Build Back Better Would Double the Cost of Childcare
By Casey B. Mulligan
November 18, 2021

By supporting parental work and skill acquisition, the childcare industry is an important part of the U.S. economy. Childcare is a major expense for families with children. By regulating the industry and removing financial incentives to supply lower-cost care, the Build Back Better bill (BBB) would sharply increase the cost of childcare.

I estimate that BBB would increase childcare costs by 102 to 122 percent. For a family with an infant and a four-year old, that would be an additional annual expense of up to $27,000 unless they could qualify for BBB's subsidies. In 2022, that would be half of families currently using nonparental childcare. Even in 2024 when the subsidies are more generous, 27 percent of families currently using nonparental childcare would be paying more than double of what they do now. As taxpayers, even families without children would be paying for a childcare industry whose bloat was fueled by BBB.

It is challenging to forecast how families would cope with such harmful and disruptive changes in childcare costs. Many families may respond by withdrawing a parent or relative from the workforce to provide the care. Marriages may break apart. Parents desperate to avoid such elevated childcare costs may begrudgingly decide to put their children into the custody of aunts, uncles, or grandparents where subsidized care is available. Although an underground childcare economy might spawn to allow subsidy-ineligible families to have childcare with fewer regulatory constraints, underground markets have their own added costs (Becker, Murphy and Grossman 2006).

The Structure of Childcare and Its Regulation

As any parent knows, caring for children is a labor-intensive activity. This fact is apparent in the cost structure of childcare businesses. Input-output tables show that fifty-three percent of those cost are labor costs, with the remainder of the childcare dollar almost evenly split between real estate or maintenance expenses and other intermediate inputs.

Childcare regulation increases childcare costs especially by increasing the amount of labor required per child, including additional labor for managing regulatory paperwork.[1] Even more important will be the additional staffing per child, both because BBB requires additional workers to meet government-defined "quality" metrics and because the bill's cost-plus reimbursement schemes remove or reduce the incentive for facilities to economize on labor.[2]

---

[1] See also Council of Economic Advisers (2019b).
[2] Although the metrics supposedly describe "quality," other instances of quality regulation have resulted in less quality as the term would be commonly understood. Baker, Gruber and Milligan (2019) found "increases in early

Much like the Affordable Care Act did for health insurance, BBB would have families paying for childcare according to a sliding income scale that designates what payment is "affordable." Payments owned by low-income families would be independent of the full price of childcare. Higher income families would pay full price.

In addition to disincentivizing marriage and work (Mulligan 2021), the sliding-scale imposed on consumers reduces another incentive for providers to control costs. Under BBB, providers will be able to pass on much of their costs to federal taxpayers who stand by ready to pay for any gap between costs and what BBB deems as "affordable" for low-income families. Moreover, as costs increase and some of the subsidy-ineligible families exit the market, the customer base becomes even less cost conscious. The result is even greater costs for those subsidy-ineligible families that remain.

Even if the labor-intensity of childcare operations remained constant, the cost of childcare would increase because BBB would require each childcare worker to be paid more. BBB requires that all staff be paid "a living wage." In addition, staff wages must be "equivalent to wages for elementary educators with similar credentials and experience." The precise meaning of the wage requirements would be left to federal regulators, who would have no financial incentive to economize on families' childcare dollars.[3]

BBB would subsidize capital investment, which has been just a small part of childcare expenses. Moreover, faith-based locations would be ineligible for capital assistance even though many families use childcare at such locations, which have advantages in supplying care.[4] Eligibility for the capital subsidies requires full compliance with the aforementioned wage and quality regulations.

BBB's fiscal and regulatory structures point to three distinct ways of estimating the bill's effect on childcare costs. One is to estimate the increases in compensation costs due to changes in both staff intensity and wages per staff member. A second is to look back at the experience from the Affordable Care Act, which had similar fiscal and regulatory structures. A third method is to infer the additional costs due to a regulatory regime from the elementary-school cost gap between public and Catholic schools.

Compensation Cost Estimates

According to the Bureau of Labor Statistics (2020), elementary-school teachers earned an average of $63,930 annually in 2019, compared with $25,510 for child-care workers. By that benchmark, child-care facilities would need to pay each worker 151% more. Perhaps child-care workers would

---

childhood anxiety and aggression" with "little measured impact on cognitive skills." Kids exposed to the program suffered "worse health, lower life satisfaction, and higher crime rates later in life."

[3] As we saw with "medical" advice related to schooling during the pandemic, teachers' unions would likely influence the regulatory process in the direction of higher wages for teachers and greater costs for families.

[4] One economy of partnerships between churches and childcare is that the church facilities, unlike many other nonresidential locations, would otherwise be underutilized on weekdays.

be required to hold master's degrees, or be represented by unions that could otherwise limit supply as they do with kindergarten teachers.

The input-output tables from the Bureau of Economic Analysis (2017) show that 53 percent of revenue of "child day care services" goes to labor compensation.[5] Therefore increasing labor compensation by 151 percent would add a cost that is 80 percent of baseline revenue.

The Center for American Progress (2021) sponsors a web tool for estimating the relationship between childcare quality and childcare costs. To estimate the effect of BBB's quality regulation on the number of workers per child, I selected the tool's options for "fewer children per teacher," "provide more time for teachers to plan lessons," "make the classroom bigger", and "increase resources for classroom materials." For each of three large states (CA, TX, NY) and the three age levels, I recorded the percentage increase in overall childcare costs due to the combination of those four options. The average of the nine percentages is 17. Applying the 151 percent to these labor-intensity costs as well, BBB could increase childcare costs by 122 percent.[6] For a subsidy-ineligible family with an infant and a child aged four, BBB would be adding about $27,000 per year to its childcare expenses.

Learning from the ACA

President Obama forecast that the Affordable Care Act would save a typical family $2,500 annually in health insurance premiums. The prediction was belied by the economics of the law, which mandated insurance to cover a wider and expensive array of services at the same time that it reduced incentives for consumers to be premium conscious and for insurers to compete on premiums.[7] Under both ACA and BBB, providers are able to pass on much of their costs to federal taxpayers who stand by ready to pay for any gap between costs and what the statute deems as affordable for low-income families. Moreover, as costs increase and some of the subsidy-ineligible families exit the market, the customer base becomes even less cost conscious. The result is even greater costs for those subsidy-ineligible families that remain after the initial exodus.

The ACA subsidies for, and most of its regulation of, individual health insurance took effect in 2014. The Department of Health and Human Services (2017) found that individual health insurance premiums increased 25 percent from 2013 to 2014. They increased another 40 percent from 2014 to 2017. The more recent CEA (2019a) findings found similar results, plus an additional 33 percent increase from 2017 to 2018. The cumulative increase 2013-2018 was therefore 131 percent, which put premiums 102 percent above what they would have been if increasing at an annual rate of 2.7 percent as they had from 2010 to 2013.[8]

[5] 18 percent of revenue goes to "Gross Operating Surplus," 53 percent of which I assume reflects payments for the proprietor's labor.
[6] $(1+0.80)+(1+1.51)*0.17 = (1 + 1.22)$.
[7] See Jaffe and Shepard (2020) for an analysis of how "price-linked subsidies" in the ACA helped increase premiums by making part of the customer base less price sensitive.
[8] https://fred.stlouisfed.org/series/WPS411103

Learning from Public Schools

Public elementary schools (grades K-8) are a longstanding type of childcare that is subsidized, unionized, and heavily regulated. Public schools do not charge tuition, which means that parents of children enrolled bear only part of the costs of operating the school, and then only indirectly through their school district's property-tax policies. On the other hand, public school officials are somewhat accountable for the operating costs they incur because school board members are elected by citizens living in the school district and paying taxes earmarked for their schools. In contrast, much of the costs of BBB childcare would be borne by the far-away federal government that typically translates expenditure into taxes in an opaque way. Elementary schools are also relevant to forecasting the effects of BBB because Section 23001 of the bill links the wages of childcare staff to the wages of elementary-school teachers.

Catholic schools are an important benchmark for public schools because the former are ubiquitous and serve tuition-conscious consumers. In 2007, Catholic elementary-school spending was 4,268 per pupil as compared to 8,683 in public elementary schools.[9] The public-school spending is an increase of 103 percent beyond what Catholic schools spend.

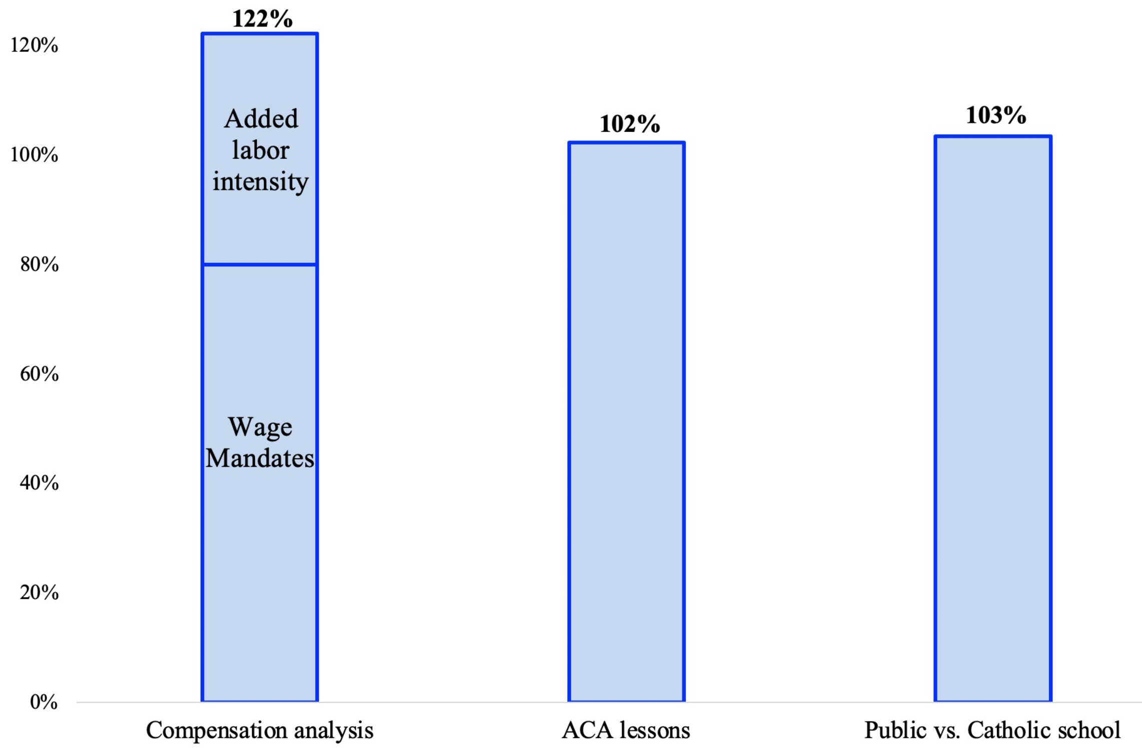
Conclusions

Figure 1 summarizes the results of the three distinct methods. As written, Build Back Better would cause massive inflation in the childcare industry. The inflation will be similar to, and maybe in excess of, 102 percent individual health insurance premium inflation that transpired after the Affordable Care Act went into effect or the 103 percent cost inflation inherent to the public school system.

---

[9] The U.S. Department of Education (2020) reports $9,630 spending per pupil in "elementary and secondary schools." Based on Illinois public-school data (Illinois State Board of Education 2021), I estimate that spending per pupil in public elementary schools is 90 percent of spending per pupil in elementary and secondary public schools combined. The elementary spending cited in the main text is 90 percent of the $9,630. The Catholic school data is from Sander and Cohen-Zada (2020).

Fig 1. How Much will Build Back Better increase Childcare Costs?
Three estimates for subsidy-ineligible families



Bibliography

Baker, Michael, Jonathan Gruber, and Kevin Milligan. "The long-run impacts of a universal child care program." *American Economic Journal: Economic Policy* 11 (2019): 1–26.

Becker, Gary S., Kevin M. Murphy, and Michael Grossman. "The Market for Illegal Goods: The Case of Drugs." *Journal of Political Economy* 114, no. 1 (February 2006): 38–60.

Blase, Brian. "Expanded ACA Subsidies: Exacerbating Health Inflation and Income Inequality." *galen.org.* June 2021. https://galen.org/assets/Expanded-ACA-Subsidies-Exacerbating-Health-Inflation-and-Income-Inequality.pdf.

Center for American Progress. *Why is child care so expensive?* 2021. costofchildcare.org.

Child Care Aware of America. "The U.S. and the High Price of Child Care: An Examination of a Broken System." *childcareaware.org.* 2019. https://info.childcareaware.org/hubfs/2019%20Price%20of%20Care%20State%20Sheets/Final-TheUSandtheHighPriceofChildCare-AnExaminationofaBrokenSystem.pdf.

Council of Economic Advisers. *Deregulating Health Insurance Markets: Value to Market Participants.* Executive Office of the President, 2019a.

Council of Economic Advisers. *The Role of Affordable Child Care in Promoting Work Outside the Home.* Executive Office of the President, 2019b.

Illinois State Board of Education. "Expense Per Pupil (OEPP), Per Capita Tuition Charge (PCTC), and 9 Month Average Daily Attendance (ADA)." *isbe.net.* 2021. https://www.isbe.net/Pages/Operating-Expense-Per-Pupil.aspx.

Jaffe, Sonia, and Mark Shepard. "Price-linked subsidies and imperfect competition in health insurance." *American Economic Journal: Economic Policy* 12 (2020): 279–311.

Mulligan, Casey B. "The Spending Bill Is an Attack on Work and Marriage." *Wall Street Journal*, October 31, 2021: online version.

Sander, William, and Danny Cohen-Zada. "The economics of Catholic schools." In *The Economics of Education*, edited by Steve Bradley and Colin Green, 509–517. London: Elsevier, 2020.

U.S. Bureau of Economic Analysis. "Input-Output Accounts Data." *bea.gov.* 2017. https://www.bea.gov/industry/io_annual.htm (accessed June 21, 2017).

U.S. Bureau of Labor Statistics. "May 2019 National Occupational Employment and Wage Estimates." *bls.gov.* March 31, 2020. https://www.bls.gov/oes/2019/may/oes_nat.htm.

U.S. Department of Education. "Digest of Education Statistics." *ncses.nsf.gov.* May 2020. https://ncses.nsf.gov/indicators/states/indicator/public-school-per-pupil-expenditures.

U.S. Department of Education, National Center for Education Statistics. *Fast Facts: Child care.* 2021. https://nces.ed.gov/fastfacts/display.asp?id=4.

U.S. Department of Health and Human Services. "ASPE Data Point: Individual Market Premium Changes 2013 – 2017." *aspe.hhs.gov.* May 23, 2017. https://aspe.hhs.gov/reports/individual-market-premium-changes-2013-2017.

COMMITTEE
TO UNLEASH PROSPERITY