

U.S. DEPARTMENT OF THE TREASURY

Remarks by Secretary of the Treasury Janet L. Yellen on Shortages in the Child Care System

September 15, 2021

Treasury Report Shows U.S. Child Care System Overburdens, Has Inadequate Supply

Thank you, Madam Vice President, for coming across the street – and, much more importantly, for your kind words about our Treasury team and your leadership on this issue.

Let me also say: Nik Knight, thank you for sharing your story. Economic policymaking is a data-driven exercise, but on issues like child care, we also need to see the humanity beneath the data, and that’s what you’ve given us today.

We didn’t plan this, but today is a very appropriate day for me to participate in this event. Because it turns out, forty years ago on this exact morning – September 15th, 1981 – I was returning to work.

My son Robert had been born over the summer, and by the time the school year rolled around, I was ready to resume teaching again at Berkeley. I needed a babysitter, and I started doing some research. *What was the going rate for child care in the Bay Area?* I asked friends with kids and surveyed child care providers, and when I came to an answer, I called the Classified section of *The Daily Californian* – people still used those back then – and purchased a “help wanted” advertisement, offering “good pay,” the market rate plus a few dollars more per hour. “Job starts on September 15,” I added.

Why a few dollars more? My husband George was an economist too – he still is – and at the time, we were both interested in the topic of “efficiency wages.” Classical economics says that it’s not rational to pay a worker more than the market rate, but we hypothesized it could be. The job might be an important one, for example, and a higher wage could encourage someone to do better work. That’s a completely rational reason to pay someone more, especially if the job is some of the most intimate work there is, which is caring for children.

Our hypothesis proved correct, at least in our own home. The advertisement led us to a babysitter who took wonderful care of Robert while George and I were at work.

But we were fortunate. Our experience with child care was definitely not the norm at the time, and it is far from the norm today. For the vast majority of Americans, the child care industry works in precisely the opposite way it worked for us, which is to say it doesn’t work at all: Those who provide child care aren’t paid well, and many who need it, can’t afford it.

In fact, the report that Treasury is releasing today finds the most parents need child care at the exact moment when they can *least* afford it – at the beginning of their career when their income is lowest. There’s no financing to help them pay. If you walked into a bank, and asked for a daycare or nanny loan, no one would give it to you. Economists call this particular market failure, “a liquidity constraint.” Instead, families have to spend out-of-pocket, and they have to spend a lot. Our estimate is that to get quality child care, the average family would have to spend 13 percent of their income, more than they spend on food.

But even this spending isn't enough to ensure an adequate supply of child care. The United States has a severe child care shortage. Roughly half of Americans live in "child care deserts," areas where there's only one daycare spot for every three kids. The child care centers that do exist are often in disrepair, operating on razor-thin margins, with workers whose wages keep them at the edge of poverty. About ninety percent of child care workers are women, and disproportionately women of color. They make, on average, \$27,000 a year, which puts "child care worker" in the bottom two percent of occupations. Many rely on social services to make ends meet.

The free market works well in many different sectors, but child care is not one of them. It does not work for the caregivers. It does not work for the parents. It does not work for the kids. And because it does not work for them, it does not work for the country.

Child care is a textbook example of a broken market, and one reason is that when you pay for it, the price does not account for all the positive things it confers on our society. An enormous body of economic literature finds that kids with access to quality child care end up in school longer and in higher-paying jobs afterward. When we underinvest in child care, we forego that; we give up a happier, healthier, more prosperous labor force in the future.

In fact, we forego one today too. The Vice President is exactly right: The lack of child care leads so many parents – mostly mothers – to drop out of the workforce. It was true even before the pandemic. One study found that from 2018 to 2019, 2 million parents of young children had to quit a job, not take a job, or greatly change their job because of problems with child care. (Indeed, looking back, I am not sure whether I would be here, in this job today, if I didn't have an excellent babysitter 40 years ago.)

It's past time that we treat child care as what it is – an element whose contribution to economic growth is as essential as infrastructure or energy. And that's exactly what President Biden and Vice President Harris have done in designing their economic proposals, many of which are now moving through Congress during the reconciliation process. Enacting them is the single most important thing we can do to build a stronger economy over the next several decades.

Thank you all for coming today, and if you have a moment, please do take a look at “The Economics of Child Care” report. It's a worthwhile read.

[A link to the full report is here.](#)

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