Child Care in State Economies

Executive Summary

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Committee for Economic Development

Child care can allow parents to participate in the labor force or pursue education or training; the organized child care industry itself is an integral part of state economies. This report, produced by RegionTrack, Inc., an economic research firm, and commissioned by the Committee for Economic Development with funding from the Alliance for Early Success, provides a broad overview of the child care industry, taking into account both these perspectives.

First, the report examines the role of the industry from the traditional labor force perspective of child care as a means for parents to work and child care's potential in that role to support regional economic growth and development.

Second, the report provides extensive details regarding the paid child care industry in state economies, including usage rates, the role of public funding, revenues, and business structure. The report estimates the state-level economic spillover effects of the child care industry through a simulation utilizing a computable general equilibrium (CGE) model.

The cost of child care is a significant financial challenge for many parents, and especially for low-skilled parents. In 2011, employed parents paid an average of $143 per week ($7,436 per year) for child care with the cost varying greatly by state, setting, and age of child.

Key Findings

Child Care Usage

» Paid child care providers serve roughly one third of all households that have a working mother, and one in six children ages 14 and under. In 2011, approximately 10.7 million children (18.3%) ages 14 and under were enrolled in paid child care in the United States.

» Three- and 4-year-olds are most likely (44.0%) to be in paid child care, and school-age children are least likely to be in paid care (declining from 17.1% of 5- to 8-year-olds to 3.6% of 12- to 14-year-olds).

» Use of paid child care is highly correlated with women's labor force participation. Over half (53.1%) of young children under the age of 5 with a mother who is working full-time participate in paid child care.

» More-educated mothers make greater use of paid child care arrangements. Mothers with a bachelor's degree or higher are more than twice as likely to have a child in paid care compared to mothers with less than a high school education (25.9% versus 10.7%).

» Unmarried mothers are more likely than married mothers to use paid child care. Paid child care also represents a greater share of monthly family income for unmarried mothers (13.5% on average) than for married mothers (6.4%).

» The cost of child care is a significant financial challenge for many parents, and especially for low-skilled parents. In 2011, employed parents paid an average of $143 per week ($7,436 per year) for child care with the cost varying greatly by state, setting, and age of child.

Child Care Sector

» In 2012, more than 768,500 child care facilities produced revenue totaling $41.5 billion and employed 1.57 million wage and salary and self-employed workers in the U.S.

» Service industries of comparable size include women's clothing stores ($43.1 billion), waste collection ($41.3 billion), and home furnishing stores ($40.4 billion).

» The child care industry is estimated to support another $41.6 billion in "spillover" (spending) in other industries.

Child Care's Role in Regional Economic Growth

» Child care supports regional economic growth primarily through its support of labor force participation and education of parents in the workforce.

» Especially for low-wage workers with children, the decision to work or seek additional education may depend on the availability of affordable child care.

» Subsidized child care can encourage low-skilled parents to maintain their connection to the labor force or to upgrade their skills through education, thereby contributing to economic growth and productivity over the longer term.

The child care industry produced revenue totaling $41.5 billion and generated an additional $41.6 billion in "spillover" (spending) in other industries.

The Role of Organized Child Care in State Economies

This report focuses on organized child care providers who offer care on a paid basis. This definition of the industry captures market-based forms of care that produce measurable economic activity. This is not meant to suggest that unpaid child care does not constitute meaningful economic activity, but simply that it is difficult to measure the value of this production because it is not traded in any market. The report addresses four broad questions regarding the role organized child care plays in state economies:

1. ***How is organized child care used by working families in the U.S.?***

   Organized child care continues to serve its traditional role of enabling working parents to enter and remain in the labor force.

   » Almost one of three U.S. households with an employed mother and a child under the age of 15 reports using a paid child care provider on a regular basis. For those with preschoolers under the age of 5, nearly half (46.3%) use paid child care.

- Approximately 10.7 million children (18.3%) in the U.S. ages 14 and under are enrolled in one or more forms of organized child care as a regular arrangement.
- One-third (6.7 million) of preschoolers ages 4 and under and one in ten (4 million) school-age children ages 5 to 14 are enrolled in organized care.

Child care is not used evenly across households, and there are clear regional patterns in child care usage.

- The use of organized child care varies widely based on demographic and economic characteristics of the child, mother, and household. Organized care is used most frequently by mothers who are older, more educated, in higher-income households, employed full-time, and married.
- More than half (56.1%) of all children in organized child care have family income levels above $4,500 per month.
- Children in poverty represent 22.8% of all children under age 15 but only 17.6% of children in organized child care arrangements.
- Paid child care usage varies greatly across the states, with the highest usage rates in the upper Plains, the Pacific Northwest, New England, and portions of the Mid-Atlantic region. For example, in North Dakota, South Dakota, and Vermont, 51%, 49%, and 48% respectively of the children under age 5 are in paid care compared to the states with the lowest percentage of children under age 5 in paid care, New Mexico, West Virginia, and Utah – 23%, 20%, and 16.7% respectively.

The average weekly cost of care roughly doubled in current dollars between 1997 and 2011. And yet, the share of households receiving assistance from any source to pay for child care declined from 7.3% in 2005 to 6.4% in 2011 (according to the most recent data).

The percentage of U.S. families with working mothers that use organized child care has been declining.

- The share of U.S. families with a working mother who paid for child care peaked at 42.2% in 1997 and has been declining ever since, reaching 31.9% in 2011 (the time of the most recent data).
- There has been a sustained shift over this period from paid care in family child care homes to unpaid care, particularly by fathers and grandparents.
- The recession following the financial crisis accelerated this trend toward care by relatives. Primary care provided by fathers who were either unemployed or working part-time increased sharply beginning in 2009, particularly among those caring for preschoolers.
- The share of households receiving assistance from any source to pay for child care declined from 7.3% in 2005 to 6.4% in 2011 (the time of the most recent data).

2. ***What are key factors driving the use of organized child care in the U.S.?***

Female labor force participation is highly correlated with use of organized child care.

» After rising for decades, female labor force participation began declining slightly in 1999, reaching 57.2% in 2013. However, participation rates for mothers with children under the age of 6 increased between 2005 and 2013.

The cost of organized child care presents a significant financial hurdle for many working parents with children, especially those working for low wages.

» Employed parents with children in paid child care pay an average of $143 per week ($7,436 per 52-week year) for child care services. Adjusted for inflation, the weekly cost of child care increased by 37.5% between 1997 and 2011.

» Child care costs consume an average of 7.2% of household income for those with children in paid care.

» For infants, the median cost of annual care across the states is $6,828 in a family child care home and $9,185 in a child care center. Care for 4-year-olds ranges from $6,500 per year in a family child care home to more than $7,800 in a child care center.

Significant public funding assists families in paying for child care.

» Federal and state child care subsidy programs provided $12.4 billion in fiscal year 2013 to help low-income families offset the high cost of child care.

» Federal child care tax credits provided an additional $3.4 billion in assistance to mostly middle-income families with children in paid care in tax year 2012. In addition, approximately half the states allow tax deductions or credits for child care expenses.

» Total federal and state child care assistance ($15.8 billion) equals more than one third (37.8%) of total U.S. child care industry revenue.

» The child care industries in nine states (Alaska, Delaware, Hawaii, Illinois, Ohio, Oklahoma, Pennsylvania, Vermont, and West Virginia) and the District of Columbia are highly dependent upon public assistance programs. In those states and the District of Columbia, this funding represents more than 50% of total child care industry revenue.

Subsidized child care can encourage low-skilled parents to maintain their connection to the labor force or to upgrade their skills through education, thereby contributing to economic growth and productivity over the longer term.

3. ***What is the size and structure of the U.S. child care industry?***

   The U.S. child care industry consists of a large number of mostly very small businesses.

   » More than 768,500 child care establishments produced revenue of $41.5 billion in 2012.

   » The average child care provider in the U.S. remains relatively small, producing only about $54,000 in annual revenue.

   » Two major types of child care providers commonly operate within the industry—larger, more organized establishments with paid employees (mostly child care centers) and smaller establishments operated by a sole proprietor with no employees (mostly family child care homes).

   » Child care establishments were staffed by 1.57 million workers and owners who received earnings of $18.2 billion in 2012.

   » Most providers are sole proprietors with no paid employees. But most children are cared for by larger, multi-employee establishments. Incomes received by workers in the industry are low.

   » Service-providing industries with comparable revenues include women's clothing stores ($43.1 billion), waste collection ($41.3 billion), and home furnishing stores ($40.3 billion).

The $41.5 billion in direct economic output of the child care industry in turn produces spillover (spending) that essentially doubles the market-based economic activity related to the industry.

- The child care industry produces spillover economic effects through two primary channels: (i) the "indirect" effects of the child care businesses' purchases of goods and services from other industries (purchases which also would not otherwise have occurred without the child care industry's activity); and (ii) the "induced" economic activity from purchases of goods and services that child care workers make using their child care earnings (purchases that would not have occurred in the absence of the child care jobs).

- Simulations based on models of state economies lead to an estimate of approximately $41.6 billion in additional spillover effects to state economies from the child care industry: $17.8 billion in "indirect" activity from the child care industry's purchases of goods and services from other industries and $23.8 billion in "induced" activity from consumer spending out of child care wages and salaries.

- The child care industry employs1.5 million individuals supporting an additional 624,480 jobs in other industry sectors throughout the U.S.

4. *What role can child care play in regional economic growth?*

Child care can facilitate a region's economic growth through its support of increased labor force participation and education of the regional workforce.

- Especially for low-wage workers with children, the decision to work or seek additional education may depend on the availability of affordable child care.

- Affordable child care may encourage low-skilled parents to maintain their connection to the labor force or to upgrade their skills through education, both of which contribute to economic growth and productivity over the long term.

- State labor force participation rates are positively correlated with income levels and negatively correlated with poverty rates in the states.

- Similarly, the average years of education in a state is positively correlated with state per capita income.

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Data Notes: *Child Care in State Economies* uses a consistent data set for all states that reflects the use of paid, or market-based, child care services. The overall size of the paid child care industry (i.e., number of establishments, employment, and revenue) at the national and state levels is determined using U.S. Census Bureau data for 2012.

The definition of child care varies greatly across the states (i.e., licensed care, registered care, listed care, certified care, license-exempt care, etc.). Therefore, industry estimates may vary state by state depending upon the data sources used.

The U.S. Census Bureau data used in this report reflects data sets located at **https://www.census.gov/econ/nonemployer/index.html** for sole proprietors (businesses that have no paid employees and are subject to federal income tax who report child care income) and at **https://www.census.gov/econ/census/** for data related to child care centers (businesses with paid employees in the child care industry sector).

Differing definitions of the child care sector make it difficult to produce an exact number of programs within each state and an exact number of employees working within the paid care industry. We support efforts to create uniform definitions that will help support consistent reporting of data.