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Cliff Notes: Pandemic Relief Funding Teaches Lessons About the Need for Sustained Child Care Investments

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Child care allows parents to enter or stay in the labor force, improves the well-being of families and communities, yields long-term positive outcomes for future generations, and buttresses economic growth. Yet in the United States, child care is perceived and funded as a private responsibility that is made possible by women's unpaid or underpaid labor. The private provision of child care is "a textbook example of a broken market,"[1] with families paying unaffordable fees and early educators—predominantly women who are disproportionately Black and Hispanic compared to the overall workforce[2]—subsidizing the system with their poverty wages. While the value of child care extends to the entire society and far into the future, what individual families can afford to pay cannot match the true value of care work. The United States' failure to invest in this crucial sector has created a fragile and patchwork system unable to meet the demand for child care.

Even before the pandemic, rising child care costs were far outpacing the rate of overall inflation.[3] A long history of racism and sexism has contributed to early educators, especially women of color and immigrant women, remaining some of the most underpaid workers in the country. In 2019, the median annual pay for child care workers ($24,230) was less than half that of kindergarten teachers ($56,850), and Black early educators were paid on average $0.78 less per hour than their white peers.[4] A long history of racist and xenophobic biases toward Black, Latinx, and immigrant families has also created significant gaps in child care assistance policies and funding, with only one in six children who qualify for federally funded child care assistance actually receiving it.[5]

The pandemic pushed the already precarious child care sector to the brink of collapse. In response, the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) included initial relief funding to the child care sector, followed by the American Rescue Plan Act (ARPA), which included an even larger investment to better stabilize the sector and support families with children. The ARPA legislation provided $24 billion in stabilization funds to the child care industry and a $15 billion increase in the Child Care and Development Block Grant (CCDBG),[6] the major federal child care program that provides funding to states to help families afford child care and invest in the quality and supply of child care. The ARPA relief dollars were the largest federal investment in the child care sector since World War II, but with the expiration of child care stabilization dollars in September 2023 and the upcoming expiration of the CCDBG supplemental funding, the sector will be left with a funding cliff that will only exacerbate its fragility.

What lessons have we learned from this short-term investment? While the pandemic child care relief dollars have provided critical support for families and early educators as they navigate the crisis, these one-time relief funds are not nearly enough to remedy the failures in the existing child care market. Moreover, not all impacts of the expiration will be immediate. The negative effects of this expiration will be long term and deeply damaging. Only sustained and robust public investment can address the long-term structural flaws and build a child care system where all families can find and afford care and where all early educators are valued and paid robust wages and benefits.

Lesson 1: Public investment works.

The federal and state child care relief funds collectively provided critically necessary support to child care programs, early educators, and families with young children, thereby supporting the country's economic recovery. Research shows that the child care relief funds:

- **Stabilized child care employment:** It is estimated that the pandemic child care relief funds helped 220,000 child care programs remain operational, benefiting 10 million children who attended these programs, and lowered child care costs for more than 1 million children and their families.[7] The White House Council of Economic Advisors (CEA) found that child care employment, relative to employment of primary and secondary school teachers, increased by roughly 7 percent between the onset of ARPA funds and the first quarter of 2023.[8]
- **Increased wages for early educators:** A survey of child care providers conducted in January 2022 found that 75 percent of respondents reported that their programs had used the child care relief funds to support compensation for educators either through bonuses or increases to baseline pay.[9] CEA found that child care worker wages, relative to primary and secondary school teacher wages, experienced an approximate increase of 10 percent, or about $3,800 annually, thanks to the ARPA stabilization funds.[10]
- **Boosted maternal labor force participation:** Compared to mothers of older children and women with no children, mothers of young children experienced a 2.5-percentage-point increase (on average) in labor force participation in the two years following the distribution of the ARPA relief funds.[11] This suggests that the ARPA stabilization funds facilitated the return to work for mothers of young children during the pandemic recovery.
- **Helped slow the growth of child care costs for families:** During the onset of the pandemic, child care prices fluctuated in the same way as other goods and services. However, the growth of child care prices slowed after the implementation of stabilization funds. CEA estimates that child care prices were 10 percent lower than they would have been absent ARPA funding, allowing families with young children to put away more savings or pay for other household necessities.[12]
- **Contributed to an equitable recovery from the pandemic:** Child care relief funds made it to providers and families with the greatest need. In most states, providers received assistance in 97 percent of rural counties and in 98 percent of counties where at least 20 percent of residents had lived in poverty over the past 30 years.[13]

By helping women, families, and providers in these important ways, the ARPA child care funds strengthened communities and the nation's economy. And all of these benefits were made possible by states' effective use of the ARPA funds.

Lesson 2: States used the ARPA child care funds to help children, families, and child care providers.

Recognizing the importance of child care to stabilizing and revitalizing their economies and protecting the well-being of their children and families, all states accepted federal ARPA child care funding—and put it to good use. The federal child care relief dollars enabled states to implement meaningful improvements and innovations to their child care systems that had been previously precluded by scarce public investment.[14] States used the ARPA funds to make child care more accessible and affordable to families, sustain child care programs, and improve compensation and working conditions for early educators.[15]

Using supplemental CCDBG funds under ARPA, states made substantial improvements to their child care assistance policies. States expanded income eligibility limits, enabling more families to qualify for help paying for child care; reduced or eliminated waiting lists for child care assistance, allowing more eligible families to receive this assistance; lowered or waived parent copayments, reducing cost burdens for families receiving child care assistance; and increased payment rates, giving child care providers and programs more of the resources they needed to offer high-quality early learning environments to children and adequate compensation for early educators.[16]

States have also used the federal ARPA child care funds for innovative policies and initiatives to expand the supply of child care, support the child care workforce, and make child care programs and policies work better for families and providers. For example, New York used the federal child care relief funding for grants to build the supply of care in areas with serious shortages and for incentives to increase the availability of infant and toddler care, nontraditional-hour care (care offered outside the standard 9-5 weekday schedule), and care for children with special needs. Michigan used the federal child care relief funding for initiatives such as *Caring for MI Future*, which invested $100 million with the goal of opening 1,000 new child care programs by the end of 2024, and *Our Strong Start*, which connects prospective child care business owners with entrepreneurial support, grant funding, and licensing help, among other services, through a team of navigators.[17]

States aimed to ensure that they used the funding in a way that was tailored to the needs of families and child care providers by getting input from those directly affected. For example, in Louisiana, a coalition of parents, providers, and advocates developed the *Geaux Far Louisiana Initiative* and worked with several Louisiana state agencies to engage over 1,000 parents in listening sessions to create a strategic plan for early childhood.[18]

However, as ARPA child care stabilization dollars expired in September 2023, and as states began to use up their ARPA CCDBG supplemental funding ahead of the expiration of these funds in September 2024, progress began to slow in many states and even reverse in some. Thirty-three states made improvements in one or more of five key child care assistance policies between February 2022 and February 2023, compared to 48 states that made improvements between February 2021 and February 2022 and 40 states that made improvements between February 2020 and February 2021. And 19 states took steps backward on one or more of their key child care assistance policies between February 2022 and February 2023.[19]

With federal ARPA child care funding expiring, at least 11 states and the District of Columbia—seeing the importance of child care investments—filled the gap by dedicating significant new state funding to grants to child care providers, programs to support their child care workforces, or other solutions that directly support providers.[20] Data suggest these investments had a positive impact on child care availability and affordability and on mothers' workforce participation in these 11 states and the District of Columbia compared to states that did not commit additional resources to child care programs and providers: Early childhood educators in the 11 states and the District of Columbia were less likely to report that they had raised fees or that the waiting list for their program had grown following the loss of federal funding.[21] Moreover, between fall 2023 and spring 2024, the share of parents with young children who lacked child care increased significantly only in the states that did not provide additional funding for child care. In contrast, in the states that stepped up with additional funding for child care programs and providers, the share of women with young children who wanted to work for pay but did not in the past seven days because they were caring for a child not in school or child care decreased significantly.[22]

ARPA relief funds and the state improvements they helped make possible made a huge difference during a challenging time, but many of the challenges that families and the child care sector faced during the pandemic existed before the pandemic began and will continue to exist after the expiration of relief funding. State investments alone cannot repair the fractured system and resolve the sector's market failure. And, as demonstrated by the difference in state actions thus far, states vary greatly in their capacity and willingness to invest in child care—so leaving it up to states would result in serious disparities in families' access to affordable child care, depending on where they lived.

Lesson 3: Withdrawing public investment hurts women and families.

While the child care stabilization funding was a lifeline during the pandemic, in the wake of its expiration in September 2023, families are struggling with rising child care costs and increased difficulty in accessing child care. The RAPID/NAEYC survey conducted in October 2023, just one month after the expiration of the child care stabilization funding, found that 29 percent of families reported increases in their child care tuition in the prior month.[23] Families of color were disproportionately impacted by increases in child care costs, with 38 percent of Black families and 34 percent of Latinx families reporting tuition increases in the prior month compared to 24 percent of white families.[24] Data further suggest the expiration of ARPA child care stabilization grants has led to an increasing share of parents with young children who reported having difficulties accessing child care[25] and an overall slowdown in progress on child care affordability and women's labor force participation.[26]

The impacts of the last child care funding cliff on women and families aren't necessarily being manifested by the aggregated labor force numbers, at least in the short term. For example, the employment rate for prime-age women (age 25 to 54) continues to rise, reaching an all-time high months after the expiration of ARPA child care stabilization grants.[27] Notably, the continued rise in prime-age women's employment rate is driven by mothers with young children under the age of five.[28] This positive trend is facilitated by a strong labor market with robust wage growth (especially for lower-paid workers),[29] the surge of remote work since the pandemic,[30] and buffers created by state funding for child care and increases in annual federal appropriations for CCDBG over the last couple of years.

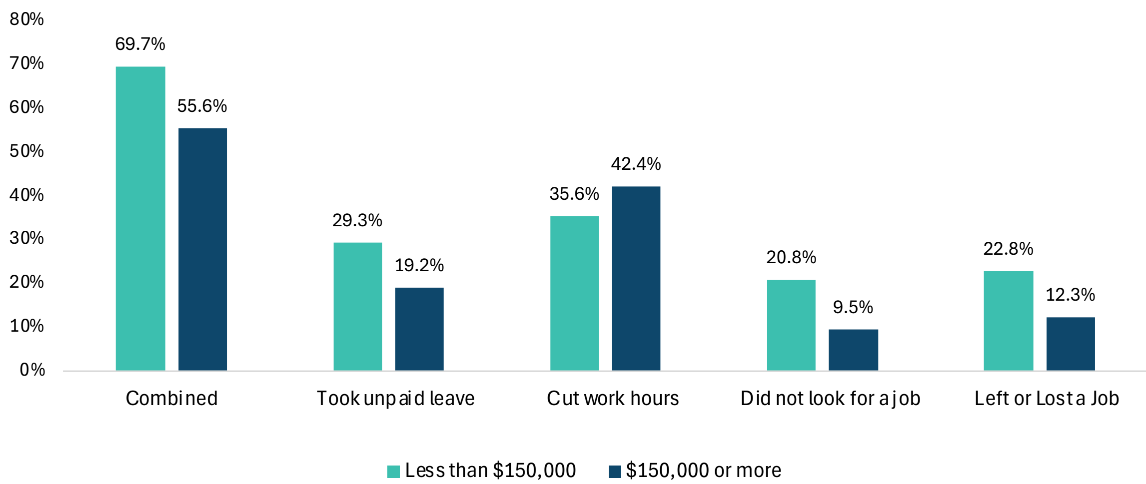
Families are nevertheless absorbing the costs in subtle yet painful ways after ARPA child care stabilization grants expired, as our child care system remains a fundamentally broken market. Data show the share of parents with children under age 12 who reported lacking access to child care within the four weeks prior to when the survey was completed increased nationwide from 17.7 percent in fall 2023 to 22.2 percent in spring 2024.[31] Increased child care prices are putting child care out of reach for more families, likely exacerbating inequities in access. While higher-income families can absorb some of the increased costs, many low- and moderate-income families who cannot pay more may have had to switch to lower-cost options, even when they would have preferred to keep their existing care arrangement. Low- and moderate-income parents, especially mothers, would have to find workarounds by cutting back on work hours, taking unpaid leave, putting off better work or educational opportunities, or forgoing other critical needs for their families to make ends meet without leaving the labor force.

NWLC's analysis of the Census Household Pulse Survey[32] shows that in the aftermath of the last ARPA child care funding cliff (from January to July 2024), among respondents with children under age 12 in their household who lacked access to child care within the four weeks prior to when they took the survey: 70 percent of those with an annual household income of less than $150,000 reported experiencing negative impacts of not having child care on work activities—including having to take unpaid leave, cut work hours, leave a job, lose a job, or not look for a job—compared to 56 percent of those with annual household income of $150,000 and more. The vast majority (78 percent) of the Pulse survey respondents with children under age 12 in their household reported an annual household income of less than $150,000, underscoring the scope of the challenge.

When broken down by impact on work activities, respondents with an annual household income of less than $150,000 were more likely than their higher-income counterparts to report taking unpaid leave (29 percent vs. 19 percent), not looking for job (21 percent vs. 10 percent), and having left or lost a job (23 percent vs. 12 percent) because they did not have child care. Respondents with higher household incomes, however, were slightly more likely to report cutting work hours in order to care for their children (42 percent vs. 36 percent).[33]

These impacts of lacking child care access at the family level will reverberate throughout the economy, hampering women's labor supply, families' economic security, and economic growth in the long run. We already know that disruptions in child care take a big toll on our economy. Research suggests child care disruptions cost businesses $23 billion a year and cost our economy as a whole $122 billion a year in lost earnings, productivity, and revenue.[34] Without sustained, robust public investments in child care, families, primarily women, will continue to struggle balancing a paycheck with caregiving responsibilities.

Share of respondents with children under 12 who reported the following as a result of not having child care in the past 4 weeks, by household income, January to July 2024



Source: NWLC calculations based on January 9 to July 22, 2024, (Phase 4.0 and Phase 4.1 combined) of the U.S. Census Bureau Household Pulse Survey. The analytic sample is restricted to respondents with children under 12 years old in their household who did not have child care in the past four weeks.

Lesson 4: Withdrawing public investment hurts early educators.

Child care employment fell sharply at the beginning of the pandemic,[35] with nearly half of the child care providers surveyed by the National Association for the Education of Young Children (NAEYC) reporting their center was completely closed in April 2020.[36] Since then, the child care sector has been on a slow recovery, aided by federal pandemic relief funding including the ARPA funds along with actions at the state level. But child care employment has slowed its growth and even declined in recent months, following larger gains in 2022 and 2023. In 2024, the child care sector has lost 2,400 jobs in May, 6,700 jobs in June, 1,500 jobs in July, and 2,500 jobs in August.[37]

Early educators still struggle with poverty-level wages and slower wage growth than workers in other low-paid occupations,[38] leading to significant turnover and disrupting the stable and nurturing relationships between caregivers and children that are the foundation of high-quality early education. Following the loss of federal stabilization funds last September, a greater share of early childhood educators reported challenges such as increased levels of burnout, staff shortages, rising operating costs for programs, and closures of child care programs outnumbering openings in their communities.[39] At the same time as the federal support was winding down, operational costs were rising. Among providers who participated in the January 2024 NAEYC survey, over one-third (36 percent) reported paying more for rent, and approximately half reported paying more for liability insurance (49 percent) and property insurance (53 percent).[40]

While disaggregated data are lacking, existing data suggest that the early care and education workforce became less racially diverse during the pandemic with more Black workers leaving the sector—likely due to their extremely low pay and elevated health risks—and more white workers both joining and staying.[41]

Moreover, the pandemic may have exacerbated the decline in home-based child care providers (especially smaller homes),[42] though we are waiting for more data evidence. The number of home-based providers appearing on state administrative lists (listed providers) had already declined by 25 percent in the decade prior to the COVID-19 pandemic.[43] Rising housing costs since the pandemic have exacerbated housing challenges for home-based providers, disrupting not just their own families and businesses but the well-being of the families who rely on them for care. One-quarter of listed home-based providers and over a third of family, friend, and neighbor (FFN) providers surveyed between March 2021 and December 2022 reported difficulty affording housing expenses.[44]

The decline in home-based care options disproportionately hurts children and families in communities of color with lower incomes. Home-based care is often the best or only option available for families in rural areas and families needing care during nontraditional hours. Families of babies and toddlers, Black and Latinx families, families of children with special needs, and families experiencing poverty also primarily choose home-based care.[45]

Public funding is essential for supporting child care providers and a racially diverse workforce. But the short-term nature of the ARPA funds made it challenging to invest in ongoing needs, such as permanently raising wages and providing robust benefits and housing stability for early educators.

Lesson 5: The United States can and must make long-term investments in women, children, and families.

While high-quality child care benefits the entire society, the costs of child care are primarily borne by individual families who struggle to afford care, as well as early educators who subsidize the system with their poverty wages. The average annual price of child care in 2023 takes up 10 percent of the median household income for a married couple with children and 32 percent of the median household income for a single parent with children.[46] U.S. households spend about $42 billion on early care and education each year, compared to only $34 billion—or about 0.18 percent of GDP—in public spending.[47] Government spending on early care and education in the United States is one of the lowest among the Organisation for Economic Co-operation and Development (OECD) countries.[48]

The child care sector desperately needs both an emergency investment of $16 billion per year in supplemental funding[49] to mitigate the effects of the loss of child care relief funds and robust, long-term federal investments to truly transform the sector.

The United States has the resources to fulfill this vision. The soon-to-expire $15 billion ARPA supplemental CCDBG discretionary funding was a drop in the bucket compared to the amount of revenue lost from decades of tax cuts for the wealthy and large corporations. We can't afford to put off investing in early learning and child care any longer, and we have an imminent opportunity to raise public dollars to support investments in child care. In 2025, some provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are scheduled to expire. If we allow the tax cuts for the wealthiest to expire and make additional progressive changes to the tax code, we could raise trillions of dollars in tax revenue that could support investments in women, children, and families.[50] For example, just rolling back the TCJA's corporate tax rate cut from 21 to 28 percent would raise $1.35 trillion over 10 years[51]—which could fully fund President Biden's child care proposal twice over and still have money left over.[52]

Conclusion

Our nation's child care crisis is a policy choice. Chronic underinvestment drives many of the broken dynamics in the child care sector. The positive impact of public funding is evident in the success of the temporary federal relief funds that helped more families access affordable child care and improved wages for early educators. But temporary public funding is insufficient to address the long-term structural flaws and deep inequities in the existing child care system. And while several states stepped up with their own funding, which has had significant, positive effects on families and early educators, states simply don't have the budgets to invest in the necessary infrastructure to build the early childhood system that all families and early educators deserve and that our economy needs. In addition, not all states have the capacity and willingness to invest in child care, resulting in disparities in families' access to affordable child care depending on where they live.

Child care is the backbone of the economy. A robust, fully funded child care system would spur economic growth, reduce poverty, advance gender and racial equity, and enable children, families, and educators to thrive.

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