



## Balancing Family and Work During a Child's First Years

*Anna Aizer and Jeanne Brooks-Gunn*

Pregnancy through age three is the most critical period for children's development. Yet the COVID-19 pandemic has battered working parents of young children, with what are likely to be significant and long-lasting negative consequences. In this brief, we propose a set of enhanced Infant-Toddler policies—in the areas of income support, child care, and paid family leave—to better support these families and improve their children's long-term health and wellbeing.

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The COVID-19 pandemic has laid bare the precarious situation of many working families in the United States. Without sufficient income, paid leave, and affordable child care, many families have been forced to choose between work and caring for their young children during the pandemic. Though pandemic conditions are extreme, even in more moderate circumstances, many working families face unexpected shocks to employment and health that they can't weather without additional support. In this brief, which accompanies the latest issue of the journal *Future of Children*, "Three Trimesters to Three Years: Promoting Early Development," we consider policies that would promote the development of young children being raised in working families. These recommendations are based on the latest research in biology, psychology, and economics around child development.

### **Families in Peril**

Research suggests that shocks to employment and health, such as we are experiencing with the pandemic, are likely to have significant and long-lasting negative consequences for working parents and their children. This is especially true if such shocks occur during the earliest years of a child's life, from before birth to age three, which is an

unparalleled period of brain development and growth. Moreover, working parents who involuntarily left the labor force as a result of the pandemic will likely have difficulty returning, further hurting their children's development and hindering broader economic recovery.

But by shining a light on their plight, the pandemic could lead to lasting change that will benefit working families and their children during this critical period of development. Indeed, many of the steps federal policy makers took during the early days of the pandemic acknowledged and attempted to address working families' needs in three areas: income, affordable child care, and paid family leave. When the pandemic subsides, however, these needs will still remain for many working families. Fortunately, mechanisms to provide sustained support already exist in each domain. We propose expanding them for families with children in their first three years of life. We call these expansions Infant-Toddler policies:

- *Income support:* The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) could be increased, and the CTC could be made fully refundable so that low-income families who don't owe taxes would also benefit from the credit. To better target families with young children, policy makers might consider increasing the size of the benefit for families with children three and under.
- *Child care:* Funding through the Child Care and Development Block Grant (CCDBG) program could be increased, continuing to focus on quality improvement but also paying more attention to informal care providers.
- *Family leave:* The federal government could mandate minimum paid family leave after childbirth, similar to programs that already exist in eight states and that are funded by employees, and to a lesser extent employers, through payroll taxes.

Families with the youngest children—infants and toddlers—face the most significant strain, and research suggests that the benefits of support for the youngest children are especially large. Policy makers already have the tools to effectively address working families' needs. It's only a matter of expanding them.

## The Importance of Early Childhood

Mounting evidence suggests that conditions in childhood, and the prenatal period and early

childhood in particular, can predict important outcomes later in life, including educational attainment, health, and earnings. Research shows that household income during the first three years of life appears to be an especially strong predictor of a child's future outcomes.<sup>1</sup>

The prenatal and early childhood period is so critical because that's when the most rapid growth and brain development occur. Household income affects this development via two pathways. The *family investment pathway* refers to parents' investments in goods and services to foster their children's development. This includes, for example, parents' ability to provide adequate nutrition for their children, as well as enrichment activities. The *family stress pathway* refers to the fact that parents can create a stable and nurturing environment for child development only when they themselves are free of the stress associated with hardship and are able to focus on their children's wellbeing. The two mechanisms are not independent.

Recent conditions in the United States have revealed the precariousness of a family's ability to provide the environment children need for healthy development during this critical period of their lives. Job insecurity and poverty have increased since the pandemic began, particularly for families with young children, and experts predict that without further relief, this alarming trend will accelerate.<sup>2</sup> Without stable employment and childcare, families are facing financial strains not seen since the Great Depression, and their children's development is suffering. Though the pandemic has exacerbated families' hardships, these financial strains have long existed and will continue to do so for many working families after the pandemic subsides. What the pandemic has done is expose the strains to policy makers and the general public.

Policy makers could support families with young children in many ways. Many of them wouldn't require additional programming, but rather would build on or expand existing programs and policies. There's a strong reason to target public funding to the youngest segment of the population: The investment is very likely to pay off. Researchers have calculated the benefit of over one hundred historical policy changes from the past half-century in the United States targeting social insurance, education and job training, taxes and cash transfers, and in-kind transfers. They concluded that direct investments in children's health and education have historically had the highest benefit/cost ratio relative to all other age groups, exceeding five to one on average. Many programs for children have paid for themselves, as governments'

initial investments were later recouped via additional taxes collected and reduced transfers.<sup>3</sup>

Three sets of policies that target families with young children (Infant Toddler policies) could be particularly important now: paid family leave, expanded access to child care, and income support for families with young children.

### **Paid Parental Leave to Care for a Young Child**

Research has shown that paid family leave improves outcomes for mothers and their children at little cost to employers, as Maya Rossin-Slater and Jenna Stearns demonstrate in the latest *Future of Children*.<sup>4</sup> Why, then, does the United States lack a federal policy mandating paid maternity leave? No federal legislation mandating leave has been passed since the 1993 Family and Medical Leave act, which provides only unpaid leave. In the absence of federal legislation, eight states and the District of Columbia have enacted paid family leave funded through employee and employer payroll taxes that range from 0.1 to 1 percent of wages. In most of these jurisdictions, leave is limited to new mothers. Under this piecemeal system, only 19 percent of families are eligible for paid leave, and they tend to be higher wage-earners. The lack of paid leave not only depresses the number of families taking leave to care for newborns, but it also reinforces existing disparities because only families who can afford to do so can take unpaid leave.

The pandemic revealed the precarious situation of US workers. Lack of access to paid leave to care for family members in an emergency harmed both family outcomes and economic recovery efforts. In response, the Families First Coronavirus Response Act (FFCRA) required some but not all employers to give employees paid sick leave or expanded family and medical leave for reasons related to COVID-19. This additional support for working families will likely be needed through most of 2021 to encourage a full economic recovery. In the long run, the federal government could mandate and partially or fully fund a paid family leave program that includes care for children of all ages. In the short term, it would be both easier and more feasible to extend paid leave via federal mandate by modeling it on state programs that already grant paid leave for new mothers funded through payroll taxes. Though research on the impact of paid family leave funded with payroll taxes is less well-developed, qualitative studies find that impacts on employers have been minimal, suggesting that a modest expansion to other states would cost little and produce large benefits.<sup>5</sup>

A policy of universal paid leave would benefit working families with newborns in two ways: by making more household resources available for investment in the child and by allowing caregivers to spend more time with their children at a critical stage of development (infancy). Each has been shown to aid children's development. In particular, researchers have documented that paid family leave increases infant health at birth, as measured by reductions in prematurity and low birth weight. It also increases the rate of on-time immunizations and reduces hospitalizations in early childhood.<sup>6</sup> These benefits appear to last beyond the period of leave; researchers have documented fewer diagnoses of ADHD and hearing disorders in school-aged children whose parents took leave.<sup>7</sup> Moreover, these benefits appear to be largest for the most disadvantaged families, who are least likely to have access to paid family leave under the current system.

### **Income Support for Infants and Toddlers**

Even before the pandemic, 17 percent of young children were living in poverty. For families with little savings or no income source other than employment, the loss of a job can be extremely destabilizing, triggering the loss of child care, housing, health insurance, and other benefits. These effects can be highly persistent. Indeed, past evidence on the long-term impact of economic shocks suggests that the pandemic, because of its size and disproportionate burden on families with children, may suppress women's labor force participation for years to come.<sup>8</sup>

Mechanisms to give low-income families additional income already exist. Though the number of poor families receiving cash welfare assistance has declined by roughly two-thirds since the program's creation in 1996, several programs, including the EITC and the CTC, provide direct cash assistance. Other programs—such as the Supplemental Nutrition Assistance Program (SNAP), the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and housing assistance—provide income support indirectly through in-kind transfers. For the poorest families with young children, government direct and indirect transfers represented roughly 60 percent of total pre-tax/transfer income before the pandemic. Even with government aid, for these families, nondiscretionary spending constitutes a large share of total household expenditures. Additional income support would help to alleviate highly constrained household budgets and allow these low-income families both to directly invest more in their children and to reduce the amount of stress associated with deep poverty.

Currently, working families with children that have annual incomes below \$41,000 to \$56,000 (the cutoff depends on marital status and the number of dependent children) are eligible for the federal EITC.<sup>9</sup> The average annual family benefit is slightly over \$3,000. Increases in the eligibility and generosity of the federal and state EITC have been used successfully in the past to raise the income of low-income working families with children. Further increases in benefit levels would be a relatively easy and straightforward way to help these families.

The EITC is highly efficient. It's administered through the tax code, making its costs very low; most eligible families take advantage of it; and the benefit is structured to create incentives to work.<sup>10</sup> In 2018, 22 million working families and individuals received EITC benefits. The EITC is fully refundable, meaning that families whose income is so low that they don't pay taxes can still receive the full benefit amount. It is estimated that the EITC moved three million children out of poverty in 2018 and reduced the severity of poverty for another six million. It achieved this both by encouraging work and by supplementing earnings. A large body of research reviewed by Christopher Wimer and Sharon Wolf in their *Future of Children* article links previous EITC expansions to higher employment among women, stronger earnings trajectories, and better maternal mental health.<sup>11</sup> EITC payments have also been linked directly to short- and long-term outcomes among children, including measures of health and educational achievement.<sup>12</sup>

The EITC is often used in tandem with the CTC. Like the EITC, the CTC is available only to working families, and the amount of the benefit increases with earnings. Eligible families receive a refund equal to 15 percent of their earnings above \$3,000, up to the credit's full value of \$2,000 per child. Unlike the EITC, the CTC reaches more middle-income families and even some high-income families; the benefit doesn't phase out completely until income reaches \$200,000 for single parents and \$400,000 for married parents. Another difference is that for the CTC, only \$1,400 of the \$2,000 per child credit is refundable. Researchers haven't yet linked the CTC with maternal or child outcomes in the United States. But Canada has a child tax credit that's very similar to ours, and researchers who've evaluated it have found significant positive effects on children's educational test scores and physical and mental health, as well as on mothers' mental health.<sup>13</sup>

Expanding the CTC, like the EITC, could be achieved in a relatively straightforward manner by increasing the benefit amount and making the entire

credit refundable. Unlike previous expansions of the CTC, which disproportionately benefitted lower-income families, the most recent expansion, through the 2017 Tax Cut and Jobs Act, extended eligibility for the credit and the benefit amount primarily for higher-income taxpayers. Given the disproportionate impact of economic shocks on the financial security of lower-income working families, further expansion to the CTC should focus on these households. Moreover, given the additional financial strain faced by families with the youngest children, for whom the cost of child care is highest and the need for family leave is greatest, policy makers should consider a larger credit, in either the EITC or CTC, for infants and toddlers. Given the evidence of how the first three years of life affect children's long-term health and wellbeing, an Infant-Toddler EITC and CTC would represent a more direct way of targeting assistance to families with the greatest need, for whom the additional assistance would likely yield the greatest return.

### **Child Care Support for Infants and Toddlers**

Nearly 70 percent of all mothers were participating in the work force just before the pandemic, and nonparental care plays an increasingly important role in children's healthy development, as Ajay Chaudry and Heather Sandstrom detail in their *Future of Children* article.<sup>14</sup> The pandemic has exposed the nation's inadequate investment in high-quality, affordable child care for working mothers, and this shortsighted lack of investment has contributed to the retreat of working mothers from the work force. Operating at small margins even before pandemic, child care centers lacked the resources needed to re-open when limits on group size were lowered and requirements for personal protective equipment were increased. A study by the Federal Reserve Bank of Minneapolis calculated that new limits on group size in Minnesota as a result of the pandemic would result in a net loss to child care centers of \$315 per child per month.<sup>15</sup>

Randomized controlled trials and controlled observational studies have found that high-quality child care has long-lasting impacts on child development; children exposed to high-quality care have higher test scores in school, are more likely to attend college, and are less likely to engage in criminal activity in young adulthood.<sup>16</sup> High-quality care—characterized by smaller caregiver-to-child ratios and more opportunities for learning—is significantly more expensive than lower-quality care. And child care for infants and toddlers is particularly expensive, given the even smaller caregiver-to-child ratios needed for the youngest children.

The three main sources of help with nonparental care for low-income mothers are child care subsidies, mostly through block grants to the states (CCDBG); income tax credits; and Early Head Start (EHS), which targets pregnant women and children in the first three years of life. But these three programs are inadequately funded. EHS targets the lowest-income households, those below the federal poverty line; in 2017, it served 160,000 children, or only 7 percent of those eligible. The CCDBG program targets families with income below 85 percent of the median income in a given state; in 2017, it served 1.3 million children, or 15 percent of those eligible. Child care tax credits for up to \$3,000 per child are nonrefundable and serve 20 percent of those eligible, for an average savings on child care costs of \$574.<sup>17</sup> These subsidy programs are inadequate, covering only a fraction of total child care costs, which are highest for children under three. Not surprisingly, international comparisons put US spending on early care and education significantly behind those of other wealthy countries, with the US ranking 36th out of 38 on this measure among members of the Organisation for Economic Co-operation and Development.

The pandemic is forcing federal policy makers to confront the role that inadequate child care currently plays in the economy, inhibiting a strong recovery. In an effort to increase employment, 2020's Coronavirus Aid, Relief, and Economic Security (CARES) Act added \$3.5 billion to the existing \$5.8 billion in CCDBG funding and waived the income eligibility requirement. Though the primary motivation for this additional funding relates to the work force, since 2014 the CCDBG program has included targeted funding to improve child care quality.

Given this explicit acknowledgement that child care is important in the economic recovery and that federal funding has a role to play, policy makers may be willing to embrace further additional spending on child care. Advocates and policy makers would be well advised to seize this moment so that more families with young children can benefit from subsidized child care. Recent efforts to make child care an entitlement would help to maintain continuity in funding.

Any appropriation should continue to include funds for quality improvement, given the evidence that high-quality child care has long-lasting positive benefits on child health and development. Two areas likely to generate significant payoffs are expanding quality improvement to include informal or home-based care and improving staff compensation and wellbeing. Robust funding for child care with a focus on infants and toddlers would not only move the United States

closer to international norms in this regard, but would significantly improve child outcomes both by providing a nurturing learning environment that encourages healthy development and by allowing parents to return to work, thereby increasing family income for investment in children.

## Conclusion

As the current issue of the *Future of Children* shows, development occurs more rapidly from pregnancy through the first three years of life than at any other time, and trajectories for later wellbeing are formed during this period. Therefore, it's critical to provide the conditions that ensure optimal development during this time. These include economic security, adequate food, timely health care, lots of parental time, stimulating environments (for play, language, and learning), responsive caregiving (love), stability (household and home), and, for the majority of young children, child care for when parents are working. The articles in the *Future of Children* explain how all of these promote children's healthy development.

Yet many families with young children face difficult circumstances, including large numbers of parents who have lost their jobs or have been working fewer hours because of the COVID-19 pandemic. Many of those who are working can't find reliable child care. Parents who had low incomes before the pandemic have been pushed into even more precarious positions.

Thus our major policy recommendations focus on helping families make ends meet, especially in the first years of their children's lives. These Infant-Toddler policies have three main components. The first involves augmented tax credits for families with infants and toddlers—the Infant-Toddler child tax credit and the Infant-Toddler Earned Income Tax Credit. Both would be easy to implement, because the programs are already in place. The second is federal paid family leave after the birth or adoption of a child. It's time for the United States to join the rest of the world in helping parents afford to spend time with their infants. The third is an additional Infant-Toddler child care subsidy, implemented through the existing federal child care tax credit and CCDBG. All of these would give families more resources to promote the healthy development of their youngest children and set them on a course for better outcomes throughout childhood and beyond.

## Endnotes

- <sup>1</sup> Greg J. Duncan et al., “How Much Does Childhood Poverty Affect the Life Chances of Children?,” *American Sociological Review* 63 (1998): 406–23, <https://doi.org/10.2307/2657556>.
- <sup>2</sup> The number of people in poverty increased by seven million between May and October of 2020. See Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, *Real-time Poverty Estimates During the COVID-19 Pandemic through October 2020* (Chicago: University of Chicago, Harris School of Public Policy, 2020), [https://harris.uchicago.edu/files/monthly\\_poverty\\_rates\\_updated\\_thru\\_october\\_2020.pdf](https://harris.uchicago.edu/files/monthly_poverty_rates_updated_thru_october_2020.pdf).
- <sup>3</sup> See Nathaniel Hendren and Ben Sprung-Keyser, “A Unified Welfare Analysis of Government Policies,” *Quarterly Journal of Economics* 135 (2020): 1209–1318, <https://doi.org/10.1093/qje/qjaa006>; Isabel Sawhill and Richard V. Reeves, “Modeling Equal Opportunity,” *RSF: The Russell Sage Foundation Journal of the Social Sciences* 2, no. 2 (2016): 60–97.
- <sup>4</sup> Maya Rossin-Slater and Jenna Stearns, “Time On with Baby and Time Off from Work,” *Future of Children* 30, no. 2 (2020): 35–51.
- <sup>5</sup> Eileen Appelbaum and Ruth Milkman, *Leaves That Pay: Employer and Worker Experiences with Paid Family Leave in California* (Los Angeles: Institute for Research on Labor and Employment, University of California, Los Angeles, 2011), <https://escholarship.org/uc/item/6bm118ss>; Miriam Ramirez, “The Impact of Paid Family Leave on New Jersey Businesses,” unpublished manuscript, Bloustein School of Planning and Public Policy, Rutgers University, 2012, <https://bloustein.rutgers.edu/wp-content/uploads/2012/03/Ramirez.pdf>; Sharon Lerner and Eileen Appelbaum, *Business As Usual: New Jersey Employers’ Experiences with Family Leave Insurance* (Washington, DC: Center for Economic and Policy Research, 2014), <https://www.cepr.net/documents/nj-fli-2014-06.pdf>.
- <sup>6</sup> Jenna Stearns, “The Effects of Paid Maternity Leave: Evidence from Temporary Disability Insurance,” *Journal of Health Economics* 43 (2015): 85–102, <https://doi.org/10.1016/j.jhealeco.2015.04.005>; Maya Rossin, “The Effects of Maternity Leave on Children’s Birth and Infant Health Outcomes in the United States,” *Journal of Health Economics* 30 (2011): 221–39, <https://doi.org/10.1016/j.jhealeco.2011.01.005>.
- <sup>7</sup> Shirlee Lichtman-Sadot and Neryvia Pillay Bell, “Child Health in Elementary School following California’s Paid Family Leave Program,” *Journal of Policy Analysis and Management* 36 (2017): 790–827, <https://doi.org/10.1002/pam.22012>.
- <sup>8</sup> Michael Greenstone and Adam Looney, “Unemployment and Earnings Losses: A Look at Long-Term Impacts of the Great Recession on American Workers,” *Hamilton Project*, November 4, 2011, <https://www.brookings.edu/blog/jobs/2011/11/04/unemployment-and-earnings-losses-a-look-at-long-term-impacts-of-the-great-recession-on-american-workers/>.
- <sup>9</sup> Twenty-nine states plus the District of Columbia also have EITC programs that supplement the federal program, though state benefits are considerably more modest.
- <sup>10</sup> The amount of the benefit increases with each additional dollar of earnings until reaching the maximum value at which point the benefit is gradually phased out. See “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities, last updated December 10, 2019, <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit> for more detail.
- <sup>11</sup> Christopher Wimer and Sharon Wolf, “Family Income and Young Children’s Development,” *Future of Children* 30, no. 2 (2020): 191–211.
- <sup>12</sup> Gordon B. Dahl and Lance Lochner, “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit,” *American Economic Review* 102 (2012): 1927–56, <https://doi.org/10.1257/aer.102.5.1927>.
- <sup>13</sup> Kevin Milligan and Mark Stabile, “Do Child Tax Benefits Affect the Well-Being of Children? Evidence from Canadian Child Benefit Expansions,” *American Economic Journal: Economic Policy* 3, no. 3 (2011): 175–205, <https://doi.org/10.1257/pol.3.3.175>.
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- <sup>15</sup> Rob Grunewald, “How a COVID-19 10-Person Group Limit Affects Minnesota’s Child Care Providers,” Federal Reserve Bank of Minneapolis, June 24, 2020, <https://www.minneapolisfed.org/article/2020/how-a-covid-19-10-person-group-limit-affects-minnesotas-child-care-providers>.
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- <sup>17</sup> See “How Does the Tax System Subsidize Child Care Expenses?,” *Tax Policy Center Briefing Book*, <https://www.taxpolicycenter.org/briefing-book/how-does-tax-system-subsidize-child-care-expenses>.

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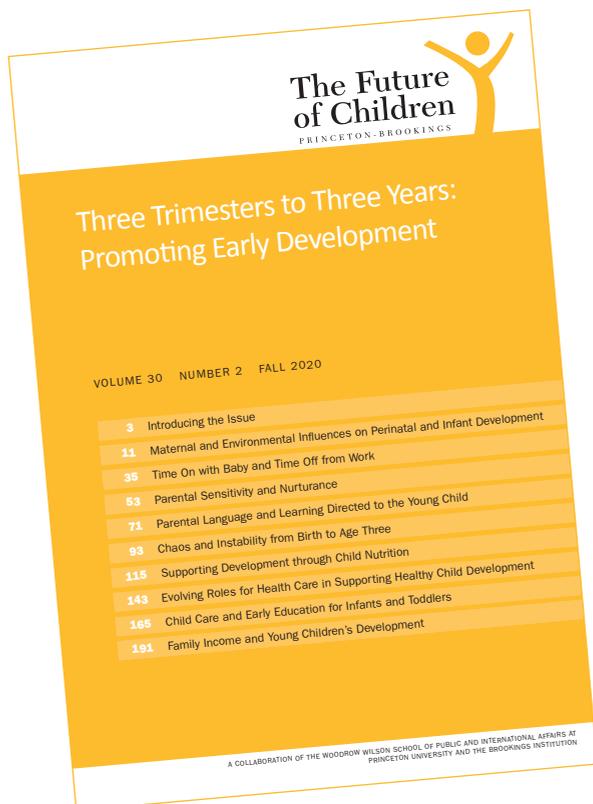
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