Child Care, COVID-19, and our Economic Future

By Bina Patel Shrimali

Introduction

Child care is important for cultivating the future workforce, and it also ensures that working parents of today can participate in the economy, helping to achieve the Federal Reserve’s mandate for full employment. While child care in the U.S. is a piece of critical infrastructure, it is often invisible and undervalued. Straddling the lines between parenting, education, and small business, child care does not get the full attention and resources of any particular domain, and its contribution to the economy has been overlooked.

Longstanding and widespread constraints in the child care sector are compounded by the current COVID-19 crisis, heightening the urgency of addressing structural issues in the child care ecosystem that limit the ability of low-income working parents to access affordable, quality care for their kids. As child care businesses struggle to weather the crisis, this critical infrastructure for workforce and community development will likely be severely limited. This may hamper economic recovery, and the implications of widespread losses of child care will likely fall disproportionately on women and people of color, widening existing inequities.

The COVID-19 crisis represents an opportunity to reassess and reimagine this vital sector of our economy. The goal of this report is to draw attention to the importance of child care to the economy, highlight shortfalls and challenges in this sector prior to COVID-19, and explore new issues that threaten the viability of the sector in the context of the pandemic. Finally, the brief highlights the role for new and existing actors in the private and public sectors in creating a resilient child care ecosystem that will enable the full potential of our economy.

Background: Child Care Enables Maximum Employment in Our Economy

Child Care is an Economic Necessity

Child care is a must for many workers in the economy. In 2019, parents with children under 18 represented nearly one-third of the workforce (32%) and those with children under 5 comprised 14% of the workforce.\(^1\) Sixty-seven percent of children under age six in the U.S. have all available parents in the labor force.\(^2\) Many of these families rely on some form of paid child care so they can work.

Availability of child care affects parents’ decision-making about joining the labor force. A survey conducted in the U.S. prior to the pandemic\(^3\) found that decisions related to child care impact parents’ employment decisions and their work. Sixty-three percent of respondents said the cost of care influenced their career decisions, including switching jobs to increase pay (38%) or switching from a full-time to part-time schedule (26%). Costs of care also have implications on other household spending: respondents reported accruing more debt to afford their current child care (31%), stopping saving money (37%), stopping paying off debt (37%), or making other cuts to their household spending (44%). Nearly 40% of those surveyed indicated that they waited to have children or had fewer children than they would have liked because of child care costs.
Relative to other developed countries, policies in the U.S. related to the care of children, such as paid parental leave and child care, lag behind.⁴ Research comparing labor force patterns prior to the pandemic in Canada and the U.S.⁵ suggests that the lack of such policies and programs in the U.S. may account for why many American workers choose not to work. The authors estimated that expansion of such policies in the U.S. could add up to 5 million people to the U.S. workforce. One in five parents are considered stay-at-home in the U.S., meaning that the parent provides unpaid child care at home.⁶ Results from one survey indicate that over half (51%) of people who identified themselves as “homemakers” would look for a job if affordable and reliable child care options were available.⁷

**Child Care Enables the Economic Contributions of Women**

The current recession has been described as a women’s recession,⁸ as women’s unemployment has risen more sharply than men’s, particularly for women of color. Indeed, while 2020 started with women comprising the majority of the non-farm labor in the U.S., the share of women in the workforce relative to men has declined in this coronavirus-fueled recession. Part of this decline stems from the fact that women are more likely to be employed in the service industry,⁹ which has been hard hit by the pandemic and lacks the ability to work remotely.

Historically, women have borne the brunt of child care responsibilities, and this pattern continues to this day. While 93% of men with children under 6 are employed, this share is only 64% for women.¹⁰ In addition, time use survey data suggests that across all income levels working women spend more time on child care responsibilities than men.¹¹ Given that women, even those working full-time, tend to be responsible for a greater proportion of responsibilities related to the household and care of children, child care availability shapes women’s labor decisions. Mothers’ employment is more likely to hinge on finding child care compared to fathers,¹² and women often make labor decisions based on balancing care responsibilities. Women choose jobs with more flexibility, shorter commutes, and often switch to part-time work or step out of the labor market at times, and these decisions often affect their earning potential and promotion opportunities over time.¹³ Survey results from 2019¹⁴ indicated that more than 50% of mothers had scaled back their hours to save on child care, and 25% of mothers left the workforce altogether. Cost also plays a role: one review estimates that a reduction of just 10% in the price of child care would result in a 0.5-2.5% increase in maternal employment.¹⁵ While these employment tradeoffs are difficult, these choices are often unavailable for many low- and moderate-income families, who might either pay large shares of their income on child care or whose earnings may not cover the costs of care, keeping them out of the labor force.

Women are disproportionately affected during the pandemic, as child care slots are increasingly unavailable or perceived to be unsafe. A recent survey¹⁶ found that for heterosexual couples with one or both parents working from home, 41% say that mothers have been doing the majority of extra child care work while working from home, compared to just 15% who say fathers have done the majority.

Despite these barriers and tradeoffs, the financial contributions of mothers have been growing over time. In 2017, the majority of mothers (64%) in the U.S. contributed at least a quarter of total household earnings (compared to 28% of mothers five decades prior), and this contribution to household earnings was higher for Black mothers (85%).¹⁷ In order to maintain these economic contributions and ensure household financial stability for families, child care is essential.

---

Child Care is Key to Reducing Racial Disparities

Reducing barriers to the economic participation of people of color is essential to maximizing employment outcomes and ensuring the potential of our economy. The majority of young children (under 5) are now people of color, and many parents of color, particularly Black women, whose labor force participation is higher than other women, face the double challenge of seeking child care while having lower earnings to pay for it. Black and Hispanic workers, and women in particular, are disproportionately represented in the lowest wage jobs relative to their size in the labor force. Compared to other women, Black women maintain high work hours regardless of the presence of young children. At the same time, survey results indicate that only 47% Black families report having no difficulty finding child care, compared to 53% of White families. Black families are also more likely to cite cost as a factor compared to White families (38% vs. 27%).

In the context of COVID-19, Black and Hispanic workers are also the least likely to be able to telework (estimated at just 16% of Hispanic workers and 20% of Black workers compared to 30% of White workers), and for those who are able to retain their on-site jobs, child care has become even more critical.

Early Care and Education is Vital to the Development of our Future Workforce and Saves Money in the Long Run

Investments in child development produce tremendous benefits for our economy. These contributions of child care to our economy are often overlooked, potentially because the benefits are not realized until decades down the road. Research suggests returns of 18-20% on investment in early childhood education, through reduced social costs, higher tax revenue, and a more productive workforce. From birth until age 5, children are rapidly developing cognition, language, motor skills, adaptive skills and social-emotional functioning. These important years lay the foundation for skills required in the workplace, such as communication, collaboration, and emotional regulation. If children have the support they need to develop these skills, they are more likely to be well-equipped for school and on a positive trajectory to contribute productively in society. Evidence from neuroscience, psychology, education, and economics all point to the foundational importance of early childhood development.

The Child Care System Faced Significant Challenges Prior to COVID-19

Child Care is an Undervalued and Overlooked Sector

For most of history, child care has been provided through the unpaid or low-wage labor of women, often women of color, and this legacy may play a role in why child care work has been and continues to be highly undervalued. While more people in the U.S. rely on child care for their economic participation than ever before, child care remains an issue of private responsibility rather than public good, with public subsidies only reaching a small percentage of families who are eligible (just 15% of eligible families benefit from the Child Care and Development Block Grant, the primary public program for low-income families). Furthermore, these subsidies do not fully cover the costs of care. Child care is inaccessible and unaffordable for many people (discussed in more detail in the next section), while many of the approximately 2 million child care workers in the U.S. are low-wage workers who struggle to make ends meet.
An analysis from the Center for the Study of Child Care Employment at UC Berkeley\textsuperscript{31} is the source of the findings in this section focused on the child care workforce. This study finds that child care workers are almost entirely women. Child care workers are paid very low wages regardless of their educational attainment, perhaps reflective of the pervasive unfounded view that child care work is unskilled. Among center-based staff, three quarters of workers (75\%) make less than $15 an hour, and Black staff are disproportionately likely to make less than $15 an hour (84\%). More than half (59\%) of home-based child care providers live in households with incomes less than the national median, with Black providers even more likely (75\%) than their counterparts to earn less than the national median.

A comparison of early childhood care workers to elementary education workers provides a useful comparison to illustrate that while the early years are critical to our current and future workforce, the child care sector remains undervalued and its workers continue to be marginalized. Analysis of occupational employment statistics finds that nationally child care workers make about one-third of the median hourly wage that elementary teachers make ($10.72 vs. $32.98 per hour). This wage ($10.72) represents the second percentile of workers overall, while kindergarten teachers’ wages ($32.29) put them in the 61\textsuperscript{st} percentile. The racial equity implications here are notable as among center and home-based child care providers, about 40\% of workers are people of color, and among unlisted\textsuperscript{32} providers, nearly half of workers are people of color. In the K-12 teaching workforce, for comparison, 80\% of teachers are White.

While the most sensitive period for brain development occurs in the first three years of life, wages for providers caring for infants and toddlers are lower than those who are working with those ages three to five who are not yet in kindergarten. Early educators working with infants and toddlers earn $2.00 less per hour (in analyses that control for educational attainment of the worker). More than one-half (60\%) of those working with infants and toddlers earned less than $10.10 per hour, compared to 36\% of those working only with older children. This pay gap is partially explained by public funding for programs, given that services for younger children are less likely to receive public funding and are more reliant on parent fees, as well as lower child-to-caregiver ratios which increase costs. This pay gap may be contributing to high turnover in the field that may result in poorer learning environments for young children.\textsuperscript{33}

**Parents struggled with affordability and availability of child care prior to COVID-19**

Child care businesses are labor-intensive and operate on slim margins. Despite the fact that child care workers earn low wages, most parents struggle to pay for child care. For an infant, center-based child care costs on average $1,230 per month, while family-based child care costs $800, with significant regional variation.\textsuperscript{34} In no state in the U.S. does the cost of infant or toddler center-based child care meet the federal standard for affordability (7\% of annual household income).\textsuperscript{35} Nationally, families making the median average for their state spend on average 18\% of their income for infant center-based care, and 13\% for a toddler,\textsuperscript{36} and low-income families (<200\% of federal poverty level) are estimated to pay over one third of their income on child care.\textsuperscript{37}

In addition, many U.S. residents live in areas where child care supply does not meet demand. Over half (51\%) of people in the U.S. live in what is deemed as a child care desert, defined as a census tract with more than three children under age 5 for every licensed child care slot.\textsuperscript{38} Child care supply is especially low among certain populations, with 58\% of Hispanic/Latino families, 60\% of rural families, and 55\% of low-income families living in areas without enough licensed child care providers.\textsuperscript{39}

Underlying Vulnerabilities in the Sector Have Been Exacerbated by COVID-19

COVID-19 has made matters worse for the already fragile child care sector. This sector is facing many losses, and unless provided with more robust support, its reduced capacity could hinder economic recovery as workers who rely on it may be limited in their employment opportunities.

The Pandemic has Resulted in the Permanent Closures and Instability of Many Child Care Businesses

A national survey of child care providers conducted in late June found that across the U.S., 18% of child care centers and 9% of family child care homes remained closed, and for those that were open, the vast majority (86%) of them are serving fewer children than before the pandemic (67% fewer children, on average). At the same time, the costs of care have increased for 70% of businesses, who are facing additional staff, cleaning, and equipment costs.

Nearly 2 of every 5 respondents in the survey are certain they will close permanently without additional public assistance. This eminent closure was reported for over half of child care businesses owned by people of color, underscoring how communities of color are disproportionately affected by the crisis. Nearly 3 in 4 child care businesses reported resorting to—or planning to resort to—layoffs, furloughs, and pay cuts (73%) and the need for these difficult measures are markedly higher (88%) for businesses owned by people of color. Estimates of the child care workforce indicate that it is only 79% as large as it was in February prior to the pandemic.

Parents are Uncertain about Sending Children to Child Care and Worry about Rising Costs

Adding to the uncertain terrain that child care businesses are facing is the question of whether or not parents are intending to send their children to child care given the ongoing spread of coronavirus. Recent survey results from May 2020 indicate that nearly two-thirds of respondents who use child care are somewhat or very uncomfortable returning their children to child care as states reopen (63%), and over one-third (35%) of respondents who use child care are considering in-home care instead. Respondents were even more concerned about the costs of child care than they were before the pandemic (47%).

For parents who cannot telecommute (as stated above, disproportionately Black and Hispanic parents), child care is a must. In a national survey of working parents who used child care prior to the pandemic conducted in late March and early April, just 22% of essential workers indicated that they have been able to continue using their previous child care arrangement and 49% of those working on-site need formal child care amidst COVID-19. As child care businesses close due to under enrollment, driven by forces such as telecommuting parents who choose not to send their children, child care availability in the long term for those who need it will be even more of a challenge than it was before the pandemic.

Implications for Policy and Practice

This report highlights the importance of child care to the economy, to reducing gender and racial disparities, and to enabling the success of the next generation. It also highlights the ways in which child care has been undervalued and overlooked, resulting in a fragile sector during and even prior to the pandemic. As outlined in a recent Federal Reserve System briefing, the COVID-19 crisis has created a sense of urgency to stabilize the child care sector. The crisis also allows for the opportunity to build a
stronger and more resilient system that will both develop the next generation and enable workforce participation for many people.

As we imagine a more robust and resilient child care sector, there are roles for new players and new approaches. Our team at the Federal Reserve Bank of San Francisco is beginning to see some promising ideas across the western U.S., as we highlight below, but more work is needed. Through our newly announced initiative, Investing in the Future of Child Care, we are taking a deep dive into the challenges facing the child care market as well as the investments and partnerships needed to support child care providers. Our work will include a webinar series designed to advance understanding and action in the community development field as well as on-the-ground efforts to activate promising solutions and investments.

Provide supports for child care small businesses
Child care businesses that operate on tight margins, have high staff turnover, and face structural barriers to accessing credit need more support. Many providers are motivated by a desire to care for children and support early childhood development, but they are met with the complex challenge of running a child care business. More support in running a business could be offered to child care business owners. In addition, innovative approaches to shared back end operational support can offer some relief. Converting child care businesses to shared ownership models (through an employee stock ownership plan) also holds promise. This approach enabled one provider to reduce turnover, provide benefits to staff, and enable profit sharing in a way that built pride, accountability, and ownership.

Value child care as a workforce and community investment
The education of young children is a public good that will create a stronger society and contribute to our shared prosperity, especially in light of growing research showing the fundamental importance of the early years in enabling lifelong success. Greater public and private investment could pull this sector from the margins to be rightly centered as critical to the current and future economy. More investment is needed to enable a thriving and robust child care system that pays living wages, while ensuring that child care providers can be resilient in the face of disasters such as the current pandemic. Investing in the sector will also enable more workers, particularly women of color, to achieve financial security.

Engage new partners in strengthening the child care sector
Assistance can come from a variety of players. National fiscal support has been and will continue to be critical in this time of crisis, however, many local and state actors can play a role, including community development organizations, Community Development Financial Institutions (CDFIs), local government, school districts, businesses and employers, and philanthropy. An example on the state level is the development of revolving loan funds that support child care facilities with renovation and repair, as well as the purchase and lease of child care facilities. Many states, including California and Washington in the western U.S., have such funds. Local jurisdictions can also implement development impact fees, such as the one implemented in San Mateo, CA, where the city collects a development impact fee of $1.08 per square foot on commercial developments that exceed 10,000 square feet. This fee applies to new developments, expansion of existing commercial developments, and commercial tenant improvements. Over $2 million from these impact fees were recently provided as forgivable loans to create new child care spaces. CDFIs can play a key role, including by providing capital, technical assistance, and small business consultation. Philanthropy can play a critical role in enabling systemic change. Not all support, however, needs to be financial. Local colleges, for example, can provide early childhood
degree programs. Local funders and community groups can provide donations to child care providers. Community development organizations can provide business expertise and support co-location of services. Technology startups are also engaged in helping families with child care during the COVID-19 crisis.52

In the very real struggles and challenges that the COVID-19 crisis has posed, there is the opportunity to imagine new possibilities. We can use this moment to center child care and develop a robust system for our current and future economy.

Acknowledgment: Thanks to Brooke Ada Tran for her research assistance; Naomi Cytron, Jessica Monge Coria, Laura Choi, and Rocio Sanchez-Moyano for content support and review; and Laurel Gourd for editorial guidance.

Disclaimer: The views expressed here are those of the authors and not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

20 Recognizing the complexity of evolving terminology to describe race/ethnicity, we elect to use Hispanic in keeping with the survey cited, but we would like to acknowledge that many people in this ethnic group prefer alternate terminology to identify themselves.
22 Glynn, Sarah Jane. “Unequal Division of Labor.”
32 Unlisted means they do not appear on state or national lists of early care and education services of licensed, regulated, license-exempt, or registered providers; note these definitions vary across states.
34 Workman and Jessen-Howard. “True Cost of Child Care.”
35 Workman and Jessen-Howard. “True Cost of Child Care.”
36 Workman and Jessen-Howard. “True Cost of Child Care.”


39 “Child Care Desert” Center for American Progress.


47 “Improving Child Care.” Bipartisan Policy Center.

48 “Improving Child Care.” Bipartisan Policy Center.


