,731
Oklahoma	44,599	\$182,457,325	\$349,286,189	\$531,743,514	\$11,923
Oregon	40,433	\$158,819,044	\$395,529,987	\$554,349,031	\$13,710
Pennsylvania	115,435	\$511,146,996	\$1,234,965,895	\$1,746,112,891	\$15,126

South Carolina	48,508	\$233,968,644	\$407,651,058	\$641,619,702	\$13,227
South Dakota	9,994	\$31,566,029	\$91,230,849	\$122,796,878	\$12,287
Tennessee	68,737	\$310,627,561	\$557,902,912	\$868,530,473	\$12,636
Texas	332,523	\$1,628,130,856	\$2,862,404,794	\$4,490,535,650	\$13,504
Utah	47,236	\$190,056,832	\$400,612,616	\$590,669,448	\$12,505
Vermont	5,042	\$12,644,270	\$57,801,647	\$70,445,917	\$13,971
Virginia	82,416	\$317,512,063	\$913,796,023	\$1,231,308,086	\$14,940
Washington	85,460	\$401,826,290	\$921,253,978	\$1,323,080,268	\$15,482
West Virginia	15,439	\$95,880,534	\$93,898,579	\$189,779,113	\$12,292
Wisconsin	57,524	\$203,125,123	\$658,199,003	\$861,324,126	\$14,973
Wyoming	6,401	\$23,210,214	\$42,525,875	\$65,736,089	\$10,270

Source: Authors' analysis of American Community Survey 1-year Sample, 2019 from Ruggles et al. IPUMS USA: Version 11.0 [dataset]. Minneapolis, MN: IPUMS, 2021, available at <https://usa.ipums.org/usa/>; GBA Strategies National Poll, 2018, available at <https://cf.americanprogress.org/wp-content/uploads/2019/03/ECPP-ChildCare-Crisis-report-2.pdf>. See Appendix for more details on sources and methodology.
Notes: Parents include those with children under age 6 and household incomes at or below 250 percent state median income, and those with children ages 3 to 5 and household incomes above 250 percent state median income. Annual earnings increases are calculated in 2019 dollars.

On a state-by-state basis, the estimated earnings increase among parents entering the workforce or increasing work hours ranges from around \$70 million a year in Vermont and Wyoming to \$1.8 billion in Illinois, \$1.7 billion in Pennsylvania, \$1.8 billion in New Jersey, and more than \$2 billion in states with higher populations such as California (\$6.7 billion), Florida (\$2.4 billion), New York (\$3.1 billion), and Texas (\$4.5 billion). These income benefits would have a ripple effect, raising additional tax revenue and encouraging new spending in local economies. (See Table 1 and Map 1.)

Support Businesses and Raise State Tax Revenues

A robust child care and early learning system gives parents the peace of mind that their children are in safe, healthy, and nurturing learning environments, so that they can minimize disruptions to their work day and increase their productivity. Since 13.4 percent of the workforce consists of parents of young children (ages 0 to 5), and an additional 11 percent of parents of school-age children (ages 6 to 12), how children are cared for while parents are working matters to businesses.²³

A number of researchers have estimated the impacts of child care disruptions on businesses by looking at the related costs of turnover and absenteeism, as well as the effect on tax

revenue. Long before the pandemic, child care disruptions were a major challenge for businesses.

For example, in 2019, the Council for a Strong America published a study that showed that the United States was losing \$57 billion each year in economic productivity and revenue losses due to the lack of a child care system.²⁴ Studies in a number of states—Louisiana, Maryland, Georgia, Washington, and Indiana—found states each lose over \$1 billion annually in economic activity due to child care interruptions.²⁵ In 2021, the U.S. Chamber of Commerce Foundation looked at five states and found child-care related economic losses ranging from \$165 million in Alaska to \$9.39 billion in Texas.

The pandemic made the child care-related disruptions to business much worse.²⁶ From exposure-related child care and classroom shutdowns to parents needing to care for their quarantining children (the youngest for whom vaccines are not yet available), both parents and their employers have experienced a number of new challenges, made worse by the lack of a comprehensive system of care and early learning. Business leaders recognize child care is essential to keep them running. U.S. Chamber of Commerce Executive Vice President Neil Bradley noted, “For working parents, access to affordable child care is a key ingredient to be able to enter or return to the workforce... It was an issue pre-pandemic; it’s been exacerbated by the pandemic: closures in in-person schooling, child care centers that have closed, lack of available workers for child care centers that are open.”²⁷

TABLE 2

Annual Business Losses and Tax Revenue Losses by Parents of Children Under 6 That Could be Mitigated by Child Care and Pre-K Investments

<i>State</i>	<i>Turnover Cost to Employers</i>	<i>Absenteeism Cost to Employers</i>	<i>Direct Employer Costs Annually</i>	<i>Total Income Tax Revenue Losses Annually*</i>	<i>Total Losses Annually Due to Child Care Breakdowns</i>	<i>Annual Loss per Impacted Employee</i>
National	\$27,181,975,371	\$19,280,656,820	\$46,462,632,191	\$13,383,338,918	\$59,845,971,109	\$12,042
Alabama	\$263,692,068	\$283,915,745	\$547,607,813	\$284,299,292	\$831,907,105	\$11,387
Alaska	\$77,879,214	\$49,825,915	\$127,705,128	–	\$127,705,128	\$9,139
Arizona	\$557,777,239	\$546,431,650	\$1,104,208,890	\$245,423,517	\$1,349,632,407	\$9,798
Arkansas	\$129,990,433	\$215,747,280	\$345,737,713	\$215,875,701	\$561,613,414	\$11,927
California	\$2,779,812,543	\$3,171,800,513	\$5,951,613,056	\$2,413,071,768	\$8,364,684,824	\$13,326
Colorado	\$652,368,485	\$246,458,971	\$898,827,456	\$238,392,824	\$1,137,220,280	\$13,615
Connecticut	\$296,059,274	\$80,831,721	\$376,890,995	\$140,035,143	\$516,926,138	\$18,295
Delaware	\$61,859,480	\$38,375,222	\$100,234,703	\$44,339,965	\$144,574,668	\$13,031
District of Columbia	\$53,992,248	\$44,773,710	\$98,765,958	\$72,396,610	\$171,162,568	\$21,281
Florida	\$1,835,207,942	\$1,446,779,074	\$3,281,987,016	–	\$3,281,987,016	\$8,445
Georgia	\$892,124,319	\$276,855,576	\$1,168,979,895	\$571,868,168	\$1,740,848,063	\$14,472
Hawaii	\$126,722,811	\$78,466,643	\$205,189,454	\$130,586,408	\$335,775,862	\$15,480
Idaho	\$40,856,874	\$44,240,402	\$85,097,276	\$27,480,946	\$112,578,222	\$9,870
Illinois	\$1,190,687,552	\$770,325,511	\$1,961,013,063	\$753,291,391	\$2,714,304,454	\$13,794
Indiana	\$569,485,169	\$289,537,519	\$859,022,688	\$216,856,576	\$1,075,879,264	\$10,719
Iowa	\$85,795,038	\$197,116,443	\$282,911,481	\$97,124,454	\$380,035,935	\$10,019
Kansas	\$382,059,026	\$30,337,541	\$412,396,568	\$168,180,546	\$580,577,114	\$14,418
Kentucky	\$315,489,111	\$155,560,144	\$471,049,254	\$267,407,444	\$738,456,698	\$13,338
Louisiana	\$286,113,237	\$172,397,604	\$458,510,840	\$129,649,703	\$588,160,543	\$10,876
Maine	\$67,951,550	\$9,752,517	\$77,704,067	\$49,657,227	\$127,361,294	\$16,969
Maryland	\$398,877,242	\$494,420,659	\$893,297,902	\$214,780,550	\$1,108,078,452	\$11,698
Massachusetts	\$535,687,601	\$700,676,315	\$1,236,363,916	\$279,818,902	\$1,516,182,818	\$12,086
Michigan	\$1,072,819,076	\$454,975,917	\$1,527,794,992	\$497,952,746	\$2,025,747,738	\$12,203
Minnesota	\$301,172,471	\$282,159,261	\$583,331,732	\$220,627,432	\$803,959,164	\$12,415
Mississippi	\$112,059,507	\$66,775,415	\$178,834,922	\$79,246,538	\$258,081,460	\$10,829
Missouri	\$666,733,393	\$198,910,483	\$865,643,876	\$366,643,093	\$1,232,286,969	\$13,214
Montana	\$49,964,962	\$72,662,624	\$122,627,587	\$45,685,128	\$168,312,715	\$10,073
Nebraska	\$134,538,548	\$56,404,740	\$190,943,288	\$66,944,719	\$257,888,007	\$12,268
Nevada	\$352,235,405	\$114,246,444	\$466,481,849	–	\$466,481,849	\$8,955
New Hampshire	\$133,575,914	\$119,917,000	\$253,492,915	\$442,380	\$253,935,295	\$9,499
New Jersey	\$1,245,177,735	\$952,493,761	\$2,197,671,495	\$634,178,380	\$2,831,849,875	\$14,067
New Mexico	\$89,995,555	\$58,915,430	\$148,910,985	\$35,682,382	\$184,593,367	\$9,697
New York	\$1,418,377,884	\$1,199,550,839	\$2,617,928,723	\$802,848,786	\$3,420,777,509	\$13,455
North Carolina	\$1,324,051,008	\$494,177,606	\$1,818,228,614	\$888,541,368	\$2,706,769,982	\$13,952
North Dakota	\$65,298,053	\$70,327,667	\$135,625,720	\$12,100,573	\$147,726,293	\$9,347
Ohio	\$975,797,654	\$518,425,584	\$1,494,223,238	\$504,418,208	\$1,998,641,446	\$11,843
Oklahoma	\$499,617,669	\$325,208,449	\$824,826,118	\$280,006,348	\$1,104,832,466	\$11,056
Oregon	\$543,843,633	\$90,580,192	\$634,423,825	\$331,708,580	\$966,132,405	\$17,028
Pennsylvania	\$1,228,144,866	\$773,054,608	\$2,001,199,473	\$621,997,389	\$2,623,196,862	\$12,185
Rhode Island	\$117,077,782	\$74,187,596	\$191,265,378	\$38,705,705	\$229,971,083	\$10,816
South Carolina	\$318,226,468	\$210,483,672	\$528,710,140	\$303,891,758	\$832,601,898	\$13,335
South Dakota	\$26,582,433	\$51,110,290	\$77,692,723	–	\$77,692,723	\$7,108
Tennessee	\$395,371,225	\$436,462,324	\$831,833,549	\$3,840,163	\$835,673,712	\$8,033

Texas	\$2,315,247,066	\$1,836,153,114	\$4,151,400,180	–	\$4,151,400,180	\$8,842
Utah	\$254,155,717	\$246,745,985	\$500,901,702	\$193,051,262	\$693,952,964	\$12,365
Vermont	\$20,484,800	\$65,758,070	\$86,242,870	\$17,193,172	\$103,436,042	\$8,506
Virginia	\$573,249,895	\$529,049,021	\$1,102,298,915	\$574,677,957	\$1,676,976,872	\$14,278
Washington	\$837,355,963	\$240,086,613	\$1,077,442,576	–	\$1,077,442,576	\$11,900
West Virginia	\$75,386,598	\$35,303,352	\$110,689,951	\$58,586,473	\$169,276,424	\$12,932
Wisconsin	\$395,041,832	\$330,704,194	\$725,746,026	\$243,831,243	\$969,577,269	\$11,563
Wyoming	\$39,903,803	\$31,199,894	\$71,103,697	–	\$71,103,697	\$8,389

Notes: Parents include those with children under age 6 and household incomes at or below 250 percent state median income, and those with children ages 3 to 5 and household incomes above 250 percent state median income. Annual earnings increases are calculated in 2019 dollars.

What’s Possible with Legislation

Creating a comprehensive child care and early learning system will help parents ensure their children have a safe, nurturing place to go while they are working. That peace of mind won’t end all child care-related disruptions to business—even without a pandemic, illness causes child care challenges—but it will substantially decrease them by expanding the array of affordable, reliable, stable child care options for parents. Business leaders are supporting these policies because they know how much the policies will support both their employees and their bottom lines. In December, ReadyNation, a national, bipartisan business network of more than 3,000 current and former executives, wrote to the Senate urging them “to pass a final version of the Build Back Better Act containing significant investments in our nation’s early care and learning system.”²⁸

At the White House in January, Microsoft president Brad Smith pointed out just how important child care and early learning is for his business: “What we see is, we need to do more to help bring Americans back to work and one of the key ingredients that we see is that people can only come back to work if they have a way to take care of their children.” Cummins CEO Tom Linebarger, with close to 60,000 employees nationwide, made clear just how essential child care is to running a successful business: “It’s clearly an issue that needs to be addressed. We hear about it a lot—I get more notes about that than pretty much anything else I do.”²⁹

In October 2021, Small Business for America’s Future

conducted a national survey of more than 1,000 small business owners across the nation, and found that the majority believe that the lack of affordable, high-quality child care for employees has had a negative impact on their business.³⁰ Two-thirds of those surveyed support increases in federal funding for child care. Tiara Flynn, president and CEO of Sumnu Marketing in Nevada, put it this way: “The lack of affordable, high-quality child care directly impacts our ability to grow and sustain our businesses. ...Small business owners can’t reach their full potential if their ability to operate and to hire and keep good employees is hamstrung by high child care costs.”³¹

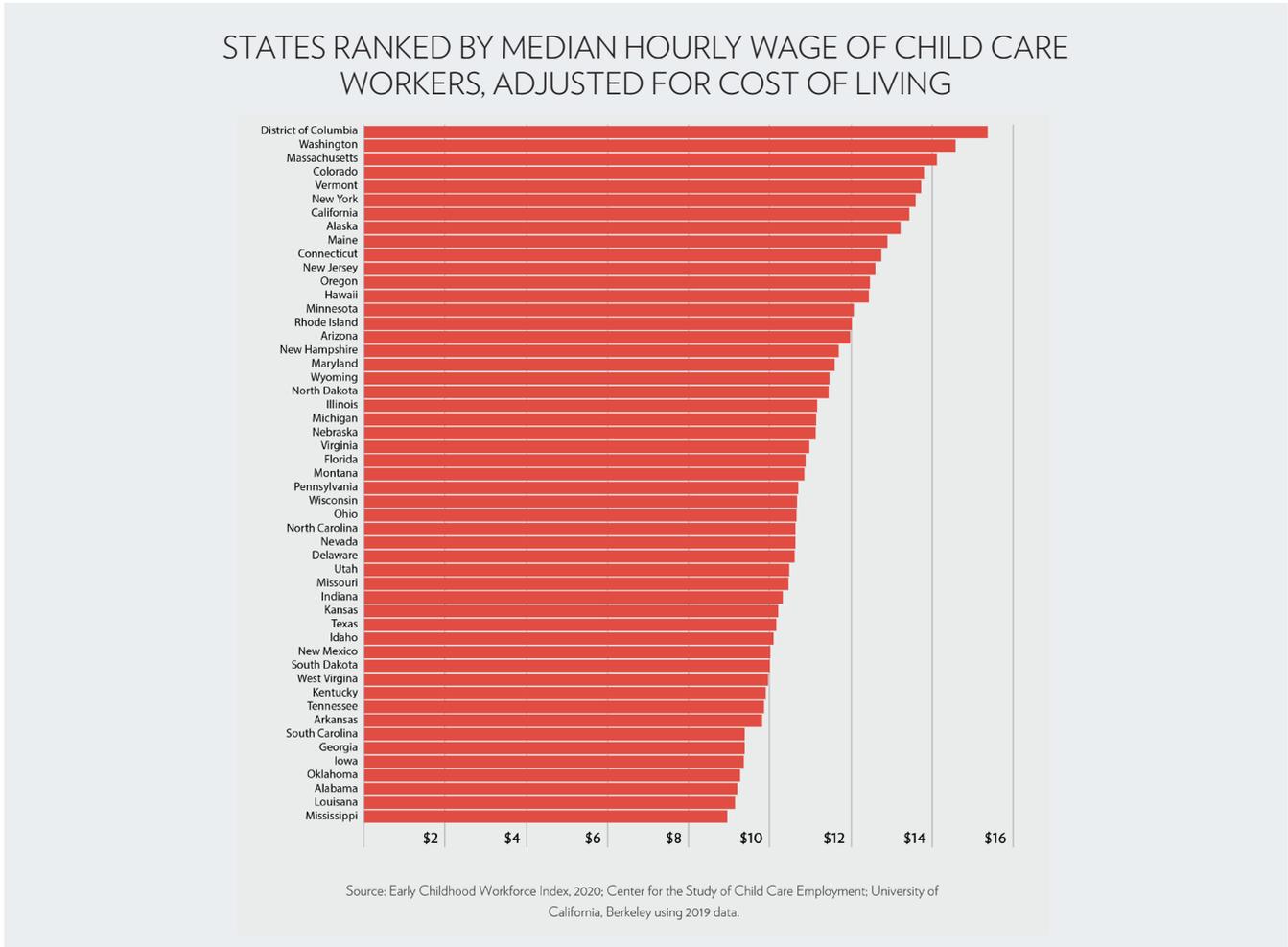
Expected Economic Impact

While the policies advancing in Congress will not eliminate all child care disruptions, particularly in the midst of the pandemic, the policies proposed in BBB will reduce a significant amount of the absenteeism and turnover and raise tax revenue in most states. (See Table 2 and Map 2.) The authors’ analysis found that, nationwide, about \$60 billion a year in losses to businesses could be mitigated by these policies.

Investing in the Child Care and Early Learning and Adjacent Sectors

Before the pandemic, the Center for American Progress (CAP) found that more than half of American families with young children lived in a child care desert—that is, in a Census tract where there are more than three times as many children as licensed child care slots. Two-thirds lived in infant and toddler child care deserts, since the need for more

FIGURE 2



adults per child makes it more expensive to care for younger children, which also makes it more difficult to provide that type of care. CAP found that “licensed child care is more than three times as scarce for children ages 0 to 2 than it is for those ages 3 to 5.”

A major part of the problem is retaining a talented child care workforce. Early educators and child care staff—nearly all women and disproportionately Black and Latina women—are underpaid, and receive few to no benefits.

Meanwhile, parents are already paying as much as they can for child care, and often stretch their budgets in order to do so. Some parents forego formal care and rely on family, friends, and neighbors because they either can’t afford formal arrangements or can’t find care options that meet their needs. The pandemic exacerbated these challenges and caused major disruptions by closing down programs or

reducing their hours and capacity due to safety concerns, increasing expenses, and decreasing enrollment.

Before the COVID-19 pandemic began, over 1 million people were officially counted by the Bureau of Labor Statistics (BLS) as part of the child care workforce. Today, as a result of pandemic-related challenges, the field is still missing more than 100,000 of those early educators.³² While many sectors are experiencing staffing shortages, the child care sector is both more limited in its available responses, and the shortages have a more significant ripple effect on the rest of the economy.

For example, the largest child-care provider in Minnesota, New Horizon Academy, has dozens of empty classrooms, but because of staffing shortages, many families still cannot secure a spot in one of the provider’s centers. According to the *Star-Tribune*, New Horizon is looking for 500 teachers and aides to work at their seventy child-care centers

around the state.³³ Similarly, in Texas, the Early Childhood Development Center in Grapevine-Colleyville ISD takes care of the youngest children of school district employees while they work, but staffing the center has been a major challenge.³⁴ Skilled early educators are moving into jobs with higher wages, like fast food restaurants, leaving child care centers understaffed and teachers without care for their own children, impacting their ability to show up for their students.³⁵

What's Possible with Legislation

The COVID-19 relief investments Congress has authorized are helping, but they are only addressing immediate challenges.³⁶ The longer-term provisions discussed here will address the underlying market failures by investing significant federal dollars in building a comprehensive child care and early learning system. The plan will address the disconnect between high prices for parents and low wages for educators by using federal funding to both lower costs for families and raise wages. Furthermore, the new funding from the child care provisions will support states to build the supply of child care in diverse settings that families need. This will require recruiting, retaining, and training new early educators and staff to meet the needs of families.

With the policy in place, using primarily federal dollars, states will be able to raise early educator wages and hire more educators to meet immediate staffing shortages and fill the ongoing pre-pandemic gaps as well. Specifically, the bill ensures that all early educators and staff in both child care and pre-K are paid wages equivalent to elementary school teachers with similar credentials and experience, and at least a living wage. The plan also provides funding to support training and professional development across programs. For pre-K, similarly, by the fourth year, states must provide for salaries, and set schedules for salaries, for the staff of providers in the state preschool program that are equivalent to salaries of elementary school staff with similar credentials and experience; and furthermore, at a minimum, they must provide a living wage for all staff of such providers.

Expected Economic Impact

Research from Lenore Palladino found that the Build Back Better Act would create 657,000 new child care jobs and support 190,000 new indirect or induced jobs, for a total of 848,566 new jobs nationwide.³⁷ “Indirect” jobs are jobs created in upstream industries that supply and support core activities in child care, while “induced” jobs are jobs that will be created as workers in directly and indirectly created jobs spend money on goods and services for themselves and their families. Taken together, the jobs created by investing in and expanding the child care sector could yield more than \$30 billion in new labor income. In Florida, that will look like more than 66,000 new jobs and over \$2.2 billion in additional earnings; in North Carolina and Ohio, it’s about 31,000 new jobs and over \$1 billion in additional earnings for each state; and in Arizona, it’s about 22,000 new jobs and nearly \$800 million in new income. This policy would also lead to increases in the child care workforce ranging from 16.1 percent in Alabama to 175.4 percent in Louisiana.

This analysis likely underestimates the total impact of this job growth, as it does not include the additional income tax from the expanded child care workforce and higher wages, which would yield additional benefits, which was outside of the scope of this analysis.

What This Means for How States Will Be Doing in the Fourth Year, So That They Can Meet the State Match

The child care and UPK provisions advancing in Congress are fully funded by federal dollars in the first three years, and include a state match of 10 percent in the fourth year.³⁸ The considerable economic benefits that states will realize from implementing these provisions will far exceed this modest match requirement.

Additional and Long-Term Benefits

For those who are paying for it, the high cost of child care makes a significant dent in family budgets. For example, in California, infant care at a center comprises nearly 17 percent of the median married couple’s budget and half of

TABLE 3

Direct, Indirect, and Induced Job Creation Due to Child Care Workforce Investment

State	Current Child Care Workforce	Direct Jobs Created	Indirect Jobs Created	Induced jobs Created	Total Jobs Created	Total New Labor Income	Percent Change in Child Care Workforce
National	865,310	657,118	61,575	129,872	848,566	\$30,014,498,376	75.9%
Alabama	9,550	1,541	138	255	1,934	\$54,000,299	16.1%
Alaska	2,350	1,090	63	187	1,340	\$52,729,073	46.4%
Arizona	16,160	17,104	1,889	3,575	22,568	\$776,521,223	105.8%
Arkansas	8,970	8,837	695	1,273	10,805	\$318,748,410	98.5%
California	91,230	45,670	4,117	11,710	61,498	\$3,026,175,650	50.1%
Colorado	16,410	7,439	802	1,707	9,949	\$387,286,816	45.3%
Connecticut	11,030	4,472	408	780	5,660	\$223,192,755	40.5%
Delaware	2,550	1,957	171	301	2,428	\$86,607,500	76.7%
District of Columbia	2,730	858	54	49	960	\$5,033,006	31.4%
Florida	54,390	49,134	5,934	11,110	66,178	\$2,217,662,279	90.3%
Georgia	24,410	34,678	3,556	6,201	44,435	\$1,355,942,954	142.1%
Hawaii	2,870	1,740	146	394	2,281	\$99,277,842	60.6%
Idaho	3,990	4,765	493	682	5,939	\$160,334,248	119.4%
Illinois	35,140	22,741	1,944	5,321	30,006	\$1,183,345,673	64.7%
Indiana	13,170	17,039	1,356	3,043	21,438	\$711,582,121	129.4%
Iowa	10,870	9,115	637	1,190	10,941	\$292,215,256	83.9%
Kansas	7,220	6,763	538	954	8,255	\$254,301,863	93.7%
Kentucky	11,460	16,213	1,331	2,359	19,904	\$590,064,825	141.5%
Louisiana	9,110	15,979	1,423	2,446	19,848	\$574,698,057	175.4%
Maine	4,130	1,896	183	447	2,526	\$88,906,270	45.9%
Maryland	15,930	9,278	765	1,534	11,576	\$427,381,584	58.2%
Massachusetts	24,780	6,705	552	1,734	8,990	\$425,904,799	27.1%
Michigan	24,060	22,943	2,230	4,889	30,063	\$1,045,820,409	95.4%
Minnesota	17,760	9,054	779	2,130	11,964	\$461,711,439	51.0%
Mississippi	7,580	12,137	964	1,600	14,700	\$394,151,977	160.1%
Missouri	17,610	8,826	807	1,710	11,342	\$370,133,514	50.1%
Montana	3,250	1,792	195	479	2,466	\$74,720,531	55.1%
Nebraska	8,750	5,040	385	793	6,218	\$182,125,736	57.6%
Nevada	4,830	6,656	674	948	8,278	\$260,128,414	137.8%
New Hampshire	4,110	1,338	129	274	1,741	\$65,748,129	32.5%
New Jersey	33,430	10,062	971	2,396	13,428	\$572,286,957	30.1%
New Mexico	4,350	5,120	378	909	6,407	\$212,459,121	117.7%
New York	70,910	24,905	1,956	5,321	32,182	\$1,482,619,301	35.1%
North Carolina	29,590	24,259	2,536	4,467	31,262	\$1,028,389,619	82.0%
North Dakota	4,280	1,929	130	234	2,293	\$63,824,255	45.1%
Ohio	26,140	24,188	2,143	5,001	31,332	\$1,057,814,617	92.5%
Oklahoma	11,800	7,955	720	1,199	9,873	\$286,026,573	67.4%
Oregon	10,530	6,653	646	1,359	8,658	\$316,699,528	63.2%
Pennsylvania	31,510	17,966	1,488	4,240	23,694	\$908,062,178	57.0%
Rhode Island	2,860	1,538	152	283	1,972	\$72,981,338	53.8%
South Carolina	9,840	14,600	1,503	2,236	18,339	\$539,110,386	148.4%
South Dakota	3,740	2,682	196	367	3,244	\$90,254,442	71.7%
Tennessee	16,370	19,611	1,774	3,342	24,727	\$811,854,001	119.8%
Texas	77,090	94,688	9,417	19,754	123,859	\$4,274,436,854	122.8%
Utah	6,910	8,709	956	1,520	11,185	\$336,818,891	126.0%

Vermont	2,110	768	66	177	1,012	\$37,714,118	36.4%
Virginia	21,480	13,457	1,227	2,492	17,176	\$616,965,806	62.7%
Washington	16,380	9,300	759	1,668	11,727	\$486,300,075	56.8%
West Virginia	3,400	5,384	333	673	6,390	\$184,250,568	158.4%
Wisconsin	14,220	9,725	794	2,057	12,575	\$436,942,912	68.4%
Wyoming	1,970	822	73	105	1,000	\$32,234,183	41.7%

Source: Calculations by Lenore Palladino, Chirag Lala at UMass Amherst. For additional methodological details, see “The Economic Effects of Investing in Quality Care Jobs and Paid Family and Medical Leave” (2021). Data from the Bureau of Labor Statistics’ Occupational Employment and Wage Statistics, 2020, available at <https://www.bls.gov/oes/#data>. See Appendix for more details on sources and methodology.

Notes: Direct jobs include jobs created in the child care industry itself. Indirect jobs include jobs created in upstream industries that supply and support core activities in child care. Induced jobs include jobs created due to increased consumer spending by those in directly and indirectly created jobs.

the median single parent’s budget. In Arizona, it’s 13 percent of the married-couple’s budget and 39 percent of the single parent’s.³⁹ The BBB policies are projected to reduce annual child care costs to families by about \$5,000.⁴⁰ These savings can translate into spending in the local economy and improving families’ economic stability.

Children benefit from their parents’ economic stability in both the short and long term. Making child care more affordable and supporting parental labor force participation has a positive impact on children. Family income impacts children’s cognitive development, physical health, and social and behavioral development because it is connected not only to parents’ ability to invest in goods and services that further child development, but also to the stress and anxiety parents can suffer when faced with financial difficulty, which in turn can have an adverse effect on their children.⁴¹

As noted above, additional state tax revenue from labor force participation increases are not fully accounted for in this report’s analysis. In addition, even states that do not levy a personal income tax stand to benefit from the economic gains associated with reduced child care disruptions. These states generate the bulk of their tax revenue by taxing sales, making sales volume an integral part of their budgets.⁴² Policies that improve child care access can affect sales volume indirectly through increases in business output and worker earnings, and the latter has potential spillover benefits in the form of additional taxable consumer spending.

Public investments in child care and pre-K improve parental economic stability in part by supporting increased earnings

for mothers over the long term, as the bias and stigma attached to “working motherhood” decreases. Analysis by Jessica Milli and Julie Kashen found that the wage penalty associated with becoming a mother or adding new children to a family that cannot be explained by other factors, such as seniority or education, can be reduced by child care and preK investments. They found that a significant federal investment could reduce this “motherhood penalty”—a term coined by Dr. Michelle Budig and Dr. Paula England⁴³—by as much as one-third.

Finally, positive experiences in early education play an important role in setting children up for success in school, college, and beyond. The first five years are when a child’s brain develops fastest and when they learn key social, emotional, and academic skills, skills they’ll need during kindergarten and in order to have positive educational outcomes. Good child care and early learning programs have also been associated with other positive health benefits, including higher immunization, screening, and identification rates, as well as with improved mental health.

Conclusion

The policies proposed in the BBB legislation stand to benefit state economies in a number of important ways. Access to affordable and reliable child care and early education will enable parents to increase their workforce participation and thus their earnings. Nationwide, annual parental earnings could grow by over \$47 billion. Increased parental earnings are also likely to result in additional state sales tax revenue, to the extent that non-child care spending rises proportionately with parental incomes.

Employers will also benefit from reduced care-related turnover and absenteeism. Total annual business losses due to care disruptions among parents of young children currently top \$46 billion, while increased tax revenue is more than \$13 billion. In Texas, which bills itself as a “business-friendly” state, child-care issues result in annual corporate losses of nearly \$4.2 billion. By shoring up care infrastructure, the policies proposed in BBB will free up money that businesses would have otherwise been forced to spend mitigating care-related losses. This will allow businesses to instead use that money for more economically productive—and state tax-generating—activities.

All of these outcomes depend on retaining talented early educators and staff in the child care industry, in which investment will be economically fruitful in its own right. The BBB proposals would directly create almost 650,000 new jobs in the child care industry itself, along with just under 200,000 new indirect and induced jobs in other industries. Nationwide, these new jobs will result in over \$30 billion in additional earnings.

The child care and UPK policies being considered in Congress will support children’s healthy development, family economic security, and gender and racial equity. This report shows that they are also essential to helping state economies grow and prosper.

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Notes

¹ The increases to economic output from increased parental employment and the gains in business revenue from decreased child care-related disruptions both incorporate aspects of parental earnings, which means there is overlap between these two numbers. As a result, aggregating these would be a likely overestimate of the total economic benefits.

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21 See methodology section for additional details on assumptions re: take-up rates.

22 When parents leave the workforce due to child care challenges, or reduce their work hours, states do not collect income taxes, or collect less in income taxes, from those individuals. In addition, the combination of reduced income for some families and high child care expenses for others causes parents to reduce their spending, leading to a decrease in sales tax revenue. The business disruptions analysis incorporates state tax revenue, so we did not account for it in this section, as there is likely significant overlap in the data.

23 Authors’ analysis of Current Population Survey, Basic Monthly Sample, for Quarter 4 of 2021. Categories are mutually exclusive; parents are grouped by the age of their youngest child.

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42 In Nevada, for example, which has no personal income tax, just under 15 percent of families with a child under five reported quitting a job or substantially changing their work patterns due to problems with child care. Similar shares of families reported major work disruptions due to child care problems in other states with no personal income tax: 12 percent in Texas and 13.3 percent in Florida, for example. High costs and ongoing closures have left parents in these states scrambling to arrange child care, and missing work when they can’t. Comprehensive child care and UPK policy will help parents get back to work, save them money on child care expenses, and ensure they have resources to spend in their local economies.

Appendix: Methodology and Sources

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Parental Labor Force Participation and Earnings Increases

Parental labor market participation is calculated using the 2019 American Community Survey 1-year Sample. We use polling data from the Center for American Progress (CAP) on parents' labor market decisions to estimate the proportion of parents who would join the labor force (for those not currently in the labor force) or increase their hours (either by going from part-time to full-time or by working additional full-time hours) if they had access to reliable child care. This survey is well-suited to our analysis because it explicitly asks parents how they might alter their labor force status or work hours in response to child care availability, rather than only asking about their current or past work situations. According to the CAP poll, 51 percent of homemaker parents with children under 18 report that they would want to secure paid work if reliable and affordable child care were available; 32 and 34 percent of those working part-time and full-time, respectively, would want to work more hours.² We assume that an equivalent share of parents with children under 6 would opt to change their labor force status or increase their work hours.

To reflect the parameters of the child care and preK policies under consideration, we assume a full take-up for parents of children under 6 with family income under 250 percent of state median income (SMI) and parents with preschoolers whose income is above 250 percent of SMI. We alternately

assume varying take-up rates for parents with different levels of family income relative to their SMI. For parents with children under age 6 with family incomes less than 100 percent of SMI, family incomes between 100 and 250 percent of SMI, and parents with children aged 3 to 5 with income above 250 percent of SMI, we set the take-up rates at 70 percent, 60 percent, and 50 percent, respectively.³ Under these assumptions, the number of parents who might experience an increase in earnings as a result of either labor market entry or working more hours is nearly 1.3 million.

To estimate what their earnings might be if these parents were employed or worked more hours, we use a Heckman two-step sample selection process to reduce the possible sample selection issue that parents who are more likely to work are more likely to earn more. The approach we apply in this analysis follows Budig, Misra, and Boeckmann,⁴ as we first estimate the likelihood of employment as a function of one's marital status, age, education level, race/ethnicity, non-earnings income, occupation type (of last reported job they held), number of children under the age of 6, and state-fixed effects.

We then use the resulting estimation to construct an inverse Mills ratio, which we then include in the main regression analysis to correct for sample selection bias. The number of parents who might experience an increase in earnings as a result of either labor market entry or working more hours is approximately 3 million under a full take-up scenario and

This report can be found online at: <https://tcf.org/content/report/how-states-would-benefit-if-congress-truly-invested-in-child-care-and-pre-k/>

1.3 million under varying program take-up rates for parents with different levels of family income to their state median income.⁵ We compare these parents' estimated adjusted earnings to their current earnings to estimate the average increase in earnings (only for those experiencing an increase), and we add up these earnings increases for all mothers to estimate the policy's aggregate effect on earnings.

As a sensitivity check, we apply our algorithm to calculate the number of parents (mostly mothers) with children under 4 with family income less than 200 percent and 300 percent of the federal poverty guideline who may be newly employed, at roughly 250,000 and 401,000, respectively. Despite varying assumptions, this is more or less consistent with the estimates from the ASPE,⁶ which reported about 260,000 to 420,000 mothers might expect to enter the labor force. We also calculate that slightly over 1 million parents with children under 13 with family income less than 75 percent of the state median income who might expect to enter the labor force, which is close to the lower bound estimate in Chaudry and Hamm's report.⁷ It is worth noting that besides labor market entry, we also consider parents who are part-time or full-time workers wanting more hours.

Child Care-Related Turnover and Absentee Costs for Businesses and Associated Tax Loss

To estimate the state's business loss, we followed an approach similar to that adopted in the U.S. Chamber of Commerce Foundation's report.⁸ We first estimate turnover cost by taking a product of average salary for working parents in each state and state-specific number of parents who had to quit jobs or not take jobs due to child care issues. To arrive at the total cost to employers due to parents' turnover, we then apply the cost of turnover, 21 percent, from Boushey and Glynn's report,⁹ to these parents' annual average salary. Data on parents' salary and number of parents come from the 2019 American Community Survey.¹⁰ We take the proportion of parents leaving jobs or not taking jobs as a result of child care problems from the 2019 National Survey of Children's Health data.¹¹ In addition to the turnover cost, we also consider absenteeism cost to employers by considering average salary and the average revenue, which captures

the costs and lost productivity when a parent is absent from work for child care duties. We take the proportion of parents absent from work due to child care issues from the 2019 monthly Current Population Survey data.¹² We assume they usually miss an eight-hour work shift and on average, and that parents miss nine workdays per year nationwide.¹³ We use the average revenue per employee of \$133,800 per year as a benchmark.¹⁴ Therefore, the state's business loss is a sum of business loss and absenteeism cost the employers incur.

To calculate a state's loss in income tax revenue, we again use the Heckman two-step model (see above) to estimate the predicted earnings for those who are not working or work part-time. We use the new estimated adjusted earnings for these parents, coupled with information about their tax filing status, number of children, age of children, other income components, and state of residence, in a NBER TAXSIM 32 simulation. We then calculate the average state tax each group would have to pay if they were working or worked more hours relative to the observed tax payment.

New Child Care Jobs, Higher Pay for Child Care Workers, and Multiplier Effects

Analysis by Lenore Palladino and colleagues estimated the number of child care and related jobs that could be created as a result of the new policies. They use a simulation with an assumed budget cap of \$400 billion, to look at a wage increase to at least \$15/hour for the lowest 10 percent of workers in the child care workforce, scaling up from there, and create new jobs in the child care sector. They also assume spillover job effects on other sectors and services. They start with a baseline of 865,300¹⁵ jobs, which reflects the number in May 2020. See this report for more details.¹⁶

Notes

- 1 GBA Strategies National Poll, 2018, available at <https://cf.americanprogress.org/wp-content/uploads/2019/03/ECPP-ChildCare-Crisis-report-2.pdf>; also available at <https://www.americanprogress.org/article/affordable-child-care-early-learning-families/>
- 2 Leila Schochet, “The Child Care Crisis Is Keeping Women Out of the Workforce,” Center for American Progress, March 28, 2019. <https://www.americanprogress.org/article/child-care-crisis-keeping-women-workforce/>
- 3 Julie Kashen, and Jessica Milli. “The Build Back Better Plan Would Reduce the Motherhood Penalty”. October 2021. <https://tcf.org/content/report/build-back-better-plan-reduce-motherhood-penalty/>
- 4 Michelle Budig, Joya Misra, and Irene Boeckmann. “Work–Family Policy Trade-Offs for Mothers? Unpacking the Cross-National Variation in Motherhood Earnings Penalties” (2015).
- 5 For those with income less than 100% of SMI, those with income between 100 to 250% of SMI, and parents with children aged 3 to 5 with income above 250% of SMI, we set the take-up rates at 70%, 60%, and 50%, respectively.
- 6 ASPE Issue Brief. “A policy to provide child care access for all working families: Effects on mothers’ employment and caseload.” (2017) https://aspe.hhs.gov/sites/default/files/migrated_legacy_files/171936/ChildCareBrief.pdf
- 7 Ajay Chaudry and Katie Hamm. “The Child Care for Working Families Act Will Boost Employment and Create Jobs.” (2017) <https://cdn.americanprogress.org/content/uploads/2017/12/06070052/ChildCareWorkforce-brief.pdf>
- 8 US Chamber of Commerce Foundation. “How childcare impacts Arizona’s workforce productivity and the state economy”. (2021) https://www.uschamberfoundation.org/sites/default/files/EarlyEd_ARIZONA_2021_DIGITAL.pdf
- 9 Heather Boushey and Sarah Jane Glynn. “There Are Significant Business Costs to Replacing Employees” (2012). <https://www.americanprogress.org/article/there-are-significant-business-costs-to-replacing-employees/>
- 10 Steven Ruggles, Sarah Flood, Sophia Foster, Ronald Goeken, Jose Pacas, Megan Schouweiler and Matthew Sobek. IPUMS USA: Version 11.0 [dataset]. Minneapolis, MN: IPUMS, 2021.
- 11 <https://www.childhealthdata.org/learn-about-the-nsch/NSCH>
- 12 Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, J. Robert Warren and Michael Westberry. Integrated Public Use Microdata Series, Current Population Survey: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2021. <https://doi.org/10.18128/D030.V9.0>
- 13 Early Care & Learning Council. “Why Should Employers Care? Relationship Between Productivity and Working Parents,” (2014). <https://childcarecouncil.com/wp-content/uploads/2014/07/Why-Should-Employers-Care-ECLC.pdf>.
- 14 It is calculated based on 2019 GDP and approximate number of workers in the US.
- 15 The child care workers they consider only include preschool teachers (except special education), and child care workers. Data from <https://www.bls.gov/oes/#data>
- 16 Lenore Palladino and Chirag Lala. “The Economic Effects of Investing in Quality Care Jobs and Paid Family and Medical Leave.” (2021). <https://peri.umass.edu/component/k2/item/1465-the-economic-effects-of-investing-in-quality-care-jobs-and-paid-family-and-medical-leave>