Investing in Infant and Toddler Child Care to Strengthen Working Families

By Rasheed Malik  October 2019
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Contents

1 Introduction and summary

3 Results of a child care analysis of families with infants and toddlers

11 Policy implications

13 Conclusion

13 About the author

14 Acknowledgments

15 Appendix

20 Endnotes
Introduction and summary

Author’s note: CAP uses “Black” and “African American” interchangeably throughout many of our products. We chose to capitalize “Black” in order to reflect that we are discussing a group of people and to be consistent with the capitalization of “African American.”

The first few years of a child’s life are profoundly consequential in terms of brain development and growth. In a matter of a few months, a typically developing infant or toddler will move through milestones fast enough to make their parent’s head spin—if it isn’t already spinning from the turmoil of financial stressors that come with a new addition to the family. Many young parents are just starting out in the workforce, hoping to give their children a bright future while struggling to afford the very immediate costs of raising a baby. This presents an exceptional opportunity for public policies that can support young families during this critically important stage.

By increasing public investment in child care from birth to age 5, the early care and education system can be made more equitable for parents and children. Today, families with greater resources have many more choices when it comes to child care. For most parents, child care choices are constrained by the high cost of providing care for an infant or toddler. With few affordable options, some parents leave the workforce out of necessity rather than choice, which can have a compounding effect on lifetime earnings and savings.1 This circumstance disproportionately affects women and has been identified as one of the primary reasons that the United States now trails other economically developed nations when it comes to female labor force participation.2

Currently, child care is most expensive and hardest to find when children are in their first few years of life, making infant and toddler care a promising investment in the financial security of families and the well-being of young children. The price of infant care today is higher than public college tuition in most states.3 Accordingly, the supply of infant and toddler care is three times scarcer than child care for preschool-age children.4 Together, these linked factors of cost and scarcity are cited by 3 in 5 parents as the primary challenge to finding infant or toddler care.5
The tendency of many states and cities has been to invest in preschool, since they can link these programs with the public education system. While preschool is an excellent public investment, child care policy should begin at birth rather than in the year or two before kindergarten. In fact, a preschool-only approach can have unintended consequences on the price and supply of infant and toddler child care; many providers use revenues from larger classes of older children to subsidize the high costs associated with infant care. When public preschool crowds out the market for private tuition preschool, providers can no longer cross-subsidize the cost-intensive care of infants and toddlers, leading to fewer slots and higher prices.

This report analyzes the economic effects of access to child care for families with children under the age of 3. The author uses the U.S. Census Bureau’s Survey of Income and Program Participation (SIPP) to understand the challenges facing families with very young children and the opportunity to improve their lives by investing when children are young. This dataset contains information on what families report spending on child care, the types of care arrangements that they use, as well as the dynamics of income and debt for parents with very young children.

The key findings from this analysis include:

- Families with an infant or toddler spend about 50 percent more on child care than families with a preschooler. If their child care expenses were capped at 7 percent of household income, as is recommended by federal guidelines, low-income families paying for infant or toddler care would save, on average, nearly $450 per month.

- Since families with an infant and toddler are more cost constrained than those with a preschooler, there are fewer infants and toddlers in licensed child care—27 percent compared with 46 percent, respectively. This analysis finds that within this rate, there are large disparities by income and by race and ethnicity. High-income families use licensed child care at nearly four times the rate of low-income families—52 percent compared with 14 percent—while Hispanic or Latinx infants and toddlers are only half as likely as other children under age 3 to be in licensed care.

- On average, parents see a significant reduction in income following the birth of a child, leading to increases in household credit card debt. Moreover, new parents increase their spending on major expenses such as housing and transportation. This supports the idea that public investments in child care would be particularly beneficial to parents with very young children, who experience heightened financial stress.
This report considers the particular challenges that face families seeking child care for their infants or toddlers. These challenges include the higher cost of care, inequality of access to licensed child care, the temporary income loss following the birth of a child, and the rise in household debt from an increase in expenses. These dynamics play out differently for different types of families and affect mothers and fathers differently, so the report profiles various trends by the race, ethnicity, and gender of the parent. Finally, this report places these findings in the context of a broader economic policy system that makes few accommodations for young parents and families, identifying opportunities for greater and more sustainable economic growth and reduced inequality among families with young children.

Family spending on infant and toddler child care

One of the persistent challenges in studying the economic effects that child care has on families is in figuring out what families are paying for child care. The most frequently cited statistics tend to be from surveys of child care providers, which provide an insight into what prices licensed providers charge but do not capture how much parents spend. That being said, the average price of child care varies by state and type of setting, with infant care in a child care center topping $20,000 per year in many states. However, relatively few families can afford center-based infant care.

This report, which uses a nationally representative household survey of income and expenses, finds that among families who pay for child care, those with an infant or toddler spend about 50 percent more on child care than families with only preschoolers, spending an average of $265 per week. (see Table 1) This amounts to more than 12 percent of the average income for a family with an infant or toddler, nearly twice what the U.S. Department of Health and Human Services (HHS) has benchmarked as affordable. Children under the age of 3 are much less likely than preschoolers to attend licensed child care, with about one-quarter of infants and toddlers going to child care centers or family child care homes. However, parents with a child under
age 3 are just as likely to pay for child care as those with a preschooler, while about half of families use unpaid child care, such as parental care or care provided by a grandparent, relative, or close friend. In general, these facts suggest that when children are under the age of 3, most parents cannot afford licensed care, nor can they afford to leave the workforce entirely. Families seem to be paying what they can, although the care that they are able to afford is unlikely to be with a licensed provider.

**TABLE 1**

Expensive infant and toddler care results in gaps in access to licensed providers based on income

<table>
<thead>
<tr>
<th>Child care expenses and share of high- and low-income families using licensed care, by age of child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average weekly child care expenses</td>
</tr>
<tr>
<td>Infants and toddlers</td>
</tr>
<tr>
<td>Preschoolers</td>
</tr>
</tbody>
</table>

Note: Infants and toddlers are defined as children under the age of 3. Preschoolers are defined as children ages 3 to 5. Weekly spending is recorded at the family level, while child care arrangements are recorded at the child level.


Among low-income families—those who make less than 200 percent of the federal poverty level—who pay for infant or toddler child care, the share of income that is spent on child care rises to 28 percent, which is four times HHS’ affordability benchmark. If these low-income families spent only 7 percent of their income on child care, they would see their monthly child care spending reduced by $450 dollars, which comes out to more than $5,000 over the course of the year—effectively a 10 percent to 20 percent income boost for a family of four. For these families especially, affordable child care would equate to greater economic security, due in part to savings on child care expenditures but also because families may be able to work more hours or pursue better jobs or educational opportunities. This could help equalize the playing field, as families with the highest incomes are currently spending only 7 percent of their income on infant and toddler care and accessing licensed child care at greater rates.

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**Only higher-income families currently access licensed infant and toddler child care**

Since licensed child care for infants and toddlers is so costly, it is accessed much more freely by higher-income families, since they are able to pay the full price of care.14 Families in the top 20 percent of the income distribution use licensed infant
and toddler care at rates that are nearly four times higher than low- and middle-income families, with 52 percent of children under age 3 attending licensed child care.\textsuperscript{15} (see Figure 1) Consequently, lower-income families are more likely to use grandparent care or other relative care than those with more financial resources.\textsuperscript{16}

This is an even more stark divide than the trends seen in preschool-aged care. While only a third of infants and toddlers are in licensed child care, it appears to be the norm for children from high-income households. These statistics show that those with relatively more resources can access licensed child care in higher numbers. Perhaps this is due to the fact that high-income families’ child care spending meets the 7 percent threshold of affordability.

Families have many different preferences when it comes to the type of child care arrangement for their children. While unlicensed child care by a relative or neighbor is not necessarily poor quality, there is a significant range when it comes to quality in the unregulated child care market. These differences in access to child care by income are important, because they suggest that at least some low-income families are selecting child care based on cost constraints rather than their true preferences. Policies that make child care affordable for all families are likely to increase access to licensed care for low- and middle-income families. If these families can afford to make the same choices as higher-income families, it should help reduce the educational and economic inequalities that arise from a system that is largely based on families’ ability to pay for child care.

**FIGURE 1**

High-income families are almost four times as likely as low-income families to access licensed child care

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top quintile</td>
<td>52%</td>
</tr>
<tr>
<td>4th quintile</td>
<td>41%</td>
</tr>
<tr>
<td>3rd quintile</td>
<td>22%</td>
</tr>
<tr>
<td>2nd quintile</td>
<td>20%</td>
</tr>
<tr>
<td>Bottom quintile</td>
<td>14%</td>
</tr>
</tbody>
</table>

Gaps in access to licensed infant and toddler child care by race and ethnic origin

Another equity concern on which the SIPP data can shed light are differences in access to licensed care by race and ethnic origin. Considering the fact that there are persistent and large racial wealth and racial income gaps, it is not surprising to find gaps in access that correspond with the large access gap associated with family income. This analysis does find differences by race and ethnicity in the rate at which infants and toddlers attend licensed child care. White children under age 3 have access to licensed child care at the highest rate, 36 percent, with Black or African American children accessing licensed care at the slightly lower rate of 34 percent. (see Figure 2)

Fewer than 3 in 10 Asian infants and toddlers were in licensed care. However, Hispanic or Latinx children were by far the group with the lowest access to licensed infant and toddler care. Merely 1 in 6 Hispanic or Latinx children under age 3 were in licensed child care, which makes this group only half as likely to be in licensed care as the overall population of infants and toddlers.

**FIGURE 2**

Hispanic or Latinx families have low rates of access to licensed child care


Research shows that Hispanic or Latinx parents have similar attitudes toward child care as white and Black or African American parents, and Hispanic or Latinx parents are no more likely to report having relatives available as caregivers than their non-Hispanic peers. However, the National Research Center on Hispanic Children and Families did find that a larger share of Hispanic or Latinx children needed care during nontraditional hours, such as during the evenings, on weekends, or overnight. Its research suggests that approximately one-third to two-thirds of low-income Hispanic or Latinx children need care during these off hours, which may partially explain these
much lower rates of licensed care use.19 A properly designed public investment in the child care sector should build up the supply of care outside of daytime business hours, as many parents work during the early morning, evening, or on weekends.

Families are especially cost constrained when their children are very young

The author also reviewed monthly changes in income and debt in the year before and after the birth or adoption of a baby. The trends that emerge reflect what many parents frequently describe as a difficult financial transition. In the absence of any meaningful public policy to support families during this period, parents face a combination of three compounding forces:

1. Reductions in household income, particularly for mothers who do not have access to paid parental leave

2. Increases in household expenses that are directly attributable to having a baby, such as formula or feeding supplies; diapers and clothes; and equipment or furniture such as car seats and cribs

3. Increases in major expenses that accompany family expansion, such as greater housing debt, vehicle debt, and, of course, child care expense

As shown in Figure 3, the median parental income drops by about 10 percent just before and after the arrival of a baby. The median income returns to its prebirth level after about six to nine months as parents scramble to make up for lost income. But after this brief spike, parental income then settles back to a slightly lower level than before the birth of the child. This rollercoaster trend is mostly driven by steep declines in the earnings of mothers, since fathers, on average, experience increases in their personal income following the birth of a child. (see Appendix) This so-called motherhood penalty stems from mothers leaving the workforce due to a lack of paid leave and child care; mothers reducing their work hours to accommodate greater child-rearing duties than fathers; and mothers being discriminated against in hiring and pay negotiations.20 This penalty is greatest for low-income mothers, who are less likely to have flexible work schedules or access to paid parental leave.21
Within the group of mothers analyzed for this report, there are differences by marital status and race or ethnicity. Single mothers increase their labor force participation and income following the birth of a child, while married mothers become less likely to remain in the workforce. Corresponding with this decline in labor force participation for married mothers, the median income for married mothers only returns to about 80 percent to 85 percent of the income before the birth of their baby.

Meanwhile, Black mothers increase their labor force participation and income following the birth of a child. Black mothers have historically had higher labor force participation rates than mothers of other races or ethnicities, as they are much more likely to be their family’s breadwinner. Conversely, due to a drastic decline in labor force participation, Hispanic or Latinx mothers see their median earnings drop to almost zero following the birth of a child. While many of these Hispanic or Latinx mothers eventually return to the labor force, their labor force participation rate remains below 50 percent one year after the birth of their child. (see Figure A3)

Next, this report shows that household debt, particularly credit card debt, increases when parental income is falling. Figure 4 shows the monthly change in average credit card debt for parents before and after they have a child. Credit card debt increases
just before childbirth, when many parents lose a portion of their income but need to purchase the supplies, furniture, and clothes that they will need for their baby. The average level of debt then declines over the course of the following year as parents pay off the debt that they accrued around the birth of their child.

**FIGURE 4**

*Parents accumulate credit card debt during a period of reduced income and new expenses*

*Average parental credit card debt, relative to month of childbirth*

Finally, the SIPP data show a steady increase in the average spending on rent or mortgages, as families seek better or larger housing following the birth of a child. Figure 5 shows that the average rent or mortgage payment rises by about 15 percent in the first year after childbirth. The data also show increases in average vehicle debt and unsecured debt, such as private loans for which there is no collateral offered. For Black families, overall household debt increases at tremendous rates after the birth of a child, driven by large increases in housing and vehicle debt. Considering the fact that a racial wealth gap has been engrained in American society through decades of structural racism in American policymaking and implementation, this uniquely large increase in household debt deserves closer examination. 24 Research has shown that college-educated Black households have 30 percent less median wealth than noncollege-educated white households, so Black families may be more burdened with debt as their families grow. 25 (see Figure A2)
These interrelated dynamics put economic stress on parents during what is already an emotionally and physically draining period—adjusting to life with a new baby. Sleep deprivation, postpartum depression, and maternal health challenges place even more stress on mothers, with effects that are especially dangerous for women of color, particularly Black women. The current generation of new parents, who are typically Millennials, also has much higher levels of student debt than previous generations.

A recent survey published by *The New York Times* found that 1 in 5 parents reports going into debt to pay for child care. In the context of the economic forces at play for new parents, this should hardly come as a surprise. But this information obscures that for many families, additional debt is not a viable option. Confronting the pressures and constraints from their existing debts, such as credit cards, mortgages, car loans, and student loans, few can justify or even manage the sky-high expense of infant child care. Those who can afford to pay are often families who are already high-income earners. This is why large public investments in child care from birth to age 5 can be seen as an equity and economic security policy. These are investments that can put millions of families on firmer financial footing during a time of great economic precarity.
Child care is an important aspect of economic policy, for both the short-term labor force attachment of parents facing the economic shocks that accompany a growing family and for the long-term health of the economy in the face of widening income and wealth inequality. It is a matter of gender and racial equity, since mothers face larger income shocks than fathers and are more likely to leave the labor force out of economic necessity instead of by choice. It is also an issue that affects racial and ethnic groups differently, leading to discrepancies in rates of access to licensed infant and toddler child care, making it harder for families of color to get ahead.

But thoughtful public policies can counter these inequities, with the goal of providing more families with a broader set of choices than they currently have, leading to greater economic security for families with young children. States and the federal government should spend much more supporting access to high-quality child care for children under the age of 3. Businesses and employers would benefit greatly, as nearly 9 in 10 primary caregivers say that problems with child care reduced their productivity at work. In the aggregate, this productivity loss is estimated to cost employers around $13 billion every year, which is a steep price to pay for a system that virtually no one says is working for them.

Congress can immediately increase federal investment in child care by passing the Child Care for Working Families Act, which would cap child care expenses at 7 percent of family income for approximately 85 percent of children under age 12. Congress can also increase funding for the Child Care and Development Block Grant, which currently provides several billion dollars to states to defray the cost of child care for low-income families. With recent increases in the size of the block grant, states should dedicate additional dollars to addressing the bigger issue of poor child care availability and affordability for infants and toddlers.

But child care should just be one part of a holistic, inclusive public policy approach to helping families with young children. This can include any number of research-driven programs with very high returns on each dollar spent, such as maternal and
infant home visiting programs, high-quality preschool and pre-K, early interventions for children with disabilities, and direct cash support for families with young children. Another federal policy action that would greatly benefit families with young children is the passage and implementation of the FAMILY Act, which would allow most workers to take paid time off when they have or adopt a baby or when they or their close family members are seriously ill. Paid family and medical leave has been shown to improve women’s attachment to the labor force after birth and generally helps workers and families maintain better economic security when welcoming a new child, recovering from a serious medical condition, or caring for a loved one with a serious injury or illness.
Conclusion

Since the United States is starting from such a low level of public investment in infant and toddler child care, this policy area is a great opportunity to positively affect the lives of children and their families. Without such an investment, the licensed child care market will continue to serve primarily the families with the highest incomes. Moving away from a system that is reliant on parental private spending toward recognizing child care as a public good will lead to more equitable access, and hopefully outcomes, for communities of color and low- and middle-income families.

Such public investments would also help combat the motherhood penalty that many women pay, reducing lifetime earnings and contributing to the gender pay gap. Along with other important policy options, such as paid family and medical leave, a child benefit paid to families, expanded home visiting programs, and public pre-K, the United States can build a prenatal to age 5 policy structure that would relieve the tremendous burden that is shouldered by young families in this country. This would benefit the overall economy through greater labor force participation and higher productivity from parents of young children. Ultimately, greater public investment in early childhood can help to reduce inequality of opportunity by helping parents when they most need it, so that they can find success and happiness for themselves and their children.

About the author

Rasheed Malik is a senior policy analyst for Early Childhood Policy at the Center for American Progress. His work focuses on the economic benefits of child care, child care infrastructure and supply, and bias and discrimination in early childhood policy. His research has been featured in or cited by The New York Times, Vox, The Washington Post, NPR, Slate, CNNBusiness, and CNBC, among others. Malik holds a master’s degree in public policy from the Gerald R. Ford School of Public Policy at the University of Michigan and a bachelor’s degree in public affairs from Baruch College.
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Appendix

Data and methodology

The data analyzed for this report come from the 2014 panel of the Survey of Income and Program Participation. For the estimates of household spending on child care and rates of usage of licensed child care, the author used the most recent data, which come from Wave 3 of the SIPP and cover the 2015 calendar year. Interviewers asked the reference parent about child care expenses from a typical week in the previous December. Thus, for Wave 3 data, the interviews took place in early 2016, and the respondents shared how much their household spent on child care in a typical week in December 2015 for all children in the family under the age of 13. Since this report aimed to isolate expenses for just infants and toddlers, the author limited the sample to just families in which there were no children over the age of 3 in December of 2015. This resulted in an infant-toddler family sample size of 486 families (N=486). For the comparison group of families with only children of preschool age, the author constructed a subsample of families in which there were no children under the age of 3 nor over the age of 5. This resulted in a preschooler family sample size of 362 families (N=362).

For the analysis of licensed care use, it is important to note two characteristics of the data. First, the interviewer asks the reference parent about care arrangements for each child under age 13 in the household, but they do not assign any type of care as the primary care arrangement. Most parents report using multiple care arrangements for their child, between family, themselves, child care centers, siblings, and other types of care. Unfortunately, it was not possible to determine which care setting was the most common care arrangement. Second, the interviewer did not verify whether the type of care that the parent indicates using is licensed. For this report, the author assumed that the following types of child care are likely to be licensed and are therefore a kind of proxy for licensed child care: daycare or child care center; Head Start; preschool or pre-K; and family child care home.
For the event-study research design section analyzing the income and debt dynamics of parents before and after their baby was born, the author appended all three waves of interviews, covering the calendar years of 2013 through 2015, into a single 36-month panel. The author tagged the initial observation for each member of every household in the SIPP panel, then identified the cases in which this new household member was coded with the age of zero. Since household composition can change in January with each new interview wave, the author also made sure that the babies tagged as being born in January were coded as zero years old for every month in that calendar year. This removed more than 200 infants who were new to the household for that interview wave but were not born in January as the data might suggest. Ultimately, the author constructed a sample of 1,599 births. The author next used the relationship variable epnpar1 and epnpar2 to identify who the parents of the baby were in the household. Not every baby lived in the same household as both parents. Approximately 200 babies did not live with their mother from birth and were excluded from the sample. Another approximately 300 babies lived with their mother but not their father. Ultimately, this results in a sample of 1,382 infants, the same number of mothers, and 1,066 fathers.

**Additional findings and figures**

Not all of the findings from the section analyzing parental finances before and after the birth of a baby are included in the body of this report. For the sake of explaining some of the findings in the report in greater detail, this section of the Appendix contains several figures and a discussion of the trends observed in the analysis.

There are three additional analyses presented here for reference and brief discussion. The first is a comparison of the income dynamics of women before and after the birth of a child with the income dynamics of men during this same time frame. Second is a comparison of changes in overall household debt by the race and ethnicity of parents. Finally, the author presents a comparison of maternal income dynamics by race and ethnicity.

As shown in Figure A1, there are distinct trends in personal income for men and women in the year before and after the birth of a baby. Fathers experience what has been described as a “fatherhood bonus” in the year after a child is born. Some of this may be associated with a small increase in paternal labor force participation, as the few nonparticipating men join the labor force to help support their child. The bigger influence on this increase in income comes from more hours worked by fathers,
after a brief dip in average hour worked in the first two months after a birth. On the other hand, mothers experience a huge drop in median earnings—approximately 50 percent—in the months just after a baby is born. The median personal income for women does rebound somewhat from this low but only recovers to about 85 percent of where it had been one year before the baby was born. The incomes for both groups have been indexed to their level one year before the birth of a child.

**FIGURE A1**

Following the birth of a child, the majority of family income loss occurs on the mother's side

Percentage change in median income for mothers and fathers from one year before childbirth

![Graph showing percentage change in median income for mothers and fathers](source)


Figure A2 shows differences in the total debt held by parents before and after the birth of a child. The graph shows white parents increasing their overall debt by a relatively small amount before beginning to pay it down in the final month of the baby’s first year. Overall, there is only about a 1 percent increase in average total debt over the two-year period. Hispanic or Latinx parents display a very different trend, with the average total debt for these parents decreasing by about 18 percent after bouncing up and down in the six months before and after the arrival of a baby. Finally, Black or African American parents show a very large increase in their average total debt, which grows by nearly 50 percent during the year a child is born. The total debt for all three groups has been indexed to their level one year before the birth of a child.
FIGURE A2

Black parents’ average total debt increases by nearly 50 percent in the year after a child is born

Percentage change in average parental debt from one year before childbirth, by race and ethnicity

Finally, Figure A3 shows the dynamics of female labor force participation in the months before and after childbirth, by the race and ethnicity of the mother. White women’s labor force participation drops from about 75 percent to 60 percent in the months after childbirth, recovering to about 64 percent one year after childbirth. Hispanic or Latinx mothers start from a lower level of labor force participation, at just under 60 percent, which then drops to less than 45 percent after the birth of a child and staying in the range of 40 percent to 50 percent for the first year of their child’s life. Lastly, Black or African American women display a different trend altogether. While they do experience a decline in labor force participation prior to childbirth, within six months, this group’s labor force participation is higher than it was one year before childbirth. This analysis finds that the labor force participation rate for Black or African American women one year after the birth of their child tops 75 percent.

**FIGURE A3**

**Black, non-Hispanic mothers increase their labor force participation after having a baby**

Female labor force participation by race and ethnicity, relative to month of childbirth

Endnotes


10 Ibid.

11 The SIPP collects data on child care expenditures regardless of setting, although it does not break down the spending by each child in the household. Nonetheless, the panel is large enough that for this study, the author was able to isolate a subsample of families whose oldest child is still under 3 years of age. The spending and child care choices of these families were then compared with a similarly sized subsample of families whose child or children are between the ages of 3 and 5, whom this report will refer to as “preschool-aged” or “preschoolers.” In order to identify a large enough subsample for reliable estimates, 5-year-olds have been included in this preschool-aged group, even though many 5-year-olds would have been in kindergarten during the survey period. This brings down the average child care expenditure for parents of preschoolers by a small amount, as well as the share that report paying for care—since in most places, kindergarten is public and free. See the Appendix for more information.


13 Due to the nature of the SIPP data, the author was unable to identify a primary care arrangement.

14 The SIPP does not collect information on whether a family is using licensed child care. However, the survey does record what type of care each child is in. The author selected the following categories to stand as proxy for licensed care: daycare or child care center; Head Start; preschool or pre-K; and family child care home.


16 Ibid.


19 Ibid.


21 Ibid.

22 This analysis identified 1,599 births in waves 1 through 3 of the 2014 panel of the SIPP. Mothers are directly identifiable within the dataset using relationship variables that identify all parents in the household.


Ibid.


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