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The Role of Child Care Small Businesses in Supporting Parents and the American Workforce

Testimony before the

Committee on Small Business and Entrepreneurship

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My name is Rachel Greszler. I am the Senior Research Fellow in Workforce and Public Finance at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

As a working mother of six kids, the youngest of whom just started kindergarten this past year, I have been navigating childcare for the past 15 years. Instead of having all the answers, however, I have learned that childcare is complex; while there are things that can help families, there is no silver bullet solution. I have also learned that different families have different childcare preferences and needs, and even within families, preferences and needs can vary as work and family circumstances change over time. What is most important is that families are free to pursue what is best for them.

In my testimony today, I would like to: (1) discuss the current landscape for parents, children, and childcare providers; (2) consider the government's potential role in families' unique childcare preferences; and (3) suggest ways that policymakers can help to expand childcare options so that more families can achieve the childcare they desire.

The Current Environment for Working Families

While in a significant share of families with young children one parent stays home with the kids, in the majority of families, both parents are, or the only parent is, working. Parents' employment, currently at 80.3 percent, is roughly on par with total prime-working-age (25 to 54) employment of 80.7 percent.[1] While not all employed parents work full-time and while some have older children who do not need childcare, high employment rates among parents mean that many parents must navigate formal or informal childcare arrangements.

Parents' Employment Has Increased Since the Pandemic. Despite the struggles that parents faced with childcare and school closures, and counter to the media narrative that many mothers were forced to drop out of the workforce, parents'—and particularly mothers'—employment has increased since the COVID-19 pandemic. While overall employment (as measured by employment-to-population ratios) is down by 1.6 percent since the start of the pandemic, parents' employment has increased 0.7 percent.[2]

TABLE 1

Employment Change By Gender, Presence of Children, and Age of Children

DIFFERENCE BETWEEN ACTUAL EMPLOYMENT LEVELS AND COUNTERFACTUAL EMPLOYMENT TREND*, SINCE FEBRUARY 2020

Group	Employment Change
All workers	–1.4%
Men	–2.1%
Women	–0.8%
Workers with children	0.7%
Workers without children	–2.1%
Men with children under 18	0.1%
Women with children under 18	1.4%
Men without children under 18	–2.6%
Women without children under 18	–1.6%
Workers with children under 6	1.6%
Men with children under 6	0.3%
Women with children under 6	3.0%

*Counterfactual trend shows what employment would have been if the employment-to-population ratios for each specified group of workers remained steady at their February 2020 levels.
SOURCES: Unpublished tabulations from the Bureau of Labor Statistics, Current Population Survey, and Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject," https://www.bls.gov/data/home.htm (accessed April 4, 2024).

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[1]The total employment rate for the age 16+ population is 60.1 percent (February 2024). Sources include both published and unpublished data from the Bureau of Labor Statistics' Current Population Survey. Published data available for download at https://www.bls.gov/data/home.htm.
[2]Employment among workers without children ages 17 and younger at home is down by 2.1 percent (February 2019 to February 2024). Data based on author's calculations of unpublished data from the Bureau of Labor Statistics Current Population Survey. For full documentation, see Rachel Greszler, "What Is Happening in This Unprecedented U.S. Labor Market? April 2023 Update," Heritage Foundation *Backgrounder* No. 3764, April 27, 2023, https://www.heritage.org/jobs-and-labor/report/what-happening-unprecedented-us-labor-market-april-2023-update.

Particularly surprising is the fact that employment among women with children under age six is up by 3.0 percent since the start of the pandemic, which is nearly 10 times as large as the gains of any other demographic group, and compares to declines in employment among most demographic groups, including a 2.1 percent decline in employment among workers without children.

Despite the increase in employment among women (and men) with young children, employment of childcare workers declined by 11.4 percent between 2019 and 2023.[3] These two realities would seem to contradict one another—more women working would typically be associated with more workers providing childcare. A potential reckoning of these otherwise conflicting realities may be attributed to increased workplace flexibility and remote work along with some people moving closer to family resulting in a shift toward more home-based and family-provided childcare.

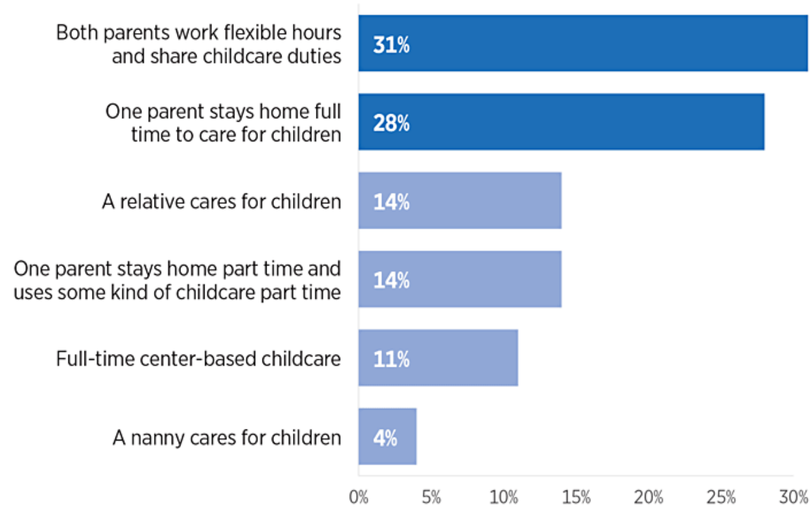
Most Parents Prefer Care by—and Most Kids Are Cared for by—Family Members. A 2021 survey by the Institute for Family Studies asked parents of children under age five about their ideal work and childcare preferences. The most common preference—representing 31 percent of parents—is for parents to work flexible hours and share childcare duties. Subsequent preferences included: 28 percent prefer one parent to stay home full time to care for children; 14 percent prefer that a relative cares for children; 14 percent prefer that one parent stays home part time while using part-time childcare; 11 percent prefer using full-time center-based childcare; and 4 percent prefer that a nanny cares for children. In total, fully 73 percent of parents said they prefer exclusively parental or relative care and only 15 percent prefer full-time non-relative childcare.[4]

[3]Employment among childcare workers was down 11.4 percent, though employment among childcare and preschool administrators was up 22.4 percent. In total, childcare employment was down 8.5 percent between 2019 and 2023. Bureau of Labor Statistics, "Occupational Employment and Wage Statistics," data from May 2019 and May 2023, https://www.bls.gov/oes/current/oessrcst.htm (accessed April 4, 2024).
[4]Wendy Wang and Jenet Erickson, "Homeward Bound: The Work–Family Reset in Post-COVID America," Institute for Family Studies *Research Brief*, August 2021, https://ifstudies.org/ifs-admin/resources/final-ifsparentsreport.pdf (accessed March 28, 2024).

CHART 1

Post-COVID-19 Childcare Preferences Shift Toward Home, Family, and Work Flexibility

PREFERENCES OF PARENTS WITH CHILDREN AGES 0 TO 4



NOTE: Percentages do not sum to 100 due to rounding.
SOURCE: Wendy Wang and Jenet Erickson, "Homeward Bound: The Work-Family Reset in Post-COVID America," Institute for Family Studies, August 2021, https://ifstudies.org/ifs-admin/resources/final-ifsparentsreport.pdf (accessed March 13, 2023).

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That 2021 survey of parents with young children accords relatively well with a much larger Census Bureau Household Pulse Survey of all parents. According to the most recent Census survey, only 39 percent of parents who live with at least one child aged 17 or younger have formal childcare arrangements.[5] Parents with younger kids are far more likely to have formal childcare arrangements, including 65 percent of parents with kids under age five, 46 percent of parents with kids ages five to 11, and only 13 percent of parents with kids ages 12 to 17.[6]

Of the 39 percent of who have formal childcare arrangements, 22 percent have a relative caring for their children. About 8 percent use center-based childcare; 5 percent use a non-relative individual (such as a nanny or babysitter); 5 percent use before care, aftercare, or summer camp; 5 percent use preschool; 3 percent use a family daycare provider; and 1 percent use Head Start.

Among parents with kids under age five, 35 percent report using no formal childcare; 32 percent have a relative caring for their children; 23 percent use center-based childcare; 14 percent use preschool; 9 percent have non-relative care; 5 percent use a family daycare; 2 percent use before care, aftercare, or summer camp; and 1 percent use Head Start.

[5]Casey Eggleston, Yeris H. Mayol Garcia, Mikelyn Meyers, and Yazmin Garcia Trejo, "Most Parents Don't Have Any Formal Childcare Arrangements," U.S. Census Bureau, November 29, 2023, https://www.census.gov/library/stories/2023/11/child-care.html (accessed March 28, 2024).
[6]For parents with multiple-age kids, 50 percent reported having a formal childcare arrangement. Ibid.

TABLE 2

Childcare Arrangements of Families with Children

	With Children Under Age 18	With Children Under Age 5
No formal childcare	61%	35%
Relative cares for kids	22%	32%
Center-based childcare	8%	23%
Preschool	5%	14%
Non-relative care	4%	9%
Family daycare	3%	5%
Before/after school programs and summer camps	5%	2%
Head Start	1%	1%

SOURCE: Casey Eggleston, Yeris H Mayol Garcia, Mikelyn Meyers, and Yazmin Garcia Trejo, "Most Parents Don't Have Any Formal Childcare Arrangements," U.S. Census Bureau, November 29, 2023, https://www.census.gov/library/stories/2023/11/child-care.html (accessed March 28, 2024).

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With roughly two-thirds of families using non-center-based childcare, the Bipartisan Policy Center conducted a 2022 survey of parents who use informal childcare, which the center defines care from a parent, relative, friend, neighbor, or nanny.[7] Nearly two out of three parents (62 percent) who use informal childcare say that formal childcare is unappealing to them, and a little more than one out of three parents (38 percent) say that formal childcare is inaccessible.[8] Overwhelmingly, 93 percent of parents who use informal childcare are satisfied with their childcare arrangements. Parents who use informal care say that safety, trust, and flexibility are their greatest concerns, and among the main reaons they choose informal childcare. Notably, even if formal childcare was free and convenient, more than half of parents (57 percent) would still prefer their informal childcare arrangements.[9]

Dwindling Supply Is Major Source of Childcare Struggles

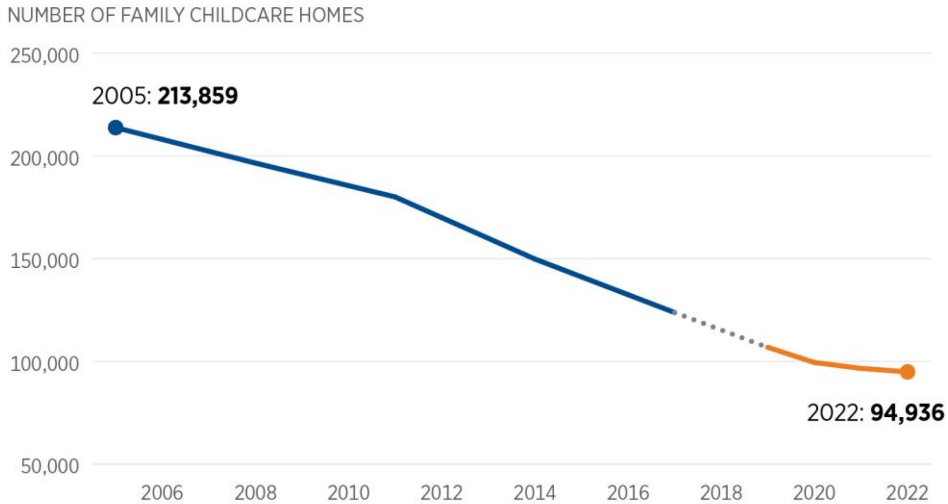
Perhaps even more significant of a struggle than the cost of childcare for families is the dwindling supply of childcare. The same 2022 survey by the Bipartisan Policy Center found that roughly 55 percent of parents say that childcare is very or somewhat limited.[10] In particular, family-provided or in-home childcare has declined precipitously over the past two decades. Between 2005 and

[7]Bipartisan Policy Center, "Understanding Employed Parents Using Informal Child Care," June 2022, https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2022/08/BPC_One-Third_June-2022_Analysis-002.pdf (accessed March 28, 2024).
[8]Ibid.
[9]Ibid.
[10]Ibid.

2017, the number of in-home childcare providers plummeted 42 percent.[11] And more recently, Childcare Aware estimates that family childcare providers fell another 11 percent between 2019 and 2022.[12]

CHART 1

Family Childcare Homes Have Declined Since 2005



NOTES: Some data points have been interpolated. Data comes from two different sources, and thus the apparent decline in providers between 2017 and 2019 could be due to differences in surveys. The important metric is the declining trend across both surveys.

SOURCES:

- 2005–2017 data: National Center on Early Childhood Quality Assurance, "Addressing the Decreasing Number of Family Child Care Providers in the United States," revised March 2020, https://childcareta.acf.hhs.gov/sites/default/files/public/addressing_decreasing_fcc_providers_revised_march2020_final.pdf (accessed April 4, 2024).
- 2019–2022 data: Child Care Aware, "Catalyzing Growth: Using Data to Change Childcare 2022, Annual Childcare Landscape Analysis," https://www.childcareaware.org/catalyzing-growth-using-data-to-change-child-care-2022/ (accessed April 2, 2024).

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Family childcare, or in-home childcare, should—at least conceptually—be widely available as many parents who stay home with their own children may also have the capacity and desire to care for other children and earn money at the same time. Similarly, empty-nesters and grandparents who have experience raising children may be willing and able to care for children in their homes.

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[11]National Center on Early Childhood Quality Assurance, "Addressing the Decreasing Number of Family Child Care Providers in the United States," revised March 2020, https://childcareta.acf.hhs.gov/sites/default/files/public/addressing_decreasing_fcc_providers_revised_march2020_final.pdf (accessed April 4, 2024).

[12]Child Care Aware, "Catalyzing Growth: Using Data to Change Childcare 2022, Annual Childcare Landscape Analysis," https://www.childcareaware.org/catalyzing-growth-using-data-to-change-child-care-2022/#:~:text=The%20number%20of%20licensed%20centers,pre%2Dpandemic%20levels%20in%202022. (accessed April 2, 2024).

The economics of in-home care—with providers using their existing homes—enable roughly 25 percent lower costs, on average, than center-based care. [13] And in-home providers are often more likely to be able to accommodate part-time childcare needs, such as after-school care.

Excessive licensing requirements and regulations are almost certainly part of the reason for the decline in in-home childcare. Becoming a licensed provider is not easy: In addition to implementing potentially costly structural changes to one's home and undergoing multiple inspections, regulations also dictate which toys providers can and cannot offer, which types of beverage can or must be provided at which time intervals, into what size different pieces of food must be cut, which type of tape can and cannot be used in the classroom, and which types of food containers must be used and how they must be labeled. A study of Illinois's licensed in-home providers found that in addition to providing 51 hours per week of paid childcare, the providers spent another 18 hours performing unpaid administrative work.[14]

Even when government funds are available to subsidize the startup or provision of childcare, in-home childcare providers face greater administrative burdens in applying for government funds and complying with conditions attached to them. As navigating government regulations and funding conditions is not easy, individual innovators—as opposed to politicians and bureaucrats—are already helping to expand options for families. For example, Tootris is an online company that helps parents to find care, helps childcare providers to economize their administration, and helps employers to establish childcare benefits for employees.[15] And the Carefully app provides a zero-cost, shared-care option in which parents can "build a family, friends and neighbor network of parents you know and trust to share care and provide mutual aid."[16]

On-site childcare at places of employment can benefit workers and employers alike by limiting parents' time spent commuting from childcare to work (and kids' time away from parents), by providing peace of mind to parents that their children are nearby (and potentially allowing parents to visit kids during breaks), and by providing a valuable benefit that helps employers to attract workers. Yet, the licensing requirements and potential legal liabilities for employers to provide on-site childcare are a significant barrier. As mentioned in the solutions section below ("Solutions for More Accessible, Affordable, and Flexible Childcare"), local and state lawmakers should consider different types or levels of licensing standards, including a set of regulations tailored to aid in the availability of on-site, employer-sponsored childcare.

Childcare Is Not One-Size-Fits-All

[13]Child Care Aware, "The US and the High Price of Child Care," 2019, https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/ (accessed August 12, 2020). The cost data are for 2018 and pull from "methodology #3" in the report, which uses an "average of program-weighted averages."
[14]Jordan Norton and Joellyn Whitehead, "Illinois Salary and Staffing Survey of Licensed Child Care Facilities: Fiscal Year 2019," Illinois Network of Child Care Resource and Referral Agencies, prepared for the Illinois Department of Human Services, https://www.dhs.state.il.us/OneNetLibrary/27897/documents/Child%20Care/FY2019SSS.pdf (accessed April 6, 2024).
[15]Tootris, "About Tootris," https://tootris.com/edu/about/company/ (accessed April 3, 2024).
[16]Carefully, "What Is Carefully?" https://www.carefullyapp.com/ (accessed April 3, 2024).

Families have unique desires and needs regarding parents' work and children's care, and communities have unique needs and capabilities for the provision of childcare. Preferences for childcare arrangements vary across race, education, and income. Only 14 percent of Hispanic families say that full-time paid childcare is the best arrangement for them, compared to 19 percent of white parents, 20 percent of Asian parents, and 25 percent of black parents. [17] College graduates are about twice as likely to prefer full-time paid childcare (27 percent) as non-college grads (14 percent).

The biggest difference in preferences is by income level, with 31 percent of families earning more than $100,000 per year preferring full-time paid childcare, versus 17 percent for families making between $50,000 and $99,999, and only 15 percent of families making less than $50,000. In large part, this difference in preferences across income levels is the result of parents with stronger preferences for parental care sacrificing more paid labor in order to be home with children.

Proposed National Childcare Entitlement Would Fail to Meet Parents' Desires. The 2021 Build Back Better Act included a "Birth Through Five Child Care and Early Learning Entitlement" that would have provided federal grants to states to cover a majority of parents' costs[18] for childcare at federally sanctioned childcare providers. Only childcare providers that conformed to strict federal childcare standards and regulations, and which eventually achieved "top tier" status, would qualify for the funds.[19] In practice, it would be difficult or impossible for relatives, in-home, and faith-based childcare providers to participate in the proposed federal childcare entitlement. Faith-based childcare providers, which incorporate a religious ministry component and are often located in houses of faith, make up about half of all center-based childcare providers.[20]

The multitude of federally mandated requirements would significantly drive up the cost of care and limit the availability of non-federally sanctioned childcare. This could shift taxpayer subsidies away from lower-income families or disadvantaged children and toward affluent families and advantaged children.[21]

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[17]Wendy Wang, Margarita Mooney Suarez, and Patrick T. Brown, "Familia Sí, Guardería No: Hispanics Least Likely to Prefer and Use Paid Child Care," Institute for Family Studies, May 26, 2021, https://ifstudies.org/blog/familia-si-guarderia-no-hispanics-least-likely-to-prefer-and-use-paid-child-care (accessed April 6, 2024).

[18]Based on a sliding scale, parents making 75 percent or less of their state's median income would pay nothing for childcare, parents making 100 percent of their state's median income would pay no more than 2 percent of their income for childcare, and parents making 150 percent or more of their state's median income would pay no more than 7 percent of their income for childcare.

[19]Rachel Greszler, "Government Childcare Subsidies: Whom Will They Help Most?" The Heritage Foundation *Issue Brief* No. 5231, October 20, 2021, https://www.heritage.org/sites/default/files/2021-10/IB5231.pdf.

[20]A December 2020 survey of working-parent households found that 31 percent used center-based childcare, and 53 percent of those families used centers affiliated with a faith organization. Suzann Morris and Linda K. Smith, "Examining the Role of Faith-Based Child Care," Bipartisan Policy Center, May 2020, https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2021/06/ECI-Faith-Based-Brief_RV2-1-1.pdf (accessed April 8, 2024).

[21]Ibid.

TABLE 2

Taxpayer Childcare Subsidies Likely to Skew Toward High-Income Families

	Massachusetts	Mississippi	Mississippi
Income Level	$200,000	$50,000	$30,000
Family Description	• Married couple • Two children • Two earners	• Married couple • Two children • Two earners	• Married couple • Two children • One earner
Total Potential Taxpayer Subsidies	$31,100	$17,500	$0

SOURCE: Author's calculations based on taxpayer subsidies specified in the most recent draft legislative text for the proposed $3.5 trillion reconciliation package, and family incomes and childcare costs as detailed in this Heritage Foundation report. Figures have been rounded to the nearest 100.

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Moreover, as the proposed federal childcare entitlement would predominantly subsidize center-based childcare that is the preference of only 10 percent to 15 percent of parents and which is not available in rural areas, more parents would struggle to find the care they want or need. Consequently, children could be pushed into childcare settings that are not their parent's preferences. The potential adverse effects of such shifts for children and parents are evident in subsidized childcare programs in Quebec,[22] the U.S.,[23] and elsewhere.[24]

Childcare in Rural America. Center-based childcare is both less accessible and less desirable in rural areas of America. Economies of scale prevent center-based childcare from being an affordable option in many rural areas where the demand for care is lower and less consistent. Moreover, parents in rural areas are more likely to work irregular hours that are outside of typical center-based care schedules.

Yet, public funding for childcare, namely through the Child Care Development Block Grant (CCDBG) primarily subsidizes center-based childcare. A 2018 Urban Institute report on childcare for families in rural areas noted that "many families may be inadvertently disadvantaged by a subsidy system that focuses primarily on center-based care and it may undercut the core CCDBG

[22]Michael Baker, Jonathan Gruber, and Kevin Milligan, "Universal Childcare, Maternal Labor Supply and Family Well-Being," National Bureau of Economic Research *Working Paper* No. 11832, December 2005, https://www.nber.org/system/files/working_papers/w11832/w11832.pdf (accessed April 6, 2024).
[23]Chris M. Herbst and Erdal Tekin, "Child Care Subsidies, Maternal Well-Being, and Child-Parent Interactions: Evidence from Three Nationally Representative Datasets," National Bureau of Economic Research *Working Paper* No. 17774, January 2012, https://www.nber.org/system/files /working_papers/w17774/w17774.pdf (accessed April 6, 2024).
[24]Jonas Himmelstrand, "Swedish Daycare: International Example or Cautionary Tale?" Institute of Marriage and Family Canada, September 10, 2015, https://www.imfcanada.org/archive/1107/swedish-daycare-international-example-or-cautionary-tale (accessed April 6, 2024).

principle of parental choice."[25] In particular, the report found that 3 percent or fewer of low-income young children with working parents live outside of metropolitan areas in California, Connecticut, Delaware, the District of Columbia, Maryland, Massachusetts, New Jersey, and Rhode Island. But more than 40 percent of low-income young children with working parents live in non-metropolitan areas in Iowa, Maine, Mississippi, Montana, New Hampshire, New Mexico, North Dakota, South Dakota, Vermont, and Wyoming.[26]

With center-based childcare generally not practical in rural communities, policymakers should remove obstacles and barriers that impede existing public childcare funds from reaching in-home and faith-based providers. Two bipartisan bills co-sponsored by Senator Joni Ernst (R–IA)—the Expanding Childcare in Rural America (ECRA) Act of 2023 and the Small Business Child Care Investment Act—would expand access for rural childcare providers to existing public subsidies and funds. To the extent that these bills simply enable childcare providers to qualify for existing programs, they could help to expand rural childcare access without imposing new costs or risks on taxpayers, so long as they incorporate childcare providers into existing programs.

Caution Against Considering Government Childcare an "Investment"

Advocates of universal—that is, government-subsidized—childcare argue that it is an investment in parents and children because it enables parents to work more—earning more money, paying more in taxes, and building their careers—and it improves children's life outcomes.

Argument Ignores Value of Caregiving. Advocates of government-subsidized childcare cite statistics about the lost wages of parents who drop out of the labor force or who cut back on work in order to care for children. Thus, they claim, government-subsidized childcare that allows parents to earn income is an "investment" yielding earnings, tax revenues, and measured economic output. But that analysis is one-sided because it measures the income, taxes, and output of a woman who works as a paid childcare provider, yet assumes that the economic impact of a woman who performs the exact same role caring for her own children is zero. It is inconsistent for proponents of government-provided paid family leave and government-provided childcare to simultaneously recognize the inherent value of parents staying home with children when calling for paid family leave, while ignoring that value when attempting to push more parents away from caring for their children and into formal employment.

Alleged Benefits for Children Overrated. Advocates of government-subsidized childcare claim that it will produce large returns, on the magnitude of $9 for every $1 invested. They argue that it provides large benefits to children and families and could even "pay for itself" through higher government tax revenues. Those claims are based on two boutique preschool programs that provided wrap-around services to the households of a few dozen highly at-risk African American

[25] Julia R. Henly and Gina Adams, "Insights on Access to Quality Child Care for Families Living in Rural Areas," Urban Institute, October 2018, https://www.urban.org/sites/default/files/publication/99149/insights_on_access_to_quality_child_care_for_families_living_in_rural_areas_1.pdf (accessed April 4, 2024).
[26] Ibid.

children five decades ago.[27] The Nobel Prize–winning author of economic studies on those programs, James Heckman, explained why such high returns are not applicable on a wide-scale basis:

> I have never supported universal pre-school. The benefits of public preschool programs are the greatest for the most disadvantaged children. More advantaged children generally have encouraging early family lives. The "intervention" that a loving, resourceful family gives to its children has huge benefits that, unfortunately, have never been measured well. Public preschool programs can *potentially* compensate for the home environments of disadvantaged children. No public preschool program can provide the environments and the parental love and care of a functioning family and the lifetime benefits that ensue.[28] (Emphasis in original.)

Universal government Pre-K programs, such as Head Start[29] and Tennessee's Voluntary Pre-K initiative,[30] have also produced little, if any, lasting positive results, and have sometimes had adverse effects on children.[31] Considering the weak evidence of positive impacts from large-scale government childcare and Pre-K programs, it is highly unlikely that the very costly proposed programs could pay for themselves, especially considering that the proposals would drastically drive up the costs of childcare.

Government's role in families' work and childcare decisions should not be to push parents into or out of the workforce, but to create an environment that optimizes families' ability to achieve the work and childcare that they believe is best for them.

Solutions for More Accessible, Affordable, and Flexible Childcare

As the number of working parents remains high and the number of licensed childcare providers has been declining, many parents have found alternative or informal childcare solutions. Flexible

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[27] Lindsey M. Burke and Salim Furth, "Research Review: Universal Preschool May Do More Harm than Good," Heritage Foundation *Backgrounder* No. 3106, May 11, 2016, https://www.heritage.org/education/report/research-review-universal-preschool-may-do-more-harm-good.

[28] Archbridge Institute, "Nobel-Prize Winning Economist Dr. James Heckman on Social Mobility, the American Dream, and How COVID-19 Could Affect Inequality," Medium, April 23, 2020, https://medium.com/archbridge-notes/nobel-prize-winning-economist-dr-5550da1df5c3 (accessed April 6, 2024).

[29] In 2012, the Department of Health and Human Services conducted a scientifically rigorous evaluation of the Head Start program's effects on children through the third grade, finding that it had little or no impact on parenting practices, and little impact on the cognitive, social-emotional, and health outcomes of participants. See Lindsey M. Burke and David B. Muhlhausen, "Head Start Impact Evaluation Report Finally Released," Heritage Foundation *Issue Brief* No. 3823, January 10, 2023, https://www.heritage.org/education/report/head-start-impact-evaluation-report-finally-released.

[30] A Vanderbilt University evaluation of Tennessee's Voluntary Pre-K initiative—considered a model of government-funded preschool—found no significant differences between the control group and the preschool group on any achievement measures by the end of kindergarten, and some negative performance and behavior effects for Pre-K participants beyond kindergarten. Mark W. Lipsey, Dale C. Farran, and Kelley Durkin, "Effects of the Tennessee Kindergarten Program on Children's Achievement and Behavior Through Third Grade," *Early Childhood Research Quarterly* (2018), https://cdn.vanderbilt.edu/vu-my/wp-content/uploads/sites/1147/2018/05/14112750/Effects-of-the-Tennessee-Prekindergarten-Program-on-Childrens-Achievement-and-Behavior-through-Third-Grade.pdf (accessed April 6, 2024).

[31] Burke and Furth, "Research Review: Universal Preschool May Do More Harm than Good."

work arrangements are a key component for many parents to achieve the childcare arrangements they desire, and thus, are a part of future childcare solutions.

Another part of the solution is addressing the supply and cost of childcare as many families still struggle to find the type of childcare they are comfortable with at a cost they can afford. Unlike many goods and services that become increasingly abundant and affordable over time due to technological gains and rising incomes, childcare is both labor-intensive and requires significant structural investments. Childcare cannot be automated or outsourced, and children cannot be altered to take up less space, to require fewer feedings and diaper changes, or to forgo things like cribs and a roof over their heads.

While childcare will remain relatively expensive—whether paying for childcare or forgoing income to watch children—there are ways that policymakers can help to increase the supply and reduce the cost of childcare, and help more families to achieve the care that works best for them.

Rolling Back Unnecessary Regulations That Do Not Improve the Quality of Care. Childcare licensing and regulations have set an increasingly high barrier to establishing and maintaining home-based childcare. In certain states, non-licensed care is illegal. In Maryland, a mom cannot pay a friend to watch her children after school for a few days a week in the friend's home without that friend having to become a licensed childcare provider, and becoming a licensed provider is excessively time-consuming and costly.

In addition to eliminating unnecessary regulations, state and local childcare licensing authorities should consider establishing multiple tiers of licensing certifications. In particular, the different tiers could include standards geared towards expending in-home, faith-based, and on-site employer childcare. Multiple tiers could enable more providers to open their doors, and families could choose the type of care they want with the knowledge of what each tier of licensing includes.

Head Start Portability. Policymakers should update the federal Head Start program to function more like the existing Child Care Development Fund (CCDF). The CCDF, part of the federal Child Care Development Block Grant, is a federal–state partnership that provides funding to low-income families to access childcare. Eligible families are provided vouchers through the CCDF to pay for tuition at a childcare center of their choice, including family-run childcare centers, relative care, and faith-based providers, but demand for CCDF vouchers typically exceeds the supply.[32] In contrast, the federal Head Start program is more widely accessible, but often less desirable as it has proven ineffective and mired in fraud.[33] Moreover, although the per pupil cost of Head Start—over $14,000 per year—exceeds the average cost of childcare in most states, the

[32]Office of Child Care, "OCC Fact Sheet," Office of the Administration for Children and Families, U.S. Department of Health and Human Services, June 29, 2020, https://www.acf.hhs.gov/occ/fact-sheet-occ (accessed April 6, 2024).
[33]Jonathan Butcher and Jude Schwalbach, "Head Start's Contagion of Fraud and Abuse," Heritage Foundation *Backgrounder* No. 3467, February 28, 2020, https://www.heritage.org/education/report/head-starts-contagion-fraud-and-abuse.

program often operates for only a few hours a day, meaning it is of little help to working families who need childcare.[34]

To help parents to receive the type of early childcare and education that works best for them, policymakers should allow parents to take their child's share of Head Start funding to a childcare or preschool provider of their choice.

Eliminate Barriers to Employers for Offering Early Childhood Education and Care Benefits. Employers who provide childcare benefits—such as on-site preschool or childcare programs, or subsidies for back-up childcare—can be a huge benefit to working parents and can also help employers to increase employee retention. The Bipartisan Policy Center survey found that 52 percent of parents who currently use informal care said they would consider using formal care if it were located inside their workplace or their spouse's workplace.[35]

Yet, under the Fair Labor Standards Act (FLSA), employers who provide any kind of on-site childcare or childcare subsidies must include the value of those benefits in employees' "regular rate" of pay calculations.[36] This complicates and increases costs when workers who are paid hourly work overtime because, instead of just paying the worker 1.5 times their wage, employers also have to add on 1.5 times the hourly value of any childcare subsidy, even though those subsidies are usually fixed benefits.

Policymakers should exclude childcare benefits from the "regular rate" of pay calculations, just as the law already excludes similar benefits, such as retirement contributions and accident, health, and life insurance benefits.[37] This would particularly benefit lower-income to middle-income workers who are more likely to receive hourly wages and thus be subject to the current impediment. The bipartisan 2023 Empowering Employer Child and Elder Care Solutions Act (H.R. 3271) would accomplish this.[38]

Allowing a Safe Harbor for "Household Employees" Who Prefer to Be Independent Workers. Currently, if an individual or family pays someone more than $2,700 per year (the equivalent of $52 per week) for work performed in his or her, or the family's, home, the individual or family is required to pay, withhold, and submit multiple taxes. This process requires registering as an employer with the state and federal government, hanging official employee-rights notices in one's home, and can include registering with, and submitting tax payments to, the state and federal unemployment insurance systems, state and federal income tax systems, and the Social Security Administration. In addition to the tax burden, compliance with all the different rules and taxes is both confusing and burdensome, and mistakes can lead to significant tax bills for both the household "employer" and "employee." Under the current rules, a family could not even hire an after-school babysitter at $15 per hour for three hours two days per week without exceeding the $2,700 threshold and having to treat that babysitter as a legal employee.

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[34] Dan Lips, "Improving the Value of Head Start for Working Parents," Foundation for Research on Equal Opportunity, December 23, 2019, https://freopp.org/improving-the-value-of-head-start-for-working-parents-739472566ec1 (accessed August 31, 2020).
[35] Bipartisan Policy Center, "Understanding Employed Parents Using Informal Child Care."
[36] U.S. Code 29 USC 207(e)(4).
[37] Ibid.
[38] H.R. 3271, Empowering Employer and Child and Elder Care Solutions Act, 118th Congress, https://www.congress.gov/bill/118th-congress/house-bill/3271?s=1&r=85 (accessed April 6, 2024).

The process of hiring and treating someone as a "household employee" is overly complex and burdensome. Meanwhile, the demand for more flexibility, and part-time care and shared care (such as co-ops and nanny-shares) has almost certainly grown as remote work and independent work have become more common. In shared situations, it can become extremely complex and confusing to know who is and who is not an employer. The childcare provider may travel to different households; families may not know whether they will cross the $2,700 per year threshold, and childcare workers might find their status as an employee versus a contractor varying from one week to another, or from one household to the next.

Congress should create a safe harbor to allow individuals performing household work to choose to be treated as contractors instead of household employees.[39]

Allowing More Flexible Childcare Arrangements. Recent changes in work, including more remote work and flexible or independent work options, have increased the demand for part-time, flexible, and lower-cost childcare arrangements. Most center-based childcare programs do not allow part-time or flexible attendance because of the high fixed costs of center-based care. Small, in-home providers face lower fixed costs and can often offer more part-time and flexible options.

State policymakers should consider ways that they can eliminate barriers to more flexible childcare, including creating optional accreditation standards—which could offer multiple levels of accreditation—in lieu of mandatory licensing so that providers can choose (and fully disclose to families) what type of care they provide. And policymakers should not enact unnecessary regulatory barriers to new types of childcare arrangements, such as parent co-ops.

Letting Families Keep More of Their Own Money. Childcare is expensive and can seem unaffordable, which often leads to calls for government-funded, or universal, childcare and preschool. Part of the reason it is so hard for families to pay for childcare, however, is that they pay so much in taxes. In 2022, Americans spent more on taxes than they did on food, housing, transportation, and health care *combined*.[40] Taking even more from households to pay for government-funded early-childhood programs—which would cost significantly more than existing private and not-for-profit ones—would leave households with less money to spend on what is best for them and few, if any, choices about childcare.[41] On the other hand, reducing households' tax burdens, including their payroll tax burdens, would leave families with more choices to decide what works best for them, and with greater control over their futures.

Creating Universal Savings Accounts So Families and Childcare Providers Can Save for Any Purpose Without Restrictions or Penalties. It can be hard for families to have enough

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[39]This choice would allow individuals to receive higher base pay as contractors because of the compliance and tax savings for the households they serve. While those households would have to report any income that they pay to individuals that exceeds $600 in a year, they would only have to provide a single document—Form 1099-MISC—as opposed to registering with, meticulously tracking, reporting, and sending taxes to as many as five government entities.

[40]Author's calculations based on data from the Bureau of Economic Analysis Consumer Expenditure Survey for 2022, and the Federal Reserve's data on total federal, state, and local tax expenditures. In 2022, the average consumer unit spent $51,786 on food, housing, transportation, and health care combined. In 2022, total federal, state, and local taxes equaled $6.95 trillion. Dividing total taxes by the 134 million consumer units equals $51,850.

[41]Rachel Greszler and Lindsey M. Burke, "Why Uncle Sam Would Make a Bad Nanny," Heritage Foundation *Commentary*, March 1, 2019, https://www.heritage.org/education/commentary/why-uncle-sam-would-make-bad-nanny.

money to save and invest for their future goals and unexpected life circumstances, but another—sometimes equally significant—barrier can be the fear of those savings becoming inaccessible due to penalties for early withdrawals. It can also be difficult for small businesses, like childcare providers, to offer employer-sponsored retirement savings plans. Policymakers should advance universal savings accounts so that Americans can save and invest in a single, simple, and flexible account, for any purpose and without penalties or additional taxes being owed upon withdrawal.[42] The creation of such accounts would make it easier for employers to provide a singular contribution to fund any type of benefit or savings vehicle that their employees desire. Universal savings accounts have been particularly helpful to lower-income and moderate-income households in Canada and the U.K. where a majority of account holders are lower-income.[43] By enabling parents and childcare workers to save in one place and to withdraw funds without penalty or double taxation, these accounts could help families to pay for childcare or preschool programs, and could help childcare workers to save for their goals and to be better prepared for many life events.

Expanding the Allowable Uses of 529 Savings Accounts to Include Preschool and Homeschooling Expenses. Historically, 529 savings plans could be used to save for, and pay for, the college expenses of a designated beneficiary, without paying taxes on the accrued investment returns in the accounts. However, as part of the Tax Cuts and Jobs Act of 2017, Congress expanded the allowable uses of a 529 plan to include K–12 expenses, such as private-school tuition. Parents can use these plans to pay for up to $10,000 per year per student from kindergarten through college. Congress should further expand the allowable uses of 529 accounts to include preschool, childcare, and homeschooling costs. Although parents would not have many years to save in a 529 account before a child reaches preschool age, other people, such as grandparents, could contribute to a designated beneficiary's account.

Summary

While many families want to have their children cared for by a parent or family member, and improved workplace policies and independent work options have enabled more parents to achieve the family care that they desire, there are still many families who either need to, or want to, send their children to a childcare provider. Finding the care that families desire at a cost that they can afford can be extremely challenging, and there are limits to how much more affordable childcare can become because it will always be labor-intensive.

The single most impactful way to increase the supply and reduce the cost of childcare is for state lawmakers to eliminate unnecessary licensing requirements that do not significantly improve the safety and care of children. Allowing providers to choose among different levels of childcare licensing would expand childcare options and could be particularly helpful in increasing the number of in-home and on-site employer childcare providers.

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[42] Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings.

[43] Organization for Economic Co-operation and Development, "Encouraging Savings Through Tax-Preferred Accounts," *OECD Tax Policy Study* No. 15, 2007, https://www.oecd-ilibrary.org/taxation/encouraging-savings-through-tax-preferred-accounts_9789264031364-en (accessed April 6, 2024).

Federal lawmakers can help more families to find the care they need, in an environment they want, at a cost they can afford, by allowing families to use Head Start funds at a provider of their choice; by not discriminating against in-home, relative-provided, and faith-based childcare providers in the distribution of federal funds; by eliminating barriers to employer-provided childcare and to babysitting care; and by making it easier for families to keep and save more of their incomes.

How to care for their children is one of the most important decisions that parents make, and helping to ensure that families can pursue the childcare environments that work best for them should be a priority for policymakers.

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