

Transforming Child Care: The Case for Sustainable Federal Funding

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Introduction

Across the country, families are straining to afford child care, on average spending \$13,128 a year per child. This cost consumes roughly 10 percent of household earnings for the median dual-earner households, and a staggering 35 percent of earnings for the median single-income household.¹ In the absence of deep federal investment to support child care affordability, some states and the District of Columbia are raising revenue to fill the gaps. The federal government should be investing billions to make care affordable and accessible for families nationwide, not abdicating its role.

PERCENT OF HOUSEHOLD INCOME SPENT ON CHILD CARE



10%

for dual-income households



35%

for single-income households

On its own, the private child care system has proven unable to provide child care at a cost that all families can afford while paying educators a living wage.² Relying on private financing and very limited public subsidies, child care providers across the country are struggling to stay open, operating on very thin profit margins.³ Meanwhile, families are straining to afford to care.

The cost of care does not have to be this high.⁴ Child care is a public good, and investing in it adequately, as our peer nations do, would yield important benefits to children, their caregivers, and the economy as a whole.⁵ But, for generations, the federal government has underfunded and devalued child care and other forms of care. This is in large part because when Congress passed precedent-setting legislation around the treatment of care, domestic care work was mostly done by Black women.⁶ In the 1930s, as a direct result of racism and sexism, New Deal legislation codified lower standards for these domestic workers, excluding them from federal benefits and protections.⁷

The federal government can, and should, set a different precedent by treating and funding child care as a highly valued public good that is essential to the economic and social well-being of the country. Dedicating recurring funding that grows with demand to fund child care for all children is critical to advancing public well-being, bolstering the economy, and reversing a long history of inequitable economic and health outcomes across racial lines.

The Private Child Care Sector's Built-In Pricing Problem

The child care system in the United States faces an economic bind: Providers cannot offer high-quality child care at a price that families can afford while also paying educators a living wage.⁸ This is because child care is expensive to deliver. The single-biggest cost is labor, because child care is an inherently labor-intensive service: Children require close, attentive supervision, and there is a limit on the number of children one person can safely care for at a time. And while most providers cannot raise prices high enough to cover labor costs without their becoming unaffordable for families, they also cannot cut labor costs without driving wages or quality of care down. Compensation for early childhood educators is already among the lowest five percent of all occupations, which contributes to high staff turnover rates.⁹ Low compensation and high turnover also constrain the supply of child care options, which also drives up prices.¹⁰ All of these factors create a business model with very slim profit margins, which also limits supply of child care.¹¹

Without robust public investment, this bind has no solution, as the private market has proven over decades that it cannot deliver affordable, high-quality child care.

The Reality Behind Federal Child Care Subsidies

The federal government does subsidize the market, but funding is inadequate. Existing federal public investments in child care are insufficient to keep child care affordable at the scale that is needed. The federal government subsidizes child care in a few ways. The Child and Dependent Care Tax Credit allows parents with up to \$3,000 of qualifying child care expenses for one child (or \$6,000 for two or more children) to claim between 20 and 35 percent of those expenses as a tax credit.¹² But because this credit is not refundable, tax payers with extremely low incomes, and therefore no federal tax liability, will not receive the credit.¹³

The Child Care and Development Fund is the main way that the federal government subsidizes the child care market. Funds from the CCDF go to states, tribes, and territories to support administration of child care assistance programs, specifically for families with low incomes.¹⁴ The CCDF uses two financing mechanisms, the Child Care and Development Block Grant (CCDBG) and the Child Care Entitlement to States (CCES). Funding through the CCDBG is subject to congressional appropriations every year, whereas states are guaranteed a minimum amount of funding through CCES, which is based on historic amounts paid by the federal government to the state for child care in the 1990s. CCES provides money to states above this minimum if states also contribute their own revenue to child care costs at a level comparable to the 1990s level.¹⁵ In all, in fiscal year 2026, Congress allocated \$12.38 billion to states through the CCDF.¹⁶

This sum is not nearly enough to meet the need. This, the largest federal assistance program for child care, supports only 20 percent of eligible children from families with low incomes, because the program always runs out of money.¹⁷ In fiscal year 2021, the most recent year for which there is comprehensive program data, roughly 11.5 million children were eligible under federal rules for child care subsidies, but only 1.8 million children received those subsidies. That means that only 3.4 percent of the 52 million children total under 13 in the United States received a federally funded child care subsidy.¹⁸

Why States Alone Cannot Fund the Child Care Crisis

Some states are raising their own revenue to fill the gaps. In the absence of robust federal funding, some states have taken action to bolster the child care sector and make care more affordable for families.¹⁹ They have used a number of strategies, such as creating or designating dedicated revenue streams to expand eligibility for public subsidies, increasing pay for early childhood educators, and improving reimbursement rates for providers. (The federal government sends reimbursement payments to providers who serve children who receive subsidies, based on a state-specific hourly rate).²⁰

New Mexico, for example, used a multipronged approach to offer universal child care for all children by investing in expanding child care supply, raising wages for educators, and dedicating a permanent source of state funds.²¹ After many years of community organizing and strategic advocacy (led largely by women of color), including a successful electoral strategy to vote in supportive political leaders, New Mexico policymakers passed and funded universal child care, supported by a strong local revenue source.²² Drawing on a state-controlled oil and gas fund, the Land Grant Permanent Fund, New Mexico set up a \$10 billion trust fund for early childhood education that would almost entirely eliminate child care costs for families, regardless of income.²³ In March 2026, New Mexico's governor approved a \$60 million wage and career ladder for child care workers. These funds would go toward higher wages for child care workers through increased reimbursement rates from the state to care providers.²⁴

Abundant Resources to Fund Affordable Child Care



New Mexico is funding universal child care by drawing on a state-controlled oil and gas fund, the Land Grant Permanent Fund. They set up a \$10 billion trust fund for early childhood education that would almost entirely eliminate child care costs for families, regardless of income.

New York state, where child care costs are the third-highest in the United States, has also started taking significant steps toward improving child care affordability for more families.²⁵ In May 2026, Governor Hochul signed a budget that allocated an additional \$1.7 billion statewide investment from the state’s general fund for a total of \$4.5 billion to go to child care and prekindergarten services in FY 2027.²⁶ The funds will go toward making prekindergarten universal statewide, expanding child care subsidies to tens of thousands more families, and supporting the launch of Mayor Zohran Mamdani’s initiative to create a “2-Care” program and universal 3K access in New York City, child care programs for two- and three-year-olds, respectively.²⁷

Washington, D.C., has created a program to ensure that early childhood educators are paid a living wage on par with public school teachers.²⁸ Responding to community organizing in the wake of the COVID-19 pandemic, the D.C. Council passed legislation in August 2021 that created the Early Childhood Educator Pay Equity Fund (PEF), which was paid for with a small income tax increase on households in D.C. earning over \$250,000 per year.²⁹ The PEF supplements the salaries of more than 3,300 educators, most of whom are Black or brown women, in 337 childcare facilities.³⁰ It also subsidizes health care for almost 2,500 child care center employees and their dependents.³¹

Funding Child Care is Possible – If Political Leadership Makes It a Priority



In May 2026, New York Governor Kathy Hochul allocated \$1.7 billion from the state’s general fund, for a total of \$4.5 billion going to child care and prekindergarten services in FY 2027.

The program has significantly improved pay and teacher retention for a predominantly Black and brown workforce³² and is popular among parents who benefit from more-stable child care providers.³³ Before the creation of the PEF, the median salary for an early childhood educator was around \$36,000 a year. With the PEF, an assistant teacher with an associate's degree or higher would earn over \$54,000, and a lead teacher with an associate's degree would earn \$63,838.³⁴

Equitable and Sustainable Ways to Fund Child Care



The D.C. Council passed legislation in August 2021 that created the Early Childhood Educator Pay Equity Fund (PEF), which was paid for with a small income tax increase on households in D.C. earning over \$250,000 per year.

The Limits of State-Level Funding for Child Care

Relying on states leaves out children who don't live in states where political leadership has made this a priority. When political leadership in a state won't raise or dedicate revenue for child care, children there are left out, and leaving states to pick up the tab for affordable child care is not a sustainable or equitable strategy. The federal affordability benchmark that says that child care is considered "affordable" if it costs families no more than seven percent of their household income. There is no state in the country where average child care costs meet the federal affordability benchmark.³⁵ And given that only 17 percent of all income-eligible children nationwide receive aid³⁶ through the federal government's largest child care subsidy, limited state-specific resources mean that many families will continue to feel enormous financial strain.³⁷

All states, and many cities, have the potential to use progressive taxation to raise revenue for child care.³⁸ For example, New York City's Mayor Mamdani has also proposed an income tax increase for millionaires to raise city revenue to pay for universal child care, among other public services.³⁹ But some states like Georgia, Missouri, and South Carolina are gearing up to slash (or even eliminate) their income taxes, cutting their state budgets and public services.⁴⁰ And, in 31 states, policy-makers have adopted stricter income requirements than are federally recommended for child care subsidies, meaning that a higher percentage of families with low or moderate incomes will not even qualify for federal assistance.⁴¹

Even jurisdictions that have decided to dedicate their own revenue to child care face regular challenges to sustaining that funding commitment. For example, despite the clear benefits of D.C.'s Pay Equity Fund, D.C. Mayor Muriel Bowser has repeatedly tried to eliminate the funding for the PEF.⁴² Most recently, Bowser proposed a budget for fiscal year 2027 that would entirely eliminate the portion of the PEF that supplemented educator pay. This funding cut would lead to decreased pay, likely increased turnover, and ultimately fewer child care slots, which would all increase costs for families.⁴³

A Sustainable Solution

The federal government must dedicate funds to the provision of child care. Families and children in every state should be able to access high-quality, affordable child care, and the federal government has the resources to make it happen. Transforming the country's approach to child care would benefit the economy, more than making up for the cost. Some economists estimate between \$4 and \$12 of return to the U.S. economy for every \$1 spent on early childhood education.⁴⁴ One estimate of a universal, high-quality child care program estimates that it would cost \$140 billion per year.⁴⁵ In contrast, the U.S. spent close to \$50 billion in the first two months on the war in Iran.⁴⁶

In 2021, before lawmakers stripped it from the bill, the House of Representatives passed a child care policy as part of Build Back Better that would have guaranteed a range of child care options to every family. That program would have cost the country just \$400 billion over 10 years.⁴⁷ In contrast, last year, Congress spent \$1 trillion in public money on tax cuts for the rich.⁴⁸ At just a fraction of that price tag, a \$400 billion investment would have transformed the child care subsidy program from a program for families with low incomes to a more universal program.

The federal government must make a fundamental change in its approach to child care by dedicating a sustainable and permanent source of revenue for universal child care. And, given the legacy of racism and sexism that has suppressed compensation for early childhood educators, any universal child care program must include funding to pay child care workers a living wage.⁴⁹ Lawmakers can dedicate this funding to a significant expansion of the Child Care and Development Fund, create and fund a public childcare option, or do a combination of the two.⁵⁰

Conclusion

Without significant public investment at the federal level, and a committed revenue source to pay for that investment, the core problem will remain: Most families in the United States cannot afford child care, and most providers cannot offer it without operating at the margins. The gap between what the private market delivers and what families actually need has not closed on its own, and the patchwork of state investments has not closed it either. To fill the gap, the federal government must dedicate revenue from a more progressive tax code. Until it does, the economic and social costs of inaction are all too clear.

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About Dēmos

Dēmos is a non-profit public policy organization working to build a just, inclusive, multiracial democracy and economy. We work hand in hand to build power with and for Black and brown communities, forging strategic alliances with grassroots and state-based organizations.

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