

An Imperfect Labor Market Recovery

AN ESSAY BY BETSEY STEVENSON (MAY 11, 2022)

Both GDP and the labor market have recovered from the pandemic-induced recession much more rapidly than many predicted. In less than two years following the worst employment decline since the Depression, unemployment fell to 3.6%. In comparison, it took more than eight years for unemployment to fall below 4% following the 2008 recession. Real GDP recovered to its 2019 fourth quarter level by the middle of 2021 and was near most estimates of potential GDP by the end of 2021. Perhaps most surprising is that GDP recovery has been so robust despite the ways the pandemic reduced potential GDP, at least temporarily, with increased worker illness and death, lower labor force participation, supply chain disruptions, and lower business investment.¹⁸

The economic recovery was undoubtedly fueled by record high government spending that kept families out of poverty and prevented millions from facing financial hardship. Wages were completely replaced by unemployment insurance and millions of workers who would not have qualified for benefits because of inadequate earnings or self-employment were covered. Long lines of people waiting to collect from food banks in the early months of the pandemic disappeared as robust safety nets ensured that families could afford to buy food and pay rent. Broad payments—known as economic impact payments—provided assistance to nearly every person in the United States regardless of need. Many families used these payments to pay down debt and build their savings account. The result has been a demand-fueled recovery.

The downside of the demand-fueled recovery has been that demand has accelerated faster than supply could respond, particularly since consumer spending patterns have not followed pre-pandemic trends. The most obvious threat to the recovery is rising prices, with inflation at 8.3% over the 12 months ending in April 2022. Inflation has been concentrated in the goods producing sector, energy prices, and housing. The concern is that the primary source of growth over the past half century in the United States has been in the labor-intensive service sector and that is the sector that has yet to recover.

While GDP has fully recovered and supply is struggling to keep up with demand, employment has yet to fully recover. There were 1.3 million fewer jobs as of April 2022 and the employment to population ratio remains 1.2 percentage points below its pre-pandemic level. And yet 6 million people who are out of the labor force report wanting a job now, which is roughly a million people more than pre-pandemic levels.

Job openings are at a record high, with companies posting to fill more than 11 million job openings.¹⁹ This is more than three times the number of job openings four years into the recovery from the 2008 recession and roughly 50% more than the number of job openings available prior to the pandemic.

Will workers return to the labor market to fill these openings? Whether the labor market returns to its pre-pandemic employment will ultimately determine the shape

¹⁸Fernald, J., & Li, H. (2021). *The Impact of COVID on Potential Output*. Federal Reserve Bank of San Francisco Working Paper 2021-09. <https://doi.org/10.24148/wp2021-09>; Furman, J., & Powell, W. (2022, January 27). *The economy grew faster than expected in 2021, but the pandemic transformed its composition*. Peterson Institute for International Economics. <https://www.piie.com/blogs/realtime-economic-issues-watch/us-economy-grew-faster-expected-2021-pandemic-transformed-its>.

¹⁹The Bureau of Labor Statistics Job Openings and Labor Turnover Survey began in 2000.

of the economy: in the near-term by impacting the rate of inflation in services over the next few years and in the longer-term by determining the level of potential GDP.

This essay explores the broad shifts in the U.S. economy, the trends in pre- and post-pandemic employment, and the policy challenges that the pandemic exposed. Many of these challenges pre-date the pandemic. Low labor force participation has held back economic growth and presented challenges to the economy for decades. Solving the problem of low labor force participation requires investing more in our youngest citizens, including prioritizing, and supporting caregiving work. For families, the urgent need is access to more reliable, affordable, and higher quality childcare. More broadly, the future of the U.S. economy will ultimately depend on how we support and nurture workers and their talents, and that in turn depends on how we share the benefits of economic growth.

RECKONING WITH FUNDAMENTAL SHIFTS IN THE ECONOMY

The pandemic forced a reckoning with two fundamental shifts in the U.S. economy. The first shift is that most of the expansion of the U.S. economy over the past fifty years has been in the service sector. There are currently roughly 2 million fewer people working in the goods-producing sector compared to January 1970. In comparison, the service-providing sector has grown by more than 72 million jobs. Over that period the goods producing sector went from employing nearly 1 in 3 workers in the economy to only 1 in 8 workers.

However, the goods producing sector remains the most sensitive to business cycles. In a typical recession, job loss is concentrated in the goods-producing sector and not all of

those jobs return. In contrast, the upward trend in service-sector job growth combined with the sector's less cyclical nature has meant fewer jobs lost in recent recessions. However, pandemic job loss was concentrated in the service sector and hit some subsectors, such as health and education services, that have typically experienced little job loss during recessions.

The second fundamental shift is that women's role in the labor force and in the home has undergone a profound shift. Women's labor force participation surged in the last few decades of the 20th century. While women have yet to achieve equality in every aspect of the economy, by the end of 2019, women held more than half of the jobs in the economy. Women have more education than their male counterparts and have closed work experience gaps with men.

As women's working lives shifted, so did their personal lives. Women marry and have children at older ages and many women are single parents. The result of these changes is that most children are raised in homes in which all parents work.²⁰ Mothers are primary earners in 40 percent of families, contributing at least half of total household income.²¹ Forty percent of families have children under age 18 in the home, and more than one in ten adults provide care to another adult who needs caregiving.²²

The two trends intersect because women are the majority of service-sector workers in the United States. As demand for service-sector workers has risen, particularly for caregiving positions, women have stepped into the labor force to take the jobs. In every past recession, women's employment has recovered faster than men's as service-sector job growth has accelerated in the recovery. Historically, faster relative growth

²⁰The Council of Economic Advisers, 2014, "Nine Facts About American Families and Work" obamawhitehouse.archives.gov/sites/default/files/docs/nine_facts_about_family_and_work_real_final.pdf.

²¹Glynn, S. J. (2019, May 10). *Breadwinning Mothers Continue To Be the U.S. Norm*. Center for American Progress. <https://www.americanprogress.org/issues/women/reports/2019/05/10/469739/breadwinning-mothers-continue-u-s-norm/>.

²²Betsy Stevenson and Isabel V. Sawhill "Paid Leave for Caregiving: An Introduction" November 2020 AEI Brookings Paid Leave Project.

in women's employment offset the slow return of men to work and allowed the economy to recover more quickly overall.²³ (Figure 1) Roughly two-thirds of the job growth since the start of the 2008 recession were jobs that went to women. In the five years prior to the pandemic, women drove the rebound in the prime-age labor force participation rate.²⁴ With the growth in women's employment came growth in the number of childcare workers. But unlike prior cycles, in the current recovery it is women's employment—particularly employment in the care sectors—that has lagged. The question is whether this lag reflects changes in women's preferences that have shifted their labor supply. Alternatively, it may reflect shifts in labor demand as the service-sector adjusts from an unprecedented shake up.

A SERVICE-SECTOR SHAKE UP

The pandemic was not a normal cyclical downturn. The virus-driven downturn was caused by changes in behaviors to avoid the virus and public health measures designed to reduce illness and death. The result was a downturn that ravaged jobs in the service sector. Service-sector employment fell by 18.5 million jobs, while employment in the goods-producing sector declined by 2.5 million jobs. In contrast, between January 2008 and February 2010, employment declined by 19% in the goods sector, while employment in the service sector declined by 4.8%.

This unique nature of pandemic job loss caused the greatest job loss among women, particularly lower-income women and women of color.²⁵ Women's employment fell more than men's because women hold the majority of the jobs in the sectors that experienced the largest declines. Employment in leisure and hospitality fell by half between February

and April 2020 and 3 out of every 5 jobs lost were held by women. Similarly, nearly 3 million jobs were lost in education and health services and 4 out of every 5 jobs lost were held by women.²⁶ Education and health services employs a quarter of all women and had never experienced a decline in employment throughout a recession.

Beyond the unique nature of who was impacted, this is the first time the service sector has experienced such widespread adjustment. To keep pace with its historical trajectory of job growth over the past several decades, the service sector requires adding even more jobs than it lost to constitute a full recovery. Between January 2010 and February 2020, the service sector expanded by 19 million jobs. Projecting this rate of job growth through to April 2022 shows a shortfall of 5 million service-sector jobs relative to this trend. (Figure 2)

Why have service sector jobs failed to recover? These sectors have some of the greatest shortfalls in employment relative to the pre-pandemic trend (see Figure 3). The high level of job vacancy rates suggest that the problem is labor supply. Perhaps workers no longer want to work in leisure and hospitality or in education and health services. If this were the case, one would expect to see rapid wage and subsequent price increases as businesses struggle to meet demand. However, as of January 2022, 12-month price increases in most services were roughly 2% or lower. In April 2022, the price of education and communication services had risen 1.7% over the preceding twelve months. Inflation in recreational services had picked up to 4.4% over the preceding twelve months while the price of medical care services had risen 3.5%. These price increases were well below the overall rate of 8.3%.

²³U.S. Bureau of Labor Statistics. (n.d.) *Employment Level – Women [LNS12000002]*. Retrieved from FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/LNS12000002>.

²⁴Tüzemen, D., & Tran, T. (2019, December 18). *Women Are Driving the Recent Recovery in Prime-Age Labor Force Participation*. Federal Reserve Bank of Kansas City. <https://www.kansascityfed.org/research/economic-bulletin/women-driving-recent-recovery-labor-force-participation-2019/>.

²⁵Stevenson, B. (2020, July). *The Initial Impact of COVID-19 on Labor Market Outcomes Across Groups and the Potential for Permanent Scarring*. The Hamilton Project. https://www.hamiltonproject.org/assets/files/Stevenson_LO_FINAL.pdf.

²⁶Stevenson, B. (2020, July). *The Initial Impact of COVID-19 on Labor Market Outcomes Across Groups and the Potential for Permanent Scarring*. The Hamilton Project. https://www.hamiltonproject.org/assets/files/Stevenson_LO_FINAL.pdf.

One explanation is simply that consumer demand for services has not yet fully recovered. Surveys by Morning Consult still find that a third of people are not comfortable going on vacation and a quarter are not comfortable dining in a restaurant or café.²⁷ While goods expenditures were 9% above trend in 2021, services expenditures were 2.7% below trend.²⁸ If this shift toward goods and away from services reverses as the pandemic further recedes, then it creates a risk that demand for services may outstrip the ability of service suppliers to meet that demand. Without an offsetting shift in labor supply from workers ready to return to in-person work, the result of a rise in demand for services will likely be rising prices. In short, while the signs of a tight labor market have appeared, the labor market risks being even tighter in the coming months.

Alternatively, service-sector employers may have learned to make do with fewer workers. Even in sectors that largely shifted to work from home, such as financial services workers, job growth has been below the pre-pandemic trend (see Figure 4). As the pandemic-induced recession was the first massive disruption in the service sector, employers have had the opportunity to question the way in which they organize tasks. As some of these employers make technological changes, such as adopting self-service kiosks at grocery stores and restaurants, fewer workers may be needed.

While reorganization may be driving some of the service sector employment lag, it's not the sole driver. Within services, it is the care sector, a sector in which people are difficult to replace or streamline, that has seen some of the slowest recovery in employment (see Figure 5). Adults and children who need care depend on people who can devote

attention to them. While the care industry languishes, families are left providing care on their own, often disrupting their own careers. To better understand the challenges of the care sector, it is useful to take a closer look at the fundamental shift of women's role in the labor force.

WOMEN'S RISING ROLE IN THE LABOR FORCE

When women first began entering the labor force in droves in the 1970s, their employment was often a small part of household earnings. Between 1970 and 1999, the labor force participation rate of prime age women rose from 50 percent to 77 percent. Over the same time period, the labor force participation rate of prime age men fell by 4 percentage points. The decline in male participation was overshadowed by the dramatic rise of women. However, on average, female workers in the 20th century had less work experience and less education than their male contemporaries and earned substantially less than men. In the early 1990s, women's educational attainment began to surpass that of men, leading young women to have more formal training than young men. In the decades since, women's education has continued to exceed that of men and women are now the most educated workers in the U.S. economy.

Throughout the 21st century, more education, deeper work experience, and shifting family patterns led women to close gender gaps in work experience and reduce gaps in earnings. Both men's and women's labor force participation declined in the first 15 years of the 21st century. Between 2000 and 2015, prime age male labor force participation declined 4 percentage points and prime age female labor force participation declined 3 percentage points. However, between 2015 and 2020 prime age women's labor force participation had fully recovered to

²⁷Morning Consult. (n.d.). Tracking the Return to Normal. <https://morningconsult.com/return-to-normal/>.

²⁸Furman, J., & Powell, W. (2022, March 4). US gained surprising number of jobs in February but wage growth was nearly flat. Peterson Institute for International Economics. <https://www.piie.com/blogs/realtime-economic-issues-watch/us-gained-surprising-number-jobs-february-wage-growth-was>.

the highs seen at the end of the 20th century. While prime age male labor force participation increased during this period, it did so at a much slower rate and was far from fully recovering.

As women deepened their connection to work, their fertility declined, and they postponed having children. But the cohort-level decline in fertility began to turn around about a decade and a half ago. For the women in their mid-to-late 40s as the pandemic began, completed fertility was higher than it had been for similarly aged women for much of the 21st century. Both the average number of children born and the probability of having at least one child rose compared to the previous generation.²⁹

These recent new mothers were also more likely to continue working outside the home. In 2019, the labor force participation of mothers of children 6 years old and younger hit a new high.³⁰ Mothers with kids in the home as the pandemic hit were older and had more education and work experience than mothers with kids in the home during previous recessions. The culmination was a large share of families relying on childcare. Stepping out of the labor force for these mothers was a less viable option, and yet, for some of them, it was the only option available.

AN ONGOING CRISIS IN CAREGIVING

The pandemic shone a spotlight on the problems of childcare and the failure of the federal government to adequately invest in children. The U.S. economy has evolved in a way

that makes childcare central to its functioning, and yet families have struggled to find affordable, high-quality childcare for decades. This failure impacts women's choices about whether and when to have children, as well as their decision about whether to work when they have young children. In turn, these decisions ultimately shape the trajectory of women's lives and therefore of our society.

The pandemic decimated the childcare industry, and the market is still far from recovering to pre-pandemic levels of access. Two-thirds of childcare centers had closed by April 2020 and the number of child-care workers fell by 34 percent.³¹ By April 2022, employment in childcare was still struggling to recover and was 11 percent below February 2020 levels. Research has found that childcare is particularly sensitive to economic downturns—with availability falling sharply with the unemployment rate and then recovering more slowly than the rest of the economy.³²

Parents of school-aged children were also affected, as schools around the country turned to remote learning, and many remained remote or partially remote for more than a year.³³ More than two-thirds of children live in households in which all parents work.³⁴ For most parents, school is a primary provider of childcare, offering roughly 30 hours a week of not only education but also supervision of children. The pandemic highlighted the dual purpose of schools and childcare: educating and caring for children.

²⁹Barroso, A. (2021, May 7). *With a potential 'baby bust' on the horizon, key facts about fertility in the U.S. before the pandemic*. Pew Research Center. <https://www.pewresearch.org/fact-tank/2021/05/07/with-a-potential-baby-bust-on-the-horizon-key-facts-about-fertility-in-the-u-s-before-the-pandemic/>.

³⁰Bureau of Labor Statistics, Current Population Survey https://www.bls.gov/bls/data_finder.htm.

³¹Lee, E. K., & Parolin, Z. (2021). *The Care Burden during Covid-19: A National Database of Child Care Closures in the United States*. *Socius*. <https://doi.org/10.1177/23780231211032028>; U.S. Bureau of Labor Statistics, All Employees, Child Day Care Services [CES6562440001], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CES6562440001>, April 14, 2022.

³²Brown, J. H., & Herbst, C. M. (2021). *Child Care over the Business Cycle*. IZA Institute of Labor Economics. <https://ftp.iza.org/dp14048.pdf>.

³³Bauer, L., Dube, A., Edelberg, W., & Sojourner, A. (2021, June 3). *Examining the uneven and hard-to-predict labor market recovery*. The Hamilton Project, Brookings Institution. <https://www.brookings.edu/blog/up-front/2021/06/03/examining-the-uneven-and-hard-to-predict-labor-market-recovery/>.

³⁴U.S. Census Bureau. (2021). American Community Survey, Table B23008: Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents. <https://data.census.gov/cedsci/table?q=B23008&tid=ACSDT5Y2020.B23008>.

Parents need their children to have a safe and enriching place to learn and develop while they are at work.

Research has found that childcare-related constraints led to more women than men losing jobs during the pandemic.³⁵ However, childcare disruptions to work affected more than whether parents were able to work. A survey I conducted in the summer of 2021 found that childcare responsibilities during the COVID-19 crisis impacted the employment outcomes of 59% of parents.³⁶ While fathers were less likely than mothers to leave employment, they were more likely than mothers to point to childcare constraints as a reason for turning down a promotion, changing employment, or pausing further education or training. Mothers also made these types of sacrifices in addition to leaving jobs. Although these other choices do not show up as a smaller labor force, they can lead to a lower potential output for the U.S. economy and lower lifetime earnings for many parents.

Much of the press around childcare challenges has focused on the impact on women. However, the decades-long shift toward greater equality in the home has increased fathers' responsibilities for child and eldercare. As we entered the pandemic, dads had become more likely to be stay-at-home parents and overall dads were dedicating more time to parenting activities compared to previous generations.³⁷ Both men and women need access to more affordable and stable childcare as well as the flexibility in their jobs to effectively balance their caregiving and work responsibilities.

Long before the pandemic, the tensions between work and family were increasing—and increasingly impacting fathers. A 2014 survey found that 49% of parents had passed up a job because it conflicted with family obligations.³⁸ A 2016 survey by the Society of Human Resource Managers found that 46% of men and 43% of women reported facing work–family conflict on a regular basis.³⁹

While many men have increased the amount of childcare, eldercare, and household tasks they do, the fundamentally gendered nature of both formal and informal caregiving has not gone away. The men who seem to be stepping most easily into caregiving roles at home are men who tend to be more educated and have strong labor force attachment. And yet, the men who have become disconnected from work are not stepping up to fill the care giving needs of their family.⁴⁰ Men out of the labor force tend to point to their own health or inability to find work as a reason they are out of the labor force, while women are more likely to cite care-giving responsibilities as the primary reason they are out of the labor force.²¹

Our failure to adapt to a modern society in which caregiving plays a more central economic role has limited men's willingness to provide care to their own families and limited their willingness to enter caregiving fields. Over the past 50 years, strong job growth has occurred in occupations that are perceived as “women's work” such as health and educational services. This growth has facilitated women's rising labor

³⁵Fairlie, R. W., Couch, K., & Xu, H. (2021). *The Evolving Impacts of the Covid-19 Pandemic On Gender Inequality in the U.S. Labor Market: The Covid Motherhood Penalty*. NBER Working Paper. https://www.nber.org/system/files/working_papers/w29426/w29426.pdf; Heggeness, M. (2020). Why Is Mommy So Stressed? Estimating the Immediate Impact of the COVID-19 Shock on Parental Attachment to the Labor Market and the Double Bind of Mothers. Institute Working Paper 33. Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/research/institute-working-papers/why-is-mommy-so-stressed-estimating-the-immediate-impact-of-the-covid-19-shock-on-parental-attachment-to-the-labor-market-and-the-double-bind-of-mothers>.

³⁶Survey conducted between May 27 and July 7, 2021 using RIWI's Random Domain Intercept Technology, a patented, machine-learning technology that delivers anonymous opt-in surveys to Web users who are surfing online. Data published in Stevenson, B. (2021). Women, Work, and Families: Recovering from the Pandemic-Induced Recession. The Hamilton Project. https://www.brookings.edu/wp-content/uploads/2021/09/20210929_Hamilton_stevenson_womenWorkFamilies.pdf.

³⁷Livingston, Gretchen and Kim Parker (2019) “8 Facts About American Dads” <https://www.pewresearch.org/fact-tank/2019/06/12/fathers-day-facts/>.

³⁸Harris Poll of 4,096 U.S. adults conducted online May 27-30, 2014. Reported in Council of Economic Advisers. (2014). *Eleven Facts about American Families and Work*. https://obamawhitehouse.archives.gov/sites/default/files/docs/eleven_facts_about_family_and_work_final.pdf.

³⁹Society for Human Resource Management. (n.d.) SHRM's Effective Workplace Index: Creating A Workplace That Works For Employees And Employers. <https://www.shrm.org/hr-today/trends-and-forecasting/special-reports-and-expert-views/Documents/SHRM-NSCW-Effective-Workplace-Index-Summary.pdf>.

⁴⁰Stevenson, Betsey (2016, December). *Manly Men Need to Do More Girly Jobs*. Bloomberg.

⁴¹Dawson Ulrich, Laura Q1 2021 “Male Labor Force Participation: Patterns and Trends” Federal Reserve Bank of Richmond Econ Focus. https://www.richmondfed.org/publications/research/econ_focus/2021/q1/district_digest.

force participation and has likely contributed to men's declining labor force participation given their reluctance to enter these fields. The problem for men is not only do these fields have cultural connotations of being feminine, but they also have the reality of being low-paid with few benefits and little access to pathways for promotion. The result is that of the 5 million jobs added in education and health services between 2010 and 2020, 3 out of 4 went to women.

IT IS TIME FOR POLICY CHANGE

The United States has failed to adapt to the changing workforce's needs, and the pandemic revealed how this failure has created weaknesses in the U.S. economy. When all adults in a household work, there is a greater need for flexibility so that workers can address the responsibilities and hurdles of managing one's life outside of work. When all adults work, it is more difficult for households to insure themselves as there are no longer any residual workers in the household. When all adults work, those who provide care to children or adults may face difficult trade-offs between providing care and working to earn a living.

These forces have left families struggling with an inadequate safety net and high levels of stress. All OECD countries—except the United States—provide paid maternity leave, and half provide paid paternity leave.⁴² Most OECD countries ensure that workers have access to paid sick leave in addition to their annual vacation leave.⁴³ The United States is the only advanced economy that does not ensure that workers have access to paid vacation.⁴⁴ A common concern in U.S. policy discussions is that government support will reduce incentives to work. The reality is that Americans are less

likely to work precisely because they lack other countries' generous social supports. U.S. labor force participation for both men and women are below the OECD average for 25 – 64-year-olds and well below participation rates in countries with larger safety nets and greater support for working families like Canada, Norway, Sweden, New Zealand, the United Kingdom, and Australia.⁴⁵

More specifically, research has shown that the failure to adopt such policies has led the United States to fall behind in women's labor force participation. In the latter half of the 20th century, the United States had one of the highest female labor force participation rates of any OECD country. Yet, in the ensuing decades, the U.S. rank has fallen to near the bottom among 22 OECD countries.⁴⁶ The difference is that many OECD countries have expanded family friendly policies including parental leave and subsidized, high-quality childcare.

Childcare in the United States suffers from being both unaffordable for parents and under compensated for workers. In 2020, the median childcare worker earned just \$12.24 an hour, meaning that half of childcare workers make less than that. Children need committed professionals to provide care and skill development. But few people have the luxury of gaining training in early childhood education and committing to the profession for \$12 an hour. While the number of childcare workers had grown prior to the pandemic, that growth had been insufficient to keep up with rising demand. Moreover, there is a high level of turnover in the childcare workforce, which is a typical consequence of low wages.⁴⁷ The cost

⁴²OECD. (2016, March). *Parental leave: Where are the fathers? Men's Uptake of Parental Leave Is Rising but Still Low*. OECD Policy Brief. <https://www.oecd.org/policy-briefs/parental-leave-where-are-the-fathers.pdf>.

⁴³Raub, A., Chung, P., Batra, P., Earle, A., Bose, B., Jou, J., de Guzman Chorny, N., Wong, E., Franken, D., & Heymann, J. (2018). *Paid Leave for Personal Illness: A Detailed Look at Approaches Across OECD Countries*. WORLD Policy Analysis Center. https://www.worldpolicycenter.org/sites/default/files/WORLD%20Report%20-%20Personal%20Medical%20Leave%20OECD%20Country%20Approaches_0.pdf.

⁴⁴Maye, A. (2019, May). *No-Vacation Nation, Revised*. Center for Economic and Policy Research. <https://cepr.net/images/stories/reports/no-vacation-nation-2019-05.pdf>.

⁴⁵<https://data.oecd.org/emp/labour-force-participation-rate.htm>.

⁴⁶Blau, F. D., Kahn, L. M. (2013). *Female Labor Supply: Why is the US Falling Behind?* National Bureau of Economic Research. <https://www.nber.org/papers/w18702>.

of low wages and high turnover is borne by the children for whom stability and consistency in care help build socio-emotional skills that lead to better life outcomes.

The challenge for parents is that what they can pay is limited by what they themselves earn. In more than half of states, the cost of full-time childcare exceeds the cost of in-state college tuition.⁴⁸ Among those who use formal childcare, one survey found nearly 6 out of 10 parents plan to spend more than \$10,000 on childcare in 2021, which was roughly the cost of center-based care in 2020.⁴⁹ However, most parents cannot afford to pay \$10,000 a year on childcare, and the result is parents who cannot afford to work. Nine out of 10 parents are considering reducing hours, changing jobs, or leaving the workforce to help cut their childcare costs.⁵⁰ In another survey, a quarter of fathers and 22% of mothers report wanting to reduce their working hours permanently compared to prior to the pandemic, while an additional 17% of fathers and 13% of mothers want to pursue a less demanding job.⁵¹ Childcare costs are going to rise in the coming years. The question will be whether it pushes more parents out of the labor force or whether policymakers help to ensure affordability and access to high quality care.

AFFORDABLE, HIGH QUALITY CHILDCARE AND EDUCATION DETERMINES FUTURE ECONOMIC GROWTH

Parents want high quality affordable childcare because they realize that it allows them to raise their household's income through work and it develops skills in their children

that research has shown lead to higher lifetime earnings.⁵² Research suggests that expanding early learning initiatives would create benefits to society of nearly \$9 for every \$1 invested, about half of which comes from higher earnings among the children who receive these investments.⁵³ If the returns are so great on early childhood education, why don't parents make these investments themselves? Research shows that it is their inability to afford high quality care and difficulty identifying quality among programs that limit kids' access to these important investments.⁵⁴

The distinction between an inability to afford rather than an unwillingness to pay is important: parents would invest more in their children if they could. Parents with high incomes do invest more in their children. Lower income parents are aware of the benefits, but they simply cannot afford the high cost of high-quality programs. The result is unequal investment in children that fundamentally erodes the level playing field necessary for a competitive market economy to thrive.

CONCLUDING THOUGHTS

Despite the lack of family-friendly policies like affordable childcare and paid parental leave, the United States has relied on women to fuel economic growth for decades. It is long past time for policy to recognize and support the contributions of women and the role of caregiving in society.

Economic growth comes from combining new ideas with workers, their energy and skills, and tools. Our inadequate support for families and children is failing

⁴⁷Bassok, D., Fitzpatrick, M., Loeb, S., and Paglayan, A. S. (2013). The early childhood care and education workforce from 1990 through 2010: Changing dynamics and persistent concerns. *Education Finance and Policy*, 8(4), 581-601. https://doi-org.proxy.lib.umich.edu/10.1162/EDFP_a_00114.

⁴⁸Economic Policy Institute. (2020). *Child care costs in the United States*. <https://www.epi.org/child-care-costs-in-the-united-states/>.

⁴⁹Child Care Aware. (2022). *Demanding Change: Repairing our Child Care System*. <https://www.childcareaware.org/demanding-change-repairing-our-child-care-system/#Affordability>; Care.com. (2021, June 10). This is how much child care costs in 2021. <https://www.care.com/c/how-much-does-child-care-cost/>.

⁵⁰Care.com. (2021, June 10). *This is how much child care costs in 2021*. <https://www.care.com/c/how-much-does-child-care-cost/>.

⁵¹Care.com. (2021, June 10). *This is how much child care costs in 2021*. <https://www.care.com/c/how-much-does-child-care-cost/>.

⁵²Havnes, T., & Mogstad, M. (2011). No Child Left Behind: Subsidized Child Care and Children's Long-Run Outcomes. *American Economic Journal*, 3(2), 97-129. <https://www.aeaweb.org/articles?id=10.1257/pol.3.2.97>.

⁵³Inequality in Early Childhood and Effective Public Policy Interventions. (2016). *In Economic Report of the President* (pp. 153-206). <https://www.govinfo.gov/content/pkg/ERP-2016/pdf/ERP-2016-chapter4.pdf>.

⁵⁴Gordon, J., Hebst, C. M., Tekin, E. (2018). *Who's Minding the Kids? Experimental Evidence on the Demand for Child Care Quality*. National Bureau of Economic Research. <https://www.nber.org/papers/w25335>.

to invest in the human capital of workers. Research has shown that young children who grow up in stable homes, with adequate incomes, and get access to developmentally appropriate skills development throughout their lives grow up to be more productive workers. By focusing more attention on ensuring that the needs of children are met, policymakers can foster economic growth in the short run by allowing their parents to better devote their energy to paid work. And it fosters economic growth in the long run by ensuring that the next generation of workers are even better prepared to be productive workers.

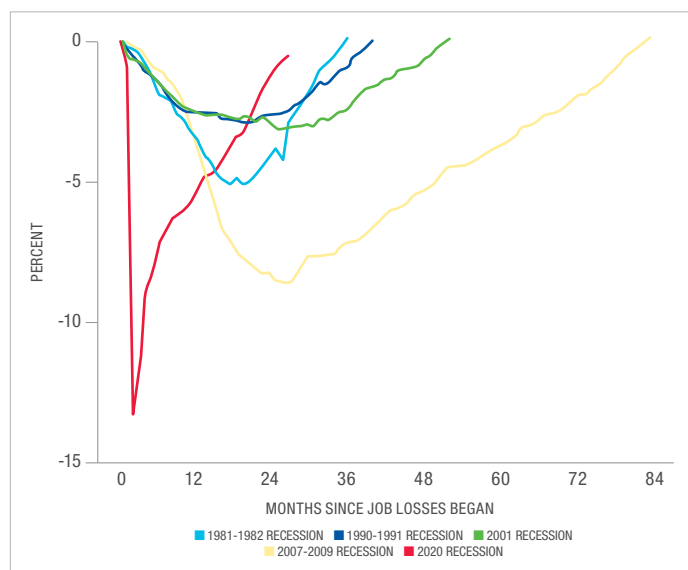
Ultimately, what matters for societal well-being is not overall economic growth, but economic growth per capita. And even then, we should not always seek to maximize GDP per capita. Reducing working hours to take time to enjoy life is consistent with maximizing well-being even if it does reduce GDP per capita. A society that has more space for all workers to take time off to look after their loved ones, care for themselves when they are sick, and even go on vacation builds a richer society in

terms of well-being and perhaps even in terms of productivity. The current approach in the United States of giving only the most highly compensated workers access to these “luxuries” has contributed to rising inequality. Moreover, it may be contributing to the high rates of burnout that American workers are reporting and the reluctance of workers in the bottom half of the income distribution to participate in the labor force.

People are at the heart of a society. Our youngest people depend on both their families and society to help them thrive. It is time for us to take advantage of the riches that the United States has amassed to ensure that our children do not go hungry, that our families have the support they need to focus on their work, and that they can care for their loved ones with less stress. Only with these supports can we ensure that the next generation has every opportunity to build their social, emotional, and cognitive skills. Policy changes are needed to better support working families and adapt to the modern workforce. These adjustments are ultimately essential to fostering inclusive economic growth.

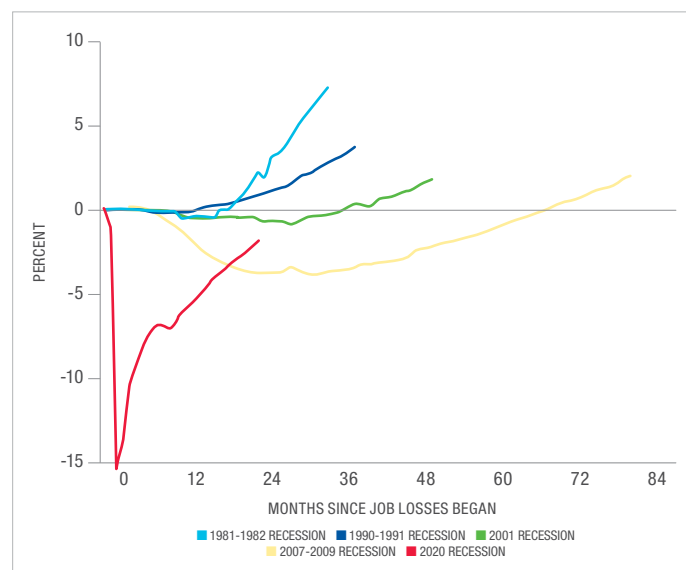
Figure 1: Growth In Jobs Held by Women Has Previously Led Recoveries

Employment of Men Relative to Pre-Recession Peak



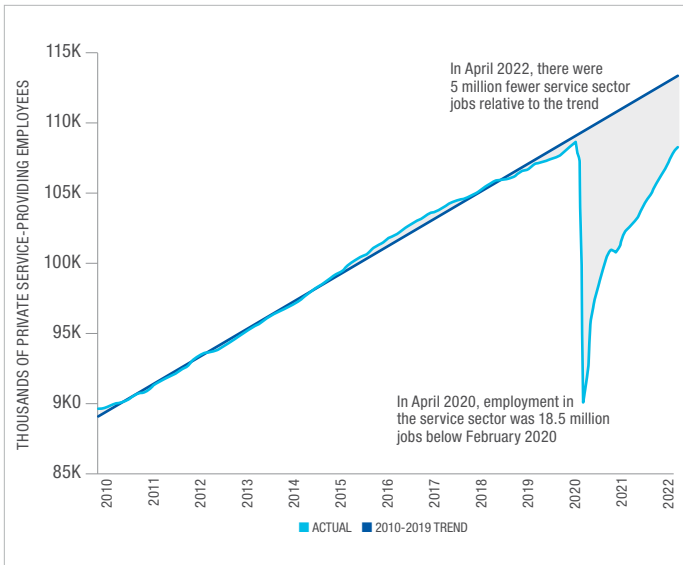
Source: U.S. Bureau of Labor Statistics. Created with Datawrapper.

Employment of Women Relative to Pre-Recession Peak



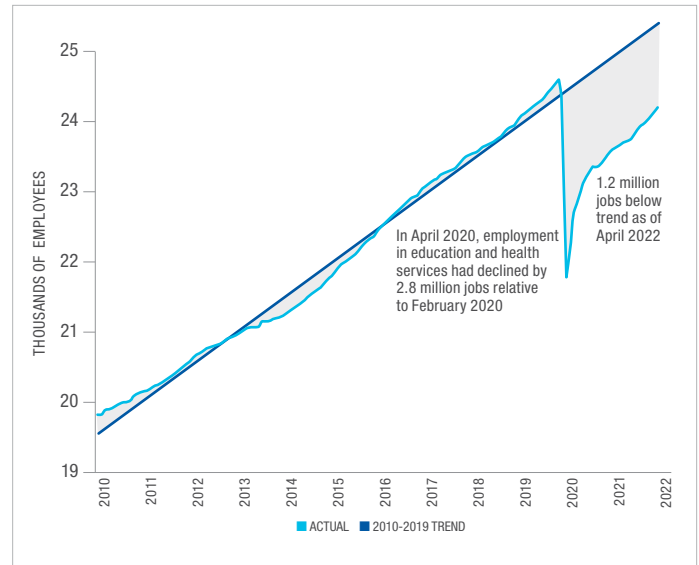
Source: U.S. Bureau of Labor Statistics. Created with Datawrapper.

Figure 2: A Large Loss Of Service-Sector Jobs



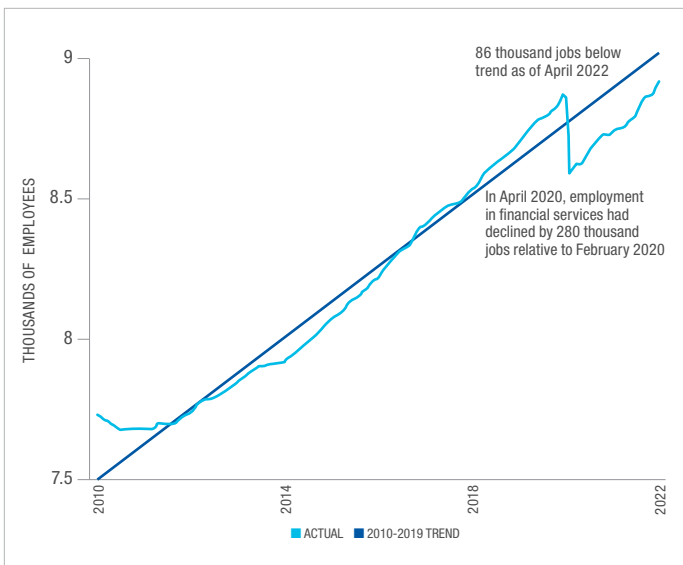
Source: BLS. Get the Data.

Figure 3: Number of Health and Education Services Workers



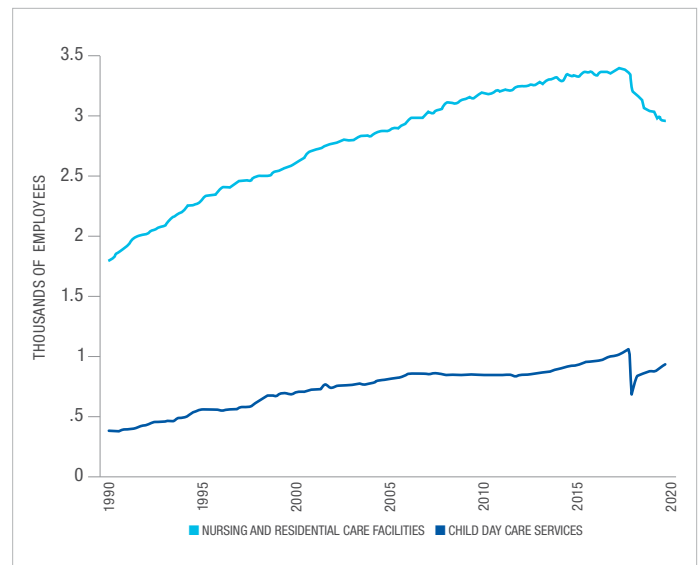
Source: BLS. Created with Datawrapper.

Figure 4: Number of Financial Services Workers



Source: BLS. Created with Datawrapper.

Figure 5: Care Industries are Languishing



Source: U.S. Bureau of Labor Statistics. Created with Datawrapper.