Getting Workers off the Sidelines and Back to Work

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Oklahoma's labor force participation rate is 61.8% (August 2023), lagging the national rate of 62.8%. The labor force participation rate measures the share of non-incarcerated adults working or seeking work. To put the importance of this figure in context, consider that Oklahoma has approximately 100,000 jobs available for which there are not workers to fill them. If Oklahoma's labor force participation rate were merely at the national average, 40,000 additional workers would be available. That is, achieving just the average labor force participation rate would halve Oklahoma's labor shortage.

To increase labor force participation, Oklahoma can seek to remove barriers to work. Once such barrier is childcare access.

Oklahoma suffered a precipitous decline in recent years in childcare options available to families. Several factors have contributed to a disruption of the childcare industry, not least the pandemic-induced shift to more remote work. While the number of childcare slots are on experiencing a modest rebound from the pandemic, the supply of childcare facilities is still significantly restricted, creating availability and affordability problems, particularly for lower income families. The difference in the number of childcare slots in either a childcare center or home between 2021 and 2019 is 2,229 less, while the total number of centers and home is relatively equal. (Oklahoma Human Services 2021 Child Care Market Report)

Making matters worse, on September 30, 2023, the increased federal investment in childcare ended. This left 30,659 Oklahoma children without suitable childcare. And with nearly one million parents in the workforce, the lack of childcare could be catastrophic. If no action is taken, Oklahoma parents will lose $67 million in earnings, equating to $2.8 million in state income tax, while employer productivity will decrease by $77.6 million.

Every state offers a Childcare Subsidy for families. The Oklahoma Department of Human Services issues qualifying families an Electronic Benefits Card that tracks attendance for the child at a licensed childcare center. The program is based on income and pays for part or all of childcare needs.

Providing low-income families, the ability to pay for childcare is a worthwhile goal, but this type of childcare subsidy attacks primarily the demand side of the market, which can have the unintended consequence of forcing childcare prices higher. To truly drive down costs, the supply of childcare slots needs to increase. A demand side subsidy, at best, does this indirectly, and often not at all. Many states have both a low-income childcare subsidy and a tax credit for employers who partner with a childcare facility to create a preferred program or have on-site facilities. These tax credits aim to increase the supply of available childcare slots so that childcare is more affordable.

Regional States with Childcare Tax Credits for Businesses	
State	**Benefit**
Arkansas	3.9% tax credit of the annual salary of employees employed for exclusive childcare purposes
Colorado	10% of investment each year for tangible personal property used to operate onsite childcare as investment tax credit
New Mexico	Tax credit of 30% of expenses up to $30,000 for businesses who provide childcare.
Nebraska	A tiered system for the tax credit based on workforce employed.
Illinois	30% of the startup costs (now sunset) then 5% paid by the taxpayer when providing the childcare
Mississippi	Tax credit of 50% of net contract costs, either provided by third party or by the employer

The Bipartisan Policy Center's *Child Care is a Business Affair* notes that smaller businesses are often unable or worried about how to offer a childcare benefit to their employees. Specifically, a small business owner from Oklahoma notes "The small businesses of America truly can't afford to pay into some big new system. These small businesses fail at a very alarming rate. The ones that make it still have challenges. Large businesses have economies of scale and have all sorts of benefits already." Any solution in this space needs to account for the differences between large and small businesses. Given that the vast majority of workers are employed by small or medium-sized businesses, a business-oriented childcare policy must be accessible to all businesses to have a significant impact on the problem.

Even with economies of scale, only a subset of large employers currently see on-site childcare facilities as a viable option. The rest of the large-scale employers noted that the company lacks the expertise and capabilities to run an on-site childcare facility. One approach that shows promise is Mississippi's credit, which provides a 50% income tax created for any employer providing childcare or allows the company to expense costs of the care staff, any equipment, construction and maintenance needed for the facility. Pursuing a similar model would enable smaller businesses to benefit from the tax credit, as it has in Mississippi.

Mississippi's credit operates by providing employers an income tax credit equal to 50% of the contracted price to provide dependent care for employees, whether through the employer hosting an on-site facility or contracting with a childcare provider for slots. The credits can be carried forward for the first five years of the company operating a childcare facility or contracting for childcare slots. There are parameters around the type of facility and the services provided.

In addition to directly boosting the supply side of the childcare market, Mississippi's credit has the corollary benefit of keeping downward pressure on costs for childcare facilities, themselves. That is, longer-term, stable contracts with businesses enable childcare providers to better plan and find efficiencies, driving better margins. In a competitive environment, this ultimately enables downward price competition among providers.