CHAPTER 3

Early Childhood

By Katie Hamm

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Working parents increasingly rely on child care to make ends meet. Most families no longer include a full-time, stay-at-home caregiver, and 65 percent of children younger than the age of six live in households in which all parents work.[1] In 40 percent of American households, mothers are the sole or primary breadwinners, and another 25 percent of mothers are co-breadwinners.[2] The vast majority of parents, whether dual earners or single working parents, need child care so that they can work. Access to quality child care has become critical to achieving middle-class economic security.

Yet child care costs are crushing household budgets. Child care costs have grown nearly 40 percent over the past 30 years, while low-wage and middle-class workers' wages and salaries have stagnated.[3] In fact, child care has become one of the biggest expenses in a family's budget: The cost of enrolling two children in a child care center now amounts to one-third of the median household income.[4] The average cost of child care does, however, range considerably by state. For an infant, center care averages $4,800 annually in Mississippi and $17,000 annually in Massachusetts.[5] For a 4-year-old, the average ranges from $4,000 annually in Mississippi to $12,800 annually in Massachusetts. In every state, however, the cost of two children in a child care center exceeds the median rent.[6] In 28 states and the District of Columbia, the annual cost of child care for an infant exceeds the average in-state college tuition at a public university.[7]

The high cost of child care is a barrier to security for middle-class families, as well as those trying to climb the economic ladder. While center-based child care is out of reach for many families, costs for all types of settings constitute a sizable portion of income. Families paying for care allocate about 9 percent of their income to child care expenses.[8] Middle- and low-income families, however, spend a larger proportion of their income than families with higher incomes.[9] Low-income families—those households earning $24,000 to $49,000 annually for a family of four—spend about 20 percent of their income on child care, while families with an income below the poverty level spend 36 percent.[10]

Due to these high costs, parents are left to choose from one of several undesirable paths: leaving the workforce, spending much of their paycheck on child care, or finding low-cost care that may be of poor quality. When parents exit the workforce or are forced to spend a sizable chunk of their paycheck on child care, they have fewer resources to spend on housing, food, health care, and other basic necessities. The nation's policies have failed to keep pace with this economic reality.

Parents who leave the workforce face steep costs as well. The Center for American Progress recently released a child care calculator, which demonstrates that when parents exit the workforce, they lose not only their annual wages but income stemming from their longer-term wage growth and retirement assets as well.[11] Parents that do not have the income to pay annual child care costs in their child's first few years stand to lose hundreds of thousands of dollars over the course of their careers.[12]

Because quality child care is more expensive to provide, children may end up in unsafe, low-quality child care programs that do not support healthy development.[13] Low-quality child care can negatively affect development and exacerbate developmental gaps that appear early in life.[14] In fact, researchers see the first signs of developmental differences between low-income children and their higher income peers by 9 months of age—an early indicator of the achievement gap.[15]

While parents and policymakers alike often think of child care and preschool as separate programs, they look very similar from a child's perspective. Children need a safe place to learn and grow while their parents work and while they prepare for kindergarten, regardless of the terminology used to distinguish between programs. Public investments in both stages can help to ensure that children have access to quality programs while their parents work.

Limited access to quality child care not only costs parents and children but also hampers the U.S. economy as a whole. According to a recent poll from *The Washington Post*, 69 percent of working mothers and 45 percent of working fathers have passed up a job opportunity because they needed to care for their children. The same poll found that 62 percent of working mothers and 36 percent of working fathers switched to a less demanding job or stopped working altogether.[16] If the United States implemented policies to address paid leave and child care, the U.S. Department of Labor estimates that approximately 5 million more women would enter the workplace and that U.S. gross domestic product would increase $500 billion.[17]

The status quo fails working families

Existing programs designed to help middle-class families, and those trying to reach the middle class, fall short when it comes to expanding access to high-quality care. Parents often have few good options. The federal government currently subsidizes child care through the Child Care and Development Block Grant, or CCDBG, and the Child and Dependent Care Tax Credit, or CDCTC. The CCDBG provides states with funding to subsidize costs for low-income families, primarily through vouchers. The CDCTC provides families with a tax credit to defray child care costs but largely helps higher-income families.[18]

The CCDBG provides $5.3 billion in annual state block grants to subsidize the cost of care, and states must use their own funds to partially match this contribution.[19] Most states provide vouchers that low-income parents can use for the child care provider of their choosing, but the distribution of child care subsidies can differ by states and even by community. While the program is helpful for the families it does reach, it is severely underfunded. The CCDBG is designed to help low-income families work their way into the middle class, but it falls short of this goal. The program reaches only 1 in 6 eligible children, and the average subsidy for center-based child care covers less than half of the average cost.[20]

The CDCTC is designed to alleviate the cost of child care by providing a tax credit of up to $1,050 annually for one child and $2,100 annually for two children.[21] Similar to the child care subsidy, however, the tax credit reaches far too few families and provides insufficient assistance. It provides the largest benefits to families earning between $100,000 and $200,000 per year, benefitting mostly middle- and higher-income families. Lower-income families trying to reach the middle class often have little to no tax liability and largely do not benefit from the nonrefundable tax credit. Also, families must wait for the credit until the following year when they file their taxes, making it impossible for those who cannot afford to pay the up-front costs of child care to benefit from the tax credit.[22]

In 2015, President Barack Obama proposed tripling the CDCTC and expanding the CCDBG to reach all low-income children within the following ten years.[23] Sen. Bob Casey (D-PA) and Rep. Joe Crowley (D-NY) also introduced legislation in 2016 that would extend child care to all children in families earning below 200 percent of the federal poverty level, but this Congress has not moved further on the legislation.[24] In 2014, Congress reauthorized and updated the CCDBG to improve health and safety, extend eligibility, and improve consumer information available to parents.[25] While this was an important and necessary step forward, the reauthorization did not include new funding beyond basic health and safety protections.[26] Without new resources directed to quality programs that exceed minimum standards, families will continue to experience high costs and low quality.

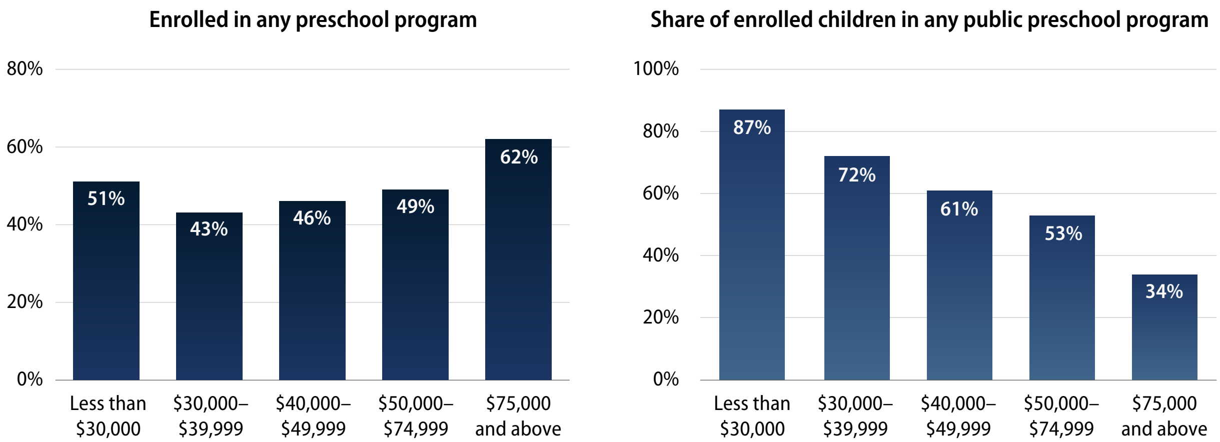
Federal resources to support preschool access are similarly limited. Nearly all states serve at least some children in public preschool, but nationally, just 29 percent of 4-year-olds and 5 percent of 3-year-olds receive services, due to funding limitations.[27] Only a handful of states—including Georgia and Oklahoma—have prioritized enough funding for preschool to serve a majority of 4-year-olds.[28]

The quality of child care and preschool can vary across states as well. Florida, for instance, serves a larger portion of 4-year-olds than any other state but fails to meet widely recognized and research-based quality standards such as teacher training and education.[29] Inconsistent quality across states and a lack of federal investment means that most families are left to find preschool on their own. The majority of programs are rated as mediocre, and children from higher-income families are more likely to attend high-quality preschools.[30]

FIGURE 3.1

Child enrollment in preschool increases with family income, while the share enrolled in public preschool decreases

3- and 4-year-olds enrolled in preschool in 2014, by family income



Note: Calculations exclude 3- and 4-year-olds enrolled in kindergarten.

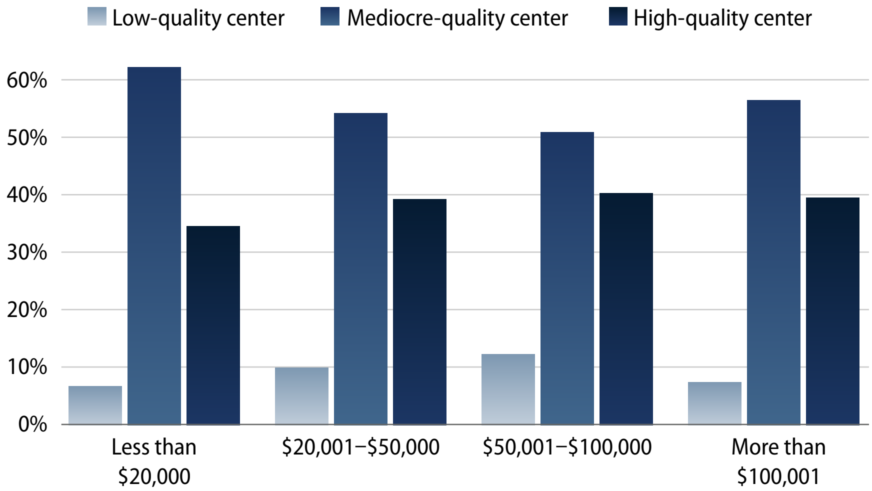
Source: Bureau of the Census, "CPS October 2012 - Detailed Tables," available at www.census.gov/hhes/school/data/cps/2012/tables.html (last accessed May 2016).

Preschool attendance rates vary by income. Children from families earning more than $75,000 per year have the highest preschool attendance rates, and only about half of children who attend preschool are in full-time programs, regardless of income level. The less families earn, the more likely their children are to attend a public preschool program.

FIGURE 3.2

Access to quality pre-kindergarten varies by income

Proportion of children in low-, mediocre-, and high-quality center-based pre-kindergarten by family income in 2005



Source: Author's calculations based on data from National Center for Education Statistics, *Early Childhood Longitudinal Study: Birth Cohort* (U.S. Department of Education, 2009).

In 2013, President Obama proposed an expansion of high-quality preschool to serve low- and middle-income 4-year-olds, defined as families earning up to 200 percent of the federal poverty level, or about $49,000 annually for a family of four.[31] Pending legislation would provide states with resources to scale up their preschool programs to reach all 4-year-olds, as well as provide early learning opportunities for younger children.[32] However, Congress has yet to act.

Policy recommendations

Two new policy initiatives could help families access quality child care and preschool programs: a generous tax credit that would allow families to purchase highly rated child care programs and a universal preschool program for children aged 3 and 4. Taken together, these programs would support healthy learning and development for children, facilitate workforce participation for parents, and help families reach and stay in the middle class.

Enact the High-Quality Child Care Tax Credit

Congress should enact a High-Quality Child Care Tax Credit to put quality, affordable child care within reach for working families. This tax credit would provide low-income and middle-class families with up to $14,000 per child per year, with eligibility limited to families earning up to four times the poverty level, or $97,000 annually for a family of four. Depending on household income, parents would contribute between 2 percent and 12 percent of income toward tuition on a sliding scale. The credit would be paid directly to child care providers on a monthly basis, using the families' income during the previous year to determine eligibility. This approach would provide families with the resources to purchase child care up front rather than waiting for a tax return the following year.[33]

The tax credit would also provide parents with a range of high-quality options that meets their families' needs. This proposal builds on state quality rating systems, which rate programs based on progressively higher standards by focusing on the highest-rated providers over time. The amount of the credit—$14,000 per year—is designed to help providers make quality improvements and meet higher standards.

Initially, parents would be able to use the tax credit at all licensed child care providers. After the initial phase-in period, however, low-rated providers would be excluded, and parents would choose from child care providers rated in the top tiers of their state's quality rating system. This approach would give parents access to a range of quality programs and build the supply of high-quality providers while also providing approximately 6 million children with access to quality child care.[34]

Create a federal-state partnership to provide universal preschool

Consistent with calls from members of Congress and President Obama for preschool expansion, Congress should authorize a universally available preschool program to prepare 3- and 4-year-old children for school.[35] The federal government should partner with states and share the cost of expanding preschool to low- and middle-income children.

Importantly, this proposal would require that public funds be used for programs that include quality standards linked to positive child outcomes, such as requiring teachers to have a bachelor's degree, a research-based curriculum, and small class sizes and adult-to-child ratios. Without requirements that public funding go to high-quality programs, taxpayers may not see a return on investment in the form of children being better prepared for school. Analysis commissioned by CAP shows that high-quality, universal preschool could reduce the school readiness gap between lower- and higher-income children by 41 percent for reading and 27 percent for math.[36]

These two proposals—the High-Quality Child Care Tax Credit and a universal preschool program—are complimentary in that they are designed to provide access to child care from birth to kindergarten entry. Under the High-Quality Child Care Tax Credit, families with preschoolers would be eligible for a smaller tax credit that would provide child care in the evenings and summer months. Combined, these two proposals would put high-quality child care and preschool within reach for today's middle-class families and provide children with a solid foundation for their own eventual economic security.

When leaders fail to make investments in early childhood, they compromise the financial stability of middle-class families and those working to get there.

Endnotes

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