The Daily Dish

Child Care and Returning to Work

DOUGLAS HOLTZ-EAKIN | JUNE 24, 2020

Eakinomics: Child Care and Returning to Work

AAF's Isabel Soto's latest takes a look at a looming challenge: child care for working parents. This has been a perennial problem and each election year generates proposals to increase the supply or reduce the price of quality child care. The issue, however, has gotten a lot more complicated with the arrival of the COVID-19 pandemic.

Across the country, layoffs and lockdowns reduced the demand for child care. First of all, it is expensive, and in the presence of large economic distress, many parents are finding it too difficult to maintain payments. As Soto notes, for families with children under age 12, "The average annual cost for formal child care in the United States is around $9,600 per child, meaning that the average family can expect to pay around $12,960 a year, or $1,080 a month. These costs are almost certainly prohibitive in a time of economic contraction, particularly for those on the lower end of the income spectrum. According to a report by the Federal Reserve, as of early April around 40 percent of Americans making under $40,000 lost work due to the pandemic."

Second, with so many parents home from work, there is less need for care: "Due to job losses, remote work, cut hours, and the general public health crisis, demand for childcare dropped off drastically during the pandemic. A survey by the Bipartisan Policy Center between March 21st and April 4th found that about 54 percent of households with children under 5 years old did not need childcare support because there was a parent at home or family member who could care for the child."

But the demand decline also means that some child care providers cannot survive and are closing their doors. Thus, if and when parents seek to return to work, their options will be more limited. "The National Association for the Education of Young Children reported that 63 percent of respondents could not survive a closure for more than a month. As of May 1st,

The National Association for the Education of Young Children and the Early Care and Education Consortium found that daily childcare attendance went down by more than 70 percent and that several providers could only remain open for one more week before needing to close, some permanently."

Put differently, the massive supply shock that is COVID-19 has induced a supply shock in the child care market. That means that policymakers have no particularly appealing choices because the typical approach is to throw money at families so they can purchase a service that is already too pricey — which will only serve to further raise the prices – and does not directly increase the supply.

This is one of those issues that bears keeping an eye on just to see how big it might become.