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How the Child Care Market Works
An Economic Analysis

By David Blankenhorn and Ivan A. Sacks

Introduction

Competing childcare proposals in the 101st Congress derive largely, even if at times unknowingly, from implicit views about the "market" for childcare. Does the current "market" -- defined as activity in which buyers and sellers of child care come together and in which supply and demand determine price -- function in a way that satisfies today's families? Or is there a "market failure" -- in particular, is there a shortage of supply -- that must shape the actions of policymakers? This issue is the Gordian Knot of today's child care debate.

Yet until very recently, there has been little scholarly analysis of how the childcare market actually works. Though the market for childcare is large and expanding -- over \$15 billion in 1989, expected to reach \$48 billion by 1995 -- the tools of economic analysis have remained oddly absent from the public policy discussion of childcare.

This economic illiteracy impoverishes the policy debate. It robs it of invaluable (even if partial) insights into how families make child care decisions, and into how proposed government interventions might affect those decisions. It also frequently allows rhetoric to dominate analysis -- not a rare sin in government, but still a regrettable one.

This brief is designed to help fill that gap -- to summarize new findings on the functioning of the nation's childcare market, and to relate this economic analysis to the current policy initiatives awaiting the attention of the new Congress and the new President.

The brief has three main sections. The first is micro-economic: it sketches an economic model of how families make child care decisions; it is intended primarily as background and framework for subsequent discussion. The second is macro-economic: it examines how the current childcare market is working, both for the nation as a whole and, in particular, for low-income families. The third is political: it relates this economic analysis to the current policy debate.

How Families Make Child Care Decisions: An Economic Model

The nation's most important childcare institution remains the family -- families are not only the principal "consumers" of childcare, but also by far the major providers of care. The data in Table I below document this point, and illustrate the current trends in child care arrangements.

Table I

Percent of All Pre-School Children:				
		1985	1977	1965
Mother not in labor force ¹	51	62	73 ²	
Mother employed, ³ cared for by father or other relative in child or relative's home		23.5	21	16.5
Mother employed, cared for by sitter in child's home		3	2.5	4
Mother employed, cared for in non-relative's family day care		11	9	4.5
Mother employed, cared for in day care center		11.5	5	1.5

Source: Derived from data presented by Dr. Sandra L. Hofferth (National Institute of Child Health and Human Development, Bethesda, MD), in paper of July 1, 1987 presented to the U.S. House of Representatives Select Committee on Children, Youth and Families.

When a child is born, a family faces a series of childcare decisions. An economic model can measure

¹ Though we may infer that mothers are overwhelmingly the primary caregivers for children in this very large category, no study to date offers precise documentation. A forthcoming study which will clarify this issue, the **National Child Care Consumer Survey**, will be completed by the Urban Institute (Washington, DC) in March 1991.

² The precise number of 1965 pre-schoolers with in-the-labor-force mothers is not known by the Census Bureau or Bureau of Labor Statistics. The figure used in this table is based on data from 1970, when 71 percent of all pre-schoolers had mothers not in the labor force.

³ "In the labor force" means holding, having recently held, or looking for a **full or part time** job on the day of the survey. "Employed" means holding a full or part time job on the day of the survey. Of all 1985 **employed** mothers of pre-schoolers, 38 percent work part time and 62 percent full time, according to the U.S. Bureau of the Census, 1987 Current Population Reports, Series P-70, No. 9, **Who's Minding the Kids? Child Care Arrangements: Winter 1984-85**.

the ways in which these decisions are rooted in monetary concerns: what choices will maximize the family's overall economic well-being?

From such an economic perspective, a parent who stays at home to care for a child does not provide "free" child care, since the family calculates the lost income that results from a parent's absence from the labor force. Similarly, as a parent's labor force earning potential increases, so does the "cost" of working outside the labor market as a parent/homemaker. A range of such monetary considerations shape a family's child care decisions.⁴ The major ones are:

- The prices of market child care arrangements;
- The economic value of a parent's non-monetized, non-taxable work at home -- such as cleaning, cooking and home repairs -- that can accompany parental child care;
- The net wages of parental employment -- that is, wages and benefits minus taxes and employment-related expenses such as child care;
- The long terms cost -- defined as permanently lower earning potential -- that may result from a parent's decision to be out of the labor force temporarily.
- The availability of unpaid child care, usually provided by grandparents or other relatives;
- The opportunity for a parent to work in the labor force while at home, or, to arrange flexible work schedules that help meet childcare needs.
- The economic value of subsidies for non-parental childcare, provided either publicly (as in tax credits, direct payments or below-market-price services) or privately (as in employer-assisted child care or below-market-price services from non-profit institutions).

Of course, non-monetary concerns also shape behavior, in childcare as in everything else. Even economists know this. Norms of self-esteem and personal fulfillment, ideals about gender roles and gender equity, the perceived stigma of public assistance, the non-monetary worth assigned to parental childcare -- values such as these can be equally if not more important determinants of child care decisions.

Yet this economic model of childcare decision-making provides an important foundation for the entire childcare debate. It helps explain some of the major trends in family demographics -- for example, the economic incentives of the past three decades that have increasingly favored the entry of mothers into the labor force.

⁴ Based on a presentation by Dr. Rachel Connelly (Bowdoin College) on January 13, 1989 to a seminar on "The Child Care Market" sponsored by the Family Impact Seminar (Washington, DC). Her presentation is summarized in a report, "The Child Care Market: Supply, Demand, Price and Expenditures" written by Theodora Ooms and Lisa Herendeen and published by the Family Impact Seminar.

As important, it can help provide a conceptual framework for policymakers -- a set of tools to help policymakers understand how proposed government interventions in the child care market are likely to influence family decision-making and family well-being.

The Child Care Market: New Analysis and Research Findings

Does the Market Work?

Is the childcare market performing well? From a strict economic perspective: Yes. Is there a general childcare shortage? Again, from an economic perspective: No.

But economists tend to be precise people who speak a specialized language. So when they say that the childcare market "works," they are making two specific and rather technical (and non-normative) judgments.

First, they are saying that *the supply of market childcare is elastic* -- it responds to changes in demand.

Several demographic trends -- more mothers working, the baby boomlet of the 1980's and parents' desire for more pre-school education -- are fueling dramatic growth and variation in the demand for market childcare. As Table I above documents, increasingly fewer children are cared for by mothers (though more by relatives), while demand for slots in family day care homes and (especially) day care centers is rapidly increasing.

In response to these changes in demand, the number of licensed day care slots has more than doubled over the past ten years. The number of family day care homes is estimated to have increased by more than 40 percent over the same period. These data are presented in Table II below.

Table II

Licensed Child Care			
	1976	1986	Increase
Licensed Centers	18,307	40,000	119%
Center Capacity	1.01 million	2.1 million	108%
Licensed Family Day Care Homes ⁵	73,750	105,417	43%

Sources: Hofferth, S.L. and Phillips, D., "Child Care in the United States, 1970 to 1995," **Journal of Marriage and the Family** (Vol. 49, No. 3, August 1987); National Association for the Education of Young Children, 1986.

In 1988 there were over 60,000 licensed day care centers nationwide, according to the Child Care Information Exchange -- a very large increase since 1985. Moreover, the for-profit child care industry is fragmented and thus very competitive: only about a dozen companies operate more than twenty centers, while over 90 percent of all for-profit firms operate fewer than five centers. Start-up costs for new centers are typically \$150,000 to \$300,000; expanding the capacity of existing centers costs much less.

Overall, market childcare now represents a \$15.3 billion per year sector of the U.S. economy, up from \$12 billion in 1986. It is expected to expand rapidly -- many larger firms currently report yearly expansion rates of 11 to 17 percent -- at least until the mid 1990's.⁶

Second, economists report that childcare *prices have remained stable during a period of rising demand.*

For example, real hourly expenditures for center care, when adjusted for inflation, rose a modest 7

⁵ An estimated 90 percent or more of all existing family day care homes are not licensed or regulated by public policy -- they operate informally, as part of the "underground" economy. Thus these data capture only a tiny fraction of total family day care capacity, which by its nature is difficult to measure precisely.

⁶ "Day Care Chains Gain Ground," **Wall Street Journal**, December 4, 1986; "Child Day Care Profits Mount," **New York Times**, March 3, 1987; "**The Child Care Market**," (Information Interface Institute, 1988).

percent from 1975 through 1985, even as demand for center care rose sharply. Inflation-adjusted expenditures for family day care rose by 15 percent over the same decade -- slightly more, but still not a major increase.⁷

In 1985, one of every five families with an employed mother paid nothing for childcare. Of those who paid, the average weekly payment -- per child under age 5 for 30 hours of care -- was \$37. For full-time paid care, weekly payments averaged between \$40 to \$60.

Other key data on current childcare prices are presented in Table III below.

Table I

Mean Hourly Expenditures for Market Child Care, 1985		
Care by relative	\$	0.99
Family day care		1.17
Center care		1.37
Care by non-relative in child's home		1.49

Note: Does not reflect possible usage of child care tax credits or welfare subsidies.

Source: Hofferth congressional testimony (see Table I above).

General assertions that the market is not working -- that "there is a national shortage of child care" -- appear frequently both in the media and the public policy debate. But despite their widespread acceptance and repetition, most such assertions do not withstand close inspection. Three commonly cited arguments for shortage are:

1. Contrasting the rising number of children with employed mothers with the (much smaller) number of licensed childcare slots.

⁷ Hofferth, Dr. Sandra L. (National Institute of Child Health and Human Development, Bethesda, MD), in paper of July 1, 1987 presented to the U.S. House of Representatives Select Committee on Children, Youth and Families.

Yet most childcare arrangements are informal and unlicensed. Table I above, as well as other studies, suggest that up to 75 percent of all pre-schoolers are cared for primarily by parents or in informal arrangements. Even among children with employed mothers, the number of children in day care centers and family day care combined does not equal the number of children cared for by non-mother relatives. Of course, it is also true that families are turning to centers and family day care in increasing numbers; yet as shown, the supply of those slots has increased dramatically over the past decade. No study has found significant numbers of pre-school children left without care.⁸

2. Citing the length of waiting lists at childcare centers.

Waiting lists are extremely poor indicators of supply. Many children on lists already receive care somewhere else. Many parents place names on more than one list. Nor are names always removed when other care is found. It is predictable -- and certainly not evidence of shortage -- that subsidized childcare slots (in non-profit or government-supported centers, for example) might have waiting lists: other things being equal, they are cheaper and so more desirable. Thus waiting lists may reflect certain preferences and trends, but do not help to measure supply.

3. Citing surveys showing that more mothers would work if childcare were "more affordable."

Such surveys, in as far as they elicit meaningful information, mostly reflect the rational economic choices that parents make. They are only saying the obvious: new financial incentives might affect their behavior. This truism comforts economists, but tells them nothing about the supply of market childcare. (Note: For a more complex version of this question, yielding more interesting results, see Table VIII and the discussion below of child care in low income communities.)

Does the Market Work for Poor Families?

The childcare market for poor families merits the special attention of policymakers for four reasons.

First, the new consensus on welfare reform, embodied in the federal Family Support Act of 1988, holds that most recipients, including mothers of young children, should work, attend school or train for work as a condition of assistance. This new requirement obviously begs the question of childcare. Full implementation of the new welfare law may, by itself, increase the national demand for non-maternal childcare by up to 10 percent.⁹

⁸ Ooms, Theodora and Herendeen, Lisa "The Child Care Market: Supply, Demand, Price and Expenditures" (Family Impact Seminar, Washington DC, January 1989).

⁹ Kisker, Ellen Eliason; Maynard, Rebecca; Gordon, Anne; and Strain, Margaret, **The Child Care Challenge: What Parents Need and What is Available in Three Metropolitan Areas** (Mathematica Policy Research, Princeton NJ, February 1989).

More generally, for many parents in or near poverty, problems with childcare can be a barrier to becoming and remaining employed. Thus childcare becomes a component of any policy to help poor families achieve self-sufficiency through employment.

Third, a small but important body of research suggests that early childhood programs (such as Head Start) can offer important help -- in cognitive and socio-emotional growth -- to young children from poor families. Thus childcare policy has special significance for the developmental needs of poor children.

Finally and perhaps most important, national poverty data for the 1980's confirm an alarming trend: poverty in the U.S. is increasingly linked to family structure. This is the first decade in the nation's history in which a majority of all poor families are headed by women. About 40 percent of all poor Americans today are children. Table IV below, illustrates this trend.

Thus family policy -- not only childcare, but the range of policies affecting family formation and family functioning -- must be at the core of any anti-poverty policy for the 1990's. Moreover, childcare policy, from this perspective, cannot be isolated from the deeper crises of family breakdown and dysfunction that increasingly define the nation's poverty dilemma.

A major new study by Mathematica Policy Research, released earlier this month, provides the first detailed information of this decade about the childcare market for low income families.¹⁰ The study examines the local childcare market in three low-income communities: Chicago (South Side), Newark, New Jersey and Camden, New Jersey. Among its key findings are:

1. Child care in these poor communities is remarkably similar to childcare in the nation as a whole. The proportion of pre-schoolers with working mothers, the types and distribution of childcare arrangements, the cost of care, the indicators of quality -- all of these figures for these three communities closely mirror national patterns. The distribution of childcare

Table II

1987 Poverty Rates For:	
All Americans	13.5
All Families	10.9
Married Couples	6.0
Female-headed Families	34.4
All Children	20.6

Source: U.S. Census Bureau, 1988

¹⁰ Ibid. Unless otherwise noted, all data in this discussion come from the new Mathematica study.

arrangements, for example, shown below in Table V, clearly parallel national estimates from Table I above.

Table III

Percent of Pre-School Children in Three Low Income Communities:	
Cared for by mother	48.4
Cared for by father or other relative	28
Cared for in family day care	13.5
Cared for in day care center	10.1

2. Parents are generally satisfied with their childcare arrangements. About 30 percent say they would ideally prefer a different arrangement -- most frequently center care, and overwhelmingly in order to provide their children with a more educational experience. Parents say they base their choices on quality, location and cost -- in that order. Fewer than 5 percent cite cost as a reason for preferring alternative care.
3. Day care centers currently operate at slightly below capacity (92 percent), while family day care homes are surprisingly underused, operating at 45.5 percent of capacity.
4. Market child care in these communities costs an average of \$1.38 per hour, or a median of \$50 per family per week. Childcare centers charge a per-child average of \$35 to \$40 weekly for non-poor families, with somewhat higher fees for infant care, but with frequently reduced fees for low-income families. Family day care providers charge an average of \$1.40 to \$1.90 hourly, or \$56 to \$76 for a 40-hour week. Again, these data parallel national estimates.
5. Licensed market childcare meets and exceeds state minimum standards for quality. The average group size in centers is 15 children; the average child-staff ratio is 6:1. In family day care, average child-staff ratio is 3:1, with only 5 percent of providers caring for more than 6 children.
 - Center staff generally have some post-secondary education, while fewer than 30 percent of family day care providers have post-secondary education; over one third

have not completed high school.

- Market childcare arrangements are reasonably stable. Only about 12 percent of pre-schoolers experienced a change in arrangement in the past year. Enrollment turnover in centers averaged 5-15 percent per three-month period.
6. In 70 percent of low-income female-headed families with pre-schoolers in these communities, the mother is not in the labor force. Nationwide, fewer than 5 percent of AFDC mothers with young children work either part or full time.¹¹ Of all users of market childcare in these three communities, only 7.5 percent receive AFDC. Only 16 percent have family incomes under 150 percent of the poverty line -- 84 percent of all families at or near the poverty line, therefore, do not use market childcare. They rely instead on maternal care or on unpaid care provided by relatives or neighbors. Very few poor mothers purchase childcare in order to work.
- This finding merits special attention, since it is precisely these mothers who will now be expected to work or train for work under reformed federal and state welfare laws.
 - Why do these mothers, isolated from the national trend toward maternal employment, remain largely out of the labor force? Is the market for childcare part of the reason? National estimates of childcare costs as a proportion of income are shown in Tables VI and VII below.

Market Child Care Expenditures for Families With Employed Mother and Youngest Child Under Age 5, 1985

¹¹ Moynihan, Sen. Daniel Patrick, "Reform Welfare to Strengthen Families," **Family Affairs** (Institute for American Values, New York City, Vol. 1, No. 2, Spring 1988).

Table IV

...As a Proportion of Family Income	
All Families	10 Percent
Families Below Poverty Line	22 Percent
Families with Over \$40,000 Income	5 Percent

Table V

...As Proportion of Mother's Income	
All Mothers	23 percent
Mothers Below Poverty Line	32 percent
Mothers Above Poverty Line	21 percent

Source (Tables VI, VII): Dr. Sandra L. Hofferth, "The Current Child Care Debate In Context," (National Institute of Child Health and Human Development, Bethesda, MD, May, 1988).

- Clearly, for single low-income mothers with pre-schoolers, as well as for other poor families, the cost of market childcare is quite high -- usually matched only by food and housing as a proportion of a family budget. Thus for these families -- especially those who cannot look to relatives for care -- the cost of market childcare may constitute one significant barrier to employment.
7. About 19 percent of all mothers with pre-schoolers in these communities say they would seek employment if "acceptable" and "affordable" childcare were available. Table VIII below presents this information.

Yet interestingly, these mothers' definitions of "affordable" -- \$51 to \$70 per week -- closely resemble actual prevailing market costs in their community. Thus "affordability" alone, at least for most mothers, would not seem to be the sole barrier. Nor would availability alone, given the large excess capacity of existing family day care homes.

Perhaps it is access to providers: most providers, both centers and family care homes, neither advertise nor actively recruit to fill empty slots. The childcare market operates very informally, depending mostly on word of mouth and referrals by relatives and neighbors. Moreover, for those would-be-employed mothers who would accept center care (but not family day care), access to providers may be a larger barrier, in light of the near-capacity operation of most centers.

Perhaps also, some would-be-employed parents confront not one distinct barrier to employment -- child care -- but instead multiple and related barriers: lack of child care, but also (and perhaps more importantly) lack of education, lack of work history, lack of familiarity with finding child care, personal and family difficulties, or other problems.

In sum, the childcare market in low-income communities looks very similar to child care markets everywhere else. Oddly, its most distinct characteristic is its lack of distinguishing characteristics.

Regarding the needs of poor families in those communities, several conclusions stand out.

The vast majority of poor, mother-headed families -- more than eight in ten -- do not use market childcare at all. Most of the mothers are not in the labor force, and of those who are, most rely on relative care or other highly informal arrangements.

Family day care homes operate at only about 45 percent of reported capacity. These homes may absorb much of any future increase in demand for market care, since they are both currently under-utilized and also less expensive than centers. However, most are not licensed, which raises questions about quality. And the market for their services is very informal, which can cause problems of access, especially for low-income families.

Poor families who do purchase childcare spend a very high proportion of their income on it: more than twice the national average. Policymakers must decide whether these trends are consistent with sound social policy -- especially given the demonstrated benefits of early childhood programs for poor

Table VI

Percent of Mothers of Pre-Schoolers Who Say They Would Seek Employment If Child Care Were "Acceptable" and "Affordable"	
All mothers	19
All non-working mothers	40.5
All low income mothers	24.5
All non-working low income mothers	57

children.

Finally, a majority of at-home poor mothers with pre-schoolers -- who will be increasingly expected to enter the labor force as part of welfare reform -- point to child care as a barrier to employment. Yet in fact, care appears to be available at costs they deem affordable. The problem appears to be lack of access, due to the market's informality -- perhaps along with the fact that, at least in some cases, child care is but one component, or even one symptom, of deeper and more complex barriers to achieving self-sufficiency through employment.

Conclusion

How might the new data and economic analyses summarized here contribute to the national policy debate on childcare? As a framework for the policy debate that follows below, consider three possible conclusions.

One. The market is working just fine. Government should not intervene any further -- if it ain't broke, don't fix it.

Two. For most families, the market functions well, but it generates bad outcomes for the poor -- barriers and restricted options for the very children and parents who most need high quality child care. Government should target better programs, and more childcare purchasing power, toward these families.

Three. The market may be working in some pure economic sense, but it can not produce the kind of child care that is necessary -- care that meets the experts' standards for quality; or care that meets parents' needs and desires; or care that promotes gender equity and equal access to the workplace. A purely economic analysis leaves out these all-important 'externalities.' Therefore, substantial government intervention in the market is necessary in order to address these challenges.

Public Policy Implications: Two Views

"Child Care: Economic Shortage Versus Quality Shortage"
by David Elkind

In reading this strictly economic analysis of childcare supply and demand, I am reminded of why economics has been called the *dismal* science. From my perspective as a developmental psychologist, this report makes three assumptions which -- from a psychological if not economic viewpoint -- must be challenged. For to accept them uncritically would lead us to the erroneous conclusion that there is no childcare crisis in the United States today. Let us examine, then, these three assumptions.

One. Child care is a constant.

Throughout this report, the authors assume that childcare is a constant, regardless of whether it is provided by relatives, non-relatives in the home, by family day care or by day care centers. The only oblique references to quality are statistics on child-to-caregiver ratios, the low salaries of child care workers and the hourly cost, per child, of child care.

But is childcare a constant? Obviously not. There is enormous variation among caregivers in the extent of their training and experience in minding infants and young children. Of course it might be argued that childcare is really unskilled labor, so that the experience and background of caregivers is of little consequence.

Yet a large body of psychological and psychiatric research attests to the contrary. In particular, studies of the long-term effects of childcare directly address the issue of quality. Studies such as the Ypsilanti longitudinal study offer evidence that the quality of care has long-term consequences. For example, children who experienced childcare in settings where they were minded by well-trained professionals did much better as adolescents than did comparable teenagers who were cared for by relatives or by non-professionals.

It is certainly true, one might rejoin, that many parents with little or no professional training do a respectable job. So why must non-parent caregivers be professionals? The difference is one of motivation. Parents do a good job because they 'care enough' to be attuned to the child's basic needs. Parents naturally cuddle and talk to their babies, for example, out of love and affection -- and that happens to be exactly what infants need. But a non-parent caregiver, lacking parental motivation, must be educated to do what parents do quite naturally.

Two. Child care is a short-term matter.

This economic analysis assumes that childcare is incidental to the child's long-term growth and development -- that it has only short-term effects on the child's well-being. But this assumption again ignores abundant psychological and psychiatric research on the long-term effects of early experience. Early trauma, for example, can have lasting effects on a child's personality and life-long adjustment.

One traumatic experience for infants and young children is separation from parents. Most children can manage this separation -- if they are consistently minded by the same caregiver who has only a few children to look after. But this is hardly the case in the United States today. Due to low pay, the turnover of caregivers in childcare centers is very rapid. Consequently, many children barely become comfortable with one caregiver before they must start getting used to another. Even children in family day care frequently experience a series of caregivers. Why? Because many parents must repeatedly change family day care settings, most often because they discover serious flaws in the care being provided.

One statistic missing from this report is the average number of different day care arrangements a

particular family and child utilize during the pre-school years. Those data would tell us the number of adaptations to new settings and people that the average child must make. Each new adaptation causes stress. The cumulative impact of frequent changes is hard to assess, but it is unlikely to be beneficial.

Any realistic analysis of the childcare market must include a long-range perspective, not just a short-range one. Just as we cannot assume that all childcare is the same in quality, we can not assume that all long-term effects are equal. They are not. Much evidence suggests that variations in the quality of childcare for pre-schoolers will have long-term consequences for their psychological health and adjustment.

Three. Early education means early academics.

The report also suggests that early childhood educational programs may prevent later learning problems. It reports that more than half of all parents desire educational program for their young children. The assumption here is that early childhood educational programs are 'one size smaller first grades' intended to introduce young children to reading, writing and arithmetic.

This assumption reveals a serious misunderstanding, by both economists and parents, of the nature of early childhood education. In fact, there exist substantial early childhood curricula, which teach children such things as the geometric shapes, the basic colors, relations such as 'on,' 'behind' and 'above,' vocabulary, the alphabet and the names of numbers as well as their classification and ordering. Young children should also be exposed to basic science concepts such as weight, balance, magnification, magnetic attraction and the growth of plants and animals. They also need to learn elementary measurements, starting with easily read instruments such as balance scales.

So there are rich, varied curricula for pre-schoolers. We do not teach high school curricula at the junior high level, nor junior high at the elementary level. So why should we teach elementary curricula to pre-schoolers?

Why do parents want this? Many parents still feel residual guilt about placing young children in childcare. Demanding educational programs is one way to deal with such guilt. 'I am not putting the child in this setting because I have to work,' these parents say, 'but because the child needs this educational program.'

Yet the imposition of elementary school curricula on a pre-school child causes significant stress -- adding to the stress of separating from parents, and of being with strange adults in a strange place. Such stresses can cause short-term symptoms such as headaches and bellyaches, as well as longer-term feelings of inadequacy and helplessness. Conversely, a child who experiences appropriate curricula -- suited to his or her developmental level -- experiences successes that buffer the stress of separation from parents.

Childcare can have real benefits for young children -- but only if it is quality care, and only if quality includes curricula that challenge and excite the child's wish to explore, invent and discover more about the world. Early academics has precisely the opposite effect: rather than opening the child up to the

world, it closes the world down on the child.

Conclusion

I have been asked to respond to a report which asks 'Is there a child care shortage?' Apparently, from a strictly economic viewpoint, there is no such shortage. But that conclusion rests on highly questionable assumptions -- that all child care is comparable; that variations in care have no distinctive long-term effects; and that early childhood education equals a one-size-smaller first grade curriculum. All three of these assumptions are false. And so too, therefore, is any conclusion that there is no childcare crisis in our country.

In the United States today there most certainly *is* a severe shortage of *quality* childcare. Quality is not a will-o-the-wisp. We can define it precisely. It refers to:

- well-trained and well-paid staff;
- low staff-to-child ratios; and
- safe, well-provisioned and attractive settings.

Quality programs can be provided in school buildings, in churches, in centers and in private homes. Wherever they are located, they provide infants and young children with consistent, individualized care that insures healthy growth and development.

I am not an economist. But I can do simple arithmetic. When I subtract the cost of quality childcare from the cost of psychological and educational remediation at later age levels, I come up with a huge surplus. From that simple-minded calculation, I argue that money spent on insuring quality child care is a wise investment that in the long run will save the nation both money and anguish.

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"Unraveling the Child Care 'Crisis'"

by Douglas J. Besharov

The so-called childcare 'crisis' has become a major political topic, as candidates of both parties try to better position themselves on gender gap issues. But as childcare has become more hotly contested in the political arena, it has become progressively more difficult to talk honestly about the nature of the problem and the most appropriate response to it. Thus it is very helpful to have available these studies on the economics of the child care market.

Quality and Affordability

The major theme of last year's push for a federal childcare bill was "lack of affordable, quality"

childcare. Evidence from these studies establishes beyond a reasonable doubt that the child care market works: child care services appear or disappear, improve or worsen, according to what parents (or institutions) are willing to pay for them.

This basic economic fact helps us redefine the policy dilemma we face. The real policy debate is not between those who care about quality childcare and those who don't. The real policy question is: Who should bear the cost of high quality childcare?

Although many horror stories have circulated about sexual abuse and deaths in childcare facilities, the real issue is not basic safety. Research shows that children are as safe, or safer, in day care as in their homes.

When specialists voice concern about 'quality,' they refer to a program's stimulative or educational characteristics. There is no doubt that care in many centers is more like warehousing than the stimulating environments that we might want. There is no mystery about why. Care even remotely approximating the care that most parents (mothers) provide is very expensive when purchased on the open market.

Yet the question of quality in childcare centers is also a class issue. Low-income families can not afford unsubsidized center care -- of either high or low quality. Instead, they use family and informal care. About 60 percent of all families with incomes under \$15,000 use unpaid relatives for childcare. This point is strongly supported by the new Mathematica study, which finds that 84 percent of all poor and near-poor families with pre-schoolers do not use market child at all. Conversely, college-educated, and thus wealthier, mothers are twice as likely to use day care centers as are mothers without a high school education.

Thus it is middle- and upper-income families who use centers. And here, sad to say, the problem seems to be that they are unwilling to pay for what it takes to provide a more stimulating environment.

As these studies demonstrate: while poor families pay from 20 to 26 percent of their income on child care, families with incomes over \$40,000 spend less than five percent. (The national average is about 11 percent.)

Clearly the poor who pay for child care -- and many do not due to public and private assistance -- pay a higher proportion of their income than is consistent with sound social policy. At the same time, especially when compared to what the poor spend, upper-income families could easily spend more. Americans spend about as much on toys as they do on childcare.

There is, incidentally, also a market-based reason for what is in effect a cap on the childcare expenditures of upper-income families. A rule of thumb: In any given community, the maximum hourly cost of childcare is about 40 percent of the hourly cost of a housekeeper. Why? Most parents with two pre-schoolers would prefer that the children stay at home. Thus they hire a housekeeper. They will pay 20 percent more per hour -- that is, 20 percent more that two times 40 percent -- because they also get the house cleaned.

If affluent families spent more on childcare, we might see major changes in the child care market. Some of the characteristics of the child care market that make us uncomfortable are caused by the absence of an upper end to it. If the affluent spent more, we would see more high-quality centers, which, through market segmentation, would also benefit some moderate-income families. It might also create a more hierarchical salary structure, so that childcare workers would have incentives to invest in a long-term career.

But one must be realistic. If history is any guide, the middle class demand for childcare subsidies will not long be ignored. If these relatively well-off families do not change their attitudes about childcare spending, the political dynamic is clear: steadily growing public support for middle class subsidies.

Such subsidies would be very expensive: ultimately as much as \$60 billion to \$100 billion. That's ten percent of the federal budget, or about as much as Medicaid, or about one-third of the Pentagon's budget.

But even if a public program for universal childcare were desirable, it need not be federally funded. Universal childcare would be more like elementary schools than like Medicaid or AFDC. Many child care specialists, from Yale's Edward Zigler to Columbia's Sheila Kamerman and Alfred Kahn, argue that states and localities could better fund and administer such a system. Indeed, states and localities have steadily expanded their funding of kindergarten, nursery and preschool programs. So in the long run, states will likely develop the local programs for meeting the needs of young children.

Given that reality, the question becomes: What is the most useful role for the federal government?

A Federal Agenda

Because of the great differences among income and demographic groups, any consideration of federal policy must make distinctions among at least four: low- and moderate-income families; welfare mothers; young unwed mothers; and middle- and upper-income families.

Poor and moderate-income families could certainly use more money for childcare, as well as for many other needs. But there are two problems with providing child care subsidies for this group.

First, the married mothers in this group are less likely to be employed, since, considering what they would earn, it does not pay them to do so. (Mothers in two-parent families with incomes above \$50,000 are about 50 percent more likely to work than those whose family incomes are under \$25,000.) For mothers in this group who stay at home, a childcare subsidy available only to employed mothers would in effect be a penalty, or a tax, on their choice to stay at home. These mothers, through the taxes their families pay, would thus subsidize the child care of more affluent two-earner families. (The analogy to public schools does not work: moms who do not work also send their children to school.)

Moreover, for many of these at-home mothers, such a financial incentive would tip the scales in favor of employment. In fact, it would tip scales that are already unbalanced, since the current tax code already contains financial incentives for mothers to work.

Those concerned with quality childcare may ponder, and perhaps disagree, as to whether erecting such incentives and penalties would result in higher-quality childcare for the nation's children. More generally, people may disagree about whether mothers should work. But surely this issue should be a private family decision. Surely government should neither encourage nor discourage a mother's choice: government should be as neutral as possible.

Second, it is hard to target a child care program to low- and moderate-income mothers, since they do not use the expensive kind of child care -- licensed, usually center-based -- that would receive federal assistance. It is higher-income mothers, in fact, who will likely benefit from any effort to subsidize center childcare slots.

For these two basic reasons, many conservatives, most notably President Bush, propose a refundable child care tax credit that would be available to all low income families -- whether or not the mother is employed, and for whatever child care arrangements the parents choose. This idea, of course, is less a "child care" program *per se* than it is a redistribution of income toward low-income families with children.

Mothers on welfare need to be helped toward economic self-sufficiency. Otherwise, about half tend to slip into long-term welfare dependency. Thus government is not neutral about whether these mothers should work: their needs and those of their children clearly require that they do so. This is the basis of last year's welfare reform law, which mandates work and job training for AFDC mothers.

Of course, a mother required to leave her children in order to work should have adequate child care. Until recently, it was assumed that government would have to fund a major expansion of facilities -- such funding was included in last year's welfare reform law. However, Mathematica's findings, summarized in this report, as well as other studies of workfare, demonstrate that the need for an expanded childcare program is not as great as is widely assumed. For welfare mothers, the absence of formal childcare programs does not seem to be the major obstacle to employment.

This fact does not mean that the current patchwork of services and funding should not be rationalized. It should. But if the main issue is providing childcare in support of welfare-to-work programs, it appears that there may not be a need for large additional expenditures.

Young, unwed mothers and long-term welfare dependents pose different challenges. Their children tend to suffer a host of medical, developmental and cognitive problems that require the special attention of programs like Head Start.

In fact, Head Start should be expanded so that more children can participate. At the same time,

expansion should be coupled with modernization. Today the program operates three to four hours per day during the school year. It should be changed to full-day, full-year operation so that Head Start mothers can work.

Middle- and upper-income families are largely two-parent households. As has been shown, any comprehensive childcare program to support their needs would be enormously expensive -- a questionable use of scarce social welfare funds in the era of Gramm-Rudman.

But even if the federal government does not provide financial subsidies, it can be of real assistance to these families. There are numerous research, demonstration and technical assistance needs that the federal government could address, in much the same way that it helps local school districts without becoming a major source of funding. (Federal assistance to elementary and secondary education is less than ten percent of total expenditures, and is devoted almost entirely to low income and disabled children.)

The issues are many. For example: What exactly is a quality program, and how can parents tell? What are the long-term effects of infant day care? Can the school day be extended to better accommodate the needs of working parents?

Reordering Federal Priorities

In this time of budget austerity, it is hard to see how even this relatively modest agenda can be funded - unless existing federal dollars are better targeted. Total federal expenditures in 1987 were \$6.2 billion, up from \$1 billion in 1972 -- a real increase, accounting for inflation, of 127 percent. By 1989, expenditures will approach \$8 billion, another 24 percent rise in just two years.

However, there has been a sharp U-turn in who benefits from federal childcare spending. In 1972, nearly 80 percent of federal childcare funds went to low-income families. Today only about half do.

The main culprit is the Child and Dependent Care Tax Credit. Tax benefits under this credit will reach an estimated \$4 billion in 1988, providing about 9.6 million families with credits averaging \$419. A shocking proportion of these credits go to middle- and upper-income families: nearly half go to families with incomes above the median. In 1985, less than one percent went to families with adjusted gross incomes under \$10,000, and only 13 percent to families with adjusted gross incomes under \$15,000. Since so few low-income families can benefit from the credit, fewer than half of all working mothers claim it.

As the cost of the credit goes up by \$500 million each year, its distributional effects steadily worsen. One recent study by the Urban Institute finds that, due to tax law changes, families with incomes under

\$12,000 will receive half the benefit they did in 1985, while those with incomes over \$32,000 will receive 50 percent more.

In short, if we are to make genuine progress toward a childcare program that meets the needs of low- and moderate-income families, we will have to reorder our current priorities. We should target more of our limited public childcare dollars toward the families who need them the most.

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